

Green Deposit Framework



Arion Bank and sustainability

Arion Bank is committed to the transition towards sustainability and green infrastructure. In this Green Deposit Framework (hereafter referred to as the *Framework*) we outline our focus on supporting the energy transition in transportation, eco-efficient and circular economy adapted products and processes, and pollution prevention and control. This Green Deposit Framework describes how we use our customers' deposits for such lending activities as well as our transparency and disclosure practices.

Arion Bank is a strongly capitalized bank which provides universal banking services to companies and individuals with the aim of creating future value for the benefit of its customers, shareholders, partners and society as a whole. Arion Bank's sustainability policy bears the title *Together we make good things happen* and indicates that the Bank intends to act as a role model by promoting responsible and profitable business practices, which take into account the environment, the economy and the society in which we live and work.

In July 2019 Arion Bank became a signatory to UNEP FI, United Nations Environment Programme Finance Initiative, which is a partnership between United Nations Environment and more than 250 financial institutions across the world working to understand today's environmental, social and governance challenges.

In September 2019 Arion Bank became a signatory to the Principles for Responsible Banking (PRB) which were devised by UNEP FI and 30 international banks. These principles align banking with international goals and commitments such as the UN Sustainable Development Goals and the Paris Climate Agreement. In December 2019 the Board of Directors of Arion Bank adopted a new environment and climate policy which is aligned with the principles. Arion Bank intends to focus on financing projects on sustainable development and green infrastructure.

Use of proceeds and Eligible Projects Governance





The net proceeds (hereafter referred to as the *Proceeds*) from green deposit accounts in accordance with this Framework shall be allocated to the financing, or refinancing, of a pool of loans, projects and/or assets as defined under the Eligible Project Category tables below (hereafter referred to as *Green Loans*). Green Loans may be subject to financing from several and various types of green financing instruments.

The legal documentation for each individual green deposit account offered by Arion Bank shall include a reference to this Green Deposit Framework.







The projects to be funded under this framework are activities that are expected to contribute substantially to four of the six environmental objectives defined in the EU

taxonomy, i.e. Climate Change Mitigation, Sustainable Use and Protection of Water and Marine Resources, Transition to a Circular Economy, and Pollution Prevention and Control.

No.	Eligible Project Category	Sub-category ¹	Criteria and threshold	Project examples	Impact indicators		UN SDGs
			Until 31 Dec 2025 ² gCO ₂ /km (WLTP/ NEDC)	From 1 Jan 2026 gCO ₂ /km (WLTP/ NEDC)	Vehicle and project types		
1	Clean Transportation ³	Passenger cars, light commercial vehicles	<=50 / 34 gCO ₂ /km (WLTP/ NEDC) ⁴	0 / 0 gCO ₂ /km (WLTP/ NEDC)	N1 and M1 category vehicles that are 100% electric, 100% hydrogen, 100% landfill-gas methane, or emit below the defined threshold.	1. Number of clean vehicles funded 2. Estimated annual GHG emissions reduced/ avoided in tCO ₂ e.	   
2		Two- and three-wheel vehicles and quadricycles	0 / 0 gCO ₂ /km (WLTP/ NEDC)	0 / 0 gCO ₂ /km (WLTP/ NEDC)	L category vehicles that are 100% electric or have zero CO ₂ emissions.		
3		Public transport	<=50 gCO ₂ e/ pkm ⁵	0 gCO ₂ e/ pkm	M2 and M3 category vehicles, light rail transit, metro, tram, trolleybus, or rail that are 100% electric, 100% hydrogen, 100% methane (landfill gas), or emit below the defined threshold.		
4		Heavy commercial vehicles	<20 gCO ₂ / tkm	0 gCO ₂ e/ tkm	N1, N2, N3 category vehicles that are 100% electric, 100% hydrogen, 100% methane (from landfill gas), or emit below the defined threshold.		
5		Infra-structure for clean energy vehicles	n/a	n/a	Electric charging points for electric vehicles and installation.		

1. Eligible Project Categories are based on the European Union Expert Group on Sustainable Finance Taxonomy Technical Report (EU Taxonomy) (June 2019), the International Capital Market Association's (ICMA) Green Bond Principles (June 2018), the Climate Bonds Taxonomy (October 2019), and Climate Bonds Initiative's Low Carbon Land Transport and the Climate Bonds Standard (version 1.0, est. February 2017).
2. The EU Taxonomy has defined the end of 2025 as the transition point for vehicles to be manufactured with 0g CO₂/km tailpipe emission intensity.
3. Vehicles relying 100% on fossil fuels are not eligible under this Framework.
4. The different threshold is to account for the difference in testing results using the WLTP and NEDC standards. Weighted WLTP or NEDC gCO₂/km value is used for Plug-In-Hybrid vehicles.
5. The threshold is given, as defined in the EU Taxonomy (see footnote no. 1), per passenger-kilometre (ensuring a carbon intensity similar to the criteria for eligible road vehicles, as described in Eligible Project Sub-Category no. 1. A hybrid bus would require at least 16 passenger average occupation factor).



No.	Eligible Project Category	Sub-category	Criteria and threshold	Project examples	Impact indicators	UN SDGs
6	Eco-efficient and circular economy adapted products, production technologies and processes	Eligible Assets ⁶ related to products, technologies and processes that reduce the environmental impacts from the production and consumption of goods, extend the product life or use cycle of goods and materials, as well as increase the efficiency of resource consumption	Enterprises must benefit from selected sustainability certifications for their products, services or processes. If more than 90% of the turnover of the corporation is attributed to certified products, all loans will be considered. Relevant labels under this framework are: - Nordic Swan Ecolabel - EU Organic - USDA Organic - Canada Organic - Rainforest alliance		1. Number of certified products sold with relevant labels under this framework per year. 2. Weighted average of the certified products sold vs. non certified products per year.	 
7	Pollution prevention and control	Eligible Assets ⁷ related to technologies, processes and associated infrastructure supporting waste prevention, waste reduction, waste recycling	Waste management solutions such as waste prevention, separate collection, sorting, treatment and processing of all types of waste.		1. Number of metric tons processed in the facility and material recovery rate, in %. 2. Output waste categories, e.g. recycling, in % of total waste input and in absolute amount in tonnes per year. 3. Estimated reduced and avoided GHG emissions (tonnes CO ₂ e) per year.	 

Management of proceeds

All deposit inflow and Loans financed by the Proceeds will be kept in a separate portfolio (hereafter referred to as the Green Registry) managed by Arion Bank's Risk Management division. If a Green Loan no longer meets the criteria set out in the Eligible Project Category tables, it will be removed from the Green Registry.

Arion Bank strives to achieve a level of allocation for the Eligible Green Loan portfolio which matches or exceeds the balance of Proceeds from its outstanding Green Financing. Additional Green Loans will be added to the issuer's Green Registry to the required extent. Unallocated Proceeds may temporarily be placed in cash, cash equivalents, or other liquid marketable instruments and managed by Arion Bank's Treasury department.

Governance: process for project evaluation and selection

Green Loans at Arion Bank are granted through its robust credit decision mechanisms and by relevant Account Managers or Credit Committees and according to criteria set out in this Framework.

Any changes to this Green Deposit Framework shall be reviewed and approved by the Bank's Sustainability Steering Committee.

6. Any vehicle funded under this project category must meet the clean transportation criteria and thresholds or not consume fossil fuels.

7. Proceeds cannot be used to purchase fossil fuels or run equipment that is entirely reliant on fossil fuels, or fund air transportation of products.



Transparency, reporting, and external review

Arion Bank will provide Allocation and Impact reporting to its investors and other stakeholders annually in line with its general annual reporting cycle until Proceeds are fully allocated. The reporting will be conducted in line with best market practice and international guidelines and protocols⁸ at an aggregated level and on a portfolio basis.

Arion Bank intends to seek external verification of both the Allocation and the Impact Reporting. Arion Bank will publish information in its Annual and Sustainability Report, including on the following reporting indicators.

This Framework has been reviewed by CIRCULAR Solutions which has issued an External Assurance which is published in parallel with this Framework on Arion Bank's website. Furthermore, Arion Bank intends to request an independent assurance on both the Allocation and Impact Reporting.

Allocation reporting
<ul style="list-style-type: none"> • Summary of green financing activities • Balance of unallocated proceeds • New vs. refinancing ratio • Allocation to Eligible Project Categories • An example list of projects financed
Impact reporting ⁹
<ul style="list-style-type: none"> • Methodologies for individual project categories and/or projects • Environmental impacts, per the indicator table in the Eligible Project Category table

Supporting documents

Below is a list of documents, including policies, reports, both internal and external, which are related to this Green Deposit Framework and Arion Bank's sustainability efforts and were shared with CIRCULAR Solutions in the External Assurance process.

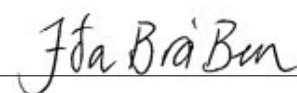
No.	Document name	Date	Public
1	Sustainability Policy	February 2020	Yes (link)
2	Environment and Climate Policy and Initiatives	February 2020	Yes (link)
3	Responsible Investment Approach and Initiatives	February 2020	Yes (link)
4	Responsible Banking Initiatives	February 2020	Yes (link)
5	Responsible Asset Management	February 2020	Yes (link)
6	Sustainability Reporting 2019	February 2020	Yes (link)
7	GRI Reporting Table	February 2020	Yes (link)
8	ESG / Non-financial Reporting Table	February 2020	Yes (link)
9	Internal processes (300.6.1.1 and 300.6.1.7) on granting car loans	February 2018	No

Disclaimer

This Green Deposit Framework has been prepared by Arion Bank hf. It is provided for information purposes only and may be subsequently amended, superseded, or replaced. This Green Deposit Framework does not constitute a recommendation regarding any securities or deposits of Arion Bank or its subsidiaries.



Benedikt Gíslason, CEO



Ida Brá Benediksdóttir, MD Retail Bankingh

8. The reporting and impact indicators are based on ICMA, the International Capital Market Association's & Green Bond Principles' Handbook on Harmonized Framework for Impact Reporting (June 2019), the European Union's Technical Expert Group on Sustainable Finance Report on EU Green Bond Standard (June 2019), and the Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting (January 2019) in addition to other relevant indicators.

9. The impact assessment is provided subject to the availability of information and baseline data. This may also be subject to confidentiality agreements, competitive considerations, and other such factors, which may limit the scope of impact reporting.

