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Principles for
Responsible Banking

Arion Bank's PRB Reporting and Self- Assessment for 2023

Principles for Responsible Banking

Implementation Document
Principles for
Responsible
Banking
• Est. 2019 •
Official



Principle 1: Alignment



We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

Response

Arion Bank and its subsidiaries provide comprehensive financial services to the people of Iceland. Arion Bank's role is to help those who want to achieve success in Iceland and the Arctic through smart and reliable financial solutions which enhance financial health and create sustainable value. Arion Bank places great importance on developing long-term relationships with its clients and is a market leader as a provider of cutting-edge and modern banking services.

Arion Bank provides services to households, corporates and investors in three business segments: Retail Banking, Corporate & Investment Banking, and Markets. The service offering is further augmented by the subsidiaries Stefmir and Vörður. Stefmir is one of the largest fund management companies in Iceland, and Vörður is the fastest growing insurance company in Iceland, providing nonlife and life insurance. The diverse service offering creates a broad revenue base, and the loan portfolio is well diversified between retail and corporate customers.

The Bank also offers pension services and manages several pensions funds. The Bank is a market leader in terms of digital solutions and innovation. In 2023 Arion Bank operated thirteen branches and a call centre, all located in Iceland.

The Bank is listed on the main lists of Nasdaq Iceland and Nasdaq Stockholm.

Links and references

Annual and Sustainability Report 2023:

[About Arion Bank](#)

[Retail customers](#)

[Corporate customers](#)

[Markets](#)

[Consolidated Financial Statements 2023](#)



Strategy alignment

Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?

- Yes
- No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?

- UN Guiding Principles on Business and Human Rights
- International Labour Organization fundamental conventions
- UN Global Compact
- UN Declaration on the Rights of Indigenous Peoples
- Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones:

In 2023 the Central Bank of Iceland's Regulations No. 772/2023 on the Disclosure Obligations of Financial Institutions came into effect, which constitutes the implementation of Commission Implementing Regulation (EU) 2022/2453 on technical standards as regards the disclosure of environmental, social and governance risks. The European Banking Authority (EBA) issued the aforementioned technical standards and the template which the Bank is now publishing for the first time in the 2023 Pillar 3 Risk Disclosures.

- Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: -----
- None of the above

Response

The executive committee of Arion Bank has approved six UN Sustainable Development Goals which the Bank intends to focus on. These goals are number 5 on gender equality; number 7 on affordable and clean energy; number 8 on decent work and economic growth; number 9 on industry, innovation and infrastructure; number 12 on responsible consumption and production; and number 13 on climate action. The Bank's operations, including action on gender equality, our policy and actions on environment and climate issues, support for innovation and the business sector as a whole, state-of-the art digital services and active participation in the development of the economy closely align with these sustainable development goals.

Arion Bank's sustainability policy bears the title *Together we make good things happen* and signifies that the Bank wants to act as a role model in responsible and profitable business practices, taking into account the environment, the economy and the society in which we live and work.

Links and references

Annual and Sustainability report 2023:

[Strategy and Vision](#)

[Responsible banking](#)

[Environmental and climate issues](#)

[Stakeholders](#)

[Human resources](#)

[Women invest](#)



An integrated part of our strategy is to help those who want to achieve success in Iceland and the Arctic through smart and reliable financial solutions which enhance financial health and create sustainable value. Our vision is to be the best at meeting the needs of our target groups – a leader which is a driver of success for our customers and society as a whole.

Arion Bank’s environment and climate policy takes into account the objective of the Paris Climate Agreement and other relevant domestic and international commitments to the environment. The policy also addresses the mapping of the Bank’s impact on the environment and the requirements it makes of its suppliers. The Bank has adopted a risk policy on sustainability which is approved by the Board of Directors and reviewed annually. This policy states that the Bank seeks to ensure that its operations and services do not have a negative impact on people or the environment. It also states that the Bank supports Iceland’s climate action plan whose goal is to meet the obligations of the Paris Climate Agreement and to achieve the ambitious goal of carbon neutrality in Iceland by 2040.

Arion Bank has adopted a clear policy on equality and human rights and the CEO is responsible for implementing equal opportunities at the Bank. The CEO serves on the Equality Committee alongside representatives of the employees. We continued to work towards the goals set out in the equality action plan in 2021. The objective of the policy and action plan is to create an environment where people of similar education, work experience and responsibility have equal opportunities and terms, irrespective of gender, gender identity, sexual orientation, origin, nationality, skin colour, age, disability or religion or other factor. The Bank’s action plan places greater emphasis on balancing gender ratios at the Bank, not just at management level but throughout different job families, committees and business units. Since 2015 the Bank has had an equal pay system and equal pay certification.

Preparations for the long-term initiative *Women invest* were carried out during 2023, and it was launched at the beginning of 2024. While good progress has been made in recent years and decades in terms of equality in Iceland, the position on the financial market is not equal. Arion Bank wants to contribute to this effort and ensure equal participation of women and girls in the financial market. One of the UN Sustainable Development Goals adopted by the Bank is goal number 5 which is gender equality. The aim of the project is to get women to take a more active role in the financial market through motivation, education and social initiatives. The project has received excellent feedback and similar projects in the Nordic countries have proven most successful.

[CEOs of Nordic companies urge further climate action](#)

[Green finance - Sustainability policies for arctic and different sectors](#)



In 2023 we published sustainability policies on lending to different sectors of the economy and in the Arctic. The policies align with the Bank’s focus and commitments with respect to sustainability. We took into account the government’s climate plans and the plans and actions of companies with respect to ESG as we want to be in alignment with our customers and encourage them to continue to make a difference. The policies were approved by the Bank’s sustainability committee. In 2024 we will publish more policies for some of Iceland’s key sectors.

At the end of 2023, the Bank pledged to follow the methodology of Science Based Targets initiative (SBTi) when setting emission reduction targets in the Bank’s lending activities and investments. The Bank also joined the UN-convened Net-Zero Banking Alliance. The Bank will work on getting SBTi to validate its science-based climate targets within the next two years. The aim of these targets is to keep global warming below 1.5°C and for Arion Bank to be net zero by 2040.

Principle 2: Impact and Target Setting



We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly¹ and fulfil the following requirements/elements (a-d)²:

- a) Scope:** What is the scope of your bank’s impact analysis? Please describe which parts of the bank’s core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

Response

For the second time Arion Bank is releasing a materiality assessment. The assessment, which follows The European Sustainability Reporting Standard (ESRS), was completed at the

Links and references

Annual and Sustainability Report 2023:

¹ That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

² Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).



end of 2023, and the results were obtained through discussions with stakeholders, surveys of employees and workshops. Arion Bank is a signatory to the Partnership for Carbon Accounting Financials (PCAF) which is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas emissions which they finance through their loans and investments (Scope 3). Knowledge of the carbon footprint of the Bank's loans and investment is a critical component of managing climate risk and setting environmental and climate goals. Arion Bank has published its second PCAF report where 93% of the total loan portfolio and 96% of investment portfolio was measured.

During the impact analysis for the *Women invest* project, data was collected from Arion Bank, Stefmir, Nasdaq Iceland and Statistics Iceland. A previously published study by the National Association of Pension Funds and Gallup was also researched. Data from Arion Bank and Stefmir gave a good picture of gender participation and ownership in the securities and pension market and the trend in recent years. Information about gender participation across the country was obtained from Nasdaq Iceland. Statistics Iceland data was used to project a picture of capital income of different age groups and genders, as well as to examine underlying variables such as the difference in total income. Finally, we looked into data that sheds light on the position of genders in the pension market and used a Gallup survey in which members of pension funds assessed, among other things, their knowledge of pensions.

At the beginning of 2023 Arion Bank published its second Impact and Allocation Report in respect of the Green Financing Framework for 2022. The report specifies the allocation of funds raised through green bond issues and green deposits in 2022, and there is also a section on the positive environment and climate impact of green projects at Arion Bank. The plan is to publish an Impact and Allocation Report for 2023 in the first half of 2024.

In 2024 we will work on further analyzing our impact with respect to the requirements made in PRB.

- [Stakeholders](#)
- [Arion Bank's financed emissions and emissions reduction targets](#)
- [Impact and Allocation report](#)
- [Pillar 3 Risk Disclosure](#)



b) Portfolio composition: Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope

i) by sectors & industries³ for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or

ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.

Response

Credit exposure to individuals represent 53% of loans to customers, of which 90% are mortgage loans. The Bank is not significantly exposed to credit in other countries than Iceland. The total net exposure is 88% towards counterparties domiciled in Iceland. The majority of the 12% foreign credit exposures is due to liquid assets in foreign currencies, which includes short-term deposits and money market loans at credit institutions, and sovereign bonds, the counterparties which have high grade or upper medium grade credit ratings from certified external credit agencies (ECAI).

Total loans to companies amounted to ISK 544 billion, or 47% of the Bank's total loans to customers. Distribution of corporate loans:

- Real estate and construction (35%)
- Wholesale and retail (17%)
- Seafood (15%)
- Industry, energy and manufacturing (10%)
- Finance and insurance services (8%)
- Information and communication technology (5%)
- Other (10%)

Links and references

Annual and Sustainability Report 2023:

[Corporate customers: Corporate loans](#)

[Pillar 3 Risk Disclosure](#)

[Consolidated Financial Statements 2023](#)

c) Context: What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?⁴ Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

This step aims to put your bank's portfolio impacts into the context of society's needs.

³ 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

⁴ Global priorities might alternatively be considered for banks with highly diversified and international portfolios.



<p><i>Response</i></p> <p>The Icelandic Prime Minister’s Office has published a voluntary national review of Iceland’s Implementation of the 2030 Agenda for Sustainable Development, highlighting the main challenges in Icelandic society regarding the SDGs. The results of the report were taken into account when choosing the Sustainable Development Goals on which the Bank places greatest emphasis.</p> <p>The results of the double materiality assessment published in the Annual and Sustainability Report 2023 were obtained through discussions with stakeholders, surveys of employees and workshops.</p>	<p><i>Links and references</i></p> <p>The Sustainable Development Goals</p> <p>The Environment Agency of Iceland – emissions status</p> <p>Annual and Sustainability Report 2023:</p> <p>Women invest</p> <p>Arion Bank’s financed emissions and emissions reduction targets</p> <p>Stakeholders</p>
<p>Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)⁵? Please disclose.</p>	
<p><i>Response</i></p> <p>Arion Bank has prioritized climate change and gender equality.</p>	<p><i>Links and references</i></p> <p>Annual and Sustainability Report 2023:</p> <p>Responsible banking</p>
<p>d) For these (min. two prioritized impact areas): <u>Performance measurement.</u> Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank’s context.</p> <p>In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank’s current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank’s activities and provision of products and services. If</p>	

⁵ To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.



you have identified climate and/or financial health & inclusion as your most significant impact areas, please also refer to the applicable indicators in the [Annex](#).

If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this.

The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.

Response

After signing PRB we set ourselves further targets with respect to integrating sustainability into our business strategy, products and services, with a special emphasis on climate change and equality.

Climate change:

Arion Bank is committed to helping Iceland meet its obligations under the Paris Climate Agreement and other domestic and international environment and climate treaties and to reach the ambitious goal of a carbon neutral Iceland by 2040. Therefore, Arion Bank will work towards reducing financed emissions within the highest emitting sectors in its loan portfolio. The Bank will work towards getting SBTi to validate its science-based climate targets within the next two years. The aim of these targets is to keep global warming below 1.5°C and for Arion Bank to be net zero by 2040.

In order to reduce emissions related to the Bank's loan portfolio, Arion Bank has set short-term goals for 2030. Analyzing financed emissions is key to such goal setting. The financed emissions calculations follow the PCAF methodology and the Bank's goals are based on the Bank's financed emissions reports.

The UNEP FI guidelines, cited by NZBA, lists several emissions intensive sectors where it is imperative to further reduce emissions. By comparing the results of Arion Bank's financed emissions to that list, five sectors have been identified as sectors to prioritize in our goal setting. We also looked to the SBTi framework.

Gender equality:

Despite significant progress having been made on equality in Iceland in recent years and decades, the financial market is still not a level playing field for women. *Women invest* is long-term campaign which aims to promote investment by women. The foundations for the project were laid in 2023 when Arion Bank decided to highlight the importance of bridging gender disparity in terms of participation in the financial market.

Links and references

Annual and Sustainability Report 2023:

[Women invest](#)

[Arion Bank's financed emissions and emissions reduction targets](#)



In 2023, the Bank used both official data and its own data to map gender equality on the financial market. In-depth interviews were taken with women in order to identify the barriers faced by women and to see what approach to this topic is needed most.

Arion Bank wants to take on a clear role in the journey ahead. The UN Sustainable Development Goal on gender equality represents an unambiguous call for gender equality on the financial market and financial independence for all women.

Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?⁶

- | | | | |
|--------------------------|---|---|-----------------------------|
| Scope: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> In progress | <input type="checkbox"/> No |
| Portfolio composition: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |
| Context: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |
| Performance measurement: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

Climate change mitigation, gender equality

How recent is the data used for and disclosed in the impact analysis?

- Up to 6 months prior to publication
- Up to 12 months prior to publication
- Up to 18 months prior to publication
- Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.:
(optional)

⁶ You can respond “Yes” to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.



2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

a) Alignment: which international, regional or national policy frameworks to align your bank’s portfolio with⁷ have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

You can build upon the context items under 2.1.

Response

Climate change:

Arion Bank is committed to helping Iceland meet its obligations under the Paris Climate Agreement and other domestic and international environment and climate treaties and to reach the ambitious goal of carbon neutral Iceland by 2040.

With the aim of reducing emissions related to the Bank’s loan portfolio, Arion Bank has set quantifiable short-term goals to reach before 2030. Analyzing financed emissions is key to such goal setting. Calculations according to the PCAF methodology are approved by both SBTi and NZBA and the Bank’s goals are based on results published in the bank’s financed emissions reports.

Specific goals for different sectors are based on official goals within sectors as well as governmental plans. Sectors to focus on are identified by following the UNEP FI guidelines and by analyzing Arion Bank’s loan portfolio according to the PCAF methodology.

The Bank has committed to having its climate goals validated by SBTi within two years, and as a result that the goals have to be in accordance with scenarios where global warming stays within 1.5°C.

Women invest:

One of the UN Sustainable Development Goals adopted by Arion Bank is Goal Number 5 which is to achieve gender equality and empower all women and girls. A basic requirement for empowering women and girls and ensuring gender quality is to lay the foundations for women’s financial independence. This is underlined in goal 5A which is to give women equal rights to economic resources, as well as access to financial services. A

Links and references

Annual and Sustainability Report 2023:

[Responsible banking](#)

[Environmental and climate issues](#)

[Arion Bank’s financed emissions and emissions reduction targets](#)

[Women invest](#)



key impetus behind the initiative is to get women to take part in the discourse on investments and pensions.

We have adopted a clear policy for the Bank on equality and human rights and the CEO is responsible for implementing this policy at the Bank. The CEO serves on the Equality Committee alongside representatives of the employees. We continued to work towards the goals set out in the equality action plan in 2021.

The objective of the policy and action plan is to create an environment where people of similar education, work experience and responsibility have equal opportunities and terms, irrespective of gender, gender identity, sexual orientation, origin, nationality, skin colour, age, disability or religion or other factor. The Bank’s action plan places greater emphasis on balancing gender ratios at the Bank, not just at management level but throughout different job families, committees and business units.

b) Baseline: Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.

A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the [Annex](#) of this template. In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.

Response

Impact area	Indicator code	Response
Climate change mitigation	A.1.1	Yes – our strategy and targets are in place. See: Arion Bank’s financed emissions and emissions reduction targets
	A.2.1	Yes – see Green finance – Sustainability policies for different sectors. The Bank will publish more sector specific sustainability policies in 2024.
	A.3.1	128 ISK billion is committed to green financing. Green lending represents 10.7% of the Bank’s total loan portfolio. See: Green finance in Annual and Sustainability Report 2023

Links and references
Annual and Sustainability Report 2023:

[Responsible banking](#)

[Environmental and climate issues: Arion Bank’s environment and climate policy](#)

⁷ Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank’s targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.



	A.4.1	Our baseline year for our target is 2022 and since we have not calculated the financed emissions for 2023 we don't know the reduction. The reduction from 2021 and 2022 was 2% in corporates loan portfolio.	Green finance: Status of total committed green finance at the end of 2023 Green finance: Sustainability policies Green financing Arion Bank's financed emissions and emissions reduction targets Green Financing Framework Additional Pillar 3 Risk Disclosure
	A.1.2	Yes – The aim of our targets is to keep global warming below 1.5°C and for Arion Bank and Iceland to be net zero by 2040. The first targets have been set for the most impactful sectors of the loan portfolio on reducing emissions intensity up to 2030 compared with 2022.	
	A.2.2	Arion Bank's total financed emissions in 2022 (excluding sovereign bonds) were 153 ktCO ₂ e of which 139 ktCO ₂ e is from loans to corporates.	
	A.3.2	See: Additional Pillar 3 Risk Disclosures – ESG1.	
	A.4.2	Indicator is currently not calculated.	
	A.1.3	Yes – see Arion Bank's environment and climate policy in Annual and sustainability report 2023, and Green finance – Sustainability policies for arctic and different sectors.	
	A.2.3	See: Arion Bank's financed emissions and emissions reductions targets.	
	A.1.4	Yes – The Bank estimates its financed emission according to the PCAF methodology. See: Arion Bank's financed emissions and emissions reduction targets.	
	A.2.4	Indicator is not currently calculated.	
	A.1.5	Yes – The Bank has in place a Green Financing Framework to finance green loans to individuals and companies.	

c) SMART targets (incl. key performance indicators (KPIs)⁸): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

Response

Arion Bank has published key ESG indicators for the Bank.

Environmental factors

Targets for 2030

- Percentage of sustainable lending will be at least 20% of the Bank's total loan book.

Links and references

Annual and Sustainability Report 2023:

[Responsible banking: Key ESG indicators](#)

⁸ Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.



- Reduction of greenhouse gas emissions from own activities (Scopes 1 & 2) by 80% calculated from 2015 and remaining emissions will be carbon offset.
- Continuous efforts to obtain a more accurate picture of emissions from acquired goods and services (Scope 3) in the Bank's activities.
- Aim for reductions in financed emissions in the sectors which have the most impact (Scope 3) in line with the net zero target by 2040. The latest targets are published annually in the Bank's report on financed emissions.
- Targets on financed emissions should be validated by SBTi.

Sub-targets for the Bank's operations in 2024

- Work towards ensuring percentage of sorted waste in the Bank's operations is at least 90%.
- The Bank continues to only buy vehicles which run on 100% renewables.

Social factors

Targets for 2024

- Work in accordance with the Bank's action plan on equality and human rights which applies for three years at a time.
- Increase percentage of investment by women.

The current targets for 2021-2024 include:

- Maintaining equal pay certification.
- Equal pay analysis indicates gender pay gap of less than 1%.
- The ratio of the median value of total wages to men and total wages to women is less than 1.3.
- The survey on people's perception of their work-life balance scores at least 4.2.
- Employees will generally receive 80% of their salaries during parental leave for 6 months regardless of gender.
- Employees know the policy and prevention and action plan concerning bullying, gender-based and sexual harassment and violence.

The Bank seeks to ensure that international human rights are respected and that equality is observed throughout the Bank's value chain, including purchasing and corporate lending.

Governance factors

[Women invest](#)

[Arion Bank's financed emissions and emissions reduction targets – page 16](#)



Targets for 2024

- At least 90% of suppliers under agreement with the Bank undergo the supplier's assessment where their performance in terms of ESG is assessed and the same percentage agree to the Bank's code of ethics for suppliers.
- All employees complete mandatory learning and development courses, including on the code of ethics, information security, anti-money laundering and data protection.
- The Bank's internal targets on KYC/AML are achieved.
- A harmonized risk assessment for different sectors and regions is set up with respect to ESG risk and the financial impact on the Bank.

Climate change:

The amount of loans changes on a yearly basis and, as a result, the decrease in financed emissions is evaluated by comparing emissions intensity rather than the real emissions at the end of the year. Arion Bank's goals are based on goals within each sector as well as governmental action plans meant to help fulfil commitments according to the Paris Agreement.

We have set targets on reducing emissions intensity in the following economic sectors until 2030:

- Seafood 28%
- Power generation 30%
- Transportation 28%
- Agriculture 5%
- Aluminium production 26%
- Coal remain at 0% (at the end of 2023, the Bank was not financing any coal mines or processing)
- Oil remain at 0% (at the end of 2023, the Bank was not financing any oil prospecting or processing)

The Bank aims to become carbon neutral by 2040. Emissions from scope 1 and 2 have been reduced by 75.5% since the reference year 2015. The Bank's goal is to reach 80% by 2030. Another goal for 2030 is that the percentage of sustainable loans reaches at least 20% of the Bank's loan book.

Women invest:

The targets apply for three years at a time and revolve round motivation, financial learning and closing the gender investing gap. In addition, there are short-term indicators designed to ensure that the initiative is on the right track.



<p>Targets:</p> <ul style="list-style-type: none"> • Hold 40 educational events in 2024 • Women increase their assets in custody portfolios at Arion Bank at double the rate of men over the next three years • Women increase their assets in funds at Stefnrir at double the rate of men over the next three years <p>Indicators:</p> <ul style="list-style-type: none"> - Increase in number of custody portfolios owned by women - Increase in assets in custody portfolios owned by women - Increase in fund transactions by women - Increase in assets in funds owned by women - Increase in regular savings by women 	
<p>d) <u>Action plan:</u> which actions including milestones have you defined to meet the set targets? Please describe.</p> <p>Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.</p>	
<p><i>Response</i></p> <p>We have adopted a clear policy on equality and human rights and the CEO is responsible for implementing this policy at the Bank. The CEO serves on the Equality Committee alongside representatives of the employees. We continued to work towards the goals set out in the equality action plan in 2021. In 2024 we will release a new action plan for the next three years.</p> <p>We have set specific milestones, as part of the <i>Woman invest</i> campaign, to ensure we reach our goals. See Annual and Sustainability Report.</p> <p>As regards climate challenges, we have set both short-term and long-term goals to ensure that the Bank becomes net zero by 2040. See further reading about our goals and milestones in the chapter on environment and climate in Annual and Sustainability Report 2023.</p>	<p><i>Links and references</i></p> <p>Annual and Sustainability Report 2023:</p> <p>Human Resources: Equality</p> <p>Women invest</p> <p>Environmental and climate issues</p>



Self-assessment summary

Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...

	... first area of most significant impact: ... <i>(please name it)</i>	... second area of most significant impact: ...	<i>(If you are setting targets in more impact areas) ...your third (and subsequent) area(s) of impact: ... (please name it)</i>
	<i>Climate change</i>	<i>Gender Equality</i>	
Alignment	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Baseline	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
SMART targets	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Action plan	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No

2.3 Target implementation and monitoring (Key Step 2)

For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only): describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

<p><i>Response</i></p> <p>The current targets and performance indicators are regularly followed up on and the results are published in the Annual and Sustainability Report. We have adopted performance indicators</p>	<p><i>Links and references</i></p> <p>Annual and Sustainability Report 2023:</p>
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for various areas of operations and will continue to set and implement targets in line with PRB.

When sharing information on sustainability in operations the ESG reporting guide for the Nasdaq Nordic exchange and the 10 Principles of the UN Global Compact are also used as a reference. The Bank also looks to the UN Sustainable Development Goals.

At the same time as releasing the 2023 Annual and Sustainability Report, the Bank is publishing a report on financed emissions using Partnership for Carbon Accounting Financials (PCAF) methodology and targets up until 2030.

[Sustainability accounts](#)

[Responsible banking](#)

[Responsible banking: Sustainability reporting](#)

[Environmental and climate issues: Targets relating to our environment and climate policy](#)



Principle 3: Clients and Customers



We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers⁹ in place to encourage sustainable practices?

- Yes In progress No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

- Yes In progress No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities¹⁰). It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).

Response

The Bank's credit policy places an emphasis on sustainability and the credit rules stipulate that ESG factors should be assessed when a credit rating is required, or a company meets the conditions of Article 66d of the Annual Accounts Act.

Suppliers under agreement with the Bank undergo the supplier's assessment where their performance in terms of ESG is assessed and the same percentage agree to the Bank's code of ethics for suppliers.

Our sector sustainability sector policies were developed in good cooperation with our customers.

Links and references

Annual and Sustainability Report 2023:

[Responsible banking: Responsible lending and investment](#)

[Green financing framework](#)

[Green finance: Sustainability policies](#)

3.2 Business opportunities

Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services , information on sustainable products developed in terms of value (USD or local currency) and/or as a % of



your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).

Response

Arion Bank has published a Green Financing Framework which applies to the Bank’s funding and lending activities. The Framework sets out clearly and transparently the conditions which the Bank’s loans need to meet in order to be considered environmentally friendly. The Framework also specifies the Bank’s governance structure for the selection of green assets. We offer green products, i.e. green deposits, green car loans, green corporate loans and green mortgages which support the UN Sustainable Development Goals.

In the last few years Arion Bank has offered our customers green financial services, such as green car loans, business loans, deposits and mortgages. We have issued a green financing framework which applies to the Bank’s financing and lending. The Bank has thereby pledged to use the capital it obtains on the credit markets through the Green Financing Framework in green loans to corporate and retail customers as defined in the framework.

We support different groups such as young people, students, people on parental leave, people who are experiencing temporary financial difficulties and offer a range of personalized financial advice. Personalized services are also available to older members of the community.

In asset management, Arion Bank has introduced rules of procedure on responsible investment which incorporate the three basic criteria of sustainability: environmental, social and governance. The Bank is a signatory to the United Nations Principles for Responsible Investment (PRI) and has published progress reports since 2019. This means that not only financial criteria, but also other relevant criteria, are taken into account when analyzing investments and developing clients’ asset portfolios.

At the end of 2023, green lending under the Green Financing Framework represented 10.7% of the Bank’s total loan portfolio. After two years of solid growth in 2021 and 2022, the figure fell slightly in 2023. The Bank’s original target was to increase the percentage of green loans under the Green Financing Framework

Links and references

Annual and Sustainability Report 2023:

[Green finance](#)

[Impact and Allocation Report](#)

[Responsible banking: Responsible lending and investment](#)

Arion Bank website:

[Student support loans](#)

[Lower payments in parental leave](#)

[60 years old and older](#)

[Young people pay no fees on debit cards](#)

[Temporary financial difficulty](#)

[Green financing framework](#)

⁹ A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

¹⁰ Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.



to at least 20% by 2030. This target was revised at the beginning of 2024, and in the future, it will apply both to green loans and loans which have a positive impact on society. Revisions of the financing framework also commenced during the year. Loans which have a positive impact on society will now also be incorporated into the framework. This work will be completed in 2024.

Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups¹¹) you have identified as relevant in relation to the impact analysis and target setting process?

Yes In progress No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

Response

In 2023 Arion Bank took its first steps towards implementing the European Sustainability Reporting Standard (ESRS). The standard forms part of the requirements for the forthcoming transposing of the Corporate Sustainability Reporting Directive (CSRD) into Icelandic law. For the first time a double materiality assessment has been published in respect of the standard. The results of the assessment were obtained through discussions with stakeholders, surveys of employees and workshops. Reference is made to the ESRS in the Bank's environmental accounts but the implementation of the standard is far from complete.

When creating the Green Financing Framework we consulted numerous stakeholders from the business sector who are

Links and references

Annual and Sustainability Report 2023:

[Stakeholders](#)

[Green Financing Framework](#)

[Green finance: Sustainability policies](#)

¹¹ Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations



engaged in environmental and climate change issues: individuals, companies and government agencies.

When devising the Bank's sustainability policies, we seek to obtain opinions from stakeholders and refer to plans and actions concerning ESG issues in the different economic sectors.

In 2023, the Bank used both official data and its own data to map gender equality on the financial market. In-depth interviews were taken with women in order to identify the barriers faced by women and to see what approach to this topic is needed most. Similar initiatives have been launched in the Nordic countries and have met with great success. After taking a closer look at these initiatives, it was decided to gain more information from DNB Bank in Norway which has done an excellent job with its campaign over the past few years. It was clear from the outset that the approach taken would involve motivation, education and social initiatives.

We are engaged in wide-ranging and active partnerships in the field of sustainability.

[Women invest](#)



Principle 5: Governance & Culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

Yes In progress No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

Response

Arion Bank has a sustainability committee and the management of risk in connection with ESG factors was defined as part of the Bank's risk management system. The CEO is the chairman of the committee, whose role is to monitor the Bank's performance in connection with its policy and commitment on sustainability and to ensure that ESG factors are considered in decisions and plans made by the Bank. The Bank's green financing committee and equality committee are sub-committees of this committee. The Committee meets every three months, or as often as is required.

In addition to the CEO, the sustainability committee includes the managing directors of Retail Banking, Corporate & Investment Banking, Markets, Customer Experience, Finance and a representative from Legal department. The Chief Risk Officer, the Head of Corporate Communications and Sustainability, and Sustainability Officer attend meetings but do not have voting rights. Meetings are also attended by representatives of Stefmir and Vörður if required.

Key performance indicators relating to ESG factors are part of the monthly risk report to the Board, and the Bank's risk appetite with respect to these factors has been defined.

Links and references

Annual and Sustainability Report 2023:

[Responsible banking: Governance, sustainability and risk management](#)



The Bank has adopted a risk policy on sustainability which is approved by the Board of Directors and reviewed annually. This policy states that the Bank seeks to ensure that its operations and services do not have a negative impact on people or the environment. It also states that the Bank supports Iceland's climate action plan whose goal is to meet the obligations of the Paris Climate Agreement and to achieve the ambitious goal of carbon neutrality in Iceland by 2040.

5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

Response

At the end of 2022 the Board of Directors approved an updated bonus scheme for permanent employees which is based on clear targets and subject to strict requirements from the FSA. In 2023 both financial and non-financial indicators are incorporated into the scheme. Non-financial indicators are linked to factors such as customer satisfaction, know-your-customer, learning and development, and equality.

The Bank offers varied learning and development programmes, with both on-site and digital learning on offer. One of the Bank's key targets is that all employees complete mandatory learning and development courses, including the code of ethics, information security, anti-money laundering and data protection.

The Bank's learning and development programme for employees regularly offers courses on environmental and climate change issues, equality and responsible banking in general. These courses are open to all employees. Employees took mandatory L&D courses on sustainability in 2023, and other courses on offer included sessions on equality, inclusivity, diversity, the implementation of sustainability legislation and financed emissions.

Links and references

Annual and Sustainability Report 2023:

[Corporate Governance and Remuneration Policy](#)

[Human Resources](#)

Arion Bank website:

[Rules and Terms: Code of ethics](#)

5.3 Policies and due diligence processes

Does your bank have policies in place that address environmental and social risks within your portfolio?¹² Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

¹² Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.



Response

The Bank has adopted a risk policy on sustainability which is approved by the Board of Directors and reviewed annually. This policy states that the Bank seeks to ensure that its operations and services do not have a negative impact on people or the environment. It also states that the Bank supports Iceland's climate action plan whose goal is to meet the obligations of the Paris Climate Agreement and to achieve the ambitious goal of carbon neutrality in Iceland by 2040.

The Bank's credit policy places an emphasis on sustainability and the credit rules stipulate that ESG factors should be assessed when a credit rating is required, or a company meets the conditions of Article 66d of the Annual Accounts Act.

Links and references

Annual and Sustainability Report 2023:

[Responsible banking: Governance, sustainability and risk management](#)

[Pillar 3 Risk Disclosure](#)

Self-assessment summary

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?

Yes No

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?

Yes No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

Yes In progress No



Principle 6: Transparency & Accountability



We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

- Yes Partially No

If applicable, please include the link or description of the assurance statement.

Response

See Independent Auditor's Assurance Report below

Links and references

6.2 Reporting on other frameworks

Does your bank disclose sustainability information in any of the listed below standards and frameworks?

- GRI
 SASB
 CDP
 IFRS Sustainability Disclosure Standards (to be published)
 TCFD
 Other:

Response

When sharing information on sustainability in operations the ESG reporting guide for the Nasdaq Nordic exchange and the 10 Principles of the UN Global Compact are also used as a reference.

Arion Bank reports on its financed emissions based on PCAF methodology.

Links and references

Annual and Sustainability Report 2023:

[Responsible banking: Sustainability reporting](#)

[Responsible banking: Our Commitment to Sustainability](#)

[Pillar 3 Risk Disclosure](#)



	Arion Bank's financed emissions and emissions reduction targets
6.3 Outlook What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis ¹³ , target setting ¹⁴ and governance structure for implementing the PRB)? Please describe briefly.	
<i>Response</i> In 2024 the Bank will work hard on reaching its sustainability goals, as already described in this document. The Bank intends to further engage its clients in a conversation about sustainability and encourages them to do better.	<i>Links and references</i> Annual and Sustainability Report 2023

¹³ For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

¹⁴ For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.



6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

If desired, you can elaborate on challenges and how you are tackling these:

- | | |
|--|--|
| <input type="checkbox"/> Embedding PRB oversight into governance | <input type="checkbox"/> Customer engagement |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank | <input type="checkbox"/> Stakeholder engagement |
| <input type="checkbox"/> Getting started: where to start and what to focus on in the beginning | <input checked="" type="checkbox"/> Data availability |
| <input type="checkbox"/> Conducting an impact analysis | <input checked="" type="checkbox"/> Data quality |
| <input type="checkbox"/> Assessing negative environmental and social impacts | <input type="checkbox"/> Access to resources |
| <input type="checkbox"/> Choosing the right performance measurement methodology/ies | <input type="checkbox"/> Reporting |
| <input type="checkbox"/> Setting targets | <input type="checkbox"/> Assurance |
| <input type="checkbox"/> Other: ... | <input type="checkbox"/> Prioritizing actions internally |

If desired, you can elaborate on challenges and how you are tackling these:

Independent Auditor's Assurance Report

To the Management and the stakeholders of Arion banki hf.

We have been engaged by Arion banki hf. to provide limited assurance on Arion banki's report of Principles for Responsible Banking (PRB) for the year 2023 ("the Report").

Our engagement was performed in order to:

- Assess disclosures presented in Arion banki's report of Principles for Responsible Banking for the year 2023.

We express a conclusion providing limited assurance.

Management's responsibility

The Management of Arion banki is responsible for collecting, analysing, aggregating and presenting the information in the report, ensuring that the information is free from material misstatement, whether due to fraud or error.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants (IESBA Code), which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Deloitte ehf. is subject to International Standard on Quality Management (ISQM) 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on Arion's PRB report. We have conducted our work in accordance with ISAE 3000 (revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, to obtain limited assurance about our conclusion. In accordance with the standard we have planned and performed our work to obtain limited assurance about whether the Report is free from material misstatement.

A limited assurance engagement is less in scope than a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Considering the risk of material misstatement, we planned and performed our work to obtain all information and explanations necessary to support our conclusion.

We performed reviews of data, recalculation of selected key performance indicators, reviews of the underlying data processes as well as interviews with those responsible for producing and preparing the data. Our work has included interviews with key employees of Arion banki, inquiries regarding procedures and methods to ensure the appropriateness of the disclosures in Arion banki's Report. We have assessed processes, tools and controls for gathering, consolidating and aggregating data at Arion banki, and performed analytical review procedures and tested data prepared against underlying documentation.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Arion banki's PRB Report for the year 2023 is not prepared, in all material respects, in accordance with the Principles for Responsible Banking.

Kópavogi, 14 February 2024

Deloitte ehf.

Gunnar Þorvarðarson

Gunnar Þorvarðarson
State Authorised Public Accountant