

## ISSUER IN-DEPTH

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# Svensk FastighetsFinansiering AB

## Green Bond Assessment

### Summary Analysis



### Summary Opinion

The GB1 (Excellent) grade on Svensk FastighetsFinansiering AB's (SFF) SEK 1.25 billion in medium-term notes due November 2019 considers an organized team with a history of issuing green bonds to finance and refinance green commercial properties in Sweden. These properties all incorporate internationally recognized design certification schemes that support their green credentials. The GB1 grade further reflects the following considerations:

- » Independently reviewed green bond framework describing the use of proceeds and eligibility criteria, project evaluation and selection process
- » Proceeds allocation committed to locally and internationally recognized green building certification schemes
- » Ongoing reporting over the life of the notes with actual environmental benefits such as electricity consumption and carbon dioxide emissions per square meter of office space
- » Lack of reporting comparison on initial and anticipated environmental benefits and limited independent internal/external auditing

Factor	Factor Weights	Score	Weighted Score
Organization	15%	1	0.15
Use of Proceeds	40%	1	0.40
Disclosure on the Use of Proceeds	10%	1	0.10
Management of Proceeds	15%	2	0.30
Ongoing Reporting and Disclosure	20%	2	0.40
Weighted Score			1.35

The transaction's weighted scorecard outcome is 1.35. This corresponds to an overall score of GB1, in line with the GBA assigned to SFF.

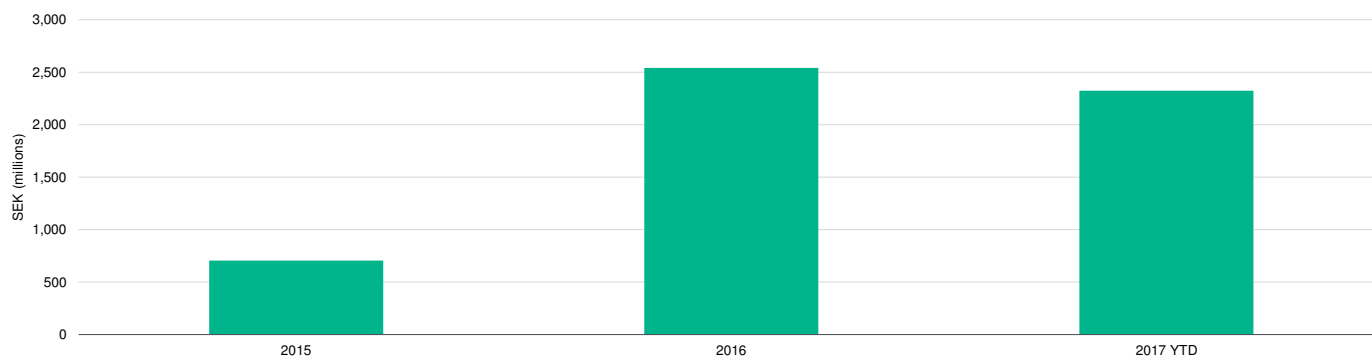
## Transaction Summary

On 9 November 2017 SFF issued SEK 1.25 billion (approximately \$147 million USD) in two-year fixed to floating rate notes to refinance loans on four existing green commercial buildings in Sweden. The notes were issued under SFF's Medium Term Note (MTN) Programme that has a cap of SEK 12 billion.

Including this transaction, SFF will have executed 10 green bond issuances totaling approximately SEK 4.2 billion or approximately \$500 million (see Exhibit 1). The notes are expected to be listed on the Nasdaq Stockholm Sustainable Bonds List.

Exhibit 2

### SFF Green bond issuance trends



2017 YTD includes current transaction

Sources: SFF; Moody's Investors Service

## Strengths and Weaknesses

### Strengths

Adoption of a Green Bond Framework with second party review

Nearly 100% of the proceeds allocated to qualifying environmental projects based on recognized certifications

Somewhat experienced program sponsor with several years' experience issuing green bonds financing energy improvements

Ongoing reporting over the life of the notes

Environmental impacts including energy consumption and carbon dioxide emissions reported annually by property

### Weaknesses

Lack of internal / external audit function on use of proceeds

Transaction does not provide estimates of environmental benefits at initial financing limiting the ability to compare actual reported to intended results

## Organization



Svensk FastighetsFinansiering AB issued its green bond framework in 2015 in which it details how it plans to use green bonds to finance green projects, specifically green buildings that conform to internationally recognized design certification schemes such as Leadership in Energy and Environmental Design (LEED) in the US, Building Research Establishment Environmental Assessment Methodology (BREEAM) in the UK and Miljöbyggnad, a Swedish certification scheme specific to the local market.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

The framework specifically outlines only green buildings in addition to seeking out properties that offer energy consumption that is at least 25% less than the national average. The framework also details cash management policies that include dedicated earmarked accounts for green bond proceeds.

As a special purpose vehicle created solely to facilitate real-estate financing, SFF does not have a specific green finance department. While a modest weakness, SFF has issued a number of green bonds and its green bond issuance as a percent of total issuance is approximately 49%. Furthermore, investment selection is determined by the board of SFF on a consensus basis. The board consists of the chief executive officer of SFF and each of the five chief financial officers of the stocklisted companies that collectively own SFF.

SFF issues green bonds predominantly under the company's MTN program with the aim to facilitate the financing of climate-smart and ecologically sustainable real estate. In addition to the building-specific green certification, each tenant that leases office space also signs up to "green leases," a separate agreement between tenant and landlord whereby both parties agree on a common environmental agenda for the space, including measures to reduce the environmental impact of energy, indoor environment, materials and waste.

Factor 1: Organization (15%)	Yes	No
Environmental governance and organization structure appears to be effective	•	
Policies and procedures enable rigorous review and decision making processes	•	
Qualified and experienced personnel and/or reliance on qualified third parties	•	
Explicit and comprehensive criteria for investment selection, including measurable impact results	•	
External evaluations for decision making in line with project characteristics	•	
Factor Score	1	

## Use of Proceeds



SFF's proceeds from the notes issuance will be 100% allocated to green and sustainable buildings that have internationally recognized external certifications LEED "Gold" (US) or BREEAM "Very Good" (UK) (see Exhibit 2). This exhibit also highlights some of the reporting elements SFF and its owners plan to provide such as energy use and carbon-dioxide emissions per square meter. The "Gold" and "Very Good" standards are each the second highest classification for the respective certification system. Miljöbyggnad is a Swedish building certification system specific to that market. Under the adopted green bond framework, properties in Sweden must also achieve the equivalent of "Silver" under the Miljöbyggnad system.

For this transaction, the Syret 3 property exceeded the minimum certification as laid out in the green bond framework, achieving LEED Platinum, the highest certification ranking. LEED and BREEAM are used internationally and are somewhat complementary in their approach, though BREEAM has been in existence since 1990 and is more academic and rigorous in approach than LEED. Please see the Appendix for further detail on these certification systems.

Exhibit 3

**Green-certified properties and environmental benefits included in Svensk FastighetsFinansiering AB's November 2017 green bond transaction**

City	Property	Size (Square Meters)	Owner	Green Building Certification	Energy Consumption (2016)	CO2 Emissions (2016)	% of Tenants with Green Leases
Stockholm	Stockholm Hågern Mindre 7	13,422	Fabege	BREEAM In-Use Very Good	113 kWh / m2	.4 kg / m2	60%
Göteborg	Gårda 3:12	3,503	Platzer	Miljöbyggnad Silver	111 kWh / m2	1.1 kg / m2	96%
Göteborg	Gårda 3:14	8,758	Platzer	Miljöbyggnad Silver	42 kWh / m2	.4 kg / m2	100%
Lund	Syret 3	17,588	Wihlborgs	LEED, Platinum / Miljöbyggnad Gold	31 kWh / m2*	0 kg / m2*	10%

\*Syret 3 has on-site geothermal power and 100% purchased renewable power.

Sources: SFF; Moody's Investors Service

Factor 2: Use of Proceeds	Yes	No
>95% - 100% of proceeds allocated to eligible project categories that are determined based on the issuer's adopted policies and the categories established under the Green Bond Principles that will be further informed by one or more robust and widely recognized green bond frameworks or taxonomies that qualify eligible projects, including any applicable regulatory guidelines.	●	
Factor Score	1	

**Disclosure on the Use of Proceeds**

The properties and their respective green building certifications encompass a range of environmentally friendly building initiatives. SFF's owners' commitment to reporting on each of their respective buildings' energy consumption and carbon dioxide emissions levels is favorable. Some owners are more advanced in their ability to aggregate energy consumption data, but all owners provide at least emissions and electricity use per square meter on an actual basis.

Reports are available on each of the properties and detail on each building and location is provided. Reporting will also be provided over the life of the notes.

Factor 3: Disclosure on the Use of Proceeds	Yes	No
Description of green projects, including portfolio level descriptions, actual and/or intended	●	
Adequacy of funding and/or strategies to complete projects	●	
Quantitative and/or qualitative descriptions for targeted environmental results	●	
Methods and criteria, both qualitative and quantitative, for calculating performance against targeted environmental results	●	
Issuer relies on external assurances: Second Party reviews, audits and/or third party certifications	●	
Factor Score	1	

**Management of Proceeds**

An amount equal to the net proceeds of the issue of the notes will be credited to an earmarked account that supports SFF's lending to eligible green commercial properties and the proceeds will be disbursed directly from the earmarked account. As this is a refinancing of existing properties and the amounts are known precisely, the proceeds do not need to be managed over time.

A weakness in the transaction, but an item that the issuer may seek to address in the future, is the lack of an independent audit function, resulting in a "No" for this sub-factor component. While SFF exists solely to facilitate financing of real estate properties and its financing is limited to a discrete function, the lack of an audit or external audit of the books and records of the special account is a weakness in the structure and a contributing factor to the score of 2 for Management of Proceeds.

Factor 4: Management of Proceeds	Yes	No
Bond proceeds are segregated and separately tracked on an accounting basis or via a method by which proceeds are earmarked	•	
Application of proceeds is tracked by environmental category and project type	•	
Robust process for reconciling planned investments against actual allocations	•	
Clear eligibility rules for investment of cash balances	•	
Audit by external organization or independent internal audit unit		•
Factor Score	2	

## Ongoing Reporting and Disclosure



SFF publishes a green bond investment report through its public website when financing is completed on a transaction-specific basis. Annually SFF will publish a report covering all of its financings, including conventional bond-funded properties as well as green bond-funded properties following review by the board of SFF. SFF has produced annual and interim reports for 2015 and 2016 and an interim report for the first six calendar months of 2017.

A limitation for SFF is that environmental benefits such as electricity consumption per square meter (kWh/m<sup>2</sup>) or carbon-dioxide emissions per square meter (CO<sub>2</sub>/m<sup>2</sup>) are not provided at initial financing and construction of the properties. While actual energy and carbon dioxide metrics are provided at year end, there is an inability to compare actual against targeted/intended benefits. Given this limitation, sub-factor five is scored as "No" resulting in a score of 2 for Ongoing Reporting and Disclosure.

Nevertheless, the data is granular and instructive. For example, the Syret 3 is heated and cooled by a heat pump site-specific geothermal well-bore. Electricity is produced either from integrated solar panels located on the building or from purchased renewable wind power. In 2016, the solar panel produced 74,000 kWh, which is more than 10% of the electricity used annually in the property. The Syret 3 property exceeded thresholds in SFF's green bond framework in Exhibit 2 above. We anticipate similar statistics for the other properties.

Factor 5: Ongoing Reporting and Disclosure	Yes	No
Reporting and disclosure post issuance provides/to be provided detailed and timely status updates on projects	•	
Ongoing annual reporting is expected over the life of the bond	•	
Disclosures provide granular detail on the nature of the investments and their expected environmental impacts	•	
Reporting provides/to be provided a quantitative and/or qualitative assessment of the environmental impacts actually realized to-date	•	
Reporting includes/to include quantitative and/or qualitative explanation of how the realized environmental impacts compare to projections at the time the bonds were sold		•
Factor Score	2	

## About SFF

Svensk FastighetsFinansiering AB is a real estate financing company launched in January 2015 that issues classic and "green" bonds in the Swedish capital markets through a secured MTN program of SEK 12,000 million (approximately \$1.4 billion).

SFF is in turn owned equally in 20% shares by five property companies listed on Nasdaq Stockholm: Catena AB, Diös Fastigheter AB, Fabège AB, Platzer Fastigheter Holding AB and Wahlborgs Fastigheter AB.

### Building certification schemes

#### Leadership in Energy and Environmental Design (LEED)

LEED is a third-party green building certification program and the globally recognized standard for the design, construction and operation of high-performance green buildings and neighborhoods. LEED addresses all building and space types through different rating systems and adaptations. By promoting a whole-building approach to sustainability, LEED recognizes performance in location and planning, sustainable site development, water savings, energy efficiency, materials selection, waste reduction, indoor environmental quality, innovative strategies and attention to priority regional issues.

The LEED rating systems are made up of prerequisites and credits. Prerequisites are required elements or green building strategies that must be included in any LEED-certified project.

LEED is generally organized by the following broad concepts:

- » Integrative process
- » Location and transportation
- » Sustainable sites
- » Water
- » Energy
- » Materials and resources
- » Indoor environmental quality

#### Building Research Establishment Environmental Assessment Methodology (BREEAM)

The BREEAM assessment process evaluates the procurement, design, construction and operation of a development against targets that are based on performance benchmarks. Assessments are carried out by independent, licensed assessors, and developments rated and certified on a scale of Pass, Good, Very Good, Excellent and Outstanding.

BREEAM In-Use International is an assessment method which assists property investors, owners, managers and occupiers to drive sustainable improvements through operational efficiency, including how to continually manage the operation of their building effectively.

BREEAM has been in use since 1990.

#### Miljöbyggnad

Miljöbyggnad is a Swedish system for certifying buildings in relation to energy, indoor climate and materials. The system offers certification in the different grades, Gold, Silver and Bronze, and is used for both residential and commercial buildings, new builds as well as existing buildings.

The building is examined in relation to 15 or so different indicators with respect to energy, indoor environment and materials. The first buildings using this certification in Sweden commenced in 2010.

## Moody's related publications

### Methodology

» [Green Bonds Assessment \(GBA\)](#), 30 March 2016

### Issuer In-Depth

» [Gothenburg, City of](#) 13 September 2016

### Sector In-Depth

» [Green Bonds - Global: Full-year issuance on course to exceed \\$120 billion in 2017](#) 9 November 2017

### Credit Opinion

» [Gothenburg, City of](#), 8 May 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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