

GREEN STORM 2016 - OBVION

FRAMEWORK OVERVIEW AND SECOND-PARTY REVIEW BY SUSTAINALYTICS

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1. INTRODUCTION

Obvion N.V. (Obvion), a Dutch mortgage provider and a wholly owned subsidiary of Rabobank¹, has engaged Sustainalytics to review its planned green residential mortgage-backed security (RMBS) (“GREEN STORM 2016”) issuance and provide an opinion as to its alignment with the Green Bond Principles. As part of this engagement, Sustainalytics has held conversations with both Obvion’s and Rabobank’s sustainability teams to understand the use of proceeds, management of proceeds and reporting aspects of its RMBS as well as the sustainability strategy of the Rabobank Group, of which Obvion is part of. Sustainalytics reviewed relevant public and internal documents and provided its opinion on Obvion’s GREEN STORM 2016. This document contains two sections: Green Bond Framework Overview – summary of Obvion’s framework for the bond; and Sustainalytics’ Opinion – an opinion on the framework.

2. OBVION AND RABOBANK

Rabobank is an international cooperative bank focused on providing financial services in the Netherlands and is involved in retail and wholesale banking, and food and agriculture internationally. Rabobank has the largest mortgage lending business in the Netherlands, which is complemented with a lending portfolio that is directed towards retail customers and corporates. Obvion is a wholly owned subsidiary of Rabobank and is part of its domestic retail branch. As of the end of 2015, Rabobank Group’s and Obvion’s share of the Dutch mortgage market amounted to 15.5% and 4.2% respectively.

3. GREEN BOND FRAMEWORK OVERVIEW

Obvion is planning to issue a green RMBS. The aim of the green RMBS issuance is to refinance a mortgage asset pool with added environmental value. The security will refinance an existing mortgage loans portfolio of residential buildings in the Netherlands that meet the eligibility criteria described below.

3.1 Use of Proceeds

The proceeds of the RMBS will be used to refinance existing mortgage loans from Dutch residential buildings that represent the top 15% in terms of energy performance in the country, or which have achieved at least a 30% improvement in energy efficiency. The mortgages to be refinanced reflect a diversified and granular portfolio in terms of geography and building types.

Eligibility Criteria

The selection criteria for inclusion in the mortgage pool of the Green Bond are based on construction year and Dutch residential Energy Performance Certificates. The Dutch Energy Performance Certificate system is a result of the Dutch government’s implementation of the revised 2010 EU Energy Performance of Buildings Directive. Energy Performance Certificates assign a label between “A” and “G” to each property, with “A” representing the best performance.

¹ Statutory name: Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

The eligibility criteria for qualification for GREEN STORM 2016 pool are:

1. New residential buildings (built after 2002²)

- Buildings that have obtained an Energy Performance Certificate (energy label) of “A” or “B” by the Netherlands Enterprise Agency. Currently, “A” or “B” labeled residential buildings that received their building permit after 2000 represent the top 12.7% in terms of energy performance in the Dutch residential market.

2. Residential buildings built before 2002:

- Buildings with a final (definitive) Energy Performance Certificate, labeled with rating "A"; or
- Buildings with a definitive Energy Performance Certificate of “C” or higher that have demonstrated a 2 level improvement in the Energy Performance Certificate. This has been calculated to represent a minimum improvement of 30% in terms of energy efficiency compared to an average home from the same building period.

3.2 Process for Project Selection

Obvion’s database of mortgages has been matched against the external database provided by Calcasa, a Dutch valuation service agency. Calcasa sourced the underlying data with regards to definitive Energy Performance Certificates directly from the the Netherlands Enterprise Agency (the Rijksdienst voor Ondernemend Nederland or RVO). Where definitive Performance Certificates were not available, Calcasa calculated them using the RVO’s methodology for determining Dutch residential Energy Performance Certificates.

From the asset pool that has been classified by Energy Performance labels, Obvion will select mortgages for inclusion in GREEN STORM 2016 based on the Eligibility Criteria (in addition to Obvion’s usual non-green mortgage loan selection criteria).

3.3 Management of Proceeds

Management

Net proceeds arising from the issuance of the mortgage-backed notes shall be used to fund eligible mortgages in the portfolio, and thus there will be no balance of funds to be invested. Therefore, only mortgages meeting the eligibility criteria will be backing the Green RMBS. This process will be monitored by a notary.

The eligible loans that serve as collateral will be documented.

² Accounting for a 2 year building period from the moment of obtaining the building permit

Tracking

As the total proceeds will be allocated in full at closing to existing loans, Obvion will only report on the sustainability aspects of this portfolio (see 3.4). However, a third party (Intertrust) will report monthly on the portfolio regarding size, prepayments, defaults, losses, etc. Any new mortgage loans that are added to the transaction in case of substitution after closing will have to meet the green eligibility criteria as described in the Eligibility Criteria section (See Section 3.1 above).

3.4 Reporting

As a part of the requirements for the Climate Bond Standard for Low Carbon Buildings, Obvion will appoint a third party to perform a CO₂ calculation study to demonstrate the climate impact of GREEN STORM 2016 which is based on a breakdown of the portfolio by Energy Performance Certificate. This report will be included in the investor package and made available to potential investors. The CO₂ calculation is based on the real energy consumption of the properties and uses an assumed emissions intensity of 505 g/kWh for electricity and 1.78 kg/m³ for natural gas.

4. SUSTAINALYTICS' OPINION

Rabobank and Obvion: Strong Sustainability Performers

Based on Sustainalytics' ESG research, Rabobank is assessed as an outperformer among its banking peers.³ Although it has faced significant business ethics issues in recent years, Rabobank demonstrates adequate performance on the key issues of responsible finance and financial product governance. Responsible finance refers to practices and strategies employed by banks to integrate sustainability criteria into financial lending and investment decisions. Rabobank has strong credit and loan standards and excludes certain industries from financing for sustainability reasons. Equally, Rabobank outperforms its peers with regards to financial product governance: the company has implemented strong programmes to integrate customer feedback and market its products and services responsibly. Rabobank is member of the executive board of the Green Bond Principles.

The bank has a strong presence in the Dutch housing and real estate market and has enacted sustainability policies for the real estate sector that aim to promote higher energy efficiency, a circular economy, lower greenhouse gas emissions, and the use of more renewable energy in housing and real estate. Rabobank also acts as a co-financer of the Dutch National Energy Saving Fund (Nationaal Energiebespaarfonds), which allows home owners to invest in energy-saving measures with favourable conditions. The company is also a signatory to the Dutch Energy Agreement for Sustainable Growth.⁴

Obvion has been investing in the Dutch housing market for over 30 years and, alongside its parent Rabobank, is using its presence in the local market to promote the country's transition towards a sustainable economy. Obvion has also demonstrated a strong commitment to responsible lending through its JobCoach programme, which supports customers having difficulty making their payments with career support. Furthermore, Obvion also supports home owners in implementing energy savings measures, including the option to finance these activities through their existing mortgages. These activities provide evidence that both Obvion and Rabobank are, in Sustainalytics' opinion, well positioned to issue this Green RMBS.

Alignment with the Dutch government's energy efficiency improvement initiatives

In 2013, after extensive consultations with stakeholders, the Netherlands issued its Energy Agreement for Sustainable Growth, a roadmap towards ensuring a sustainable, long-term energy supply for the country. Alongside commitments by industry, the plan also highlighted that the energy efficiency of residential buildings was key to ensuring a successful execution of the Agreement and, more broadly, the shift to a sustainable economy. As such, the asset selection criteria defined by Obvion is aligned with the Dutch government's initiatives to improve energy efficiency in the housing sector. The assets selected represent the top 15% in terms of energy ratings ("A" and "B" ratings), or demonstrate a significant improvement in performance over time.

³ As a wholly owned subsidiary of Rabobank, Sustainalytics' assesses Obvion's sustainability performance under its parent.

⁴ <http://www.energieakkoordser.nl/energieakkoord.aspx>

Climate Bonds Initiative Certification

Obvion's GREEN STORM 2016 has received certification under the Climate Bond Standard, as it is in alignment with the Climate Bonds Initiative Residential Property Eligibility Criteria and Guidelines.⁵

Alignment with Green Bond Principles

Principle	In line with GBP 2015?	Comments
Use of Proceeds	Yes	Energy efficiency (including efficient buildings) is one of the project categories recognized by the GBP as addressing key areas of environmental concern. Based on Sustainalytics' review, improving energy efficiency in residential properties reduces GHG emissions. The United Nations Environmental Programme (UNEP) estimates that buildings contribute as much as one third of total global GHG emissions, most of which is from energy consumption. Thus, the energy efficiency projects financed under this Bond are expected to provide clear long-term environmentally sustainable benefits. ⁶
Project Selection Process	Yes	Obvion has outlined a clear decision-making process for the Project Selection Process. As Obvion will use an external database of Energy Performance Certificates to select eligible mortgages or RVO's methodology where definite Performance Certificates are not available, the mortgage evaluation and selection will clearly consider environmental sustainability objectives. The selection process for assets is transparent and Sustainalytics is confident that the selected mortgages will adhere to all mentioned eligibility criteria.
Management of Proceeds	Yes	As the Green RMBS will immediately be allocated to refinancing existing mortgages, there is no need to create a sub-account for net proceeds. The allocation will be verified by a notary, which ensures a high level of transparency, in line with the recommendations of the GBP.
Reporting	Yes	Obvion will use quantitative performance indicators to measure the expected sustainability impact of RMBS, the results will be monitored by a third party (Intertrust), and all reports will be made available to potential investors. Obvion's sustainability bond reporting process is transparent and fully aligns with the expectations of the Green Bond Principles.

⁵ http://www.climatebonds.net/files/files/Climate%20Bond%20Standard%20-%20Version%201_9%20-%202022%20June%202015.pdf

⁶ UNEP SBCI. 2009. Buildings and Climate Change. Summary for Decision-Makers. Available at: <http://www.unep.org/sbci/pdfs/SBCI-BCCSummary.pdf>

Conclusion

The documentation ensures that the proceeds will be used to refinance the eligible mortgage loans backing GREEN STORM 2016. The marketing information will be transparent and detailed by providing loan by loan data to (potential) investors on the underlying pool including the Energy Performance Certificates. Obvion's green RMBS follows the guidance provided by the Green Bond Principles 2015 and is in alignment with the Principles' four components: the use of proceeds, process of project evaluation and selection, management of proceeds and reporting. Furthermore, Obvion's GREEN STORM 2016 has been certified under the Climate Bonds Standard. As prescribed by the CBI's Low Carbon Building Eligibility Criteria and Guidelines, Obvion has identified the residential mortgages with energy performance or improvements in the top 15% of the local market.

APPENDICES

Appendix A: GREEN STORM 2016 portfolio selection criteria

Reference data

This section describes the criteria that Obvion used in order to identify the environmentally best 15% of the Dutch residential buildings which will serve as the criteria to select a mortgage loan pool for Obvion's GREEN STORM 2016. The analysis is based on the latest calculation methodology - version 1.2 of the Dutch residential Energy Performance Certificates (energy labels) presented in the official Energy Performance Certificate calculation documents and tables, and the Dutch building Directive "Bouwbesluit", which sets the Dutch Energy performance coefficient "Energieprestatiecoëfficiënt" (EPC), the minimum environmental standards for new residential buildings. See figure 1 and 2 for the energy labels per building period.

	WONINGTYPE (C)	BOUWPERIODE (J)										
		T/M 1945	1946-1964	1965-1974	1975-1982	1983-1987	1988-1991	1992-1999	2000-2005	2006-2013	2014 en later	
		J1	J2	J3	J4	J5	J6	J7	J8	J9	J10	
C1	Vrijstaande woning	G	F	D	C	C	B	B	B	A	A	
C2	Twee / één kapwoning	G	F	D	C	C	C	B	B	A	A	
C3	Rijwoning hoek	G	F	D	C	C	C	B	B	A	A	
C4	Rijwoning tussen	F	E	C	C	C	C	B	A	A	A	
C5	Meergezinswoning	Flat/appartement*	G	E	E	B	C	C	C	B	A	A
C6		Maisonnette**	F	E	C	B	C	C	A	A	A	A

Figure 1. Schematic overview of Energy Performance Certificates based on building period and housing type by RVO, methodology version 1.2

WONINGTYPE (C)	BOUWPERIODE (J)									
	T/M 1945	1946-1964	1965-1974	1975-1982	1983-1987	1988-1991	1992-1999	2000-2005	2006-2013	2014 en later
	J1	J2	J3	J4	J5	J6	J7	J8	J9	J10*
C1	266,686	114,103	101,304	93,179	37,169	51,196	136,005	57,583	49,677	72,353
C2	167,147	121,531	131,203	75,619	43,613	65,687	139,302	53,339	51,309	
C3	169,568	186,619	254,999	165,939	64,576	51,832	74,496	44,650	33,111	
C4	350,674	304,247	437,978	326,243	176,446	93,667	173,296	97,802	101,400	
C5	310,048	386,856	437,485	210,740	172,402	80,479	197,612	154,540	191,249	
C6	87,875	7,777	7,095	13,504	4,221	1,626	3,734	1,496	7,419	
	1,351,998	1,121,133	1,370,064	885,224	498,427	344,487	724,445	409,410	434,165	72,353
	18.7%	15.5%	19.0%	12.3%	6.9%	4.8%	10.0%	5.7%	6.0%	1.0%

* New buildings after 2014 based on new permits after 01-01-2014 (Source: CBS)

Figure 2. Division of Energy Performance Certificates based on number of residential buildings according to WoON2012 until J9. For J10 Obvion determined the number of new built residential buildingsⁱ.

Selection of top 15% most energy efficient residential buildings

The Energy Performance Certificates rank residential buildings based on their environmental impact with A representing the best category with B labels being the second best labels. Including only A labels would be a small selection of only the top 8.5%, whereas a selection of both A and B labels would be a selection of the top 24%. The latter is not sufficient to meet the best 15% of the market as per the Climate Bond Low Carbon Housing Standard. In order to identify the top 15% the Energy performance coefficient "Energieprestatiecoëfficiënt" (EPC) is used. The EPC norm has become more stringent from 1996 onwards by lowering the EPC requirement from for all newly builds. See table 1 below. All residential buildings with

A labels and residential buildings with the B labels that were built from 2000 onwards (EPC <= 1.0) can therefore be identified as a greener selection than the prior (which includes all B labels).

Date in Dutch Building Directive	Energy Performance Coefficient required for a building permit
1-1-1996	1.4
1-1-1998	1.2
1-1-2000	1.0
1-1-2006	0.8
1-1-2011	0.6
1-1-2015	0.4

Table 1. Historic Energy Performance Coefficients per start date in the Dutch Building Directive

Residential buildings with A and B labels that were built after 2000 constitute the top 12.7% of the Dutch housing market and therefore falls well within the top 15%. See for a graphical overview of the proposed selection in figure 3.

	WONINGTYPE (C)	BOUWPERIODE (J)										
		T/M 1945	1946-1964	1965-1974	1975-1982	1983-1987	1988-1991	1992-1999	2000-2005	2006-2013	2014 en later	
		J1	J2	J3	J4	J5	J6	J7	J8	J9	J10	
C1	Vrijstaande woning	G	F	D	C	C	B	B	B	A	A	
C2	Twee / één kapwoning	G	F	D	C	C	C	B	B	A	A	
C3	Rijwoning hoek	G	F	D	C	C	C	B	B	A	A	
C4	Rijwoning tussen	F	E	C	C	C	C	B	A	A	A	
C5	Meergezinswoning	Flat/appartement*	G	E	E	B	C	C	C	B	A	A
C6		Maisonnette**	F	E	C	B	C	C	A	A	A	A

Figure 3. Selection of residential buildings with A and B labels that were built after 2000 constitute the top 12.7% of the Dutch housing

Selection of refurbished residential buildings with 30% energy efficiency improvement

Older but environmentally refurbished residential buildings (that have improved their Energy Performance Certificate) have an important climate impact and could therefore also be included in the selection. They are eligible according to the Climate Bond Standard when these homes have realized at least 30% improvement in energy performance. Figure 4 shows that a 30% improvement of the Energy Index (EI) is equal to an Energy Performance Certificate increase of at least 2 notches, with a minimum of definitive label C.

		TO					
EPC		A	B	C	D	E	
EI		0.6	1.2	1.4	1.8	2.1	
FROM	C	1.4	-57%	-14%			
	D	1.8	-67%	-33%	-22%		
	E	2.1	-71%	-43%	-33%	-14%	
	F	2.4	-75%	-50%	-42%	-25%	-13%
	G	2.7	-78%	-56%	-48%	-33%	-22%

Figure 4. Change in Energy Index (EI) and from the original EPC (rows) to the improved EPC (column). A lower Energy Index represents an improvement. The lower boundary of the EI was used. EI Values according to NEN 7120+NV.

The current norm for the Energy Index since 1-1-2015 is NEN7120+NV. This norm NEN7120 is an improvement of the old norm ISSO 82.3 that was used until 2014. According to the Second Opinion Inijking Energielabels⁷ (page 10) the new norm is equal to the old norm in complexity. The most important difference is that the old norm is based on the original build quality of the residential buildings. The new norm takes into account the fact that many people did the most obvious energy improvements over the past years, like double glazing. Under the new norm old residential buildings have more often a green Energy Performance Certificate because they are likely to be refurbished. Another option would be to use the old norm and the new norm simultaneously. This would lead to a larger improvement percentage because the current situation would then be compared to the original built quality. Hence, the most realistic and latest norm is used for both situations: these are the energy labels in figure 1. This means that the selection for improved residential buildings will be relatively strict. The residential buildings selected will have a 30% *additional* energy efficiency improvement compared to an average home from the same building period.

Obvion's pool selection

In order to identify the current Energy Performance Certificates of Obvion's mortgage pool, Obvion used all the current Energy Performance Certificates based on the addresses of the residential buildings that serve as collateral to the mortgage loans. The Energy Performance Certificates were provided by a mortgage data provider Calcasa. The original source of the data is the Netherlands Enterprise Agency "Rijksdienst voor Ondernemend Nederland" (RVO) and contains both preliminary and definitive Energy Performance Certificates. In case these were not available, the label was calculated by the mortgage data provider Calcasa based on the official Energy Performance Certificates methodology version 1.2.

Based on the analysis above, Obvion selected all mortgage loans connected to buildings with an A label or B label with a construction year from 2002 onwards. Because the EPC norm change in the year 2000 (as explained above) applies to the date of the building permit (as opposed to the actual date of building completion, i.e. construction year), Obvion will only select those A and B labels with a construction year from 2002 onwards in order to account for a building period of at least 2 years.

Additionally Obvion includes old residential buildings that have improved their energy efficiency by at least two notches to a minimum definitive Energy Performance Certificate C (as a proxy for at least 30% improvement of energy efficiency). Improvements to definitive label A are considered eligible as well since this would be an improvement to the best available energy certificate.

In order to establish the improvement, Obvion has determined the original Energy Performance Certificate of every house in the mortgage pool by means of the construction year and the housing type as per the figure 1 above. Since Obvion's housing type data does not fully correspond to the classifications by the RVO this was approached conservatively by classifying the pool in either an apartment (C5), detached house (C1), or all other residential buildings as terraced houses (C4). All residential buildings were included that have improved by at least two notches based on the Energy Performance Certificate prebuilding period in figure 1 and the definite Energy Performance Certificate provided by Calcasa, both

⁷ A.F. Kruihof and H.J.J. Valk, Nieman, Second Opinion Inijking Energielabels, 2015

according to norm NEN7120+NV. A definitive Energy Performance Certificate has been audited by an expert; the expert does not visit the house but verifies the evidence provided by the home owner (such as pictures or invoices). Using definitive Energy Performance Certificates increases the quality of the selection of mortgages that have improved by a minimum of 30%.

The provisional pool for Obvion's GREEN STORM 2016 is selected on the basis of the above methodology. The final pool will be randomly selected out of the provisional pool to match transaction size. The proceeds of the transaction will be used to refinance these existing mortgage loans.

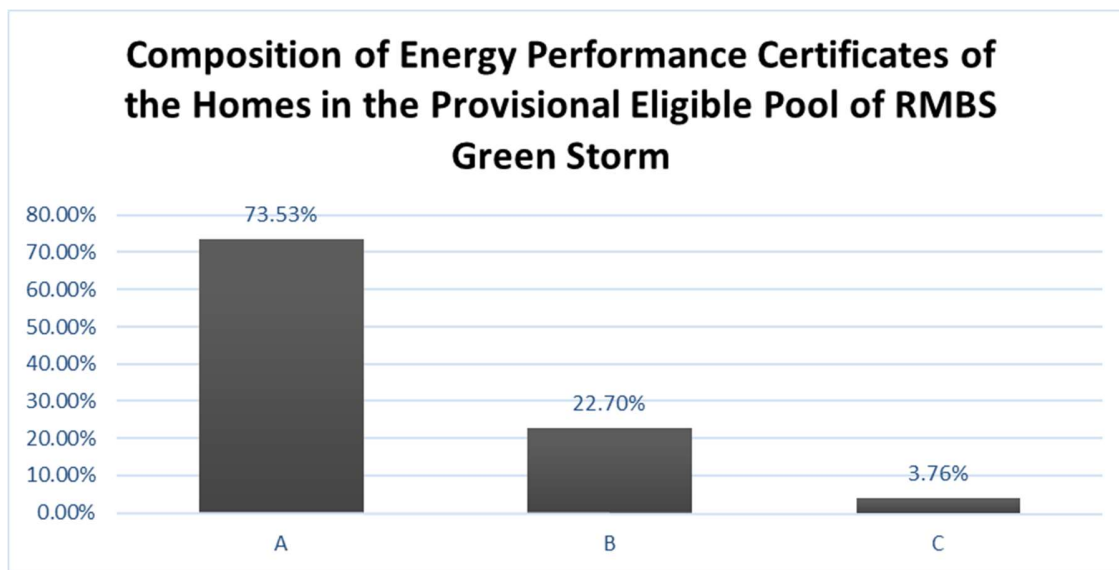


Figure 5. Composition of Energy Performance Certificates in the provisional eligible pool of the RMBS Green Storm 2016

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