

2019



# Annual and Sustainability Report

Moving Iceland forward by empowering our customers to succeed





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# Highlights of 2019



# This is Íslandsbanki

 Moving Iceland forward by empowering our customers to succeed

## Vision and values

Vision to be  
**#1 for service**



Passion



Professionalism



Collaboration

## The Bank

**FTEs**  
**749**  
at Íslandsbanki  
year-end

**14** branches



## Market share<sup>1</sup>

**32%** Personal banking

**35%** Business banking

**34%** Corporate and investment banking

## Sustainability (ESG)

**1.62** CO<sub>2</sub>tne  
Carbon emission per employee

**1.14%**  
Equal wages for jobs of equal value

**67%**  
of women chairing committees at board level

## Key figures 2019

ROE (Regular operations)<sup>2</sup> **6.6%**

Cost / Income **62.4%**

Total capital ratio **22.4%**

Total assets **ISK 1,199bn**

## Ratings and certifications

**S&P Global** **BBB+/A-2**  
Ratings **Negative outlook**



EQUAL PAY  
CERTIFICATE  
2018 - 2021



EXEMPLARY IN  
CORPORATE GOVERNANCE

## Digital milestones in 2019

**97%** of all customer visits are digital

**New unified** banking app

**25m customers** visits via app

**12m visits** to updated Íslandsbanki web

Digital onboarding in personal banking

Automated credit scoring for individuals

Simplified customers experience

Open banking foundation in place

<sup>1</sup>Based on Gallup survey regarding primary bank.

<sup>2</sup>Return from regular operations and corresponding ratios on normalised CET1 of 16%, adjusted for risk free interest on excess capital.

# 2019

Try clicking on the pictograms

Q1

## January

Íslandsbanki launches **new, user-friendly website**

Íslandsbanki leads Icelandic Customer Satisfaction Index for **sixth consecutive year**

Íslandsbanki rolls out **Onboarding**, a new digital solution



## February

Íslandsbanki offers **contactless payments** with Garmin and Fitbit smart watches



## March

Íslandsbanki AGM approves **ISK 5.3bn dividend payment** to shareholders



Q2

## June

**Thirteen students receive scholarships** from Íslandsbanki



Íslandsbanki issues **SEK 500m subordinated bond**



## May

Íslandsbanki Research issues report on **Icelandic tourism sector**



## April

Íslandsbanki recognised for **excellence in corporate governance**



Íslandsbanki issues **EUR 300m bond**



Íslandsbanki **stops giving plastic gifts to children** and youth and rolls out **Krakkabankinn**



2020

## December

Íslandsbanki approves new **sustainability policy**



Íslandsbanki **closes out the year with the largest share of total trading** on Nasdaq Iceland



Íslandsbanki Research issues **report on Icelandic fishing sector**



## November

350 guests attend Íslandsbanki **meeting on equal rights** at Hilton Nordica hotel



Íslandsbanki and Iceland Funds **hold meeting on responsible investment**



Íslandsbanki **issues ISK bond**



**New Íslandsbanki app** launched



## October

Íslandsbanki and Reykjavik Economics issue **report on innovation**



**ISK 30.5m in Íslandsbanki Entrepreneurship Fund** grants allocated to nine projects



Íslandsbanki Research issues **housing market report**



Q4

Q3

## July

Payments via **ApplePay** now available to Íslandsbanki customers



S&P Global Ratings affirms Íslandsbanki's credit ratings at **BBB+/A-2**



## August

New **digital mortgage loan solution** rolled out



Íslandsbanki corporate finance **advises Brim** on Asian sales companies



CEOs from **14 large Nordic firms meet with Nordic prime ministers** in Iceland to discuss climate action and equality



The Íslandsbanki Reykjavik Marathon takes place. **Single largest charity event in Iceland**



## September

Íslandsbanki Research issues **macroeconomic forecast**



Nearly **600 guests attend Íslandsbanki's seminar on finance at retirement**, held in Harpa





# To our stakeholders





# Chairman's statement

The Icelandic economy shows its resilience

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After several years of growth, the Icelandic economy was on the defensive in 2019. But it can be said to have won a defensive victory, as it now appears, contrary to most forecasts, that GDP growth was positive for the year. In addition, inflation remained low, and the króna was stable. Clearly, the economy is more resilient than many had feared. This is due not least to overall success in corporate operations and fiscal policy, as household balance sheets have remained stable.

## More investment needed to drive GDP growth

Iceland is home to a host of opportunities for the future, and we can be proud of the value creation that has taken place here in the energy, tourism, fishing, and innovation sectors. But we need to do more. Weaker economic growth and a cloudy global outlook make it even more important that we maintain a thriving and diverse economy fuelled by innovation and Icelandic brainpower. In order for this to happen, we must ensure that sufficient capital is available for profitable investments.

In recent years, the pension funds have been virtually the only investors in the domestic market. The White Paper on a Future Vision for the Financial System points out the necessity of bringing more players to the table in order to boost the effectiveness of our financial market. The White Paper advances a number of intriguing proposals on how to do this, including expanding individuals' freedom to invest their supplemental pension savings, as is done widely in other countries. It is important that the authorities and the business community follow up on the proposals in the White

Paper in order to strengthen the Icelandic financial market.

Investment is also needed to ensure further development of our social infrastructure. In particular, we need to meet the needs of the vast influx of tourists who visit the country. Although Iceland's fiscal position is sound, the Government should not stand alone in financing the many infrastructure projects that need to be undertaken. Chief among these are repairs to our road system and airports, and ensuring that everyone in Iceland has ready and reliable access to electrical power, even in the face of catastrophic weather. In this vein, it would be interesting to explore further opportunities for public-private partnerships, as we did for the construction and operation of the Hvalfjarðargöng tunnel. Such partnerships have been very successful in neighbouring countries.

### **Reconstruction of the banking system and stiffening competition in the financial market**

In the decade since I took over as Chairman of the Board at Íslandsbanki, Iceland's financial system has undergone radical change. First of all, the system is much smaller than it was before the financial crisis, as nearly all of Iceland's commercial

## **Investment is also needed to ensure further development of our social infrastructure.**

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banking operations focus on the domestic market. All of the risk within the banks is much better managed than before, and the cooperation between the Financial Supervisory Authority and the Central Bank has been very fruitful. This cooperation has strengthened Íslandsbanki's risk framework and shored up its defences against money laundering, for instance. In addition, the Bank has made major investments in modern digital technology over this period. These investments have led to increased automation and simpler processes, thereby helping to improve operations and enhance security.

On the other hand, the competitive environment has changed dramatically with the arrival of fintech companies and other market participants. It is vital that the banks respond swiftly to these changed external conditions so as not to end up at the bottom of the heap competitively. And we must not forget that one of the foundations of successful operations is ensuring that

customers and the general public have faith and confidence in the Bank. Indeed, fostering such confidence has been one of our primary objectives in recent years.

### **Regulatory environment and taxation onerous for Icelandic financial institutions**

In a welcome move in 2019, Parliament approved a gradual reduction of the bank tax to 0.145% over a period of several years. But this is nowhere near enough: even with the reduction, taxes on Icelandic banks remain about five times higher than those in neighbouring countries – as opposed to seven times higher before the tax cut was approved. The aforementioned White Paper also notes that proposed statutory amendments and the establishment of a special resolution fund provide an opportunity for the authorities to conduct a comprehensive review of the special taxes and public levies in the financial market. It is important to look to the future and emphasise fair and appropriate taxation designed to build up funds so as to strengthen the foundations of the financial system and cushion against future shocks – through channels such as the Depositors' and Investors' Guarantee Fund and the resolution fund. It would be ill-advised to increase the already high levies on the Icelandic banks, which also have



considerably higher capital requirements than their foreign peers. All of this inevitably affects the banks' competitive position and profits. Furthermore, it severely curtails lending growth, undercutting the Central Bank's efforts to stimulate the economy. These factors could also have a detrimental impact on efforts to sell Íslandsbanki. Discussions on starting the sale process have been underway in the past year. This is a welcome development, and such a sale would be extremely advantageous to Icelanders. Among other possibilities, it could enable the Government to embark on further infrastructure development or pay down Treasury debt.

### Increased sustainability is an investment for the future

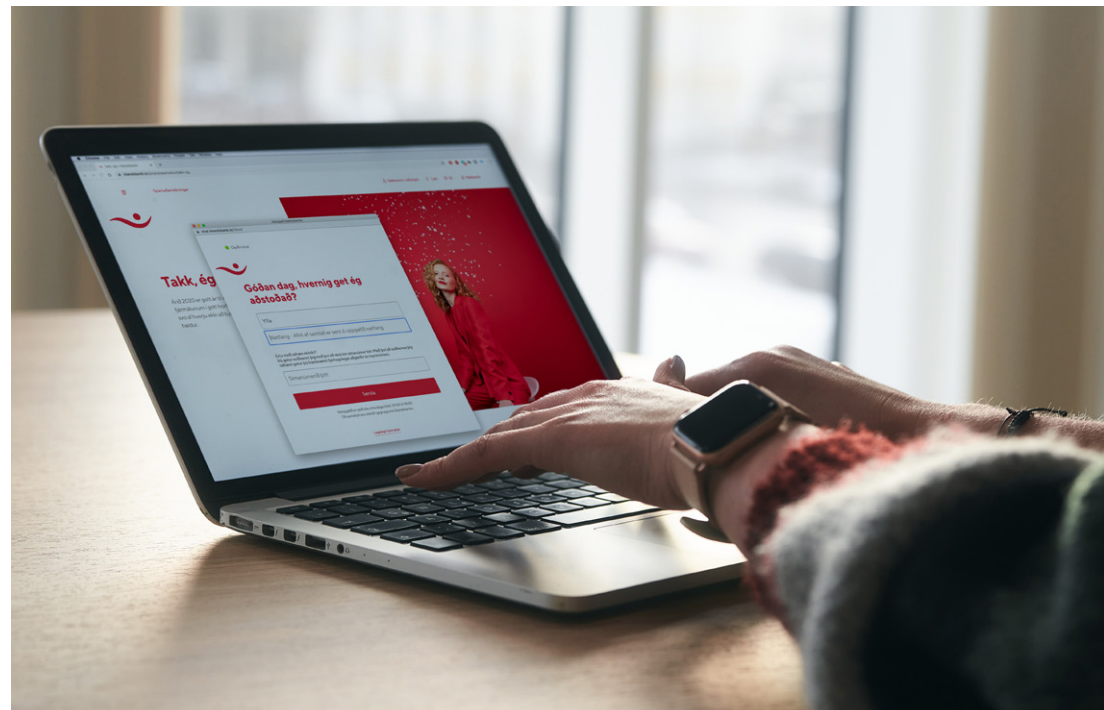
At the end of 2019, the Board of Íslandsbanki approved a new sustainability policy for the Bank. It was an important step forwards. The policy emphasises integrating the Bank's commitment to sustainability into its operations and overall policy, alongside its profit objectives and other financial targets. The sustainability policy has been introduced in response to stakeholders' demands for action in the areas of sustainability and is consistent with the Government's ownership policy. With this

step, the Bank intends to be a leader in the field of sustainable development and a positive force in society.

To this end, the Bank intends to initiate broad collaboration on responsible governance practices that both contribute to sustainable development in the Icelandic economy and support the Government's Climate Action Plan, while also supporting the UN Sustainable Development Goals.

In spite of economic challenges and increased competition, Íslandsbanki can be optimistic about its future. I am certain that the Bank's strong executive leadership and highly competent staff will protect its interests in the years to come, and I am equally certain that the Bank will benefit from its investments in new technology, responsible strategies, and outstanding service to customers.

Corporate Governance Statement





## CEO's address

The customer is always in first place

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**The banking environment is constantly moving in new directions, bringing with it exciting opportunities, but also bringing threats that we must bear in mind. We therefore considered it necessary in 2019 to review the Bank's strategy, to see where and how we can improve, and to lay the groundwork for our future.**

During the first half of the year, we invested considerable work in reviewing our strategy with an eye to the Bank's operations. We engaged the services of international consulting firm Boston Consulting Group, established working groups within the Bank, held a large number of workshops, and sought opinions from outside experts. The result is a new strategy for Íslandsbanki, which we introduced in spring 2019 at a strategy meeting for the Bank's entire staff.

We defined a new role for the Bank as a force for good, under the slogan **"Moving Iceland forward by empowering our customers to succeed"**. Through this, we aim to foster

responsible, profitable, and sustainable operations, as well as encouraging our customers to act as a force for good. We selected three new values — **passion, professionalism, and collaboration** — and decided to retain our current vision of being **#1 for service**. In my opinion, this is the most important thing we do: provide our customers with the best service possible at all times. On the other hand, we are aware that consumers' expectations have changed rapidly in recent years, as has their definition of good service. This makes honest and open dialogue with our customers more important than ever before.

## We defined a new role for the Bank as a force for good, under the slogan “Moving Iceland forward by empowering our customers to succeed”

We will continue to work towards simplifying our operations and making them more efficient, while also thinking big, thereby ensuring that we have a lasting competitive advantage. We have defined a set of projects over a five-year horizon, which will support the objectives the Bank intends to achieve with its new strategy. A great deal of progress has already been made in implementing the strategy. What lies ahead is further development on the digital side, and we are excited about working closely with our customers and partner companies.

### Digital champion in service to individuals

In 2019, we continued to invest in IT, so as to make our Bank as secure and competitive as possible. We reorganised our IT department and shifted from a project-centred orientation to a product-driven model. We have formed product teams led by managers from the Bank's business units, thereby linking our business units more closely with our digital product development

work, which is becoming increasingly more important for our operations. Our objective is to offer personalised service through digital solutions, with a focus on increased automation. This will help us to improve our service and control costs.

Our customers are satisfied with the direction we are taking, and in 2019 they used the Bank's digital solutions in greater numbers than ever before. Our new app has gotten rave reviews, and we look forward to launching new solutions for digital mortgage refinancing and digital securities trading, to name just two innovations in the pipeline.

### Sustainable development is an investment for the future

It is safe to say that corporate sustainability was in the global spotlight in 2019. We can feel that our customers and investors are interested in sustainability, and as one of Iceland's largest companies, we play an important role in the community. A large body of research and numerous scholarly articles suggest that companies that incorporate sustainability into their core operations benefit in a variety of ways: improved risk management, reduced costs, diversified access to capital, increased innovation, and stronger business relationships. Furthermore, companies that

emphasise sustainability are likelier to attract and retain qualified staff.

For all of these reasons, our Board approved a forward-looking sustainability policy in late 2019. Our aim is to integrate the Bank's commitment to sustainability into its profit objectives. In our operations, we will rely on internationally accepted environmental, social, and governance criteria, and this year, for the first time, we are publishing a joint annual and sustainability report focusing on these criteria. We intend to support the UN Sustainable Development Goals (SDGs) and have decided to emphasise four of them: quality education; gender equality; industry, innovation, and infrastructure; and climate action.

Implementing sustainability is a long-term venture for us at Íslandsbanki, as it is for others in the business community and society at large. We reserve the right to have opinions about how things should be, but we also realise that we are not perfect any more than others are. That said, we have to begin somewhere, and we are eager to collaborate with our customers and partners and to engage in productive dialogue on these topics, putting into action our commitment to being a force for good and empowering our customers to succeed.

### **Operating performance in line with expectations, loan portfolio sound, and successful funding**

Economic headwinds early in 2019 created challenging conditions and a demanding operating environment for many of the Bank's customers. But we are glad to see signs of resilience in the economy; in particular, 2019 turned out more positive than was widely expected. The Bank's income rose by 7.8% during the year, and other operating expenses declined, but as in 2018, subsidiaries' operations had a negative impact on the consolidated results. The Bank's operating performance in 2019 was good, with a consolidated profit of ISK 8.5 billion. This is equivalent to a return on equity of 4.8%, which is well below our long-term target. The return on equity from regular operations based on a CET1 ratio of 16% was 6.6%.

Growth in deposits and lending was strong during the year, at 6.8% and 6.3%, respectively, and the year-end ratio of impaired loans and advances was 2.4%, in line with the Bank's forecast. Conditions in the capital markets, both in Iceland and abroad, were favourable for the Bank, and our funding remained diverse and successful. During the year, Íslandsbanki issued its third subordinated bond classified

as Tier 2 capital, in addition to a public issue in Icelandic króna, the first of its kind issued by the country's three commercial banks. The Bank's liquidity and capital ratios therefore remained strong, and well above both internal targets and regulatory requirements.

Sound operations and a strong balance sheet with effective risk management are fundamental elements in the Bank's performance, and as before, Íslandsbanki remains well prepared to contribute to the growth and success of the domestic economy. The Bank's profitability and capital position will affect long-term lending growth, however.

### **Brisk investment banking activity, booming returns, and strong support for entrepreneurs**

2019 turned out better than expected for the Icelandic economy, and we at Íslandsbanki are satisfied with our performance during the year. We led the market in securities brokerage, our corporate finance team had a very strong year and completed a number of worthwhile projects, and our currency brokerage desk recorded its highest turnover since 2008. Assets under management grew markedly during the year, as did assets held in custody. Furthermore,

Iceland Funds had an excellent year, with funds in three out of four categories ranking first nationwide in terms of returns. We gave steadfast support to small and medium-sized entrepreneurial and innovative firms during the year and collaborated with Reykjavik Economics on an interesting report on innovation. We gave grants totalling ISK 30.5 million to nine exciting entrepreneurial projects, all of which support the UN SDGs in one way or another, and we look forward to seeing these companies grow and make a positive impact in the future.

### **Thanks to staff and customers**

I am grateful to the Bank's employees, whose professionalism drives them onwards with a passion for providing Íslandsbanki customers with outstanding service. Exciting but demanding times lie ahead, and we look forward to continuing to implement our new strategy in cooperation with our customers and partner companies.



# Economic review

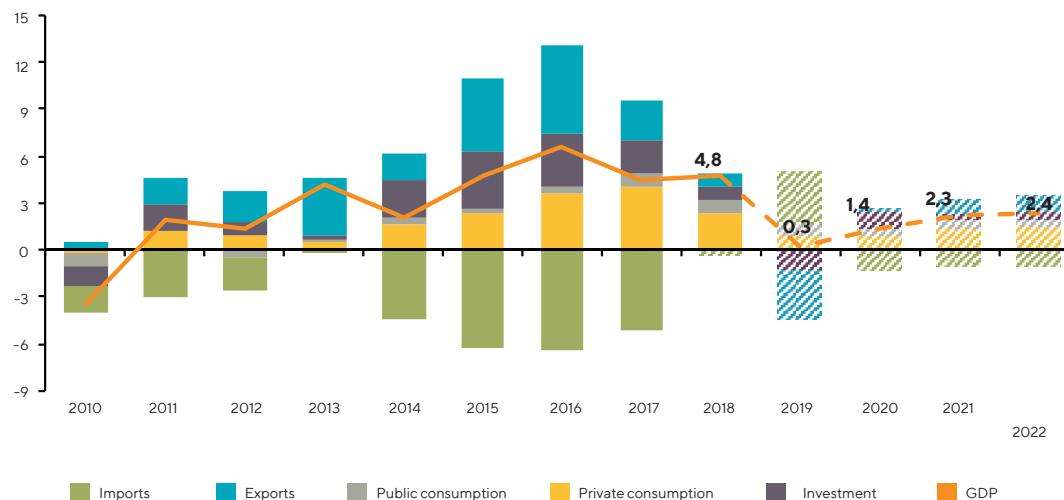


# Economic review

After a buoyant period of strong GDP growth, the Icelandic economy has entered an adjustment phase

Fortunately, many of the pillars of the economy are quite robust at present, and it appears that the adjustment will be relatively painless and that living conditions for most will remain among the best in the world.

GDP and contribution of its subcomponents  
Volume change from prior year (%)



Source: Iceland Statistics and ISB Research

## 2019: An economic boom ends

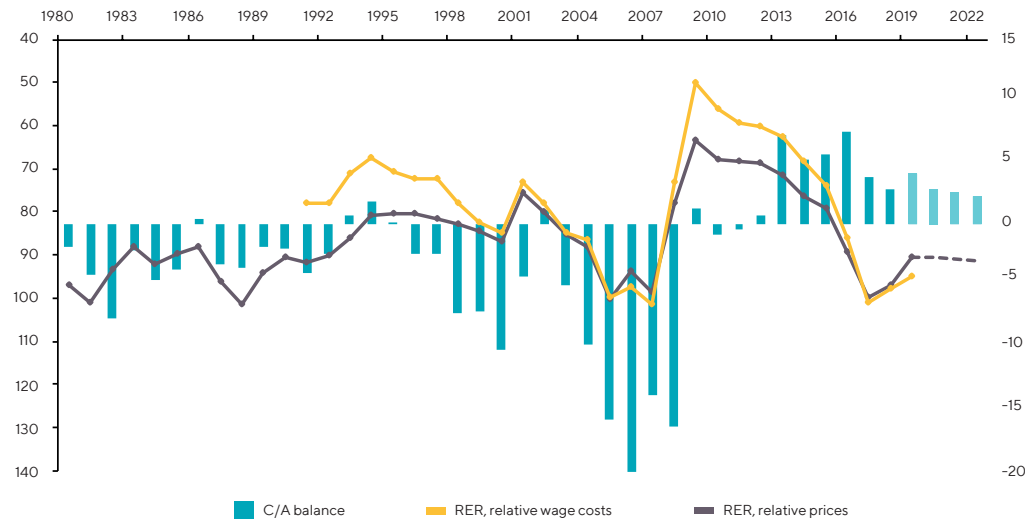
It is safe to say that the past decade has been bountiful for the Icelandic economy. After the severe shocks of the late 2000s, living standards are back to pre-crash levels or above them. The main driver of the upsurge is Iceland's third resource – its uniqueness and clean wilderness – which, coupled with its fishing waters and renewable energy resources, provide the bulk of the country's export revenues. In addition, efforts to resolve legacy issues from the financial crisis have been successful, and economic policy has supported a favourable outcome.

Setbacks in the tourism industry early in 2019 marked a turning point in the economy, however, ushering in an adjustment after a period of booming growth. Output growth in 2019 as a whole is estimated at 0.3%, with a sharp contraction in business investment and services exports acting as a counterweight to consumption growth and a strong contraction in imports.

## External trade remains favourable

The balance on combined goods and services trade showed a sizeable surplus in

Real exchange rate and current account balance  
Index and share of GDP



Source: Iceland Statistics and ISB Research

2019, despite reduced tourist numbers and the failure of the capelin catch. Actually, the goods account deficit was the smallest since 2015, owing to a marked contraction in imports and more positive developments in exports than had been anticipated. By the same token, developments in services trade were more favourable than expected. In spite of severe blows to export sectors in 2019, the current account surplus for the year is likely to turn out relatively large, at just over 4% of GDP.

Investment lost pace in 2019, after a five-year period of uninterrupted growth.

Residential investment retained its momentum, albeit outweighed by the contraction in business investment and public investment. Strong growth in residential investment has steadily increased the supply of new homes, helping to rebalance the real estate market. In greater Reykjavik, property prices rose by 2.3% in 2019, the slowest pace since 2011.

Last year saw an abrupt turnaround in the labour market. Unemployment rose by about a percentage point of the labour force, and wage increases were the smallest since 2010. WOW Air's collapse and the

contraction in tourism were important factors in this about-face, together with streamlining in the banking system and elsewhere. This trend towards more sluggish real wage growth and rising unemployment is one of the main reasons for relatively weak private consumption growth in 2019.

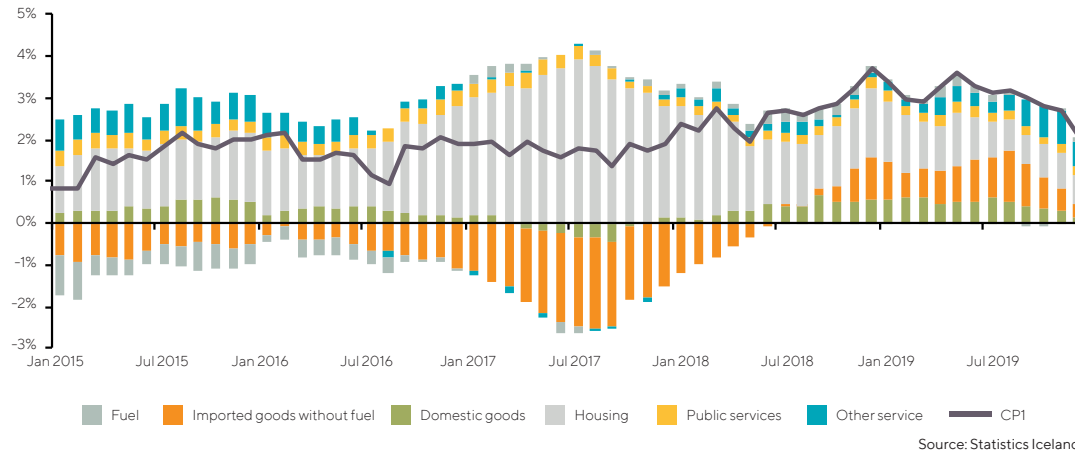
### ISK stable, inflation on the wane

After depreciating by roughly 9% in H2/2018, the ISK was more stable by various measures in 2019 than in any single year since it was floated at the turn of the century. Economic headwinds had relatively little impact on the exchange rate last year. Furthermore, inflation fell significantly. By the end of 2019, it measured 2.0%, its lowest in two years. Over the course of 2019, the Central Bank lowered the policy rate by a total of 1.5 percentage points as the inflation outlook improved and the economy cooled. This brought the policy rate to its lowest since the inflation target was adopted in spring 2001.

### Further adjustment ahead in 2020

For 2020, GDP growth is projected at a relatively slow 1.4%. Growth will be driven by a modest increase in domestic demand, whereas the outlook is for very sluggish export growth. Despite this, there is a strong probability that the current account will again show a sizeable surplus.

Inflation, by source (%)



Source: Statistics Iceland

The outlook is for a rebound in investment this year, owing mainly to growth in business investment after a two-year contraction. Also in the offing is an upturn in public investment, albeit offset by a significant slowdown in residential investment. The outlook is for house prices to rise broadly in line with the general price level.

Even though the signing of the standard of living agreement was positive overall, there is still some uncertainty in the labour market. This, together with rising unemployment, will prompt households to exercise greater caution this year, dampening private consumption growth.

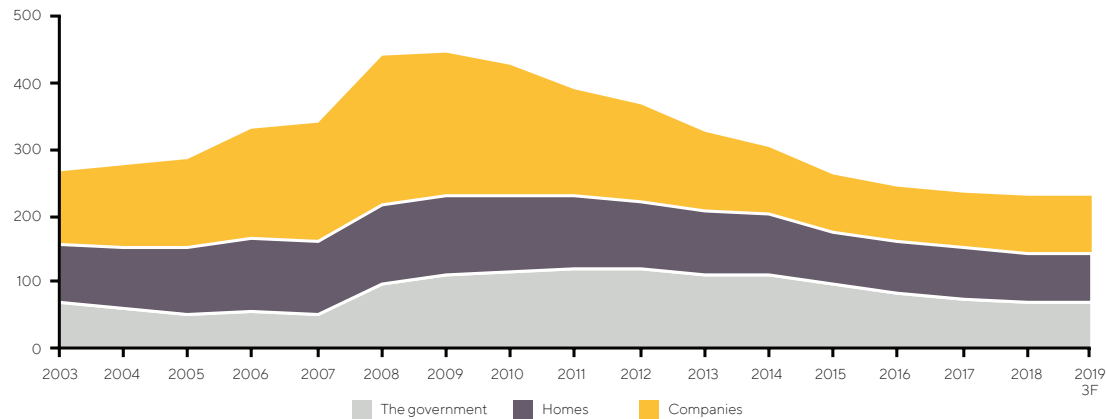
It appears that the ISK exchange rate is currently within the range that is consistent

with an internally and externally balanced economy. It is quite likely to remain around the level seen in the past year, provided that there are no dramatic and unexpected changes in major underlying factors.

The outlook is for inflation to remain below the Central Bank target this year, averaging about 2.2%. Moderate inflation and the overall cooling of the economy will presumably lead to a low base interest rate level in 2020, and it appears that, on average, long-term rates will be at their lowest since interest rates were liberalised over 30 years ago.

Although 2020 will be a challenging year economically, many of the pillars of the domestic economy are quite robust at present, not least because of improvements in household, corporate, and public sector debt. Therefore, for most segments of the economy, the outlook is for a relatively soft landing after the strong upswing of the last decade.

Household, corporate, and public debt % of GDP



Source: The Central Bank of Iceland, Statistics Iceland





# Positive force in society

through collaboration we are #1 for service





## Personalised digital banking services

*"In 2019, we saw a surge in the use of the Bank's digital solutions. We have collaborated with our customers to design solutions that can be used effectively for day-to-day banking activity. Our new app and our mortgage solutions have been enthusiastically received, and we are committed to providing thorough education and training about them. We will continue this journey in the new year, when we anticipate enabling customers to refinance their loans digitally and sign up for securities trading through a simple process. In 2019, we placed strong emphasis on children's experience at our branches and stopped giving gifts made of plastic, in line with the Bank's support of the UN SDGs. We are excited about the new year, when we will continue to provide personalised and digital services aligned with our customers' needs."*

**Sigríður Hrefna Hrafnkelsdóttir**  
Managing director of personal banking

### Strong market share



**32%**  
individuals

**31%**  
deposits

### Financials

**7.1%** ROE

**37%** proportion of loans

**47%** proportion of deposits

# Personal banking

Personal banking provides customers with a comprehensive range of financial services, with strong emphasis on digital distribution channels

Íslandsbanki customers can access banking services through a number of channels: the Íslandsbanki app, online banking, the branch network, our advisory centre, ATMs, e-mail, and secure online chat. We offer savings accounts, loans, deposits, payment solutions, advisory services, foreign exchange transactions, and more. In 2019, Íslandsbanki took major steps towards even more sophisticated digital services, with new distribution channels, simplified product offerings, and automation of processes that simplify customers' lives. At the end of the year, we launched our new Íslandsbanki app, which enables users to view their account balances and activity, loans, payment cards, and electronic documents, as well as enabling them to take advantage of the wide range of services available.

 **One out of every two customers** has opened the Íslandsbanki app in the past 90 days

 About **5,000 people** attended **78** educational meetings and presentations

 **41% market share** in payment cards

 App-based transfers of funds **increased by 84%**

 **56% of changes to credit limits** carried out in the app

 Visits to branches **declined by 20%** during the year



## Organisation

### Lending

Offers a wide range of loans for customers, from overdraft accounts to mortgages, with a fully digitised and automated credit assessment process. It is also possible to apply for a loan of up to ISK 2 million in a matter of minutes through the Íslandsbanki app.

### Savings

Offers savings options that suit customers' differing needs, including third-pillar pension savings and mutual funds. Now customers can use the app to open savings accounts tailored to their needs, including a new digital account offering excellent

terms. The Bank's new digital account, called Ávöxtun, offers some of the best interest rates available in the market today.

### Payment solutions

Offers simple, effective payment solutions in the front ranks of payment market products. Now Íslandsbanki customers can access all services relating to payment cards through digital distribution channels, making the service a simple and natural part of their everyday lives. In 2019, Íslandsbanki became the first bank to offer payments via Apple and Android smartphones and via smart watches such as Garmin and Fitbit.

## Íslandsbanki #1 for service – digital, too!

Íslandsbanki customers choose increasingly to use digital solutions for their banking services. Some 99% of all contact with customers takes place through digital channels, including 80% through the app. The Bank offers service and sales in all key product categories through digital distribution channels. Product sales through digital channels increased by 30% during the year, with the introduction of new solutions such as **Onboarding**.

Credit assessment applications with a response time of less than three minutes are now fully digitised, and the number of applications has risen by 30%. Up to three unrelated parties can request a joint credit assessment and then apply for a mortgage afterwards. The application is now fully automated: from the customer's selection of a property, through the selection of a loan package, and to the submittal of the loan application. With these changes, the Bank has greatly expanded its service to those customers who turn increasingly to self-service options – both by shortening waiting periods considerably and by improving the flow of information.



## Innovation is the key to further advancement of the Icelandic economy

*"We are delighted that for yet another year, Íslandsbanki's business banking has topped the Gallup company survey. We stand out in terms of service and advice, we have the highest net promoter score (NPS), and when survey participants are asked who is at the forefront of the corporate banking market, their answers show that we are clearly in the lead. Lending growth was healthy during the year despite economic headwinds, including shocks to the tourism sector, a contraction in motor vehicle sales, and uncertainty about wage negotiations. The corporate confidence index was consistent with this in the first half of 2019, but as the year progressed, we could discern increased resilience and greater optimism. With entrepreneurship and innovation, SMEs are the drivers of creation and a wellspring of new jobs and opportunities. As a result, entrepreneurship and innovation are the keys to further advancement in our economy, and we intend to support these creative efforts by providing excellent personal and digital service in a rapidly growing and highly competitive financial market."*

**Una Steinsdóttir**  
Managing director of business banking

### Strong market share



**41%**  
greater Reykjavik area

**35%**  
Iceland total

### Financials

**7.8%** ROE

**26%** proportion of loans

**27%** proportion of deposits

# Business banking

Business banking provides small and medium-sized enterprises (SMEs) with comprehensive financial services through the Íslandsbanki branch network. Ergo, the Bank's asset financing service, is also part of business banking.

**Íslandsbanki serves a growing group of Icelandic SMEs in or near their home community and has built up strong business relationships. Each branch is staffed with employees who have broad-based expertise and experience. This puts Íslandsbanki in a strong position to offer outstanding service to our customers, in line with our vision of being #1 for service.**



**ISK 30.5 million** allocated from the Entrepreneurship Fund to **nine projects**



Business banking serves **50% of outstanding companies** in Iceland (according to Creditinfo)



Each year, we visit **3,000 SMEs** and make about **7,000 phone calls to customers**



**98% of transactions** are carried out via online banking



About **40% of total lending** is to borrowers in regional Iceland



**41% market share** in financing of heavy machinery sold



## Organisation

### Branches

Íslandsbanki operates 14 branches, five in the greater Reykjavík area and nine situated around the country. The branches have a flexible design and offer new technology and effective advisory services, which results in better service to customers. In 2019 the Höfðabakki branch was converted to a service branch with emphasis on self-service options and advice in digital distribution channels.

### Conversations with customers

Íslandsbanki hosts educational meetings on topics of importance to SMEs and has invited a number of customers to attend. The focus has been on conversations about challenges in the Icelandic economy and on presenting the Bank's macroeconomic forecast. The meetings have been well attended and well received. Through Reynslubankinn we

have published social media interviews with entrepreneurs who have operated SMEs successfully. Each year, the business banking's employees make a concerted effort to strengthen business relationships with visits and phone calls.

### Ergo

Ergo, a part of business banking, specialises in financing business equipment and commercial-industrial real estate for corporate customers, as well as financing of motor vehicles and travel equipment for individuals. With 35 years' experience in the asset leasing market, Ergo is determined to distinguish itself from its competitors by providing fast, high quality service focused on customers' needs.

Ergo

## Entrepreneurs and innovators

SMEs are the backbone of the Icelandic economy. They ensure economic and social stability and are important sources of investment, innovation, and invention.

This year, in cooperation with Reykjavík Economics, Íslandsbanki issued a [report](#) entitled *Fjórða stoð hagkerfisins*, dedicated to matters of importance for entrepreneurs and innovators. Progress depends on the creation of strong foundations for the innovation environment, and it requires that we support pioneering efforts and expand the ranks of entrepreneurs who devote their time and brainpower to creating a better society and contributing to further advances.



## Corporate partner #1

*“Corporate and investment banking aims to provide outstanding service and meet all of its customers' needs in one place. At a time when lending growth is more restricted than before, it is more important than ever that we stand by our customers. We notice greater interest in sustainability and ESG matters among our customers and look forward to taking the next steps with them in this area.*

*Solid long-term relationships with good customers create the foundation for profitable operations in the long run.”*

**Ásmundur Tryggvason**  
Managing director of corporate and investment banking

**Strong market share**



**34%**

Iceland's 300 largest companies

### Financials

**6.1%** ROE

**37%** proportion of loans

**18%** proportion of deposits

# Corporate and investment banking

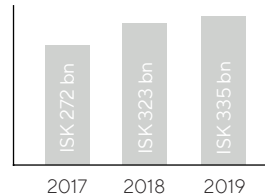
Corporate and investment banking offers a full range of financial and investment banking services to large companies, pension funds, municipalities, mutual funds, investors, and affluent individuals

**The department employs experts with decades of financial experience, including securities and foreign currency trading, investment advice, corporate finance, and lending. We place strong emphasis on knowing our customers, and in support of this aim, we have a dedicated staff with expertise in all key sectors of the economy. Íslandsbanki has developed a clear strategy for lending outside Iceland, which falls within the purview of corporate and investment banking, with primary emphasis on the North Atlantic fishing industry.**

Building on its extensive experience of complex, wide-ranging projects, our team has led many of the largest transformational endeavours in the Icelandic economy in

recent years. We focus on efficient and direct communications, and we emphasise cooperation across the units in the department, so as to meet our customers' needs as well as possible.

**kr** CIB loan portfolio growth



**kr** Íslandsbanki had the **highest combined market share** on the Nasdaq OMX Iceland exchange, **totaling 18.3% market share** across all asset classes



## Organisation

### Corporate banking

Manages business relationships with large companies and institutions. The department is responsible for all of the Bank's service to these customers. With expertise in fishing, construction, and tourism, it provides service to all sectors of the Icelandic economy.

### Asset management

Split into two units – private banking and institutional investors. Íslandsbanki's private banking offers asset management and advisory services for affluent individuals, investment companies, funds, and charities. The institutional investors unit manages business relationships with large investors and is responsible for all of the Bank's services to these customers.

### Brokerage and derivatives desk

Brokerage includes trading in equities, bonds, currencies, and derivatives, which in turn include currency swaps, interest rate swaps, and forward contracts in domestic and foreign stock and bond markets.

### Corporate finance

Corporate finance assists firms and individuals with company purchases and sales, mergers and acquisitions, and other ownership-related changes, as well as providing advisory services in connection with public offerings and securities exchange listings. Íslandsbanki is a Certified Advisor in the First North Market and assists companies with the listing process.

## The business

2019 was an eventful and successful year for corporate and investment banking. The currency brokerage team had its best year ever, and the Bank strengthened its position in equity securities brokerage. Asset management also had a good year, with a marked increase in assets under management, as well as assets held in custody.

Growth in the loan portfolio was well distributed across sectors, with new lending totalling ISK 59 billion. The Bank has a strong position in syndicated lending. During the year, it managed the expansion of the largest syndicated loan in the history of the Icelandic fishing industry. Íslandsbanki corporate finance remains a leader in the market, completing 33 projects in 2019. These include assisting with Brim's acquisition of sales companies in Asia; leading a closed offering of shares in Icelandair Group to PAR Capital; and leading the expansion of real estate firm Eik's bond issues.



## Success through responsible investments

*"In 2019, Iceland Funds implemented a new strategy on responsible investment. While our main objective is to secure strong long-term returns for our customers, we know that environmental, social, and governance factors affect firms' success – and therefore the risks and returns on investments.*

*Our employees now use responsible investment methodologies in all asset management. In this area, we collaborate with partners such as Norwegian asset management company Storebrand, which has adhered to a responsible investment strategy for more than a quarter-century."*

**Kjartan Smári Höskuldsson**  
Managing director of Iceland funds

**Strong  
market share**



**33.1%**

# Iceland funds

Iceland funds, the oldest asset management company in Iceland, was founded in 1994 and is a subsidiary of Íslandsbanki

The company manages 23 mutual and investment funds and three institutional investment funds, as well as providing service to investment companies that invest in unlisted equities and real estate. Iceland Funds has approximately ISK 300 billion in assets under management, and over ten thousand investors and depositors choose to invest their money with the company's funds. Iceland Funds is the country's bond fund management leader in terms of both number of funds and assets under management. In addition, the company has specialised in real estate projects and venture capital funds, currently operating two funds in each category. Every year since 2013, Iceland Funds has been recognised for excellence in corporate governance by the Centre for Corporate Governance.



### All of Iceland Funds' mutual and investment funds generated positive returns in 2019

The three funds listed below ranked first in their categories

#### Highest yield in bond funds

##### IS Non-Index Fund

Nominal return at year-end 2019	
1 year	13.2%
2 years	7.2%
3 years	6.2%
4 years	6.7%
5 years	6.6%
Since est.	7.8%

#### Highest yield in equity funds

##### IS EQUUS Equity Fund

Nominal return at year-end 2019	
1 year	24.3%
2 years	7.4%
Since est.	5.4%

#### Highest yield in mixed funds

##### IS Private Global Fund (ISK)

Nominal return at year-end 2019	
1 year	26.4%
2 years	12.0%
3 years	11.5%
Since est.	11.5%





## Organisation

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Within Iceland Funds are three business units: fund management, asset management, and specialised investments. Also in place are strong risk management, business development, and legal teams, as well as the managing director.

### Fund management

Iceland Funds' fund managers manage funds that invest in bonds, stocks, and other financial instruments. Funds are a sound and economical way for depositors to invest their money in a securities portfolio, thereby diversifying risk.

### Asset management

Iceland Funds' strong asset management team manages assets for individuals, public entities, and institutional investors that have made asset management agreements with Íslandsbanki.

### Specialised investments

Since 2012, Iceland Funds has accumulated substantial experience in real estate investments and property development, as well as venture capital investments. The team comprises seven experienced experts who manage institutional investment funds and other investments via specialised investment companies. Iceland Funds also operates an institutional investment fund that specialises in commodities, as well as operating the Alpha institutional investment fund, which takes positions in the domestic stock market.

### IS Green Bond Fund

The IS Green Bond Fund is thus far the only fund in Iceland that focuses on environmental issues in its investment strategy. The fund invests in bonds designed to have a positive impact on our environment and society, but without compromising on profit objectives.



## Personalised and secure digital solutions

*“The new frontier of banking is not only digitisation of traditional processes and products but the ability to personalise services and offers based on customer preferences, needs, and behaviours. Data and privacy will play a critical role in achieving this goal. It is with this in mind, that we have created an IT organisation that focuses on building flexible solutions with the client at the forefront, utilising the cloud as well as partners within a secure environment. Íslandsbanki has invested in a state-of-the-art security platform to ensure that we can collaborate within the new banking ecosystem, without compromising our customers' trust.”*

**Riaan Dreyer**  
Director of IT

### Digital customers

**98%**  
of transfers are digital

**99%**  
of bills paid digitally

**57%**  
of new bank accounts set up through Onboarding

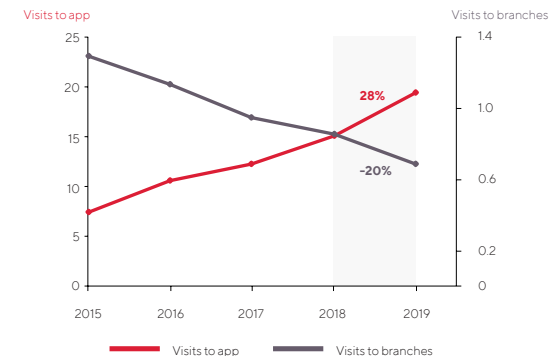
# Digital champions

The strategy-setting work carried out by the Bank in early 2019 revealed a need to review the Bank's IT model and governance

The purpose was to boost productivity and innovation, thereby maintaining the Bank's competitive position. For this review, Íslandsbanki engaged a consultant formerly employed by Google to examine the Bank's current practices and submit recommendations for new ones. Following that analysis, it was decided to shift from a project-oriented IT setup to a product-driven model. This entailed forming product teams led by managers from the Bank's business units. With this approach, business units are involved more deeply in setting goals and strategies, as well as participating in the development of each product.

The advantages of this structure are numerous: the focus of IT work is even more on the customer, business units and IT staff work together more closely, and product teams focus more clearly on their products. A single team is responsible for the strategy, design, development, and operation of each product, which simplifies communications, improves product quality, and enhances operational sustainability.

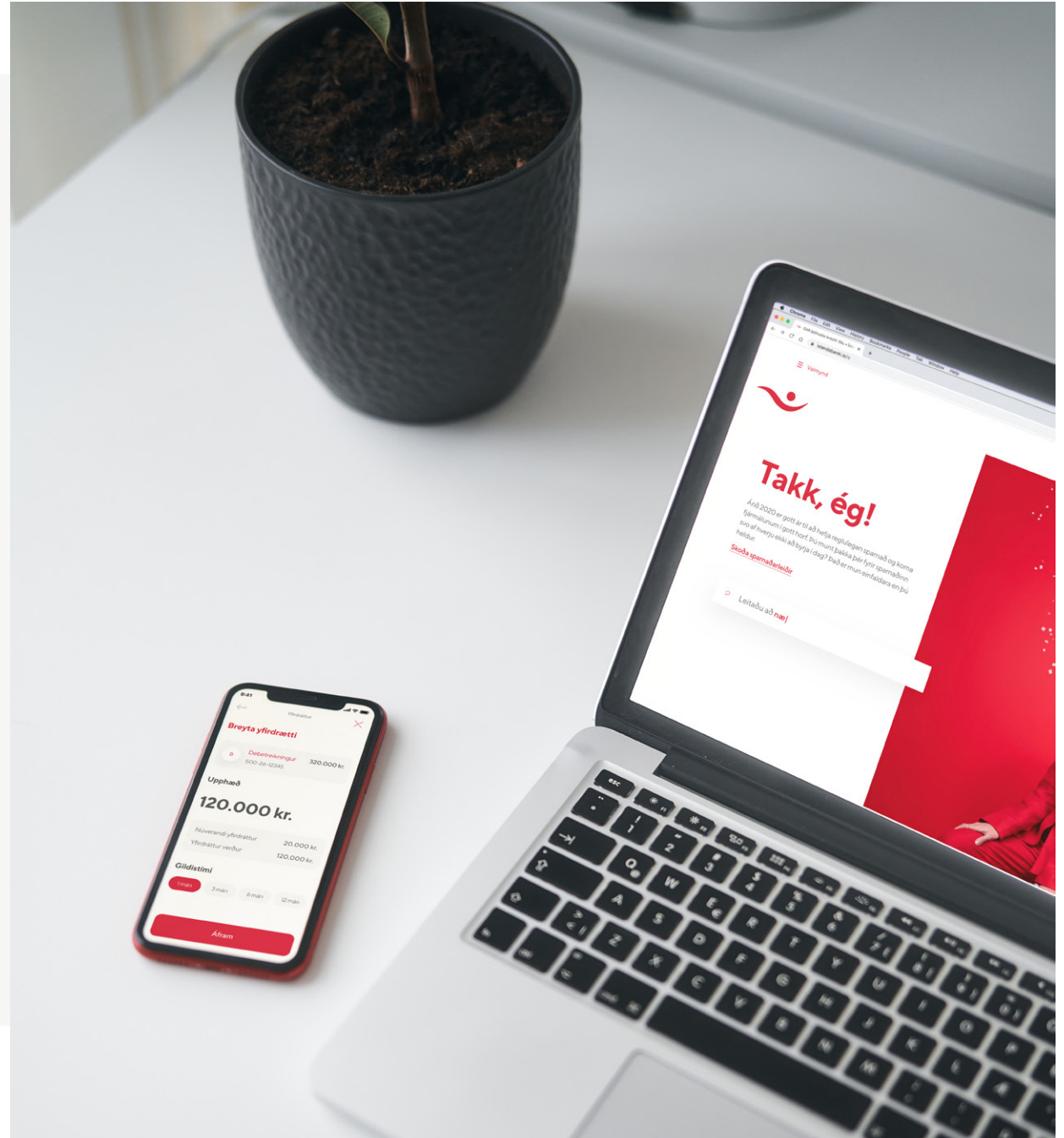
Number of visits (in millions)



## Digital infrastructure for the future

In 2019, Íslandsbanki launched and completed several infrastructure projects aimed at supporting the Bank's digital product delivery initiatives. We remain focused on creating foundations and channels for development in an open banking environment, taking advantage of the opportunities inherent in regulatory requirements and standardisation.

Our digital business technology solutions are built with cutting-edge customer identity management tools, with AI-driven application performance monitoring on a modern cloud-based and on-site infrastructure. With cloud-ready solutions in an automated software development lifecycle, the Bank is well equipped to compete in the digital marketplace as the banking environment opens up and digital ecosystems evolve within and beyond the boundaries of conventional banking.



# Major digital advances

In 2019, the Bank completed well over thirty IT projects involving operational improvements, system changes in response to new regulatory provisions, and creation of innovative digital solutions. The Bank also began using robotics to automate processes



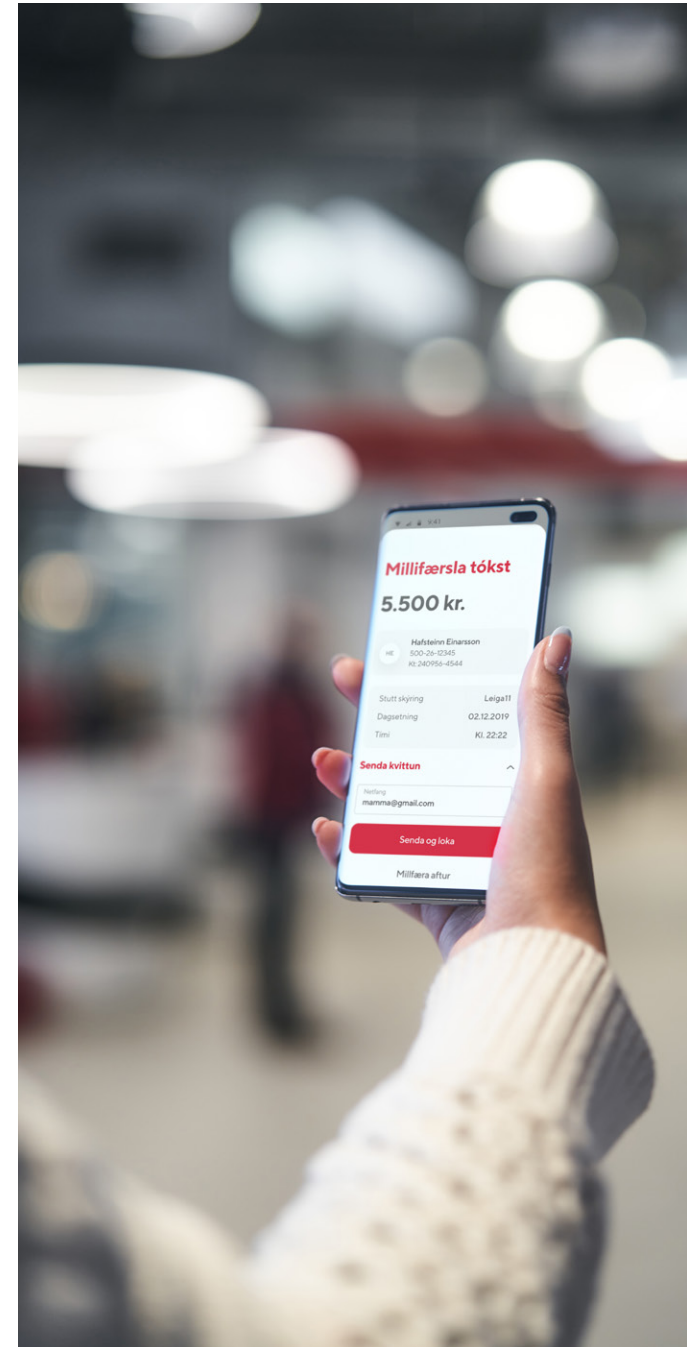
## Contactless payments with Garmin and Fitbit watches

Contactless payments with Garmin and Fitbit watches became available in early 2019. This solution enables customers to pay with their watches instead of using conventional payment cards. The user sets up the payment card in the app for the watch.

The solution functions independent of operating system and can be used on Android and iOS devices. With this step forwards, Íslandsbanki offers its customers better service and improved security, as no PIN number is entered into the POS machine, and a virtual card number is used for the transaction.

## App-based loans

The Bank rolled out its app-based lending feature in February, where individuals aged 18 and over can apply for a loan of up to ISK 2 million through the Íslandsbanki app. A decision on the loan application is made immediately, and the funds are deposited to the customer's account when the process is complete. Customers can pay down or pay off their loan at any time. Interest rates are variable and depend on the customer's credit score. The loan decision is based, among other things, on the Bank's own data, the customer's credit score from Creditinfo, and income data from the Directorate of Internal Revenue. All loan documents in the process are signed digitally and stored automatically. The loan is also established automatically in the Bank's systems.





### Credit assessment and mortgage loan application

In July, the Bank introduced a new automatic credit assessment solution that enables three unrelated individuals to undergo a joint credit assessment and then apply for a mortgage loan. The results of the credit assessment are delivered immediately, and customers can obtain information on how expensive a property they can afford to buy – based on real data.

Emphasis was placed on providing customers with accessible information on all available loan options before they take a decision on the composition of their loan. Furthermore, those customers who wish to can apply for a new mortgage or refinance an existing one in just a few minutes through this same process.

All of the documentation necessary for the underlying credit assessment is accessed automatically. Applicants use their e-ID to identify themselves and sign a statement authorising the Bank to request financial information. This authorises the Bank to obtain the third-party information it needs to evaluate applicants' debt service capacity. The solution was created in cooperation with Creditinfo and is based in part on Creditinfo's credit score calculations.

Automatic credit assessment

### Onboarding

In January, the Bank adopted Onboarding, which gives individuals with an Icelandic ID number and e-ID a simple and straightforward way to join Íslandsbanki's customer group. In just a few minutes, new customers can open a bank account, order a debit and/or credit card, and set up a savings plan. This very user-friendly design was based on the online shopping experience, where customers put products into a shopping cart before finalising their purchase. It is fully digitised and automated. All contracts made during the process are signed digitally, and stored automatically in a digital archive together with other documents. Accounts are opened and payment cards ordered automatically in the Bank's systems.

Onboarding

### New Íslandsbanki app

A new Íslandsbanki app was launched in November for iOS users, and at the beginning of 2020 for Android users. The new app enables customers to conduct most of their banking and gives them an overview of their payment cards. With the launch, two previous apps – the old Íslandsbanki app and the Íslandsbanki Kort app – were merged into one, laying the groundwork for a future app that will play a major role in Íslandsbanki's banking services.



# Íslandsbanki as a role model

with passion and professionalism to guide you





# Strategy

The Bank shaped a new role and new values with employee participation in a series of workshops held in the spring of 2019. The Bank refined its vision and sharpened the focus that provides the foundation for its work today

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## New strategy

At the beginning of 2019, Íslandsbanki reviewed its strategy in collaboration with international consulting firm Boston Consulting Group. The new strategy has two major points of focus: simplifying operations and enhancing efficiency, on the one hand, and thinking big so as to secure our competitive advantage for the future, on the other.

In order to strengthen the Bank's position, we have designed our new strategy so as to differentiate ourselves more clearly in the financial market, in terms of how we create value for both customers and other stakeholders.

The new strategy focuses on maintaining a balance between value creation and greater operational efficiency, via digital technology and differentiation with increased co-operation with firms in Iceland and abroad. The Bank will also make systematic efforts to seek ecosystem-based opportunities and to offer our customers innovative solutions that strengthen our product offerings. In this way, the Bank will adopt new solutions and act as a leader in financial market innovation, as well as cooperating more closely with fintech firms and strengthening its value chain with cutting-edge solutions that harmonise with financial services or create value for customers.

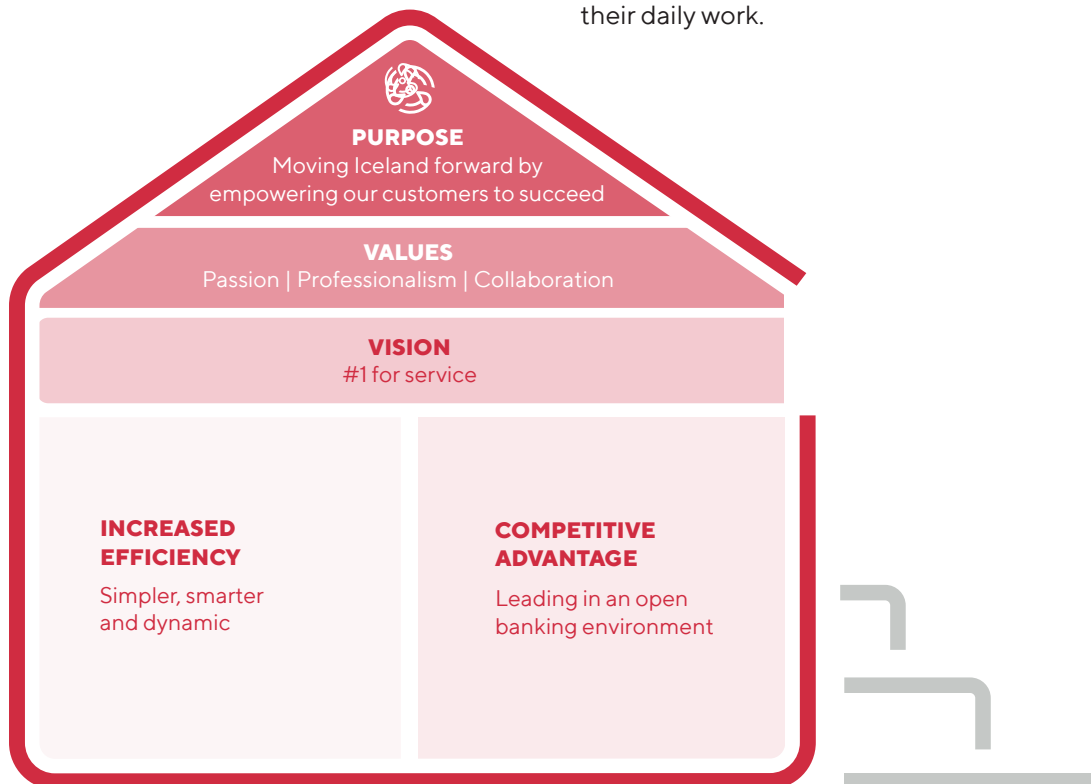
Strategy and policies

## From strategy pyramid to strategy house

The Bank's new strategy replaces the pyramid with a strategy house. The Bank's new collective purpose has now been defined as "moving Iceland forward by empowering our customers to succeed."

New corporate values have been selected, which form the core of the Bank's culture and shape employees' conduct and attitudes: **passion, professionalism, and collaboration.**

On the Bank's strategic summit in March 2019, employees voted to retain the same vision for Íslandsbanki – to be **#1 for service** – this is the vision that guides employees in their daily work.



## Strategic themes

Íslandsbanki defined seven themes over five years, which will support the Bank's objectives related to its new strategy.

All of the strategic themes are aimed at increased efficiency and improved competitive advantage. Four of them were prioritised:



**Service:**  
what and how?

Increased differentiation and to ensure targeted and streamlined service offering



**Optimised pricing**

Offering the right products and services at the right price.



**Simple and smarter**

Enhance efficiency, expedite decision-making, simplify processes and organisational structure



**Digital champions**

Improve processes related to product management and digital development





## Positive force in society

The Board of Íslandsbanki approved the Bank's new sustainability policy at the end of 2019, supporting the Bank's role as a force for good in society. The sustainability policy aims at making the Bank a model of exemplary operations in the Icelandic business community, based on internationally recognised environmental, social, and governance (ESG) criteria.

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### Sustainability policy

Íslandsbanki aims to be at the forefront of sustainable development and to move Iceland forward by empowering its customers to succeed. To this end, the Bank intends to initiate broad collaboration on responsible governance practices that both contribute to sustainable development in the Icelandic economy and support the Government's Climate Action Plan, while also supporting the UN Sustainable Development Goals (SDGs).

The sustainability policy creates a comprehensive framework for the Bank's activities in the area of sustainability, in addition to defining the Bank's policy for environmental affairs and responsible lending, purchasing, and grants. It also harmonises with and supports other Bank policies, as well as incorporating sustainability into our risk management activities.

### Cooperation on sustainability

Through the years, Íslandsbanki has considered it important to participate in international commitments and support domestic cooperative efforts in the area of sustainability.

**Nordic Prime Ministers' Meeting**  
20 August · 2019 · Reykjavík · Iceland



## Íslandsbanki is a participant in the following cooperative sustainability initiatives\*



### Nordic CEOs for a Sustainable Future

In 2018, Íslandsbanki became a member of *Nordic CEOs for a Sustainable Future*, an association of large Nordic firms that intend to work jointly towards the UN SDGs. Other members of the group include the CEOs of Equinor, Finnair, Hydro, GSMA, Marel, Posten Norge, SAS, Storebrand, Swedbank, Telenor Group, Telia Company, Vestas, and Yara. In August 2019, the group held a meeting in Iceland with the prime ministers of the Nordic countries.

Discussions at the meeting centred on the challenges shared by governments and firms in relation to sustainability, climate action, and the importance of diversity in the economy, with equal rights as a guiding principle. At the meeting, CEOs outlined the organisation's commitment to achieving the SDGs through improved governance and closer cooperation between the public and private sectors. CEOs of member companies have pledged to incorporate the SDGs into their operations and decision-making. Emphasis on sustainability will be adapted to the companies' strategies, across their entire value chains.



### United Nations Principles for Responsible Banking

Íslandsbanki has agreed to comply with the new United Nations principles for responsible banking. The principles, six in all, were developed by 30 international banks in cooperation with the *United Nations Environmental Programme - Financial Initiative (UNEP - FI)*: alignment; impact and target setting; clients and customers; stakeholders; governance and culture; and transparency and accountability. The Bank intends to make a concerted effort to incorporate the principles into its activities and reporting and will explore possibilities for international cooperation in this area.



United Nations Global Compact

### United Nations Global Compact

Íslandsbanki has adhered to the principles in the *UN Global Compact* on social responsibility since 2009. The Global Compact comprises ten principles in the areas of human rights, labour, environment, and anti-corruption, which create a framework for the Bank's activities. The Bank submits annual progress reports to the UN.



### United Nations Principles for Responsible Investment (UN PRI)

*UN PRI* is an association of investors, investment funds, and analysts whose objective is to incorporate sound environmental, social, and governance (ESG) criteria into their investment decisions. Iceland Funds has been a party to UN PRI since December 2017.



### Festa – Icelandic Centre for Corporate Social Responsibility

Festa was established in 2011 by Íslandsbanki, Landsbankinn, Landsvirkjun, Rio Tinto Alcan Iceland, Síminn, and Össur. Its role is to enhance knowledge about firms' and institutions' social responsibility so as to encourage the adoption of socially responsible practices and promote increased sustainability.



### IcelandSIF – the Iceland Sustainable Investment Forum

Íslandsbanki was one of the founding members of *IcelandSIF* in 2017. The purpose of the forum is to increase investors' knowledge of the methodologies of sustainable and responsible investment and to promote discussion of such investment.



# UN Sustainable Development Goals

The seventeen SDGs are based on three pillars of sustainable development: economic, social and environmental. Financial institutions' operations touch on many different aspects of the economy and inevitably affect most of the SDGs



The SDGs function as a unified whole, and Íslandsbanki supports them all. However, to sharpen its focus, the Bank has chosen to give particular support to four of them: quality education; gender equality; industry, innovation, and infrastructure; and climate action.

Íslandsbanki supports good causes in its home community and abroad, either through direct financial support or in collaboration with others. The Bank attempts to focus in particular on projects that are clearly linked to the goals it has chosen to support.



UN SDGs

## 4 QUALITY EDUCATION



# Education

For years, Íslandsbanki has been a leader in financial education. In the past five years alone, it has held well over 500 educational meetings and presentations for about 30,000 guests

## A variety of events

Among the events held by the Bank in 2019 were presentations on finance at retirement, home purchases, saving and investment, business financing and operations, and investing in art. In addition, parents received guidance on financial education for children and the financial side of starting a family; refugees received information on the Icelandic economy and financial system; and a number of presentations were held for students of all ages. The meetings covered a vast range of topics, from the finances of Star Wars and Disney to responsible investment, innovation, equal rights, the fishing industry, and tourism. One of the most successful presentations was an educational meeting on finance at retirement, held in Harpa for some 600 guests.

## Krakkabankinn

During the year, we decided to stop giving plastic gifts to children at our branches. Instead, we opted to hold a larger number of special events for children and families. Krakkabankinn was an especially welcome innovation, featuring events such as plays and concerts, as well as educational information tailor-made for children.

## Educational videos

We produced a wide variety of videos during the year, including brief explanations of finance-related topics such as retirement and saving for a first-time home purchase. In our Reynslubankinn, business operators share their experiences and challenges and give advice. Bransasögur encourage young people to achieve by presenting entertaining stories of people who have made their mark on the community in various ways. All of



Íslandsbanki employees **interviewed regularly in the media**



**28 articles** on finance and financial education published in the media



**122 educational events** and over **7,000 guests**



**29 educational videos** published during the year



these educational meetings have been video-recorded and were viewed thousands of times over the course of the year.

5 GENDER  
EQUALITY

# Equal rights

Íslandsbanki has worked actively on equal rights, and employees and managers participated in equal rights discourse throughout the year

## “Svona komst ég til áhrifa”

The Bank has held meetings on equal rights for five years in a row and welcomed over 2,000 guests. This year's meeting, with the theme “Svona komst ég til áhrifa”, featured presentations by Minister of Justice Áslaug Arna Sigurbjörnsdóttir and Íslandsbanki CEO Birna Einarsdóttir. Panel discussions followed, with the participation of Íslandsbanki managing director Ásmundur Tryggvason, theatre director Silja Hauksdóttir, and Steinunn Gestsdóttir, Pro-Rector for Academic Affairs and Development at the University of Iceland. The discussion was lively, and there were a large number of questions from the audience.

## Equal pay analysis

In 2018, Íslandsbanki was awarded equal pay certification for a period of three years. Annual maintenance assessments are carried



out by the certification body. The Bank's annual assessment, conducted in November, showed a gender-based pay gap of 1.14% in comparable jobs, which is well within the reference limits for the certification. The gender-based pay gap was previously 1.9% (in favour of male employees) and has therefore narrowed between measurements. The Bank's goal is to bring the gap down to



Íslandsbanki awarded **equal pay certification for 2018-2021**



**Over 400 guests** attended meetings on equal rights

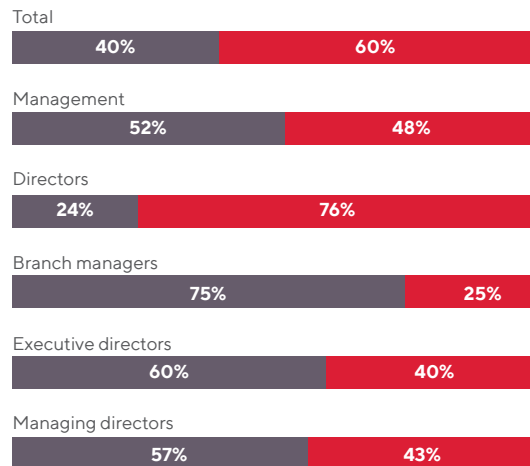


0%. One of Íslandsbanki's strengths is its dedication to equal rights and to harnessing all employees' talents, irrespective of gender. Its commitment to this goal can be seen in the assessment results, which show that the Bank's equal pay system reflects its determination to ensure that decisions on compensation are made on objective, non-discriminatory grounds.

### Gender parity

Íslandsbanki aspires to have equal gender ratios in all of its divisions, departments, committees, councils, boards, and executive positions. Managers have adopted the goal of working towards strengthening women's position even further by preparing action plans with dated targets.

Employees' gender ratio



Male Female



### Equality scale

In 2019, Íslandsbanki was awarded the *Equality scale* by the Icelandic Association of Business Women (FKA). The Equality Scale is a dynamic project undertaken by FKA in cooperation with the Prime Minister's Office, Sjóvá, Deloitte, Morgunblaðið, and Pipar/TBWA, with the aim of achieving a 40/60 gender ratio at the executive level of Icelandic companies by 2027.

Equality scale 2019

### Global Forum of Women Leaders

Íslandsbanki was a sponsor of the Global Forum of Women Leaders, held in Reykjavík in November 2019.

Participants in the forum came from over eighty countries – women active in politics, business, culture, science, technology, and other segments of society.

Global Forum of Women Leaders



# Innovation

Íslandsbanki is a proud supporter of entrepreneurship and innovation through its Entrepreneurship Fund



## Grants

When allocating grants, the Bank is guided by the four UN SDGs it has chosen to support in its policy. In 2019, the Entrepreneurship Fund allocated ISK 30.5 million to nine projects.

Grant recipients

## Digital collaboration

The Bank continued its collaboration with Reykjavík University (RU) on the operation of the University's Centre of Fintech Centre for students wishing to specialise in business and computer science. The aim of the collaborative effort is to harness the opportunities that lie in a changed banking environment by developing technology, knowledge, and practical service solutions for the banking system of the future. In order to realise these objectives, teams from Íslandsbanki and RU work together to develop software, API, services, and localised ideas for future fintech solutions. In 2019, nine students, two exchange students, four instructors, and five B.Sc. project groups worked with or were involved with the Fintech Centre. This collaboration with Íslandsbanki enables RU to hire students to carry out research and to work on fintech-

related projects without the pressures and profitability constraints that accompany such work in the private sector.

## Joining forces in clusters

The ideology behind cluster activities involves joining diverse forces within a structured cooperative forum and using the resulting power as a driver of innovation and development. Íslandsbanki is a supporter of the Icelandic Ocean Cluster, a network of over 60 firms in the marine industries. The Bank has also participated in the development of the Icelandic Geothermal Cluster, a cooperative initiative of dozens of companies active in the geothermal sector. Moreover, the Bank is a founding member of the Icelandic Tourism Cluster, a project-driven network of companies involved in various aspects of the tourism industry. As an active lender to the tourism sector, Íslandsbanki wants Iceland to be a desirable destination now and in the future, with sustainability as a guiding principle. In the spirit of UN SDG #9 – industry, innovation, and infrastructure – the Bank is a reliable partner to its corporate customers.

13 CLIMATE ACTION



# Climate issues

Íslandsbanki has measured its carbon footprint and has set targets for reducing it and offsetting greenhouse gas emissions in 2020

## Sustainability targets

In cooperation with consultancy firm CIRCULAR Solutions, the Bank has measured its carbon footprint for 2017–2019. The measurement is an ambitious one, including both direct and indirect impact relating to the Bank's operations (for further discussion, see the sustainability report). The next step will be to set year-2020 sustainability targets for the Bank. Thereafter, we will take action to reduce our carbon footprint. We will also select ways to offset emissions from the parts of our operations where we cannot reduce our footprint, in cooperation with domestic and foreign partners.

## Green investment fund

Iceland Funds hf., a subsidiary of Íslandsbanki, operates the only green investment fund in Iceland – the IS Green Bond Fund,

established in 2018. The Green Bond Fund invests in bonds that aim to have a positive environmental and social impact; for example, by financing projects that mitigate the effects of climate change.

## Helping Hand

Íslandsbanki encourages its employees to contribute to charitable causes. Employees



**About 330 employees** lent a Helping Hand in 2019, thereby working towards many of the SDGs

are invited to take one workday per year and donate their time to a good cause of their own choosing. Last year, some 330 Bank employees lent a Helping Hand, including a group of employees from the Bank's financial reporting unit who went to Hekluslógar forest and planted about 6,000 birch trees in support of the SDG #4 climate action.







Icelandic Red Cross

## Charitable work in Africa

Íslandsbanki supports the international charitable work of the Red Cross by participating in several important projects in Africa

With this work, the Bank acts on its commitment to support the SDGs.

### Bridging the digital divide

Through the project entitled Bridging the digital divide, the International Red Cross works with national chapters of the Red Cross and Red Crescent movement to improve IT knowledge and equipment, enabling the chapters to use IT in their charitable work. In 2019, two Íslandsbanki employees, Halldór Gíslason and Bjarni Sigurðsson, travelled several times to Africa. Halldór went to Ghana, Kenya, Sierra Leone, and Uganda, and he and Bjarni travelled together to Malawi. The projects varied from one country to another. In Malawi, Halldór and Bjarni conducted a tech appraisal of area offices where flooding had occurred in the wake of a hurricane. In Uganda, Halldór assisted with a simulated natural disaster exercise where participants were tasked with



travelling to the affected areas and setting up internet communications infrastructure. Establishing communications channels as soon as possible is a vital element in enabling governments and non-governmental organisations to help people affected by natural disasters.

### Assistance in empowering women

In another joint project with the Red Cross, risk management employee Kristján Rúnar Kristjánsson prepared a financial assessment of the Canadian, Icelandic, and Ugandan

Red Cross chapters' work in Ugandan refugee camps on the South Sudan border. The main focus of the chapters' work has been on mental health first aid, empowerment of women, and public health education. In order to encourage pregnant women to seek out prenatal care and childbirth centre services, new mothers are given "mama kits" containing soaps, towels, sanitary napkins, underwear, and other items that women find useful just after giving birth. In order to prevent corruption, goods purchases for the project are subject to stringent requirements. Kristján's work included overseeing data entry so that accounts can be reconciled upon delivery of goods and reports can be submitted to the financial sponsors of the project.





# Pledge record toppled

Íslandsbanki Reykjavík Marathon, the biggest charitable event of the year

During the year, participants collected ISK 167 million for the benefit of 181 charities, breaking the previous year's record of ISK 157 million. The total collected since 2006, the first year charitable pledges were solicited in connection with the marathon, is nearly ISK 1 billion. Some 14,000 people took part in the event, with record participation in the 10 km and 3 km runs.

The marathon has become a key funding event for many charitable organisations and supports many of the SDGs. Íslandsbanki is proud to support the Reykjavík Marathon and Icelandic charities.

Charitable organisations

Pledge record



Pledges set a new record, at **ISK 167 million**



A **major charitable funding event** and a contribution to many of the SDGs





# Sustainability report

For the first time, Íslandsbanki has published detailed information about the environmental, social, and governance impact of its operations

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The measurement process, carried out in cooperation with consultancy firm CIRCULAR Solutions, examines the Bank's operations vis-à-vis these criteria. The assessment is conducted in accordance with the Nasdaq ESG guidelines, the applicable Global Reporting Initiative (GRI) metrics, the UN Global Compact, and the SDGs. Íslandsbanki has chosen to go further, however, and publishes additional metrics that apply to financial institutions in particular. Climate change has an impact on the Bank's activities, both in its value chain and in its investments. As a result, the Bank also has a direct and indirect impact on climate change through its activities and product offerings. The Bank's social footprint is most discernible in its human resources and the social impact of its products.

Furthermore, it is important that the Bank be a model of exemplary corporate governance and that its digital security and processes be the best available at all times. Íslandsbanki's aim is to have an in-depth understanding of these factors throughout its value chain, and to manage them so as to minimise risk in its operations.

Before the measurements were taken, the Bank surveyed employees' mode of transportation to and from work, as well as mapping their domestic and overseas air travel. The Bank also analysed purchasing patterns (for instance, computers and office equipment). Íslandsbanki has been recognised for excellence in corporate governance and has adopted a new code of conduct for its staff and Board members.

ESG criteria

Through these efforts, the Bank has developed a well-grounded overview of the ESG criteria that pertain to its activities. It has also initiated an analysis of its loan portfolio and investments from an ESG standpoint.

The measurements revealed that total greenhouse gas emissions from Íslandsbanki's activities have remained relatively stable in recent years, with the vast majority of emissions classified as indirect, under Scope 3 (see table). The main contributors to emissions are employees' air travel and transportation to and from work, and purchases of equipment relating to the Bank's operations.

At the management level, the gender ratio within the Bank is equal, and for staff as a whole, it is close to equal. In 2019, Íslandsbanki was awarded equal pay certification, which remains in effect for three years. An analysis conducted during the year revealed a gender-based pay gap of 1.14% for comparable jobs. In 2019, the Board of Directors included four men and three women, which is in compliance with legislative provisions on gender parity

Sustainability highlights 2019





## Environment

[Further information](#)

### 1,272 tCO<sub>2</sub>e

Total GHG emissions

### 6,743 MWst

Total energy consumption

Energy composition

### 96%

Renewable energy

Nasdaq <sup>1</sup>	GRI <sup>2</sup>	UN SDGs		Unit	2019	2018	2017
<b>E1</b>	<b>305-1, 305-2, 305-3</b>	<b>13</b>	<b>GHG EMISSIONS</b>				
	E1.1		GHG emissions, scope 1	tCO <sub>2</sub> e	80.3	74.4	96.1
	E1.2		GHG emissions, scope 2	tCO <sub>2</sub> e	36.9	30.6	29.7
	E1.3		GHG emissions, scope 3	tCO <sub>2</sub> e	1,155	1,151	1,162
<b>E2</b>	<b>305-4</b>	<b>13</b>	<b>EMISSION INTENSITY</b>				
	E2.1		Total GHG emissions per million in profit	tCO <sub>2</sub> e / ISKrn	0.15	0.12	0.1
<b>E3</b>	<b>302-1, 302-2</b>		<b>ENERGY USAGE</b>				
	E3.1		Total amount of energy directly consumed (MWh)	MWh	340	255	277
	E3.2		Total amount of energy indirectly consumed (MWh)	MWh	6,513	6,098	6,466
<b>E4</b>	<b>302-3</b>		<b>ENERGY INTENSITY</b>				
			Total energy consumption per employee	MWh / Employee	7.5	6.8	6.9
<b>E5</b>	<b>302-1</b>		<b>ENERGY MIX</b>				
			Ratio of energy types (both direct and indirect)				
			- Fossil fuels	%	4%	4%	5%
			- Renewables	%	96%	96%	95%
<b>E6</b>	<b>303-5</b>		<b>WATER USAGE</b>				
	E6.1		Total amount of water consumed	m <sup>3</sup>	142,447	120,589	129,572
<b>E7</b>	<b>103-2</b>		<b>ENVIRONMENTAL OPERATIONS</b>				
	E7.1		Is there a formal environmental policy?	Yes/No	Yes	Yes	Yes
	E7.2		Is there a specific waste policy?	Yes/No	Yes	Yes	Yes
	E7.3		Does your company use a recognised energy management system?	Yes/No	No, in progress	No	No
<b>E8</b>	<b>102-19, 102-20, 102-29, 102-30, 102-31</b>	<b>13</b>	<b>CLIMATE OVERSIGHT / BOARD</b>				
			Does your board of directors oversee and/or manage climate-related risk?	Yes/No	No	No	No
<b>E9</b>	<b>102-10, 102-20, 102-29, 102-30, 102-31</b>	<b>13</b>	<b>CLIMATE OVERSIGHT / MANAGEMENT</b>				
			Does your senior management team oversee and/or manage climate-related risk?	Yes/No	Yes	Yes	Yes
<b>E10</b>		<b>9</b>	<b>CLIMATE OVERSIGHT / MANAGEMENT</b>				
			Total amount invested, annually, in climate-related infrastructure, resilience, and product development.	-	0	0	0
<b>OTHER</b>							
			Does the company offer sustainable financial initiatives?	Yes/No	Yes	Yes	No
			Are ESG factors included in investment decisions?	Yes/No	Yes	Yes	Yes
			Does the company provide ESG linked loans or products?	Yes/No	No	No	No
			Description of ESG integration into credit analysis	Yes/No	Some sustainability factors are reviewed during the processing of corporate loans	Some sustainability factors are reviewed during the processing of corporate loans	Some sustainability factors are reviewed during the processing of corporate loans
			Has the company committed to reduce emissions?	Yes/No	Yes	Yes	Yes
			And if so, are the goals publicly available?	Yes/No	Will be published 1Q20	No	No



## Social

[Further information](#)

### 1.14%



Gender pay ratio for similar job

### 50%



Gender ratio in senior- and executive-level positions

### -10.2%



Y-o-Y change for full-time employees

Nasdaq <sup>1</sup>	GRI <sup>2</sup>	UN SDGs		Unit	2019	2018	2017
<b>S1</b>	<b>102-38</b>		<b>CEO PAY RATIO</b>				
S1.1			Ratio: CEO total compensation to median FTE total compensation		4.5	6.5	6
S1.2			Does your company report this metric in regulatory filings?	Yes/No	No	No	No
<b>S2</b>	<b>405-2</b>	<b>5</b>	<b>GENDER PAY RATIO</b>				
			Ratio: Median male compensation to median female compensation		1.3	1.3	1.3
<b>S3</b>	<b>401-1b</b>		<b>EMPLOYEE TURNOVER</b>				
S3.1			Percentage: year-over-year change for full-time employees	%	-10.2%	-4.2%	-6.3%
S3.2			Percentage: year-over-year change for part-time employees	%	-3.0%	-29.0%	-
S3.3			Percentage: year-over-year change for contractors and/or consultants	%	-12.5%	-27.3%	-
<b>S4</b>	<b>102-8, 405-1</b>	<b>5</b>	<b>GENDER DIVERSITY</b>				
S4.1			Total enterprise headcount held by men and women	%			
			- Men		40%	39%	36%
			- Women		60%	61%	64%
S4.2			Entry- and mid-level positions held by men and women	%			
			- Men		39%	38%	34.5%
			- Women		61%	62%	65.5%
S4.3			Senior- and executive-level positions held by men and women	%			
			- Men		50%	45%	47%
			- Women		50%	55%	53%
<b>S5</b>	<b>102-8</b>		<b>TEMPORARY WORKER RATIO</b>				
S5.1			Total enterprise headcount held by part-time employees	%	8.9%	8.8%	11.7%
S5.2			Total enterprise headcount held by contractors and/or consultants	%	5%	5.5%	7.1%
<b>S6</b>	<b>103-2, 406-1</b>	<b>5</b>	<b>NON-DISCRIMINATION</b>				
			Does your company follow a sexual harassment and/or non-discrimination policy?	Yes/No	Yes	Yes	Yes
<b>S7</b>	<b>403-9</b>		<b>INJURY RATE</b>				
			Percentage: frequency of injury events relative to total workforce time	%	0%	0%	0%
<b>S8</b>	<b>103-2</b>		<b>GLOBAL HEALTH AND SAFETY</b>				
			Does your company follow an occupational health and/or global health and safety policy?	Yes/No	Yes	Yes	Yes
<b>S9</b>	<b>103-2, 409-1, 408-1</b>		<b>CHILD AND FORCED LABOR</b>				
S9.1			Does your company follow a child and/or forced labor policy?	Yes/No	Yes	Yes	Yes
S9.2			If yes, does your policy cover suppliers and vendors?	Yes/No	Yes	Yes	Yes
<b>S10</b>	<b>103-2</b>	<b>4</b>	<b>HUMAN RIGHTS</b>				
S10.1			Does your company follow a human rights policy?	Yes/No	Yes	Yes	Yes
S10.2			If yes, does your human rights policy include suppliers and vendors?	Yes/No	Yes	Yes	Yes
<b>OTHER</b>							
			Does your company have a whistleblower programme?	Yes/No	Yes	Yes	Yes
			Does the company provide access for disadvantaged groups, small business or communities?	Yes/No	Yes	Yes	Yes
			Is there a managerial responsibility for responsible marketing and reputational risk?	Yes/No	Yes	Yes	Yes
			Is there a human capital development programme, containing recruitment, development and retention objectives.	Yes/No	Yes	Yes	Yes



## Governance

[Further information](#)

Women on the board

**3 of 7****67%** ☆

committee chairs occupied by women

**92%**

workforce has formally certified its compliance with the Bank's ethical policy

Nasdaq <sup>1</sup>	GRI <sup>2</sup>	UN SDGs		Unit	2019	2018	2017
<b>G1</b>	<b>405-1, 102-23, 102-22</b>		<b>BOARD DIVERSITY</b>				
	G1.1		Men on the board	no.	4	3	3
			Women on the board	no.	3	4	4
	G1.2		Committee chairs occupied by women (as compared to men)	%	67%	100%	67%
<b>G2</b>			<b>BOARD INDEPENDENCE</b>				
	G2.1		Does company prohibit CEO from serving as board chair?	Yes/No	Yes, according to Article 18 in Rules of Procedure for the Board of Directors of Íslandsbanki the CEO is prohibit except with a special permission	Yes, according to Article 18 in Rules of Procedure for the Board of Directors of Íslandsbanki the CEO is prohibit except with a special permission	Yes, according to Article 18 in Rules of Procedure for the Board of Directors of Íslandsbanki the CEO is prohibit except with a special permission
	G2.2		Independent board members	no.	7	7	7
<b>G3</b>	<b>102-35</b>		<b>INCENTIVISED PAY</b>				
			Are executives formally incentivised to perform on sustainability?	Yes/No	No	No	No
<b>G4</b>	<b>102-41</b>		<b>COLLECTIVE BARGAINING</b>				
			Ratio of employees in unions	%	100%	100%	100%
<b>G5</b>	<b>102-16, 103-2, 308-2</b>		<b>SUPPLIER CODE OF CONDUCT</b>				
	G5.1		Are your vendors or suppliers required to follow a Code of Conduct?	Yes/No	No	No	No
	G5.2		If yes, what percentage of your suppliers have formally certified their compliance with the code?	%	-	-	-
<b>G6</b>	<b>102-16, 103-2</b>		<b>ETHICS AND ANTI-CORRUPTION</b>				
	G6.1		Operating guidelines addressing record keeping, approval procedures and appropriate behaviour relating to bribery and corruption	Yes/No	Yes	Yes	Yes
	G6.2		If yes, what percentage of your workforce has formally certified its compliance with the policy?	%	By the end of the year, a new policy took place and 92% had formally certified.	100%	100%
<b>G7</b>	<b>418</b>		<b>DATA PRIVACY</b>				
	G7.1		Does your company follow a data privacy policy?	Yes/No	Yes	Yes	Yes
	G7.2		Has your company taken steps to comply with GDPR rules?	Yes/No	Yes	Yes	Yes
<b>G8</b>			<b>ESG REPORTING</b>				
	G8.1		Does your company publish a sustainability report, and to which standards does the sustainability report of the company adhere?	Yes/No	Yes, Nasdaq and GRI	Yes, Global Compact	Yes, Global Compact
	G8.2		Is sustainability data included in your regulatory filings?	Yes/No	No	No	No

## Governance cont'd

Further information

Nasdaq <sup>1</sup>	GRI <sup>2</sup>	UN SDGs	Unit	2019	2018	2017	
<b>G9</b>			<b>DISCLOSURE PRACTICES</b>				
	G9.1		Does your company provide sustainability data to sustainability reporting frameworks?	Yes/No	Yes, UN Global Compact	Yes, UN Global Compact	Yes, UN Global Compact
	G9.2		Does your company focus on specific UN SDGs?	Yes/No	Yes, 4,5,9,13	No	No
	G9.3		Does your company set targets and report progress on the UN SDGs?	Yes/No	No	No	No
<b>G10</b>	<b>102-56</b>		<b>VALIDATION BY THIRD PARTY</b>				
			Are your sustainability disclosures assured or validated by a third party?	Yes/No	Yes, CIRCULAR Solutions	No	No
<b>OTHER</b>							
			Is there a political involvement policy approved by senior management?	Yes/No	No	No	No
			Does the company recognise the transition risk related to ESG black swan events	Yes/No	No	No	No
			Does the company recognise the systemic risk related to long term ESG changes	Yes/No	Yes	No	No
			What are the voting rights of shareholders?	-	Íslandsbanki's Articles of Association contain provisions of shareholders voting right	Íslandsbanki's Articles of Association contain provisions of shareholders voting right	Íslandsbanki's Articles of Association contain provisions of shareholders voting right
					<a href="#">Read</a>	<a href="#">Read</a>	<a href="#">Read</a>
			Remuneration disclosure and relation to ESG	Yes/No	No	No	No
			Describe the audit committee structure	-	<a href="#">Click</a>	<a href="#">Click</a>	<a href="#">Click</a>
			Is the auditor fee disclosed?	Yes/No	Yes	Yes	Yes
		4,5,9,13	List of signatures relating to ESG	-	UNGC, UNPRB, Nordic CEOs, Festa and City of Rvík climate goals, UNPRI (Iceland Funds)	UNGC, Nordic CEOs, Festa and City of Rvík climate goals, UNPRI (Iceland Funds)	UNGC, Nordic CEOs, Festa and City of Rvík climate goals, UNPRI (Iceland Funds)



# Corporate governance

Íslandsbanki's Board of Directors has resolved to pursue exemplary corporate governance practices that are consistent with applicable regulatory provisions, internationally recognised criteria, and best practice in corporate governance



## Guidelines on Corporate Governance

The Bank's governance practices are in line with the recognised guidelines on corporate governance. Each year, Íslandsbanki conducts an assessment of whether the guidelines have been followed and whether the Bank's practices at any given time are consistent with the guidelines.

The Bank's corporate governance practices are described more fully in its Corporate Governance Statement.

[Corporate Governance Statement](#)

## Excellence in corporate governance

The University of Iceland Institute of Business Administration's Centre for Corporate Governance first recognised Íslandsbanki for excellence in corporate governance in March 2014. The Bank has been awarded the same recognition every year since then.

## Decision-making model

Íslandsbanki has adopted a decision-making model that maps out the requirements for all major decisions within the Bank. The model is an element in improving the decision-making process and thereby increasing stakeholders' confidence in the Bank. The decision-making model lays down requirements and recommends certain procedures for major decisions.



# Sound governance practices are continually evolving

As part of the Bank's sustainability policy, the Board has approved a strategy for sound governance practices, which obliges the Bank to comply with the applicable governance rules in place at any given time. As a result, the Bank's governance practices are constantly evolving

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## Competition law plan

During the year, the Board of Directors updated the competition law plan for the Bank and its subsidiaries. It is the Bank's policy to engage in active competition in the markets where it operates, and to ensure that it fulfils the obligations that follow from competition legislation at all times.

## Íslandsbanki's ownership policy

The aim of the policy is to clarify the Bank's governance priorities and criteria as the owner of other companies, thereby fostering transparent investments, good governance practices, and development in the companies concerned.

The policy applies to the Bank's subsidiaries, both companies engaged in ancillary activities and unrelated companies in which the Bank owns a holding.

## Policy on conflicts of interests

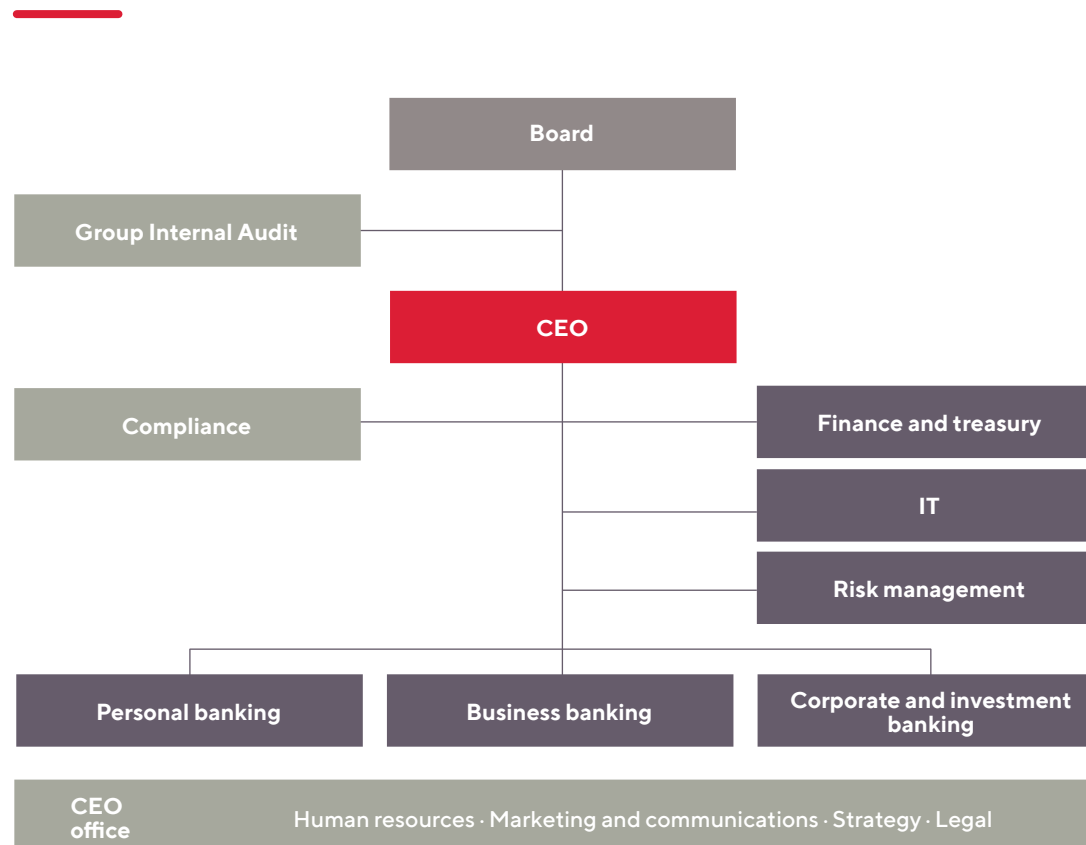
During the year, the Board approved a new strategy for conflicts of interests. The Bank stresses strongly that all of its employees be aware of the risk of conflicts of interests in their work, and take appropriate action to prevent such conflicts of interests in Bank operations from having a detrimental impact on customers' interests.

## Íslandsbanki Protocols

The Board has approved new protocols that are intended to promote good work habits within the Bank. The protocols apply to all activities, all employees and managers, and the Board of Directors at the group level, where applicable. Employees confirm that they have acquainted themselves with the substance of the protocols and pledge to comply with them.

# Organisation

The management and ultimate control over Íslandsbanki is divided among shareholders, the Board of Directors, and the CEO, in accordance with the Bank's articles of association, other Board directives, and the applicable regulatory provisions



## Íslandsbanki articles of association

The articles of association contain provisions on, among other things, the purpose of the Bank, its share capital, shareholders' meetings, election of the Board, the Board's duties, and provisions for amending the articles of association.

Articles of association

## Ownership structure

The Bank has been wholly owned by the Icelandic Government since January 2016. The State's holding in the Bank is administered by Icelandic State Financial Investments pursuant to the Act on Icelandic State Financial Investments, no. 88/2009.

Íslandssjóðir

# Board of Directors and Board subcommittees

The Board oversees the Bank's activities and ensures that they are in compliance with the applicable regulatory provisions, sound business and governance practices, and rules adopted by the Board for the Bank's activities

## Íslandsbanki Board of Directors

The Board of Directors comprises seven non-executive members and two alternates who are elected at each Annual General Meeting for a term of one year. Further provisions on the functions of the Board can be found in the Board Rules of Procedure, which were updated in November 2019.

Rules of procedure

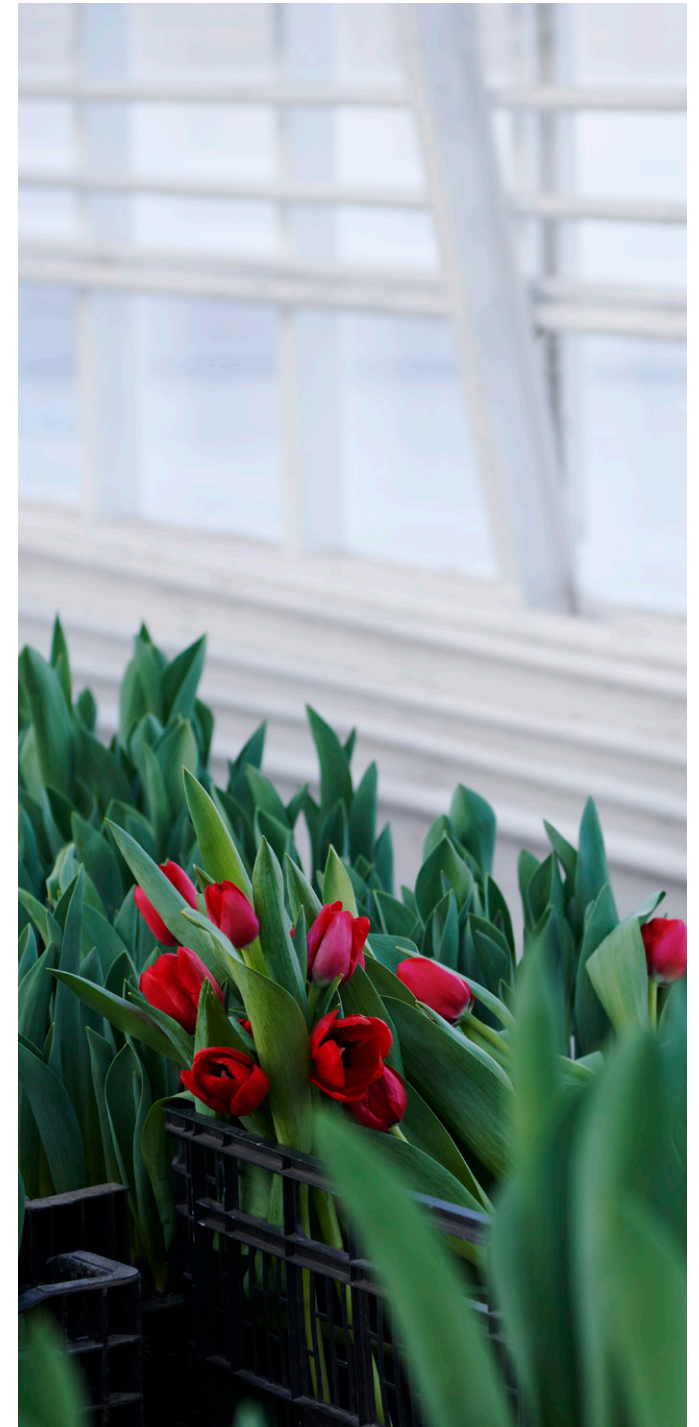
## Board subcommittees

In order to support the development, execution, and supervision of Board tasks requiring additional expertise or attention, the Board appoints subcommittees that operate according to a specific Board mandate.

There are three subcommittees, all comprising Board members.

- Board Audit Committee
- Board Corporate Governance, Compensation, and Human Resource Committee
- Board Risk Management Committee

Board subcommittees



# Board of Directors

Board members



**Friðrik Sophusson**

Chairman of the board since January 2010



**Anna Þórðardóttir**

Joined the Board in April 2016



**Auður Finnbogadóttir**

Joined the Board in April 2016



**Árni Stefánsson**

Joined the Board in April 2016



**Hallgrímur Snorrason**

Joined the Board in April 2016



**Heiðrún Jónsdóttir**

Joined the Board in April 2016



**Tómas Már Sigurðsson**

Vice-Chairman of the board since March 2019

# CEO and CEO's advisory committees

The CEO is responsible for ensuring that the Bank's operations and activities are at all times in compliance with the Bank's articles of association, its approved policies and strategies, Board directives, and the applicable regulatory instruments. The CEO hires managing directors for the Bank's divisions and appoints members to serve on the CEO's advisory committees

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The Executive Committee and the All-Risk Committee are considered policy-setting committees, and they take major decisions on the implementation of the policies set by the Board. Committee members include all of the Bank's Managing Directors, in addition to other managers appointed by the CEO.

The Executive Committee oversees and coordinates key aspects of the Bank's activities and has decision-making authority in matters assigned to it by the CEO, in accordance with policies, goals, and risk appetite as defined by the Board. The Executive Committee comprises seven individuals, one of whom is the CEO.

The All-Risk Committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement.

The Bank's Business Committees take decisions on individual business and operational matters in accordance with policy documents, rules, and other guidelines approved by the Board, Executive Committee, or All-Risk Committee. The Bank's Business Committees are **the Senior Credit Committee, the Asset and Liability Committee, the Investment Committee, and the Operational and Security Committee.**



# Executive committee

Executive committee



**Birna Einarsdóttir**  
Chief executive officer  
since October 2008



**Ásmundur Tryggvason**  
Managing director of corporate and  
investment banking since January 2019



**Guðmundur Kristinn Birgisson**  
Chief risk officer since October 2018



**Jón Guðni Ómarsson**  
Chief financial officer since  
October 2011



**Sigríður Hrefna Hrafnkelsdóttir**  
Managing director of personal  
banking since May 2017



**Riaan Dreyer**  
Managing director of IT  
since september 2019



**Una Steinsdóttir**  
Managing director of business  
banking since May 2017



# Financials and funding







## Successful market based funding

*"The Bank's annualised return on equity from regular operations was 6.6%, which is below the long-term target of 8-10% but acceptable given the cooling of the economy in 2019. Íslandsbanki issued its first senior unsecured ISK bond during the year. The ISK 3.6bn issue was sold to a wide range of domestic investors. The Bank also issued a 10NC5 SEK 500m Tier 2 bond. Due to a strong liquidity position in both domestic and foreign currencies, the Bank bought back SEK and EUR notes in 4Q2019. At the end of December, the Bank's total capital ratio was 22.4%, well above the regulatory minimum. The year's performance reflects the confidence Íslandsbanki has built up with investors and provides a springboard for strong core operations in the future."*

**Jón Guðni Ómarsson**  
Chief financial officer

# Financials and funding

The Bank's operating performance in 2019 was acceptable, and loans and deposits grew at a steady pace

**Net fee and commission income rose, as did interest income, but subsidiaries' operations had a negative impact on the consolidated results. Íslandsbanki's balance sheet is sound and will enable us to support our customers' growth and success. The Financial Supervisory Authority lowered the Bank's capital requirement in 2019, citing the Bank's lower risk profile. However, return on equity and the capital ratio will affect lending growth in the future.**

### Higher total income

Total income increased by 7.8% between years and amounted to ISK 48.5bn in 2019 mainly due to a rise in interest revenue and net fee and commissions.

Net interest income totalled ISK 33.7bn, an increase of 5.4% from the previous year mainly due to a growth in the loan book. The net interest margin was 2.8% (2018: 2.9%). The net interest margin is expected to be slightly below 3.0% in the near to medium term.

Net fee and commission income amounted to ISK 13.4bn, compared to ISK 12.2bn in 2018. Overall net fee income grew by 9.3% between years. This is due to higher fees and commissions from one of the Bank's fee generating subsidiaries and an increase in foreign exchange and securities brokerage as well as corporate advisory.

Core income (net interest income and net fee and commission income) contributed 97% to the Bank's total operating income in

2019. The Bank remains focused on strong core earnings and stable long-term income.

The Bank recorded a net financial loss of ISK 817m in 2019, compared to a loss of ISK 962m in 2018. The main contributors were losses in the trading book and in investment properties.

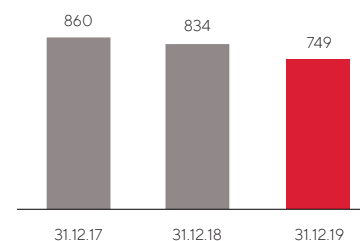
Other operating income totalled ISK 2.1bn in 2019, as opposed to ISK 1.8bn in 2018. This income is primarily attributed to the settlement of the Bank's claim deriving from the acquisition of Byr savings bank in 2011. The Bank is of the opinion that it is not obliged to pay the expensed contribution from 2010 to the Depositor's and Investor's Guarantee Fund and therefore the Bank has reversed the previously expensed contribution

### Cost to income ratio trends downward

Administrative expenses grew by ISK 457m in 2019 or 1.7% year-on-year. The rise is due to salary cost related to employment termination during 2019 amounting to ISK 805m and higher depreciations due to heavy investment in the core banking system

The number of FTEs at the close of the period excluding seasonal employees was

Number of FTEs for parent company



749 (834 in 2018) in the parent company and 984 (1,075 in 2018) for the Group. Due to employee redundancies in 2019 it is expected that salary costs will fall in 2020. In the last five years FTEs within the parent company have decreased by 169.

The cost-to-income (C/I) ratio for the Group in 2019 was 62.4%, compared to 66.3% in 2018. The C/I ratio excludes the bank tax and other one-off cost items. The C/I for the parent company was 57.1% for the same period compared to 60.4% in 2018.

The after-tax loss from discontinued operations was ISK 125m in 2019, compared with ISK 912m gain in 2018. The loss was generated by lowered value of foreclosed assets.

### Negative net impairment on financial assets reflects changes in economic outlook

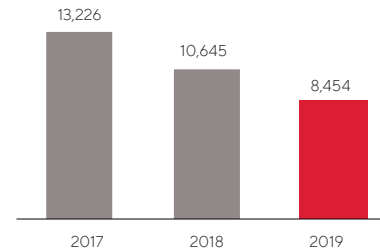
Loan impairment charges and net valuation changes generated a loss of ISK 3,663m in 2019, compared to ISK 1,584m gain in 2018. The 2019 change is due to specific impairments for specific customers, a less favourable economic environment and an unfavourable ruling in a court case. The loan impairment charges are in line with estimated cost of risk.

### Taxes and levies continue to affect profitability

The tax on the profit for the period amounted to ISK 3.7bn, compared to ISK 4.7bn in 2018. The effective tax rate was 30.1%, compared to 32.7% in 2018. The bank tax accounted for ISK 3.5bn in 2019, compared with ISK 3.3bn in 2018. The Bank is subject to the special financial tax of 6% on taxable profits in excess of ISK 1bn and makes contributions to the Depositors' and Investors' Guarantee Fund, the Financial Supervisory Authority, and the Office of the Debtors' Ombudsman. The contribution to the Depositors' and Investors' Guarantee Fund, was ISK 936m, an ISK 237m decrease from the previous year. Total taxes and levies amounted to ISK 10.3bn in 2019 compared to ISK 11.4bn in 2018.

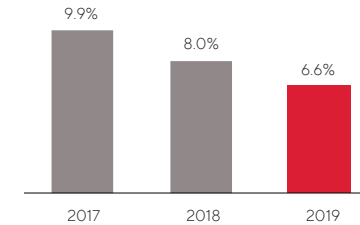


Profit after tax (ISKm)



With changes to law no.155/2010 in December 2019, the bank tax will decrease linearly from current 0.376% to 0.145% in 2023. Despite this decrease the Icelandic banking sector is affected by much higher tax burden, both in comparison to other sectors in Iceland as well as other European banks.

ROE reg. operations CET1 16%\*



### Profitability marked by negative net impairments

Profit after tax was ISK 8.5bn in 2019 (2018: ISK 10.6bn) and annualised return on equity (after tax) was 4.8% in 2019 (2018: 6.1%). Earnings from regular operations were ISK 10.5bn, (2018: ISK 12.0bn) and annualised return on equity from regular operations normalised for 16% CET1 was 6.6% in 2019, compared to 8.0% in 2018. Regular earnings fell by ISK 1.5bn between years, mainly explained by an increase in loan impairment charges and net valuation changes.

Return on equity is below the Bank's long-term target. The target is based on risk free rate plus 4–6%. Based on the average risk-free rate in 2019, the target would be 7.7–9.7%. In order to improve returns, the Bank took several actions to optimise its operations under the framework of a new policy.

\*Return from regular operations and corresponding ratios on normalised CET1 of 16%, adjusted for risk free interest on excess capital.

## Balance sheet

### Assets – growing balance sheet through continued growth of loans to customers

The balance sheet grew by 6.1% from year-end 2018, to ISK 1,199bn with loans to customers growing by 6.3%, or ISK 53.0bn. Demand for new credit came from all the Bank's business segments but was concentrated mostly in corporate and investment banking. Mortgage loans rose by ISK 32.2bn from year-end 2018. New lending amounted to ISK 226bn in 2019, as opposed to ISK 239bn in the previous year, a decrease of 5.7%. Outstanding loans to the tourism industry in Iceland decreased proportionately and are now 10% of the loan portfolio which is well diversified.

Loan growth was strong in 1H2019 or 5.7% but in 2H2019 growth was 0.6%. Total

growth during 2019 was 6.3% and exceeded economic growth of 0.3%. Lending in ISK was the main growth contributor. In 2019 a greater proportion of lending was financed via deposits than previously.

The ratio of customer loans to customer deposits fell to 145.5% at year-end 2019, compared to 146.2% at end 2018.

Loans are generally well covered by stable collateral, the majority of which was in residential and commercial real estate while the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the residential mortgage portfolio was 62% at end of December 2019 and was 61% at year-end 2018. The increase in LTV of mortgages is

partly due to that additional loans available to first-time buyers are now included in the definition of mortgages.

The Bank's asset encumbrance ratio was 18.1% at end of December 2019 compared to 18% at year-end 2018.

Three items – cash and balances with the Central Bank, bonds and debt instruments, and loans to credit institutions – amounted to about ISK 254bn, were ISK 223bn of which are liquid assets.

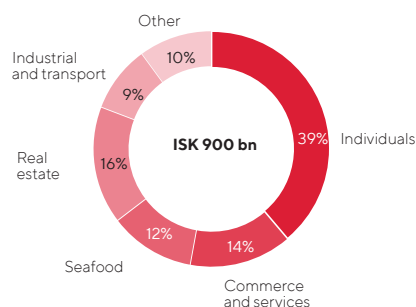
### Quality of loan portfolio still measures highly by international comparison

At the end of the reporting period, the ratio of impaired loans and advances was 2.4% for the Bank compared to a 2.9% weighted average for European banks at the end of September 2019 (2018: 3.4%). When only considering the quality of loans to customers, the NPL ratio in terms of the gross book value was at 3.0% at end of December (2018: 2.0%).

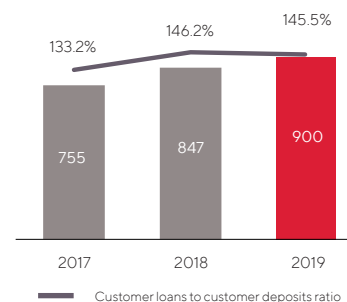
### Liabilities – successful funding through deposits and capital markets issuance

Total liabilities amounted to ISK 1,019bn, an increase of 6.8% from year-end 2018.

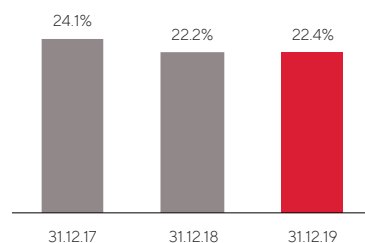
Loans to customers  
(Sector split as at 31.12.19)



Loans to customers (ISKbn)



Total capital ratio (%)

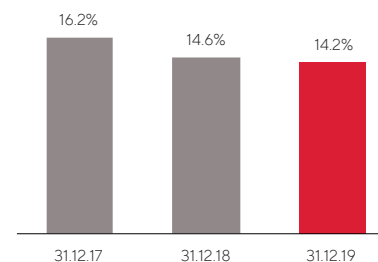


The Bank maintained strong liquidity levels throughout 2019, and all regulatory and internal metrics were well above set limits at the end of the period.

At the end of December 2019, the Bank's liquidity coverage ratio (LCR) for all currencies was 155% for the Group (144% for parent), 325% in foreign currencies and 110% in Icelandic króna. The net stable funding ratio (NSFR) for the Group in all currencies was 119% and the NSFR in foreign currencies for the Group was 156%.

Deposits from customers increased by 6.8% from year-end 2018, to ISK 618bn. Deposits are still the Bank's main source of funding and concentration levels are monitored closely.

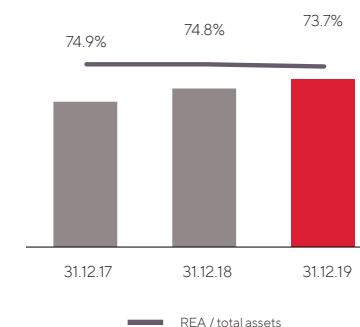
Leverage ratio (%)



The Bank's market based funding activities continued to be successful during the year with issuance of covered bonds, CPs and senior unsecured transaction in Icelandic krona and senior unsecured transactions and subordinated debt in foreign currencies. These transactions will further diversify the Bank's funding base. Covered bond issuance amounted to total of ISK 29bn in 2019 or with net issuance of ISK 10bn.

In April, the Bank issued a EUR 300m 3-year benchmark fixed rate bond at a spread of 130 basis points over 3-year mid swaps. The transaction was issued concurrently with a tender to buy back EUR 300m of the Bank's outstanding EUR 500m 2020 benchmark bond.

Total assets (ISKbn)



In June, Íslandsbanki issued a 10NC5 SEK 500m Tier 2 bond. This was the Bank's third Tier 2 bond issue and with this transaction the Bank reached its Tier 2 target which is an important milestone in optimising its long-term capital composition.

Íslandsbanki issued a senior unsecured ISK bond amounting to ISK 3.6bn in November. The bond was priced at 1m REIBOR+90bp. This is the Bank's first ISK senior transaction and is an important milestone in the build-up of the domestic bond market. The bonds were sold to a wide range of domestic investors.

In December Íslandsbanki bought back in full a SEK 250 million Note due 27 February 2020 and EUR 142.7m out of EUR 200m Note due in September 2020. The buyback decreased the Bank's refinancing risk significantly.

## Equity

Total equity amounted to ISK 180bn as of year-end 2019, compared to ISK 176.3bn at the end of 2018. Thereof, ISK 2.4bn is attributable to non-controlling interests.

At the Bank's AGM in March shareholders approved the Board's proposal to pay dividends amounting to ISK 5.3bn.

At the end of December, the Bank's total capital ratio was 22.4%, (2018: 22.2%). That is slightly higher than the Bank's total capital ratio target which is currently the Bank's regulatory capital requirement in addition to the Bank's management buffer. The Bank's Tier 1 ratio was 19.8% as of end of December 2019, compared to 20.3% at year-end 2018. In October 2019, the Central Bank lowered the minimum requirement for total capital for Íslandsbanki from 19.3% to 18.8%. The decrease is credited to the Bank's lower risk profile.

Considering recent changes to regulatory requirements and an updated assessment of the business environment, the Bank revised its management buffer from 0.5-1.5% to 0.5-2.0%. It is worth noting that the Central Bank increased the countercyclical capital buffer from 1.25% to 1.75%, in May 2019 and a further increase by 0.25% came into effect in February 2020. Íslandsbanki's target capital

ratio is currently at 19.5-21.0%, taking into account rise in counter cyclical capital buffer from February.

Íslandsbanki uses the standardised method to calculate its risk exposure amount (REA), which amounted to ISK 884.5bn at year-end 2019, or 73.7% of total assets. The leverage ratio was 14.2% at year-end 2019 compared to 14.6% at year-end 2018, indicating low leverage.

The Board of Directors of Íslandsbanki proposes that ISK 4.2 billion will be paid in dividends to shareholders for the 2018 financial year. The dividend corresponds to about 50% of after-tax profits for 2018 and is consistent with the Bank's dividend pay-out ratio target of 40-50%. The Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for the previous financial years could be suggested.

## Ratings

Íslandsbanki is rated by S&P Global Ratings (S&P). In July S&P affirmed Íslandsbanki's BBB+/A-2 rating but changed the outlook to negative.

In its report, S&P refers to Íslandsbanki's stable domestic market position and acknowledges the Bank's success in introducing new digital products and improving its IT infrastructure, placing Íslandsbanki well ahead of many other European banks. S&P also notes the Bank's exceptional capitalisation, strong liquidity levels and robust asset quality.

S&P's rationale for the change to negative outlook is mostly derived from its view that Iceland's operating environment will remain challenging, affected by the 2019 economic recession, declining interest rates, still-high taxation, and stiff competition from pension funds in mortgage lending, and thus contributing to the declining profitability of the Bank.

In January 2019, the Bank announced it would terminate its credit rating agreement with Fitch Ratings, a decision which was driven primarily from a cost perspective. In November 2018, Fitch had affirmed the Bank's rating of BBB/F3, with a stable outlook.

