

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Sörmlands Sparbank AB

21 March 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Green Bonds

Relevant standards

- Green Bond Principles, as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)
- Sörmlands Sparbank Green Bond Framework (as of March 19, 2024)
- Sörmlands Sparbank Eligibility Criteria (as of March 19, 2024)

Scope of verification

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

Sörmlands Sparbank ("the Issuer", "the Bank", or "Sörmlands") commissioned ISS Corporate Solutions (ISS-Corporate) to assist with its Green Bonds by assessing three core elements to determine the sustainability quality of the instruments:

1. Sörmlands Sparbank's Green Bond Framework (as of March 19, 2024) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Green Bonds with Sörmlands Sparbank's Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Issuer.

SÖRMLANDS SPARBANK OVERVIEW

Sörmlands Sparbank was founded in 1991, after the merge of Nyköpings Sparbank and Oppunda Sparbank. The Bank operates in five municipalities: Flen, Katrineholm, Nyköping, Oxelösund and Vingåker. It operates following a savings bank business model, where savings are converted into lending. The bank is wholly owned by a savings bank foundation, Sparbanksstiftelsen Sörmland. The bank's customers, the depositors, are represented by 40–75 elected representatives in the Sparbanksstiftelsen Sörmland.








ESG risks associated with the Issuer Industry

Sörmlands Sparbank is classified in the Public and Regional Banks industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies¹ in this industry are: sustainability impacts of lending and other financial services/products, customer and product responsibility, sustainable investment criteria, labor standards and working conditions, and business ethics.

This report focuses on the sustainability credentials of the issuance. Part III. of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.

¹ Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
<p>Part I:</p> <p>Alignment with GBP</p>	<p>The Issuer has defined a formal concept for its Green Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles.</p>	<p>Aligned</p>
<p>Part II:</p> <p>Sustainability quality of the Eligibility Criteria</p>	<p>The Green Bonds will (re)finance eligible asset categories which include: Green Buildings, Sustainable Agriculture, Energy Efficiency, Clean Transportation, Renewable Energy, Biodiversity Conservation, Climate Change Adaptation.</p> <p>Product and/or service-related use of proceeds categories³ individually contribute to one or more of the following SDGs:</p> <div data-bbox="472 1055 1054 1169" style="display: flex; justify-content: space-around; align-items: center;">      </div> <p>Other use of proceed categories improve the operational impacts of Sörmlands Sparbank’s borrowers and mitigate potential negative externalities of their sectors on one or more of the following SDGs:</p> <div data-bbox="472 1451 707 1568" style="display: flex; justify-content: space-around; align-items: center;">   </div> <p>The environmental and social risks associated with those use of proceeds categories and the financial institution are managed.</p>	<p>Positive</p>
<p>Part III:</p> <p>Consistency of Green Bonds</p>	<p>The key sustainability objectives and the rationale for issuing Green Bonds are clearly described by the Issuer. The majority of the project categories</p>	<p>Consistent with Issuer’s sustainability strategy</p>

² The evaluation is based on Sörmlands Sparbank’s Green Bond Framework (February 2024 version), on the analysed Selection Criteria as received on March 19, 2024.

³ Renewable Energy, Green Buildings, Sustainable Agriculture, Biodiversity Conservation, Climate Change Adaptation and Clean Transportation.

SECOND PARTY OPINION

Sustainability Quality of the Issuer
and Green Bond Framework

ISS-CORPORATE 

**with Sörmlands
Sparbank's
Sustainability
Strategy**

considered are in line with the sustainability
objectives of the Issuer.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES

This section evaluates the alignment of the Sörmlands Sparbank’s Green Bond Framework (as of March 19, 2024) with the Green Bond Principles.

GREEN BOND PRINCIPLES	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p>✓</p>	<p>The Use of Proceeds description provided by Sörmlands Sparbank’s Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The Issuer’s green categories align with the project categories as proposed by the Green Bond Principles. Criteria are defined in a clear and transparent manner. Disclosure of an allocation period and commitment to report by project category has been provided and environmental benefits are described. The Issuer defines exclusion criteria for harmful projects categories.</p>
<p>2. Process for Project Evaluation and Selection</p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Sörmlands Sparbank’s Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>Furthermore, the Issuer involves various stakeholders in this process, and identifies alignment of its Green Bond framework and their green projects with official or market-wide taxonomies and reference any green standards or certifications used, in line with best market practice.</p>

<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by Sörmlands Sparbank’s Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Green Bonds (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>Furthermore, the Issuer defines the expected allocation period, in line with best market practice.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by Sörmlands Sparbank’s Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer’s website. Sörmlands Sparbank has disclosed the type of information that will be reported and explains that the level of expected reporting will be at project category level. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>Furthermore, the Issuer commits to get the allocation report audited by an external party, in line with best market practices.</p>

PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

A. CONTRIBUTION OF THE GREEN BONDS TO THE UN SDGs⁴

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:


- specific products/services,
- improvements of operational performance.

1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale:



USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Green Buildings</p> <p><i>Loans to new residential and commercial buildings (built after 31 December 2020) that fulfil the following criteria:</i></p> <ul style="list-style-type: none"> ▪ <i>Primary Energy Demand (PED) at least 10% lower than the threshold set for Nearly Zero Energy Building (NZEB) according to national building regulations, and</i> 	Contribution	

⁴ The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

- *For buildings larger than 5000m², subject to data availability:⁵*
 - *The building undergoes testing for air-tightness and thermal integrity, upon completion; and*
 - *The life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle.*
- *Energy performance certificate (EPC) A or B,⁶ or*
- *Buildings that meet the requirements of Passive House or other minimum equivalent certification standard in terms of energy consumption after the completed construction⁷.*

Green Buildings

Loans to new residential and commercial buildings (built after 31 December 2020) that fulfil the following criteria:

- *Buildings that meet the requirements of one of the following environmental certificates: Miljöbyggnad Silver or Nordic Swan Ecolabel or LEED Gold or BREEAM Very Good.*

Contribution



⁵ The Bank has committed to apply the Substantial Contribution Criteria for Climate Change Mitigation of the EU Taxonomy activity 7.1, points 2 and 3, subject to data availability.

⁶ The Bank has committed to only finance buildings with EPC B as long as they are amongst the top 15% of the national or regional building stock in terms of primary energy demand.

⁷ The review is limited to certifications spelled out in the Framework.

Green Buildings

Loans to existing residential and commercial buildings (built before 31 December 2020) that fulfil one of the following criteria:

- EPC A or within top 15% of the national or regional building stock expressed as operational PED and demonstrated by adequate evidence, or
- Buildings that meet the requirements of Passive House or other minimum equivalent certification standard in terms of energy consumption after the completed construction⁸.

Contribution



Green Buildings

Loans to existing residential and commercial buildings (built before 31 December 2020) that fulfil the following criteria:

- Buildings that meet the requirements of one of the following environmental certificates: Miljöbyggnad Silver or Nordic Swan Ecolabel or LEED Gold or BREEAM Very Good.

Contribution



Sustainable Agriculture

Loans to organic farming certified according to national legislation (e.g. KRAV)⁹ or EU-legislation.

Contribution



Clean Transportation

- Fossil-free vehicles powered by electricity, or
- Infrastructure for clean transportation including bicycle and pedestrian infrastructure and electric charging points.

Contribution



Clean Transportation

Public transportation vehicles powered by Hydrogenated Vegetable Oils (HVO).

Contribution



⁸ The review is limited to certifications spelled out in the Framework.

⁹ Ibid.

Renewable Energy

- *Solar energy*
- *Wind power*

Contribution



Biodiversity Conservation

Loans related to nature biodiversity conservation, protecting and restoring terrestrial ecosystems through e.g., forest restoration and protection of species.¹⁰

Contribution



Biodiversity Conservation

Loans related to nature and marine biodiversity conservation, protecting, and restoring marine and other aquatic ecosystems through e.g., marine restoration and protection of species.¹¹

Contribution



Climate Change Adaptation

Loans aiming to increase the resilience, adaptive capacity and/or preparedness to minimize the potential impact of natural hazards created or exacerbated by climate change. Examples include:^{12 13}

- *Transport infrastructure*
 - *Acute and preventive measures for transport infrastructure (e.g., roads, bridges, terminals) for adapting to changed weather patterns and extreme weather conditions (e.g., wind, water, snow).*
- *Renewable energy*
 - *Resilient water dams for adapting to water stress, water shortage and water surplus.*
- *Green buildings*

Contribution



¹⁰ The Bank has committed to only provide financing under this category to borrowers that have not caused the degradation in the first place.

¹¹ Ibid.

¹² The review is limited to the examples of projects spelled out in the Framework.

¹³ The Bank has committed to consider all of the following points on a best effort basis and if insufficient evidence is obtained, to not consider the asset as eligible under this Framework: a) a vulnerability analysis was conducted to identify risks and vulnerabilities; b) the project financed contributes to address the identified risks and vulnerabilities; c) the bank uses existing studies or otherwise makes sure that the adaptation projects financed tackle issues that represent an adaptation risk with regards to the specific area(s)/context where they are installed; d) the planned projects are consistent with applicable local, regional, national adaptation plans.

- *Flood defense and stormwater management systems.*

Climate Change Adaptation

Loans aiming to increase the resilience, adaptive capacity and/or preparedness to minimize the potential impact of natural hazards created or exacerbated by climate change, such as green roofs and walls for buildings.¹⁴

Contribution

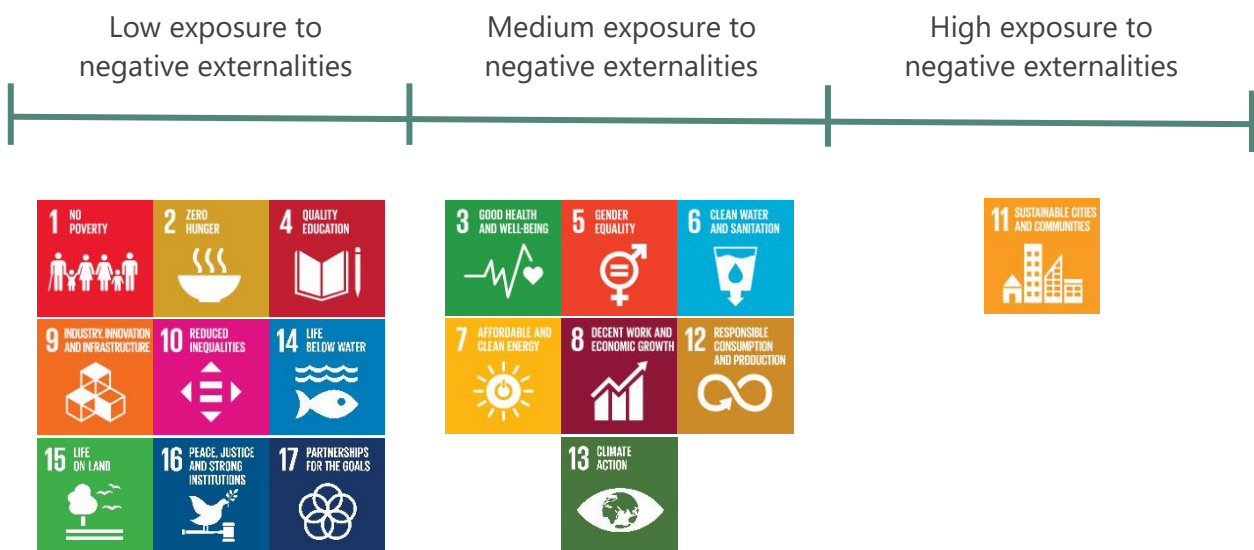


¹⁴ The review is limited to the examples of projects spelled out in the Framework.


2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer’s clients.

Sörmlands Sparbank invests on operational categories related to the Real Estate sector (e.g. energy renovation for buildings). According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities¹⁵ in the Real Estate sector are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ¹⁶	SUSTAINABLE DEVELOPMENT GOALS
<p>Green Buildings</p> <p><i>Major renovations and re-construction leading to primary energy savings of at least 30% within maximum of three years and validated through an EPC upon completion of the renovation.</i></p>	<p>✓</p>	

¹⁵ Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 3.B of the SPO.

¹⁶ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

Energy Efficiency

Loans to energy efficiency improvements such as technology (e.g., smart meters).¹⁷



Energy Efficiency

Loans to energy efficiency improvements such as energy storage,¹⁸ smart power grid solutions,¹⁹ conversion to LED lighting, improvements in ventilation systems, extension of district heating and cooling systems, heat pumps.²⁰



¹⁷ The review is limited to the examples of projects spelled out in the Framework.

¹⁸ The Bank commits to only finance solutions for storage of renewable energy.

¹⁹ The Bank commits to only finance solutions which facilitate renewable energy integration in the grid.

²⁰ The review is limited to the examples of projects spelled out in the Framework.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. The entirety of the assets are and will be located in Sweden.

ASSESSMENT AGAINST KPIs

ESG guidelines into financing process

Sörmlands Sparbank has a defined process for ESG due diligence, that includes all business advisors. The Credit Committee is also involved in deciding whether risks are acceptable for the Bank to grant the credit. The ESG analysis tool mainly targets corporate clients. The Bank carries out an ESG analysis when lending to companies in order to understand the clients' sustainability work. The analysis covers several areas, including stakeholder engagement and reporting to sector-specific questions such as leadership commitment, impact assessment, a company's sustainability plans, as well as strategy and goals for performance improvement. The ESG analysis tool allows the Bank to process for credits up to 8 MSEK, as this process is automated. However, companies that have a higher credit amount must answer additional questions. These questions are based on the customers reporting on sustainability and are answered by the client via a dialogue with the Bank. All credits with the purpose of financing new construction, remodeling, or additions are affected. However, this only applies to credits issued to companies over an amount of 10 MSEK.

For private customers, Sörmlands conducts a free energy check. Customers need to be clients of the Bank, be house owner and have a BankID (identification app in Sweden).

The Bank has also participated in a joined industry initiative, the Hållbar Byggbransch, with six other banks that aim to achieve increased control over which workforce is used at all supplier levels. The reason for this initiative is to reduce the risk of misconduct and financial crime.

The Issuer has an Environmental and Social Management System in place and, from 2005 is also certified according to ISO 1400:2015. The E&S Management System involves the Bank management together with the Sustainability manager and the Property manager. When a risk is identified, companies that do not fulfil specific sustainable parameters (e.g., leadership commitment, impact assessment, planning, execution, monitoring, and performance improvement) face the risk of not receiving the desired funding for their projects.

ESG Guidelines into financing process for most sensitive sectors²¹ financed under the Framework

²¹ The categorization of a sector as 'most sensitive' follows an evaluation of the number of controversies prevalent in the context of the financing operations of a financial institution.

ESG Guidelines into financing process for Agriculture

The Bank adopt the same ESG analysis tool described above.

Labour, Health and Safety

- ✓ As all assets financed will be located in Sweden, high health & safety standards are ensured by the relevant national legislation and the European Union mandatory social standards.
- ✓ As all assets financed will be located in Sweden, high labor standards are ensured by the relevant national legislation and the European Union mandatory social standards.
- ✓ Moreover, Sweden has ratified all core International Labor Association's (ILO) core conventions, therefore all assets financed are obligated to comply with ILO requirements.

Biodiversity

- ✓ All assets financed will be in Sweden, that is an Equator Principles Designated Country. Thus, the Issuer ensures that its environmental impacts have been mitigated and reduced as it also aligns to the European Union standards in terms of Environmental and Social Impact Assessment, as well as Sweden Environmental Code.²²

Community dialogue

- ✓ All assets financed will be in Sweden, that is an Equator Principles Designated Country. Thus, the Issuer ensures that its impacts on the communities have been mitigated and reduced as it aligns to the European Union standards in terms of Environmental and Social Impact Assessment as well as Sweden Environmental Code.²³ According to this Code, communities are protected by the Swedish Agency for Community Protection.
- ✓ Community dialogue is also regulated by the Swedish Environmental Regulation.²⁴
- ✓ The Issuer also confirms that community dialogue is an integral part of the planning process and is included in the permit process where the Swedish government is the deciding body.

²² Sweden Environmental Code: https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/_sfs-1998-808/#K6

²³ Ibid.

²⁴ Sweden Environmental Regulation: https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/miljobedomningsforordning-2017966_sfs-2017-966/

Inclusion



The Issuer has policies in place to ensure inclusion. Sörmlands confirms that all customers, employees and external partners must be treated respectfully regardless of gender, gender identity or expression, ethnic affiliation, religion or other belief, disability, sexual orientation, or age. The Issuer is regulated by national legislations such as the Consumer Credit Act²⁵ and confirms that access to credit is provided without discrimination as per the Bank's Code of Conduct. The bank must ensure that discrimination does not occur, promote diversity and equality, and promote a good and safe working environment. The bank assesses that the risk of human rights is low within their scope of operations. The main risk for violations of human rights is to be found with business customers and in the supply chain. The bank manages these risks through the sustainability analysis for corporate loans, through its code of conduct and through supplier assessments.

Data protection and information security



The Issuer has policies in place ensuring data protection and information security. Data collection processes on borrowers are regulated through a partner agreement between Sörmlands Sparbank AB and Swedbank AB to whom Sörmlands Sparbank have outsourced its data processing. Swedbank AB is annually audited according to ISAE 3402 to provide assurance that Swedbank AB has adequate controls in place. The audit is carried out by a third-party provider to guarantee independence.

Additionally, Sörmlands has a management system for information security in place, including requirements for outsourcing that is audited annually.

Responsible treatment of customers with debt repayment problems



The Issuer has policies in place to ensure responsible treatment of customers with debt repayment problems.

The Bank complies with the Financial Supervisory Authority of Sweden's (Finansinspektionen)²⁶ requirements regarding governing credit risk management, internal controls, and oversight which includes requirements for dealing with customers with debt problems and uses internal measurement methods quantifying credit risk to ensure that the incentives are in place for the customers with debt problem. In that regard, under its Credit Policy, Sörmlands

²⁵ Sweden Consumer Credit Act: https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/konsumentkreditlag-20101846_sfs-2010-1846/

²⁶ Finansinspektionen's regulations and general guidelines regarding management of credit risks in credit institutions and securities companies (FFFS 2018:16), Available at: https://fi.se/contentassets/2b00a4a8f3834fdb9a4be132d564add1/fs1816_eng.pdf

Sparbank includes procedures under “Know Your Customer” system covering the assessment of creditworthiness and the risks of the loan granting process, and the clear distinction of the roles of loan proposer and decision-maker; credit risk assessment model and measurement metrics; verification of the customer’s capacity to repay the debt; monitoring of credit and mediation initiatives to enable customers in temporary financial difficulty to meet their needs.

Sörmlands Sparbank has (i) pre-emptive actions in place and implements individual interest rates depending on Know Your Customer Assessment, particularly the Issuer has borrowing limits. The amortization period must not exceed the economic lifetime of an asset and on the private side the Bank advisors ensure that the interest rate mix suits the customer, (ii) has educational financial training programs, and (iii) provides internal and external debt counseling and money saving counseling services.

The Bank follows the Mortgage Act in Sweden (2016:1024),²⁷ Consumer Credit Act (2010:1846),²⁸ Regulations on amortisation of loans secured by residential property (FFFS 2016:16),²⁹ and European Banking Guidelines (EBA) on credit institutions' risk management practices and accounting for expected credit losses, EBA/GL/2017/06.³⁰

Sales practices



The Issuer has policies in place to ensure responsible sales practices. The Bank does not allow any sales competitions/provisions and only offers fixed salaries. The Bank does not pay bonuses and confirms that all sales representatives receive basic training to ensure responsible sales practices (e.g., Swedsec). The training includes product transparency, information on product costs and risks, no aggressive sales especially regarding vulnerable customers, product matching the risk appetite and situation of the customer. Moreover, the Issuer confirms that no commission are paid and that sales targets are limited. The Issuer has also specific units facing issues such as clients’ screening criteria, and monitoring and assessment of complaints received.

Responsible marketing

²⁷ Mortgage Act in Sweden, (Lag 2016:1024), Available at https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/lag-20161024-om-verksamhet-med-bostadskrediter_sfs-2016-1024/#K6

²⁸ Consumer Credit Act “Konsumentkreditlagen” (2010:1846), Available at: https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/konsumentkreditlag-20101846_sfs-2010-1846/

²⁹ Regulations on amortisation of loans secured by residential property (FFFS 2016:16), Available at <https://www.fi.se/sv/vara-register/fffs/sok-fffs/2016/201616/>

³⁰ European Banking Guidelines on credit institutions' risk management practices and accounting for expected credit losses, EBA/GL/2017/06, Available at <https://www.eba.europa.eu/regulation-and-policy/accounting-and-auditing/guidelines-on-accounting-for-expected-credit>



The Issuer follows the Swedish Consumer Credit Act³¹ regarding responsible marketing policies. The Act covers aspects such as basic commitments on responsible marketing (i.e., clear, concise, and prominent marketing) and commitment to clear and correct pricing as well as no hidden costs. Moreover, the Sweden Marketing Act (2008:486)³² covers the commitment to transparency regarding products' origin, use and risks, as well as the avoidance of misleading representation on goods, packaging, printed matter, and business documents.

Exclusion criteria

The Issuer policies exclude companies with over 5% of the company revenue coming from coal and controversial weapons sector. The net proceeds of Sörmlands Sparbank Green Bonds will not be used to finance either, nuclear energy generation, weapons, and defense industries or potentially environmentally negative resource extraction, gambling, or tobacco. Fossil fuel related equipment will be excluded from new Green Loans.

³¹ Sweden Consumer Credit Act: https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/konsumentkreditlag-20101846_sfs-2010-1846/

³² Sweden Marketing Act: <https://www.government.se/contentassets/747603b3d1a04351b1773524c7de3c84/2008486-marketing-act/>

PART III: CONSISTENCY OF GREEN BONDS WITH SÖRMLANDS SPARBANK'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer.

TOPIC	ISSUER APPROACH
<p>Strategic ESG topics</p>	<p>Sörmlands Sparbank's sustainability strategy rests on three main pillars:</p> <ul style="list-style-type: none"> ▪ Environment: Directing customers in a positive direction through integrating sustainability in its business- and decisions process. ▪ Social: The Bank contributes to social sustainability by being an attractive employer, where health and work-life balance are important factors. As well, the Bank engages in community activities, mainly led by its owner, Sparbanksstiftelsen Sörmland. ▪ Governance: The Bank's long-term goal is to be a financially stable and profitable Bank. The Bank works with active governance and control as well as preventing financial crime. <p>Sörmlands Sparbank's Board of Directors is responsible for approving sustainability related policies, such as the existing Sustainability Policy and for setting the Bank's sustainability strategy and goals. There is also a direct reporting line foreseen³³ between the Manager of the Sustainability team and the Bank's CEO.</p> <p>The structure around the way in which sustainability is integrated in Sörmlands Sparbank's different business areas and into the daily operations is described in its Sustainability Policy. Sustainability is integrated into the lending decision process and into risk management. As well, Client Advisors have a core function in the Bank's initiative to increase sustainable investment volume, by raising awareness and presenting sustainable investment options to customers.</p>

³³ At the time of writing this SPO, recruiting is ongoing for the Manager position.

	<p>The Sustainability Policy also highlights the Bank’s commitment to the UNEP FI’s Principles for Responsible Banking (PRB), and UNEP FI’s Agenda 2030. Furthermore, the Bank’s Code of Conduct governs how Sörmlands Sparbank acts as a responsible employer, business partner and member of the communities in which the Bank operates.</p>
<p>ESG goals/targets</p>	<p>In 2022, the Bank adopted a Key Sustainable Index (KSI) that tracks the achievements in five areas relevant for its sustainability ambitions. Targets are defined and renewed annually. The following targets were defined for 2023:</p> <ul style="list-style-type: none"> ▪ Sustainable business: measured as the percentage of investments in SFDR Art. 9 funds compared to the total volume of investments: 0.65% ▪ Environment and climate: assessed through the completion of the following measures: a) ambition to develop an overview in order to create a comprehensive annual climate report; b) implementation of improved methods for collecting climate impact data; c) set up of a methodology for defining science-based climate targets in 2024 ▪ Sustainable co-workers: measured by the overall satisfaction index (OSI), implemented through employee and pulse surveys: 80% ▪ Sustainable society: measured as the proportion of approved projects within the Bank’s community engagement that relate to any of the United Nations 17 SDGs: 80% ▪ Anti-corruption: measured as the percentage of customers in the total customer base who underwent (updated) due diligence in 2023, including assessment against anti-money laundering (AML) and counter-terrorism financing (CTF) measures: 100% <p>The Bank monitors the KSI on a quarterly basis and discloses the level of achievement against targets in the annual reports published on its website.</p>

	<p>A core focus in terms of ESG for Sörmlands Sparbank is on reducing its carbon footprint. The Bank has an environmental management system certified according to ISO 14001:2015.</p> <p>The Bank is actively keeping account of its Scope 1 and 2 GHG emissions, which are disclosed as part of their annual reports. Scope 3 GHG emissions are currently only partially measured. Financed emissions are underway to being incorporated during 2024. Quantitative climate-related targets are not in place and implicitly also not externally verified.</p> <p>The Bank also has a system in place for offsetting emissions, by investing in climate projects through Go Climate.</p>
Action plan	<p>One measure taken by the Bank in order to reduce GHG emissions is to replace its car fleet with 100% electric cars. As per the date of this SPO, one car running on fossil fuel is left in its fleet and is expected to be replaced with a fully electric car within 2025.</p> <p>Additionally, to increase sustainable investment volume, Sörmlands Sparbank’s client advisors have received training and are certified in the area of sustainability.</p>
Climate Transition Strategy	-
Top three areas of breaches of international norms and ESG controversies in the industry³⁴	Sexual harassment in the workplace, Financial market irregularities, Failure to manage cybersecurity.
Breaches of international norms and ESG controversies by the Issuer	At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.
Sustainability Reporting	The Issuer reports on its ESG performance and initiatives on a yearly basis. The report is prepared following the recommendations of the UN Principles of Responsible Banking (PRB).

³⁴ Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Public & Regional Banks industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

<p>Industry associations, Collective commitments</p>	<p>In 2022, Sörmlands Sparbank became the 6th Swedish savings bank to sign the UNEP FI’s PRB.</p>
<p>Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework</p>	<p>-</p>

Rationale for issuance

Sörmlands Sparbank recognizes the important role that financial institutions have to play in the transition to a low carbon economy and wants to contribute to the development of a sustainable financial market. Against this background, Sörmlands Sparbank has decided to integrate sustainability into its funding strategy by developing the Green Finance Framework.

The Green Bond Framework is applicable for issuance of green bonds (in several formats incl. Senior Preferred). Through the issuance of its first green bonds, Sörmlands Sparbank seeks to enhance its ability to finance green projects of its clients. The Bank intends to do so through existing and new green lending products (to be developed depending on market needs). The existing range of green products used to encourage sustainable lending include green mortgages for retail clients, green property loans to corporate clients, green car loans and solar panel financing.

Furthermore, by channeling more funds into green products, Sörmlands Sparbank seeks to improve its carbon footprint and its “Key Sustainability Index”, used to measure the Bank’s performance within five sustainability focus areas.

This Green Bond Framework forms the basis for future green bonds issued of Sörmlands Sparbank and contributes to climate change mitigation and adaptation.

Opinion: *The key sustainability objectives and the rationale for issuing Green Bonds are clearly described by the Issuer. The majority of the project categories financed are in line with the sustainability objectives of the Issuer.*

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ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology.

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

Sörmlands Sparbank commissioned ISS-Corporate to compile a Green Bonds SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the Green Bond Principles and to assess the sustainability credentials of its Green Bonds, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- Green Bond Principles

ISSUER'S RESPONSIBILITY

Sörmlands Sparbank's responsibility was to provide information and documentation on:

- Framework
- Selection criteria
- Documentation of ESG risks management at the project level

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Green Bonds to be issued by Sörmlands Sparbank has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles.

The engagement with Sörmlands Sparbank took place in February and March 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: SPOsales@iss-corporate.com

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