



# Corporate governance statement

for the year 2015

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# Corporate Governance Statement 2015

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**Good corporate governance** provides the foundation for reliable communications between Landsbankinn's shareholders, Board of Directors, executives, employees and other stakeholders, encouraging objectivity, integrity, transparency and responsibility in the bank's management. Each year, Landsbankinn reviews its compliance with recognised guidelines on corporate governance to determine whether the bank's governance accords with such guidelines at all times.

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In December 2014 the Centre of Corporate Governance recognised Landsbankinn hf. as a model of corporate governance. The Centre's conclusion was based on a review of governance practices carried out by Deloitte in November 2014. Deloitte's review of Landsbankinn's governance provided a clear overview of the bank's governance practices and indicated that Landsbankinn could in many ways serve as a model of good corporate governance to other companies.

## **1. References to the rules on corporate governance which the company follows or is obliged to follow, and where such rules are accessible to the public**

According to the first paragraph of Art. 54 of Act No. 161/2002, on Financial Undertakings, cf. Art. 20 of Act No. 57/2015, Landsbankinn's Board of Directors is responsive for ensuring that the bank's internal structure enables its efficient and prudent management, ensures separation of the respective areas of operation and prevents conflicts of interest. Pursuant to this same statutory Article, the Board of Directors is to reassess on an annual basis its corporate governance with regard to recognised guidelines on good corporate governance and respond with suitable action if warranted.

According to the seventh paragraph of Art. 54 of Act No. 161/2002, on Financial Undertakings, cf. Art. 20 of Act No. 57/2015, Landsbankinn is to comply with recognised guidelines on corporate governance and to publish a statement on the company's governance in a separate chapter in its annual financial statements or annual report. The bank is also required to make information on its governance available on its website.

Landsbankinn complies with the Guidelines on Corporate Governance published on 1 June 2015 by the Iceland Chamber of Commerce, NASDAQ Iceland hf. and the Confederation of Icelandic Employers, The Guidelines are available on the website of the Iceland Chamber of Commerce <http://www.corporategovernance.is/>. The Guidelines on Corporate Governance will subsequently be referred to as "the Guidelines".

This chapter of the annual report contains Landsbankinn's Corporate Governance Statement, with its content presented in accordance with the requirements set out in the Guidelines.

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## 2. Deviations from the Guidelines

Landsbankinn complies with the provisions of the Guidelines with the exception of certain points of Sections 2.3.5 and 5.4.1 of the Guidelines. The following explains these deviations, the reasons for them and outlines any action taken.

Section 2.3.5 reads as follows: The Board shall evaluate whether its members are at any given time independent of the Company and its major shareholders. The Board shall also evaluate the independence of potential Board members before the Company's AGM – if a Nomination Committee has not been appointed – and its conclusions shall be made available to shareholders. The Board of Directors has not assessed the independence of the persons nominated to serve as directors for the first time prior to the bank's AGM but will seek ways have such assessment made prior to the AGM.

Section 5.4.1 reads as follows: The Board shall appoint a Remuneration Committee to establish a remuneration policy for the Company, in accordance with that set out in Section 2.7, and to negotiate with the CEO and other employees, if they are directors, on wages and other terms of employment. Landsbankinn does not comply with this provision of the Guidelines as interpreted in the notes. The Board of Directors of Landsbankinn, and thereby its Remuneration Committee, has been relieved of this task by legislation. According to the second paragraph of Art. 1 of Act No. 47/2006, on the Senior Civil Servants Salary Board, cf. also Act No. 87/2009, the Senior Civil Servants Salary Board shall determine the salary and terms of employment of managing directors of limited liability companies majority owned by the state. As the state holds around 98% of shares outstanding in Landsbankinn, this provision applies to the bank's CEO. A corresponding provision is found in the first paragraph of Art. 79 a of Act No. 2/1995, on Public Limited Companies, cf. Act No. 87/2009. The aforementioned provisions allow for an exception from the second paragraph of Art. 79 of Act No. 2/1995 on Public Limited Companies.

In 2010, Eiríkur Tómasson, Professor at the University of Iceland School of Law, prepared a legal opinion of the legality of the provisions of the Act in question, No. 47/2006, on Senior Civil Servants Salary Board, for the Board of Directors. The opinion found the provision to contravene the equality clause of Article 64 and the freedom of employment clause of Article 75 of the Constitution in transferring to a public administrative committee, such as the Senior Civil Servants Salary Board, the power to determine the wages and terms of employment of managing directors of public limited companies not wholly owned by the State, as was done with Act No. 87/2009. This was found especially applicable in the case of Landsbankinn, which is a commercial bank. In a legal opinion prepared by Supreme Court Barrister Ástráður Haraldsson for the Board of Directors the same year, concludes that the arrangement is in violation of the property rights clause of Article 72, the collective bargaining rights clause of Article 74 and the freedom of employment clause of Article 75 of the Constitution.

In 2014, Stefán Már Stefánsson, Professor Emeritus at the University of Iceland School of Law, compiled a legal opinion at the bank's behest, examining the process whereby the salary of Landsbankinn's CEO is determined based on company law and EEA rules. This opinion concludes that the intervention in the operation of limited companies effected with Act No. 87/2009 contravenes various main principles of the Act on Public Limited Companies and related legislation to the detriment of such companies, not least financial undertakings.

Deloitte also prepared a memorandum for the bank in 2014, comparing the arrangement with practices in the Nordic countries, based on guidelines on corporate governance and with regard for operational risk, competitive position and impact on the bank's value. Deloitte concluded that the current arrangement whereby the CEO's salary is determined constitutes a deviation from the main principles of the Act on Public Limited Companies and guidelines on corporate governance. The arrangement is contrary to what businesses know and acknowledge as good governance since the general rule is that the board of a company is responsible for its operations and has ultimate authority in company dealings between shareholders' meetings.

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The company law of nations with which Iceland likes to be comparable provides for Boards of Directors to determine the wages and terms of employment of managing directors. Furthermore, this is in line with accepted guidelines on the corporate governance of public limited companies, including OECD guidelines. This arrangement is based on the grounds that the Board of Directors of a public limited company (or its remuneration committee, as appropriate) is best suited to determine the wages of managing directors. This decision must be based on comprehensive knowledge of the operation of the company in question and the responsibilities, as well as the qualifications and performance benchmarks set by respective Boards for the position of managing director. It is thus exceedingly inadvisable, having regard for the responsibilities of the Board and good corporate governance, to transfer this role from the Board to a third party unconnected with the operations of the company in question. The revised list of bills to be presented by the government during the current session of the Icelandic parliament Alþingi includes a bill amending the Act on the Senior Civil Servants Salary Board. The Board of Directors of Landsbankinn has emphasised the necessity of amending this legislation to return the authority to determine the CEO's salary to Landsbankinn's Board of Directors. Such an amendment would in all respects accord with normal practice and place the bank on more equitable footing with its competitors in the financial sector. The amendment would benefit the bank, its owners and customers in that it would strengthen conditions for the secure and sound operation of the bank in accordance with best international guidelines.

### **3. Other types of rules and criteria which are also complied with and which apply specifically to the type of operations pursued by the company**

Landsbankinn's activities are governed by the Act on Financial Undertakings, No. 161/2002, Rules and Guidelines of the Financial Supervisory Authority (FME) and the Central Bank, and various other statutory provisions concerning financial markets.

### **4. Main aspects of risk management and internal quality control**

The Board of Directors shall ensure that active risk governance and internal controls are in place. Emphasis is placed on identifying key risk factors in the bank's operations and implementing preventive surveillance measures to reduce risk. The aim of internal control is to contribute to achieving the bank's objectives as regards performance, risk appetite, reliable financial information and compliance with laws and regulations.

Landsbankinn's policy is to undertake only risks that the bank understands and can assess and meet appropriately. Effective risk management is a key factor in the long-term profitability and stability of the bank's operations. Risk management involves identification, assessment and control of risks in the bank's operation and ensuring that an effective system is in place to meet and/or mitigate risk through informed decisions. The emphasis is on professional in-house risk governance and on having all employees aware and cognizant of the risk factors in their work and that responding to risk relies on informed decision-making.

Risk management and internal quality control is an integral part of the bank's daily operation. The bank's business policy and objectives are followed up on with a risk policy and effective surveillance to contribute to implementing the business policy. Executives and employees are responsible for monitoring and managing risks relevant to their units. Efficient follow-up on decisions and risk monitoring are part of internal control. Advice on the design of risk management processes, monitoring of exposures and surveillance of the effectiveness of internal control is provided by specialised units, i.e. Risk Management, Compliance and Internal Audit. Analysis of the efficacy of internal quality control is based on a review of five main factors: control weaknesses, risk governance, supervision activity, information and communication, and management control.

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The Risk Committee is one of the sub-committees of the Board of Directors and regularly discusses internal control and risk governance. The bank's Audit Committee regularly discusses the bank's accounting and evaluates its internal quality control system.

A more detailed description of risk governance within the bank is provided in the special Risk Management Report.

## 5. Policy on corporate social responsibility and code of ethics

The slogan "Your Landsbankinn" reflects Landsbankinn's objective of providing comprehensive financial services that meet customers' needs. The bank aims to be a dynamic force that operates in harmony with the environment and society. Landsbankinn's vision is to be exemplary in fulfilling its role as a trusted financial partner. The bank wants customers to be able to say: "This is what a bank should be like!"

The code of ethics adopted on 1 March 2011 was reviewed most recently in December 2015. The code of ethics is presented as a covenant, attested to by all employees and directors of the bank. The Covenant of Ethical Conduct is available on Landsbankinn's website. Landsbankinn's Covenant of Ethical Conduct forms the basic tenet of good business practices and employees' ethics, and functions as a guideline for behaviour in situations involving conflicts of interest or ethically questionable circumstances. The code of ethical conduct set forth in the Covenant is written from the point of view of general employees and describes their work practices and behaviour in order to reinforce the message that responsibility lies with every single individual.

Landsbankinn published its policy on corporate social responsibility in May 2011. The aim is to integrate economic, social and environmental concerns in the bank's operations. Landsbankinn's policy on corporate social responsibility is based on five key factors directly linked to the bank's activities and operation. The policy is based on the ISO 26000 standard for corporate social responsibility and accords with the UN's Global Compact on business ethics and responsibility.<sup>1</sup>

Landsbankinn was one of six founding members of Festa, the Icelandic Centre for Corporate Social Responsibility, created towards the end of 2011. The aim of the Centre is to seek the best means for companies to implement corporate social responsibility policies, raise awareness about corporate social responsibility and encourage research in the area in collaboration with universities.

In February 2012, Landsbankinn's executive approved a new gender equality policy with a six-point action plan and defined targets. The targets are based in part on Act No. 10/2008, on Equal Status and Equal Rights for Males and Females, and on the human resources standards of the Global Reporting Initiative (GRI).

In December 2012, Landsbankinn became a signatory to the United Nations' Principles on Responsible Investment<sup>2</sup> (UN PRI) and the bank is actively involved in UNEP FI.<sup>3</sup> Landsbankinn's Report on Corporate Social Responsibility, based on GRI standards, is published together with the bank's annual report on the occasion of its AGM in April 2016. Such reports, published in recent years, describe in detail Landsbankinn's approach to corporate social responsibility. The reports are available on the bank's website.<sup>4</sup>

1 United Nations Global Compact.

2 Principles for Responsible Investment

3 United Nations Environmental Programme – Financial Initiative.

4 <http://bankinn.landsbankinn.is/samfelagsleg-abyrgd/skyrslur/>

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Landsbankinn emphasises that the bank's partners, parties involved in analysis of companies on behalf of the bank and fund managers should subscribe to or take into consideration the UN Principles for Responsible Investment. The bank has already begun introducing these criteria in its asset management procedures. The bank will also place increasing emphasis on having employees utilise environmentally friendly transport and increase ecological purchasing and employee education on CSR. In February last year Landsbankinn organised a conference on climate issues for its customers.

## **6. Composition and activities of the Board of Directors, sub-committees of the Board, the CEO and managing directors**

The Board of Directors consists of seven directors and two alternates. Directors are elected at the AGM for a one-year term. In electing members to the Board, the aim shall be to ensure a gender balance and that the Board as a whole possesses in-depth knowledge of banking activities. The Chairman of the Board is elected specifically at an AGM and the Directors elect a Vice-chairman from amongst their members. The Board of Directors of Landsbankinn has ultimate authority on all questions between shareholders' meetings. The Board of Directors bears ultimate responsibility for the bank's operation and strategy. Furthermore, the Board of Directors is finally responsible for the bank's activities as provided for by laws, regulations, its Articles of Association and other rules relevant to the company's operations. The Board is also charged with following the bank's general activities and ensuring sufficient supervision of its accounting and financial management. The Board adopts its own protocols, providing in detail for its tasks.

There are four sub-committees to the Board of Directors: the Audit Committee, Risk Committee, Remuneration Committee and Strategic Development Committee. Amongst other duties, the committees prepare the Board's discussion of specific areas of operation and follow up on related matters.

The Board of Directors engages the CEO and the Internal Auditor. The CEO engages the bank's other executives. The Internal Audit division reports to the Board of Directors. The bank has six divisions: Personal Banking, Corporate Banking, Markets, Risk Management, Finance and Operations and IT. Each division is headed by a managing director who, together with the CEO, form the bank's executive board. The CEO's Office, Compliance and Human Resources and Marketing and Communication are directly responsible to the CEO.

## **7. Arrangements for appointing members of the appointment committee**

Landsbankinn has not set up an appointment committee.

## **8. Arrangements for appointing members of sub-committees**

The Board of Directors appoints the members of its sub-committees. No changes were made to committee arrangements in 2015, but the number of members of the Audit Committee was increased from three to four during the year.

The Audit Committee is now comprised of two directors and one external member with expert knowledge of accounting and auditing. The Risk Committee is comprised of four directors, the Remuneration Committee of three directors and the Strategic Development Committee of four directors.

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## 9. Information on the number of Board meetings; sub-committee meetings and attendance

In 2015, the Board of Directors of Landsbankinn held a total of 28 meetings. The Audit Committee met 10 times; the Risk Committee 8 times; the Remuneration Committee 5 times; and the Strategic Development Committee met 8 times. The table provides an overview of attendance.

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	Term of office in 2015	Board of Directors	Audit Committee	Risk Committee	Remuneration Committee	Strategic Development Committee
<b>Current Board of Directors</b>		<b>28</b>	<b>10</b>	<b>8</b>	<b>5</b>	<b>8</b>
Tryggvi Pálsson, Chairman	01/01 - 31/12	27	-	-	4	7
Eva Sóley Guðbjörnsdóttir, Vice-chairman	01/01 - 31/12	28		7	-	8
Danielle Pamela Neben	01/01 - 31/12	28	10	-	-	8
Helga Björk Eiríksdóttir	01/01 - 31/12	25	-	8	5	-
Jón Sigurðsson	01/01 - 31/12	23	-	8	-	7
Kristján Th. Davíðsson	01/01 - 31/12	25	4	7	-	-
Jóhann Hjartarson	19/03 - 31/12	23	10	-	4	-
Tinna Laufey Ásgeirsdóttir, alternate	01/01 - 31/12	2	-	-	-	-
Árni G. Hauksson, alternate	01/01 - 31/12	1	-	-	-	-
<b>Audit Committee</b>						
Stefán Svavarsson	01/01 - 31/12	-	9	-	-	-

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## 10. Protocols for the Board of Directors and its sub-committees

The Protocols for the Board of Directors are available on Landsbankinn's website.<sup>5</sup> Special procedural rules issued for the Audit Committee, the Risk Committee, the Remuneration Committee and the Strategic Development Committee are also available on the bank's website.

<sup>5</sup> <https://corporate.landsbankinn.com/about-us/corporate-governance/board-of-directors/rules-of-procedure-for-the-board-of-directors/>

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## 11. Information about Directors

Regular members of the Board of Directors are:

**Tryggvi Pálsson** was born in 1949 and resides in Iceland. Tryggvi Pálsson has extensive financial market experience having served in management positions in a large number of financial undertakings. He holds a degree in business administration from the University of Iceland and an MS in macroeconomics from London School of Economics. Tryggvi is an independent consultant and executive. He worked for Landsbanki Íslands hf. in 1976-1984 as head of the economics and budget department then managing director of Finance and Accounting 1984-1988. In 1988 he worked as CEO of Verzlunarbanki Íslands hf. and subsequently played a key role in the merger of four Icelandic banks to form Íslandsbanki hf. in 1990. He was CEO and Managing Director of Íslandsbanki in 1990-2000. Tryggvi was advisor to the Board of Governors of the Central Bank of Iceland in 2000-2001 and Managing Director of the CBI's Financial Operations in 2001-2011. Tryggvi has held many executive positions in the financial market, such as for ISB Holding ehf., the Financial Supervisory Authority, the Icelandic Banks' Data Centre, the OMX Nordic Exchange Iceland, the Icelandic Securities Depository, the Association of Icelandic banks, Glitnir hf. (asset leasing), Kreditkort, Fjárfestingarfélag Íslands hf. and Féfang hf. He has been a member of several publicly commissioned committees, worked with several NGOs and taught macroeconomics and banking theory at university level. Tryggvi was elected to the Board of Directors in April 2013

**Eva Sóley Guðbjörnsdóttir** was born in 1981 and resides in Iceland. Eva Sóley is currently CFO of the IT company Advania in Iceland. and was previously CFO of Össur hf., a director of Skeljungur hf. and sessional lecturer in financial engineering in the Faculty of Technology and Engineering of Reykjavík University. She holds a Master's degree in financial engineering from Columbia University as well as an undergraduate degree in engineering from the same university and is a certified securities broker. She worked for Kaupþing hf. in 2003-2008, including in treasury, financing, corporate banking and corporate finance. She was Managing Director of Kaupþing's creditor and credit control department in 2008-2009 and Managing Director of Financial Operations from 2009-2011. Eva Sóley was elected to the Board of Directors of Landsbankinn in April 2013.

**Danielle Pamela Neben** was born in 1970 and resides in Iceland. Currently an independent consultant, Danielle Pamela Neben previously worked for HSBC from 1993 to 2013 in seven different countries, including the UK, Germany, Taiwan and Singapore. She holds a degree in business administration with a major in finance from McGill University in Canada. Danielle sat on the executive board of HSBC Trinkaus & Burkhardt (Int.) SA in Luxembourg in 2012-2013 as Managing Director of Operations. She has previously held various managerial posts within HSBC, including in project management, business relationship management, retail banking, corporate banking, investor relations and collection. Danielle was elected to the Board of Directors in April 2013

**Helga Björk Eiríksdóttir** was born in 1968 and resides in Iceland. Helga Björk Eiríksdóttir is Managing Director of Integrum, a company that operates in the field of real estate development and provides advisory service. was previously investor and public relations officer at Marel as well as Chairman of the Board of the savings bank Sparisjóður Svarfdæla. An MBA graduate of the University of Edinburgh, She graduated from the University of Iceland in 1997 with a BA degree in English and Italian and completed a degree in journalism from the same institution 1999. Helga Björk completed a degree in marketing and export management with the Department of Continuing Education at the University of Iceland in 2002 and has studied brokerage at the University of Reykjavík. She worked as an independent consultant in 2010-2012. In 2009 and 2010, she handled PR for the Resolution Committee and Winding-up Board of Kaupþing hf. Previously, Helga Björk spent eight years working as marketing and PR manager of NASDAQ Iceland. Helga Björk has also worked in media, various other jobs and worked for savings bank Sparisjóður Svarfdæla at Dalvík for a longer period. Helga Björk was elected to the Board of Directors of Landsbankinn in April 2013.

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**Jón Sigurðsson** was born in 1954 and resides in Iceland. Jón Sigurðsson has extensive hands-on managerial experience in finance, procurement, investment, consultancy and strategy formulation with companies in a wide variety of sectors. A business administration graduate of the University of Iceland, he currently works as an independent advisor and management consultant. From 2008 to 2015 Jón was managing director of procurement at Promens, where he was previously managing director of Finance and Accounting 2004-2007. From 1999 to 2004 Jón was head of the investment division of Framtak Investment Bank. Jón worked for Coca-Cola in 1991-1999, first as CFO of Vífilfell and later for Coca-Cola's regional office in Norway, initially as Head of economic research and later as Head of development and investment. In 1986-1991, Jón worked as CFO of Hans Petersen, prior to which he was an operating consultant at Hagvangur. Jón has served on the Board of Directors of numerous domestic and foreign companies. He was elected as alternate to the Board of Directors of Landsbankinn in April 2010 and became a regular member in April 2013.

**Kristján Th. Davíðsson** was born in 1960 and resides in Iceland. Kristján Th. Davíðsson has been Managing Director of ISDER ehf. since 2009. He is a Master Mariner from the Icelandic College of Navigation and holds a master's degree in fisheries science from the University of Tromsø in Norway. Previously he was Managing Director of the Resolution Committee appointed for Glitnir Bank hf. from 2008-2009 and had for years worked for Glitnir/Íslandsbanki as Managing Director of corporate banking and Head of seafood and fisheries with the bank's international department. He has worked for SÍF hf. and Marel hf. in sales and marketing, as well as the managing director of Grandi hf. and assistant managing director of HB Grandi hf. Kristján is a director of Valka hf., Vaka ehf., Pólar Togbúnaður ehf. Margildi ehf., ISDER ehf., Viðskiptapróun ehf. and SOS Barnaþorp. He is the honorary consul of Brazil in Iceland. He was elected as alternate to the Board of Directors of Landsbankinn in April 2011 and became a regular member in April 2013.

**Jóhann Hjartarson** was born in 1963 and resides in Iceland. Jóhann has been the senior legal officer of Íslensk erfðagreining ehf. from 1998. He previously also held the post of senior legal officer of deCODE genetics Inc., from 1998-2009. Jóhann took a law degree from the University of Iceland in 1992 and was admitted to the bar as a district court attorney in 1998. He holds a diploma in international intellectual property and patent law from the University of Washington School of Law (1998) and is a licensed European Patent Attorney (2006). Jóhann is a director of Íslensk erfðagreining ehf. (Chairman) and serves as an alternate to the board of UVS - Urður, Verðandi, Skuld ehf. He has previously sat on the boards of N1 hf. (Chairman), HB Grandi and Íslenskar lyfjarannsóknir ehf. and been an alternate to the board of Skipti hf. Jóhann is a Grandmaster of chess and was a professional chess player and teacher at the Icelandic Chess Academy in 1985-1997. Jóhann was elected to the Board of Directors of Landsbankinn in March 2014.

Alternate members of the Board:

**Tinna Laufey Ásgeirsdóttir** was born in 1975 and resides in Iceland. Currently a professor at the University of Iceland, Tinna Laufey Ásgeirsdóttir has held teaching and research positions both in Iceland and abroad. She gained a PhD in Economics from the University of Miami in 2006, prior to which she concluded a masters degree in economics from the same university and studied history at the University of Iceland. She has been published in numerous science magazines, reference works and written chapters for books published in both Icelandic and English. She has on many occasions consulted for both companies and institutions. Tinna Laufey holds various executive positions in the field of science and teaching, including a seat on the Council of the University of Iceland. Tinna Laufey has served as alternate to the Board of Directors of Landsbankinn March 2012.

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**Árni G. Hauksson** was born in 1968 and resides in Japan. He is an independent consultant and director in Japan and in Iceland. Árni graduated from the Engineering faculty of the University of Iceland in 1992. He completed an MSc from the Massachusetts Institute of Technology in Cambridge, MA, in 1993 and a PhD from the same institution in 1997. Árni worked as a consultant for Monitor Company in the US (1993-1995) and later as a senior trader at Banque Paribas 1997-2000. Árni worked as a consultant for McKinsey & Co. in New York in 2000-2003 and in 2003-2006, worked as an investment and risk strategist at Amaranth Advisors LLC. In 2006-2013, he held the position of managing director at Goldman Sachs & Co.; first (2006-2010) in asset management for Goldman Sachs Asset Management in New York and subsequently (2010-2013) in the securities division of Goldman Sachs & Co in Japan. Árni is a member of the Board of Directors of the Icelandic Chamber of Commerce in Japan, and of various Icelandic companies. Árni was elected as alternate member of Landsbankinn's Board of Directors in March 2015.

## **12. Information on the independence of Board members of the company and of major shareholders**

Regular and alternate directors do not hold shares in the bank, either directly or indirectly through related parties. Regular and alternate directors are furthermore independent of Landsbankinn and of major shareholders. They have no connected interests with the bank's leading customers, competitors or large shareholders.

## **13. Key aspects of performance assessment**

The Board of Directors underwent a performance assessment in early 2016. The activities and work of the Board of Directors in 2015 were evaluated. Also evaluated were information disclosure, strategy development and future vision, the performance of Directors, exchange of opinions, the work of sub-committees of the Board, the performance of the Chairman and the CEO.

## **14. Information on the CEO and description of his main responsibilities**

Landsbankinn's CEO, Steinþór Pálsson, was born in 1960 and resides in Iceland. Steinþór builds on long and successful experience of managing financial institutions and production companies, both in Iceland and abroad, and a great deal of experience of change management and policy setting. Steinþór holds a degree in Business Administration from the University of Iceland, cand oecon, and an MBA from Edinburgh University. In previous years, Steinþór was Managing Director of the Credit Division at VerzlunarbANKI Íslands and later held various positions with Íslandsbanki, including Head of the Credit Department, Investment Loans, Branch Services, Risk Management and Corporate Services, in addition to taking an active part in policy formulation work and the merger process of Íslandsbanki and its predecessor. Steinþór worked as Chief Financial Officer and Manager of Operations of biotechnology company Urður, Verðandi og Skuld. He then worked for Actavis for eight years, first as Managing Director of Actavis in Malta, Managing Director of Actavis in the US and later as Managing Director of Policy Formulation for the Actavis Group. He took over as CEO of Landsbankinn in 2010. Steinþór is Chairman of the Board of Directors of Hömlur ehf. and is Chairman of the Board of the Icelandic Financial Services Association (SFF). Steinþór chairs the Executive Board, the Risk & Finance Committee and the Credit Committee.

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Landsbankinn's CEO is responsible for the bank's day-to-day operations and 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 importance. Such actions can only be taken by special authorisation from the Board of Directors. The CEO shall ensure that the bank's operations comply with laws, regulations and the Articles of Associations, and with Board decisions. He shall ensure that the bank's accounting complies with law and good business practice and that handling of the bank's assets is secure. The bank's CEO serves as spokesperson for the bank on all business and administrative issues. Steinþór Pálsson owned 345,228 shares in the bank at year-end 2015. No stock option agreements have been concluded with the CEO. The CEO has no connected interests with the Company's main customers, competitors of large shareholders.

### **15. Regulatory environment**

In 2015 Landsbankinn concluded two settlements with the Central Bank of Iceland regarding the application of Rules No. 87/1992, on Foreign Currency, in the total amount of ISK 18,050,000. The Icelandic Financial Supervisory Authority (FME) also carried out two on-site inspections of the bank in 2015 and published five transparency notices involving comments and suggestions. No issues raised involved sanctions as a result of infringements of Acts or Rules.

### **16. Organisation of communication between shareholders and the Board of Directors**

At year-end 2015, shareholders in Landsbankinn numbered 1835. The Board of Directors communicates with shareholders in accordance with law, the bank's Articles of Association and the Board's Protocols. The Chairman of the Board directs its communications with shareholders. Members of the Board of Directors shall, in their duties and decision-making, safeguard the interests of the bank and shareholders in accordance with the provisions of Act No. 2/1995, on Public Limited-liability Companies, Act No. 161/2002, on Financial Undertakings, and current rules and guidelines on the activities of financial undertakings.