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initiative

Principles for  
Responsible Banking

# Íslandsbanki's PRB Reporting and Self-Assessment for 2023

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# Principle 1: Alignment



We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

## Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

### Response

Íslandsbanki is a universal full-service bank and a leader in the provision of financial services in Iceland. Among the products and services it offers are savings options, lending, payment services, and investment banking services. IS Funds, a subsidiary of the Bank, is also a leader in fund management in Iceland.

### Links and references

[2023 Annual and sustainability report](#) pages 20,22,24 and 26  
2023 Consolidated financial statement – Directors report

## Strategy alignment

**Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?**

- Yes
- No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

**Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?**

- UN Guiding Principles on Business and Human Rights
- International Labour Organization fundamental conventions
- UN Global Compact
- UN Declaration on the Rights of Indigenous Peoples
- Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: -----
- Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: -----
- None of the above

### Response

The Bank's climate objectives are presented in accordance with the Bank's initial double materiality assessment. The focus is

### Links and references

[2023 Annual and Sustainability Report](#) page 57 – Sustainability

placed on climate change, consumers and end-users as well as gender equality which has been within the Bank’s impact areas from previous impact assessments. These targets are in line with the Bank’s prioritized SDGs as well as the Paris Climate Agreement.

targets further ahead

## Principle 2: Impact and Target Setting



We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

### 2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly<sup>1</sup> and fulfil the following requirements/elements (a-d)<sup>2</sup>:

**a) Scope:** What is the scope of your bank’s impact analysis? Please describe which parts of the bank’s core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

#### Response

The Bank bases its impact and target setting on the previous impact analysis performed in 2021 as well as a preliminary double materiality analysis which was carried out in 2023. Similarly as the impact analysis, the preliminary double materiality analysis covers all core business areas and products/ services of the bank with a focus on lending activities and savings. In this preliminary double materiality assessment, less emphasis was placed on Investment Banking activities (brokerage, bond and equity issuance, M&A advisory, etc.) as the Bank believes bigger sustainability opportunities lie in the loan portfolio and investments at this point in time. However, the scope will likely be extended in the next review of the double materiality to include broader set of activities.

#### Links and references

[2023 Annual and Sustainability Report](#) page 39 – Preliminary double materiality

**b) Portfolio composition:** Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope

- i) by sectors & industries<sup>3</sup> for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or
- ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank’s scale of exposure, please

<sup>1</sup> That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

<sup>2</sup> Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

<sup>3</sup> ‘Key sectors’ relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.

*Response*

As of Q4 2023, loans to individuals accounted for the largest share of the loan portfolio (49%), followed by the trade and services sector (15%), real estate (12%), fishing industry (6%), and industry and transport (6%). 90% of the Bank's loans to individuals are residential mortgages.

Further the Bank has 31% market share within individual banking, 39% market share within business banking, 30% of the 300 largest corporates in Iceland, and the Bank's subsidiary Iceland Funds around 30% share within local funds for general investors.

*Links and references*

[2023 Annual and sustainability report](#) pages 20 – 26 and [Sustainability statement 2023](#)

**c) Context:** What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?<sup>4</sup> Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

*This step aims to put your bank's portfolio impacts into the context of society's needs.*

*Response*

The two most prominent impact areas identified in the preliminary double materiality are **climate change** and **consumers and end-users**. Other impact areas whose importance for Íslandsbanki was indicated by the analysis were business conduct and own workforce. Further the Bank finds diversity and inclusion to be important based on previous impact analysis, which is reflected in consumers and end-users as well as own workforce. Official reports were consulted, workshops and a survey with staff in close conduct with the Bank's stakeholders. Key references used include the Bank's previous impact assessment, Icelandic business' climate roadmap and Iceland's Climate Action Plan

*Links and references*

[2023 Annual and sustainability report](#) page 39 – Preliminary double materiality

Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)<sup>5</sup>? Please disclose.

*Response*

Climate change, consumers and end-users and gender equality. These were based on the preliminary double materiality and the Bank's previous impact analysis.

*Links and references*

[2023 Annual and sustainability report](#) page 40 – Preliminary double materiality

<sup>4</sup> Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

<sup>5</sup> To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

**d) For these (min. two prioritized impact areas): Performance measurement.** Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context.

In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If you have identified climate and/or financial health&inclusion as your most significant impact areas, please also refer to the applicable indicators in the [Annex](#).

If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this.

*The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.*

**Response**

The foundation of mapping the path to net-zero is the PCAF assessment of financed greenhouse gas emissions. Initial sector-specific emission reduction targets (in accordance with the NZBA Guidelines for Climate Target Setting for Banks published in April 2021) cover 64% of total lending and 78% of total emissions based on the base year 2019.

**Links and references**

[2023 Annual and sustainability report, pages 44 – Financed emissions](#)  
[45 – Targeted reduction in the carbon footprint of the loan portfolio and Road to net zero \(Oct 2022\)](#)

**Self-assessment summary:**

**Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?<sup>6</sup>**

- |                          |   |   |                             |
|--------------------------|---|---|-----------------------------|
| Scope:                   | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress            | <input type="checkbox"/> No |
| Portfolio composition:   | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress            | <input type="checkbox"/> No |
| Context:                 | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress            | <input type="checkbox"/> No |
| Performance measurement: | <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> In progress | <input type="checkbox"/> No |

**Which most significant impact areas have you identified for your bank, as a result of the impact analysis?**

*Climate change mitigation, climate change adaptation, resource efficiency & circular economy, biodiversity, financial health & inclusion, human rights, **gender equality**, decent employment, water, pollution, other: **consumers and end-users***

**How recent is the data used for and disclosed in the impact analysis?**

<sup>6</sup> You can respond "Yes" to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.

- Up to 6 months prior to publication
- Up to 12 months prior to publication
- Up to 18 months prior to publication
- Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.:  
(*optional*)

## 2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets<sup>7</sup> have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

**a) Alignment:** which international, regional or national policy frameworks to align your bank's portfolio with<sup>8</sup> have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

*You can build upon the context items under 2.1.*

### Response

The Bank's climate objectives are presented in accordance with the guidelines from the Net-Zero Banking Alliance (NZBA), with the aim of supporting the goals of the Paris Convention and Iceland's ambitious climate targets.

Further, the Bank aims of setting a target in line with Science Based Target initiative (SBTi) in the year 2024.

### Links and references

[2023 Annual and Sustainability Report, pages](#)

45 – Road to net zero 57 – Sustainability targets further ahead and [Road to net-zero \(Oct 2022\)](#)

**b) Baseline:** Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

*You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.*

*A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the [Annex](#) of this template.*

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table like below including the impact area, all relevant indicators and the corresponding indicator codes:

Impact area	Indicator code	Response
Climate change mitigation	...	
	...	
	...	
Impact area	Indicator code	Response
Financial	...	

<sup>7</sup> Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

<sup>8</sup> Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

<i>health &amp; inclusion</i>	...	
	...	

In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.

*Response*

Carbon footprint of Íslandsbanki's balance sheet is estimated annually based on the PCAF methodology. The year 2019 is used as baseline due to COVID-19 impact on financed emissions in 2020 and 2021.

*Links and references*

[2023 Annual and Sustainability Report, page](#)

45 – Targeted reduction in the carbon footprint of the loan portfolio and [Road to net zero \(Oct 2022\)](#)

**c) SMART targets** (incl. key performance indicators (KPIs)<sup>9</sup>): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

*Response*

Climate change targets include:

1. Emissions from balance sheet activities should fall by 60% by 2030 and by 85% by 2040.
2. Incorporate sustainability risk into the Bank's risk model for corporate lending in 2024
3. Engage in dialogue with 10 customers in emissions intensive sectors and continue to focus strongly on discussing climate issues in 2024
4. The Bank has a target of setting a SMART target in relation to balancing the ratio between men's median pay and women's median pay deliberately in the first quarter in 2024

*Links and references*

[2023 Annual and Sustainability Report, pages](#)

45 – Targeted reduction in the carbon footprint of the loan portfolio  
57 – Sustainability targets further ahead and [Road to net zero \(Oct 2022\)](#)

**d) Action plan:** which actions including milestones have you defined to meet the set targets? Please describe.

Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.

*Response*

An initial climate action plan was published in Íslandsbanki's carbon neutrality report, On the Road to Net-Zero, released in Oct 2022. Encouraging, educating and supporting our customers on their sustainability journey is the most important and impactful way we can contribute to action on climate change. Regarding the requirement to analyse and acknowledge

*Links and references*

[2023 Annual and Sustainability Report, page](#)

39 – Preliminary double materiality and [Road to net-zero](#)

<sup>9</sup> Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.



significant (potential) indirect impacts of the set targets this is discussed as part of the goal setting process although the results are not formally documented as of yet. One of the goals for 2023 was to perform and report on an initial assessment of risks and opportunities related to biodiversity as the Bank recognizes that loans that can be classified as green according to the ICMA green bond principles can have adverse impact on biodiversity and other sustainability aspects. The initial assessment, based on the preliminary double materiality, was that biodiversity was not a significant impact area of the Bank.

(Oct 2022)

### Self-assessment summary

Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...

	... first area of most significant impact: ... <b><u>Climate change mitigation</u></b>	... second area of most significant impact: <b><u>Consumers and end-users</u></b>	...your third (and subsequent) area(s) of impact: <b><u>Gender equality</u></b>
Alignment	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No
Baseline	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No
SMART targets	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No
Action plan	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No

## 2.3 Target implementation and monitoring (Key Step 2)

### For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

**Or, in case of changes to implementation plans (relevant for 2<sup>nd</sup> and subsequent reports only):** describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

<p><i>Response</i></p> <p>Íslandsbanki had several sustainability goals for 2023 related to climate change. One was to publish targets for emission reduction within seafood, agriculture and construction. The Bank introduced a target within the seafood sector but was unable to publish targets for agriculture and construction as the Bank lacked data. Another target was to engage in at least 25 meetings with corporate clients to discuss sustainability and climate change, which was achieved. The Bank aimed as well to publish an initial assessment on biodiversity, but the preliminary double materiality assessment revealed the topic to not be significant for the Bank, so the target was put aside. The Bank had aims of increasing the share of ESG risk-assessed credit risk to a 100% but the Bank assessed 93% by end of year. The Bank aims of finishing the 7% in the first quarter of 2024.</p>	<p><i>Links and references</i></p> <p>2022 <a href="#">Annual and sustainability report</a> page 52 – Sustainability targets further ahead</p> <p>2023 <a href="#">Annual and sustainability report</a> pages 38 – Sustainability milestones in 2023</p> <p>39 – Preliminary double materiality</p>
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# Principle 3: Clients and Customers



We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

## 3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers<sup>10</sup> in place to encourage sustainable practices?

Yes       In progress       No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

Yes       In progress       No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities<sup>11</sup>). It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

*This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).*

### Response

Sustainability is becoming more prominent in dialogue with the Bank's corporate customers, over 25 meetings were held with corporate clients with the purpose to discuss sustainability and net-zero aims. Further, interest in sustainable financing options has grown by 24% between years. In line with this trend, Íslandsbanki has broadened the scope of its educational material on sustainability, including by publishing additional sector guidelines. The Bank is determined to create positive incentives to expedite investment in the transition needed to combat climate change. During the year, Íslandsbanki published its fourth sector guidelines, and has by that published the construction-, fishing-, tourism and retail and wholesale trade industries . At the end of 2023, 93% of all credit risk had been assessed from the perspective of ESG risk factors, up from 76% a year earlier. 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 and determining the pricing of its loans and aims to incorporate sustainability risk into the Bank's risk model for corporate lending.

### Links and references

[2023 Annual and sustainability report pages](#)

38 – Sustainability milestones in 2023

41 – Growth in sustainable lending

52 – Cooperation and dialogue with customers

<sup>10</sup> A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

<sup>11</sup> Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.

### 3.2 Business opportunities

Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services, information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).

#### Response

Sustainable assets grew by 24% in 2023 and amounted to ISK 97 billion compared at year end. Green loans were 60% of the total, blue loans to MSC certified fisheries 26% and social lending 14%. The share of sustainable corporate loans was 14%.

#### Links and references

[2023 Annual and sustainability report page](#)

41 – Growth in sustainable lending

## Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

### 4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups<sup>12</sup>) you have identified as relevant in relation to the impact analysis and target setting process?

Yes       In progress       No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

#### Response

Íslandsbanki continuously engages with various stakeholders such as employees, customers, investors and other partners on sustainability topics. In 2024 the Bank will perform a double 'materiality assessment' based on the CSRD requirements. During that process as more formal stakeholder consultation process will be introduced.

#### Links and references

[2023 Annual and sustainability report page](#)

39 – Preliminary double materiality

<sup>12</sup> Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations

# Principle 5: Governance & Culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

## 5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

Yes       In progress       No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

### Response

Clearly defined sustainability-related roles and responsibilities ensure regular follow-up and strengthen the Bank's capacity to respond to challenges and opportunities associated with sustainability. The Board of Íslandsbanki approves the Bank's sustainability policy and targets and determines the Bank's sustainability-related risk appetite. The Board Corporate Governance and Human Resources Committee, a sub-committee of the Board, assists the Board in monitoring, discussing, and implementing the sustainability policy, including the implementation of the Sustainable Financing Framework and the formulation of sustainability targets, as well as monitoring compliance with the policy and making recommendations to the Board on improvements as needed. The Board is updated regularly on the sustainability developments, and key sustainability metrics are a part of its monthly risk dashboard. The CEO is the owner of the sustainability policy, but the Executive Committee is responsible for the implementation of sustainability targets and for ensuring that the relevant rules and procedures within their departments are in compliance with the policy. The Sustainability Committee (chaired by the CEO) is the Bank's official forum for scrutiny and discussion of issues pertaining to sustainability risk (including ESG risk), sustainable purchasing, and business opportunities.

### Links and references

[2023 Annual and Sustainability Report, page 55](#) – Sustainability related governance structure

## 5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

### Response

Employee participation is key to achieving the Bank's sustainability objectives and creating a corporate culture that supports the process. In 2024 Íslandsbanki offered varied sustainability educational opportunities. Within the Bank multiple workshops and educational meetings were held in terms of ESG risk assessment of corporate clients, CSRD, basics of sustainability. Further, the Bank offered its employees e-learning through the UN Global Compact platform.

### Links and references

[2023 Annual and sustainability report](#) page

56 - Employee participation and sustainability culture

## 5.3 Policies and due diligence processes

Does your bank have policies in place that address environmental and social risks within your portfolio?<sup>13</sup> Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

### Response

During the year, emphasis was placed on creating a clearer ESG risk assessment process and on educating and training a larger group of employees to carry out the risk assessment. In this way, sustainability has been interwoven even more fully into the Bank's key lending-related processes. The initiative was successful, drawing employees' attention to issues relating to sustainability and deepening their knowledge of customers' business activities. As a result the share of ESG risk-assessed credit risk rose from 76% at the end of 2022 to 93% at the end of 2023. The Bank has a separate chapter on possible future sustainability risk as part of the bank's ICAAP process.

### Links and references

[2023 Annual and Sustainability Report](#) page

52 – Active cooperation and dialogue with customers and [2023 Pillar 3](#)

## Self-assessment summary

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?

Yes

No

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?

<sup>13</sup> Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistleblower policies etc., or any applicable national guidelines related to social risks.

Yes  No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

Yes  In progress  No

## Principle 6: Transparency & Accountability



We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

### 6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

Yes  Partially  No

If applicable, please include the link or description of the assurance statement.

#### Response

This year, all of the sustainability disclosures in the Bank's Annual and Sustainability Report have been reviewed and received a limited assurance by Deloitte. The assurance also covers this publicly disclosed information on Íslandsbanki's PRB commitments.

#### Links and references

[Auditor's Limited Assurance Report for Íslandsbanki's sustainability disclosure 2023](#)

### 6.2 Reporting on other frameworks

Does your bank disclose sustainability information in any of the listed below standards and frameworks?

- GRI
- SASB
- CDP
- IFRS Sustainability Disclosure Standards (to be published)
- TCFD
- Other: ....

#### Response

Íslandsbanki submitted measurements of the carbon footprint from the Bank's operations in 2022 and loan portfolio for 2021 to the Climate Disclosure Project. Íslandsbanki's Pillar 3 report for 2023 contains a separate

#### Links and references

[2023 Annual and sustainability report](#) page 55 - Sustainability-related governance structure  
And  
[2023 Pillar 3](#)

*chapter on sustainability and climate risk based on international Task Force on Climate-related Financial Disclosures (TCFD) criteria for the 4rd year in a row.*

### 6.3 Outlook

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis<sup>14</sup>, target setting<sup>15</sup> and governance structure for implementing the PRB)? Please describe briefly.

#### Response

In 2024 the objective is to perform a full double 'materiality assessment' based on the CSRD requirements. During that process as more formal stakeholder consultation process will be introduced. By end of year 2024 the aim is to have set a science based target for the Bank's carbon footprint.

#### Links and references

[2023 Annual and sustainability report](#) pages 39 – Preliminary double materiality  
57 – Sustainability targets further ahead

### 6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

If desired, you can elaborate on challenges and how you are tackling these:

- |  |  |
|--|--|
| <input type="checkbox"/> Embedding PRB oversight into governance                               | <input type="checkbox"/> Customer engagement             |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank                           | <input type="checkbox"/> Stakeholder engagement          |
| <input type="checkbox"/> Getting started: where to start and what to focus on in the beginning | <input checked="" type="checkbox"/> Data availability    |
| <input checked="" type="checkbox"/> Conducting an impact analysis                              | <input checked="" type="checkbox"/> Data quality         |
| <input type="checkbox"/> Assessing negative environmental and social impacts                   | <input type="checkbox"/> Access to resources             |
| <input type="checkbox"/> Choosing the right performance measurement methodology/ies            | <input type="checkbox"/> Reporting                       |
| <input checked="" type="checkbox"/> Setting targets  | <input type="checkbox"/> Assurance                       |
| <input type="checkbox"/> Other: ...  | <input type="checkbox"/> Prioritizing actions internally |

If desired, you can elaborate on challenges and how you are tackling these:

<sup>14</sup> For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

<sup>15</sup> For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.



