



Allocation and Impact Report 2020

for Íslandsbanki's Sustainable Financing Framework



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Foreword



Dear reader,

It gives me much pleasure to present this inaugural Allocation and Impact Report for Íslandsbanki's Sustainable Financing Framework. This report is a testament to a great collective effort to bring environmental and social issues into the core of Íslandsbanki's activities and a new way of thinking about our business.

The report gives an overview of the first three months of the implementation and reports on the impact of the eligible assets already approved under the Framework. It also records that since October we issued two sustainable bonds for a total of ISK 50 bn, approved over 1,600 loans as Eligible Assets and held 8 meetings of the Sustainability

Committee. We are pleased to have already approved ISK 25 bn of eligible assets which, to name two examples in 2020, led to a total of 5,800 tonnes of CO₂e in avoided greenhouse gas emissions and generated 87 GWh of clean energy.

This report, which summarises these efforts, drew on resources and people across all units of the Bank. Indeed, the fingerprints of over 10% of all employees of the bank are on this report, which perhaps underlines how quickly and effectively a relatively small organisation like ours can be mobilised.

We are looking forward enthusiastically to new sustainable projects in 2021 and beyond. Blue category projects will begin to appear in the allocations and, as we hopefully leave the COVID-19 pandemic behind us, social category assets will decline relatively.

Íslandsbanki is now firmly established on its road to a sustainable future.

Happy reading,

Birna Einarsdóttir
CEO of Íslandsbanki and Chair of the
Sustainability Committee

Key events

2020

OCT



Sustainable Financing
Framework published

NOV



EUR 300 m sustainability bond
issued



ISK 2.7 bn green bond issued



Sustainability committee
approves the first existing loan
as eligible for the Sustainable
Financing Framework

DEC



Íslandsbanki signs the first new
sustainable loan agreement that
qualifies as an eligible asset

2021

FEB



Publication of this first impact
report for the framework



1. Introduction

Íslandsbanki's approach to sustainability

Íslandsbanki is a role model when it comes to sustainability in the Icelandic business community. It is a catalyst for positive change, moving Iceland forward by empowering its customers to succeed.

Sustainability Policy and goals

The Bank intends to contribute to sustainable development in the Icelandic economy and support the Icelandic Government's Climate Action Plan, while also supporting the UN Sustainable Development Goals.

The Bank has defined seven main sustainability goals to be achieved by the year 2025, and has published concrete sub-goals to be achieved in 2021.

In 2020 the Bank reached its annual goal of reducing carbon footprint of its own operations by 20% (after correcting for COVID-19 related impact) and is on track to reach its target of 50% reduction from 2019–2024.

Selected milestones in 2020

The Bank received the Icelandic Knowledge Award for the year 2020, awarded by the association of business and economists graduates in Iceland. The Bank is said to be exemplary among Icelandic businesses when considering international standards in environmental, social and governance (ESG) affairs.

The Bank published a Code of Conduct for Suppliers and had meetings with its largest suppliers to discuss the bank's expectations regarding sustainability

Published a Sustainable Financing Framework, the first of its kind in Iceland.

Sustainable product development including green car loans and sustainable loans to corporates.

Cooperation and commitments

Through the years, Íslandsbanki has considered it important to participate in international commitments and support domestic cooperative efforts in the area of sustainability.

Major commitments include:



Sustainability Policy and goals

Sustainability timeline

Cooperation on sustainability

Sustainable Financing Framework Governance

Robust governance has been established to ensure that strict standards are in place from day one.

The Framework is based on the Green and Social Bond Principles (2018, 2020), as well as the Sustainability Bond Guidelines (2018) issued by the International Capital Markets Association and has a Second Party Opinion from Sustainalytics.



Second Party Opinion by



Sustainable Financing Framework

Governance

Íslandsbanki has established a Sustainability Committee chaired by the CEO and manned by the CFO, Head of Sustainability, senior representatives from business departments, risk management and IT.

The Sustainability Committee is responsible for the evaluation and selection of eligible projects in accordance with the Framework, formal allocation of proceeds of Sustainability Instruments to the pool, as well as reviewing the Allocation and Impact report.

The Sustainability Committee is the gatekeeper for ensuring eligibility of projects and Framework credibility. Only loans and investments approved by the Committee can be entered into the Sustainability Registry which keeps track of Eligible Assets on a portfolio basis.

Steps in the allocation process

- 1 Business unit identifies a sustainable project that fits Íslandsbanki's Sustainable Financing Framework criteria
- 2 All potential sustainability loans undergo Íslandsbanki's normal robust standard credit process which ensures compliance with regulations, internal policies and guidelines*
- 3 A proposal is prepared explaining why the loan, borrower (in the case of pure play) or product is aligned with Eligibility criteria
- 4 The proposal is presented to the Sustainability Committee which approves (or rejects) the eligibility of the project
- 5 Approved projects are entered into the Sustainability Registry
- 6 Sustainability Committee keeps track of Eligible Assets and ensures a review is performed at least annually in connection with impact reporting
- 7 The qualifying assets are included in the Impact Report and constitute the Eligible Assets Pool of the Sustainable Financing Framework

Eligible project categories: link to SDGs & climate priorities

The Sustainable Financing Framework supports the Bank's sustainability goals and, in turn, Iceland's Climate Action Plan (CAP). The CAP is the nation's main instrument to fulfill its Paris Agreement commitments, specifically its emissions reduction goals for 2030. It also aspires to help reach Iceland's stated goal of carbon neutrality by 2040.

Íslandsbanki's Sustainable Financing Framework consists of a green category for environmental issues, a blue category for sustainable projects in maritime-related industries and a special category for projects that support social development.

Both the green and blue categories are based on the Green Bond Principles. In addition the Bank is investigating the possibility to adhere to the UN Global Compact Reference Paper on Blue Bonds, as well as closely monitoring any new developments for further guidelines or principles for Blue Bonds.

Iceland's 2020 Climate Action Plan

Green project categories		SDGs	Iceland's 2020 Climate Action Plan
G1	Clean Transportation	9, 11, 13	A. Land transport / H. Aviation and heavy industry
G2	Eco-efficient and circular economy adapted products, production technologies and processes	12, 13	E. Agriculture / F. Waste management / H. Aviation and heavy industry
G3	Energy efficiency	7, 9, 12, 13	C. Energy production and small industry
G4	Pollution prevention and control	9, 12, 13	A. Land transport / D. F-gases and chemical use
G5	Renewable energy	7, 9, 13	C. Energy production and small industry
G6	Green buildings	9, 11, 13	C. Energy production and small industry
G7	Environmentally sustainable management of living natural resources and land use, and terrestrial biodiversity conservation	11, 15	E. Agriculture / I. Land-Use
G8	Sustainable waste management	9, 12, 13	F. Waste management
G9	Information & communications technology	9	
Blue project categories			
B1	Eco-efficient and circular economy adapted products, production technologies and processes	12, 13, 14	F. Waste management
B2	Pollution prevention and control	9, 12, 14	B. Ships and ports / D. F-gases and chemical use / F. Waste management
B3	Clean Transportation	9, 11, 13, 14	B. Ships and ports
Social project categories			
F1	Government defined company support	1, 8, 9	
F2	Affordable housing	1, 10, 11	
F3	Education and vocational training	4, 10, 11	
F4	Financial support for MSMEs	8, 9, 11	
F5	Equality, diversity and empowerment	5, 10	
F6	Affordable basic infrastructure	9, 11	

Sustainable fisheries in Iceland

Íslandsbanki is committed to taking a transparent approach when it comes to blue lending and investment. Our attitude regarding sustainability is that we should dare to speak about things that are important, even if we are not yet perfect. Sustainability is a journey and one needs to remain humble and curious, while always striving for better. This way we hope to be able to contribute to the development of robust standards for blue bonds and lending activities.

Responsible fisheries management, innovation and better utilisation contributes to a more sustainable ocean, healthier fish stocks and biodiversity. A healthy ocean and thriving fish stocks are key to Iceland's future prosperity. Several initiatives by the Icelandic seafood industry have significantly contributed to climate and environmental success.

1. Responsible fishing

The close monitoring of fish stocks and the management of fisheries in accordance with scientific advice ensures sustainable utilisation. The Icelandic Individual Transferable Quotas (ITQ) system is generally seen as a successful global role model in terms of economic efficiency. It also



serves as a way of drastically reducing fishing effort to safeguard the sustainability of fish stocks. Although conserving biodiversity was not an explicit objective, the reform created the necessary incentives to reduce total catch levels and thus to put the fishery on a sustainable footing.¹

2. Innovation and efficiency

New technology and innovation ensure better utilisation of each fish stock. A more circular approach ensures much of what was once considered as waste is now being converted into value. One example of Icelandic innovation in more efficient food processing is Marel's journey from 60% utilisation of the catch up to 80% today. This means 3 fish can now feed as many as 4 did 25 years ago.

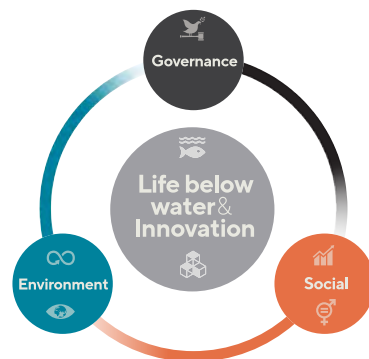
3. Larger fish stocks – lower fuel consumption

Larger fish stocks make it easier to catch the fish. This reduces diesel oil consumption which is the largest contributor of greenhouse gas emissions in the industry.

Further sustainability efforts

Icelandic fisheries companies take their responsibilities seriously both as food producers and as pillars of the economy. Member companies of the Association of Fisheries Iceland established a social responsibility policy in 2020⁴. The policy is linked to the UN SDGs and signatories to this policy already account for around 75% of the Icelandic catch, as well as exporters.

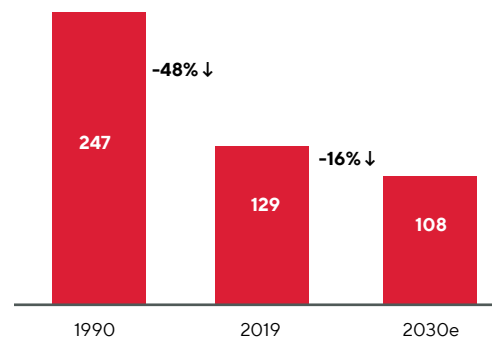
Icelandic fishing industry's social policy



Fuel consumption halved since 1990

One of the clearest negative climate impacts of the Icelandic seafood sector is the fishing vessels' and fishmeal factories' fuel consumption. Yet this has fallen from 247,000 tonnes in 1990 to 129,000 tonnes of fuel in 2019. This is a 47% reduction. Fishmeal factories have almost completed the transition to green energy while the fishing fleet is still run by fuel.

Fuel consumption of the Icelandic seafood sector
Thousand tonnes (fishing vessels' and fishmeal factories)



Source: Radarinn.is and SFS

Investment is a prerequisite for progress

Investment in fleet and equipment renewals are expected to contribute to further progress in fisheries, leading to an additional 16% reduction in fuel consumption by 2030.

The seafood sector accounts for 13% of Íslandsbanki's total loan book, equivalent to roughly ISK 130 bn. Íslandsbanki has also contributed to innovation in the sector by supporting the Icelandic Ocean Cluster, a network of over 60 firms in the marine industries, since 2011.

The Bank expects eligible assets in the Blue category to grow significantly over the course of 2021.

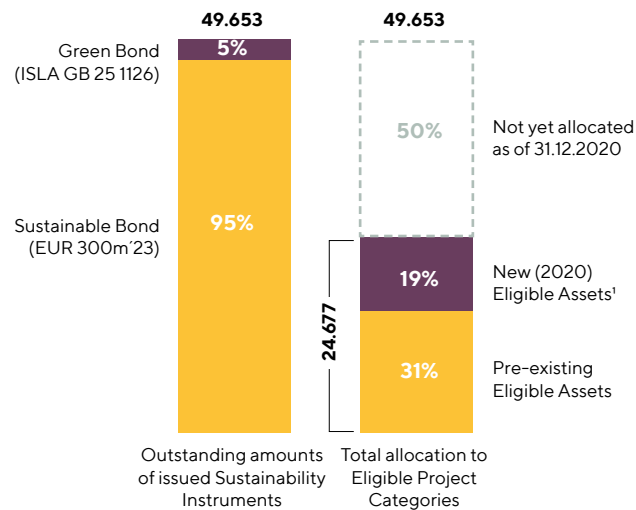


2. Allocation and Impact Reporting

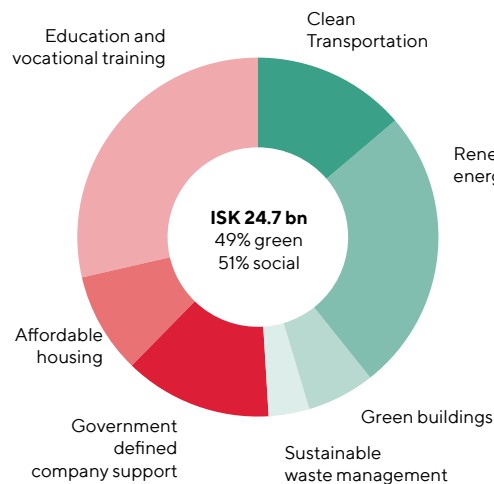
Allocation and use of proceeds

The Bank has recently issued its first ISK 50bn of Sustainable Bonds, of which 50% has been allocated to eligible projects. 38% of the eligible assets are new financing disbursed in 2020 and 49% are green categories.

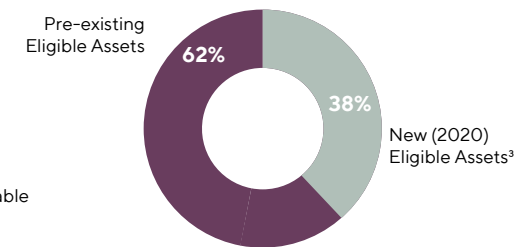
Sustainability Instruments and allocation in 2020
ISK million



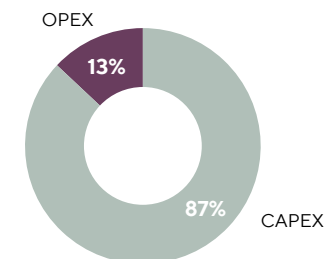
Use of proceeds as of 31.12.2020²
By category



New vs. pre-existing eligible assets



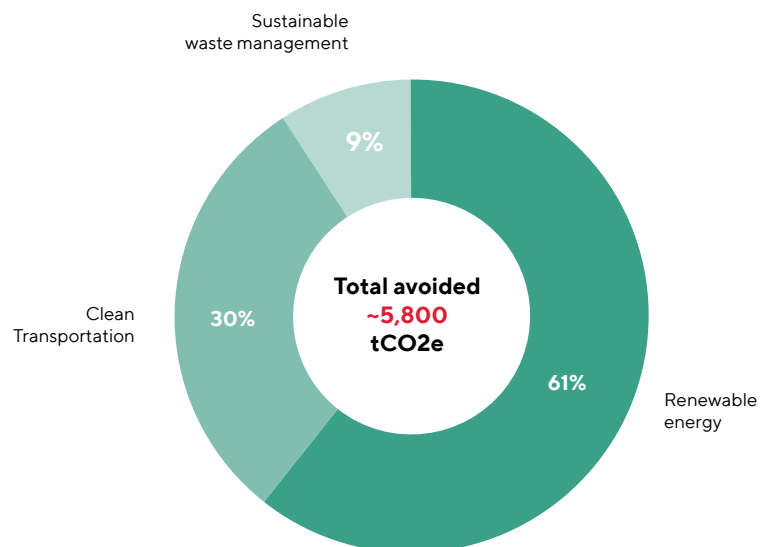
Capital expenditures vs. operational expenditures³



Summary of environmental and social impact in 2020

Eligible assets led to an estimated total of ~5,800 tonnes of CO₂e in avoided greenhouse gas emissions and generated 87 GWh of clean energy in 2020.

Avoided greenhouse gas emissions in 2020



Additional environmental impact indicators



87 GWh of clean energy produced in 2020



1190 clean vehicles



One **60,077 sqm** building with BREEAM in-use very good



800 tonnes of additional waste recycled

Government defined company support related to COVID-19



342 companies supported



9,6 m ISK Average loan size

Additional social impact indicators



80 dwellings at a nursing home



60 social housing units



1 educational facility with **3,000** students reached

Impact linked to the Sustainable Development Goals

This first impact report for Islandsbanki's sustainable financing framework covers 7 project categories that contribute to a range of SDGs in various ways.





3. Impact assessment by category

Clean transportation



Activity in 2020

In June 2020 Íslandsbanki introduced a new green car loan product to its retail and corporate customers at discounted interest rates.¹ The product covers lending for clean vehicles that emit below the defined threshold of 50 gCO₂/km, infrastructure such as charging stations and electric bikes. The timing was great as sales of electric and hybrid cars jumped in 2020 compared to previous years and the response was above expectations. One of the contributors to the success was the fact Íslandsbanki is the exclusive partner of Tesla Iceland which opened a dealership in early 2020.

	ISK m	Share of funding
Clean vehicles	3,392	100%
Charging stations	2	100%
Electric bikes	9	100%

Methodology

For the category "clean transportation", alternative fossil fuel vehicles are assumed to be replaced representing the same size category and year of build. The WLTP emission factors are provided by the manufacturers. The methodology used for these impact calculations are based on or recommended by relevant international guidelines and standards.³

"Nowhere in Europe is the impact of switching to an electric car as big as in Iceland" ¹

Calculated Impact

The great bulk of the funding towards clean transportation (category G1) is to finance clean vehicles 99.7% while the rest is for infrastructure and electric bikes. The annual impact of the 1190 clean vehicles included in the Sustainable Finance Framework is 1,734 tCO₂e.



This is equivalent to 5,300 roundtrip airline seats from Reykjavik to London

Impact of each ISK m disbursed is therefore: 0.52 tCO₂e



This is equivalent to 1.6 roundtrip airline seats from Reykjavik to London

	Number of	tCO ₂ e
Clean vehicles	1,190	1,734
Charging stations	11	
Electric bikes	24	

¹ Before June 2020 the Bank had already financed a number of electric and green cars, although no specific discount was provided. These are included in the allocation and impact report as long as they fulfil the criteria of emission below the defined threshold of ≤50/34 gCO₂/km (WLTP/NEDC). ² Dillman, K.J.; Arnadóttir, A.; Heinonen, J.; Czepkiewicz, M.; Davíðsdóttir, B. Review and Meta-Analysis of EVs: Embodied Emissions and Environmental Breakeven. Sustainability 2020, 12, 9390. <https://doi.org/10.3390/su12229390>. ³ The International Financial Institution; Green Bonds: Working Towards a Harmonized Framework for Impact Reporting, and, International Financial Institution; Approach to GHG Accounting for Renewable Energy Projects (2015), International Capital Market Association's & Green Bond Principles' Handbook on Harmonized Framework for Impact Reporting (June 2019), the European Union's Technical Expert Group on Sustainable Finance Report on EU Green Bond Standard (June 2019), and the Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting (February 2020).

Renewable energy



Activity in 2020

Six small hydropower plants with capacities ranging from 1-9.9 MW are included in eligible assets for the category renewable energy.

All electricity generation projects are subject to the latest technical EU taxonomy screening criteria of life cycle emissions <100gCO₂/kWh.

According to Icelandic legislation, all hydropower and geothermal projects must follow the Icelandic Law on Environmental Impact Assessment² and the national Master Plan for Nature Protection and Energy Utilisation³.

	ISK m	Share of funding
Hydropower plants	6,307	100%

Methodology

The methodology for *the renewable energy* project category impact calculations is recommended by relevant international guidelines and standards⁴ using the recommended benchmark from the International Financial Institution working group on greenhouse gas accounting. The Icelandic benchmark emission factor for the year 2020 is estimated to be 43 gCO₂e/kWh based on the combined margin method. This is compared to the emissions resulting from land use change by the reservoirs created by the hydropower plants.

"The first hydropower plant in Iceland was constructed in 1904 and therefore the tradition and framework for use of hydropower in Iceland is more developed than in many other countries."

Calculated Impact

The total estimated avoided GHG emissions is 3.524 tonnes CO₂e in 2020



This is equivalent to 10,725 roundtrip airline seats from Reykjavik to London

Impact of each ISK m invested is therefore: 0.56 tCO₂e



This is equivalent to 1.7 roundtrip airline seats from Reykjavik to London

Impact indicators

Capacity of renewable energy plant(s) in MW per year	23
Clean energy produced (GWh) in 2020	87
Estimated avoided GHG emissions (tonnes CO ₂ e) per year	3,500

16 1. See: [https://www.landsvirkjun.com/company/history#:~:text=The%20first%20hydropower%20plant%20in,energy%20electricity%20\(0.009%20MW\)](https://www.landsvirkjun.com/company/history#:~:text=The%20first%20hydropower%20plant%20in,energy%20electricity%20(0.009%20MW)). 2. Icelandic Law on Environmental Impact Assessment (106/2000) which is aligned with the European Directive 85/337/EEC. 3. See: <https://www.ramma.is/english>. 4. Accounting for Renewable Energy Projects (2015) and the International Capital Market Association's & Green Bond Principles' Handbook on Harmonized Framework for Impact Reporting (June 2019).

Green buildings



Only one eligible project is included in this category for the 2020 report. A loan extended in December 2020 to the Icelandic real estate company Reginn that funded a 60,077 sqm building with BREEAM in-use very good certification. Reginn was the first Icelandic real estate firm to produce a green financing framework and the loan agreement is compatible with both Reginn's and Íslandsbanki's sustainable financing frameworks.

	ISK m	Share of funding
Certified green building	1,502	11%



"Environmental affairs are an important element in Reginn's sustainability strategy. It is satisfying to see the various benefits of the company's green strategy, which combines reduced environmental impact from operations, lower operating expense, and more diverse financing, including green bank loans. Today, 18% of Reginn's financing is green. The company aims to increase that ratio to 50% in the next four years."

Helgi S. Gunnarsson,
CEO, Reginn¹

About certified green buildings in Iceland

In Iceland there has been a steady increase in the use of environmental certification schemes for buildings since the first building was certified in 2010. The environmental certification systems that have been most used are BREEAM from the BRE Group and the Nordic Swan Ecolabel. The number of eco-certified buildings in Iceland has increased in recent years and is expected to rise still further, as sustainability assumes greater priority throughout society.

In January 2021, Íslandsbanki started offering green mortgage loans with interest rate discounts and cancellation of lending fees for owners of environment-friendly housing.

Source: Green Building Council Iceland

Sustainable waste management



Activity in 2020

One loan has been approved into the sustainable waste management category for construction of a biogas and composting plant. The project fits well into the sustainable financing framework and supports Iceland's Climate Action Plan¹. The Action Plan includes action to improve waste management more specifically a ban on the landfilling of organic waste and the imposition of a landfill tax.

	ISK m	Share of funding
Biogas and composting plant	902	36%

Impact assessment

The facility was under construction for most of 2020 and therefore only a small share of the potential annual impact is included in the numbers. A conservative estimate made by the customer for actual 2020 impact is 1,500 tonnes CO₂e avoided GHG emissions and additional waste recycled of 2,200 tonnes.

A total of 40,000 tonnes of waste can be recycled annually once the facility has reached full capacity in 2022. At full capacity the estimated reduced/avoided GHG emissions are ~25,000 tonnes CO₂e per year.

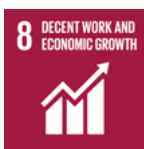
Impact of each ISK m invested will be 10 tCO₂e at full capacity.

Estimated impact of Islandsbanki's share of funding

	2020	At full capacity (as of 2022)
Additional waste recycled (tonnes per year)	800	14,400
Estimated avoided GHG emissions (tonnes CO ₂ e)	530	9,000

Social Project categories

Eligible assets in the social project categories consist of government defined company support, affordable housing and education and vocational training projects.



Government defined company support

342 small and medium-sized companies have received COVID-19 support loans. The loans are accessible to SMEs that have sustained a substantial loss of revenue as a result of the COVID-19 pandemic.

	SME lending
Amount ISK m	3,271
Number of companies supported	342
Average loan size (ISK m)	9.6

Affordable housing

Two loans have been made in the category affordable housing. One is to a nursing home and another for social housing for low-income families and individuals.

	Nursing home	Social housing
Amount ISK m	1,863	377
Share of funding	100%	100%
Number of dwellings	80	60

Education and vocational training

One loan has been made towards construction of establishments of higher education and specialized learning.

	Higher education
Amount ISK m	7,060
Share of funding	60%
Number of buildings	1
Number of students reached	3,000



Appendices

Overview of Sustainability Instruments

Íslandsbanki currently has two sustainable bond issues that fall under the Sustainable Financing Framework outstanding with a total volume of ISK 49.9 bn as of 31.12.2020.

	EUR 300m notes due November 2023	ISK 2.7bn notes due November 2025
Issue code	EUR 300m'23	ISLA GB 25 1126
ISIN	XS2259867039	IS0000032498
Format	Senior unsecured	Senior unsecured
Maturity	20.11.2023	26.11.2025
Volume	EUR 300m	ISK 2,700m
Coupon and issue spread	0.5% (MS+100bp)	3.50%
Type of bond	Sustainable Bond	Green Bond
Use of proceeds	Sustainable projects	Green Projects
Documentation	GMTN Programme	ISK Bond Programme
Final terms	Series 30 Final Terms EUR due Nov 2023	ISLA GB 25 1126
Press Release when issued	https://www.islandsbanki.is/en/news/islandsbanki-is-sues-the-first-sustainable-bond-by-an-icelandic-bank	https://www.islandsbanki.is/en/news/islandsbanki-is-sues-the-first-green-bond-by-an-icelandic-bank
Outstanding amount 31.12.2020	ISK 46,944m	ISK 2,709m

Any proceeds of Sustainability Instruments that remain unallocated to Sustainability Loans or Assets are temporarily held in Íslandsbanki's liquidity portfolio in accordance with the Sustainable Financing Framework.

Overview of Allocation and Impact of Eligible Projects

	Allocation to Eligible Projects			Selected impact indicators									
	Amount out-standing 31.12.2020	Share of funding	Share of capex	Avoided green-house gas emissions	Clean vehicles*	Clean energy produced	Green building	Additional waste recycled	Companies supported**	Dwellings	Students reached	Avoided green-house gas emissions per million ISK	Avoided green-house gas emissions per million EUR***
	ISK million	%	%	tCO2e	number of	GWh	number of	tonnes	number of	number of	number of	tCO2e	tCO2e
Clean Transportation	3,392	100%	100%	1,734	1,190							0,51	79,75
Renewable energy	6,307	100%	100%	3,500		87						0,55	86,57
Green buildings	1,502	11%	100%				1						
Sustainable waste management	902	30%	100%	530				800				0,59	91,66
Government defined company support	3,271	n.a.	0%						342				
Affordable housing	2,242	100%	100%							140			
Education and vocational training	7,061	60%	100%								3,000		
Total	24,677			5,764									

* in addition 11 charging stations and 24 electric bikes were funded ** Average loan size ISK 9,6 m *** EURISK=156 on 31.12.2020

The impact assessment is provided with the reservation that not all related data can be covered and that calculations therefore will be on a best effort basis. This overview table is also available in Excel in Íslandsbanki's Fact book for Full Year 2020 <https://www.islandsbanki.is/en/landing/about/investor-relations>



Disclaimer

This Sustainability Financing Framework (hereinafter the document) has been prepared by Íslandsbanki hf. and is intended to provide non-exhaustive, general information. The document may contain or incorporate by reference public information not separately reviewed, approved or endorsed by Íslandsbanki and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Íslandsbanki as to the fairness, accuracy, reasonableness or completeness of such information. The document is provided for information purposes only and may be subsequently amended, superseded, or replaced. The document is not intended to be and should not be construed as providing legal or financial advice by Íslandsbanki or its subsidiaries. It does not constitute an offer or invitation to sell or any solicitation of any offer to subscribe for or purchase or a recommendation regarding any securities, nothing contained herein shall form the basis of any contract or commitment whatsoever and it has not been approved by any security regulatory authority.

Impact Assurance

CIRCULAR Solutions was appointed by Íslandsbanki to conduct (a) a review of environmental impacts and (b) an assurance of the eligibility of loans and assets compared to criterias and thresholds in the Sustainable Financing Framework.

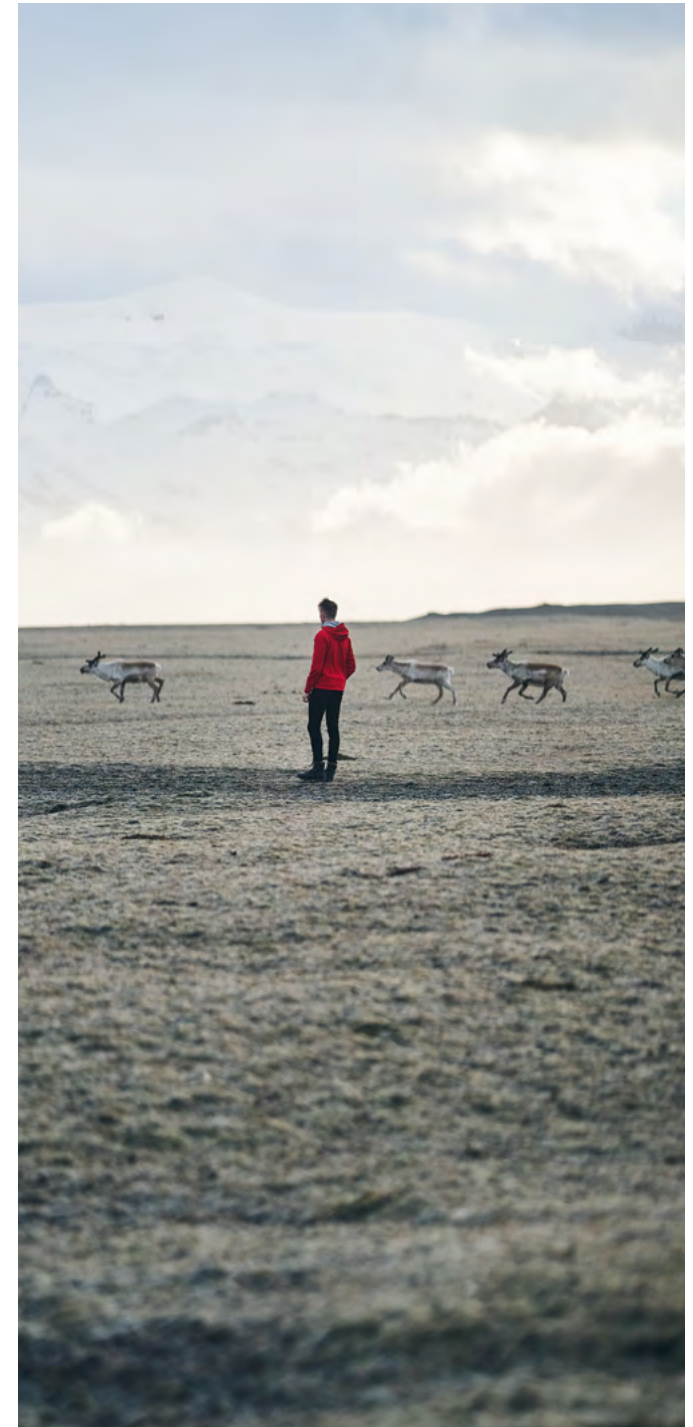
CIRCULAR received an overview of loans and underlying assets (non-customer specific) and had meetings with Íslandsbanki's sustainability team in order to enquire and receive further information. CIRCULAR provided comments and suggestions for improvements to which Íslandsbanki responded in an appropriate manner.

Based on CIRCULAR's assessment the financed loans, assets, and projects, comply with the Eligible Project criteria detailed in the Framework. Furthermore, the funded assets and projects demonstrate positive environmental impacts compared to relevant benchmarks and/or comply with one or more of the listed impact indicators. Environmental impacts from financed waste management projects and/or assets come directly from Íslandsbanki's customer and CIRCULAR was not able to review the methodology and data behind the calculations.

Reykjavik, 5 February 2021

CIRCULAR

Disclaimer by CIRCULAR: CIRCULAR is an independent provider of green bond and sustainability consulting in Iceland. Íslandsbanki was responsible for providing CIRCULAR accurate documentation and information from its customers relating to the details of the funded loans and assets. CIRCULAR made all efforts to ensure the highest quality and rigour during its engagement. CIRCULAR will not accept any form of liability and/or any liability for damage arising from the use and/or decisions, financial or otherwise, based on the the information provided in this document.



Auditor's Limited Assurance Report

To Íslandsbanki hf.

Introduction

We have been engaged by the Board of Directors of Íslandsbanki hf. (the Bank) to undertake a limited assurance engagement of selected information in the Bank's Allocation and Impact Report, concerning the Sustainable Bonds, issued in November 2020.

Assurance scope

The scope of our work was limited to providing assurance of the **"total allocation of the Sustainable Bond Pool to Eligible projects"** as described on page 11 of the Bank's Allocation and Impact Report for the Bank's Sustainable Financing Framework for the year 2020 ("the selected information"). The reporting criteria against which this information was assessed are relevant parts of the Bank's Sustainable Financing Framework, available on the Bank's website.

Our assurance does not extend to any other information in the Allocation and Impact Report. We have not reviewed and do not provide any assurance over any individual project information reported, including estimates of sustainability impacts.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for evaluating and selecting eligible assets, for the use and management of bond proceeds, and for preparing the Allocation and Impact report that is free of material misstatements, whether due to fraud or error, in accordance with the Bank's Sustainable Financing Framework.

Responsibilities of the Auditor

Our responsibility is to express a limited assurance conclusion on the selected information specified above based on the procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information issued by IAASB. A limited assurance engagement consists of making inquiries, primarily of persons

responsible for the management of bond proceeds and the process for selection of eligible assets, and applying analytical and other limited assurance procedures, including inspection of documentation, and limited sample testing of the selected information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. The procedures performed, consequently, do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our independence and quality control

Ernst & Young ehf. applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Íslandsbanki in accordance with professional ethics for accountants and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Conclusion

Based on the limited assurance procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected information disclosed in the Bank's Allocation and Impact Report has not been prepared, in all material respects, in accordance with the reporting criteria.

Ernst & Young ehf.
Borgartúni 30
105 Reykjavík



Reykjavík, 10 February 2021

A handwritten signature in blue ink, which appears to read 'Margrét Pétursdóttir', is written over a faint, larger version of the same signature.

Margrét Pétursdóttir
Authorized Public Accountant