



Impact and Allocation Report 2022

for Íslandsbanki's Sustainable Financing Framework





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Introduction

It is with much pleasure that we present our third Allocation and Impact Report for Íslandsbanki's Sustainable Financing Framework.

Sustainable assets increased by 36% in 2022 to ISK 79 billion at year-end 2022. Green loans accounted for 54% of sustainable loans, blue loans in connection with certified sustainable fishing accounted for another 33% and social loans for 13%.

This report gives an overview of the estimated impact of the eligible assets financed under the Framework. Notably, sustainable lending in 2022 led to an estimated 17,150 tonnes of CO₂ equivalent in avoided greenhouse gas emissions.

Whilst we are proud of the progress already made, we realize there is still a lot of work

to be done. The growth rate in sustainable loans in 2022 was below the Bank's target of an increase of ISK 40 billion in sustainable lending. The shortfall is due to slower growth in total corporate lending during 2022 and smaller-than-expected share of sustainable loans.

The Bank's most significant impact in the fight against climate change and acceleration of social progress is by the projects and companies it finances. Customer engagement is a core part of our strategy. The Bank wants to have an active engagement with clients and other stakeholders to raise awareness and share best practices. One example of the Bank's engagements is the published sector guidelines for four industries: construction, tourism, seafood as well as manufacturing, trade and services.

The Bank has set the goal to achieve net-zero emissions by 2040 and in 2023 we published our initial sector-specific emission reduction targets. It is vital to grow our sustainable lending and to examine further ways to finance the transition to net-zero and related innovation.

Íslandsbanki has set clear sustainability objectives through 2025 and we are looking forward to the road ahead. Among our key objectives for 2023 are to increase the portion of sustainable corporate loans in the loan portfolio to 15% and conduct at least 25 meetings with corporate clients to discuss sustainability and carbon neutrality.

Sustainability Policy and goals

Sustainable financing framework

The Road to Net-zero

Governance and limited assurance

The Bank's auditor, EY, was engaged to provide a limited assurance of the sustainable lending under the Sustainable Financing Framework as presented on page 38 in the Annual and Sustainability report for 2022

Auditor's Limited Assurance
of 2022 sustainable lending

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



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 Treasury.

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

Link to SDGs and Iceland's climate action plan

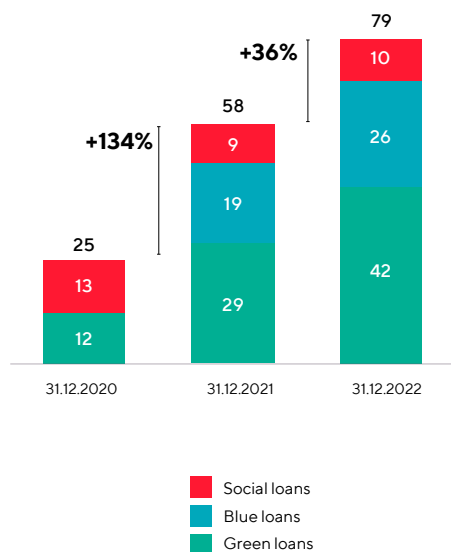
Íslandsbanki's Sustainable Financing Framework consists of a green category for environmental issues, a blue category for sustainable projects in maritime-related industries and a special category for projects that support social development. The Sustainable Financing Framework supports the Bank's sustainability goals and, in turn, [Iceland's 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	

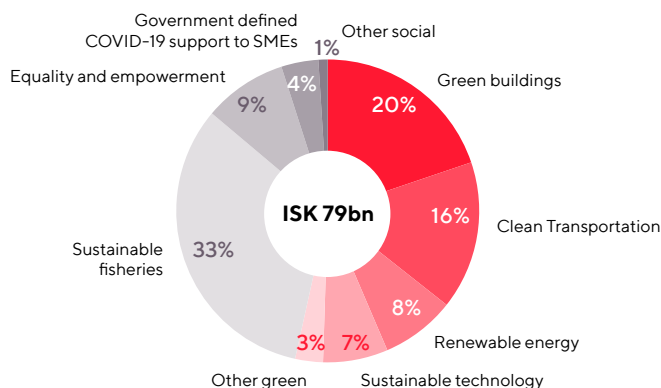
Allocation and use of proceeds

Sustainable assets increased by 36% in 2022, to ISK 79 billion at year-end 2022. In addition to this, loans amounting to ISK 10 billion were approved but had not been disbursed by the end of the year. This growth rate is well below the Bank's 2022 target of an increase of ISK 40 billion in sustainable lending. The shortfall is due to slower growth in total corporate lending during the year, as well as a smaller-than-expected share of sustainable loans.

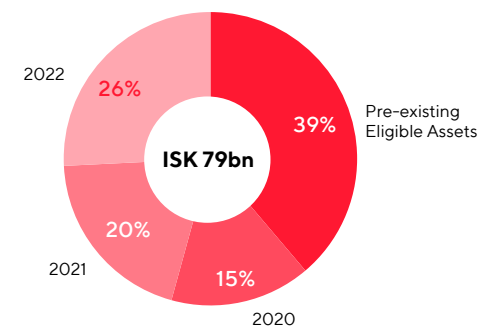
Sustainability instruments and allocation at year-end
ISK billion



Use of proceeds by SFF category at year-end 2022¹



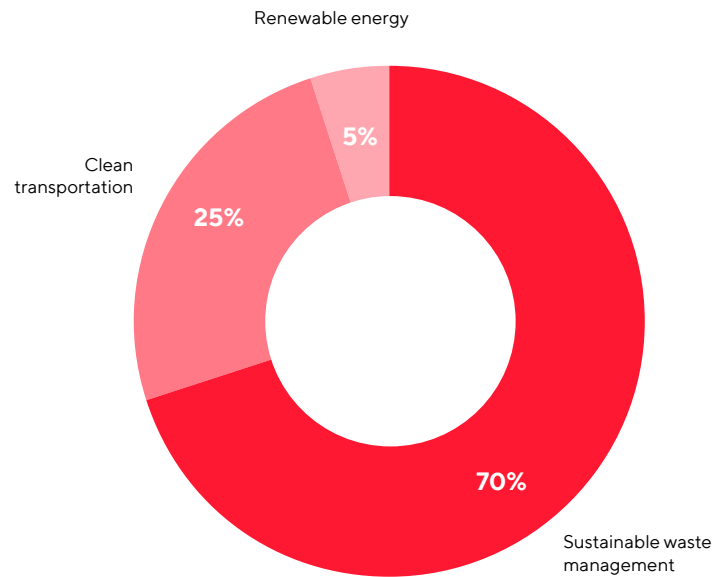
Use of proceeds by origination year at year-end 2022



Auditor's Limited Assurance
of 2022 sustainable lending

Impact indicators for the Sustainable Financing Framework in 2022

Avoided greenhouse gas emissions in 2022



Additional environmental impact indicators



50,500 tonnes of MSC certified products sold



97 GWh of clean energy produced in 2022



2,112 green vehicles



82,000 m² of eco-efficient buildings



7,200 tonnes of additional waste recycled

Social impact indicators



391 companies supported with COVID-19 loans



30 loans to gender balanced companies



60 social housing units financed



1 early childhood education facilities **with 104 students** reached



Case study: Sustainable seafood products

The seafood industry is one of the pillars of the Icelandic economy. A healthy ocean and thriving fish stocks are key to Iceland's future prosperity.

Sustainable seafood products fall into the category Eco-efficient and circular economy adapted products, production technologies and processes in Íslandsbanki's Sustainable Financing Framework.

In 2022, ~40,300 tonnes of MSC certified fish were caught by the financed companies and ~10,200 tonnes of sustainable seafood were produced. Financing in the blue category increased by 32% between 2022 and 2021.

Six out of seven seafood companies were approved as "pure play" into this project category

– one processing company and six fisheries. A pure play company in the blue category is a company deriving over 90% of its revenue from MSC certified products, as defined by Íslandsbanki's Sustainable Financing Framework.

There is extensive monitoring and reporting of fishing in Iceland. The execution is in the hands of the Directorate of Fisheries in Iceland. The Directorate role is, among other things, granting fishing licenses, the allocation of permits and monitoring of fishing activities and the weighing of caught fish.¹

A live dashboard is publicly available of fish landings and is updated daily. The extensive monitoring and reporting is to promote good conduct of the fish resource.

Methodology

The Certified products of total products sold in percentages indicator is derived from customers. MSC certified products sold in tonnes is estimated based on information provided by The Directorate of Fisheries in Iceland and customer specific data.

Estimated impact of Íslandsbanki's share of funding

	ISK m	MSC certified product sold (tonnes)	Certified products of total products sold	Share of funding
Sustainable seafood processing plants	2,650	10,200	97%	97%
Fisheries	23,150	40,300	95%	81%
Total	25,800	50,500	96%	87%

MSC certification is a way of showing that a fishery meets international best practice for sustainable fishing. In order to attain MSC certification, an independent body must assess and confirm a fishery's activity minimises impact on ecosystems, that its level of fishing ensures enough fish are left in the ocean and that relevant laws are complied with.



Three-year development of selected financed impact indicators

Summary of key impact indicators over the three-year period since the Bank's Sustainable Financing Framework was published.¹

Selected financed impact indicators	Unit	2020	2021	2022	3-year accumulated impact
Avoided emissions ²	tCO _{2e}	5,764	↑ 16,832	↑ 17,200	39,796
Clean energy production	GWh	87	↑ 97	97	281
Additional waste recycled ³	tonnes	800	↑ 4,900	↑ 7,200	12,900
MSC certified products sold ⁴	tonnes		↑ 44,000	↑ 50,500	94,500

1. Calculations are based on year-end balance each year.

2. Changes in avoided emissions between years result mostly from increased loans provided for electric vehicles. Avoided emissions due to the sustainable waste management decreased between 2021 and 2022 as the emission factor was updated based on increased data availability in 2022.

3. The biogas and composting plant which is funded under the Framework has not been working at full capacity since its construction in 2020. However, the production has increased each year and is expected to be working at full capacity by end of year 2023.

4. No loans were categorised as blue until 2021.

Sustainable debt overview

Íslandsbanki had three sustainable bond issues that fall under the Sustainable Financing Framework in addition to a loan from the Nordic Investment Bank and sustainable deposits.

ISK million	31.12.2020	31.12.2021	31.12.2022
Green bonds (ISK) ¹	2,709	6,603	10,320
Sustainable bonds (EUR)	46,944	44,657	87,420
Loan from the Nordic Investment Bank (USD)	-	-	12,337
Sustainable deposits (ISK)	-	-	10
Total sustainable debt	49,653	51,260	110,087
Thereof older than 18 months at year end ²	-	-	44,950
Allocation ratio of debt issued more than 18 months old ²	100%	100%	100%
Allocation ratio of debt issued less than 18 months old ³	50%	113%	52%

Available in Excel format in Íslandsbanki's financial factbook (sheet "Allocation reporting")

¹ ISK green bonds proceeds can be allocated to green or blue categories as both are based on the ICMA green bond principles.

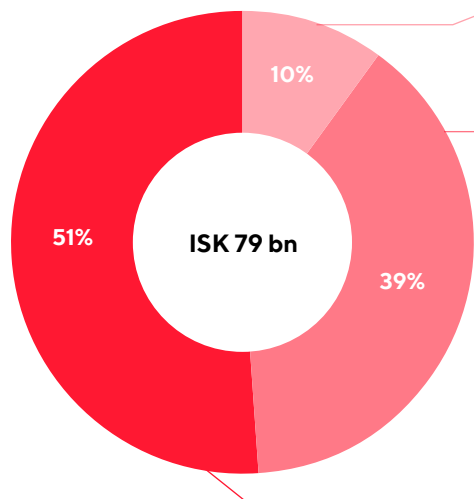
² Íslandsbanki is committed to allocating all sustainable funding within 18 months of disbursement.

³ While any proceeds or Sustainability Instruments remain unallocated to Sustainability Loans, Íslandsbanki will temporarily hold or invest any unallocated net proceeds at its own discretion in its liquidity portfolios. Íslandsbanki strives, over time, to maintain a level of allocation for Eligible Assets which matches or exceeds the balance of net proceeds from its outstanding Sustainability Instruments.

Initial self assessment of EU Taxonomy alignment

The EU Taxonomy took effect the 1st of June 2023 in Iceland retroactively to the 1 of January 2023¹. The Bank will need to publish its Green Asset Ratio based on customer data, but this is the Bank's initial self assessment on alignment to only the Substantial Contribution-criteria (SC) of the Taxonomy based on its Sustainable Financing Framework.

Self assessment of alignment and eligibility of outstanding sustainable lending as of 31.12.2022



Eligibility refers to whether the sector is included in the climate change mitigation and adaption categories in the EU Taxonomy.

If the sectors are eligible, further assessment is needed in terms of alignment to the criteria of the climate change mitigation and adaption categories in the EU Taxonomy. To be aligned the economic activity needs to fulfil the SC criteria, the DNSH criteria regarding other categories of the Taxonomy as well as the Minimum Safeguard criteria.

Rational	
Likely aligned	The Clean transportation category accounts for all that is aligned. The criteria matches the one that applies until end of year 2025. The Bank has not assessed the Do No Significant Harm (DNSH) and Minimum Safeguard criteria and therefore the lending in the category is not fully confirmed to be aligned although it is likely.
Possibly aligned	<p>Renewable energy: Emissions resulting from electricity production by hydro power are limited. However, the Bank does not have access to lifecycle emissions assessments of the small hydropower plants in the portfolio at this time.</p> <p>Sustainable waste management: The EU Taxonomy's biowaste composting is partly in line with the Bank's financing activities. DNSH and Minimum safeguard criteria have not been assessed.</p> <p>Green buildings: Definition of Nearly Zero Emission Buildings (NZEB) has not been established in Iceland but is expected in 2024. Once that is established the Swan or BREEAM certification required by Íslandsbanki's framework could be sufficient to ensure alignment.</p>
Not eligible for climate change mitigation and adaptation	<p>Other green and blue categories: Other categories from Íslandsbanki's Framework such as pollution prevention and control and sustainable seafood products are currently not eligible, but might become so once the Taxonomy has been updated with additional environmental objectives</p> <p>Social categories: The social categories in Íslandsbanki's framework (e.g. affordable housing, education and equality, diversity and empowerment) are not eligible according to the current criteria.</p>



Appendices

Impact assessment methodology

Information regarding impact indicators is gathered from the respective clients and information available from official data sources. For further information on methodology please see the Bank's [Sustainable Financing Framework](#) or last year's [Impact and Allocation Report](#).

Clean transportation

Alternative fossil fuel vehicles are assumed to be replaced by clean vehicles representing the same size category and year of build. Clean vehicles emit 50 gCO₂/km or less according to the WLTP emission factor, The Worldwide Light duty vehicle Test Procedure (WLTP) is a European vehicle type-approval method. For further information see the Sustainable Financing Framework. 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 standards¹.

Renewable energy

The methodology for the 'renewable energy' project category impact calculations is recommended by relevant international guidelines and standards² using the most recent benchmark emission factor for Iceland as published by the Environment Agency of Iceland at 10.3 gCO₂e/kWh. This factor changed slightly year-on-year from 10.5 gCO₂e/kWh to 10.3 gCO₂e/kWh. The benchmark accounts for emissions resulting from land use change by the reservoirs created by hydropower plants.

Sustainable waste management

A biogas and composting plant's impact was estimated by assuming that the biogas produced from waste replaces fossil fuels. The avoided emissions from recycling the two types of waste used in the production which would otherwise have been landfilled and composted, respectively are also considered. The emission factor was gathered from the customer based on estimates provided by a third-party engineering consultancy. The plant did not operate at full capacity in 2022 due to high levels of contaminants in the waste. The Act on Hygiene and Pollution Prevention no. 7/1998³ was amended making it mandatory to categorise household waste into four groups which will improve the composition of waste for composting, with the changes coming into effect in spring of 2023.

1. The International Financial Institution; Green Bonds: Working Towards a Harmonized Framework for Impact Reporting and, the International Financial Institution; Approach to GHG Accounting for Renewable Energy Projects (2015), the 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)

2. 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).

3. <https://www.althingi.is/altext/stjt/2021.103.html>

Overview of outstanding sustainable/ green bonds

	EUR 300m notes due November 2023	EUR 300m notes due March 2025	ISK green bond issuances
Issue code	EUR 300m '23	EUR 300m '25	ISLA GB 25 1126
ISIN	XS2259867039	XS2411447043	IS0000032498
Format	Senior unsecured	Senior preferred	Senior unsecured
Maturity	20.11.2023	25.03.2025	26.11.2025
Volume	EUR 300m	EUR 300m	ISK 10,320m
Type of bond	Sustainable Bond	Sustainable Bond	Green Bond
Use of proceeds	Sustainable projects	Sustainable projects	Green Projects
Documentation	EMTN Programme	EMTN Programme	ISK Bond Programme
Final terms	<u>Series 30 Final Terms EUR due Nov 2023</u>	<u>Series 37 Final Terms EUR 300m due March 2025</u>	<u>ISLA GB 25 1126</u>
Outstanding amount 31.12.2022	ISK 43,710m	ISK 43,710m	ISK 10,320m

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

Factbook overview of Allocation and Impact of Eligible Projects

Allocation to Eligible Projects				Selected impact indicators													
	Amount out-standing 31.12.2022	Share of funding	Share of capex ³	Avoided green-house gas emissions ⁴	Clean vehicles ⁵	Certified products sold	Clean energy produced	Green building	Additional waste recycled	Fiber optic cables laid	MSC certified products sold	Companies supported ⁶	Dwellings	Students reached	Loans to gender balanced companies	Avoided green-house gas emissions per million ISK	Avoided green-house gas emissions per million EUR ⁷
	ISK million	%	%	tCO ₂ e	number of	number of	GWh	number of	tonnes	km	tonnes	number of	number of	number of	number of	tCO ₂ e	tCO ₂ e
Clean Transportation	12,444	100%	100%	4,300	2,112											0.3	51
Eco-certified products	828	n.a.	100%			58,600											
Renewable energy	6,257	100%	100%	848			97									0.1	20
Green buildings¹	16,100	48%	99%					12									
Certified organic farm	776	97%	100%														
Sustainable waste management	772	27%	100%	12,000					7,200							15.5	2,294
Information and communications technology²	5,283	35%	100%							6,000							
Sustainable seafood products	25,759	87%	86%								50,500						
Government defined company support	2,757	n.a.	n.a.											391			
Affordable housing	356	100%	100%										60				
Education and vocational training	96	100%	100%											104			
Equality, diversity and empowerment	7,141	n.a.	86%												30		
Total	78,570		90%	17,148													

1. A benchmark for building emissions in Iceland is currently being developed. Once available, Íslandsbanki will report on the estimated reduced/avoided GHG emissions (tonnes CO₂e) per year from the green buildings financed as per the Bank's Sustainable Financing Framework. 2. No benchmark is available for GHG emissions from using copper-based broadband technology in Iceland. Estimated avoided emissions in this category are therefore omitted from the report. 3. Calculated using the average GHG emission intensity of electricity generation in Iceland. The most recent Icelandic benchmark emission factor published by the Environment Agency of Iceland is estimated to be 10,3 gCO₂e/kWh. 4. In addition, 131 charging stations and electric bikes were funded. 5. Average loan size ISK 7.1m 6. EUR/ISK=151,5 on 31.12.2022



Disclaimer

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