

Sustainable Finance Framework

February 2023

Accessible
Reliable
Progressive

HEMSÖ

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Hemsö's vision and business concept

Hemsö's vision is to strengthen the backbone of society. We do this through our business concept of sustainably developing, owning and managing public properties. The properties are designed with a focus on the people who will be living and working there, to ensure they have the right conditions. Our ownership is guided by a long-term approach – we develop, own, and manage our properties. Our profits are primarily returned to Sweden's pensioners through our largest owner, the Third Swedish National Pension Fund. Public properties are predominantly used by tax-financed activities and are specifically adapted for community service.

We meet the needs of social infrastructure. In 2022, Hemsö initiated development projects that will add 700 new nursing home beds and 6,220 new school places.



Committed to (social) sustainability

Hemsö works with a holistic approach to integrate all aspects of sustainability in the work with property development and property management. We have a strong focus on offering our users safe and healthy buildings and outdoor environments that are also stimulating. We wish to be in the front line of the development of social infrastructure for the future and therefore evaluate how our properties can contribute to increased social sustainability as well as resource efficiency while minimizing environmental impact.

Hemsö applies its competence and innovative mindset to add social value in our buildings and properties. We also have expanded our social commitment taking social responsibility that extends beyond traditional property boundaries. One example is our long-term commitment to Tensta in Stockholm, which is a vulnerable area (a term applied by the Swedish Police Authority to areas with high crime rates and social exclusion). In Tensta we are currently developing goals and strategies to a long term contribution to the socially sustainable development in the area.

Examples on how buildings can create social value are for example, in Gothenburg, where we developed a unique combination of an elementary school and nursing home in the same building. Similarly, in Upplands Väsby, we developed a nursing home and a preschool in the same building. There are many benefits – the co-utilization of some premises and functions, and the creation of spontaneous encounters between older people and young children that helps to prevent age segregation. To facilitate cooperation between the nursing home and the preschool, Hemsö created a special fund for tenants to use for joint activities.

Another social initiative within Hemsö is 'Skolgårdslyftet' (School yard lift), aimed at raising the quality of our school playgrounds. Those are an essential part of the learning environment and should contain both areas for play and social interaction in order to promote learning and reduce stress.

To support our work, we have developed 'Hemsö-äpplet' (Hemsö Apple) and 'Hemsö-blomman' (Hemsö Flower), tools that ensure that we develop sustainable schools and homes for the elderly.

Long-term and close collaboration – with states, municipalities, and regions

When we acquire or develop properties in a municipality or region, we are there to stay. For us, it is important to be present in all types of areas. For vulnerable areas it is often difficult to attract private capital to invest in these areas where it is most needed. Hence, Hemsö believes we can create value and social benefits for the local community including these areas in our investment strategy. After all, our vision is to be a long-term property partner to the public sector, which means addressing society's priorities to invest in vulnerable areas.

Hemsö wants to invest in these areas, as the company believes in the power of change and thus the way forward is for property owners, the public sector and civil society to work together in order to make a difference.

Activities conducted in our public properties are critical community functions, which create safe and positive environments for inhabitants. For example, Hemsö builds new school facilities in areas that are currently unserved and we own and manage police stations in areas where the police presence is necessary and long awaited for the majority of those who live there. Hemsö is already established in many of these vulnerable areas, and we want to continue to increase our presence in these areas. When others leave due to various risk factors, Hemsö's commitments are long term.

Responsibility and control of sustainability issues in Hemsö

Hemsö's largest owner, the Third Swedish National Pension Fund, became signatory to the UN's Principles for Responsible Investment (UN PRI) back in 2006. Implementation of the principles is a continuously ongoing process to ensure that AP3 takes sustainability into account, both as an asset manager as well as an asset owner.

At Hemsö, the responsibility for sustainability-related issues follow our organizational structure and this work is integrated into our business operations. Hemsö's Sustainability Policy is approved by the Board of Directors. The Head of Sustainability is responsible for the Sustainability Department and reports to the CEO. The Heads of Asset Management in Finland and Germany are responsible for property related sustainability issues in their respective countries.

Hemsö has been reporting its sustainability performance in accordance with the Global Real Estate Sustainability Benchmark (GRESB) since 2014, which is an annual global evaluation of environmental, social and governance (ESG) both at company and portfolio level. Hemsö also reports in accordance with the Core option of the Global Reporting Initiative (GRI) standards. The report describes Hemsö's sustainability performance and results on an annual basis.

Targets and strategies to support the achievement of the SDG's

Hemsö works strategically with sustainability and focuses on areas where we, as a developer and owner of public properties, can make a difference and help to promote sustainability. The Sustainable Development Goals (SDG's) Hemsö can help to achieve are presented below.



Goal 3 – Good health and well-being

Hemsö works to ensure safe and healthy indoor environment in and around our buildings by, for example, using environmental certification schemes, making informed choices about materials and managing properties responsibly.



Goal 4 – Quality education

Hemsö works to create and manage sustainable, inclusive and safe learning environments through, for example, the Hemsö Apple concept. In the project School yard lift, we are intensifying our focus on outdoor environments of our schools.



Goal 7 – Affordable and clean energy

We work systematically to reduce our energy consumption in buildings and place high demands on energy efficiency in new buildings. Extensive investments in photovoltaic systems and geothermal energy are further examples of how we are supporting the achievement of this goal.



Goal 8 – Decent work and economic growth

Hemsö's activities create social value through the public properties we build and manage. We generate returns for Sweden's national pension system and are a long-term and stable employer with satisfied and healthy employees. We are responsible and take a long-term approach to our business and our relationships with tenants and suppliers.

**Goal 11 – Sustainable cities and communities**

In our activities and when working with others, such as industry networks, organizations and research and innovation projects, we work every day to promote a more sustainable urban development sector.

Sustainability management is based on sustainability policy, sustainability guidelines and more detailed guidelines in several areas. External laws, guidelines, and regulations, including the UN Sustainable Development Goals (SDG's), and voluntary commitments for sustainable development also provide the framework for our sustainability management.

**Goal 12 – Responsible consumption and production**

Property construction and maintenance is resource-intensive, thus Hemsö works actively to minimize the use of resources with measures ranging from resource-efficient buildings with floor space optimization to transitioning to renewable energy and climate-change adaptation in new buildings.

**Goal 13 – Climate action**

Hemsö has adopted a climate strategy and is working actively to reduce our GHG emissions in both construction and property management through measures ranging from choice of energy sources and building materials to participating in pilot projects in initiatives linked to climate-change adaptation in buildings, such as ZeroCO₂ and Local Roadmap for a Climate-Neutral Building & Construction Industry in Malmö 2030 (LFM30).



CEO
Nils Styf

Stockholm 15 February 2023



CFO
Rutger Källén



Head of Sustainability
Åsa Thoft

Framework structure

As part of Hemsö Fastighets AB ('Hemsö') commitment to sustainability, this Sustainability Finance Framework (the 'Framework') has been developed and will be used to issue either Green, Social as well as a combination of both Green and Social financial instruments with a Sustainability label including but not limited to bonds.

This framework is defining Eligible Green and Social Assets which are specified in this framework in order to provide investors transparency in how proceeds from any Green, Social or Sustainability Bond will be used and to allow investors and other stakeholders an opportunity to make targeted investments decisions in Green, Social and Sustainability Bonds.

To enable this, the Framework exists of Green, Social or Sustainability Eligibility Criteria's. Depending on the type of issuance, the generic parts of the Framework can be read in combination with the corresponding Green or Social criteria's in the Use of Proceeds section.

This Framework follows the Green Bond Principles (GBP) 2021 (with June 2022 Appendix I), the Social Bond Principles (SBP) 2021 (with appendix June 2022 Appendix I) as well as the Sustainability Bond Guidelines (SBG) 2021. Hemsö will continue to follow market best practices, in relation to Green, Social and Sustainability Bonds, as the market standards develop. Therefore, this Framework may be amended and/or updated to reflect changes in market practice, for instance with regards to the development of the EU classification of environmentally sustainable economic activities (the Taxonomy).

The Framework consists of the four key core components for alignment with the Green and Social Bond Principles as well as the key recommendations for heightened transparency.

The four core components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

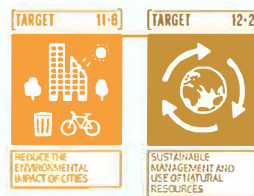
The key recommendations for heightened transparency:

Framework
External Review

Use of Proceeds

Hemsö has established this Sustainable Financing Framework to issue financial instruments where the proceeds will be exclusively allocated to finance, in whole or in part, Eligible Assets. Eligible Assets are determined by Hemsö as described in the use of proceeds tables below. These Eligible Assets will also adhere to applicable laws and regulations as well as Hemsö's established long-term policy for environmental and social sustainability. Green Eligible Assets is broadly aligned with the technical screening criteria (TSC) of the EU Taxonomy and on a best effort basis with the do no significant harm criteria (DNSH) and minimum social safeguards. Social Investments will in addition be, on a best effort basis, be financing new buildings that follow the requirements in Hemsö Apple and the Hemsö Flower which safeguard the conditions for creating sustainable and high-quality schools, health care and nursing homes. These principles will also serve as support and inspiration in new development and for the continued development of existing facilities.

Hemsö can finance new and existing Eligible Assets including acquisitions of such assets. New financing is defined as Eligible Assets that have been finalized during the last 2 years from the reporting year. Refinancing is defined as Eligible Assets that have been finalized 2 years prior to the reporting year. The Sustainable Financing Committee will evaluate and report on the expected lifetime of the refinanced Eligible Assets. The Sustainable Financing Committee will also assess and report on the Environmental or Social impact, depending on which Eligible Asset Category that asset adheres to. The distribution of new financing and refinancing of approved Eligible Assets will be described in the Sustainability Finance Investor Report together with the year when the Eligible Assets were taken into operation. Hemsö will only finance Eligible Assets in countries where we operate (as of January 2023 Sweden, Finland and Germany).



Eligible Asset Category:
Green buildings
Substantial Contribution to EU Environmental Objective:
Climate Change Mitigation
United Nation Sustainable Development Goal:
11.6, 12.2

New properties

Financing of new buildings (built after 31 December 2020) that have or will receive a Primary Energy Demand (PED) at least 25% better than nearly zero-energy building (NZEB), based on the levels applied at the investment decision of the building. The building shall also have or receive one of the following environmental certifications with minimum level Miljöbyggnad Silver, LEED Gold, BRE AAM Very Good, Nordic Swan Ecolabel, Noll CO₂, DGNB Silver or an equivalent environmental scheme. Buildings larger than 5,000m² shall also undergo testing for airtightness, thermal integrity testing as well as calculation for life-cycle Global Warming Potential (GWP) for each stage in the life cycle.

High security buildings can in some cases prevent Hemsö from obtaining an official environmental certification of the building. In such cases Hemsö will provide a statement from an accredited Environmental Consultant that proves that the building meets the requirements for the certification scheme.

Existing properties

Financing of buildings (built before 31 December 2020) that have an Energy Performance Certification (EPC) class A or being within the top 15%¹ most energy efficient of the national or regional building stock expressed as operational Primary Energy Demand (PED). The top 15% building stock will be continuously updated with reference to an external benchmark.

¹In Sweden Hemsö will utilize the Swedish Property Federation's study to determine which properties that belong to the top 15 per cent in terms of energy efficiency and in Finland the Granlund Oy's study will be utilized. In other nations, Hemsö will seek guidance from an appropriate external benchmark to determine the top 15 per cent, such report shall be issued by a national government or by an industry specialist.

Major Renovations

Financing of existing buildings that comply with applicable requirements for major renovations or resulting in a reduced primary energy demand (PED) of at least 30% compared to pre-investment. The building shall also have a or receive one of the following environmental certifications of at least Miljöbyggnad iDrift Silver, LEED Gold, BREEAM In-Use Very Good or an equivalent environmental scheme.

Culturally historically valuable buildings can prevent Hemsö from obtaining an official environmental certification of the building. In such cases requirements might not be met. However, these buildings will meet the requirement for major renovation resulting in a reduced primary energy demand of at least 30% compared to pre investment.



Eligible Asset Category:
Renewable energy
Substantial Contribution to EU Environmental Objective:
Climate Change Mitigation
United Nation Sustainable Development Goal:
7.2

Renewable energy

Financing of solar, wind and geothermal power either on an existing building or as a stand-alone investment and related infrastructure such as connections, electric substations and foundations.



Eligible Asset Category:
Energy efficiency
Substantial Contribution to EU Environmental Objective:
Climate Change Mitigation
United Nation Sustainable Development Goal:
7.1, 7.3

Energy efficiency equipment and devices for measuring energy performance

Financing of energy efficiency retrofits such as addition of insulation, installation of new energy efficient windows, doors, lights ventilation, heating and cooling as well as installation of zoned thermostats, control systems for lighting and energy management systems.

The Sustainability Finance Committee will only include investments where a minimum of 30% energy saving is targeted and a minimum negative climate impact and minimum potential rebound effect is achieved.



Eligible Asset Category and Target Population:
Education
United Nation Sustainable Development Goal:
4.A

Education

Financing of new and existing buildings that promote social sustainability through the development of practices, innovation and/or increased quality of the physical investment to address a social challenge or to promote improvements for a target population associated with physical education, sport and culture to increase the level of education, health, integration or unemployment.

The target population is broadly defined and will not exclude any population. This includes, but is not limited to, one or more populations that either live below the poverty line, is excluded, marginalized or disabled, a population that has recently migrated to the area, is undereducated, underserved, lacking essential education, is considered vulnerable youths or generally considered vulnerable.

**Eligible Asset Category and****Target Population:**

Health care and nursing

United Nation Sustainable**Development Goal: 3.8****Health care and nursing**

Financing of new and existing buildings that promote social sustainability through the development of practices, innovation and/or increased quality of the physical investment to address a social challenge or to promote improvements for a target population associated with health, nursing, functional and flexible health care as well as disease prevention to increase the level of care provision, integration and unemployment.

The target population is broadly defined and will not exclude any population. Included, but not limited to, populations are either one or more populations that live below the poverty line, is excluded, marginalized or disabled, migrant, underserved, lacking essential health care, aging or generally considered vulnerable.

Process for Project Evaluation and Selection

Hemsö has established a Sustainable Financing Committee (SFC) that meets on a regular basis or when needed. The SFC consists of members from the treasury and sustainability department as well as energy experts within Hemsö. The SFC is responsible for Evaluating the compliance of proposed Eligible Assets with the eligibility criteria outlined in the Use of Proceeds section. Ensuring that the pool of Eligible Assets is aligned with the categories and criteria, as specified in the Use of Proceeds section. Replacing investments that no longer meet the eligibility criteria (e.g., following divestment, liquidation, concerns regarding alignment of underlying activity with eligibility criteria etc.). Approving the Sustainable Financing Investor Report. The SFC decides in consensus and keeps a record of meetings and decisions.

The SFC will also ensure that Eligible Assets adhere to applicable laws and regulations as well as Hemsö's established long-term policy for environmental and social sustainability. Green Assets will be broadly aligned with the technical screening criteria (TSC) of the EU Taxonomy and on a best effort basis with the do no significant harm criteria (DNSH) and minimum social safeguards.

The SFC will in addition ensure that Eligible Social Investments on a best effort basis are financing new buildings that follow the requirements in the Hemsö Apple and the Hemsö Flower which safeguard the conditions for creating sustainable and high-quality schools, health care and nursing homes. These principles will also serve as support and inspiration in new development and for the continued development of existing facilities.

Management of proceeds

An amount equal to the net proceeds of any Green, Social or Sustainability financing instruments will be separately identified within Hemsö's treasury department, amounts identified will form an earmarked portfolio within Hemsö's internal systems. As long as Green, Social or Sustainability financing instruments are outstanding, and the earmarked portfolio has a positive balance, funds may be deducted from the earmarked portfolio and added to Hemsö's lending pool in an amount up to all disbursements from that pool made in respect of Eligible Assets. The earmarked portfolio will ensure prudent monitoring and tracking of the Eligible Assets. Hemsö's Group Treasury team is responsible for tracking funds and allocation of proceeds. If, for any reason, an Eligible Project ceases to comply with the requirements set out in this Framework, such project will be removed from the portfolio of Eligible Assets. Proceeds not yet allocated towards Eligible Assets will be placed in the liquidity reserves and managed as such.

Reporting

To enable investors, and the general public, to follow the development and to provide insight into prioritized areas Hemsö will provide a Sustainable Finance Investor Report on an annual basis. The report will cover information both on the allocation of proceeds and on the output and impacts achieved, where feasible and relevant data information is available.

Allocation Reporting

- The classification, Green, Social or Sustainability.
- Allocated proceeds to each project or asset.
- A summary of Sustainable financing developments.
- The outstanding amount of Green, Social and Sustainable Bonds.
- The distribution of new financing and refinancing of approved Eligible Assets.
- The total aggregated proportion of Sustainable Bond net proceeds used per category.
- The year when the Eligible Assets first was operational.

Impact Reporting

The Sustainable Financing Investor Report aims to disclose the environmental or social impact of the Eligible Assets financed under this Framework. This can be a complex exercise and sometimes only feasible after a certain amount of time has passed. Therefore, the impact report will include qualitative and where feasible quantitative information as well as publicly available data. The impact reporting will be measures on a best effort basis.

Green Categories	Examples of indicators
Green Building	<ul style="list-style-type: none"> • Environmental certification. • Energy consumption disclosure by absolute consumption (kWh) per year and intensity (kWh per square metre per year). • Calculated carbon footprint disclosure by absolute emissions (tonnes) per year and intensity (kilograms per square metre per year). The greenhouse gas emissions are monitored annually by Hemsö in accordance with the Green House Gas Protocol. • Building type (Education, Health care etc.). • On a best effort basis disclose the alignment with the DNSH criteria as well as the Minimum Social Safeguard. • For new buildings larger than 5,000m² disclose the observed result on air tightness and thermal integrity.
Energy efficiency	<ul style="list-style-type: none"> • Carbon savings (aggregated, tonnes per year). • Energy savings (aggregated, MWh per year).
Renewable energy	<ul style="list-style-type: none"> • For an installation of a renewable energy source on a property, the present of the property's total energy use supplied by the installation, the yearly production (MWh) and the estimated yearly greenhouse gas savings (tonnes per year) will be disclosed. • For an installation in a stand-alone renewable energy project the yearly production (MWh) and the estimated yearly greenhouse gas savings (tonnes per year) will be disclosed.

Social Categories	Examples of Indicators
Education	<ul style="list-style-type: none"> • The identified target group of the investment. • Relevant supportive scientific study, if applicable. • Number of education facilities. • Number of pupils provided with education. • Education facilities for inclusive and effective learning environments.
Health care	<ul style="list-style-type: none"> • The identified target group of the investment. • Relevant supportive scientific study, if applicable. • Number of hospitals and other health care facilities. • Number of beds at nursing homes. • Health care capacity.

External reviews

Second Party Opinion (pre-issuance)

To secure alignment with the Green and Social Bond Principles and market practice, Hemsö has engaged Sustainalytics to act as an external reviewer of this Sustainable Finance Framework and to provide a Second Party Opinion which will be made publicly available on Hemsö's website.

Third-Party Review (post-issuance)

Hemsö has appointed an external independent auditor to annually perform a limited assurance on the selection process for the financing of Eligible Assets and that the allocation of the net proceeds of the Sustainability Financing Instruments are done in accordance with Hemsö's Sustainable Finance Framework.

Publicly available documents

The Sustainable Finance Framework, the second party opinion, and the investor letter will be publicly available on Hemsö's website.

APPENDIX

Membership of associations 2022

All Generation Ventures A hub for the Nordic real estate industry with a focus on digital development.

Almega Helps service companies develop positive relationships between employer and employees.

Berlin City Mission Hemsö sponsors the organisation's initiatives to support the homeless (kältebus).

Confederation of Swedish Enterprise An employer's organisation that lobbies actively for Swedish pro-business interests.

CSR Skåne A network that brings together environmentally and socially engaged organisations to share knowledge and create business value.

Forum Bygga Skola A national networking arena for all parties involved in the process of planning, building and refurbishing schools.

Fossil Free Sweden A platform for dialogue and collaboration between companies, municipalities and other operators who want to make Sweden a fossil-free nation.

Green Building Council Finland Organisation that promotes sustainable construction and urban development.

Hjärnfonden A Swedish NGO that raises money for research and information about the brain and its diseases, injuries and disabilities.

HS30 Collaboration to significantly reduce the ecological footprint of the industry, and to bring social sustainability into greater focus.

Ifous A non-profit independent research and development institute that works to promote practice-oriented research in the field of education.

LFM30 Roadmap for a climate neutral construction industry in Malmö. Hemsö has committed to the initiative.

Mentor Non-profit organisation with volunteer mentors for young people.

Proptech Sweden A Swedish membership organisation that has been formed to drive the digital transformation of the property industry.

Queen Silvia Nursing Award A scholarship for nursing students who want to be involved and contribute to tomorrow's development of health and social care for the elderly.

Rakli Organisation for real estate investors and owners in Finland.

Royal Institute of Technology's Property Academy Funding for research related to property management.

SGBC – Sweden Green Building Council Organisation that promotes sustainable construction and urban development.

Seniorvärlden Non-profit association with the aim of communicating knowledge and research for learning and development in the senior area.

Swedish Chamber of Commerce in Germany Network to promote the development of German-Swedish business relationships.

Vinnova Government agency for innovation in Sweden with a mission to promote sustainable growth. Hemsö is part of a research project on restorative workplaces/outdoor environments.

ZIA Represents the combined interests of the property industry in Germany and fosters dialogue with its members.