



Annual and Sustainability Report

2022





Table of contents



1 Highlights of 2022	4
This is Íslandsbanki	
Year 2022	
2 To our stakeholders	7
3 Empowering our customers to succeed	14
Strategy	
Our people	
4 Through collaboration we are #1 for service	20
Personal Banking	
Business Banking	
Corporate and Investment Banking	
Iceland Funds	
5 Strong foundations through professionalism	29
IT	
Risk	
6 Sustainable Íslandsbanki	34
Environmental	
Social	
Governance	
7 Economic review	53
8 Financials and funding	58
9 Corporate and organisational structure	62

This Annual and Sustainability Report was written in Icelandic and translated to English. In case of discrepancy, the Icelandic 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 reports designed to provide stakeholders with additional information on specific subjects such as risk management, financial and sustainability performance.

Together, these reports provide a comprehensive and detailed picture of the Bank's activities in 2022, along with the main priorities. Those 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.





Annual and Sustainability Report 2022

1 Highlights of 2022





This is Íslandsbanki

Moving Iceland forward
by empowering our
customers to succeed



Vision to be
#1 for service



Passion



Professionalism



Collaboration

The Bank



700
number of FTEs
at Íslandsbanki at
year-end

12



branches



Listed on the Nasdaq Iceland stock
exchange as of June 2021

Key Figures 2022

ROE **11.8%**

Cost-to-income ratio **42.1%**

Total capital ratio **22.2%**

CET1 ratio **18.8%**

LCR **205%**

Group, all currencies

NSFR **118%**

Group, all currencies

Leverage ratio **12.1%**

Total assets **ISK 1,566 bn**

Market share¹



31%
Personal Banking



36%
Business Banking



35%
Corporate and
Investment Banking

Ratings and certifications

S&P Global
Ratings

BBB/A-2
Stable outlook



Sustainability



Submitted net-zero sectorial
pathways to the NZBA and CDP
Climate Change disclosures²



Íslandsbanki regarded as most
sustainable bank in Iceland³



Íslandsbanki receives top ESG
score (90/100) from Reitun for
the second year in a row

Digital milestones



New sales and pension
platforms, increase
integration and efficiency



Securities trading in app
and corporates overdraft
implemented



Íslandsbanki the first
Icelandic bank to implement
Google Wallet™

¹Based on Gallup surveys regarding primary bank. 2022 average for retail customers and SMEs and 2022 average for large companies

²NZBA: Net-Zero Banking Alliance. CDP: Carbon Disclosure Project.

³Gallup Iceland telephone/internet survey among 300 largest companies in Iceland December 2022 conducted for Íslandsbanki.



Year 2022

Q1

JANUARY

The Bank issued a **EUR 300 million sustainable bond** with a maturity of three years.

Íslandsbanki Research issued a **macroeconomic forecast for 2022-2024**.

FEBRUARY

Íslandsbanki published **its initial estimates of the financed emissions** for 2020 and 2019 according to the PCAF methodology.

MARCH

Íslandsbanki **auctioned a new covered bond series**. Accepted bids totalled ISK 1,620 million.

Íslandsbanki and its employees donated **ISK 4 million** to the Red Cross Emergency Fund **to support refugees** from the war in Ukraine.

The Nordic Investment Bank (NIB) and Íslandsbanki **signed a USD 87 million loan** for on-lending to small and medium-sized enterprises and environmental projects in Iceland.

Icelandic State Financial Investments (ISFI) **began selling** a portion of the State's holding in Íslandsbanki.

Íslandsbanki **announced the issue of ISK 10 billion of covered bonds for its own use**.

Q2

APRIL

Íslandsbanki's **ATMs** upgraded to support **electronic identification** for all major operations.

New sales platform enables customers to add products and services to their shopping cart and complete their order in a simple way.

MAY

Íslandsbanki gave **56 pieces of art from the Bank's collection** to art museums around Iceland.

Íslandsbanki Research issued an **updated macroeconomic forecast for 2022-2024**.

JUNE

S&P Global Ratings assigned Íslandsbanki's covered bond program an **A credit rating**.

Íslandsbanki acted as advisor to the real estate firm Íþaka and oversaw the **ISK 3 billion bond sale and application for admittance to trading** when Íþaka refinanced a portion of its loan portfolio.

Íslandsbanki's Corporate Finance advised on Regin's **ISK 5.6 billion real estate purchase** in Central Reykjavík.

Brim, in cooperation with Íslandsbanki, completed its first **blue and green bond issue in the amount of ISK 5 billion**.

The FSA concluded its **annual assessment** of the Bank's capital requirement.

Q3

JULY

The new Framtíðarauður pension fund member website **makes self-serve options easier for customers**.

Íslandsbanki passes Reitun's **UFS evaluation with a top grade**.

Euromoney chooses Íslandsbanki as the **best bank in Iceland**.

S&P Global Ratings affirmed Íslandsbanki's rating at **BBB /A-2 with a stable outlook**.

Íslandsbanki publishes the 2021 **Allocation and Impact report for the Bank's Sustainable Financing Framework**.

AUGUST

The Bank has merged its securities brokerage and securities advisory services units **to form a single department**.

The Bank **implements Google Wallet™**, enabling customers to use Google Pay™ on their devices.

Íslandsbanki's **37th Reykjavík Marathon took place** after a two year hiatus due to COVID-19.

SEPTEMBER

Íslandsbanki **issued inaugural international EUR 300 million covered bond** with a maturity of five years.

Íslandsbanki presents the **appointments to its Nomination Committee**.

Íslandsbanki Research issued a **second updated macroeconomic forecast for 2022-2024**.

Q4

OCTOBER

Herdís Gunnarsdóttir joined the Board of Directors of Íslandsbanki.

Íslandsbanki **entered a market making agreement for covered bonds** issued by Íslandsbanki on NASDAQ Iceland.

The Bank plays a key role in the **sale of Míla to Arian France SA**.

Íslandsbanki received **FKA's Equality Scale Award** for the fourth consecutive year.

Customers able to **buy and sell equities using the Íslandsbanki app**.

NOVEMBER

Íslandsbanki published its **carbon neutrality report, On the Road to Net-Zero**. The report describes the Bank's objectives and performance in connection with climate issues.

Íslandsbanki issued **senior preferred bonds in NOK and SEK**.

The Bank **concluded a green senior preferred bond auction**.

DECEMBER

Íslandsbanki awarded **15 grants** totalling ISK 40 million from the **Íslandsbanki Entrepreneurship Fund**.

Íslandsbanki's brand was selected as one of **Iceland's best brands** among companies with 50 or more employees.



Try clicking the items for further information



Annual and Sustainability Report 2022

2 To our stakeholders



Chairman's statement

Íslandsbanki had a good year in 2022 despite uncertainties in the domestic and global economies. The Bank launched a wide range of projects with its customers after the demanding years of the pandemic. After the Bank was listed on the stock market in 2021, the State continued to scale down its holding, selling a 22.5% stake in the Bank and meeting its financial targets. It can be said that the sale was broadly successful, although certain parts of the process could have gone better and the transaction was controversial. The sale of the holding in the Bank has generated in total just over ISK 108 billion for the Treasury. The Bank's operations flourished during the year, and its returns exceeded expectations and forecasts.

Iceland has faced a period of economic headwinds stemming from the impact of the COVID-19 pandemic and the war in Ukraine, both of which have pushed prices sharply upwards worldwide. Iceland has not been spared the repercussions, but fortunately, the inflation outlook has improved after an episode of monetary tightening by the Central Bank. Rising energy prices have made their mark widely, including in our neighbouring countries. While we benefit from our renewable resources, although we cannot escape the effects of higher energy prices on world trade.

The resurgence of tourism as a key export sector in 2022 made a major difference for the domestic economy, and rapidly growing tourism-generated foreign exchange revenues did much to offset the growing deficit on goods trade in the second half of the year. The Bank's macroeconomic forecast, issued in February 2023, assumes that exports will continue to play a key role, owing largely to the ongoing rise in tourist visits, plus exports of intellectual property and other services and a surge in farmed fish exports.



“

Íslandsbanki had a good year in 2022 despite uncertainties in the domestic economy and the global environment. The Bank launched a wide range of projects with its customers after the demanding years of the pandemic.

Finnur Árnason
Chairman of the Board

Inflation peaked in 2022

The Bank's customers and others undeniably felt the effects of rising inflation, which peaked during the year. Inflation is expected to ease in the coming term, with slower house price increases and more stable import prices. At the same time, it is clear that the labour market will remain tight, and real wages look set to start growing again as soon as next year. The Central Bank of Iceland (CBI) is expected to maintain a tight monetary stance, as inflation is far from the 2.5% inflation target and the CBI's decisions in 2022 showed its willingness to use the tools it has at its disposal. The Bank's forecasts assumed that the CBI would raise the policy rate to a peak of 6% during the year – which it indeed did with its November interest rate decision – and then ease it downwards over the course of 2023.

The outlook is favourable

Íslandsbanki has made a determined effort, as it always has, to stand by its customers through times of economic uncertainty. This applies to all of the Bank's divisions. To this end, the Bank has done its utmost to meet the needs of households and businesses, including by amending loan agreements. Icelandic households have increasingly opted for fixed rather than floating interest rates. Even though the CBI was widely criticised for its policy rate hikes in 2022, it is impossible to ignore the fact that the economic policy response from the Government – including that of CBI – played a major role in cushioning against the blows dealt the Icelandic economy by the pandemic and other shocks in the recent term.

Íslandsbanki can feel the strength of its customers, who made significant advances during the year. Although the pandemic was demanding for many firms, they made a number of positive moves that will benefit them in the future. Many firms made real strides in digital development, and their use of technology is moving forward at a rapid pace. Íslandsbanki is no exception: it has vastly improved and simplified the service it provides to customers, so that nearly all banking transactions can be carried out via smart device. This gives the Bank the chance to make even better use of its employees' time, enabling them to provide more personal and more thorough advisory services to customers who are making big decisions.

Sale of a 22.5% stake in the Bank

Íslandsbanki was the topic of much public discussion during the year because of the Government's sale of 22.5% of its share capital in the Bank in March. Íslandsbanki was among the advisors, but as has been reported previously, Icelandic State Financial Investments oversaw the process. In retrospect, there is much that can be learned from it, but the report from the Icelandic National Audit Office states that the sale was favourable for the Government, generating ISK 108 billion in revenues, with about a fifth of that amount coming from foreign investors. The CBI's Financial Supervisory Authority has sent Íslandsbanki a preliminary draft of the findings from its investigation of the Bank's execution of the sale in March. It is clear that the Bank should have handled certain aspects of the transaction better. The Bank has requested to conclude the matter through a settlement process and will provide information once the process is complete.

Robust operations

In general, the year was a good one for Íslandsbanki, and its strong operations reflect a stable, high-quality loan portfolio. The Bank's return on equity has exceeded both internal targets and forecasts published by analysts at the beginning of the year. Income from core operation has continued to rise and expenses to fall. The Bank's assets are of high quality, and its loan portfolio is well secured. Its operations are responsible, and emphasis is placed on sustainability throughout the Bank. It is our belief that the Icelandic economy will remain strong, and Íslandsbanki is committed to making its contribution together with its customers.

Thanks

It was very satisfying to take a seat on the Board of Íslandsbanki alongside such a talented group of people. We have all been aware of the strength and passion of the Bank's employees under the steady guidance of Birna Einarsdóttir. Thanks are due to the Bank's management team for their deft leadership of the various tasks they have steered – leadership that is reflected in the Bank's favourable operating performance and growing strength from year to year. I would like to close by thanking the staff of Íslandsbanki for their invaluable contribution in 2022. Íslandsbanki stands on solid ground and continues to be a force for good in the community. The future is bright.

CEO's address

We can be proud of Íslandsbanki's performance in 2022. Operations are solid, and we have managed to keep costs under control in spite of inflation. The Bank's assets are of high quality, and its loan portfolio is strong. The Icelandic economy has remained buoyant during turbulent times, and the Bank is an important participant in it.

In the vanguard

Íslandsbanki makes a concerted effort to be in the forefront in use of new technology, and its digital processes put the Bank in the lead in Europe. For instance, the Bank's product sales and services were revolutionised by its new sale platform, which enables customers to use a single authentication to carry out transactions with the Bank's deposit, credit, and lending products. Íslandsbanki was also first in the Icelandic market to introduce Google Pay as a payment solution. In addition, we rolled out a sustainable savings account for individuals and introduced Ávöxtun, the first fully digital deposit account. We have noticed that there is keen interest in Ávöxtun, and deposits have

grown exponentially since we launched our marketing campaign.

Íslandsbanki's software development centre in Warsaw began full-scale operations in 2022, and we can already see the increased support the unit provides to the IT Division. In 2023, Íslandsbanki's digital priorities will be on harnessing data for decision-making and enhancing automation in the areas of lending and business services. We can see that increased cooperation across units of the Bank and more effective data utilisation will give us a host of opportunities to provide digital yet personal service.



“

The Bank makes a concerted effort to be a leader in the use of the newest technology, and indeed, its digital processes are at the forefront in Europe.

Birna Einarsdóttir
Chief Executive Officer

The Bank's position is strong

Deposits, the Bank's largest single source of funding, continued to grow during the year. The Bank also obtains funding through listed bond issues, both in Iceland and in foreign markets. Conditions in foreign bond markets worsened significantly in the wake of the war in Ukraine and the deterioration of the global economy, and are at their most challenging in decades. Nevertheless, Íslandsbanki showed its strength and managed to diversify its wholesale funding even further, including with its first euro-denominated covered bond issue, a loan from the Nordic Investment Bank (NIB), and its first króna-denominated subordinated bonds.

We celebrated a number of small and large victories during the year. The conclusion of Síminn's sale of Mila to Ardian France SA was a major milestone for us, as Íslandsbanki played a key role in the process. Investment banking had a good year, and the sale of Mila, its biggest project of the year, showed the Bank's capacity to lead and integrate a multifaceted transaction, one of the largest foreign investments in Iceland in years.

Mortgage lending grew apace at Íslandsbanki in 2022. Actually, there was strong demand for new loans throughout the Bank's divisions, as well as at Ergo, its asset financing arm. Over the course of the year, new lending grew by 9.2%, with loans to tourism operators and construction projects weighing heaviest. Deposits have also grown markedly, or by 6% in 2022 and by around 28% since end-2019.

During the year, we focused on increasing the ratio of credit risk that is assessed in terms of environmental, social, and governance-related risk – commonly referred to as ESG risk-assessed credit risk – from 34% to 70% among large corporate borrowers, and we reached that goal.

Through the years, Íslandsbanki's market share in the provision of service to small and medium-sized enterprises, or SMEs, has reflected its strong position among these customers. During the year, we launched a new promotional campaign introducing our SME services – called Your Firm in the Driver's Seat – emphasising how the Bank's success is intertwined with that of its customers.

We also made organisational changes by merging securities-related brokerage and advisory services into a single unit, Securities Brokerage, with the aim of enhancing the Bank's strength in the securities market and fostering continued product development. Despite demanding market conditions, the Bank's Asset Management initiative has been successful, and we see a steadily growing number of customers seeking out these services.

We issued the first loans in cooperation with Iceland Funds' Corporate Credit Fund, which grew and expanded during the year. Fund subscribers rose in number from 2,200 in 2021 to 2,800 in 2022, an increase of roughly 25%. Households have continued to step up their saving, investing a sizeable share in funds, with the result that assets under management by Iceland Funds are at an all-time high. Iceland Funds' digital business grew by 7% in 2022, and now nearly half of all transactions take place via the Íslandsbanki app. In addition, Íslandsbanki is a leader in responsible investment and published data on its financed emissions for the first time during the year.

Focus on equal rights

Íslandsbanki places great importance on equal rights in a broad sense, including gender parity, inclusiveness,

and accessibility for all. News coverage during the year included reports of setbacks in attitudes towards minorities. We must be on the watch and work against potential setbacks in equal rights – not only as regards the Bank's personnel, but also vis-à-vis our customers and our product offerings.

Íslandsbanki works systematically to boost knowledge, proficiency, and interest in finance by offering accessible and interesting educational materials on financial matters. These materials are also available in English, and special educational seminars have been held for refugees. Furthermore, at the beginning of the year we offered a remote seminar tailored to young people aged 16–25. Íslandsbanki also makes an effort to provide service to immigrants and has made its app and online bank available in English and Polish.

Furthermore, the Bank has focused on boosting women's interest and participation in investing. During the year, Íslandsbanki had the distinct honour of receiving the Equality Scale by the Association of Businesswomen in Iceland (FKA) for the fourth time in a row. Recognition such as this encourages us to hold fast to our commitment to focus on equal rights. It was particularly satisfying to see a full house at our meeting on women and finance. Íslandsbanki has held regular meetings on equal rights-related matters since 2015, and over 2,000 women have attended.

The Íslandsbanki Entrepreneurship Fund pursued its goal of encouraging innovation and development during the year, and in early December it awarded ISK 40 million in grants to 15 entrepreneurial projects. In order to be eligible for a grant, the project must promote the four UN Sustainable Development Goals that Íslandsbanki

has chosen to emphasise. In recent years, the Fund has awarded ISK 165 million in grants to a wide range of projects.

Spotlight on sustainability

Íslandsbanki traces its history 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 outset, the Bank has been a force in the community, and since 2014 sustainability has been one of its key strategic priorities. The results of the strategy formulation work done in 2019 defined sustainability and a positive impact on society as the Bank's role: to be a force for good in the community.

The links between sustainability and service are growing stronger, and a steadily increasing number of firms have examined their operations and made changes so that they, like Íslandsbanki, can be a force for good. It is important that we all put our weight on the scales, but it was certainly gratifying to us to see Íslandsbanki stand out from the crowd for its focus on sustainability. In a survey conducted among Iceland's 300 largest firms, 55% of respondents mentioned Íslandsbanki as the leader for sustainability, which a constantly growing number of firms consider an important aspect of business operations.

Customers' interest in sustainable products can also be seen throughout the Bank. A Gallup survey carried out at the beginning of the year also shows this clearly. Respondents were asked whether it mattered to them that their main commercial bank was a leader in sustainability. In the most recent survey, six of every ten participants said it mattered a great deal, which is twice the number from the previous year, when three of every ten gave the same response. This is, of course, enormously encouraging for us.



Net zero is the goal

Íslandsbanki's brand is strong and its image positive – enough so that the Bank was nominated by Brandr as one of Iceland's top brands among companies with over 50 employees in the individual market.

The Bank's performance in sustainability also continued to improve, according to ESG rating company Reitun, as Íslandsbanki received the highest score this past summer even though requirements had been tightened between years. It was extremely gratifying to see the Bank's environmental score rise by 12.9% year-on-year. Íslandsbanki's strong performance in the assessment reflects its determination to be a model of exemplary operations in the Icelandic business community. Emphasis on sustainability is part of all procedures and work habits within the Bank, and employees and management alike are keenly aware of the need to perform well in this area. We care about the environment and continue to work towards our target of achieving full carbon neutrality by 2040.

Íslandsbanki is also 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. We are proud to participate in a worldwide network of banks that share the experience and expertise they have gained on their journey towards this shared goal.

Concurrent with the publication of our third quarter 2022 financial statements, we released our carbon neutrality report, *On the Road to Net-Zero*. One of the key findings from the report is that emissions from lending activities will decline 60% by 2030 and 85% by 2040. **On the Road to Net-Zero** shows, however, that

the goal of achieving a carbon-neutral loan portfolio by 2040 is a very ambitious one. The path to this target is certainly not an easy one, nor is it fully mapped out. But the policy must be set so that it can be made clear what steps we must take, bravely and steadfastly. We want to show by our actions that we are ready to support our customers on their path to reduced emissions.

Sound operations

During the year, Íslandsbanki was designated Iceland's best bank by Euromoney magazine for the fifth time, with the adjudication panel citing the Bank's successful operations, income growth, and cost reduction. Awards like this are always encouraging to us.

In 2022, Íslandsbanki generated a profit of ISK 24.5 billion, and its return on equity amounted to 11.8%, exceeding both the Bank's internal targets and market agents' expectations. Income growth year-on-year measured 14.1%, including 27% growth in fees and commissions. The Bank's expense ratio was 42.1%, down from the previous year's ratio of 46.2%. Loans to customers reflect trends in the Icelandic real estate market, growing by ISK 100 billion, or 9.2% year-on-year. Customer deposits grew by ISK 47 billion, or 6.2%.

Furthermore, the Bank worked systematically with its customers to create the most favourable financing structure for them; for instance, by combining bond issues with conventional loans. Íslandsbanki leads the market for FX Sales, which had yet another good year in 2022.

The State continued to scale down its holding in the Bank during the year, selling a 22.5% stake in February, leaving its ownership share at 42.5% at the year-end. The execution of the sale and the Bank's role as advisor generated significant public discussion. Official entities have conducted an appraisal of the share capital offering, and the results are expected in the near future.

Thanks to customers and staff members

As we look back, we can be proud of the Bank's performance in 2022, which reflects our values: passion, collaboration, and professionalism. I would like to thank the Bank's employees, who gave their all to provide top-quality professional service to our customers.

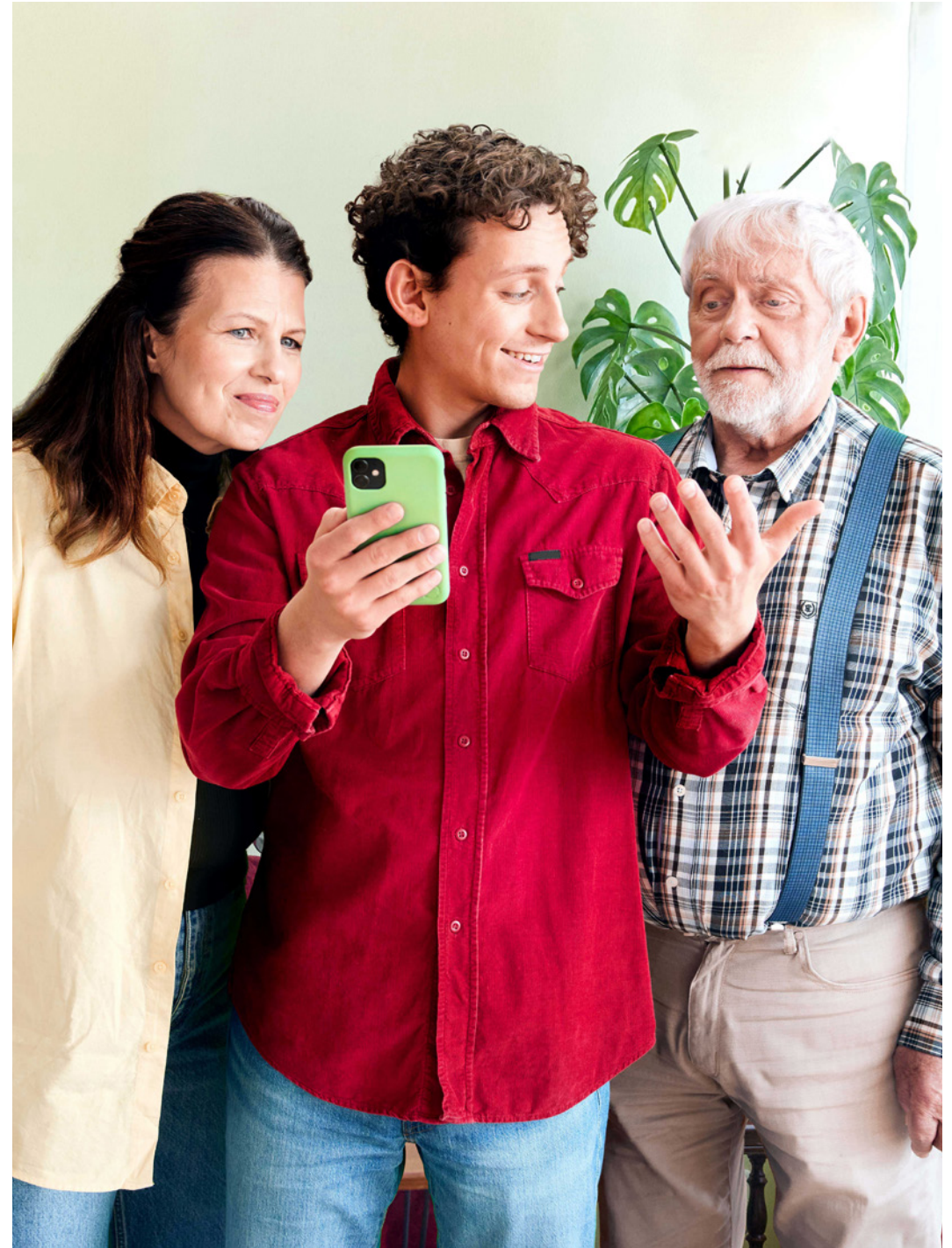
In the past few years, Icelanders have weathered a host of storms: the COVID-19 pandemic, foreign war, the knock-on effects of both on the domestic price level, and economic uncertainty. At Íslandsbanki, we stand shoulder-to-shoulder with our customers and partners through good times and bad, and we look forward to doing so in the future.

The Bank's owner group has grown broader with the last share capital offering, and it will become even more diverse when the next steps in that direction are taken. But no matter what its ownership structure is, the Bank stands on solid ground, with good values and a clear strategy for the benefit of shareholders and society alike – a force for good in the community and the economy.



Annual and Sustainability Report 2022

3 Empowering our customers to succeed

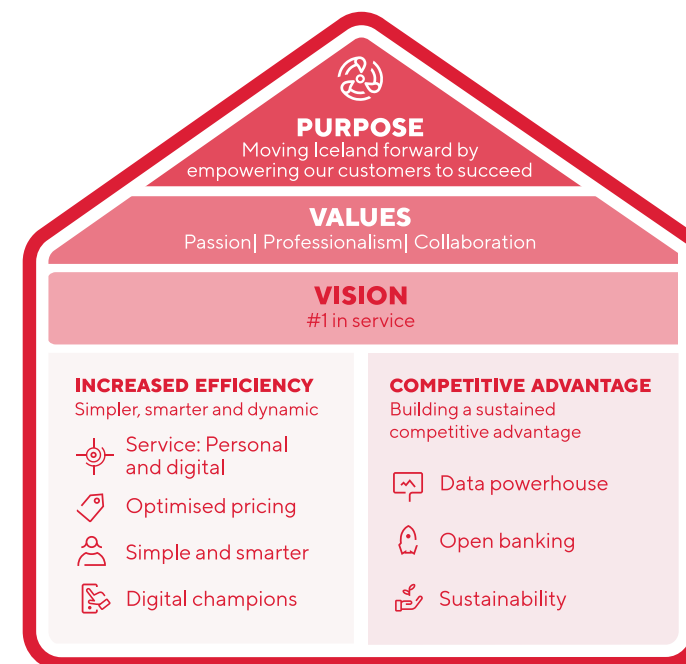


Íslandsbanki's strategy

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

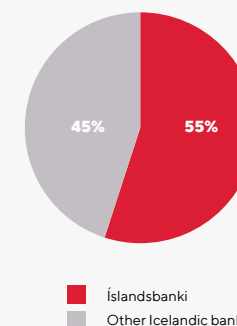
Bank has defined seven strategic themes for a five-year period. The themes fall into two broad categories: **Sharpening our focus** and achieving simplification and greater efficiency; and thinking big, thereby securing a **competitive advantage** for the future.



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 2022, 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, Íslandsbanki has received the highest score of any Icelandic company in Reitun's ESG ratings, and Íslandsbanki is mentioned more often than all of the other banks put together in surveys asking which Icelandic bank is Iceland's leader in sustainability

Which bank is the Icelandic leader in sustainability?
All respondents who took a stance on the question



Source: Gallup survey among Iceland's 300 largest firms, January 2022

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 46,2% in 2021 to 42,1% in 2022.



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 expedited this trend considerably, and products, services, and distribution channels have evolved accordingly. In 2022, Íslandsbanki was Iceland's first bank to roll out a solution enabling customers to open an account or add on products with a single authentication – an experience like that offered by a good online merchant. Íslandsbanki is determined to remain #1 for service and is convinced that the secret to success lies in providing service that is both personal and digital.



Appropriate 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 placed emphasis on enhancing automation of internal processes, as well as focusing on software development and testing, reduced delivery times, and tighter operational security. Steady improvements in processes continued apace; for instance, significant modifications were made to automated lending processes, enabling customers to apply for a loan and receive a response within minutes without employee involvement. Not only does this provide for greater operational streamlining, it also makes for faster service and increased customer satisfaction.



Digital Champions

Íslandsbanki's product-centred approach to digital development continued to bear fruit in 2022, with more rapid development of digital solutions. A wide range of new digital options were rolled out; for example, customers can now buy and sell equities and mutual fund shares electronically in the Íslandsbanki app, conduct their own transactions on the Bank's pension fund member website, use ATMs without having a bank card on their person, and add Íslandsbanki products to their 'shopping cart', just as they do when shopping with online merchants. Íslandsbanki was Iceland's first bank to introduce cardless payments from Google Wallet for Android users.

Digital Champions 2.0

THINKING BIG

A competitive advantage for the future

The Bank has identified three strategic priorities centred on securing a competitive advantage for the future: being a data powerhouse, having a unique position in an open banking environment, and being a leader in sustainability. Employees worked hard and effectively on all of these fronts during the year, thereby better preparing the Bank to meet customers' wide-ranging needs.



Data powerhouse

During the year, the Bank continued to focus on further evolution towards personal, guidance-centred service based on data analysis. Changes were made in Marketing and Communications with the establishment of a new unit, Digital Experience, and the addition of a digital design manager and a data scientist to the division's group of experts. Íslandsbanki began cooperating during the year with a new partner that offers cloud solutions for digital sales, service, and marketing all in one place. The Bank is working towards increased automation of marketing and custom-designed services and communications with customers, and the benefits have already begun to show in an improved service experience and stronger sales.



Unique position in an open banking environment

Open web services remained prominent during the year, and the Bank is well prepared to face the competition for digital banking solutions in an open ecosystem. A special strategic project was launched under the name 'Ecosystem for corporate clients'. In cooperation with the Fintech Cluster in Reykjavík and Copenhagen Fintech, the Bank engaged in discussions with a number of fintech companies. Among other things, a team from Íslandsbanki was temporarily stationed at the Gróska, the innovation centre that is home to the Fintech Cluster. One of the aims of the project was to find ways to make the Bank a more effective partner in the world of open banking. A number of ideas that saw the light of day during the project are under further development and will likely be implemented next year.



Leader in sustainability

Íslandsbanki's goal is to be a leader in sustainable development. The Bank takes ESG criteria into account in its risk management and actively explores sustainability-related business opportunities. Targets reached during the year include continued growth in sustainable lending, a steep rise in the share of ESG risk-assessed credit risk, and the publication of an in-depth carbon neutrality report, On the Road to Net-Zero, which covers the Bank's measurements, objectives, and performance in climate-related areas. The report is an important stage in the Bank's journey towards carbon neutrality, as it is clear that the opportunity to be a force for good in connection with climate issues in Iceland lies mainly in supporting our customers in their journey towards

reduced emissions. During the year, the Bank also focused on a range of human resources topics, including health, well-being, equal rights, and diversity, as well as maintaining its dedication to exemplary governance practices.

Sustainability

Moving ahead together

Íslandsbanki strongly emphasises creating a constructive and healthy work environment with passion, professionalism, and collaboration as guideposts. Because its human resources are its biggest resource, the Bank places strong emphasis on fostering employees' growth and development and contributing to their health and well-being.

The best workplace for growth and development

The core of Íslandsbanki's human resources policy is to ensure that the Bank is a place where employees have the opportunity to grow and develop in their jobs. In order to realise this vision, we emphasise a professional hiring and employee onboarding process, strong education and training, clear job development possibilities, health and well-being, a modern work environment characterised by psychological security, and strong leaders who provide frequent feedback. This fosters a dedicated team of employees who find purpose in their work.

Education and growth

One of the pillars of our workplace is opportunity for employees to grow and develop. Therefore, we place strong emphasis on offering a wide range of training and education for all of our employees, no matter where in the country they are located. Our goal is to provide diverse training opportunities, which generally include required courses on topics such as security, compliance, or leadership training for managers, as well as elective seminars. These electives centre on personal growth, health and well-being, time management and project management, and professional knowledge, as well as a large number of courses relating to work and job development.

Concurrent with this, we have vastly increased our digital course offerings, including courses on professional knowledge and personal growth, which employees can access whenever they wish and at a speed that suits them.

Íslandsbanki offers over 250 courses and seminars each year. Bank staff members devoted an average of just over 10 hours on re-education during the year. In most cases, the instructors are Bank employees who thereby share their expertise across departments.

Employees also have the option of receiving coaching, presentations on other departments, and mentors, which make the next steps in their career more targeted and may open the doors to new opportunities in the future.

A modern work environment

We have attempted to be at the forefront in offering a modern work environment and have been trail-blazers in implementing various innovations through the years. Recent examples include our activity-based work environment, which we rolled out in 2016, the first Icelandic company to do so, and remote working, which we adopted in 2019. In our assessment, employees' work environment needs to be reviewed on an ongoing



A year of renewed creation

“

It was wonderful to meet Bank staff again face-to-face after two demanding years dominated by measures to contain the spread of COVID-19. But we learned a great deal despite these extraordinary circumstances, not least about the importance and value of remote working, how we used digital education to maximum effect, and how well our employees adapted to a changed landscape.

It can be said that 2022 was a year of renewed creation in human resources matters at Íslandsbanki. The human resources policy was updated, with even greater emphasis placed on health and well-being, diversity, data literacy, tech literacy, and targeted growth opportunities for employees. In order to reflect this shift in focus, changes were made to the organisational structure of the Human Resources team and two new HR experts were hired.

As before, equal rights are uppermost in our minds, and we want Íslandsbanki to be a desirable workplace for people from wide-ranging backgrounds. Finally, we began work on a so-called 'creative space', which is intended to support further cooperation and advancement in the Bank. We are ready for the exciting times that lie ahead.

Hafsteinn Bragason
Head of Human Resources

basis, and we aim to offer our staff the best possible solutions, support, and facilities, thereby fostering creativity, flexibility, and cooperation. Creativity is a trait 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. Priorities such as equal rights, diversity, strong social activity, Helping Hand (giving employees the option of devoting one workday per year to a good cause), healthy food, and good facilities for those who choose to commute by bicycle are all examples of the modern work environment we offer to our employees.

Health and well-being

Our staff members' health and well-being are of paramount importance to us. We make a concentrated effort to create an environment that fosters employees' health, satisfaction, and well-being, both at work and in their private lives. Strong emphasis is placed on effective communications, teamwork, and a positive workplace culture characterised by trust and respect. We want our employees to be able to express their thoughts, offer new ideas, ask questions, and make mistakes. In other words, we want a sense of psychological security to prevail in the Bank. Bullying, gender-based and sexual harassment, and all other types of aggression are never tolerated. We emphasise ensuring that our employees

have access to the solutions and services they need to improve their health and well-being. Examples of this include measurement of health metrics, influenza shots, medical services, psychological services, gym membership subsidies, transportation subsidies, and various health-related educational materials. The benefits of prioritising employees' health and well-being are undeniable. Healthy employees are more satisfied in their jobs, and that satisfaction translates to better performance.

CORPORATE VISION

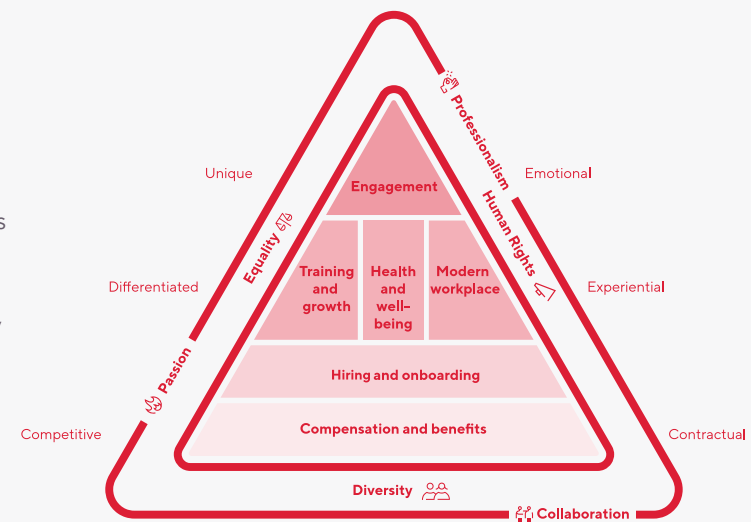
The best workplace for growth and development

How we fulfil our vision

- The right people in the right place
- Effective onboarding process
- Robust education and training and clear job development possibilities
- Strong leaders who provide regular feedback
- Health and well-being at the forefront
- A modern work environment where psychological security prevails
- Dedicated staff members who find purpose in their work

Priority tasks

- Health and well-being – risk analysis, proactive measures, and access to solutions
- Dialogue – ensure more frequent feedback
- Targeted use of HR data
- Updated policy and action plan on diversity
- Employees' personal development



Board of Directors



All employees



All managers



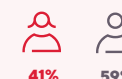
Directors



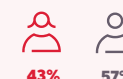
Branch managers



Executive directors



Executive Committee





Annual and Sustainability Report 2022

4 Through collaboration we are #1 for service



Personal Banking

Personal Banking focuses on digital and personalised service aimed at meeting customers' needs at all times.

Personal Banking provides service to all individuals who do business with the Bank, via personal advisory services or ready access to digital solutions. The Bank has around 141,000 active customers and is the market leader in payment cards for individuals. Most of the Bank's customers choose to conduct their day-to-day banking via the Íslandsbanki app. Active app users currently total

an all-time high of 105,000. Íslandsbanki's goal is to be at the forefront in implementation and development of solutions for its customers. This year the Bank was the first in Iceland to introduce the Google Pay payment solution to its customers and offer digital authentication for ATM login. The Bank's customers are ahead of others when it comes to adopting new solutions.

Market share

31%
overall

30%
deposits

21%
mortgages

39%
cards



Number of **active app users up 9.9% year-on-year**, to a record high of 105 thousand. App visits amounted to **32.5 million**



The first Icelandic bank to **implement Google Wallet™**



First bank in Iceland to **implement electronic identification in ATMs**



Number of **service contacts totalled 52 million** via app, online bank, website, Fríða, branches, and advisory centre



Digital sales are **now over 78% of all sales** to retail customers



Chatbot Fróði covers **almost half of advisory centre chats** or 37 thousand and **resolves 95% in full**



We are here for our customers

“

Financial services for individuals have changed radically in recent years. Financial health, financial education, and customers' oversight of their own finances provide the foundation for successful growth. With digital solutions and automation, customers are managing their finances to an increasing degree outside conventional banking hours.

During the year, Íslandsbanki was Iceland's first bank to roll out a solution enabling customers to open an account or add on products with a single authentication – an experience like that offered by a good online merchant. Furthermore, major changes were made to automated loan processes that enable customers to apply for a loan within minutes and have the application processed without employee involvement – after all, unexpected expenses often require immediate action.

Digital advancements have led to better data oversight, which will strengthen the Bank's service to its customers and improve their service experience. Íslandsbanki's aim is to be a force for good in the community, and it is therefore vital that the Bank be there for its customers at important turning points in their lives.

Sigríður Hrefna Hrafnkelsdóttir
Managing Director, Personal Banking

Organisational structure

The organisational structure changed slightly during the year, mainly as regards emphasis on service.

Innovation and digital development is responsible for developing new digital solutions for customers, seeking opportunities for innovation, and leads in collaboration on fintech solutions. The unit leads 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, apply for a credit assessment, or apply for a loan.

Issuance solutions offers simple, effective payment solutions in the front ranks of payment market products. Now 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 focuses on customers' experiences with the Bank's distribution channels, with emphasis on personalised service and initiative. 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. The centre's customer service offerings were expanded even further during the year, with the introduction of a 24/7 emergency service. The chatbot, Fróði, will soon be an authenticated chatbot that can execute financial transfers. Pension-related services have also been enhanced and are now part of the advisory centre.



Customer onboarding has never been this easy

Digital banking services bring with them increased opportunity for even more comprehensive customer service. Selecting appropriate banking services can often prove complicated, but with a new digital interface like that of a high-quality online merchant, all doors are open. Good service centres on knowing customers' needs and informing them of the options that are appropriate at any given time.

A key to success is to be there for customers at important turning points in their lives. By adhering to these principles, Íslandsbanki delivers on its commitment to be a force for good. Being able to begin a credit assessment and receive a determination of debt service capacity within minutes can be vital in making a decision about whether to make an offer for a home or not. Digital authentication is another example of easier customer access to the Bank's services; customers no longer need to have a physical debit or credit card on their person because activating the Bank's ATMs requires only a smartphone and e-id. Most customers (around 81%) choose to buy goods and services with contactless payments, using solutions the Bank has introduced, such as Apple Pay, Google Pay, Garmin Pay, and Fitbit Pay.

On the watch

Unfortunately, increased e-commerce and diversity in digital communications have led to an increase in cyberfraud. There are many types, but the one that has received perhaps the most attention is payment card fraud. Íslandsbanki has adopted sound procedures for addressing fraudulent transactions, and its successful cooperation with Mastercard ensures effective recovery of lost funds. The worst cases, and those that are most difficult to deal with, are those when customers themselves share information such as card numbers or PIN numbers, or approve digital authentication without checking what they are approving. In such cases, recovery is nearly impossible, as the customer has shared private security authentication information that is intended to protect them in digital transactions. One recent example of fraudulent activity involves using messaging apps to impersonate a friend of the victim and request a transfer of funds or even ask to open an account. There are even cases where swindlers request permission to take control of the victim's computer under the guise of assisting them. There have also been games on Facebook that demand a contribution in order for the victim to take delivery of their winnings. Individuals may receive telephone calls offering them the chance to buy securities listed on a foreign exchange, cryptocurrency, or other products. Technological and systemic defences against fraud are of limited use if customers willingly hand over their information. So we must be on the watch. If an offer sounds too good to be true, it usually is. We must show responsibility by not sharing photos of cards or disclosing authentication information to third parties. We cannot be too careful.

Business Banking

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

Business Banking serves a growing group of SMEs in Iceland. Our customers create robust value in all sectors of the economy and play an important role in ensuring economic and social stability.

The division's highly experienced employees provide personalised service in customers' local community through corporate banking centres and branches, but customers also make effective use of the Bank's accessible digital solutions.

Business Banking is staffed with highly specialised employees with years of experience. We have built strong business relationships with thousands of Icelandic companies, and we emphasise on being there for our customers. The division is data-driven and provides outstanding service and consultation. We are proactive and make a concerted effort to be a force for good in the community. In service surveys, we have repeatedly come out on top among SMEs, ranking ahead of competitors in terms of customer satisfaction.

Market share

36%

overall



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



New lending was ISK 111 billion and the loan portfolio grew 17,5%



ESG risk assessment completed on **58% of BB's loan portfolio**



The number of visits to the app **has increased by 46%** between years



2022 was a strong year



Vigour and optimism characterised the Icelandic business community in 2022. The economy engaged in rebuilding after the challenges of COVID-19, and there was considerable pent-up demand for both investment and consumption. Both deposits and lending were well above the division's targets. The stock of new loans issued by Business Banking, through branches and asset financing company Ergo, has seldom been larger, easily keeping pace with nominal GDP growth. Development loans and loans to tourism companies such as car rental agencies were prominent in lending activities. Households and businesses are undeniably well positioned, but challenges relating to the war in Ukraine and rising interest rates and inflation will doubtless affect balance sheets and profit and loss accounts in the years to come. However, we still do not see any serious signs of adverse developments in indicators such as non-performing loan ratios.

Concurrent with a brisk and busy year on the customer side of Business Banking, significant work was done on systems, distribution channels, and product development. Emphasis was placed on internal and external education relating to sustainability, which plays a constantly growing role in the division's activities and will be interlinked with lending processes and risk assessments for the foreseeable future. A newly established centralised support unit will be responsible for legal entities' due diligence and anti-money laundering defences. The aim is to ensure that the expertise and experience needed to satisfy stringent and ever-increasing requirements in this important area are in place.

The Bank launched a new advertising campaign during the year, focusing on its diverse customer group. We are proud to maintain our strong market share and thank our customers for choosing us as their commercial bank. By working together, we contribute to our customers' success as well as our own.

Una Steinsdóttir

Managing Director, Business Banking

Organisational structure

Corporate banking centres and branches

Business Banking operates corporate banking centres and branches in several locations in Iceland. The corporate banking centres are located in the Bank's headquarters in Nordurturn and in Akureyri, the former serving customers in the capital area and the latter serving customers in North and East Iceland. Business Banking offers self-service solutions and personalised advisory services, which results in better access and better service to our customers. At the Bank's Nordurturn branch, advisors provide general services to companies in greater Reykjavik, as well as handling telephone reception, online chat, and web services for all of Iceland. A centralised support unit for Business Banking, which focuses on due diligence and anti-money laundering defences operates from the branch as well.

Digital solutions

Our customers can carry out their main banking activities through a wide range of distribution channels: the Íslandsbanki app, online bank, online chat, and the Bank's website. We are committed to providing service to our customers and meeting their needs – whenever and wherever they require it.

Ergo

Our customers can carry out their main banking activities through a wide range of distribution channels: the Íslandsbanki app, online bank, online chat, and the Bank's website. We are committed to providing service to our customers and meeting their needs – whenever and wherever they require it.

Ergo



Businesses' digital journey

Our vision is to enable our customers to manage their finances where they choose. Ready access to data and technology will improve service and expedite processes, while also enhancing security and flexibility. We are constantly developing and improving our services and distribution channels, guided by our customers' interests. An example of this is our cooperation agreement with fintech company Payday, which offers simplified administration for self-employed individuals and SMEs.

While the online bank is still the distribution channel businesses use most, the Íslandsbanki app is steadily gaining ground as new and diverse solutions and possibilities are added. Open web services will also play a more important role in the future than they have in the past.

During the year, Business Banking has identified opportunities for growth in the area of open banking services, including cooperation with Copenhagen Fintech and the Fintech Cluster in Reykjavík. The division keeps close watch on opportunities for business banking services, with the aim of offering the right solutions and thereby simplifying our customers' lives.

Businesses' sustainability journey

Sustainability is one of Íslandsbanki's key priorities, and Business Banking is well positioned to have a strong impact in this area. We have engaged in regular dialogue with our customers and offer seminars on this vital topic, and we see that more and more businesses prioritise it. SMEs play a vital role in overall innovation and advancement in the Icelandic economy.

A vastly increased number of individuals have availed themselves of green financing from Ergo. Demand is growing apace among businesses as well, led by car rental agencies, with investments in fleets that support energy switching. This shift is set to accelerate concurrent 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 growth for the future. We are determined to support them and participate actively in their journey.

Corporate and Investment Banking

Corporate and Investment Banking, a leader in investment banking in Iceland, focuses on providing its customers with comprehensive financial and investment banking services. The division serves large companies, pension funds, municipalities, investment funds, institutional investors, and high net worth customers.

The division employs experts with decades of financial experience, including securities and foreign currency sales, investment advice, corporate finance, lending, and private banking.

We prioritise knowing our customers' needs, and in support of this aim, we have a dedicated staff with expertise in all key sectors of the economy. We emphasise initiative and comprehensive service, with short communication channels and collaboration across the division's units, which enables us to know and satisfy

our customers' needs as effectively as possible thereby empowering our customers to succeed.

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

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



Outstanding results from all units in a volatile market

“

Corporate and Investment Banking delivered outstanding results from all units in 2022. Income from fees and commissions continued to grow after a record-breaking 2021, and emphasis on balance sheet management, with priority given to profitability over growth, produced excellent results. New lending totalled ISK 72 billion, and refinancing during the year amounted to ISK 85 billion. Furthermore, the division worked strategically with customers to create the most efficient capital structure, including bond issues and new loans. In addition, the first loans were issued in cooperation with Iceland Funds' Corporate Credit Fund. Loans that meet the requirements of the Bank's Sustainable Financing Framework totalled ISK 47 billion, and 73% of the loan portfolio has been assessed from the perspective of sustainability.

FX Sales had a good year, and the Bank is the market leader. Organisational changes were made where all securities sales and advisory services merged under Securities Sales, with the aim of strengthening the Bank in the securities market and enhancing product development. Íslandsbanki is a leader in the primary bond market, issuing ISK 62 billion in new bonds for its customers in 2022. Despite difficult market conditions, net inflow into Private Banking were strong, and a steadily increasing number of Íslandsbanki customers choose to use the service after targeted promotional efforts during the year.

Ásmundur Tryggvason
Managing Director, Corporate and Investment Banking

Market share

35%

of Iceland's 300 largest companies



Leading in corporate finance



Asset Management:
Net AuM increase by ISK 8 billion

#1

#1 in primary issuance of fixed income instruments



New lending totalled **ISK 72 billion**

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.

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.

Brokerage and Derivatives Desk

Brokerage consists of equity, fixed income, currency and derivatives sales, which in turn provide currency swaps, interest rate swaps, and forward contracts in equity and fixed income markets, as well as primary issuance of fixed income instruments. The unit's customers range from individuals to institutional investors.

Asset Management

Asset Management has two subsidiary units: Private Banking and Institutional Investors. Íslandsbanki's Private Banking offers asset management and advisory services to 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.



The sale of Míla

The sale of Míla to Ardian France SA through an international sales process which concluded in September 2022, is one of the largest foreign investments in Iceland in recent years. Íslandsbanki Corporate Finance acted as a financial advisor to Síminn and led the sale process, in conjunction with the international investment bank Lazard. Further, the Corporate Finance team, in cooperation with Iceland Funds' Corporate Credit Fund, oversaw the financing for the transaction and executed a complete refinancing of Míla following the sale, including long-term loans, revolving facility, and capex facility sufficient for coming years. A portion of the purchase price was financed

through a bond issue amounting to ISK 6 billion, which was executed by Íslandsbanki Securities Sales and sold to domestic institutional investors. All foreign exchange transactions in connection with the sale were handled by Íslandsbanki FX Sales.

Íslandsbanki is a leading investment bank in Iceland, and the sale of Míla clearly demonstrates the Bank's capacity to pull together a strong execution team from across the Bank to execute in a successful manner the largest and most complex projects in the market.

Iceland Funds Ltd.

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

The company manages 22 funds for retail investors, including bond funds, equity funds, and mixed funds, as well as alternative investment funds. Iceland Funds has approximately ISK 390 billion in assets under management, and roughly 13,000 investors and depositors choose to invest their money 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 37%. The company also operates a wide selection of equity and mixed funds and has also specialised in real estate funds and private equity funds. Iceland Funds has been recognised as a model company in good governance. The recognition is granted by Stjórnvís.



Strong returns and readier access to funds are positive for savers

“

The year 2022 was defined by demanding market conditions, both globally and domestically which can be traced to the war in Ukraine, rising interest rates and inflation due to the pandemic. We put an emphasis on long-term savings and asset allocation and offer a wide selection of mutual funds which have delivered a strong performance in comparison with other funds in the Icelandic market in the longer term.

Icelandic households' deposits continue to grow and the number of shareholders in the Nasdaq Iceland stock exchange has nearly doubles in two years. This is a highly favorable trend, as increased savings provide a measure of security during times of uncertainty. Customers in monthly subscriptions to funds have increased by 25% during the year 2022.

The market listing of Ölgærðin was successful, and Akur, a private equity fund managed by Iceland Funds and one of the largest owners of Ölgærðin, led the listing process together with other primary investors. The sale of Míla to Ardian France SA was hands-down the transaction of the year in the opinion of Íslandsbanki. Iceland Funds' IS Corporate Credit Fund participated in the financing of that transaction.

Kjartan Smári Höskuldsson
Managing Director, Iceland Funds Ltd.

Market share

31%

of the domestic fund market

In 2021, IS Green Bonds contributed to¹:



2,782 tCO₂e
in avoided
emissions



4 GWh of
clean energy
produced



12 tonnes of
upcycled fish
skin



19 clean
vehicles



3,175 sqm of
eco-efficient
buildings



12 charging
stations for
electric vehicles

Financed emissions (in Icelandic)

Allocation and Impact report 2021

Organisational structure

Within Iceland Funds are several business units. The company manages specialised investment vehicles as well as managing 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 funds that invest in bonds, stocks, and other financial instruments. Funds are a sound and economical way for depositors to invest their money in a securities portfolio, thereby diversifying risk. Iceland Funds also operates Alpha Equity Fund, which takes positions in the domestic stock market.

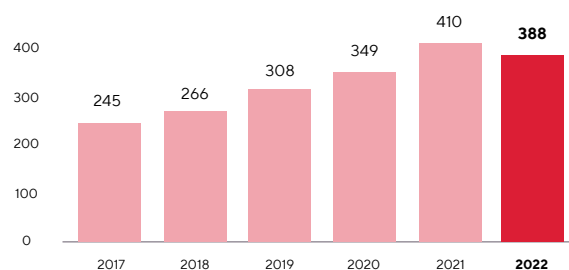
Asset management

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 has accumulated substantial experience in real estate investments and property development, as well as venture capital investments. Six experienced experts manage the alternative investment funds.

Total Assets under management
ISK billion



A leader in responsible investment

Iceland Funds adheres to the principles of responsible investment in all of its asset management, and in 2018 it established the first green bond fund in Iceland. Each year, Iceland Funds issues a sustainability report, and in 2022 it published information on its financed emissions for the first time. Using calculations based on the methodology from the Partnership for Carbon Accounting Financials (PCAF), the company published data for both 2020 and 2021. Iceland Funds is the first fund management company in Iceland to provide this information. Every year since 2013, Iceland Funds has been recognised for excellence in corporate governance. The award is granted by Stjórnvísir.



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. Roughly 47% of transactions now take place through the app, an increase of 7% between years.



Assets under management

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



Annual and Sustainability Report 2022

5 Strong foundations through professionalism



Digital Champions 2.0

Íslandsbanki made excellent progress in improving digital customer service in 2022. The project **Digital Champions 2.0** aims to improve the Bank's digital product development even further, with efficacy and value for customers as guiding principles. With this initiative, the Bank plans to remain at the forefront in service.

Customer-centred digital product development

Íslandsbanki customers can now use even more digital solutions to carry out their banking activities in a simple and convenient way. Among other things, customers can now buy and sell equities and mutual fund shares electronically through the Íslandsbanki app, conduct their own transactions on the Bank's pension fund member website, use ATMs without having a bank card on their person, and add Íslandsbanki products to their 'shopping cart', just as they do when shopping with online merchants. Íslandsbanki was Iceland's first bank to introduce cardless payments from Google Wallet for Android users. Customers can now use the Bank's app in Icelandic, English, or Polish.

In 2023, our focus will be on better harnessing the wealth of data in the Bank's possession to improve household and business customers' decision-making and self-serve options still further.

Strong infrastructure and automation under development

Íslandsbanki has invested in technological infrastructure in recent years, thereby enabling the Bank to place even stronger emphasis on developing new solutions for customers. Technological work on the set-up of the Bank's new lending system concluded in 2021, and data were transferred to the system in 2022. The new system will boost efficiency and further enhance the Bank's digital customer service. In 2022, the Bank invested in a new payment card system that will offer a range of card service functionalities. Íslandsbanki has recently invested in upgrades of key core infrastructure, making the Bank an even more effective digital service provider for customers and partners.

In 2022, the Bank focused on enhancing automation of internal software development and testing processes, shortening delivery times and boosting operational security. We have continued to implement a tech environment in which infrastructure and cloud solutions are developed using cutting-edge technology. We have prepared the Bank for success in the competition for digital banking solutions in an open ecosystem.



Digital services built on a data powerhouse

“

The journey towards digital, data-driven banking services continued at full speed in 2022. A key milestone on that journey was the implementation of a digital platform for the purchase of the Bank's services, and the next step will entail implementing built-in digital sales and marketing.

Íslandsbanki is working continuously on upgrading its distribution channels and, among other things, was first in the Icelandic market to offer contactless payments via Google Wallet. Customers can now use ATMs without a card, carry out self-serve transactions on the new pension fund member website, and buy and sell equity securities using the Íslandsbanki app.

In 2023, we will focus on becoming the market leader in digital experience and service for companies and in harnessing data for digital service and sales.

Riaan Dreyer
Managing Director, IT

Digital action plan

Íslandsbanki established a tech development centre in Warsaw in 2021 and hired the first staff members at the end of that year. In 2022, the Bank staffed the centre with a strong, diverse software development team entrusted with executing the digital action plan.

The Warsaw centre works closely with the Bank's software development team in Iceland. The centre's establishment marks a major step towards further development of solutions with a talented and experienced team.

Major digital advancement

- Equity trading is now available in the app.
- The Bank was first in the Icelandic market to offer Google Wallet.
- New Framtíðarauður pension fund self-service website .
- New sales platform for products and services.
- First Icelandic bank to incorporate digital authentication into its ATMs.
- Companies can now apply for overdrafts in the Íslandsbanki app.
- Investment in harnessing of data for digital sales and marketing.
- The new lending system completes the upgrade of the Bank's core infrastructure.
- The Íslandsbanki app is now available in English and Polish.

99%

of mortgage
applications
filed digitally

50%

of individuals' equity
securities transactions
take place in the app

80%

of changes to credit
limits on credit cards
take place in the app

95%

of new private pension
savings registrations done
digitally

70%

of customers use
digital solutions
exclusively



Risk management

Cautious risk assessment and sensible risk pricing are key elements of Íslandsbanki's operations. An effective framework for risk assessment and internal monitoring lays the foundations for the Bank's risk management and asset management. The framework is structured as three lines of defence, with the objective of ensuring that decisions to take risk are well grounded and that the Bank's risk awareness is strong.

Íslandsbanki's staff members have a keen risk awareness, with a focus on transparency, open communications, clear accountability, responsiveness, and respect for risk. All business decisions and the risks associated with them are in the hands of business units and are subject to clearly defined review and monitoring processes. Decision-making authorisations depend on the scope and complexity of the underlying risk.

The Bank's funding is broad-based, and its sturdy asset management framework is based on the standardised approach provided for in European regulatory instruments. The Bank's year-end capital

ratio was 22.2%, which is 2.3 percentage points above the regulatory requirement. Íslandsbanki's goal is to maintain a management buffer ranging from 0.5–2.0 percentage points above external requirements in order to cover expected and unexpected fluctuations in risk-based assets and earnings.

As a result, the Bank is well prepared to face continued economic uncertainty stemming from war in Ukraine, and it has the financial strength to provide households and businesses with the services they need to minimise the adverse impact of inflation and high interest rates.

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



Comprehensive overview of risk

“

Íslandsbanki has a long tradition of assisting Icelandic households and businesses with financing, and credit risk is a major risk factor in its operations. Even though credit risk accounts for about 90% of the Bank's risk-weighted assets, it is important that the risk management framework cover all of the risks the Bank faces. Having a comprehensive overview of risk enables the management team to take informed decisions that are compatible with the Bank's defined risk appetite.

The operating environment for banking is continually changing, and new risk factors emerge that could affect Íslandsbanki's risk profile. It is therefore important that the risk management framework be flexible so that new risk factors can be identified and assessed. With greater technological development and a more effective risk management framework, Íslandsbanki is well prepared both to face changed requirements and to monitor and manage new and existing risks.

Guðmundur Kristinn Birgisson
Chief Risk Officer

Risk profile

Credit risk is the principal risk factor in Íslandsbanki's operations, accounting for roughly 90% of risk-weighted assets. Credit risk is the risk that customers may not be able to honour their end of a contract, including being unable to repay their loans on time. The objectives of managing credit risk are to achieve an acceptable balance between risk and income and to minimise the adverse impact on the Bank's overall operating performance. The Bank adheres to a cautious credit risk policy that has delivered a well-diversified, well-secured loan portfolio. The Bank has long maintained a cautious attitude towards risk-taking. It is currently working on expanding its digital products and services, with the aim of making lending decisions more data-driven and improving risk management even further.

Sustainability risk

The newest addition to the risk management framework is sustainability risk, which is managed in accordance with the Bank's sustainability policy and risk appetite. Sustainability risk stems from the risk of suffering adverse effects of external environmental, social, and governance (ESG) factors. These factors include but are not limited to climate change, biodiversity, corruption, human rights, labour market conditions, personal data protection, and business ethics.

In 2022, the Bank continued developing its methods for identifying and managing sustainability risk. These efforts included publishing sectoral guidelines in connection with further implementation of ESG risk assessments for the Bank's corporate clients, updating the exclusion list, and defining clear milestones on the journey to carbon neutrality in 2040, in cooperation with the Net-Zero Banking Alliance.

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

Pillar 3 Report

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.

Additional Pillar 3 Disclosure



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 2022

6 Sustainable Íslandsbanki



Towards a more sustainable future

Íslandsbanki is committed to being a force for good in the Icelandic economy. A steadily rising number of customers and partners are recognising the immense opportunities that lie in Iceland's role as an even stronger leader in the field of sustainability.

Progress made in sustainability during the year

Íslandsbanki's sustainability journey was characterised by determination and enthusiasm during the year with a host of employees contributing their efforts. Most, if not all, of the Bank's employees sought out training and attended educational events relating to climate issues, diversity, and implementation of forthcoming sustainability-related legislation. The Sustainability Committee held numerous meetings in 2022, and a number of customer relations managers and credit managers gave presentations to the committee, many of them focusing on ESG risk analyses and new sustainable loans. The publication of the Bank's report **On the Road to Net-Zero** was one of the biggest sustainability milestones of the year, and a large number of employees made their mark on the report in one way or another.

During the year, Íslandsbanki also placed special emphasis on discussing sustainability and climate issues with the Bank's most important suppliers.

Cooperation on sustainability

Challenges on the year's sustainability journey

The path to a carbon-neutral Iceland by 2040 is certainly not straightforward, nor is it fully mapped out, and work on the Bank's carbon neutrality report was demanding in many ways. Data on the topic are in short supply, and both business sectors' targets for reduced emissions and the Government's updated climate action plan are still forthcoming. If the Government's ambitious targets are to be met, bold steps and broad-based cooperation must be undertaken among all key stakeholders in Iceland. We envision the need to update the report in the coming term and maintain active dialogue with customers, suppliers, and other stakeholders, as we have in recent years. Among other challenges during the year, growth in sustainable lending fell short of the target, and work on setting quantifiable targets for opportunities to empower women and marginalised groups with products, educational materials, and other services proceeded more slowly than initially planned.

Cooperation on sustainability

Participation in domestic and international cooperation is the key to making maximum progress on sustainability. Through the years, Íslandsbanki has considered it important to participate in international commitments and support domestic cooperative efforts in the area of sustainability. It is particularly important for the Bank to be part of international initiatives such as the UN Global Compact, the UN Principles for Responsible Banking (UN PRB), Nordic CEOs for a Sustainable Future – and now, most recently, to be among the founding members of the Net-Zero Banking Alliance.





Sustainability milestones in 2022

Implementation of sustainability targets proceeded apace during the year and most of the targets were reached, although not all of them. A coordinated effort across the entire Bank is the key to success, and it was gratifying to observe passion and interest shown by employees throughout the organisation.

90 points out of
100

The highest score received by any Icelandic firm in Reitun's sustainability assessment

Ten meetings were held with suppliers to discuss sustainability and climate issues

45% of suppliers have formally certified their compliance with the Suppliers' Code of Conduct

Sector guidelines have been published for **three** sectors:

construction

tourism

seafood industry

>30

sustainability-related seminars held within the Bank

ISK 79 billion in outstanding sustainable loans as of year-end 2022, including:

54% green loans

33% blue loans

13% social loans

The Íslandsbanki **Entrepreneurship Fund** awarded

ISK 40 million

in grants to **15 sustainability-related innovation projects**

The share of ESG risk-assessed credit risk rose from **34%** at the end of 2021 to

76%

at the end of 2022

The share of **female employees in Investment Banking** rose from 25% to

32%

Íslandsbanki's impact analysis

Íslandsbanki is a founding signatory of the UN Principles for Responsible Banking (UN PRB). The first step in implementing the PRB is to conduct an impact analysis that identifies the key impact of the Bank's products and services on the communities, economies, and environment in which the Bank operates.

Methods used to identify key impact areas

In accordance with the UN's impact analysis tool, the analysis covers (a) the Bank's core operations and the scope of its activities; and (b) the most important challenges and priorities relating to sustainable development in Iceland¹. The composition and analysis of these two components revealed the Bank's key impact areas. Official reports were consulted, and interviews were taken with important stakeholders such as Festa – Center for Sustainability, the National Energy Authority, Green Building Council Iceland, Green by Iceland and UN Women in Iceland. Key references used include **the Sustainable Development Report**, a dashboard showing Iceland's progress in implementing the UN Sustainable Development Goals (UN SDGs), **Iceland's Climate Action Plan**, **the Business Climate Guide**; **the Action Plan on Steps Towards a Circular Economy** and **the Parliamentary Resolution on a Gender Equality Action Plan**.

Íslandsbanki's core operations and scope of activities

Íslandsbanki is a universal bank and a leader in the provision of financial services in Iceland. Among the products and services it offers are savings options, lending, payment services, and investment banking services. Iceland Funds, a subsidiary of the Bank, is also a leader in fund management in Iceland.

The Bank issues loans to both businesses and individuals and holds a strong position in the Icelandic financial market. As of YE2022, loans to individuals accounted for the largest share of the loan portfolio (48%), followed by the trade and services sector (15%), real estate (11%), seafood industry (9%), and industry and shipping (8%). Some 89% of the Bank's loans to individuals are residential mortgages. Furthermore, Íslandsbanki holds a market share of 36% among small and medium-sized enterprises (SME) in Iceland. The impact analysis covers all core business areas and products/services of the bank with a focus on lending activities and savings. Less emphasis was placed on Investment Banking activities.

Results of Íslandsbanki's impact analysis

The two most prominent impact areas revealed by the analysis are **climate change** and **gender equality**. These areas were already two of the four UN SDGs the Bank had prioritised after its analysis and stakeholder interviews in 2019. Other impact areas whose importance for Íslandsbanki was indicated by the analysis were **biodiversity and ecosystems** (particularly marine and freshwater biospheres, given how large a share of the loan portfolio is linked to the fishing industry) and **resource utilisation/security**. As more data and analysis of these areas in Icelandic context become available, emphasis on them can be expected to increase.



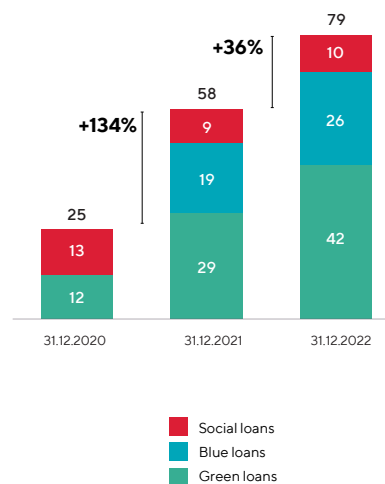
Sustainable lending up one-third year-on-year

Sustainable assets increased by 36% in 2022, to ISK 79 billion at year-end 2022. In addition to this, loans amounting to ISK 10 billion were approved but had not been disbursed by the end of the year. This growth rate is well below the Bank's 2022 target of an increase of ISK 40 billion in sustainable lending. The shortfall is due to slower growth in total corporate lending during the year, as well as a smaller-than-expected share of sustainable loans.

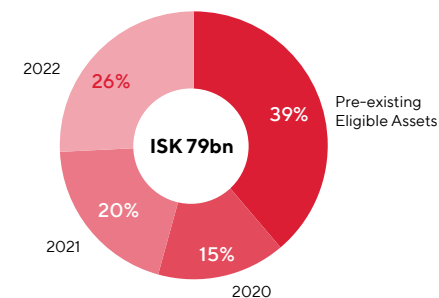
Green loans accounted for 54% of sustainable loans, blue loans in connection with certified sustainable fishing accounted for another 33%, and social loans 13%. It is gratifying to see that the share of household motor vehicle financing falling under the framework has risen during the year and reached 18%. There was also robust growth in the share of sustainable construction loans, which accounted for some 40% of total obligations under active construction contracts as of the end of third quarter 2022.

At the end of the year, Íslandsbanki's sustainable financing came to ISK 110 billion, including ISK 45 billion older than 18 months. The sustainable financial framework specifies that sustainable financing must be allocated to sustainable assets within that time frame. Ambitious targets have been set, that is that by the end of 2023, the share of corporate loans and motor vehicle loans classified as sustainable must have reached 15% and sustainable assets must have overtaken sustainable liabilities once again.

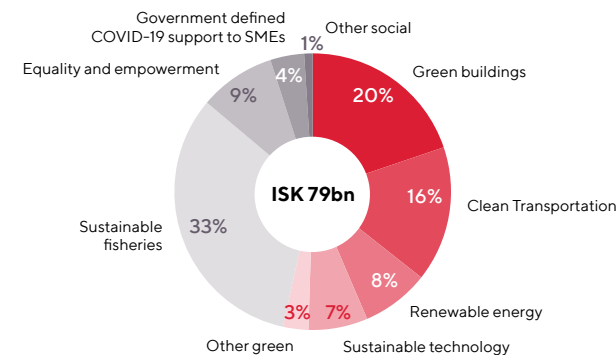
Sustainable assets at year-end
ISK billion



Use of proceeds by origination year at year-end 2022



Use of proceeds by SFF category at year-end 2022¹



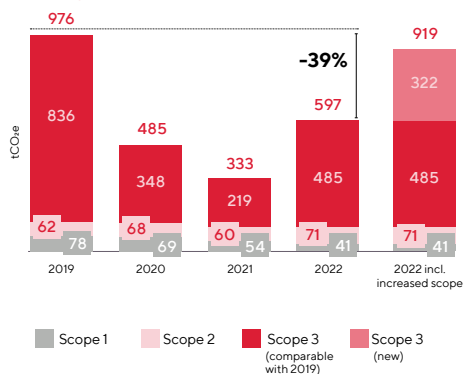
¹Other green loans consists of Sustainable and circular processes and biodiversity and Sustainable waste management. Other social loans consist of Affordable housing and Education and vocational training.



Environmental 2022

E1 Greenhouse gas emissions

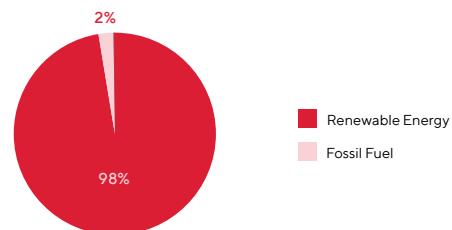
Gross operational carbon emission



New sources of emissions refer to sources of emissions that were measured for the first time in 2021 and 2022, e.g. energy consumption in data centres, vehicle purchases, food purchases in the HQ canteen and emissions from the Bank's subsidiary in Poland.

E5 Energy mix

Share of total energy usage (7.4 GWh)



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

Investments in climate risk mitigation were not calculated in 2022, but included for example advisory services, membership fees, infrastructure, product development, marketing, events and carbon offsets.

E2 & E4 Emissions and energy intensity



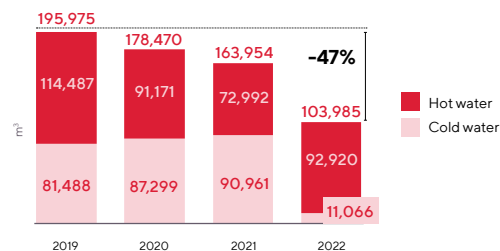
GhG emissions per full-time equivalent (FTE)
1,191 kgCO₂e/FTEs

GhG emissions per unit of revenue
16 kgCO₂e/million ISK

Energy per square meter **439 kWh/m²**

Energy per cubic meter **124 kWh/m³**

E6 Water usage



Decrease in cold water usage is mainly due to the sale of a foreclosed property.

Other environmental metrics

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

The share of credit risk exposure assessed with regards to ESG risk increased from 34% at YE2021 to 76% by YE2022.

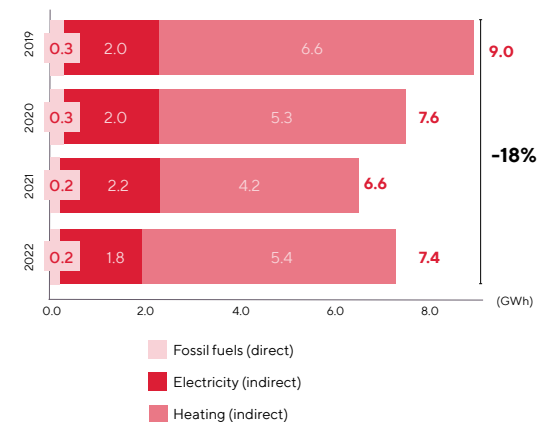
Are ESG factors considered in connection with the development of new and existing products? ☒

Consideration is given to sustainability risk in product development.

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

At least 30 diverse sustainability related educational events were offered to staff members in 2022, 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? ☒

Better monitoring of waste in HQ is expected to lead to a significant reduction in unsorted waste. The objective is to reach 90% recycling rate by 2025 the latest.

Does your company use a recognised energy management system? ☐

Klappir Green Solutions and MainManager.

Sustainability
Report 2022

Strategy and
policies

Auditor's Limited
Assurance Report

Íslandsbanki's carbon footprint

An assessment of the Bank's financed emissions shows that the carbon footprint from the loan portfolio and assets under management is many times larger than the carbon footprint from operations. The Bank's greatest opportunity to be a force for good is through its product and service offerings; i.e., by encouraging and empowering its customers on their own road towards sustainability.

Financed emissions in 2021

The Bank's financed emissions for 2021 were published in October 2022, and for the first time the assessment included assets under management by the Bank's subsidiary Iceland Funds. Financed emissions from the loan portfolio declined marginally between 2020 and 2021, the change is driven by a mix of decline due to changes in attribution factors and an increase due to the diminishing impact of the COVID-19 pandemic.

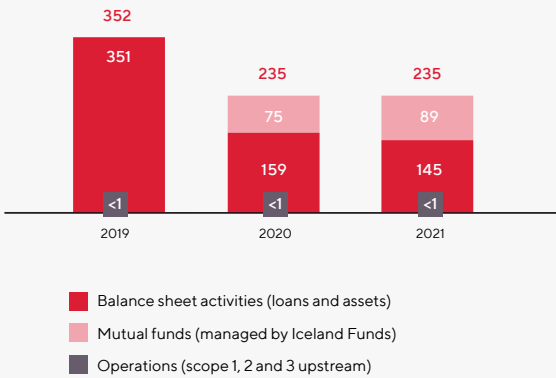
Loans falling under the industrial sector caused the most emissions in 2021, at 35%, yet accounted for only 6% of total lending in ISK terms. Emissions due to maritime shipping ranked second, at 15%, while loans granted for these activities comprised only 2% of total lending. Residential mortgages accounted for less than 1% of total emissions and 44% of total lending.

Furthermore, Íslandsbanki publishes an annual **Allocation and Impact Report** that specifies which of the Bank's sustainable loans prevent the most carbon emissions. In 2021, avoided emissions were greatest for projects relating to waste management and energy transition in transportation. Iceland Funds, the fund management company owned by Íslandsbanki, also published an **Impact Report for 2021**, which shows that avoided emissions from the Green Bond Fund were greatest from waste management and renewable energy production projects.

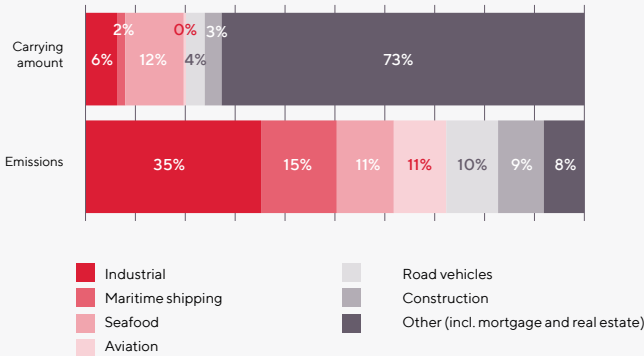
Because calculations of financed emissions and avoided emissions are based on customers' accounts, the results for 2022 will not be available until later in 2023.

On the Road to Net-Zero

Íslandsbanki's total emissions 2019-2021
ktCO₂e



Emissions from balance sheet activities in 2021
Sector split by amount and emissions
(total = 145 ktCO₂e)



On the road to a net-zero loan portfolio

Íslandsbanki's newly published carbon neutrality report, **On the Road to Net-Zero**, shows that the Bank's objective of having a net-zero loan portfolio by 2040 is an ambitious, but achievable goal in most sectors, although it is clear that transitioning to clean energy in aviation and maritime shipping will probably take longer.

Íslandsbanki has adopted a range of climate-related measures and is the only Icelandic bank among the founding members of the Net-Zero Banking Alliance (NZBA), an international network of banks dedicated to achieving carbon neutrality in their operations. Through the NZBA, banks representing 40% of banking activity worldwide share their experience and practices as they work towards this shared goal.

In the report, On the Road to Net-Zero, Íslandsbanki has published its targets for specific sectors that account for 61% of total lending and 71% of total emissions from the loan portfolio in 2019. The baseline year for the targets is 2019, but COVID-19 had a strong impact in 2020 and 2021, which has also been measured. The report states, among other things, that the Bank aims to reduce the financed emissions from its balance sheet – i.e., the carbon footprint from its loan portfolio – by a total of 60% by 2030 and 85% by 2040.

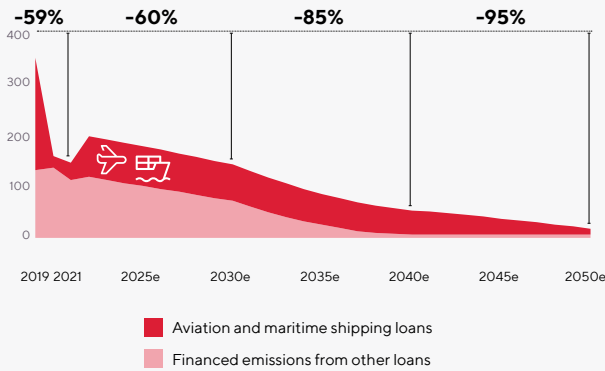
In the short run, energy transition in road transportation is expected to deliver the largest contraction in the carbon footprint from the loan portfolio. Because of Iceland's unique situation, in that nearly 100% of electricity is produced from renewable energy sources and 85% of indoor heating comes from geothermal energy, emissions from real estate and power plants are not expected to decline during the period. Íslandsbanki has a negligible amount of loans to other carbon-intensive sectors specified by the NZBA – i.e., aluminium, cement, coal, iron and steel, and oil and gas – and has no plans to increase such lending.

The Bank aims to publish targets for reductions in the carbon footprint for additional sectors represented in its loan portfolio – seafood, agriculture, and construction – by the end of 2023.

Sectoral target for carbon footprint reduction in the Bank's loan portfolio
Decrease relative to base year (2019)

Sector	2030	2040	2050
Aviation and maritime shipping	>65%	>75%	>95%
Road vehicles	>50%	>75%	>95%
Commercial and residential real estate	<0%	<0%	<0%
Power generation	0%	0%	0%

Estimated pathway of emissions from balance sheet
ktCO₂e



No sectoral targets have been defined for sectors other than the four listed in the table. The graph assumes a 50% contraction for other sectors, in accordance with Iceland's climate objectives and commitments.

Carbon neutrality in operations

Banking is not an energy-intensive industry; nevertheless, Íslandsbanki considers it important to set an example and adopt ambitious targets for measuring, minimisation of emissions, and mitigating measures. In this way, the Bank contributes to bringing about the changes in attitude that are essential in supporting climate action.

Since 2017, the carbon footprint from Íslandsbanki's operations has been estimated and published in accordance with Greenhouse Gas Protocol methodology. Over this period, systematic efforts have led to a significant reduction in emissions relating to the Bank's operations. At the same time, emphasis has been placed on taking account of more indirect sources of emissions in order to gain a better overview of the Bank's overall emissions. The main additions to the 2022 sustainability accounts are carbon emissions from the Bank's offices in Poland; furthermore, the Bank's subsidiary Iceland Funds is now assessed in greater detail.

Íslandsbanki's emissions from operations totalled 919 tonnes of carbon dioxide equivalent (tCO₂e) in 2022. The measurement for the year included significantly more components than the measurement for the reference year, 2019. Total emissions in connection with sources that were measured in both 2019 and 2022 declined by 39%, which is very close to the Bank's targeted 40% contraction for the period. Íslandsbanki aims to shrink the carbon footprint from its operations by 50% between 2019 and 2024.

Carbon neutralisation with mitigating measures

Since 2019, the Bank has ensured that its operations are carbon-neutralised by using mitigating measures to offset the portion that it has not been able to reduce. Íslandsbanki undertakes a variety of projects in order to offset the carbon footprint from its operations in full. To this end, it focuses on certified international projects, although the Bank also supports domestic projects of importance to society and the economy.

Íslandsbanki neutralised its activities in full by purchasing 1,000 Certified Emission Reduction units through the United Nations Carbon Offset Platform. Furthermore, the Bank supported two important domestic projects during the year with the purchase of planned certified emission reduction units. The first project involves units from a new afforestation project in Arnaldsstaðir run by Yggdrasill Carbon. The second project involves units from the Icelandic startup SoGreen, which is working on the production of a new type of carbon units that will ensure five-year high school education for girls in Zambia. Because the units represent planned (or ex ante) emission reductions, they are not considered ex post units until the reductions have taken place and been verified. Thus the impact of the projects is not included in the carbon offset from the Bank's year-2022 operations but could be used in the future, once the units have been verified.

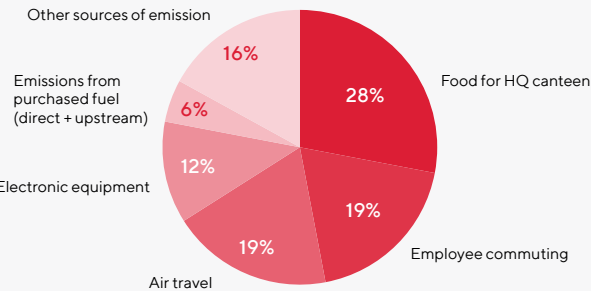
MAJOR MILESTONES

<p>48% reduction in fuel purchases since 2019, mainly due to a shift towards electric vehicles</p>	<p>A 45% contraction relative to 2020 in emissions due to paper usage and printing</p>
---	--

AREAS OF EMPHASIS TO REDUCE EMISSIONS FURTHER

<p>The Bank aims to stop purchasing fossil fuels for motor vehicles other than appropriated assets by March 2023</p>	<p>The recycling ratio fell to 47%, but the goal is to bring it up to 90% no later than 2025</p>
<p>Reduced air travel (emissions due to air travel in 2022 were broadly the same as in 2019, but the aim is to reduce them)</p>	<p>Fewer trips to and from work and more environment-friendly employee commuting methods</p>

Top 5 operational emissions sources in 2022



Active cooperation and dialogue with customers

Sustainability comes up more and more often in dialogue with the Bank's corporate customers and interest in sustainable financing options has grown. In line with this trend, Íslandsbanki has broadened the scope of its educational material on sustainability, including by publishing sector guidelines and holding events on sustainable business practices.

Sustainable financing and financial incentives

The transition to carbon neutrality demands substantial investment that creates opportunities for banks to support their customers' financing needs. The Bank is determined to create positive incentives to expedite investment in the transition needed to combat climate change. The possibility of providing such incentives comes from more favourable financing terms offered to the Bank for sustainable bond issues and from robust management of sustainability risk, which can affect credit risk. This enables the Bank to offer more favourable interest rates to sustainable projects undertaken by its customers.

Sustainable corporate financing

Sectoral guidelines and education on sustainability

During the year, Íslandsbanki published sector guidelines, the first bank in Iceland to do so. The guidelines are conceived as a tool to provide companies with a clear overview of the risks and opportunities relating to sustainability in their sector. Exposure to risks varies from one sector to another and the guidelines contain customised advice on risk management. The Bank has published three sets of sector guidelines prepared for the construction-, seafood- and tourism industries. The Bank hopes that the guidelines will create a shared foundation for Íslandsbanki, its customers, and other stakeholders to engage in further dialogue on sustainability.

In addition, the Bank has published detailed educational materials on sustainability in operations on its website, and this past winter it held an event on the relationship between sustainability and economical business operations. At the event, entitled **Sustainable Operations are Sound Operations**, an interesting group of guests shared their experience of how value can be added through the incorporation of sustainability into day-to-day operations.

ESG risk assessment and management of sustainability risk

At the end of 2022, 76% of all credit risk had been assessed from the perspective of ESG risk factors, up from 34% a year earlier and above the year's target of 70% or higher. This has provided a better overview of where in the loan portfolio the key sustainability-related risks lie. The Bank is committed to taking account of ESG criteria when assessing risk and determining the pricing of its loans.

During the year, emphasis was placed on creating a clearer ESG risk assessment process and on educating and training a larger group of employees to carry out the risk assessment. In this way, sustainability has been interwoven even more fully into the Bank's key lending-related processes. The initiative was successful, drawing employees' attention to issues relating to sustainability and deepening their knowledge of customers' business activities. A steadily growing group of customers are paying close attention to these issues, and they welcome the dialogue with the Bank. This positive foundation for the discussion of sustainability fosters learning and knowledge that is useful to both parties.

Further information can be found in the Bank's Pillar 3 report for 2022, which contains a separate chapter on sustainability and climate risk based on international Task Force on Climate-related Financial Disclosures (TCFD) criteria.

Pillar 3 Report



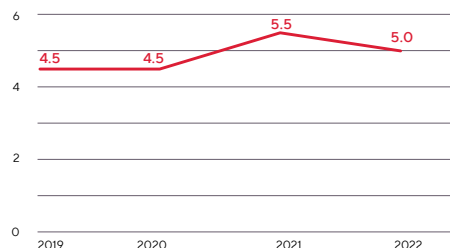
Social 2022

Sustainability
statement 2022

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

58%

Percentage of women in entry- and mid-level position

59%

Senior- and executive-level positions

46%

Based on headcount (not FTE)

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?



Suppliers must comply with laws, regulations and international agreements on the protection of human rights according to suppliers' code of conduct.

S2 Gender pay ratio



Median total compensation for men to median total compensation for women

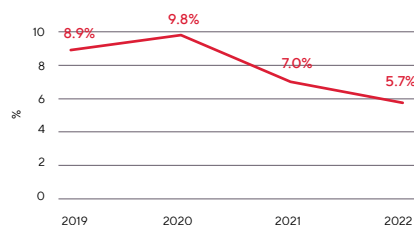
1.36

Outcome of equal pay certification

0.2%

Íslandsbanki has received equal pay certification according to the IST 85:2012 standard every year since 2018. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

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?



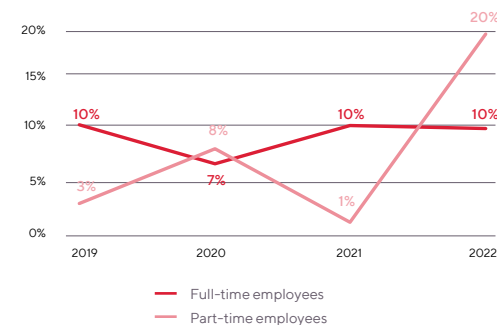
Various factors such as equal rights and accessibility are considered. Furthermore, the Bank stresses that its offices and branches must be accessible to marginalised groups, small companies, and communities.

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.

Are managers assigned responsibility for ethical marketing and reputational risk?



Managers are responsible for ethical marketing and reputational risk, and there is targeted annual management training covering a large number of these and related factors.

Is there a plan for human resource development that includes targets for recruitment, staff development, and turnover?



Has the company board of directors approved and published equal rights objectives?



The Bank aims to ensure that no single gender accounts for more than 60% of each management layer.

A workplace dedicated to diversity

Íslandsbanki is among the most gender equal banks in the world and is viewed as a role model in Iceland. In recent years, the Bank has placed increased emphasis on ensuring equal opportunities that foster diversity and inclusion in a broad sense, not limited to gender.

Equal pay and opportunity, regardless of gender

One of Íslandsbanki's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. Employment advertisements are ungendered, and when selecting from between two equally qualified candidates, the Bank shall hire the applicant whose gender is underrepresented in the department concerned. The Bank's values and the composition of the team in question are considered when making hiring decisions, and if there are sound, objective, job-related reasons for hiring an individual of a given gender, this is permissible. The Bank prepared an action plan aimed at increasing the number of women in departments where they are underrepresented, adopting quantifiable targets of 35% female employees in Investment Banking and 30% in IT. The Bank also stepped up its collaboration with educational institutions with the aim of boosting the number of women in these departments. Íslandsbanki has received equal pay certification according to the ÍST 85:2012 standard every year since 2018. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

Diversity and inclusion

Íslandsbanki places strong emphasis on ensuring diversity by welcoming all customers and employees. The Bank stresses non-discrimination and treats its employees equally, irrespective of race, national origin, religion, philosophy of life, disability, age, sexual orientation, gender identity, sex characteristics, or sexual expression. Furthermore, the Bank works to combat discrimination and to establish and maintain equal treatment of individuals in the labour market.

In addition, the Bank has taken numerous steps towards achieving greater equality. A large number of individuals and organisations that have been marginalised in the Icelandic labour market have been invited by the Bank to educate and inform staff about their circumstances and an Equal Rights and Diversity Council has been established. There is still much room for improvement and the Bank is thus committed to upholding this dialogue with the aim of making improvements every year, thereby being a force for good.

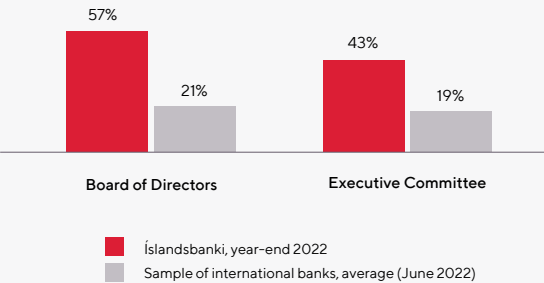


Íslandsbanki guarantees its employees **80% of their salary during childbirth leave for a period of six months**, with the aim of further increasing gender equality. The Bank also offers a temporary adaptation period when employees return from childbirth leave.



Íslandsbanki has been awarded the **Equality Scale by the Icelandic Association of Business Women (FKA)** each year since the award was established in 2018. The Equality Scale is awarded in recognition of Icelandic companies that are leaders in the field of gender equality.

Share of women on the Board and Executive Committee



Source: Gender diversity in global financial services | Deloitte Insights

Financial health

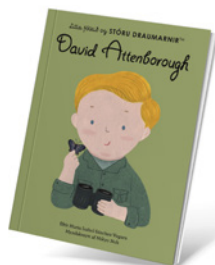
Increased interest, knowledge and competency in financial matters boosts customers' self-confidence and financial health. Íslandsbanki prioritises enabling all customers to benefit from its services and emphasises financial education that reaches as many as possible, regardless of age, gender, field of interest, location, time or language.

Educational information

One of the four UN SDGs that Íslandsbanki supports is **Education for All**. The Bank offered wide-ranging financial education during the year, focusing on helping customers to navigate the changes in household balance sheets resulting from higher interest rates and inflation.

Educational materials on the economy were distributed in the media, with published articles and numerous lectures for customers, schools, institutions, and companies. In all, 4,100 people attended 72 educational events held by the Bank during year, on topics such as finances and starting a family, pension issues, mortgage loans, the fishing industry, the tourism industry, women and investment, sustainability, innovation, and investing in the equity market, to mention a few.

During the year, all children who made a deposit to a long-term Framtíðarreikningur savings account received books from the series Little People, Big Dreams. With this and new puzzle books, the Bank aims to encourage children to refine their skills in reading and arithmetic.



Access to financial services

We want our solutions to be available to all – without special configurations, and regardless of disabilities or other factors that could discourage them from using digital services. To ensure the best possible access to its digital solutions, Íslandsbanki complies with Level AA of the international WCAG 2.1 standard in all of its development work. The standard considers the needs of the visually impaired and colour-blind, those with reduced mobility, and those with dyslexia, autism, or learning difficulties.

During the year, Íslandsbanki continued to work towards providing immigrants with ready access to financial services. Information on financial services for newly arrived immigrants was expanded, and the online bank and the Íslandsbanki app are now available in both English and Polish.

Customer empowerment

Íslandsbanki's customers are a varied group, and during the year the Bank strengthened its emphasis on analysing customers' needs with an eye to inclusiveness. The Bank created a new position in Personal Banking with a focus on women as investors and held an event on women and investments that was attended by over 200 guests.

A larger number of social loans were granted during the year under the Bank's Sustainable Financing Framework. **Íslandsbanki's impact report** explains the impact of the sustainable loans that support the UN SDGs of **Gender Equality** and **Reduced Inequalities**. Among other things, 30 loans have been granted to companies that maintain gender parity in their management and board of directors.



Support for innovation

Íslandsbanki encourages sustainable innovation and development in with direct grants to innovators, as well as support for the **Icelandic Ocean Cluster**, the **Icelandic Renewable Energy Cluster**, and Iceland Innovation Week.

The Íslandsbanki Entrepreneurship Fund awarded grants totalling ISK 40m to fifteen companies during the year. The objective of the Entrepreneurship Fund is to foster innovation and support pioneering projects that promote the attainment of the UN SDGs emphasised by the Bank. Eco-friendly smart solutions and projects relating to by-product utilisation were prominent among the year's grantees.

The projects receiving awards were quite varied, including **BioBuilding**, which develops methods for using domestically cultivated industrial hemp as a construction material, thereby promoting an environment-friendly construction industry. **CoolWool ehf.** produces cooling boxes using cellulose resin, which is made in part from waste grasses and vegetable matter but without any plastic, and **Epoch** is well advanced in the development of a smart bin that sorts trash itself with the assistance of artificial intelligence.

OTHER COMPANIES THAT RECEIVED GRANTS IN 2022

Deed Delivery
Fine Foods Íslandica
Hraðið
Hreinar sápur
Lilja
María Eymundsdóttir
Melta
On to Something
Sara – a girl with ADHD
Snið.Mót
So Green
Vsolve ehf.

Further descriptions of the projects

“

It is exciting to see the growth in Icelandic entrepreneurial activities, which is reflected in the large number of applications we receive every year for grants from the Íslandsbanki Entrepreneurship Fund. The projects are incredibly diverse, but they are all highly intriguing, and they stem from a genuine desire to improve the world and participate in Iceland's future economic growth. It is most gratifying to be able to contribute in this way to the advancement of Icelandic brainpower.

Una Steinsdóttir

Managing Director of Business Banking and member of the Íslandsbanki Entrepreneurship Fund board.



G1 Board diversity

57%

Total **board seats** occupied by women

67%

Committee chairs occupied by women

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 ehf. was engaged to review and confirm the Bank's sustainability information disclosure for 2022.

Auditor's Limited Assurance Report

G2 Board independence

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

In accordance with the Act on limited companies No. 2/1995 and the companies Articles of association the CEO of the company cannot serve as board chair.

86%

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?

45%

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 2022.

Does the company enforce a competition law plan?

G3 Incentivised pay

Are executives formally incentivised to perform on sustainability?

According to Article 8 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?

99%

G9 Disclosure practices

Does your company provide sustainability data to sustainability reporting frameworks?

Íslandsbanki provides information on its sustainability activities to CDP, 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, CDP, 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, and 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 Statement](#)

Code of Conduct

Íslandsbanki's Code of Conduct are intended to promote sound governance practices within the Bank and to support the regulatory framework applying to its activities. They contain important guidelines for employees, including on risk culture, personal data protection, measures to combat conflicts of interests, and notifications 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. Strong protection against money laundering is based on effective interactions between employee monitoring and system-based monitoring, as well as sound governance and professional procedures. In addition to the Bank's anti-money laundering and terrorist financing policy, 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

In 2021, the Bank 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 a majority of the Bank's year-2022 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](#)



Sustainability-related governance structure

Clearly defined sustainability-related roles and responsibilities ensure regular follow-up and strengthen the Bank's capacity to respond to challenges and opportunities associated with sustainability.

Auditor's limited assurance report

Roles of the Board and Executive Committee

The Board of Íslandsbanki approves the Bank's sustainability policy and targets and determines the Bank's sustainability-related risk appetite. The Board Corporate Governance and Human Resources Committee, a sub-committee of the Board, assists the Board in monitoring, discussing, and implementing the sustainability policy, including the implementation of the Sustainable Financing Framework and the formulation of sustainability targets, as well as monitoring compliance with the policy and making recommendations to the Board on improvements as needed. The Board is updated regularly on the sustainability developments, and key sustainability metrics are a part of its monthly risk dashboard.

The CEO is the owner of the sustainability policy, but the Executive Committee is responsible for the implementation of sustainability targets and for ensuring that the relevant rules and procedures within their departments comply with the policy.

Sustainability Committee

The Sustainability Committee is the Bank's official forum for scrutiny and discussion of issues pertaining to sustainability risk (including ESG risk), sustainable purchasing, and business opportunities. It has a supervisory role in connection with the use of the Sustainable Financing Framework within the Bank and keeps abreast of progress made on annual secondary objectives.

Members of the Sustainability Committee are the CEO (who serves as chair), the head of strategy and sustainability, the Chief Financial Officer, and head of Investor Relations, as well as representatives from business units. The Committee is kept abreast of progress made on the Bank's sustainability targets at least quarterly, and it gives particular attention to measures to be taken when targets are not met. In most instances, an action plan is launched to expedite progress, but in a few instances, external conditions have required that the targets be revised.

Transparency

During the year, the Bank has made a determined effort to increase still further the transparency of its sustainability-related actions and disclosures. The carbon footprint from the Bank's loan portfolio for 2019, 2020, and 2021 has been published, in accordance with PCAF methodology. In addition, the Bank's subsidiary Iceland Funds was the first fund management company in Iceland to publish the financed emissions of its assets under management. Bank employees presented their measurement work to experts around the world and were praised by PCAF for a job well done.

In addition, Íslandsbanki published its climate targets for 2030 in accordance with **NZBA** methodology, submitted measurements of the carbon footprint from the Bank's operations and loan portfolio to the **Climate Disclosure Project**, the world's largest database of companies' environmental impact, and provided reporting in accordance with the UN PRB. This year, all sustainability disclosures in the Bank's Annual and Sustainability Report have been reviewed and received a limited assurance by EY.



PRINCIPLES FOR
RESPONSIBLE
BANKING

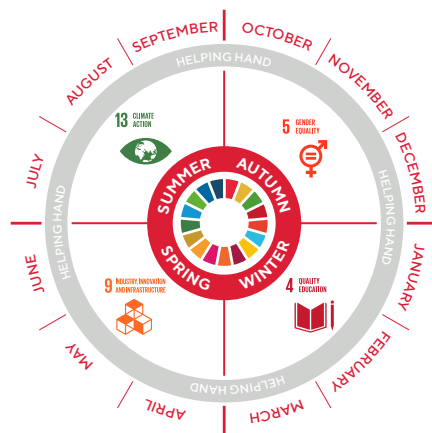


Employee participation and sustainability culture

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 SDGs for that quarter. In particular, a number of events were held in connection with environmental issues; for instance, employees were invited to lectures given by the Minister of the Environment, Energy, and Climate; UN Women; the Icelandic environment association; and the Director-General of the National Energy Authority. The Sustainability Council also held numerous meetings and, among other things, invited foreign experts from leading financial institutions to share their knowledge.



The Bank's sustainability calendar is reflected in events, educational initiatives, 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.

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. In 2022, employees donated over 600 hours of work to these causes. The projects are as diverse as they are numerous, including helping to wrap Christmas gifts for children in Ukraine; afforestation; shoreline clean-up with the Blue Army; packing the Pink Ribbon; and Christmas baking for Hliðabær, a day-care facility for people with dementia. Many of Íslandsbanki's departments have supported the same cause or NGO for a number of years; for instance, one group of Bank employees has supported the cancer survivors' association Ljósið each year since 2016.

Employees from Operations and Policy Formulation participate in shoreline clean-up on the Reykjanes peninsula with the Blue Army.



Social grants and the Reykjavík Marathon

Among projects awarded grants in 2022 were the Red Cross, for humanitarian work due to the war in Ukraine; UN Women in Iceland; Icelandic Sports Association for the Disabled; the Krýsuvíkursamtökin rehabilitation centre; The association of women in the fishing industry; and the Icelandic Association of the Blind's publication of children's books in sign language.

In addition, the Bank is the main sponsor of the Reykjavík Marathon and spearheaded the Run for charity initiative Hlaupastyrkur, under which marathon participants can collect pledges in support of charitable organisations. The initiative is the largest charitable donation drive in the country, with over ISK 1.2 billion collected since inception in 2006. Íslandsbanki covers all of the cost of the fundraising website and the collection of pledges, which revert in full to the beneficiary organisations. In 2022, marathon participants collected ISK 133 million in pledges.

Sustainability targets further ahead

Íslandsbanki's sustainability objectives through 2025 are approved by the Board and have a clear link to the UN SDGs, as well as complying with other international benchmarks. In accordance with the Bank's impact analysis, emphasis has been placed on climate issues and equal rights, where the Bank is considered to have the greatest opportunity to be a force for good. The Bank's climate objectives are presented in accordance with the guidelines from the Net-Zero Banking Alliance (NZBA), with the aim of supporting the goals of the Paris Convention and Iceland's ambitious climate targets. An initial climate action plan was published in Íslandsbanki's carbon neutrality report, **On the Road to Net-Zero**, released in October 2022.

Objectives relating to diversity and inclusiveness are based in part on the criteria laid down by Women's Empowerment Principles, which the Bank joined in 2011.

	Sustainability objectives through 2025	Sustainability objectives for 2023 ¹
 Environmental	1. Achieve full carbon neutrality no later than 2040	Publish net zero sectoral pathways for seafood, agriculture and construction. Conduct at least 25 meetings with corporate clients to discuss sustainability and carbon neutrality.
	2. Offer our customers green and sustainable products	Increase the portion of sustainable corporate loans in the loan portfolio to 15%. Launch at least two new sustainable products for individuals.
 Social	3. Encourage equality and inclusion through products and services	Pay special attention to equality and inclusion through customer meetings and seminars. Introduce new customer journeys for individuals moving from abroad.
	4. Further increase diversity and inclusion in the workplace	Íslandsbanki's equality council operationalised during the year. Action plan and targets set and tracked by Management team. Bring the share of women employees to 35% in investment banking and to 30% in IT.
 Governance	5. Work with suppliers and partners that champion sustainability	Sustainability assessment of at least 30 of the largest IT suppliers and partners. Review suppliers' code of conduct and increase share of purchasing from suppliers that have signed the code of conduct (or confirmed they have comparable rules) from 45% to >75%.
	6. Assess sustainability risk, define responsibility, and increase information disclosure	Perform and report on an initial assessment of risks and opportunities related to biodiversity. Further develop and implement the ESG evaluation of borrowers. Assess all larger corporates before year end and make ESG risk assessment mandatory for new loans of > ISK150m.
	7. Place special emphasis on four of the UN SDGs	Increased focus on knowledge building across the organisation related to the sustainable development goals as well as sustainable finance. Supporting of education for all by donating computer equipment to at least 5 NGOs / educational organisations.

¹Annual secondary objectives are based on work carried out by departments and units within the Bank during the preparation of Íslandsbanki's annual five-year plan.



Annual and Sustainability Report 2022

7 Economic review



Economic review

Iceland recorded strong GDP growth in 2022, driven by a surge in exports, buoyant private consumption, and robust growth in investment. Mounting demand pressures began to take root, however, as could be seen in a tight housing market, a sizeable current account deficit, and rising inflation. The outlook for 2023 is for modest growth in the domestic economy, and the adjustment towards equilibrium will probably feature an improvement in external trade, a better balanced labour market, and falling inflation.

2022

GDP growth was robust in 2021 and then gained significant steam in 2022. It measured 7.4% over the first nine months of the year and looks set to be around 7% for 2022 as a whole.

The swift growth seen in 2022 is due in large part to a surge in private consumption, which grew by about 10.9% in real terms over the first three quarters of the year. Private consumption growth was supported by the recovery of the labour market, the strong financial position enjoyed by most households, population growth, and a significant pent-up desire to travel after the restrictions of the pandemic era.

Investment growth was relatively robust as well, measuring more than 4% overall during the year. It was sustained by a surge in corporate and public investment, as residential investment probably contracted somewhat in 2022.

Exports also rebounded strongly, with growth estimated at nearly 23% for the year as a whole. On the other hand, the boom in domestic demand and exports called for a vast increase in imports, which are projected to have grown by almost a fifth.

Current account deficit wider than expected

The tourism industry played a key role in export growth, and prospects for the sector improved late last winter, after the relaxation of public health measures in Iceland and abroad. A total of roughly 1.7 million tourists visited Iceland in 2022, about the same as in 2016. Other sources of export growth included aquaculture, intellectual property and IT, and capelin products. Furthermore, exported goods prices fluctuated widely in 2022, not least aluminium prices, which spiked in 1H and then plunged commensurably in 2H.

On the imports side, there was a marked increase in imports of both goods and services. Imports of consumer goods and fuels skyrocketed, and imports of

generic investment goods rose strongly as well. Moreover, Icelanders travelled abroad in large numbers, and in fact, frequent overseas trips were among the main drivers of year-on-year growth in services imports.

The current account deficit was significant last year, the second year in a row following a decade of near-constant surplus. A sizeable goods trade deficit and a considerable deficit on primary income were the main culprits, with a surplus on services trade as a mitigating factor. Iceland's international investment position deteriorated somewhat in 2022 but remains quite strong. External assets net of external liabilities equalled approximately one-fourth of GDP at the end of the year.

Labour market back on its feet after the pandemic

The labour market rebounded strongly in 2022. Over the course of the year, unemployment fell from 5.2% to 3.4%, more or less realigning with the pre-pandemic rate. In addition, the number of participants in temporary labour market initiatives declined sharply during the year, and the number of employed persons rose by over 7% relative to 2021.

Wage growth was generally strong in 2022, averaging about 8.3%. Pay rises were proportionally largest among lower-paid workers, as the wage agreements then in effect provided for unit-based increases. Most private sector wage agreements expired at the end of October, whereupon a large share of private sector workers made agreements that will remain in effect until January 2024. Lower-paid workers' real wages rose in 2022 despite

high inflation, although higher-paid workers saw their real wages contract somewhat.

Surging inflation called for hefty policy rate hikes

The ISK averaged just over 3% stronger in trade-weighted terms in 2022 than in 2021. Developments within the year were split into two phases, however: The ISK strengthened markedly from the beginning of the year until early summer, only to fall markedly thereafter, ending the year nearly 3% weaker than it began it. The depreciation starting in early June was due to a wider-than-expected current account deficit, large-scale outward investment in foreign securities, unfavourable financing conditions abroad in 2H, and changes in expectations.

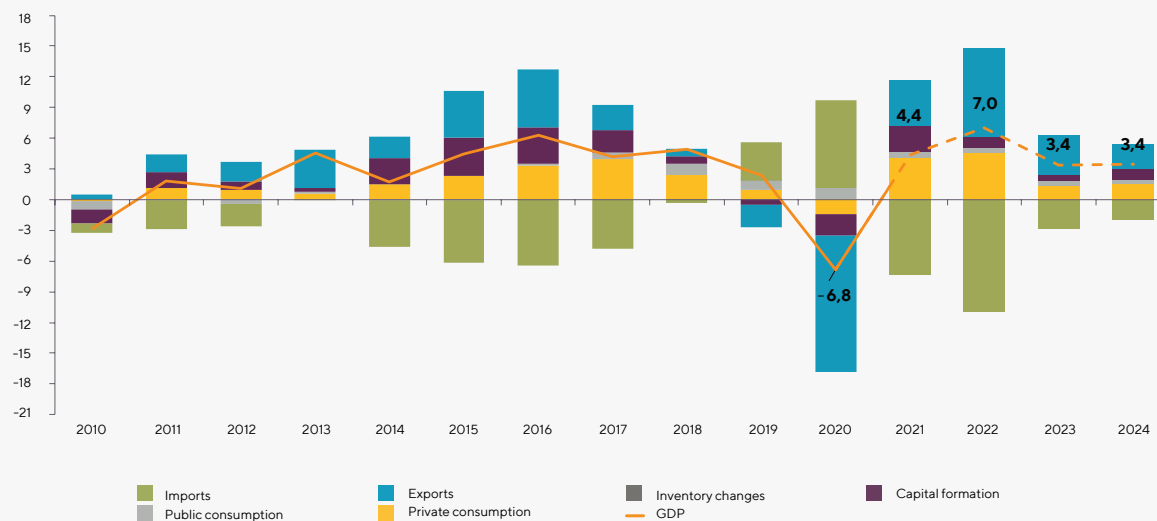
Inflation jumped from 5.7% to 9.6% over the course of the year, driven by the combined effects of surging imported goods prices following the war in Ukraine, the depreciation of the ISK in 2H, rapid house price inflation, and growing demand pressures within Iceland. It peaked at nearly 10% in July and then began to fall, albeit with a temporary uptick in December.

The Central Bank responded to the deteriorating inflation outlook and mounting demand pressures with steep policy rate increases, raising the key rate from 2.0% at the beginning of 2022 to 6.0% by the year-end. The policy rate hikes were reflected in rising real rates over the course of 2022. Long-term indexed Treasury bond yields, for instance, rose from approximately 0.5% to about 2.0% over this period. In the final months of the year, indicators finally started to suggest that this monetary tightening had begun to affect house prices and private consumption.

2023 looks set to be a year of adjustment for the Icelandic economy

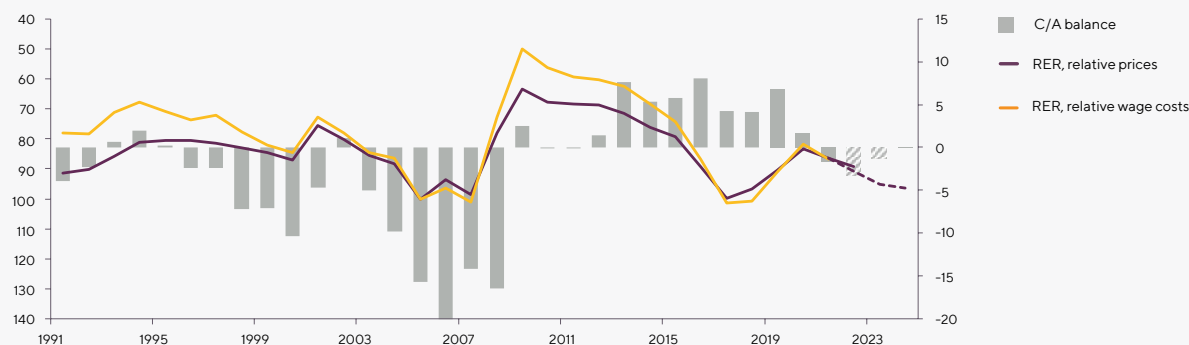
For 2023, the outlook is for GDP growth to be much slower than in the recent term, at just over 3%. It will

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



Shaded columns and broken lines: Íslandsbanki Research forecast / Source: Statistics Iceland

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



Shaded columns and broken lines: Íslandsbanki Research forecast / Source: Central Bank of Iceland

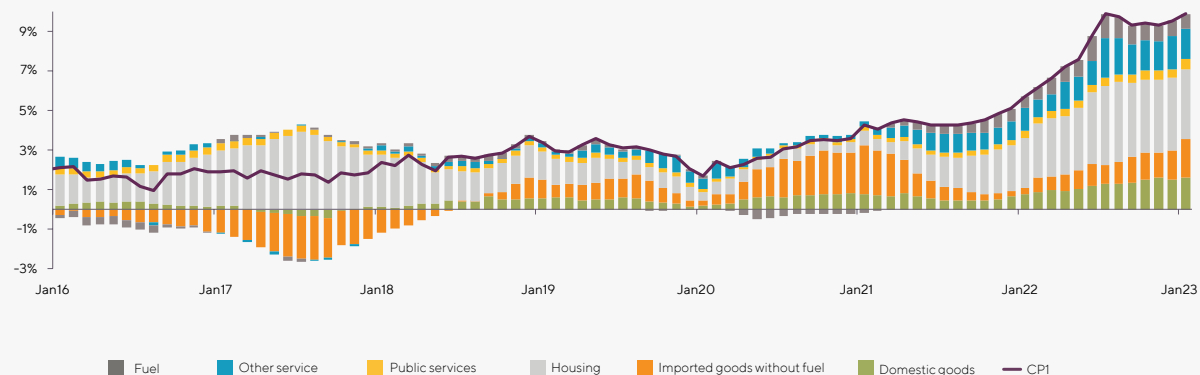
probably be driven mainly by export growth, as the contribution of consumption and investment will shrink markedly between years. Furthermore, the outlook is for import growth to slow markedly relative to previous years.

Increased activity in tourism will probably play a major role in export growth this year, as the outlook is for tourist arrivals to exceed 2 million for the first time since 2019. That said, there is considerable uncertainty whether – and how much – difficult economic conditions will deter European and American visitors from travelling to Iceland, although as yet there is little or no sign of a downturn in demand. Furthermore, the outlook is for growing exports of farmed fish, aluminium, and other industrial goods, as well as increased revenues from intellectual property exports.

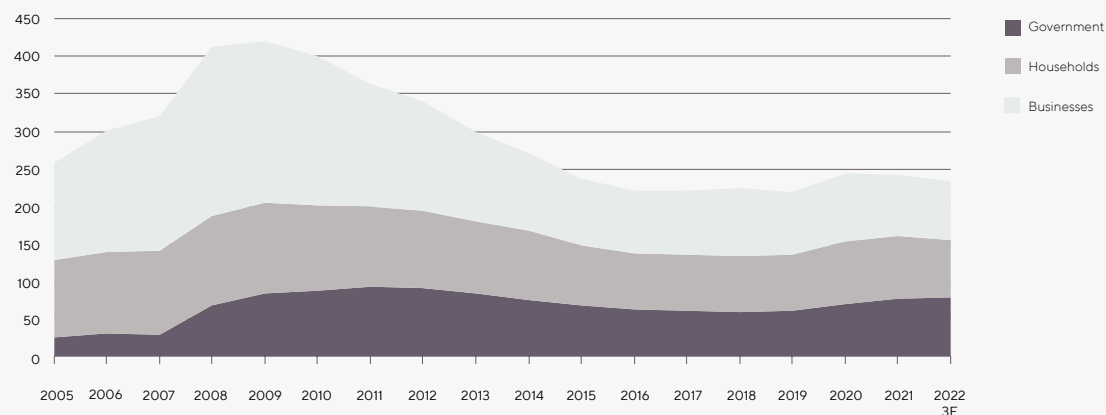
A slower real wage growth, the impact from higher interest rates and a stable labour market are among the main reasons for a slower private consumption growth this year than in recent quarters. A healthy growth in residential housing investment coupled with moderate business investment growth will outweigh a contraction in public sector investment, resulting in modest total investment growth year-on-year. Higher interest rates and increasingly muted expectations about businesses' operating environment are among the factors that will dampen many firms' appetite and capacity for investment.

The wage agreements finalised for a large share of the private sector at the end of 2022 set the tone for this year's wage developments. The outlook is for wage growth to measure around 8% overall in 2023. Lower-income groups will receive proportionally larger pay rises than their higher-income counterparts, but the difference between them will be considerably smaller

Inflation, by source (%)



Source: Statistics Iceland

Household, corporate, and public debt
% of GDP

Source: The Central Bank of Iceland

than in recent years, as provisions allow for a mixture of unit-based and percentage-based increases. The labour market looks set to be relatively tight on average in the year, with unemployment likely to be average around 3%, broadly similar to the end-2022 rate.

The outlook is for the exchange rate to be below its 2022 average for a while to come. Further ahead, however, the chances of a stronger ISK will increase as the current account balance improves. For the current account, however, the outlook for 2023 as a whole is somewhat more ambiguous than previously anticipated.

A more stable ISK, a slower rise in imported goods prices, a better balanced housing market, and diminishing demand pressures will probably contribute to falling inflation in 2023. The Central Bank's tighter monetary stance will be a factor as well. Inflation looks set to average just over 7% during the year but fall to slightly over 6% by the year-end. There are still considerable domestic cost pressures in the offing, and these will be one of the main drivers of inflation further ahead. The policy interest rate will probably be somewhat higher on average in 2023, compared to end-2022 levels. In 2H, however, a slow monetary easing phase could ensue in late 2023, provided that inflation has begun to fall decisively.

Thus an adjustment period lies ahead for the Icelandic economy, although the economic and labour market outlook is brighter than in many neighbouring countries.





Annual and Sustainability Report 2022

8 Financials and funding



Financials and funding

An eventful year where the Bank's financial results reflect solid operations and a strong balance sheet.

A successful year with strong results

“

2022 was an eventful year at Íslandsbanki, as operations were strong and the results were good. Profitability was 11.8% for the year, which exceeds the Bank's financial goals. Revenue generation was very sound with a 14.1% increase during the year and revenue growth in all business units. The cost-to-income ratio was 42.1%, which is a fall from 46.2% for the previous year. Impairment was positive by ISK 1.6 billion, largely explained by a better outlook for tourism. Growth in lending to both retail and corporate customers contributed to a 9.2% increase in loans. Deposits from customers rose by 6.2% and is the biggest pillar of the Bank's funding. Conditions on the bond market were challenging during the year, and yet the Bank showed its strength with increased funding diversification. For example, it issued its first covered bonds denominated in euros and issued subordinated bonds in Icelandic króna for the very first time. The Bank is therefore well funded with all liquidity and capital ratios above targets and regulatory requirements. The Bank's board will therefore propose at the annual general meeting that nearly ISK 12.3 billion be paid as a dividend, and this is in accordance with the Bank's dividend policy. The Bank is further planning to start its share buyback program with a standard ISK 5 billion buyback program.

Jón Guðni Ómarsson
Chief Financial Officer



Income statement

Net profit increase driven by core income increase

Net interest income (NII) increased by 42.9% between years and amounted to ISK 12.3 billion in 4F22 compared to ISK 8.6 billion in 4F21. NII rose mainly as a result of a larger balance sheet and higher interest rate environment. The average CB policy rate was 5.9% in 4Q22, as compared to 1.7% in 4Q21.

Net interest margin (NIM) on total assets was 3.1% in 4Q22 (2.4% in 4Q21) and 2.9% for 2022 (2021: 2.4%). Lending margin was 1.8% in 4Q22 (2.1% in 4Q21) while deposit margin was 2.1% in 4Q22 (1.4% in 4Q21).

The rise in net fee and commission income (NFCI) by 10.5% YoY in 4Q22 stems from several sources. Fee income from Allianz Ísland hf., a subsidiary, and fees from cards and payment processing are the primary drivers of the increase in the fourth quarter.

Total core income (NII and NFCI) was up by 33.3% YoY in 4Q22.

The largest change in net financial expense in the quarter is a loss in NFI which is largely due to a volatile market environment.

Low cost-to-income ratio

Salaries and related expenses increased by 13.5% in 4Q22 compared to 4Q21. The YoY increase in other operating expenses of 24.4% in 4Q22 derives from various sources but is mainly explained by a higher inflation, normalisation of travel and other activities after COVID-19, strategic projects and a provision relating to a potential administrative fine.

The number of FTEs at the end of 2022, excluding seasonal employees, was 700 (702 at end of 2021) for the parent company and 739 for the Group (735 at end of 2021).

The cost-to-income ratio was 42.5% in 4Q22, compared to 45.3% in 4Q21.

Taxes and levies

The effective tax rate was 26.7% in 4Q22, compared to 19.1% in 4Q21. The effective tax rate for 2022 was 25.8% compared to 18.5% for 2021. The higher effective tax rate in 4Q22 is mainly explained by the tax effect of positive fair value changes in equity shares in 4Q21 compared to negative fair value changes in equity shares in 4Q22. The Bank is subject to the special financial tax of 6% on taxable profits over ISK one billion, a financial activities tax and social security charges. It also makes contributions to the Central Bank of Iceland

Financial Supervisory Authority and the Office of the Debtors' Ombudsman. In line with newly enacted legislation, the Bank will not be charged premiums by the Depositors' and investors' Guarantee Fund after 1Q22. This can however change in the future based on the status of the fund and the size of the deposit system. Total taxes and levies amounted to ISK 3.1 billion for the period, compared to ISK 2.3 billion for 4Q21.

Net impairment on financial assets in 4Q22

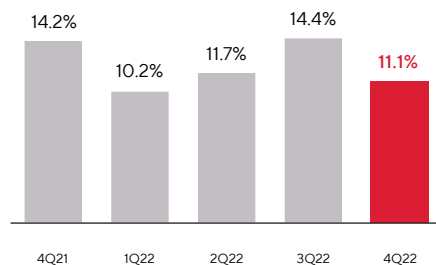
The net impairment of ISK 0.6 billion in 4Q22 (4Q21: positive net impairment of ISK 0.6 billion) is due to less favourable economic environment related to inflation and a few distressed credit cases. Current impairment outlook is relatively benign due to low unemployment and good economic growth outlook.

The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was +22bp in 4Q22 (-23bp in 4Q21) and -14bp FY22.

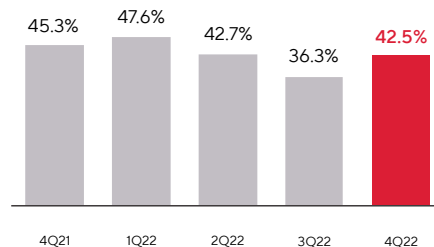
Growth in core income key driver in a strong result

Íslandsbanki reported a profit of ISK 6.0 billion in 4Q22 (4Q21: ISK 7.1 billion), generating a 11.1% annualised return on equity (4Q21: 14.2%). The ISK 1.1 billion fall in net profit between years is mainly due to an increase in administrative expenses and negative net financial income and impairment charges.

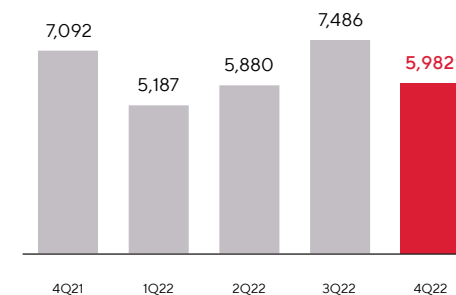
Return on equity



Cost / income ratio



Profit after tax (ISKm)



Balance Sheet

Loans to customers continue to rise and the portfolio remains well diversified and highly collateralised

Loans to customers grew by 2.9% in the fourth quarter and 9.2% during the year. Mortgages increased by ISK 4.6 billion during the quarter and at the end of December accounted for 43% of loans to customers. Loans to corporates rose by ISK 27.1 billion during the quarter. Personal Banking saw an increase of ISK 5.4 billion, Business Banking growth of ISK 9.1 billion, and Corporate & Investment Banking an increase of ISK 18.2 billion.

Loans to customers are generally well covered by stable collateral, the majority of which is in residential and commercial real estate, while the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 58% at the end of 4Q22 (63% at YE21) and the LTV for the residential mortgage portfolio at the end of 4Q22 was 60% (66% at YE21). The lower LTV is mostly explained by updated official real estate valuation that is used for around half of the mortgage portfolio. The valuation reflects market prices from 1Q22 and therefore carries a buffer for potential market price fluctuations in the near term.

Variable NIL mortgages rates have risen by 3.95% since year-end 2021. The Bank tests the resilience to higher rates and sensitivity analysis does not indicate any need for additional impairment despite higher debt-service

In 2024 and 2025 a substantial part of the non-index linked, fixed rate mortgages have an interest rate reset. According to Íslandsbanki's macroeconomic forecast, published on 1 February 2023, the policy rate is expected to start to fall again in 4Q23 with a gradual easing towards the equilibrium real rate, probably around 1-1.5%. The nominal policy rate could therefore be around 4.0% at the end of the forecast horizon in 2025, lower than the year-end 2022 6.0% policy rate.

The Bank's liquid assets are represented in four line-items – cash and balances with Central Bank, loans to credit institutions, bonds and debt instruments and shares and equity instruments – and of the total of ISK 351 billion for those line items at the end of 2022 liquid assets amounted to ISK 312 billion.

The Bank's asset encumbrance ratio was 26.5% at the end of 4Q22, compared with 19.6% at YE21.

High asset quality

At the end of 4Q22, 3.8% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 5.3% at the end of 3Q22 and down from 8.5% from year-end 2021.

At the end of the 4Q22, the share of credit-impaired loans to customers, Stage 3, was 1.8% (gross), up from 1.7% at the end of 3Q22. For the mortgage portfolio, the share was 0.7% at end of 4Q22, unchanged from the end of 3Q22.

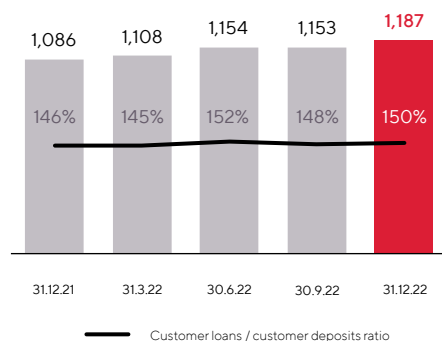
Loans to customers in Stage 2 was 2.5% at year-end 2022, down from 4.4% at the end of 3Q22. For the mortgage portfolio the share of loans in Stage 2 was 0.8% at the end of 4Q22, unchanged from the end of 3Q22.

Deposits remain the largest source of funding

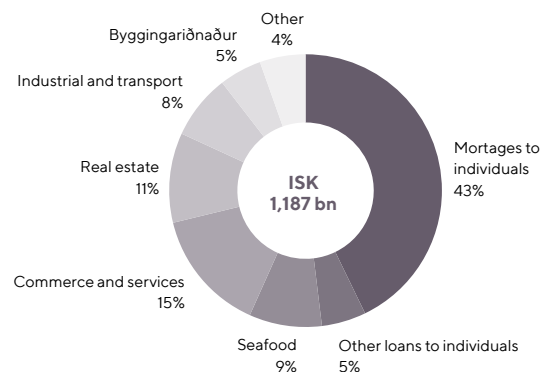
Funding is raised to match the Bank's lending programmes using three main funding sources: stable deposits, covered bonds and senior preferred bonds.

Deposits from customers grew by 1.1% during the fourth quarter. Personal Banking had an increase of ISK 7.1

Loans to customers
(ISKbn)



Loans to customers
(Sector split as of 31.12.22)



Total assets
(ISKbn)



billion, Corporate & Investment Banking an increase of ISK 17.7 billion and Business Banking a decrease of ISK 15.6 billion. All deposit concentration levels are monitored closely, with concentration remaining stable in 4Q22.

The ratio of customer loans to customer deposits was 150% at the end of 4Q22, from the previous 148% at the end of 3Q22. Deposits from retail, businesses and corporations are the Bank's main source of funding, comprising 45% of total funding sources and 86% of the Bank's total deposit base at the period-end.

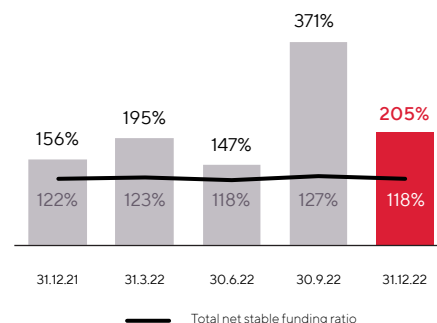
On 15 November the Bank launched two new ISK-denominated senior bonds in the amount of ISK 9.1 billion. The bonds were green bonds issued under the Bank's sustainable programme. During 4Q22 the Bank exercised a call option on outstanding SEK 750 million Tier 2 bonds due 2027 and bought back EUR 262.7 million of a EUR 300 million senior bond due January 2024 and callable in January 2023.

The liquidity position remains strong, with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 205% in YE22, up from 156% at YE21. The LCR in foreign currencies was 492% for YE22, up from 235% at YE21 and the LCR in ISK decreased from 141% at YE21 to 109% at YE22.

The total net stable funding ratio (NSFR) was 118% at YE22, compared to 122% at YE21 and the NSFR in foreign currencies was 198% at YE22, compared with 157% at YE21.

As the Bank's liquidity position remains strong across currencies and is above requirements, the Bank may consider debt buybacks, calls or exchanges of outstanding transactions during 2023.

Total liquidity coverage ratio



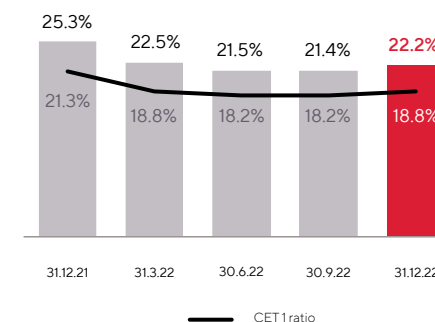
Capital ratios well above targets

Total equity amounted to ISK 218 billion at the end of 4Q22, compared to ISK 212 billion at the end of 3Q22 and ISK 204 billion at YE21.

The capital base was ISK 222 billion at end of 2022, compared to ISK 213 billion at end of Q3 2022 (ISK 228 billion at year-end 2021). The Bank's Board of Directors proposes to the Bank's Annual General Meeting (AGM) that dividends amounting to ISK 12.3 billion shall be paid to shareholders. This equates to approximately 50% of 2022 profits and is in line with the Bank's dividend policy.

The Bank plans to buy back own shares amounting to ISK 5 billion over the coming months through a share buyback program. This is a reduction from the previously planned ISK 15 billion share buyback. The ISK 10 billion difference will be added to the Bank's capital base, which results in a 100bps increase in the Bank's capital ratios. The Bank has seen a profitable growth in loans to customers during 2022 which exceeded initial plans and sees further opportunities to grow the loan portfolio. Furthermore, due to the turmoil in the global economy and international capital markets, the European

Total capital ratio

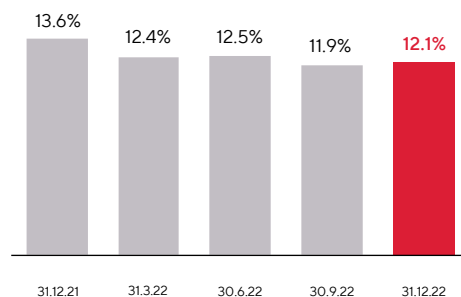


Central Bank and the Central Bank of Iceland recently encouraged banks to maintain capital buffers that are consistent with the prevailing level of risk to help ensure banking sector resilience. The Bank plans to optimise its capital structure before year-end 2024, subject to market conditions.

On 22 June 2022, the Central Bank Financial Supervision Committee announced the results of the SREP process concerning additional capital requirements (Pillar 2-R). As of 1 July 2022, the Bank must maintain an additional capital requirement of 2.6% of the REA, which is an increase of 0.1 percentage points from the previous assessment. The Bank's overall capital requirement, including capital buffers, was therefore raised from 17.8% to 17.9%. At the end of September, the counter-cyclical buffer increased from 0% to 2.0% which, in turn, raised the Bank's capital requirement from 17.9% to 19.9%.

At the end of 4Q22, the Bank's total capital ratio was 22.2% compared to 21.4% at the end of September (25.3% at YE21). The corresponding Tier 1 ratio was 19.8% compared to 19.2% at the end of September.

Leverage ratio



(22.5% at YE21). The CET1 ratio was 18.8% (350bp above requirement), and above the Bank's target of about 16.5%. The change in the total capital ratio from the end of 3Q22 is due to Q4 profits and a lowering of REA.

Íslandsbanki uses the standardised method to calculate its REAs, which amounted to ISK 999 billion at the end of 2022, compared to ISK 1.013 billion at the end of June (ISK 902 billion at YE21). The reduction in REA in the fourth quarter is a result of lower loans to credit institutions and a reduction in risk-weights of certain mortgages due to recent changes in legislation. The REA amounts to 63.8% of total assets at the end of 2022, compared to 65.4% at the end of 3Q22.

The leverage ratio was 12.1% at the end of 4Q22 compared to 11.9% at the end of September (13.6% at YE21).

Meeting MREL requirements

Directive 2014/59/EU on Bank Recovery and Resolution (BRRD I) was i.a. transposed into Icelandic law with Act no. 70/2020 on the resolution of credit institutions and investment firms (the Act). On 8 December 2021, the Icelandic Resolution Authority of the Central Bank of Iceland published its policy on minimum requirements

for own funds and eligible liabilities (MREL-Requirement) according to art. 17 of the Act (hereinafter the MREL-Policy).

On 29 September 2022, the Icelandic Resolution Authority of the Central Bank of Iceland announced that a resolution plan had been approved for Íslandsbanki and thereby an MREL-Requirement for the Bank. The decision is based on the aforementioned MREL-Policy.

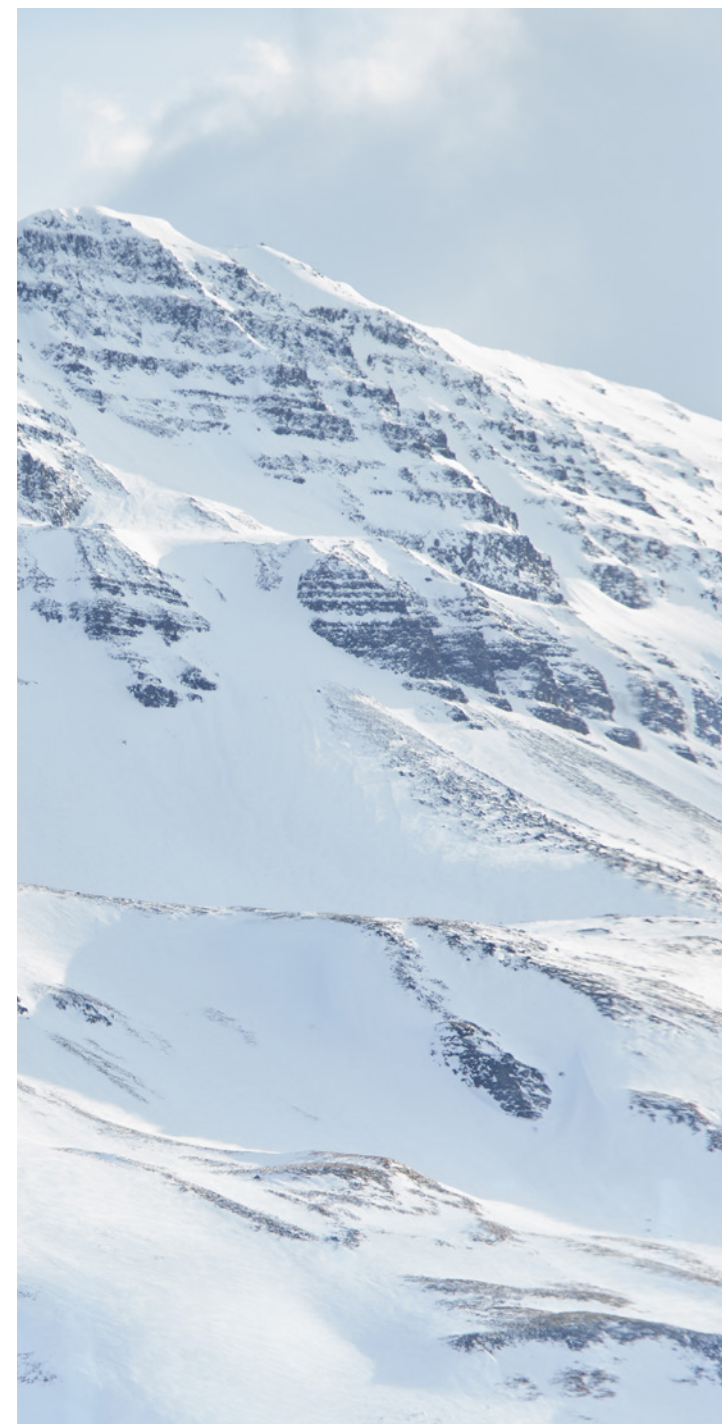
The Bank's MREL-Requirement is 21.2% of the Bank's Total Risk Exposure Amount (TREA) as per year-end 2021 and applies from the date of the announcement. The MREL-Requirement including Combined buffer requirement was 30.5% at year-end 2022. The Bank's ratio was 34.5% at the end of December 2022. The subordination requirement provided for in Directive 2019/879/EU on Bank Recovery and Resolution (BRRD II) has not been defined.

Modest market risk profile

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

The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the year-end 2022, the Bank's consolidated net inflation imbalance amounted to ISK 27.7 billion, compared to ISK 41 million at YE21. 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 -1.6 billion (0.7% of the total capital base) at year-end 2022, compared to ISK -327 million (0.1% of the total capital base) at YE21. The Bank's imbalances are strictly monitored and are within regulatory limits.





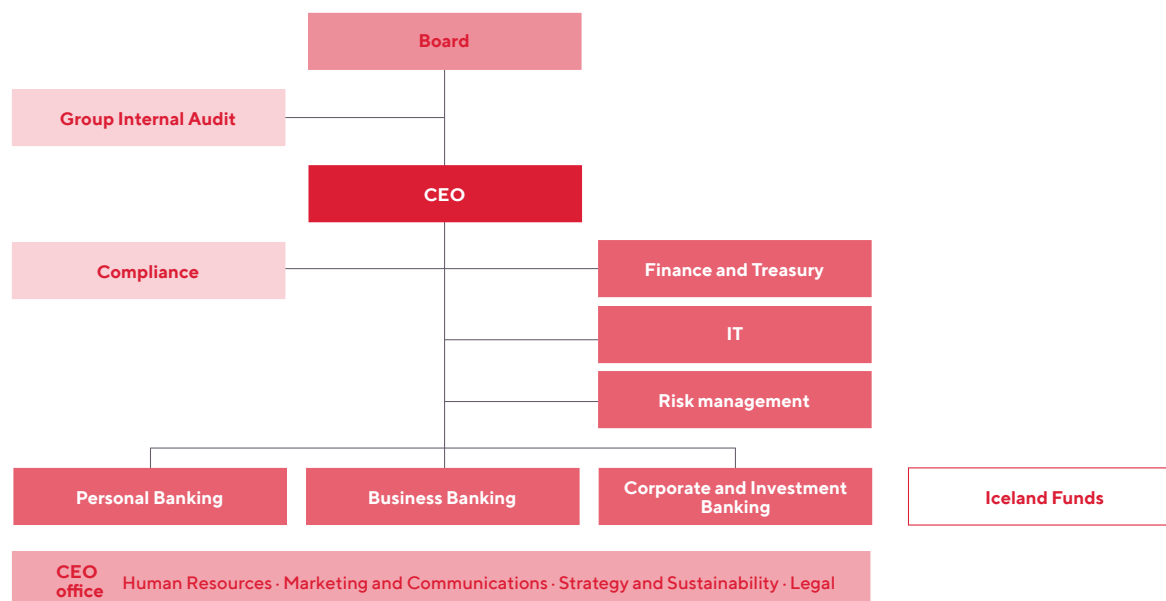
Annual and Sustainability Report 2022

9 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.

Íslandsbanki Articles of Association

Íslandsbanki's Shareholders

The Bank publishes a list of shareholders who own more than 1% of shares in the Bank.

The shares in the Bank are listed on Nasdaq Iceland Main Market. Icelandic State Financial Investments, on behalf of the Government, is the largest shareholder, with a stake of 42,5%, 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.

Shareholders

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

At each Annual General Meeting seven non-executive members and two alternates are elected to the Board of Directors 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. The Committees' letters of mandate can be found in Icelandic on the Bank's website.

Risk Management Committee

Audit Committee

Corporate Governance
and Human Resource Committee



Board of Directors

[Further information on Board members](#)

Finnur Árnason

Chairman of the Board
since March 2022



Anna Þórðardóttir

Joined the Board
in April 2016



Ari Daniélsson

Joined the Board
in March 2022



Frosti Ólafsson

Joined the Board
in March 2022



**Guðrún
Þorgeirsdóttir**

Joined the Board
in March 2022



**Herdís
Gunnarsdóttir**

Joined the Board
in October 2022



Tanya Zharov

Joined the Board
in March 2022

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.

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, the Sustainability Committee, and the Digital Product Committee.**



Executive Committee

[Further information on 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

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 2022.

Assurance scope

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

- The chapter "Sustainable Íslandsbanki" as presented on pages 35 to 52 in the Bank's Annual and sustainability report for 2022. The main information in that chapter is as follows:
 - The Bank's ESG statement; environmental factors on page 42, social factors on page 46 and governance factors on page 49
 - Sustainable lending under the Sustainable Financing Framework as presented on page 38
 - The Bank's offset of CO₂ emission for 2022 as presented on page 42
- Íslandsbanki's self-assessments/assertions of its fulfillment of its commitments as a signatory of the Principles for Responsible Banking for the year 2022, as is presented in the Bank's Reporting and Self-Assessment Template issued by the UNEP FI.

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, and the self-assessment of the Principles for Responsible Banking. 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.

Our independence and quality control

Ernst & Young ehf. applies ISQM 1 (International Standard on Quality Management) 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 and the PRB Reporting and Self-assessment template have not been prepared, in all material respects, in accordance with the reporting criteria.

Reykjavík, 9 February 2023

Geir Steindórsson

State Authorised Public Accountant

Ernst & Young ehf.
Borgartúni 30
105 Reykjavík

