

UN Global Compact
Communication on Progress

October 2008



Landsbanki

Statement of continued support

We are proud to present Landsbanki's inaugural Communication on Progress This is a review of our commitment to find solutions which actively address our social responsibilities towards all our stakeholders. We view this report as an important first step towards making our sustainability efforts known, and as a highly useful tool for us to assess our own advance. Our efforts and progress to date have been significant and we are committed to reaching our goals.

Our first steps aim to mainstream corporate social responsibility (CSR) into our core business. This means expending time and resources to define where the Group's responsibility as a growing global bank lies and how we can best contribute to the responsible development of society. In recent years, Landsbanki has added new international branches, stretching out from its deep Icelandic roots to adapt to the globalisation of business and industry. This major transformation has altered its group of employees, its customers and the entire very varied collection of people who, directly or indirectly, have interests at stake in the bank's activities. As a result, Landsbanki's corporate social responsibility concerns a community which is different and larger than it has been in preceding decades.

We at Landsbanki realise that the corporate social responsibility of international companies requires them to respond effectively to social, ethical and ecological issues facing humanity as a whole. This agenda includes challenges such as global climate change, poverty, people trafficking, organised crime and human rights violations, to name only a few.

Landsbanki's commitment to CSR is embodied in its strategic objectives as well as its corporate culture and values. Together with providing shareholders with a good return on their investment and customers with excellent financial services, meeting the highest standards of corporate governance and citizenship is a key objective of our business strategy. The bank's CSR policy is therefore designed to ensure that the company's value creation also benefits the communities where it operates.

In 2008, we increased our efforts to raise employee awareness of our CSR policy and what it means to our employees in their daily work. By doing so we have created a firm platform to build on. The next steps will come in 2009, e.g. with employees setting benchmarks for specific tasks and thereby contributing to achieving our goals of 2010. Landsbanki's objective is to do what we do best – in a responsible way. Because we firmly believe that taking responsibility for the social and environmental effects of our business and translating these principles into business practice is an investment in the future. This initial report on CSR sets out our vision and ambitions for the years ahead.


Halldór J. Kristjánsson


Sigurjón P. Arnason

Local Pioneer – Global Participant

Ever since Landsbanki became the first Icelandic company to join the UN Global Compact in 2006, the organisation has been highly committed to supporting the compact's principles by making them an intrinsic part of its Corporate Social Responsibility (CSR) policies.

Landsbanki has worked proactively, for example, by taking the initiative in organising and encouraging Icelandic companies to co-operate in the Nordic Global Compact Network. Furthermore, Landsbanki now chairs the Icelandic Centre for Corporate Social Responsibility (Ethikos), which aims at enhancing the ability of Icelandic companies to respect social concerns, the environment and human rights in their daily operations. The Ethikos initiative, which originated at Reykjavik University, is a co-operative effort between the university and a number of Iceland's largest companies.

Emphasis on the Environment

Due to the nature of Landsbanki's operations as a financial organisation, and the location of the markets in which we operate, human rights, labour standards and anti-corruption are not regarded as major concerns. Therefore, the bank has decided to concentrate on environmental matters with the goal of achieving an acknowledged best practice standard in that area. Our starting point here is the major long-term commitment made, for example, when Landsbanki became one of the initial signatories to the UNEP Statement by Financial Institutions on the Environment and Sustainable Development.

Other initiatives undertaken by Landsbanki worth mentioning in the context of the GC principles on environment are: the OECD Guidelines for Multinational Companies, the Caring for Climate collaboration and the Carbon Disclosure Project.

Practical actions

Doing More by Doing Better!

During its 120 years of existence Landsbanki has always taken its role as a good member of society very seriously. From its very inception as a public institution, intended to promote the country's lagging development, the company's history reflects a strong CSR commitment. Recent academic research on CSR has encouraged us to take a broader view of its implications, and our current aim is to embed such considerations in all our operations. Achieving this requires defining and making known clear goals and step-by-step benchmarks, which we will strive to achieve and report on.

Staying Local while Growing Global

In recent years, Landsbanki has grown very extensively internationally, stretching out from its traditional Icelandic roots and adapting to the globalisation of business and industry. This major transformation has altered its employee group, customers and the entire very varied collection of people who, directly or indirectly, have interests at stake in the bank's activities. As a result, Landsbanki's corporate social responsibility extends to a community which is different and larger than it has been in preceding decades. Nevertheless, the bank aims to maintain the atmosphere of proximity and flexibility which characterises its operations in Iceland and has led to high job satisfaction among staff.

Landsbanki's Board of Directors realises that the corporate social responsibility of international companies requires them to respond effectively to social, ethical and ecological issues facing humanity as a whole. These include challenges such as global climate change, poverty, people trafficking, organised crime and human rights violations, to name only a few.

Within Landsbanki, a Corporate Social Responsibility Committee operates under the leadership of senior management. Furthermore, a working group consisting of representatives from various departments of the bank has been set up to oversee practical implementation of CSR targets and strategies.

Another significant move is the appointment of dedicated staff-members to concentrate solely on CSR-related matters. As a matter of principle, these employees are located in the Corporate Banking division, where a majority of the organisation's most significant decisions are made.

The following section outlines the practical actions Landsbanki has taken towards implementing the 10 principles of the UN Global Compact, in 2006-2008 especially.

Success through Stakeholder Dialogue

Landsbanki recognises that successful CSR policy will only be achieved through a dialogue with as wide a variety of stakeholders as possible. We have identified three main stakeholder groups: shareholders, staff and customers. Furthermore, we have defined a wider circle of stakeholders, whose interests we also consider, including the environment itself, the general public, business partners, creditors, investors, public authorities, cultural and educational institutions, NGOs, the financial industry, auditors and suppliers.

Landsbanki uses different approaches to create and maintain a dialogue with different stakeholders. One example of this is the company's AGM, where stockholders themselves vote on the annual amount donated to the so-called Landsbanki Cultural Fund. In 2007 the AGM agreed to allocate ISK 100 million to the Fund. As Landsbanki's main objective must always be to maximise profits, it is important to note that the decision to donate such a substantial amount to support worthwhile pursuits was made directly by the rightful owners, Landsbanki's shareholders themselves. To ensure transparency, Landsbanki publishes transcripts from all AGMs on its external website, enabling other stakeholders to access that information.

Another example of stakeholder participation and dialogue is the relatively extensive employee surveys which Landsbanki has conducted for the past 8 years to gauge and react to staff opinions and wishes regarding the workplace.

As Landsbanki is increasingly a multinational corporation, in 2006 it launched a special in-house magazine called Moment, which is published around five times each year. Its purpose is to inform both staff and other stakeholders around the world of the many and varied aspects of Landsbanki's operations. This method of stakeholder dialogue has proven very successful, especially among non-Icelandic staff members of the Landsbanki family.

Other examples of active dialogue are internal campaigns, very extensive community support, 20 external websites in several different languages, and a number of partnerships and initiatives that will be further explored later in this report. Our future plans include expanding the variety of platforms for stakeholder dialogue.

How we honour the 10 GC Principles

This section describes Landsbanki's efforts to honour its commitment according to the ten principles of the Global Compact

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights

Landsbanki and its subsidiaries have offices operating in all major financial centres of Europe, as well as North American representation in New York, Halifax and Winnipeg, and an office in Hong Kong. In all our operations we support and respect internationally proclaimed human rights. Discrimination on the basis of gender, ethnic background, religion, sexuality or any other ground is simply not part of our modus operandi. To follow up on its non-discriminatory focus, Landsbanki ensures that each employee is respected for his or her own abilities. The bank makes every effort to create a working environment characterised by flexibility, endeavouring to help employees find a balance between work and private life. Mobbing, prejudice and sexual harassment cannot be tolerated.

Community Support

Landsbanki has always been very conscious of its responsibility as a member of the wider society. This is strongly reflected in the organisation's track record on community support in its home market, Iceland. The following are some examples of initiatives directly or indirectly concerned with human rights or philanthropy.

Philanthropy

One of Landsbanki's priorities in its CSR strategy is to share our main asset, financial knowledge, with different stakeholders. This obviously applies to our customers, to whom we provide the best financial advice possible, for example, by hosting so-called "financial evenings". We extend this reach by educating groups of society with special need for such information, e.g. immigrants/migrant workers and teenagers.

Working With the Intercultural Center

Landsbanki and the Intercultural Center of Iceland have co-operated extensively for the past few years. This partnership includes substantial financial support from Landsbanki, amounting to ISK 10 million in 2007, making the bank the Center's largest private funder and securing its ongoing operation. By sponsoring courses offered by the Intercultural Center, Landsbanki provides all its foreign customers in Iceland with education without charge in the Icelandic language and financial matters. Importantly, the relationship is not a one-way exchange, since the Intercultural Center trains Landsbanki employees on how to provide services in multi-cultural environment. These specially tailored training courses are to be provided at all Landsbanki's branches in Iceland.

Another aspect of Landsbanki's co-operation with the Intercultural Center, and the Football Association of Iceland, focuses on immigrant children. Material in different languages for parents of foreign origin is aimed at increasing interest among young children in soccer, renowned for being a game without borders. Their parents are also encouraged to become involved in the soccer clubs' parental activities.

Lastly, Landsbanki sponsors annual Intercultural Awards, presented to people or parties for outstanding performance in the area of immigration support in Iceland. The bank is committed to providing at least three years of financial support for these awards.

Give Online

Another pro-active and groundbreaking philanthropic project connected to human rights is Landsbanki's internet-based initiative encouraging customers to donate to charity through their personal banking system. In April 2007 Landsbanki's Cultural Fund made donations to 75 charitable causes, each of which received ISK 1 million. All the recipients were among the wide range of good causes that can be supported through Landsbanki's online donation facility – Give Online. Landsbanki's Chairman of the Board, Björgólfur Guðmundsson, who also chairs the fund's board, said the objective of the donations was to raise awareness of how easy it is to give to a worthy cause.

"Landsbanki wants to set a good example, so we decided to make a donation to each of the Give Online causes. We didn't want to single any of them out or exclude any. But customers can set up a regular donation to any particular cause close to their hearts. Give Online is a unique project; I'm not aware of any comparable service in the international banking world," says Guðmundsson.

Thórmundur Jónatansson, Head of Community Relations and Events at Landsbanki describes the project as a unique one, "because it's a one-stop facility for 75 charitable causes. Every penny goes to the charity at no cost to the donor. Furthermore, donation subscriptions can be cancelled easily at the click of a button. The idea and initiative for the service came from Landsbanki, and has since been developed in close collaboration with the charities," says Jónatansson.

The two projects above are only two examples selected from dozens of philanthropic initiatives because they are pro-active and use the bank's strengths in innovative ways. Community support is a key value in Landsbanki's market strategy and many other projects deserve mention in a report such as this. The following are only a few brief examples:

- Financial support to the Makeba Centre for Girls in Midrand, South-Africa. The Makeba Centre is a non-profit organisation which provides hope for a positive future for girls from poor and abusive backgrounds.
- In collaboration with the Red Cross, soccer equipment was provided for Gambian children.
- Three-year support for the UNIFEM project "Butterfly Effect", which is dedicated to preventing violence against women, focusing especially on Africa.
- Support for the buying and training of guide dogs in association with the Icelandic Lions Club.
- Landsbanki and the bank's employee association united in collecting for special breast cancer detection equipment.
- The "Return to your Roots" project aims to reinforce the connection between Icelandic emigrants in the US and Canada and Icelanders. The project involves sponsoring visits to Iceland by 150 young descendants of Iceland immigrants.

Cultural Support

- Reykjavik Cultural Night is the largest event of its kind in Iceland. Landsbanki has been the main sponsor of this event since it began 13 years ago. This includes sponsoring the main outdoor concerts, which are open to all and attract huge audiences.
- To encourage grass root creativity, Landsbanki has, in association with the City of Reykjavik, established a Center for Music Development, which provides an inexpensive venue for young musicians to create, play and record their music.
- Sponsoring guest appearances by the San Francisco Ballet at the Reykjavik Art Festival
- Support for the Icelandic Music Awards.
- Support for the Reykjavik International Film Festival.
- Sponsoring the Icelandic pavilion at the Venice Biennale, and several other art exhibitions.
- Landsbanki is one of the main owners of Portus Group which is currently building the Icelandic National Concert and Conference Centre, a 28,000 square metre building on the Reykjavik harbour front.

Sports/Youth affairs

- For two successive summers Landsbanki has been the main sponsor of Icelandic champions league soccer, the Landsbanki League. The Landsbanki League has never been stronger, with both more professional games played and new attendance records set.
- A popular initiative was also established by Landsbanki in connection with the summer soccer season where the bank pays ISK 30,000 for each goal scored, and the scoring team can choose to which charity the money goes.
- Landsbanki has also hosted several other sports tournaments for children, as well as participating in establishing the Reykjavik Chess Academy, to develop the game of chess in compulsory schools in the capital.

Education and Research

- "This Game is Real" is an online life-simulation game developed by Landsbanki to educate teenagers on life choices and financial matters. Last year around 1,600 students participated in the game through their schools. According to the European Banking Federation's CSR report, projects such as this are considered best practice in "financial inclusion"¹.
- Landsbanki was a founding member of the Icelandic Centre for Corporate Social Responsibility (Ethikos), a leading Icelandic initiative focusing on the relationship between business and society. It actively works with businesses, the government and other actors to promote CSR in Iceland. Landsbanki's representative currently chairs the Board of Directors at Ethikos.
- Landsbanki is the main sponsor of an extensive project on Human Resource development overseen by Reykjavik University. The aim of the project is to look at future possibilities for shaping a society and work environment where people can lead healthy and enjoyable lives, as well as being competitive at work.
- Another aspect of Landsbanki's work in the educational field is its scholarships to outstanding students and projects at the University of Iceland, Reykjavik University and Akureyri University. Scholarships are also awarded to outstanding students at upper secondary level.

Performance

Landsbanki's excellent performance in community support is mirrored in public opinion. According to a survey conducted by Capacent Gallup in March 2008, a large majority (67% of respondents) thought Landsbanki was the strongest supporter of culture and arts of all Icelandic financial institutions. Around 52% said Landsbanki was the leading supporter of sports, and around 47% thought it was the leading supporter of charitable causes. By comparison, other Icelandic banks scored from 10% to 24%.

¹ European Banking Federation. (2008) European Banking Sector Best Practices. *Corporate Social Responsibility*. Page 8. Available at: <http://www.ebf-fbe.eu/Content/Default.asp?PageID=250>

Principle 2: Businesses should make sure that they are not complicit in human rights abuses

As previously stated, Landsbanki is dedicated to complying with all human rights regulations and promoting such rights to the fullest extent possible. One way in which the organisation can prevent complicity in human rights abuses is through its lending policy. Landsbanki focuses primarily on lending to customers in Iceland, Nordic countries and the UK, in the fisheries, retail trade and services sectors. Managing credit is a fundamental component in the sound management of Landsbanki Group. Sound credit management involves prudently managing the risk and reward relationship and controlling and minimising risks across a variety of dimensions, such as credit quality, concentration, industry segment and type of credit facility. All credit activities of the Landsbanki Group must comply with both the ethical standards and lending rules set by the Board of Directors and the bank's environmental policy.

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Landsbanki supports freedom of association and negotiation in all its operations. The bank's main operations are still in Iceland, where the labour market is well organised. Freedom of association and the right to collective bargaining is protected in Iceland by a very strong labour code and by well rooted and universally acknowledged respect for such rights. Collective bargaining between the social partners on wages and other terms of employment has a long tradition in all sectors of the labour market, including the banking system and enjoys strong support from both social partners, i.e. trade unions and employers' organisations, and the government. Landsbanki has always participated in these labour market solutions as a solid partner and complies fully with current legislation and regulations. Trade and professional unions are open to all those working in the field concerned. Applicants may not be denied membership based on gender, national origin or other similar grounds. The general level of unionisation is very high in Iceland compared to most countries, at around 88%. We can assume that over 90% of Landsbanki's employees in Iceland are union members and, of course, nobody is prohibited by the bank from such participation.

The Landsbanki Employees' Union is part of the Confederation of Icelandic Bank and Finance Employees. The head of Landsbanki Employees' Union furthermore is an alternate member of the bank's Board of Directors and has very strong position towards the organisation's top management. One of the bank's joint CEOs is a member of the executive board of the Confederation of Icelandic Employers.

Consultations between Landsbanki and the unions also deal with other key matters of significance for Landsbanki employees.

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour;

Landsbanki strongly supports the elimination of all forms of forced and compulsory labour. Landsbanki respects the laws, regulations and norms of the countries where we operate. Although such practices are hardly common in the markets where Landsbanki operates, to take this important matter one step further, Landsbanki is currently looking at integrating more rigorous screening processes into its credit policy in order to minimise the possibility of complicity in any form of forced labour or other human rights violations.

Principle 5: Businesses should uphold the effective abolition of child labour

Landsbanki supports the abolition of child labour in all its forms. Because of the nature of our operations our contribution to the fight against child labour is through our lending policy, where we attempt to fully assess projects and borrowers with ethical considerations such as this in mind.

Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation

Human Resource Strategy

Landsbanki recognises and accepts its legal obligations to promote equality in employment policy and practice wherever it operates. We pursue a policy of employee non-discrimination and make all decisions concerning staff members purely on the basis of merit, whether this concerns career development, assignments, training or remuneration. As stated, mobbing, prejudice and sexual harassment will not be tolerated.

We have successfully embedded diversity principles in recruitment processes; for example, we train recruiters in diversity and outreach advertising to ensure that our advertisements reach the broadest range of potential candidates. We have created learning tools for managers and senior executives to facilitate their understanding of the impact of modern legislation.

In order to attract, support and retain the best professionals in each field, Landsbanki is committed to ensuring high job satisfaction, an excellent working environment and effective staff development. A central facet of this policy is to provide an enjoyable and interesting workplace where facilities, equipment and overall work surroundings are second to none. Payments from the Childbirth Leave Fund are made to parents who have been employed in the Icelandic labour market continuously for at least six months. Monthly payments amount to 80% of the applicant's average total income over the two years preceding childbirth or the year in which a child is adopted or enters permanent foster care. Landsbanki pays its employees the difference between their current gross income and payments from the Childbirth Leave Fund. Permanent employees also receive a one-off lump sum payment upon the birth of a child.

Providing a secure and healthy working environment for employees is a priority for Landsbanki. This includes preparing employees for retirement. To this end, Landsbanki has offered special courses for its senior employees, encouraging them to make this a positive transition and an opportunity to take a closer look at their own needs and ambitions.

To make sure that strategy is translated into action, the bank applies a variety of assessments of its human resources policy. These include retirement surveys, assessments of staff turnover, customer surveys, regular workplace audits and employee interviews. All of these efforts are directed at obtaining information on how well the human resources strategy is implemented in practice and how effective it is. Landsbanki's annual employee survey was conducted by Capacent Gallup in March 2008, for the ninth consecutive time since 2000. The overall results confirm Landsbanki's strong position, whether compared to previous surveys, Capacent Gallup's database, or the database of companies surveyed by Gallup in Europe – where Landsbanki ranks among the top 10%. The survey was conducted among the bank's employees in different countries and branches, and the response rate was 87%.

These results show considerable improvement in the internal environment of Landsbanki since the first poll in 2000 (for the first few years surveys were only conducted in Iceland). The result trend of the surveys shows that ten of the largest changes from one year to the next were positive. Among these changes were improvements in giving feedback and encouragement to employees, job security, opportunities to learn and grow, fairness in wages and employee flexibility. Employee loyalty scores have also increased correspondingly – an excellent performance considering the growth in financial services and high demand for the best talent.

Customer protection

Landsbanki never discriminates between customers based on gender, religion, opinion, nationality, race, colour, family or other similar client orientation. According to Landsbanki's code of ethics, employees must show fairness and justice in all relations with the bank's competitors and avoid participating in social activities which could conceivably appear suspect in the eyes of the bank's customers. Employees must be helpful and courteous in all dealings with clients. Employees may not divulge to outsiders any information concerning the bank itself, transactions of individual customers, institutions or corporations with it, their liabilities or assets. The obligation of confidentiality remains even after employment ceases.

In the Icelandic Performance Satisfaction Index survey 2007, which measures corporate customer satisfaction, Landsbanki was rated best-in-class among Icelandic banks by corporate clients. The Performance Satisfaction Index is a co-operative European venture to measure customer satisfaction with leading companies in several sectors. From 2004 to 2007 Landsbanki has furthermore been chosen the second most popular company in Iceland in a survey by the local business magazine Frjáls verslun. Landsbanki was also chosen Iceland's best bank by Global Finance magazine in the publication's annual Best Development Market Bank Awards for 2008. The bank received the 2008 IR Magazine Award for the Best Investor Relations from a large-cap company in Iceland as well as the Best Investor Relations Support by a CEO/CFO. The IR Magazine Awards, recognised as the definitive measure of outstanding investor relations, include over a dozen countries and regions.

Principle 7: Businesses should support a precautionary approach to environmental challenges

Our approach to environmental issues includes our own operational environmental strategy as well as our research and investment strategy. Being a financial corporation, Landsbanki's direct environmental impact is relatively low and by default a precautionary approach applies to most our operations. Our operations are mainly located in Iceland, where 72% of total primary energy consumed is from renewable sources (as compared to the global average of 13%).

Landsbanki currently owns about 30 hectares of forested land in Iceland. Our plan to become carbon neutral will mean increasing this area. The bank is furthermore currently discussing the possibility of co-operating with the Organisation of Forest Owners in Iceland in a joint venture to increase planting of new forests and later to prepare a trading scheme with the forest owners, to achieve further carbon adjustment for Landsbanki. New headquarters are currently being designed for Landsbank in Iceland. Environmental considerations are a key aspect of the design process. As planning is still in the early stages, however, it is too soon to report on the details.

"The Green Bin" is a recycling service managed by the waste disposal company Íslenska Gámafélagið. The service features a green rubbish bin, which the company will provide and deliver to their customer's residence. Waste that can be recycled, such as paper and plastic, is disposed of in this bin, which is then emptied once a month.

Landsbanki has offered employees a reasonable discount in collaboration with the company to motivate staff to not only recycle in the workplace but at home as well.

Landsbanki's aims to increase recycling of bottles and cans from beverages purchased and consumed by our staff and customers. For the past year all fees collected from recycling of cans and bottles have gone entirely to charities, mostly to the Children's Hospital Hringurinn.

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility

Landsbanki is highly committed to environmental issues, as is evident from the variety of international initiatives in which we participate. These include: Caring for Climate, the UN Environment Programme Finance Initiative and the OECD Guidelines for Multinational Enterprises. Furthermore, Landsbanki became the first Icelandic company to participate in the Carbon Disclosure Project in 2008 by reporting its carbon emissions for 2006-2007.

Recently Landsbanki has been drafting a new environmental policy, defining both annual and three-year strategic targets for its internal environmental performance. These include substantial efforts to tackle further issues such as recycling, energy consumption, employee participation and carbon neutral operations.

Research & Investment

Landsbanki's Research departments cover over 900 European companies, including many exciting companies in the European renewables sector. In May 2008, Landsbanki published two reports focusing on investment and the environment. One detailed the results of a survey on "M&A in Renewable Energy", published in association with Mergermarket. This report predicts that demand for finance, for growth and consolidation, in the renewable energy sector will increase significantly in the coming years. The second report is on the "Nordic Green Sector". It points out that an investment boom will be fuelled by factors such as broader recognition of global warming, more stringent anti-pollution and emissions legislation, an influx of venture capital and growing interest in alternative energies among corporations and politicians.

Landsbanki strongly believes in the potential of the global renewables sector and is currently conducting extensive research on development in this field. Since Landsbanki aims at being the bank of choice for small- and mid-cap European enterprises, its range of credit products, advice and transaction services is well suited to the requirements of renewables enterprises, many of which are small and rapidly growing.

One example of measures taken towards seizing those opportunities mentioned above is the founding of the company HydroKraft Invest, which Landsbanki established jointly with Iceland's national power company, Landsvirkjun, in 2007. The purpose of the new company is to invest in energy projects outside of Iceland, mainly hydropower projects, but also projects in other fields of renewable energy. The company builds on the strong background and broad expertise of both Iceland and Icelandic companies in power production. Sigurjon Th. Arnason, Landsbanki's joint CEO, sees major opportunities for HydroKraft Invest spurred by increasing demand for renewables in coming years. The company combines Landsbanki's financial expertise with the project know-how of Landsvirkjun in constructing and running power plants and energy systems.

Other recent additions to Landsbanki's credentials in the RE sector include Solarvalue AG, producer of solar grade silicon; AzurSpace, producer of solar cells for space applications; Libra Natural Resources, which operates waste to energy projects; and SWS Group, which is active in wind power, waste, bio-energy and forestry.

As yet another sign of the bank's environmental focus, Landsbanki Kepler hosted the Alternative Energies Conference in Paris for the first time in February 2007, and which has now become an annual event. The first conference offered a unique opportunity for over 200 investors, both institutional and corporate, to listen to and meet with 22 companies operating in renewable and carbon-free energy production.

In his opening address to the conference, Landsbanki's joint CEO, Halldor J. Kristjansson, explained the bank's vision of renewable energy sources: "Currently there is growing worldwide awareness of global climate change and of the fact that one of the key factors in mitigating negative impacts of carbon emissions will be the use of clean and renewable energy sources." Kristjansson also mentioned a decision by Landsbanki's Board of Directors to further increase its focus on this area. "Expertise in this important sector has increased markedly at Landsbanki headquarters in London and throughout the Group's operations in Europe. This complete multi-alternative energy conference is actually the largest so far of its kind, and illustrates Landsbanki's pro-active focus on and commitment to a fast growing area, where the bank's historical expertise will help contribute towards a cleaner and better world environment," he said.

Towards the end of 2007, at the Energy and the Environment conference hosted this time by Merrion Landsbanki in Dublin, the keynote speaker was none other than former US presidential candidate and Nobel Peace Prize winner Al Gore. Over 400 people listened to Gore's address entitled, "Thinking Green: Economic Strategy for the 21st Century". Welcoming the illustrious lead speaker, John Conroy, Merrion's CEO, said that Dublin was honoured by visit of Mr Gore, "the most influential person on the most important issue facing mankind today - Climate Change".

Socially Responsible Investments

Merrion Landsbanki, a subsidiary of Landsbanki Islands, recently completed the purchase of Oppenheim Investment Managers (OIM). OIM operates an Ethical Fund designed to provide balanced, long-term growth by actively investing in a portfolio of equities, bonds and cash. Individual stocks will be chosen with reference to socially responsible, ethical and environmental criteria as determined by the manager.

The criteria used to determine which stocks to invest fall into two categories. Firstly, the fund will have a bias towards stocks which make a positive contribution to society. Secondly, it will aim to avoid stocks which are known to have negative social or environmental effects.

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies

To decrease its own greenhouse emissions, Landsbanki has invested considerably in technological solutions enabling travel-free meetings. Landsbanki furthermore emphasises electronic banking for both its traditional customers and in opening new markets. Its new international product, Icesave, is an online savings account, selected by the financial website Moneyfacts as the "Best No-notice Internet Account Provider" in the UK in 2008. Moneyfacts is among the leading UK financial websites offering consumers independent financial advice.

Environmentally friendly technologies are constantly being developed by Landsbanki's internal tech team, for example, by providing staff with electronic news bulletins and developing other methods to cut down the usage of paper. The bank has recently invested in hybrid company cars using both gasoline and electricity, and therefore polluting less than conventional cars. Landsbanki's London branch employees are supplied with Oyster cards to encourage use of public transport rather than private cars or taxis. Landsbanki annually recycles an average of around 67 tons of paper from its Icelandic operations, a goodly share of the total used by the organisation.

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Landsbanki recognises that the private sector shares responsibility for eliminating corruption by developing policies and concrete programmes. In order to prevent corruption in any form, the compliance section at Landsbanki has drafted regulations and implemented working procedures, e.g. to combat money laundering and insider trading and protect investors.

Role of the Compliance Officer

Most actions against corruption at Landsbanki are initiated and/or supervised by the organisation's Compliance Officer. Appointed by the CEOs, the Compliance Officer is independently responsible for ensuring the bank abides by current legislation and external and internal regulations. The Compliance Officer arranges for the rules of Landsbanki to be made known to insiders and ensures that Landsbanki's employees and others covered by the rules are generally well aware of them.

Money laundering

Corrupt practices accompany and facilitate drug dealing and organised crime. Money laundering and illicit international money transfers, in turn, can be used as support mechanisms for international terrorism. Landsbanki has implemented systems for the identification of its customers (KYC), including customer information in the case of recorded transactions, account opening etc. The bank has policies and practices for the identification and reporting of transactions that are required to be reported to the authorities and screens transactions that are deemed to be of significantly high risk (may include persons, political exposed persons, entities or countries that are contained on lists issued by government/international bodies).

Strict rules apply in Iceland and other countries where Landsbanki conducts business and the bank considers it important to follow these standards and steadily aim to improve its anti-money laundering (AML) procedures.

Landsbanki endeavours to prevent the bank can be used to launder illegally obtained money or finance terrorism. The rules the bank has set are published in Landsbanki's Compliance Handbook to which all bank employees have access. Every employee is encouraged to be on the look out for any suspicious activities or business being conducted. The rules apply to Landsbanki Íslands hf., its branches and subsidiaries.

The bank follows a strict policy prohibiting accounts/relationships with shell banks and covering relationships with politically exposed persons. An enhanced customer due diligence policy and procedure is applied in connection with higher risk clients e.g. politically exposed persons.

Landsbanki monitors the account activity of its customers to detect unusual or suspicious activity and mines customer databases for names of known terrorists. Every frontline employee receives special training on KYC and AML policies and procedures and are offered recurrent training.

Landsbanki complies with the FATF recommendations and the 3rd EU AML directive.

Insider trading

Very stringent rules apply within Landsbanki regarding employees' securities transactions. The purpose is to prevent conflicts of interests in the bank's activities. Special rules apply concerning the treatment of inside information regarding the bank itself and trading by insiders in financial instruments issued by Landsbanki. These rules prohibit parties who have access to inside information from acquiring or disposing of financial instruments if they possess inside information. They also prohibit these parties from disclosing inside information to a third party or advice third parties on the basis of inside information.

If an employee considers himself to possess inside information he/she has an obligation, according to the rules of Landsbanki to notify this to the Compliance Officer. If an employee suspects that a violation of provisions on insider dealing and market abuse has been committed, the employee must immediately notify the Compliance Officer. The bank will then notify such suspicions immediately to the financial supervisory authority.

Investor protection

Investor protection is given high priority by Landsbanki and the bank is continuously seeking ways to improve the security and its service for the clients.

A new Act on Securities Transactions which took effect on 1 November 2007 transposed into Icelandic law the European Union's Markets in Financial Instruments Directive (MiFID) and the Transparency Directive. This legislation introduces major steps towards increased consumer protection with emphasis on increased surveillance, professional execution and information disclosure.

Client classification

Landsbanki's increased obligations to know its clients are one aspect of increased consumer protection. An assessment must be made of the knowledge, financial strength and experience of clients before they are provided with services related to securities transactions. If Landsbanki does not obtain the prescribed information, it may not provide clients with advice on securities transactions. Landsbanki, according to the MiFID Directive classifies its clients into one of three categories with respect to different products or services available to them.

Other issues related to the prevention of corruption

- Gifts from clients / incentives:

Landsbanki's policy on gifts and related matters is intended to prevent any doubt arising as to the impartiality and credibility of employees in handling and conducting cases.

Employees may not accept valuable gifts, incentives or offers of travel from clients or potential clients without the approval of a superior. If approved, first consideration must be given to client's interests.

- Participation of employees in management of companies and commercial enterprises, in commercial operations, etc.

In order to reduce the possibility of conflicts of interest in Landsbanki's operations and to insure the independence of its employees, an employee wishing to participate in management of a company or in a business operation must submit a request to this effect to the Compliance Officer. The Compliance Officer assesses whether such could be contrary to the interests of the bank or its clients.

The bank's Compliance Officer keeps a record of employees authorised to take part in management or in business operations.

