



Chairman's statement



Respected shareholders and other honoured guests

As this is the first time I have stood here in this role, I think it appropriate to take the opportunity to introduce myself briefly. My name is Linda Jónsdóttir, and I took over as chair of the Íslandsbanki Board of Directors last summer. As you all know, it was a turbulent time in the Bank's history, but at this point I can confirm that the past several months have been extremely informative and gratifying. Íslandsbanki employs an outstanding staff with thorough knowledge of banking operations, and I have found it highly rewarding to meet the team and see how effectively they have risen to the challenges they have faced. As we know, we learn most from adversity.

I was also lucky enough to join a strong Board of Directors with wide-ranging backgrounds and deep knowledge of the financial markets. Our work together has been very effective, and I can feel my fellow Board members' keen desire to take maximum advantage of the opportunities on the horizon and to continue strengthening the Bank for the journey ahead. This immediately became clear last summer, when the current Board took the helm quickly and securely, engaged in productive dialogue with Bank executives, and made its mark on strategy and operations starting with the last shareholders' meeting. It is also our explicit wish to maintain an honest, effective exchange of opinions with shareholders and other stakeholders, as has been done in the past.

Looking back, it is no exaggeration to say that 2023 was an eventful and instructive year for Íslandsbanki. The Bank has implemented a number of reforms, but at the same time we have focused on the future, on opportunities, and on how we would like to see the Bank evolve. Íslandsbanki is on a sound footing, and its operating performance in 2023 was strong.

At bit more about 2023: the year began well, with the implementation of a new strategy formulated with the assistance of consultancy firm McKinsey, and the Bank took significant strides in digital services. Íslandsbanki's role is to act as a force for good, and its vision is to create value for the future by providing outstanding service. We set four strategic priorities for 2023-2025: service, where we are determined to empower our customers and contribute to their success; data, where we are committed to making maximum use of the information at hand; sustainability; and staff, with a focus on growing together.

The Bank's strategic priority of providing outstanding service means that we are able to provide digital service in a simple manner, when customers need it. Alongside this, customers need personal service and advice for major decisions, and we will continue to assist them as they navigate such challenges. It is vital that we know our customers well, discern what they need, determine how we can work together

successfully, and decide how we can best harness opportunities. Furthermore, we consider it very important to provide information to our customers and foster their financial health. As with all goals, these objectives are not met in a single day, and the Bank focuses strongly on improving its efforts, one day at a time.

Sustainability remains one of the Bank's strategic priorities, and it is safe to say that the demands society makes on companies in this area have increased substantially in the recent term. During the year, major strides were taken towards continued integration of sustainability objectives into the Bank's operations, including an assessment of sustainability risk in the Bank's loan portfolio and an update of its sustainable financing framework. All of this work aims at the same goal: to make the Bank better prepared to support informed decision-making and risk management, respond to more stringent demands concerning sustainability disclosures, and – not least – support customers on their own path towards greater sustainability. One of the Bank's greatest opportunities to be a genuine force for good lies in its ability to finance the transformation that needs to take place in the Icelandic community so that the country's ambitious climate and equal rights targets can be met. We will not fail to do our part in this endeavour.

As we all know, the Bank reached a settlement agreement with the Central Bank of Iceland in connection with the sale of a State-owned holding in Íslandsbanki. The Bank paid a sizeable fine and pledged to implement certain reforms centring on audio recordings of employees' telephone conversations, improved customer classification, clearer analysis of conflicts of interests, and more effective project risk assessments. In connection with this, changes were made to the Board of Directors and a new CEO took over. A concerted effort was made to re-establish stability, both within the Bank's staff and vis-à-vis its customers. Furthermore, significant work was devoted to completing the reforms set out in the settlement with the Central Bank. Íslandsbanki staff have invested substantial energy in this process, and I wish to thank them all for their successful work in this area. In addition, emphasis was placed on strengthening governance practices so as to support a robust risk culture within the Bank, both now and in the future. We have been working very hard to improve our defences against money laundering, which is one of the areas where improvement is still needed. We made great progress in 2023, but it is clear that the reform process will continue in 2024. Not only will all of this bear fruit further ahead, it is actually a prerequisite for the Bank's being able to make the most of future opportunities.

A new Board was elected at the July shareholders' meeting, with the result that four new members took seats on Íslandsbanki's Board of Directors. Joining a bank's board of directors is an education in and of itself, and in my opinion, changing so large a percentage of board members all at once should be the exception rather than the rule. Changes in board membership are perhaps a topic that should be addressed more closely when each member's

term is limited to a single year. That said, I fully understand the extraordinary circumstances that called for this particular change. Major changes have also been made to the Bank's Executive Committee with members from within the ranks of Íslandsbanki and from other companies in Iceland and abroad. It is important that the Bank adopt new ideas and priorities while building on the knowledge already in place. We are convinced that this highly educational and costly year will strengthen Íslandsbanki's operations in the long run.

The volcanic activity on the Reykjanes peninsula and its impact on households and businesses in the town of Grindavík – both Íslandsbanki customers and others – made a significant mark on 2023. The Bank has made a strong effort to ease the situation for Grindavík residents and to minimise uncertainty to the extent possible. Íslandsbanki is dedicated to supporting its customers in times of hardship.

The economic environment was challenging in 2023, with the start of an adjustment phase after strong growth during the years beforehand. The tourism industry has largely recovered from the pandemic-era shock and has retaken the lead among Iceland's foremost export sectors. Steep policy rate hikes have put a damper on the economy as a whole, however, and we hope the Central Bank will be able to guide the economy to a soft landing. The fact that developments in interest rates have not resulted in increased arrears is highly gratifying, and a sign of Icelandic households' and businesses' resilience.

We cannot avoid mentioning that Icelandic banks operate under conditions very different from those faced by foreign competitors, as capital requirements on Icelandic banks are among the highest in

the market. This weakens our competitive position relative to foreign banks. It should also be noted that Icelandic financial institutions pay higher taxes than other limited liability companies do. It is hard to explain why banks should pay 6% more in income tax than other companies do, as a result of the special bank tax, which is far higher than comparable taxes in neighbouring countries. All else being equal, these extra levies call for wider interest rate differentials, which translate to more onerous interest rates for companies and individuals. We consider it highly important that a clear vision be developed, mapping out the future ownership structure and landscape for the financial market, and it is a relief to see that these issues are being given greater attention by the Government. This is appropriate, as State ownership of banking activities is extremely widespread in Iceland. It is shocking to see comparison figures showing that only in India and China is government ownership of banks higher than in Iceland. Clearly, there are opportunities in the Icelandic market. It will be interesting to see what the future brings in this area, and I hope that no more companies will be placed under State ownership. It is no secret that Íslandsbanki's employees and Board of Directors are extremely interested in the ownership changes proposed by the Minister, and I consider it important to take action on that front as soon as possible. It is never beneficial to keep such an important project – one involving a listed company with domestic and foreign shareholders – up in the air for too long.

The Bank's position is strong

Íslandsbanki is very strong and has placed major emphasis on standing by its customers in a demanding economic environment. Its capital position is strong as well, and its credit ratings reflect a positive view of its underlying operations. Operations have been stable, and returns have exceeded targets, with an operating profit of ISK 24.6bn in 2023.

Income from core operations is still the main source of the Bank's revenue; asset quality and loan quality are both good. Íslandsbanki stands on firm ground and is ready and willing to tackle new projects in partnership with its customers.

The declining inflation and interest rates envisioned for 2024 will doubtless be welcomed by households and businesses. Furthermore, the outlook is for real wages to grow somewhat this year, even though nominal wages will rise more slowly than in the recent term. Real interest rates will probably remain high throughout 2024, however, which could dampen firms' investment appetite and prompt households to save rather than consuming more.

There has been a strong shift from non-indexed loans to indexed loans as households and businesses seek more manageable debt service burdens. The Bank closely monitors its customers' position and has attempted to meet their needs insofar as is possible, including by providing information on how to lower debt service.

Proposals for the Annual General Meeting

Before the chairperson reviews the proposals for the meeting in accordance with the documents presented, I would like to mention a few points relating to some of the key proposals.

1. The Board of Directors proposes that shareholders be paid a dividend of ISK 12bn, which is equivalent to 50% of the year-2023 profit and is consistent with the Bank's long-term policy of maintaining a dividend ratio of approximately 50%.
2. Icelandic State Financial Investments (ISFI) and the Nomination Committee propose that the Bank's Board of Directors be composed of seven members and two alternates. As regards the election of Board members, I would like to note that the Nomination Committee took great care to ensure that the Board would be composed of an effective and appropriate group of individuals. The external Nomination Committee members, Hilmar Hjaltason and Helga Valfell, conducted interviews with all Board members, assessed the required qualifications of candidates, and considered the experience and composition of the Board. The Committee also offered to speak with shareholders, many of whom accepted that offer. I would like to give you a brief review of changes in the Board since last summer. At the beginning of 2024, Frosti Ólafsson left the Board because of his work for McKinsey. I would like to thank him for the fantastic job he has done on behalf of the Bank over the past four years. Anna Þórðardóttir wishes to step down from the Board after the current term, and I would like to thank her as well for her outstanding work for the Bank. We will miss Anna greatly

after her eight years of steadfast professionalism. ISFI proposes that Agnar Tómas Möller, Haukur Örn Birgisson, and Valgerður Skúladóttir be elected to the Board of Directors. The Nomination Committee proposes that Helga Hlín Hákonardóttir, Stefán Pétursson, and Stefán Sigurðsson be elected to the Board and that I serve as chair. Although this two-committee nomination structure has worked, thanks to a spirit of good will and dedication on the part of both ISFI and the Nomination Committee, I would like to mention that this is obviously not the most effective way to run such a Board nomination process. To complicate matters further, ISFI elects only the representatives that it nominates. We requested a change in this arrangement but were told that it would require a statutory amendment, and because of the forthcoming changes in Government ownership, ISFI did not think this was the right time to initiate the process.

3. The Board recommends that Board members' remuneration be increased modestly, or by 3.25% from the prior year, and that subcommittee members be paid for each committee on which they serve. The proposed increase is moderate and in line with recent wage agreements and wage negotiations more generally. In spite of widespread discussion of the exorbitant amounts paid to Board members, the fact is that participation in a bank's board of directors requires an enormous amount of work and is a heavy responsibility, and it is vitally important that the people selected have a strong background, extensive knowledge, and broad-based experience in the business community. In my opinion, this is one of the issues that should be reviewed in Iceland if we are to ensure that the economy and the busi-

ness community continue to move forwards. The year 2023 was a turbulent one for Íslandsbanki, and the Board held 36 meetings during the year, not including committee meetings. I would also like to mention that only twelve candidates submitted their names for consideration as Board members, and five of them later withdrew.

4. Presented before the meeting today is a proposal for an updated employment terms policy, this time with fewer and more minor changes than the Board would have preferred. The Board and Executive Committee want to take cautious but important steps in amending the employment terms policy and offering performance-based remuneration. Unfortunately, this has not been achieved now, owing to the State's holding in the Bank, but it is an important element in the Bank's journey and in its ability to compete for employees in the Icelandic financial market. After discussions in the latter half of 2023, it has become clear that these changes must be implemented in steps and must be in line with changes in Government ownership. The changes proposed now reflect the Bank's diverse ownership structure but omit references to the Government's ownership policy for financial institutions. It is not deemed appropriate that the employment terms policy should make reference to an ownership policy for one shareholder over and above others. The Board of Directors considers it important to treat all shareholders equally in this respect. It is increasingly common that institutional investors adopt and publish ownership and shareholder policies and that they have clear opinions about policies on employment terms and other matters, and there is no reason to consider these investors'

policies less, or differently, than ISFI's policies.

5. Proposed amendments to the Nomination Committee Rules of Procedure: The Board proposes that the Nomination Committee's Rules of Procedure be amended to accord with Article 53 of the Act on Financial Undertakings. The Board also proposes that the Nomination Committee be elected by a shareholders' meeting instead of being appointed by the Board. The Board thinks this would be a significant improvement and that it would be reflected in overall discourse between shareholders and other stakeholders. Furthermore, it is proposed that two alternates also be elected to the Nomination Committee, in case members are unable to participate in the Committee's work for any reason. The Board proposes that the Bank's Articles of Association be amended accordingly.
6. It is proposed that the authorisation for share buybacks be renewed and that KPMG be elected the Bank's auditing firm. Also before the meeting are proposals on appointments to the Nomination Committee and on Committee members' remuneration.
7. Finally, the Board recommends that the meeting elect Páll Grétar Steingrímsson, Chartered Auditor, as an external member of the Bank's Audit Committee.

In closing, I would like to thank Íslandsbanki's outstanding team of employees for their work during the year. Birna Einarsdóttir, after 30 years with Íslandsbanki – the last 15 years as CEO – left the Bank last summer, and on behalf of the Board, I want to offer her our heartfelt thanks for her invaluable contribution throughout her tenure with the Bank, which focused on equal rights and sustainability as cornerstones of the Bank's culture. And

I want to thank Jón Guðni Ómarsson, who took over as CEO in the midst of troubled times and has led the Bank steadfastly and securely since. With a highly effective mix of sincerity and boldness, Jón Guðni has led the Bank successfully through a period of reform and rebuilding, and now he is guiding it into an exciting new phase of close cooperation with our customers as we expand our product offerings and harness the opportunities in the market. I would like to thank the Board of Directors for their marvellous contribution and visible commitment to staking out a positive path for the Bank going forward. To the Bank's employees: I offer you my thanks for all of your work, even in the face of stiff headwinds and negative public discourse about the Bank. You have never wavered in your loyalty and your determination to provide excellent service, you have participated in reforming the Bank's operations, and you have been unswerving in doing so. This will ultimately strengthen the Bank's foundations and make it even better able to take maximum advantage of the opportunities that lie ahead. We are optimistic about the future, and we look forward to continuing to act as a force for good, helping to meet the needs of our customers and society as a whole.