



# PAI Statement

Statement on principal adverse impacts of investment decisions on sustainability factors

June 2025

Arion Bank hf.  
LEI: RIL4VBPDB0M7Z3KXSF19

## 1 Summary

Arion Bank hf., LEI: RIL4VBPDB0M7Z3KXSF19, (“Arion Bank” or the “Bank”) considers principal adverse impacts (“PAIs”) of its investment decisions on sustainability factors.<sup>1</sup> The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Arion Bank.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2024.

This statement describes how Arion Bank’s *Asset Management division* (i.e. Institutional Asset Management and Private Banking, hereinafter called “Arion Asset Management”) assesses the principal adverse impacts of Arion Asset Management’s investment decisions on sustainability factors.

Principal adverse impacts, as defined in the SFDR,<sup>2</sup> are considered in Arion Asset Management’s investment due diligence processes. Data is gathered on entity level on the aggregated negative impact of investments on sustainability factors and Arion Asset Management monitors the data. Data gathering covers the mandatory principal adverse impact indicators (as defined in the Regulatory Technical Standards<sup>3</sup> (RTS)), along with two additional indicators.

This Principal Adverse Impact statement describes Arion Bank’s impact on sustainability factors and policies to identify and prioritize PAIs. Further, it stipulates actions taken, actions planned, and targets set for the purpose of mitigating the principal adverse impacts of investments.

## 2 Description of the principal adverse impacts on sustainability factors

The tables set out below contain the reported adverse impact of assets under management by Arion Asset Management, measured by using the mandatory indicators, along with the two additional indicators, for the reference period from 1 January to 31 December 2024. The impacts are measured against assets under management (AuM) by Arion Bank, covering investments made as part of the Bank’s portfolio management services for clients.

For each of the indicators, information is provided on the actions taken and actions planned for the purpose of avoiding or reducing principal adverse impact, where identified.

The following information is subject to data availability and quality. Being the first year of the Bank’s reporting against the RTS, data collection for 2025 is imperfect and the Bank expects data coverage to improve significantly in the next reporting cycle. Data coverage is presented in brackets in the table.

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<sup>1</sup> The term *Sustainability factors* is defined as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

<sup>2</sup> Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

<sup>3</sup> Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

Indicators applicable to investments in investee companies					
Adverse sustainability indicator	Metric	Impact 2024 (coverage)	Impact 2023	Explanation	Actions taken, and actions planned and targets set for the next reference period
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>					
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions.	1,030.07 tCO2e (5,82%)	N/A	Data from Bloomberg is used for the calculation of these indicators.  The carbon intensity is calculated as the sum of reported, scope 1, scope 2 and scope 3 greenhouse gas (GHG) emissions of the company in metric tonnes of carbon dioxide equivalent (CO2e) per million of the enterprise value of issuers, normalized to euros.
		Scope 2 GHG emissions.	163.58 tCO2e (4,23%)	N/A	
		Scope 3 GHG emissions.	14,269.66 tCO2e (5,46%)	N/A	
		Total GHG emissions.	15,463.31 tCO2e (5,23%)	N/A	
	2. Carbon footprint	Carbon footprint.	0.00054 tCO2e/mEUR invested (5,56%)	N/A	As this is our first PAI statement, our focus has been on improving data quality. We have started mapping current data gaps and will be implementing a new ESG data provider to enhance emissions tracking across the portfolio.
	3. GHG intensity of investee companies	GHG intensity of investee companies.	0.00341 tCO2e/mEUR revenue (5,56%)	N/A	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector.	0.68% (1,04%)	N/A	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources.	35.89% (8,53%)	N/A	Percentage of investments in issuers that derive any revenue from a fossil fuel sector BICS (Bloomberg Industry Classification) code.  Data from Bloomberg is used for the calculation of this indicator.  Provides the total share of non-renewable energy consumption and production.  Calculated for each company as:  $1 - \frac{(\text{Renewable Energy Use} + \text{Total Renewables Energy Production})}{(\text{Total Energy Consumption} + \text{Total Power Generated})}$  The share of energy consumed that was generated by a renewable energy source, in thousands of megawatt hours (MWh). This includes REC (Renewable Energy Certificates) amounts company purchased as well.  Data from Bloomberg is used for the calculation of this indicator.

	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector.	13.39 GWh/mEUR revenue (8,55%)	N/A	<p>Energy intensity calculated as megawatt hours of energy consumed per million EUR of sales revenue. The ratio is calculated based on items disclosed in company filings.</p> <p>Data from Bloomberg is used for the calculation of this indicator.</p>	
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas.	N/A	N/A	<p>Our data providers do not provide sufficient data for the calculation of this PAI-indicator, since it does not distinguish companies that report no sites/operations located in or near biodiversity-sensitive areas from companies that do not report data for this PAI-indicator.</p>	<p>Biodiversity data coverage remains low, particularly for local Icelandic assets, which make up a significant portion of our portfolio. In this first PAI period, we are working to understand these gaps and identify relevant indicators.</p> <p>Next steps include exploring appropriate data sources and methodologies for assessing biodiversity impacts locally, with the aim of gradually increasing coverage and integrating biodiversity considerations into our investment process.</p>
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average.	1.34 tCO2e/mEUR invested (0,23%)	N/A	<p>Total amount of emissions, also known as discharges, to water that influence the biophysical or chemical quality of the water, in thousands of metric tonnes.</p> <p>Data from Bloomberg is used for the calculation of this indicator.</p>	<p>Data on emissions to water is currently very limited, particularly for local Icelandic holdings. We are focused on identifying appropriate data sources and improving coverage to enable more meaningful assessment and monitoring in future reporting periods.</p>
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average.	0.78 tCO2e/mEUR invested (3%)	N/A	<p>Total amount of hazardous waste discarded by issuers, in thousands of metric tonnes.</p> <p>Data from Bloomberg is used for the calculation of this indicator.</p>	<p>Waste-related data is currently limited across much of the portfolio, especially for domestic assets. We are working to improve data availability and identify relevant indicators to support better assessment and integration in future reporting periods.</p>

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.	0.73% (11,04%)	N/A	Data from Bloomberg is used for the calculation of this indicator.	<p>Coverage of social and employee indicators varies across the portfolio. While some data, such as gender diversity or board representation, is publicly available and more easily accessible, other indicators, particularly for smaller or local companies, remain limited.</p> <p>Our main focus during this first reference period is on identifying reliable data sources and improving coverage across all indicators. Given that much of this information should be publicly available, we expect significant progress in the next reporting cycle. Improved data will allow us to better assess social impacts and integrate them more systematically into investment decision-making.</p>
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.	N/A	N/A	Our data providers do not provide complete data on this indicator.	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies.	12.5% (7,24%)	N/A	Data from Bloomberg is used for the calculation of this indicator.	
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members.	39.78% (15,73%)	N/A	Average percentage of female board members in companies reporting board gender diversity data. Data from Bloomberg is used for the calculation of this indicator.	
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons.	0,16% (11,02%)	N/A	Data from Bloomberg is used for the calculation of this indicator.  Indicates companies with an involvement in controversial weapons, which could be through production (direct involvements) or direct investments. Involvement in controversial weapons production is taken to mean involvement in the manufacturing and supply chain, either through products or services related to any of the following:  a) Landmines - Manufacturing of, and suppliers involved in landmines or the provision of services related to landmines manufacturing  b) Cluster bombs - Manufacturing of, and suppliers involved in cluster bombs or the provision of services related to cluster bombs manufacturing  c) Chemical and biological weapons - Manufacturing of, and suppliers involved in biological or chemical weapons or the provision	

					<p>of services related to chemical and biological weapons manufacturing</p> <p>d) Nuclear weapons - Manufacturing either whole strategic parts or platforms for nuclear weapons, nuclear weapon systems, or nuclear weapon components</p> <p>Involvement in controversial weapons investments can include providing loans or issuing bonds to companies that fall in the above categories, as reported by both news outlets and non-governmental organisations.</p>	
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**Indicators applicable to investments in sovereigns and supranationals**

Adverse sustainability indicator		Metric	Impact 2024 (coverage)	Impact 2023	Explanation	Actions taken, and actions planned and targets set for the next reference period
Environmental	15. GHG intensity	GHG intensity of investee countries.	N/A	N/A		
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law.	N/A	N/A	Data for these indicators is not available from our current provider during this reference period.	Implementation of a new data solution is underway, and improving coverage for sovereign and supranational investments is a key priority going forward. Improved data is a prerequisite for actions and targets.

**Indicators applicable to investments in real estate assets**

Adverse sustainability indicator		Metric	Impact 2024 (coverage)	Impact 2023	Explanation	Actions taken, and actions planned and targets set for the next reference period
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels.	N/A	N/A		We are in the process of implementing a new data system to enhance coverage and accuracy for real estate investments in future reporting cycles. Improved data is a prerequisite for actions and targets.
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets.	N/A	N/A		

Additional Indicators						
Adverse sustainability indicator		Metric	Impact 2024 (coverage)	Impact 2023	Explanation	Actions taken, and actions planned and targets set for the next reference period
Emissions	Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement.	N/A	N/A	Data availability for Additional PAI indicators is currently limited.	We are actively working to identify reliable sources and improve data integration. Enhancing coverage and accuracy for these additional sustainability factors remains a priority for upcoming reporting periods. Improved data is a prerequisite for actions and targets.
Social	Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour).	N/A	N/A		

### **3 Description of policies to identify and prioritize principal adverse impacts on sustainability factors**

This section contains a description of how Arion Asset Management identifies and prioritizes principal adverse impacts of investment decisions on sustainability factors.

#### **3.1 Internal governance**

Arion Bank has integrated PAI considerations in the investment decision-making process within Arion Asset Management. For this purpose, the Bank has implemented an internal procedure designed to identify, manage and mitigate principal adverse impacts on sustainability factors. The internal procedure is based on Arion Bank's *Rules on Responsible Investment*, which were approved and adopted by the Bank's Sustainability Committee in June 2025 and are subject to annual review. The Rules on Responsible Investment replaced *Guidelines on Responsible Investment*, adopted in 2019. Where clients have their own policies regarding Responsible Investment and PAI, such rules may take precedence over Arion Bank's Rules on Responsible Investment.

The overall responsibility for the implementation of the Rules on Responsible Investment lies with the directors of Arion Asset Management. Day-to-day management of the Rules will partially be delegated to a specialized group of employees within Arion Asset Management.

#### **3.2 Methodologies**

The identification of principal adverse impacts takes place through a screening of the investee's external impacts that may have significant negative impacts.

Assets under management are screened annually. Subject to data availability, Arion Asset Management analyses PAI data and flags investee companies considered to have a significant negative impact. Arion Asset Management has defined internal benchmarks for determining when negative impacts are considered significant.

Arion Asset Management will prioritize principal adverse impacts in line with the Sustainable Development Goals focused on by Arion bank, i.e. SDG No. 5 *Gender Equality*, No. 7 *Affordable and Clean Energy*, No. 8 *Decent Work and Economic Growth*, No. 9 *Industry, Innovation and Economic Growth*, No. 12 *Responsible Consumption and Production* og No. 13 *Climate Action*).

Portfolio managers are informed about significant negative impacts and must consider those impacts when taking investment decisions during the process of portfolio management. Such considerations should generally be made before an investment decision is made.

#### **3.3 Engagement Policies**

As of June 2025, the Shareholders Rights Directive II<sup>4</sup> has not been adopted in Iceland. Therefore, Arion Bank is not subject to and has not implemented the provisions on *Engagement Policies*. As a result, Arion Asset Management's has not issued a formal engagement policy. Arion Asset Management's Rules on Responsible Investment, however, rely on issuer engagement in certain circumstances.

Where significant negative impacts are detected, Arion Asset Management determines whether there is reason to consider mitigating measures intended to reduce or prevent the adverse impact in question. When determining whether mitigating measures are necessary and, if so, which measures are appropriate, Arion Asset Management considers the probability

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<sup>4</sup> Directive (EU) 2017/828.

of occurrence and the severity of the significant negative impacts in question, including their potentially irremediable character. As part of the determination, Arion Asset Management may prioritize mitigating measures based on its exposure to the issuers in question.

Appropriate mitigating measures may, for instance, consist of the following, depending on the severity of the situation:

- Monitoring and tracking of the issuer's PAIs.
- Direct dialogue with the issuer.
- Defining targets or measures to reduce significant negative impacts.
- Filing shareholder resolutions and exercising voting rights.
- Divestment or freezing.

All reasonable precautions should be taken and the interests of clients considered when mitigating measures are applied. Arion Asset Management prefers promoting improvements through dialogue and collaboration and will prioritize such measures over more drastic actions. Where soft mitigation measures fail to reduce or prevent significant negative impacts, more firm measures may be appropriate. Divestment and freezing may only be used in exceptional circumstances, where considered necessary.

### 3.4 Data Sources and Margin of Error

Arion Asset Management relies on several third-party data providers to detect substantially negative impacts. Where data is available from data providers, Arion Asset Management generally does not collect data directly from issuers. However, where available data sources conflict, data reported by issuers is prioritized. In some cases, the detection process may utilize proxy data provided by third-party data providers. External data providers will be assessed on an ongoing basis.

Where data availability is lacking, Arion Asset Management will assess whether appropriate to directly request data through a bilateral dialogue. The assessment is based on the estimated (i) probability and (ii) significance of the negative impact, and (iii) how exposed portfolios under management are to the negative impacts in question.

Since Arion Bank is reliant on data received from third-party data providers, data quality, data availability, data freshness, data coverage and differing methodology between data providers, is expected to affect the performance of the Bank's PAI processes. Therefore, a certain margin of error is to be expected. The exact extent of the margin of error is difficult to anticipate but is presumed to be high in the short term and to decrease over time. Being the first year of the Bank's reporting against the RTS, **data collection for the financial year 2024 is imperfect**. For instance, collection of data on indirect investments proved difficult. The Bank expects data availability to improve significantly in the next reporting cycle.

#### *Selection of additional adverse impact indicators*

The selection of additional adverse impact indicators was based on three criteria, i.e. (i) potential external impacts, (ii) sufficient data quality and availability and (iii) relevance to Arion Bank. The additional indicators *Investments in companies without carbon emission reduction initiatives* (table 2, indicator No. 4) and *Lack of supplier code of conduct* (table 3, indicator No. 4) were deemed most suitable, and chosen as Arion Bank's additional adverse impact indicators.

## References to international standards

Arion Bank follows various rules on responsible business practices and internationally recognized standards directly or indirectly related to adverse impacts of investment decisions on sustainability factors. Those commitments include, but are not limited to, the following:

### 3.5 Climate and GHG emissions

*Mandatory PAI indicators 1-6 + Additional indicator 4 (table 2)*

#### *UN Principles for Responsible Investments*

Arion Bank is a member of the UN Principles for Responsible Investment (UN PRI). Under the UN PRI, Arion Bank has *inter alia* committed to incorporate ESG issues into investment analysis and decision-making.

#### *UNEP FI and Principles for Responsible Banking (PRB)*

Arion Bank is a signatory to UNEP FI, United Nations Environment Programme Finance Initiative, which is a partnership between United Nations Environment and financial institutions across the world working to understand today's environmental, social and governance challenges.

The Bank became a founding signatory to the Principles for Responsible Banking in 2019 and has ever since worked on aligning the business to the six principles of PRB.

#### *Science Based Targets initiative*

Arion Bank is committed to getting its intermediate climate targets validated by Science Based Targets Initiative (SBTi) by the end of the year 2025. Validation by SBTi confirms that targets are science-based and align with the commitments of the Paris Agreement.

#### *Net Zero Banking Alliance*

As a signatory to the Net-Zero Banking Alliance, the Bank is committed to setting targets on reducing emissions up until 2030 and becoming net zero by 2040.

#### *Partnership for Carbon Accounting Financials (PCAF)*

As a signatory since 2021, Arion Bank has applied the PCAF methodology for assessing and disclosing greenhouse gas emissions associated with loans and own investments since 2022.

### 3.6 Social and Employee matters

*PAI indicators 10-11 + Additional indicator 4 (table 3)*

#### *UN Global Compact*

Arion Bank has been a signatory to the UN Global Compact since 2016 and submits an annual progress report on the principles.

## 4 Historical comparison

With 2025 being the first year of alignment with the RTS, a historical comparison does not apply to this statement. Historical comparison will be provided in the next statement.