

Workshop for Second Opinion Providers on Green Bonds

Beijing 28th September 2016
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Part 1 - Safeguarding the Green Bond Framework and Environmental Credentials

CICERO's involvement and motivations

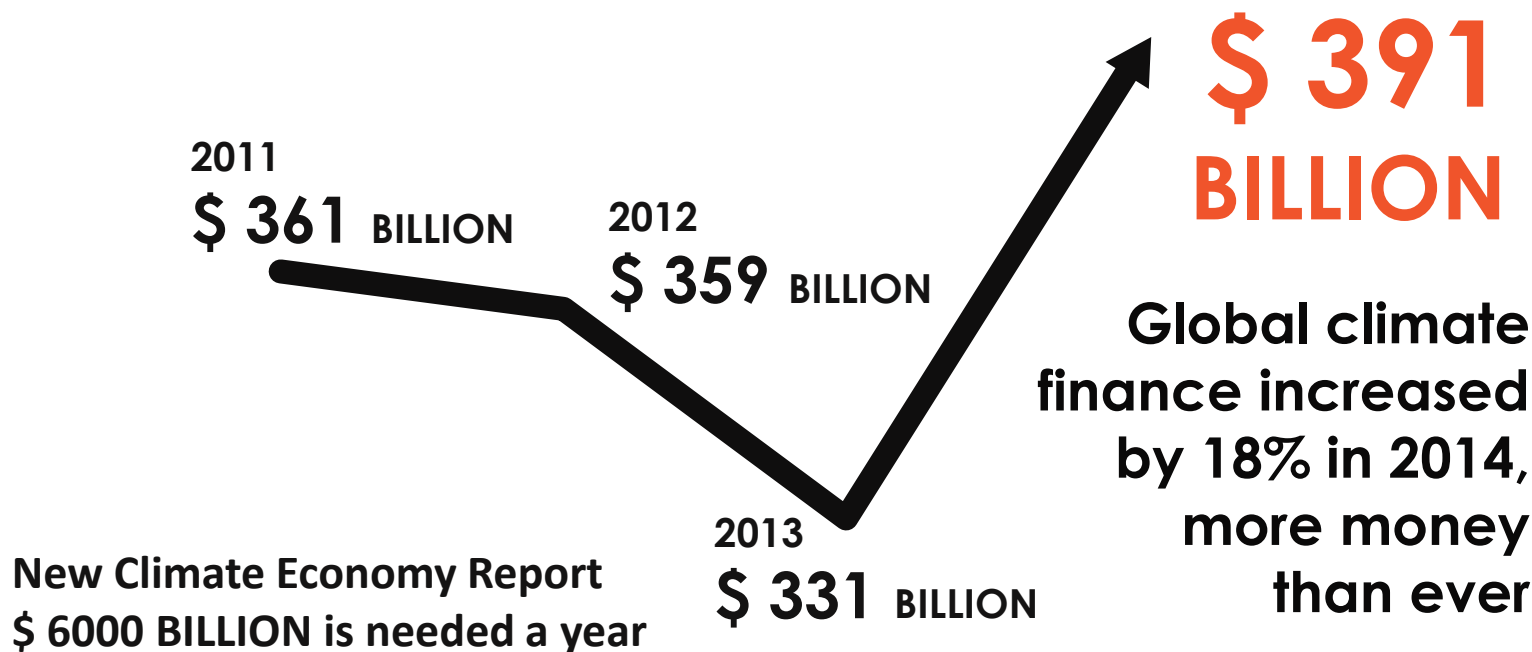
World-leading provider of second opinions on green bonds

<http://www.cicero.uio.no/en/posts/news/green-bonds-and-environmental-integrity>



Climate finance flows in last five years have been significant despite economic crisis

TOTAL CLIMATE FINANCE IN 2014

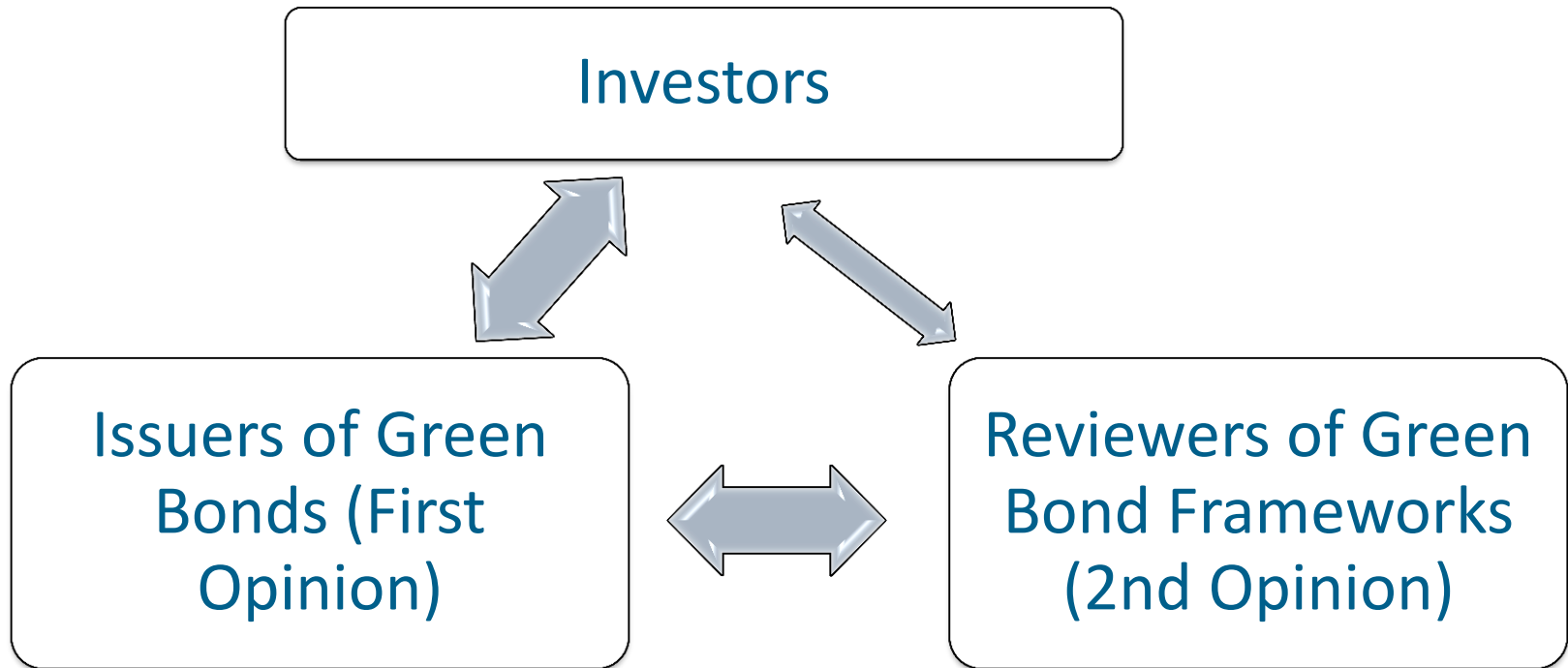


Source CPI

Expert Network on Second Opinions

ENSO

- One-stop window for second opinions to the financial market
- Based on CICERO's trusted non-profit research-based approach
- Operates independently from the financial sector and other stakeholders
- Global network of trusted research institutions on climate change and other environmental issues



Green Bond Framework

1. Use of proceeds (definitions)
2. Selection process (governance)
3. Management of proceeds
4. Reporting

CICERO/ENSO Second Opinions

1. Strengths
2. Weaknesses
3. Pitfalls
4. Shading

June 2016

KBN GREEN BOND FRAMEWORK

The purpose of this document is to describe KBN's Green Bond Framework built on KBN's overall environmental strategy. KBN is a member of ICMA's Green Bond Principles¹ (GBP) and is also aiming to comply with the "Harmonized Framework for Impact Reporting" developed by 11 Multilateral Development Banks in December 2015².

The framework has four components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

1. Use of Proceeds

"Eligible Projects" means a selected pool of projects determined as eligible according to this Framework. Projects might be funded in whole or in part by KBN. Eligible Projects promote the transition to a low-carbon and climate resilient Public Sector. Such projects may target (a) mitigation of climate change through reduction of emissions from buildings, transportation and energy production, (b) adaptation to climate change, including investments in climate-resilient infrastructure, or (c) to a smaller extent (limited to 10%), projects related to a sustainable environment on a local scale.

Eligible Project categories

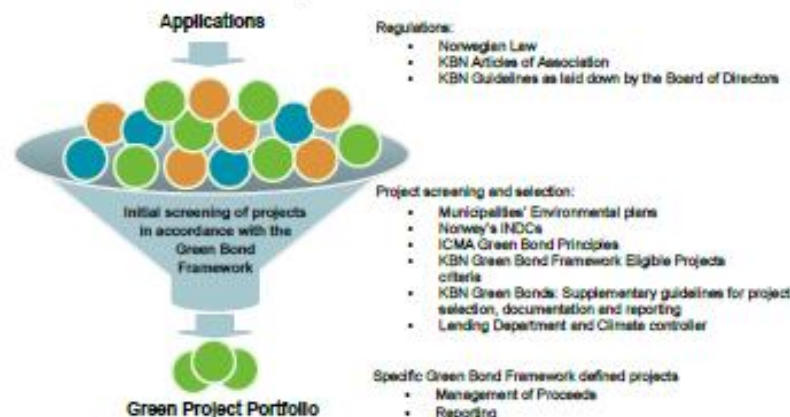
Please refer to "KBN Green Bonds: Supplementary guidelines for project selection, documentation and reporting"³ for detailed criteria and requirements of the Eligible Project categories.

- **Renewable energy (a):** to reduce the use of fossil fuel, KBN is financing installations for production of renewable energy. Please note that if the installation is part of a new construction it will fall under the "Green buildings" category.
- **Energy efficiency (a):** KBN is promoting projects aiming to lower both emissions from energy production and energy bills for the municipal sector by upgrading to higher energy standards or installing climate friendly technology such as heating or control systems.
- **Green buildings (a):** new buildings or additions to buildings with an energy performance superior to current energy standards according to the supplementary guidelines may qualify for KBN's green lending rate.
- **Waste management (a/b):** sustainable waste management is an important environmental initiative as it both reduces emissions and returns scarce resources to the value chain. KBN finances either new or upgrading of plants.
- **Land use (b/c):** projects including sustainable redevelopment of recreational and other areas.
- **Low-carbon transportation (a):** low emission or emission free public transportation. The category also includes pedestrian and bicycle lane projects.
- **Water and wastewater management (b):** a robust water and sewage infrastructure is important to handle increased pressure on existing systems due to heavier rainfall and population growth. Projects include replacing and upgrading of water and sewage pipes in addition to financing equipment of handling sludge and contaminated discharge.
- **Climate change adaption (b/c):** natural disaster warning systems, landslide security systems, climate research and education programs.

2. Process for Project Evaluation and Selection

For a project to be included in the Eligible Projects pool, it shall comply with a) the categories listed in section 1 above and in the "KBN Green Bonds: Supplementary guidelines for project selection, documentation and reporting", b) the Municipality's Environmental Plan and c) Norway's Intended Nationally Determined Contributions (INDCs) according to the Paris Agreement. Applicants are required to declare eligibility by filling in a designated section in the loan document. Additionally, relevant documents indicating the Project's estimated environmental performance shall be provided. A project's eligibility is assessed by the Lending Department and approved by two Climate controllers. Approved Green Projects are entitled to KBN's Green Lending Discount and included in the bank's portfolio of Green Projects.

Green Bond Project Selection Process Flowchart



3. Management of Proceeds

An amount equal to the net proceeds of the issue of the Notes will be credited to a special budget account that will support KBN lending for Eligible Projects, according to section 3 in the GBP. KBN will carefully manage the balance between green funding outstanding and green lending to make sure the green funding is disbursed in a timely manner. KBN aims to direct the predominant part of net proceeds to new projects. However, refinancing of selected projects with particularly high environmental or climate benefits is considered if in line with this framework.

4. Reporting

To enable investors to follow the development and provide insight into prioritized areas KBN will provide an annual SRI report linked to the annual financial results report. The SRI report will include a section on the progress of the Green Bond program. KBN will also keep the dedicated Green Bond webpages continuously updated with: 1) a list of projects financed; 2) a selection of project examples "Green Bond Stories" and; 3) a summary of the KBN Green Bond development including statistics on our Green Project portfolio with impact reporting, aiming to comply with the issuer group "Harmonized Framework for Impact Reporting" (Dec 2015).

KBN has appointed an advisory board, "The Green Committee", whose mandate will be to provide advice and guidance in matters related to the Bank's Green Bond Framework. The committee will primarily draw on external expertise in related fields, but will also include members of the KBN staff. Our Green Bond process will be audited by KBN's internal auditor, currently KPMG.

¹ <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practices/green-bonds/green-bond-principles/>

² <http://treasury.worldbank.org/cmd/pdf/InformationonImpactReporting.pdf>

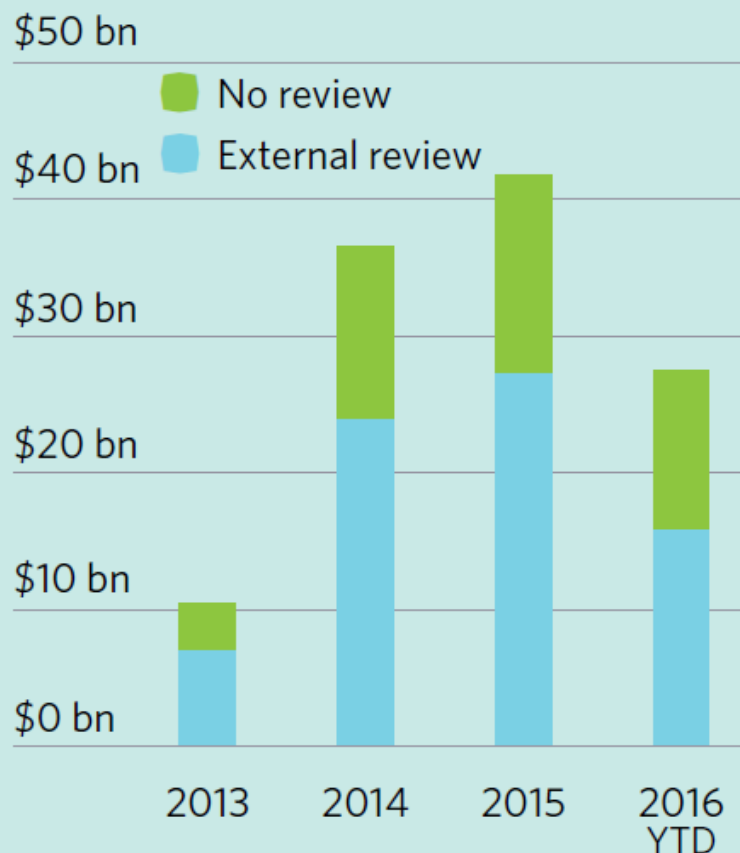
³ <http://www.kommunalbanken.no/greencriteria>

Dynamic approach vs. Fixed Definitions

1. Dynamic and flexible approach allows for developments as science and the market evolves.
2. A dynamic approach with issuer specific frameworks often refers to standards (GBP, national and sectorial)
3. CICERO operates independently of other stakeholders' influence. This integrity has been valued by the market.
4. Other second opinion providers focus more on use of proceeds and transparency than on 'greenness', and some include a wider set of social responsibility issues.

Review of Green Bonds

59% - 66% of green bonds have received an external review



www.climatebonds.net

Part 2 - Assessing an Issuer's Green Bond Framework – 2nd Opinions

Second Opinion Criteria

Bond issuer's information

Sustainability and climate frameworks, definitions, reporting procedures, etc.



CICERO's assessment criteria

- Objective/project types
- Use of proceeds
- Project selection (criteria, procedures)
- Consideration of macro-impacts
 - Trans-boundary impacts
 - Rebound effects
- Reporting and transparency



CICERO recommendations and rating (shades of green)



Unlikely to support climate-friendly investments

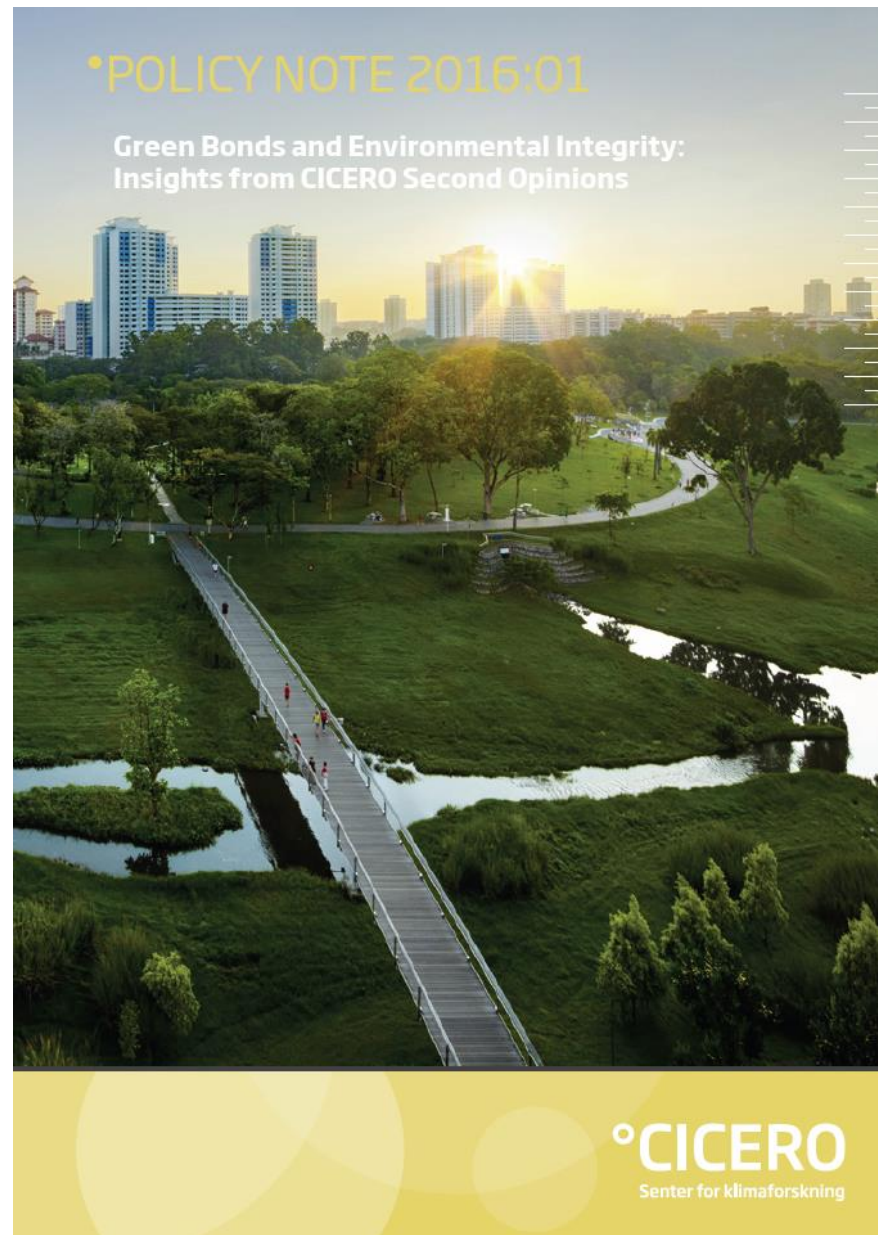
Very likely to support climate-friendly investments

Shades of Green

Do the selected project categories meet expectations for a low-carbon and climate-resilient future?

Dark green	Projects and solutions that realise the long-term vision of a low-carbon and climate-resilient future already today. Typically, this will entail zero-emission solutions and governance structures that integrate environmental concerns into all activities. Example projects include renewable energy projects such as solar or wind.
Medium green	Projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Example projects include sustainable buildings with good (but not excellent) energy efficiency ratings.
Light green	Projects and solutions that are environmentally friendly but are not by themselves a part of the long-term vision. Example projects include energy efficiency improvements in fossil-based industry that result in short-term reductions of greenhouse gas emissions, and diesel-fuelled buses.
Brown	Projects that are in opposition to the long-term vision of a low carbon and climate-resilient future.

[http://www.cicero.uio.no
/en/publications/
internal/2831](http://www.cicero.uio.no/en/publications/internal/2831)



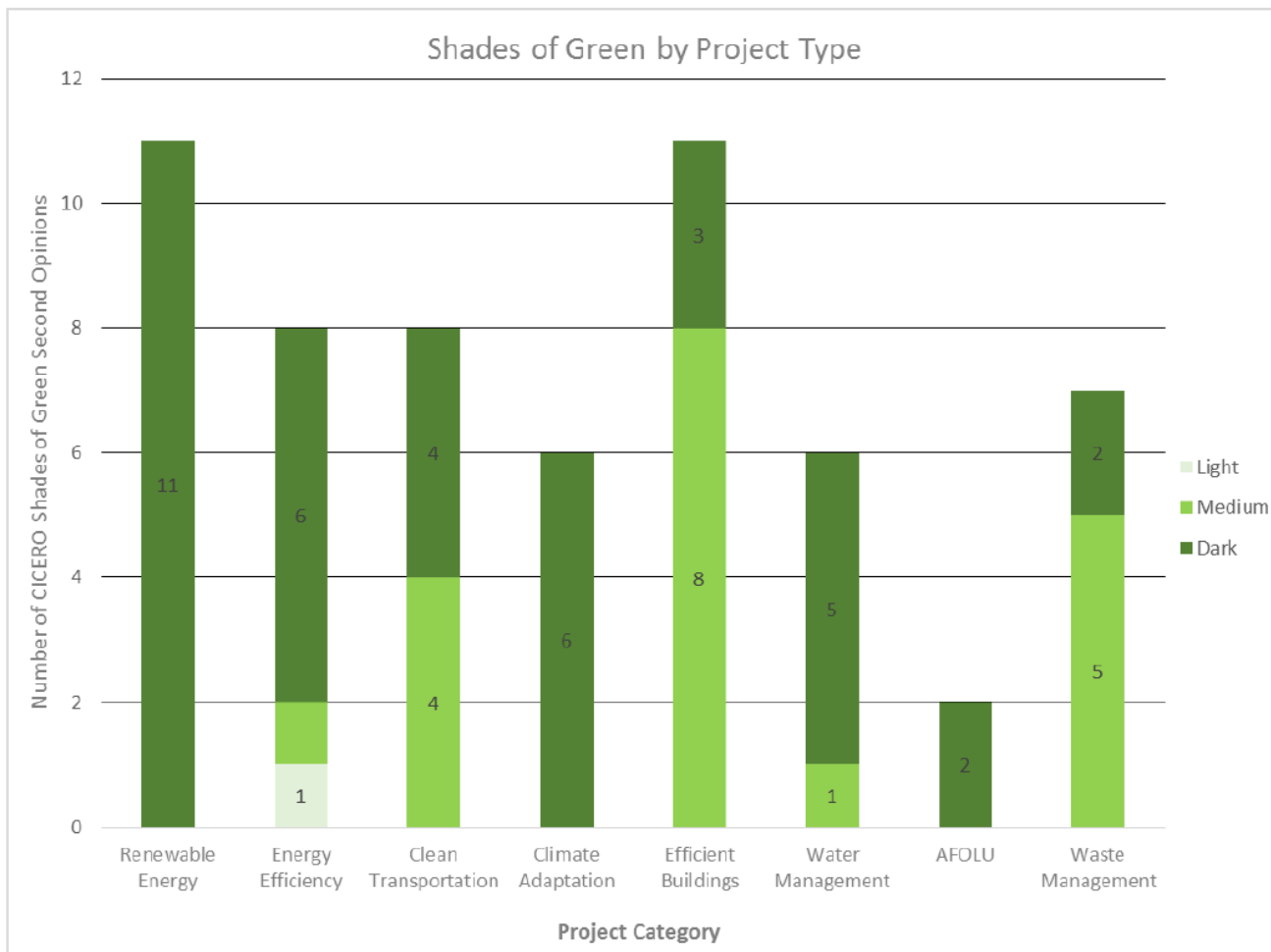


Figure 4: Number of CICERO second opinions by Shade of Green for each project type

Insights from CICERO Second Opinions

- Governance matters
- Stimulates internal dialogue between financial and environmental experts

