Taxonomy– Thoughts from the finance industry

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EU Taxonomy

A standardized classification system developed to determine the environmental sustainability of econom activities

Companies covered by the NFRD (CSRD) need to report their EU Taxonomy alignment on three KPIs (CAPEX, OPEX and turnover). The economic activity fulfills the three requirements to be classified as sustainable in accordance with the Taxonomy.

1

Substantial contribution

Substantially contribute to at least one of the six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

2

Do no significant harm

Do no significant harm to any of the other environmental objectives.

3

Minimum safeguards

Comply with minimum safeguards such as the UN Guiding Principles on Business and Human Rights.

*Detailed requirements can be found on the EU Taxonomy page at europa.eu.

Source: Swedbank analysis

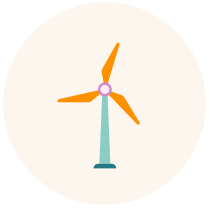
Definitions in the EU Taxonomy for Green Buildings

EU Taxonomy is becoming a key market standard

Sample of technical screening criteria for building activities

- New buildings to ensure a net primary energy demand that is at least >10% lower than the level mandated by national regulations
- For buildings larger than 5000 m2, requirement to test for air-tightness and thermal integrity and to calculate and disclose the life-cycle Global Warming Potential (GWP) of the building

- Renovations should deliver 30% energy savings vs. baseline



- Individual measures that are compliant with requirements set for individual components and systems in the applicable national regulations transposing the Energy Performance Building Directive (EPBD), and are in the top two classes of energy efficiency of the Energy Labelling Regulation

- Ownership or acquisition of buildings built before 2021: EPC rating A or energy performance is in the top 15% of similar stock
- Large non-residential buildings should have a dedicated energy management system

DNSF – Do no significant harm criteria

- Ensuring resistance and resilience to extreme weather events
- Preventing excessive water consumption from inefficient water appliances
- Ensuring recycling and reuse of construction and demolition waste, and
- Limiting pollution and chemical contamination of the local environment

Current alignment on a best effort basis and where relevant information is available

Clean energy for all Europeans package

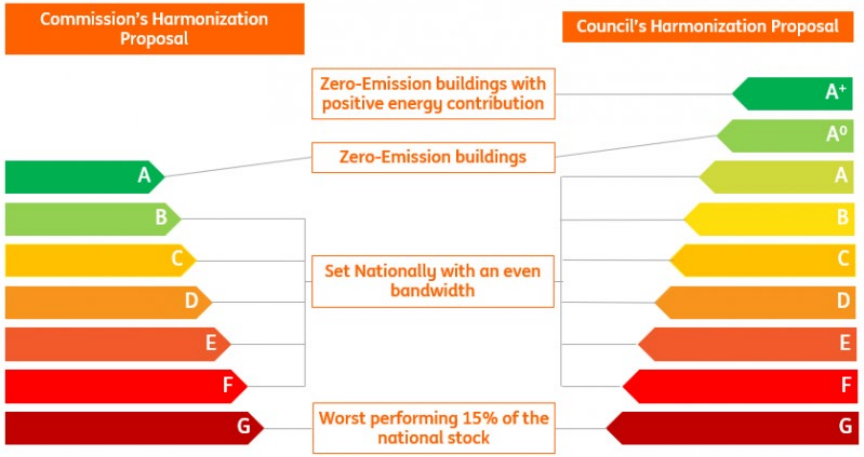
Decarbonizing EU's energy system is in line with the European Green Deal

Kanske ta bort

Energy efficency

EU has set binding targets of increasing energy efficiency over current levels by at least 32.5% by 2030, based on 2007 projections [1] . EU countries will also be required to achieve an average annual energy savings rate of 1.49% from 2024 to 2030.

The Harmonization Proposal purpose is to set a uniform harmonized EPC scale in the EU. The Commission and Council have a slightly different approach to the rescaling.



Energy performance

Minimum Energy Performance Standards (MEPS) for existing buildings [2] :

- Public and commercial buildings at least "F" in 2027
- Public and commercial buildings at least "E" 2030
- Residential buildings at least "F" by 2030
- Residential buildings at least "E" by 2033

Zero- emission buildings requirements (ZEB) for new buildings [3] :

- Public buildings, must be zero-emissions (EPC "A") from 2027
- All buildings must be zero-emissions (EPC "A") from 2030
- Requirements on solar energy for new buildings from 2028 (where technically suitable and economically feasible)

ZEB is defined as a building with a high energy performance, fully covered by renewable energy and without on-site carbon emissions from fossil fuels.

Source: Swedbank ESG Advisory

(1) European Green Deal: Energy Efficiency Directive adopted, helping make the EU 'Fit for 55' (europa.eu)

(2) Minimum Energy Performance Standards (MEPS) in the Residential Sector | European Economic and Social Committee (europa.eu)

(3) Nearly zero-energy buildings (europa.eu)

ESG Loans accelerate the sustainability transformation

Swedbank's current offering

Debt type	Purpose	Differences and benefits
Green Loans	 Projects and assets with environmental benefits	• Specific use of proceeds, mostly asset heavy sectors (e.g. Real Estate, Power, Forestry) • Measure and report environmental benefits • Better loan conditions and improved access to capital, short- and long-term
Social Loans	 Projects and assets with social benefits for target populations	• Specific use of proceeds, mostly sectors with social objectives (e.g. Healthcare, Education, Social Housing) • Measure and report social benefits • Better loan conditions and improved access to capital, short- and long-term
Sustainability-linked Loans	 Sustainability strategy and sustainability performance targets (SPTs)	• General use of proceeds , all sectors eligible incl. transition finance • Measure and report performance on SPTs • Better conditions connected to achievement of SPTs along with additional "verification" of borrower's sustainability strategy

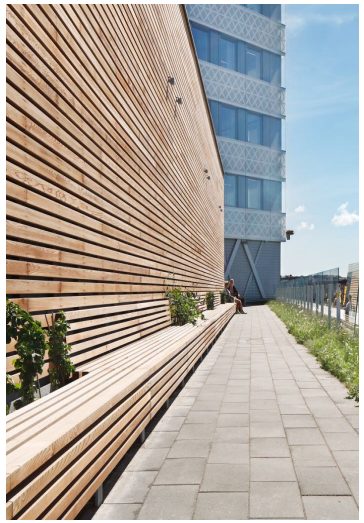
Source: Swedbank analysis; Bloomberg LP; ICMA; LMA

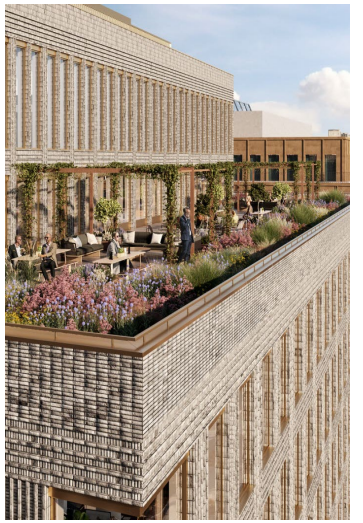
Green loan Case study – Fabege

Borrower	Fabege
Lender	Swedbank
Facility	Green term-loan, Revolving Credit Facility (RCF) and overdraft
Tenor	4 years (term-loan) and 3 years (RCF)
Purpose/ KPIs	Finance the portfolio of green buildings

Summary

- Fabege owns, develops, and manages properties and construction projects in Sweden. The company primarily concentrates on commercial properties in the Stockholm region. Fabege was the first Swedish real estate company to exclusively choose 100% green financing [1].
- Fabege complies with the criteria within the Green Building category in Swedbank's Funding Framework, which requires environmental certifications for buildings, and as minimum the certification needs to demonstrate compliance with the EPC class C[2].





Source: Swedbank ESG Advisory KPI = Key Performance Indicator SBTi = Science Based Targets initiative RCF = Revolving Credit Facility
Notes: (1) Fabege first with 100 percent green financing - Fabege (www-fabege-se.translate.goog) (2) Swedbank Sustainable Funding Framework 2022

Sustainability -linked loan case study – Humlegården

One of the first European Real Estate companies to include a KPI in circularity

Summary

- Humlegårdens Sustainability-linked Financing Framework follows LMA's Sustainability-linked Loan Principles and ICMA's Sustainability-linked Bond Principles and can be used for both loans and bonds. CICERO provided the Second Opinion and gave Humlegården a governance score of "Excellent"
- The framework makes it easier to negotiate with banks, since a third party has done a sign-off on KPI:s (applicable for bilateral linked RCF/loan facilities)
- The company has developed an industry-unique way of measuring circularity. The methodology is based on relevant research and recommendations from the EU Commission. Research has been conducted in cooperation with RISE Research Institute and IVL Swedish Environment Institute

Lender	Bilateral
Facility	Term Loan
Purpose/ KPIs	Reduce emissions, improve energy efficiency and implement circular principles in construction and renovation

KPI 1: Reduction of scope 1, 2 & 3 greenhouse gas (GHG) emissions	SPT 1a: By 2026, reduce Scope 1-3 GHG emissions (kgCO2e/sqm) by 25% vs 2019 base year SPT 1b: By 2030, reduce Scope 1-3 GHG emissions (kgCO2e/sqm) by 50% vs 2019 base year
KPI 2: Reduction of energy use	SPT 2a: By 2026, reduce energy use by 20% (kWh/sqm) vs 2019 base year SPT 2b: By 2030, reduce energy use by 32% (kWh/sqm) vs 2019 base year
KPI 3: Circular economy – increase share of major renovations & construction projects carried out according to circular principles	SPT 3a: By 2026, carry out 25% of all major renovations and construction projects according to circular principles SPT 3b: By 2030, carry out all major renovations and construction projects according to circular principles

Source: Swedbank ESG Advisory KPI = Key Performance Indicator SBTi = Science Based Targets initiative

Swedbank