

# CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

---

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 lasting value.

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 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.

## LEGAL AND REGULATORY FRAMEWORK

Arion Bank is a financial institution which operates in accordance with 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 in Iceland, Norway and 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 relevant stock exchanges.

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

## INTERNAL CONTROLS, AUDITING AND ACCOUNTING

### **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. Internal Audit had nine employees at the end of 2013.

## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

### **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:

- ◆ 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 No. 108/2007 and the Act on Measures against Money Laundering and Terrorist Financing No. 64/2006.
- ◆ 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 and the Act on Measures against Money Laundering and Terrorist Financing and the Competition Act.
- ◆ To investigate and 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. Compliance had six employees at the end of 2013.

### **Risk Management**

A central feature of the activities of all financial companies 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. 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.

Risk Management is managed by the Chief Risk Officer. The division is an independent unit and reports directly to the CEO. Risk Management comprises five 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 risk report which is published on its website. Risk Management had 28 employees at the end of 2013.

### **Auditing and accounting**

The Bank's Finance division is responsible for preparing the accounts and this

## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

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 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.

### CUSTOMERS' OMBUDSMAN

The Customers' Ombudsman is appointed by the Chief Executive Officer. The role of the Ombudsman is to ensure fairness and objectivity, prevent discrimination against the customer and make certain that the process for handling cases is transparent and documented. The Customers' Ombudsman examined 186 cases in 2013, compared with 268 cases in 2012.

### CORNERSTONES, CODE OF ETHICS AND CSR

Arion Bank's cornerstones are names used to describe its core values. They 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. The cornerstones are: We make a difference. We get things done. 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: innovation, environmental issues, financial education, sports, 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 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 tends to those operations which are not considered part of 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 meets at least ten times a year. The rules of procedure of the Board of Directors and its subcommittees take into account the law and the aforementioned Guidelines on Corporate Governance. The rules of procedure of the Board of Directors can be found on the Bank's

## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

website. In other respects the Board works in accordance with the laws and regulations in effect and its role is defined in detail in the rules of procedure of the Board of Directors, which have been established on the basis of Article 54 (2) of the Financial Undertakings Act, Article 70 (5) of the Public Limited Companies Act No. 2/1995, FME Guidelines No. 1/2010, 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 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 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. The CEO shall ensure that he provides sufficient support to the Board to carry out its duties.

The Board of Directors is elected for a term of one year at the company's annual general meeting. At Arion Bank's last AGM on 21 March 2013, six directors and six alternates were elected to the Board of Directors. The elected Board Directors have diverse backgrounds and extensive skills, experience and expertise. On 13 May Freyr Thórdarson stepped down from the Board. He is now managing director of Corporate Banking. On 18 December Jón G. Briem stepped down from the Board of Directors. Freyr and Jón were replaced at a shareholders' meeting on 18 December by Benedikt Olgeirsson and Björgvin Skúli Sigurdsson.

Information on the independence of Directors was not published on the Bank's website before the AGM on 21 March 2013 because the candidacies were announced late. This information was published on the Bank's website after the meeting. The minutes of the AGM and shareholders' meetings are sent to the shareholders following the meeting but have not been published on the Bank's website because of the current shareholder structure.

In 2013 the Board met on 13 occasions. There were three meetings which certain members were unable to attend. On one occasion a Director announced at short notice that he was unable to attend but he voted at the meeting by e-mail and therefore it was not necessary to summon an Alternate. On another occasion a Director was unable to attend and an Alternate was called in instead.

The Chairman directs and is responsible for the work of the Board. 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.

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 and Risk Committee, Guðjón Guðstafsson, is not a Board Director and is independent of the Bank and its shareholders. The Board sub-committees are as follows:

- ◆ Board Audit and Risk Committee: Its main task is to examine issues concerning auditing and risk which the Board needs to make a decision on. Its regular tasks

## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

include examining reports from internal control divisions, reviewing the risk appetite, examining the annual and interim financial statements to ensure the quality of the information and the independence of the company's auditors.

- ◆ Board Credit Committee: Its main task is to attend to credit, investment and underwriting issues which exceed the credit limits of its sub-committees.
- ◆ Board Remuneration Committee: Its main task is to advise the Board on the terms of remuneration to the CEO and other employees hired by the Board. Regular tasks at committee meetings are to review the remuneration policy, the HR policy, salary distribution and the incentive system if one is in place.

The Board has decided to go further than stipulated in the Guidelines on Corporate Governance with respect to the disclosure requirements of sub-committees. At every meeting the Board receives the minutes of the previous meeting of each sub-committee and is given access to all the information from the meetings of the sub-committees.

In 2013 the Board Credit Committee met on 14 occasions. The Board Audit and Risk Committee met on six occasions. The Board Remuneration Committee met on five occasions. Below is an overview of the attendance of individual Directors:

Director	Period	Board	BARC	BCC	BRC
Monica Caneman	1 Jan - 31 Dec	13		14	
Gudrún Johnsen	1 Jan - 31 Dec	13	6		5
Agnar Kofoed-Hansen	1 Jan - 31 Dec	13		14	5
Benedikt Olgeirsson*	18 Dec - 31 Dec				
Björg Arnardóttir**	23 May - 18 Dec	8		8	
Björgvin Skúli Sigurdsson*	18 Dec - 31 Dec				
Freyr Thórdarson***	1 Jan - 13 May	5		5	
Jón G. Briem	1 Jan - 18 Dec	11	2		5
Máns Höglund	1 Jan - 31 Dec	12	6	12	
Thóra Hallgrímsdóttir****	14 Mar - 31 Dec	10	4		
Ólafur Örn Svansson*****	26 Sep / 22 Oct	2			
Gudjón Gústafsson*****	1 Jan - 31 Dec		5		

\*Benedikt and Björgvin were elected on to the Board at a shareholders' meeting on 18 December 2013. No Board meetings were held in 2013 after 18 December.

\*\*Björg was an Alternate from 1 Jan. She was brought in for Freyr Thórdarson who resigned from the Board on 13 May 2013. She is continuing to perform her duties as an Alternate following a shareholders' meeting on 18 Dec 2013.

\*\*\*Freyr resigned from the Board on 13 May 2013. He is now managing director of Corporate Banking at Arion Bank.

\*\*\*\*Thóra was an Alternate from 1 Jan. She was elected as a Director at the AGM on 21 March 2013.

\*\*\*\*\*Ólafur was an Alternate for Jón G. Briem who was unable to attend two meetings.

\*\*\*\*\*Gudjón is a member of the Board Audit and Risk Committee. He is not a Director.

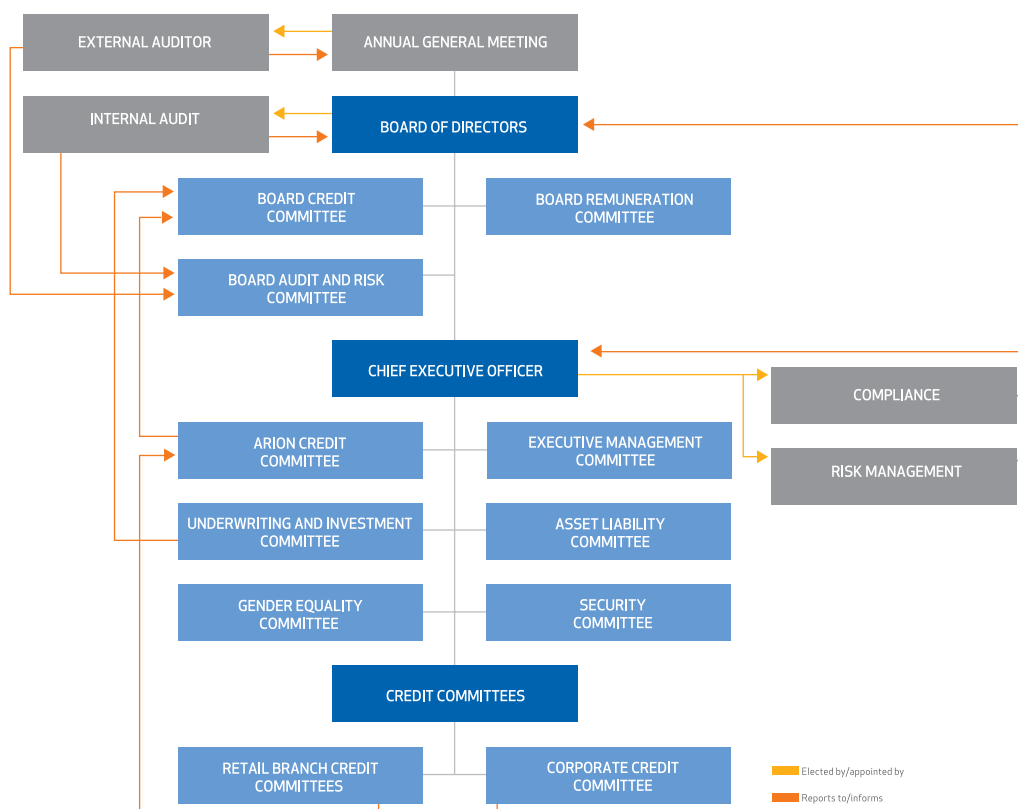
The Board carries out an annual performance evaluation, at which it assesses its work, the necessary number of Board Directors, the Board structure, achievements and work of the sub-committees with respect to the aforementioned. This appraisal was last performed by the Board at its meetings and between meetings during the period 22 October to 11 December. The main conclusion of the appraisal was that the Board agreed that the Board and the CEO were doing a good job, and that the flow of information from the management to the Board was exemplary and that the relationship with the CEO was excellent.

► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.



The Board of Directors from left to right, back row: Benedikt Olgeirsson, Agnar Kofoed-Hansen, Måns Höglund, Thóra Hallgrímsdóttir and Björgvin Skúli Sigurdsson. Front row, left to right: Monica Caneman, Chairman, and Guðrún Johnsen Vice Chairman.

CORPORATE GOVERNANCE STRUCTURE



## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

### THE BOARD OF DIRECTORS

#### 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 with a BSc in business and economics from the Stockholm School of Economics in 1976.

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



#### GUÐRÚN JOHNSEN, VICE CHAIRMAN

Guðrún 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. Guðrún is Chairman of the Board Remuneration Committee and a member of the Board Audit and Risk Committee.

Guðrún completed an MA in applied economics at the University of Michigan, Ann Arbor in the United States in 2002 and gained an MA in statistics from the same university the following year. She graduated with a BA in economics from the University of Iceland in 1999.

Guðrún is currently a lecturer in finance in the faculty of business administration at the University of Iceland. In 2009 and 2010 Guðrún 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. She was assistant professor at Reykjavík University from 2006 to 2013. Between 2004 and 2006 Guðrún worked as a specialist in the Financial Systems Department of the International Monetary Fund (IMF) in Washington DC. She was a teaching and research assistant at the University of Michigan, Ann Arbor from 2002 to 2003. Guðrún worked as a securities broker at the Icelandic Investment Bank (FBA) hf. between 1999 and 2001. She has served on the board of a fund management company of MP Bank hf. and is the current chairman of the research and development company THOR ehf.



#### AGNAR KOFOED-HANSEN

Agnar was born in 1956. He was first elected as an Alternate 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.





## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

Agnar received a BSc 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 Sloan in the United States, including financial analysis, the presentation of management information and marketing. Agnar completed a degree in mechanical and industrial engineering from the University of Iceland in 1981. He is also an authorized securities dealer. In addition he has completed numerous training courses in management and business.

Agnar is now a business and management consultant at Intellecta ehf. He was managing director of finance and IT at HRV ehf. from 2008 to 2013. Between 2000 and 2007 he was managing director of SPRON Factoring hf. From 1989 to 2000 he was 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 worked for Industrial Bank of Iceland hf. as head of the credit department from 1987 to 1989 and was head of sales and marketing at Thróun hf. from 1983 to 1987.

### BENEDIKT OLGEIRSSON

Benedikt was born in 1961. He was first elected as a Director at a shareholders' meeting on 18 December 2013. He is not a shareholder of Arion Bank and is an independent Director.

He gained an MSc in construction engineering and project management at the University of Washington in Seattle in 1987. He has also completed courses in management, business and finance at Wharton Business School and Harvard Business School. Benedikt completed a degree in civil engineering from the University of Iceland in 1986.

Benedikt has been Deputy CEO of Landspítali University Hospital since 2010. Between 2005 and 2009 Benedikt he was managing director of Atorka hf. He was managing director of Parlogis ehf. from 2004 to 2005. He was a manager at Eimskip hf. between 1993 and 2004, most recently as head of Eimskip's hf. operations in Hamburg. Between 1988 and 1992 Benedikt worked as a project manager in civil engineering. He was a board director at Promens hf. from 2005 to 2010. He was also a board director at InterBulk Group, which is listed on the London Stock Exchange, from 2007 to 2010. Benedikt was also chairman of Icepharma hf. and Parlogis ehf. from 2005 to 2007.

### BJÖRGVIN SKÚLI SIGURDSSON

Björgvin was born in 1974. He was first elected as a Director at a shareholders' meeting on 18 December 2013. He is not a shareholder of Arion Bank and is an independent Director.

Björgvin completed a PhD from the Management Science and Engineering Department at Stanford University in 2005. He gained a master's in economics and finance from the same university in 2002. Björgvin completed a degree in mechanical and industrial engineering from the University of Iceland in 1998.

He is currently executive vice president of marketing and business development at Landsvirkjun, the National Power Company of Iceland. Between 2010 and





## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

2013 he worked in credit structuring at Deutsche Bank in London. He then worked at LBHI Services Limited from 2008 to 2010 where he was part of a team unwinding the credit derivatives books of Lehman Brothers. Between 2005 and 2008 Björgvin was a specialist in credit trading at Lehman Brothers in London.

### 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 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.

He graduated with a BSc in business and economics from the Stockholm School of Economics in 1975.

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. In 1999 to 2002 he worked for both Unibank (as head of the Sweden operation) and Nordea (as Head of Private Banking, Sweden). From 1991 to 1999 he worked at Swedbank where his roles included being head of the corporate division. In 1984 he joined 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 1977 to 1984 he worked for Hambros Bank in London, where he was regional director for Iceland and Denmark for two years. He previously worked as a lecturer and researcher at the Stockholm School of Economics.



### THÓRA HALLGRÍMSDÓTTIR

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

Thóra completed a degree 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: for Tryggingamidstöðin hf. from 2000 to 2005 and Sjóvá-Almennar tryggingar hf. from 2005 to 2011. Thóra is currently a board member of the rehabilitation fund Virk-Starfsendurhaefingarsjóður ses, appointed by the Confederation of Icelandic Employers and she is also on the board of the Association of Icelandic Lawyers and CEO for the Icelandic Law Journal (Tímarit Lögfræðinga). Thóra serves as chairman of the insurance complaints committee and chairman of the seamen and fishermen's arbitration committee, appointed by the government.



### ALTERNATE DIRECTORS

Björg Arnardóttir, served as an Alternate from 13 May to 18 December 2013, Bödvar Jónsson, managing director of Byggingafélag Námsmanna, Guðrún

## ► CORPORATE GOVERNANCE STATEMENT OF ARION BANK HF.

Björnsdóttir, managing director of Félagsstofnun stúdenta, Hrönn Ingólfssdóttir, employed by Isavia, Kírstín Th. Flygenring, economist, Ólafur Árnason, divisional head at the engineering company Efla, and Ólafur Örn Svansson, supreme court attorney.

### 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 at the Board's request, 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 and 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 is the chairman of the Icelandic Financial Services Association (SFF) and a board member of the European Banking Federation. Höskuldur graduated with a cand. oecón. degree in business administration from the University of Iceland in 1987.

The Chief Executive Officer is responsible for the daily operations of the Bank. The Chief Executive Officer 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 Chief Executive Officer please refer to Chapter VII of the Financial Undertakings Act and Chapter IX of the Public Limited Companies Act. The duties of the Chief Executive Officer 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..



### 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.

This Corporate Governance Statement was examined and approved by the Board Audit and Risk Committee and the Board of Directors at a meeting on 26 February 2014.