



Information on sustainability in asset management and asset advisory

Disclosure on the basis of Articles 6 and 7 of SFDR

June 2024

This document contains information on sustainability in connection with asset management and asset advisory in accordance with Articles 6 and 7 of Regulation (EU) 2019/2088 on Sustainable Financial Disclosure (**SFDR**) and Article 7 of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (**EU Taxonomy**), cf. Act No. 25/2023 on sustainable finance disclosure and taxonomy for sustainable investment.

Arion Bank is required to provide its clients with information on how the Bank takes **sustainability risk** into consideration when investment decisions are made on behalf of clients or when investment advice is given. The term *sustainability risk* is defined as an environmental, social or governance event or condition that, if it occurs, could cause a actual or potential material negative impact on the value of the investment. Arion Bank is also required to provide information on the likely impact of sustainability risk on the returns on the investments made available by the Bank or on which it provides advice.

In addition, the Bank is required to inform clients about how the Bank takes into consideration the **principal adverse impacts** of the Bank's investment decisions on sustainability factors, including environmental, social and employee-related issues.

Sustainability risk in asset management and asset advisory

Arion Bank is preparing a procedure for analyzing and assessing risk factors linked to sustainability before investment advice is provided and investment decisions are taken. The analysis will be carried out parallel to an assessment of other financial risk and will take place before the Bank provides investment advice or takes investment decisions on behalf of the client. Among the factors considered by the Bank are the impact of *physical risk*, i.e. the risk directly resulting from climate change. *Transition risk* is also considered, i.e. the risk resulting from changes to legislation, criteria or measures taken in connection with climate change on the value of and/or return on investments. When investing in funds, suitability risk is assessed by checking whether the fund manager has published a policy on how sustainability risk is incorporated into the investment decision process. If a policy has been published, an assessment is made of how clear a picture it gives of the process. When performing a risk assessment of individual investments, certain risk factors are considered. Issuers are assessed according to how likely it is that sustainability risk factors will occur, and how much impact the risk factor would have on the value of an investment if it happened without being managed. An assessment of sustainability risk forms part of a comprehensive assessment of the risk of investing and takes into consideration the client's investment objectives. Sustainability risk does not, in itself, prevent an investment from being made. Further information on the handling of sustainability risk in the investment advice provided by Arion Bank can be found on the website www.arionbanki.is/english/sfdr.

Likely impact of sustainability risk on investment returns

If a risk factor connected with sustainability occurs, it could have wide-reaching effects, but the likely effect in each case depends on the type of risk factor and the nature of the underlying assets. The value of specific assets may decrease significantly if sustainability risk materializes.

Generally speaking, it can be assumed that risk factors connected with sustainability have a greater impact on shares than bonds. The greater the weight of shares and/or equity funds in a client's portfolio, the more sensitive to sustainability risk clients' asset portfolios are, in general. Therefore, there is a risk that sustainability risk may have a greater adverse impact on investment returns on an asset portfolio managed in accordance with an investment strategy which assumes a higher level of investment in shares and/or equity funds than investment

strategies with a greater focus on bonds and fixed income funds. However, this is a general rule which does not apply without exceptions.

Principal adverse impacts

Arion Bank Asset Management is preparing the implementation of procedures to assess the principal adverse impact of investment decisions and advice on sustainability factors. The Bank will use 18 mandatory PAI indicators which are divided into environmental factors and social factors. Further information on Arion Bank's procedures relating to the principal adverse impact of investment decisions on sustainability factors can be found on the website www.arionbanki.is/english/sfdr. Information on the principal adverse impacts on sustainability factors will be made accessible to clients of Asset Management in the form of regular reports.

Other statements

Underlying investments in the investment strategies do not take into account the EU criteria on environmentally sustainable economic activities. The investment policies of Arion Bank Private Banking have been categorized as Article 6 financial products as defined in SFDR and are therefore not considered to be financial products which contribute to environmental or social factors or financial products which have sustainable investment as an objective in accordance with Articles 8 and 9 of SFDR.

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