



Report of the Board of Directors

19 March 2025

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Annual general meeting of Landsbankinn 19 March 2025

Jón Þorvarður Sigurgeirsson, Chairman of the Board of Directors

Report of the Board of Directors

Esteemed guests of the Annual General Meeting,

It is my pleasure to deliver the report of the Board of Directors of Landsbankinn for the year 2024. Afterwards, Lilja Björk Einarsdóttir, the Bank's CEO, will present the Bank's financial results and operations.

The Bank's operation in 2024 can only be described as successful. Return on equity was 12.1%, which is above target, and profit totalled ISK 37.5 billion - a record, measured in Icelandic króna.

While the CEO will report on the Bank's operation, I would like to highlight one key indicator: the Bank's cost-income ratio. It is around 32%. This ratio is the lowest ratio achieved by any Icelandic bank and comparable to that of much larger banks, such as in the Nordics. Landsbankinn's cost-income ratio was lower than that of Danske Bank, Nordea and Jyske Bank, to name a few examples. This is a remarkable achievement and a testament to moderation in the Bank's operation, which I find gratifying.

Responsible operations are the foundation for the Bank's capacity to pay dividends. Based on Landsbankinn's dividend policy, the Board of Directors proposes that this AGM approve the payment of an ISK 18.9 billion dividend for the year 2024. If the proposal is approved, the Bank's dividend payments in 2013-2025 will amount to well over ISK 200 billion.

Responsible operations are also the prerequisite for the Bank to fulfil its role in society which is first and foremost to provide financial service to individuals and companies, and to support investment and development in the Icelandic economy.

Landsbankinn is an important service provider to all main sectors of the domestic economy. Lending to corporates rests on solid foundations as the Bank's employees possess extensive knowledge of Icelandic business operations and risk management, and defaults have been at record low levels for quite some time. In 2024, the Bank's new lending to corporates is distributed fairly evenly across industries.

Landsbankinn is equally committed to serving individuals and households and lending growth to these customers was significant and refinancing considerable.

This growth in lending was made possible by successful funding of the Bank during the year, both through deposits and market financing.

The Bank enjoys strong customer trust in Iceland, reflected in the growth of individual deposits. This increase is not only due to trust in the Bank but also to competitive interest rates and accessible ser-

vice. More than half of deposit growth was from individuals and households. The Bank's market funding in the domestic market was diverse and well sequenced, and last year, both covered and subordinated bonds were issued in ISK.

The Bank also enjoys strong credit in international markets, as evidenced by the rating agency S&P, which upgraded the Bank's credit rating during the year and subsequently changed its outlook to positive in November. Such a change often foreshadows further upgrades and the Bank intends to follow up on this. Additionally, the Bank secured funding in international markets in euros and Nordic currencies, both on general and subordinated terms. Notably, around 60% of foreign funding in 2024 was classified as green financing, aligning with the Bank's sustainability policy.

Landsbankinn operates across Iceland and one of the key factors that distinguish it from competitors is that it maintains 35 branches and service outlets, 29 of which are outside the capital region. The Bank has leveraged technology to strengthen its branch network, enabling employees to assume a wide range of tasks regardless of location. Maintaining a branch network does come with costs, but in this case, it more than justifies itself. The branch network is both cost-effective and undoubtedly plays a significant role in the Bank's strong market position. This development is not unique, as similar business models can be seen through recent examples from the United States and Sweden.

While Landsbankinn emphasises a personal approach and traditional banking values, it also offers first-rate technological solutions, an app and online services for both individuals and businesses. Use of these services continues to grow and the Bank's investments in information technology remain substantial and will continue to grow.

Banks worldwide are increasingly becoming tech companies and Landsbankinn aims to be at the forefront in leveraging technology. At the same time, it is clear that a strong emphasis must continue to be placed on cybersecurity, as threats are increasing.

With advancing technology, competition is also increasing, both from domestic companies but no less from international financial institutions that are increasingly entering the Icelandic market.

As a result, I find it necessary to briefly address the regulatory framework within which large Icelandic financial institutions operate, as it impacts competitiveness, profitability and the terms the Bank can offer its customers.

In the aftermath of the events of 2008, the entire financial system framework underwent a necessary review. Regulations were tightened and oversight increased. Additional fees and taxes were imposed on the financial sector. To ensure the strength of the banking system, capital requirements and liquidity requirements were also heightened significantly. The reason for introducing these measures was well grounded and as a result the Icelandic financial system today stands on very solid ground. That being said, stricter rules, higher fees and taxes, greater capital requirements than in neighbouring countries and, most recently, increased reserve requirements come at a considerable cost. This cost is materialised in higher fees and a wider interest rate margin than would otherwise be the case. There are, unescapably, two sides to every coin.

"Time moves slowly but passes quickly" as American writer Alice Walker put it. This year marks 10 years since the removal of capital controls and, within three years, it will be 20 years since the collapse of the Icelandic banks. It would not be unreasonable for the government to use this milestone as an opportunity to assess whether the right balance has been struck regarding the financial system architecture and to evaluate the position and competitiveness of the financial sector in Iceland compared to neighbouring countries. Such a review should, of course, prioritise maintaining the strength and stability of the financial system in the light of historical lessons while at the same addressing new challenges, as the next strain on the financial system will likely manifest in a different form.

Dear guests of the meeting.

The economic environment has been favourable for banking operations and has contributed to the Bank's strong performance. Despite significant uncertainty in the global system and international markets, last year proved to be economically stable. Modest economic growth was recorded last year and the outlook for this year is satisfactory. It is also encouraging to see progress being made in tackling inflation.

Icelandic households and businesses depend heavily on economic stability and it is equally important to maintain strong conditions for value creation domestically. Landsbankinn is well placed to provide support for Icelandic society. The Bank is evolving, and changes are on the horizon, including a broader product offering in connection with the Bank's acquisition of TM.

The current Board of Directors took office in April last year and has now been in place for nearly a year. It has been a pleasure to become acquainted with the Bank's operations and the dedicated employees who work here. All of us on the Board were appointed at the last AGM and we had to move swiftly to get up to speed with the Bank's operations. In my view, the Board is very well composed.

Finally, I would like to thank shareholders, the Board, the executives and especially the Bank's employees for pleasant collaboration over the past operating year. On behalf of the Bank, I would also like to thank Icelandic State Financial Investments for the cooperation in the past years and I look forward to continued collaboration with the Office of Governance and Reform at the Ministry of Finance and Economic Affairs.