

Report on non-financial information at Arion Bank in 2016

ABOUT THIS REPORT

The data and information published in this report are valid for 2016 and apply to Arion Bank's core activities. Data from 2015 are included for comparison.

SUSTAINABILITY AT ARION BANK

In 2016 a new policy of sustainability was devised at Arion Bank in which the main focuses and stakeholders are defined. The policy builds on the culture which has evolved at the Bank and the work undertaken in recent years, particularly in respect to financial education, innovation and better banking. The policy is entitled *Together we make good things happen*. The new policy was approved by the Board of Directors in late 2016 and presented to the employees, while a number of other projects related to sustainability were launched during the year.

At the end of 2016 Arion Bank became a signatory to the UN Global Compact initiative on corporate sustainability. By doing this the Bank has committed itself to working in accordance with the UN's 10 principles on sustainability.

In the Bank's annual report, which contains a separate environmental report, and this report on other non-financial information at Arion Bank we take into account the fundamental objectives laid out in UN Global Compact. We also look to the new guidelines which the World Federation of Exchanges has set out for listed companies. These guidelines aim to meet certain requirements of the Global Reporting Initiative, an international standard which helps companies and institutions to report information on sustainability in a transparent manner.

Further information on sustainability at Arion Bank and the Bank's main focuses can be found [here](#).

ARION BANK'S ENVIRONMENTAL OBJECTIVES

GRI-103-2

Information on the main tasks, achievements and objectives relating to environmental issues can be found in the Bank's environmental report for 2016.

ARION BANK'S ENVIRONMENTAL OBJECTIVES

Arion Bank seeks to minimize the negative environmental impact of its activities.

The Bank's environmental objectives are to:

- Optimize the sorting of waste produced by the Bank
- Use energy sparingly
- Use environmentally friendly solutions when printing by using new technology
- Encourage employees to adopt environmentally friendly practices at work and at home
- Choose environmentally friendly products and/or services wherever possible
- Increase the number of paperless transactions
- Reduce waste

ENVIRONMENTAL IMPACT

GRI-307

Arion Bank's core activity is to provide universal banking services to companies and individuals and it offers these services at 24 locations across Iceland. The activities do not create any legal obligation in respect of environmental impact. We are nevertheless dedicated to respecting the environment and minimizing the negative environmental impact of our activities.

Detailed coverage of the environmental impact of Arion Bank's activities is contained in the environmental report.

SALARIES

GRI 102-38

Arion Bank's remuneration policy has been approved by the Board of Directors.

HUMAN RESOURCES

The main objective with regard to employee remuneration is that Arion Bank offers competitive salaries so that the Bank is able to attract and retain outstanding employees. The Bank's objective is also to ensure that jobs at the Bank are sought after by qualified people. When devising a remuneration policy it must be ensured that the policy does not encourage excessive risk taking but rather supports the Bank's long-term goals and its healthy operation. The policy is an integral part of the Bank's strategy to protect the long-term interests of the Bank's owners, its employees, customers and other stakeholders in an organized and transparent manner.

In accordance with Article 79a of the Public Limited Companies Act No. 2/1995 and rules on good corporate governance, the Board of Directors of Arion Bank hf. approves the Bank's remuneration policy with respect to salaries and other payments to the Board Directors, Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor. The remuneration policy is reviewed annually and submitted for approval or rejection at the Bank's AGM.

For further information see Arion Bank's [remuneration policy](#).

SALARIES BY GENDER

GRI 405-2

The aim is to bring the wage gap down to 3% or lower in 2017

Employees' salaries by gender

Description	2016	2015
Average number of employees	936	929.5
Females	65%	66%
Males	35%	34%
Outcome of equal pay certification	3.7%	4.8%

EMPLOYEE TURNOVER RATE

GRI 401-1

Employee turnover rate

Description	2016	2015
Left the Bank voluntarily	5.4%	7.7%
Laid off	7.8%	2.2%
Retired	0.7%	0.9%
Employee turnover rate	13.8%	10.8%

EQUALITY AND DIVERSITY

GRI-405-1

| Gender balance

Ratio of males to females in management

Description	2016		2015	
	Women	Men	Women	Men
All management	47%	53%	41%	59%
Board of Directors	50%	50%	55%	45%
Executive Committee	44%	56%	33%	67%
Regional and Branch Managers	50%	50%	39%	61%
Heads of Department	34%	66%	39%	61%
Service Managers with employees at their disposal	93%	7%	-	-
Supervisors and Team Leaders	44%	56%	50%	50%

The age of employees is distributed rather equally. The average age of Arion Bank employees is 42. The average length of employment at the Bank is 10.5 years, but many people have worked at the Bank and its predecessors for much longer, some up to 45 years.

Age of employees %

Description	2016	2015
55 years old and older	14%	15%
45-54 years old	29%	27%
35-44 years old	32%	33%
25-34 years old	20%	21%
24 years old and younger	5%	4%

RATIO OF PERMANENT EMPLOYEES

GRI 102-8

Ratio of permanent employees in %

Description	2016	2015
Permanent employees	93%	95%
Temporary employees	7%	5%

EQUALITY

GRI-406

In 2015 Arion Bank became the first Icelandic bank to be awarded equal salary certification by the union VR

The Bank has set out a clear policy to ensure equal opportunities and terms for employees of both genders. Any kind of sexual discrimination is contrary to the Bank's equal opportunities policy and equal opportunities legislation. The CEO is responsible for implementing equal opportunities at the Bank and he is represented by an equal opportunities committee comprising Bank employees.

Arion Bank adheres to an equal opportunities action plan. The objective of the plan is to ensure equality and equal opportunities for all employees, irrespective of their gender. The action plan was reviewed and updated in 2016. The plan covers a wide range of topics, including the right to work, terms of employment, professional development and positions on committees and in working groups. The tasks of the equal opportunities committee are divided into eight categories: Salary equality; equality in committees; vacant positions; working groups; professional training and further education; instruction on equal opportunities; coordinating work and family life; combatting bullying and sexual harassment.

Since 2014 the Bank has supported the UN Women/UN Global Compact Women's Empowerment Principles. These are international declarations and treaties under the auspices of the United Nations which companies and institutions can use as guidelines when implementing responsible working practices, irrespective of geographic location or sector and primarily concern advancing gender equality.

In 2015 Arion Bank was awarded equal salary certification by the union VR and thereby became the first Icelandic bank to gain this certification and also the largest Icelandic company to do so. The Bank has thereby received confirmation that salary decisions are taken in accordance with a formal framework and that this framework conforms to the demands of standard ÍST 85:2012. The framework is designed to guarantee that people doing the same or comparable jobs are not discriminated against in terms of pay.

To ensure compliance and continuous improvements, the Bank pledges to set an equal pay target and to analyze pay through internal and external surveys, and to examine the results and make improvements where necessary.

The Bank passed two inspections in 2016 which confirmed that the Bank is operating in compliance with equality standards. The explained wage gap narrowed between years from 4.8% to 3.7%. The Bank aims to bring the explained wage gap to below 3% in 2017.

HEALTH AND SECURITY OF EMPLOYEES

GRI-403-2

Safe working environment

Illness and accidents

Description	2016	2015
Accidents at the work place and on the way to and from work	5	5
Health indicator	95.83%	-

The health indicator shows the average presence of employees when absence due to sick leave has been deducted.

HEALTH OF EMPLOYEES

GRI-403/103-2

Important that employees have a healthy lifestyle

It is of great important to us that the employees enjoy a safe and healthy working environment. According to the Bank's human resources policy, employees are encouraged to look after their health and to lead a healthy lifestyle and the Bank helps them in this respect in a number of ways. The Bank is a no smoking workplace and the use of alcohol and other intoxicants at work is prohibited.

Arion Bank takes a range of measures to promote good health among its employees. Employees have the opportunity to see a doctor, undergo medical checks and have a flu jab. Work place audits are conducted regularly to ensure a safe and healthy working environment.

We have introduced a transport policy which encourages employees to use environmentally friendly means of transport. Environmentally friendly transport refers to all modes of transport used to travel to and from work other than private cars, e.g. walking, cycling, getting a lift from others or using public transport.

The rights of employees are respected in accordance with Icelandic law and international obligations. No children work for Arion Bank.

CHILD LABOUR AND FORCED LABOUR

GRI-408/409/103-2

HUMAN RIGHTS

GRI-102-16/103-2/412-2

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HUMAN RIGHTS VIOLATIONS

GRI-103-2/412-1

Arion Bank respects human rights and is not guilty of any violations of human rights.

COMPOSITION OF THE BOARD OF DIRECTORS

GRI-102-22

Equal gender ratio on the Board of Directors

GOVERNANCE

Composition of the Board of Directors

Description	2016	2015
Women	4	4
Men	4	3
Total number of directors	8	7
Number of independent directors	7	6

Information on the duties of the CEO can be found in Arion Bank's corporate governance statement

Separation of authority

The CEO is responsible for the day-to-day operations of the Bank and manages the Bank with the assistance of the Executive Committee in accordance with the strategy of the Board of Directors. The CEO shall provide the Board with reports on the Bank's operations and financial position and all important issues which may affect the Bank's operations and finances. With respect to other duties responsibilities and duties of the CEO please refer to Chapter VII of the Financial Undertakings Act and Chapter IX of the Public Limited Companies Act. The duties of the CEO and his responsibilities take into account the legal environment in which the Bank operates at any given time and the rules which the Board of Directors may establish.

For further details please refer to Arion Bank's [corporate governance statement](#).

Transparency of decisions

Information on voting by Directors is not made public. The results of voting are recorded in the minutes of meetings, which are available to the regulators, if requested.

Arion Bank's annual report for 2016 contains information on the Bank's main areas of focus in sustainable banking

Supporting the community

Information on the Bank's policy on sustainability, its main focuses and projects can be found [here](#).

THE RIGHT TO WORK

GRI-102-41

99.8% of employees are union members

99.8% of Arion Bank employees are union members. Arion Bank is keen to ensure that all employees enjoy the rights provided by the unions.

ASSESSMENT OF SUPPLIERS

GRI-308/414

The assessment of suppliers is regularly followed up with a performance assessment

The Bank's assessment of suppliers takes into account factors such as the finances of suppliers, security, quality and software processes. The assessment is regularly followed up with a performance assessment.

In 2017 a new assessment of suppliers will be introduced at the Bank and this will take into account the environmental and social impact of suppliers.

Arion Bank's Cornerstones and code of ethics promote responsible decision-making

Code of ethics

Arion Bank's Cornerstones are names used to describe its core principles. The Cornerstones are designed to provide guidance when making decisions and in everything else employees say and do. They refer to the Bank's role, attitude and conduct. Arion Bank's Cornerstones are *we make a difference*, *we get things done*, and *we say what we mean*.

Arion Bank places strong emphasis on moral values in its business and is conscious of the fact that its operations have an impact on different stakeholders and society as a whole. The code of ethics is designed to support responsible decision-making and applies equally to the Board of Directors, management and other employees. It is the responsibility of the CEO to ensure that the code of ethics is enforced. The code of ethics is approved by the Board of Directors and should be reviewed on a regular basis, at least annually.

MEASURES TO COMBAT CORRUPTION AND BRIBERY

GRI-102-17/205-1/2

Strong focus on preventing financial crime

Arion Bank seeks to prevent financial crime and the damaging impact it can have on our customers, our business and society. In order to be able to do this the Bank provides its employees with the appropriate training and education, maintains effective monitoring and collaborates closely with the law enforcement authorities. The Bank is also aware of the risk of conflicts of interest which inevitably occur in our business and we have taken special measures to prevent conflicts of interest from negatively affecting customers' interests.

We prioritize measures to prevent:

- Money laundering, terrorist financing and violations of trade sanctions
- Conflicts of interest
- Market manipulation and insider misconduct
- Fraud and corruption

Further information can be found in the section on [sustainability](#).

TRANSPARENT TAXES AND FEES

Arion Bank reports its financial results on the basis of the Icelandic Annual Accounts Act and International Financial Reporting Standards. Information on taxes and other fees paid by the Bank is displayed [here](#).

SUSTAINABILITY REPORTING

At Arion Bank we aim to ensure that sustainability is part of the Bank's day-to-day activities, its decision-making and processes. Instead of preparing a separate report on sustainability at Arion Bank, the issue is discussed in the Bank's annual report and a special [environmental report](#) for 2016 has been issued, in addition to this report on non-financial information at Arion Bank.

Sustainability is covered in Arion Bank's annual report for 2016

RELIABILITY OF MATERIAL

GRI-102-56

The environmental report and the report on non-financial information for 2016 were prepared in collaboration with the Icelandic innovation company Klappir. Klappir specializes in consultancy and technical web and business solutions relating to sustainability. Such input from third parties enhances the reliability and quality of the material presented in the report.