

An External Assurance by CIRCULAR on Arion Bank's Green Deposit Framework

Arion Bank and Sustainability

Arion Bank provides universal banking services to companies and individuals. Arion Bank is listed on the Icelandic and Swedish stock exchanges. Arion Bank is publishing sustainability reporting based on the Nasdaq ESG guidelines and in line with the Global Reporting Initiative Core, reporting performance on a broad sustainability spectrum. Its Green Deposit Framework (GDF) will further facilitate increased industry-specific material ESG reporting by the Bank. Arion Bank is a signatory to both local and international sustainability initiatives, including Festa (Iceland), UN Global Compact, UN PRI, UNEP FI, and UN PRB.

Use of Proceeds

Proceeds from the Green Deposit accounts will be used to finance vehicles with low or zero tailpipe emissions and necessary infrastructure, companies with higher than 90% of revenues from eco-efficient products and pollution prevention and control projects.

Clean transportation. The eligibility criteria are expected to change by the end of the year 2025, where it becomes stricter, not allowing any tailpipe emissions. The vehicle categories are in line with relevant international standards and guidelines.

Eco-efficient products. Eligible Assets related to products, technologies and processes that reduce the environmental impacts from the production and consumption of goods, extended the product life or use cycle of goods and materials, as well as increase the efficiency of resource consumption.

Pollution prevention and control. Eligible Assets related to technologies, processes and associated infrastructure supporting waste prevention, waste reduction, waste recycling.

Governance

Arion Bank's Risk Management division maintains a Green Registry to ensure that proceeds from the green deposit accounts will only be used to fund the Eligible Project categories. The Bank's internal Sustainability Steering Committee furthermore has the role of supervising and approving the GDF. Arion Bank intends to report the allocation and the impact of its Green Deposit and lending activities annually, using relevant indicators aligned with market standards on impact reporting. The Bank intends to seek external assurance on both the Allocation and the Impact reporting.

Strengths, opportunities, and pitfalls

The GDF's alignment with relevant international standards and guidelines is a strength. It is also a strength that the GDF has a built-in time frame for certain vehicles to be funded as well as the fact that 100% of fossil-fueled vehicles are completely excluded for all project categories.

The positive impact of the clean transportation category is mainly due to the relatively low national grid factor in Iceland at only 8.8 gCO₂/kWh in 2017 as electricity is primarily generated by renewable sources. All certification schemes eligible under this framework work towards positive environmental and social outcomes. Furthermore, funding of waste processing towards recycling is essential for a circular economy.

A potential pitfall of the clean transportation category is that the maximum emission threshold to 2026 does not necessarily safeguard against fossil-fuel consumption of hybrid vehicles. If the production of hydrogen involves the use of natural gas, it contributes to the emission of greenhouse gases. Landfill gas vehicles can potentially run on natural gas and be a source of local pollutants. Additionally, the leakage of methane in the value chain

1. Dated December 2020.

2. The European Union Expert Group on Sustainable Finance Taxonomy Technical Report (EU Taxonomy) (June 2019), the International Capital Market Association's 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).

3. 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.



could contribute significantly to climate change impacts.

For the eco-efficient and circular economy adapted products, production technologies and processes project category it is a pitfall that the loans are general purpose and that the safeguards against negative impacts are limited to the exclusion of fossil fuel funding and air transportation.

It is a pitfall of the pollution prevention and control project category that Arion Bank itself does not conduct life-cycle assessments and supply chain analysis or require that level of transparency from its customers. This results in a potential for undesired downstream processing of waste that was meant for recycling.

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The avoided environmental impact of projects to be funded by the Green Deposits is potentially significant. However, the effect of this initiative in facilitating the energy and

circular economy transition in Iceland relies wholly on the attractiveness of the loans offered to the individual/ companies taking car loans, companies selling eco-efficient products and pollution prevention and control projects.

Based on our assessment we find the GDF and its reporting mechanism to be in line with all relevant international standards and guidelines.^{2 3} The green loans offered, based on this GDF have, therefore, the potential to accelerate the transition to sustainability.

CIRCULAR Solutions is a leading provider of sustainability, ESG and sustainable finance services (also see more at CIRCULAR Bonds).

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4. This external assessment has a validity of three years, from the date of publication of the GDF.

5. Disclaimer from CIRCULAR Solutions: Arion Bank was responsible for providing CIRCULAR with accurate data and information relating to the details of its GDF. CIRCULAR made all efforts to ensure the highest quality and rigour during its assessment process. All rights reserved. This document is for information purposes only and CIRCULAR will not accept any form of liability for its content and/or any liability for damage arising from its use and/or the information provided herein, for investment or financial decisions, or any other decisions.

