

Green Financing Framework

July 2021





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1. Sustainability at Arion Bank

1.1 Rationale for issuing a Green Bond

Arion Bank (also referred to as “Arion”, “the Bank” or “we”) is a financially robust bank which places great importance on operating responsibly in harmony with society and the environment with the aim of creating future value for the benefit of its customers, shareholders, partners and society as a whole.

Arion Bank is an Icelandic institution with operations based primarily in Iceland but which also provides services to companies in or linked to the seafood sector in Europe and North America. Our largest loan categories are real estate and construction, mortgages and fishing. These categories therefore also represent the majority of our Green Asset Pool. The majority of our corporate loans are located in Iceland (approximately 93%).

financial institutions across the world working to understand today’s environmental, social and governance challenges. In September 2019 we also 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 (the ‘SDGs’) and the Paris Climate Agreement. In December 2019 our Board of Directors adopted a new environment and



Our sustainability policy bears the title *Together we make good things happen* and indicates that we intend 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 the Bank operates.

In July 2019 Arion Bank became a signatory to UNEP FI, the United Nations Environment Programme Finance Initiative, which is a partnership between United Nations Environment and more than 250



climate policy which is aligned with the principles. Going forward Arion Bank intends to focus on financing projects on sustainable development and green infrastructure.

Globally and at home we are faced with increasingly important challenges, including environmental pollution, responsible use of natural resources and climate change, all of which are threatening the well-being of the global community and demand immediate action. At Arion Bank, we recognize our obligation to care about the earth’s natural resources and to preserve the environment for future generations.

Iceland is in a unique position to be a global leader in environmental and climate issues. 99.9% of our electricity comes from renewable sources and we are a leading nation when it comes to harnessing geothermal energy since most of our houses are





heated by hot water. The Icelandic seafood industry largely exploits sustainable stocks which have been MSC certified, and the industry has greatly reduced its consumption of fossil fuels.

But we need to do better. In order to reach the goals of the Paris Climate Agreement and other international obligations on environment and climate issues and to realize the government's aim of Iceland becoming carbon neutral by 2040, we need to achieve significant reductions in greenhouse gas emissions in most areas. It is also vital to plant trees, reclaim wetlands and develop technology to remove or recycle carbon from the atmosphere.

To give a clearer idea of total emissions in Iceland, both those for which the government is directly responsible and emissions which fall under the EU Emissions Trading System (EU ETS), we can see that emissions from energy represented 39% of all emissions in Iceland in 2019. The main source of emissions in this category, making up more than half, is road transport. The National Energy Authority predicts that 50% of vehicles in Iceland will be electric in 2024 and 80% in 2028. Fishing vessels are the second greatest source (approximately one third), and emissions from geothermal plants accounted for 9%. These emission figures do not take into account land use or forestry (LULUCF).¹

Oil consumption in the fishing industry has decreased by 43% from 1990 to 2016, mostly because of technological advances in the field. Newer vessels are more efficient and can, for example, stay longer at sea with apparent advantages. Today, Icelandic fishmeal reduction plants operate exclusively on renewable energy.² Industrial processes and material use were the source of 43% of emissions in Iceland in 2019 (excluding LULUCF). The majority of emissions originated from the metal industry and F gases which are used in coolants. Emissions from agriculture in 2019 constituted 13% of emissions in Iceland and 5% comes from waste management, where the main contributor is methane emissions from landfill sites.³

Our aim is to be a role model on issues at the heart of the Icelandic community, while also minimizing greenhouse gas emissions and the negative environmental impact of our activities. As a financial institution, our direct impact on the natural environment is limited relative to other industries. However, we can and will leave our mark indirectly, through financing and investment products. How a bank manages its financial resources can have a decisive impact on the progress of sustainable development in individual countries and globally. This is why Arion Bank endeavours to continuously create a better business and to have a positive impact. We want to be part of the change necessary to create a sustainable future and align our business practices accordingly. Sustainable development and the circular

¹ Source: The Environmental Agency of Iceland 11.05.2021: <https://ust.is/loft/losun-grodurhusaloftegunda/losun-islands/>

² Source: Statistics Iceland, Energy Forecast Committee 2016, and the Association of Icelandic Fishmeal Producers.

³ Source: The Environmental Agency of Iceland 11.05.2021: <https://ust.is/loft/losun-grodurhusaloftegunda/losun-islands/>



economy are the paths we need to take to ensure a future which is harmonious with the environment.

In June 2020 Arion Bank announced the launch of a new green deposit account, the first Icelandic bank to offer such an account. Green deposits are designed for individuals, NGOs and companies wanting to contribute towards a greener future. As a further manifestation of our commitment to a sustainable future, we have now decided to establish this Green Financing Framework. It is designed to reflect our support for sustainable economic prosperity in Iceland, while also giving us the opportunity to align our business with the highest environmental standards.

1.2 Sustainability at Arion Bank

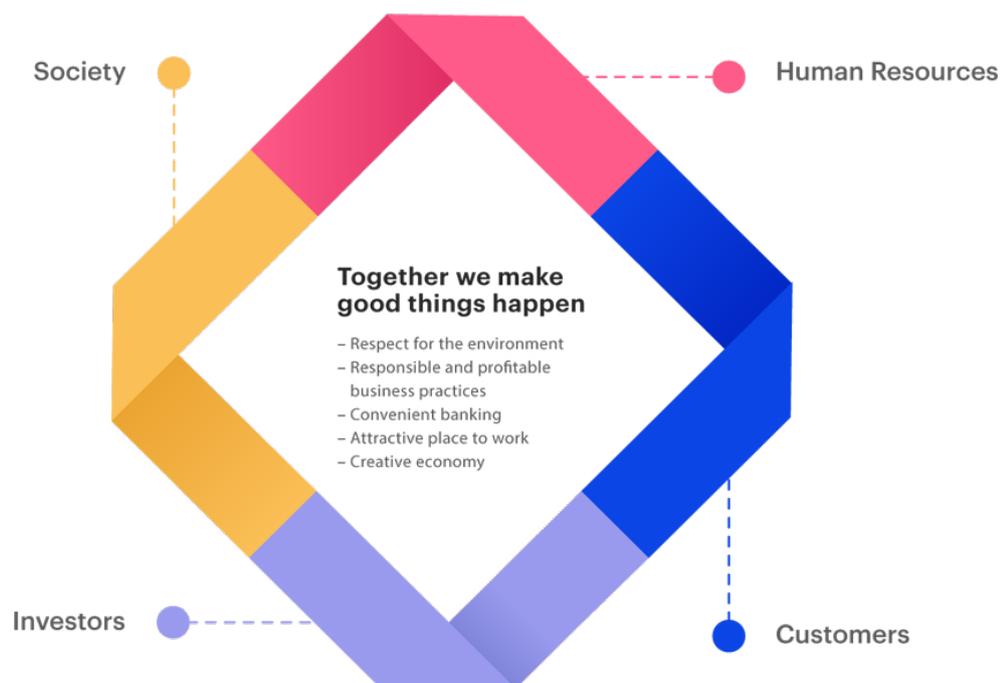
At Arion Bank we aim to ensure that sustainability is part of the Bank's day-to-day activities, our decision-making and processes. At the beginning of 2020 the executive committee of Arion Bank approved six of the UN SDGs on which the Bank intends to focus. These goals are number 5 on gender equality; number 7 on affordable and clean energy; number 8 on decent work and economic growth; number 9 on industry, innovation and infrastructure; number

12 on responsible consumption and production; and number 13 on climate action.

The Bank's operations, including action on gender equality, our policy and targets on environment and climate issues, support for innovation and the business sector as a whole, state-of-the-art digital services and active participation in the development of the economy closely align with these UN Sustainable Development Goals.

The information we publish on sustainability is prepared in accordance with the Global Reporting Initiative standard, GRI Core, which helps companies and institutions share information relating to sustainability transparently and enables comparisons. When sharing information on non-financial factors of the business, the ESG reporting guide for the Nasdaq Nordic and the 10 Principles of the UN Global Compact are also used as reference. In addition, the UN Sustainable Development Goals are also taken into account. Further, we report on the progress made in implementing the UN Principles for Responsible Banking and Responsible Investment.

The diagram below shows the main stakeholders and our key sustainability focus areas:



In order to gain a better overview of the risks related to climate change, the Bank has started to use the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In 2020, Arion Bank's loans to sectors which are defined as important for tackling climate change according to the recommendations of TCFD were defined. The TCFD analysis is performed as a part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and we will continue to implement the recommendations of the TCFD going-forward.

Further information on sustainability at Arion Bank can be found on the Bank's website and in the Annual and Sustainability Report which are published at the beginning of each year.

Our environment and climate policy

Man-made global warming is one of the greatest threats facing us today and we want to contribute to efforts to ensure that Iceland can meet its obligations under the Paris Climate Agreement and other local and international environmental and climate agreements, which include limiting global warming to well under 2° C, preferably 1.5° C.

Banks play a vital role in providing funding for progress and Arion Bank wants to be a force for good. Our focus is on financing projects on sustainable development and green infrastructure and we will evaluate our loan portfolio according to green criteria and set ourselves ambitious targets in this respect.

We also require our suppliers to take into account the environmental and climate impact of their activities.

When comparing similar offers from suppliers, environmental and climate considerations will be decisive in our decision. The Bank's goal is to reduce emissions of carbon dioxide and other greenhouse gases from our activities by at least 40% by 2030 and to offset all these carbon emissions.

We are setting ambitious targets and will publish the results of our progress in areas where we have the greatest impact, such as our own activities and the services we provide to our customers. We endeavour to improve our employees' knowledge and understanding of environmental issues and to support our customers' journey towards a green future in accordance with the UN Sustainable Development Goals.

Steering committee on sustainability

At Arion Bank the CEO is responsible for matters relating to sustainability. We also have a steering committee on sustainability and the project manager for sustainability oversees the committee's activities. The managing directors of Corporate & Investment Banking, Retail Banking and Markets are on the committee along with the heads of Marketing and Corporate Communications.

The Green Financing Committee we established and which we describe in Section 2 of this Framework works within the context of our sustainability governance structure defined by the CEO.



1.3 Our commitments, certifications, ratings and participation in sustainability



UNEP FI and Principles for Responsible Banking



Forum for climate action and green solutions – Green by Iceland



United Nations Principles for Responsible Investment



UN Global Compact, the UN's initiative on sustainability



Ministry of Welfare's equal pay symbol



Iceland Sustainable Investment Forum



City of Reykjavik and Festa's Declaration on Climate Change. Excellence in corporate governance.



Festa – Sustainability centre



UN Women/UN Global Compact Empowerment Principles



ESG reporting guide for Nasdaq



Kolviður – Iceland Carbon Fund



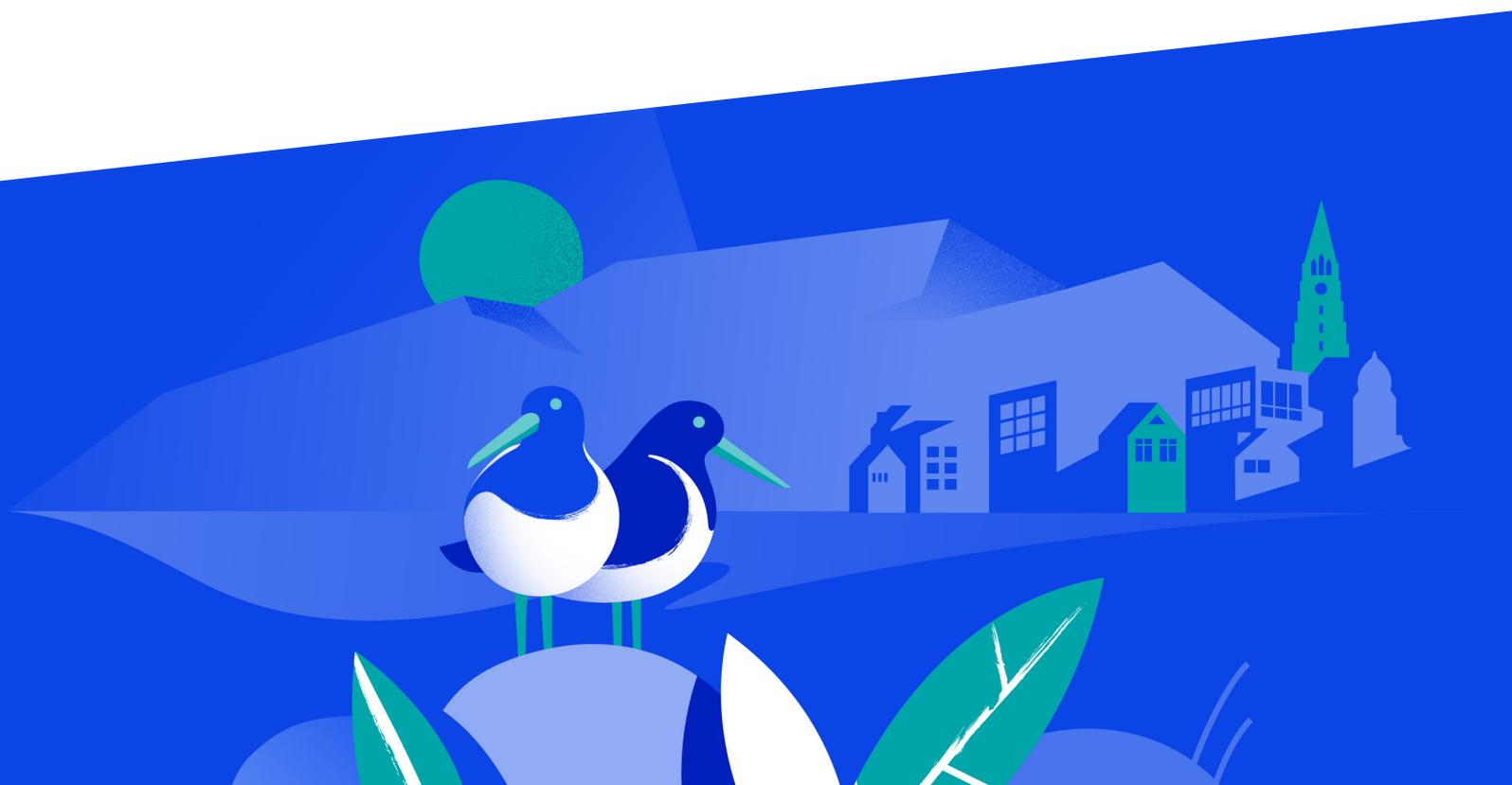
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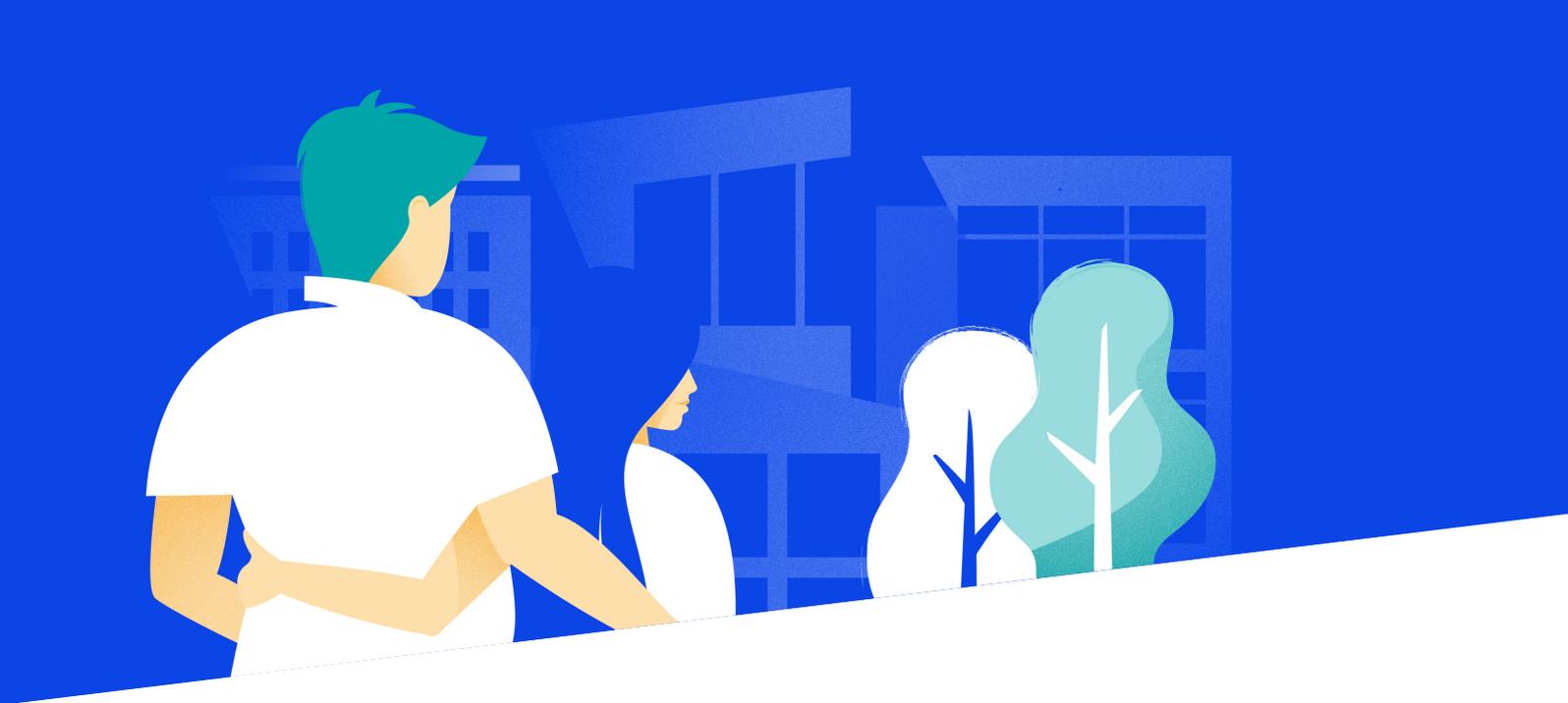


Icelandic ratings company



UN Sustainable Development Goals





2. Green Financing Framework

Our Green Financing Framework (the '**Framework**') is based on the latest versions of the Green Bond Principles ⁴, published by the International Capital Markets Association (ICMA).

This Framework allows Arion Bank the future issuance of 'use-of-proceeds'-based '**Green Financing Instruments**', which include, but are not limited to (**Covered**) **Bonds, Loans, Commercial Papers ('CPs'), Repurchase Agreements ('Repos')** and **Deposits**. Instruments issued in accordance with this Framework can be of any seniority or subordination, including own funds instruments, but in any case are expected to rank pari passu with any other conventional instrument of similar status and subordination.

As a member of the European Economic Area ('**EEA**') Iceland is not directly in scope of the emerging regulatory environment with respect to the European Taxonomy for Green Activities ('**EU Taxonomy**')⁵ and the European Green Bond Standard ('**EU GBS**')⁶. Given the global relevance of these newly established frameworks, Arion Bank is however carefully monitoring the developments and will take them into account when feasible. Full application of the EU Taxonomy is not envisaged and not even possible for Arion Bank at the moment, since the criteria and methods of assessment are currently in large parts referencing existing European regulations and delegated acts which might not at all or only at a later point in time be adopted into Icelandic law.

Potential changes to any of the principles governing the content of this Framework will be reflected in future frameworks, whereby Arion Bank will either keep or improve the current level of disclosure and stringency when selecting eligible assets.

The Framework consists of the following core components, which will be 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**

2.1 Use of Proceeds

An amount equivalent to the net proceeds of any Arion Bank Green Financing Instrument will be used to finance or re-finance project finance loans, general corporate loans or any equity or own investments in tangible or intangible assets (together '**Eligible Assets**') which support the transition to a low-carbon economy and the SDGs.

In order to be eligible, the loan or investment must fall in at least one of the categories described in the table below ('**Eligible Categories**'). In the case of general corporate loans, at least 90% of the turnover of the corporation needs to be attributable to Eligible Sectors and fulfil the respective requirements.

Arion Bank strives to reach full allocation of proceeds within one year after each issuance.

⁴ <https://www.icmagroup.org/green-social-and-sustainability-bonds/>

⁵ https://ec.europa.eu/info/publications/Green-finance-teg-taxonomy_en

⁶ https://ec.europa.eu/info/publications/Green-finance-teg-green-bond-standard_en



ICMA GBP	Definition	Eligibility criteria	SDG mapping
1.1. Environmentally sustainable management of living natural resources and land use	<p>1.1 Sustainable fishery and aquaculture</p> <p>Eligible Assets 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</p>	<ul style="list-style-type: none"> • Sustainable fishery (i.e. fishing, processing, preserving, storing, transporting, marketing and selling fish and fish products) certified by: <ul style="list-style-type: none"> - Marine Stewardship Council (MSC), accompanied by the Icelandic Sustainable Fisheries (ISF) • Sustainable aquaculture certified by: <ul style="list-style-type: none"> - Aquaculture Stewardship Council (ASC) <p>Arion Bank engages with clients from the industry regarding their feed sourcing policies and encourages the adoption of standards like ProTerra or Round Table on Responsible Soy.</p> <p><i>Certification schemes, confirming good management practices have been identified by the Climate Bonds Initiative working group on sustainable fisheries to be able to serve as a potential proxy for low emissions.</i></p> <p><i>In addition, Arion Bank requires to be provided with key non-financial criteria relevant to the operation of each client to assess the scope and impact of these aspects. For fisheries, this includes any potential information on the development of fossil fuel consumption related to equipment or vessels.</i></p> <p><i>Direct financing for fossil fuel equipment / vessels / infrastructure will be excluded under the framework.</i></p>	 
	<p>1.2 Sustainable forestry and agriculture</p> <p>Eligible Assets 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</p>	<ul style="list-style-type: none"> • Sustainable forestry and certified forest carbon projects, including acquisition, maintenance and management of <ul style="list-style-type: none"> - forests certified either by the Forest Stewardship Council (FSC) or the Programme for Endorsement of Forest Certification (PEFC) - forests certified with Verra VCS approval or Gold Standard carbon certificate • Sustainable agriculture including expenditures for <ul style="list-style-type: none"> - new / improved drainage, soil carbon sequestration and reduced or delayed tiling • Cross-sectoral measures to reduce GHG emissions by at least 30% including <ul style="list-style-type: none"> - the promotion of the use of renewable technologies (such as geothermally heated greenhouses or electricity from renewable sources) - reclaiming natural wetlands and biodiversity by actions such as refilling drainage canals - projects in line with governmental initiatives and Iceland's commitments in the Paris Agreement to reduce GHG emissions in the agriculture sector <p><i>Direct financing of (i) fossil fuel equipment / vehicles / infrastructure, (ii) livestock and (iii) road development will be excluded under the framework</i></p>	   



2. Renewable energy	<p>Eligible Assets related to renewable energy projects, including geothermal, wind, solar, hydropower (<10 MW) and biogas used for transport, heating and industrial purposes</p>	<p>Over-arching, technology-agnostic emissions threshold of 100g CO₂e / kWh declining to 0g CO₂e/kWh by 2050 for all sorts of electricity production (CO₂e impact for producing 1 kWh of electricity)</p> <ul style="list-style-type: none"> • Geothermal: above threshold applies • Hydropower: above threshold applies <p>For hydropower, we additionally screen for controversies and the impact on the local environment before assets are included in the Green Asset Pool⁷</p> <ul style="list-style-type: none"> • Wind and solar: above threshold applies • Manufacture/utilisation of biogas: criteria as set out in the Nordic Swan Ecolabel for ‘liquid and gaseous fuels’ criteria document apply, requiring among others that biogas must be made from 100% renewable materials and that it must reduce GHG emissions in the entire production chain by 70% compared with the corresponding fossil fuels (reference value of 83.8g CO₂e /MJ applies). Renewable raw materials from palm oil, soybean oils and sugar cane are explicitly excluded 	 
3. Clean transportation	<p>Eligible Assets 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 electric vehicles)</p>	<p>While zero tailpipe emission vehicles (including hydrogen, fuel cell, electric) are automatically eligible, the following criteria apply to vehicles with tailpipe emissions:</p> <ul style="list-style-type: none"> • Passenger cars and light commercial vehicles: eligible if they have zero CO₂ emissions • Public transport: eligible if they have zero CO₂ emissions • Heavy commercial vehicles: eligible if they have zero CO₂ emissions • Two- and three-wheel vehicles and quadricycles: eligible if they have zero CO₂ emissions <p>Infrastructure for zero tailpipe emission vehicles such as electric charging points for electric vehicles and installation is eligible.</p>	   
4. Green buildings	<p>Eligible Assets related to the construction of new buildings, operation of existing buildings or renovation of existing buildings (with a minimum energy efficiency upgrade) in the commercial (including industrial and logistics) or residential real estate sector</p>	<p>A. New construction/ownership of existing buildings:</p> <p>Public/commercial and residential buildings:</p> <ul style="list-style-type: none"> • Required to have, or are designed and intended to receive (i) a design stage certification, (ii) a post-construction certification or (iii) an in-use certification in any of the following building certification schemes at the defined threshold levels or better: <ul style="list-style-type: none"> - BREEAM “Excellent” or above - LEED “Gold” or above - Nordic Swan Ecolabel <p>Residential buildings:</p> <p>For residential buildings specifically, Arion Bank worked with a local engineering consultant to develop a robust methodology for selecting green buildings from its mortgage pool. The selection process takes into account the specific Icelandic background, i.e. that buildings are almost fully run on renewable energy and as such, from a life-cycle perspective, embodied carbon emission make up the bulk of the total GHG emissions. The criteria document and a summary are published separately to the framework. Based on the results of the report, all of the following selection criteria need to be met:</p>	 

⁷ In Iceland all projects need to be accepted in “The Master Plan for Nature Protection and Energy Utilization”. The plan has different categories, one is the protection category – see here: <https://www.ramma.is/english/general-information/terms-and-definitions/>



5. Energy efficiency		<ul style="list-style-type: none"> Buildings are required to be among the top 15% carbon efficient buildings in Iceland from a life-cycle perspective which is taking into account the building material used and the operational energy demand of the use stage <ul style="list-style-type: none"> Threshold: CO₂ emissions ≤ 6.84 kgCO₂ /m²/year High energy intensity buildings with an energy use of >300kWh/m² per year are excluded even though they might form part of the top 15% carbon efficient buildings in Iceland from a life-cycle perspective as described above Buildings are required to be in proximity to public transportation <ul style="list-style-type: none"> Threshold: a maximum distance of 750 meters applies Buildings built in areas that do not require recycling are excluded <p>B. Renovation of existing buildings:</p> <p>Major renovations:</p> <ul style="list-style-type: none"> Energy efficient retrofit or renovation of existing buildings, reducing energy use (kWh/heated m2/year) by at least 30% Individual measures such as addition of insulation to external walls/roofs, replacement of windows or doors, installation of efficient LED lighting, upgrade of heat pumps, etc. 	
	<p>Eligible Assets 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 centres or lighting solutions.</p>	<p>Decisions will be made on a case-by-case basis depending on the activity-specific background. Only electrically powered projects, components, or processes are eligible, along with all clean fuels defined under the clean transportation category in this framework.</p> <p>Projects are deemed eligible when they achieve:</p> <ul style="list-style-type: none"> Increase in the energy efficiency of the respective process or product by at least 30% compared to the status prior to the upgrade For data centres specifically, a power usage effectiveness (PUE)⁸ less than 1.25 <p>Any fossil fuel related projects are not eligible even if they meet the efficiency threshold due to potential lock-in effects.</p>	  
6. Pollution prevention and control and wastewater management	<p>Eligible Assets related to technologies, processes and associated infrastructure supporting waste prevention, waste reduction, waste recycling as well as wastewater management</p>	<ul style="list-style-type: none"> Waste management solutions such as waste prevention, separate collection sorting, treatment and processing of all types of waste with the purpose to re-use and minimize the amount of waste to landfill Prevention, reduction, control and response management of land- or marine based sources of marine pollution Sustainable wastewater management and related infrastructure <p>Waste-to-energy projects will explicitly not be eligible under this Framework.</p>	   

⁸ Power usage effectiveness is an industry-recognised ratio describing the efficiency of a computer data centre's energy usage. PUE is calculated by dividing total facility energy by IT equipment energy: $PUE = \frac{\text{Total Facility Energy}}{\text{IT Equipment Energy}}$



Exclusions

As Eligible Assets under this Framework, Arion Bank explicitly excludes unfunded and non-performing exposures, as well as loans to businesses or projects in the following areas:

- × Fossil fuel related energy generation and related infrastructure
- × Environmentally negative resource extraction (such as rare-earth elements, metals or fossil fuels)
- × Nuclear and nuclear related technologies
- × Weapons, alcohol, tobacco, gambling, and adult entertainment
- × Deforestation and degradation of forests
- × Operations which practice shark finning or trade in shark fin products
- × Operations which practice drift net fishing or deep sea bottom trawling where prohibited
- × Fishing with the use of explosives or cyanide
- × Illegal unreported and unregulated fishing, or use of vessels known to have conducted such unreported and unregulated fishing

2.2 Process for Project Evaluation and Selection

Arion Bank has established a multi-step process to identify Eligible Assets in Green Asset Categories which ultimately shall be included in the Bank's common Green Asset Pool.

The process is governed by a Green Financing Committee that has been established and is responsible for:

- Approving the inclusion of pre-selected Eligible Assets in the Bank's Green Asset Pool (the Committee has full discretion to object the inclusion of any asset)
- Monitoring and managing the Green Asset Pool and corresponding Green Financing Instruments quarterly
- Observing developments in the principles and

standards relating to Green Financing instruments as well as developing market conventions and approving updates to this Framework accordingly

- Driving forward changes with regards to loan documentation and/or policies in connection with the asset identification process under this Framework

The Green Financing 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. The Green Financing Committee may allow permanent or temporary observers and invite internal and external experts, although none of these constituents will be present at a Green Financing Committee vote. Arion Bank's screening and selection process is described in the graph below and additionally supplemented by its Group Responsible Lending Policy.

- 1** Respective business units pre-screen assets based on eligibility criteria of this Framework which have been reviewed by a reputable Second Party Opinion Provider
- 2** Green Financing Committee conducts quarterly review of pre-selected assets to review and confirm final compliance with all requirements of this Framework
- 3** External reviewer (with environmental competence) evaluates the Green Asset Pool annually prior to the publication of the Green Financing Report. The Green Financing Committee will then vote on any issues raised by the reviewer (if any), which can lead to the exclusion of the respective assets from the Green Asset Pool
- 4** The reviewed Green Financing Report stating the allocation at the cut-off date will be published annually on Arion Bank's website



Following the work related to the Green Financing Framework, we also decided to make certain changes to our lending practices. With immediate effect, we will increase our client engagement by asking for more in-depth information from companies that qualify for a green loan. For example, we will ask for information such as, but not limited to:

- Development in oil consumption from fishing vessels
- Revenue per fish type
- Feed sourcing policies
- Yearly PUE

Future loan documents will reflect these changes.

2.3 Management of Proceeds

Arion Bank will manage the proceeds of any Green Financing Instrument on a portfolio basis. This means that the amount corresponding to the net proceeds of any Green Financing Instrument outstanding will be used to finance Arion Bank's Green Asset Pool. The net proceeds of such instruments will be placed in the general funding accounts and earmarked for allocation only and without legal segregation.

In order to monitor the Green Asset Pool, Arion Bank established an internal Register, which displays the technical mapping of all approved Eligible Assets by the Green Financing Committee. Identifying assets to be captured in the Register is a mere designation and does not imply any change in ownership, pledge or lien for the benefit of third parties or change in assignment to legal entity, branch or division (this also applies to Eligible Assets in the mortgage cover pool). In the case that there are any covered bonds in the Green format outstanding, Arion Bank will make sure that the Green Asset Pool will include enough

assets in the category "Green Buildings" to cover the respective amount over the tenor of the transaction.

The Register will be reviewed quarterly by the Green Financing Committee and maturing exposures and assets sold will be excluded immediately from the Green Asset Pool. If an asset no longer meets the eligibility criteria of this Framework, it shall be excluded from the Green Asset Pool as well. New assets (including replacements) can only be included once approved by the Green Financing Committee.

Arion Bank will strive, at any point in time, to maintain a Green Asset Pool that is larger than the total net proceeds of all Green Financing Instruments outstanding.

Since the Register is routinely monitored by Arion Bank's Treasury and Green Financing Committee any potential shortfall in the Green Asset Pool would be detected in a reasonably short time frame. The Green Financing Committee is tasked to develop a monitoring and escalation process to facilitate such detection. In case such a shortfall does occur, Treasury will direct, at its own discretion, the shortfall amount towards its liquidity portfolio, consisting of cash and/or cash equivalents, and/or other liquid marketable instruments. The same exclusion criteria as stated in 2.1 Use of Proceeds apply for these temporary investments.

The Green Financing Committee will take appropriate measures to remedy any shortfall by taking appropriate measures, including suspending the issuance of Green Financing Instruments, encouraging the suspension of disposals of, or sourcing of additional, Eligible Assets or the extension of eligibility criteria under the Framework.



2.4 Reporting

Arion Bank will publish a Green Financing Report for as long as there is any Green Financing Instrument outstanding. The report will be made available on our Investor Relations website (www.arionbanki.is/ir) at least on an annual basis. It is divided into two parts (i) 'allocation reporting' and (ii) 'impact reporting', whereby each report will contain details including, but not limited to:

Allocation reporting

- Total amount of outstanding Green Financing Instruments and the share of proceeds used for financing vs. re-financing purposes
- The size of the common Green Asset Pool as well as a split by Asset Categories
- Any shortfall or amount of assets unallocated
- Amount of Covered Bonds outstanding and size of respective part within the Green Asset Pool (if any)
- Illustrative examples describing Eligible Assets to which Green Financing net proceeds have been allocated (subject to confidentiality commitments to clients)

Impact reporting

On a best effort basis and subject to feasibility and data availability, the impact reporting will focus on the information as laid out in the table in the appendix of this Framework. Arion Bank will provide full transparency on the methodology used and the respective assumptions.

2.5 External Review

Arion Bank has obtained an independent second-party opinion ('SPO') from CICERO to confirm the validity of its Green Financing Framework prior to the issuance of its first instrument under this Framework. The independent SPO is published on our Investor Relations website (www.arionbanki.is/ir) and is also available on the website of the external reviewer.

In order to ensure sustained compliance of all issued bonds with the methodology set out in this Framework, Arion Bank will appoint an independent verifier to produce, on an annual basis, starting one year after the first issuance under this Framework, a verification report on the allocation of the proceeds.

July 2021



Appendix: Impact reporting table

Arion Bank subcategory	Benefit	Impact indicators (exemplary only)
Sustainable fishery and aquaculture	<ul style="list-style-type: none"> • Conservation of biodiversity • Climate change mitigation • Greenhouse Gas (GHG) emissions reduction • Regeneration of natural resources 	<ul style="list-style-type: none"> • Number / revenue of certified products sold (by certification scheme such as MSC or ASC) • Depending on data availability (by fish type) <ul style="list-style-type: none"> - Annual emissions avoided (in CO2e) - Revenue from certified fisheries
Sustainable forestry and agriculture		<ul style="list-style-type: none"> • Number of certified enterprises / revenue of certified products • Area (hectares) transformed or reclaimed
Renewable energy	<ul style="list-style-type: none"> • Climate change mitigation • Greenhouse Gas (GHG) emissions reduction • Pollution reduction 	<ul style="list-style-type: none"> • Installed capacity (MW) • Annual production of renewable energy (MWh) • Annual emissions avoided (in CO2e)
Clean transportation		<ul style="list-style-type: none"> • Number of charging points / vehicles • Number of passengers / amount of freight
Green buildings		<ul style="list-style-type: none"> • Amount of energy saved (MW) • Annual emissions avoided (in CO2e)
Energy efficiency		<ul style="list-style-type: none"> • Trailing 12-month PUE • Number of projects being financed • Number of LEDs, smart meter-grids or any other energy saving applications installed • Depending on data availability, annual amount of energy saved (MW) and emissions avoided (in CO2e)
Pollution prevention and control		<ul style="list-style-type: none"> • Quantity of recycled material (tonnes per year) • If available, annual emissions avoided (in CO2e)
Sustainable water/wastewater management	<ul style="list-style-type: none"> • Climate change mitigation • Regeneration of natural resources • Waste avoidance • Pollution reduction 	<ul style="list-style-type: none"> • Quantity of treated wastewater and/or supplied freshwater (cubic meters per year) • Qualitative improvements in freshwater supply and/or wastewater treatment



Disclaimer

This document does not constitute an offer, or an invitation to offer, or a recommendation to purchase or subscribe Green Financing Instruments as described in this Framework. Green Financing Instruments in the form of (Covered) Bonds will be offered and described in a prospectus (as supplemented and amended from time to time and including, if applicable, a final terms document, the **'Prospectus'**) prepared prior to or in conjunction with an issuance of Green Financing Instruments. Before entering into any transaction concerning Green Financing Instruments (a **'Transaction'**) any investor is expected to have read the Prospectus or other documentation provided by Arion Bank in this context of the Transaction, including but not limited to loan document or master agreement or general terms of business as they related to the Transaction in Green Financing Instruments (the **'Documentation'**), and having taken steps to ensure that he or she understands the Transaction and has made an independent assessment of the appropriateness of the Transaction in the light of his or her own objectives and circumstances, including the possible risks and benefits of entering into such Transaction. Any potential investor should also consider seeking advice from her or his own advisers in making this assessment.

The Documentation relating to any specific tranche of Green Financing Instruments may provide that it will be Arion Bank's intention to apply the proceeds from an offer of those Green Financing Instruments specifically to finance or refinance both loans to and investments in corporations, assets, projects and/or activities that promote climate-friendly, energy-efficient and other environmental purposes (**'Eligible Assets'**) as described in this Framework).

Prospective investors should have regard to the information set out in the Documentation and the Framework regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in such Green Financing Instruments together with any other investigation such investor deems necessary. In particular no assurance is given by Arion Bank that the use of such proceeds for any Eligible Assets will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental or sustainability impact of any projects or uses, the subject of or related to, any Eligible

Assets. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Assets will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Assets. Also the criteria for what constitutes an Eligible Asset may be changed from time to time.

Section 2, the Framework, describes the principles Arion Bank intends to adhere to in issuing Green Financing Instruments; no assurance or representation is given that Arion Bank will continue to adhere to such principles as they may evolve. Further, the Framework takes into account the latest reports and publications by the TEG on the EU Taxonomy and the EU GBS. Since there has not been full visibility on all aspects of the newly emerging regulatory environment concerning the EU GBS at the time of publication of this Framework, EUGBS is reflected on a best effort basis only and no assurance or representation is given that any Green Financing Instruments issued as described in this Framework will, at any time, be compliant with EU Taxonomy and/or the EU GBS.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by Arion Bank) which may be made available in connection with the issue of any Green Financing Instruments and in particular with any Eligible Assets to fulfil any environmental, sustainability and/or other criteria ('Green Evaluation'). Any such Green Evaluation may not address risks that may affect the value of Green Financing Instruments or any Eligible Asset. For the avoidance of doubt, any such Green Evaluation is not, nor shall be deemed to be, incorporated in and/or form part of the Documentation. Such Green Evaluation provides an opinion on certain environmental and related considerations and is not intended to address any credit, market or other aspects of an investment in Green Financing Instruments including without limitation market price, marketability, investor preference or suitability of any security. Such Green Evalua-

tion is a statement of opinion, not a statement of fact. Any such Green Evaluation is not, nor should be deemed to be, a recommendation by Arion Bank or any other person to buy, sell or hold any Green Financing Instruments. Any such Green Evaluation is only current as of the date that opinion was initially issued and may be updated, suspended or withdrawn by the relevant provider(s) at any time. Prospective investors must determine for themselves the relevance of any such Green Evaluation and/or the information contained therein and/or the provider of such Green Evaluation for the purpose of any investment in Green Financing Instruments.

Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Holders of Green Financing Instruments will have no recourse against the provider(s) of any Green Evaluation.

While it is the intention of Arion Bank to apply the proceeds of any Green Financing Instruments so specified for Eligible Assets in, or substantially in, the manner described in the Documentation, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Assets will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule or at all or with the results or outcome (whether or not related to the environment) as originally expected by Arion Bank and that accordingly such proceeds will be totally or partially disbursed for such Eligible Assets. Any such event or failure by Arion Bank or any failure by Arion Bank to provide any reporting or obtain any opinion will not constitute an event of default under the Green Financing Instruments.]



