

Second-Party Opinion

Íslandsbanki Sustainable Funding Framework

Evaluation Summary

Sustainalytics is of the opinion that the Íslandsbanki Sustainable Funding Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds¹ are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to contribute to the transition to a low-carbon economy, help support the socio-economic development of Iceland and advance the UN Sustainable Goals, specifically SDGs 4,7,8,9,11,12,14 and 15.



PROJECT EVALUATION AND SELECTION Íslandsbanki's Sustainability Committee will be responsible for the process of evaluating and selecting eligible loans in line with the Framework's eligibility criteria. The committee consists of representatives from Íslandsbanki's different business areas, risk management and the Sustainability Manager. Íslandsbanki's Sustainability Committee will provide final approval to eligible loans. All potential loans will undergo an ESG risk assessment and a standard credit process to ensure compliance with applicable domestic and international rules and regulations. Sustainalytics considers Íslandsbanki's risk management systems to be adequate and the project evaluation and selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS Íslandsbanki's Finance Department will be responsible for the management of proceeds on a portfolio basis and track the allocation of proceeds using the sustainability register. Íslandsbanki intends to allocate the proceeds within 18 months of issuance. Pending full allocation, unallocated proceeds will be invested in accordance with the internal requirements of Íslandsbanki's liquidity reserve. This is in line with market practice.



REPORTING Íslandsbanki commits to report on the allocation of proceeds in an allocation and impact report, which will be published on its website on an annual basis until full allocation. In addition, Íslandsbanki intends to report on the environmental or social impact of the loans financed under the Framework. Sustainalytics views Íslandsbanki's allocation and impact reporting as aligned with market practice.



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Report Sections

Introduction	2
Sustainalytics' Opinion	3

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¹ Clean Transportation; Information Technology and Communications; Resource and Energy Efficiency; Pollution Prevention and Control; Sustainable Water and Wastewater Management; Renewable Energy; Green Buildings; Sustainable Agriculture and Sustainable Management of Living Natural Resources; Eco-Efficient Products, Production Technologies and Processes; Access to Essential Services; Affordable Housing; Employment Generation; and Socio-economic Advancement and Empowerment

Introduction

Íslandsbanki hf. (“Íslandsbanki” or the “Bank”) is a commercial bank that provides a range of financial services, including personal banking, business banking to small and medium-sized enterprises (SMEs), and corporate and investment banking.² Established in 1990, Íslandsbanki is headquartered in Kópavogur, Iceland.³ The Icelandic government currently owns 42.5% of the Bank.⁴ The Bank had 774 employees as of November 2023.⁵

Íslandsbanki has developed the Íslandsbanki Sustainable Funding Framework dated January 2024 (the “Framework”), under which it intends to issue green, social and sustainability bonds in public or private placements,⁶ senior preferred bonds, senior non-preferred bonds,⁷ subordinated debt, secured covered bonds⁸ and deposits,⁹ and use the proceeds to finance or refinance, in whole or in part, loans financing existing and future eligible projects or assets that are expected to contribute to the transition to a low-carbon economy and help support the socio-economic development of Iceland.

The Framework defines eligibility criteria in nine green categories:

1. Clean Transportation
2. Information Technology and Communications
3. Energy Efficiency
4. Pollution Prevention and Control
5. Sustainable Water and Wastewater Management
6. Renewable Energy
7. Green Buildings
8. Sustainable Management of Living Natural Resources and Land Use
9. Eco-Efficient Products

The Framework defines eligibility criteria in four social categories:

10. Access to Essential Services
11. Affordable Housing
12. Employment Generation
13. Socio-economic Advancement and Empowerment

Íslandsbanki engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2023 (SBP).¹⁰ The Framework will be published in a separate document.¹¹ The Framework builds on a previous framework for which Sustainalytics provided a Second-Party Opinion dated October 2020.

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent¹² opinion on the alignment of the reviewed Framework with the 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:

² Íslandsbanki, “Annual and Sustainability Report”, (2022), at: https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2022_ENSKA_FINAL.pdf

³ Íslandsbanki, “The Story”, <https://www.islandsbanki.is/is/grein/saga-bankans>

⁴ Íslandsbanki, “Annual and Sustainability Report”, (2022), at: https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2022_ENSKA_FINAL.pdf

⁵ As communicated by Íslandsbanki to Sustainalytics.

⁶ Íslandsbanki has confirmed to Sustainalytics that such private placements do not involve the sale of stock shares to investors.

⁷ Íslandsbanki has confirmed to Sustainalytics that the maturity of the underlying assets (loans) will be in line with the maturity of the instruments issued.

⁸ Íslandsbanki has confirmed to Sustainalytics that the covered bonds will be secured GSS standard covered bonds or secured GSS collateral covered bonds as per the voluntary process guidelines published in the June 2022 Appendix 1 of the GBP 2021. The Bank has additionally committed to ensuring that: i) the collateral underlying the securitization of a secured GSS green collateral bond is aligned with the criteria in the Framework; and ii) there will be no double-counting of any outstanding green financing.

⁹ The Bank commits to continual allocation to ensure the deposits will not exceed the size of the eligible asset pool. Additionally, that the allocation period and tracking mechanisms will be as mentioned under the Framework.

¹⁰ The Sustainability Bond Guidelines, Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

¹¹ The Sustainable Funding Framework will be available on Íslandsbanki’s website at: <https://www.islandsbanki.is/is/grein/sjalfbaer-fjarmalarammi>

¹² 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.

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, 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 Íslandsbanki'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 the Framework. Íslandsbanki's representatives have confirmed (1) they understand it is the sole responsibility of Íslandsbanki 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.

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

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 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 realised allocation of the bond 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 Íslandsbanki has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Sustainable Funding Framework

Sustainalytics is of the opinion that the Íslandsbanki Sustainable Funding Framework is credible and impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Clean Transportation; Information Technology and Communications; Resource and Energy Efficiency; Pollution Prevention and Control; Sustainable Water and Wastewater Management; Renewable Energy; Green Buildings; Sustainable Agriculture and Sustainable Management of Living Natural Resources; Eco-Efficient Products; Access to Essential Services; Affordable Housing; Employment Generation; and Socio-economic Advancement and Empowerment – are aligned with those recognized by the GBP and SBP. Sustainalytics considers that the eligible projects are expected to contribute to the transition to a low-carbon economy and help support the socio-economic development of Iceland.
 - Íslandsbanki has established a look-back period of three years for operating expenditure refinancing, which Sustainalytics considers to be in line with market practice.
 - The Bank intends to finance or refinance loans for projects or assets that meet the eligibility criteria of the Framework. Additionally, the Bank intends to finance or refinance general purpose loans allocated to entities that derive 90% or more of their revenue from activities that comply with the eligibility criteria in the Framework. Sustainalytics believes that as project- and activity-

based lending generally results in more direct environmental and social benefits and ensures compliance with the criteria in the Framework of Íslandsbanki, the financing of pure play companies through green and social bonds is a commonly accepted approach, which is likely to generate positive impacts.

- Under the Clean Transportation category, the Bank may finance or refinance loans for projects related to the design, development, manufacture, maintenance and operations of vehicles and supporting infrastructure in accordance with the following criteria:
 - Public passenger vehicles, commercial vehicles or mopeds, scooters, bicycles and motorbikes using electricity, hydrogen or biogas with zero direct emissions. The Bank has confirmed that in the case of financing internal combustion engine vehicles running on biofuel or biogas, only modification costs for biofuel, including biogas, use and cost of the biofuel itself will be financed under the Framework. This is in line with market practice.
 - Heavy equipment vehicles using electricity or hydrogen as fuel with zero direct emissions. This is in line with market practice.
 - Freight road transport vehicles using electricity or hydrogen. Additionally, the Bank will be financing battery-powered cargo ships or fishing vessels using electric, hydrogen, biofuels, ammonia and/or hybrid energy. The Bank has confirmed that expenditures related to ammonia energy vessels will be limited to R&D. This is in line with market practice.
 - Infrastructure and installations that are dedicated to urban and suburban public passenger transport to support zero direct emissions transportation, such as bus stops limited to electric buses. This may include electric vehicle charging stations, electricity grid connection upgrades, hydrogen fuelling stations and bicycle paths.
 - Infrastructure and installations for electrification of ports and fishmeal factories
 - The Bank will be financing the electrification of ports, including shore power to conventional ships. Sustainalytics notes that the intent of this expenditure is to have ship vessels run on electricity when docked and reduce the consumption of fossil fuels. Sustainalytics recognizes that this technology will support traditional fossil fuel-powered ships in the short term but has the potential to support zero emissions vessels and will contribute to the decarbonization of ports.
 - The Bank has communicated to Sustainalytics that fishmeal factories-related financing will consist of retrofitting measures for fishmeal factories to be able to run on renewable energy instead of fossil fuels. This is in line with market practice.
- Under the Information Technology and Communications category, the Bank may finance or refinance loans related to the following:
 - Data centres with a power usage effectiveness (PUE) of less than 1.5 and preferably: i) using renewable energy sources; or ii) operating on the basis of the European Code of Data Centre Energy Efficiency.¹³
 - Sustainalytics views this investment as aligned with market practice based on the defined PUE threshold. Additionally, Sustainalytics highlights that Íslandsbanki may commit to data centres: i) primarily powered with renewables; or ii) that use free cooling technology that takes advantage of cool ambient conditions and reduces the need for mechanical cooling and associated power. Sustainalytics believes that data centres with an annualized PUE lower than 1.5 with renewable energy procurement or free cooling technology will significantly reduce scope 1 and 2 GHG emissions.
 - Development and use of ICT solutions that focus only on the collection, dissemination and storage of data, as well as the application of data models and data analysis for decision-making that lead to reduced GHG emissions. The Bank has communicated to Sustainalytics data-driven solutions for GHG emissions reductions, such as Internet of

¹³ European Commission, "The EU Code of Conduct for Data Centres – towards more innovative, sustainable and secure data centre facilities", (2023), at: https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/eu-code-conduct-data-centres-towards-more-innovative-sustainable-and-secure-data-centre-facilities-2023-09-05_en#:~:text=The%20EU%20CoC%20for%20Data,the%20efficiency%20of%20the%20facility.

Things, 5G and artificial intelligence.¹⁴ Sustainalytics notes that the deployment of 5G technologies from previous generation networks could lead to increased energy demands on the network, but acknowledges that the energy efficiency gains achieved through such investments will result in a net energy reduction per unit of data transmitted. This will be achieved specifically by enabling the energy efficiency of data transmission, the operational efficiency across a range of industries and activities downstream of the network provider. Sustainalytics encourages the Bank to report on the estimated or achieved energy efficiency gains, where feasible.

- Under the Energy Efficiency category, the Bank may finance or refinance projects in accordance with the following criteria:
 - Development, manufacture or installation of energy efficiency technologies and products, such as smart meters, efficient appliances and hardware belonging to energy class A or better according to European energy label standards or certified under Energy Star. With regards to the manufacturing of appliances and hardware, Sustainalytics notes that the Bank may include household and other corporate appliances and hardware. In particular, for manufacturing of household appliances under the Framework, Sustainalytics notes that the Bank will adhere to the relevant EU Taxonomy's technical screening (TSC) and do no significant harm criteria (DNSH) requirement on a best effort basis. Sustainalytics further notes the Bank's reliance on EU energy labels to define eligibility in this category is consistent with the EU Taxonomy Climate Delegated Act. For the financing of corporate appliance/hardware, the broad range of products covered and the absence of EU Taxonomy's TSC and DNSH requirements limits Sustainalytics from opining on these expenditures. Similarly for appliances certified under Energy Star, Sustainalytics is unable to opine on the expenditure given the broad range of products covered under the scheme with varying requirements, while also noting that household appliances and hardware are resource-intensive products with the Energy Star label focusing only on energy efficiency during usage.
 - The Bank will also be financing expenditures related to aluminium production according to the following criteria:
 - Primary aluminium having a carbon intensity below 4.35 tCO_{2e} per tonne of aluminium. The Framework will limit expenditures related to primary aluminium production to facilities expected to have a carbon intensity below 4.35 tCO_{2e}/t aluminium by 2025. Sustainalytics notes that the carbon intensity threshold is below the Transition Pathway Initiative's (TPI) 2025 1.5°C scenario benchmark for aluminium production (5.83 tCO_{2e}/t aluminium). The Bank has communicated to Sustainalytics that financing includes both new facilities and retrofits. Financing for retrofits may include capital expenditures for the interconnectivity of production facilities to the grid to source renewable energy to meet the intensity threshold above. By limiting the use of proceeds to these assets, the financing is expected to contribute to substantial climate change mitigation and is likely to avoid a lock-in of carbon-intensive assets.
 - Secondary aluminium with 100% scrap aluminium input. This is in line with market practice.
 - Energy-efficient machinery in industrial or manufacturing processes, products or appliances, and meters that help track or monitor energy efficiency.
 - Development, manufacture, distribution and installation of products or services that increase the energy efficiency of industrial or utility processes, such as reduction of heat losses and increased waste heat recovery.
 - The Bank has confirmed that these expenditures will exclude energy-efficient technologies designed or intended for: i) processes that are inherently carbon-intensive or primarily driven or powered by fossil fuels; and ii) processes in fossil fuel operations or heavy industries, such as steel or cement. Additionally, Íslandsbanki has confirmed

¹⁴ EU Taxonomy Navigator, "Data-driven solutions for GHG emissions reductions", at: <https://ec.europa.eu/sustainable-finance-taxonomy/activities/activity/358/view>

- the exclusion of financing of products and technologies designed for natural gas-powered equipment, such as smart gas meters.
- Construction and operation of facilities that produce heat and cool using waste heat. The Bank has confirmed the source of waste heat to be 100% generated from renewables or industrial waste heat.
 - Infrastructure for cable networks, involving the modernization of networks from copper to fibre optic networks.
 - Sustainalytics considers the expenditures under this category to be in line with market practice.
- Under the Pollution Prevention and Control category, the Bank may finance or refinance loans related to the following:
- Waste management-related expenditures, such as waste prevention, reduction, collection, treatment, recycling and waste-to-energy projects, where all hazardous waste is separated before incineration.
 - Íslandsbanki has communicated to Sustainalytics that: i) segregation of waste will be carried out at source before waste collection; ii) waste collection vehicles will not be financed under this category; iii) chemical recycling of plastics will not be financed under the Framework; iv) segregation of recyclables, including plastic and metal, will take place; v) if recycling activities include e-waste or waste from electrical and electronic equipment, they will be accompanied by robust waste management processes to mitigate associated risks; and vi) waste treatment-related financing will consist of technology for waste sorting.
 - The Bank has communicated to Sustainalytics that the sources of waste for waste-to-energy projects will be limited to municipal solid waste. 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 the Bank to promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of thermal efficiency of the financed facilities.
 - New installation and subsequent operation of a landfill gas capture and energetic utilization system, or extension and retrofitting of an existing system, in permanently closed old landfills. Íslandsbanki has confirmed to Sustainalytics that landfill gas capture for flaring is excluded from financing under the Framework. The Framework mentions that a landfill must be non-operational with a high gas capture efficiency of at least 75%. Sustainalytics notes that recovering methane produced from a closed landfill will not prolong the lifespan of the landfill and is a key strategy to reduce methane emissions from waste.
 - Carbon capture and storage technologies (CCS), including direct air capture (DAC). The Bank has communicated to Sustainalytics that it will limit the financing to CCS and R&D for DAC under the Framework.¹⁵ Sustainalytics notes that the Bank will exclude the application of CCS technologies to carbon-intensive activities, except for aluminium production and silicon smelting industries in Iceland.¹⁶ Sustainalytics notes that Iceland has a low-carbon grid, and a large part of the energy consumption for the aforementioned two industries comes from electricity.¹⁷ In this context, additionally with the selected assets meeting the following decarbonization pathways, Sustainalytics considers the financing of CCS for aluminium production and silicon smelting industries in Iceland to support near-zero emissions.

¹⁵ The Bank has confirmed the exclusion of carbon capture utilisation, where captured carbon is intended for enhanced oil recovery.

¹⁶ Financing under the Framework will be limited to CCS, R&D and implementation only, and not for financing any other expenditure related to these aluminium production and silicon smelting industries.

¹⁷ Government of Iceland, "Energy", at: <https://www.government.is/topics/business-and-industry/energy/>

- Primary aluminium having a carbon intensity below 4.35 tCO₂e per tonne of aluminium. The Framework will limit expenditures related to primary aluminium production to facilities expected to have a carbon intensity below 4.35 tCO₂e/t aluminium by 2025. Sustainalytics notes that the carbon intensity threshold is below the TPI's 2025 1.5°C scenario benchmark for aluminium production (5.83 tCO₂e/t aluminium).¹⁸ By limiting the use of proceeds to these assets, the financing is expected to contribute to substantial climate change mitigation and is likely to avoid a lock-in of carbon-intensive assets.
- The Bank will limit financing towards silicon smelting facilities that are on the pathway to decarbonization, while noting that the process will be powered by low-carbon electricity. Sustainalytics encourages the Bank to report on emissions intensity and progress on decarbonization, where feasible.
- Emissions management through the reduction of air emissions and GHG control, soil remediation and reduction, control and response management of land- or marine-based sources of marine pollution.
 - Íslandsbanki has confirmed to Sustainalytics that: i) financed systems do not directly rely on fossil fuels or create lock-in investments; ii) air pollution prevention from fossil fuel production (such as produced water from fracking) or the prevention of air pollution that results directly from technologies that are inherently reliant on fossil fuels as an energy source are excluded; and iii) soil and marine remediation activities are not related to the contamination or negative externalities from the Bank's other financing or borrower's own activities. This is in line with market practice.
- Under the Sustainable Water and Wastewater Management category, Íslandsbanki may finance or refinance the following water and wastewater management facilities or technologies: i) water-saving systems and technologies and water metering; ii) wastewater treatment facilities, activities and technologies; and iii) upgrades to wastewater treatment plants and discharge infrastructure. The Bank has confirmed that the wastewater treatment facilities financed under the Framework will be powered by low-carbon sources, such as renewables; and the treatment of wastewater from fossil fuel operations (such as produced water from fracking) will not be financed. Íslandsbanki has confirmed to Sustainalytics that desalination plants are excluded from financing under the Framework. The expenditures under this category are in line with market practice.
- Under the Renewable Energy category, Íslandsbanki may finance or refinance renewable energy projects, including the production and development of products and related infrastructure and technologies from the following sources:
 - Wind energy. This is aligned with market practice.
 - Solar photovoltaic and concentrated solar heat and power (CSP). For CSP, the Bank has confirmed to Sustainalytics that at least 85% of the electricity generated from the facility will be derived from solar energy sources. Sustainalytics considers the activity to be aligned with market practice.
 - Hydro projects in accordance with the following criteria:
 - New and existing small-scale greenfield hydropower plants (less than 10 MW)
 - New and existing medium-scale hydropower plants (more than 10 MW) that: i) have a life cycle carbon intensity below 50 gCO₂e/kWh; ii) have a power density above 10 W/m²; or iii) are run-of-river plants without an artificial reservoir. The Bank has confirmed that all new hydropower projects plants larger than 10 MW are subject to an environmental impact assessment and are not expected to pose significant risks, lead to negative environmental or social impacts or be involved in significant controversies.
 - Íslandsbanki may finance facilities with capacities lower than 10 MW, having informed Sustainalytics that these facilities, due to lack of data availability, may not meet the above thresholds. Sustainalytics considers the life cycle emissions intensity threshold to be a crucial environmental consideration for hydropower facilities. Sustainalytics encourages Íslandsbanki to favour projects with low life

¹⁸ Transition Pathway Initiative, "Carbon Performance: Aluminium", at: <https://www.transitionpathwayinitiative.org/sectors/aluminium>

cycle emissions intensity and to report where possible on the intensity of such projects.¹⁹ Additionally, Íslandsbanki has communicated to Sustainalytics that for small-scale hydropower plants (smaller than 10 MW), it commits to following Icelandic legislation, which requires an environmental impact assessment considering potential negative impacts due to the scale, nature or location of the project, as per decision of local authorities on each case.²⁰

- Production of renewable or recycled carbon methanol. The Bank will finance hydrogen production from water electrolysis using electricity from renewables combined with CO₂ or hydrogen produced from the by-product of geothermal energy plants or waste gas processed and combined with CO₂. Íslandsbanki has communicated to Sustainalytics that waste gas will consist of biogas or renewable natural gas. Sustainalytics considers the activity to be aligned with market practice.
- Geothermal energy with direct emissions of up to 100 gCO₂/kWh. Sustainalytics considers the activity to be aligned with market practice.
- District heating distribution networks connected to renewable energy. Sustainalytics considers the activity to be aligned with market practice.
- Under the Green Buildings category, the Bank may finance or refinance the following:
 - New residential and commercial buildings built after 31 December 2020 certified to Nordic Swan Ecolabel,²¹ Passive House,²² LEED Gold²³ or BREEAM Very Good.²⁴
 - Existing residential and commercial buildings built before 31 December 2020 that meet one of the following criteria:
 - Buildings in the top 15% of the national or regional building stock in terms of primary energy demand (PED)
 - Buildings with EPC label A
 - Buildings certified to Nordic Swan Ecolabel, Passive House, LEED Gold or BREEAM Very Good
 - Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages Íslandsbanki to select BREEAM-certified buildings that score high enough in the energy category (which Sustainalytics regards as the most important one) to fulfil the requirements for BREEAM Excellent in that category.
 - Major renovations and reconstruction resulting in a reduction of PED of at least 30% compared to the pre-renovation level. Íslandsbanki has confirmed to Sustainalytics that only expenditures related to retrofits will be financed, unless a building achieves an eligible level of certification as a result of the retrofit, in which case the expenditures related to the retrofit and the asset value of the building can be financed. This is in line with market practice.
 - Sustainalytics notes that the Framework excludes the financing of buildings that are used for the storage, extraction or manufacturing of fossil fuels.
- Under Sustainable Management of Living Natural Resources and Land Use, the Bank may finance or refinance the following projects:
 - Sustainable forestry activities certified under the Forest Stewardship Council (FSC)²⁵ and the Programme for the Endorsement of Forest Certification (PEFC),²⁶ land remediation, oasisification and reforestation of wetlands and peatland. The Bank has confirmed that the financed land remediation projects will not be related to the contamination or negative environmental externality from the borrowers' own activities. The Bank has also confirmed that financed reforestation projects will be

¹⁹ Sustainalytics highlights that hydropower facilities have a global median emissions intensity of 23 gCO₂/kWh and that emissions from a hydropower facility depend on various factors, especially the impoundment of the reservoir, which leads to subsequent methane emissions. Sustainalytics further notes that there is no strong correlation between plant capacity and emissions intensity and emphasizes the importance of regular monitoring and reporting on the same.

International Hydropower Association, "Carbon emissions from hydropower reservoirs", (2021), at: <https://www.hydropower.org/blog/carbon-emissions-from-hydropower-reservoirs-facts-and-myths>

²⁰ Althingi, "Tillaga til þingsályktunar um endurskoðun á lagaumhverfi fyrir smávirðjanir", at: <https://www.althingi.is/altext/150/s/0351.html>

²¹ Nordic Swan Ecolabel: <https://www.nordic-swan-ecolabel.org/official-nordic-ecolabel/>

²² Passive House: https://passivehouse.com/03_certification/02_certification_buildings/01_benefits-of-certification/01_benefits-of-certification.htm

²³ LEED: <https://www.usgbc.org/leed>

²⁴ BREEAM: <https://bregroup.com/products/breem/>

²⁵ Forest Stewardship Council: <https://fsc.org/en/about-us>

²⁶ Programme for the Endorsement of Forest Certification: <https://www.pefc.org/>

- accompanied by a sustainable forest management plan and that the plant and tree species used will be native or well adapted to local conditions. This is in line with market practice.
- Organic farming operations that comply with the EU organic farming regulations and directives.²⁷ Íslandsbanki has confirmed to Sustainalytics that it will exclude expenditures related to inorganic or synthetic fertilizers, pesticides and herbicides, and industrial-scale livestock production. Additionally, the Bank will finance activities that promote the use of renewable technology, such as geothermally heated greenhouses. Considering the local geographical context, Sustainalytics notes that geothermally heated greenhouses have the potential to decrease the carbon footprint of vegetables supplied to the Icelandic market. Sustainalytics recognizes the commitment to energy-efficient operations, but encourages the Bank to also explore and implement measures and technologies related to water efficiency and to report on the estimated or achieved water efficiency gains, where feasible.
 - Fisheries and aquaculture certified under the Marine Stewardship Council (MSC),²⁸ Aquaculture Stewardship Council (ASC),²⁹ Global G.A.P. Aquaculture Certification Aquatic³⁰ or Iceland Responsible Fisheries-certified fish products. This is in line with market practice.
- Under the Eco-Efficient Products category, Íslandsbanki may provide general-purpose financing to service-based companies, including cleaning services, hotels, hostels and grocery stores that derive at least 90% of their revenue from Nordic Swan Ecolabel-certified services. Sustainalytics considers that investments specifically aimed at increasing the sustainability of service-based companies, such as investments in renewable energy technology and procurement, investments to decrease water usage or increase recycling rates, drive environmental benefits. Sustainalytics notes that the Nordic Swan Ecolabel certification requires several actions to improve the sustainability performance of companies, but its requirements may not encompass all environmental issues. Sustainalytics considers that such financing drives limited environmental benefits and encourages the Bank to prioritize financing towards improving the sustainability performance of such services, as opposed to general purpose financing of companies.
 - Under Access to Essential Services, Íslandsbanki may finance or refinance the following projects:
 - Programmes involving training in: i) the vocational and education sector for specialized staff, including school counsellors, school psychologists and speech language pathologists; and ii) ecological disaster prevention and preparedness. The target population includes unemployed individuals or individuals undergoing retraining or pursuing advanced qualifications, as well as job seekers, particularly those with limited education or qualifications, and people with special needs. The Bank has confirmed that the training programmes will be accessible to all regardless of ability to pay. Sustainalytics considers the activity to be aligned with market practice.
 - Provision of loans to students in Iceland. Sustainalytics notes that students from low-income backgrounds who qualify under the Icelandic Student Loan Fund will be eligible to receive loans under the Framework covering their admission fees and accommodation costs.³¹ Additionally, student loans will be provided at interest rates lower than market rates. The Bank will adhere to the responsible lending practices defined in its sustainability policy when providing loans to low-income students. Sustainalytics considers the activity to be aligned with market practice.
 - Construction, maintenance or renovation of educational infrastructure and equipment at kindergartens and schools up to Grade 10. The Bank will finance the provision of educational facilities and equipment at public and subsidized private schools. The

²⁷ Icelandic legislation on organic farming was established in accordance with the EU Regulations 834/2007, 889/2008 and subsequent amendments. Council of the European Union, "Council Regulation (EC) No 834/2007 of 28 June 2007", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32007R0834>

²⁸ MSC: <https://www.msc.org/standards-and-certification/fisheries-standard>

²⁹ ASC: <https://asc-aqua.org/producers/farm-standards/>

³⁰ Global G.A.P.: https://www.globalgap.org/uk_en/for-producers/globalg.a.p./integrated-farm-assurance-ifa/aquaculture/

³¹ The Icelandic Student Loan Fund 2023, "Rules regarding loans from the Icelandic Student Loan Fund", at: <https://mentasjodur.is/library/skrar/allocation-rules/L%C3%A1nareglur%202023-2024%20-%20Lokaskjal%20-%20texti%20til%20birtingar%20me%C3%B0%20augl%C3%BDsingu-Undirb%C3%BAningur%20fyrrir%20prentun%20ENSKUR.pdf>

- Bank has confirmed that the aforementioned education infrastructure and equipment at private schools will be accessible to all children and students in Iceland through affordable fees. The Bank has confirmed that educational infrastructure and equipment will remain affordable to all children and students post renovation. Sustainalytics considers the activity to be aligned with market practice.
- Construction, maintenance or renovation of public and subsidized private hospitals for the general public in Iceland. The Bank will also finance healthcare facility buildings and equipment for the elderly and people with disabilities, including clinics specializing in diagnosis and the treatment of children with genetic disorders, and medical equipment, such as feeding tubes. The Bank has communicated that private hospitals, healthcare facilities buildings and equipment will be accessible to the general public, including elderly and people with disabilities through subsidized fees covered through national insurance funds. Sustainalytics considers the activity to be aligned with market practice.
 - Under the Affordable Housing category, Íslandsbanki may finance or refinance the following projects:
 - Provision of mortgages for first-time buyers. The Bank has communicated to Sustainalytics that financing under the Framework will be limited to a top-up loan³² of up to ISK 3 million (EUR 19,906) or 5% of the value of the house, for those who lack equity to buy their first home.³³ To increase access to financial services, Sustainalytics considers it a good practice to target disadvantaged segments of the population, such as lower-income segments, historically marginalized and disadvantaged groups, who typically face substantial barriers in accessing financial services, along with offering preferential financial terms to such borrowers. Sustainalytics views the lack of such criteria to limit the social impact of such mortgages. Additionally, Sustainalytics encourages the Bank to prioritize the provision of mortgages with preferential terms to target populations that face substantial barriers in accessing financial services.
 - Development or refurbishment of affordable housing projects that meet the accredited or registered affordable housing definitions³⁴ or that contribute to improved access to housing through non-profit housing associations, targeting low-income families, socially vulnerable individuals and families, elderly people, individuals with disabilities and a qualified segment of homeless individuals, as defined by the law of public housing³⁵ and the Ministry of Infrastructure.³⁶ The Bank has confirmed that no more than 30% of the monthly household income of the target populations would go towards rent. The Bank has confirmed that the housing units will remain affordable to the identified target populations post refurbishment. Sustainalytics considers the activity to be aligned with market practice.
 - Under the Employment Generation category, Íslandsbanki may finance or refinance loans to SMEs as defined by the European Commission³⁷ that are: i) located in fragile areas in Iceland;³⁸ and ii) enterprises that face significant adversity with employment due to a natural disaster or pandemic. The Bank has confirmed that it will exclude financing to SMEs involved with child labour and poor working conditions. Sustainalytics considers these investments to be aligned with market practice.
 - Under Socio-economic Advancement and Empowerment, the Bank may finance or refinance the following projects:

³² The Bank has communicated that the top-up loan is an additional loan over the regular home mortgage.

³³ Íslandsbanki, "First Buy", at : <https://www.islandsbanki.is/en/milestone/first-buy-flow>

³⁴ The Framework refers to rental housing for low-income and vulnerable groups where the annual income of tenants at the start of the lease shall not be higher than ISK 7,696,000 (EUR 51,134) for each individual, or ISK 10,775,000 (EUR 71,592) for couples. An additional ISK 1,924,000 (EUR 12,783) shall be added for each child or youth below 20 years of age that is part of the household.

Regulation on state and municipal foundation contributions, housing nonprofit organizations and general housing, at: <https://island.is/reglugerdir/nr/0183-2020>

³⁵ Government of Iceland, "Lög um almennar íbúðir", (2016), at: <https://www.althingi.is/lagas/nuna/2016052.html>

³⁶ Government of Iceland, Ministry of Infrastructure, "Regulation on state and municipal foundation contributions, housing nonprofit organizations and general housing", at : <https://island.is/reglugerdir/nr/0183-2020>

³⁷ European Commission, "Internal Market, Industry, Entrepreneurship and SMEs", at: https://single-market-economy.ec.europa.eu/smes/sme-definition_en

³⁸ Fragile areas as defined by the Icelandic Regional Development Institute (Byggðastofnun).

- Loans to women-owned MSMEs.³⁹ The Bank will adhere to the responsible lending practices defined in its sustainability policy⁴⁰ when providing loans to the targeted population. This is in line with market practice.
- The Bank also intends to provide loans to not-for-profit organizations whose specific purpose is to support programmes that serve the public interest, such as programmes aimed at empowerment, reduction of exclusions and inequalities in diversity and gender, and protection of target populations' rights as defined by the European Institute for Gender Equality.⁴¹ The target populations include specific groups historically at risk of discrimination, including identities related to gender, age, sexual orientation, sexual identity, ethnicity or background, religion and physical or mental ability. Examples of integration programmes and projects include: i) awareness-raising campaigns; ii) creating opportunities and conditions for immigrants to become active participants in Icelandic society, implemented in areas such as language, labour market and education and training; iii) shelter homes; iv) preventive measures against gender-based violence or harassment and sexual harassment; and v) specialized therapy programmes for people who resort to domestic violence. The Bank has confirmed that financing will not include any organization or programmes that promote religious or political activities. Sustainalytics considers the activity to be aligned with market practice.
- The Framework contains a list of activities that are excluded from its green, social and sustainability issuances. Sustainalytics views the exclusion of activities that have potential negative environmental or social impacts to further strengthen the Bank's Framework.
- Project Evaluation and Selection:
 - Íslandsbanki's Sustainability Committee will be responsible for the process of evaluating and selecting eligible loans in line with the Framework's eligibility criteria. The committee consists of representatives from Íslandsbanki's different business areas, risk management and the Sustainability Manager. Íslandsbanki's Sustainability Committee will provide final approval to eligible loans.
 - All potential loans will undergo an ESG risk assessment and standard credit process to ensure compliance with applicable domestic and international rules and regulations. Sustainalytics considers Íslandsbanki's environmental and social risk management system to be adequate and aligned with market practice. For additional details, please see Section 2.
 - Based on the process for project evaluation and selection and the presence of a risk management system, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Íslandsbanki's Finance Department will be responsible for tracking and managing the proceeds using the sustainability register. Proceeds will be managed on a portfolio basis.
 - Íslandsbanki intends to allocate the proceeds within 18 months of issuance. Pending full allocation, unallocated proceeds will be invested in accordance with the internal requirements of Íslandsbanki's liquidity reserve.
 - Based on the use of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Íslandsbanki commits to report on the allocation of proceeds in an allocation and impact report, which will be published on its website on an annual basis until full allocation.
 - Allocation reporting will include information such as the total amount of green, social or sustainability bonds issued; allocation of proceeds under each green or social loan category; share of proceeds used for financing or refinancing; share of unallocated proceeds; and on a best-effort basis, information on EU Taxonomy eligibility or alignment of the underlying green loans financed by green bonds.

³⁹ The Framework defines women-owned MSMEs as majority-owned (at the most senior level) by women (majority means more than 50%) or meet the following criteria: i) ≥ 20% owned by women; and ii) has ≥ 1 woman as CEO, COO, president, vice president; and iii) has ≥ 30% of the board of directors composed of women, where a board exists. This will include loans to individual women purely for business activities and not personal use.

⁴⁰ Íslandsbanki, "Íslandsbanki Sustainability Policy", (2023), at:

https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki_Sustainability_Policy_English.pdf

⁴¹ European Institute for Gender Equality, "Marginalized Groups", at: https://eige.europa.eu/publications-resources/thesaurus/terms/1175?language_content_entity=en

- In addition, Íslandsbanki is committed to reporting on the estimated environmental and social impacts of the use of proceeds, using relevant impact metrics, such as number of passenger or public passenger transport, annual energy savings (in MWh), number of organic certified farms supported, number of education and healthcare facilities or initiatives and number of beneficiaries who have been affected by extraordinary circumstances.
- Sustainalytics views Íslandsbanki's allocation and impact reporting as aligned with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Íslandsbanki Sustainable Funding Framework aligns with the four core components of the GBP and SBP.

Section 2: Sustainability Strategy of Íslandsbanki

Contribution to Íslandsbanki's sustainability strategy

Sustainalytics is of the opinion that Íslandsbanki demonstrates a commitment to sustainability by integrating ESG considerations into its operations, lending activities and focusing on responsible investments that aim to contribute to the achievement of the SDGs.⁴² Through its sustainability strategy, the Bank focuses on evaluating and minimizing the negative impact its lending activities may have on the environment and the community in which it operates.⁴³ In 2019, the Bank conducted an impact analysis that identified the following key areas in which the Bank operates: i) climate action; ii) gender equality; iii) biodiversity and ecosystems; and iv) resource utilization.⁴⁴

In relation to climate action, the Bank has set a target to achieve net zero by 2040 in operations and financed emissions,⁴⁵ aiming to reduce the financed emissions from its balance sheet by 60% by 2030 and 85% by 2040.⁴⁶ Íslandsbanki has also set sector-specific emissions reduction targets for 2050 with a 2019 baseline, covering 61% of total lending and 71% of total emissions from its 2019 balance sheet.⁴⁷ The sectors covered are aviation and maritime shipping, road vehicles, commercial and residential real estate, and power generation.⁴⁸ The Bank's sustainability strategy has set additional targets and procedures to promote ESG criteria, including: increasing the share of sustainable corporate loans in its portfolio to 11% by 2023, and prioritizing engagement with suppliers that have signed the Bank's Suppliers Code of Conduct.⁴⁹ The Bank promotes responsible investments by incorporating ESG risk assessments of its borrowers and its own operations. The ESG risk assessment will be further enhanced to assess threats and opportunities in its portfolio; in 2022, the Bank covered more than 70% of its corporate customers.⁵⁰

The Bank financed a total of ISK 79 billion (EUR 524 million) in outstanding sustainable loans, increasing its sustainable assets by 36% in 2022, of which 55% were green, 33% blue and 13% social. The Bank also participates in various international initiatives related to environmental and social sustainability, including the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking,⁵¹ the Partnership for Carbon Accounting Financials⁵² and the United Nations Global Compact,⁵³ reflecting Íslandsbanki's commitment to supporting projects that enable the transition to a low-carbon, climate-resilient economy.

Sustainalytics is of the opinion that the Íslandsbanki Sustainable Funding Framework is aligned with Íslandsbanki's overall sustainability strategy and initiatives and will further its action on its key environmental priorities.

⁴² Íslandsbanki, "Íslandsbanki Sustainability Policy", (2023), at:

https://cdn.islandsbanki.is/image/upload/v1/documents/islandsbanki_sustainability_policy_english.pdf

⁴³ Ibid.

⁴⁴ Ibid. Íslandsbanki, "Sustainability Policy", at: https://cdn.islandsbanki.is/image/upload/v1/documents/islandsbanki_sustainability_policy_english.pdf

⁴⁵ Ibid.

⁴⁶ Íslandsbanki, "Road to Net Zero", (2022), at: https://cdn.islandsbanki.is/image/upload/documents/Road_to_net_zero_2022.pdf

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Íslandsbanki, "Suppliers Code of Conduct", (2020), at:

https://cdn.islandsbanki.is/image/upload/v1/documents/islandsbanki_suppliers_code_of_conduct.pdf

⁵⁰ Ibid.

⁵¹ UNEP Finance Initiative, "Principles for Responsible Banking", at: <https://www.unepfi.org/banking/bankingprinciples/>

⁵² PCAF, "About PCAF", at: <https://carbonaccountingfinancials.com/about>

⁵³ United Nations Global Compact, "About the UN Global Compact", at: <https://unglobalcompact.org/about>

Approach to managing environmental and social risks associated with the projects.

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While Íslandsbanki plays a limited role in the development of the projects that it finances, by offering lending and financial services, it is exposed to environmental and social risks associated with the projects that it may finance or refinance. Some key environmental and social risks possibly associated with the eligible projects may include issues involving land use and biodiversity associated with large-scale infrastructure development; emissions, effluents and waste generated in construction; occupational health and safety; business ethics; predatory lending; and community relations.

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

- The Bank has established an ESG Risk Assessment Framework to assess customers and counterparties across the Bank's asset portfolio to identify and manage ESG risks.⁵⁴ Using targeted ESG questions and a six-category scale, the Bank ranks customers based on how it integrates sustainability related risks into its operations and business model and if and how it causes negative impacts on the environment.⁵⁵ Íslandsbanki has also drafted and published sector guidelines, providing an overview of risks and opportunities of certain sectors, including construction, seafood, manufacturing, retail and servicea, and tourism.⁵⁶
- In occupational health and safety, the Bank complies with the Icelandic Act on Working Environment, Health and Safety in Workplaces No. 46/1980, which requires a safe working environment in accordance with the social and technical developments of society.⁵⁷
- To address risks related to corruption, bribery and business ethics, Íslandsbanki's Code of Conduct sets guidelines for workplace behaviour, business practices, employee personal conduct, and includes supervision and penalties for violations and deviations from the code.⁵⁸ Íslandsbanki focuses on combating money laundering and terrorism financing and provides employees with comprehensive training to reduce the risk of these activities. The Bank has committed to publish an Anti-Bribery and Corruption Policy in the first quarter of 2024. Furthermore, the Bank is committed to enhancing sustainability through its supply chain, and in 2020, adopted its Suppliers Code of Conduct,⁵⁹ which outlines principles for purchases to be based on efficiency, non-discrimination and transparency.
- In relation to the risks of predatory lending or over-indebtedness of financially vulnerable individuals, the Bank has committed through its Code of Conduct to providing transparent information and advice to clients about financial transactions.⁶⁰
- Sustainalytics notes that financing under the Framework will take place in Iceland, which is recognized as a Designated Country under the Equator Principles, indicating the presence of strong environmental and social governance legislation systems and institutional capacity to mitigate common environmental and social risks.⁶¹

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

⁵⁴ Íslandsbanki, "Annual and Sustainability Report", (2022), at: https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2022_ENSKA_FINAL.pdf

⁵⁵ Ibid. Íslandsbanki "Annual and Sustainability Report", (2022), at: https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2022_ENSKA_FINAL.pdf

⁵⁶ Íslandsbanki, "Sector guidelines – construction industry", at: <https://www.islandsbanki.is/en/article/sector-guidelines>

⁵⁷ Government of Iceland, "Act on Working Environment, Health and Safety in Workplaces, No. 46/1980", at: <https://www.government.is/library/04-Legislation/Act%20No%2046%201980%20with%20subsequent%20amendments%202018.pdf>

⁵⁸ Íslandsbanki, "Code of Conduct", at: <https://www.islandsbanki.is/en/product/about/code-of-conduct>

⁵⁹ Íslandsbanki, "Suppliers Code of Conduct", (2020), at:

https://cdn.islandsbanki.is/image/upload/v1/documents/Íslandsbanki_suppliers_code_of_conduct.pdf

⁶⁰ Ibid.

⁶¹ Equator Principles, "About the Equator Principles", at: <https://equator-principles.com/about-the-equator-principles/>

³⁹ OECD, "Carbon pricing in Iceland", (2022), at: <https://www.oecd.org/tax/tax-policy/carbon-pricing-iceland.pdf>

⁴⁰ IMF, "On the Road to Carbon Neutrality, Fishing for Energy Exchange and Carbon Absorption", (2021), at:

<https://www.elibrary.imf.org/downloadpdf/journals/002/2022/194/article-A002-en.xml>

Section 3: Impact of Use of Proceeds

All 13 use of proceeds categories are aligned with those recognized by the GBP and SBP. Sustainalytics has focused on where the impact is specifically relevant in the local context.

Importance of clean transportation towards climate change mitigation in Iceland

Iceland derives 85% of its primary energy supply and almost 100% of its electricity mainly from domestically produced renewable sources.^{62,63} Iceland produces no fossil fuels and the imported fossil fuels are consumed mainly by the transport and fishing sectors.⁶⁴ Iceland’s road transport sector accounts for 27.7% of its total GHG emissions and is the second largest contributor of Iceland’s GHG emissions as of 2021.⁶⁵ Globally, the transport sector has been growing at an annual average rate of 1.7% from 1990 to 2022, and to achieve climate neutrality by 2050, 90% of transport emissions should be reduced.^{66,67} Furthermore, the transport sector accounts for approximately 25% of the total GHG emissions.⁶⁸

Iceland’s revised Nationally Determined Contribution of 2021 set an unconditional target of reducing GHG emissions by 55% by 2030 from 1990.⁶⁹ In this sense, the Government of Iceland’s Climate Action Plan 2020 recognizes the importance of a rapid clean energy transition in transport and aims to reduce land transport emissions by 21% by 2030 from 2005 and more specifically 21% for land transport and 42% for ships and ports from the same baseline and target year.⁷⁰ To achieve its 2030 goal, the government offers fiscal incentives and undertakes other measures, including encouraging the transition to electric vehicles, providing public infrastructure in the form of rapid charging stations and banning the registration of fossil fuel-dependent vehicles by 2030.⁷¹

Sustainalytics is of the opinion that Íslandsbanki’s investment in clean transportation projects will play a crucial role in advancing the shift towards low-carbon transportation and actively contribute to Iceland’s climate-related objectives.

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 instruments issued under the Sustainable Funding Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure
	11. Sustainable Cities and Communities	11.2 Ensure universal access to quality transport
Energy Efficiency	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources

⁶² Government of Iceland, “Energy”, at: <https://www.government.is/topics/business-and-industry/energy/>

⁶³ 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=AOvVaw2iIs_qRGPCbnURln8-73Lk&opi=89978449

⁶⁴ Ibid

⁶⁵ Ibid

⁶⁶ IEA, “Transport”, at <https://www.iea.org/energy-system/transport>

⁶⁷ 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>

⁶⁸ 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>

⁶⁹ 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

⁷⁰ Government of Iceland, “Iceland’s 2020 Climate Action Plan”, (2022), at: <https://www.government.is/library/01-Ministries/Ministry-for-The-Environment/201004%20Umhverfisraduneytid%20Adgerdaaetlun%20EN%20V2.pdf>

⁷¹ 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> (government.is)

	9. Industry, Innovation and Infrastructure	9.4 Upgrade and retrofit existing infrastructure to make industries sustainable
	7. Affordable and Clean Energy	7.3 Double the global rate of improvement in energy efficiency
Pollution Prevention and Control	12. Responsible Consumption and Production	12. 4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Sustainable Water and Wastewater Management	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Renewable Energy	7. Affordable and Clean Energy	7.2 Increase the share of renewable energy in the global energy mix
Green Buildings	11. Sustainable Cities and Communities	11.3 Ensure inclusive and sustainable urbanisation, planning and management
Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.3 Combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods
Eco-Efficient Products	14. Life Below Water	14.4 Effectively regulate harvesting and end overfishing
Eco-Efficient Products	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Access to Essential Services	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
		4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
	3. Ensure healthy lives and promote well-being for all at all ages	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Employment Generation	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

Socio-economic Advancement and Empowerment	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
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Conclusion

Íslandsbanki has developed the Íslandsbanki Sustainable Funding Framework under which it may issue green, social and sustainability bonds in public or private placements, senior preferred bonds, senior non-preferred bonds, subordinated debt, secured covered bonds and deposits and use the proceeds to finance or refinance, in whole or in part, loans financing existing and future eligible projects. Sustainalytics considers that the eligible projects are expected to contribute to the transition to a low-carbon economy and help support the socio-economic development of Iceland.

The Íslandsbanki Sustainable 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 Íslandsbanki Sustainable Funding Framework is aligned with the overall sustainability strategy of Íslandsbanki and that the use of proceeds will contribute to advance the UN Sustainable Development Goals 3, 4, 7, 8, 9, 11, 12, 14 and 15. Additionally, Sustainalytics is of the opinion that Íslandsbanki 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 Íslandsbanki is well positioned to issue green, social and sustainability bonds and that the Íslandsbanki Sustainable Funding Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Social Bond Principles 2023.

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