



PRB Reporting and Self-Assessment

Reporting on Íslandsbanki's progress towards implementing the Principles for Responsible Banking

Íslandsbanki is one of the 220 banks that have become signatories of The Principles for Responsible Banking. The Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. The framework was established by the United Nations Environment Programme Finance Initiative (UNEP FI) - a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development.

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.

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
1.1 Business model	<p>Íslandsbanki is a universal bank and a leader in financial services in Iceland. Íslandsbanki lends to companies and individuals and has a history of 145 years of servicing key industries. The Bank has a 25-40% market share across all domestic business segments.</p> <p>Íslandsbanki's objective is to be a force for good in the community, and its vision is to provide customers with the best banking service possible at all times.</p> <p>Sustainability has been a priority at Íslandsbanki since 2009. That is because of our strong conviction that it is the right thing to do, but in 2009 it was also an important part of rebuilding trust after the financial crises. In 2009, Íslandsbanki was one of the first Icelandic companies to become a signatory of the UN Global Compact Principles.</p>	<p>Annual and Sustainability Report 2020 – Page 4 (This is Íslandsbanki) and Page 16 (Íslandsbanki's strategy)</p>
1.2 Business strategy alignment	<p>The Bank's collective purpose was in Q1 2019 defined as "moving Iceland forward by empowering our customers to succeed". This purpose statement reflects our commitment to being a force for good in society at the same time as running a solid business.</p> <p>Íslandsbanki is committed to being a model of exemplary operations and participating actively in the community where we live. By fostering sustainability in the broadest sense, the Bank makes a positive impact, which is important to us and our customers.</p> <p>Íslandsbanki emphasises integrating sustainability into its operations, alongside its profit objectives. In addition to being a model of environmental, social, and governance (ESG) criteria in its operations, the Bank is committed to initiating broader collaboration on responsible business practices that contribute to sustainable development in the Icelandic economy. By doing this, the Bank is a genuine catalyst and supports customers on their sustainability journey.</p>	<p>Annual and Sustainability Report 2020 – Page 37 (Íslandsbanki as a model and a catalyst)</p> <p>Sustainability Policy and goals</p>

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.

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
2.1 Impact Analysis	<p>Support for the UN SDGs</p> <p>The UN Sustainable Development Goals function as a unified whole, and Íslandsbanki supports them all. On the other hand, in order to sharpen its focus, the Bank has chosen to give particular support to four goals covering areas where it is especially well positioned to make a positive impact. Those are 4 Quality education, 5 Gender equality, 9 Industry, innovation and infrastructure and 13 Climate action. Those goals were selected with extensive stakeholder engagement in Q1 2019.</p> <p>Sustainability policy and sustainable product</p> <p>In 2019 the board of directors approve a new sustainability policy for the bank. In a nutshell, the policy has two parts. Firstly, Íslandsbanki's objective is to be a model of exemplary operations. Secondly, we want to be a catalyst for positive social action beyond our own footprint by supporting customers on their sustainability journey.</p> <p>Environmental footprint of running a bank is not very big and therefore the opportunity to have positive impact through our clients is much larger than just focusing on our operations therefore a fundamental element of its Sustainability policy relates to the Bank being a positive force in society through its core activities of lending, investing, procuring and philanthropy. However, one has to earn the right to be a credible sustainability partner which is why we take sustainability of our own operations very seriously.</p> <p>Sustainability statement 2020 & materiality</p> <p>Íslandsbanki's sustainability statement for 2020 was reviewed and certified by Klappir Green Solutions. The accounts are based on information collected by the company's EnviroMaster software over the course of the year. The sustainability statement covers environmental, social and corporate governance factors and are presented in line with ESG guidelines issued by Nasdaq Iceland in 2019, as well as other ESG factors selected based on sector and internal materiality assessment. This is the second time, Íslandsbanki publishes detailed information on the impact of its operations based on the environment, social and governance (ESG) criteria. Measuring where we stand helps inform target setting and prioritization of sustainability efforts going forward.</p>	<p><u>Annual and Sustainability Report 2020</u> - Page 52 (Support for the UN SDGs)</p> <p><u>Sustainability Policy and goals</u></p> <p><u>Sustainability statement 2020</u> (reviewed and certified by Klappir Green Solutions)</p>

Reporting and Self-Assessment Requirements

High-level summary of bank's response

Reference(s)

2.1 Impact Analysis (continued)

Sustainable Financing Framework

Íslandsbanki was the first bank in Iceland to define and publish a separate framework for the loans and investments in its asset portfolio that are classified as sustainable. The publication and implementation of the framework was the Bank's biggest contribution in the area of sustainability in 2020. The framework is based on international criteria for green, social, and sustainable bonds, which are published by the International Capital Market Association (ICMA) and has a second party opinion by Sustainalytics. The framework supports the UN SDGs, the Icelandic Government's Climate Action Plan, and the recent statement on sustainable investments.

In terms of preparing the SFF, the Bank did a preliminary assessment of its loan portfolio (together with an external sustainability advisor Circular Solutions) and based on its composition, it decided to give special attention to the Blue Economy as the bank as significant sustainable lending exposure to the fishing industry along with strong expertise and market leading North Atlantic seafood franchise. Previously the Bank had conducted an ESG risk assessment of 24 important loanees (all in Iceland but in different sectors) which helped to identify the key sustainability factors affecting the companies.

Allocation and Impact report

The Allocation and Impact report for the Sustainable Financing Framework in 2020 is a testament to a great collective effort to bringing environmental and social issues into the core of Íslandsbanki's activities and a new way of thinking about our business. The report gives an overview of the first three months of the implementation and reports on the impact of the eligible assets already approved under the Framework. It also records that since October we issued two sustainable bonds for a total of ISK 50 bn and approved over 1,600 loans as Eligible Assets. We are pleased to have already approved ISK 25 bn of eligible assets which, to name two examples in 2020, led to a total of 5,800 tonnes of CO₂e in avoided greenhouse gas emissions and generated 87 GWh of clean energy. This report helps us understand the actual impact per million lent and that way help us focus on high impact areas going forward.

[Sustainable Financing Framework](#) (second party opinion by Sustainalytics)

[Allocation and Impact Report 2020](#) (impact assurance by Circular and auditor's limited assurance by EY)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.

Íslandsbanki has taken significant steps to understand sustainability risks and opportunities and has thus partially fulfilled the requirements regarding Impact Analysis. Completing the ongoing measurement of the carbon footprint from the Bank's loan and asset portfolios will help sharpen the focus on areas in which the Bank can have the most significant positive impact. Furthermore, extensive work is underway towards integrating sustainability risk more effectively into key processes relating to lending, investments, and product development.

Reporting and Self-Assessment Requirements

High-level summary of bank's response

Reference(s)

2.2

Target Setting

The Bank's sustainability objectives through 2025 were approved by the Board of Directors based on ESG criteria. The objectives support the United Nations Sustainable Development Goals (SDGs) that Íslandsbanki has decided to prioritise, as well as supporting the Paris Agreement on the reduction of greenhouse gas emissions and Iceland's Climate Action Plan. The objectives take into account the Bank's obligations in connection with its participation in Nordic CEOs for a Sustainable Future and its compliance with the UN principles for responsible banking.

Annual secondary objectives build on the work done in Íslandsbanki's departments and units as part of the Bank's annual five-year plan. They are published in the Annual and Sustainability Report, together with an overview of the progress made towards them.

All environmental goals are set with 2019 measurement as a clear baseline.

Example goals include 33% decline in operations-related carbon footprint from 2019-2021 and a total of 50% reduction from 2019-2024. Furthermore, we plan on completing a first round of assessment of "financed emissions" based on available data in accordance with PCAF standard by end of year 2021. With regards to implementation of the sustainable financing framework in 2021 we aim to complete the classification of the current loan portfolio based on the sustainable financial framework and set target for increase.

Further goals related to balance gender ratios, diversity and inclusion, work with suppliers and partners that champion sustainability and increase assessment and disclosure of sustainability risks.

Annual and Sustainability Report 2020

- Page 53
(Sustainability is a journey – objectives for the road ahead)

Sustainability Policy and goals
(see sustainability goals and relation to SDGs at the bottom of the page)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

Íslandsbanki has fulfilled the requirements regarding Target Setting by setting clear sustainability objectives through 2025 approved by the Board of Directors based on ESG criteria. Furthermore, measurable and timed targets are set on an annual basis for each goal and published in the annual and sustainability report.

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
2.3 Plans for Target Implementation and Monitoring	<p>Íslandsbanki established a new Sustainability Committee in November 2020. The Sustainability Committee, whose members are appointed by the Bank's Chief Executive Officer, is one of Íslandsbanki's business committees. Among other things, it is the Bank's official forum for scrutiny and discussion of issues pertaining to sustainability risk (including ESG risk), sustainable purchasing, and business opportunities.</p> <p>Each sustainability objective has a clear responsible owner internally and the Sustainability Committee oversees the progress on annual secondary goals.</p> <p>Regarding operational carbon footprint when we calculated the Bank's carbon footprint for 2017-2019, we mapped out a large share of the greenhouse gas emissions from its operations, including direct emissions from the Bank's own operations and emissions caused by its employees, suppliers, or customers. In 2020, the Bank implemented a new sustainability management platform from Klappir, with the aim of making more precise measurements and improving the administration of carbon accounting even further.</p>	<p><u>Annual and Sustainability Report 2020</u> - Page 42 (Carbon neutrality in operations) and Page 51 (Íslandsbanki Sustainability Committee)</p>

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.

Íslandsbanki has fulfilled the requirements regarding Target Implementation and Monitoring. Clear accountability and ownership of goals have been established and Head of Sustainability and the Sustainability Committee has a clear role to oversee the progress on annual secondary goals.

Reporting and Self-Assessment Requirements

High-level summary of bank's response

Reference(s)

2.4 Progress on Implementing Targets

In 2020 emphasis was placed on implementing the strategy with broad consultation and cooperation within the Bank, particularly with the business, finance, treasury, risk management, and legal departments, as well as with Iceland Funds. The strategy was also discussed in depth by the Board of Directors. Four work groups were established to oversee the implementation of the strategy, and significant progress was made through this arrangement. Employee participation is key to achieving the Bank's sustainability objectives and creating a corporate culture that supports the process.

The current sustainability objectives were approved in September 2020 and therefore progress on the goals was only partially covered in the Annual and Sustainability Report for 2020. Full review is planned in 2021 report.

The objective of Carbon neutrality in operations had been approved earlier in the year and therefore actions to deliver a permanent reduction in our carbon footprint were taken already in 2020. However, 2020 was an extraordinary year in many ways because of the COVID-19 pandemic, and it is clear that not all of the year's contraction in carbon emissions will prove to be permanent. In 2020, the Bank achieved its goal of reducing carbon emissions by 20% relative to 2019. This is in excess of the impact of both the pandemic and the year-on-year changes in carbon footprint calculation methods.

[Annual and Sustainability Report 2020](#)
Page 38
(Sustainability milestones during the year)

[Sustainability statement 2020](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets

Íslandsbanki has partially fulfilled the requirements regarding Progress on Implementing Targets. The sustainability objectives were approved in September 2020 and therefore progress on the goals was only partially covered in the Annual and Sustainability Report for 2020. Full review is planned in 2021 report.

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.

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
3.1 Policies and practices to promote responsible customer relationships	<p>Íslandsbanki's Sustainability Policy includes a section on responsible lending and responsible investments.</p> <p>Through its lending activity, the Bank is committed to supporting companies and households in their efforts to adopt more sustainable practices. The principles in the sustainability policy aim to align the Bank and its business model with society's goals as expressed in the SDGs and the Paris Climate Agreement.</p>	<p>Sustainability Policy and goals</p> <p>Sustainable Financing Framework</p>
3.2 Work with clients and customers to encourage sustainable practices	<p>Íslandsbanki has successfully translated sustainability strategy and Sustainable Financing Framework into an innovative product offering. This includes green car financing (Íslandsbanki is Tesla's local financing partner), sustainable financing for companies, green mortgages and a Green Bonds Fund introduced as a savings option for Íslandsbanki's customers in 2018 by the Bank's subsidiary Iceland Funds.</p> <p>Íslandsbanki's Sustainable Financing Framework provides the basis for sustainable lending, investments and funding. The Allocation and Impact report for the Sustainable Financing Framework in 2020 describes the ISK 25 bn of eligible sustainable assets and the measurable impact of those assets. To name two examples of impact metrics the projects funded led to a total of 5,800 tonnes of CO₂e in avoided greenhouse gas emissions and generated 87 GWh of clean energy.</p> <p>Part of our vision of being number #1 for service is providing accessible information and education to encourage financial health of our customers. Since 2015, some 30,000 guests have attended Íslandsbanki's educational meetings and lectures in person. The Bank's educational work was quickly adapted because of the pandemic, and most of it was moved online. In addition, particular emphasis was placed on household finances in connection with the pandemic, and on company finances.</p>	<p>Green mortgages</p> <p>Green Bonds Fund</p> <p>Allocation and Impact Report 2020</p> <p>Annual and Sustainability Report 2020 - Page 47 (Financial education)</p>

Principle 4: Stakeholders

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

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
4.1 Stakeholders consultation, engagements, collaboration and partnerships	<p>Sustainability has been a priority at Íslandsbanki since 2009 and through the years, Íslandsbanki has considered it important to participate in international commitments and support domestic efforts related to sustainability.</p> <p>Íslandsbanki supports the ten principles of the Global Compact with respect to human rights, labour, environment and anti-corruption.</p> <p>The Bank endorses UNEP FI's new Principles for Responsible Banking and is committed to several sustainability networks including the Nordic CEOs for a Sustainable Future, UN Global Compact, TCFD, PCAF as well as the domestic alliances, Festa, Center for Corporate Social Responsibility and Iceland SIF.</p>	<p><u>Annual and Sustainability Report 2020</u> - Page 49 (What obligations or accords has the company undertaken in connection with ESG issues?)</p> <p><u>Cooperation on sustainability</u></p>

Principle 5: Governance & Culture

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

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
5.1 Governance structures, policies and procedures	<p>The sustainability policy and 5-year sustainability objectives are approved by the Board of Directors. The Board Corporate Governance and Human Resource Committee aims to assist the Board of Directors in overseeing the development and assessment of the Bank's approach to corporate governance and sustainability issues.</p> <p>According to the Sustainability Policy the CEO and management of the bank are responsible for implementation of the Policy. To further support the implementation Íslandsbanki established a new Sustainability Committee in November 2020 . The Sustainability Committee, whose members are appointed by the Bank's Chief Executive Officer, is one of Íslandsbanki's business committees. Among other things, it is the Bank's official forum for scrutiny and discussion of issues pertaining to sustainability risk (including ESG risk), sustainable purchasing, and business opportunities.</p>	<p><u>Annual and Sustainability Report 2020</u> - Page 51 (Governance practices are continually evolving)</p>
5.2 Initiatives and measures to foster a culture of responsible banking among employees	<p>Employee participation is key to achieving the Bank's sustainability objectives and creating a corporate culture that supports the process. Our business model has evolved to fully integrate sustainability at its core making sustainability a driver of strategy and value creation.</p> <p>The Bank's new sustainability calendar will be reflected in events, educational efforts, and opportunities to give a Helping Hand, with the aim of boosting awareness of the UN SDGs, fostering a sustainability culture, and giving all of our employees the opportunity to be a force for good.</p>	<p><u>Annual and Sustainability Report 2020</u> - Page 53 (Sustainability is a journey -objectives for the road ahead)</p>

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
5.3 Governance Structure for Implementation of the Principles	Each sustainability objective has a clear responsible owner internally and the Sustainability Committee oversees the progress on annual secondary goals. Annual secondary objectives build on the work done in Íslandsbanki's departments and units as part of the Bank's annual five-year plan. They are published in the Annual and Sustainability Report, together with an overview of the progress made towards them.	<u>Annual and Sustainability Report 2020</u> - Page 53 (Sustainability is a journey – objectives for the road ahead)

Please provide your bank's conclusion/ statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.

Íslandsbanki has fulfilled the requirements regarding Governance Structure for Implementation of the Principles and will continue to emphasise fully integrate sustainability at a core making sustainability a driver of strategy and value creation. Furthermore, we will continue to strengthen the culture of sustainability and participation of all employees.

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.

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)
6.1 Progress on Implementing the Principles for Responsible Banking	<p>One of the Bank's seven sustainability objectives is to assess and disclose sustainability risks and build a robust sustainability governance framework. This focus can be seen in the Bank's unaudited Pillar 3 Report for 2020, which contains a separate chapter on sustainability and climate risk based on international Task Force on Climate related Financial Disclosures (TCFD) recommendations.</p> <p>In autumn 2020, the Bank announced that it will participate in the Partnership for Carbon Accounting Financials (PCAF), whose goal is to create a climate metric that is custom-designed for financial institutions and enables them to measure and disclose the carbon emissions in their loan and asset portfolios.</p>	<p>Annual and Sustainability Report 2020 (chapter 6 on Sustainable Íslandsbanki)</p> <p>Pillar 3 Report 2020 (see chapter 8 on Sustainability Risk and TCFD disclosures)</p>

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking

Íslandsbanki has partially fulfilled the requirements regarding Transparently reporting on the Progress on Implementing the Principles for Responsible Banking. We have increased transparency and accountability systematically and signed up to international commitments such as TCFD and PCAF. We will consider getting a formal limited assurance on the Bank's sustainability reporting for 2021 and believe that completing measuring the carbon footprint from the Bank's loan and asset portfolios will help sharpen the focus on areas in which the Bank can have the most significant positive impact

