

Green Bond Framework **2019**





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# Nykredit Green Bond Framework

Nykredit is Denmark's largest lender. As a predominantly mutually owned financial institution, Nykredit is committed to contribute to a long-term sustainable development. In line with our commitment, Nykredit has established a Green Bond Framework (the **"Framework"**).

The Framework is a principle based framework in accordance with ICMA's Green Bond Principles 2018 ("GBP"). This Framework is prepared solely for informational purposes and does not constitute an offer to sell.



## Nykredit's approach to sustainability

### FOUNDATION

Nykredit's approach to corporate responsibility is rooted in our history, ownership and sheer size as a systemically important financial institution (SIFI) in Denmark.

We were created by our customers, for our customers and still to this day we are predominantly owned by an association of our customers. In essence, this means that our overarching objective is to run a financial business for the benefit of our customers.

For more than 165 years, we have helped Danish families buy their homes and Danish businesses grow. At present, we are Denmark's largest lender to homeowners and one of the largest lenders to small and medium-sized enterprises, the agricultural sector and the rental housing sector. Hence, we feel a responsibility for doing business in ways that create common value for our customers, and the communities we serve and contribute to a long-term, stable and sustainable development.

### COMMITMENTS AND ALIGNMENT WITH INTERNATIONAL STANDARDS

Our sustainable commitments include:

- Incorporating economic, social and environmental considerations and respect for human rights in our business activities;
- The ability to provide loans to homeowners and businesses all over Denmark across economic cycles;
- Continuing staff development to ensure that our staff possess the requisite skills to remain current on developments, match customer needs and hold a strong position in a changeable labour market. We want to be known for our trusting culture guided by customer focus, team spirit and empowerment;
- Investing responsibly and sustainably and supporting our customers and investors in making a positive impact;
- Reducing our direct and indirect environmental footprint;
- Offer our customers responsible advice and contribute to the task of combating money laundering, terrorist financing, tax evasion and other financial crimes.

## COMMITMENTS AND ALIGNMENT WITH INTERNATIONAL STANDARDS (CONT.)

Nykredit operates in alignment with international standards. We are a long-term adherent to the Ten Principles of the UN Global Compact<sup>1</sup> on responsible business practices, which include a commitment to promoting human rights, labour standards, the environment and anti-corruption.

We are a signatory of the UN principles for responsible investment (PRI)<sup>2</sup> and have incorporated environmental, social and corporate governance (ESG) factors into our investment practice. Both when we invest client funds and when investing our own money.

Wherever relevant, we support and apply OECD's Guidelines for Multinational Enterprises<sup>3</sup> and the UN Guiding Principles on Business and Human Rights<sup>4</sup> and we endorse the UN's Sustainable Development Goals (SDG), focusing on the areas in which Nykredit can truly make a difference.

## RATIONALE FOR ISSUING GREEN BONDS

We are committed to supporting our customers in making sustainable choices by increasing the share of positive impact financing. An issuance of Green Bond's will:

- Promote the transition to a low carbon and climate resilient society
- Support the development of sustainable investment opportunities for investors
- Support the development of the green bond market
- Support diversification of the investor base

<sup>1</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>2</sup> <https://www.unpri.org/>

<sup>3</sup> <http://www.oecd.org/corporate/mne/>

<sup>4</sup> <https://www.business-humanrights.org/en/un-guiding-principles>



## Application of the Green Bond Principles

The Framework has been developed in line with ICMA's GBP, and as such follows the GBP core components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting
- External Review

The Framework is approved by Nykredit's Corporate Responsibility Committee and on a quarterly basis managed by a dedicated Green Bond Committee. The committee consists of members from a group of departments with relevant stakes in Nykredit's green bond(s), namely Funding & Capital, Regulation, Group Finance & Investments, External Relations & Responsibility and the relevant member of the executive board. The Funding & Capital department handles the day-to-day operational management.

This Framework enables Nykredit to issue notes in the form of **"Green Bonds"** when incorporated in relevant prospectuses. Green Bonds are:

- "Green Covered Bonds"

Nykredit may decide to issue in other bond formats. In this case, Nykredit will update the Framework accordingly. Green Covered Bonds directly finance certain specific green mortgage loans, as further described below.

### USE OF PROCEEDS

The Green Bonds finance or re-finance in whole green bond eligible assets (**"Eligible Assets"**) within the category of energy efficient commercial and residential buildings.

Eligible Assets are Mortgage loans ("Eligible Green Mortgages").

The Eligible Assets are evolving with assets maturing and new Eligible Assets being added.

The Categories of the Eligible Green Mortgages in the list below have been identified by Nykredit Green Bond Committee as mortgages that promote the transition to a low carbon and climate resilient society. The list includes examples of each category. The Eligible Green Mortgages that have been verified by an external verifier to be consistent with the GBP and the verifier's own criteria, as evidenced by a "Second Party Opinion" published on Nykredit's website, will be included as Eligible Green Mortgages. Any addition to the Eligible Green Mortgages are subject to the verification by the external verifier.



## USE OF PROCEEDS (CONT.)

The Eligible Green Mortgages are granted to Nykredit's customers and fulfil certain eligibility criteria as outlined in the table below:

### ELIGIBLE GREEN MORTGAGES

Selected Properties Categories	Eligibility Criteria	Exclusion of property types
<b>Private rental housing</b>	<ul style="list-style-type: none"> <li>Properties with an energy label<sup>5</sup> of A<sup>6</sup> or B<sup>7</sup> regardless of year of construction</li> <li>Properties constructed after 2009 compliant with construction codes BR08, BR10, BR15, BR18 or later versions<sup>8</sup>, corresponding to energy label A and B</li> <li>BREEAM or BREEAM-SE<sup>9</sup> (minimum certification "very good")</li> <li>LEED<sup>10</sup> (minimum certification "gold")</li> <li>DGNB<sup>11</sup> (minimum certification "gold")</li> <li>Nordic Swan<sup>12</sup></li> <li>Or any equivalent international recognisable certification as determined by the Green Bond Committee</li> </ul>	<ul style="list-style-type: none"> <li>Buildings constructed before 2009 without an energy label are excluded<sup>13</sup>.</li> </ul>
<b>Commercial real estate</b>	<ul style="list-style-type: none"> <li>Properties with an energy label<sup>5</sup> of A<sup>6</sup> or B<sup>7</sup> regardless of year of construction</li> <li>Properties constructed after 2009 compliant with construction codes BR08, BR10, BR15, BR18 or later versions<sup>8</sup>, corresponding to energy label A and B</li> <li>BREEAM or BREEAM-SE<sup>9</sup> (minimum certification "very good")</li> <li>LEED<sup>10</sup> (minimum certification "gold")</li> <li>DGNB<sup>11</sup> (minimum certification "gold")</li> <li>Nordic Swan<sup>12</sup></li> <li>Sweden Green Building Council Miljöbyggnad<sup>14</sup> (minimum certification "silver")</li> <li>GreenBuilding<sup>15</sup></li> <li>Or any equivalent international recognisable certification as determined by the Green Bond Committee</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Residential housing</b>	<ul style="list-style-type: none"> <li>Properties with an energy label<sup>5</sup> of A<sup>6</sup> or B<sup>7</sup> regardless of year of construction</li> <li>Properties constructed after 2009 compliant with construction codes BR08, BR10, BR15, BR18 or later versions<sup>8</sup>, corresponding to energy label A and B</li> </ul>	<ul style="list-style-type: none"> <li>Holiday homes, hobby farming and building plots</li> <li>Buildings constructed before 2009 without an energy label are excluded</li> </ul>

<sup>5</sup> Energy labels will be based on data from the Danish official Information Service (OIS) – according to 'Bekendtgørelse om offentliggørelse af energimærkninger af bygninger og eftersynsrapporter om kedel- og varmeanlæg m.v.'.

An energy label for a building is valid for 10 years after issuance. Once a building has obtained an energy label that qualifies it as an Eligible Green Mortgage it will remain so unless it later gets an energy label below the selection criteria and thus becoming ineligible.

<sup>6</sup> Note: The "A label" cover labels A, A1, A2, A2010, A2015, A2020 which guarantees an energy consumption – kWh/m<sup>2</sup>/year ≤ 52.5 + 1,650/A

<sup>7</sup> Note: The "B label" cover labels B or B1 which guarantees an energy consumption – kWh/m<sup>2</sup>/year ≤ 70.0 + 2,200/A

<sup>8</sup> Construction codes are according to executive order BEK nr. 604 of 29/05/2018

<sup>9</sup> BREEAM: <http://www.breeam.org/>

<sup>10</sup> LEED: <http://www.usgbc.org/certification>

<sup>11</sup> DGNB: <http://www.dk-gbc.dk/english/>

<sup>12</sup> Nordic Swan: <https://www.nordic-ecolabel.org/certification/ecolabelled-buildings2/>

<sup>13</sup> These buildings are excluded, as it cannot be guaranteed that buildings constructed before 2009 are constructed under a construction code that equals an energy label B or better. Building code BR08 was implemented 1 February 2008. The technical requirements of BR08 equal an energy label of B or higher.

<sup>14</sup> Miljöbyggnad: <https://www.sgbc.se/var-verksamhet/miljobyggnad>

<sup>15</sup> GreenBuilding: <https://www.sgbc.se/var-verksamhet/greenbuilding>



## USE OF PROCEEDS (CONT.)

Danish regulation stipulates that loans in specialised mortgage banks such as Nykredit Realkredit A/S can only be funded by covered bonds, hence all Eligible Green Mortgages will be funded by covered bonds. Nykredit will issue Green Covered Bonds in specific ISINs out of its Capital Centres if sufficient green assets are available. Furthermore, there will be a direct linkage – including a currency match – between the issued Green Covered Bonds in a particular ISIN and the Eligible Green Mortgages. This means that Green Covered Bonds issued in a specific currency will only have Eligible Green Mortgages in that same specific currency.

Nykredit can choose to limit the above eligibility criteria on each green bond issued. Nykredit can for example choose to issue green bonds based solely on energy labels of A and B.

See appendix for an illustration of the Danish energy consumption based on energy labelling and construction codes.

Nykredit may decide to add additional categories of buildings to the Framework at a later stage. In this case, Nykredit will update the Framework accordingly. For the avoidance of doubt, any future changes to the eligibility criteria will not apply to Green Bonds issued before the date of the change.

Nykredit cannot guarantee that the above eligibility criteria will live up to future regulatory- or market standards for green assets.

## PROCESS FOR PROJECT EVALUATION AND SELECTION

The process for evaluation and selection of Eligible Assets will be structured as follows:

- The Green Bond Committee will review whether existing and new mortgages qualify as Eligible Green Mortgages and the Funding & Capital department will maintain a registry (the **“Green Covered Bonds Registry”**) with the purpose of monitoring the balance of Eligible Green Mortgages and the corresponding balance of the Green Covered Bonds in Nykredit Realkredit A/S' Capital Centres;
- The Funding & Capital department at Nykredit will review and approve allocations of bond proceeds used to Eligible Assets at least on a daily basis.
- No double counting of assets between ISINs will be allowed

The Green Bond Committee will meet on a regular basis (at least quarterly) and will conduct an additional review of Eligible Green Mortgages to ensure ongoing compliance with the criteria.

## MANAGEMENT OF PROCEEDS

The proceeds will be used to fund green mortgage lending on a one-to-one basis from its Capital Centres. Due to the match funding principle of Nykredit's mortgage lending model the cash flow of the green bonds will match the cash flow of the mortgages funded by these bonds.

Any portion of the net proceeds of Green Bonds that have not been allocated to Eligible Assets in the Green Covered Bond Registry will be held in accordance with Nykredit's normal liquidity management policy<sup>16</sup>.



<sup>16</sup> Only assets that qualify for covered bond issuance according to CRR Article 129.

## REPORTING

As long as we have Green Bonds outstanding, Nykredit will provide annual update to investors on the allocation of proceeds and the non-financial impact of the assets included in the Green Bonds.

### Allocation of Proceeds Reporting

At least on an annual basis Nykredit will provide information on:

- The total outstanding of Green Bond transactions;
- The total amount of net proceeds allocated to Green Covered Bonds backed by Eligible Green Mortgages.

### Impact Reporting

An impact report will be made available annually and will provide details, on an aggregated basis, on indicators such as:

- Estimated ex-ante annual energy consumption in kWh/m<sup>2</sup> or energy savings in mWh;
- Estimated ex-ante annual GHG emissions reduced/avoided in tons of CO<sub>2</sub> equivalent.

Both the allocation report and the impact report will be made available on Nykredit's Investor Relations website [nykredit.com/greenbonds](https://nykredit.com/greenbonds).

## EXTERNAL REVIEW

### Second Party Opinion

Nykredit will obtain an independent second party opinion on its Green Bond Framework from Sustainalytics. The second party opinion report will be made available on Nykredit's Investor Relations website.

Nykredit will on an ongoing basis review the Green Bond Framework and reserves the right to update the Framework if improvements are identified or to include further building categories as Eligible Assets provided that the Second Party Opinion is updated by Sustainalytics. The updated Second Party Opinion will be made publicly available on the Investor Relations pages of the website of Nykredit.

### Assurance

Nykredit will request on an annual basis, starting one year after issuance and until maturity, a limited assurance report of the allocation of the Green Bond proceeds to eligible green mortgages, provided by Sustainalytics.





# Appendix





## Appendix

### ENERGY CONSUMPTION BASED ON ENERGY LABELLING

Limit value = kWh/m<sup>2</sup> and A = heated floor area in m<sup>2</sup>

Energy label	Limit value dwellings	Limit value commercial
A2020	$\leq 27,0$	$\leq 33,0$
A2015	$\leq 30,0 + 1.000/A$	$\leq 41,0 + 1.000/A$
A2010	$\leq 52,5 + 1.650/A$	$\leq 71,3 + 1.650/A$
B	$\leq 70,0 + 2.200/A$	$\leq 95,0 + 2.200/A$
C	$\leq 110 + 3.200/A$	$\leq 135 + 3.200/A$
D	$\leq 150 + 4.200/A$	$\leq 175 + 4.200/A$
E	$\leq 190 + 5.200/A$	$\leq 215 + 5.200/A$
F	$\leq 240 + 6.500/A$	$\leq 265 + 6.500/A$
G	$\geq 240 + 6.500/A$	$\geq 265 + 6.500/A$

### HOW TO CALCULATE YOUR ENERGY CONSUMPTION

Example of what the calculated energy consumption is less than:

*Assuming: A house with energy label C, 140m<sup>2</sup>, is heated by district heating (price: 0.7 DKK/kWh)*

Energy consumption per m<sup>2</sup>:

- $110 + 3200 / 140 = 133 \text{ kWh/m}^2 \text{ per year}$

Annual energy consumption in the house:

- $140 \text{ m}^2 \times 133 \text{ kWh/m}^2 = 18,600 \text{ kWh/year}$

Annual cost of heat:

- $18,600 \text{ kWh} \times 0.7 \text{ DKK/kWh} = 13,020 \text{ DKK/year}$

### BUILDING REGULATION FOR BUILDINGS CONSTRUCTED AFTER 2009 OWNER-OCCUPIED DWELLING

BR08 section 7.2.2 paragraph 1 - valid from 1 February 2008

- All new homes must have a maximum kwh consumption per m2 of  $< 70+2,200/A$

BR10 section 7.2.2 paragraph 1 - valid from 30 June 2010

- All new homes must have a maximum kwh consumption per m2 of  $< 52.5+1,650/A$

BR15 section 7.2.2 paragraph 1 - valid from 1 January 2016

- All new homes must have a maximum kwh consumption per m2 of  $< 30+1,000/A$

BR18 chapter 11 § 259 paragraph 1.7. - valid from 1 January 2018

- All new homes must have a maximum kwh consumption per m2 of  $< 30+1,000/A$





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