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## Second Party Opinion

# The City of Västerås' Sustainability-Linked Bond Framework

Jan. 19, 2023

Västerås is a municipality in central Sweden's province of Västmanland. With approximately 157,000 inhabitants, it is one of the largest and fastest expanding municipalities in the country.

In our view, Västerås' Sustainability-Linked Bond Framework, published on Jan. 19, 2023, is aligned with:

 Sustainability-Linked Bond Principles, ICMA, 2020

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## Issuer's Sustainability Objectives

Västerås' sustainability strategy comprises three main pillars covering social, ecological, and business development. The program for ecological sustainability has the long-term objective of ensuring the City of Västerås' impact on the environment and climate has decreased and is within planetary boundaries by the year 2045. Complementing it, the municipality has set a climate program to achieve near-zero emissions per inhabitant by 2040, in line with the Swedish environmental goals and the Paris Agreement. The program is mainly focused on decreasing emissions in the electricity and heating, and transport sectors, which together accounted for close to 75% of its overall emissions in 2020. In this regard, Västerås has set the following intermediate targets to be met by 2030:

- To reduce total carbon dioxide equivalent (CO<sub>2</sub>e) emissions from the production of electricity and district heating to zero.
- To reduce CO<sub>2</sub>e emissions from road traffic 80% from a 2010 baseline.


The City of Västerås has developed its Sustainability Linked Bond Framework to align its financing with the key objectives of its sustainability strategy, broaden its investor base, and provide the municipal group with access to long-term funding.

## Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2020 performance
Carbon dioxide equivalent emissions (CO <sub>2</sub> e) per inhabitant in the geographical area of Västerås municipality.	85% reduction from the baseline year 1990 to the target year of 2040--1.25 tCO <sub>2</sub> e/inhabitant.	8.35 tCO <sub>2</sub> e/inhabitant (1990)	3.09 tCO <sub>2</sub> e/inhabitant

# Second Party Opinion Summary

## Selection of key performance indicators (KPIs)

<b>Alignment</b>	 Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.
<b>KPI 1</b>	CO <sub>2</sub> e emissions per inhabitant in the geographical area of Västerås municipality.


Not aligned

Aligned

Strong

Advanced

## Calibration of sustainability performance targets (SPTs)

<b>Alignment</b>	 Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.
<b>SPT 1</b>	85% reduction from the baseline year 1990 to the target year of 2040.

Not aligned

Aligned

Strong

Advanced

Although the overarching SPT is set for 2040, the relevant SPT for the separate sustainability-linked bond will be specified in each separate sustainability-linked bond's documentation.

## Instrument characteristics

<b>Alignment</b>	 Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.
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Bonds issued under the framework will be subject to an economical compensation defined as meaningful and commensurate by the issuer and triggered by the failure to reach the SPT at the selected target observation date, as disclosed within the final terms and conditions of the relevant bond. The compensation will fall into one of the following categories:

- A coupon step-up until maturity, by several basis points; or
- A one-time payment, either in redemption amount or coupon step-up, payable in connection with maturity of the sustainability-linked bond.

Additionally, the framework states that failure to disclose performance data will result in a trigger event linked to the defined payable.

## Reporting

<b>Alignment</b>	 Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles
<b>Score</b>	<div style="display: flex; justify-content: space-between; width: 100%;"> <div style="border: 1px solid #ccc; padding: 5px; background-color: #f0f0f0; width: 20%;">Not aligned</div> <div style="border: 1px solid #ccc; padding: 5px; background-color: #f0f0f0; width: 20%;">Aligned</div> <div style="border: 1px solid #ccc; padding: 5px; background-color: #00728f; color: white; font-weight: bold; width: 20%;">Strong</div> <div style="border: 1px solid #ccc; padding: 5px; background-color: #f0f0f0; width: 20%;">Advanced</div> </div>

The issuer will publish a sustainability bond progress report annually on its website containing its progress against the SPT for the selected KPI, as well as the calculation methodology, potential recalculations, and the baselines. The issuer commits to include information on the relevant factors affecting the achievement of the target, which we view as a strength of the framework.

## Post-issuance review

### Alignment



Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles

The SPT provided within the framework is calculated using publicly available official statistics subject to external verification. Additionally, if a recalculation of the SPTs is performed, an independent third party assigned by the City of Västerås will issue a verification certificate confirming any recalculations.

# Framework Assessment

## Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 Västerås’ Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles

The City of Västerås has selected one environmental KPI. Achieving environmental sustainability is viewed by the municipality as a necessary condition to address other relevant challenges it faces within the realm of social sustainability, which are therefore out of scope for this framework.

<b>KPI 1</b>	CO <sub>2</sub> e emissions per inhabitant in the geographical area of Västerås municipality.	Not aligned	Aligned	<b>Strong</b>	Advanced
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We believe the clarity of the objective, baseline, and scope for the KPI selected by the City of Västerås are strong. Furthermore, we believe the KPI is relevant for the regional government and its sustainability strategy.

The objective, baseline, and applicable scope are clearly stated by the issuer--to achieve close to zero CO<sub>2</sub>e emissions per inhabitant in 2040, calculated as tons of CO<sub>2</sub>e emissions per inhabitant in the geographical area of Västerås municipality. CO<sub>2</sub>e emissions data are collected from the National Emissions Database, which is administered by the Swedish Meteorological and Hydrological Institute (SMHI). Figures are published annually with a two-year lag and verified by Svenska MiljöEmissions Data (SMED). The data are based on Sweden’s official emission statistics, which are reported to the U.N.’s Climate Convention, following the publicly available 2006 IPCC methodology guidelines for National Greenhouse Gas Inventories. Inhabitant figures are provided and publicly made available by the government agency Statistics Sweden.

We believe the selected KPI is linked to one of the most pressing sustainability issues faced locally and globally--climate change mitigation. It is also directly linked to both the municipality and national government’s sustainability strategies. That said, the KPI is based on the number of inhabitants in the municipality (intensity-based), which is expected to increase approximately 20% by 2040 versus expected growth of 8% for Sweden. Therefore, we note a risk that absolute emissions in the municipality could potentially increase and the overarching objective of reducing CO<sub>2</sub>e per inhabitant would still be met, which limits our assessment of the KPI. However, the municipality achieved a 16% decrease in absolute emissions in 2020 compared with 1990 data and expects to maintain an average year-on-year reduction of 3% until 2040, which we view as strong.

## Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

 Västerås’ Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.

<b>SPT 1</b>	85% reduction from the baseline year 1990 to the target year of 2040.	Not aligned	Aligned	<b>Strong</b>	Advanced
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We believe the ambition, clarity, and characteristics of the target selected by the issuer are strong. Furthermore, the framework provides information on the strategy to reach the target, as well as relevant information on past performance, with an external benchmark.

The framework outlines the timeline to achieve the overarching target of reducing emissions per inhabitant 85% by 2040. Intermediate targets, relevant target observation dates, and precise trigger events will be specified within the terms and conditions of the relevant sustainability-linked bond in line with the Principles.

The issuer has disclosed historical performance data since 1990 showing that tons of CO<sub>2</sub>e emissions per inhabitant in the municipality decreased approximately 63% in 2020 versus the base year (average annual reduction of 3%). Therefore, Västerås will need to reduce its emissions another 22% versus 1990 to achieve the target, which requires an average annual reduction of 4.4%. This means sustainability performance must improve at a faster rate than previously achieved by the municipality, which we view positively. We note, however, that emissions data (including the baseline) is recalculated by SMHI and verified by SMED annually. As such, the trajectory will be adjusted by the issuer based on updated data on past performance. That said, the framework commits to an overarching objective to achieve an 85% reduction from the baseline by 2040.


Additionally, the City of Västerås has benchmarked its target against that of 30 municipalities in Sweden, demonstrating a level of ambition in line with some of the largest municipalities in the country. However, we note that there is no common definition of targets across different municipalities. It has also compared the target against those of Sweden and the EU Green Deal, yet these are not fully comparable since they require emission reductions in absolute terms rather than based on the number of inhabitants. Despite this, we believe that the efforts carried out by Västerås are in line with the national target and will aid in its achievement, which we view favorably.

Furthermore, the strategy to achieve the SPT is outlined in the framework, which mainly focuses on reducing emissions from the electricity and heating, and transport sectors, which together accounted for close to 75% of the municipality's overall emissions in 2020. Some of the initiatives under the strategy include developing public transportation and sustainable alternatives such as bicycle lanes, potential investments in carbon capture and storage solutions, decreasing the energy usage of the housing company 2% per year, and increasing own production of green energy by building solar cells equivalent to about 200 kilowatts per year. Although the framework includes relevant information on the actions needed to achieve the target, it does not disclose detailed plans or specific investment to support its decarbonization strategy, which would be a more advanced practice, in our view.

<b>Baseline</b>	<b>SPT</b>
<b>1990</b>	<b>2040</b>
8.35 tCO <sub>2</sub> e/inhabitant	1.25 tCO <sub>2</sub> e/inhabitant
	Equivalent to 85% reduction

## Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

-  Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.

We consider the instrument characteristics to be aligned. Bonds issued under the framework will be subject to economical compensation triggered by the failure to reach the SPT at the selected target observation date, as disclosed within the framework. The compensation, which intends to be meaningful and commensurate (as defined by the issuer), will be disclosed within the relevant terms and conditions of any issuance, and will fall into one of the following categories:

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- A coupon step-up until maturity, by several basis points; or
- A one-time payment, either in redemption amount or coupon step-up, payable in connection with maturity of the sustainability-linked bond.

Although the overarching SPT is set for 2040, the relevant SPT for the separate sustainability-linked bond will be specified by each separate sustainability-linked bond's documentation. The framework also includes a fallback mechanism by which the issuer's failure to disclose performance data within 30 business days after the publication of emissions data in the National Emissions database will result in a trigger event linked to the defined payable.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.

## Disclosure score

Not aligned

Aligned

**Strong**

Advanced

We consider Västerås' overall reporting practices to be strong.

The issuer commits to annually publish a sustainability bond progress report on its website containing the progress against the SPT for the selected KPI, as well as the calculation methodology, potential recalculations, and baselines, and information on the relevant factors contributing to performance against the target. The report will be available within 30 business days after the publication of emissions data in the National Emissions database, which is released annually with a two-year lag (emissions for 2020 are made available in 2022), and for as long as bonds are outstanding.

The framework states that any changes made to the target must not represent a lowered level of ambition by the municipality, and that any change will be verified by an external third-party reviewer (or similar party) assigned by the City of Västerås. Following this event, a verification report will be published together with the sustainability bond progress report.

## Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

 Västerås' Sustainability-Linked Bond Framework is aligned with this component of the Sustainability-Linked Bond Principles.

We believe the framework is aligned with the verification requirement set by the Principles, considering the SPT is calculated using publicly available official statistics subject to external verification. Absolute emissions data is measured yearly in the National Emission Database, administered by SMHI and verified by SMED. Additionally, population data are collected by government agency Statistics Sweden. Our view is further supported by the fact that Kolada, an association between the Swedish state and Swedish municipalities and regions, presents the same KPI annually, based on the same sources, on its website.

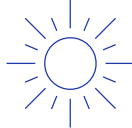
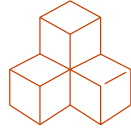


In addition, if a recalculation of the SPTs is performed, an independent third party assigned by the City of Västerås will issue a verification certificate confirming any recalculations.

To provide transparency to investors, the sustainability bond progress report will include the updated raw data with source references, which we view favorably.

## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

Västerås' Sustainability-Linked Bond Framework intends to contribute to the following SDGs:

KPI	SDGs
CO <sub>2</sub> e emissions per inhabitant in the geographical area of Västerås municipality	 <b>7. Affordable and clean energy*</b>
	 <b>9. Industry, innovation and infrastructure*</b>
	 <b>11. Sustainable cities and communities*</b>
	 <b>13. Climate action*</b>

\* The KPI is likely to contribute to the SDGs.

## Second Party Opinion

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