

Second-Party Opinion

Kvika Green Funding Framework



Evaluation Summary

Sustainalytics is of the opinion that the Kvika Green Funding Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Clean Transportation, Green Buildings, Renewable Energy, Circular Economy Adapted Products, Production Technologies and Processes, and Biodiversity Conservation – are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11, 12 and 15.



PROJECT EVALUATION AND SELECTION Kvika’s Sustainability Committee is responsible for evaluating and selecting eligible projects in line with the Framework’s eligibility criteria. The Sustainability Committee will validate the portfolio of eligible assets at least on a semi-annual basis, and may delegate authority to the Credit Committee or dedicated specialists for the review of selected assets and projects. Kvika has a process in place to mitigate environmental and social risks associated with eligible assets and projects. Based on the presence of a dedicated committee and risk management systems, Sustainalytics considers this process to be in line with market practice.



MANAGEMENT OF PROCEEDS Kvika’s Treasury Department will be responsible for managing proceeds using a portfolio approach. Kvika’s risk Management Department will be responsible for tracking the proceeds using a Green Register. The Bank intends to fully allocate netproceeds within 18 months of issuance. Pending allocation, proceeds will be temporarily held in accordance with Kvika’s liquidity management policy in a portfolio of cash, cash equivalents or other liquid market instruments. Sustainalytics considers this to be in line with market practice.



REPORTING Kvika commits to report on allocation of proceeds and corresponding impact in an allocation and impact report on an annual basis until full allocation of bond proceeds. The allocation and impact report will be publicly available on the Bank’s website. Allocation reporting will include the total amount of green bonds issued, a breakdown of eligible assets and projects per use of proceeds category, the distribution between refinancing and new financing, and the share of unallocated proceeds. Impact reporting will include annual GHG emissions avoided or reduced (in tCO₂e), installed capacity of renewable energy (in MW), the material recovery rate of circular economy-adapted solutions, amongst others. Sustainalytics considers this to be in line with market practice.

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Introduction

Established in 2015, Kvika banki hf. (“Kvika” or the “Bank”) is an Icelandic financial services group with main operations in Iceland and additional activities in the UK. Kvika provides services in three core areas: i) commercial banking; ii) corporate banking and capital markets; and iii) asset management and insurance. As of December 2023, Kvika had 361 employees.¹

Kvika has developed the Kvika Green Funding Framework dated February 2024 (the “Framework”), under which Kvika and its subsidiaries Kvika Asset Management, Kvika UK and TM Insurance intend to issue green bonds, including public or private placements,² covered bonds,³ senior preferred and non-preferred bonds and subordinated debt. The Framework also applies to green deposits.⁴ Proceeds from these instruments will be used to finance or refinance, in whole or in part, existing or future projects in Iceland, which are expected to deliver positive environmental impacts. The Framework defines eligibility criteria in five green categories:

1. Clean Transportation
2. Green Buildings
3. Renewable Energy
4. Circular Economy Adapted Products, Production Technologies and Processes
5. Biodiversity Conservation

Kvika engaged Sustainalytics to review the Kvika Green Funding Framework and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)⁵. The Framework will be published in a separate document.⁶

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁷ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Kvika’s management team to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. Kvika representatives have confirmed that: (1) they understand it is the sole responsibility of Kvika to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

¹ Kvika, “Q3 Interim Financial Statement 30.06.2023”, at: https://kvika.cdn.prismic.io/kvika/e315f86b-0f6f-475b-a349-739d19812618_Kvika+-+Condensed+Interim+Consolidated+Financial+Statements+30.09.2023.pdf

² Kvika has confirmed that public or private placements do not include sales of stock shares, hence are limited to debt instruments.

³ Kvika has confirmed that proceeds from covered bonds will be allocated to eligible assets.

⁴ Green deposits include a minor share of retail deposits. For such, Kvika has confirmed commitment to: i) replenishment of eligible assets for continual matching with the amounts raised from the deposits; and ii) a meaningful allocation period to credible underlying loans as compared to the maturity of the deposit programme launched.

⁵ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

⁶ The Kvika Green Funding Framework is available on Kvika’s website: <https://kvika.is/en/investor-information/>

⁷ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Kvika.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Kvika has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Kvika Green Funding Framework

Sustainalytics is of the opinion that the Kvika Green Funding Framework is credible, impactful and aligned with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Clean Transportation, Green Buildings, Renewable Energy, Circular Economy Adapted Products, Production Technologies and Processes, and Biodiversity Conservation – are aligned with those recognized by the GBP.
 - Sustainalytics notes that Kvika has established a three-year look-back period for its opex refinancing activities, which is in line with market practice.
 - In addition to the allocation of net proceeds to specific eligible projects or assets, Kvika also intends to use proceeds for general corporate purpose loans for pure play businesses that derive at least 90% of their revenue from activities identified in the eligible categories. Sustainalytics acknowledges that financing pure play companies through green bonds is a commonly accepted approach, which is likely to generate positive impacts, however, project- and activity-based lending generally results in more direct environmental benefits and enhanced compliance with eligibility criteria .
 - The Framework excludes expenditures related to: i) fossil fuel-related energy generation and related infrastructure; ii) nuclear energy generation; iii) environmentally negative resource extraction, such as rare earth elements and fossil fuels; iv) deforestation and degradation of forests; v) weapons; vi) gambling; vii) tobacco; and viii) adult entertainment.
 - Under the Clean Transportation category, Kvika may finance or refinance: i) the purchase of passenger vehicles, vehicles for public transport, heavy equipment and freight vehicles; and ii) the installation, development, operation and maintenance of supporting infrastructure. Eligible projects include:
 - Passenger cars and light commercial vehicles with zero emissions or with carbon intensity below 50 gCO₂/pkm.⁸
 - Zero emissions mopeds, scooters, bicycles and motorbikes.
 - Public transport vehicles with zero emissions, such as buses, trains and ferries.
 - Electric or hydrogen-powered heavy equipment vehicles, such as forklifts, garbage trucks, cranes and diggers. Kvika has confirmed that such vehicles are not dedicated to transport fossil fuels or fossil fuel blended with alternative fuels.
 - Freight rail, road or water transport vehicles with zero emissions, as well as freight rail or road transport vehicles with emissions intensities below 25 gCO₂/tkm. Kvika has

⁸ The carbon intensity is measured based on the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP). If WLTP is not available, Kvika uses the New European Driving Cycle (NEDC).

- confirmed that it will not finance freight transport used primarily for the transport of fossil fuels.
- Infrastructure projects include charging points for electric vehicles, hydrogen fueling stations and bicycle paths. Kvika has confirmed the exclusion of new roads, existing road infrastructure retrofits, parking infrastructure and fossil fuel filling stations and other assets which prolong the life or facilitate the use of fossil fuel-powered transportation.
 - Sustainalytics considers this to be in line with market practice
 - Under the Green Buildings category, Kvika may finance or refinance the acquisition and development of residential and commercial buildings.
 - New buildings built on or after 31 December 2020 in accordance with one of the following criteria:
 - Buildings certified to LEED Gold,⁹ BREEAM In-Use Excellent,¹⁰ DGNB Gold,¹¹ or the Nordic Swan Ecolabel.¹² Sustainalytics views these certification schemes as robust and credible.
 - Buildings with primary energy demand (PED) at least 10% lower than the PED resulting from the local nearly zero-energy building (NZEB) requirements. Sustainalytics notes that this criterion only becomes valid once the NZEB requirements have been defined in the context of Iceland.
 - Buildings that have obtained an energy performance certificate (EPC) A. Sustainalytics notes that this criterion only becomes valid once EPCs have been introduced in the context of Iceland.
 - Existing buildings built before 31 December 2020 in accordance with one of the following criteria:
 - Buildings that have obtained EPC A or within the top 15% most energy-efficient buildings in the relevant area based on PED.
 - Buildings certified to LEED Gold,¹³ BREEAM In-Use Excellent,¹⁴ DGNB Gold¹⁵ or the Nordic Swan Ecolabel.¹⁶ Sustainalytics views these certification schemes as robust and credible.
 - Major renovations that lead to a minimum 30% improvement in energy consumption compared to pre-renovation levels or result in the building obtaining an EPC A.
 - Sustainalytics considers this to be in line with market practice.
 - Under the Renewable Energy category, Kvika may finance or refinance the manufacture, development and installation of renewable energy projects and associated products, facilities and infrastructure, including: i) solar photovoltaic power (PV); ii) onshore or offshore wind energy; iii) hydropower; iv) geothermal energy; and v) bioenergy, including biomass, biogas and biofuels.
 - Hydropower plants that became operational before the end of 2019 and meet one of the following criteria: i) power density above 5 W/m²; or ii) life cycle emissions below 100 gCO_{2e}/kWh. Kvika has informed Sustainalytics that projects will be subject to an environmental impact assessment, as required by Icelandic authorities, considering potential negative impacts based on scale, nature or project location.¹⁷
 - Hydropower plants that became operational after 2019 and meet one of the following criteria: i) power density above 10 W/m²; or ii) life cycle emissions below 50 gCO_{2e}/kWh. Kvika has informed Sustainalytics that projects will be subject to an environmental and social risk assessment to control for significant risks, negative impacts and controversies related to the projects financed.
 - Geothermal energy plants with life cycle emissions below 100 gCO_{2e}/kWh.

⁹ LEED: <https://www.usgbc.org/leed>

¹⁰ BREEAM: <https://bregroup.com/products/breeam/>

¹¹ DGNB: <https://www.dgnb.de/en/building-certification>

¹² Nordic Swan Ecolabel: <https://www.nordic-swan-ecolabel.org/official-nordic-ecolabel/>

¹³ LEED: <https://www.usgbc.org/leed>

¹⁴ BREEAM: <https://bregroup.com/products/breeam/>

¹⁵ DGNB: <https://www.dgnb.de/en/building-certification>

¹⁶ Nordic Swan Ecolabel: <https://www.nordic-swan-ecolabel.org/official-nordic-ecolabel/>

¹⁷ Icelandic Parliament, "Proposal for Congress on the review of the regulatory environment for small-scale power plants", at: <https://www.althingi.is/alttext/150/s/0351.html>

- Kvika has confirmed that bioenergy feedstock is limited to forestry and agricultural residues, wastewater and sewage sludge. In addition, the Bank has confirmed that wastewater from fossil fuel operations is excluded. For waste-to-energy projects using municipal solid waste, Kvika has confirmed that the majority of recyclables, especially plastics, are segregated before energy conversion. Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine two of the main objectives of a zero-waste circular economy, i.e. waste prevention and recycling. Additionally, for such projects to have low emissions intensities, the composition of residual waste, particularly fossil carbon content, is a crucial consideration. However, Sustainalytics also notes that due to constraints on recycling in many parts of the world, energy from waste can offer a better residual waste management option than landfills in many cases. Sustainalytics recommends Kvika to promote the removal of increasing amounts of recyclables, especially plastics, metals, and the monitoring of thermal efficiency of the financed facilities. Further, Kvika has communicated that biogas production is intended for transport,¹⁸ heating and industrial purposes. For biogas extracted from landfill gas captures, Kvika has confirmed a gas capture efficiency of at least 75%.
- Sustainalytics considers this to be in line with market practice.
- Under the Circular Economy Adapted Products, Production Technologies and Processes category, Kvika may finance or refinance the reduction of the use of virgin materials and/or natural resources, such as timber, metals, cotton and virgin plastic, as well as recycling activities.
 - Development and operation of online platforms to support the trade of second-hand products, components or materials. This excludes commercial activities.
 - EV car sharing schemes. Kvika has confirmed to Sustainalytics that parking facilities will be excluded from financing.
 - New products, such as furniture, textiles, packaging and containers, made from waste or recycled raw materials. Kvika has confirmed waste segregation at source in preparation for recycling activities. In the context of plastic products, Kvika has confirmed that: i) the production of plastic products includes at least 90% recycled, renewable or bio-based input; ii) at least 90% of plastic products is not intended for single-use consumer products; and iii) all plastic products are recyclable. Kvika has shared the example of financing insulated tubs used to transport fish and made out of recycled material, such as plastic. Further, Kvika has confirmed that biogenic input is sourced sustainably.
 - Manufacture of rechargeable batteries. This includes electrochemical battery storage and EV batteries, battery packs and accumulators. Kvika has confirmed that such battery storage is connected to renewable energy.
 - Recycled input materials that replace virgin materials, such as paper and scrap metal. Kvika has confirmed sustainable sourcing of such input materials. Kvika excludes the procurement of recycled inputs intended for plastic packaging for single-use consumer products.
 - Production of aluminium-based products with 90% scrap metal as input material. Kvika excludes the financing of whole manufacturing facilities.
 - Material recovery from waste as well as processing of recyclable waste, including the following waste types: i) metal; ii) plastic; iii) paper; and iv) batteries. Kvika has confirmed that electronic waste is accompanied by a robust waste management process to mitigate associated risks.
 - Sustainalytics considers this to be in line with market practice.
- Under the Biodiversity Conservation category, Kvika may finance or refinance the protection, maintenance, restoration and enhancement of terrestrial, marine and other aquatic biodiversity, as well as sustainable management of living natural resources intended for biodiversity and soil conservation, and the prevention of habitat loss.

¹⁸ Biogas will be used by light vehicles, buses and trucks that emit less than 50 gCO_{2e}/km by the WLTP standard or 34 gCO_{2e}/km by the NEDC standard until the end of 2025 and 0 gCO_{2e}/km thereafter.

- Protection and restoration of forests, reforestation and afforestation. Kvika has confirmed the following: i) projects have a sustainable management plan in place; ii) projects aim to obtain FSC¹⁹ or PEFC²⁰ certification; and iii) tree species are well adapted to site conditions.
- Protection of marine and other aquatic biodiversity projects.
- Seeding grass species to prevent soil erosion and improve soil health and biodiversity, in compliance with the Soil Conservation Service of Iceland's guidance on halting soil erosion and promoting sustainable land use.^{21,22,23} Soil conservation is a major environmental issue in Iceland. Kvika has confirmed that such activities are not related to contamination or negative environmental externalities from the borrower's own activities.
- Sustainable agriculture activities, including vertical farming, crop rotation and precision agriculture. This includes the financing of entire vertical farms as well as improving existing vertical farms. Kvika has confirmed that such vertical farms are powered by renewables or low-carbon electricity with emissions of the grid below 100 CO₂e/kWh. Sustainalytics notes that Iceland has a low-carbon grid.²⁴ Further, Kvika has confirmed that such activities solely present individual farm-specific interventions.
- Agroforestry projects in compliance with the following: i) projects have a sustainable forest management plan in place; ii) activities relate to smallholders only; and iii) activities obtain FSC²⁵ or PEFC²⁶ certification.
- Sustainable forest management including monitoring and prevention of deforestation and fire protection as per Icelandic Forest Service guidelines²⁷. Kvika has confirmed that such activities aim to obtain FSC,²⁸ PEFC²⁹ or SFI³⁰ certification.
- Sustainalytics considers this to be in line with market practice.
- Project Evaluation and Selection:
 - Kvika has established a Sustainability Committee, which is responsible for evaluating and selecting eligible projects in line with the Framework's eligibility criteria. The Sustainability Committee is chaired by the CEO and further comprised of the Director of sustainability and other Managing Directors of the Bank. The Sustainability Committee will validate the portfolio of eligible assets and projects at least on a semi-annual basis, and can delegate authority to the Credit Committee or dedicated specialists for the review of selected assets and projects.
 - Kvika has a process in place to mitigate environmental and social risks associated with the eligible assets and projects and ensure adherence to relevant environmental and social laws and regulations, which applies to all allocation decisions made under the Framework. Moreover, all eligible financing must comply with Kvika's credit process, which involves an assessment of ESG risks and overarching compliance with environmental and social requirements. For additional details on risk management systems, please refer to Section 2.
 - Based on the presence of a dedicated committee and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Kvika's Treasury Department will be responsible for managing proceeds using a portfolio approach. Further, Kvika's Risk Management Department will be responsible for tracking proceeds using a Green Register. The Credit Committee has the authority to remove assets or projects that do not qualify under the Framework from the Green Register.

¹⁹ FSC: <https://fsc.org/en>

²⁰ PEFC: <https://www.pefc.org/>

²¹ In the context of soil conservation and land degradation, the Soil Conservation Service of Iceland has established principles to address the selection of appropriate grass species, types of proper seeding techniques, site specific recommendations linked to soil type and weather patterns, monitoring and maintenance, amongst others.

²² Government of Iceland, "Soil Conservation", at: <https://www.government.is/topics/environment-climate-and-nature-protection/soil-conservation/>

²³ Soil Conservation Service of Iceland, "Sustainable land use", at:

<https://portal.land.is/portal/apps/storymaps/stories/c6266abdaba3461f91e951bc06abe1a8>

²⁴ Government of Iceland, "Energy", at: <https://www.government.is/topics/business-and-industry/energy/>

²⁵ FSC: <https://fsc.org/en>

²⁶ PEFC: <https://www.pefc.org/>

²⁷ Icelandic Forest Service: <https://www.skogur.is/en>

²⁸ FSC: <https://fsc.org/en>

²⁹ PEFC: <https://www.pefc.org/>

³⁰ SFI: <https://forests.org/standards/>

- The Bank intends to fully allocate net proceeds within 18 months of issuance. For green deposits, Kvika commits to continual allocation.
- Pending allocation, proceeds will be temporarily held in accordance with Kvika's liquidity management policy in a portfolio of cash, cash equivalents or other liquid market instruments.
- Based on the use of a tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Kvika commits to report on the allocation of proceeds and corresponding impact in an allocation and impact report on an annual basis until full allocation of bond proceeds. The Allocation and impact report will be publicly available on the Bank's website.
 - Allocation reporting will include: i) the total amount of green bonds issued; ii) a breakdown of eligible assets and projects per use of proceeds category; iii) the distribution between refinancing and new financing, and iv) the share of unallocated proceeds.
 - Impact reporting will include: i) the number of passenger, public transport and heavy equipment vehicles financed; ii) annual GHG emissions (in tCO₂e) avoided or reduced through clean transportation; iii) the number of green buildings financed; iv) annual GHG emissions avoided or reduced through green buildings (in tCO₂e); v) installed capacity of renewable energy (in MW); vi) annual GHG emissions avoided or reduced through renewable energy (in tCO₂e); vii) material recovery rate of circular economy-adapted solutions; viii) maintenance or increase of biodiversity conservation in hectares; and ix) reduction in the number of wildfires or the area damaged by wildfires in square metres.
 - Based on the annual allocation and impact reporting commitments, Sustainalytics considers this process to be in line with market practice.

Alignment with the Green Bond Principles 2021

Sustainalytics has determined that the Green Funding Framework aligns with the four core components of the GBP.

Section 2: Sustainability Strategy of Kvika

Contribution to Kvika's sustainability strategy

Sustainalytics is of the opinion that the Framework aligns with Kvika's first sustainability strategy published in 2022, which focuses on two key environmental areas: i) enhance ESG-related product development and innovation; and ii) create a sustainable business environment through integrating ESG considerations into its lending and investment activities.³¹ The implementation of Kvika's sustainability strategy is coordinated at group level.

Kvika partnered with Creditinfo³² to calculate the financed scope 3 emissions of its loans and investments, and intends to publish a report as per the Partnership for Carbon Accounting Financials (PCAF) standard in 2024; Kvika has been measuring the carbon footprint of its operations since 2022 according to the PCAF standard.³³ Kvika also aims to calculate the financed emissions of Kvika Asset Management asset portfolio.

Kvika is a signatory to the Principles of Responsible Investing since 2020 and its subsidiary TM Insurance has been a signatory to the Principles of Sustainable Insurance since 2022.³⁴ In 2020, Kvika and other stakeholders in Iceland's financial markets signed a joint declaration of intent ratified by the Icelandic government on steering investment, financing and lending activities towards sustainability and signatories commit to publishing information on responsible and sustainable investments, funding allocations and lending, and potential sustainable activities.^{35,36} As of 2022, the Bank allocated ISK 6 billion (EUR 42 million) in clean transportation assets through the issuance of green bonds and green deposits. In addition, the Bank

³¹ Kvika, "Sustainability Report 2022", (2022), at: https://kvika.cdn.prismic.io/kvika/3f22aa9b-41ba-46ae-9c88-8ac52f28609c_Sustainability+Report+2022.pdf

³² Creditinfo, "Vera", Creditinfo's ESG platform, now available for customers in Iceland", (2023), at: <https://chronicle.creditinfo.com/2023/04/04/vera-creditinfos-esg-platform-now-available-for-customers-in-iceland/>

³³ Partnership for Carbon Accounting Financials, "The Global GHG Accounting and Reporting Standard for the Financial Industry", at: <https://carbonaccountingfinancials.com/>

³⁴ Kvika, "Sustainability Report 2022", (2022), at: https://kvika.cdn.prismic.io/kvika/3f22aa9b-41ba-46ae-9c88-8ac52f28609c_Sustainability+Report+2022.pdf

³⁵ Kvika, "Investment and business practices", at: <https://kvika.is/en/sustainability/investments-and-business-practices/>

³⁶ Festa, "Investment for Sustainable Development", at: <https://www.sjalbbaer.is/newpage#declaration>

offers financial incentives for the purchase of electric and hydrogen cars that run on 100% renewable energy and plug-in hybrid vehicles with a CO₂ emissions factor under 50 gCO₂/km.³⁷

Sustainalytics is of the opinion that the Kvika Green Funding Framework is aligned with the Bank's overall sustainability commitment and initiatives and will further the Kivka's action on its key environmental priorities. Nevertheless, Sustainalytics encourages the Bank to establish time-bound, quantitative targets and to ensure transparency and reporting on its progress.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have a positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Sustainalytics acknowledges that the Kvika plays a limited role in the development or implementation of specific projects, but notes that it is exposed to risks associated with companies or projects to which it provides lending and financial services. Some key environmental and social risks possibly associated with the eligible projects include: i) land use and biodiversity loss associated with large infrastructure projects; ii) emissions, effluents and waste; iii) occupational health and safety (OHS); and iv) business ethics.

Sustainalytics is of the opinion that Kvika is able to manage and mitigate potential risks through implementation of the following:

- Kvika has developed a Sustainability Risk Policy Framework which applies to all subsidiaries and outlines guidelines on how to identify, manage and monitor ESG risks linked to its investment, lending, financing and insurance activities. Kvika's environmental risk management process includes identifying: i) physical and transition risks in accordance with the recommendation of the Task Force on Climate-related Financial Disclosures, and ii) inside-out risks and outside-in risks to consider double materiality.³⁸ Moreover, Kvika has set risk appetite statements and limits to mitigate sustainability risks. Kvika monitors ESG risks on its financial services and operations. Prior to engaging in a contract to offer a financial service, the Bank performs an ESG risk assessment, including measuring the risks involved and formulating a risk response. ESG measures are considered in all product development activities, as per the Sustainability Risk Policy Framework. Furthermore, each of the Bank's subsidiaries is required to adopt its own risk policy to the ESG risks that are relevant to its operations and services.³⁹
- Kvika considers risks related to biodiversity loss, depletion of natural resources and disruption of ecosystems as part of its ESG risk assessment in accordance with the Bank's Sustainability Risk Policy Framework.⁴⁰ Further, Sustainalytics notes that financing under the Framework will take place in Iceland, which is recognized as a Designated Country under the Equator Principles,⁴¹ indicating the presence of strong environmental and social governance legislation systems and institutional capacity to mitigate common environmental and social risks.
- As part of its due diligence practices, Kvika commits to avoiding GHG emissions, handling effluents and waste responsibly and minimizing negative environmental impacts of damage waste in line with its environmental and social strategy and goals.⁴² Its subsidiary, TM Insurance, has committed to undertaking an additional due diligence review in relation to scope 3 emissions linked to damage waste.⁴³
- Regarding risks related to OHS, Kvika's Code of Conduct outlines minimum standards providing a healthy and safe working environment.⁴⁴ Further, Kvika safeguards the protection of employee well-being as part of its Sustainability Risk Policy Framework.⁴⁵

³⁷ Kvika, "Sustainability Report 2022", (2022), at: https://kvika.cdn.prismic.io/kvika/3f22aa9b-41ba-46ae-9c88-8ac52f28609c_Sustainability+Report+2022.pdf

³⁸ Kvika, "Sustainability Risk Policy Framework", (2023), at: https://kvika.cdn.prismic.io/kvika/507d6270-1112-463f-95e1-486c69897bc0_2023_March_ESG+Risk+Framework_Kvika.pdf

³⁹ Kvika, "Sustainability Risk Policy Framework", (2023), at: https://kvika.cdn.prismic.io/kvika/507d6270-1112-463f-95e1-486c69897bc0_2023_March_ESG+Risk+Framework_Kvika.pdf

⁴⁰ Ibid.

⁴¹ Equator Principles: <https://equator-principles.com/about-the-equator-principles/>

⁴² Kvika, "Sustainability Report 2022", (2022), at: https://kvika.cdn.prismic.io/kvika/3f22aa9b-41ba-46ae-9c88-8ac52f28609c_Sustainability+Report+2022.pdf

⁴³ Ibid.

⁴⁴ Kvika, "Code of Conduct", (2022), at: <https://kvika.is/asset/4536/sidareglur.pdf>

⁴⁵ Kvika, "Sustainability Risk Policy", (2023), at: https://kvika.cdn.prismic.io/kvika/507d6270-1112-463f-95e1-486c69897bc0_2023_March_ESG+Risk+Framework_Kvika.pdf

- With respect to business ethics and risks related to predatory lending, Kvika's Code of Conduct guides the Bank's employees and external partners on ethical behaviour, good morale and conflicts of interest. It also sets standards to prevent fraud, corruption, money-laundering, terrorism financing and bribery.^{46,47} Kvika's Responsible Lending and Investment Policy aims to promote responsible lending and embedding ESG issues into its lending and investment processes, as well as to provide information in a responsible and transparent manner.⁴⁸

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Kvika has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

Importance of financing clean transportation in Iceland

The transport sector accounted for approximately 25% of total GHG emissions globally as of 2022.⁴⁹ Emissions from the transport sector have been growing globally at an annual average rate of 1.7% between 1990 and 2022. In order to achieve climate neutrality by 2050, transport emissions need to reduce by 90% globally.^{50,51} In Iceland, the road transport sector accounted for 27.7% of the country's total GHG emissions and was the second largest contributor of GHG emissions in 2021.⁵² Iceland produces no fossil fuels and derives 89% of its primary energy supply, including 100% of electricity from renewable energy resources, primarily hydropower and geothermal energy.^{53,54} Imported fossil fuels are mainly consumed in the transport and fishing sectors.⁵⁵

Iceland has set a 55% GHG emissions reduction target for 2030, compared to 1990 levels, as part of its 2021 Nationally Determined Contribution.⁵⁶ The Government of Iceland's Climate Action Plan 2020 recognizes the need for a rapid clean energy transition with a major focus on the transport sector and hence aims to reduce emissions by 21% for land transport and by 42% for ships and ports by 2030 from 2005 levels.⁵⁷ To achieve its 2030 goals, the government will offer fiscal incentives and provide infrastructure for low and zero emissions vehicles, in addition to banning the registration of fossil fuel-dependent vehicles as of 2030.⁵⁸

In this context, Sustainalytics is of the opinion that Kvika's investments in clean transportation projects have the potential to reduce the environmental footprint of Iceland's transport sector and will contribute to Iceland's climate-related objectives.

⁴⁶ Kvika, "Code of Conduct", (2022), at: <https://kvika.is/asset/4536/sidareglur.pdf>

⁴⁷ Kvika, "Sustainability Report 2022", (2022), at: https://kvika.cdn.prismic.io/kvika/3f22aa9b-41ba-46ae-9c88-8ac52f28609c_Sustainability+Report+2022.pdf

⁴⁸ Kvika, "Investment and business practices", at: <https://kvika.is/en/sustainability/investments-and-business-practices/>

⁴⁹ European Environment Agency, "High time to shift gear in transport sector" (2022), at <https://www.eea.europa.eu/signals-archived/signals-2022/articles/high-time-to-shift-gear>

⁵⁰ IEA, "Transport", at <https://www.iea.org/energy-system/transport>

⁵¹ European Environment Agency, "Transport: increasing oil consumption and green house emission hamper EU progress towards environment and climate objectives, (2020), at: <https://www.eea.europa.eu/publications/transport-increasing-oil-consumption-and>

⁵² Government of Iceland, "Update of the Nationally Determined Contribution of Iceland", (2021), at: https://unfccc.int/sites/default/files/NDC/2022-06/Iceland_updated_NDC_Submission_Feb_2021.pdf

⁵³ Government of Iceland, "Energy", at: <https://www.government.is/topics/business-and-industry/energy/>

⁵⁴ OECD, "Fossil Fuel Support Country Note – Iceland", (2020), at: OECD,

"Ca https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwj_5DDzZiDAXWGhP0HHdycBZQQFnoECA4QAw&url=https%3A%2F%2Fstats.oecd.org%2Ffileview2.aspx%3FIDFile%3D95c30c34-7d82-4a3d-b5db-bdef2c504a1a%2520%23%3A~%3Atext%3DIceland%2520is%2520unique%2520among%2520OECD%2Cthe%2520transport%2520and%2520fishing%2520sectors.&usq=AQvVaw2ils_gRGPcbnURln8-73Lk&opi=89978449

⁵⁵ Government of Iceland, "Update of the Nationally Determined Contribution of Iceland", (2021), at: https://unfccc.int/sites/default/files/NDC/2022-06/Iceland_updated_NDC_Submission_Feb_2021.pdf

⁵⁶ Government of Iceland, "Update of the Nationally Determined Contribution of Iceland", (2021), at: https://unfccc.int/sites/default/files/NDC/2022-06/Iceland_updated_NDC_Submission_Feb_2021.pdf

⁵⁷ Government of Iceland, "Iceland's 2020 Climate Action Plan", (2020), at: <https://www.government.is/library/01-Ministries/Ministry-for-The-Environment/201004%20Umhverfisraduneytid%20Adgerdaaetlun%20EN%20V2.pdf>

⁵⁸ Government of Iceland, "Iceland's 2020 Climate Action Plan", (2020), at: <https://www.government.is/library/01-Ministries/Ministry-for-The-Environment/201004%20Umhverfisraduneytid%20Adgerdaaetlun%20EN%20V2.pdf>

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The Framework is expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	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
Green Buildings	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Renewable Energy	7. Affordable and clean energy	7.2 Increase the share of renewable energy in the global energy mix
Circular Economy Adapted Products, Production Technologies and Processes	12. Responsible consumption and production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources. 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Biodiversity Conservation	15. Life on land	15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land- degradation-neutral world

Conclusion

Kvika has developed the Kvika Green Funding Framework under which it may issue green bonds, including public or private placements, covered bonds, senior preferred and non-preferred bonds and subordinated debt and use the proceeds to finance or refinance, in whole or in part, existing or future projects in Iceland that are expected to deliver positive environmental impacts.

The Kvika Green Funding Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the Kvika Green Funding Framework is aligned with the overall sustainability strategy of Kvika and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 7, 9, 11 and 15. Additionally, Sustainalytics is of the opinion that Kvika has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Kvika Banki hf is well positioned to issue green bonds and that the Green Funding Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2023.

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