



Íslandsbanki

Sustainability Policy

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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.

Companies that focus solely on short-term profits run the risk of jeopardising their own long-term interests and return on equity. Firms that link sustainability with their core operations, however, can benefit in a variety of ways. Such benefits can entail improved risk management, lower costs, easier access to capital, increased innovation, and stronger business relationships. Furthermore, firms that emphasise sustainability are more successful at attracting and retaining qualified personnel.

Íslandsbanki is owned by the Government, whose ownership policy states that those involved in operating financial institutions on behalf of the Government shall “aspire to lead in the areas of sound governance, business ethics, and social responsibility.” The policy also states that the Bank shall “set forth a detailed policy for environmental issues, sustainable development, and social responsibility, and publicise it.”

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.



Íslandsbanki’s Sustainability Policy aims at making the Bank a model of exemplary operations in the Icelandic business community, based on internationally recognised environmental, social, and governance (ESG) criteria.¹ The Bank aims to be a leader in the area of sustainable development and a catalyst for positive social action, moving Iceland forward by empowering its customers to succeed. 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,² while also supporting the SDGs.

Alongside its vision of being a leader in service to customers, the Bank will focus on integrating sustainability considerations into its activities, in addition to its profit objectives. The Bank will take account of ESG criteria in its risk management and will explore opportunities to take advantage of green investment opportunities. Íslandsbanki wishes to increase the general public’s financial knowledge and interest in the subject and, to this end, it offers interesting and accessible seminars on finance and economics.

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.³

¹The environment, social, and governance (ESG) criteria are a set of references used by investors to evaluate investments based on responsible investment methodology (see <https://www.msci.com/what-is-esg>).

² <https://www.government.is/lisalib/getfile.aspx?itemid=5b3c6c45-f326-11e8-942f-005056bc4d74>

³The Policy takes into account other strategies, policies, and rules laid down by the Bank, including but not limited to the following: policies on measures to prevent money laundering and terrorist financing; human resources; employment terms; asset sales; conflicts of interest;

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

The Bank emphasises keeping key stakeholders informed of the existence and purpose of this Policy.

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. This Policy is not intended to be exhaustive, and it is supported by the Bank's other policies, rules, and guidelines.

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. All changes to the policy must be approved by the Board following a discussion within the Board Corporate Governance and Human Resource Committee.

The policy shall be published on the Bank's website.

1.3. Roles and responsibilities

1.3.1. CEO's Office

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 (including ESG-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.

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. In its operations, the Bank considers not only its financial objectives relating to profit and efficiency, but also the ESG criteria: ⁴

- **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.

security; holdings in other companies; and qualifications of Board members, CEO, and key employees; as well as the general ownership policy; outsourcing policy; data policy; Board protocols; risk management and internal control policy; lending policy; and investment policy — Framtíðarauður.

⁴Icelandic Standards (IST), the national standards board, has translated the headings of the Nasdaq ESG Metrics into Icelandic at the behest of Festa, IcelandSIF, and the Nasdaq Iceland Exchange: <https://wp.samfelagsabvrgd.is/wp-content/uploads/2019/11/esg-metrics-tyeing-11pt.pdf>.

- **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

Íslandsbanki has signed Festa and the City of Reykjavík's 2015 Pledge for Action in support of the Paris Agreement, in a commitment to reducing greenhouse gas emissions.

Since then, the Bank has emphasised 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 emissions related to its activities, reduce its energy consumption, and lower the ratio of unsorted waste generated by its activities.

The Bank will measure its carbon footprint annually, set targets for reducing carbon emissions, and implement mitigating measures to offset emissions.

The Bank aims to ensure the continued carbon neutrality of its operations by offsetting emissions which have not yet been reduced.

Íslandsbanki sets environmental targets that it publicises, and it discloses its performance in annual reports.

2.2. Social factors

Íslandsbanki emphasises equality, diversity, and inclusion in all of its activities both with regards to its staff and customers. In this way, the Bank systematically works to prevent discrimination and to establish and maintain equal treatment of all individuals.

The Bank's equal pay policy emphasises that the utmost gender equality must be observed in connection with decisions on remuneration. Furthermore, the Bank aims to ensure the most equal gender ratio possible among its senior management. The Bank also attempts to equalise the gender ratio in terms of full-time position equivalents in those departments where male-female ratios are unequal.

The Bank has adopted a policy and an action plan to combat bullying, sexual and gender-based harassment, and violence.

Emphasis is placed on customers' active participation in the Bank's services, including investment in digital solutions.

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.

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

Based on these commitments, the Bank complies with the relevant rules on governance, including acts of law, governance guidelines, and other relevant rules and guidelines from supervisory bodies, as well as maintaining an effective system to monitor compliance with these rules. The Bank's subsidiaries shall follow comparable governance policies where applicable.

In order to fulfil its obligation to maintain sound governance, the Bank has adopted the following principles for decision-making:

1. The Bank's decisions protect its interests and those of its stakeholders, in compliance with current laws, rules, charters, and contractual obligations.
2. Decisions are taken in an effective manner by the appropriate parties (shareholders, Board members, managers, or employees), based on these parties' professional duties, areas of responsibility and interest, expertise, knowledge, and access to relevant information.
3. Decisions are taken on the basis of the best information available at any given time, following an appropriate examination of the matter in hand.

The Bank shall maintain a special decision-making model that maps out the requirements for taking major decisions.

The Bank complies with the relevant regulatory instruments on personal data protection and treatment. Furthermore, it has adopted protocols and codes of conduct for its Board, managers, and employees.

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' 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 positive force in society. The Bank has issued a Sustainable Financing Framework under which loans and investments in its portfolio can be classified as sustainable. 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. 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.

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 at any given time.

3.2. Responsible investments

Responsible investment aims at taking account of ESG criteria when investing in companies and projects, in order to manage risk with an eye to sustainable development. This creates the basis for better grounded investment decisions based on long-term interests.

- The responsible investment policy applies to Íslandsbanki's own investments, as the Bank is a participant in IcelandSIF, the Iceland Sustainable Investment Forum. The Bank encourages its subsidiaries to adopt comparable policies or criteria for responsible investment.
- In evaluating its asset portfolio with respect to ESG criteria, the Bank will use the methodology it considers most suitable at any given time.
- Íslandsbanki will encourage its customers to follow the policy in their own investments. The Bank believes that this is consistent with its objective of offering excellent service and protecting its customers' long-term interests as well as possible.

If it should happen that Íslandsbanki acquires assets that in some way 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 positive force in society in its purchasing and procurement activities. The Bank does this in part by considering environmental, social, and governance factors in its 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. The Bank's responsible purchasing policy applies to all of its procurement activity.

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. In conferring grants, the Bank observes non-discrimination and transparency and takes steps to prevent conflicts of interests.

Appendix – Exclusion List

Appendix approved by the Board of Directors 27 October 2022

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.⁵
- Mining of digital virtual currencies or distribution of virtual currencies.⁶⁷
- 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 assessments
- Tobacco production

Íslandsbanki and funds managed by Iceland Funds will not invest in companies that operate in industries considered to be a significant threat to sustainability. Iceland Funds use negative screening for its investments in addition to not investing in entities on the [Iceland Funds watch list](#) 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.

⁵ 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.

⁶ Mining of virtual currencies is very energy intensive and as such does not align with the Bank's sustainability objectives.

⁷ Virtual currencies 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](#)