

Second-Party Opinion

Kommuninvest Social Bonds Framework



Evaluation Summary

Sustainalytics is of the opinion that the Kommuninvest Social Bonds Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2020. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Housing and Residential Environments, (ii) Safety, Security and Accessibility, and (iii) Health, Education, Sports and Culture – are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the eligible projects will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 10 and 11.



PROJECT EVALUATION / SELECTION Kommuninvest's internal process in evaluating and selecting projects is overseen by Kommuninvest's Committee on Social Sustainability ("the Committee"), comprised of a broad group of cross-sector experts. Eligible Projects will be identified and selected by the finance departments of Kommuninvest's members and initially appraised by the Kommuninvest lending department. Borrowers must complete an extensive application and screening process and meet all Framework requirements to be considered eligible for financing. Sustainalytics considers Kommuninvest's project evaluation and selection process to be exemplary of market best practice.



MANAGEMENT OF PROCEEDS Kommuninvest will track the proceeds using an internal tracking system following its internal instructions. Kommuninvest will strive to ensure that the Social Bond proceeds do not exceed the total disbursement of Social Sustainability Loans. Unallocated proceeds may be temporarily held in cash, sustainable bonds, municipal bonds and/or government bonds. This is in line with market practice.



REPORTING Kommuninvest intends to report on the allocation of proceeds on its website on an annual basis. The report ("Social Bonds Report") will contain a description of the loans, the issued and outstanding amount of bonds, the amount of loans committed and disbursed, the share of social bonds proceeds and the share of financing vs refinancing. Allocation reporting will be verified by a third-party auditor, which is a market best practice. In addition, Kommuninvest is committed to reporting on social impact on a project-by-project basis. Sustainalytics views Kommuninvest's allocation and impact reporting as aligned with market practice.

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Introduction

Kommuninvest i Sverige AB (“Kommuninvest”, or the “Agency”) is a cooperative organization which provides credit and financial advice to the Swedish local government sector. Founded in 1986 and headquartered in Örebro, Kommuninvest is jointly owned by 278 municipalities and 14 Swedish regions. Kommuninvest contributes to reducing the borrowing costs of the Swedish municipal sector.

Kommuninvest has developed the Kommuninvest Social Bonds Framework (the “Framework”) under which it intends to issue multiple social bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future loans that can contribute to increased social sustainability in Sweden’s municipalities and regions. The Framework defines eligibility criteria in three areas:

1. Housing and Residential Environments
2. Safety, Security and Accessibility
3. Health, Education, Sports and Culture

Kommuninvest engaged Sustainalytics to review the Kommuninvest Social Bonds Framework, dated January 2021, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2020 (SBP).¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2020, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7.1, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Kommuninvest’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Kommuninvest representatives have confirmed (1) they understand it is the sole responsibility of Kommuninvest to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Kommuninvest.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

² The Social Bonds Framework is available on Kommuninvest i Sverige AB’s website at: <https://kommuninvest.se/en/financial-information/social-bonds/>

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Kommuninvest has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Social Bonds Framework

Sustainalytics is of the opinion that the Social Bonds Framework is credible and impactful and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of Kommuninvest's Social Bonds Framework:

- Use of Proceeds:
 - The eligible categories – (i) Housing and Residential Environments, (ii) Safety, Security and Accessibility, (iii) Health, Education, Sports and Culture – are aligned with those recognized by the SBP. Sustainalytics positively views loans or investments that seek to support social sustainability in Sweden. Additionally, Sustainalytics notes that, for each of the categories included in the Framework, target populations include: low-income earners, students, the elderly, single-person households, the undereducated, the unemployed, people with functional diversity, excluded and/or marginalised people, persons suffering from mental illness or otherwise vulnerable groups and persons with special needs.⁴ Sustainalytics positively highlights the well-defined target populations.
 - Additionally, Sustainalytics notes that Social Sustainability Loans may be provided for financing Eligible Projects that comply with one of the following two investment types:
 - Physical investments with an associated social intervention – where the physical investment is a platform for work on social sustainability and there is a clear link between the physical investment, the social intervention and the social objectives.
 - Physical investments where the physical investment itself qualifies as a social intervention – this applies to cases where the borrower can reference conducted research, pre-studies and/or has demonstrated that the physical investment can itself contribute to set social objectives.
 - The borrower is expected to finance social interventions through its own operating budget, special grants or investment funds, while Social Sustainability Loans intend to finance the physical investment (i.e. capital expenditures). For additional requirements for borrowers to be considered as eligible recipients for Social Sustainability Loans, please refer to the Project Evaluation and Selection process described below.
 - In the Housing and Residential Environments category, Kommuninvest may provide financing or refinancing for *Public housing in areas with special needs* and *Socially sustainable housing or premises*. Public housing finance includes construction, renovation, acquisition, or refinancing of properties and residential environments, borrowers are required to demonstrate that public housing projects counter, reduce, or solve a social challenge in one or several defined residential areas. As for socially sustainable housing or premises, Kommuninvest may finance the construction, renovation, acquisition, or refinancing of properties for targeted populations. Sustainalytics notes that these projects could improve access to housing in Sweden to disadvantaged people.

⁴ The target population can be either defined (e.g. people over 65 years of age) or defined and delimited (e.g. people over 65 years of age with certain health characteristics), as far as possible the target group should be both defined and delimited.

- Within the Safety, Security and Accessibility category, Kommuninvest may use the proceeds to finance increased *Safety and security* for targeted populations; examples of activities could include construction of protective bridge rails, fences, or barriers and installing outdoor lighting to increase safety and security for individuals including women and children or other vulnerable groups. In addition, Kommuninvest may finance projects and infrastructure that increase *Accessibility* and inclusion, including public transport infrastructure, and local office for specific support functions, such as child and adolescent psychiatry. Sustainalytics highlights that the activities and projects funded under this category might increase safety and security, as well as accessibility and inclusion of vulnerable people.
- As for the Health, Education, Sport, and Culture category, Kommuninvest may finance projects and activities in (i) *Health care*, (ii) *Education and training*, (iii) *Sports*, and (iv) *Culture*, as specified below:
 - (i) Health care may include financing the construction, renovation, acquisition or refinancing of healthcare facilities that are aimed at promoting improved public health and mental health, as well as disease prevention.
 - (ii) Education and training may include the financing the development or renovation of facilities aimed increasing the level of education, continuing education and further training.
 - In (iii) Sports, Kommuninvest may use the proceeds to develop sports facilities, construct a training facility with specially adapted training possibilities, or renovate sports club premises. The projects may target all people in a defined area, groups at risk of ill-health and/or social groups in exclusion or new arrivals. Sustainalytics notes the positive effects arising from the projects, notably in public health, disease prevention, and increased integration.
 - Within (iv) Culture, Kommuninvest may invest in the construction of premises for cultural activities, such as dance or theatre premises, or in the construction of libraries, to increase leisure activities, integration and health.
- Project Evaluation and Selection:
 - Kommuninvest's internal process in evaluating and selecting eligible social loans is managed by Kommuninvest's Committee on Social Sustainability (the "Committee"), which includes eight experts from cross-sector backgrounds including academia, research, local governments and sustainable finance. Members of the Committee are selected to contribute their expertise in social impact evaluations and to promote impact assessment culture within the municipal sector. On an ongoing basis, Eligible Projects will be identified and verified by Kommuninvest's members and clients and sent to Kommuninvest for initial appraisal together with a completed application form and all required documentation. The application form is intended to ensure the potential borrower meets all of the prerequisites for financing prior to any lending.⁵ On at least a quarterly basis, Eligible Projects will be reviewed and approved via consensus decision by the Committee to ensure compliance with the eligibility criteria outline in the Framework.
 - The Eligible Projects must meet the following core requirements:
 - promote a socially sustainable society through the development of practices, innovation and/or increased quality in terms of the physical investment, the social intervention or the target population;⁶
 - is part of the borrower's systematic work for social sustainability or contributes to the development of such work;
 - refers to a defined target population;
 - are long-term;
 - have clear objectives and include systematic assessment of results.
 - Based on the above elements, including the cross-sector representation within the Committee, the clearly outlined project evaluation and selection process and the extensive application process for potential borrowers to receive financing for Eligible Projects, Sustainalytics is of the

⁵ The application form was reviewed by Sustainalytics on a confidential basis. The Issuer plans to make the application form publicly available.

⁶ Defined in the Use of Proceeds section.

opinion that Kommuninvest's project evaluation and selection is exemplary of market best practice.

- Management of Proceeds:
 - Kommuninvest will track and manage proceeds using an internal tracking system in accordance with internal instructions. Kommuninvest shall aim to ensure that the total social bonds proceeds do not exceed the total disbursements for Social Sustainability Loans. If a financed loan no longer meets eligibility criteria, Kommuninvest will remove it from the eligible loans portfolio. Unallocated proceeds will be held in cash, sustainable bonds, municipal bonds and/or government bonds. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Kommuninvest intends to report allocation proceeds on its website on an annual basis. The Social Bonds Report will contain a description of the loans, the issued and outstanding amount of bonds, the amount of loans committed and disbursed, the share of social bonds proceeds and the share of financing vs refinancing. Allocation reporting will be verified by a third-party auditor, which is aligned with market practice.
 - In addition, Kommuninvest is committed to reporting on social impacts, where feasible, on a project-by-project basis. The impact reporting aims to measure and demonstrate the positive social outcomes achieved by the Eligible Projects. To the extent possible, the social results are presented by reporting outputs and/or outcomes and impact of the Eligible Projects. Specific key performance indicators in the Social Bond Report are subject to variance because the Framework enables the financing of Eligible Projects that address widely differing social challenges. The impact reporting will, among other things, be based on data from the borrowers, and social results will be measured on a best effort basis. Sustainalytics positively recognizes Kommuninvest's intent to ensure a high level of impact reporting from borrower's and considers its reporting process to be well aligned with market practice.

Alignment with Social Bond Principles 2020

Sustainalytics has determined that the Social Bonds Framework aligns to the four core components of the SBP. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Strategy of Kommuninvest

Contribution of Framework to Kommuninvest's sustainability strategy

Sustainalytics recognizes that Kommuninvest's business model to finance local and regional development activities and investments encourages sustainable social development.⁷ In addition, the Agency has developed a long-term sustainability policy.⁸ The policy establishes the guidelines of the Agency's sustainability vision, which aims at supporting municipalities' and regions' efforts to environmental and social sustainability.

As such, Kommuninvest has launched sustainable finance instruments to support the municipalities and regions in enhancing their investments in welfare, such as housing, school, elderly homes, and sports infrastructure.⁹ In 2015, Kommuninvest first issued green loans for financing environmental and climate-related investments to support Swedish municipalities and regions in developing sustainable projects. Sustainalytics notes that Kommuninvest's Green Bond Framework accounts for over 10% of the Agency's total lending portfolio. As of 2019, Kommuninvest provided SEK 407 billion (EUR 39.25 billion) in local government loan financing, representing 54% of all loan financing undertaken by Swedish local governments.¹⁰ Municipal housing companies represented 28% of Kommuninvest's loan portfolio,¹¹ while the remaining part has

⁷ Kommuninvest, "Sustainability Report 2019", (2020), at: <https://kommuninvest.se/en/annual-review-2019/sustainability-report-2019/>

⁸ Kommuninvest, "Sustainability Policy", (2020), at: <https://kommuninvest.se/wp-content/uploads/2020/12/Sustainability-Policy-2020.pdf>

⁹ Kommuninvest, "Kommuninvest i Sverige AB Annual Report 2019", (2020), at: https://kommuninvest.se/wp-content/uploads/2020/02/KIAB_ENG_2019.pdf

¹⁰ Kommuninvest, "Annual Review 2019", (2020), at: <https://kommuninvest.se/en/annual-review-2019/>

¹¹ Kommuninvest, "Investor presentation", (2020), at: <https://kommuninvest.se/wp-content/uploads/2020/06/Investor-presentation-Juni-2020.pdf>

supported investments in schools, healthcare centers, sporting facilities and other infrastructure investments.¹⁰

In 2019, Kommuninvest began development of a new product, Social Sustainability Loans, which will further support the efforts of the local governments, including publicly-owned companies to promote investments for a socially sustainable society.¹² Social Sustainability Loans will constitute a portfolio of assets that may be used as a basis for financing with Social Bonds proceeds.² As such, the loans will focus on the following categories: housing and housing environment, safety, security and accessibility, as well as health, sports, education and culture.¹² These initiatives aim at improving social cohesion and sustainability.

Sustainalytics is of the opinion that the Social Bonds Framework is aligned with the Agency's overall sustainability strategy and initiatives and will further the Agency's action on its key social priorities.

Well positioned to address common social and environmental risks associated with the projects

Sustainalytics acknowledges that the Framework will be directed towards eligible projects and activities that have positive social impact. However, Sustainalytics is aware that such eligible projects and activities could lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include occupational health and safety, land use change and biodiversity issues. Sustainalytics acknowledges that the activities financed under this Framework will not be carried out by the Agency itself, but rather by the municipalities and regions that are financed. Nonetheless, Sustainalytics is of the opinion that Kommuninvest can manage and/or mitigate potential risks through implementation of the following:

- Kommuninvest actively monitors the compliance with applicable labour market laws and agreements, in particular environmental legislation, legislation for public companies, and legislation that affects business relationships.⁸
- Regarding worker health and safety, the EU Directive on Worker Health and Safety ensures minimum safety and health requirements throughout Europe. Employers must "ensure the safety and health of workers in every aspect related to the work." Necessary measures due to be taken by the employers include "prevention of occupational risks and provision of information and training, as well as provision of the necessary organization and means".¹³
- Kommuninvest also follows international guidelines and principles that aim to safeguard labour and human rights such as ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Global Compact.⁸
- Kommuninvest is committed to reducing its indirect environmental impact from lending and investments. To do so, the Agency follows the guidelines of the United Nations Environment Program Finance Initiative.¹⁴
- Regarding activities funded by Kommuninvest that may be assessed to pose a risk to the environment, they must comply with European Union (EU) Environmental Impact Assessment (EIA) Directive¹⁵ for development projects within the EU. The EIA Directive is aimed at ensuring that projects which are likely to have significant impact on the environment, are adequately assessed before approval. With respect to biodiversity, the Directive instructs that measures must be taken to "avoid, prevent, reduce and, if possible, offset significant adverse effects on the environment, in particular on species and habitats." Concerning land use the Directive notes that the "EIA shall identify, describe and assess land use related impacts".¹⁵
- Sweden is classified as a "Designated Country" under the Equator Principles, implying the presence of a robust environment and social governance systems, legislation, and institutional capacity for protecting the environment and communities.¹⁶

¹² Kommuninvest, "New expert committee to ensure the integrity of Social Sustainability Loans", (2020), at: <https://kommuninvest.se/2020/08/new-expert-committee-to-ensure-the-integrity-of-social-sustainability-loans/>

¹³ EU, "Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of workers at work", (1989), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31989L0391&from=FR>

¹⁴ Kommuninvest, "Sustainability perspective", at: <https://kommuninvest.se/en/sustainability/>

¹⁵ EU, "Directive 2014/52/EU on the assessment of the effects of certain public and private projects on the environment", (2014), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0052>

¹⁶ The Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Kommuninvest has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Importance of affordable and socially sustainable housing in Sweden

Following the Second World War, Sweden introduced the “Folkhem” Policy to address housing shortages.¹⁷ The policy pursued the goal to achieve universal housing, irrespective of income levels or housing conditions.¹⁷ Folkhem introduced a national approach to public housing based on municipal companies offering rental and for-sale housing. Sweden provided almost the entire population with access to housing by the early 1970s.¹⁷ However, recent policy developments and the marketization of the housing sector have led to several challenges in the housing market.¹⁷ Among the housing market challenges are socio-economic segregation,¹⁷ exclusion in many residential areas and cities, a housing shortage, and high construction costs, all of which contribute to the increasing unaffordability for many people.¹⁸

Since 2017, the Swedish state offers subsidies to promote the construction of affordable housing.¹⁹ The latest effort resulted in the construction of approximately 15,000 new affordable apartment units.¹⁹ Among those who benefit from affordable housing programs and subsidies are the elderly, youth, recent migrants,¹⁷ and low-income earners.²⁰ Currently, municipal housing companies remain a key player in the housing market. Municipal companies account for almost 20% of Sweden’s housing stock and half of the rental sector, benefiting nearly 1.5 million people.¹⁸ Kommuninvest’s financing, including to municipal housing companies, to build new or renovate affordable housing, and other targeted living solutions can further contribute to reducing or solving local housing and social challenges to produce socially sustainable urban environments.

Based on the above, Sustainalytics believes that Kommuninvest’s financing of socially sustainable loans for housing and residential environment investments could contribute to improving affordability and access to housing to disadvantaged groups.

Importance of health, education and sports for a sustainable society

Promoting improved public health and disease prevention

Healthcare in Sweden is heavily decentralized. The central government is responsible for establishing principles and guidelines that set the agenda for public health, while regional and municipal governments are responsible for the provision of good-quality health and medical care, and promoting good health for the entire population.²¹ The Swedish health system is well-funded, health spending is the third highest in the EU as a share of GDP, at 11% of total.²² This environment resulted in a high-performing health system, with good access to high-quality healthcare. However, access to healthcare facilities in remote regions remains a challenge.²² Life expectancy in Sweden (82.5 years) is among the highest in the EU, and the mortality rate from preventable and treatable causes lower than the EU average.²² Nevertheless, the (i) lack of exercise and physical activity, and (ii) mental health, are becoming issues of growing concern.²²

For (i) lack of exercise and physical activity, a recent report by the European Commission showed that 67% of Swedish adults exercise at sufficient level, followed by seniors (55%), while children (19%) and adolescents (11%) have lower levels of physical activity.²³ In 2017, low physical activity was responsible for approximately 3% of deaths in Sweden.²² At the same time, (ii) mental health – namely problems related to nervousness,

¹⁷ Smart housing Smaland, “Social Sustainability and Housing for Vulnerable Groups in Sweden: An Integrated Literature Review”, (2019), at: <http://www.tracentrum.se/media/2304/social-sustainability-and-housing-for-vulnerable-groups-in-sweden.pdf>

¹⁸ Sveriges Allmannytta, “Public housing in Sweden”, at: <https://www.sverigesallmannytta.se/in-english/public-housing-in-sweden/>

¹⁹ Housing Europe, “The State of Housing in the EU 2019”, (2019), at: <https://www.housingeurope.eu/resource-1323/the-state-of-housing-in-the-eu-2019>

²⁰ The Local, “The story of Sweden’s housing crisis”, (2017), at: <https://www.thelocal.se/20170828/the-story-of-swedens-housing-crisis>

²¹ Official site of Sweden, “Healthcare in Sweden”, (2020), at: <https://sweden.se/society/health-care-in-sweden/#>

²² OECD, “State of Health in the EU. Sweden Country Health Profile 2019”, (2019), at: <https://www.oecd-ilibrary.org/docserver/2dcb7ca6-en.pdf?expires=1598527889&id=id&accname=guest&checksum=805E8F1D24AC0B39442F564752E028B1>

²³ European Commission, “Sweden Physical Activity Factsheet 2018”, (2019), at: https://ec.europa.eu/sport/sites/sport/files/physical-activity-factsheets-2018/physical-activity-factsheets-2018/sweden-physical-activity-factsheet-2018_en.pdf

apprehension, or anxiety – affected 54% of women and 33% of men aged 16-29 years old.²⁴ In the other age groups, the figure is roughly one-third for women and one-fourth for men.²⁴ Comparatively, 25% of the European population suffers from depression or anxiety each year.²⁵

Encouraging physical activities, like cycling, can have considerable health benefits, for example reducing the risks of death due to cardiovascular disease,²⁶ high blood pressure, cholesterol, and diabetes.²⁷ By financing investments and activities that foster improved public health and disease prevention as well as the expansion of access to youth mental clinics, Kommuninvest can contribute to increasing the proportion of the population that exercises regularly and experience better health, including mental health.

Education and training

The Swedish Education Act mandates ten years of school attendance for all children from the year they turn six.²⁸ By 2016, Sweden had virtually achieved full net enrolment in secondary education (99%).²⁹ However, performance is declining as about 18% of Swedish students did not meet the grades required to qualify for a national upper-secondary school program, and roughly 10% of upper secondary students failed to complete the program in 2017.²⁸ In average, two in every ten 15 year-old students are underperforming in reading (18.4%), math (20.8%) and science (21.6%), in 2018.³⁰ Another concern for the Swedish education system is growing segregation and inequality in schools. Segregation has a negative effect on school results, particularly for vulnerable students.³⁰ For example, foreign-born students are more likely (17.7%) to leave education and training programs than native-born students (7.3%).³⁰ To address these challenges, the municipalities with higher concentrations of students from migrant and lower socio-economic backgrounds receive additional funding to help schools attract better teachers and improve teaching quality.³⁰

By financing investments in renovation, expansion of education centers, and accessibility, supported by a well-defined target population (newly arrived students from foreign countries and students with reading and writing difficulties), Kommuninvest could improve the inclusion in the education system and student performance.

Sports for integration of new arrivals

In 2019, 20% of Sweden's population was foreign-born, almost a twofold increase from the year 2000, when international migrants represented 11.3% of the population.³¹ The current integration strategies aim to ensure equal rights, obligations, and opportunities for all, irrespective of ethnic and cultural backgrounds.³² However, integration efforts have not been entirely successful. For example, unemployment among foreign-born (16%)³³ is four times higher than native Swedes (4%), as of 2018.³⁴ Overall, integration policies and strategies have not managed to reduce the segregation of foreign minorities, particularly when holistic integration, beyond unemployment and education, is considered.^{35,36}

In Sweden, sports have emerged as an important integration factor between new arrivals and their new environment.³⁷ Sports participation can generate positive social interaction between new arrivals and the host communities, particularly in the immediate arrival period.³⁸ In recent years, many civil society initiatives have emerged aimed at enhancing integration of migrants through sports. For example, "Hej Fraemling!" is a

²⁴ Public Health Agency of Sweden, "Mental Health", (2018), at: <https://www.folkhalsomyndigheten.se/the-public-health-agency-of-sweden/living-conditions-and-lifestyle/mental-health/>

²⁵ WHO, "Depression in Europe: facts and figures", at: <https://www.euro.who.int/en/health-topics/noncommunicable-diseases/mental-health/news/news/2012/10/depression-in-europe/depression-in-europe-facts-and-figures>

²⁶ Karolinska Institutet, "Everyday exercise has surprisingly positive health benefits", (2018), at: <https://news.ki.se/everyday-exercise-has-surprisingly-positive-health-benefits-0>

²⁷ ScienceNordic, "Cycle like the Scandinavians for a healthier society", (2016), at: <https://sciencenordic.com/climate-solutions-cycling-denmark/cycle-like-the-scandinavians-for-a-healthier-society/1440888>

²⁸ Official site of Sweden, "Education in Sweden", (2019), at: <https://sweden.se/society/education-in-sweden/>

²⁹ UNESCO, "Sweden", at: <http://uis.unesco.org/en/country/se>

³⁰ European Commission, "Education and Training Monitor 2019. Sweden", (2019), at: https://ec.europa.eu/education/sites/education/files/document-library-docs/et-monitor-report-2019-sweden_en.pdf

³¹ Migration Data Portal, "Sweden", at: https://migrationdataportal.org/data?i=stock_abs_&t=2019&cm49=752

³² European Commission, "Governance of Migrant Integration in Sweden", at: <https://ec.europa.eu/migrant-integration/governance/sweden>

³³ OECD, "Foreign-born unemployment", at: <https://data.oecd.org/migration/foreign-born-unemployment.htm#indicator-chart>

³⁴ OECD, "Native-born unemployment", at: <https://data.oecd.org/migration/native-born-unemployment.htm#indicator-chart>

³⁵ OECD, "Finding the Way: A Discussion of the Swedish Migrant Integration System", (2014), at: <https://www.oecd.org/migration/swedish-migrant-integration-system.pdf>

³⁶ FRA Europe, "Migrants and their Descendants: Social Inclusion and Participation in Society", (2015), at: https://fra.europa.eu/sites/default/files/fra_uploads/social-inclusion-and-migrant-participation-society_se.pdf

³⁷ Herting, K. et al (2013), "Sport as a Context for Integration: Newly Arrived Immigrant Children in Sweden Drawing Sporting Experiences", International Journal of Humanities and Social Science, at: <https://www.diva-portal.org/smash/get/diva2:979341/FULLTEXT01.pdf>

³⁸ Middleton, T. et al (2020). "Community sport and physical activity programs as sites of integration: A meta-synthesis of qualitative research conducted with forced migrants", Psychology of Sports and Exercise, at: <https://www.sciencedirect.com/science/article/pii/S1469029220301655>

program that promotes the integration of migrants through sports and outdoor activities.³⁹ Sustainalytics notes that Kommuninvest's financing of sports facilities could foster better health and inclusions of migrants, contributing to socially sustainable communities in Sweden.

Overall, Sustainalytics believes that Kommuninvest's Framework could contribute to the promotion of healthier lifestyles, access to improved education, and a more inclusive and socially sustainable society across Sweden's municipalities and regions.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Housing and Residential Environments	11. Sustainable cities and communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Safety, Security and Accessibility	10. Reduced inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Health, Education, Sports and Culture	3. Good health and well-health	3.4 By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being
	4. Quality education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes 4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all
	11. Sustainable cities and communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries

Conclusion

Kommuninvest has developed the Kommuninvest Social Bonds Framework under which it will issue social bonds and use the proceeds to finance projects that can contribute to increased social sustainability in Sweden's municipalities and regions. Sustainalytics considers that the projects funded by the social bond proceeds are expected to provide positive social impact.

The Social Bonds Framework outlines a market best practice process for project evaluation and selection, and other internal processes which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Social Bonds Framework is aligned with the overall sustainability strategy of the Agency and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 10 and 11. Additionally, Sustainalytics is of the opinion that Kommuninvest has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

³⁹ InfoMigrants, "Hej Främling, Swedish project for integration through sport", (2017), at: <https://www.infomigrants.net/en/post/5626/hej-fraemling-swedish-project-for-integration-through-sport>

Based on the above, Sustainalytics is confident that Kommuninvest i Sverige AB is well-positioned to issue social bonds and that the Kommuninvest Social Bonds Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2020.

Appendices

Appendix 1: Social Bond/ Social Bond Programme -External Review Form

Section 1. Basic Information

Issuer name:	Kommuninvest i Sverige AB
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	Social Bonds Framework
Review provider's name:	Sustainalytics
Completion date of this form:	February 10, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds: (i) Housing and Residential Environments, (ii) Safety, Security and Accessibility, and (iii) Health, Education, Sports and Culture are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 10 and 11.

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Kommuninvest's internal process in evaluating and selecting projects is overseen by Kommuninvest's Committee on Social Sustainability ("the Committee"), comprised of a broad group of cross-sector experts. Eligible Projects will be identified and selected by the finance departments of Kommuninvest's members and initially appraised by the Kommuninvest lending department. Borrowers must complete an extensive application and screening process and meet all Framework requirements to be considered eligible for financing. Sustainalytics considers Kommuninvest's project evaluation and selection process to be exemplary of market best practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

Kommuninvest will track the proceeds using an internal tracking system following its internal instructions. Kommuninvest will strive to ensure that the Social Bond proceeds do not exceed the total disbursement of Social Sustainability Loans. Unallocated proceeds may be temporarily held in cash, sustainable bonds, municipal bonds and/or government bonds. This is in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Kommuninvest intends to report on the allocation of proceeds on its website on an annual basis. The report ("Social Bonds Report") will contain a description of the loans, the issued and outstanding amount of bonds, the amount of loans committed and disbursed, the share of social bonds proceeds and the share of financing vs refinancing. Allocation reporting will be verified by a third-party auditor, which is a market best practice. In addition, Kommuninvest is committed to reporting on social impact on a project-by-project basis. Sustainalytics views Kommuninvest's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
- Social Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries
- Target populations
- Other ESG indicators (*please specify*): Case studies / project-specific indicators

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify): Social Bonds Report
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP**

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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Named
 2015: Best SRI or Green Bond Research or Rating Firm
 2017, 2018, 2019: Most Impressive Second Opinion Provider

