

# Second-Party Opinion

## Kvika Green Financing Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Kvika Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Clean Transportation, Green Buildings and Renewable Energy – are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories is expected to reduce the GHG emissions in Iceland and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.



**PROJECT EVALUATION / SELECTION** Kvika's Banking Division and Kvika's Credit Committee manage the internal process of evaluating and pre-selecting projects. Kvika's Sustainability Committee is responsible for validating the pre-selection of eligible assets on a quarterly basis and screening Kvika's eligible asset pool, based on the Framework's eligibility criteria. Kvika may also appoint an external sustainability advisor for screening projects on an annual basis. Kvika has in place a policy on responsible lending and investments, which applies to allocation decisions made under the Framework. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Kvika will manage the net proceeds on a portfolio basis. Kvika's Risk Management department will be responsible for documenting the process in its register, which will be reviewed by Kvika's Sustainability Committee on a quarterly basis. Pending full allocation, unallocated proceeds will be temporarily held in a portfolio consisting of cash, cash equivalents, or other liquid marketable instruments. Kvika intends to reach full allocation within 24 months of each issuance. This is in line with market practice.



**REPORTING** Kvika intends to report on allocation and impact of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the amount allocated to eligible project categories, the balance of unallocated amounts, and the share of financing versus refinancing. Kvika also intends to report on relevant impact metrics. Sustainalytics views this to be aligned with market practice.

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## Introduction

Kvika banki hf. ("Kvika" or the "Bank") is an Iceland-based specialized investment bank with three main business divisions: Corporate Banking, Capital Markets and Corporate Finance. The Kvika Group also operates in asset management and insurance services. As of 31 June 2021, Kvika had 322 full-time employees.

Kvika has developed the Kvika Green Financing Framework (the "Framework"), dated September 2021, under which it intends to issue green financing instruments, such as green bonds, commercial papers and deposits, and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to generate positive environmental impacts by mitigating GHG emissions in Iceland. The Framework defines eligibility criteria in three areas:

1. Clean Transportation
2. Green Buildings
3. Renewable Energy

Kvika engaged Sustainalytics to review their Green Financing Framework and provide a second-party opinion on the Framework's environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).<sup>1</sup> The Framework has been published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>3</sup> opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the Bank's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.10, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Kvika's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Kvika representatives have confirmed that: (1) they understand it is the sole responsibility of Kvika to ensure that the information provided is complete, accurate or up to date; (2) they have provided Sustainalytics with all relevant information; and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Kvika.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

<sup>1</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>2</sup> The Kvika Green Financing Framework is available on Kvika Bank's website at: <https://www.kvika.is/en/investor-relations>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Kvika has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Kvika Green Financing Framework

Sustainalytics is of the opinion that the Kvika Green Financing Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Kvika's Green Financing Framework:

- Use of Proceeds:
  - The eligible categories – Clean Transportation, Green Buildings and Renewable Energy – are aligned with those recognized by the GBP. Sustainalytics notes that the eligible categories are expected to reduce GHG emissions associated with the transportation, real estate and energy sectors in Iceland.
  - Kvika does not have a look-back period for refinancing but intends to report on the share of financing and refinancing on an annual basis. Kvika has confirmed to Sustainalytics that its portfolio typically consists of projects limited to physical assets with a span of less than five years.
  - Under the Framework, Kvika intends to use part of the proceeds for project-based lending and part for general-purpose loans for pure-play businesses that derive at least 90% of revenues from activities identified in the eligible categories. Sustainalytics recognizes that the GBP prefers project-based lending and financing, and that non-project-based lending is in general less transparent. Nevertheless, Sustainalytics notes that financing pure-play companies through green bonds is commonly accepted as an approach which can generate positive impact.
  - Under the Clean Transportation category, Kvika intends to invest in projects, activities, equipment, technology and processes, as follows:
    - Passenger cars and light commercial vehicles run on electricity, hydrogen or biomethane and emit less than 50 gCO<sub>2</sub>e/pkm by the WLTP standard or 34 gCO<sub>2</sub>e/pkm by the NEDC standard until the end of 2025 and 0 gCO<sub>2</sub>e/pkm thereafter. In addition, electric, hydrogen or biomethane-fuelled heavy commercial vehicles are eligible below 25 gCO<sub>2</sub>/tkm.
    - Two- and three-wheel vehicles and quadricycles with zero tailpipe emissions.
    - Public transportation, including buses, trains and ferries dedicated to passengers that run fully on electricity, hydrogen or biomethane and emit less than 50 gCO<sub>2</sub>e/pkm by the WLTP standard or 34 gCO<sub>2</sub>e/pkm by the NEDC standard until end 2025 and 0 gCO<sub>2</sub>e/pkm thereafter.
    - Infrastructure for clean energy vehicles, such as electric charging points.
    - Sustainalytics views the emissions thresholds listed above to be aligned with market practice, and the activities to be well placed for inclusion in green bonds
  - As part of the Green Buildings category, Kvika may finance buildings and building renovations that meet the following minimal certification standards: BREEAM or BREEAM In-use (Excellent or above), Nordic Swan Ecolabel, LEED (Gold or above), DGNB (Gold or above). Refurbishments that result in 30% energy efficiency improvements are also deemed eligible. The Bank intends to apply an additional requirement for buildings to meet at least one of the following criteria: (i) be climate resilient; (ii) have good access to public transportation; or (iii) have a life cycle assessment. Sustainalytics considers the certification schemes credible, and the levels selected to be aligned with market practice. See Appendix 1 for Sustainalytics' assessment of the green building certification schemes.

- Under the Renewable Energy category, Kvika intends to invest in generation, transmission and manufacturing of equipment or infrastructure that are wholly dedicated to the production and delivery of electricity and heat from renewable energy sources, including geothermal, wind, solar, hydropower and biogas, as followed:
  - Geothermal energy projects with life cycle emissions below 100 gCO<sub>2</sub>e/kWh.
  - Solar photovoltaic, solar thermal and concentrated solar power (CSP). Kvika has confirmed the absence of fossil-fuel backup generation for CSP projects, which is in line with market practice.
  - Hydropower facilities that have been in operation before 2020 and have a power density above 5W/m<sup>2</sup> or GHG emissions intensity under 100 gCO<sub>2</sub>e/kWh. Hydropower facilities that have started operation in or post 2020 and have a power density greater than 10 W/m<sup>2</sup> or GHG emissions intensity below 50 gCO<sub>2</sub>e/kWh. Kvika has confirmed that it will require an environmental and social impact assessment by a credible body for new facilities and that it is also committed to ensuring the absence of significant risk, expected negative impact or controversies associated with projects.
  - Biogas production for transport,<sup>4</sup> heating and industrial purposes. In Iceland, biogas is extracted from closed or decommissioned landfills and collected via boreholes drilled in the landfill. Sustainalytics notes that landfill gas capture for energy generation is one of the key waste management strategies to reduce methane emissions relative to landfill with no gas capture or open dumps and recommends Kvika to monitor and report on the gas capture efficiency in order to estimate the overall benefits to be achieved over the gas generation lifetime of the landfill (approximately 150 years).
- Kvika's Framework excludes activities such as those related to fossil fuels, nuclear energy generation, environmentally negative resource extraction (such as rare-earth elements or fossil fuels), deforestation and degradation of forests, weapons, gambling, tobacco, and adult entertainment. Sustainalytics is of the opinion that these exclusions strengthen the Framework.
- Project Evaluation and Selection:
  - Kvika's Banking Division manages the internal process of evaluating and pre-selecting projects. Kvika's Sustainability Committee is responsible for validating the pre-selection of eligible assets on a quarterly basis and screening Kvika's eligible asset pool, based on the Framework's eligibility criteria. Further, Kvika may appoint an external sustainability advisor for screening projects on an annual basis.
  - Kvika has confirmed to Sustainalytics that it intends to conduct an ESG due diligence analysis of potential borrowers while evaluating loans to companies. Kvika's investments are subject to its internal credit and compliance processes. The Bank's Credit Committee is responsible for providing the final approval for loans and investments, and for confirming compliance with the Bank's policy on responsible lending and investments. For additional details on risk management policies, please refer Section 2.
  - Based on the cross-functional oversight for project selection and the relevant policies and processes, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Kvika will manage the net proceeds on a portfolio basis. The Bank's Risk Management department will be responsible for documenting the process in the Bank's register, which will be reviewed by Kvika's Sustainability Committee on a quarterly basis. In case of divestment or if a project no longer meets the eligibility criteria of the Framework, the project will be replaced, and the corresponding amount reallocated to other eligible projects.
  - Kvika intends to complete the full allocation of proceeds within 24 months after issuance. Pending allocation, unallocated proceeds will be temporarily held in a portfolio consisting of cash, cash equivalents and other liquid marketable instruments as per Kvika's liquidity management policy.
  - Based on the management of proceeds described and the allocation period indicated, Sustainalytics considers this process to be in line with market practice.
- Reporting:

<sup>4</sup> The biogas will be used by light vehicles, buses and trucks that emit less than 50 gCO<sub>2</sub>e/km by the WLTP standard or 34 gCO<sub>2</sub>e/km by the NEDC standard until the end of 2025 and 0 gCO<sub>2</sub>e/p-km thereafter.

- Kvika will report on the allocation and impact of proceeds in its Green Financing Report an annual basis until full allocation of the net proceeds. The Bank intends to publish these results on their website along with its sustainability reporting.
- Allocation reporting will include the amounts allocated to eligible project categories, the balance of unallocated amounts, and the share of financing versus refinancing.
- Kvika intends to report on relevant impact metrics where available, such as estimated reduction in GHG emissions in tCO<sub>2</sub>e per year, number of qualified green building per year, and annual production of renewable energy. For a complete list of impact indicators, please refer to Appendix 2.
- Based on the frequency and accessibility of allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Green Bond Principles 2021

Sustainalytics has determined that the Kvika Green Financing Framework aligns with the four core components of the GBP. For detailed information, please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Kvika Bank

### Contribution of framework to Kvika Bank's sustainability strategy

Kvika established a sustainability statement in its ESG report for 2020.<sup>5</sup> The statement integrates ESG principles into the Bank's operations and aims to address challenges related to responsible business practices, sustainable finance, financial inclusion and climate change.

Kvika's climate change strategy focuses on identifying and mitigating climate change risks by supporting initiatives towards sustainable development.<sup>5</sup> Kvika awards environmentally friendly lending, for example, by offering its customers favourable car loans for sustainable vehicles. This is in line with the Bank's policy on responsible lending and investment that sets objectives for the inclusion of ESG factors in decisions on lending, changes to loan terms, refinancing and investment.

The Bank monitors its carbon footprint and intends to mitigate GHG emissions.<sup>5</sup> Kvika estimated that its total GHG emissions decreased from 56.1 tCO<sub>2</sub>e in 2019 to 25.5 tCO<sub>2</sub>e in 2020. Total scope 1 and 2 emissions were 24.6 tCO<sub>2</sub>e in 2019 and 22.1 tCO<sub>2</sub>e in 2020. Scope 3 emissions were reduced from 31.5 tCO<sub>2</sub>e in 2019 to 3.4 tCO<sub>2</sub>e in 2020.<sup>6</sup> Some of the key objectives of Kvika's climate strategy involves reducing climate and environmental risks around the Bank's operations by promoting expansion of green financial products to involve more stakeholders in climate risk management. Kvika and other parties controlling close to 80% of assets in the Icelandic financial market signed a joint declaration of intent – Investment for a Sustainable Recovery – adopted jointly by the Icelandic Government in 2020.<sup>7</sup>

Sustainalytics is of the opinion that the Kvika Green Financing Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities. Sustainalytics encourages the Bank to set quantitative time-bound targets for its responsible lending and investment initiatives and GHG emissions reduction commitments.

### Well positioned to address common environmental and social risks associated with the projects

Sustainalytics recognizes that the net proceeds from the instruments eventually issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes, even though Kvika is not directly responsible for the environmental and social risks associated with the projects financed under this Framework. Some key environmental and social risks associated with the eligible projects could include issues involving community relations and biodiversity risks associated with financed projects. Furthermore, financial institutions are exposed to risks of financing environmentally and

<sup>5</sup> Kvika, "Sustainability Statement", (2020), at: [https://www.kvika.is/asset/4269/kvika\\_sustainability-statement-2020.pdf](https://www.kvika.is/asset/4269/kvika_sustainability-statement-2020.pdf)

<sup>6</sup> Kvika's scope 3 emissions included emissions from international flights and paper used for printing. Considering the impact of the pandemic, the Scope 3 emissions saw a steep decrease.

<sup>7</sup> Government of Iceland, "Declaration of Intent Investment for a Sustainable Recovery", (2020), at:  
<https://samfelagsabyrgd.is/assets/2020/09/declaration-of-intent-signatures-25sept2020-1.pdf>

socially harmful activities while offering lending services. Sustainalytics is of the opinion that Kvika is able to manage potential risks through implementation of the following:

- Regarding community relations, Iceland is identified a “Designated Country” under the Equator Principles, implying the presence of robust environmental and social governance systems, legislation, and institutional capacity for protecting the environment and communities.<sup>8</sup>
- As for biodiversity risk, according to Icelandic legislation, all hydropower and geothermal projects must follow the Icelandic government’s Master Plan for Nature Protection and Energy Utilization.<sup>9</sup> All proposed projects should be evaluated and categorized on energy efficiency and economics but also on the facilities’ environmental impact. Furthermore, all large-scale power plant projects in Iceland must undergo an environmental impact assessment.<sup>10</sup>
- Regarding responsible investment, Kvika’s policy on responsible lending and investment intends to take ESG factors into account, as well as other relevant laws and regulations, in the analysis and decision-making processes of lending and investments.<sup>11</sup> The Bank follows credit processes that align with domestic and international rules and regulations and internal policies on issues such as anti-money laundering, counter-terrorism financing and sanctions. Green loans will be provided under these standard credit processes.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Kvika has implemented adequate measures and is well positioned to manage or mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics has focused on three use of proceeds categories below where the impact is specifically relevant in the local context.

#### Supporting Iceland's carbon-free power sector

Iceland's power sector is almost entirely carbon-free. In 2018, renewables accounted for 99.9% of the electricity generated in Iceland, far above the EU average of 32.1% in the same year.<sup>12</sup> In 2018, hydropower accounted for 70% of electricity output, while geothermal power accounted for the rest. Electricity and heat production accounted for only 0.1% of the energy sector's total emissions in 2018. The carbon intensity of power production in Iceland in 2018 stood at 9.3 gCO<sub>2</sub>/kWh in 2016, compared to 287 gCO<sub>2</sub>/kWh average in the EU.

The country's geological characteristics favour the use of geothermal energy, making Iceland the seventh leading country in the world for electricity production from geothermal, and the leading country in terms of share of electricity produced from geothermal.<sup>13,14</sup> The share of geothermal energy in Iceland's primary energy supply stands at 69%, covering 90% of all energy used for space heating. Kvika may finance such technologies, which would contribute to overall developments in renewable energy technologies. Thus, Sustainalytics views financing for renewable energy projects in hydropower, geothermal energy, wind and solar energy as impactful.

#### Fostering clean transportation to reduce fossil fuels consumption

Iceland has set a target to achieve carbon neutrality by 2040 by phasing out fossil fuels. The main current use of fossils fuels in the country is transportation and fishing. Road transport alone accounted for 21% of Iceland's GHG emissions in 2017. Road transport emissions increased from 825 ktCO<sub>2</sub>e in 2015 to 992 ktCO<sub>2</sub>e

<sup>8</sup> Equator Principles, “Designated Countries”, (2021), at: <https://equator-principles.com/designated-countries/>

<sup>9</sup> Government of Iceland, “Master Plan for Nature Protection and Energy Utilization”, (2021), at: <https://www.gov.is/topics/natural-resources/master-plan-for-nature-protection-and-energy-utilization/>

<sup>10</sup> Government of Iceland, “Environmental Impact Assessment”, (2000), at: <https://www.skipulag.is/media/umhverfismat/MAUlogm2005br.pdf>

<sup>11</sup> Kvika, “Policy on Responsible Lending and Investment”, at: <https://www.kvika.is/en/social-responsibility/investments-and-business-practices>

<sup>12</sup> European Commission, “The average share of electricity from renewable energy sources in the EU”, (2020), at:

[https://ec.europa.eu/eurostat/documents/38154/4956088/The+average+share+of+electricity+from+renewable+energy+sources+in+the+EU+%282004\\_2018%29/d1c3737c-769a-4b7c-4c7b-ae82d27cc6b5](https://ec.europa.eu/eurostat/documents/38154/4956088/The+average+share+of+electricity+from+renewable+energy+sources+in+the+EU+%282004_2018%29/d1c3737c-769a-4b7c-4c7b-ae82d27cc6b5)

<sup>13</sup> Paulillo, A., et al., (2019), “The environmental impacts and the carbon intensity of geothermal energy: A case study on the Hellisheiði plant”, Environment International, at: <https://www.sciencedirect.com/science/article/pii/S0160412019318689>

<sup>14</sup> Nordic Energy Research, “Iceland: World's highest share of geothermal power”, at: <https://www.nordicenergy.org/figure/two-thirds-renewable/worldshighest-share-of-geothermal-power/>

in 2020.<sup>15</sup> The government is striving to increase the share of zero emission vehicles that are powered by renewable sources to reduce the country's net emissions. To this end, Iceland's Climate Action Plan for 2018-2030 provides measures to foster clean transportation, including support for infrastructure for electric cars and other zero emission vehicles, improved infrastructure for electric and regular bicycles, electrical infrastructure in harbours, and support for public transport and shared services in transport.<sup>16</sup> The updated Climate Action Plan 2020 aims to achieve a minimum 35% emissions reduction by 2030, specifically highlighting reduced transportation emissions as a goal.<sup>17</sup>

Kvika will focus on financing clean transportation projects, such as freight transportation but also buses, cars, ferries and electric vehicles, and infrastructure (including charging stations) for electric vehicles and public transportation. Within the local context and government priorities, Sustainalytics views these efforts as impactful.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The instruments eventually issued under the Kvika Green Financing Framework advance the following SDGs and targets:

Use of Proceeds Category	SDGs	SDG targets
Clean Transportation	11. Make cities and human settlements inclusive, safe, resilient and sustainable	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Green Buildings	11. Make cities and human settlements inclusive, safe, resilient and sustainable	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

## Conclusion

Kvika has developed the Green Financing Framework, under which it may issue a variety of green financing instruments and use the proceeds to finance clean transportation projects, green buildings, and power and heat generation from renewable energy. Sustainalytics considers that the projects eventually funded by the green bond proceeds are expected to generate positive environmental impacts by mitigating GHG emissions in Iceland.

The Green Financing Framework outlines a process to track, allocate and manage proceeds, and makes commitments for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Green Financing Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7 and 11. Additionally, Sustainalytics is of the opinion that Kvika has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

<sup>15</sup> Government of Iceland, Ministry for the Environment and Natural Resources, "Iceland's Fourth Biennial Report Under the United Nations Framework Convention on Climate Change", (2020), at: [https://unfccc.int/sites/default/files/resource/27538601\\_Iceland-null--2020-Icelands%20Fourth%20Biennial%20Report.pdf](https://unfccc.int/sites/default/files/resource/27538601_Iceland-null--2020-Icelands%20Fourth%20Biennial%20Report.pdf)

<sup>16</sup> Government of Iceland, Ministry for the Environment and Natural Resources, "Iceland's Climate Action Plan for 2018-2030", (2018), at: <https://www.gov.is/library/Files/Icelands%20new%20Climate%20Action%20Plan%20for%202018%202030.pdf>

<sup>17</sup> Government of Iceland, "Climate Action Plan", (2020), at: <https://www.gov.is/library/01-Ministries/Ministry-for-The-Environment/201004%20Umhverfisraduneytid%20Adgerdaaetlun%20EN%20V2.pdf>

Based on the above, Sustainalytics is confident that Kvika Bank is well positioned to issue green bonds and that the Kvika Green Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021.

## Appendices

### Appendix 1: Green Building Certifications

	BREEAM <sup>18</sup>	"The Swan" Nordic Ecolabel <sup>19</sup>	LEED <sup>20</sup>	DGNB
<b>Background</b>	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	Svanen is owned by "Ecolabelling Sweden", a Swedish state company responsible for both the Swan ecolabel and the EU Ecolabel (or EU Flower). Svanen was first released in 1989 by the Nordic Council of Ministers.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC).	DGNB was developed in 2007 by the non-profit German Sustainable Building Council in partnership with the German Federal Ministry of Transport, Building, and Urban Affairs in order to actively encourage sustainable building.
<b>Certification levels</b>	<ul style="list-style-type: none"> <li>• Pass</li> <li>• Good</li> <li>• Very Good</li> <li>• Excellent</li> <li>• Outstanding</li> </ul>	Certified level	<ul style="list-style-type: none"> <li>• Certified</li> <li>• Silver</li> <li>• Gold</li> <li>• Platinum</li> </ul>	<ul style="list-style-type: none"> <li>• Bronze</li> <li>• Silver</li> <li>• Gold</li> <li>• Platinum</li> </ul>
<b>Areas of Assessment</b>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> <li>• Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• General requirements<sup>21</sup></li> <li>• Resource efficiency</li> <li>• Indoor environment</li> <li>• Chemical products, construction products and materials</li> <li>• Quality Management of construction</li> <li>• Quality and regulatory requirements</li> <li>• Instructions for residents and property managers</li> <li>• Point-score requirements (e.g. Energy contributions from local energy sources or energy recovery; Cement and concrete with reduced energy and climate impact; Ecolabelled construction products; Green initiatives, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental</li> <li>• Quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Environment</li> <li>• Economic</li> <li>• Sociocultural and functional aspects</li> <li>• Technology Processes &amp; Site</li> </ul>

<sup>18</sup> Building Research Establishment Environmental Assessment Methodology, at: <https://www.breeam.com/>

<sup>19</sup> <http://www.svanen.se/en/About-us/The-swan-and-the-EU-Ecolabel/>

<sup>20</sup> Leadership in Energy and Environmental Design, at: <https://new.usgbc.org/leed>

<sup>21</sup> Svanen criteria for Real Estate, available at: <http://www.svanen.se/Vara-krafter/Svanens-kriterier/kriterie/?productGroupID=52>

<b>Requirements</b>	<p>Prerequisites depending on the levels of certification and credits with associated points.</p> <p>This number of points is then weighted by item<sup>22</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>Points-based assessment. For apartment buildings at least 17 out of 44 possible points must be achieved.</p> <p>For small houses at least 16 out of 42 possible points must be achieved.</p> <p>For pre-school and school buildings at least 15 out of 39 possible points must be achieved.</p>	<p>Prerequisites independent of level of certification, and credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Percentage-based performance index.</p> <p>The total performance index (expressed as a percentage) is calculated by adding the six key areas of assessment.</p> <p>Depending on the total performance index, a DGNB award will be given to the project, starting from Silver. Bronze is awarded for existing buildings and is conferred as the lowest rank.</p>
<b>Performance display</b>				
<b>Qualitative Considerations</b>	<p>Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus.</p> <p>BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.</p>	<p>Widely recognized within the region, strong assurance of quality.</p>		<p>DGNB certification is based on current European Union standards.</p>

<sup>22</sup> BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

## Appendix 2: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Kvika Bank
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	Green Financing Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	September 23, 2021
<b>Publication date of review publication:</b>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds - Clean Transportation, Green Buildings, and Renewable Energy - are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories is expected to reduce the GHG emissions in Iceland and advance the UN Sustainable Development Goals, specifically SDG 7 and 11.

**Use of proceeds categories as per GBP:**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

If applicable please specify the environmental taxonomy, if other than GBP:

**2. PROCESS FOR PROJECT EVALUATION AND SELECTION**

Overall comment on section (if applicable):

Kvika's internal process in evaluating and pre-selecting projects is managed by its Banking Division and Kvika's Credit Committee. Kvika's Sustainability Committee is responsible for validating the pre-selection of Eligible Assets on a quarterly basis and screening Kvika's Eligible Asset Pool, based on the Framework's eligibility criteria. Further, Kvika may appoint an external sustainability advisor for screening the projects on an annual basis. Kvika has in place a policy on Responsible Lending and Investments which applies to allocation decisions made under the Framework. Sustainalytics considers the project selection process in line with market practice.

**Evaluation and selection**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Kvika will manage the net proceeds on a portfolio basis. The Bank's Risk Management department will be responsible for documenting the process in the Bank's register. This will be reviewed by Kvika's Sustainability Committee on a quarterly basis. Pending full allocation, unallocated proceeds will be temporarily held in a portfolio consisting of cash and/or cash equivalents, and/or other liquid marketable instruments. Kvika intends to reach full allocation within 24 months of each issuance. This is in line with market practice.

#### Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

#### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other ( <i>please specify</i> ):                               |

### 4. REPORTING

Overall comment on section (*if applicable*):

Kvika intends to report on allocation and impact of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the amount allocated to eligible project categories, the balance of the unallocated amount, and the share of financing vs. refinancing. Kvika also intends to report on relevant impact metrics. Sustainalytics views this to be aligned with market practice.

#### Use of proceeds reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

**Information reported:**

- Allocated amounts  Green Bond financed share of total investment
- Other (*please specify*): the balance of the unallocated amount, and the share of financing vs. refinancing

**Frequency:**

- Annual  Semi-annual
- Other (*please specify*):

**Impact reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (*please specify*):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings  Energy Savings
- Decrease in water use  Other ESG indicators (*please specify*): Number of clean vehicles and/or infrastructure deployed per year, Number of qualified buildings per year and the volume of m<sub>2</sub>, Installed renewable energy production capacity (MW), Annual production of renewable energy (MWh)

**Frequency**

- Annual  Semi-annual
- Other (*please specify*):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report
- Information published in ad hoc documents  Other (*please specify*): Green Financing Report on Kvika's website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): Kvika may seek an external annual review of its Eligible Assets as part of the Allocation Reporting. An independent assurance provider will provide limited assurance on an annual basis that an amount equal to Green Financing Instruments outstanding has been allocated to Eligible Assets.

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://www.kvika.is/en>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- |  |   |
|--|---|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion)<br><input type="checkbox"/> Verification / Audit<br><input type="checkbox"/> Other ( <i>please specify</i> ): | <input type="checkbox"/> Certification<br><input type="checkbox"/> Rating |
|--|---|

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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