

Municipality Finance Plc Green Bonds Framework

21 May 2019

BACKGROUND AND PURPOSE

Municipality Finance Plc (MuniFin) is one of Finland's largest credit institutions and the only one specialised in the financing and financial risk management of the municipal sector and government-subsidised social housing production. MuniFin is 100-percent owned by the Finnish public sector; Finnish municipalities, the government of Finland and Kevo, a public sector pension fund.

MuniFin is committed to understand, monitor and manage the social, environmental and economic impact of its own activities and finance offered to its customers in order to contribute to the Finnish society's wider goals of sustainable development. This commitment is integrated in the core values and mission of MuniFin, as well as demonstrated through all operations and policies. This Green Bonds Framework is aligned with the strategy and Responsibility Policy of MuniFin.

MuniFin's Green Bonds Framework has been drafted according to the Green Bond Principles ("GBP") published by the International Capital Markets Association ("ICMA").

USE OF PROCEEDS

MuniFin's Green Finance Portfolio consists of a selected pool of MuniFin's loans and leases, which finance, in whole or in part, Eligible Projects (outlined below) that promote the transition to low carbon and climate resilient growth as determined by MuniFin.

MuniFin's Green Bonds can be issued for general green purposes and for category specific purposes. Green Bonds for general purposes can be allocated to loans and leases within any or all of the seven Eligible Project categories determined in this Framework. Category specific Green Bonds can be allocated to loans and leases within one of the seven specific Eligible Project categories. Category specific Green Bonds aim to highlight and promote specific environmental challenges and solutions within a specific area. In all cases, this Green Bonds Framework in its entirety will apply. The details and impacts of MuniFin's Green Bonds will be published in MuniFin's annual Green Bonds Impact Report.

Eligible Projects include projects that target:

- mitigation of climate change, including investments in low-carbon and clean technologies,
- adaptation to climate change, including investments in climate-resilient growth, or
- to a smaller extent (max 20%) projects, which are related to environmental management rather than directly climate related.

Eligible Projects:

- **Renewable energy** (incl. wind, solar, small-scale hydro¹, geothermal, bioenergy and biogas from waste)
- **Energy efficiency** (incl. district heating/cooling, recovered energy and smart grids)
- **Sustainable public transportation**
- **Sustainable buildings:** (incl. public buildings and social housing)²
- **Waste management** (incl. recycling and re-use)
- **Water and waste water management**
- **Environmental management** (incl. nature conservation and rehabilitation of contaminated areas)

Green Bonds issued by MuniFin will not finance nuclear or fossil fuel based projects with possible exceptions within the following project categories: energy efficiency, sustainable public transportation and waste management. These projects will only be approved by the Green Evaluation Team if it can be shown with life-cycle analysis or in other ways that the long-term net impact on the environment will be positive.

EVALUATION AND SELECTION OF ELIGIBLE PROJECTS

Eligible Projects will, on an ongoing basis, be:

1. Identified and verified by MuniFin's customers and potential customers. Customers and potential customers include municipalities, municipal federations, companies owned and controlled by the municipalities as well as housing corporations.
2. Pre-approved by MuniFin's Customer Finance department.

and, on a quarterly basis, be:

3. Reviewed and finally approved in consensus by MuniFin's Green Evaluation Team. Each loan and lease application will be analysed independently by the Green Evaluation Team and will only be approved if the long-term net environmental impact is positive. The Green Evaluation Team consists of two or more members from the environmental departments of MuniFin's customers and/or other environmental experts from relevant public sector entities/organisations.

¹ Small-scale hydropower is defined as hydropower plants with less than 10 megawatts (MW) of generating capacity. Refurbishment of existing hydropower plants (above 10MW generating capacity) without an increase in the size of impoundment as well as use of an existing impoundment for pump and storage technology is regarded as an Eligible Project.

²

- i. Buildings which are in class A (2018) in the Finnish energy classification for buildings are accepted. Additionally, only the best buildings in terms of energy efficiency in class B (2018) may be accepted if a combination of the following is incorporated in or acquired for the building: use of renewable energy, life-cycle analysis, environmental impact analysis, recyclable and low-carbon materials, efficient and smart technology choices, or a certification from Nordic Swan Ecolabel, LEED, BREEAM, or equivalent with high ratings.

Overall, prerequisite factors for class B buildings are a willingness to execute the project significantly better, in a more environmentally friendly manner and more efficiently than average or minimum directives require.

- ii. Major renovations leading to a reduction of energy use per m² in year of at least 30%.

MANAGEMENT OF PROCEEDS

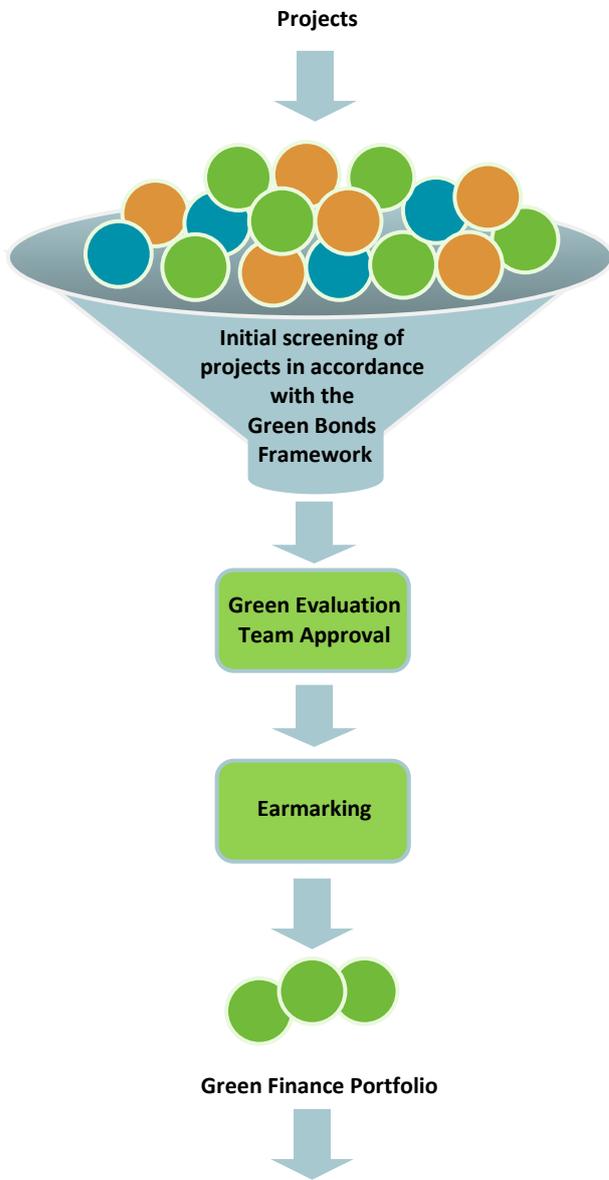
The amount equal to the net proceeds of the Green Bonds issued by MuniFin will be earmarked and used to finance new Eligible Projects and to refinance existing Eligible Projects in the Green Finance Portfolio. Projects are classified as new Eligible Projects if the projects have been completed less than 12 months before the project's approval date in the Green Evaluation Team. The ambition is to use the majority of the Green Bond net proceeds to finance new Eligible Projects. The actual distribution between new Eligible Projects and refinancing of existing Eligible Projects will be available to investors in the annual Green Bonds Impact Report.

Until disbursement to Eligible Projects, the earmarked proceeds will be placed in liquidity reserves and managed according to the Responsibility Policy of MuniFin. MuniFin is committed to carefully monitor and manage the balance between Green Bonds and the Green Finance Portfolio.

REPORTING

MuniFin will promote the use of impact reporting to the largest extent possible. To enable investors to follow the development and provide insight into prioritised areas, MuniFin will publish an annual Green Bonds Impact Report. The Green Bonds Impact Report includes a list of projects financed and their ex-ante estimated impacts on a project category level as well as a summary of MuniFin's Green Bond development.

MuniFin is committed to promote and develop its impact reporting and as a result, MuniFin is open to any proposals on how the report could be improved. The Green Bonds Impact Report will be publicly available on MuniFin's web page.



Guidelines:

1. EU Law
2. Finnish environmental legislation
3. Legislation on the energy efficiency of buildings

Figure 1. Project Evaluation and Selection Process Flowchart