



Impact and Allocation Report 2023

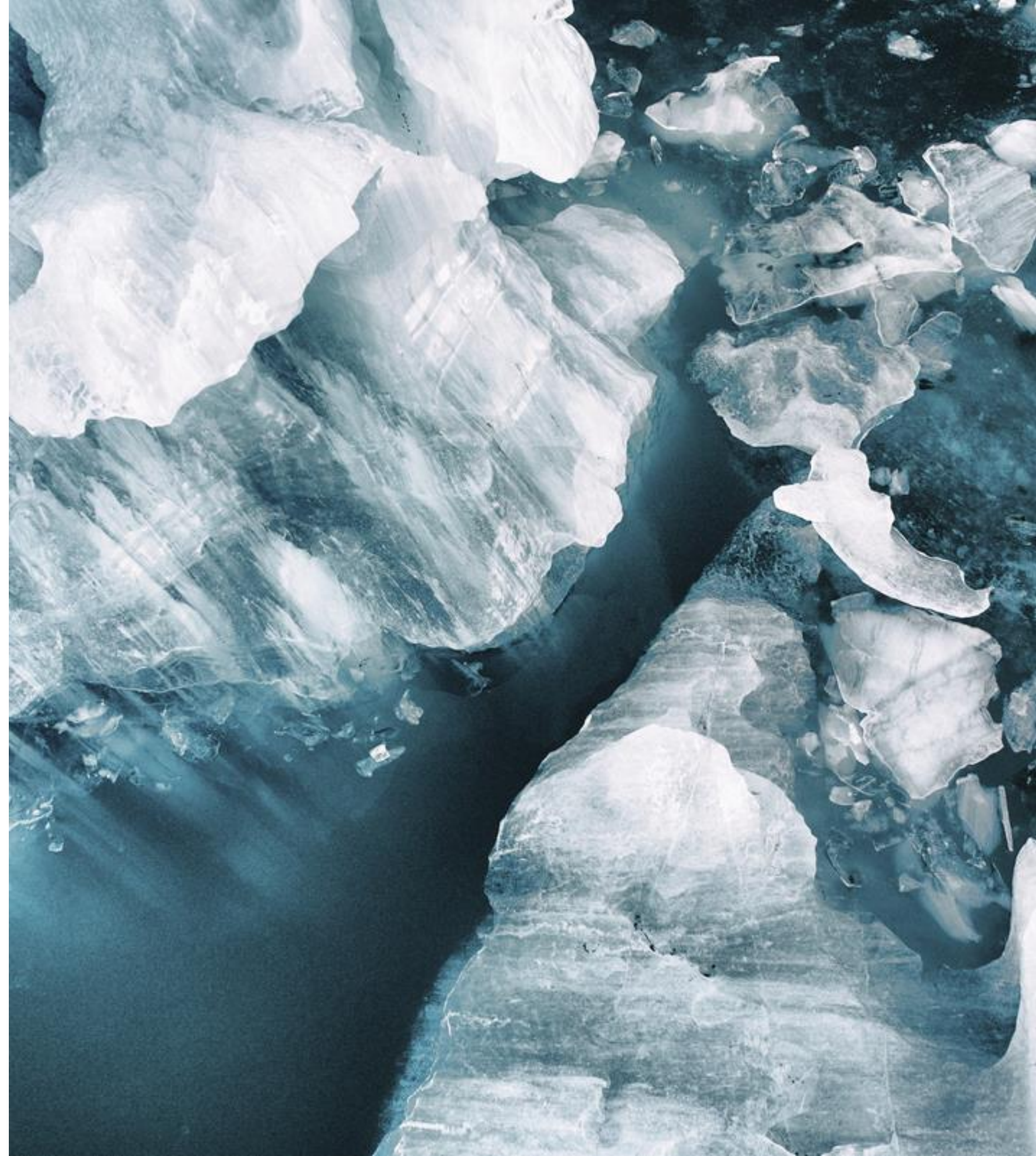
For Arion Bank's Green Financing Framework

April 2024



Table of content

Introduction	3
Executive summary for green financing 2023	4
Executive summary for impact of green financing 2023	5
Green bonds	6
Green deposits	7
Green financing framework	8
Impact of green financing framework	9
Reporting methodology	10
Limited assurance	11





Introduction

Arion Bank's Green Financing Framework has played a key role in our ability to finance green loans to individuals and companies since its publication in 2021. We realize that the greatest impact that banks can have on environmental and social issues is through lending and investment and we take this responsibility seriously. How banks manage and facilitate the flow of their financial resources can have a decisive impact on the progress of sustainable development in individual countries and globally and their indirect impact can be significant. Directing financial resources towards green development and the circular economy is hugely important in the fight against climate change and we fully intend to continue in this direction.

To reach the goals of the Paris Agreement to keep global warming below 1.5 degrees Celsius, massive amounts of capital will need to be directed towards projects and initiatives that reduce or eliminate greenhouse gas (GHG) emissions, support the transition from fossil-based fuels and diminish the adverse impact to the environment. Arion Bank's sustainability journey is about excelling in sustainability and climate-related initiatives in order to minimize its negative environmental impact.

The Bank is committed to helping Iceland meet its obligations under the Paris Agreement and other domestic and international environment and climate treaties. We support Iceland's ambitious plans to have net zero emissions by 2040, and the Bank has its own net zero target set for the same year.

We are setting ambitious targets and will publish the results of progress in areas where we have the greatest impact, such as buying, our own activities, lending and the Bank's investments. Read more about Arion Bank's sustainability commitments in [Annual- and Sustainability Report 2023](#).

Green finance for the future

In 2020, Arion Bank announced the launch of a new green deposit account, the first Icelandic bank to offer such an account. The Green Financing Framework, which the Bank published in 2021, plays a key role in the Bank's ability to finance green loans to individuals and companies. The Framework has been applied in the issue of green bonds and raising green deposits and also to reinforce the Bank's range of environmentally friendly products. Projects eligible for green loans include energy savings, the transition to green energy in transportation, certified properties, sustainable fisheries, pollution controls and renewable energy.

In order for a project to be eligible for green financing from the Bank it needs to meet the requirements set out in the Green Financing Framework which include strict demands concerning information on non-financial areas indicators.

Arion Bank's Green Financing Framework (the Framework) is based on the Green Bond Principles, published by the International Capital Markets Association (ICMA). It also draws on the EU Taxonomy and the UN Sustainable Development Goals. The Green Financing Framework has been assessed by the Norwegian ratings agency Cicero which rated the framework as Medium Green and rated governance as Good. Deutsche Bank advised on the framework.

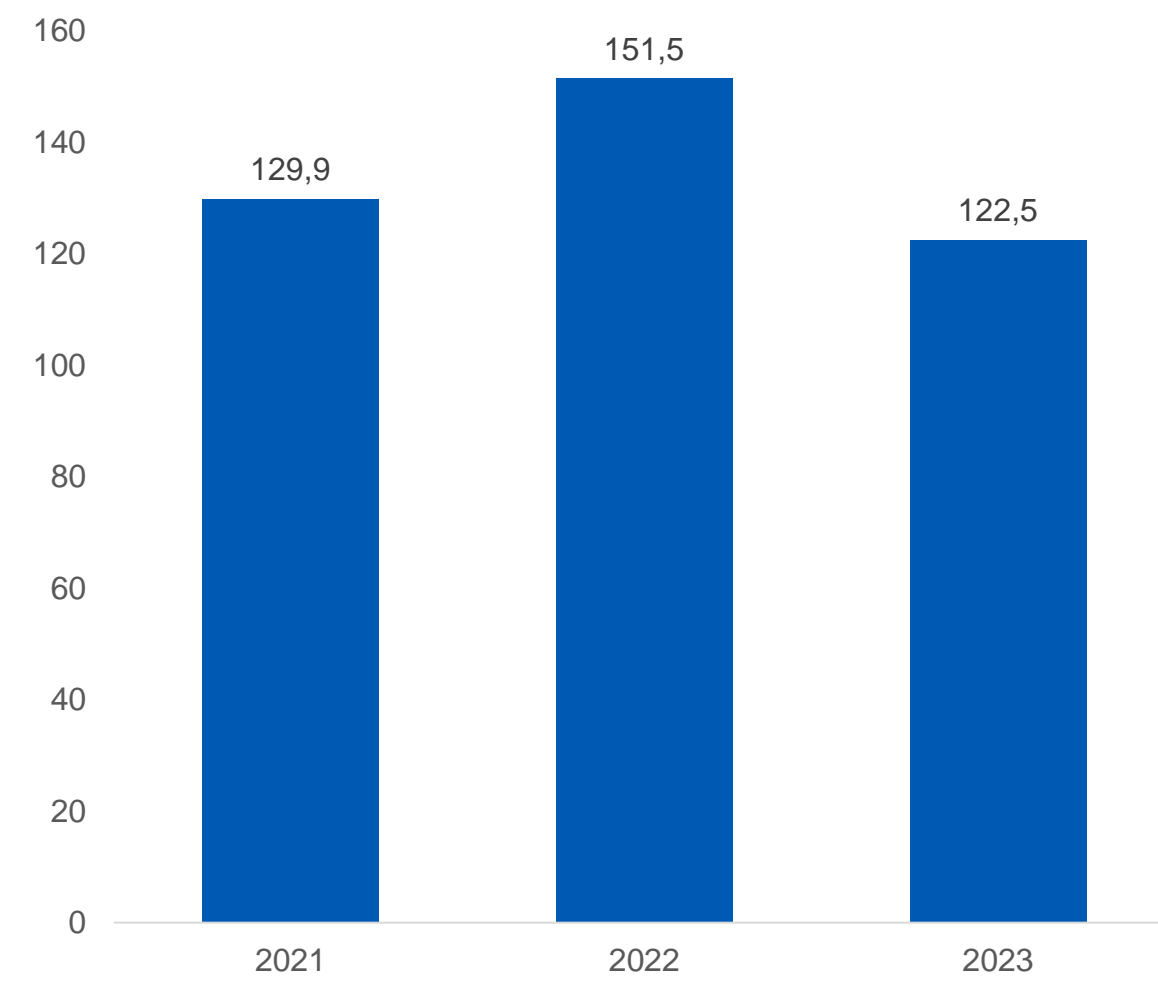
In connection with the Framework, Arion Bank engaged the engineering firm Mannvit to analyze the Bank's mortgage portfolio and to propose what could be categorized as a green mortgage in Iceland. It represents the first report of its kind in Iceland, and it is a vital contribution to the discourse on green buildings and their future on the domestic property market.



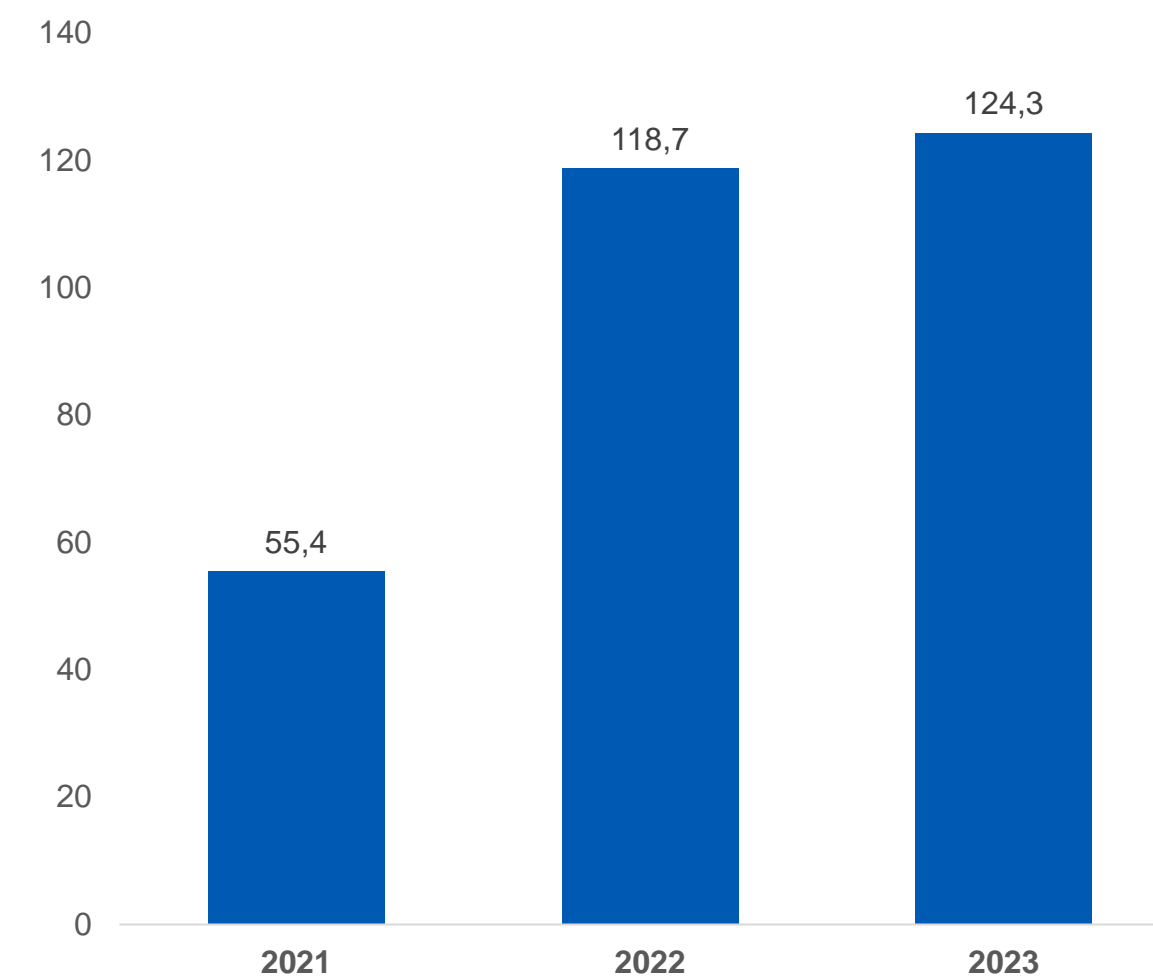


Executive summary for green financing 2023

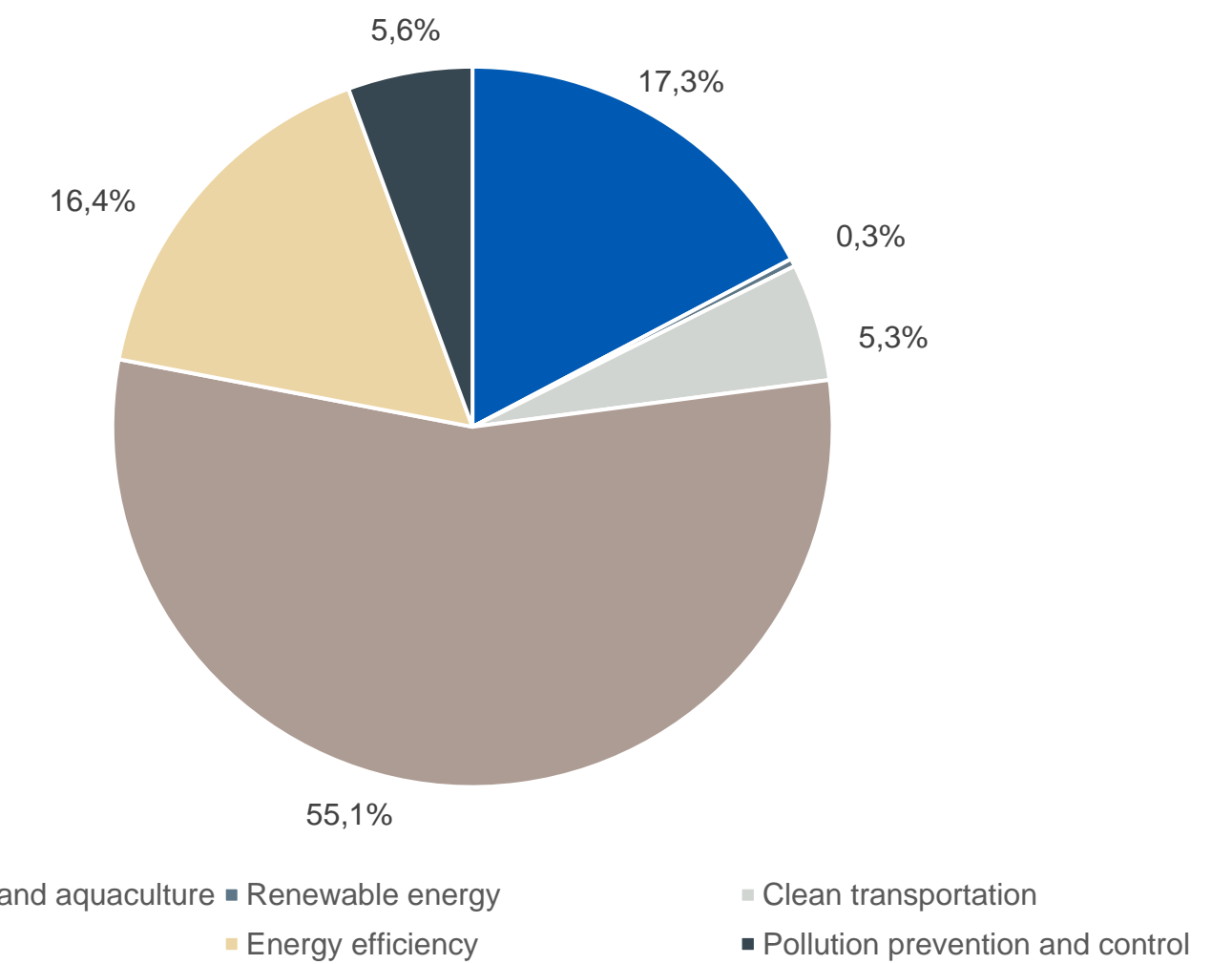
Total committed green financing
ISK bn.



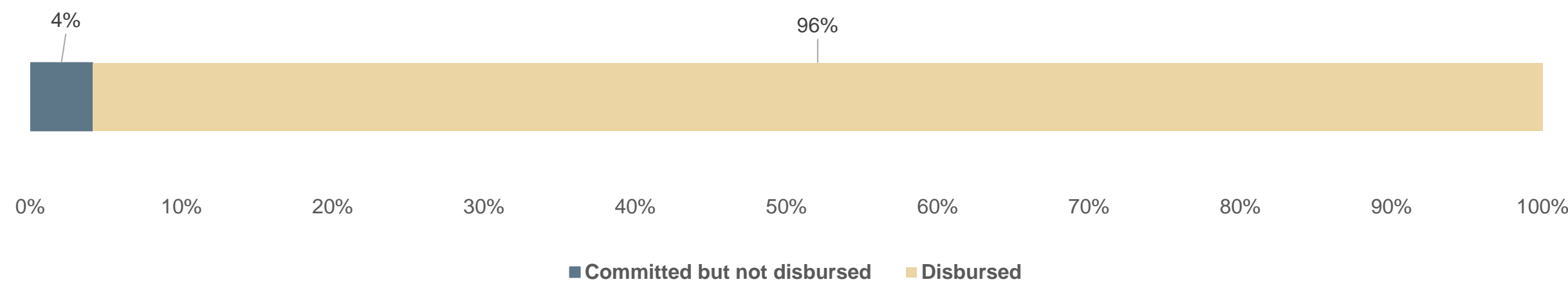
Total bond issued and deposits
ISK bn.



Committed financing breakdown %



Committed but not disbursed vs disbursed



Number of green loans

4,244

Total committed green finance

122.5 bn ISK

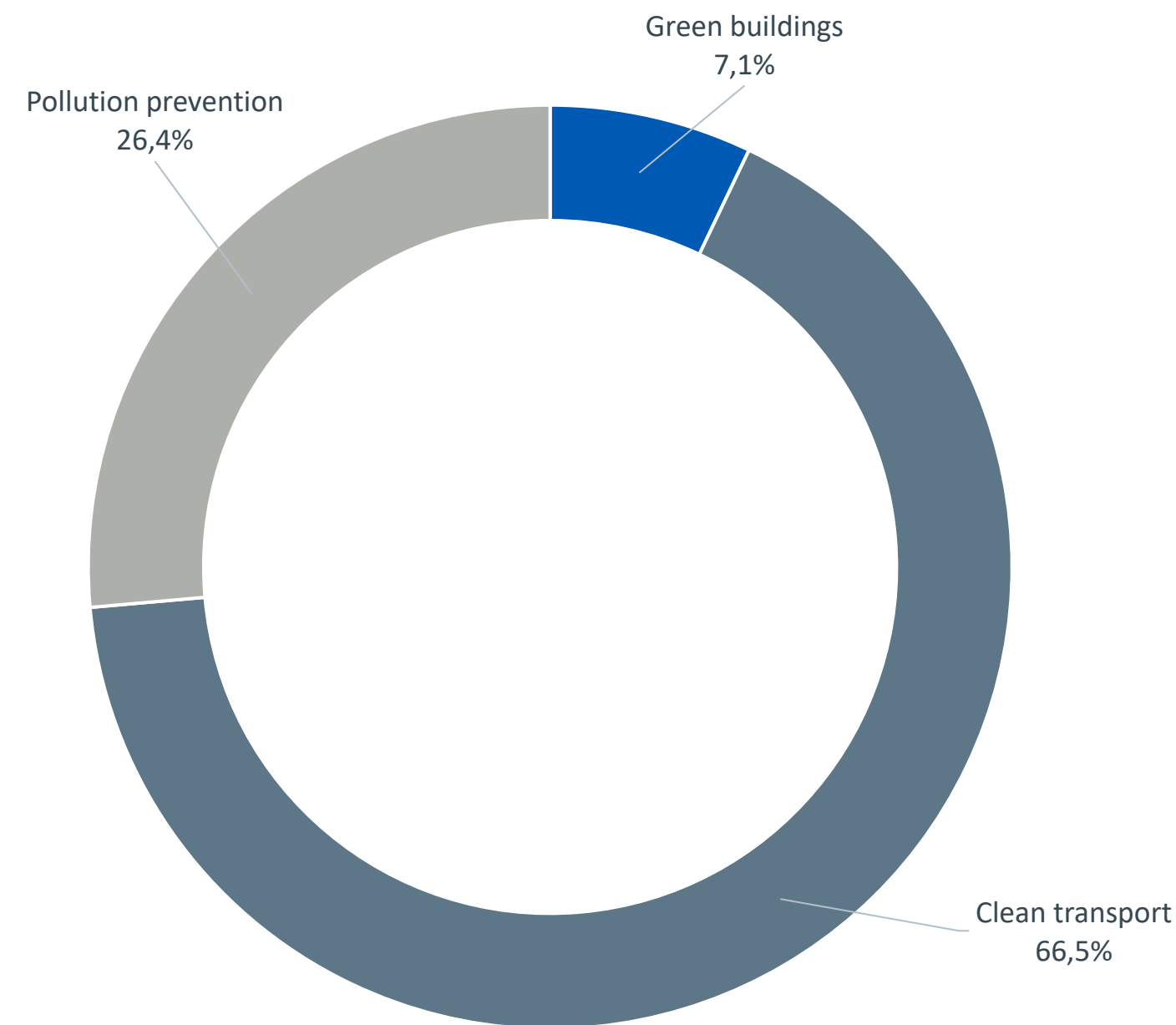
Outstanding amount of green finance

-1.8 bn ISK



Executive summary for impact of green financing 2023

Avoided greenhouse gas emissions 2023



	Total annual tCO ₂ emissions avoided	5,500
	Number of green vehicles	1,885
	Number of green housing	2,342 (196,961 m²)
	Tonnes of recycled materials handled	131,347
	Number of verified carbon credit projects ^a	1
	Number of MSC and ASC certified projects	9
	Tonnes of MSC and ASC certified fish	42,876
	MWh of clean energy produced	13,442
	Annual emissions of greenhouse gases avoided with green financing corresponds to:	18,333 flight tickets from Copenhagen

^a Project is verified by 3rd party validation and verification body Earthood. By comparing the production process of a supplement with beef cattle farming, substantial emission reduction and resource saving on an equal nutritional bases are identified. In 2023, the avoidance was 577,123 tCO₂eq.



Green bonds

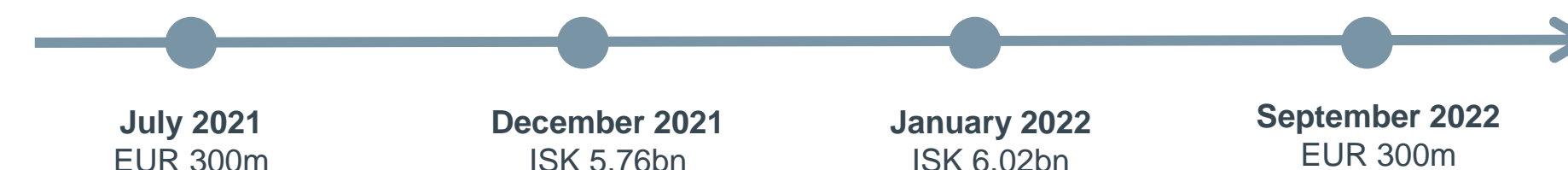
Arion Bank has over the years built up a constructive relationship with investors in the international and domestic debt markets. The Bank is proud to offer green bonds to its investors. Through these instruments, the Bank can, together with its investors, promote and support the long-term development of sustainable solutions by financing green projects.

Since the Green Financing Framework was issued, the Bank has held four green bond issues, both in Iceland and internationally.

Total committed green finance was approximately ISK 122 billion at the end of 2023, compared with approximately ISK 151 billion at the end of 2022. The main reason for the decrease in loans to green projects is due to the settlement of loans in sustainable fisheries and aquaculture. The Bank's total green instruments amounted to ISK 124.3 billion at the end of 2023, compared with ISK 118.7 billion at the end of 2022 and ISK 55.4 billion in 2021.

Green Bond July 2021		Green Bond Dec 2021		Green Bond Jan 2022		Green Bond Sept 2022	
Issuer	Arion Bank hf.	Issuer	Arion Bank hf.	Issuer	Arion Bank hf.	Issuer	Arion Bank hf.
ISIN	XS2364754098	ISIN	IS0000033710	ISIN	IS0000033801	ISIN	XS2498976047
Type	Green Senior Unsecured	Type	Green Senior Unsecured	Type	Green Senior Unsecured	Type	Green Senior Unsecured
Size	EUR 300m (ISK 44bn)	Size	ISK 5.76bn	Size	ISK 6.02bn	Size	EUR 300m (ISK 44bn)
Tenor	4-year	Tenor	5-year	Tenor	2.75-year	Tenor	2-year
Issue date	14 July 2021	Issue date	22 December 2021	Issue date	20 January 2022	Issue date	21 September 2022
Maturity date	14 July 2025	Maturity date	22 December 2026	Maturity date	20 October 2024	Maturity date	21. December 2024
Issue rating	BBB+ (S&P)	Issue rating	-	Issue rating	-	Issue rating	A3 (Moody's)
Spread	MS+80 bps	Spread	-	Spread	REIBOR 3M + 0.70% Floating rate	Spread	MS+265 bps
Coupon	0.375% Fixed	Coupon	4.7% Fixed	Coupon	REIBOR 3M + 0.70% Floating rate	Coupon	4.875% Fixed
Listing	Luxembourg SE	Listing	Reykjavik	Listing	Nasdaq Iceland	Listing	Luxembourg SE

Green bond timeline

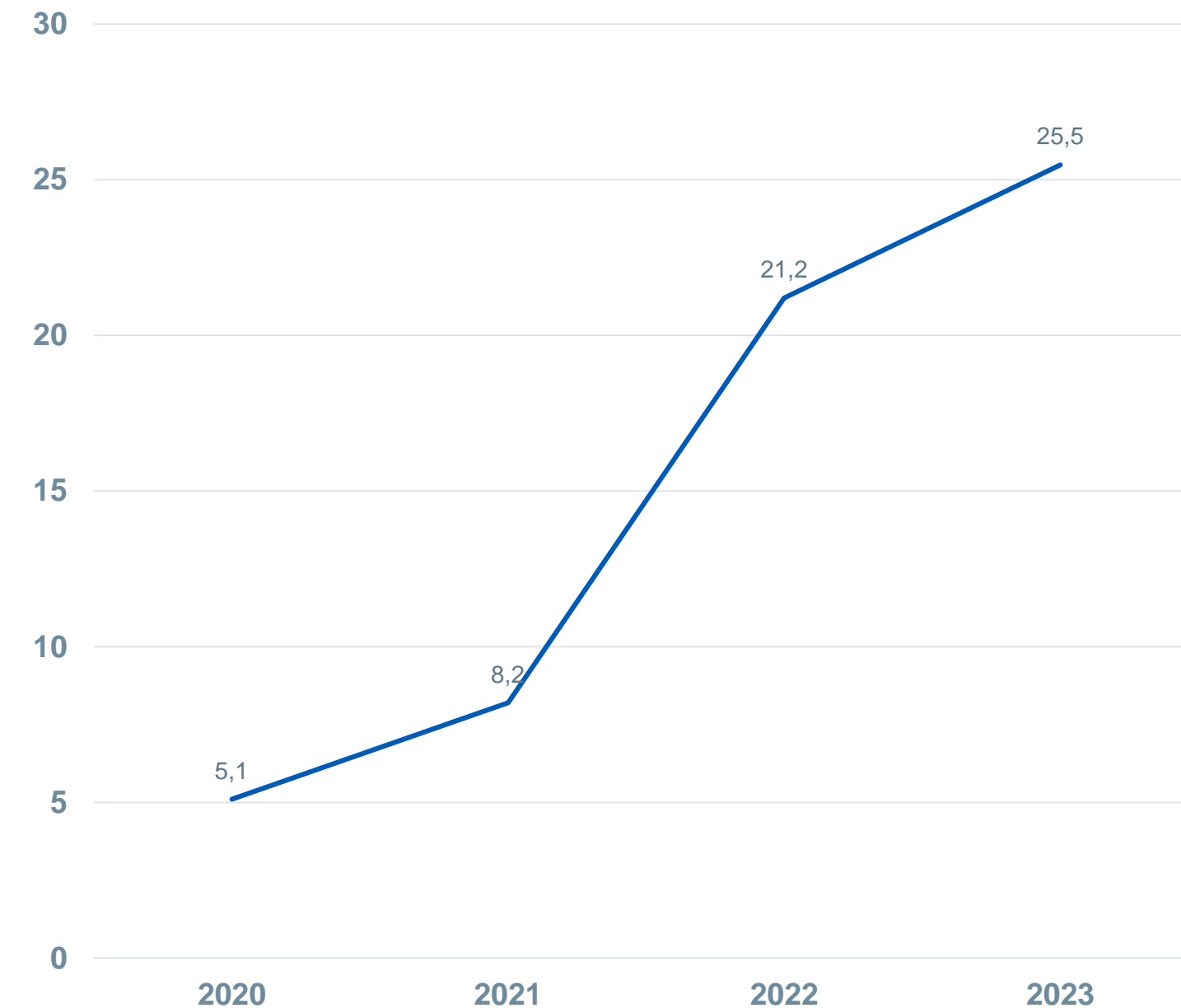




Green deposits

Growth of green deposits

ISK bn.



Green deposits					
Start date	Distribution 31.12.23	Amount 31.12.20	Amount 31.12.21	Amount 31.12.22	Amount 31.12.23
23 June 2020	25% individuals 75% institutions and companies	ISK 5.1bn	ISK 8.2bn	ISK 21.2bn	ISK 25.5bn

In 2020 Arion Bank announced the launch of a new green deposit account called Green Deposits, the first Icelandic bank to offer such an account. Initially funds in Green Deposits were used solely to finance green car loans, supporting the transition to sustainable energy in transport. Due to the popularity of Green Deposits the Bank broadened the scope of the account at the beginning of 2021 and incorporated projects involving emission controls and more effective waste management. At the end of the year 2021 Green Deposits were incorporated into the Green Financing Framework and the separate green deposits framework was discontinued.

Green Deposits is a savings account designed for individuals, NGOs and companies wanting to contribute towards a greener future. The account is a non-indexed demand account, which means savers can withdraw their money whenever they want.

The response to Green Deposits has been excellent and deposits have steadily grown since launch. By the end of 2023 approximately ISK 25 billion had been deposited into the account. At the end of 2022 green deposits amounted ISK 21 billion which was already a huge growth from only ISK 8 billion at the end of 2021. By investing in Green Deposits at Arion Bank our customers are making a positive contribution to the future.



Green Financing Framework

Green Financing Framework

Arion Bank's Green Financing Framework consists of the following core components, described in more detail below:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting
5. External review

Use of proceeds

Arion Bank strives to reach full allocation of proceeds within one year after each issuance. The net proceeds of any of its Green Financing Instruments will be used to finance or re-finance project loans, general corporate loans or any equity or own investments in tangible or intangible assets ('Eligible Assets') that support the transition to a low-carbon economy and the SDGs.

The loan or investment must fall into at least one of the categories ('Eligible Categories'). In the case of general corporate loans, at least 90% of the corporation's turnover must be attributable to Eligible Sectors and fulfill the respective requirements.

In 2021 Arion Bank engaged the engineering firm Mannvit to analyze the Bank's mortgage portfolio and to propose what could be categorized as a green mortgage in Iceland. It represents the first report of its kind in Iceland, and it is a vital contribution to the discourse on green buildings and their future on the domestic property market. Approximately 12% of retail mortgages provided by Arion Bank match Arion Bank and Mannvit's definition of green residential housing and environmentally certified housing.

Revisions of the financing framework commenced in 2023. Loans which have a positive impact on society will now also be incorporated into the framework. This work will be completed in 2024.

- [Arion Bank's Green Financial Framework](#)
- [Methodology Paper by Mannvit - Green Residential Buildings](#)

Arion Bank's Green Financing Framework has seven project categories:

Sustainable fishery and aquaculture

Described as financing related to sustainable fishery/aquaculture, including investments in the areas of decarbonization of offshore/onshore operations and supporting infrastructure as well as the protection of marine fauna, waste avoidance or the development of more selective fishing methods.



Sustainable forestry and agriculture

Described as financing related to certified forest carbon projects, sustainable forestry, agriculture or horticulture, including investments in the areas of sustainable forest management and sustainable forestry assets or the promotion of measures to reduce GHG emissions in the respective sectors.



Renewable energy

Described as financing related to renewable energy projects, including geothermal, wind, solar, hydropower (<10MW) and biogas used for transport, heating and industrial purposes.



Clean transportation

Described as financing related to equipment, technology and processes towards clean transportation infrastructure, including but not limited to, stations and rolling stock for passengers/freight transportation (e.g. buses or EVs).



Green buildings

Described as financing related to the construction of new buildings, operation of existing buildings or renovation of existing buildings in the commercial or residential real estate sector. Buildings that meet certain certification standards or fall under Mannvit methodology are included.



Energy efficiency

Described as financing related to the construction, implementation, maintenance and operation of facilities, infrastructure or appliances that reduce the use of energy, including but not limited to, energy efficient data centers or lighting solutions.



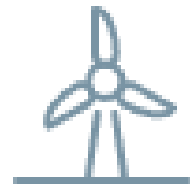
Pollution prevention and control and wastewater management

Described as financing related to technologies, processes and associated infrastructure supporting waste prevention, waste reduction, waste recycling as well as wastewater management.





Impact of Green Financing Framework



Project Category	Sustainable fishery and aquaculture	Sustainable forestry and agriculture	Renewable energy	Clean transportation	Green buildings	Energy efficiency	Pollution prevention and control and wastewater management	Total
Disbursed amount 31.12.2023 in million ISK ^b	19,817	-	429	6,317	67,484	16,644	6,523	117,214
Committed finance 31.12.2023 in million ISK ^b	21,168	-	429	6,477	67,484	20,087	6,855	122,500
Annual emission avoided (tons CO2e)				3,658	390		1,452	5,500
Certification	8 projects with MSC certification 1 project with ASC certification							
Recycled material (tons)								131,347
Installed capacity (MW)								5
UN SDGs								

^b In the Bank's 2023 Impact and Allocation Report three companies are defined differently from how they were defined in the Annual and Sustainability Report which was published on 14 February 2024. As a result, there may be some inconsistency between this report and previously published information on the Bank's green loans.



Reporting methodology

Calculation methodology

Clean transportation

- Annual impact is calculated based on the assumption that alternative fossil fuel vehicles are replaced by electric vehicles (EVs): number of vehicles in the fleet added each year × average yearly EVs mileage × average GHG emissions from comparable fossil fuel vehicles. EVs charged in Iceland are assumed to have zero emissions due to renewable energy.

Green buildings

- Green buildings are defined as such if they are among the top 15% carbon efficient buildings in Iceland from a life-cycle perspective. Mean carbon emissions per m² were calculated for the top 15% and lower 85% of buildings in Arion Bank's portfolio. Emissions avoided were calculated by taking the difference between the carbon footprint of the top 15%, if they had the same average emissions per m² as the lower 85% and the actual emissions (based on mean emissions per m²).

Pollution prevention

- Indicator used is the quantity of recycled material (tonnes per year). All recyclables that end in waste-to-energy plants are not considered recycled.
- One loan was to a private recycling facility that specializes in the recycling of plastic waste. The customer had carried out an LCA where recycled plastics were compared to being shipped abroad and recycled in other European countries (2018). The results were used to assess the impact in 2023.

Renewable energy

- Indicator used is the installed capacity in MW.

Key reporting principles

- Arion Bank reports on a portfolio basis, Icelandic króna (ISK).
- Currency rates are as per 31 December 2023.
- Reported impact is based on amounts disbursed and outstanding to a project.
- Projects that have not disbursed any funds are not calculated into impact reporting and the outstanding amount on these projects is reported as 0 ISK.
- Same applies to projects that are still in implementation and therefore have not any measurable impact.
- The impact evaluations in the report are based on expected environmental impact (ex-ante) from financed projects.
- Arion Bank uses ex-ante impact estimates based on information provided by customers and on information available to the Bank from official public data sources.
- The impact evaluation includes both qualitative and quantitative impacts.
- The reporting period ends on 31 December 2023, taking into account new withdrawals and repayments.
- Arion Bank uses a pro-rata allocation to each outstanding bond.
- The Bank is constantly reviewing its reporting methodology in line with the latest standards and is open to feedback regarding this.

The impact reporting draws on [ICMA Harmonised Framework for Impact Reporting \(2022\)](#) and the recommendations of the [Nordic Public Sector Issuers Position Paper on Green Bonds Impact Reporting](#) published in February 2020. The report seeks to communicate and inform about the impact of financed projects based on available data.



Independent Auditor's Assurance Report

To the Management and the stakeholders of Arion Banki hf.

We have been engaged by Arion Banki hf. to provide limited assurance on the allocation of net proceeds from Green Financing Instruments as disclosed in Arion's Impact and Allocation Report 2023. The allocation is made according to Arion's Green Financing Framework, which is based on the Green Bond Principles, published by the International Capital Markets Association (ICMA).

Our engagement was performed in order to evaluate:

- If Allocation of net proceeds from Green Financing Instruments are used to finance projects that meet the criteria of the Bank's Green Financing Framework, as shown on page 9 in the Impact & Allocation Report.

We express a conclusion providing limited assurance.

Management's responsibility

The Management of Arion Banki is responsible for collecting, analysing, aggregating, and presenting the information in the report, ensuring that the information is free from material misstatement, whether due to fraud or error.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants (IESBA Code), which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

Deloitte ehf. is subject to International Standard on Quality Management (ISQM) 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the allocation based on the Sustainable Financing Framework, presented in the Sustainable Finance Impact report for 2023. We have conducted our work in accordance with ISAE 3000 (revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, to obtain limited assurance about our conclusion. In accordance with the standard, we have planned and performed our work to obtain limited assurance about whether Allocation information is free from material misstatement.

A limited assurance engagement is less in scope than a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Considering the risk of material misstatement, we planned and performed our work to obtain all information and explanations necessary to support our conclusion.

We performed reviews of data, reviews of the underlying data processes as well as interviews with those responsible for producing the data. Our work has included interviews with key functions in Arion, inquiries regarding procedures and methods to ensure that the allocation of funding is in accordance with the guidelines within Arion's Sustainable Financing Framework. We have assessed processes, systems, and controls for gathering, consolidating and aggregating the data at Arion, and performed analytical review procedures and tested data prepared against underlying documentation.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Arion Bank's net proceeds from Green Financing Instruments and its allocation to loans for the year 2023 under the criteria of the Green Financing Framework, is not prepared, in all material respects, in accordance with the Green Financing Framework.

Kópavogi, 23 April 2024

Deloitte ehf.



Gunnar Þorvarðarson
State-Authorised Public Accountant