



Corporate Governance Statement

for 2019

Corporate Governance Statement

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. Landsbankinn complies with recognised guidelines on corporate governance and publishes an annual statement on its governance practices in a dedicated chapter in its annual report, including information on the Bank's compliance with such guidelines.

In April 2019, the Centre of Corporate Governance renewed its recognition of Landsbankinn as a model of corporate governance for the period 2018-2019 based on a review undertaken by Deloitte ehf. of the Bank's governance practices in January 2017. The review is based on the *Guidelines on Corporate Governance* published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers. The aim of the recognition 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 shall review governance practices annually with regard for 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 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).

Landsbankinn also bases its activities on the European Banking Authority's Guidelines on Internal Governance for financial undertakings (EBA/GL/2017/11), cf. Art. 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market. The Guidelines are available on the website of the Financial Supervisory Authority of the Central Bank of Iceland (<https://www.fme.is/log-og-tilmaeli/ees-vidmidunarreglur/eba/nr/3076>).

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 on Corporate Governance*.

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 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 control

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 risk. Communication of information about risk as a foundation of decision-making and a key aspect of effective risk management.

Internal control supports the Bank in achieving its objectives as regards performance, risk appetite, reliable financial information and compliance with laws and regulations. Analysis of the efficacy of internal control is based on a review of control weaknesses, risk management, supervision activity, information and communication and management control.

The Board of Directors shall ensure active risk management and internal control.

Two sub-committees of the Board of Directors report to the Board as part of their advisory and supervisory role in risk governance and internal control, set out in detail in the rules of procedure for each sub-committee. The Risk Committee regularly discusses internal control and risk management. The Audit Committee, another sub-committee of the Board, regularly discusses the Bank's accounting and evaluates its internal control processes.

Executives and employees are responsible for surveillance, risk culture and managing risks connected to their units. Emphasis is placed on ensuring that all employees are aware of and understand the risks in their work and that action to meet risk is based on informed decisions.

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.

A more detailed description of risk governance within the bank is provided in dedicated risk report available here: <https://bankinn.landsbankinn.is/fjarfestar/arsskyrslur-og-uppgjor/>

5. Policy on corporate social responsibility and ethics

Landsbankinn's policy on social responsibility is to contribute to sustainability in Iceland, to be a dynamic force in society 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 a dynamic force in the community, taking the initiative to form partnerships with companies, institutions and organisations to develop industrial activities and infrastructure which will contribute to increased sustainability in Icelandic industry and society with the aim to utilise as best as possible the available opportunities for the maximum future benefit of the country and its inhabitants. A joint effort facilitates 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 be a lead by example in the field of corporate social responsibility in Iceland.

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".

Landsbankinn has endorsed UNEP FI's new Principles for Responsible Banking, intended to align the banking industry with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

Further information about the Bank's CSR policy is available 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 directors 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 law, 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 Bank has six divisions: Personal Banking, Corporate Banking, Markets, Risk Management, Finance, and IT. Each division is directed by a managing director who, together with the CEO, form the Bank's Executive Board. The Internal Audit division reports to the Board of Directors. The CEO's Office, Compliance, Human Resources and Marketing & Communications are directly responsible to the CEO.

Landsbankinn has not adopted a special policy to ensure the diversity of the Board of Directors or Executive Board with regard for age, gender or educational or professional background. According to law, the Board of Icelandic State Financial Investments appoints a three-person Nomination Committee which nominates

directors to represent the State on the Bank's Board of Directors. The Nomination Committee shall ensure as equal a gender balance as possible. The Nomination Committee works according to rules of procedure that include guidelines on the evaluation of the qualifications, education and experience of eligible individuals. These rules of procedure provide that the Committee shall nominate individuals with varied a background as regards education and qualification. The Committee shall consider overall make-up and seek to avoid a homogeneous composition of the boards of financial undertakings.

7. Appointment to a Nomination Committee

Landsbankinn has not appointed a Nomination Committee. A Nomination Committee appointed by Icelandic State Financial Investments by law nominates individuals to represent the State on the Board of Directors of Landsbankinn.

8. Appointment of the sub-committees

The Board of Directors appoints members to its sub-committees. One change was made to the organisation of committees in 2019 when members of the Risk Committee were reduced by one. The Audit Committee is comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee is comprised of three Directors, the Remuneration Committee of three Directors and the Strategic Development Committee of four Directors.

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

In 2019, the Board of Directors of Landsbankinn held a total of 21 meetings. The Audit Committee met 7 times; the Risk Committee 12 times; the Remuneration Committee 5 times; and the Strategic Development Committee met 4 times. The table provides an overview of attendance.

	Term-time in 2019	Board of Directors	Audit Committee	Risk Committee	Remuneration Committee	Strategic Development Committee
Board of Directors		21	7	12	5	4
Helga Björk Eiríksdóttir, Chairman	01.01 - 31.12	21			5	4
Berglind Svavarsdóttir	01.01 - 31.12	20	2		5	
Einar Thór Bjarnason	01.01 - 31.12	20		12		4
Hersir Sigurgeirsson	01.01 - 31.12	20		12	2	2
Sigríður Benediktsdóttir	01.01 - 31.12	19	7	12		
Thorvaldur Jacobsen	01.01 - 31.12	15	5			2
Guðbrandur Sigurðsson	04.04 - 31.12	13	5			2
Jón Guðmann Pétursson	01.01 - 12.03	5	2			2
Guðrún Blöndal	01.01 - 31.12	8				
Sigurður Jón Björnsson	04.04 - 31.12	4				
Audit Committee						
Stefán Svavarsson	01.01 - 04.04		2			
Hjörleifur Pálsson	01.05 - 31.12		4			

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

Members of the Board of Directors

Directors

Helga Björk Eiríksdóttir, Chairman

Helga Björk Eiríksdóttir was born in 1968. Helga Björk works in real estate development and consultation, and operates accommodation services in Akureyri. 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 from 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, held 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. She is Chairman of the Board of Directors and chairs the Remuneration Committee

Berglind Svavarsdóttir

Berglind Svavarsdóttir was born in 1964. She is a Supreme Court Attorney and partner at 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. She received a management diploma from the University of Akureyri in 2006. In 1988-89 she worked for the Directorate of Tax Investigations in Iceland and 1990-96 for the District Commissioner in Húsavík. She was owner of a legal firm and real estate agency in 1996-2003, partner in Regula lögmannsstofa ehf. in 2003-2010 and partner in Acta lögmannsstofa in 2011-2016. The last firm merged with Lögfræðistofa Reykjavíkur on 1 April 2016. Berglind has held various executive positions, has sat on the Board of Directors of Lögmannafélag Íslands since 2015 and is currently 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 2014-2016. She was also on the judging panel for applicants to serve 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 and is currently its Vice-chairman.

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

Einar Thór Bjarnason

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 board of the savings bank AFL sparisjóður in Siglufjörður. 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.

Guðbrandur Sigurðsson

Guðbrandur Sigurðsson was born in 1961. He is managing director of Borgarplast hf. Guðbrandur completed a BSc degree in food science in 1985 and an MBA from Edinburgh University in 1994. He worked for Íslenskar sjávarafurðir and its predecessors in 1985-1996 and was one of its managing directors when it was founded in 1991. He was managing director of ÚA and Brimir in 1996-2004. In 2005-2008 he was managing director of MS, managing director of Nýland ehf. in 2008-2010, and managing director of Plastprent ehf. in 2010-2012. He was later managing director of auditing firm PwC in Iceland between 2013-2016 and managing director of Heimavellir hf. in 2016 - 2019. He has served on the boards of numerous companies and associations, including BL hf., Hagar hf. and Reitir hf. He is currently a director of the board of Reykjavík Creamery ehf. and Talnakönnun hf. Guðbrandur was elected to the Board of Directors in April 2019.

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 a software development specialist for Integral in the US in 1999, then as a data research expert at deCODE Genetics in 2001-2002. From 2003 to 2006, he worked for Kaupthing Bank, in risk management and proprietary trading among other areas. 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 Directors of financial undertaking T Plús hf. in 2009-2014 and of Straumur sjóðir hf. 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.

Sigríður Benediktsdóttir

Sigríður Benediktsdóttir was born in 1972. She is currently 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 Systemic Risk Council in 2013-2016. Sigríður 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 in underprivileged children. She has held many other confidentiality positions and authored numerous scholarly articles. Sigríður was elected to the Board of Directors in March 2017 and is Chairman of the Audit Committee.

Thorvaldur Jacobsen

Thorvaldur Jacobsen was born in 1963. He is managing director of Landsnet's system administration division. Thorvaldur completed a degree in electrical engineering from the University of Iceland in 1987 and a degree in computer science from the same institution in 1988. He completed a master's degree in electrical engineering from the University of Texas at Austin in 1990. Thorvaldur worked for Opin kerfi as a sales manager in 1990-1996 and as a sales and marketing manager of Teymi in 1996-1999. He became managing director of Vísir.is ehf. in 1999 and led that company until 2001. Thorvaldur worked for the Nýherji Group for several years, first as managing director of communications solutions in 2001-2005 and later as managing director of core solutions in 2005-2008. He acted as CEO of Dansupport A/S (a Nýherji subsidiary in Denmark) for a six-month period in 2007-2008, was a managing director at Skyggni 2009-2011, managing director at UAB Baltic IT Services 2010-2012 (a Nýherji subsidiary in Lithuania), and finally managing director of operating solutions at Nýherji in 2011-2012. Thorvaldur was managing director of development at VÍS in 2012-2017 and worked for Valcon Consulting A/S in management consultancy and change control in 2017-2019. He sits on the board of Sensa ehf., a subsidiary of Síminn, and has previously been a director of the boards of various companies, and non-profit organisations in his field. Thorvaldur was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2019.

Alternates

Guðrún Ó. Blöndal

Guðrún Ó. Blöndal was born in 1960. Guðrún completed a cand.ocean. degree from the University of Iceland in 1990. Guðrún worked for Kaupthing in 1982-2002, first in asset management and later as marketing director, HR manager and head of the custody department until 2002. She was managing director of Arion securities custody, a subsidiary of Kaupthing, from its establishment in 2002 until it merged into Arion Bank in 2012. Guðrún has been a director of the board of Eimskipafélag Íslands hf. since 2018. In 2012-2013, she was a director of the boards of Framtakssjóður Íslands slhf., Reginn hf., Vörður tryggingar hf., Vörður líftryggingar hf. and Míla ehf. Guðrún was managing director of Nasdaq verðbréfamíðstöð hf. from 2013 to 2018. Guðrún was elected as Alternate to the Board of Directors in March 2018.

Sigurður Jón Björnsson

Sigurður Jón Björnsson was born in 1966. He completed a cand.oecon. degree from the school of accounting and finance from the University of Iceland in 1994 and became a licensed securities broker in 2009. Following graduation, he worked as assistance sales manager for Íslensk Ameríska hf. in 1995-1997. He worked as head of finance, deputy managing director and analyst in investment banking at Framtak Fjárfestingarbanki hf. in 1997- 2003. He headed up the financial administration department of Air Atlanta in 2003-2006 and was CFO and deputy managing director of financial administration at Norðurál in 2006-2007. He worked as a corporate consultant at Capacent in 2007 and later became a partner at securities house Capacent Fjárfestingaráðgjöf, later Centra Fyrirtækjaráðgjöf hf. Alongside his consultancy role, Sigurður served as Compliance Officer for the securities house. Sigurður was CFO of the Housing Financing Fund in 2011-2017 and was, among other things, responsible for risk management at the fund in 2011-2015. Sigurður was chairman of the board of tech company Betware in Iceland from the company's establishment in 1998 and until it was sold to foreign parties in 2014. He has also served on the boards of companies Stoðir hf., Íslandsflug hf., Landsafl hf., IMSI Inc., and SPC Holding AS. Sigurður was elected as Alternate to the Board of Directors in April 2019.

Member of the Audit Committee of the Board of Directors

Hjörleifur Pálsson

Hjörleifur Pálsson was born in 1963. Hjörleifur completed a cand.ocean. degree from the University of Iceland in 1988. He became a certified public accountant in 1989 and worked as an auditor to 2001. He was managing director of finance at Össur hf. from 2001 to 2013. Since 2013, Hjörleifur has sat on the boards of various companies and invested in and supported start-ups. He is currently chairman of the board Sýn hf., chairman of the board and directors of the university council of Reykjavik University, on the investment council of Akur fjárfestingar slhf., a director of the board of Brunnur vaxtarsjóður slhf., Lotus Pharmaceutical Co., Ltd in Taiwan and Ankra ehf. Hjörleifur chairs the nomination committee of Icelandair Group hf. He became a member of the Audit Committee of the Board of Directors in November 2019.

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 Board of Directors underwent a performance evaluation in December 2019 and January 2020. The activities and work of the Board of Directors in 2019 were evaluated. Also up for evaluation was 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.

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

No remarks were received from supervisory entities in 2019 concerning violations of laws or regulations leading to penalties.

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

At year-end 2019, shareholders in Landsbankinn numbered 881. 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 other rules and guidelines about the Bank's activities.