



# Annual general meeting of Landsbankinn

Report of the Board of Directors  
22 April 2020

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**Helga Björk Eiríksdóttir, Chairman of the Board of Directors**

### **Report of the Board of Directors**

Good afternoon and welcome to the Annual General Meeting of Landsbankinn 2020.

This year's AGM is held under truly unique circumstances. The AGM was initially scheduled to be held on 27 March but following restrictions on gatherings set to retard the spread of Covid-19, it became clear that the meeting could not be held in the traditional manner. The AGM was postponed to today. Shareholders were asked not to physically attend the meeting and to participate in written voting on proposals before the meeting.

This winter season has been long and tough in Iceland. December hit the country with storms that paralysed communications and transportation, among other places in my home town of Dalvík. More storms, avalanches, accidents, earthquakes, contract disputes and strikes were finally surmounted by the outbreak of Covid-19 that first made its mark on Icelandic society in February and has since had significant ramifications for both people and businesses here as elsewhere in the world. The impact on the economy is already considerable and can be expected to worsen before it improves again. Under such circumstances, it is good to know that Landsbankinn's position is very strong. We are well placed withstand the many challenges that both households and companies who bank with us will face.

Before turning to the report of the Board of Directors, I first wish to make some well-deserved compliments: First, to the stalwart team of three who have stood in the bridge for several months, taken important decisions with professionalism and confidence and kept the nation well informed the entire time – thank you. Both the Central Bank of Iceland and the government have responded swiftly; a resolute and steady response is necessary in troubled times.

All health care workers are certainly deserving of praise and prove on an everyday basis the strength and aptitude of our professionals at all levels. The same applies to school administrators, teachers and kindergarten teachers, all of which have had to reorganise their activities more or less completely in response to restrictions on gatherings.

Finally, I wish to praise Lilja Björk Einarsdóttir, CEO of Landsbankinn, and her powerful team here in the Bank for their swift response to altered circumstances both internally and by adapting customer services to the new reality of limited access to branches throughout the country. Again, I wish to compliment the Bank's employees for their fortitude under pressure that has multiplied several times over in the face of growing unemployment and uncertainty in the economy. The Bank will continue to be under a great deal of pressure in the foreseeable future and I would like to take this opportunity to encourage my people to continue with their good work.

### **No dividend for 2019**

Before the outbreak of Covid-19, the Board of Directors intended to propose that the AGM approve a motion to pay dividend to Landsbankinn's shareholders in the amount of ISK 9.5 billion for the financial year 2019. In light of the current economic uncertainty and in line with directions from the Central Bank of Iceland, the Board of Directors has reconsidered this proposal and now moves that no dividend be paid for the year 2019. The Bank's dividend policy remains unchanged. It provides that Landsbankinn shall aim to pay the lion's share of the previous year's profit in dividend to shareholders. Since 2013, the Bank has paid ISK 142 billion in dividend.

For the same reasons, the Board of Directors does not propose that the AGM authorise a buy-back programme of own shares as planned.

### **Most competitive lending rates**

As part of its response to Covid-19, the Central Bank of Iceland cut policy rates to a historic low. Landsbankinn has reflected the rate cuts and offers the most competitive rates of all domestic financial undertakings. A recent decrease of the bank tax, levied on the total liabilities of financial undertakings, allowed the Bank to lower interest rates even further. Even despite the recent decrease, the bank tax still exceeds similar taxation in countries Iceland likes to compare itself with by a considerable margin and affects the Bank's profitability, and its ability to improve terms offered customers. A decrease of the bank tax is a positive step. It should be borne in mind that the tax was introduced as a temporary measure and that taxation has not fully filtered through to the Bank's prices. I encourage the authorities to abolish this tax as soon as possible. The same applies to the financial services tax levied on the wages of employees of financial undertakings.

### **Sound operation**

The International Monetary Fund (IMF) forecasts the deepest depression the world economy has seen since the Great Depression that began in fall 1929. From our current standpoint, the challenges the domestic economy faced at the beginning of 2019 now seem comparatively minor. It is nevertheless clear that a turning point was reached in 2019, especially with the bankruptcy of WOW air. Unemployment grew and external conditions were tough on business operations.

Landsbankinn's performance and profitability in 2019 were good and reflect sound and stable operations. Profit was ISK 18.2 billion. After-tax return on equity (ROE) was 7.5%, or 9.2%, having regard for the bank tax. The Bank's long-term goal is to achieve a 10% ROE, not having regard for the bank tax. Strong emphasis is placed on limiting operating cost and the Bank's cost-income ratio is low compared to European banks. At year-end 2019, the Bank's cost-income ratio was 42.6%, down from the previous year. Salaries and related expenses decreased by ISK 131 million between years while other operating expenses increased by ISK 186 million. Landsbankinn's balance sheet is robust. The Bank's equity was ISK 248 billion at year-end 2019 and its CAR was 25.8% which is considered high by international standards.

### **Tops the Icelandic Performance Satisfaction Index**

Landsbankinn's focus on quality services and solid operation has led to increased satisfaction among customers and growing confidence in the Bank. Satisfaction among corporate customers has never been higher than in 2019 and the same applies to retail banking customers. Satisfaction with the Bank's digital solutions is also high and growing. Toward the end of January 2020, it was revealed that Landsbankinn had topped the Icelandic Performance Satisfaction Index in 2019 for banking customers. The Bank is extremely proud of this recognition and thankful for the trust customers place in it. Our ambitious employees are to be commended and we intend to continue to provide the best service in the domestic banking market.

### **Supports industry and households**

Despite good results and a successful 2019 in most areas, the 2019 results reflect the changing economy. Low interest rate levels put pressure on the Bank's interest margin and will continue to do so. At the same time, high capital requirements and the special bank tax on large financial undertakings reduce profitability.

Financial undertakings face many challenges in their operations, none larger than the impact of Covid-19. Customers demand more effective service and better terms while competition from both domestic and international parties increases, as does the cost of public supervision and IT. Much like any other company, Landsbankinn must optimise its operation and generate a reasonable return on equity for its owners. That being said, Landsbankinn's primary role is to support Icelandic households and industry throughout the country, which the Bank will continue to do.

### **Sustainability a key aspect of activities**

Alongside its 2019 results, the Bank published its annual report to its website. The Bank's ESG report was released on 27 March, the day of the intended AGM. I encourage shareholders and others to acquaint themselves with these reports. The annual report provides an accessible review of highlights in the Bank's operations last year and the ESG report focuses on sustainability and CSR, including equal rights, the Bank's work on the UN's SDGs and various community projects the Bank participates in. Landsbankinn considers

sustainability to be a key element of its operation. This includes the implementation of an ambitious policy for responsible investment, with employees obtaining expert knowledge of green bonds issuance and adherence to international standards.

### **Strategy and future vision**

The operating environment of Landsbankinn is constantly changing. Rules and regulatory requirements alongside new technology lead to stiffer and more varied competition in the financial market. This competition is not limited to domestic competitors and includes international banks and possibly international tech giants.

Five years ago, Landsbankinn approved a new and ambitious strategy for the years until 2020. This strategy was updated in 2017, sharpening the focus on digital solutions and customer service. The strategy has served us well - now it is time to form a new strategy for the future. Work on shaping a new strategy began this winter and it will be introduced in fall.

### **Monitor developments closely**

Action to hinder the spread of Covid-19 has been successful in Iceland. How we tackle the economic ramifications of the pandemic in its aftermath is equally important. The authorities and the Central Bank have already presented extensive and important action for the benefit of businesses and individuals and have declared their intention to take further steps. Landsbankinn will participate in this fight by providing strong support for its customers through the economic challenges ahead. The Bank is party to an agreement between domestic lenders offering temporary payment holidays to viable businesses that meet certain requirements, including that their operating difficulties are a result of Covid-19 and that they were not in arrears 60 days or longer at the end of February. Landsbankinn offers individuals and families who have suffered unexpected loss of income and who have mortgages with the Bank the option of deferring payments for up to six months. The Bank will of course monitor developments closely and work with its customers to find solutions. Many businesses need support, while others are well placed to handle the shock.

As regards lending to new projects, it must be kept in mind that lending decisions are always made with an eye to recovery of the loan amount and current uncertainty greatly affects that evaluation. Obviously, businesses are variously sensitive to the ramifications of the pandemic and each case must be assessed individually. In these uncertain times, many companies who previously considered taken out loans to finance development, are reconsidering their plans.

### **Maintain an optimistic outlook**

We are living through difficult and unprecedented times. Historically, Iceland has never been as well placed to weather such a storm. The National Treasury has a low level of debt and is as such in a good position to support the social security system and industry. The Central Bank has a sizeable reserve of ISK 900 billion, around double the total FX earnings of the travel industry in 2019. Households and businesses have low debt levels, historically speaking, and liabilities are almost entirely in Icelandic króna, except with companies who have foreign income. The Icelandic banking system is currently one of the world's strongest in terms of capital ratio and liquidity position. Icelanders are rich in natural resources; energy, fishing stocks and an untouched natural environment that tourists will continue to visit. We have weathered other storms. We know what it takes to limit losses and support individuals and companies to ensure that we will be ready to pursue progress again when the pandemic is conquered.

As mentioned before, Landsbankinn's financial standing is very strong. Action undertaken by the government and the Central Bank is extremely useful and enables the Bank to better support its customers. One of the most important roles of a commercial bank is to buffer shocks to the economy and we are optimistic about our ability to handle coming challenges.

Finally, I want to thank my colleagues on the Board of Directors, the CEO and other employees of Landsbankinn for very successful collaboration. My thanks also to the Financial Supervisory Authority and other regulators in the Central Bank, Icelandic State Financial Investments and shareholders for positive exchanges last year.