



Árborg Municipality Sustainability Bond Framework

June 2021



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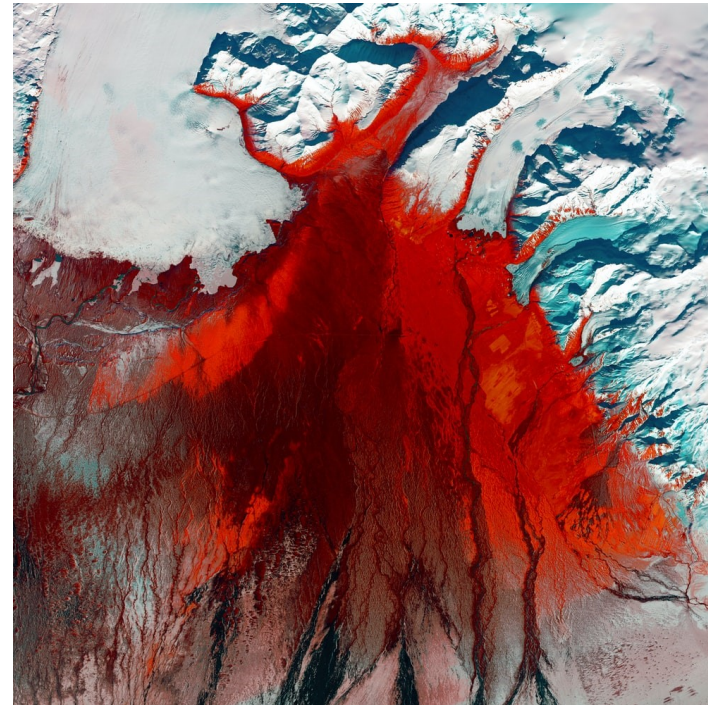
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Árborg municipality

General information

Árborg municipality was founded in 1998 and is the largest municipality in South Iceland. The municipality was established after the unification of Eyrarbakki county, Sandvík county, Selfoss and Stokkseyri county. The population at Árborg is around 10,500.

Árborg owns and operates three elementary schools. Two of which are in Selfoss and one in Stokkseyri. The municipality furthermore owns, operates or directly supports sporting facilities, district heating infrastructure, housing for the elderly, kindergartens, waste collection treatment, water treatment facilities and more. In addition, Árborg manages infrastructure for low-carbon transport, such as bicycling and walking paths.



Sustainability at Árborg

Árborg municipality intends to be a leader among Icelandic municipalities with regards to environmental protection with sustainable development as a focus. By doing so, the municipality intends to make the general area more appealing for current and future generations. As a part of this agenda, Árborg has been an active member of Framfaravogin, a part of the Social Progress Imperative¹. Within this participation, Árborg has been able to measure the social progress index and use the results practically in its operations. In 2020 the municipality published its Environmental policy. The policy outlines specific aims, goals and actions for²:

- **Governance:** To have Árborg municipality known for professional governance and focus on sustainable development. To prioritise environmentally certified products and services in procurement
- **Climate change:** To reach carbon neutrality before the 1st of January 2030.
- **Nature conservation:** Promote active natural conservation. To maintain biodiversity. Promote appropriate land use and increase land quality
- **Cultural monuments:** To protect cultural monuments
- **Education:** Increase common knowledge about local flora and fauna. To have all schools to reach “green flag” status before 2022. Provide environmental education for adults.
- **Waste:** Have a maximum of 5% of total waste to landfill. Incorporate the “polluter pays” principle into waste fees
- **Industries:** To have industries operating in harmony with society and nature. Promote environmentally friendly tourism.
- **Transportation:** Promote environmentally friendly transport. All transport owned by the municipality to be electrified before 2025. Increase the share of walking, cycling and horse-riding paths
- **Appearance and public health:** To have Árborg municipality renowned for cleanliness in public spaces
- **Society:** Promote the action plan for public health and outdoor activism, and outdoor activism for disease prevention.

The environmental policy aligns each aim with a United Nations Sustainable Development Goal (SDG). In addition, Árborg has published its objectives for various relevant categories to this Framework, such as; Labour policy, child protection policy, procurement policy, equality policy, sports and leisure policy, literary policy, arts and cultural policy, education policy, data privacy policy, policy against bullying and violence and a policy regarding the elderly.

Each of these policies demonstrate the aims, goals and action plans regarding each of the subjects.

Purpose of the Framework

Árborg municipality is growing at a fast rate. As a growing municipality, it has to fulfil its various obligations by securing an equitable, just and sustainable future for its habitants. In order to align the growth with the municipality's sustainability objectives Árborg intends to issue from time to time bonds (or other financial instrument with known use of proceeds) to

finance certain parts of its operations. The purpose of this framework (The framework) is to provide alignment of future bond issuances with the ICMA green bond principles (GBP), the Social Bond Principles (SBP) or the Sustainability Bond Guidelines (SBG)³. The framework furthermore determines the selection process of eligible projects, verification and reporting to investors.

The framework consists of the following components:

- Use of proceeds
- Process for financing evaluation and selection
- Management of proceeds
- Reporting
- External review

Bond issuances under this framework may be labelled specifically as "Green", "Social" or "Sustainable", depending on the category of projects financed under the framework.

³ The ICMA principles can be found on the ICMA website. [See link here.](#)



Árborg Sustainable Finance Framework

Use of proceeds

An amount equal to the net-proceeds from any instrument linked to this framework is to be used for financing or refinancing of eligible projects, in full or in part. In the case of refinancing, a three-year look-back period prior to the year of issuance is used. Financing during the same year of issuance is considered as new financing. The table below demonstrates relevant project categories and example of activities to be financed under the framework. The table indicates if a project category is labelled as “Green” or “Social”. This indication is provided if Árborg intends to focus the proceeds from future bond issuances to either “Green” or “Social” categories. The project categories, and underlying activities are also mapped against the United Nations Sustainable Development Goals, allowing investors to monitor the work at Árborg towards the SDGs.

Project category	Eligible projects	Green	Social	UN SDG
Renewable energy	Development, construction and operation of facilities using renewable energy for electricity and heating from geothermal energy with carbon intensity <100 gCO ₂ e/kWh considering life-cycle emissions.	•		7.2, 7.a, 9.1
Pollution prevention and control	Purchase, development, construction and operation of facilities for waste: <ul style="list-style-type: none"> - Prevention - Reduction - Recycling - Sorting and reuse 	•		6.3, 6.6, 11.6
Energy efficiency	Technologies for reducing energy consumption, such as: <ul style="list-style-type: none"> - Installation of LED bulbs for street lighting - Installation of energy efficiency measures in energy systems, e.g. district heating, electricity grids, smart grids, energy recovery and storage.⁴ - Distribution of hot water for district heating 	•		7.3
Terrestrial and aquatic biodiversity conservation	Purchase of open, natural areas and parks designated for public access.	•		15.1, 15.2
Clean transportation	Infrastructure for clean transportation, such as: <ul style="list-style-type: none"> - Walking paths - Cycling paths - Infrastructure for electric vehicles. 	•		11.2
Sustainable water and wastewater management	Infrastructure for water and wastewater management, such as <ul style="list-style-type: none"> - Distribution of drinking water - Collection and treating of wastewater 	•	•	6.2, 6.b

Green buildings	Construction of new, or refurbishment of public, commercial and private buildings are required to achieve one of the following, or equivalent, certification:	•	11.6
	<ul style="list-style-type: none"> - LEED “Gold” - BREEAM (or BREEAM In-use) “Very good” - Nordic Swan Ecolabel 		
Access to essential services	Construction, purchasing or development of:	•	4.1, 4.2, 4.3, 4.a, 10.2
	<ul style="list-style-type: none"> - Schools and other educational services - Housing for the elderly - Healthcare services - Kindergartens 		
Affordable housing	Construction, purchasing, maintenance or development of ⁵ :	•	1.2, 1.3, 11.1, 11.5
	<ul style="list-style-type: none"> - Housing for low income or marginalized groups⁶ 		
Socioeconomic advancement and empowerment	Construction, purchasing, maintenance or development of:	•	3.4, 3.5, 10.2
	<ul style="list-style-type: none"> - Sporting facilities with public access 		

⁴ In case of energy efficiency measures, these can only be in relation to energy systems connected to 100% renewable energy sources.

⁵ This may include equity investments in companies with the sole focus of providing affordable housing

⁶ Low income groups as defined by Árborg rules for social housing ([see link here](#)).

Exclusions

The proceeds from any bond issuance under this framework will not knowingly be used to finance activities related to deforestation or degradation of forests, adult entertainment, manufacture of alcoholic beverages, any activities directly related to the fossil fuel or nuclear industry (exploration, production or distribution), defence goods, gambling, military activities, predatory lending, tobacco products, conflict materials, child labour and forced labour. Furthermore, proceeds will not be used to finance fossil fuel infrastructure, such as storage or distribution, regardless of other alignments with this framework.

Process for financing evaluation and selection

Árborg has put in place a Sustainable Finance Committee (SFC). The SFC consists of representatives from Treasury, Environmental department, Facilities management, the mayor and an internal sustainability expert⁷.

The role of the SFC is to evaluate the alignment of possible funding options to this framework, manage the relevant information provided to investors and have a general overview over all bond issuances related to this framework. The SFC convenes at least annually, or as needed.

In case of a need for an external opinion on the eligibility of projects, the SFC is responsible to obtain the external opinion. The internal sustainability expert has veto power within the committee which can be exercised if a project is not considered to fall under the requirements set by this framework. The process can be outlined as follows:

- General budget is outlined by the finance department. This includes a selection of all projects to be financed in the foreseeable future.
- Alignment of the proposed budget with this Sustainable Finance Framework is conducted within the Árborg Finance department.
- The proposed alignment is then confirmed within the SFC.
- A list of financed projects by any financial instrument linked to this Framework is kept at the Finance department.

⁷ This group may change slightly in structure from time to time. The essence is however always to keep an overview of use of proceeds and to assess if financed projects qualify under this Framework.



Management of proceeds

Net proceeds of issued bonds will be managed on a portfolio basis. As long as bonds (green, social or sustainability) are outstanding, Árborg aims to allocate an amount equivalent to the proceeds from these instruments towards its portfolio of Eligible Activities and Assets. The SFC will review and approve the allocation of proceeds annually to verify that the amount of outstanding qualified projects matches or exceeds the net proceeds from bond issuances under this framework. In the case of a funded project no longer meets the eligible criteria, proceeds will be reallocated to other eligible projects.

Pending full allocation of proceeds, Árborg may temporarily invest the unused balance in line with its liquidity investment guidelines. Árborg has 24 months until net-proceeds are fully allocated to Eligible Projects.

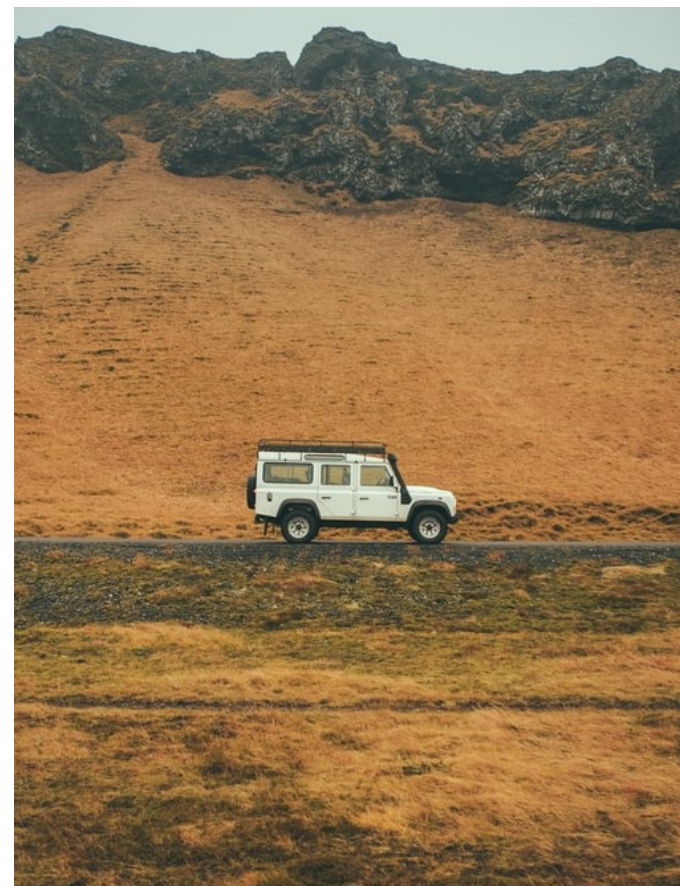
Reporting

Árborg municipality will publish annually, during the lifetime of the bond, an impact report for investors. The impact report will be published either as a standalone document or as a part of other sustainability reporting publicly available on Árborg's website along with other investor relevant information. The Impact report is intended to inform the investor of the positive environmental or social impact provided by the funded projects. The impact report will, as a minimum, provide information about proceeds allocation and sustainability impact.

Allocation information

Information about proceeds allocation will, at least, include the following:

- An overview of outstanding sustainable bond issuances under the framework
- Amount allocated to eligible projects in each category
- Remaining balance of unallocated proceeds
- Ratio between new financing and refinancing.





Sustainability impact information

Árborg municipality will provide an estimation of perceived impact for each of the categories funded with proceeds linked to this Framework. Where possible, the impact report will be based on the ICMA harmonized framework for impact reporting. For avoided environmental impact, relevant best market practice Árborg municipality will provide an estimation of perceived impact for each of the categories funded with proceeds linked to this Framework. Where possible, the impact report will be based on the ICMA harmonized framework for impact reporting. For avoided environmental impact, relevant best market practice guidelines will be used in order to estimate the positive impact. The table below demonstrates possible impact metrics to be used in the impact report for each project category eligible for financing under this framework.

Project category	Impact metric
Renewable energy	<ul style="list-style-type: none"> • Annual GHG emissions reduced/avoided in tCO₂e • Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)
Pollution prevention and control	<ul style="list-style-type: none"> • Annual absolute (gross) amount of waste 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.
Energy efficiency	<ul style="list-style-type: none"> • Annual GHG emissions reduced/avoided in tCO₂e
Terrestrial and aquatic biodiversity conservation	<ul style="list-style-type: none"> • Amount of new land purchased for conservation and public access
Clean transportation	<ul style="list-style-type: none"> • Total kilometres of new or improved dedicated bus, BRT, LRT corridors and bicycle lanes • Total kilometres of walking paths • Annual GHG emissions reduced/avoided in tCO₂e p.a.
Sustainable water and wastewater management	<ul style="list-style-type: none"> • Annual absolute (gross) water use before and after the project in m³/a, reduction in water use in %. • Annual absolute (gross) amount of wastewater treated, reused or avoided before and after the project in m³.
Green buildings	<ul style="list-style-type: none"> • Area (in m²) of certified office or residential space per each certification scheme • Annual GHG emissions reduced/avoided in tCO₂e
Access to essential services	<ul style="list-style-type: none"> • Improved capacity in care of elderly persons • Number of new students reached • Improved capacity in healthcare
Affordable housing	<ul style="list-style-type: none"> • Rental costs compared to the national rent index • Number of dwellings
Socioeconomic advancement and empowerment	<ul style="list-style-type: none"> • Total number of social participations in sports and other social activities • Participant increase in sports and other social activities

External review

The following reviews will be provided in relation to this framework and subsequent bond issuances:

- The Framework has received a Second Party Opinion (SPO) from Sustainalytics to ensure alignment with the ICMA Green bond Principles, Social Bond Principles and the Sustainability Bond Guidelines. The provider of the SPO is independent from Árborg and its associated advisors. The SPO in its entirety is made public on the Árborg website along with this Framework and future impact reports.
- A sustainability expert will assess the sustainability impact for the finance projects. These results are then published in the relevant annual Bond Impact report.
- Post-issuance verification reviews that the use of proceeds have been allocated to eligible projects. This verification is published in the annual impact report.



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