



# Sustainability preferences

Information document on sustainability in investments

June 2024

On 1 June 2023 new legislation on sustainability reporting, Act No. 25/2023, came into effect. The Act introduces a regulatory framework for sustainable finance from the European Union which will increase transparency on the financial market for sustainable investments. Under the regulatory framework, Arion Bank will be required to **acquire information on clients' sustainability preferences** when we provide asset management service or investment advice. This information helps us to provide services which suit you and your investment objectives.

You can customize your sustainability preferences by considering three different indicators, i.e. the minimum proportion of "green investments", the minimum proportion of "sustainable investments" and the principal adverse impacts on environmental, social and other sustainability factors. We will ask you to complete a specially designed questionnaire. The decisions we make on your behalf, or advice that we give, are based on the answers you provide in this questionnaire.

## What if I don't have any special sustainability preferences?

If you don't have special sustainability preferences, you simply let us know by ticking the appropriate box in the questionnaire. In this case the three indicators will not be used in the management of the asset portfolio or when providing investment advice. However, this doesn't mean that green or sustainable products will be excluded from the asset portfolio. We can invest in such products, or provide investment advice, if they suit your objectives or financial position in other respects.

## Further information on the indicators:

### 1. Green investments

An investment in a financial instrument made up of *environmentally sustainable investments* in accordance with the EU taxonomy. An environmentally sustainable investment is defined as an investment in an economic activity which contributes substantially to one or more environmental objectives. This economic activity must be conducted in accordance with the minimum safeguards and may not significantly harm other environmental objectives. Special requirements for specific types of economic activities are set out in special technical screening criteria.

In summary: An investment in products which meet strict EU requirements on environmental issues.

### 2. Sustainable investments

An investment in a financial instrument made up of *sustainable investments* as defined by law. A sustainable investment is an investment in an economic activity which contributes to reaching set environmental or social objectives. This economic activity must be conducted in accordance with good governance practices and may not significantly harm other objectives. The term sustainable investment is broader and more subjective than the term environmentally sustainable investment.

In summary: An investment in products which meet the subjective requirements made of environmental and social considerations in line with the EU's definition.

### 3. Investments which consider principal adverse impacts on sustainability factors

When considering principal adverse impacts (PAI) on sustainability factors, it is examined whether the financial instrument in question has a substantially adverse impact on environmental, social and employee-related factors. Under SFDR PAI indicators are used to measure the adverse impact of investment decisions on sustainability factors. The PAI indicators include the following:

#### Environmental factors

- GHG emissions
- Carbon footprint
- Share of investment in companies active in the fossil fuel sector
- Share of non-renewable energy consumption and production
- Energy consumption intensity per high-impact climate sector
- Activities negatively affecting biodiversity - sensitive areas
- Emissions to water
- Hazardous waste ratio

#### Social and governance factors

- Violations of *UN Global Compact Principles* or *OECD Guidelines for Multinational Enterprises*
- Lack of processes and compliance mechanisms to monitor compliance with *UN Global Compact Principles* and *OECD Guidelines for Multinational Enterprises*
- Unadjusted general pay gap
- Board gender diversity
- Exposure to controversial weapons (e.g. chemical weapons)

In summary: Investment decision or advice takes into consideration principal adverse impacts on environmental, social and other sustainability factors.

## What if the Bank cannot meet my sustainability preferences?

It is our duty at all times to serve you in accordance with your investment objectives and financial position. We will let you know if your sustainability preferences are so ambitious that we are unable to offer services which suit you. You will be given the option of **adjusting** your sustainability preferences to the product range on offer. If you choose not to adjust your sustainability preferences, we will unfortunately not be able to provide you with services.

## How are my sustainability preferences incorporated into asset management or advisory?

The Bank can meet its clients' preferences on the proportion of green and sustainable investments in several ways. If you as a client of asset management choose "green investment" and subsequently tick the box "medium", the Bank can invest in the following financial instruments:

- Bonds where 5-10% of the value of the bond goes into projects considered green under EU taxonomy.
- Shares in a company where 5-10% of the company's turnover originates from green activities.
- Funds where the weighted average of green investments represents between 5-10% of the fund's underlying investments

When managing assets the Bank can otherwise choose to manage the part of your asset portfolio which meets your sustainability preferences in such a way that the weighted average of the financial investments invested in is at least 5% green.

The Bank is permitted to exceed the upper limits of the percentage you choose when it matches your investment objectives in other respects.

When becoming a client of asset management, the client is asked what proportion of their asset portfolio should align with their sustainability preferences. If the client says 50%, for example, we must ensure that half of the assets in the portfolio meet these criteria.

### **What if I want sustainability to be considered but I have no opinion on how it is reflected in my asset portfolio or investment advice?**

If you have some sustainability preferences but no opinion on *how* it should be taken into consideration, you can tick the relevant option in the questionnaire. In such case, we provide services in line with the Bank's internal procedures. Criteria can vary and can be expected to increase as the availability of sustainable investments increases over time.

### **What happens if I choose two or more indicators?**

If you tick two or more indicators in the questionnaire, we assume that your preferences extend to investments which match one of these options. If you want us to place a special emphasis on one type of investment above another, please let us know. The same applies if you want the investments to match all the options you tick.