

KOMMUNEKREDIT - GREEN BOND FRAMEWORK

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Indholdsfortegnelse

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1. Background

KommuneKredit is considering issuance of a series of Green Bonds in accordance with this Green Bond Framework (the "KommuneKredit Green Bond Framework"). KommuneKredit Green Bonds will be used to finance Eligible Projects as further described in this KommuneKredit Green Bond Framework.

Climate change and mitigation of the expected consequences has been the focus of shifting governments in Denmark for many years.

In June 2014 the Danish Climate Change Act was adopted by a vast majority of the Danish Parliament, as further described in Appendix I.

KommuneKredit recognises and wishes to support the shift to a low-carbon economy and thereby contribute to a reduction of the negative consequences of climate change, which will benefit the local government sector in Denmark.

The KommuneKredit Green Bond Framework strives to be consistent with the current Green Bond Principles (GBP)¹, as held and updated within the framework managed by the International Capital Markets Association (ICMA).

¹ As of June 2016

2. Use of Proceeds, Internal Governance, Identification Process and Approval of Eligible Projects

2.1 Clients

KommuneKredits Clients are restricted to Danish regions, municipalities and semi-public entities guaranteed by regions or municipalities.

2.2 Eligible Category, Eligible Projects and Criteria for Eligible Projects

KommuneKredit has identified four potential categories, (hereinafter referred to individually as an "Eligible Category" and together the "Eligible Categories"), that a project can be classified under.

Eligible Projects are defined as a selected pool of credit facilities and loans granted by KommuneKredit which are financing, partly or in whole, a Client's project or investment that promotes the transition of low-carbon and climate resilient growth as determined by KommuneKredit (hereinafter referred to as an "Eligible Project"), and fit within the Eligible Categories as defined above.

All credit facilities and loans granted to an Eligible Project will be in accordance with the executive orders regulating lending to the Danish regions and municipalities as well as legislation pertaining to each Eligible Category and Eligible Project, as applicable (please see Appendix II).

The KommuneKredit Green Bond proceeds will be used to finance either new investments, new investments into existing Eligible Projects or existing investments into existing Eligible Projects.

While KommuneKredit allows for both new financing and re-financing from its Green Bonds proceeds, KommuneKredit's ambition is to use the majority of the Green Bonds proceeds for new projects (financed within 15 months before the time of the Green Bond issuance). The actual distribution between new financing and re-financing will be available to investors in the annual investor letter (see section 4 below "Reporting and Accountability").

The table below lists the Eligible Categories and examples of Eligible Projects and furthermore describes the Criteria for Eligible Projects.

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| Eligible Category² | Description (examples of Eligible Projects) | Criteria for Eligible Projects |
|--------------------------------------|---|---|
| Water management | New investments in and ongoing maintenance of water collection, treatment, recycling, cleaning, reuse, technologies and related infrastructure. | Water is defined as an Eligible Project. |
| District Heating | New investments in and ongoing maintenance of distribution infrastructure and new investments and maintenance of non-fossil energy generation ³ and associated technological solutions providing Clients with district heating leading to a reduction in CO ₂ -emissions. | District Heating is defined as an Eligible Project if the project report is approved by the relevant municipal board and, in the case of investments in energy generation, if the environmental part of the project report promotes the transition to low-carbon. |
| Energy Efficiency | New investments in and ongoing maintenance of existing buildings leading to more energy efficient buildings. New investment or ongoing maintenance of public street lighting leading to a more energy efficient system. | Clients have automatic access to obtain loans that promote energy efficiency. This is defined by the executive orders regulating Clients. |
| Clean Public Transportation | New investments in and ongoing maintenance of low-energy or emission transportation assets, systems, infrastructure, components and services that facilitate modal shifts from private transportation to increased use of public transportation such as trains, underground trams and buses to the extent that these lead to a reduction in CO ₂ -emissions ⁴ . | Clean Public Transportation is defined as an Eligible Project when it includes transportation assets run on non-fossil fuel sources such as electricity. |

² For laws and regulations on each Eligible Project please see Appendix II.

³ With the exception of start-up and that in cases of emergencies, the district heating may be created by back-up measures, e.g. generators run on fossil fuel.

⁴ KommuneKredit and the KommuneKredit Green Bond Committee will cautiously consider the net environmental benefits and encourage projects, which lead to a significant reduction in CO₂-emissions.

2.3 Selection Process

The Clients contact KommuneKredit and ask the Lending Department for their proposal on a credit facility or a loan.

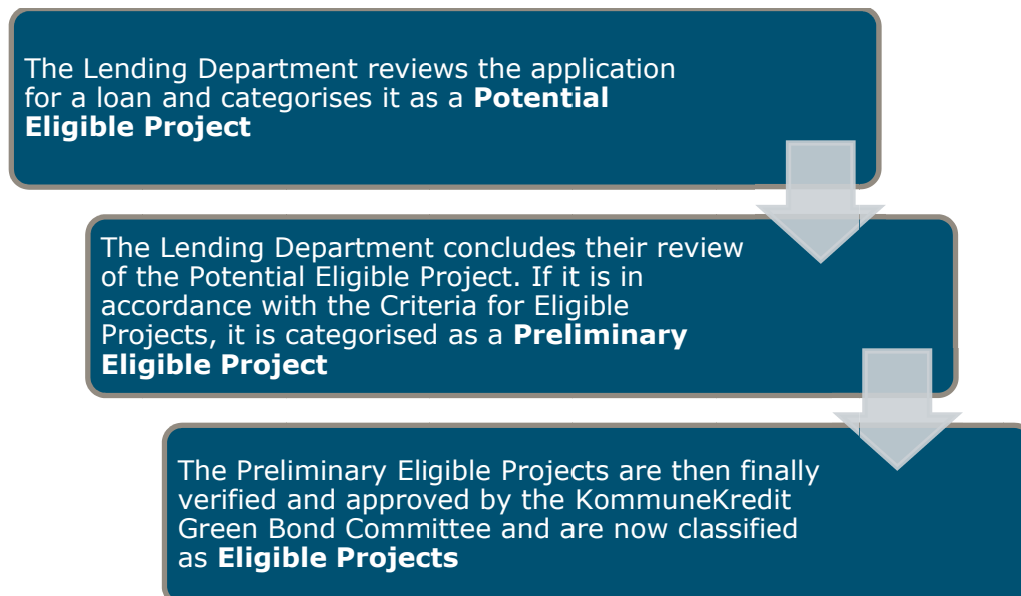
The Lending Department will, in their review, then consider if the application made by the Client could potentially be an Eligible Project (hereinafter referred to as a "Potential Eligible Project").

A Client with a **Potential Eligible Project** will be notified, that KommuneKredit is considering, whether the credit facility or the loan can be categorised as an Eligible Project. If the Lending Department needs further information on the Potential Eligible Project, they will contact the Client and obtain the necessary information, which will facilitate the remaining review and selection process.

If the purpose of the Potential Eligible Project is in accordance with the Criteria for Eligible Projects and the applicable legislation as found in Appendix II, a loan is considered to have an internal status as a **Preliminary Eligible Project**.

All Preliminary Eligible Projects are finally verified by the KommuneKredit Green Bond Committee, cf. section 2.4 below.

Preliminary Eligible Projects which are approved by the KommuneKredit Green Bond Committee from then on become known as **Eligible Projects**, and are appropriate for Green Bond funding.



Preliminary Eligible Projects will be removed from the pool if the KommuneKredit Green Bond Committee perceives the specific project to be inapplicable with the Criteria for Eligible Projects and the applicable laws as found in Appendix II.

2.4 KommuneKredit Green Bond Committee

The KommuneKredit Green Bond Committee consists of two to five external members and two internal KommuneKredit members. The purpose of the Green Bond Committee is to uphold the governance of the KommuneKredit Green Bond Framework and approve or reject the Preliminary Eligible Projects, which are presented to them. Approval of a Preliminary Eligible Project requires a consensus approval, i.e. giving each Committee member veto power.

Appointment of the two to five external members of the KommuneKredit Green Bond Committee will be targeted towards, but not restricted to, individuals with relevant expert knowledge of the lending sectors proposed within this Green Bond Framework, e.g. the water management sector, the district heating sector etc.

The Green Bond Committee members shall be appointed by KommuneKredit's Management. The external members shall be employed by, or in a sector similar to, the Danish local government sector and shall be considered by KommuneKredit to be an expert within their field with considerable knowledge of the environment and/or climate changes and/or climate adaptation. One of the internal members will be appointed by and represent KommuneKredit's Management and the other internal member will be appointed from the employees in KommuneKredit's Lending department.

3. Management and Use of Earmarked Proceeds

An amount equal to the net proceeds of the issue of the Green Bonds (hereinafter referred to as "Earmarked Proceeds") will be credited to a separate portfolio, which will allow KommuneKredit to track the Earmarked Proceeds of a Green Bond issuance (hereinafter referred to as the "Green Bond Portfolio"). The Green Bond Portfolio will finance the Eligible Projects.

The outstanding notional of KommuneKredit's credit facilities and loans to Eligible Projects are tracked under another special portfolio (hereinafter referred to as the "Green Loan Portfolio").

KommuneKredit intends to build up principal in the Green Loan Portfolio before a Green Bond is issued. However if a Client makes a larger, unexpected redemption, and the Green Bond Portfolio is temporarily larger than the Green Loan Portfolio, the Earmarked Proceeds will temporarily be invested in accordance with KommuneKredit's general Investment Policy⁵. The ambition is to maintain an adequate outstanding notional in the Green Loan Portfolio to more than match the outstanding notional in the Green Bond Portfolio even with a suitable buffer to absorb unexpected redemptions.

⁵ KommuneKredit's general Investment Policy is very strict. Investments can only be made in very liquid and highly rated bonds.

4. Reporting and Accountability

To enable investors to follow the development and provide insight to prioritised areas, KommuneKredit will provide an annual investor letter to investors including:

- 1) A list of projects financed and the percentage distribution to each eligible category
- 2) A selection of project examples, and
- 3) A summary of KommuneKredit's Green Bonds development.

KommuneKredit encourages that member municipalities provide impact reports and will prioritize projects with impact reporting in the investor letter and other communication.

The investor letter as well as the use of proceeds, distribution between re-financing and new financing, tracking and management of funds will be assured by KommuneKredit's internal auditor, appointed from KommuneKredit's staff. The investor letter and the opinion of the internal auditor will be made publically available on KommuneKredit's web page www.kommunekredit.com.

5. External Review

The KommuneKredit Green Bond Framework will be reviewed by the independent Centre of International Climate and Environmental Research – Oslo (CICERO) in a second opinion. The second opinion will be publicly available at KommuneKredit's webpage www.kommunekredit.com.

Appendix I

The Climate Change Act

In June 2014 the Danish Climate Change Act was adopted in Parliament with support from the government parties and the Conservative People's Party, the Socialist People's Party and the Red-Green Alliance. The Climate Change Act establishes an overall strategic framework for national climate policy in order to convert to a low-carbon society by 2050⁶. The new strategic framework will ensure transparency and openness on the status, direction and momentum for climate change policy.

The legal content of the Climate Change Act:

- 1) Establishment of an independent, academically based Climate Council.
- 2) An Annual Climate Policy Report.
- 3) Process for establishing new national climate targets.

By the 1st of January 2015 a new independent Climate Council was established to promote transparency and an academically coherent approach for decisions on national climate policy⁷. The Climate Council is to provide independent advice to the Government on the state's transition to a low-carbon society. The Climate Council shall at least once a year make recommendations to the government on climate action, so that this move can be geared to the most cost-efficient manner in terms of growth, competitiveness and employment.

In order to encourage a broad political and social discussion, the Danish Minister for Energy, Utilities and Climate must publish a climate policy report every year. The report will include an overview of climate policy and climate action as well as the Climate Council's recommendations and the government's position on the subject. The climate policy report will be sent to parliament and thus serve as part of the ongoing debate on climate change.

The Climate Change Act obliges the Danish Minister for Energy, Utilities and Climate and future ministers to present proposals for new national climate targets to Parliament at least every fifth year. The new targets will have a 10 year perspective. Future Danish Ministers for Energy, Utilities and Climate are obliged to continuously present new national climate goals to parliament within this framework.

⁶ <http://www.efkm.dk/en/climate-energy-and-building-policy/denmark/greenhouse-gas-mitigation>

⁷ <http://www.klimaradet.dk/en/frontpage>

Appendix II

| Eligible Projects | Executive Orders and Laws |
|-------------------|--|
| Water management | <ul style="list-style-type: none"> • The Executive Order on Municipal Lending [Bekendtgørelse om kommunernes låntagning og meddelelse af garantier m.v.] (§ 3) https://www.retsinformation.dk/Forms/R0710.aspx?id=160927 • Water Sector Reform Act [Vandsektorloven] (§ 1) https://www.retsinformation.dk/forms/r0710.aspx?id=125346 |
| District Heating | <ul style="list-style-type: none"> • Executive Order on Municipal Lending [Bekendtgørelse om kommunernes låntagning og meddelelse af garantier m.v.] (§f 2) https://www.retsinformation.dk/Forms/R0710.aspx?id=160927 • The Heat Supply Act [Bekendtgørelse af lov om varmforsyning] https://www.retsinformation.dk/forms/r0710.aspx?id=165652 • The Executive Order on the Approval of Projects for Heat Supply Plants [Bekendtgørelse om godkendelse af projekter for kollektive varmforsyningsanlæg] (Chapter 4) https://www.retsinformation.dk/Forms/R0710.aspx?id=183229 |
| Energy Efficiency | <ul style="list-style-type: none"> • Executive Order on Municipal Lending [Bekendtgørelse om kommunernes låntagning og meddelelse af garantier m.v.] (§ 2,6.) https://www.retsinformation.dk/Forms/R0710.aspx?id=160927 • Executive Order on Regional Lending [Bekendtgørelse om regioners låntagning og meddelelse af garantier m.v.] (§ 1,3.) https://www.retsinformation.dk/Forms/R0710.aspx?id=160928 |

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| Clean Public Transportation | <ul style="list-style-type: none"><li data-bbox="491 351 1173 504">• Executive Order on Regional Lending [Bekendtgørelse om regioners låntagning og meddelelse af garantier m.v.] (§ 1,2.) https://www.retsinformation.dk/Forms/R0710.aspx?id=160928<li data-bbox="491 539 1109 600">• Combined with special individual laws for each Public Transportation project |
|-----------------------------|--|

References to Executive Orders and Acts might change from time to time.

Credit facilities and loans financed under the KommuneKredit Green Bond Framework will always be granted in accordance with the applicable rules at the time, when the credit facility or the loan is granted.