



Íslandsbanki

Sustainability Policy

October 2023

Version	Amendments Amended by	Date	Signed off by:	Date
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1. Introduction

Financial institutions play an important social role as a pillar of the economy and, as such, they must shoulder responsibility and satisfy ever-increasing requirements for greater sustainability in their operations. Sustainability involves meeting the demands of the present while simultaneously considering the needs of coming generations as regards environmental and social issues, thereby creating a general consensus on continuing improvement in standards of living.

The United Nations (UN) Sustainable Development Goals (SDG) are based on three pillars of sustainable development: economic, social, and environmental. Financial institutions' operations touch on many different aspects of the economy and inevitably affect most of the SDGs. The SDGs function as an integral whole; however, in order to sharpen its focus, Íslandsbanki has chosen to give particular support to four of them: Quality Education; Gender Equality; Industry, innovation, and Infrastructure; and Climate Action.



The Bank aims to be a leader in the area of sustainable development and a force for good in society. To this end, the Bank intends to initiate broad collaboration on responsible business practices that both contribute to sustainable development in the Icelandic economy and support the Government's Climate Action Plan while also supporting the Paris Agreement and the SDGs.

Íslandsbanki's Sustainability Policy creates a comprehensive framework for its activities in the area of sustainability. 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.

Íslandsbanki sets quantifiable ESG targets in its operations and discloses its performance relative to targets in the Annual and sustainability report issued concurrent with the Bank's annual financial statements.

Sustainability risk is the risk of being directly or indirectly negatively affected by externalities within sustainability related aspects. These include considerations, such as climate change, biodiversity, anti-corruption, human rights, labour conditions, data privacy, or business ethics.

Along with its financial goals, the Bank emphasises on integrating sustainability considerations into its activities, in addition to its profit objectives. The Bank will take into account sustainability criteria in analysis of risk and opportunities as well as the impact the Bank has on sustainability.

The Bank emphasises keeping key stakeholders informed of the existence and purpose of this Policy and getting their feedback on the Bank's sustainability aims.

1.1. Objective and scope

The objective of this policy document is to define the Bank's main priorities as regards sustainability, both in its operations and in the positive influence it can have on the immediate community. Integrating sustainability considerations with the Bank's activities is apt to improve risk management, decrease cost, attract and retain competent employees, customers and investors as well as being an opportunity for the Bank to be a true force for good in the Icelandic society.

The Sustainability Policy applies, where specified, to all activities of Íslandsbanki and its subsidiaries. All Bank employees, permanent and temporary, are required to work in accordance with it.

1.2. Ownership, review and disclosure policy

This policy is approved by the Bank's Board and the CEO is its owner. The policy shall be reviewed at least every two years. The policy shall be published on the Bank's website.

1.3. Roles and responsibilities

1.3.1. Strategy and Sustainability

The CEO is the owner of the policy and entrusts the Executive Director of Strategy and Sustainability with ensuring an appropriate review of the policy.

1.3.2. Executive Committee

The Executive Board is responsible for the implementation of the policy and the Executive Directors ensure that relevant rules and procedures within their departments are in accordance with the policy and that employees are informed of its contents.

1.3.3. The All Risk Committee

The All Risk Committee shall ensure that policies, rules and procedures that the Committee agrees upon are in accordance with this policy.

1.3.4. Sustainability Committee

The Sustainability Committee is a formal forum for reviewing and discussing issues related to sustainability risk, sustainable procurement and business opportunities. The Committee has a supervisory role regarding the use of the Bank's Sustainable Financing Framework and develops joint positions on proposals for its use. The mandate of the Committee is limited by this policy and the Sustainable Financing Framework.

2. Íslandsbanki's objective is to be a model of exemplary operations

Íslandsbanki's objective is to be a model of exemplary operations within the Icelandic business environment and international criteria related to environmental, social, and governance factors (ESG or sustainability factors). The Bank therefore considers its financial objectives relating to profit and efficiency as well as ESG criteria in its operations:

- **Environmental criteria** focus on how Íslandsbanki monitors the environmental impact of its activities and how the Bank supports, among other things, the SDG on climate action.
- **Social criteria** centre on how the Bank behaves towards employees, suppliers, customers, and the community in which it operates. In this way, the Bank supports, among other things, the SDGs on Quality Education; Gender Equality; and Industry, Innovation, and Infrastructure.
- **Governance criteria** centre on the Bank's Board and Directors, as well as its internal control and the rights of shareholders.

2.1. Environmental factors

Bank has emphasises evaluating and minimising the negative impact its activities may have on the environment.

With reference to this, the Bank is determined to systematically reduce and prevent the greenhouse gas (GHG) emissions related to its activities, reduce its energy consumption, and decrease the ratio of unsorted waste generated by its activities. The Bank measures its carbon footprint annually, sets targets for reducing carbon emissions, and implement mitigating measures to offset emissions. To reduce its operational GHG emissions the Bank focuses on among other things, decreasing the ratio of unsorted waste by increasing the recycle ratio and use resources responsibly. The Bank aims to ensure the continued carbon neutrality of its operations by offsetting emissions which have not yet been reduced when the Bank has achieved all its targets in relation to GHG emissions. The Bank has committed to achieve net-zero emissions no later than 2040, that is GHG emission in operations and financed emissions. The Bank's carbon footprint and environmental impact of the lending portfolio and investment assets is much more extensive than the impact of the operations.

2.2. Social factors

Íslandsbanki emphasises equality, diversity, and inclusion in all of its activities both with regards to its staff, customers and other stakeholders (including those in the value chain). In this way, the Bank

systematically works to prevent discrimination and to establish and maintain equal treatment of all individuals.

- Employment contracts and staff terms are based on a collective agreement based on Icelandic labour market legislation and other laws that apply to the Bank's operations. Freedom of association in Iceland is protected by article 74 of Iceland's constitution and takes Icelandic labour market legislation according to the conventions of the International Labour Organization.
- The Bank's equal pay policy emphasises that the utmost gender equality must be observed in connection with decisions on remuneration and that no single gender accounts for more than 60% of each management layer. The Bank's values and the composition of teams are taken into consideration during recruitment.
- The Bank emphasises employees' wellbeing and has adopted a policy and an action plan to combat bullying, sexual and gender-based harassment, and violence.
- Íslandsbanki emphasises respect for human rights and avoiding business transactions linked to any type of human rights violations, including discrimination on the basis of gender, religion, or race; inequality in the labour market; and slavery and child labour.
- The Bank emphasises creating a positive work environment and prioritises health and safety. All employees have access to anonymous reporting options for inappropriate conduct.
- Íslandsbanki places emphasis on the inclusion and accessibility in terms of financial services. Development of digital solutions is in accordance with international standards to ensure accessibility. Further, accessibility is emphasised in the Bank's branches.
- The Bank emphasises educating and increasing the public's interest in finance and to enforce this offers accessible and interesting education regarding finances, the economy and sustainability. Íslandsbanki's financial education should be inclusive regardless of age, gender, interests, location, time and language. The Bank offers employees, customers and when relevant the public sustainability focused education.

2.3. Governance

Íslandsbanki's Board of Directors is committed to excellence in governance and to ensuring that Bank's governance practices are in compliance with the applicable regulatory framework, internationally recognised benchmarks, and best practice in governance. Good governance, among other things, shall be considered during performance appraisal of management and in terms of career progression. The board conducts self-performance appraisal.

Sound governance and the internal organisational structure shall promote effective and prudent management of the Bank, as well as preventing conflicts of interests.

3. Íslandsbanki as a positive force in society

Íslandsbanki seeks to set a positive precedent by having its actions do the talking, thereby gaining and maintaining customers' and other stakeholders' trust. The Bank aims to communicate actively with customers and collaborators concerning responsible business practices, which is one of the keys to ensuring that Íslandsbanki is a force for good in society. The Bank has issued a Sustainable Financing Framework under which loans and investments in its portfolio can be classified as sustainable according to the framework. In particular, attention should be paid to this framework in terms of sustainable product development.

3.1. Responsible lending

Responsible lending is based on gathering reliable information and providing sound advice, and on building trust and confidence between the Bank and its customers. When assessing creditworthiness relevant criteria of law and regulation shall always be met regarding consumer protection and anti-money laundering and bribery. Loans shall always be processed without reference to ethnic origin, gender, race, religious beliefs, or other comparable factors.

When taking lending decisions and assessing and pricing risk, the Bank shall consider sustainability and ESG criteria, as well as other risk factors. Companies in different sectors are influenced by different

sustainability factors. For instance, it is important for companies in the seafood sector to tend to fish stock and practice responsible fishing, whilst for companies in the construction sector to decrease environmental impact during construction and deconstruction of buildings. The Bank published sector guidelines to introduce sustainability to the Bank's customers and provide them with guidance.

Through its lending activity, the Bank is committed to supporting companies, individuals, and households in their efforts to adopt more sustainable practices, in particular with regards to the priorities enlisted in the Sustainable Financing Framework and the EU taxonomy.

3.2. Responsible investments

Responsible investment aims at taking account of sustainability criteria in the Bank's investments in companies and other projects, to manage risk with sustainable development in mind. The Bank seeks to integrate sustainability risk with the decision-making process of the Bank's investments, asset management and investment advice to customers.

- The Bank will use the methodology it considers most suitable at any given time when assessing sustainability risk. The integration of sustainability risk with the investment decision making process can be different based on asset classes, investment type and the availability of information regarding the relevant financial instrument.
- Investment decision can impact sustainability, both positively and negatively. Íslandsbanki seeks to take Principal Adverse Impact of investments on the sustainability factors into account.

If it should happen that Íslandsbanki acquires assets that in some ways are inconsistent with its responsible investment policy, for instance, through financial restructuring or appropriation of collateral, the Bank will endeavour, insofar as it can, to wield its influence with accordance with the Sustainability Policy.

3.3. Responsible purchasing

As a large purchaser of goods and services, Íslandsbanki is in a position to act as a force for good in society in its purchasing and procurement activities. The Bank does this in part by considering sustainability factors in its purchasing. Sustainable criteria shall weight at least 10% in decision making of the Bank's tenders in purchasing. Furthermore, the Bank promotes effective competition and focuses on economy, non-discrimination, and transparency in its purchasing activities. The Bank takes the appropriate measures to prevent discrimination on the basis of subjective factors. Íslandsbanki has adopted internal protocols for purchasing, issued a Suppliers Code of Conduct and takes care to comply with statutory and regulatory provisions at all times.

3.4. Grants

Íslandsbanki supports good causes in the local community and internationally, either through direct grants or through cooperative efforts. The Bank makes a particular attempt to support causes that are clearly linked to the SDGs it has chosen to promote. Emphasis is placed on choosing projects that promote society and protect the environment and support non-profit organisations and companies that contribute to positive social development. The Bank does not fund political and religious organisations as well as individuals. In conferring grants, the Bank observes non-discrimination and transparency and takes steps to prevent conflicts of interests.

Appendix – Exclusion List

Transactions with entities related to illegal activities, e.g. money laundering or terrorist financing, in one form or another, is prohibited. The same applies to transactions with entities that engage in the following activities, or the following applies to:

- Lotteries and betting activities, except for activities that are specifically permitted by Icelandic law.
- Weapons sales and weapons production for military purposes.
- Shell banks.¹
- Mining or distribution of cryptocurrencies.^{2 3}
- Individuals, groups, and entities listed on international sanctions lists.
- All activities that violate the Icelandic General Penal Code, such as:
 - Human trafficking and prostitution.
 - Child labour and forced labour.
 - Drug dealing and drug production.
 - Entities that base their activities on the production or distribution of pornography.

Payments that are suspected of involving a violation of the Icelandic General Penal Code or other Icelandic laws, regardless of whether they stem from an activity that is legal in the country where it is carried out, are not permitted to be received and/or transferred.

In addition to entities that Íslandsbanki will not do general business with, the Bank will not finance, neither directly nor indirectly, projects related to the following activities:

- 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.

Íslandsbanki will not invest in companies that operate in industries considered to be a significant threat to sustainability. Íslandsbanki uses negative screening for its investments in addition to not investing in entities on the [Iceland Funds watch list](#) (Icelandic only) that do not have sufficient justification for ownership based on ESG factors.

Specific cases may be submitted to the Sustainability Committee for resolution if there is uncertainty on whether a business relationship or a requested transaction falls under the exclusion list.

¹ A financial institution or a similar entity without actual activity or physical presence in the country where it is authorized to operate, which is also unaffiliated with a regulated group that is subject to effective surveillance by a relevant regulatory authority.

² Mining of virtual currencies is very energy intensive and as such does not align with the Bank's sustainability objectives.

³ Cryptocurrencies are unregulated in the European Economic Area and as such, their mining and trading is outside of the Bank's risk appetite. For further information, see [material published by the European Banking Authority](#)