



# Rules of Procedure for the Board of Directors of Íslandsbanki



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Reykjavík 30 September 2020

Board of Directors of Íslandsbanki hf.

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## Version history

Version	Amendments	Amended by	Date	Reviewed or signed off by:	Date
<b>8.0</b>	Eighth version for approval	Dagmar Clausen Þórðardóttir	22.09.2020	Board of Directors	30.09.2020
<b>7.0</b>	Seventh version for approval	Dagmar Clausen Þórðardóttir	30.10.2019	Board of Directors	19.11.2019
<b>6.0</b>	Sixth version for approval	Dagmar Clausen Þórðardóttir	20.08.2018	Board of Directors	22.08.2018
<b>5.0</b>	Fifth version for approval	Tómas Sigurðsson / Dagmar Clausen Þórðardóttir	30.12.2016	Board of Directors	12.01.2017
<b>4.0</b>	Fourth version for approval	Tómas Sigurðsson / Dagmar Clausen Þórðardóttir	2.11.2016	Board of Directors	08.11.2016
<b>3.0</b>	Third version for approval	Tómas Sigurðsson / Anna Þóra Prastardóttir	5.11.2015	Board of Directors	11.11.2015
<b>2.0</b>	Second version for approval	Tómas Sigurðsson / Dagmar Clausen Þórðardóttir	27.08.2013	Board of Directors	27.08.2013
<b>1.0</b>	First version for approval	Tómas Sigurðsson / Árni Huldar Sveinbjörnsson	27.06.2012	Board of Directors	27.06.2012



## 1. General

- 1.1. These Rules 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.
- 1.2. The Rules of Procedure of the Board of Directors are available in an English translation. In case of any inconsistency the Icelandic version shall apply.

## 2. Organisation of Board of Directors

- 2.1. The Board is elected for a term of one year in accordance with the Bank's Articles of Association.
- 2.2. The Chairman of the Board is elected at the shareholders meeting, in accordance with the Bank's Articles of Association. The Board shall elect the Vice-Chairman of the Board. The Chairman of the Board shall manage the election of the Vice-Chairman. Election to the position of Vice-Chairman shall be decided by a simple majority. In the event of an equality of votes the Chairman shall have the deciding vote. The Chairman of the Board shall represent the Board of Directors of the Bank in external communications; the Vice-Chairman shall assume this duty in the Chairman's absence.
- 2.3. When a Director ceases to qualify as a member of the Board of Directors he/she shall recuse him-/herself and be replaced by an alternate. The alternate shall serve until the next AGM at which time elections to the Board are held.
- 2.4. Should a Director decide to resign from his/her position on the Board he/she shall notify the Board in writing thereof. If a dispute within the Board is the reason it shall be specified in the resignation.

## 3. Independence of Directors

- 3.1. The Board itself shall assess whether a Board member is at any given time independent of the Bank and major shareholders of the Bank and report the results in the Bank's annual report<sup>1</sup>. If the majority of the Directors are not independent of the Bank, it shall be especially noted in the Bank's annual report.
- 3.2. For the Board to be able to assess the independence of Directors they shall provide any information deemed necessary by the Board for conducting such assessment. Furthermore, Directors shall notify the Board as soon as possible of any changes in their circumstances which may influence the Board's assessment of their independence.

## 4. Role of the Board

- 4.1. The Board of Directors is the supreme authority over the Bank's affairs subject to shareholders' meetings according to Act on Public Limited Companies No. 2/1995 and the Bank's Articles of Association. The Board shall contribute to the Bank's prosperity and long-term success and oversee its overall operations in addition to supervision of the CEO of the Bank.
- 4.2. The Board is responsible for the Bank's operations and policy, including its risk policy, and instructs the CEO on its implementation and execution.
- 4.3. The Board monitors that the Bank's organisation and activities are at all times in accordance with the relevant law, regulations, good governance and business practices and rules set by the Board.
- 4.4. The Board shall ensure that the Bank's governance and organisational structure is conducive to efficient and prudent management of the Bank. The Board is also responsible for

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<sup>1</sup> See further Chapter 2.3 of [Corporate Governance Guidelines, 5th Edition, published by the Iceland Chamber of Commerce, SA Business Iceland and Nasdaq Iceland](#).



appropriate segregation of duties, the prevention of conflicts of interests, giving due regard to the integrity of the market and the interest of its clients.

- 4.5. The Board shall set and maintain a clear internal governance structure and internal control framework appropriate to the Bank's infrastructure, operations and risk factors in accordance with the applicable laws, regulations, decisions by the competent authorities or agreements regarding independence or administrative separation from subsidiaries.
- 4.6. The Board is responsible for actions of the Bank which are extraordinary or of major importance. The Bank's Matrix for Material Bank Actions defines material bank actions handled by the Board
- 4.7. The Board generally does not participate in individual business decisions, unless their volume is considerable in relation to the Bank's Balance Sheet, or if otherwise stated in rules set by the Board.
- 4.8. The Board shall take the lead, together with the CEO, in strategic planning, formation of the Bank's business plan, and the setting of goals and risk parameters for the Bank, for short and long term.
- 4.9. The Board aims at ensuring a sustainable business model that takes into account all risk factors, including environmental, social and governance, and approves a sustainability policy for the Bank.
- 4.10. The Board approves a budget for the Bank, proposed by the CEO, for each fiscal year and performs a quarterly evaluation of the Bank's performance. The Board approves the Bank's financial statements for each quarter.
- 4.11. The Board is responsible for the hire and dismissal of the Bank's CEO and decides his/her remuneration.
- 4.12. The Board evaluates the performance and suitability of the CEO at least once a year.
- 4.13. The Board approves the alternate CEO, upon proposal from the CEO.
- 4.14. The Board confirms the hire, dismissal and mandate of the Head of Compliance, who reports directly to the CEO, upon proposal from the CEO.
- 4.15. The Board confirms the hire and dismissal of the Head of Risk Management, who reports directly to the CEO, upon proposal of the CEO.
- 4.16. The Board appoints the Chief Audit Executive, who reports directly to the Board, and decides his/her remuneration and mandate.
- 4.17. The Board shall ensure that the Head of Risk Management, Chief Audit Executive and Head of Compliance are able to act independently and have direct access to the Board.
- 4.18. The Board defines which employees are considered key function holders, at each point in time, according to the Act on Financial Undertaking.
- 4.19. The Board approves guidelines on of individuals to be placed on the Bank's list of insiders according to the Act on Securities Transactions. Moreover, the Board approves guidelines on primary insiders considered as senior management of the Bank as an issuer of financial instruments for the publishing of information on senior management trading.
- 4.20. The Board oversees and monitors that the CEO's decision-making and actions are in accordance with the Board's policies and decisions.
- 4.21. The Board shall monitor, periodically review and address any weaknesses identified regarding the implementation of processes, strategies and policies set by the Board. Moreover, the Board shall oversee and monitor that the Bank's strategic objectives, organisational structure and risk strategy, including its risk appetite and risk management framework, disclosure framework as well as other policies are implemented consistently.



- 4.22. The Board, and CEO, shall regularly evaluate the amounts, types and distribution of both internal capital and regulatory capital to adequately cover the risks of the institution and ensure that appropriate contingency and recovery plans are in place in accordance with the Act on Financial Undertakings.
- 4.23. The Board approves the Bank's targets for the liquidity management of the institution and oversees their implementation.
- 4.24. The Board monitors accounting and financial management, and ensures that Internal Audit, Compliance and Risk Management are effective at all times.
- 4.25. The Board shall oversee the implementation of arrangements aimed at ensuring the integrity of the accounting and financial reporting systems, including financial and operational controls and efficient and prudent risk management.
- 4.26. The Board shall adopt a policy on good corporate governance including the Bank's commitment to comply with the relevant rules on corporate governance, e.g. legal requirements, guidelines on corporate governance and other relevant rules and recommendations from competent authorities and establish a system to monitor compliance with the policy.
- 4.27. On an annual basis the Board shall monitor and evaluate the effectiveness of the internal control framework and internal governance of the Bank focusing on any changes in internal or external influential factors in the Bank's operations and take appropriate corrective measures.
- 4.28. The Board approves a compliance risk policy and shall oversee that appropriate rules, processes, systems and procedures are in place to reduce compliance risk in the Bank's operations.
- 4.29. The Board oversees and monitors the Bank's Remuneration Policy, approves and submits to the Annual General Meeting of the Bank for approval.
- 4.30. The Board shall promote professionalism and good ethical standards within the Bank. The Board approves a Code of Conduct and a Policy on Social Responsibility.
- 4.31. The Board approves the Bank's policy on measures against money laundering and terrorist financing.
- 4.32. The Board approves the Bank's policy on the assessment of the suitability of members of the Board, CEO and key function holders.
- 4.33. The Board approves the Bank's Conflict of Interest Policy and rules concerning the suspicion of misconduct.
- 4.34. The Board approves the Bank's product governance policy and outsourcing policy.
- 4.35. The Board approves the Bank's policy on disclosure and communication with external stakeholders and supervisory bodies.
- 4.36. The Board approves the Bank's Recovery Plan.
- 4.37. The Board approves the Bank's Policy on IT Governance.
- 4.38. The Board shall effectively monitor the handling of recommendations of supervisory bodies, risk management and internal and external auditors.
- 4.39. The Board approves the Internal Audit plan.
- 4.40. The Board shall lead the development and implementation of a comprehensive corporate and risk culture which promotes integrity, morality and compliance with the law and the Bank's rules and procedures.
- 4.41. The Board shall ensure appropriate surveillance and regular assessment of the effects of the Bank's risk culture on its financial stability, risk profile and corporate governance.



- 4.42. The Board shall approve the Bank's risk policy, risk appetite statement and procedure for risk management and ensure that internal procedures and framework for risk management are revised at least annually.
- 4.43. Board shall devote adequate time to discuss the major risks facing the Bank. The Board shall ensure that adequate time and resources are spent on effective risk management and risk assessment to ensure that the Bank has an overview of major risk factors.
- 4.44. Board shall, when applicable, monitor the evaluation of the Bank's assets, the use of internal models and the use of estimates from credit rating agencies.
- 4.45. Board shall at least once a year define the risk factors that the bank is facing, including their nature and scope. Board shall also define responses to the risks involved.

## **5. Special disclosure and definition of important risk factors**

- 5.1. The Board shall at each point in time receive the information appropriate with regard to its role and responsibilities, regarding the the overall activity, financial and risk situation of the Bank, taking into account the economic environment of the Bank, and decisions having a major impact on the Bank's business.
- 5.2. The following information regarding the finances, structure and operations of the Bank shall inter alia be submitted to the Board:
  - 5.2.1. A report on the Bank's operations shall be submitted and presented regularly;
  - 5.2.2. Reviewed and unaudited quarterly financial statements shall be presented to the Board no later than two months after the end of each reporting period. The Bank's audited financial statements shall be completed by the end of February each year. Representatives of the Bank's external auditing firm shall be invited to attend the presentation of the Bank's audited or reviewed and unaudited financial statements;
  - 5.2.3. Information on the operation of individual divisions of the Bank, as defined in the Bank's organisational chart at each point in time, to ensure that the operations of each income generating division are reviewed at least once a year;
  - 5.2.4. The Bank's internal auditor shall give a written report of her/his activities to the Board at least twice a year;
  - 5.2.5. The Bank's Compliance shall give a written report of its activities to the Board at least twice a year; and
  - 5.2.6. A budget for the Bank's forthcoming operating year shall be submitted to the Board in the last quarter of each financial year.
- 5.3. Board members shall be entitled to any information regarding the Bank's operations that they consider necessary in the performance of their duties, with the exception that Board members shall not have access to information pertaining to the interests of the Bank's individual customers. The Board shall, however, receive general statements on lending and defaults in accordance with the Board's rules on such disclosure.
- 5.4. Board members' inquiries regarding individual transactions or customers shall be made at Board meetings. Individual Board members are prohibited from contacting the Bank's employees for the purpose of obtaining information, unless the Board or the CEO decides otherwise. Responses to inquiries shall be made known to every Board member and entered in the minutes.
- 5.5. Information shall generally be submitted to the Board in writing, unless otherwise agreed by the Board. Information to which the Board may request access shall be submitted or presented to the Board as soon as possible after a request for information is made. In other respect, the Board decides on the interpretation of disclosure.





## 6. Suitability and obligations of Board members

- 6.1. Board members shall acquaint themselves with laws and regulations relevant to the operation of the Bank and have a good understanding of their duties and responsibilities as members of the Board. Board members shall, collectively as well as individually, have sufficient knowledge, experience and skills to perform their duties in due manner throughout their term of office and undertake appropriate training for that purpose.
- 6.2. Board members shall know and understand the Bank's structure and organisation and ensure that they follow the approved business policy and risk profile of the Bank. Board members shall request and acquaint themselves with all documents and information they consider necessary to gain an understanding of the Bank's activities and to make informed decisions.
- 6.3. Board members shall be of good repute and act with honesty, integrity and professionalism and mind their suitability in other respects in accordance with the Bank's policy on the suitability of the board of directors, CEO and key function holders.
- 6.4. Board members shall devote sufficient time for Board duties and perform them diligently. Moreover, Board members shall foster a good working atmosphere within the Board.
- 6.5. Board members shall know and respect the limitations set forth by the Act on Financial Undertakings on their participation other business operations.
- 6.6. Each year the Board shall define its key projects for the upcoming year, objectives and policy and set out a work schedule.
- 6.7. In order to be able to carry out its duties in a diligent manner the Board may purchase advisory services from independent experts, at the Bank's expense, when it considers it necessary. The Board shall ensure experts are independent of the Bank and senior management.
- 6.8. The Board of Directors shall discharge its duties in a manner that ensures the Bank's competitive independence from other commercial state-owned banks in accordance with the Competition Act, No. 44/2005, and the provisions of the settlement between Icelandic State Financial Investments, the Ministry for Finance and Economic Affairs, Landsbankinn hf. and Íslandsbanki hf., and the Icelandic Competition Authority dated 11 March 2016, No. 9/2016.
- 6.9. Board members shall ensure equal treatment of its shareholders, protection of their interests and that disclosure to shareholders, as well as other stakeholders, is appropriate and in accordance with the applicable law.
- 6.10. Board members shall analyse and prevent conflicts of interests in relation to themselves and report to the Board and Compliance Officer any relations, former or ongoing, personal, political or professional, which are likely to cause conflicts of interest in the performance of their duties on the Board. In case of conflicts of interests, whether in relation to a single member of the Board or the Board as a whole, shall be reported to the Board and the Compliance Officer.
- 6.11. Board members shall not intervene with individual business decisions.
- 6.12. Board members are not required to conduct their transactions with financial instruments exclusively with the Bank. Board members shall conduct their business in a manner that is in no way suspicious or likely to have negative impact on the credibility and reputation of the Board members and/or the Bank. If Board members seek the Bank's service in trading of financial instruments, their business shall be handled in the same manner as other customers.
- 6.13. Any trading in financial instruments of an issuer having financial interests in Iceland which has its shares listed on a regulated market, irrespective of whether it is in Iceland or outside Iceland, by members of the Board and parties related to them shall be reported immediately to Compliance. Reports shall be sent via email to [verdbrefakaup@islandsbanki.is](mailto:verdbrefakaup@islandsbanki.is).
- 6.14. The aforementioned reporting requirement does not apply to trading in financial instruments of Board members under asset management or in UCITS funds or investments meeting the



requirements of Act No.128/2011, on UCITS, Investment Funds and Institutional Investor Funds, provided that the Board member concerned does not participate in the management of the relevant fund.

## **7. Obligation of confidentiality**

- 7.1. Members of the Board are bound by confidentiality concerning all matters that come to their knowledge in the execution of their duties and which may concern the business and private affairs of the Bank's customers. Furthermore, they are bound by confidentiality concerning the dealings of the Bank and any information of which they may become aware during their duties as Directors and fall under the obligation of confidentiality as set forth in the Bank's Articles of Association, the relevant law or by nature of the matter, unless there is a clear legal obligation to provide the information. This obligation of confidentiality remains even after their employment ceases.
- 7.2. As a rule, discussions, decisions and handling of individual cases by the Board shall not be divulged in public unless specifically agreed by the Board, or where the Bank is obliged to make the result of a meeting public in connection with the listing of the Bank's financial instruments on a regulated securities market.

## **8. Role of Chairman**

- 8.1. The Chairman is responsible for the Board carrying out its role effectively and in an organised manner as well as acting as its facilitator and guide.
- 8.2. Chairman of the Board shall not take on other tasks for the Bank than what is a normal part of his/her duties as Chairman.
- 8.3. The main tasks of the Chairman of the Board are the following:
  - 8.3.1. Promoting that the practices of the Board are in compliance with the relevant laws, rules and good corporate governance, ensure that the Board's work facilities are satisfactory and encourage positive moral within the Board;
  - 8.3.2. Convening of Board meetings;
  - 8.3.3. Organising the agenda for the meetings of the Board in partnership with the CEO, and Vice- Chairman of the Board, and make sure it is sent out on time. The Chairman shall grant the request of a Board member to put a specific matter on the agenda provided that the request is received in a timely manner;
  - 8.3.4. Make sure that statutory duties and strategic projects of the Board are given priority;
  - 8.3.5. Managing Board meetings and allow ample time for discussions and decision making, in particular for larger and more complicated issues;
  - 8.3.6. Promoting active involvement of all Board members in discussion and decision making;
  - 8.3.7. Ensuring that decisions of the Board are taken on a solid and informed basis and encourage open and critical discussion in the decision making processes;
  - 8.3.8. Fostering good communications between the CEO and, where applicable, other Managing Directors of the Bank, and the Bank's Board of Directors are good;
  - 8.3.9. being responsible for communications between the Board and shareholders and informing the Board on the shareholders point of view;
  - 8.3.10. Acting as the Board's spokesperson towards the media, shareholders and other stakeholders;
  - 8.3.11. Ensuring that Directors receive the necessary information and guidance in the procedures of the Board and the Banks affairs, in accordance with Article 21 of these Rules;



- 8.3.12. Taking initiative in the forming of the Board's Rules of Procedure and as well making sure that they are reviewed annually, in accordance to Article 24.2 of these Rules;
- 8.3.13. Ensuring that the Board performs an annual assessment of the Bank's internal governance arrangements in accordance with Article 4.26 of these Rules;
- 8.3.14. Ensuring that the Board regularly receives appropriate, detailed and clear information and data on the Bank's operations.
- 8.3.15. Ensuring that the Board performs an annual assessment of its work and that of its sub-committees;
- 8.3.16. Informing the Bank's CEO on the results of the Board's assessment of his/her performance and consulting with him/her on possible improvements;
- 8.3.17. Following the progress of the implementation of Board decisions within the Bank and confirming their implementation to the Board; and
- 8.3.18. To submit a proposal for an annual work schedule for the Board meetings for a period of one year at a time.

## 9. Role of the CEO

- 9.1. The CEO is responsible for the day-to-day operations of the Bank pursuant to set policies and resolutions of the Board. Day-to-day operations do not extend to unusual actions or actions of major significance. Actions of major significance are defined in the Bank's Matrix for Material Bank Actions.
- 9.2. The CEO has decision-making power regarding all aspects of the Bank's operations in accordance with the Bank's strategy, policies, risk appetite and limits set out by the Board of Directors.
- 9.3. The CEO shall ensure that the Bank's operations are in compliance with the Bank's policy, the applicable law, the Bank's Articles of Associations and the Board's decisions, at all times.
- 9.4. The CEO shall establish an Executive Committee and other senior management committees to make or advise on key management decisions or to improve the operations of the Bank. The CEO appoints the members of the Executive Committee and members of other senior management committees of the Bank. The CEO shall inform the Board of Directors about the composition of senior management committees at each point in time. The CEO hires staff members of the Bank.
- 9.5. The CEO shall constructively challenge and critically review proposals, explanations and information received when exercising judgement and decision making.
- 9.6. The CEO shall make annual succession plans for key function holders and present to the Board of Directors along with assessments of the performance of individual key function holders. Key function holders of the Bank shall not be present when their performance is being evaluated.
- 9.7. The CEO shall ensure that Board members receive appropriate information on the financials, structure and operations of the Bank on a regular basis in order for the Board to perform their duties.
- 9.8. The CEO shall inform the Board of Directors on regular Board meetings about the main factors of the Bank's activities and strategy and report on the implementation of the Board's decisions.
- 9.9. The CEO shall without undue delay, when necessary, provide the Board of Directors with the relevant information on any incidents or circumstances that arise in the Bank's operations which may affect important decisions and risks in the Bank's operations.



- 9.10. The CEO shall propose a business plan and financial plan for each fiscal year and supervise the implementation and effectiveness of the Board Policy in the Bank's operations.
- 9.11. The CEO shall ensure that observations and comments from internal or external supervisory authorities, risk management and internal and external auditors of the Bank are given the appropriate attention of the Board and senior management and that a harmonised, efficient and documented procedure for remedial actions is followed.
- 9.12. The CEO shall implement a corporate and risk culture within the Bank in accordance with Article 4.37. of these Rules of Procedure and ensure that all staff members have knowledge and understanding of their role concerning the managing of risk the Bank is faced with.

## **10. Convening of Board meetings**

- 10.1. The Chairman of the Board, or the CEO acting on the Chairman's behalf, shall convene the Board meetings. Meetings of the Board shall generally be called with three days' notice. The Chairman of the Board may convene meetings of the Board with a shorter notice if she/he deems that necessary. In the event that a Board member or the CEO requests that a meeting should be convened, the meeting shall be held as soon as practicable.
- 10.2. If a principal member of the Board gives notice of her/his absence, the CEO's office shall summon an alternate member.
- 10.3. The Board meeting agenda together with the relevant material shall generally be sent to members at least three days before the scheduled meeting. Meeting material may be circulated to members of the Board electronically, e.g. through a web portal. The CEO shall prepare Board meetings in consultation with the Chairman and Vice-Chairman of the Board. In the circulation of meeting material due regard shall be given to the list of related parties of the Bank and whether any of the members of the Board or guests attending the relevant meeting are ineligible for taking part in the handling of a particular agenda item. In cases where a member of the Board, or a guest attending the relevant meeting of the Board is considered to be ineligible that person shall not receive any meeting material regarding that particular item.
- 10.4. Meetings shall generally be held at the Bank's place of business unless the Chairman of the Board decides otherwise. Meetings may, however, be held by means of teleconference equipment; such meetings shall be subject to the general provisions of these Rules of Procedure unless otherwise specifically stated herein.

## **11. Meetings of the Board of Directors**

- 11.1. At meetings of the Board of Directors, the presence of at least five members of the Board is required to constitute a quorum. Participation via telephone by a Director or her/his alternate shall constitute legitimate attendance.
- 11.2. Regular Board meetings are generally held on a monthly basis, more often if the Board of Directors deems it necessary.
- 11.3. External auditors are entitled to attend a meeting of the Board when discussing the financial statements certified by them, and express their opinion as to whether the accounts and the report of the Board of Directors contain the necessary and statutory information.
- 11.4. When a decision of the Board includes information that may significantly affect the value of financial instruments issued by the Bank admitted to trading on a regulated market, the CEO shall inform the Compliance Officer without delay.
- 11.5. The CEO attends Board meetings with the right to speak and submit motions. However, the CEO shall withdraw from a meeting during discussions on personal matters concerning the CEO or where the CEO is ineligible from considering the issue concerned, in accordance with the applicable rules on the specific eligibility of Board members.



- 11.6. The Board shall decide whether and when other employees of the Bank may attend Board meetings. The Chairman may decide to invite external parties to attend Board meetings.

## **12. Handling of agenda items**

- 12.1. The Chairman of the Board, and the Vice-Chairman in the Chairman's absence, shall preside over meetings. If both the Chairman and Vice-Chairman are absent, the senior member shall preside over meetings.
- 12.2. The outcome of elections and the handling of agenda items is decided by a simple majority at Board meetings. In the event of an equality of votes, the Chairman, or Vice-Chairman in the Chairman's absence, has the deciding vote.
- 12.3. Issues shall not be presented for decision at Board meetings unless Board members have received the documents relevant to the matter or sufficient information on the matter prior to the meeting and have had time to familiarise themselves with its substance.
- 12.4. Issues shall generally be presented for decision by the Board in writing. If issues are submitted before a Board meeting for presentation, such presentation may be oral.

## **13. Handling of meeting documents**

- 13.1. Documents containing information on the business of customers of the Bank shall generally not be circulated to Board members outside the Bank, it shall however be permitted when deemed necessary and in order to expedite the resolution in individual cases. The CEO and/or Chairman of the Board can require Directors to return the documents of a meeting concerning individual matters. Documents circulated to Directors shall be included in the Board's minutes.

## **14. The Board's minutes**

- 14.1. The Board shall appoint a secretary to record the Board's minutes.
- 14.2. Anyone entitled to attend Board meetings has the right to ask to have her/his comments and dissenting opinion in connection with proceedings and the handling of individual matters recorded in the minutes, as long as he/she clearly expresses their views thereto in the meeting.
- 14.3. The following information shall be recorded in the minutes of the Board:
  - 14.3.1. Name of the Bank and national identification number;
  - 14.3.2. Place of the meeting;
  - 14.3.3. Date of meeting and the date of other meetings taking place in the same sequence;
  - 14.3.4. Agenda of the meeting;
  - 14.3.5. Starting time and end of meeting;
  - 14.3.6. Number of Board meeting;
  - 14.3.7. Name of the meeting chairman and the secretary of the meeting;
  - 14.3.8. Name of attendees;
  - 14.3.9. Names and titles of outside parties attending meetings, specifying when they join the meeting and when they leave;
  - 14.3.10. Material made available before the meeting, whether any documents were handed out at the meeting and what material was shown at the meeting, at the beginning of the Board's minutes;
  - 14.3.11. A summary and the outcome of each agenda item, i.e. decisions taken, what was postponed or rejected, inquiries or, if applicable, the person(s) required to follow up



on the relevant decision, along with information on follow-up in decisions from previous meetings of the Board, if applicable; and

- 14.3.12. Page numbers and total number of pages in the relevant Board minutes.
- 14.4. A special note shall be made in the minutes where a Board member has withdrawn from the meeting as a result of ineligibility to address a particular matter, stating the reason for ineligibility, and where the Board member has not received material or information relating to such a matter, cf. Article 15 of these Rules of Procedure.
- 14.5. Responses to Board members' inquiries concerning individual transactions or customers, cf. Article 5.4, shall be entered in the minutes.
- 14.6. Attending Board members shall confirm the minutes with their signatures, along with those of the CEO and the secretary. Non-attending Board members shall confirm that they have been shown the minutes and are aware of their substance with their signatures. Minutes of meeting of the Board may be confirmed electronically.
- 14.7. Minutes shall always be circulated to Board members and any alternates in attendance at the meeting in question. Minutes may be circulated to alternates after approval but shall not contain confidential information such as information on customers.
- 14.8. Draft minutes shall, in general, be circulated to members of the Board's review within five working days following a meeting.
- 14.9. The Board's work shall in general take place at Board meetings. In the event of communication between Board members and/or between Board members and the CEO or the Banks senior management outside the board-room on matters regarding decisions taken by the Board or the grounds for such decisions, this shall be disclosed at the next Board meeting and recorded in the minutes of the Board.

## 15. Specific eligibility

- 15.1. Board members shall withdraw from a meeting if they are ineligible from participating in discussions on a matter.
- 15.2. The CEO or individual Board members may insist on a Board member not participating in discussions on a matter and not be provided with material concerning the matter. The majority of the Board shall decide whether Board member is ineligible.
- 15.3. When Board members are ineligible from addressing a particular matter, they shall be denied access to materials and information concerning the matter.
- 15.4. Members of the Board shall not take part in the handling of any issues concerning their own business or the business of companies in which they own a direct or indirect share, which they represent, of which they are members of the Board or in which they have a significant interest in other respects. The same applies to dealings with parties personally or financially connected to Board members. Board members shall not participate in deliberations on issues relating to the business of their competitors or related parties. Board members shall not act as agents of other parties towards the Bank.
- 15.5. When Board members take a seat on the Bank's Board of Directors they shall inform the Board of the parties that are related to them in the manner described in this Article and subsequently inform the Board of changes thereto. An up-to-date list of related parties shall be available for reference at Board meetings.

## 16. Related parties

- 16.1. Directors shall, when they take a seat on the Board, inform the Board of their respective related parties, as defined by the Central Bank's rules on loans of financial undertakings to related parties No. 247/2017, cf. Act on Financial Undertakings, and notify the Board of any changes thereto, that is the list of related parties.



- 16.2. According to the aforementioned rules related parties are related parties according to accounting standards, cf. Act on Annual Accounts, including Directors, CEO, key function holders, those who own a qualifying holding in the Bank, close family members and members in close association with the aforementioned parties, cf. Article 29 a of the Act on Financial Undertakings. Related parties can also be other parties that the Central Bank considers having direct and related interest in relation to the activities of a financial undertaking.
- 16.3. Close family members refers to a spouse or cohabiting partner, children, a spouse's children or a cohabiting partner and parties financially dependent on a party or parties who may be considered to be affected by his decision.
- 16.4. The Bank's Compliance shall keep a list of the Bank's related parties and their transactions. The Internal Auditor shall review transactions of related parties at least twice a year with regards to, among other things, terms, renegotiation and balances, and report the findings of the review to the Board.
- 16.5. On an annual basis, the Board shall entrust the Bank's external auditors with the task of reviewing loans made to related parties and performing a comparison with comparable business transactions of other customers and providing a reasoned report, i.a. concerning terms, renegotiations and balances. The report of the external auditor should include information on the identities of the parties used for comparison in each case. The external auditor's report shall be submitted to the Central Bank no later than 1 April each year for the preceding financial year.

## 17. Related parties' transactions

- 17.1. Regarding loans and advances to directors, CEO, key function holders and close family members or persons closely associated with the above-mentioned restrictions applies in accordance with article 29. a of the Act on Financial Undertakings and the Central Bank Rules on loans of a financial undertaking to related parties no. 247/2017. The beforementioned parties shall not be provided with loans or other advances except they provide secure collateral. The total amount of loans and other facilities that may be granted to each individual and parties closely related to it may not exceed 200 million ISK. The transactions of the aforementioned parties shall be subject to the same rules as general business transactions with ordinary customers in comparable transactions.
- 17.2. The Bank shall be permitted to consider individual business proposals in accordance with applicable law and the Bank's procedures- and credit rules, including securities transactions, without special authorisation from the Board, provided that the transaction meets the following conditions:
  - 17.2.1. In the case of transaction where the party in question has undergone general terms for a particular type of transaction.
  - 17.2.2. The terms of the transaction are consistent with the general terms in the field in question, and there are no special terms.
  - 17.2.3. The transaction is handled in the same way as any other comparable transaction between unrelated parties.
  - 17.2.4. The transaction is handled in accordance with law and Central Bank rules on credit provided by a financial undertaking to directors, managing directors, key employees or a party of qualifying holding, or parties with close links to such persons.
- 17.3. Even where individual transactions meet the above conditions, the CEO or committees appointed by him/her, shall have the authority to refer the transactions to the Board if deemed necessary.
- 17.4. Business proposals of Board members, the CEO, key employees, and of companies in which they are members of the Board, which they represent, where or in which they have a significant interest in other respects, and do not fall under the scope of 17.2, shall be presented to the Board for approval or rejection. In deciding on such transactions, the Board



shall consider the Bank's risk due to such transactions and whether the transaction is considered fair and reasonable from the perspective of the Bank and its shareholders. Decisions on such transactions shall be recorded in the minutes of the Board.

- 17.5. The CEO shall inform the Board, at least quarterly, of all business proposals which have been processed and the terms granted to members of the Board, the CEO, key function holders and parties related to them.

## **18. The participation of the CEO and internal auditor in business operations**

- 18.1. Unless expressly authorised by the Board, the CEO and the internal auditor shall not sit on the boards of other companies or participate in business operations in other respects. In taking such a decision, the Board must examine the reasons for such participation by the CEO and the internal auditor and the effect of their participation on Íslandsbanki. A holding in an undertaking is deemed to be participation in business operations, except in the case of an unsubstantial holding which confers no direct influence on the management of the undertaking.

## **19. Performance assessment**

- 19.1. The Board shall, at least once a year, assess its work, procedures and practices, for the Board collectively and for an individual Board member, and determine whether there is need to appoint sub-committees of the Board, and assess the Bank's progress. The results of the performance assessment shall be used to improve the Board's work. To this end the Board may seek external expert assistance, as deemed necessary by the Board on a case-by-case basis.
- 19.2. Each board member provides an independent assessment of the performance of the Board with respect to qualifications and experience of the Board to deal with its obligations, techniques in place to fulfil these obligations, efficiency of sub-committees and their responsibilities to the Board, long-term strategy, financial objectives and follow-up of operations, quality of the bank's management, the ability to deal with unexpected disruptions in operations, ethical and social responsibility, whether the bank's support system have the quality and features needed to satisfy applicable laws and regulations, etc
- 19.3. Implementation of the performance assessment process depends, among other things, on the following:
  - 19.3.1. Whether the Board rules of procedure have been complied with in all respect;
  - 19.3.2. Board Meeting Schedule for the preceding operating year is reviewed and an assessment is made whether the issues set out in the schedule have received appropriate discussion;
  - 19.3.3. Status taken of the specific priorities set by the Board regarding risk management and internal control within the Bank;
  - 19.3.4. Spot check taken on how certain decisions of the Board have been implemented;
  - 19.3.5. Mandate of appointment letters for the sub-committees of the Board are reviewed and the meeting minutes of the sub-committees are examined as to whether matters assigned to the sub-committees were on the agenda of the appropriate committee and were handled appropriately.
- 19.4. This is not an exhaustive list of the issues underlying the implementation of the Board performance assessment.

## **20. Self-assessment, mapping of knowledge and educational program**

- 20.1. The Boards self-assessment shall include, among other things, assessment of the composition of the Board, whether the Board of Directors, as well as individual directors in





each case, possess sufficient knowledge, experience and ability to perform their duties appropriately.

- 20.2. The Board's self-assessment shall be the basis of the Board's educational plan aimed at deepening the knowledge and competence of the Board in the aspects that such assessment indicates that may improve. For this purpose, the Board may use external expert assistance, as the Board considers necessary at any given time. In self-assessment, the Board shall assess the strengths and weaknesses in the work of the Board.
- 20.3. The self-assessment results shall be used to improve the work of the Board. For this purpose, the Board may use external expert assistance, as the Board considers necessary at any given time.

## **21. Guidance and reception of new Directors**

- 21.1. The Chairman of the Board shall ensure that new Directors receive the necessary information and guidance of the Board practices and the affairs of the Bank; including, internal control, key risk factors, strategy, objectives and operations. A list of the necessary information and guidance to be provided to new Director can be found in Annex I to these Rules of Procedure.

## **22. Board sub-committees**

- 22.1. The Board shall establish and maintain the appropriate structure of sub-committees in order to support the development, implementation and monitoring of the Board's tasks which are considered important or require increased expertise or attention. The Board shall elect sub-committee members and appoint chairmen. The Board shall, when appointing members and the Chairmen of the committees, take into account which expertise, skills and experience in the relevant sub-committee requires.
- 22.2. The appointment of sub-committees does not free the Board of Directors from responsibility. The power of decision on matters that the sub-committees cover rests with the Board at all times. The provisions on specific eligibility of members of the Board shall apply as well for the Committee members. Majority of Committee members shall be independent from the Bank.
- 22.3. When appointing sub-committees the Board shall provide the sub-committee in question with a mandate of appointment, defining its functions and goals, and other rules for the committee. Mandates of appointment shall be published on the Bank's internal and external webpage.
- 22.4. The Board shall appoint Chairman for each committee. The role of the Chairman of the Board's sub-committees is to ensure that the committees carry out their role effectively and in an organised manner as well as acting as its facilitator and guide. The Chairman of a sub-committee is also responsible for:
  - 22.4.1. Planning and managing the sub-committee's meetings in consultation with the secretary of the sub-committee.
  - 22.4.2. Following the sub-committee's mandate of appointment.
  - 22.4.3. Give update to the Board regarding matters discussed in the sub-committee's meetings.
  - 22.4.4. Developing the operation and effectiveness of the sub-committee.
  - 22.4.5. Evaluate the work of the committee and work of each individual committee member each year.
- 22.5. Sub-committees of the Board shall ensure that Directors receive regular and specific information on the main functions of the committees and at least once a year report to the Board on their work. All Directors shall have access to the minutes of sub-committees.
- 22.6. The sub-committees are three:



- 22.6.1. Board Audit Committee;
- 22.6.2. Board Risk Management Committee;
- 22.6.3. Board Corporate Governance, Compensation and Human Resource Committee

### **23. Board members of the Bank's subsidiaries**

- 23.1. If 5% or more of the Bank's equity resides within a certain subsidiary or associate company, the Board shall decide on the appointment of a Board member on behalf of the Bank, and the CEO shall handle the necessary arrangements. In other cases, the CEO shall decide who shall sit on the boards of the Bank's subsidiary and associate companies. Appointments shall be based on professional evaluations.
- 23.2. The CEO shall annually present the Board with a list of board memberships on behalf of the Bank.
- 23.3. In appointing directors to the boards of the Bank's main subsidiaries, the Board of Directors shall seek to attain the aspects found in Bank's policy on subsidiaries and attain gender balance in accordance with equal rights legislation and the Bank's Gender Equality Policy, with an eye to the qualifications of candidates.
- 23.4. Board members shall only assume board membership for the Bank's subsidiary or associate companies if a special decision on such membership has been made by the Board; when making such a decision the Board shall assess the impact of board membership on the Board member's supervisory duty and the need for the Board member to take a seat on the board.

### **24. Archiving and handling of the Rules of Procedure of the Board**

- 24.1. The Board of Directors alone is authorised to amend these Rules of Procedure.
- 24.2. These Rules shall be reviewed no less frequently than once per annum.
- 24.3. The Board of Directors shall submit a copy of these Rules to the Financial Supervisory Authority within two weeks of their approval or amendment.



## Annex I

### **Guidance and training of Directors**

Directors shall receive the necessary information and guidance in the Board's operations, i.e. their statutory duties and responsibilities and the affairs of the Bank in order to know and understand the Bank's structure, including the bank's policy, risk profile, goals and operations.

New Directors are to be provided with information on the following in respect of the Bank:

- The Bank's operations;
- Products and services;
- Bank's policy making and business plan;
- Risk management and risk appetite statement and risk approach;
- Operations of sub-committees;
- Scope of the CEO's tasks and responsibilities;
- Articles of association of the Bank;
- Rules of procedure for the Board of Directors;
- The Board's work schedule;
- Policies of the Bank;
- Last year's minutes of the Board;
- Financial information;
- Organisational structure;
- An overview of the law and regulations that concerns the Bank's activities;
- An overview of settlements concluded by the Bank with the Icelandic Competition Authority;
- The Bank's Recovery Plan;
- The last annual accounts, interim financial statements and annual report; and
- Reports and letters from internal and external auditors.

Board members may request meetings with the CEO, the Chairman of the Board and the Internal Auditor, and receive answers to the questions they may have in connection with their work on the Board of Directors.

Board members shall receive instruction on how to use and access the web portal of the Board.

Board members may request assistance from the Bank's Compliance Officer for the assessment of suitability of managing directors and board members of financial undertakings.