



Chairman's statement

Honoured guests

2021 was not only a successful year for Íslandsbanki, but a historical one as well. Towards mid-summer, the State sold 35% of its holding in the Bank in an initial public offering and the Bank's shares were listed on the Nasdaq Iceland exchange. At that point, the Bank had been wholly owned by the State since 2015. Owing to excellent preparation by Icelandic State Financial Investments (ISFI), hard work by the Bank's employees, and a favourable environment, the shares were heavily oversubscribed in the largest IPO ever held in Iceland. Total demand came to ISK 486bn, and at that time the Bank's market value (at the IPO price) was approximately ISK 158bn. By the end of 2021, the price of Íslandsbanki shares had risen by nearly 60%. The Minister of Finance and Economic Affairs has recently approved ISFI's recommendation that additional holdings in the Bank be sold, which I consider a very positive move in the wake of the successful IPO.

The economy

At the beginning of 2022, when it became clear that the COVID-19 pandemic was on the wane, the economic outlook was relatively bright. GDP growth had firmed up, unemployment had fallen, and the ISK had appreciated somewhat. Tourism was gaining steam, and the fishing industry was very strong. Icelandic ingenuity and creativity continued to blossom, and technology companies have taken off during these turbulent times. But the positive outlook proved short-lived. Russia's invasion of Ukraine has upended prospects for the

future, and the news are now dominated by reports of deaths, refugees, and widespread destruction. The invasion has shaken the entire world. We can expect the social and economic repercussions to be severe and protracted, both in Europe and globally. Iceland will probably be affected much less than other countries with closer economic ties to Ukraine and Russia, however. The Icelandic economy is well prepared to deal with temporary setbacks, as it has largely recovered from the pandemic, and the Government and the Central Bank have scope available for economic policy action if the situation sours once again.

Interest rates

The Central Bank's recent interest rate hikes have drawn considerable attention and generated discussion about the impact of higher interest rates on households and businesses. It should be remembered that about a third of Icelanders' mortgage debt comprises non-indexed variable-rate loans, which are directly affected by policy rate increases. Íslandsbanki responded cautiously when interest rates fell and demand for credit surged. It tightened credit assessment requirements so that borrowers would be better able to tolerate fluctuations like this one. One result of this is that arrears and applications for payment assistance measures are at a historical low. We must trust that the Central Bank is deploying the policy tools it has at its disposal in order to cool the housing market and thereby lower inflation. Furthermore, it is important that the social partners do what they can to keep

inflation under wraps.

Robust operations

Íslandsbanki's operations were strong in 2021, and returns exceeded financial targets and analysts' forecasts. In parallel with rapid technological advances, the Bank's service to customers – households and businesses alike – has taken great strides forwards, and general banking services are now much more accessible than before. This is consistent with the Bank's increased emphasis on providing its customers with good, effective service. Customers are in a strong position after a very demanding period, and it will be gratifying for the Bank to participate in their growth and prosperity.

Icelandic banks still pay a separate bank tax. Even though it was lowered at the end of 2020, Iceland's bank tax is still about five times higher than that in neighbouring countries. The tax is levied on the banks' loans, thereby distorting market competition vis-à-vis domestic financial companies and pension funds, which grant loans but are exempt from the tax. Furthermore, the bank tax impedes foreign investment in Iceland, thereby distorting Iceland's competitive position. Lowering it would be more economical and would provide further benefit to the Bank's customers, who ultimately bear the cost of it. It is important to bear in mind when Íslandsbanki is mentioned as a good investment option that at the same time, politicians are airing ideas about increased levies on the banks, which can hardly be appealing to potential investors.

Proposals for 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. The Board has not been authorised to buy back shares, although a proposal to this effect will be presented at 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.

Now I will review the proposals submitted to the Annual General 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 11.9 billion be paid to shareholders from year-2021 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:

Anna Þórðardóttir
Ari Daníelsson
Frosti Ólafsson
Guðrún Þorgeirsdóttir
Heiðrún Jónsdóttir
Tanya Zharov

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 just under 5% year-on-year.

Fifth, a proposed update to the employment terms policy has been presented to the meeting. In terms



of substance, the updated policy is unchanged from the prior year.

Sixth, it is proposed that the Annual General Meeting approve the Nomination Committee protocols unchanged.

Finally, it is proposed that the Bank be authorised to buy back its own shares. Jón Guðni Ómarsson, the Bank's Chief Financial Officer, will explain the Board's proposal and the proposed amendment submitted by Gildi Pension Fund later in the meeting.

Thanks

In closing, I would like to thank my colleagues on the Íslandsbanki Board of Directors for fruitful collaboration during the year. It has been satisfying to work with this group of professional, forward-looking individuals. I would also like to thank Icelandic State Financial Investments for smooth cooperation, particularly during the well-prepared IPO process. Special thanks go to Íslandsbanki's employees for their hard work, dedication, and cooperation during the year. The Board of the Bank works closely with

the Executive Committee and other executives and experts within the Bank. This cooperation has been rewarding, satisfying, and hopefully, successful. It is clear that Íslandsbanki is in good hands with a staff of passionate and professional employees.

I would like to extend particular thanks to Birna Einarsdóttir, the Bank's Chief Executive Officer, for her steadfast and successful direction. It has been marvellous to see her outstanding leadership skills, both during these challenging times and as the Bank looks ahead to new opportunities. It was cause for genuine celebration when Birna rang in trading on the Nasdaq Iceland exchange in June, not only because it heralded Íslandsbanki's admission to trading in the market but also because it represented Birna's addition to the group of listed companies' CEOs, the only woman among them. This was a highly gratifying development, and an important one for a diverse business community.

I wish Íslandsbanki and its employees all the best in the future.