Second-Party Opinion

SID Bank's Green Bond

Evaluation Summary

Sustainalytics is of the opinion that the SID Bank Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds, (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Eco-Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, and (viii) Green Buildings are aligned with those recognized by the Green Bond Principles. Sustainalytics considers the eligible activities to contribute to GHG emissions and waste reduction as well as improved water quality in Slovenia and contribute to the Sustainable Development Goals.

PROJECT EVALUTION / SELECTION SID Bank's internal process for evaluation and selection of projects is aligned with market practice. SID Bank's Credit Committee is responsible for evaluating and selecting the eligible loans. The committee will conduct a review of the projects at least annually to ensure eligibility.

MANAGEMENT OF PROCEEDS SID Bank's processes for management of proceeds is aligned with market practice. SID Bank will establish a dedicated green bond portfolio for the eligible projects to which the green bond proceeds are allocated. Unallocated proceeds will be either held or invested in the bank's liquidity portfolio.

REPORTING SID Bank commits to report to investors annually on the allocation of proceeds in a Green Bond Report, which will include the amount of both allocated and unallocated proceeds. In addition, SID Bank has committed to report annually on impact indicators, such as CO_2 emissions avoided, amount of waste reduced, reduction in water consumption, energy savings and renewable energy produced. This is considered to be aligned with market practice by Sustainalytics.

Evaluation date	November 2018
Issuer Location	Ljubljana, Slovenia

Report Sections

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Introduction

SID Bank ("the bank") is a Slovenian promotional development and export bank, owned by the Republic of Slovenia. The Bank provides insurance services and other financial services to finance market gaps, with a main focus on SMEs, development, environmental protection, infrastructure and energy projects, and the internationalisation of enterprises.

SID Bank has developed the SID Bank Green Bond Framework (the "Framework") under which it is considering to issue multiple green bonds and use the proceeds to finance and/or refinance, in whole or in part, existing or future projects under eligibility criteria in seven areas:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Environmentally Sustainable Management of Living Natural Resources and Land Use
5. Clean Transportation
6. Sustainable Water and Wastewater Management
7. Eco-Efficient and/or Circular Economy Adapted Products
8. Green Buildings

SID Bank engaged Sustainalytics to review the SID Bank Green Bond Framework and provide a second-party opinion on the alignment of the green bond with the Green Bond Principles 2018 (the "GBP"), as administered by the International Capital Market Association (the "ICMA"),[1] and the Framework's environmental credentials. This Framework has been published in a separate document.[2]

As part of this engagement, Sustainalytics held conversations with various members of SID Bank's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of SID Bank's green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the SID Bank Green Bond Framework and should be read in conjunction with that Framework.

[1] ICMA's Green Bond Principles 2018 https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/
[2] https://www.sid.si/en/investors/investors

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the SID Green Bond Framework

Summary

Sustainalytics is of the opinion that the SID Bank Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. Sustainalytics highlights the following elements of SID Bank's green bond framework:

- Use of Proceeds:
  - The use of proceeds categories (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, and (vii) Eco-Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes are recognized as impactful by the Green Bond Principles. SID Bank includes innovative technologies in the use of proceeds, such as small electric aircrafts, which Sustainalytics views as having a positive environmental impact and contributing to innovation in the industry. (see Section 3 for more detail).
  - SID Bank uses recognized third party standards for the financing of forestry, i.e. FSC and PEFC for forestry (see Appendix 1 for a detailed description), as well as the EU Ecolabel for eco-efficient products (see Section 3 for more detail).
  - SID Bank limits refinancing to loans not older than three years.
- Project Selection Process:
  - SID Bank's processes for project selection and evaluation are aligned with market standards. SID Bank's credit committee is responsible for project selection and evaluation.
  - The Green Bond Committee will review at least annually the selected loans to ensure continuous compliance with the eligibility criteria.
- Management of Proceeds:
  - SID Bank's processes for management of proceeds is aligned with market practice. SID Bank has established a dedicated green bond portfolio for the eligible projects to which the green bond proceeds are allocated. Unallocated net proceeds will be held or invested in the bank's liquidity portfolio in money market instruments.
- Reporting:
  - SID Bank commits to report to investors annually on the allocation of proceeds in a Green Bond Report, including the amount of allocated proceeds per eligible category and unallocated proceeds. In addition, SID Bank has committed to report annually on impact indicators, such as CO2 emissions avoided, amount of waste reduced, reduction in water consumption, energy savings and renewable energy produced. which is considered to be aligned with market practice by Sustainalytics.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that SID Bank's Green Bond Framework aligns with the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of framework to issuer's sustainability mandate and strategy

SID Bank, as Slovenia's central financial institution in the areas of promotion and development, provides long-term financial services while promoting sustainable development in the economic sector, environment and society.[3] SID Bank is fully owned by the Republic of Slovenia and its fundamental operational principles include balanced and sustainable development and alignment with the development guidelines of the Republic of Slovenia and the EU.[4] The operational principles are outlined in the Slovene Export and Development Bank Act (ZSIRB), which defines sustainable development according to the Brundtland Report[5] as "meeting the needs of the present generation, while allowing for equal opportunities of the future generations".

In addition, the areas of activities of SID Bank include environmental preservation and energy efficiency, with the aim to providing funding to "protect the environment, ensure proper waste disposal, proper consumption of natural resources, increasing investments in environment preservation infrastructure, encouraging the use of renewable energy and efficient energy use."[6]

In addition, SID Bank includes circular economy in its financial programmes for SMEs by promoting, e.g. the purchase of secondary raw materials or waste, the development and production of new products from secondary raw materials and the development and production of reusable waste for the same product, demonstrating the bank's efforts to foster environmental protection.

Given SID Bank's mandate and its efforts to promote environmental protection and resource efficiency, Sustainalytics is of the opinion that SID Bank is well positioned to issue a green bond and that the green bond will advance its sustainability mandate and strategy.

Well positioned to address common environmental and social risks associated with the projects

SID Bank is aiming to use the proceeds of the bonds for a wide range of programmes, which pose different types of environmental and social risks. The main risks associated with the use of proceeds are the environmental and social impact of large infrastructure projects such as train systems and large renewable energy facilities and infrastructure, as well as from land use changes related to forestry and agriculture. Related risks include workers' health and safety, biodiversity risks from land use changes and community relations in the affected areas. Sustainalytics is of the opinion that SID Bank is well positioned to mitigate environmental and social risks related to the use of proceeds categories due to the following measures:

- SID Bank includes assessments related to sustainable development, assessing the innovative potential of the company and project, raw materials, environmental performance, and energy efficiency of borrowers in its lending.[7]
- SID Bank limits financing of hydro power to small hydro power plants below 20MW, which significantly reduces the environmental impact and community relation risks.
- Slovenian regulation requires environmental impact assessments to be conducted for building projects, which cause major pollution or are representing greater risks to the environment.[8] Infrastructure and construction projects financed by SID Bank require a permit by the Slovenian government and may therefore be subject to environmental impact assessments, reducing the associated environmental risk of the projects. SID Bank excludes financing from sectors which are considered to have a potentially harmful effect on the environment that cannot be mitigated or remedied and are considered to be ethically or morally questionable, including gambling and betting activities, treatment and disposal of hazardous waste, nuclear fuel production,

[3] SID Bank Annual Report 2017; https://www.sid.si/sites/www.sid.si/files/documents/sid_bank_annual_report_2017.pdf
[4] Slovene Export and Development Bank Act (ZSIRB):
https://www.sid.si/sites/www.sid.si/files/documents/slovene_export_and_development_act_zsirb.pdf
[5] The Report of the World Commission on Environment and
Development: Our Common Future (also known as Brundtland Report), published 1987: http://mom.gov.af/Content/files/Bruntland_Report.pdf
[6] Slovene Export and Development Bank Act (ZSIRB):
https://www.sid.si/sites/www.sid.si/files/documents/slovene_export_and_development_act_zsirb.pdf
[7] SID Bank Annual Report 2017; https://www.sid.si/sites/www.sid.si/files/documents/sid_bank_annual_report_2017.pdf
[8] Republic of Slovenia, Ministry of Environment and Spatial Planning, Environmental impact assessment:
http://www.arso.gov.si/en/environmental%20protection/environmental%20impact%20assessment/

manufacture of explosives, manufacture of weapons and ammunition, manufacture and trade of tobacco products and alcohol.

- SID Bank applies recognized third-party certification systems for forestry (FSC and PEFC) and limits financing to organic agriculture. In addition, SID Bank intends to finance FSC and PEFC certified forests. While FSC and PEFC both contain rigorous standards and are aligned with international norms, PEFC has faced some criticism from civil society organizations (See Appendix 1 for Sustainalytics' assessment of the relative strengths and weaknesses of FSC and PEFC certifications). For this reason, Sustainalytics recommends that SID Bank favour FSC-certified forests in allocating proceeds to forestry-related projects.

Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are recognized as impactful by GBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Contribution of Clean Transportation to air and GHG emissions including electrified light aircrafts
SID Bank intends to use part of the proceeds to finance electric vehicles as well as low carbon mass passenger and freight and electrified light aircrafts for passenger transport.

The transportation sector is the second largest contributor to GHG emissions in Slovenia,[9] with a total increase in GHG emissions from the sector of 95% between 1990 and 2015. Moreover, in the EU-28, GHG emissions from transport accounted for 25.8% of total GHG emissions in 2015,[10] indicating the importance of clean transportation to reduce GHG emissions in the EU and Slovenia. Sustainalytics is of the opinion that the financing of low carbon and electric vehicles will contribute to Slovenia's GHG emissions targets.

In addition, aviation is one of the fastest growing sources of GHG emissions in the EU, contributing 3% of total EU GHG emissions and around 2% globally.[11] Moreover, aircraft operations in and around airports also cause air pollution from nitrous oxide (NO_x), fine particulate matter (PM) and ozone (O_3).[12] Electrification of aircrafts is seen as the leading alternative to kerosene. However, for large airplanes electrification is currently only partly possible, with full electrification of aircrafts currently limited to light aircrafts transporting one or two passengers on short flights, indicating the importance of research and development in the field. Overall, the EU estimates that the first small electric aircraft for 20 to 30 passenger aviation over a medium range (up to 200km) could be operational by 2035 and set targets to reduce 75% of CO_2 emissions per passenger/km, 90% NOx emissions, and 65% of perceived noise emissions from aircraft by 2050.[13]Sustainalytics considers the development of electric aircrafts a driver of research and development that can help to facilitate the electrification of a wider range of aircrafts and contribute to EU air and GHG emission targets.

Contribution of Renewable Energy, Green Buildings and Energy Efficiency to GHG emission reduction

In 2017, Slovenia ranked 8th in GHG emissions per GDP in the EU[14] with energy use contributing 82 % of total GHG emissions (2015 data). According to Ministry of Environment and Spatial Planning, the largest source of emissions is electricity and heat production (34%),[15] indicating the importance of reducing energy use and decarbonizing the energy sector. In addition, as a member of the EU, the Slovenian government has committed to 25% of gross energy consumption from renewable energy sources by 2020 in order to fulfil its climate-related national target.[16]

[9] Republic of Slovenia, Ministry of Environment and Spatial Planning, accessed October 2018: http://kazalci.arso.gov.si/?data=group&group_id=21&lang_id=94
[10] European Environmental Agency, Greenhouse gas emissions from transport, September 2018: https://www.eea.europa.eu/data-and-maps/indicators/transport-emissions-of-greenhouse-gases/transport-emissions-of-greenhouse-gases-10
[11] European Commission, Climate Action, Reducing emissions from aviation, accessed October 2018: https://ec.europa.eu/clima/policies/transport/aviation_en
[12] Atkins, The challenges and benefits of the electrification of aircraft, June 2018: https://www.atkinsglobal.com/~/media/Files/A/Atkins-Corporate/Electrification%20White%20Paper%20-%20digital.pdf
[13] European Commission, Electrification of the Transport System, Studies and reports, 2017: https://www.erea.org/sites/default/files/pdf/Total%20Study%20Dokument.pdf
[14] European Environment Agency, Country Fact Sheet, Trends and projections in Slovenia 2017: https://www.eea.europa.eu/themes/climate/trends-and-projections-in-europe/trends-and-projections-in-europe-2017/country-profiles-greenhouse-gases-and-energy/slovenia-ghg-and-energy-country-profile.pdf
[15] Republic of Slovenia, Ministry of Environment and Spatial planning, Energy-related greenhouse gas emissions, 2015: http://kazalci.arso.gov.si/?data=indicator&ind_id=705&lang_id=94
[16] Energy 2018 Slovenia; https://www.globallegalinsights.com/practice-areas/energy-laws-and-regulations/slovenia

While 21.2% of estimated gross energy consumption in Slovenia comes from renewable energy sources (2016 data), the majority of Slovenia's energy needs are met through nuclear power and fossil fuels.[17] Thus, Sustainalytics is of the opinion that the financing of renewable energy projects will contribute to further stimulating the increase of renewable energy production and reducing GHG emissions from the energy sector.

In addition, in Slovenia 23% of total energy is consumed by households (2016 data), indicating the importance of buildings to reduce GHG emissions. The EU set targets to reduce GHG emissions from buildings by 60% by 2020 and at least 70% by 2030 relative to 2005.[18]
For commercial and public buildings, SID Bank limits financing to the top 15% energy efficient buildings. While SID Bank has not provided methodology on how it will establish the top 15%, the company ensured Sustainalytics that it will engage a third party to develop a methodology to identify eligible buildings.
In addition, SID Bank intends to use part of the proceeds to finance residential buildings with energy use for heating with less than 35 kWh/m2 per annum. SID Bank does not use a 15% threshold for residential buildings. However, given the average energy use of Slovenian buildings for heating of 122.81 kWh/m2 per annum (2015 data),[19] Sustainalytics is of the opinion that the eligible buildings demonstrate clear superiority in terms of energy performance in comparison to the local average.
Given the importance of the energy sector and impact of buildings in GHG emissions in Slovenia, Sustainalytics considers the financing of energy efficiency improvements in buildings to contribute to the reduction of GHG emissions in Slovenia.

Contribution of Eco-Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes to waste prevention
SID Bank intends to use part of the bond's proceeds to finance the development and introduction of EU Ecolabel[20] products.
Overall, waste prevention, eco-design and reuse are estimated to be able to reduce total GHG emission in the EU by 2-4%,[21] indicating the importance of waste management. In addition, the reduction of the environmental footprint of products can help to reduce resources used. The EU Ecolabel was developed by the European Commission, including a life cycle approach to ensure the labelled products' main environmental impacts are lower than those of comparable products. The label is used for paper, cosmetics, textile, paint, detergents, multimedia and communication,[22] and uses a set of environmental criteria, such as energy use, air emissions, use of hazardous substances, packing waste, organic agriculture and recycled resources used. The criteria are established by a multistakeholder approach, including consumer organizations and industry, with an individual set of indicators for each product category.[23] Controls are conducted by independent organizations and the label includes other recognized third-party certification schemes such as FSC and PEFC for paper products.
However, the criteria are broadly defined to the extent that 10-20% of products in the market are eligible for the label. Sustainalytics considers this a limitation of the label, potentially preventing a higher benchmark from being established that ensures all products mitigate all associated environmental risks. In addition, the EU Ecolabel has been criticized for the lack of a water pollution indicator for viscose fibres.[24] While Sustainalytics acknowledges the named limitations of the label, Sustainalytics considers the EU Ecolabel to be credible as per above.

[17] Ibid.
[18] Energy Efficiency Center Slovenia, EPC Market Assessment Report Slovenia, 2017: https://guarantee-project.eu/sl/wp-content/uploads/sites/18/2017/01/Market_Report_SI_2.pdf
[19] EPISCOPE Scenario Analyses Concerning Energy Efficiency and Climate Protection in Regional and National Residential Building Stocks Examples from Nine European Countries, March 2016: http://episcope.eu/fileadmin/episcope/public/docs/reports/EPISCOPE_SR3_RegionalNationalScenarios.pdf
[20] European Commission, EU Ecolabel for Consumers: http://ec.europa.eu/environment/ecolabel/eu-ecolabel-for-consumers.html
[21] European Parliament News, Circular economy: definition, importance and benefits, December 2015: http://www.europarl.europa.eu/news/en/headlines/economy/20151201STO05603/circular-economy-definition-importance-and-benefits
[22] https://www.labelinfo.be/nl/product-label-form/188102141810201
[23] Changing Market Foundation, the false promise of certification, May 2018: http://changingmarkets.org/wp-content/uploads/2018/05/False-promise_full-report-ENG.pdf
[24] Changing Market Foundation, the false promise of certification, May 2018: http://changingmarkets.org/wp-content/uploads/2018/05/False-promise_full-report-ENG.pdf

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 Energy Efficiency Green Buildings	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency.
Clean Transportation Pollution Prevention & Control	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons. 11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.
Eco-Efficient and/or Circular Economy Adapted Products	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.

Conclusion

SID Bank is planning to issue a green bond to finance activities and companies that align with its mandate to promote environmental protection and energy efficiency in (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Eco-Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, and (viii) Green Buildings.

The eligible categories are recognized as impactful and include innovative use of proceeds categories such as electric small passenger aircrafts as well as recognized third-party certification schemes, such as FSC and PEFC for forestation and the EU Ecolabel for eco-friendly products. While SID Bank includes non-project-based lending, i.e. general-purpose loans for pureplay companies, Sustainalytics considers the eligible activities to contribute to GHG emissions, air emission and waste reduction as well as improved water quality in Slovenia.

In addition, SID Bank's processes for project evaluation and selection as well as management of proceeds are aligned with market practice.

Based on the above, Sustainalytics considers the SID Bank Green Bond Framework to be robust, credible and transparent.

Appendices

Appendix 1: Sustainalytics' Analysis of FSC and Cerflor (PEFC) Certifications FSC

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labour Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance, and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

I. Type of organization: Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms, and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
II. Indigenous People's Rights: FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
III. Sourcing wood from non-certified sources: Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.

Appendix 2: Green Bond / Green Bond Programme - External Review Form
Section 1. Basic Information

Issuer name:	SID Bank
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: *[specify as appropriate]*	SID Banka Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 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:

☒	Use of Proceeds	☒	Process for Project Evaluation and Selection
☒	Management of Proceeds	☒	Reporting

ROLE(S) OF REVIEW PROVIDER

☒	Consultancy (incl. 2nd opinion)	☐	Certification
☐	Verification	☐	Rating
☐	Other *(please specify)*:		

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 Executive Summary above.

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)*:

The use of proceeds categories (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Eco-Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes, and (viii) Green Buildings are recognized as impactful by the Green Bond Principles.
SID Bank uses recognized third party standards for the financing of forestry, i.e. FSC and PEFC, as well as the EU Ecolabel.
SID Bank limits refinancing to loans that are not more than three years old.

Use of proceeds categories as per GBP:

☒	Renewable energy	☒	Energy efficiency
☒	Pollution prevention and control	☒	Environmentally sustainable management of living natural resources and land use
☐	Terrestrial and aquatic biodiversity conservation	☒	Clean transportation
☒	Sustainable water and wastewater management	☐	Climate change adaptation
☒	Eco-efficient and/or circular economy adapted products, production technologies and processes	☒	Green buildings
☐	Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs	☐	Other *(please specify)*:

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

SID Bank's processes for project selection and evaluation are aligned with market standards. SID Bank's credit committee is responsible for project selection and evaluation.
The Credit Committee will review at least annually the selected loans to ensure continuous compliance with the eligibility criteria.

Evaluation and selection

☒	Credentials on the issuer's environmental sustainability objectives	☒	Documented process to determine that projects fit within defined categories

☒ Defined and transparent criteria for projects eligible for Green Bond proceeds

☐ Documented process to identify and manage potential ESG risks associated with the project

☒ Summary criteria for project evaluation and selection publicly available

☐ Other *(please specify):*

Information on Responsibilities and Accountability

☒ Evaluation / Selection criteria subject to external advice or verification

☒ In-house assessment

☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

SID Bank's processes for management of proceeds is aligned with market practice. SID Bank will establish a dedicated green bond portfolio for the eligible projects to which the green bond proceeds are allocated. Unallocated net proceeds will be held or invested in the bank's liquidity portfolio in money market instruments.

Tracking of proceeds:

☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner

☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds

☐ Other *(please specify)*:

Additional disclosure:

☐ Allocations to future investments only

☒ Allocations to both existing and future investments

☐ Allocation to individual disbursements

☐ Allocation to a portfolio of disbursements

☒ Disclosure of portfolio balance of unallocated proceeds

☐ Other *(please specify)*:

4. REPORTING

Overall comment on section (if applicable):

SID Bank commits to reporting to investors annually on the allocation of proceeds in a Green Bond Report. In addition, SID Bank has committed to report annually on impact indicators, such as CO2 emissions avoided,

amount of waste reduced, reduction in water consumption, energy savings and renewable energy produced, which are considered to be aligned with market practice by Sustainalytics.

Use of proceeds reporting:

☐ Project-by-project

☒ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other *(please specify):*

Information reported:

☒ Allocated amounts

☐ Green Bond financed share of total investment

☐ Other *(please specify):*

Frequency:

☒ Annual

☐ Semi-annual

☐ Other (please specify):

Impact reporting:

☐ Project-by-project

☒ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other (please specify):

Frequency:

☒ Annual

☐ Semi-annual

☐ Other (please specify):

Information reported (expected or ex-post):

☒ GHG Emissions / Savings

☒ Energy Savings

☐ Decrease in water use

☒ Other ESG indicators (please specify): renewable energy generated, percentage of energy efficiency achieved, annual amount of waste reduced, contaminated areas recovered, annual reduction in water consumption, treatment of water and effluents, number of public trams/ trains/ metros financed and location, litres of water recycled, water quality of rivers, number of circular economy products.

Means of Disclosure

☐ Information published in financial report
☐ Information published in sustainability report
☐ Information published in ad hoc documents
☒ Other (please specify): Green Bond Report
☐ 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.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

☐ Consultancy (incl. 2nd opinion)
☐ Certification
☐ Verification / Audit
☐ Rating
☐ Other *(please specify):*

Review provider(s): **Date of publication:**

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

i. Second Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.

iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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