

Sparbanken Västra Mälardalen

Green Bond Framework
October 2021

Sparbanken
Västra Mälardalen



1. Introduction

1.1 About Sparbanken Västra Mälardalen

Sparbanken Västra Mälardalen is a local savings bank providing a broad range of products and services to local municipality residents: private individuals, companies, organizations, and associations. Since 1845, the bank has been involved in developing the western parts of Västmanland county into an even better place to live and work in for everyone. The bank has four branch offices in three municipalities, all of which are located in the western parts of Västmanland county.

The value chain in its simplest form consists of savings converted into lending. Sparbanken Västra Mälardalen mainly offers products and services in the areas of savings, lending, payments and insurance. Customers mainly comprise of private customers and small and medium-sized companies.

Like most Swedish savings banks, Sparbanken Västra Mälardalen shares a history of cooperation with Swedbank, which enables material product diversification and shared IT costs, and provides the opportunity to finance retail mortgages via Swedbank Hypotek, Sweden's largest issuer of covered bonds.

Sparbanken Västra Mälardalen's business volume amounted to SEK 26 692m while net lending on its own books totalled SEK 8 021m, as of 31 December 2020.



1.2 Sparbanken Västra Mälardalen's sustainability contribution

Environmental responsibility, social commitment and sustainable action lie deep in the roots of Sparbanken VM and is a natural part of the bank's business operations. The sustainability strategy is based on the ambition to create long-term and sustainable relationships with bank's customers, and to contribute to increased financial security and growth in the its core markets: Köping, Arboga and Kungsör.

Governance & reporting

Sparbanken Västra Mälardalen has established a Sustainability Policy as well as a Sustainability Risk Policy. Furthermore, sustainability considerations have been integrated in several other policies and guidelines, incl. Credit Policy, Ethics and Conflict of

Interest Policy, Employee Guidance, Business Travel Guidelines and Purchasing Guidelines. These form the basis of the bank's sustainability work and aims to ensure that the business is steered in a sustainable direction.

In addition to the bank's policies and guidelines, Sparbanken Västra Mälardalen has signed the UN principles for responsible banking in 2021. The commitment means that Sparbanken Västra Mälardalen will contribute to the global sustainability goals (SDGs) that the UN has developed in Agenda 2030, as well as to the Paris Agreement. To date, the bank has identified seven SDGs that are particularly important in the work with investment and support for regional development, associations, projects, ideas and initiatives, on a local level.



The international reporting standard, Global Reporting Initiative (GRI), serve as inspiration and guidance in the work of preparing the annual sustainability report. However, the bank's sustainability report does not currently meet the requirements for GRI. The ambition is to achieve the GRI standard for the sustainability report over time.

Environmental responsibility

Together with its employees, customers and suppliers, Sparbanken Västra Mälardalen is committed to take an active role in reducing the bank's carbon footprint, both generated directly through its operations and indirectly through its financing, investments, payments, and purchases.

Direct emissions from Sparbanken Västra Mälardalen's operations (Scope 1) come from the Bank's company-owned car and possible leakage of refrigerant in its refrigeration system. Indirect emissions (Scope 2) from its operations come from purchased energy (incl. both heating and electricity). All of the bank's branches are powered with either purchased certified renewable energy from local producers, or by the solar panels installed on the bank's property in Köping.

Sparbanken Västra Mälardalen's greatest impact on society and the environment takes place indirectly through its lending, products and services. To address this issue, Sparbanken Västra Mälardalen has introduced specific policies and routines for considering sustainability risks in lending. Through responsible lending, the bank can participate and indirectly influence the customers' sustainability risks, for example, risks related to human rights, the environment in the customers' operations or in business relationships with subcontractors as well as in products and services. In addition, Sparbanken Västra Mälardalen also incentivises its customers to

invest in local and renewable power and supports projects aimed at developing a circular economy.

Strong commitment to local community

In addition to banking services, Sparbanken Västra Mälardalen has a strong sense of social responsibility in its local communities and has contributed over SEK 110m to youth sports, education, integration and cultural projects since the year 2000. In addition, the bank operates a customer-bonus programme in which all bonus funds can be used only at local retailers. By supporting and cooperating with local people, businesses, and organizations, Sparbanken Västra Mälardalen can contribute to a positive development in the area.

1.3 The Green Bond Framework

Sustainability in all forms is a highly prioritized area for Sparbanken Västra Mälardalen, where the establishment of this Green Bond Framework (the "Framework") enable the bank's continued positive environmental impact in society.

This Framework has been developed in alignment with the Green Bond Principles of 2021 ("GBP")¹. The Framework is applicable for issuance of Green bonds (in several formats incl. Senior Preferred and Senior Non-Preferred) and other types of debt instruments.

The Framework is aligned with the four recommended components of the GBP; Use of Proceeds (Section 2), Process for Asset Evaluation and Selection (Section 3), Management of Proceeds (Section 4) and Reporting (Section 5).

Furthermore, the Green Bond Framework is reviewed by an external impartial firm, which has provided a second opinion to confirm its alignment with the GBP.

The Framework and second opinion from CICERO Shades of Green are available on Sparbanken Västra Mälardalen's website.

2. Use of Proceeds

Green Eligible Loans

An amount equivalent to the net proceeds from Sparbanken Västra Mälardalen's Green bonds shall be used to finance or re-finance Green Eligible Loans providing distinct environmental benefits ("Green Eligible Loans"). The bank will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Green Eligible Loans.








EU Taxonomy alignment

Sparbanken Västra Mälardalen has started to explore what the EU Taxonomy would mean for the bank's activities. At this stage Sparbanken Västra Mälardalen is missing some data and methodologies to perform a complete EU Taxonomy assessment. Hence, the bank has focused on evaluating its activities substantial contribution to environmental objectives and compliance with technical screening criteria, where the information is available. The bank's preliminary assessment suggest that its activities contribute to the environmental objective Climate Change Mitigation.



¹ Green Bond Principles published in June 2021 are Voluntary Process Guidelines for Issuing Green Bonds established by International Capital Markets Association (ICMA),

<https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

Green Eligible Loan categories	Sub-categories	Related SDG	EU Taxonomy environmental objectives & selected activities
Green buildings ²	<p>Category I – New residential or commercial buildings & major renovations</p> <ul style="list-style-type: none"> i. New construction that either have or with the objective to receive minimum Miljöbyggnad Silver or Green Building or Nordic Swan Ecolabel or Passive House or other minimum equivalent certification standard in terms of energy consumption after the completed construction ii. New construction with an energy consumption at least 20% below the applicable national building regulation³ iii. New construction with an energy performance certificate (EPC) A or B iv. Major renovations resulting in a reduced energy consumption by at least 30% <p>Category II – Existing residential or commercial buildings</p> <ul style="list-style-type: none"> i. Buildings fulfilling requirements for i and ii under Category I ii. Buildings with an energy performance certificate (“EPC”) of class A or B, or if within the top 15% of the national or regional building stock⁴ 	 	<p>Climate change mitigation</p> <ul style="list-style-type: none"> • 7.1 Construction of new buildings • 7.2 Renovation of existing buildings • 7.7 Acquisition and ownership of buildings
Sustainable agriculture	Organic farming certified according to national legislation or EU-legislation	 	N/A
Sustainable forestry	Sustainable forestry defined as forestry certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC)		<p>Climate change mitigation</p> <ul style="list-style-type: none"> • 1.4 Forest management • 1.5 Conservation forestry
Energy efficiency	Energy retrofits such as converting to LED lighting, heat pumps, improvements in ventilation systems, extension of district heating and cooling systems		<p>Climate change mitigation</p> <ul style="list-style-type: none"> • 7.3 Installation, maintenance and repair of energy efficiency equipment • 7.6 Installation, maintenance and repair of renewable energy technologies
Renewable energy	<ul style="list-style-type: none"> i. Solar energy ii. Wind power iii. Hydropower 		<p>Climate change mitigation</p> <ul style="list-style-type: none"> • 4.2 Electricity generation using solar photovoltaic technology • 4.3 Electricity generation from wind power • 4.5 Electricity generation from hydropower

² New construction is defined as buildings built after 31 Dec 2020, and existing buildings are defined as buildings built before 31 Dec 2020, in line with the EU Taxonomy

³ Applicable national building regulations in Sweden corresponds to BBR 29 (Boverket's Building Regulations 29). 20% below BBR corresponds to energy performance ≤60 kWh/sq. m.

⁴ Currently there are no Green loans within sub-category "top 15% of the national or regional building stock". No Green bond proceeds will be allocated

to this sub-category going forward until the following criteria are fulfilled: i) A robust methodology for identifying top 15% needs to be established by the National Board of Housing, Building and Planning (Sw. Boverket) and Swedish Energy Agency (Sw. Energimyndigheten) [link](#) ii) The methodology is viewed as ambitious and subject for approval by the Green Bond Committee iii) Top 15% as sub-category is subject for reporting where energy usage for this particular sub-category is to be clearly disclosed

3. Process for Asset Evaluation & Selection

3.1 Selection of Green Eligible Loans

The evaluation and selection process for Green Eligible Loans is a key process in ensuring that the amount equivalent to the net proceeds from Green bonds are allocated to loans which meet the criteria in the Framework.

All loans, including Green loans, are subject for the credit process which intends to ensure compliance with applicable national regulations, and includes a Know-Your-Customer (KYC) procedure. Furthermore, for loans >SEK 8m a separate sustainability analysis must be conducted. Only assets approved in the regular credit process can be eligible for green funding, and the qualification for green criteria cannot override credit risks.

The Green Bond Committee ("GBC") established by Sparbanken Västra Mälardalen is an important cornerstone in the selection process. The GBC is responsible for the final approval of Green loans, and broader responsibility for the pool of Green Eligible Loans, as well as annual reporting (further responsibilities of the GBC are available in Section 3.2). The GBC consists of representatives from the Finance department, Credit department and the Sustainability department. Sparbanken Västra Mälardalen will assure that the sustainability expertise always relies within the GBC. All decisions are made in consensus, and this applies to the selection process of Green Eligible Loans as well.

Selection process for existing corporate and private Green loans includes the following steps i) pool of Green Eligible Loans is identified by the Finance department ii) the latter mentioned is presented for the GBC iii) following an approval in the GBC, the Green Eligible Loans are inserted in a specific spreadsheet called "Green Register".

Overall process for selection of new corporate Green loans consists of following i) client executive is in charge of filling in a specific green application together with supporting documentation when preparing material for the Credit department ii) the Credit department makes an assessment of the credit/loan towards requirements available in the Framework iii) the latter mentioned is presented for the GBC iv) Green loans approved by the GBC are registered in the Green Register.

Selection process for new private Green loans is subject for further development and is dependent on internal IT systems. However, the GBC has final approval of private Green loans in the same manner as for corporate Green loans. Private Green loans

approved by the GBC are inserted in the Green Register.

3.2 Further responsibilities of the GBC

Sparbanken Västra Mälardalen will follow the development of the Green bond market and manage any future updates of the Green Bond Framework to reflect current and future market practices (e.g. the upcoming EU Taxonomy) and potential updates to the GBP.

The Green Register is monitored on a regular basis during the term of the Green bonds to ensure that the proceeds are sufficiently allocated to Green Eligible Loans. This is also a responsibility of the GBC.

3.3 Exclusion criteria

The proceeds of Sparbanken Västra Mälardalen's Green bonds will not be used to finance either, nuclear energy generation, weapons, and defence industries nor potentially environmentally negative resource extraction, gambling, or tobacco. Fossil fuel related equipment and livestock that might exist in some types of loans will be excluded from new corporate Green loans.



4. Management of Proceeds

Equivalent to the net proceeds from Sparbanken Västra Mälardalen's Green bonds will be tracked by using the Green Register. Information available in the Green Register will in turn serve as basis for regular reporting described in Section 5.

All Green bonds issued by Sparbanken Västra Mälardalen will be managed on a portfolio level. This means that a Green bond will not be linked directly to one (or more) pre-determined Green Eligible Loans. The bank will keep track and ensure there are satisfactory Green Eligible Loans in the portfolio. Loans can, whenever needed, be removed or added to/from the Green Eligible Loans' portfolio.

Any unallocated proceeds temporary held by Sparbanken Västra Mälardalen will be invested in accordance with the internal requirements for the liquidity reserve.

5. Reporting

To be fully transparent towards investors and other stakeholders, Sparbanken Västra Mälardalen commits to regular reporting until no Green bonds are outstanding. The report will be published on the bank's website on an annual basis and will cover the following areas:

Allocation of proceeds reporting

- Total amount of Green bonds issued
- Share of proceeds used for financing/re-financing and share of proceeds used for categories described in Section 2
- Share of unallocated proceeds (if any)

Impact reporting

Sparbanken Västra Mälardalen intends to report on quantitative impact indicators where reasonable and where relevant data is available for the below six main categories:

Green buildings:

- Information on the energy usage in kWh/sq. m./year
- Estimated annual greenhouse gas emissions reduced or avoided (tCO₂e)
- Type of certification including level, if any (e.g. Miljöbyggnad Silver etc.)

Sustainable agriculture:

- Cropland under organic agriculture practices (hectare)
- Organic farming certification scheme

Sustainable forestry:

- Land area certified (hectare)

Energy efficiency:

- Annual energy saved (MWh)

Renewable energy:

- Installed capacity (MWh) or expected annual generation (MWh)

6. External review

Second opinion

To confirm the transparency and robustness of Sparbanken Västra Mälardalen's Green Bond Framework, it is verified and approved by an external second opinion provider. The second opinion by CICERO Shades of Green is available on the Sparbanken Västra Mälardalen's website, together with this Framework.

External verification

Allocation of proceeds will be subject to an annual review by an external part/verifier. The verification report provided by the external part will be published on Sparbanken Västra Mälardalen's website.

