



## Rules of Procedure for the Board of Directors of Landsbankinn hf.

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These Rules of Procedure have been adopted in accordance with Article 70 of Act No. 2/1995, on Public Limited-liability Companies, Article 54 of Act No. 161/2002, on Financial Enterprises, and the provisions of guideline No. 1/2010 from the Financial Supervisory Authority of Iceland (FME).

## **Article 1      Composition of the Board of Directors**

- 1.1      The Board of Directors shall be elected at the Annual General Meeting (AGM) for a one-year term, as provided for in the Bank's Articles of Association.
- 1.2      Directors shall fulfil the requirements set out in Article 52 and Article 52 (a) of the Act on Financial Undertakings. Any Director found to be not qualified to serve on the Board shall unconditionally recuse him-/herself and be replaced by an alternate. The alternate shall serve until the next AGM at which time elections to the Board are held.
- 1.3      Directors may resign at any time. A Director shall notify the Board of his/her resignation.
- 1.4      The Board of Directors shall notify the Financial Supervisory Authority (FME) and Register of Enterprises of the composition and later changes to the Board and the position of CEO; the notification shall contain sufficient information to determine whether the eligibility requirements provided for in Articles 52 and 52 (a) of the Act on Financial Undertakings, No. 161/2002, have been met.

## **Article 2      Division of duties**

- 2.1      The Chairman of the Board is elected specifically at a shareholders' meeting. The Board shall elect its Vice-chairman at the first Board meeting following election and in other respects divides their tasks among themselves. A simple majority decides the election. In the case of a tie the Chairman shall cast the deciding vote. The Vice-chairman serves as Chairman in his/her absence.
- 2.2      The Board of Directors may under special circumstances entrust individual Directors with certain issues to be reviewed and prepared for a Board meeting. This shall be noted in the minutes. A division of duties does not entail that Directors are exempt from their regulatory duties or other statutory roles.

## **Article 3      Role of the Board of Directors**

- 3.1      The Board of Directors is to ensure that the Bank's organisation and activities are adequate and effective at all times and in accordance with laws, rules and regulatory requirements. The Board of Directors has ultimate authority in all matters between shareholders' meetings and monitors daily operation of the Bank. The Board of Directors has a statutory role which it is required to fulfil unless legal provisions allow for the delegation of authority by mandate. The Board of Directors shall on a yearly basis identify its key tasks for the coming operating year.
- 3.2      The Board of Directors is responsible for the operation and strategic development of the Bank, as well as its risk policy, and for ensuring an active system of internal control in accordance with the Act on Financial Undertakings, No. 161/2002, and rules adopted by virtue of it. The Board of Directors is responsible for ensuring that control of accounting and financial management complies with the laws, and rules applicable to the Bank's activities. Furthermore, the Board of Directors is responsible for ensuring that corporate governance and the Bank's internal organisation contribute to the efficient and careful management of the Bank, segregation of duties and for preventing conflict of interest. The Board of Directors shall monitor that the operations of subsidiaries accord with recognised guidelines on internal and external governance and may request the Chief Audit Executive's opinion on subsidiaries' implementation of such guidelines.
- 3.3      In its annual work schedule, the Board of Directors defines which regular information it receives, amongst other things, in accordance with laws and regulations, and the guidelines of the Financial Supervisory Authority, and determines how it should be presented to the Board.
- 3.4      The Board of Directors, along with the CEO, shall ensure that the interests and equality of shareholders are safeguarded and that provision of information to them and other stakeholders is appropriate and in accordance with the rules of the relevant stock exchange, if Landsbankinn has issued financial instruments to be traded on a regulated securities market.
- 3.5      The main responsibilities of the Board of Directors in relation to strategy formulation and management are:
  - 3.5.1      To play a leading role, along with the CEO, in formulating the strategy, business plan and principal organisation of Landsbankinn as well as to set Landsbankinn's goals for the short and long term.

- 3.5.2 To spend a reasonable amount of time discussing the main risk factors in the Bank's operation; ensure that sufficient funds and time are spent on active risk management and risk assessment to achieve an overview of key risk factors facing the Bank.
  - 3.5.3 To approve the risk policy, risk appetite and risk limits for key risks and the organisation of risk management based on a proposal by the CEO which shall include the views of the Managing Director of Risk Management and review by the Risk Committee.
  - 3.5.4 To ensure that internal processes related to risk management are reviewed at least annually. Such processes include decision-making procedures and limits to risk that has affected or may affect the Bank's operation.
  - 3.5.5 To develop a policy for an internal ratings-based approach for credit risk for the Bank based on a proposal by the CEO and deliberation by the Risk Committee.
  - 3.5.6 To evaluate the Bank's operation as a whole.
  - 3.5.7 To recruit and terminate the employment of the CEO, determine his salary and terms of employment and assess his performance at least once a year.
  - 3.5.8 To determine, following the submission of a proposal by the CEO, which employees shall be considered key employees in the understanding of the Act on Financial Undertakings
  - 3.5.9 To approve the CEO's proposal for deputy CEO.
  - 3.5.10 To discuss annually the CEO's assessment of the Bank's main executives.
  - 3.5.11 To submit a remuneration policy for a shareholders' meeting for approval.
  - 3.5.12 To review the Bank's corporate governance statement annually and reassess governance of the Bank with regard to approved guidelines on corporate governance and respond appropriately as necessary.
  - 3.5.13 To review the Board of Directors' Rules of Procedure annually.
  - 3.5.14 To carry out a performance assessment, cf. Article 19 of these Rules.
  - 3.5.15 To approve the Bank's policy on corporate social responsibility, as well as the Covenant of Ethical Conduct for the Board, executives and employees of the Bank and the Group.
- 3.6 The main responsibilities of the Board of Directors in relation to supervision of the Bank's operations are:
- 3.6.1 To monitor that the Bank's operations as a whole and individual units comply with the decisions of the Board of Directors, its strategy and plans.
  - 3.6.2 To ensure that active internal controls are in place, meaning the implementation of a formal system of control that is documented and its functionality verified regularly.
  - 3.6.3 To discuss an analysis of the risk faced by Landsbankinn, capital requirements and that relevant contingency plans are in place.
  - 3.6.4 To ensure that active and effective risk management is implemented in the Bank's operations.
  - 3.6.5 Afford the Managing Director of Risk Management, the Chief Audit Executive and Compliance Officer direct access to the Board of Directors concerning matters deemed worthy of the Board's attention and necessary for it to dispatch its supervisory role.
  - 3.6.6 To recruit and terminate the employment of the Chief Audit Executive, determine his/her salary and terms of employment, following the submission of a proposal by the Audit Committee, ensure that he/she is independent in his/her duties and determine who shall act as deputy to the Chief Audit Executive
  - 3.6.7 To annually approve Internal Audit's Terms of Reference, its risk-focused audit programme, budget and resource plan and selection of parties to task with carrying out the regular quality assessment of the Internal Audit function.
  - 3.6.8 To confirm the appointment of a Compliance Officer and approve his/her job description annually and main areas of emphasis for the coming year.

- 3.6.9 Submit a proposal for the election of external auditors to the AGM after receiving a proposal from the Audit Committee.
  - 3.6.10 To decide on proposals by the CEO on the termination of employment or transfer of the Managing Director of Risk Management, based on an opinion by the Audit Committee.
  - 3.6.11 Grant authority to sign for the Bank.
  - 3.6.12 To monitor and ensure in so far as possible that notifications and information disclosure legally required by the Bank under the Act on Financial Undertakings are accurate.
  - 3.6.13 To monitor, as the case may be, valuation of the Bank's assets, use of internal models and ratings from credit rating companies.
- 3.7 The main responsibilities of the Board of Directors in relation to annual financial statements and the Bank's results are:
- 3.7.1 To ensure sufficient supervision of accounting, handling of funds, settlement and operation.
  - 3.7.2 To manage, along with the CEO, the preparation of the Bank's annual financial statements and consolidated financial statements in accordance with the provisions of the Act on Annual Financial Statements.
  - 3.7.3 To deliberate on and endorse Landsbankinn's annual financial statements and consolidated financial statements along with the CEO. Should a member of the Board or the CEO be of the opinion that the annual or consolidated financial statements should not be endorsed or if he/she has objections that he/she considers should be brought to the shareholders' attention, he/she shall set out his/her objections in his/her endorsement.
  - 3.7.4 Submit proposals for assignment of profit to a reserve fund and other funds to a shareholders' meeting or the Bank's AGM.
  - 3.7.5 To approve a dividend policy.
- 3.8 The Board of Directors is not involved in individual business decisions unless the Bank's internal rules, set by the Board of Directors, state otherwise (e.g. credit policy, market risk policy and liquidity policy).
- 3.9 The Board of Directors shall handle actions which are extraordinary or of major importance. Actions which are extraordinary or of major importance include the following:
- 3.9.1 Decisions in cases exceeding the authorisations of the CEO as set out in rules, strategies or otherwise decisions by the Board of Directors.
  - 3.9.2 Decisions on the building, purchase, sale or mortgaging of real estate utilised for the Bank's activities, acting on proposals from the Bank's CEO. The Board of Directors can grant individual employees temporary authority to sign purchase contracts and title deeds on behalf of the Bank.
  - 3.9.3 Decisions to open or close branches, acting on proposals from the Bank's CEO.
  - 3.9.4 Decisions on mergers with other financial undertakings.
  - 3.9.5 Decisions on the purchase or sale of shares in subsidiaries and associates.

## **Article 4 Duties of Directors**

- 4.1 Directors must be familiar with the laws and rules that apply to Landsbankinn's activities. Directors must also:
- 4.1.1 Devote adequate time to their work for the Bank.
  - 4.1.2 Take independent decisions on each point, as Directors are not to act specifically in the interests of parties supporting their election to the Board.
  - 4.1.3 Have an understanding of the Board's function, their role and responsibility.

- 4.1.4 Understand the Bank's objectives and undertakings, as well as how they can conduct their work as Directors in order to contribute to achieving these objectives.
- 4.1.5 Request and acquaint themselves with all data and information they deem necessary to acquire in-depth understanding of the Bank's activities and take informed decisions;
- 4.1.6 Ensure that internal controls are in place and that the Board's decisions are implemented.
- 4.1.7 Ensure that laws and rules are complied with in the Bank's operations.
- 4.1.8 Discharge their duties with honesty, integrity and professionalism; be independent of thought in order to effectively evaluate, critique and monitor the CEO's decisions.
- 4.1.9 Conduct their work in accordance with principals for good corporate governance, cf. the Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers.
- 4.1.10 Encourage positive morale within the Board.
- 4.1.11 Prevent own concerns, whether personal or business-related, from leading to direct or indirect conflicts of interest between the Director and the Bank or its customers.
- 4.1.12 Implement the Bank's internal rules in so far as they pertain to members of the Board.
- 4.2 The responsibilities of the Board of Directors shall as a rule be carried out during Board meetings. Any consultation between Directors and/or between Directors and Landsbankinn's executives outside of Board meetings shall be reported at the beginning of the following Board meeting if relevant to the Bank's interests.
- 4.3 The Board of Directors shall discharge its duties in a manner that ensures the Bank's competitive independence from other commercial state-owned banks in accordance with the Competition Act, No. 44/2005, and the provisions of the settlement between Icelandic State Financial Investments, the Ministry for Finance and Economic Affairs, Landsbankinn hf. and Íslandsbanki hf., and the Icelandic Competition Authority dated 11 March 2016, No. 9/2016.

## **Article 5 Role of the Chairman of the Board**

- 5.1 The Chairman of the Board of Directors is responsible for ensuring that the Board discharges its duties in an effective and organised manner. The Chairman of the Board shall not take on other tasks for Landsbankinn than those that are a normal part of his/her duties as Chairman with the exception of specific tasks assigned to the Chairman by the Board.
- 5.2 The main responsibilities of the Chairman of the Board are to:
  - 5.2.1 Encourage compliance by the Board of Directors with laws, rules and good corporate governance and ensure that the Board's work facilities are satisfactory.
  - 5.2.2 Ensure that all Directors are informed on issues pertaining to the Bank and encourage active participation by the Board in all discussion and decision-making.
  - 5.2.3 Ensure that the Board of Directors as a whole regularly updates its knowledge of the Bank and its operation.
  - 5.2.4 Ensure that Directors receive appropriate guidance on key aspects of corporate governance, including their legal duties and responsibilities, or that Directors attend courses on the theme.
  - 5.2.5 Call Board meetings.
  - 5.2.6 Prepare meeting agendas in consultation with the Vice-chairman and CEO and ensure that the agenda is made available in a timely manner before each Board meeting. The Chairman shall include items requested by Directors on the agenda, provided such requests are submitted in a timely manner before the agenda is published.
  - 5.2.7 Ensure that the Board generally receives detailed and clear information and data on which to base its work.

- 5.2.8 Propose to the Board, in collaboration with the CEO, that a specific employee of the Bank be entrusted with recording the minutes of Board meetings and with related secretarial duties.
- 5.2.9 Chair Board meetings and ensure that adequate time is allocated to discussion and decision-taking, especially as regards large and complex cases.
- 5.2.10 Encourage active participation by all Directors in discussion and decision-taking.
- 5.2.11 Ensure that new Directors receive necessary information and guidance on the work procedures of the Board and Landsbankinn's affairs, including its strategy, objectives, activities, risk appetite and operation.
- 5.2.12 Ensure that the Board evaluate its work on an annual basis and that the performance of sub-committees is evaluated also.
- 5.2.13 Monitor the process of the Board's decisions within Landsbankinn and confirm implementation to the Board.
- 5.2.14 Bear responsibility for communication between the Board and the Bank's shareholders.
- 5.2.15 Be the Board's spokesperson as regards media, shareholders and other stakeholders.
- 5.2.16 Initiate annual reviews of these Rules of Procedure.
- 5.2.17 Submit a proposal for the annual work schedule within a month of the AGM.

## **Article 6 Role of the CEO**

- 6.1 The CEO is responsible for the daily operations of Landsbankinn and for implementing the Board's strategy, decisions and orders. The CEO must at all times conduct his/her work with integrity, safeguarding the Bank's interests. The CEO holds decision-making power in all aspects of the Bank's operations in accordance with its strategy, goals, risk appetite and limits as set out by the Board of Directors. The CEO is authorised to take decisions on all questions not entrusted to others by law, the Bank's Articles of Association or decisions by the Board of Directors. Day-to-day operations do not include extraordinary actions or actions of major significance. The CEO may only take such actions by special authorisation of the Board, unless it is not possible to await a decision by the Board without causing substantial detriment to the Bank. In such instances the Board must be notified of the action without delay.
- 6.2 The CEO shall ensure that management of Landsbankinn's assets and its operations are in line with the Bank's strategies, laws, rules and good business practices and the CEO implements effective internal controls in accordance with the Board's decision.
- 6.3 The CEO shall ensure that Directors of the Board regularly receive necessary information on the finances, development and operation of the Bank in order to fulfil their role. At regular meetings of the Board of Directors, the CEO shall summarise the main aspects of the Bank's operations and detail how decisions and strategies formulated by the Board have been implemented. The Board of Directors may request special reports on operations if it sees cause for so doing.
- 6.4 The CEO annually submits a draft business plan and budget to the Board.
- 6.5 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 Landsbankinn. 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. The CEO sets rules to govern participation in business operations by Landsbankinn's employees.
- 6.6 The CEO informs the Board of Directors of appointments to deputy managing director.

## **Article 7 Role of the Secretary to the Board of Directors**

- 7.1 The Board of Directors appoints a Secretary based on a proposal from the Chairman prepared in collaboration with the CEO. Changes to the duties of the Secretary to the Board must be approved

by the Board. The role of the Secretary is set out in detail his/her job description, approved by the Board.

## **Article 8 Sub-committees of the Board of Directors**

- 8.1 The Board of Directors is responsible for the appointment and work of sub-committees that operate under its authority. The appointment of sub-committees does not free the Board of Directors from responsibility. All Directors shall have knowledge of issues handled by the sub-committees and be aware that decision-making power rests with the Board at all times.
- 8.2 Four sub-committees operate within the Board of Directors, preparing discussion by the Board of specific areas of operation and investigating matters in more detail. Decision-making power and responsibility rests with the Board of Directors. The sub-committees are the:
- » Risk Committee
  - » Audit Committee
  - » Strategic Development Committee
  - » Remuneration Committee
- 8.3 Within one month from the Bank's Annual General Meeting, the Board of Directors appoints members and a chairman to each committee for one year at a time. The role of each sub-committee is defined in rules of procedure provided by the Board of Directors. These rules of procedure shall be published on the website of Landsbankinn hf.
- 8.4 The preparation for and implementation of meetings, the presence in meetings of parties other than Committee members, secretaries, qualification, independence, and conflicts of interest shall come under the provisions of these Rules of Procedure as appropriate, unless different provisions are made in the Rules of Procedure for the sub-committee in question.
- 8.5 A sub-committee may, having received the Board's approval, seek appropriate, independent, professional advice at the Bank's expense if and when it deems it necessary. Advisors shall be independent of the Bank, Committee members, Directors of its Board and its day-to-day managers. The Committee is responsible for ensuring the independence of such advisors.
- 8.6 The chairperson of each committee shall regularly appraise the Board of Directors of the sub-committees' work and when individual matters before the Board have previously been discussed by a sub-committee. Directors of the Board shall have access to the sub-committees' minutes through the Bank's document management system. The sub-committees shall submit a yearly report on their work to the Board of Directors.
- 8.7 Committee members shall receive training, instruction and information on the work and procedures of the committee from the Bank's employees.
- 8.8 The Board of Directors may decide to create other sub-committees as necessary and these Rules of Procedure shall be updated accordingly.

## **Article 9 Meetings of the Board of Directors**

- 9.1 The Board's regular meetings are determined for one year at a time, between AGMs. Within one month from Landsbankinn's AGM, the Chairman of the Board shall submit a proposal for the annual work schedule.
- 9.2 As a rule, Board meetings shall take place on Landsbankinn premises. Board meetings may be held using electronic media in so far as this accords with performance of Board tasks. Any Director or the CEO may require that Board meetings are held in a traditional fashion.
- 9.3 A meeting of the Board of Directors is legally constituted if attended by a majority of Directors. Participation through teleconferencing equipment by a Director or his/her alternate shall constitute legitimate attendance.
- 9.4 The Chairman of the Board calls Board meetings and is authorised to entrust the CEO or other Bank employee with so doing. Meeting announcements shall as a rule be sent with at least seven days' notice and the agenda shall list items for presentation or decision-making. Meeting announcements and agendas shall always be emailed to Directors' Landsbankinn email addresses.

The Chairman of the Board may call meetings at a shorter notice should he/she deem this unavoidable due to special circumstances. When there are urgent reasons for so doing, the CEO may call Board meetings at short notice.

- 9.5 The Board of Directors shall meet at least once monthly and more frequently if the Board sees cause. Meetings shall be called upon the request of any Director or the CEO.
- 9.6 Directors shall notify the CEO's Office of foreseeable absences at least five days in advance of Board meetings so that the CEO's Office may summon alternates.
- 9.7 Effort shall be made to make meeting documents available no less than five days prior to Board meetings. Directors shall have access to meeting documents of previous Board meetings. Utmost precaution must be taken in the delivery and treatment of meeting documents.
- 9.8 All Directors shall acquaint themselves with the agenda of each meeting and inform the Board if he/she becomes ineligible to participate in the handling of items on the agenda, cf. Article 10.
- 9.9 Data submitted to Board meetings shall be in accordance with requirements set by the Board. The Secretary to the Board, in consultation with the CEO, assesses documents prior to meetings and informs the Chairman of Board if any are found insufficient.
- 9.10 The CEO attends Board meetings and has the right to speak and make motions unless the Board decides otherwise. The CEO does not attend meetings where his/her personal affairs are under discussion or if he/she becomes ineligible in specific matters.
- 9.11 The Board of Directors shall decide whether and when other employees of the Bank shall attend Board meetings. The minutes shall show when such employees arrive and when they depart.
- 9.12 The Chief Audit Executive is entitled to attend Board meetings where auditing, financial information, governance and internal audit is on the agenda. The Chief Audit Executive may further request leave from the Chairman to attend Board meetings, if the Chief Audit Executive considers such attendance relevant to his/her duties.
- 9.13 Landsbankinn's auditors are entitled to attend Board meetings about accounts endorsed by the auditors and may make known their opinion on the adequacy and legality of information contained in the accounts and the report of the Board. Suggestions and remarks the Bank's auditors wish to direct to the Board or CEO shall be presented at Board meetings, as well as any reports on audit steps or other issues relevant to auditing. Such discussion is recorded in the minutes.
- 9.14 Minutes shall be kept of Board meetings and signed by attendants. Landsbankinn shall archive minutes along with meeting documents. Minutes shall contain the following information:
  - » Name and registration number of the Bank.
  - » Location of meeting.
  - » Date and time of meeting (beginning and end).
  - » Number of meeting.
  - » Names of attendants.
  - » Records of outside parties arriving and leaving the meeting.
  - » Name of the meeting chair and secretary.
  - » Meeting documents submitted or presented at the meeting.
  - » Summary (decisions taken, matters postponed, queries and such).
  - » Time and place of the next meeting of the Board.
  - » Clear conclusions of items on the agenda.
- 9.15 A Secretary appointed by the Board of Directors attends and minutes meetings. Upon request by a Director or the CEO, the Secretary shall withdraw from the meeting. The Chairman of the Board decides which Director shall minute the meeting in the Secretary's absence.
- 9.16 As a general rule, attendants shall receive draft minutes for review and comment within five working days of Board meetings. All Directors present at the meeting, along with the Secretary to the Board and the CEO, shall sign the minutes. If a Director has recused him-/herself from handling of a



specific matter, the Board shall decide whether there is reason for the Director to sign a redacted copy of the minutes. Such copies shall be entered in the minutes.

- 9.17 The minutes of Board meetings are stored in the Bank's document management system and accessible by directors, the CEO, the Secretary to the Board, the Office Manager of the CEO's Office, the Compliance Officer and the Chief Audit Executive, unless they become ineligible in certain matters.
- 9.18 Questions shall generally not be submitted to a vote at Board meetings unless the Directors have received documentation on the matter or satisfactory information thereupon prior to the meeting.
- 9.19 Questions shall be decided by a majority of votes. In the case of a tie the Chairman shall cast the deciding vote. The minutes shall show if Directors abstain from voting on individual matters.
- 9.20 The minutes shall record the dissenting opinion or comments of a Director or the CEO who disagree with the Board's decision. A Director shall ensure that his/her opinions on individual matters which conflict with majority decisions are recorded in the minutes following the Director's clear explanation of his/her position during the meeting.
- 9.21 If a decision by the Board involves information that may have a significant impact on the value of financial instruments issued by Landsbankinn and admitted for trading on a regulated securities market, the CEO shall notify the Compliance Officer.

## **Article 10 Eligibility of Directors in individual matters**

- 10.1 The Board of Directors may not involve itself in decisions on individual dealings, unless their scope is substantial in relation to the size of Landsbankinn, as provided for in the Bank's Credit Policy. Individual Directors must not involve themselves in decisions on individual dealings.
- 10.2 Members of the Board shall not participate in dealing with items connected to their own business or business with companies in which they directly or indirectly own a qualifying holding, where they are Board members, hold positions of responsibility or in other respect have substantial interests at stake. The same applies to participation by Directors in dealing with items connected to parties otherwise connected to them. This applies to both personal and financial connections. Furthermore, the above applies to participation in dealing with items connected to competitors of Directors parties connected to them.
- 10.3 Upon taking a seat on the Board, a Director shall inform the Board of parties to whom he/she is connected in the manner referred to in Article 10.2. A Director shall notify the Board of all changes to such connections. The Secretary of the Board of Directors shall maintain a list of parties connected to Directors in the above manner and the list shall be available during meetings of the Board.
- 10.4 A Director shall inform the Board immediately of any occurrences that may cause him/her to become ineligible. If a Director is deemed ineligible due to the circumstances described in Article 10.2, he/she shall also notify the CEO's Office of such items on the agenda of Board meetings before meeting documents are distributed.
- 10.5 A Director or the CEO may demand that a Director be required to withdraw from a meeting before the substance of an issue is presented and documents distributed, if they deem the Director ineligible to deal with the issue. The Board of Directors decides on the eligibility of individual Directors if the issue is uncertain.
- 10.6 If a Director is deemed ineligible, the Board member shall not participate in the handling of the item in any way nor have access to documentation concerning the handling of this item or be present during discussion or decision-making by the Board. The Director shall not have access to meeting documents or minutes of the meetings where the issue leading to his/her ineligibility was discussed in the Bank's document management system. It shall be recorded in the minutes that a Director has recused him-/herself and did not have access to documentation.
- 10.7 Members of the Board and their alternates may not act as representatives of other parties towards the Bank.

## **Article 11 Treatment of information on individual customers**

- 11.1 Information disclosure to Directors on customers shall only take place during Board meetings. Members of the Board of Directors may not contact employees directly for information on individual Landsbankinn customers. Employees receiving such requests shall notify the CEO.
- 11.2 Queries from Directors concerning individual transactions or customers must be raised at Board meetings and the replies to such queries presented at Board meetings and minuted.
- 11.3 Confidential documents connected to individual customers may not be removed from Landsbankinn premises unless saved to a secure website in accordance with the Bank's rules on information security. Unless the Board decides otherwise, Directors shall return all printed meeting documents for shredding.

## **Article 12 Treatment of information on Landsbankinn's activities**

- 12.1 The Board of Directors shall have access to all information concerning Landsbankinn's activities which are necessary for it to adequately carry out its surveillance responsibilities. Directors do not gather information by initiating direct contact with the Bank's employees.
- 12.2 All Directors are equally entitled to information about the Bank.
- 12.3 Queries by Directors shall be addressed at Board meetings. Directors may send queries to the CEO between Board meetings and this shall be done via email with carbon copies sent to the Chairman and Secretary of the Board. Responses to queries shall be presented to all members of the Board simultaneously, either via email or at Board meetings.
- 12.4 Such queries and responses shall be recorded in the minutes.

## **Article 13 Credit to related parties**

- 13.1 Upon taking a seat on the Board, a Director must inform the Compliance Officer of parties to whom he/she is connected. A Director must also inform the Compliance Officer of any changes in the list of parties connected to him/her.
- 13.2 Connected parties include Directors and their alternates, the CEO, close family members of these parties and parties in close contact with them. Close family members includes the spouses or common law spouses of these parties, their children, the children of their spouses or common law spouses, and parties that are financially connected or who can be expected to be affected by their decisions.
- 13.3 The Chief Audit Executive shall be tasked with regularly reviewing credit granted to connected parties with regard for terms, re-negotiation and positions, and the Chief Audit Executive shall report findings to the Board of Directors.
- 13.4 Landsbankinn's external auditor shall also review credit granted to connected parties and compare this with similar transactions with unconnected customers and submit a reasoned opinion on, *inter alia*, terms and conditions, re-negotiation and positions (arm's length principal). The external auditor's report shall include information on the parties for comparison in each case.

## **Article 14 Business transactions of Directors and the CEO**

- 14.1 Commercial dealings of Directors, and of undertakings where they hold responsible positions, must be placed before the Board for approval or refusal. The following transactions are exempted:
  - 14.1.1 The following private transactions of Directors carried out in accordance with Landsbankinn's current rules:
    - 14.1.1.1 Deposits.
    - 14.1.1.2 Borrowing whereby the total exposure of all loans amounts to up to ISK 75 million.
    - 14.1.1.3 Payment service.
    - 14.1.1.4 Asset leasing.

- 14.1.1.5 Asset management service and investment advice.
- 14.1.1.6 Sale and purchase of listed bonds and equities through the Nasdaq OMX Iceland system.
- 14.1.1.7 Sale and purchase of unit shares in mutual funds managed by Landsbankinn's subsidiaries.
- 14.1.1.8 Other general and traditional banking services that do not involve financial credit.
- 14.1.2 The following business transactions of companies where Directors hold responsible positions, i.e. as directors or managing directors, and carried out in accordance with Landsbankinn's current general rules:
  - 14.1.2.1 Borrowing whereby the total exposure of all loans amounts to up to ISK 200 million.
  - 14.1.2.2 Guarantees whereby the total exposure of all guarantees amounts to up to ISK 200 million.
  - 14.1.2.3 Transactions listed in 14.1.1.1 and 14.1.1.3-14.1.1.8.
- 14.2 Landsbankinn business contracts where the CEO is the counterparty are subject to the Board's approval. The Board's decision in such matters shall be minuted. The CEO may not guarantee loans for other parties in transactions with the Bank or act as agent for other parties towards the Bank. This provision also applies to the CEO's spouse.
- 14.3 In the implementation of the above provisions, regard shall be had for the limits and requirements espoused in the Rules on Credit to Related Parties.

## **Article 15 Directors sitting on the boards of subsidiaries and associates**

- 15.1 In the event that a subsidiary is established, Directors shall not sit on its board unless necessary in light of the nature of the managerial duties.
- 15.2 Before deciding to appoint a Director to the board of a subsidiary or associate, the Board of Directors shall discuss in particular the effect of participation on the supervisory role of the Director and record reasons for the necessity of such appointment in the minutes.

## **Article 16 Selection of board members appointed by Landsbankinn**

- 16.1 The Board of Directors selects members to appoint to the boards of key companies owned by the Bank, as well as to the boards of other legal entities as appropriate, based on a proposal from the CEO. The Board of Directors decides, based on a proposal from the CEO, which companies and legal entities shall be considered key companies in this regard and shall base this decision on their importance to the Bank's interests. The list of companies to which this applies must be reviewed if there are significant changes to the Bank's holdings. The CEO shall comply with a written evaluation process, approved by the Board of Directors, in preparing his/her proposal on eligible board members to the Board.
- 16.2 The CEO appoints directors to the boards of companies and legal entities other than decided on by the Board.
- 16.3 In appointing directors to the boards of the Bank's main subsidiaries, the Board of Directors shall seek to attain a gender balance in accordance with equal rights legislation and the Bank's Gender Equality Policy, with an eye to the qualifications of candidates.

## **Article 17 Obligations of confidentiality**

- 17.1 Directors shall be bound by an obligation of confidentiality concerning any information of which they may become aware in the course of their duties about the business dealings or private concerns of the Bank's customers, unless obliged by law to provide information. Anyone receiving of such information shall be bound by an obligation of confidentiality in the same manner as described therein. The party providing information shall remind the recipient of the obligation of confidentiality.

- 17.2 Furthermore, Directors of the Board shall be bound by an obligation of confidentiality concerning the dealings of Landsbankinn, the affairs of employees and any information of which they may become aware in the course of their duties as Directors and fall under the obligation of confidentiality as set forth in the Bank's Articles of Association, in legislation or according to the nature of the matter. To ensure such confidentiality, special caution shall be exercised in the preservation, photocopying, electronic registration and destruction of such information. Any copying, recording and data collection is prohibited at meetings of the Board of Directors and its sub-committees.
- 17.3 The obligation of confidentiality remains after employment ceases.
- 17.4 Directors are responsible for ensuring that confidential information received by Directors is not disseminated or becomes available to individuals not on the Board of Directors of Landsbankinn.
- 17.5 Directors, with the exception of the Chairman of the Board, shall as a rule not communicate with media or the public concerning Landsbankinn's affairs, unless with the prior approval of the Board. The Vice-chairman serves as Chairman in his/her absence.

## **Article 18 Performance assessment**

- 18.1 The Board of Directors annually and based on a pre-determined process evaluate its work, its size, composition, working procedures and processes, as well as the performance of sub-committees, the Chairman of the Board and the CEO.
- 18.2 The Board of Directors assess, among other things, the strengths and weaknesses of its work and processes and considers means of improvement. The Board of Directors shall review the development of the Bank with an eye to its objectives. The Board of Directors may self-evaluate or seek expert services, as appropriate. The Audit Committee evaluates the work of the Chief Audit Executive and External Auditor on an annual basis.
- 18.3 The Board of Directors meets without the CEO and other employees at least once annually, to evaluate the performance of the CEO and the Secretary.

## **Article 19 Reception and training of new Directors**

- 19.1 Landsbankinn shall devote adequate funds and resources to acquaint new Directors with the Bank's operation and ensure that they receive appropriate training to serve on the Board. Annex I to these Rules of Procedure contains more details on the reception and training of new Directors.

## **Article 20 Directors' access to independent advisors**

- 20.1 Directors shall have access to independent consultants at the Bank's expense, if a Director considers such assistance necessary to take informed and independent decisions. Directors shall inform the Chairman of requests for such consultancy and the Chairman shall entrust the Secretary with ensuring the confidentiality agreements and contracts between the consultant and the Board are in place. If the estimated cost of a consultancy requests from Directors exceeds ISK 500,000 per annum, the Board shall discuss requests and either approve or reject them.

## **Article 21 Governance**

- 21.1 Landsbankinn is required by law to comply with recognised guidelines on corporate governance and bases its operation on the "Guidelines on Corporate Governance" published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers.

## **Article 22 Archiving and treatment of the Rules of Procedure**

- 22.1 Directors serving on the Board upon the entry into force of these Rules shall sign the original document. Later amendments to the Rules shall be attested by the signatures of Directors to the original document setting forth the amended Rules. New Directors shall acquaint themselves with the Rules and sign the original document as confirmation thereof. An original copy of these Rules shall be archived with the Board's minutes.

- 22.2 The Board of Directors alone is authorised to amend these Rules of Procedure. Any changes to these Rules require the consent of a simple majority of the Board of Directors. These Rules shall be reviewed no less frequently than once per annum.
- 22.3 The Board of Directors shall submit a copy of these Rules to the FME within 14 days of their approval or amendment. Any objections by the FME shall be discussed by the Board of Directors.

Thus adopted at a meeting of the Board of Directors of Landsbankinn hf. on 6 March 2019.

## Appendix I

### Reception and training of new Directors

New Directors shall receive comprehensive information on the Bank and its operation. A Director who receives such training becomes acquainted with the Bank faster and can thus begin contributing to Board meetings earlier.

New Directors should receive information on:

- » The Bank's operational platform.
- » Products and service.
- » Strategy and business plan.
- » Risk management and risk attitude.
- » Responsibilities of sub-committees.
- » Responsibilities and authority of the CEO.

A new Director shall receive key information about the Bank to acquaint him-/herself with its operation and the laws and rules that apply to financial undertakings. The following documents are useful to new Directors:

- » The Bank's Articles of Association.
- » Rules of Procedure for the Board of Directors.
- » Work schedule of the Board of Directors.
- » The Bank's rules.
- » Minutes from the meetings of the Board from the previous year.
- » Financial information.
- » Organisational chart.
- » Overview of current laws and rules relevant to the Bank's operation.
- » Latest annual and interim financial statements.
- » Reports and letters from both the Chief Audit Executive and External Auditor.

A new Director is entitled to an information meeting attended by parties that are familiar with the Bank and can answer his/her questions, such as the CEO, the Chairman of the Board and the Chief Audit Executive.

The entire Board of Directors should maintain this training and hold regular information meetings for Directors to review important changes.