



Chairman's statement



Honoured shareholders, colleagues, and other guests

2024 was an eventful year for Íslandsbanki, as it was for the entire Icelandic economy. The Bank showed its strength by adapting to changeable circumstances, thereby delivering benefits for both shareholders and customers.

The economic outlook has now brightened, and it is particularly gratifying to see inflation and the policy interest rate on the decline. It is important for Icelandic society that steadfast efforts to lower inflation and support long-term economic stability should continue. At Íslandsbanki, we have made it a priority to work with our customers, and we are therefore optimistic about 2025 and the opportunities that await us.

A well-positioned and financial health

Íslandsbanki has been a force for good in Icelandic society for 150 years and stands on solid ground today. Over the years, the Bank has grown organically and expanded externally as well, and we see opportunities for continued profitable growth. At the end of 2024, we introduced a clear strategy focusing on profitability, progressive thinking, service, and customers' experience. Financial health of our customers is at the forefront as it is the key to stability and prosperity – for individuals and businesses alike.

Progressive thinking, a new value of the Bank, plays a key role in our new strategy. In a world that is changing more rapidly than ever before, it is of paramount importance to be one step ahead, have the courage to move forwards, develop the Bank's operations and employees' personal skills, and find new ways to improve both our operations and the service we provide. Last year we took positive steps with new service offerings, using artificial intelligence to strengthen internal and external services, and we intend to place even greater emphasis on progressive thinking as a guiding principle in all of the Bank's development. We believe Íslandsbanki rests on an immensely strong foundation, with robust infrastructure, employees, and expertise, and there are countless opportunities that we are excited to explore as we seek to utilise the Bank's strengths in a progressive way.

A year of challenges

There are numerous factors that affect Icelanders' economic situation and the financial position of the country's households and businesses. The past year has been characterised by global uncertainty, and widespread conflict and war elsewhere in the world has had a palpable economic impact in Iceland. The outlook is cloudy as regards possible trade barriers that the new US administration plans to raise, which could push prices higher and impede economic recovery. It will be a challenge to tackle

inflation when tariffs are imposed by our key trading partners. The situation is therefore highly delicate, as Iceland is not an island in terms of its relationship with the global economy.

On the home front, the forces of nature continued to make their mark during the year. The earthquakes and volcanic eruptions on the Reykjanes peninsula have been very trying for residents of Grindavík, who have demonstrated unbelievable patience and resilience under extraordinarily difficult circumstances. Íslandsbanki participated actively, together with the Government and other banking institutions, in the establishment of real estate firm Þórkatla, with the aim of finding a solution to Grindavík residents' housing problem. We have also focused on directly supporting our good customers from Grindavík.

Fortunately, infrastructure on the Reykjanes peninsula withstood the seismic activities, but tourism in the region was strongly affected. These natural disasters, together with high prices and elevated geopolitical tension, have created great uncertainty for this vital sector of the Icelandic economy.

Stronger infrastructure and new growth opportunities

Infrastructure development is one of the major projects awaiting Iceland, and Íslandsbanki has

already called for broad dialogue on the topic, so as to ensure that we as a society can harness important and profitable opportunities for the future. This requires effective cooperation between public and private entities. Íslandsbanki has participated actively in keeping the discussion alive, holding meetings and publishing analytical materials, which show that new investment in domestic infrastructure could easily total ISK 1.25 trillion over the coming decade. The Bank has extensive and highly valuable experience in the field of infrastructure and has built up a specialised infrastructure team that has participated in financing large projects abroad and is exceptionally well equipped to put this experience to work on infrastructure projects in Iceland. The Bank intends to lead this effort and, in this way, be a force for good.

An appeal for a fair operating environment

Operating banks and financial institutions in Iceland is different in many respects than in other countries, not least because of higher capital requirements, special taxes, and other levies. Obviously, when Icelandic banks have capital requirements totalling 10–13% of total assets, as compared with 3.0–3.5% in the other Nordic countries, the cost of lending rises and Icelandic companies' competitive position in global markets is weakened.

The report entitled "The macroeconomic impact and operating environment of the Icelandic financial sector [IS: Þjóðhagsleg áhrif og rekstrarumhverfi fjármálageirans á Íslandi]", prepared for Finance Iceland, affirms that the so-called "Iceland premium" can push lending rates upwards by more than a percentage point.

There is a consensus, both inside and outside the financial sector, that systemically important banks in particular must be financially strong in terms of balance sheets and liquidity. On the other hand, there is no set definition of what such financial strength means in this context, nor has it been determined what we as a nation are willing to pay for that strength. Furthermore, no explanation of the matter has been demanded of the Central Bank, which has repeatedly stressed the need for a strong banking system, but the Central Banks decides on the capital requirements one sided. It is really important that we discourse on this topic, especially when these requirements create great burdens for companies and households, and reduces the competitiveness of Iceland.

When we compare taxes on the Icelandic banking system with those in other European countries, we can see that our taxes are very high. In terms of tax payments as a share of risk-weighted assets, Icelandic banks pay an average of two to three times higher taxes than banks in the EU and the Nordic region do.

In Iceland, three special taxes are levied – a bank tax, a financial administration tax, and a special financial administration tax – in addition to other special levies. These taxes are imposed on the banks' liabilities, wages, and profits, and make the operating environment far more onerous in Iceland than in neighbouring countries. This is an important element in the discussion about the future and competitive position of Iceland's financial system. It is therefore vital to review the conditions and the tax environment imposed on Icelandic financial institutions, so as to enable them to compete as equals with foreign companies. We believe that a better balanced operating environment will enable

us to offer more favourable terms, for the benefit of both households and businesses.

Looking ahead to a changed interest environment

It is cause for celebration that the policy rate should be falling, but lower rates also require that the banks manage their risks effectively and keep an eye on their indexed versus non-indexed loans. The so-called CPI imbalance has caused interest rates on different types of loans to diverge, but we expect this situation to improve as interest rates fall.

In the coming year, Íslandsbanki will continue to monitor this relationship between CPI-linked and non-indexed loans so as to ensure that customers can take informed decisions, with even more informational material and appropriate advice and service. Our primary objective is to help our customers to strengthen their financial position – whether through savings, payment smoothing, or further education, information, or advice – and thereby support their financial health.

Offence and defence – finding the right balance

In the past year, Íslandsbanki has made significant strides in strengthening its defences against money laundering and terrorist financing. We have prioritised this issue at the Board and management level, and we have invested in new tech solutions and improved our organisational structure, governance practices, and procedures. We are of the opinion that regular review and continuous reform are key elements in ensuring that the Bank is trusted, as this trust is of immeasurable value for the Bank and its customers.

A strong balance sheet and capital position also opens the door to new and exciting opportunities for Íslandsbanki. Now that the removal or review of higher capital requirements is under discussion, this could further support our opportunities for external and internal growth.

We see an urgent need for integration in the Icelandic financial market and want to lead that effort, as there are boundless opportunities in this area – opportunities that could deliver better terms, greater efficiency, a better product selection, and improved services for customers.

In February, the Board of Directors of Íslandsbanki received a letter from Arion Bank's CEO and Board Chairman, requesting that the two banks begin discussing a merger.

After careful consideration, Íslandsbanki's Board of Directors decided to decline the offer. In the recent past, Íslandsbanki has carved out a very clear strategy focusing on profitability, progressive thinking, service, and customers' experience. We have explored internal and external growth opportunities that support the Bank's strategy, and we are working continuously to streamline operations and enhance efficiency, which will deliver benefits to customers and shareholders. The Bank's capital is well above targets, which opens the opportunity for profitable growth. Furthermore, we in the Board of Directors considered it a matter of significant interest for all shareholders that the forthcoming sale of the Government's holding in the Bank proceed smoothly.

Although the Board of Directors agreed on the perspectives presented by Arion Bank concerning the streamlining that could be achieved

with a merger in the domestic banking market, it concluded that such a merger was highly unlikely to be approved by the Competition Authority unless it were subject to extremely strict and onerous conditions.

That said, in the near future, Íslandsbanki will seek dialogue with the Government, the Central Bank, and other stakeholders concerning how to enhance cooperation on financial system infrastructure, thereby streamlining the system for the benefit of customers and shareholders while simultaneously fostering competition in the financial market. We see a host of opportunities in this area, and we hope the other parties concerned will be receptive to our overtures.

A part of the Bank's strategy for the years ahead will be to achieve profitable internal and external growth, and we have clear plans for better utilisation of the Bank's capital. We look forward to putting those plans into action.

Future ownership and continued development

In mid-March, the Minister of Finance and Economic Affairs introduced a bill of legislation amending the Act on the Disposition of the State Holding in Íslandsbanki. The matter had been postponed because of Parliamentary elections and Cabinet formation in late 2024, but it is gratifying that the new Government should have given priority to it. The bill of legislation, which is now being discussed by the Parliamentary Economic Affairs and Trade Committee, proposes amendments entailing that a third offer book be added to the two already in existence. This is done so as to ensure involvement by all investor groups and to enhance the likelihood of active participation by large investors without sidelining retail investors. Íslandsbanki

will assist the Government in all ways during the sale process, as it is a matter of vital interest for all shareholders and other Bank stakeholders.

We will continue on our journey and are very excited to face the challenges and opportunities that a change in ownership structure could entail. Experience shows that such changes can catalyse innovation and greater efficiency, kindle initiative, and create opportunities for further growth. I feel, and I know, that Íslandsbanki's Board of Directors and employees have been waiting for this journey and are more than prepared for it.

Íslandsbanki is ready for growth. Today it is Iceland's largest investment bank, it is a leader in the corporate market, and it has a strong position among households, where we are steadily gaining ground. In order to compete successfully for employees in the financial market and have the best team possible, the Board of Directors has begun preparation and discussions with the Bank's largest shareholders concerning the establishment of an employee incentive programme. We will continue the conversation in the coming weeks and aim to present proposal to shareholders in the coming months.

With this initiative, the Board of Directors wishes to link shareholders' and employees' long-term interests and ease upward wage pressures, thereby smoothing out fluctuations in operating performance and enabling Íslandsbanki to offer competitive terms of employment.

Thanks to employees and optimism about the future

I am grateful for the opportunity to thank the Board and staff of Íslandsbanki for their outstanding work

in the past year. The nearly 20 months that I have served on the Board of Directors of Íslandsbanki have been profoundly instructive and invigorating, not least because no matter where one looks, the Bank is teeming with top-flight employees who are deeply knowledgeable, experienced, ambitious, and creative. The contribution of each individual is the core of our success, and each one of us makes a difference.

Our work within the Board has also been smooth and fruitful, and we are all dedicated to doing better today than we did yesterday, so that we can continue to improve and strengthen the Bank as we move forwards. We have identified a wealth of exciting opportunities that we want to work towards in the coming term. It is our honour to put our thumb on the scales with the aim of strengthening Icelandic society and building up a more robust economic environment, and we are grateful for the trust shareholders have placed in us.

In 2024, we charted out a clear strategy centring on strong operations, increased progressive thinking, and personalised service that will support households' and businesses' financial health. It is our sincere wish to be a force for good in the community, so that everyone will benefit – shareholders, customers, and society as a whole.

There are obvious challenges in our operating environment, but nevertheless, we see exciting times ahead. I am convinced that with progressive thinking, professionalism, and cooperation, we will grow, thrive, and tackle the work ahead successfully and energetically. It is our task – the task of Íslandsbanki's Board of Directors and employees – to transform the challenges facing us into opportunities for growth.

I would like to thank you all for coming, and I look forward to working with you as we continue to advance and build up our Bank. It is cause for keen anticipation to embark on a new operational year in which we – each of us singly and all of us together – resolutely seize the challenges and opportunities ahead.

Thank you very much.