



November 2015

Rules of Procedure for the  
Board of Directors of  
Íslandsbanki hf.

## RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS OF ÍSLANDBANKI HF.

### Table of contents

Chapter I.	General matters .....	3
Article 1.	General.....	3
Article 2.	Independence of Board members .....	3
Article 3.	Board members' disclosure .....	4
Article 4.	Guidance / reception of new board members.....	5
Chapter II.	Division of duties and rules of order .....	5
Article 5.	Election of Chairman and Vice-Chairman .....	5
Article 6.	Role of the Board .....	5
Article 7.	Role of the Board regarding risk management.....	6
Article 8.	Role of the Chairman .....	6
Article 9.	Role of the CEO .....	7
Article 10.	Calling of Board meetings .....	7
Article 11.	Quorum.....	7
Article 12.	Handling of agenda items .....	8
Article 13.	Attendance by non-members .....	8
Article 14.	Treatment of the documents of a meeting .....	8
Article 15.	The Board's minutes .....	8
Article 16.	Specific eligibility.....	9
Article 17.	Signature for the Bank .....	10
Chapter III.	Disclosure and obligation of confidentiality, related parties etc. ....	10
Article 18.	Special disclosure and definition of important risk factors .....	10
Article 19.	Obligation of confidentiality .....	11
Article 20.	Related parties .....	11
Article 21.	Related party transactions.....	12
Chapter IV.	Participation of employees in business operations .....	12
Article 22.	The CEO's participation in business operations.....	12
Article 23.	Other employees' participation in business operations .....	12
Chapter V.	Performance assessment .....	13
Article 24.	Performance assessment.....	13
Chapter VI.	Subcommittees .....	14
Article 25.	Audit Committee.....	14
Article 26.	Risk Management Committee .....	14
Article 27.	Establishment of other subcommittees.....	15
Chapter VII.	Board membership in subsidiaries.....	15
Article 28.	Subsidiary Board members .....	15

## Version history

Version	Amendments	Amended by	Date	Reviewed or signed off by	Date
3.0	Third version for approval	Tómas Sigurðsson/Anna Þóra Þrastardóttir	5.11.2015	Board of Directors	11.11.2015
2.0	Second version for approval	Tómas Sigurðsson/Dagmar Þórðardóttir	27.08.2013	Board of Directors	27.08.2013
1.0	First version for approval	Tómas Sigurðsson/Árni Huldar Sveinbjörnsson	27.06.2012	Board of Directors	27.06.2012

## Chapter I. GENERAL MATTERS

### Article 1. General

- 1.1. These Rules are established on the basis of Article 70 of Act No. 2/1995 on public limited companies and Article 54 of Act No. 161/2002 on financial undertakings.
- 1.2. The Boards Rules of Procedure are available in an Icelandic translation. In case of any inconsistency the English version shall prevail.
- 1.3. The Board of Directors is the supreme authority in the affairs of the Bank between shareholders' meetings according to Act No. 2/1995 on public limited companies and the Bank's Articles of Association. The Board shall contribute to the Bank's prosperity and oversee its overall operations in addition to supervising the persons responsible for the Bank's day-to-day operations. The Board shall ensure that the Bank's operations are in compliance with the laws and regulations governing its activities as well as the rules established by the Board regarding the Bank's activities.
- 1.4. The Board shall set the Bank's policy, and the managing director, hereinafter referred to as the CEO, is responsible for managing operations in accordance with the established policy and decisions of the Board. The Board of Directors shall not, as a rule, be involved in decisions regarding the Bank's individual business dealings unless the business is substantial in relation to the Bank's balance sheet. Individual Board members must not involve themselves in decisions on individual dealings.
- 1.5. The Board's work is in general to be carried out at meetings of the Board. In case of communication between Board members and/or the Bank's CEO or executive directors of the Bank outside of Board meetings regarding decisions taken by the Board or the grounds for such decisions this shall be disclosed at the start of the following meeting of the Board and recorded in the Board's minutes.

### Article 2. Independence of Board members

- 2.1. Every effort shall be made to ensure that the majority of the Board is independent from the Bank and that at least two Board members are independent from large shareholders controlling at least 10% of the Bank's total share capital, either alone or jointly with closely related parties. A Board member is not deemed to be independent from the Bank if any of the following applies:
  - 2.1.1. The Board member is or has been an employee of the Bank, or a company closely related<sup>1</sup> to the Bank, during the three years prior to the commencement of Board membership.
  - 2.1.2. The Board member has received substantial payments from the Bank or a party closely related to the Bank or its senior management other than his/her remuneration for being on the Board, e.g. as a consultant or contractor, in the three years prior to commencement of Board membership.

---

<sup>1</sup> This refers to if the Bank controls at least 10% of the total share capital or weight of votes in the company, alone or in co-operation with associated parties. If the Bank controls 50% or more of the total share capital or weight of votes in another company then it shall be considered to have indirect control of the latter company's shares in other companies.

- 2.1.3. The Board member is a senior manager in another company which has considerable dealings with the Bank.
  - 2.1.4. The Board member is a senior manager in another company where one of the Bank's senior managers serves as Board member.
  - 2.1.5. The Board member is, or has been the past year, in significant business with the Bank or closely related companies, e.g. as a customer, supplier or partner, or if the Board member has other significant business interests in the Bank, whether personally or through another company.
  - 2.1.6. The Board member is, or has been, in the past three years prior to taking a seat on the Board, a partner of the external auditor, a closely related company, or an employee who has taken part in the external audit of the Bank.
  - 2.1.7. The Board member has close family ties with any of the Bank's senior management, or any other persons mentioned above and that person is in direct or indirect business with the Bank of such a proportion that the director should not be considered independent
  - 2.1.8. The Board is aware of any other issues where there may be considerable overlap between the interests of Board members and of the Bank.
- 2.2. A Board member is not deemed to be independent from the Bank's significant shareholders<sup>2</sup> if any of the following applies:
- 2.2.1. The Board member has direct or indirect control of the Bank, is a board member in a company which has control of the Bank or is in such a relationship, cf. items 2.1.1., 2.1.2. and 2.1.7. above, with a party who owns a significant share in the Bank.<sup>3</sup>
- 2.3. The Board itself shall assess whether a Board member is independent from the Bank and/or large shareholders of the Bank and detail its findings in the Bank's annual report. If the majority of the Board is not independent from the Bank, this shall be especially noted in the Bank's annual report.

### Article 3. **Board members' disclosure**

- 3.1. In order to enable the Board to assess the independence of Board members in accordance with Article 2 of these Rules of Procedure, both principal and alternate Board members shall provide any information deemed necessary by the Board for conducting such assessment. Board members shall furthermore notify the Board as soon as possible of any changes in their circumstances which might influence the Board's assessment of their independence.
- 3.2. The Bank's annual report and/or corporate governance statement shall include the following information on Board members:
  - 3.2.1. Name and year of birth.
  - 3.2.2. Education.
  - 3.2.3. Principal occupation.
  - 3.2.4. Professional experience.
  - 3.2.5. The date on which the Board member in question was first elected to the Bank's Board.

---

<sup>2</sup> A significant shareholder is anyone who controls at least 10% of the total share capital or weight of votes in the Bank, alone or in co-operation with associated parties.

<sup>3</sup> Significant shareholding means shares representing at least 10% of the Bank's share capital, its cash funds or particular classes of shares in the Bank, irrespective of whether the share is owned by a Director of the Board or other parties associated with him/her.

- 3.2.6. Other commissions of trust, including Board membership in other companies.
- 3.2.7. Direct and indirect holdings in the Bank.
- 3.2.8. Information on work carried out for the Bank
- 3.2.9. Whether the Board member in question has agreed call or put options with the Bank.
- 3.2.10. Connections with the Bank's main clients and competitors and major shareholders in the Bank as well as other relevant connections with the Bank.
- 3.2.11. Evaluations of whether the Director is considered independent.

**Article 4. Guidance / reception of new board members**

- 4.1. When a new board member enters the Board the Chairman or the secretary of the Board shall ensure that new board members receive the necessary information and guidance of the Board practices and the affairs of the Bank; including strategy, objectives and operations.
- 4.2. Efforts shall be made for new board members to receive appropriate guidance on key aspects of management in companies, such as the statutory duties and responsibilities.
- 4.3. A list of the necessary information and guidance to be provided to new board members can be found in Annex I to these Rules of Procedure.

**Chapter II. DIVISION OF DUTIES AND RULES OF ORDER**

**Article 5. Election of Chairman and Vice-Chairman**

- 5.1. The Chairman of the Board shall be elected in shareholder meetings, cf. the Bank's Articles of Association. The Board shall elect the Vice-Chairman of the Board. The Chairman of the Board shall preside over the election of the Vice-Chairman. Election to the position of Vice-Chairman shall be decided by a simple majority. In the event of an equality of votes the Chairman shall have the deciding vote. The Chairman of the Board shall represent the Board of Directors of the Bank in external relations; the Vice-Chairman shall assume this duty in the Chairman's absence.

**Article 6. Role of the Board**

- 6.1. The Board shall set the Bank's general strategy and instructs the CEO on its implementation and execution. The Board has a supervisory role in that it oversees that the Bank's organisation and activities are at all times in accordance with the relevant law, regulations and good business practices. The Board shall moreover monitor the execution of its policies, the sound control of accounting and financial management, and ensure that Internal Audit, Compliance and Risk Management are effective at all times.
- 6.2. The Board is responsible for actions of the Bank which are extraordinary or of major importance. The Good Governance Policy– Matrix for Material Bank Actions defines material bank actions handled by the Board.
- 6.3. Members of the Board shall acquaint themselves with laws and regulations relevant to the operation of the Bank and have a good understanding of their duties and responsibilities as members of the Board. In its work for the Board, members shall act with honesty, integrity and professionalism and be independent in thought to be able to effectively evaluate, challenge and monitor the CEO's decision-making.

- 6.4. In order to be able to carry out its duties in a diligent manner the Board is authorized to purchase advisory services from independent experts, at the Bank's expense, in major and/or complex matters.

**Article 7. Role of the Board regarding risk management**

- 7.1. The Board shall approve the risk policy, risk appetite and procedures for risk management, and ensure that internal procedures for risk management are revised at least annually. The Board shall devote adequate time to discuss the major risks facing the Bank. The Board shall ensure that adequate time and resources are spent on effective risk management and risk assessment to ensure that the Bank has an overview of major risk factors. Furthermore, the Board shall, when applicable, monitor the evaluation of the Bank's assets, the use of internal models and the use of estimates from credit rating agencies.
- 7.2. The Board's subcommittee, Risk Management Committee, cf. Article 26, shall manage a part or all of the responsibilities stated above.

**Article 8. Role of the Chairman**

- 8.1. The Chairman is responsible for the Board carrying out its role effectively and in an organized manner as well as acting as its facilitator and guide.
- 8.2. The main tasks of the Chairman of the Board are the following:
- 8.2.1. Calling of meetings of the Board;
  - 8.2.2. Organizing the agenda for the meetings of the Board in partnership with the CEO, and supervising their convening and chairing.
  - 8.2.3. Allowing ample time for discussions and decision making, in particular with respect to larger and more complicated matters;
  - 8.2.4. Encouraging active participation of members of the Board in discussions and decision making of the Board;
  - 8.2.5. Responsibility for the communication between the Board and its shareholders and informing the Board of the shareholders' point of view;
  - 8.2.6. Acting as the Board's spokesperson towards the media, shareholders and other stakeholders;
  - 8.2.7. Ensuring new members of the Board receive the necessary information and guidance in the procedures of the Board and the Bank's affairs, including the Bank's policies, objectives, risk parameters and operations;
  - 8.2.8. Taking initiative in the preparation and revision of the Board's Rules of Procedure and as well demonstrating adherence to the Rules of Procedure and good governance principles;
  - 8.2.9. Ensuring that the Board regularly updates its knowledge of the Bank's affairs;
  - 8.2.10. Ensuring the Board makes an annual assessment of their work; and
  - 8.2.11. Following the progress of the execution of Board decisions within the Bank and confirming their implementation to the Board.
- 8.3. The Board may issue a detailed job description of the Chairman's duties and responsibilities and how his duties are expected to be performed.

**Article 9. Role of the CEO**

- 9.1. The CEO is responsible for the day-to-day operations of Íslandsbanki pursuant to set policies and resolutions of the Board. The CEO holds decision-making power regarding all aspects of the Bank's operations in accordance with the Bank's strategy, policies, risk appetite and limits set by the Board of Directors. The CEO shall ensure that the Bank's operations are in compliance with applicable law and the Bank's Articles of Associations at all times. Day-to-Day operations do not extend to unusual or actions of major significance. Actions of major significance are defined in the Bank's Good governance Policy – Matrix for Material Bank Actions.
- 9.2. The CEO may establish an Executive Board and other management committees to make or advise on key management decisions or to improve the operations of the Bank. The CEO appoints the members of the Executive Board and members of other management committees of the Bank.

**Article 10. Calling of Board meetings**

- 10.1. The Chairman of the Board, or the CEO acting on the Chairman's behalf, shall call Board meetings. Meetings shall be held as often as deemed necessary, with the proviso that regular meetings shall be held at least 8 times a year. Meetings of the Board shall generally be called with a three day notice. The Chairman of the Board may call meetings of the Board with a shorter notice if he/she deems that necessary. In the event that a Board member or the CEO requests that a meeting should be called, the meeting shall be held as soon as practicable.
- 10.2. If a principal member of the Board gives notice of his/her absence, the CEO's office shall summon an alternate member.
- 10.3. The Board meeting agenda together with the relevant material shall generally be sent to members at least three days before the scheduled meeting. Meeting material may be circulated to members of the Board electronically, e.g. through a web portal. The CEO shall prepare Board meetings in consultation with the Chairman and Vice-Chairman of the Board. In the circulation of meeting material due regard shall be given to the list of related parties of the Bank and whether any of the members of the Board or guests attending the relevant meeting are ineligible to taking part in the handling of a particular agenda item. In cases where a member of the Board, or a guest attending the relevant meeting of the Board is considered to be ineligible that person shall not receive any meeting material regarding that particular item.
- 10.4. Meetings shall generally be held at the Bank's place of business unless the Chairman of the Board decides otherwise. Meetings may, however, be held by means of teleconference equipment; such meetings shall be subject to the general provisions of these Rules of Procedure unless otherwise specifically stated herein.

**Article 11. Quorum**

- 11.1. At meetings of the Board of Directors, the presence of at least five members of the Board is required to constitute a quorum. Alternate members shall take the place of principal members in their absence. Board members shall name an alternate to take their place in their absence. Board members shall each name 2 alternates and the order in which they shall take board member's place in their absence. In the event that none of the alternates named by a

principal Board member are able to attend, no other alternates shall be called unless specifically requested by the principal member.

**Article 12. Handling of agenda items**

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

**Article 13. Attendance by non-members**

- 13.1. The CEO attends Board meetings with the right to speak and submit motions. However, the CEO shall withdraw from a meeting during discussions on personal matters concerning the CEO or where the CEO is disqualified from considering the issue concerned, in accordance with the applicable rules on the specific eligibility requirements for Board members.
- 13.2. The Board shall decide whether and when other employees of the Bank may attend Board meetings. The Chairman may decide to invite outside parties to Board meetings in order to give an account of specific matters concerning the Bank's activities.

**Article 14. Treatment of the documents of a meeting**

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

**Article 15. The Board's minutes**

- 15.1. The Board shall appoint a secretary to keep the Board's minutes. Anyone entitled to attend Board meetings has the right to ask to have his/her comments and dissenting opinion in connection with proceedings and the handling of individual matters recorded in the minutes.
- 15.2. The following information shall be recorded in the minutes of the Board:
  - 15.2.1. Name of the Bank and national identification number;
  - 15.2.2. Meeting place and time;
  - 15.2.3. Date of meeting and the date of other meetings taking place in the same sequence;
  - 15.2.4. Starting time and end of meeting;

- 15.2.5. Number of Board meeting;
  - 15.2.6. Name of the meeting chairman and the secretary of the meeting;
  - 15.2.7. Agenda of the meeting
  - 15.2.8. Names and titles of outside parties attending meetings, specifying when they join the meeting and when they leave;
  - 15.2.9. Material made available before the meeting, whether any documents were handed out at the meeting and what material was shown at the meeting, at the beginning of the Board's minutes;
  - 15.2.10. An overview of decisions taken, what was postponed or rejected, inquiries and similar items;
  - 15.2.11. Page numbers and total number of pages in the relevant Board minutes.
- 15.3. A special note shall be made in the minutes of cases where a Board member has withdrawn from the meeting as a result of ineligibility to address a particular matter, stating the reason for ineligibility, and where the Board member has not received material or information relating to such a matter, cf. Article 16 of these Rules of Procedure.
- 15.4. Responses to Board members' inquiries concerning individual transactions or customers, cf. paragraph 3 of Article 18, shall be entered in the minutes.
- 15.5. Attending Board members shall confirm the minutes with their signatures, along with those of the CEO and the secretary. Non-attending Board members shall confirm that they have been shown the minutes and are aware of their substance with their signatures.
- 15.6. Minutes shall always be circulated to principal Board members and any alternates in attendance at the meeting in question. Minutes may be circulated to alternates after approval, but shall not contain confidential information such as information on individual customers.
- 15.7. Draft minutes shall, in general, be circulated to members of the Board's review within 5 working days following a meeting.

**Article 16. Specific eligibility**

- 16.1. Board members shall withdraw from a meeting if they are disqualified from participating in discussions on a matter.
- 16.2. The CEO or individual Board members can insist that a Board member should be barred from participating in discussions on a matter and should not be provided with material concerning such a matter. The majority of the Board shall decide whether Board members are ineligible.
- 16.3. Members of the Board shall not take part in the handling of any issues concerning their own business or the business of companies in which they own a direct or indirect share, which they represent, where they are members of the Board or in which they have a significant interest in other respects. The same applies to dealings with parties personally or financially connected to Board members. Board members shall not participate in deliberations on issues relating to the business of their competitors or related parties.
- 16.4. Where Board members are disqualified from addressing matters, they shall be denied access to materials and information concerning the matter from which they are disqualified.

- 16.5. If the CEO, members of the Board of Directors or parties related to them have dealings with the Bank, such dealings shall be subject to the Bank's general rules of procedure and shall be conducted on the same market terms as those that apply to general customers. Members of the Board of Directors shall not participate in dealings with the Bank on behalf of related parties, except in the case of personal banking transactions on generally available terms. If there is urgent need for direct communications between Board members and the Bank on matters concerning themselves, e.g. for the purposes of information or presentations to a third party, such communications shall take place through the intermediation of or in consultation with the CEO. Board members shall not participate in proceedings and decisions pertaining to such business or the business of competitors to their related parties, nor may they represent other parties in dealings with the Bank.
- 16.6. When Board members take a seat on the Bank's Board of Directors they shall inform the Board of the parties that are related to them in the manner described in this article and subsequently inform the Board of changes. An up-to-date list of such parties shall be available for reference in Board meetings.

**Article 17. Signature for the Bank**

- 17.1. The Bank's signature shall be entered in accordance with the rules of signature set by the Board.

**Chapter III. DISCLOSURE AND OBLIGATION OF CONFIDENTIALITY, RELATED PARTIES ETC.**

**Article 18. Special disclosure and definition of important risk factors**

- 18.1. The following information regarding the finances, structure and operations of the Bank shall be submitted to the Board:
- 18.1.1. A report on the Bank's operations shall be submitted and presented regularly.
  - 18.1.2. Reviewed quarterly reports shall be presented to the Board no later than 2 months after the end of each reporting period. The Bank's audited annual accounts shall be completed by the end of February each year. Representatives of the Bank's auditing firm shall attend the presentation of audited or reviewed reports.
  - 18.1.3. Information on the operation of individual divisions of the Bank, as defined in the Bank's organisational chart at any time, shall be submitted to ensure that the activities of each division are reviewed at least once a year.
  - 18.1.4. The Bank's internal auditor shall inform the Board of his/her activities at least twice a year.
  - 18.1.5. An operational budget for the Bank's forthcoming operating year shall be submitted to the Board during the final quarter of each year.
- 18.2. Moreover, Board members shall be entitled to any information regarding the Bank's operations that they consider necessary to perform their duties, with the exception that Board members shall not have access to information pertaining to the interests of the Bank's individual customers. The Board shall, however, receive general statements on lending and defaults in accordance with the Board's rules on such disclosure.
- 18.3. Board members' inquiries regarding individual transactions or customers shall be made at a Board meeting. Individual Board members are prohibited from contacting the Bank's employees for the purpose of obtaining information, unless the Board or the CEO decides

otherwise. Responses to such inquiries shall be made known to every Board member and entered in the minutes.

- 18.4. Information shall generally be submitted to the Board in writing, unless otherwise agreed by the Board. Information to which the Board may request access shall be submitted or presented to the Board as soon as possible after a request for information is made. In other respects, the Board shall decide how the disclosure requirements should be interpreted.
- 18.5. At the beginning of each term of office, newly elected Board members and their alternates shall be presented with a special overview of the operations and activities of the Bank as well as the duties and responsibilities of Board members.
- 18.6. When the Board has been elected at the Annual General Meeting it shall identify the most important risk factors of the company's operations which have to be addressed in the coming year.

#### Article 19. **Obligation of confidentiality**

- 19.1. Members of the Board are bound by confidentiality concerning all matters that come to their knowledge in the course of the execution of their duties and which concern the business and private affairs of the Bank's individual customers. The obligation of confidentiality shall remain even after their employment ceases. As a rule, discussions, decisions and handling of individual cases by the Board shall not be divulged in public unless specifically agreed by the Board, or where the Bank is obliged to make the outcome of a meeting public in connection with the listing of the Bank's financial instruments on a regulated securities market.

#### Article 20. **Related parties**

- 20.1. Board members shall inform the Board of any related parties.
- 20.2. The following parties are related parties to Íslandsbanki:
  - 20.2.1. Principal and alternate members of the board, the CEO, key employees and their close family members.
  - 20.2.2. With reference to Item 20.2.1 above, account should be taken of corresponding parties in subsidiaries and affiliated companies.
  - 20.2.3. Shareholders owning, directly or indirectly, a 5% share or more in the financial undertaking or numbering among its ten largest shareholders;
  - 20.2.4. Undertakings in which the above parties own at least a 10% share, where they are employed or where they serve as board members. However, this does not apply to shareholders numbering among the ten largest shareholders of the financial undertaking;
- 20.3. Close family members refers primarily to spouse, children and parents of the individual.
- 20.4. The internal auditor shall review services to related parties at least twice a year with reference, among other things, to terms, renegotiation and balances.
- 20.5. On an annual basis, the Board shall appoint an external auditor to review services to related parties and compare them with comparable business transactions with other customers and to submit a reasoned report, e.g. concerning terms, renegotiations and balances. The report of the external auditor should include information on the identities of the parties used for

comparison in each case. The external auditor's report shall be submitted to the Financial Supervisory Authority (FME) no later than 1 April each year for the preceding financial year.

**Article 21. Related party transactions**

- 21.1. Business proposals of Board members, the CEO, key employees, and of companies in which they are members of the Board, which they represent, where or in which they have a significant interest in other respects, shall generally be presented to the Board for approval or rejection. Notwithstanding the above, the Bank shall be permitted to consider individual business proposals from Board members including securities transactions, without special authorisation from the Board, provided that the transaction meets the following conditions:
- 21.1.1. The transaction is a trade where the party in question has submitted to general terms for a particular type of transaction.
  - 21.1.2. The terms of the transaction are consistent with the general terms in the field in question, and there are no discounts or special terms.
  - 21.1.3. The transaction is handled in the same way as any other comparable transaction between unrelated parties.
  - 21.1.4. The transaction is handled in accordance with law and FME's rules on credit provided by a financial undertaking to directors, managing directors, key employees or a party of qualifying holding, or parties with close links to such persons.
- 21.2. Even where individual transactions meet the above conditions, the risk committee shall have the authority to refer individual matters to the Board if deemed necessary by the committee.
- 21.3. The CEO shall inform the Board, at least quarterly, of all business proposals which have been processed and the terms granted to the parties in question.
- 21.4. Agreements on loans, guarantees, options or similar dealings with the CEO, that are considered major and unusual transactions, shall be subject to the approval of the Board. Such decisions must be recorded in the Board's minutes and reported to the FME.
- 21.5. Board members are not required to conduct their transactions with financial instruments exclusively with the Bank. Board members shall conduct their business in a manner that is in no way suspicious or likely to have negative impact on the credibility and reputation of the Board members and/or the Bank. If the Board members want the Bank's service of purchasing and selling financial instruments, the Bank should handle their transaction in the same way as it handles transactions of other customers.

**Chapter IV. PARTICIPATION OF EMPLOYEES IN BUSINESS OPERATIONS**

**Article 22. The CEO's participation in business operations**

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

**Article 23. Other employees' participation in business operations**

- 23.1. Employee participation in business operations, other than the CEO, refers to membership of a company's Board of Directors, with the exception of companies in the Íslandsbanki Group or

other companies under the Bank's auspices, acting as managing Director of such companies or being on a company's payroll or receiving payment as contractor. A holding in an undertaking is deemed to be participation in business operations, except in the case of an insubstantial holding which confers no direct influence on the management of the undertaking. If there is any uncertainty, employees may request the opinion of the Compliance Officer on whether a holding is deemed to be participation in business operations.

- 23.2. The participation of administrative personnel in business operations, other than the CEO and Internal Auditor, is subject to the written approval of the Bank's Compliance Officer. The participation of non-administrative employees in business operation may be subject to an announcement made to the Bank's Compliance Officer. The CEO shall establish and approve of rules that stipulate the procedure regarding and the assessment of employee participation in business operations and whether such participation causes conflicts of interest or reputational risk, and whether it is reconcilable with the employee's position within the Bank or likely to negatively affect the integrity and work contribution of the employee. The Compliance Officer may revoke the authorisation for an employee to participate in business operations if premises for such authorisations are deemed to have changed. The Compliance Officer shall monitor and supervise as to whether employees satisfy the rules and maintain records regarding employee participation in business operations.

## **Chapter V. PERFORMANCE ASSESSMENT**

### **Article 24. Performance assessment**

- 24.1. The Board shall, at least once a year, assess its work, procedures and practices, determine whether there is need to appoint subcommittees of the Board, and assess the Bank's progress. To this end the Board may seek external expert assistance, as deemed necessary by the Board on a case-by-case basis. When conducting a performance assessment, the Board shall consider the strengths and weaknesses of its performance. The results of the performance assessment shall be used to improve the Board's work.
- 24.2. The Board shall, at least once a year, assess the performance of the CEO and managers of individual divisions within the Bank. The persons responsible for the Bank's day-to-day operations shall not be present at Board meetings while the Board assesses their performance.
- 24.3. Implementation of the performance assessment process depends, among other things, on the following:
- 24.3.1. Each board member provides an independent assessment of the performance of the Board with respect to qualifications and experience of the Board to deal with its obligations, techniques in place to fulfil these obligations, efficiency of sub-committees and their responsibilities to the Board, long-term strategy, financial objectives and follow-up of operations, quality of the bank's management, the ability to deal with unexpected disruptions in operations, ethical and social responsibility, whether the bank's support system have the quality and features needed to satisfy applicable laws and regulations, etc.
  - 24.3.2. Whether the Board rules of procedure have been complied with in all respect.
  - 24.3.3. Board Meeting Schedule for the preceding operating year is reviewed and an assessment is made whether the issues set out in the schedule have received appropriate discussion.

- 24.3.4. Status taken of the specific priorities set by the Board regarding risk management and internal control within the Bank
  - 24.3.5. Follow-up on how certain decisions of the Board have been implemented.
  - 24.3.6. Mandate letters for the sub-committees of the Board are reviewed and the meeting minutes of the sub-committees are examined as to whether matters assigned to the sub-committees were on the agenda of the appropriate committee and were handled appropriately.
- 24.4. This is not an exhaustive list of the issues underlying the implementation of the Board performance assessment. The Board may, as stated above, seek external expert assistance regarding performance assessment as deemed necessary.

## **Chapter VI. SUBCOMMITTEES**

### **Article 25. Audit Committee**

- 25.1. An Audit Committee comprised of three Board members shall operate under the supervision of the Board. The majority of Committee members shall be independent from the Bank. The Board shall elect the Chairman of the Audit Committee. Terms of eligibility for Committee members are identical to those of the Board.
- 25.2. The Audit Committee has the following functions:
- 25.2.1. monitoring the financial position of the Bank;
  - 25.2.2. assessment of the Bank's internal controls and risk management;
  - 25.2.3. assessment of managers' financial reports;
  - 25.2.4. assessment of the Bank's legal and regulatory compliance;
  - 25.2.5. preparation of the selection of the Bank's statutory auditor;
  - 25.2.6. direct access to the Bank's statutory auditor;
  - 25.2.7. assessment of auditing reports;
  - 25.2.8. assessment of the other activities of the Bank's statutory auditor;
  - 25.2.9. other matters assigned to the Committee by the Board.
- 25.3. The Audit Committee shall establish their own rules of procedure to be approved by the Board.

### **Article 26. Risk Management Committee**

- 26.1. A Risk Management Committee comprised of at least three Board members shall operate under the supervision of the Board in accordance with Article 78 of the Act on Financial Undertakings. The majority of Committee members shall be independent from the Bank. The Board shall elect the Chairman of the Risk Management Committee. Terms of eligibility for Committee members are identical to those of the Board.
- 26.2. The Risk Management Committee has the following responsibilities among others:
- 26.2.1. Advisory and supervisory functions regarding the formulation of risk policy and risk appetite.
  - 26.2.2. Monitor risk factors in relation to the Bank's compensation policy.
  - 26.2.3. Monitor if business terms, including deposits and loans, are consistent with risk policy.

- 26.3. The Risk Management Committee shall establish their own rules of procedure to be approved by the Board.

**Article 27. Establishment of other subcommittees**

- 27.1. The Board shall be authorised to appoint subcommittees to address other aspects of the Bank's operations than those addressed in Articles 25-26. The Board shall elect subcommittee members and appoint chairmen.
- 27.2. When appointing subcommittees under this Article, the Board shall provide the subcommittee in question with a special letter of appointment, defining its functions and goals, and other rules for the committee.
- 27.3. The role of the Chairman of the Board's sub-committees is to ensure that the committees carry out their role effectively and in an organized manner as well as acting as its facilitator and guide. The Chairman of a sub-committee is also responsible for:
- 27.3.1. Planning and managing the subcommittee's meetings in consultation with the secretary of the Board.
  - 27.3.2. Following the subcommittee's mandate.
  - 27.3.3. Give update to the Board regarding matters discussed in the subcommittee's meetings.
  - 27.3.4. Developing the operation and effectiveness of the subcommittee.

**Chapter VII. BOARD MEMBERSHIP IN SUBSIDIARIES**

**Article 28. Subsidiary Board members**

- 28.1. If 5% or more of the Bank's equity resides within a certain subsidiary or associate company, the Board shall decide on the appointment of a Board member on behalf of the Bank, and the CEO shall handle the necessary arrangements. In other cases, the CEO shall decide who shall sit on the boards of the Bank's subsidiary and associate companies. The CEO shall annually present the Board with a list of board memberships on behalf of the Bank.
- 28.2. Board members shall only assume board membership for the Bank's subsidiary or associate companies if a special decision on such membership has been made by the Board; when making such a decision the Board shall assess the impact of board membership on the Board member's supervisory duty and the need for the Board member to take a seat on the board.

Reykjavík, 11 November 2015

The Board of Directors of Íslandsbanki hf.

## **Annex I**

### **Guidance and reception of new Board members**

New members of the Board need to be furnished with the necessary information and guidance in the procedures of the Board and the affairs of the Bank including strategy, objective and operations. New Board members are to be provided with information on the following in respect of the Bank:

- The Bank's operations;
- Products and services;
- Bank's policy making and business plan;
- Risk management and risk appetite statement;
- Operations of sub-committees;
- Scope of the CEO's tasks and responsibilities;
- Articles of association of the Bank;
- Rules of procedure for the Board of Directors;
- Rules of the Bank;
- Board minutes for the preceding year;
- Board agenda;
- Financial information;
- Organizational chart;
- Overview of the relevant laws and regulation in the Bank's operations;
- Annual and quarterly accounts of the preceding year;
- Reports and communication from Internal Audit.

New members of the Board can request meetings with the CEO, the Chairman of the Board and the Internal Auditor, in order to get answers to questions they may have regarding their responsibilities as members of the Board.

New members of the Board will be given access to the Board's web portal and training for its use.

New members of the Board can moreover request assistance from the Bank's Compliance Department in relation to their eligibility assessment, as members of the board of a financial undertaking, carried out by the Financial Supervisory Authority.