



Sustainability Policy of Landsbankinn

LANDSBANKINN HF. | Reg. No. 471008-0280 | LANDSBANKINN.IS

21 September 2023

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1. Scope

The Sustainability Policy of Landsbankinn (hereafter “the Policy” or “this Policy”) applies to Landsbankinn hf. (hereafter “Landsbankinn” or “the Bank”).

Landsbankinn can in its operation impact sustainability, ESG factors and transition and physical risk.

2. Objectives

This Policy sets out aims for sustainability and describes the Bank’s methods of implementing these in its operation. The Policy supports the aims of “Landsbankinn, an ever-smarter bank” by describing how the Bank intends to approach the changes modern thinking on sustainability require. These changes are intended to further the interests of the Bank, its customers, and society in general, for the future.

The Bank’s sustainability objectives are divided into environmental factors, social issues and governance practices. The Bank considers biodiversity as a part of environmental factors.

The Bank intends to show initiative in disclosing information about sustainability.

3. Definitions

For the purpose of this Policy, the following definitions shall apply.

- Sustainability refers to the integration of the triple bottom line - people, profit and planet. Earth’s resources are limited and exploitation of these resources cannot exceed the finite limits of the environment without compromising public interest in the long term. The concept of sustainable development was first explored and explained in the Brundtland Report, published in 1987. The Report defines sustainable development as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”.
- ESG factors refers to environmental, social, and governance factors. Environmental criteria look at a company’s stewardship of the environmental impact of its operation. Social criteria inform a company’s treatment of human resources, suppliers, customers and the community it operates in. Criteria on governance take into account company management, remuneration to executives, internal control and shareholders’ rights.
- Transition risk refers to the risk created by changes to rules and benchmarks to mitigate or adapt to climate change, such as carbon emission taxation or a shift in behavioural patterns.
- Physical risk refers to risk associated with physical climate change impact and the impact of other ESG factors on infrastructure and assets, such as through rising sea levels, increased precipitation and ocean acidification.

4. Custodians of the Policy

4.1. Board of Directors

The Board of Directors approves the Sustainability Policy of Landsbankinn. The Policy shall be reviewed and updated biennially.

4.2. Executive Board

The CEO is responsible to the Board of Directors for the implementation and realisation of this Policy.

The CEO is also responsible for monitoring implementation of the Policy and reports to the Board of Directors annually.

Authority to approve and amend key points and principles lies with the Executive Board.

The Managing Director of Community is responsible for shaping, maintaining and presenting the Sustainability Policy.

5. Substance of the Policy

5.1. The United Nations' Sustainable Development Goals

Landsbankinn emphasises four of the UN SDGs in its operation:

- Goal 5 - Gender equality
- Goal 8 - Decent work and economic growth
- Goal 9 - Industry, innovation and infrastructure
- Goal 13 - Climate action

5.2. Environmental (E)

Landsbankinn endeavours to protect the environment in its operation and increase environmental awareness among stakeholders. The Bank practices responsible resource management and seeks to reduce greenhouse gas (GHG) emission and waste from its operation. The Bank assesses GHG emission from its operation and indirect emission from its loan portfolio, using the Partnership for Carbon Accounting Financials (PCAF) method. By knowing the scope of emission from its loan portfolio and monitoring developments, Landsbankinn is able to assess climate-related risk (transitional and physical risk) and to undertake appropriate stress testing, scenario analysis and implement action, as needed.

5.3. Social (S)

Landsbankinn treats its employees, suppliers, customers and the local community with fairness. The Bank supports its partners who are mindful of social matters in their operation. The Bank seeks to ensure that regard is had for social factors for the benefit of society as a whole.

5.3.1. Landsbankinn's employees

Employment contracts and the terms of Landsbankinn's employees are based on a collective bargaining agreement that accords with labour legislation. Icelandic labour legislation has regard for, among other things, the fundamental conventions of the International Labour Organization (ILO). Landsbankinn complies in other respects with Icelandic labour legislation and the conventions of ILO.

5.3.2. Landsbankinn's customers

Landsbankinn endeavours to simplify life for its customers and offer them exceptional service.

5.3.3. Landsbankinn's suppliers

Landsbankinn does business with numerous suppliers and service providers. Landsbankinn cooperates with its suppliers and endeavours to ensure fairness, non-discrimination and moderation in all dealings, benefiting the Bank and society as a whole. Landsbankinn is responsible for the supply chain in its business and has regard for the 10 principles of the UN Global Compact in its supplier relations. This contributes to sustainable business practices and fairness towards all parties involved in the supply chain for products and services. The Bank supports its suppliers in increasing sustainability in their operations.

5.4. Governance (G)

With good corporate governance, Landsbankinn lays the foundation for solid relations between shareholders, the Board of Directors, executives, employees, customers and other stakeholders and encourages objectivity, integrity, transparency and responsibility in the management of the Bank. Landsbankinn complies with recognised guidelines on corporate governance, published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the European Banking Authority's (EBA) Guidelines on Internal Governance for financial undertakings. The Bank publishes an annual statement on its governance practices and assesses alignment with these rules and guidelines.

5.5 ESG risk analysis

Landsbankinn analyses ESG risk based on the European Banking Authority's guidelines. Two ESG risk types are analysed:

- Transition risk
- Physical risk

5.6. Responsible investment

Landsbankinn aims to be a leader in responsible investment as a strategy of responsible investment positively impacts return on investment in the long term and reduces operational risk. Landsbankinn has regard for the UN Principles for Responsible Investment (UN PRI) in its operation.

Responsible investment is included in the Bank's Sustainability Policy to present an effective and credible approach to contentious issues in responsible investment. Landsbankinn endeavours to integrate sustainability in its investment decisions without compromising acceptable return on investment. Responsible investment, as described here, first and foremost applies to investment in listed and unlisted securities on the Bank's own behalf or its customers. Asset management customers are introduced to responsible investment as part of the activities of Asset Management & Capital Markets.

Responsible investment involves:

- Evaluating ESG factors for companies that are potential investment objectives.
- Contribute to on-going improvement of ESG issues, both in the Bank's own operation and the companies it invests in, with the aim of minimising negative impact.
- Publish regular information about responsible investment.

5.6.2. Methodology

Landsbankinn's procedures concerning responsible investment are based on the following methodology:

- Landsbankinn supports responsible investment through active communication and information disclosure.
- The Bank works with other investors and stakeholders to promote awareness about the importance of responsible investment in Iceland.
- The Bank may exercise its voting rights at shareholders' meetings if it considers there to be discrepancies between company policy and guidelines on good corporate governance.
- Where industrial sectors can negatively impact the environment or society, each company's efforts to reduce that impact will be taken into consideration.
- An ESG risk assessment is carried out as part of the evaluation of investment objectives. Landsbankinn may use third-party analysis as part of risk assessment in the evaluation of investment objectives.
- Exclusion may be used in exceptional cases. Should a company be found in repeated violation of national or international law or agreements ratified by Iceland, the Bank reserves the right to exclude it from its investment pool. Exclusion should be the exception, a last resort once a dialogue with the company and other solutions have proven futile.

5.6.3. Standards and guidelines

In the evaluation of investments, regard shall also be had for the following:

- International laws and conventions ratified by Iceland
- Operating licence requirements
- The UN Global Compact
- OECD Guidelines for Multinational Companies
- OECD Corporate Governance
- Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, as well as the ESG Reporting Guide published by NASDAQ OMX Iceland.
- Analysis of appropriate corporate ESG factors
- Disclosure on ESG factors, such as GRI reports, Nasdaq ESG reports or other appropriate information disclosure.
- The UN SDGs

5.6.4. Collaboration

Landsbankinn is a member of the UN's Principles for Responsible Investment (UN PRI) and makes it a priority that any partners involved in analysing companies on the Bank's behalf and fund managers either participate in or base their work on the guidelines of UN PRI.

Landsbankinn works with both domestic and international analysts on ESG analysis of issuers. Landsbankinn seeks to collaborate with other investors, fund managers, analysts and stakeholders in implementing responsible investment in Iceland.

5.6.6. Information provision

A productive dialogue with companies on ESG factors builds on mutual trust. Great emphasis is placed on maintaining the trust of companies that the Bank invests in. Landsbankinn annually publishes information about ESG factors in accordance with the principles of UN PRI.

5.7. Responsible lending

Landsbankinn aims to be a leader in the field of responsible lending as responsible lending reduces operational risk.

Responsible lending utilises a risk assessment of the ESG factors of companies as part of lending decisions, and provides an effective and credible approach to ESG issues in lending. The methodology of responsible lending contributes to credit quality, reduced risk and better competitive position while always seeking to achieve acceptable return on lending.

Responsible lending involves:

- Evaluating ESG factors for corporate borrowers and seeking to minimise their negative impact.
- Landsbankinn contributes to on-going improvement of ESG factors, both in its own operation and through corporate borrowers.
- Review the ESG impact of corporate lending based on definitions set out in Landsbankinn's Sustainable Finance Framework.

5.7.2. Methodology

Landsbankinn's procedures concerning responsible lending are based on the following methodology:

- Active dialogue.
- Evaluation of customers' sustainability.
- Integration of ESG factors in analysis and lending decisions.
- Having regard for Landsbankinn's ESG risk assessment of companies, whereby the Bank may utilise ESG risk assessments from third parties in its decision making.
- Should a company be found in repeated violation of national or international law or agreements ratified by Iceland, the Bank reserves the right to review its business relationship with the company. Exclusion should be the exception, a last resort once a dialogue with the company and other options have proven futile.

6. Landsbankinn's sustainability obligations

Landsbankinn follows up on its sustainability obligations through participation in various projects, listed below, and reports on its progress with an annual report that meets Global Reporting Initiative (GRI) Standards.

- Festa, Centre for Sustainability
- The UN Global Compact
- UN Principles for Responsible Investment (UN PRI).
- UN Environment Programme - Finance Initiative (UNEP FI)
- IcelandSIF - Iceland Sustainable Investment Forum
- Principles for Responsible Banking (PRB)
- Partnership for Carbon Accounting Financials (PCAF)
- Partnership for Biodiversity Accounting Financials (PBAF)