

Reporting and Self-Assessment Template 2021

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 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, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.

Arion Bank and its subsidiaries provide comprehensive financial services to Icelandic society. The Bank's strategy is to excel by offering smart and reliable financial solutions which create future value for our customers, shareholders and society as a whole. 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. In partnership with our customers the Bank stimulates shared growth and progress in Icelandic society.

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 Stefnir and Vörður. Stefnir is one of the largest fund management companies in Iceland, and Vörður is the fastest growing insurance company in Iceland, providing non-life and life insurance. The Bank is a market leader in terms of digital solutions and innovation.

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

[See Annual and Sustainability Report 2021:](#)

[About Arion banki](#)

[Retail customers](#)

[Corporate customers](#)

[Markets](#)



1.2 Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

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 goals 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.

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 of the Bank's impact on the environment and the requirements it makes of its suppliers.

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 with representatives of the employees. During the year a new equality and human rights policy was adopted, as well as a 3-year equality action plan. 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 new 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.

Annual and Sustainability Report 2021:

[Strategy and vision](#)

[Responsible banking](#)

[Environmental and climate issues](#)

[Our stakeholders](#)

[Human resources](#)



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. 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.

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:

Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements:

- a) Scope: The bank's core business areas, products/services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis.
- b) Scale of Exposure: In identifying its areas of most significant impact the bank has considered where its core business/ its major activities lie in terms of industries, technologies and geographies.

In 2020 we engaged the consultancy CIRCULAR Solutions, now part of KPMG, to perform a materiality assessment of the Bank. The methodology used is based on identifying risks relating to environmental, social and governance issues and takes into account the Bank's geographical location and activities. The materiality assessment was used as a basis for analyzing stakeholders, and a survey was sent to employees as well as a sample of customers, suppliers, shareholders and partners at the beginning of 2021. The survey investigated how stakeholders viewed the Bank's main focuses in terms of sustainability and social responsibility.

In November 2021 Arion Bank became a signatory to the Partnership for Carbon Accounting Financials (PCAF). It is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. Arion Bank will apply this methodology in 2022 to estimate the carbon footprint of its loan portfolio. Once we have obtained a clear picture of the loan portfolio's carbon footprint, we will set ourselves a target on how to reduce the footprint up to 2030 in accordance with the objectives of the Paris Climate Agreement.

[Annual and Sustainability Report 2021:](#)

[Our stakeholders](#)

[Responsible banking](#)

[Iceland's Implementation of the 2030 Agenda for Sustainable Development - Voluntary National Review](#)

[Green finance](#)

[Impact and Allocation Report 2021](#)

[Pillar 3 Risk Disclosures](#)



c) Context & Relevance: Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.

d) Scale and intensity/salience of impact: In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services.

(Your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d))

Show that building on this analysis, the bank has

- Identified and disclosed its areas of most significant (potential) positive and negative impact.
- Identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts.

In order to gain a better overview of the risk related to climate change the Bank has for the second time in 2021 made use of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The section on sustainability risk in the Bank's 2021 Pillar 3 Risk Disclosures is partly based on these guidelines and it also contains an analysis of the Bank's loan portfolio from the point of view of climate risk. The Bank formally became a signatory to TCFD in February 2022.

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.

Arion Bank has published an Impact and Allocation Report in respect of the Green Financing Framework for 2021. The sustainability team at EY in Iceland advised on the report and also carried out the calculations of the environmental and climate impact of green projects. The report specifies the allocation of funds raised through green bond issues and green deposits in 2021, and there is also a section on the positive environment and climate impact of green projects at Arion Bank. Deloitte is also providing confirmation with limited assurance of the allocation of funds to green projects which have been raised through green bond issues and green deposits.

In 2022 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.
A number of 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 2022.

2.2 Target Setting:

Show that the bank has set and published a minimum of two Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services.

Show that these 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. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.

Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.

After signing PRB we set ourselves further targets with respect to integrating sustainability into our business strategy, products and services.

The CEO has appointed a sustainability committee which has the mandate to make decisions in this policy area. In order to better align ourselves with PRB and the goals of the Paris Climate Agreement we adopted an ambitious environment and climate policy and targets in 2019 which are designed to support Arion Bank's commitment to lead by example in environment and climate issues. The policy was updated slightly in 2021 and the targets updated to bring them in line with our plans for the next few years.

One of the Bank's aims is to achieve equal gender ratios in committees, departments and job families and also to encourage people to take parental leave irrespective of gender. In 2021 the Bank underwent an audit which showed that the gender pay gap was 0.1% in respect of total salaries. Our target is for this figure to be below 1% and we are therefore extremely proud of what has been achieved in this area. In addition, the Bank has set the target that the median value of total salary payments to men compared with the median value of total salary payments to women will fall to below 1.3 over the next three years. In 2021 the median value of total salary payments to men compared with total salary payments to women was 1.43. The main opportunity to balance the median total compensation is to improve gender equality in different job families.

Annual and Sustainability Report 2021:

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

[Environmental and climate issues](#)

[Green finance](#)

[Human resources](#)

[Non-financial information](#)

[GRI Index](#)



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 2022.

2.3 Plans for Target Implementation and Monitoring:

Show that your bank has defined actions and milestones to meet the set targets.

Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.

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.

During the year a new equality and human rights policy was adopted, as well as a 3-year equality action plan.

In 2021 a sustainability committee was set up and the management of sustainability risk in connection with ESG factors was defined as part of the Bank's risk management system. The new committee replaced a sustainability steering committee which had been functioning at the Bank for many years. The CEO is the chairman of the sustainability 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. A green financing committee and equality committee are sub-committees of this committee.

[Annual and Sustainability Report 2021:](#)

[Responsible banking](#)

[Non-financial information](#)

[GRI Index](#)

[Environmental and climate issues](#)

[Human resources](#)

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



Arion Bank has implemented appropriate structures to monitor the indicators and targets we have adopted with respect to sustainability and PRB.

2.4 Progress on Implementing Targets:
For each target separately:

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

Or explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target.

Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)

The status of non-financial targets is regularly monitored and information on the status can be seen in the Bank's 2021 Annual and Sustainability Report.

[Annual and Sustainability Report 2021:](#)

[Environmental and climate issues](#)

[Green finance](#)

[Human resources](#)

[Non-financial information](#)

[GRI Index](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets. We have adopted performance indicators for various areas of 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.



3.1 Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.

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. We refer to Arion Bank's values as cornerstones and they are designed to provide guidance when making decisions and in everything the employees do. The cornerstones address our role, mentality and conduct and they are: we make a difference, we get things done, we say what we mean, and we find solutions. The Bank's code of conduct has been approved by the Board of Directors and is designed to support responsible decision making.

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.

The Bank's new risk policy on sustainability was approved by the board of directors during 2021 and will be reviewed annually. According to the policy 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 by 2040.

The Bank's credit rules stipulate that environmental, social and governance factors must be considered when assessing loans. The Bank's credit policy also places special emphasis on sustainability and increasing the percentage of green loans, and quantifiable targets have been set. The percentage of green loans which come under the Green Financing Framework is currently 11% of the Bank's total loan portfolio, which was ISK 936 billion at year-end. The Bank aims to increase this figure to at least 20% by 2030. By setting this target the Bank aims to increase its green lending so that the annual growth rate of the green loan book is double the growth rate of the Bank's total loan book. This target on the ratio of green loans will be reviewed annually, taking into consideration the opportunities over the next few years for green financing and the implementation of EU taxonomy in Iceland.

Annual and Sustainability Report 2021:

[Strategy and vision](#)

[Our stakeholders](#)

[Responsible banking](#)

[Environmental and climate issues](#)

[Human resources](#)

[Green finance](#)



3.2 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 activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.

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.

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.

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. The Bank is a signatory to the United Nations Principles for Responsible Investment (PRI) and has published progress reports since 2019.

Annual and Sustainability Report 2021:

[Green future](#)

[Lower payments in parental leave](#)

[Student support loans](#)

[60 years and older](#)

Annual and Sustainability Report 2021:

[Responsible banking](#)

[Green finance](#)

[Retail customers](#)

[Corporate customers](#)

[Markets](#)

Principle 4: Stakeholders

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

4.1 Describe which stakeholders (or groups/ types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.

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.

In the making of the Green Financing Framework we have consulted numerous stakeholders from the business sector engaged in environmental and climate change issues: individuals, companies and government agencies.

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

Annual and Sustainability Report 2021:

[Our stakeholders](#)

[Our commitment to sustainability](#)



Principle 5: Governance & Culture

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

5.1 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 effective implementation of the Principles.

In 2021 a sustainability committee was set up and the management of sustainability risk in connection with ESG factors was defined as part of the Bank's risk management system. The new committee replaced a sustainability steering committee which had been functioning at the Bank for many years. The CEO is the chairman of the sustainability 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. A green financing committee and equality committee are sub-committees of this committee.

In addition to the CEO, the sustainability committee includes the managing directors of Retail Banking, Corporate & Investment Banking, Markets, Customer Experience and Finance. The Chief Risk Officer and Sustainability Officer attend meetings but do not have the right to vote. The Bank's new risk policy on sustainability was approved by the board of directors during the year and will be reviewed annually. According to the policy 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 by 2040.

5.2 Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.

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 the Bank's commitment to PRB.

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

[Annual and Sustainability Report 2021:](#)

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

[Pillar 3 Risk Disclosures](#)

[Annual and Sustainability Report 2021:](#)

[Corporate Governance and Remuneration Policy](#)



The Bank's Board of Directors approved a revised bonus system in late 2020 for the 2021 reference period. All permanent employees, excluding employees of supervisory units, are part of the system. Majority of employees may receive a bonus for up to 10% of their fixed annual salary in the form of cash payment and without deferral. Managers, and those employees who have the greatest influence on the Bank's revenues and costs, may receive a bonus of up to 25% of their fixed annual salary in the form of shares in the Bank. This group consists of approximately 1/6 of employees and share received are subject to sale restriction/deferred for three years.

5.3 Governance Structure for Implementation of the Principles.

Show that your bank has a governance structure in place for the implementation of the PRB, including:

- a) target-setting and actions to achieve targets set
- b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.

The new sustainability committee has the role of monitoring 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 including implementation of PRB.

Annual and Sustainability Report 2021:

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

Please provide your bank's conclusion/ statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles. Arion Bank's sustainability committee fulfills the requirement regarding governance structure for implementing the principles.

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

Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).

Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.

Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.

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.

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

The Bank has signed a declaration of intent on the Equality Scale, 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 Scale initiative for its achievements in this area in 2020 and 2021.

In 2021 Arion Bank published a Green Financing Framework which applies to the Bank's funding and lending activities and Arion Bank has published Impact and Allocation Report in respect of the Green Financing Framework.

In November 2021 Arion Bank became a signatory to the Partnership for Carbon Accounting Financials (PCAF). Arion Bank will apply PCAF's methodology in 2022 to estimate the carbon footprint of its loan portfolio.

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). The section on sustainability risk in the Bank's 2021 Pillar 3 Risk Disclosures is partly based on these guidelines and it also contains an analysis of the Bank's loan portfolio from the point of view of climate risk. The Bank formally became a signatory to TCFD in February 2022.

Annual and Sustainability Report 2021:

[Responsible banking](#)

[Green finance](#)

[Pillar 3 Risk Disclosures](#)

[Impact and Allocation Report 2021](#)

Arion Bank website:

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

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

[Equality Scale Award](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking. Arion Bank has made good progress implementing PRB and will continue this journey in 2022.

