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DLR's Green Bond Framework



dlr·kredit

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Introduction

DLR Kredit A/S ("DLR") is a Danish mortgage credit institution owned primarily by 42 local and national banks that collaborate with DLR. DLR has no branch offices, as loans are distributed through the branch networks of DLR's shareholder banks.

DLR grants loans against mortgages on real property in Denmark for the financing of agricultural property – including residential farms – and other commercial properties, private cooperative housing and owner-occupied housing. DLR also grants loans, on a limited scale, in Greenland and the Faroe Islands, primarily for owner-occupied homes and residential rental properties and, on a smaller scale, office and retail properties.

DLR's overriding risk is credit risk, i.e. the risk that borrowers default on their loans with DLR. Credit risk is limited by collateral in the form of DLR's mortgages on the properties and also by the guarantee and loss-mitigating agreements DLR has signed with its loan-distributing shareholder banks.

DLR is committed to taking part in the sustainable transition within DLR's borrower segment. Failure to take part in the sustainable transition entails a variety of long-term risks, and DLR has therefore set new sustainability goals to be achieved by offering green loans and green bonds.

DLR and sustainability

DLR endorses sustainability targets

Denmark has set an ambitious target to reduce its carbon dioxide emissions by 70% by 2030. This will ensure that Denmark meets both the United Nations' Sustainable Development Goals and the reduction targets of the Paris Agreement. DLR endorses both the Danish government's targets, the United Nations' Sustainable Development Goals and reduction targets of the Paris Agreement. In DLR's Corporate Social Responsibility report it is described, how DLR's lending activities are linked to the UN Sustainable Development Goals¹.

Funding of sustainability

The ability to procure funding for the sustainable transition is a prerequisite for success. Banks and mortgage credit institutions therefore constitute a cornerstone of the transition towards a more sustainable society. This also applies to DLR, as DLR plays an important role in the financing of commercial real estate and agricultural properties throughout Denmark.

DLR has financed transition of the agricultural sector since 1990

With a market share of more than one-third, DLR is Denmark's largest mortgage lender to the Danish agriculture sector to which we have provided finance for more than 60 years. The past 30 years DLR has successfully financed a structural transition of the agricultural sector, which has reduced its greenhouse gas emissions by 19% since 1990². During the same period agricultural production in Denmark has increased by 21%³.

DLR at a glance

DLR is a specialized Danish mortgage bank established in 1960

DLR is Denmark's fifth largest mortgage lender with a loan portfolio of around DKK 189bn

DLR's lending is based solely on the issuance of covered bonds secured by the mortgaged properties

DLR's main lending areas are almost equally divided between agricultural and commercial real estate properties, including SMEs

DLR is Denmark's largest mortgage lender to full-time agricultural properties

DLR has no branch offices, as loans are distributed through the branch networks of DLR's 42 shareholder banks

The banks refer customers to DLR and ensures a distribution network covering all areas of Denmark

DLR's credit risk is limited by guarantee and loss-mitigating agreements that DLR has signed with its loan-distributing shareholder banks.

DLR plays a key role in transition of the Danish agricultural sector towards 2030

DLR will in the years to come continue to be a key provider of necessary funds to facilitate the sustainable transition. The transition potential is significant. According to an expert group "Danish Climate Partnership for the Food and Agriculture Sector", the Danish agricultural sector will be able to reduce its emissions by a total of 62% by 2030⁴. This equals 12.6 million tons CO₂ in 2030. Moreover, the Danish agricultural sector has through its industry organization "Danish Agriculture and Food Council" adopted a vision of a climate-neutral Danish food industry by 2050⁵.

In early October 2021, a broad political agreement was concluded on the green transition of Danish agriculture, including the framework for implementing changes to the EU common agricultural policy (CAP). Broad support for the agreement from most of the political parties represented in the Danish parliament provides adequate security with respect to framework conditions for Danish agriculture towards 2030, which is paramount for the industry to invest in the green transition.

Significant potential for energy efficiency improvements to be financed by DLR

DLR also finances commercial properties at large. DLR has been providing finance for commercial properties since 2001, and today DLR's outstanding loan portfolio is roughly split half and half between full-scale agriculture and other properties, mainly commercial real estate properties. Aalborg University estimates that heat consumption of existing buildings can be reduced cost-effectively by 40% towards 2050⁶. Hence, there is a significant potential for energy efficiency improvements to be financed by DLR.

DLR finances properties country-wide

DLR is the fifth largest lender in Denmark and a systemically important financial institution (SIFI). Hence, DLR plays a key role in providing mortgage loans to finance the sustainable

transition of the economy. As DLR's loans are distributed country-wide by 43 local and country-wide banks spread across Denmark, Faroe Islands and Greenland, DLR also provides financing in rural parts of Denmark.

DLR conducts ESG assessments

DLR conducts credit assessments of the borrower and appraisal of the collateral when a mortgage loan is granted. The assessment and appraisal take environmental, social and government (ESG) aspects into account to ensure fulfillment of DLR's credit and ESG policies⁷.

DLR promotes transparency

As part of managing a responsible business, DLR provides a high degree of transparency on matters important for DLR's stakeholders, which includes borrowers, bond investors, shareholders, loan distributors, authorities and employees. As examples, mortgage loan terms, real-time mortgage loan/bond prices, governance structures and complaint procedures are disclosed.

In addition, DLR is engaged in committees and task forces with key stakeholders, including Finance Denmark, the European Banking Federation, The European Mortgage Federation and SEGES (the leading agricultural research institution in Denmark).

Rationale for issuing Green Bonds

DLR aims, together with the shareholder banks, to be an important source of funding for the sustainable transition of DLR's costumers. DLR took the first step to achieve this goal in January 2021, when DLR started offering green loans on attractive and competitive terms. The loans are offered locally through the shareholder banks, thereby helping to support growth and the sustainable transition in all parts of Denmark.

With this green bond framework DLR aims to channel even more investments towards sustainable assets, thereby increasing the positive environmental impact. Issuance of green bonds will help:

1. Accelerate and promote the transition to a low carbon and climate resilient society
2. Support the development of sustainable investment opportunities for investors
3. Support the development of the green bond market, and
4. Support diversification of the investor base.

Application of the Green Bond Principles

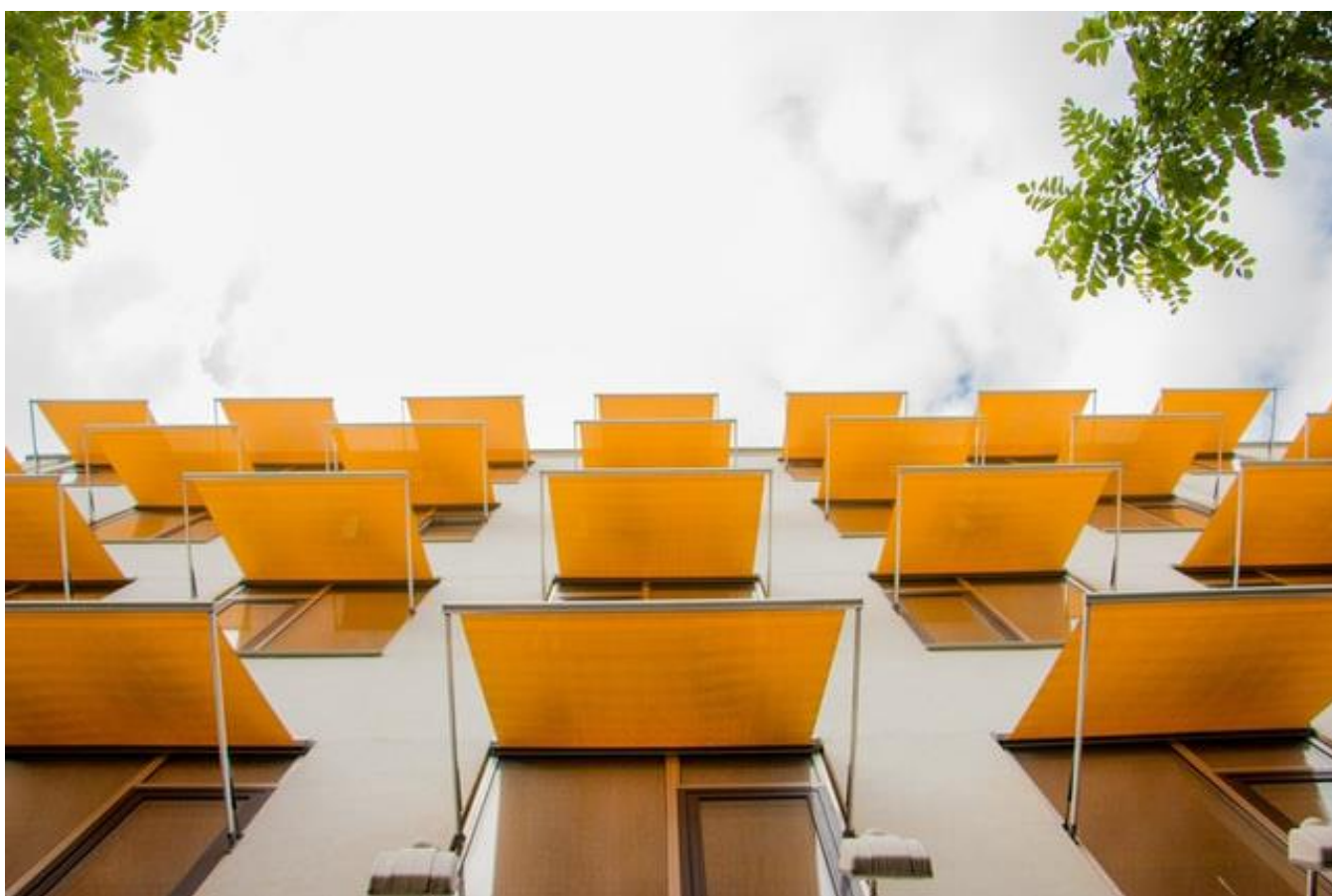
The ICMA Green Bond Principles (GBP) are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach for issuing a green bond. The Framework has been developed in line with the Green Bond Principles⁸ and as such follows the core components:

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

This Framework enables DLR to issue Covered Bonds in the form of Green Bonds when contemplated in the relevant prospectus and indicated in the final terms.

The Framework sets the basis for the identification, selection, verification and reporting of loans or other assets originated by DLR eligible to be financed and/or refinanced in DLR's Green Pool. (Please be aware that the Green Pool is a sub-pool of DLR's capital center B and is not as such legally comparable to a covered bond or mortgage bond cover pool).

The Framework may be further updated and expanded at a later stage in line with evolving market standards and practices.



Use of Proceeds

An amount equal to the net proceeds of the Green Bonds issued under this Framework shall be used to finance and/or re-finance, in whole or in part, assets ("Eligible Green Assets") originated by DLR which meet the requirements of this Framework and fall in at least one of


the categories described in the section Green Asset Categories, together forming the Green Pool.

Exclusion


DLR grants loans against mortgages on real property in Denmark for the financing of agricultural property – including residential farms – and other commercial properties and private cooperative housing. DLR has no outstanding loans nor grant new loans where the main purpose of the loan is fossil fuel energy generation, nuclear energy generation, tobacco, gambling, research and/or development within weapons and defense, or environmentally negative resource extraction such as extraction of fossil fuels, and loans with these main purposes are not eligible for the Green Pool. Furthermore, DLR has no outstanding loans or grant new loans with an indirect purpose of extraction, storage, transportation or manufacture of fossil fuels.


Green Asset Categories

The Green Assets Categories have been identified by DLR's ESG Committee as assets that contribute to EU's Environmental Objectives. The Green Asset Categories have been verified by an external verifier to be consistent with the ICMA's GBP (2021) and the verifier's own criteria, as evidenced by a "Second Party Opinion" published on [Investor - DLR Kredit](#). Any changes to the Green Asset Categories will be subject to verification by the external verifier.





Selected Categories	Eligibility Criteria	EU Taxonomy Activity	Contribution to EU's Environmental Objectives	Contribution to UN Sustainable Development Goals
Green buildings	<p>Non-residential buildings¹</p> <ul style="list-style-type: none"> • New buildings constructed after 1 January 2021 with energy label⁹ A2020¹⁰ • Energy-rated buildings constructed before 1 January 2021 with energy label A2020, A2015, A2010 or B¹¹ • BREEAM minimum certification "very good"¹² • LEED (minimum certification "gold")¹³ • DGNB (minimum certification "gold")¹⁴ 	<p>7.1 Construction of new buildings</p> <p>7.7. Acquisition and ownership of buildings</p>	<p>EU Environmental Objective 1:</p> <p>Climate Change Mitigation</p>	<p>Goal 7: Affordable and Clean energy</p>  <p>Goal 11: Sustainable Cities and Communities</p>

¹ In DLR's previous green bond framework (dated February 2023) loans for the financing of 'new buildings' constructed after 1 January 2021 with EPC's of A2015 (both residential and non-residential) are included in the eligibility criteria. With the adjustment of the green bond framework, DLR will not grant new green loans to be funded by green bonds for the financing of buildings constructed after 1 January 2021 with EPC's A2015 or worse. However, such loans already granted under the current or previous framework will be refinanced recurrently by green bonds issued under the green bond program upon expiry of the green bonds issued.

Selected Categories	Eligibility Criteria	EU Taxonomy Activity	Contribution to EU's Environmental Objectives	Contribution to UN Sustainable Development Goals
	<p>Residential buildings</p> <ul style="list-style-type: none"> • New buildings constructed after 1 January 2021 with energy label A2020¹⁵ • Energy-rated buildings constructed before 1 January 2021 with energy label A2020, A2015, A2010 or B¹⁶ 			

Selected Categories	Eligibility Criteria	EU Taxonomy Activity	Contribution to EU's Environmental Objectives	Contribution to UN Sustainable Development Goals
<p>Renewable energy</p>	<p>Green energy sources</p> <ul style="list-style-type: none"> • Wind turbines • Solar power plants • The installation and operation of on-site electric heat pumps • Facilities producing biogas, biofuel and combined Heat and Power (CHP)² through anaerobic digestion of organic waste • Hydropower-based electricity generation (<1000MW), with facilities that comply with one of the following: <ul style="list-style-type: none"> - Run-of-river facilities without an artificial reservoir - Facilities with a power density of electricity generation above 5W/m² - Facilities with life cycle GHG emissions from electricity generation lower than 100g CO₂e/kWh 	<p>4.1 Electricity generation using solar photovoltaic technology</p> <p>4.3 Electricity generation from wind power</p> <p>4.5 Electricity generation of hydropower</p> <p>4.8: Electricity generation from bioenergy</p> <p>4.16 Installing and operation of electric heat pumps</p>	<p>EU Environmental Objective 1:</p> <p>Climate Change Mitigation</p>	<p>Goal 7: Affordable and Clean energy</p> 

² [chp.pdf \(ens.dk\)](#)

<p>Energy efficiency</p>	<p>Energy efficiency renovations</p> <ul style="list-style-type: none"> Renovation of existing buildings that reduce primary energy demand by at least 30% 	<p>7.2 Renovation of existing buildings</p>	<p>EU Environmental Objective 1: Climate Change Mitigation</p>	<p>Goal 11: Sustainable Cities and Communities</p>  <p>Goal 13: Climate Action</p> 
<p>Environmentally sustainable management of living natural resources and land use</p>	<p>Sustainable agricultural investments</p> <ul style="list-style-type: none"> Construction of pig barns with slurry acidification, which reduces CO2-emission with at least 30%¹⁷ Construction of pig barns with frequent slurry discharge and delivery to biogas facilities, which reduces CO2-emission with at least 30% <p>Farms with sustainability certification</p> <ul style="list-style-type: none"> Farms certified for organic production with or without organic livestock production <p>Forestry</p> <ul style="list-style-type: none"> Forests certified by the Forest Stewardship Council (the FSC)¹⁸ or the program for the Endorsement of Forest Certification (the PEFC)¹⁹ Forest management and conservation forestry aligned with the EU-taxonomy 	<p>Not possible to align with an EU Taxonomy activity</p> <p>1.1 Conservation, including restoration, of habitats, ecosystems and species</p> <p>1.3 Forest management</p> <p>1.4 Conservation forestry</p>	<p>EU Environmental Objectives 1 and 6: Climate Change Mitigation and Protection, Restoration of Biodiversity and Ecosystems</p>	<p>Goal 13: Climate Action</p>  <p>Goal 15: Life on Land</p> 

DLR can choose to limit the above eligibility criteria. DLR cannot guarantee that the above eligibility criteria will live up to existing or future regulatory or market standards for green assets.

Process for Project Evaluation and Selection

Projects financed and/or refinanced by green bond proceeds are evaluated and selected based on compliance with the eligibility criteria outlined in the Framework.

The Framework is approved by DLR's ESG Committee. The ESG Committee consists of members from central business units with relevant stakes in DLR's Green Bonds, namely Credit, Treasury and Funding, Rating, IR & Sustainability, Accounting and Finance, Legal and Regulation, Compliance and DPO and relevant member of the executive board. Treasury and Funding handles the day-to-day operational management of the Framework.

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

- DLR's credit department nominates potentially types of Eligible Green Assets for DLR's Green Pool in accordance with the eligibility criteria defined in the "Use of Proceeds" section.
- DLR's ESG Committee reviews and approves the nominated asset types. The ESG Committee will meet on a regular basis (at least annually) and conduct an additional review of Eligible Green Assets in the Green Pool and the corresponding allocations to ensure ongoing compliance with the Framework.
- The ESG Committee will validate annual reporting for investors.

As with all DLR lending activities, all potential green loans in DLR follow the standard credit process which intends to ensure compliance with applicable national rules and regulations, Know-Your-Customer processes and DLR's own policies and guidelines, such as Credit, Counter-Terrorist Financing and Sanctions policies.

Furthermore, all loans for corporate clients at DLR undergo an ESG assessment as an integrated part of DLR's credit approval process. Climate-related risks, amongst others, are assessed. The ESG assessment criteria are continuously developed and reviewed.

Identification and management of ESG-risks

When a borrower asks for DLR's green loan, the borrower must provide documentation that the property fulfills the eligibility criteria for green loans, which are defined here in DLR's green bond framework. DLR then matches this documentation with data obtained from publicly available data. This includes, among other things, EPC's, organic farming, etc. on the single properties.

Next, a valuation expert, always physically inspects the property. In addition to condition and marketability, ESG factors and ESG risks are considered in determining the property's value and are commented in written valuation report. Then, a loan officer in DLR, assesses soil contamination, reviews production permits, examines geodata such as the risk of flooding, considers the geographic location in relation to nature, cities, etc., and observes the land use, such as forests, meadows, and arable land, as well as working conditions.

For new customers and existing customers applying for a new loan or remortgaging their current loan, an ESG assessment is also conducted through an ESG-questionnaire, which contains relevant questions about ESG factors on the farm or in their business as part of the application process.

Only when the above process leads to the conclusion that the borrower is eligible for DLR's green mortgage loan, the borrower will receive a green loan.

Management of Proceeds

DLR has established a Green Bond Register in relation to green bonds issued by DLR for the purpose of recording the intended allocation of the net proceeds from Green Bond. Treasury and Funding handles the day-to-day management of proceeds including the allocation process.

Danish regulations stipulate that loans originated by a specialized mortgage bank can only be funded by covered bonds. Hence, all Eligible Green Assets originated by DLR will be funded by Green Covered Bonds on a 1:1 basis out of DLR's capital center B in specific ISINs. Hence, 100% of the proceeds will be allocated. The proceeds are managed by a bond-by-bond approach.

Due to the match funding principle the cash flow of the Green Covered Bonds will match the cash flow of the loans funded by these bonds. Furthermore, there will be a direct linkage between the issued Green Covered Bonds in a particular ISIN and the Eligible Green Assets.

Reporting

DLR will provide the following Green Bond reporting on an annual basis on [Investor - DLR Kredit](#) until DLR's Green Bonds have matured.

Allocation reporting

- The total outstanding amount of Green Bonds
- The total amount of net proceeds allocated from the issuance of Green Bonds
- The breakdown of the Green Registry and the Green Portfolio by Green Asset Categories
- The geographical distribution of the Green Registry and the Green Portfolio
- New loans entering the pool over the previous reporting year.

Impact reporting

DLR will report on an annual basis the environmental impacts of the Eligible Green Assets. The impact reporting will provide environmental impacts per Green Asset Category.

DLR aims to include in the reporting the indicators outlined below subject to availability of information and baseline of the data. The impact reporting will include a description of the applied methodology, on a best effort basis, to support transparency and comparability. DLR also intends to provide sample projects and descriptions for each category.

Green loan category	Indicative key performance indicators
Green buildings	EPC's and estimated EPC's Estimated GHG-emissions on buildings (tons per year) Energy savings (MWh per year)
Renewable Energy	Renewable energy generation (MWh per year) Installed renewable energy capacity (MW) GHG savings (tonnes per year)

Energy Efficiency	Energy savings (MWh per year) GHG savings (tonnes per year)
Environmentally sustainable management of living natural resources and land use in agricultural	Organic farming certification schemes Forestry certification schemes (if applicable)

External Review

Second Party Opinion

DLR has obtained an independent second party opinion on its Framework from ISS ESG. The second party opinion report is available on [Investor - DLR Kredit](#)

DLR will on an ongoing basis review the Framework and reserves the right to update the Framework if improvements are identified or to include further categories as Eligible Green Assets, provided that the Second Party Opinion is updated by ISS ESG.

Policies and Position Statements

Selected DLR Policies	Publicly available?
Compliance policy	Yes
Sustainability Policy	Yes
Code of Conduct	Yes
Tax Policy	Yes
Whistleblower Policy	Yes
Credit Policy	Yes
Diversity Policy	Yes
Remuneration Policy	Yes
Human Rights	Yes

Public policies and position statements are available at: [Governance - DLR Kredit](#)

References

- ¹ <https://dlr.dk/en/investor/financial-statements/>
- ² Statistics Denmark, Greenhouse Gas Accounts (in CO2 equivalents) by industry and type of emission, www.statistikbanken.dk
- ³ <https://lf.dk/-/media/lf/tal-og-analyser/fakta-om-erhvervet/fakta-om-foedevareklyngen/2020/pdf/lf-baeredygtig-udvikling-2020-web.pdf>
- ⁴ <https://lf.dk/-/media/lf/aktuelt/nyheder/2020/klimapartnerskab/klimapartnerskab-for-foedevare-og-land-brugssektoren-20-08-20-003-2-.pdf>
- ⁵ <https://lf.dk/-/media/lf/viden-om/miljo-klima/klima-paa-web/klimaneutralt-foedevareerhverv-2050-lres.pdf>
- ⁶ https://www.klimaraadet.dk/sites/default/files/downloads/70_pct_analyse.pdf
- ⁷ <https://dlr.dk/wp-content/uploads/2021/05/CSR-policy-2021.pdf>
- ⁸ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>
- ⁹ Energy labels will be based on data from the Danish Energy Agency – according to the Danish Order on the publication of energy labelling of buildings and inspection reports on boiler and central heating installations etc. ("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 Asset it will remain so unless it later gets an energy label below the selection criteria and thus becomes ineligible
- ¹⁰ The threshold set for the nearly zero-energy building (NZEB) in Denmark corresponds to a "A2015 label" in the Danish regulation for new non-residential buildings, implying a guaranteed energy consumption of kWh/m²/year < 41 + 1.000/A. The "A2020 label" guarantees energy consumption of kWh/m²/year < 33, which is at least 20% (-20% = 33/41-1)) lower than the NZEB-implied legal requirements for new buildings.
- ¹¹ Together energy-labels energy labels "A2020, A2015, A2010 and B" constitutes buildings within the top 15% of the national building stock. Aggregated statistics on energy labels can be found on the Danish Energy Authority's website: <https://spareenergi.dk/offentlig/bygninger/energimaerkning-af-bygninger>. Statistics on the National building stock is available on Statistics Denmark's webpage: <https://www.dst.dk/en/Statistik/emner/erhvervsliv/byggeri-og-anlaeg/bestanden-af-bygninger>
- ¹² <https://www.breeam.com/discover/how-breeam-certification-works/>
- ¹³ <https://www.usgbc.org/leed>
- ¹⁴ <https://dk-gbc.dk/dgnb>
- ¹⁵ The threshold set for the nearly zero-energy building (NZEB) in Denmark corresponds to a "A2015 label" in the Danish regulation for new residential building implying a guaranteed energy consumption of kWh/m²/year < 30 + 1,000/A. The "A2020 label" guarantees energy consumption of kWh/m²/year ≤ 27. The A2020 label guarantees energy consumption of kWh/m²/year ≤ 27, which is at least 10% (-10% = 27/30-1)) lower than the NZEB-implied legal requirements for new buildings.
- ¹⁶ For residential buildings the "B label" covers labels B or B1 in Danish regulation which guarantee energy consumption – kWh/m²/year ≤ 70.0 + 2,200/A. For other buildings The "B label" covers labels B or B1 in Danish regulation which guarantee energy consumption – kWh/m²/year ≤ 95.0 + 2,200/A
- ¹⁷ The standard covers the accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃) - [Corporate Standard | Greenhouse Gas Protocol \(ghgprotocol.org\)](http://CorporateStandard|GreenhouseGasProtocol(ghgprotocol.org))
- ¹⁸ <https://dk.fsc.org/dk-da/intro-til-fsc/hvad-er-fsc>
- ¹⁹ <https://www.pefc.dk/om-pefc/pefc-organisationen>