

Corporate Governance Statement for 2017

The governance structure of Landsbankinn forms the foundation for solid relations between shareholders, the Board of Directors, executives, employees and other stakeholders and encourages objectivity, integrity, transparency and responsibility in the management of the Bank. Each year, Landsbankinn reviews compliance with recognised guidelines on corporate governance to determine whether the Bank complies with such guidelines at each time.

In March 2017, the Centre of Corporate Governance renewed its recognition of Landsbankinn as a model of corporate governance for the period 2016-2017 based on a review undertaken by Deloitte ehf. of the Bank's governance practices in January 2017. The review has regard for the Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, the Confederation of Icelandic Employers and Nasdaq Iceland. The aim is first and foremost to encourage debate and actions that promote good corporate governance.

1. References to the rules on corporate governance which the Bank complies with and is required to comply with by law and information about the accessibility of such rules are public information.

According to the first paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, cf. Article 20 of Act No. 57/2015, the Board of Directors of Landsbankinn is responsible for ensuring that corporate governance and the Bank's internal organisation contribute to the efficient and prudent management of the Bank, segregation of duties and for preventing conflict of interest. The same Article provides that the Board review governance practices annually with regard to approved guidelines on corporate governance and take appropriate action as necessary.

According to the seventh paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, cf. Article 20 of Act No. 57/2015, Landsbankinn is required 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.

The Bank complies with the Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers 1 June 2015 (5th ed.). The Guidelines are available on the website of the Iceland Chamber of Commerce, <http://leidbeiningar.is> (hereafter referred to as the Guidelines).

This chapter of the annual report contains the corporate governance statement of Landsbankinn with content presented in accordance with the requirements set out in the Guidelines.

2. Deviations from the Guidelines

Landsbankinn complies with the provisions of the Guidelines and there are no deviations to disclose.

3. Other rules and guidelines that apply and are specific to the company's activities.

Landsbankinn's activities are governed by Act No. 161/2002, on Financial Undertakings, rules and guidelines issued by the Central Bank and Financial Supervisory Authority (FME) and various other rules and guidelines about the activities of financial undertakings.

4. Main aspects of risk management and internal control

The Board of Directors shall ensure active risk management and internal control. Emphasis is placed on identifying key risk factors in the Bank's operation and implementing mitigating measures to manage risk. The aim of internal control is to support the Bank in achieving its objectives as regards performance, risk appetite, reliable financial information and compliance with laws and regulations.

It is the policy of Landsbankinn to only accept risks that the Bank understands, is able to evaluate and manage. Effective risk management is key to long-term profitability and stability in the Bank's operation. 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 risks and/or communicate information about risk on which to base decisions. The Bank emphasises professional risk management in its processes, that all employees are aware of and understand the risk factors in their work and that action to meet risk is based on informed decisions.

Risk management and internal control is an integral part of the Bank's daily operation. The Bank's business strategy and goals are carried out in line with risk policies and active supervision which is intended to facilitate implementation of the business strategy. 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 under the auspices of specialised units, i.e. Risk Management, Compliance and Internal Audit. Analysis of the efficacy of internal control is based on a review of five main factors: control weaknesses, risk management, supervision activity, information and communication and management control.

The Risk Committee is one of the sub-committees of the Board of Directors and regularly discusses internal control and risk management. The Bank's Audit Committee, another sub-committee of the Board, regularly discusses the Bank's accounting and evaluates its internal control processes.

A more detailed description of risk management within the Bank is provided on the following website: <https://bankinn.landsbankinn.is/fjarfestar/arsskyrslur-og-uppgjor/>

5. Policy on corporate social responsibility and ethics

The Bank's corporate social responsibility policy was reviewed in 2016 and approved by the Board of Directors in December 2016.

Landsbankinn is a trusted financial partner

Landsbankinn's policy on social responsibility is to contribute to sustainability in Iceland, to be an active participant and operate in accordance with the principles of good corporate governance. The economy, the community and nature are part of the same system and it cannot grow beyond the finite limits set by nature. Ecosystem sustainability and robust industry co-exist and are reconcilable, not antithetical.

Landsbankinn aims to be an active participant in the community by taking the initiative to form partnerships with companies and institutions to develop industrial activities and infrastructure which will contribute to increased sustainability in Icelandic industry and society. The aim is to ensure that opportunities in Iceland are utilised as propitiously as possible for the benefit of both nature and society, and for the future. This will facilitate the creation of new business opportunities with an emphasis on sustainability.

Landsbankinn's vision is to be exemplary and a trusted financial partner. The Bank intends to lead by example in the field of corporate social responsibility in Iceland. To prepare even better, the Bank intends to accomplish the following before year-end 2018:

- Ensure that all employees have knowledge of and understand what sustainability entails.
- Engage in a constructive dialogue with customers, suppliers and the community about sustainability and social responsibility in financial activities.
- Implement guidelines on sustainability in the Bank's decision-making process.

In coming years, the Bank independently and in collaboration with others aims to:

- Ensure that the Bank's operation impact the ecosystem as little as possible and minimise waste.
- Be an active participant in the community and take the initiative to form partnerships with companies and institutions to develop industrial activities and infrastructure which will contribute to increased sustainability in Icelandic industry and society.
- Take decisions on service provision and other aspects of the Bank's operation based on the precepts of sustainable development.
- Encourage the Bank's customers and partners to follow guidelines on social responsibility.
- Begin lending based on green securities in collaboration with international financing parties.
- Be mindful of sustainability in evaluating investment opportunities, lending and pricing.
- Analyse startups and registered companies with regard for sustainability.
- Model exemplary action against money laundering and terrorist financing.
- Assess suppliers based on sustainability principles.
- Measure and assess Landsbankinn's progress in social responsibility and sustainability matters.

A clear CSR policy positively impacts lending and return on investment in the long term and reduces risk in the Bank's operation. The Bank intends to make a positive contribution and work to realise the goal of customers saying that "this is what a bank should be like".

The Bank intends to be a model of good corporate governance and comply with rules to the effect issued by Nasdaq Iceland, the Iceland Chamber of Commerce and the Confederation of Icelandic Employers.

Further information about the Bank's policy on corporate social responsibility is available on here: <https://bankinn.landsbankinn.is/samfelagsleg-abyrgd/samfelagsstefna/>

6. Composition and activities of the Board of Directors, sub-committees of the Board and the Executive Board

The Board of Directors consists of seven persons and two alternates. The Board of Directors is elected by the Annual General Meeting (AGM) and the term of office is one year. 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 ultimately 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 of Directors shall also monitor the Bank's general activities and ensure that control of accounting and financial management is satisfactory. The Board adopts its own rules of procedure, providing in detail its tasks.

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

The Board of Directors hires the CEO and the Internal Auditor. The CEO hires other executives to the Bank. 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 & IT. Each division is directed by a managing director who, together with the CEO, form the Bank's Executive Board. The CEO's Office, Compliance, Human Resources and Marketing & Communications are directly responsible to the CEO.

7. Appointment to the Nomination Committee.

Landsbankinn has not appointed a Nomination Committee.

8. Appointment of the sub-committees

The Board of Directors appoints members to its sub-committees. No changes were made to the organisation of committees in 2017. The Audit Committee is now comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee is comprised of four Directors, the Remuneration Committee of three and the Strategic Development Committee of four Directors.

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

In 2017, the Board of Directors of Landsbankinn held a total of 22 meetings. The Audit Committee met 8 times; the Risk Committee 11 times; the Remuneration Committee 6 times; and the Strategic Development Committee met 3 times. The table provides an overview of attendance.

	Term-time in 2017	Board of Directors	Audit Committee	Risk Committee	Remuneration Committee	Strategic Development Committee
Board of Directors		22	8	11	6	3
Helga Björk Eiríksdóttir, Chairman	01.01 - 31.12	22			6	3
Magnús Pétursson	01.01 - 31.12	18		10	6	
Berglind Svavarsdóttir	01.01 - 31.12	21	4	4	6	
Einar Thór Harðarson	01.01 - 31.12	21		11		3
Hersir Sigurgeirsson	01.01 - 31.12	22	2	11		2
Jón Guðmann Pétursson	01.01 - 31.12	22	8			3
Sigríður Benediktsdóttir	22.03 - 31.12	15	6	7		
Danielle P. Neben	01.01 - 09.02.	1	1			1
Samúel Guðmundsson, alternate	01.01 - 31.12	10				
Ásta Dís Óladóttir, alternate	22.03 - 21.06					
Audit Committee						
Stefán Svavarsson	01.01 - 31.12		8			

10. Rules of Procedure for the Board of Directors and its sub-committees

The Rules of Procedure for the Board of Directors are available on Landsbankinn's website.¹ Special procedural rules have been issued for the Audit Committee, the Risk Committee, the Remuneration Committee and the Strategic Development Committee, and these rules are also available on the Bank's website.

11. Information about members of the Board of Directors

Regular members of the Board of Directors are:

Helga Björk Eiríksdóttir, Chairman

Helga Björk Eiríksdóttir was born in 1968. Helga Björk Eiríksdóttir is Managing Director of Integrum, a company that operates in the field of real estate development and consultation. Previously, she handled public relations for Marel and chaired the Board of Directors of Sparisjóður Svarfdæla. Helga Björk holds an MBA from 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 in 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 Kaupthing hf. Previously, Helga Björk spent eight years working as marketing and PR manager of Nasdaq OMX Iceland. Helga Björk has also worked in media, various other jobs and worked for savings bank

¹ <http://bankinn.landsbankinn.is/um-bankann/stjornarhaettir/bankarad/starfsreglurbankarads/>

Sparisjóður Svarfdæla at Dalvík for a longer period. Helga Björk was elected to the Board of Directors of Landsbankinn in April 2013. She is Chairman of the Board of Directors and chairs the Remuneration Committee

Magnús Pétursson, Vice-chairman

Magnús Pétursson was born in 1947. Magnús completed an BA Econ (Hons) from the University of York in England in 1971. He studied economics and planning at a graduate level at the University of London and Umeå University in Sweden in 1973-1976. Magnús worked as office manager of the Budget and Public Finances Institution in 1976-1981 and fiscal manager at the Institution in 1981-1988. He was a consultant and assistant managing director of the Nordic desk at the International Monetary Fund in 1988-1990. In 1991-1998, he was Permanent Under-secretary of the Ministry of Finance. He was appointed CEO of the National and Reykjavík Hospital on 1 January 1999 and continued on as CEO of the merged hospital, Landspítali National University Hospital until 2008. He was the Icelandic State Conciliation and Mediation Officer in 2008-2015. Magnús has served on numerous committees and counsels for public authorities, including the executive committee for the construction of a new National University Hospital (2005-2008), the Minister of Health's committee for division of responsibility in the health care system (2003-2006), a committee for the selection of a location for a new National University Hospital (2001-2002), a strategic committee of the National University Hospital and the University of Iceland for communications between the two entities (2001-2008) and the development committee of the University of Iceland. During his career, he has sat on the boards of various companies and associations, and participated in international collaborations on behalf of Icelandic authorities. Magnús was elected to the Board of Directors in April 2016 and is currently its Vice-chairman.

Berglind Svavarsdóttir

Berglind Svavarsdóttir was born in 1964. She is a Supreme Court Attorney and partner of Lögfræðistofa Reykjavíkur. Berglind is a law graduate of the University of Iceland 1989, was admitted to the bar as a District Court Attorney in 1995 and a Supreme Court Attorney in 2008. Berglind holds a diploma in general management from the University of Akureyri from 2006. She worked at the Directorate of Tax Investigations in Iceland in 1988-1989 for the District Commissioner at Húsavík in 1990-1996. She was owner of a legal firm and real estate agency in 1996-2003, partner in Regula lögmansstofa ehf. in 2003-2010 and partner in Acta lögmansstofa in 2011-2016. The last firm merged with Lögfræðistofa Reykjavíkur on 1 April 2016. Berglind has held various executive positions and has sat on the Board of Directors of Lögmannafélag Íslands since 2015 and is currently Vice-chairman of the association. She was a member of the Winding-up Board of SpB hf. in 2009-2016 and the ad hoc revision committee in 2014-2017. She was also on the judging panel for applicants to represent Iceland as judges on MDE in 2013, a member of the board of the Association of Women in Law 2008-2010 and an alternate to the Icelandic Bar Association's Rulings Committee in 2005-2015 Berglind was elected to the Board of Directors in April 2016.

Einar Thór Harðarson

Einar Thór Bjarnason was born in 1962. He has worked as partner and consultant at Intellecta, focusing among other things on strategy formulation and change management, since 2001. After graduating in industrial engineering from the University of Iceland in 1987 he received a master's degree in production engineering from Oregon State University in the US in 1992. He also earned an MBA from the Norwegian School of Management in Oslo in 1997. From 1987 to 1989 Einar Thór was a project manager at Eimskip and 1989-1991 at the Icelandic Fisheries Laboratories. Since 1992 he has worked as a consultant, first at Ráðgarður, 1992-96, and then Accenture in Norway, 1997-2000. In 2000 he was a founder of the consultancy firm Cell Strategy in Norway, where he worked in 2000-2001 as manager. In 2013-2015 Einar Thór was a director of the savings bank AFL sparisjóður. He has served as director for various Icelandic enterprises and associations, including on the board of Excellence Iceland and the Icelandic Performance Satisfaction Index. He is currently Chairman of the Board of Intellecta ehf. Einar Thór was elected to the Board of Directors in April 2016 and is Chairman of the Strategic Development Committee.

Hersir Sigurgeirsson

Hersir Sigurgeirsson was born in 1972. He is Associate Professor of Finance in the Faculty of Business Administration of the University of Iceland and an independent consultant. Hersir graduated with a BSc degree in mathematics from the University of Iceland in 1995, then completed a master's degree in financial mathematics from Stanford University in 1999 and a doctorate in applied mathematics from the same university in 2001. He is also a certified securities broker. He worked as software development specialist for Integral in the US in 1999 then as data research expert at Íslensk erfðagreining 2001-2002. From 2003 to 2006 he worked for Kaupthing Bank, for instance in risk management and proprietary trading. In 2006-2010 he was Assistant Professor of Finance in the Faculty of Business Administration of the University of Iceland. He worked for a number of years for Saga Capital in Akureyri, first as managing director of risk management and operations, 2006-2011, then as CEO in 2011-2012. He also worked as a consultant for the World Bank in Washington 2013-2015. Hersir was Chairman of the Board of the financial undertaking T Plús hf. in Akureyri in 2009-2014 and Chairman of the Board of

Straumur sjóðir hf. in Reykjavík in 2014-2015. He has been a member of the WACC committee of the National Energy Authority since April 2014. In recent years he has been expert judicial advisor and court-appointed assessor in numerous court cases concerning valuations, taxation issues etc. and provided a variety of advice and expert services concerning enterprise finance, banking and the financial markets. Hersir was elected to the Board of Directors in April 2016 and is Chairman of the Risk Committee.

Jón Guðmann Pétursson

Jón Guðmann Pétursson was born in 1959. Following his graduation as cand. oecon. from the Faculty of Business Administration of the University of Iceland in 1982 he worked for the auditing firm Endurskoðunarskrifstofa Björns & Ara in 1982-83. Jón was CFO of independent institutions of the Iceland Defence Force from 1984 to 1987, CFO of Hampiðjan 1987-2002 and CEO of that company 2002-2014. Jón has served on the boards of a large number of domestic and foreign companies, including the board of Hampiðjan 2006-2014 and its subsidiaries in Denmark, Ireland, Lithuania and other countries. He has been a director of Royal Iceland since 2014, was a director of Iceland Seafood International 2009-2011, of Vaka 2002-2004, and of the Iceland Stock Exchange 1996-1999. Jón was also a member of the Accountancy Council of Iceland 2001-2004 and a director of the pension fund Lífeyrissjóður Framsýnar 2002-2005. Jón Guðmann was elected to the Board of Directors in April 2016 and is Chairman of the Audit Committee.

Sigríður Benediktsdóttir

Sigríður Benediktsdóttir was born in 1972. She is now active in research and teaching at Yale University in the US. Sigríður completed a BSc degree in economics from the University of Iceland and a BSc in computer science from the same institution in 1998. Sigríður was awarded her doctorate in economics from Yale in May 2005. In 1995-1997, Sigríður worked for the Institute of Economics of the University of Iceland and as project manager and consultant at Hugvit hf. in 1997-1998. She worked as an economist for the US Federal Reserve in 2005-2007. From 2007, Sigríður taught and held the post of Assistant Dean at the Yale School of Economics. During that time, she worked on research in financial economics, focusing on financial markets. Sigríður was appointed to the Icelandic Parliament's Special Investigation Commission into the failure of the banking system in 2008 and was a member of the Danish Systematic Risk Council in 2013-2016. Sigríður Benediktsdóttir was hired by the Central Bank of Iceland as the Managing Director of Financial Stability in 2011 and held that position to 2016. Sigríður is a member of the financial administration board of the non-profit organisation New Haven Reads which was founded to increase literacy skills in underprivileged children. She has held many other confidentiality positions and authored numerous scholarly articles.

Alternate

Samúel Guðmundsson

Samúel Guðmundsson was born in 1967. He is currently managing director of Sjávarkaup hf., Food Diagnostic Ísland ehf. and S67 ehf. Samúel graduated with a cand. oecon. degree from the University of Iceland in 1991 and received an MBA from Reykjavík University in 2007. He has had a lengthy career with Olís hf. as head of finance 1992-95, director of the IT division 1995-1996, managing director of the investment and risk management division 1997-2006, managing director of product management division 2006-2014 and managing director of wholesale and industrial supplies division 2013-2014. Samúel is currently a director of S67 ehf. and Food Diagnostic Ísland ehf. and was previously a director of the Distribution Cost Equalisation Fund, 2004-2014, of Gasfélagið 2002-2005, an alternate director of Olúdreifing 2002 and a director of Ellingsen 1999-2000. Samúel was elected to the Board of Directors in April 2016.

Member of the Audit Committee of the Board of Directors

Stefán Svavarsson

Stefán Svavarsson was born in 1946. Stefán sits on the Audit Committee of Landsbankinn's Board of Directors as an external expert in the field of accounting and auditing. He completed a BSc. in business administration with a major in accounting from Ohio State University in 1970 and became a legally certified accountant in 1975. He has extensive experience as an accountant and has taught accounting at the University of Iceland, Reykjavík University and Bifröst University for many years. Stefán worked as internal auditor for Kraftco Inc. in the USA in 1970-71 and for the National Audit Bureau in Iceland in 1972. From 1972-84, Stefán worked and was a partner in the Svavar Pálsson Auditing Firm. Stefán was made assistant professor in auditing at the University of Iceland in 1975 and an associate professor ten years later. In 2004-5, Stefán worked for Landsvirkjun. In 2005, he was appointed assistant professor and head of the master's programme in auditing at Reykjavík

University. He taught there until 2013. Stefán worked for the Central Bank of Iceland in 2006-2009. He was appointed professor at Bifröst University in 2009. Alongside teaching duties, Stefán operated his own auditing firm in 1984-98. Stefán has served on various auditing committees, such as boards of specialists for the Institute of State Authorized Public Accountants in Iceland, and was the Chairman of the Board of Directors of the Financial Supervisory Authority, Iceland, in 2001-6. Stefán is currently a member of the Audit Committee of the Bank Employees' Pension Fund.

12. Information on the independence of Directors of the company and of major shareholders

Regular and alternate members of the Board of Directors do not hold shares in the Bank, neither directly or indirectly through related parties. Regular and alternate members of the Board of Directors are independent of Landsbankinn and of major shareholders. They have no connected interests with the Bank's main customers, competitors or large shareholders.

13. Key aspects of the performance assessment

The performance assessment of the Board of Directors is scheduled to be completed in early February. The activities and work of the Board of Directors in 2017 will be evaluated. Also up for evaluation is 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 her main responsibilities

Lilja Björk Einarsdóttir took up the position of CEO of Landsbankinn on 15 March 2017. Hreiðar Bjarnason, Managing Director of Finance, served as interim CEO from 30 November 2016.

Lilja graduated as a mechanical and industrial engineer from the University of Iceland in 1998 and achieved an M.Sc. in financial engineering from the University of Michigan, Ann Arbor, in 2003. In 2008 to 2016, Lilja directed the operation, asset management and recovery of assets of old Landsbanki Íslands, LBI ehf., in London. She was an independent consultant and director as of 2016 and until she was hired as CEO of Landsbankinn. In 2005 to 2008, she worked as a specialist and later Managing Director at Landsbanki Íslands hf. in London, responsible for the daily operation and development of support functions, amongst other things. Lilja previously worked for consulting firm Marsh & McLennan from 2003 to 2005 for such clients as the Ford Motor Company, as an expert in planning and creating risk models for the insurance and treasury departments.

Lilja does not hold shares in the Bank and has no connected interests with its main customers, competitors or large shareholders.

The Bank's CEO shall be responsible for the Bank's day-to-day operations and shall be 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. 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. She 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 shall serve as spokesperson for the Bank on all business and administrative issues.

15. Laws and regulations

The FME and Landsbankinn hf. reached an agreement on 22 May 2017 to conclude with a settlement a case involving the violation of the provisions of the first paragraph of Article 86 of Act No. 108/2007, on Securities Transactions. Landsbankinn admitted to violating the provision of the first paragraph of Article 86 of Act No. 108/2007, on Securities Transactions, by failing to give notice of a change to a substantial voting share of N1 hf. within the legal time limit following a reduction of the company's share capital. The Bank agreed to pay a fine of ISK 11,800,000.

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

At year-end 2017, shareholders in Landsbankinn numbered 932. The Board of Directors communicates with shareholders in accordance with law, the Bank's Articles of Association and the Board's Rules of Procedure. 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 about the activities of financial undertakings.