



**United Nations Global Compact**  
Communication on Progress

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## United Nations Global Compact – Communication on Progress



CEO of Landsbankinn  
Steinthór Pálsson

### Statement of continued support for the Global Compact

Landsbankinn is the market leader in the Icelandic financial sector with a market share of approximately one third in both the retail and corporate sector. Headquartered in Reykjavík, the Bank is based on the domestic operations of old Landsbanki Íslands (hereafter LBI) and offers universal banking services in Iceland.

The Icelandic financial system collapsed in an unprecedented way in October 2008 with the corresponding destruction of financial assets. On 7 October 2008, the Icelandic FSA (FME) took over LBI and appointed a Resolution Committee. Subsequently, domestic deposits, as well as significant assets relating to Icelandic operations, were transferred from LBI to Landsbankinn hf.

LBI had previously joined the UN Global Compact in 2006 and a new Board of Directors of Landsbankinn hf. has since 2008 continued to renew its commitment to the UN Global Compact.


Landsbankinn wishes to promote sustainable development in society by integrating economic, social and environmental concerns in its operations. Early in 2011 the Bank appointed a CSR specialist to oversee the creation and implementation of a new CSR policy. In May 2011 the Bank published a **Corporate Social Responsibility policy** the main guidelines of which were based upon the UN Global Compact's principles on human rights, labour rights, the environment and anti-corruption. Implementation of the CSR policy shall be completed no later than year-end 2015.

Landsbankinn has, through open meetings throughout Iceland and a special action plan made public, shown a strong dedication to engage in an open dialogue with customers and stakeholders. In the first half of 2011, around 2000 individuals attended the open meetings and other meetings on personal and corporate finances hosted by the Bank.

Building on a new strategy that strongly emphasises social responsibility and outstanding service to customers, Lands-

bankinn has focused on solving the financial issues of household and corporate debt through loan restructuring. Many Icelanders faced financial difficulties after the economic meltdown in 2008 and powerful reaction was called for. The Bank is currently finalising the restructuring of household mortgage debt and other loans to individuals in order to align debt service with borrowers' payment capacity. These actions were made possible by the Bank's strong financial position.

In adhering to the principles of the Global Compact, it is Landsbankinn's goal to play a strong role in the re-vitalisation of the Icelandic economy. To that end, the Bank has undertaken financial restructuring of corporate debt, enabling companies to take part in the re-building of the economy. Landsbankinn believes that these actions not only benefit customers but further, that they help the Bank in building a sustainable financial environment for the future.

  
CEO

# About Landsbankinn

**Landsbankinn hf.** is a leading Icelandic financial institution with approximately one third market share in both the retail and corporate financial sectors.

The Bank offers a full range of financial services and is the market leader in the Icelandic financial service sector with the largest branch network. Focused on commercial banking, Landsbankinn provides retail and corporate banking services, capital markets services and asset and wealth management for private banking clients.

Shareholders of Landsbankinn hf. are the Icelandic State with 81.33% ownership and the holding company Landskil with 18.67%. Landskil is fully owned by Landsbanki Íslands hf. (LBI hf.).

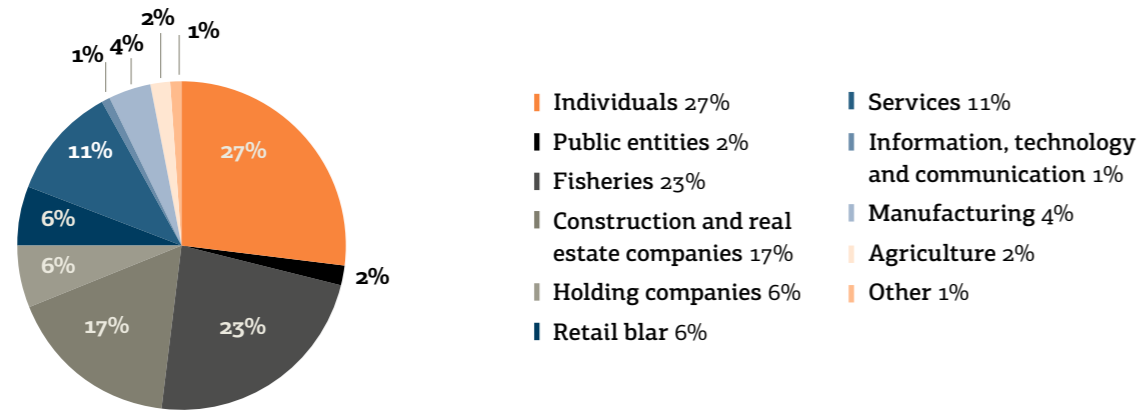
On 22 January 2010 the Bank's capitalisation was completed following agreement with the creditors of Landsbanki Íslands hf.

Customers and branches	2010
Retail customers	97,000
Corporate customers	7,300
Number of branches	34
Number of employees	1,146

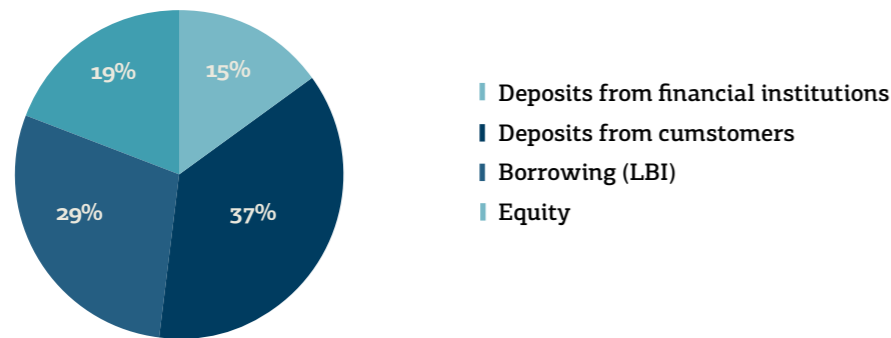
Balance sheet	31.12.2010	31.12.2009	Change in 2010
Total assets	1,081,133	1,061,101	20,032
Loans to customers	592,954	667,122	-74,168
Loans to financial institutions	91,882	83,129	8,753
Bonds	161,559	165,721	-4,162
Equities	29,429	23,411	6,018
Deposits from customers	371,558	452,655	81,097
Deposits from financial institutions	147,478	98,228	49,250
Borrowings	261,313	306,493	-45,180
Equity	184,866	157,592	27,274
Equity ratio	19.5%	15.0%	4.5%
Number of employees	1,146	1,161	-15

Income Statement	2010	2009	Change in 2010
Profit after taxes	27,231	14,332	12,899
ROE after taxes	17.3%	10.0%	7.3%
Cost-income ratio	36.4%	54.9%	-18.5%

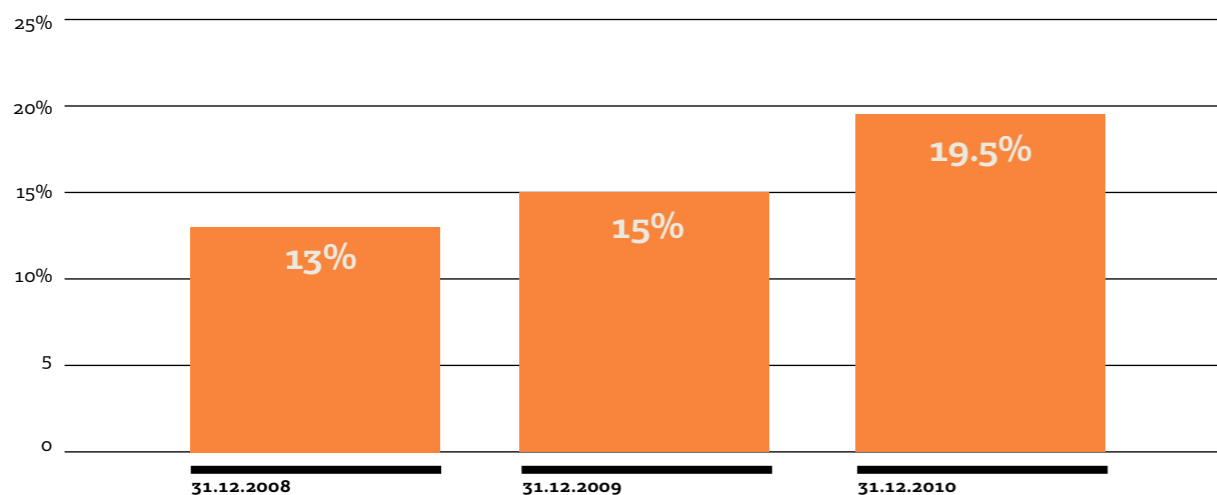
## Loans and advances by industry sectors



## Funding profile



## Equity ratio



# Human rights

**Landsbankinn** adheres to the Universal Declaration of Human Rights and to principles 1 and 2 of the UN Global Compact. It is Landsbankinn's aim to ensure non-discrimination in its dealings with all individuals, companies and other customers.

### Corporate Ombudsman and Customer Ombudsman

Landsbankinn has appointed both a Corporate Ombudsman and a Customer Ombudsman. The new positions are a part of Landsbankinn's effort to improve services to customers who feel they have not received fair treatment in their dealings with the Bank. Customers of Landsbankinn, who feel that their complaints have

not been satisfactorily resolved by the Bank, can refer their cases to the Corporate or Customer Ombudsman who are charged with reviewing all cases referred to them objectively.

### Ethical guidelines

Landsbankinn has made public a **Covenant of Ethical Conduct** which is available online.

### Women's Empowerment Principles

Landsbankinn has signed the Women's Empowerment Principles - Equality means Business of the UN Global Compact and UN Women. The bank's goal is to work with UN Women in Iceland in implementing the principles.

# Labour rights

Landsbankinn adheres to principles 3, 4, 5 and 6 of the UN Global Compact. The Constitution of the Republic of Iceland requires that everyone shall be equal before the law and enjoy human rights irrespective of sex, religion, opinion, national origin, race, colour, property, birth or other status.

Iceland is a member of the European Economic Area (EEA) which unites the EU Member States and the three EFTA States (Iceland, Liechtenstein and Norway) into

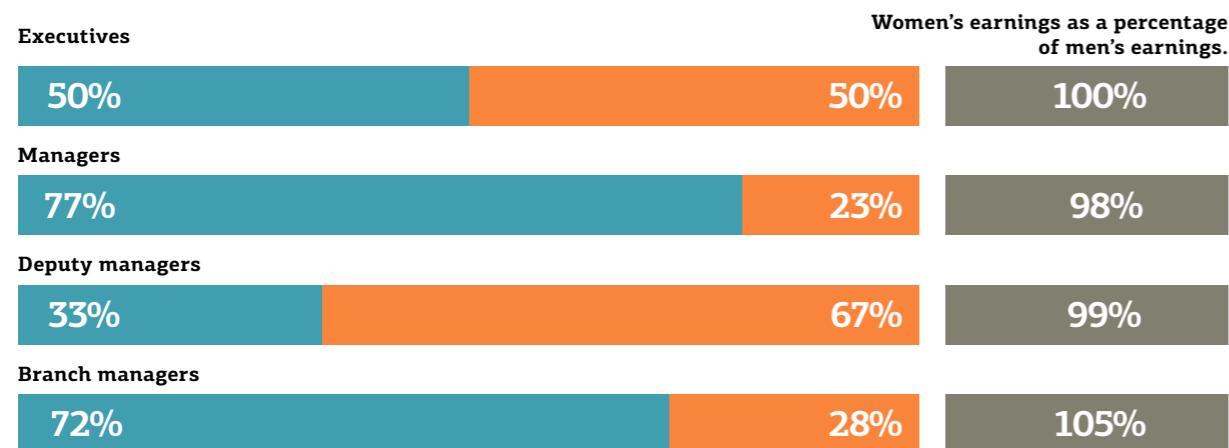
one Single Market governed by the same basic rules in the area of free movement of goods, capital, services and labour. Iceland is a member of various international organisations such as the International Labour Organization (ILO), the World Trade Organization (WTO) and the Organization for Economic Co-operation and Development (OECD).

**The Icelandic labour law** enacted by the parliament Althingi supports a system of

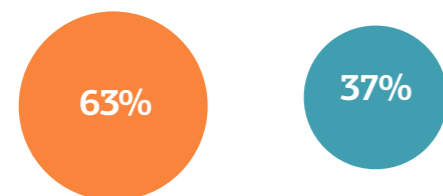
collective bargaining on wages and other terms of employment. This system has a long tradition in Iceland and provides the social partners with a legal framework which deals with certain aspects of collective bargaining, the right to strike and dispute resolution. In addition there are a number of employment laws in areas such as equal rights of men and women, pension schemes, parental leave and health and safety in the workplace.

## Gender division and gender based earnings in management positions

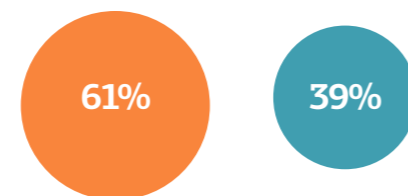
Female Male



## Gender ratio in newly-hired staff in 2010



## Gender ratio of employees



## Human Resource Policy and Gender Equality policy

Landsbankinn is committed to compliance with laws and to gender equality. The Bank's Gender Equality policy is integral to its human resource policy. The main goal is to recruit and retain excellent staff and support them in their work. The key criteria is that each employee is evaluated individually and that everyone receive equal opportunities regardless of gender, age, origin, sexual orientation, disability, religion or other cultural status. The Bank has an Equal Rights Committee, comprised of three members appointed by the employee association and three

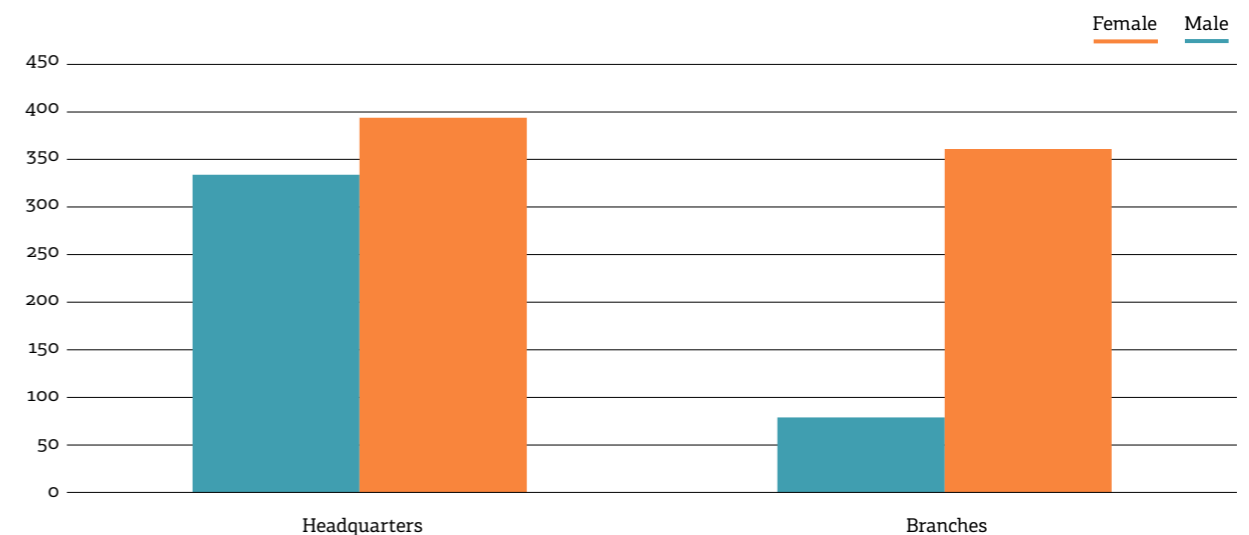
by the Bank's Head of Human Resources. To ensure compliance with the Gender Equality policy, the Equal Rights Committee shall make periodic assessments on factors relating to the policy. For example, a review of grants, attendance to education offered by the Bank, the gender composition of applicants etc. The Bank shall seek to adopt the same salary certification in co-operation with the external auditors of the Bank.

Landsbankinn has made a concerted effort to achieve gender equality among its leaders and ensure, in accordance with a decision by the Board of Directors in February 2010, that both genders have at least 40% representation in the management teams of the

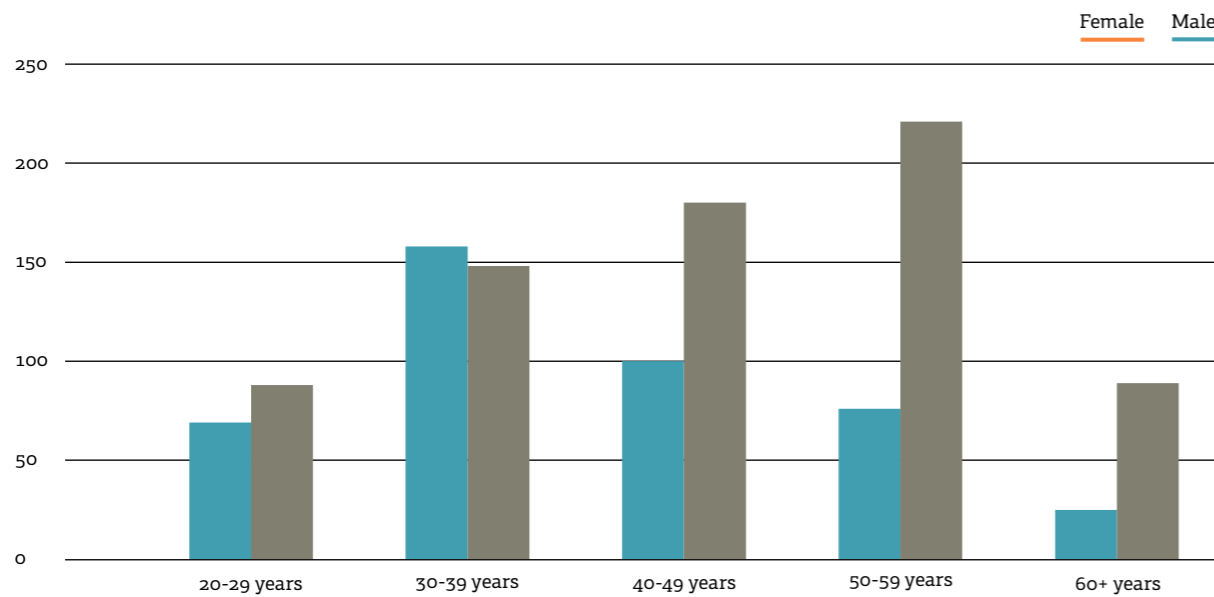
Bank and its subsidiaries by year-end 2013. In so doing the Bank has adopted the goals set forth in the partnership agreement of the Icelandic Association of Women Entrepreneurs, the Confederation of Icelandic Employers and the Icelandic Chamber of Commerce dated May 2009. Representatives of all political parties in the Althingi are also signatories to the agreement.

Landsbankinn has balanced the gender ratio among the executive team of Landsbankinn and the directors of its subsidiaries. The Bank's Board of Directors is composed of two women and three men.

## Gender division in headquarters and branches



## Age and Gender of Landsbankinn's employees



The subsidiaries of Landsbankinn are Avant hf., Horn Investment Company ehf., Hömlur ehf., Landsvaki hf., Reginn ehf., Rose Investment and SP Fjármögnun hf. Landsbankinn has had a clear policy that gender equality should be achieved on the boards of those companies. The Directors in these companies now number 27, 14 of which are female and 13 male. Despite this achievement, there is still some work to be done to attain gender balance within these companies.

### UN Women's Empowerment Principles

Landsbankinn has signed the Women's Empowerment Principles – Equality means Business (WEPs) of the UN Global Compact and UN Women. Furthermore the

Bank has signed an agreement with UN Women Iceland to work with the Bank towards implementation of the principles in its operations. In signing WEPs, Landsbankinn commits itself to further gender equality within the company and conduct its business in accordance with the principles of corporate social responsibility. WEPs is comprised of 7 principles that are intended to guide empowerment of female employees and boost participation by women in industry.

### Landsbankinn supports innovative women

Landsbankinn has signed a partnership agreement with Svanni - Women's Loan Guarantee Fund to the effect that the Bank issues

loans to women in business which are jointly guaranteed by the fund and the Bank. Landsbankinn guarantees half of loan amounts and the fund the other half, ensuring easier access to funding to female business operators and increasing the opportunity for women to establish companies. The partnership agreement is part of Landsbankinn's efforts to boost the economy and encourage innovation domestically.

### Covenant of Ethical Principles

All of Landsbankinn's employees have signed the [Covenant of Ethical Principles](#).

## Environment

**Landsbankinn** is committed to support principles 7, 8 and 9 of the UN Global Compact to reduce the environmental impact of its activities.

Landsbankinn will publish its Environmental Policy before the end of 2011. The Bank has taken several steps to reduce transport-related CO<sub>2</sub> emissions.

### Reducing carbon emissions

As a part of the Bank's policy for protecting the environment Landsbankinn encourages employees to utilise environmentally friendly modes of transportation. Landsbankinn's employees are offered the opportunity to sign a Transportation Agreement with the Bank. There is a financial initiative to sign, i.e. the repayment of bus fees. The purpose of the Transportation Agreement is to encourage employees to use eco-friendly modes of transportation to travel to and from work, as well as when travelling for work purposes. The project was launched alongside the "Bicycle to Work" campaign. All employees are encouraged to familiarise themselves with the Transportation Agreement.

Landsbankinn has offset its carbon emissions caused by international

air travel and domestic company car use since 2010. In monetary terms, the offset amounted to ISK 480,000 in 2010. The amount was paid to Kolvidur, the Iceland Carbon Fund. The Fund's goal is to reduce the level of carbon dioxide in the atmosphere by sequestering carbon in vegetation and soil. In carbon-offsetting travel on its behalf, the Bank takes direct responsibility for the emissions caused by its operations.

In 2010, international flights on behalf of Landsbankinn numbered 259 and the Bank's vehicles were driven 441,000 km. According to the Kolvidur's CO<sub>2</sub> calculator, the Bank's cars emitted 0.27 kg/km per vehicle last year and air travel generated 121 tonnes of carbon dioxide.

### Landsbankinn's policy on relations with suppliers and procurement

Landsbankinn adheres to a [policy on relations with suppliers and procurement](#) based on strong CSR guidelines. Landsbankinn conducts business with numerous

suppliers and service providers. The Bank co-operates positively with these parties and endeavours to ensure fairness, non-discrimination and moderation in all dealings to the benefit of the Bank and the community as a whole. Landsbankinn's transactions with suppliers and service providers are guided by environmental and CSR policies.

Furthermore, the Bank encourages these parties to increase environmental consciousness in their operations. Landsbankinn seeks to purchase goods and services from local providers whenever possible, having due regard for financial advantageousness and business concerns. Landsbankinn selects the most financial advantageous suppliers and goods.

## Anti-corruption

**The Banks** governance, transparency and anti-corruption strategy are important instruments for Landsbankinn to achieve its goal to rebuild trust and implement CSR policy in its operations. Landsbankinn adheres to the principle 10 of the UN Global Compact in fighting corruption and fraud, such as money laundering.

A **Covenant of Ethical Conduct** has been penned by and for Landsbankinn and its employees. All employees have signed the Covenant. The new Covenant of Ethical Conduct functions as the cornerstone of good business practice. It is one of the key elements of Landsbankinn's new strategy and a guideline for ethical behaviour in questionable circumstances. The Covenant will be reviewed regularly in accordance with Landsbankinn's strategy and future vision. The code of ethical conduct set forth in the Covenant is written from the point of view of general employees and describes their work practices and behaviour in order to reinforce the message that responsibility lies with every single individual.

**Landsbankinn has furthermore made its corporate governance procedures available to the public online.**

### **Landsbankinn's policy for the sale and treatment of appropriated assets**

Landsbankinn has published a **Policy for the sale and treatment of appropriated assets**. Implementation of the policy is part of Landsbankinn's efforts to integrate corporate social responsibility in the Bank's operations. In formulating the policy, Landsbankinn takes into consideration the International Organization for Standardization's guidelines for

social responsibility (ISO 26000), the principles of the UN's Global Compact and rules issued by the Icelandic Competition Authority.

Landsbankinn's main objective in setting the policy is to conform to good business practices and to continue to sell appropriated assets as promptly as possible via an open and transparent sale process. In working in accordance with a clearly defined sale process, Landsbankinn aims to safeguard the interest of its customers and other relevant stakeholders.

### **Measures to prevent money laundering**

Strict rules prescribe measures to prevent money laundering and terrorist financing, both in Iceland and abroad. Act No. 64/2006, on Measures to Prevent Money Laundering and Terrorist Financing, was adopted in 2006. The purpose of the Act is to prevent money laundering and terrorist financing by obliging parties who undertake activities that may be used to launder money and finance terrorism to know their customers and the business they conduct.

- » **Rules of Landsbankinn hf. on Due Diligence on Customers (KYC)**
- » **Rules of Landsbankinn hf. on Actions to Combat Money Laundering and Terrorist Financing**

## Support for the community

**Landsbankinn** has a long history of support for the community but the main focus now is on the revitalization of the economy. Support for innovation is a part of that process. The Banks presence in the local community is of great importance as is working with local entrepreneurs, local municipalities and local companies in order to support an enterprising culture and job creation all over Iceland.

### **Landsbankinn supports innovation**

Innovation is seen as important to the joint future of the Bank and the community. Landsbankinn contributes to innovation by offering a new service to start-up and innovation companies and with its innovation

grants. Landsbankinn's aim in awarding **innovation grants** is to afford pioneers the opportunity to develop business ideas and new products, as well as market old ideas to new regions.

### **Landsbankinn's Community Fund**

Direct financial support for the community is part of the Bank's policy on corporate social responsibility. Financial support in the form of grants from the **Community Fund** supplements the many humani-

tarian, cultural and sports ventures Landsbankinn is part of throughout Iceland. Among grants that are awarded each year are innovation grants, community grants and environmental grants.

### **Culture**

Landsbankinn has been an active participant of the festival "Culture Night" in Reykjavik since its inception and has both opened its doors to guests and been a sponsor of the festival. The Bank set up a fund with Reykjavik City that annually issues modest grants to artists and groups that organise events at the festival. Landsbankinn has also supported many other local festivals around the country through its branch network.



„Culture Night“ in the banks main branch.

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## New Colours for the Community

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New Colours for the Community is the title of a new approach to support sports teams. The goal is to connect the Bank's support for sports to support for humanitarian ventures. The philosophy of the policy is innovative: Landsbankinn waives the right to any markings or labels on the jerseys of the sports teams



Humanitarian labels on sports team jerseys.

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## Financial literacy

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Landsbankinn regards financial literacy a crucial part of personal prosperity. Regular courses and presentations on financial matters are held throughout Iceland for customers with the aim of enhancing financial literacy. The Bank maintains a financial blog where employees share their knowledge and advice on financial matters. The Bank has an online interactive simulation game for

teens intended as financial and social education for 15 to 16 year olds. With "Reality", students gain insight into the financial decisions that ordinary citizens need to take in their lives. In 2005 the game won the award of the Nordic Council of Ministers as the best material for consumer affairs.



Winners of „Reality“, the Banks online financial game.

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## Growth and Progress

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### 2012: Development

- Restoration of industry and resolution of household indebtedness well advanced
- Strong team that listens, learns and serves and enjoys the trust of customers
- Successful settlement with Old Landsbanki Íslands hf.

### 2013: Leadership

- Customers' first choice
- Premier bank in Iceland with an increasing market share
- Cost-efficiency and profitability restored
- Access to credit markets regained

### 2015: Benchmark

- Flagship of the Icelandic corporate sector
- Comparable with the most respected banks in the Nordic countries
- Robust corporate culture
- Constant streamlining of operations
- Broad shareholder base



