

ÍSLANDBANKI'S Corporate Governance Statement for 2014

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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 websites.¹ 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 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.²

Exemplary in Corporate Governance

Íslandsbanki is committed to maintaining high standards of governance complying with best governance practices. Íslandsbanki was recognized as "Exemplary in Corporate Governance" in March 2014 by the Center 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.

Íslandsbanki has a good governance policy, the Decision Making Matrix, which outlines all major decisions that 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 with the input of the best qualified parties within the Bank and on the basis of the best available information at the time.

Compliance to Corporate Governance Guidelines

In accordance with Paragraph 3 of Article 19 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 issued in March 2012 (4th ed.) by the Iceland Chamber of Commerce, NASDAQ Iceland and SA-Business Iceland (former Confederation of Icelandic Employers). The guidelines are available on the website of Icelandic Chamber of Commerce.³

Governance practices of the Bank are consistent with the guidelines. Íslandsbanki complies with them in all respects except for certain items in Articles 1.2., 2.10., 5.1. and 5.2.C.1. The following discussion explains the reasons behind these exceptions as well as measures taken in relation to them;

In accordance with Article 1.2. of the guidelines the Chairman of the Board and a required majority of the Board should preferably be present at a shareholders' meeting, together with the CEO. According to the said Article it is also preferable that auditors and not less than one member of the Bank's subcommittees be present, when appropriate. Íslandsbanki has followed this in detail in regards to the Annual General Meeting (AGM), but not in other shareholders' meetings because the bank has not considered it necessary since there are only two shareholders.

According to Article 2.10. of the guidelines it is preferred that the Board establishes a policy of social responsibility and code of ethics. The Executive Board of the Bank adopted a code of conduct for the Bank in January 2011. The Board of Directors has approved of a road map outlining a new Corporate Social Responsibility (CSR) Policy and strategic developmental projects are in progress. Subsequently, the Board will adopt a new CSR Policy.

Article 5.1. of the guidelines stipulates that the rules of procedure of all of the Board's subcommittees shall be posted on the Bank's website. Each subcommittee of the Board of Íslandsbanki 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. Furthermore, 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.

In accordance with Article 5.2.C.1 of the guidelines the Board may decide to establish a Nomination Committee. Íslandsbanki's Board has not deemed it necessary to appoint a nomination committee.

¹ www.fme.is and www.nasdaqomxnordic.com

² www.althingi.is

³ www.vi.is

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 ensures that group internal audit, compliance and risk management are effective at all times.

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 independent, objective, assurance over the effectiveness of risk management, control and governance processes. 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 trading 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, conferring the department's mandate, 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 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. Deloitte hf. was elected to serve as Íslandsbanki's independent external auditing firm at the 2010 AGM and a new audit firm will be elected at the 2015 AGM.

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

In 2014 Íslandsbanki was found, by the Icelandic Consumer Agency, to be in violation of certain Articles of the expired Act on Consumer Credit no. 121/2014 and Act on Supervision of Commercial Practices and Transparency of the Market No. 51/2007. The Bank disagrees with the agency's decisions and has appealed both cases to the Consumer Appeals Committee. 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.

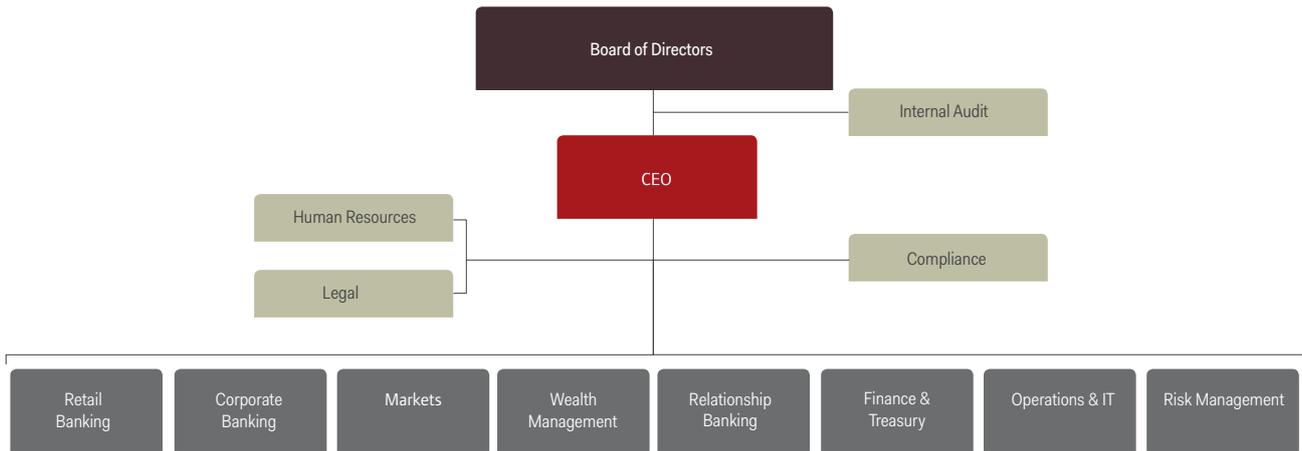
In order to maintain and strengthen the credibility and the reputation of the Bank, all employees were involved in formulating the Bank's Code of Conduct which is available on the Bank's website. The aim of the code is to promote good operational and business practices, increase trust and guide employees 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 Policy set by the Executive Board. The policy 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 six 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 Board has approved of a road map that outlines a new Corporate Social Responsibility (CSR) Policy and strategic developmental CSR projects are in progress. Subsequently, the Board will adopt a new CSR Policy.

Board of Directors

The Board of Directors comprises seven non-executive directors, and three alternates, elected at each AGM for a term of one year. The Chairman of the Board is elected at a 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 Articles of Association. The Board is responsible for the formulation of 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 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 27 August 2013, 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 13 times in 2014, constituting a quorum each time.

In accordance with the rules governing its activities, the Board appoints subcommittees. Each subcommittee operates under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. There are four Board appointed subcommittees:

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 laws and regulations and its code of ethics. The committee met 11 times in 2014, all of which were valid.

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. It is also responsible for reviewing the Risk Management and Internal Control Policy set by the Board. The committee met 7 times in 2014, all of which were valid.

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 7 times in 2014, all of which were valid.

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 7 times in 2014, all of which were valid.

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				
John E. Mack				
Árni Tómasson				
Helga Valfells				
Marianne Økland				
Neil Graeme Brown				
Dr. Þóráanna Jónsdóttir				

Member Chair

Members of the Board

Fríðrik 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 board chairman of Hlíðarendi ses. and as an alternative board member of Fondament ehf.

John E. Mack, vice-chairman of the Board, born in 1947 and is a United States national. He has a MBA degree from the University of Virginia, Darden School of business and a B.A. degree in economics from Davidson College. He joined the Board in January 2010. He also serves as board member of Flowers National Bank, Incapital Holdings, Medley Capital Corporation, and Search Light Minerals (SRCH).

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 at 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, specialising in private investments and restructuring. He also serves as board member of Gate Group AG, Magma Finance, AVC NEXT- GEN and Euro Car Parts Limited.

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 15 ehf., Skjaldborg Kröfuhafafélag 10 ehf. and Kaffitár hf.

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

Dr. Þórunna Jónsdóttir, born in 1968 and is an Icelandic national. She has a Doctorate Degree in Business Administration from Cranfield University, UK, an MBA degree from IESE Barcelona and a MSc degree in Pharmaceuticals, and is chartered stockbroker. She joined the Board in September 2013. She is the Dean of Reykjavík University's School of Business, managing director and board member of Kaliber ehf., Ísarn ehf., Festi ehf. and Kaupás ehf. An alternate board member of Klak Innovit ehf. and Grunnstöð ehf.

Helga Valfells, born in 1964 and is an Icelandic national. She has a 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 managing director of NSA Ventures, owner and managing director of Árhólmi ehf., owner and alternate board member of Uggi ehf. Board member of Mentor ehf., Klak Innovit ehf., Transmit ehf., Vesturgarður ehf., Frumtak GP hf. and Azazo hf. An alternate board member of AMP ehf., InfoMentor ehf., Norrænar myndir ehf., Akthelia ehf., FSÍ (Framtakssjóður Ísl) GP hf., Greencloud ehf. and Íslensk nýsköpun ehf.

Alternate members of the Board are three; **Margrét Kristmannsdóttir**, since September 2014, **Gunnar Fjalar Helgason**, since September 2013, 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 from the largest shareholder in the Bank on account of his work for the shareholder 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 shall assess its work, procedures and practices. This performance assessment is intended to improve working methods and increase efficiency of the Board. The assessment entails the 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, 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 overseeing the Bank's daily operations in accordance with set policy and Board decisions. The CEO is also to ensure that the Bank's operations are in compliance with the 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 a MBA degree from the University of Edinburgh. Birna has been with Íslandsbanki and its predecessors in various divisions for over 19 years. Previously she was a senior product manager at Royal Bank of Scotland and has worked as a 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 are approved by the Board:

The Executive Board sets the Bank's policy for operational risk at the group level and supervises 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 this 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 current rules and guidelines about the activities of financial undertakings.

Glitnir Bank hf. holds 95% of the share capital in Íslandsbanki through its subsidiary ISB Holding ehf. The remaining 5% is held by the Icelandic government and is administered by Icelandic State Financial Investments (ISFI). Shareholder 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 the Board Corporate Governance, Compensation and Human Resource Committee and the Board of Directors on 23 February 2015.