



Sustainable Funding Framework



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Introduction

This is Íslandsbanki

With a history that dates from 1875, Íslandsbanki (“Íslandsbanki” or “the Bank”) is an Icelandic universal bank with a strong customer focus. The Bank believes in moving Iceland forward by empowering its customers to succeed – reflecting a commitment to run a solid business that is a force for good in society. Driven by the corporate vision to create value for the future with excellent service, Íslandsbanki’s banking model is led by three business divisions that build and manage relationships with its customers. Íslandsbanki maintains a strong market share with the most efficient branch network in the country, supporting at the same time its customers’ move to more digital services. The Bank operates in a highly attractive market and, with its technically strong foundations and robust balance sheet, is well positioned for the opportunities that lie ahead. Íslandsbanki has an A3 rating from Moody’s Investor Services and a BBB/A-2 rating from S&P Global Ratings. The Bank’s shares are listed on Nasdaq Iceland Main Market.

Key figures at Q3 2023:

- Total assets ISK 1,643bn
- 774 FTEs
- 12 branches

Íslandsbanki’s commitment to sustainability

Íslandsbanki focus on integrating *sustainability considerations* into its activities. The Bank intends to contribute to sustainable development, supporting the Icelandic *Government’s Climate Action Plan*, and the *UN SDGs*. In its operations, the Bank considers *ESG criteria* which covers industry-specific risk factors:

- **Environmental criteria** focus on how Íslandsbanki monitors the environmental impact of its activities
- **Social criteria** centre on how the Bank behaves towards employees, suppliers, customers, and the community in which it operates
- **Governance criteria** centre on the Bank’s Board and Directors, as well as its internal control and the rights of shareholders

Íslandsbanki’s sustainability objectives through 2025 reflects the Bank’s *impact analysis*, where emphasis has been placed on *climate issues* and *equal rights*, where the Bank is considered to have the greatest opportunity to be a force for good.

Sustainability objectives through 2025

- Achieve full carbon neutrality no later than 2040
- Offer the Bank’s customers green and sustainable products
- Encourage equality and inclusion through products and services
- Further increase diversity and inclusion in the workplace
- Work with suppliers and partners that champion sustainability
- Assess sustainability risk, define responsibility, and increase information disclosure
- Place special emphasis on four of the UN SDGs in the areas of education, gender equality, innovation, and climate action

Environmental responsibility & sustainable lending

Íslandsbanki's carbon footprint

An assessment of the Bank's financed emissions shows that the carbon footprint from the loan portfolio is many times larger than the carbon footprint from operations. The Bank's greatest opportunity to be a force for good is through its *product and service offerings*; i.e., by encouraging and empowering customers on their own road towards sustainability. For more details on the carbon footprint see the Annual & Sustainability Report available on the website; islandsbanki.is.

Managing ESG risks

At the end of 2022, 76% of all credit risk had been assessed from the perspective of ESG risk factors, up from 34% a year earlier and above the year's target of 70% or higher. This has provided a better overview of where in the loan portfolio the key sustainability-related risks lie. The Bank is committed to taking account of ESG criteria when assessing risk.

Founding member of the Net-Zero Banking Alliance

Íslandsbanki is a founding member of the *Net-Zero Banking Alliance*, an international alliance of banks that have committed to achieving carbon neutrality no later than 2050. The bank has published its initial *sector-specific emission reduction targets covering 61% of total lending and 71% of total emissions*. One of the report's key findings is that *emissions from balance sheet activities are projected to fall by 60% by 2030 and by 85% by 2040*. The Bank's goal of achieving *a carbon-neutral loan portfolio by 2040* is a very ambitious one. The path to this target is not easy but Íslandsbanki wants to show by its actions that the Bank is ready to support its customers on their path to reduced emissions.

Sector-specific emission reduction targets Reduction from base year (2019)

Sector	2030	2040	2050
Aviation and maritime shipping	>65%	>75%	>95%
Road vehicles	>50%	>95%	>100%
Commercial and residential real estate	<0%	<0%	<0%
Power generation	0%	0%	0%

Íslandsbanki as a positive force in society

The Íslandsbanki Entrepreneurship Fund aims to encourage innovation and development and to support entrepreneurial endeavours that further the four UN SDGs that the Bank has decided to prioritise – Quality Education; Gender Equality; Industry, Innovation, and Infrastructure; and Climate Action. Furthermore, the Fund operates according to Íslandsbanki's social policy, in line with the Bank's objective of being a force for good in the community. In 2023, 14 innovation projects were awarded grants ranging from 1–5 m.ISK. In total Íslandsbanki awarded 50m.ISK.

Sustainability policy and disclosures

Íslandsbanki's *Sustainability Policy* aims at making the Bank a model of exemplary operations in the Icelandic business community, a leader in sustainable development as well as catalyst for positive social action. The Sustainability Policy creates a comprehensive framework for sustainability related activities. It also maps out the Bank's Policy for environmental affairs and responsible lending, investments, purchasing, and grants, as well as integrating with and supporting the Bank's other policies.

The Bank annually engages with its largest suppliers to discuss their sustainability performance and find ways to improve. Further, the Bank has an *exclusion list*, *sector-specific ESG guidelines* and clearly defined milestones on the journey to *carbon neutrality in 2040*. Íslandsbanki is also a founding signatory of the *UN Principles for Responsible Banking (UN PRB)*.

Transparent disclosures

Since 2019 the carbon footprint from the Bank's loan portfolio has been published in accordance with *PCAF methodology*. Íslandsbanki has also published its climate targets for 2030 in accordance with *Net-Zero Banking Alliance (NZBA) methodology*, submitted measurements of the carbon footprint from the Bank's operations and loan portfolio to the *Climate Disclosure Project (CDP)*, and provided reporting in accordance with the *UN PRB*. In addition, all sustainability disclosures in the Bank's Annual and Sustainability Report for 2022 were reviewed and received a *limited assurance* by EY.

The United Nations Sustainable Development Goals (SDGs)

The Bank has identified which UN's Sustainable Development Goals (SDGs) that are particularly important and relevant for the Bank's operations and thus far Íslandsbanki is working actively to contribute to the following SDGs:



The Sustainable Funding Framework

Rationale for the update of the Framework

Íslandsbanki issued its first green bond in 2020 and has already shown its commitment to the development of the sustainable financial market in Iceland. Since the launch of the Bank's inaugural framework in 2020, ESG related regulation has evolved, and thus Íslandsbanki aims to incorporate these market developments into its updated *Sustainable Funding Framework* (The Framework). This updated Framework, which follows the most recent market practices, will also give the opportunity to the Bank's investors to participate in Íslandsbanki's road to net-zero and being a catalyst for positive social action.

The Framework has been developed in alignment with the ICMA *Green Bond Principles* from 2021 (GBP)¹, the *Social Bond Principles 2023* (SBP)² and the *Sustainability Bond Guidelines 2021* (SBG)³

The Framework takes also into account the global practitioner's guide for bonds to finance the sustainable blue economy (blue-themes bonds). The guide has been launched by ICMA together with a number of bodies in September 2023.

The Framework follows the core components and key recommendations of the ICMA's principles:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting
- External Review

The Framework is applicable for, issuance of *Green bonds, Social bonds and Sustainability bonds* under various formats including public or private placements, secured bonds (i.e. covered bonds), senior preferred bonds, senior non-preferred bonds, and subordinated debt. The

Framework is also applicable to Green, Social and Sustainable deposits.

The terms and conditions of the underlying documentation for each Green, Social or Sustainability bond issued by Íslandsbanki shall provide a reference to this Framework. This Framework may in the future be updated to harmonise with market and/or developments within the Bank. Any such future changes will however not apply to Green, Social or Sustainability bonds issued under previous versions of the Framework. This Framework does not affect any outstanding Green, Social or Sustainability bonds issued under the previous 2020 version.

Swedbank has acted as adviser to Íslandsbanki in the establishment of this Framework. Further, the Framework is reviewed by Sustanalytics, which has provided a second party opinion to confirm its alignment with the applicable principles.

Footnotes:

¹ The Green Bond Principles (GBP) 2021 (with June 2022 Appendix I)

² The Social Bond Principles (SBP) 2023

³ The Sustainability Bond Guidelines (SBG) 2021

⁴ Bonds to finance the sustainable blue economy – a practitioner's guide

Use of Proceeds

Allocation of net proceeds

An amount equivalent to the net proceeds from Íslandsbanki's Green, Social or Sustainability bonds shall be used to finance or re-finance, in whole, or in part, loans financing eligible projects or assets with environmental or social benefits (Green or Social Loans). The look-back period for Green or Social Loans that refinance operational expenditures (OpEx) is limited to 3 years from the time of issuance. The Bank will continuously exercise its professional judgement, discretion and sustainability expertise when identifying eligible Green or Social Loans. Refinancing is defined as Green or Social Loans disbursed before the reporting year. The distribution of allocated Green or Social Loans by category as well as financing versus refinancing will be shared to investors as soon as possible, or at the latest in the annual Allocation and Impact report.

Loans to "pure-play" companies

In addition to loans for specific eligible projects or assets, loans for general corporate purposes to "pure-play" green or social companies can be funded with net proceeds under this Framework. A "pure-play" company is defined as a company

deriving > 90% of its revenue from the Green or Social Loan categories as outlined below in this section.

EU Taxonomy

Íslandsbanki has also taken into consideration the EU Taxonomy and thereby mapped applicable categories to EU environmental objectives and example of economic activities under the EU Taxonomy. Where possible, applicable eligibility criteria have been designed to comply with the technical screening criteria set out in the EU Taxonomy Delegated Act as at the time of this Framework publication.

Exclusions

Allocations under this Framework will be made in accordance with the "Use of Proceeds" requirements as specified below and consistent with Íslandsbanki's Exclusion List⁵ stated in the Sustainability Policy which is applied by the Bank as a whole. Among other things, the Exclusion List states what businesses and projects that are excluded from financing by Íslandsbanki, for example:

- Research, mining, or processing of any type of energy production based on fossil fuels (natural gas, oil, coal or peat)














- Production, processing or transactions involving palm oil and its derivatives for energy use
- All chemical processing of radioactive materials, including mining and mineral processing
- Research involving animal testing that do not comply with EU or domestic directives
- Mining and processing of minerals for the sole purpose of being used as gems
- Sand mines that have a negative impact on ecosystems or are not carried out in accordance with laws on environmental impact assessment
- Tobacco production

Furthermore, Íslandsbanki confirms that no allocations under this Framework will be made to activities in research and/ or development within weapons and defence, environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling, adult entertainment and predatory lending.

⁵ Íslandsbanki's Exclusion List [here](#)

Eligible Green and Social Loan categories

Eligible Green or Social Loans which support the transition towards sustainability must comply with at least one of the Green Loan or Social Loan categories as defined below. There are a total of 13 eligible loan categories – nine green and four social. Each of those categories contributes towards specific Sustainable Development Goals as per the table below:

Green Loan categories	SDG contribution
1. Clean transportation	7, 9, 11 & 13 
2. Information technology and communications	9 & 13 
3. Energy efficiency	7, 11 & 13 
4. Pollution prevention & control	7, 11, 12 & 13 
5. Sustainable water & wastewater management	8 & 13 
6. Renewable energy	7 & 13 
7. Green buildings	7, 11 & 13 
8. Sustainable management of living natural resources and land use	2, 12, 13, 14 & 15 
9. Eco efficient products	12 
Social Loan categories	SDG contribution
1. Access to Essential Services – Education and Healthcare	3 & 4 
2. Affordable Housing	10 & 11 
3. Employment Generation	8 & 9 
4. Socioeconomic Advancement and Empowerment	5 & 10 



Green Loan categories

Clean transportation

Passenger and public transport

- Public passenger transport (e.g., bus, ferries), passenger cars and commercial vehicles, or mopeds, scooters, bicycles and motorbikes using electricity and/or hydrogen and/or biogas

Heavy equipment

- Heavy equipment vehicles using electricity and/or hydrogen

Freight⁶

- Road transport vehicles using electricity and/or hydrogen
- Cargo ships or fishing vessels using electric and/or hydrogen, and/or biofuels and/or ammonia and/or hybrid energy vessels

Supportive infrastructure

- Infrastructure that is required for zero direct emissions transport (e.g., electric charging points, electricity grid connection upgrades, hydrogen fuelling stations or, bicycle paths)
- Infrastructure and installations that are dedicated to urban and suburban public passenger transport,
- Infrastructure and installations for electrification of ports and fishmeal factories

Examples of EU Taxonomy sustainable activities

- 6.3. Urban and suburban transport, road passenger transport
- 6.5. Transportation by motorbikes, passenger cars and light commercial vehicles
- 6.6. Freight transport services by road
- 6.13. Infrastructure for personal mobility, cycle logistics
- 6.15. Infrastructure enabling low-carbon road transport and public transport

EU Taxonomy Environmental Objectives

- Climate change mitigation
- Pollution prevention and control

SDG contribution

- SDG 7
- SDG 9
- SDG 11
- SDG 13



⁶ Excluding systems and infrastructure used primarily for the transportation of fossil fuels

Information technology and communications

Data processing, hosting and related activities

- Eco-efficient data centres with Usage Effectiveness (PUE)⁷ less than 1.5 and preferably with one of the following:
 - Use of renewable energy sources
 - The data centre operates on the basis of the European Code for Data Centre Energy Efficiency

Data driven solutions for GHG emissions reductions

- The development and/or use of information and communication technology 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, which leads to reduced GHG emissions

EU Taxonomy Environmental Objectives

- Climate change mitigation
- Pollution prevention and control

Examples of EU Taxonomy sustainable activities

- 8.2. Data-driven solutions for GHG emissions reductions

SDG contribution

- SDG 9
- SDG 13



⁷ Power Usage Effectiveness which is defined as the ratio of the total energy consumption of the data centre to the energy consumption of the IT equipment only

Energy efficiency

Energy efficiency technologies⁸

- Development, manufacture and/ or installation of energy efficiency technologies and products such as, smart meters, efficient appliances and/ or hardware belonging to energy class A or better according to European standard or have an ENERGY STAR certification
- Energy efficient machinery in industrial or manufacturing processes, products/ appliances, and meters that help track/ monitor energy efficiency
- Development, manufacture, distribution and/ or installation of products or services that increase the energy efficiency of Industrial/utility processes (i.e. reduction of heat losses and/ or increased waste heat recovery)

Production of heat/cool using waste heat

- Construction and operation of facilities that produce heat/cool using waste heat

Infrastructure for fibre optic and cable networks

- Infrastructure for connecting residents and companies to the fibre optic and cable network to increase connectivity. Connectivity is a prerequisite for modern community building leading to innovation, energy efficiency and smart use of resources

EU Taxonomy Environmental Objectives

- Climate change mitigation

Examples of EU Taxonomy sustainable activities

- 3.6. Manufacture of other low carbon technologies
- 4.25. Production of heat/cool using waste heat

SDG contribution

- SDG 7
- SDG 11
- SDG 13



⁸ Excluding projects that improve the energy efficiency of fossil fuel production and/ or distribution if the company itself does not have a Paris aligned 1.5-degree business strategy

Pollution prevention and control

Waste management – excluding landfills

- Waste management such as waste prevention, reduction, collection, treatment, recycling and waste-to-energy projects ⁹

Landfill gas capture and energetic utilization system ¹⁰

- New installation and subsequent operation of a landfill gas capture and energetic utilization system, or extension and/or retrofitting of an existing system, in permanently closed old landfill

Carbon capture and storage (CCS)¹¹

- Direct capture and storage of CO₂ from the atmosphere to lower global atmospheric CO₂ concentration levels

Emissions management incl. marine pollution

- Reduction of air emissions and greenhouse gas control, and soil remediation
- Reduction, control and response management of land- or marine based sources of marine pollution¹²

EU Taxonomy Environmental Objectives

- Climate change mitigation
- Pollution prevention and control

Examples of EU Taxonomy sustainable activities

- 5.5. Collection and transport of non-hazardous waste in source segregated fractions
- 5.9. Material recovery from non-hazardous waste
- 5.10. Landfill gas capture and utilisation

SDG contribution

- SDG 7
- SDG 11
- SDG 12
- SDG 13



⁹ In waste to energy projects all hazardous waste is separated before incineration

¹⁰ An efficiency of 75% will be applicable

¹¹ Only carbon not connected to specific emission source and direct emissions from geothermal power plants and from the incineration of waste after separation. The captured carbon is either mineralized or used to produce electric fuels with no fossil fuel inputs.

¹² For non-point source pollution management, projects must be within 200 nautical miles of the coast or within 50 nautical miles of rivers (and their tributaries) that flow to the ocean.

Sustainable water and wastewater management

Water and wastewater management

that increase water-use efficiency, water recycling and reuse, including:

- Water saving systems and technologies and water metering
- Water treatment facilities, activities and technologies that increase water quality, sanitation facilities
- Upgrades to wastewater treatment plants to remove nutrients, wastewater discharge infrastructure.

EU Taxonomy Environmental Objectives

- Climate change mitigation

Examples of EU Taxonomy sustainable activities

- 5.1. Construction, extension and operation of water collection, treatment and supply systems
- 5.2. Renewal of water collection, treatment and supply systems
- 5.3. Construction, extension and operation of wastewater collection and treatment
- 5.4. Renewal of wastewater collection and treatment

SDG contribution

- SDG 8
- SDG 13



Renewable energy

Renewable energy projects, including the production, and development of products and related infrastructure and technologies from the following sources:

- Wind energy
- Solar energy (photovoltaic and CSP)
- Hydro energy¹³:
 - New and existing small-scale greenfield hydropower plants (<10MW), or
 - Existing or new¹⁴ medium-scale greenfield hydropower plants (>10MW) and that complies with the following criteria:
 - Life-cycle carbon emissions intensity is below 50gCO₂e/kWh
 - Power density above 10W/m²
 - The electricity generation facility is a run-of-river plant and does not have an artificial reservoir

- Production of renewable or recycled carbon methanol:
 - Hydrogen produced from water electrolysis using electricity from renewable sources, combined with CO₂, or
 - Hydrogen from by-product or waste gas,
 - processed and combined with CO₂
- Geothermal energy with carbon intensity <100gCO₂/kWh
- District heating distribution networks connected to renewable energy

EU Taxonomy Environmental Objectives

- Climate change mitigation

Examples of EU Taxonomy sustainable activities

- 3.1. Manufacture of renewable energy technologies
- 4.1. Electricity generation using solar photovoltaic technology
- 4.2. Electricity generation using concentrated solar power (CSP) technology
- 4.3. Electricity generation from wind power
- 4.6. Electricity generation from geothermal energy
- 4.8. Electricity generation from bioenergy
- 4.20. Cogeneration of heat/cool and power from bioenergy

SDG contribution

- SDG 7 & SDG 13



¹³ Excluding large hydropower plants (having an energy capacity >1000MW) i.e. not relevant for Iceland

¹⁴ Commenced operations 2020 or later

Green buildings

New residential & commercial buildings (built after 31 December 2020)

- Buildings that meet the requirements of one of the following environmental certificates:
 - Nordic Swan Ecolabel or Passive House or LEED Gold or
 - BREEAM Very Good

Existing residential & commercial buildings (built before 31 December 2020)

- Buildings with EPC A or within top 15% of the national or regional building stock expressed as operational PED and demonstrated by adequate evidence, or

- Buildings that meet the requirements of one of the following environmental certificates:
 - Nordic Swan Ecolabel or Passive House or LEED Gold or
 - BREEAM/ BREEAM In-Use Very Good

Major renovations

- Major renovations and re-construction leading to primary energy savings of at least 30%

EU Taxonomy Environmental Objectives

- Climate change mitigation

Examples of EU Taxonomy sustainable activities

- 7.1. Construction of new buildings
- 7.2. Renovation of existing buildings
- 7.7. Acquisition and ownership of buildings

SDG contribution

- SDG 7
- SDG 11
- SDG 13



Sustainable management of living natural resources and land use

Forests, land use and wetlands

- Certified forests (FSC) or (PEFC)
- Land remediation, oasisification and reforestation
- Restoration of wetland and peatland

Sustainable agriculture

- Organic farming certified according to national legislation or EU-legislation
- Activities that promote the use of renewable technology such as geothermally heated greenhouses

Fishery and aquaculture

- Sustainable fishery certified by the Marine Stewardship Council (MSC), Aquaculture Stewardship Council (ASC) or Global G.A.P. Aquaculture

Certification Aquatic or Iceland

Responsible Fisheries Certified fish products. Small companies catching species listed under “MSC Certified Fisheries”, using qualified methods, by Icelandic Sustainable Fisheries are eligible if >90% of revenue come from such fishing activities

SDG contribution

- SDG 2
- SDG 12
- SDG 13
- SDG 14
- SDG 15

Eco efficient products

Eco efficient products

- Eco efficient services including hotels, hostels and cleaning services and grocery stores:
 - Nordic Swan Ecolabel

SDG contribution

- SDG 12





Social Loan categories

Access to Essential Services – Education & Healthcare

Education and vocational training

- Programmes focused on maintaining and developing professional competence (e.g. training for specialized staff in the education and vocational training sectors and training in natural or ecological disaster prevention and preparedness)

Target population: including people with special needs and unemployed individuals or individuals undergoing retraining or pursuing advanced qualifications as well as job seekers particularly those with limited education or qualifications

- Student loans provided for financial support to students

Target population: Students in Iceland

Education facilities and equipment

- Construction, maintenance or renovation of educational infrastructure and improving quality of equipment

Target population: All children and students in Iceland

Healthcare facilities and equipment

- Including construction, maintenance or renovation hospitals, and healthcare facilities buildings and equipment

Target population: General public including elderly and disabled people.

SDG contribution

- SDG 3
- SDG 4



Affordable housing

- Improving access to mortgages for first time homeowners

Target population: First time homeowners

- Including development or refurbishment of housing that meets accredited or registered affordable housing definitions or contribute to access for a target population

Target population: including low-income families and individuals, socially vulnerable individuals and families, elderly people, individuals with disabilities, a qualified segment of the homeless individuals

SDG contribution

- SDG 10 & SDG 11

Employment Generation

- Supporting micro-, small- & medium-sized enterprise (SME¹⁵) in the case of extraordinary circumstances (e.g., natural disasters, pandemics, or other crises)

Target population: Beneficiaries as a result of natural disasters, pandemics, or other crises

- Lending/financing to small- & medium-sized enterprises (SMEs defined by the European Commission) situated in fragile areas in Iceland¹⁶

Target population: Populations in fragile areas in Iceland

SDG contribution

- SDG 8 & SDG 9



¹⁵ EU definition of SME

¹⁶ Fragile areas as defined by the Icelandic Regional Development Institute (Byggðastofnun) at the date of the publication of this Framework

Socioeconomic Advancement and Empowerment

Lending/financing to micro-, small- & medium-sized enterprise (MSME)

- Woman owned enterprise that meets the following criteria:¹⁷
 - ≥ 51% owned by woman/women or
 - ≥ 20% owned by woman/women and (i) has ≥ 1 woman as CEO/COO/ President/Vice President; and (ii) has ≥ 30% of the board of directors composed of women, where a board exists

Target population: Female individuals

Reducing inequalities

- Empowering activities aiming to reduce inequality in the areas of diversity, inclusion, and gender, and/or protecting the rights of beneficiaries¹⁸

Target population Specific groups in need of empowerment, for example groups legally protected from discrimination regarding gender, age, sexual orientation, sexual identity, ethnicity/background, religion and physical or mental ability

SDG contribution

- SDG 5
- SDG 10



¹⁷ IFC definition of [Women-owned Enterprise](#)

¹⁸ Organisations and projects such as integration programs, campaigns, shelters and other activities that also protects these groups. Organisations include registered social enterprises/charities/ not-for-profit organizations with the specific purpose of supporting programs that aim to benefit vulnerable target populations and/or to advance areas that clearly serve the public interest in areas such as human rights

Process of Project Evaluation and Selection

Selection of Green or Social Loans

The evaluation and selection process for Green or Social Loans is a key process in ensuring that the proceeds from Green, Social and Sustainability bonds are allocated to loans which meet the criteria in the Framework.

Sustainability Committee

The Sustainability Committee (committee) established by Íslandsbanki is a cornerstone in the selection process. The committee will meet on a regular basis (at least annually) and will conduct a review on the selected loans to ensure ongoing compliance with the eligibility criteria as well as annual reporting. The committee consists of representatives from the Bank's different Business areas, Risk Management and the Sustainability Manager. Íslandsbanki will assure that the sustainability expertise always relies within the committee. All decisions are made in consensus, and this applies to the selection

process of Green or Social Loans as well.

The Sustainability Committee can delegate authority to certain specialists allowed to review selected loans to ensure compliance with eligibility criteria.

The definition of the eligibility criteria takes into account the EU Taxonomy Regulation¹⁹ and the EU Taxonomy Climate Delegated Act²⁰ with the intention to apply them on a best efforts basis as long as there are feasible practical applications in the geographies where Íslandsbanki's assets are located (in terms of local regulation).

The committee will ensure that Green and Social Loans adhere to applicable laws and regulations as well as in accordance with the Bank's Sustainability Policy²¹. The committee will also ensure that environmental and social risks potentially associated with the Green and Social Loans are properly

mitigated and monitored via its ESG risk assessment process. Íslandsbanki conducts an ESG risk assessment on all Green and Social Loans that are eligible under the Framework.

The Credit Process

All loans, including Green or Social Loans, will undergo Íslandsbanki's robust standard credit process which is designed to ensure compliance with applicable domestic and international rules and regulations, Know Your-Customer processes and the Bank's internal policies and guidelines, such as related to Credit, Anti-Money Laundering, Counter-Terrorist Financing and Sanctions policies. Moreover, potential Environmental, Social, and Governance (ESG) risks are assessed. Only loans approved in the regular credit process can be eligible for green, social or sustainable funding.

¹⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

²⁰ https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/taxonomy-regulation_en

²¹ Íslandsbanki's [Sustainability Policy](#)

Registration of Green or Social Loans

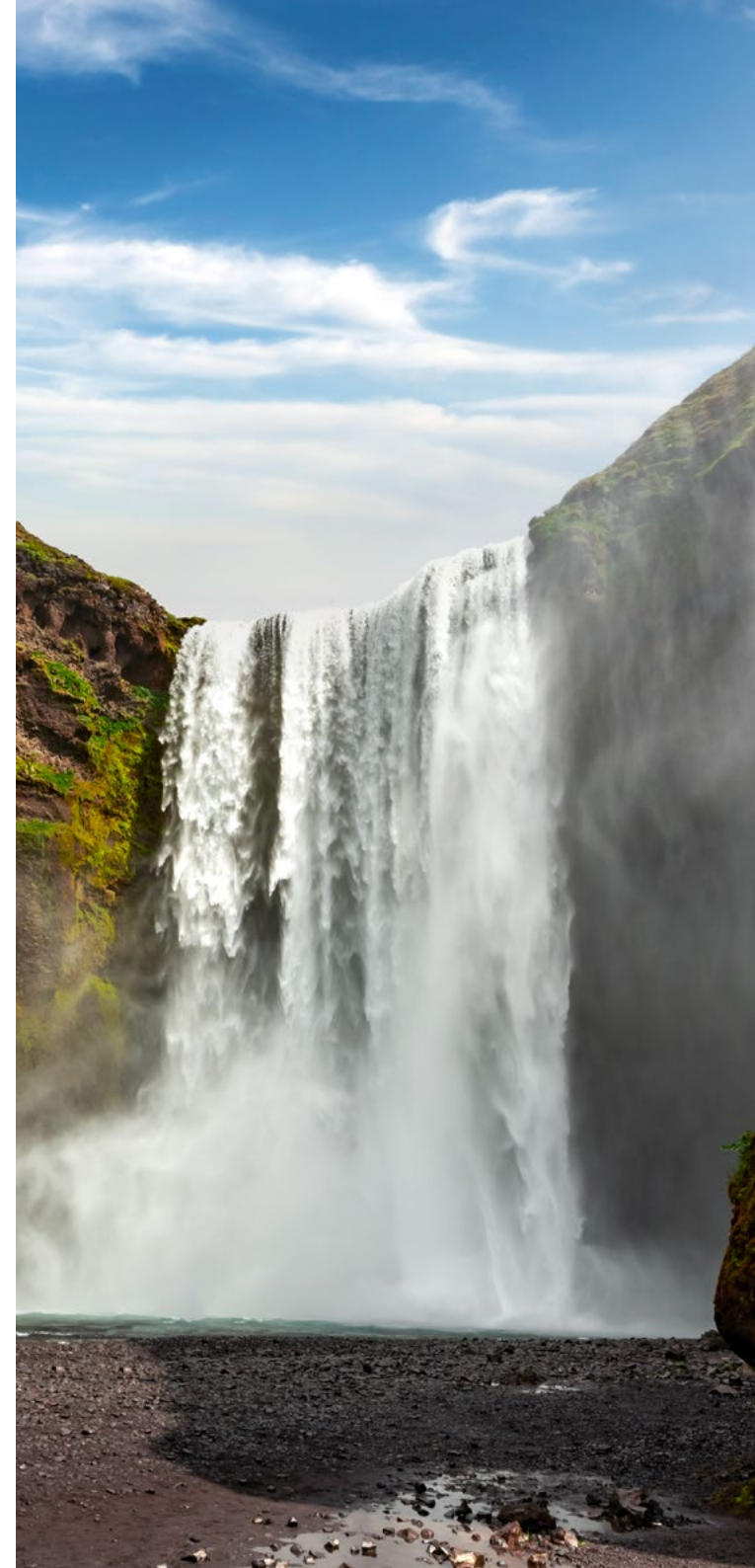
In addition, to qualify as a Green or Social Loan, the loan must meet the criteria defined in the Use of Proceeds section of this Framework. Only such loans that meet these criteria are eligible to be financed with Green, Social or Sustainability bonds being issued under this Framework. Green or Social Loans are inserted in the banks sustainability Register.

Relevant business units in Íslandsbanki, such as corporate advisors, can nominate loans for inclusion in the Sustainability Register. Íslandsbanki's Finance Department will, on behalf of the Sustainability Committee, keep track of the Sustainability Register.

Further Responsibilities of the Sustainability Committee

Íslandsbanki will follow the development of the sustainable bond market and manage any future updates of this Framework to reflect current and future market practices (e.g., related to the EU Taxonomy) and potential updates to ICMA's principles.

The Sustainability Register is monitored on a regular basis during the term of the Green, Social and Sustainability bonds to ensure that the proceeds are sufficiently allocated to Green or Social Loans. Further, if the Sustainability Committee identifies loans which do not qualify under the Framework, the committee has the authority to remove the loans from the Sustainability Register.



Management of Proceeds

Tracking of Net Proceeds

Equivalent to the net proceeds from Íslandsbanki's Green, Social or Sustainability bonds will be tracked by using the Sustainability Register. Information available in the Sustainability Register will in turn serve as basis for regular reporting (see Section "Reporting") and will be verified by an external party (see Section "External Review").

All Green, Social or Sustainability bonds issued by Íslandsbanki will be managed on a portfolio level. This means that a Green, Social or Sustainability bond will not be linked directly to one (or more) pre-determined Green or Social Loans. Green or Social Loans can, whenever needed, be removed, or added to/from the Sustainability Register.

For Green, Social or Sustainable deposits, the Bank commits to continual allocation.

Temporary holdings

Any unallocated proceeds temporary held by Íslandsbanki will be invested in accordance with the internal requirements for the liquidity reserve. Should there be any unallocated proceeds the Bank strives to allocate them within 18 months. The Finance Department will be responsible for the management of proceeds.



Reporting

To enable investors, and other stakeholders to follow the development of the Green or Social Loans funded by Green, Social, or Sustainability bonds, an Allocation and Impact Report will be made available on the Bank's website. The Allocation and Impact Report will be published annually until full allocation and in the event of any material developments, as long as there are Green, Social or Sustainability bonds outstanding.

Allocation reporting

The allocation report will include the following information:

- Total amount of Green, Social or Sustainability bonds issued
- Allocation of proceeds within each Green or Social Loan category described in section "Use of Proceeds"
- Share of proceeds used for financing/ refinancing
- Share of unallocated proceeds (if any)
- On a best effort basis, information on EU Taxonomy eligibility and/or alignment (%) of the underlying Green Loans financed by Green bonds

Impact reporting

The impact report will include details on the environmental or social impact of the Green or Social Loans financed under this Framework. Note that if all data cannot be collected, the impact assessment/ calculations will be on a best effort basis. Also, given the diversity of social projects and impacts, the list below may not capture the specific impact measurements, thereby additional project-specific measurement might be complemented. These indicators measuring the social impact will evolve and develop accordingly. See below for examples of impact indicators.



Green Bond Principles category	Example of impact indicators
Clean transportation	Number of passenger/public passenger transport Estimated reduced/avoided GHG emissions (tons CO2e) per year
Information technology and communications	Estimated reduced/avoided GHG emissions (tons CO2e) per year
Energy efficiency	Annual energy savings in MWh/ GWh (electricity) and GJ/TJ (other energy savings) per year Estimated reduced/avoided GHG emissions (tons CO2e) per year Infrastructure for fibre optic networks: Number of connected households/companies
Pollution prevention & control	Quantity of waste that is prevented, minimised, reused or recycled before and after project (tonnes or % of total waste per year), if applicable Estimated reduced/avoided GHG emissions (tons CO2e) per year
Sustainable water & wastewater management	Annual absolute (gross) water savings (in m3 or in %) Annual absolute (gross) amount of wastewater treated, reused or avoided (in m3 or in %)
Renewable energy	Installed capacity added (MW) Estimated reduced/avoided GHG emissions (tons CO2e) per year
Green buildings	Number of environmentally certified buildings incl. level and sq.m. Estimated reduced/avoided GHG emissions (tons CO2e) per year
Sustainable management of living natural resources and land use	Area (hectares) transformed or reclaimed Number of organic certified farms supported
Eco efficient products	Number of certified products sold (categorized e.g. Nordic Swan, EU Ecolabel, ASC or MSC) per year

Social Bond Principles category	Example of impact indicators
Access to Essential Services – Education and Health-care	Number of education/healthcare facilities and/or initiatives Number of students/beneficiaries reached
Affordable Housing	Number of dwellings financed Estimated number of beneficiaries
Employment Generation	Number of beneficiaries who have been affected by extraordinary circumstances (e.g. natural disasters, pandemics, or other crises)
Socioeconomic Advancement and Empowerment	Estimated number or % of women beneficiaries Number of individuals positively affected by the financed activities Estimated number of people employed by the financed SMEs

External Review

Second Party Opinion

To confirm the transparency and robustness of Íslandsbanki's Sustainable Funding Framework, it is verified and approved by an external second party opinion provider. The second party opinion by Sustainalytics is available on Íslandsbanki's website; [islandsbanki.is](https://www.islandsbanki.is) together with this Framework.

External verification

Allocation of proceeds will be subject to an annual review by an independent party until full allocation and in the event of any material developments. The Limited Assurance report provided by the independent party will be published on Íslandsbanki's website; [islandsbanki.is](https://www.islandsbanki.is)

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