

Green Bond / Green Bond Programme

Independent External Review Form

Section 1. Basic Information

Issuer name: Sparbanken Västra Mälardalen

Green Bond Framework Name: Sparbanken Västra Mälardalen green bond framework

Independent External Review provider's name: CICERO Shades of Green

Completion date of this form: 31 January 2022

Publication date of review publication: Not yet publicly available

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 GBPs:

- | | |
|--|--|
| <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 INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/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

Sparbanken Västra Mälardalen is a local Swedish savings bank, mainly exposed to the real estate, manufacturing and agriculture sectors. The bank was founded in 1845 and has a strong local focus, with all its financing activities in three municipalities in the western parts of Västmanland, West of Stockholm.

The bank expects half of proceeds from the first issuance under this framework to go to agriculture and 40% to green buildings, with a majority of refinancing. Certified organic agriculture, including the Swedish KRAV certification, is eligible. The bank gives loans to entire farms, of which most produce crops, some dairy and a minor share meat. For re-financing, green bond proceeds may finance fossil fuel machinery. For new corporate loans, fossil fuel equipment and livestock are excluded. Organic certifications have local

environmental benefits and the KRAV scheme has energy efficiency requirements, but there is no scientific consensus that organic farming leads to significantly lower overall emissions. The green building category includes new building with energy performance in the range of 10 to 50% better than regulation. For existing buildings, the category might include older buildings with weaker energy performance. EPC labels may be up to 10 years old and the top 15% national and regional building stock in terms of energy performance is yet to be determined by the Swedish authorities, creating some uncertainty as to what could be financed. Eligible categories also include renewable energy and sustainable forestry, expected to each receive 5% of bond proceeds.

The issuer does not have any quantified targets for its portfolio or own operations, and will publish a sustainability report for the first time in 2022. The bank assesses environmental risks in its lending process, but for loans below SEK 8m, which represent half of its portfolio, the process is not documented. The bank currently offers favorable loans for solar panels and is looking into expanding its green loan offering. The issuer has assessed its real estate portfolio's exposure to the risk of flooding of the lake Mälaren.

Based on the overall assessment of the projects that will be financed under this framework, governance and transparency considerations, Sparbanken Västra Mälardalen's green bond framework receives a CICERO Medium Green shading and a governance score of Good. We encourage Sparbanken Västra Mälardalen to quantify the emissions associated with its financing activities and set quantified targets for both its own operations and its portfolio. The governance would benefit from a more systematic approach to climate risks, for example by following TCFD recommendations.

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):

An amount equivalent to the net proceeds from the green bonds will be used to finance or re-finance green eligible loans. A majority of proceeds will be used for refinancing, and all financed activities are in Sweden.

According to the issuer, the framework focuses on activities making a substantial contributing to climate change mitigation, and has five project categories: green buildings, sustainable agriculture, sustainable forestry, energy efficiency and renewable energy.

The proceeds will not finance fossil fuel energy generation, nuclear energy generation, weapons, and defense 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.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |

- | | |
|--|--|
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): Water and waste management |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

A green bond committee (GBC) is responsible for the final approval of green loans, as well as a broad responsibility for the pool of green eligible loans and annual allocation and impact reporting. The GBC consists of representatives from the finance, credit and sustainability departments. Decisions are taken by consensus. Sparbanken Västra Mälardalen will assure that the sustainability expertise always relies within the GBC.

Only assets approved in the bank's regular credit process can be eligible for green funding, and the qualification for green criteria cannot override credit risks. Loans larger than SEK 8m are subject to a separate sustainability analysis where risks related to environmental, social and governance are assessed. For smaller loans, which represent approximately half of the bank's portfolio, the bank also has a dialogue with its clients on ESG, but this is not documented. The bank does not have tools in place to consider life cycle missions, assess supply chain emissions and risk of lock-in to fossil fuel technologies when selecting eligible green loans. The issuer is awaiting guidance on these issues from the Swedish Banking Association and the Association of Real Estate Owners ("Fastighetsägarna").

The selection process for existing corporate and private green loans includes the following steps:

- 1) The pool of green eligible loans is identified by the finance department.
- 2) The latter mentioned is presented for the GBC.
- 3) Following approval in the GBC, the green eligible loans are inserted in a specific spreadsheet called "Green Register".

The selection process for new corporate green loans consists of following:

- 1) Client executive fills in a specific green application together with supporting documentation when preparing material for the credit department.
- 2) The credit department assesses the loans' alignment with the framework criteria.
- 3) Loans assessed as aligned are presented to the GBC.
- 4) Green loans approved by the GBC are registered in the Green Register.

Finally, the 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.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability 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 Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

An amount equivalent to the net proceeds from Sparbanken Västra Mälardalen's green bonds will be tracked by using the "Green Register". 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. Once per year, two parameters are reviewed: i) whether the loans still fulfill the criteria in the framework and ii) volume of loans, i.e. if any repayments have been made to the outstanding green loans.

Any unallocated proceeds temporary held by Sparbanken Västra Mälardalen will be invested in accordance with the internal requirements for the liquidity reserve. According to the issuer, these investments will not include fossil fuel related assets such as car/oil and gas company stocks.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other <i>(please specify)</i> : |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> : |

4. REPORTING

Overall comment on section *(if applicable)*:

Sparbanken Västra Mälardalen commits to annual reporting on both allocation and impact until no green bonds are outstanding. The report will be published on the bank's website. The allocation of proceeds reporting will cover the following:

- Total amount of Green bonds issued
- Share of proceeds used for financing/refinancing and share of proceeds used for each project category
- Share of unallocated proceeds (if any)

The impact reporting will, where reasonable and relevant data is available, including the following quantitative indicators:

- Green buildings:
 - o Energy usage in kWh/sq. m./year
 - o Estimated annual greenhouse gas emissions reduced or avoided (tCO₂e)
 - o Type of certification including level, if any (e.g. Miljöbyggnad Silver etc.)
- Sustainable agriculture:
 - o Cropland under organic agriculture practices (hectare)
 - o Organic farming certification scheme
- Sustainable forestry:
 - o Land area certified (hectare)
- Energy efficiency:
 - o Annual energy saved (MWh)
- Renewable energy:
 - o Installed capacity (MWh) or expected annual generation (MWh)

Methodologies for calculating greenhouse gas reductions, including grid emission factors, will be disclosed. Grid emission factors are derived from a combined build margin (BM) and operating margin (OM) for the Nordic energy market, as suggested by the Nordic Public Sector Issuers (NPSI) in 2020. Allocation of proceeds will be subject to an annual review by an external party/verifier, who will conduct a limited assurance report that the proceed allocation is in line with the framework.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators <i>(please specify)</i> : energy usage in KWh/sq.m./year, type of building certification and level, cropland under organic certification and type of certification, forestry land certified and installed capacity or expected annual generation of renewable energy (MWh). |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other: |
| <input checked="" type="checkbox"/> Reporting reviewed <i>(if yes, please specify which parts of the reporting are subject to external review)</i> : allocation report. | |

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.)*

<https://cicero.green/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|---|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental 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 Green 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 Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green 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.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green 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 environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.