



Corporate governance statement

for 2016

Corporate Governance Statement for 2016

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 December 2014, the Centre of Corporate Governance recognised Landsbankinn hf. as a model of good corporate governance. The Centre's conclusion was based on a review of governance practices carried out by Deloitte in November 2014. Deloitte's review 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. At the time of publication of this statement on corporate governance Deloitte is carrying out a new review of the Bank's governance practices the conclusion of which will be explained at the upcoming Annual General Meeting of the Bank. Deloitte is currently working on a new audit of the Bank's governance practices and the outcome will be presented at the Bank's coming Annual General Meeting.

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 Bank'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>. The Guidelines on Corporate Governance will be referred to as “the Guidelines” hereafter.

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 with the exception of one aspect of Section 5.4.1. of the Guidelines. Section 5.4.1. reads as follows: “The board shall appoint a special remuneration committee tasked with forming a remuneration policy for the company, in accordance with Point 2.7, and negotiate the terms of employment of the managing director(s) and other employees, who sit on the board.” Landsbankinn has not complied with this provision of the Guidelines as it is interpreted in the notes. According to the second paragraph of Article 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 determines the salary and terms of employment of the managing directors of limited liability companies majority-owned by the State. A new Act on the Senior Civil Servants Salary Board, No. 130/2016, which enters into effect on 1 July 2017, transfers this role to the Bank’s Board of Directors and Landsbankinn will subsequently comply with the aforementioned provision of the Guidelines.

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 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 operations and implementing mitigating measures to reduce 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 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 in a dedicated risk report.

5. Policy on corporate social responsibility and ethics

In early 2015, Landsbankinn approved a new and ambitious strategy for the years until 2020. The aim of the strategy is to ensure that customers feel they achieve success with Landsbankinn and that the Bank and its customers enjoy mutual benefits from the relationship. Central to the strategy is that the Bank shall be exemplary and a trusted financial partner.

Landsbankinn's strategy for 2020 rests on the same cornerstones as the 2010-2015 strategy. The focus was sharpened in 2015 and new projects introduced. Seven strategic projects and five key goals ensure implementation of the strategy for the years leading up to 2020.

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

Central to Landsbankinn's future vision for social responsibility is to boost long-term welfare in Iceland.

The policy on social responsibility aims to ensure that the Bank's activities contribute to sustainability in Iceland, that the Bank functions as a dynamic force in the field and complies with guidelines on good corporate governance. The economy, the community and nature are part of the same system and the first two factors cannot grow beyond the finite limits set by the last. Sustainability of biospheres and robust industry co-exist and are reconcilable, not antithetical.

Landsbankinn aims to be a dynamic force in the community. The Bank will take the initiative to form partnerships with companies, institutions and organisations to implement necessary changes to economic activity and infrastructure which will contribute to increased sustainability in Icelandic industry and community with the aim to utilise as best as possible the available opportunities for the maximum future benefit of Icelanders and Iceland. A joint effort will facilitate the creation of new business opportunities with an emphasis on sustainability.

The Bank's vision is to be exemplary and its strategy is to be a trusted financial partner. The Bank intends to lead by example in the field of corporate social responsibility in Iceland. Before year-end 2018, the Bank aims to:

- » 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 aims to:

- » Be a dynamic force in the community and take the initiative to form partnerships with companies, institutions to implement necessary changes to economic activity and infrastructure which will contribute to increased sustainability in Icelandic industry and society.

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- » 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 start-ups and registered companies with regard for sustainability.
 - » Model exemplary action against money laundering, terrorist financing and human trafficking.
 - » Ensure that the Bank's operation impacts the ecosystem as little as possible and minimise waste.
 - » Assess suppliers based on sustainability principles.
 - » Measure and assess Landsbankinn's progress in social responsibility and sustainability matters.

In order to meet these objectives, an action plan is being prepared to implement social responsibility in work practices and procedures. Integration of the policy based on the aforementioned factors shall have regard for the International Organization for Standardization's guidelines for social responsibility (ISO 26000) and the principles of the UN's Global Compact.¹

In February 2012, Landsbankinn's Executive Board approved a new equality policy with a 6-point action plan and predetermined criteria for success. The criteria are based, inter alia, on Act No. 2008/2008, on equal status and equal rights for males and females, and on the human resources standards of the Global Reporting Initiative.

Landsbankinn was awarded the golden seal of PwC's Equal Pay Audit for the second time in December. The Bank was initially awarded the seal in 2015, the first Icelandic bank to receive it. The golden seal of PwC's Equal Pay Audit is awarded to companies where the wage difference by gender is under 3.5%; the wage difference at Landsbankinn is thus under this limit.

In December 2012, Landsbankinn became a signatory to the United Nations' Principles on Responsible Investment² (UN PRI) and the Bank is actively involved in UNEP FI.³ Landsbankinn's Report on Social Responsibility, based on GRI's standards, was published together with the Bank's annual report in 2016. Such reports have been published in recent years and they set out in detail Landsbankinn's approach to corporate social responsibility. The reports are available on the Bank's website⁴

Landsbankinn makes it a priority to ensure that its partners, parties involved in the analysis of corporates on behalf of the Bank and fund managers, participate in or are guided by the principles of UN PRI. The Bank has begun preparing to implement the principles in asset management work procedures. The Bank will also place increased emphasis on ensuring that employees utilise eco-friendly transport, boost eco-friendly procurement and increase training on social responsibility for employees. Landsbankinn hosted a conference on climate change in February 2016 for its customers.

Landsbankinn's code of ethics is the basic tenet of good business practices and morality of the Bank's employees. The code applies to relations between employees and customers, between co-workers, regulators, shareholders, competitors and other stakeholders. It is one of the cornerstones of Landsbankinn's new strategy and a guideline for ethical behaviour in questionable circumstances.

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/>

The code applies to all employees of the Bank, as well as contractors and agents or other representatives of Landsbankinn. This code forms the basis for Landsbankinn's human resources policy and its rules of procedures.

The code of ethical conduct 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. It is the duty of every employee to read and comply with the code. Though not an exhaustive guide to everyday situations, every employee should practice following both the letter and the spirit of the code and, above all, exercise good judgement in questionable circumstances. When necessary, employees should take advantage of the solutions provided by the Bank to address matters of uncertainty and points of contention.

The executives of Landsbankinn are guided by the code and create an environment that allows all employees to abide by them.

The Board of Directors of Landsbankinn has obliged itself to abide by the code.

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 the 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 for its tasks in detail.

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 function 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 all of whom, together with the CEO, form the Bank's Executive Board. The CEO's Office, Compliance, Human Resources and Marketing 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 2016. 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 2016, the Board of Directors of Landsbankinn held a total of 33 meetings. The Audit Committee met 12 times; the Risk Committee 14 times; the Remuneration Committee 5 times; and the Strategic Development Committee met 6 times. The table provides an overview of attendance.

	Term-time in 2016	Board of Directors	Audit Committee	Risk Committee	Remun- eration Committee	Strategic Develop- ment Committee
Directors of the Board		33	12	14	5	6
Tryggvi Pálsson, Chairman	01.01 - 21.04	13			2	2
Eva Sóley Guðbjörnsdóttir	01.01 - 21.04	13		5		2
Jón Sigurðsson	01.01 - 21.04	10		5		2
Kristján Th. Davíðsson	01.01 - 21.04	13	3	6		
Jóhann Hjartarson	01.01 - 21.04	12	3		2	
Tinna Laufey Ásgeirsdóttir, alternate	01.01 - 21.04	3				
Árni G. Hauksson, alternate	01.01 - 21.04	0				
Helga Björk Eiríksdóttir, Chairman	01.01 - 31.12	30		4	4	4
Danielle P. Neben	01.01 - 31.12	33	10			6
Magnús Pétursson	22.04 - 31.12	19		8	3	
Berglind Svavarsdóttir	22.04 - 31.12	19		5	3	
Einar Thór Harðarson	22.04 - 31.12	19		8		4
Hersir Sigurgeirsson	22.04 - 31.12	20	7	8		
Jón Guðmann Pétursson	22.04 - 31.12	18	8			3
Samúel Guðmundsson, alternate	22.04 - 31.12	4				
Ásbjörg Kristinsdóttir, alternate	22.04 - 10.11	1				
Audit Committee						
Stefán Svavarsson	01.01 - 31.12		10			

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.⁵ 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.

⁵ <http://bankinn.landsbankinn.is/um-bankann/stjornarhaettir/bankarad/starfsreglurbankarads/>

11. Information about members of the Board of Directors

Regular members of the Board of Directors are:

Helga Björk Eiríksdóttir was born in 1968 and resides in ?. 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 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 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 was born in 1947 and resides in Iceland. 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 was born in 1964 and resides in Iceland. 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 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 and has sat on the board of directors of Lögmannafélag Íslands since 2015. She was a member of the Winding-up Board of SpB hf. in 2009-2016 and the ad hoc revision committee in 2015-2016. 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.

Danielle Pamela Neben was born in 1970 and resides in Iceland. She has international experience in financial markets. From 1993 to 2013 she worked for the HSBC Group in seven countries: Canada, Singapore, Brazil, Taiwan, Germany, the UK and Luxembourg. Danielle sat on the executive board of HSBC Trinkaus & Burkhardt (Int.) SA in Luxembourg in 2012-2013 as Chief Operating Officer. She has leadership and management experience in Investor Relations, Corporate & Commercial Banking, Retail Banking, Debt Recovery & Restructuring, Operations & Risk Management, and Human Resources. Danielle has a Bachelor of Commerce degree from McGill University in Canada, with a major in Finance and a minor in German. She is bilingual in English and French, and is fluent in Icelandic, Portuguese and German. Danielle is a member of the Association of Women Business Leaders in Iceland (FKA) and is a member of the FKA International Committee. In addition, she is a member of the Exedra group, a discussion forum of prominent women in business, politics, the public sector and the art world. Danielle currently works as an independent consultant. Danielle was elected to the Board of Directors of Landsbankinn in April 2013 and currently chairs the Strategic Development Committee.

Einar Þór Bjarnason was born in 1962 and resides in Iceland. 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 Þór 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 Þór 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 Þór was elected to the Board of Directors in April 2016.

Hersir Sigurgeirsson was born in 1972 and resides in Iceland. 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 currently chairs the Risk Committee.

Jón Guðmann Pétursson was born in 1959 and resides in Iceland. 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.

Alternate

Samúel Guðmundsson was born in 1967 and resides in Iceland. He is currently managing director of Sjavarkaup 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 Olíudreifing 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 was born in ? and resides in ?. Stefán Svavarsson 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, Reykjavik 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 Reykjavik 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 performance assessment

The performance assessment of the Board of Directors is scheduled to be completed in early February. As part of the performance review, the activities and work of the Board of Directors in 2016 are evaluated. 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 will also be evaluated.

14. Information on the CEO and description of his/her main responsibilities

Steinþór Pálsson stepped down as CEO of Landsbankinn on 30 November 2016. He had been CEO of the Bank since 1 June 2010. Hreiðar Bjarnason, Managing Director of Finance, assumed the post of Acting CEO as of that time. Hreiðar holds a degree in business administration from the University of Iceland and an MSc degree in finance from London Business School. He is a certified securities broker. Hreiðar came to work for Landsbanki Íslands hf. in 1998, first in Capital Markets and later in the Bank's Treasury division. He assumed the post of Managing Director of Markets and Treasury at Landsbankinn hf. early in 2010 and became Managing Director of Finance in August 2012, at which time he was also appointed deputy CEO. Hreiðar sits on the Risk Committee and the Finance Committee.

Hreiðar Bjarnason owned 528,733 shares in the Bank at year-end 2016. No stock option agreements have been concluded with the Hreiðar. Hreiðar has no connected interests with the Company's 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 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/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 2016 concerning violations of laws or regulations.

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

At year-end 2016, shareholders in Landsbankinn numbered 1003. 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.