

Green Bond Investor Report 2020



About this report

Nykredit has issued three green covered bonds. This report provides an overview of the allocation of proceeds from the bonds and the environmental impact achieved through the projects financed.

In 2020 we launched an updated Green Bond Framework 2020. The Eligible Assets in the framework of 2020 have been expanded from Green Buldings to include Renewable Energy, Clean Transportation, Energy Distribution, Sustainable Management of Living Natural Resources and Land Use, Sustainable Water and Wastewater Management, Eco- Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, and Climate Change Adaptation.

The Framework of 2020 applies to Nykredit's 4-year Ciborlinked SDO bond (DK0009523037) and to the 4-year Ciborlinked RO bond (DK0009524514). The Stibor-linked SDO bond (DK0009523110) is issued under the Framework of 2019. However, as all current issuances are green covered bonds funding Green Buildings for which the criteria in both frameworks are alike, we will report on the bonds together.

Nykredit's Green Bond Frameworks have been established in compliance with ICMA's Green Bond Principles (GBP).

Sustainalytics have provided a Second Party Opinion on both frameworks and considers them to be robust, credible and transparent, and in alignment with the four core components of ICMA's Green Bond Principles 2018.

Nykredit has also engaged with Sustainalytics for verification of this report to ensure compliance with the criteria for Buildings set out in the Green Bond Frameworks. The verification report is available at Nykredit.com/greenbonds.

This Green Bond Investor Report 2020 has been prepared solely for informational purposes and does not constitute an offer to sell.

Green Bond Investor Report

Read more at Nykredit.com/greenbonds



Sustainability at Nykredit

Nykredit was founded by our customers and is still to this day predominantly owned by an association of customers, Forenet Kredit, which is the majority shareholder of Nykredit.

Being owned by more than one million customers gives us a special responsibility for operating our business in ways that create value for them and for society. This manifests itself when we:

- Share our progress with our customers. Forenet Kredit wants the dividend it receives from Nykredit and its subsidiaries to benefit our customers. The association has therefore decided to make contributions to the Nykredit Group, which we pass on to our customers as discounts;
- Made a pledge to be active and support development and growth throughout Denmark - at all times;
- Strive to help society meet the goal of reducing greenhouse gas(GHG) emissions.

Our commitment to responsibility and sustainability is integrated as one of three main objectives in our strategy. Our strategy and efforts are reported in our Corporate Responsibility report 2020.

Supporting our customer's green transition

We can promote sustainable solutions through customer dialogue and a sustainable product range.

In 2020 Nykredit decided that our green products and solutions for our customers should be even more accessible. With a commitment from Forenet Kredit of DKK 200m we launched several new products:

- We lowered the price of car loans for electric and hybrid cars,
- We introduced a very affordable green bank loan for our retail customers,
- We offered a cash contribution to customers replacing oil-fired boilers with heat pumps in their homes,
- We launched a digital tool promoting energy renovations for our retail customers.

We also created a green leasing product targeted at farmers and introduced a new ambitious target for lowering the carbon foot print of our investments. Together, these initiatives provided a strong foundation for supporting our customers' green transition. However, we wish to accelerate our efforts even further. That is why we launched a new Green Bond Framework at the end of 2020.

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Green Bond Framework 2020

Our aim is to channel more investments towards sustainable assets, thereby increasing the positive environmental impact.

With the Green Bond Framework 2020 Nykredit has diversified the potential Eligible Green Assets significantly. We expect going forward to particurlarly increase our funding of assets in the categories Renewable Energy and Energy Distribution in the CIBOR-linked bonds. In terms of Green Buldings we have widened the scope of the category to include energy renovated buildings and more types of buldings. Buildings with a cultural, social or educational purpose can amongst others now be funded in our green bonds.

In formulating the Green Bond Framework 2020 we have taken care to reflect both the UN Sustainable Development Goals and the environmental objectives of the EU Regulation on the Establishment of a Framework to Facilitate Sustainable Investment.

Integrating sustainability into our risk management

Climate change affords new opportunities but also poses new risks. The risks arise from both physical changes in the environment and more extreme weather events. Changes in regulation, technology and consumer behaviour are also at play.

At Nykredit we have a broad perspective on these changes. We strive to integrate risks stemming from environmental, social and governmental (ESG) issues into our risk management and put particular emphasis on the risks stemming from climate change.

We have launched several initiatives to incorporate ESG into our business practices. Among other things, we have adapted our Valuation Policy and Credit Policy accordingly. This means that all loans for Nykredit's business customers undergo an ESG assessment as an integrated part of Nykredit's credit approval process.

In 2020 Nykredit worked with analysing ESG risks in our lending portfolio, and we participated in the European Banking Authority's Pilot Sensitivity Exercise on Climate Risk 2020. Most recently we have published data on the carbon footprint of our mortgage lending and investments for the first time¹. Our efforts will continue and be accelerated in 2021.

¹ See Nykredit's ESG Fact Book 2020

Allocation of proceeds

Nykredit has issued three green covered bonds. We report on the allocation of the bonds on a portfolio basis in DKK and SEK respectively.

As of 31 December 2020, Nykredit has disbursed a total of mDKK 8,688.

Figure 1: Outstanding green covered bonds (DKK million)

Total volume issued in DKK million: 3,433

Commercial real estate
 Private Rental Housing



As of 31 December 2020

Note: Proceeds allocated to Eligible Green Mortgages from the issuance of ISIN DK0009524514 and DK0009523037

Due to the match funding principle of Danish covered bonds there is a direct linkage between the bonds issued and the underlying assets.

All assets in the green covered bonds (the "Green Registry") are Green Buildings with either an EPC or a certificate as defined in the frameworks of both 2019 and 2020.

Figure 2: Outstanding green covered bonds (SEK million) Total volume issued in SEK million: 7,092



Note: Proceeds allocated to Eligible Green Mortgages from the issuance of ISIN DK0009523110

Impact reporting

Nykredit is committed to reporting a credible and transparent impact for our green bonds.

The key reporting principles and detailed methodology descriptions are enclosed in the appendix.

Green Buildings

The impact is reported on a portfolio basis for the Green Covered Bonds issued in DKK and SEK, respectively. The portfolio is analysed based on data as at 31 December 2020.

In order to measure annual energy savings, the expected energy consumption of Green Buildings is benchmarked against relevant baselines. To provide reasonable impact estimates that may be used by investors for comparison with other green bond investments more than one indicator is provided.

The indicators are benchmarked against three baselines (as specified in the appendix):

- 1. Requirements set by national building codes
- 2. A national reference building
- 3. A European reference building

To convert energy savings into reductions of GHG emissions, Nykredit has applied conversion factors to the electricity and heating components, respectively.

The electricity component is based on a European Combined Margin presented in Nordic Position Paper (2020)², while the heating components are based on national measures³.

As from 2020, we are also reporting impact based on the conversion factors in Finance Denmark's Framework for Financed Emissions Accounting for mortgages⁴. The additional impact estimates are disclosed to ensure increased comparability with Nykredit's Carbon Footprint for mortgage lending⁵.

The expected annual energy consumption⁶ for the green buildings is broken down into specific energy used for electricity and heating according to data assessments.



² https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/NPSIPositionpaper2019final-120219.pdf

- ³ See appendix
- ⁴ <u>finance-denmark-co2-model.pdf (finansdanmark.dk)</u> and appendix

⁵ See Nykredit's ESG Fact Book 2020

⁶ Definitions of expected annual energy consumption vary across countries. In Denmark requirements set by the national building code for energy use cover energy used for heating, cooling, domestic hot water and ventilation. For office buildings, energy used for lighting is also included. In Sweden requirements set by the national building code for energy use cover energy used for heating, cooling, domestic hot water and "fastighetsel" (property electricity). Additional energy use (e.g. electricity used by tenants) is not included in this report.

Cibor Green Covered Bonds

The Cibor-linked Green Covered Bonds are backed by a portfolio of green mortgages financing newly constructed highly energy-efficient buildings.

On average the relative energy savings are close to 57% when benchmarked against the national buildings code. The relative energy savings increase to more than

72% and close to 82%, when benchmarked against a national or European reference building respectively.

This is a clear testament to reductions supporting the transition towards low-carbon economies.

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Cibor-linked Green Covered Bonds: Non-financial impact (annual numbers) Baseline/benchmark National Building code National reference building E

Baseline/benchmark	National Building code	National reference building	European reference building			
Absolute energy savings (MWh)	9,531	18,958	32,478 5,718			
Absolute GHG avoidance (tCO2e)	1,704	3,326				
Absolute GHG avoidance	1,264	2,479	4,258			
Finance Denmark conver-						
sion factors (tCO2e)						
Note: As of 31 December 2020	The reported numbers are not see	led to Nykrodit's financing of the buildin	as meaning that for a Lean To Value			

Note: As of 31 December 2020. The reported numbxers are not scaled to Nykredit's financing of the buildings, meaning that for a Loan-To-Value of i.e. 70% the full energy saving for a property is being reported. Detailed information is available in the appendix.

Stibor Green Covered Bonds

The Stibor-linked Green Bonds are backed by a portfolio of green mortgages financing both newly constructed buildings and renovated buildings.

Many of the renovated buildings have been BREEAM (minimum score of "Very good") and LEED (minimum score of "Gold") certified, which involves comprehensive assessments of a wide range of sustainability criteria.

To get a better measure of energy savings of renovated buildings, it may be reasonable for renovated buildings to be benchmarked against either national or European reference buildings.

On average the relative energy savings are close to 25% when benchmarked against the national buildings code. The relative energy savings increases to more than 36% and close to 64%, when benchmarked against a national or European reference building respectively.

Stibor-linked Green Covered Bonds: Non-financial impact (annual numbers)

Baseline/benchmark	National Building code	National reference building	European reference building			
Absolute energy savings (MWh)	6,062	10,393	34,285			
Absolute GHG avoidance (tCO2e)	1,516	2,549	7,811			
Note: As of 31 December 2020.	The reported numbers are not scale	ed to Nykredit's financing of the building	s. meaning that for a Loan-To-Value			

of i.e. 70% the full energy saving for the property is being reported. Detailed information is available in the appendix.

Sample projects

Green Building: Aalborg, Denmark

Nykredit has provided a green mortgage to C.W. Obel Ejendomme.

The mortgage finances the newly built residential housing project AstaHus located in the centre of Aalborg.

The housing project comprises $11,000 \text{ m}^2$ divided into 118 apartments. The construction of AstaHus is based on the Danish EPC A2015. AstaHus is expected to have an energy consumption of 28.8 kWh/m²/year, which fulfils the Danish energy class A2015.

Green Building: Gothenburg, Sweden

Nykredit has provided a green mortgage to Tornet Bostad Amhult AB.

The loan provides long-term financing for the residential property Segelflyget in Gothenburg. The property consist of 71 apartments, 19 of which are reserved for people over 70 (trygghetsboende). In total, the project comprises 4,186 m² and a parking area (17 parking spaces).

The property holds the "Miljöbyggnad, Silver" certificate issued by Sweden Green Building Council. The certificate is based on a careful review of the property based on sixteen different indicators within the areas of energy consumption, indoor environment and materials.

Green Building: Stockholm, Sweden

Nykredit has provided a green mortgage to finance the property Borgarfjord 3. The property is an office building situated in Kista in the municipality of Stockholm.

Borgarfjord 3 has been thoroughly renovated in recent years and in 2018 it received an Energideklaration A. In 2020 the property also achieved a BREEAM certificate with a score of "Very Good".

Electricity consumption in the office areas is measured separately for each tenant. Over the last years, the annual energy consumption for heating, cooling and electricity used for operating the property has been reduced to a very satisfactory level of 26 kWh/m². Reduced energy consumption through renovation of existing buildings is essential in order to combat climate change.









Appendix: Methodology

Methodology

This section covers general assumptions for measuring energy savings and reduction in GHG emissions as reported in section 4. The methodology is based on four core components as listed:

- A. Energy consumption: Assessment of each building's expected total energy demand per year
- B. Benchmark/baseline: Energy demand per year for reference building
- C. Ratio of electricity and heating: The balance between electricity and heating when assessing total expected energy demand
- D. Emission conversion factors: For conversion of energy produced by electricity and heat to CO2 emissions

In the table below an illustrative example of both energy savings and reduced CO₂, emissions are provided. Red numbers indicates numbers being reported.

	Expected total energy demand (kWh)	-	Ratio: Heating/ Electricity	-	Expected energy demand (kWh)		Energy sav- ings factor*	-	Energy savings (kWh)	-	CO ₂ con- ver-sion (gCO ₂ pr. /kWh)		CO ₂ avoided (tons)
Heating	-	Х	90%	=	90,000	Х	1.12	=	100,800	Х	187	=	18.8
Electric- ity	-	Х	10%	=	10,000	Х	1.12	=	11,200	Х	315	=	3.5
Total	100,000				100,000				112,000				22.3

Example of impact calculations

*Energy savings factor describes the ratio between the energy saving (relative to a baseline) and the expected energy demand in the building. Thus, energy saving = (Baseline - total energy demand in building), and energy savings factor = (Energy saving / total energy demand in building). The savings factor takes into account different use of primary and specific energy in the national building standards. In Denmark, for example, requirements for the maximum energy use set by the national building code are expressed in terms of use of primary energy, whereas in Sweden, the requirements in the national building codes BBR12 and BBR24 are based on use of specific energy.

B - Energy efficiency baselines

Green buildings in Denmark

Three sets of comparable values were selected as energy efficiency baselines in order to provide relevant and comparable annual estimates of energy savings.

Baseline 1: In the report by MOE, which is made available at the Nykredit Investor Relations website, the energy legislation and the associated building regulation in Denmark are assessed to be among the leading standards in an international context. The applicable Danish building code (BR18) requires new buildings to be constructed with a lower expected energy consumption than the EPC label A2015⁷, which is a much stricter requirement than in any other European country. Therefore, measuring energy savings against the requirements set by BR18 will not provide a reasonable indication of the environmental impact from a green bond issuance. Instead, green buildings situated in Denmark will be benchmarked against the requirements set by the building code BR08, which corresponds to a national EPC B label. MOE measures the requirements for expected energy consumption in BR08 to be in line with the requirements set out in the Swedish building code BBR24 (2016).

Baseline 2: The Danish Energy Agency (Energistyrelsen) provides statistics on the distributions of national energy labels (EPCs) for the energy labelled Danish building stock. Based on available data distributions for both multi-dwellings and office buildings, the average energy requirement for the building stock in Denmark lies somewhere between a C and a D label. Therefore, the maximum energy use set out in the C label is used as an indicator for Danish reference buildings.

Baseline 3: Energy demands for heating, cooling and domestic hot water for buildings representative of the existing building stock have been modelled in the European ENTRANZE⁸ project. Single houses, multi-dwellings, offices and schools are covered.

As a result, 175 kWh/m² per year is derived as a baseline of energy efficiency for European existing offices and 140 kWh/m² per year is derived as a baseline of energy efficiency for existing European multi-dwellings.

⁷ A2015: 30 kWh/m² + 1000kWh/A or 41 kWh/m² + 1000kWh/m², depending on property type.

⁸ https://www.entranze.eu/files/downloads/D2_3/Heating_and_cooling_energy_demand_and_loads_for_building_types_in_different_countries_of_the_EU.pdf

Green buildings in Sweden

Three sets of comparable values were selected as energy efficiency baselines in order to provide relevant and comparable annual estimates of energy savings

Baseline 1: For both newly constructed buildings and renovated buildings, the baseline is set according to the requirements set by the national building code BBR24 (2016). This building code takes into account both the main source of heating and the geographical location of the building assessed.

Baseline 2: The average energy demands for heating and domestic hot water for the existing building stock in Sweden have been modelled by the Swedish Energy Agency (Energimyndigheten). Data is available for both multi-dwellings and office buildings. As a result, the average energy demand for heating of 123 kWh/m² per year is derived as a baseline of energy efficiency for Swedish existing offices and multi-dwellings.

Baseline 3: Same as stated in 'green buildings in Denmark'.

C – Electricity and heating ratio

The specific energy consumption for electricity and heating, respectively, is not available in all certificates. Therefore, Nykredit has chosen to adopt an approach based on a national average for similar buildings. Based on a data assessment of Danish reference buildings, MOE has estimated an electricity-heating ratio of 11:89 for multi-dwellings and 29:71 for office buildings. These proportions have also been used for Swedish buildings, as not enough reliable data have been available. MOE considers this an appropriate step, as both Danish and Swedish construction legislation derives from the same general guidelines issued by the EU.

D - Emission conversion factors

Nykredit has applied conversion factors for the electricity and heating components, respectively. The electricity component is based on a European Combined Margin presented in Nordic Position Paper (2020)⁹ of 315 g CO₂e /kWh. In Denmark, MOE estimates that approximately 90% of multi-dwellings and office buildings are supplied by district heating, whereas 10% are primarily heated by natural gas. Conversion factors of 187 gCO₂e/kWh and 142 gCO₂/kWh are used for Danish buildings. The factor used for district heating is available in a report from COWI (2016)¹⁰ and the conversion factors used for natural gas have been provided by HOFOR (2018)¹¹.

Nykredit has also reported impact with the application of the conversion factors for mortgages in Finance Denmark's Framework for Financed Emissions Accounting. The conversion factors in the Framework have been sourced from the Danish Energy Agency.¹²

⁹ https://www.kuntarahoitus.fi/app/uploads/sites/2/2020/02/NPSI_Position_paper_2020_final.pdf

¹⁰ Publication: "Nye emissionsfaktorer for el og fjernvarme" from 2016 prepared by COWI for the Danish Transport, Housing, and Construction Authority

¹¹ https://www.hofor.dk/baeredygtige-byer/beregn-co2/miljoedeklarationer/

¹² Brændværdier og CO2 emissionsfaktorer | Energihåndbogen (hbemo.dk)



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