



GREEN BONDS Framework

Kommuninvest i Sverige AB
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1. INTRODUCTION

1.1 About Kommuninvest

Kommuninvest, the Swedish local government debt office, is a Swedish municipal cooperation set up in 1986 to provide cost-efficient and sustainable financing for local government investments. As of May 2021, the cooperation comprised 292 out of Sweden's 310 local and regional governments; 278 municipalities and 14 regions were members of Kommuninvest Cooperative Society.

Kommuninvest is the largest lender to the Swedish local government sector. All bonds and other debt market instruments issued by Kommuninvest are explicitly guaranteed by the members of Kommuninvest Cooperative Society, the sole owner of the credit market company and issuing entity Kommuninvest i Sverige AB (publ). Kommuninvest began extending green Eligible Loans to clients in June 2015 and issued its inaugural Green Bond in March 2016.

1.2 Kommuninvest's contribution to sustainable development

Promoting a long-term sustainable societal development is part of Kommuninvest's basic idea and vision. Through sustainable financial solutions, we promote efficient use of tax funds, financial stability and the municipal sector's work with the Global Goals and the 2030 Agenda for Sustainable Development.

Kommuninvest fulfills a similar role for the local government sector as the Swedish National Debt Office does for the state and its authorities. Through lending to municipalities and regions, Kommuninvest creates conditions for the expansion of Swedish welfare, increases the stability of the local government economy and contributes to a more sustainable Sweden. By "pooling" local government borrowing needs and channeling them through an organization, economies of scale can be achieved, and management costs kept at a low level.

The most important of the values that Kommuninvest contributes is that the financing solutions, the knowledge and the debt management tools that we provide, benefit financial stability in municipalities and regions and contribute to developing the members' abilities in debt management. Thus, necessary welfare and sustainability investments can be made in a more appropriate way and at a lower cost to taxpayers. It strengthens the welfare society in the form of new or refurbished nursing homes, schools, housing and care facilities, or various forms of infrastructure such as roads, public transport, energy, water and sewage.

Our contribution in sustainable financing is both about cost-effective and stable financing of public investments, about products that can promote sustainable transformation and about long-term analysis for sustainable municipal finances. The work also focuses on empowering members and customers in sustainable financial management, and offering tools that improve internal decision-making processes.

Kommuninvest offers two loan products that shine the light on members and customers' sustainability efforts and contribute to the development thereof, Green loans to promote environmental and climate work and, since 2021, Loans for Social Sustainability to promote work on social sustainability.



1.3 Governance of sustainability at Kommuninvest

The Head of Sustainability is responsible for leading, developing and following up on Kommuninvest's work on sustainability, in close collaboration with the executive management and department heads, who are responsible for ensuring that sustainability aspects are taken into account within their respective areas of responsibility. The guidelines for the work are laid out in a Sustainability Policy adopted by the Kommuninvest's Board, and are specified in supplementary policies and instructions concerning, among other things, work environment and personal safety, conflicts of interest, IT security, gender equality and diversity, bribery and representation, and compliance. The sustainability work is reported annually to the Board, and is supplemented by reviews of current thematic areas.

1.4 Sustainability risks

Sustainability risk is the risk that Kommuninvest's operations directly or indirectly affect its environment negatively in relation to business ethics and corruption, including money laundering and financing of terrorism, climate and the environment, and human rights including working conditions. Kommuninvest considers itself primarily being exposed to sustainability risks concerning ethics, IT security and so-called green-washing, i.e. that financed environmental and climate-related investment projects do not live up to sustainability requirements. Kommuninvest's measures to manage sustainability risks are to a large extent governed by national and international regulations and guidelines together with Kommuninvest's ownership directive and internal instructions and policies.

With regard to climate-related financial risk, Kommuninvest considers itself to have a limited exposure. For Kommuninvest, such a risk could potentially materialize, primarily linked to exposures in the balance sheet in the form of e.g. lending and borrowing. Given Kommuninvest's organizational and fundamental structure, including the members' joint and several guarantee for the Kommuninvest's debts, that all lending is zero risk weighted and that primary and secondary municipalities cannot be declared bankrupt, the financial exposure to climate-related risk is in practice negligible.

1.5 Updates in the 2021 Green Bonds Framework

The updates in this Framework mainly concerns the project category Green buildings, where the requirements have been adjusted to take into account both changed building regulations and the development of the surrounding world with regard to e.g. certification systems and international regulatory development. The requirements have also been adjusted to take into account the climate requirements for new construction recently introduced by Kommuninvest. Furthermore, a number of clarifications have been introduced regarding the project categories Renewable energy (sub-category Hydropower) and Energy efficiency in energy systems, as well as Kommuninvest's current view on projects encompassing fossil elements. A number of adjustments have also been made to reflect how Kommuninvest works with green financing regarding e.g. management of any excess bond proceeds and reporting.

1.6 Framework in alignment with ICMA Green Bond Principles

This Green Bonds Framework has been developed in alignment with the 2018 version of the Green Bond Principles, published by ICMA, the International Capital Markets Association.



2. MANAGEMENT OF PROCEEDS

The proceeds from Green Bonds issuance will be tracked by Kommuninvest in accordance with its internal instructions, and will be verified by an external audit firm.

For conservative purposes, and in accordance with Kommuninvest internal instructions, Kommuninvest will manage the total Proceeds with an ambition for aggregate Proceeds from all outstanding Green Bond Proceeds not to exceed total disbursements to Eligible Loans. In the event that any Proceeds from Green Bonds not yet have been allocated to Eligible Loans, such amounts will be invested in accordance with Kommuninvest's internal policy for liquidity management. If a financed Eligible Project no longer meets the eligibility criteria upon approval, Kommuninvest will remove it from the pool of Eligible Loans.

Kommuninvest will communicate on the nature of allocations to Eligible Projects in its Green Bonds Impact Report, see section 4 below. The allocations will be verified by an external audit firm.

2.1 Eligible Loans

“Eligible Loans” means a selected pool of loans from Kommuninvest which are financing, in whole or in part, Eligible Projects in member municipalities/regions that primarily promote the transition to low carbon and climate resilient growth. Loans can also be arranged to such municipal companies, foundations and unions that are eligible to apply for financing from Kommuninvest. Eligible Projects shall be part of the systematic environmental work in the applicant municipality/region and be related to the national or regional environmental goals and target:

- (a) mitigation of climate change, including investments in low-carbon and clean technologies, such as public transportation and renewable energy programmes and projects,
- (b) adaptation to climate change, including investments in climate-resilience, or
- (c) address environmental issues in other areas than climate change (max 30 per cent of issued volume).

2.2 Eligible Project Categories

- **Production and distribution of renewable energy** – such as wind, wave, solar, hydropower¹, geothermal, bioenergy², biogas and excess heat- or conversion from fossil to renewable energy.
- **Energy efficiency in energy systems and operations.** Energy efficiency measures in energy systems such as district heating/cooling, electricity grids/smart grids, energy recovery and storage. Also energy efficiency measures in various municipal activities and operations leading to at least 30 per cent less energy use.
- **Green buildings and energy efficiency:**

¹ New financing is only allowed for small-scale hydropower, which in this Framework refers to a hydropower plant with less than 10 megawatts (MW) of production capacity. New financing can also be granted for upgrading of existing hydropower plants with a production capacity of more than 10 MW, provided that this does not increase the size of the water reservoir or that the upgrade means that the existing plant and water reservoir can also be used as pumped-storage hydroelectricity. Refinancing of existing hydropower is allowed.

² Provided that the mix of original energy sources, including waste components used for energy extraction, do not result in the investment project exceeding the caps for fossil share outlined in 2.4.



1. Residential multi-family buildings: New or existing buildings with an energy performance where the primary energy demand (PED) is at least 20 per cent lower than required by applicable regulation (Swedish Building Regulations, BBR 29).
2. Non-residential buildings: New or existing buildings with an energy performance where the primary energy demand (PED) is at least 20 per cent lower than required by applicable regulation (Swedish Building Regulations, BBR 29).
3. Major renovations of buildings leading to an improved energy performance where the primary energy demand (PED) is reduced by at least 30 per cent or to compliance with the energy performance requirement according to applicable regulations (Swedish Building Regulations, BBR 29).
4. Energy efficiency measures in partial systems of existing buildings leading to at least 30 per cent less energy use.

In order to promote climate work from a broader and more life-cycle-oriented perspective, requirements are set for measures and/or information linked to the climate impact that takes place during the construction phase. For buildings with construction start from January 1, 2022, the applicant must be able to show both that life-cycle-oriented climate measures are implemented in the project, as a minimum for the frame, and that the building's climate impact during the construction phase has been calculated.³

In order to promote systematic work and address more environmental issues, Kommuninvest encourages that new buildings are certified or completed in accordance with one of the established systems available on the market, e.g. BREEAM, Feby, LEED, Environmental Building (Miljöbyggnad), Nordic Swan Ecolabel (Svanen), etc. However, this is not a requirement for approval.

- **Clean transportation** (such as trains, underground, trams, buses and infrastructure supporting public transportation and other sustainable transportation, such as infrastructure for bicycles, pedestrians, electrical vehicles and logistics solutions with reduced environmental impact for transportation of people and cargo).
- **Waste management**, reducing the amount and harmful impact of waste, increasing re-use and recovery of materials and energy
- **Water and wastewater management** (such as water infrastructure, waste water management and cleaning facilities⁴)
- **Climate change adaptation**; measures in buildings, infrastructure and sensitive surroundings
- **Environmental management** in areas other than climate change (such as nature conservation, biodiversity measures, sustainable agriculture, improving eco-system services).

³ The requirement applies to applications received from 1 January 2022.

⁴ For drinking water production and wastewater management, the system's energy efficiency is taken into account, where local variations regarding e.g. topography, increased purification and the density of the purification system can affect energy use. The criteria in the EU taxonomy are used as a starting point in the assessment. With regard to wastewater management, the projects should aim to improve treatment or otherwise reduce the environmental impact, e.g. eliminate risks of flooding.



2.3 New financing and refinancing

Kommuninvest allows for new financing and refinancing of Eligible Projects. New financing is defined as the committed volume of Green Loans during the reporting year. Refinancing is defined as the committed volume of Green Loans before the reporting year. The distribution between new financing and refinancing will be available to investors in the Green Bonds Impact Report (see section 4 below).

2.4 Fossil share

For projects that encompass fossil energy to a non-negligible extent, impact analysis and impact reporting will be a firm requirement for approval. Kommuninvest will not approve investment projects that lead to a lock-in of fossil energy-based infrastructure. Maximum fossil fuel component for district heating projects is 10 percent (peat is treated as a fossil energy source); including fossil component of waste used for energy extraction the share of fossil energy is a maximum 20 percent (fossil plastic is treated as a fossil energy source). Maximum fossil energy component for public transportation is 20 percent.

For projects within the categories Production and distribution of renewable energy - Bioenergy and Energy efficiency in energy systems and operations, the following applies. If the fossil fuel content exceeds more than 10 percent including peat, a plan to rapidly reduce the fossil content to less than 10 percent will be a condition of approval. This condition does not apply to the fossil component of waste, as long as there is support for the recovery of energy via waste leading to reduced carbon dioxide emissions, not only by replacing fossil fuels but also by reducing methane leakage from landfills.

2.5 Climate-related physical risk

While green bonds aim to promote investments that contribute to climate and environmentally sustainable development, these investments are also subject to risks, including physical risks related to climate change. Such risks can be related to increased severity of extreme weather events or longer-term shifts in precipitation and temperature and increased variability in weather patterns, such as sea level rise. Kommuninvest will increasingly strive to be transparent about climate-related physical risk of Eligible Projects, and, where these are identified, to be transparent about how these risks will be managed.

3. SELECTION PROCESS FOR ELIGIBLE LOANS

3.1 Selection Process

Eligible Projects will, on an ongoing basis, be:

1. **identified** and verified by the environmental functions in Kommuninvest's members;
2. **selected** by the finance departments of Kommuninvest's members and sent to Kommuninvest for initial appraisal together with completed application forms and appropriate documentation in accordance with Kommuninvest's.

and at least on a quarterly basis be:



3. reviewed and approved via consensus decision by Kommuninvest's Environmental Committee for Green Financing as regards compliance with the selection criteria for Eligible Projects. At least three external members must be present for decisions.

3.2 Environmental Committee for Green Financing

Kommuninvest's Environmental Committee for Green Financing (the "Committee") has been established to review and approve climate and environment related investments that are eligible to be financed under this Green Bonds Framework, so-called Eligible Projects.

The Committee shall have at least three external members, consisting of representatives from at least two member municipalities/regions as well as other relevant organizations in the public sector and/or academia, and in addition representatives from Kommuninvest's management, sustainability function and lending department. Kommuninvest appoints and dismisses members of the Committee.

3.3 The tasks and responsibilities of the Environmental Committee for Green Financing

The responsibilities of the Committee include:

- Review and approve Green Loan applications⁵
- Assist Kommuninvest's members with expertise and advice in the ongoing work, for example regarding method recommendations, method development and impact reporting.
- Review and approve the impact reporting that Kommuninvest produces annually for investors and other stakeholders, see section 4 below
- Decide on any disqualification of previously granted Green Loans
- Approve the Green Bonds Framework, and its future updates, including deciding on the criteria for 2.2 Eligible Project Categories, and 2.4 Fossil share and 2.5 Climate-related physical risk.

4. TRANSPARENCY AND REPORTING

To enable investors to follow the development and provide insight to prioritised areas, Kommuninvest will provide an annual Green Bonds Impact Report to investors including:

- a summary of Eligible Loans/Projects, including allocated amount, the distribution between Eligible Project Categories and expected impact
- a list of Eligible Projects financed during the reporting year including a brief project description, and expected impact;
- a selection of project examples;
- information on the estimated reduced/avoided CO₂-emissions related to Eligible Projects; including where feasible information on reduced/avoided emissions related to the construction phase of new buildings.
- a summary of Kommuninvest's Green Bonds development, including information the share of Eligible Loans of Kommuninvest's total lending (so-called *Green Loan Ratio*) and information

⁵ This refers to whether the application can be granted as an Eligible Project. Credit decisions regarding Eligible Loans are made by Kommuninvest in accordance with the usual process and guidelines.



on the share of outstanding Green Bonds of Kommuninvest's total borrowing (so-called *Green Bond Ratio*);

- the distribution between new financing and refinancing
- key sustainability figures for Kommuninvest, including energy performance and CO₂-emissions.

Kommuninvest will report environmental impact in accordance with the Nordic harmonised approach, as outlined in "Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting" developed by a group of Nordic issuers including Kommuninvest and available on Kommuninvest's web page.

Kommuninvest encourages and promotes the use of impact analysis (ex-ante) and impact reporting (ex-post) to the largest extent possible, and annually requires its clients to report back on Eligible Projects. The Kommuninvest Green Bonds Impact Report will be made publicly available on Kommuninvest's webpage. Furthermore, the principle of free access to public records is applied. This will provide broad insight to both investors and potential investors.

5. EXTERNAL REVIEW

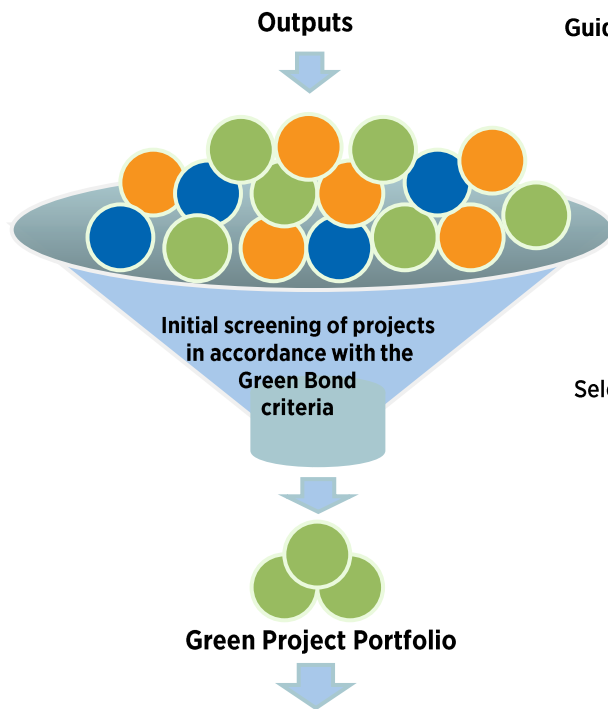
The Kommuninvest Green Bonds Framework has obtained a "Second party opinion" from Cicero. This opinion is available on the Kommuninvest web site: www.kommuninvest.se

Kommuninvest aims to follow market practice as market standards develop and will review the framework as appropriate and when deemed relevant by the Green Bonds Environmental Committee.

Kommuninvest has engaged its external auditor to verify the use of Green Bond Proceeds. This verification is available on the Kommuninvest web site: www.kommuninvest.se



Green Bond Project Selection Process Flowchart



Guidelines:

1. EU Law
2. Miljöbalken (Swedish environmental legislation)
3. Sweden's 16 environmental quality objectives
4. Applicable municipal/county council environmental policies
5. OECD Guidelines for Multinational Enterprises

Selection according to the criteria by:

1. Green Bond framework defined projects
2. Environmental functions in Kommuninvest's member municipalities/county councils
3. Treasury Departments in member municipalities/county councils and at Kommuninvest
4. Kommuninvest's Green Bonds Environmental Committee