

CORPORATE GOVERNANCE STATEMENT OF ARION BANK

This Corporate Governance Statement is designed to help foster open and honest relations between the Board of Directors, shareholders, customers and other stakeholders, such as the Bank's employees and the general public. Corporate governance provides a basis for responsible management and decision-making, with the objective of generating sustainable value.

LEGAL AND REGULATORY FRAMEWORK

The Corporate Governance Statement of Arion Bank hf. (Arion Bank or the Bank) is based on legislation, regulations and recognized guidelines which are in force at the time that the Bank's financial statement is adopted by the Board of Directors. This statement has been prepared in accordance with Article 19 (3) of the Financial Undertakings Act No. 161/2002 and Guidelines on Corporate Governance, 4th edition, issued by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers in March 2012. The Bank has implemented the relevant provisions of the guidelines. It should be noted that the Board of Directors has not appointed a special nomination committee as there are only two shareholders.

Arion Bank is a financial institution which operates in accordance with the Financial Undertakings Act No. 161/2002 and the Securities Transactions Act No. 108/2007. The Bank is licensed to operate as a retail bank in accordance with the definition of retail banks in the Financial Undertakings Act No. 161/2002. The Bank is a universal bank which provides a comprehensive range of financial services relating to savings, loans, asset management, corporate finance and capital markets. The Bank has issued financial instruments which have been admitted for trading on regulated securities markets, both in Iceland and in Luxembourg, and is therefore subject to the disclosure requirements of issuers pursuant to the Securities Transactions Act No. 108/2007 and the rules of the stock exchanges in Luxembourg and Iceland.

The Financial Supervisory Authority (FME) supervises the operations of Arion Bank. Further information on the FME and an overview of the legal and regulatory framework applicable to the Bank can be seen on the FME's website, www.fme.is.

A central feature of the activities of all financial institutions is carefully calculated risk-taking according to a predetermined strategy. Arion Bank manages its risk according to internal risk policies and processes that are reviewed and approved by the Board of Directors. The Bank's risk appetite, set by the Board, is translated into exposure limits and targets that are monitored by the Risk Management division. Risk Management reports its findings regularly to the Board. The Board is responsible for Arion Bank's internal capital adequacy assessment process, the main objective of which is to ensure that Arion Bank understands its risk profile and has systems in place to assess, quantify and monitor its total risk exposure. Further information on risk management and capital management is contained in the Bank's Pillar 3 risk disclosures.

The Bank's Finance division is responsible for preparing the accounts and this is done in accordance with the International Financial Reporting Standards (IFRS). The Bank publishes its financial statement on a quarterly basis

and management statements are generally submitted to the Board 10 times a year. The Board Audit and Risk Committee examines the annual financial statement and interim financial statements, while the external auditors review and audit the accounts twice a year. The Board Audit and Risk Committee gives its opinion on the accounts to the Board of Directors, which then approves and endorses the accounts.

INTERNAL CONTROLS AND RISK MANAGEMENT

Information on risk management at Arion Bank can be found on page 88 of the Annual Report and in the aforementioned Pillar 3 risk disclosures.

CUSTOMERS' OMBUDSMAN

The Customers' Ombudsman is appointed by the Chief Executive Officer.

The role of the Ombudsman is to ensure fairness and objectivity when dealing with recovery cases, prevent discrimination against the customer and make certain that the process for handling cases is transparent and documented. In the case of companies the Ombudsman shall also ensure that competition perspectives are taken into account, viable companies are put into the restructuring process and rules on financial restructuring are adhered to.

In order to achieve these objectives, the Ombudsman takes part in the development of procedures and solutions for customers as appropriate. In addition, the Ombudsman reviews specific cases upon request from customers, the Bank's employees or at his own initiative. Such a review can take place both while cases are being processed and after they have been closed. The Ombudsman has access to information and data on specific issues. The Ombudsman communicates information about the outcome of cases to customers, employees and the CEO as necessary.

The Customers' Ombudsman examined 268 cases in 2012, compared with 345 in 2011.

INTERNAL AUDITOR

The Internal Auditor is appointed by the Board of Directors and reports directly to the Board. The Board sets the Internal Auditor a charter which lays out the responsibilities associated with the position and the scope of the work. The mission of the Internal Auditor is to provide independent and objective assurance and advice designed to add value and improve the Bank's operations. The scope of the audit is the Bank, its subsidiaries and pension funds serviced by Arion Bank.

The audit is governed by the audit charter, directive No. 3/2008 issued by the FME on the internal audit function in financial institutions and international standards on internal auditing. All audit work is completed by issuing an audit report with deadlines for the implementation of audit findings. Implementations are followed up by the Internal Auditor every quarter.

COMPLIANCE AND MEASURES AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

Arion Bank seeks to detect any risk of failure to fulfil its legal obligations and has taken appropriate measures to minimize such risks.

The Bank employs an independent Compliance Officer in accordance with a charter from the Board of Directors. The role of the Compliance Officer includes the following:

- ◆ To monitor and regularly assess the adequacy and effectiveness of measures and actions designed to minimize the risk of failure to fulfil the Bank's obligations under the Securities Transactions Act and the Act on Measures against Money Laundering and Terrorist Financing.
- ◆ To provide the employees of the Bank with the necessary training, advice and assistance to enable them to fulfil the Bank's obligations under the Securities Transactions Act, the Act on Measures against Money Laundering and Terrorist Financing and the Competition Act.
- ◆ To notify the police of any suspicion of money laundering or terrorist financing and notify the FME of any suspicion of market abuse. The Compliance Officer also conducts independent investigations if there is any suspicion of a violation of the Competition Act.

The Compliance Officer reports directly to the CEO and provides the CEO with regular reports about his work. The Compliance Officer gives the Board of Directors an annual report and also reports to the Board Audit and Risk Committee on a quarterly basis. The Compliance Officer may refer cases directly to the Board if deemed necessary.

CORNERSTONES, CODE OF ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Arion Bank's Cornerstones represent the Bank's core values. The Cornerstones are designed to provide guidance when making decisions and in everything else employees say and do. They refer to the Bank's role, mindset and behavior. Arion Bank's Cornerstones are: We make a difference, we get things done and we say what we mean.

The management and employees of Arion Bank are conscious of the fact that the Bank's activities affect different stakeholders and society at large. The Bank's code of ethics is designed to serve as a key to responsible decision-making at Arion Bank. The code of ethics is applied by the Board of Directors, the CEO, the Bank's management and other employees of the Bank.

One of the fundamental principles of corporate social responsibility is to align the interests of companies with those of the wider community. Arion Bank is a responsible member of Icelandic society and as such takes an active role in its construction and future development. Corporate social responsibility means that the Bank must perform its role conscientiously, ensuring that its customers receive first-rate services and get the support they need. In addition Arion Bank supports a select number of causes which it believes benefit and improve the community, such as environmental issues, research and innovation, sports and health issues, charities, and cultural issues. Many of these projects require the active participation of employees, which is the key to achieving results.

BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors is elected for a term of one year at the Bank's annual general meeting (AGM). At the Bank's last AGM on 22 March 2012, six Board members and six alternates were elected. The Board of Directors has a diverse background and extensive skills, experience and expertise.

In 2012 the Board met on 14 occasions. There were two meetings where one member, at each meeting, was unable to attend. On one occasion a Board Director announced at short notice that he was unable to attend and therefore it was not possible to call in an Alternate. On the other occasion a member was unable to attend an extra meeting but he submitted his vote on the matter by e-mail and therefore it was not necessary to call in an Alternate.

The Board Credit Committee met on 20 occasions. The Board Audit and Risk Committee met on 10 occasions. The Board Remuneration Committee met on six occasions. The table below shows the attendance of individual Board Directors.

	Tímabil	Stjórn	Endursk.- og áhættunefnd	Lána- nefnd	Starfskjara- nefnd
Monica Caneman	1. jan.-31. des.	14		17	
Guðrún Johnsen	1. jan.-31. des.	13	10		6
Agnar Kofoed-Hansen	1. jan. - 31. des.	14		20	6
Freyr Þórðarson	22. mar.-31. des.	11		13	
Jón G. Briem	1. jan.-31. des.	13	10		6
Måns Höglund	1. jan.-31. des.	14	10	19	
Guðrún Björnsdóttir*	1. jan.-22. mar.	4		4	
Guðjón Gústafsson**	1. jan.-31. des.		7		

* Varamaður fyrir Theodór S. Sigurbergsson sem lét af stjórnarmennsku 5. september 2011

**Nefndarmaður í endurskoðunar- og áhættunefnd, skipaður af stjórn

The main duties of the Bank's Board of Directors are to manage the Bank between shareholders' meetings and as further described in the law, regulations and articles of association. The Board tends to those operations of the Bank which are not considered part of the day-to-day business, i.e. it makes decisions on issues which are unusual or of a significant nature. One of the Board's main duties is to supervise the Bank's activities. The Board of Directors meets at least ten times a year. The rules of procedure of the Board of Directors and its sub-committees take into account the aforementioned Guidelines on Corporate Governance. In other respects the Board of Directors works in accordance with the laws and regulations in effect at any particular time and its role is defined in detail in the rules of procedure of the Board of Director and the articles of association of the Bank.

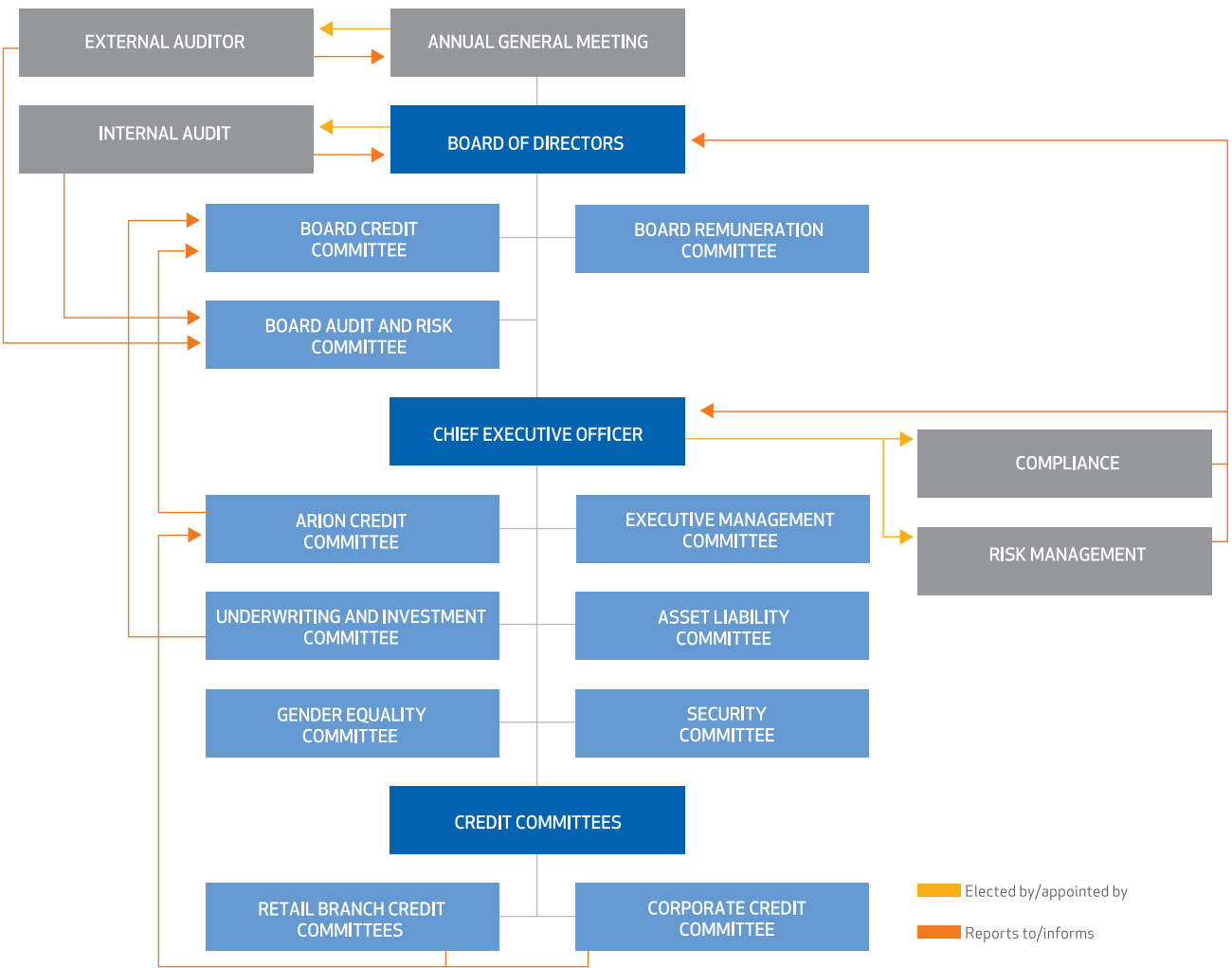
One of the main duties of the Board of Directors is to appoint a Chief Executive Officer (CEO) who is responsible for the day-to-day operations in accordance with a strategy set out by the Board. The Board and the CEO shall carry out their duties with integrity and ensure that the Bank is run in a healthy and normal manner with the interests of the customers, the community, the shareholders and the Bank itself as a key consideration, cf. Article 1 (1) of the Financial Undertakings Act No. 161/2002. The CEO shall ensure that he provides sufficient support to the Board to carry out its duties.

At the first organized meeting of the new Board following the AGM the Board appoints members to each of its sub-committees and assesses whether it is necessary to appoint external members to certain committees in order to bring in a greater level of expertise. One of the committee members in the Board Audit and Risk Committee, Guðjón Gústafsson, is not a Board Director and is independent of the Bank and its shareholders. Today the Board's subcommittees are the Board Audit and Risk Committee, the Board Remuneration Committee and the Board Credit Committee.

The Chairman of the Board is responsible for the work of the Board. The Chairman chairs Board meetings and ensures that enough time is allocated to the discussion of important issues and that strategy issues are discussed thoroughly. The Chairman is not permitted to undertake any other work for the Bank unless part of the normal duties of the Chairman.

The Board carries out an annual performance appraisal, at which it assesses its work, the necessary number of Board Directors, the Board structure, achievements and work of the subcommittees with respect to the aforementioned. This assessment was most recently performed at its meetings on 4 September and 1 October 2012. The main conclusions of the assessment were that the Board agreed that its role and the role of its subcommittees were clearly defined, as were the roles of the Chairman and the Vice Chairman; that the flow of information from the management to the Board was exemplary; and that relations with the CEO and the senior management were excellent. The Board made several recommendations for improvements to the CEO, who immediately made the requested changes.

CORPORATE GOVERNANCE STRUCTURE



MONICA CANEMAN, CHAIRMAN

Monica was born in 1954. She is Swedish and lives in Sweden. She was first elected as a Director at a shareholders' meeting on 18 March 2010. She is not a shareholder of Arion Bank and is an independent Director. Monica is also Chairman of the Board Credit Committee.

She graduated in economics from the Stockholm School of Economics in 1976. She worked at Skandinaviska Enskilda Banken (now SEB) from 1977 to 2001. Monica held various positions at SEB in marketing and commercial banking. She became a member of the Group Executive Committee and Group Management in 1995 and became deputy CEO in 1997. She became an alternate member of the board of directors at the same time. Monica left SEB in 2001. Since then she has built a career around board assignments.

She currently sits on the board of numerous companies and non-profit organizations and is the chairman of several of them.



GUDRÚN JOHNSEN, VICE CHAIRMAN

Gudrún was born in 1973. She was first elected as a Director at a shareholders' meeting on 18 March 2010. She is not a shareholder of Arion Bank and is an independent Director. Gudrún is Chairman of the Board Remuneration Committee and a member of the Board Audit and Risk Committee.

Gudrún completed her BA in economics at the University of Iceland in 1999. In 2002 she graduated with an MA in applied economics at the University of Michigan, Ann Arbor in the United States and with an MA in statistics from the same university the following year. Gudrún worked as a securities broker at the Icelandic Investment Bank (FBA) between 1999 and 2001, as a teaching and research assistant at the University of Michigan, Ann Arbor from 2002 to 2003. Between 2004 and 2006 she worked as a specialist in the Financial Systems and Monetary Department of the International Monetary Fund (IMF) in Washington, DC.

Gudrún has been an assistant professor at Reykjavík University School of Business since 2006. She has served on the board of a fund management company of MP Bank and is the current chairman of the research company THOR. In 2009 and 2010 Gudrún worked as a senior researcher for the Parliamentary Special Investigation Commission looking into the causes and events leading up to the fall of the Icelandic banking system in 2008.



AGNAR KOFOED-HANSEN

Agnar was born in 1956. He was first elected as an Alternate Director at a shareholders' meeting on 18 March 2010. He was then elected as a Director at a shareholders' meeting on 24 March 2011. He is not a shareholder of Arion Bank and is an independent Director. Agnar is a member of the Board Remuneration Committee and the Board Credit Committee.

Agnar received a B.Sc. in mechanical and industrial engineering from the University of Iceland in 1981. He completed a master's in management engineering from the Technical University of Denmark in 1983. He then did a master's program from MIT in the United States, which included financial analysis, accounting and marketing. Agnar became an authorized securities dealer in 1991. In addition, he has completed numerous training courses in the field of management and operations. From 1983 to 1987 he worked for Thróun hf. as manager of sales and marketing. He worked for the Industrial Bank of Iceland hf. as head of the credit department from 1987 to 1989. From 1989 to 2000 he served as manager of capital markets at Kaupthing hf., managing director at Information Iceland ehf. and was later a board member and head of the credit reporting department at Creditinfo Lánstraust hf. He was managing director of SPRON Factoring hf. from 2000 to 2007.

Today Agnar is chief financial officer at HRV Engineering ehf.



FREYR THÓRDARSON

Freyr was born in 1973. He was first elected as a Director at a shareholders' meeting on 22 March 2012. He is not a shareholder of Arion Bank. He is an employee of Kaupthing hf. and in the event of any conflict of interest he does not take part in discussions on that particular issue. Freyr is a member of the Board Credit Committee.

Freyr completed a bachelor's degree in business administration at Reykjavík University (RU) in 2003 and earned an MBA degree from the RU School of Business in 2010. Before that he studied at Universität Salzburg in Austria and completed a pre-diploma in Communication Science in 1999. Freyr has worked in banking and finance since 2001, both in Iceland and abroad, at Straumur Investment Bank, Gnúpur investment company, and Íslandsbanki/Glitrir. In 1999 to 2001, prior to his financial career, Freyr worked at a bottling company called IcelandSpring on plant development and management. Since 2009 Freyr has managed restructuring and asset recovery projects in Kaupthing hf.'s Scandinavian portfolio. He currently sits on the board of Norvestia Oyj, which is listed on the NASDAQ OMX Helsinki and also sits on the boards of two unlisted industrial companies in Scandinavia on behalf of Kaupthing hf.



JÓN G. BRIEM

Jón was born in 1948. He was first elected as an Alternate Director at a shareholders' meeting on 20 May 2010. He was elected as a Director at a shareholders' meeting on 24 March 2011. He is not a shareholder in Arion Bank and is an independent Director. Jón is a member of the Board Audit and Risk Committee and the Board Remuneration Committee.

Jón gained a degree in law from the University of Iceland (UI) in 1974 and completed a certificate in business and administration from the UI's Institute of Continuing Education in 1999. He qualified as a district court attorney in 1977 and as a supreme court attorney in 1990. In 1976 to 1990 he was a partner at the law firm Lögfraeðistofa Sudurnesja sf. From 1991 to 1999 he headed the legal division of Íslandsbanki hf. and from 2000 to 2001 he was branch manager at the same bank.

In 2002 he opened a law firm in Reykjavík, where he still works. Jón has been a member of the boards of a numerous companies and associations.



MÅNS HÖGLUND

Måns was born in 1951. He is Swedish and lives in Portugal. He was first elected as a Director at a shareholders' meeting on 24 March 2011. He is not a shareholder in Arion Bank and is an independent Director. Måns is Chairman of the Board Audit and Risk Committee and is a member of the Board Credit Committee.

Måns graduated from Stockholm School of Economics in 1975 where he became a lecturer and researcher after completing his studies. He served in various posts at Hambros Bank in London between 1977 and 1984 and was regional director for Denmark and Iceland for two years. In 1984 he started working for Götabanken in London and was transferred to the bank's Stockholm operation in 1989 where he was head of the international finance division until 1991. From 1991 to 1999 he worked for Swedbank, where his roles included director and head of the bank's large corporate business. In 1999 to 2002 he worked for both Unibank (as head of the Sweden operation) and Nordea (as Head of Private Banking, Sweden).

From 2002 to 2011 Måns worked for Swedish Export Credit Corporation (SEK) as executive director and head of corporate and structured finance. He was also a member of SEK's Executive Committee.



ALTERNATE DIRECTORS

Björg Arnardóttir, Guðjón Ólafur Jónsson (resigned in September 2012), Guðrún Björnsdóttir, Hrönn Ingólfssdóttir, Kirstín Th. Flygenring and Thóra Hallgrímsdóttir.

CHIEF EXECUTIVE OFFICER

HÖSKULDUR H. ÓLAFSSON

Höskuldur was born in 1959. He was appointed CEO in June 2010 and joined the Bank from Valitor hf. where he had been CEO since 2006. He is not a shareholder of Arion Bank and he does not have any stock option agreements with the Bank. Prior to that he worked at the Icelandic transportation company Eimskip hf. for 17 years and held a range of management positions, including that of deputy CEO. He has also served on the boards of directors of numerous companies and organizations in Iceland and abroad. Höskuldur is the chairman of the Icelandic Financial Services Association (SFF) and is also a board member of the Icelandic Chamber of Commerce. Höskuldur graduated with a cand. oec. degree in business administration from the University of Iceland in 1987.

The CEO is responsible for the day-to-day operations of the Bank and the implementation of the Board's strategy, relations with other financial institutions and authorities, human resources, marketing and other general tasks. The CEO shall regularly provide the Board with reports on the Bank's operations and financial position and all important issues which may affect the Bank's operations and finances. With respect to other responsibilities and duties of the CEO please refer to Chapter VII of Act No. 1616/2002 and Chapter IX of Act No. 2/1995. The duties and responsibilities of the CEO are determined by the legal environment in which he operates at any given time, both in Iceland and overseas, and the rules which the Board of Directors may establish.



INFORMATION ON VIOLATIONS OF LAWS AND REGULATIONS

Arion Bank has not been denied registration, authorization, membership or permission to conduct certain business, activity or operations. The Bank has not been subject to withdrawal, revocation or dismissal of registration, authorization, membership or permission.

Information on other issues relating to Arion Bank can be found in the notes to the Bank's consolidated financial statements for 2012.

COMMUNICATIONS BETWEEN THE SHAREHOLDERS AND THE BOARD OF DIRECTORS

The Chairman of the Board of Directors communicates with shareholders on behalf of the Board of Directors and the Bank between legally convened shareholders' meetings, which are the main venue at which the Board and the Bank report information to the shareholders. Shareholders have also attended meetings set up by the Board to discuss the Bank's interim financial results with the Bank's managing directors.

This corporate governance statement was examined and approved at a meeting of the Board of Directors on 28 February 2013.