



Rules of Procedure for the Audit Committee of Landsbankinn hf.

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1 APPOINTMENT AND DISCLOSURE TO THE BOARD OF DIRECTORS

The role of the sub-committees of the Board of Directors of Landsbankinn hf. ("Landsbankinn" or "the Bank") is to assist the Board of Directors in carrying out its legally constituted duties. The sub-committees are appointed by the Board of Directors and operate under its remit. The sub-committees do not take independent decisions on behalf of the Bank or of the Board of Directors. The sub-committees do not influence the role or decision-making authority of the Board of Directors, of the Bank's day-to-day managers, or of committees operating within the Bank.

The Audit Committee (hereafter the "Committee") is appointed by the Board of Directors and its role is to perform those duties described in these Rules of Procedure. In cases of potential overlap between responsibilities of the Committee and the Risk Committee, the chairpersons of the committees shall inform each other of the matter and decide which committee shall deal with the matter.

The Committee has no authority or responsibilities beyond that set out in these Rules of Procedure. The provisions of Chapter IX A of Act No. 3/2006, on Financial Statements, as amended, apply to the Committee.

Committee members shall be appointed no later than one month following the Bank's Annual General Meeting. The Committee shall be appointed by the Board of Directors and shall comprise three members of the Board, or three members of the Board and one outside specialist. The Chairman of the Board of Directors, the Bank's CEO and other day-to-day managers shall not sit on the Committee. Committee members shall be independent of Landsbankinn's External Auditor and the majority of Committee members must also be independent of the Bank and its day-to-day managers. Committee members must have the requisite experience and knowledge to carry out its work and one Committee member, at a minimum, shall have extensive knowledge and experience in the field of financial accounting. In assessing a Committee member's knowledge and experience, the following shall be taken into account: (a) His/her knowledge of financial reporting standards, (b) his/her experience of the preparation and analysis of financial reporting and auditing, and (c) his/her knowledge of internal accounting controls.

The Committee Chairman is appointed by the Board of Directors. The Committee divides responsibility for other tasks among its members. In the absence of the Chairman of the Committee, other Committee members shall select a meeting chair from amongst themselves. The Chairman of the Committee shall lead the Committee and is responsible for ensuring its efficiency. The Chairman shall also encourage all Committee members to contribute to its work.

The Committee shall apprise the Board of Directors of the Committee's work at regular intervals, and when individual matters before the Board have previously been discussed by the Committee. The Committee shall submit a yearly report on its work to the Board of Directors. The Committee shall advise the Board of Directors on issues specified in these Rules of Procedure.

The Committee Chairman shall attend the Bank's Annual General Meeting and respond to questions about the Committee's work and responsibilities.

In carrying out its duties, the Committee shall have extensive access to information from executives, Risk Management, Compliance, and the Internal and External Auditors, and shall be authorised to call for reports and memoranda relevant to the Committee's work. The Committee shall have direct and unimpeded access to information from the CRO and the Compliance Officer. The Bank's executives shall endeavour to ensure that relevant information, as complete as possible, on all matters that fall under the Committee's remit is communicated to the Committee without delay.

The CEO, the CFO, the Internal Auditor and the Compliance Officer shall have direct and unhindered access to the Committee, both through formal and informal channels.

Members of the Board of Directors shall have access to minutes of the Committee's meetings and other meeting documents via the Bank's document management system in good time for Board meetings, and between meetings. Moreover, such information must be available when needed, and be as up-to-date and accurate as possible.

The Committee submits proposals to the Board of Directors about issues that fall under the Committee's remit but require decision-making.

2 MEETINGS

The Committee shall meet no less frequently than once per quarter in connection with interim financial statements and more frequently as required, having regard for the Bank's audit and reporting calendar. At year-end, the Chairman of the Committee presents a meeting plan for the coming year, listing scheduled meetings and agendas.

The Committee may meet at any time without outside parties, should this be deemed necessary or desirable.

Any Committee member, the CEO, the CFO, the External Auditor, the Internal Auditor and the Compliance Officer may request a meeting with the Committee should they deem it necessary.

The CEO, the CFO, the CRO, Internal and External Auditor or Compliance Officer can each request a private meeting with the Committee. The Committee may also request a private meeting with each of these parties.

3 ROLE

The Committee shall have the following duties and responsibilities:

3.1 Financial reporting (preparation of annual and interim financial statements and consolidated financial statements)

- 3.1.1. Monitor work processes in financial reporting and, if appropriate, propose changes to the work process to improve the reliability of financial reporting.
- 3.1.2. Review the Bank's policy on financial reporting standards.
- 3.1.3. Review changes to financial reporting standards and assess the impact thereof.
- 3.1.4. Evaluate decisions which are based on subjective evaluation and which materially impact the Bank's performance.
- 3.1.5. Review the compliance of financial reporting with reporting standards, laws and regulations.
- 3.1.6. Review assumptions about the Bank's operational viability at each time.
- 3.1.7. Review the process of significant court cases that may materially impact the Bank's performance.

3.2. Internal Audit

- 3.2.1. Review, prior to approval by the Board of Directors, the Formal Statement of Duties of the Internal Auditor and the definition of the role of Internal Audit.
- 3.2.2. Review the annual programme of Internal Audit and ensure that the audit function is adequately resourced to perform its duties and escalate the programme to the Board of Directors for approval.

- 3.2.3. Review the reports of Internal Audit on e.g. the effectiveness of internal controls, the organisation of risk management and the Bank's governance. Request *ad hoc* investigation or additional reports as and when the Committee deems necessary.
- 3.2.4. Review and monitor management's responsiveness to Internal Audit's findings and recommendations.
- 3.2.5. Monitor the organisation, role and effectiveness of Internal Audit. Submit a list of parties qualified to perform an external quality assessment of Internal Audit to the Board of Directors.
- 3.2.6. Advise the Board of Directors about remuneration and the terms of employment of the Internal Auditor.
- 3.2.7. Evaluate the performance of the Internal Auditor every year. As and when needed, make recommendations to the Board regarding the appointment or dismissal of the Internal Auditor.

3.3 External audit

- 3.3.1. Prepare suggestions on which the Board of Directors can base its proposal for external auditor or auditing firm to the Annual General Meeting (hereafter jointly referred to as the External Auditor).
- 3.3.2. Review the statement of employment of the External Auditor and submit to the Board of Directors for approval.
- 3.3.3. Monitor the auditing of annual and consolidated financial statements. Consider any comments the Financial Supervisory Authority (FME) may make on same.
- 3.3.4. Monitor the External Auditor's work for the Bank. Request annually written confirmation of the independence of the External Auditor from the Bank. Evaluate the independence of the External Auditor and discuss possible threats to that independence and possible mitigation measures. The External Auditor shall present the Committee with a memorandum detailing its independence and note, if appropriate, any special weaknesses in internal checks and controls as they apply to work processes linked to financial reporting.
- 3.3.5. Review reports and memoranda from the External Auditor to the Committee, the Board of Directors and regulators.
- 3.3.6. Evaluate the performance of the External Auditor annually.
- 3.3.7. Assess whether the External Auditor's work for the Bank, in addition to auditing and examination of financial reports, is appropriate.
- 3.3.8. Meet at least once yearly with the External Auditor without the presence of management, for a general discussion of the External Auditor's work for the Bank.
- 3.3.9. Review the yearly cost of the External Auditor's work for the Group.

3.4 Internal control

- 3.4.1 Monitor the organisation and effectiveness of internal checks and controls.
- 3.4.2 Monitor the organisation and effectiveness of risk management systems.
- 3.4.3 Review the Group's practices for detecting fraud and consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response.

- 3.4.4 Review the Bank's Covenant of Ethical Conduct and Code of Conduct.
- 3.4.5 Inform and cooperate with the Risk Committee on matters relating to internal control and compliance that concern the duties and responsibilities of the Risk Committee.
- 3.4.6 Meet at least yearly privately with the CRO to *inter alia* review the Group's risk culture and internal controls.
- 3.4.7 Monitor that the operations of subsidiaries accord with recognised guidelines on internal and external governance and, as appropriate, submit that the Board of Directors request the Internal Auditor's opinion on subsidiaries' implementation of such guidelines.

3.5 Improvements

- 3.5.1 Ensure that management takes necessary corrective action to address the findings and recommendations of the Internal and External Auditor in a timely manner.
- 3.5.2 Ensure that any shortcomings identified by regulators in the work of Internal Audit are corrected.

3.6 Governance

- 3.6.1 Review the Bank's corporate governance statement in draft form.

3.7 Complaints and comments

- 3.7.1 Review procedures for the reception, retention and treatment of complaints received by the Bank regarding financial reporting, internal accounting controls or auditing matters.
- 3.7.2 Review procedures for the handling and processing of confidential information in cases where employees reveal, anonymously and in confidence, items which may be connected to illegal activity or misconduct within the Bank.

3.8 Financial information and budget

- 3.8.1 Review the presentation of financial information by management and make recommendations for improvements as necessary.
- 3.8.2 Review the Bank's budget before it is submitted to the Board of Directors for approval.

These Rules of Procedure enter into effect as of their approval at a meeting of the Board of Directors of Landsbankinn hf. on 24 October 2019 and replace the Rules of Procedure for the Audit Committee dated 17 September 2015.