°CICERO Shades of Green

Gróska
Green Financing Second Opinion

March 11, 2022

Gróska ehf. (a limited liability company) is the owner of Gróska, a building located in Vatnsmýri in Reykjavík, Iceland, next to the University of Iceland campus. Gróska's main purpose is to lease office space but is selective on its tenants to foster its innovation and social role. Gróska is committed to contributing to raising the bar for green buildings in Iceland by having in place a BREEAM In-Use certification.

The main objective of Gróska's green financing framework is to refinance the Gróska building. The intent is to get the Gróska building a BREEAM In-Use certificate of Very Good. Alternatively, demonstrating that the buildings is among the top 15% buildings energy efficiency wise of similar stock. As publicly citable energy efficiency numbers for the 15% criteria for existing building stock in Iceland are still under development, the BREEAM criterion will be applied initially. We note that the certificate is yet to be issued, but Gróska states that they are certain that they will get a Very Good label, based on preliminary assessment. Not more than 15% of the proceeds will be used for administrative expenses.

As a relatively young company, Gróska does not yet have formalized environmental policies or goals besides the criteria laid down in the framework. Also, they do not report on climate relevant key performance indicators. The issuer informs us that they are in the process of formalizing sustainability targets and strategies. At this time, Gróska has no formalized procedures for consideration of resilience or rebound issues, although an assessment of flooding risks was carried out at the time of construction of the Gróska building. Gróska does not follow the TCFD guidelines on reporting on climate risks. The selection process is clear, but the environmental expert does not have veto power. Life cycle analysis of projects, and supply chain requirements do not seem to be taken into consideration. We note that the transport solutions associated with the building are good (access to public transport, facilities easing emission free transport, etc). The reporting is good and independently verified/reviewed, but on a conditional basis.

Based on the overall assessment of the project type that will be financed by the green finance, governance, and transparency considerations, Gróska's green finance framework receives a **CICERO Light Green** shading and a governance score of **Fair**. The framework would benefit from requiring climate risk assessments, life cycle and rebound assessments for eligible activities.

SHADES OF GREEN

Based on our review, we rate the Gróska's green bond framework **CICERO Light Green.**

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Gróska's framework to be **Fair.**

GREEN BOND AND LOAN PRINCIPLES

Based on this review, this framework is found in alignment with the principles.

°CICERO Light Green

°CICERO Shades of Green

Contents

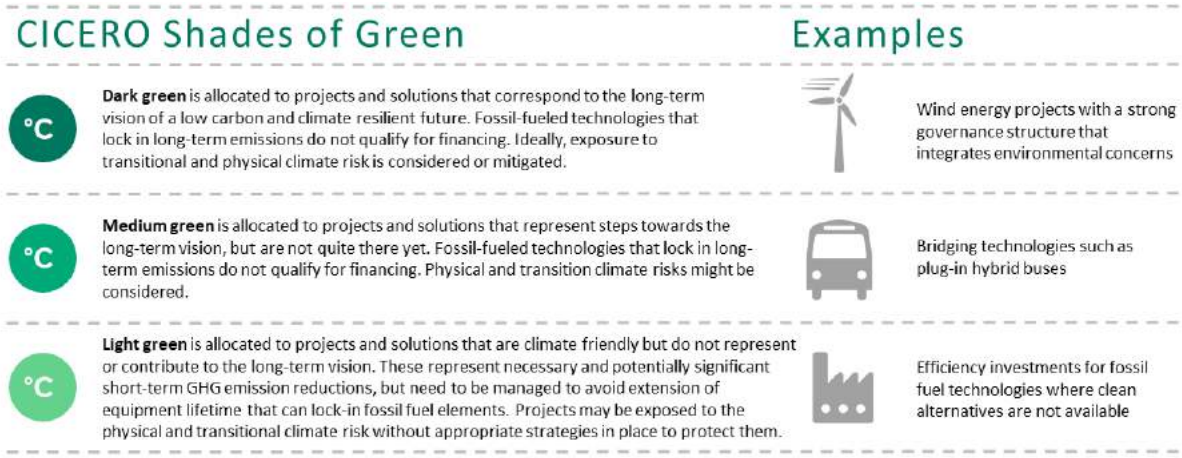
1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated February 2022**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:



Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green financing are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green financing framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of Gróska's green financing framework and related policies

Gróska ehf. (a limited liability company) is the owner of Gróska, a building located in Vatnsmýri in Reykjavík, Iceland, next to the University of Iceland campus. Gróska leases its land from a subsidiary of the University of Iceland. Gróska's main purpose is to lease office space but is selective on its tenants to foster its innovation and social role. Gróska is committed to contributing to raising the bar for green buildings in Iceland by having in place a BREEAM In-Use certification.

Environmental Strategies and Policies

Gróska supports environmental sustainability through the building's environmental management, including energy efficiency, waste, and water management. Key actions include provision of water efficient equipment and reuse and recycling facilities, as well as the use of renewable energy to power the companies' operations within the centre. In addition, Gróska aims to make sure that the necessary climate change adaptation measures have been taken. The construction and facility activities required to fulfil the requirements of the BREEAM In-Use certification will be the key funding activity within the framework. Gróska also supports sustainable lifestyles by being in close proximity to public transport, providing EV charging stations, and shower and changing room facilities.

The issuer, being a relatively young company[1], does not have any environmental strategies or policies besides this, nor do they currently report on energy use or greenhouse gas emissions associated with their operations. However, the company states that sustainability policies and environmental targets will be determined and formalized during 2022.

Use of proceeds

The green financing framework describes Gróska's intention to issue debt instruments, including bonds, commercial papers, and loans (together referred to as green instruments) to finance defined eligible projects. This applies to Gróska ehf.'s only building in Vatnsmýri: Gróska. Potential additional buildings are not considered under the Framework.

An amount equal to the net proceeds of the sustainable instruments will be used to finance or refinance, investments, and expenditures, in whole or in part, in eligible projects in the Green buildings category, as described in table 1. Net proceeds can finance both existing and new eligible projects. New financing refers to projects initiated in the same year as financing has taken place and is disbursed to said project. Refinancing refers to activities and/or projects initiated in the previous calendar year or earlier. Gróska expects that the majority of the net proceeds will be for re-financing debt used to construct the current building. Administrative expenses will be less than 15% of the financing.

Net proceeds will not be placed in assets, projects, or in entities with a business plan focused on fossil energy generation or infrastructure, nuclear energy generation, research and/or development within weapons and defence, environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling, or tobacco.

[1] Construction of the current building started in 2017 and the first tenants moved in two years ago.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Gróska's CEO is responsible for sustainability in the company's general operation. Gróska's Board of Directors (Board) will be responsible for project evaluation, selection, disbursements of green financing, overview of the Sustainability Registry, replacement of projects in the registry, and other related tasks. Gróska will receive support from third party consultancies to ensure expertise in sustainability throughout the process. The environmental experts will provide advice to the CEO for decision-making but do not have veto power.

The CEO attends all Board meetings and is involved in the decision-making process. Other parties recognized as subject matter experts, internal or external, may be consulted. The Board meets when required but at least annually. Any future updates of the Green Finance Framework must be approved by the Board.

In evaluating and selecting eligible projects and allocating green financing, and as part of the construction process of the current building, a flood risk assessment which considered climate risk was performed. Going forward, the Board will also consider aspects such as compliance to human and labour rights and the avoidance of significant harm to the other environmental objectives as defined in the EU Taxonomy, international and local environmental and social standards, laws and regulations, as is relevant.

Management of proceeds

CICERO Green finds the management of proceeds of Gróska to be in accordance with the Green Bond Principles (2021) and the Green Loan Principles (2021) and the Green Bond Principles Harmonised Framework for Impact Reporting (2020).

Gróska will establish a sustainability registry for the purposes of recording sustainable financing and only support the financing of eligible projects as well as serving as the basis for Gróska's allocation and impact reporting. Internal budgeting and accounting systems will be used to identify project costs, which will then be marked against the outstanding instruments in the registry. The registry will be reviewed at least annually. Projects no longer complying with the eligible project criteria and thresholds will be removed from the registry.

Gróska intends to fully allocate the proceeds from any financing within 36 months of the date of funding. Gróska strives to achieve a level of allocation for the eligible project portfolio which matches or exceeds the balance of net proceeds from its outstanding instruments. Unallocated net proceeds may temporarily be placed in cash, cash equivalents, or other liquid marketable instruments.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Gróska, with support from environmental consultants, will provide reporting to its investors and other stakeholders in its allocation and impact reporting annually in line with Gróska's general annual reporting cycle until green financing net proceeds are fully allocated. This first report can be expected in 2023, reporting on the allocation

and impacts from 2022. The reporting will be conducted in line with best market practice and international guidelines and protocols at an aggregated level and on a portfolio basis.

The allocation report will cover the following:

- Summary of financing activities
- Types of financing instruments
- Outstanding amounts
- Balance of unallocated proceeds
- New vs. refinancing ratio
- Project category allocation
- An example list of projects financed

The impact assessment will be provided subject to the availability of information and baseline data. This may also be subject to confidentiality agreements, competitive considerations, and other such factors, which may limit the scope of impact reporting. The following impact indicators will be covered:

- BREEAM-In-Use certification
- Estimated annual energy savings (in MWh)[2].
- Estimated reduced/avoided GHG emissions (tons CO_2e) per year.

The methodologies used to estimate the indicators used in the impact reporting will be published. The Icelandic grid factor from the Icelandic Environment Agency will be used[3]. Gróska intends to request an independent external party to provide limited assurance, verification, and/or consulting to prepare and/or assure, verify, or confirm its post-issuance allocation and impact reporting.

[2] KPMG is to build a baseline for energy use for building stock in Iceland.

[3] https://ust.is/library/Skrar/loft/NIR/Losunarstudlar_UST.v4.0.1.pdf?fbclid=IwAR0MnnN75Fb3qAGtueaAWJ8FJiOsZQPTq9cshdHox9LTI-5tjWvcdGnW0Y8

3 Assessment of Gróska's green financing framework and policies

The framework and procedures for Gróska's green financing investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Gróska should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Gróska's green financing framework, we rate the framework **CICERO Light Green.**

Eligible projects under the Gróska's green financing framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Green buildings: Gróska in Vatnsmýri	Investments to secure that Gróska's building in Vatnsmýri will meet one of the following thresholds: (1) A postconstruction certification of at least BREEAM In-Use with a score of "Very Good" (2) Top 15% of the existing local stock in terms of operational Primary Energy Demand, expressed as kWh/m^2/y.	**Light Green** ✓ 100% renewable energy consumption is a standard in Iceland. Hence, most of the GHG emissions are a result of embodied emissions. ✓ Currently, there is no consistent building regulation and minimum efficiency requirements in Iceland. ✓ While certification schemes like BREEAM In-Use secure some environmental qualities, the point-based system do not guarantee a low carbon building and have no requirements on energy efficiency other than that energy use shall be monitored. A preliminary assessment shows that Gróska has the highest BREEAM score withing energy, transport and resource use. We note that the certificate is yet to be issued, but based on the assessment, Gróska states

	that they are certain that they will get a Very Good label.
	✓ According to the issuer it is recognized that publicly citable energy efficiency numbers for the 15% criteria for existing building stock in Iceland is still under development. If such a dataset will be readily available, that may be used by Gróska in the future. As of publishing of the framework, it is anticipated that having a BREEAM In-Use certification in place will be the criteria used when evaluating projects as green.

Table 1. Eligible project categories

Background

According to the International Energy Agency (IEA), the buildings and buildings construction sectors combined are responsible for 36% of global final energy consumption in 2018 and nearly 40% of total direct and indirect CO_2 emissions. The materials, construction and demolition phase of the building lifecycle constitute additional emissions and are becoming increasingly important as buildings becomes more energy efficient and the electricity and heat supply become 'greener'. A little over half of all life cycle greenhouse gas emissions in new offices or residential apartment building in the Nordics comes from heat and energy use, while approximately 40% comes from use of materials. Emissions associated with construction and demolition accounts for around 2-5%. Real estate development can incur heavy environmental impacts due to construction emissions. In the Icelandic context, emissions from building materials are likely to represent the largest share of building lifecycle emissions. According to the results from One Click LCA[4], the embodied carbon of an Icelandic building with a timber structure is 70 $kgCO_2/m^2$ and 205 $kgCO_2/m^2$ for a steel structure. When it comes to physical climate risks, the most severe physical impacts on the Icelandic building sector will likely be increased flooding and urban overflow, as well as increased storms and extreme weather.

Iceland's primal energy supply is primarily derived from domestically produced renewable energy sources (85%). In 2016 geothermal energy provided about 65% of primary energy, while the share of hydropower was 20% and the share of fossil fuels (mainly oil products for the transport sector) was 15%. About 85% of all houses in Iceland are heated with geothermal energy[5]. Electricity is derived from almost 100% from renewable resources, with the share of hydropower 73% and geothermal power 27% of generation capacity[6]. In 2019 the total electricity consumption was around 19.5 TWh and is expected to increase to 21.5 TWh by 2030 and to around 23 TWh by 2050[7]. The main consumer of electricity is industry (77%)[8].

[4] As quoted in Energy Efficiency Report_Arion banki_finale.indd
[5] Energy. Ministry of Industries and Innovation. https://www.government.is/topics/business-and-industry/energy/ [Accessed on 02.06.2021]
[6] Energy Data. Askja Energy. The Independent Icelandic and Northern energy Portal. https://askjaenergy.com/iceland-introduction/energy-data/ [Accessed on 02.06.2021]
[7] Electricity forecast 2020-2030. Energy forecasting Committee. November 2020. https://orkustofnun.is/gogn/Skyrslur/OS-2020/OS-2020-05.pdf
[8] Energy Data. Askja Energy. The Independent Icelandic and Northern energy Portal. https://askjaenergy.com/iceland-introduction/energy-data/ [Accessed on 02.06.2021]

Governance Assessment

Four aspects are studied when assessing the Gróska's governance procedures: 1) the policies and goals of relevance to the green financing framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

As a relatively young company Gróska does not yet have formalized environmental policies or goals besides the criteria laid down in the framework. Also, they do not report on climate relevant key performance indicators. The issuer informs us that they are in the process of formalizing sustainability targets and strategies. At this time, Gróska has no formalized procedures for consideration of resilience or rebound issues, although an assessment of flooding risks was carried out at the time of construction of the Gróska building. Gróska does not follow the TCFD guidelines on reporting on climate risks. The selection process is clear, but the environmental expert does not have veto power. Life cycle analysis of projects, and supply chain requirements do not seem to be taken into consideration. We note that the transport solutions associated with the building are good (access to public transport, facilities easing emission free transport, etc.) Management of proceeds is on a portfolio basis and is according to the Green Bond Principles and Green Loan Principles. The reporting is good and independently verified/reviewed, but on a conditional basis. The issuer indicated that impact reporting methodology will be disclosed, but it is currently not described.

The overall assessment of Gróska's governance structure and processes gives it a rating of **Fair**.

Strengths

Securing a reasonably good environmental certification for a building in Iceland is rare and it is a strength of the framework that this is a goal. The building has several good environmental qualities. However, they are currently difficult to quantify. A BREEAM In-Use Very good certificate will secure this and potentially improve the environmental qualities even further.

Weaknesses

We find no material weaknesses in the green financing framework of Gróska.

Pitfalls

A post-construction certification of at least BREEAM In-Use with a score of "Very Good" does not guarantee an energy efficient and low carbon building, although a preliminary assessment makes it clear that the building receives a good score in the 'energy dimension'. However, BREEAM In-Use only requires monitoring of energy use and do not impose restrictions on the amount of energy used. Also, we note that the certificate is yet to be issued, but Gróska states that they are certain that they will get a Very Good label, based on a preliminary assessment. The same assessment shows that Gróska has the highest BREEAM score withing energy, transport and resource use.

The issuer emphasizes that the building materials chosen in the past and to be used in future improvements are 'long lasting'. This is probably good from a life cycle perspective, but without further analysis is impossible to quantify.

As mentioned, top 15% of the existing local stock in terms of operational Primary Energy Demand is not yet officially defined in Iceland (as is the case in most other countries). It is therefore unknown what this criterion can entail in the future when (presumably) this will be decided.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	2022-02-25 Gróska GFF (draft)	Gróska's Green financing framework dated February 2022
2	Gróska Sustainability policy draft	Draft of a sustainability policy.

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Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.