

Íslandsbanki's Corporate Governance Statement for 2015

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The Board of Directors of Íslandsbanki is committed to excellence in corporate governance complying with the applicable regulatory standards and best international practices in the field of corporate governance.

Íslandsbanki's governance practises are consistent with general corporate governance guidelines for entities regulated by official supervisors and regulatory instruments. The regulatory framework for corporate governance practices within Íslandsbanki consists of the law applicable to entities subject to the supervision of the Financial Supervisory Authority (FME) as well as other applicable law and regulations, including those imposed by the FME and Nasdaq Iceland, available at their respective websites (www.fme.is and www.nasdaqomxnordic.com). The applicable law includes, inter alia, the Act on Financial Undertakings No. 161/2002, the Act on Securities Transactions 108/2007, the Act on Competition No. 44/2005 and the Act on Public Limited Companies No. 2/1995, which along with Íslandsbanki's Articles of Association lay the foundation for the Bank's existence and activities. The relevant law is available on the Icelandic legislature's website (www.althingi.is).

Exemplary in Corporate Governance

Íslandsbanki is committed to maintaining high standards of governance complying with best governance practices. Íslandsbanki was first recognized as "Exemplary in Corporate Governance" in March 2014 by the Center of Corporate Governance at the University of Iceland's Institute for Business Research. The recognition was awarded following a comprehensive review of the practices of the Board, Board subcommittees and management. The recognition was renewed in March 2015.

Íslandsbanki maintains a Good Governance Policy, the Decision Making Matrix, which outlines all major decisions the Bank may wish to take under given circumstances. The policy is a part of the Bank's effort to improve its material actions and enhance stakeholders' trust. The Decision Making Matrix sets specific conditions to all major decision making. Furthermore, it sets the requirement that all such decisions are taken after consultation with the best qualified parties within the Bank and on the basis of the information available at the time.

Compliance with Corporate Governance Guidelines

In accordance with Paragraph 7 of Article 54 of the Act on Financial Undertakings No. 161/2002, the Bank is required to comply with accepted guidelines on the governance of financial undertakings. The Board of Directors follows the Corporate Governance Guidelines (5th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland and SA-Business Iceland, available on www.corporategovernance.is.

Governance practices of the Bank are consistent with the guidelines. Íslandsbanki complies with them in all respects except for certain items in 1.5, 2.9 and 5.1.2. The following discussion explains the reasons behind these exceptions as well as measures taken in relation to them;

In accordance with Article 1.5 of the guidelines the shareholders' meeting shall appoint members to a nomination committee or decide how they should be appointed. The Bank's shareholders, as well as the Board, have not deemed it necessary to appoint a nomination committee at this time given the ownership structure of the Bank. One candidate for board membership is nominated by the minority shareholder, ISFI, and candidates for the remaining six are nominated by the majority shareholder, ISB Holding ehf.

According to Article 2.9 of the guidelines it is preferred that the Board sets a code of ethics. The Executive Board of the Bank adopted a code of conduct for the Bank in January 2011 which all employees were involved in formulating.

Article 5.1.2 of the guidelines provides that the rules of procedure of the Board's subcommittees shall be published on the Bank's website. Each of the Board's subcommittees operates under the terms of a mandate letter from the Board as well as the Rules of Procedure of the

Board which are available on the Bank's website. Moreover, a description of the role and responsibilities of the Board's subcommittees is provided on the Bank's website which the Board has considered sufficient in this respect.

Main aspects of Risk Management and Internal Control

The Board of Directors has a supervising role monitoring the execution of set policies, the sound control of accounting and financial management and the effectiveness of group internal audit, compliance and risk management.

The management committees: The Executive Board; Risk Committee; Asset and Liability Committee; and Investment Committee, are responsible for implementing risk management practises and internal monitoring in accordance with Board authorisation. Under this authorisation, these committees issue detailed guidelines for risk assessment and individual risk thresholds in accordance with the Bank's defined risk appetite.

Group Internal Audit operates independently from other departments in accordance with Article 16 of the Act on Financial Undertakings No. 161/2002. The department provides Íslandsbanki with an independent, impartial assessment of whether the Bank's risk management, control and governance procedures are satisfactory. The Chief Audit Executive is appointed by the Board and is responsible for internal audit on a group basis.

As a financial undertaking licensed to conduct securities transactions and an issuer of listed financial instruments, Íslandsbanki operates a compliance department. The Bank's Compliance Officer is appointed by the CEO, subject to Board confirmation, in accordance with Article 130 of the Act on Securities Transactions No. 108/2007. The Compliance officer maintains an independent position within the Bank's organisation and is responsible for monitoring and assessing regularly whether the Bank's operations, regarding securities transactions, are in compliance with applicable law. Furthermore, the Compliance Officer is the Bank's responsible officer under the US Foreign Account Tax Compliance Act (FATCA) and is also responsible for assessing and monitoring the Bank's compliance with Act on Measures against Money Laundering and Terrorist Financing No. 64/2006.

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

Further information on the Bank's risk management structure and internal control can be found in the Bank's annual Pillar 3 Report which is published on its website.

In 2015 the Consumer Appeals Committee upheld two rulings of the Icelandic Consumer Agency from 2014 where it found Íslandsbanki to be in violation of certain provisions of the expired Act on Consumer Credit no. 121/1994 and the Act on Supervision of Commercial Practices and Transparency of the Market No. 57/2005. The Bank did not agree with the committee's rulings. In relation to one of those rulings, regarding indexed loans, the Icelandic Supreme Court has, in a comparable matter of dispute, ruled that Íslandsbanki was not in violation of the Consumer Credit Act from 1994, therefore the ruling of the Appeals Committee is of no consequence. The dispute of the other case, regarding the method and conditions of resetting interest of consumer mortgages, has been referred to the district court. Moreover, the Data Protection Authority found Íslandsbanki's Ergo - Assed-based Financing to be in violation of Act. No. 77/2002, on the Protection of Privacy as regards the Processing of Personal Data, in relation to a single particular lookup in a debt write-off register. Further information on this, and other legal cases relating to Íslandsbanki, can be found in the notes to the consolidated financial statements.

Íslandsbanki Values, Code of Conduct and Social Responsibility

Íslandsbanki's values are the pillars of the Bank's corporate culture, shaping the conduct and attitudes of its employees. The values insist on employees being professional, disciplined in their working procedures, and following matters through – professional, positive and progressive.

In order to maintain and strengthen the credibility and the reputation of the Bank, all employees were involved in formulating the Bank's Code of Conduct which is available on the Bank's website. The aim of the code is to promote good operational and business practices, increase trust and guide employees in their daily work.

Íslandsbanki seeks to work in harmony with the communities in which it operates, delivering support for its immediate environment in the areas of culture, sports, community affairs as well as entrepreneurship and innovation. This participation in community programmes rests on Íslandsbanki's Corporate Social Responsibility Strategy which is set by the Board. The strategy covers five key areas: business, education, environment, human capital, and society. Furthermore, the Bank produces an annual report, Íslandsbanki in the Community: Global Compact, which can be accessed on the Bank's website. For the last eight years Íslandsbanki has been a signatory to the UN Global Compact on social responsibility. The compact is a guide for companies on how to be socially responsible in practice.

Board of Directors

The Board of Directors comprises seven non-executive directors, and two alternates, elected at each AGM for a term of one year. The Chairman of the Board is elected by the shareholders' meeting. There are no limitations on duration of Board membership.

The Board undertakes the Bank's affairs in between shareholders' meetings unless otherwise provided by law or the Bank's Articles of Association. The Board is responsible for setting the Bank's general strategy and instructs the CEO on its further implementation and execution. The Board has a supervisory role overseeing that the Bank's organisation and activities are at all times in accordance with the relevant law, regulations and good business practices. The Board appoints the CEO and Chief Audit Executive.

The Rules of Procedure of the Board are adopted in accordance with Article 70 of the Act on Public Limited Companies No 2/1995 and Article 54 of the Act on Financial Undertakings No 161/2002. The Board's current rules of Procedure, adopted on 11 November 2015, are available on the Bank's website. According to its Rules of Procedure, at meetings of the Board the presence of at least five members of the Board is required to constitute a quorum. The Board met 17 times in 2015, each time constituting a quorum.

The Board appoints subcommittees, each one comprising Board members and operating under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board:















The Board Audit Committee, comprising three Board members, assists the Board in fulfilling its oversight responsibilities concerning the financial reporting process, the system of internal control, the audit process and the Bank's process for monitoring compliance with the relevant laws and regulations and its code of ethics. The committee met 7 times in 2015, each time constituting a quorum.

The Board Risk Management Committee, which comprises three Board members, is responsible for assisting the Board in providing oversight of senior management's activities in managing risk relevant to the Bank's operations. This includes credit risk, market risk, operational risk, liquidity risk, compliance risk and reputational risk. The committee met 5 times in 2015, each time constituting a quorum.

The Board Strategy Committee, which comprises of four Board members, oversees and approves key issues related to the strategy of the Bank and formulates general policies to effectively implement that strategy. The committee sets out strategic and financial targets and monitors their progress. The committee met 5 times in 2015, each time constituting a quorum.

The Board Corporate Governance, Compensation and Human Resource Committee, which comprises four Board members, assists the Board in overseeing the development and the regular assessment of the Bank's approach to corporate governance issues and board effectiveness. Furthermore it is responsible for providing oversight regarding compensation and human resource issues. The committee met 6 times in 2015, each time constituting a quorum.

Structure and composition of Board subcommittees is as follows:

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

 Member  Chair

Members of the Board

Friðrik Sophusson, chairman of the Board, born in 1943 and is an Icelandic national. He holds a Cand. Jur. degree in Law from the University of Iceland. He joined the Board in January 2010. He also serves as chairman of the board of Hlíðarendi ses. and Úlfjótsvatn sf. as well as as an alternate board member of Fondament ehf.

Marianne Økland, vice-chairman of the Board, born in 1962 and is a Norwegian national. She has an M.Sc. degree in finance and economics from the Norwegian School of Economics and Business Administration. She joined the Board in January 2010 and has been vice-chairman since March 2015. She is the managing director of Avista Partners. She also serves as board member of IDFC and Scorpio Tankers Inc.

Árni Tómasson, born in 1955 and is an Icelandic national. He has a Cand. Oecon degree in business from the University of Iceland and is a state authorized public accountant. He joined the Board in January 2010. He runs his own consulting firm, AT ráðgjöf ehf. and serves as a board member of Reviva Capital S.A., AT Ráðgjöf ehf., Skjaldborg Kröfuhafafélag 10 ehf. and Kaffitár hf.

Eva Cederbalk, born in 1952 and is a Swedish national. She has an M.Sc. degree in International Economics and Marketing from Stockholm School of Economics. She joined the Board in March 2015. She works as an independent consultant and is the owner, chairman of the Board and CEO of Cederbalk Consulting. She serves as chairman of the board of Klarna Holding AB/Klarna AB, Diakrit International Ltd. and TicWorks AB and is a Board member of Ikano S.A., Stockholms Almäna Brandkontor, KK-Stiftelsen and Investment AB Svolder.

Gunnar Fjalar Helgason, born in 1971 and is an Icelandic national. He has a B.Sc. degree in Economics from the University of Iceland. He joined the Board in September 2015 but has served as alternate member since September 2013. He is the Head of Corporate Strategy for the Síminn group as well as owner and chairman of the Board of Frost Capital ehf. He serves as chairman of the Board of Farsímagreiðslur ehf., On-Waves ehf., Radíómiðun ehf., Sensa ehf., Staki automation ehf. and Talenta ehf. He is also a board member of GO loyalty solutions ehf., GSOB ehf., Hringtorg ehf., HT Mobile ehf., Trackwell hf. and Truenorth ehf.

Helga Valfells, born in 1964 and is an Icelandic national. She holds an MBA degree from London Business School, UK, and a B.A. degree in Economics and English Literature from Harvard University. She joined the Board in September 2013. She is CEO of NSA Ventures, co-owner and managing director of Árhólmi ehf., co-owner and alternate board member of Uggi ehf. She serves as chairman of the board of Frumtak GP ehf. and is a member of the boards of Alþjóðaskólinn á Íslandi ehf., AMP ehf., Klak Innovit ehf., Mentor ehf., Transmit ehf., and Vesturgarður ehf. An alternate board member of Akthelia ehf., Azazo hf., FSÍ (Framtakssjóður Ísl)GP hf., Gangverð ehf., Greencloud ehf., InfoMentor ehf. and Norrænar Myndir ehf.

Neil Graeme Brown, born in 1959 and is a British national. He has an M.A. degree in classics from Emmanuel College, Cambridge and is an associate of the Institute of Chartered Accountants (ACA). He joined the Board in January 2010. He is a founding partner of Subito Partners, a London based board advisory and investment business. He is also co-owner of Lanista Partners Ltd., Distribution Technology Ltd., The Oxford Artesan Distillery and Vox Pop Me as well as co-owner and board member of Verve Partners Ltd. He is board member of Magma Fincorp, Euro Car Parts Ltd. and NG Energy Ltd.

Alternate members of the Board are two; **Margrét Kristmannsdóttir**, since September 2014 and **Jón Eiríksson** since January 2011.

All members of the Board are considered independent from the Bank and large shareholders of the Bank except for Árni Tómasson who is not considered independent on account of his work for Glitnir hf. during the course of the past three years.

Board Performance Assessment

At least once a year, as provided for in the Board's Rules of Procedure, the Board assesses its work, procedures and practices. This performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails an evaluation of the strengths and weaknesses of the Board's work and practices. This is i.a. based on Board members' self-assessment on whether the Board rules of procedure have been complied with in all respects, a status taken of the specific priorities set by the Board regarding risk management and internal control within the Bank as well as a follow up on how certain decisions of the Board have been implemented.

Executive Management

The Chief Executive Officer (CEO) is responsible for the day-to-day operations of the Bank pursuant to set policies and resolutions of the Board. The CEO is also to ensure that the Bank's operations are in compliance with applicable law and the Articles of Association at all times. The CEO appoints the Bank's Compliance Officer, members of the Executive Board and members of other management committees.

Birna Einarsdóttir is the CEO of Íslandsbanki, born in 1961 and is an Icelandic National. She has a Cand. Oecon. degree in Business Administration from the University of Iceland and an MBA degree from the University of Edinburgh. Birna has been with Íslandsbanki and its predecessors in various divisions for a total of 20 years. Previously she was a senior product manager at Royal Bank of Scotland and has worked as marketing manager for Íslenska útvarpsfélagið and Íslensk Getspá.

Together with the CEO, the Executive Board manages the daily activities of the Bank according to the strategy set out by the Board. It consists of 9 people, including the CEO: **Birna Einarsdóttir**, CEO since October 2008, **Björgvin Ingi Ólafsson**, Managing Director of Relationship Banking since September 2014, **Elín Jónsdóttir**, Managing Director of Asset Management since July 2014, **Jón Guðni Ómarsson**, Chief Financial Officer since October 2011, **Sigríður Olgeirsdóttir**, Chief Operating Officer since September 2010, **Sverrir Örn Þorvaldsson**, Chief Risk Officer since November 2010, **Tryggvi Björn Davíðsson**, Managing Director of Markets since September 2011, **Una Steinsdóttir**, Managing Director of Retail Banking since October 2008 and **Vilhelm Már Þorsteinsson** Managing Director of Corporate Banking since October 2008.

The CEO and management committees are responsible for implementing risk management practices and internal monitoring in accordance with Board authorization. The committees are appointed by the CEO, and their letters of mandate and rules of procedure approved by the Board:

The Executive Board is responsible for the Bank's operational risk management framework and supervises legal risk, reputational risk, business risk and strategic risk as well as the Bank's formal product approval policy.

The Risk Committee manages and supervises lending issues and other counterparty risk, in accordance with the Bank's credit policy and lending rules.

The Asset and Liability Committee monitors other financial risks, such as market risk, liquidity risk, and interest rate risk in the Bank's non-trading portfolio.

The Investment Committee makes decisions on the purchase or sale of equity holdings in companies, as well as other types of investments, including investment funds and real estate.

Further to the above three other departments report directly to the CEO; **Legal department, Human Resources, and Compliance.**

Arrangement of communications between shareholders and the Board

The Board communicates with shareholders in accordance with the relevant laws, the Bank's Articles of Association and the Board's Rules of Procedure. Members of the Board of Directors shall, in their duties and decision-making, safeguard the interests of the Bank and shareholders in accordance with the provisions of Act No. 2/1995, on Public Limited Companies, Act No. 161/2002, on Financial Undertakings, and other relevant rules and guidelines about the activities of financial undertakings.

At the end of 2015 Glitnir Bank hf. held 95% of the share capital in Íslandsbanki through its subsidiary ISB Holding ehf. The remaining 5% was held by the Icelandic government and administered by the Icelandic State Financial Investments (ISFI). In January 2016 Glitnir hf., as part of the creditor's group stability contribution, relinquished all of its shares to the Icelandic government. Shareholders' meetings are the general forum for informing and communicating with shareholders. In between meetings of the Bank's shareholders the Chairman of the Board, on behalf of the Board of directors, is responsible for communications with shareholders.

Shareholders can at any time express their views in relation to the operations of the Bank to the Board of Directors and submit queries to the Board for discussion.

This Corporate Governance Statement was approved by Íslandsbanki's Board of Directors on 20 January 2016.