

Principles for Responsible Banking

Reporting and Self-Assessment Template

Reporting and Self-Assessment Requirements

Bank's response and self-assessment

Reporting reference

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.

1.1 Business model description

Arion Bank is an Icelandic bank which operates in Iceland. Arion Bank provides services to Icelandic homes, companies and investors and strives to meet the needs of customers requiring a diverse range of financial services. The Bank's has three business segments: Retail Banking, Corporate & Investment Banking, and Markets. The Bank has two subsidiaries, Stefnir and Vörður tryggingar, which are integral components of the Bank's business model.

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

The board of directors of Arion Bank approved the Bank's new strategy in December 2020. The Bank's core strategy is to excel by offering smart and reliable financial solutions which create future value for our customers, shareholders and society as a whole. According to the strategy employees should try to see things from the customer's perspective and understand their needs and objectives and work responsibly with sustainability at the forefront of our efforts.

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.

Annual and sustainability report 2020:

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Arion Bank's environment and climate policy takes into account the objective of the Paris Climate Agreement and other relevant domestic and international commitments on the environment. The policy also addresses the mapping the Bank's impact on the environment and the requirements it makes of its suppliers.

In January 2020 the executive committee of Arion Bank 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.

Arion Bank has adopted a clear policy on equality and the CEO is responsible for implementing equal opportunities at the Bank. He is represented by an equal opportunities committee comprising Bank employees. The committee sets out and works in accordance with a 3-year equal opportunities action plan. The objective of the action plan is to ensure equality and equal opportunities for employees irrespective of their gender, sexuality, origin, nationality, race, age, disability or religion, or other factor.

At the beginning of 2021 Arion Bank conducted a survey among stakeholders on sustainability and social responsibility and among other things they were asked about the UN Sustainable Development Goals. The results of the survey will be used by the Bank when re-evaluating focuses and strategy with respect to sustainability.

Principle 2: Impact and Target Setting

We will work to 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

In 2020 the main focus was on implementing the principles into the Bank's policies and services but several steps were taken towards evaluating the Bank's impact on the environment and society.

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Corporate & Investment Banking conducted a thorough analysis of its loan portfolio according to green criteria. The analysis showed that 20-30% of the portfolio could meet green criteria.

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A risk assessment of the Bank was conducted at the beginning of 2021 on factors relating to sustainability in order to get a structured view of risk factors. The assessment addresses environmental, social and governance factors (ESG).

In order to gain a better overview of the risk related to climate change the Bank has made use of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and an analysis was made of loans to sectors which are defined as important for tackling climate change. The results of the TCFD analysis are used in the Bank's internal assessment of capital requirements for climate change.

We engaged the consultancy CIRCULAR to perform a materiality assessment of the Bank. The methodology used was based on identifying risks relating to environmental issues, social factors and governance and takes into account the Bank's geographical location and activities. This analysis was used as a basis for analyzing stakeholders and a survey was sent to employees as well as a sample of customers, suppliers, partners and shareholders at the beginning of 2021. The survey concerned how stakeholders viewed the Bank's main focuses in terms of sustainability and social responsibility and the results will be used to further refine the Bank's focuses with respect to responsible banking.

In 2021 we will work on further analyzing our impact with respect to the requirements made in PRB.

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.

The first steps have been taken towards assessing the Bank's impact but there is still some way to go and we will continue to further analyze the impact in 2021.



2.2 Target Setting

After signing PRB we set ourselves further targets with respect to the Bank's new environment and climate policy.

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In 2021 we will work on further analyzing our impact with respect to the requirements made in PRB and further targets will be based on the results of that analysis.

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Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

We have set targets on environmental and equality issues and we will continue to work towards fulfilling these requirements in 2021.

2.3 Plans for Target Implementation and Monitoring

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 for various areas operations and will continue to set and implement targets in line with PRB.

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Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.

We have adopted performance indicators for various areas operations and will continue to set and implement targets in line with PRB.



2.4 Progress on Implementing Targets

The status of non-financial targets is regularly monitored and information on the status can be seen in the Bank's 2020 annual and sustainability report.

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Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring. We have adopted performance indicators for various areas operations and will continue to set and implement targets in line with PRB.

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.

Arion Bank's core strategy is to excel by offering smart and reliable financial solutions which create future value for our customers, shareholders and society as a whole.

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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 society.

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3.1 Policies and practices

We place great importance on having good and responsible relations with our stakeholders. Our stakeholders are discussed in more detail in the Bank's 2020 annual and sustainability report.

At the beginning of 2021 a new employee bonus scheme was introduced at Arion Bank, based on factors including the Bank's financial results, NPS, knowledge of customers and uptime of online banking and the app.



3.2 Sustainable practices with clients and customers

We offer green products, i.e. deposits, car loans, and mortgages which support the UN Sustainable Development Goals and we will continue in this direction. The impact of green deposits and car loans is published in the Bank's 2020 annual and sustainability report.

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

The Bank has made every effort to find ways to continue to bring its customers quality service, while at the same time acting responsibly with the respect to public health measures and finding solutions in response to the financial impact of COVID-19. The Bank offered payment holidays for retail and corporate customers and participated in the government measures which provided loans with partial or full government guarantees.

In 2018, Institutional Asset Management introduced rules of procedure on responsible investment which incorporate the three basic criteria of sustainability: environmental, social and governance. These criteria are used along with financial criteria to evaluate investments and inform all investment decisions.

Arion banki website:

[Green future](#)

[Let's tackle this together](#)

[Payment holiday for mortgages due to COVID-19](#)

[Lower payments in parental leave](#)

[Student support loans](#)

[The course – financial advice](#)

[60 years and older](#)

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Principle 4: Stakeholders

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

4.1 Stakeholder consultation, engagements and partnership

We enjoy good relations with our stakeholders. At the beginning of 2021 we conducted a survey among stakeholders on Arion Bank's focuses on sustainability and social responsibility and we will build on the results when implementing PRB. The stakeholders were asked which Sustainable Development Goals the Bank should place the greatest emphasis on.

We are currently devising a green financing framework and have

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consulted numerous stakeholders from the business sector engaged in environmental and climate change issues: individuals, companies and government agencies.

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

Principle 5: Governance & Culture

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

5.1 Governance structures

Arion Bank has a steering committee on sustainability. The sustainability project manager is an employee of the CEO's Office and manages the work carried out by the committee. Members of the steering committee are the managing directors of Markets, Retail Banking and Corporate & Investment Banking as the heads of Corporate Communications and Sales & Marketing.

The main tasks of the committee are strategic planning in the field of sustainability and social responsibility. The person responsible for sustainability at Arion Bank is the CEO.

A part of defining the green financing framework for Arion Bank is determining governance structure for green financing and this will be presented alongside the green framework.

In the green deposit framework which was presented in mid-2020, the process for developing governance relating to green deposits has been defined.

5.2 Initiatives and measures

The CEO is the person responsible for sustainability and its main spokesperson at the Bank and he regularly sends e-mails to the employees on the importance of and progress made in responsible banking. News is regularly published on the Bank's intranet and external website on products, services, commitments and achievements in the field of sustainability.

The CEO has publicly addressed the importance of sustainability and

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[Green Deposit Framework](#)

[External Assurance by Circular Solutions](#)

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the Bank's commitment to PRB and held a talk at the 2020 Business Sector Environment Day.

The Bank's education and training schedule for employees regularly offers courses on environmental and climate change issues and responsible banking in general. These courses are open to all employees.

5.3 Governance Structure for Implementation of the Principles

The organization of sustainability issues at the Bank support the implementation of PRB. We will continue to work in improving this organization.

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Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.
The current organization supports the implementation of PRB and we will continue to improve this organization.

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 Progress on Implementing the Principles for Responsible Banking

After having committed to PRB we have placed great emphasis on aligning our policies and products with the Sustainable Development Goals and the targets of the Paris Climate Agreement. We then began the journey towards better understanding the impact our activities.

We took the first steps regarding the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and we conducted a survey on how stakeholders viewed the Bank's main focuses in terms of sustainability and responsible banking.

Arion Bank signed a declaration of intent on investment for a sustainable recovery in September 2020. The Prime Minister's Office, Festa – Center for Sustainability, the Icelandic Financial Services Association (SFF) and the National Association of Pension

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[Declaration of intent on investment for a sustainable recovery](#)

[Declaration of intent on the Equality Balance](#)



Funds (LL) devised the declaration in close cooperation with representatives of the main participants in the financial market.

[Recognition by Equality Balance](#)

The Bank also signed a declaration of intent on the Equality Balance, stating that over the next few years Arion Bank intends make a focused effort to balance out the gender ratio at senior management level. The Bank was also recognized by the Equality Balance initiative for its achievements in this area in 2020.

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking:

We have taken a number steps in implementing PRB. However, we are just starting the implantation process and will continue in 2021.

