

Second-Party Opinion

Íslandsbanki Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Íslandsbanki Sustainable Financing Framework is credible and impactful and aligns with the Green Bond Principles 2018, Social Bond Principles 2020 and Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The 18 eligible categories¹ for the use of proceeds are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, and 15.



PROJECT EVALUATION / SELECTION Íslandsbanki's process in evaluating and selecting projects is managed by the Sustainability Steering Committee (SSC). Eligible loans must comply with the eligibility criteria included in the Framework. The Credit Committee is responsible for final loan approval. Based on these elements, Sustainalytics considers this process to be in line with market practice.



MANAGEMENT OF PROCEEDS Íslandsbanki's process for management of proceeds is overseen by the Bank's Treasury. Proceeds will be allocated on a portfolio basis. Íslandsbanki will track allocation using a Sustainability Registry for its Sustainability Instruments. Any unallocated proceeds will be temporarily held and/or invested following Íslandsbanki's own discretion in its liquidity portfolios. Sustainalytics considers this process to be in line with market practice.



REPORTING Íslandsbanki intends to report on the allocation of proceeds on its website on an annual basis. The allocation reporting will include outstanding amounts of issued Sustainability Instruments, total allocation to each eligible category, contributing to the balance of Eligible Assets in the Sustainability Registry, total unallocated proceeds, and share of financing vs. refinancing. In addition, Íslandsbanki is committed to reporting on relevant impact indicators. Sustainalytics considers this process to be in line with market practice.

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Issuer Location	Kópavogur, Iceland

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¹ Clean Transportation, Eco-Efficient and Circular Economy Adapted Products, Production Technologies and Processes, Energy Efficiency, Pollution Prevention and Control, Renewable Energy, Green Buildings, Environmentally Sustainable Management of Living Natural Resources and Land Use, and

Introduction

Íslandsbanki (“Íslandsbanki”, or the “Bank”) is an Icelandic universal bank and lender with more than 145 years in the financial services industry. The Bank has a 25-40% market share across all domestic business segments. Headquartered in Kópavogur, part of the greater Reykjavík capital area, the Bank has been wholly owned by the Icelandic Government since January 2016.

Íslandsbanki has developed the Íslandsbanki Sustainable Financing Framework (the “Framework”) under which it intends to issue multiple sustainability bonds and use the proceeds to finance or refinance, in whole or in part, existing and/or future Sustainability Loans,² equity,³ and/or projects,⁴ investments and expenditures located predominantly in Iceland that support the mobilisation of capital aimed at the transition towards sustainability, a low-carbon, resilient, and environmentally friendly economy with reduced negative impacts on people and society.

The Framework defines eligible green categories in the following nine areas:

1. Clean Transportation
2. Eco-Efficient and Circular Economy Adapted Products, Production Technologies, and Processes
3. Energy Efficiency
4. Pollution Prevention and Control
5. Renewable Energy
6. Green Buildings
7. Environmentally Sustainable Management of Living Natural Resources and Land Use, and Terrestrial Biodiversity Conservation
8. Sustainable Waste Management
9. Information & Communications Technology

The Framework defines eligible “blue”⁵ categories, in the following three areas:

10. Eco-Efficient and Circular Economy Adapted Products, Production Technologies, and Processes
11. Pollution Prevention and Control
12. Clean Transportation

The Framework defines eligible social categories in the following five areas:

13. Government Defined Company Support
14. Affordable Housing
15. Education and Vocational Training
16. Financial Support for MSMEs
17. Equality, Diversity and Empowerment
18. Affordable Basic Infrastructure

Íslandsbanki engaged Sustainalytics to review the Íslandsbanki Sustainable Financing Framework, dated October 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2018 (GBP),⁶ Social Bond Principles 2020 (SBP),⁷ and Sustainability Bond Guidelines 2018 (SBG).⁸ This Framework has been published in a separate document.⁹

Terrestrial Biodiversity Conservation, Sustainable Waste Management, Information & Communications Technology, Government Defined Company Support, Affordable Housing, Education and Vocational Training, Financial Support for MSMEs, Equality, Diversity and Empowerment, and Affordable Basic Infrastructure

² Sustainability loans may include bank loans, bonds, bridge loans, mezzanine debt, revolvers, and corporate debt.

³ Sustainable equity may include project equity and corporate equity.

⁴ This may include projects such as grants by Íslandsbanki to sustainable projects falling under the definitions in the Eligible Project Categories, carbon offsetting by Íslandsbanki for its own operations, and/or individual lending projects in cooperation with their customers, and/or other projects.

⁵ Sustainalytics notes that “blue” proceeds are not a traditionally recognized category, but these activities are aimed at sustainable water/ocean related activities.

⁶ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

⁷ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>.

⁸ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.

⁹ The Íslandsbanki Sustainable Financing Framework is available on Íslandsbanki’s website at: <https://www.islandsbanki.is/en/landing/about/sustainability>

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent¹⁰ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6.1, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Íslandsbanki's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Íslandsbanki representatives have confirmed (1) they understand it is the sole responsibility of Íslandsbanki to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Íslandsbanki.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Íslandsbanki has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Íslandsbanki Sustainable Financing Framework

Sustainalytics is of the opinion that the Íslandsbanki Sustainable Financing Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP), Social Bond Principles 2020 (SBP) and Sustainability Bond Guidelines 2018 (SBG). Sustainalytics highlights the following elements of Íslandsbanki's Sustainability Financing Framework:

- Use of Proceeds:
 - The 18 eligible categories are aligned with those recognized by the GBP, SBP and SBG.
 - The Framework identifies nine green categories: (i) Clean Transportation, (ii) Eco-Efficient and Circular Economy Adapted Products, Production Technologies and Processes, (iii) Energy Efficiency, (iv) Pollution Prevention and Control, (v) Renewable Energy, (vi) Green Buildings, (vii) Environmentally Sustainable Management of Living Natural Resources and Land Use, and

¹⁰ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

Terrestrial Biodiversity Conservation, (viii) Sustainable Waste Management, (ix) Information & Communications Technology.

- Within Clean Transportation, Íslandsbanki may finance or refinance the acquisition of electric, hydrogen, biogas/landfill gas methane, or dedicated vehicles using only certified¹¹ biofuels or renewable liquid and gaseous transport fuels of non-biological origin,¹² including hydrogen produced from renewable energy and water, that produce emissions below 50gCO₂/km¹³ for passenger vehicles, 20gCO₂/t km for freight vehicles,¹⁴ or 0gCO₂/km for category L vehicles.¹⁵ Íslandsbanki may also finance electric, biogas or hydrogen powered busses, trains, trams or ferries destined for public transport with emissions below 50gCO₂/km. Eligible expenditures may also include any construction, expansion and improvements of supporting infrastructure for public transport. Sustainalytics views positively the establishment of emission thresholds to advance the transition to a low-carbon transport.
- Regarding Eco-Efficient and Circular Economy Adapted Products, Production Technologies and Processes category, Íslandsbanki may provide general purpose financing to companies that derive at least 90% of their revenues from the sale of certified products, services, or processes. Sustainalytics acknowledges that, although the GBP prefer project-based financing, the financing of pure play companies that derive more than 90% of their turnover from certified products and services can nonetheless contribute positively to promoting sustainable products and certification schemes. Eligible certification schemes include Nordic Swan Ecolabel, EU organic, USDA Organic, Canada Organic, Rainforest Alliance, and Fairtrade certifications. Sustainalytics recognizes the contribution of certification schemes towards positive environmental and social outcomes. For Sustainalytics' assessment of the certification schemes, please refer to Appendix 1.
- In the Energy Efficiency category, Íslandsbanki may finance or refinance facilities dedicated to manufacturing energy efficient components powered by electricity or non-first generation biofuels, industrial processes and space cooling with deep sea water, production of heat/cooling using waste heat, and technologies, processes, or projects in industry leading to a reduction in energy use of at least 20%. Sustainalytics positively notes the Framework's energy efficiency savings threshold for these assets. Electric or renewable energy powered heat pumps, including ground-sourced, may also be eligible. Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems, and views positively the exclusion of financing heat pumps with high-GWP refrigerant(s) from the Framework. Sustainalytics recommends Íslandsbanki to promote robust refrigerant leak control, detection, and monitoring, while ensuring recovery, reclamation/recycling, or destruction of refrigerants at end of life.
- Regarding Pollution Prevention and Control, the Bank may finance reduction of air emissions, GHG control, soil remediation, and investments in direct capture of CO₂ from the atmosphere. Carbon capture and storage projects are limited to mineralization of, and electrofuels production from CO₂ emissions from geothermal power plants or waste incineration after separation of hazardous and plastic waste. Íslandsbanki confirms that electrofuels production will not use any fossil fuel inputs. Sustainalytics supports efforts to reduce pollutant and GHG emissions and the promotion of soil remediation.
- Íslandsbanki may provide loans to finance or refinance Renewable Energy according to the following eligibility criteria:
 - Electricity generation from the following sources: wind, solar, tidal, wave, and existing or new small (<10MW) or medium-scale (<100MW) hydropower plants. Íslandsbanki notes that all new hydropower projects, regardless of size, are subject to environmental impact assessment and are not expected to possess significant risk or lead to negative environmental or social impacts, nor are they surrounded by significant controversies. All electricity generation projects are subject to direct emissions threshold less than 100gCO₂/kWh.

¹¹ Voluntary schemes recognized by the European Commission to meet sustainability requirements established on the EU Directive 2018/2001 on the promotion of the use of energy from renewable sources, at: https://ec.europa.eu/energy/topics/renewable-energy/biofuels/voluntary-schemes_en

¹² As defined in Art. 2 (34) and Art. 2 (36) Directive (EU) 2018/2001 as well as certified low-ILUC biofuels are eligible, at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L2001>

¹³ 34gCO₂/km if emissions are measured using the NEDC instead of the WLTP.

¹⁴ From 2026 vehicles with 0gCO₂/km are eligible.

¹⁵ Two-, three- and four-wheel vehicles, including powered cycles, mopeds, motorcycles, motorcycles with side-cars, light and heavy on-road quads, and light and heavy quadri-mobles, as defined in Annex I of the EU Regulation 168/2013 on the approval and market surveillance of two- or three-wheel vehicles and quadricycles, at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R0168>

- Electricity and heat generation or cogeneration from geothermal or food waste biomass sources. Bioenergy electricity generation must achieve 85% GHG emission reduction compared to a fossil fuel baseline, and heat generation is subject to a notional heat threshold of 30gCO₂e/kWh(th). The emissions threshold for cogeneration facilities will be the sum of the electricity/heat emission thresholds multiplied by share of output of electricity/heat of the facility, respectively.
- Infrastructure for the production, processing or use of certified¹⁶ biofuels or renewable liquid and gaseous transport fuels of non-biological origin,¹⁷ or from food waste. Eligible expenditures include investments in development, design and manufacturing of renewable energy technologies.
- Sustainalytics views the establishment of direct emission thresholds as strengthening the Framework.
- Regarding Green Buildings, Íslandsbanki may finance and refinance the acquisition, construction and/or refurbishment of green buildings in Iceland. New and existing buildings with the following minimum certification levels: LEED “Gold”, BREEAM “Very Good”¹⁸, DGNB “Gold”, and Nordic Swan are eligible. For Sustainalytics’ assessment of these building certification schemes, please refer to Appendix 2. The Framework also identifies as eligible the renovation and refurbishment of existing buildings which lead to an improvement of at least 30% in energy efficiency, individual renovation measures such as installation of renewable energy on-site, and professional, scientific and technical activities which consume less energy or have a smaller carbon footprint.
- In the Environmentally Sustainable Management of Living Natural Resources and Land Use, and Terrestrial Biodiversity Conservation category, Íslandsbanki may finance sustainable forestry, agriculture, conservation, and remediation activities. Eligible forestry activities include the acquisition, maintenance and management of forests certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC). For Sustainalytics assessment of these certification schemes, please refer to Appendix 3. Regarding agricultural activities, Íslandsbanki may finance loans for organic farming certified with EU and national regulation, or for the use renewable technology in the agricultural sector, like geothermally heated greenhouses. In addition, land remediation, oasisification, reforestation, clean up, and aquatic biodiversity conservation, including protection of coastal, marine and watershed environments are eligible.
- As for the Sustainable Waste Management category, the Framework defines the eligibility of the following activities:
 - Non-landfill waste management, including separation, collection, sorting and processing of waste for reclaiming and recycling, waste prevention, waste reduction, and energy/emission-efficient waste-to-energy projects where plastic, recyclable and/or hazardous materials are separated prior to incineration.
 - Installation, extension, retrofitting or operation of landfill gas capture and energy utilization systems in permanently closed old landfills.
- With respect to the Information and Communications Technology (ICT) category, Íslandsbanki may finance remote solutions¹⁹ for appliance power management and load-balancing of renewables, and in situ power management including automatic switching, energy monitoring & data system. Development and/or use of ICT solutions that are exclusively aimed at collecting, transmitting, storing, and data modelling and for the provision of data and analytics for decision making, enabling GHG emission reductions. Other eligible expenditures include data hubs and data storage centres with PUE²⁰ below 1.5 which use free cooling systems, and renewable energy sources with guarantee of origin are eligible, as well as individual energy efficiency expenditures compliant with the European Code of Conduct for Data Centre Energy Efficiency,²¹ and hardware and manufacture of hardware with EU energy label “class A” or above or Energy Star certifications.

¹⁶ Voluntary schemes recognized by the European Commission to meet sustainability requirements established on the EU Directive 2018/2001 on the promotion of the use of energy from renewable sources, at: https://ec.europa.eu/energy/topics/renewable-energy/biofuels/voluntary-schemes_en

¹⁷ As defined in Art. 2 (34) and Art. 2 (36) Directive (EU) 2018/2001 as well as certified low-ILUC biofuels are eligible, at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L2001>

¹⁸ Sustainalytics notes that BREEAM “Outstanding” or above is considered as market practice.

¹⁹ Including installation wind turbines and solar, and construction small hydroelectric plants in remote areas in Iceland to support remote equipment.

²⁰ Power Usage Effectiveness defined as ratio of total power used by the data centre facility to the power used by the IT equipment.

²¹ European Commission, “EU Code of Conduct on Data Centre Energy Efficiency”, (2016), at: https://e3p.jrc.ec.europa.eu/sites/default/files/documents/publications/participant_guidelines_v3.0.0.pdf

- The Framework identifies three blue categories: Eco-Efficient and Circular Economy Adapted Products, Production Technologies and Processes, Pollution Prevention and Control, and Clean Transportation.
 - Within Eco-Efficient and Circular Economy Adapted Products, Production Technologies and Processes category, Íslandsbanki may provide general purpose financing to companies that derive at least 90% of their revenues from the sale of certified products, services, or processes. Eligible certification schemes include Marine Stewardship Council (MSC), Aquaculture Stewardship Council (ASC), Best Aquaculture Practices (BAP) minimum 2-stars, Global G.A.P for Aquaculture. Sustainalytics recognizes the contribution of certification schemes towards positive environmental and social outcomes. For Sustainalytics' assessment of these certification schemes, please refer to Appendix 4.
 - In the Pollution Prevention and Control category, Íslandsbanki may finance eligible activities including reduction, control, and response management of land or marine based sources of marine pollution, or electrification of harbours and boilers in fishmeal plants. Sustainalytics positively notes the financing of activities that reduce sulphur and nitrogen oxides pollution, and the presence of fossil fuel exclusion criteria in the Framework.
 - In the Clean Transport category, Íslandsbanki may finance ferries, transport, and fishing vessels that are powered exclusively by hydrogen, biofuel, electricity, or ammonia. Sustainalytics encourages Íslandsbanki to promote sustainable sourcing of fuels.
- The Framework identifies six social categories: Government Defined Company Support, Affordable Housing, Education and Vocational Training, Financial Support for MSMEs, Equality, Diversity and Empowerment, and Affordable Basic Infrastructure.
 - With regards to the Government Defined Company Support category, Íslandsbanki may finance loans which are part of two Central Bank-guaranteed loan programs. Eligibility is limited to SME companies with fewer than 250 full-time employees, as defined by the European Commission.²²
 - COVID-19 operating support loans intended for companies meeting the following eligibility criteria: income in 2019 was in the range of ISK 9 to 1,200 million (approximately EUR 55 thousand to 7.37 million), income over a 60-day period of 2020 must be 40% lower than in the same period in 2019, and wage costs in 2019 amounted to 10% of operating expenses. Companies can request loans up to 10% of their income in 2019.
 - COVID-19 supplemental loans intended for companies whose income in 2020 is 40% lower than the same period in 2019, and wage costs in 2019 amounted to 25% of operating expenses. Companies can request loans up to ISK 1,200 million (EUR 7.3 million).
 - In the Affordable Housing category, Íslandsbanki may finance the development or refurbishment of affordable housing projects that meet the accredited or registered affordable housing definitions,²³ or that contribute to improved access to housing for low-income, socially vulnerable individuals and families, elderly people, individuals with disabilities, and a qualified segment of the homeless individuals, as defined by the Law on Public Housing²⁴ and the Ministry of Welfare.²⁵
 - Íslandsbanki may finance activities within the Education and Vocational Training category according to the following eligibility criteria:
 - Construction and/or rehabilitation of early childhood education facilities, primary and secondary schools, technical colleges, vocational training centres, establishments of higher education or specialised learning and/or research and development centres.
 - Programmes involving training for the unemployed and in favour of disadvantaged populations, for professional reconversion, for providing training in natural or ecological disaster prevention and preparedness for members of the civil protection forces or for training of magistrates, administrators, civil servants and government officials, or adaptation of training centres in order to facilitate their access to persons with reduced mobility.

²² Fewer than 250 full time employees, at: https://ec.europa.eu/growth/smes/sme-definition_en

²³ The framework refers to buildings for low income and vulnerable groups where the annual income of tenants at the start of the lease shall not be higher than ISK 4,749,000 (EUR 28,850) for each individual, or ISK 6,649,000 (EUR 40,395) for couples. An additional ISK 1,187,000 (EUR 7,211) shall be added for each child or youth below 20 years of age, that is part of the household. <https://www.reglugerd.is/reglugerdir/eftir-raduneytum/velferdarraduneyti/nr/0555-2016>

²⁴ Althingi, "Law on public housing", (2016), at: <https://www.althingi.is/lagas/nuna/2016052.html>

²⁵ Ministry of Welfare, "Regulation on state and municipal initial contributions, housing ownership institutions and public housing", (2016), at: <https://www.reglugerd.is/reglugerdir/eftir-raduneytum/velferdarraduneyti/nr/0555-2016>

- Education-related research and development programmes, training programmes in favour of vulnerable groups, training for specialised staff in the education and vocational training sectors or programmes for student loans.
 - Sustainalytics notes that education and vocational training activities in Iceland are universally accessible, which is viewed positively. As such, financing provided under this category can contribute to making education and training accessible to the general population.
- Within the Financial support for MSMEs category, Íslandsbanki may finance or refinance loans to customers or projects in geographical areas with high unemployment, low income, or low job creation. Eligibility criteria incorporates the European Commission definition for SMEs²⁶ and is limited to enterprises located in the bottom 30% economically underperforming regions²⁷ of Iceland.
- As for the Equality, Diversity and Empowerment category, Íslandsbanki may finance loans to MSMEs with annual turnover less than EUR 50 million based on the following eligibility criteria:
 - At least 40% of management positions are occupied by females.
 - Loans to micro and small enterprises (MSE) where at least one owners of the enterprise is a woman or part of a disadvantaged target group.
- With regards to the Affordable basic Infrastructure category, Íslandsbanki may finance activities according to the following eligibility criteria:
 - Fibre optic, cable networks and supporting infrastructure such as internet exchange points outside of the capital region to improve internet access.
 - Construction, operation or upgrading of basic infrastructure, such as clean drinking water, sewers, and sanitation.
 - Activities involving the development, expansion or acquisition of buildings, facilities, or equipment relating to infrastructure for hospitals, laboratories, clinics, healthcare, and hospices that are broadly accessible to the whole public.
- Project Evaluation and Selection:
 - Íslandsbanki's internal process in evaluating and selecting projects is managed by the Sustainability Steering Committee (SSC), which is comprised by the Sustainability Manager and senior representatives from all business departments, Finance, and Risk Management. The Business and Credit Managers nominate projects to the SSC for selection based on alignment with the Framework's eligibility criteria. The Credit Committee is responsible for final loan approval. All potential Sustainability Loans will undergo ESG risk assessment, as well as standard credit process to ensure compliance with applicable domestic and international rules and regulations, and internal policies and guidelines. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Íslandsbanki's process for management of proceeds is overseen by the Bank's Treasury. The Risk department and relevant business units will mark eligible assets within the Bank's systems. Proceeds will be allocated on a portfolio basis. Íslandsbanki will track allocation using a Sustainability Registry for its Sustainability Instruments. Should any proceeds remain unallocated, they will be temporarily held and/or invested following Íslandsbanki's own discretion in its liquidity portfolios. If a loan ceases to meet the eligibility criteria it will be removed from the Sustainability Registry. Íslandsbanki will strive to achieve a level of allocation for Eligible Assets which matches or exceeds the balance of net proceeds from its outstanding Sustainability Instruments over time. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Íslandsbanki intends to report on the allocation of proceeds on its website on an annual basis. The allocation reporting will include details such as a summary of general sustainable funding developments, outstanding amounts of issued Sustainability Instruments, total allocation to each eligible category, contribution to the balance of Eligible Assets in the Sustainability Registry, total unallocated proceeds, and new financing vs. refinancing ratio. In addition, Íslandsbanki is committed to reporting on relevant impact indicators, such as energy production/savings and GHG savings. Based on these elements, Sustainalytics considers this process to be in line with market practice.

²⁶ Fewer than 250 full time employees, at: https://ec.europa.eu/growth/smes/sme-definition_en

²⁷ Based on either gross added value per head or unemployment percentage

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Íslandsbanki Sustainable Financing Framework aligns to the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020). For detailed information please refer to Appendix 5: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Íslandsbanki

Contribution of Framework to Íslandsbanki's sustainability strategy

Sustainalytics is of the opinion that Íslandsbanki demonstrates a commitment to sustainability with a focus on four key environmental and social areas: (i) responsible lending, (ii) responsible investing, (iii) responsible purchasing, and (iv) grants.²⁸ The Bank also participates in various international commitments and forums to support sustainability such as Nordic CEOs for a Sustainable Future, the UN Global Compact, Principles for Responsible Banking, and Principles for Responsible Investment, among others.²⁹ Additionally, in cooperation with a consultancy firm, the Bank measured its carbon footprint for 2017-2019, which demonstrated that carbon emissions were relatively stable over the three-year period. The next step for the Bank is to establish 2020 targets.

Regarding the Bank's general sustainability policy, which outlines the Bank's approach towards sustainable lending, the use of proceeds aligns with Íslandsbanki's objectives of responsible lending, and responsible investing. For example, by providing financing or refinancing of environmental projects for clean transportation, energy efficiency, pollution control, renewable energy, biodiversity, and waste management. The eligible projects will help Íslandsbanki contribute to responsible lending, responsible investing. Sustainalytics notes that the Issuer has a robust sustainability policy and a clear commitment to contributing to national climate goals and broader SDGs. Moreover, Sustainalytics positively views the Bank's commitment to establishing quantitative targets and encourages the Bank to report on the impact of its sustainable lending activities.

Sustainalytics is of the opinion that the Íslandsbanki Sustainable Financing Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Bank's actions on its key environmental and sustainability priorities.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are recognized by the Green Bond Principles (2018) and Social Bond Principles (2020) to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects, could include biodiversity, community relations and occupational health and safety risks.

Sustainalytics is of the opinion that Íslandsbanki is able to manage and/or mitigate potential risks through respecting the following:

- Íslandsbanki follows credit processes that align with domestic and international rules and regulations, Know-Your-Customer processes, and internal policies such as Anti-Money Laundering, Counter-Terrorist Financing and Sanctions policies. Environmental, Social, and Governance (ESG) risks are also assessed based on the Bank's framework. All sustainability loans will be provided under these risk mitigation policies.
- Iceland is classified as a "Designated Country" under the Equator Principles, implying the presence of robust environment and social governance systems, legislation, and institutional capacity for protecting the environment and communities.³⁰
- Occupational Health and Safety Acts including The Icelandic Act on Working Environment, Health and Safety in Workplaces No. 46/1980, which ensures a safe working environment in accordance with the social and technical developments of society.³¹

Based on these policies, standards, and assessments, Sustainalytics is of the opinion that Íslandsbanki has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

²⁸ Íslandsbanki, "Sustainability", at <https://www.islandsbanki.is/en/product/about/sustainability>

²⁹ Íslandsbanki, "Cooperation on Sustainability", at: <https://www.islandsbanki.is/en/product/about/cooperation-on-sustainability>

³⁰ Equator Principles, "Designated Countries", at <https://equator-principles.com/designated-countries/>

³¹ International Labour Organization, "Iceland", at http://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=&p_isn=36767

Section 3: Impact of Use of Proceeds

All eighteen use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of Clean Transportation

The majority of Iceland's energy supply comes from renewable sources; however, the country is still primarily reliant on fossil fuel sources for transportation.³² Road transportation accounts for approximately 20% of Iceland's total emissions.³³ The Government of Iceland released a new Climate Action Plan in 2020 as an update to its plan released in 2018. The updated plan aims to achieve a minimum 35% emissions reduction by 2030, while specifically highlighting reduced transportation emissions as a goal.³⁴

Íslandsbanki will focus on financing clean transportation projects such as energy efficient or alternative fuel vehicles, infrastructure (including charging stations) and public transportation. Within the local context and government priorities, Sustainalytics views these efforts as positively impactful.

Importance of Agriculture and Seafood Certification

Agriculture and fisheries are a large contributor to environmental degradation.^{35,36} Agriculture contributes to reduced soil fertility and biodiversity, increased water use, pollution and climate change. Fisheries disturb or destroy ocean habitats and can lead to overfishing and extinction of species.³⁷ To protect the environment, certification standards such as EU Organic, Canada Organic and USDA Organic, Marine Stewardship Council, Aquaculture Stewardship Council and Best Aquaculture Practices provide regulations that farmers and fisheries must meet to be sustainable in their operations. It is found that agricultural certification such as organic certifications, reduce farmer's negative environmental impacts by increasing adoption of environment management practices, biodiversity, soil richness, and soil carbon and reduces chemical inputs.^{38,39} Fishery certifications can result in positive environmental impacts such as healthier fish stocks, improved environmental management, and increased consumer awareness.⁴⁰ Thus, Sustainalytics views financing for certified organizations in which the certified product is at least 90% of company revenue to have positive impacts.

Importance of Financing SMEs in Iceland

SMEs are an important driver of the Icelandic economy and played a prominent role in the economic recovery following the 2008 banking crisis.⁴¹ In 2014, they represented 99.8% of business establishments, 74% of employment and 68% of value added.³² In terms of access to finance, SMEs traditionally rely on bank loans, enjoy adequate access finance and experience no major issues related to liquidity.³²

The European Commission highlights a lack of comprehensive policy strategy addressing SMEs.³² Despite that, the government's response to the Covid-19 pandemic introduced measures which support SMEs.⁴² The financial relief package includes lowering the interest rate, state-backed loans, and covering up to 75% of salaries.⁴³ By financing SMEs located in economically underperforming regions and/or owned by women or disadvantaged groups, or businesses affected by the Covid-19 pandemic, Íslandsbanki can further contribute

³² United Nations, "Iceland's Sustainable Energy Story: A Model for the World?", at <https://www.un.org/en/chronicle/article/icelands-sustainable-energy-story-model-world>

³³ Ministry for the Environment and Natural Resources, "Iceland's Climate Action Plan for 2018-2020", (2018) at: <https://www.government.is/lisalib/getfile.aspx?itemid=5b3c6c45-f326-11e8-942f-005056bc4d74>

³⁴ Government of Iceland, "Climate Action Plan", (2020), at: <https://www.government.is/diplomatic-missions/embassy-article/2020/06/23/New-Climate-Action-Plan-Iceland-will-fulfil-its-commitments-and-more/>

³⁵ Seufert, V. (2012), "Organic Agriculture as an Opportunity for Sustainable Development", Institute for the Study of Sustainable Development, at <https://www.mcgill.ca/isid/files/isid/seufert.pb13.pdf>

³⁶ Environmental Science, "Environmental Consequences of Fishing Practices", at <https://www.environmentalscience.org/environmental-consequences-fishing-practices>

³⁷ Ibid.

³⁸ Smith, O et al, (2019), "Organic Farming Provides Reliable Environmental Benefits but Increases Variability in Crop Yields: A Global Meta Analysis", *Frontiers*, at: <https://www.frontiersin.org/articles/10.3389/fsufs.2019.00082/full> <https://www.frontiersin.org/articles/10.3389/fsufs.2019.00082/full>

³⁹ Blackman, A and Naranjo, M (2010), "Does Eco-Certification have Environmental Benefits", *Resources for the Future*, at: <https://core.ac.uk/download/pdf/9304506.pdf>

⁴⁰ Arton, A et al, (2018), "What do we know about the impacts of the Marine Stewardship Council seafood ecolabelling program? A systematic map protocol", *Environmental Evidence*, at: <https://environmentalevidencejournal.biomedcentral.com/articles/10.1186/s13750-018-0143-1>

⁴¹ European Commission, "2016 SBA Fact Sheet Iceland", (2016), at: <https://ec.europa.eu/docsroom/documents/22382/attachments/17/translations/en/renditions/native>

⁴² Government of Iceland, "Government of Iceland Announces Second Phase of Economic Response Package to the COVID-19 Crisis", (2020), at: <https://www.government.is/news/article/2020/04/21/Government-of-Iceland-Announces-Second-Phase-of-Economic-Response-Package-to-the-COVID-19-Crisis/>

⁴³ OECD, "Coronavirus (COVID-19): SME policy responses", (2020), at: <http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

to SMEs' access to financial services and to the government's efforts to prevent further economic damage from the Covid-19 pandemic.

Based on the above, Sustainalytics believes that Íslandsbanki's financing of SMEs, which is supported by well-defined target population and/or areas, will foster employment generation and prevent/alleviate unemployment, reduce regional disparities, and ensuring business continuity for SMEs affected by Covid-19.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability financing framework advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure.
	11. Sustainable Cities and Communities	11.2 Ensure universal access to quality transport.
Eco-Efficient and Circular Economy Adapted Products, Production Technologies and Processes	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
Energy Efficiency	9. Industry, Innovation and Infrastructure	9.4 Upgrade and retrofit existing infrastructure to make industries sustainable.
	7. Affordable and Clean Energy	7.3 Double the global rate of improvement in energy efficiency.
Pollution Prevention and Control	12. Responsible Consumption and Production	12. 4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Renewable Energy	7. Affordable and Clean Energy	7.2 Increase the share of renewable energy in the global energy mix.
Green Buildings	11. Sustainable Cities and Communities	11.3 Ensure inclusive and sustainable urbanisation, planning and management.
Environmentally Sustainable Management of Living Natural Resources and Land Use, and Terrestrial Biodiversity Conservation	15. Life on Land	15.3 Combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods.
Sustainable Waste Management	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Information & Communications Technology	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure.
Eco-Efficient and Circular Economy Adapted Products, Production	14. Life Below Water	14.4 Effectively regulate harvesting and end overfishing.

Technologies and Processes	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
Pollution Prevention and Control	12. Responsible Consumption and Production 14. Life Below Water	12.4 Achieve the environmentally sound management to reduce their release to air, water and soil. 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds.
Government Defined Company Support	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Education and Vocational Training	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
Financial Support for MSMEs	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Equality, Diversity and Empowerment	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life
Affordable Basic Infrastructure	3. Good health and well-being 6. Clean water and sanitation 9. Industry, innovation and infrastructure	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all 9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020

Conclusion

Íslandsbanki has developed the Íslandsbanki Sustainable Financing Framework under which it will issue sustainability bonds and use the proceeds to finance Sustainability Loans, equity, and/or projects, investments and expenditures located predominantly in Iceland that support the mobilisation of capital aimed at the transition towards sustainability, a low carbon, resilient, and environmentally friendly economy with

reduced negative impacts on people and society. Sustainalytics considers that the projects funded by the sustainability bond proceeds will provide positive environmental and social impact.

The Íslandsbanki Sustainable Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Íslandsbanki Sustainable Financing Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, and 15. Additionally, Sustainalytics is of the opinion that Íslandsbanki has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Íslandsbanki is well-positioned to issue sustainability bonds and that that Íslandsbanki Sustainable Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).

Appendices

Appendix 1: Eco-Efficient and Circular Economy Adapted certifications

	Nordic Swan Ecolabel	EU Organic ⁴⁴	USDA Organic ⁴⁵	Canada Organic ⁴⁶	Rainforest Alliance ⁴⁷	FAIRTRADE ⁴⁸
Background	The Nordic Swan Ecolabel was established by the Nordic Council of Ministers in 1989, serving as a voluntary ecolabelling system for the Nordic countries Norway, Sweden, Denmark, Iceland and Finland. This ecolabel is a tool that companies utilize in order to evaluate the sustainability of its products and works to reduce the environmental impact from production and consumption of goods.	The EU Organic Farming is a European wide label organized under the European Commission's Council Regulation (EC) no 834/2007. The regulation covers the organic production and labelling of organic products including live or unprocessed agricultural projects, processed agricultural products for use of food, feed, and vegetative propagating material and seeds for cultivation.	The USDA Organic label is a US certification system overseen, administered and enforced by the National Organic Program of the United States Department of Agriculture. The US Organic label is regulated by the US Organic Foods Production Act of 1990 and involves input from the National Organic Standards Board (a Federal Advisory Committee made up of 15 members of the public) and the public.	Canada Organic is a regulatory certification implemented by the Government of Canada's Canadian Food Inspection Agency, based on authorities granted in section 13 of the SFCR regulation. A Canada Organic claim applies to food, feed, or seed that is produced in or imported to Canada.	The Rainforest Alliance Seal is a global certification system for Agriculture, Forestry and Tourism. The Rainforest Alliance certification indicates compliance with the organization's standards for environmental, social and economic sustainability. Rainforest Alliance merged with UTZ in January 2018.	The FAIRTRADE Mark is a global certification system that seeks to address power imbalances in trading relationships. Organizations certified to Fairtrade standards must meet general, trade, product and business development requirements.
Clear positive impact	Promotion of environmental requirements for a reduction of the environmental impact from production and consumption of goods.	Promotion of a sustainable management system that respects nature's systems, contributes to biological diversity, uses energy responsibly, respects high animal welfare standards.	Promoting sustainable farming practices that improve water quality, conserve energy, increase biodiversity and contribute to soil health.	Promote sustainable agricultural processes and products.	Promoting sustainable practices in agriculture, forestry and tourism.	Promoting sustainable practices for agricultural products, consumer goods and gold.
Minimum standards	Nordic Swan Ecolabel certifies 60 different product groups – covering several hundred product types. For each product group there is specific criteria	The EU Organic Farming system prohibits the use of GMOs (minimum 95% GMO free), the use of ionizing radiation and sets core requirements	The USDA Organic seal sets strict production and labeling requirements: • produced without genetic engineering, ionizing radiation or sewage sludge	The Canada Organic regulation prohibits specific chemicals, and mandates minimum standards	Rainforest Alliance establishes a minimum threshold for impact through critical criteria, and requires farmers to go beyond by demonstrating	Fairtrade has a set of core requirements that must be met and development requirements that are intended to foster continuous

⁴⁴ European Commission, "Organic farming", at: https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming_en.







⁴⁵ U.S. Department of Agriculture, USDA Organic: <https://www.usda.gov/topics/organic>

⁴⁶ Government of Canada, "Canadian Organic Standards", at: <https://www.inspection.gc.ca/organic-products/standards/eng/1300368619837/1300368673172>.

⁴⁷ Rainforest Alliance, at: <https://www.rainforest-alliance.org/>

⁴⁸ Fairtrade, Fairtrade Standards", at: <https://www.fairtrade.net/standard/fairtrade-standards>.

	that sets strict environmental requirements in all relevant phases of a product's life cycle, and for chemicals used in ecolabelled products.	for plant production, production rules for seaweed, livestock production rules, production rules for aquaculture animals.	<ul style="list-style-type: none"> produced using allowed substances based on a comprehensive list of authorized synthetic and non-synthetic substances overseen by a USDA NOP authorized agent 	for agricultural practices.	improved sustainability on 14 continuous improvement criteria.	improvement and which certified producers must make progress on.
Scope of certification or programme	Nordic Swan Ecolabel addresses key factors such as the choice of raw, materials, use of hazardous chemicals, use of energy and resources, emissions to all kind of recipients, health aspects, noise and waste treatment associated with production, transport and final disposal. The product's lifespan and whether it can be repaired are also important, as is the extent to which it can be reused and recycled.	The EU Organic Farming system addresses key risks such as substance use (e.g. pesticides, soluble fertilizers, soil conditioners or plant protection products), the maintenance and enhancement of soil life, natural soil fertility, soil stability and biodiversity, preventing and combating soil damage (compaction, erosion).	The USDA Organic system addresses key risks such as substance use through the regulation of synthetic and non-synthetic substances to preserve soil quality and in line with the federal guidelines on animal raising practices, pest and weed control and the use of additives.	Specific standards apply to crop production, livestock production, aquaculture, chain of custody, and products. The regulations also specifically name prohibited and permitted substances.	Rainforest Alliance addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.	Fairtrade addresses key risks through its requirements, including child labour, forced labour and pesticide use.
Verification of standards and risk mitigation	The organization that grants the ecolabel may carry out inspections without prior notice to ensure compliance with criteria.	Certified entities undergo audits to ensure compliance with criteria and continuous improvement at least once a year, or more often based on a risk assessment.	The USDA seal has a twofold enforcement mechanism, one by Organic Certifiers and one by the USDA Agricultural Marketing Services. The two bodies undergo audits to ensure compliance with criteria and continuous improvement at least once a year or unannounced.	Certification of products and processors is granted by CBs, and requires annual verification.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	Certified entities undergo audits to ensure compliance with criteria and continuous improvement.
Third party expertise and multi-stakeholder process	Experts from all Nordic countries contribute to the development of ideas for new or revised criteria. The revision takes place in close contact with businesses and other stakeholders with relevant knowledge,	The EU Organic Farming is a government-based standard resulting from public consultations and third-party deliberations in line with the European	The USDA Organic seal is organized by the National Organic Program which develops the rules and regulations for the production, handling, labeling and enforcement of all USDA organic products. This process	Developed by the Government of Canada through a consultative legislative process.	Standard setting is aligned with the ISEAL Standard Setting Code.	Standard setting is aligned with the ISEAL Standard Setting Code.





	and by using available literature from academic institutions and experts.	Commission's typical legislative approach.	receives input from the national Organic Standards Board (a Federal Advisory Committee made of 15 members of the public) and the general public.			
Performance display						
Third-party verified	The national ecolabelling organisations responsible for administering the Nordic Ecolabel in each country	Every Member State must designate one or more private and/or public control authorities in charge for the organic production and labelling of organic products in the EU Member States.	80 certifying agents are USDA accredited and authorized to certify operations under the USDA organic standards. 48 of the 80 certifying authorities are US based and 32 are in foreign countries. Most certifying agents are directly accredited by the USDA National Organic Program, with an additional 21 members being officially authorized through recognition agreements between US and other governments.	Certification Bodies (CBs) are accredited by Conformity Verification Bodies (CVBs), which are in turn accredited by the Canada Food Inspection Agency.	<ul style="list-style-type: none"> • Africert • Conservacion y Desarrollo Certified S.A. • Imafloa • IMO India • CERES • IBD • Indocert • NaturaCert • Productos y Procesos Sostenables, A.C. • NEPCon 	FLO-CERT GmbH. FLO-CERT is the largest certifier for Fairtrade, responsible for the certification of all producers and most traders.
Qualitative considerations	The Nordic Swan Ecolabel has a strong presence in the Nordic countries. The Nordic Swan Ecolabel is one of the founders of the international network for ISO 14024 Type 1 ecolabels, GEN (Global Ecolabelling Network)	The EU Organic Farming system is widely recognized across all 28 Member States. Currently, 11.9% million hectares are currently certified under the system, with the whole organic area representing 6.2% of the total utilized agricultural area in the European Union.	Under the USDA Organic seal, the US federal legislation allows three levels of organic foods, namely: purely organic products made entirely with certified organic ingredients and labeled 100% organic, and products with at least 95% organic ingredients. Both categories are allowed to be certified USDA Organic. A third category with at least 70% organic ingredients may be labeled as "made with organic ingredients", but	The Canada Organic certification is the only legally recognized organic scheme in Canada, and applies to both imports and domestically-produced agriculture products.	Global recognition across 76 countries around the world. There are 763 Rainforest Alliance certified products and more than 1,354,057 people who have conducted training, certification and verification under the Rainforest Alliance standard. Rigorous on the enforcement of minimum standards and strong governance over the implementation of social and	Global recognition across 74 countries present in the Fairtrade System. The system covers 1.4 million farmers and workers in 1,140 producer organizations. The Fairtrade certification scheme is less strict on the scope of the environmental and social requirements as it does not cover human rights issues

			cannot display the USDA Organic seal.		environmental mitigation processes.	and impact on biodiversity.
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Appendix 2: Certification Schemes for Green Buildings

	BREEAM	LEED	DGNB	Nordic Swan
Background	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC).	DGNB was developed in 2007 by the non-profit German Sustainable Building Council in partnership with the German Federal Ministry of Transport, Building, and Urban Affairs in order to actively encourage sustainable building.	Svanen is owned by "Ecolabelling Sweden", a Swedish state company responsible for both the Swan ecolabel and the EU Ecolabel. Svanen was first released in 1989 by the Nordic Council of Ministers.
Certification levels	Pass Good Very Good Excellent Outstanding	<ul style="list-style-type: none"> • Certified • Silver • Gold • Platinum 	<ul style="list-style-type: none"> • Bronze • Silver • Gold • Platinum 	<ul style="list-style-type: none"> • Certified
Areas of Assessment	<ul style="list-style-type: none"> • Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation 	<ul style="list-style-type: none"> • Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation in Design • Regional Priority 	<ul style="list-style-type: none"> • Environment • Economic • Sociocultural and functional aspects • Technology • Processes & Site 	<ul style="list-style-type: none"> • General requirements • Resource efficiency • Indoor environment • Chemicals and materials • Construction Management • Regulatory requirements • Point-score requirements (including energy)
Requirements	<p>Prerequisites depending on the levels of certification and credits with associated points</p> <p>This number of points is then weighted by item⁴⁹ and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>Prerequisites independent of level of certification, and credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Percentage-based performance index.</p> <p>The total performance index (expressed as a percentage) is calculated by adding the six key areas of assessment.</p> <p>Depending on the total performance index, a DGNB award will be given to the project, starting from Silver. Bronze is awarded for existing buildings and is conferred as the lowest rank.</p>	<p>Points-based assessment.</p> <p>For apartment buildings at least 17 out of 44 possible points must be achieved.</p> <p>For small houses at least 16 out of 42 possible points must be achieved.</p> <p>For pre-school and school buildings at least 15 out of 39 possible points must be achieved.</p>

⁴⁹ BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

Performance display				
Qualitative Considerations	<p>Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.</p>	<p>Widely recognized internationally, and strong assurance of overall quality.</p>	<p>DGNB certification is based on current European Union standards.</p>	<p>Widely recognized within the region, strong assurance of quality.</p>

Appendix 3: Sustainalytics' assessment of forestry certification schemes

	Programme for the Endorsement of Forest Certification (PEFC) ⁵⁰	Forest Stewardship Council (FSC) ⁵¹
Background	Founded in 1999, the Programme for the Endorsement of Forest Certification (PEFC) is a non-profit organization that promotes sustainable forest management through independent third-party certification, this includes assessments, endorsements and recognition of national forest certification systems. PEFC was created in response to the specific requirements of small- and family forest owners as an international umbrella organization.	The Forest Stewardship (FSC) is a non-profit organization established in 1993 that aims to promote sustainable forest management practice by evaluating forest management planning and practices independently against FSC's standards.
Basic Principles	<ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements 	<ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations
Types of standards/benchmarks	<ul style="list-style-type: none"> • Sustainable Forest Management benchmark – international requirements for sustainable forest management. National forest management standards must meet these requirements in order to obtain PEFC endorsement • Group Forest Management Certification – outlines the requirements for national forest certification systems who have group forest management certification • Standard Setting – covers the processes that must be adhered to during the development, review and revision of national forest management standards • Chain of Custody – outlines the conditions for obtaining CoC certification for forest-based products • PEFC logo Usage Rules – outlines the requirements entities must abide by when using the PEFC logo • Endorsement of National Systems – outlines the process that national systems must go through to achieve PEFC endorsement 	<ul style="list-style-type: none"> • Forest Management certification (for single/multiple applicant(s) – industrial or private forest owners, forest license holders, community forests, and government-managed forests) • Small and Low Intensity Management Forests (SLIMFs) program (for small forests and forests that are managed at low intensity would be eligible) • Chain of Custody (CoC) certification (for supply chain companies' planning, practices and products – all operations that want to produce or make claims related to FSC-certified products must possess this certificate) • Controlled Wood verification (for assurance that 100% virgin fiber mixed with FSC-certified and recycled fiber originates from a verified and approved source)
Governance	PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders. In	The General Assembly is comprised of all FSC members and constitutes the highest decision-making body. Members can apply to join one of three chambers – environmental, social, or economic – that

⁵⁰ PEFC, Standards and Implementation: <https://www.pefc.org/standards-implementation>

⁵¹ Forest Stewardship Council, FSC Principles and Criteria for Forest Stewardship: <https://ca.fsc.org/preview.principles-criteria-v5.a-1112.pdf>

	<p>general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups. Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p>	<p>are further divided into northern and southern sub-chambers. Each chamber maintains 33.3% of the weight in votes, and votes are weighted so that the North and South hold an equal portion of authority in each chamber, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p>
Scope	<p>Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59)⁵² and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>	<p>FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>
Chain-of-Custody	<ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC • Only accredited certification bodies can undertake certification • CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. • The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials • The CoC standard includes specifications for the physical separation of certified and non-certified wood • The CoC standard includes specifications about procedures for dealing with complaints related to participant's chain of custody 	<ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards • CoC standard includes procedures for tracking wood origin • CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products • CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC
Non-certified wood sources	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> - operations and harvesting, including land use conversion, 	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without

⁵² ISO, ISO/IEC Guide 59:2019: <https://www.iso.org/standard/23390.html>

	<ul style="list-style-type: none"> - management of areas with designated high environmental and cultural values, - protected and endangered species, including CITES species, - health and labour issues, - indigenous peoples' property, tenure and use rights, - payment of royalties and taxes. <p>b. genetically modified organisms,</p> <p>c. forest conversion, including conversion of primary forests to forest plantations.</p>	<p>payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others,</p> <p>b. Wood harvested in violation of traditional and civil rights,</p> <p>c. Wood harvested in forests where high conservation values are threatened by management activities,</p> <p>d. Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</p> <p>e. Wood from management units in which genetically modified trees are planted.</p>
Accreditation/verification	<p>Accreditation is carried out by an accreditation body (AB). In the same way that a certification body checks that a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process, PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>	<p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p>
Qualitative considerations	<p>Sustainalytics views both FSC and PEFC as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices⁵³ and both have also faced criticism from civil society actors.^{54,55} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>	

⁵³ FESPA, FSC, PEFC and ISO 38200: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

⁵⁴ Yale Environment 360, Greenwashed Timber: How Sustainable Forest Certification Has Failed: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

⁵⁵ EIA, PEFC: A Fig Leaf for Stolen Timber: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>

Appendix 4: Fishery and Aquaculture Certifications

	Marine Stewardship Council⁵⁶	Aquaculture Stewardship Council⁵⁷	Best Aquaculture Practices⁵⁸	Global GAP Aquaculture
Background	Marine Stewardship Council (MSC) is a non-profit organization founded in 1996, that issues eco-label certifications for fisheries which are sustainable and well-managed.	The Aquaculture Stewardship Council (ASC) is an independent, international NGO that manages the ASC certification and labelling program for responsible aquaculture.	The BAP certification is administered by the Global Aquaculture Alliance (GAA), a non-profit organization focused on advocacy, the education and leadership of on responsible aquaculture matters.	GLOBAL G.A.P. is a trademark and a set of standards for good agricultural practices (G.A.P.). They are a global organization with the objective to ensure: safe, sustainable agriculture worldwide. They set voluntary standards for the certification of agricultural products around the globe.
Clear positive impact	Promoting sustainable fisheries practices.	Promoting sustainable aquaculture practices.	Promoting sustainable aquaculture practices.	Promoting sustainable aquaculture practices
Minimum standards	<p>A minimum score must be met across each of the performance indicators.</p> <p>As a condition to certification, low-scoring indicators must be accompanied by action plans for improvement.</p>	<p>Quantitative and qualitative thresholds which are designed to be measurable, metric- and performance-based.</p> <p>Certification may be granted with a "variance" to certain requirements of the standard. This variance is designed to allow the standard to adapt to local conditions but has been criticized for weakening the standard and overriding the consultations involved in the standard-setting process.</p>	<p>The BAP assessment has mandatory minimums, but also includes indicators which allow the proponent to define individual targets.</p> <p>As the certification process is fishery-specific, the standard may be more robust for some species. For example, the Monterey Bay Aquarium's Seafood Watch programme recommends BAP as a reputable label for freshwater fish, mussels, and shrimp, but not salmon, scallops, or clams.⁵⁹</p>	Regarding aquaculture, the Control Points and Compliance Criteria document consists of 3 types of control points: Major Musts, Minor Musts and Recommendations. To obtain Global GAP certification, 100% of Major Musts are compulsory, 95% of Minor musts are compulsory and Recommendations are not required.
Scope of certification or programme	<p>The MSC standard consists of a fisheries standard and a chain of custody standard.</p> <p>The Fishery Standard assesses three core</p>	ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standards lay out minimum	Different certifications are available for different parts of the supply chain: farms, processing plants, hatcheries, feed	The standard covers aquaculture compound feed production, hatcheries and farms and chain of custody





⁵⁶ Marine Stewardship Council, at: <https://www.msc.org/standards-and-certification/fisheries-standard>.

⁵⁷ Aquaculture Stewardship Council, at: <https://www.asc-aqua.org/what-we-do/our-standards/farm-standards/>.

⁵⁸ Best Aquaculture Practices, at: <https://www.bapcertification.org/About>

⁵⁹ Monterey Bay Aquarium Seafood Watch, at: <https://www.seafoodwatch.org/seafood-recommendations/eco-certification>.

	<p>principles: sustainable fish stocks, minimising environmental impact, and effective fisheries management; collectively these account for the major environmental and social impacts.</p> <p>The Chain of Custody standard addresses certified purchasing, product identification, separation, traceability and records, and good management.</p>	<p>requirements regarding both environmental and social performance.</p> <p>Additionally, a Chain of Custody Standard is mandatory for all supply chain actors in order to ensure traceability.</p>	<p>mills. In practice, that means that a processing plant that does not necessarily source all of its fish from certified farms can still be certified (a star rating display on the label provides this information).</p> <p>Within each fishery-specific standard there are requirements and recommendations which apply to social, environmental, animal health & welfare, and food safety issues.</p>	
Verification of standards and risk mitigation	<p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065.</p> <p>Certification is valid for up to five years.</p>	<p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065.</p> <p>Major non-compliances must be remedied within three months.</p>	<p>Third-party certification bodies such as Global Trust, Bureau Veritas, Control Union, Lloyd's Register, NSF, SGS assess compliance against the standard.</p> <p>Non-compliance precludes recertification until the violation is remedied.</p>	<p>Certification process requires an initial assessment and ongoing annual third-party audits. 10% of all audits carried out annually by certification bodies must be unannounced.</p>
Third party expertise and multi-stakeholder process	<p>Aligned with the UN Code of Conduct for Responsible Fishing, and further informed by the Global Sustainable Seafood Initiative (GSSI), World Trade Organization (WTO), and International Social and Environmental Accreditation and Labelling (ISEAL)</p>	<p>Developed in line with United Nation's Food and Agriculture Organization) UN FAO) and International Labour Organization (ILO) principles.</p> <p>Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.</p>	<p>The standard is managed by an oversight committee, which takes development input from a technical committee as well as public comments.</p> <p>Aligned with Global Food Safety Initiative (GFSI), Global Social Compliance Programme (GSCP) and Global Sustainable Seafood Initiative (GSSI).</p>	<p>GLOBALG.A.P. standards and implementation are developed and defined by various Technical Committees, Focus Groups and the Certification Body Committee. National Technical Working Groups support the work of the committees on a local level. The Integrity Surveillance Committee (ISC) assesses integrity issues and certification body non-conformances, defines correctional measures and proposes sanctions.</p>

Performance display				
Qualitative considerations	<p>The MSC label is the most widely recognized sustainable fisheries label worldwide and is generally accepted to have positive impacts on marine environments.</p> <p>Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups. Criticism from various observers include lack of focus on preventing by-catch, protecting marine mammals and endangered species, follow-up on conditions, crew safety, and live tracking of supply chains.</p>	<p>Widely recognized and modelled on the successful MSC certification.</p> <p>Some criticism has been focused on the ability to certify with a “variance”, in which certain aspects of the standard can be interpreted or waived during the audit procedure.</p> <p>While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.</p>	<p>Widely recognized within the industry.</p> <p>As the certification process is fishery-specific, the standard may be more robust for some species than for others.</p> <p>While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture. GSSI’s recognition shows that the two-star Best Aquaculture Practices Certification, for their Salmon Farms, and Finfish and Crustacean Farms standards, is in alignment with all applicable Essential Components of the GSSI Global Benchmark Tool. The Tool is underpinned by the FAO Technical Guidelines on Aquaculture Certification and consists of performance areas related to scheme governance, operational management (including chain of custody) and applied aquaculture farm audit standards.</p>	<p>On 20 April 2018 The Global Sustainable Seafood Initiative has provided formal recognition of the GLOBALG.A.P. Aquaculture Certification System for the scope of Aquaculture.</p> <p>GSSI’s recognition shows that the GLOBALG.A.P. Aquaculture Certification System, for their GLOBALG.A.P. Integrated Farm Assurance System is in alignment with all applicable Essential Components of the GSSI Global Benchmark Tool. The Tool is underpinned by the FAO Technical Guidelines on Aquaculture Certification and consists of performance areas related to scheme governance, operational management (including chain of custody) and applied aquaculture farm audit standards.</p>

Appendix 5: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Íslandsbanki
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Íslandsbanki Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	October 26, 2020
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The 18 eligible categories for the use of proceeds are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 4, 5, 7, 8, 9, 11, 12, 14, and 15.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other (please specify):
Sustainable Waste Management
Information & Communications Technology |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify):
Government Defined Company Support |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Íslandsbanki's process in evaluating and selecting projects is managed by the Sustainability Steering Committee (SSC), which is comprised by the Sustainability Manager and senior representatives from all business departments, Finance, and Risk Management. Eligible loans must comply with the eligibility criteria included in the Framework. The Credit Committee is responsible for final loan approval. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Íslandsbanki's process for management of proceeds is overseen by the Bank's Treasury. Proceeds will be allocated on a portfolio basis. Íslandsbanki will track allocation using a Sustainability Registry for its Sustainability Instruments. Any unallocated proceeds will be temporarily held and/or invested following Íslandsbanki's own discretion in its liquidity portfolios. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Íslandsbanki intends to report on the allocation of proceeds on its website on an annual basis. The allocation reporting will include a summary of general sustainable funding developments, outstanding amounts of issued Sustainability Instruments, total allocation to each eligible category, contributing to the balance of Eligible Assets in the Sustainability Registry, total unallocated proceeds, and share of financing vs. refinancing. In addition, Íslandsbanki is committed to reporting on relevant impact indicators, savings. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input checked="" type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):**Date of publication:**

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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5th Green Bond Pioneer Awards

Climate Bonds Initiative

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awarded to Sustainalytics



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GlobalCapital
SRI Awards

Named

2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider



The
Green Bond
Principles