



Íslandsbanki in society

Contents

Message from the CEO	4
This is Íslandsbanki	5
Key figures	7
An eventful year	8
Being socially responsible	9
Responsible objectives	10
Business	11
Coporate Governance	12
Board of directors	14
Disclosure policy	17
Risk Report	17
Anti-corruption	18
Competition safeguards customers' interests	19
Ethical guidelines	20
Promoting CSR in Iceland	20
Promoting education and financial literacy	20
Restructuring customers debt	23
20,000 customers received interest refund	27
Outstanding service for all customers	28
Supporting entrepreneurs	29
Connecting with customers on social media	30

Human Capital	31
Human Resources	32
A diverse group	32
Finding the leader in you and career development for women	33
An ambitious training programme and education	33
Certified financial advisors	33
We take pride in our work	34
Through the glass ceiling	34
Annual strategy summits	35
The ultimate team	35
Employee health and well-being	35
We offer a helping hand	36
Environment	37
Environmentally friendly	38
Recycling	38
Saving the trees	38
Data elimination	39
Reducing energy consumption	39
Reducing water consumption	40
Íslandsbanki's fleet of cars	40
Geothermal energy & seafood	41
Publication of market research material	41
Active participation in cluster projects	41
Community	42
Reykjavík Marathon - running for a good cause	43
Forskot, the Golfing Excellence Fund	43
"What if?"	44
Íslandsbanki's Entrepreneurs Fund	44
Various community projects	44

Message from the CEO

At Íslandsbanki, we seek to work in harmony with our community, with respect for man, nature and good ethics. Although social responsibility is often put in connection with grants to charities, Íslandsbanki's most important role as a financial institution is to provide capital for investment for individuals and companies for further development of the Icelandic economy, with sound and healthy business practice as a guiding principle.

Íslandsbanki's strong balance sheet enables the Bank to function as a major player in the development of the economy and the Bank takes that role seriously.

Responsible decision making

Good business ethics, prudence and good corporate governance are an integral part of our day to day business. We have worked on strengthening our corporate governance and one of the key strategic projects in 2012 was to implement the Bank's decision-making matrix. This was done in order to ensure that decisions taken within the Bank fulfil the appropriate requirements. The decision-making matrix elevated the Bank's corporate governance standards to international best practices.

Healthier customers – healthier Bank

After the financial crises banks worldwide experienced the same problem, they lost the public trust. It takes years to rebuild that trust and it requires hard work and commitment. The Bank has placed high emphasis on more extensive internal regulatory framework and increased transparency. Over the last 3 years, the Bank has published its Risk Report with details on the Bank's risk profile and operational risk factors. We have worked hard on coming to terms with the past and we are ready to look to the future. We have made remarkable

progress in financial restructuring with recalculation of over 20,000 loans, resulting in ISK 475 billion in write-offs and remissions to customers. This has increased the quality of the Bank's loan portfolio and decreased uncertainty for our customers who can now better service their debt.

Realize the policy

Íslandsbanki adheres to and supports the United Nations guiding principles for corporate social responsibility; the Global Compact. As one of Iceland's leading company and biggest workplace, the Bank embraces the responsibility of its actions and encourages a positive impact on the society. It is not enough to sign a well phrased policy about being socially responsible. You have to integrate it into the business model and stand by it in all your actions. It is an enormous task that we take seriously and strive to do better on every day.

Birna Einarsdóttir, CEO of Íslandsbanki



Birna Einarsdóttir

This is Íslandsbanki

Íslandsbanki, a team of 1,100 employees, is a universal bank offering a full range of financial services to individuals, corporate and institutional investors to the benefit of the clients and the society as a whole. With 25-43% market share across all domestic franchise areas, Íslandsbanki is a leader in financial services in Iceland and operates the country's most efficient branch network of 21 branches around the country serving over 200,000 customers. The Bank is divided into four main business segments: Retail Banking, Corporate Banking, Markets, and Wealth Management. In addition Íslandsbanki operates specialised units focused on credit card services and asset based financing.

Retail Banking

Retail Banking provides comprehensive financial services to individuals, households, and small and medium sized enterprises. The division runs 21 branches around Iceland together with two specialised units in the field of credit card services and asset based financing. Following the mergers with Byr and Kreditkort, Íslandsbanki is now a leader in retail banking services in Iceland with a 31% overall market share and a 43% share in asset based financing for individuals.

Corporate Banking

Corporate Banking provides comprehensive financial services to larger companies and municipalities as well as financing larger projects in Iceland. After servicing the country's core industries for many years, the Corporate Banking division has expert knowledge in seafood and energy, while maintaining a special focus on growing sectors such as retail and tourism. Íslandsbanki holds a leading position in corporate banking with a 37% market share.

Wealth management

Wealth Management, under the brand names VÍB and IS Funds (Íslandssjódir), offer a broad range of advisory services in the areas of savings, portfolio management and private banking for affluent individuals and institutional investors. VÍB's unique position lies in its ambitious educational activities aimed at encouraging discussion and information sharing on investments and economic affairs. Íslandsbanki is a leader in wealth management in Iceland, with around 20,000 customers and a market share of 20-40% depending on product area.

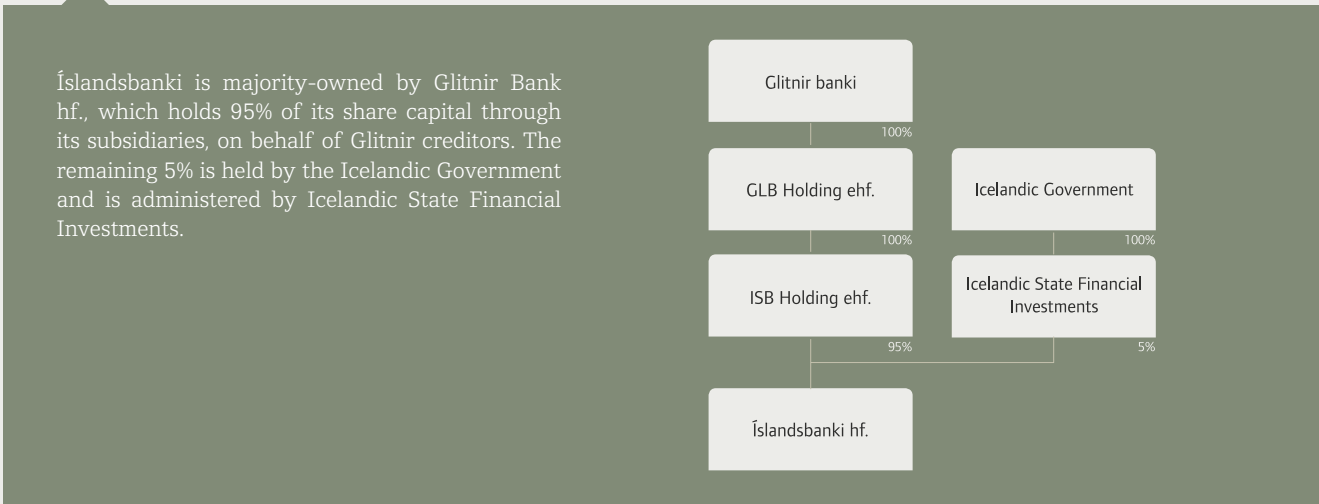
Markets

Markets provides its customers with multifaceted services that cover their investment banking activities. The Bank's investment banking division provides comprehensive services to larger companies and investors in the areas of capital markets, corporate finance and market research. Íslandsbanki is the leading player in capital markets in Iceland with a 20-35% market share.

21 branches around Iceland



Ownership structure



Key figures

Return on equity

17.2%

Return on equity was 17.2% compared to 1.5% in 2011. The entire goodwill of ISK 17.9bn from the merger of Byr was impaired at year end 2011.

Retail Banking market share

31%

As measured by Capacent Gallup monthly tracking December 2012, 6 month average.

Corporate Banking market share

37%

As measured by Capacent Gallup in December 2012, 300 largest corporates in Iceland as listed by Icelandic Business Magazine.

Operating income

32% ↑

Operating income of ISK 53.4bn in 2012, compared to ISK 40.5bn in 2011.

Taxes and levies

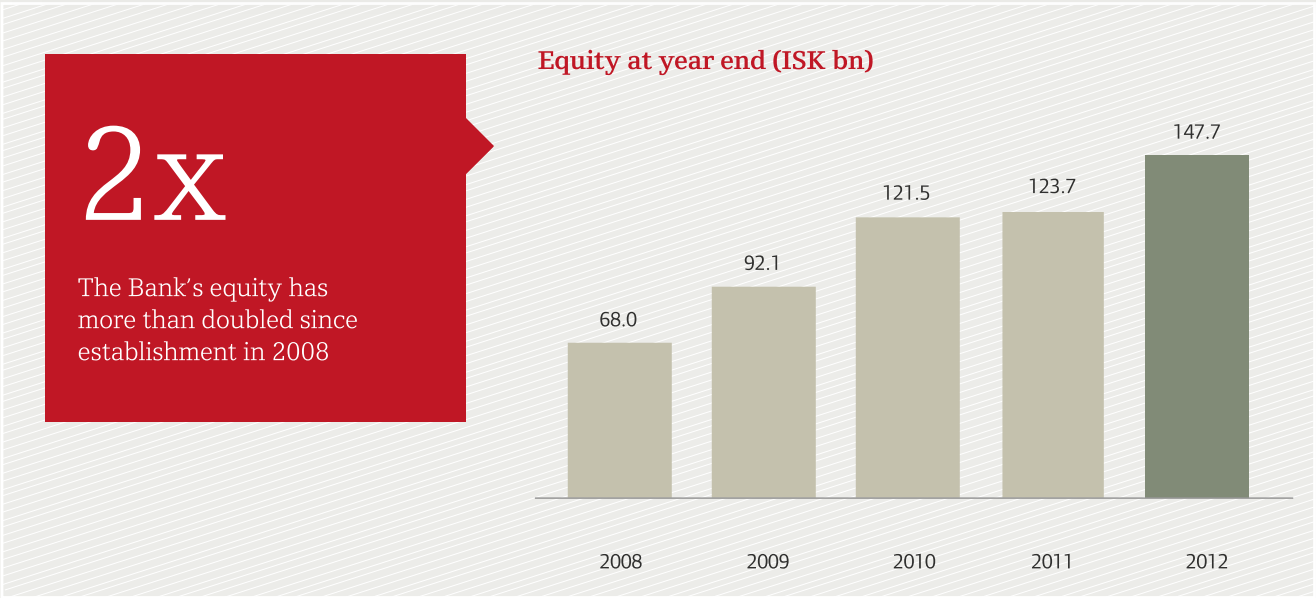
9.3bn

Tax and levies paid to government institutions amounted to ISK 9.3bn in 2012 compared to ISK 2.0bn in 2011.

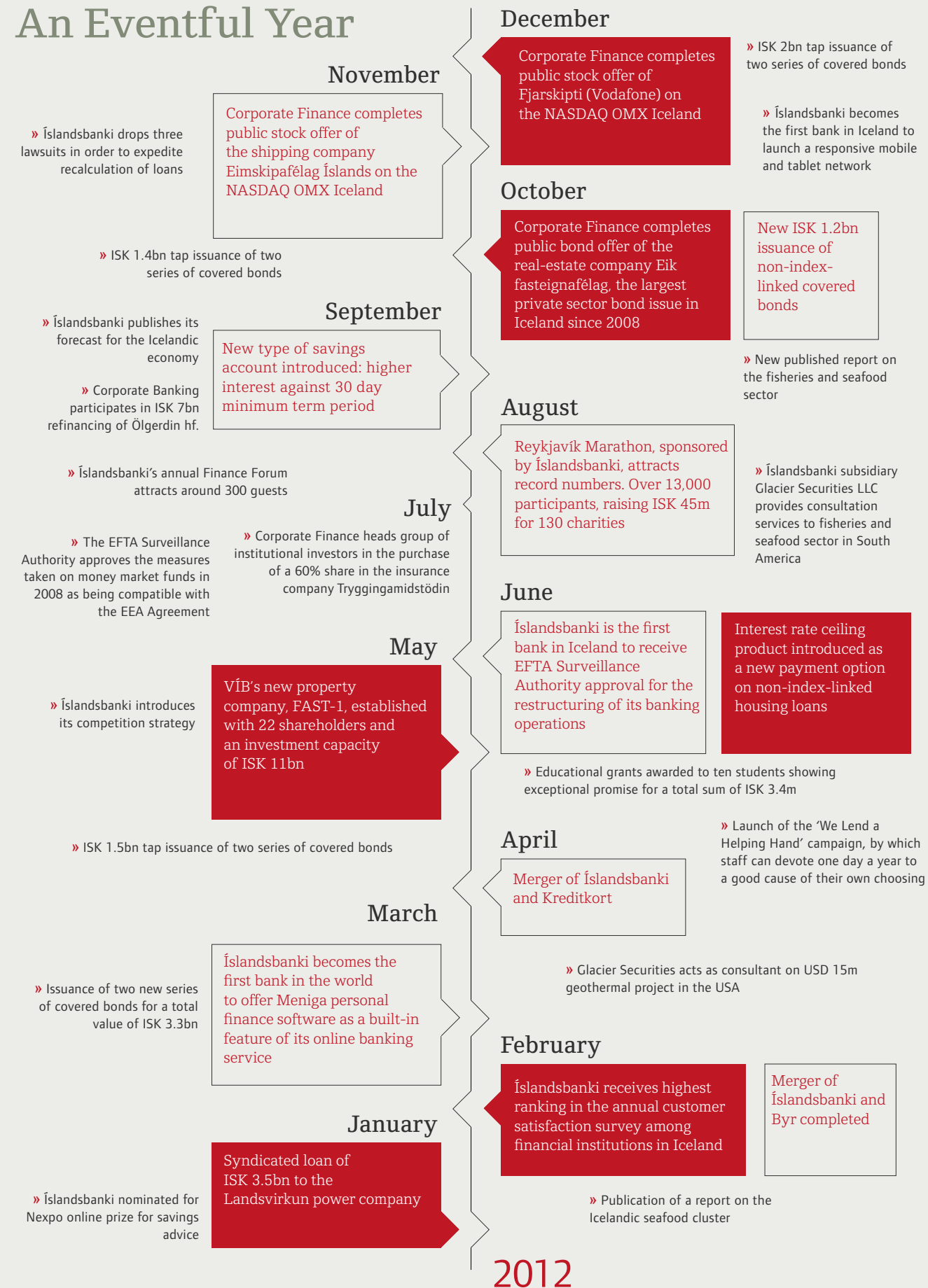
Net profit

23.4bn

Net profit in 2012 was 23.4bn, thereof ISK 15.7bn is profit from regular operations.



An Eventful Year



Being socially responsible

For the last four years Íslandsbanki has been adhering to the UN Global Compact on social responsibility. The compact is a guide for companies on how to be socially responsible in practice. Íslandsbanki works within the parameters set by the compact and they have scoped the Bank's Corporate Social Responsibility policy. The policy covers four key areas: Business, Human capital, the Environment and the Community. The Bank's participation in community programmes is based on those areas.

Four main pillars of social responsibility



Buisness

Íslandsbanki endeavours to serve its customers through clear regulations, efficient disclosure of information, increased transparency, and fair treatment of all its customers.



Environment

Íslandsbanki seeks to work in harmony with the environment, as reflected in its operations, management practices and investments.



Human capital

Íslandsbanki aims to recruit, strengthen and retain a skilled and conscientious workforce. The Bank aspires to employ an ambitious and varied group of people, with differing backgrounds and experience.



Community

Íslandsbanki contributes to the community by supporting various social, artistic, cultural and sporting activities, as well as encouraging innovation and entrepreneurship.

Responsible objectives

	2012 OBJECTIVES	PERFORMANCE
BUSINESS	Decision-making matrix Detailed mapping of the decision making process within the Bank.	The decision-making matrix was launched on 1 November 2012.
	Mentoring Special emphasis on mentoring and coaching programmes for women.	The mentoring programme was launched in 2012. 35 women are now in the programme. 95% recommend it to others.
HUMAN CAPITAL	We offer a helping hand All employees will get a day off to work for a charity of their own choice.	This project was launched in 2012.
	Electricity and water consumption Measure the consumption at headquarters.	Measures of the consumption can be seen in the report.
ENVIRONMENT	Car fleet of Íslandsbanki How many km cars owned by the Bank are driven annually.	227,900 km
	How much fuel is purchased	Objective not fulfilled in 2012. Measurements started in 2013.
	90% of the vehicles owned by the Bank will be environmentally friendly by 2014.	General Services is looking into purchasing/leasing more eco-friendly vehicles with 0-120 g of CO ₂ emissions per km.
	Recycle Sort waste properly at headquarters.	Implementation starts at headquarters in April.

FUTURE OBJECTIVES

BUSINESS

- Lower the ratio of loans in restructuring**
- The Bank aims at an 8% LPA ration (Loan Portfolio Analysis) in the end of 2013. The ratio was 13.7% by the end of 2012.

HUMAN CAPITAL

- Leadership program**
- An intensive leadership program for managers at Íslandsbanki was launched in January. 66 managers are now participating. The objective is that by 2015 all of 141 managers will have completed the program.
- Work place audit**
- To be over or equal to 4.20 in employees answers to the work place audit in 2013. The results are on a scale from 1 - 5.

ENVIRONMENT

- Electricity and water consumption**
- Measure the consumption in the Bank's branches in 2013.
 - Reducing the electricity consumption by at least 10 - 15% from 2013 - 2016.
- Car fleet of Íslandsbanki**
- 90% of the vehicles owned by the Bank will be environmentally friendly by 2014.
- All tyres under the Bank's vehicles will be environmentally friendly in 2014 to reduce attrition of roads and airborne particle pollution.
- Recycle**
- All waste will be recycled at the Bank's branches in 2013.
- Paper**
- In 2013 the Bank will discontinue the distribution of payment slips to customers saving around 600,000 letters annually in distribution.



Business

The Bank's most important social purpose relates to its very function and role as a bank. This purpose is to provide capital for investment and the growth of Icelandic business and industry and to work with individuals and companies in their enterprises. At Íslandsbanki, our primary goal is to fulfil our role with a balance of enthusiasm and prudence.

Íslandsbanki is committed to providing customers with effective communication, transparency and equal treatment. The Bank places an emphasis on good service to customers to ensure customers' satisfaction and trust in the Bank.

Corporate Governance

Sound governance promotes improved work habits and communications, which in turn enhances trust and confidence among shareholders, the Board, management, employees, and other stakeholders in the Bank.

A clear governance framework strengthens the Bank’s infrastructure and clarifies responsibility, thereby strengthening the foundations of the Bank’s objectives. Íslandsbanki’s governance practices are consistent with general corporate governance guidelines for entities regulated by official supervisors and regulatory instruments. The management and control of Íslandsbanki are shared by shareholders, the Board, and the CEO in accordance with the Bank’s Articles of Association, other Board directives, and the external regulatory environment.

Decision-making matrix

One of Íslandsbanki’s key projects in 2012 focused on sound governance principles. The project entailed mapping out all major decisions that the Bank may wish to take under given circumstances. This was done in order to foster improved decision making and ensure that the decisions taken within the Bank fulfil the appropriate requirements at any given time.

Methodology

The decision-making matrix was formally launched on 1 November 2012 and has been in effect since that time. In order to fulfil its obligations to observe sound governance practises, the Bank has defined the following methodology for major decisions.

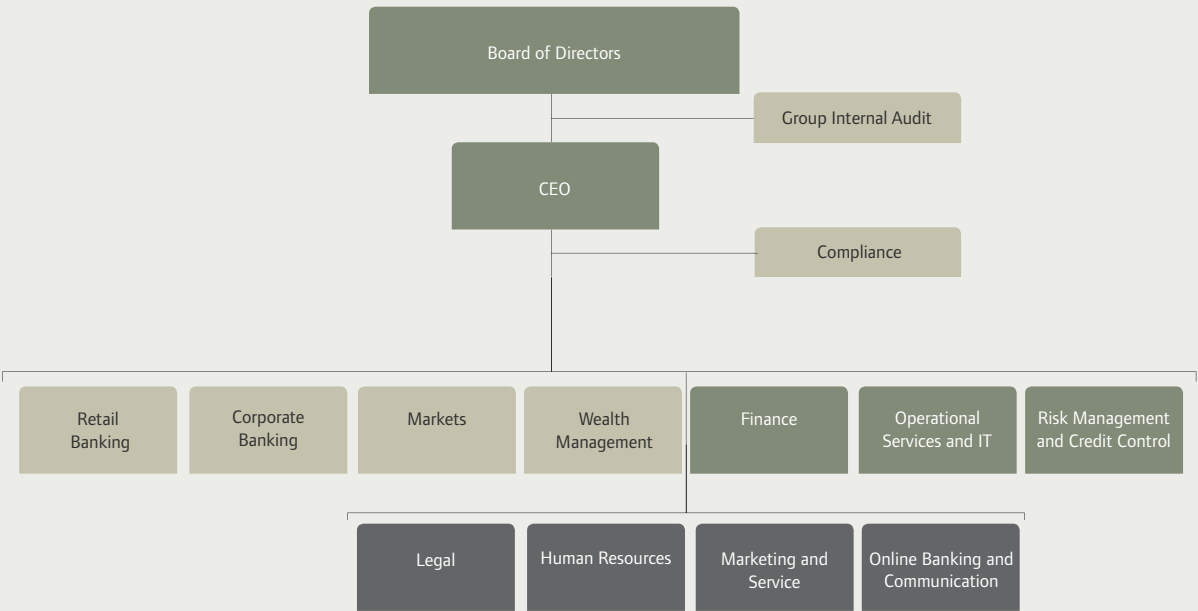
- The Bank’s decisions serve the interests of the Bank and its stakeholders in accordance with current regulatory instruments, the documents pertaining to the Bank’s establishment, and the Bank’s contractual obligations
- Decisions are taken by the parties (shareholders, Board members, supervisors, managers, or employees) best qualified to carry them out effectively and efficiently in view of their professional obligations, sphere of responsibility and interest, knowledge and expertise, and access to the appropriate information
- Decisions are based on the best available information and are taken following appropriate scrutiny



Daniel Levin
Board Member

Following the adoption of the decision-making matrix, the Bank has committed itself to a diligent and thorough implementation of these corporate governance guidelines, which establish a clear and verifiable allocation of duties and responsibilities as well as the appropriate consultation and approval parameters throughout the Bank. The introduction of the Matrix has been welcomed by the Bank’s staff with open arms, and its seamless implementation throughout the Bank’s operations elevates its corporate governance standards to international best practices. In its adoption of the Matrix, the Bank’s Board of Directors emphasized that this is a “live” document that requires sustained proactive and exemplary initiative on behalf of the Bank’s staff in order to ensure that ongoing operational challenges are properly addressed and adequately reflected in the Matrix. The continued excellence and effectiveness of the Bank’s corporate governance policies require a commitment not only to the formal observance of these policies but also to the substantive values and principles reflected therein.

Administrative structure



Shareholders’ meetings

In accordance with the Act on Public Limited Companies and the Bank’s Articles of Association, shareholders shall wield the ultimate authority in all matters at shareholders’ meetings. The Annual General Meeting (AGM) shall be held before the end of April each year. At the AGM, the Board of Directors is elected, the auditors selected, the annual accounts for the previous year and the employment terms policy presented for approval, and decisions made about dividend payments and amendments to the Articles of Association, as appropriate.

Shareholders or their representatives are authorised to attend shareholders’ meetings, as are advisors. At shareholders’

meetings, each share generally carries one vote, and issues are decided by majority vote unless otherwise stipulated by law or in the Articles of Association.

Articles of Association

Íslandsbanki’s Articles of Association contain provisions on the Bank’s purpose, share capital, and shareholders’ meetings, as well as the election and responsibilities of the Board of Directors and the procedures governing amendments to the Articles of Association.

Board of directors

The Board of Directors comprises seven members who are elected at each AGM for a term of one year. There are no limitations on duration of Board membership, nor are there any age limits for participation in the Board of Directors.

Board members of firms supervised by the Financial Supervisory Authority (FME) must be subjected to an

eligibility assessment. This assessment was introduced by the FME in order to support enforcement of rules on board member eligibility and – equally important – to enhance Board members’ awareness of the knowledge and responsibility required of them as members of the Board of Directors. The FME has appointed an advisory committee that interviews Board members in order to determine their level of knowledge



Fridrik Sophusson
Chairman of the Board
since January 2010



John E. Mack
Vice-chairman of the Board
since January 2010



Árni Tómasson
Board Director
since January 2010

Biography

Fridrik Sophusson has nearly forty years wide-ranging experience in fiscal policy making, management and public service in Iceland. He has also served as a board member in several companies and institutions. He was Managing Director of the Icelandic Management Association 1972-1978 when he was elected to Parliament. During his stretch as an MP he moreover held the position of Minister of Industry and Energy 1987-1988 and Minister of Finance 1991-1998. Mr. Sophusson was appointed the CEO of Landsvirkjun Ltd, the National Power Company, in 1999 and held that position for almost 11 years.

John E. Mack, a US national, has many years’ experience in international banking and M&A. He was Corporate Executive Officer and CFO of Shinsei Bank in Tokyo 2002-2005. Prior to that, he spent 27 years working for Bank of America and its affiliates, most recently as a funding executive for the Parent Company. Mr. Mack has specific experience in corporate workouts and problem loans through his former role as director of Strategic Solutions Inc, a majority-owned subsidiary of Bank of America.

Árni Tómasson has worked in bank and financial institution auditing since 1985. He was partner and later chairman of Deloitte Ltd in Iceland until 2001. Mr. Tómasson has over 20 years of experience in teaching at Reykjavik University and the University of Iceland. Mr. Tómasson was CEO of Bunadarbankinn (later merged with Kaupthing) 2001-2003 and has since worked as an independent consultant. In October 2008-2011 Mr. Tómasson was chairman of Glitnir’s Resolution Committee.

Education

Cand. Jur. degree in Law from the University of Iceland.

MBA from the University of Virginia, Darden School of business and a B.A. degree in economics from Davidson College.

Cand. Oecon. degree in business administration from the University of Iceland and authorised public accountant.

and their opinions on issues related to the Bank’s operations and their own responsibility as members of the Board. All Íslandsbanki Board members have passed this assessment.

The Board of Directors wields the ultimate authority over the Bank’s affairs between shareholders’ meetings. The Board is responsible for supervision and organisation of operations

and for ensuring that the Bank’s overall financial position is in compliance with the internal and external regulatory framework.

The Board of Directors met 15 times in 2012 and its subcommittees held 22 meetings in total.



Dr. Daniel Levin
Board Director
since May 2011



Marianne Økland
Board Director
since January 2010



María E. Ingvadóttir
Board Director
since September 2012



Neil Graeme Brown
Board Director
since January 2010

Daniel Levin, a US and Swiss national, is a Board Director of the Liechtenstein Foundation for State Governance. Dr. Levin has been advising governments and development agencies globally in the development of financial and capital markets, and has been working closely with supervisory agencies and regulators on the implementation of ethical and corporate governance standards for financial institutions. He has been actively involved in numerous financial legislation and parliamentary initiatives.

Marianne Økland, a Norwegian national, currently holds the position of Managing Director of Avista Partners. Ms. Økland has spent most of her career in banking, dealing with debt financing in various positions at JP Morgan and UBS. She worked for their Capital Market division focusing on Nordic Debt Origination and Structuring. Ms. Økland is also familiar with the consulting business from her work at Marsoft Ltd., a Boston, Oslo and London based consulting firm specialising in shipping investments.

María E. Ingvadóttir has over 20 years experience in management, finance and consulting. Since 2002 Ms. Ingvadóttir has been an independent consultant in the field of financial accounting and management. Prior to that, she held various positions in finance and trade among others as the CFO of Reykjavík – European Capital of Culture 1998-2001 and as the CFO and later Trade Representative with the Icelandic Trade Council 1987-1997. Ms. Ingvadóttir represents the Icelandic State Financial Investments.

Neil Graeme Brown, a British national, has extensive experience of finance and restructuring of international businesses. Mr. Brown was a partner at Coopers & Lybrand (now PwC) in London 1990-1996. He has 20 years of experience in international private equity and is an expert in US and European M&A markets. Furthermore, he has listed companies on the London, AIM and NASDAQ markets. Mr. Brown has served and serves as a board member for a number of international companies.

Lic.iur. (J.D.) and Dr.iur. (J.S.D./Ph.D.) degrees from the faculty of Law of the University of Zürich, Switzerland, and an LL.M. degree from Columbia University School of Law.

M.Sc. degree in finance and economics from the Norwegian School of Economics and Business Administration.

Cand. Oecon. degree in business administration from the University of Iceland.

M.A. degree in business from Emmanuel College, Cambridge and associate of the Institute of Chartered Accountants (ACA).

Board subcommittees

In accordance with the rules governing its activities, the Board has appointed subcommittees comprising Board members. Each of the subcommittees conveys information on its activities to the Board. The subcommittees are:

The Board Audit Committee: assists the Board in overseeing accounting and auditing of major accounting and financial reporting matters, effectiveness of internal monitoring within the Bank, and the risk management and compliance structure.



The Board Risk Management Committee: is responsible for reviewing the risk management practises followed by Bank management and presenting to the Board a description of the chief risks facing the Bank. It is also

responsible for reviewing the risk management rules set by the Board.

The Board Special Credit Committee: addresses and makes recommendations to the Board on credit issues involving credit authorisations or write-offs falling outside the purview of the Bank’s internal Risk Committee.

The Board Corporate Governance, Compensation and Human Resources Committee: is responsible for assisting the Board with setting goals for the Bank and overseeing the Bank’s relationship with managers, the Board, shareholders, and other stakeholders, with the aim of clarifying areas of responsibility.

	Audit Committee	Risk Management Committee	Special Credit Committee	Corporate Governance, Compensation and Human Resource Committee
Fridrik Sophusson				Chairman
John E. Mack		Member		Member
Árni Tómasson	Member		Chairman	
Dr. Daniel Levin		Member		Member
Marianne Økland	Member	Chairman		
María E. Ingvadóttir			Member	Member
Neil Graeme Brown	Chairman		Member	

 Member  Chairman

Structure of Board’s subcommittees

Disclosure policy

Íslandsbanki has in place a formal Disclosure and Communication Policy approved by the Board of Directors. The policy, which is required under Pillar 3 of the Basel framework, outlines the governing principles and framework for external disclosure and communication. The Bank believes in open and consistent communication with its stakeholders as it is essential for trust building and for maintaining a good relationship

Íslandsbanki aims 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. The main channel for Íslandsbanki’s risk and capital management disclosure is through the Risk report, the Annual report, the quarterly financial statements and investor presentations. If material risk exposures change significantly between reporting periods, the Bank can choose

to disclose this information more frequently. Accordingly, Íslandsbanki may decide not to disclose information that is considered to be immaterial. In addition, the Bank will not disclose information that is deemed to be proprietary or confidential. The classification of proprietary and confidential information is based on Icelandic law and regulation.

Risk Report

Íslandsbanki has published for the third time a special Risk Report. The report provides detailed information on the Bank’s risk profile and risk management.

The objective of Íslandsbanki’s Risk Report is to provide market participants and other stakeholders with information that facilitates a better understanding of Íslandsbanki’s risk profile and capital adequacy, and thus comply with Basel disclosure requirements. The Risk Report presents comprehensive information on the Bank’s risk governance, risk assessment processes, material risk exposures, capital adequacy and capital composition. In addition, it provides detailed 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 main domestic legislative and regulatory changes, as well as information on the Bank’s remuneration policy. At year-end 2012 the Bank was in compliance with its defined risk appetite and all regulatory requirements were fulfilled.

The Risk Report can be found on the Bank’s website: www.islandsbanki.is/riskreport



Sverrir Örn Þorvaldsson
Chief Risk Officer

The Risk Report is modelled on the best practise of many of its international peers, sets a disclosure standard in Iceland, and fulfils the requirements of Pillar 3 of the Basel framework. The Bank believes that an open and transparent disclosure is essential in building confidence and maintaining good relations with its shareholders and other stakeholders. The Risk Report increases the transparency and provides market participants with information that helps facilitate a better understanding of Íslandsbanki’s risk profile, its risk management processes and its capital adequacy.

Anti-corruption

The Compliance unit is responsible for monitoring and assessing on a regular basis the appropriateness and effectiveness of measures undertaken by Íslandsbanki to ensure that the work carried out by the Bank, its Board, and its employees is in compliance with current laws, regulations, and internal rules and procedures at all times and that it is consistent with sound and appropriate business practise. Íslandsbanki’s Compliance Officer is appointed by the CEO and has an independent position in the Bank’s organisational chart. The Officer files reports to the CEO and the Board on regular basis.

Compliance risk is 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 the applicable regulatory instruments. In co-operation with Internal Audit, the Compliance department carries out a special “fit-and-proper” test undergone by managers and key employees.

Internal Audit

Group Internal Audit provides Íslandsbanki with independent, impartial confirmation and consultancy designed to add value and improve the Bank’s operations. It helps the Bank to assess and improve the effectiveness of its risk management, monitoring, and governance practises. Furthermore, Group Internal Audit leads investigations into possible instances of misconduct in the Bank’s operations. The role of Internal Audit is to determine whether the procedures employed by the Bank for risk management, monitoring, and governance as decided and presented by management are satisfactory.

Anti-money laundering

Íslandsbanki is committed to the prevention of money laundering and the financing of terrorism. In this regard the Bank has set for itself rules that are based on and in strictest compliance with Measures to Prevent Money Laundering and Terrorist Financing, as subsequently amended, and guidelines of the Financial Supervisory Authority-Iceland (FME). These rules mandate identity verification whenever the Bank enters into “a permanent contractual (business) relationship” with a new customer. Such verification shall involve identifying and verifying the customer’s identity using information or data from a reliable and independent source. These rules apply to the Bank, its branches and its subsidiaries. All employees are obliged to attend a lecture on anti-money laundering.

An electronic monitoring system (Norkom) for money laundering was set up in 2009 in collaboration with the Icelandic Banks Data Centre. The system has increased the Bank’s security and reduced the risk of fraud for money laundering purposes.

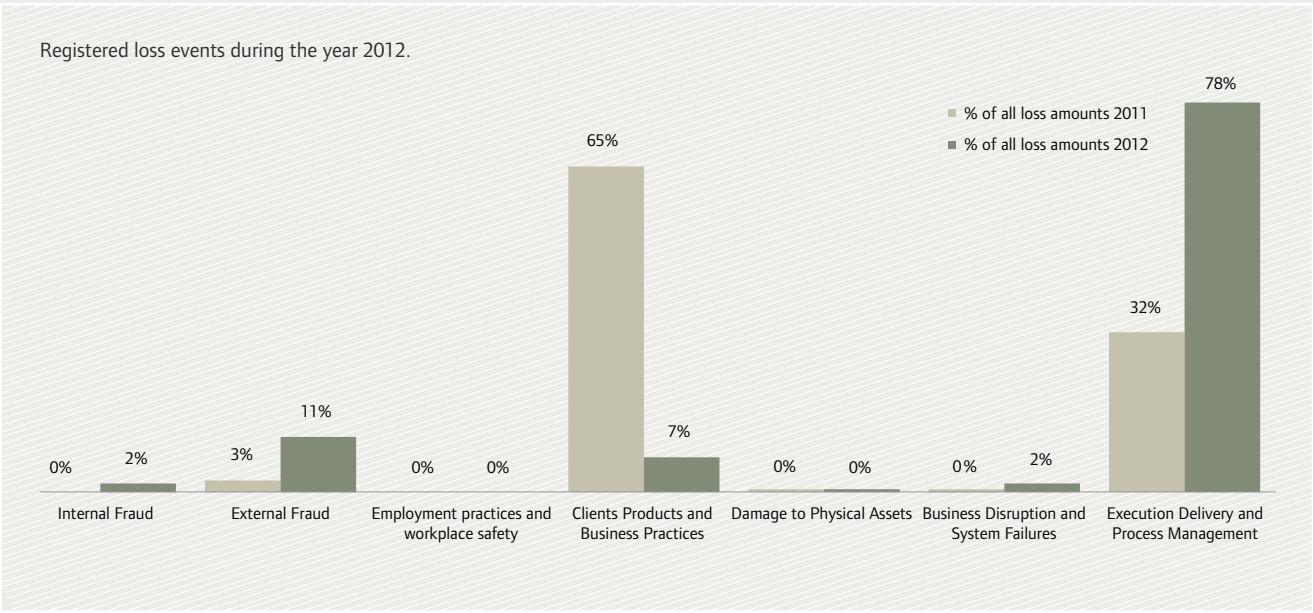
Operational risk

The Bank has adopted the definition of operational risk from the European Parliament and of the European Council, where operational risk is defined “as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. The Bank’s definition of operational risk includes legal risk, compliance risk, and reputational risk.

The Board has defined limits for acceptable losses due to operational risk, and if quarterly losses exceed a certain limit, a report of the losses and a risk mitigation plan is delivered to the Executive Board or the Board of Directors.

The Bank has implemented a framework to capture both actual and potential operational risk losses. Operational risk loss events which result in losses of more than ISK 100,000 and incidents that could potentially cause substantial losses (near-misses) are collected through a web-based system and are registered in the Bank’s loss event database. The database holds information on all significant actual losses, categorised according to Basel II convention, and provides a basis for management reports. Also, the loss event data are necessary for the development of more sophisticated methods of capital requirements assessment.

In 2012, a total of 454 loss events were registered in the Bank’s loss event database. 78% of the total operational risk losses were categorized as “Execution, delivery and process management”.



Breakdown of loss amounts in 2011-2012 based on Basel II event categories. Parent.

Competition safeguards customers’ interests

The Bank takes the view that customers’ interests are best served by fair and open competition on the markets. This year Íslandsbanki brought in a new policy on competition designed to ensure that the Bank’s operations are fully in line with regulation on competition and that its decisions, agreements and

actions do not run counter to competition legislation.

A competition law officer is responsible for conducting internal competition surveillance and educating employees on matters of competition.



Kristín Ninja Gudmundsdóttir
Lawyer and Competition Law Officer

Competition plays an important role in the open market to ensure that consumers and society as a whole gains from active competition. There is a risk of competition law violations in the Bank’s operation as the decision-making on trade is decentralised and activities are extensive.

It is important that the Bank’s activities are fully in accordance with the competition law and that its actions on the market do not in any way breach the competition law. It is the Bank’s believe that fair competition will insure customer benefits. The Competition policy is intended to ensure that the Bank’s operations are fully in line with competition law.

Ethical guidelines

To maintain and strengthen the credibility and the reputation of the Bank, employees were involved in formulating the Bank's Code of Ethics. The aim of the Code is to promote good operational and business practices, increase trust, strengthen the Bank's reputation, and guide employees in their daily work. The Code covers the importance of professional methods of work, customers' equality, and the confidentiality of employees.

There are also work procedures at the Bank that prescribe the general duties of Íslandsbanki's employees. The procedures are intended to support the code of ethics. The procedures cover the conduct of employees, measures to prevent conflicts of interest, confidentiality and secrecy, disclosure and handling of customer complaints.

These ethical guidelines apply to all activities, employees and managers at Íslandsbanki as well as contractors working for the Bank. The compliance has held workshops where the code of ethics and the work procedures are introduced. All employees are required to attend these workshops and around 79% of all employees have. Employees must sign a declaration stating that they have read the contents of the guidelines and will abide by them. The guidelines apply to all employees regardless of whether they have signed the declaration or not. The guidelines are accessible on the internal net.

Promoting CSR in Iceland

Íslandsbanki has put effort into raising awareness and increase knowledge of corporate social responsibility. Íslandsbanki together with five companies established FESTA- the Icelandic Centre for CSR in 2011. The center aims at assisting companies in implementing CSR strategies, raise awareness about CSR

and encourage related research in cooperation with Icelandic universities. Festa is an independent organization with independent finances. Festa fosters debate on CSR related issues through meetings and conferences. Four conferences were held in Reykjavík during the winter 2012 – 2013.

Íslandsbanki also has a board member in a professional group on CSR at Stjórnvísir. Stjórnvísir is the largest management society in Iceland with nearly 2,000 active members and a very strong network. Stjórnvísir is open to all individuals, companies and organizations. The core of Stjórnvísir lies in the work of 20 dynamic professional groups that all focus on different aspects of management. Around 100 members are registered in the CSR professional group that aims at sharing knowledge and experience in the field of CSR. The group held 4 meetings during the winter 2012 – 2013, one at Íslandsbanki where the Global Compact reporting of the Bank was introduced.

Promoting education and financial literacy

Íslandsbanki has set out to boost financial literacy in Iceland through a series of educational courses and seminars. Keeping the customers well informed is important to the Bank. The Bank's wealth management division, VÍB, has hosted around 100 courses over a two year period, on savings and investment, around the country. The Bank has also seminars on housing loans and the housing market. Customers have also been invited to attend a workshop on the use of Meniga, personal finance software that is integrated with Íslandsbanki's online bank. In addition the Bank provides financial information on its website Your Finances. The aim is to guide people to better understanding so they can make informed decisions regarding their personal finances. On the website there are general explanations of financial concepts, articles and an overview of the financial services the Bank provides.

Webcasts of the Bank's seminars are available online.



Manuel Hinds, economist



Gunnar Kristinn Sigurdsson

Corporate Communication and Web Development

We feel that people are increasingly going online for financial education. Íslandsbanki has traditionally been very strong in financial education in the form of seminars and publication of various educational magazines.

The Bank's aim is to increase financial education for the customers through the Bank's website and our ambition is to provide the best possible online educational content on finance. We are going to focus on education about mortgages,

savings and investments and traditional home finance. We want to appeal to a younger group to a larger extent as surveys have shown that the greatest need for education is within that age group. The goal is to use financial education to build successful long-term customer relationships along with strengthening the business of the bank.

A number of recordings of educational courses held by Íslandsbanki and VÍB are already available on the banks website, www.islandsbanki.is, and on www.vib.is. Also available on the web are almost 200 articles written by financial experts both from the inside and outside of the Bank. Recently, we have also begun to publish short one-minute long videos with practical financial advices from our advisors working in the branches of Íslandsbanki.

Although the main focus is on online material, Íslandsbanki has recently published two magazines on paper for the individual and corporate customers. Both magazines were well received by the target groups and gained good attention.

VÍB runs an ambitious education programme aimed at encouraging discussion on investments and economic affairs. The initiative has been very well received: 54 information seminars have been held, attracting around 3,000 guests in person and over 6,000 online.

VÍB also put on a popular series of seminars on savings for senior citizens arranged in collaboration with the National Federation of Senior Citizens around the country, as well as elementary courses on equity and fixed income trading with insightful presentations by chief executives of companies listed on the NASDAQ OMX Iceland. In 2012 VÍB invited three foreign speakers to Iceland to discuss the economic situation. Manuel Hinds, an economist and former Minister of Finance of El Salvador, discussed an independent currency for Iceland and shared his experience of unilateral adoption of the US dollar. John Dizard, financial expert and a columnist for the Financial Times, covered the future of the Euro Zone and its main challenges and Lars Christensen, economist at Danske Bank, presented new analyses on the Icelandic economy.

VÍB's extensive financial education program is free of charge. This assists clients in making better investment decisions as well as providing them with increased confidence to actively take part in their own investments. Much of the provided material is also available as online video and live broadcasts.



John Dizard, financial expert



Björn Berg Gunnarsson

Educational Officer at VÍB

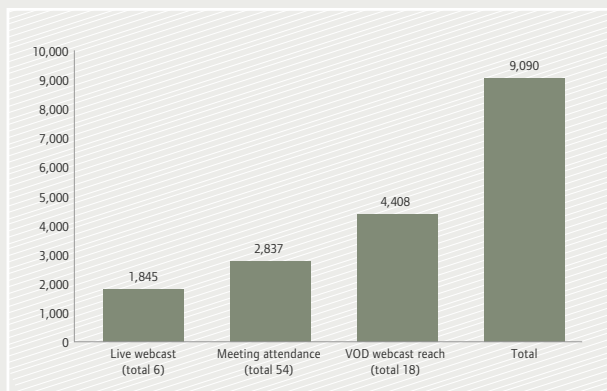
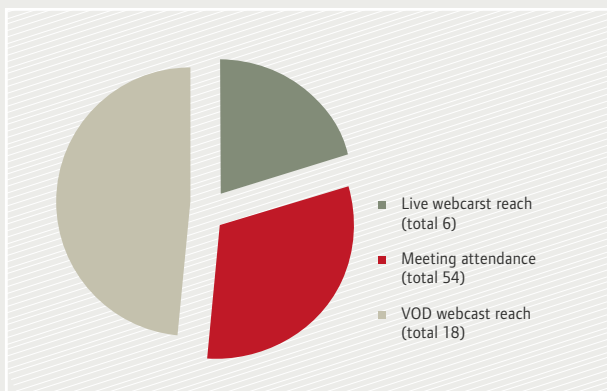
We at VÍB firmly believe in the merits of financial education. With our broad spectrum of educational events we continue to build our already good reputation as a provider of balanced and accessible information on finance and economics. Our customers are very happy with this effort and their participation is consistently very good.

Collaboration with 3rd parties:

- Finances of senior citizens – with the National Association of Senior Citizens (LEB). Over 20 events countrywide
- Finances of senior citizens – with the University of Iceland
- Securities investment for women – with Nasdaq OMX Nordic (The Icelandic Stock Exchange) and FKA - Association of Business Women in Iceland
- Online Investment Simulator – with Nasdaq OMX Nordic and 365 Media
- Investment lectures – with the Reykjavik University students society



VÍB educational meetings



Restructuring customers debt

Restructuring has been one of the main tasks of Íslandsbanki since its establishment in October 2008. 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 law or by joint agreement with the authorities or by following court rulings regarding the legitimacy of foreign currency loans to being offered only for the Bank's customers. The Bank's measures have in many cases exceeded rulings and agreements for the benefit of the customers.

Bank's cumulative write-offs and remissions in this process amount to ISK 475 billion, of which ISK 103 billion is to individuals and ISK 372 billion is to companies.

In several cases Íslandsbanki has 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.



Steinunn Guðbjörg Þorsteinsdóttir

Quality Manager and Project Manager for Financial Restructuring

In 2010 the key project financial restructuring was established. This was done in order to achieve the Banks goals in restructuring of companies and individuals debt. Also to monitor in a better way the restructuring processes and results as restructuring had been the Bank's main task since 2008.

The project has been challenging; the scope was not just restructuring measure being offered only for the Bank's customers, it was also the various acts and regulation that the Parliament had passed and the numerous Supreme Court rulings regarding the legitimacy of foreign currency linked loans. Due to these external factors the project needed to be re-scoped several time.

The peak in the project was in 2011, when there were over hundred employees only working on restructuring and at that time there were more than ten restructuring and forbearance measures running in the Bank. The communication was then a critical tool and over hundred internal and external stakeholders received a progress reports monthly.

As the project is now in the final stage we are proud to see that a remarkable progress has been made in financial restructuring, both for individuals and companies. As a result, the Bank has written-off and remitted ISK 475 billion. This result clearly demonstrates the quality of the people in the team and all the excellent work that has been done. But the overall success in the project is that the majority of the restructured individuals and companies are now able to service their debt.

Customer testimonial from debt adjustment for individuals

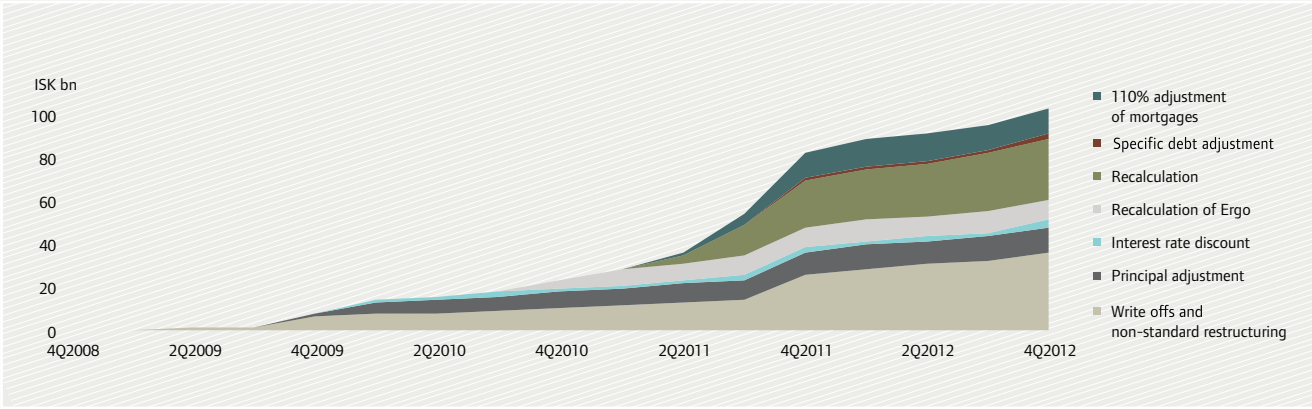
"In November Íslandsbanki contacted me as I was again late with the monthly mortgages payment. For a while, I had problems with the mortgage payment due to less income. The Bank called and invited us to a personal meeting to go through what options we had during this period. Following the meeting we were offered to go through the Íslandsbanki debt adjustment scheme. The process went rather smoothly and reduced our payment burden."

Debt restructuring measures of individuals

Since the Bank’s establishment a great emphasis has been placed 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.

Debt measure for individuals	Approach	Write-offs and remissions ISK bn
Recalculation		27.6
Mortgages	Act 151/2011 and Íslandsbanki offer	25.6
Illegal loans	Act 151/2010	0.2
Offer loans	Íslandsbanki offer	1.8
110% mortgages adjustment	Agreement with Government	12.0
Principal adjustment		9.1
Foreign currency-linked loans	Íslandsbanki offer	6.7
CPI-linked loans	Íslandsbanki offer	2.4
Interest rate discount	Íslandsbanki offer	4.5
Specific debt adjustment	Agreement with Government	2.4
Ergo loans		11.1
Principal adjustment of Ergo loans	Íslandsbanki offer	1.7
Recalculation of Ergo loans	Ruling 92/2010. 471/2010. Act. 151/2010	9.4
Other restructuring measures	Íslandsbanki agreement	36.6
Total		103.2

Cumulative write-offs and remission to individuals at year-end 2012. Parent.



Cumulative write-offs and remission to individuals at year-end 2012. Parent.

Customer testimonial from debt adjustment for individuals

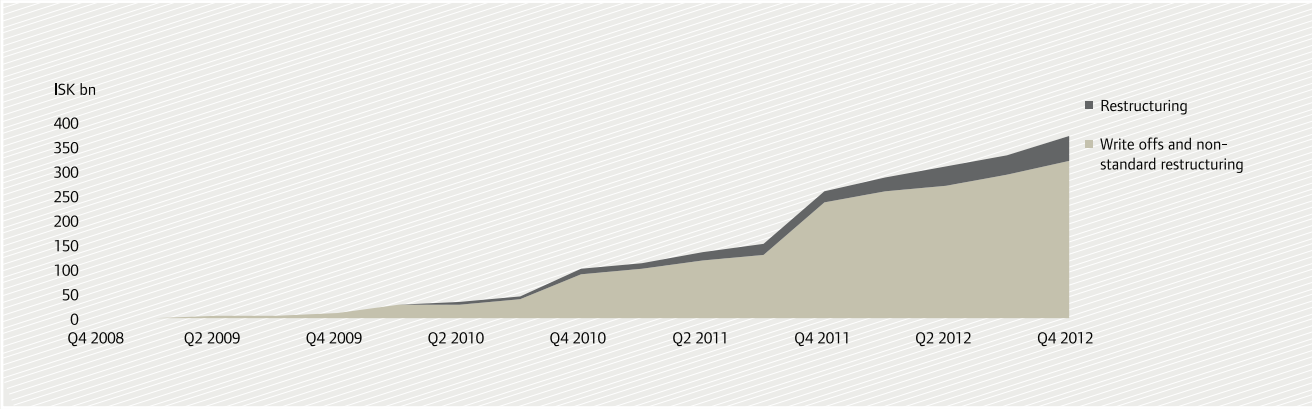
“In February 2010 I applied for the principal adjustment scheme at Íslandsbanki, which allowed me to convert my CPI-linked mortgages to a non-index linked mortgages in lieu of 10% decrease in the principal. I admit that I struggled with this decision since the non-index interest rates were rather high at this time. But the scheme also offered a temporary interest rate discount, 2.0% the first year, 1.5% for the second year and 1.0% the third year as the future terms for my new principal adjusted loan so the my monthly burden didn’t increase. Today the principal of my loan is 20% less than if I still had the CPI-linked loan and the monthly burden is 12% less. This was probably one of my best financial decisions that I have ever made!”

Debt restructuring measure for companies

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 measure for companies	Approach	Write-offs and remissions ISK bn
Recalculation		18.7
Illegal loans	Act 151/2010	9.0
Offer loans	Íslandsbanki offer	9.7
Debt adjustment	Agreement	16.3
Principal adjustment of foreign currency loans	Íslandsbanki offer	13.1
Ergo loans		4.8
Principal adjustment of Ergo loans	Íslandsbanki offer	0.7
Recalculation of Ergo	Ruling 92/2010. 471/2010. Act 151/2010	4.1
Other restructuring measures	Íslandsbanki agreement	319.1
Total		372.0

Write-offs and remissions to companies at year-end 2012. Parent.



Cumulative write-offs and remission to companies at year-end 2012. Parent.

Debt restructuring measure for Ergo

In 2011 Ergo, the asset-based financing division of Íslandsbanki, finalized the recalculation of 12,800 leasing agreements on the basis of the Supreme Court’s decision in June 2010. In 2012 Ergo started recalculation of Financial Lease agreements according to the Act No. 151/2010.

It is the Bank’s opinion that Supreme Court rulings from 15 February and 18 October 2012 has an effect on the leasing agreements and in the year 2013 Ergo will re-recalculate 12,800 agreements according to the Supreme Court’s decision.

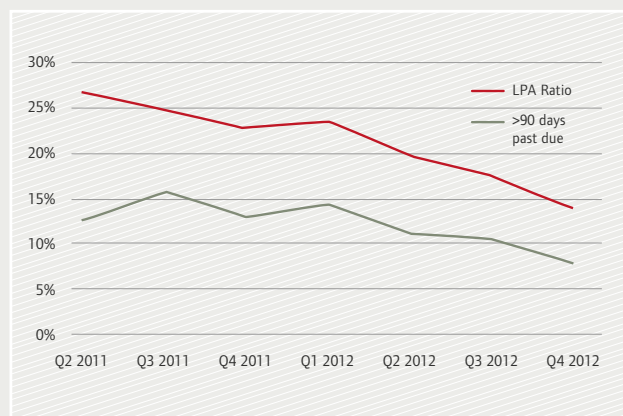
In 2012 the Supreme Court of Iceland passed several rulings regarding foreign-currency-linked loans. On 15 February 2012 the Supreme Court in Iceland passed a ruling that affected the legitimacy of the Icelandic banks' method of recalculating loans that were illegally linked to the value of foreign currencies, so-called "Receipt Ruling". The Supreme Court found that the method, described in the amendment to the law on interest and indexation (hereafter Act No. 151/2010), which Althingi passed in December 2010, violated the provisions of the Icelandic Constitution that protect the freedom to hold property as the legislator cannot pass a law that retroactively deprives a person of an asset without adequate compensation. After that ruling 11 cases were selected by the three major banks in Iceland to clarify issues that the court judgment had not clarified. Four of these cases were on behalf of Íslandsbanki.

On 18 October 2012 the Supreme Court in Iceland passed a ruling that supplemented the findings of the Receipt Ruling and explained, to a certain extent, how the loans should be recalculated. After that ruling Íslandsbanki believed that most of the issues that needed clarification after the first ruling had been resolved. The Bank therefore discontinued three of the cases in order to speed up the recalculation of the loans that were judged to have been illegally linked to foreign currencies. Íslandsbanki will now recalculate 15,000 loans that had previously been held up.

The Bank's recalculation make sure that customers that went through some sort of restructuring are not worse off than those that did not. Furthermore, the Bank ensures that the customers that continued making payments on their loans are not worse off than customers that stopped paying.

OBJECTIVES:

The credit quality of the Bank's loan portfolio continues to increase as more customers have received financial restructuring resulting in an improved financial standing. This is extremely important both for the Bank and the customers where uncertainty is eliminated and the economy becomes healthier. The Loan Portfolio Analysis (LPA) ratio measures the progress of restructuring and is defined as the total carrying amount of loans to customers in restructuring divided by the total carrying amount of loans to customers. At the end of 2012 the LPA metric was 13.7% compared to 22.6% a year before, which means that smaller part of the loan portfolio is still in need of restructuring. The Bank aims at an 8% LPA ratio in the end of 2013.



20,000 customers received interest refund

Approximately 20,000 of Íslandsbanki's customers received a refund of 30% of the interest payments made on mortgages and general debt over the course of 2012. The refund amounted to ISK 2.5 billion and on average each customer received ISK 120,000, subject to a maximum repayment of ISK 500,000. This did not include those mortgages that are to be recalculated in accordance with the Supreme Court rulings on those loans which were illegally indexed to foreign currencies. The refund was a token of gratitude to customers for their loyalty through difficult times.

The refunds was deposited into 30-day notice savings accounts. Customers were free to withdraw their refund from the account with a 30 day notice. With this Íslandsbanki wanted to encourage its customers to establish savings for the future, although the best savings sometimes include paying

down debt that carries higher interest rates. Customers were encouraged to make an appointment with a financial advisor in their Íslandsbanki branch to discuss the best savings plans available.



Outstanding service for all customers

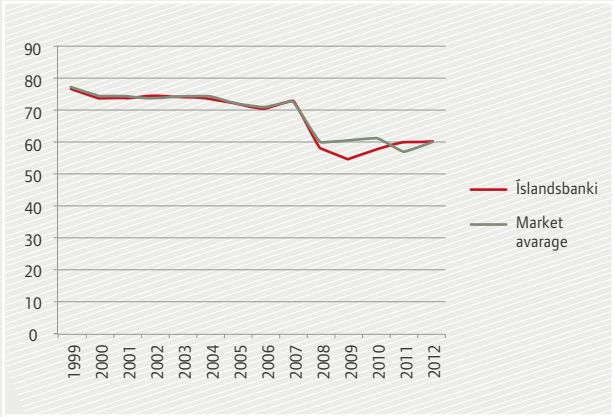
Without customers the Bank would not exist. Satisfied customers are an invaluable asset, and Íslandsbanki's vision is to be ranked number one for service. Customer satisfaction encourages customer loyalty and trust which translates to increased profitability. Certain quantifiable goals have been defined in this regard, e.g. quality of service, employee participation, employees' own initiative, and the handling of customer complaints. The Bank also ensures that all customers, whatever their size, are equal and the service that is provided to them is consistent.

Service suveys

Íslandsbanki has invested considerable effort in mapping out which services our customers consider most important, and has conducted both extensive internal and external service surveys.

For the last 14 years the Icelandic Customer Satisfaction Index has been conducted. It is a collaboration project that measures customer satisfaction in different sectors in Iceland. The aim is to provide organizations coordinated measures of customers' satisfaction but also other factors that affect it, such as image, quality and customer loyalty. Íslandsbanki ranked second in 2012 in customer satisfaction in the financial sector, measured by the Icelandic Customer Satisfaction Index.

The Icelandic Customer Satisfaction Index



Capacent Gallup surveys show that the Bank has made significant progress improving its service to companies. Íslandsbanki is considered the best corporate service provider and the most professional bank in the market, as well as being the bank most customers would turn to for new loans.

Super Service Week

This year the Bank held a so-called Super Service Week, intended to firmly embed a culture of quality service within the company. Simultaneously, the Bank introduced a new customer comments system that allows instant feedback after a customer's transaction. This system is new in Iceland and for the time being will only be used in two of the Bank's branches. The results were gratifying whereby 90% of customers were pleased with the service.



Supporting entrepreneurs

Íslandsbanki is a driving force in the Icelandic economy. The Bank has been diligent in supporting innovation in the form of an Entrepreneurial Fund, various seminars on entrepreneurship and the funding of Kvosin-Innovation centre for young entrepreneurs.

The Entrepreneurial Fund

Íslandsbanki's Entrepreneurial Fund focuses on innovative projects in renewable energy and sustainable fisheries. The fund's objective is to encourage innovation and development in these areas. The fund is an important platform for the development of future solutions for sustainable usage and preservation of natural resources. There is an allocation from the fund twice a year.

Entrepreneurship competition for women

Íslandsbanki, FKA, The Icelandic Association of Women Entrepreneurs, and the Open University in Reykjavik have for two years sponsored a course and competition in entrepreneurship for women. The women receive lectures on innovation, establishment of business, strategic planning, market analysis, finance and negotiation. During the course the women make business plans that are evaluated. Five then participate in the competition for the best plan that receives ISK 2 million award from Íslandsbanki. In 2012, 34 women participated. The art and design studio Volki won first prize. Volki designs furniture, accessories and other everyday items.

In 2013, 70 women with 55 business plans applied for participation but 35 women with 26 plans were selected. A new winner will be selected in May.

Innovation Centre for Entrepreneurs

Kvosin, an Innovation Centre for Entrepreneurs, was launched in 2009 by Íslandsbanki and the Innovation Centre Iceland. In Kvosin individuals and groups get assistance in working on business ideas and starting up companies, office facilities for moderate fee, creative environment and powerful network. Experts from the Innovation Centre offer professional guidance. Íslandsbanki provides housing and access to services but the centre is located in the Bank's branch building down town Reykjavik. 91 entrepreneurial companies have benefited from Kvosin.



Olga Hrafnisdóttir

Partner at Volki

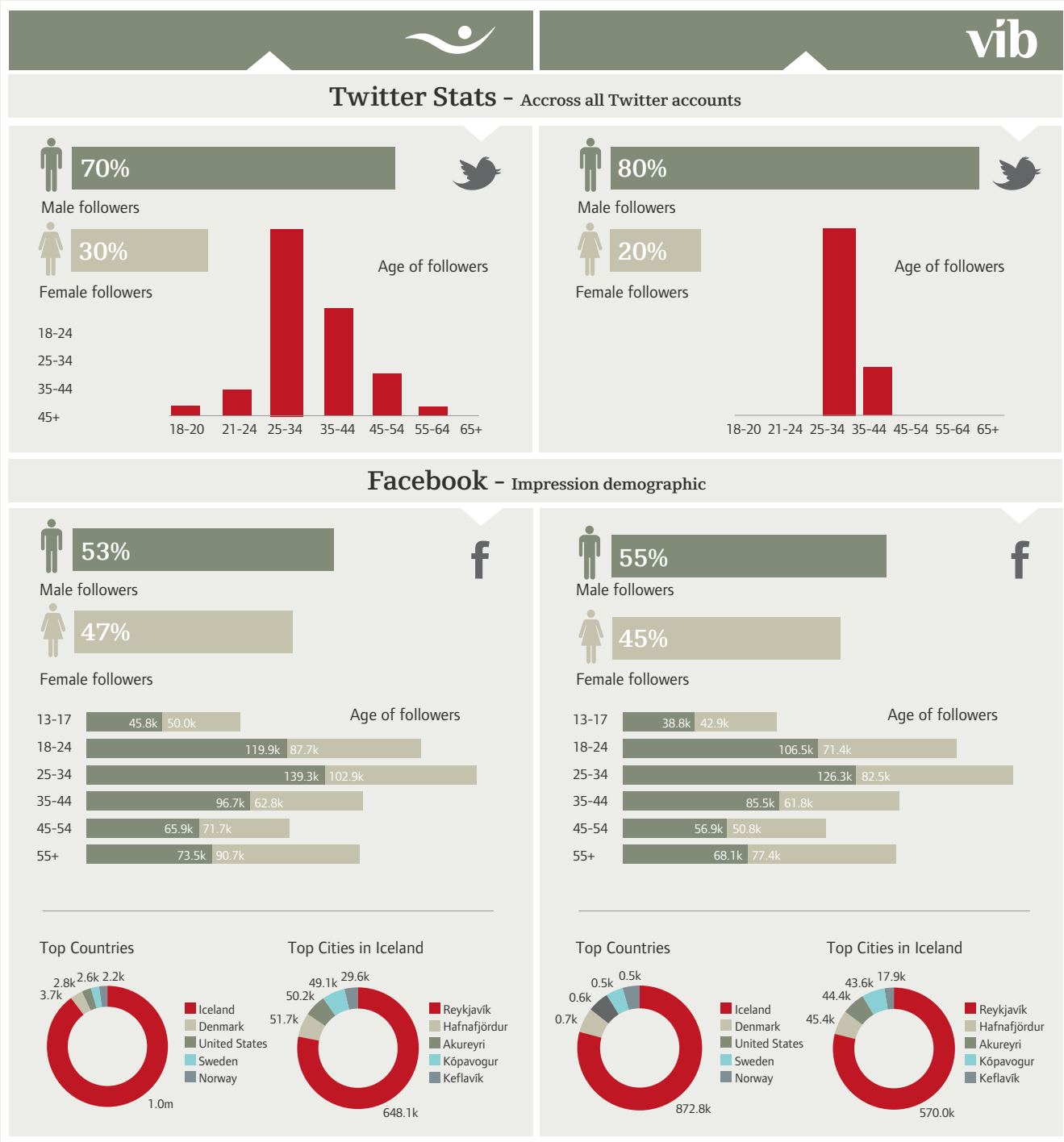
The course helped us to be more effective and think more from a commercial point of view. Designers often forget to do so because we are busy being creative. The award was a great addition to our investment in an knitting machine that will transform our business.

Connecting with customers on social media

Íslandsbanki places emphasis on open and direct communication with its customers. An important part of that strategy is the Bank's focus on active engagement in the social media sphere. Íslandsbanki's communication with customers through Facebook and Twitter is increasing day by day. Today the Bank has 11,000 friends on Facebook but 11 branches and VÍB have a Facebook site. Customers have actively used the Bank's social media to ask questions and express their

opinions. The Bank welcomes this open dialogue and focuses on answering questions on social media in a timely manner.

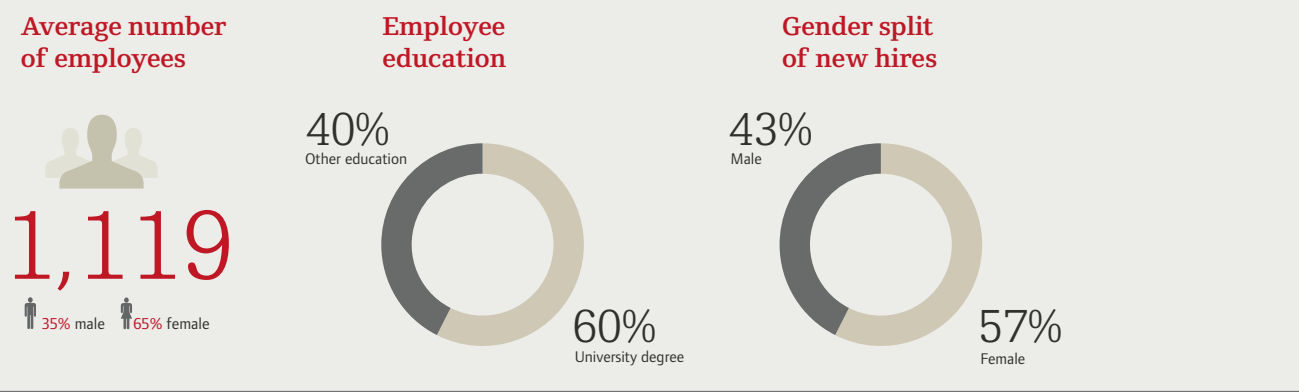
Íslandsbanki and VÍB have nearly 700 followers on Twitter, far more than any other bank in Iceland. From April 2012 to April 2013 Íslandsbanki's social media profiles generated 6.7 million impressions of statuses, pictures and videos shared across Twitter & Facebook.



Human Capital

A fulfilled and engaged workforce is the bedrock of quality service, satisfied customers and sound financial performance. The Bank aspires to have a group of ambitious employees with differing backgrounds and experience. In this way the Bank will be better prepared to fulfil the various needs of its customers and to provide outstanding service.

Human Resources



The satisfaction and well-being of employees is important at Íslandsbanki. To best serve our customers, we need to attract the best employees. Our dedicated team of 1,100 employees take great pride in working for Íslandsbanki and are fully engaged in our strategic vision which they took an active part in creating. Human Resources places great emphasis on training for managers, information sharing, education and employee development, vibrant social activities and the general well-being of the workforce. These factors produce greater job satisfaction which is reflected through better service for our customers.

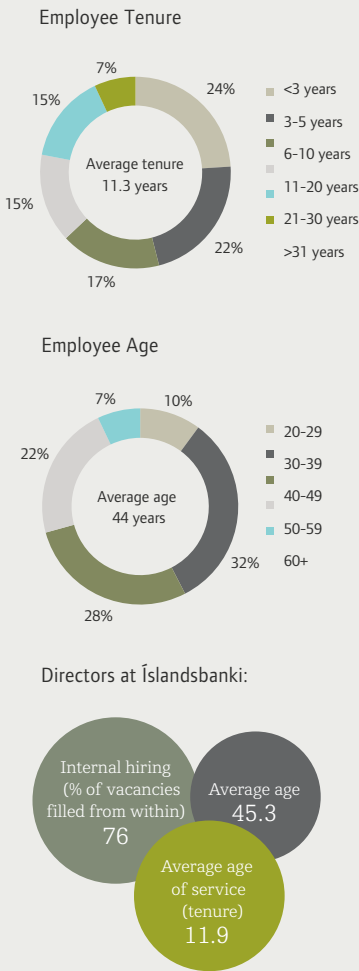
A diverse group

Íslandsbanki employs a total workforce of 1,100 people of which 65% are women. Furthermore 60% of the employees have a university level degree. There is a good age distribution among our employees and the average length of employment at the Bank is 11 years.

In April 2012, the workforce at Íslandsbanki grew in size following the merger with the credit card company Kreditkort. These new recruits followed a group of reinforcements that came with the Byr merger in late 2011. The mergers themselves and the integration of the new employees from Byr and Kreditkort have gone very smoothly and surveys show that 83% of the staff is pleased with the merger process. This success can be attributed to the similarities corporate cultures.

Finding the leader in you and career development for women

Íslandsbanki offers managers an ambitious leadership training programme aimed at increasing the efficiency and effectiveness of employees in management positions throughout the Bank. A special emphasis was placed on mentoring for female employees in 2012 and 35 women are now participating in the programme. The mentors are women both inside and outside the Bank and the initiative has been well received. This mentoring initiative has had an auspicious start, with 95% of the female participants saying they would recommend it to others.



An ambitious training programme and education

Íslandsbanki offers its employees a wide variety of training courses with a special focus on sharing of knowledge between in-house departments. Each member of staff attended an average of four courses during 2012. A varied programme of over 300 courses was set up on the basis of a detailed analysis of educational needs. Personal interests of individual staff members were also to set up fun courses, unrelated to banking, such as an introduction to astronomy.

Course participation:	2009	2010	2011	2012
Number of participants:	3,076	4,645	4,236	4,432
Number of courses:	201	259	296	337
Average courses per employee:	3.2	4.8	4.5	4

Certified financial advisors

Retail banking entered into collaboration with the Ministry for Economic Affairs and the Icelandic Financial Services Association to establish a certified education programme for the Bank's financial advisors. The program is offered under the auspices of three Icelandic universities which are responsible for its organisation and quality. The goal is to increase quality of financial advisory and better equip bank employees to effectively advise their customers. In 2012, 10 financial advisors from Íslandsbanki graduated and 11 began in the certified education programme.

OBJECTIVES:

In 2013 a special emphasis will be put on leadership and an intensive leadership program for managers at Íslandsbanki was launched in January with the participation of 66 managers. The main objective with the program is to introduce new attitudes and behaviours. The program will consists of; lectures, workshops, individual coaching and rich emphasis will be put on health and wellbeing. Managers will receive various assessments to identify their strengths and weaknesses and set action plan to work on their leadership skills with a strong focus on motivation, energy management, leading by example, change management and execution. The program will span a whole year and at the end of the year managers will be assessed by their subordinates. Íslandsbanki's goal is that in 2015 all of the 141 managers will have completed the program.



Katrín Oddsdóttir
Executive Director Private Banking

For me the mentoring program was a great opportunity to reach outside the Bank and get a different opinion than mine from someone in a different sector. I have been working with Íslandsbanki since graduation. I have great mentors and professional friends within the bank that I can consult with, but sometimes it is good to get a different perspective on things. My mentor, a woman who, like myself, has been working in an industry mostly dominated by men and I found it interesting to talk to her about that experience and about the challenges of finding the right balance between work and personal life with two young sons. Most of all she has a lot of experience in management which is one the responsibilities in my job. I found my sessions with her somewhat like going to a therapist. I came in with cloudy head, full of my problems at work and some vague ideas on what the solutions could be. When I came out I had a clear vision of what needed to be done and a plan of how I was going to do it. For me the mentoring program was a very positive experience. I was really lucky with my mentor who is a woman I look up to and can learn from. I can recommend this program to everyone who wants to work on their carrier but it is important to know your goal before you set off.

We take pride in our work

Since 1997, Íslandsbanki has conducted an annual workplace audit. Results from November 2012 show that morale is high despite the challenges in the Bank’s working environment and that overall job satisfaction is above the goals set forth in the Bank’s 5 year plan. The audit shows that employees in general

take great pride in working for Íslandsbanki, know the Bank’s strategic direction, are ambitious and always seek to improve their work. More importantly, they would recommend the Bank as a place to work.

Workplace audit						
Results		2009	2010	2011	2012	GOALS 2013
Consideration is given to the family circumstances of employees	•Question: “Work load is appropriate”	53%	64%	57%	66.3%	Maintain
Well-trained staff who steadily increase their knowledge and disseminate it their colleauges	•Question: “In the past 12 months, I have had opportunities at work to learn and grow”	4.15	4.23	4.20	4.01	=>4.20
Regular and constructive feedback on performance	•Question: “I have received performance review the last year”	81%	84.90%	81%	82.9%	90%
	•Question: “In the past weeks, I have received recognition or praise for doing good work”	4.11	4.05	4.1	4.08	=>4.20
Education and training is a joint function of management and staff	•Question: “My supervisor or someone at work, encourages me to develop at work”	4.16	4.11	4.16	4.06	=>4.20
Employees are given the opportunity to tackle new projects, take on greater responsibilities in their work and to move between jobs, when possible	•Question: “At work I have the opportunity to do what I do best every day”	4.13	4.07	4.11	3.89	=>4.20

The results are on a scale from 1-5 with 4,2 representing an entry into the strength zone.

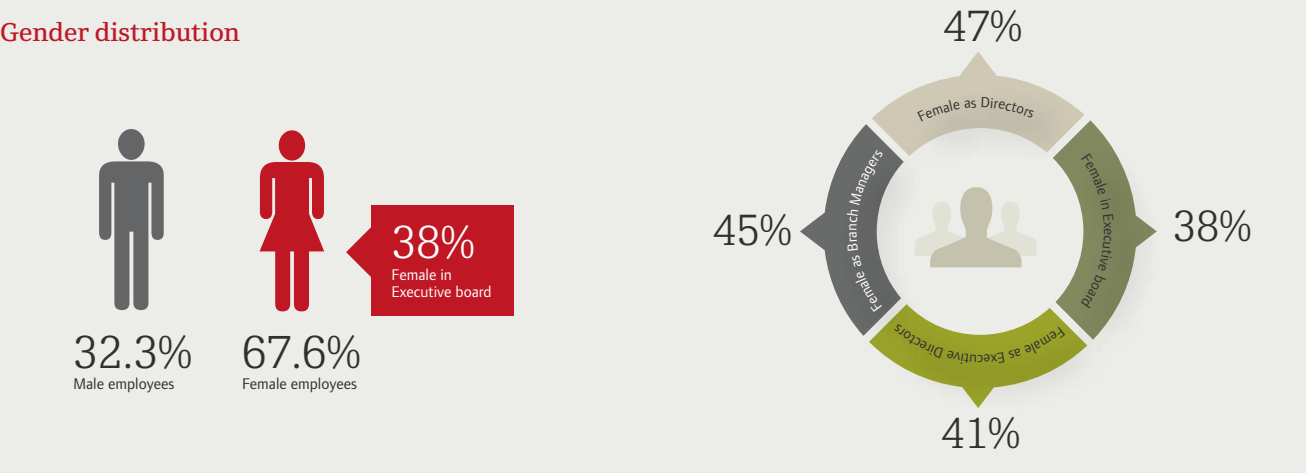
Through the glass ceiling

Íslandsbanki attaches a great deal of importance to equal rights. Women make up 48% of all management positions at the Bank. Íslandsbanki’s non-discrimination policy provides the guidelines for gender equality in the Bank. The principles of total non-discrimination and impartiality are observed in the

recruitment of bank employees and an equal opportunities policy is applied.

Íslandsbanki has also signed the Women’s Empowerment Principles Treaty which is UN sponsored collaboration between UNIFEM and the United Nations Global Compact.

Gender distribution



Annual Strategy Summits

To ensure that the Bank’s strategic policy and ambitious goals receive the widest possible response both within and outside its walls, it is important to get feedback and input on the Bank’s future development. In this, the annual Strategy Summits have played a key part.



At the Summits in 2009 and 2010, employees, managers and board directors together defined the Bank’s fundamental role and core values. To follow, the Strategy Summit in 2011 focused on the Bank’s vision; employees and customers discussed how the Bank was to realise its vision to be number one in service, from providing good service to providing exceptional service. The Summit proved a great success and customers welcomed the opportunity they were given to influence how the Bank meets their needs and expectations.

The Strategy Summit in 2012 focused primarily on teamwork and common purpose, for only as a dedicated team can we

best service our customers. Participation has grown year on year and over 830 employees attended, revealing a growing interest among our employees in shaping the Bank’s strategic policy and putting it into practice. In March 2013 the same number of employees attended the fifth strategy summit under the title: “Bank of the Future”. This time the focus was on future solutions and technological advances in banking operations.

Internal surveys confirm that employees are pleased with the Summit format and its importance in determining the direction that the Bank is heading.

The Ultimate Team

The ‘Ultimate Team’ initiative was a product of the Strategy Summit in 2012. Many excellent ideas emerged at the Summit that can be broadly categorised into five groups: health, cross company communication, information sharing and intranet, education and training and social activities. Many of these ideas have already been put into practice. For example, on the subject of health, employees have participated in lunchtime seminars on positive psychology, energy management and nutrition. These seminars are intended to help employees maintain positive energy levels throughout the day, with a focus on diet, exercise and mental well-being.

Employee health and well-being

The Bank encourages its employees to lead a healthy lifestyle. Changing rooms and showers facilities are available at the Bank which allows employees to work out during office hours. Good and healthy food is served in the canteen and all members of staff have the option to get an annual health check-up. Various activities were staged during the year to promote a healthier lifestyle. Around 400 employees took part in the Íslandsbanki Reykjavik Marathon, collecting sponsorships for charitable causes. This event has become a major part of the Bank’s corporate culture and its public profile. In 2012, 506 employees took part in the national “Cycle to Work” campaign and Íslandsbanki took first place the second year in a row, among large Icelandic corporates, for both staff participation and the number of kilometres cycled.

Social activities are an integral part of employee satisfaction in the workplace. The Bank encouraged staff to take advantage of “Take Your Children to Work Day” to give children insight into how their parents spend their days. During the year the Bank also hosted bowling and golf tournaments for its staff and there are in-house clubs for special interests such as hiking, golf, cooking, photography and knitting.

Health and wellbeing	2009	2010	2011	2012
Health check (participants)	581	501	602	631
Health check participants (%)	62.1	53.1	55.2	54.8

We offer a helping hand

Íslandsbanki is one of the largest employers in the country and has an immense opportunity to shape and influence its community in a positive way. One of last year objectives was to launch a new project “We offer a helping hand”. Íslandsbanki invites its employees to make a contribution to charitable causes, whereby each member of staff can devote one working day a year for the benefit of a good cause. If all 1,100 of the Bank’s employees take part, the Bank’s contribution to the community will amount to 1,100 days, or the equivalent of over 4 years. Employees have chosen diverse charities to lend a helping hand and the assignments have been diverse, such as gardening, cleaning litter, helping homeless people and providing charities with expert assistance. Not only does this benefit various charities but also promote a sense of solidarity and common purpose among the employees.



Samhjálp is an organisation that provides help to people who have been defeated in life due to illnesses, poverty or other social problems. Samhjálp runs rehab clinics, halfway houses, shelters and a soup kitchen. The soup kitchen is open from 10 – 16 every day of the year and serves hot meals and snacks, free of charge. Each year around 200,000 cups of coffee are served and 2,500 liters of soup. Around 100 people visit the kitchen every day and for many of them it is the only meal of the day. Two employees work at the kitchen but Samhjálp relies heavily on voluntary work. Many employees at Íslandsbanki have chosen to lend Samhjálp a helping hand.



Karl Matthíasson
CEO of Samhjálp

We are extremely grateful to Íslandsbanki and its employees for their friendship, understanding and support. The employees performed their charity work with care and love. The employees also helped us last Christmas by raising money so our clients could enjoy the holidays. It is important that bank employees have a good understanding of the diversity of the community. Samhjálp works in a difficult field that is nevertheless important to take care of. It is exceptionally good when people who work in a field that deals with a lot of money every day understand the circumstances and conditions of people living with illness and deprivation. It increases understanding and empathy. In this, Íslandsbanki and its employees have been exemplary and for that we are forever grateful.

Jóhannes Hauksson

Executive Director Corporate solutions

After a work-related meeting with the management team at Samhjálp, I knew that I wanted to lend a helping hand to them. I spent a day at the shelter and soup kitchen helping out. I was amazed to learn how many people are being supported by Samhjálp each day at the kitchen and in other facilities operated by Samhjálp. Helping out and getting to know the operation of Samhjálp has been very interesting and enjoyable experience for me. I encourage all my colleagues to select a charity organization to support in 2013.



Environment

The Bank’s special interest in environmental issues is reflected most clearly in its operations and investments in the areas of renewable energy sources and sustainable fisheries.

Environmentally friendly

Íslandsbanki makes it a priority to work in harmony with the environment and favours a protective approach when it comes to environmental issues. In the day-to-day running of its activities, Íslandsbanki has taken many steps to reduce its environmental impact by integrating environmental strategies into its management. Íslandsbanki is one of the founders of the Icelandic Seafood Cluster and the Icelandic Geothermal Cluster. The Bank's energy and seafood team possesses many years of experience and provides business solutions and analysis to parties both within Iceland and abroad.

The Bank actively seeks to reduce pollution and energy use, thereby contributing to environmentally friendly solutions. Its desire to limit its environmental impact is reflected in the following measures.

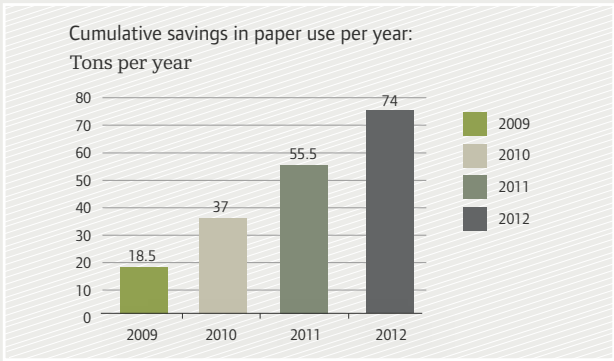
Recycling

At Íslandsbanki over 100 tons of waste are disposed of every year. Now all waste materials generated in the Bank's canteens and at the financial center Sudurlandsbraut are sorted for recycling but the Bank has laid down an ambitious plan for further recycling.

Saving the trees

Íslandsbanki incorporated a paper management system in February 2009, Rent-a-prent. This resulted in a 66% reduction of the paper used by the Bank. Paper consumption has since then been cut by 74 tons. Colour printing was also dramatically decreased with the introduction of the system, contracting from 25% to 5-7%.

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



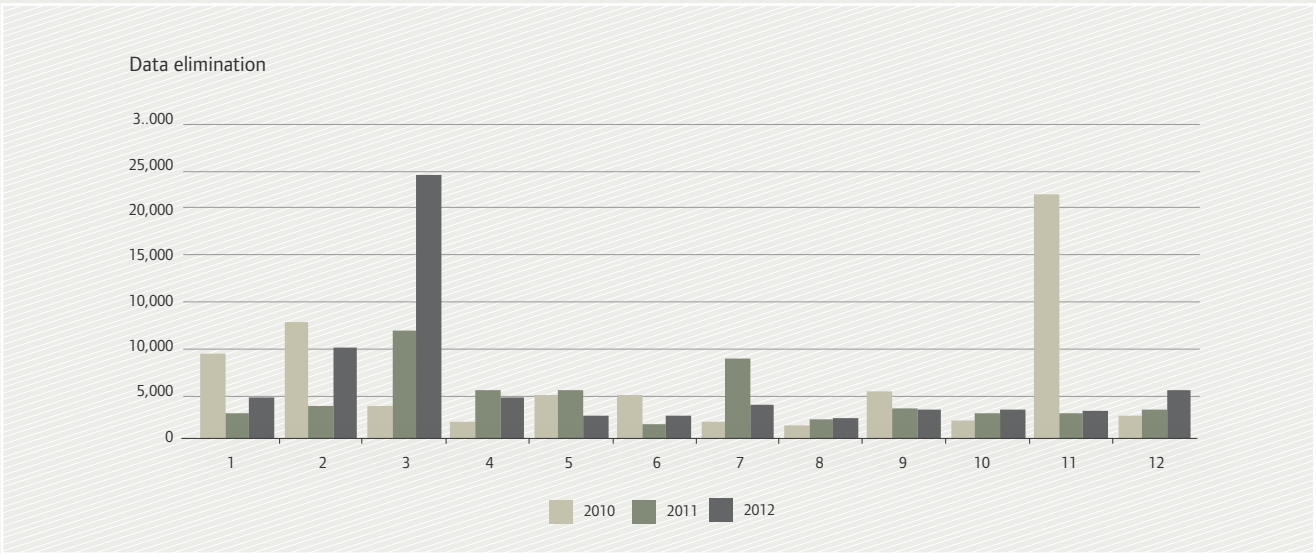
Helga Bragadóttir

Director General Services

Our objective is that 1/3 of our waste will be reusable and 1/3 will be organic waste. We have been working on implementing a recycling program at the headquarters and at Lynghóls. We will start the implementation in April and finish by the end of year 2013 in all branches. Besides thinking about the environment we will also save some cost as disposal of regular waste costs ISK 17 per kg while disposal of organic waste costs ISK 8 per kg. Annual savings because of this recycling program will be around ISK 1.5 to 1.8 million.

OBJECTIVES:

In 2013 Íslandsbanki will discontinue the distribution of payment slips to customers in printed format and they will only appear online. Around 46,000 slips are sent out to customers each month. In one year this will save around 600,000 letters in distribution.

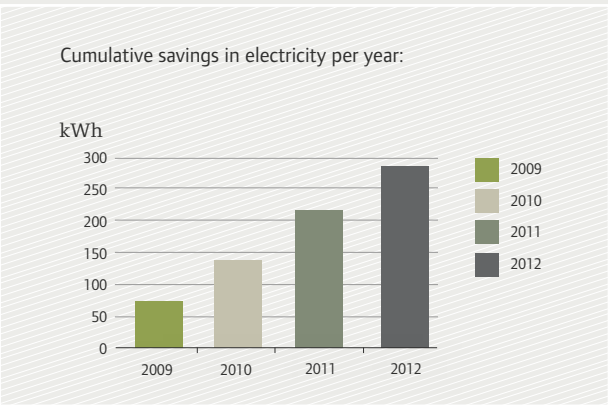


Data elimination:

At Íslandsbanki paper is not disposed as a regular waste but is eliminated separately. Above is an overview of data elimination from 2010 to 2012. Large amount of data was eliminated in connection with the merger with Byr in 2012 and cleaning of storage at one of the branches in 2010.

Reducing energy consumption

The bank places an emphasis on reducing its electricity consumption. The numbers of printers were reduced from 650 to 218 machines in 2009 and this decrease has had a substantial impact on electricity consumption. Cumulative saving in energy because of this is around 300 kWh.



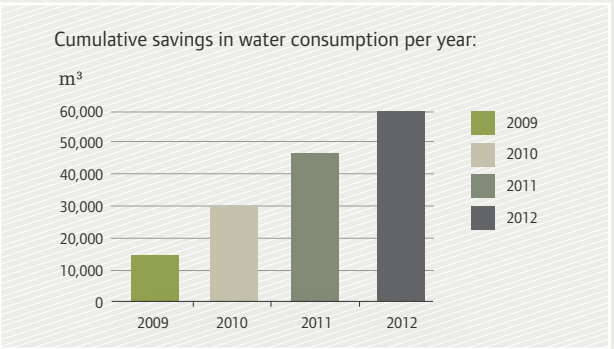
OBJECTIVES:

Íslandsbanki has purchased an electricity saving solution from ReMake Electric. ReMake Electric has developed an electricity sensor that is used to analyse the electricity use for the purpose of saving electricity consumption. The solution was installed at Suðurlandsbraut in February. Employees can access the data at a special webpage and view the distribution of the electricity consumption between different units at the Bank. The data is then analysed and recommendations will be made to cut down electricity consumption. Later in the year of 2013 tests will be carried out to see how specific actions impact the electricity consumption. Íslandsbanki's goal is to reduce the electricity consumption by at least 10 - 15% from 2013 to 2016.

In October the Bank’s service room was moved from the headquarters to the IT central service provider for Icelandic financial institutions. The decision to move the room was made to ensure data security and to cut down electricity consumption at headquarters. Around 70 people were involved in this project that was extremely well prepared. About 4,300 hours went into preparation which shows the scope of the project. This decision has saved considerable amount of electricity at the headquarters as seen in the graph.

Reducing water consumption

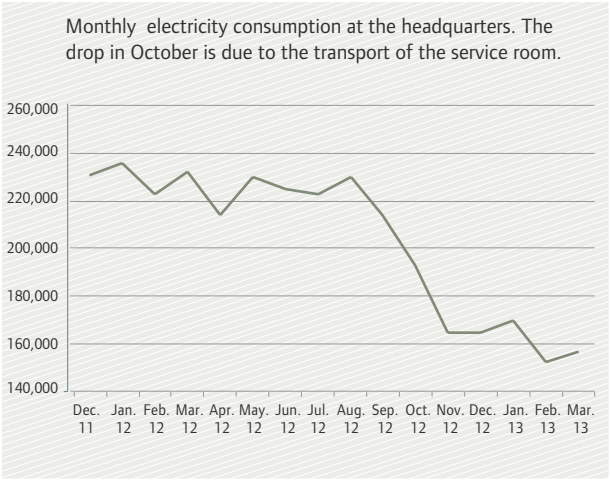
A modification of the heating system in the headquarters car parking area has cut hot water consumption by 60,000 m³ in the last four years, or around 15,000 m³ per year.



OBJECTIVES:

One of last years objectives was to measure the water and electricity consumption at headquarters. The measurement of electricity consumption at headquarters can be seen above and the water consumption below. Íslandsbanki aims at measuring the electricity and water consumption in its branches in the year 2013.

Water consumptions at headquarters in 2012			
	Cold Water	Hot Water	Snow melting
2012	95,227 m³	31,571 m³	7,615 m³



Íslandsbanki’s fleet of cars

Íslandsbanki owns 16 vehicles for operational purposes. The Bank has set goals to manage the environmental impact of its fleet better. The objective is that by 2014, 90% of the Bank’s vehicles will be environmentally friendly. General Services are now looking into purchasing/leasing more eco-friendly vehicles with 0-120 g of CO₂ emissions per km.

	Number of cars:	Km driven last year
Corporate Banking:	2	21,900
Legal Collection:	2	38,000
General Services:	12	168,000

OBJECTIVES:

- 90% of the Bank’s vehicles will be environmentally friendly in 2014
- Keep track of the amount of fuel the Bank purchases each year
- All tyres under the Bank’s vehicles will be environmentally friendly in 2014 to reduce road wear and airborne particle pollution



Geothermal energy & seafood

The seafood industry has been an intrinsic part of Íslandsbanki’s business activities since 1904. Building on this heritage Íslandsbanki has developed a specific expertise within that sector. Over the years, many of the largest and most prominent seafood companies in Iceland and globally have been valued customers of Íslandsbanki.

Íslandsbanki and its predecessors have also accumulated extensive knowledge and experience when it comes to renewable energy. The Bank’s platform is built on the Icelandic history of successfully harnessing both geothermal and hydro power. More recently, Íslandsbanki has been researching and analysing the developments of the North Atlantic region, which could entail significant opportunities for Iceland and the Icelandic economy. A specific Energy Group was formed at the Bank to ensure exceptional service to the Bank’s clients. The team combines years of experience in this field and is focused on providing the global community with sustainable business solutions and research material available for everyone.

Publication of market research material

Corporate Banking differentiates itself from the competition by its industry focus and knowledge of customers’ affairs.

Íslandsbanki’s publishes industry reports in the areas of seafood and energy. 2012 was no exception, with new reports published on the Icelandic seafood sector, the Icelandic energy market, and the Canadian seafood sector, together with issuing a response to the controversial government bill on fisheries management and fishing fees.

Active participation in cluster projects

Íslandsbanki is an active participant in three so-called cluster projects in Iceland, ‘The Seafood Cluster’, ‘The Geothermal Cluster’, and ‘The Tourism Cluster’. The Bank’s objective with participation in these projects is to promote increased value creation in these sectors. The Bank has, amongst other activities, supported educational projects by the Seafood Cluster amounting to ISK 5 million, the group being made up of representatives from educational institutions with special interests in the seafood industry. The outcome has been a new website www.verkefnamidlun.is, designed to bring together companies and students in projects relating to Icelandic fisheries and increase recruitment to the sector.

Community

Íslandsbanki makes it a priority to maintain a good relationship with its immediate environment. The Bank wants to have a positive impact on the community by supporting various social, artistic, cultural and sporting projects. In 2012 Íslandsbanki provided grants for more than ISK 200m and employees laid a helping hand to several charities through the Bank's project. We offer a helping hand. In principle, the Bank's branches support charities and institutions in their immediate localities while headquarters supports causes on a national scale.

Við bjóðum
stemningu

Reykjavík Marathon – running for a good cause

Íslandsbanki has been the main sponsor of the Reykjavík Marathon since 1997. In 2012 the event attracted a record number of entrants with over 13,400 runners taking part, thereof around 400 employees at Íslandsbanki. This is a massive increase in participation from the 214 runners that ran in the Marathon the starting year in 1984. The most important aspect of the marathon is the money it raises for charities via sponsorships for runners. In 2012 the runners raised ISK 45.7 million for charity to the benefit of 133 charities. The highest amount of money, raised by a single athlete was ISK 1.6 million by Viktor Snær Sigurdsson, running in support of the AHC Association. Viktor's sister suffers from the rare neurological disease Alternating Hemiplegia of Childhood.

Íslandsbanki is the main sponsor for the National Olympic and Sports Association of Iceland and sponsored the runner Kári Steinn Karlsson at the Olympic Games in London 2012. Kári is the first Icelander to compete in the marathon at the Olympics. He ended in 42nd place out of 105 runners.



Forskot, the Golfing Excellence Fund

Íslandsbanki was one of the founders of Forskot, a golfing excellence fund. The fund's objective is to support the golfplayers, professionals and amateurs, aiming at becoming world class players. Golf will return as an event at the Olympic Games in 2016 after over 100 years. Five players received a total of ISK 15 million grants from the fund.



“What If?”

Over the last two years Íslandsbanki has sponsored performances of the play “What if?” for schools, parents associations and higher secondary schools. The play focuses on preventive measures to drug and alcohol abuse, bullying, suicides and sexual violence by using play, music, humour and poetry in a fun and an innovative way. The play has now been seen by about 10,500 people at 65 performances throughout the country.



Íslandsbanki’s Entrepreneurs Fund

Íslandsbanki’s Entrepreneurs Fund aims to encourage innovation and development in sustainable fisheries and renewable energy. In 2012 the Fund granted the geothermal start-up company GÍRÓ ISK 3 million to develop and produce monitoring equipment to measure the temperature, pressure, direction and inclination of boreholes up to 400°C. The Fund also granted educational institutions within the Icelandic Seafood Cluster ISK 5 million to fund collaborative educational activities, policy making and the preparation of an action plan to attract young people to take up studies in this field. The outcome has been a new website www.verkefnamidlun.is, designed to bring together companies and students in projects relating to Icelandic fisheries and increase recruitment to the sector.

Various community projects

In 2012 Íslandsbanki’s branches supported charitable and other various organizations while headquarters stressed supporting organizations nationwide. Grants and subsidies funded by Íslandsbanki in the last year include:

- Íslandsbanki and the Reykjavík City Theatre have enjoyed a successful cooperation since the Bank’s foundation. Reykjavík City Theatre is among Iceland’s oldest and most prestigious cultural institutions. Íslandsbanki is also the main sponsor of Hof, a cultural and conference center in North of Iceland.
- Íslandsbanki annually grants scholarships to honour students. In 2012 the Bank awarded 10 exemplary students with grants of ISK 3.4 million in total.
- Íslandsbanki and Ergo are sponsors of the Icelandic Equestrian Association (Landssamband hestamannafélaga) for the next three years. The Association’s twentieth National Icelandic Horse Championships held in Víðidalur was a splendid occasion, enjoyed by all.



- Íslandsbanki has for a number of years been one of the main sponsors of the Icelandic Special Olympics team.
- Ergo’s Environment Fund proved grants to Radiant Games for the development of a children’s computer game centred on renewable energy, and to Sæthór Ásgeirsson for the development of windmills designed for Icelandic conditions.



- Financial support to Sólheimar, a sustainable community known for its artistic and ecological atmosphere, where about 100 people live and work together. The residents at Sólheimar, are very diverse, including disabled people, long-time unemployed people, prisoners and long-term patients. Roughly 45 of the residents have special needs.
- Íslandsbanki’s wealth management division, VÍB, was one of the chief patrons of the Reykjavík Arts Festival.
- Íslandsbanki supports Víkin Maritime Museum for the furtherance of historical documentation of the fishing industry in Iceland at a time of innovation and change.

Sports teams and other beneficiaries

Haukar KA Dansíþróttafélag Íslands **BÍ/Bolungarvík**
Landsamband hestamanna FH **Valur Gróttu** **UMFN**
 Körfuknattleiksfélag Ísafjarðar **Völsungur Fylkir** **Þór Akureyri**
ÍBV Special Olympics – Íþróttafélag fatlaðra **UMFÁ**
UMFA-Afturelding Fimleikafélagið Höttur **Stjarnan HK** **ÍA**
UMFG **ÍSÍ** **Ungmennafélag Selfoss**

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www.islandsbanki.is/english/about-islandsbanki/corporate-social-responsibility/