



# Allocation and Impact Report

2023







# Introduction

On 7 June 2021, Árborg municipality (“Árborg” or “the Municipality”) published its first Sustainability Bond Framework (“the Framework”). Árborg was the first Icelandic issuer of a sustainable bond intended to finance projects that have both environmental and/or social benefits. The bond was listed on Nasdaq’s sustainable bond index in June 2021 – instrument ARBO 31 GSB. The Municipality issued its second sustainable bond, ARBO 43 GSB, in September 2023.

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 that align with the Municipality’s sustainability objectives.

To ensure transparency, Árborg will publish an annual Allocation and Impact Report while 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 third Allocation and Impact Report (“the Impact Report” or “the Report”) under the Framework.

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

# Árborg and sustainable financing

Árborg 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 to current and future generations. Árborg is an active member of the social progress index Framfaravogin that measures its progress. 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 by 2022. Provide access to environmental education for adults.

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

**Industry:** Contribute to the sustainable coexistence of industry with society and nature. Promote environmentally-friendly tourism.

**Transportation:** Promote environmentally-friendly transportation. All transport owned by the municipality to be electrified before 2025. Increase share of pedestrian, bicycle and equestrian paths.

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

**Society:** Promote the action plan<sup>1</sup> for public health and outdoor activity, and outdoor activity for disease prevention.

<sup>1</sup> The action plan is a part of the Environmental Policy, see <https://www.arborg.is/media/stefnur/Umhverfisstefna-Arborgar-10.06.2020.pdf>





## Eligible projects and allocation

The value of unallocated eligible activities and assets<sup>2</sup> was ISK 4.27 billion as of 31 December 2023. A detailed breakdown is provided in Table 1.

Árborg has issued two sustainable bonds:

- ARBO 31 GSB in June 2021 – Outstanding ISK 5.29 billion
- ARBO 43 GSB in September 2023 – Outstanding ISK 0.5 billion

There were no new issuances under the ARBO 31 GSB sustainable bond in 2023. As proceeds from the bond were previously fully allocated, no further impact analysis is necessary in this Report. Information

on the impact from projects funded with proceeds from the bond is provided in the previous year's Impact Report.

Árborg issued a new sustainable bond in autumn 2023 for a total of ISK 0.5 billion. The proceeds were used to fully fund eligible projects under the Municipality's Sustainability Bond Framework. The projects contributed to the development, maintenance and operation of renewable energy infrastructure and facilities.

The sustainable bonds issuances in 2023 have now been fully allocated to projects carried out in 2023 (100% new finance).

<sup>2</sup> Information on eligible sustainable assets for the years 2019 (available for ARBO31 GSB) and 2020 has not been aggregated and is not included.

Table 1. Eligible sustainable asset pool under Árborg's Sustainability Bond Framework and allocated funds in 2023. Amounts in ISK million.

Project category	Total eligible	Allocated	Unallocated	Allocated proportion	Green	Social
Renewable energy	726.8	500.0	226.8	68.8%	●	
Energy efficiency	510.6	0.0	510.6	0.0%	●	
Pollution prevention and control	39.0	0.0	39.0	0.0%	●	
Terrestrial and aquatic biodiversity conservation	34.7	0.0	34.7	0.0%	●	
Clean transportation	648.3	0.0	648.3	0.0%	●	
Sustainable water and wastewater management	491.5	0.0	491.5	0.0%	●	
Access to essential services	1,463.2	0.0	1,463.2	0.0%		●
Socioeconomic advancement and empowerment	356.5	0.0	356.5	0.0%		●
<b>Total sustainable asset pool</b>	<b>4,270.7</b>	<b>500.0</b>	<b>3,770.7</b>	<b>11.7%</b>		

Table 2. Overview of allocated funds to projects funded by ARBO 43 GSB issued under Árborg's Sustainability Bond Framework. Amounts in ISK million.

Project category	Instrument	Project	2023	Bond allocation
Renewable energy	Green	Development and operation of facilities used for geothermal energy generation	500.0	100.0%
<b>Total bond funding</b>			<b>500.0</b>	<b>100.0%</b>

# Impact

Table 3 sets out either the impact associated with the projects financed under the ARBO 43 GSB sustainable bond issuance or an ex-ante impact assessment, which is the expected impact from the projects upon completion. Construction or development phase is on-going for some projects and the impact as yet unrealised.

## Renewable energy

Selfossveitur is a district heating utility owned by Árborg which operates only within its geographic area. It provides low-temperature geothermal heating to a majority of Árborg’s inhabitants for domestic heating. In recent years, the demand for geothermal heating has increased alongside the Municipality’s

rapid growth. This resulted in the need for the utility to initiate an extensive and expensive search for additional geothermal resources and to expand its infrastructure.

The search has proven successful, with three new geothermal boreholes expected to be added to the system, increasing its capacity (in terms of l/s) by up to 20%. The expansion has included new construction and development of the utility’s infrastructure, e.g. the addition of a new storage tank and activation of boreholes.

The sustainability bond proceeds covered 263 GWh of geothermal energy generated in 2023 and ex-ante renewable energy generation impact is expected to be 89 GWh.

*Table 3. Overview of the impact of allocated proceeds from ARBO 43 GSB under Árborg’s Sustainability Bond Framework.*

Project category	Impact metric	2023 impact	Ex-ante impact
Renewable energy	GWh (TJ) renewable energy generated	263 (946)	89 (320)

# Methodology

The methodologies used for the impact analysis in this Report are based on relevant international guidelines and standards, such as ICMA's Green Bond Principles' Handbook Harmonised Framework for Impact Reporting<sup>3</sup>, and defined impact metrics for the corresponding category in the Sustainability Finance Framework.

## Photos

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<sup>3</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf>



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## Takmörkuð staðfesting til Sveitarfélagsins Árborgar varðandi ráðstöfun fjármagns í tiltekin græn verkefni samkvæmt framfaraskýrslu (Árborg Sustainability Bond - Allocation and Impact Report) fyrir árið 2023

Við vorum ráðin af Sveitarfélaginu Árborg (hér eftir Árborg) til að veita takmarkaða staðfestingu (e. limited assurance) á meðfylgjandi framfaraskýrslu fyrir árið 2023 (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 2023 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, 30. september 2024

**KPMG ehf.**

Árni Claessen

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