

Kommuninvest – Green Bonds Framework

7 March 2018

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 February 2018, the cooperation comprised 288 out of Sweden's 310 local and regional governments; 277 municipalities and 11 county councils/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. 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 proceeds with an ambition for aggregate Green Bond Proceeds not to exceed total disbursements to Eligible Loans. Any excess amounts will be held in cash, Green Bonds, municipality and/or government risk with a minimum, average credit rating of A- by Standard & Poor's or corresponding credit rating by another rating agency approved by Kommuninvest. 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. 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/county councils that primarily promote the transition to low carbon and climate resilient growth. Eligible Projects shall be part of the systematic environmental work in the applicant municipality/county council 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 (“Mitigation Projects”), (b) adaptation to climate change, including investments in climate-resilient growth (“Adaptation Projects”) or (c) to a limited extent (max 30 per cent of issued volume) projects which are related to environmental management in other areas than climate change.

Kommuninvest i Sverige AB (publ). Corporate identity number: 556281-4409. Registered office: Örebro

Kommuninvest Cooperative Society. Corporate identity number: 716453-2074. Registered office: Örebro

Kommuninvest Fastighets AB. Corporate identity number: 556464-5629. Registered office: Örebro

Eligible Project categories are:

- **Production and distribution of renewable energy** – such as wind, wave, solar, hydro, geothermal, bioenergy, biogas and excess heat – or conversion from fossil to renewable energy.
- **Energy efficiency in energy systems.** 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. Residential multi-family buildings: New or existing buildings with at least 15 per cent less energy use per square metre and year than required by applicable regulation (Swedish Building Regulations (BBR 25)).
 2. Non-residential buildings: New or existing buildings with at least 20 per cent less energy use per square metre and year than required by applicable regulation (Swedish Building Regulations (BBR 25)). New buildings are encouraged to also have a minimum certification of either 1) LEED gold, 2) BREEAM very good, 3) Environmental Building (Miljöbyggnad silver), 4) the Nordic Swan Ecolabel, 5) EU Green Building, 6) Feby-12 (Mini-energy building), or other certification of similar ambitions; however this is not a firm requirement.
 3. Major renovations of buildings leading to a reduced energy use per square metre per year of at least 30 per cent or compliance with applicable regulations (Swedish Building Regulations (BBR 25)).
 4. Energy efficiency measures in partial systems of existing buildings leading to at least 30 per cent less energy use.
- **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 facilities)
- **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).

Kommuninvest allows for financing of both new and existing projects. An Eligible Project is determined as new if it is either planned, ongoing or finalised within nine months before the date of such calculation. The distribution between new and completed projects will be available to investors in the annual Green Bonds Impact Report (see section 4 below).

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. Maximum fossil energy component for public transportation is 20 percent.

3. SELECTION OF ELIGIBLE LOANS

Eligible Projects will, on an ongoing basis, be:

1. **identified** and verified by the environmental functions in Kommuninvest's member municipalities/county councils;
2. **selected** by the Treasury Departments in Kommuninvest's member municipalities/county councils, and submitted to Kommuninvest for approval as a Green Loan together with appropriate documentation according to Kommuninvest's instructions.

Eligible Projects will, on an ongoing basis, be:

3. **pre-approved** by Kommuninvest's Lending department

and, on a quarterly basis, be:

4. reviewed and **finally approved** by consensus vote in the Green Bonds Environmental Committee in terms of coherence with the criteria for Eligible Loans as defined in section 2 above. The Green Bonds Environmental Committee consists of representatives from the environmental function of two or more member municipalities/county councils, environmental experts from other relevant public sector organisations/academia/NGOs, as well as Kommuninvest's Management.

4. TRANSPARENCY & 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 list of Eligible Loans/Projects exceeding SEK 25 million, including allocated amount, a brief project description, and expected impact;
- a selection of project examples;
- information on the estimated saved/avoided CO₂-emissions related to Eligible Projects;
- a summary of Kommuninvest's Green Bonds development, including information on aggregate Green Bond Proceeds;
- the distribution between new and completed Eligible Projects
- 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

