

# Municipality Finance Plc Green Bonds Framework

16 Oct 2018

## EARMARKED ACCOUNT

An amount equal to the net proceeds of the issue of the Notes will be credited to a special account that will support Municipality Finance's lending for Eligible Projects. As long as the Notes are outstanding and the special account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the special account and added to Municipality Finance's lending pool in an amount equal to all disbursements from that pool made during such quarter in respect of Eligible Projects. Until disbursement to Eligible Projects, the special account balance will be placed in liquidity reserves.

Municipality Finance's Green Bonds can be used to finance new projects and to refinance Eligible Projects in accordance with Municipality Finance's Green Bonds Framework. New projects are defined as loans to projects where disbursements have been made within one year before issuance of the Green Bond and forward. The ambition is to use the majority of the Green Bond proceeds to finance new projects. The actual distribution between new financing and re-financing will be available to investors in the annual Green Bonds Impact Report.

## ELIGIBLE PROJECTS

"Eligible Projects" means a selected pool of loans and leasing from Municipality Finance which finance, in whole or in part, Eligible Projects in municipalities that promote the transition to low carbon and climate resilient growth as determined by Municipality Finance. Eligible Projects include projects that target (a) mitigation of climate change, including investments in low-carbon and clean technologies, such as energy efficiency and renewable energy programs and projects ("Mitigation Projects") (b) adaptation to climate change, including investments in climate-resilient growth ("Adaptation Projects") or (c) to a smaller extent (max 20%) projects which are related to environmental management rather than directly climate related.

Eligible Projects:

- Renewable energy (wind, solar, small hydro<sup>1</sup>, geothermal, bioenergy and biogas from waste)
- Energy efficiency (incl. district heating/cooling, recovered energy, smart grids)
- Sustainable public transportation
- Waste management (recycling and re-use, rehabilitation of contaminated areas)
- Water- and waste water management

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<sup>1</sup> Small scale hydro power is defined as hydropower plants less than 10 megawatts (MW) of generating capacity. Refurbishment of existing hydro power plants (above 10MW generating capacity) without increase in size of impoundment as well as use of existing impoundment for pump and storage technology is regarded as eligible projects to be included in green bonds financing.

- Sustainable buildings:
  1. New buildings (public buildings and social housing) which are in class A (2018) in the Finnish energy classification for buildings. Additionally, new buildings in class B may be accepted if some 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 willingness to execute the project more environmentally friendly and efficiently than average or than minimum directives require.
  2. Major renovations leading to a reduction of energy use per m<sup>2</sup> in year of at least 25%
- Environmental management incl. nature conservation (max 20%).

Green Bonds from Municipality Finance will not finance nuclear or fossil fuel based projects with possible exceptions within the project categories energy efficiency, public transportation and waste incineration. The Green Loan Committee will only approve such projects if it can be shown with a life cycle analysis or in other ways that the longer term net impact on the environment will be positive.

## SELECTION OF ELIGIBLE PROJECTS

Eligible Projects will, on an ongoing basis, be:

1. identified and verified by Municipality Finance'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.

Eligible Loans will, on an ongoing basis, be:

2. approved by Municipality Finance's Lending department

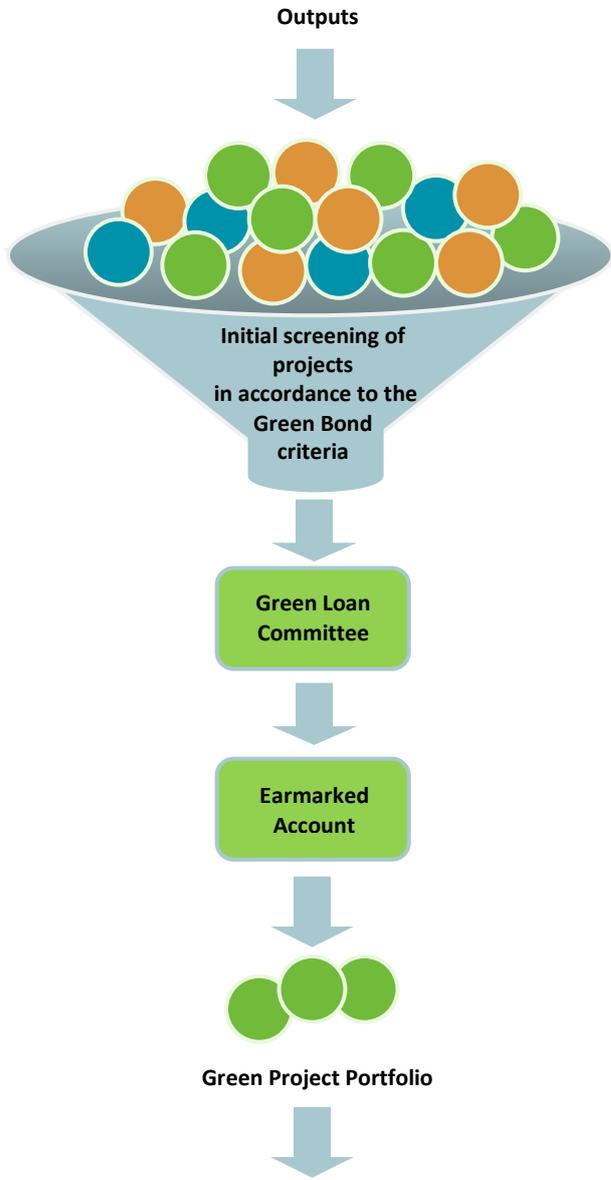
and, on a quarterly basis:

3. reviewed and finally approved in consensus by Municipality Finance's Green Loan Committee. Each loan and leasing will be analysed independently by the Green Loan Committee and will only be approved if the longer term net environmental impact is positive. The Green Loan Committee consists of two or more members from the environmental functions of Municipality Finance's customers and/or other environmental experts from relevant public sector entities/organisations.

## REPORTING

To enable investors to follow the development and provide insight to prioritised areas, Municipality Finance will provide an annual Green Bond Investor Letter to investors including 1) a list of projects financed exceeding EUR 5 million 2) a selection of project examples and 3) a summary of Municipality Finance's Green Bond development.

Municipality Finance will promote the use of impact reporting to the largest extent possible. The Green Bond Investor Letter will be made publicly available on Municipality Finance's web page. Furthermore, the principle of free access to public records is applied. That enables both investors and potential investors generous insight.



**Guidelines:**

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

Figure 1. Green Bond Projects Selection Process Flowchart