

Reykjavík Social Housing — Social Bond Framework

February 2019



Executive Summary

Reykjavík Social Housing (Félagsbústaðir, referred to as RSH hereafter) is Iceland's largest provider of affordable social housing as well as the largest housing leasing company in Iceland. RSH's sole purpose, as a non-profit, is to provide public benefits through affordable social housing to its Targeted Social Groups, and it is not permitted to engage in any other type of operation. The City of Reykjavík has a legal obligation to provide affordable social housing, which it fulfils through its fully owned subsidiary, RSH.

The availability of stable and affordable housing is a basic human right and is of key importance to the economic vitality of communities. Eligible Projects in this Framework support the United Nations Sustainable Development Goals No. 1, 10, and 11. Investors are now provided with the opportunity to support this critically important matter and gain further insights into RSH's sustainability efforts.

Introduction - Reykjavík Social Housing

RSH was incorporated on 8 April 1997 by the City of Reykjavík as a non-profit company to be operated in a financially sustainable manner. The sole purpose of RSH is to provide public benefits through affordable social housing, and it is not permitted to engage in any other type of operation.

It constructs, owns, operates, and maintains social housing with the aim of providing affordable housing for its Targeted Social Groups, including low-income¹ and socially vulnerable individuals and families,

¹ RSH's income thresholds for applicants are in line with the Icelandic government's policies and regulations.

Proceeds from Social Bonds issued with reference to this Framework will fund Eligible Projects, i.e. affordable social housing. The selection of Eligible Projects will be conducted by a Committee within RSH. The project category, Affordable Housing, aligns with both RSH's purpose and ICMA's Social Bond Principles. In order to provide investors with transparent and coherent reporting, RSH will communicate how proceeds are allocated to Eligible Projects and specify certain performance indicators in its Annual Social Bond Impact Report.

This Social Bond Framework has been evaluated by Sustainalytics. Its Second Opinion states that the Framework is credible and impactful and aligns with the four core components of the International Capital Markets Association's (ICMA) 2018 Social Bond Principles.

elderly people, individuals with disabilities, and a qualified segment of homeless individuals. As a non-profit, all profits from the operation, including accumulated profits due to asset formation, shall be used for the growth and/or the operation of RSH or repayments of its loans.

RSH is Iceland's largest provider of affordable social housing and the country's largest housing leasing company. From 2003 to 2018, the number of apartments for affordable social housing increased every year in Reykjavík. At year-end 2018, RSH owned a portfolio of 2,618 apartments, which is estimated to grow to 3,170 by 2022. The City of

Reykjavík's policy is that 5% of all residential housing in Reykjavík is affordable social housing.

The City of Reykjavík has a legal obligation to provide affordable social housing, which it fulfils through its fully owned subsidiary, RSH. In 2018, RSH provided almost 16 apartments per 1,000 inhabitants in Reykjavík for its Targeted Social Groups. The residents of Reykjavík, which account for approximately 36% of the total Icelandic population, generally use a higher proportion of their salaries to pay for housing than elsewhere in Iceland, stressing the need for the availability of affordable social housing.

The availability of stable and affordable housing is a basic human right and is of key importance to the economic vitality of communities, underpinning good health and the social, educational and economic participation of individuals. Social housing provides secure and affordable housing not available in the private market, housing people on low incomes and those with complex needs, striving to ensure that all individuals and families have access to safe and affordable homes, regardless of social or economic status.

RSH has established this Social Bond Framework to facilitate funding of Eligible Projects undertaken by RSH to further meet the demand of its Targeted Social Groups. The legal documentation for each individual RSH Social Bond shall provide a reference to this Framework under the bond's use of proceeds section.

Eligible Projects as outlined in this Framework support the United Nations Sustainable Development Goals (UN SDGs) by economically empowering disadvantaged groups (UN SDG No. 1), providing services that explicitly target the needs of disadvantaged and marginalised populations (UN SDG No. 10), and by supporting access to adequate and affordable housing (UN SDG No. 11).



Governance

The role and operation of RSH is defined in legislation, its ownership policy, and articles of association. The board of RSH puts good governance at its forefront, and it follows the guidelines from the Iceland Chamber of Commerce, the Confederation of Icelandic Enterprise, and the Icelandic Stock Exchange, Nasdaq OMX.² RSH is furthermore a partner in Housing Nordic (NBO)³, an association of housing organisations in Scandinavia.

RSH has in place policies, such as its Risk Management Policy and Environmental Policy. The Risk Management Policy defines RSH's management of different risk factors, including financial risk, operational risk, and portfolio risk.

RSH and the City of Reykjavík's Department of Welfare (RDW) have in place an agreement in which the role of each party is defined regarding the allocation of affordable social housing which follows regulations on social housing. RDW provides an administrative platform between applicants and RSH.

In order to qualify for affordable social housing at RSH, applicants must fall within the Targeted Social Group. They are assessed and prioritized based on certain prerequisites, including social conditions, legal domicile, income, assets, and debt.⁴ The tenants must fulfil the criteria and are assessed intermittently by RDW during the entire period of the lease agreement.



² The guidelines can be [found here](#).

³ The website of Housing Nordic can be [found here](#).

⁴ Further criteria include: non-possibility of purchasing own housing, legal domicile in Reykjavík, income and assets below defined amounts, aged 18+, and must score a certain score on the following parameters. Applicants are assessed and prioritised based on the following criteria and scored accordingly: disabilities, age, income per year, applicant's number of children, social condition (including current living arrangements, special conditions of children, social rehabilitation), previous applications, living arrangements w.r.t. family size, social/health arrangements.

Use of Proceeds - Eligible Projects

The net proceeds (hereafter referred to as proceeds) from Social Bonds issued with reference to this Framework will be used to finance both new⁵ and existing⁶ Eligible Projects. The Eligible Projects are intended to serve the housing needs of the Targeted Social Groups, including low-income and socially vulnerable individuals and families, elderly people, individuals with disabilities, and a qualified segment of the homeless individuals.

The project category, Affordable Housing, aligns with both RSH’s purpose and ICMA’s Social Bond Principles.⁷



Project Category	Examples of Eligible Projects
Affordable Housing	<ul style="list-style-type: none"> • Construction of new housing • Purchasing of housing • Maintenance of housing infrastructure • Refurbishment of housing



⁵ New financing is defined as proceeds allocated to Eligible Projects initiated up to 12 months prior to a Social Bond issued with reference to this Framework.

⁶ Refinancing of existing projects is defined as financing of Eligible Projects dating back further than 12 months from a Social Bond issued with reference to this Framework.

⁷ The 2018 ICMA’s Social Bond Principles can be [found here](#).

Selection of Eligible Projects

The selection of Eligible Projects will be conducted by the following process:

1. The RDW analyzes the needs of the Targeted Social Groups on an annual five-year rolling projection.
2. This analysis is submitted to the Board of RSH, which decides if investments are to be conducted to meet these projections.
3. Decisions on individual projects, construction of new housing, and purchasing of housing are taken by a Committee within RSH that includes the CEO, the CFO, the Head of Investments,

and the Head of Maintenance. The advice and input of the RDW are sought if necessary.

4. The Committee then reviews the suggested projects and verifies that they support the objective of this Framework, i.e. to provide affordable housing for the Targeted Social Groups.
5. Funds are then allocated to each of the Eligible Projects from the Social Account.

The allocation of proceeds is then reported in the Annual Social Bond Impact Report (see section below).

Management of Proceeds

The proceeds from Social Bonds issued with reference to this Framework will be managed by the RSH Financial Department. An amount equal to the proceeds from each Social Bond issued with reference to this Framework will be credited to a special social budget account (“the Social Account”). The Social Account will fund a project if and only if the project is deemed eligible with reference to this Framework (see Use of Proceeds - Eligible Projects and Selection of Eligible Projects).

Until disbursement, proceeds can be used for short-term investments in deposits, money market deposits, bank notes, UCITS funds, and government bonds. Proceeds will not be used to invest in corporate

stocks or bonds. The proceeds will only be used to fund projects defined as Eligible Projects.

Proceeds from Social Bonds issued with reference to this Framework will not be allocated to investments focused on energy generation using fossil fuels or other greenhouse-gas-intense activities, nuclear energy generation, environmentally negative resource extraction (such as rare earth elements or fossil fuels), weapons and defence, gambling, or tobacco.

RSH will communicate how proceeds were allocated to Eligible Projects in its Annual Social Bond Impact Report. An external auditor will verify the allocation of funds by RSH, the results of which will be communicated in the Annual Social Bond Impact Report.

Transparency and Reporting

In order to provide investors with transparent and coherent reporting, an Annual Social Bond Impact Report will be published in parallel with RSH's Annual Report. The Annual Social Bond Impact Report will provide investors and other stakeholders with relevant performance and status indicators, including:

1. Social impact directly attributed to the use of proceeds. For consistency with other issuances, the Harmonized Framework for Impact Reporting for Social Bonds will be used.⁸ Key indicators may include:
 - Rental costs compared to the national/regional rent index
 - The share of under-served tenants
 - Number of dwellings
2. Allocation of proceeds aggregated to the level of project type (e.g. the construction of new housing or purchased housing).
 - Annual allocation
 - Total allocation
 - Outstanding allocation
 - Refinancing ratio

The social impact is estimated ex-post of project completion and throughout the duration of Social Bonds issued with reference to this Framework.

⁸ The 2018 Harmonized Framework for Impact Reporting can be [found here](#).



External Reviews

The following external reviews will be conducted in relation to Social Bonds issued with reference to this Framework and reporting:

1. A second opinion on this Framework is provided to ensure its alignment with ICMA's Social Bond Principles.
2. An external sustainability expert will assess the reported social factors and the selection of projects against the project eligibility criteria.

3. An external auditor confirms that net proceeds are used for funded projects, at least until full allocation.

This Framework, the Annual Social Bond Impact Report, and the Second Opinion will be made available on RSH's website and other relevant investor forums for investors and other stakeholders.

