

Second-Party Opinion

Dividend Solar Green Use of Proceeds Securitized Bonds

\$104,664,000 Dividend Solar Loan Backed Notes, Series 2018-1

Evaluation Summary

Sustainalytics is of the opinion that the Dividend Solar Green Use of Proceeds Securitized Bond Framework is credible and impactful and aligns with the four pillars of the Green Bond Principles 2017. This opinion is based on:



USE OF PROCEEDS Dividend’s asset-backed securitization (“ABS”) of residential rooftop Solar Loans is aligned within the four recognized types of green bonds as described in the Green Bond Principles 2017. Sustainalytics is of the opinion that Solar Loans are effective in supporting the uptake of solar installations in the U.S. residential sector.



PROJECT EVALUATION / SELECTION Dividend’s ABS is collateralized solely by its residential rooftop Solar Loans. Funds for related projects are disbursed to reputable installers following a rigorous consumer, installer, equipment and system underwriting process. Sustainalytics views this process as in line with market best practices.



MANAGEMENT OF PROCEEDS The proceeds from the issuance of the Series 2018-1 Notes (the “Notes”) will be used by the issuer to acquire the Solar Loans and to pay certain expenses incurred in connection with the issuance of the Notes. The proceeds of the Notes are immediately directed to the underlying depositor that will acquire and convey the Solar Loans to the issuer of the Notes. This process is aligned with market practices.



REPORTING Dividend commits to disclosing full allocation in the offering memorandum upon the issuance of the Notes. Dividend reports on the aggregate, estimated renewable energy generating capacity of the solar energy systems it has funded and the total assumed renewable energy produced during the lifetime of the projects. The Company’s reporting on allocation and impact of the Notes is aligned with market practices.

Evaluation date	April 10, 2018
Issuer Location	San Francisco, California

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Introduction

Dividend Finance, LLC (“Dividend”, or the “Company”)¹ is a California-based specialty lender providing financing in the clean energy space through residential solar loans, residential and commercial PACE assessments as well as energy efficiency related home improvement loans. Dividend Solar Finance LLC, a wholly-owned, indirect subsidiary of the Company, conducts Dividend’s residential solar loan business, including originations and servicing. The Company was formed through the merger of Dividend Solar, Inc. and Figtree Finance Company in 2016.

The Company intends to issue Green Use of Proceeds Securitized Bonds (the “green bonds”) with a series of notes (the “Notes”) issued by a special purpose entity and collateralized by a portfolio of its residential solar loans (the “Solar Loans”) that homeowners incur to finance the purchase and installation of solar energy systems on their residences. The Solar Loans will be secured by the related solar energy systems. Dividend engaged Sustainalytics to review the framework of the green bonds and to provide an opinion on the alignment of the green bonds with the Green Bond Principles 2017 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”).

As part of the Series 2018-1 transaction, and the Company’s previous Series 2017-1 ABS issuance, Sustainalytics engaged members of Dividend’s management team to understand the sustainability impact of the green bonds’ issuance, reviewed corporate information, deal documentation and the allocation of the proceeds from the issuance of the green bonds. Sustainalytics also reviewed public and internal deal documentation from Dividend related to the green bonds.

This document contains Sustainalytics’ opinion of the Dividend Green Use of Proceeds Securitized Bond Framework, Series 2018-1, and should be read in conjunction with that framework.

¹ Where applicable, references to “Dividend” or the “Company” refer to Dividend Finance, DSF or DSI in connection with solar loan origination and servicing practices.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Issuer's Framework

Summary

Sustainalytics is of the opinion that the Dividend Green Use of Proceeds Securitized Bond Framework is credible and impactful, and aligns with the four pillars of the Green Bond Principles 2017. Additionally, Sustainalytics views the Issuer's green bond positively. Some of its key strengths are that:

- Dividend's ABS of rooftop Solar Loans is aligned within the four recognized types of green bonds as described in the Green Bond Principles 2017. Solar Loans offer a promising avenue to help the U.S. residential sector achieve clean energy, economic development, and emission reductions.
- Dividend deploys a rigorous consumer, installer, equipment and system underwriting process which ensures that the Solar Loan proceeds underlying the Notes are disbursed to reputable installers for projects that meet the Company's established criteria. Moreover, since Dividend's ABS is collateralized solely by its residential rooftop Solar Loans which lead to positive environmental impacts, no additional project evaluation and selection process is required.
- The proceeds from the issuance of the Notes will be used by Dividend to acquire the Solar Loans and to pay certain expenses incurred in connection with the issuance of the Notes. Dividend will disclose this allocation in the offering memorandum upon the issuance of the Notes. Thereafter, Dividend will apply the remaining proceeds of the Notes to fund additional Solar Loans that meet the Series 2018-1 eligibility criteria (or return proceeds to the investors).
- Dividend reports on the aggregate, estimated renewable energy generating capacity of the solar energy systems it has funded and the total assumed renewable energy produced during the lifetime of the projects. These metrics provide investors with insights on the scale of the impact of the solar energy systems funded by the Notes and are aligned with market practices.
- This is Dividend's second ABS of residential rooftop Solar Loans assessed by Sustainalytics. The company successfully closed its inaugural securitization of a portion of its Empower 1.0 Solar Loan portfolio secured by residential rooftop solar energy systems in October 2017 with \$128,950,000 of securities. Further, given the alignment of Dividend's issuance with its overall strategy and the fact that the Company is not implicated in environmental, social or governance controversies, Sustainalytics maintains its opinion that Dividend is well-positioned to issue green bonds.

Alignment with Green Bond Principles 2017

Sustainalytics has determined that the issuance of the Notes aligns with the pillars of the Green Bond Principles 2017. For detailed information please refer to the Green Bond/Green Bond Programme External Review Form in Appendix 3.

Section 2: Sustainability Strategy of Dividend

Securitization of the EmpowerLoan Program through Dividend Solar Loan Backed Notes, Series 2018-1 and Series 2017-1

Dividend is a pure-play issuer providing diversified renewable energy systems through its residential Solar Loan program, residential and commercial PACE administration and energy efficiency home improvement lending efforts. Dividend's EmpowerLoan program enables homeowners to finance their installation of photovoltaic energy generating systems for terms of up to 20 years. The Series 2018-1 issuance is Dividend's second ABS transaction, following the Company's inaugural securitization in October 2017 with \$128,950,000 of securities secured by Empower 1.0 Solar Loans². Overall, Sustainalytics is of the opinion that the Dividend Green Use of Proceeds Securitized Bond Framework, which applies to the EmpowerLoan program, has clear positive environmental impact as it supports investment in residential renewable energy projects.

Transparent collection and reporting of impact data

Dividend collects and documents performance on estimated impact metrics for each solar product installation. Sustainalytics has reviewed Dividend's loan tape, and is of the opinion that the issuer has a robust system in place to transparently disclose estimated impacts related to every bond issued under this framework. Impact reporting for both issuances under the Dividend Solar Loan Backed Notes, Series 2017-1 and Series 2018-1, are detailed in Appendix 1 and Appendix 2.

Section 3: Impact of Use of Proceeds

Importance of Loans in Promoting the Uptake of Residential Solar Installations

In 2017, originations in the residential PV sector fell 16% from 2016 and is expected to further fall by 16% annually³. An explanation for the decline is rising customer-acquisition costs within the residential solar sector. While system components and labor costs are declining, customer-acquisition costs are rising⁴. Dividend's programs incentivize homeowners to install solar PV and offer an effective way to promote the uptake of renewable energy-generating products in the US, since Dividend's customers are able to: (1) own their solar energy system and (2) apply for federal tax credits or other state-based incentives.

Leasing or using power purchase agreements ("PPA's") was a necessary, temporary solution that sparked the original growth of residential solar. Solar leases and similar contracts rose from 42% of home solar sales in 2011 to 72% in 2014; however, that share dropped to 47% by the end of 2016⁵, with consumers' increased ability to own solar assets at the end of the loan term. Sustainalytics is of the opinion that the social incentive to own solar assets provides an additional motivation for homeowners to switch from conventional energy sources.

Several policies at the federal, state, and local levels have helped to spur adoption of solar energy in the United States. The bulk of support has come from the federal solar tax credit ("ITC") that is available to taxpayers making investments in new solar energy systems. The ITC generally provides an incentive for such investments by giving taxpayers a credit (currently of up to 30%) of the acquisition cost for new solar energy systems placed in service before specified deadlines. Dividend's customers generally may claim a credit against their federal income taxes so long as their solar energy system is placed in service before expiration of the ITC.

² https://www.sustainalytics.com/wp-content/uploads/2017/10/Dividend-Solar_Framework_Second-Opinion_Loans_FINAL-10032017-v2.pdf

³ <https://www.seia.org/research-resources/solar-market-insight-report-2017-q4>

⁴ <https://www.greentechmedia.com/articles/read/us-residential-and-utility-scale-solar-see-installations-fall-first-time#gs.UG20TOQ>

⁵ <https://pv-magazine-usa.com/2017/03/06/solar-ownership-now-outpaces-leasing-research-shows>

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
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

Dividend's issuance of the Dividend Solar Loan Backed Notes, Series 2018-1, supports investment in residential renewable energy projects by providing financing solutions to homeowners with loans financing residential solar energy system installations. Through the issuance of the Notes, Dividend supports investments in residential renewable energy projects by raising additional funds to provide financing to homeowners with loans that will directly enable the sale and installation of residential solar energy systems.

Dividend's rigorous approach to quantifying and reporting estimated impact provides transparency to investors regarding the impact of Solar Loans secured by the related solar energy systems. Sustainalytics is of the opinion that Dividend's Green Use of Proceeds Securitized Bonds Framework continues to be aligned with the pillars of the Green Bond Principles 2017, is robust, credible and aligned with current market standards and industry norms. Dividend's Solar Loans are effective in supporting the uptake of solar installations in the U.S. residential sector.

Appendices

Appendix 1: Impact Statistics for Dividend Solar Loan Backed Notes, Series 2017-1

Environmental Impact	Impact Metrics	Impact Figures
Total capacity of solar energy systems financed by solar loans backing the Notes	Megawatts (DC)	Approximately 45 MW
Total assumed renewable energy produced by solar energy systems (during assumed 30 years of useful life)	Megawatt hours	Approximately 1,771,149.07 MWh

Appendix 2: Impact Statistics for Dividend Solar Loan Backed Notes, Series 2018-1

Environmental Impact	Impact Metrics	Impact Figures
Total capacity of solar energy systems financed by initial solar loans backing the Notes	Megawatts (DC)	Approximately 26 MW
Total assumed renewable energy produced by solar energy systems (during assumed 30 years of useful life)	Megawatt hours	Approximately 1,039,178 MWh

Appendix 3: Green Bond / Green Bond Programme - External Review Form Section 1. Basic Information

Issuer name: Dividend Solar

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: *[specify as appropriate]* Dividend Solar Green Use of Proceeds Securitized Bond Framework 2018

Review provider's name: Sustainalytics

Completion date of this form: April 10, 2018

Publication date of review publication: *[where appropriate, specify if it is an update and add reference to earlier relevant review]*

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 Green Bond Framework and Second Opinion Document above.

Sustainalytics is of the opinion that the issuance aligns with current market standards and norms, including the four pillars of the Green Bond Principles 2017. The use of proceeds, project selection, management of proceeds, and reporting are robust and credible.

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*):

Financed projects consist solely of residential Solar Loans and projects must be undertaken by Dividend's Approved Energy System Vendors and Equipment. Renewable Energy is an eligible green project category, as it contributes to climate change mitigation and the sustainable use of natural resources.

Dividend is a solar energy system financier and its Solar Loans offer an effective way to promote the uptake of renewable energy-generating products in the United States. Dividend incentivizes homeowners to install solar systems and products by offering loans to homeowners. Dividend allocates the proceeds from the Notes to Solar Loans, which are backed by the projects and products managed through Dividend's Solar Loan program. Based on the review of the project category, Sustainalytics is confident regarding the green credentials of the use of proceeds.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input 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 type="checkbox"/> Clean transportation |
| <input 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 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 type="checkbox"/> Other (<i>please specify</i>): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

All Solar Loans that are referred by Dividend and comply with the eligibility criteria may be funded.

Based on the review of Dividend's processes and assessment criteria used to select vendors and eligible customers, Sustainalytics is of the opinion that Dividend's evaluation process credible.

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 |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The proceeds of the Notes are immediately directed to the underlying securitization trust that will acquire and hold the Solar Loans on behalf of the issuer of the Notes. The Solar Loans are currently owned by Dividend (or affiliates thereof) or pledged to its warehouse financing facilities prior to their sale to the issuer of the Notes. The Solar Loans will be assigned to the underlying trust upon the issuance of the Notes, resulting in full allocation of the Notes' proceeds to the Solar Loans.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|---|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

Since all of the initial proceeds from the sale of the Notes will be immediately allocated to the acquisition of the Solar Loans, verification on allocation of the proceeds will be disclosed in the offering memorandum upon the issuance of the Notes. Dividend utilizes a proprietary calculation model that estimates the renewable energy generating capacity of the solar energy systems that are financed by the Solar Loans.

Sustainalytics is of the opinion that Dividend's reporting practices are in line with industry best practices.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|---|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input checked="" type="checkbox"/> Other (please specify): Upon Issuance | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|---|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input checked="" type="checkbox"/> Other (please specify): Upon Issuance | |

Information reported (expected or ex-post):

- | | |
|--|--|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (please specify): <i>Renewable energy generating capacity and Assumed Renewable Energy produced (over the assumed useful life of the equipment)</i> |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> 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.)

<https://www.dividendsolar.com/about>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

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

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialized research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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Sustainalytics

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For more information, visit www.sustainalytics.com

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