



2021

Annual and Sustainability Report

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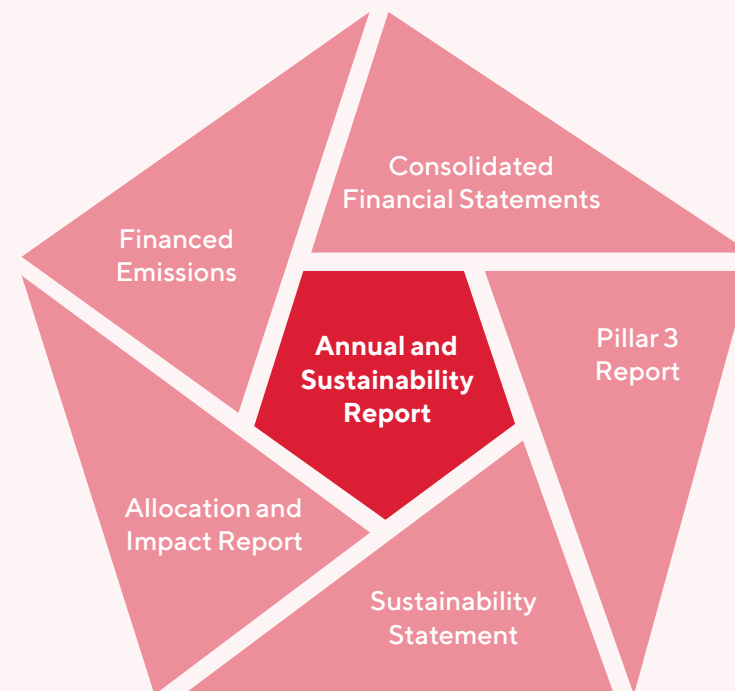
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This Annual and Sustainability Report was written in English and translated to Icelandic. In case of discrepancy, the English original will prevail. This Annual and Sustainability Report may include typos, discrepancies, or other errors. If such errors are found the Bank reserves the right to correct them. This Annual and Sustainability Report is published for information purposes only and should not be considered to include any investment advice, whether it be for the sale or purchase of securities.

About this report

This Annual and Sustainability Report is Íslandsbanki's integrated **core** report. We also publish other **more** reports designed to provide stakeholders with additional information on specific subjects such as risk management, financial and sustainability performance.

These reports are prepared in accordance with global standards such as the International Financial Reporting Standards (IFRS), the Nasdaq ESG Reporting Guide, the Greenhouse Gas Protocol, Partnership for Carbon Accounting Financials (PCAF), Task Force on Climate-Related Financial Disclosures (TCFD) as well as Icelandic law and European Regulation. As reporting on the impact of sustainable lending and investments under Íslandsbanki's Sustainable Finance Framework and reporting on financed emissions rely on reporting from our corporate customers these reports will typically be published later in the year than the other reports mentioned.





Annual and Sustainability Report 2021

Highlights of 2021





This is Íslandsbanki



Moving Iceland forward
by empowering our
customers to succeed



Passion



Professionalism



Collaboration



Vision to be
#1 for service

The Bank¹

702
number of FTEs
at Íslandsbanki
at year-end

12
branches



IPO

Listed on the Nasdaq
Iceland stock exchange
as of June 2021

~16,000
Shareholders at
31.12.2021

Market share

32%
Personal Banking

37%
Business Banking

35%
Corporate and Investment Banking

Sustainability

Sustainable lending up by
134% in 2021

Commitment to **reaching net
zero emissions by 2040** – only
Icelandic founding – member
of NZBA²

Íslandsbanki received
environmental award from
Ministry for the Environment
and Natural Resources

Digital milestones

New core lending system
fully implemented, increasing
efficiency

The funds-in-app **enables
trading of IS funds** and includes
fund details and performance

**Carbon calculator, push
notifications and securely visible
credit card numbers** added to
the app

Ratings and certifications

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



EQUAL PAY
CERTIFICATE



EXEMPLARY IN
CORPORATE GOVERNANCE

Key Figures 2021

| | | | |
|----------------------|--------------|-----------------------|---------------------|
| ROE | 12.3% | LCR | 156% |
| | | Group, all currencies | |
| Cost-to-income ratio | 46.2% | NSFR | 122% |
| | | Group, all currencies | |
| CET1 ratio | 21.3% | Leverage ratio | 13.6% |
| Total capital ratio | 25.3% | Total assets | ISK 1,429 bn |

¹Based on Gallup surveys regarding primary bank. 2021 average for retail customers and SMEs and 2021 average for large companies.

²Net-Zero Banking Alliance

Year 2021

Clicking on the white pictograms gives you more detailed news

Q1

JANUARY



UN Women in Iceland and Íslandsbanki sign a two-year cooperation agreement.



Íslandsbanki offers green mortgages with more favourable terms for financing of environment-friendly housing that is officially eco-certified.



Íslandsbanki's headquarters canteen receives Nordic Swan Ecolabel.



Íslandsbanki Research publishes its first macroeconomic forecast of the year.

FEBRUARY



Nearly 400 guests attended Íslandsbanki's new educational seminar series, designed for the 16-25 age group.



Íslandsbanki is the first Icelandic financial institution to join Green Building Council Iceland, a cooperative forum promoting sustainable building and development.

MARCH



Íslandsbanki nominated for three Icelandic Web Awards.



Íslandsbanki supports the Ramp Up Reykjavik project, whose aim is to increase disabled people's access to services by installing 100 wheelchair ramps in Reykjavik by the year-end.

Q2

APRIL



Íslandsbanki commits to achieving carbon neutrality by 2040. At the same time, the Bank pledges to adopt science-based climate goals.



Íslandsbanki receives the Kuðungur (the Conch), the Ministry for the Environment and Natural Resources' environmental prize, for its outstanding work on environmental affairs in 2020.



Íslandsbanki among 43 launching the Net-Zero Banking Alliance.



Íslandsbanki tops Reitun's ESG rankings with a score of 90/100.



Users of Íslandsbanki app can track the carbon footprint from their consumption spending

MAY



Íslandsbanki's Westman Islands branch moves into new state-of-the-art offices.



Íslandsbanki announces intention to proceed with initial public offering and listing on the Nasdaq Iceland stock exchange.



Nordic CEOs declare support for Task Force on Climate-related Financial Disclosures.

JUNE



The State sells a 35% stake in Íslandsbanki in a public offering, and the Bank's shares are admitted for trading on the Nasdaq Iceland stock exchange.



Mutual funds investments available in the Íslandsbanki app.

Q3

AUGUST



Over ISK 48 million pledged to charitable causes through the Reykjavik Marathon, which was not held because of COVID-19.



Íslandsbanki and Iceland Funds recognised for excellence in corporate governance. This is the eighth consecutive year the Bank has received the award.

SEPTEMBER



Íslandsbanki Research publishes its third macroeconomic forecast of the year.



Íslandsbanki oversees sale and market listing of bonds for refinancing of Reykjavik University's premises.



Íslandsbanki issues its SEK 750m inaugural Additional Tier 1 subordinated bond.



Íslandsbanki supports Grænvangur, a cooperative forum for governmental and business leaders, with a focus on climate issues and green solutions.



A nomination committee is appointed, whose role is to nominate individuals to sit on the Bank's Board of Directors.



The Íslandsbanki app available in English

Q4

OCTOBER



Íslandsbanki awarded the Equality Scale by the Icelandic Association of Business Women (FKA).



Íslandsbanki oversees Brim's sustainable bond issue, the first bonds in Iceland to fall under blue and green financing frameworks.



Íslandsbanki establishes a software development centre in Poland.

NOVEMBER



Íslandsbanki advertises construction site Vetrarmýri for sale on behalf of the Garðabær municipality.



Push notifications in app available, enables easy flow of relevant information to customers.

DECEMBER



Íslandsbanki awards ISK 35 million from its Entrepreneurship Fund. Nearly 130 applications were submitted.



Íslandsbanki announces a 63% year-on-year increase in rebates through Friða, the Bank's cashback reward system.



Íslandsbanki IPO and market listing selected as Trade of the Year at Innherji awards ceremony.



Full credit card numbers securely visible via the Íslandsbanki app.



Íslandsbanki in cooperation with Iceland Funds launches ISK 13 billion IS Corporate Credit Fund.

Íslandsbanki listed on the Nasdaq Iceland stock exchange

Íslandsbanki was listed on Nasdaq Iceland stock exchange on 22 June 2021 following a successful IPO where 35% of the share capital was sold.

The value of the offering amounted to ISK 55.3 billion or USD 457 million which represented the largest IPO in the history of Iceland as well as the largest European bank IPO since 2018.

Following the IPO, the Bank holds the largest shareholder base of all Icelandic companies. The current shareholder base consists of individuals as well as strong long term investors, domestic as well as foreign, in addition to the remaining stake owned by the Icelandic Government.



Largest IPO in Icelandic history



~16,000

Shareholders at 31.12.2021



ISK 209 m

Average daily turnover from end-June 2021



7.8%

Foreign ownership at 31.12.2021



"It was an honour to call in trades together with the Bank's employees when the Bank's shares were admitted for trading on the Nasdaq Iceland stock exchange in June. Since my appointment in 2008, Íslandsbanki has established a strong and successful business model, with a proven track record of executing strategic initiatives and driving shareholder value, both in terms of growth and dividend payments. This model has proved its resilience during the challenge of the pandemic and as a result we stand ready to benefit from renewed growth in the Icelandic economy. Íslandsbanki's listing on the stock exchange marked a new beginning for the Bank, which has been partially returned to private ownership, and trading in the Bank's shares are in turn a sign of investor confidence."



Birna Einarsdóttir



Annual and Sustainability Report 2021

To our stakeholders



Chairman's statement

2021 was a busy, eventful, and successful year for Íslandsbanki. The Bank's shares were listed on the Nasdaq Iceland stock exchange after the State sold a portion of its holding. The IPO and the market listing placed considerable demands on Bank staff, and the pandemic-induced changes in our business and service imposed its own requirements. Nonetheless, Íslandsbanki's business prospered and returns were solid.

The economy performed more strongly than could have been expected at the beginning of 2021. GDP growth has firmed up more, unemployment has fallen faster and the ISK has appreciated somewhat. Tourism rebounded quickly after travel restrictions were eased, indicating that we still have considerable upside potential in this important sector of the economy. The fishing industry showed its strength during the year, and the increased capelin quota for the 2022 fishing year was especially good news, as it is likely to generate significant revenue for the economy. In another arena, Icelandic intellectual property has continued to flourish. We can expect to see new businesses created in the intellectual property sector, the economy will diversify bringing innovation, growth and new opportunities with it.

Even though the Icelandic economy has been temporarily knocked back, we still have every reason to be optimistic about the future.



"Íslandsbanki's operations were strong in 2021 and returns exceeded financial targets and analysts' consensus."



Hallgrímur Snorrason

An important step forwards and a successful IPO

At the end of 2020, Icelandic State Financial Investments recommended to the Minister of Finance and Economic Affairs that a portion of the State's holding in Íslandsbanki be divested. Therefore, the Minister decided early in 2021 to begin the sale process. A meticulously prepared sale of approximately one-third of the State's holding in the Bank concluded in mid-June, with the largest initial public offering ever held in Iceland. The total proceeds from the IPO came to just over ISK 55 billion. Demand for shares at the final IPO price exceeded supply many times over, and retail and institutional investors from Iceland and abroad demonstrated keen interest. Total demand came to ISK 486 billion, and at that time the Bank's market value (at the IPO price) was approximately ISK 158 billion. After the IPO, the Bank had around 16,000 shareholders, more than any other listed company in Iceland.

Íslandsbanki shares were admitted for trading on the Nasdaq Iceland stock exchange on 22 June 2021, when CEO Birna Einarsdóttir called in the first trade at a ceremony held at the Bank's headquarters. By the end of 2021, the price of Íslandsbanki shares had risen by nearly 60%, which represents a marked increase in the Bank's market value and is of considerable benefit to shareholders.

According to the current Government's policy statement, the Government will continue to scale down its holdings in the financial system and use the proceeds for infrastructure development. This is a sensible stance, both in view of how successful the 2021 IPO was and how much the value of the Bank has increased: It can be assumed that the time is right to begin selling the remaining State holding in the Bank.

Public sector measures

Large policy rate cuts by the Central Bank in 2020 delivered better lending terms for the Bank's customers. Naturally, this helped Icelandic companies to streamline and was a boon to households, many of which took advantage of the opportunity to refinance their mortgages. In fact, Icelanders have never enjoyed interest rate terms as attractive as those prevailing over the past 18 months. The Central Bank has begun raising the policy rate again, but rates are still lower than at the beginning of the pandemic. It is important that the social partners and the Government work together to keep inflation under control to obviate the need for steep rate hikes, with its associated costs for households and businesses.

The cut to the bank tax was approved by Parliament in 2019. At that time, the tax rate was 0.376% of the book value of commercial banks' liabilities, and the plan was to lower it to 0.145% in three increments from 2021 to 2024. When the pandemic struck, the reduction was expedited, and the tax rate was immediately cut to 0.145% by the end of 2020. It will be unchanged in 2022. Even so, the bank tax is still high – about five times the rate in neighbouring countries. The tax is levied on the banks' loans, thereby distorting market competition vis-à-vis other financial companies and pension funds, which grant loans but are exempt from the tax. Furthermore, the bank tax impedes foreign investment in Iceland, in so doing distorting Iceland's competitive position. Lowering it would be more economical and provide further benefit to those that ultimately bear the cost of it.

Robust operations

Íslandsbanki works systematically towards its goal of being a force for good in Icelandic society. The Board of Directors is very proud of the goals the Bank has set in this area and in the Bank's multifaceted services.

Íslandsbanki's operations were strong in 2021 and returns exceeded financial targets and analysts' consensus. In parallel with rapid technological advances, the Bank's service to customers – households and businesses alike – has taken great strides forward and general banking services are now much more accessible than before. This is consistent with the Bank's increased emphasis on providing good, effective service to its customers. We are continuously working on new fintech solutions and we will make every effort to remain a leader in the field.

Thanks

I would like to take this opportunity to thank the Board of Directors for their collaboration during the year. I would also like to thank Birna Einarsdóttir and other members of the management team for strong leadership, both throughout the IPO and in all of the Bank's operations. In closing, I would like to thank the staff of Íslandsbanki for their dedication and outstanding performance in 2021. The year was an exciting one as we prepared and executed the IPO and market listing, but it was also challenging because of the pandemic and the measures we had to take throughout the Bank to guarantee our customers the best possible service. Both management and employees have shown immense resilience during these unsettled times. This shows that we can look forward to a bright future for Íslandsbanki as it grows and evolves.

CEO's address

For Íslandsbanki, it can be said that an eventful 2021 was dominated by two events. The first was the highly successful initial public offering of a 35% stake in the Bank and its subsequent listing on the Nasdaq Iceland stock exchange. The second was the Bank's continuing response to the COVID-19 pandemic and our employees' remarkable ingenuity in serving our customers under demanding and constantly changing circumstances. We certainly benefited from having spent several years building up well-funded and profitable digital banking activities.

It was an honour to call in trades together with the Bank's employees when the Bank's shares were admitted for trading on the Nasdaq Iceland stock exchange in June. The listing of shares came in the wake of a successful stock offering, Iceland's largest-ever initial public offering and the largest IPO for a European bank since 2018. The Icelandic Government sold about one-third of its holding, and the Bank currently has around 16,000 shareholders. Íslandsbanki's listing on the Nasdaq Iceland stock exchange marked a new beginning for the Bank, which has been partially returned to private ownership, and trading in the Bank's shares are in turn a sign of investor confidence. The IPO and market listing were named Trade of the Year at the awards ceremony held in December by Innherji, Vísir's business arm.



"The changes to services that Íslandsbanki adopted in early 2020, at the beginning of the pandemic, served to improve the customer experience even further in 2021."



Birna Einarsdóttir

Positive and permanent change

A review of 2021 inevitably includes looking at the impact of COVID-19. Like other economies around the world, we were shaken by the pandemic, but Iceland has benefited from its strong position from the outset, which will continue to bolster us. It should be noted that the pandemic did not diminish Iceland's resources or the skills of its people, rather it helped the nation gain valuable lessons for the future.

The changes to services that Íslandsbanki adopted in early 2020, at the beginning of the pandemic, served to improve the customer experience even further in 2021. In the face of ever-shifting rules on the maximum number of customers permitted in branches, as well as other public health measures, we had to take wide-ranging actions, such as expediting the development of digital services, expanding the capabilities of the Íslandsbanki app and boosting remote service options.

Some of these changes are here to stay. For instance, we shortened our branch opening hours, effective in 2022. This will give branch employees greater flexibility to handle queries quickly during the morning. Extensive development of digital service options alongside a dramatic decline in the number of visits to branches has prompted more and more customers to carry out their daily banking via the app or the online bank. We have also focused on service tailored to the needs of senior citizens and others who cannot use the Bank's digital channels, the response to which has been excellent. Service is our top priority and it always will be.

Late in 2021, the Íslandsbanki app was opened up to business users. This appears to have been a welcome

addition to our distribution channels and by the end of the year 95% of corporate customers had adopted the app. The use of Fróði, the first chatbot of its type in Iceland, also increased considerably. Fróði now handles over half of all customer queries itself – at any time of the day or night. All of these are solutions that will continue to drive improvements to the Bank's services in the future.

Lastly, we implemented our new core lending system at the end of 2021, the crowning achievement of the total upgrade of all of Íslandsbanki's core infrastructure. This will strengthen our operations, offer greater possibilities to link both customers and partners to new technologies and help to expand the Bank's product range.

Important support for businesses

New lending was brisk during the year, with loans to customers increasing by 7.9%. In 2020, we granted several hundred support loans and supplemental loans bearing Treasury guarantees, and we helped households and businesses to freeze loans as needed. In 2021, we continued to work with customers affected by the pandemic, with the aim of optimising their financing structure. For corporate customers we extended bridge financing that was then refinanced with bond issues.

The resilience of small and medium-sized companies, or SMEs, was clearly discernible during the year. SME deposits grew more than in a conventional year, with growth spread across all sectors. Loan turnover has increased, not least because of a strong financial position among Icelandic firms in sectors such as retail and wholesale trade, services, and construction. There is optimism among SMEs that are steadily

working their way through the repercussions of the pandemic. For example, only 0.4% of the claim value of SME loans are still frozen because of COVID-19.

Íslandsbanki is a leader in service to SMEs, with a record-high market share of 37% according to Gallup's survey of main banking providers. It is also gratifying to see that more than half of the firms on Creditinfo's list of registered companies have chosen to do business with us.

Furthermore, Íslandsbanki established a IS Corporate Credit Fund of ISK 13 billion in cooperation with Iceland Funds. The fund gives institutional investors access to a market that has by and large been limited to banks. The launch of the fund also meets firms' financing needs and supports promising projects that underpin GDP growth. This is consistent with the Bank's emphasis on supporting companies across Iceland to the best of its ability. In 2019, services to capital area SMEs were merged into a single Business Banking Centre in Norðurturn, the Bank's headquarters, enhancing efficiency and improving service. Íslandsbanki also operates a Business Banking Centre in Akureyri, which serves firms in North and East Iceland.

Savings provides security

2021 was a record year for foreign currency securities sales in Iceland, and Íslandsbanki was a leader in the market. This activity is a result of increased international trade. Signs of greater confidence in the Icelandic economy and business community are clearly discernible, signalling the prospect of further GDP growth and economic development.

2021 was also a record year for securities sales at Íslandsbanki, which led the fixed income market in

terms of market share for the second year in a row. Household saving has grown markedly during the pandemic. Icelandic households' deposits increased by 6,1%, between 2020 and 2021 and by 26,3% for SMEs. The number of shareholders in companies on the Nasdaq Iceland stock exchange grew from 8,327 at the end of 2019 to 30,569 by the end of August 2021, and the country's equity securities funds have doubled in size since 2019.

This is a favourable trend, as savings provide a measure of security during times of uncertainty. Iceland Funds' fund managers have borne their responsibility well and delivered excellent results: the IS EQUUS Equity Fund generated the strongest returns of all Icelandic funds and IS Private Fund E had the best returns among mixed funds. It is pleasing to see that alongside strong returns in the fund market, access to funds has been expanded significantly. This summer, with its funds-in-app option, Íslandsbanki became Iceland's first bank to offer app-based fund trading.

A model of exemplary operations

Íslandsbanki is committed to being a role model in the Icelandic business community and has demonstrated this with its progress in the area of sustainability. At the end of 2020, the Board of Directors approved the Bank's Sustainability Policy, which is in line with the priorities laid down in the strategy formulated at the beginning of 2019. In consultation with its employees, the Bank decided to focus on four of the UN Sustainable Development Goals: Climate Action; Gender Equality; Quality Education; and Industry, Innovation, and Infrastructure.

"During the year, Íslandsbanki received an outstanding environmental, social, and governance (ESG) score of 90% from Reitun, the highest sustainability score the agency has ever given."



Birna Einarsdóttir



Work towards these goals continued in 2021. Significant work was done on classifying the current loan portfolio and determining how large a share falls under the Bank's Sustainable Financing Framework. Work has begun on analysing the carbon footprint of the loan portfolio. The Bank participated in sustainable bond issues, including seafood company Brim's blue and green bonds, the first in Iceland to fall under both blue and green financing frameworks. In addition, an alternative investment fund operated by Iceland Funds issued a social bond for Reykjavik University subsidiary Grunnstoð, thereby concluding the refinancing of the university's premises. Funds acquired in this way are used to finance assets and projects that have a positive social impact – in this case, university education.

During the year, Íslandsbanki received an outstanding environmental, social, and governance (ESG) score of 90% from Reitun, the highest sustainability score the agency has ever given. The Bank's excellent performance is the result of a co-ordinated effort by our employees and the integration of sustainability considerations into our operations alongside profit objectives. Íslandsbanki also became a founding member of the Net-Zero Banking Alliance, an international alliance of banks that have committed to achieving carbon neutrality no later than 2050. A total of 43 banks are members of the alliance. Furthermore, the Bank became a member of Green Building Council Iceland, a cooperative forum promoting sustainable building and development. Íslandsbanki granted Iceland's first green development loan during the year.

In line with our focus on sustainability, we added a carbon calculator to the Íslandsbanki app, enabling customers to estimate their carbon footprint. We

also cast our net closer to home. Dalurinn, the Bank's headquarters canteen, received the Nordic Swan Ecolabel in February, satisfying stringent criteria covering the entire path of its products and services. The Bank was awarded the Equality Scale during the year, and Íslandsbanki and Iceland Funds were recognised for excellence in corporate governance.

We can see that a steadily increasing number of households are choosing environment-friendly cars, and since mid-2020 we have offered favourable terms on green motor vehicle financing through Ergo. At the end of 2021, some 27% of all car loans and financing agreements were classified as green financing.

Finally, Íslandsbanki received the Kuðungur (the Conch), the Ministry for the Environment and Natural Resources' environmental prize, for its outstanding work on environmental affairs. The award was presented on Environment Day in 2021. The adjudication panel noted in particular the strong emphasis Íslandsbanki has placed on bringing its entire staff on board in implementing sustainability priorities, including by holding a sustainability workshop for staff members and giving all employees the opportunity to shape the Bank's strategy in connection with the UN Sustainable Development Goals.

Financial statements

The Bank's profit for the year 2021 was ISK 23.7 billion and ROE was 12.3%, which is above both the Bank's targets and market expectations. Total operating income rose by 16.3%, with net fee and commissions up by 22% between years. Cost-to-income ratio was 46.2% in 2021 and lowered substantially from a previous 54.3% in 2020. A positive net impairment

of ISK 3 billion lifted the Bank's results further as previous impairment was negative by ISK 8.8 billion – leading to a turnaround of ISK 11.8 billion. Retail lending helped boost loan growth by ISK 80 billion, with lending up 7.9% in 2021 as a whole. The deposit base grew strongly, or by ISK 65 billion or 9.5% in 2021.

Thanks

As I look back over 2021, gratitude is uppermost in my mind. Íslandsbanki's customers demonstrated remarkable patience during the disruption of branch opening hours due to public health measures. They have also responded favourably to our new tech solutions, as we can see in the steadily increasing uptake of new features and banking methods.

We had a successful cooperative relationship with the Government and with the Bank's foreign and domestic advisers during the run-up to the IPO. The Bank's employees have invested substantial work into the massive project the IPO represented. A large group of retail investors participated, joining us as we listed the Bank on the Nasdaq Iceland stock exchange. The IPO was highly successful, and for that we are grateful.

As I thank the Board of Directors for a fruitful year of collaboration, I would particularly like to thank the Bank's employees for their diligence and dedication in an unusually demanding year. We are proud of the high level of job satisfaction within the Bank and I believe that with such an outstanding team leading the way, we have a bright future ahead of us. We look forward to better times, building the future on a robust economy and the opportunity that lies with the Bank's skilled employees.



Annual and Sustainability Report 2021

Empowering our customers to succeed

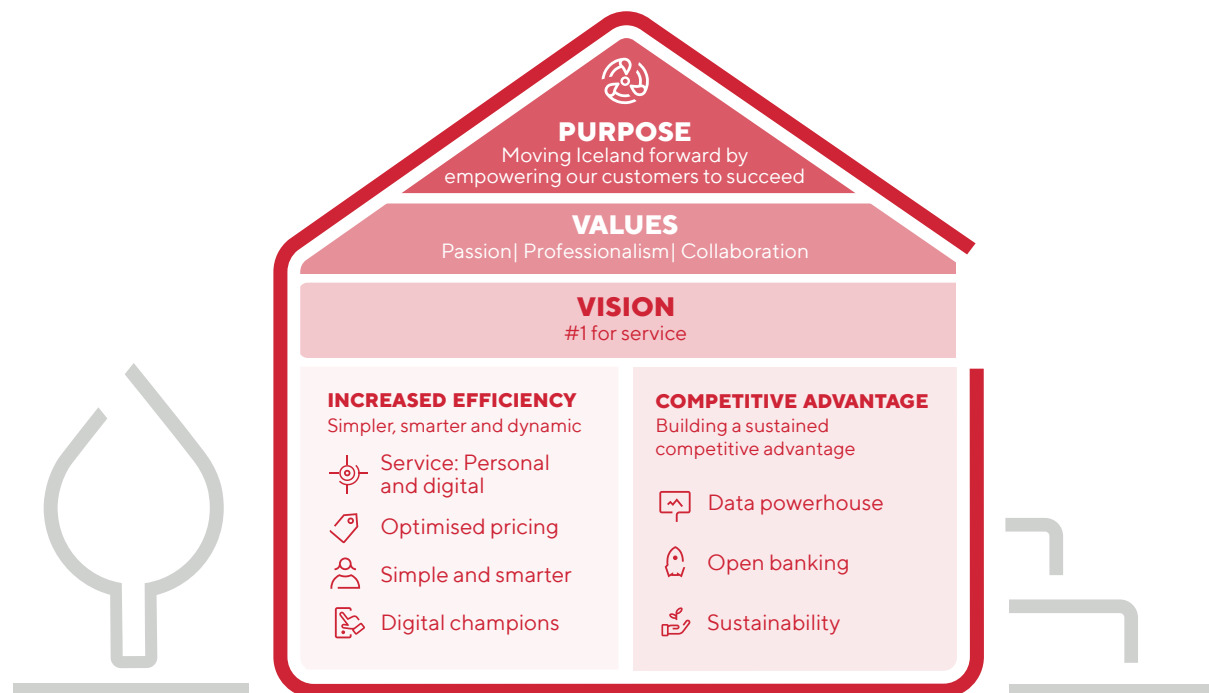


Íslandsbanki's strategy

Today Íslandsbanki operates in accordance with a strategy approved by the Board of Directors at the beginning of 2019, following extensive work involving customers, employees, and other stakeholders.

According to the strategy, Íslandsbanki's objective is to be a force for good in the community, and its vision is to provide customers with the best banking service possible at all times. In order to contribute to the intended outcome under the new strategy, the

Bank defined seven strategic themes for a five-year period. The themes fall into two broad categories: Sharpening our focus and achieving simplification and greater efficiency; and thinking big, thereby securing a competitive advantage for the future.



A catalyst since 1875

Íslandsbanki has a long history stretching back to 1875. In its earliest years, the Bank participated in the development of the fishing industry, acting as a springboard for the Icelandic economy. From the beginning, then, Íslandsbanki has been a force in the community. Although sustainability has been one of the Bank's main priorities since 2014, the step taken with the strategy formulation work in 2019 put sustainability and a positive impact on society into even sharper focus as the Bank's main purpose. To us, focusing on sustainability is not merely an act of altruism; it is also an opportunity to distinguish ourselves, an important element in risk management, and a boon to long-term profitability. In 2021, the Bank continued to emphasise integrating sustainability into its overall activities – an effort that has been widely praised and has received deserved attention. For example, the Bank received the Kuðungur award (the Conch), the Ministry for the Environment and Natural Resources' environmental prize, for its outstanding work on environmental affairs, and it topped the rankings in Reitun's environmental, sustainability, and governance (ESG) assessment.

Sustainability timeline



Sharpening our focus

Simplification and greater efficiency

During the year, the Bank continued working towards its goals of enhancing efficiency and sharpening its focus, as can be seen in the cost-to-income ratio, which fell from 54.3% in 2020 to 46.2% in 2021.



Service: Personal and digital

Increasingly, the Bank's customers choose to carry out their day-to-day banking digitally and outside conventional opening hours. The COVID-19 pandemic greatly accelerated this shift, and the continued impact of the virus in 2021 has further solidified changes in customers' expectations and needs as regards self-service options and flexibility. In 2021 75% of sales to individuals were via digital channels and satisfaction with digital processes was high. For example, satisfaction with the mortgage loan application process was at an all-time high of 90%. Our continuous development of products, services, and distribution channels has been informed by this shift. For instance, we expanded the Íslandsbanki app for corporate users and mutual fund investors. App-based fund sales have accounted for 30% of total sales to funds since the feature release. We are determined to be #1 for service, and we are convinced that the secret to success lies in providing service that is both personal and digital.



Optimised pricing

Íslandsbanki stresses efficient use of capital, with the Bank's objectives as a guiding principle. Continued implementation and regular updating of our asset management and pricing strategy, in line with priorities and risk appetite, support the Bank's profitability goals. The Bank's units work continuously towards greater efficiency in the pricing of products and services within well-defined pricing criteria. Data quality, regular measurements, and follow-up strengthen decision-making so that the Bank offers the right products at the right price, thereby ensuring competitive pricing for customers and returns for shareholders.



Simple and smarter

During the year we continued to focus on simplification and enhanced efficiency. The Bank's FTE count fell from 745 to 702 in 2021, alongside an increase in lending and overall activity. Significant strides made in mortgage lending procedures enabled the Bank to respond effectively to a surge in demand during the year. Not only has this increased efficiency of mortgage lending; it has also boosted customer satisfaction to an all-time high. During the year, a new loan system was implemented, superseding its predecessors and completing the comprehensive modernisation of all of the Bank's core systems.



Digital champions

Íslandsbanki's product-centred approach to digital development continued to bear fruit in 2021, with more rapid development of digital solutions, guided by the Bank's goal of providing the best banking service in Iceland. Strong emphasis was placed on automation in the development and testing of software solutions, which boosts both speed and operational security. During the year, the Bank opened an office in Poland, where a strong team of software experts will work on digital development. A key project in 2021 was the development of a unified sales platform, which lays the groundwork for more efficient and user-friendly digital sales to customers. Further details can be found in a later section dedicated to sustainability.

Sustainable Íslandsbanki



Thinking big

A competitive advantage for the future

Íslandsbanki's has three strategic themes pertaining to a long-term competitive advantage: being a data powerhouse, having a unique position in an open banking environment, and being a leader in sustainability. We worked hard and effectively on all of these fronts during the year, thereby better preparing the Bank to meet customers' diverse needs.



Data powerhouse

During the year, the Bank updated its risk model for evaluation of impairment, and its investment in data-related infrastructure delivered direct results in the form of better returns. Data-related infrastructure now provides better support for the pricing of the Bank's products and services, making it easier to achieve optimum pricing, with the interests of customers and the Bank as a guidepost. Considerable background work has been done to ensure that the Bank can use data more effectively to understand customers' needs and provide personalised service. Now customers can carry out even more banking themselves, as access to reliable data and information sources such as the Bank's chatbot, Fróði, has never been as important as it is today. Íslandsbanki aims towards further development of personalised service and guidance based on data analytics in coming months.



Open banking as a competitive edge

In 2021, the Bank continued working with open web services, opening a third-party development environment as per the European Payment Services Directive 2 (PSD2). The Directive will take full effect in Iceland in mid-2022, and with the work of the past year, the Bank is well positioned to satisfy the requirements it entails. Alongside these efforts, the Bank sought to collaborate with third parties so as to harness the opportunity to offer third-party products and services to its customers through the app and the online bank. For 2022, the goal is to invest even more energy in such collaboration and take advantage of the opportunities available in open banking, for the benefit of the Bank's customers.



Leader in sustainability

Sustainability was certainly one of the strategic priorities at Íslandsbanki in 2021, and investors demonstrated keen interest in sustainability issues during the Bank's initial public offering (IPO) in June. The Bank executed on its sustainability objectives for the year, e.g. introducing sustainable mortgage loans and launching a carbon footprint calculator in the Íslandsbanki app. Sustainable lending increased by 134% in 2021. In addition, emphasis was placed on cooperation with suppliers and implementation of ESG risk assessments in the lending process. Furthermore, Íslandsbanki committed itself to the ambitious goal of achieving carbon neutrality no later than 2040. During the year, Íslandsbanki topped the rankings in Reitun's ESG assessment with 90 of a possible 100 points, which is an important acknowledgement of the impressive sustainability work being done throughout the Bank.

Sustainability

Strong together – our human resources

Íslandsbanki strongly emphasises creating a constructive and healthy work environment with passion, professionalism, and collaboration as guideposts.



Íslandsbanki and the work environment

Rapid technological developments in recent years have expanded the possibilities for a more diverse work environment than has been known hitherto. Íslandsbanki's activity-based workplace is an excellent example of this. The activity-based workplace has certainly proved its worth for Íslandsbanki, in terms of flexibility, tech advances, sustainability, and cost reduction. The workplace has evolved in recent years and plays an important role in creating a work environment that fosters creativity, cooperation, and achievement. This creativity is a skill that is growing ever more important in firms' competitive environment, and we eagerly anticipate continued evolution in the direction of creative space, flowing space, and other space that promotes increased cooperation and further development. For the past two years, Íslandsbanki has operated under a structure where employees work from home an average of one day a week. This has brought greater job satisfaction and a reduced carbon footprint for the Bank, and it will have a positive operational impact as well.

Healthy work environment

| | 2H2021 |
|------------------|--------|
| Job satisfaction | 4.28 |
| Pride | 4.31 |
| Teamwork | 4.67 |
| Caring | 4.61 |

Competent managers and engaged employees

| | 2H2021 |
|-----------------|--------|
| Ledarship index | 4.54 |
| Development | 4.04 |
| Engagement | 4.33 |
| Feedback | 4.36 |

Strength, resilience, and outstanding results

"A busy and memorable year is behind us. It was gratifying to participate in Íslandsbanki's listing on the Nasdaq Iceland stock exchange in June. The lead-up to the listing was certainly demanding, and employees were under considerable strain, but it was incredibly satisfying to see how well all aspects of the project were brought to fruition and how professionally our employees brought us over the finish line. COVID-19 continued to affect the Bank's activities and work environment, but our employees showed once again how well prepared they are to tackle restrictions calmly and professionally. We have an outstanding employee group whose flexibility, adaptability, and passion were, as always, exemplary. Furthermore, we have prioritised equal rights and have now taken the first steps towards expanding the concept to include all groups in our society. We want to make Íslandsbanki even more welcoming and inviting to people from all types of backgrounds. Diversity and inclusion is very important to us, and we consider it vital to be steadfast in promoting those issues. I think we can all be proud of how well we stood together during the year and of the excellent progress we made together."



Hafsteinn Bragason
Head of Human Resources



Education and training

In modern knowledge companies, it is critical to maintain and increase employees' expertise. Íslandsbanki offers over 200 courses and seminars each year. On average employees spent 10 hours in retraining in 2021. In most cases, the instructors are Bank employees who thereby share their expertise across departments. Although the instructional programme covers a wide range, employees are required to attend certain courses that pertain to their jobs, including courses on security matters, compliance or, for managers, leadership training. In addition to these, the Bank offers several other courses centring on personal growth and job development. The Bank supports managers at all levels with structured leadership training, and it systematically follows a management competency model that defines the conduct conducive to success in management. The objective of leadership training is to strengthen managers in these areas and help them to master their leadership role.

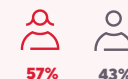
Diverse education for all employees

| | 2021 |
|--|-------|
| Average number of courses per employee | 10 |
| Number of courses | 248 |
| Number of education hours | 7.530 |

Social objectives

Íslandsbanki aspires to have equal gender ratios in all its divisions, departments, committees, councils, boards, and executive positions. In addition, the Bank aims to increase the proportion of women in its investment banking and information technology activities and to increase the share of men in front-line positions, as well as those who define their gender as non-binary. As in previous years, the Bank received equal pay certification and was awarded professional certification under the **ÍST 85:2012 Equal Pay Standard** for 2021. Furthermore, the Bank emphasises offering a work environment that treats everyone equally and celebrates diversity in all its forms. A number of educational events were held, including presentations from the National Queer Organisation of Iceland and the Icelandic ADHD Association, a presentation on mental health and the labour market, and visits from individuals and groups of various nationalities.

Total employees



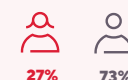
Total managers



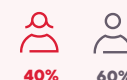
Directors



Branch managers



Executive directors



Managing directors



EQUAL PAY
CERTIFICATE



Annual and Sustainability Report 2021

**Through
collaboration we
are #1 for service**



Personal Banking

Personal Banking focuses on digital and personalised service where the emphasis is on meeting the client's needs at any time.



Personal Banking provides services to all retail customers who do business with the Bank, via personal advisory services or with ready access to digital solutions. With 138,000 active customers, the Bank is among market leaders in banking for retail customers.

The Bank offers a wide range of distribution channels, but in 2021 most of its customers opted to use the Íslandsbanki app for day-to-day banking. Other distribution channels such as the online bank, the advisory centre, and the online chat service are also popular among the Bank's customers. Íslandsbanki has made a concerted effort to lead the way in developing digital solutions for its customers, with the aim of making banking simple and accessible.

Customer satisfaction with the Bank's digital solutions and services is at an all-time high, and customers have been unafraid to adopt new ways to communicate and do business with their Bank.

Market share



Íslandsbanki customers are the **most satisfied in the domestic financial market**, according to the October 2021 MMR survey



Number of **active app users up 11% year-on-year**, to a record high of **95,546** in October



Number of **service contacts totalled 47.7 million** via app, online bank, website, Fríða, branches, and advisory centre



Digital sales are now **over 75% of all sales** to retail customers



The Bank's **premises contracted by 1,595 m²**, or 30%, during the year

Good service makes all the difference

"The overall experience of good service has never been as important as it is during this time of digital transformation of banking services. Our customers increasingly choose to carry out their daily banking outside conventional opening hours, opting instead to manage their finances at a time that best fits their lifestyle. It is therefore important for banks, whose services are continuously evolving, to design products and services that meet our customers' various needs at any stage in their lives. We have emphasised education and the provision of reliable data and information sources, such as the Bank's chatbot Fróði. Demand for mortgages was very strong in 2021 and we benefited greatly from our success in digitising this service. The result has been a record-breaking 90% customer satisfaction score among customers who refinanced or took out new mortgages during the year. The new year brings with it new opportunities to ensure a good service becomes even better."



Sigríður Hrefna Hrafnkelsdóttir
Managing Director, Personal Banking



Organisational structure

Personal Banking's organisational chart was revised in 2021 to reflect priorities in service, innovation, and digital development.

Innovation and digital development is responsible for developing new digital solutions for the Bank's customers, as well as seeking opportunities for innovation, and is a leader in collaboration on fintech solutions. The unit leads the development of distribution channels and collaboration with IT on the operation of day-to-day infrastructure, as well as providing information and advisory services to employees in connection with digital solutions.

Front-line branch and loan services offers personal advisory services to customers in the Bank's branches nationwide. Customers can make an appointment for advisory services when it suits them, but they can also use digital channels to open an account with the Bank, apply for a credit assessment, or apply for a loan.

Issuing solutions offers simple, effective payment solutions in the front ranks of payment market products. Now Íslandsbanki customers can access all services relating to payment cards through digital distribution channels, making the service a simple and natural part of their everyday lives.

Service experience and sales is a new unit that focuses on customers' experiences with the Bank's distribution channels, with an emphasis on personalised service initiatives. The unit's objective is to create data-driven value for the Bank's customers.

The **Advisory centre** provides service by telephone, as well as answering written and online chat queries. Our chatbot, Fróði, is available to serve customers 24/7.



Changed customer behaviour in a digital banking world

Digital banking brings with it a range of opportunities to build on ever better service levels. Advances in digital service have led to a strong increase in business among existing customers. Indeed, the Íslandsbanki app has become the most popular distribution channel. The Bank is continually updating the app and expanding it to include new solutions and services. These include simple changes such as changing the app language to English, making full credit card numbers securely accessible to customers, or rolling out new features such as enabling customers to invest in funds using the app. When the funds-in-app solution was introduced in June, it was launched without advertisement. Customers were quick to respond, and in the first month, some 30% of all fund trading was executed through the app's easy-to-use interface.



Sustainable banking service

Having an increased awareness of the environment and sustainability is no longer a choice but a requirement in modern society. This is equally true of modern banking services. Advances in digital and automated solutions support reduced emissions, encourage environment-friendly options for inputs and operations and have a positive impact on the environment. The same is true of developments in the Bank's goods and services. During the year, the Bank introduced new products for individuals, including green motor vehicle loans, green mortgages and a green investment fund. One of the most interesting innovations was the carbon footprint calculator that was added to the Íslandsbanki app. With the carbon footprint calculator, all customers can estimate their carbon footprint based on their spending patterns. The calculator breaks down goods purchases by category, estimates their impact on the environment and shows week-to-week changes. The carbon calculator is our contribution to increased education about how our daily spending affects the environment, but it also gives insights into how we can neutralise our carbon footprint.

Business Banking

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



The division serves a growing group of Icelandic SMEs with diverse needs and priorities. Our customers, who come from all sectors of the economy, are an important element in ensuring economic and social stability and contributing to innovation and investment.

Our employees provide personalised service in customers' local community through branches and Business Banking Centres, but most customers also make good use of the Bank's highly accessible digital solutions.

Business Banking is staffed by a team with wide-ranging expertise and years of experience, and we have built up strong business relationships with thousands of Icelandic companies. We prioritise being available to our customers, providing outstanding service and advice, and being a force for good in the community. In service surveys, we have repeatedly come out on top, ranking ahead of competitors in terms of market share and customer satisfaction.

Market share

37% overall
41% greater Reykjavik area



We serve **55% of Iceland's outstanding companies**



Just over a **fourth of household car loans** classify as **green financing**



45% market share in asset financing of newly registered sold **heavy machinery**



26% increase in deposits in 2021



New lending amounted to **ISK 82 billion**

Icelandic firms well prepared for a strong rebound

"2021 clearly showed the signs of continuing challenges due to the COVID-19 pandemic, but it also saw the Icelandic economy bounce back strongly. In particular, the turnaround could be felt in the tourism sector, with rising visitor numbers, and in overall domestic demand. Early in the year, demand for credit surged, hitting record highs alongside increased loan repayments and turnover, which ultimately delivered moderate growth in the loan portfolio. Furthermore, SMEs' deposits increased more than in a typical year, far more than projected, with growth spread across all sectors. It was gratifying to see the results of Gallup's year-end company survey, which confirms that Íslandsbanki has the largest market share and the most satisfied customers in the country. During the pandemic, Icelandic companies proved that they were well prepared for the associated economic volatility. Government actions also played an important role to help these companies manage the situation. There is optimism among SMEs that are rapidly working through the setbacks of the pandemic even though uncertainties remain."



Una Steinsdóttir
Managing Director, Business Banking



Organisational structure

Business Banking Centres and branches

Business Banking services are provided at Business Banking Centres serving the capital area (located at our headquarters in Norðurtúni) and north and east Iceland (in Akureyri), and at branches around the country. Our Business Banking Centres and branches offer self-service solutions as well as personalised advisory services, providing expanded access and better service to our customers. In keeping with our focus on being available to our customers, we have taken several thousand telephone calls this year and encouraged personal interactions to the extent possible in these unprecedented times.

Digital solutions

Companies can carry out their main banking transactions via the app or the online bank, whenever and wherever they are. New customers can establish a business relationship with Íslandsbanki in minutes.

Ergo

Ergo, as a part of Business Banking, specialises in financing of machinery, equipment, and housing for businesses, as well as financing of motor vehicles and travel equipment for individuals. With more than 35 years' experience in the asset leasing market, Ergo is determined to distinguish itself from its competitors by providing good, rapid service tailored to customers' needs.

Ergo



Businesses' digital journey

Our customers want completely flexible access to banking services and to be able to manage their finances whenever and wherever they are. Businesses' digital journeys are proceeding apace. Data access and technology will speed up processes, boost security, and enhance flexibility, as well as help to drive improvements to services. It is clear that these distribution channels are the future, and we are working continuously on developing and improving them, with our customers' interests as a guidepost. Although the online bank is still the distribution channel used most by companies, business customers are using the app more and more, and we are laying the foundation for a future where open web services will play a more important role than ever before.



Businesses' sustainability journey

Sustainability is one of Íslandsbanki's key priorities, and through innumerable conversations with our customers we can see that a steadily increasing number of companies are focusing more on this vitally important topic. The vast majority of Icelandic companies are SMEs and they play a key role in innovation and overall advancement in the country's economy. Green financing from Ergo has grown markedly in popularity among retail customers and this trend is also evident with corporates. Car rental agencies in particular are increasingly switching investment into green fleets. This shift is set to accelerate with further infrastructure development in Iceland. We believe that companies that bet on sustainability and make their contribution will be the ones that stand out from the crowd and ensure more sustainable GDP growth for the future.

Corporate and Investment Banking

Corporate and Investment Banking leads the market in providing comprehensive financial and investment banking services to large companies, pension funds, investment funds, institutional investors and high net worth customers.



The division's highly experienced staff is deployed across a range of disciplines including securities and foreign currency sales, investment advice, corporate finance, lending, and private banking. We prioritise knowing our customers' needs, taking the initiative and offering a broad service.

Our communication channels are short and there is a high level of collaboration across the division's units. These factors enable us to address our customers' requirements directly. The team has led many of the largest transformational endeavours in the Icelandic economy in recent years.

Íslandsbanki has developed a clear policy for lending outside Iceland, with the primary focus on the North Atlantic fishing industry.

Market share

35%

of Iceland's 300 largest companies



Leading in corporate finance



**Asset Management:
Net AuM increased by ISK 19 billion**

#1

**Highest fixed income turnover on
Nasdaq Iceland**



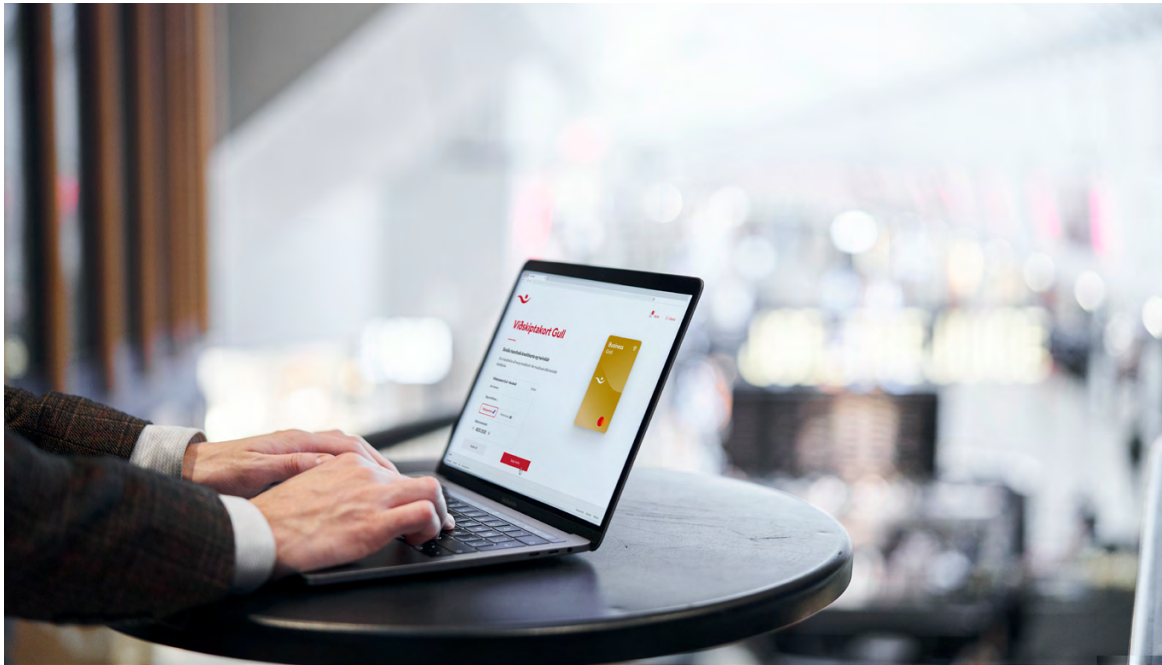
New lending totalled ISK 87 billion

A strong performance in a busy market

"All of the units within Corporate and Investment Banking achieved outstanding results in 2021. We were successful in helping our customers obtain financing through bond issues and new lending, which totalled ISK 87 billion during the year. We made significant strides in sustainability by granting Iceland's first green development loan and we began analysing the loan portfolio's carbon footprint. Corporate Finance and Securities Sales played a prominent role in the sale and listing of Íslandsbanki shares on the Nasdaq Iceland stock exchange, and Corporate Finance acted as advisor in connection with the sale of telecom company Míla in the largest foreign investment to take place in Iceland in years. Private Banking and Institutional Investors grew rapidly, with assets under management increasing by a net ISK 19 billion during the year. FX Sales and the Derivatives Desk had a record year and we envisage increased hedging activity in the coming term. Securities Sales led the field in the fixed income market and the stock brokerage team had a record year buoyed along by a surge in market activity. Our experienced and committed staff also recorded its highest levels of customer satisfaction."



Ásmundur Tryggvason
Managing Director, Corporate and Investment Banking



Organisational structure

Corporate Banking

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

Asset Management

Asset Management has two subsidiary units: Private Banking and Institutional Investors. Íslandsbanki's Private Banking offers asset management and advisory services for high net worth individuals, investment companies, funds, and charities. The Institutional Investors unit manages business relationships with large investors and is responsible for all of the Bank's services to these customers.

Corporate Finance

Provides investment banking services to both companies and individuals, such as acquisition and disposition of companies, mergers and other changes in ownership structure. In addition, the unit provides advisory services in connection with public listings, oversight of share offerings, preparation of prospectuses, and admission of securities to trading on the exchange. Corporate Finance also assists companies in obtaining credit financing, whether through banks or through the issuance and sale of bonds to investors.

Brokerage and Derivatives Desk

Brokerage includes equity, fixed income, currency and derivatives sales, which in turn include currency swaps, interest rate swaps, and forward contracts in stock and fixed income markets.



Diverse forms of corporate financing

Corporate financing activity was brisk during the year, whether through bank loans, bond issues, or a combination of the two. With the establishment of a IS Corporate Credit Fund of ISK 13 billion in collaboration with Iceland Funds, we expanded our financing offerings still further.

During the year, the Bank oversaw a number of successful bond issues for customers, including issues for real estate company Eik and an issue of ISK 6 billion for real estate firm Íþaka. The Bank also oversaw several sustainable bond issues, including a social bond issued by Reykjavík University subsidiary Grunnstoð and an issue for Brim, the first in Iceland to fall under both blue and green financing frameworks.

Sustainable lending is accorded ever-increasing priority, and the first green development loan was granted during the year. In addition, significant work has been done on classifying the current loan portfolio and determining how large a share falls under the Bank's Sustainable Financing Framework, and work has begun on analysing the carbon footprint of the loan portfolio.



Leading advisor for acquisitions and dispositions of companies

As before, Corporate Finance is leading in providing advisory services to companies and investors. The team acted as a joint global co-ordinator in the sale of the State's holding in Íslandsbanki, the largest IPO in the history of Iceland. In addition the Corporate Finance advised Icelandair Group on the sale of new share capital to Bain Capital, oversaw the sale of Icelandair's headquarters to real estate firm Reitir, and managed the sale of a 25% stake in Icelandair Hotels to Berjaya. The division also oversaw the sale of Iceland Travel to Nordic Visitor and the sale of Opin kerfi, on behalf of MF1, to VEX 1; as well as managing the merger of Kynnisferðir and tourism companies owned by Eldey.

Iceland Funds Ltd.

Iceland Funds Ltd. is the oldest asset management company in Iceland founded in 1994. It is a fully owned subsidiary of Íslandsbanki.



Iceland Funds operates 22 UCITS and alternative investment funds for retail investors including bond funds, equity funds and balanced tactical asset allocation funds in addition to nine alternative investment funds. Iceland Funds has approximately ISK 410bn in assets under management and over 12,000 investors choose to invest their savings with the company's funds. For years, Iceland Funds has been a leading operator of bond funds in Iceland, with a market share of roughly 40%. In addition, the company has specialised in real estate projects, including the professional investment fund 105 Miðborg, which manages the development of the new neighbourhood at Kirkjusandur in Reykjavík, as well as setting up two new alternative investment funds in 2021, IS Corporate Credit Fund and IS Kredit SPV 21. Iceland Funds adheres to the principles of responsible investment for all of its management of assets. In 2018 it established the first green bond fund in Iceland.

Every year since 2013, Iceland Funds has been recognised for excellence in corporate governance. The award is granted by Stjórnvísir.

Market share

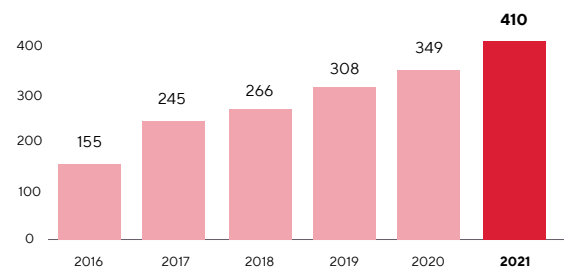
30%

of the domestic fund market



Generated the **highest returns** of all Icelandic mutual investment funds in 2021 **59.8%**

Total Assets under management ISK billion



Strong returns and readier access to funds are positive for savers

“Household saving has grown markedly during the pandemic. Icelandic households' deposits increased by almost ISK 170 billion, or over 17%, between 2019 and 2021. The number of shareholders in companies on the Nasdaq Iceland stock exchange grew from 8,300 at the end of 2019 to around 31,000 by the end of 2021, and the country's equity funds have doubled in size since 2019. This is a highly favourable trend, as savings provide a measure of security during times of uncertainty. Iceland Funds' fund managers have delivered outstanding results. The IS EQUUS Equity Fund generated the highest returns of all Icelandic funds in 2021. It is gratifying to see that alongside strong returns in the fund market, access to funds has been expanded significantly. This summer, with its funds-in-app option, Íslandsbanki became Iceland's first bank to offer app-based fund trading. The feature has been a hit with users, particularly the younger generation.”



Kjartan Smári Höskuldsson
Managing Director, Iceland Funds Ltd.



Organisational structure

Within Iceland Funds are several business units. The company manages alternative investment funds as well as managing mutual funds and asset portfolios. Also in place are strong risk management, business development, operations, and legal teams.

Fund Management

The company's fund managers oversee mutual funds that invest in bonds, stocks, and other financial instruments. Mutual funds are a sound and economical way for depositors to invest their money in a securities portfolio, thereby reducing risk. They also operate Alpha Equity Fund, which is authorised to take leveraged positions in the domestic stock market.

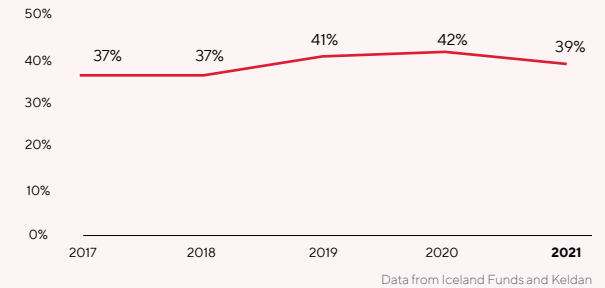
Asset Management

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

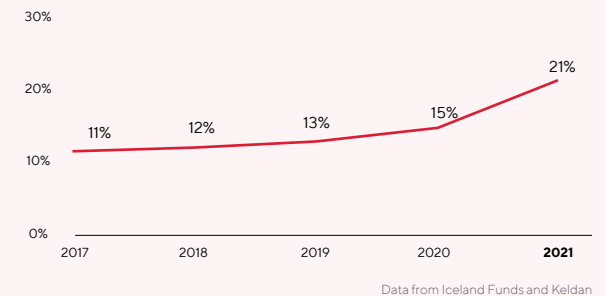
Alternative investment funds

Since 2012, Iceland Funds accumulated substantial experience in real estate investments and property development, as well as private equity investments. An experienced team of six experts manages the company's alternative investment funds.

Market share – fixed income mutual funds



Market share – equity mutual funds



Funds in the Íslandsbanki app

Íslandsbanki was the first bank in the country to offer users the option of buying and selling funds through its app. Now some 40% of fund trading is executed in the app instead of the website.



Assets under management

Household saving has grown markedly during the pandemic, with a sizeable share invested in funds. Assets under management by Iceland Funds have never been higher.



On the top

Iceland Funds' IS EQUUS Equity Fund generated the highest returns of all funds in Iceland in 2021.



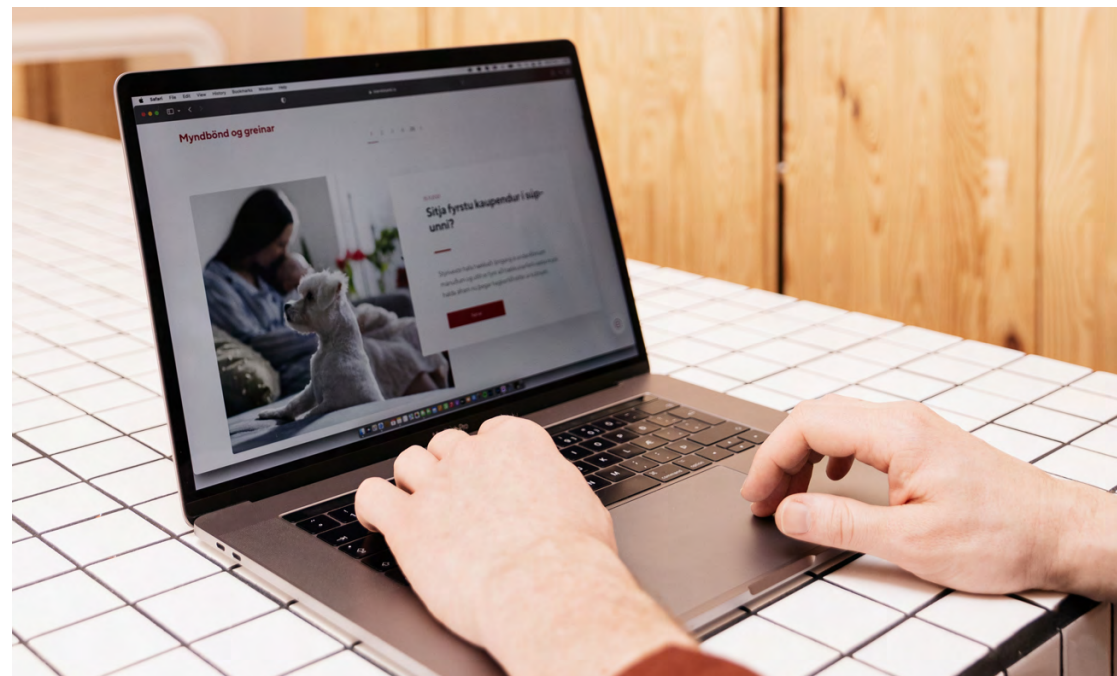
Annual and Sustainability Report 2021

Strong foundations through professionalism



Flexible products and pricing for customers

In 2021, Íslandsbanki achieved important milestones towards the realisation of its digital strategy. The digital strategy functions as a guidepost for digital product development and implementation of tech innovations. It is based on five main pillars where we connect with our customers and partners through digital solutions, recognise their needs, and provide them with frictionless banking services every step of the way.



I

Service first for customers and partners

In order to put service to our customers and partners in first place, the solutions we develop are open and accessible to our customers whenever they need, and wherever they are. Our accessible solutions also open up the possibility of cooperating with fintech providers, giving us the opportunity to expand and improve our service offerings.

II

Frictionless value chains

Frictionless self-serve processes are an important element in putting service first. This means automated processing from start to finish, from the moment the customer begins a process until all aspects of it are complete.

III

Relevant data and insights when you need them

In order to automate processing at every step of the way, data are used intelligently to serve our customers. This entails harnessing valuable data to understand our customers' needs and offer custom-designed services, products, and prices.

IV

Open and flexible products and pricing

Digitising our product offerings and pricing enables us to make modifications and introduce new products swiftly. When new products are introduced, they appear in all of the Bank's distribution channels automatically and in a harmonised way.

V

Cost effective, optimised technical landscape

An economical and efficient system landscape underpins our digital services and is based on mobilising tech innovations to create solutions quickly, efficiently, and economically.

Íslandsbanki's product teams build on cooperation between the IT and business units

 Day to day banking

 Channels

 Markets and Securities

 Corporate Solutions

 Information Management and Finance Solutions

 Lending



One of the key initiatives in realising the digital strategy is the development of a unified sales and pricing platform. The platform will enable end-to-end sales processes and lay the foundation for future advances in product offerings to customers. In addition, the groundwork for leveraging data intelligently so as to understand our customers' needs and offer personalised services has progressed and will be integrated into the sales and pricing platform.

Íslandsbanki's product-driven organisational structure has continued to facilitate rapid development of digital solutions for our customers, with the aim of being #1 for service. Customers can now trade funds digitally in the Íslandsbanki app and view the performance of their overall portfolio.

In line with our emphasis on sustainability, we have also added a carbon calculator to the app, which customers can use to estimate their carbon footprint based on their spending profile.

Product centric development on a solid core foundation

Íslandsbanki has invested in its tech infrastructure in recent years, enabling the Bank to place even stronger emphasis on developing new solutions for customers. The technical implementation of the new lending system was finalised in 2021, with the data migration completed in the first quarter of 2022. The new system will increase efficiency and further enable our digital customer services. With that milestone, Íslandsbanki will have completed the update of all of its core banking infrastructure, making the Bank even more effective as a digitally connected banking companion to customers and partners.

In 2021, the Bank emphasised the automation of internal software development processes, shortening delivery times, and enhancing operational security. We have continued to build up a cloud native tech environment where we develop infrastructure and solutions using modern technology, both in-house and in the cloud. We have prepared the Bank for success in the competition for digital banking solutions in an open ecosystem.

Unified sales processes present opportunities for future growth

"Digital banking has become the norm, but building a unified platform that blurs the lines between traditional retail ecommerce and banking is the future frontier. In 2021, Íslandsbanki invested in creating a unified futuristic platform that will enable end-to-end sales processes for traditional banking products, as well as providing the opportunity to integrate offerings from external partners. This will ensure that we are ready to exploit the opportunities that present themselves with the implementation of PSD2. In addition, the focus on renewal of our lending platforms in 2021 and the continuation of our data journey lay the foundation for the creation of truly personalised services and offerings. A key differentiator in the Icelandic market is the access to critical skills in order to scale and respond to the opportunities created by the technology investments of the last several years. The establishment of the Íslandsbanki Development Centre is a deliberate step in creating a world-class technical team."



Riaan Dreyer
Managing Director, IT

Diverse team working towards the digital strategy

Íslandsbanki opened a software development centre in Poland, with the aim of building a robust and diverse software development team working towards realisation of the digital strategy.

The Íslandsbanki software development centre was established in Warsaw, and the first team members were recruited at the end of the year. The Warsaw centre will be an integrated part of Íslandsbanki IT team and represents a major step in developing our extended delivery model and augmenting the software development team with wide-ranging talent.

>80%

of software is delivered with **automated processes**

>99%

of **loan applications** are digital

>30%

of all **fund sales** now take place via the **Íslandsbanki app**

Users of Friða, Íslandsbanki's **cashback reward system** more than **tripled**

Record number of digital origination of **trading accounts**

Major digital advances

- Unified sales and pricing solution introduced and enabled for the first products, cards, and accounts. The platform will enable end-to-end sales processes and integrated offerings from external partners
- A new loan system has been implemented, completing the update of all core banking infrastructure
- The funds-in-app solution was introduced, enabling all retail clients to trade IS Funds as well as viewing fund details and performance in the app
- Customers can now use the app to estimate their carbon footprint based on their spending profile
- Push notifications in the app enables easy flow of relevant information to customers
- Launch of SmartId, a next-generation digital identity solution
- Single sign-on enables our customers to move seamlessly between channels
- The Íslandsbanki app is now available in English
- A new credit decision model was introduced with ratings, limits, and credit assessment



Risk management

Risk management and the prudent pricing of risk are key elements in Íslandsbanki's operations and value creation. In turn, an efficient risk assessment and internal control framework forms the foundation of the Bank's risk and capital management strategy. Íslandsbanki's risk governance is based on a three lines of defence model and aims for informed decision-making and strong risk awareness throughout the Bank.



Íslandsbanki promotes a strong risk culture with emphasis on transparency, open communication, acknowledgement, responsiveness, and respect for risk. All business decisions and the resulting risks are initiated and owned by a business unit and go through a clearly defined review and control process. The level of authority needed to approve each business decision depends on the size, complexity, and risk involved.

The Bank has a healthy and well diversified funding base and a strong capital framework based on the regulatory standardised approach. At year-end the Bank's total capital ratio was 25.3%, which is 7.5 percentage points above the regulatory requirement. Íslandsbanki aims to have a management buffer of 0.5–2.0 percentage points in addition to the requirement to cover volatility in risk exposure amount and earnings.

The Bank is therefore well prepared for continued economic uncertainty resulting from the COVID-19 pandemic and is able to provide supportive services

All material risk factors are discussed in detail in the Pillar 3 Report

- ✓ Risk Management and Internal Control
- ✓ Capital Management
- ✓ Credit Risk
- ✓ Market Risk
- ✓ Liquidity Risk
- ✓ Operational Risk
- ✓ Sustainability Risk

Íslandsbanki's Pillar 3 Report provides in-depth information on risk management, risk measurement, material risk exposures, capital adequacy, and liquidity adequacy.

The Pillar 3 Report contains information in accordance with disclosure requirements in the form of standardised tables and templates, referred to as **Additional Pillar 3 Disclosure**, that are included as an Excel-file on the Bank's website.

Pillar 3 Report

Additional Pillar 3
Disclosure

A passion for risk management

"Íslandsbanki has a long-standing tradition of facilitating credit to Icelandic households and businesses, and credit risk is the predominant risk factor in the Bank's risk taxonomy, accounting for almost 90% of the risk exposure amount. Accordingly, the Bank's credit risk culture is cultivated by learning from the past, beginning with a strong and risk mindful tone from the top, tradition of accountability with clear authorisation and decision-making protocols where conflicting opinions and open dialogue are celebrated.

Risk management practices are under continual development to prepare for changes in the operational environment and to utilise new possibilities that arise with improved technology. Íslandsbanki is well prepared to monitor and manage both traditional and emerging risks."



Guðmundur Kristinn Birgisson
Chief Risk Officer

to its customers in order to minimise the permanent impact of the pandemic on households and businesses. Furthermore, the Bank is well prepared for the planned increase in the countercyclical capital buffer.

Risk position

The Bank is predominantly a credit risk operation with credit risk accounting for almost 90% of the Bank's risk exposure amount. Credit risk is the risk arising from a customer's potential failure to meet the terms of any financial contract, such as not repaying loans on time. The objective of credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance. The credit risk policy aims for a modest credit risk profile resulting in a well-diversified loan book with conservative collateralisation. The Bank has a long-standing, conservative credit risk culture and is shifting most

retail products to digital channels with data driven decision making, with significant risk management benefits.

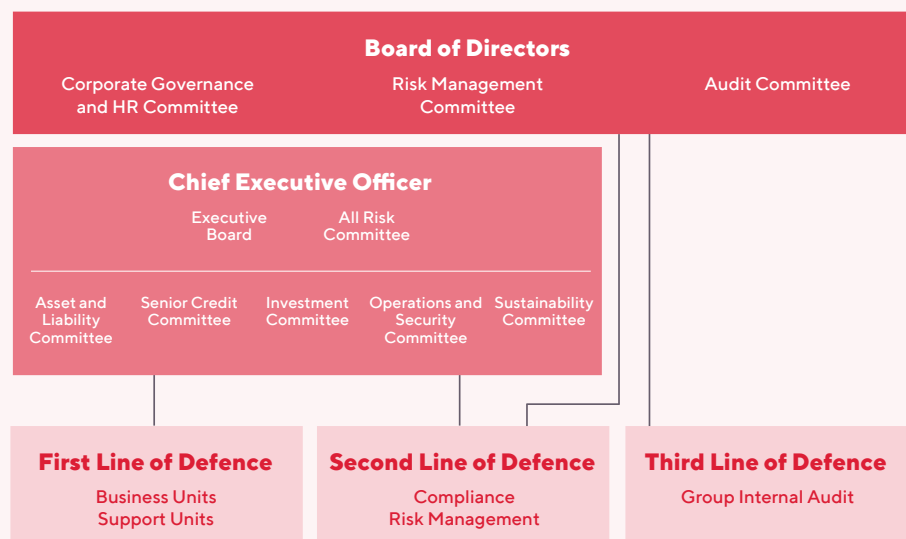
The COVID-19 pandemic has elevated the level of credit risk in the Bank's loan portfolio with forbearance measures granted to customers in the tourism sector, whereas the lingering uncertainty has already been accounted for with sufficient impairment allowance. The ratio of loans with significant increase in credit risk fell from 15.6% to 9.6% in 2021 and the ratio of non-performing loans fell from 2.9% to 2.0%.

The Bank has emphasised ICT (Information Communication Technology) and security risk and business continuity management during the pandemic as the risk of cyber security events has increased. The Bank's controls against such events have proven effective but the Bank is constantly seeking ways to strengthen its defences.

Sustainability risk

The latest addition to the risk management framework is sustainability risk that is managed in accordance with the Sustainability Policy and Risk Appetite Statement. Sustainability risk is the risk of being negatively affected by externalities within the areas of environmental, social, and governance considerations (ESG), such as climate change, biodiversity, anti-corruption, human rights, labour conditions, data privacy, or business ethics.

In 2021 the Bank continued to develop its methods to identify and manage sustainability risk. The highlights include incorporating an ESG risk assessment for corporate customers, joining the Science Based Targets initiative, and finishing the measurement of downstream scope 3 financed emissions.



Three lines of defence model

The first line of defence is the owner of all risks and is responsible for day-to-day management of their risk

The second line of defence is responsible for maintaining an efficient internal framework to facilitate adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported or disclosed, as well as compliance with relevant laws, regulations, supervisory requirements and the Bank's internal policies and procedures

The third line of defence provides independent assurance of the effectiveness and completeness of the internal control framework, including both the first and the second line of defence



Annual and Sustainability Report 2021

Sustainable Íslandsbanki



Íslandsbanki as a model and a catalyst

Íslandsbanki is recognised as a sustainability leader in Iceland as is reflected in its ESG risk rating, customer surveys and external rewards. Íslandsbanki is committed to supporting Iceland's ambitious climate goals and the Paris Agreement. To that end, the Bank announced in April 2021 its commitment to become net zero on financed emissions by 2040 in addition to having net zero operations since 2019.

Stakeholder management and partnerships

Collaboration with international and local partners is the key to success. Over the years, Íslandsbanki has participated in international commitments and supported domestic cooperative efforts in the area of sustainability. Being a part of international collaborations such as the UN PRB, the Nordic CEOs for a Sustainable Future and most recently being a founding member of the Net-Zero Banking Alliance is particularly valuable and informative for a relatively small bank. On the other hand, being one of the largest companies in Iceland means that we can contribute significantly towards domestic partnerships such as at Festa - Center for Sustainability, IcelandSif and the Green Building Council Iceland to name a few.

Cooperation on sustainability

Recent sustainability related recognitions

- Highest ESG rating of all Icelandic companies by Reitun, Icelandic rating agency
- Awarded the Ministry for the Environment and Natural Resources' environmental prize in 2021, for outstanding work on environmental affairs
- Icelandic Knowledge Award 2020 by Association of Business and Economist graduates in Iceland (FVH) for excellence in sustainable development
- First Icelandic bank announcing net zero commitment by 2040
- Íslandsbanki recognised for excellence in corporate governance every year since 2014
- Equality Scale by the Icelandic Association of Business Women every year since 2018

Receiving the Kuðungur (the Conch) award from the Ministry for the Environment and Natural Resources' for outstanding work on environmental affairs.

Íslandsbanki Sustainability Policy

Íslandsbanki's objective is to be a model of exemplary operations



Environmental issues



Social issues



Governance issues

We want to be a catalyst for positive social action beyond our own footprint by supporting customers on their sustainability journey



Responsible lending



Responsible investment



Responsible purchasing



Grants and innovation



Key sustainability milestones in 2021

The Bank has set short- and medium-term goals with a clear link to ESG criteria and the UN SDGs. A tremendous collective effort is required across the whole Bank to achieve these ambitious goals.

Carbon footprint from operations is down by

20%

year-on-year (excluding new emission factors which were measured for the first time in 2021)

20

meetings with suppliers to discuss sustainability performance

46%

of suppliers have formally certified their compliance with the **Suppliers' Code of Conduct**

First round of **PCAF**-aligned calculations of financed emissions were completed during the year – showing that financed emissions amount to

~360

times carbon footprint from operations in 2020

27

internal educational meetings related to sustainability

ISK 58 billion of sustainable funding outstanding as of year-end 2021, thereof

50% in green funding

34% in blue funding

16% in social funding

Íslandsbanki's **Entrepreneurship Fund** grants

ISK 35 m

to **12 sustainability related innovations**

34%

of credit risk exposure (excluding individual banking and small enterprises which are out of scope) has been assessed with regards to **ESG risk**

Íslandsbanki launched a **carbon calculator in app** and **green mortgages** while Íslandsbanki Corporate Finance team advised on the first **blue bond issuances** in Iceland



Íslandsbanki's impact analysis

For signatories of the Principles of Responsible Banking the first step of implementing their commitment is to perform an impact analysis – identifying the most significant impacts of products and services on the societies, economies and environments that the bank operates in.

Methods used to identify key areas of impact

Íslandsbanki used Portfolio Impact Analysis Tool for Banks (version 2 updated 16 June 2021) to assess positive and negative impacts from the Bank's activities, products and services. The analysis followed the Tool logic without using the Tool directly.

In a nutshell the analysis considers A) Íslandsbanki's core business areas and scale of activities and B) the most relevant challenges and priorities related to sustainable development in Iceland. Based on a combination of those two parts of the analysis priority impact areas are identified.

Íslandsbanki's core business areas and scale of activities

Íslandsbanki is a universal bank and a leader in financial services in Iceland. Type of products and services include savings, lending, payment services and investment banking services. The Bank has an asset management focused subsidiary.

The Bank lends to companies and individuals with a 25- 40% market share across all domestic business segments. Loans to individuals constitute most of the lending in the banking portfolio (48%), followed by commerce and services (15%), seafood (11%), real

estate (10%) and industrial and transport (8%) as of 4Q2021. 88% of loans to individuals are mortgages. Furthermore, Íslandsbanki has 37% market share in SME banking in Iceland.

Iceland's most relevant challenges and priorities related to sustainable development

To assess Iceland's most relevant challenges and priorities various information was reviewed including the follow key sources:

- **Dashboard on Iceland's SDG performance**
- **The National Climate Action Plan**
- **Measurement of CO₂ emissions in Iceland in 2020**
- **Business Climate Guide**
- **Towards a circular economy strategy**
- **Parliamentary Resolution on a gender equality action programme**
- **FKA gender equality assessment**

Furthermore, input from various stakeholders were collected throughout the year, including Festa Center for Sustainability, the National Energy Authorities, the Green Building Council, Green by Iceland, and UN Women Iceland.



Conclusion of Íslandsbanki's impact analysis 2021

In conclusion, combining Íslandsbanki's scale of activities and Iceland's key challenges, the top two priority impact areas have been identified as **Climate change** and **Gender Equality**. Those areas were already two of the four SDGs that were prioritised as a result of an analysis and broad stakeholder engagement in 2019.

Since 2019, the vital role of banks in supporting the global transition to net-zero emissions has only become more obvious. This has for example been reflected in the formation of the industry-led, UN-convened Net-Zero Banking Alliance in April 2021 which represents over 40% of global banking assets. During the same period more emphasis has been put on gender equality in the context of a bank's products as opposed to only gender equality in the workforce of the bank. This will be a key theme for Íslandsbanki in 2022 and is reflected in the Bank's sustainability targets.

In addition, **Biodiversity and ecosystems** (in particular life below water given Íslandsbanki's exposure to the seafood industry) and **Resource efficiency/security** have been identified as secondary areas of interest. As more data and analysis for these topics in Iceland become available more focus might be shifted to the topics. All of those four impact areas mentioned are addressed as part of Íslandsbanki's Sustainable Financing Framework published in 2020.



Based on the analysis and conversation with stakeholders Iceland's most relevant challenges and priorities are the following:

Climate

Climate change is the largest and most pressing global threat and Iceland is not remote from its effects. Iceland has set ambitious goals to achieve carbon neutrality before 2040 and to cut greenhouse gas emissions by 40% by 2030. This will require a combined effort from both the public and private sector.

Waste management/Resource efficiency

One of three SDG subgoals where Iceland scores poorly is 12.5 Substantially reduce waste generation. National recycling rates are not deemed acceptable, and the Circular Economy Strategy by the Ministry of Environment and Natural Resources from June 2021 identifies significant number of improvement areas.

Biodiversity/Ecosystems

A healthy ocean and thriving fish stocks are key to Iceland's future prosperity. Responsible fisheries management, innovation and better utilisation contributes to a more sustainable ocean, healthier fish stocks and biodiversity. One of three SDG subgoals where Iceland scores poorly is 14.1 Reduce marine pollution.

Diversity and inclusion (including gender)

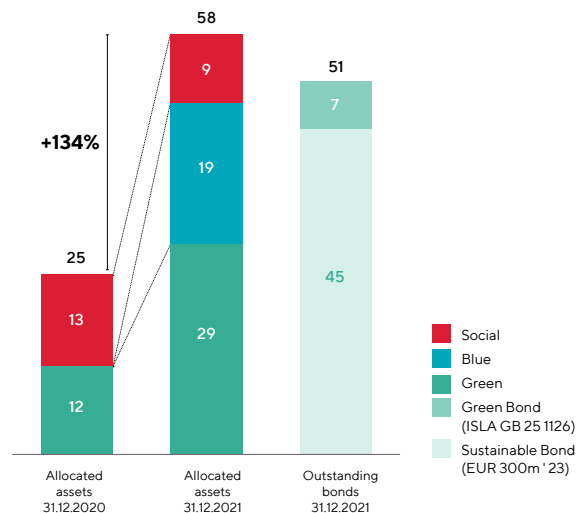
Despite laws on equal rights and gender quotas on boards there is significant room for improvement. The share of women on company boards in Iceland is 27% and the share of female CEOs/Managers is 23% according to the FKA Equilibrium Scale. The increase has only been 2% and 3%, respectively, in the last 10 years.

Sustainable lending more than doubles YoY

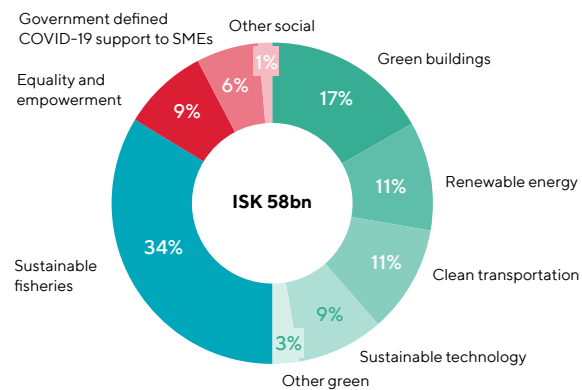
Sustainable assets grew by 134% in 2021 and amounted to ISK 58 billion compared to outstanding sustainable bonds of ISK 51 billion. Categories in use increased from 7 to 11 out of the 18 defined in the SFF. The biggest growth was in MSC certified fisheries which now account for 34% of the total, while green and social lending accounted for 50% and 16%, respectively. One of the Board approved sustainability goals for 2022 is to lend additional ISK 40 billion sustainable loans, bringing share of sustainable corporate loans to 15%.



Sustainability instruments and allocation at year-end 2021
ISK billion

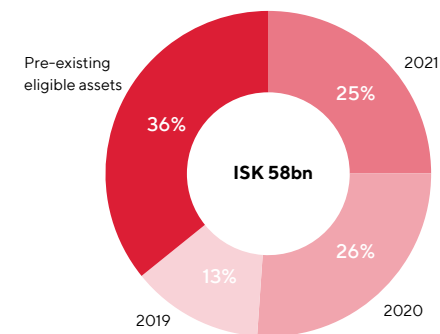


Use of proceeds by SFF category at year-end 2021¹



¹ Other green loans consists of sustainable processes and biodiversity and sustainable waste management, Other social loans consists of affordable housing and education and vocational training.

Use of proceeds by origination year at year-end 2021²



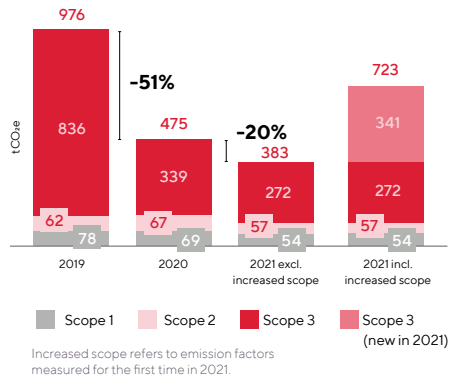
² New eligible assets are defined for financing which have been disbursed the same year of issuance.



Environmental 2021

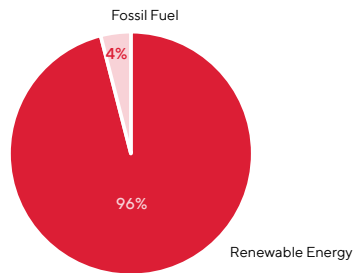
E1 Greenhouse gas emissions

Gross operational carbon emission



E5 Energy mix

Share of total energy usage (6.3 mWh)



E8 Climate oversight / Board

Does your Board of Directors oversee and/or manage climate-related risk? ☒

E9 Climate oversight / Management

Does your Senior Management Team oversee and/or manage climate-related risks? ☒

E10 Climate risk mitigation

Total annual investment in climate-related infrastructure, resilience, and product development **ISK ~70 m.**

Investments in climate risk mitigation include electric vehicles, charging stations for electric vehicles, relevant advisory services and software, carbon offset, membership fees, etc.

E2 & E4 Emissions and energy intensity



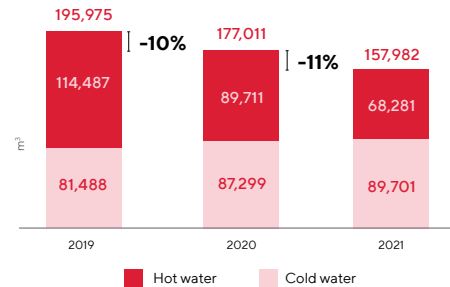
GhG emissions per full-time equivalent (FTE)
989 kgCO₂e/FTEs

GhG emissions per unit of revenue
15 kgCO₂e/million ISK

Energy per square meter **372 kWh/m²**

Energy per cubic meter **105 kWh/m³**

E6 Water usage



Other environmental metrics

Are ESG factors considered in relation to lending and/or investments? ☒

Sustainability risk management is being integrated into the lending process. As of year-end 2021 34% of credit risk exposure (excluding individual banking and small enterprises which are out of scope) has been assessed with regards to ESG risk.

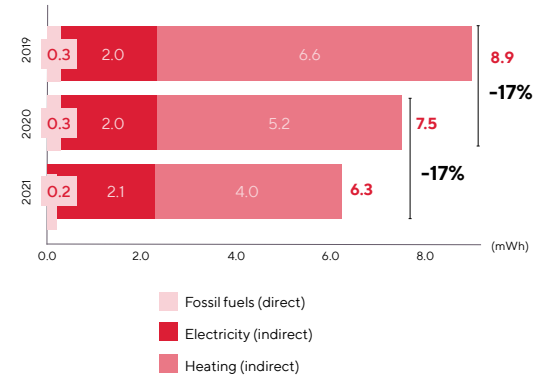
Are ESG factors considered in connection with the development of new and existing products? ☒

Consideration is given to sustainability risk in product development.

Does the company offer employees regular education on ESG factors? ☒

At least 27 diverse sustainability related educational events were offered to staff members in 2021, that is on average one event every 2 weeks.

E3 Energy usage



E7 Environmental operations

Does your company follow a formal environmental policy? ☒

See the Bank's Sustainability Policy, chapter two on environmental factors.

Does your company follow specific waste, water, energy, and/or recycling policies? ☐

Such a strategy is work in progress following extensive analysis of waste mgmt. processes during the year.

Does your company use a recognised energy management system? ☐

Klappir Green Solutions and MainManager.

Sustainability
statement 2021

Strategy and
policies

Auditor's Limited
Assurance Report



Íslandsbanki's carbon footprint

Measurement of Íslandsbanki's financed emissions in 2019 and 2020 have confirmed that the biggest opportunity to be a force for good is through our products and services – empowering and encouraging our customers on their sustainability journey.

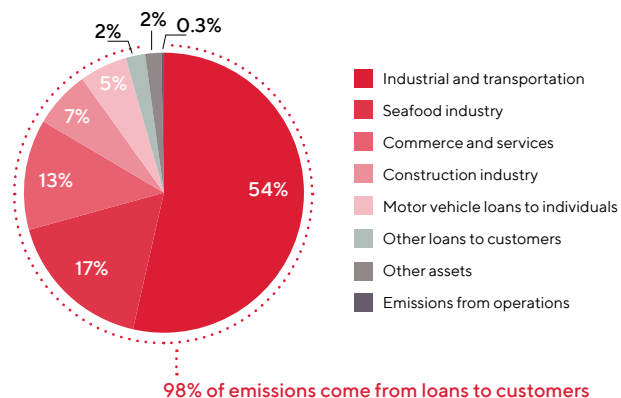
Greenhouse gas emissions associated with Íslandsbanki's lending and investment activities were roughly 360 times higher than emissions from the Bank's operations in 2020. In one day the financed emissions are as high as in one year of the Bank's operations. Loans to the industrial and transportation sector account for 54% of the total emissions although they constitute only 6% of the loan book. Mortgages, on the other hand account for less than 0.5% of emissions but are 37% of the carrying amount.

Due to reliance on data from corporate customers the Finance emissions for 2021 will be published later in the year 2022.

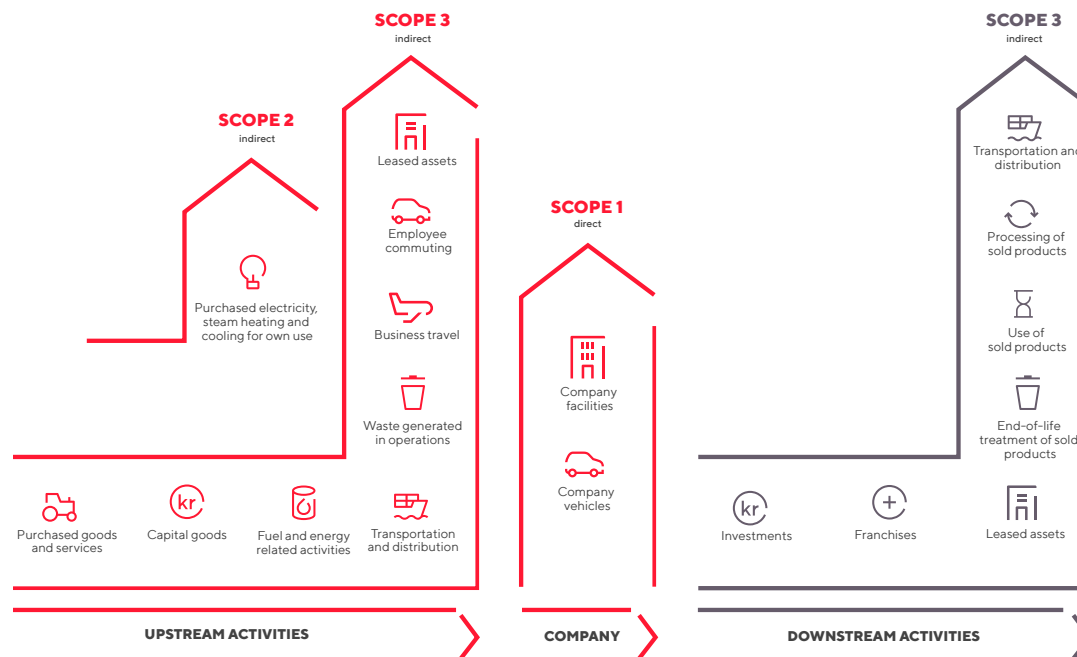
Work on a detailed plan for Íslandsbanki's path to net zero 2040 is already underway and these measurements of financed emissions were a key milestone on that journey. One of the sustainability goals for 2022 is to present officially validated science-based targets for short- and medium term financed emissions.

Financed emissions 2019–2020

Íslandsbanki's total emissions in 2020



Overview of Scopes and Emissions Across the Value Chain



Emissions from the Bank's operations consists of direct impact (scope 1) and indirect impact (scope 2 and upstream scope 3 emissions)

Emissions from the Bank's loans and investments (financed emissions); also referred to as downstream scope 3 emissions

Source: The Greenhouse Gas Protocol



Carbon neutrality in operations

Although bank operations are not an energy-intensive industry, the Bank nevertheless considers it important to set an example and adopt ambitious goals for measurement, reduction, and mitigation of carbon emissions. This way, the Bank carries its weight in terms of bringing about the mindset change that is essential in supporting climate action.

Íslandsbanki's carbon footprint from operations has been measured and disclosed since 2017 based on the Greenhouse Gas Protocol. During this time focused effort has led to significant reduction in emissions related to the Bank's operation while at the same time increasing the coverage of indirect scope 3 emissions from upstream activities to capture a fuller picture. Latest additions in 2021 include, food purchased for the Bank's headquarters canteen, electricity usage of data centres, fuel and energy related scope 3 emissions and emissions from production of cars purchased during the year.

The fact that two out of top five emission sources this year are being included for the first time emphasises the need to remain humble to the fact that we are on a journey and continuously need to be willing to learn, reassess and improve.

Íslandsbanki's gross operational emissions were 724 tCO₂e in 2021 and the scope of emission factors considered was extended considerably. Total GHG emissions of comparable factors (excluding those not measured in 2020) fell by 20% compared to 2020. Reduction from 2019, looking at comparable factors only, is close to 60%.

Emissions neutralised by carbon offset projects

Since 2019, the Bank has ensured that its operations are carbon-neutral by using mitigating measures to offset the portion that has not been reduced. Íslandsbanki emphasises selecting a variety of projects to offset its carbon footprint from operations in full. It focuses on effective certified international projects, but also supports projects of importance in Iceland.

Íslandsbanki has through the **United Nations Carbon offset platform** paid for the cancellation of 750 Certified Emission Reduction units (CERs) to compensate for its emissions in 2021 in full. In addition, Íslandsbanki supported two nationally important projects for Iceland during the year – **Carbfix** and the **Wetland Fund**. Carbfix has received attention world-wide for its unique natural and permanent storage solution by capturing and turning CO₂ into stone. The Wetland Fund's primary objective is to reclaim wetlands, reduce GHG emissions while promoting recovery of biosphere, birdlife and improving aquatic resources.

As neither of those projects provide certified carbon offsetting credits at this time they have not been counted as part of emissions neutralised by carbon offset projects in 2021.

The COVID-19 pandemic impacted the numbers extensively in 2020 and 2021 although multiple actions have delivered a permanent reduction in our carbon footprint including



31% reduction in fossil fuel purchases since 2019 mainly due to switch to **electric vehicles**

Fewer trips to and from work and more environmentally friendly commuting options



Emissions from air travel **down by >85%** since 2019 (half of which is assumed to be permanent)

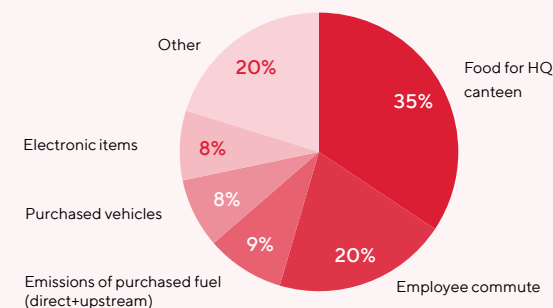
Total emissions from waste generated in operations **fell by 44% YoY**, mainly due to increase in percentage of waste recycled from **59% to 70%**



30% reduction in emissions from **paper use and printing** compared to 2020

The Nordic Swan Ecolabel certification of HQ canteen and increased focus on **vegan options**

Top 5 operational emission sources in 2021



Auditor's Limited Assurance Report



Taking action with our clients

We do not have time to wait for the perfect measurement before we start taking action to combat climate change. That is why we are already putting a lot of energy into encouraging, educating and supporting our customers on their sustainability journey. That is the most important and impactful way we can contribute to action on climate change.

Managing sustainability risk

Sustainability risk management has been more effectively integrated into key Bank processes relating to lending, investments, and product development during the year. At year-end, 34% of all credit risk exposure (excluding individual banking and small enterprises which are not in scope) has been assessed with respect to ESG risk related factors. All loans that fall under the Sustainable Finance Framework have been assessed as well as some of the largest exposures of the Bank. Now that the process and assessment method has been tested the emphasis in 2022 will be to increase the share of ESG risk assessed exposure even further. More detailed coverage can be found in the Bank's Pillar 3 Report for 2021 which contains a separate chapter on sustainability risk and climate risk in compliance with TCFD criteria.

[Pillar 3 Report](#)

Financing the transition to a net zero future

The transition to a net zero world will require substantial investment which creates opportunities for banks to support customer's financial needs. As of year-end 2021 Íslandsbanki has already lent ISK 29 billion in green loans that fall under the Bank's Sustainable Financing Framework and we expect significant growth already in 2022. The Bank is committed to creating positive incentives to expedite investment in the transition that is needed to halt climate change. A part of that financial incentive comes from channelling favourable funding rates when issuing sustainable bonds and another part comes from evidence that suggests sustainable loans can entail lower credit risk. This way, more favorable funding rates can be offered for sustainable projects and corporate clients of the Bank.

[Sustainable Financing for Businesses](#)



Participation in customer dialogues

Sustainability has started coming up more and more frequently in dialogues with corporate clients. The increased interest in green and sustainable financing options is highly encouraging.

Education on sustainability was prominent during the year, particularly to include the connection between sustainability and economical business operations. In the autumn, the Bank offered an informative meeting at its headquarters, where a number of guests discussed and presented various aspects of sustainability in business activities. The topic of the meeting was *Do you have to be big to be sustainable?*

[Recording of sustainability meeting](#)



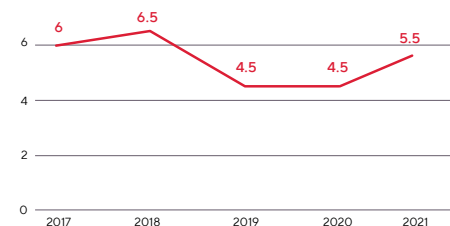
Social 2021

Sustainability
statement 2021

Strategy and
policies

S1 CEO pay ratio

Ratio: CEO total compensation to median FTE total compensation



Does your company report this metric in regulatory filings?



S4 Gender diversity

Percentage of women in enterprise

57%

Percentage of women in entry- and mid-level position

60%

Senior- and executive-level positions

47%

S7 Injury rate

Total number of injuries and fatalities, relative to the total workforce

0

S10 Human rights

Does your company publish and follow a human rights policy?



The Bank's Sustainability Policy states that the Bank emphasises respect for human rights and that it does not conduct business related to any human rights violations, such as discrimination based on gender, religion or race, inequality in the labour market as well as slavery and child labour.

If yes, does your human rights policy cover suppliers and vendors?



S2 Gender pay ratio



Median total compensation for men to median total compensation for women

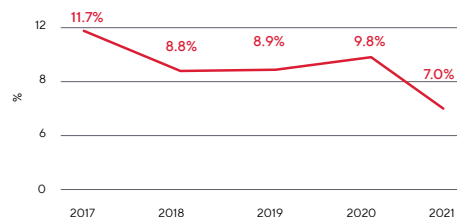
1.3

Outcome of equal pay certification

0.3%

According to an equal pay certification appraisal conducted in November 2021, the Bank's gender-based pay gap in comparable jobs is 0.3%, which is well below the 5% threshold set by the certification body.

S5 Total enterprise headcount held by part-time employees



S8 Global health & safety

Does your company publish and follow an occupational health and/or global health & safety policy?



Íslandsbanki cares about its employees' well-being and supports their health in a number of ways, in line with its human resources policy. The policy covers factors such as the importance of an encouraging work environment.

Other social factors selected based on sector and internal materiality assessment

Does the company have procedures for detection and reporting of alleged misconduct that are well known by employees?



Mechanisms for anonymous reporting of inappropriate conduct are available to all employees.

Are the company and its products accessible to marginalised groups, small companies, or communities?



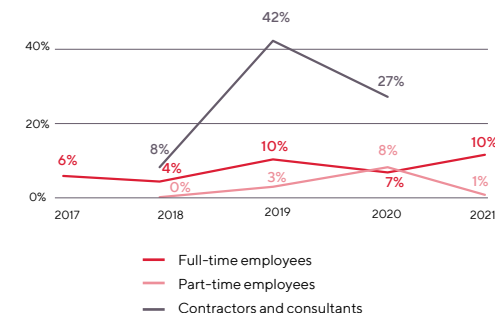
Various factors such as equal rights and accessibility are considered. Furthermore, the Bank stresses that its offices and branches must be accessible to marginalised groups, small companies, and communities.

Does the company offer sustainable loans that support the Government's social objectives?



S3 Employee turnover

Year-over-year change in employees



S6 Non-discrimination

Does your company follow a sexual harassment and/or non-discriminatory policy?



The Bank has in place a policy of sexual harassment and/or equality.

S9 Child & forced labour

Does your company follow a child and forced labour policy?



Íslandsbanki's Sustainability Policy states that the Bank will not do business with any party that is connected in any way with child labour or forced labour.

If yes, do your child and/or forced labor policy cover suppliers and vendors?



Íslandsbanki's Suppliers' Code of Conduct states that the Bank refuses to conduct business with entities that violate human rights including slavery, forced labor or child labour.

5 GENDER
EQUALITY

Equal opportunity for all

Strategic steps have been effective, resulting in gender equality at management level. Íslandsbanki is one of the most gender equal banks worldwide and viewed as a role model in Iceland.

Ensuring further progress towards gender equality

Íslandsbanki has an explicit policy to ensure that the ratio of any given gender does not rise above 60% on each management-level. The ratio is reviewed on a monthly basis and is considered in the hiring of management-level employees. The Bank's job advertisements are gender-neutral and when we have the option of choosing from among equally qualified individuals, the person hired shall be of the less-represented gender. The Bank's values and the composition of the division/department in question are considered in hiring decisions, and if there are sound, objective, job-related reasons for hiring an individual of a given gender, this is permissible.

The Bank also prepared an action plan during the year and set quantifiable targets to increase the number of women in investment banking and information technology (IT). The goal is to bring the share of women to 25% in investment banking and 30% in IT. With this goal as a guidepost, the Bank launched a number of measures, including hiring, and sharpening its focus on cooperation with educational institutions and other organisations so as to boost the ratio of women in these areas.

Diversity and inclusion

Íslandsbanki has set the goal of becoming a more open workplace, and one that welcomes all groups of customers and, no less important, potential employees in our diverse community. After performing some initial analysis, we invited leaders from non-profit organisations representing groups that tend to be marginalised in the labour market – including the National Queer Organisation of Iceland and the Icelandic ADHD Association – as well as individuals who have faced opposition or prejudice because of their ethnic origin or other characteristics that may have contributed to such marginalisation. With information such as this, we want to break down barriers and encourage discourse, learn more, and ultimately, become an even better workplace – one that welcomes everyone in a secure and inviting environment.

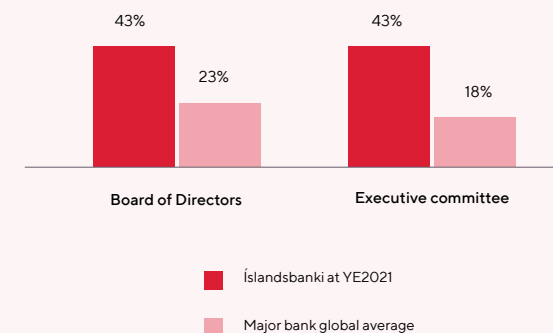


Íslandsbanki has been awarded the **Equality Scale by the Icelandic Association of Business Women (FKA)** every year since inception of the rewards in 2018. The Equality Scale is rewarded in recognition for being one of the leading companies in Iceland when it comes to gender equality.



As in previous years, the Bank received equal pay certification and was awarded professional certification under the **ÍST 85:2012 Equal Pay Standard** for 2021. According to an equal pay certification appraisal conducted in November 2021, the Bank's gender-based pay gap in comparable jobs is 0.3%, which is well below the 5% threshold set by the certification body.

Gender split: targeting always 40:60 or better
(% of women)





Education for all

Wide-ranging educational efforts have long been one of the hallmarks of Íslandsbanki's work in the community. Particular emphasis is placed on accessible financial education in the spirit of the United Nations Sustainable Development Goals (SDGs).

One of the four UN SDGs that Íslandsbanki has pledged to prioritise in its work is Education for all. Strong emphasis has been placed on ensuring that wide-ranging financial education material from the Bank is made accessible to as many as possible, irrespective of age, field of interest, location, time, and language.

Access to Íslandsbanki's financial education was expanded greatly during the year, with an increased number of meetings, subtitling of videos, and even more educational material and information presented in English. In all, about 4,800 people attended 81 educational meetings and lectures given by Íslandsbanki during the year. Furthermore, 22 informative articles were published in the media, a number of educational videos were posted online, and in 132 instances, the Bank's employees provided information on financial matters to the public via media interviews.

Particular care is taken to ensure that Íslandsbanki's educational information covers a wide range and appeals to the broadest possible group of consumers. Among the topics discussed in the Bank's educational materials in 2021 are parental leave, buying a home, using digital banking solutions, business financing, saving, investing in securities, borrowing, pensions, primary and upper secondary school students' finances, the economy, and finance at retirement.

Furthermore, a new type of remote educational seminars called *Fjármálaráðið* was introduced. At the *Fjármálaráðið* meetings, which took place on four Wednesday evenings in February, young people aged 16–25 received information on the Icelandic economy, saving, borrowing, and labour market participation.

The Bank places emphasis on measuring its educational work regularly, and it repeatedly leads the financial market as a provider of educational information.



With apps, websites, and the new Georg puzzle book, **children are encouraged to boost their skills in reading and arithmetic**, and during the year all children who made a deposit to a long-term savings account for minors received books from the series Little People, Big Dreams.

The books tell stories about remarkable individuals – from designers to scientists – who have achieved great things but were once **small children with big dreams**.



Governance 2021

Sustainability
statement 2021

Strategy and
policies

G1 Board diversity

43%

Total **board seats** occupied by women (as compared to men)

67%

Committee chairs occupied by women (as compared to men)

G4 Collective bargaining

Share of total enterprise headcount covered by collective bargaining agreements

100%

G7 Data privacy

Does your company follow a data privacy policy?



The Bank's Data Privacy Policy is comprehensive and available online. Data privacy is an important component to Íslandsbanki's operations and the Bank takes these responsibilities seriously.

Has your company taken steps to comply with GDPR rules?



G10 External assurance

Are your sustainability disclosures assured or validated by a third party?



Auditing firm Ernst & Young was engaged to review and confirm the Bank's environmental information disclosure for 2021 for the first time.

G2 Board independence

Does the company prohibit the CEO from serving as board chair?



According to Article 18 of the Board's Rules of Procedure, the CEO is not permitted to serve as Chairman of a Board, except with the special permission of the Board.

100%

Total board seats occupied by independents

G5 Supplier code of conduct

Are your vendors or suppliers required to follow a code of conduct?



If yes, what percentage of your suppliers have formally certified their compliance with the code?

46%

G8 Sustainability reporting

Does your company publish a sustainability report?



Íslandsbanki publishes an integrated Annual and Sustainability Report each year.

Is sustainability data included in your regulatory filings?



Other governance factors selected based on sector and internal materiality assessment

Has the company examined ESG risk in connection with unlikely major occurrences?



Yes, as part of internal stress tests.

Has the company examined long-term risk in connection with ESG factors?



For further information, see the Pillar 3 Report for 2021.

Does the company enforce a competition law plan?



G3 Incentivised pay

Are executives formally incentivised to perform on sustainability?



According to Article 7 of the Bank's employment terms policy, the Bank does not authorise bonus payments.

G6 Ethics & anti-corruption

Does your company follow an ethics and/or anti-corruption policy?



Íslandsbanki has established a Code of Conduct for its employees and the Bank's Sustainability Policy also addressed ethics and anti-corruption. The Bank furthermore has a policy against money laundering and other corruption.

If yes, what percentage of your workforce has formally certified its compliance with the policy?

98%

G9 Disclosure practices

Does your company provide sustainability data to sustainability reporting frameworks?



Íslandsbanki provides information on its sustainability activities to the UN Global Compact and UN Environmental Programme - Financial Initiative.

Does your company focus on specific UN Sustainable Development Goals (SDGs)?



Íslandsbanki places special emphasis on four of the UN's Sustainable Development Goals: # 4 education for all, # 5 gender equality, # 9 innovation and infrastructure, # 13 climate action.

Does your company set targets and report progress on the UN SDGs?



Íslandsbanki has published sustainability goals for 2025 with special emphasis on four of the UN SDGs.

Does the company enforce a policy on conflicts of interests?



Does the company enforce a policy on handling of complaints?



What obligations or accords has the company undertaken in connection with ESG issues?

UN Global Compact, UN Principles for Responsible Banking, NZBA, TCFD, PCAF, UN Principles for Responsible Investments (Iceland Funds), Nordic CEOs for a Sustainable Future, CFO Taskforce for the SDGs, Festa - Center for Sustainability, Iceland SIF.

Sound governance

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

Guidelines on Corporate Governance

Íslandsbanki's governance practices are in compliance with the Guidelines on Corporate Governance. Each year the Bank conducts an appraisal to ensure that they remain consistent with the Guidelines. The Bank's governance practices are described more fully in its Corporate Governance Statement.

Corporate Governance

Code of Conduct

Íslandsbanki's Code of Conduct is intended to promote sound governance practices within the Bank and to support the regulatory framework applying to its activities. It contains important guidelines for employees, including on risk culture, personal data protection, measures to combat conflicts of interests, anti-money laundering and terrorist financing measures, and reports of misconduct.

Code of Conduct

Anti-money laundering and terrorist financing measures

Measures to combat money laundering and terrorist financing are an important facet of Íslandsbanki's operations, and the Bank is committed to taking all available and appropriate action to ensure that neither it nor its products will be used to launder money or finance acts of terrorism. Robust protection against money laundering is based on effective interactions between employee monitoring and systems, as well as sound governance and professional procedures. In addition to the Bank's anti-money laundering and terrorist financing strategy, employees work according to methods and procedures designed to reduce the risk of such activity, and all employees receive training and education on the topic at least once a year.



Work with suppliers and partners that champion sustainability

In 2021, following Íslandsbanki's approval of its Suppliers' Code of Conduct in 2020, it implemented a new system that administers contracts with suppliers, including whether they have signed the Code of Conduct and confirmed their compliance with it. Suppliers who stand behind roughly half of the Bank's year-2020 turnover have now signed the Code. The Bank met with a large number of suppliers during the year for the express purpose of discussing sustainability and has received very positive feedback.

Suppliers' Code of Conduct

Governance practices are continually evolving

Following the Bank's initial public offering in June 2021 the two following committees were established within the Bank.

Nomination Committee

In accordance with its Articles of Association, the Bank now operates a three-member Nomination Committee whose task is to nominate individuals for positions on the Board of Directors. The Board of Directors appointed Helga Valfells to serve as chair and Tómas Már Sigurðsson to serve as Committee member. Also on the Committee is Hallgrímur Snorrason, Chairman of the Board, in accordance with the provisions of the Bank's Articles of Association on nomination committees.

In addition to the Bank's Nomination Committee, Icelandic State Financial Investments (ISFI) operates a three-person Selection Committee on behalf of the State, whose task is to appoint parties on behalf of the State who are eligible to participate in the boards of directors of banks or undertakings falling under the auspices of the agency. According to the Relationship Agreement between Íslandsbanki and ISFI, the Bank's Nomination Committee and the ISFI Selection Committee shall ensure that when the Board of Directors is elected, the group of candidates satisfies at all times the statutory requirements on board composition, as regards both breadth of knowledge and gender ratio.

The Rules of Procedure of the Nomination Committee

Disclosure Committee

Following Íslandsbanki's listing on the Nasdaq Iceland stock exchange, a Disclosure Committee was established within the Bank. The Committee assesses the Bank's event-specific disclosure requirements and takes decisions on the publication of such disclosures in accordance with the Bank's rules on treatment of insider information and management transactions. Members of the Disclosure Committee are the Chief Financial Officer, General Counsel, Director of Treasury, and Compliance Officer (as a non-voting member).



The UN SDGs and employee participation

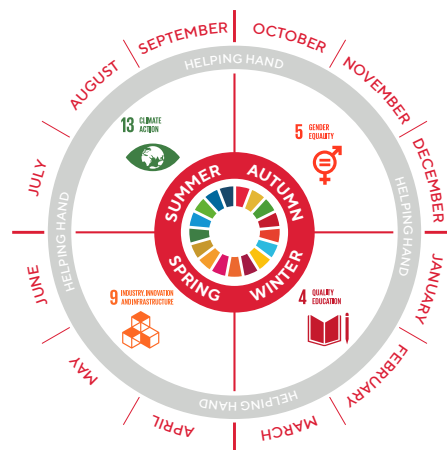
Employee participation is key to achieving the Bank's sustainability objectives and creating a corporate culture that supports the process.

Education and awareness

Each quarter, Íslandsbanki employees were invited to participate in educational events and workshops in connection with the UN SDG for that quarter. For example, the Bank held a number of events relating to the environment, including lectures on global heating, food waste, plastic in the circular economy, wetland reclamation, and collection of birch seeds. Participation peaked at over 300 employees attending in person and via Microsoft Teams. In general, interest and participation have been far beyond our expectations.

Bank employees give a Helping Hand

For over 10 years, Íslandsbanki has encouraged its employees to contribute to charitable causes. Employees can dedicate one workday per year to a good cause under the Bank's Helping Hand programme. This year, a third of all employees took part, although pandemic-related restrictions on gatherings cut into participation relative to previous years. Examples of projects supported in 2021 are afforestation throughout Iceland, shoreline clean-up with the Blue Army, assistance with preparation of Christmas package distribution from Mæðrastyksnefnd, and bicycle repair in connection with Save the Children's bicycle donation



In 2021, the Bank introduced a new sustainability calendar featuring events, educational efforts, and opportunities to give a Helping Hand, with the aim of boosting awareness of the UN SDGs, fostering a sustainability culture, and giving all of our employees the opportunity to be a force for good.

programme. Many of Íslandsbanki's departments and units have supported the same cause or non-profit organisation for a number of years; for instance, one group of Bank employees has supported the cancer survivors' association Ljósið each year since Advent 2016.



Risk management planted trees in Þorláksskógur

Social grants and the Reykjavík Marathon

Among the projects and organisations receiving grants in 2021 were Ramp Up Reykjavik, the Píeta Organisation, the Women's Shelter, the Children's Hospital, and UN Women Iceland's equal rights initiative A Generation of Equality.

In addition, the Bank is the main sponsor of the Reykjavik Marathon and spearheaded the Hlaupastyrkur initiative, under which marathon participants can collect pledges in support of charitable organisations. Hlaupastyrkur is the largest charitable donation drive in the country, with over ISK 1.1 billion collected since 2006, the first-year pledges were solicited in connection with the marathon.



Supporting innovation

Íslandsbanki emphasises fostering innovation in Iceland, and UN SDG #9 – Industry, Innovation, and Infrastructure – is one of the four goals the Bank has chosen to support in various ways.

Innovation Week

Íslandsbanki participated in **Innovation Week 2021** and held an open remote meeting at which previous recipients of Entrepreneurship Fund grants told their stories. Several previous grantees described their projects, explained where they are today, and outlined how the grant helped them to move their work forwards.

Support for innovation hubs and hackathons

The business innovation hub **Skóp** opened formally in Kópavogur in March 2021 after receiving a handsome grant from the Íslandsbanki Entrepreneurship Fund, which helped bringing the project to fruition. In addition, **Hacking Hekla**, the first hackathon to travel all around the country in 2021, was among the projects awarded an Entrepreneurship Fund grant in autumn 2020. Hacking Hekla's aim is to spotlight the innovation taking place in regional Iceland and link together the entrepreneurial scene in the countryside and the city.

Partnership

Íslandsbanki has supported the **Icelandic Ocean Cluster** from the outset in 2011, and today over 50 ocean-focused firms and entrepreneurs have offices in Ocean Cluster House. This includes companies specialising in aquaculture, marine product sales, fishing technology, software, design, biotech, cosmetics, and more. The Bank also supports the **Icelandic Renewable Energy Cluster**, a cluster organisation of ~50 firms in the energy sector in Iceland, predominantly related to geothermal and hydropower.

The grants awarded by the Entrepreneurship Fund this year reflect not only Íslandsbanki's priorities and the four UN SDGs on which the Bank focuses, but also the diversity of ideas and solutions that Icelanders have to offer. It is important to be able to contribute to supporting these ideas, thereby being a force for good in the community.



Una Steinsdóttir
Managing Director of Business Banking and member of the Entrepreneurship Fund's Board of Directors



Entrepreneurship Fund allocations

The Bank's largest contribution in this area is the grants it allocates from the Íslandsbanki Entrepreneurship Fund. The aim of the Fund is to encourage innovation and development and to support entrepreneurial projects that foster the UN SDGs on which the Bank focuses: Quality Education; Gender Equality; Industry, innovation, and Infrastructure; and Climate Action.

In 2021, the Fund granted ISK 35 million to twelve projects, and since 2019 it has granted a total of ISK 125 million in support of 48 entrepreneurial projects. Climate- and circular economy-related projects were prominent among grantees during the year, including Bravo Earth, Fab Lab Ísafjörður, Hreppamjólk, Icelandic Hemp Textiles, Magnea, Orb, Plastplan, Pure North Recycling, and Snerpa Power. Other grant recipients in 2021 were the multi-cultural podcast Mannflóra and the equal rights app HEIMA.

Grants made in 2021

Sustainability is a journey – objectives for the road ahead





We are proud of the progress we have already made, but there is still a lot of work to be done. At Íslandsbanki, good governance is at the heart of how we operate and we have an established oversight and accountability to deliver on our sustainability goals. Each sustainability objective has a clear responsible

owner internally and the Sustainability Committee oversees the progress on annual secondary goals. Annual secondary objectives build on the work done in Íslandsbanki's departments and units as part of the Bank's annual five-year plan.

Íslandsbanki is committed to being a force for good in the Icelandic economy. The Bank fully supports Iceland's ambitious Climate Action Plan and the Government's declared objective of achieving carbon neutrality by 2040. In order to reach this goal, it is vital that Icelandic businesses participate actively in measures that in many cases will demand large-scale investment. Íslandsbanki is determined to drive the transition to a carbon neutral society and to support its customers in their efforts to have a positive impact.

 **Björk Einarsson**
CEO of Íslandsbanki

Íslandsbanki's sustainability objectives through 2025 Secondary objectives for 2022

| | | |
|--|---|--|
|  Environmental | 1. Achieve full carbon neutrality no later than 2040 ¹ | 40% decline in operations-related carbon footprint from 2019–2022 Present officially validated science-based targets for short- and medium term financed emissions |
| | 2. Offer our customers green and sustainable products | Lend additional ISK 40 billion sustainable loans Further increase customer access to and awareness of sustainable savings options |
|  Social | 3. Encourage equality and inclusion through products and services ² | Identify opportunities to empower women or disadvantaged target groups through product offering, education programs and other services Enhance tracking of lending to SMEs that fit the SFF Social Project category of Equality and empowerment |
| | 4. Further increase diversity and inclusion in the workplace ² | Establish a diversity council and host at least eight diversity focused training events Bring the share of women employees to 25% in investment banking and 30% in IT |
|  Corporate Governance | 5. Work with suppliers and partners that champion sustainability | Meet with >10 key suppliers to discuss sustainability performance and emission reduction targets Incorporate sustainability performance as a minimum 10% weight into all formal tender processes |
| | 6. Assess sustainability risk, define responsibility, and increase information disclosure | Disclose scope 1, 2 and 3 GHG emissions in 2021 to the Carbon Disclosure Project (CDP) Increase % of ESG assessed credit exposure from 34% to 70% (excluding lending to individuals and small enterprises which are not in scope) |
|  | 7. Place special emphasis on four of the UN Sustainable Development Goals | Run a refined sustainability calendar engagement with employees throughout the year Aim for >60% participation in Helping Hand volunteering program, encouraging link to the SDGs |

¹Updated objective approved by the Board of Directors in April 2021

²To reflect increased focus on products and services that support equality and inclusion the 2025 objectives related to social factors have been reviewed



Annual and Sustainability Report 2021

Economic review



Economic summary

After a deep contraction in 2020, the economic recovery took root in 2021. Domestic demand gained considerable traction, supported by the Government's economic policy response, an improving labour market, and a sound financial position among most households and businesses. In spite of a small current account deficit, exports also gained ground. The outlook is for output growth to accelerate further in 2022.

The year 2021

The year 2021 GDP growth firmed up again in 2021, after a 6.5% contraction in 2020. The growth phase began in Q2, and GDP growth for the year is estimated at 4.1%.

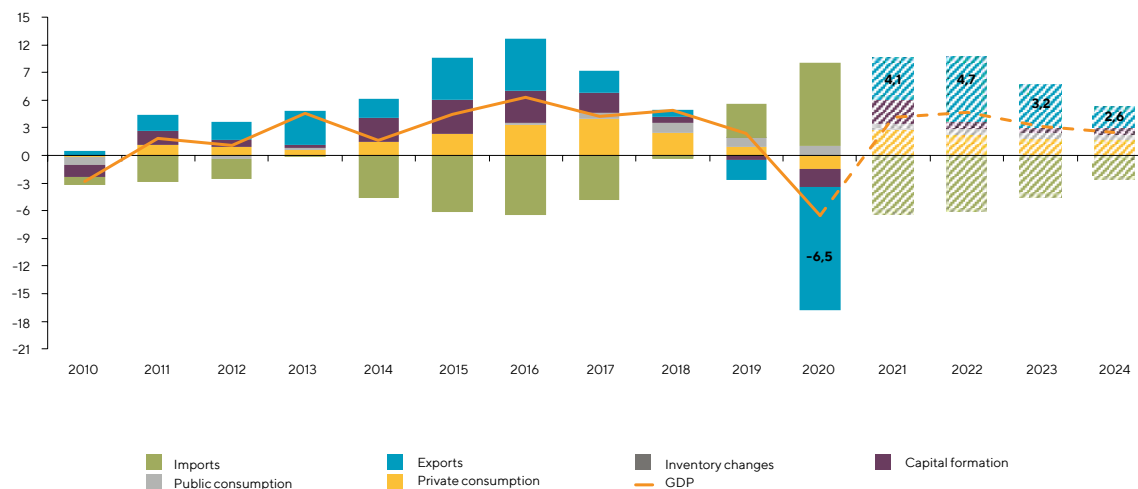
The main driver of growth has been the surge in domestic demand, which in turn stems from strong growth in private consumption and corporate and public investment. Households and businesses benefited from, among other things, Government and Central Bank's pandemic response measures, improvements in the employment situation in labour-intensive sectors, and strong private sector balance sheets at the beginning of the pandemic.

Private consumption is estimated to have grown by more than 5% in 2021. Consumption has increasingly shifted out of the local economy, including overseas travel and major consumer goods such as motor vehicles. Households have been buoyed up by a number of factors: rising real wages (despite high

inflation), declining unemployment, favourable interest rates, rising asset prices, and accumulated savings.

Total investment looks set to have grown by almost 12% during the year, driven mainly by business investment; however, public investment has steadily gained momentum since the Government launched its investment initiative. Residential investment contracted in 2021, however.

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



External trade in balance despite shocks

Even though the pandemic affected 2H2021 more than had been hoped, the tourism sector has rebounded to an extent. Roughly 700,000 foreign tourists visited Iceland in 2021, about 46% more than in 2020, although only a third of the 2019 total. Other exports also grew apace in 2021, including exports of other types of services, as well as marine products and industrial goods. In all, exports grew by just over 13% during the year, but even so, there was a modest current account deficit. Imports of goods and services were up more than 18%, fuelled by imports of consumer goods and investment inputs, as well as services. Although the income account surplus somewhat offset the deficit on goods and services trade, the current account deficit for the year came to roughly 2%. Even so, Iceland's international investment position improved during the year, with external assets exceeding external liabilities by 41% of GDP at year-end.

Labour market rebounds strongly

Developments in the labour market exceeded expectations in 2021. Unemployment fell by more than half over the course of the year, from just over 11% to 5%, although 2.5% of the labour force were still protected by hiring subsidies and other job-related labour market measures at the end of the year.

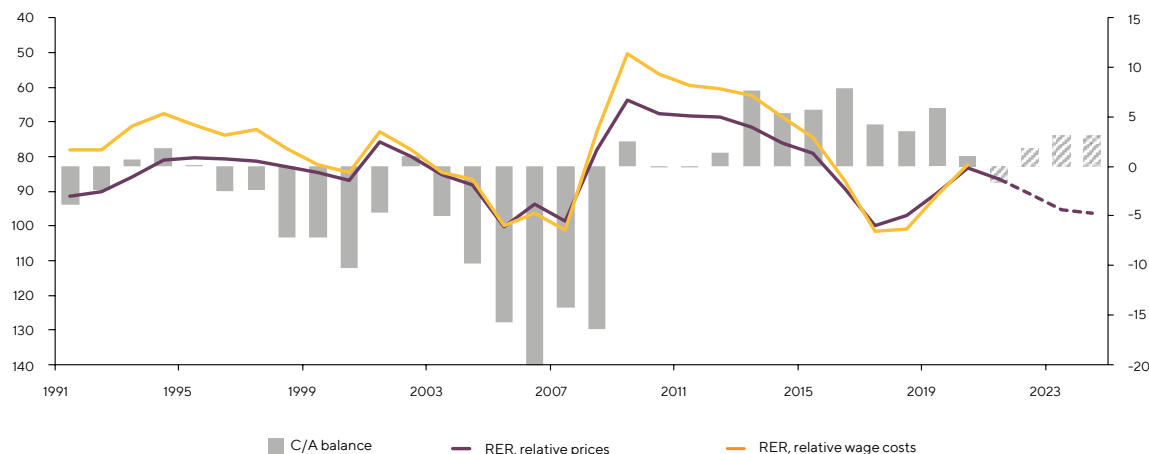
Wages also rose steeply in 2021, led by the public sector, although private sector wages increased markedly as well. Even though inflation was high at the end of the year, real wages rose by an average of just over 2% over the course of 2021. Because unit-based pay hikes were the rule rather than the exception, lower-paid workers saw the largest proportional real wage growth, while real wages for higher-paid workers remained flat or declined marginally.

Inflation and policy rate on the rise in 2021

In trade-weighted terms, the ISK was an average of 2.5% stronger in 2021 than in 2020. Early in the year, the Central Bank supported the ISK significantly by selling foreign currency from their international reserves. In 2H2021, however, the foreign exchange market was generally well-balanced, and the Central Bank intervened far less. In all, the Central Bank sold just over EUR 140m from the reserves in 2021, as compared with more than EUR 830m in 2020.

Even though the ISK appreciated in 2021, inflation rose from 4.3% to a year-end rate of 5.1%. This was in line with the international pattern, with inflation surging in most countries. The composition of inflationary pressures changed greatly during the year. Whereas import prices were the main cause of inflation in 2020, the housing component took the lead over the course of 2021. Growing domestic cost pressures could also be seen in rising domestic services prices, and price hikes abroad – including rising fuel prices – pushed inflation upwards in 2H21.

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

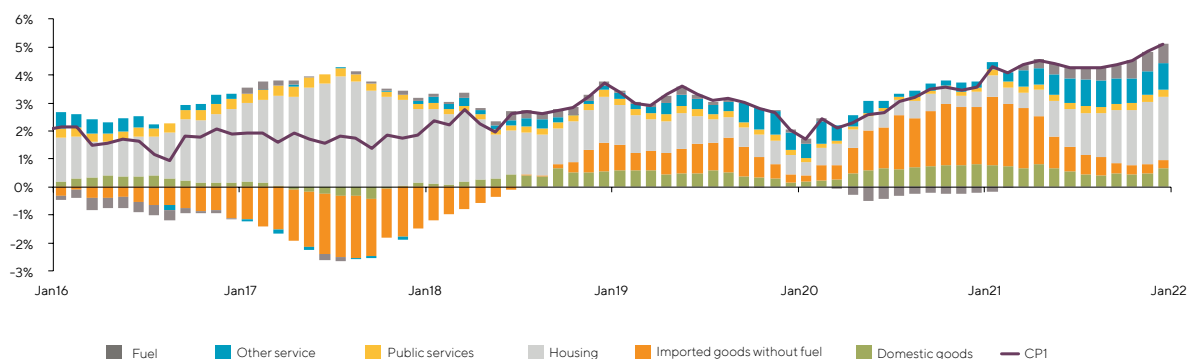


Rising inflation, together with signs of recovery in the economy – particularly to include domestic demand – prompted the Central Bank to embark on a monetary tightening phase in May 2021. The bank raised the policy rate by a total of 1.25 percentage points in 2021, to 2.0% at the year-end. The short-term real rate was still considerably negative at the end of the year, however, and the monetary stance remains accommodative despite the nominal rate hikes.

Strong GDP growth expected in 2022

GDP growth is expected to be relatively strong in 2022, at 4.7%, fuelled mainly by exports but supported as well by robust private consumption growth and modest investment growth. The

Inflation, by source (%)



Source: Statistics Iceland

pandemic could have a major impact on how quickly tourism recovers, but the sector appears set to grow by leaps and bounds during the year. Furthermore, the outlook is for a significant increase in marine product exports, owing in part to a strong capelin season and increased aquaculture output. On the other hand, the outlook is also for strong growth in imports of export-related inputs, as well as imports relating to growing domestic demand.

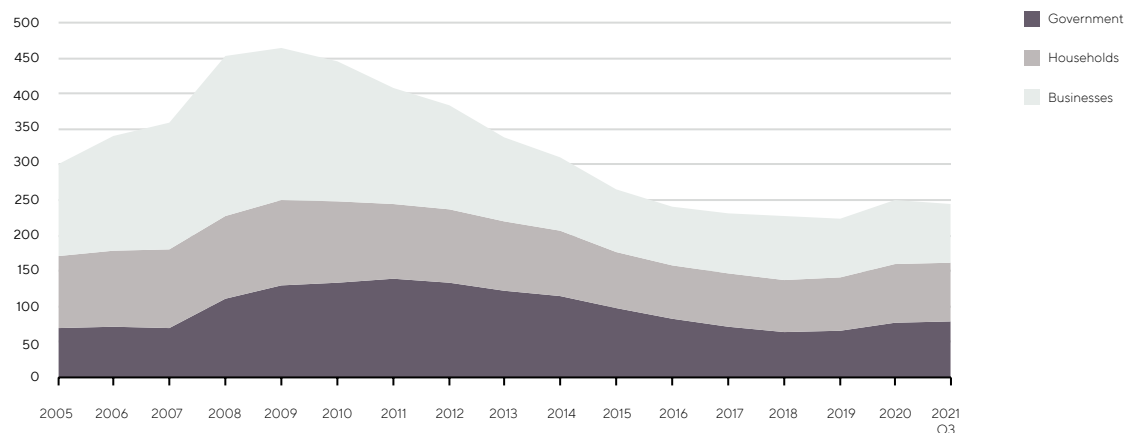
Rising real wages, a more favourable employment situation, and population growth are expected to underpin a large share of the strong private consumption growth projected for 2022. In addition, residential investment is likely to rebound later in the year, albeit offset by declining public investment further ahead. On the other hand, business investment is expected to contract modestly vis-à-vis last year. An increased supply of new flats and rising mortgage lending rates will probably dampen house price inflation as the year progresses.

Unemployment will probably ease steadily as labour-intensive sectors such as tourism and construction

gain steam. The outlook is also for robust wage growth in 1H2022, as the contractually agreed GDP growth supplement for 2020 will probably be paid in May, on top of the unit-based pay hike that took effect at the beginning of the year. There is marked uncertainty further ahead, however, as most workers' wage agreements expire late in 2022.

Export growth and a stronger current account balance will probably lead to an appreciation of the ISK over the course of the year. A stronger ISK and more stable imported goods prices, together with slower house price inflation and economic policy restraint, will probably cut into inflation, which could be close to the Central Bank's 2.5% inflation target by the end of 2022. The Central Bank will probably have to keep raising interest rates throughout the year in order for this to materialise, however.

Although the pandemic has proven more persistent than expected and the end is not yet in sight, the strong position among households, businesses, and the public sector, together with a decisive economic policy response and successful public health measures, has cushioned against the blow and boosted the economy's growth potential for the coming term.

Household, corporate, and public debt
% of GDP

Source: The Central Bank of Iceland



Annual and Sustainability Report 2021

Financials and funding



Financials and funding

Success in an outstanding year, driven by strong underlying business and reversed impairments.



Income statement

Growth in core income due to strong underlying foundations

Net interest income (NII) grew by 4.7% in 4Q21 compared to 4Q20 and by 2% for the whole year, mainly driven by greater lending volumes along with rising interest rates. The average CB policy rate was 1.7% in 4Q21, as compared to 0.9% in 4Q20 and 1.1% for 2021 compared to 1.5% in 2020. The reduction in NII from 3Q21 is explained by a fall in average loans and deposits, combined with higher subordinated loans and a narrower CPI gap.

Net interest margin (NIM) on total assets was 2.4% in 4Q21, as it had been for FY21 as a whole. NIM on loans fell from 2.3% in 4Q20 to 2.1% and NIM for deposits increased from 1.1% in 4Q20 to 1.4% in 4Q21. In terms of full year comparisons, NIM on loans was unchanged at 2.2% from previous year, whereas NIM on deposits was 1.2% in 2021, down slightly from 1.3% in 2020.

The rise in net fee and commission income by 27.5% in 4Q21 from 4Q20 and by 22.1% in 2021 is broadly based. Cards and payment processing reached pre-COVID-19 levels and fees from investment banking and brokerage continued to exceed expectations. The Bank's asset management operations continued to see strong inflows into mutual funds from all client segments. Growth in NFCI is expected to be in line with nominal GDP growth on average through the business cycle. For Iceland Funds, Íslandsbanki's subsidiary, assets under management grew by 17% in 2021 and amounted to ISK 410bn at year-end 2021.

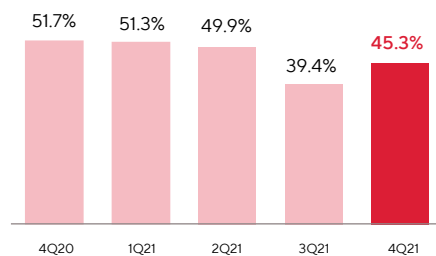
Net financial income lowered by ISK 137m in 4Q21 from 4Q20 but the turnaround for 2021 by ISK 3.9bn is explained by fair value changes and generally favourable market conditions.

A successful year with strong results

"The year was prosperous for Íslandsbanki as financial results were strong and operations had a good momentum. ROE of 12.3% in 2021 exceeds the Bank's financial targets. Income generation was especially good with a 16.3% increase in 2021 with growth in all business areas. We maintained a strong cost focus and saw the cost-to-income ratio fall between years. Brisk mortgage growth contributed to a 7.9% rise in lending and deposits grew by 9.5%. The Bank issued its first Additional Tier 1 – an issue of SEK 750m. The deal was well oversubscribed and was sold to investors across the Nordic countries, France and Switzerland. The Bank is well funded with all liquidity and capital ratios above targets and regulatory requirements. Consequently, the Bank's Board of Directors will propose to the Bank's AGM a dividend payment of ISK 11.9bn and will seek approval to buy back ISK 15bn of its own shares over the coming months."

 **Jón Guðni Ómarsson**
Chief Financial Officer

Cost / income ratio



C/I ratio reduced from previous year

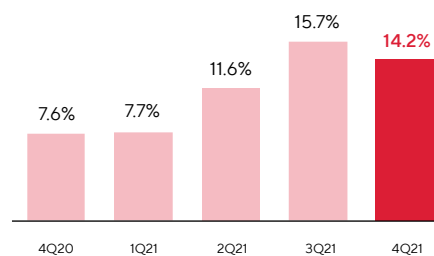
Salaries and related expenses decreased by 3.1% in 4Q21 compared to 4Q20, despite collective salary increases, as a result of lower FTEs. Salaries grew by ISK 480m between years, which is partly explained by one-off cost resulting from the sale of the Bank or ISK 142m. Other factors, such as general wage agreements, layoff costs and increased costs due to early retirement explains this increase.

The reduction in other operating expenses in 4Q21 compared to 4Q20 as well as for the year 2021 is related to general cost reduction efforts. A one-off cost related to Íslandsbanki's IPO totalled ISK 663m in 2021.

The number of FTEs at year-end 2021, excluding seasonal employees, was 702 (745 at YE20) for the parent company and 735 for the Group (779 at YE20).

The cost-to-income ratio was 45.3% in 4Q21 compared to 51.7% in 4Q20. For 2021 the C/I ratio was 46.2% compared to 54.3% in 2020.

Return on equity



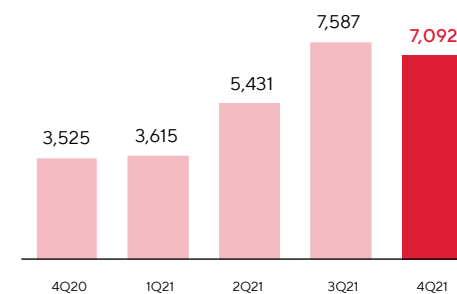
Income tax expense

The effective tax rate was 19.1% in 4Q21 compared to 6.5% for 4Q20. The effective tax rate for 2021 was 18.5% compared to 26.5% for 2020. The Bank is subject to the special financial tax of 6% on taxable profits over ISK 1bn, financial activities tax and social security charges and also makes contributions to the Depositors' and Investors' Guarantee Fund, the Financial Supervisory Authority of the Central Bank, and the Office of the Debtors' Ombudsman. Total taxes and levies amounted to ISK 9.4bn for the year compared to ISK 6.6bn for 2020.

Positive net impairment on financial assets in 4Q21

The positive net impairment of ISK 0.6bn in 4Q21 ISK 3bn in 2021 is mostly due to a brighter outlook for the tourism industry.¹

The annualised cost of risk, measured as net impairment charge over loans to customers, was -23bp in 4Q21 compared to 73bp in 4Q20. The cost of risk for FY21 was -28bp compared to 91bp for FY20.

Profit after tax
(ISKm)

The average cost of risk in 2019 and 2020, excluding the effect of COVID-19, amounted to +35bp, which would have been closer to +30bp based on the current composition of the loan book with a higher proportion of mortgages.

Discontinued operations

An increase in profits from discontinued operations in 4Q21, as well as for the year, is explained by a subsidiary's sale of preferred shares and the sale of land, which was classified as held for sale.

Good fourth quarter result brought 2021 to a satisfying conclusion

Íslandsbanki reported a profit of ISK 7.1bn in 4Q21 (4Q20: ISK 3.5bn), generating a 14.2% annualised return on equity (4Q20: 7.6%). Profit for the year was ISK 23.7bn in 2021 (2020: ISK 6.8bn) and return on equity was 12.3% in 2021 (2020: 3.7%). The ISK 17.0bn increase in net profit between years is mainly explained by higher income and positive loan impairment charges.

Balance sheet

Strong loan growth with a diversified and highly collateralised portfolio

Loans to customers grew by 0.5% in the fourth quarter and 7.9% during the year, mainly from lively mortgage lending (ISK 80.6bn increase in 2021). At year-end mortgages accounted for 42% of loans to customers, in a well-diversified loan book. Loans to corporates decreased by ISK 3.7bn from YE20.

Loans to customers are generally well covered by stable collateral, the majority of which is in residential and commercial real estate whilst the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the residential mortgage portfolio at year-end 2021 was 66%, comparable to 64% at YE20. Íslandsbanki's registered value of commercial real estate is less vulnerable to market fluctuations as collateral has risen at a much slower rate and lagged market prices in prior years.

Four line-items, cash and balances with Central Bank, loans to credit institutions, bonds and debt instruments, and shares and equity instruments, amounted to ISK 322bn at year-end 2021, of which ISK 304bn are liquid assets.

The Bank's asset encumbrance ratio was 19.6% at the end of 4Q21, up from 18.7% at YE20 which is explained by issuance of ISK denominated covered bonds.

High and improving asset quality in line with continued economic recovery following COVID-19

At the end of 4Q21, 8.5% of the gross performing loan book (not in Stage 3) was classified in forbearance, down from 10.8% at end of 2020. The majority of forbore loans are those that have had moratoria granted on a case-by-case basis to customers affected by COVID-19, mostly in the tourism sector. Despite still being classified as forbore, 58% of those loans have resumed regular payments.

At the end of the 4Q21, the share of credit-impaired loans to customers was 2.0% (gross) down from 2.9% at year-end 2020 primarily as some exposures in Stage 3 were fully repaid.

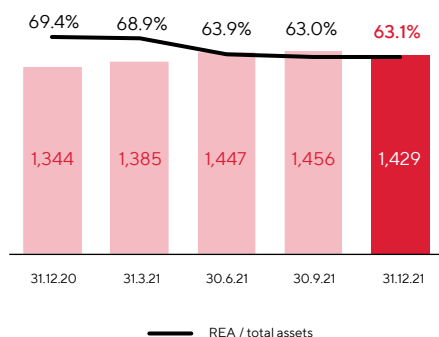
Deposits remain the largest source of funding

Funding is raised to match the lending programme of the Bank using three main funding sources: stable deposits, covered bonds and senior unsecured bonds.

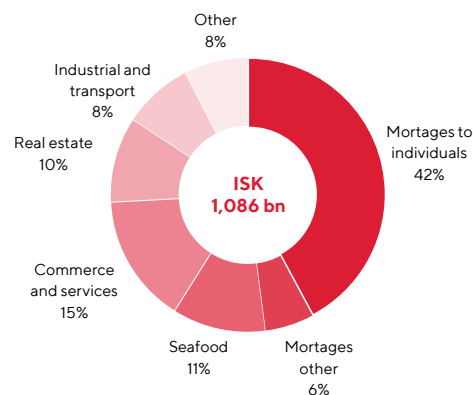
Deposits from customers contracted by 1.4% in 4Q21 but rose by 9.5% in 2021. The main increase was from Business Banking, 26% in the year, while deposits from Personal Banking increased as well, or by 6%. All deposit concentration levels are monitored closely, with concentration falling slightly during the year.

The ratio of customer loans to customer deposits declined from 148% at YE20 to 146% at end of 2021. Deposits from retail and corporations are the Bank's main source of funding, comprising 44% of the Bank's total funding sources and 83% of the Bank's total deposit base at period end.

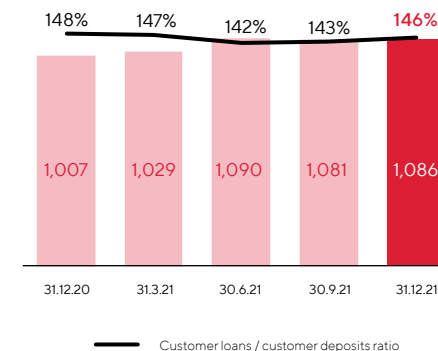
Total assets
(ISKbn)



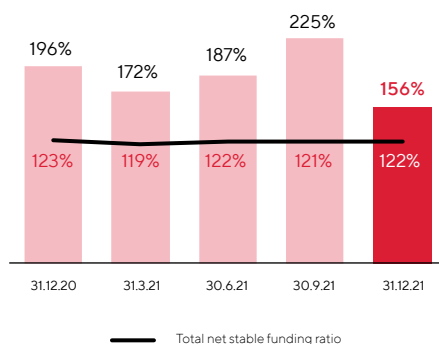
Loans to customers
(Sector split as of 31.12.21)



Loans to customers
(ISKbn)



Total liquidity coverage ratio



The Bank continued its successful issuance of covered bonds during the year to fund the increase in mortgage lending. In 2021 the Bank tapped several outstanding issues, raising ISK 39bn, thereof ISK 7bn in 4Q21.

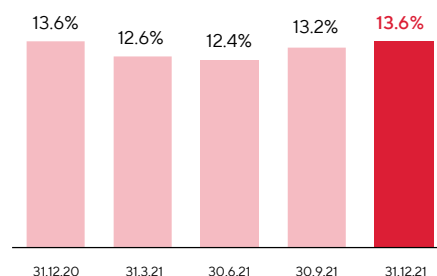
The Bank kept its focus on green and sustainable funding during the year by tapping its outstanding ISK green bond twice for a total of ISK 4bn.

The Bank has demonstrated great consistency of access to foreign capital markets even at times of market turbulence with very strong participation from real-money investors across Europe.

The liquidity position remains strong with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 156% at YE21, down from 196% at YE20. The LCR in foreign currencies declined to 235% at YE21 from 463% at YE20 and LCR in ISK increased to 141% at YE21 from 95% at YE20.

On 28 June 2021, the Central Bank implemented new regulations for NSFR in all currencies according to

Leverage ratio



the CRR II regulation, setting the regulatory minimum at 100%. Simultaneously, minimum requirements for NSFR in foreign currencies were annulled.

The total net stable funding ratio (NSFR) was 122% at YE21 compared to 123% at YE20 and the NSFR in foreign currencies was 157% at YE21 compared with 179% at YE20.

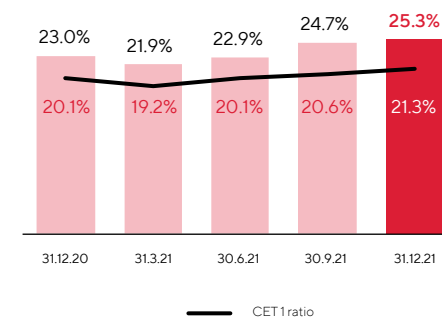
As the Bank's liquidity position remains strong across currencies and above requirements, the Bank may consider debt buybacks or exchanges of outstanding transactions during 2022.

Capital ratios well above targets, excess capital of ISK >40bn provides significant capital return potential

Total equity amounted to ISK 204bn at YE21, compared to ISK 186bn at YE20.

The capital base increased to ISK 228bn at YE21 from ISK 215bn at YE20 based on retained earnings and the SEK 750m AT1 issuance in September 2021. The presentation of the total capital ratio was changed in 1Q21, where expected dividend, based on c. 50% of

Total capital ratio



the previous year's profit, was deducted from 1Q21 onwards.

The Financial Supervision Committee announced on 1 July 2021 the results of the SREP concerning additional capital requirements (Pillar 2-R). The Bank shall as of 30 June 2021 maintain an additional capital requirement of 2.5% of risk exposure amount (REA), which is an increase of 0.8 percentage points from the previous assessment. The Bank's overall capital requirement, taking into account capital buffers, therefore increased from 17.0% to 17.8%. The Pillar 2-R requirements were expected to rise temporarily as a result of COVID-19 and this result is in line with the Bank's expectations.

The Bank's long-term CET1 target is ~16.5% and takes into account an increase in the counter cyclical buffer to 2.0% and a reversal of the COVID-19 effect on the Pillar 2-R.

At YE21, the Bank's total capital ratio was 25.3% compared to 23.0% at YE20. The corresponding Tier 1 ratio was 22.5%, up from 20.1% at YE20. The CET1 ratio was 21.3% at YE21 compared to 20.1% at YE20.

The rise in the capital ratios is based on retained earnings, a reduction in Risk exposure amount (REA) and the issuance of AT1 capital notes in September 2021.

Íslandsbanki launched its inaugural issue of Additional Tier 1 notes in 3Q21 as part of its plan to optimise its capital structure. The issue of SEK 750m perpetual notes with a 5-year call was placed with investors across Scandinavia and continental Europe and was considerably oversubscribed. The transaction pays a coupon of 3-month STIBOR +475 basis points and features a temporary write-down structure, with a 5.125% CET 1 trigger. Headroom for further AT1 issuance is approximately ISK 6bn.

The Board of Directors will be proposing an ISK 11.9bn ordinary dividend payment to the AGM, in line with the Bank's dividend policy. Taking into account the ordinary dividend payment, the issuance of Additional Tier 1 instruments and assuming that the countercyclical buffer increases to 2%, the Bank estimates that long-term excess CET1 capital is approximately ISK 40bn.² The Bank assumes that CET1 capital will be so optimised in the next 12–24 months. In addition, the Bank will propose an ISK 15bn buyback of its own shares in the coming months, subject to the approval of both the AGM and the Central Bank. Three options are to be considered: A share buyback programme, a tender offer or a block sale participation.

Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 902bn at YE21 compared to ISK 934bn at YE20. REA amounts to 63% of total assets at YE21, compared to 69% at YE20. The implementation of EU regulation

2019/876 in Iceland caused the reduction in REA, contributing to a 60bp rise in the capital ratios.

The leverage ratio was 13.6% at YE21, same as at YE20.

Modest market risk profile

The Bank's market risk mainly derives from aggregate balance sheet imbalances in interest rate, inflation and currency positions as well as the Bank's liquidity portfolio managed by Treasury.

The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the year-end 2021, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 41m, compared to ISK 26.2bn at YE20. The imbalances are managed via CPI-linked swaps, the issuance of CPI-linked covered bonds and CPI-linked deposit programmes.

The currency imbalance was ISK -0.3bn (0.1% of the total capital base) at year-end 2021, compared to ISK 5.1bn (2.4% of the total capital base) at YE20. The Bank's imbalances are strictly monitored and are within regulatory limits.



² Based on long term capital targets. An increase in 4Q21 in excess CET1 is due to strong financial result and lower REA. This amount will fluctuate with the level of net profits and changes in REA



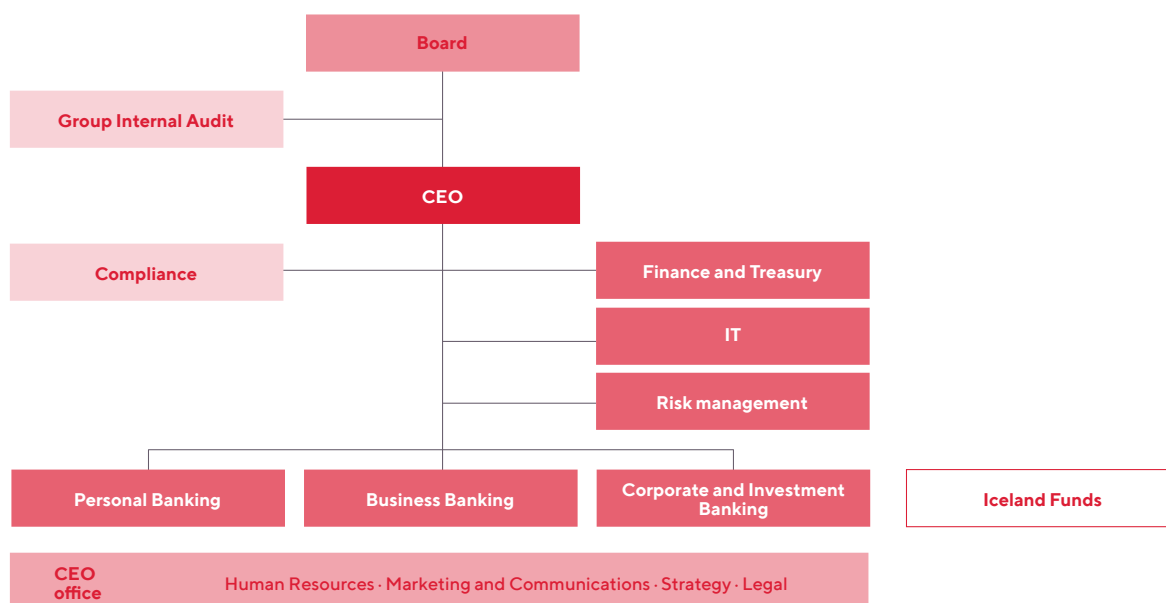
Annual and Sustainability Report 2021

Corporate and organisational structure



Organisational structure

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



Íslandsbanki Articles of Association

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

Articles of Association

During the year, 35% of shares in the Bank were admitted for trading on the Nasdaq Iceland stock exchange. The Bank publishes a list of shareholders who own more than 1% of shares in the Bank.

Icelandic State Financial Investments, on behalf of the Government, is the largest shareholder, with a stake of 65%, in accordance with the Act on Icelandic State Financial Investments, no. 88/2009, and the Government's policy on ownership of financial institutions. The Government's objective as owner is to ensure that the Bank's activities promote confidence in and credibility of the financial market, foster competition in the financial market, and maximise the risk-adjusted long-term value for the Government.

Board of Directors and Board subcommittees

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

Íslandsbanki Board of Directors

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

Rules of Procedure

Board subcommittees

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

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



Board of Directors



Hallgrímur Snorrason

Chairman of the Board
since March 2020, joined
the Board in April 2016



Anna Þórðardóttir

Joined the Board
in April 2016



Árni Stefánsson

Joined the Board
in April 2016



Frosti Ólafsson

Joined the Board
in March 2020



**Guðrún
Þorgeirsdóttir**

Joined the Board
in March 2020



Heiðrún Jónsdóttir

Vice-Chairman of the
Board since March 2020,
joined the Board
in April 2016



Jökull H. Úlfsson

Joined the Board
in March 2021

[Further information on Board members](#)

CEO and CEO's advisory committees

The CEO is responsible for ensuring that the Bank's operations and activities are at all times in compliance with the Bank's Articles of Association, its approved policies and strategies, Board directives, and the applicable regulatory instruments.

The CEO hires Managing Directors for the Bank's divisions and appoints members to serve on the CEO's advisory committees. The CEO's advisory committees fall into two categories: Policy-Setting Committees, which implement Board policies, and Business Committees, which take a position on specific business matters.

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

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

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

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



Executive Committee



Birna Einarsdóttir

Chief Executive Officer
since October 2008



**Ásmundur
Tryggvason**

Managing Director
of Corporate and
Investment Banking
since January 2019



**Guðmundur Kristinn
Birgisson**

Chief Risk Officer
since October 2018



Jón Guðni Ómarsson

Chief Financial Officer
since October 2011



**Sigríður Hrefna
Hrafnkelsdóttir**

Managing Director
of Personal Banking
since May 2017



Riaan Dreyer

Managing Director of IT
since September 2019



Una Steinsdóttir

Managing Director
of Business Banking
since May 2017

[Further information on Executive Committee](#)

Auditor's Limited Assurance Report

To Íslandsbanki hf.



Introduction

We have been engaged by the Board of Directors of Íslandsbanki hf. (the Bank) to undertake a limited assurance engagement of *selected information* in the Bank's Annual and Sustainability Report for the year 2021.

Assurance scope

The scope of our work was limited to providing assurance on:

- The environmental factors as presented on page 42 and 44 of the Bank's Annual and Sustainability Report 2021 and
- The Bank's offset of CO₂ emission for 2021 as presented on page 44 of the Bank's Annual and Sustainability Report 2021

Together: "*the selected information*"

Our assurance does not extend to any other information in the Annual and Sustainability Report.

Responsibilities of the Board of Directors and the Executive Management for the Annual and Sustainability Report

The Board of Directors and the Executive Management are responsible for preparing and presenting the Annual and Sustainability Report. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Annual and Sustainability Report, such that it is free from material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a limited assurance conclusion on the *selected information* specified above based on the procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information issued by IAASB. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Annual and Sustainability Reporting, and applying analytical and other limited assurance procedures, including inspection of documentation, and limited sample testing of the selected information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. The procedures performed, consequently, do not enable us to obtain assurance that we would

become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

We performed our review from November 2021 to February 2022. Our work consisted of the following:

- Interviews with employees of the Bank to gain an understanding of the design of processes, systems and controls around; gathering data underlying the carbon emission calculation, incorporating the data into an outsourced system to calculate the emission, preparation of the Annual and Sustainability Report and review of the accuracy and consistency of the report.
- Interviews with employees of the service provider of the emission calculations to understand the process around receiving data from the Bank, the use of carbon indexes and the calculation of the emission.
- Review of documentation underlying the statement that the CO₂ emissions of the Bank has been offset by purchase of offset certificates.
- We have performed analytical review of the reported data, as well as evaluated and given feedback on the reliability and validity of the underlying sources.
- Finally, we have evaluated the overall presentation of the sustainability section of the Annual and Sustainability Report 2021, including the consistency of information.

Our independence and quality control

Ernst & Young ehf. applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Íslandsbanki in accordance with professional ethics for accountants and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Conclusion

Based on the limited assurance procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the *selected information* disclosed in the Bank's Annual and Sustainability Report have not been prepared, in all material respects, in accordance with the reporting criteria.

Reykjavik, 10 February 2022

Margrét Pétursdóttir
Authorised Public Accountant

