

Corporate Governance Statement

Corporate governance statement of Arion Bank for 2017



Good corporate governance helps to 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 also provides the foundations for responsible management and decision-making, with the objective of generating lasting value. The Board of Directors places great importance on good corporate governance and re-evaluates its governance practices regularly on the basis of recognized guidelines on corporate governance.

The Corporate Governance Statement of Arion Bank hf. (Arion Bank or the Bank) is based on the legislation, regulations and recognized guidelines which are in force at the time the Bank's financial statement is adopted by the Board of Directors.

Excellence in corporate governance

In December 2015 Arion Bank was recognized as a company which has achieved excellence in corporate governance following a formal assessment based on the Icelandic Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland. Arion Bank received this recognition following an in-depth survey of corporate governance at the Bank, including governance by the Board of Directors, sub-committees and management, performed by KPMG ehf. in the autumn of 2015. The recognition applies for three years unless significant changes are made to the Bank's management or ownership.

Compliance with guidelines on good corporate governance

According to the Financial Undertakings Act No. 161/2002 Arion Bank is obliged to comply with recognized guidelines on good corporate governance. The Bank complies with the fifth edition of the Icelandic Guidelines on Corporate Governance issued by Iceland Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland, published in May 2015 and viewable on the website www.leidbein-

ingar.is. According to the guidelines a company shall state whether it has deviated from the guidelines, if so, which parts and also explain why it has done so. The Bank complies with the guidelines but because of its shareholder structure certain deviations have been made from the guidelines. The section below specifies in which instances the Bank has deviated from the guidelines.

Article 1.1.6 states that the board of a company shall post certain information on the candidates to the board on the company's website before the annual general meeting (AGM). The information in question was sent directly to all shareholders and published on the Bank's website before the last AGM. The information on candidates up for election at the extraordinary shareholders' meetings convened in 2017 were sent directly to all shareholders before the meetings and published on the Bank's website following the election.

Article 1.5. states that a shareholders' meeting shall appoint a nomination committee or decide how it should be appointed. Kaupskil, the Bank's majority shareholder appoints six out of eight Board members, Attestor Capital LLP appoints one Board member and the Icelandic State Financial Investments appoints the eighth member. The Bank has not considered it necessary to appoint a nomination committee given its shareholder structure.

Article 5.1.2. states that the rules of procedure of sub-committees of the Board shall be posted on the Bank's website. The rules of the Board Credit Committee have not been published on the Bank's website with respect to their nature.

Legal framework for the Bank's operation

Arion Bank is a financial institution which operates in accordance with the Financial Undertakings Act No. 161/2002. Acts of law which also apply to the Bank's operations include e.g. the Securities Transactions Act No. 108/2007 and Public Limited Companies Act No. 2/1995.

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 in Iceland, Norway and Luxembourg, and is therefore subject to the disclosure requirements of issuers pursuant to the Securities Transactions Act and the rules of the relevant stock exchanges.

The Financial Supervisory Authority (FME) supervises the operations of Arion Bank in accordance with the provisions of Act No. 87/1998 on the Official Supervision of Financial Operations. Further information on the FME and an overview of the legal and regulatory framework applicable to the Bank, and the FME's guidelines, can be seen on the FME's website, www.fme.is. Numerous other pieces of legislation apply to the operations of financial undertakings.

Internal controls, auditing and accounting

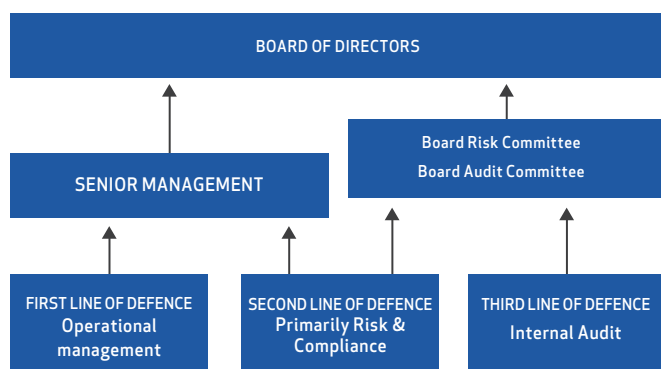
Internal control

Internal control at Arion Bank is organized into three lines of defence with the aim of ensuring effectiveness, defining responsibility and coordinating risk management. This structure is also designed to foster a sense of risk awareness and responsibility among all employees of the Bank.

The set-up distinguishes between the following roles:

- People who bear responsibility for risk and manage risk
- People who monitor and check internal controls
- People who perform independent surveys of the effectiveness of internal controls

The first line of defence is made up of people who have day-to-day supervision of operations and its organization. They are responsible for establishing and maintaining effective internal controls and managing risk in day-to-day operations. This involves identifying and evaluating risk and putting in place appropriate countermeasures to reduce risk. The first line of defence is responsible for supervising the implementation of internal rules and processes in compliance with the law, regulations and the Bank's strategy and it must ensure that all actions are in compliance with established procedures and that corrective action is taken if any deficiencies are detected.



The second line of defence is set up to ensure that the first line of defence has established adequate internal controls which work as intended. Risk Management and Compliance are the main participants in the second line of defence, although other units may also be assigned specific monitoring roles.

The third line of defence is Internal Audit, which keeps the Board and management informed of the quality of corporate governance, risk management and internal controls, including by performing independent and objective audits.

Compliance

The Compliance unit is an independent control function which reports directly to the CEO, in accordance with the Compliance Charter issued by the Board of Directors. The role of Compliance is to ensure that Arion Bank operates in accordance with law, rules and good business conduct, and endorsing a good corporate culture in that regard.

- Compliance provides oversight of regulatory requirements and responsibility, and assists employees in understanding applicable requirements at any given time, by providing access to appropriate training, advice and information
- Compliance contributes to ensuring efficient internal controls, and to ensuring that appropriate actions are taken to address any deficiencies
- Compliance safeguards the Bank from the possible abuse of its services, and ensures that the Bank knows its counterparties, the nature of each business relationship, and its obligations thereto
- Compliance promotes transparency, and the providing of adequate information to customers, investors and authorities
- Compliance promotes the responsible handling of confidential information

Risk Management

A central feature of the activities of all financial companies is carefully calculated risk-taking according to a predetermined strategy. Arion Bank thus takes risk compatible with its risk appetite, which is regularly 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 Risk Management. 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.

The Bank's Risk Management division is headed by the Chief Risk Officer. It is independent and centralized and reports directly to the CEO. Risk Management comprises three departments whose role is to analyze, monitor and regularly report to the CEO and Board of Directors on the risks faced by the Bank.

Further information on risk management and capital management is contained in the Bank's annual report and the Bank's risk report.

Internal Audit

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 Audit every quarter.

Auditing and accounting

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 ten times a year. The Board Audit 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 Committee gives its opinion on the accounts to the Board of Directors, which then approves and endorses the accounts.

Customers' Ombudsman

The Customers' Ombudsman is appointed by, and responsible to, the CEO. The role of the Ombudsman is to ensure that the business of customers is handled fairly and objectively, prevent discrimination against customers and make certain that the process for handling cases is transparent and documented. The Customers' Ombudsman examined 162 cases in 2017, compared with 160 cases in 2016 and 185 cases in 2015.

Cornerstones, code of ethics and corporate social responsibility

Arion Bank's cornerstones is the name used to describe 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, attitude and conduct. 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 approved by the Board of Directors.

Arion Bank underlines its status as a sustainable bank by making a difference to its customers and performing its role as a financial institution conscientiously and responsibly. Arion Bank takes an active role in its society and development. Financial institutions are one of the pillars of society and their role is to help our customers, both individuals and companies, reach their goals. Arion Bank places great importance on doing things fairly with the interests of its customers, employees, shareholders and the community at heart.

In 2017 the Bank continued to implement its policy on sustainability, which was approved by the Board of Directors in late 2016 and presented to employees. The policy is entitled *Together we make good things happen*. In late 2017 Arion Bank became a signatory to the United Nations Principles on Responsible Investment (UN PRI) and since 2016 has been a signatory to the UN Global Compact. Arion Bank is also governed by the provisions of the Annual Accounts Act on non-financial reporting, which, among other things, covers the status and influence of the Bank in respect of environmental, social and human resources issues.

Further information can be found in the Bank's annual report.

Board of Directors and committees

The main duty of the Board of Directors of Arion Bank is to manage the Bank between shareholders' meetings according to applicable laws, 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's work, duties and role are defined in detail in the rules of procedure of the Board of Directors, which have been established on the basis of Article 54 of the Financial Undertakings Act, Article 70 of the Public Limited Companies Act No. 2/1995, FME Guidelines No. 1/2010, and the articles of association of the Bank. The rules of procedure of the Board of Directors can be found on the Bank's [website](#).

The Board of Directors appoints a Chief Executive Officer who is responsible for the day-to-day operations in accordance with a strategy set out by the Board. The Board of Directors and the Chief Executive Officer shall carry out their duties with integrity and ensure that the Bank is run in a sound and reasonable manner in the interests of the customers, the community, the shareholders and the Bank itself, cf. Article 1 (1) of the Financial Undertakings Act. The Chief Executive Officer shall ensure that the Board receives sufficient support to carry out its duties.

The Board of Directors is generally elected for a term of one year at the Bank's annual general meeting. At Arion Bank's annual general meeting on 9 March 2017, eight Directors and three Alternates were elected to the Board of Directors. At the Bank's shareholders' meeting on 23 June 2017 Eva Cederbalk was elected to replace Monica Canemen on the Board and Thórarinn Thorgeirsson replaced Björg Arnardóttir as an Alternate. Furthermore, Steinunn Kristín Thórdardóttir replaced Guðrún Johnsen on the Board when she was elected at a shareholders' meeting on 30 November.

Kaupskil, the Bank's majority shareholder appoints six out of eight Board members, Attestor Capital appoints one Board member and the Icelandic state appoints the eighth member. When electing the Board care is taken to ensure at least 40% representation of each gender among directors and alternates. Currently the Board consists of four men and four women and the Chairman is a woman. The elected Board Directors have diverse backgrounds and extensive skills, experience and expertise.

Information on the independence of Directors was sent to shareholders before the shareholders' and annual general meeting and the information was published on the Bank's website before the annual general meeting. The minutes of the AGM and shareholders' meetings are sent to shareholders following the meeting but have not been published on the Bank's website because of the shareholder structure.

The Board of Directors meets at least ten times a year. In 2017 the Board met on 16 occasions. The Chairman of the Board is responsible for ensuring that the Board performs its role in an efficient and organized manner. The Chairman chairs Board meetings and ensures that there is enough time 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.

According to the Board's Rules of Procedure the Board is permitted to establish committees to discuss particular areas of the Bank's operations. At the first scheduled 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 Committee, Heimir Thorsteinsson, is not a Board Director and is independent of the Bank and its shareholders. Heimir replaced Lúdvík Karl Tómasson in the Board Audit Committee when Lúdvík resigned from the Board Audit and Board Risk Committee in May 2017.

The Board sub-committees are as follows:

- Board Audit Committee: Its main task is, inter alia, to try and guarantee the quality of the financial statement and other financial information from the Bank and the independence of its auditors.

- Board Risk Committee: The Committee's main role is, inter alia, to evaluate the Bank's risk policy and risk appetite and to have a thorough knowledge of the risk assessments and methods used to manage risk employed by the Bank.
- Board Credit Committee: Its main task is to attend to credit issues which exceed the credit limits of its sub-committees.
- Board Remuneration Committee: The Committee's main task is to advise the Board on the terms of remuneration to the Chief Executive Officer and other employees hired directly by the Board. Regular tasks at committee meetings are to review the remuneration policy, the human resources policy, salary distribution and the incentive system if one is in place. The Bank's remuneration policy shall be examined and approved by a shareholders' meeting annually.

Sub-committees regularly inform the Board of their activities. Furthermore, the Board has access to all material used by the sub-committees and their minutes.

The Board Audit Committee met eight times during the year, the Board Risk Committee met 10 times, the Board Credit Committee met 16 times and the Board Remuneration Committee met five times. Below is an overview of the attendance of individual Directors and committee member:

Director	Period	Board (16)	BAC (8)	BRIC (10)	BCC (16)	BRC (5)
Monica Caneman ⁽¹⁾	1 Jan - 10 May	6	-	-	4	-
Eva Cederbalk ⁽²⁾	23 June - 31 Dec	8	-	-	5	-
Guðrún Johnsen ⁽³⁾	1 Jan - 29 Nov	14	-	8	11	2
Brynjólfur Bjarnason	1 Jan - 31 Dec	14	8	-	14	-
Benedikt Olgeirsson ⁽⁴⁾	1 Jan - 9 March	3	-	3	3	-
Jakob M. Ásmundsson ⁽⁵⁾	9 March - 31 Dec	11	-	4	-	-
John P. Madden ⁽⁶⁾	1 Jan - 31 Dec	16	-	4	-	1
Kirstín Th. Flygenring	1 Jan - 31 Dec	16	7	-	-	4
Måns Höglund	1 Jan - 31 Dec	16	-	10	14	-
Steinunn Kr. Thórdardóttir ⁽⁷⁾	30 Nov - 31 Dec	1	-	-	-	-
Thóra Hallgrímsdóttir	1 Jan - 31 Dec	14	8	-	-	5
Björg Arnardóttir ⁽⁸⁾	1 Jan - 19 June	-	-	-	-	-
Ólafur Ö. Svansson ⁽⁹⁾	1 Jan - 31 Dec	3	-	-	-	-
Sigurbjörg Á. Jónsdóttir	1 Jan - 31 Dec	-	-	-	-	-
Thórarinn Thorgeirsson ⁽¹⁰⁾	23 June - 31 Dec	-	-	-	-	-
Heimir Thorsteinsson	26 July - 31 Dec	-	4	-	-	-
Lúdvík K. Tómasson ⁽¹¹⁾	1 Jan - 8 May	-	3	5	-	-

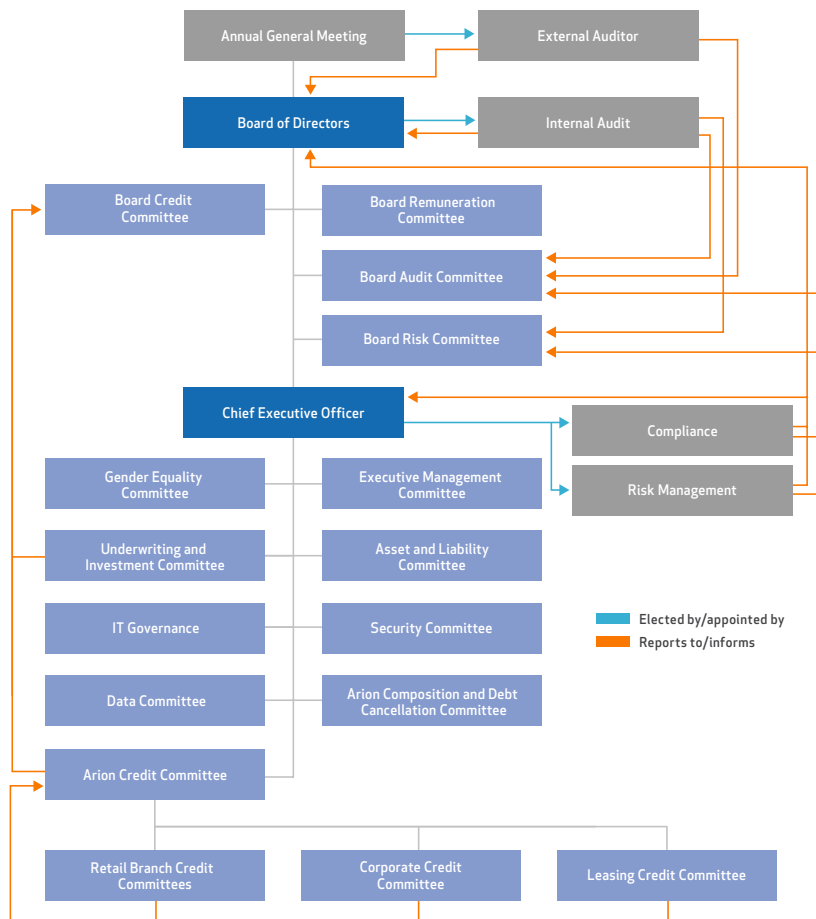
The Board and its sub-committees carry out an annual performance appraisal, at which it assesses its work, the necessary number of Board Directors, the Board composition with respect to experience and skills, working procedures and methods, the performance of the CEO, their achievements and the work of the subcommittees with respect to the aforementioned. This appraisal was last performed by the Board and its sub-committees during the period 15 December 2017 to 18 January 2018.

⁽¹⁾ Monica Caneman resigned from the Board on 10 May. ⁽²⁾ Eva Cederbalk was elected to the Board at the Bank's shareholders' meeting on 23 June and appointed to the Board Credit Committee in December. ⁽³⁾ Guðrún Johnsen resigned from the Board Remuneration Committee in April and was appointed to the Board Credit Committee at the same time. Guðrún resigned from the Board and the Board Credit Committee on 29 November. ⁽⁴⁾ Benedikt Olgeirsson resigned from the Board on 9 March. ⁽⁵⁾ Jakob M. Ásmundsson was elected to the Board at the Bank's annual general meeting on 9 March and appointed to the Board Risk Committee in June. ⁽⁶⁾ John P. Madden was appointed to the Board Risk Committee and Board Remuneration Committee in April. ⁽⁷⁾ Steinunn Kr. Thórdardóttir was elected as Director at the Bank's shareholders' meeting on 30 November. ⁽⁸⁾ Björg Arnardóttir resigned as an Alternate on 19 June. ⁽⁹⁾ Ólafur Ö. Svansson attended two Board meetings as an alternate for Jakob M. Ásmundsson and one Board meeting as an alternate for Monica Caneman. ⁽¹⁰⁾ Thórarinn Thorgeirsson was elected as an Alternate at a shareholders' meeting on 23 June. ⁽¹¹⁾ Lúdvík K. Tómasson resigned from the Board Audit Committee and Board Risk Committee in May and Heimir Thorsteinsson took his place at the Board Audit Committee in July.

The Board of Directors of Arion bank



ARION BANK GOVERNANCE OVERVIEW



Eva Cederbalk, Chairman



Eva was born in 1952. She is Swedish and lives in Sweden. She was first elected as a Director at a shareholders' meeting on 23 June 2017. She is not a shareholder of Arion Bank and is an independent Director. Eva is Chairman of the Board of Directors and the Chairman of the Board Credit Committee. Eva has an MSc in economics from the Stockholm School of Economics.

She is currently chief executive officer of Cederbalk Consulting AB. Eva previously worked for Skandinaviska Enskilda Banken AB and If Skadeförsäkring AB. She was CEO of Netgiro Systems AB and SBAB Bank AB and managing director at and Dial Försäkring AB. She has served on numerous boards of directors and was chairman of Klarna AB and was a director at Gimi AB between and Íslandsbanki. Eva is currently a member of the board of directors of Bilja AB, National Bank of Greece Group, Svolder and Ikano Group S.A.

Brynjólfur Bjarnason, Vice Chairman



Brynjólfur was born in 1946. He was first elected as a Director at a shareholders' meeting on 20 November 2014. He is not a shareholder of Arion Bank and is an independent Director. Brynjólfur is Chairman of the Board Audit Committee and a member of the Board Credit Committee. Brynjólfur graduated with an MBA from the University of Minnesota in 1973 and a cand. oecon. degree in business studies from the University of Iceland in 1971. Brynjólfur currently serves on several boards.

Brynjólfur previously worked as the managing director of the Enterprise Investment Fund and as the CEO of Skipti, Síminn and Grandi hf. He has also worked as managing director of the publisher AB bókaútgáfa and was head of the economics department of VSÍ. Brynjólfur has broad experience as a director and has served on numerous boards and been chairman of several.

Jakob M. Ásmundsson



Jakob was born in 1975. He was first elected as a Director at the Bank's annual general shareholders' meeting on 9 March 2017. He is not a shareholder of Arion Bank and is an independent Director. Jakob is a member of the Board Risk Committee. Jakob was awarded a PhD in industrial engineering in 2002 from Purdue University and gained an MSc in the same subject in 2000 from the University of Illinois at Urbana-Champaign. Jakob received a BSc in mechanical and industrial engineering from the University of Iceland in 1998.

Jakob is currently an assistant professor of finance at the University of Iceland. He previously worked for Straumur Investment Bank, first as chief financial officer and then as CEO. Before that he was chief financial & operating officer at ALMC hf. and chief risk officer at Straumur-Burðarás Investment Bank. Jakob also worked at Intel Corporation. He was a board member at the Icelandic Financial Services Association from 2013 to 2015 and is currently a board member at Solid Clouds ehf. and Jakás ehf. and a member of the examination committee on securities trading.

John P. Madden



John P. Madden was born in 1973. John is a dual US and British citizen and he lives in the United Kingdom. He was first elected as a Director at a shareholders' meeting on 15 September 2016. He is not a shareholder

of Arion Bank and is a dependent Director. John is a member of the Board Risk Committee and Board Remuneration Committee. He gained a BA in political economy from Williams College in Massachusetts in 1996.

John is a managing director at Kaupthing ehf., which is the majority shareholder of Arion Bank through its subsidiary Kaupskil ehf. He has also worked at BC Partners, Arle, ICG since 2014. Previously John worked at Arcapita, first in the United States, then in the United Kingdom. Prior to that he was at Lehman Brothers, New York. John is currently on the board of directors at Fairhold Securitisation Limited and Noreco.

Kirstín Th. Flygenring



Kirstín was born in 1955. She was first elected to the Board as an Alternate at a shareholders' meeting on 22 March 2012. She was elected to the Board as a Director at the Bank's annual general meeting on 20 March 2014. She is not a shareholder of Arion Bank and is an independent Director. Kirstín is a member of the Board Audit Committee and the Board Remuneration Committee. Kirstín completed an MA in economics from Northwestern University in Illinois in 1983. In 1980 she graduated with a cand. oecon. degree from the University of Iceland. She has completed a course in practical media studies at the University of Iceland and gained a diploma in European competition law from Kings College London.

Kirstín currently works as an independent consultant. She has previously served as a member of the Icelandic parliament's investigative committee on the Housing Financing Fund and has worked as a part-time lecturer and adjunct at the University of Iceland, specialist at the Institute for Research in Finance and Economics at Reykjavík University and as an economist at the National Economic Institute, the Department of Economics at the Central Bank of Iceland, and for the OECD. Kirstín has also held several positions on boards and committees and has served on the Post and Telecommunications Arbitration Committee since 2008.

Måns Höglund

Måns was born in 1951. He is Swedish and lives in Portugal. He was first elected as a Director at Arion Bank's Annual General Meeting on 24 March 2011. He is not a shareholder of Arion Bank and is an independent Director. Måns is Chairman of the Board Risk Committee and a member of the Board Credit Committee. He graduated with a BSc in business and economics from the Stockholm School of Economics in 1975.

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



Unibank as head of the Sweden operation and Nordea as Head of Private Banking, Sweden as well as Swedbank where his roles included being head of the corporate division. Måns worked at Götabanken in London and Stockholm and had various positions at Hambros Bank in London. Måns has also worked as a lecturer and researcher at the Stockholm School of Economics.

Steinunn Kristín Thórdardóttir



Steinunn was born in 1972. She was first elected as a Director at a shareholders' meeting on 30 November 2017. She is not a shareholder of Arion Bank and is an independent Director. Steinunn has a Master degree in international management from Thunderbird, Arizona and a BA in international business and politics from University of South Carolina.

Steinunn was previously a partner and CEO of Beringer Finance Norway and global head of food and seafood. She founded Akton AS, a management consulting company in Norway where she worked as a managing director until 2015. Steinunn worked at Íslandsbanki (later Glitnir) as executive director of International Corporate Credit and later as managing director and head of the bank's UK operations. Steinunn was previously a board member of Silver Green AS and Silver Green TC AS in Norway, Versobank AS in Estonia, board member of the Icelandic State Financial Investment (ISFI) and alternate board member at Kredittbanken, later Glitnir Norway. Steinunn is currently a member of Exedra, a discussion forum for women in leadership in various sectors, as well as a board member of Cloud Insurance AS, Acton Capital AS, Akton AS and the British-Icelandic Chamber of Commerce and vice chairman of the Norwegian-Icelandic Chamber of Commerce.

Thóra Hallgrímsdóttir

Thóra was born in 1974. She was first elected as an Alternate Director at a shareholders' meeting on 24 March 2011. She was elected as a Director at a shareholders' meeting on 21 March 2013. She is not a shareholder of Arion Bank and is an independent Director. Thóra is a member of the



Board Audit Committee and the Board Remuneration Committee. Thóra completed an MA in law at the University of Iceland in 2000 and qualified as an attorney to the district court in 2002. Since 2011 she has worked as a specialist in the faculty of law at Reykjavík University in insurance law, contract law and law of tort.

Before that Thóra worked as a lawyer for two Icelandic insurance companies: Tryggingamidstöðin hf. and Sjóvá-Almennar tryggingar hf. Thóra is currently a board member of the rehabilitation fund Virk-Starfsendurhæfingarsjóður ses. and the Association of Icelandic Lawyers and is the CEO for the Icelandic Law Journal (Tímarit Lögfræðinga). Thóra serves as chairman of the insurance complaints committee chairman of the seamen and fishermen's arbitration committee and chairman of the committee on reimbursement for film production..

Alternate directors:

Ólafur Örn Svansson, Supreme Court attorney, Sigurbjörg Ásta Jónsdóttir, lawyer and Thórarinn Thorgeirsson, attorney at law.

More information on the Board of Directors can be found on the Bank's [website](#).

Communications between the Shareholders and the Board of Directors

The Bank's ownership underwent a change in March when Kaupskil reduced its holding by almost 30%. Four new shareholders came on board: three international investment funds and Goldman Sachs. At the end of 2017 Kaupthing ehf., through its subsidiary Kaupskil ehf., held 57.41% of the shares in Arion Bank hf. Kaupskil ehf. also controlled the 9.99% shareholding of Taconic Capital Advisors UK LLP through TCA New Sidecar III S.A.R.L. and 6.58% shareholding of Sculptor Investments S.A.R.L., an affiliated entity of Och-Ziff Capital Management Group. The remaining shareholding was held by the Icelandic State Financial Investments which held 13.00% on behalf of the Icelandic government, Attestor Capital LLP through Trinity Investment Designated Activity Company held 10.44% and Goldman Sachs International through ELQ Investors II Ltd. held 2.57%.

The main venue at which the Board and the Bank report information to the shareholders is at legally convened shareholders' meetings. The Bank provides an effective and accessible arrangement for communications between shareholders and the Board of Directors between those meetings. Shareholders have, at the Board's request, also arranged quarterly meetings at which the Chief Executive Officer presents the interim financial results.

Chief Executive Officer

Höskuldur H. Ólafsson

Höskuldur was born in 1959. He was appointed CEO of Arion Bank in June 2010. Höskuldur is not a shareholder of Arion Bank and no stock option agreements have been entered into with him. Höskuldur joined the Bank from Valitor hf. where he had been CEO since 2006. 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 graduated with a cand. oec. degree in business administration from the University of Iceland in 1987. The CEO and the executive committee carry out the Bank's daily operations in accordance with a strategy set out by the Board. The CEO shall 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 duties responsibilities and duties of the CEO please refer to Chapter VII of the Financial Undertakings Act and Chapter IX of the Public Limited Companies Act. The duties of the CEO and his responsibilities take into account the legal environment in which the Bank operates at any given time and the rules which the Board of Directors may establish. Executive Committee

Executive Committee

The Bank's Executive Committee consists of ten people, including the CEO, Höskuldur H. Ólafsson; Freyr Thórdarson, Managing Director of Corporate Banking, Gísli S. Óttarsson, Chief Risk Officer, Ida Brá Benediktsdóttir, Managing Director of Retail Banking, Lýður Thór Thorgeirsson, Managing Director of Investment Banking, Jónína S. Lárusdóttir, Managing Director of Legal Division, Margrét Sveinsdóttir, Managing Director of Asset Management, Rakef Óttarsdóttir, Managing Director of IT Stefán Pétursson, Chief Financial Officer and Sture Stölen, Head of Investor Relations.

More information on the Executive Committee can be found on the Bank's [website](#).

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 legal cases relating to Arion Bank can be found in the notes to the annual financial statement.

The Board of Directors annually reviews and approves the Corporate Governance Statement.

This Corporate Governance Statement was examined and approved at a meeting of the Board of Directors on 14 February 2018.