



# Íslandsbanki's Corporate Governance Statement 2019

Unaudited



## Unaudited Appendix: Corporate Governance Statement 2019

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](http://www.fme.is) and [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com)). The applicable law includes, inter alia, the Act on Financial Undertakings no. 161/2002, the Act on Securities Transactions no. 108/2007, the Act on Competition no. 44/2005 and the Act on Public Limited Companies no. 2/1995, which along with the 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](http://www.althingi.is)).

### Exemplary in Corporate Governance

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

Íslandsbanki maintains a Matrix for material bank actions, 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 Matrix for material bank actions sets specific conditions to all major decision-making and requires that all such decisions be taken after consultation with the relevant parties within the Bank and on the basis of the best information available at the time.

### Compliance with Corporate Governance Guidelines

The Board of Directors follows the Corporate Governance Guidelines (5th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland and SA-Business Iceland (hereinafter the Guidelines), in accordance with Paragraph 7 of Article 54 of the Act on Financial Undertakings no. 161/2002. The Guidelines are available on [www.corporategovernance.is](http://www.corporategovernance.is). Governance practices of the Bank are consistent with the Guidelines. Íslandsbanki is in full compliance with them except for Article 1.5.

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 while the Icelandic Government is the sole owner of the Bank. Board members are nominated by the Icelandic State Financial Investments (ISFI) through a selection process administered by the ISFI in accordance with article 7 of Act no. 88/2009 on the Icelandic State Financial Investments.

### Main aspects of Risk Management and Internal Control

#### Internal Control

The risk management and internal control framework of the Bank is based on the three-lines-of-defence model, as referred to in the European Banking Authority's Guidelines on Internal Governance and aims for informed decision-making and strong risk awareness throughout the Bank. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements and the Bank's internal rules.

The first line of defence consists of the Bank's business and support units; the second line of defence is comprised of the Bank's internal control units, Risk Management and Compliance; and the third line of defence is Group Internal Audit which keeps the Board and management informed of the quality of corporate governance, risk management and internal controls, including by performing independent and objective audits.

#### Risk Management

The Board of Directors approves the risk policy, risk appetite statement and procedure for risk management and ensures that internal procedures for risk management are revised at least annually.

The All Risk Committee, a Senior Management Committee, is comprised of the CEO, all the managing directors of the Bank and other members of management appointed by the CEO. The committee is responsible for the review and implementation of the risk management and internal control policies issued by the Board and monitors that the risk profile of the Bank is within the limits of the risk appetite statement of the Board of Directors. The ARC issues guidelines for risk assessment and individual risk thresholds or limits in accordance with Board approved risk appetite.

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

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### Audit and accounting

The CEO ensures that Directors of the Board are provided with accurate information on the Bank's finances, development and operations on a regular basis and the Board Audit Committee assists the Board in fulfilling its oversight responsibilities concerning the financial reporting process, the system of internal control and the audit process.

The Bank's Finance division is responsible for the preparation of the Group's consolidated financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions. The Board's Audit Committee gives its opinion on annual and interim consolidated financial statements before their submission for Board approval and endorsement. Management reporting is generally presented to the Board 10 times a year. The external auditors review the half year consolidated financial statements and audit the consolidated financial statements.

The consolidated financial statements are published on an annual and quarterly basis.

As is provided for in the Act on Financial Undertakings and the Bank's Articles of Association, the Bank's external audit firm is elected at the AGM. At the 2016 AGM the Icelandic National Audit Office (INAO) was elected, for the first time, to serve as Íslandsbanki's independent external auditing firm, in accordance with Article 4 of Act no. 46/2016 on the Auditor General and the auditing of government accounts for a term of five years. The INAO has concluded an agreement and trusting Ernst & Young ehf. with carrying out the Bank's external audit on its behalf.

### Group Internal Audit

The Chief Audit Executive is appointed by the Board, reports directly to the Board and directs Group Internal Audit with a mandate from the Board. 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 the Board with independent and objective assurance over the effectiveness of risk management, control and governance processes. The Chief Audit Executive is engaged by the Board and is responsible for internal audit on a group basis. The responsibilities and authorisations of the CAE and Group Internal Audit are further outlined in the Group Internal Audit Charter.

### Compliance

The Bank's Compliance Officer is hired by the CEO, subject to Board confirmation, conferring the department's mandate. 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 responsible for assessing and monitoring the Bank's compliance with Act on Measures against Money Laundering and Terrorist Financing no. 64/2006 and the Bank's responsible officer under the US Foreign Account Tax Compliance Act (FATCA) and the OECD Common Reporting Standard (CRS). Moreover, the Compliance Officer is responsible for supervision of compliance risk within the Bank.

### Íslandsbanki Values, Code of Conduct and Sustainability

In 2019 the Bank's strategy was revised and the employees of the Bank played a key role in its formulation. Our purpose is moving Iceland forward by empowering our customers to succeed. Íslandsbanki's values are the pillars of the Bank's corporate culture, shaping the conduct and attitudes of its employees. The values of Íslandsbanki are passion, professionalism and collaboration.

In October 2019 the Board approved a Code of Conduct for the Bank's employees. The aim of the code is to promote good operational practices. The document is available on the Bank's website.

Íslandsbanki seeks to work in harmony with the communities in which it operates and strives to have a positive impact in society. This participation in community programmes rests on Íslandsbanki's Sustainability Strategy which is set by the Board. The strategy covers five key areas: business, education, environment, workplace, and community. In addition, the Bank has decided to focus particularly on four of the UN world goals in its course of business, i.e. Climate Action, Gender Equality, Quality Education and Industry, Innovation and Infrastructure. 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.

The Bank has approved a sustainability policy which is focused on making its operations exemplary in the Iceland business environment based on established international ESG criteria. The Bank aspires to be a leader in sustainable development and to move Iceland forward by empowering its customers to succeed.

### 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 in that it oversees that the Bank's organisation and activities are at all times in accordance with the relevant law, regulations and good business practices. The CEO and Chief Audit Executive are hired by the Board.

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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 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 19 times in 2019, each time constituting a quorum.

Candidates for board membership are nominated through a selection process administered by ISFI in accordance with Article 7 of Act no. 88/2009 on Icelandic State Financial Investment. The Articles of Association of the Bank provide that the ratio of each gender on the Board of Directors shall not be lower than 40%, currently the Board is comprised of three women and four men. The Board has approved a policy on the suitability of the Board of Directors, the CEO and key function holders. The policy states, among other things, that the composition of the Board shall at any time be diverse, with regard to educational and professional background, gender and age.

### The Board subcommittees












The Board subcommittees are three in total and they operate under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. The mandate letters of the Board subcommittees are available on the Bank's website. The Board appoints the members of the subcommittees as well as their Chairman. When appointing the subcommittees, the Board shall take into account the expertise, skills and experience needed of a member to be appointed to the relevant subcommittee. All of the subcommittees are constituted of members 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 conduct. The committee met 6 times in 2019, each time constituting a quorum.

**The Board Risk Management Committee**, comprising three Board members, assists the Board in providing oversight of senior management 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's responsibilities include the parent company, its subsidiaries and the whole Group. The committee met 10 times in 2019, each time constituting a quorum.

**The Board Corporate Governance, Compensation and Human Resource Committee**, comprising three 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 8 times in 2019, each time constituting a quorum.

Structure and composition of Board subcommittees is as follows:

	Board Corporate Governance, Compensation and HR Committee	Audit Committee	Board Risk Management Committee
Friðrik Sophusson			
Anna Þórðardóttir			
Auður Finnbogadóttir			
Árni Stefánsson			
Hallgrímur Snorrason			
Heiðrún Jónsdóttir			
Tómas Már Sigurðsson			
		 Chair	 Member

### Members of the Board

**Friðrik Sophusson**, Chairman of the Board, (b. 1943), joined the Board in January 2010. Friðrik has comprehensive experience in fiscal policy-making, management, and public service in Iceland. He has also served on the board of several companies and institutions. He was Managing Director of the Icelandic Management Association from 1972 until 1978, when he was elected to Parliament. During his tenure as an MP, he held the position of Minister of Industry and Energy in 1987-1988 and Minister of Finance in 1991-1998. He was appointed CEO of Landsvirkjun, the National Power Company of Iceland, in 1999 and held that position for almost 11 years.

Friðrik holds a Cand. Jur. from the University of Iceland.

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

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**Anna Þórðardóttir** (b. 1960) joined the Board in April 2016. She has been a board member of a number of companies and organisations, including KPMG and the Institute of State Authorised Public Accountants in Iceland. She is currently a member of the board of The Icelandic Center for Future Studies (Framtíðarsetur Íslands) and is chairman of the Board Audit Committee of Hagar and a member of the Audit Committee of Heimavellir. Anna was an employee of KPMG in 1988-2015, where she became partner in 1999. While at KPMG, she was responsible for the audit of the following companies: Reitir, Hagar, 365, Baugur Group, Vodafone, Landfestar, Landey, 10-11 and Félagsbústaðir.

Anna holds a Cand Oecon. in Business Administration from the University of Iceland and is a Chartered Accountant. She has also studied towards a Cand. Merc in Financial studies from Handelshøjskolen in Aarhus, Denmark.

Sub-Committees: Chairman of the Board Audit Committee.

**Auður Finnbogadóttir** (b. 1967) joined the Board in April 2016. She is a project manager of strategy at Kópavogur municipality. She has extensive experience of working in the financial markets and has served on the board of several companies and institutions. She was Managing Director for MP Bank, Lífsverk pension fund and the pension fund for employees of Kópavogur municipality. She has served as chairman of the board of the Competition Authority in Iceland and Norðlenska Ltd., a production and marketing firm for agricultural products. She has been a member of the board of the Iceland Enterprise Investment Fund, Icelandair Group, Nýi Kaupþing banki, RÚV, the Icelandic National Broadcasting service and Landsnet, the electric transmission grid company of Iceland. She serves as a member of a governmental committee, the Procurement Complaints Committee.

Auður holds an MBA from Reykjavik University and a B.Sc. in International Business from the University of Colorado at Boulder. She completed a diploma program in Public Administration in spring 2018 and is a licensed securities broker by the Icelandic Ministry of Finance and Economic Affairs.

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

**Árni Stefánsson** (b. 1966) joined the Board in April 2016. He has extensive management experience in power-intensive industry in Iceland and is currently manager and member of the executive board at the Rio Tinto primary aluminium plant. Previously, he was a manager of the Century Aluminium plant Norðurál in Grundartangi; manager and in the executive board with Landsnet, the electric transmission grid company of Iceland; and manager with Landsvirkjun, the National Power Company of Iceland.

Árni holds an M.Sc. in Electrical Engineering.

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

**Hallgrímur Snorrason** (b. 1947) joined the Board in April 2016. An independent consultant in official statistics, he was Director-General of Statistics Iceland in 1985-2007 and Deputy Managing Director of the National Economic Institute of Iceland in 1980-1984. Has been a member of the board of several companies, including Útvegsbanki Íslands, Skýrr and Auður Capital. He has also chaired or served on a number of governmental committees, both domestically and in connection with Nordic cooperation, EFTA, EU and the OECD.

Hallgrímur holds a M.Sc. in Economics from the University of Lund in Sweden and a B.Sc. in Economics from the University of Edinburgh, UK.

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

**Heiðrún Jónsdóttir** (b. 1969) joined the Board in April 2016. She is an attorney at law with Múli Legal Services and serves as a member of the board of Icelandair Group and Reginn, real estate company. Previously, she was Managing Director at Eimskipafélag Íslands, Lex Legal Services, and Legal and Human Resources at KEA. She has been chairman of the board at Norðlenska, Íslensk Verðbréf and Gildi pension fund and has been a member of the board of Síminn, Ólíuverzlun Íslands, the Icelandic Banks' Data Centre (RB), Ístak, the securities depository Arion Verðbréfavarsla, Þekking, the Icelandic Pension Funds Association. Heiðrún served as a board member of the board of the Icelandic Bar Association from 2016 -2019 and was the deputy chairman of the board from 2018-2019.

Heiðrún holds a Cand. Jur from the University of Iceland and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs. She completed an Advanced Management Program (AMP) at IESE Business School in Barcelona in 2017.

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

**Tómas Már Sigurðsson** Vice Chairman of the Board, (b. 1968) joined the Board in March 2019. Tómas is currently the Chief Executive Officer at HS Orka. Prior to that, Tómas was the Senior Vice President, Strategic Alliances for Alcoa Corporation, Pittsburgh, USA, CEO of Alcoa Fjarðaál and Alcoa in Iceland but moved to Geneva in 2011 where he became the President of Alcoa Europe. From 2014 to year-end 2018 Tómas was the Executive Vice President and Chief Operating Officer for Alcoa Corporation. He was the chairman of the Iceland Chamber of Commerce from 2009 to 2012 and served as a member of the Federation of Icelandic Industries in 2005-2011. He was also a member of the Executive Committees of the European Aluminium Association, Eurometaux, and the American Chamber of Commerce to the European Union from 2012 to 2014. Tómas sits on a number of boards for Alcoa Corporation and is a member of the Executive Committee of Europe Aluminium and Business Europe.

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Tómas holds an M.Sc in Planning from Cornell University, United States and a B.Sc. in Civil and Environmental Engineering from the University of Iceland.

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

Alternate members of the Board are two; **Herdís Gunnarsdóttir** and **Pálmi Kristinsson**, both since April 2016.

None of the members of the Board owns shares in the Bank, neither as a direct ownership nor through associated parties. All members of the Board are as well considered independent from the Bank, its main clients, competitors and shareholder.

### Board Performance and Suitability Assessment

At least once a year, as provided for in the Board's Rules of Procedure, the Board assesses its work, procedures and practices as well as each of its members. 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 an assessment of the necessary number of board directors, the board structure in relation to knowledge and experience, board procedure and practices. This assessment was last performed by the Board in January 2020.

Furthermore, the Board annually assesses the collective suitability of the Board and individual Board members in accordance with the Board's Rules of Procedure and the Bank's policy on the assessment of the suitability of the Board of Directors, the CEO and key function holders.

### The Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for the day-to-day operations of the Bank and that the Bank's business is, at all times, in accordance with the Bank's Articles of Association, policies of the Board and the relevant law. The CEO engages the Bank's Compliance Officer and appoints members of the Executive Committee and other Senior Management Committees.

**Birna Einarsdóttir** (b. 1961) is the CEO of Íslandsbanki. She holds an MBA from the University of Edinburgh, UK and a Cand. Oecon. in Business Administration from the University of Iceland. Birna first started working with Íslandsbanki's predecessors in 1987 and has been CEO since 15 October 2008. Previous to that she was a Senior Product Manager at the Royal Bank of Scotland and marketing manager for the Icelandic Broadcasting Company Stöð 2 (Channel 2) and Íslensk getsþá. Birna is considered independent from the Bank, its main clients, competitors and shareholder.

The CEO is not a shareholder in the Bank, neither directly nor indirectly. No call-option agreements exist between the CEO and the Bank.

### The executive committee

The executive committee consists of seven people, including the CEO: **Birna Einarsdóttir**, CEO since October 2008, **Jón Guðni Ómarsson**, Chief Financial Officer since October 2011, **Sigríður Hrefna Hrafnkelsdóttir**, Managing Director of Personal Banking since May 2017, **Riaan Dreyer**, Director of Information Technology since September 2019, **Guðmundur Kristinn Birgisson**, Chief Risk Officer since October 2018, **Una Steinsdóttir**, Managing Director of Business Banking since May 2017 and, **Ásmundur Tryggvason** Managing Director of Corporate & Investment Banking since January 2019. Riian Dreyer succeeded Sigríður Olgeirsdóttir, who served the position from September 2010. Ásmundur succeeded Vilhelm Már Þorsteinsson, who served the position from May 2017.

### Senior Management Committees

Senior Management Committees are advisory committees appointed by the CEO. Senior Management Committees are divided into Executive Committees and Business Committees. The committees are appointed by the CEO, and their letters of mandate and rules of procedure are documented in a charter set by the CEO.

**The Executive Committee** and the **All Risk Committee** are responsible for the implementation of the Board approved business strategy, risk appetite and policies and consist of the CEO, all managing directors as well as other members of senior management appointed by the CEO.

- **The Executive Committee**, chaired by the CEO, is responsible for implementing the Board approved business strategy.
- **The All Risk Committee** is responsible for the review and implementation of the risk management and internal control policies issued by the Board and monitors that the risk profile of the Bank is within the limits of the risk appetite statement of the Board of Directors.

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The Business Committees decide on individual business proposals in accordance with the rules and procedures issued by the All Risk Committee, The Executive Committee and the Board. The Bank's Business Committees are The Asset and Liability Committee, the Senior Credit Committee, the Investment Committee and the Operational and Security Committee

- The Senior Credit Committee decides on proposals on lending and is the formal venue for discussion and review of individual loan proposals.
- The Asset and Liability Committee decides on proposals regarding market risk, liquidity risk, funding, capital and internal and external pricing.
- The Investment Committee decides on proposals regarding the purchase, sale and valuation of equity stakes and other investments of the Bank.
- The Operational and Security Committee decides on proposals regarding new products and services, continuous operation and material changes in systems and procedures.

### 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 its shareholders in accordance with the applicable law, rules, regulations and guidelines.

The Bank is wholly owned by the Icelandic Government since January 2016. The shares are administered by Icelandic State Financial Investments (ISFI) in accordance with the Act on Icelandic State Financial Investments no. 88/2009. Shareholders' meetings, the supreme authority of the Bank, are the general forum for informing and communicating with shareholders. Following each publishing of financial results of the Bank a meeting is held with the ISFI to present the relevant financial results. 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.

### Information on infringements of laws and regulations that the appropriate supervisory or ruling body has determined

In its decision no. 49/2019 the Consumer Agency of Iceland came to the conclusion that the Bank had infringed article 7(4)(f., g., i & l) of Act no. 33/2013 on Consumer loans as its standard information disclosure form for consumer loans was insufficient. A fine was not imposed on the Bank. This decision has been appealed by the Bank. Information on legal cases relating to Íslandsbanki can be found in the notes to the consolidated financial statements.

This Corporate Governance Statement was approved by Íslandsbanki's Board of Directors on 12 February 2020.

