

CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

This Corporate Governance Statement is designed to help promote open and honest relations between the Board of Directors, shareholders and other stakeholders, such as the Bank's employees, its customers and the general public.

LEGAL AND REGULATORY FRAMEWORK

The Corporate Governance Statement of Arion Bank hf. (Arion Bank or the Bank) is based on the legislation, regulations and recognized guidelines in force when the Bank's annual accounts are adopted by the Board of Directors. This statement has been prepared in accordance with Article 19 (3) of Act No. 161/2002, on Financial Undertakings, 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; nominations to the Board of Directors before the Bank's AGM have been the responsibility of the Bank's shareholders.

Arion Bank is a financial company 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 a regulated securities market, both in Iceland and in Luxembourg, and is therefore subject to the disclosure requirements of issuers pursuant to the Financial Undertakings Act No. 108/2007 and the rules of the stock exchanges in Luxembourg and Iceland.

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

Arion Bank manages its risk according to internal policies, principles 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, which reports its findings regularly to the Board. The Board is responsible for the Bank's internal capital adequacy assessment process, the main objective of which is to ensure that the Bank understands its risk profile and has systems in place to assess, quantify and monitor its total risk exposure.

Arion 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 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 approves and endorses the accounts.

CODE OF ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Arion Bank promotes high ethical standards in its work and is conscious of the fact that its operations affect different stakeholders and society at large. Its written code of ethics is designed to serve as a key to responsible decision-making at the Bank. The code of ethics is applied by the Board of Directors, the Bank's management and other employees of the Bank. It is the responsibility of the CEO to make sure that they are followed.

One of the fundamental principles of corporate social responsibility is to align the interests of companies with those of the wider community. Arion Bank places great importance on being a responsible member of Icelandic society and an active participant in its development. A core aspect in corporate social responsibility at the Bank is the focus on carrying out the Bank's duties conscientiously, and ensuring that its customers receive first-rate

services, while at the same time keeping in mind the interests of the society as a whole. In addition the Bank supports a select number of causes which it believes benefit and strengthen the community.

Arion Bank focuses on supporting social issues, environmental issues, research and innovation, sports and health issues and cultural issues. Many of these projects are ongoing and most of them require the active participation of the Bank's employees. This is the key to achieving results.

BOARD OF DIRECTORS AND COMMITTEES

At Arion Bank's last annual general meeting six people were elected to the Board of Directors and six alternate members were also elected. The elected Board Directors have diverse backgrounds and a broad range of skills, experience and expertise.

In 2011 the Board of Directors held 17 meetings. At three meetings a Director was unable to attend the meeting at very short notice and it was not possible to get an Alternate to attend instead. On one occasion a Board Member was unable to attend and an Alternate was called in instead.

In 2011 the Board Credit Committee held 15 meetings. A Director was unable to attend at four meetings. In 2011 the Board Audit and Risk Committee held eight meetings. A Director was unable to attend at two meetings. In 2011 the Board Remuneration Committee held eight meetings. There was no absence at its meetings. The following people are on the Board of Directors of Arion Bank:

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 in Arion Bank and is an independent Director. Monica is also Chairman of the Board Credit Committee.

Gudrún Johnsen, Vice Chairman

Gudrún was born in 1973 and lives in Iceland. She was first elected as a Director at a shareholders' meeting on 18 March 2010. She is not a shareholder in 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.

Agnar Kofoed-Hansen

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

Freyr Thórdarson

Freyr was born in 1973 and lives in Iceland. He was first elected as a Director at an Annual General Meeting on 22 March 2012. He is not a shareholder in Arion Bank Freyr is a member of the Board Credit Committee.

Jón G. Briem

Jón was born in 1948 and lives in Iceland. He was first elected as an Alternate Director at an Annual General Meeting on 20 May 2010. He was elected as a Director at an Annual General 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.

Måns Höglund

Måns was born in 1951. He is Swedish and lives in Portugal. He was first elected as a Director at an Annual General 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. More information on the individual Board Directors can be found on Arion Bank's website, www.arionbanki.is.

THE ALTERNATES ARE:

Björg Arnardóttir, Guðjón Ólafur Jónsson, Gudrún Björnsdóttir, Hrönn Ingólfssdóttir, Kirstín Th. Flygenring, and Thóra Hallgrímsdóttir.

The main duties of the Board of Directors of Arion Bank are to manage the Bank between shareholders' meetings as further described in the law, regulations and articles of association. The Board is responsible for 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 subcommittees follow 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 of Directors and the CEO shall carry out their duties with integrity and ensure that Arion 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 of Directors following the Annual General Meeting the Board appoints committees from among its members and assesses whether it is necessary to appoint external members to certain committees in order to bring in a greater level of expertise. The Board's subcommittees are made up of Board Directors who are appointed by the Board of Directors at the first Board meeting after Arion Bank's AGM. It should be noted that one committee member of the Board Audit and Risk Committee is not a Board Director and is independent of both the Bank and its major shareholders. Today the Board's subcommittees are the Board Audit and Risk Committee, the Board Remuneration Committee and the Board Credit Committee. The Board of Directors carries out annual performance appraisals, at which it assesses its work and its results during the year, as well of those of its subcommittees. The most recent appraisal was performed at its meeting on 2 September 2011.

CHIEF EXECUTIVE OFFICER

The CEO of Arion Bank is Höskuldur H. Ólafsson. Höskuldur was born in 1959 and graduated with a cand. oecon. degree in business administration from the University of Iceland. He took over as CEO in June 2010. Höskuldur has extensive management experience. He was previously the CEO of Valitor hf. - VISA Ísland and worked for Eimskip for 17 years, where his roles included Deputy CEO. Höskuldur is not a shareholder in the Bank and he has no stock options with the Bank. More information on Höskuldur can be found on the Bank's website, www.arionbanki.is. The CEO is responsible for the day-to-day operations of the Bank and the implementation the Board's strategy, internal organization and coordination, relations with other financial institutions and authorities, HR, 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 of the CEO and his responsibilities take into account 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 acquired the majority of the share capital in Fram Foods in 2010 and the Competition Authority announced that the acquisition may contravene competition law. The Competition Authority issued its decision on 9 May 2011 and stated that the acquisition disrupted competition and that it would be necessary to impose certain conditions on the merger. The Bank agreed to abide by these conditions and signed an settlement to that effect.

On 22 June 2011 the Data Protection Authority ruled that Arion Bank was not permitted to record the identity number of counterparties in the sale of foreign exchange in transactions of less than €1,000 and the Bank was required to change its procedures. Under the Act on Measures against Money Laundering and Terrorist Financing the Bank is obliged to perform due diligence on clients and to obtain information on the ID number when foreign exchange of a value of more than €1,000 is bought or sold. The Bank changed its procedures accordingly. Information on other issues relating to Arion Bank can be found in the notes to the Bank's annual financial statement.

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

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 between legally convened shareholders' meetings, which are the main venue at which the Board and Arion 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 CEO.

This Corporate Governance Statement was reviewed and approved by the Board of Directors at its meeting on 16 April 2012.