

Second-Party Opinion

Municipality Credit Iceland Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Municipality Credit Iceland Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles. Sustainalytics considers production and distribution of renewable energy, green buildings, energy efficiency, waste management, clean transportation as well as water and wastewater management to have positive environmental impacts and advance the UN Sustainable Development Goals 6, 7, 11, 12.



PROJECT EVALUATION / SELECTION MCI's internal process for evaluating and selecting projects is aligned with market practice. MCI's loan officer and CEO will select projects based on the environmental impact assessments of the projects provided by the municipalities and verified by an independent outside advisor. Projects are expected to have a positive long-term net environmental impact. Based on the impact report and upon verification, MCI's loan officer and the CEO will screen and select eligible projects. This process is aligned with market practice.



MANAGEMENT OF PROCEEDS MCI's processes for management of proceeds is handled by MCI's treasury department. MCI will manage an amount equal to the proceeds of the green bond according to its internal guidelines and hold the funds separate from proceeds of other bonds in a dedicated account. Unallocated proceeds will be invested short-term in government issued securities or other low-risk market instruments until disbursement. MCI's internal auditor will verify the allocations of the Green Bond funds, which is aligned with best practice. Overall, the process is aligned with market practice.



REPORTING MCI intends to annually disclose a Green Bond Impact Report, including eligible projects and allocated amounts, total amount allocated to eligible projects, funds yet to be allocated and relevant metrics on the environmental impact of the projects. Sustainalytics views the scope and frequency of MCI's allocation and impact reporting as aligned with market practice.

Evaluation date	October 2019
Issuer Location	Reykjavik, Iceland

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Introduction

Municipality Credit of Iceland (“MCI”) was established in 1967, with the aim of securing loans on favorable terms to finance projects of general economic interest carried out by Icelandic municipalities. Aligned with the needs of municipalities, MCI-funded projects include educational infrastructure, geothermal energy, roads and solid waste and wastewater treatment and disposal.

MCI has developed the Municipality Credit Iceland Green Bond Framework (the “Framework”) under which it intends to issue multiple green bonds and use the proceeds to finance, in whole or in part, future projects that assist municipalities, their organizations or enterprises, in the transition to a low carbon economy and clean technologies.

The Framework defines eligibility criteria in six areas:

1. Production and distribution of renewable energy
2. Green buildings
3. Energy efficiency
4. Waste management
5. Clean transportation
6. Water and wastewater management

MCI engaged Sustainalytics to review the Municipality Credit Iceland Green Bond Framework, dated October 2019 and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of MCI’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of MCI’s green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Municipality Credit Iceland Green Bond Framework and should be read in conjunction with that Framework.

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² The Municipality Credit Iceland Green Bond Framework is available on MCI’s website at: www.lanasjodur.is

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Municipality Credit Iceland Green Bond Framework Summary

Sustainalytics is of the opinion that the Municipality Credit Iceland Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of MCI's green bond framework:

- Use of Proceeds:
 - All use of proceed categories of the Framework are recognized as impactful by the GBP. Sustainalytics positively highlights that MCI intends to finance future projects only.
 - Sustainalytics notes that projects financed through the Municipality Credit Iceland Green Bond Framework must be aligned with municipalities' long-term climate policy.³ Eligible projects shall be part of environmental work in the municipality and be related to national environmental goals and targets, notably including Iceland's aim to achieve carbon neutrality by 2040. In addition, projects must have quantifiable environmental benefits.
 - Under the renewable energy category, MCI intends to finance the production and distribution of renewable energy including, hydro (<25 MW), wind, geothermal (<100g CO₂/KWh), bioenergy, biogas and access heat including replacing diesel power plants with small hydro power in remote areas. Sustainalytics positively highlights MCI's clarification that the feedstock for bioenergy and biogas comes from Municipal Solid Waste ("MSW"), Sustainalytics notes that new landfills are excluded from the framework. Sustainalytics positively notes that MCI will require Municipalities to report emissions from renewable energy projects as part on their annual impact report to MCI.
 - MCI's green buildings eligibility criteria are based on third-party certification standards such as a BREEAM rating of "very good" or higher and Nordic Swan Ecolabel (NSE), among other certificates with similar ambitions. BREEAM and NSE have been assessed by Sustainalytics as credible (for more information, see Appendix 1). In addition, the rating must include the following criteria: (i) screening for climate risk and resilience in the design phase, (ii) electricity and space heating coming from 100% renewable sources and (iii) solutions for car-free living and EV charging stations.
 - The energy efficiency category includes investments in technologies including retrofitting LED bulbs for street lighting and efficiency measures in energy systems, including district heating,⁴ energy grids/smart grids,⁵ energy recovery and energy storage. MCI will also finance energy efficiency measures in municipal activities and operations that lead to a minimum energy savings threshold of 25%. However, minimum energy efficiency thresholds have not been set for the other activities. Sustainalytics acknowledges that projecting estimated energy savings can be challenging and encourages MCI to report transparently on projects financed and total energy saved.
 - MCI intends to finance equipment for waste processing, increasing methane collection from landfill for compressed natural gas (CNG) production to fuel vehicles and increasing re-use and recovery of materials and energy. While methane gas collection can significantly help to reduce GHG emissions from landfill, the waste hierarchy⁶ considers waste prevention, re-use and recycling to be prioritized before energy recovery. MCI clarified that methane collection technology will also be financed for old landfill sites where waste has been segregated to a

³ Provided to Sustainalytics, not a public document.

⁴ Sourced from geothermal energy.

⁵ Given the fact that 99.9% of electricity generation in Iceland comes from renewables, Sustainalytics positively notes that investments in electricity grids/smart grids will be dedicated to improving the distribution of low-carbon electricity (hydro or geothermal).

⁶ The waste hierarchy consists in giving priority to the prevention and reduction of waste and then to prioritize, in order: reuse, recycling and recovery of organic waste by return to the ground, any other recovery, in particular energy recovery and finally disposal. EUR-Lex, "Directive 2008/98/EC", (2008), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32008L0098>

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certain degree before landfilling, which Sustainalytics views positively. Sustainalytics further notes that all landfill in Reykjavik is planned to be closed by end of year 2020 and that about 40% of old landfills have been closed since 2012, as part of an effort by the government. In addition, equipment for waste processing includes mechanical or optical waste segregation at waste handling stations. Sustainalytics encourages MCI to ask municipalities to ensure good practice and reporting with respect to a capture rate $\geq 75\%$, according to CBI requirements for landfill gas recovery.⁷ Sustainalytics views these expenditures as credible and impactful.

- MCI intends to finance low carbon transportation solutions such as electrical vehicles and e-bike charging stations and infrastructures for bicycle transport and pedestrians, public transportation systems, infrastructure and vehicles for public transport that use renewable energy, such as biogas, as well as infrastructure for harbors to use renewable energy. Sustainalytics notes that MCI has excluded financing of transport solutions where CO₂ emissions exceed the threshold of 50g/km/passenger, with market best practice being < 10g of CO₂/km/passenger. Sustainalytics notes that harbors can have significant negative environmental impacts⁸ and acknowledges MCI's clarification that financing will be limited to plug-in technologies for fishing and cruise vessels, so these vessels can use electricity when in the harbor. Furthermore, MCI intends to finance technology solutions for improved logistics, such as fleet management for public transport and other means of fossil fuel free transport.
 - The proceeds are also intended to finance water and wastewater infrastructure, especially regarding separating sewage and rainwater, in order to improve water management and protect the sewer system from damage i.e. potential floods in water infrastructure.
- Project Evaluation and Selection:
 - MCI's internal process for evaluating and selecting projects is aligned with market practice. Icelandic municipalities can apply for funding of projects falling under MCI's framework, providing an estimation of the expected impacts of the projects, which is handled either by external or internal sustainability experts. Projects are expected to have a positive long-term net environmental impact. Based on the impact report and upon verification, MCI's loan officer and the CEO will screen and select eligible projects. This process is aligned with market practice.
 - Management of Proceeds:
 - MCI's processes for management of proceeds is handled by MCI's treasury department in accordance with internal guidelines and will be verified by the internal auditor. MCI will hold the funds separate from proceeds of other bonds, in a dedicated account. Until disbursement of funds, the proceeds will be invested short-term in government issued securities or other low-risk money market instruments until disbursement. MCI's internal auditor will verify the allocation of the Green Bonds. This process is aligned with market practice.
 - Reporting:
 - On an annual basis, MCI will disclose a Green Bond Impact Report on its webpage in Icelandic and/or English.⁹ The report will include relevant allocation information such as eligible projects and allocated funds, total funding of eligible projects, and funds yet to be allocated. MCI's allocation of the proceeds will be verified by an external auditor, which is aligned with market best practice. It will also include qualitative and quantitative data regarding the impacts of the projects funded, including estimated saved/avoided CO₂-emissions, kWh's of energy saved in efficiency projects and/or any others relevant metrics. Projects are evaluated ex-post throughout the lifetime of the Green Bond to ensure they still comply with the eligibility criteria. The impact reported will be reported on a project-by-project basis. The methodologies for calculating impact will be detailed within the Impact Report. Sustainalytics views MCI's reporting process as transparent and aligned with market practice.

⁷ CBI, "Waste Management Criteria", (2019), at:

<https://www.climatebonds.net/files/files/Waste%20Management%20Criteria%20Background%20Document.pdf>

⁸ Chanchang, C., et al., (2016), "Environmental and health impact assessment for ports in Thailand", at:

<https://www.ncbi.nlm.nih.gov/pubmed/27364177>

⁹ MCI's Green Bonds investors are located in Iceland and reports will initially be developed in Icelandic. MCI has indicated that if the investor group expands abroad, reports may also be developed in English.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that the MCI's green bond aligns to the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of the Issuer

This section is meant to assess the contribution of the framework to the issuer's environmental policy and the risk mitigation guidelines to prevent environmental and social risks associated with infrastructure projects. Since MCI lends proceeds to Icelandic municipalities, this section includes a consideration of Iceland's national environmental policy and legislation with respect to environmental and social risks. This is to provide context around the laws for which municipalities must adhere to in mitigating environmental and social risk since MCI is a lender.

Contribution of framework to MCI's environmental policy

MCI has published an environmental policy¹⁰ which aims to make MCI a leader in the Icelandic transition to a low carbon economy and to integrate social responsibility into its operations and decision-making. MCI intends to lend only to municipalities and companies that are owned by municipalities. By issuing green bonds, MCI will encourage municipalities to select positive environmentally impactful projects. As such, the Framework will contribute directly to support MCI's environmental policy and Iceland's climate strategy by providing financial resources to issue green loans for Icelandic municipalities.

According to Iceland's Climate Action Plan for 2018-2030, Iceland commits to 34 actions aimed at driving clean transport, clean energy transformation, climate mitigation in land use and forestry, among others.¹¹ Some of the use of proceeds categories included in this Framework are in line with the Icelandic Government's Climate Action Plan (notably clean transportation, waste management, and renewable energy).

Sustainalytics is of the opinion that MCI's Framework will contribute to the broader environmental goals outlined in MCI's environmental policy.

Well positioned to address common environmental and social risks associated with the projects

Sustainalytics notes the overall importance of the projects and activities that will be financed through this framework. However, as with any large-scale development projects, it is important to ensure that common social and environmental risks are mitigated. For example, community relations/stakeholder participation, land use and biodiversity issues associated with large-scale infrastructure development, emissions, effluents, and waste generated in construction are some of the key risks relevant to the projects and activities of this framework.

MCI lends only to municipalities and companies that are owned by municipalities. Therefore, it is up to the discretion of the municipality to ensure that the risks associated with the use of proceeds of the green bond are mitigated. The Icelandic's Environmental Impact Assessment ("EIA") Act No. 106/2000¹² establishes the cases for which an EIA is mandatory (Annex 1) and those for which its usage is determined on a case-by-case basis (Annex 2). For example, geothermal projects above 50MW or any power plants which production capacity exceeds 10 MW must conduct an impact study beforehand, including industrial projects covering an area above 50ha (projects listed in Annex 1). Regarding Annex 2, projects must be reported to the National Planning Agency, which, after consulting with relevant stakeholder, decides whether it must go through EIA or not.

For projects that are not required to undergo EIA, MCI will refer to its own internal methodology, which is seen as credible. Moreover, MCI requires municipalities to submit an estimation of the environmental benefits based on best practice of MCI's methodology, which is seen as credible by Sustainalytics.

¹⁰ MCI, "Environmental Policy", (2019), at : <https://www.lanasjodur.is/english/environmental-policy/>

¹¹ Iceland's Climate Action Plan pg. 3 <https://www.government.is/lisalib/getfile.aspx?itemid=5b3c6c45-f326-11e8-942f-005056bc4d74>

¹² Government of Iceland, "Environmental Impact Assessment Act no. 106/2000", (2000), at: <https://www.government.is/publications/legislation/lex/?newsid=4dfffdc3-fb1d-11e7-9423-005056bc4d74>

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Regarding social risks, the Act on Working Environment, Health and Safety in Workplaces, No. 46/1980¹³ establishes the legislative framework for the prevention of health and safety risks. It intended to ensure a safe and healthy working place. Regarding risk prevention, Article 65 establishes that the employer is to conduct a risk assessment based on the safety and health of workers and the risks related to the working environment.

Sustainalytics also underlines that Iceland is a designated country under the Equator Principles, which means that Iceland has robust environmental and social regulations and institutional capacity to protect people and the environment. Based on the above, Sustainalytics is of the opinion that the relevant risk management procedures and regulations are robust and credible, and MCI is well-positioned to issue green bonds.

Section 3: Impact of Use of Proceeds

All six use of proceeds categories are recognized as impactful by GBP. Sustainalytics has focused on three below where the impact is specifically relevant in local context.

Importance of Renewable Energy to Power Energy-Intensive Industries

Iceland's energy sector is unique, being almost entirely carbon-free. In 2016, renewables accounted for 99.9% of the electricity generated in Iceland,¹⁴ the EU28 average being 29.6% in the same year.¹⁵ Hydro power dominates Iceland's electricity generation, covering 73% of the production in 2016; geothermal power accounted for 27%. As such, MCI's green bond proceeds can help maintain Iceland's high portion of clean energy sources.

However, Iceland is one of the world's largest per capita consumers of electricity. In 2016, electricity consumption amounted to 54 MWh/capita, compared to 7 MWh/capita in Germany, 10 MWh/capita in Australia and 13 MWh/capita in the United States.¹⁶ This is due to the importance of the metallurgical industry in the Icelandic economy, primarily the production of aluminum. In fact, metal production has been the main cause for increased GHG emissions in Iceland since 1990.¹⁷ Industrial processes and product use made up 42% of the country's GHG emissions in 2016¹⁸ and based on 2012 data the Nordic Energy Research Institute names the electricity consumption of the aluminum industry as a main reason for the country's high energy consumption,¹⁹ i.e. electricity accounts for 65% of primary aluminum production GHG emissions.²⁰ Nevertheless, while Iceland's aluminum industry ranks second best in terms emission efficiency (i.e. carbon emitted per kilogram of aluminum produced) behind Norway,²¹ aluminum production is expected to increase, driving electricity demand, therefore related GHG emissions, up.²² Given this context, Sustainalytics is of the opinion that MCI's financing of renewable energy projects can contribute to reduce the carbon emissions from energy intensive industries in Iceland.

The Transition of Transportation to Carbon-Neutral

Iceland has set the target to achieve carbon neutrality by 2040 by phasing out fossil fuels and by promoting renewable energy sources, the main use of fossils fuels being transportation and fishing.²³ Road transport alone accounted for 20% of Iceland's GHG emissions in 2016. In 2017, renewable energy sources accounted

¹³ Government of Iceland, "Act on Working Environment, Health and Safety in Workplaces, No. 46/1980", (1980), at: https://www.ilo.org/dyn/travail/docs/1573/Act_No_46_1980_with_subsequent_amendments.pdf

¹⁴ The Environment Agency of Iceland, "National Inventory Report – Emissions of Greenhouse Gases in Iceland from 1990 to 2016", (2018), at: <https://ust.is/library/Skrar/Atvinnulif/Loftslagsbreytingar/NIR%202018%2015%20April%20submission.pdf>

¹⁵ Eurostat, "SHARE 2017 detailed results", consulted October 2019 at: <https://ec.europa.eu/eurostat/web/energy/data/shares>

¹⁶ IEA, "IEA Atlas of Energy", consulted October 2019 at: <http://energyatlas.iea.org/#/!tellmap/-1118783123>

¹⁷ Ministry of the Environment and Natural Resources, "Iceland's Seventh National Communication and Third Biennial Report", (2018), at: https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/iceland_nc7_br3_2018_final_i.pdf

¹⁸ Ministry of the Environment and Natural Resources, "Iceland's Climate action Plan for 2018-2030", (2018), at: <https://www.government.is/library/Files/Iceland%20new%20Climate%20Action%20Plan%20for%202018%202030.pdf>

¹⁹ Nordic Energy Reserach, the Nordic Council of Ministers, Iceland: Over 50% of energy in Iceland used in industry, 2013: <https://www.nordicenergy.org/figure/energy-consumption-by-sector/45-of-energy-in-iceland-used-in-industry/>

²⁰ Paraskevas, D., et al., (2016), « Environmental impact analysis of primary aluminum production at country level », at: <https://core.ac.uk/download/pdf/82356307.pdf>

²¹ Paraskevas, D., et al., (2016), « Environmental impact analysis of primary aluminum production at country level », at: <https://core.ac.uk/download/pdf/82356307.pdf>

²² Markets & Money Advisory, "Our Energy 2030", (2016), at: <https://www.si.is/media/orku-og-umhverfismal/Iceland-Energy-2030.pdf>

²³ Ministry of the Environment and Natural Resources, "Iceland's Seventh National Communication and Third Biennial Report", (2018), at: https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/iceland_nc7_br3_2018_final_i.pdf

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for only 7.33% of the fuel used for transportation.²⁴ The government is striving to increase the share of renewables in the transport sector to 10% in 2020 and 40% in 2030.²⁵

To this end, Iceland's Climate Action Plan for 2018-2030 provides measures to be taken by the country to foster clean transportation, including support for infrastructure for electric cars and other clean vehicles, improved infrastructure for electric and regular bicycles, electrical infrastructure in harbors and support for public transport and shared services in transport.²⁵ For instance, Iceland recently built a ferry powered by electricity to connect the Westman Islands to the mainland.²⁵ As such, MCI's use of proceeds is in line with Icelandic's public policies and Sustainalytics considers that the financing of electrification of transportation can help to decrease emissions from the sector.

Implement Waste Management Policies that are in line with a Circular Economy

While Iceland improved its waste management over the last years and waste amounts decreased after 2008, mainly due to the economic crisis, Iceland's total waste per capita reached 2008 levels again around 2013. Total waste per capita has increased ever since, emphasizing the need to go further to improve waste management and cut related GHG emissions, which accounted for 5.1% of Iceland GHG emissions in 2016.²⁵ Most of waste related GHG emissions (88%) come from solid waste disposal on land. The Icelandic government plans to set up a tax on organic waste, before phasing-out landfilling completely. To decrease landfill, solutions include increased recycling, improved capture of methane from landfill sites and decreased amount of landfilled bio-waste.²⁶ Moreover, methane capture from composting provides has a twofold benefit producing energy and fertilizers.²⁷ For instance, the forthcoming biogas and composting plant in Álfsnes will generate annually three million Nm³ of methane gas, which can be used as vehicle fuel, and 10–12,000 tonnes of soil improvers. Once in operation, the plant will allow the reuse of 95% of the waste produced by the Reykjavik Area.²⁸ As such, MCI's intend to finance methane collection from landfill for CNG production is viewed by Sustainalytics as in line with circular economy principles and Iceland's climate action strategy.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Production and distribution of renewable energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green buildings	11. Sustainable Cities and Communities	7.3 By 2030, double the global rate of improvement in energy efficiency 11.2 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Energy efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Waste management	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment

²⁴ Eurostat, "SHARE 2017 detailed results", consulted October 2019 at: <https://ec.europa.eu/eurostat/web/energy/data/shares>

²⁵ Ministry of the Environment and Natural Resources, "Iceland's Climate action Plan for 2018-2030", (2018), at:

<https://www.government.is/library/Files/Iceland%20new%20Climate%20Action%20Plan%20for%202018%202030.pdf>

²⁶ Ministry of the Environment and Natural Resources, "Iceland's Seventh National Communication and Third Biennial Report", (2018), at:

https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/iceland_nc7_br3_2018_final_i.pdf

²⁷ IFP Energies nouvelles, « Production de biométhane : un levier pour l'économie circulaire », consulted October 2019 at :

<https://www.ifpenergiesnouvelles.fr/breve/production-biomethane-levier-leconomie-circulaire>

²⁸ SORPA, "Biogas and composting plant", consulted October 2019 at: <https://www.sorpa.is/en/locations/Gas-%20og%20jarðgerðarstöð>

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		12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Clean transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Water and wastewater management	6. Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all

Conclusion

MCI has developed the Municipality Credit Iceland Green Bond Framework under which it intends to issue multiple green bonds and use the proceeds to finance future projects related to (i) Production and distribution of renewable energy, (ii) Green buildings, (iii) Energy efficiency, (iv) Waste management, (v) Clean transportation, (vi) Water and wastewater management. The eligible categories and target populations are aligned with the GBP.

MCI's projects evaluation and selection processes as well as management of proceeds and reporting is aligned with market practice.

Based on the above, Sustainalytics considers the Municipality Credit Iceland Green Bond Framework to be robust, credible and transparent.

Appendices

Appendix 1: Green buildings certification

	Nordic Ecolabel or "Swan"	BREEAM
Background	Svanen is owned by "Ecolabelling Sweden", a Swedish state company responsible for both the Swan ecolabel and the EU Ecolabel (or EU Flower). Svanen was first released in 1989 by the Nordic Council of Ministers.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.
Certification levels	Certified level	Pass Good Very Good Excellent Outstanding
Areas of Assessment: Environmental Project Management	<ul style="list-style-type: none"> • General requirements • Resource efficiency • Indoor environment • Chemical products, construction products and materials • Quality Management of construction • Quality and regulatory requirements • Instructions for residents and property managers • Point-score requirements (e.g. Energy contributions from local energy sources or energy recovery; Cement and concrete with reduced energy and climate impact; Ecolabelled construction products; Green initiatives, etc. 	Management (Man) addresses various aspects: project management, deployment, minimal environmental disturbance worksite and stakeholder engagement.
Areas of Assessment: Environmental Performance of the Building	Materials Ventilation Building process Energy Indoor Climate	Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation
Requirements	<p><u>Minimum thresholds to receive the Swan certification:</u></p> <p>For apartment buildings at least 17 out of 44 possible points must be achieved.</p>	<p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item²⁹ and gives a BREEAM level of certification, which is based on the overall</p>

²⁹ BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

	<p>For small houses at least 16 out of 42 possible points must be achieved.</p> <p>For pre-school and school buildings at least 15 out of 39 possible points must be achieved.</p>	<p>score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREAAAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>
Performance display		
Accreditation		<p>BREEAM International Assessor BREEAM AP BREEAM In Use Assessor</p>
Qualitative considerations	<p>Used principally in Nordic countries (Iceland, Finland, Sweden and Denmark), the Swan label integrate a full lifecycle assessment for buildings, making it a trustable and solid green label.</p>	<p>Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.</p>

Appendix 2: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Municipality Credit of Island
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Municipality Credit Iceland Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	October 2019
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles. Sustainalytics considers production and distribution of renewable energy, green buildings, energy efficiency, waste management, clean transportation as well as water and wastewater management to have positive environmental impacts and advance the UN Sustainable Development Goals 6, 7, 11, 12.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other <i>(please specify)</i> : Waste management |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

MCI's internal process for evaluating and selecting projects is aligned with market practice. MCI's loan officer and CEO will select projects based on the environmental impact assessments of the projects provided by the municipalities and verified by an independent outside advisor. Projects are expected to have a positive long-term net environmental impact. Based on the impact report and upon verification, MCI's loan officer and the CEO will screen and select eligible projects. This process is aligned with market practice.

Evaluation and selection

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

Municipality Credit Iceland Green Bond

- Summary criteria for project evaluation and selection publicly available
 Other (*please specify*):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (*please specify*):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

MCI's processes for management of proceeds is handled by MCI's treasury department. MCI will manage an amount equal to the proceeds of the green bond according to its internal guidelines and hold the funds separate from proceeds of other bonds in a dedicated account. Unallocated proceeds will be invested short-term in government issued securities or other low-risk money market instruments until disbursement. MCI's internal auditor will verify the allocations of the Green Bond funds, which is aligned with best practice. Overall, the process is aligned with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (*please specify*):

4. REPORTING

Overall comment on section (*if applicable*):

MCI intends to annually disclose a Green Bond Impact Report, including eligible projects and allocated amounts, total amount allocated to eligible projects, funds yet to be allocated and relevant metrics on the environmental impact of the projects. Sustainalytics views the scope and frequency of MCI's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (*please specify*):

Information reported:

- Allocated amounts
 Green Bond financed share of total investment
 Other (*please specify*):

Frequency:

- Annual
 Semi-annual
 Other (*please specify*):

Impact reporting:

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (*please specify*):

Frequency:

- Annual
 Semi-annual
 Other (*please specify*):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Other ESG indicators (*please specify*):

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (*please specify*):
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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For more information, visit www.sustainalytics.com

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