

UN Global Compact
Communication on Progress

October 2010

Statement of continued support

There is no need to elaborate on the difficulties faced by the Icelandic banking and financial system during the past two years, ever since the country's three largest banks were nationalised following their bankruptcy in October 2008.

These events and their causes were a great blow to the entire nation. The creditability of Icelanders suffered outwardly, certainly, but the domestic upheaval, followed by a lingering numbness in the business sector and disputes centred on events past, present and future have had an even greater impact.

Landsbankinn has openly stated its intention to be an important actor in the restoration of Icelandic society and economy, a restoration that is not only aimed at the economy but also at a social and ethical renaissance. All of these issues will thus factor in the bank's operations.

What have we been doing?

Since the failure of the old banks, Landsbankinn has in effect been completely reorganised. While numerous changes were introduced immediately following the crisis, the most significant changes are new and still in the implementation phase. The bank is in the process of developing policies that emphasise new values and new ideas with a strong emphasis on corporate social responsibility.

A new Board of Directors took over the helm in February of this year and hired a new CEO around mid-2010. The positions of all managing directors with the bank were advertised for application in August. According to the bank's new structure, special emphasis will be placed on the financial debt restructuring of households and corporations. Internal risk management will be greatly increased and a new division created to focus solely on resolving difficult debt issues in the corporate sector.

Landsbankinn has also established a Debt Management Advisory Centre for households and individuals. This division will support branches and other employees in providing services to indebted households. The aim of the Debt Management Advisory Centre is to meet the needs of customers, increase the quality of business transactions, solidify business relationships and review work processes to do with households in payment difficulties. Great emphasis will be placed on consolidating the knowledge residing with the bank's employees as regards indebted individuals experiencing payment difficulties, points of legal contention and other issues relevant to resolving personal credit issues.

The bank's employees have been instrumental in reshaping the bank's policies, both through participation in meetings on the subject and group work focusing on developing and implementing various reformative measures. At the first Employee Meeting in April 2009, it was decided that the bank's employees would be involved in shaping and implementing the reforms closest to their hearts. Around 200 employees subsequently worked on over 60 projects, the results of which have now been incorporated into the bank's activities.

In August of this year, the bank held a series of meetings for employees where the report from Althingi's Special Investigation Committee on the banking collapse and its effects were discussed. Outside experts reviewed the political, financial, operational and ethical reasons behind the crash.

Landsbankinn has made an effort to learn from the mistakes made in the Icelandic financial system leading up to the crisis in 2008. The bank's credit policy is currently under review; furthermore, the bank's procedures and work processes have been reviewed as part of recent work on policy development and organisational changes. The aim of these revisions is to examine mistakes made and introduce action to prevent them from being repeated.

Landsbankinn has set important targets on corporate social responsibility. Previously, CSR was concentrated on financial support for charities. According to the bank's new approach, social responsibility will extend to other aspects of the bank's operations as well. The most important step taken in this direction to date is the establishment of a special division devoted to CSR and the hiring of an employee to work on developing an overall CSR policy for the bank.

In its recent policy setting, Landsbankinn has emphasised the need to listen, learn and serve. These watchwords reaffirm that the bank is and will for years to come strive to be a solid financial partner to all Icelanders.



Steinthór Pálsson

Local Pioneer – Global Participant

Landsbankinn was the first Icelandic company to sign the UN Global Compact in 2006. Since then, the bank has made a commitment to support the Compact's principles by making them an intrinsic part of its Corporate Social Responsibility (CSR) policies.

Landsbankinn has worked proactively by taking an initiative in organising and leading Icelandic companies towards co-operation within the framework of the Global Compact Network for Nordic Countries. Landsbankinn was a founding partner of the Icelandic Centre for Corporate Social Responsibility (Ethikos), the goal of which is to enhance the ability of companies in Iceland to respect social concerns such as the environment and human rights in daily operations. Landsbankinn was also one of the initial signatories to the UNEP Statement by Financial Institutions on the Environment and Sustainable Development. Other initiatives of note in the context of the GC principles on environment are the OECD Guidelines for Multinational Companies and the Caring for Climate collaboration.

Doing more by doing better!

For a financial institution located and operating in Iceland, human rights and labour standards are usually not regarded as major concerns.

The employees of Landsbankinn have always endeavoured to be productive members of society. Having been through difficult times in the most recent years, the bank's current aim is to embed CSR considerations in all operations. The intention is to achieve this by setting clear goals, publishing clear, step-by-step benchmarks and reporting on the progress.

After the bankruptcy, employee surveys showed a considerable drop in job satisfaction and loyalty towards the bank. Landsbankinn has since then looked to build employee trust and pride in their workplace by maintaining the atmosphere of respect and flexibility which has characterised its operations throughout. While job satisfaction and loyalty suffered initially, Landsbankinn's marks have again risen. The bank has set the ambitious goal of reaching the same level of satisfaction and loyalty as before. On the other hand, according to the same survey, the pride of Landsbankinn's employees in their workplace remains low. The bank is thus faced with the challenge to do even better in order for its employees to regain pride in themselves as bankers.

Landsbankinn's Board of Directors realises that corporate social responsibility requires them to respond effectively to social, ethical and ecological issues facing humanity as a whole, as well as deal with the consequences of the financial crisis. These include challenges across disparate issues, such as ethics, global climate change, poverty, human trafficking, organised crime and human rights violations.

Last year, Landsbankinn created four working groups comprised of employees to represent the bank's four most important stakeholders: Customers, employees, owners and the community. The group representing the community, consisting of representatives from various departments and with different backgrounds, focused on setting CSR goals for Landsbankinn and following up on their implementation with help from various other staff members. Since then, the organisational structure of the bank has changed and a special

CSR unit has been established, directly under the CEO. This unit will focus solely on CSR. In addition, a committee consisting of representatives from all departments will be set up to oversee practical implementation of CSR targets and strategies.

Success through dialogue with stakeholders

Landsbankinn recognises that a successful CSR policy will only be achieved through a dialogue with as wide a variety of stakeholders as possible. The bank has employed different approaches to initiate this exchange. As mentioned before, four main stakeholder groups have been identified. A wider circle of stakeholders, whose interest are also considered, has also been identified, including the environment, the general public, business partners, creditors, investors, public authorities, cultural and educational institutions, NGOs, the finance industry, auditors and suppliers.

Employees are important stakeholders. One example of participation by and dialogue with this stakeholder group are two extensive gatherings held by Landsbankinn for all employees in the past two years (so-called Employee Meetings). These meetings have been a forum for employees to express their opinions directly on issues such as ethics, education of staff and customers, service strategies and the competitive position of the bank. Every comment was documented and many of them lead to direct changes within the company. Recently the bank's new CEO invited every single staff member to meet with him, in relatively small groups, to voice opinions on priorities in the bank's five-year strategy. More examples of on-going dialogue are, for instance, the extensive employee surveys that Landsbankinn conducts in collaboration with Gallup on a yearly basis to gauge and react to staff opinions and wishes regarding their workplace, as well as one-on-one staff interviews conducted by managers once to twice a year.

Customers' trust in the bank nosedived in the wake of the bankruptcy. Regaining their trust has been made one of the bank's priorities for the coming years. Currently, nearly 50% of its customers think that the bank is rather or very reliable, compared to a previous 94% (figure 1).

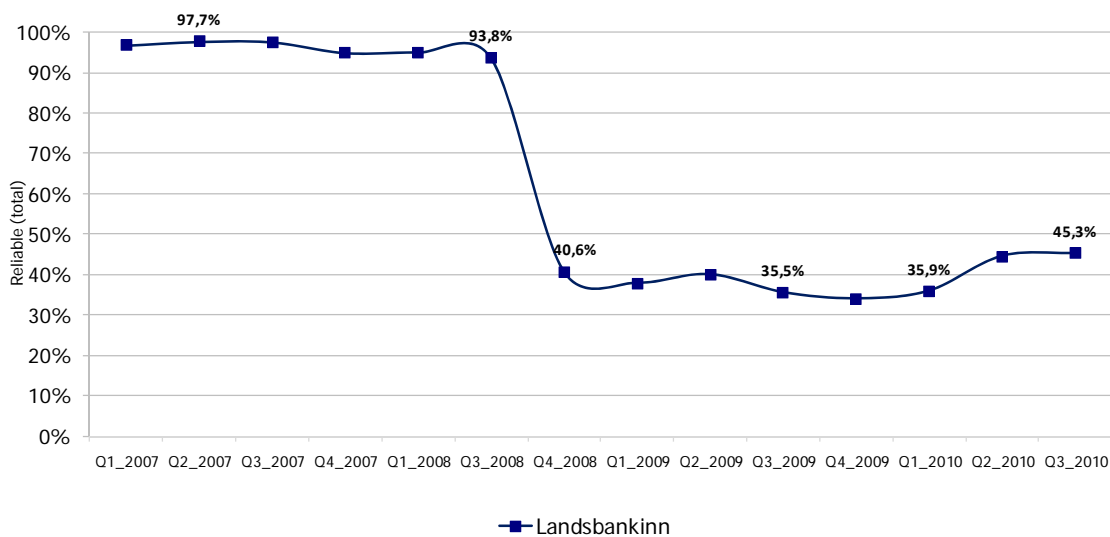


Figure 1 - Customers' trust in Landsbankinn

To regain trust, we regularly engage with customers, both individuals and companies, through surveys and focus groups to garner opinions on the bank's services and reliability level. Customers are offered the chance to leave comments about Landsbankinn on the bank's website. Over the last months, one of the bank's priorities has been to develop a system that indexes customer complaints and comments, with an eye to increasing speed and proper handling of all communications. Finally, the new position of Customer Ombudsman is worth mentioning in this context. Customers of Landsbankinn, who feel they have not received fair treatment in their dealings with the bank and that their complaints have not been satisfactorily resolved by the bank, can refer their cases to the Customer Ombudsman. The Customer Ombudsman reviews all cases referred to him/her objectively and works closely with the Ombudsman of Debtors, a new office within the Ministry of Social Affairs and Social Security.

Most recent achievements

The following are projects which show Landsbankinn practising corporate social responsibility in the recent years:

- Benchmarks against which to measure contributions to society and quantitative goals have been set for the year 2013. The benchmarks are available to all employees via the bank's intranet and include goals on customer confidence in the bank, public courses on financial matters, information on CSR to employees and environmental affairs. Yardsticks and goals will be reviewed following the completion of internal reorganisation.

- A team of experts within the bank performed a wide-reaching analysis in relation to the policy-setting efforts of the CEO, focused on examining the approach by banks in other countries, in particular other Nordic countries, to social involvement, ethical obligations and information disclosure. As a result, three banks were selected as "role models" for Landsbankinn. A report to the CEO set out the path Landsbankinn has to follow in order to join the leading banks in this field.
- It was decided to dedicate one day each year to social issues to increase awareness, as well as knowledge of and interest in social responsibility with the bank's employees. The main emphasis will be on environmental affairs. A programme has already been set out and the bank's Marketing Department is responsible for implementation.
- A new unit, the Debt Management Advisory Centre, has been established. The Advisory Centre is intended to support branches and other front-line employees in servicing indebted households. The aim of the new department is to meet customers' needs, increase the quality of service and solidify business relationships, in addition to reviewing work processes as they relate to solutions for households in financial difficulties. Every effort will be made to concentrate in one place the knowledge present in the bank relating to individuals' credit issues, legal points of contention and other information relevant to the processing of difficult debt issues.
- This year, Landsbankinn opened a new public website, *Fjárhagur*, containing educational material on financial matters in the accessible form of blog entries by employees. One of the aims of the site is to be a forum for the bank's employees to communicate information and knowledge on finance and the economy to the public, free of any promotion of the bank's services or advertising material.
- Last year, Landsbankinn's employees were offered the chance to participate in a number of short courses on CSR, i.e. on the bank's CSR policy and on environmental affairs. The courses were well received, though with fewer participants than expected.
- Over 600 individuals participated in Landsbankinn's courses on household finances last year. The aim of the courses was to increase public understanding of financial matters and help customers gain insight into their own finances. There was particular interest in courses on the rights of pensioners, held in collaboration with the State Social Security Institute. Landsbankinn hoped to fill 75% of available places in these courses; in the end, participation was 124%. Plans are already in motion to offer these courses again in various locations throughout Iceland.
- An Equal Rights Committee, comprised of bank employees, was established and has reviewed the bank's equality policy in light of new legislation on equal rights.

The role of the committee is to ensure that the bank comply with equal opportunity laws and perform regular inspections on the status of equality issues. Furthermore, the Board of Directors of Landsbankinn agreed to ensure gender equality among management by aiming for no less than 40% representation by each gender at all times.

- Landsbankinn has formed a new policy regarding support for sports clubs. This new policy involves bringing together sports clubs and organisations or associations active in charity work or that represent disadvantaged groups. This creates a platform for sports clubs and their supporters or sponsors to work with Landsbankinn on charity projects. Landsbankinn will not decrease its financial support for participation in sports by youngsters and adults; on the contrary, overall contribution to charity increases, both directly and indirectly.

How we honour the 10 GC Principles

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

Landsbankinn supports and respects the protection of internationally proclaimed human rights in all its operations. Discrimination on the basis of gender, ethnic background, religion, sexuality or any other grounds is simply not part of the bank's modus operandi. Landsbankinn ensures that each employee is respected for his or her own abilities, whether personal or work-related, and makes an effort to create a flexible working environment, endeavouring to help employees find a balance between work and private life. Prejudice and sexual harassment is never tolerated.

Financial education

Landsbankinn has always tried to be conscious of its responsibility as a member of society. One of Landsbankinn's priorities in its CSR strategy has always been to share the bank's main asset, financial knowledge, with different stakeholders. This obviously applies to providing the best financial advice possible to customers, both through day-to-day operations but also through a variety of other activities, such as public courses on financial matters, a blog site dedicated to finance and by educating various demographics in need of special information.

Community support

The following is a short list that exemplifies the mutual efforts of Landsbankinn and its employees to support the community during the financial crisis:

- Landsbankinn was one of the initial sponsors of Sjónarhóll, advisory centre for the parents of children with special needs. In 2010, the sponsorship agreement was extended for three years.
- Landsbankinn and the bank's Employees' Association united in participating in collecting for the Icelandic Cancer Association's programme, "Men and Cancer".
- Landsbankinn made a considerable contribution to the Icelandic Association of the Deaf in 2010, on the occasion of the association's 50th anniversary. The bank also aims to increase its services for the deaf through offering specially targeted online material.
- The "Return to your roots" project aims to reinforce the connection between Icelandic emigrants to the US and Canada and Icelanders. The project involves sponsoring a visit to Iceland by 150 young descendants of immigrants.
- In summer 2010, 100 volunteers from Landsbankinn participated in cleaning ash in the environs of Eyjafjallajökull volcano following the eruption that occurred under the glacier.
- Soccer equipment was provided for Gambian children in a joint venture with the Red Cross.

- Three-year support will be provided for the UNIFEM project "Butterfly Effect", dedicated to preventing violence against women, focusing especially on Africa.
- The Lions Club and Landsbankinn joined hands in buying and training guide dogs.
- Landsbankinn's online initiative encourages customers to donate to their charity of choice through the Internet banking system. The project is a unique one-stop facility for 80 charitable causes. No fees are levied; the entire amount goes directly to the charity at no cost to the donor. Subscriptions are easily cancelled with the click of a button.

Sports/Youth affairs

- Landsbankinn maintains close relationships with sports clubs in all communities where the bank is represented and focuses its sponsorship on the clubs' youth programmes. Landsbankinn has also hosted several sports tournaments for children. As previously mentioned, Landsbankinn recently launched a new project linking support for sports with support for various charitable programmes.

Education and research

- "Reality Online" is an online life simulation game developed by Landsbankinn to educate teenagers on societal and financial matters. Last year around 1,500 elementary school students participated in the game through their schools. Landsbankinn has recently worked to further develop and improve the game.
- Another aspect of Landsbankinn's involvement in education are the scholarships awarded 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 school level.

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

Landsbankinn is dedicated to complying with all human rights regulations and promoting such rights to the fullest extent possible. The bank's Code of Ethics and Business Conduct, a tangible manifestation of its values, was last updated in 2010. The Code is available to all employees. It is a guide that encourages open and ethical behaviour. The Compliance Officer, appointed by the CEO, arranges for the rules to be made known to insiders and ensures that Landsbankinn's employees and others covered by the rules are generally well aware of them. The purpose of the rules is to set out the general obligations of employees, to encourage honesty, justice and fairness in all transactions and to reinforce the trust of customers and the general public in Landsbankinn. The rules encourage employees to always act with honesty, never to take advantage of confidential information in their work and avoid any practices which could damage the bank's reputation. Special effort is made to ensure that employees can report instances of suspected misconduct, which could cause damage to Landsbankinn, the public and the economy, anonymously. Such misconduct may

be perpetrated by colleagues, managers or customers. No suggestion submitted in good faith shall have negative consequences for the employee, regardless of the outcome.

We offer employees anti-harassment training stressing the importance of preventing discrimination and treating fellow employees with respect and consideration at all times. The training makes clear that the bank does not tolerate retaliation against those who raise complaints and that failure to rectify offending behaviour can lead to termination of employment.

One way in which the bank can prevent complicity in the abuse of human rights is through its lending policy. 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. Landsbankinn's lending policy is currently under review by the bank's Risk Management team, and will take fulfilment of all ethical standards into consideration.

Customer protection

Landsbankinn does not discriminate between its customers based on gender, religion, opinions, nationality, race, family or other similar orientation. According to the bank's Code of Ethics, employees may not divulge to outsiders any information concerning the bank itself, the transactions of individual customers, institutions or corporations with the bank, their liabilities or assets. The obligation of confidentiality remains even after employment ceases. Employees shall also be free of any outside influence, interest or relationship in respect of the customers' affairs, which impairs, or risks to impair, their professional judgement and objectivity.

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

Freedom of association and the right to collective bargaining is protected in Iceland by a very strong labour code and 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, as well as the government. Landsbankinn 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 and applicants may not be denied membership based on gender, national origin or any other grounds. The general level of unionisation is very high in Iceland compared to most countries, and it can be assumed that over 90% of Landsbankinn's employees are union members.

The Landsbankinn Employees' Union (FSLÍ) safeguards the interests of its members. It organises opportunities for its members to increase their knowledge of banking, enhances collaboration between employees and management and intermediates in any disputes. FSLÍ

rents out to employees summer cottages owned by the bank, organises courses and supports participation in sports by its members. The union is currently revising its policy with the participation of its members to ensure it meets their needs. Members will be invited to submit comments and suggestions and a poll will provide added insights.

Landsbankinn Employees' Union is part of the Confederation of Icelandic Bank and Finance Employees (SSF). Landsbankinn has a representative on the confederation's Board of Directors. SSF represents its members in collective bargaining and works to improve and reconcile terms and conditions across member unions. Wage surveys are performed at regular intervals to monitor wage terms and equality among members. SSF also aims to improve all-round education, e.g. through grants from a vocational training fund, increase awareness and knowledge of collective agreements, union activities and professional matters through publication, informative lectures and seminars.

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

Landsbankinn strongly supports the elimination of forced and compulsory labour, although such practices are hardly common in the Icelandic labour market. Landsbankinn strives to respect the laws, regulations and norms of its market and, to take this important matter one step further, Landsbankinn is currently integrating more rigorous screening processes into its lending 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

Landsbankinn has always supported the abolition of child labour. Because of the nature of our operations, our chance to make a contribution to the fight against child labour is through a stringent lending policy. The bank's new lending policy will 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 resources

Landsbankinn recognises and accepts its legal obligations to promote equality in employment policy and practice. According to the bank's equal opportunities policy, all decisions concerning staff members shall be purely on the basis of merit, whether this concerns career development, granting of assignments or training. As stated above, 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 we advertise in the right places to 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. To further enhance the job development possibilities of employees, the aim is to create a jobs forum on the bank's intranet where notices on vacancies within the bank will be published.

In order to attract, support and retain the best professionals in each field, Landsbankinn is committed to ensuring an excellent working environment and effective staff development. A central facet of the bank's human resources strategy is to provide an enjoyable and interesting workplace where facilities, equipment and the overall work environment are the best possible.

To make sure that the strategy is translated into action, the bank applies a variety of assessments of its human resources strategy. These include assessments of staff turnover, the combination of staff (such as by gender, age and experience), employee interviews and annual employee surveys. 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. Landsbankinn's annual employee survey was last conducted by Gallup in March 2010. The overall results show that the employee's positive attitude towards the bank is slowly rising after its dive in 2009, when the grades hit a low point. Landsbankinn's position on most questions concerning employee loyalty and job satisfaction is on the rise (figure 2). This year's survey was conducted among all employees, with the exceptional response rate of 93%.

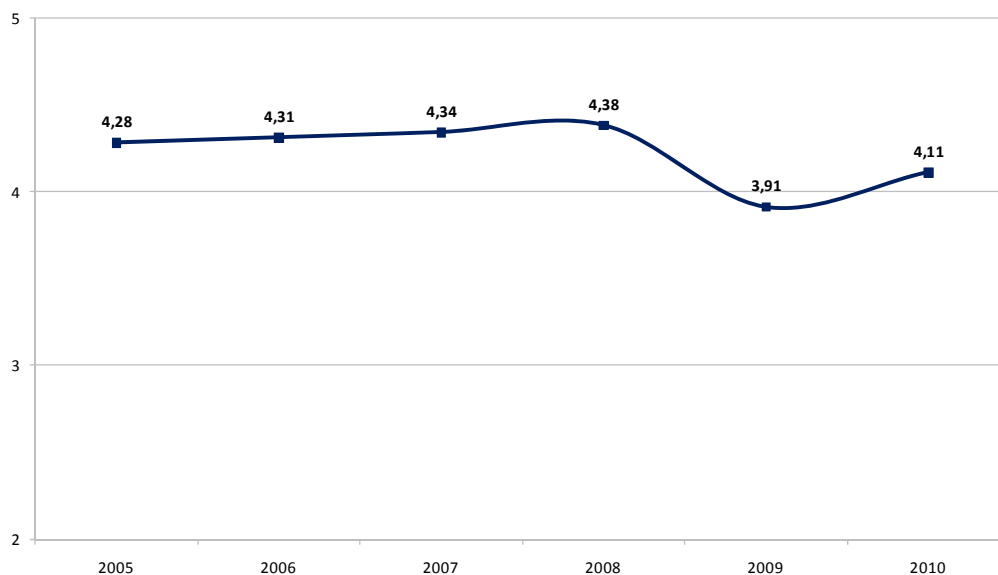


Figure 2 - Employee job satisfaction on the scale of 1 to 5

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

Being a financial corporation, Landsbankinn's direct environmental impact is relatively low and by default a precautionary approach applies to most of the bank's operations. All activities are restricted to Iceland, where 72% of total primary energy is from renewable sources (as compared to the global average of 13%). The bank's approach to environmental issues includes setting goals on decreasing the use of paper, toner and disposable cups in day-to-day operations.

Employees have also had a chance to attend courses provided by the bank, in collaboration with Alta Consulting, on how they can contribute to protecting the environment, both in their work and at home. The bank plans to host more similar events in the coming months.

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

Landsbankinn is highly committed to environmental issues, as is evident from the variety of international initiatives in which we participate. These initiatives include: Caring for Climate, the UN Environment Programme Finance Initiative and the OECD Guidelines for Multinational Enterprises. Landsbankinn's commitment towards protecting the environment is also evident in its lending policy, which takes such risks into full consideration.

As previously stated, Landsbankinn is making substantial efforts to tackle other issues, such as recycling, energy consumption, employee participation and carbon neutral operations, and these will be methodised further by the bank's new CSR department. Today, Landsbankinn recycles an average of around 45 tonnes of paper from its operations annually. One of the steps that have been taken was a work group report on what improvements can be made to reduce the bank's paper consumption, such as supporting duplex printing on every printer in the bank.

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

To decrease its greenhouse emissions Landsbankinn has invested considerably in technological solutions enabling travel-free meetings. Landsbankinn emphasises electronic banking in its contact with customers. Landsbankinn encourages those of its customers who use online banking to receive their account statements electronically by making it easy to decline paper statements through personal internet banking. As a result, many users have chosen to receive their account statements electronically only. The bank will continue to motivate customers to receive other statements solely online. Steps have also been taken towards cancelling the mailing of printed bank statements to certain customer groups, thereby further increasing the ratio of customers that mainly receive bank statements electronically.

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

Landsbankinn fully recognises the importance of eliminating any form of corruption and plans to enhance education on moral behaviour for employees. The first step will be to ensure that each and every employee is familiar with the bank's Code of Ethics. Employees will be required to sign declarations to the effect that they undertake to abide and work by the Code in all respects. Means to educate employees on various ethical dilemmas will also be explored. Most actions against corruption at Landsbankinn are supervised by the bank's Compliance Officer. The Compliance Officer is independently responsible for ensuring that the bank abides by current legislation and external and internal regulations. 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. Landsbankinn 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 in place 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. 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. All front line employees attend annual courses on action to combat money laundering. Other employees receive regular training and in spring 2010, all employees were required to complete online tests on the bank's actions to prevent money laundering. All employees were required to complete the test with perfect marks.

Landsbankinn's increased obligations to know its customers are one aspect of heightened consumer protection. An assessment must be made of the knowledge, financial strength and experience of customers before they are provided with services related to securities transactions. Failure by Landsbankinn to obtain the required information prohibits the bank from providing customers with advice on securities transactions. Landsbankinn divides its customers into different categories in respect to different products or services, in accordance with MiFID rules. Compliance requires that all employees in securities transactions receive all necessary training to enable them to work in accordance with the bank's obligations under the aforementioned MiFID rules.

Other issues related to corruption are, for instance, our policy on gift-related matters which is intended to prevent any doubt arising as to the impartiality and credibility of employees in handling and conducting cases. Furthermore, in order to reduce the possibility of conflicts of interest in the operations of Landsbankinn, and to ensure 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.