



Chairman's statement

Honoured guests

2020 was a difficult year in many respects. It was the year when we grappled with a global pandemic, saw our country more or less shut down, and confronted demanding tasks in the labour market and the general economy. We were faced with layers upon layers of unknowns and were flying blind, but everyone had to act fast, without knowing precisely what lay ahead. Unlike the crisis of 2008, the economic problem did not stem from private sector debt; this time, it centred on a temporary loss of income suffered by some of the Bank's customers. The imminent economic contraction was softened by the Government's strong foreign currency position and several years of prudent economic policy. Businesses had been successful, and households benefited from a steep rise in real wages. With various measures, not least the Government's bold economic policy actions, Icelanders have managed to stave off escalating unemployment, mitigate the impact of income losses, and cushion the economy as a whole against severe shocks. The economic contraction in 2020 turned out less severe than was originally anticipated. Developments in 2021 to date indicate that the economy is strengthening and day-to-day life is edging closer to normal. According to Íslandsbanki's recent macroeconomic forecast, the economy will rebound strongly in the coming term.

Íslandsbanki has placed strong emphasis on supporting households and businesses, in keeping with its role of being a force for good in the community. Some 1,500 households and 650 businesses are among the Bank's customers who benefited

from temporary measures such as moratoria on payment and lengthening of loan maturities during the year. These measures formally concluded at the end of 2020, but since then, the Bank has negotiated longer moratoria with those customers who need them, primarily companies in the tourism industry.

In view of the headwinds brought on by the pandemic, the Bank's operating performance must be considered successful and its earnings acceptable. Íslandsbanki recorded a profit of ISK 6.8 billion for the year, and the Board recommends that half of it be paid as a dividend to the State as sole owner, in keeping with the Bank's dividend payment policy.

Changes in service

Íslandsbanki was forced to take a variety of measures to comply with the COVID-associated bans on gatherings. It is quite safe to say that the pandemic accelerated the ongoing shift towards digital communications. In ever-greater numbers, customers have used digital solutions, as pandemic-related measures required that we restrict access to our branches for a while. From the onset of the pandemic, Íslandsbanki placed strong emphasis on communicating regularly with its customers, which we believe to have been of pivotal importance. We are grateful to our customers for their patience during these trying times. The surge in the use of digital solutions and the new feature of

making appointments with customer service representatives has changed banking services, and it is clear that most customers wish to continue in this vein. We made a special effort to meet the needs of those customers for whom digital solutions are not suitable; for example, we launched a dedicated telephone line for senior citizens. This service was very much in demand, and each month we receive thousands of calls on the senior citizens' line. We intend to continue on this path, simplifying banking services through digital offerings while ensuring that we offer personal service in connection with major decisions.

Board activities

The work done by Íslandsbanki's Board of Directors has undeniably been affected by the pandemic, with many more meetings held remotely than ever before. But even though teleconferencing cannot substitute fully for face-to-face meetings, the Board's work has gone smoothly under these changed circumstances. The Bank's risk culture continues to evolve and mature, and assessing all types of risk in the Bank's operations is an important part of the Board's activities at any given time. The Board has placed strong emphasis on policy formulation and careful preparation of the Bank's five-year business plan. This work is extremely useful as a foundation for the report on the Bank's assessed economic capital.

Sustainability at centre-stage

It is particularly satisfying to report on the excellent progress made last year towards implementing the Bank's sustainability strategy. The strategy accords well with Íslandsbanki's profitability objectives and other financial targets, and it has strengthened the Bank's operations and its position in the community. There is good reason to expect it to strengthen the Bank's position in the financial market as well. We are proud to be the first bank in Iceland to publish a sustainable financial framework, and the green bond issues launched afterwards were particularly successful. Íslandsbanki seeks to be a model in the community and a catalyst for good. This role has seldom been more important than it is now, when our customers are dealing with the repercussions of the global pandemic.

Based on recent discourse and actions here in Iceland and in trading partner countries, I am certain that sustainability will be an extremely important factor in investors' interest in the Bank, and it is terrific to see the attention that this vital topic is receiving.

Initial public offering

The Minister of Finance and Economic Affairs recently agreed to Icelandic State Financial Investments' recommendation to sell up to 35% of the State's holding in the Bank. Private citizens will have the opportunity to buy shares, but the goal is to attract foreign institutional investors as well. In recent weeks, the Board has worked closely with the board and employees of Icelandic State Financial Investments as they prepare for the list-

ing and sale of a portion of the State's holding in the Bank, which is set to conclude around mid-year. It is marvellous to see how professionally this work has been carried out, as it is important for both the process itself and for the public that the listing and sale be transparent and trustworthy. It can be said that the aim has been to list Íslandsbanki on the stock exchange ever since the Bank was established in autumn 2008, and the Board and staff of the Bank are delighted to see these plans come to fruition.

Proposals for the Annual General Meeting

In accordance with the Act on Public Limited Companies and the Act on Financial Undertakings, proposals have been presented for consideration by this meeting.

First of all, the Board recommends that a dividend in the amount of ISK 3.4 billion be paid to shareholders from year-2020 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 40-50%.

Second, Icelandic State Financial Investments, which administers the Icelandic Government's holding in the Bank, proposes that the following individuals be elected to the Board:

Chairman of the Board

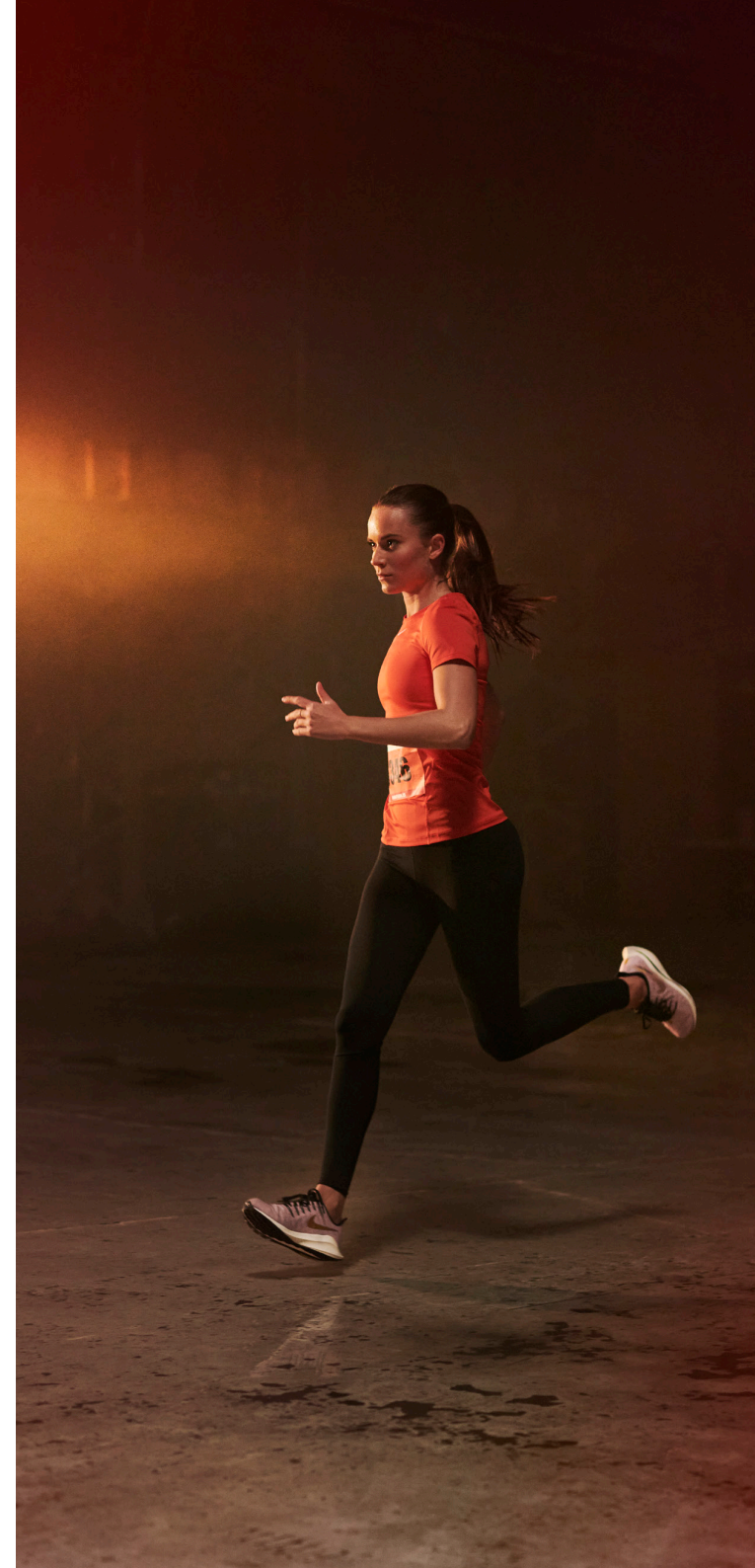
Hallgrímur Snorrason

Other board members:

Anna Þórðardóttir

Árni Stefánsson

Frosti Ólafsson



Guðrún Þorgeirsdóttir

Heiðrún Jónsdóttir

Jökull H. Úlfsson

It is proposed that the following be elected as alternates:

Herdís Gunnarsdóttir and Óskar Jósefsson

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

Fourth, it is proposed that Board members' remuneration be increased by 7%, as it has been unchanged since 2018.

Fifth, a proposed update to the employment terms policy has been presented to the Meeting. It is proposed that the policy should specify that the Bank shall ensure that professional liability insurance is in effect at all times for current and former Board members, the CEO, and key Bank employees, in connection with their work for the Bank. The Bank shall ensure that they are indemnified against liability for claims that may be lodged against them or that may fall upon them because of their work for the Bank, insofar as such claims cannot be attributed to wilful misconduct or gross negligence. Similar provisions can be found in the employment terms policies of many large companies and pension funds.

Thanks

As we formally end the 2020 operational year, I would like to thank my colleagues on the Board for smooth and fruitful collaboration. Furthermore, I would like to thank the board and staff of Icelandic State Financial Investments for their cooperation during the year.

In closing, I would like to thank the management and staff of Íslandsbanki for their contributions during the unusually challenging year that is now behind us. Their rapid, effective response bears witness to their diligence and dedication. I can say without exaggeration that perseverance and a positive attitude are the hallmarks of this exceptional group of people.