



# 4Q25 Financial Results

12 February 2026

**Jón Guðni Ómarsson**  
Chief Executive Officer

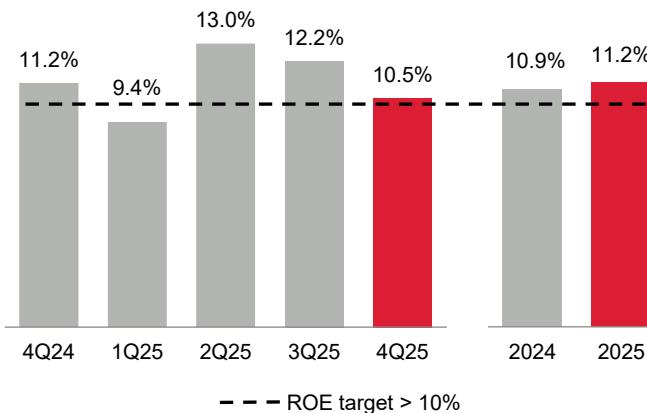
**Ellert Hlöðversson**  
Chief Financial Officer

# Core operating income for fourth quarter grew by 14.4% year-on-year

Strong growth in all revenue streams

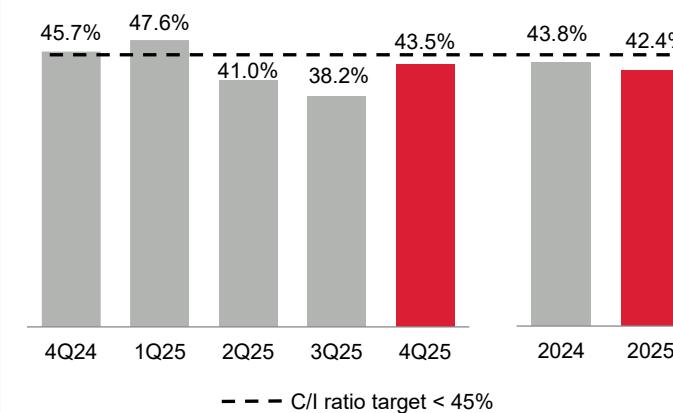
## ROE in excess of financial targets

ROE



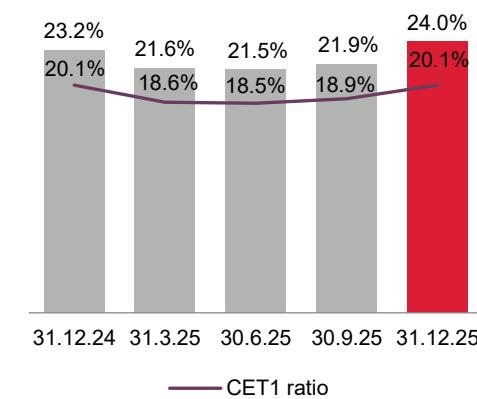
## C/I well below target of being <45%

C/I ratio<sup>1,2</sup>



## Considerable excess capital (ISK 32 billion) in place

Total capital ratio<sup>3</sup>



1. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and an income of ISK 237m within net interest income (ISK 550m reversed from charge in 3Q25 due to provision for legal proceedings and a charge of ISK 313m due to correction from previous years. C/I ratio for 3Q25 excludes a charge of ISK 550m due to provision for legal proceedings. C/I ratio for 2025 excludes ISK 804m in salary expenses and a charge of ISK 313m within net interest income. 2. Income of ISK 119m in 2024 recognized in "Profit (loss) from non-current assets held for sale, net of tax" has been restated in the line item "Other operating income" and "income tax" and C/I ratio has been restated accordingly. 3. Including 3Q25 profit for 30.9.25.



# Updated medium term financial targets

Solid performance and opportunities within the current operations support path to updated targets

	Updated Target	4Q25	2025	Previous Target
<b>Return on equity</b>	<b>&gt;13%</b>	10.5%	11.2%	<b>&gt;10%</b>
<b>Cost-to-income ratio</b>	<b>&lt;43%</b>	43.5%	42.4%	<b>&lt;45%</b>
<b>CET1 excess</b>	<b>100-300bps</b>	510bps	510bps	<b>100-300bps</b>
<b>Dividend-payout-ratio</b>	<b>50%</b>			<b>50%</b>

## Employee incentive scheme

-  Changes to remuneration policy approved by shareholders in June 2025 allowing for elements of variable pay
-  Employee Stock Option Plan implemented in 3Q25
-  Employee Incentive Scheme implemented in early February – financing of scheme contingent upon ROE reaching lower end of accrual range
-  ROE accrual range for funding of incentive scheme 11-12.5% for 2026

## 2026 Guidance



**ROE in 2026** expected to be ~12% for the year as a whole, assuming normal level of impairments



**C/I ratio** expected to be ~43% in 2026



Loans to customers and revenue, in general **to grow** in line with nominal GDP through the business cycle while international lending provides additional growth



# Strong performance across all business units

## Personal Banking



 Growth in deposits ISK 38.5 billion in 2025 or 8% from end of 2024 and 4% loan growth in 2025

 Return on equity was 15.2% and cost-to-income ratio 51.1% in 2025

 Core income grew by 12.4% in 2025 compared to 2024

 Almost 400,000 Personal Banking visits to Íslandsbanki branches in 2025

 ISK 258 million worth of disputed payments successfully settled and recovered

## Business Banking



 Loan growth in 2025 was 7% and deposits increased by 4%

 NII grew 4.5% in 2025 and NFCI by 1.5% from year-end 2024

 Return on equity was 16.7% and cost-to-income ratio was 40.2% in 2025

 Highest market share amongst SMEs with 37% overall market share and 41% within the capital area<sup>1</sup>

 Sustainable loans counted for 16% of the BB loan portfolio at end of 2025

## Corporate & Investment Banking



 Return on equity was 12.3% in 2025 and cost-to-income ratio was 39.0%

 New lending within CIB in 2025 ISK 110 billion and refinancing ISK 62 billion

 Project pipeline in Corporate Finance is strong and important milestone projects completed in 2025

 8% increase in new clients in Asset Management and 8% in new asset under management



# A balance between digital solutions and personalised services

Personal Banking seeks to meet our customers' needs through proactive engagement

## Partnership with

- Integrated financial solutions delivered to customers through partnership with VÍS
- ~10,000 of referrals since roll-out of partnership in May 2025
- Creates added value at key life moments

## App improvements

- Updates to Íslandsbanki app *My family*, *How much did I spend?* and *My flexibility* make everyday banking simpler and more personalised
- Improvements have contributed to higher app rating

## 2025 Statistics

192,165 phone calls with contact centre

>93,000 Fróði chats and 56% solved by himself



31.2 million visits to the Íslandsbanki app

41,518 chats with contact centre

Transactions in ATMs

623,555

93%  
Personal Banking customers active in Íslandsbanki app

Higher ranking in App store following updates



# Our commitment to SMEs reinforced with increased product offering

Acquiring services to further strengthen relationship with SMEs across the country

## Supporting our customers in more ways!

Íslandsbanki to start offering **acquiring services to merchants** – roll-out expected within the next few weeks

Reliable and modern **transaction processing solutions** that support both in-store and online payments

New product to an **already extensive product offering** for SMEs where Íslandsbanki has a strong market share



## Another excellent year for Business Banking

- **Enhanced digital services** for SMEs in 2025
  - Expense management
  - Launch of new Online Bank
  - The Íslandsbanki app now includes a built in Payday feature
- **ERGO 40 YEARS – 200% growth** in monthly applications for car financing after the introduction of **Cars with experience**
- **Highest NPS score** amongst domestic peers during 2025 and an **overall 37% market share**, and **41% within the capital area<sup>1</sup>**



1. Average market share from Gallup's last four corporate surveys, the most recent one conducted in 4Q25 and Business Banking NPS development amongst SMEs from Gallup.



# The success of our customers is at the forefront

Strong cross-functional culture within Corporate and Investment Banking ensures we meet our customers' needs

## Lively market activity and robust results in CIB



**Largest share** of Nasdaq Iceland combined equity and fixed income market turnover in 2025, 21.3%



**8% increase** in new clients and **8% increase** in new asset under management



The **highest turnover** in equities **22.3%** and **second highest** in bonds **20.7%** on Nasdaq Iceland



Foreign lending, as share of CIB loan portfolio, **grew from 3% to 13%**



**Successful Drangar equity raise**

Íslandsbanki is a trusted partner of businesses in Iceland



**SAMHERJI**  
FISKELDI



**Drangar**



**IPAKA**



**ÖLGERÐIN**  
**HAPPY CAMPERS**



**Skeljungur**



**FESTING**



**ÞG VERK**



**FESTI**

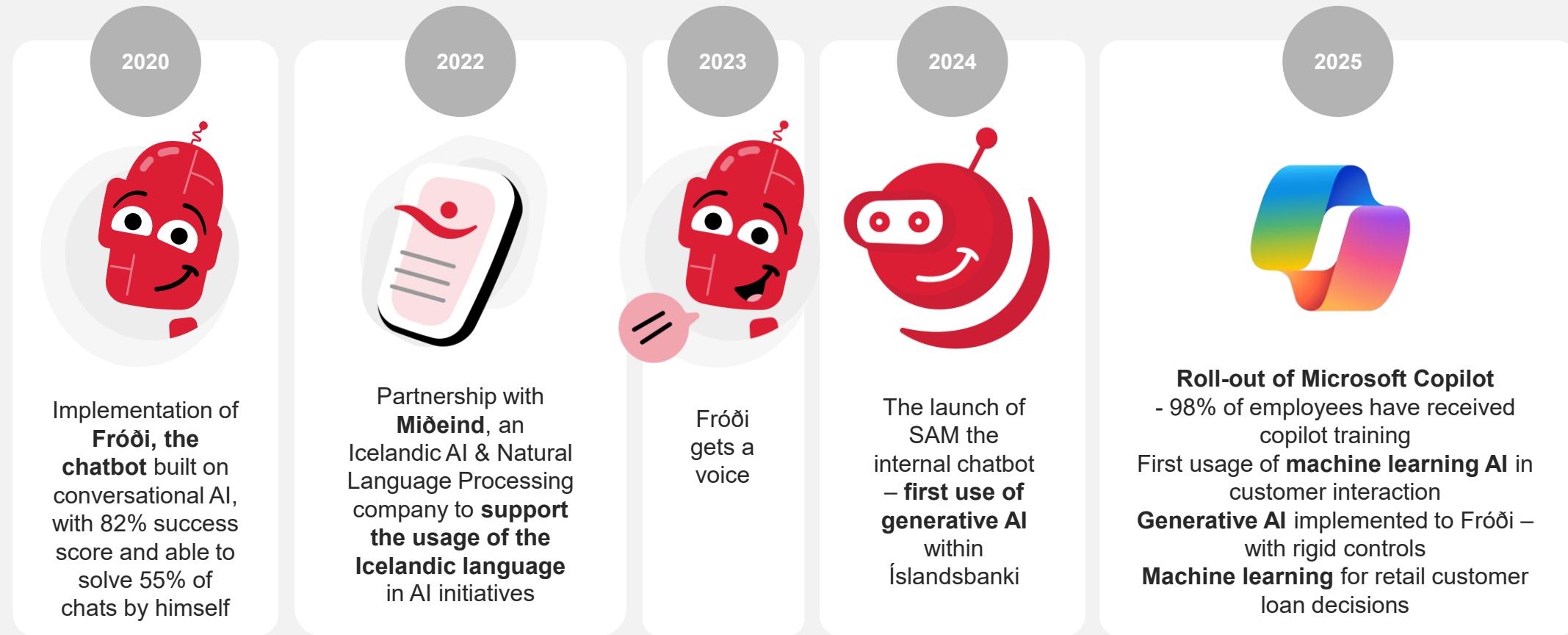


**Heimar**



**201**  
HOTEL

# Íslandsbanki is at the forefront of implementing AI to everyday banking



Broader GenAI ambition guided by **3** focus areas: **People • Process • Platform**



# Íslandsbanki is a force for good

Not only by participating in our customers' journeys – but also for the greater good of society



**Íslandsbanki Reykjavík Marathon**  
ISK 326 million raised for charities in 2025  
> ISK 2 billion since 2006

**Infrastructure bank**  
Financing of Ölfusá bridge

**Successful partnerships**  
with customers across the country

**Íslandsbanki's Entrepreneurship Fund**

Financial educational meetings and seminars  
~1700 guests  
20 open events

**Helping Hand** initiative  
Employees lend a hand to charitable causes



# Íslandsbanki is a force for good

- Íslandsbanki continues its support to the **blossoming start-up and entrepreneurial community** in Iceland
- Record number of applications in 2025



**ISK 60 million awarded to 16 projects in 2025**

– **ISK 325 million awarded since inception**

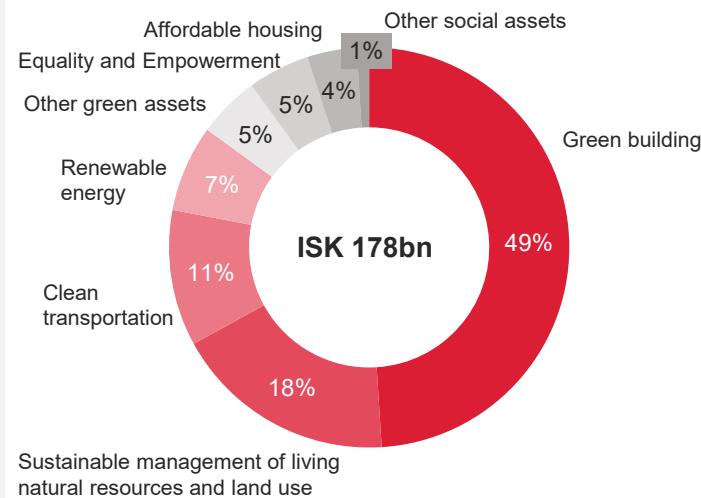
The fund offers support to projects that support the four UN Sustainable Development Goals that the Bank has chosen to focus on



# Íslandsbanki is a force for good

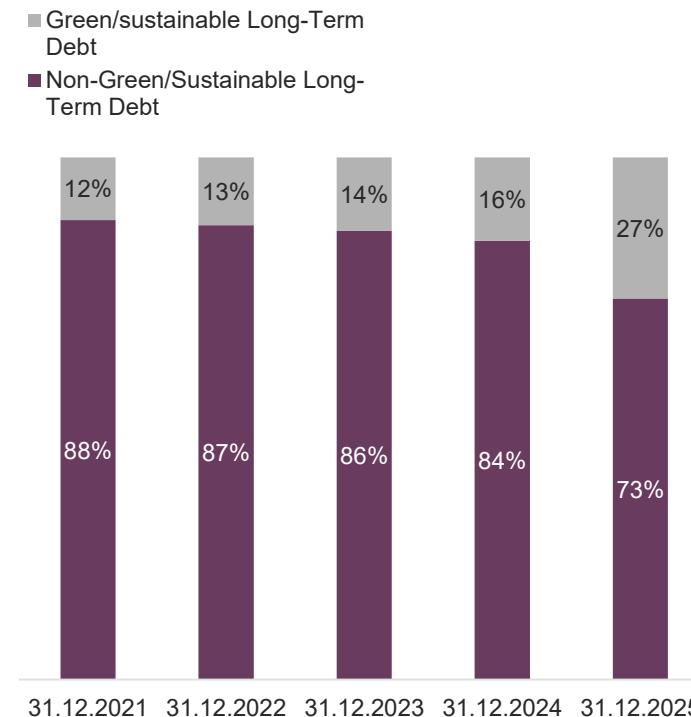
Sustainable journey continues with key focus areas for 2030 set and larger share of long-term debt being green or sustainable

## Classification of sustainable assets by category in the Sustainable Funding Framework at year-end<sup>1</sup>



<sup>1</sup>Other green loans consists of Sustainable and circular processes and biodiversity and Sustainable waste management. Other social consists of Access to Essential Services and Education and vocational training.

## 27% of long-term debt green or sustainable



Reitun

ESG rating of **A3**  
from Reitun

## Focus areas for 2030



- Net zero emissions and transition
- Financial health of customers
- Own workforce, diversity and inclusion
- Clear and strong governance
- Reporting disclosure and education



# A more favourable and diversified funding structure

Good diversification of funding sources and an even split between ISK and foreign currencies

## 2025 Funding highlights



**Moody's affirmed long term A3 credit rating 3 times in 2025**



**Two green EUR 300 million senior preferred bonds issued in 2025**



**Issuance of AT1 notes in November, SEK 700m and NOK 200m**

- **Favourable market conditions** in 2025 were utilised by Íslandsbanki with the issuance of two green EUR 300 million SP bonds and AT1 notes in SEK and NOK
- November 2025 Green EUR 300 million SP bond due in 2032 is **the longest ever SP** issued by Íslandsbanki
- **Balanced maturity profile** in the coming years at historically **competitive prices** provides flexibility
- Ample FX reserves **fuel strategy of growth** of international loan portfolio



# Merger discussions between Íslandsbanki and Skagi

Good progress since signing of heads of terms in October 2025



1. cf. draft discussion document no. 2/2025 from the Central Bank of Iceland published on 19 December 2025 on guidelines related to the SREP process available on the website of the Central Bank of Iceland.

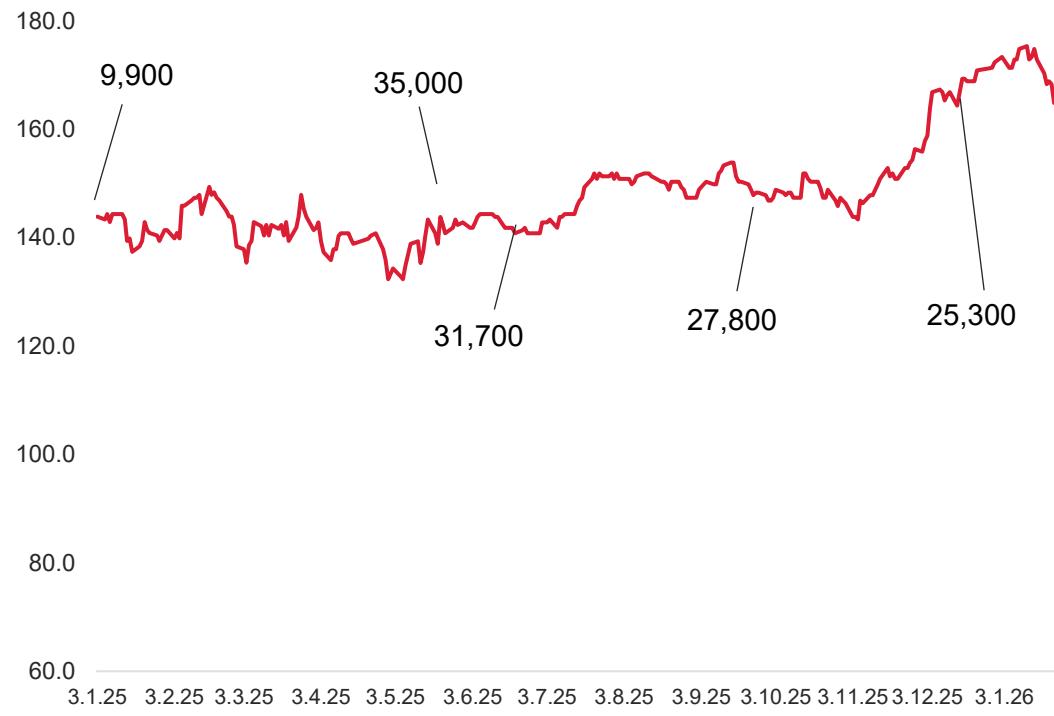


# 2025 was an eventful year for Íslandsbanki as a listed company

Trading volumes rose significantly following FMO in May and stayed elevated throughout 2025

## Íslandsbanki's share price development in 2025

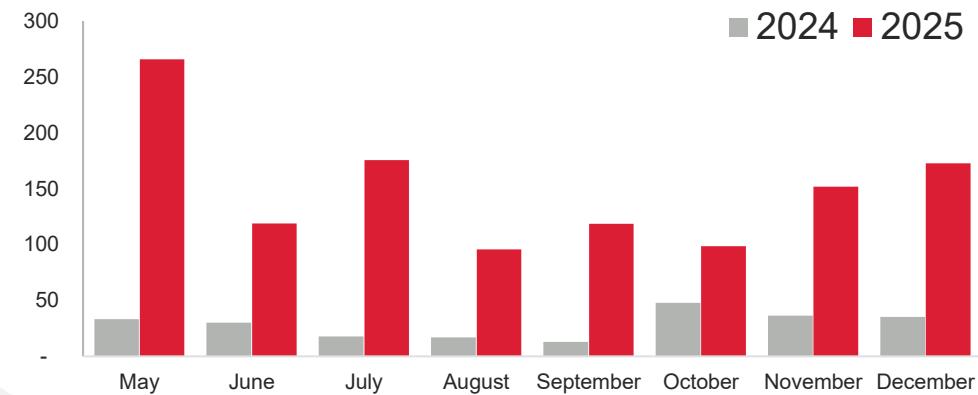
Dividend adjusted price<sup>1</sup> in ISK and number of shareholders



- **FMO** boosted **market liquidity** and average daily trades in 2025 were up 375% compared to 2024
- **Pension funds** is the largest investor group (42.2%) followed by **retail investors** (28.0%)
- Ownership **85.4% domestic** and **14.6% foreign** at year end 2025
- New Board of Directors elected at a meeting of shareholders in January 2026

## Trading volume comparison 2H2024 vs 2H2025<sup>2</sup>

Shares, million



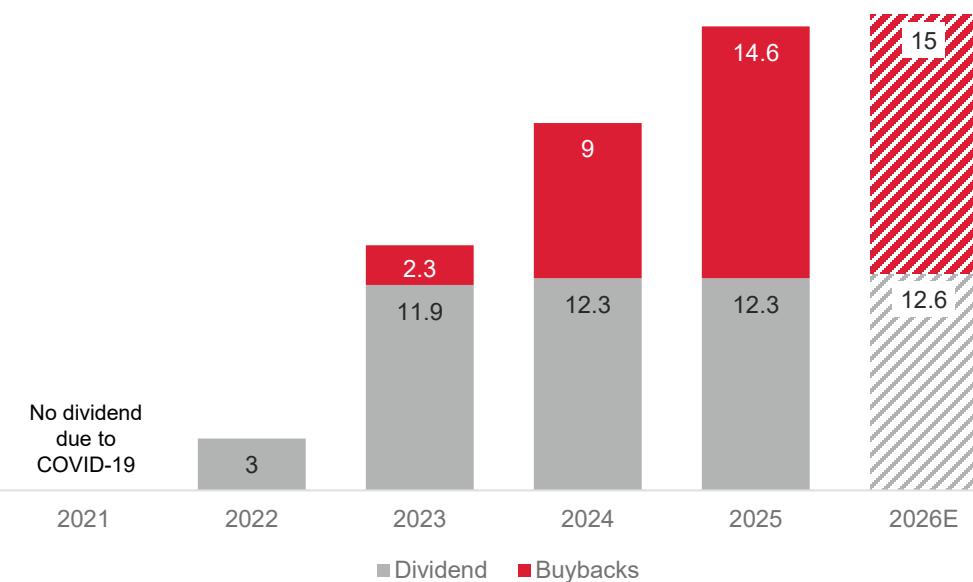
1. Source: Nasdaq Iceland, Share price is adjusted for dividend paid. 2. Source: Nasdaq market data and volume of Government's sale excluded from total May 2025 numbers.



# Capital optimisation an ongoing priority for the Bank

Combination of dividends and buybacks distribution to shareholders in 2025 amounted to >100% of 2024 profits

## Capital distribution 2021-2026E, ISKbn



- Payment of **ISK 12.6 billion** to be proposed to 2026 AGM in accordance with dividend policy
- Own shares at **year-end 2025 amounted to 5.35%** of issued share capital
- New **ISK 15 billion authorisation** obtained in February 2026 from the FSA
- Íslandsbanki **will seek renewal** of authorisation from AGM to buy back own shares and to reduce share capital through cancellation of own shares





# Financial Overview

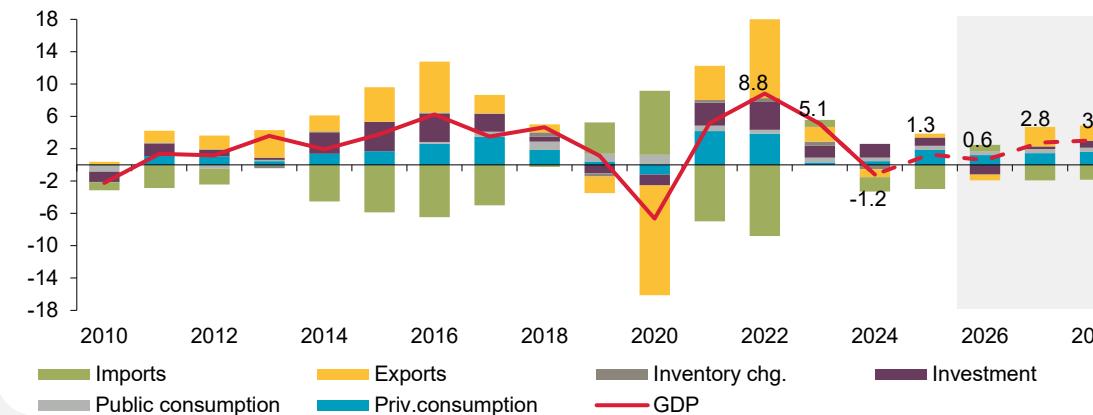


# GDP growth weak in 2026 but set to gain steam later on

Temporary period of sluggish growth due to export sector setbacks and high real interest rates

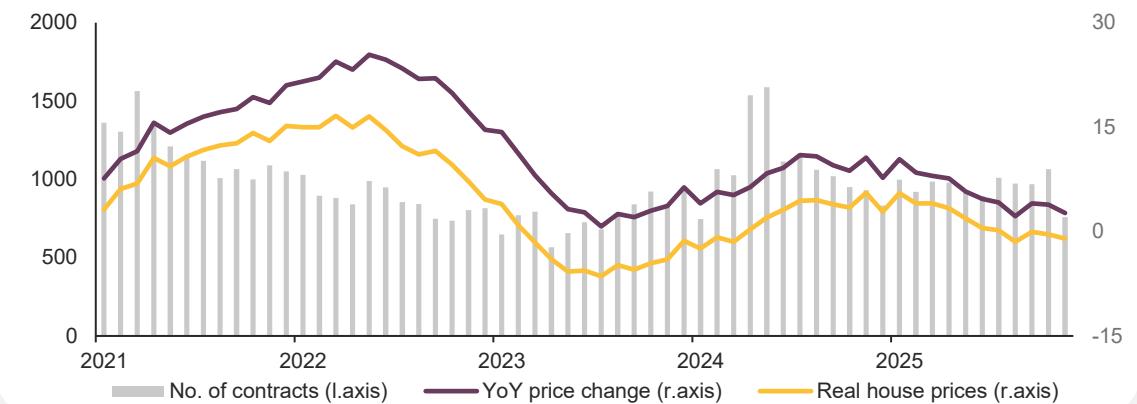
New business cycle, subdued growth following contraction...

Real GDP and main subitems, YoY change, %



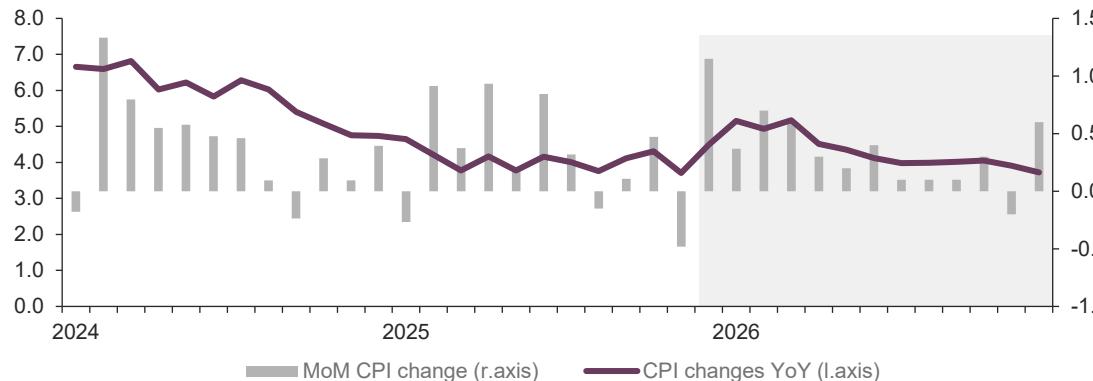
..and housing market still remains quite resilient in the face of high real rates

Year-on-year increase in residential house prices and housing market activity



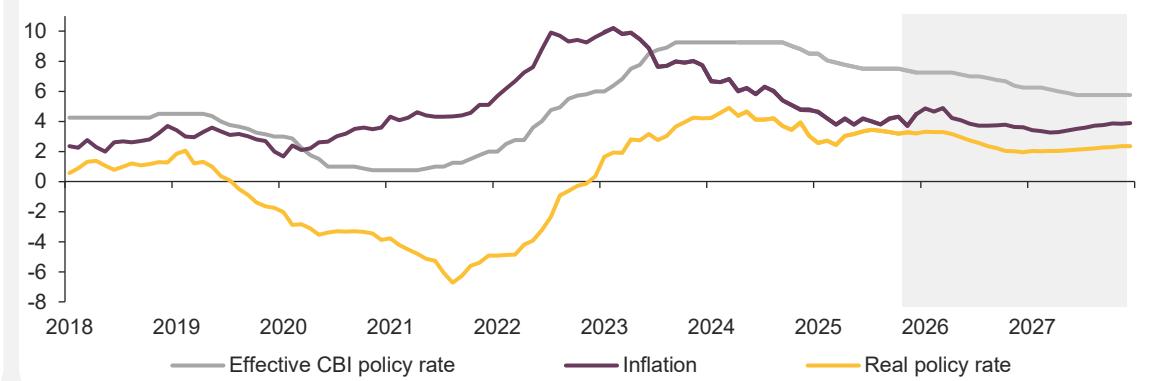
Inflation persistent in the near term but likely to eventually subside ...

MoM CPI change (%), left axis and 12m trailing inflation(%), right axis



... and the Central Bank is expected to continue cutting rates in 2026

CBI policy rate and real policy rate, %

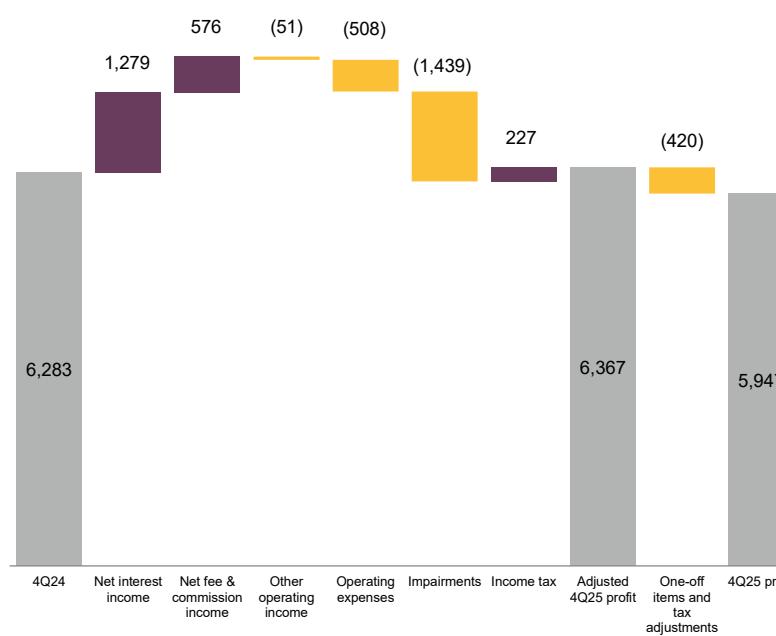


# 4Q25 improving year on year aside from one-off effects

Higher quality of earnings as profits as higher portion of profits stems from core income

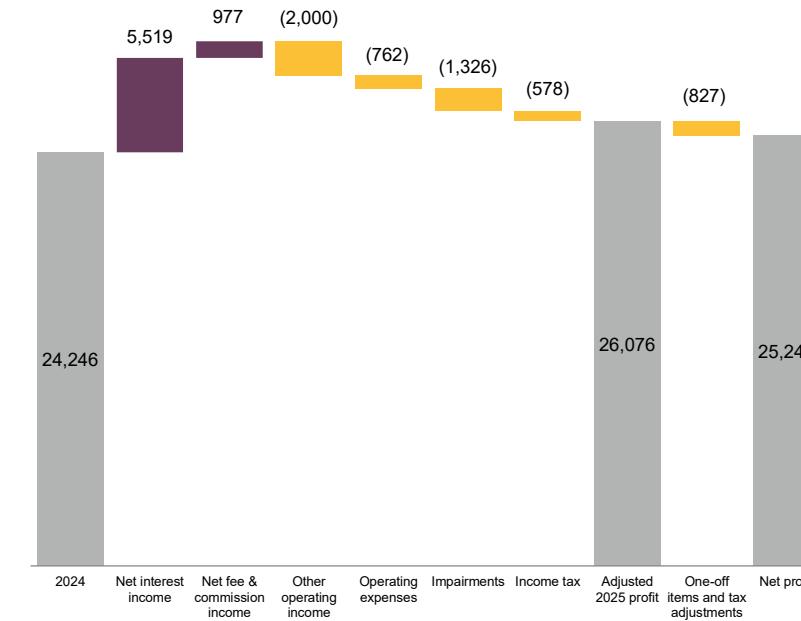
Profit for the period – 4Q24 vs 4Q25

ISKm



Profit for the year – 2024 vs 2025

ISKm



## Adjustments in 4Q25

- ISK 237m of net interest income related to reversal of provision related to a supreme court ruling and interest expense relating to previous accounting periods
- ISK 804m of one-off salary related costs

## Adjustments in 2025

- ISK 313m of net interest income related to interest expense relating to previous accounting periods
- ISK 804m of one-off salary related costs

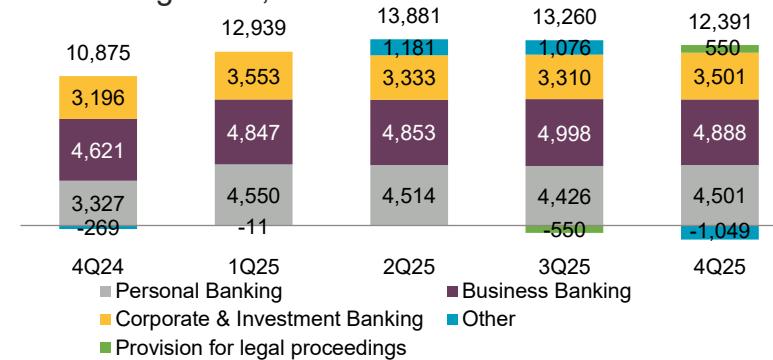


# NIM uplift year-on-year as impact of imbalances reduces

Inflationary ticks in 4Q25 close to zero adversely impacts both net interest income and margin

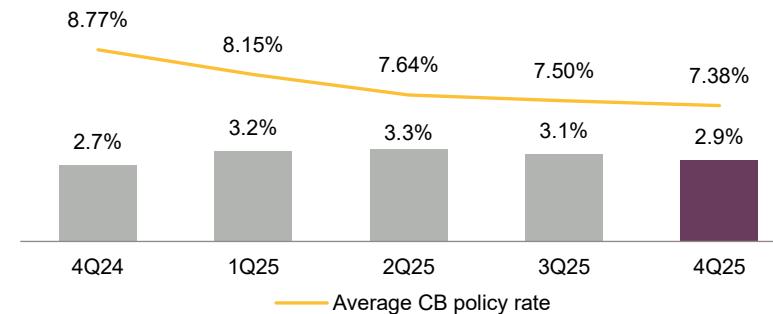
## Net interest income

Business segments, ISKm



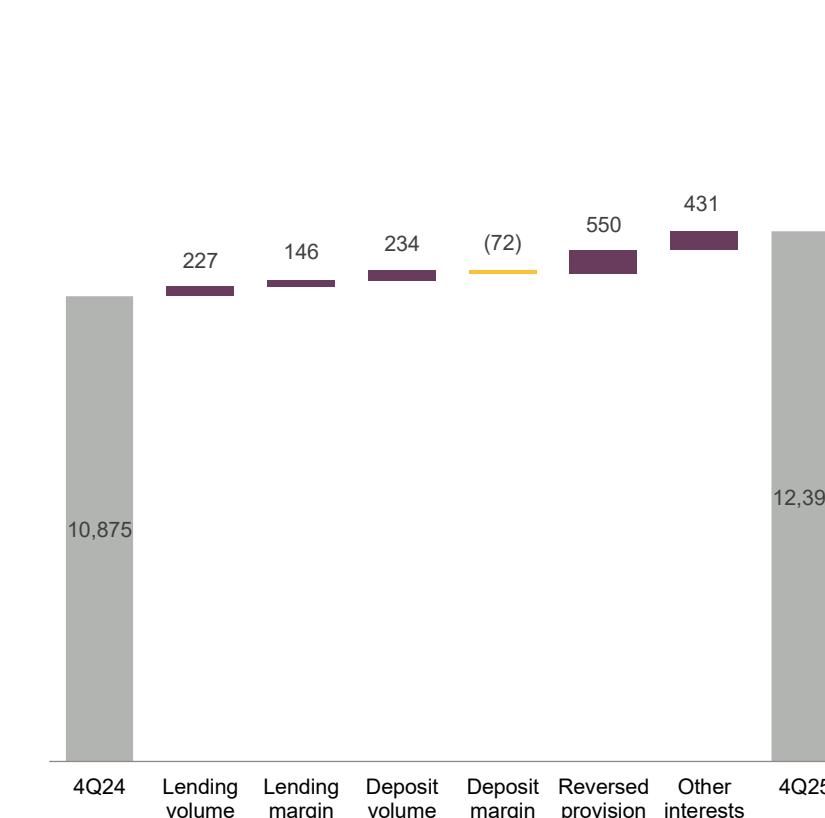
## Net interest margin

On total assets



## Net interest income – YoY comparison

ISKm



## Highlights

- Net interest margin was 2.9% in 4Q25 (2.7% in 4Q24), while net interest margin for 2025 was 3.1%
- Accounted within other interest are among other effects of CPI adjustments of the loan book and other items
- The CPI imbalance grew in the quarter and amounted to ISK 200 billion at end of 4Q25, up from 182 billion at end of 3Q25 related to maturity dates of IRS'
- Aggregated inflationary ticks for 4Q25 was 0.09% compared to 1.01% in 3Q25 and 0.14% in 4Q24
- Expectations are that aggregated inflationary ticks for 1Q26 will be 2.23% - considerably higher than 1.04% in 1Q25
- CB policy rate were lowered by 25 basis points in November
- Related to a Supreme Court ruling on variable nominal mortgages in October 2025, ISK 550 million were provisioned in 3Q25 through NII, while reversed in 4Q25 – net zero effect on 2025 as a whole

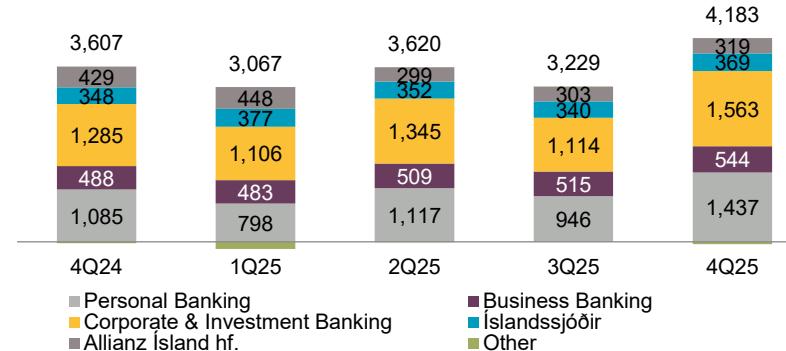


# Net fee and commission income with a strong growth from previous year

Increased activity in capital markets and card related performance fees provide considerable uplift year on year

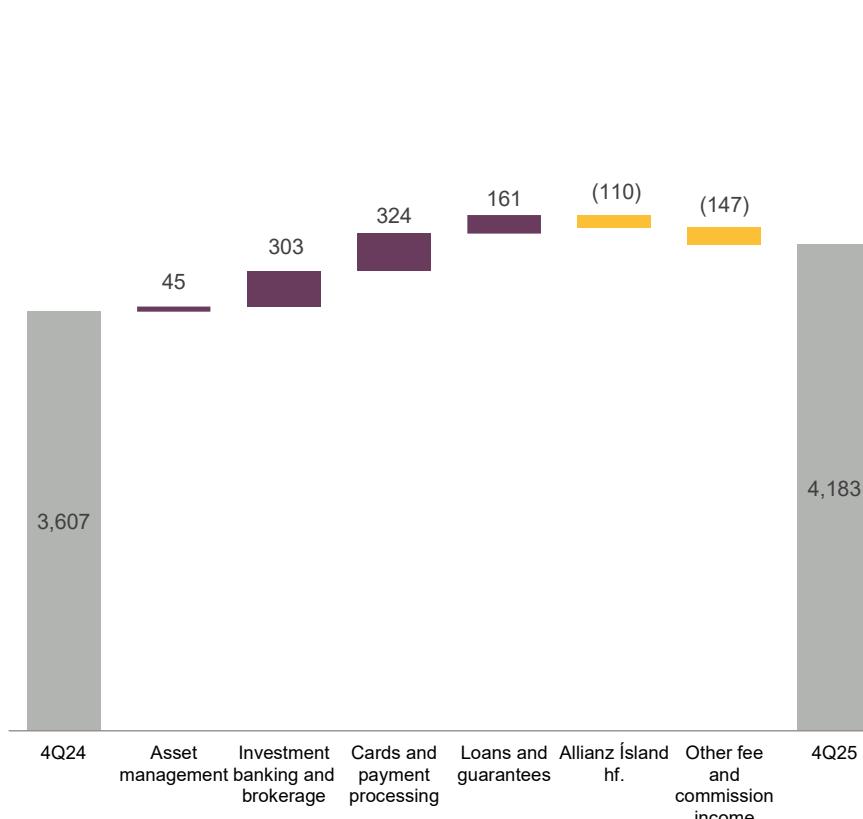
## Net fee and commission income

Business segments, ISKm



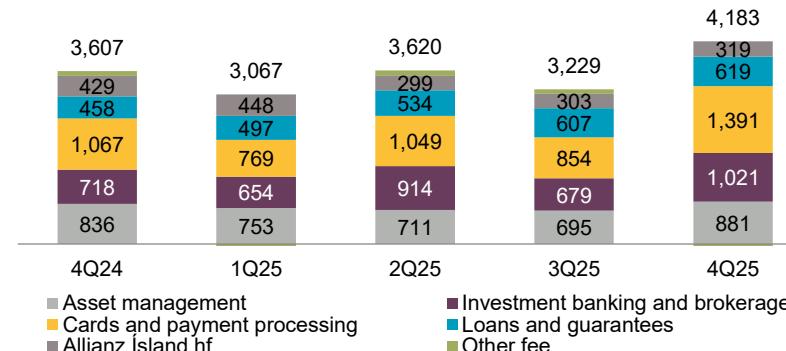
## Net fee and commission income – YoY comparison

ISKm



## Net fee and commission income

By type, ISKm



## Highlights

- Net fee and commission income with a 16.0% growth year-on-year – net fee and commission income for 2025 as a whole growing by 7.4% year-on-year
- Cards and payments remain the largest fee income stream - considerable growth from previous years mainly explained by higher performance-based fees from MC
- Recovery and increasing volume in capital markets further strengthened growth in both asset management and investment banking and brokerage in the quarter

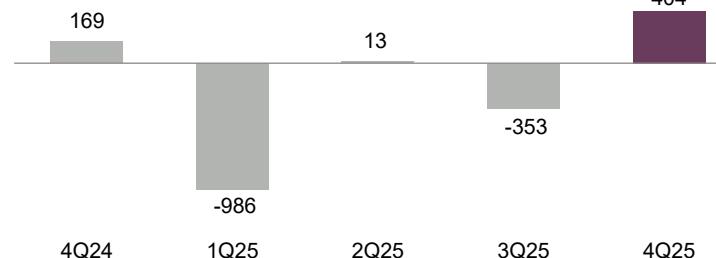


# Fair value adjustments positively impacts other operating income

Market risk exposure remains a small part of the Bank's operations

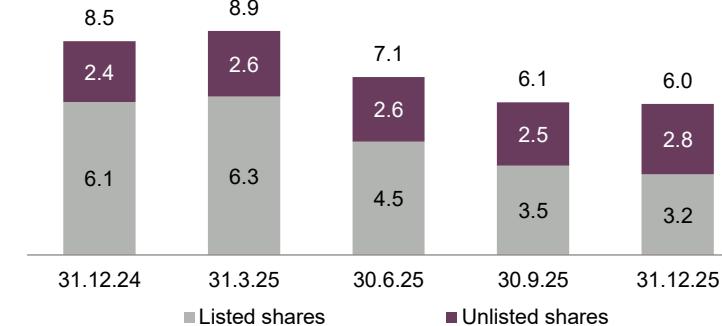
## Net financial income (expense)

ISKm



## Shares and equity instruments<sup>1</sup>

ISKbn

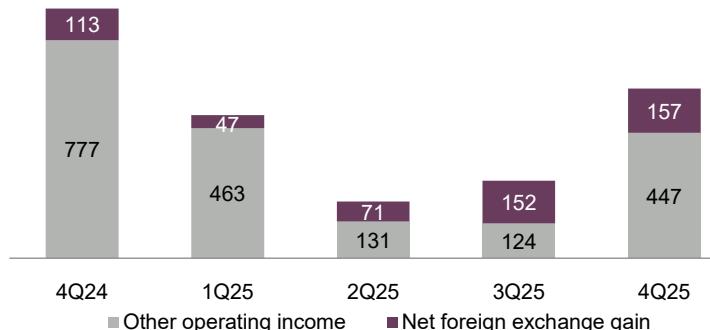


## Highlights

- Net financial income of ISK 404 million was recorded in the quarter, mainly attributable to gains on bonds as well as through economic hedges
- Other operating income amounted to ISK 447 million, mainly related to share of profit of associates
- Equity market risk continues to be limited in size compared to the overall balance sheet of the Bank in line with the Bank's strategy

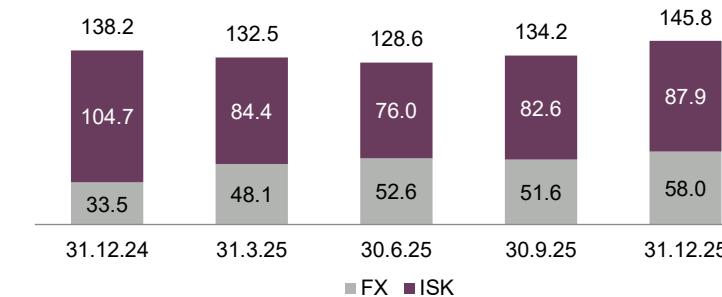
## Other operating income and net FX gain

ISKm



## Bonds and debt instruments<sup>2</sup>

ISKbn



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

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

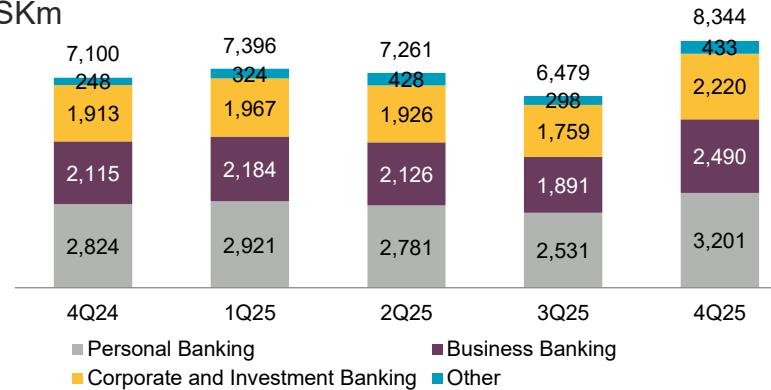


# Strong cost-to-income ratio during the quarter

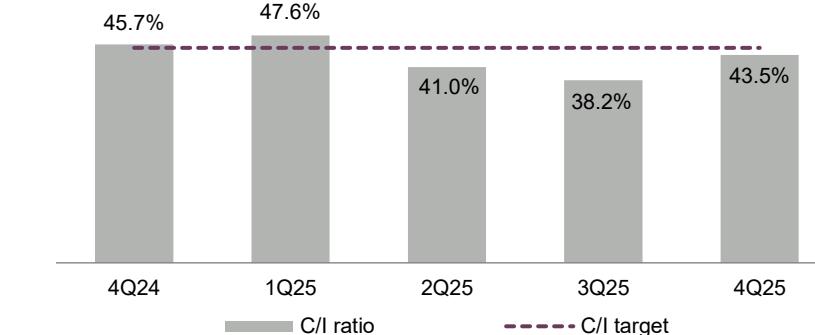
Results continue to be within the Bank's financial targets

## Administrative expenses

ISKm

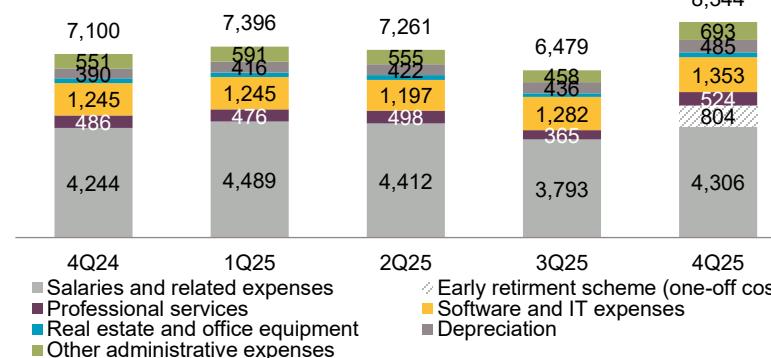


## Cost-to-income ratio<sup>1</sup>

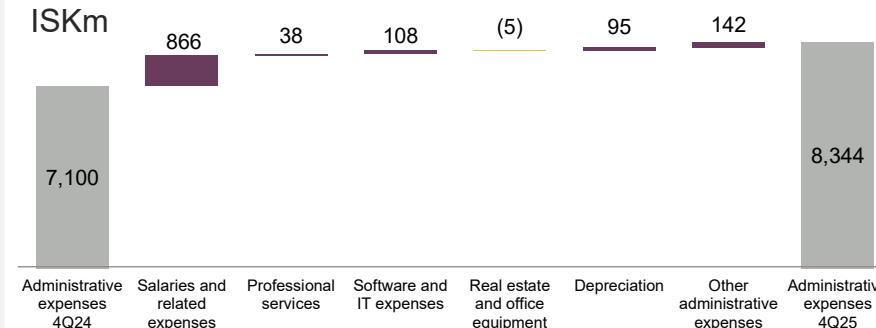


## Administrative expenses – by type

ISKm



## Administrative expenses – YoY comparison



## Highlights

- One-off costs related to dismantling of early retirement scheme amounting to ISK 804 million adversely impacting salaries in 4Q25 compared to previous year
- Dismantling of early retirement scheme unlocks yearly savings and reduces FTEs
- Adjusted for this one-off expense, salaries grew by 4.1% year-on-year
- Other operating expenses increased by 13.2% between years and 3.3% YTD between years, mainly attributable to IT related expenses
- The cost-to-income ratio was 43.5% during the quarter and 42.4% for the year, excluding one-off items - both within financial target
- Unadjusted C/I ratio is 43.8% for 2025 and 47.5% for 4Q25

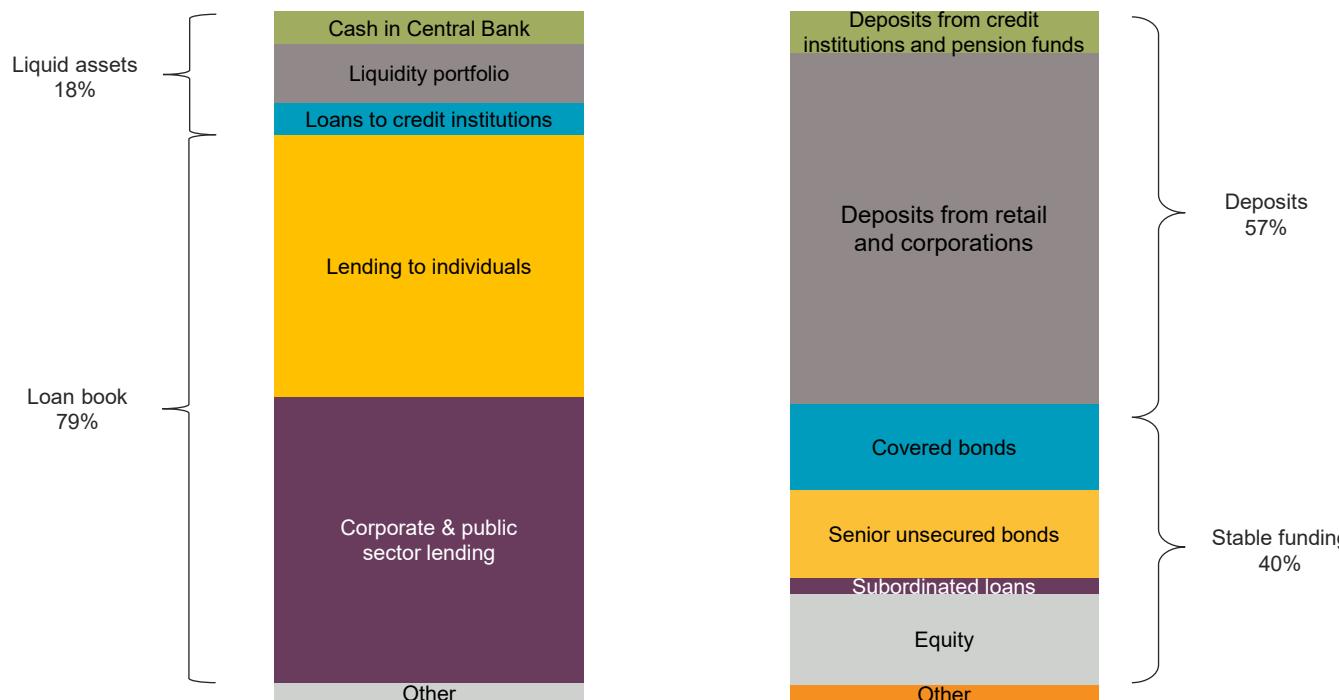


# Balance sheet reflects a balanced loan and funding profile

Well diversified funding structure as well as loan book with limited market risk exposure

## Simplified balance sheet structure

31.12.2025, ISK 1,728bn



### 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

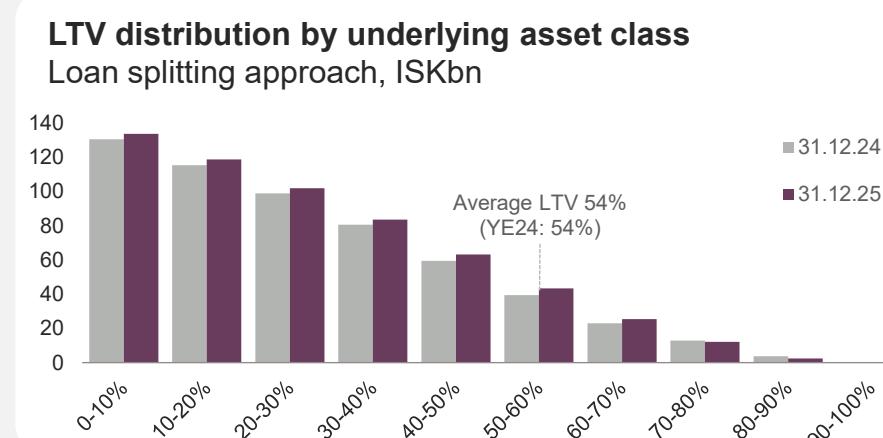
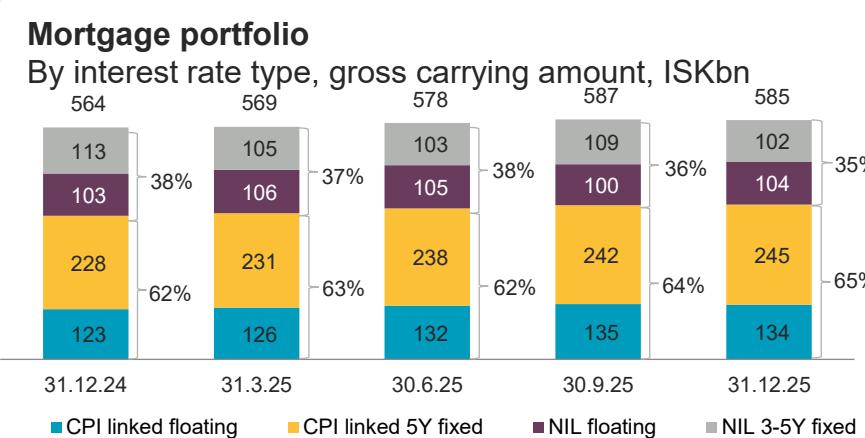
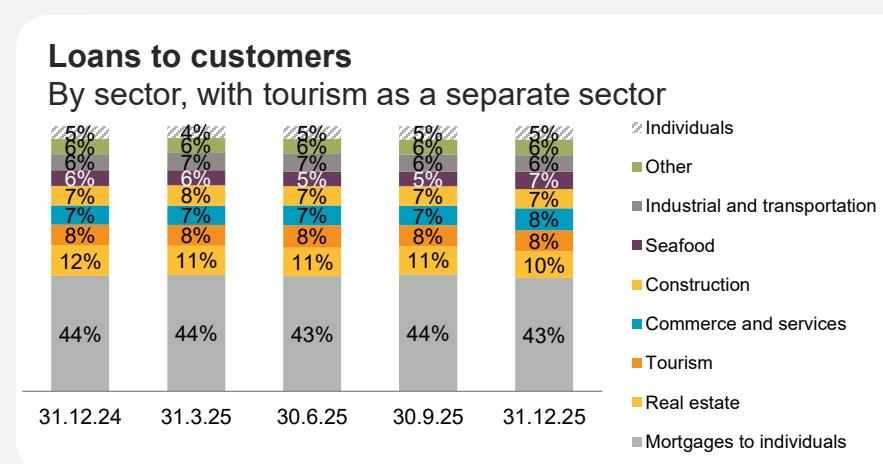
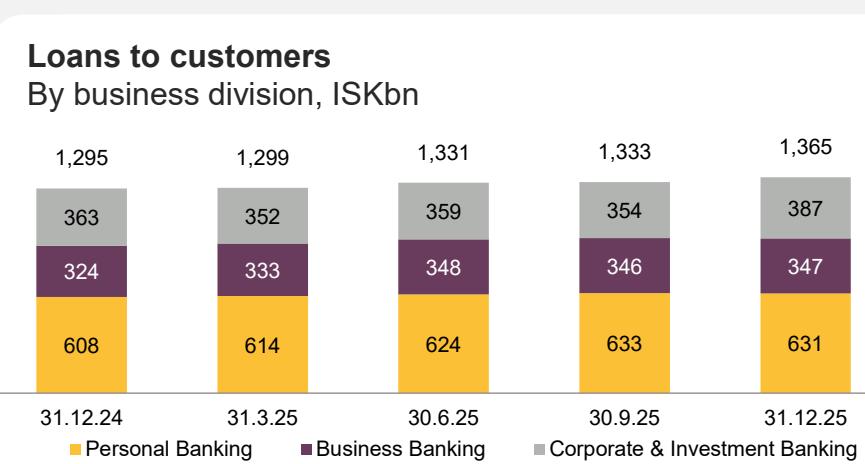
### Liabilities

- 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



# Growth in loan book on 4Q25 mainly attributable to international activities

Shift between mortgage products normalising – effect of fixed rate imbalance has subsided



## Highlights

- Credit exposure fully covered by collateral is ISK 1,283 billion or 94% of loans to customers
- Composition of the loan portfolio comparable to previous quarters
- Around 94% of the loan book are covered by collateral – comparable to previous quarters
- The credit quality of assets continues to be robust due to strong risk management practices and disciplined lending policies
- Low and stable LTV across all types of securities – LTV for the mortgager book remains at 54%, same as 4Q24
- In 3Q25, following a ruling by the Supreme Court of Iceland in a case concerning variable interest rates on a non-index linked mortgage, the Bank recognised a provision of ISK 550m due to potential claims
- As further rulings in cases relating to other lenders have been rendered, the Bank has reassessed its position and reversed the aforementioned provision in 4Q25, resulting in no net impact on profit for the year 2025



# NPLs remain both strong and stable, consistent with historical quarters

Increase in Stage 2 loans due to a handful of credit cases, mainly in the construction sector

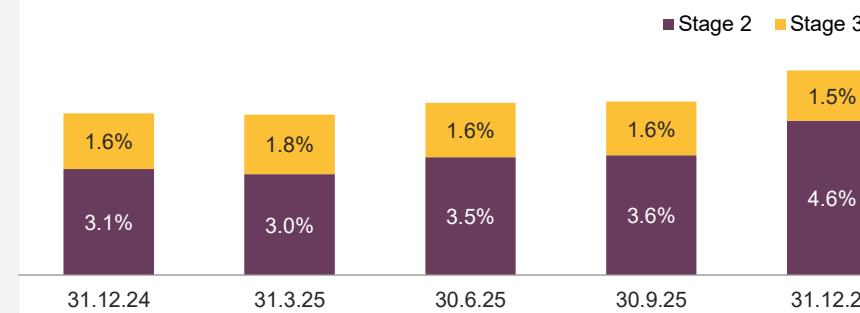
## Net impairment on financial assets

By period, ISKbn



## Loans to customers: Stage 2 and 3 (NPL)

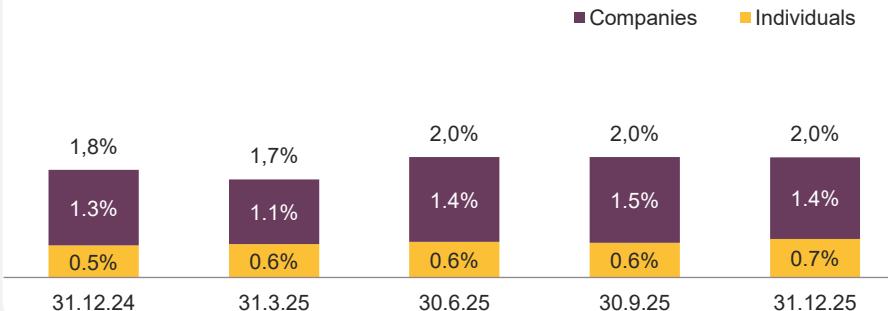
Development of gross carrying amount as ratio of total loans



## Performing loans with forbearance

Development of gross carrying amount as ratio of total loans

Companies      Individuals



## Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages

Stage 2      Stage 3



## Highlights

- Annualised cost of risk was 20bps in 4Q25 (-11bps for 4Q25) – normalized cost of risk assumed 20-25bps through the business cycle
- The impairment allowance for a few distressed credit cases was increased in the quarter predominantly related to a single credit case coming into foreclosure
- Unchanged weights of economic scenarios; 20% good, 50% baseline and 30% bad.
- NPLs remain stable across the portfolio, for both corporates and mortgages
- As sale time of new residential real estate has both growth considerably through the year and remained high, a handful of construction projects have been classified on stage 2

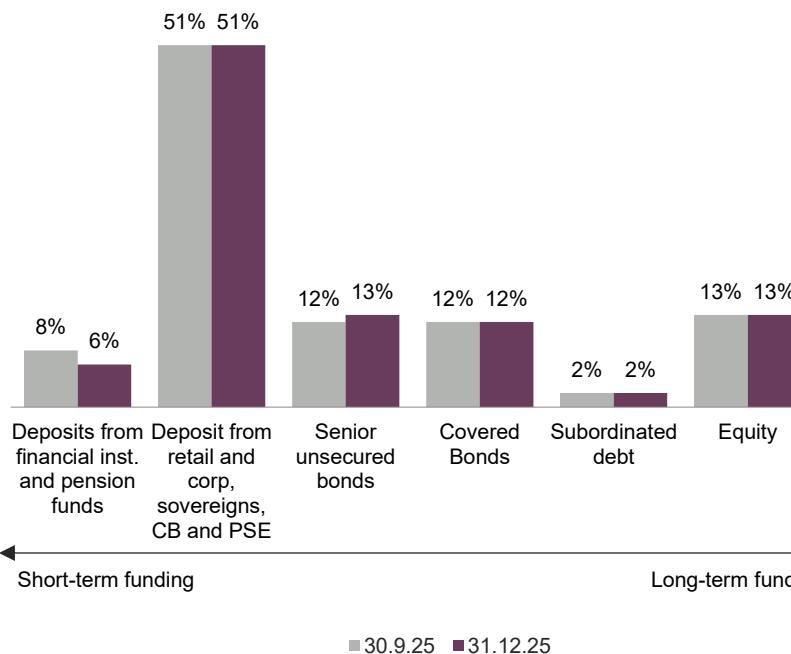


# Deposits growth moderates with lower rate environment

Reduction in wholesale funding offset by growth in retail deposit base.

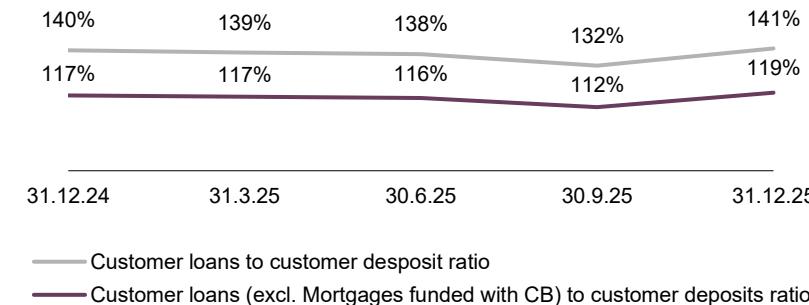
## Funding sources

By type, % of total liabilities and equity



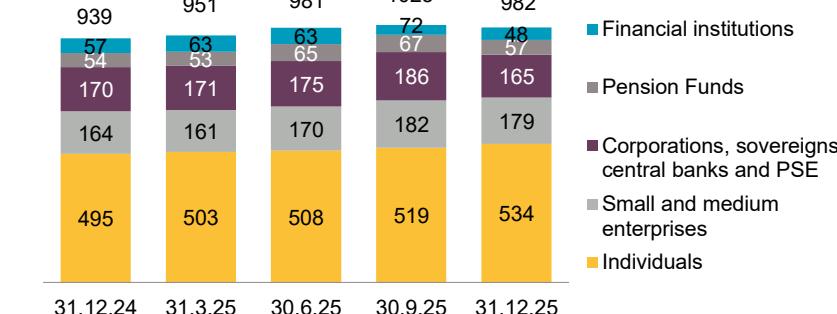
## Customer loans to customer deposits ratio

Development, %



## Deposits from customers and credit institutions

Development, by LCR category, ISKbn



## Highlights

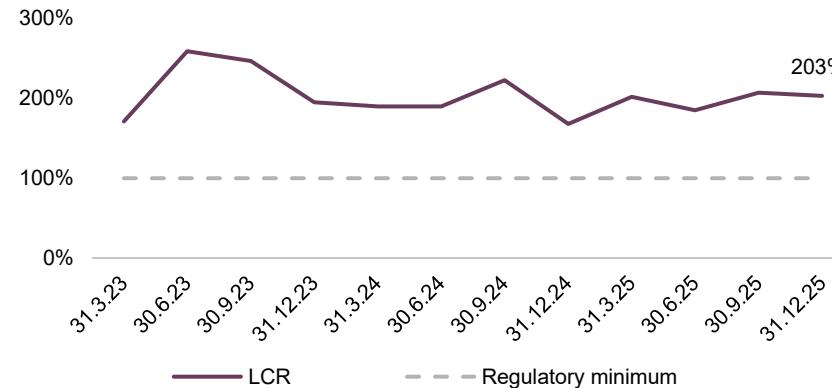
- Overall deposits levels fell by 4% in 4Q25, mainly driven by strategic reduction in wholesale deposits
- Continued growth in deposit by individuals, which grew by 2.9% in 4Q25
- For 2025, deposits grew by 4.6% while deposit by individuals grew by 7.9%
- Term deposits were 17% of total deposits at the end of 4Q25, comparable to historical quarters
- 70% of deposits held by individuals (and 47% of all deposits) are covered by the deposit guarantee scheme



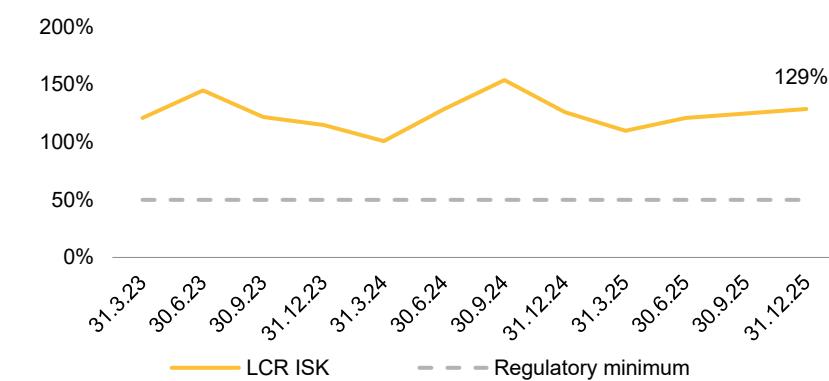
# Strong liquidity position paves the way for growth and distributions

Liquid assets 18% of the total balance sheet and fully marked-to-market

## Total liquidity coverage ratio (LCR)

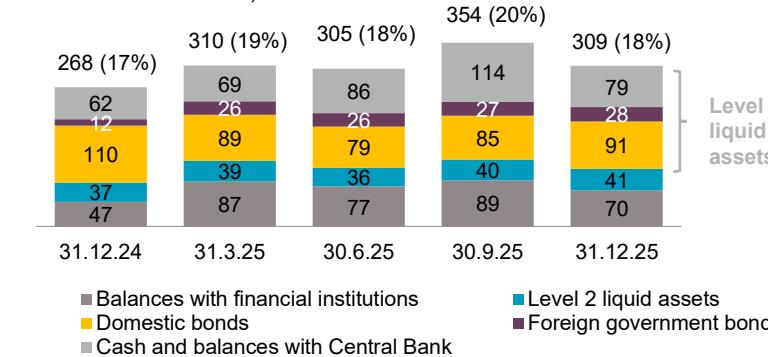


## Liquidity coverage ratio for ISK

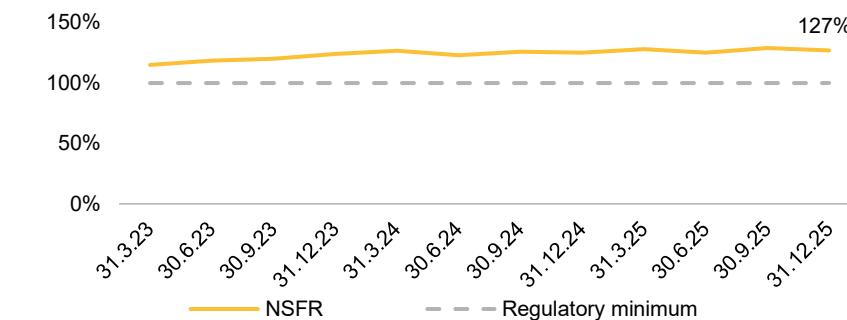


## Liquid assets

% of total assets, ISKbn



## Net stable funding ratio (NSFR)



## Highlights

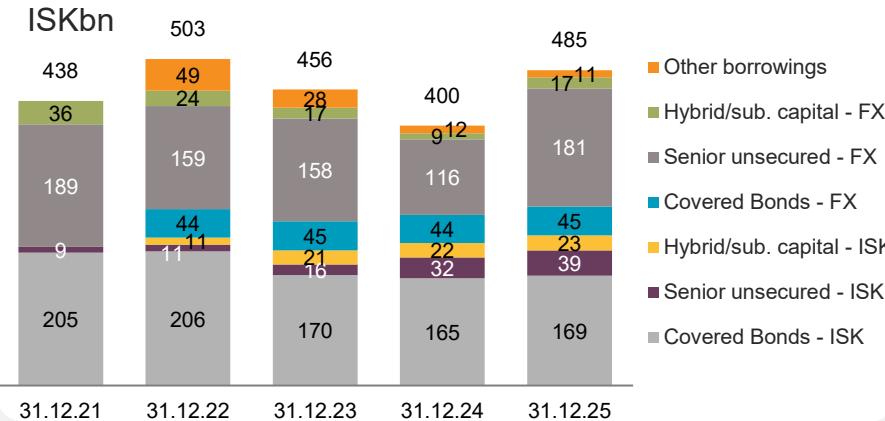
- All liquidity measures well above regulatory requirements
- The Bank's EUR LCR at the end of 4Q25 was 733%
- The Bank's securities portfolios are all MtM (FVTPL and FVOCI). There is no unrealised loss due to HtM (amortised cost)
- IRRBB is carefully monitored and managed. The Bank is fully compliant to the supervisory outlier tests



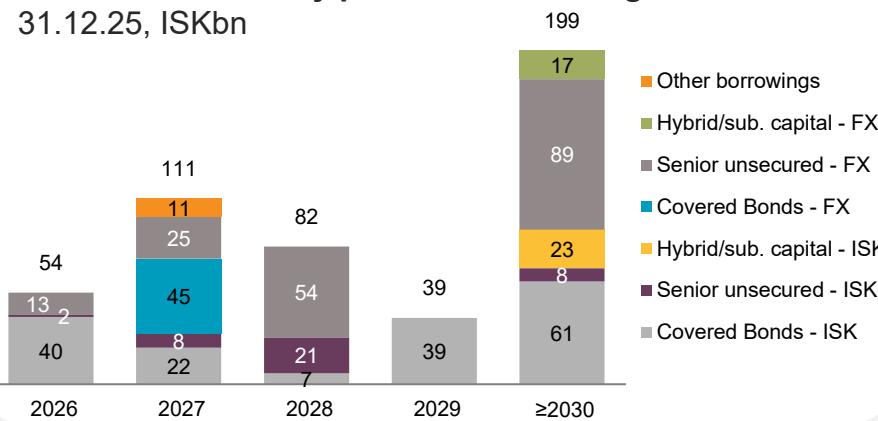
# Constructive funding markets in 2025

Good diversification of funding sources across products and maturities, as well as across investor types and locations

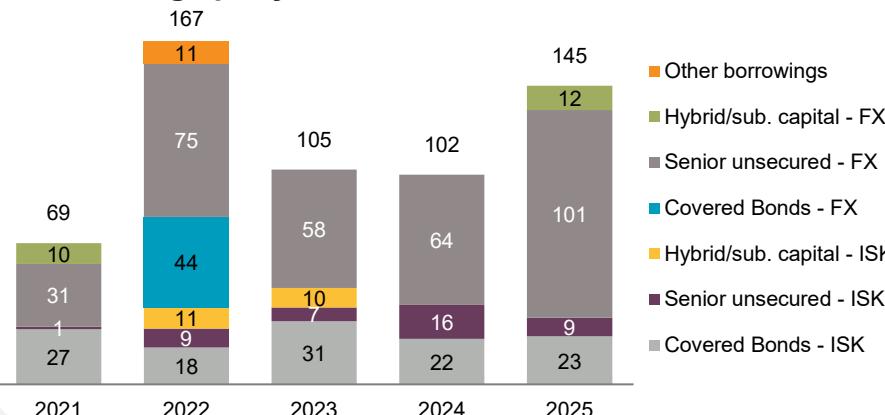
## Sources of borrowings



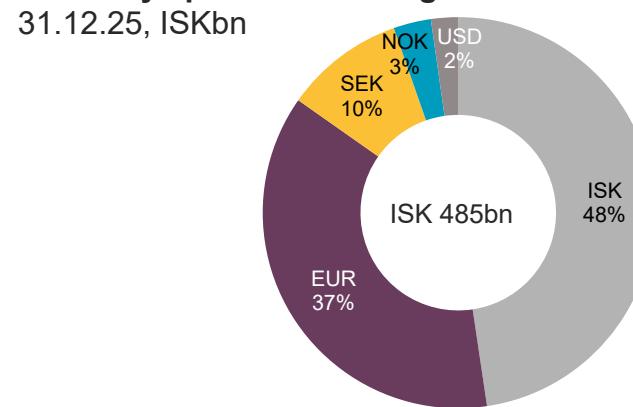
## Contractual maturity profile of borrowings



## Borrowings per year, ISKbn



## Currency split of borrowings



## Highlights

- The Bank's wholesale borrowing split remains evenly divided between ISK and foreign currencies
- Domestically in 2025, the Bank sold ISK 23 billion of ISK denominated covered bonds and ISK 9 billion of ISK denominated senior preferred bonds
- The Bank issued two green senior preferred EUR 300m bonds in 2025, including its longest to date; a 7-year maturity with a 3.50% coupon, corresponding to a spread of mid swaps +130bps
- The Bank continued its capital optimisation with the issuance of AT1 in November; SEK 700m and NOK 200m
- Limited maturities in foreign currencies throughout 2026 allow the Bank to remain an adaptive issuer
- AT1s amounting to SEK 388m is expected to be called this September – refinancing will be subject to the Bank's capital position and market conditions around the call date
- In November, Moody's Ratings affirmed Íslandsbanki's A2 long-term deposit and A3 long-term issuer ratings, with a stable outlook



# CRR 3 had a significant positive effect on REA

CET1 ratio boosted by 1.6 percentage points

- CRR 3 was enacted into Icelandic law in December 2025 and has had a notable impact on Íslandsbanki's REA and capital ratios.
- The new more risk sensitive standardised approach for credit risk had the largest impact along with the new standardised approach for credit risk.
- REA would have been ISK 1.122 billion according to CRR 2, but is ISK 1.034 billion under CRR 3, an ISK 88 billion (7.8%) reduction in REA.
- The Bank had previously indicated that the adoption of CRR 3 would lower the REA by 6-7%. A prudent estimation of the operational risk REA in the previous quarter explains most of the jump to 7.8%
- Largest change comes from the residential real estate portfolio where a 20% risk weight is now applied to loans up to 55% LTV compared to a 35% risk weight up to 80% of LTV. With an average LTV of 54%, this significantly lowered the REA.
- A new asset class for loans secured with income producing real estates (IPRE) has been introduced in CRR 3, with lower risk weights for lower LTV's has further decreased the REA.
- Land acquisition, development and construction exposures (ADC) are assigned a 150% risk weight in the updated regulation, apart from exposure to residential property where the obligor has more than 20% equity at risk, which rarely applies in the Banks construction portfolio.
- Updates to the Market risk approach have been postponed until 2027. Assuming that the Bank adopts the simplified standardised approach the REA for market risk would increase from ISK 4 billion to ISK 13 billion.

## Changes in REA and capital ratios

ISKbn

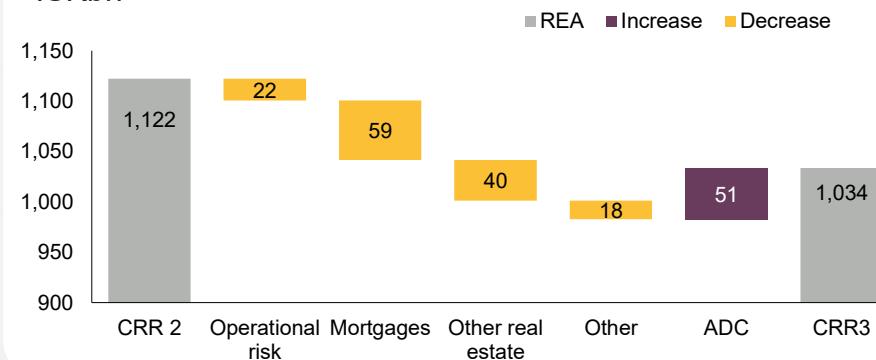
	CRR 3	CRR 2	Difference	%Diff.
Credit risk	940	1,007	-67	-7%
Market risk and CVA	5	5	0	5%
Operational risk	89	110	-22	-20%
<b>Total Risk Exposure Amount</b>	<b>1,034</b>	<b>1,122</b>	<b>-88</b>	<b>-7.8%</b>

CET1 Ratio	20.1%	18.5%	1.6%
Capital ratio	24.0%	22.1%	1.9%

## REA 31.12.2025 - Bridge from CRR 2 to CRR 3

ISKbn

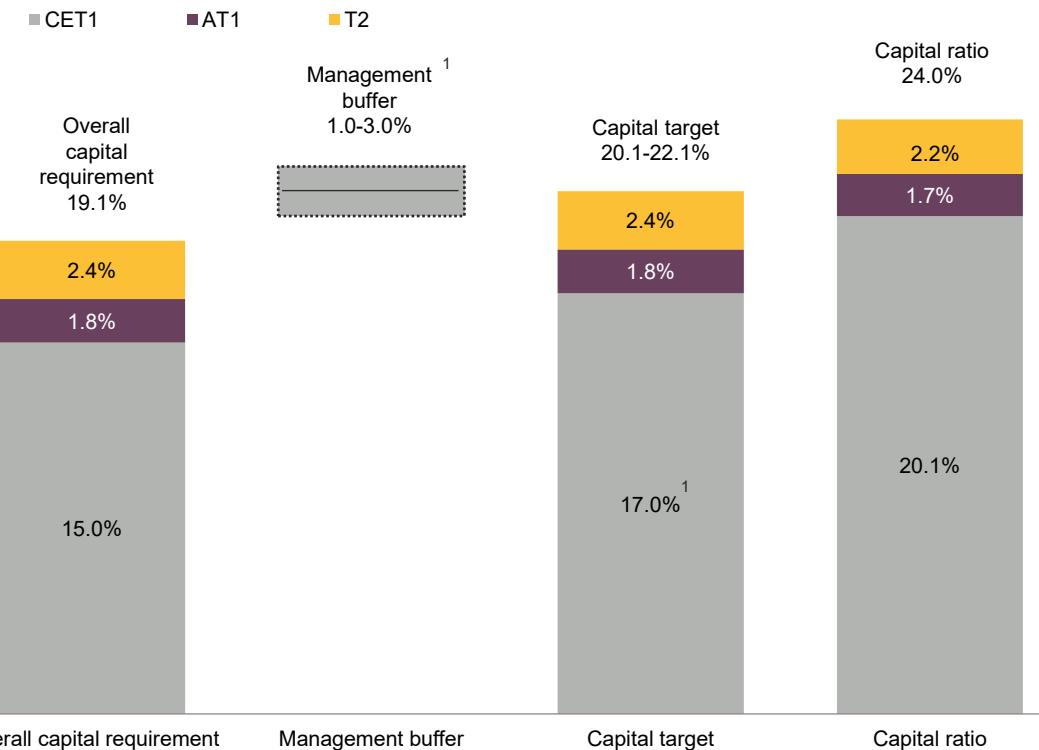


# Íslandsbanki's capital ratios well above target

The implementation of CRR 3 provided additional capital optimisation capacity as CET1 ratio was boosted by 1.6 percentage points

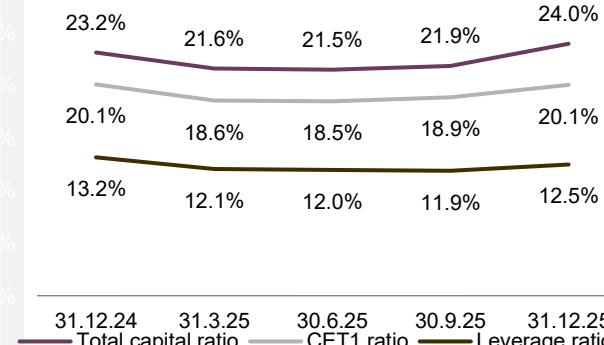
## Current regulatory requirements and minimum capital target

31.12.2025, by capital composition



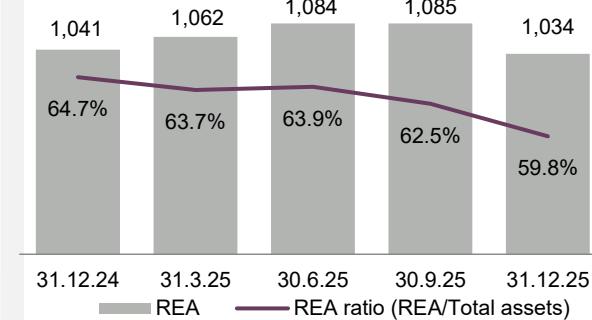
## Capital and leverage ratios

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



## REA and REA ratio

ISKbn and % of total assets



## Highlights

- The implementation of CRR 3 led to 7.8% decrease in REA, thus increasing the capital ratio by 1.9 percentage points and CET1 ratio by 1.6 percentage points.
- As of 30 June 2025, the Bank must maintain a total SREP capital requirement of 9.4%, on top of which a combined buffer requirement of 9.7% is placed – resulting in an overall capital requirement of 19.1% and capital target of 20.1-22.1% assuming a 100-300bp management buffer.
- As of 31 December 2025, total excess CET1 capital (including uncompleted buybacks at the reporting date) amount to around ISK 36 billion of which ISK 4 billion have been used for share buybacks year to date 2026.
- Beginning of January, ISK 15 billion were approved by the FSA to be allocated to buybacks, and deducted from the capital base in 1Q26.
- The Bank remains committed in its efforts to optimise its capital structure through both growth, as well as through distributions to shareholders and expects to conclude capital optimisation through 2026.





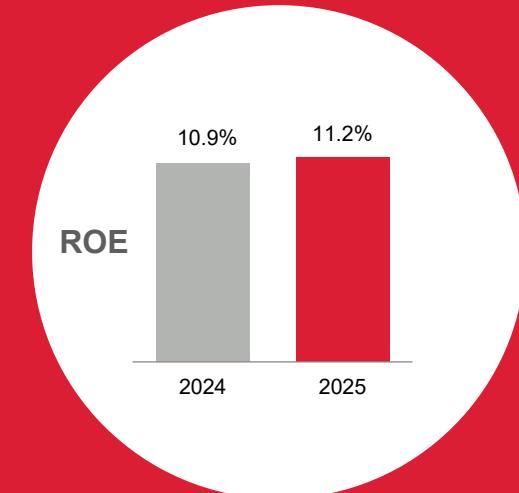
## Updated Financial Targets

**ROE  
>13%**



## Solid performance

- ROE 11.2% for 2025
- NII up 13.9% and NFCI up 16%



## Opportunities

- Ample capital reserves
- Capital optimisation still at forefront

**Excess CET1  
ISK 36 billion**





# Q&A





# Appendix I

About Íslandsbanki and additional financial information



# This is Íslandsbanki

We empower our customers to be a force for good

## Values



Progressive thinking



Collaboration



Professionalism

## The Bank

**725** FTEs: Number of FTEs at Íslandsbanki at period-end



Listed on Nasdaq Iceland as of June 2021

## Market share<sup>1</sup>

**31%** Retail customers

**37%** SMEs

## Key figures 2025

ROE 11.2%

Cost-to-income ratio<sup>2</sup> 42.4%

CET1 ratio 20.1%

Total capital ratio 24.0%

LCR 203%

Group, all currencies

NSFR 127%

Group, all currencies

Leverage ratio 12.5%

**Total assets** **ISK 1,728bn**

## Sustainability in 2025



The share of ESG risk-assessed credit risk remained stable between years, at 88%<sup>3</sup>



Sustainability risk integrated into Íslandsbanki's risk model for corporate lending



Íslandsbanki's sustainable assets amounted to ISK 178 billion at year end

## Ratings and certifications

**MOODY'S**  
**A3** Stable outlook

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



## ESG risk rating

**Reitun**  
**A3** Exceptional

1. For retail customers, based on the number of customers with active deposits as percentage of people with domicile in Iceland, for SMEs on average market share from Gallup's last four corporate surveys the most recent one carried out during 4Q25. 2. C/I ratio for 2025 excludes salary expenses of ISK 804m due to early retirement of employees and a charge of ISK 313m within net interest income due to correction from previous years. 3. Except individuals and small companies, which are not included in the dataset. The Bank's objective is to assess all of its large customers' ESG risk.



# Financial overview

## Key figures & ratios

		4Q25	3Q25	2Q25	1Q25	4Q24
<b>PROFITABILITY</b>	Profit for the period, ISKm	<b>5,947</b>	6,901	7,192	5,209	6,283
	Return on equity	<b>10.5%</b>	12.2%	13.0%	9.4%	11.2%
	Net interest margin (on total assets)	<b>2.9%</b>	3.1%	3.3%	3.2%	2.7%
	Cost-to-income ratio <sup>1</sup>	<b>43.5%</b>	38.2%	41.0%	47.6%	45.7%
	Cost of risk <sup>2</sup>	<b>0.32%</b>	(0.00%)	(0.12%)	0.00%	(0.11%)
<b>31.12.25</b>						
<b>BALANCE SHEET</b>	Loans to customers, ISKm	<b>1,367,106</b>	1,333,234	1,331,288	1,298,849	1,295,388
	Total assets, ISKm	<b>1,728,147</b>	1,734,056	1,696,034	1,667,429	1,607,807
	Risk exposure amount, ISKm	<b>1,033,788</b>	1,084,527	1,084,492	1,061,903	1,040,972
	Deposits from customers, ISKm	<b>968,695</b>	1,008,919	966,075	936,779	926,846
	Customer loans to customer deposits ratio	<b>141%</b>	132%	138%	139%	140%
	Non-performing loans (NPL) ratio <sup>3</sup>	<b>1.5%</b>	1.6%	1.6%	1.8%	1.6%
<b>LIQUIDITY</b>	Net stable funding ratio (NSFR), for all currencies	<b>127%</b>	129%	125%	128%	125%
	Liquidity coverage ratio (LCR), for all currencies	<b>203%</b>	207%	185%	202%	168%
<b>CAPITAL</b>	Total equity, ISKm	<b>225,359</b>	226,974	224,725	217,894	227,355
	CET 1 ratio <sup>4</sup>	<b>20.1%</b>	18.9%	18.5%	18.6%	20.1%
	Tier 1 ratio <sup>4</sup>	<b>21.7%</b>	19.8%	19.4%	19.5%	21.0%
	Total capital ratio <sup>4</sup>	<b>24.0%</b>	21.9%	21.5%	21.6%	23.2%
	Leverage ratio <sup>4</sup>	<b>12.5%</b>	11.9%	12.0%	12.1%	13.2%
	MREL ratio <sup>5</sup>	<b>44.0%</b>	36.8%	36.7%	37.8%	33.4%

1. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and an income of ISK 237m within net interest income (ISK 550m reversed from charge in 3Q25 due to provision for legal proceedings and a charge of ISK 313m due to correction from previous year). C/I ratio for 3Q25 excludes a charge of 550m within net interest income due to a provision for legal proceedings. 2 Negative cost of risk means that there is a net release of impairments. 3. Stage 3 loans to customers, gross carrying amount. 4. Including 3Q25 profit for 30.9.25. 5. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.



# Income statement

Income statement, ISKm	4Q25	4Q24	Δ%	2025	2024	Δ%
Net interest income	12,391	10,875	14%	52,471	47,265	11%
Net fee and commission income	4,183	3,607	16%	14,099	13,122	7%
Net financial income (expense)	404	169	139%	(922)	(338)	173%
Net foreign exchange gain	157	113	39%	427	607	(30%)
Other operating income	447	777	(42%)	1,165	2,401	(51%)
<b>Total operating income</b>	<b>17,582</b>	<b>15,541</b>	<b>13%</b>	<b>67,240</b>	<b>63,057</b>	<b>7%</b>
Salaries and related expenses	(5,110)	(4,244)	20%	(17,804)	(16,329)	9%
Other operating expenses	(3,234)	(2,856)	13%	(11,676)	(11,299)	3%
Administrative fines	-	-	-	-	(470)	(100%)
<b>Administrative expenses</b>	<b>(8,344)</b>	<b>(7,100)</b>	<b>18%</b>	<b>(29,480)</b>	<b>(28,098)</b>	<b>5%</b>
Bank tax	(522)	(454)	15%	(2,084)	(1,900)	10%
<b>Total operating expenses</b>	<b>(8,866)</b>	<b>(7,554)</b>	<b>17%</b>	<b>(31,564)</b>	<b>(29,998)</b>	<b>5%</b>
Net impairment on financial assets	(1,087)	352	-	(681)	645	-
<b>Profit before tax</b>	<b>7,629</b>	<b>8,339</b>	<b>(9%)</b>	<b>34,995</b>	<b>33,704</b>	<b>4%</b>
Income tax expense	(1,682)	(2,056)	(18%)	(9,746)	(9,458)	3%
<b>Profit for the period</b>	<b>5,947</b>	<b>6,283</b>	<b>(5%)</b>	<b>25,249</b>	<b>24,246</b>	<b>4%</b>

## Key ratios

Net Interest Margin (NIM)	2.9%	2.7%	3.1%	2.9%
Cost-to-income ratio (C/I) <sup>1</sup>	43.5%	45.7%	42.4%	43.8%
Return on Equity (ROE)	10.5%	11.2%	11.2%	10.9%
Cost of risk (COR)	0.32%	(0.11%)	0.05%	(0.05%)

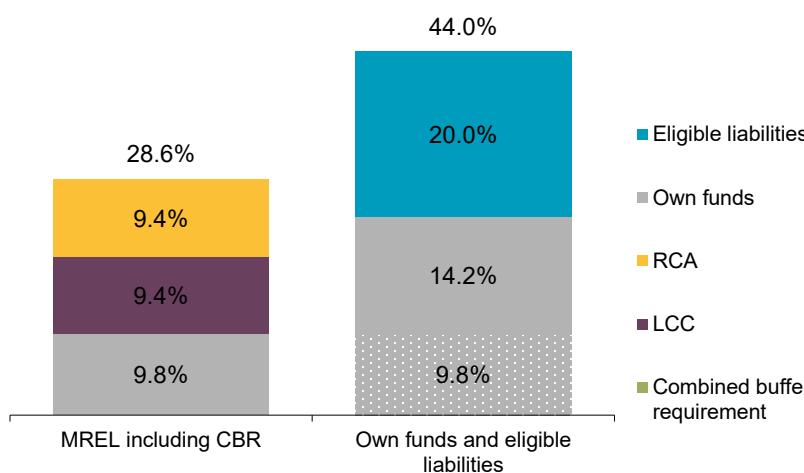
1. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and an income of ISK 237m within net interest income (ISK 550m reversed from charge in 3Q25 due to provision for legal proceedings and a charge of ISK 313m due to correction from previous year). C/I ratio for 3Q25 excludes a charge of 550m within net interest income due to a provision for legal proceedings.



# Íslandsbanki's MREL requirement

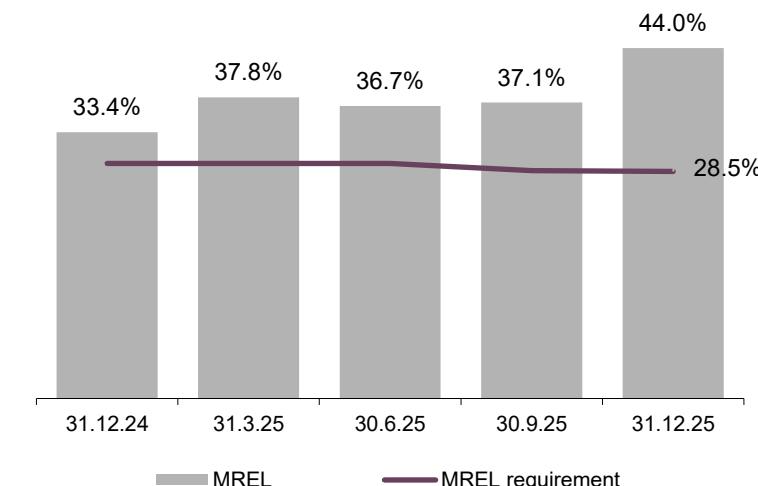
A new resolution plan approved for the Bank on 17 October 2025

## Minimum Requirement for Own Funds and Eligible Liabilities (MREL), 31.12.2025



MREL = RCA+LCC = $2 \times (P1+P2)$

## MREL Development, %



- The Icelandic Resolution Authority approves annually a resolution plan for the Bank. The Resolution plan stipulates that the MREL requirement for Íslandsbanki is the sum of the Loss absorption amount (LAA) and Recapitalisation amount (RCA), both equal to the total SREP capital requirement in force at the date of approval (9.4%), resulting in an MREL requirement of 18.8% of REA.
- CET1 capital that is maintained to meet the combined buffer requirement can not be used to fulfil MREL, therefore the effective requirement can be monitored as 28.5%



# Assets

Asset base mainly consists of loans and liquid assets

<b>Assets, ISKm</b>	<b>31.12.25</b>	<b>30.9.25</b>	<b>Δ</b>	<b>Δ%</b>	<b>31.12.24</b>	<b>Δ</b>	<b>Δ%</b>
Cash and balances with Central Bank	<b>80,394</b>	114,055	(33,661)	(30%)	65,716	14,678	22%
Loans to credit institutions	<b>80,009</b>	99,117	(19,108)	(19%)	50,486	29,523	58%
Bonds and debt instruments	<b>151,959</b>	139,432	12,527	9%	142,618	9,341	7%
Derivatives	<b>5,304</b>	5,092	212	4%	5,324	(20)	(0%)
Loans to customers	<b>1,367,106</b>	1,333,234	33,872	3%	1,295,388	71,718	6%
Shares and equity instruments	<b>20,517</b>	16,815	3,702	22%	24,330	(3,813)	(16%)
Investment in associates	<b>5,384</b>	4,948	436	9%	4,701	683	15%
Investment property	<b>2,900</b>	2,900	-	-	2,600	300	12%
Property and equipment	<b>4,702</b>	4,769	(67)	(1%)	5,039	(337)	(7%)
Intangible assets	<b>2,682</b>	2,632	50	2%	2,684	(2)	(0%)
Other assets	<b>7,190</b>	11,062	(3,872)	(35%)	8,921	(1,731)	(19%)
<b>Total Assets</b>	<b>1,728,147</b>	1,734,056	(5,909)	(0%)	1,607,807	120,340	7%

## Key ratios

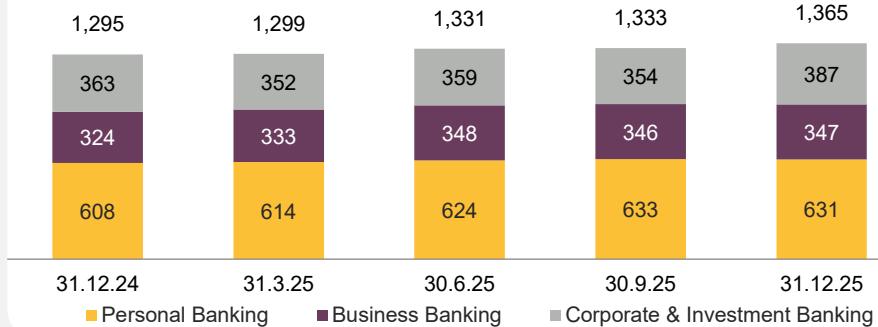
Risk Exposure Amount (REA)	<b>1,033,788</b>	1,084,527	(50,739)	(5%)	1,040,972	(7,184)	(1%)
REA / total assets	<b>59.8%</b>	62.5%			64.7%		
Non-performing loans (NPL) ratio <sup>1</sup>	<b>1.5%</b>	1.6%			1.6%		



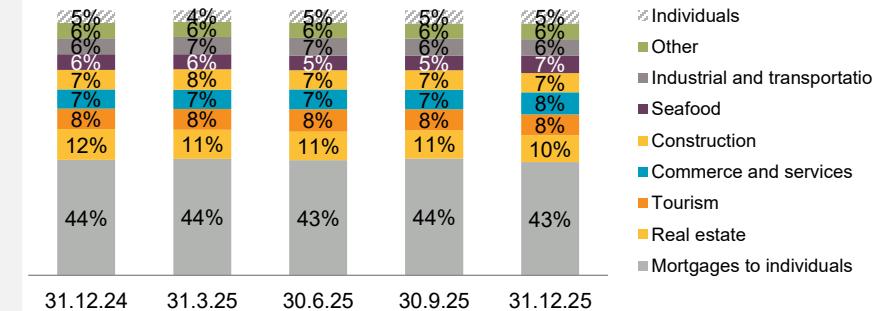
# Growth in loan book mainly attributable to international activities

Outlook for a softer domestic loan growth in the short term as the economy cools

## Loans to customers By business division, ISKbn



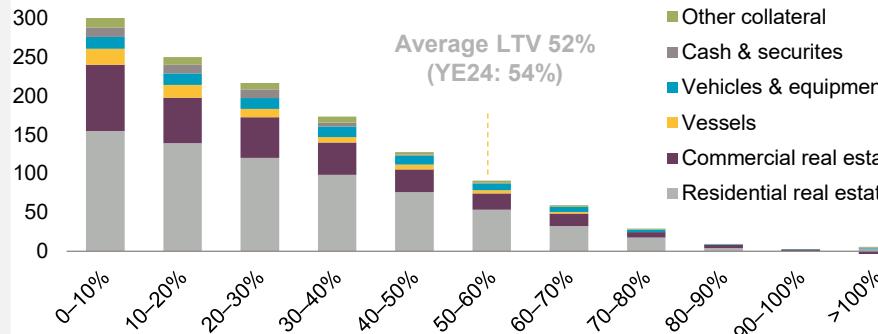
## Loans to customers By sector, with tourism as a separate sector



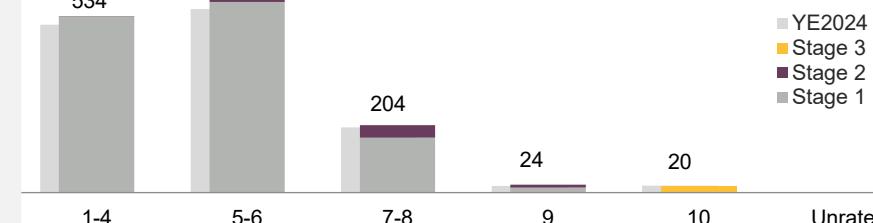
## Highlights

- Composition of the loan portfolio comparable to previous quarters
- Around 94% of the loan book are covered by collateral – comparable to previous quarters
- The credit quality of assets continues to be robust due to strong risk management practices and conservative lending policies

## LTV distribution by underlying asset class Loan splitting approach, ISKbn



## Loans to customers: gross carrying amount<sup>1</sup> Risk class and impairment stage, 31.12.2025, ISKbn



1. Risk class distribution at YE24 shown as comparison

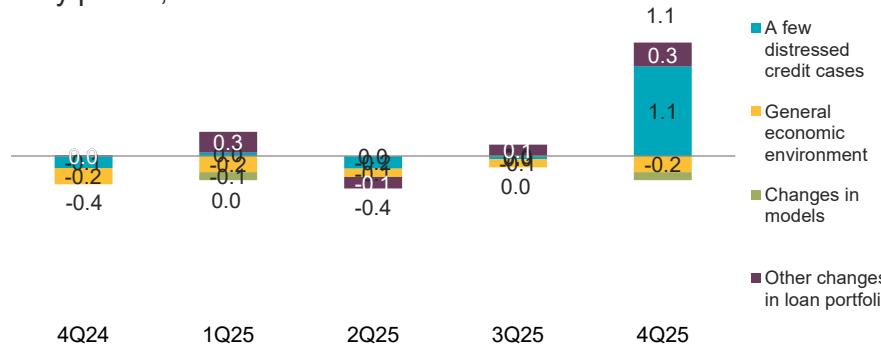


# NPLs remain both strong and stable, consistent with historical quarters

Increase in Stage 2 loans due to a handful of credit cases, mainly in the construction sector

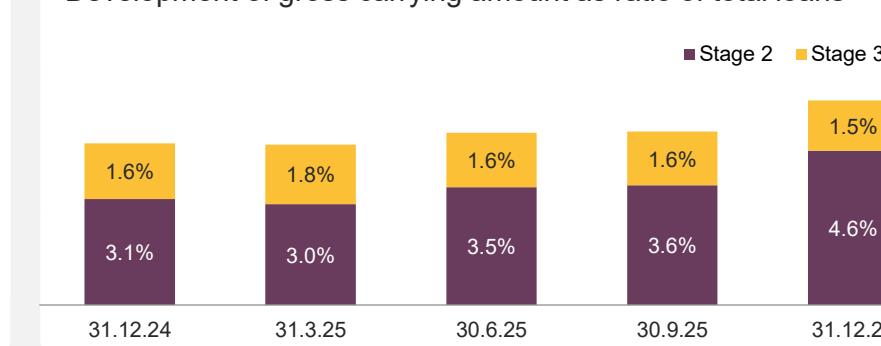
## Net impairment on financial assets

By period, ISKbn



## Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

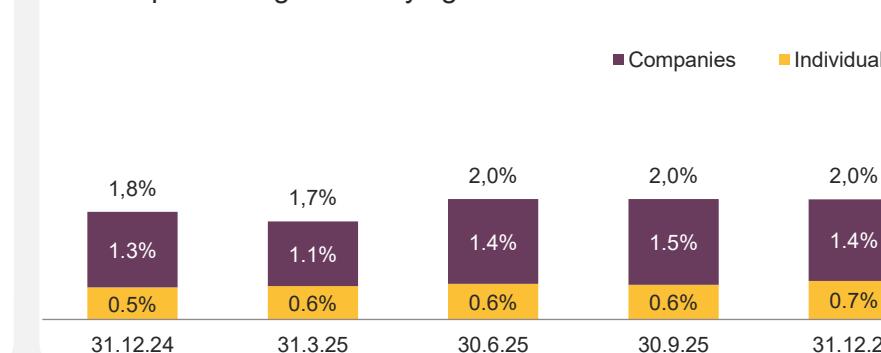


## Current and expected cost-of-risk

- Annualised cost of risk was 32bps in 4Q25 (-11bps for 4Q24)
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 4Q25. The weights were last changed at end of 1Q22
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 220 million while 5% shift from the baseline to the good would decrease the allowance by ISK 90 million

## Performing loans with forbearance

Development of gross carrying amount as ratio of total loans



## Highlights

- The impairment allowance for a few distressed credit cases was increased in the quarter predominantly related to a single credit case coming into foreclosure
- As time on market for new residential real estate has grown considerably through the year, a handful of construction projects have been classified on stage 2
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forbearance even after normal payments have resumed

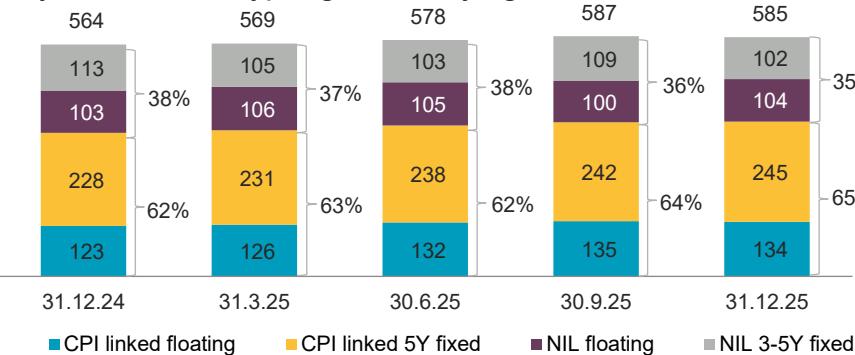


# Shift between mortgage products normalising

Adverse impact of fixed rate imbalance has subsided from the mortgage book, in line with expectations

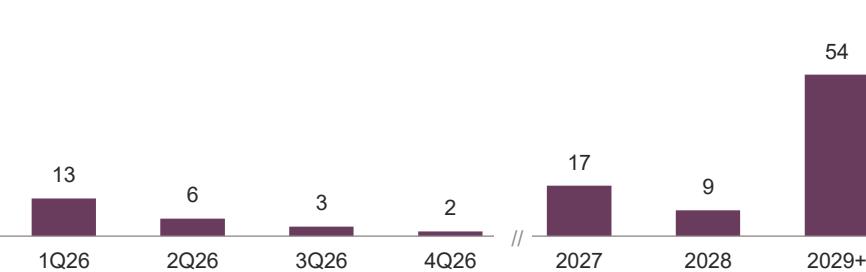
## Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



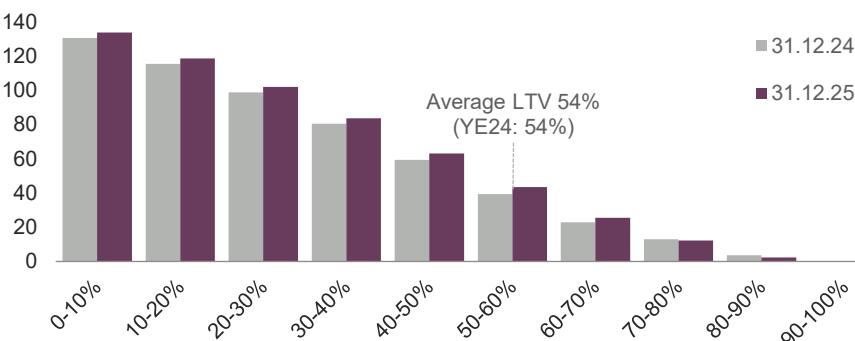
## Interest rate reset profile for NIL 3-5y fixed rate mortgages

Gross carrying amount, ISKbn



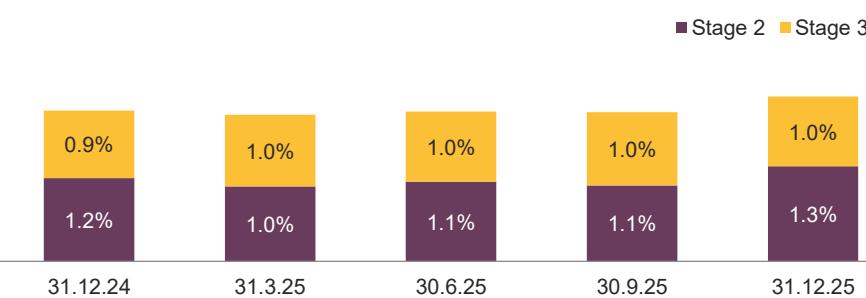
## LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



## Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages



## Highlights

- In 3Q25, following a ruling by the Supreme Court of Iceland on variable nominal mortgage rates, the Bank provisioned ISK 550m due to potential claims
- As further rulings on cases have been rendered, the Bank now believes that potential reimbursements are unlikely and has reversed the aforementioned provision.
- Nevertheless, the Bank has made adjustments to its product offering following the rulings to ensure that its products are suitable for the needs of the market

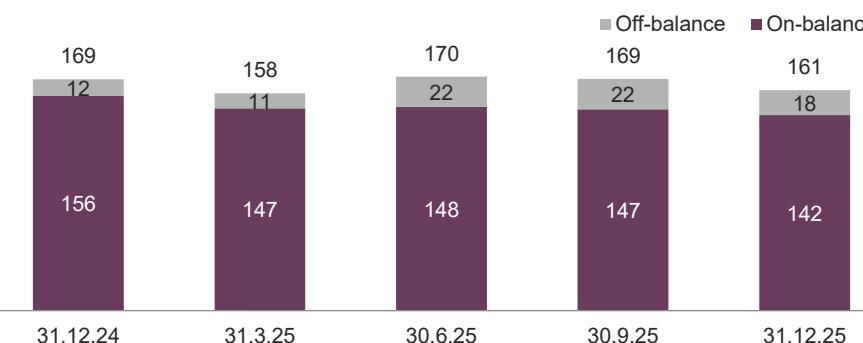


# Slower real estate market transpires into the construction portfolio

Stage 2 portions growing between quarters while NPLs remain stable

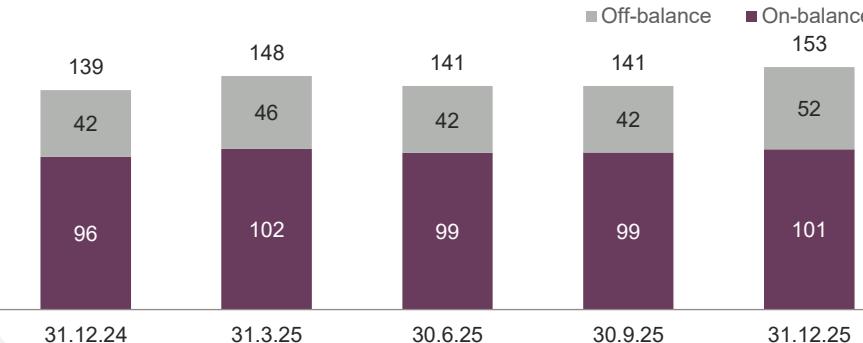
## Development of exposure to real estate companies

Gross carrying amount by period, ISKbn



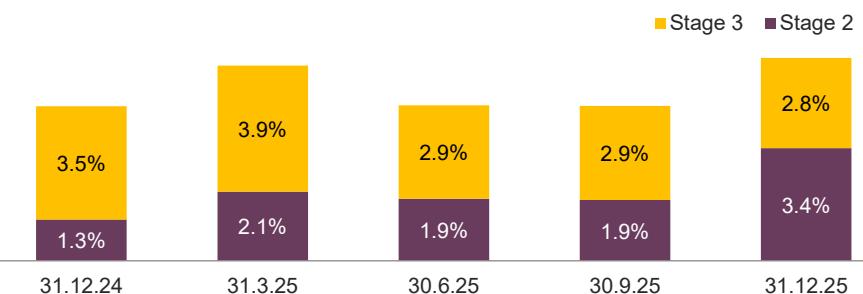
## Development of construction exposure

Gross carrying amount by period, ISKbn

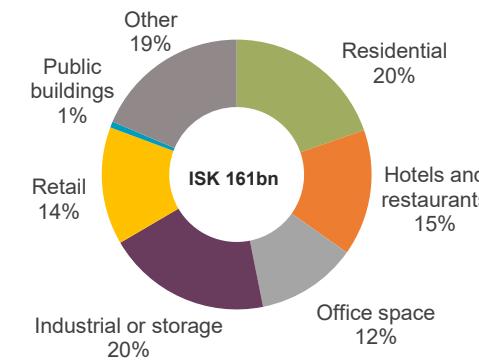


## Real estate portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of the real estate portfolio



## Real estate collateral by type



## Highlights

- Loans to real estate companies and construction amount to 10% and 7% of loans to customers, respectively
- Over half of exposure in the construction sector is for residential where sale time of residential real estate has grown throughout the year and remains high – resulting in increasing uncertainty on the sector
- Real estate companies naturally hedged in cash flow as both rental agreements and financing are both long-term and primarily CPI linked.
- High occupancy ratio of the listed commercial real estate companies of around 95%



# Liabilities and equity

Deposits continue to be the largest source of funding

<u>Liabilities &amp; Equity, ISKm</u>	<u>31.12.25</u>	<u>30.9.25</u>	<u>Δ</u>	<u>Δ%</u>	<u>31.12.24</u>	<u>Δ</u>	<u>Δ%</u>
Deposits from Central Bank and credit institutions	<b>13,250</b>	15,972	(2,722)	(17%)	12,535	715	6%
Deposits from customers	<b>968,695</b>	1,008,919	(40,224)	(4%)	926,846	41,849	5%
Derivative instruments and short positions	<b>6,183</b>	5,599	584	10%	7,306	(1,123)	(15%)
Debt issued and other borrowed funds	<b>444,593</b>	409,170	35,423	9%	367,586	77,007	21%
Subordinated loans	<b>40,315</b>	32,550	7,765	24%	31,695	8,620	27%
Tax liabilities	<b>12,757</b>	14,544	(1,787)	(12%)	12,916	(159)	(1%)
Other liabilities	<b>16,995</b>	20,328	(3,333)	(16%)	21,568	(4,573)	(21%)
Total Liabilities	<b>1,502,788</b>	1,507,082	(4,294)	(0%)	1,380,452	122,336	9%
Total Equity	<b>225,359</b>	226,974	(1,615)	(1%)	227,355	(1,996)	(1%)
<b>Total Liabilities and Equity</b>	<b>1,728,147</b>	1,734,056	(5,909)	(0%)	1,607,807	120,340	7%

## Key ratios

Customer loans to customer deposits ratio	<b>141%</b>	132%	140%
Net stable funding ratio (NSFR)	<b>127%</b>	129%	125%
Liquidity coverage ratio (LCR)	<b>203%</b>	207%	168%
CET 1 ratio	<b>20.1%</b>	18.9%	20.1%
Tier 1 capital ratio	<b>21.7%</b>	19.8%	21.0%
Total capital ratio	<b>24.0%</b>	21.9%	23.2%
Leverage ratio	<b>12.5%</b>	11.9%	13.2%
MREL ratio	<b>44.0%</b>	36.8%	33.4%





# Appendix II

Icelandic economy update

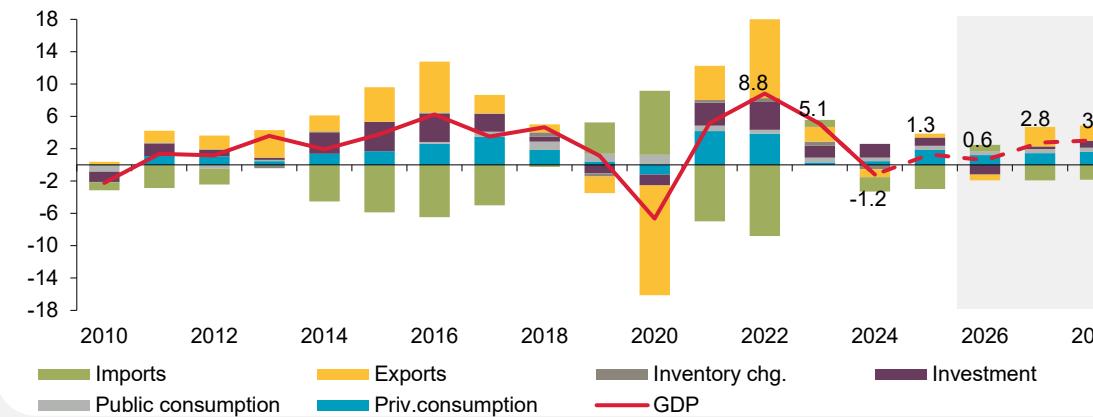


# GDP growth weak in 2026 but set to gain steam later on

Temporary period of sluggish growth due to export sector setbacks and high real interest rates

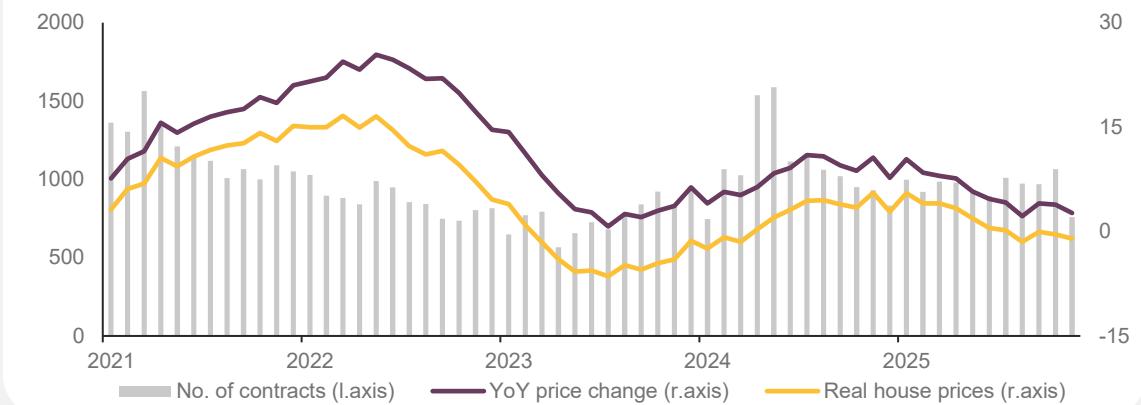
New business cycle, subdued growth following contraction...

Real GDP and main subitems, YoY change, %



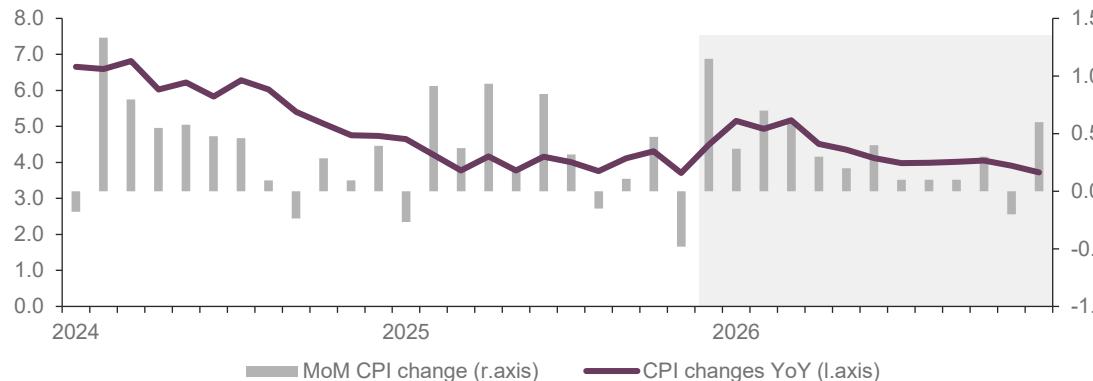
..and housing market still remains quite resilient in the face of high real rates

Year-on-year increase in residential house prices and housing market activity



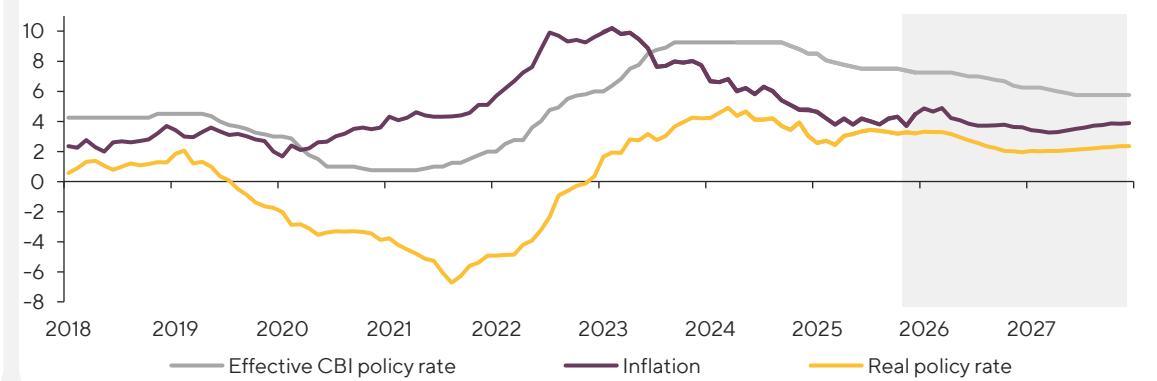
Inflation persistent in the near term but likely to eventually subside ...

MoM CPI change (%), left axis and 12m trailing inflation(%), right axis



... and the Central Bank is expected to continue cutting rates in 2026

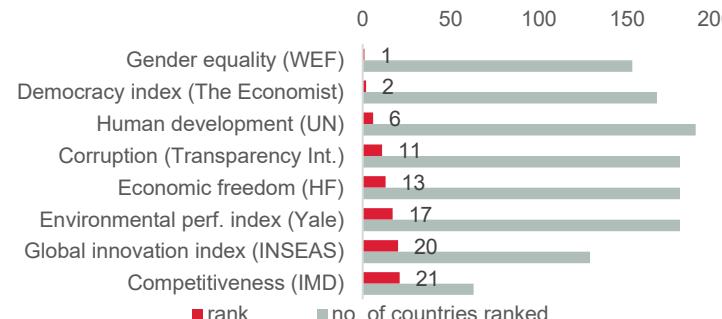
CBI policy rate and real policy rate, %



# The Icelandic economy and society draw on many strengths

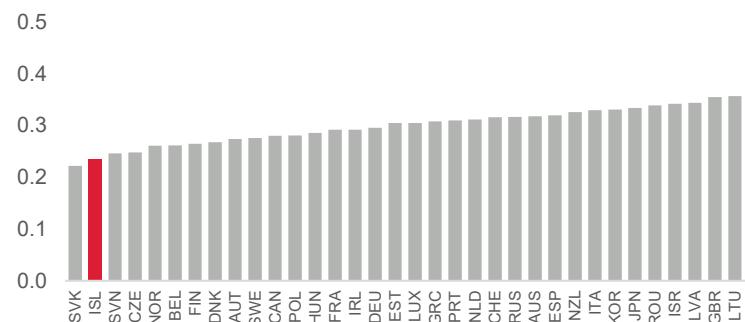
Icelanders enjoy high standards of living in a modern, open and egalitarian society

## Iceland ranks highly on a variety of global development benchmarks



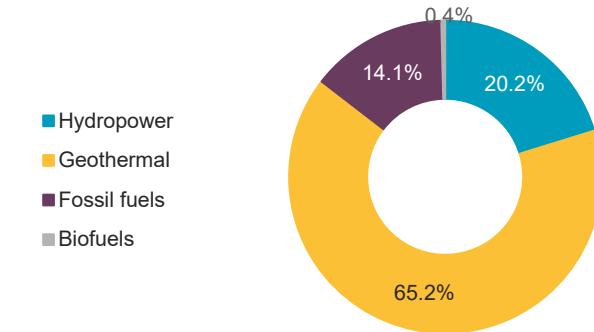
## Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



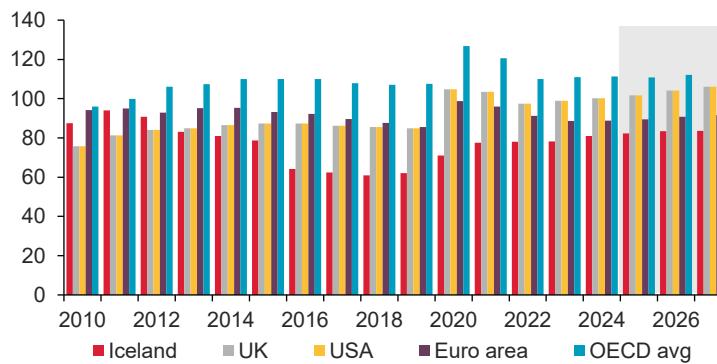
## Sustainable energy usage is prevalent

Energy consumption by source, 2022



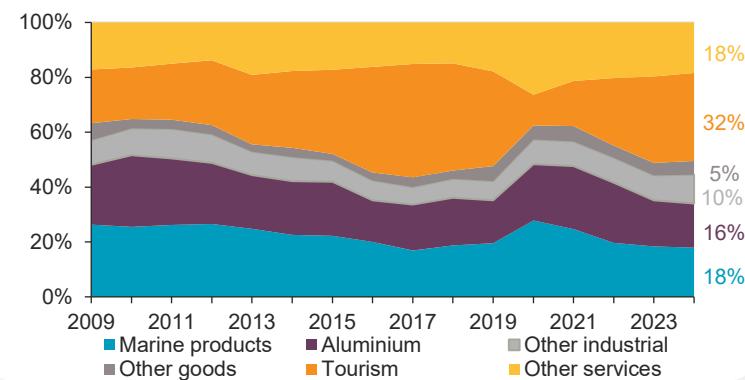
## Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



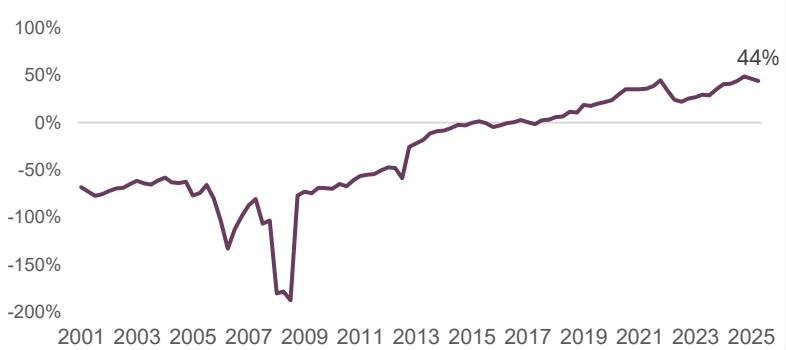
## Export base has grown more diverse over time

Export contribution by industry



## Net international investment position has changed

% of GDP

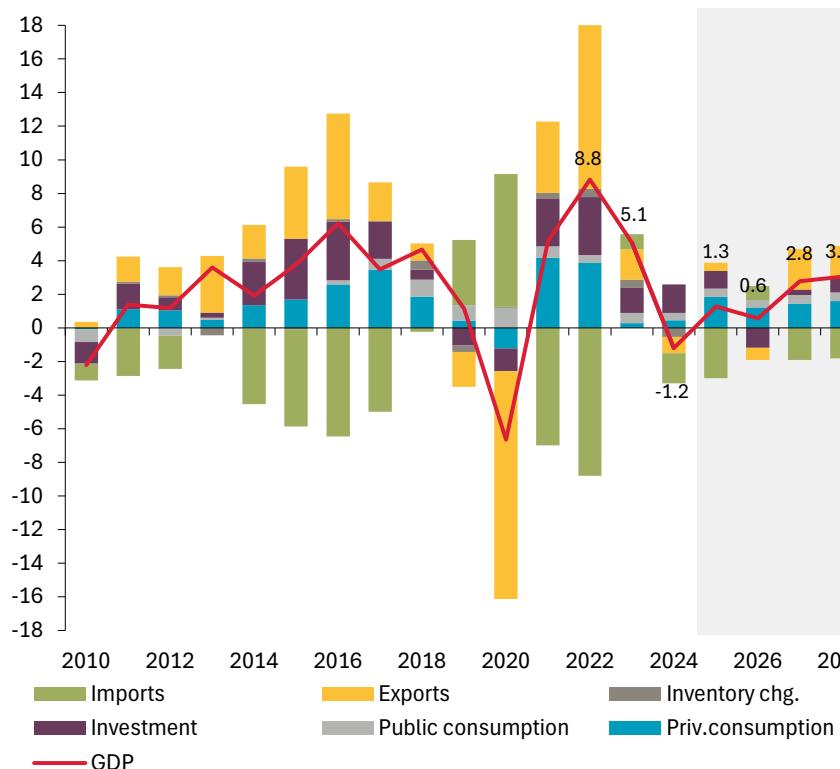


# GDP growth weak in 2026 but set to gain steam later on

Temporary period of sluggish growth due to export sector setbacks and high real interest rates

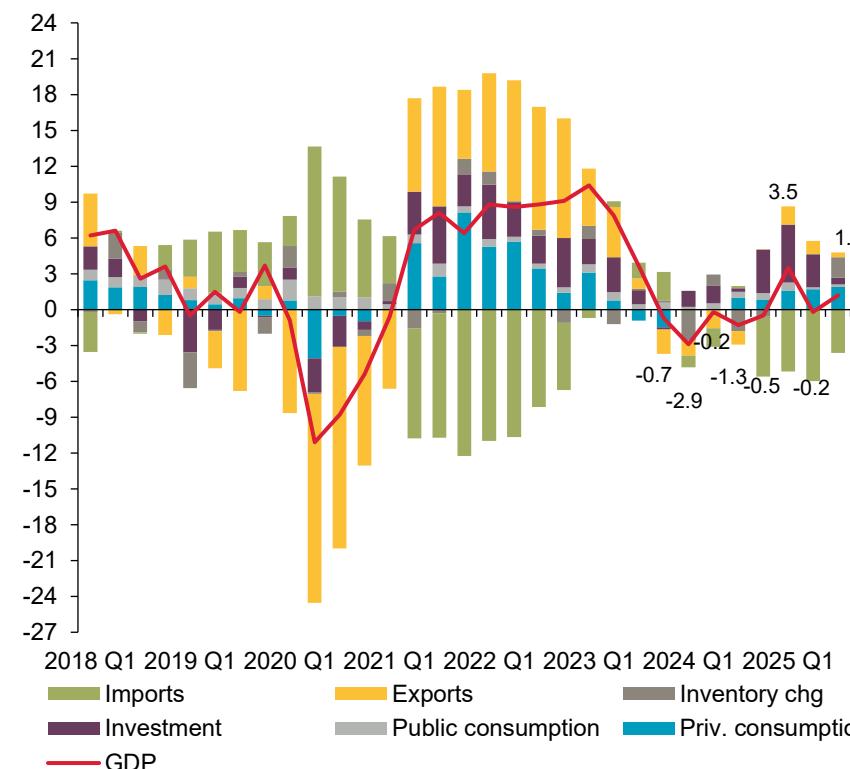
## GDP and contribution of its subcomponents

Volume change from prior year (%), annual data



## GDP and contribution of its subcomponents

Volume change from prior year (%), quarterly data



## Highlights

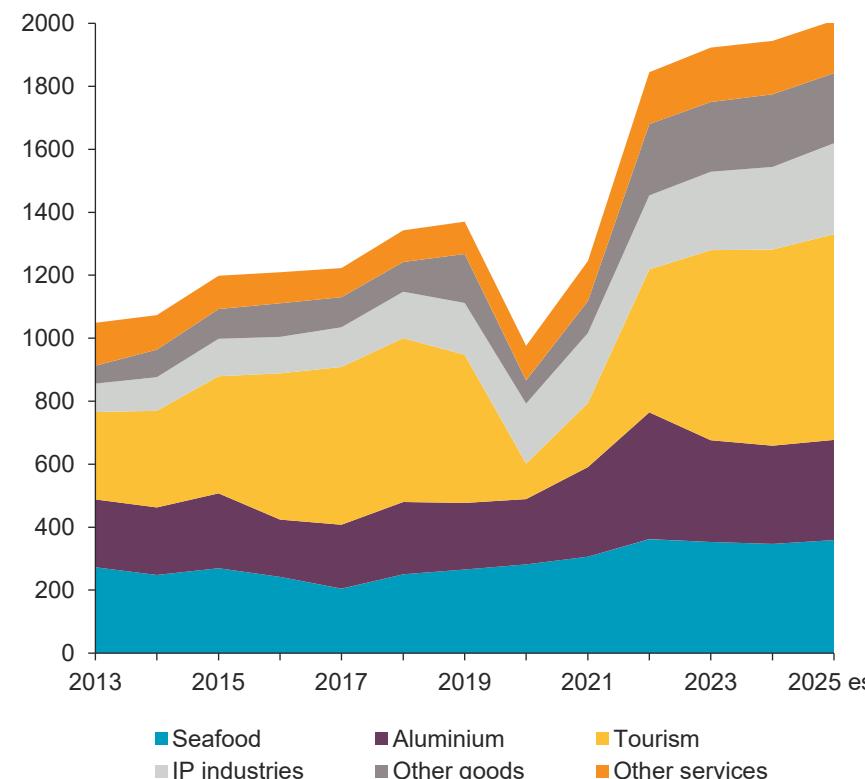
- GDP contracted by 1.2% in 2024, ending a short period of strong growth.
- Growth resumed in 2025, supported by strong private consumption, rising investment, and slight export growth. Full-year growth projected at 1.3%, though net trade again weighed on overall performance.
- GDP growth is expected to slow sharply to 0.6% in 2026, reflecting setbacks in several export sectors and the impact of high real interest rates.
- A recovery is projected for 2027–2028, with GDP growth rising to 2.8% in 2027 and 3.0% in 2028 as exports strengthen, investment growth resumes and monetary conditions ease.
- Significant downside risks remain, including potential declines in tourism, geopolitical disruptions, seismic activity on the Reykjanes peninsula, and delays in energy procurement.
- A housing market downturn or more persistent inflation could further restrain domestic demand.
- Productivity gains from AI adoption and increased intellectual-property-driven value added could provide more support to long-term growth than currently assumed, offering a potential upside scenario.

# Tourism to languish while other export sectors blossom

Intellectual property and aquaculture will drive export growth, with legacy export sectors lagging behind

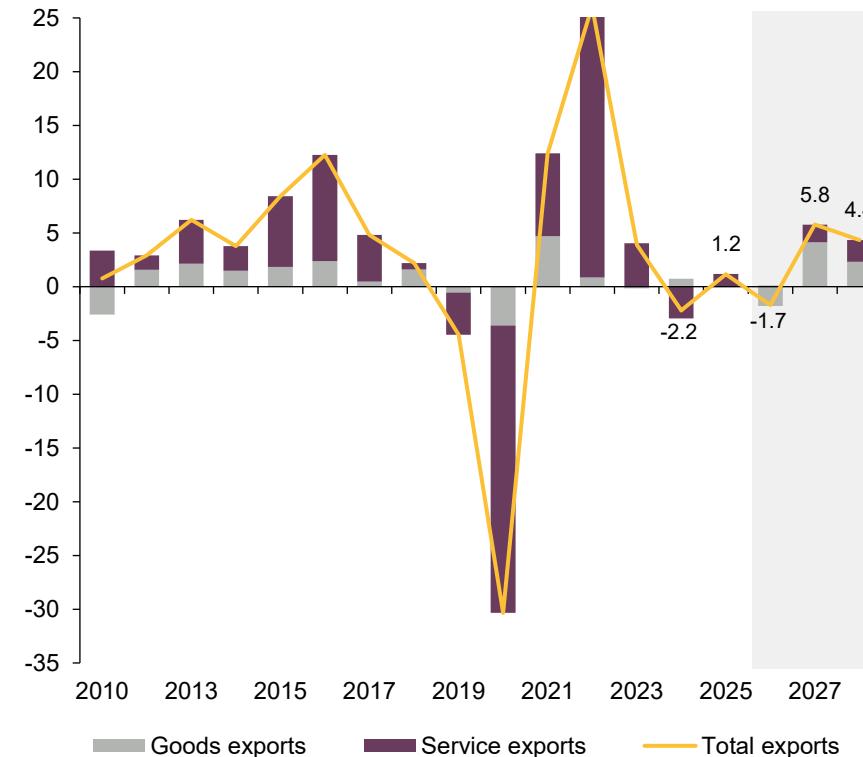
Export revenues, by key sector

ISKbn at current prices



Exports and contribution from subcomponents

% change



## Highlights

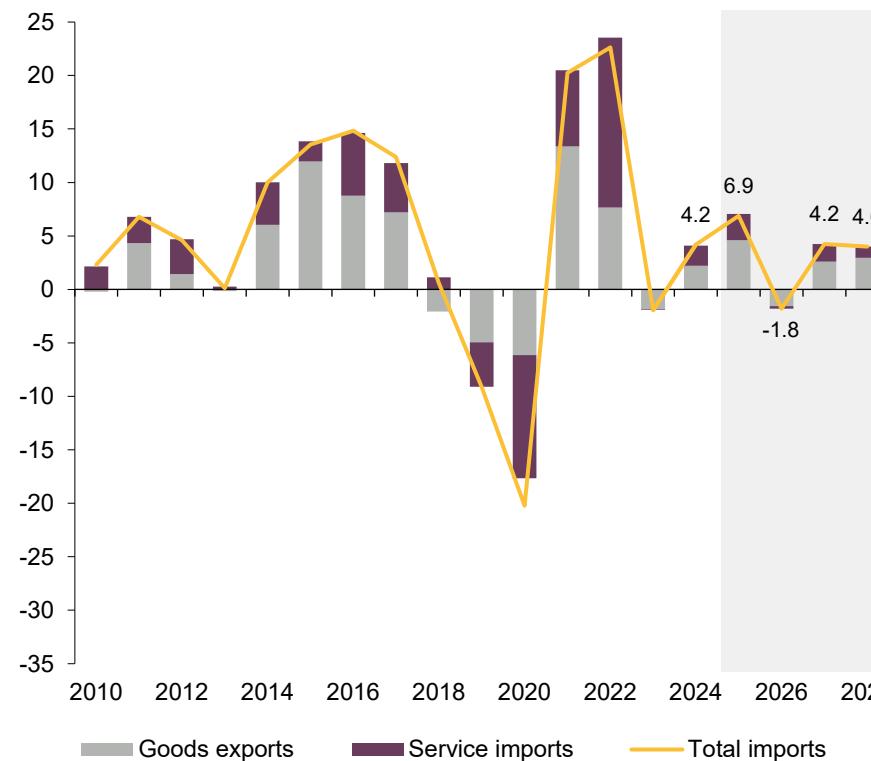
- Tourism showed mixed performance in 2025, with strong summer arrivals offset by a sharp decline in the low season. Overall tourist numbers were virtually unchanged from 2024.
- A contraction is expected in 2026, with timely indicators pointing to continued YoY declines through spring. Peak-season conditions look steadier, but full-year tourist numbers are projected to fall nearly 4%.
- Tourism growth is expected to resume slowly in 2027–2028
- While tourism and some traditional export industries are likely to shrink in 2026, several other export sectors are expanding. These include land-based aquaculture, which is set for steady growth in export value.
- Exports of intellectual property products have been rising rapidly, generating an estimated ISK 288bn in 2025, or over 14% of total export revenues.
- The intellectual property sector spans diverse firms, including medical equipment producers, content creators, and game developers.
- Strong pharmaceuticals activity and major data-centre developments are expected to substantially boost revenues in the coming years.

# Modest current account deficit over the forecast horizon

Improving terms of trade offset the contraction in exports in 2026

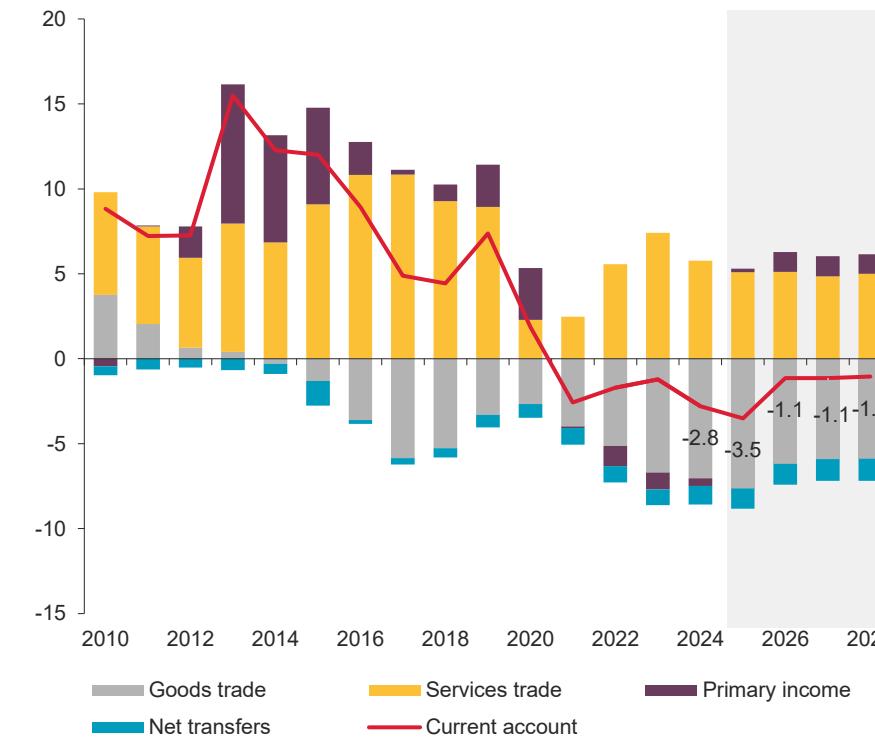
## Imports and contribution from subcomponents

% change



## Current account balance

% of GDP



## Highlights

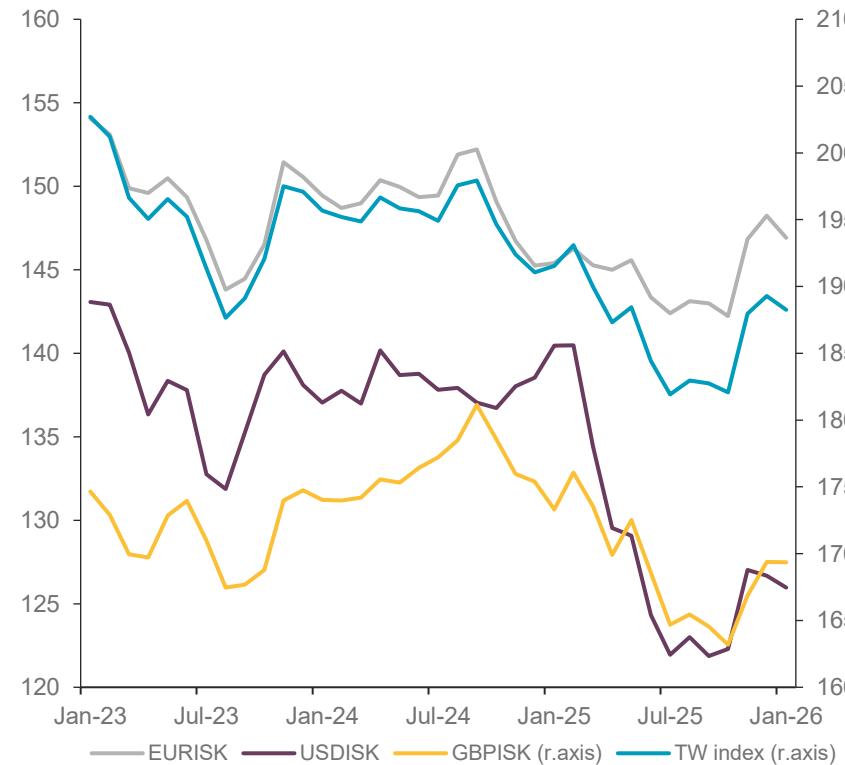
- Imports are projected to shrink by nearly 2% in 2026, reversing strong growth in 2025. The slowdown reflects the winding down of large data-centre investments and reduced imports of rental cars and equipment.
- Import growth will resume as economic activity strengthens, but exports are expected to outpace imports, resulting in a positive net trade impact on GDP growth in both 2027 and 2028.
- The current account has been in deficit since 2021, the deficit widening further in 2025 to 3.5% of GDP despite a strong services surplus.
- Data-centre-related equipment imports account for a significant share of the goods deficit, but these are fully financed by foreign owners and clients.
- The deficit is projected to improve to 1.1% of GDP in 2026–2027 and 1.0% in 2028, supported by better terms of trade and stronger export performance.
- External risks include ISK appreciation and a deeper-than-expected tourism downturn, either of which could delay improvement in the trade balance.
- Iceland's net external asset position—ISK 2,101bn (43% of GDP) as of September 2025—facilitates improved FX stability and limits the risk of disruptive capital flows.

# ISK likely to weaken gradually

The high real exchange rate is a growing challenge, making ISK depreciation likely further ahead

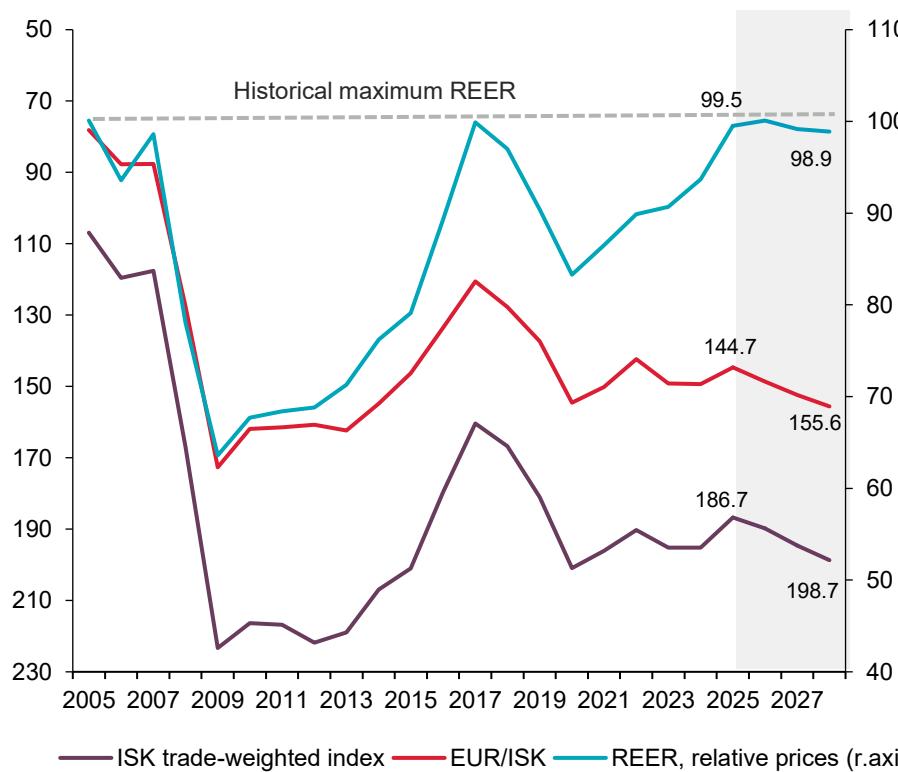
## ISK exchange rate

Major currency exchange rates against the ISK and index values



## ISK exchange rate and real exchange rate

EURISK levels and indices



## Highlights

- The ISK has shown exceptional stability since the pandemic, with the trade-weighted index nearly unchanged in 2023–2024.
- In 2025, it appreciated by 1.5%, despite notable intrayear volatility. Bilateral currency movements varied significantly: the ISK weakened slightly against the EUR but strengthened 10% versus the USD and nearly 4% against the GBP, reflecting divergent global currency trends.
- Among the factors supporting the ISK despite a sizeable CA deficit were relatively favourable underlying FX flows, limited forward FX sales during the strong tourist season, muted pension-fund FX purchases, and increased FX borrowing by firms.
- Supportive conditions will persist, with a narrowing CA deficit, strong international investment position, ample FX reserves, and a wide interest-rate differential.
- Tourism performance remains the main short-term risk to FX stability.
- The real exchange rate is expected to stay historically high, assuming export-sector setbacks remain manageable. Over time, faster domestic wage and price growth implies that nominal depreciation is unavoidable, whether gradual or sudden.
- The baseline forecast assumes a gradual weakening of the ISK, ending 5–6% lower than end-2025 levels by the end of the forecast horizon. This corresponds to roughly ISK 156–157 per EUR.

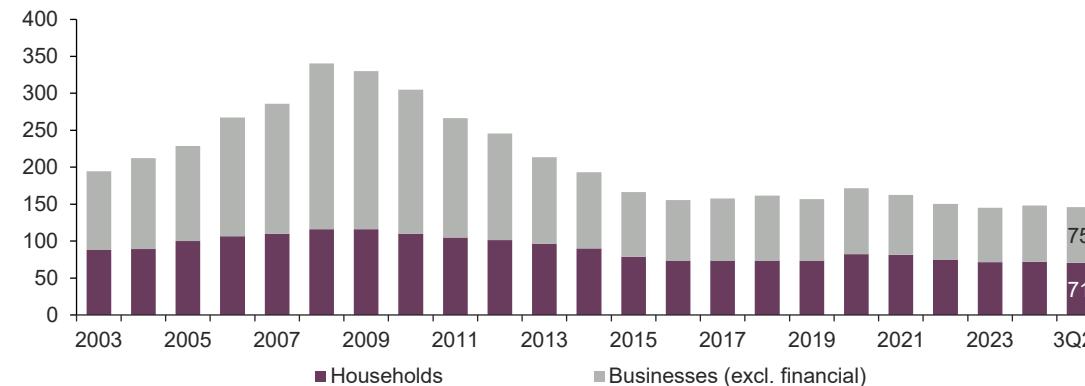


# Domestic balance sheets remain broadly healthy

Private sector debt ratios are stable and public debt is on a more favourable trajectory than major economies

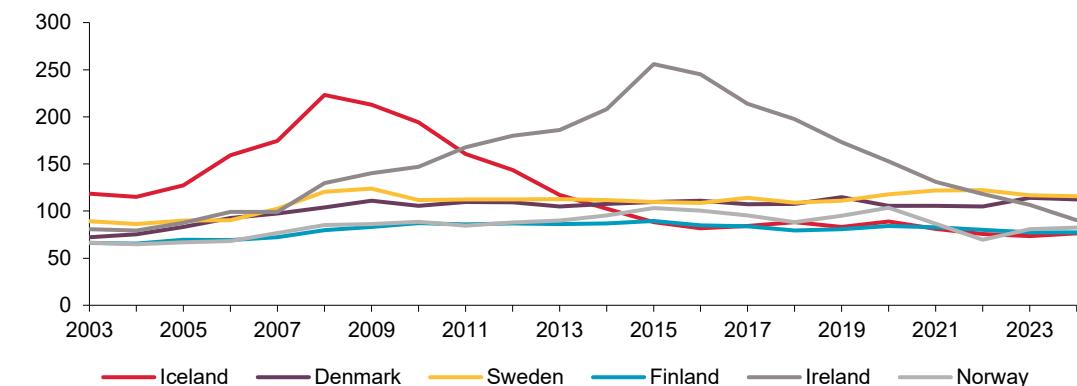
## Private sector debt

% of GDP



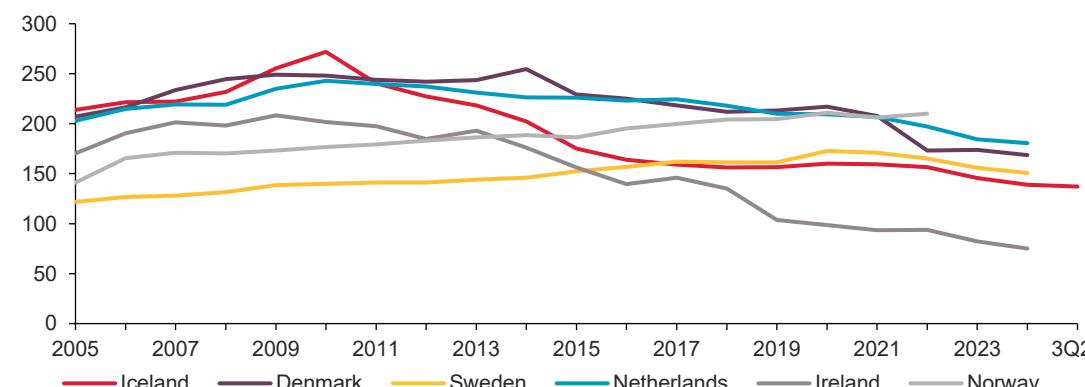
## Corporate debt

% of GDP



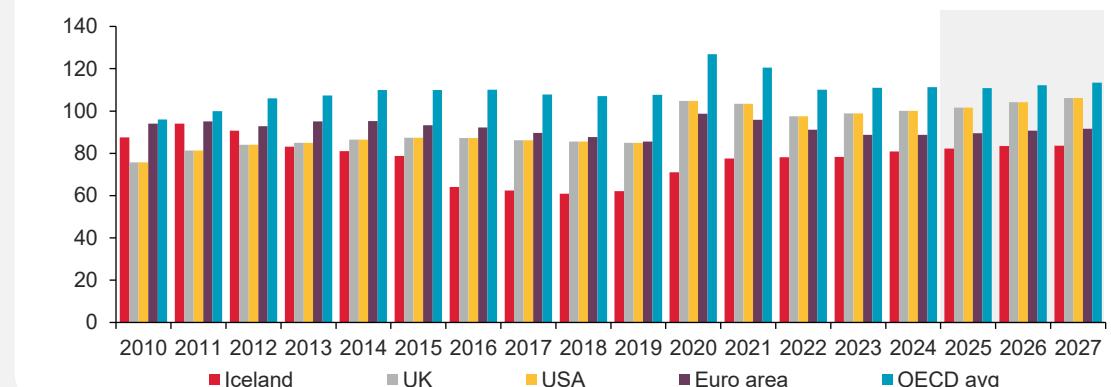
## Household debt

% of disposable income



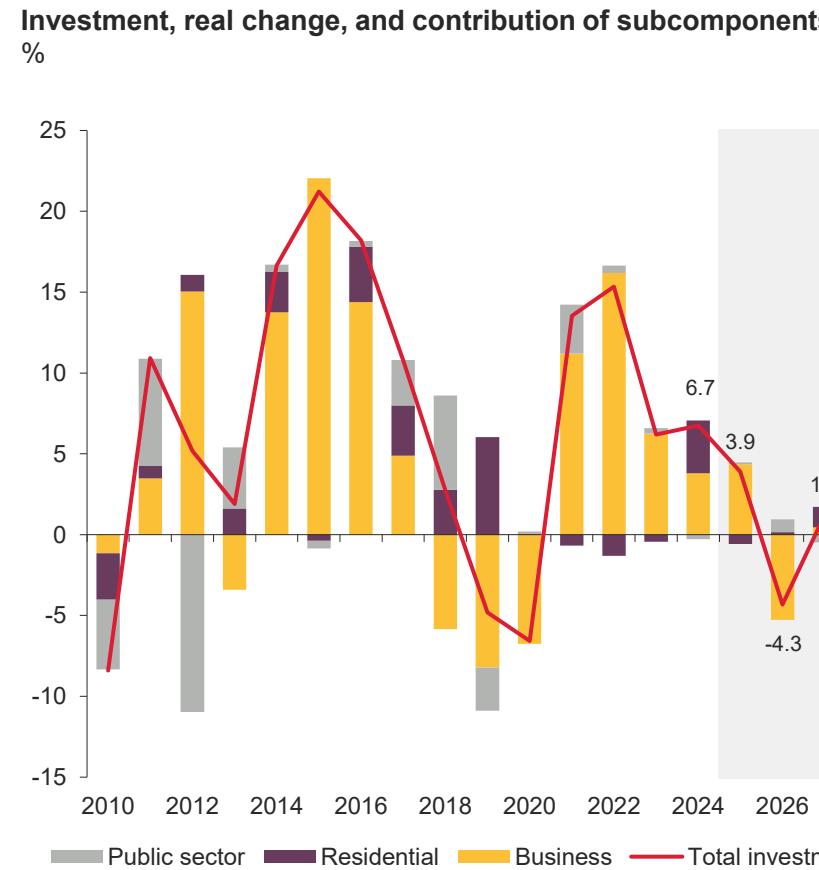
## General government gross financial liabilities

% of GDP

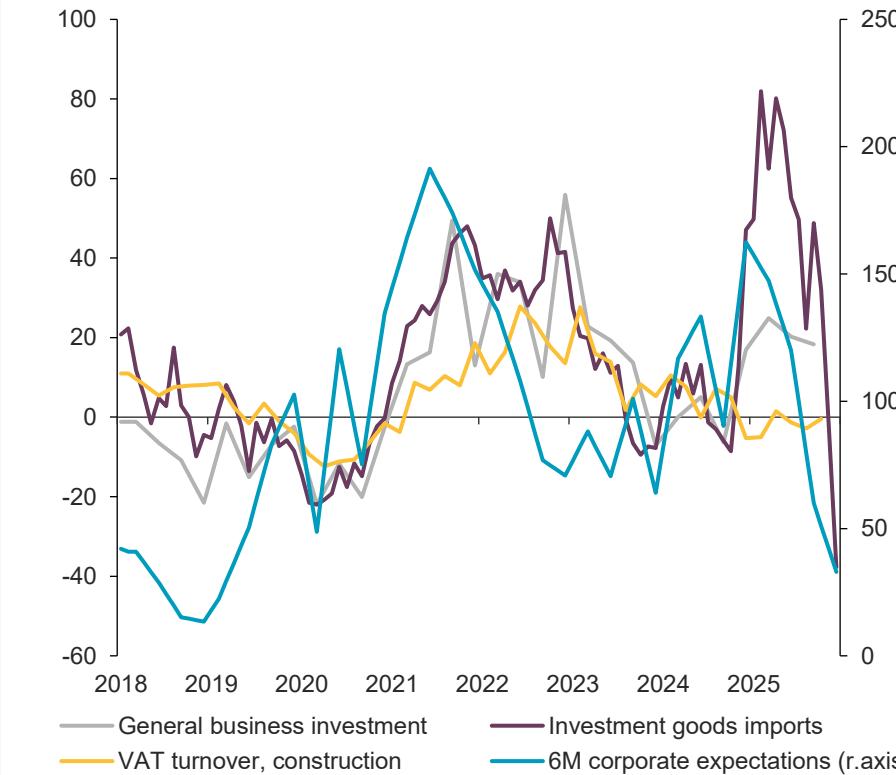


# Investment to dip temporarily in 2026

Turning point in data centre development and a challenging environment impacts in the near term



**Business investment and related indicators**  
YoY change (%) and index



## Highlights

- Investment has surged in recent years, led by strong business investment in tourism, fishing, and IT. Higher real interest rates and strain on the export sector have tempered growth, but rapid expansion in data centres and aquaculture has provided a buffer.
- For 2025, full-year growth is estimated at just under 4%, driven mainly by data-centre and aquaculture projects.
- Investment is projected to contract by just over 4% in 2026, reflecting an almost 8% decline in business investment. Residential investment is expected to remain broadly flat, with only modest growth in public investment.
- The decline in business investment stems from the tapering of data-centre construction, reduced spending on transport equipment and machinery, and slower hotel and commercial property development, partly offset by increased infrastructure-related investment.
- Investment growth will resume later in the forecast horizon, supported by lower interest rates, improving export-sector conditions and continued expansion of energy infrastructure and aquaculture. Residential investment is also expected to recover.
- Íslandsbanki Research forecasts investment growth just above 1% in 2027 and 3–4% in 2028.

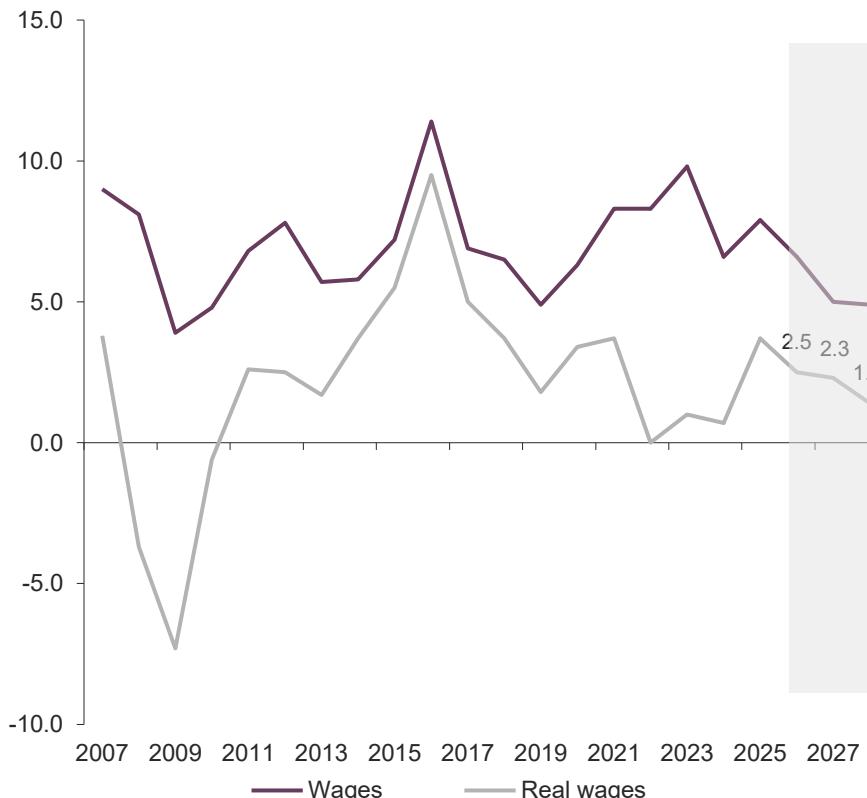


# Unemployment to peak in 2026

Wage developments will be shaped by long-term contracts, and wage drift will be limited

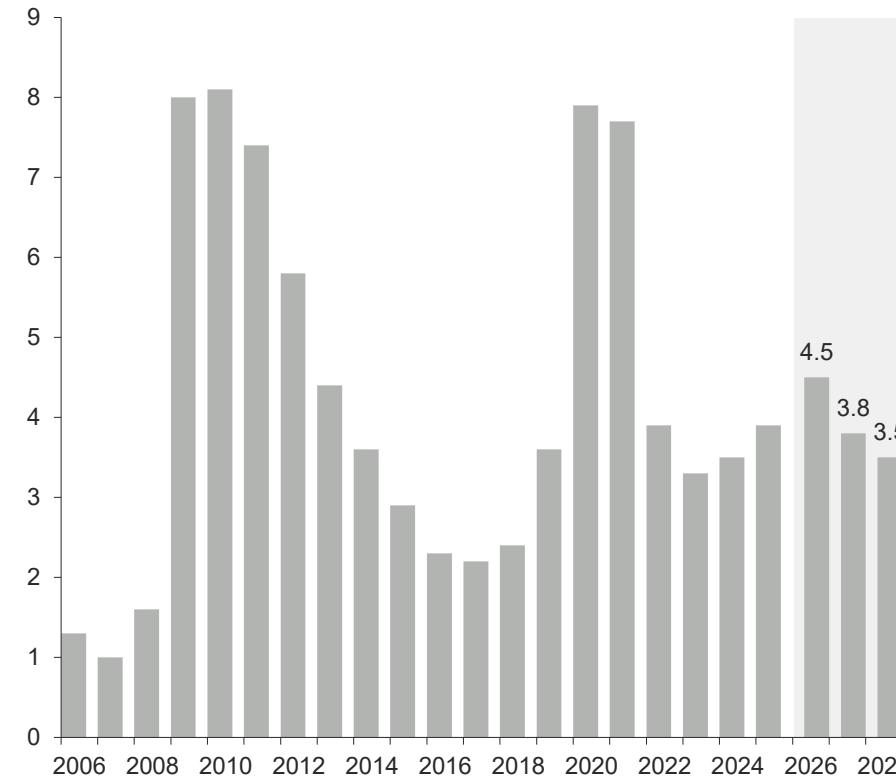
**Wages, YoY change**

%



**Unemployment<sup>1</sup>**

% of workforce, annual average



## Highlights

- The labour market has cooled after several years of tight conditions. Unemployment edged up in 2025, averaging 3.9%, owing mainly to export-related shocks in tourism and metals production. Despite this, firms have generally adjusted staffing through flexibility rather than layoffs, and the market remains relatively stable.
- There are clear signs of increased slack. Immigration has slowed markedly, and Gallup surveys show that labour shortages have receded sharply. Only 10% of executives at large firms now report being understaffed — the lowest share since 2020 — indicating that labour market tensions are easing.
- Unemployment is expected to rise further in 2026, reaching an annual average of 4.5% as labour demand cools, particularly in export sectors. From 2H2026 onward, unemployment is projected to decline again. The jobless rate is expected to average 3.8% in 2027 and approach its equilibrium level of 3.5% in 2028.
- Wage developments will continue to be shaped by the long-term contracts agreed in 2024, which run through 2028, provided their underlying assumptions hold. Despite greater labour market slack, wage increases will continue broadly in line with those agreements.
- Wages rose by 7.9% in 2025. We forecast average wage growth of 6.6% in 2026, 6.0% in 2027, and 4.9% in 2028. Wage drift will remain modest because labour market pressures are receding.

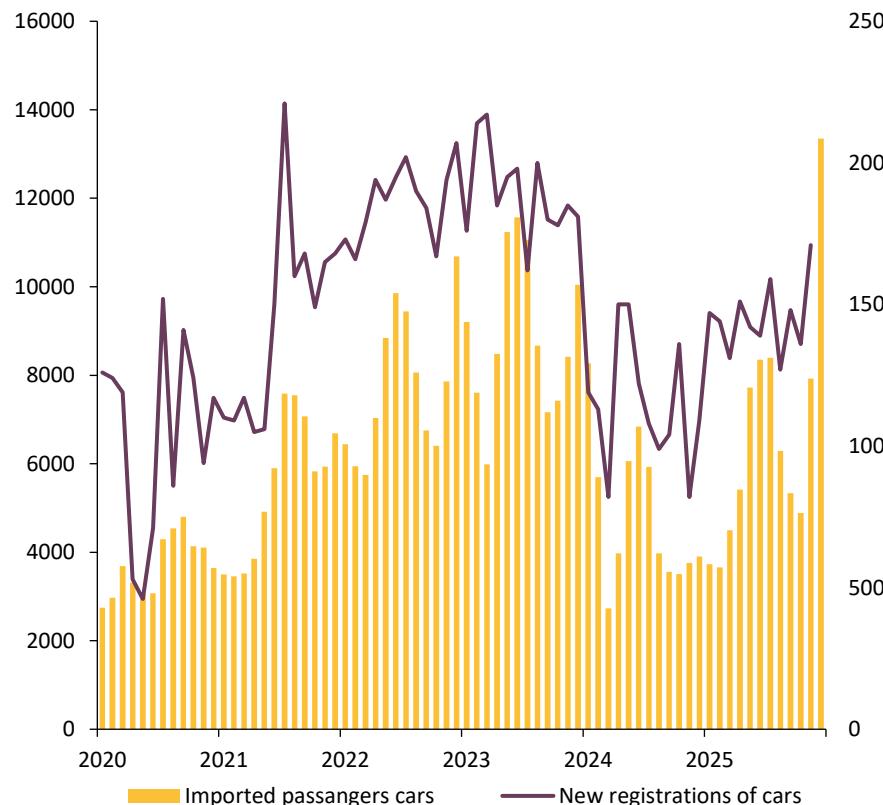


# Private consumption growth to continue in 2026, but at a slower pace

Real wage growth and sizeable savings will support household consumption in the coming term

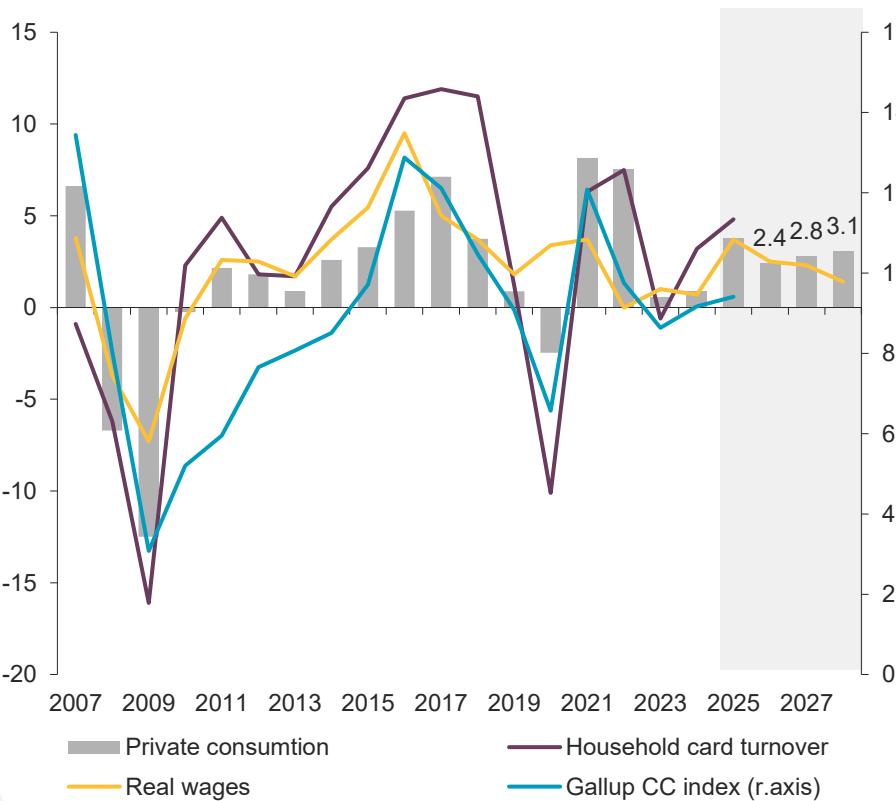
## Personal vehicles, new registrations and imports

ISK m (left) and number of vehicles (right)



## Private consumption and related indicators

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



## Highlights

- Private consumption rebounded strongly in 2025 after two slower years marked by high interest rates and precautionary saving. Consumption picked up markedly as households began to loosen their purse strings.
- Private consumption grew by 3.6% YoY in the first nine months of 2025, and indicators suggest a strong Q4 as well. Year 2025 growth is therefore estimated at 3.8%, driven in part by a surge in car purchases ahead of changes in public levies.
- Households remain in a relatively strong financial position. Savings levels are still high, and real wages increased by 3.7% in 2025, supporting consumption. Nevertheless, consumer sentiment has weakened in recent months, with the Gallup Confidence Index falling below equilibrium, likely due to export shocks, persistent inflation, and uncertainty in lending markets.
- The private consumption forecast for 2026 has been revised slightly downward. We now expect consumption to grow 2.4%, reflecting a cooler economy, a softer labour market, and the front loading of car purchases into late 2025.
- Further ahead, consumption growth is expected to strengthen again as economic activity picks up. Private consumption is projected to grow by 2.8% in 2027 and 3.1% in 2028.



# The real estate market holds quite steady despite high interest rates

Tighter monetary policy has cooled the market, but resilient demand and strong fundamentals keep it balanced

Capital area house prices relative to macroeconomic fundamentals

Index, January 2024=100



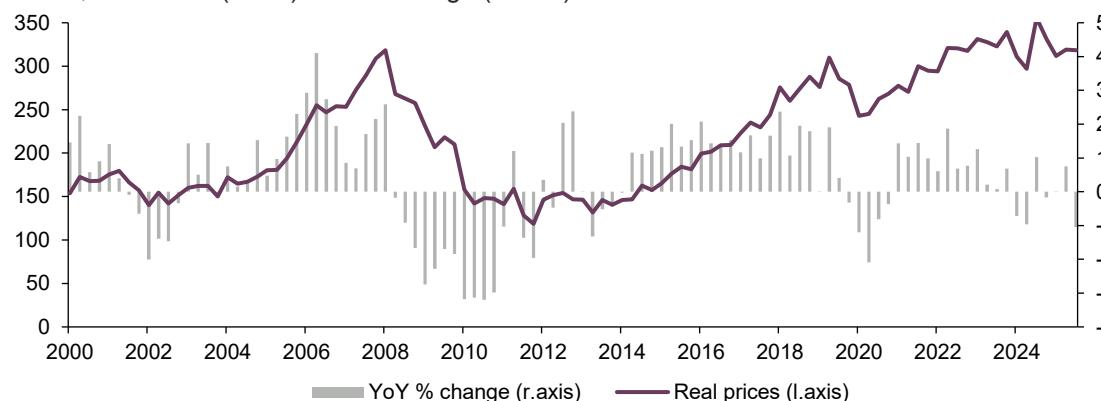
Residential house prices and turnover

% change (r. axis) and number (l. axis)



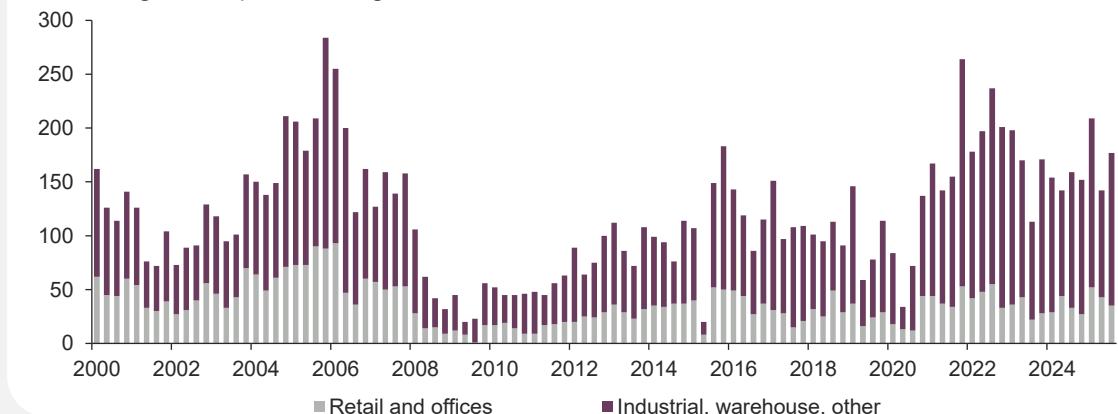
Commercial property real prices in greater Reykjavík

Index, 1995=100 (l. axis) and % change (r. axis)



Commercial real estate market activity

No. of registered purchase agreements

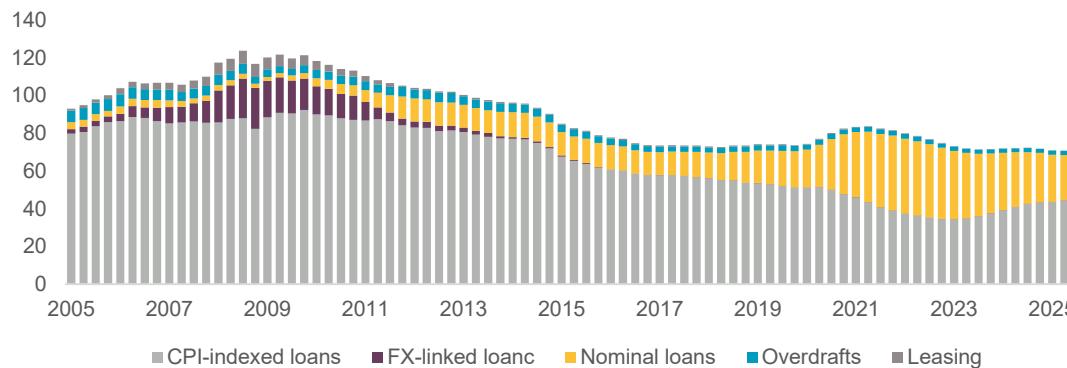


# The Icelandic housing market is flexible as conditions change

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

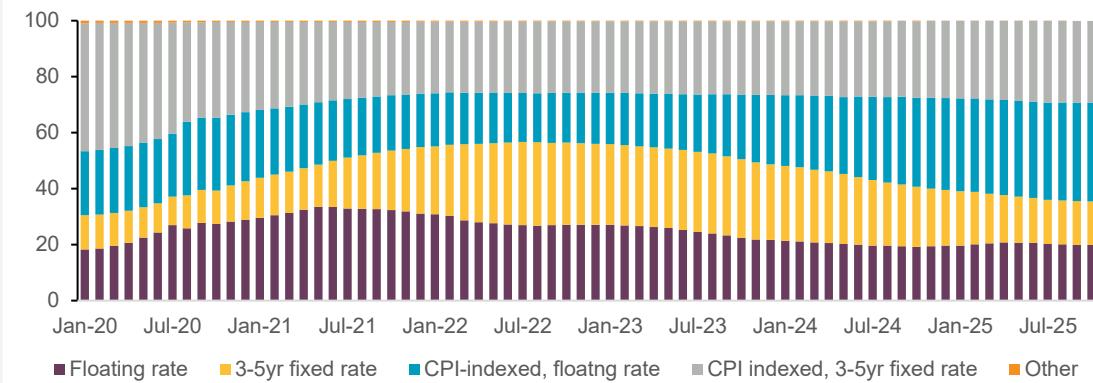
## Households are not highly indebted compared to peers

Household debt, % of GDP



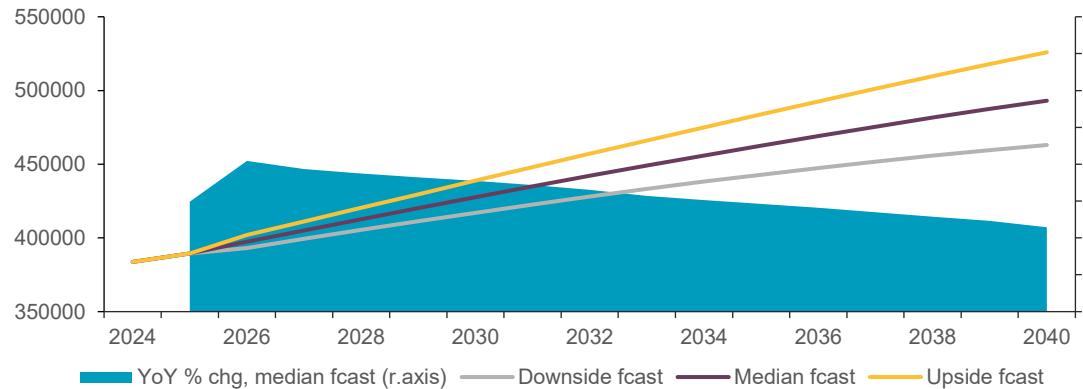
## Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



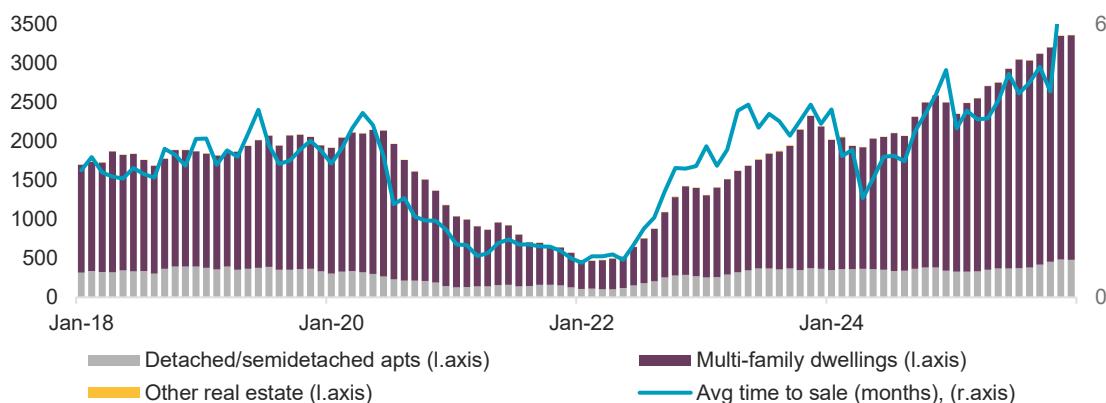
## Underlying upward demand trend steady as population growth remains robust

Population forecast by Statistics Iceland



## Turnover in the residential housing market remains steady despite rate hikes

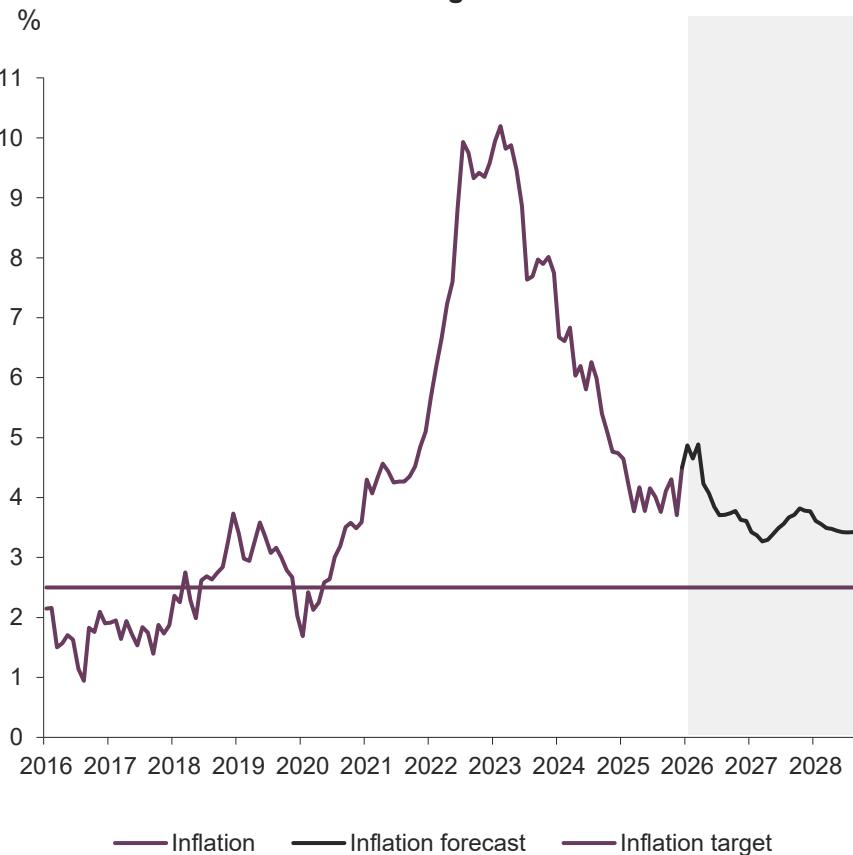
No. of purchase agreements, capital region (left axis) and average time to sale (right axis)



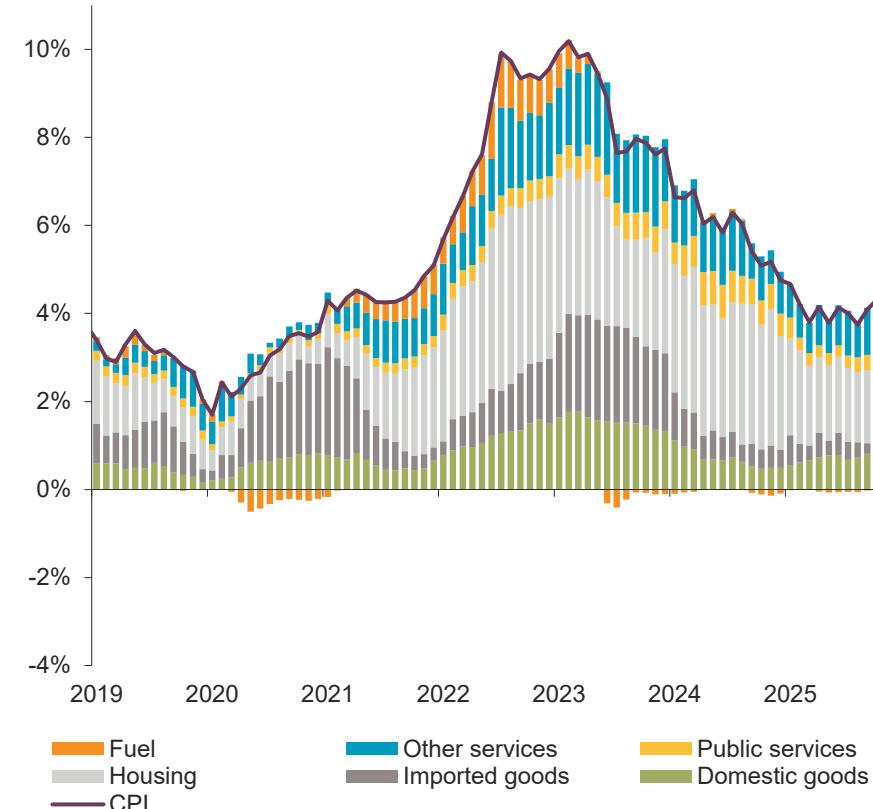
# Inflation remains stubbornly above target

Something will probably have to give in order to bring inflation back to target

Inflation and the CBI inflation target\*



Inflation by type and source



## Highlights

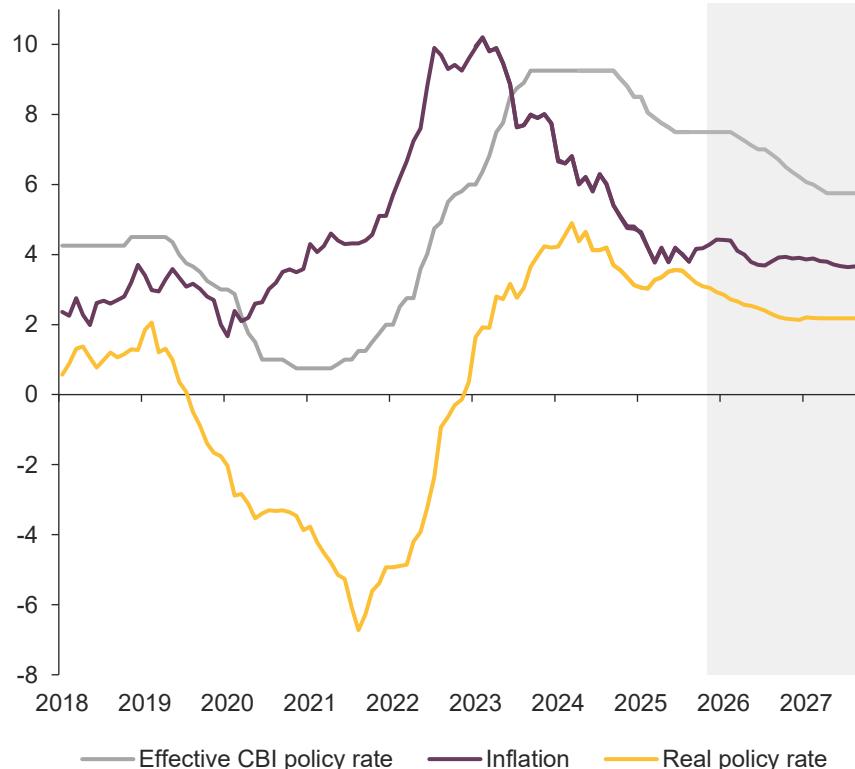
- Inflation remained stubborn in 2025, hovering consistently around the 4% upper deviation threshold of the Central Bank's target. November briefly surprised to the downside, with inflation plunging to 3.7%, the lowest reading in five years, but it rebounded sharply to 4.5% in December.
- The upward momentum continued into January 2026, when inflation rose further to 5.2%, the highest measurement since September 2024.
- Despite the early 2026 uptick, inflation is projected to ease quickly in Q2. For 2026 as a whole, ISB Research forecasts average inflation of 4.0%, broadly unchanged from 2025.
- Inflation is expected to decline further in the following years, averaging 3.6% in 2027 and 3.5% in 2028, although underlying price pressures will remain.
- Wage developments are still misaligned with the target, rent prices are not falling, and households and businesses remain relatively strong despite high interest rates.
- In our assessment, something will likely have to give for inflation to reach target over the forecast horizon — for instance, a harder economic landing or a period of stagnant rent prices.

# Central Bank needs to walk a fine line

Interest rate cuts to resume in spring, with slow and gradual monetary easing

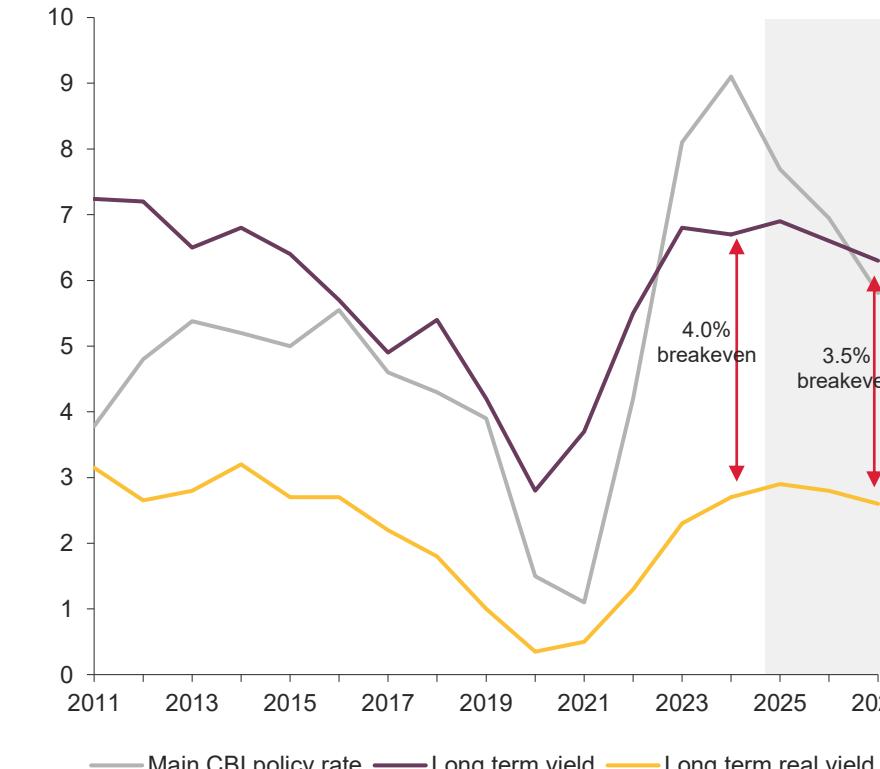
## Policy rate and inflation

%, Real policy rate based on 12m forward forecast



## Key interest rates

%, average per year



## Highlights

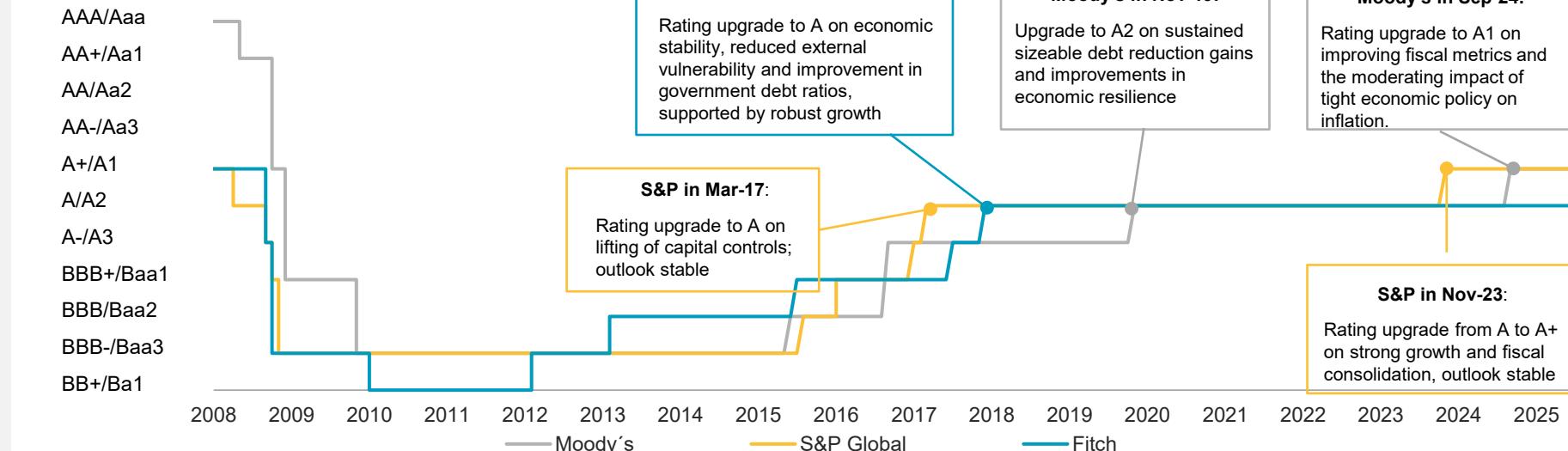
- Following a 6 month pause in its rate cut process the Central Bank of Iceland cut its policy rate in Nov-25 by 0.25 ppoints, to 7.25%.
- Forward guidance in November indicated that further easing required clear evidence of inflation returning toward target.
- Recent data show no such evidence, as short-term inflation indicators and expectations have not improved. And breakeven inflation has risen since early December, and long-term expectations remain above target, even as the broader economy cools rapidly.
- We expect the MPC to hold rates steady until inflation resumes its decline, with rate cuts likely restarting in spring 2026 and continuing cautiously through mid-2027.
- Unless inflation falls more than forecast or economic slack widens further, the unwinding phase is projected to end with a policy rate of 5.5–6.0%.
- Long-term interest rates remain high, with nominal 10-year Treasury yields around 6.6% and indexed yields at 2.7%, leaving Iceland's real rates elevated by international standards.
- Long-term nominal rates may fall to 5.9% and real rates to 2.5% over the forecast horizon.



# Iceland's credit rating on a secular upward path

Rating companies acknowledge the flexibility of the economy and improving public debt metrics

## Development of sovereign credit rating



### MOODY'S IN SEPTEMBER 2025

- “The stable outlook reflects balanced risks at the A1 rating level.”
- “We expect fiscal consolidation to continue over the coming years and the economy is expected to return to robust growth this year, after a temporary contraction last year as tight monetary and fiscal policy helped slow the previously overheated economy.”
- “While Iceland's economic and fiscal conditions could improve faster than we expect, its small and less diverse economy makes it particularly susceptible to shocks affecting specific sectors.”

### FITCH IN AUGUST 2025

- “The Positive Outlook reflects Iceland's strengthened public finances. General government debt is projected to fall significantly in 2025 after the successful settlement of the HF Fund liabilities and the full privatization of Íslandsbanki.”
- “Fitch's fiscal baseline indicates debt-to-GDP ratio will follow a gradual downward trend, reaching 47.6% in 2027.”
- “Progress continues in diversifying the economy into higher-value-added sectors, such as pharmaceuticals, information and communications technology and biotechnology.”

### S&P IN SEPTEMBER 2025

- “The stable outlook reflects our view that Iceland's growth will rebound over the next few years, and fiscal and external deficits will remain contained.”
- “The outlook also reflects our assumption that neither volcanic activity nor global trade tensions will have a significant sustained adverse effect on the country's economic, fiscal, and balance-of-payments performance.”
- “Iceland's key aluminum exports are mostly sold to European markets, partially mitigating current U.S. tariff related risks.”
- “We could raise the ratings if Iceland's public finances improved significantly...” [..or..] “..if we took the view that increasing diversification made the economy more resilient to external shocks and current global trade tensions eased.”



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