



Impact and Allocation Report 2022

For Arion Bank's Green Financing Framework

April 2023



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Introduction

We at Arion Bank place great importance on environmental and social issues and good corporate governance in our operations. 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 because a bank's greatest impact is in the loans and investments it makes on behalf of its customers. Since climate change is one of the greatest challenges facing today's society, we focus on how to preserve the environment and climate for future generations. Banking and financial services as such have a rather limited direct climate impact, while their indirect impact, through balance sheet lending and investments, can be significant. This is where Arion Bank can make a difference and lead by example.

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, and to reaching the ambitious goal of a carbon neutral Iceland by 2040.

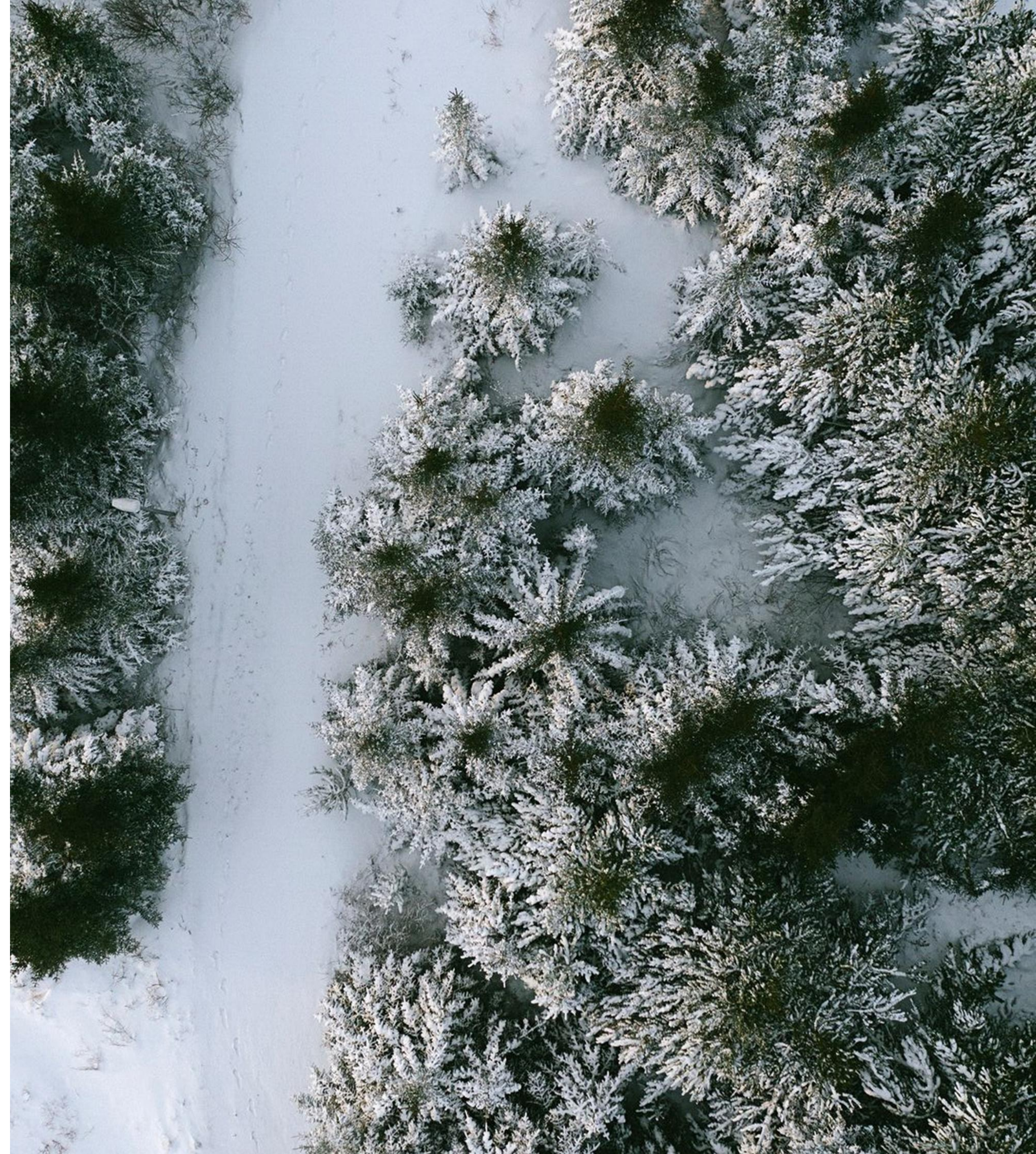
Arion Bank is setting further targets and will publish the results of progress in areas where it has the greatest impact, such as in financed emissions, procurement, own activities and the services the Bank provides to its customers. Read more about Arion Bank's sustainability commitments in [Annual- and Sustainability Report 2022](#).

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. As a further commitment to a sustainable future, Arion Bank established its Green Financing Framework in 2021. The Green Financing Framework plays a key role in the Bank's ability to finance green loans to individuals and companies. The Framework has added to the Bank's funding mix through the issue of green bonds and raising of green deposits and has also broadened the Bank's range of environmentally friendly products, which now encompasses green car loans, mortgages, business loans and deposits. Projects eligible for green loans include energy savings, the transition to green energy in transportation, certified properties, sustainable fisheries, emission controls and renewable energy.

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.

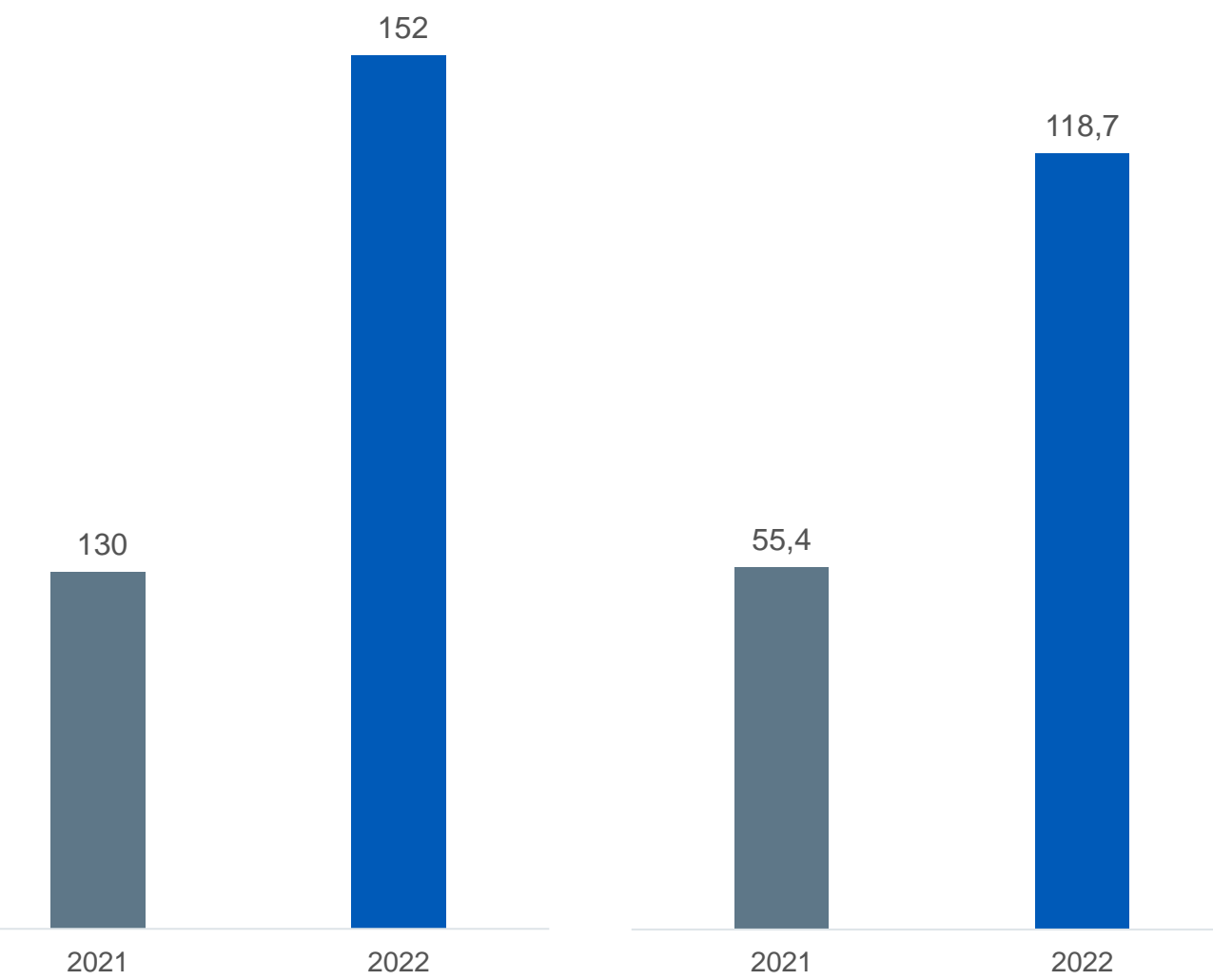




Executive summary for green financing 2022

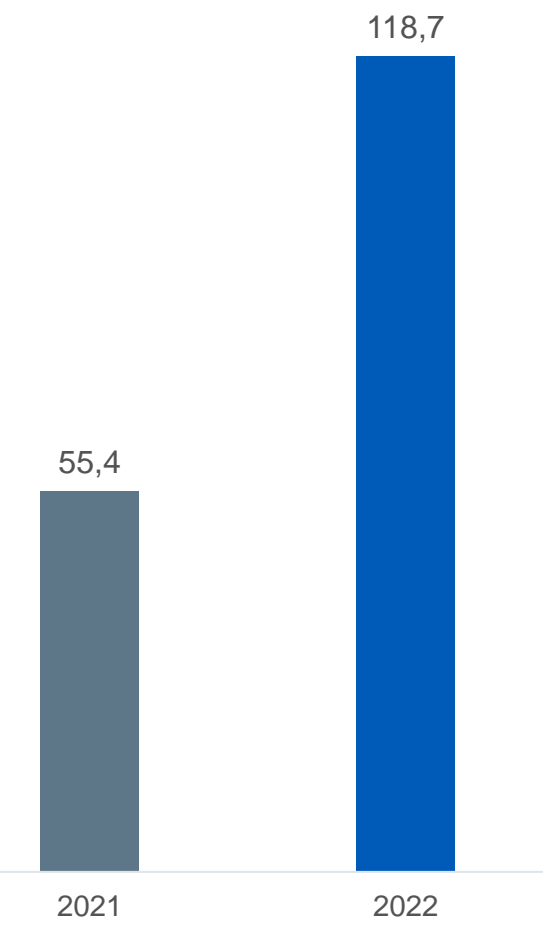
Total committed green financing

ISK bn



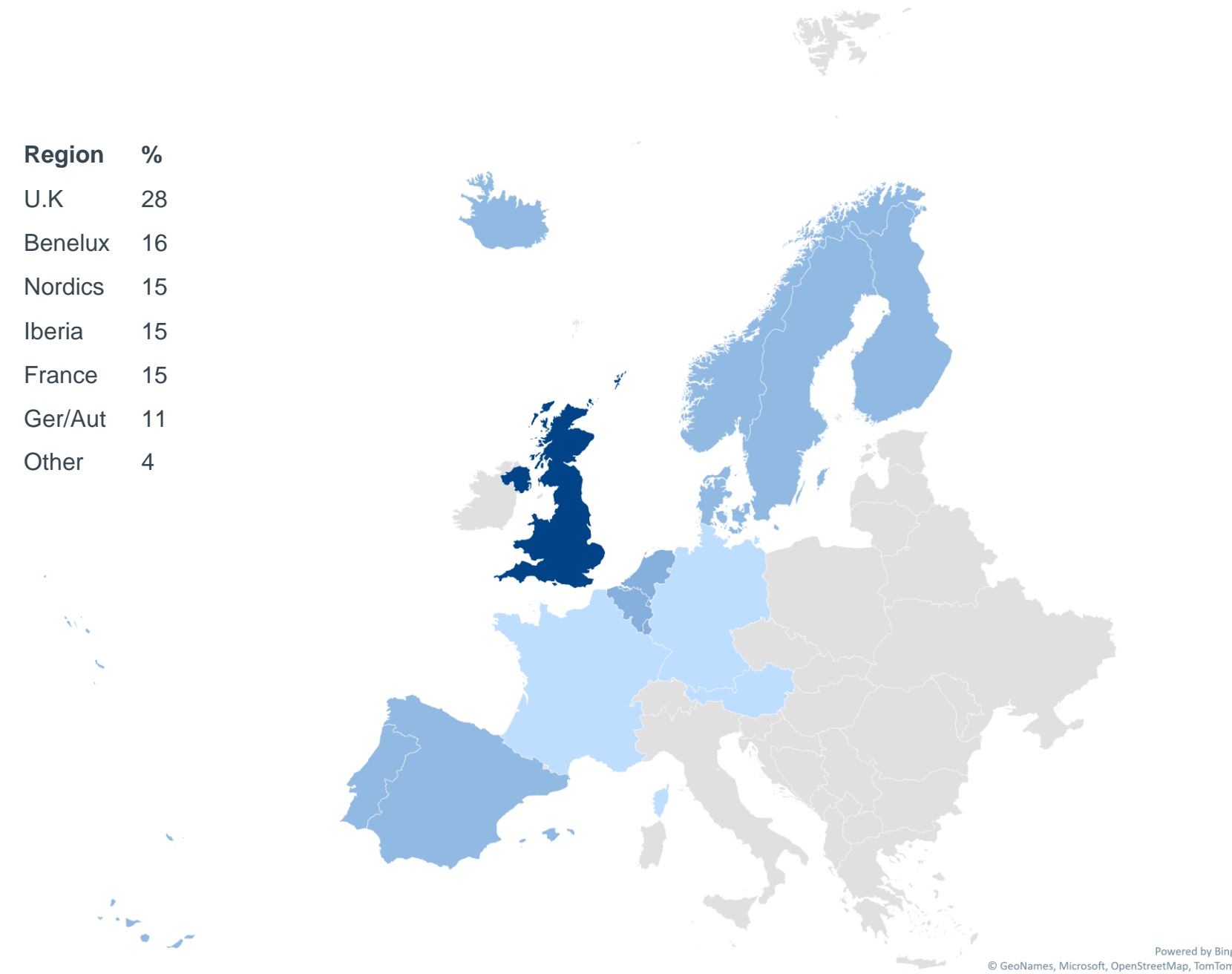
Arion Bank's green financing - total bond issues and deposits

ISK bn

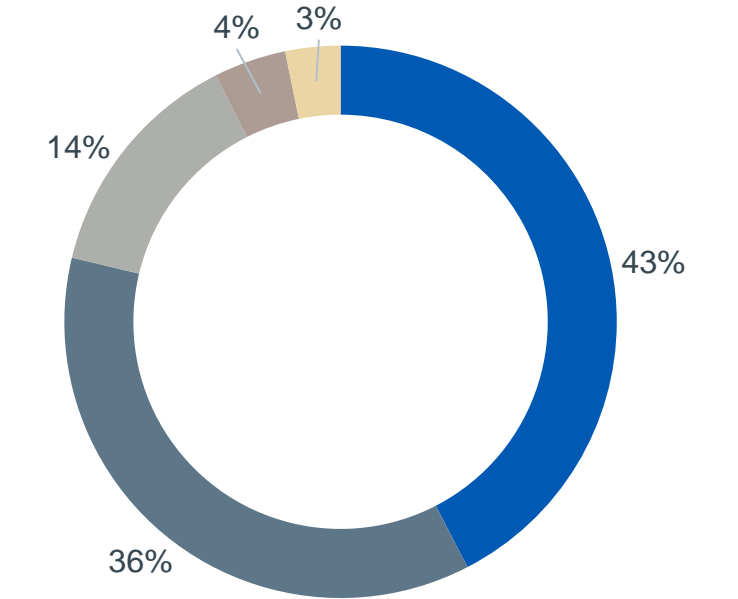


Investor breakdown of green bonds by region 2022

Region	%
U.K	28
Benelux	16
Nordics	15
Iberia	15
France	15
Ger/Aut	11
Other	4

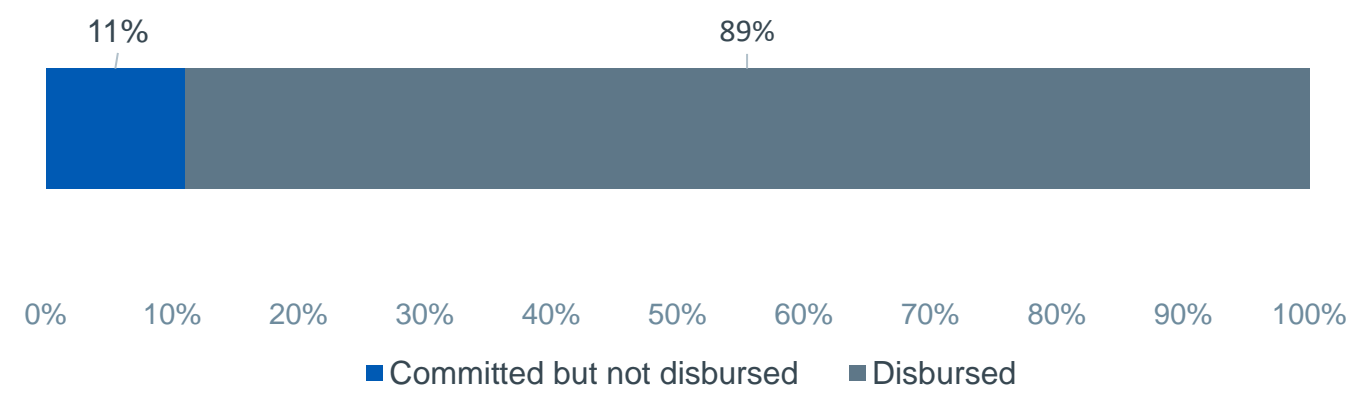


Committed financing breakdown %

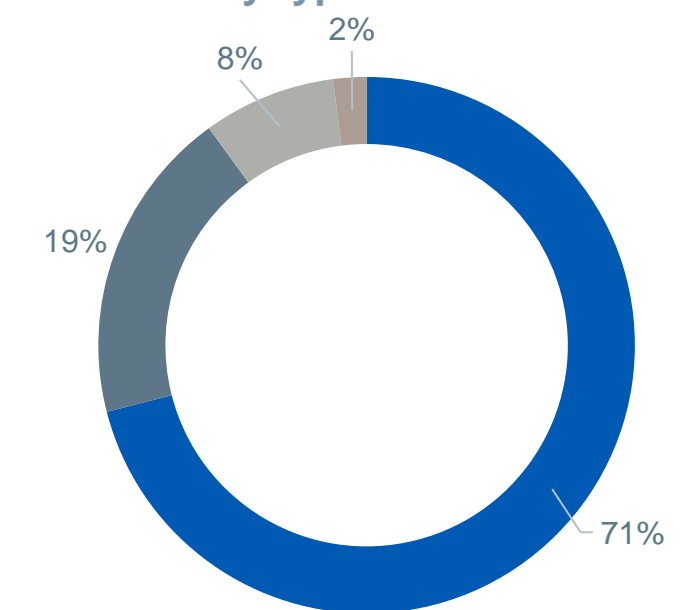


- Green buildings
- Energy efficiency
- Clean transportation
- Sustainable fishery and aquaculture
- Pollution prevention and control

Committed but not disbursed vs. disbursed



Investor breakdown of green bonds by type 2022



- Asset Management
- Central Banks/Official Institutions
- Banks/Private Banks
- Insurance Companies/Pension Funds

Number of green projects

3,873

Total committed green finance

151.5 bn ISK

Outstanding amount of green finance

33.3 bn ISK




Executive summary for impact of green financing 2022

 Annual CO2 emissions avoided

4,049 tCO₂

 Annual emissions of greenhouse gases avoided with green financing corresponds to:

13,497 return flight tickets from Copenhagen

 Clean transportation

1,514

 Number of MSC and ASC certified projects

16

 Number of green housing

2,338

 Number of waste handling projects

3





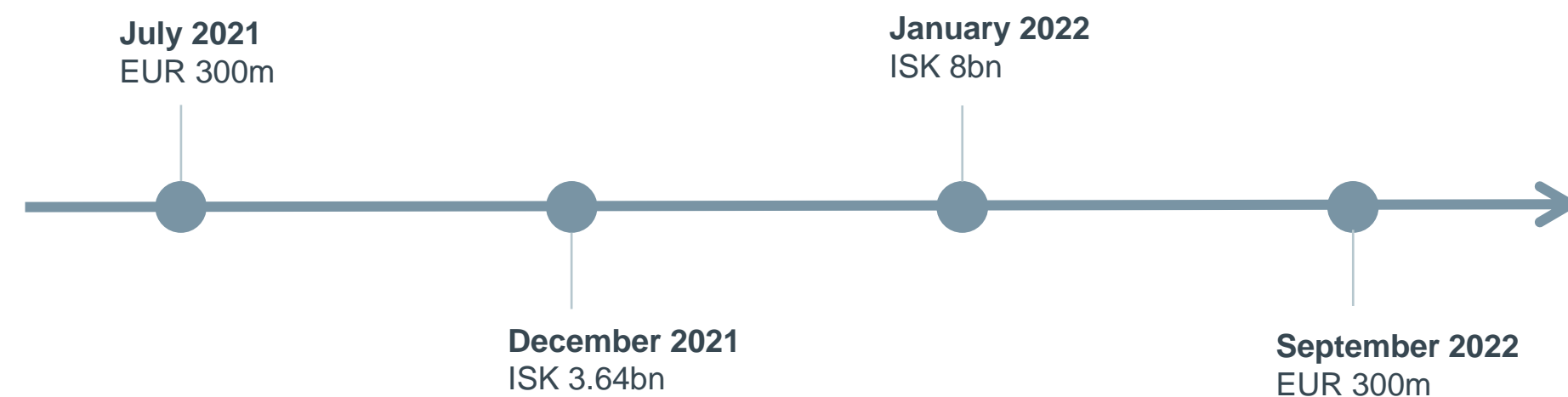
Green bonds

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. Two of these green issues were held in 2022.

Firstly, an ISK 8 billion Icelandic bond issue, and secondly a €300 million issue in September. Total committed finance in 2022 was approximately ISK 151 billion at the end of 2022, compared with approximately ISK 130 billion at the end of 2021. The Bank's total green instruments amount to ISK 118.7 billion, compared with ISK 55.4 billion in 2021.

Green bond timeline

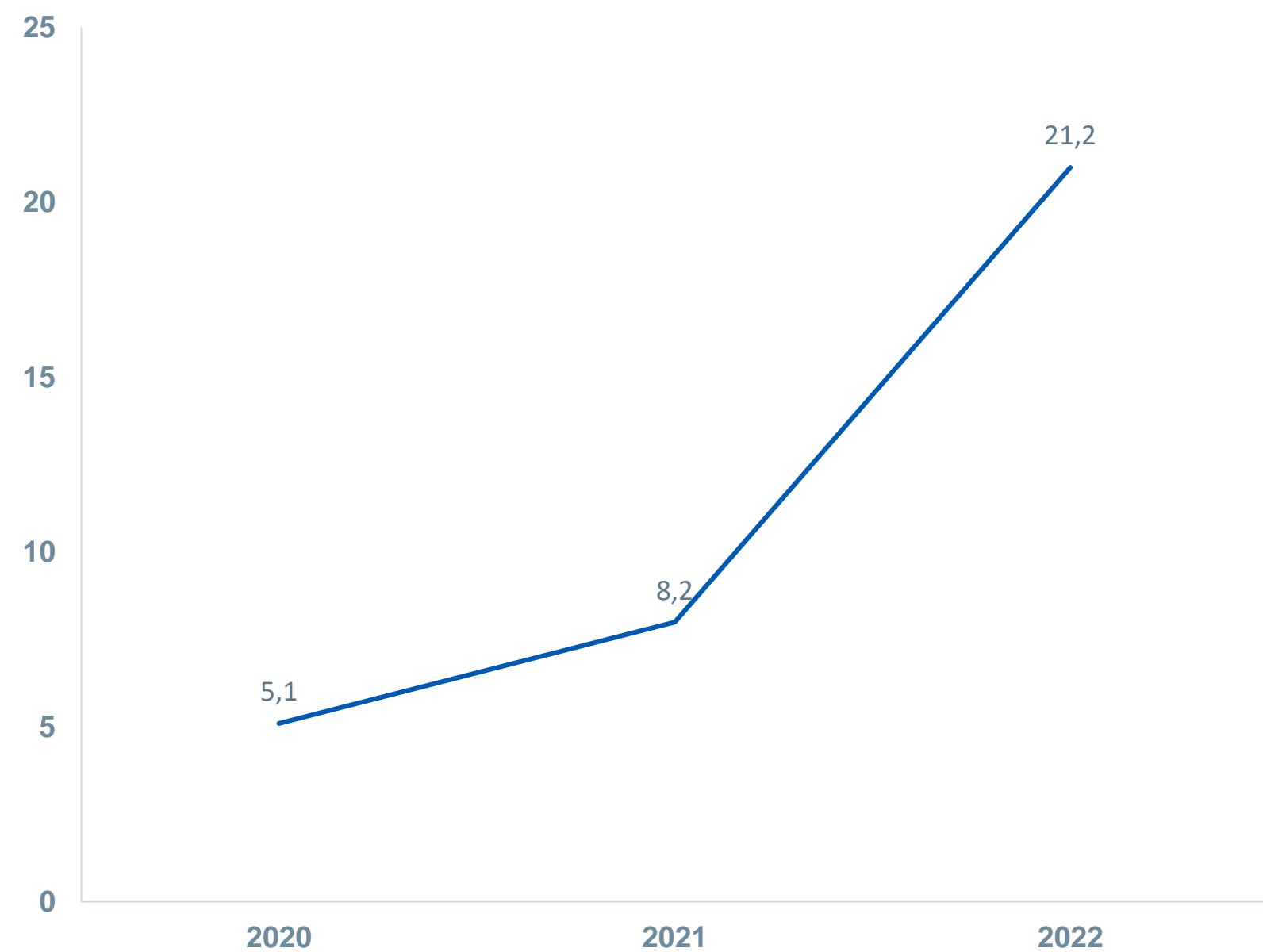


Green Bond July 2021		Green Bond Dec 2021		Green Bond Jan 2022		Green Bond Sept 2022	
Issuer	Arion Bank hf.	Issuer	Arion Bank hf.	Issuer	Arion Bank hf.	Issuer	Arion Bank hf.
ISIN	XS2364754098	ISIN	IS0000033710	ISIN	IS0000033801	ISIN	XS2498976047
Type	Green Senior Unsecured	Type	Green Senior Unsecured	Type	Green Senior Unsecured	Type	Green Senior Unsecured
Size	EUR 300m (ISK 44bn)	Size	ISK 3.64bn	Size	ISK 8bn	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
Exp. Issue rating	BBB (S&P)	Exp. Issue rating	-	Exp. Issue rating	-	Exp. Issue rating	BAA1 (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 deposits

Growth of green deposits
ISK bn.



Green deposits				
Start date	Distribution 31.12.22	Amount 31.12.20	Amount 31.12.21	Amount 31.12.22
23 June 2020	26% individuals 74% institutions and companies	ISK 5.1bn	ISK 8.2bn	ISK 21.2 bn

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 exceeded all expectations, and at the end of 2022 total deposits amounted to more than ISK 21 billion, up from 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 13% of residential housing which Arion Bank has financed matches Arion Bank and Mannvit's definition of green residential housing and environmentally certified housing.

- [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.





Process for project evaluation and selection

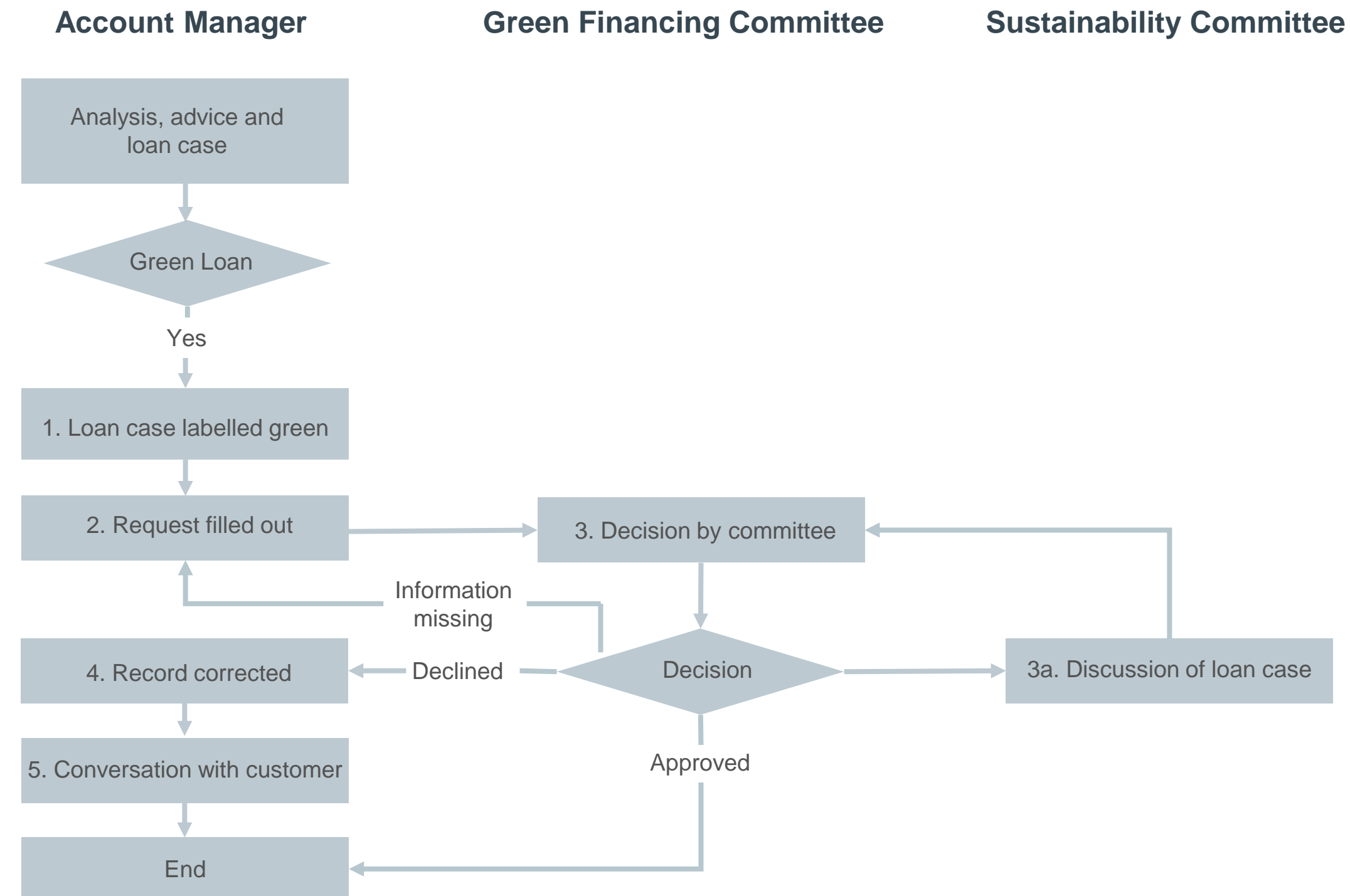
Process for project evaluation and selection

Arion Bank has established a robust process to identify Eligible Assets in Green Asset Categories which ultimately shall be included in its common Green Asset Pool:

1. A new loan is analyzed and marked green if applicable
2. Business request established
3. Green Financing Committee approves pre-selected Eligible Assets to the Bank's Green Asset Pool. If there is uncertainty, the matter is referred to the Sustainability Committee (SUCO). 3a. SUCO reviews the matter and reports back to the Green Financing Committee. The loan is registered as an Eligible Asset.
4. If the loan is not approved, the business manager is informed, and the loan is changed in the system.
5. The customer is informed about the situation and the case is closed.

The process is governed by a Green Financing Committee that has been established and which manages the internal process if existing loans are converted into Green Assets. The Committee consists of representatives from the Group Sustainability Office, Treasury, Investor Relations, relevant business units and the Bank's Risk function, and shall vote unanimously.

Overseeing the Green Financing Committee is the Sustainability Committee (SUCO) comprised of managing directors and the CEO, who chairs the committee.



Management of proceeds

Arion Bank manages the proceeds of its Green Financing Instruments on a portfolio basis, with amounts corresponding to the net proceeds of any Green Financing Instrument outstanding, used to finance the Green Asset Pool. Net proceeds of instruments are placed in the Bank's general funding accounts.

In order to monitor the Green Asset Pool, the Bank has established an internal Register which displays the technical mapping of all approved Eligible Assets by the Green Financing Committee. The Register is reviewed quarterly by the Committee and maturing exposures and assets that are sold, are excluded from the Pool.

The Bank's goal is to ensure that its Green Asset Pool remains larger than the total net proceeds of all green financing Instruments outstanding. As the Register is routinely monitored by employees, any potential shortfall in the Green Asset Pool should be detected in a reasonably short time frame and adjusted accordingly.





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 31.12.2022 in million ISK	51,936	-	-	4,879	64,232	8,189	6,174	135,410
Committed finance 31.12.2022 in million ISK	55,049	-	-	4,879	64,232	20,906	6,435	151,501
Annual emission avoided (tons CO2e)		-	-	2,363	402	-	1,284	4,049
Certification	13 projects with over 90% of revenues MSC certified							
	3 projects with over 90% of revenues ASC certified							
Ratio of recycled material (%)							Three waste handling projects that are financed: Project 1: 63% Project 2: 52% Project 3: 94%	
UN SDGs								



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 x average yearly EVs mileage x 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 ratio of recycled material. 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 2022.

Key reporting principles

- Arion Bank reports on a portfolio basis, Icelandic króna (ISK).
- Currency rates are as per 31 December 2022.
- 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 2022, 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.



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 and impact of net proceeds from Green Bonds as disclosed in Arion's Impact and Allocation Report 2022. 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:

- Allocation of net proceeds from Green Bonds are used to finance projects that meet the criteria of the Bank's Green Financing Framework.
- Assess the impact of the projects is in line with the methodology as shown in the Bank's Green Financing Framework.

We express a conclusion providing limited assurance.

Management's responsibility

The Management of Arion 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 2022. 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, and impact is according to the methodology. 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 2022 under the criteria of the Green Financing Framework, and the assessed impact of the loans, is not prepared, in all material respects, in accordance with the Green Financing Framework.

Kópavogi, 24 April 2023

Deloitte ehf.



Gunnar Þorvarðarson
State-Authorised Public Accountant