Municipality Credit Iceland
Green Bond Framework

Introduction

Throughout its history of over 50 years, Municipality Credit Iceland (MCI) has played a key role in securing favorable loan capital for Icelandic municipalities, their organizations and enterprises. MCI is a financial company supervised by the Icelandic FSA and is only allowed to lend to Icelandic municipalities. The company is the only entity which municipalities are allowed to give collateral in their tax revenue, according to the Local Government Act. MCI has never suffered a loss on loans and has the highest credit rating possible in the local market. These facts, along with a solid financial position and low operational cost, has enabled MCI to fulfill its goal of providing the best possible loan terms. All loans are granted for specific projects of general economic interest, for example buildings for schools and the elderly, social services, street maintenance and other infrastructure. By lowering the cost of capital, MCI has thus contributed to social benefits that concern the public in Iceland.

MCI is a in an ideal position to make further positive social impact by providing loans for projects that are focused on environmental benefits and mitigate climate change. This is a long-term strategic effort which will commence with MCI launching a green bond program with the purpose of facilitating favorable funding for projects with environmental benefits. All Icelandic municipalities will have the opportunity to participate in this effort by funding eco-friendly projects with green loans from MCI.

Alignment with MCI's environmental policy

MCI's environmental policy highlights the emphasis to conduct MCI's operations in a way that reduces negative impact on the environment and has positive effects on society and economy. MCI has for decades lowered the cost of capital for Icelandic municipalities. The financing of school buildings, social housing, nursing homes, waste management and hydro power plants are examples of projects where MCI's strengths have contributed to social benefits for the general public in Iceland.

By offering green loans, MCI will encourage municipalities to more selectively choose environmental-improving projects that have a positive impact on our planet and to contribute to sustainable development by implementing projects that mitigate climate changes and have a positive environmental effect.

MCI's environmental efforts will first and foremost be carried out via Icelandic municipalities where certain eligible projects will be financed with Green Bonds. Dialogue with municipalities will be initiated and environmental benefits of the already financed projects will be reported on each year. MCI´s board and employees will concurrently commit to conducting their work that strives towards the same goal. Positive internal actions will be taken in certain areas, such as waste management, traveling of directors and employees and more.

MCI's goal is to be leading in environmental matters and show social responsibility in all operations and decision making.

The environmental policy is available on MCI's web page, www.lanasjodur.is.

Eligible projects

The selection criteria are in alignment with ICMA´s Green Bond Principles and the Position Paper on Green Bonds issued by the Nordic Public Sector Issuers.

The projects need to be aligned with the municipalities' long-term climate/environmental policy and shall be part of systematic environmental work within the municipality. They need to have quantifiable environmental benefits, with environmental mitigation and/or adaptation potentials. The projects shall assist municipalities, their organizations or enterprises, in the transition to low carbon economy and clean technologies. The project categories are outlined in the following table:

	UN SDG	Project examples	Exclusion
Production and distribution of renewable energy	7, 11, 12, 13	• Wind, wave, solar, hydro, geothermal, bioenergy and biogas from old landfills or new plants • Conversion from fossil to renewable energy	• Hydro >25MW • Geothermal CO2 >100 gr/kWh netto • New landfills

Green buildings	7, 12, 13	• New and retrofitted buildings are expected to have at minimum
		  ○ BREEAM rating "Very good" or higher,
		  ○ Nordic Swan Ecolabel
		  ○ or other certification of similar ambitions.
		• The rating must include the following:
		  ○ A screening for climate risk and resilience included in the design
		  ○ Electricity and space heating from 100% renewable energy sources
		  ○ Solutions for car-free living and electric charging stations fueled with 100% renewable energy sources	

Energy efficiency	7, 9, 13	• Technologies for reducing energy consumption, e.g. retrofitting led bulbs for street lighting • Energy efficiency measures in energy systems, e.g. district heating, electricity grids/smart grids, energy recovery and storage • Energy efficiency measures in various municipal activities and operations leading to a least 25 percent less energy use	• Electricity grid/smart grids from fossil fuel.
Waste management	7, 9, 11, 12, 13	• Equipment for improving waste processing • Production of renewable energy using (such as electricity from hydro, geothermal or hydrogen), or alternative fuels such as methane from landfills for use on waste collection vehicles	•

		• Increased methane collection from landfills for CNG production for public and private transport • Reducing the amount and harmful impact of waste, increasing re-use and recovery of materials and energy	
Clean transportation	7, 11, 13	• Enhanced public transportation system Infrastructure for enhanced public transport • Infrastructure for bicycle transport and pedestrians • Infrastructure for electrical vehicles and charging stations • Infrastructure for e-bike charging stations • Infrastructure for harbors using renewable energy • Transition to renewable energy in public transport • Logistics solutions with reduced environmental impact for transportation of people and cargo	• Transport system infrastructure to emit no more than 50g CO_2/km/passenger.
Water and wastewater management	6, 12, 14	• Water infrastructure, waste water management and cleaning facilities • Blue green/self-sustaining surface water solutions	

Selection of Eligible projects

Eligible projects are selected by MCI management based on guidelines accepted by the board of directors and must have quantifiable environmental benefits.

The selection of projects to be funded through the Green Bond is carried out in the following steps:

1) Municipalities apply for funding for a project that will fall under this Green Bond Framework. The environmental impact of the projects will be reported by municipalities. They will have the projects estimated by internal and/or external sustainability experts.
2) This estimation is conducted to verify and quantify the environmental benefits of projects to be funded. Projects need to have a positive long-term net environmental impact. The information generated throughout this estimation is then used for investor impact reporting.
3) The screening process is based on verifying the information provided by the municipalities.
4) The Loan officer and the CEO together approve which projects are funded by the proceeds from bond issuances that fall under this Green Bond Framework. Outside environmental experts are available to assess eligibility of the projects.
5) All eligible projects will be presented to the board of directors every month.

A list of funded projects and the environmental impact associated with those projects is kept by the loan officer of MCI.

Management of Proceeds

The proceeds from Green Bonds issuance will be managed by MCI's treasury department in accordance with internal guidelines and will be verified by the internal auditor.

According to the internal guidelines, MCI will manage the amount equal to the proceeds of the issue of the green bond and hold the funds separate from proceeds of other bonds issued by MCI in a special green bank account. MCI will issue a green bond only on a when-needed basis when projects for a given amount have been deemed eligible under this framework. The proceeds will be invested short-term in government issued securities or other low-risk money market instruments until disbursement.

MCI will communicate on allocation to eligible projects in its Green Bond Impact Report. MCI´s internal auditor will verify the allocations of the Green Bond funds and will his findings also be communicated in the Green Bond Impact Report.

The environmental impact from funded projects will be reported by the borrowing municipalities, they themselves will estimate the impact by internal and/or external sustainability experts. These will then be reported on a consolidated basis by MCI.

Transparency & reporting

MCI will, in parallel with its annual financial statements, publish a Green Bonds Impact Report, to provide investors with relevant information, including an overview of green projects funded and the environmental benefits. The Impact report will be published each year. The report will, among other, include:

- List of all eligible projects, including allocated funds, brief project description and expected impact.
- Total funding of eligible projects.
- Funds yet to be allocated.
- Information on estimated saved/avoided CO_2-emissions, energy performance and/or others relevant metrics.
- Accumulated environmental impact of the funded projects.
- Summary of MCI Green Bond development.

The Impact Report will be conducted using relevant indicators as outlined in the Position Paper on Green Bonds Impact Reporting published by Nordic Public Sector Issuers. Projects funded by green loans are monitored throughout the lifetime of the loan in order to validate that they still comply with the green bond framework. Quantitative environmental indicators will be checked against the methodology document.

Summary of environmental methodologies will be included in the report to demonstrate to investors the expected environmental impacts from projects that are funded but not begun. It will also report the environmental impact and benefits from projects that have already been funded.

The Green Bond Impact Report will be available on MCI web page and other relevant media and investors forums.

External review

MCI has obtained a „Second party opinion“ from Sustainalytics which is available on MCI´s web page, that verifies MCI´s Green Bond Framework is aligned with ICMA´s Green Bond Principles.

MCI´s internal auditor will verify the Green Bond proceeds, and the verification will be reported within the Green Bond Impact Report.

MCI´s external auditor will audit and verify that proceeds from Green Bond issues is used for selected projects.

Municipalities will be responsible for assessment on environmental impact on their projects which are conducted by external sustainability experts and will be published in the Annual Impact Report.

About MCI

Lánasjóður sveitarfélaga – Municipality Credit Iceland (MCI), first established in 1967. MCI was incorporated as a statutory limited liability company as of January 1st, 2007. The share capital of MCI is ISK 5 billion. Shares may only be owned by Icelandic municipalities and organizations or enterprises which are wholly owned by them. Reykjavik City is the largest shareholder with 17.5% of the total shares. As of 31 of December 2018 the total number of shareholders of MCI and therefore municipalities in Iceland are 72.

The principal object of MCI is to secure for the municipalities, their organizations and enterprises loan capital for projects of general economic interest on favorable terms through loans and/or guarantees. The condition for the granting of loans or guarantee by MCI to municipally-owned enterprises and institutions is that such enterprises and institutions must be wholly owned by municipalities or jointly owned by municipalities and the State Treasury, which will act as guarantors for the loans.

According to the Local Government Act No. 138/2011 a municipality may put up its revenues as collateral for loans granted by MCI and for guarantees it provides, but for no other loans or guarantees. When granting a loan, it is the policy of MCI that such collateral should be provided for by the municipality in question. Income deriving from the State Treasury and Ministry of Social Affairs serves as secure collateral for MCI. Since the start of operations in 1967 MCI has never suffered a loan loss.