



# Sustainable Finance Framework

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# Landsbankinn

Landsbankinn (the “Bank” or “Landsbankinn”) is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors. The Bank aims to be a dynamic force that operates in harmony with its environment and society.

## Sustainability at Landsbankinn

Landsbankinn’s policy on social responsibility is to contribute to sustainability in Iceland, to be a dynamic force in society and operate in accordance with the principles of good corporate governance. Landsbankinn places great emphasis on ensuring equal pay and equal job opportunities.

Landsbankinn has been an active participant of the UN Global Compact, a member of UN PRI, a founding member of the Iceland Sustainable Investment Forum (IcelandSIF), Festa, Centre for Sustainability and Principles for Responsible Banking. Landsbankinn publishes an annual ESG report based on the principles of the Global Reporting Initiative (GRI).

In 2019, Landsbankinn joined PCAF, a global partnership of financial undertakings working together to develop and implement a harmonised approach to assess and disclose greenhouse gas (GHG) emissions. The carbon accounting method is intended to allow financial undertakings to measure and analyse emissions from their credit and asset portfolios. Landsbankinn is devoted to understanding and reporting on indirect greenhouse gas emissions through its loan and investment portfolio.

Landsbankinn is committed to adhering to the UN’s Sustainable Development Goals in its operation. Emphasis is placed on working to achieve three of the SDGs: Goal 5 on gender equality, goal 8 on decent work and economic growth, and goal 12 on responsible consumption and production. The chosen SDGs all relate to the Bank’s activities and as such allow the Bank to maximise the positive impact of its work on the environment and the community.<sup>1</sup>

Landsbankinn has received an ESG risk rating from Sustainalytics, where the Bank is considered to manage its low exposure to ESG risk well.

## Landsbankinn’s environment

Landsbankinn operates in Iceland. The country is rich in renewable resources, mainly geothermal and hydro energy, which are almost the country’s sole source of domestic heating and electricity production. The carbon emission factor for the Icelandic electricity grid is among the lowest in the world. This means that indirect emissions (electricity and heat production) from domestic operations tend to be very low. Iceland is generally counted among the most developed nations in the Human Development Index. Gender equality was written into the Icelandic constitution in 1995 and equal pay legislation entered into force in 2018. Iceland’s sovereign ESG risk is considered to be low. Iceland’s anti-money laundering risk is also considered to be very-low.<sup>2</sup> These factors are a characteristic of Landsbankinn’s investments and loan portfolio.

<sup>1</sup> More information on the Bank’s approach to sustainability can be found under <https://www.landsbankinn.is/en/the-bank/csr>

<sup>2</sup> According to CountryRisk.io in November 2020.



### Commitments and membership

Commitment		Year committed
	UN Global Compact	2006
	Principles for Responsible Investment	2013
	Iceland Sustainable Investment Forum	2017 (founding member)
	Partnership for Carbon Accounting Financials	2019
	United Nations Environment Programme Finance Initiative	1992
	Festa – Centre for Sustainability	2011 (founding member)
	Principles for Responsible Banking	2019 (founding signatory)



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# Landsbankinn's Sustainable Finance Framework

## 1. Background

The objective of the Sustainable Finance Framework (the "Framework") of Landsbankinn is to align its investments and loan operations towards the EU Climate Goals and a sustainable, low-carbon economy, supporting the goals set by the Paris Agreement. In addition, the Bank wants to raise funds matching those Landsbankinn lends to its customers to achieve their goals in transforming their business in a climate and socially responsible manner, and to benefit from the various opportunities provided by the low-emission economy.

## 2. Purpose of the Framework

The purpose of the Framework is to have a single, robust methodology in place for all future sustainable funding option, including green, social and sustainable bond issuances, and other funding options<sup>3</sup> ("Sustainable Finance Instruments"). Landsbankinn intends to issue Sustainable Finance Instruments from time to time under the Framework. The terms of relevant products will reference this document and any adjustments thereto.

The Framework determines the basis for identification, selection, verification and reporting on sustainable financing or refinancing, both lending and investment, that is eligible for being directly or indirectly financed by proceeds from the

Sustainable Finance Instruments and the management of such proceeds.

The Framework is to be aligned as much as possible with the Green Bond Principles (GBP), the Social Bond Principles (SBP) or Sustainability Bond Guidance (SBG) of the International Capital Market Association (ICMA). ICMA is an industry association of capital market participants that has been the standard-bearer in the sustainable bond market since 2014, espousing a set of voluntary guidelines that promote transparency and disclosure in the sustainability market. In addition, it is our ambition for the Framework to follow the European Union classification system for sustainable activities (also known as the EU Taxonomy) where practically possible and consider taking into account the future classification system for sustainable investments within the European Union. Furthermore, the Framework follows the UN Blue Bond Reference Paper for Investments Accelerating Sustainable Ocean Business.<sup>4</sup> Whenever relevant guidance is not available, the Framework refers to strict, market-recognised and sector-relevant certifications or benchmarks.

The Framework as such consists of the following five core components:

1. Use of proceeds
2. Process for project evaluation and selection

3. Management of proceeds
4. Reporting
5. External review

In formulating the Framework, care was also taken to reflect both the UN SDGs and the latest report on the European Union Green Bond Standards (EU GBS).

Changes to the GBP, SBP or developments with regards to the EU GBS or EU Taxonomy may further expand or amend the Framework from time to time, aligning it with emerging standards or best practices, and maintaining applicability for future issuances. The updated Framework will either keep or improve the current levels of transparency and reporting and will undergo external review by an eligible or accredited entity under the prevailing principles or standards.

## 3. Use of proceeds

An amount equal to net proceeds from Sustainable Finance Instruments issued in line with the Framework is to be used for the financing or refinancing, in whole or in part, of eligible activities and assets (including loans, investments, expenditures and the Bank's own eligible operations) that meet the following eligibility criteria listed in the table below, all referred to as Eligible Activities and Assets.

Where a business or project derives 90% or more of revenues from activities that align with

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<sup>3</sup> The funding options can be in various forms, such as listed and non-listed instruments, senior or subordinated bonds, secured or unsecured bonds, commercial paper and bilateral agreements.

<sup>4</sup> United Nation Global Compact, Blue Bonds Reference Paper: <https://unglobalcompact.org/library/5741>

the eligibility criteria, financing via general corporate purpose loans can be considered eligible as long as financing does not fund activities listed in the exclusions section.

- Proceeds can be used for the refinancing of Eligible Activities and Assets. In such cases:
  - A three-year look-back period preceding the year of issuance of the Sustainable Finance Instrument

for Eligible Activities and Assets is used<sup>5</sup>.

- Allocation of net proceeds during the same year of issuance of the Sustainable Finance Instrument is considered new financing.

Project category	Eligible Activities and Assets	Green	Social	Blue	UN SDG targets
Renewable energy	Development, construction and operation of facilities using renewable energy for electricity and heating with carbon intensity <100 gCO <sub>2</sub> e/kWh considering life-cycle emissions. Such facilities must have implemented relevant solutions that reduce the most important physical climate risks that are material to that activity. <sup>6</sup> These facilities include:				7.2, 7.a, 9.1
	Solar energy	■			
	Wind energy	■		■	
	Hydropower	■		■	
	Bio energy such as biomass, biogas, biofuels and landfill gas <sup>7</sup>	■			
	Ocean energy	■		■	
	Geothermal energy	■			
Energy efficiency	Hydrogen	■			
	Development, manufacture, distribution and/or installation of products or services that increase the energy efficiency of industrial processes. These cannot include efficiency of fossil fuel production or distribution.	■			7.3
	Energy-efficiency improvements involving changes to processes, reduction of heat loss or increased waste heat recovery. This includes the installation of renewable-powered cogeneration plants with carbon intensity below 100 gCO <sub>2</sub> /kWh.	■			7.3
Pollution prevention and control	Installation and operation of fibre and high-speed mobile networks intended to replace copper-based communication networks.	■			9.1
	Activities which achieve the following: - Reduce or mitigate air emissions <sup>8</sup> - Environmental remediation - Waste prevention, reduction, recycling, sorting and reuse.	■		■	6.3, 6.6
Environmentally sustainable management of living resources and land use	Investments and expenditures related to catching, production and processing of MSC (Marine Stewardship Council), ASC (Aquaculture Stewardship Council, fully certified) or Iceland Responsible Fisheries Certified fish products. Small companies catching species listed under “MSC Certified Fisheries”, using qualified methods, by Icelandic Sustainable Fisheries are eligible if >90% of revenue come from such fishing activities.	■		■	12.2, 14.2, 14.4, 14.7
	Sustainable forestry or agriculture. This includes acquisition, maintenance and operation of: - Forests certified by the Forest Stewardship Council (“FSC”) - Organic farming as certified in compliance with EU and national regulation <sup>9</sup>	■			12.2, 15.1, 15.2, 15.9

<sup>5</sup> A three year look-back period is chosen although there is no limitation in the (draft) EU Green Bond Standard.

<sup>6</sup> For energy projects, Life Cycle Assessments (LCA) or Environmental Impact Assessments (EIA) should be provided assessing relevant impact categories as defined by the EU Taxonomy.

<sup>7</sup> For Bioenergy: 1. Agricultural biomass used in the activity complies with the criteria laid down in Article 29, paragraphs 2 to 5, of Directive (EU) 2018/2001. Forest biomass used in the activity complies with the criteria laid down in Article 29, paragraphs 6 and 7 of that Directive. 2. The GHG savings from the use of biomass in cogeneration installations are at least 80 % in relation to the GHG emission saving methodology and fossil fuel comparator set out in Annex VI to Directive (EU) 2018/2001. Non-waste feedstock is excluded. Landfill gas only from decommissioned sites.

<sup>8</sup> In the case of underground permanent geological storage of CO<sub>2</sub>, a monitoring plan must be in place for CO<sub>2</sub>

<sup>9</sup> Livestock husbandry is excluded.

Clean transportation	Fully electrified or other low carbon (such as biogas or hydrogen) heavy vehicles or public transportation such as buses, trams or seafaring vessels (with emission thresholds of 75gCO <sub>2</sub> /p-km for passenger vehicles, or 25gCO <sub>2</sub> /t-km for freight) <sup>10</sup>	■			11.2
	100% electric private vehicles	■			11.2
Sustainable water and wastewater management	Development, construction and operation of wastewater treatment (including collection and wastewater treatment plants).	■		■	6.2, 6.b
Eco-efficient and/or circular economy adapted products, production technologies and processes	Development and production of products which are intended to achieve, or have already received a credible, industry specific environmental certification, such as the Nordic Swan Ecolabel, the EU Ecolabel or equivalent.	■		■	12.3, 12.4, 12.6, 12.7
	Research, development and operation of systems, products or technologies that increase energy efficiency, and/or mitigate the GHG emissions of Landsbankinn's customers and/or network users (without any reliance on non-renewable energy sources), such as: - 5G or other high-speed mobile network infrastructure	■	■		9.4, 9.5
	- Internet of Things ("IoT") products and solutions	■			7.3, 8.4
	- Cloud and analytics products and solutions, including data centres using renewable energy (with emission factor <100 g CO <sub>2</sub> e/kWh) and power-usage effectiveness (PUE) under 1.5. <sup>11</sup>	■			5.b, 9.c
Green buildings	Construction of new, or refurbishment of public, commercial and private buildings are required to achieve one of the following, or equivalent, certification: <sup>12</sup> - LEED "Gold" - BREEAM (or BREEAM In-use) "Very good" - Nordic Swan Ecolabel  - and/or additional criteria detailed in the most recent EU Taxonomy at the time of financing	■			11.6
Affordable housing	Construction of, purchasing, maintenance or refurbishment of affordable or social housing for low income groups. <sup>13</sup>			■	1.2, 1.3, 11.1, 11.5
Sustainable infrastructure	All electricity transmission, distribution and storage infrastructure supporting a trajectory to full decarbonisation and linked to renewable energy sources where 67% of connected generation capacity is below 100 gCO <sub>2</sub> e/kWh, or annual emission factor is below 100 gCO <sub>2</sub> e/kWh. <sup>14</sup>	■	■		7.1
	District heating distribution networks connected to renewable energy.	■			7.1
	Infrastructure related to low-carbon transportation of passengers, both private and public, such as electric charging stations and ports using renewable energy.	■		■	11.2
	Infrastructure for bicycles and pedestrians.	■	■		3.6,
Employment generation, via SME financing in fragile areas	Financing and lending small and medium-sized enterprises (SMEs defined by the European Commission) situated in fragile areas in Iceland. <sup>15</sup>			■	1.4, 8.3

10 For public transport projects, physical climate risk using at least 10-30 year timeframe should be used. State-of-the art projections should be used for such analysis. Freight vehicles cannot be dedicated to the transport of fossil fuels.

11 The data centre has demonstrated best efforts to implement the relevant practices listed as „expected practices“ in the most recent version of the European Code of Conduct on Data Centre Energy Efficiency and has implemented all expected practices that have been assigned the maximum value of 5 according to the most recent version.

12 Buildings may not be dedicated to extraction, storage, transport or manufacture of fossil fuels.

13 Low income groups as defined by Article 6 of Regulation No. 183/2020 (Ice. reglugerð um stofnframlög ríkis og sveitarfélaga, húsnæðissjálfs- eignarstofnanir og almennar íbúðir).

14 Grid connections of powerplants that are more CO<sub>2</sub> intensive than 100gCO<sub>2</sub>/kWh are excluded.

15 Fragile areas as defined by the Icelandic Regional Development Institute (Byggðastofnun) at the date of the publication of this Framework.

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## Exclusions

The following activities will not be eligible beneficiaries of proceeds from the issuance of Sustainable Finance Instruments: deforestation and degradation of forests, adult entertainment, manufacture of alcoholic beverages, activities directly related to nuclear or the fossil fuel industry (exploration, production or distribution), defence goods, gambling, military activities, predatory lending, tobacco products, conflict minerals, child labour and forced labour.

If a company is found in violation of national or international law or agreements ratified by Iceland, the Bank reserves the right to exclude it from its Eligible Activities and Assets pool.

Funds will not knowingly be invested in undertakings connected to greenhouse gas intensive projects that are inconsistent with the delivery of a low carbon, sustainable economy.

## 4. Process for financing evaluation and selection

All loans and investments linked to the Framework must comply with the Bank's internal processes and with applicable regulatory requirements. Landsbankinn's Credit Committee is responsible for final loan approval. Moreover, potential environmental, social, and governance (ESG) risks are assessed. When assessing prospective eligible assets or activities and their non-financial impacts, Landsbankinn may rely on analysis provided by external parties, in addition to its own assessment.

In order to avoid carbon lock-in of assets inconsistent with the objectives of this Framework (i.e. a sustainable, low carbon economy), the lock-in possibility and impact of assets (considering relevant impact categories throughout the asset's life-cycle impact) is specifically reviewed by the Bank's sustainability specialist for projects financed under the Framework.<sup>16</sup>

The financing/refinancing of non-performing loans and uncommitted transactions is not considered eligible.

## Sustainable Finance Committee (SFC)

The Sustainable Finance Committee (SFC) consists of representatives from Corporate Banking, Risk Management, Finance & Operations, and a sustainability specialist appointed by the head of the SFC.

The SFC will review a portfolio of potentially eligible activities or assets on a regular basis and minute its identification of Eligible Activities and Assets, allocation of net proceeds to assigned activities and assets, and any material changes to the portfolio of assigned activities and assets.

The SFC is responsible for:

- Identifying, evaluating and approving loans, investments and expenditures to be part of the pool of Eligible Activities and Assets (see section "Use of proceeds").
- Managing the portfolio of eligible assets over the lifetime of the Sustainable Finance Instruments to ensure

that proceeds are used solely for the financing and refinancing of Eligible Activities and Assets as defined in the section "Use of Proceeds".

- Monitoring developments in the wider sustainable finance sector and updating the Bank's Framework and eligibility accordingly.

All activities or assets which are proposed to be eligible will undergo an internal process with the SFC that includes a review and approval by the sustainability specialist.

The SFC convenes as needed (at least annually), to ensure alignment of financing with this Sustainable Finance Framework. The SFC will also document the evaluation and selection process in order to facilitate external verification (if required).

## 5. Management of proceeds

Landsbankinn will manage the net proceeds of issued Sustainable Finance Instruments on a portfolio basis. As long as the Sustainable Finance Instruments are outstanding, the Bank aims to allocate an amount equivalent to the proceeds from these instruments towards its portfolio of Eligible Activities and Assets.

The allocation of net proceeds from issued Sustainable Finance Instruments to the portfolio will be reviewed and approved by the SFC on at least an annual basis until full allocation.

The Eligible Activities and Assets will be reviewed no less

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<sup>16</sup>"The term 'carbon lock-in' refers to the tendency for certain carbon-intensive technological systems to persist over time, 'locking out' lower-carbon alternatives, and owing to a combination of linked technical, economic, and institutional factors. These technologies may be costly to build, but relatively inexpensive to operate and, over time, they reinforce political, market, and social factors that make it difficult to move away from, or 'unlock' them. As a result, by investing in assets prone to lock-in, planners and investors restrict future flexibility and increase the costs of achieving agreed climate protection goals." Erickson, P., Kartha, S., Lazarus, M., & Tempest, K. (2015). Assessing carbon lock-in. *Environmental Research Letters*, 10(8), 084023.





frequently than annually. In the case of divestment or if a project no longer meets the eligible assets criteria, the Bank will reallocate the funds to other Eligible Activities and Assets as soon as practically possible.

Pending full allocation of proceeds, Landsbankinn may temporarily invest the unused balance in line with its liquidity investment guidelines, until such balance is fully invested/reinvested in Eligible Activities and Assets within 24 months of the issuance.

## 6. Reporting and external review

Landsbankinn will publish an annual report on its website, either as a standalone document or as an appendix to other

annual sustainability reports or its annual report, outlining the sustainability impact and allocation of proceeds from Sustainable Finance Instruments issued under the Framework.

### Allocation reporting

The allocation report provides at least the following information:

- Overview and value of outstanding Sustainable Finance Instruments
- Amounts allocated to eligible projects in each relevant eligibility category
- Remaining balance of unallocated net proceeds
- Amount and percentage of new financing and refinancing

### Impact reporting

Landsbankinn will provide an environmental and/or social impact report on a portfolio basis, subject to the availability of information and baseline data. The Bank will report the relevant impact metrics shown in the table below, or other metrics which may provide deeper insights. Where possible and relevant, impact is reported according to ICMA's harmonized framework for impact reporting or best market practice. Impact assessment is provided with the proviso that not all related data can be obtained and that calculations are therefore on a best-effort basis. Emphasis will be placed on avoided greenhouse gas emissions where data is available and scientific soundness confirmed.

Project category	Metrics
Renewable energy	■ Annual GHG emissions reduced/avoided in tCO <sub>2</sub> e
	■ Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)
Energy efficiency	■ Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)
	■ Annual GHG emissions reduced/avoided in tonnes of CO <sub>2</sub> e
Pollution prevention and control	■ Annual absolute (gross) amount of waste that is separated and/or collected, and treated (including composted) or disposed of (in tonnes p.a. and in % of total waste)
	■ Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes p.a.
Environmentally sustainable management of living resources and land use	■ Amount of certified products produced shown on a per product and certification basis
Clean transportation	■ Total in kilometres of new or improved train lines/dedicated bus, BRT, LRT corridors bicycle lanes
	■ Total number of financed zero-emission cars and/or other vehicles
	■ Annual GHG emissions reduced/avoided in tCO <sub>2</sub> e p.a
Sustainable water and wastewater management	■ Annual absolute (gross) water use before and after the project in m <sup>3</sup> /a, reduction in water use in %
	■ Annual absolute (gross) amount of wastewater treated, reused or avoided before and after the project in m <sup>3</sup>
Eco-efficient and/or circular economy adapted products, production technologies and processes	■ Tonnes of waste reduced
	■ Tonnes of secondary raw materials or compost produced
Green buildings	■ Area (in m <sup>2</sup> ) of certified office or residential space per each certification scheme
	■ Annual GHG emissions reduced/avoided in tCO <sub>2</sub> e
Affordable housing	■ Number and Area (in m <sup>2</sup> ) of social / affordable housing financed.
	■ Approximate number of people housed at year end.
Sustainable infrastructure	■ Annual GHG emissions reduced/avoided in tCO <sub>2</sub> e p.a
Employment generation, via SME financing in fragile areas	■ Number of loans
	■ Amount disbursed to SMEs in vulnerable areas
	■ Number of employees supported





### *External review*

Landsbankinn will engage one or more external verifiers to provide a pre-issuance verification and/or a post-issuance verification.

Pre-issuance verification verifies alignment of the Sustainable

Finance Instrument with one or more of the appropriate market standards (such as the Green Bond Principles, the EU Green Bond Standard or any other similar standards, as applicable and as selected by the bank).

Post-issuance verification reviews the relevant allocation

report to determine whether net proceeds from an issuance of Sustainable Finance Instruments have been allocated in full towards Eligible Activities and Assets, and if unallocated proceeds have been correctly reported.

## Supporting documents

The Sustainable Finance Framework, the second-party opinion, the impact and allocations reports, and the annual report will be published on [Landsbankinn's website](#), along with other relevant documents.



## Disclaimer

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