



# Landsbankinn's Policy

on Responsible Investment

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Landsbankinn's Policy on Responsible Investment is set having regard for the United Nations' Principles on Responsible Investment, of which Landsbankinn is a member. The Policy reflects Landsbankinn's rules on, inter alia, risk appetite, large exposures and limits on total risk, operational risk, reputational risk, liquidity risk and corporate governance.

Landsbankinn aims to be a leader in responsible investment in Iceland, as a strategy of responsible investment positively impacts returns in the long term and reduces the Bank's operational risk.

The Executive Board of Landsbankinn has approved the Policy and monitors compliance with it. The Policy is reviewed once each year.

## **A. Policy objectives**

The Policy is intended to constitute a framework that enables the Bank to integrate corporate social responsibility in investment decisions.

The Policy applies to Landsbankinn and the Bank emphasises the need for its subsidiaries to set comparable policies.

The Policy applies first and foremost to investment in listed and unlisted securities on the Bank's own behalf or its customers:<sup>1</sup>

### **Responsible investment involves:**

- » That Landsbankinn comply with current laws and regulations on individual markets.
- » That investment always aims to minimise negative effects and promote the positive impact of investment on the environment, employees and other stakeholders.
- » That Landsbankinn obliges itself to promote on-going improvements in environmental and social affairs and in the field of corporate governance.<sup>2</sup>
- » That Landsbankinn implement a risk assessment process designed to evaluate environmental, social and corporate governance aspects of companies under consideration for investment.

## **B. Purpose of the Policy**

The purpose of the Policy is to create an effective and credible approach to handle contentious issues in responsible investment while at the same time endeavouring to achieve a healthy profit on the Bank's investments.

The Policy places emphasis on reciprocal information disclosure in-house and out concerning responsible investment. Such information disclosure supports analysis, comparison and assessment of different investment options.

### **Objectives and environment**

Environmental and social concerns as well as corporate governance are all important aspects of the Bank's assessment of investments. It is the Bank's opinion that companies cognisant of these factors in their operations will reap the benefits in the long term.

The economic environment in Iceland is subject to various restrictions which impact the operating and investment environment of Landsbankinn and its customers. Implementation of the Policy must take into consideration the investment options available to Icelandic investors at each time.

<sup>1</sup> The Policy is introduced to asset management clients as part of the activities of the Bank's Asset Management division.

<sup>2</sup> Environmental, Social and Governance (ESG)

Conditions in Iceland may affect implementation of the Policy:

- » Capital controls limiting foreign investment.
- » Few companies listed on the Icelandic Stock Exchange, limited options to invest in listed equities.
- » Limited selection of securities issued or guaranteed by parties other than the National Treasury.
- » Growing selection of new initiative funds.
- » Financial restructuring of corporates following the economic collapse in 2008.
- » Few market participants.

### **C. Methodology**

It is the opinion of Landsbankinn that integration of environmental, social and corporate governance concerns in the evaluation of investment options leads to better decisions and reduces the Bank's financial risk. Emphasis is placed on preventative measures and safeguarding the interests of the Bank and investors in the long term through a dialogue on corporate social responsibility with companies.

Landsbankinn's procedures concerning responsible investment are based on the following methodology:

- » Active dialogue
- » Integration of environmental, social and corporate governance concerns in analysis and decisions on investments
- » Exclusion - exceptional cases

#### **Active dialogue**

Landsbankinn works with other investors and stakeholders to promote awareness and the importance of responsible investment in Iceland.

Landsbankinn emphasises working with companies towards defined goals that are relevant to the operations of each respective company. The aim is to participate in building well-operated companies for the benefit of investors and the community.

Landsbankinn builds on active investment methods to affect decision-making concerning the governance of companies. Should Landsbankinn consider company policy to contradict the Bank's policy on responsible governance, the Bank will exercise its voting rights accordingly at shareholders' meetings.

Where industrial sectors can negatively impact the environment or society, effort will be made to reduce that impact within each company, in line with Landsbankinn's objectives.

#### **Integration of social concerns and governance in analysis and investment decisions**

At Landsbankinn, environmental, social and governance concerns are integral to analysis of investment objects with the aim of gaining a holistic overview of the company's operations in order to better identify the opportunities and risks involved. Assessment of social risk shall be based on the same principles as the assessment of financial risk.

While assessment of risk and opportunity may vary between industrial sectors and asset classes such assessment shall at all times comply with Landsbankinn's current position papers and sector analyses.

## Exclusion

It is not the intention of Landsbankinn to use exclusion to eliminate companies from the Bank's investment pool. Should a company be found in repeated violation of national or international law or agreements ratified by Iceland, the Bank reserves the right to exclude it from its investment pool. Exclusion should be the exception, a last resort solution once a dialogue with the company has proved futile.

### D. Standards and guidelines

Assessment of investments shall take the following into account:

- » Landsbankinn's current sector analyses, setting out the Bank's approach to collaboration with individual sectors on the relevant environmental and social risks
- » Landsbankinn's position papers, defining the Bank's key points of emphasis as owner or fund manager for individual issues irrespective of industrial sector
- » International laws and conventions ratified by Iceland
- » Operating licence requirements
- » UN Global Compact
- » OECD Guidelines for Multinational Companies
- » Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers

### E. Collaborative ventures

Landsbankinn is a member of the UN's Principles for Responsible Investment (UN PRI) and makes it a priority that any partners involved in analysing companies on the Bank's behalf and fund managers either participate or base their work on the guidelines of UN PRI.

Landsbankinn seeks to collaborate with other investors, fund managers, analysts and stakeholders in implementing responsible investment in Iceland.

### F. Approach to responsible investment

Landsbankinn's key focus areas in responsible investment are defined in the Bank's risk appetite and given final form by its Risk & Finance Committee and the Asset Management division's Investment Team.

### G. Information disclosure

A productive dialogue with companies on environmental, social and governance concerns builds on mutual trust. Great emphasis is placed on maintaining the trust of companies that the Bank invests in. Landsbankinn will not reveal the names of companies it has entered into a dialogue with nor on the issues that form the focus of that dialogue if such disclosure may negatively impact the company in question.

Landsbankinn will publish a list of excluded companies following exclusion, i.e. repeated violation of international laws and agreements.

Landsbankinn publishes an annual report in accordance with the rules of UN PRI.