



Chairman's statement



Dear shareholders and other guests

Íslandsbanki had a good year in 2022 and in many ways it was an eventful year. Following challenging times impacted by the pandemic, banking returned to normal. However distant it may feel, it was only early last year that people could return to work and the economy picked up. The vigour demonstrated by Icelandic companies was exceptional and the Bank's staff did their utmost to assist customers as much as possible. The Icelandic economy was challenging last year, just as elsewhere. The effects of the pandemic were still felt in many places and the tragic war in Ukraine started, which has had far reaching effects. The consequences have been increased cost of living globally, and we have felt that in Iceland too. Just recently inflation broke the 10% barrier when measured at 10.2% and has not been higher for over a decade. Although we are in a good place with renewable energy sources, compared to other countries with rising energy prices, we feel the effects of those increases throughout international trade, which has affected domestic prices.

There are however many positives in the Icelandic economy and the resurgence of tourism as a key export is one of those things. The return of tourism has made a major difference for the domestic economy, and the rapidly growing tourism-generated foreign exchange revenues did much to offset the increased deficit on goods trade. The Bank's macroeconomics forecast, assumes that exports will continue to play a key role, owing largely to the ongoing rise in tourist visits, plus exports of intellectual property and other services and a surge in farmed fish exports.

Robust operations

In general, the year was a good one for Íslandsbanki. The Bank has a high-quality loan portfolio and its return on equity has exceeded the Bank's internal targets. Income from core operation has continued to rise and expenses to fall. Opportunities for increased efficiencies have been sought and with added digital sales and processes expenses have decreased. The Bank's assets are of high quality, and its loan portfolio is well secured. Its operations are responsible, and it is pleasing to see the emphasis that is placed on sustainability throughout the Bank and how it is embedded in every day decision making.

The Central Bank's policy rate hikes affect the Bank's customers significantly. The Central Bank was very clear in its message that financial institutions were to return the rate hikes into their pricing, to achieve the desired effects. We notice the effects quite strongly in the housing market, although we still see price increases on other fronts. The Central Bank is expected to maintain a tight monetary stance although forecasts assume that the policy rate will ease downwards as the year progresses. It is important that the labour market and the public sector join forces in bringing the inflation under control.

Íslandsbanki monitors the ability of its customers to meet their payments when due, but it is not until the second half of this year that a part of its fixed interest rate customers will have to refinance their mortgages. However, a large part of customers still has fixed rates. We certainly

hope that the situation will be different nearing the end of the year, but we have nonetheless started preparing how we can support our customers in challenging circumstances such as these.

Further, we cannot overlook the fact that deposit owners have benefitted from the high interest rate environment. There is increased competition in that market, both for deposits and cards, which the customers benefit from.

Merger discussions

Last month it was announced to the market that Kvika banki had requested to commence merger discussions with the Bank. The Board of Directors of Íslandsbanki accepted the request with the first steps in that process being taken these days. The Bank had during its strategic review envisioned further growth. These discussions are fully in line with that journey. There are many opportunities in a potential merger with Kvika, but this matter needs to be taken under careful consideration on all fronts. Íslandsbanki is well acquainted with mergers with other financial institutions, including the merger with BYR, to give an example. A merger with Kvika would result in an 8% increase in leaning and 13% rise in deposits. Communication with regulators are an important part of the process ahead and will determine to a large extent the success of the matter.

Following a successful listing in 2021, when the number of shareholders grew from 1 to 24 thousand, the government continued a sale of

its shareholding in 2022, selling a 22.5% stake. The process was carried out as an accelerated book building, and the seller achieved its financial targets. That sale was controversial, as has been noted by some. The Bank has received the initial assessment of the Financial Supervisory Authority of the Central Bank concerning the Bank's involvement in the sales process. Following its receipt, the Bank requested to conclude the matter through a settlement process. During that process the Bank has refrained from commenting on other aspects of the case than have previously been reported. Although the sale is considered to have been successful for the government there were certain aspects of the transaction which could have been handled better. The Bank has put strong emphasis on learning from the process and respond to any remarks made, including by updating and changing certain rules and process.

Proposals submitted to the Annual General Meeting.

Before I review the proposals presented to the Annual General Meeting, it is my duty to provide information pursuant to Article 66(a) of the Annual Accounts Act. According to the Act, companies that have listed one or more share classes on a stock exchange must give account of several factors regarding the shares, rights to them, and so forth at their annual meeting. All shares in Íslandsbanki are in the same share class, and there are no restrictions on their transfer. No shares confer special management rights, and the Bank has not adopted a stock purchase plan for its employees. All shares carry equal and unrestricted voting

rights, and the Board of Directors is unaware of any contracts made that could entail restrictions on transfer or voting rights. The Bank is unaware of any agreements among shareholders that could entail restrictions on transfer or voting rights. During last year's AGM the Board was granted a temporary authority to purchase, on behalf of the Bank, own share amounting up to 10% of issued shares. A proposal for a similar authority has been presented to today's meeting and finally, no agreements have been made with Board members or employees providing for remuneration or compensation if they should terminate their employment or be terminated without valid cause, or if their jobs are eliminated due to a takeover bid.

I will now go over the proposals of the meeting.

Proposals have been presented for consideration in accordance with the Act on Public Limited Companies and the Act on Financial Undertakings.

First of all, the Board recommends that a dividend in the amount of ISK 12.3 billion be paid to shareholders from year-2022 profits. The payment is equivalent to 50% of the profit for the year and is consistent with the Bank's long-term strategy of maintaining a dividend ratio of approximately 50%. The Board reserves the right to call an extraordinary shareholders' meeting later in the year because of the possibility that a proposal for an extraordinary dividend on previous years' profit or a proposal on share buybacks could be presented.

Second, ISFI and the Bank's Nomination Committee propose that Íslandsbanki's Board of Directors comprise the following individuals:

Chairman of the Board,
Finnur Árnason

Other board members:
Agnar Tómas Möller
Anna Þórðardóttir
Ari Daniélsson
Frosti Ólafsson
Guðrún Þorgeirsdóttir
Valgerður Hrund Skúladóttir

It is also proposed that **Herdís Gunnarsdóttir** and **Páll Grétar Steingrímsson** be elected as alternate Board members.

Third, it is proposed that Ernst & Young be kept on as auditors of the Bank's accounts.

Fourth, it is proposed that Board members' remuneration be increased by around 6.75% year-on-year.

Fifth, a proposed update to the employment terms policy has been presented to the meeting. The changes being proposed are made to reflect recent changes in the requirements of Articles 57. a. and 57. e. of the Act on Financial Undertakings No. 161/2002 on the role remuneration committees and the objectives of remuneration policies of financial undertakings.

Sixth, it is proposed that the Annual General Meeting approves the changes proposed to the Bank's Nomination Committees' Rules of Procedure. The proposed changes are made to reflect recent amendments to the Act on Financial Undertakings No. 161/2002 on the role of nomination committees of financial undertakings and the Corporate Governance Guidelines issued by the Iceland Chamber of Commerce, Nasdaq Iceland and SA Business Iceland.

Seventh, certain changes are proposed to the Bank's Articles of Association, in order to reflect the power of the Resolution Authority of the Central Bank of Iceland to exercise their resolution powers in accordance with the Act on Resolution of Credit Institutions and Investment Firms No. 70/2020, it is proposed that following amendments are made to the Bank's Articles of Association

Lastly, it is proposed to renew the Bank authorisation to buy back its own shares, which is part of the Bank's plan of capital optimisation. to optimize its. Birna will go over this during her presentation.

Before I give the floor back, I want to give thanks to the people at Íslandsbanki for a good year and an invaluable contribution. A year ago I took a seat in the Board of Directors of Íslandsbanki with a powerful group of people. It is safe to say that the year has been eventful, and many things happening all at once. The Bank's staff is full of strength and passion, and always approach projects with a solution-oriented mindset. Birna Einarsdóttir and other members of the Bank's management team deserve thanks for their deft leadership, where progress and strategic decisions are at the forefront. This is reflected in the Bank's strong position. Íslandsbanki is truly a force for good.