

Reykjavik, 10. December, 2018

Mr. António Guterres
Secretary-General
United Nations
New York, NY 10017
USA

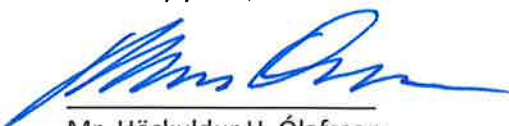
Dear Mr. Secretary-General,

I am pleased to confirm that Arion Bank hf. will continue to support the ten principles of the Global Compact on human rights, labour, environment and anti-corruption. With this communications, we express our intent to implement those principles. We are committed to making the Global Compact and its principles part of the strategy, culture and day-to-day operations of our company, and to engaging in collaborative projects which advance the broader development goals of the United Nations, particularly the Sustainable Development Goals. Arion Bank hf. will make a clear statement of this commitment to our stakeholders and the general public.

We recognize that a key requirement for participation in the Global Compact is the annual submission of a Communication on Progress (COP) that describes our company's efforts to implement the ten principles and support any specialized UN Global Compact issue platform that our company may join at a later date. We support public accountability and transparency, and therefore commit to report on progress within one year of joining the Global Compact, and annually thereafter according to the Global Compact COP policy. This includes:

- A statement signed by the chief executive expressing continued support for the Global Compact and renewing our ongoing commitment to the initiative and its principles. This is separate from our initial letter of commitment to join the Global Compact.
- A description of practical actions (i.e., disclosure of any relevant policies, procedures, activities) that the company has taken (or plans to undertake) to implement the Global Compact principles in each of the four issue areas (human rights, labour, environment, anti-corruption).
- A measurement of outcomes (i.e., the degree to which targets/performance indicators were met, or other qualitative or quantitative measurements of results).

Sincerely yours,



Mr. Höskuldur H. Ólafsson
CEO of Arion bank



Report on non-financial information at Arion Bank in 2017

The data and information published in this report are valid for 2017 and apply to Arion Bank's core activities, not its subsidiaries. In the [summary of non-financial information](#) data from 2015 and 2016 are included for comparison.

Sustainability

Arion Bank underlines its status as a sustainable bank by making a difference to our customers and performing our role as a financial institution conscientiously and responsibly.

At Arion Bank we are dedicated to working responsibly and to provide our customers with high quality and convenient services. Our role is to help our customers - individuals, corporates and investors – to attain their goals. Arion Bank underlines its status as a sustainable bank by making a difference to our customers and performing our role as a financial institution conscientiously and responsibly.

In 2016 a new policy on 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 and more convenient banking. The title of the policy is *Together we make good things happen*.

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

Environmental impact and objectives

Arion Bank seeks to minimize the negative environmental impact of its activities. Arion Bank's core activity is to provide universal banking services to companies and individuals. These services are offered at different locations across Iceland but the activities do not create any legal obligation in respect of environmental impact.

Detailed coverage of the environmental impact of Arion Bank's activities is contained in the [environmental report](#).



Salaries

The Bank's objective is to ensure that jobs at the Bank are sought after by qualified people.

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](#).

Information on salaries by gender, employee turnover rate, equality and diversity, ratio of permanent employees and more can be found below in a [summary of non-financial information](#).



Human rights, child labour and forced labour

Any kind of sexual discrimination is contrary to the Bank's equal opportunities policy.

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

Arion Bank respects human rights in accordance with Icelandic law and international obligations. 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.

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 Ten Principles of the UN Global Compact.

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](#).



Measures to combat corruption and bribery

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 [responsible and profitable business practices](#).

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](#).

Reliability of material

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. The report includes a discussion on [sustainability](#) and a special [environmental report](#) for 2017 in addition to this report on non-financial information at Arion Bank.



The environmental report and the report on non-financial information for 2017 were prepared in collaboration with the Icelandic innovation company Klappir Green Solutions. 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.

Summary of non-financial information

ARION - ESG ACCOUNTING 2017				
KEY PERFORMANCE INDICATORS	UNIT	2017	2016	2015
GHG emissions (E1)				
Scope 1	tCO ₂ e	75,8	78,0	77,8
Scope 2 (location based)	-			689
Scope 2 (market based)	-	83	107	
Scope 3	-	147	163	246
Total gross emissions	tCO ₂ e	306	348	1.013
Carbon offset projects	-	19,0	0,0	
Net operational carbon emissions	tCO ₂ e	287	348	1.013
Carbon intensity (E2, E4)				
Carbon intensity per megawatt-hour (MWh) of energy consumed	kgCO ₂ e/MWh	0,03	0,03	0,09
Carbon intensity per sq.m of office space	kgCO ₂ e/m ³	2,66	3,05	8,50
Carbon intensity per full-time equivalent (FTE) employee	tCO ₂ e/FTE	0,33	0,37	1,09
Carbon intensity of equity	tCO ₂ e/m.kr.	0,26	0,34	1,01
Improvements from base year (2015)	%	74,9%	66,8%	
Paper intensity per FTE	pages/FTE	2.419	2.516	2.576
Energy Management (E3, E5, E6)				
Total energy consumption	kWh	9.074.193	11.423.654	10.668.563
Of which from use of fossil fuel	kWh	322.208	331.575	327.348
Cars and mobile assets	kg.	27.705	28.510	28.147
Of which energy from electricity	kWh	2.718.071	4.087.129	4.034.237
Of which from district heating	kWh	6.033.914	7.004.950	6.306.978
Hot water for district heating	m ³	104.033	120.775	108.741
Percentage renewable energy	%	95,85%	68,83%	85,97%
Percentage renewable electricity	%	100%	100%	71%



Water Management (E7)				
Total annual use of water	m3	73.971	66.776	65.372
Of which cold water	m3	73.971	66.776	65.372
Waste Management (E8)				
Total waste generated annually	kg	125.519	120.728	119.992
Of which general waste	-	112.649	120.728	119.992
Of which construction waste	-	12.870	-	-
Sorted waste	-	58.492	60.958	51.588
Unsorted waste	-	54.157	59.770	68.404
Share of sorted waste	%	51,9%	50,5%	43,0%
Paper-print Management				
Total printed paper in offices	pages	2.133.773	2.354.926	2.394.285
Key figures from operation				
Total size of office space	m3	108.075	114.146	119.189
Of which with LED lighting	%	10%		
Full-time equivalent employees	FTE	882,0	936,0	929,5
Total equity	mkr	112600%	1.033	998
Environmental Policy (E9)				
Does the Bank have environmental policy	Yes/No/IP	Yes	Yes	Yes
Does the Bank have environmental management system	Yes/No/IP	Yes	Yes	No
<p><i>The Bank has a complete environmental system, Klappir Core that cover Energy Management, Waste Management, Water Management and Paper-print Management. It also cover a part of the Bank's supply chain. The environmental Accounting is in separate report.</i></p>				
Environmental Impact (E10)				
Where there any environmental accidents registered	Yes/No/IP	No	No	No
Does the bank have to comply to environmental legislation	Yes/No/IP	No	No	No
Gender Pay Ratio (S2)				
Average number of employees	no.	882	936	929,5
Of which female	%	65%	65%	66%
Of which men	%	35%	35%	34%
Outcome of equal pay certification	%	2,9%	3,7%	4,8%
Employee Turnover Rate (S3)				



Employee turnover rate	%	11,8%	13,8%	10,8%
Of which voluntarily resignations	%	7,7%	5,4%	7,7%
Of which dismissals	%	2,2%	7,8%	2,2%
Of which retired	%	0,9%	0,7%	0,9%

Gender Diversity (S4)

All Management				
Of which women	%	48,0%	47%	41%
Of which men	%	52%	53%	59%
Board of Directors				
Of which women	%	50%	50%	55%
Of which men	%	50%	50%	45%
Executive Committee				
Of which women	%	50%	44%	33%
Of which men	%	50%	56%	67%
Regional and Branch Managers				
Of which women	%	43%	50%	39%
Of which men	%	57%	50%	61%
Heads of Departments				
Of which women	%	28%	34%	39%
Of which men	%	72%	66%	61%
Service Managers with employees at their disposal				
Of which women	%	73%	93%	
Of which men	%	27%	7%	
Supervisors and Team Leaders				
Of which women	%	67%	44%	50%
Of which men	%	33%	56%	50%

Temporary Worker Ratio (S5)

Permanent employees	%	92%	93%	95%
Of which 55 years old and older	%	14%	14%	15%
Of which aged 45-54	%	30%	29%	27%
Of which aged 35-44	%	30%	32%	33%
Of which aged 25-34	%	21%	20%	21%
Of which aged 24 and younger	%	5%	5%	4%
Temporary employees	%	8%	7%	5%

Non-Discrimination Policy (S6)



Does your company publish and follow a non-discrimination policy:	Yes/No/IP	Yes	yes	yes
Injury Rate (S7)				
Accidents at the work place and on the way to and from work	no	0%	500%	500%
Health indicator	%	96,3%	95,8%	
Human rights violations (S11, GRI 102-17/103-2/412-1 UNGC P1, P2 SDG 2,3,12,13)				
Number of violations reported	no	0	0	0
Of which coercion and bullying	-	0	0	0
Of which harassment and gender based discrimination	-	0	0	0
Of which sexual harassment	-	0	0	0
Of which by ignorance	-	0	0	0
Of which other violations	-	0	0	0
Of which violations that have been addressed/solved	-	0	0	0
Board - Diversity (S12)				
Total number of Directors	no	8	8	7
Of which women	-	4	4	4
Of which men	-	4	4	3
Of which independent board members	-	7	7	6
Separation of powers (G1)				
Is the CEO the chairman of the Board	Yes/No/IP	No	No	No
Does the CEO lead committees	-	No	No	No
Does the CEO sit on the board	-	No	No	No
Board - Transparent Practices (G2)				
Are board practices, actions, and outcomes made public	Yes/No/IP	No	No	No
To the CEO	-	Yes	Yes	Yes
To revisers and controllers		Yes	Yes	Yes
Is the voting by individual board members made public	Yes/No/IP	No	No	No
To the CEO	-	Yes	Yes	Yes
To revisers and inspectors	-	Yes	Yes	Yes
Incentivized Pay (G3)				
Are company executives formally incentivized to act on ESG	Yes/No/IP	Yes	Yes	Yes
Regarding Corporate Governance	-	Yes	Yes	Yes
Fair Labor Practices (G4)				



Employees in unions	%	99,8%	99,8%	
Employees not in unions	%	0,2%		
Supplier Code of Conduct (G5)				
Responsible behaviour of the company's suppliers	Yes/No/IP	Yes		
In regards to the environment	-	Yes		
In regards to fair labor Practices	-	Yes		
Ethics Code of Conduct (G6)				
Has the Ethics Code of Conduct been implemented	Yes/No/IP	Yes	Yes	Yes
Is the EC approved by the Board	-	Yes	Yes	Yes
Has the EC been introduced to employees	-	Yes	Yes	Yes
Tax Transparency (G8)				
Is there Tax Transparency	Yes/No/IP	Yes	Yes	Yes
Sustainability Report (G9)				
Has the ESG report been published	Yes/No/IP	Yes	Yes	Yes
Other Framework Disclosure (G10)				
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.				
External Validation Assurance (G11)				
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.				

NOTES

BREAKDOWN				
Scope 1				
GHG emission in Scope 1	tCO2e	75,8	78,0	77,8
Fuel consumption of cars in liter.	litr.	32.754	33.695	33.457
Of which gasoline	-	1.360	1.304	2.916
Of which diesel oil	-	31.394	32.391	30.541
Fuel consumption of cars in kg	kg	27.705	28.510	28.147
Of which gasoline	-	1.020	978	2.187
Of which diesel oil	-	26.685	27.532	25.960



Scope 2				
GHG emissions in Scope 2	tCO₂e	137	107	689
Of which GHG emissions from use of electricity	-	83	45	633
Use of electricity	kWh	2.712.519	4.021.015	4.050.812
Of which GHG emissions from use of district heating	tCO ₂ e	53	62	56
Use of hot water	m ³	104.033	121.619	108.266
Energy from district heating	kWh	6.033.914	7.053.902	6.279.428
Scope 3				
GHG emissions in Scope 3	tCO₂e	147	163	246
Of which GHG emissions from waste	-	22,6	24,2	28
Additional emissions from waste delivered to Sorpa	-	2	-	-
Of which GHG emissions from domestic business flights	tCO ₂ e	124,7	139,0	217,6
GHG emissions from international flights (Icelandair)	-	88	126	216
Number of business flights	no	472,0	484,0	947,0
GHG emissions from international flights (WOW air)	tCO ₂ e	27	13	2
Number of business flights	no	271,0	55,0	6,0
Of which GHG emissions from domestic business travels	tCO ₂ e	10		
Number of business trips	no	341,0		
Average flight length	km	350		
Carbon offset projects				
GHG offset total	t CO₂e	19,0		
Area for offset projects	ha	2,5		
Offset from tree planting	t CO ₂ /ha	7,6		
Number of trees planted	no	6.250		

The letters E, S and G refer to the environment, society and governance as set out in the ESG reporting guide for the Nasdaq Nordic exchanges. See the [Nasdaq website](#) for more information.

