

APRIL 2021

# GREEN FINANCE FRAMEWORK



# BESQAB

# 1. Introduction

## 1.1. About Besqab

Besqab AB ("Besqab" or the "Company") was founded in 1989 by seven people led by Isidor Andersson. Business operations are divided into two business areas; "Residential Development", defined as the development of apartment units and single-family homes for sale to private individuals including i) tenant-owner apartments (Sw. "bostadsrätter"), ii) condominiums with ownership rights (Sw. "ägarlägenheter"), and iii) single-family homes with ownership rights or tenant-owner rights (Sw. "äganderätter"), and "Property Development and Real Estate", defined as the development of rental apartments and community service properties including nursing homes and pre-schools. The latter mentioned business area includes management of own properties. With more than 30 years of experience, and through development of about 6,000 homes, Besqab is confident in its ability to develop new homes with knowledge and understanding of how people want to live. The vision is that all people should live in their dream home. Besqab believes in working closely to the people that will live in the homes. The Company has therefore chosen to focus on the local markets in the greater Stockholm and Uppsala. The head office is located in Danderyd, north of Stockholm, and there is a regional office in Uppsala.

### *Development of residential and community service properties*

Housing is Besqab's passion. Well-thought-out, space efficient, functional, homely, and sustainable properties define the Company's development activities. All projects are unique and Besqab is flexible when it comes to shaping homes according to the locations' conditions and in consideration of who will live there. As an experienced and long-term community developer, Besqab develops residential properties and community service properties in close collaboration with the municipality, the architect and the care provider. Besqab develops all kinds of housing, including apartment buildings, detached/semi-detached homes and single family homes, with various forms of tenure, such as freehold tenures, condominiums, and rentals. During the fourth quarter of 2020, Besqab decided to broaden its business to also include ownership of self-developed rental properties, elderly care homes and other types of community service properties.

### *New financial and operational targets starting 2021*

Besqab's overarching target is to strengthen its position as a leading housing developer through profitable growth. As part of the decision to continue to develop and grow the company, Besqab decided to broaden its operation to include ownership of properties. The ambition is to gradually build a long-term management portfolio of self-developed properties with stable operating cash flows in parallel with a continued focus on residential development. The new financial and operational targets that will guide Besqab going forward are:

- Financial targets
  - Equity/asset ratio: At least 35%
  - Operating margin: At least 10%
  - Return on equity: At least 15%
  - Dividend: At least 30% of after-tax profits (excluding unrealized changes in value)
- The financial targets, including the dividend policy, are defined on the basis of the segment reporting adopted.
- Operational targets
  - Besqab strives to have a profit margin in housing projects with tenant-owner rights or ownership rights of at least 15%

- By 2023, Besqab aims to reach an annual rate of production starts of 1,000 homes
- By 2023, Besqab aims to reach annual net operating revenues of approximately SEK 100m (including existing management portfolio, properties under construction and estimated annual net operating revenues from properties at the end of the period)

## 1.2. Besqab's sustainability contribution

Besqab's main sustainability contribution is to create homes and living environments for the different stages of life with care for the environment, people and society. Besqab focuses on building energy-efficient houses, making well-thought-out material choices and reducing greenhouse gas emissions. The Company also works on reducing waste by using sustainable materials and ensuring that an increased share of waste is reused or recycled. For Besqab, sustainability is key both in a strategic business perspective and in attracting customers and employees in the long term. Sustainable development of Besqab's properties implies having high sustainability requirements for the general work environment, and for the supply chain. To be an attractive employer, Besqab must offer a safe working environment for future and existing employees. Sustainability further creates value for shareholders and strengthens the brand.

Strategically, Besqab works within four focus areas:

- **Environment/climate:** The ambition is to reduce the environmental and climate impact of Besqab's properties throughout the entire life cycle of the building. Besqab has set the following targets:
  - Certification of all projects according to Nordic Swan Ecolabel
  - Increased resource efficiency in production
  - Increased share of renewable energy



- **Healthy and sustainable lifestyle:** The ambition is that Besqab's projects are designed to promote a healthy and sustainable lifestyle. Besqab has set the following targets:
  - Satisfied housing customers
  - Housing and living environments that enable a healthy and sustainable everyday life



- **Social sustainability:** The ambition is to be a responsible employer and community builder that offers a varied range of housing locations, types, tenancy forms and price ranges. Besqab has set the following targets:
  - Diversified and including housing and living environments that add value to the local community
  - Transparency and social sustainability at the supplier level
  - Attractive employer with high employee satisfaction



- **Economic sustainability:** The ambition is that projects promote financial sustainability for the tenant-owner's association and for the customer. Besqab has set the following targets:
  - Green financing, green mortgages and green building credits
  - Secure tenant-owner's associations with economic

sustainability over time

- Space, resource - and energy efficient housing at reasonable prices



### Fossil-Free Sweden

The construction sector in Sweden has, within the framework of the government initiative Fossil-Free Sweden, formed a strategic plan with the ultimate goal of becoming fossil-free by 2045. The initiative challenges companies, organizations, municipalities and regions to implement concrete measures to reduce greenhouse gas emissions. Besqab has committed to the agreement.

### Certification according to Nordic Swan Ecolabel

The ambition is to certify all future projects according to the Nordic Swan Ecolabel. To be able to certify a building according to Nordic Swan Ecolabel, the buildings must be included in a life cycle analysis. This is a method for measuring a product's total environmental impact, from raw material extraction to reuse or disposal of the product. As such, Besqab has a holistic approach to the construction process, the use of the building and the management of the building. Building materials and chemical products are inspected. For example, the wood material is made of certified wood, i.e. wood that originates from sustainable forestry. There are also strict requirements relating to the buildings' energy use, and the use of renewable energy and green innovations is encouraged. Building according to Nordic Swan Ecolabel will lead to low operating costs; the buildings have energy-efficient heating, good indoor air, and low water consumption. Further, the use of environmentally friendly materials is positive both for the environment and the human health.

### Overall sustainability goals

- **Satisfied customers:** Besqab aims to achieve at least a third position in the industry's annual customer satisfaction index related to moving in (Sw. "NKI Inflyttning") for apartments and family homes
- **Satisfied employees:** Employee surveys are conducted annually and the long-term target is to achieve results of 80 for Job Satisfaction and 88 for Loyalty
- **Nordic Swan Ecolabel:** Besqab has the ambition to label all homes starting project planning in 2021 and onwards according to the Nordic Swan Ecolabel
- **Green financing:** Besqab strives to have green-labelled financing for external project financing going forward, from building credits to residential loans
- **Trygg BRF:** The aim is that all tenant-owner associations are certified according to the quality label Trygg BRF, an industry initiative with requirements related to the entire construction process. Besqab is one of the initiators

### 1.3. Besqab's Green Finance Framework

The establishment of this Green Finance Framework (the "Framework"), focusing on green and energy efficient buildings, will enable Besqab's continued positive environmental impact in society. Green Eligible Assets, as defined in Section 2, can be owned by Besqab or by any of its subsidiaries or joint ventures.

For the latter mentioned, the value of Green Eligible Assets is to be adjusted for the share of capital owned by Besqab.

This Framework has been developed in alignment with the Green Bond Principles ("GBP")<sup>1</sup> and Green Loan Principles ("GLP")<sup>2</sup>. The Framework is applicable for issuance of green bonds (including hybrid bonds), green loans and other types of debt instruments where net proceeds will be applied to finance or re-finance, in part or in full, new and/or existing Green Eligible Assets with clear environmental benefits (collectively referred to as "Green Finance Instruments").

The Framework is aligned with the four recommended components of the GBP and GLP; use of proceeds (Section 2), process for project/asset evaluation and selection (Section 3), management of proceeds (Section 4) and reporting and transparency (Section 5).

Furthermore, the Framework is reviewed by an external impartial firm, which has provided a second opinion to confirm its alignment with the GBP and GLP. The Framework and second opinion from CICERO Shades of Green are available on Besqab's website.

## 2. Use of proceeds

An amount equivalent to the net proceeds from Besqab's Green Finance Instruments shall be used to finance or re-finance, in part or in full, eligible assets providing distinct environmental benefits ("Green Eligible Assets"). The Company will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Green Eligible Assets.

The value of Green Eligible Assets under "Green and Energy Efficient Buildings" is two-folded; i) properties for own management belonging to the business area "Property Development and Real Estate" based on the market value of such assets reported in the balance sheet, and ii) properties under development belonging to the business areas "Residential Development" and "Property Development and Real Estate" based on the estimated project value and which are set to be completed within 24 months. Green Eligible Assets under "Energy Efficiency" correspond to the relevant invested amount.

### The real estate sector and carbon emissions

The real estate sector is the single largest energy consuming sector in the EU, responsible for about 40% of total energy usage and 36% of total carbon emissions<sup>3</sup>. Investing in green and energy efficient buildings thus play a key role in the energy transition.

### EU Taxonomy alignment

Besqab has started to explore what the EU Taxonomy would mean for the Company's activities. At this stage Besqab is missing some data and methodologies to perform a complete EU Taxonomy assessment. Hence, the Company has focused on evaluating its activities substantial contribution to environmental objectives and compliance with technical screening criteria, where the information is available. The Company's preliminary assessment suggest that its activities contribute to the environmental objective Climate Change Mitigation.

<sup>1</sup> Green Bond Principles published in June 2018 are voluntary process guidelines for issuing green bonds established by International Capital Markets Association (ICMA), <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>






<sup>2</sup> Green Loan Principles published in March 2018 are voluntary process guidelines for issuing green loans established by Loan Markets Association ("LMA"),

[https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA\\_Green\\_Loan\\_Principles\\_Booklet-220318.pdf](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA_Green_Loan_Principles_Booklet-220318.pdf)

<sup>3</sup> EU Taxonomy Report: technical Annex March 2020,

[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)

**Green Eligible Assets**

Main categories	Sub-category	Related SDG <sup>4</sup>	Relevant EU Taxonomy environmental objective & activity <sup>5</sup>
Green and Energy Efficient Buildings	Buildings that either have or with the objective to receive: <ul style="list-style-type: none"> <li>Nordic Swan Ecolabel, Miljöbyggnad Silver or an equivalent energy performance level from another well recognized certification scheme which is subject to evaluation and approval from the GFC<sup>6</sup></li> <li>an energy performance certificate (“EPC”) of class A or B</li> <li>major renovations resulting in reduced energy consumption of at least 30%</li> </ul>	 	Climate change mitigation: <ul style="list-style-type: none"> <li>7.1. Construction of new buildings</li> <li>7.2. Renovation of existing buildings</li> <li>7.7. Acquisition and ownership of buildings</li> </ul>
Energy Efficiency	Energy retrofits such as installation of onsite solar panels, heat pumps, sewage heat exchangers, improvements in ventilation systems, extension of district heating and cooling systems, improvements and implementation of control systems, as well as infrastructure for electric vehicles	  	Climate change mitigation: <ul style="list-style-type: none"> <li>7.3. Installation, maintenance and repair of energy efficiency equipment</li> <li>7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings</li> <li>7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings</li> <li>7.6. Installation, maintenance and repair of renewable energy technologies</li> </ul>



<sup>4</sup> ICMA, “Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals”, <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds-2020-June-2020-090620.pdf>

<sup>5</sup> EU Commission, ‘Draft delegated regulation’, ‘Annex’ [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC\\_WORKFLOW](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW)  
<sup>6</sup> Defined in Section 3.1.

## 3. Process for asset evaluation and selection

### 3.1. Selection of Green Eligible Assets

The evaluation and selection process for Green Eligible Assets is a key process in ensuring that the amount equivalent to the net proceeds from Green Finance Instruments is allocated to assets and expenditures which meet the criteria in the Framework.

The selection of Green Eligible Assets is managed by a dedicated group, the Green Finance Committee (“GFC”). Members of the GFC consist of the CEO, CFO and Technical Manager. The Technical Manager holds the sustainability expertise as of now, and going forward Besqab will assure that the sustainability expertise always relies within the GFC. All decisions are made in consensus, and this applies to the selection process of Green Eligible Assets as well.

A list of Green Eligible Assets is kept by the Finance Department who is also responsible for keeping it up to date.

### 3.2. Further responsibilities of the GFC

Besqab will follow the development of the green financing market and manage any future updates of the Framework to reflect current and future market practices (e.g. relating to the EU Taxonomy) and potential updates to the GBP and GLP.

The list of Green Eligible Assets is monitored on a regular basis during the term of the Green Finance Instruments to ensure that the proceeds are sufficiently allocated to Green Eligible Assets. This is also a responsibility of the GFC.

### 3.3. Exclusion criteria

The proceeds of Besqab’s Green Finance Instruments will not be used to finance either fossil fuel energy generation, nuclear energy generation, weapons and defence industries nor potentially environmentally negative resource extraction, gambling or tobacco.

## 4. Management of proceeds

Equivalent to the net proceeds from Besqab’s Green Finance Instruments will be tracked by using a spreadsheet where all issued amounts of Green Finance Instruments will be inserted. The spreadsheet will contain the list of Green Eligible Assets mentioned in Section 3. Information available in the spreadsheet will in turn serve as basis for regular reporting as described in Section 5.

All Green Finance Instruments issued by Besqab will be managed on a portfolio level. This means that a Green Finance Instrument will not be linked directly to one (or more) pre-determined Green Eligible Assets. The Company will keep track and ensure there

are satisfactory Green Eligible Assets in the portfolio. Assets can, whenever needed, be removed or added to/from the Green Eligible Assets’ portfolio.

Any unallocated proceeds will be temporarily held by Besqab and placed on the Company’s ordinary bank account.

## 5. Reporting and transparency

To be fully transparent towards investors and other stakeholders, Besqab commits to regular reporting until no Green Finance Instruments are outstanding. The report will be published on the Company’s website on an annual basis and will cover the following areas:

### *Allocation of proceeds reporting*

- Total amount of Green Finance Instruments issued
- Share of proceeds used for financing/re-financing and share of proceeds used for categories described in Section 2
- Share of unallocated proceeds (if any)

### *Impact reporting*

Besqab intends to report on quantitative impact indicators where reasonable and where relevant data is available for the below two main categories:

#### Green and Energy Efficient Buildings:

- Information on the energy usage in kWh/sq. m./year
- Estimated annual greenhouse gas emissions reduced or avoided (tCO<sub>2</sub>e)
- Energy performance certificate class, if any
- Type of certification including level, if any (e.g. Nordic Swan Ecolabel, Miljöbyggnad Silver, etc.)

#### Energy Efficiency:

- Amount of energy saved per sq. m.
- Estimated annual greenhouse gas emissions reduced or avoided (tCO<sub>2</sub>e)

## 6. External review

### **Second opinion**

To confirm the transparency and robustness of Besqab’s Green Finance Framework, it is verified and approved by an external second opinion provider. The second opinion by CICERO Shades of Green is available on the Besqab’s website, together with this Framework.

### **External verification**

Allocation of proceeds will be subject to an annual review by an external part/verifier. The verification report provided by the external part will be published on Besqab’s website.

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