

Árborg Sustainable Bond

Allocation and Impact Report

2021



Introduction

On 7 June 2021, Árborg municipality published its first sustainable finance framework. Árborg was the second municipality in Iceland to issue a bond based on sustainability objectives. The purpose of the framework is to enable Árborg to issue bonds or other financial instruments with known use of proceeds, to finance certain parts of its operation and that align with the municipality's sustainability objectives.

To ensure transparency, Árborg will publish an annual allocation and impact report as long as it has sustainable financial instruments outstanding. Issuances under the framework may be labelled respectively as “green”, “social” or “sustainable” instruments, depending on the category of projects financed under the framework. This is the inaugural Allocation and Impact Report (hereafter the Impact Report or the Report) under the framework.

Accounting firm KPMG performed an independent limited assurance engagement on this Allocation and Impact Report, pertaining to the allocation of proceeds.



Árborg and sustainable financing

Árborg municipality intends to be a leader among Icelandic municipalities in the field of environmental protection with a focus on sustainable development. This strategy will make the municipality more appealing for current and future generations. Árborg measures its social progress as an active member of social progress index Framfaravogin. The municipality also published its environmental policy in 2020, outlining specific goals that each aligns with a United Nations Sustainable Development Goal (SDG).

The goals set in the environmental policy are as follows:

Governance: Ensure professional governance and focus on sustainable development. Prioritise environmentally certified products and services in procurement.

Climate change: Attain carbon neutrality before 1 January 2030.

Nature conservation: Actively promote conservation of the natural environment and maintain biodiversity.

Cultural monuments: Protect cultural monuments.

Education: Increase general knowledge about local flora and fauna. All schools to reach “green flag” status before 2022. Provide environmental education for adults.

Waste: Maximum of 5% of total waste disposed of in landfills. Incorporate the “polluter pays” principle in waste fees.

Industries: Contribute to the sustainable coexistence of industries 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 share of walking, cycling and horse-riding paths.

Appearance and public health: Establish a reputation for cleanliness in public spaces.

Society: Promote the action plan¹ for public health and outdoor activity, and outdoor activity for disease prevention.

¹ The action plan is a part of the environmental policy:
<https://www.arborg.is/media/stefnur/Umhverfisstefna-Arborgar-10.06.2020.pdf>

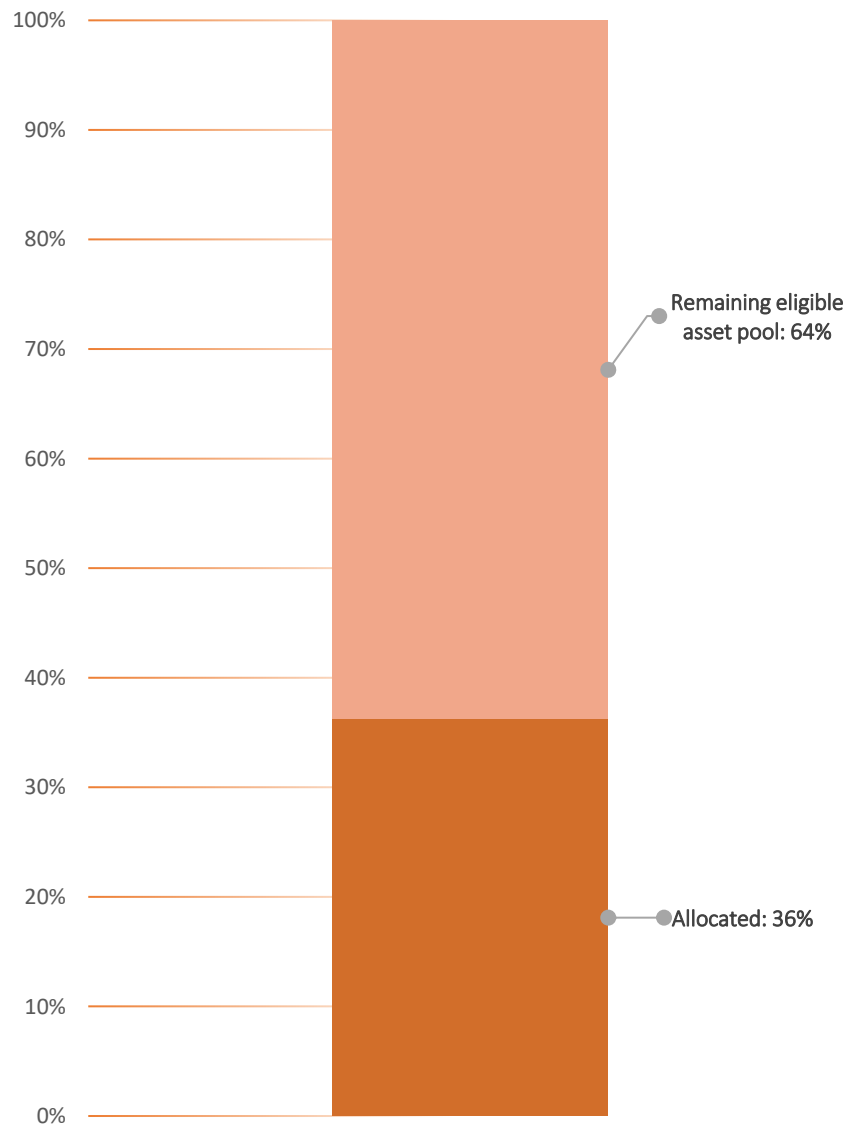
Eligible projects and allocation

The value of Árborg's sustainable asset pool was ISK 3.9bn as at 31 December 2021. Árborg has allocated ISK 1.4bn to eligible projects, both social in nature and with expected environmental benefits. The projects range from improved infrastructure for pedestrian traffic, new schools and potable water for inhabitants to the purchase of land to provide open spaces and playgrounds for younger inhabitants. The inaugural sustainable bond issuance has now been fully allocated to projects carried out in 2021. The remaining balance of unallocated proceeds is 0 and the ration between refinance / new finance is 1.4.

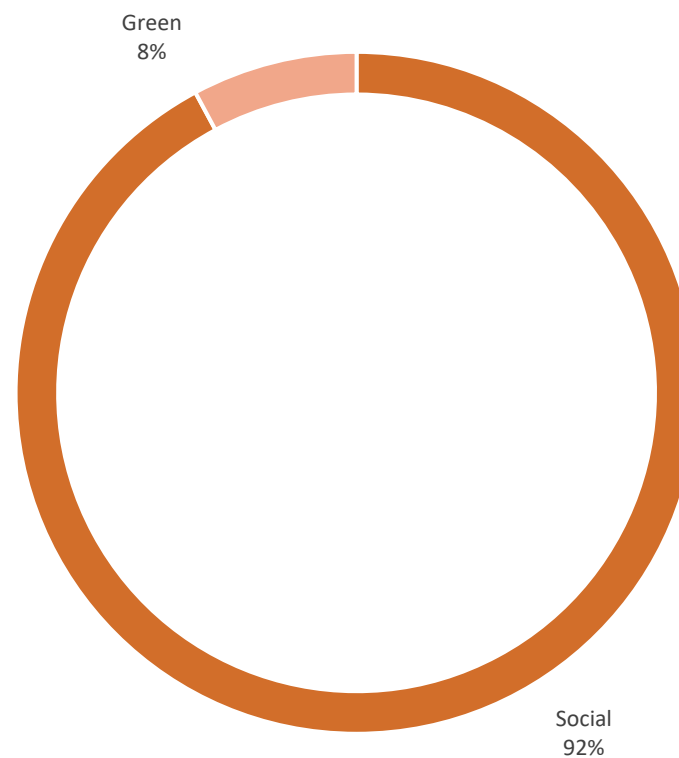


Values in ISK '000

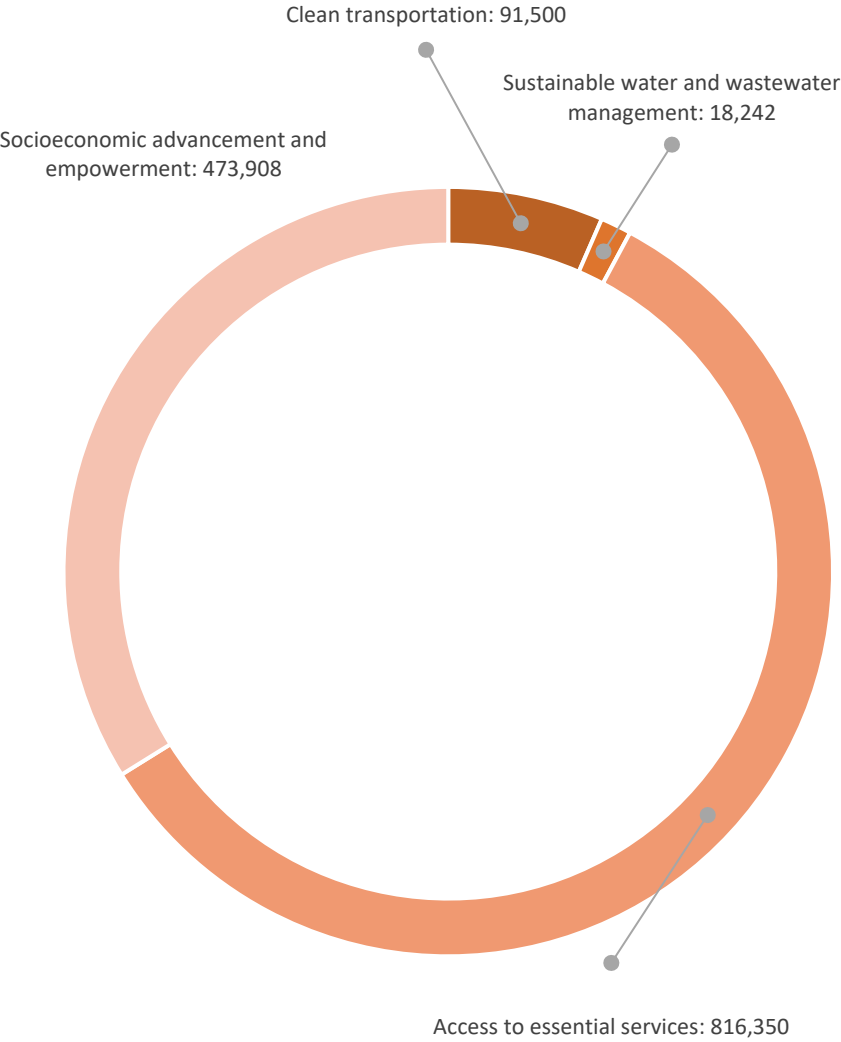
Sustainable Asset Pool	Eligible financing	Allocated ARBO 31 GSB	Green	Social
Category 1: Renewable energy	178,580		•	
Category 2: Energy efficiency	238,501		•	
Category 3: Pollution prevention and control	10,854		•	
Category 5: Terrestrial and aquatic biodiversity conservation	29,268		•	
Category 6: Clean transportation	711,878	91,500	•	
Category 7: Sustainable water and wastewater management	183,836	18,242	•	
Category 12: Access to essential services	1,964,518	816,350		•
Category 16: Socioeconomic advancement and empowerment	549,395	473,908		•
Total Sustainable Asset Pool	3,866,830	1,400,000		



Árborg has one outstanding sustainable financing instrument, ARBO 31 GSB, in the amount of ISK 1.4bn. The proceeds from this bond issuance cover 36% of the eligible asset pool as it stands at year-end 2021. Of financed projects, 8% fall in the green category and 92% in the social category.



Of the ISK 1.4bn issued and now allocated, ISK 816m went to “Access to essential services” which are mainly schools and related facilities. Another ISK 473.9m were allocated to “Socioeconomic advancement and empowerment”, ISK 91.5m to “Clean transportation” consisting mainly of infrastructure for pedestrians and ISK 18.2m was allocated to “Sustainable water and wastewater management”, mainly the gathering and distribution of potable water to new inhabitants.



*Values in ISK '000

Project examples

Breakdown of category 6 allocation: Clean transportation	Allocation in ISK '000
Approximately 900m pathway on a golf course using no asphalt	1,988
Selfoss pathway – Approximately 500m pathway along the Ölfus riverbank, using no asphalt	12,226
Urban pathways – Approximately 790m pathways in recreational areas in Selfoss	14,893
Eyrbakkavegur walking and cycling pathway – Approximately 2500m alongside Eyrbakkavegur	39,070
Actions to reduce traffic speed – Two pedestrian and bicycle crossings on Selfoss near Engjavegur and Langholt	8,455
Walking trails for school children - Special lightning at pedestrian and bicycle crossings	10,039
Renovation of sidewalks – Approximately 150m of pavement renewal in Selfoss at Laugardælavegur and Lóurimi/Gauksrimi	4,829
Total	91,500

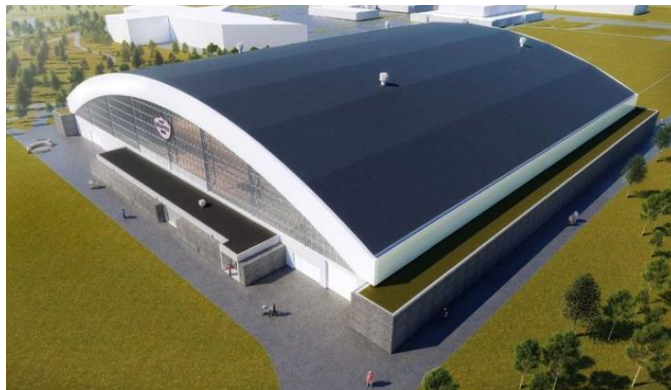


Breakdown of category 7 allocation: Sustainable water and wastewater management	Allocation in ISK '000
Water collection at Ingólfsfjall	12,958
Byggðarhorn water supply – Expansion of the water supply distribution system	5,284
Total	18,242

Breakdown of category 12 allocation: Access to essential services (refinance)	Allocation in ISK '000
Stekkjaskóli – New primary school. Construction of the first phase of Stekkjaskóli, a two story, concrete 4560 m ² building. The school will accommodate grades 1 through 4 and includes areas for arts and crafts, a dining hall, kitchen, and facilities for staff members. The school will have a capacity for up to 200 students.	816,350
Total	816,350



Breakdown of category 16 allocation: Socioeconomic advancement and empowerment	Allocation in ISK '000
Selfoss: Multipurpose sports hall. The building has a base area of approximately 6500m ² and can accommodate a half-field, facilities for athletics and a track around the field.	446,690
Selfoss: Multipurpose sports hall – Interior equipment.	27,218
Total	473,908



Impact

The table below sets out either the impact associated with the projects financed under the sustainable bond issuance or the ex-ante impact, which is the expected impact from the projects upon completion. Construction is on-going for multiple projects and the impact as yet unrealised. The impact metrics are mostly in

line with our published framework though with one in the category “Sustainable water and wastewater management”. In this category it was considered more suitable to report on the population gaining access to potable water rather than on water savings.

Category	Impact metric	2021 impact	Ex-ante impact
Clean transportation	Total kilometres of walking paths	4.8	
Sustainable water and wastewater management	Population with new access to potable water	Under construction	10,800
Access to essential services	Number of new students reached	Under construction	200
Socioeconomic advancement and empowerment	Increased participation in sports and other social activities by individuals	Under construction	1,150

Figures

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Takmörkuð staðfesting til Sveitarfélagsins Árborgar varðandi ráðstöfun fjármagns í tiltekin græn verkefni samkvæmt framfaraskýrslu (e: Allocation and Impact Report) fyrir árið 2021

Við vorum ráðin af Sveitarfélaginu Árborg (hér eftir Árborg) til að veita takmarkaða staðfestingu (e. limited assurance) á meðfylgjandi framfaraskýrslu fyrir árið 2021 (hér eftir skýrslan). Staðfestingin tekur til ráðstöfunar á fjármagni í tiltekin græn verkefni eins og þau eru skilgreind í „Sustainability Bond Framework“ útgefið í júní 2021.

Álit með takmarkaðri vissu

Byggt á þeim aðferðum sem við höfum framkvæmt og þeirra gagna sem við höfum aflað, kom ekkert fram sem bendir til annars en að ráðstöfunin samkvæmt skýrslunni 2021 sé í öllum megin atriðum í samræmi við þau gögn sem skoðuð voru.

Ábyrgð stjórnenda

Skýrslan er lögð fram af stjórnendum félagsins. Þeir bera ábyrgð á að hanna, innleiða og viðhalda innra eftirliti vegna upplýsinga sem viðeigandi eru til að útbúa skýrslu. Einnig bera þeir ábyrgð á söfnun, greiningu og framsetningu upplýsinga sem settar eru fram í skýrslunni og að skýrslan sé án verulegra annmarka hvort sem er vegna sviksemi eða mistaka. Þá eru stjórnendur ábyrgir fyrir því að starfsfólk sem kom að vinnslu og framsetningu skýrslunnar hafi hlotið viðeigandi þjálfun og að upplýsingakerfi séu uppfærð.

Ábyrgð okkar

Ábyrgð okkar er að veita takmarkaða staðfestingu á sjálfbærnisráðgjafi félagsins. Skoðun okkar var unnin í samræmi við alþjóðlegan staðal um staðfestingar, *ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information*, sem gefinn var út af International Auditing and Assurance Standards Board. Samkvæmt staðlinum ber okkur að skipuleggja og haga vinnu okkar svo unnt sé að veita takmarkaða staðfestingu um hvort sjálfbærnisráðgjafi sé í öllum meginatriðum án verulegra annmarka. Takmarkað staðfestingarverkefni er minna að umfangi en staðfestingarverkefni með nægilegri vissu (e. reasonable assurance). Að auki geta ófjárhagslegar upplýsingar verið háðar frekari takmörkunum en fjárhagslegar upplýsingar, bæði vegna eðlis þeirra og aðferða sem notaðar eru til að ákvarða, reikna og áætla slík gögn. Þær aðferðir sem beitt er við takmarkaða staðfestingu eru mismunandi eftir eðli hvers verkefnis og eru umfangsminni en óháð staðfesting. Þar af leiðandi gefur takmörkuð óháð staðfesting ekki eins mikla vissu og þegar um er að ræða óháða staðfestingu.

KPMG hefur innleitt alþjóðlegan gæðastaðal, International Standard on Quality Control 1, og hefur því innleitt víðtækt gæðakerfi, þar á meðal um að hafa skráðar stefnur og verklag varðandi fylgni við siðareglur, faglega staðla og viðeigandi kröfur laga og reglugerða.

Við höfum uppfyllt kröfur um óhæði og aðrar siðareglur sem fram koma í alþjóðlegum siðareglum fyrir endurskoðendur, sem gefnar hafa verið út af International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants, sem byggja í grunninn á heilindum, hlutleysi, faglegri hæfni og varfærni, trúnaði og faglegu framferði.

Aðgerðir sem framkvæmdar voru

Takmörkuð staðfesting skýrslunnar felst í að afla upplýsinga, einkum frá því starfsfólki sem er ábyrgt fyrir þeim upplýsingum er fram koma í skýrslunni, greina, meta og afla staðfestinga eftir því sem við á. Þessar aðgerðir fela m.a. í sér:

- Fyrirspurnir til stjórnenda og annars viðeigandi starfsfólks til að öðlast skilning á ferli Árborgar við gerð og yfirferð skýrslunnar.

— Úrtaksprófanir til að sannreyna að þær upplýsingar sem fram koma í skýrslunni séu í samræmi við gögn.

Reykjavík, 31.ágúst 2022

KPMG ehf.



Helga Harðardóttir

endurskoðandi