



ANNUAL REPORT 2015

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01 | To our stakeholders

“Íslandsbanki is committed to the highest standards of corporate governance and ethical conduct. A comprehensive range of policies and systems are in place to ensure that the Bank is managed in an orderly manner, with effective oversight and control.”

Fridrik Sophusson
Chairman of the Board

Chairman's statement

2015 was another watershed year for Íslandsbanki. We saw the Bank consolidate the efforts of the past few years to produce sound results, against a backdrop that is rapidly evolving from crisis management and post-crisis recovery to a business-as-usual scenario. As a result of the composition agreement between Glitnir and its creditors, ownership of the Bank has been transferred from Glitnir to the Icelandic Government, marking a new chapter in the history of Íslandsbanki.

In the autumn of 2015, a major milestone was reached in the composition agreements between the estates of the old banks and their creditors. The Central Bank of Iceland has concluded that the fulfilment of the composition agreements, together with the proposed countervailing measures, will not jeopardise monetary, exchange rate, or financial stability.

It is vital that Icelandic taxpayers be well served by the sale of Íslandsbanki, and it is important that the Bank itself be allowed the commercial freedom and incentives to carry out its fundamental role of supporting economic growth in Iceland. It is worth bearing in mind that Íslandsbanki and its predecessors were privately owned institutions that merged over the years to form the robust Bank it is today. This, in turn, is mirrored in the vibrant corporate culture at Íslandsbanki and its employees' dedication to the Bank's vision of being #1 for service.

A number of changes were made to the Board of Directors over the course of the year. As they take leave of the Board, I would like to thank John E. Mack and Thórunna Jónsdóttir for their contribution, and welcome new Board members



Eva Cederbalk and Gunnar F. Helgason. Marianne Økland became vice-chairman in March 2015, after having been a Board member since January 2010.

This year Íslandsbanki appointed Ernst & Young to replace Deloitte, in compliance with regulatory instruments requiring a change in external auditors every five years. We would like to extend our thanks to Deloitte for their excellent service and successful collaboration over the past five years.

Íslandsbanki is committed to the highest standards of corporate governance and ethical conduct. A comprehensive range of policies and systems are in place to ensure that the Bank is managed in an orderly manner, with effective oversight and control. The Bank introduced its Good Governance Policy, a matrix for major decision-making, in 2012. The matrix outlines all important decisions that the Bank may wish to take under given circumstances and sets specific conditions for each, thereby ensuring that all such decisions are taken after consultation with the best-qualified parties within the Bank and on the basis of the relevant information available at the time.

In March 2015, the Centre for Corporate Governance at the University of Iceland's Institute for Business Research, in cooperation with the Icelandic Chamber of Commerce, SA-Business Iceland, and Nasdaq Iceland, renewed the Bank's recognition as "Exemplary in Corporate Governance".

We were extremely pleased to be so designated and are determined to focus on maintaining this recognition, which acknowledges the Bank's Good Governance Policy, the practices of the Board, Board subcommittees, and management, as well as the Bank's gender balance.

Finally, I wish to thank the Bank's management team and staff for their hard work. Íslandsbanki's strong results attest clearly to their professionalism, dedication, and enthusiasm for the task in hand.

Take me there >>

Board members

Take me there >>

Board subcommittees

Take me there >>

Good Governance Policy

Take me there >>

Ownership structure

"We are making great strides towards building the Bank we have been aspiring to. It was therefore immensely satisfying when it was announced that Íslandsbanki was the highest-ranking bank in the Icelandic Customer Satisfaction Index for the third year running."

Birna Einarisdóttir
Chief Executive Officer



Chief Executive's review

2015 was a satisfying year for Íslandsbanki on a number of levels. I am pleased to report solid returns based on very high capital levels, alongside balanced growth across all sectors of the Bank's operations. This growth is rooted primarily in an economy that is more balanced than before, and in a proven strategy that delivers mutually beneficial relationships for both the Bank and its customers. Íslandsbanki continues to be ranked at the top in terms of customer satisfaction, giving us the potential to expand our market share.

A leading bank in Iceland, with a proven strategy

For the past five years, Íslandsbanki has been pursuing a vision that puts the ambition of being "#1 for service" at the core of our strategy. We are constantly broadening our understanding of our vision and our common goals. In 2015, the Bank carried out an in-depth analysis based on interviews, research and service surveys conducted among customers and employees. The result was that six points were defined as pillars of our vision to be #1 for service.

Until 2015, this vision has been articulated solely within the Bank, but we feel that the time is right to make a public promise to our customers – a promise that we will provide them with the best possible service. The message is simple and easy to understand: We have decided to provide the best banking services in Iceland, thereby making it easier for our customers to make well-informed decisions. This is a big promise, but it also entails a certain humility, zest for life, and understanding of the role of banking services in people's lives.





Initiative



Knowledge



Education



Client relationship



One bank



More ways to bank

It was therefore immensely satisfying when it was announced that Íslandsbanki was the highest-ranking bank in the Icelandic Customer Satisfaction Index for the third year running.

Iceland is an investment-grade market

There is increasing confidence in the Icelandic economy and its institutions, and in the prospects for continued, balanced prosperity in the years ahead. This confidence is exemplified by developments in credit ratings in 2015, with international rating agencies continuing to upgrade the Republic of Iceland's investment-grade sovereign ratings and confirming Íslandsbanki as an investment-grade proposition for investors.

Balanced growth and profitability against a solid capital base

Íslandsbanki reported a strong return on equity despite rising equity levels, with its total capital ratio reaching the highest level seen since the Bank's establishment. Core operations continued to produce stable income, and the net interest margin reached a sustainable level. The majority of the Bank's total operating income originates from net interest income and net fee and commission income, resulting in a net profit of ISK 20.6bn, which translates to a return on equity of 10.8%.

The Bank has undertaken several projects designed to streamline its operations and improve efficiency, and these have begun to bear fruit, proving that Íslandsbanki is an eminently scalable platform. Costs are being kept under control by consolidating the Bank's branch network, reducing the workforce and implementing various cost-cutting initiatives. At the same time, fee and commission income rose at an annual rate of 14.7%.

Íslandsbanki runs one of the most diversified funding programmes in Iceland and is the only bank to enjoy BBB-ratings from both Fitch and Standard & Poor's. In addition to its presence in the retail deposit market, the Bank leads the field in covered bond issuance in the domestic market. Recent developments in the credit ratings of the sovereign and the Bank should encourage further improvement in borrowing terms and market access in the future.

Íslandsbanki is well capitalised, with one of the highest CET1 ratios of any universal bank. The Bank's capital is also of high quality, as Íslandsbanki has not been required to issue hybrid capital of any type. Gearing is also very low by international comparison – our leverage ratio was 18.1% at year-end. This, in combination with strong profitability, means that Íslandsbanki is ready to contemplate its future ownership structure. Furthermore, the Bank has an attractive dividend policy, which targets a 40-50% payout ratio in the long term.

Low risk profile – transparent, safe, and simple business model following successful restructuring

Íslandsbanki's loan portfolio has been all but transformed in recent years. At year-end 2015, the non-performing loan ratio was 2.2%, effectively putting Íslandsbanki in the top 25% of banks in Europe by that measure – an impressive performance given the Bank's starting point in 2008. Íslandsbanki follows a transparent, safe, and simple business model that stresses prudent underwriting standards, strong liquidity, and a diversified funding strategy.

Net **profit**
20.6
billion

ROE
10.8%

Total **assets**
1,046
billion

Multiply, simplify and unify our customer relationships

Our relationship banking model drives how we build relationships with our customers, simplify our product offerings, and unify our objectives with society at large – or, as we like to put it – how we multiply, simplify and unify.



MULTIPLY



SIMPLIFY



UNIFY

New lending in 2015 totalled ISK 152bn, most of it to SMEs and large companies; however, demand for asset financing and residential mortgages has been on the rise as well. The Corporate Banking division had a very productive year, with new lending totalling ISK 52.6bn in 2015. The division was involved in many of Iceland's large financing activities and continued to hone its international strategy in the North-Atlantic, capitalising on its historical expertise in selected markets.

The Markets division recorded a strong performance, owing to increased activity in capital markets, foreign exchange, and specific products enabling our customers to manage their risk more effectively. The Bank's Corporate Finance team, the largest in Iceland, has been voted the leader in corporate finance for five years in a row, presumably due to its successful management of five of the twelve Main Market listings since 2010 and seven of the fifteen IPOs over the same period.

42% or five of twelve **Main Market listings**

In addition to its educational outreach activities, VÍB and IS Funds introduced seven new funds this year, including two new covered bond funds as investment options available to the general public. This comparatively new asset class in Iceland is growing strongly, with total issuance in 2015 outpacing that of the Icelandic Treasury.

Over
5,000
guests at **82 events**



55,707
online viewers

Íslandsbanki's leading revenue generator by a wide margin, however, is Retail Banking. The Bank merged two branches in 2015 and continues to operate the most efficient branch network in Iceland, with 17 branches providing nationwide coverage. As we continue our transition of converting traditional cashier services to more complex advisory centres and self-service branches, we note that simple transactions and day-to-day banking business are increasingly being carried out through digital channels.

Digital channels have become our customers' most preferred service medium. Last year we invested substantially in our digital service platform, adding new functions and solutions and strengthening our digital infrastructure. In 2011, we introduced our highly successful app for mobile devices. Over the course of 2015, the number

of active users grew by more than 41% and the number of app-based financial transactions by a full 52%.



20% **use the APP** more than once a day

Ergo, the Bank's asset financing division, continues to lead the asset financing market, with a market share of 57% in financing of corporate purchases of registered motor vehicles and 65% in lending to car rental agencies. New lending rose 25% over the year, some 82% of it to companies, car rental agencies in particular.

In response to strong growth in credit card turnover, the Bank has begun simplifying and improving its product line. In 2015, we swapped out about 95,000 VISA debit cards for MasterCard and simultaneously reduced credit card types from 117 to 15 and debit card types from 26 to 8.

Dedicated team delivering success

We are making great strides towards building the Bank we have been aspiring to. We are a strong, united team, and together we have achieved success that we can be proud of. We intend to continue on this path and demonstrate beyond doubt that Íslandsbanki provides the best banking services in Iceland. My thanks go out to all of our staff for their part in realising our ambition.

02 | This is
Íslandsbanki

A leader in financial services in Iceland, Íslandsbanki is a universal bank with a proven strategy

Íslandsbanki at a glance

Driven by our vision to be #1 for service, our business model is based on four traditional business divisions that, together with the Relationship Banking division, drive how we build relationships with our customers, simplify our product offerings and unify our objectives with society at large – or, as we like to put it - how we multiply, simplify and unify.

EMPLOYEES



919

Number of FTEs for parent company in December 2015

Job 92% satisfaction among Íslandsbanki's employees

5 training courses a year per **employee**

MARKET SHARE

+31% in Retail



33% in SMEs

33% in large companies

WAYS TO BANK

50,000 APP USERS

1 Self-service branch

46 ATMs

17 Branches

100,000 online banking users

RELATIONSHIP BANKING | MULTIPLY – SIMPLIFY – UNIFY

RETAIL

- +31% market share
- Most efficient branch network
- Leading in mobile payments and digital solutions
- Ergo, market leader in asset financing with 50% market share
- Kreditkort exclusive issuer of AMEX

MARKETS

- 20-45% market share
- Leader in investment banking and corporate finance
- Instrumental in rebuilding domestic securities and derivatives markets
- Market analysis, economic forecasts and daily newsletter

CORPORATE

- +33% market share
- Leader in servicing large companies in all major sectors in Iceland, in particular seafood, energy, tourism and municipalities
- International sector expertise in selected industries

WEALTH - VÍB

- 20-40% market share
- Leader in wealth management and private banking
- Private equity funds, Eldey TLH, FAST-1 and Akur
- Ambitious educational activities

CREDIT RATINGS

Fitch Ratings
BBB-/F3
Stable outlook

STANDARD & POOR'S
BBB-/A-3
Positive outlook

RECOGNITION



The Banker
Bank of the Year 2014
ICELAND

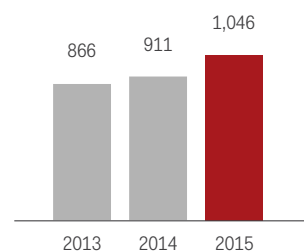
ÍSLENSKA ÁNÆGJYGDIN
2013
2014
2015

Íslandsbanki has exhibited balanced growth and profitability against a solid capital base

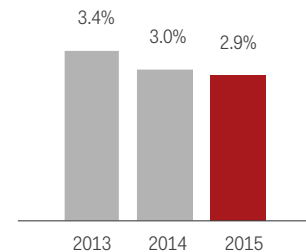
Financial highlights

BALANCED GROWTH AND PROFITABILITY

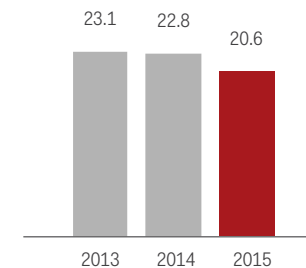
Total assets (ISKbn)



Net interest margin (%)

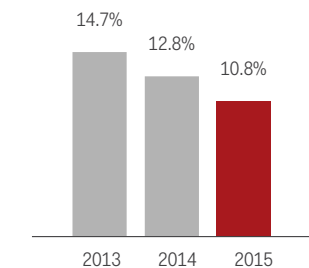


Profit after tax (ISKbn)



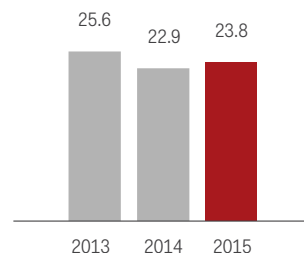
STRONG RETURNS

Return on equity (%)

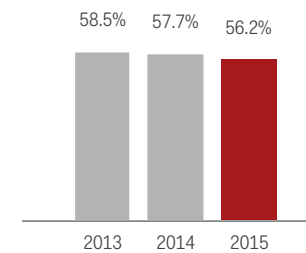


COSTS UNDER CONTROL

Administrative expenses (ISKbn)

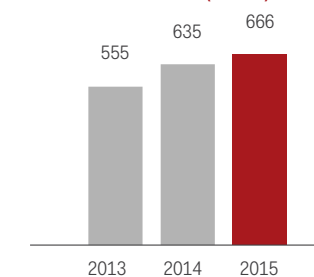


Cost / income ratio (%)

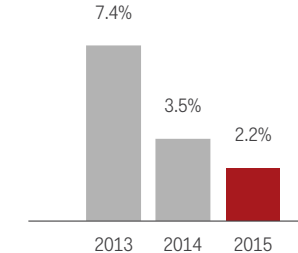


RESTRUCTURING FINALISED

Loans to customers (ISKbn)

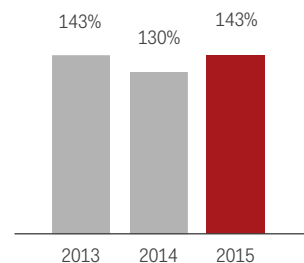


Non performing loans (%)



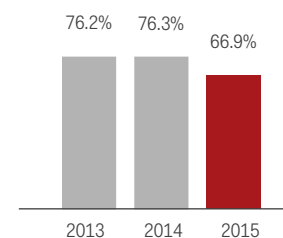
LIQUIDITY

LCR (%)

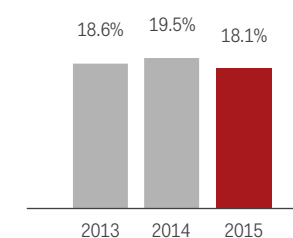


HIGH QUALITY CAPITAL

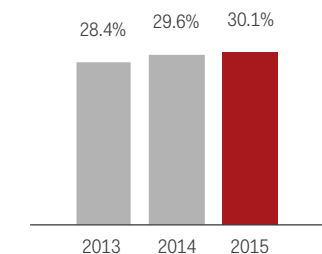
RWA / total assets (%)



Leverage ratio (%)



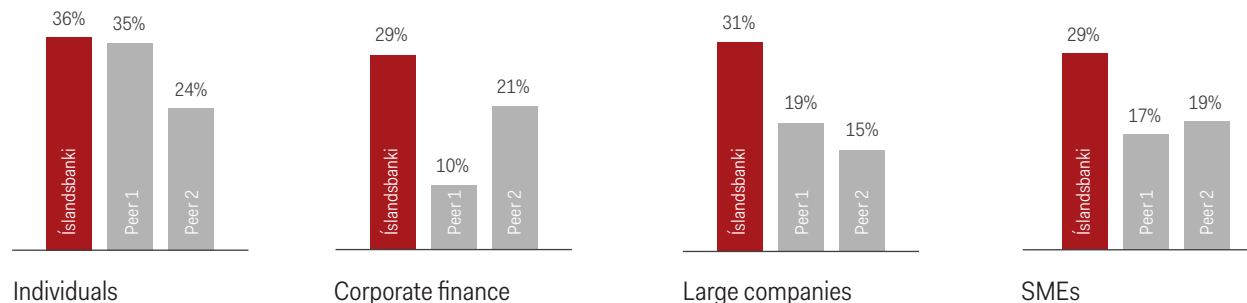
Total capital ratio (%)



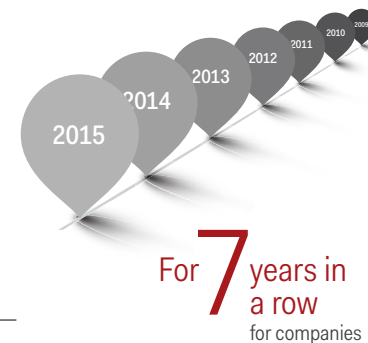
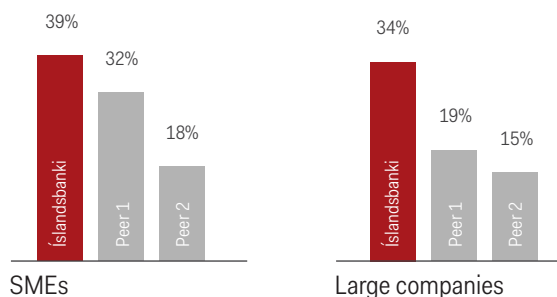
Opportunity to transform positive market perception to market share

Leading customer perception in key segments

WHICH BANK LEADS IN:



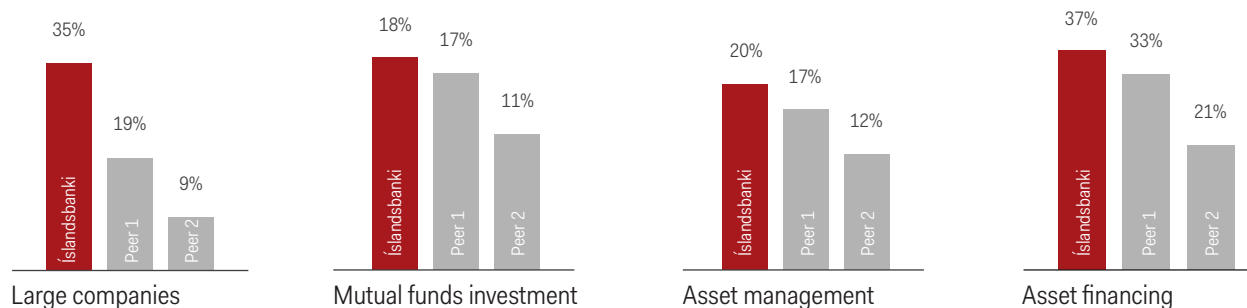
MOST PROFESSIONAL



#1 FOR SERVICE



FIRST CHOICE FOR



1. Source: Capacent Gallup: Survey for leading bank for individuals is based on 6-month rolling average of monthly tracking done by Capacent in December 2015. 2. Source: Capacent Gallup: Large corporate survey among 300 top corporates in Iceland according to Frjáls Verslun, an Icelandic Business Magazine, December 2015. 3. Source: Capacent Gallup: Market position in savings, May 2015. 4. Source: Capacent Gallup: Survey amongst small and medium enterprises according to Capacent in December 2015. 5. Source: Capacent Gallup: Asset financing: Survey done for Ergo in December 2015. 6. Source: Capacent Gallup: Survey amongst corporate finance in December 2015.

Marathon

We are very proud to be the main sponsor of the Íslandsbanki Reykjavík Marathon, an event that contributes to health awareness and that makes a positive impact on the community. Since 2006, participants in the Íslandsbanki Reykjavík Marathon have had the option of running for charity. Dozens of charities participate each year, and runners have raised over ISK 450 million to date for the charities of their choice.

A total of
15,026 
runners participated in 2015,
compared to **214** in the very first
Reykjavik Marathon in 1984

Almost
3,000
foreign runners from
70 countries took part
in 2015

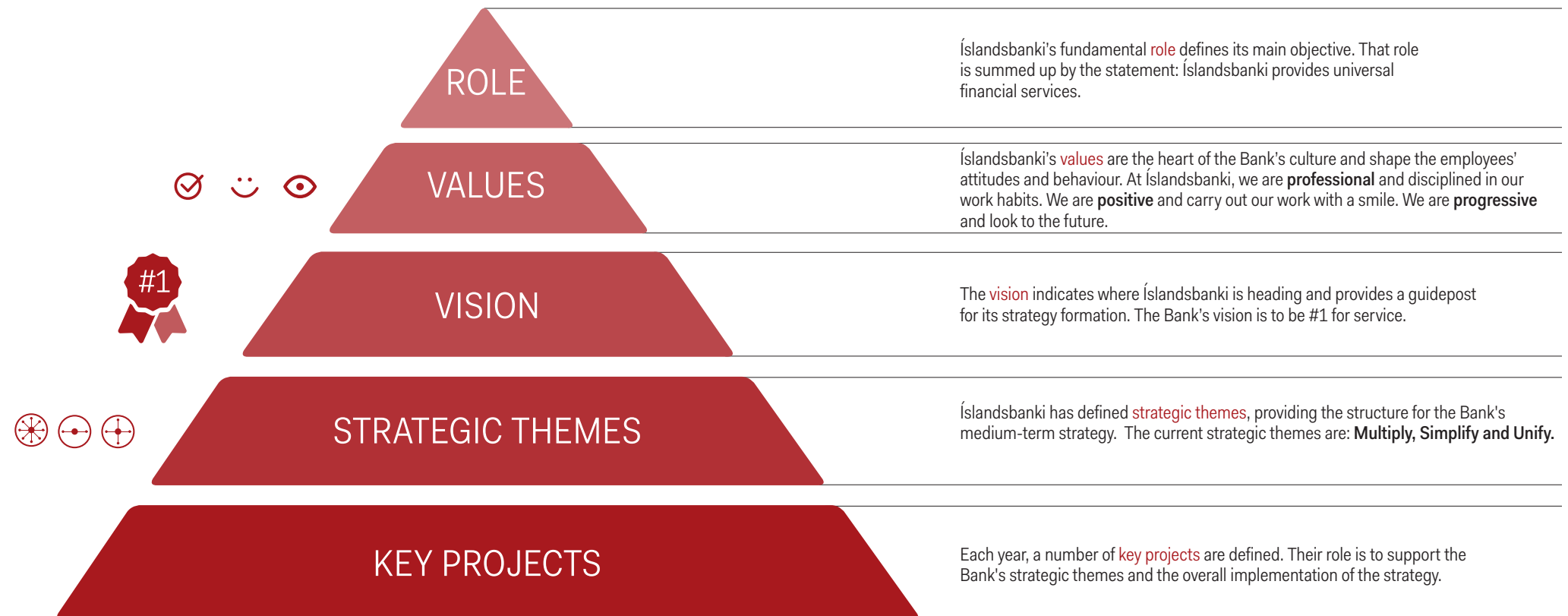
Over
80 million
were raised for
167 charities
in 2015 



03 | Strategy

The Strategy pyramid

Íslandsbanki's strategy is represented in the strategy pyramid. First introduced in 2009, the strategy pyramid consists of five building blocks that support one another. The top three blocks – role, values, and vision – rarely change, whereas the bottom two - strategic themes and key projects - are reviewed more frequently.



Our strategic direction

In the seven years since the Íslandsbanki's establishment, we have built a robust, reliable bank based on a proven strategy of a sustainable and stable universal relationship banking model. The objective of the strategy is to create and deliver long-term sustainable value for all of the Bank's stakeholders.

The Bank's strategy, including role, values, and vision has been defined at the Bank's annual Strategy Summits, in which customers, employees, and Board members have played an important part. In 2014, we introduced our strategic themes – multiply, simplify and unify – to leverage our relationship banking model and each year we map out key projects to support our strategic objectives. The strategy is then implemented with annual Strategy Summits, workshops, management of the key projects, and a set of clear and measurable goals.

At Íslandsbanki, emphasis is placed on employee participation in the strategy formulation. Since 2009, Íslandsbanki has held annual Strategy Summits with the participation of employees, managers and Board members. Each year the Summit has had a specific theme based on the Bank's strategic focus.


Employee participation in the Summits has grown year by year, revealing employees' growing interest in shaping the Bank's strategy and putting it into practice. Internal surveys confirm that employees are pleased with the summit format and recognise the importance of the summits in determining the direction the Bank is taking.

Customers welcomed the opportunity to influence how Íslandsbanki can be a better banking partner

As part of the strategy implementation process, strategy workshops were organised. In 2015, the theme was the Bank's overall strategy with a special emphasis on the Bank's vision. In October and November, the Bank held 19 workshops tailored to each business unit's operations. Internal surveys show that the employees were extremely satisfied with the workshops.



98% 
of employees are satisfied
with the Strategy Summits

96% 
of attendees believe the work
affects the Bank's strategy

ÍSLANDSBANKI'S STRATEGIC THEMES

Our strategic themes

Relationship banking is a strategic approach to managing and building relationships with key customer segments and defined target groups. At Íslandsbanki, we focus on creating value through quality service that meets our customers' needs, based on knowledge of our customers and our business analytics.

The relationship banking strategy supports our vision of being #1 for service, by using data and information to understand our customers' needs and create a valuable long-term relationship.

This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology and applications.

The Relationship Banking division was established in 2014 to support the Bank's strategic themes of multiply, simplify and unify. The division integrates and supports sales, services, marketing, digital banking, business analytics, business development, and social responsibility. In addition, it oversees the Bank's strategy and its implementation.



MULTIPLY

- We build relationships with our key customers and defined target groups
- We emphasise employee collaboration across departments and divisions
- We analyse data and information to meet our customers' needs more effectively



SIMPLIFY

- We streamline processes and operations through constant improvements
- We offer products and services in an innovative and economical way
- We improve our customers' experience and offer them services through the channel suited to them



UNIFY

- We make a positive impact on society and the environment
- We emphasise healthy operations based on sound business practices
- We offer a positive, constructive work environment



#1

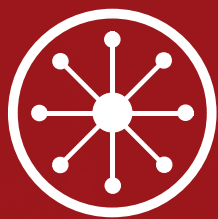
With a clear vision to be **#1** for service and focus on the three key groups we serve – people, companies, and institutional investors – we have transformed our Bank into a robust, reliable institution based on a sustainable business model and have regained the trust of our customers. Our vision is supported by three strategic themes – **multiply**, **simplify** and **unify** – which apply to all facets of our operations and business activities.



How we listen to and serve

PEOPLE

Listening to and communicating with our customers is key to our understanding how to best serve them. In 2015, we received feedback from over 2,500 customers, conducted focus groups, and took in-depth interviews with key customers. This feedback informs how we engage with our customers – how we provide specialised products, professional expertise, and more personalised service to meet all of their financial needs. This strategy generates satisfaction and growth, as is clearly reflected in positive results from customer surveys and a rising market share.




MULTIPLY


People

One of our strategic objectives is to multiply – to do more business with our more than 100,000 customers. In 2015 we made 14,692 calls to customers, proactively offering financial advice and solutions. We followed up with about 1,000 customer meetings in our branches, thereby helping to broaden the client relationship.

More ways to bank

Convenience is of key importance to our customers. In addition to our nationwide network of 17 branches, our customers have instant access to their finances online, on their mobile device, and through our new ATMs, where they can easily make transactions when and where it is convenient for them.

1,077,381 
visits to our branches

537,435 
customer calls to our Call Centre

Hi – how can I help :)

The Call Centre has been evolving into an advising centre and now offers customers first-level advice on a broader product range. The online chat has proved the most popular channel for communication, with the number of chat visits rising 71% over the year. At the same time, there has been a significant drop in calls from customers requesting simple transactions such as transfers and payments. The Call Centre has also introduced texting and call-back features, with notable success.

Facilitating home ownership?

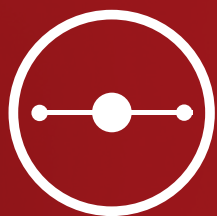
Our new data-driven approach to the mortgage market revealed a system-wide hurdle for young people hoping to enter the housing market: the down payment. To promote responsible access to home equity, we developed a new savings product that, when used as a down payment, gives our clients a 100% discount on borrowing fees for first-time buyers and a 50% discount for other buyers. In addition, we raised the ceiling on the additional loan extended to first-time buyers from ISK 1.5 million to ISK 2 million.

Over
2,200 
mortgages in 2015

7 new funds,
2 covered
bond funds

New investment options

IS Funds established seven new funds in 2015. Five of the funds, IS Private Funds, give customers access to a variety of ways to build up diversified short- or long-term savings. Two of the funds invest mostly in covered bonds issued by commercial banks and secured by the underlying collateral in addition to issuer liability, reducing the risk incurred by investors.



SIMPLIFY

People

Our aim is to improve our customers' experience through streamlining and digitisation – to simplify. In doing this, we narrow our products to a simpler set, promote self-service, and offer products and services through the channel best suited to our customers' needs.

Digitisation

Changing customer needs and increased focus on self-service branches go hand-in-hand with developments in mobile banking, which saw a 41% increase in active users and a 52% increase in the number of financial transactions, as day-to-day banking is increasingly being carried out on mobile devices. The Bank's mobile app has been downloaded by 50,000 users and is used at least once a day by 20% of our customers.

APP **visits** 7,964,208  **50,000** **USERS** Increase in **bill payments**  **124%**

Plastic in your pocket

The Bank has swapped out about 95,000 VISA debit cards for debit MasterCard, thereby simplifying our product offerings and reducing costs. We have made great strides in simplifying the payment card options available to our customers, from 117 to 15 credit card types and from 26 to 8 debit card types. All cards issued by the Bank have contactless capability, which facilitates self-service and increases speed of transactions, benefitting both customers and retailers.

Most efficient branch network

We have been converting traditional cashier service branches to more complex advisory service centres and self-service branches. In 2015 we opened a new advisory and self-service branch at Grandi by merging two branches, thus reducing the number of branches to 17. As a result, Íslandsbanki operates only 18% of all bank branches in Iceland, while maintaining a market share of over 30%.

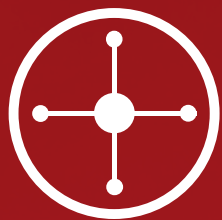
17  **Branches**

1  **Self-service branch**

46  **ATMs**

Too many ways to save?

We encourage all our customers to engage in some form of regular personal saving, but the many options available can seem daunting. To simplify our product offerings, we merged three savings products into existing ones, including the Uppleid savings account, with 40,000 active accounts.



UNIFY

People

By actively building relationships with individuals and families, we are able to respond to their financial needs at key points in their financial lives. We made a decision: to provide the best banking services in Iceland, thereby making it easier for our customers to make well-informed decisions.

Specialised expertise

Changing customer needs and developments in mobile banking have transformed our branches into more specialised advisory centres focused on financial advice and guidance on topics such as home equity products, small- and medium-sized business lending, and investing for the future.

170
million **in grants**

Further courses
are **planned** for 2016



Young investors

VÍB, in cooperation with the Young Investors Association, has stressed the importance of expanding young people's knowledge of the first steps of investing. We held an immensely popular first meeting, with over 2,500 young investors signing up, and followed it up with five additional meetings.

First-time homeowners

We want to help our customers – especially first-time buyers – approach home ownership in a responsible and prudent way. For first-time homeowners, we offer specific educational meetings, available both online and in our branches, and on our website we have launched a new mortgage calculator that is useful to both first-time and subsequent buyers. Our mortgage calculator was nominated as one of the best Apps/ Web apps in 2015 by the Icelandic Web Academy.



New **mortgage**
calculator

Over
5,000
guests at **82 events**

Finance at retirement

In addition to the specialised products, expertise, and services VÍB offers its wealth management clients, we hosted 17 retirement finance lectures in 2015, in order to enhance our customers' awareness and understanding of the various pension options available to them. Since 2011, more than 10% of pensioners in Iceland have attended these lectures.



How we listen to and serve **COMPANIES**

For seven years running, we have been voted Iceland's most professional bank and its best provider of financial services to companies. Our experienced team of specialists offers convenient and comprehensive banking, credit, and cash management solutions designed to help our customers maximise every opportunity and operate successfully. This is mirrored in Íslandsbanki's NPS score, which places us far ahead of our peers.



MULTIPLY

Companies

Our leading market share with large and small companies alike enables us to build close and broad-based relationships with our corporate customers and to meet all of their banking needs – to multiply.

Thinking big for SMEs

Our branch specialists made proactive visits to a total of 2,590 small and medium-sized companies in 2015, a 55% increase from the previous year. Our goal is to provide our clients with customised financial solutions that help them advance and grow. We also called 4,700 clients and conducted financial health check interviews. As a result, SME lending increased 22%, and customer satisfaction continues to rise.

33% market share in **SMEs** market share in **33%** **large companies**

Asset financing

Iceland's car rental market has grown in line with the surge in tourism in recent years, and Ergo, our asset financing arm, has been a dominant player in that market since 2008. Ergo holds a 65% market share in lending to car rental agencies, the largest motor vehicle purchasers in Iceland. As part of our relationship-building with the sector, we have hosted conferences in partnership with the International Finance and Leasing Association (IFLA) in Reykjavík.

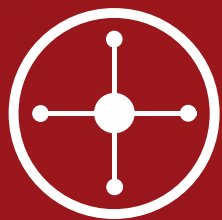
Knowledge is power

Understanding companies' needs and operating environment makes us better equipped to help them achieve their financial goals. Among our lending activities in 2015 were a number of loans to the large corporate sector, including jointly arranging a USD 200 million syndicated loan to Landsvirkjun (the National Power Company of Iceland) with Barclays, Citibank, and SEB; a EUR 55 million club loan to seafood company HB Grandi in cooperation with DNB; and participation in a syndicated loan to American Seafood.

82%  of ERGO lending **to companies** **53 billion** in **new lending** to companies **2,951**  **companies** visited in 2015

Sound advice

Our Corporate Finance team, the largest in Iceland, is devoted to providing our customers with access to the right solutions. Considered the leader in corporate finance for five years in a row, we have managed five of the 12 Main Market listings since 2010 and seven of the 15 IPOs taking place over the same period. We acted as equity advisor for PCC BakkiSilicon's new silicon metal production plant in North Iceland, helping the company raise around USD 300 million in capital, including USD 80 million from Icelandic investors.



UNIFY

Companies

Sound business environment

An efficient capital market is one of the cornerstones of a sound business environment for Icelandic companies. Icelandic businesses benefit from being able to access capital markets and risk management products. Investment banking brings together different types of investors and larger companies and provides them with market access and the financial products they need in order to achieve their funding and investment objectives.

Eco-friendly lending

We are committed to having a positive impact on the environment and are keen to take part in lending projects that enforce that vision. Our policy is to make it easier for our customers to choose eco-friendly options and support small projects that utilise environment-friendly energy and take advantage of local opportunities to reduce energy purchases. Our asset financing arm, Ergo, drew attention in 2011 for being the first player on the market to offer "green loans" for the purchase of environment-friendly cars.

Business community

Each year we host a Financial Forum for our customers, an event that brings senior management and key business leaders together to gain insight into the challenges that lie ahead. The Bank's research team discusses its economic forecasts, and guest speakers cover specialised themes. These popular events form an important part of our broader ambition to engage with the business community and to support it with more than funding alone.



What can we learn from you?

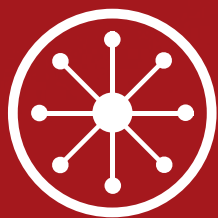
We constantly benchmark ourselves against other companies that provide exceptional service across various segments of the economy, such as technology, football, and even ice cream. This year we hosted lectures featuring five fantastic companies and had the pleasure of learning how they deliver on their service pledge. All of the lectures were open to the public and proved very popular – especially the session on ice cream.



How we listen to and serve

INSTITUTIONAL INVESTORS

We believe that objective, high-quality research is a vital part of our service to institutional investors and companies active in the equity, fixed income, and currency markets. We strive to identify strategic concerns, trends, and relevant financial information and transform detailed analyses into comprehensive research and clear investment opinions for our clients.



MULTIPLY

Institutional investors

Alternative investments

Several alternative investment options have been introduced in recent years, including the private equity fund Akur and the real estate fund Fast-1. In 2015, Eldey TLH was co-founded with Arev Securities, with the aim of investing in 7-10 sound recreational companies focused on improvement, product development, and sustainability within the Icelandic tourism industry. Current investments include North Sailing in Húsavík and Fontana in Laugarvatn. The plan is to list the company in 4-6 years.

Foreign investments

VÍB has years of experience in securities trading in foreign markets and has partnered with some of the largest asset management companies in the world. Because the capital controls will be lifted in the near future, VÍB has prepared by updating its foreign mutual fund offerings and by hosting meetings for clients with VÍB's foreign partners, such as Vanguard and DNB. Pension funds have already started investing in foreign mutual funds and index funds from Vanguard have been their first choice, due to low costs and well diversified asset portfolios.

VÍB Asset Servicing

Asset Servicing is a new service in the Icelandic securities market, providing comprehensive securities back office services, a field traditionally involving high initial costs and labour-intensive operation of securities systems. Asset Servicing gives clients access to VÍB's securities infrastructure and employees' knowledge and experience, thereby enabling them to manage their portfolios more effectively, with easier reporting and more reliable risk management and control functions.

34 billion

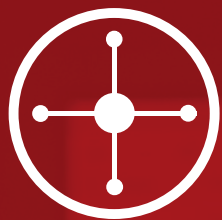
raised **in equity** in
7 IPOs since 2010

26,800 IPO

subscriptions from institutional
investors since 2010

Market making

The breadth of our universal banking capabilities makes us an ideal partner for institutional investors, who benefit from our strong relationships with companies and municipalities and, through us, gain access to debt issuance in both Icelandic krónur and foreign currency. In 2015, we issued and sold a USD 30 million bond for Landsvirkjun, as well as issuing and selling bonds for several municipalities: Kópavogur, ISK 3 billion; Gardabær, ISK 760 million; and Mosfellsbær, ISK 500 million.



UNIFY

Institutional investors

An efficient capital market is one of the cornerstones of a sound business environment for Icelandic investors. We believe that Íslandsbanki plays a key role in rebuilding Iceland's financial market, and we want our customers to take full advantage of the opportunities the domestic securities and derivatives markets have to offer.

Choosing a responsible banking partner

Our strategic objective - to unify - is embedded in our governance structure, business policies, and practices, and it plays a critical role in our business strategy of responsible growth. We note increasingly that customers are choosing us as their banking partner because of our policies on corporate social responsibility, gender equality, and compensation, with these factors weighing as much as 15% of the total score in the tender selection process.

ISK 27.2bn Transaction value of interest rate swaps

Managing risk more effectively

Working closely with our customers, we have been introducing simple derivative instruments to enable them to manage interest rate and currency risks more effectively. In line with this focus, we now offer important hedging instruments like outright forwards, interest rate swaps, and cross-currency swaps. Several noteworthy deals were concluded in 2015, including interest rate swaps with a total transaction value of ISK 27.2 billion.

Informed investment decisions

Our efforts to inform and educate our customers and the general public about finance and investment reached new heights in 2015, with the launch of several enthusiastically received initiatives. VíB, our wealth management arm, is committed to these efforts, both as a valuable service to its clients and as a socially responsible initiative. In 2015, we offered industry-specific and in-depth research and analysis on a number of topics, including the North-Atlantic, the raw materials and energy sector, investment post-capital controls, and many more.

 **55,707**
online viewers

H-app-y

VíB is the first Icelandic asset management company to offer its customers access to their securities on the Bank's app, in addition to its online banking platform. The app provides a simple and convenient way for customers to monitor their assets and keep track of investments, whenever and wherever they want.

Sectoral expertise

We take great pride in our industry focus and our attentiveness to the needs of our clients. We publish industry reports on a regular basis, including reports on the Icelandic seafood sector, seafood in the United States, the tourism industry, and the municipal sector. This year we also published a report on the housing market in the capital area. We are also an active participant in Icelandic cluster projects focused on three pillars of the domestic economy: seafood, energy, and tourism.



04 | Divisions

Employees



Women



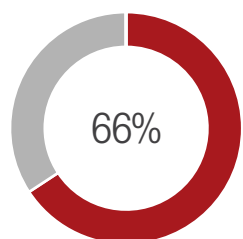
75%

Men



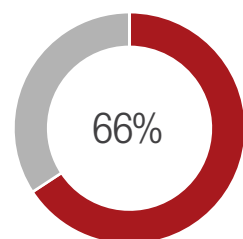
25%

Total operating income



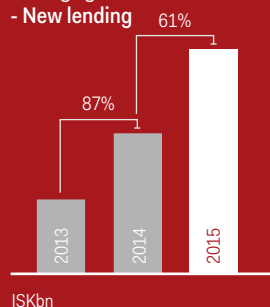
Retail Banking's share of business segment income

Loans to customers



Retail Banking holds 66% of the Bank's total loans to customers

Mortgages - New lending



Most efficient branch network

17 Branches

8 in greater Reykjavik and 9 outside the capital area



Retail Banking

Retail Banking, the Bank's largest division, provides wide-ranging financial services to individuals and SMEs. As well as operating Iceland's most efficient branch network, Retail Banking also operates two specialised brands: Kreditkort in the credit card sector and Ergo in the asset financing sector.

About Retail Banking

Retail Banking offers its customers a full range of services, including current and savings accounts, credit and debit cards, consumer finance, mortgages, specialised property lending, and vehicle and equipment leases. Retail Banking operates 17 branches, eight in greater Reykjavik and nine outside the capital area. Two-thirds of the division's employees work in the branch network. In every branch we have mortgage advisors who are certified financial advisors from Reykjavik University. In addition to the branches, the division has three support units: headquarters, a call centre, and a cash centre.

Ergo, the Bank's asset financing unit, specialises in financing machinery and equipment for businesses and personal vehicles for individuals. The goal is to help customers make informed decisions when purchasing machinery or equipment. Ergo has been at the forefront of the market in the past few years and has a particularly strong presence in the car rental market. Service surveys confirm Ergo's position as the industry leader in market share, service, and professionalism.

Leader in online and mobile banking

Kreditkort, a specialised credit card company, was the first to offer credit cards in Iceland. It has been the market leader in terms of innovation and service to customers. It is the principal licence-holder for American Express credit cards in Iceland and has issued AMEX cards since 2008. Kreditkort has been a division within the Bank since 2012.

The Call Centre has expanded its role and now offers first-level advice to customers, including companies and cooperatives, as well as offering specialists in advice regarding mortgages. As a result, incoming calls are longer and more detailed. In response to the broader scope of the Call Centre's activities, we have implemented new ways of communicating with our customers, such as the online chat and the call-back function, both of which have been well received by our customers.

Corporate Banking

Employees



Women



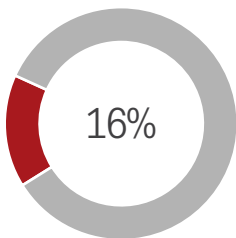
42%

Men



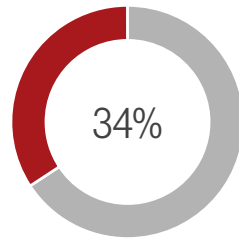
58%

Total operating income



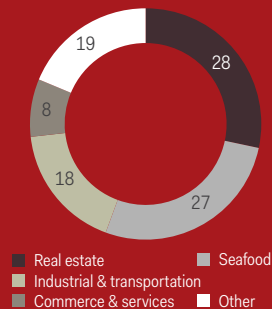
Corporate Banking's share of business segment income

Loans to customers



Corporate Banking holds 34% of the Bank's total loans to customers

Loan portfolio by sector (%)



NEW
corporate lending
amounted to
ISK 52.6bn

Corporate Banking provides comprehensive lending services to large businesses and municipalities in Iceland. In addition, it manages the Bank's international business in the North-Atlantic region, primarily focusing on the seafood and offshore supply vessel industries. Corporate Banking is a leader in its field. The division has extensive experience servicing established sectors such as seafood, energy and real estate as well as growing industries such as retail and tourism.

About Corporate Banking

Corporate Banking consists of three business units – Commerce & Services, Real Estate, Energy & Municipalities (REM); and Seafood & International, as well as the support functions Credit Management and Finance & Operations. The division provides its customers with specialised services involving various forms of short- and long-term financing. It also participates in syndicated loans and provides project and construction financing. Corporate Banking maintains strong relationships with its customers, and its experienced employees are the driving force behind those relationships.

Corporate Banking established successful partnerships with foreign banks in 2015, including acting as a lead arranger in transactions with Barclays, Citibank, and SEB, and collaborating with DNB on a club loan.

Widespread experience in serving domestic and international businesses

Commerce & Services provides professional services to companies in the commerce, services, and tourism industries and is responsible for the industrial and transportation sectors as well. The team publishes an extensive annual report on the tourism industry in cooperation with other divisions within the bank.

Real Estate, Energy & Municipalities (REM) provides professional services to companies in the industries the name indicates. The team endeavours to publish high-quality research material on a regular basis, with a particular focus on the sectors in which it specialises. Recently, REM has sharpened its focus on the growth in tourism and its impact on the real estate sector. The unit's increased focus on the real estate sector has resulted in increased lending to construction and real estate management companies.

Seafood & International provides professional services to domestic and international companies in the seafood and offshore service vessel industries within the North-Atlantic region. The team also publishes seafood industry reports for domestic and international markets.

Markets

Employees



41

Women



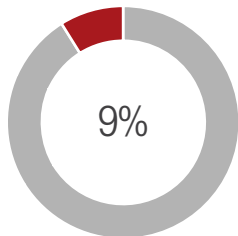
27%

Men



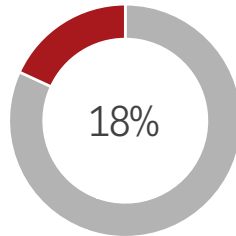
73%

Total operating income



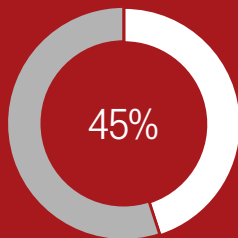
Market's share of
business segment income

Net fee income



Market's proportion of business
segment net fee income

Market share in domestic bond issuance



Transaction value of
interest rate swaps
ISK 27.2bn

Markets, the Bank's investment banking division, provides wide-ranging services to large companies and investors. The division's services include corporate finance, securities trading, derivatives, foreign exchange, and market research. The division has been instrumental in re-establishing derivative markets, concluding several notable deals with quasi-governments and municipalities.

About Markets

Markets is divided into seven units: Corporate Finance, FX Sales, Securities Sales, Interbank Trading, Securities Trading, Research, and Finance & Operations. Markets' experienced professionals enable its customers to benefit from the opportunities the domestic market has to offer. Furthermore, Markets has been instrumental in rebuilding the domestic securities and derivatives markets.

Corporate Finance works with medium-sized and large companies, providing advisory services on mergers and acquisitions, listings, and public offerings. The unit is also a licensed certified advisor for the Nasdaq First North market.

FX Sales offers businesses and foreign investors access to currency markets, as well advising on currency and interest rate risk management.

Securities Sales offers professional investors, large pension funds, and mutual funds access to the domestic equity and bond markets.

Instrumental in rebuilding domestic securities and derivatives markets

Interbank Trading is a market maker in FX, money market, and longer interest rate swaps in Icelandic krónur. It also manages the Bank's liquidity in both ISK and foreign currencies. The unit communicates and trades with domestic and foreign banks and quotes prices to the FX and Securities Sales desks.

Securities Trading is a market maker in domestic securities.

Research functions as an independent department carrying out macroeconomic research for the Bank and its clients. It also conducts in-depth market analysis on economic indicators, including inflation and policy rate forecasts, and publishes earnings forecasts and stock valuations on companies listed on the domestic market. Furthermore, it issues the widely read newsletter **Icelandic Financial Market Digest**, also published in Icelandic under the name **Morgunkorn**.

Wealth Management

Employees



Women



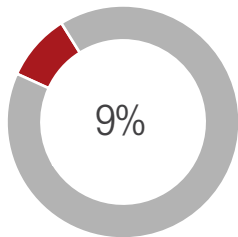
50%

Men



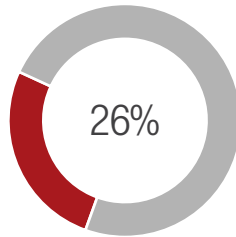
50%

Total operating income



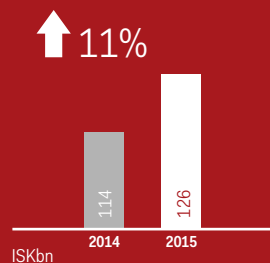
Wealth Management's share of business segment income

Net fee income

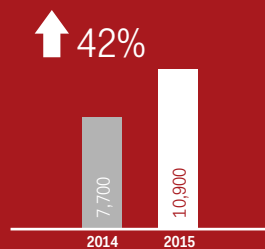


Wealth Management's proportion of business segment net fee income

IS Funds - Assets under management



Private Pension Plan - Active members



The Bank's wealth management division, comprises two independently run units, VÍB and IS Funds, a subsidiary of the Bank. VÍB offers comprehensive asset management and private banking services to both private investors and institutional clients. VÍB also provides advisory, investment, and pension services to retail investors, as well as offering portfolio management services to affluent individuals and institutional investors.

About VÍB

VÍB is divided into four front-line units: Investment & Pension Services, Corporate & Institutional Services, Private Banking, and Asset Servicing. VÍB is the distributor of IS Funds and through them offers a wide variety of UCITS as well as other collective investment funds. VÍB also offers advice on international asset portfolios and provides access to funds run by international partners such as Vanguard, BlackRock, iShares, DNB, Sparinvest, and Skagen. Currently the service is only available to customers authorised to invest outside Iceland.

Investment & Pension Services caters to private individuals requiring services related to securities and pensions, such as investment advisory, brokerage, custody, and pension services. Customers have real-time access to their asset portfolios and current accounts through the online bank and can conduct online trading in domestic mutual funds.

Corporate & Institutional Services offers tailored asset management and consultancy services such as portfolio and risk management, customised investment strategies, custody services, and market analysis. The unit's main customers are


pension funds, insurance companies, local authorities, and other institutional investors.

Private Banking offers discretionary asset management and advisory services to affluent individuals, investment companies, funds, and charities. Clients' portfolios are monitored by a personal business manager who recommends invest opportunities as they arise.

Asset Servicing provides comprehensive securities back office services, thereby providing access to VÍB's securities infrastructure and to employees' knowledge and experience. Clients are able to view their portfolios in a simple and secure way, making daily activities more efficient and professional. Asset Servicing makes portfolio management more strategic, reporting easier, and risk management and control functions more reliable.

IS Funds (Íslandssjódir) is an independently run, wholly owned subsidiary of the Bank that is licensed as a stand-alone fund management company offering mutual funds, investment funds, and other institutional investment schemes. IS Funds has assets under management totalling ISK 126 billion and operates 20 mutual and investment funds.

05 | Financials and funding

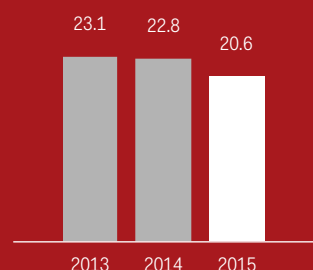


Íslandsbanki reported a strong return on equity in spite of rising equity levels, with its total capital ratio reaching its highest level since the Bank's establishment. Core operations continued to produce stable income, and the net interest margin reached a sustainable level. The majority of the Bank's total operating income originates from net interest income and net fee and commission income. This is in line with the Bank's focus on core earnings and its objective of generating stable cash flows over the long term. Íslandsbanki runs one of the most diversified funding programmes in Iceland. In addition to its presence in the retail deposit market, the Bank leads the field in covered bond issuance in the domestic market.

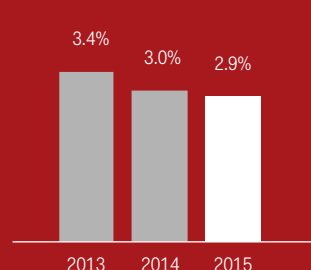
In 2015 Íslandsbanki recorded a net profit of ISK 20.6bn, compared to ISK 22.8bn in 2014. This translates to a return on equity of 10.8%, as opposed to 12.8% in 2014. Its net profit from regular operations grew 9.1% in 2015, to ISK 16.2bn, increasing the return on equity from regular operations (14% CET1) to 13.2%, as compared with 12.6% in 2014.

INCOME STATEMENT

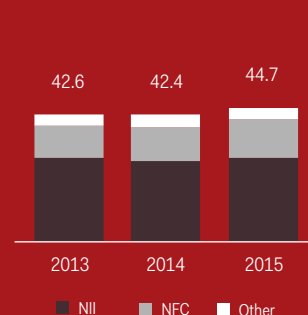
Profit after tax (ISKbn)



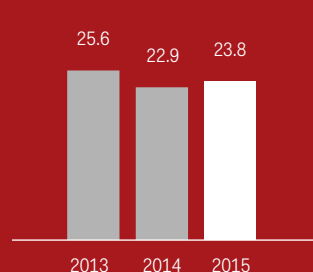
Net interest margin (%)



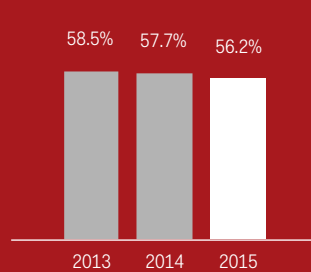
Total operating income (ISKbn)



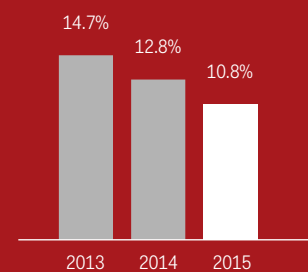
Administrative expenses (ISKbn)



Cost / income ratio (%)



Return on equity (%)



Stable recurring revenues


Total income amounted to ISK 44.7bn in 2015, an increase of 5.3% from 2014. Net interest income totalled ISK 28.0bn, an increase of 3.3% from the previous year. The net interest margin was 2.9%, compared to 3.0% in 2014, due to lower interest rates in 2015. It is expected to remain around 3.0% in the near to medium term.

Net fee and commission income rose 14.7%, to ISK 13.2bn in 2015. Net fee income benefited from fee-generating subsidiaries and increased customer activity within the parent company

Core income (net interest income and net fee and commission income) accounts for 92% of total operating income, which is in line with the Bank's focus on core earnings and its objective of generating stable cash flows over the long term.

Net financial income amounted to ISK 3.9bn in 2015, as opposed to ISK 1.6bn in 2014. This is due mainly to fair value gains in equity holdings and, to a lesser extent, trading of bonds and shares. The net foreign exchange loss of ISK 1.5bn is attributed to the 9.15% appreciation of the ISK in 2015, as the Bank had a long position in foreign currencies for most of the year.

Other operating income, which includes gains on real estate sales, rental income, service level agreement fees, and a share in the profit or loss of associates, totalled ISK 1.1bn in 2015, as opposed to ISK 2.1bn in 2014, when more substantial assets were sold.



In November 2015, Visa Inc. and Visa Europe announced a transaction whereby Visa Inc. would acquire Visa Europe. The Bank's subsidiary, Borgun, has a direct ownership interest in Visa Europe. The fair value assessment of Visa Europe's holdings at year-end 2015 affected the Group's accounts and equity in the amount of ISK 5.5bn. The fair value gain was recognised in other comprehensive income (equity).

Cost awareness

In nominal terms, administrative expenses (excluding one-off extraordinary expenses) rose by ISK 571m year-on-year, and the real increase excluding one-off expenses is 0.4%. Total salaries and related expenses grew to 13.9bn, a 4% increase from 2014, even though the average number of full-time equivalent positions declined by 31.4 within the parent company over the same period. The increase is due primarily to pay rises negotiated in collective bargaining agreements. The cost-to-income ratio for the year was 56.2%, slightly above the 55% target.

The contribution to the Depositors' and Investors' Guarantee Fund in the amount of ISK 1.1bn was comparable to that in the previous year, while the temporary bank tax increased 18%, in line with growth in total liabilities.

The profit from discontinued operations, net of tax, was ISK 1.3bn in 2015. The profit derives from the sale of non-core subsidiaries and income from foreclosed assets.

Net loan impairment gains

Net loan impairment in core activities continues to drive profits, with a gain of ISK 8.1bn in 2015. Of that total, ISK 11.3bn is due to a revision of estimated future cash flows from loans and ISK 3.2bn is a charge for specific and collective impairment losses. A large proportion of the revision of estimated future cash flows has already come to the fore and will affect profitability less strongly in future years.

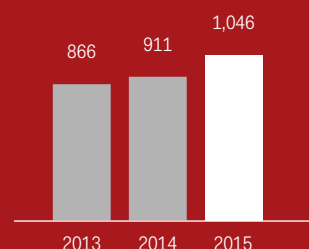
Taxes and levies rise temporarily

Tax on the profit for the year amounted to ISK 5.9bn, as compared with ISK 6.2bn in 2014. The effective tax rate was 23.3%, as opposed to 25.1% in 2014. The temporary bank tax accounted for ISK 2.9bn in 2015, an increase of 18% from 2014. It is expected that the bank tax will be discontinued in 2016.

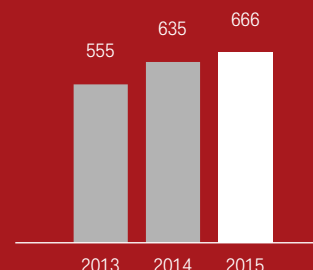
The Bank is subject to the special financial tax of 6% on taxable profits in excess of ISK 1bn, as well as contributions to the Depositors' and Investors' Guarantee Fund, the Financial Supervisory Authority, and the Debtors' Ombudsman. Total taxes and levies amounted to ISK 10.8bn in 2015, as opposed to ISK 10.7bn in 2014.

BALANCE SHEET

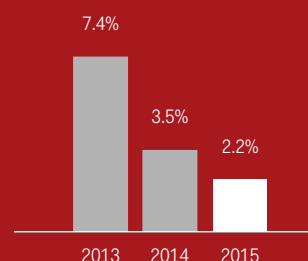
Total assets (ISKbn)



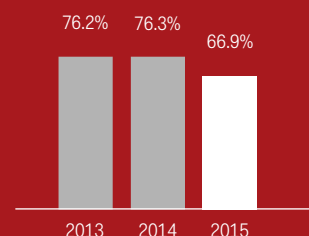
Loans to customers (ISKbn)



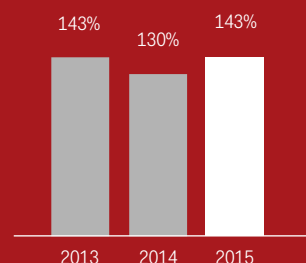
Non performing loans (%)



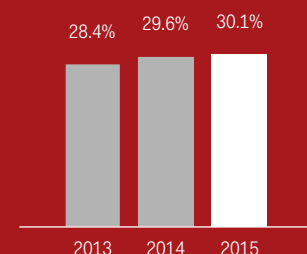
RWA / total assets (%)



LCR (%)



Total capital ratio (%)



Assets – balanced growth in loans to customers in line with GDP

The balance sheet grew 14.8% year-on-year, to ISK 1,045.8bn at year-end 2015.

The increase is due mainly to a significant rise in deposits and cash levels resulting from a system-wide increase in money supply due to the Central Bank of Iceland's foreign currency purchases during the year.

Loans to customers grew 4.9%, or ISK 30.9bn, below Iceland's projected nominal GDP growth rate of 6.3% in 2015. Demand for new credit was primarily from corporations and, to a lesser extent, from individuals. New lending amounted to ISK 152bn, as opposed to ISK 165bn in the prior year, a decline of 8%.

Credit quality continues to improve, as can be seen in declining non-performing loan ratios. The share of loans that are either 90 days in arrears or impaired was 2.2% at year-end 2015, down from 3.5% at year-end 2014. This places Íslandsbanki's credit quality securely in the top interquartile range of European banks in terms of the European Systemic Risk Board solvency indicator. A more detailed discussion of the loan portfolio and credit risks can be found in the Bank's 2015 Pillar 3 Report.

The development and outlook related to oil production has had an impact on the Bank's exposure in the oil offshore service industry and the Bank has recognised an impairment to this exposure. The Bank has had intermittent presence tied to the Norwegian operators of offshore service vessels for over ten years, but the exposure is now only about 1% of the Bank's loan portfolio.

Real estate remains the Bank's most important type of collateral. The weighted average loan-to-value (LTV) ratio for the residential mortgage portfolio was 69% at year-end 2015, compared to 74% at year-end 2014.

The Bank's asset encumbrance ratio was 10.4% at year-end 2015, as opposed to 10.8% in 2014.

Shares and equity investments grew to ISK 18.3bn, including ISK 11.2bn in listed instruments and ISK 7.1bn in unlisted instruments, an increase of 74% from the 2014 total of ISK 10.5bn. The rise is due to fair value gains in exposures, the largest being from VISA Europe, through the Bank's subsidiary Borgun.

Liabilities – deposits still the main source of funding

Total liabilities amounted to ISK 843.5bn at the year-end, an increase of 16.2% between years.

The Bank maintained a strong liquidity position throughout 2015, and all regulatory and internal metrics were well above the set limits. At year-end 2015, its liquidity coverage ratio (LCR) was 132% for the parent company and 143% at the group level, and the foreign exchange net stable funding ratio (NFSR) was 142% for the parent company and 141% at the group level. The total NFSR was 120% at both parent company and group levels.

Total deposits grew by 11.5% between years, to ISK 618.9bn. Deposits are still the Bank's main source of funding, and concentration levels are monitored closely. This increase was due mainly to transfers of funds related to stability contributions but also to the growth of short-term investment funds that invest largely in deposits. The increase can also be attributed to the Central Bank's foreign currency purchases, which increase the domestic money supply. As a result, the ratio of customer deposits to customer loans rose to 88% at year-end 2015, compared to 83% at the end of 2014.

The Bank's debt issuance increased throughout 2015, primarily reflecting issuance under its Global Medium Term Note Programme (GMTN) and covered bond programme, aimed at mitigating risk through diversification of funding. The Bank issued ISK 24.1bn in covered bonds in 2015. It also issued short-term unsecured bonds (1- to 6-month maturity) throughout 2015, with an outstanding year-end balance of just over ISK 10bn. Highlights of FX issuance in 2015 include:

- In February, the Bank issued a SEK 300m four-year floating-rate note (FRN) at STIBOR +310 which was tapped by SEK 150m in April and again in July
- In July, the Bank launched a EUR 100m 2.875% fixed-rate note due in 2018, its second such transaction, which was tapped by EUR 125m in December
- In October, the Bank issued a three-year NOK 500m FRN at NIBOR +260bp.

The Bank has issued a Tier 2 euro denominated subordinated loan currently totalling ISK 19.5bn. It is set to mature in 2019.

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Funding

Equity

Total equity amounted to ISK 202.2bn at 2015 year-end, as compared with ISK 185.5bn at the end of 2014. Of that total, ISK 3.9bn is attributable to minority interests. The nominal value of the Bank's authorised share capital was ISK 10bn at the end of 2015, and paid-up share capital amounted to ISK 65bn.

At the end of 2015, the Bank's capital ratio was 30.1%, compared to 29.6% at year-end 2014, well above the short-to medium-term target of 23%. The Bank's Tier 1 capital ratio was 28.3% at the end of 2015, up from 26.5% at year-end 2014. Íslandsbanki uses the standardised method to calculate its risk-weighted assets (RWA), which amounted to ISK 699.7bn at 2015 year-end, or 67% of total assets, a marginal increase between years. The year-end leverage ratio was 18.1%, compared to 19.5% in 2014, indicating moderate leverage.

In 2015, ISK 9.0bn in dividends were paid out, based on year-2014 net income. The Board of Directors is proposing dividend payments to shareholders of up to 50% of profits in 2016.

Imbalances

The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At year-end 2015, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 42.6bn (21.1% of the total capital base), compared to ISK 61.7bn in 2014 (30.9% of the total capital base). The imbalance is managed via CPI-linked swaps, issuance of CPI-linked covered bonds, and long-term CPI-linked deposit programmes.

The consolidated foreign exchange balance at the end of December was ISK 4.3 billion. The Bank's imbalances are strictly monitored and are within the regulatory limits.

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[Consolidated financial statements](#)
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[Pillar 3 report](#)

Ratings

Íslandsbanki is the only bank in Iceland that is rated by two international rating agencies, Fitch and Standard & Poor's (S&P). In 2014, the Bank received a BB+/B rating with a stable outlook from S&P and in April 2015 the Bank received a BBB-/F3 rating with a stable outlook from Fitch. In July 2015, as a direct result of the announcement of the Government's capital account liberalisation strategy, S&P upgraded Iceland's sovereign rating and, along with it, the ratings of the Icelandic banks. Íslandsbanki was assigned a BBB- rating with a stable outlook. In January 2016, S&P raised the sovereign rating to BBB+/A-3, citing further progress towards capital account liberalisation and declining debt levels. Shortly thereafter, Íslandsbanki's ratings were confirmed at BBB-/A-3 with a positive outlook.

FitchRatings
BBB-/F3
Stable outlook

**STANDARD
& POOR'S**
BBB-/A-3
Positive outlook

[Take me there >>](#)
[Credit ratings](#)

A helping hand

We encourage our employees to participate in charitable efforts, and since 2012 we have invited all employees to devote one working day per year to a good cause. Employees choose the charities to which they lend a helping hand. Charities can also contact the Bank and request assistance with various projects. The charitable work is quite diverse, ranging from forestry and clearing litter to helping homeless people and helping charities with their mailing. Charities have also benefitted from expert advice given by our employees. Employee participation has grown over the years, and our goal is to have 50% of employees volunteer to lend a helping hand.



06 | Corporate governance

Corporate governance

Íslandsbanki is committed to the highest standards of corporate governance and ethical conduct. A comprehensive range of policies and systems are in place to ensure that the Bank is managed in an orderly manner with effective oversight and control. Recognised as being “Exemplary in Corporate Governance”, the Bank is committed to achieving long-term success in the interest of the organisation and its stakeholders and customers.

The legal and regulatory framework for corporate governance practices within the Bank consists mainly of the laws governing entities subject to supervision by the Financial Supervisory Authority (FME). Moreover, the Bank follows the Corporate Governance Guidelines (5th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA-Business Iceland.

Recognition for exemplary performance in corporate governance

The Bank is committed to maintaining high standards of governance and complying with the best governance practices that are in the interests of the organisation and its stakeholders and customers. In March 2014, following a formal assessment of the governance practices of the Bank's Board and management, the Centre for Corporate Governance at the University of Iceland's Institute for Business Research, in cooperation with the Icelandic Chamber of Commerce, SA-Business Iceland, and Nasdaq Iceland, formally recognised the Bank as Exemplary in Corporate Governance. The recognition was renewed in March 2015. The Bank will continue to focus on sound corporate governance and strive to maintain this recognition.

Good Governance Policy

As part of the Bank's commitment to sound corporate governance, the Board adopted Íslandsbanki's Good Governance Policy, a matrix for material bank actions, in 2012. The policy is a decision-making matrix that outlines all major decisions that the Bank may wish to take under given circumstances. The matrix sets specific conditions for all major decision-making and requires that all such decisions be taken after consultation with the best-qualified parties within the Bank and on the basis of the relevant information available at the time. This procedure was introduced in order to foster improved decision-making and ensure that decisions taken within the Bank fulfil the appropriate requirements at any given time.

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The Corporate Governance Statement is enclosed in the Consolidated Financial Statements

Governance structure

The management and control of Íslandsbanki is shared by shareholders, the Board of Directors, and the Chief Executive Officer, in accordance with the Bank's Articles of Association, other Board directives, and the relevant external legal and regulatory instruments.

Shareholders' meetings

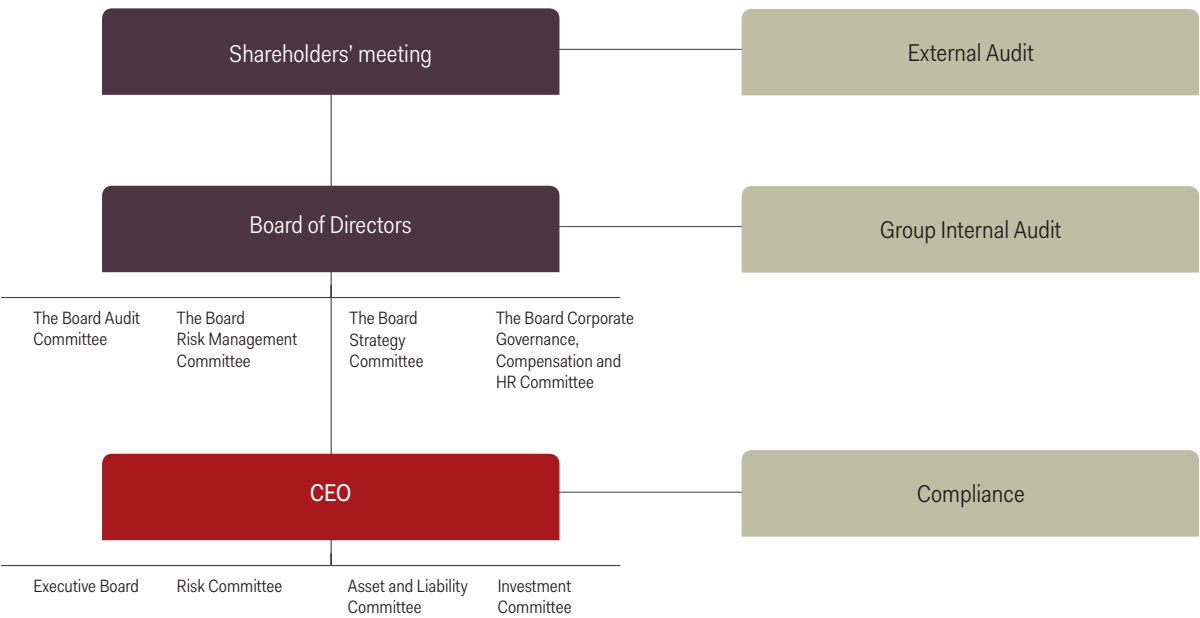
In accordance with the Act on Public Limited Companies and the Bank's Articles of Association, shareholders have the ultimate authority in all matters discussed at shareholders' meetings. At the Annual General Meeting (AGM), held before the end of April each year, the Board of Directors

and auditors are elected and both the annual accounts for the previous year and the Bank's compensation policy are presented for approval. Furthermore, decisions regarding dividend payments are made, as are amendments to the Articles of Association, if applicable. Shareholders or their representatives are authorised to attend shareholders' meetings. Shareholders' advisors are authorised to attend as well. At shareholders' meetings, each share carries one vote, and matters are decided by majority vote unless otherwise provided for by law or the Bank's Articles of Association. The AGM is held in Reykjavík.

Articles of Association

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

Organisational chart



Take me there >>

The Articles of Association

Board of Directors and subcommittees

Board of Directors

The Board of Directors (the Board) comprises seven non-executive directors and two alternates, all of whom are elected at each AGM for a term of one year.

The Board of Directors is the supreme authority over the Bank's affairs, subject to shareholders' meetings, unless otherwise provided for by law or in the Articles of Association. The Board sets the Bank's general strategy and instructs the CEO on its implementation and execution. It also has a supervisory role in overseeing that the Bank's organisation and activities comply at all times with the pertinent regulatory provisions and sound business practices.

Board subcommittees

In accordance with the Board's Rules of Procedure, the Board has appointed subcommittees comprising Board members, as is shown below. The subcommittees are the Board Audit Committee; the Board Risk Management Committee; the Board Strategy Committee; and the Board Corporate Governance, Compensation, and Human Resource Committee.

Take me there >>

Board subcommittees

Take me there >>

Board's Rules of Procedure

Structure of Board's subcommittees

	The Board Audit Committee	The Board Risk Management Committee	The Board Strategy Committee	The Board Corporate Governance, Compensation and HR Committee
Fridrik Sophusson			Member	Chair
Marianne Økland	Member	Chair		
Árni Tómasson	Member	Member		
Eva Cederbalk			Chair	Member
Gunnar Fjalar Helgason			Member	Member
Helga Valfells		Member		Member
Neil Graeme Brown	Chair		Member	



Chair



Member



Board of Directors

Board of Directors



Fridrik Sophusson

Chairman of the Board since January 2010

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

Sub-Committees: Chairman of the Board Corporate Governance, Compensation and Human Resource Committee; member of the Board Strategy Committee.



Marianne Økland

Vice-Chairman of the Board since March 2015 and Board member since January 2010

Marianne Økland, a Norwegian national, currently holds the position of Managing Director of Avista Partners, an independent investment banking firm. She has spent most of her career in banking, dealing with debt financing in various positions at JP Morgan and UBS, focusing on Nordic debt origination and structuring. Prior to that, she managed the European operations of Marsoft Ltd., a Boston-, Oslo-,

and London-based consulting firm specialising in shipping investments.

Ms Økland holds an M.Sc. degree in Finance and Economics from the Norwegian School of Economics and Business Administration.

Sub-Committees: Chairman of the Board Risk Management Committee; member of the Board Audit Committee.



Árni Tómasson

Board member since January 2010

Árni Tómasson, an Icelandic national, has worked in bank and financial institution auditing since 1985. He was partner and later chairman of Deloitte Ltd. in Iceland until 2001. He has 30 years' teaching experience at the University of Iceland and Reykjavík University. He was CEO of Búnadarbanki Íslands (later Kaupthing Bank) from 2001 to 2003. From October 2008 to 2011, Árni was chairman of Glitnir's Resolution Committee. He has run his own financial consulting firm, AT Consulting

ehf., since 2003.

Mr Tómasson holds a Cand. Oecon. degree in Business Administration from the University of Iceland and is a Chartered Accountant.

Sub-Committees: Member of the Board Audit Committee and the Board Risk Management Committee.



Eva Cederbalk

Board member since March 2015

Eva Cederbalk, a Swedish national, works as an independent consultant to various companies. She has extensive experience in the field of banking. She is an expert in payment solutions with a proven track record in positions such as CEO of SBAB Bank AB, CEO of Netgiro International AB, CEO of DIAL Försäkring AB, and Executive Vice President and Head of Corporate E-commerce at If Skadeförsäkring AB.

Ms Cederbalk holds an M.Sc. degree in International Economics and Marketing from Stockholm School of Economics.

Sub-Committees: Chairman of the Board Strategy Committee; member of the Board Corporate Governance, Compensation and Human Resource Committee.



Gunnar Fjalar Helgason

Board member since September 2015

Gunnar Fjalar Helgason, an Icelandic national, is Head of Corporate Strategy for Síminn hf. and its group. He also chairs the boards of all of the subsidiaries of Síminn hf., except for Míla ehf. He has extensive experience in international investment banking, especially in the field of acquisitions and mergers. He worked on mergers and acquisitions at Paine Webber Inc., Robertson Stephens, and Sawaya Segalas & Co. in New York and London in 1995-2004.

Mr Helgason holds a B.Sc. degree in Economics from the University of Iceland.

Sub-Committees: Member of the Board Strategy Committee and the Board Corporate Governance, Compensation and Human Resource Committee.



Helga Valfells

Board member since September 2013

Helga Valfells, an Icelandic national, is Managing Director of NSA Ventures, an Icelandic venture capital fund. Previous employers include Estée Lauder UK, Merrill Lynch Europe, and the Trade Council of Iceland. She is an entrepreneur, having participated in founding start-up companies as well as acting as an advisor to the Icelandic Minister of Business Affairs. Furthermore, she has worked as an independent consultant for a number of export companies from

Iceland, the UK, and Canada.

Ms Valfells holds a B.A. degree in Economics and English Literature from Harvard University and an MBA from London Business School.

Sub-Committees: Member of the Board Risk Management Committee and the Board Corporate Governance, Compensation, and Human Resource Committee.



Neil Graeme Brown

Board member since January 2010

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

of international companies.

Mr Brown holds an M.A. degree in Classics from Emmanuel College, Cambridge and is an associate of the Institute of Chartered Accountants (ACA).

Sub-Committees: Chairman of the Board Audit Committee; member of the Board Strategy Committee.

Executive Board

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for the day-to-day operations of the Bank, pursuant to set policies and resolutions of the Board. Moreover, it is the task of the CEO to ensure that the Bank's operations are consistent at all times with applicable legislation and the Bank's Articles of Association.

The CEO appoints Executive Board members, other management committee members, and the Bank's Compliance Officer.

Management committees

The Board monitors the execution of its policies and the sound control of accounting and financial management, and ensures that Group-level internal audit, compliance, and risk management are effective at all times. The Bank's management committees – the Executive Board, Risk Committee, Asset and Liability Committee, and Investment Committee – are responsible for implementing risk management and internal monitoring practices in accordance with Board authorisation.

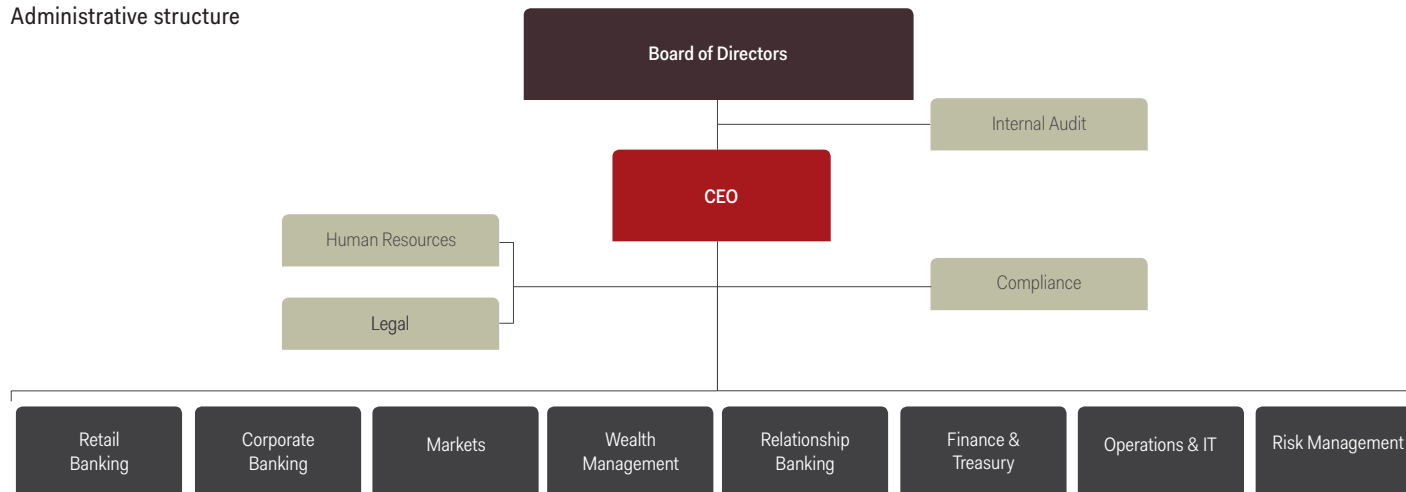
Members of management committees are appointed by the CEO. The committees' mandate and rules of procedure are documented in a charter presented to the Board.

The Bank has published a Pillar 3 Report for the year 2015. The report provides information to market participants and other stakeholders so as to facilitate better understanding of the Bank's risk management structure, capital structure, capital adequacy assessment, large exposures, and risk assessment procedures.

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[Pillar 3 Report](#)

Administrative structure





Executive Board



Birna Einarsson

Chief Executive Officer since October 2008

Birna became Executive Vice President of Commercial Banking at Íslandsbanki in 2007, having previously served as Managing Director of Sales and Marketing, Branch Manager, and Marketing Director at the Bank. From 1998 to 2004, she was senior product manager at the Royal Bank of Scotland. Birna has also worked as Marketing Manager for the Icelandic Broadcasting Company Stöð 2 (Channel 2) and Íslensk getspá. Birna holds a Cand. Oecon. degree in Business Administration from the University of Iceland and an MBA from the University of Edinburgh. Birna has been with Íslandsbanki and its predecessors for a total of 20 years.



Jón Gudni Ómarsson

Chief Financial Officer since October 2011

Jón Gudni was Head of Treasury at the Bank from 2008 to 2011. He has had various other roles within the Bank and its predecessors, including advising customers on hedging strategies and leading arrangements and participation in syndicated loans. He also worked as an ALM consultant at SunGard in Boston.

Jón Gudni holds a B.Sc. degree in Industrial Engineering and an M.Sc. degree in Quantitative and Computational Finance (QCF) from the Georgia Institute of Technology in Atlanta. Jón Gudni is a Chartered Financial Analyst (CFA) and a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Jón Gudni has been with Íslandsbanki and its predecessors for 13 years.



Sverrir Örn Thorvaldsson

Chief Risk Officer since November 2010

Sverrir has worked in risk management since 2006. Prior to joining the Bank, he worked for six years on research, data analysis, and software development at Decode Genetics. Sverrir is also an Adjunct Lecturer with the Faculty of Economics at the University of Iceland, where he lectures in the Master's programme in Financial Economics.

Sverrir holds a B.Sc. degree in Mathematics from the University of Iceland and an M.Sc. degree in Financial Mathematics from Stanford University. He is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs and a Financial Risk Manager (FRM) certified by the Global Association of Risk Professionals (GARP). He is currently a member of GARP's FRM committee.

Sverrir has been with Íslandsbanki and its predecessors for 10 years.



Una Steinsdóttir

Managing Director of Retail Banking since October 2008

Una joined Íslandsbanki in 1991 and has a broad background from various divisions within the Bank. Una was Managing Director of the Bank's branch network from 2007-2008 and Keflavík Branch Manager from 1999. Prior to that, she held various positions in the Bank's International Banking division, loan supervision, and service management.

Una holds a Cand. Oecon. degree in Business Administration from the University of Iceland and has completed an AMP management programme from IESE, Barcelona.

Una has been with Íslandsbanki and its predecessors for 25 years.



Vilhelm Már Thorsteinsson

Managing Director of Corporate Banking since October 2008

Vilhelm Már first joined Íslandsbanki in 1999 and has held various positions in Capital Markets, Corporate Banking, and the CEO's office. In 2005 he was appointed head of Strategic Growth, focusing first on the Bank's external growth and then on asset sales and various funding projects.

Vilhelm Már holds a B.Sc. degree in Business Administration from Reykjavík University and an MBA degree from Pace University in New York, and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Vilhelm Már has been with Íslandsbanki and its predecessors for 15 years.



Tryggvi Björn Davidsson

Managing Director of Markets since September 2011

Tryggvi Björn has comprehensive experience in international financial markets. He worked as a Director of Distressed Debt at Barclays Capital in London for seven years. Before his time at Barclays, he was an analyst in Asset Trading at Íslandsbanki-FBA, a research associate at the Central Bank of Iceland, and a commercial attaché for the Icelandic Ministry of Foreign Affairs in Paris.

Tryggvi Björn holds a B.Sc. degree in Economics from the University of Iceland, an MBA degree from INSEAD in France and Singapore, and an M.Sc. degree in Finance and Econometrics from Université de Toulouse.

Tryggvi Björn has been with Íslandsbanki and its predecessors for eight years.



Elín Jónsdóttir

Managing Director of VÍB Wealth Management since July 2014

Elín has extensive experience in the financial markets. She was Director General of Icelandic State Financial Investments (ISFI) from 2009 to 2011. Before that, she was Managing Director at Arev Securities and a lawyer at the Icelandic Financial Supervisory Authority. Elín has served on the boards of various companies in Iceland.

Elín holds a Cand.Jur. degree from the University of Iceland and an LL.M degree from Duke University, and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Elín has been with Íslandsbanki for almost two years.



Björgvin Ingi Ólafsson

Managing Director of Relationship Banking since October 2014

Björgvin Ingi has broad-based experience working in financial markets. He was previously a CFO at Meniga, a provider of personal finance management solutions. He also worked at McKinsey & Company for two years.

Björgvin Ingi holds a B.Sc. degree in Economics from the University of Iceland and an MBA degree from Kellogg School of Management, and

is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Björgvin Ingi has been with Íslandsbanki and its predecessors for seven years.



Sigríður Olgeirsdóttir

Chief Operating Officer since September 2010

Sigríður has wide-ranging experience in the field of information technology and has held various positions within the IT industry since 1984, including serving as Executive Director of the IT Division of TækniVal hf. and Managing Director of Ax Business Intelligence A/S, Denmark and Ax Business Intelligence, Iceland.

Sigríður is a systems analyst from EDB skolen in Odense, Denmark.

She holds a diploma in Business Operations from the Institute

of Continuing Education at the University of Iceland and an MBA degree in International Business Management from Reykjavík University.

Sigríður has been with Íslandsbanki for five years.



Compliance and Group Audit

Compliance

As a financial undertaking licensed to conduct securities transactions and an issuer of listed financial instruments, the Bank operates a Compliance Department. The Bank's Compliance Officer is appointed by the CEO, subject to Board confirmation in accordance with Article 130 of the Act on Securities Transactions, no. 108/2007. The Compliance Officer is responsible for regular monitoring and assessment of the suitability and efficacy of the Bank's measures concerning securities transactions and anti-money laundering in accordance with the Act on Measures against Money Laundering and Terrorist Financing, no. 64/2006.

Group Audit

Group Internal Audit

In accordance with Article 16 of the Act on Financial Undertakings, Group Internal Audit provides the Bank with an independent, impartial assessment of whether the Bank's risk management, internal monitoring, and governance procedures are satisfactory. The Chief Audit Executive is appointed by the Board and directs Group Internal Audit by Board authorisation. The Chief Audit Executive is responsible for internal audit matters within the Bank and its subsidiaries, including outsourced projects. Group Internal Audit is not responsible for internal control or its implementation.

External Audit

As is provided for in the Articles of Association and the Act on Financial Undertakings, the Bank's external audit firm is elected at the AGM for a term of five years. At the 2015 AGM, Ernst & Young ehf. was elected to serve as Íslandsbanki's independent external auditing firm.

Ownership structure

Ownership structure

At the end of 2015, Glitnir hf. held 95% of share capital in Íslandsbanki through its subsidiary, ISB Holding ehf. The remaining 5% was held by the Icelandic Government and administered by Icelandic State Financial Investments.

In January 2016 Glitnir hf., as part of the creditor group's stability contribution, relinquished to the Icelandic Government all of its shares in ISB Holding ehf., which held 95% of the Bank's shares.

