4Q23 & FY2023 Financial Results

8 February 2024

Jón Guðni Ómarsson
Chief Executive Officer

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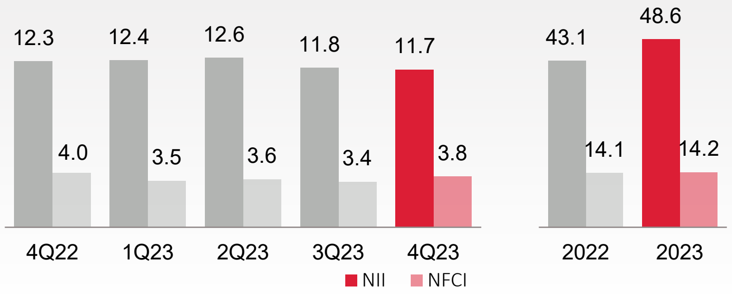
Chief Financial Officer

ROE of 11.3% in 2023 in a mixed business environment

Steady growth in core income compared to 2022

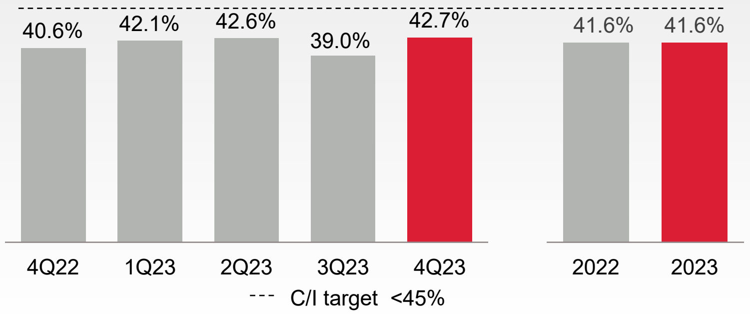
Core income growth between years

NII and NFCI, ISKbn



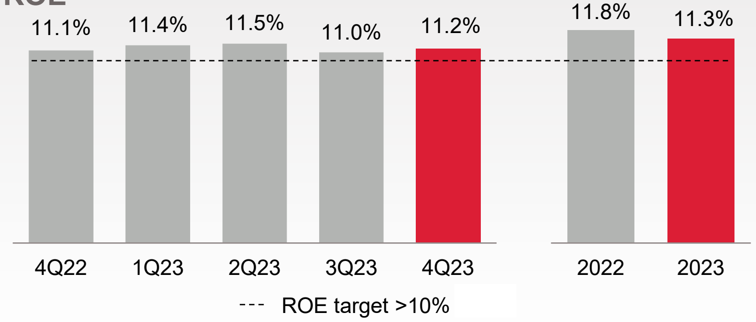
C/I ratio below guidance

C/I ratio[1]



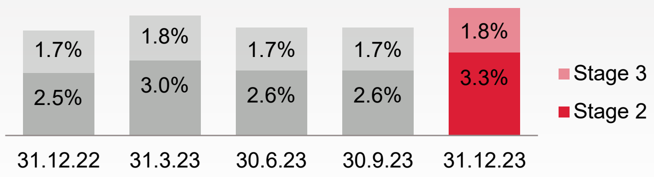
ROE above target

ROE



Asset quality continues to be strong

Loans to customers: Stage 2 and 3 (NPL)



1. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 included a provision of ISK 300m made in connection with an administrative fine, the C/I ratio was restated in 2Q23 so it excludes the provision.

Financial targets reached in 2023

Dividend of 50% of earnings to be proposed to AGM and continued buybacks in 2024

	Target	4Q23	FY2023
Return on equity	>10%	11.2% ✓	11.3% ✓
Cost-to-income ratio	<45%	42.7% ✓	41.6% ✓
CET1 excess	100-300bp	620bp ✓	620bp ✓
Dividend-payout-ratio	50%		50% ✓

2024 Guidance

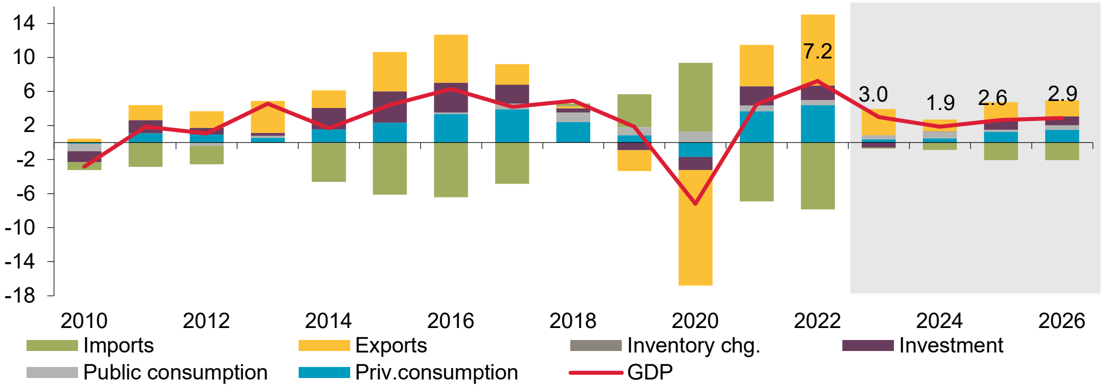
- Loans to customers and revenues, in general **to grow** in line with nominal GDP through the business cycle
- **ROE in 2024** expected to be ~10%, assuming normalised through-the-cycle-impairment levels at around 25bp
- **C/I ratio** expected to be below 45%. Inflationary pressure on cost base partly offset by high rates environment
- **Dividend of 50% of earnings** to be proposed to AGM in line with dividend policy
- Distribution of excess CET1 capital in the amount of **ISK 10bn** throughout 2024 through share buybacks

From cascade to calm: Iceland's economy crests the rapids

Tepid GDP growth in 2024, followed by steadily accelerating growth later on

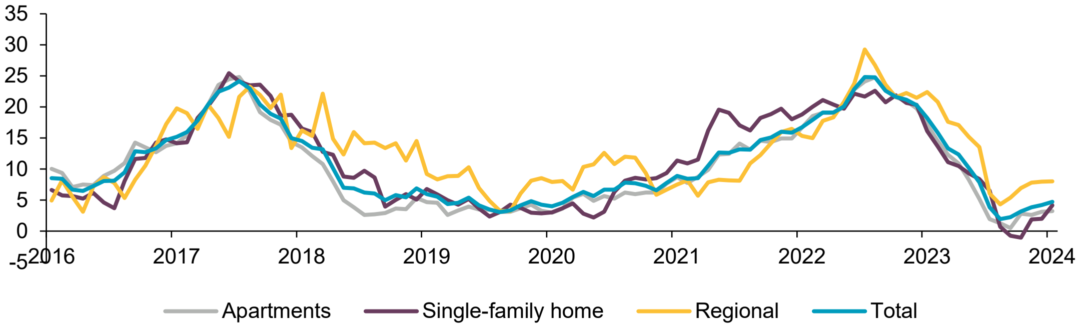
Domestic demand to take over gradually from exports as growth revives..

Real GDP and main subitems, YoY change, %



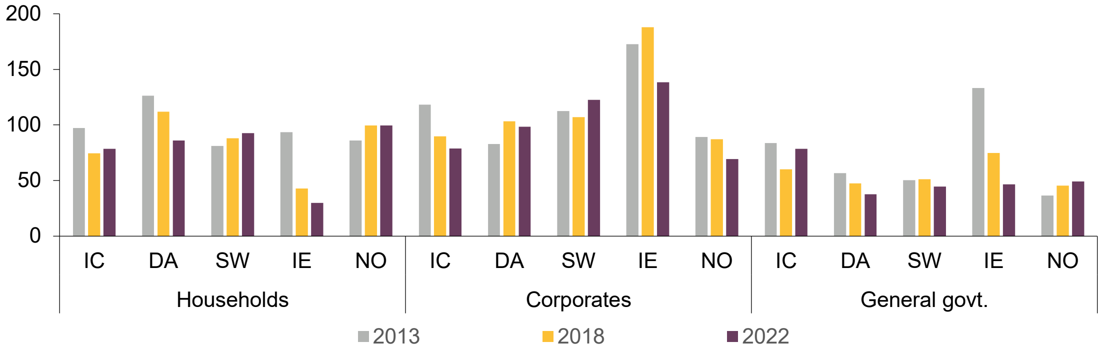
..and housing market appears more stable as price surge subsides

Year-on-year increase in residential house prices



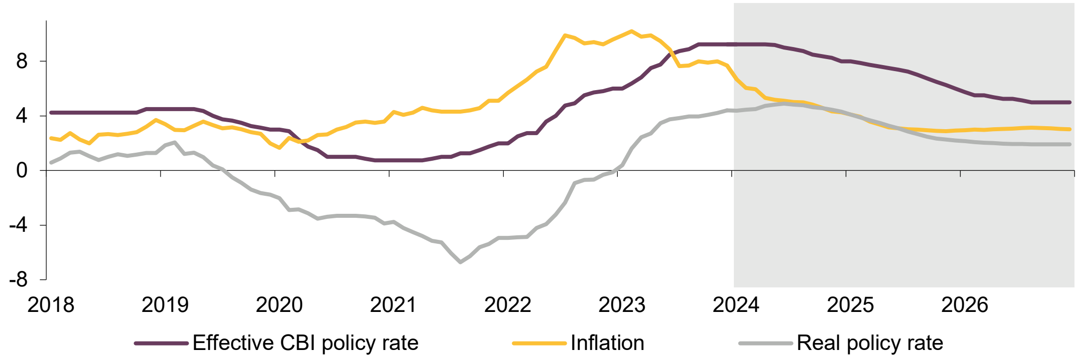
Moderate economy-wide leverage increases resilience to possible headwinds..

Gross debt of main economic sectors as % of GDP, Nordics and Ireland



...while tighter monetary policy is increasingly impacting demand and inflation

Inflation and policy rate,% Real policy rate b.o. expected forward inflation



Shaded areas indicate ISB Research forecasts or estimates. Source: Statistics Iceland, the Central Bank of Iceland and ISB Research.

39% market share amongst SME's[1]

Refunds to customers from **Fríða benefit system** increased by 55% in 2023

REYKJAVÍKUR MARAÞON ÍSLANDSBANKA

MOODY'S

S&P Global

ÍSLANDSBANKI 2023

Leading in FX Sales in Iceland

€ $ kr sek

Strengthening our foundation

Fróði 2.0

Strong partner in Corporate Finance

ÍSFÉLAG SKEL

Encouraging and supporting innovation

payday

1. Average market share from Gallup's corporate surveys in 2023.

Business Banking had another strong year

Serving 22,000 customers around the country

Business Banking

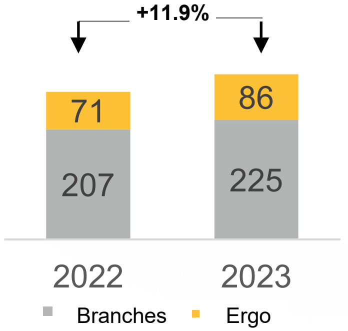
- Serves SME's through corporate banking centres and branches
- Ergo Finance Solutions
- 12 branches strategically placed in Iceland
- Extensive experience and close cooperation with customers

Digital Journey

- Digital corporate onboarding
- Equity trading for corporates in the app
- The new digital car loan journey improves the customer loan process experience
- Increased digital services will further boost efficiency

Strong market share and NPS remains high[1]

2023 Lending growth exceeds previous years' growth (in ISKbn)



Sustainability

- The car loan product Green financing
- Íslandsbanki's Entrepreneurship Fund supports innovation
- Sustainable Funding Framework
- 86% of Business Banking's credit risk exposure assessed with regards to ESG-risk

1. Based on average market share from Gallup's corporate surveys in 2023.

Major digital wins in 2023

- New **Digital & Data** unit and strategic investment in data-driven digital product development
- **Data driven** sales and service journeys and behavioural tracking in channels
- Regular savings in the Íslandsbanki app
- **Further digitalisation** of the loan process
- Digital credit assessment and notarization for car loans
- **Equity trading for corporates** in the app
- First version of **new Íslandsbanki online bank**
- **Digital refinancing of mortgages**

51%
of advisory centre chats are now **serviced by chatbot**

80%
of changes to credit card limit changes via app

50%
of retail **equity trading** is conducted via **app**

99%
of mortgage applications now digital

82%
of individual customers are **active in digital channels**

Continued strong focus on sustainability

Guiding our customers through communication and own initiatives

2023 HIGHLIGHTS[1]

93%
of the Bank's credit risk exposure[2] assessed with regards to ESG risk (up from 76% last year)

25
meetings with clients of Corporate and Investment Banking with the heading sustainability and net-zero

Sustainable assets increased by **24%** in 2023, to **ISK 97** billion at year-end

77%
Share of suppliers that have formally certified their compliance with the Suppliers' Code of Conduct (up from 45%)

SUSTAINABILITY OBJECTIVES 2024

- Obtain approval of updated Suppliers' Code of Conduct from 100% of large suppliers.
- Introduce publicly the Bank's confirmed scientific targets for total short- and medium-term emissions.
- Engage in dialogue with ten customers in emissions intensive sectors and continue to focus strongly on discussing climate issues.
- Place even more emphasis on sustainability-related governance.
- Incorporate sustainability risk into the Bank's risk model for corporate lending.
- Prepare an action plan to strengthen women and marginalised groups. Hold four external educational meetings relating to this and increase information disclosure online.
- Balance the ratio between men's median pay and women's median deliberately.

1. More information on sustainability highlights can be found in Íslandsbanki's annual and sustainability report for 2023. 2. Individuals and small enterprises are out of scope.

Updated Sustainable Funding Framework

The Sustainable Funding framework enables the bank to define clearly what loans of the Bank's loan portfolio can be considered Sustainable

The Green Bond Principles

The Social Bond Principles

The Sustainability Bond Guidelines

Structuring advisor:

Swedbank

Second Party Opinion by:

SUSTAINALYTICS

a Morningstar company

Íslandsbanki has published an updated Sustainable Funding Framework early January 2024

— The framework has been simplified and aims to reflect the latest market standards as well as to some extent the EU taxonomy.

— Íslandsbanki initially published a Sustainable Financing Framework in 2020, first of the Icelandic banks.

— As before, the framework is in alignment with the ICMA[1] Green, Social and Sustainable Bond Principles/Guidelines.

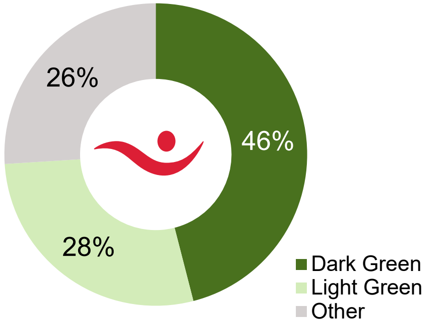
— Since then, the criteria and provisions of what the market considers sustainable have changed, and the scope narrowed.

— It is important for the bank to update the framework to ensure that it meets the strict criteria of the market and investor conditions.

Case study: SEK 500m 3y and NOK 500m 3y senior preferred

Issuer	Íslandsbanki hf.	
Issue type	Senior Unsecured	
Issuer rating	A3/BBB (stable positive) by Moody's/S&P	
Launch date	12 January 2024	
Maturity date	25 January 2027 (3y)	
Size	SEK 500m	NOK 500m
Coupon	3m Stibor + 235bps	3m Nibor + 235bps
JLM's	Swedbank, SEB	
Listing/Law	Euronext Dublin/English Law	

Green shading



Íslandsbanki

Íslandsbanki

Green Senior Unsecured

SEK 500m, NOK 500m

3M Stibor / Nibor + 235bps

Iceland | January 2024

1. International Capital Market Association

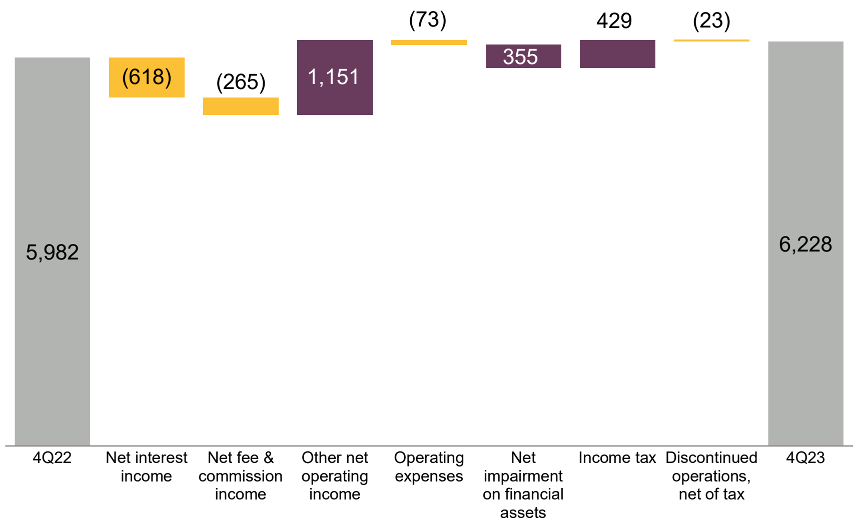
8 February 2024

Financial overview

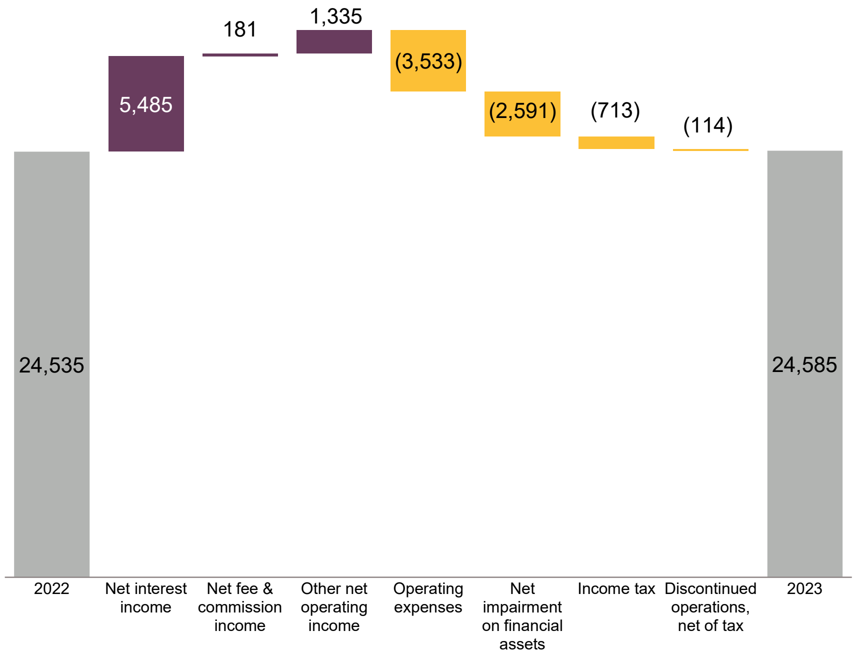
Core income grew by 9.9% in 2023

High interest rate and inflation impacted operations

Profit for the period – 4Q22 vs 4Q23
ISKm



Profit for the year – 2022 vs 2023
ISKm



NII affected by subsiding inflation

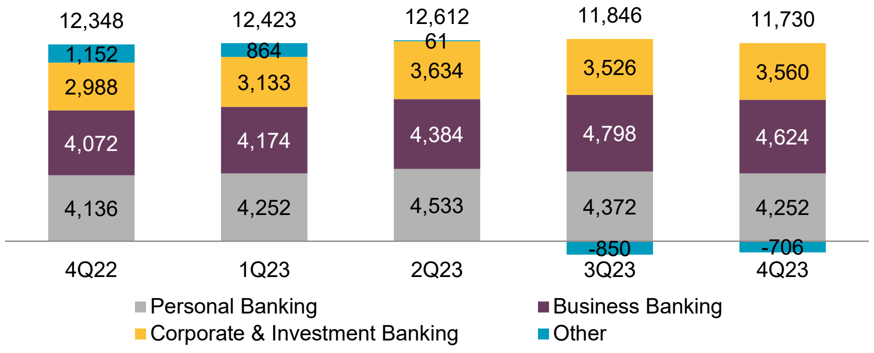
Central Bank policy rates unchanged during period

Highlights

- Lending margin was 1.8% in 4Q23 (1.8% in 4Q22)
- Deposit margin was 1.9% in 4Q23 (2.1% in 4Q22)
- Net interest margin was 2.9% in 4Q23 (3.1% in 4Q22)
- Average CB policy rate rose from 5.9% in 4Q22 to 9.3% in 4Q23
- NII decreasing from 3Q23 due to higher Central Bank reserve requirements and continued loss related to higher CPI imbalance in 4Q23

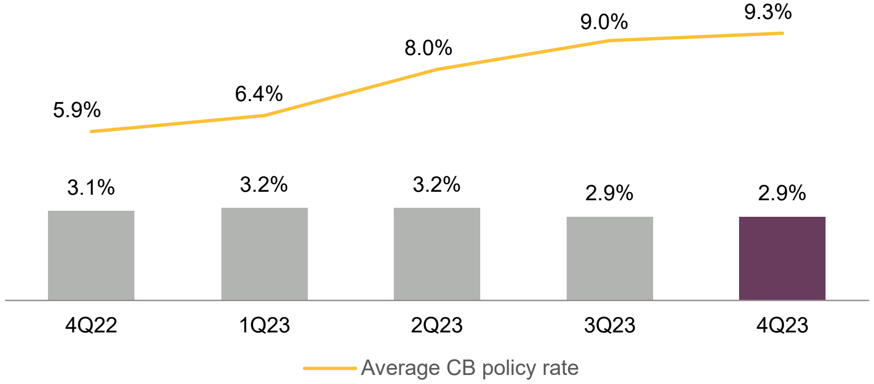
Net interest income

By business segments, ISKm



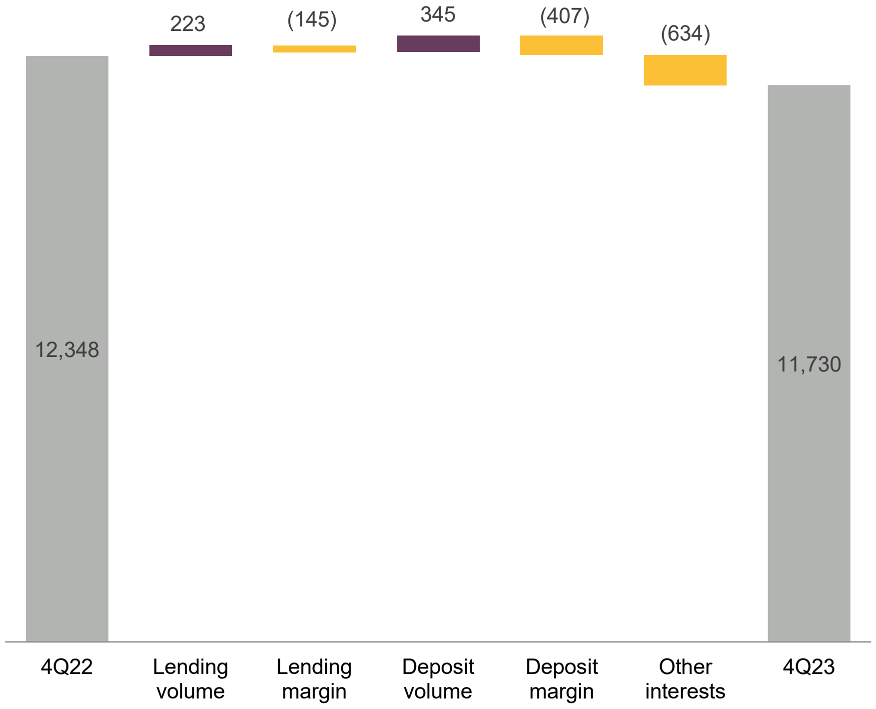
Net interest margin

On total assets



Net interest income – YoY comparison

ISKm



Strong fee income from cards and payment processing in 2023

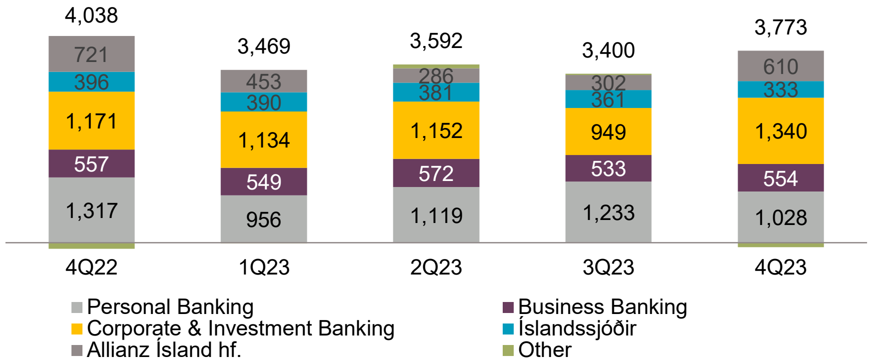
Allianz Ísland hf., a subsidiary of the Bank, continues to contribute healthily to NFCI

Highlights

- Income from cards and payment processing remains the largest type of NFCI and showed a healthy growth from previous year
- Allianz Ísland hf., a subsidiary of the Bank, is the largest contributor to other fee and commission income and had a strong revenue production this year
- Asset management remained pressured due to uncertainty on domestic financial markets, but recovered in the last quarter
- Net inflow in asset management towards end of year

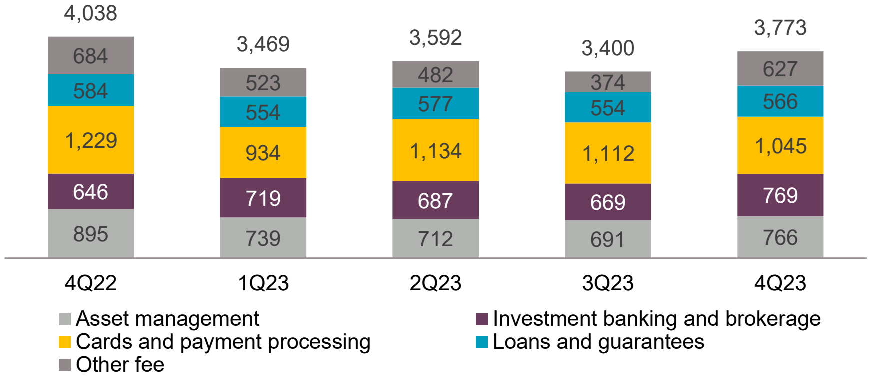
Net fee and commission income

Business segments, ISKm



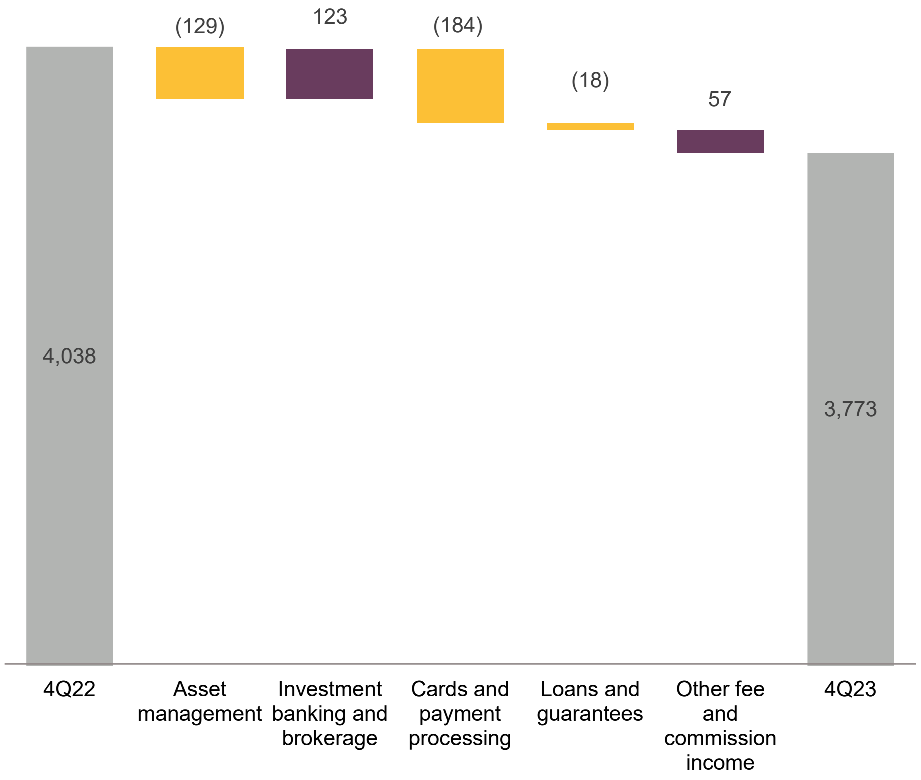
Net fee and commission income

By type, ISKm



Net fee and commission income – YoY comparison

ISKm



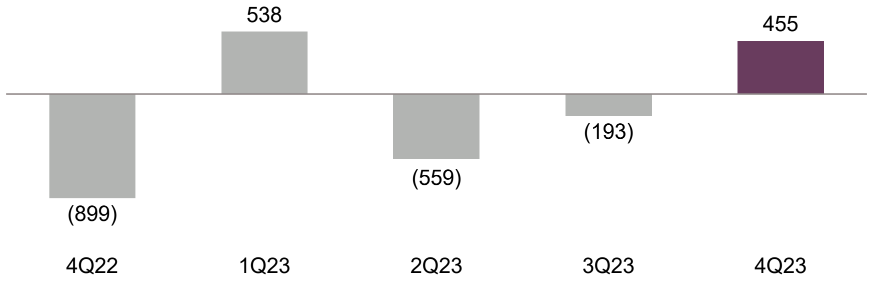
Positive turnaround in NFI in towards the end of the year

Volatile market environment affects the overall 2023 performance

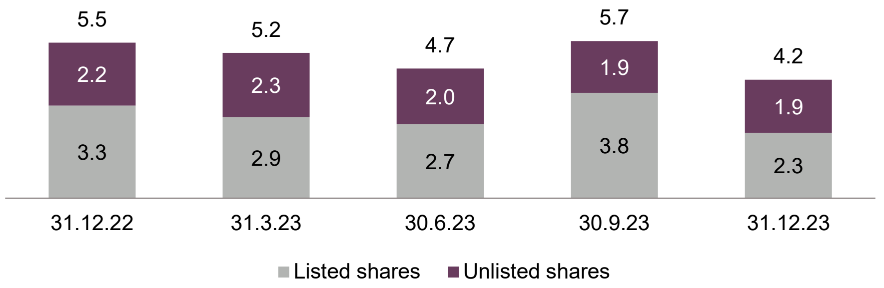
Highlights

- Income in NFI in the quarter is largely due to income from liquidity portfolio, resulting from a considerable decrease in the interest rate curve in the fourth quarter
- The Bank has reclassified its bond positions in its liquidity portfolio to non-trading book (from trading book) and obtained permission to realise any resulting changes to capital requirement in accordance with the Capital Requirements Regulation
- Income from shares in the fourth quarter is mainly from Íslandssjóðir and comes from increase in the value of assets in the fund's portfolio, both listed shares and specialised funds

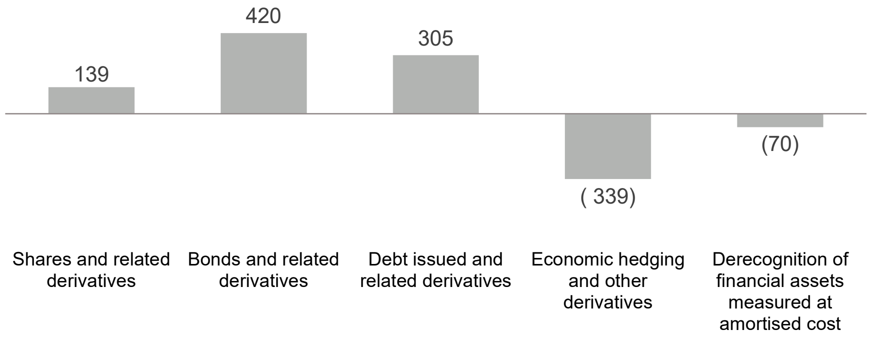
Net financial income (expense)
ISKm



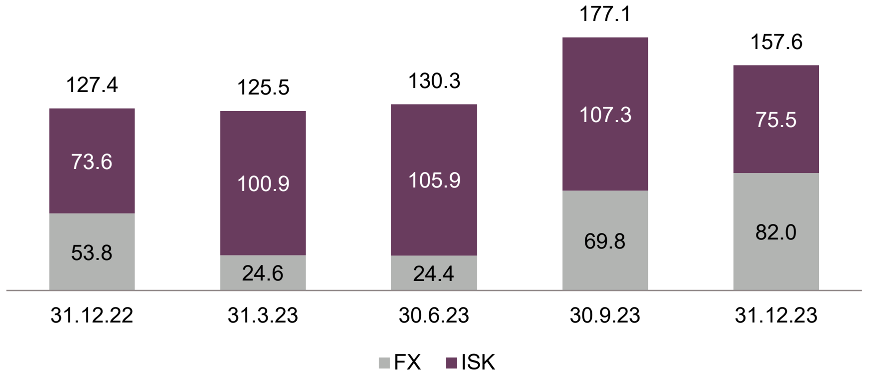
Shares and equity instruments[1]
ISKbn



Net financial income (expense) by type in 4Q23
ISKm



Bonds and debt instruments[2]
ISKbn



1.Excluding listed shares and equity instruments used for economic hedging. 2. Excluding listed bonds and debt instruments used for economic hedging.

Cost-to-income ratio beats target of below 45%

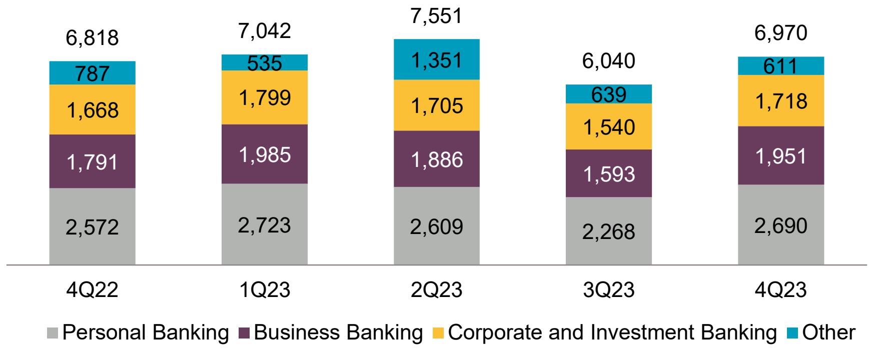
41.6% cost-to-income ratio for 2023 the same as 2022

Highlights

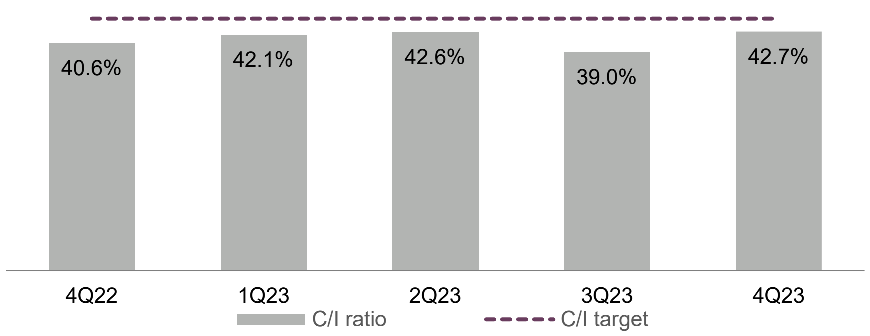
- Increase in salaries in 4Q23 from 3Q23 is primarily explained by seasonality in accrued leave in 3Q23
- Other operating expenses rose by 11% compared to 4Q22, but by 2.9% in real terms, and are mainly related to professional services, and software and IT expenses

Administrative expenses

ISKm

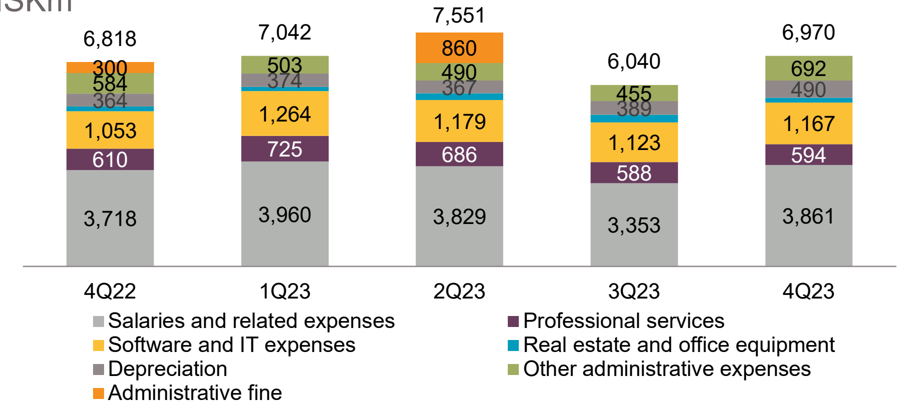


Cost-to-income ratio[1,2]



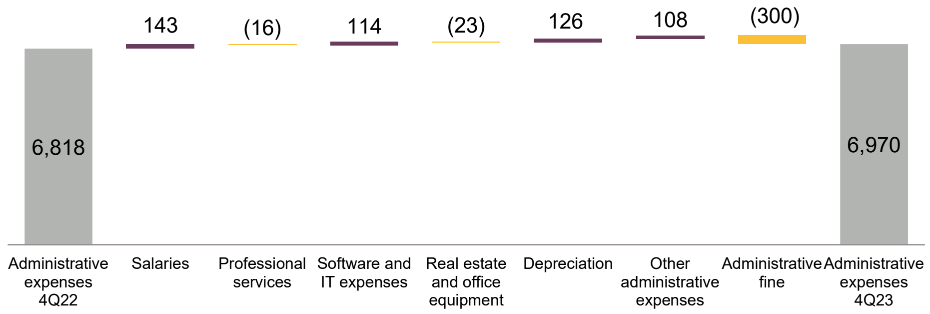
Administrative expenses – by type

ISKm



Administrative expenses – YoY comparison

ISKm



1. Calculated as (Administrative expenses + Contribution to the Depositor's and Investors' Guarantee Fund – one off items) / Total operating income – one-off items). 2. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 included a provision of ISK 300m made in connection with an administrative fine, the C/I ratio for 4Q22 has been restated so it excludes the provision.

Stable lending with modest credit risk profile

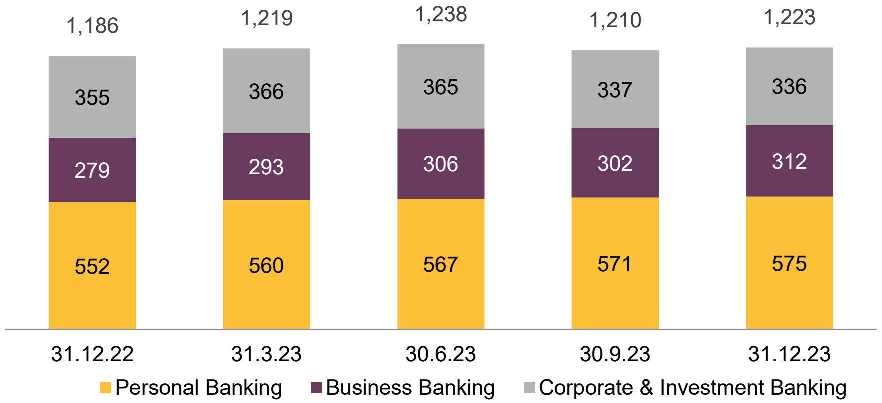
Diversified and highly collateralised loan portfolio

Highlights

- The credit quality of assets continues to be robust due to strong risk management practices and conservative lending policies
- Loans to the construction industry has gradually increased and is now shown as a separate sector
- Credit exposure fully covered by collateral is ISK 1,142bn or 93% of loans to customers

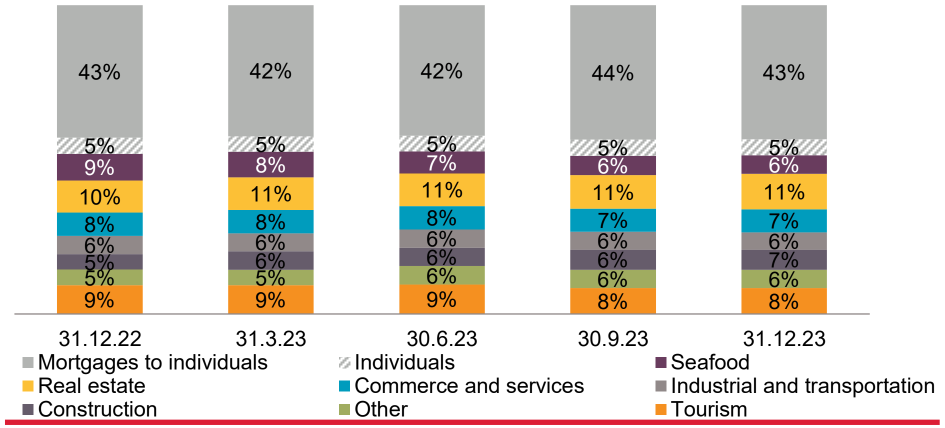
Loans to customers

By business division, ISKbn



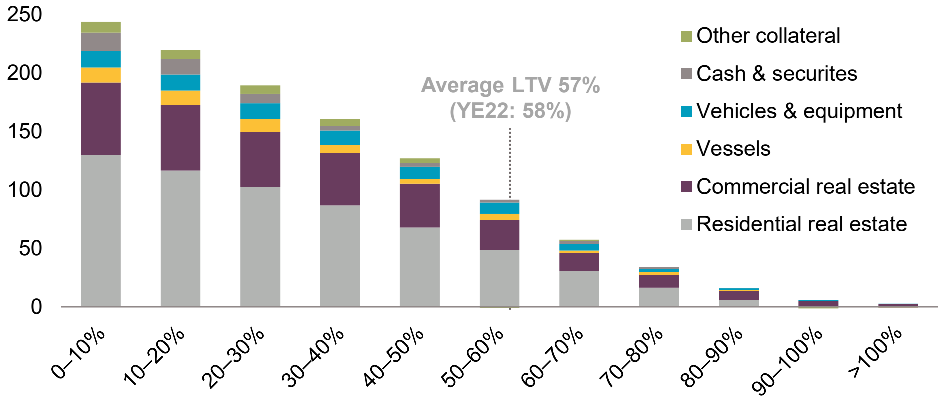
Loans to customers

By sector, with tourism as a separate sector



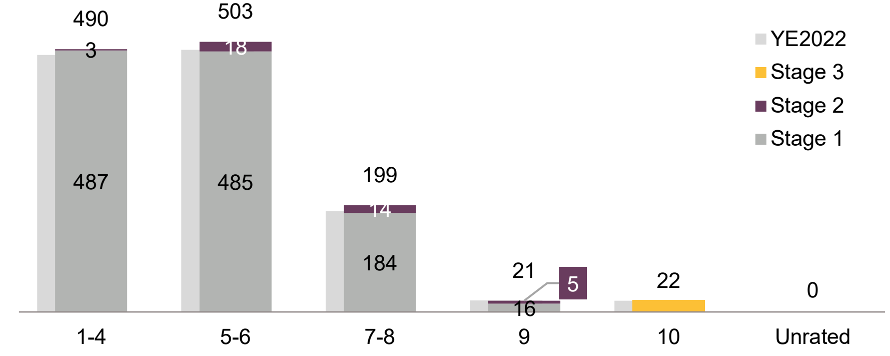
LTV distribution by underlying asset class

31.12.23, loan splitting approach, ISKbn



Loans to customers: gross carrying amount[1]

31.12.23, risk class and impairment stage, ISKbn



1. Risk class distribution at YE2022 shown as comparison

Credit quality remains strong

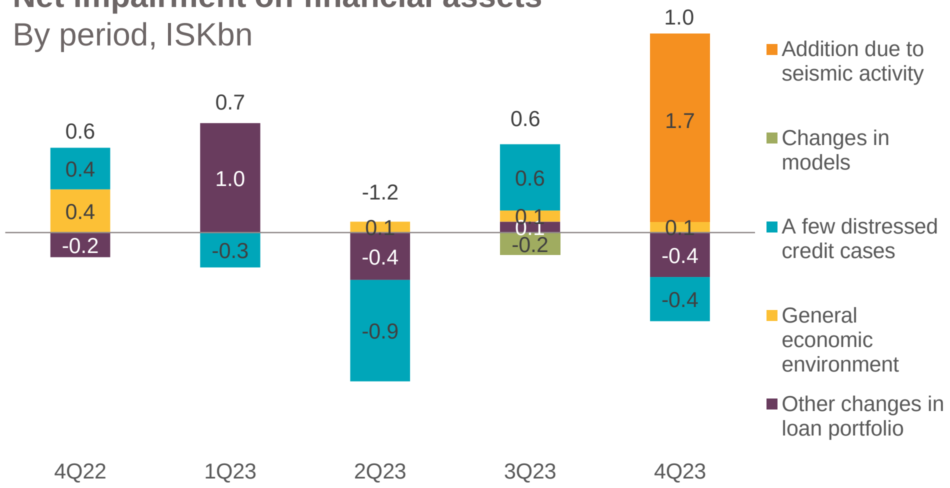
Increase in loans on Stage 2 and impairment allowance is a result of seismic activity

Highlights

- Temporary changes were made to the impairment model due to seismic activity leading to a rise in share of loans on Stage 2
- The associated additional impairment allowance amounts to ISK 1.7bn
- Limited exposure in the area; only 0.4% of loans to customers covered by real estate in Grindavík
- Loans on stage 3 remain stable despite inflation and high interest rates
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forborne even after normal payments have resumed.
- Reserve coverage ratio (RCR) for impairment allowance on Stage 3 was 18.6% at end of 4Q23 reflecting good collateral position

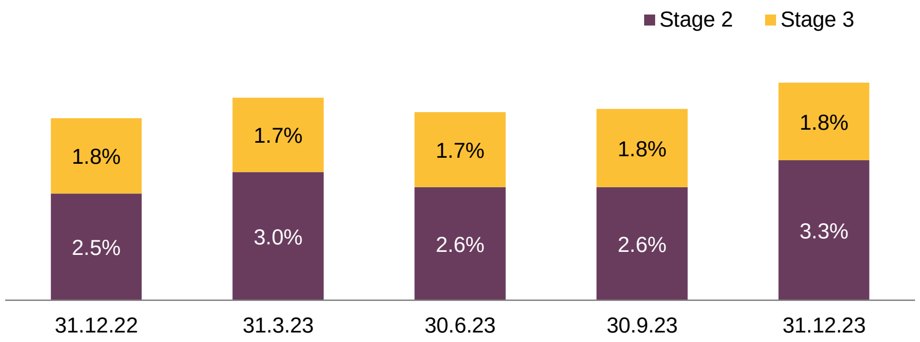
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

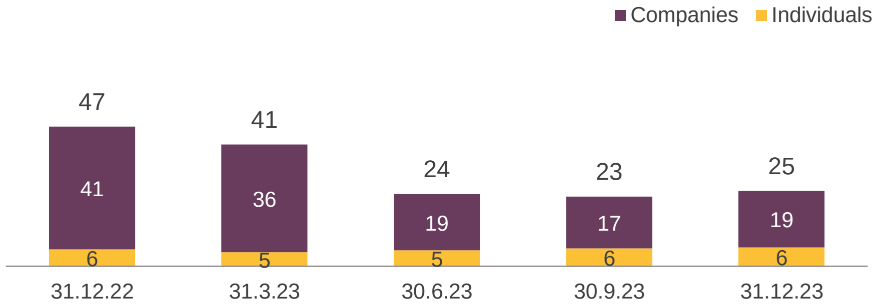


Current and expected cost-of-risk

- Annualised cost of risk was 33bp in 4Q23 (19bp for 3Q23) and 8bp FY23
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 4Q23.
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 0.3bn while 5% shift from the baseline to the good would decrease the allowance by ISK 0.2bn.

Performing loans with forbearance

Gross carrying amount, ISKbn



Mortgage portfolio continues to shift towards CPI-linked loans

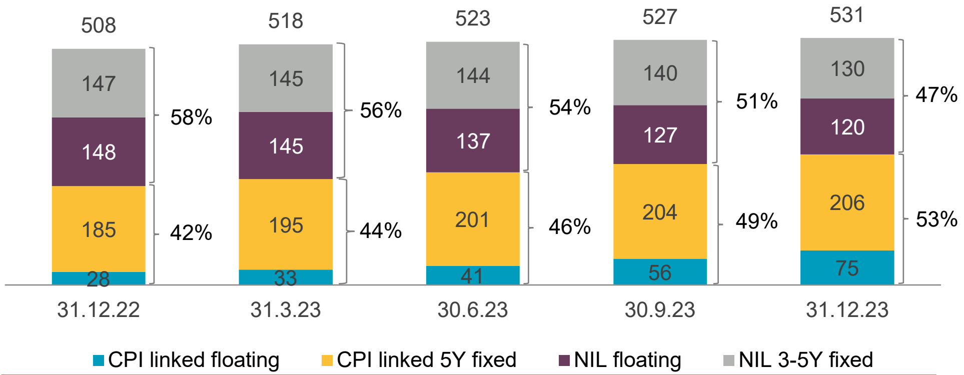
Loan to value is strong and supports this shift

Highlights

- Conservative payment assessment for non-indexed variable rate mortgages in the low interest environment means that households are well prepared for higher interest rate environment
- At origination, LTV is capped at 80% (85% for first time buyers) and debt service-to-income at 30% (35% for first-time buyers)
- Stage 2 mortgages have increased among others due to transfers of loans in Grindavík from Stage 1 to Stage 2
- Interest rate reset profile for NIL 3-5Y fixed rate mortgages is distributed evenly across quarters
- Ongoing growth in CPI-linked loans due to higher interest rate environment and increase in variable NIL mortgage rates

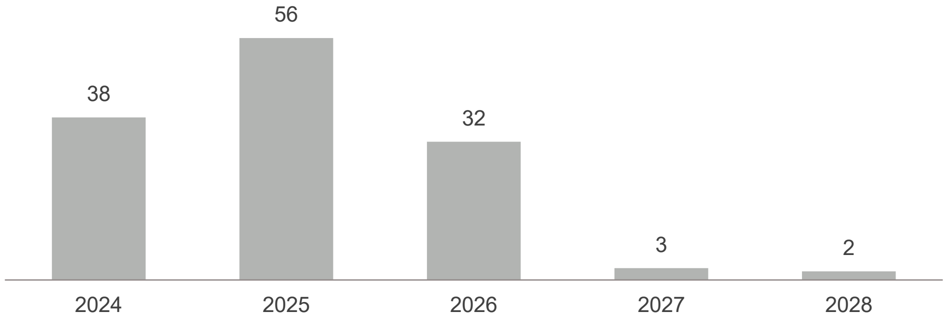
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



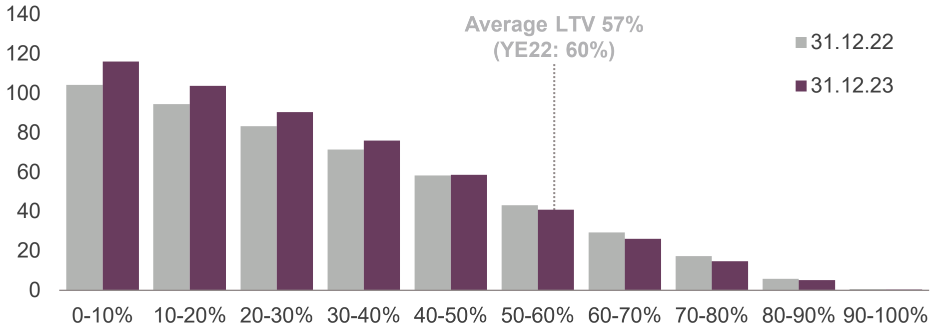
Interest rate reset profile for NIL 3-5Y fixed rate mortgages

Gross carrying amount, ISKbn



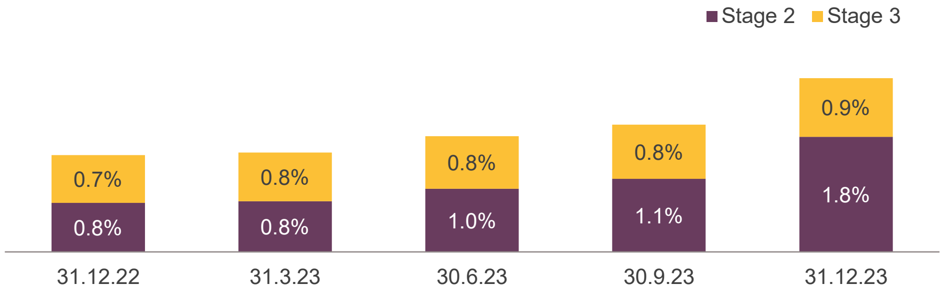
LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages



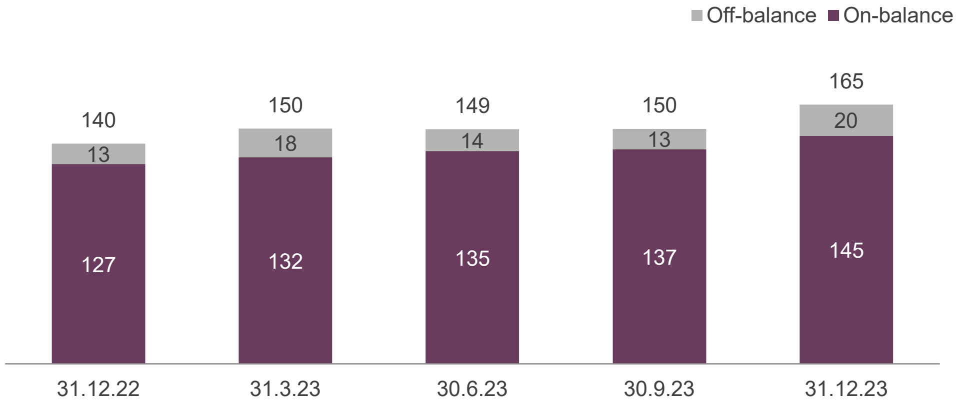
Real estate and construction sector in a good shape

High interest rates and inflation temper loan growth

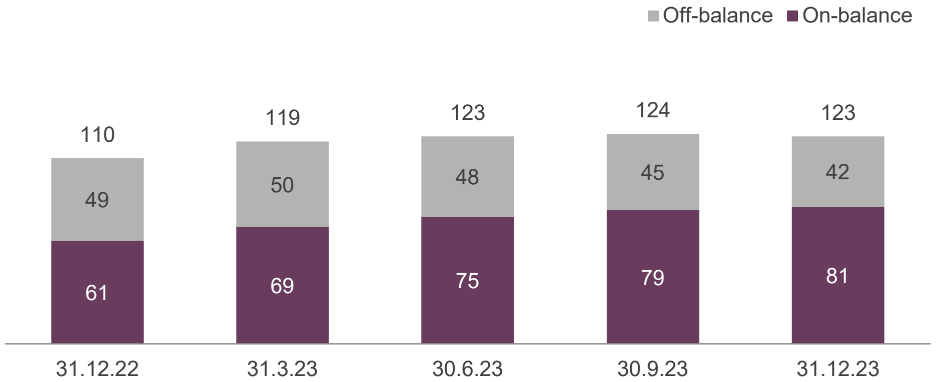
Highlights

- Loans to real estate companies and construction amount to 12% and 7% of loans to customers, respectively
- Disciplined origination with conservative LTV requirements and debt service criteria
- Third party security agents for largest real estate clients
- Most real estate companies use CPI-linked rental contracts as a form of hedging and have long-term financing to minimize influence of short- term changes in market value of real estate
- Loan commitments are disbursed in line with the construction progress
- Over half of exposure in the construction sector is for residential real estate, 20% for commercial real estate and the rest is mixed or to general construction contractors

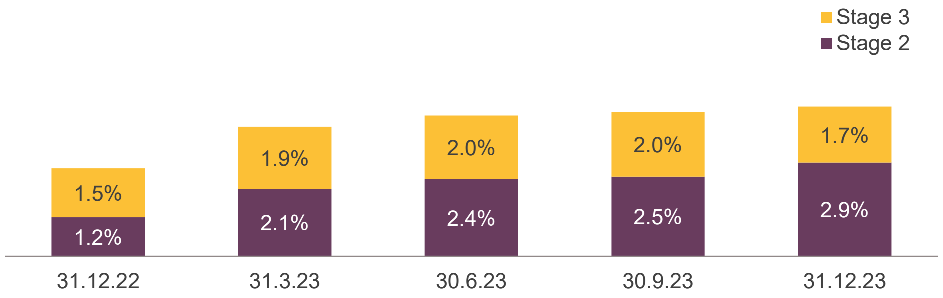
Development of exposure to real estate companies
Gross carrying amount by period, ISKbn



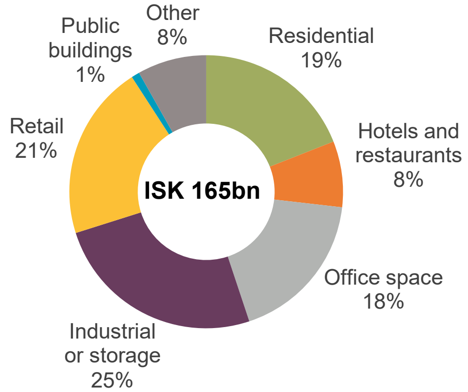
Development of construction exposure
Gross carrying amount by period, ISKbn



Real estate portfolio: Stage 2 and 3 (NPL)
Gross carrying amount as ratio of the real estate portfolio



Real estate collateral by type
31.12.2023



Deposits are the largest source of funding

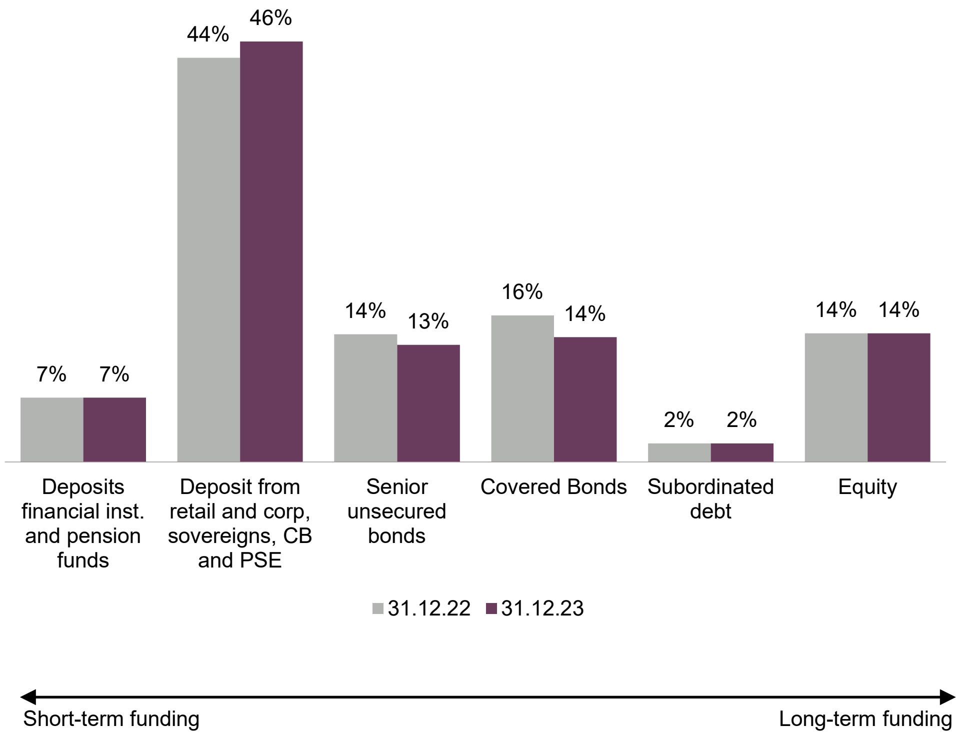
Strong year-on-year growth in deposits

Highlights

- Retail deposits (individuals and SME's) grew by 2.4% in 4Q23 and 12.4% in 2023
- Term deposits were 19% of total deposits at YE23
- Deposit concentration stable, 10% of deposits belonged to the 10 largest depositors and 26% to the 100 largest, compared to 12% and 20% respectively at YE22
- A detailed split of the deposit base and LCR is provided in the Additional Pillar 3 Disclosure, providing investors with the necessary information to perform their own stress tests on deposits
- 75% of deposits held by individuals (across business segments) and 46% of all deposits covered by deposit guarantee scheme

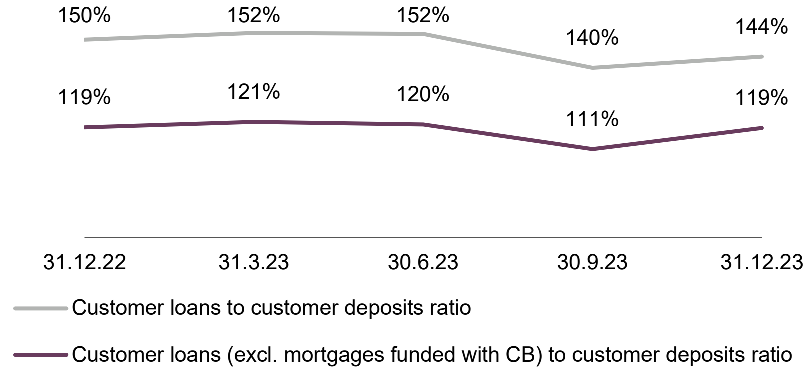
Funding sources

By type, % of total liabilities and equity



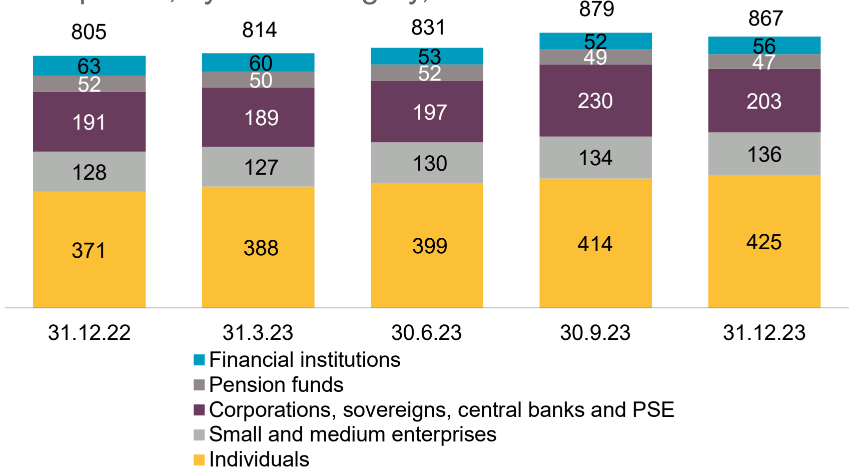
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



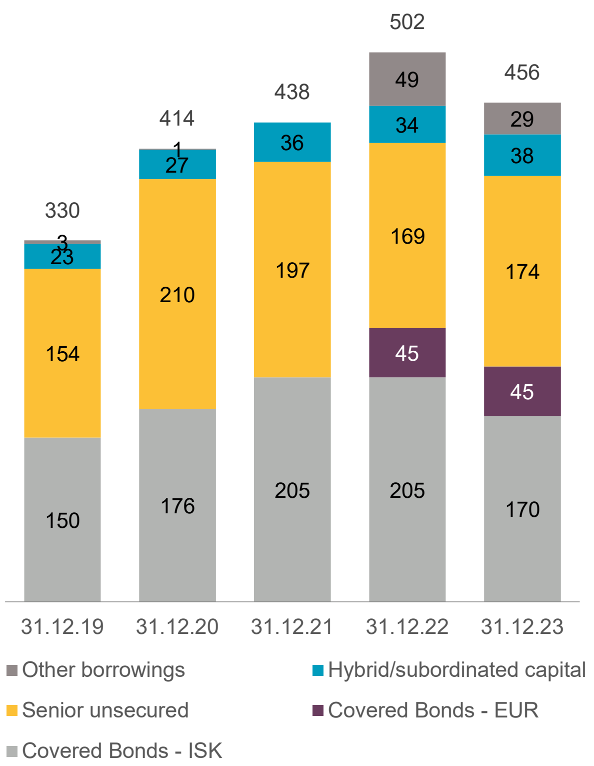
Seasoned and diversified long-term funding programme

Strong liquidity position and positive spread development in 2023

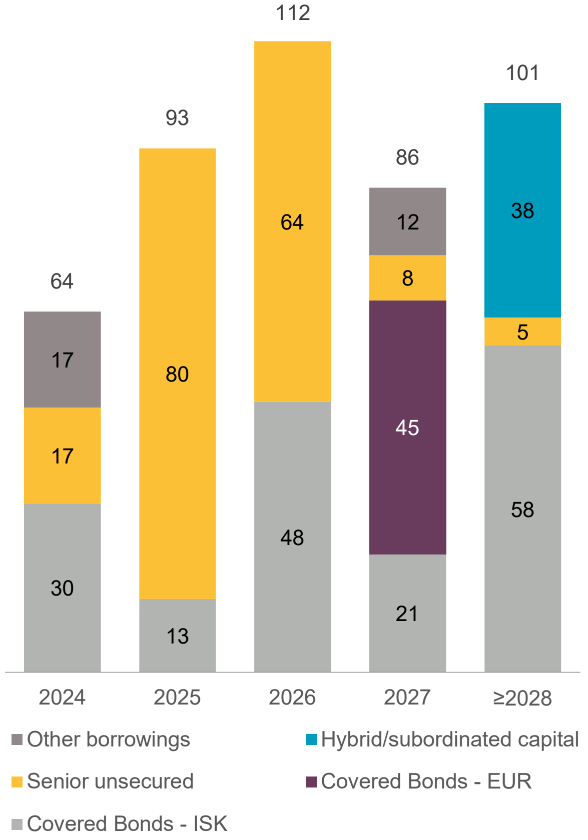
Highlights

- In 2023 the Bank was assigned an A3 issuer rating by Moody's Investor Services (Moody’s) with a stable outlook, reflecting the Bank's strong capitalization and good recurring profitability
- S&P upgraded Covered bonds ratings for the Bank from A to A+ in November
- During 4Q23 the Bank bought back bonds maturing in 2024 for a total amount of ISK 38bn

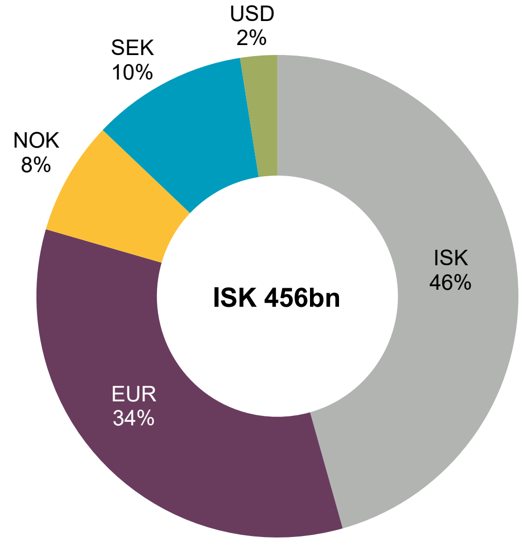
Sources of borrowings
Development, ISKbn



Contractual maturity profile of borrowings
31.12.23, ISKbn



Currency split of borrowings
31.12.23



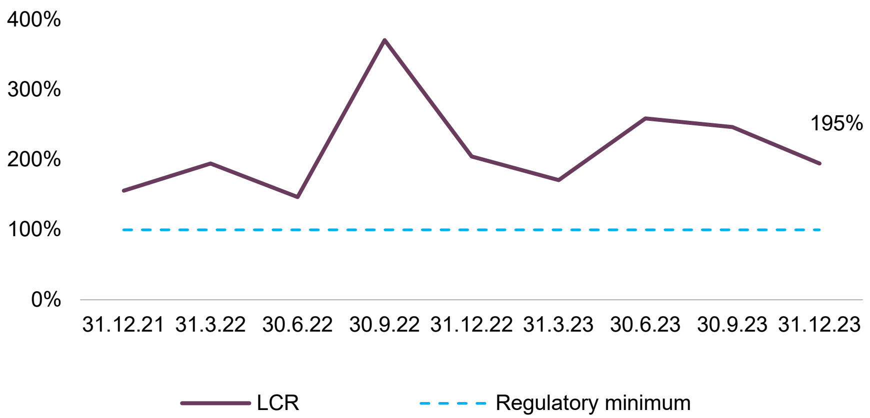
Strong liquidity position, ratios well above requirements

Liquid assets of ISK 313bn, representing 20% of total assets

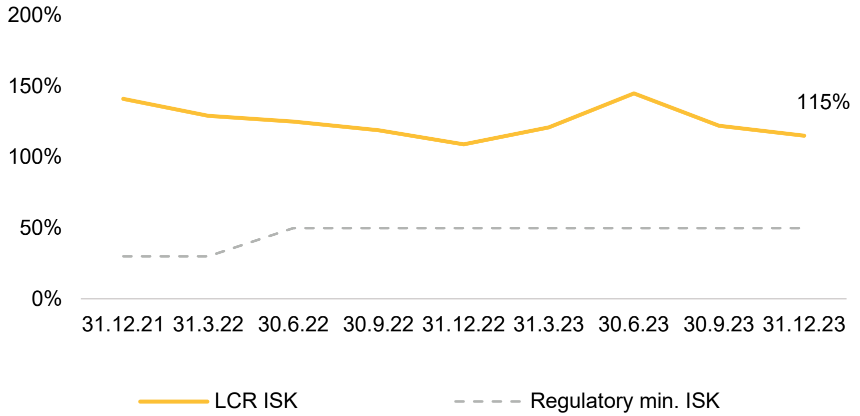
Highlights

- All liquidity measures above regulatory requirements
- Total LCR at 195% and NSFR at 124% for all currencies
- The Bank's EUR LCR at YE23 was 663%
- The securities portfolio is all MtM (FVTPL). There is no unrealised loss due to HtM (amortised cost)
- IRRBB is carefully monitored and managed. The Bank is fully compliant to the supervisory outlier test

Total liquidity coverage ratio (LCR)

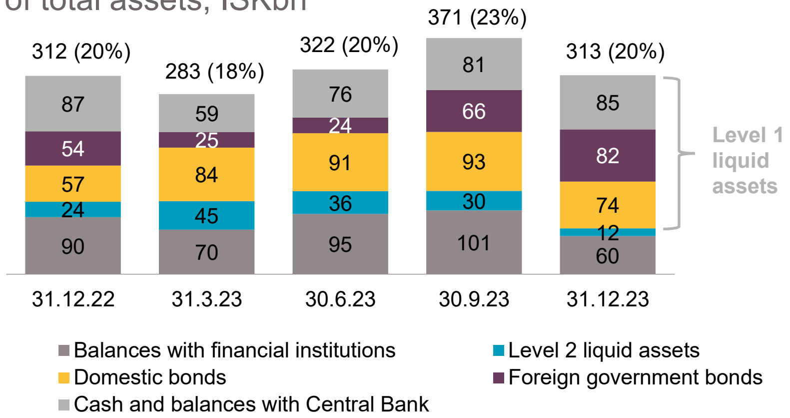


Liquidity coverage ratio for ISK

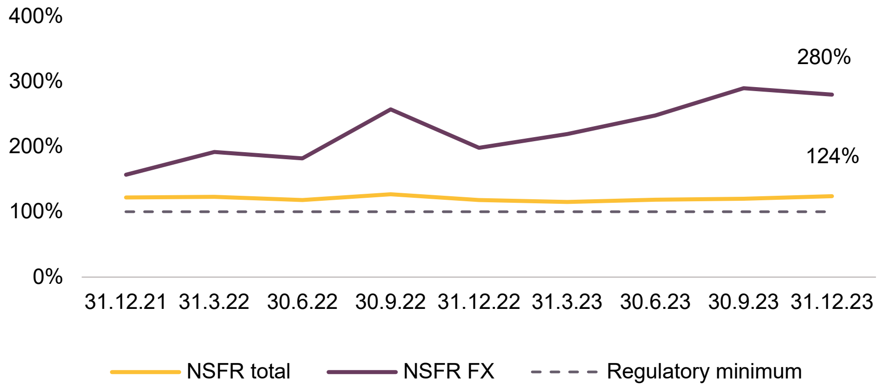


Liquid assets

% of total assets, ISKbn



Net stable funding ratio (NSFR)



Strong capital position

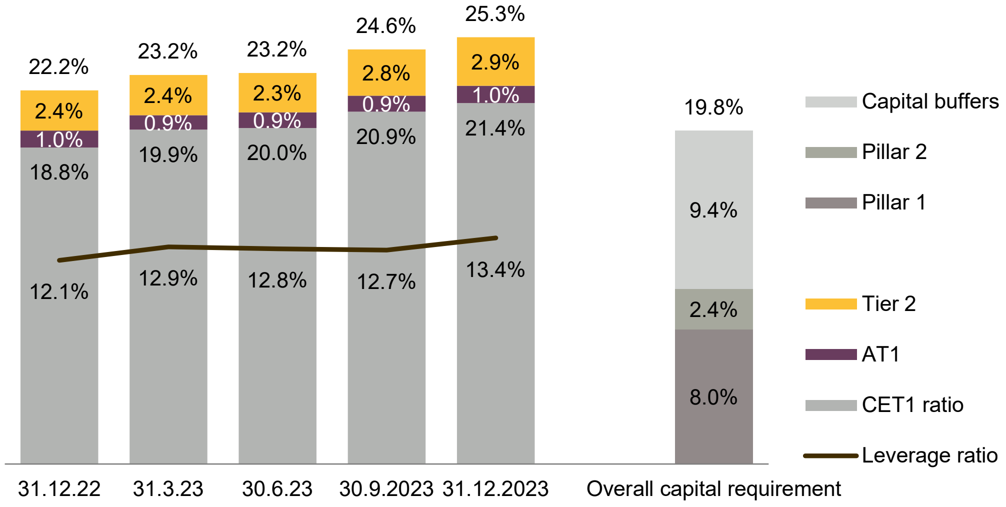
Capital ratios rise with REA optimization/advancements

Highlights

- MREL ratio, including the CET1 capital held to meet the combined buffer requirement, stood at 41.3% at year-end 2023, 1100bp above the requirement of 30.2%
- SREP: As of 30 June 2023, the Bank must maintain an additional capital requirement of 2.4% of the REA, a decrease of 0.2 percentage points from the previous assessment. The Bank's total capital requirement was therefore decreased from 10.6% to 10.4%
- The combined buffer requirement is 9.4%, resulting in an overall capital requirement of 19.8%
- Increase in counter-cyclical buffer from 2.0% to 2.5%, effective from March 2024, raises overall capital requirement from 19.8% to 20.3% assuming no other changes

Capital ratios and leverage ratio

% of REA (% of total exposure for leverage ratio)



Strong capital position

- CET1 excess of 620bp
- Total capital excess of 560bp
- MREL excess of 1100bp

Capital distribution plans

- Capital distribution plans include a proposal for a dividend payment in line with the Bank's dividend policy of paying out ~50% of preceding year's profit to be proposed to the annual general meeting in March, this year
- 1.02% of the Bank's issued shares bought back through share buyback program in 2023
- Distribution of excess CET1 capital in the amount of ISK 10bn planned throughout 2024 through buybacks
- The Bank plans to optimise its capital structure before year-end 2025, subject to market conditions

Q&A

Appendix I – About Íslandsbanki and additional financial information

This is Íslandsbanki

Our purpose is to be a force for good by empowering our customers to succeed

Vision and Values

To create value for the future
with excellent service

Passion
Professionalism
Collaboration

The Bank

FTEs
725
number of FTEs at Íslandsbanki at period end

12 branches

Listed on Nasdaq Iceland as of June 2021

Market share[1]

31% retail customers

39% SMEs

30% large companies

Sustainability 4Q23

The Bank has updated its Sustainable funding framework

93% of the Bank's credit risk exposure assess with regards to ESG risk

76% of suppliers have signed an updated suppliers' code of conduct

Key Figures 4Q23

ROE	11.2%	LCR Group, all currencies	195%
Cost-to-income ratio	42.7%	NSFR Group, all currencies	124%
CET1 ratio	21.4%	Leverage ratio	13.4%
Total capital ratio	25.3%	Total assets	ISK 1,583bn

Ratings and certifications

Moody's
A3 Stable outlook

S&P Global Ratings
BBB/A-2
Positive outlook

EUROMONEY AWARDS FOR EXCELLENCE 2023 ICELAND BEST BANK

EQUAL PAY CERTIFICATE

JAFNVÆGISVOG FKA 2023 VIÐURKENNING

Digital milestones 4Q23

The new digital car loan journey improves the customer loan process experience

Íslandsbanki's chatbot, Fróði, can now speak to customers in beta version of the Íslandsbanki app

Additional step-up security has been introduced to the app and online bank in response to increasing fraud risk

1. For retail customers, based on the number of customers with active deposits as percentage of people with domicile in Iceland, for SME's on average market share from Gallup's corporate surveys in 2023 and for large companies the average market share in 4Q23 among top 300 companies according to Frjáls verslun magazine.

Financial overview

Key figures & ratios

		4Q23	4Q22	2023	2022	2021
PROFITABILITY	Profit for the period, ISKm	**6,228**	5,982	**24,585**	24,535	23,725
	Return on equity	**11.2%**	11.1%	**11.3%**	11.8%	12.3%
	Net interest margin (of total assets)	**2.9%**	3.1%	**3.0%**	2.9%	2.4%
	Cost-to-income ratio[1,2]	**42.7%**	40.6%	**41.6%**	41.6%	46.2%
	Cost of risk[3]	**0.33%**	0.22%	**0.08%**	(0.14%)	(0.28%)

		31.12.23	30.9.23	30.6.23	31.12.22	31.12.21
BALANCE SHEET	Loans to customers, ISKm	**1,223,426**	1,210,499	1,237,758	1,186,639	1,086,327
	Total assets, ISKm	**1,582,694**	1,643,600	1,593,239	1,566,235	1,428,821
	Risk exposure amount, ISKm	**977,032**	986,355	1,015,197	999,491	901,646
	Deposits from customers, ISKm	**850,709**	864,189	816,641	789,897	744,036
	Customer loans to customer deposits ratio	**144%**	140%	152%	150%	146%
	Non-performing loans (NPL) ratio[4]	**1.8%**	1.8%	1.7%	1.8%	2.0%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**124%**	120%	119%	118%	122%
	Liquidity coverage ratio (LCR), for all currencies	**195%**	247%	259%	205%	156%
CAPITAL	Total equity, ISKm	**224,693**	219,694	215,524	218,874	203,710
	CET1 ratio[5]	**21.4%**	20.9%	20.0%	18.8%	21.3%
	Tier 1 ratio[5]	**22.5%**	21.9%	20.9%	19.8%	22.5%
	Total capital ratio[5]	**25.3%**	24.6%	23.2%	22.2%	25.3%
	Leverage ratio[5]	**13.4%**	12.7%	12.8%	12.1%	13.6%
	MREL ratio[6]	**41.3%**	39.2%	38.4%	34.5%	-

1.Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 2. C/I ratio in 2023 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 and 2022 included a provision of ISK 300m made in connection with an administrative fine, the C/I ratio for 4Q22 and 2022 has been restated so it excludes the provision. 3. Negative cost of risk means that there is a net release of impairments. 4. Stage 3, loans to customers, gross carrying amount. 5. Including 3Q23 profit for 30.9.23. 6. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.

Income Statement

Income growth continues and profitability is robust

Income statement, ISKm	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Net interest income	**11,730**	12,348	(5%)	11,846	(1%)	**48,611**	43,126	13%
Net fee and commission income	**3,773**	4,038	(7%)	3,400	11%	**14,234**	14,053	1%
Net financial income (expense)	**455**	(899)	-	(193)	-	**241**	(1,257)	-
Net foreign exchange gain	**113**	576	(80%)	176	(36%)	**581**	881	(34%)
Other operating income	**258**	(2)	-	248	4%	**570**	433	32%
Total operating income	**16,329**	16,061	2%	15,477	6%	**64,237**	57,236	12%
Salaries and related expenses	**(3,861)**	(3,718)	4%	(3,353)	15%	**(15,003)**	(13,452)	12%
Other operating expenses	**(3,109)**	(2,800)	11%	(2,687)	16%	**(11,740)**	(10,166)	15%
Administrative fine	**-**	(300)	-	-	-	**(860)**	(300)	187%
Administrative expenses	**(6,970)**	(6,818)	2%	(6,040)	15%	**(27,603)**	(23,918)	15%
Contribution to the Depositor's and Investors' Guarantee Fund	**-**	-	-	0	-	**-**	(165)	-
Bank tax	**(402)**	(481)	(16%)	(522)	(23%)	**(1,871)**	(1,858)	1%
Total operating expenses	**(7,372)**	(7,299)	1%	(6,562)	12%	**(29,474)**	(25,941)	14%
Net impairment on financial assets	**(1,002)**	(647)	55%	(583)	72%	**(1,015)**	1,576	-
Profit before tax	**7,955**	8,115	(2%)	8,332	(5%)	**33,748**	32,871	3%
Income tax expense	**(1,737)**	(2,166)	(20%)	(2,334)	(26%)	**(9,198)**	(8,485)	8%
Profit for the period from continuing operations	**6,218**	5,949	5%	5,998	4%	**24,550**	24,386	1%
Discontinued operations held for sale, net of income tax	**10**	33	(70%)	9	11%	**35**	149	(77%)
Profit for the period	**6,228**	5,982	4%	6,007	4%	**24,585**	24,535	0%

Key ratios	4Q23	4Q22	3Q23	2023	2022
Net Interest Margin (NIM)	**2.9%**	3.1%	2.9%	**3.0%**	2.9%
Cost-to-income ratio (C/I)	**42.7%**	40.6%	39.0%	**41.6%**	41.6%
Return on Equity (ROE)	**11.2%**	11.1%	11.0%	**11.3%**	11.8%
Cost of risk (COR)	**0.33%**	0.22%	0.19%	**0.08%**	(0.14%)

Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

Assets

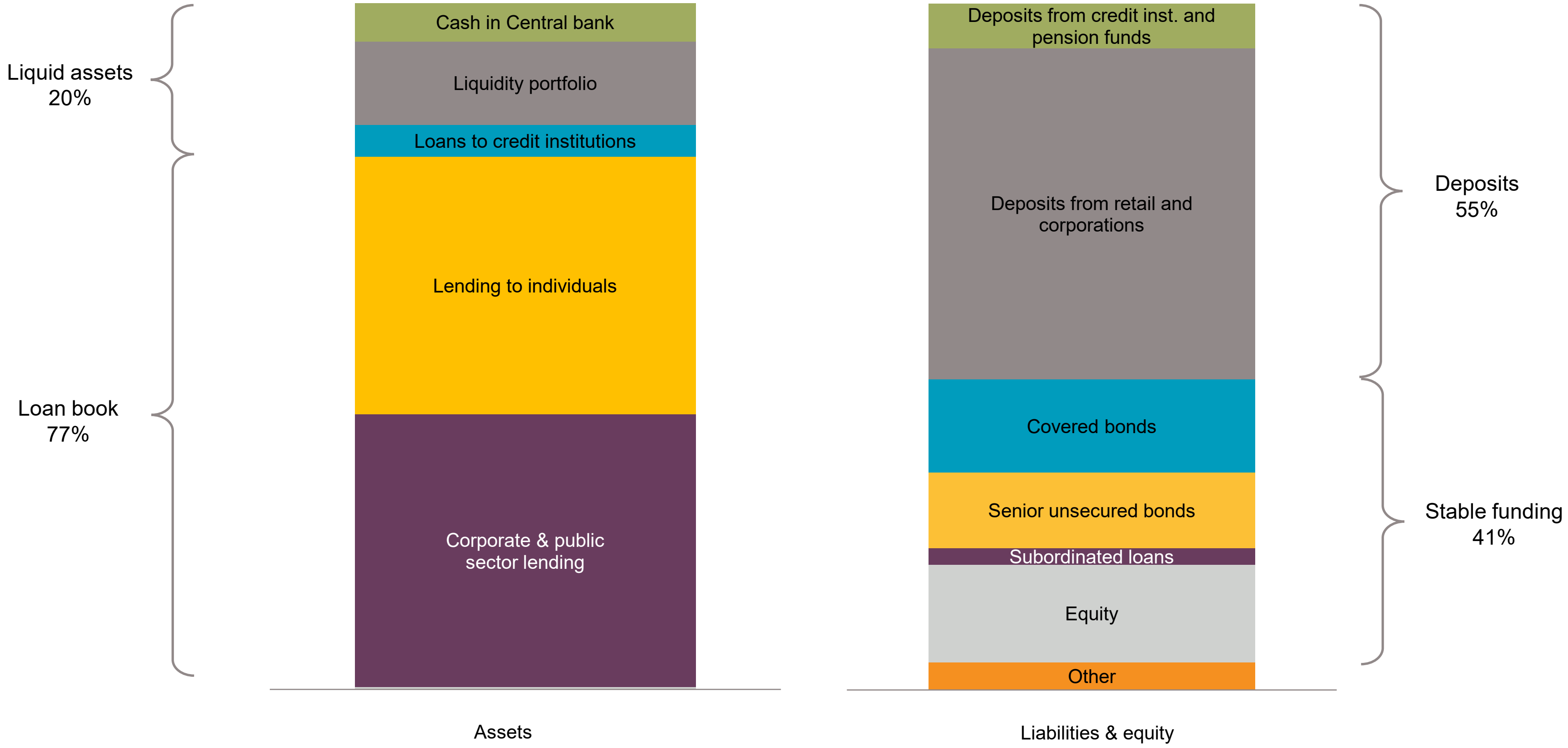
- Vast majority of assets consist of lending to both retail and corporates
- Strong liquidity portfolio is a consistent factor in balance sheet management
- Very limited exposure to non-liquid or non-lending assets

Liabilities

- Deposits from retail and corporates are the single largest funding source
- Bonds and debt instruments have become a more prominent part of the funding mix thanks to continuous focus on attracting new pockets of demand, including foreign currency and ESG issuance

Simplified balance sheet structure

31.12.23, ISK 1,583bn



Assets

Asset base mainly consists of loans and liquid assets

Assets, ISKm	31.12.23	30.9.23	Δ	Δ%	31.12.22	Δ	Δ%
Cash and balances with Central Bank	**87,504**	84,332	3,172	4%	94,424	(6,920)	(7%)
Loans to credit institutions	**73,475**	117,699	(44,224)	(38%)	110,364	(36,889)	(33%)
Bonds and debt instruments	**161,342**	178,830	(17,488)	(10%)	130,804	30,538	23%
Derivatives	**5,776**	5,581	195	3%	7,461	(1,685)	(23%)
Loans to customers	**1,223,426**	1,210,499	12,927	1%	1,186,639	36,787	3%
Shares and equity instruments	**13,241**	13,270	(29)	(0%)	15,868	(2,627)	(17%)
Investment in associates	**4,051**	3,841	210	5%	3,844	207	5%
Property and equipment	**6,562**	6,528	34	1%	6,752	(190)	(3%)
Intangible assets	**2,930**	3,120	(190)	(6%)	3,279	(349)	(11%)
Other assets	**3,638**	19,156	(15,518)	(81%)	6,072	(2,434)	(40%)
Non-current assets and disposal groups held for sale	**749**	744	5	1%	728	21	3%
Total Assets	**1,582,694**	1,643,600	(60,906)	(4%)	1,566,235	16,459	1%

Key ratios							
Risk Exposure Amount (REA)	**977,032**	986,355	(9,323)	(1%)	999,491	(13,136)	(1%)
REA/total assets	**61.7%**	60.0%			63.8%		
Non-performing loans (NPL) ratio[1]	**1.8%**	1.8%			1.8%		
Asset encumbrance ratio	**21.7%**	23.5%			26.5%		

1. Stage 3, loans to customers, gross carrying amount.

Liabilities and equity

Deposits continue to be the largest source of funding

Liabilities & Equity, ISKm	31.12.23	30.9.23	Δ	Δ%	31.12.22	Δ	Δ%
Deposits from Central Bank and credit institutions	**16,149**	15,159	990	7%	15,269	880	6%
Deposits from customers	**850,709**	864,189	(13,480)	(2%)	789,897	60,812	8%
Derivative instruments and short positions	**5,090**	10,797	(5,707)	(53%)	10,804	(5,714)	(53%)
Debt issued and other borrowed funds	**417,573**	451,701	(34,128)	(8%)	468,270	(50,697)	(11%)
Subordinated loans	**38,155**	36,517	1,638	4%	34,392	3,763	11%
Tax liabilities	**13,107**	16,323	(3,216)	(20%)	12,128	979	8%
Other liabilities	**17,218**	29,220	(12,002)	(41%)	16,601	617	4%
Total Liabilities	**1,358,001**	1,423,906	(65,905)	(5%)	1,347,361	10,640	1%
Total Equity	**224,693**	219,694	4,999	2%	218,874	5,819	3%
Total Liabilities and Equity	**1,582,694**	1,643,600	(60,906)	(4%)	1,566,235	16,459	1%

Key ratios	31.12.23	30.9.23	31.12.22
Customer loans to customer deposits ratio	**144%**	140%	150%
Net stable funding ratio (NSFR)	**124%**	120%	118%
Liquidity coverage ratio (LCR)	**195%**	247%	205%
Total capital ratio[1]	**25.3%**	24.6%	22.2%
Tier1 capital ratio[1]	**22.5%**	21.9%	19.8%
Leverage ratio[1]	**13.4%**	12.7%	12.1%
MREL ratio[2]	**41.3%**	39.2%	34.5%

1. Including third quarter profit for 30.9.23. 2. MREL ratio includes the CET1 capital held to meet the combined buffer requirements.

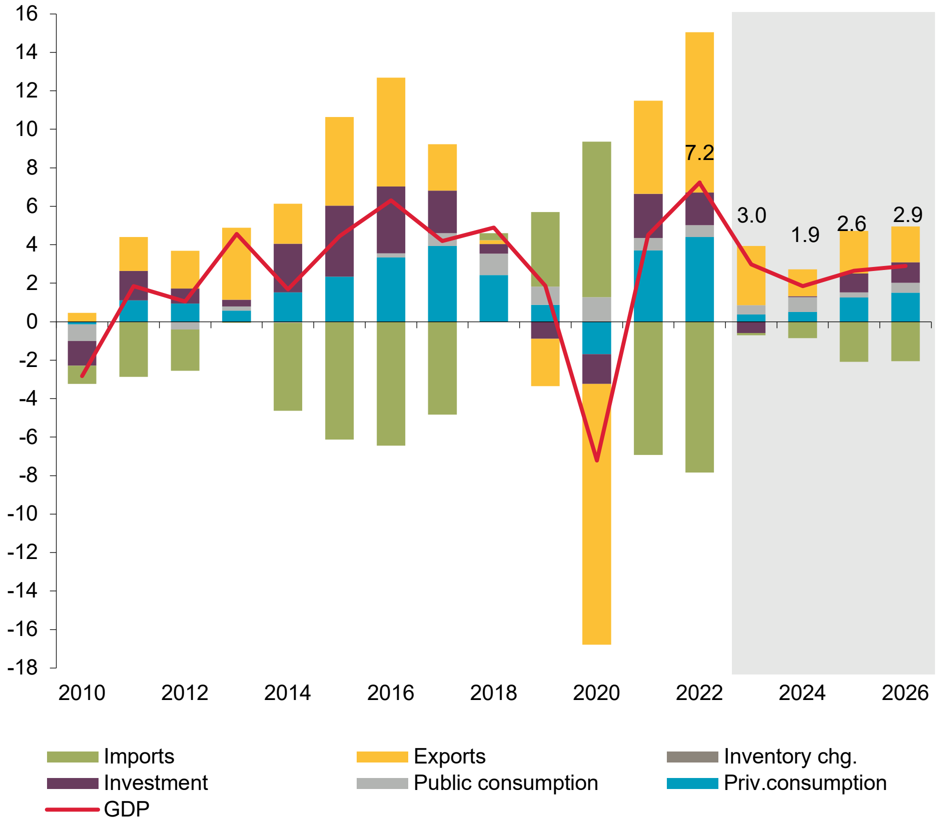
Appendix II – Icelandic economy update

Tepid GDP growth in 2024, followed by a steady rise later on

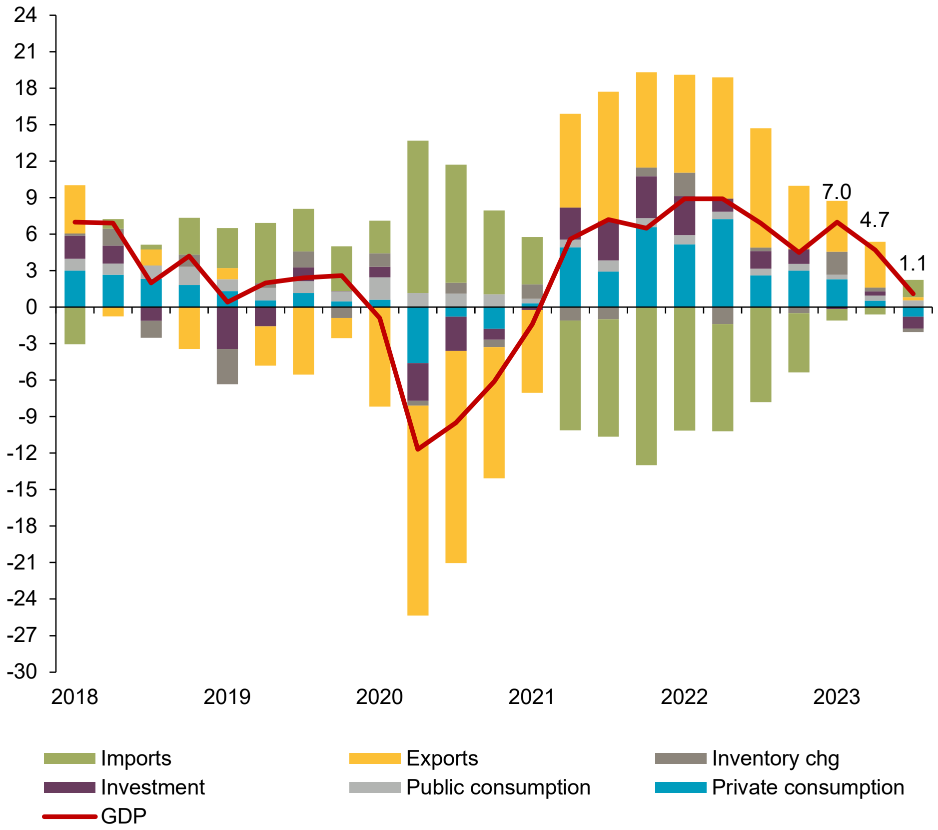
Highlights

- GDP growth surged in 2021-2022 but began to decline in 2023, with a significant drop from 7.0% in Q1 to 1.1% in Q3.
- Domestic demand saw a year-on-year decrease for the first time since 2020 during Q3, with growth primarily driven by increased services exports and reduced imports.
- Q4/2023 continued the trend of weak GDP growth, with an overall estimated growth of 3.0% for 2023 The year 2023 represented a pivotal point in the business cycle, exhibiting historically weak growth without a year-on-year contraction.
- Expectations for 2024 suggest a replication of 2023's trends, with exports leading early growth and consumption and investment strengthening later.
- ISB Research projects growth of 1.9% for 2024.
- A GDP growth forecast for 2025 is set at 2.6%, fueled by accelerated consumption and investment, alongside a resumption of goods exports, though services export growth is predicted to slow.
- For 2026, ISB Research anticipates 2.9% GDP growth, driven by increased domestic demand which is expected to surpass the impact of diminishing export growth.

GDP and contribution of its subcomponents
Volume change from prior year (%), annual data



GDP and contribution of its subcomponents
Volume change from prior year (%), quarterly data



Sources: Statistics Iceland, ÍSB Research.

The forecast is riddled with uncertainties, but these stand out

Geopolitical unrest

Global tension and unrest are more widespread than they have been for some time.

For instance, the war in Ukraine is still raging, armed combat in the Middle East has intensified, and there is considerable tension surrounding China's determination to annex Taiwan.

Any escalation of such conflicts could have a severe negative impact on international trade, price levels, and economic developments in Iceland and abroad.

Wage agreements

After initial signs of harmony and hopes of relatively modest wage agreements, discord has descended among the groups in the Icelandic Federation of Labour and the Confederation of Icelandic Employers.

The possibility of labour market conflict cannot be ruled out, and should it materialise, it could throw the economy into temporary disarray.

Similarly, it is possible that contracts will provide for far larger pay rises than would be consistent with a rapid decline in inflation over the coming term.

Grindavík

The Government has pledged to take action to support Grindavík residents facing uncertainty due to the evacuation of the town.

These measures could push house price inflation upwards, as well as being generally expansionary, unless robust mitigating measures are undertaken.

Both would slow down the disinflation process and delay monetary easing.

Geological unrest on the Reykjanes peninsula

Most likely, the seismic unrest and volcanic activity on the Reykjanes peninsula are far from over.

The risk remains that infrastructure and real estate could suffer substantial damage in more places than Grindavík alone.

This could disrupt energy supplies, for instance, and have an adverse effect on tourism and other commercial activities in Southwest Iceland in the coming term.

Residential property market

It appears that housing starts have tapered off sharply, and a survey taken among contractors indicates the same for coming quarters.

The risk is that the supply of new homes will decline significantly later in the forecast horizon, possibly pushing prices higher than is currently projected and slowing down disinflation and monetary easing.

Debt service

Despite the hefty rise in interest rates, data on arrears suggest that households and businesses are still able overall to manage their debt service.

That situation could change rapidly in coming quarters, however, not least among households facing interest rate reviews on mortgages with temporary fixed-rate clauses.

The impact of higher interest rates on households and businesses could grow considerably stronger in a relatively short time, thereby dampening consumption and investment more than is currently projected.

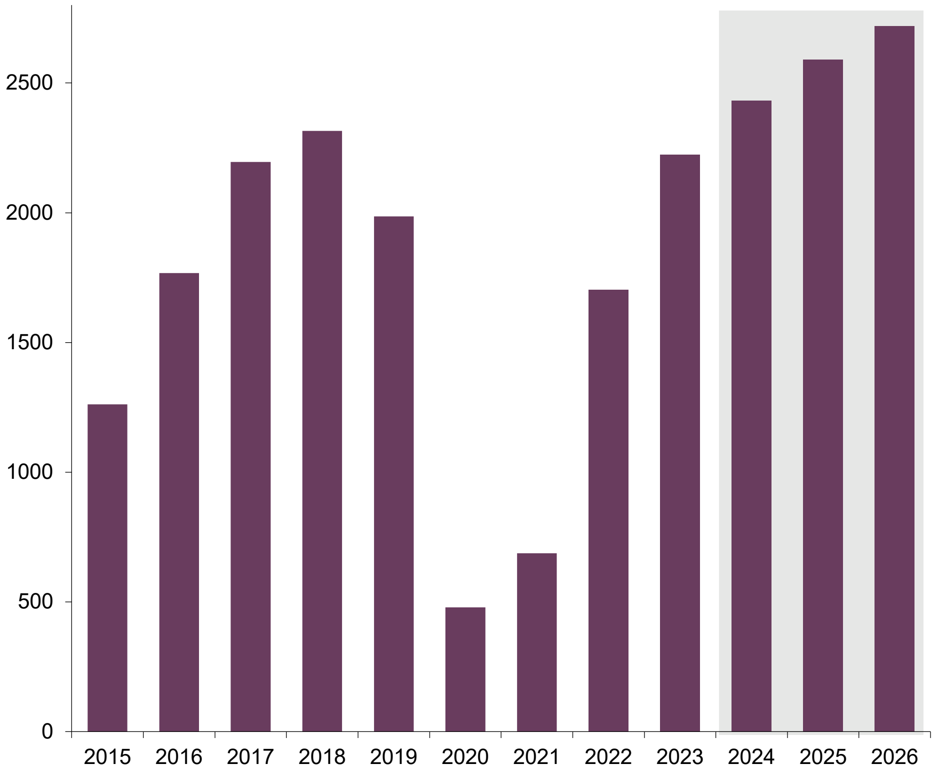
Tourism the mainstay of exports, but other sectors support

Just over 2.4 million tourists expected to visit Iceland in 2024, and more than 2.7 million in 2026

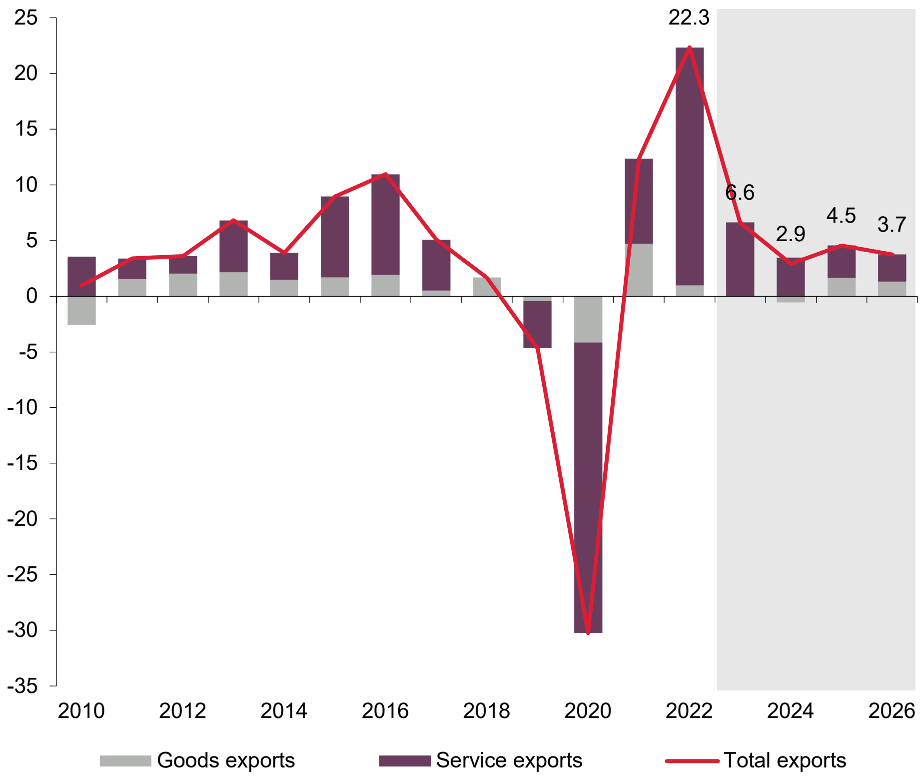
Highlights

- Despite earthquakes and the threat of volcanic eruptions, tourism in Iceland continued to rise unabated in 2023.
- Over 2.2 million tourists arrived through Keflavík Airport, with additional visitors via cruise ships and the Smyril Line ferry, marking the year as the second highest on record.
- Indicators such as airport gate allocations and bookings for 2024 point to a record-breaking year, with ISB Research predicting over 2.4 million tourist arrivals.
- ISB Research forecasts a steady climb in tourist numbers, anticipating nearly 2.6 million in 2025 and over 2.7 million in 2026, though at a slowing rate.
- With a significant contribution from service exports, particularly those leveraging expertise and brainpower, services are likely to be the primary force behind export growth in the coming years.
- A slight downturn in goods exports is anticipated for 2024 due to power rationing for aluminium smelters and a potential poor capelin fishing season, but modest growth is expected in 2025 and 2026, especially from farmed fish exports and a slight rise in groundfish quotas.
- Overall, ISB Research predicts that exports will increase by just under 3% in 2024 and by around 4% each year 2025-2026.

Number of foreign tourists, by year
thousands



Exports and contribution from subcomponents
% change



Shaded areas and dotted lines denote ISB Research forecasts
Sources: Icelandic Tourist Board, ÍSB Research.

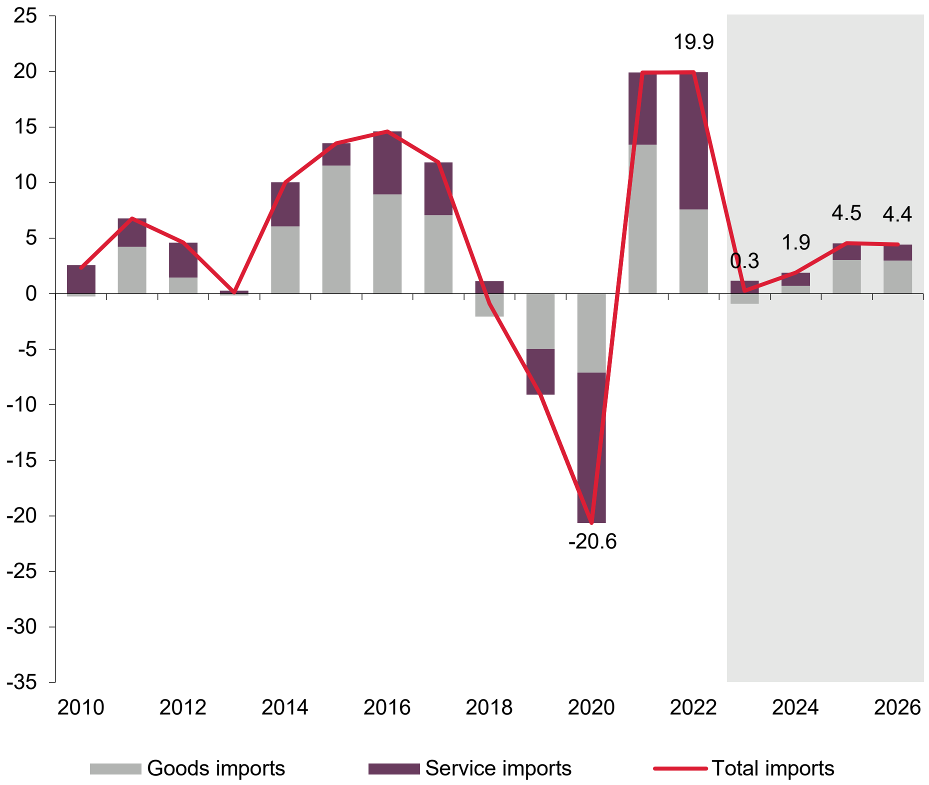
Small current account surplus in coming years

CA surplus due to growing exports and weaker domestic demand growth , external position improves

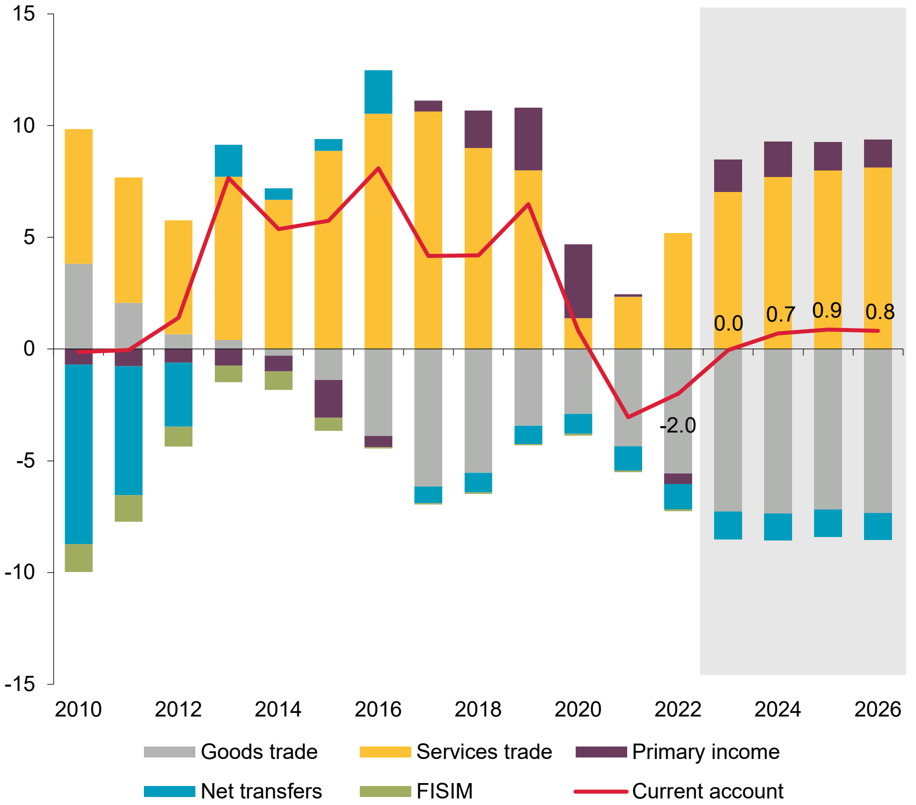
Highlights

- Iceland's import growth halted in 2023, with unchanged volumes over nine months and a similar trend expected for the full year.
- ISB Research sees early 2024 import growth as weak, with a pickup to under 2% in 2024, increasing to over 4% in 2025, and a similar growth in 2026.
- A move from import growth to contraction led to a better current account (CA) balance, with a small CA surplus in the year to September and a balanced CA projected for the year.
- A moderate CA surplus is forecasted from 2024 to 2026, with exports rising over imports and subsequent equilibrium.
- Favorable trade terms are likely, with input prices climbing slowly and export prices remaining high.
- Risks include a higher real exchange rate potentially reverting the CA surplus to a deficit in the late 2020s.
- Iceland’s robust net external assets, over 31% of GDP, bolster the economy, with some further improvement expected from current market tailwinds.

Imports and contribution from subcomponents
% change



Current account balance
% of GDP



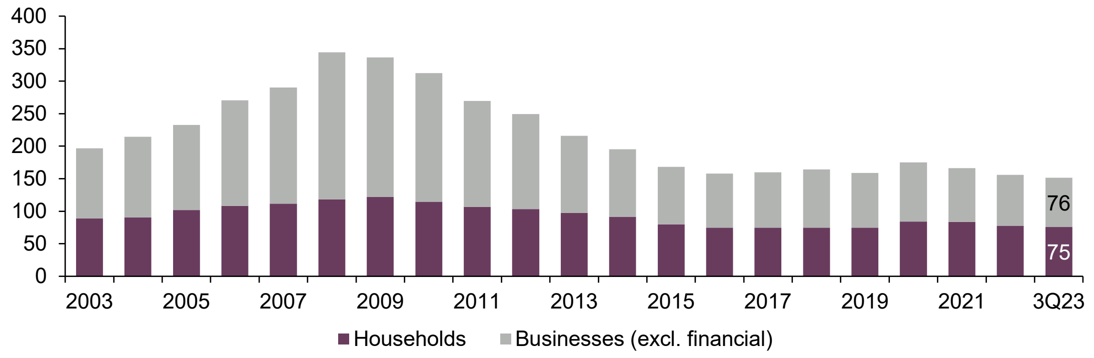
Sources: Statistics Icelandic, Central Bank of Iceland, ÍSB Research.

Domestic balance sheets remain healthy

Economy-wide leverage remains moderate as the ratio of private sector debt to GDP declines

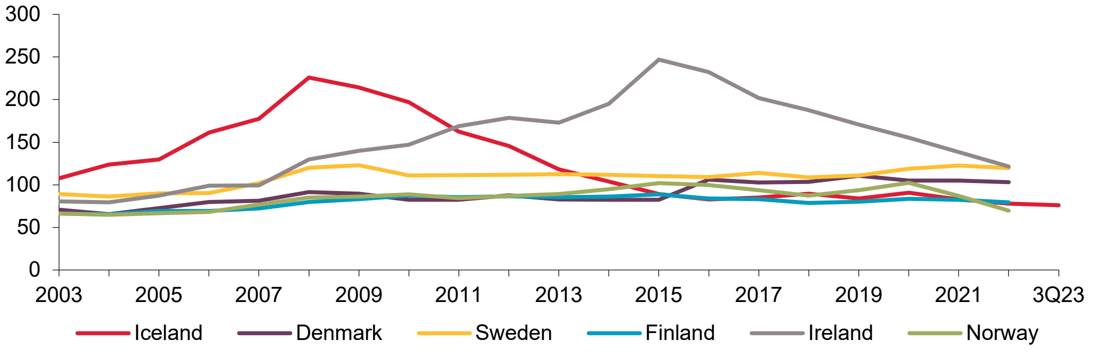
Private sector debt

% of GDP



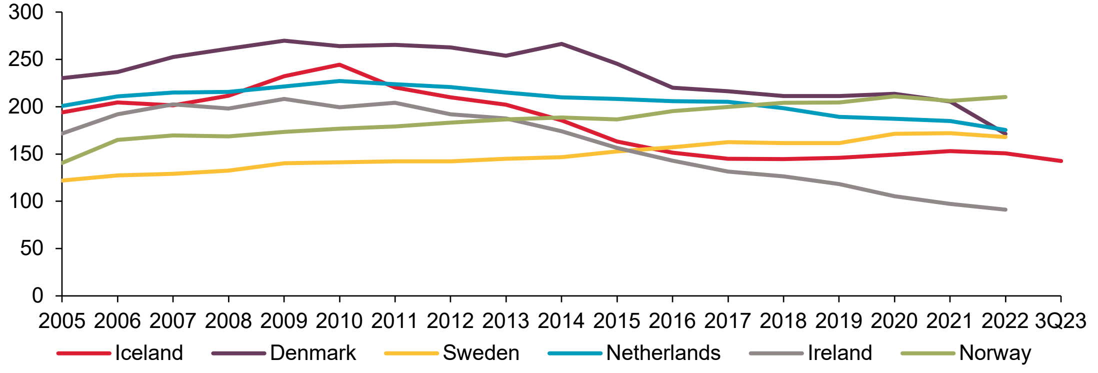
Corporate debt

% of GDP



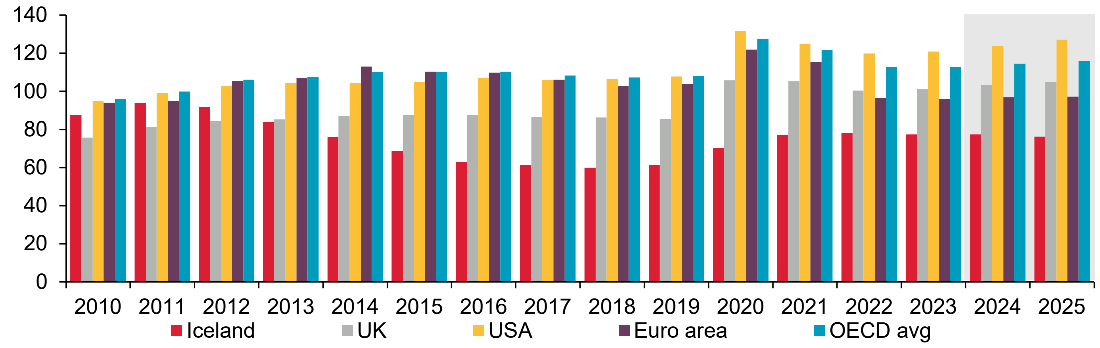
Household debt

% of disposable income



General government gross financial liabilities

% of GDP



Shaded areas indicate OECD forecasts.

Source: Central Bank of Iceland, Eurostat, Statistics Iceland, OECD.

8 February 2024

Investment virtually flat this year but set to regain steam

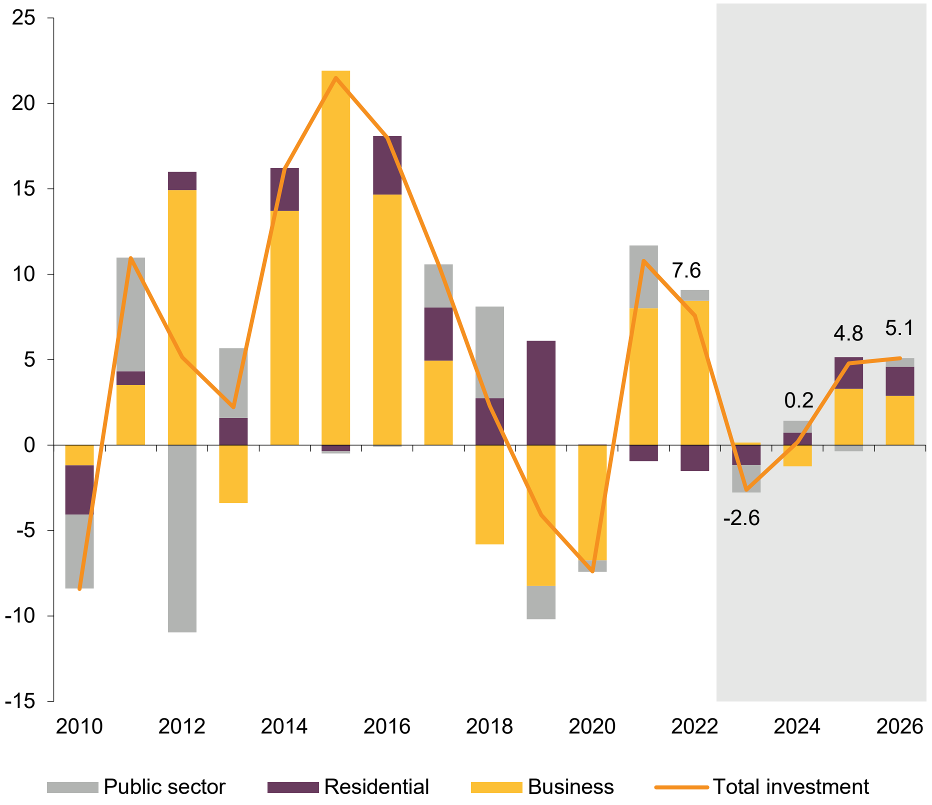
Business investment to contract in 2024 and return to growth thereafter

Highlights

- Investment shrank by 1% in the first nine months of 2023, continuing into Q4, influenced by higher interest rates and public sector consolidation following post-pandemic deficits.
- ISB Research projects total investment to stay flat from 2023 to 2024, with slight increases in residential and public sectors offset by a decline in business investment.
- Indicators predict a significant reduction in general business investment, partially mitigated by strong growth in investment in land-based aquaculture.
- The forecast for 2025 indicates a rebound in investment growth, especially in corporate and residential sectors, though signals for the latter are mixed.
- Business investment in tourist accommodation is expected to ramp up to prevent future accommodation shortages, considering the projected rise in tourism.
- Housing demand is anticipated to rebound with falling interest rates, alongside a recognized need for new infrastructure investments.
- ISB Research anticipates a near 5% annual growth in total investment for both 2025 and 2026.

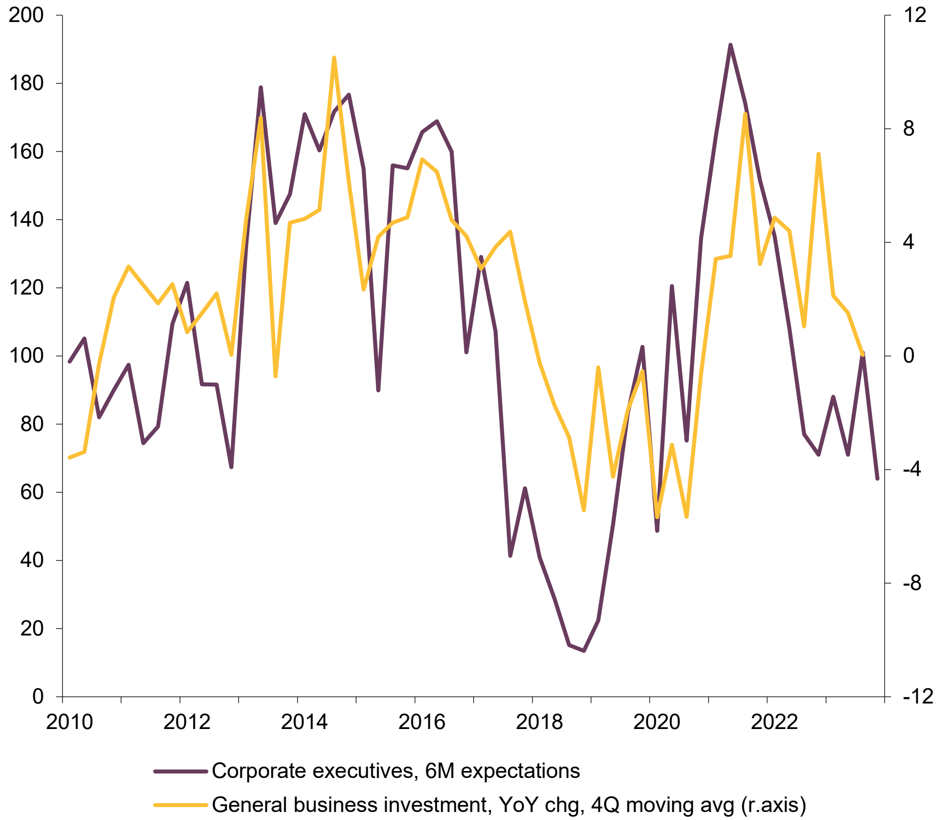
Investment, real change, and contribution of subcomponents

%



Executives' expectations and business investment

Index value (left) and % change year-on-year (right)



Source: Statistics Iceland, Gallup.

Labour market tension to ease

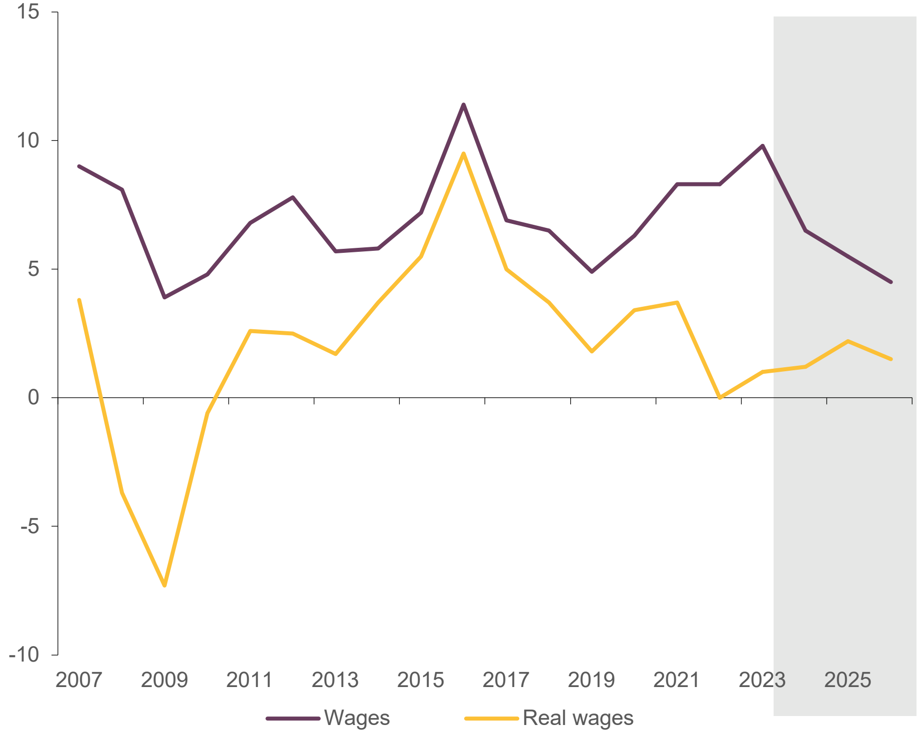
Real wage set to grow during the forecast horizon

Highlights

- The labour market has been quite tight in the recent term, and unemployment has fallen rapidly.
- Demand for labour has been met with foreign workers, who account for 23% of the labour market. In 2023, unemployment measured 3.2%, its lowest since 2018.
- As growth in the economy slows down, tension in the labour market is expected to ease further and unemployment to creep upwards in the near future. ISB research forecast average unemployment at 3.9% in 2024 and 4.0% in both 2025 and 2026.
- Wages rose in nominal terms by 9.8% in 2023, and real wages grew by 1.0% despite high inflation. The increase was due to new wage agreements covering the entire labour market.
- The contracts had a term of only one year, thus a new round of negotiations is already underway, but no agreements have been finalized as of this writing.
- ISB research forecast that wages will rise by 6.5% this year, 5.5% in 2025, and 4.5% in 2026. Based on that, real wages will rise by 1.2% in 2024.

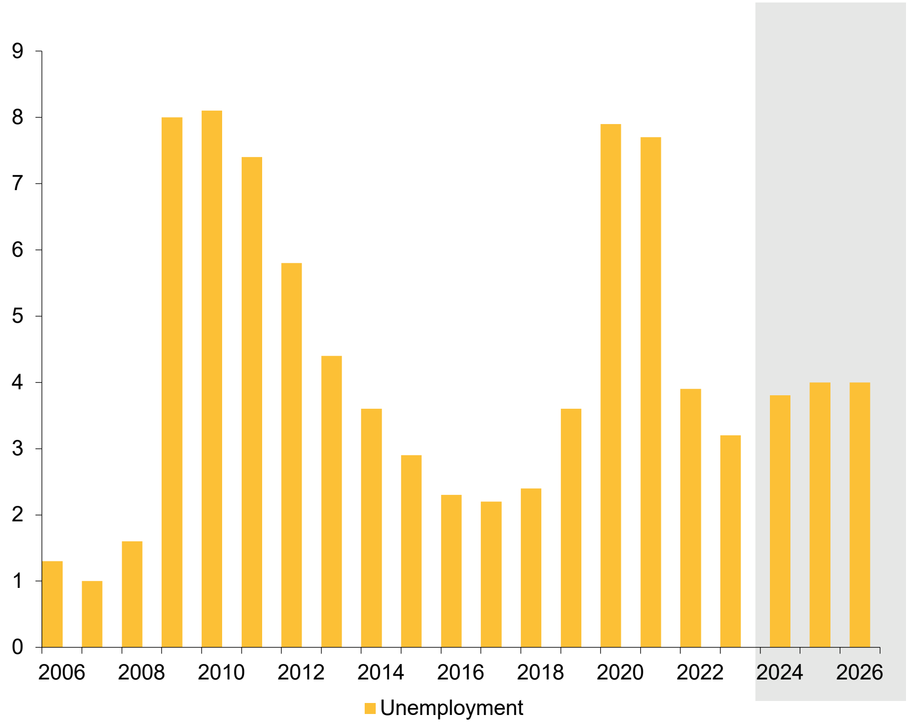
Wages, year on year change

%



Unemployment[1]

% of workforce, annual average



1. Excluding recipients of part-time unemployment benefits.

Source: Statistics Iceland, The Central Bank of Iceland and Confederation of Icelandic employers

Private consumption shifts gears

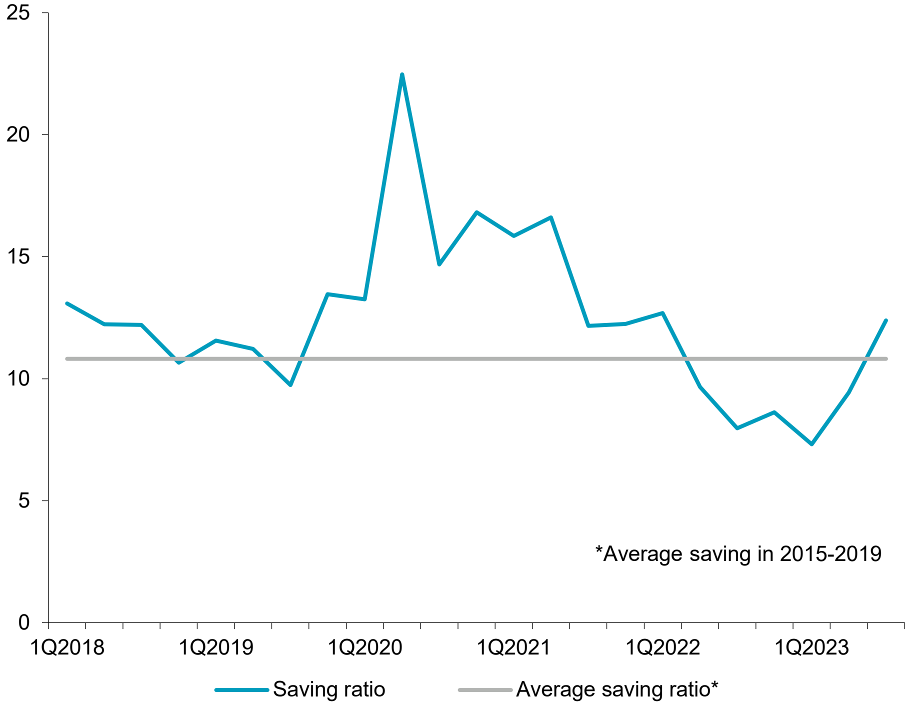
Households consumption declines and saving rises

Highlights

- Private consumption shifted into reverse in 2023, after two-year growth spurt. In H1 it grew by 2.5%, and in Q3 it contracted for the first time since the pandemic year 2020.
- Domestic demand has clearly lost pace, and households are keeping their wallets more firmly closed. By this measure, policy rate hikes are getting significant results.
- Most indicators imply a continued contraction in private consumption in the near term. Payment card turnover shrank in real terms throughout most of 2023 and consumer confidence is still weak despite real wage growth.
- High interest rated eat into overall demand, but they also incentivise saving. The household saving rate has risen steadily and is now back above average.
- Based on these factors, the private consumption forecast has been adjusted down to 1% for this year.
- For 2025, private consumption is projected to rise by 2.5%, supported by easing inflation and improving real wage growth.
- In 2026, the economy is expected to be better balanced, with private consumption growth measuring 3%.

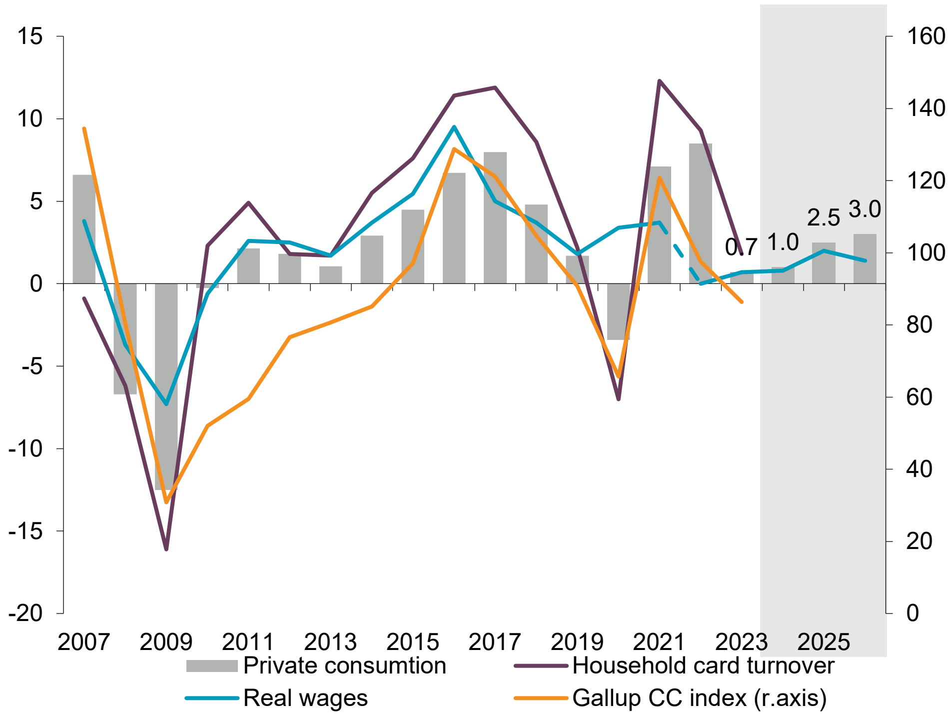
Household saving

% of disposable income



Private consumption and related indicators

% change YoY (left) and index value (right)

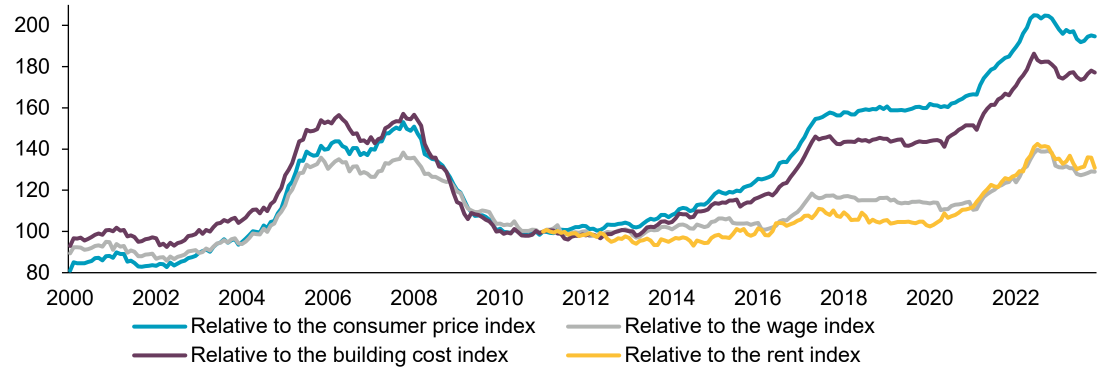


Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

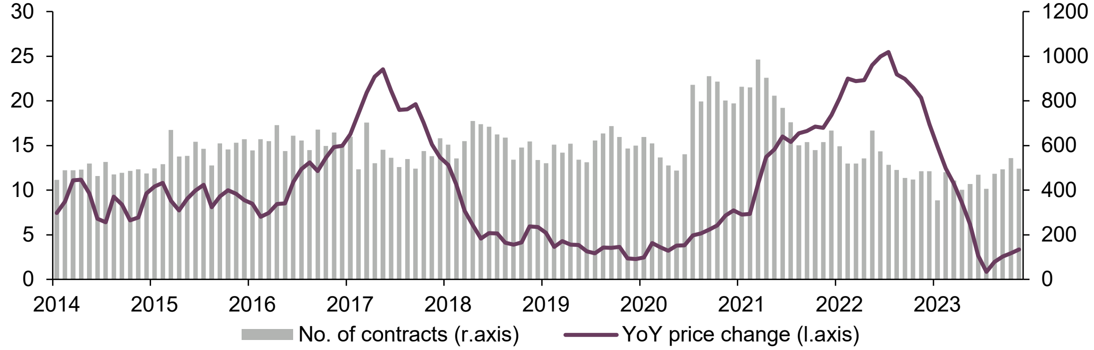
The real estate market has stabilized in recent quarters

Central Bank measures have contributed to slower price increases of residential housing

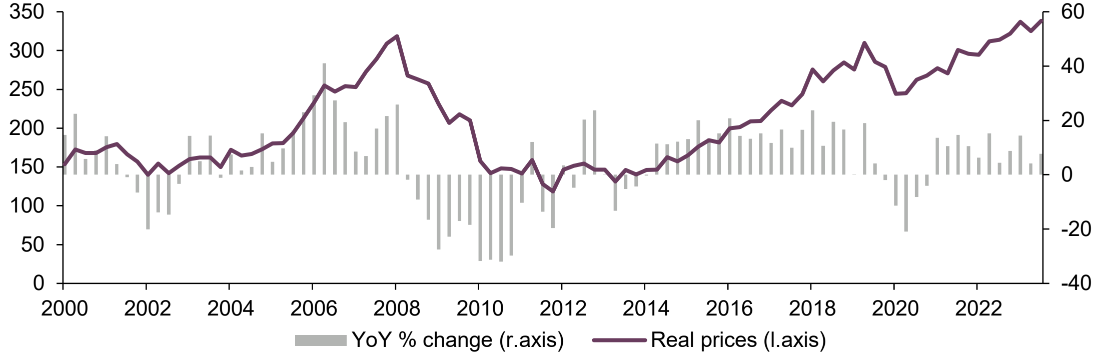
Capital area house prices relative to macroeconomic fundamentals
Index, January 2011=100



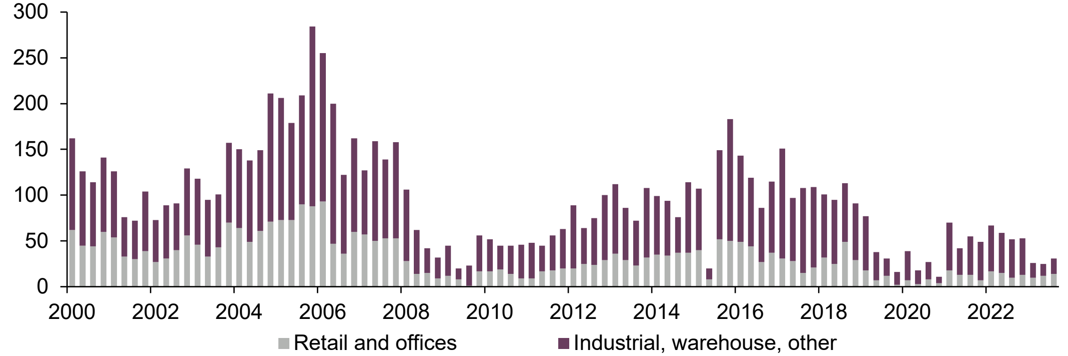
Residential house prices and turnover in greater Reykjavik
% change (l.axis) and number (r.axis)



Commercial property real prices in greater Reykjavik
Index, 1995=100 (l.axis) and % change (r.axis)



Commercial real estate market activity
No. of registered purchase agreements



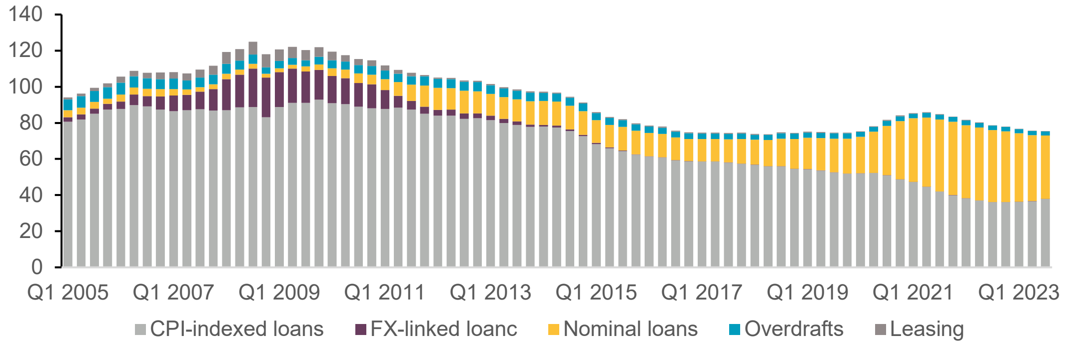
Source: The Central Bank of Iceland.

The Icelandic housing market is relatively resilient

Supply, demand, mortgage market factors combine to make a large price correction less likely

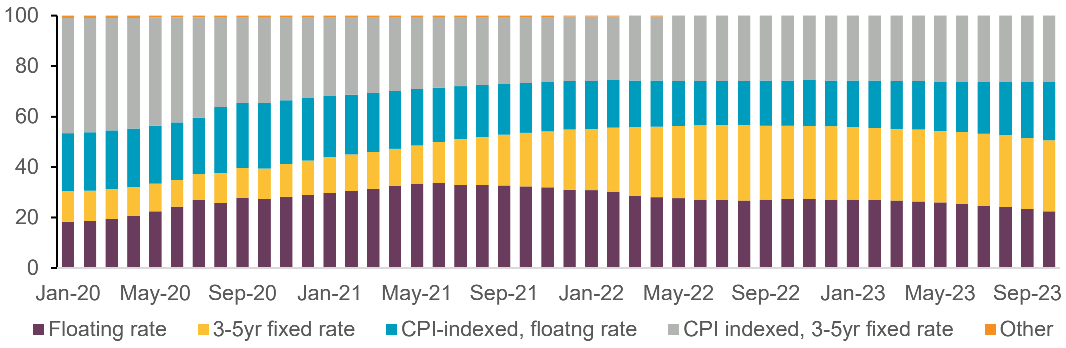
Households are not highly indebted compared to peers

Household debt, % of GDP



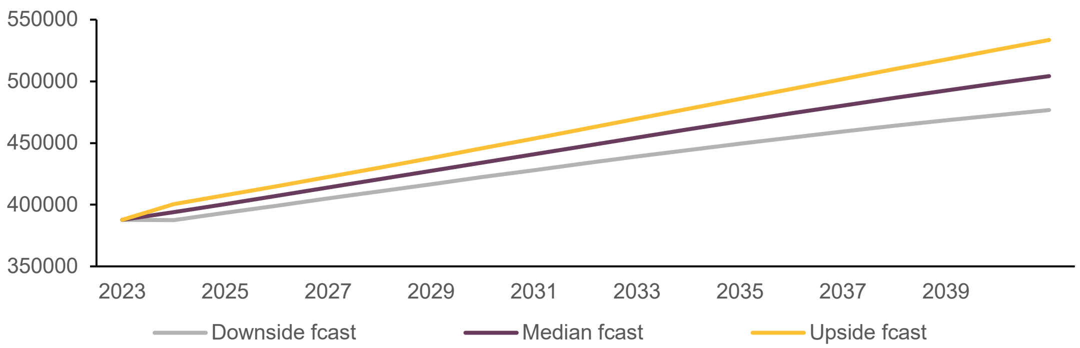
Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



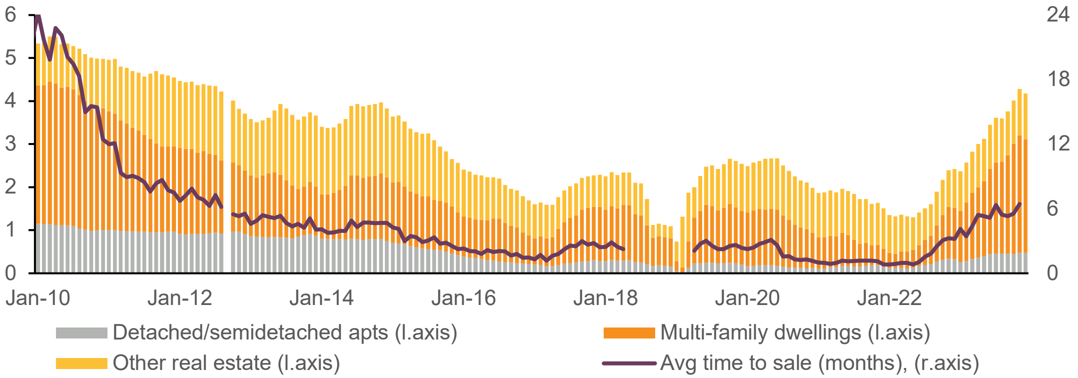
Underlying upward demand trend steady as population growth remains robust

Population forecast by Statistics Iceland



Supply of new residential housing has increased in recent quarters

No. of purchase agreements, capital region (th.), and average time to sale



Source: The Central Bank of Iceland, Statistics Iceland.

Is target level inflation a distant dream?

A wage-price spiral could develop

Highlights

- Twelve-month inflation measured 6.7% in January and has eased noticeably after peaking over 10% early in 2023. Headline inflation averaged 8.7% in 2023.
- ISB Research does not expect inflation to fall to 2.5% target during the forecast horizon. It is projected to average 5.2% this year, 3.2% in 2025 and 3.0% in 2026, putting it very close to target in the final year.
- The biggest uncertainty in the long run is wage agreements. If pay rises are excessive, there is a significant risk of a wage-price spiral.
- On average, wages have risen considerably in recent years, or by 7% per year since 2010.
- ISB Research has crafted scenarios showing how the inflation outlook could change if wage rises more - or less - than is projected. In the optimistic scenario wages rise by 5% in 2024, and in the pessimistic example they rise by 9.5%.
- The price level will rise by 12% over the next three years in the pessimistic example and by 8% in the optimistic one. The baseline forecast expects price level to rise 10% during this period.

Inflation and the CBI inflation target

%

Sources: Statistics Iceland, Central Bank of Iceland and ÍSB Research.

Gradual monetary easing phase in the starting blocks

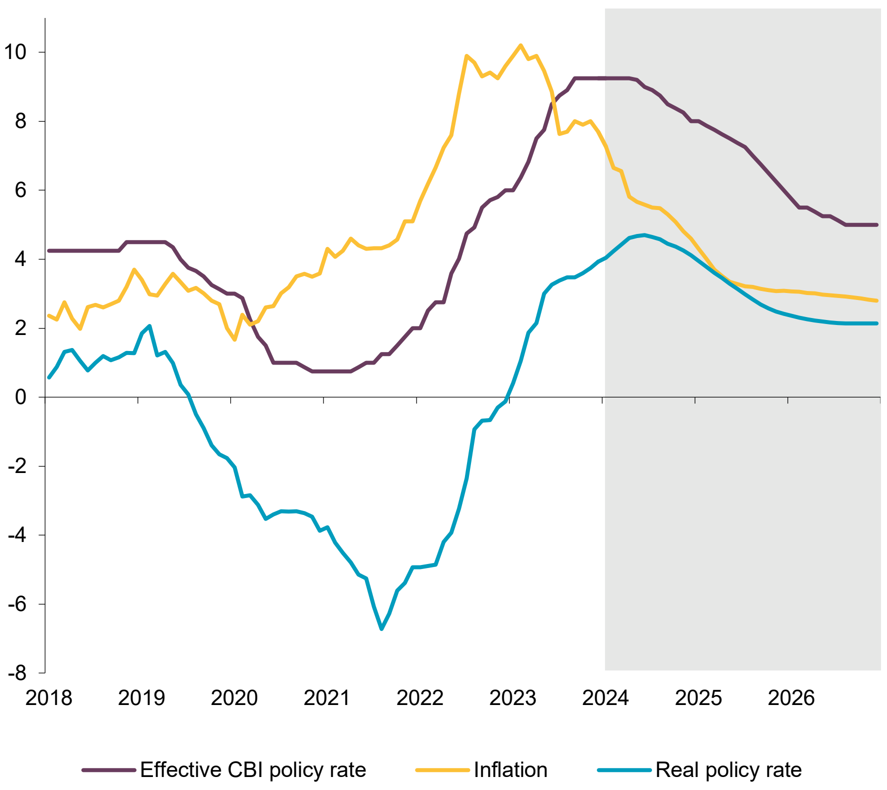
Declining inflation and a shrinking positive output gap facilitate lower interest rates later on

Highlights

- The Central Bank of Iceland increased the policy rate significantly to 9.25% by August 2023 but paused rate hikes in the final 1/3 of the year.
- Uncertainty from seismic activity prevented further rate increases in November despite the intention to tighten monetary policy.
- Recent trends show easing inflation, modestly declining inflation expectations by some measures, signs of demand contraction, and potential for wage agreements aiding disinflation.
- ISB Research considers the tightening cycle likely finished, expecting the policy rate to hold until spring, with possible monetary easing to follow if inflation and demand pressures decrease.
- The policy rate is forecasted to drop to 8.0% by end-2024, 6% by end-2025, and 5% by the forecast period's end, with long-term interest rates decreasing concurrently.
- Any deviations could alter the path of interest rates, with potential rate hikes if a pessimistic inflation scenario unfolds, or additional cuts if an optimistic inflation scenario materializes.

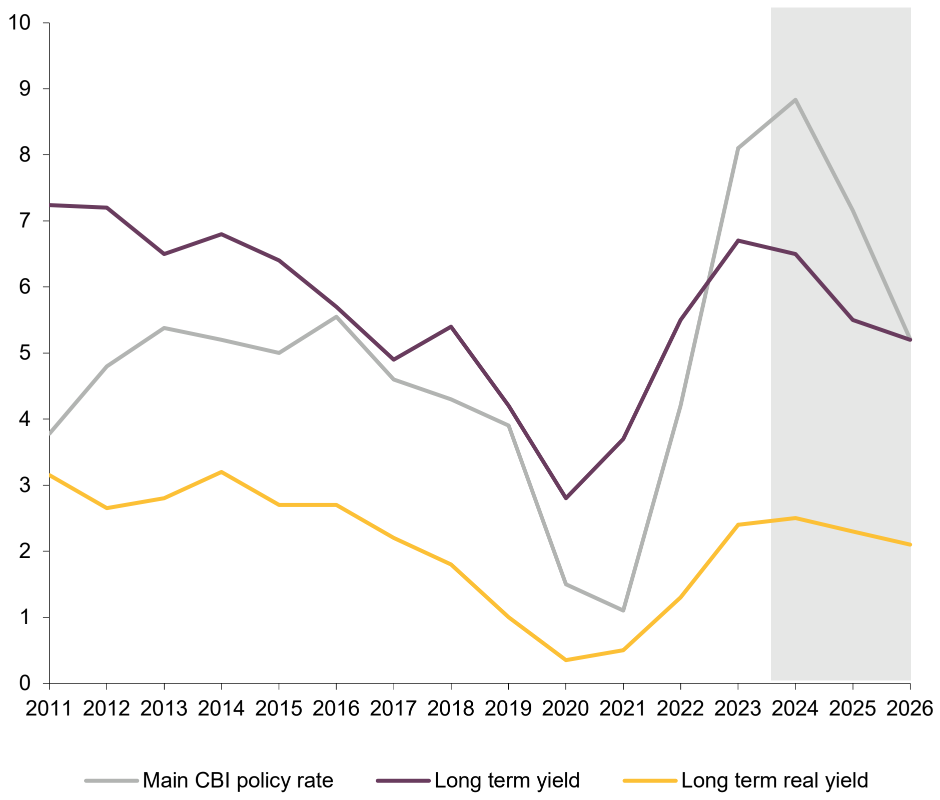
Policy rate and inflation

%, Real policy rate based on 12m forward forecasts



Key interest rates

%, average per year



Sources: Central Bank of Iceland, Kodiak, Statistics Iceland, ÍSB Research.

Additional modest ISK appreciation in the offing

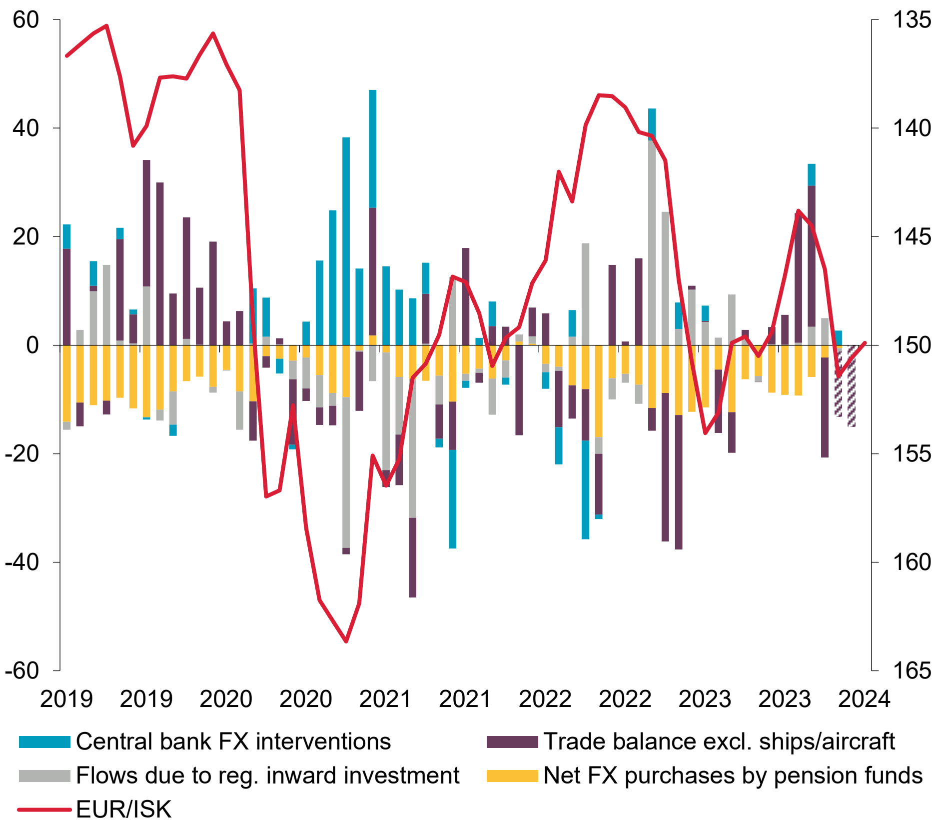
A higher real exchange rate will impede further improvement in the CA later on

Highlights

- The Icelandic króna (ISK) showed marked volatility in 2023, strengthening early on, then weakening rapidly in the fall, followed by a modest rally to end the year slightly stronger thanat end-2022.
- ISB Research attributes these fluctuations to a shifting trade balance, financial flows, and changing ISK forward positions.
- The forecast predicts a steady, if modest, current account (CA) surplus, around ISK 40 billion yearly.
- Iceland maintains a robust external position with a considerable interest rate differential expected to persist, complemented by historically low foreign-owned securities stock.
- Projected FX inflows may be counterbalanced by Icelandic pension funds' ongoing foreign investments, amounting to a net ISK 83 billion in 2023.
- Although the ISK is likely to remain volatile, ISB Research is projecting a 7-8% appreciation by the end of the forecast period relative to end-2023, equating to ISK 140 per euro.
- Anticipated real exchange rate hikes could limit further ISK strengthening, with wage and inflation disparities potentially leading to future depreciation.

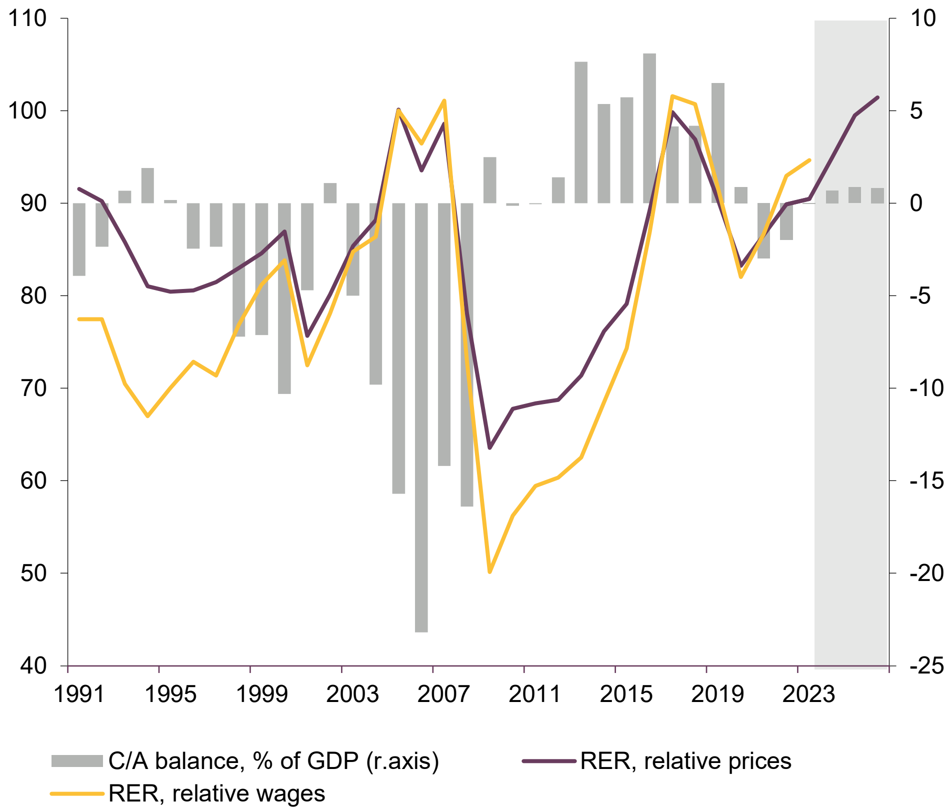
ISK exchange rate and selected determinants

ISK bn (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP

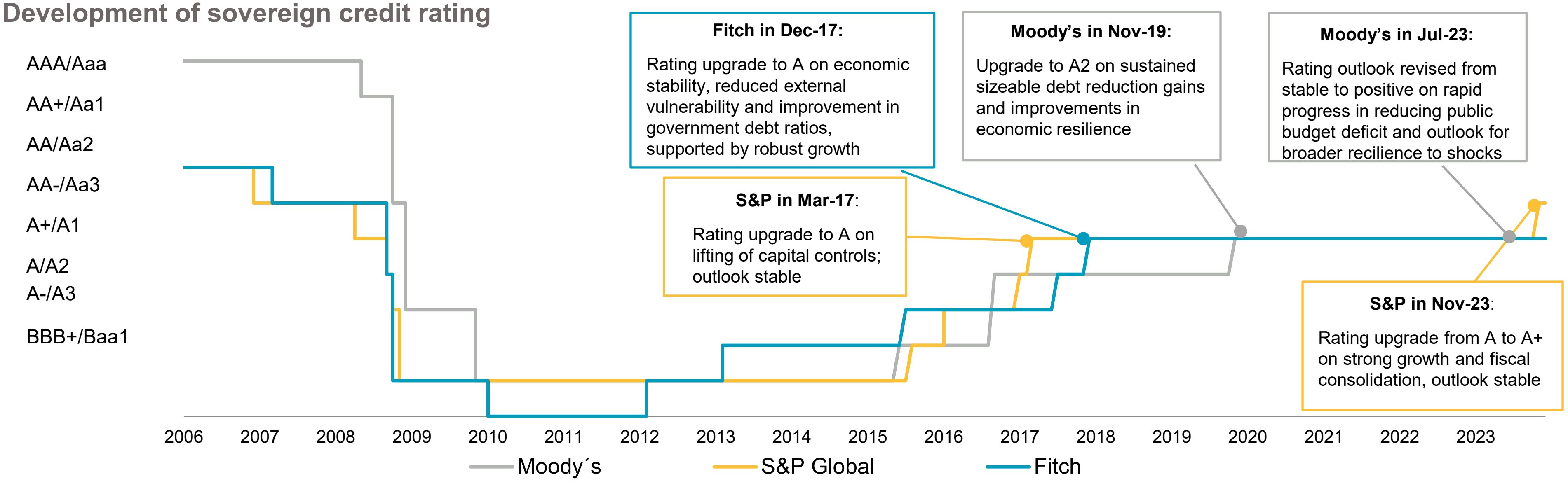


Source: Statistics Iceland, The Central Bank of Iceland, ISB Research.

Iceland’s credit rating continues its gradual upward trend

Rating companies acknowledge the flexibility of the economy and resilience to recent global shocks

Development of sovereign credit rating



MOODY’S IN AUGUST 2023

- “The credit profile of Iceland reflects the economy's flexibility, wealth, competitiveness and favourable demographics, all of which support its long-term growth prospects.”
- “The economy has demonstrated its resilience to the twin shocks of the pandemic and the war in Ukraine, rebounding strongly on an effective policy response and a recovery in tourism.”
- “The country has significantly strengthened its fiscal framework as well as banking supervision and regulation”

FITCH IN SEPTEMBER 2023

- “Iceland’s ‘A’ rating is underpinned by its very high income per capita and governance indicators that are more consistent with those of ‘AAA’ and ‘AA’ rated sovereigns.”
- “Strong credit fundamentals include the country’s sizeable pension fund assets, sound banking sector, and strong private sector balance sheets.”
- “The rating remains constrained by Iceland’s small economy with its limited export diversification and high level of public debt.”

S&P IN Nov 2023

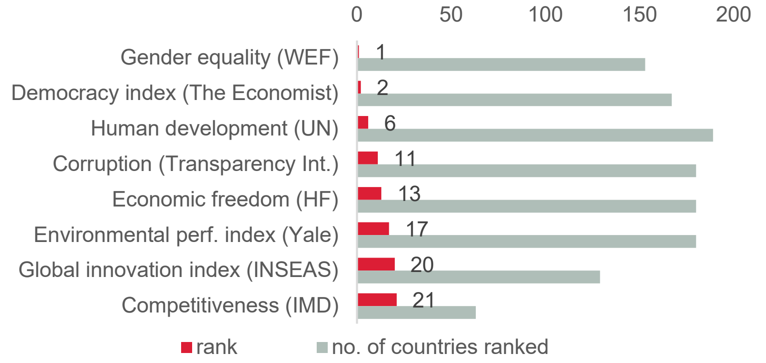
- “The government continues to focus on fiscal consolidation, not least to contain inflation, and we expect general government deficits to be lower than 2% of GDP annually through 2026.”
- “The stable outlook reflects our view that Iceland's economy will continue to expand over the next two years, while recording only modest fiscal and current account deficits.”
- “Meanwhile, we expect Iceland's extensive domestic energy sources (primarily hydro and geothermal) will shield the country from further potential adverse developments affecting global energy markets.”

Source: Moody’s, S&P, Fitch Ratings and Central Bank of Iceland.

The Icelandic economy and society draw on many strengths

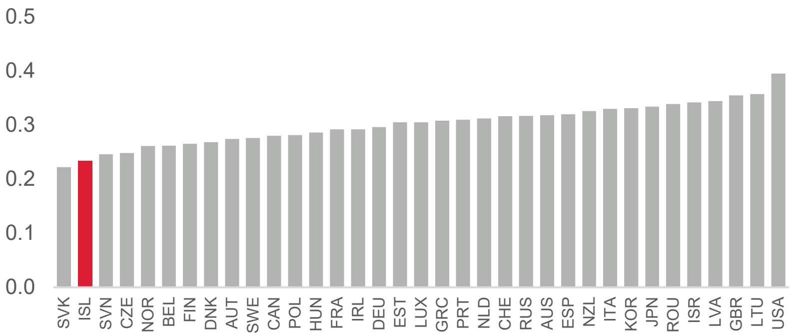
Icelanders enjoy high standards of living in a modern, open and egalitarian society

Iceland ranks highly on a variety of global development benchmarks



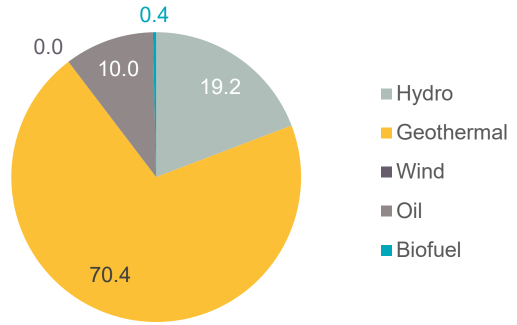
Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



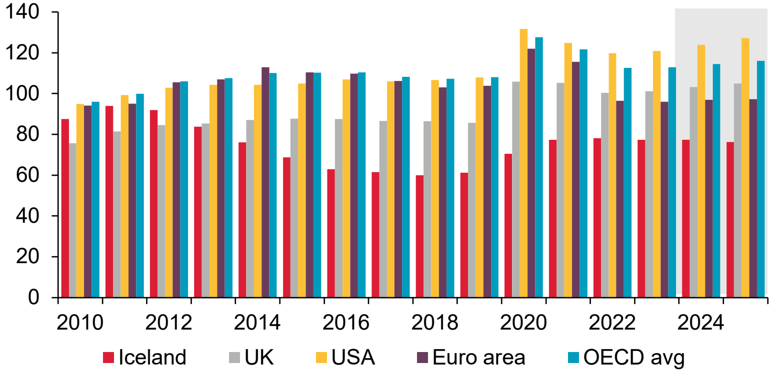
Sustainable energy usage is prevalent

Energy consumption by source, 2020



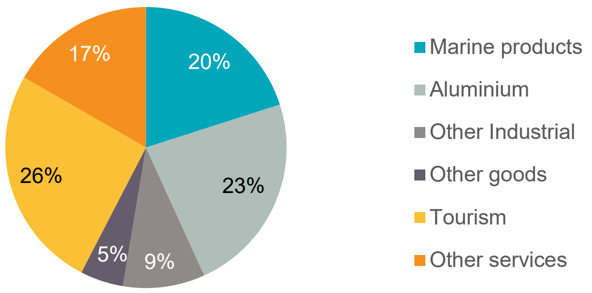
Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



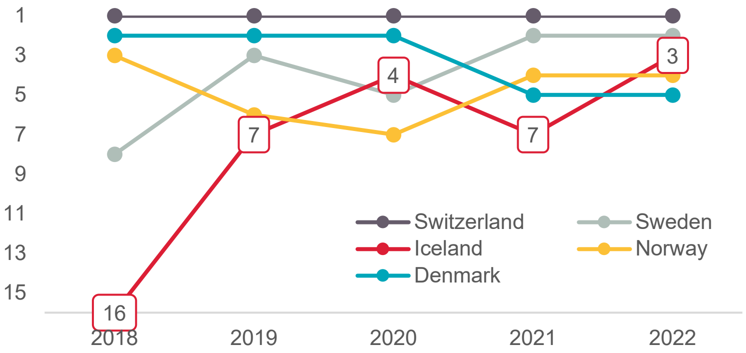
Export base has grown more diverse over time

Export contribution by industry, 2022



Iceland ranks highly in attracting/retaining talent

IMD World Talent Ranking 2018-2022



Shaded area denotes OECD forecast

Source: Statistics Iceland, OECD, IMF, WEF, IEP, The Economist, UN, Transparency Int., HF, Yale, IMD, INSEADS

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8 February 2024