

Announcement: Moody's assigns Green Bond Assessment (GBA) of GB1 to Government of Lithuania's senior unsecured green bond

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GBA assigned to Government of Lithuania's initial green offering

New York, June 27, 2018 -- Moody's Investors Service has today assigned a Green Bond Assessment (GBA) of GB1 (Excellent) to the Government of Lithuania's (A3 stable) green bond issued in May 2018. Lithuania's €20 million debut green bond is a senior unsecured and unsubordinated offering maturing in ten years in May 2028. As codified in the government's green bond framework, net proceeds from the offering will be used exclusively to improve the energy efficiency of multi-apartment buildings throughout Lithuania, leading to energy savings and contributing to the country's goals under the Paris climate agreement, EU climate framework and other national environmental goals.

"The Lithuanian government is using the proceeds to further investments in energy efficiency upgrades to multi-apartment buildings throughout Lithuania by at least 40%, which will contribute to the country's goal to decrease energy consumption intensity 1.5 times by 2030 compared to 2017," said Matthew Kuchtyak, a Moody's lead GBA analyst.

ASSESSMENT RATIONALE

In accordance with the definition of eligible green projects outlined in the issuer's green bond framework, 100% of the green bond proceeds will be used to finance energy efficiency investments in multi-apartment buildings throughout the country. Through its green bond program, the government aims to address increasing fuel consumption, energy demand and greenhouse gas emissions by modernizing multi-apartment buildings and raising public awareness of the energy performance of buildings and energy savings. These upgrades primarily align with the energy efficiency and green buildings categories of the Green Bond Principles.

To support the issuance of its debut green bond, Lithuania has created a robust green bond framework that outlines how the country's green bond is aligned with the best practices articulated under the Green Bond Principles. The framework explains the issuer's approach to organization and governance, project evaluation and selection process, use of proceeds, management of proceeds, as well as reporting and disclosure. Additionally, the framework describes how the investments in multi-apartment building energy efficiency, to be financed in part by green bond proceeds, support the country's goals under the Paris climate agreement and the EU climate framework. To execute on the guidelines outlined in its framework, the issuer has created a broad, but complex, organizational structure whereby multiple government agencies and groups provide collective oversight of the green bond offering process from issuance to maturity.

Lithuania has provided very strong disclosures around the use of green bond proceeds, with clarity provided around eligible projects for financing and the expected qualitative and quantitative environmental benefits of the projects. The government has shared with Moody's granular detail down to the individual project level, including details on the location of the projects, the amounts of the project upgrades and the expected energy class to be achieved by the projects. Additionally, the issuer relies on independent companies to provide certifications attesting to the environmental credentials of the financed projects.

Net proceeds from the green bond were on-lent by the Ministry of Finance to the Public Investment Development Agency (VIPA), a Lithuanian state financial institution with the goal of financing and promoting sustainable development. A separate green bond account is used to receive the net proceeds, disburse payments to the contractors implementing the eligible projects, issue other payments related to the eligible projects and receive loan payments from the end borrowers.

Proceeds held in the dedicated green bond account will be managed in accordance with VIPA's normal accounting policies that govern all aspects of the agency's proceeds management and accounting processes. VIPA will maintain accounting codes for all transactions relating to the distribution of green bond proceeds, allowing it to track green bond proceeds on a project-by-project basis. VIPA accounting policies also govern the list of eligible investments for green bond cash balances that have not yet been allocated to eligible

projects, which is in line with standard market practices.

VIPA will issue green bond performance reports annually over the 10-year life of the bond. These reports will be publicly available and contain information on how the green bond proceeds were allocated and what environmental benefits the financed projects are achieving. To monitor performance of the eligible projects, certain quantitative indicators have been selected to be included in the annual green bond report, including energy performance of the financed buildings before and after modernization, the amount of greenhouse gases emitted into the atmosphere and the number of modernized buildings financed with green bond proceeds.

Located in northeastern Europe on the Baltic Sea, Lithuania has a population of approximately 2.8 million people. Nominal GDP totaled \$47.2 billion in 2017.

The principal methodology used in this analysis was Green Bonds Assessment (GBA) published in March 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Matthew Kuchtyak
Analyst
Infrastructure Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Jim Hempstead
MD - Utilities
Infrastructure Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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