



Responsible Banking Progress Statement for Arion Bank 2024

February 2025

Summary template

Arion Bank 2024



Principle 1: Alignment	Principle 2: Impact & Target Setting	Principle 3: Clients & Customers
<p>Arion Bank provides 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. Credit exposure to individuals represents 52% of loans to customers, of which 89% are mortgage loans. The Bank is not significantly exposed to credit in other countries than Iceland. The total net exposure is 91.6% towards counterparties domiciled in Iceland. The majority of the 8.4% 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 of which have high grade or upper medium grade credit ratings from certified external credit agencies (ECA).</p> <p>The Bank's sustainability policy, "Together we make good things happen", reflects its commitment to responsible and profitable business practices that consider society, the economy, and the environment. The Executive Committee of Arion Bank has approved six UN Sustainable Development Goals as key focus areas: gender equality (5), clean energy (7), economic growth and decent work (8), innovation and infrastructure (9), responsible consumption and production (12), and climate action (13).</p> <p>Arion Bank has adopted an environment and climate policy and has set itself targets. The policy, which was updated at the beginning of 2024 and approved by the Bank's sustainability committee, spells out the importance of the Bank minimizing the negative environmental impact of its activities and greenhouse gas emissions. The policy states that the Bank will focus its attention on financing projects on sustainable development and green infrastructure, support Iceland's ambitious plans to have net zero emissions by 2040 and aim to be net zero itself the same year.</p> <p>Arion Bank has implemented sustainability policies across key industries and has committed to Science Based Targets initiative (SBTi) for emission reduction goals. The Bank is also a member of the Net-Zero Banking Alliance, ensuring its financial services support sustainable growth and responsible environmental practices.</p> <p>It is Arion's policy to respect human rights and equality throughout its activities. In 2024, the Bank's equality and human rights policy was updated. During the year the Bank launched "Women Invest", an initiative designed to increase female participation in financial markets through education and empowerment.</p> <p>During the year Markets division took significant step in implementing the SFDR legislation, including a publication of a PAI statement. Various reports were prepared for the Bank's website, both for the purpose of meeting our legal requirements and to inform and assist our customers.</p>	<p>Arion Bank has conducted an extensive double materiality analysis. The assessment, which follows The European Sustainability Reporting Standard (ESRS), was completed at the end of 2023, and the results were reviewed and updated in 2024, alongside further assessments of risks, opportunities, and impacts. The process has been instructive and we will continue to implement the ESRS standards in 2025 since the CSRD legislation has not yet been implemented in Iceland. The results of the materiality analysis indicate that good governance and strong ethics, the welfare of customers, a motivating work environment and a clear environmental policy are the most important factors when it comes to sustainability at Arion.</p> <p>We continue to increase our positive impacts while reducing the negative impacts on, and managing the risk to, people and environment resulting from our activities, products and services. We published updated ESG key performance indicators at the beginning of 2024 with special emphasis on gender equality and climate change. This year we also set our baseline in relations to our targets in the Women Invest project.</p> <p>Arion Bank is a signatory to the Partnership for Carbon Accounting Financials (PCAF). Every year we publish information on the carbon footprint of financed emissions according to PCAF methodology, thereby promoting transparency in the progress made in climate issues. Based on these calculations we published our first financed emissions reduction targets for key sectors in our portfolio in February 2024. In June 2025 our first targets in line with the NZBA frameworks are due and we intend to have targets validated by SBTi by year-end. More information about our sectors and industries regarding impact and targets set are available in the Bank's Annual and Sustainability Report.</p> <p>Arion Bank ensures equal opportunities in hiring, pay, and career development, promoting gender balance across all levels. The Bank supports the work-life balance, parental leave, and has a zero-tolerance policy for discrimination and harassment. The Bank upholds human rights across its operations, including procurement and investments, guided by a comprehensive equality and human rights action plan which was updated in 2024 and applies for the next three years.</p>	<p>Arion Bank has financed green loans to retail and corporate customers under its green financing framework since 2021. During the year, the Bank completed an extensive overhaul of the framework and a new sustainable financing framework was published in August. Projects which improve accessibility to housing, education, healthcare or promote job creation now fall under the new framework, including loans to SMEs owned by women. Furthermore, the categorization of green projects has been refined and greater importance is assigned to the circular economy and algaculture. Over the last few years, the Bank has held five green issues, one of which was in 2024.</p> <p>The Bank's target is for lending under the sustainable financing framework to be at least 20% of total loans by 2030. At the end of 2024, the percentage of sustainable lending was 15.5% of the total loan book; 11.8% green loans and 3.7% loans with a positive social impact.</p> <p>We published our fourth sustainability policy for sectors during the year, this time a Sustainability Policy on Agriculture. In the process we consulted the Farmer's Association of Iceland. We also issued an exclusion list during the year both for lending and the Bank's own investments.</p> <p>The European Investment Fund (EIF) and Arion Bank signed a guarantee agreement during the year designed to support entrepreneurs in Iceland, enabling us to make loans of up to ISK 15 billion to Icelandic companies on better terms. The framework is financed by the InvestEU scheme where the focus is on sustainability, innovation and digitalization. The EIF guarantee helps Arion provide further support to green investment which fosters a more environmentally friendly economy and investments which support inclusivity. The agreement opens up opportunities to finance start-ups and projects which are in the initial stages at SMEs. Loans under the framework enjoy better terms due to the EIF guarantee.</p> <p>The Women Invest initiative has proven to be a great success, with a total of 4,000 women attending 45 learning events linked to the project during the year. The subjects covered by the events were diverse and every region of the country was visited during the campaign, while focused conversations were held with a range of professional groups of women. In 2024 asset portfolios owned by women have grown at almost three times the rate of asset portfolios owned by men.</p> <p>In November 2024 we held an event for our customers on the upcoming legislation and increased obligations towards sustainability for businesses. During the year we engaged with over 15,000 clients via email where we presented our sustainable financing framework and encouraged businesses to set science-based targets on climate change.</p>
<p>Links & references Annual and Sustainability Report 2024: <i>About Arion Bank</i>, p. 2 <i>Responsible business: Strategy and targets</i>, p. 57-59 <i>Environmental and climate issues: Environment and climate policy</i>, p. 85-87 <i>Human Resources: A clear vision for equality</i>, p. 104 <i>Sustainable finance: Women Invest</i>, p. 79-81 <i>Sustainable finance: Sustainable future</i>, p. 82-83</p> <p>Arion Bank's website: Women Invest Pillar 3 Risk Disclosures Financial Statement 2024</p>	<p>Links & references Annual and Sustainability Report 2024: <i>Responsible business: Double materiality assessment</i>, p. 68-74 <i>Environmental and climate issues: Financed emissions</i>, p. 93-98 <i>Sustainable finance: Women Invest</i>, p. 79-81 <i>Human Resources: A clear vision for equality</i>, p. 104</p> <p>Arion Bank's website: Human Resources Women Invest</p>	<p>Links & references Annual and Sustainability Report 2024: <i>Sustainable finance: Sustainable product range</i>, p. 76 <i>Sustainable finance: Sustainable financing</i>, p. 77-78 <i>Sustainable finance: Women Invest</i>, p. 79-81 <i>Our commitment to society: Stakeholder engagement</i>, p. 108-110</p> <p>Arion Bank's website: Women Invest Sustainability Sustainable future</p>



Principle 4: Stakeholders	Principle 5: Governance & Culture	Principle 6: Transparency & Accountability
<p>Arion Bank's main stakeholders with respect to sustainability reporting are our customers, shareholders, bondholders and employees. We also have important relationships with different interest groups, organizations and the regulatory authorities. We strive to understand the needs of these groups and to have good relations with them.</p> <p>In the double materiality analysis, in-depth interviews were conducted with key stakeholder groups. For specific projects, such as the Women Invest initiative, we have conducted deep-dive interviews and scrutinized both official and our own data on the subject. As part of setting our sectoral sustainability policies we have had active stakeholder consultation.</p> <p>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 they are asked to agree to the Bank's code of ethics for suppliers.</p> <p>Arion Bank participates in numerous platforms, working groups and forums regarding sustainability, including Iceland Sustainable Investment Forum (IcelandSIF), Festa Center for Sustainability, UN Global Compact Iceland and Finance Iceland to help shape the local sustainable business landscape.</p>	<p>Arion Bank has a sustainability committee led by the CEO, responsible for integrating ESG factors into the Bank's risk management system and decision-making processes. The committee includes managing directors from key departments and representatives from Legal, with additional non-voting attendees the Chief Risk Officer, the Head of Corporate Communications and Head of Sustainability. Green financing and equality committees are sub-committees of this committee. ESG key performance indicators are part of the risk report to the Board, and the Bank's risk appetite with respect to these factors has been defined. A sustainability risk policy, approved and annually reviewed by the Board, ensures the Bank's operations and services minimize negative impacts on people and the environment.</p> <p>During the year a sustainability risk group was set up which works on behalf of the Bank's sustainability committee and consists of representatives from Arion Bank and its subsidiaries Vörður and Stefnir. The group meets regularly in order to assess sustainability risk relating to the key sectors in the loan book and investments and to coordinate the presentation and use of data.</p> <p>In compliance with Article 5 of SFDR, a new section has been added to the Bank's remuneration policy which states how the policy is consistent with the integration of sustainability risk in the Bank's activities. The Bank has in place an incentive scheme for permanent employees which is based on clear targets and subject to strict conditions in accordance with current law and regulations. Both financial and non-financial indicators are included in the scheme. Non-financial indicators are linked to results in areas such as customer satisfaction, know-your-customer, enhanced due diligence, learning and development and equality.</p> <p>The Bank offers diverse learning and development (L&D) programmes, both mandatory and optional, on-site and digital. Mandatory learning and development constitutes the L&D index which is one of the company's key indicators. In 2024 this index was 99.1%.</p>	<p>Arion Bank's Pillar 3 Risk Disclosures describe the main risk factors in the Bank's operations, including sustainability risk, and it contains comprehensive information on the Bank's risk management and capital management strategies. It also contains information on the Bank's governance structure with respect to risk and the remuneration policy.</p> <p>Sustainability legislation incorporating the EU Taxonomy came into effect in Iceland in 2023. Information disclosed in accordance with the EU Taxonomy is published in an annex to the consolidated financial statements for 2024.</p> <p>Deloitte provides an opinion with limited assurance on sustainability in the 2024 Annual and Sustainability Report in accordance with GRI Standards and Nasdaq Guidelines.</p> <p>In order to show how the proceeds under the Sustainable Financing Framework are used for the benefit of the environment and society, the Bank publishes an annual impact and allocation report. A report for 2024 will be published in Q2 2025.</p>
<p>Links & references Annual and Sustainability Report 2024: <i>Responsible business: Double materiality assessment, p. 68-74</i> <i>Responsible business: Our success, p. 61-64</i> <i>Sustainable finance: Sustainable future, p. 82-83</i> <i>Our commitment to Society: Stakeholder engagement, p.108-110</i></p>	<p>Links & references Annual and Sustainability Report 2024: <i>Responsible business: Sustainability governance and risk management, p. 65-67</i> <i>Human Resources: Continuous learning and development, p. 106</i></p>	<p>Links & references Annual and Sustainability Report 2024: <i>Auditor's opinion, p. 139</i></p> <p>Arion Bank's website: Pillar 3 Risk Disclosures Financial Statement 2024 Impact and allocation report 2023</p>