



Íslandsbanki in society

Contents

Message from the CEO	4
Strong banking heritage	5
Byr acquisition – the best from both Banks	5
Important events during 2011	6
Serving Icelandic households, agriculture, industry and commerce since 1875	7
Responsible And forward - looking Banking	8
Business	9
Ordinary people in extraordinary circumstances	10
Disclosure policy	12
Risk book	12
Anti-corruption	12
Code of ethics and work procedures	13
Iceland centre for CSR - FESTA	13
At your service	14
Promoting financial understanding and dialogue	16
Keep it simple	18
Entrepreneurs in the making	19
Strong corporate governance	20
Board of Directors	22
Human resources	24
Human capital	25
Training and development	25
Employee satisfaction	26
Breaking the glass ceiling	27
Strategy summit	27
Happy and healthy at and off work	27
Environment	29
Geothermal energy	31
Sustainable fishing and the seafood industry	31
Ergo - thinking green	31
Community	32
Íslandsbanki Reykjavík Marathon	33
The women of Achievement Fund	33
Special Olympics	34
“What if?”	34
Give life	34
Various community projects	34

Message from the CEO

Social responsibility plays an important role in the business operations of companies in the future as consumers are beginning to be more aware of how their buying behaviour can affect the society. At Íslandsbanki, we embrace the responsibility of our actions and encourage a positive impact on the society. We have therefore integrated CSR into our business model. As a large workplace it is important that we contribute to a sustainable society based on respect for man and nature and good business ethics and corporate governance. Only by being committed in implementing its CSR strategy can the Bank ultimately give back to the society.



Birna Einarsdóttir

Since its foundation, Íslandsbanki has intensively explored how it can improve and extend the implementation of CSR in its business operations and strategy. Trust disappeared virtually overnight after the financial collapse in 2008. Rebuilding the trust is a long term project which requires wide employee participation, dedication and commitment. One way to increase trust is to be open and transparent. Íslandsbanki, ahead of the other Icelandic banks, issued a specific Risk Report detailing its risk profile and material operational risk factors. The objective is not only to fulfill information disclosure requirements, but also to facilitate understanding of the Bank’s operations and capital position.

Íslandsbanki considers itself as an important and active participant and contributor in the Icelandic society. The Bank takes this role seriously and endeavours to maintain good relationships with its immediate environment and its customers. Our values, progressive, professional and positive, were collectively chosen by Íslandsbanki’s employees. We can now see their fingerprints on all our work. We believe that if we can be guided by those values we can build a responsible, open and reliable Bank that plays an active, motivating role in the enhancement of the community and the environment in which it operates.

Íslandsbanki adheres to the United Nation’s principles for corporate social responsibility; the Global Compact. The Global Compact is about taking responsibility for the impact of your business activities on the rest of the world. Being a supporter of Global Compact, Íslandsbanki has also proudly signed the Women’s Empowerment Principles, which offer guidance on how to empower women in the workplace, marketplace and community. It is important that Íslandsbanki, which is one of Iceland’s largest employers, plays a meaningful role in our society and works in harmony with the communities in which it operates. It is also important that the Bank supports a wide range of projects; from arts, to sports and innovation – to name a few. A clear aim of the bank is always to do the best that we can for the society and to ensure that we leave a genuine, positive legacy.

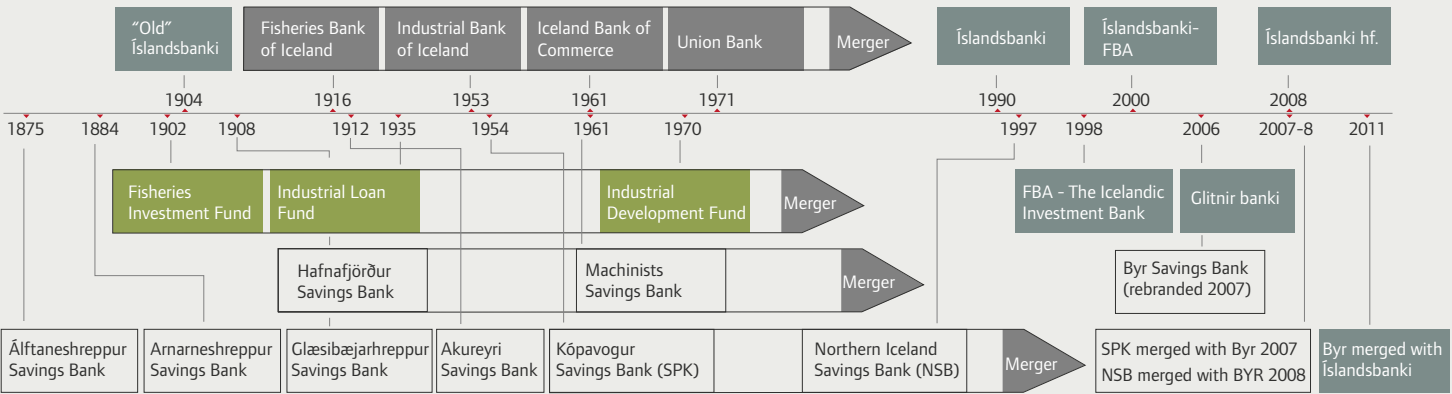
Birna Einarsdóttir, CEO of Íslandsbanki

Strong banking heritage

Íslandsbanki is built on a solid heritage of banking. The Bank has roots extending back to 1875 when the Álfþaneshreppur Savings Bank, a regional savings bank in the south-western part of Iceland was founded, later merged with Hafnarfjörður Savings Bank in 1902. In the north of Iceland the regional Arnarneshreppur Savings Bank was founded in 1884, later merged with the Northern Savings Bank. Byr was then formed in the years 2007 and 2008 when these two merged with Kópavogur Savings Bank (1954) and the Machinists’ Savings Bank (1961).

“Old” Íslandsbanki was founded by international merchants in 1904 with the aim of supplying financing to the Icelandic industrial and fisheries sectors. Íslandsbanki, itself the product of a four-way merger, has for decades been instrumental in the consolidation of the Icelandic banking sector and, in so doing, improving its efficiency.

Íslandsbanki is a universal bank offering Icelandic households, SMEs and corporations comprehensive financial services. With over thousand employees, and assets of around ISK 800 billion, Íslandsbanki forms one of the country’s largest banking and financial services groups. The Bank has a 25%-35% market share across all domestic franchise areas; and operates an efficient branch network in Iceland. Building on a heritage of lending to industry in Iceland, the Bank has developed specific expertise in two industry sectors, seafood and geothermal energy, that together form the basis for its overseas strategy. With its focused approach in these fields, Íslandsbanki offers valuable services to industry players and investors. Íslandsbanki is majority-owned by Glitnir banki hf. which, on behalf of its creditors, holds 95% of the Bank’s shares through its subsidiaries. The remaining 5% is held by the Icelandic government and is managed by Icelandic State Financial Investments. Glitnir does not intend to be a long-term owner of Íslandsbanki and has publically stated that it will sell its stake within the next five years. Glitnir has mandated UBS as their advisor.



Byr acquisition – the best from both Banks



A key event in the latter half of 2011 was the Byr acquisition. The bidding process started in June 2011 and was followed by thorough due diligence and approval process. The merger was finally approved on 24 November and by early December the banks’ head offices had been merged at Íslandsbanki’s headquarters at Kirkjusandur. Aiming for a smooth transition for all stakeholders, the Bank has given good notice to customers of impending changes, highlighting the fact that the merged company will adopt the best practices from both Banks.

The Bank has tried its utmost to be sensitive of customer preference and access when designing the branch integration process. In total 4 branches were merged with existing Byr or Íslandsbanki locations and 2 Byr branches were rebranded. The Byr acquisition marks the end of a long process that was designed to increase the Bank’s market share and strengthen its balance sheet. Byr was an excellent fit with Íslandsbanki’s existing retail operations. This further improved efficiency in the Bank’s branch network and in the overall banking market in Iceland.

Important events during 2011

Many significant milestones were reached during the year

1ST Quarter

- Íslandsbanki's Assets Management unit rebranded as VÍB
- Glacier Securities, a US based subsidiary, obtained a broker dealer licenced in the US
- The Icelandic /Association of women Entrepreneurs gave the "Gæfuspor" awards to Íslandsbanki

2ND Quarter

- Íslandsbanki, the first Icelandic bank to publish a special Risk Report on risk management and risk assessment
- Íslandsbanki acquired all remaining shares in Kreditkort hf., previously the Bank held a 55% share
- Íslandsbanki signed the UN Women and UN Global Compact Women's Empowerment principles

3RD Quarter

- Íslandsbanki's Assets Based Financing unit rebranded as ERGO
- New mobile web opened and the first mobile app for Android and iPhone by an Icelandic bank launched
- Íslandsbanki Reykjavík Marathon - ISK 45m raised for various charities

4TH Quarter

- The Icelandic Parliament approved the sale of the State's shareholding in Byr to Íslandsbanki
- Íslandsbanki was the first bank to issue bonds on Nasdaq OMX Iceland since the fall of 2008.
- The headquarters of Íslandsbanki and Byr merged at Kirkjúsandur

Serving Icelandic households, agriculture, industry and commerce since 1875

Retail

21 branches provide national coverage

- Highly ranked in customer service and satisfaction
- Merged with Byr commercial bank in 2011
- Independent Asset Based Financing unit - ERGO
- Market share of 30%

Corporate

Full-service corporate Bank

- Domestic corporate banking for industries
- Special industry teams in Iceland and in the US for geothermal energy & seafood
- Market share of 25%

Wealth

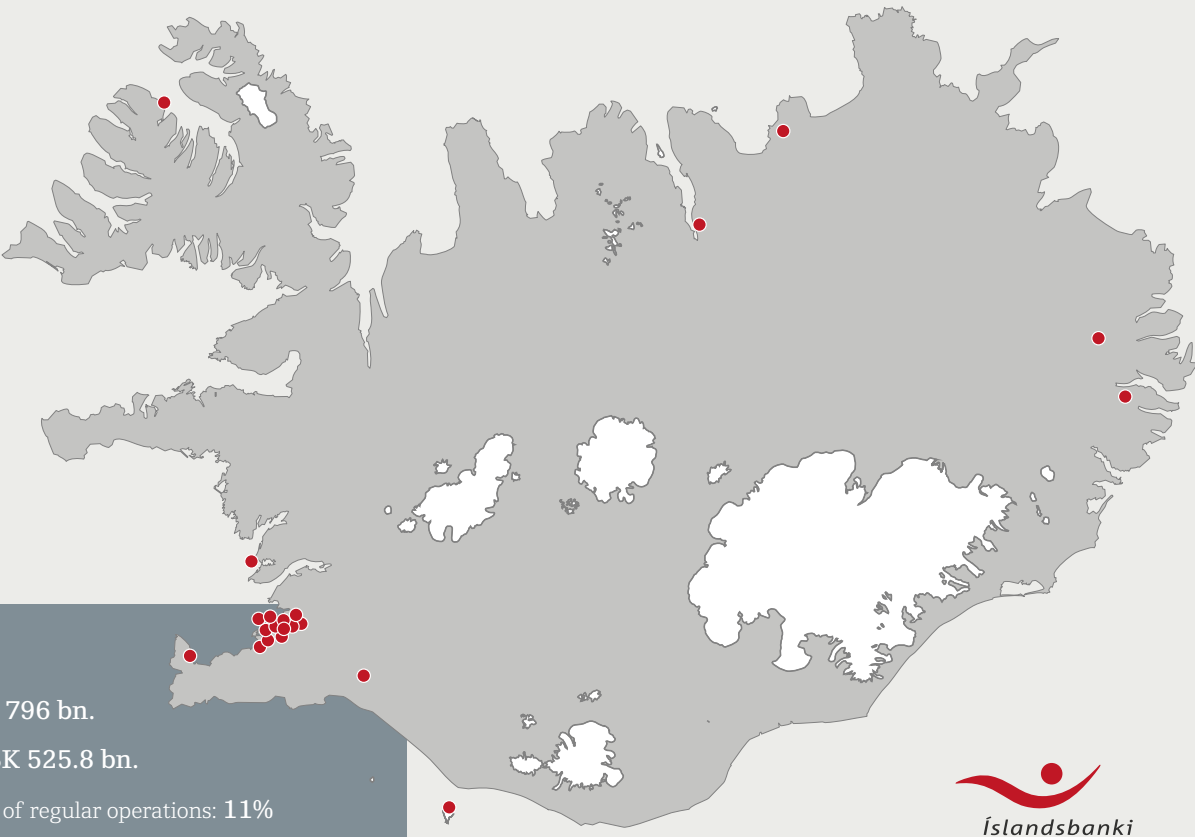
Leading fund manager

- One of Iceland's leading wealth manager by AUM
- Managed through independent unit, VÍB providing regulated investment advice
- Market share of 20-40%

Markets

Capital markets & niche sectors

- Equities, fixed income, FX, corporate finance and research
- Corporate advisory in the US for geothermal energy & seafood industries
- Market share of 25-35%



Key figures:

Total assets: ISK 796 bn.

Total deposits: ISK 525.8 bn.

Return on equity of regular operations: 11%

Profit after tax from regular operations: ISK 13.9 bn.

Equity: ISK 123.7 bn.

Total capital ratio: 22.6%

Market share: 25% - 35%

Employees: 1,100+



Responsible and forward-looking banking

Íslandsbanki adheres to the United Nation´s principles for CSR



As a large workplace with a broad client base Íslandsbanki has made it a priority to maintain a good relationship with its immediate environment.

Íslandsbanki has been adhering to the United Nation´s principles for corporate social responsibility over the last three years. The UN Global Compact strategic policy initiative is an agreement which sets the parameters within which Íslandsbanki works. Íslandsbanki is proud to be a member as the Bank wants to invest in the future and to work towards ensuring that the world is preserved as best as possible for the generations to come.

By looking forward and being responsible in all its actions Íslandsbanki believes the outcome is a reliable bank that plays a proactive role in the enhancement of the community and the environment in which it operates.

The Bank´s initiatives in social issues are based on Íslandsbanki´s Corporate Social Responsibility policy which covers four key areas: business, human capital, community and environment.

Business

Íslandsbanki endeavours to serve its customers through the efficient provision of information, increased transparency, and non-discrimination against its customers and clear regulations.

Human Capital

The objective of Íslandsbanki is to recruit, strengthen and retain skilled and reliable staff. Íslandsbanki offers its employees good working conditions and enticing opportunities in a variety of ways.

Community

Íslandsbanki strives to work in harmony with the communities in which it operates, by supporting various social, artistic, cultural, and sporting projects as well as innovation and entrepreneurship.

Environment

Íslandsbanki makes it a priority to work in harmony with the environment, and this is reflected in the management and investments of the Bank.



Business

Íslandsbanki is aware of its important role in the society in which it operates, especially when it comes to financial stability. Corporate social responsibility is an integrated part of our business.

Íslandsbanki is committed to providing customers with effective communication, greater transparency and equal treatment. The Bank places an emphasis on good service to customers to ensure customers' satisfaction and trust in the Bank. The Bank also ensures that all customers, whatever their size, are equal and that they benefit from equal access to all the information they might need about the Bank. In addition procedures have been revised and made clearer.

Ordinary people in extraordinary circumstances

One of the main tasks of Íslandsbanki since its establishment in October 2008 has been restructuring of customers’ debt. To that end, the Bank has offered various measures for both individuals and companies. These measures range from being a part of a general restructuring scheme either stipulated by the authorities or following court rulings regarding the legitimacy of foreign currency loans to being offered only for the Bank’s customers. The Bank’s cumulative write-offs and remissions from its establishment to year-end 2011 amount to ISK 347 billion, of which ISK 83 billion is to 17,700 individuals and ISK 264 billion is to 2,700 companies.

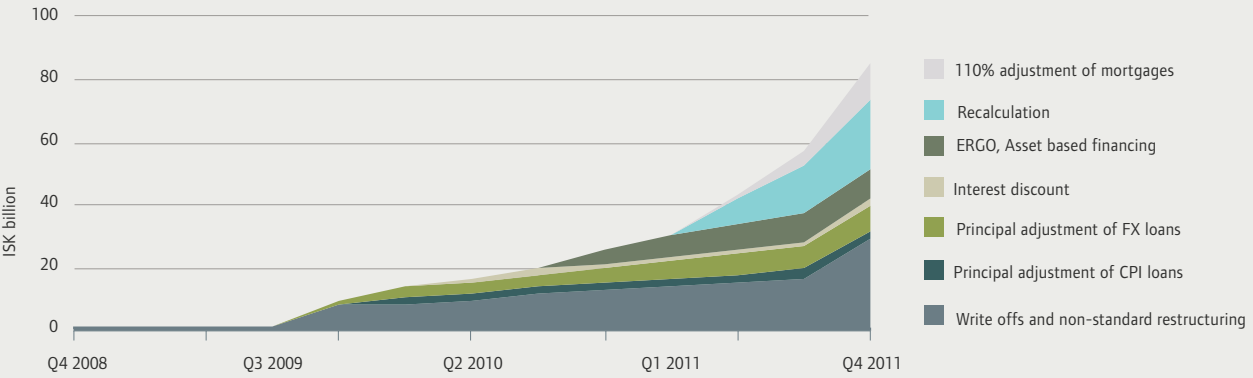
Íslandsbanki endeavours to provide precise and accurate information on the solutions it has to offer. Thousands of individuals and companies have received write-downs of debts in various forms, for example a mortgage reduction, loan modification and rate discount. Íslandsbanki has in several cases decided to go beyond the Icelandic law and court orders in recalculation for the benefit of the customers. By doing so the Bank contributes to accelerate the restructuring of the Icelandic economy.

Debt restructuring measure for companies

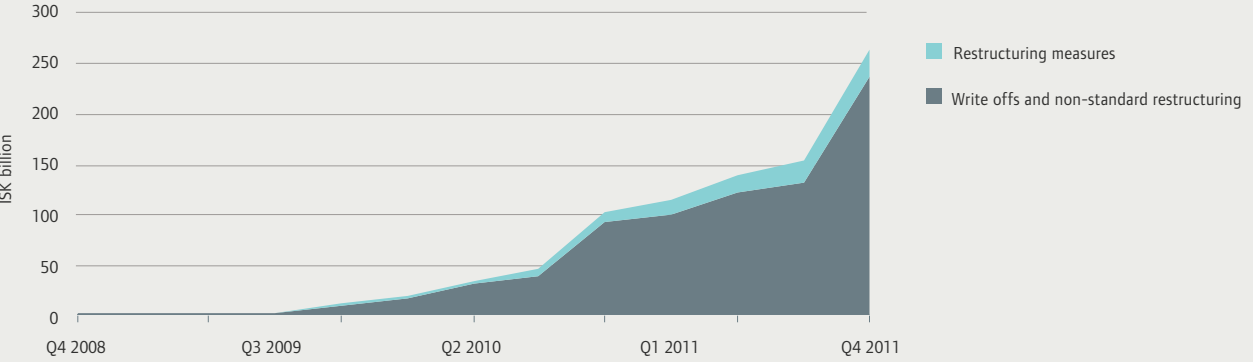
One of the Bank’s main tasks in 2011 was restructuring of distressed corporate debt and a number of important milestones were achieved that year. The Bank is faced with choices between debt relief, forcing companies into bankruptcy or converting debt to equity. The Bank’s goal is to establish a balance between the assets and liabilities of companies in need of restructuring and to sell the stakes acquired through restructuring at the earliest time possible.

Debt restructuring measures of households

Since its establishment the Bank has placed great emphasis on the restructuring of household debt. Various measures have been offered in this respect and the focus has been on catering to the needs of the majority of households. In the beginning the priority was on temporary solutions that eased the payment burden so that households could stay current with payments while more permanent solutions that involved debt relief were being worked on.



Cumulative write-offs and remission to individuals from 2008-2011. Parent, unaudited.



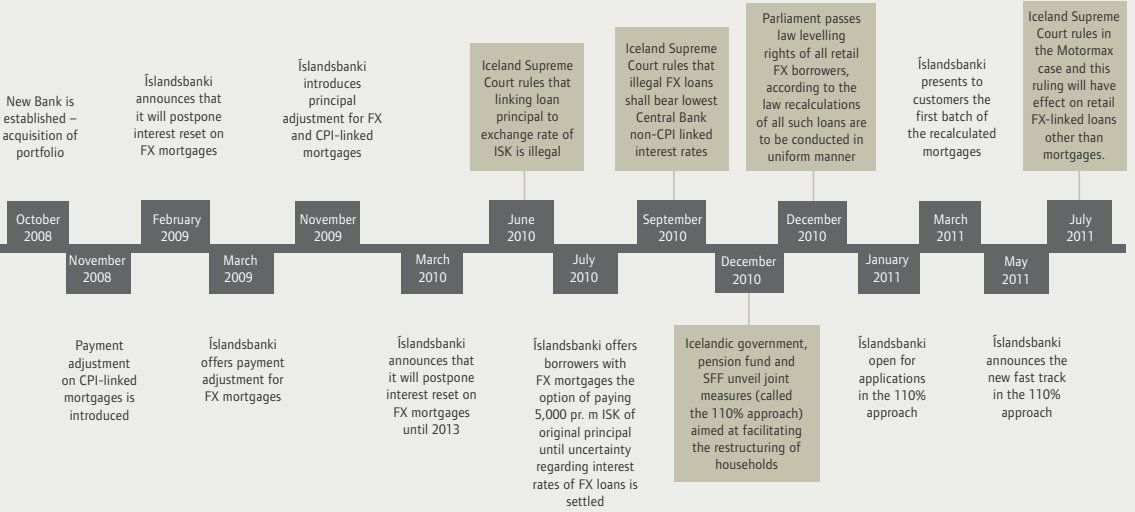
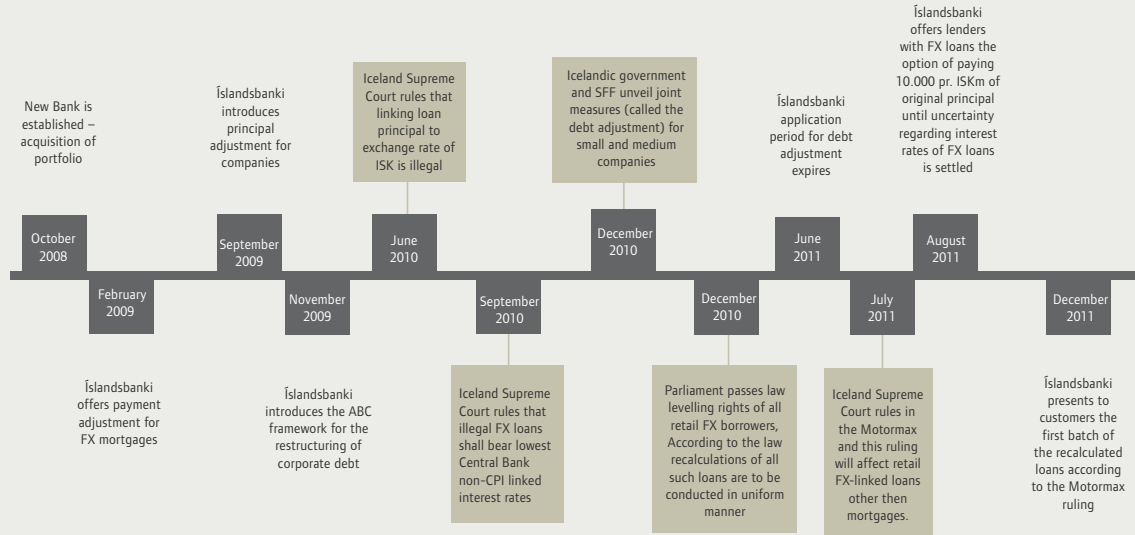
Cumulative write-offs and remission to companies from 2008-2011. Parent, unaudited.

To put these amounts into perspective one can see that write-offs and remissions that do not relate to bankruptcies are 17% of the original loan portfolio for companies and 26% for individuals. The figures below show write-offs and remissions to individuals and companies, due to debt adjustment or bankruptcies, as a percentage of the volume of the initial loan portfolio in October 2008. Figures do not include the loan portfolio acquired from Byr.



Write-offs and remissions to companies as a percentage of initial loan portfolio, not including Byr. Parent, unaudited.

Write-offs and remissions to individuals as a percentage of initial loan portfolio, not including Byr. Parent, unaudited.



Disclosure policy

The Bank believes that open and consistent communications with its stakeholders is essential in building confidence and maintaining good relations with them. The Bank operates under the Basel II capital framework and to comply with the rules the Bank has in place a “Disclosure & Communication policy”. The Policy defines the governing principles and framework for disclosure and communication, including the Bank’s disclosure mission. The disclosure mission of Íslandsbanki is to make correct and sufficient disclosure of material information and keep the disclosure accessible to all relevant stakeholders in a compliant, reliable, useful, timely and consistent manner. Íslandsbanki may however omit information it deems immaterial where such materiality is based on the criterion that omission or misstatement would be likely to change or influence the decision of a person relying on that information. Accordingly, when Íslandsbanki has considered an item to be immaterial it has not been disclosed. In addition, if required information is deemed to be proprietary or confidential, the Bank may make the decision to exclude it from disclosure. Íslandsbanki defines proprietary information in line with the regulation and information is considered to be confidential if the Bank is bound from disclosure by law.

Risk book

The Bank continues to work on improving the transparency of its operations and enhancing the provision of information. Íslandsbanki was the first bank in Iceland to publish a risk book where there are information on risk management and risk assessments on the Bank. The objective of Íslandsbanki’s Risk Report is to comply with the regulatory requirements for disclosure and to provide market participants with information that helps facilitate a better understanding of Íslandsbanki’s risk profile and its capital adequacy. Risk management is at the heart of the Bank’s operations and the Bank is constantly working on improvements of its risk and capital management framework. The Risk Report provides key information on the Bank’s capital structure and adequacy, material risk exposures and risk assessment processes. In addition, it provides comprehensive information about the restructuring and recalculation of distressed debt which have been key tasks since the establishment of the Bank in 2008. The Risk Report also gives a short introduction to the Basel III framework and an overview of the main domestic legislative and regulatory changes, as well as information on the Bank’s remunerations policy. The Bank’s risk appetite is implemented through the Board of Directors’ (BoD) approved policies. At year-end 2011, the Bank was in compliance with its defined risk appetite and all regulatory requirements were fulfilled.

The Risk Report is accessible at the Bank’s website:
www.islandsbanki.is/riskbook.



Anti-corruption

Compliance and anti-money laundering programs help Íslandsbanki to manage its compliance risk. Íslandsbanki is obligated to operate a compliance unit according to its operating license as a financial undertaking which offers trading and other services relating to financial instruments and as an issuer of listed securities. The Compliance division’s task is to monitor that Íslandsbanki maintains adequate policies and procedures to ensure that the Board and employees of the Bank comply with its obligations according to law, regulations and internal policies and operate in accordance with proper and sound business practices and customs on the financial market. The Compliance Officer files reports on an annual basis to the CEO and to the Board of Íslandsbanki. Compliance risk can be defined as the risk of legal or regulatory sanctions, financial loss, or damage to the Bank’s reputation in the event of failure to comply with applicable law, regulations, and codes of conduct and standards of good practice. Compliance, in co-operation with Group Internal Audit, performs a special fit and proper test by virtue of information gathering via questionnaires and exams on Executive Board Members and key employees. All employees are obliged to attend a lecture on anti-money laundering.

Internal Audit

Group Internal Audit provides Íslandsbanki with independent, objective assurance and consulting services designed to add value and improve the Bank’s operations. It helps the Bank to evaluate and improve the effectiveness of risk management, controls and governance processes. Furthermore, Group Internal Audit leads internal investigations on alleged fraud. The scope of Group Internal Audit’s work is to determine whether the organisation’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning and robust enough to ensure:



Kristinn Arnar Stefánsson,
compliance officer

There have been regular attempts to commit fraud or fraudulent activity towards Icelandic financial institutions and their customers. The frequency of fraud and money laundering attempts has increased following international coverage of Iceland over the years. The fraud is constantly evolving which means we have to constantly be on the alert. The employees of Compliance and Group Internal Audit, with expertise in money laundering and fraud channels, have the responsibility to combat these financial crimes. They also convey their knowledge to other employees through lectures and keep them updated on changes in regulations in this field. An electronic monitoring system (Norkom) for money laundering has also been set up in collaboration with the Icelandic Banks Data Centre. The system has been in operation since 2009 and has increased the Bank’s security and reduced the risk of fraud or abuse of the bank’s systems for money laundering purposes.

Code of ethics and work procedures

Employees were involved in formulating the Bank’s code of ethics. They are intended to guide employees in their daily work. The aim is to maintain and strengthen the credibility and the reputation of the Bank. The code of ethics covers the importance of professional methods of work, customers’ equality and the confidentiality of employees. In addition to the code of ethics new work procedures were put in place that prescribe the general duties of Íslandsbanki’s employees. The aim is to promote good operational and business practices as well as to increase trust. The procedures are intended to support the code of ethics as well as other internal rules.

The compliance has held workshops where the code of ethics and the work procedures are introduced. All employees are required to attend these workshops.

Iceland Centre for CSR - FESTA

Íslandsbanki together with five other companies has established FESTA - the Icelandic Centre for CSR. The centre is intended to raise awareness and increase knowledge and the ability of companies to demonstrate social responsibility in their everyday business. The CSR Centre is located at the University of Reykjavík but the goal is to promote learning and knowhow related to corporate social responsibility.

At your service

Íslandsbanki's vision is to be #1 in service. Through arduous work Íslandsbanki recently reached a major milestone when it ranked first in customer satisfaction measured by the Icelandic Customer Satisfaction Index. Moreover, surveys indicate that Íslandsbanki is the market leader in servicing corporates giving the Bank good ground to build on. Íslandsbanki has always prided itself of providing excellent service and one of Byr's core competences was also personal service. The merged Bank should therefore be well prepared to realise its vision. It has been proven time and again that exceptional service leads to better results in all aspects of a company's business. Satisfied customers are loyal customers who in turn render better earnings.

#1 in service

The Bank's vision, introduced in late 2010, sets an ambitious goal to attain, and indeed maintain, the position as the service leader amongst financial institutions in Iceland by 2015. To achieve this, certain underlying indicators are measured regularly:

- Service quality
- Employee engagement and manner
- Employee initiative
- Satisfaction with online banking
- Handling of customer complaints

The Bank's vision correlates well with the UN Global Compact's ten principles. By fulfilling these criteria the bank is also fulfilling its vision of better service to its stakeholders. The Bank also focuses on employee's satisfaction e.g. the Bank must consider the health and safety issues and offer healthy environment. The Bank conducts employee survey every year to keep track of these indicators amongst others.



Aðalheiður Hédinsdóttir,
CEO of Kaffitár, an Icelandic roasterie

„We have been doing business with Íslandsbanki since the year 1990 and are very satisfied with the service we have received over the years. We have been able to rely on the Bank in uncertain times. We have received an excellent and personal service from the Bank's employees but it is very important to sense a general interest in the wellbeing of our company. “



What has been done so far

In 2011 a special steering group, comprising people from all divisions within the Bank and lead by an independent project manager, was established to define what being #1 in service means to both the Bank's customers and employees alike. The group's first task was to process the feedback from the 2011 Strategy Summit focused around the Bank's vision. According to their findings, both employees and customers felt that in essence exceptional service means personal service, trust and initiative, following up on customer requests, and maintaining a steady flow of information.

In addition to processing feedback from the Strategy Summit, the group conducted two wide-ranging surveys, one in-house and one externally amongst customers. The findings provided good insight into where the Bank already does well and where there is room for improvement.

Special workshops were developed to improve the service quality and will continue as well in 2012 with a major emphasis on our service level within the company. In March 2012 a new marketing campaign for the bank was introduced. The critical factor in the advertisement is the promise to offer high quality services to our stakeholders.



Trausti Heiðar Haraldsson,
Project Manager #1 in service:

In 2012 the main emphasis will be to maintain and enhance the position of the Bank as #1 in service and thus increase the service level. The main objective is to enhance involvement and collaboration throughout the organization so that all managers and staff live the strategy of the Bank to be #1 in service. One of the key criterion to succeed is the satisfaction and wellbeing of employees. Total quality management plays a vital role in the Bank's vision were improvement will be on the service processes within the Bank. By focusing on quality management the Bank is focusing on its customers and tries to understand current and future needs. This means that the Bank is focusing on quality assurance and control of processes as well as products to achieve more consistent quality.

Promoting financial understanding and dialogue

Íslandsbanki places an emphasis on increasing financial literacy in Iceland. Keeping its customers informed is important to the Bank.



Lars Christiansen from Danske Bank

In 2011 VÍB, the wealth management division, held 42 sessions and seminars for customers on savings and investments. Over 3,000 customers have attended these events. Additionally VÍB held a series of symposium on finances in collaboration with the National Association of Senior Citizens. These were successful meetings where questions regarding financial security were addressed. VÍB also got two foreign speakers to address the economic situation in Iceland; Lars Christensen an analyst from Danske Bank and Martin Wolf, chief economics commentator at the Financial Times. Mr. Christensen introduced a new analysis from Danske Bank on the Icelandic economy – “Iceland: Recovery in uncertain times”.



Björn Berg Gunnarsson,
educational officer of VÍB

An important part of VÍB’s identity is an ambitious educational program. Through an official partnership with the National Senior’s Association VÍB held 10 large scale meetings around the country answering important questions regarding pensions and finances of senior citizens. As well as inviting customers to events, VÍB writes articles and books on financial matters and is very active in discussions in the Icelandic media, such as in prime time radio interviews, and as sources in newspaper articles.



Jóna Valgerður Kristjánsdóttir,
chairman of the Icelandic association of seniors’ citizens:

Investment opportunities are limited today so we are in great need of guidance how to obtain footing in this environment. We sense a growing interest of senior citizens on these issues as people in general monitor their finances better than before. The seminars organised by VÍB have been most helpful in explaining the financial environment making it easier for us to make well informed decisions.

Increasing the quality of financial advisory

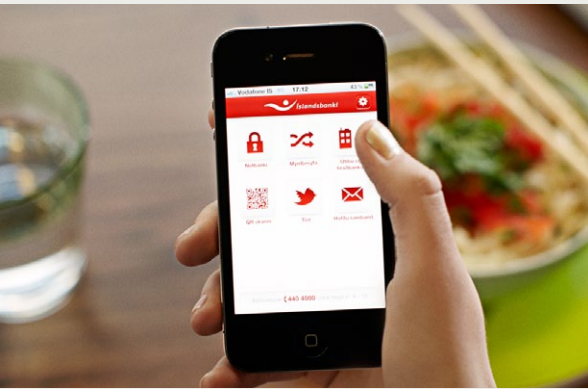
The Bank’s vision is to be #1 in service and to that end retail banking entered into collaboration with various stakeholders, including the Ministry for Economic Affairs and the Icelandic Financial Services Association, to establish a certified education programme for the Bank’s financial advisors. The programme is offered under the auspices of three Icelandic universities which are responsible for its organisation and academic quality. The objective of the programme is to increase quality of financial advisory and better equip bank employees to effectively advise their customers. To further solidify its commitment to service excellence retail banking employees participated in two seminars in 2011. One was a creative workshop where each branch and/or division met to define and discuss their approach to the #1 in service vision, the other one was a two-day tailor made seminar conducted in participation with Dale Carnegie training and addressed the Bank’s service policy and standards. Íslandsbanki is concerned with the financial health of its customers. To this effect the Bank offered several courses on personal finances in 2011. In addition to these courses the Bank maintains a thorough source of information on personal finances through its website.



Martin Wolf, Chief Economic Commentator
at Financial Times

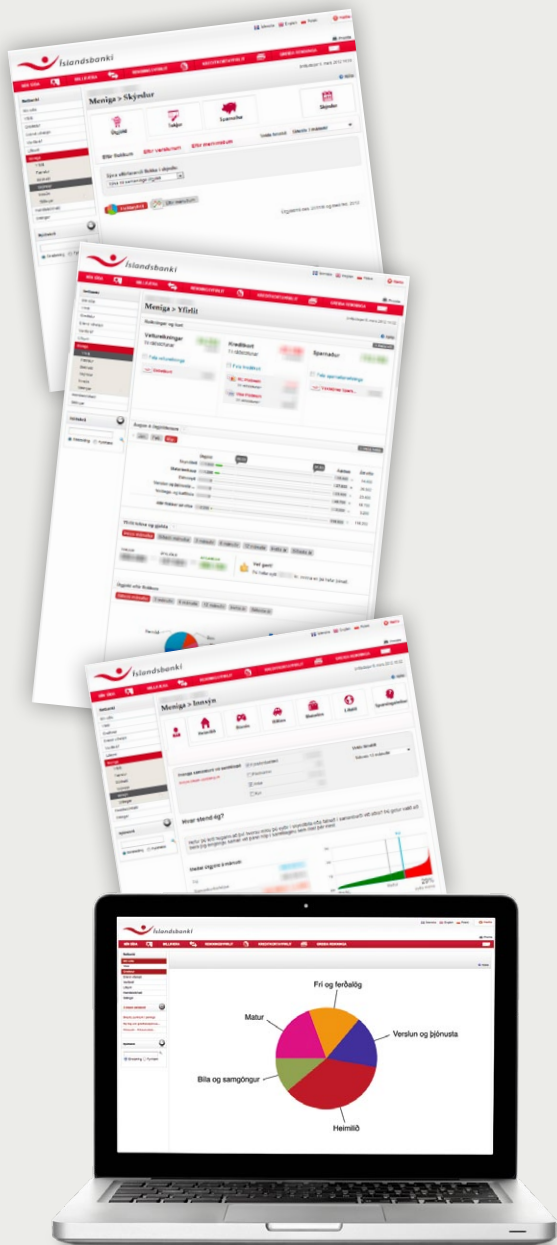
Keep it simple

Íslandsbanki wants to assist its customers in keeping their finances under control. The Bank and Meniga, a Nordic start-up company focusing on web solution to help people better manage their personal finances, have been working together since 2009 to help customers to have an overview of their finances. Meniga is a sophisticated personal finance software that reads and automatically categorises all transactions from the users’ bank accounts and credit cards. Access to this software is free of charge for customers and will be, early 2012, fully integrated into Íslandsbanki’s online net banking solution.



Íslandsbanki also held seminars, “Finance in simple terms”, for customers on the family budgeting. The course covered the importance of goal settings, saving, loans, investments, pensions and how to use Meniga.

To facilitate customer access and overview of their financial information Íslandsbanki launched a mobile app for Android and iPhone smartphones. It was the first Icelandic bank to do so. Users can pay bills, view accounts, transfer money, get location of branches and ATM’s, view exchange rates and use currency converter.



Entrepreneurs in the making

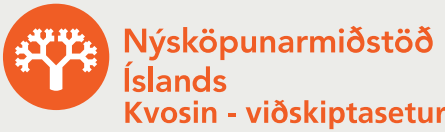
Íslandsbanki, FKA, The Icelandic Association of Women Entrepreneurs, and the Open University in Reykjavik sponsored a course for entrepreneurs and a entrepreneurship competition for women. Íslandsbanki subsidized the course fee by half. The participants received lessons regarding, among others, innovation, the establishment of businesses, strategic planning, market analysis, finance and negotiation. The women made business plans that were later evaluated and the best five participated in the competition for the best plan. Participants received guidance to develop the plan further. The women formed 30 new and innovative business plans. The best business plan received 2 million ISK award from Íslandsbanki.



Participants in the entrepreneurship program for women

Innovation centre for entrepreneurs

Íslandsbanki and the Innovation Centre Iceland launched Kvosin-Innovation Centre for entrepreneurs in one of the Bank’s branch buildings in Reykjavik in 2009. Kvosin provides assistance to individuals and groups to work on business ideas and found companies under the professional supervision of experts from the Innovation Centre. Íslandsbanki provides housing and access to services, such as meeting facilities. Kvosin is a collaborative venture between Íslandsbanki, Innovation Centre Iceland and the Confederation of Icelandic Bank and Finance Employees. Around 80 entrepreneurial companies have benefited from Kvosin’s assistance.



The art and design studio Volki was the winner of the entrepreneurship competition. Volki designs furniture, accessories and other everyday items with the mark of Icelandic nature, values and crafts. The company is owned by three young women but they plan to export its products to the Netherlands.



Strong corporate governance

A clear governance framework enhances accountability, supports good management and aids the progress of responsible value creation.



Corporate governance at Íslandsbanki follows generally adopted principles of corporate governance as regulated by external governing bodies, laws and policies. The management and control of Íslandsbanki is divided between the shareholders, the Board of Directors and the Chief Executive Officer (CEO) in accordance with the external framework described above, as well as the Bank’s Articles of Association and other instructions laid down by the Board.

Shareholders’ meetings

Under statutory law and the Bank’s Articles of Association, shareholders have supreme authority in all matters relating to the affairs of the Bank. The Annual General Meeting (AGM) must be held every year before the end of April. At the AGM, shareholders shall make decisions on the Bank’s activities and the conduct of its business in the upcoming year. This includes the election of the Board of Directors and an auditing firm, on approval of the Bank’s annual accounts for the preceding fiscal year, approval of the Bank’s remuneration policy as well as any amendments to the Articles of Association, when necessary, and declaration of dividends.

Shareholders’ meetings may be attended by shareholders, or their proxies, and advisors. Each share carries one vote at shareholders’ meetings. Decisions at shareholders’ meetings are made by a majority vote, except as otherwise provided in the Bank’s Articles of Association or statutory law.

Articles of association

Íslandsbanki’s Articles of Association (the Articles) regulate the Bank’s internal affairs and management. The Articles contain provisions on the name of the Bank, its share capital, shareholders’ meetings, elections to the Board of Directors and the responsibilities and duties of the Board and CEO.

Íslandsbanki’s Board of Directors constitutes the supreme authority of the Bank between shareholders’ meetings, except as otherwise provided in the Bank’s Articles. The Board is charged with the organisation and monitoring of Íslandsbanki’s operations, affairs, disbursement of funds and general financial position in accordance with the external and internal frameworks. In 2011 the Board of Directors held 19 meetings. In addition to the duties laid out above, the Board, furthermore reviewed or signed off on issues in 2012 such as the Bank’s five-year business plan, the Bank’s Internal Capital Adequacy Assessment Process (ICAAP) report and remuneration issues.

Sub-committees of the Board of Directors

In accordance with the Rules of Procedures issued by the Board of Directors, the Board has appointed separate working committees, whose members are all Directors of the Board. These are the:

The Board Audit Committee - assists the Board of Directors in monitoring the Bank’s accounting process and reviewing significant accounting and financial reporting issues, the effectiveness of the Bank’s internal control and risk management systems as well as compliance.

The Board Corporate Governance, Remuneration and Human Resources Committee – responsible for assisting the Board in setting corporate objectives and providing oversight of the relationships between the Bank’s management and the Board, the shareholders and other stakeholders, with the aim of ensuring accountability.

The Board Risk Management Committee – responsible for reviewing the risk management methods used by Management in the conduct of the Bank’s operations, and proposing to the Board a description of material risks facing the Bank. The implementation of the risk management framework, limit setting and monitoring is delegated to:

- Risk Committee – responsible for supervising and monitoring the Bank’s credit and credit concentration risks at a consolidated level.
- Asset and liability committe – supervises other financial risks, including market risk, liquitiy risk and interest rate risk in the banking book.
- Investment committee – makes decisions pertaining to the purchase or sale of equity stakes in companies as well as other types of investments such as investment funds and real estate.
- Executive Board - responsible for the operational risk framework on consolidated level. The operational risk framework covers how operational risk is identified, assessed, measured, monitored, controlled and mitigated at the Bank.
- The Board Special Credit Committee - handles and makes proposals to the Board on credit cases that entail customer credit limits or write-offs that exceed the authorisation limits of the Bank’s internal Risk Committee.

OBJECTIVE:

Íslandsbanki’s Board of Directors has in the past year placed emphasis on improving the Bank’s governance structure. Among the projects initiated as part of this effort is the detailed mapping of the decision making process within the Bank. The objective is to ensure that systems and processes are in place that minimise risk, support sound business practices, and that the Bank’s governance is on a par with international best practice.

As part of Íslandsbanki’s effort to bring its corporate governance structures and processes into line with national and international best practices, the Bank is instituting a policy with a view to improving its decision-making, with the ultimate goal of ensuring that the Bank’s business decisions serve the best interests of the Bank and its stakeholders in compliance with applicable law, the bank’s constitutional documents, and its existing contractual obligations, that they are made by the persons (shareholders, directors, executive officers, managers, or employees) best positioned to make such decisions effectively and efficiently in light of their respective duties, responsibilities, interests, expertise, knowledge, and access to relevant information and are in fact based on the best available information.

Board of Directors

The Board of Directors comprises seven members and an equal number of alternates, elected at the AGM for a term of one year. No specific retirement age is set for Íslandsbanki's board members nor is there a limit on how long a board member may serve on the Board. Board members of entities regulated by the Financial Supervisory Authority - Iceland (FME) must undergo an independent assessment of their eligibility. The process was implemented by the FME in order to advance monitoring of compliance with rules on the eligibility of Board Members and – no less importantly – to make them aware of the required level of knowledge and the responsibility that goes with their post. For this purpose the FME has appointed an advisory committee which summons each Board Member to a hearing on matters relating to their knowledge and viewpoints regarding the business activities of the Bank as well as their responsibilities as Members of the Bank's Board. All of Íslandsbanki's Board Members have completed this assessment.



Fridrik Sophusson

Fridrik Sophusson (b. 1943)
Chairman of the Board

An Icelandic national, Fridrik Sophusson has nearly forty years of wide-ranging experience in fiscal policy making, management and public service in Iceland. Elected to Parliament in 1978, he served as a Member of Parliament for a period of twenty years, being Minister of Industry and Energy from 1987-1988 and Minister of Finance from 1991-1998. Most recently, he was CEO of Landsvirkjun Ltd., the Icelandic National Power Company from 1999-2009. He has further served as a board director for a number of Icelandic and international companies.



Árni Tómasson

Árni Tómasson (b. 1955)
Board Director

An Icelandic national, Árni Tómasson started his accounting career in 1979 and has worked in bank and financial institution auditing since 1985. He was partner and later chairman of Deloitte Iceland until 2001. He was CEO of Búnaðarbankinn (later merged with Kaupthing) from 2001–2003, and has extensive experience in consultancy as well as teaching at Icelandic universities. In 2008, he was appointed chairman of Glitnir's Resolution Committee and served in that capacity until October 2011. He continues to represent ISB Holding on Íslandsbanki's Board of Directors.



Kolbrún Jónsdóttir

Kolbrún Jónsdóttir (b.1962)
Board Director

An Icelandic national, Kolbrún Jónsdóttir was appointed to the Board of Directors in 2010 as a representative of the Icelandic State Financial Investments. She was Managing Director of Finance for VÍS Insurance from 2008–2010. She worked at Íslandsbanki from 1996–2008, both as Branch Manager in the Reykjavík area and as the Head of Back Office. Prior to that, she was Managing Director of Finance for the home improvement and construction retailer Húsasmidjan.



Neil Graeme Brown

Neil Graeme Brown (b. 1959)
Board Director

A British national, Neil Graeme Brown has an extensive experience in finance and restructuring of international companies. With 20 years of experience in international private equity, he is an expert in US and European M&A markets and has listed companies on the London, AIM and Nasdaq markets. He has held a number of positions, including head of buyouts and financial services at Apax Partners, and partner at Coopers & Lybrand (now PwC). He has a broad board experience and serves as a board member for a number of international companies.



Marianne Økland

Marianne Økland (b. 1962)
Board Director

A Norwegian national, Marianne Økland is the Managing Director of Avista Partners, a London based consulting firm specialising in advisory and capital raising. She has spent most of her career in banking, dealing with debt financing in various positions at JP Morgan and UBS. In particular, she worked for their respective Capital Markets divisions focusing on Nordic Debt Origination and Structuring. She is also an experienced consultant from her time with Marsoft Limited, a Boston, Oslo and London based consulting firm specialising in shipping investments.



John E. Mack

John E. Mack (b. 1947)
Vice-chairman of the Board

A US national, John E. Mack has extensive experience in international banking, M&A, and the development of best-practice in corporate governance. He was Corporate Executive Officer and CFO of Shinsei Bank in Tokyo from 2002–2005 where he managed the bank's Global IPO. Prior to that, he spent 27 years working for Bank of America (BoA) and its affiliates, most recently as a funding executive for the parent company. He has specific experience in corporate work-outs and problem loans through his former role as Director of Strategic Solutions, Inc., a majority-owned subsidiary of BoA.



Dr. Daniel Levin

Dr. Daniel Levin (b. 1963)
Board Director

A US and Swiss national, Daniel Levin has broad experience of governance, finance and capital markets. He is a member of the Board of the Liechtenstein Foundation for State Governance and has advised governments and development agencies globally in the development of financial and capital markets. His work further involves consulting on the implementation of ethical and corporate governance standards for financial institutions. He has been actively involved in numerous financial legislation and parliamentary initiatives and has represented corporate and sovereign issuers and borrowers in the US capital markets. He regularly lectures at universities and conferences on his areas of expertise.



Human Resources

Human capital

Íslandsbanki puts great emphasis on job satisfaction, the wellbeing of its team, a vigorous educational programme and open dialogue. The Bank aims at recruiting, motivating and retaining competent and reliable employees that possess superior knowledge or experience, are positive, professional and always seeking the best solutions for customers.



Íslandsbanki appreciates that banking is essentially a people business. The Bank's overall human resources emphasis is on managerial support, training and development, effective flow of information, employee participation, social activities and the general wellbeing of employees.

Íslandsbanki supports a performance-driven culture that celebrates achievement and gives recognition to employees for their success. Engagement and motivation is key, as job satisfaction has an intrinsic impact on job performance and the Bank's operations and profitability. Employees are furthermore encouraged to participate in the Bank's strategic development which fosters initiative and teamwork. The Bank continues to recruit ambitious staff from diverse backgrounds, as a team with varied education and experiences will achieve better results than a homogeneous one.

Training and development

Íslandsbanki puts great emphasis on quality training programmes and knowledge sharing. By focusing on employee development, the Bank ensures that employees have the opportunity to reach their full potential, thereby securing Íslandsbanki's competitive edge. In 2011, Íslandsbanki made significant investments in the development of employees' know-how through a broad range of training activities, based on systematic analysis of requirements and yearly employee performance evaluations. All in all, Íslandsbanki offered nearly 300 courses, with each employee attending an average of 4.5 courses.

Íslandsbanki believes it is especially important to welcome new employees properly in order for them to integrate with their team and the Bank successfully. All new employees are required to attend the orientation course "Íslandsbanki: My Company". Systematic training of new recruits plays a key role in reducing the time it takes for new employees to adapt and reach their full capacity.

Íslandsbanki also has in place a structured leadership programme to support the Bank's management team, and a special competency model for managers, which defines the skills a leader needs in order to succeed as a manager. The leadership programme aims to strengthen managers in specifically defined competencies and enable them to fulfil their leadership roles successfully.



Elísabet Helgadóttir,
training manager at Íslandsbanki

Íslandsbanki offers various employee development programmes and this year we put special emphasis on mentoring and coaching programmes for women. Mentoring, which is a powerful personal development tool, refers to when a more experienced person shares his knowledge to a less experienced person. The programme supports and encourages people to maximize their potentials and develop their skills. The aim of these programmes is support our female employees and eliminate gender difference in management. Today there still exists gender difference in one upper management level and we believe that these programmes will empower and encourage female participation in management at Íslandsbanki.

The mentoring programme was launched in January 2012 for women and will also be available for men in the fall 2012.



Employee satisfaction

Employee satisfaction and wellbeing are highly emphasised at Íslandsbanki. A motivated and engaged workforce is the foundation of good service, customer satisfaction, efficient operations, and in the end, profitability. Íslandsbanki has participated in Capacent's annual workplace audit since 1997. Results from the November 2011 audit showed that, despite continued challenges in the Bank's operating environment, morale remained very high. Indeed, the number of employees willing to recommend Íslandsbanki as an excellent workplace to their friends went up from the previous year. In 2011, 87% of employees said they are happy at work and 81% of employees are proud to be working for Íslandsbanki.

OBJECTIVE:

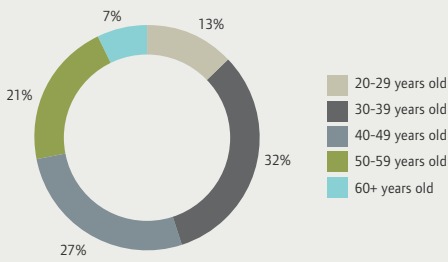
We offer assistance

In 2012 all employees will get a day off to work for a charity of their own choice. Íslandsbanki has actively supported a variety of good causes. Support may however involve more than a donation and often require other types of support than what money can provide. Íslandsbanki therefore decided to give all employees the opportunity to annually spend one working day for charity.

Course participation

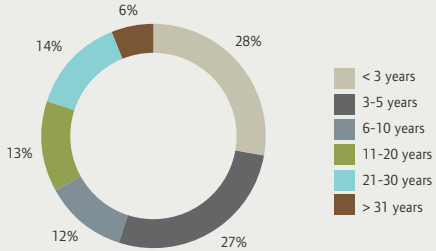
	2009	2010	2011
Number of participants	3076	4645	4236
Number of courses		296	
Av. courses per employee	3.2	4.8	4.5

Employee age



SOURCE: ÍSLANDBANKI

Employee tenure



SOURCE: ÍSLANDBANKI

Breaking the glass ceiling

Íslandsbanki has signed the Women's Empowerment Principles, collaboration between the United Nations Development Fund for Women (UNIFEM) and the United Nations Global Compact, which offer guidance on how to empower women in the workplace, marketplace and community. Íslandsbanki is committed to show initiative and work towards improving gender equality within the organization. In 2011, FKA, The Icelandic Association of Women Entrepreneurs, awarded Íslandsbanki for excelling in motivating women working at the Bank. Further, FKA stated that Birna Einarsdóttir, CEO of Íslandsbanki, has managed to activate both men and women, for the good of both employees and customers of the Bank.

Strategy summit

Íslandsbanki held its third Strategy Summit in January, where over 650 employees and 150 customers participated and shared their perspective on improvements in the services the Bank provides. These summits have played a key role in providing management with valuable insights and ideas on how the Bank should move forward. In the fall 600 employees met again to review the Bank's strategy, key projects and vision.

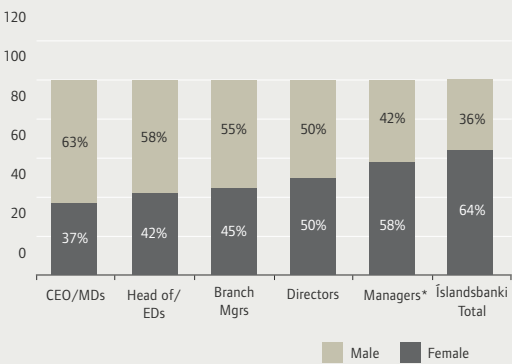
Happy and healthy at and off work

An important dimension of employee satisfaction and morale are social activities. Íslandsbanki offers the employees a good working environment and encourages them to adhere to a healthy lifestyle. Changing rooms and showers are at the Bank which allows employees to work out during office hours. Good and healthy food is served in the canteen and employees are also offered annual physical examination. To even further promote healthy lifestyle a Health-May is held annually where employees are offered a numerous lectures on health topics. In the spring of 2011 Íslandsbanki took first prize in the national initiative "cycle to work", both with regard to the number of days participated and number of kilometres cycled. In addition, over 400 employees took part in the Reykjavik Marathon and contributed to raising funds for charity.

In December employees from Byr joined Íslandsbanki when the two Banks merged. The similarity of the two companies' corporate cultures made the integration process smooth and was eased by Byr employees participating in a tailor-made orientation programme. Employees' children came for a annual one-day workplace visit. The Bank supports various hobby and club activities organised by employees. Bowling and golf tournaments were held and the hiking, golf, cooking, photography and sewing clubs were active.

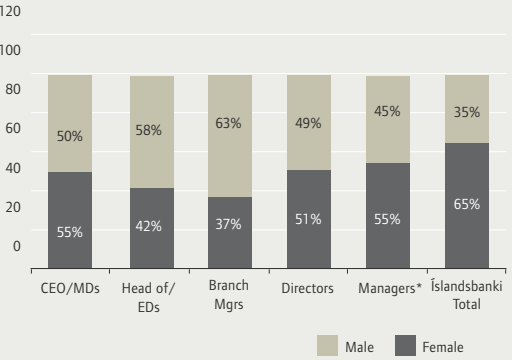
Gender split

Position 2011



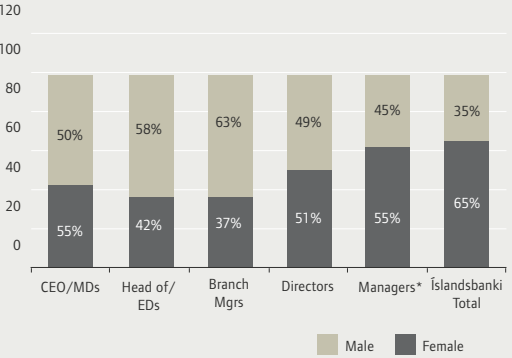
Source: Íslandsbanki - *Includes managers in branch network and team leaders

Position 2010



Source: Íslandsbanki - *Includes managers in branch network and team leaders

Position 2009



Source: Íslandsbanki - *Includes managers in branch network and team leaders

HR Strategy - Workplace Audit

		Results 2009	Goal 2010	Results 2010	Results 2011
Consideration is given to the family circumstances of employees	•GWA question; “There is a good balance between my work and my private life”.	81%	Maintain	84.10%	80.0%
	•GWA question “ Work load is appropriate”	53%	60%	64.40%	57.0%

Results					
Well-trained staff who steadily increase their knowledge and disseminate it to their colleagues	•GWA question; “In the past 12 months, I have had opportunities at work to learn and grow (GWA)	79%	50%	83.40%	82%
Regular and constructive feedback on performance	•GWA question; “I have received performance review the last year”	81%	90%	84.90%	81%
	•GWA question; “In the past weeks, I have received recognition or praise for doing good work”	76%	80%	76.60%	78%
Education and training is a joint function of management and staff	•GWA question; “My supervisor or someone at work, encourages me to develop at work”	79%	Maintain	79.50%	80%
Employees are given the opportunity to tackle new projects, take on greater responsibilities in their work and to move between jobs, when possible	•GWA question; “At work I have the opportunity to do what I do best every day”.	85%	85%	80.70%	82%

Management gender overview 17.02.2012

Position	Female	Male	Total
CEO/MDs	3	5	8
Head of/EDs	16	22	38
Branch Managers	9	11	20
Directors	19	19	38
Managers	22	16	38
Total	69	73	142
Íslandsbanki	639	356	995

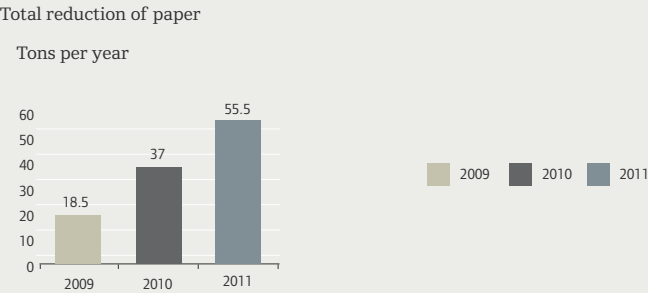


Environment

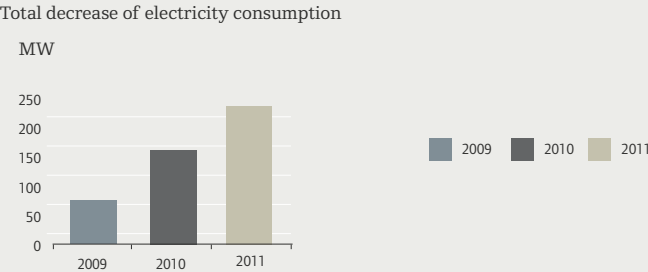
There is a growing realization that businesses can contribute to a sustainable society based on respect for man and nature. Íslandsbanki strives to work in harmony with the environment, a fact that is reflected in the Bank’s strategy as well as in its investments. Íslandsbanki has stressed the social and environmental benefits of investing in renewable energy sources and sustainable fisheries. Therefore the Bank plays a proactive role in the promotion of eco-friendly solutions and technologies that reduce pollution and energy consumption and supports sustainable fisheries.

Íslandsbanki has taken many steps to reduce its environmental impact by integrating environmental strategies into its daily operations, for example:

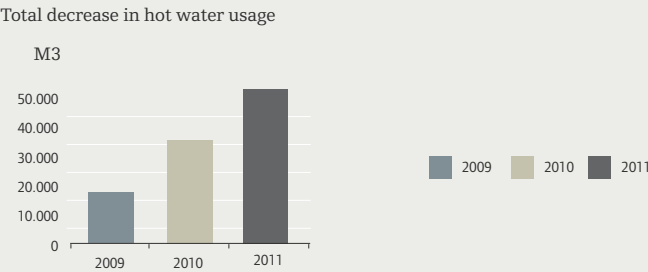
- Items are sorted and properly disposed of in Íslandsbanki’s canteen as well as in subsidiary Ergo’s headquarters.
- The incorporation of paper management system in February 2009 has resulted in a 66% reduction of the paper used by the Bank by 56 tons.



- Color printing has also dramatically decreased with the introduction of the system, contracting from 25% to 6.5%.
- The number of printers has been reduced by approximately 400 machines resulting in a decrease of electricity consumption of 60 – 80 MW a year.



- The Bank places an emphasis on reducing its electricity consumption by for example ensuring that lights are turned off at the end of the day.
- A modification of the heating system in the Bank’s parking lot has allowed a decrease in hot water usage by 45,000m³ in the last three years.



- Íslandsbanki discontinued the distribution of annual bank statements in printed format to customers at the end of 2010.



Geothermal energy

Íslandsbanki is a financial partner to the geothermal energy sector and one of the founding members of the Icelandic Geothermal Cluster. Geothermal energy is a clean, renewable resource that can be tapped by many countries around the world located in geologically favourable places. Íslandsbanki’s sustainable energy team combines years of experience in this field and is focused on providing the global community with sustainable business solutions and research material, including reports on Icelandic, American and Canadian geothermal markets.



Sustainable fishing and the seafood industry

Íslandsbanki and its predecessors have worked closely with the seafood industry for over a century, financing the first Icelandic motorized trawler in 1904. Providing financial and expert advice on sustainability within the fishing industry is an important element of Íslandsbanki’s business opportunities.

Íslandsbanki is a founding member of the Icelandic Seafood Cluster. The objective is to map the Icelandic seafood cluster which consists of fisheries, processing, technology, services and knowledge based companies in the seafood industry.

Ergo - thinking green

The leasing services of Íslandsbanki were rebranded to Ergo this year. Since its establishment, Ergo has focused on green thinking and providing loans for environmentally friendly vehicles. These green loans are now about 50% of all new car loans at Ergo.



OBJECTIVES:

- Measure the electricity and water usage at headquarters. Measure the usage in the branches in the year 2013.
- Measure how many kilometres cars owned by the Bank are driven annually and how much fuel is purchased.
- 90% of the vehicles owned by Bank will be environmentally friendly in two years.
- Sort waste properly at Íslandsbanki HQ



Community

Community

As one of Iceland’s largest workplace since 1904, Íslandsbanki and its predecessors have played a proactive role in society and worked in harmony with the communities in which it operates. The Bank’s values, progressive, professional and positive, were defined and selected by Íslandsbanki’s employees and we believe that if we can be guided by those values we can build a responsible, open and reliable bank that plays a proactive role in the enhancement of the community and the environment in which it operates. Íslandsbanki supports various social, artistic, cultural and sporting projects as well as innovation and entrepreneurship. In 2011 Íslandsbanki supported good causes for over 120 million ISK.



Íslandsbanki Reykjavík Marathon

Íslandsbanki has been the main sponsor of the Reykjavík Marathon since 1997. This year, a record was set with 12,213 runners registered, compared to less than 11,000 the year before, and the increased number of overseas participants is a good indicator of the Marathon’s gaining foothold internationally. The most important component of the Marathon is the sponsorship raised for charities by the runners themselves. In 2011, about ISK 43 million was raised for over 100 charities. The Bank also views the Reykjavík Marathon as an important public health initiative, whereby the whole family can participate in tailor-made distances suitable for each family member.

To celebrate its longstanding association with the Reykjavík Marathon and its dedication to running as a public health initiative, Íslandsbanki decided to sponsor runner Kári Steinn Karlsson on this path to prepare for the 2012 London Olympic Summer Games. Kári has enjoyed great success in his endeavours in the past years. He set a new Icelandic national record in the half marathon during the Reykjavík Marathon in 2011 finishing at an impressive 1:05:35. He followed up on this feat by setting another Icelandic national record in the full marathon during the Berlin Marathon in September the same year when he finished at 2:17:12. Íslandsbanki is proud to sponsor this great athlete and looks forward to follow his success at the Olympics later this year.



The Women of Achievement Fund

The Women of Achievement Fund sponsors women in sports with the objective of encouraging them to excel in their chosen fields. It also evaluates the potential of individuals and groups to excel. The fund was founded in 2007 as a joint initiative of Íslandsbanki and the National Olympic and Sports Association of Iceland. Over 100 applications were received during the year, whereby a total of ISK 6.5 million was awarded to 10 women and two national teams.



Special Olympics

Íslandsbanki has been a key sponsor of the Icelandic Special Olympics team for the past ten years. This summer, 38 Icelandic participants competed in 8 different sports at the Special Olympics World Summer Games in Athens. Having the opportunity to participate in this life changing event gives these individuals a great sense of accomplishment.



“What if?”

Íslandsbanki offered schools, parents’ associations and colleges to 35 shows of the play What if? The play focuses on preventive measures to drugs- and alcohol abuse, bullying, suicides and sexual violence by using the theatre, music, humour and poetry in a fun and innovative way. Around 20,000 teenagers have now seen the play and been touched by its message that teenagers have choices and that one innocent rash decision can have serious consequences.



Give life

Íslandsbanki was a sponsor of Life which held a national charity promotion for the maternity ward at Landspítali – The National University Hospital under the name “Give life”. Over ISK 60 million were collected in a live television show at Channel 2. The maternity ward is poorly equipped and premises are old and require renewal. The donations collected will help do just so.



Various community projects

In 2011, various Íslandsbanki branches supported different organizations and charities in their close communities while the headquarters has emphasised supporting national organizations.

Íslandsbanki’s new branch at Suðurlandsbraut supported Þroskahjálp which is an umbrella organization supporting people with disabilities. There are 22 associations in Þroskahjálp and they operate nationwide with 6 thousand members.

VÍB, the wealth management division of Íslandsbanki, supported Iceland’s participation at the La biennale di Venezia where the Spanish-Icelandic art duo Libia Castro & Ólafur Ólafsson exhibited their work Under Deconstruction.

Íslandsbanki and the Reykjavík City Theatre have had a long and successful cooperation since the Bank’s foundation. Reykjavík City Theatre is among Iceland’s oldest and most prestigious cultural institutions.

Each year Íslandsbanki grants scholarships to outstanding students. This year, 10 students received a total of ISK 2,4 million in grants for their postgraduate education.

Íslandsbanki

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For more information, please visit our websites:
www.islandsbanki.is/english/about-islandsbanki/corporate-social-responsibility/