Press Release

Fourth Quarter 2024 and Full Year 2024 Results

Íslandsbanki hf.

13 February 2025

4Q24 RESULTS HIGHLIGHTS

Fourth quarter 2024 (4Q24) financial highlights

- Net profit amounted to ISK 6.3 billion in the fourth quarter of 2024 (4Q23: ISK 6.2 billion), generating an annualised return on equity (ROE) of 11.2% (4Q23: 11.2%).
- Net interest income (NII) amounted to ISK 10.9 billion and decreased by ISK 855 million in 4Q24 compared to 4Q23.
- The net interest margin (NIM) was 2.7% in 4Q24 compared to 2.9% in 4Q23.
- Net fee and commission income (NFCI) grew by 3.2% compared to 4Q23 and amounted to ISK 3.6 billion in 4Q24.
- Net financial income was ISK 169 million in 4Q24, compared to ISK 455 million in 4Q23.
- Other operating income was ISK 782 million in 4Q24, compared to ISK 258 million in 4Q23.
- Administrative expenses in the fourth quarter of 2024 amounted to ISK 7.1 billion, compared to ISK 6.6 billion in 4Q23, excluding an administrative fine of ISK 100 million, an increase of 7.7%.
- The cost-to-income ratio was 45.7% in 4Q24 compared to 41.1% in 4Q23.
- The net impairment on financial assets was a reversal of ISK 352 million in 4Q24, compared to a cost of ISK 1,002 million in 4Q23. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -11bps in 4Q24, compared to 33bps in 4Q23.
- Loans to customers grew by ISK 21.3 billion from the third quarter of 2024, or by 1.7%, to ISK 1,295 billion at the end of 2024.
- Deposits from customers were broadly flat between the third and fourth quarters of 2024 and amounted to ISK 927 billion at the end of 4Q24.
- Total equity at period-end amounted to ISK 227.4 billion compared to ISK 224.7 billion at year-end 2023.
- The total capital ratio was 23.2% at the end of 4Q24, compared to 25.3% at year-end 2023. The corresponding CET1 ratio was 20.1%, compared to 21.4% at year-end 2023. The CET1 ratio at period-end was 470bps above regulatory requirements, and above the Bank's financial target of having a 100-300 bps capital buffer on top of CET1 regulatory requirements.
- The minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki is 19.6% of total risk exposure amount, in addition to the combined buffer requirement. At the end of 2024, the Bank's MREL ratio was 33.4%, 390 bps on top of requirements.

2024 (FY24) financial highlights

- Net profit for 2024 was ISK 24.2 billion (2023: ISK 24.6 billion), with an annualised ROE for 2024 of 10.9%, compared to 11.3% in 2023.
- Net interest income totalled ISK 47.3 billion in 2024, a reduction of 2.8% year-on-year.
- Net fee and commission income (NFCI) fell by 1.2% year-on-year and amounted to ISK 13.1 billion in 2024, compared to ISK 13.3 billion in 2023.
- Net financial expense was ISK 338 million in 2024 compared to an income of ISK 241 million in 2023.
- Other operating income totalled ISK 2,282 million in 2024 compared to ISK 570 million in 2023.
- Administrative expenses were ISK 27.6 billion in 2024, excluding an administrative fine of ISK 470 million charged in the second quarter of 2024, compared to ISK 25.7 billion in 2023, which in turn, excluded an administrative fine of ISK 960 million charged in 2023.
- Cost-to-income ratio, adjusted for administrative fines, rose year-year from 40.6% in 2023 to 43.9% in 2024.
- Net impairment on financial assets was a reversal of ISK 645 million in 2024, compared to expenses of ISK 1,015 million in 2023.

Capital optimisation, dividend and further distribution of excess capital

- A dividend payment of ISK 12.1 billion, in line with the dividend policy of paying out around 50% of preceding year's profit, will be proposed by the Board of Directors of the Bank to the 2025 Annual General Meeting (AGM) to be held in March 2025.
- The Bank remains committed in its efforts to optimise its capital structure, subject to market conditions. As previously disclosed, this may entail both organic or external growth, as well as distributions to shareholders through extraordinary dividends and/or buyback of own shares.
- The Financial Supervisory Authority of the Central Bank of Iceland (FSA) has granted the Bank authorisation of an amount up to ISK 15 billion market value, to buy back own shares. The Bank will announce the timing and execution of the repurchase of own shares under the aforementioned authorisation once a decision to that effect has been made. The FSA has also granted the Bank authorisation to reduce its share capital in an amount equivalent to the own shares purchased based on authorisations granted by the FSA for buy back of own shares in 2023 and 2024. The total amount of those authorisations was ISK 15 billion, of which the Bank has to date purchased shares for around ISK 12.5 billion.
- The Board of Directors will seek a renewed authorisation to buy back own shares at the 2025 AGM to the legally allowed extent.
- Implementation of the third Capital Requirements Regulation (CRR3) in 2025 is expected to reduce the Bank's REA by up to 4-5% at implementation and grow slightly through 2025, thus providing additional capital distribution or growth capacity. CRR3 is therefore expected to increase total capital ratio by 110bps to 24.3%, while CET1 ratio is expected to grow by 100bps to 21.1%. The Bank has already prepared the necessary changes and is ready with updated product offering to make use of the changed regulatory framework.

Key figures and ratios

		4Q24	3Q24	2Q24	1Q24	4Q23
PROFITABILITY	Profit for the period, ISKm	**6,283**	7,280	5,266	5,417	6,228
	Return on equity	**11.2%**	13.2%	9.7%	9.8%	11.2%
	Net interest margin (of total assets)	**2.7%**	2.9%	3.1%	3.0%	2.9%
	Cost-to-income ratio[1,2]	**45.7%**	40.4%	45.7%	43.9%	41.1%
	Cost of risk[3]	**(0.11%)**	(0.27%)	(0.04%)	0.23%	0.33%
		31.12.24	30.9.24	30.6.24	31.3.24	31.12.23
BALANCE SHEET	Loans to customers, ISKm	**1,295,388**	1,274,094	1,276,608	1,248,295	1,223,426
	Total assets, ISKm	**1,607,807**	1,622,458	1,595,896	1,643,707	1,582,694
	Risk exposure amount, ISKm	**1,040,972**	1,021,243	1,019,494	1,015,161	977,032
	Deposits from customers, ISKm	**926,846**	927,011	916,127	879,554	850,709
	Customer loans to customer deposits ratio	**140%**	137%	139%	142%	144%
	Non-performing loans (NPL) ratio[4]	**1.6%**	1.6%	1.8%	1.9%	1.8%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**125%**	126%	123%	127%	124%
	Liquidity coverage ratio (LCR), for all currencies	**168%**	223%	190%	190%	195%
CAPITAL	Total equity, ISKm	**227,355**	223,388	216,501	215,718	224,693
	CET1 ratio[5]	**20.1%**	20.2%	19.9%	19.9%	21.4%
	Tier 1 ratio[5]	**21.0%**	21.2%	20.9%	20.9%	22.5%
	Total capital ratio[5]	**23.2%**	23.4%	23.1%	23.6%	25.3%
	Leverage ratio[5]	**13.2%**	13.0%	13.0%	12.6%	13.4%
	MREL ratio[6]	**33.4%**	35.6%	35.6%	39.1%	41.3%

1. Calculated as (Administrative expenses – One-off items) / (Total operating income – One-off items).
2. C/I ratio for 2Q24 excludes a charge of ISK 470m and C/I ratio for 4Q23 excludes a charge of ISK 100m related to an administrative fine.
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 1Q24 profit for 31.3.24.
6. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.

Jón Guðni Ómarsson, CEO of Íslandsbanki:

The fourth quarter of 2024 was largely characterised by the Central Bank of Iceland (Central Bank) at last, after a long period of elevated interest rates, beginning to implement rate cuts. The impact of this was strongly felt in the securities market during the quarter, with the OMX Iceland 15 index rising by 15.8% during the period. Íslandsbanki's activities during the fourth quarter generated a profit of ISK 6.3 billion and an annualised return on equity for the period of 11.2%. The profit was in spite of an ISK 193 billion CPI imbalance at year-end. The Bank's good results for the period are further supported by an increase in the value of investment assets and a reversal of impairments in our loan portfolio. The Bank's overall profit for 2024 amounted to ISK 24.2 billion and the annualised return on equity was 10.9%, which is above our target. The cost-to-income ratio was 45.7% for the fourth quarter and 43.9% for the year as a whole. Lending grew by 5.9% for the year, which is slightly more growth than the year before. The Bank's capital position is extremely strong and at year-end 2024 the Bank's CET1 ratio was 20.1% which is 270 basis points in excess of the CET1 target, assuming the midpoint of the 100-300bps management buffer. Plans to optimise the Bank's capital structure are still a priority, subject to market conditions.

The Bank's new strategy "lighthouse" casts its spotlight on the financial health of our customers and the Bank will endeavour to empower its customers through financial education and good cooperation. The Bank is focusing more on progressive thinking and profitable growth. A partnership with VÍS tryggingar hf. (VÍS), has also been announced, where both companies will offer their respective customers special benefits through their loyalty programmes. The partnership will enhance service provided to customers of both companies together with brining around the possibility of offering better terms and a better overview over our customers' finances.

Íslandsbanki Research recently published a new macroeconomic forecast. According to the forecast, continued disinflation and further Central Bank rate cuts can be expected. The economy is therefore achieving a degree of balance and expectations are for increasing economic growth. Whilst publishing the new forecast, we held a meeting on infrastructure in healthcare services, as the Bank has recently been highlighting the accumulated investment need across the national infrastructure. The Bank monitors opportunities in this field and has encouraged dialogue between private parties and the public sectors in this field. Furthermore, the Bank's participation in infrastructure projects outside Iceland further enhances our experience and strengthens co-operation with foreign parties.

Sustainability has long been an integral part of the Bank's daily operations, and it is important that it continues to work to ambitious targets in that field. The Bank's newly published 2024 Annual and Sustainability Report, which is available on the Bank's website, covers the main sustainability milestones passed by the Bank as a whole last year, along with details of the operational highlights the business units and cost centres. Amongst the satisfying achievements in digitisation is the real-time update of savings information for debit cards in Fríða, the Bank's loyalty programme. Additionally, a new online bank will be launched during the first quarter of 2025 after significant changes to this important distribution channel of the Bank. It is gratifying to see how a strong team spirit leads to great results in developing new solutions.

Exciting times lie ahead with the implementation of a new strategy which focuses on providing excellent service to our customers and for the Bank to empower our customers to be a force for good. There is a strong focus on promoting our customers' financial health and the Bank will continue with its robust educational efforts. The collaboration between Íslandsbanki and VÍS opens new opportunities in customer service. We look forward to shaping this partnership and introducing it further in the coming weeks and months.

Fourth quarter 2024 (4Q24) operational highlights

- During the fourth quarter of 2024 the Bank purchased own shares for approximately ISK 2.3 billion or 0.9% of issued shares. From the commencement of share buybacks in February 2023 the Bank has, as at 7 February 2025, purchased 116.9 million own shares, amounting to approximately 5.9% of issued shares.
- On 2 October 2024 the Central Bank decided to lower the policy rate by 25bps, to 9.0%. Later during the quarter, on 20 November, the Central Bank announced a further rate cut, by 50bps, landing the policy rate at 8.5%. Íslandsbanki made rate changes during the fourth quarter following both of the Central Bank's rate decisions. The changes included rates on CPI-linked mortgages

being increased by 20-30bps and rates on non-index linked mortgages being decreased by up to 75bps.

- The Resolution Authority of the Central Bank (the Resolution Authority) announced on 4 October 2024 that a resolution plan had been approved for Íslandsbanki and thereby establishing a minimum requirement for own funds and eligible liabilities (MREL) for the Bank, which must be with regard to the total risk exposure amount (TREA) and the total exposure measure (TEM). According to the decision of the Resolution Authority, the MREL-TREA for the Bank is 19.6% and MREL-TEM is 6%. The subordinated part of the Bank's MREL is equivalent to 13.5% of TREA. The decision applies from the date of the announcement. The deadline for satisfying minimum requirements concerning subordination of own funds and eligible liabilities is set at three years from the date the minimum requirements are decided, or October 2027 for the Bank.
- In November S&P Global Ratings revised its rating outlook on the Bank to positive from stable and affirmed its BBB+/A-2 long- and short-term issuer credit ratings along with the A-/A-2 resolution counterparty ratings.
- On 4 December 2024 the Central Bank announced the decision of the Financial Stability Committee to lower the systematic risk buffer from 3% to 2% on the grounds that it considers systematic risk to have subsided since the buffer was first introduced in 2016. In addition, the committee decided to increase the capital buffer for systemic important financial institutions from 2% to 3%. The reduction of the systemic risk buffer and the increase in the buffer concerning systemic important financial institutions result in a virtually unchanged overall capital requirement on the three systemically important banks, including in the case of Íslandsbanki.
- Íslandsbanki awarded grants to fourteen innovation projects during the annual allocation of funds from Íslandsbanki's Entrepreneurship Fund in November. The total amount of grants awarded this year was ISK 50 million, the same as the previous year. Each of the projects that received a grant aligns with the Fund's aim of furthering the four UN Sustainable Development Goals the Bank has decided to prioritise; Quality Education, Gender Equality, Climate Action and Industry, Innovation and Infrastructure. Since 2019 the Fund has received 875 applications and it has awarded grants in the total amount of ISK 265 million from its inception.
- A new strategy was approved by the Board of Directors of the Bank during the fourth quarter and announced to employees early 2025. The strategy is a result of strategic planning across the Bank and involved both its Board of Directors and employees. The new strategy has the financial health of the Bank's customers as the centre and introduces a new value, *progressive thinking*, as one of the three values for the Bank joining, *cooperation* and *professionalism*. Further information on the new strategy and the underlying strategic priorities can be found on the Bank's website.

Operational highlights after the period-end

- On 22 January 2025 Íslandsbanki and VÍS tryggingar hf. (VÍS), an Icelandic insurance company, announced that the two companies had entered into a partnership agreement. The main theme of the collaboration is that customers who do business with both companies will enjoy special benefits in the loyalty programmes of both companies. Through this partnership, the service to customers of both companies is enhanced, with an eye towards increasing the number of customers while also improving the satisfaction of current customers. The partnership and its implementations will be further introduced this spring.
- On 5 February 2025, the Monetary Policy Committee of the Central Bank announced its decision to cut the policy rate by 50bps, continuing its rate cut process which started in October 2024. Following the decision the Bank made rate changes, reducing its rates on both non-index linked loans and non-index linked deposits and savings accounts by 50bps.
- On 5 February 2025 the Financial Supervisory Authority of the Central Bank (FSA) granted the Bank authorisation of an amount up to ISK 15 billion market value to buy back own shares. The FSA further granted an authorisation to reduce the Bank's share capital. The authorisation refers to a reduction by the amount of own shares purchased through buybacks of own shares as granted by the FSA in 2023 and 2024. The total amount authorised by the FSA during the period was in the amount of ISK 15 billion, of which the Bank has to date purchased shares for around ISK 12.5 billion.
- Íslandsbanki Research published its macroeconomic forecast for 2025-2027 in January, available here.

INCOME STATEMENT

Income statement, ISKm	4Q24	4Q23	Δ%	2024	2023	Δ%
Net interest income	**10,875**	11,730	(7%)	**47,265**	48,611	(3%)
Net fee and commission income	**3,607**	3,494	3%	**13,122**	13,283	(1%)
Net financial income (expense)	**169**	455	(63%)	**(338)**	241	(240%)
Net foreign exchange gain	**113**	113	0%	**607**	581	4%
Other operating income	**782**	258	203%	**2,282**	570	300%
Total operating income	**15,546**	16,050	(3%)	**62,938**	63,286	(1%)
Salaries and related expenses	**(4,244)**	(3,861)	10%	**(16,329)**	(15,003)	9%
Other operating expenses	**(2,856)**	(2,730)	5%	**(11,299)**	(10,689)	6%
Administrative fines	**-**	(100)	-	**(470)**	(960)	(51%)
Administrative expenses	**(7,100)**	(6,691)	6%	**(28,098)**	(26,652)	5%
Bank tax	**(454)**	(402)	13%	**(1,900)**	(1,871)	2%
Total operating expenses	**(7,554)**	(7,093)	6%	**(29,998)**	(28,523)	5%
Net impairment on financial assets	**352**	(1,002)	-	**645**	(1,015)	-
Profit before tax	**8,344**	7,955	5%	**33,585**	33,748	(0%)
Income tax expense	**(2,058)**	(1,737)	18%	**(9,426)**	(9,198)	2%
Profit for the period before profit from non-current assets	**6,286**	6,218	1%	**24,159**	24,550	(2%)
Profit from non-current assets held for sale, net of tax	**(3)**	10	-	**87**	35	149%
Profit for the period	**6,283**	6,228	1%	**24,246**	24,585	(1%)

Key ratios	4Q24	4Q23	2024	2023
Net Interest Margin (NIM)	**2.7%**	2.9%	**2.9%**	3.0%
Cost-to-income ratio (C/I)	**45.7%**	41.1%	**43.9%**	40.6%
Return on Equity (ROE)	**11.2%**	11.2%	**10.9%**	11.3%
Cost of risk (COR)	**(0.11%)**	0.33%	**(0.05%)**	0.08%

Net interest income and net interest margin

Net interest income (NII) in the fourth quarter of 2024 amounted to ISK 10.9 billion, a reduction of ISK 855 million from the fourth quarter of 2023. The Central Bank policy rate lowered twice in the fourth quarter, by 25bp sin the beginning of October and by 50bps in November and was at 8.5% at the end of 2024 The average CB policy rate was 8.77% in 4Q24, compared to 9.25 in 4Q23. Net interest margin (NIM) on total assets was 2.7% in 4Q24 (2.9% in 4Q23), where both CPI and fixed rate imbalances within the banking book continue to have an effect on NIM. Lending margin was 1.6% in 4Q24 (1.8% in 4Q23) while deposit margin was 2.0% in 4Q24 (1.9% in 4Q23).

Net fee and commission income (NFCI) during the fourth quarter of 2024 grew by 3.2% compared to 4Q23, to ISK 3.6 billion. NFCI for 2024 however fell by 1.2% year-on-year. Net income on cards and payment processing was the largest contributor of NFCI in 4Q24 although increased cost of services provided resulted in a decline year-on-year. Recent market entrants and increased competition in the field of card issuance also affects income from cards and payment processing. Capital markets recovered considerably during the fourth quarter of 2024 compared to the first three quarters of the year and NFCI from asset management and investment banking were followed income from card and payment processing in terms of significant in the fourth quarter of 2024. Further rate cuts and declining inflation are likely to fuel capital markets activities and thus paving the way for net fee and commission growth. Allianz Ísland hf. also contributed healthily to the net fee and commission income during the quarter.

Other operating income amounted to ISK 782 million in 4Q24, compared to ISK 258 million in 4Q23. Total other operating income totalled ISK 2,282 million in 2024, mainly related to fair value adjustments of Kirkjusandur 2, a plot where the Bank's former headquarters were located, as well as share in the profit of Norðurturninn hf., an associate of the Bank, due to fair value adjustments of investment property. In comparison, other operating income amounted to ISK 570 million in 2023.

Compared to 4Q23 core income fell by 4.9%, to ISK 14.5 billion in 4Q24. Core banking operations remain the most important part of the Bank's revenues, with NII and NFCI accounting for 93.2% of total operating income in 4Q24 (94.9% in 4Q23).

The Bank recorded a gain of ISK 169 million in net financial income during the fourth quarter of 2024 compared to a gain of ISK 455 million in 4Q23.

Cost-to-income ratio adversely affected by an increase in expenses

The cost-to-income ratio was 45.7% in the fourth quarter of 2024, compared to 41.1% in 4Q23. The cost-to-income ratio for the whole year of 2024 was 43.9%, compared to 40.6% for the previous year.

Salaries and related expenses rose by 9.9% in 4Q24 compared to 4Q23 and were ISK 4.2 billion during the quarter. In 2024, salaries and related expenses rose by 8.8% compared to the previous year. The increase in salaries and related costs in 2024 is mainly owing to an increase in average number of FTEs, where the Bank's average number of FTEs in 2024 was 759 compared to 731 in 2023 and general wage increases. During the year increased emphasis was placed on streamlining of operations with the guiding principles of efficiency gains, resulting in a reduction of FTEs toward the end of the year. At end of fourth quarter of 2024 the Bank's FTEs were 733 compared to 725 at the end of 2023. Other operating expenses rose by 4.6% compared to 4Q23, mainly owing to increase in costs associated with IT and software.

During the year an update of the classification of expenses was carried out. Certain expenses previously recognised as other operating expenses are now recognised as commission fees.

Taxes

The income tax rate for legal entities in 2024 is 21% (2023: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion. The effective income tax rate for the fourth quarter of 2024 was 24.7% having been 21.8% in 4Q23. The effective tax rate for 2024 was 28.1%, compared to 27.3% in 2023.

Net impairment reversal in fourth quarter

The net impairment on financial assets was a reversal of ISK 352 million in 4Q24 (4Q23: net impairment of ISK 1,002 million), mostly due to a few distressed credit cases.

The remaining additional impairment allowance due to the seismic activity affecting the town of Grindavík amounted to ISK 0.6 billion as of 31 December 2024 (year-end 2023: ISK 1.7 billion). Exposure and additional impairment because of seismic activity fell in the fourth quarter of 2024 due to the purchase by Þórkatla of residential housing within the urban area in Grindavík. In parallel, the Bank derecognised the loans, recognising a claim on Þórkatla instead. The Bank's claim on Þórkatla is classified as bonds and debt instruments measured at fair value through profit and loss, and therefore does not contribute to the impairment allowance.

The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was -11bps in 4Q24 (33bps in 4Q23) and -5bps year to date 2024.

BALANCE SHEET

Assets, ISKm	31.12.24	30.9.24	Δ	Δ%	31.12.23	Δ	Δ%
Cash and balances with Central Bank	**65,716**	104,777	(39,061)	(37%)	87,504	(21,788)	(25%)
Loans to credit institutions	**50,486**	58,177	(7,691)	(13%)	73,475	(22,989)	(31%)
Bonds and debt instruments	**142,618**	126,396	16,222	13%	161,342	(18,724)	(12%)
Derivatives	**5,324**	6,014	(690)	(11%)	5,776	(452)	(8%)
Loans to customers	**1,295,388**	1,274,094	21,294	2%	1,223,426	71,962	6%
Shares and equity instruments	**24,330**	18,242	6,088	33%	13,241	11,089	84%
Investment in associates	**4,701**	4,489	212	5%	4,051	650	16%
Investment property	**2,600**	2,100	500	24%	-	2,600	-
Property and equipment	**5,039**	5,067	(28)	(1%)	6,562	(1,523)	(23%)
Intangible assets	**2,684**	2,686	(2)	(0%)	2,930	(246)	(8%)
Other assets	**7,304**	18,807	(11,503)	(61%)	3,638	3,666	101%
Non-current assets held for sale	**1,617**	1,609	8	0%	749	868	116%
Total Assets	**1,607,807**	1,622,458	(14,651)	(1%)	1,582,694	25,113	2%
Key ratios							
Risk Exposure Amount (REA)	**1,040,972**	1,021,243	19,729	2%	977,032	63,940	7%
REA / total assets	**64.7%**	62.9%			61.7%		
Non-performing loans (NPL) ratio[1]	**1.6%**	1.6%			1.8%		

1 Stage 3, loans to customers, gross carrying amount

Loan portfolio is well diversified and highly collateralised

Loans to customers grew by 1.7% in the fourth quarter and amounted to ISK 1,295 billion at period-end. Mortgages account for 44% of loans to customers and the remaining part continues to be a healthy split between various industries. Loans to customers are predominantly well covered by stable collateral, the majority of which is in residential and commercial property. At the end of 4Q24 94% of the loan portfolio is fully covered by collateral, similar to previous quarters. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 54% at the end of 4Q24 (57% at YE23), and the LTV for the residential mortgage portfolio was 56% at the end of 4Q24 (57% at YE23).

Credit quality continues to be strong with limited delinquencies

Asset quality remains both good and stable. The Bank has not seen any material increase in delinquencies in its loan portfolio despite high inflation and interest rates clearly affecting the Bank's customers. The trend of customers turning towards CPI-linked loans continues in the current high-interest rate environment. At the end of 4Q24 62% of the Bank's mortgage portfolio was CPI-linked compared to 53% at year-end 2023.

At the end of 4Q24, 1.8% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 2.0% at the end of third quarter 2024. The ratio of credit-impaired loans to customers, Stage 3, was 1.6% (gross) at end of 4Q24, same as at the end of 3Q24. For the mortgage portfolio, the ratio was 0.9% at the end of 4Q24 and has remained stable since year-end 2023.

The ratio of loans to customers in Stage 2 was 3.1% at the end of 4Q24, decreasing slightly from 3.2% at the end of 3Q24. The management overlay recognised at year-end 2023 to account for the effect of seismic activity on the town of Grindavík remains unchanged for those loans that remain. For the mortgage portfolio, the ratio of loans in Stage 2 was 1.2% at the end of 4Q24 (1.1% at 3Q24).

Liabilities – capital and liquidity ratios well in excess of regulatory requirements in addition to low leverage

Liabilities & Equity, ISKm	31.12.24	30.9.24	Δ	Δ%	31.12.23	Δ	Δ%
Deposits from Central Bank and credit institutions	**12,535**	11,525	1,010	9%	16,149	(3,614)	(22%)
Deposits from customers	**926,846**	927,011	(165)	(0%)	850,709	76,137	9%
Derivative instruments and short positions	**7,306**	4,764	2,542	53%	5,090	2,216	44%
Debt issued and other borrowed funds	**367,586**	380,814	(13,228)	(3%)	417,573	(49,987)	(12%)
Subordinated loans	**31,695**	32,084	(389)	(1%)	38,155	(6,460)	(17%)
Tax liabilities	**12,916**	15,637	(2,721)	(17%)	13,107	(191)	(1%)
Other liabilities	**21,568**	27,235	(5,667)	(21%)	17,218	4,350	25%
Total Liabilities	**1,380,452**	1,399,070	(18,618)	(1%)	1,358,001	22,451	2%
Total Equity	**227,355**	223,388	3,967	2%	224,693	2,662	1%
Total Liabilities and Equity	**1,607,807**	1,622,458	(14,651)	(1%)	1,582,694	25,113	2%
Key ratios							
Customer loans to customer deposits ratio	**140%**	137%			144%		
Net stable funding ratio (NSFR)	**125%**	126%			124%		
Liquidity coverage ratio (LCR)	**168%**	223%			195%		
CET1 ratio	**20.1%**	20.2%			21.4%		
Tier 1 capital ratio	**21.0%**	21.2%			22.5%		
Total capital ratio	**23.2%**	23.4%			25.3%		
Leverage ratio	**13.2%**	13.0%			13.4%		
MREL ratio[1]	**33.4%**	35.6%			41.3%		

1 MREL ratio includes the CET1capital held to meet the combined buffer requirements.

Deposits remained stable overall during fourth quarter, despite significant growth in retail deposits

The Bank funds its operation using three main funding sources: stable deposits, covered bonds, and senior preferred bonds. Total deposits from customers remained stable between quarters although deposits from individuals grew by 3.2%, as deposits from companies fell by 2.8% in the fourth quarter of 2024. Deposit concentration remained stable between quarters, with around 24% of deposits belonging to the hundred largest depositors. The ratio of customer loans to customer deposits was 140% at year-end 2024, increasing from 137% from the end of 3Q24. When excluding mortgages funded with covered bonds, the ratio was 117% at year-end 2024, having been 116% at the end of 3Q24.

As for funding, the fourth quarter saw continued secondary performance in the Bank's FX denominated bonds, with the EUR 300 million 4-year benchmark, launched in March at mid-swaps +185 basis points, ending the year at approximately mid-swaps +123 basis points. During the fourth quarter, the Bank tendered to buy back outstanding bonds of its EUR 300 million senior preferred issue due March 2025, the second tender for that issue during the year. Leaving approximately EUR 149 million of the bond outstanding at year-end 2024. As with previous liability management operations during 2024, the Bank took advantage of its very strong liquidity position by executing the tenders without the need for new financing. Indeed, in June the Bank exercised the call option on its SEK 500 million Tier 2 bonds due 2028. The bonds were retired without direct replacement. All of the Bank's remaining Tier 2 notes are denominated in ISK.

The Bank issued a total of ISK 22 billion of covered bonds in 2024, thereof ISK 9 billion in 4Q24. The Bank also issued a total of ISK 16 billion of senior preferred bonds in the domestic senior market in 2024 in three transactions, doubling the total outstanding volume to ISK 32 billion. At the end of the year, ISK-denominated senior preferred bonds accounted for 22% of the total senior preferred bonds outstanding. The continued development of the domestic ISK bond market is of substantial benefit to the Bank in that it reduces reliance on foreign capital markets, increases diversification and reduces the overall cost of funding.

The Bank's total liquidity coverage ratio (LCR) was 168% at year-end 2024, decreasing from end of 3Q24 when it was 223%. The Bank's liquidity position remains strong across currencies. Liquid assets as a percentage of total assets decreased from 19% at the end of 3Q24 to 17% at the end of 4Q24, mostly due to buybacks of outstanding debt issuances.

Sound capital position - distribution of excess capital to continue as part of capital optimisation plan

Total equity amounted to ISK 227.4 billion at year-end 2024 compared to ISK 224.7 billion at year-end 2023. The capital base was ISK 241 billion at the end of 4Q24, compared to ISK 248 billion at year-end 2023. The reduction is mainly due to the Bank's share buyback programme of ISK 10 billion, which was deducted from the capital base following approval from the Central Bank. The buyback is ongoing, with the remaining ISK 3.6 billion being deducted from the capital base.

At the end of 4Q24, the total capital ratio was 23.2%, compared to 25.3% at year-end 2023. The corresponding Tier 1 ratio was 21.0% at the end of the fourth quarter 2024, compared to 22.5% at the year-end 2023. The CET1 ratio, was 20.1% compared to 21.4% at year-end 2023, (470bps above requirement), and above the Bank's financial target of having a 100-300bps capital buffer on top of regulatory requirements. The Bank plans to optimise its capital structure and may explore various ways to reach its target capital optimisation, including growth and/or capital disposals.

The minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki is 19.6% of REA. Since any CET1 capital that is maintained to meet the combined buffer requirement (CBR) is excluded, the effective requirement can be monitored as 29.5% of REA. Own funds and eligible liabilities were 33.4% of REA at year end 2024 (390bps above requirement) compared to 41.3% at year-end 2023.

Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 1,041 billion at year-end 2024, compared to ISK 977 billion at year-end 2023. The REA amounts to 64.7% of total assets at year-end 2024, compared to 61.7% at year-end 2023. Adaptation to the new CRR3 framework is underway and is expected to lower the REA by 4-5%, thus increasing the Total capital ratio by approximately 110bps.

The leverage ratio was 13.2% at year-end 2024, compared to 13.4% at year-end 2023.

Investor Material

In the event of discrepancy between the Icelandic and English version of the Press Release the English version prevails.

Disclaimer

This press release may contain "forward-looking statements" involving uncertainty and risks that could cause actual results to differ materially from results expressed or implied by the statements. Íslandsbanki hf. undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. It is the investor's responsibility to not place undue reliance on these forward-looking statements which only reflect the date of this press release. Forward-looking statements should not be considered as guarantees or predictions of future events and all forward-looking statements are qualified in their entirety by this cautionary statement.

INVESTOR RELATIONS

An earnings conference call and webcast will take place on Friday 14 February 2025

Íslandsbanki will host a webcast in English for investors and market participants on Friday 14 February at 8.30 Reykjavík/GMT/London/BST, 9.30 CET. Jón Guðni Ómarsson, CEO, and Ellert Hlöðversson, CFO, will give an overview of the fourth quarter 2024 and full year 2024 financial results and operational highlights.

The webcast will be accessible live through a link on the Bank's **Investor Relations** website where a recording will also be available after the meeting. Participation and the ability to ask written question is accessible **via this link**. If you wish to participate in the webcast via teleconference and be able to ask questions verbally, please register **via this link here**. Information regarding the webcast is available **here**.

Further information is available through Íslandsbanki Investor Relations, ir@islandsbanki.is.

Financial calendar

Íslandsbanki plans to publish its financial statements according to the financial calendar below:

Annual General Meeting – 31 March 2025
First quarter results 2025 – 8 May 2025
Second quarter results 2025 – 31 July 2025
Third quarter results 2025 – 30 October 2025

Further information on the Bank's 2025 financial calendar is available here. Please note that the date is subject to change.

Additional investor material

All investor material will subsequently be available and archived on the Bank's Investor Relations website, where other information on the Bank's financial calendar and silent periods can also be found.