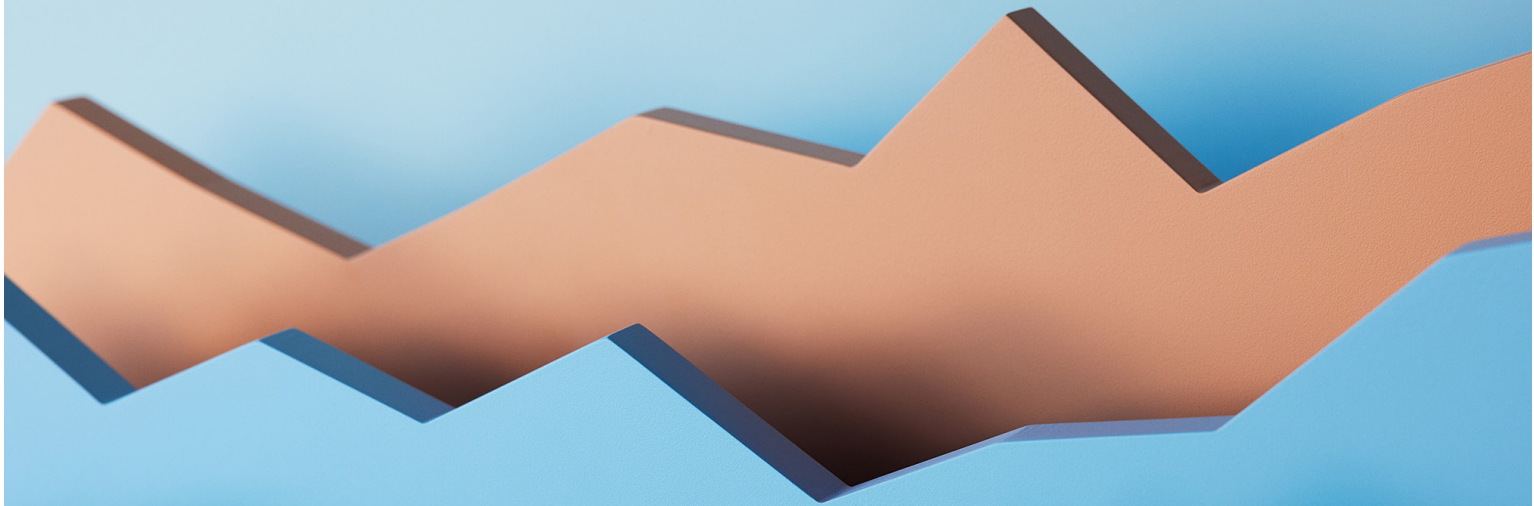




Report of the Board of Directors

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23 March 2022



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Dear Shareholders,

The world economy has in recent years been characterised by uncertainty caused by the Covid 19 pandemic. When it finally looked like the impact of the pandemic would subside this winter, the Russian invasion of Ukraine has introduced a new and possibly even larger setback. It is impossible to speculate about the scope and magnitude of this war. We all hope that Russia recalls its troops as soon as possible to avoid even more bloodshed and other devastation the invasion brings.

The economic challenges Iceland faces are of course insignificant beside the reality now facing the Ukrainian people. It is nevertheless important to realise that the invasion has already had negative effects that we are experiencing in the form of, for example, rising inflation. Oil prices have increased greatly and we can expect price increases in various other imported goods and commodities. As a result, the economic uncertainty we face remains considerable, and this time it is a result of human action.

Under these circumstances, it is heartening for us who are responsible for Landsbankinn's operation to know that its position is strong. The Bank is well placed to provide support for its customers and Icelandic industry.

As the Bank's financial statements show and which our CEO Lilja Björk Einarsdóttir will review shortly, the Bank's performance in 2021 was very good. Return on equity was 10.8%, in line with the Bank's long-term goal of achieving over 10% return on equity.

I encourage all who are interested in the Bank's operation to take a look at the Annual & Sustainability Report for 2021.

The Report provides an excellent overview of the Bank's operation and performance in 2021, as well as information on the various new services the Bank introduced in the year. It also contains interesting short articles from employees in all of the Bank's divisions where they describe their work and main projects.

Satisfied customers

The Bank's success is largely grounded on purposeful application of its strategy, approved in 2020.

One of our key strategic goals is to enhance customer satisfaction and we are very proud to have topped the Icelandic Performance Satisfaction Index in 2021, for the third year running. We are also pleased by how many new customers have joined the Bank. Our market share in the retail market is currently 39.5% and has never been higher.

Robust market expansion and growing activity have increased the Bank's income while operating expenses have remained stable. The Bank's success is remarkable and it should be noted that last year, the Bank's cost-income ratio was 43.2%, comparable to those Nordic banks that have achieved the best operating results.

Regular and special dividend

Sound and stable operation and strong financial standing allows the Bank to pay a dividend to shareholders.

A motion to pay a dividend in the total amount of ISK 20.5 billion for the year 2021 has been submitted to this AGM. Firstly, the Board of Directors proposes paying 50% of the 2021 profit in dividend, in total ISK 14.4 billion. Secondly, the Board proposes payment of a special dividend in the amount of ISK 6.1 billion. If these proposals are approved, dividend paid by Landsbankinn in 2013-2022 will in total amount to ISK 166.7 billion, accruing almost entirely to the National Treasury.

Landsbankinn also pays high taxes to the Treasury, in total ISK 11 billion in 2021. Of that number, special taxes on financial undertakings amount to ISK 4.3 billion.

The economy

Landsbankinn's operating results are of course influenced by economic conditions in Iceland and it is clear that the economy is now much better placed than most of us dared to hope in the early days of the pandemic. Despite some negative signs, the economy is in good shape, generally speaking. Interest rates are lower than usual and purchasing power is higher than ever. Inflation on the other hand is considerable and price increases show no sign of cooling. The Central Bank has entered a rate hike cycle, the extent and rapidity of which is hard to predict.

Companies in the travel sector were hardest hit by the pandemic, as is well known. It remains to be seen how the Russian invasion of Ukraine will affect tourism and interest in travelling yet the high investment and development in Icelandic tourism in recent years supports expectations of a fruitful outcome once the uncertainty is in the past and travel increases again.

Service throughout Iceland and around the clock

I spoke earlier of high satisfaction with Landsbankinn's services. Customer opinion is of course based on several different factors. In the vast majority of cases, customers take advantage of the Bank's digital services and satisfaction with our services is as a result rests largely on the quality of our digital service platform, online banking, the app and other solutions. Landsbankinn has undergone a great deal of development and customer satisfaction with its digital services is very high. This applies to both retail and corporate customers, with the Bank emphasising improving digital services for businesses in the past 1-2 years.

Unlike other financial undertakings, we also emphasise maintaining a presence throughout the country.

The Bank operates branches and outlets in 29 locations in rural Iceland and 7 branches in the capital region. This creates unequalled connections, both with individuals and companies. Clearly, the need for branch services has declined and fewer customers visit them. We have responded in various ways, including by shortening opening hours while extending remote meeting hours. We have also ensured that employees working out of branches throughout Iceland are able to work on projects that are not location-dependent. While our policy is still to maintain a presence throughout Iceland, we will continue to develop and adapt our branch network with regard for changes in the operating environment and changing customer needs.

Rapid changes in the financial market

Changes in Landsbankinn's operating environment are not least from growing competition in the financial market from a broader group of fintechs and financial undertakings, both domestic and international. The competitive environment has actually changed more rapidly than many of us expected. Development is proceeding at breakneck speed and we must keep up by continuing to produce new solutions that meet customer needs. These developments also bring more complicated and comprehensive supervision that Landsbankinn, like other systematically important financial institutions, must comply with. We understand that complying with and meeting stringent requirements creates trust, which we are

thankful for. At the same time, it must be noted that it is important to ensure that such supervision and charges levied on the Bank should not be more encumbering for us than our competitors, both domestic and international.

Leading in sustainability

Increased emphasis on sustainable finance is also causing significant changes in the financial market. Landsbankinn has for many years led the field in corporate social responsibility and sustainability and we intend to maintain our lead.

In fact, the Board of Directors of Landsbankinn considers that climate issues should rank even higher on the list of risk factors banks should assess and manage. We can look to both local and international examples that show the impact climate change can have on people and profit in both the long and shorter term. Drought in the winter months has led to unusually low water levels in some of the country's most important domestic reservoirs. While this may be a short-term fluctuation only, it is nevertheless a good example of how changing weather patterns can have large and negative impacts on companies and their operation.

Opportunities in new and practical housing

Changes in banking services have led to projects increasingly being a collaborative effort between departments, in larger or smaller teams. One of the reasons for the Board's decision in spring 2017 to begin construction of new headquarters for the Bank was the unsuitability of current housing in Kvosin to such work. Design of the new building has special consideration for these factors and on ensuring flexibility in the organisation of the building that allows for easy adaptation to changes in line with new approaches. We believe that the move to Austurbakki will create new opportunities to harness even better the great energy and knowledge of our team.

Sale of the North Wing

We have always planned to sell or rent around 40% of the building, or around 6,500 square metres. The bulk of that area, or around 6,000 square metres, belong to the building's North Wing. The Bank intends to utilise around 60% of the building for own purposes. The Bank has presented the building to various potential buyers and tenants and received a positive response from several parties. Some while ago, Government Offices initiated a dialogue with the Bank about possible purchase of the North Wing, as part of the scheduled future arrangement of Government Offices.

The Bank's rules on the sale of assets allow for exceptions from the main rule of employing an open sale process such as when it is deemed contrary to the Bank's interest or if other legitimate reasons speak against an open sale process.

One of the main risks of building commercial and industrial housing is that the sale or leasing of the building in part or in whole becomes a drawn-out process with accompanying cost or loss of income. Direct sale of almost the entire part of the building the Bank does not intend to use would eliminate this risk almost entirely.

As Government Offices has declared an interest in purchasing the North Wing, the Board of Directors considers that derogation may be made from the main rule. We have agreed to enter into discussion with the State and hope to reach agreement quickly.

The move to a new building will free up twelve buildings the Bank is currently using in Austurstræti, Hafnarstræti and Tryggvagata. The Bank owns four of these buildings, Austurstræti 11 og Hafnarstræti 10, 12 and 14. Preparations to sell these buildings have begun. We will take special care in considering the future of Austurstræti 11, as it holds unique cultural and historic value and must be ensured a worthy future.

Revitalisation with organisational changes

In early 2021, following on the heels of our new strategy, Human Resources, Marketing & Communications and Economic Research all joined forces as the collective Community.

To enhance the drive of these departments even further, it was decided in spring to create a new division out of the Community group to underline our focus on these issues and ensure their progression.

We face many challenges, from growing competition, rapid technological development and regulatory changes. In order to meet these challenges with aplomb, it is important for the Bank to continue to attract and retain motivated and talented personnel. This requires that the Bank can offer both competitive wages and a desirable workplace. We must also ensure that our human resources develop in line with changes to the Bank's activities and to always perform to the best of our ability in order to provide the best service.

Very good performance under difficult conditions

The Annual General Meeting of the Bank in 2021 elected three new Directors to the Board: Elín H. Jónsdóttir, Guðrún Blöndal and Helgi Friðjón Arnarson. Sigríður Olgeirsdóttir was elected as Alternate. The new regular members replace Einar Thór Bjarnason, elected to the Board in 2016, Hersir Sigurgeirsson, elected to the Board in 2016 and serving until November 2020, and Sigríður Benediktsdóttir, elected to the Board in 2017. I thank them all for their very good work. On behalf of the Board of Directors, I thank Lilja Björk Einarsdóttir, CEO, other executives and the Bank's employees for their excellent performance under challenging conditions and for pleasant and effective collaboration in 2021.

Thank you.