

# Skandiabanken Green Bond Framework

November 2023



**skandia :**

# Background and Rationale



Worldwide, investors seek to safeguard their financial interests while concurrently contributing to a sustainable future amidst the pressing global challenges posed by climate change, biodiversity loss, poverty and inequality.

Consequently, the global share of green bonds has grown substantially in recent years. By effectively prioritising the use of proceeds for environmentally- and climate-friendly purposes, the introduction of green bonds has enabled bond investors to engage with corporate sustainability strategies previously reserved primarily for equity investors. Green bonds provide oversight and reporting on the impact of the investments. Moreover, they are also subject to thorough external review and thereby present investors with greater transparency than traditional bonds. As a result, bond markets have emerged as key players in developing green and climate mitigation finance.

Guided by the Skandia Group's (the "Skandia Group" or the "Group") sustainability framework and the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking, Skandiabanken Aktieföretag (publ) ("Skandiabanken" or the "Bank") is committed to aligning its business and operations with the Paris Agreement.

At Skandiabanken, we recognise our role in contributing to the sustainability journey of the Group and our responsibility in contributing to the greening of the financial system. Through this Green Bond Framework, we contribute to the growth and the development of the green bond market as well as allow one of our key stakeholder groups, our bond investors, to engage with and support the Bank's lending to selected green projects. ●

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# Skandiabanken



Founded in 1994, Skandiabanken is a wholly-owned subsidiary of Skandia Mutual Life Insurance Company, which is the parent company of the Skandia Group. With a digital profile and no customer offices, Skandiabanken is an all-Swedish retail bank for private individuals and provides services such as accounts, cards, savings and mortgages. Skandiabanken's pronounced digital

profile entails increasingly redirecting customer communication to digital formats, thereby reducing the direct climate impact of the business.

As a responsible bank that fulfils a significant role in society, Skandiabanken aims to actively promote sustainable development and the transition to a climate-neutral economy. ●

# Sustainability at Skandiabanken

The Skandia Group has developed three focus areas for the Group to prioritise: (i) Sustainability, (ii) Transformation, and (iii) Customer experience.

Climate change is an important consideration from a sustainability perspective, and collective research acts as guidance to the actions and initiatives implemented by the Group and the Bank.

The Skandia Group's sustainability framework prioritises four important areas. Three of which directly relate to customers and comprise: Sustainable Savings, Responsible Banking Services and Healthy Companies. The fourth area, A Sustainable Skandia, focuses on how the Group strives to conduct its own business and includes areas such as the Skandia Group's employees, environmental responsibility, business ethics and work to prevent financial crime. Skandiabanken has the responsibility to focus predominantly to the areas Responsible

Banking Services and A Sustainable Skandia, focusing on sustainable savings, responsible lending, and sustainable business.

Skandiabanken recognises its significance in society and has integrated sustainability into its strategic approach. Skandiabanken is committed to ongoing efforts to develop sustainability reporting processes and methods for assessing, measuring and disclosing the Bank's impact.

To further integrate sustainability in the Bank's strategy, Skandiabanken joined the organisation Partnership for Carbon Accounting Financials ("PCAF") in 2023 and has the intention to set science-based targets. By joining PCAF and establishing science-based targets, Skandiabanken aims to better understand its direct and indirect climate footprint and to reduce its greenhouse gas ("GHG") emissions accordingly.

## Global frameworks

The 2030 Agenda is a commitment to achieve socially, environmentally and economically sustainable development by 2030 worldwide, and to ensuring that no one is left behind. Skandiabanken's sustainability efforts are based on international sustainability initiatives and will contribute to achieving the Global Sustainable Development Goals (SDGs), while concurrently adhering to the UN Global Compact, the UN Guiding Principles on Business and Human Rights and the Paris Agreement on climate change.

As part of positively impacting society and the climate, Skandiabanken signed the UN Principles for Responsible Banking (PRB) in June 2021. The principles aim to provide the global banking sector with a framework for working collectively towards more sustainable development in line with the Paris Agreement and the UN SDGs. Skandiabanken will therefore report both negative and positive sustainability impacts as well as which of the UN SDGs the Bank has identified the greatest opportunity to contribute to.

## Partnership for Carbon Accounting Financials (PCAF)

The PCAF is a global partnership of financial institutions that have joined forces to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with their investment and lending activities. The PCAF facilitates accountability and transparency and has established an open-source global GHG accounting standard for financial institutions, the Global GHG Accounting and Reporting Standard for the Financial Industry. The approach developed by PCAF provides financial institutions with the starting point required to set science-based targets and to adapt their portfolios to the Paris Agreement.<sup>1</sup> PCAF's latest project addresses the need to mobilise the financial industry to accelerate the transition of European buildings toward net zero emissions by 2050.<sup>2</sup>

<sup>1</sup> Partnership for Carbon Accounting Financials (PCAF). About PCAF. <https://carbonaccountingfinancials.com/about>

<sup>2</sup> Partnership for Carbon Accounting Financials (PCAF). Financing towards net-zero buildings.

<https://carbonaccountingfinancials.com/financing-towards-net-zero-buildings#financing-towards-net-zero-buildings>.

## SUSTAINABLE SAVINGS

Through clear and responsible product guidance, Skandiabanken helps its customers choose suitable products. For example, the Bank has introduced sustainability-labelling to help customers make sustainable savings choices. The Bank also works continuously to adapt, develop and improve its mutual fund offering. Skandiabanken's mutual fund offering includes Skandia Group's own mutual funds as well as mutual funds from a large number of market-leading mutual fund companies.<sup>3</sup>

## SUSTAINABLE BUSINESS

Skandiabanken incorporates environmental considerations into all aspects of its operations. Moreover, clear environmental requirements are defined for suppliers and partners when the Bank purchases goods and services. While the digital focus of Skandiabanken's operations limits its negative footprint, given that the environment is a prioritised issue, the Bank works continuously on minimising its negative impact and on promoting sustainable solutions.<sup>4</sup>

High ambitions on environmental issues are also important if the Bank is to be credible to its customers. Skandiabanken has, together with the Group, the ambition of only using renewable electricity in its offices, and currently, Skandiabanken only utilises electricity from fully renewable sources. In addition, the Bank's offices have been environmentally classified since 2014 and the property cleaning services have been Nordic Swan Eco-labelled since 2004.



<sup>3</sup> In 2022, 74 per cent of the mutual funds offered to Skandiabanken's customers were classified as article 8 according to the SFDR classification system and 6 per cent of the mutual funds were classified as article 9. To learn more about Skandia Asset Management mutual fund selection process, [please see the link](#).

<sup>4</sup> Skandiabanken also contribute to the Skandia Group's overall goal of halving the Group's total carbon dioxide emissions and waste by 2030, with 2019 as the base year. The overall goal includes scope 1, 2 & 3. The Scope 1, 2 and 3 system has been developed by the Greenhouse Gas Protocol.

## RESPONSIBLE LENDING

Skandiabanken's most important product (over the long term) remains residential mortgage lending. The Bank's transparent pricing model for residential mortgages provides customers with a fair interest rate, without any need for negotiating, and is structured in such a way that it rewards occupational pension customers within the Skandia Group. Skandiabanken maintains a long-term perspective on its residential mortgage lending, where responsible credit granting is crucial. The Bank monitors both its own credit portfolio as well as the developments in the Swedish residential mortgage market. Skandiabanken also engages in the public debate for sustainable social development related to housing.

Skandiabanken believes that banks that offer residential mortgages are responsible for always safeguarding the best interests of their customers. To meet this responsibility and to achieve a high level of trust in the industry, Skandiabanken has established a code of conduct for mortgage brokers in Sweden

together with industry peers. The code of conduct was launched in 2021 and applies to all mortgage brokers with whom associated banks collaborate to ensure uniformity in the intermediary industry.

From 2023, Skandiabanken offers an energy saving service<sup>5</sup> to encourage sustainability practices among its mortgage customers. This service is provided in collaboration with a third party. The customer's estimated energy consumption and energy class are calculated after which the customer will receive a tailored recommendation for energy efficiency measures.

To further contribute to reduced energy consumption, Skandiabanken has decided to start offering green mortgages, the launch process of which is currently ongoing. By offering green mortgages Skandiabanken wants to encourage existing and future customers to invest in energy-efficiency measures and to choose energy-efficient homes. ●

### Climate risk analysis related to flooding

Skandiabanken has an inherent exposure to climate-related risks since its core business is residential mortgages. Homes, which serve as collateral for residential mortgages, are to a certain extent exposed to climate-related physical risks. Skandiabanken's hypothesis has been that the primary climate-related physical risk pertaining to the Bank's residential mortgage portfolio is the risk of flooding. For the purpose of mapping and analysing this risk, Skandiabanken has performed stress tests and scenario analyses on the Bank's residential mortgage portfolio. The strategy used involved plotting the coordinates of the homes in the portfolio followed by marking whether these homes were located in areas prone to flooding. The information on flood risk used data from the Swedish Civil Contingencies Agency's (MSB's) flood portal. The stress test and scenario analysis were conducted with the assistance of an external partner.

The stress test and scenario analysis performed on Skandiabanken's residential mortgage portfolio concluded that the risk associated with flooding should be classified as low. Even though the flood risk linked to Skandiabanken's residential mortgage portfolio is currently assessed as low – there remains a potential long-term concern that the value of exposed homes will decrease in tandem with the increasing risk for flooding and the housing market's increasing awareness of this elevated risk.

### The Swedish banking industry's framework for climate action

Society is facing imminent challenges to reduce emissions at a pace that enables the climate goals to be met and, thus, prevent the great costs associated with a rise in average global temperature. Responsibility rests largely with the political system. However, the financial system possesses both the capacity and the willingness to fund the climate transition, and to adjust its operations in response to climate-related risks.

Through supporting customers in their transition to more sustainable solutions and integrating climate-related risks and opportunities into operations and lending, the banking sector can take real climate action. The banks themselves have a relatively small direct impact on the climate, whereas as a sector they can help reallocate capital flows toward low-carbon activities.

Together with its member banks, the Swedish Banking Association has drawn up a joint climate roadmap to address this issue and to leverage the opportunity. Member banks will commit to adapting their operations to contribute to Sweden reaching the nation's climate goal of net-zero carbon dioxide emissions by 2045.

As an active member of the Swedish Banking Association, Skandiabanken is committed to the joint climate roadmap for the Swedish banking industry.

<sup>5</sup> To learn more about Skandiabanken's energy saving service please follow the link below.  
<https://www.skandia.se/lana/bolan/kopa-bostad/energieffektivisera-bostaden/>

# The Green Bond Framework

This Green Bond Framework has been developed in accordance with the core components of the Green Bond Principles (GBP) 2021 (with June 2022 Appendix I) issued by the International Capital Market Association (ICMA) and the recommended external review component. This Green Bond Framework is also broadly aligned with the EU taxonomy technical screening criteria for substantial contribution stipulated in the Commission Delegated Regulation (EU) 2021/2139. Skandiabanken intends to follow market standards for best practices in relation to green bonds. Therefore, this Green Bond Framework may be amended to reflect changes in market practice.

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting
- External Review



This Green Bond Framework enables Skandiabanken to issue notes in the form of green bonds under its (i) Medium Term Note Programme (Sw: Program för Medium Term Notes) and (ii) Covered Bond Programme (Sw: Program för säkerställda obligationer) (as amended from time to time) in force at the relevant issue date.

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## Use of Proceeds



An amount equal to the net proceeds of green bonds will finance or refinance, in whole or in part, loans provided by Skandiabanken that promote environmental benefits as determined by Skandiabanken and that are aligned with its sustainability policy that corresponds to the long-term vision of a socially and environmentally sustainable society (“Eligible loans”), in each case as determined by the Green Bond Committee in accordance with the green project criteria defined on the following pages. The net proceeds raised based on this Green Bond Framework can be applied toward new or existing loans. New loans are defined as Eligible loans that were approved by the Green Bond Committee during the reporting year. If the Eligible loan was approved by the Green Bond Committee prior to the reporting year, the loan

is defined, monitored and reported as refinancing. Skandiabanken does not apply a look-back period given that Eligible loans can have a considerable expected lifetime. It is the responsibility of the Green Bond Committee to approve or reject Eligible loans based on the nature of the loan. The breakdown between new financing and refinancing will be reported in the Green Bond Investor Report. The legal documentation for each green bond refers to this Green Bond Framework.

The green bond net proceeds will only be allocated to financing retail customers, single-family homes and tenant-owners’ rights (Swedish: bostadsrätter) according to the criteria in the use of proceeds sections. Skandiabanken will only finance buildings located in Sweden.





## Green and energy-efficient buildings



Skandiabanken's Green Bond Framework focuses on the financing or the refinancing of the ownership, acquisition, expansion, renovation and upgrade of residential buildings. Buildings accounted for 35 per cent of European energy-related emissions in 2020 and are a key contributor to the region's GHG emissions.<sup>6</sup> Through its lending activities, Skandiabanken holds a position through which it can contribute to the achievement of the SDGs and the reduction of the climate footprint of the homes that it finances.

The lending portfolio of Skandiabanken consists almost entirely of residential lending. Improving energy efficiency is therefore of great importance and constitutes the area where the Bank can contribute the most to GHG emission reduction.

The strategy of the customer offering going forward includes:

- The offering of green residential mortgage loans rewarding energy efficiency and major renovations
- The offering of tools to customers to raise awareness and facilitate the implementation of energy- and carbon-reducing measures

### GREEN PROJECTS

Green projects are projects that meet one of the following criteria:

#### New residential buildings

Buildings built after 2020, with a primary energy demand (PED) that is, or will be, at least 10 per cent lower than the threshold set by Boverket – the Swedish National Board of Housing, Building and Planning's building regulations (BBR).<sup>7</sup> The energy performance is or will be certified using a valid energy performance certificate (EPC).

#### Existing residential buildings

Buildings built prior to 2021, where the building has a valid EPC class A, or where the building has a PED which is within the top 15 per cent<sup>8</sup> of the national or regional building stock.

#### Major renovation of residential buildings

Renovations of existing buildings that lead to a reduction in the PED of at least 30 per cent, or renovations that comply with the applicable requirements for major renovations.

<sup>6</sup> European Environment Agency. Greenhouse gas emissions from energy use in buildings in Europe. Published: 26 Oct 2022.: <https://www.eea.europa.eu/ims/greenhouse-gas-emissions-from-energy>

<sup>7</sup> The EU Taxonomy requires the primary energy demand for new buildings to be 10 per cent lower than the level required for Nearly Zero Energy Buildings (NZEB). Requirements for NZEB and BBR are, according to Skandiabanken's interpretation, equivalent to each other.

<sup>8</sup> Until further notice, Skandiabanken will use the Swedish Property Federation's study to determine which building's primary energy demand (PED) is within the top 15 per cent threshold. Skandiabanken can also seek guidance from other appropriate external benchmarks to determine the top 15 per cent threshold if such a report is issued by a national government or industry specialist.

## EXCLUSIONS

Proceeds from Skandiabanken's green bonds will not be used to finance fossil-based energy generation.

### Financing of Green projects contributing to EU Environmental Objective:

Climate change mitigation United Nation Sustainable Development Goal: 7



Target 7.3 By 2030, double the global rate of improvement in energy efficiency.



### Emissions from buildings

Over the last three decades global CO<sub>2</sub> emissions from buildings grew 50 per cent and global final energy demand increased 38 per cent, with a 32 per cent increase in residential buildings. In 2019, global GHG emissions in the building sector amounted to 12 GT CO<sub>2</sub>-eq, which is the equivalent to 21 per cent of global GHG emissions that year, of which indirect CO<sub>2</sub> emissions from off-site generation of electricity and heat constituted 57 per cent. If only CO<sub>2</sub> emissions were considered, the share of buildings CO<sub>2</sub> emissions increased to 31 per cent of global CO<sub>2</sub> emissions.<sup>9</sup>

New construction practices and the renovation of existing buildings has the potential to significantly reduce the building industry's total emissions and energy demand. However, there are a number of barriers and obstacles that constrain the decarbonisation of buildings today such as the lack of institutional capacity and appropriate governance systems as well as the limited flow of finance.<sup>10</sup> The Nordic banking sector has a key opportunity to enable the transition on terms of the Nordic building sector's total reduction of GHG emissions and energy demand. In Sweden, as in many of the Nordic countries, a large share of the existing residential buildings was built over half a century ago when different guidelines for energy efficiency applied. This emphasises the importance of sustainability efforts in this sector in Sweden.

<sup>9</sup> Cabeza, L. F., Q. Bai, P. Bertoldi, J.M. Kihila, A.F.P. Lucena, É. Mata, S. Mirasgedis, A. Novikova, Y. Saheb, 2022: Buildings. In IPCC, 2022: Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926.011. p. 5 [https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC\\_AR6\\_WGIII\\_Chapter09.pdf](https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_Chapter09.pdf)

<sup>10</sup> Cabeza, L. F., Q. Bai, P. Bertoldi, J.M. Kihila, A.F.P. Lucena, É. Mata, S. Mirasgedis, A. Novikova, Y. Saheb, 2022: Buildings. In IPCC, 2022: Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926.011. p. 4 [https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC\\_AR6\\_WGIII\\_Chapter09.pdf](https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_Chapter09.pdf)

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## Process for Project Evaluation and Selection



### **The Green Bond Committee**

Skandiabanken has established a Green Bond Committee (GBC) to evaluate and select loans that are aligned with the criteria set out in the Use of Proceeds section and Skandiabanken's sustainability policy corresponding to the long-term vision of a socially and environmentally sustainable society (Eligible loans). All loans must also pass national rules and regulations associated with the credit process, Know-Your-Customer-process and internal guidelines. The Committee meets at least on an annual basis or when needed. The Green Bond Committee comprises representatives from at least the Treasury and Sustainability departments. The Committee determines which loans constitute Eligible loans and the Sustainability Department holds a veto in this process.

### **Evaluation**

The Green Bond Committee is responsible for evaluating the compliance of proposed loans with the eligibility criteria outlined in the Use of Proceeds section above. Furthermore, the Committee is also responsible for ensuring that the pool of Eligible loans is aligned with the categories and criteria as specified in the Use of Proceeds section. In addition, the Committee is tasked with keeping all internal documentation relating to the issuance of Skandiabanken's green bonds up to date and ensuring internal compliance.

The Green Bond Committee is also responsible for replacing loans that no longer meet the eligibility criteria and, on a best-effort basis, reviewing and updating the content of the Green Bond Framework and managing any future updates of this document to reflect relevant changes in the Bank's corporate strategy and technology as well as in the market.

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## Management of Proceeds



An amount equal to the net proceeds of the issue of the green bonds will be separately identified within the Bank's Treasury function and applied by the Bank in the financing of Eligible loans. The amount identified for such financing, together with an amount corresponding to identified Eligible loans, will be earmarked within the internal systems of the Bank.

Any such amounts will be regularly adjusted to reflect amounts advanced for financing as well as any repayment or prepayment in the immediately preceding period. Any amount not yet allocated to the financing of Eligible loans may be temporarily invested in the Bank's liquidity reserve.



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## Reporting



Skandiabanken will report on the allocation of net proceeds from green bonds as well as, on a best-effort basis, the expected or actual outputs and environmental impacts of the Eligible loans in a Green Bond Investor Report. Where confidentiality agreements, competitive considerations or a large number of underlying assets limit the amount of detail that can be made available, information may be presented on an aggregated portfolio basis or in generic terms. The Green Bond Investor Report will be published on an annual basis. The reporting will take guidance from the most recent version of the ICMA's Harmonised Framework for Impact Reporting Handbook. The methodology for deriving the impact indicators will be outlined in the Green Bond Investor Report.

### **Allocation reporting**

Allocation reporting will include the following information:

- A description of green bonds outstanding and the amount of net proceeds allocated
- A breakdown of the Eligible loans by sub-category
- Distribution of new financing to refinancing

### **Impact reporting**

Where feasible and subject to data availability, the Green Bond Investor Report will also include impact reporting to disclose the environmental impact of the Eligible loan portfolio financed under this Framework. Impact reporting will be based on Skandiabanken's financing share of each Green project. The impact assessment is provided with the reservation that not all related data can be covered and that calculations will therefore be on a best-effort basis. The impact assessment will, where the Bank finds it appropriate, be based on the key performance indicators (KPIs) presented in the table below.

### **Example of impact indicators:**

- Annual energy savings (MWh or GWh) compared to relevant building code
- Annual GHG emissions reduced/avoided (tCO<sub>2</sub>e)
- Distribution of EPC label

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## External Review



### **Second party opinion (pre-issuance)**

To secure alignment with national and international guidelines, in accordance with the guidelines developed by the Green Bond Principles, Skandiabanken has engaged Sustainalytics to act as an independent external verifier of this Green Bond Framework.

### **Third-Party Review (post-issuance)**

Skandiabanken will appoint an external and independent auditor or third party with relevant experience to annually assure that the selection process of Eligible loans and the allocation of the net proceeds of the green bonds are conducted in accordance with Skandiabanken's Green Bond Framework.

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## Publicly Available Documents



The Green Bond Framework, the second-party opinion and the Green Bond Investor Report will be publicly available on the Debt Investor section of Skandiabanken's website. ●



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