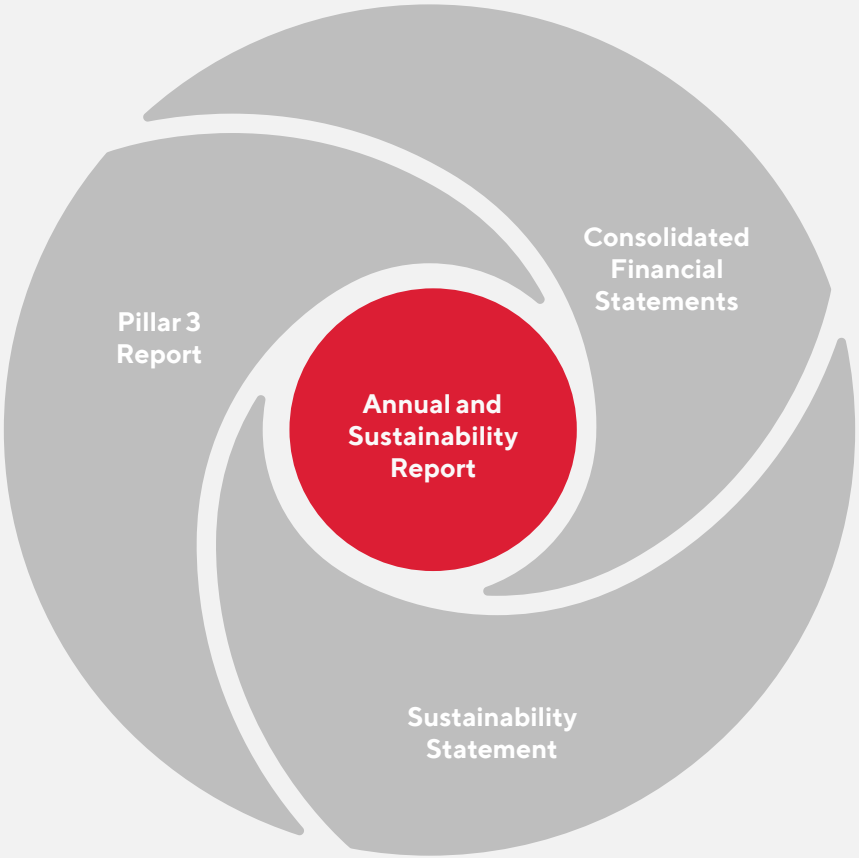
Annual and Sustainability Report

2024

About this report

This Annual and Sustainability Report is Íslandsbanki's integrated core report. We also publish other **more** reports designed to provide stakeholders with additional information on specific subjects such as risk management, financial and sustainability performance.

Together, these reports provide a comprehensive and detailed picture of the Bank's activities in 2024, along with the main priorities. Those reports are prepared in accordance with global standards such as the International Financial Reporting Standards (IFRS), partly in accordance with the European Commission's ESRS (European Sustainability Reporting Standards) standards and the Nasdaq ESG Reporting Guide, the Greenhouse Gas Protocol, Partnership for Carbon Accounting Financials (PCAF), Task Force on Climate-Related Financial Disclosures (TCFD) as well as Icelandic law and European Regulation.



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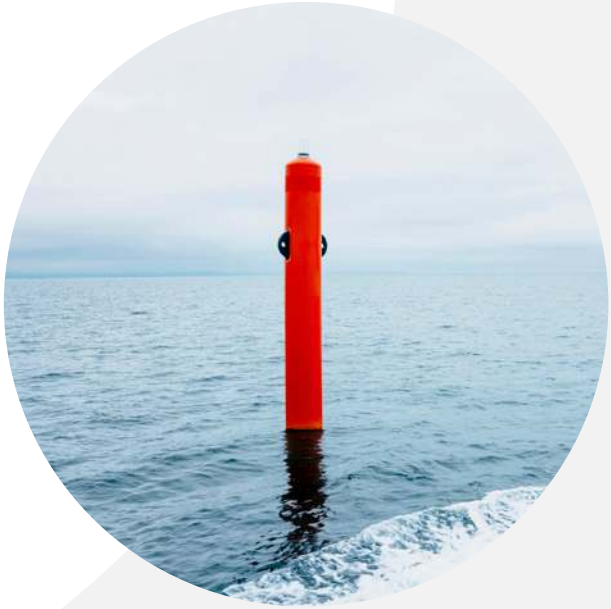
This Annual and Sustainability Report was written in Icelandic and translated to English. In case of discrepancy, the Icelandic original will prevail. This Annual and Sustainability Report may include typos, discrepancies, or other errors. If such errors are found the Bank reserves the right to correct them. This Annual and Sustainability Report is published for information purposes only and should not be considered to include any investment advice, whether it be for the sale or purchase of securities.

To our stakeholders

Chairman's statement
CEO's address



Chairman's statement

Linda Jónsdóttir

2024 was a certainly eventful year, to say the least – for the economy, for the operating environment of banks, other financial institutions, and in the political landscape. Íslandsbanki was successful in navigating the high interest rate environment that prevailed during the year and continues to do so, for the benefit of the Bank's shareholders and customers. It is extremely positive that the economic outlook is improving and that inflation is expected to keep declining, thereby enabling the Central Bank to continue its cutting policy rates, which finally started last October. Bringing inflation and interest rates down is of paramount importance for us all.

Íslandsbanki stands on solid ground, and the financial health of our customers is equally important to the Bank. During the Bank's strategy planning in 2024, we decided that its strategy and position in the market should be reflected in service that promotes the financial health of our customers. Progressive thinking is a new value within the Bank's strategy, highlighting the importance of progressive thinking in an ever-changing environment.

Íslandsbanki has long been a leader in educational efforts and has held innumerable seminars, lectures, and symposia over the years. We want to expand that work still further and help people to mitigate the adverse impact of inflation and high interest rates on their lives. We want to help our customers gain a better overview of their finances and travel with them on their path to financial health.

Another eventful year in prospect, and exciting times ahead

A number of factors affect Icelanders' economic situation and household finances. The past year was dominated by conflicts in many parts of the world – with no end in sight. The effects of war and armed conflict on other countries' economies can also be felt in Iceland. Furthermore, the outlook is highly uncertain due to the prospect of tariffs that may be imposed by the new US administration, and price hikes due to a trade war could weaken Iceland's economic recovery.

> “
> There is a clear need for consolidation in the Icelandic financial market, and there are excellent opportunities for streamlining – opportunities we are keenly interested in exploring.

Furthermore, volcanic activity on the Reykjanes peninsula continued in 2024, and the Icelandic banks worked with the Government to establish real estate company Þórkatla, which bought up households' residential property in Grindavík. Although the volcanic eruptions fortunately had a limited impact on infrastructure, they strongly affected the tourism industry, and it is difficult to determine whether the contraction in tourism was due to fear of eruptions or to price hikes in Iceland. In any event, the challenges we are facing require caution and strategic planning in order to ensure stability and continued output growth.

A declining policy rate indicates that exciting times may lie ahead, however. A large share of mortgages with fixed-rate clauses are due for an interest rate reset this year, and many borrowers will seek out refinancing options that lighten their debt service burden. In this area, we continue to be available to our customers. Lower interest rates give people greater options for saving and investment, and it will be gratifying to see a livelier market. Despite challenging conditions, Íslandsbanki has maintained strong investment banking activity, where opportunities are legion.

In the past year, Íslandsbanki has drawn attention to the need for infrastructure development and has worked systematically to bring interested parties to the table. The need for investment in infrastructure has grown in line with population growth and developments in society, and the Bank intends to be a leader in these important projects. Worth mentioning in this context is development relating to the Transportation Charter for the Capital Region, where investment in large projects must be secured. The Bank wants to participate actively in financing such initiatives, thereby being a force for good.

The restrictive effect of the "Iceland premium"

Icelandic financial institutions' operating environment brings its own set of challenges. Capital requirements imposed on banks are much higher in Iceland than in comparison countries. Iceland's banks are required to hold capital amounting to 10-13% of total assets, far above the 3.0-3.5% typically imposed on Nordic banks. Stringent capital requirements lead to higher lending costs, which erode Icelandic companies' competitiveness in international markets. A higher capital ratio also puts pressure on financial institutions to deliver stronger profits in order to achieve acceptable returns, which then affects the terms Icelandic banks can offer.

A report entitled "The macroeconomic impact and operating environment of the Icelandic financial sector" (is: Þjóðhagsleg áhrif og rekstrarumhverfi fjármálageirans á Íslandi), prepared by the consultancy firm Intellecon for Finance Iceland last autumn included an assessment of the so-called "Iceland premium", which has arisen from the various surcharges and conditions the authorities have imposed on Iceland's banking operations. Reviewing this environment, simplifying the regulatory framework, and cancelling the special levies on Iceland's financial institutions would better enable those institutions to lower interest rates and offer better terms, beyond the impact of a lower policy rate.

In the Intellecon report, it is estimated that domestic commercial banks' lending rates may be more than a percentage point higher because of the Iceland premium alone. Part of this is the additional tax that Icelandic banks are forced to pay, thereby weakening their competitive position vis-à-vis foreign banks. A comparison with European countries shows that taxes on the Icelandic banking system are very high: as a share of risk-weighted assets, Icelandic banks' taxes are two to three times higher than the average in the EU and the other Nordic countries. In Iceland, three different types of special taxes are levied: a bank tax, a financial administration tax, and a special financial administration tax, which are levied on liabilities, wages, and profits. Even though the special expenses incurred by financial institutions are highest in Iceland, levies were increased further during the year, and it is important to consider competitiveness in this context. Clearly, there is scope for improvement on this front, and it is vital to create an operating environment comparable to that in neighbouring countries, not least so as to improve the terms offered to banks' customers.

CPI imbalance

The nature of banks' funding, which generally is short term, set against their lending which is generally long-term, can be difficult to understand. For instance, it was remarked upon when Íslandsbanki raised its CPI-linked interest rates in November 2024 whilst

simultaneously lowering its non-indexed rates in line with the policy rate cut. This was due to the so-called CPI imbalance, which refers to the difference between the Bank's indexed assets and its indexed liabilities. Icelandic banks' CPI imbalances have mushroomed in a short time, owing to borrowers' large-scale flight from high rates on non-indexed loans to the "shelter" of CPI-linked loans. In tandem with this, CPI-linked loans have increased to a level far above what the banks can finance with indexed liabilities, whether they be deposits or bond issues. As a result, the banks temporarily pay more interest than they earn on CPI-linked loans, because of the cost of funding them with non-indexed deposits or new bond issues. With further policy rate cuts this year, these imbalances can be expected to disappear. But until such time, changes in CPI-linked lending rates may appear difficult to understand, such as when indexed rates rise concurrent with a drop in the policy rate. The cost this imposes on the Bank has been considerable, and we hope that the Central Bank's monetary stance, which is extremely tight at present, will lead to greater equilibrium in the year to come.

Reforms and opportunities

The Bank continued shoring up its defences against money laundering in 2024. At mid-year, the Bank accepted the settlement offered by the Financial Supervisory Authority of the Central Bank and paid a fine due to shortcomings in the Bank's anti-money laundering defences, which were discovered during regular supervisory monitoring. Íslandsbanki immediately embarked on large-scale remedial action in cooperation with a foreign consultancy firm, with the aim of improving its money laundering-related governance structure and procedures. The Bank made significant investments in infrastructure and IT solutions, and the Board of Directors and the Bank's management team have placed increased emphasis on the topic. Defending against money laundering and terrorism financing is an ongoing task that requires constant work, and the Bank will work together with supervisory bodies on an ongoing review of its procedures, in line with developments in the field. Financial institutions are subject to stringent requirements in this area, and Íslandsbanki will make every effort to satisfy these in full.

Íslandsbanki's balance sheet is strong, and if capital requirements on financial institutions are eased, it will clearly bring opportunities for the Bank. We envision continued growth, both internal and external, in the period ahead. There is a clear need for consolidation in the Icelandic financial market, and there are excellent opportunities for streamlining – opportunities that we are keenly interested in exploring.

It was assumed that the State would sell half of its 42.5% stake in the Bank in 2024 and then sell the remainder in 2025. The sale planned in 2024 had been well prepared by the Bank but was postponed with the call for election and change in Government. Íslandsbanki was not among the arrangers of the sale and is focusing on optimising the Bank's operations and returns, which stimulates investors' interest, and on providing the information needed about Bank operations in connection with the sale. For its part, the Bank is ready and willing to resume the process when the Government decides to continue the sale. The Board of Directors of Íslandsbanki and its management are of the opinion that it is appropriate to act on these plans to sell the Government's remaining stake in the Bank at the first opportunity, so that the State's declared objective of privatising the Bank can be achieved. A turning point of this type creates opportunities, and Íslandsbanki is excited to face the new currents that may flow from such changes.

Thanks

It has been a distinct honour and a source of deep satisfaction to serve as chairman of the Board of Directors of Íslandsbanki, and I would like to thank the Board for its strength, cohesiveness, and ambition on behalf of the Bank, and for rewarding collaboration during the year. Íslandsbanki has resolved to empower our customers to be a force for good, and it has stood behind this pledge with the support of the remarkable people who work there. This applies as well to the Bank's support of various causes and the projects undertaken by its customers.

The Bank's employees have dealt with a wide range of reforms carried out within the Bank. With experience and expertise under their belts, Íslandsbanki's staff members are energised, and a host of opportunities await us in the year ahead.

I would like to thank the Bank's employees for their contribution and thank Jón Guðni Ómarsson for keeping a steady hand on the tiller. Íslandsbanki has staked out a clear vision and strategy for the future, with emphasis on offering excellent customer service experience in all areas and creating value for the future, for the benefit of Icelandic society. We are optimistic about the coming year and look forward to tackling exciting projects and opportunities with our customers as we fulfil our role of being a force for good in the community.

CEO's address

Jón Guðni Ómarsson

In Íslandsbanki's operations, 2024 was a year of development and new resilience. We invested in infrastructure and governance to underpin future growth and provide even better service to our customers. It was also a frenetic year for the Icelandic economy, with earthquakes and volcanic eruptions on the Reykjanes peninsula shaking the real estate market and the tourism industry. High interest rates and inflation seemed like permanent guests early in the year, but they gave way in the autumn, giving the securities market and the economy a welcome shot in the arm.

For Íslandsbanki as well, 2024 was something of a turning point. After a period of internal reform, we began work on a new strategy based on themes selected by the Bank's Board of Directors, management, and employees. This work was successful, and we held workshops with our entire staff and external advisors. At the beginning of 2025, the Bank presented its new strategy to employees – the strategic lighthouse, with our customers' financial health as a beacon. This strategy aligns well with the Bank's role of being a force for good. Being a force for good is reflected in the Bank's day-to-day activities, whether we are helping customers to put a roof over their heads or found a company, or making banking services more convenient overall. Our strategy includes four defined strategic themes designed to support our commitment to strengthening the financial health of our customers. Íslandsbanki has long been a leader in education-related matters, and we plan to take further steps to help our customers gain an overview of their finances and move towards their financial goals.

A demanding year of high interest rates

Iceland's households and businesses were tough and resilient in last year's high-interest environment. Towards the end of the year, we finally saw the Central Bank of Iceland's policy rate lowered, and we are optimistic that rate cuts will continue steadily, although the geopolitical outlook is cloudy. We kept close track of our customers' situation as many of them refinanced their debt with CPI-linked loans, but

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we also offered them the option of fixing their loan payments temporarily so as to lower their debt service. Even so, we did not see an increase in non-performing loan ratios, which shows some resilience, although delinquencies could increase this year if interest rates do not fall quickly.

We drew attention to the risk that has developed in the banking system with customers' large-scale shift to CPI-linked loans. Icelandic banks' CPI imbalances have grown tenfold in less than two years, which exacerbates fluctuations in their earnings. As interest rates and inflation decline, we hope to be able to lower rates on loans to our customers as soon as possible. A fair number of customers have fixed-rate loans that are up for interest rate reset this year, and we will continue to keep track of them and assist them in this situation.

There are two sides to every coin, of course, and high interest rates have certainly benefited the Bank's depositors. Ávöxtun is our most popular savings account, and the number of accounts surged from 20,000 to 50,000 in 2024. About 12,000 customers invest their money with Iceland Funds, where individuals and companies alike can choose from a wide range of investment funds that are well suited for short- and long-term saving and investment. Iceland Funds, a subsidiary of the Bank and the oldest fund management company in Iceland, celebrated its 30th anniversary in 2024. The company wears its age well, giving top priority to professionalism as it seeks to maximise long-term returns. During the year, Iceland Funds introduced IS Fixed Income Strategy, an open fund that the Bank's customers can access via the app and online bank. It has broader investment strategy than bond funds generally do, and can therefore seize opportunities that may arise during the upcoming monetary easing phase.

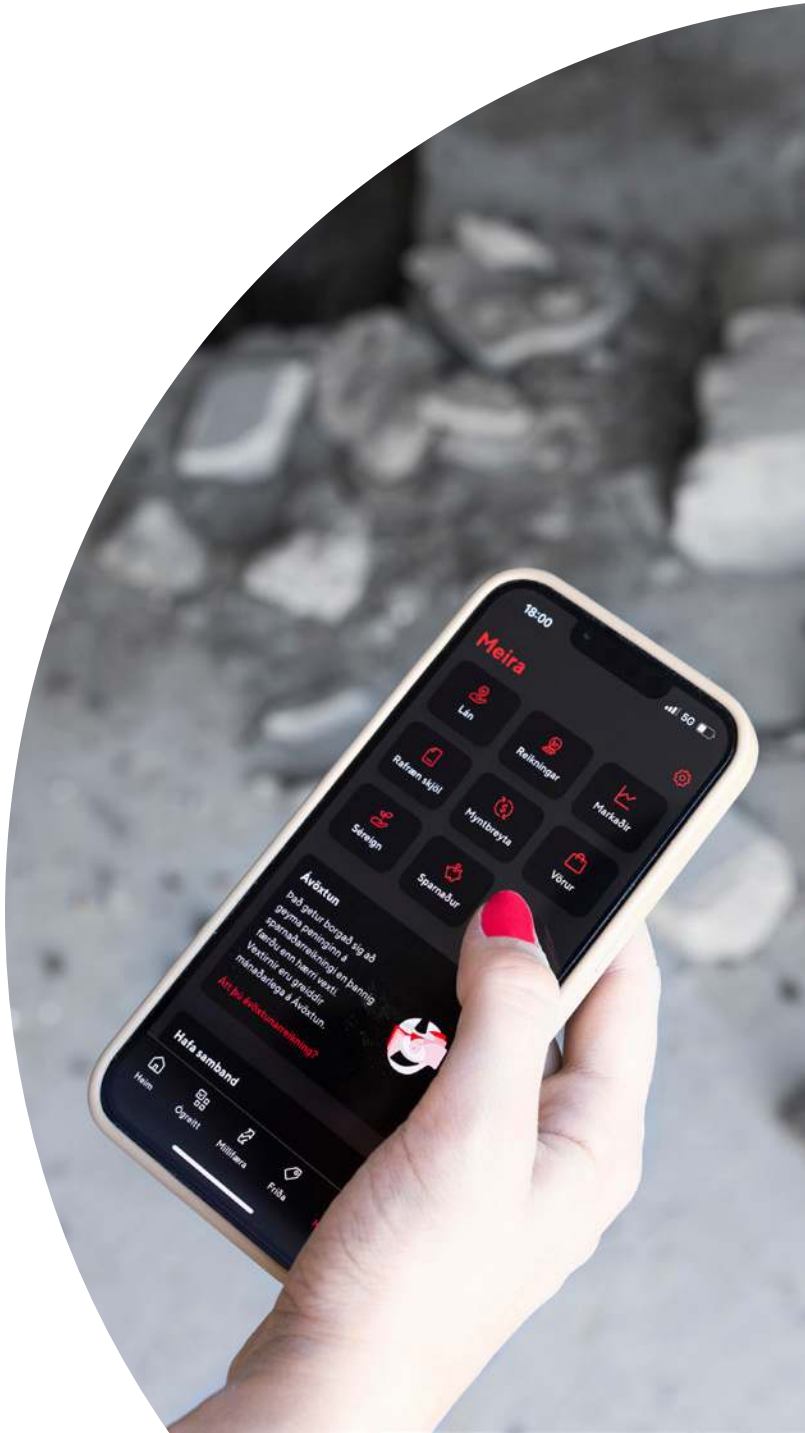
There has been brisk demand for the services of the Bank's Asset Management division, and we have seen growth in customer numbers. We have made a concerted effort to provide sound advice and excellent service in a volatile market, but it is safe to say that many are eager to see the opportunities that 2025 will bring. In asset management, it is patience and willingness to wait out fluctuations that win out in the end. We have maintained a strong educational presence with high-quality events for Asset Management customers, including regular presentations of exciting companies through a series of meetings we call “Meet the Stock Exchange”.

Íslandsbanki was an active trader of foreign currency, equities, and securities despite a challenging market environment. The Bank had the highest turnover in equities on Nasdaq Iceland for 10 out of 12 months of 2024. We are optimistic about the year ahead and look forward to further growth.

Service and experience

Service is an important part of Íslandsbanki's culture, and during the year we worked towards refining our target group analysis, with the aim of serving our customers even better. We have bolstered cross-sales and are focused on strong growth in digital contact in the new year.

Part of the target group analysis centred on enhancing continuity in service to individuals who also operate companies or do large-scale business with the Bank. This service is called Tindur, an Icelandic word meaning



apex or mountain peak, and its name strongly elicits the path staked out by customers who are aiming for the top as regards financial health. The service was tested in late 2024 and has exceeded all expectations. We look forward to introducing it more fully and welcoming new customers to the group.

The guiding light of our new strategy is to enhance the financial health of our customers. We have announced our collaboration with insurance company VÍS, through which we will expand our service and offer better terms. Íslandsbanki and VÍS place strong emphasis on outstanding service and will use a robust loyalty programme to offer better terms to customers. We believe this will enhance our customers' overview of their finances. VÍS will be visible in all of the Bank's distribution channels and will have a presence in several of the Bank's branches. We look forward to introducing our collaboration in further detail this spring.

Leader in the corporate market

Íslandsbanki had the largest market share among small and medium-sized enterprises (SME) at the end of 2024, with a share of 43% in the greater Reykjavik area. The Bank had the highest net promoter score (NPS) among these customers, particularly in regional Iceland. We also pride ourselves in having a majority of companies designated as outstanding by CreditInfo among our customers.

Demand for new loans has been in line with expectations, while demand for motor vehicle loans has declined because of a contraction in new car sales in Iceland. Despite the challenging environment, delinquencies have been limited among companies, and we have tried to meet their needs to the maximum extent possible.

Personal service is the key to serving companies, but we also offer powerful digital solutions that we have developed rapidly in the recent past. With the addition of Payday to the app and access to collections services via the app and online bank, managing the company books has never been so easy. Furthermore, a new solution for expense management makes it simpler for companies to manage company payment cards by saving receipts in the app and exporting them directly to the company accounts.

A data-driven Bank

We will use data in an even more systematic way, to offer the right service in the right place. Last year we used automated market transactions with excellent results, and we see terrific opportunities for growth in the year to come. We believe that the best service is the right mixture of digital and personal service, and we know that the latter will always be an important part of major decisions. Being service-oriented is hard-wired into Íslandsbanki's company culture, and during our strategy planning process it was abundantly clear that our employees are committed to providing excellent service. To do this, we need competent people and smoother distribution channels, and we had a number of successes with our distribution channels last year. Customers can access nearly all of the services they need through the app, which now enables them to pay down loans, keep track of private pension savings, open accounts, and apply for a digital debit card. We are also dedicated to ensuring our customers' security in a world where fraud is continually on the rise. Our app contains relevant security settings, and our fraud monitoring team is available 24/7. Our chatbot, Fróði, is getting smarter by the day and can now close payment cards if needed and order new ones. We are particularly proud that, for the second year in a row, Fróði won an international prize for the most likeable chatbot at Boost Camp, the annual conference held by Boost.ai, Fróði's service provider.

We invested heavily in services and data during the year and, among other things, have reaped the benefits with even better up-times for all systems. Similarly, we took major strides in automation of the lending process, and our improved data provide even better support for digital sales. Our loyalty programme, Fríða, made considerable advances during the year, and now data for debit cards is processed in real time, so that customers can see their expected reimbursements immediately. We see great opportunities in our premium service, alongside even more refined target group analysis in the new year.

Progressive thinking

In its new strategy, Íslandsbanki's values are defined as progressive thinking, collaboration and professionalism. Progressive thinking, our newest, was selected following dialogue with employees and customers. It is well reflected in our annual event, called **Brainstorm**, where employees present ideas for new products or services. During the competition, employees suggested a number of progressive ideas on how to improve our service, and we plan to introduce new innovations early in the year.

We also aim to increase diversity in decision-making and increase involvement among young people. The Bank's Executive Board therefore decided to appoint

a youth council comprising Bank employees from Generation Z, who were born after 1997. This group will meet regularly and will be given a chance to affect decision-making in the Bank, and it will be exciting to keep abreast of developments on that front. At the same time, we have strengthened innovation in the Bank's day-to-day operations, where employees will participate more actively in developing and creating innovations in banking service. It is safe to day, then, that fresh breezes will be stirring at Íslandsbanki this year.

Profitable growth

Profitable growth is a new strategic theme for Íslandsbanki, which entails, among other things, that the Bank is always looking for growth opportunities, internal and external, with profitability as a guidepost. We prioritise strengthening business connections in Iceland and abroad, and being a leader in infrastructure investments. The Bank will continue to focus on optimal utilisation of capital and efficient operations. We want to support rapidly growing companies with relevant products and services.

The implementation of the five-year sustainability targets set in 2020 was completed during the year and was highly successful. This year the Bank will set new and ambitious sustainability targets for the period through 2030. Our role of being a force for good shows clearly in our dialogue with customers. We participate in their growth and challenges, and we have had fruitful discussions with them about sustainability during the year. In 2024, our sustainable lending grew by 23%, and we intend to continue on this path in the new year. The Bank's loan portfolio grew by a total of 6% year-on-year in 2024. All business units contributed to the increase, although growth was strongest in residential mortgage lending.

Infrastructure Bank

The Corporate and Investment Banking division has strongly emphasised infrastructure in Iceland and has stressed the importance of responding to the investment need that has accumulated. We discussed this at the Bank's well received Financial Assembly last autumn, where we focused on development of land-based aquaculture in Iceland. We will continue to prioritise infrastructure and participate actively in the development that lies ahead. In doing so, we will use reports and analyses that, among other things, explore the possibility of public-private partnership.

The best team

In closing, I want to thank the Bank's employees for outstanding work during the year. This group has proven that it uses demanding times as a vehicle for learning and is galvanised and enriched by the experience. The strategy planning process has been invigorating and simply fun with more active involvement by Bank staff. I am convinced that we are moving Íslandsbanki into an exciting time when progressive thinking and even better service will be the keys to success.

I would like to thank our customers for collaborating and doing business with us during the year. It was a arduous year for the economy, and we look forward to tackling new challenges with you in a new year full of opportunities. Íslandsbanki stands on solid ground, and we intend to move forward – with our customers' financial health as a beacon.

This is Íslandsbanki

Business model
2024 in numbers
Timeline 2024
Our people: Workplace of growth

Íslandsbanki's purpose is to empower our customers to be a force for good by creating value for the future in a sustainable way – for our customers, shareholders, and employees, and for society as a whole.

We enhance the financial health of our customers.

	Personal Banking	Business Banking	Corporate and Investment Banking	Iceland Funds
Who?	Households and individuals.	Small and medium-sized companies all over Iceland.	Large firms, pension funds, municipalities, UCITS funds, institutional investors, and affluent individuals.	A diverse group of investors and savers.
What?	We provide a wide range of deposit accounts, payment cards, mortgages, and other loans, plus private pension savings plans.	We offer a wide range of financing options, deposit accounts, collections service, claims financing, and payment intermediation.	We offer a wide range of financing options, foreign currency sales, securities sales, corporate finance, securities advisory, asset management, and investment advisory.	We offer a wide range of bond, equity, and mixed funds; alternative investment funds; and real estate, credit, and venture capital funds.
How?	Customers can serve themselves through our digital solutions but have ready access to services relating to mortgages and pension savings, as well as emergency payment card services.	Customers have access to comprehensive financial services, plus Ergo, the Bank's asset financing service.	Customers have access to tailor-made services guided by their needs.	Customers have ready access to funds from Iceland Funds through the Bank's distribution channels, as well as through Íslandsbanki's Securities Advisory and Asset Management departments.

2024 in numbers

The Bank

733
number of FTEs at Íslandsbanki at year-end

12 branches

Listed on Nasdaq Iceland as of 2021

Ratings and certifications

BBB+/A-2
Positive outlook

MOODY'S **A3**
Stable outlook

NPS development

Key Figures 2024

ROE	10.9%
Cost-to-income ratio	43.9%
CET1 ratio	20.1%
Total capital ratio	23.2%
LCR Group, all currencies	168%
NSFR Group, all currencies	125%
Leverage ratio	13.2%
Total assets	ISK 1,608bn

Sustainability

23% growth in **sustainable lending** in 2024.

Íslandsbanki's Entrepreneurship Fund awarded **ISK 50 million in total to 14 sustainability-related** projects in 2024.

93% of the Bank's credit risk exposure in scope assessed with regards to ESG risk by year-end.[1]

Digital milestones

Implementation of a new **anti-money laundering**/know your customer model.

Biometric authentication within the app launched for domestic payments.

Employees started communicating with the internal chatbot **SAM** with the Bank's Quality Manual integration to follow soon.

[1] Individuals and small enterprises are out of scope. The Bank's goal is to assess with regards to ESG risk all large customers and counterparties.

Timeline 2024

Try clicking the news for further information

JANUARY

- **Measures** for Grindavík residents mortgages extended.
- Íslandsbanki updates its **sustainable funding framework.**
- **Íslandsbanki macroeconomic forecast**: From cascade to calm.

FEBRUARY

- Changes to **digital log-in** to online bank and app.
- Húsavík **branch** moves to a new location.

MARCH

- **Strategy meeting and new marketing campaign** presented to employees.
- New **marathon campaign** premiered.

APRIL

- **Reduction** in currencies. The Bank only exchanges GBP, PLN, EUR and USD.

MAY

- Íslandsbanki makes an agreement with phishing portal **Defend Iceland.**
- Íslandsbanki collaborated with MasterCard to invite a **lucky Fríða user** to the Champions League Final.

JUNE

- **Fróði** voted the most likeable chatbot.
- **Íslandsbanki macroeconomic forecast:** Stability in the wheelhouse. Warm winds, cool seas?
- Íslandsbanki reaches a **settlement** with the Central Bank of Iceland.
- Íslandsbanki offers a revolution in **expense management.**

JULY

- Íslandsbanki with **25%** of OMXI equity market turnover in 1H.
- Íslandsbanki was among **HS Orka's** creditors when the company restructured its debt and secured credit lines for **continued development** in Iceland.
- Launch of new product enabling customers to **fix their non-indexed mortgage payments** for up to 12 months.

AUGUST

- **Íslandsbanki Reykjavík Marathon 2024:** New record in pledges to charity, **ISK 257 million** for charitable causes.
- Launch of in-house **chatbot Sam**, based on ChatGPT technology, for Íslandsbanki employees.

SEPTEMBER

- **Payday** accessible in the app.
- **Íslandsbanki macroeconomic forecast:** Autumn takes hold in the economy.
- Íslandsbanki Corporate Finance mandates the **sale of all shares in Olíudreifing.**

OCTOBER

- Íslandsbanki and CBS research Icelanders' **financial decisions.**
- **Private pension savings** in the app.

NOVEMBER

- A **majority** of the firms ranked as outstanding companies by CreditInfo are Íslandsbanki customers.
- Íslandsbanki awards **14 grants** totalling **ISK 50 million** from the Íslandsbanki Entrepreneurship Fund.
- Íslandsbanki Corporate Finance advises Festing on the **sale of the company's real estate.**

DECEMBER

- **Tindur**, Íslandsbanki's new premium service, offers priority access to personal services and generous tailor-made benefits.
- **Fríða** cashback reimbursements on debit card transactions show in real time.
- **Biometric** authentication for transfers of funds.
- **Preview** of new RÚV State television series on former President **Vigdís Finnbogadóttir.** Íslandsbanki is a **proud sponsor** of the show.

2025

Our people: Workplace of growth

The core of Íslandsbanki's human resources policy is its strong emphasis on education and growth, health and well-being, and a modern work environment. We offer competitive terms of employment and benefits, and we take great care in hiring and integrating new employees into the workplace. We believe that in this way we can have a real impact: that the Bank's human resources priorities will result in more dedicated members of staff who make a concerted effort to do outstanding work, which ultimately improves the Bank's performance and earnings.

HR Triangle

A culture of success

A success-oriented company culture entails creating an environment where employees get results in their work, as success fosters self-esteem and a more satisfied team of employees. A culture of success is based on clear targets, prompt feedback, recognition of good performance, and clear paths to growth. Integrating a culture of success into daily work encourages us to innovate and strengthens our sense of satisfaction and dedication.

To support us on this journey, we have invested in a software solution called Lattice. With Lattice, we intend to sharpen the focus in regular dialogue between employees and managers and hone our visible targets, feedback, and employee development. This gives managers a better tool with which to support performance, set clear goals, encourage employees to succeed, and provide regular feedback. In the end, it is our managers who are the Bank's hands-on human resources directors each day.

We know that feedback is indispensable in promoting personal growth, improving performance, and enhancing a sense of responsibility. It is also important in job development dialogue. We have a strong need to grow and evolve in our work, and creating a work environment that gives employees the opportunity to do so is highly valuable.

Hafsteinn Bragason
Head of Human Resources

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Success is our joint responsibility

The past few years have been trying for both employees and customers, owing to demanding conditions in the markets. High inflation, high interest rates, and economic uncertainty have created challenges that call for adaptability, toughness, and resilience. This has affected our daily lives and the lives of our customers, many of whom are also members of our team.

These conditions have motivated us to strengthen our infrastructure and place stronger emphasis on implementing what we call a culture of success and responsibility in the Bank's operations. This has entailed clarifying and simplifying targets, decision-making, and responsibilities in all of our tasks. We have maintained a high level of job satisfaction, dedication, and team spirit among our staff members. We are proud of the way we have stood together and used these challenges as a springboard for further growth – for it is through this joint effort that we succeed.

In the coming term, we intended to continue building up a success- and responsibility-oriented work environment where employees can flourish and customers receive reliable, progressive thinking service. We are optimistic about the future and view it as an opportunity to do even better.

Education and growth

The guiding principle underlying human resources at Íslandsbanki is that the Bank is a workplace for growth, as the need to learn and grow is fundamental to human nature. It is therefore important to develop and cultivate employees' skills and knowledge, as this will ultimately deliver a more satisfied and dedicated staff.

Job development at the Bank takes many forms; for instance, it can involve taking on new tasks or new roles, learning about operations in other departments, or providing instruction to others. Employees also have the option of receiving coaching and mentoring, with the aim of making the next steps in their career more targeted and possibly opening doors to new opportunities in the future.

We offer a wide range of robust programmes enabling employees to obtain education and training that strengthens them professionally and personally. We work closely with external educators, and a large number of employees provide in-house training, thereby sharing important knowledge within the Bank.

During the year, we placed greater emphasis on training for new managers who are beginning their work for the Bank or are taking on managerial roles for the first time. This journey will continue in 2025. Our management training programme supports our implementation of a culture of success, based on the feedback and goal-setting mentioned above. The Lattice system can be an important tool for managers in their leadership role.

Íslandsbanki has a good collaborative relationship with universities in Iceland. The Bank offers internships for students in various academic disciplines, and during the year we hired about 100 summer employees, many of whom will be a part of our human resources in the future.

Collaboration is one of Íslandsbanki's core values, and with it as a guidepost, we launched a programme that we call "departmental speed-dating". Under this programme, departments invite one another to come and visit, with the aim of gaining better insight into the different jobs and tasks carried out at the Bank. The visits have been very successful and have given employees from various departments an opportunity to meet and get to know one another.

Each Friday, we invite employees for a digital cuppa, where they can discuss a range of topics and share their knowledge.

Health and well-being

We make a concerted effort to create an environment that fosters employees' health, satisfaction, and well-being, both at work and in their private lives. We strongly emphasise effective and constructive communications, teamwork, and a healthy workplace culture characterised by trust and respect. We want our employees to be able to express their thoughts, offer new ideas, ask questions, and make mistakes. This increases the likelihood that employees will have a sense of psychological security, trust, and well-being in their jobs.

We know what we gain by being attuned to our employees' well-being, and it is important to give them a chance to seek knowledge, support, and the tools they need to take care of their physical and mental health.

We have secured access to solutions and services such as psychological and medical services, health assessments, influenza shots, massage and yoga during the workday, gym membership subsidies, transportation subsidies, healthy food, and a range of health-promoting educational initiatives.

During the year, we emphasised management guidance, in order to enable managers to recognise detrimental strain in their own lives and among their team members, and to respond appropriately. Putting employees' health and well-being at the forefront is an investment in our people – one that will deliver exponential returns.

Íslandsbanki's strategy

Íslandsbanki's strategy for 2023-2025
New strategy: Íslandsbanki's strategic lighthouse
Financial health

Íslandsbanki's strategy for 2023-2025

In 2024, Íslandsbanki worked in accordance with the strategy house model that was approved in 2023 and contained the Bank's older strategy. A new strategy was approved by the Board at the end of 2024, and priorities for 2025 tasks will be shaped by it.

Strategy house 2023-2025

In order to be a force for good in the community, the Bank must be operationally sound and must stake out a strong, clear path towards achieving that goal. The Bank's strategy must be reflected in all of its activities; therefore, Íslandsbanki places strong emphasis on employees' active participation in strategy formulation.

The Bank holds annual strategy summits, where the themes for the year and prospects for the future are reviewed, and the strategy is fine-tuned so as to ensure that employees know and understand what the themes and objectives are and how the Bank intends to achieve them. Furthermore, staff ownership of the strategy is important if implementation is to be successful.

According to the 2024 strategy, Íslandsbanki's role was to be **a force for good.** This entails having a wide-ranging impact on society as a whole through the Bank's daily work. The Bank has also been a force for good in connection with charitable activities, with the Íslandsbanki Reykjavík Marathon at the forefront.

The Bank's vision of creating value for the future by providing outstanding service to all individual and corporate customers was included in the strategy house.

Strategic themes 2024

Strategic themes are the overarching topics that the Bank prioritises at any given time so as to achieve its objectives. The strategic themes outlined in the strategy house were **service, data, sustainability,** and **employees.**

The main theme for the period was move forward and grow, which indicated, among other things, that the Bank was open to external growth.

Service

Íslandsbanki places strong emphasis on providing outstanding service to its customers. We put our customers in first place, and we add value by offering them products and services that are relevant and useful to them and their activities. During the year, the Bank introduced a number of new products and services, with the aim of enhancing customers' service experience. In this context, we updated our app and rolled out innovative digital solutions for companies, as well as focusing on target group analysis to support better customer service.

Data

Data quality is fundamental to banking operations and was a continued focus during the year. Proper use of data leads to better, more effective decision-making, and with artificial intelligence, we optimise our data usage. The Bank worked towards further developments in personal service and guidance based on data analysis. Through more robust target group analysis, we know our customers even better and can offer them relevant products at the right time.

Sustainability

Íslandsbanki has set ambitious objectives for leadership in the field of sustainable development. In particular, the Bank conducts its risk management with an eye to environmental, social, and governance (ESG) criteria and then assesses sustainability-related business opportunities. The goals we achieved during the year in this area included growth in sustainable lending, continued work on the ESG risk assessment of the loan portfolio, and good dialogue with customers and suppliers.

Employees

Íslandsbanki's employees are the key to its success and further development. We work together as a professional and success-oriented team whose aim is to create a work environment that fosters dedication, satisfaction, and well-being. The core of Íslandsbanki's human resources policy is to ensure that the Bank is a place where employees have the opportunity to grow and develop in their jobs. During the year, we placed particular emphasis on creating a culture of success, in part by implementing a human resources system that supports goal-setting, feedback, and job development.

New strategy, Íslandsbanki's strategic lighthouse

Íslandsbanki operates in an ever-changing environment, and Bank's peers have seldom been this diverse. It is important to keep abreast of and respond to constant changes in the operating environment. It is even more important to take the initiative and be a driver of change, thereby **being a force for good**. This is the path Íslandsbanki has chosen, and it is the through line in the Bank's strategy.

The strategy is supple by nature; it must evolve in line with changed conditions, fresh opportunities, and new challenges. It must therefore be reviewed regularly, to ensure competitiveness and future success. In 2024, the Bank undertook a major review of its strategy. During the autumn, small-group workshops were held with all of the Bank's employees, with emphasis on open discussion and exchange of opinions on strategy formulation. The Executive Committee and the Board then engaged in vigorous discussion on strategy formulation, and the Board approved the new strategy at the end of the year.

The new strategy was presented to employees at the beginning of 2025, and emphasis will be placed on robust implementation and follow-up during the year. The strategy reflects Íslandsbanki's focus on putting its customers in first place by providing outstanding service while promoting their financial health.

New strategy: Íslandsbanki's strategic lighthouse

Íslandsbanki's strategy lighthouse provides a framework for the new strategy, creates a clear vision for the future, and maps out paths towards set objectives. With the new strategy, the Bank implemented progressive thinking as one of its values, so as to support the implementation of a forward-looking service culture. As before, the Bank's role is to be a force for good. Four strategic themes have been adopted to support the Bank's objectives: **service and customer experience, data driven bank, the best team,** and **profitable growth**. Under each theme are strategic projects that support the strategy's success.

Íslandsbanki's strengths lie in its diverse group of employees who make a concerted effort to serve the Bank's customers based on experience, inventiveness, and ambition. All decisions are guided by the Bank's values: **progressive thinking, collaboration**, and **professionalism.**

Progressive thinking
Progressive thinking is a new value defined by the Bank. With progressive thinking, we show initiative and are always seeking new solutions that will create value for our customers. We are curious about new technology and ways to use it to enhance the service experience. We are enterprising, we show courage, and we make things happen.

Collaboration
We base all of our work on trust and collaboration. We are on our customers' team and are there for them at major turning points in their lives. We are solutions-driven, and we work together as a team to achieve our goals and those of our customers and society as a whole.

Professionalism
We are professional and thorough in our work. We listen to our customers, acquaint ourselves well with their situation, and share our expertise in order to strengthen their financial health.

Strategic themes

The Bank's strategic themes focus on promoting customers' **financial health** and **creating value for the future by providing outstanding service.** During the year, the Bank engaged in comprehensive strategy formulation work throughout the organisation, identifying strategic themes with the aim of better enabling the Bank to support the various needs of its diverse customer group.

Service and customer experience

We want to provide our customers with outstanding personalised service that strengthens their financial health, creates trust, and builds valuable long-term relationships. We put primary emphasis on identifying and understanding the needs of different customers so that we can meet their needs and enhance their banking experience. We offer secure, user-friendly digital financial solutions for all day-to-day banking needs and are always available when our customers need more complex service.

Profitable growth

We are continuously seeking growth opportunities, with profitability as a guiding principle. Progressiveness and innovation are in the foreground, with emphasis on further development and projects that have a positive impact on our customers, shareholders, and employees, and on society as a whole. We optimise our use of capital and thereby ensure efficiency in the Bank's operations.

A data-driven Bank

We use data, digital processes, and artificial intelligence to tailor our services to customers' needs. By being data-driven, we ensure efficacy, as data and analysis are the cornerstone of good decision-making.

The best team

We want Íslandsbanki to be a desirable workplace for growth. Together we form an outstanding, cohesive team and an encouraging work environment that ignites creativity and fosters success. We work together as a single solutions-driven team.

The Bank's purpose

Íslandsbanki's role is to empower our customers to be a **force for good** in Icelandic society and **create value for the future in a sustainable way** – for our customers, shareholders, and employees, and for society as a whole. Furthermore, the Bank places particular emphasis on the **financial health** of its customers and will make every effort to strengthen it, through both educational efforts and product offerings.

Financial health

Health is a big word that applies to us all and covers a wide range of factors. Most of us are familiar with the concepts of physical and mental health, but people tend to differ in their approach to financial health. In autumn 2023, we gave consideration to the Bank's strength in the financial market and among customers, with a particular focus on financial health.

Focusing on financial health

Íslandsbanki has long been a leader in financial education, and thousands of Icelanders have attended the Bank's seminars and events on financial matters, either in person or online. Topics range from how to start investing, acquiring one's first home, and company finances to finances at retirement. For quite some time, the Bank's seminars on finances at retirement have been the most popular events, followed by our seminars on finances during paternal leave, as parents must bear several things in mind when they take parental leave from the labour market. In addition, the Bank has held effective financial education events for immigrants who are settling in Iceland.

Market research has shown that finances and financial health are important to people. Among members of Generation Z (born 1997–2008), interest in financial matters surged by 17 percentage points between 2022 and 2023. Concerns mounted in all generational groups, as economic conditions were growing more challenging with rising interest rates.

At the end of 2024, the Bank took an even larger step and formally defined financial health as a part of its strategy. All of the Bank's strategic themes will aim at supporting customers' financial health. We plan to strengthen our customers' financial health and be there for them as they realise their goals.

Edda Hermannsdóttir
Executive Director of Marketing and Communications

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100% health with Íslandsbanki

With financial health as a priority, the Bank's focus will be very clear. Our marketing, product development, service points, and digital sales emphasise enhancing customers' financial health, and in the coming term we will continue to roll out exciting innovations for customers' benefit. We will help customers to gain a better overview of their finances and will be available when they need us. Furthermore, we will help our customers make progress in their finances with even stronger target groups, where data enable us to know each customer better.

Financial health links well with physical health: the Íslandsbanki Reykjavík Marathon is not only the biggest public health event in Iceland, but also the country's largest charity donation drive. Mental health is the third pillar of overall health, and we prioritise a strong workplace with a high level of employee satisfaction. This is the key to our being able to offer our customers outstanding service and a positive experience.

Creating value for the future in a sustainable way

Personal Banking
Business Banking
Corporate and Investment Banking
Iceland Funds

Personal Banking

Personal Banking focuses on digital and personalised service enabling us to meet customers' needs at all times.

Íslandsbanki's Personal Banking division provides services to individuals who do business with the Bank via its branch network, call centre, and digital solutions. The Bank has around 147,000 active customers and is the market leader in payment cards for individuals. Most of the Bank's customers choose to conduct their day-to-day banking via the Íslandsbanki app. The number of active app users is at an all-time high of 121,000.

To meet customers' needs in a challenging interest rate environment, the Bank has offered fixed payments on mortgages. Borrowers have the option of fixing their non-indexed mortgage payments for up to 12 moths, with a minimum interest rate of 6,2% for the base loan. The difference between the fixed payment and the originally calculated payment is added to the loan principal during the period.

Market share[1]

31%	28%	21%	37%
overall	deposits	mortgages	credit cards

Loans from Personal Banking have **grown** by ISK 34 billion, or almost **6%.**

Expanded features in the app: debit card security settings, digital debit cards, private pension savings, Fróði, account opening capability, and extra loan payments.

The number of **Ávöxtun** accounts rose from 20,000 to **55,000** in 2024.

Tindur, Íslandsbanki's new **premium service**, offers priority access to **personal services** and generous tailor-made **benefits**.

[1]For individual banking, the based on the number of customers with active deposits as percentage of people with domicile in Iceland. For deposits, mortgages, and credit cards it's based on Central Bank data.

Ólöf Jónsdóttir
Managing Director,
Personal Banking

We meet our customers' needs with personal and digital service.

During the last year, Personal Banking has taken major strides in initiating personalised contact with customers. Good service means being available to customers at all of the turning points they face. We want to anticipate and better understand our customers' needs and provide integrated personal and digital service. It is important to maintain personal relationships with our customers even though use of digital solutions has increased. Emphasis on stronger data infrastructure has given us a good foundation for leadership in offering personalised service and communications tailored to each customer's needs. Customers now receive telephone calls, e-mails, or in-app messages about products and services that suit them at any point in time.

We want to help Íslandsbanki customers to achieve their goals through healthier finances, whether they are acquiring their first home, preparing for retirement, or seeking a bit more financial flexibility each month. Emphasis has been placed on developing digital solutions that support financial health and on providing professional and personal service when customers seek us out.

The organisational structure of Personal Banking has changed in minor ways, with emphasis on sharpening focus in all units, improving oversight of tasks and workstreams, shortening lines of communication, and enhancing collaboration.

Finance, Operations, and Balance Sheet Management oversees Personal Banking operations, from the planning stage to oversight of deposits and lending. The unit puts emphasis on data processing for the division, together with analysis of income and expenses.

Front-Line Services offers Íslandsbanki customers personal advice in the Bank's branches nationwide, as well as providing service by telephone, written communication, and online chat. During the year, we have emphasised proactive personalised communications with our customers, and a new department was established to keep track of customers' experience and communications with them. Customers are still able to book appointments with advisors when it is convenient for them and can use digital channels to do so.

Issuance Solutions offers a broad range of payment cards and efficient payment solutions such as Apple Pay, Garmin Pay, and Google Pay. The unit oversees travel-related and payment card-related benefits such as Fríða, the Bank's cashback loyalty programme, which offers rebates for purchases from various merchants.

Digital Product Development is responsible for developing new digital solutions for the Bank's customers, as well as seeking opportunities for innovation, and is a leader in collaboration on fintech solutions. The unit's objective is to create value with digital solutions for the Bank's customers. The unit develops distribution channels and collaborates with the Digital and Data division on the operation of day-to-day infrastructure, as well as providing information and advisory services to employees in connection with digital solutions.

One-stop solutions in the app

The Íslandsbanki app is in continuous development, and many milestones were passed during the year.

My Applications, a new interface in the app, which gives customers an overview of concluded and pending cases.

The balance on private pension savings is now available in the app.

Easy to create deposit accounts in the app.

Debit card security settings can now be configured in the app. With these settings, users can refuse conventional, contactless, and online payments; ATM withdrawals; foreign currency payments; and all transactions without a physical card.

A new feature enabling Íslandsbanki customers to make extra payments on loans or pay them off in full has been added to the app.

Íslandsbanki's chatbot, Fróði, can now answer customers in the app as well. Furthermore, Fróði now has a voice and can accept voice messages.

Fraud

Increased e-commerce has led to a rise in cyberfraud. The types of fraud committed are constantly changing, and it is therefore vital that the Bank and others be highly vigilant.

A robust fraud monitoring team has been established within Íslandsbanki, with the aim of intervening early in potential fraud and resolving incidents that do materialise. The fraud monitoring team works closely with the Bank's emergency service staff, ensuring that customers can receive reliable service 24/7. The emergency service telephone number can be found in the Íslandsbanki app.

The Bank's cybersecurity page provides instructive information, and announcements of known fraud incidents or advice on avoiding fraud are communicated with targeted mail and on social media. Íslandsbanki participates in the cooperative organisation Nordic Finance CERT, which disseminates information on fraud, cyberattacks, and defences against cyber-attacks to its members. During the year, the Bank also participated in the use of the Defend Iceland phishing portal, which promotes cybersecurity and enhances companies' resilience against severe cyberattacks.

Íslandsbanki has included strong fraud prevention features in the app for a long time. Under all circumstances, customers can set the credit limit on their credit cards and can freeze their credit and debit cards in the app. Security settings for debit cards were recently added to the app, enabling customers to configure settings based on where they wish to permit use of the card.

Business Banking

Business Banking provides small and medium-sized enterprises (SMEs) with comprehensive financial services. Ergo, the Bank's asset financing service, is also part of Business Banking.

Market share[1]

37% overall

40% greater Reykjavík area

33% countryside

We serve over **50% of Iceland's outstanding companies.**

39% of **car loans** from Ergo are **green.**

Deposit growth **10%** .

Collections service and **Payday** in the app.

[1]Average market share from Gallup's corporate surveys in 20234

Business Banking serves a growing group of SMEs in Iceland. Our customers stand behind robust value creation in all economic sectors throughout the country and play an important role in ensuring economic and social stability.

The division's highly experienced employees provide personalised service in customers' local community through corporate banking centres and branches, but customers also make effective use of the Bank's readily accessible digital solutions.

Business Banking is staffed with highly specialised employees with years of experience. We have built up strong business relationships with thousands of Icelandic companies and emphasise being there for our customers. The division provides outstanding personal and digital service and advice, with increased emphasis on data utilisation. We take the initiative and make a concerted effort to be a force for good in the community. In service surveys, we have repeatedly come out on top among SMEs, ranking ahead of our peers in terms of market share and customer satisfaction.

Una Steinsdóttir
Managing Director, Business Banking

A resilient economy in a demanding environment

Early in 2024, high interest rates and persistent inflation made their mark on Icelandic companies' operations. Economic resilience was put to the test, but companies showed tremendous toughness in a challenging environment. High interest rates cut into demand for new loans, particularly in the motor vehicle market, where new car sales contracted sharply. Despite challenging conditions, new lending totalled ISK 92 billion in 2024 and indicators of delinquencies were broadly unchanged, showing enormous determination and resilience among Icelandic companies.

Ergo, Iceland's oldest asset leasing firm, celebrates its 40th anniversary in 2025. Ergo's competitive advantage lies in its broad product range, professional service, and experienced and knowledgeable staff. In autumn 2024, Ergo premiered a new advertising campaign that we are using to welcome the anniversary year.

New solutions have been developed that will enable companies to conduct their finances on the go. Significant effort has been put into developing a new online bank for businesses, which we look forward to launching in the first quarter of 2025. As before, we are proud of our leading market share among SMEs. Business Banking's biggest project and greatest challenge for the future is to provide outstanding in-person and digital service, enabling us to be a force for good.

Organisational structure

Corporate banking centres and branches

Business Banking operates corporate banking centres and branches in several locations in Iceland. The corporate banking centres are located in the Bank's headquarters in Norðurturn and in Akureyri, the former serving customers in the capital area and the latter serving customers in North and East Iceland. At the beginning of February, the branch on the ground floor of Norðurturn merged with the corporate centre on the seventh floor. Offering a full range of corporate banking service in a single location in greater Reykjavík enables us to provide better and more effective service to our customers. Business Banking and Ergo welcome customers in their joint reception area on the seventh floor.

Digital solutions

Our customers can conduct their main banking activities through a wide range of distribution channels: the Íslandsbanki app, online bank, online chat, and the Bank's website. We are committed to providing service to our customers and meeting their needs – whenever and wherever they require it. In the first quarter of the year, Íslandsbanki will launch a new, user-friendly online bank in response to customers' requests for more self-service solutions. Service features in the app have been expanded as well, including collections claims, Payday, and expense management.

Ergo

Ergo, as a part of Business Banking, specialises in financing of machinery and equipment for businesses, as well as motor vehicles and travel equipment for individuals. Ergo has been a leader in the asset financing market for 40 years, distinguishing itself with its rapid top-quality service.

Businesses' digital journey

One of Business Banking's main service projects is the development of a new online bank, which will launch in the first quarter of 2025. The new interface meets customers' demands for a modern approach, data-driven sales, and a clear view of their financial position.

Use of the Íslandsbanki app is constantly increasing. Recent additions include features such as creating claims for collections and sending electronic invoices. Íslandsbanki is the only bank offering this option, and it has been very well received. Expense management, our newest service, offers customers the capability of linking receipts and credit card transactions and exporting them to the bookkeeping system. Development of the app will continue, with emphasis on simplifying administration for sole proprietors and small firms.

Strong focus has been placed on digital solutions for Ergo in recent years. An automated response feature for car loans for individuals was rolled out in March 2024, and the entire process from lending decision to registration of loan documents has now been digitised. This represents significant streamlining for employees, collaborating companies, and not least, for customers. Ergo can now accept and approve car loan applications outside conventional opening hours. This technology has expedited and improved the decision-making process. It is now possible to approve a car loan application in 3-5 minutes, at any time of day or night. Over 90% of loan agreements with companies are signed electronically, and electronic registration of legal entities' car loans was introduced in the fourth quarter of 2024.

Financial health and round table discussions

Business Banking prioritises strengthening and supporting customers' financial health. Educating customers and employees plays a key role in this endeavour, whether it takes place through organised events or more informal discussions.

Thorough training enables Business Banking employees to provide customers with outstanding service in a demanding and ever-changing environment.

Events held during the year include a large number of luncheon meetings where customers from various business sectors are invited for lunch with the Bank's Chief Economist and the Managing Director of Business Banking. In addition to discussing the Bank's economic forecasts and the economic environment more generally, the meetings give representatives from these diverse companies the chance to discuss their operations and challenges in fruitful round table discussions. The meetings have been very well received. Furthermore, each year the Bank holds meetings all over Iceland, where participants discuss the economy, sustainability, and other matters relating to company operations.

Sustainability remains one of the Bank's key priorities, and Business Banking plays a leading role in this journey, as SMEs are of key importance in innovation and development throughout the Icelandic economy. Ergo has also played a major role in transportation-related energy switching, providing financing for a large number of vehicle purchases and infrastructure projects for individuals and businesses, thereby contributing to a more sustainable future. We have engaged in regular dialogue with our customers and offer seminars on this vital topic, and we see that more and more businesses assign greater priority to long-term sustainability.

Corporate and Investment Banking

Corporate and Investment Banking, a leader in investment banking in Iceland, focuses on providing its customers with comprehensive financial and investment banking services. The division serves large firms, pension funds, municipalities, UCITS funds, institutional investors, and affluent individuals.

Market share[1]

34%
of Iceland's 300 largest companies

Íslandsbanki's capital markets turnover totalled **ISK 1,160 billion** in 2024.

New lending totalled **ISK 71 billion**, and loan **refinancing** amounted to another ISK 42 billion.

Asset Management customers **increased in number by 8%** during the year.

[1]Gallup survey in 4Q24 among top 300 companies according to Frjáls verslun magazine.

Corporate and Investment Banking employs experts with decades of financial experience, including securities and foreign currency sales, investment advice, corporate finance, lending, and private banking.

Building on its extensive experience of complex, wide-ranging projects, our team has led many of the largest transformational endeavours in the Icelandic economy in recent years.

We give top priority to our customers' needs and financial health, and in support of this aim, we have a dedicated staff with expertise in all key sectors of the economy. We emphasise initiative and comprehensive service, with short communication channels and smooth collaboration across the division's units, which enables us to know and satisfy our customers' needs as effectively as possible while acting as a force for good in the community.

Íslandsbanki has developed a clear policy for lending outside Iceland, including a focus on the North Atlantic fishing industry.

Kristín Hrönn Guðmundsdóttir
Managing Director, Corporate and Investment Banking

Robust operations give us strong momentum for the new year

Corporate and Investment Banking has a robust group of customers that have used their strength for various investments despite high interest rates, and the Bank has supported them with loans for new projects and acquisitions. New lending totaled ISK 71 billion.

Íslandsbanki has adopted a policy of building and maintaining expertise in infrastructure development financing and has assembled a dedicated infrastructure team, and a number of projects are in the pipeline. The Bank has also increased its emphasis on foreign lending.

Securities Sales had an excellent year, despite challenging market conditions for most of the period. The Bank is a leader in the market, with the largest share of OMXI equity market turnover in 10 of the 12 months of 2024 and the second-largest share of combined equity and fixed income market turnover. Demanding markets over the past few years have also affected Asset Management customers, but those who weathered the storm patiently are now reaping the benefits as markets turn around. As before, Íslandsbanki is a leader in the foreign exchange market, with an experienced team who work closely with the Bank's customers.

Corporate and Investment Banking looks forward to a buoyant 2025.

Organisational structure

Corporate Banking
Manages business relationships with large companies and institutions. The unit is responsible for all of the Bank's service to these customers. With expertise in fishing, infrastructure development, and tourism, it provides service to all sectors of the Icelandic economy.

Corporate Finance
Provides investment banking services to both companies and individuals, such as acquisition and disposition of companies, mergers and other changes in ownership structure. In addition, the unit provides advisory services in connection with public listings, oversight of share offerings, preparation of prospectuses, and admission of securities to trading on the exchange.

Brokerage and Derivatives Desk
Brokerage consists of equity, fixed income, currency and derivatives sales, which in turn provide currency swaps, interest rate swaps, and forward contracts in equity and fixed income market, as well as primary issuance of fixed income instruments. The unit's customers range from individuals to institutional investors.

Asset Management
Comprises Private Banking, Institutional Investors, and Asset Servicing. Íslandsbanki's Private Banking offers asset management and advisory services to affluent individuals, investment companies, funds, and charities. Institutional Investors manages business relationships with large investors and is responsible for asset management services provided to these customers. Assets Servicing provides infrastructure services relating to financial instruments.

HS Orka

Refinancing HS Orka during a period of earthquakes and volcanic eruptions shows passion and purpose.

Íslandsbanki was among HS Orka's creditors when the company restructured its debt and secured credit lines for continued development in Iceland. The financing, which extended to the ongoing expansion and renovation of the Svartsengi power plant, is an important step in the company's plans for further growth in geothermal and hydropower.

The total amount loaned, around ISK 40 billion, falls under the Bank's green financing framework. Íslandsbanki has adopted a policy of being Iceland's infrastructure bank, and HS Orka plays an important role in the domestic energy market, not least because of increased demand for energy and energy switching in Iceland.

Íslandsbanki is proud to collaborate with HS Orka, in line with the Bank's role of supporting the development of this important infrastructure company and being a force for good in energy switching.

Íslandsbanki Investor Seminar in London

Íslandsbanki held an event in November called Iceland Day – Íslandsbanki Investor Seminar.

At the event, the CEOs of three listed companies in Iceland – Alvotech, Heimar, and Icelandair – presented their operations and activities to investors, and a representative of the Central Bank discussed the economic environment. Iceland Day was a part of the Bank's long-term development of business relationships with foreign investors. The seminar was well attended and generated interesting and lively discussion among guests.

Íslandsbanki's objective is to increase foreign investment in the Icelandic market. The Bank believes the market offers a range of opportunities, it emphasises directing foreign investors' attention to investment options in Iceland.

Iceland Funds Ltd.

Iceland Funds Ltd., the oldest fund management company in Iceland, was founded in 1994. It is a subsidiary of Íslandsbanki and is operated by an independent board that is elected annually.

Market share[1]

~28%
of the domestic fund market for retail investors

Iceland Funds and the **Energy Cluster** entered into a collaboration and consultancy agreement on a specialised **renewable energy** fund.

IS Fixed Income Strategy, a new bond fund, was launched during the year.

All of Iceland Funds' specialists have **completed** a UN Principles for Responsible Investment (UN PRI) **course in responsible investment** practices.

[1]Based on information from Keldan and websites of the fund management companies.

The company manages 23 funds for retail investors, including bond funds, equity funds, and mixed funds, as well as alternative and specialised investment funds. Iceland Funds has approximately ISK 364 billion in assets under management, and roughly 12,000 investors and savers choose to invest their money in the company's funds.

For a number of years, Iceland Funds has been a leader in the management of funds for retail investors in Iceland, with a market share of around 28%. The company operates a range of bond, equity, and mixed funds and has also specialised in venture capital, credit, and real estate funds.

Iceland Funds has been recognised numerous times for outstanding governance and operations. For instance, it has been designated an outstanding company by CreditInfo, as well as being recognised by Keldan and Iceland Financial News, and it has been recognised for excellence in corporate governance every year since 2013.

Kjartan Smári Höskuldsson
Managing Director, Iceland Funds Ltd.

Favourable terms and a bright outlook!

After a protracted period of challenging interest rates and persistent inflation, the markets are once again favourable for savers. Foreign markets have remained strong, good terms are still available in the bond market, and stock market pricing is generally considered moderate.

The long-awaited monetary easing phase is underway, and the outlook is even brighter than in the recent past. In view of this, we launched IS Fixed Income Strategy in 2024. It is a bond fund with a broader investment strategy than conventional bond funds have, and it can therefore take full advantage of market opportunities that arise. All of the bond funds managed by Iceland Funds delivered positive real returns in 2024, and for years the company has been a leader in the Icelandic market, with a market share of 38%.

As regards young people's financial health, we have been particularly gratified to see a consistent rise in young people's interest in private pension savings. Íslandsbanki's Future Wealth private savings plan now has over 42,000 members, and all of the Future Wealth investment options managed by Iceland Funds delivered strong returns during the year.

Within Iceland Funds are three business units focusing on fund management, asset management, and alternative investment vehicles. Also in place are strong risk management, business development, operations, and legal team.

Fund Management
The company's fund managers oversee funds that invest in fixed income, equity, and other financial instruments. Funds are a sound and economical way for savers to invest their money in a diversified securities portfolio, thereby reducing risk. Iceland Funds also operates the Alpha fund, which takes positions in the domestic stock exchange and is marketed for institutional investors only.

Asset Management
Iceland Funds' strong Asset Management team manages assets for individuals, public entities, and institutional investors that have made asset management agreements with Íslandsbanki. The team also manages the Bank's Future Wealth private pension plan.

Alternative Investment Funds
Since 2012, Iceland Funds has accumulated substantial experience in real estate investments and property development, credit funds, and venture capital investments. Seven experienced experts manage the alternative investment funds.

Funds accessible via app and online bank

Íslandsbanki was the first bank in Iceland to offer investment in funds via app. Roughly half of fund trading now takes place in the app, and fund purchases made using the app or online bank benefit from a 25% discount on the cost of the purchases. Customers can also set up regular savings through regular fund purchases in Íslandsbanki's online bank and enjoy a 50% discount on purchase costs, the best discount available.

Responsible investment

Iceland Funds has adhered to responsible investment practices in its asset management activities since 2019.

Among other things, the company's Asset Management team makes use of CreditWatch lists in its foreign investments and has set a target for minimising the share of assets on the lists. That share has been falling rapidly in recent years, to less than 1% in 2024.

In 2018, Iceland Funds established IS Green Bonds, Iceland's first green bond fund. IS Green Bonds is now classified as an SFDR Article 8 fund[1], and at least 80% of its investments are in Icelandic bonds classified as sustainable, green, social, or sustainability-related bonds.

Since 2022, Iceland Funds has published information on financed greenhouse gas emissions from the funds it operates. The calculations are carried out in accordance with Partnership for Carbon Accounting Financials (PCAF) methodology. Iceland Funds was the first fund management company in Iceland to calculate and publish information on financed emissions from its funds.

Financed emissions (in Icelandic)

IS Haf fjárfestingar slhf.

IS Haf fjárfestingar slhf. is an institutional investment fund of ISK 10 billion, which is managed by Iceland Funds and invests in ocean-related activities.

IS Haf is in its second year of operation and has invested in three companies: Kapp ehf., the Norwegian firm Regenics AS, and land-based aquaculture firm Thor landeldi ehf. In spring 2024, IS Haf completed its acquisition of a 41% stake in Kapp ehf., a technology firm specialising in refrigeration, machine building, and importation and servicing of equipment for fisheries, aquaculture firms, and other industries. Operations have been successful, and the company grew significantly during the year. In the autumn, Kapp invested in US company Kami Tech Inc. and launched Kapp Skaginn ehf., based on the estate of Skaginn 3X, which Kapp acquired together with other investors. Kapp received the business community's 2024 Environmental Initiative of the Year award for its liquid slurry ice machine, which uses carbon dioxide instead of F-gases, the first of its kind. At the end of summer 2024, IS Haf invested in Norwegian biotech firm Regenics AS, in cooperation with other investors. The company produces Collex®, an advanced wound dressing containing salmon roe extract. The wound dressings are designed to improve and expedite healing of partial thickness burns and chronic wounds, and the company is currently engaged in research and permit applications for its products. IS Haf is working towards finalising additional investments and has been considering domestic and foreign options ranging from raw materials sourcing and marine product processing to ocean-related tech solutions, infrastructure, and marine-related biotechnology.

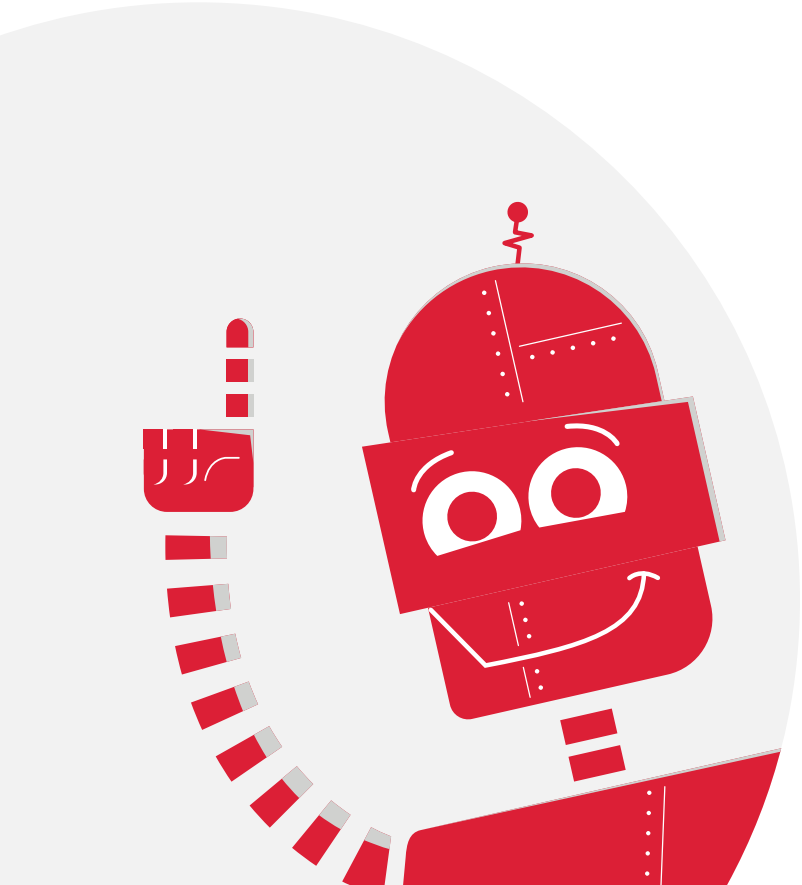
[1] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, commonly referred to as the Sustainable Finance Disclosure Regulation, or SFDR.

Strong foundations through professionalism

Digital and Data
Risk Management
Compliance

Digital and Data

The Digital Engine of the Bank, driving digitalisation whilst exploring new technologies.



The Digital and Data division drives innovation, delivering solutions that enhance customer experiences and streamline operations. This year, the focus has been on creating seamless digital platforms that prioritise convenience, security, and accessibility. By integrating advanced technologies, we have simplified complex processes, providing intuitive tools for customers to engage with our services.

Data plays a pivotal role in our operations, enabling smarter decision-making and personalised solutions. Advanced analytics, automation, and AI technologies have been employed to optimise services and enhance efficiency. Additionally, we prioritise robust security measures, ensuring data integrity and building trust.

Collaboration and adaptability remain central to our strategy. By staying ahead of industry trends and embracing emerging technologies, we continue to innovate in a responsible manner.

Riaan Dreyer
Managing Director,
Digital and Data

“

Driving Innovation, Security, and Personalised Customer Solutions

As we reflect on the year's progress, I am immensely proud of our Digital and Data teams for delivering solutions that truly enhance the financial health of our customers whilst ensuring a stable and secure environment.

Highlights include the new digital car financing solution, AML/KYC improvements, corporate account onboarding, Payday integration into the app and new machine learning models to name a few.

Looking towards the future, the focus will remain on continuing our journey towards becoming a truly data driven organisation delivering more personalised products and services to our customers, reimagining the branch experience and leveraging the power of Generative AI and other new technologies.

The Digital and Data division achieved significant milestones to empower our customers and enhance their financial health in 2024.

From delivering significant improvements in our KYC/AML models, launching a new digital car financing solution to further automation for corporate account origination. The introduction of key features like My Applications and biometric authentication in the app offers greater control and security for our customer, whilst simplifying the process of tracking overdraft and mortgage applications, saving time and improving the overall customer experience.
The rollout of the new online bank is set to redefine accessibility and convenience, providing customers with intuitive tools to oversee their financial well-being and optimising cash flow management, including expense management, for both individual and business customers.

Within the data and analytics space, a big focus has been on driving campaigns powered by our data driven sales and service platform to enable more personalised financial advice and product offerings, helping customers make informed decisions. There has also been steady progress in exploring the use of GenAI through the launch of an internal chatbot, which has been trained on the Quality Manual, to provide simple access to information – this increases the number of GenAI use cases to six.

Operational resilience has been strengthened through the implementation of robust cybersecurity measures and advancements in data loss management, ensuring customer information remains protected. These initiatives collectively support our goal of equipping customers with the tools and security to build a strong and sustainable financial future.

Interesting facts

80%
improvement in processing time of car financing applications using the new digital solution.

10x
increase in the number of mortgage refinancing applications that are automatically processed.

1,347
digital cards (no plastic) have been created since launching in March.

93%
of all solutions deployed automatically and nine deployments to production on average per day.

89%
of card lifecycle management activities were executed using self service channels.

95%
of retail customers are active in digital channels.

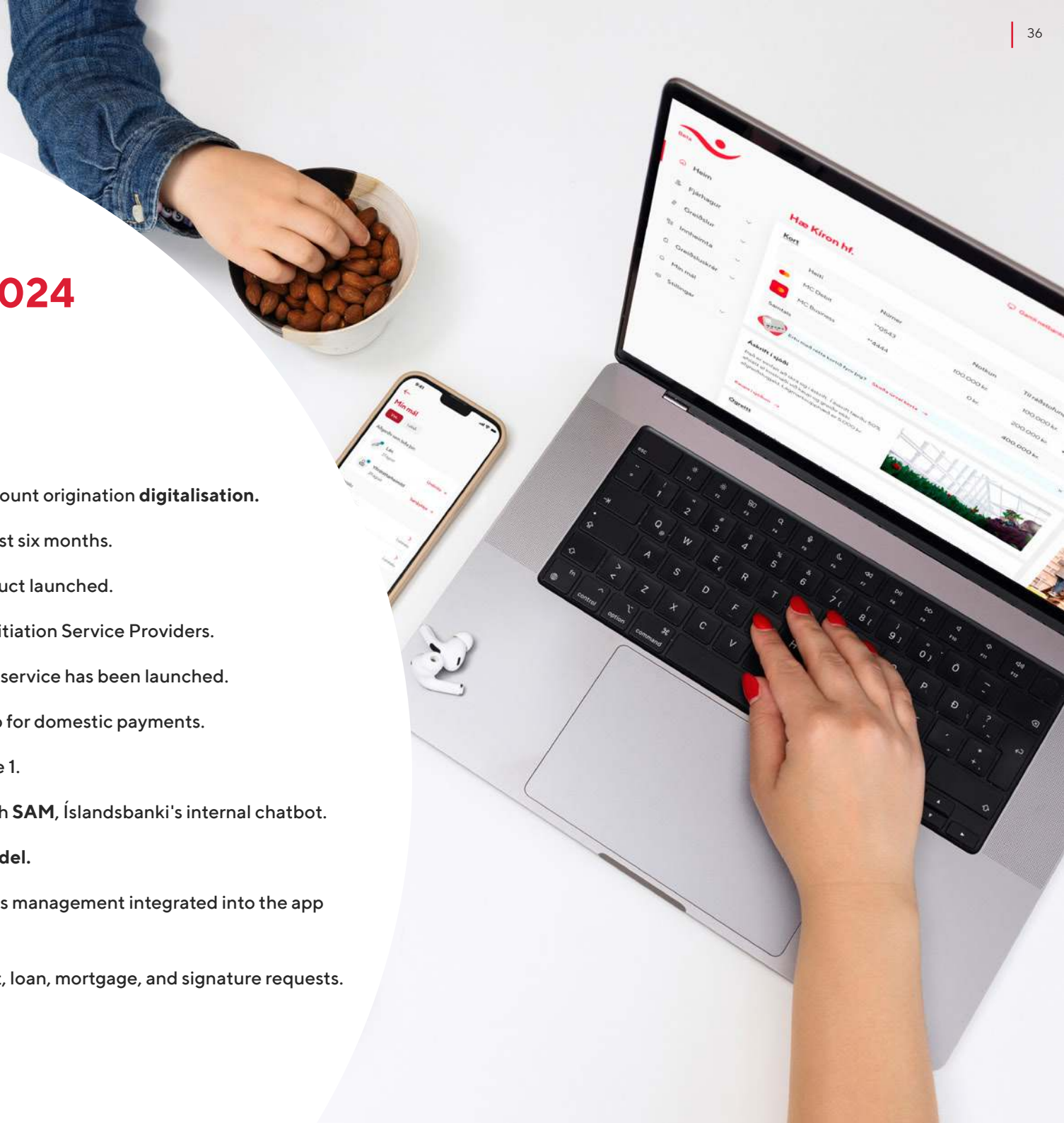
80%
of notarisation requests for mortgage refinancing are digital.

79%
of staff are actively using **SAM**, the internal chatbot.

89%
of corporate accounts generated through the digital channels were fully automated.

Major digital wins 2024

- Beta release of the **new online bank.**
- Digital car financing solution for **Ergo.**
- Corporate savings and transactional account origination **digitalisation.**
- **24 Digital campaigns** executed in the last six months.
- New **fixed payment on mortgages** product launched.
- Five new **PSD 2 services** for Payment Initiation Service Providers.
- A new universal **electronic notarisation** service has been launched.
- **Biometric** authentication within the app for domestic payments.
- Corporate **overdraft** optimisation, phase 1.
- Employees initiated communication with **SAM**, Íslandsbanki's internal chatbot.
- Implementation of a new **AML/KYC model.**
- **Payday** (accounting platform) and claims management integrated into the app for corporate customers.
- **My Applications** in the app for overdraft, loan, mortgage, and signature requests.



Risk Management

Cautious risk assessment and sensible risk pricing are key elements of Íslandsbanki's operations. An effective framework for risk management and internal monitoring lays the foundations for the Bank's risk management and asset management. The framework is structured as three lines of defence, with the objective of ensuring that decisions to take risk are well grounded and that the Bank's risk awareness is strong.

All material risk factors are discussed in detail in the Pillar 3 Report

- ☑ Risk Management and Internal Control
- ☑ Capital management
- ☑ Credit Risk
- ☑ Market Risk
- ☑ Liquidity Risk
- ☑ Operational Risk
- ☑ Sustainability Risk

Íslandsbanki's staff members have a keen risk awareness, with a focus on transparency, open communications, clear accountability, responsiveness, and respect for risk. All business decisions and the risks associated with them are in the hands of business units and are subject to clearly defined review and monitoring processes. Decision-making authorisations depend on the scope and complexity of the underlying risk.

The Bank's funding is broad-based, and its sturdy asset management framework is based on the standardised approach provided for in European regulatory instruments. The Bank's year-end capital ratio was 23.2%, which is 3.5 percentage points above the regulatory requirement. Íslandsbanki's goal is to maintain a management buffer ranging from 1-3 percentage points above external requirements in order to cover expected and unexpected fluctuations in risk-weighted assets and earnings. The Bank has announced plans to optimise its balance sheet , subject to market conditions.

As a result, the Bank is well prepared to face economic uncertainty stemming from internal and external factors, and it has the financial strength to provide households and businesses with the services they need to promote their financial health and ensure value creation for the future.

Guðmundur Kristinn Birgisson
Chief Risk Officer

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Robust risk management fosters stable and sustainable growth

Banks' operating environment is constantly evolving, and new risks come to the fore on a regular basis. Technological advances, social and political changes, environmental impact, cyberthreats, and seismic activity are risks that can strongly affect banks' operating results and reputation. It is therefore important to remain vigilant at all times and ensure that risk management is flexible and effective, so as to enable the identification and assessment of new risks.

2024 was a year characterised by high interest rates and their impact on individuals and companies. Debt service burdens grew heavier, more borrowers retired non-indexed loans, and demand for CPI loans grew. The Bank's CPI imbalance grew, but there was no detectable increase in credit risk, as delinquencies have not grown. The Bank has strengthened its anti-money laundering framework following recommendations from the Central Bank and has placed increased emphasis on cybersecurity. Preparation for the implementation of new regulatory instruments was ongoing during the year, including the third Capital Requirements Regulation on the assessment of banks' capital requirements (CRR III), and the Regulation on digital operational resilience for the financial sector, commonly referred to as the Digital Operational Resilience Act (DORA). Íslandsbanki's Risk Management team works continuously to improve its assessment, framework, and management of risks.

Three lines of defence model

The first line of defence is the owner of all risk and is responsible for day-to-day risk management.

The second line of defence is responsible for maintaining an effective internal framework to facilitate satisfactory risk monitoring, prudent business practices, reliable information disclosure, and compliance with regulatory instruments, financial supervisors' requirements, and internal policies and procedures.

The third line of defence provides impartial assurance that the monitoring framework in the first and second lines of defence is effective and appropriate.

Risk profile

Credit risk is the principal risk factor in Íslandsbanki's operations, accounting for roughly 90% of risk-weighted assets. Credit risk is the risk that customers may not be able to honour their end of a contract, including being unable to repay their loans on time. The objectives of managing credit risk are to achieve an acceptable balance between risk and income and to minimise the adverse impact on the Bank's overall operating performance. The Bank adheres to a prudent credit risk policy that has delivered a well-diversified, well-secured loan portfolio. The Bank has long maintained a cautious attitude towards risk-taking. It is currently working on expanding its digital products and services, with the aim of making lending decisions more data-driven and improving risk management even further.

Íslandsbanki's Pillar 3 Report provides detailed information on the Bank's risk management and risk profile and explains how the risk profile affects the assessment of capital and liquidity requirements.

Pillar 3 Report

Sustainability risk

Sustainability risk stems from the risk of suffering adverse effects of external environmental, social, and governance (ESG) factors. These factors include but are not limited to climate change, biodiversity, corruption, human rights, labour market conditions, personal data protection, and business ethics.

Significant advances have taken place in the area of sustainability risk, and requirements concerning financial institutions' public disclosures on sustainability risk have been tightened. The Additional Pillar 3 Disclosures supplement to Íslandsbanki's Pillar 3 Report now includes new templates based on external sustainability risk disclosure requirements.

In accordance with disclosure requirements, the Pillar 3 Report contains information presented in standardised tables and templates, referred to as **Additional Pillar 3 Disclosure**, which can be found in Excel format on the Bank's website.

Additional Pillar 3 Disclosure

Compliance

Íslandsbanki has improved its defences against money laundering and terrorism financing and strengthened its monitoring of conduct violations.

The key risks on which Compliance focuses are:

- Compliance risk
- Financial crime risk
- Conduct risk
- Regulatory amendment risk
- Personal data protection risk

The Compliance department monitors compliance risk within the Bank. It undertakes this task in a variety of ways: with analysis, advisory services, provision of training and information, appraisals, and reporting. All of this is directed at promoting sound business practices and preventing market abuse, insider trading, and conduct violations, as well as working against financial crime and violations of personal data protection.

Within Compliance are two key units, Conduct Supervision and Anti-Financial Crime, which are led by managers responsible for the day-to-day operation of their units. In addition, the Bank's personal data protection officer is part of the Compliance department.

The Anti-Financial Crime unit monitors the Bank's defences against money laundering, terrorism financing, and financing of weapons of mass destruction, as well as the Bank's defences against bribery and corruption. Furthermore, it monitors trade sanctions. The head of the unit, who is the legally mandated compliance officer overseeing the Bank's defences against money laundering, terrorism financing, and financing of weapons of mass destruction, answers directly to the Managing Director of Compliance. In addition, the Bank has established a separate unit in the Finance division: Business Supervision, which is led by a unit head responsible for the Bank's defences against money laundering, terrorism financing, and financing of weapons of mass destruction in the first line of defence. By law, both of these employees are appointed by the Board of Directors.

Barbara Inga Albertsdóttir
Chief Compliance Officer

“

The importance of effective controls

We want to contribute to an effective financial market based on sound and appropriate business practices that develop between people and create the foundations for formal regulatory requirements in societies. Frequently, the formal European regulatory framework is intended to cover the activities of international financial institutions that operate in multiple markets and larger markets than is the case in Iceland, and with larger and more complex product offerings. This is true not only of business practices as such, but also of the supervision provided for in the regulatory framework.

The controls that are created and implemented must be well-grounded and effective, and Compliance provides solutions-oriented advice that supports this. Monitoring of their efficacy must be risk-oriented, effective, and useful, not only for Compliance in the second line of defence, but also in the first line of defence, with active monitoring that is integrated into daily operations via so-called management supervision.

Lasting structures must be well built.

Íslandsbanki has revolutionised and shored up its defences against money laundering and terrorism financing. In June 2024, the Bank finalised a settlement with the Central Bank relating to violations of the Act on Measures against Money Laundering and Terrorism financing. With the settlement, the Bank agreed to pay a fine of ISK 570 million and implement extensive improvements in its operations.

In cooperation with a foreign consulting firm, the Bank has undertaken wide-ranging reforms, including improvements to its governance structure and procedures, as well as significant investments in infrastructure and tech solutions. A new approach to risk-oriented supervision has been implemented, and the methodology for risk assessments has been changed. This is an ongoing project, and the Bank will continue to develop and strengthen its defences against money laundering.

Because strong anti-money laundering and terrorism financing measures are intended to safeguard the credibility, stability, and reputation of the financial market as a whole, not only of each entity within it, it is important that financial institutions be accorded the scope to work together with the authorities to build even more effective defences against the threat to society that money laundering and terrorism financing entail. Financial market entities and Government authorities should join forces to combat organised crime and reduce the risk that Icelandic financial institutions will be used to launder money. Íslandsbanki is ready for the task.

The importance of personal data protection in banking

The aim of personal data protection is to safeguard people's privacy. Financial institutions have wide-ranging information on their customers, and protecting customers' personal data is therefore an important part of their operations. Strong emphasis is placed on guaranteeing the security of personal data and ensuring that processing of such data is carried out in accordance with external regulatory requirements. The Bank has incorporated a personal data protection policy into its operations, and various rules of procedure have been adopted to help employees comply with the requirements made of them. Particular focus is placed on effective advice and training for employees.

Compliance and sustainability

Compliance with regulatory instruments is an integral part of the Bank's sustainability journey, and it plays an important role in ensuring trust and security within society. By maintaining strong anti-money laundering and terrorism financing defences, for instance, the Bank works to counter the harmful impact that such illegal activity has on society. As a community, we all participate in these defences – such as when we provide information for due diligence checks – and the importance of such cooperation cannot be overstated.

Sustainable Íslandsbanki

Environmental
Social
Governance

Towards a sustainable future

Íslandsbanki has resolved to be a force for good in the Icelandic economy. The Bank is dedicated to working with its customers and thereby making an impact on Icelandic society.

Cooperation

Íslandsbanki cooperates with various domestic and international organisations. The Bank considers it important to participate in international commitments, as well as supporting domestic cooperation in the area of sustainability. Íslandsbanki is a member of the UN Global Compact, PCAF, TCFD, the UN Principles for Responsible Investing (Iceland Funds), Festa, Iceland SIF, NZBA, and the UN Principles for Responsible Banking.

Continued commitment

Íslandsbanki remained committed to its sustainability journey throughout the year. The Bank published its updated Sustainable Funding Framework at the beginning of the year, with emphasis on strengthening sustainability-related processes. A large number of business managers and credit managers gave presentations for the Sustainability Committee, with updated environmental, social, and governance (ESG) assessments, and many employees attended sustainability-centred educational meetings and workshops. A number of meetings were held with customers in order to discuss sustainability and carbon neutrality. Emphasis was placed on further integrating sustainability into processes relating to the Bank's product offerings.

Sustainability disclosures

Considerable work was done on implementing sustainability-related legislation during the year. The purpose of the legislation is to enhance transparency in information disclosures and reduce the risk of greenwashing. The Bank has high hopes for the new legislation as a means of expanding access to data and improving data integrity.

During the year, the Bank continued to lay the foundations for a double materiality assessment, which is the first step towards preparing for forthcoming legislation on non-financial disclosures. The results of the basic double materiality analysis have been used in the preparation of the Sustainability chapter in this report. The Bank has also taken account of the Nasdaq ESG guidelines, the Global Reporting Initiative (GRI) standards, the UN Principles for Responsible Banking, and relevance to the UN Sustainable Development Goals. In recent years, the Bank has prioritised four of the Sustainable Development Goals: **Education for All, Gender Equality, Innovation and Infrastructure,** and **Climate Action.**

Sustainability milestones in 2024

The Bank was successful overall in meeting its sustainability targets. Most of them were reached, although a few were not fully finished by the end of the year. Chief among these was the objective of a setting a science based target for the Bank's carbon footprint. Further examination of the premises for this target is needed. Many people throughout the Bank worked towards the targets.

The share of ESG **risk-assessed credit risk** remained stable between years, at

93%[1]

The Suppliers' Code of Conduct was **updated** in 2024, and the **share of suppliers** that **formally certified their compliance with the Code** rose between years from 77% to

92%

Significant steps were taken to **incorporate sustainability risk into the Bank's risk model** for corporate lending.

The aim is to complete the process in the second quarter of **2025**

16

sustainability seminars were held for a broad **group** of Íslandsbanki **employees.**

The Bank supported

8

NGOs/educational institutions by **donating computer equipment.**

2

Polish-language educational meetings on finances were held for customers and the general public, in order to reach a broader audience.

An analysis of the ratio of **average compensation** for men compared with average compensation for women was carried out, and an **action plan has been presented** with the aim of systematically equalising the ratio in coming years.[2]

25

meetings on **sustainability and carbon neutrality** were held with customers of Corporate and Investment Banking.

The Bank's **Sustainability Council** was reinstated and held three meetings during the year.

The Council is composed of a **broad group of Bank employees.**

The updated **Sustainable Funding Framework** for sustainable lending was published.

Business Banking analysed the **share of women in companies' boards and executive committees.**

The results are an element in the preparation of an **action plan for the furtherance of women in company boards.**

[1]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.
[2]The target was changed from "Balance the ratio between men's median pay and women's median pay deliberately" in 2023 to "Balance the ratio between men's average pay and women's average pay deliberately" in 2024.

Double materiality assessment

Sustainability is constantly evolving, and as a result, the scope of the regulatory framework for sustainability disclosures has expanded significantly. Regulations on the EU's taxonomy for sustainable activities and on sustainability-related financial disclosures took effect in 2023. The Corporate Sustainability Reporting Direcitve (CSRD) is set to take effect in 2025, and the first step towards implementing it involves a double materiality assessment.

Double materiality methodology

In 2023, Íslandsbanki conducted a basic double materiality assessment in preparation for the forthcoming regulation, relying on draft double materiality assessment guidelines.

A double materiality assessment centres on assessing the Bank's positive and negative impact on the environment and society, as well as assessing financial risks and opportunities based on sustainability topics. The impact, risks, and opportunities may have already materialised, but possible future developments must be examined as well. The Regulation lists ten topics that must be prioritised during a materiality assessment.

In preparing a double materiality assessment, it is important to identify the Bank's stakeholders. Íslandsbanki's stakeholders include employees, customers, suppliers, shareholders, bond buyers, and the general public. It is important to take stakeholders' opinions into account in the assessment process.

Our methodology

When the basic double materiality analysis was prepared in 2023, the Bank's business model and strategy were paired together with the ten topics. The results of the analysis were communicated to the Bank's Sustainability Committee and reviewed thereafter. Finally, employees – who communicate most with customers and the general public – answered a questionnaire in which they assessed the importance of the topics based on their knowledge and communications with stakeholders. In order to assess Íslandsbanki's financial risks and opportunities, the Bank's experts were entrusted with carrying out a quantitative materiality analysis. This was based on the Climate Road Map for the business community (is: Loftslagsvegvísar atvinnulífsins) and Iceland's Climate Action Plan. These results created the foundation for the double materiality assessment.

In 2024, the impact, risks, and opportunities were analysed further, with the assistance of staff members throughout the Bank. Ten workshops on impact, risks, and opportunities were held with about 30 individuals from nine Bank departments. The Bank's Sustainability Committee has the role of a focus group and has confirmed the results of the impact and risk analysis.

The results of the impact and risk analysis were in line with the results of the 2023 analysis. The analysis of opportunities is well advanced, and the Bank plans to complete it and solicit stakeholders' perspectives on the results in 2025.

ESRS topical standards

- Climate change
- Pollution
- Water and marine resources
- Biodiversity and ecosystems
- Resource use and circular economy
- Own workforce
- Workers in the value chain
- Affected communities
- Consumers and end-users
- Business conduct

Results of Íslandsbanki's materiality assessment

Four areas stand out in terms of importance for the Bank: *climate change, human resources, consumers and end-users*, and *business conduct*. They are in line with the Bank's previous assessment of impact areas, carried out in 2019: climate change and equal rights. In addition, the analysis indicated that two other topics – *consumers and end-users*, on the one hand, and *business conduct*, on the other – were also important for the Bank from the standpoint of impact, risks, and opportunities.

The Bank's 2024 sustainability disclosures are based on these results, and more detailed findings will be published later in the year.

Priority issues for Íslandsbanki

Based on the work that has been done thus far, four topics take priority for Íslandsbanki.

Business conduct

Business conduct is a broad topic with numerous important applications for Íslandsbanki. The Bank has placed strong emphasis on its company culture. Among other important points of tangency are cooperation with suppliers and defences against money laundering, corruption, and bribery.

Consumers and end-users

The Bank has a wide-ranging impact on consumers and end-users (customers). With increased emphasis on digital development, service has grown simpler, but risks associated with cyber- and information security have increased markedly. There is considerable scope for improvement in equal rights in Iceland. Women account for 27% of company board members and 24% of managing directors.[1]

Climate change

The world is profoundly threatened by climate change, and it is important to respond appropriately to it. Iceland has adopted ambitious targets of achieving carbon neutrality by 2040 and reducing greenhouse gas emissions by 40% between 2019 and 2030. Reaching these targets requires a joint effort from both public and private sectors.

Own workforce

The Bank's employees are one of its most important resources, and it aims to hire, empower, and retain qualified, reliable personnel. Íslandsbanki is committed to creating a positive workplace culture and strongly stresses diversity and broad participation among staff members.

[1] https://hagstofa.is/utgafur/frettasafn/fyrirtaeki/stjornarmenn-fyrirtaekja-2023/

Sustainable Funding Framework

The Bank updated its Sustainable Financing Framework at the beginning of 2024 and changed its name to **Sustainable Funding Framework**. With the update, the Bank adapted the framework to the most recent developments in the market. The Sustainable Funding Framework adheres to the ICMA Green, Social, and Sustainable Bond Principles. Swedbank acted as advisor during the update process, and Sustainalytics gave a positive second-party opinion.

The assets that were included in the older framework and are still eligible were transferred to the Sustainable Funding Framework in 2024. Most of the assets were still eligible, apart from loans for the purchase of motor vehicles not powered solely by electricity or hydrogen. Those assets will remain under the older Sustainable Financing Framework until they have been paid off.

Steady growth in sustainable assets

Sustainable assets grew by 24% in 2024, to ISK 120 billion at year-end. In addition, loans totalling ISK 14.5 billion were approved but had not been disbursed by the end of the year.

Growth in sustainable assets is in line with expectations. Green loans accounted for 81% of sustainable loans and social loans 19%. Green loans increased by 16% year-on-year, while social loans grew 67%. Green motor vehicle loans contracted by 25%, as new car sales plummeted during the year, particularly sales of electric cars.

Íslandsbanki's sustainable financing totalled ISK 63 billion at the end of the year, including ISK 44 billion more than 18 months old. According to the Sustainable Funding Framework, sustainable financing must be allocated to sustainable assets within 18 months.

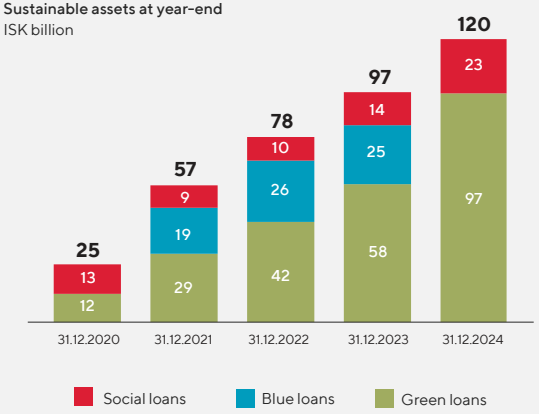
Information

Further information can be found in the links below.

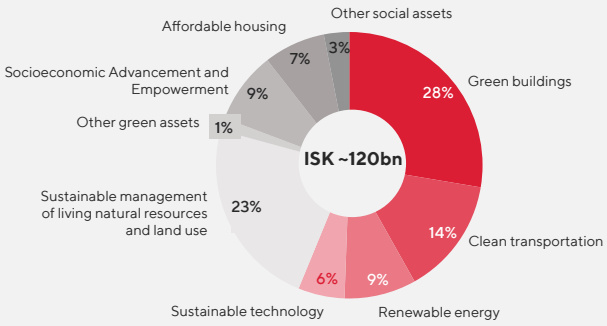
Sustainable Funding Framework

More on sustainable assets and debt

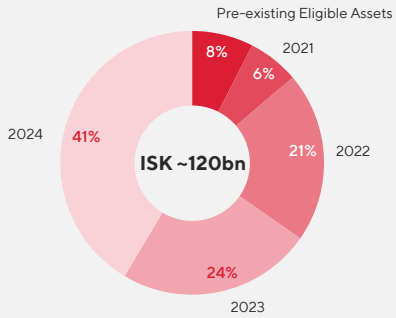
Sustainable assets at year-end
ISK billion



Classification of sustainable assets by category in the Sustainable Funding Framework at the year-end[1]



Sustainable assets as of end-2024, by year of loan issuance



Assured by an independent party

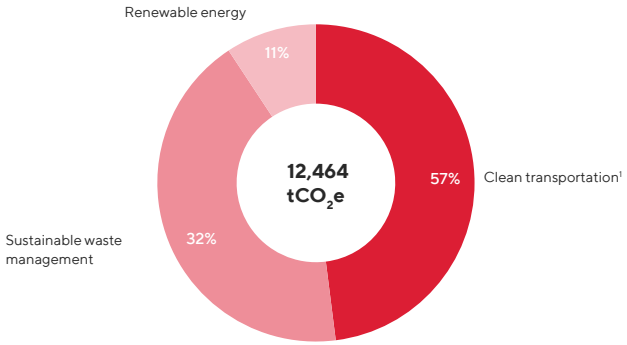
[1]Other green loans consists of Sustainable and circular processes and biodiversity and Sustainable waste management. Other social loans consist of Access to Essential Services and Education and vocational training.

Impact indicators 2024

Assured by an independent party

Information on impact indicators is collected from the relevant customers and from public data utilities.

Avoided greenhouse gas emissions in 2024



[1] Distance driven per year is obtained from the Icelandic Transport Authority: Because year-2024 distances were not available at the time this report was prepared, information from 2023 is used. Information on avoided emissions is based on emissions coefficients from car manufacturers, and information on average motor vehicle emissions from various production years is obtained from the European Environment Agency: CO_2 emissions performance of new passenger cars in Europe | European Environment Agency home page

Accumulated from 2020 through 2024

3,431
green vehicles.[2]

~4,500 km
of fibre optic cables laid.

19
loans to companies with equal gender ratios.

171
social apartments financed.

1
primary school building for 125 students financed.

106
service apartments for schools and healthcare operations financed.

84
companies supported with COVID-19 loans.

78,921 m²
of eco-friendly buildings.

Impact in 2024

1,553
green vehicles.[2]

11,811
tonnes of additional recycled waste.[3]

25,508
tonnes of certified fish.[3]

162 GWh
of green energy produced.[3]

227
social apartments financed.

66,973
Eco-efficient products.[3]

[2] Only electric vehicles are eligible for the updated Sustainable Funding Framework
[3] Estimate based on the year-end 2024 loan balance compared with customer financing in 2023, as information from the customers concerned was not available when this report was prepared. In the second quarter of 2025, these estimates will be updated to include year-2024 information, and an announcement will be made if the information changes significantly.

Environmental 2024

Assured by an independent party

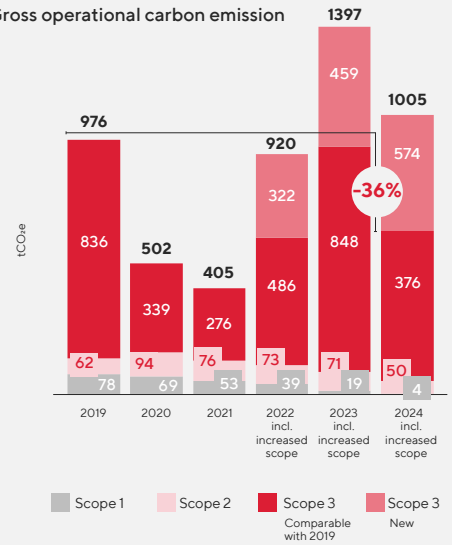
Sustainability Statement 2024

Strategy and policies

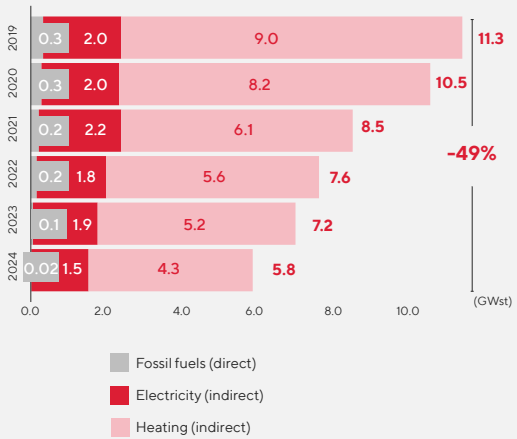
Auditor's Limited Assurance Report

E1- 6 Greenhouse gas emissions location-based

Gross operational carbon emission

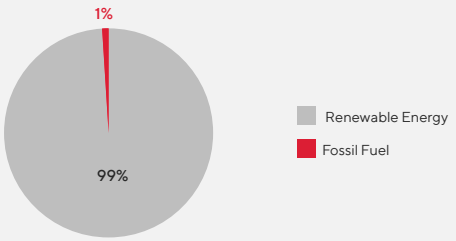


E1-5 Energy usage

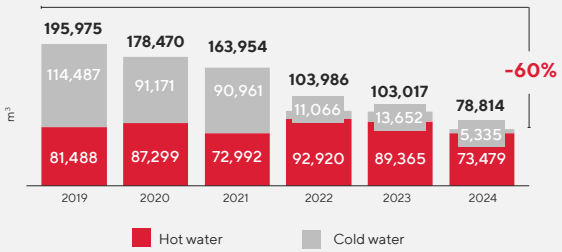


E5 Energy mix location-based

Share of total energy usage (5.8 GWst)



E1-5 Water usage



Decrease in cold water usage is mainly due to the sale of a foreclosed property. An update of the data gathering process causes insignificant changes in historical data.

E1-7 Greenhouse Gas mitigation

Total amount of carbon credits outside value chain that are verified against recognised quality standards and cancelled **1,100 tCO_2e**

E1-2 Policies related to climate change

Does your company follow a formal environmental policy? ☑

See the Bank's Sustainability Policy, chapter two on environmental factors, which includes the Bank's climate change ambitions.

Does your company follow specific waste, water, energy, and/or recycling policies? ☑

Better monitoring of waste in HQ is expected to lead to a significant reduction in unsorted waste. The objective was to reach 90% recycling rate by 2025 the latest.

Other environmental factors selected based on sector and internal materiality assessment

Does your Senior Management Team oversee and/or manage climate-related risks? ☑

Does your Board of Directors oversee and/or manage climate-related risk? ☑

Are ESG factors considered in relation to lending and/or investments? ☑

The share of credit risk exposure assessed with regards to ESG risk was 93% at year end 2024.

Are ESG factors considered in connection with the development of new and existing products? ☑

Consideration is given to sustainability risk in product development.

Does the company offer employees regular education on ESG factors? ☑

The Bank hosted 16 workshops and educational meetings for its employees.

Has the company measured the carbon footprint from its loan and investment portfolios? ☑

Íslandsbanki has reported financed emissions since 2019.

Has the company's board of directors approved and published targets for reduction of greenhouse gas emissions? ☑

The Bank's objective was to shrink the carbon footprint from its operations by 50% between 2019 and 2024 and reach net zero (including financed emissions from loan portfolio) by 2040.

Does the company publish a discussion of sustainability risk and climate risk in compliance with international Task Force on Climate-related Financial Disclosures (TCFD) criteria? ☑

The Bank's Pillar 3 Report for 2024 contains a separate chapter on sustainability risk and climate risk in compliance with TCFD criteria.

Financed emissions

An estimate of the Bank's financed emissions shows that the carbon footprint from the loan portfolio and assets under management is many times larger than the carbon footprint from operations. The Bank's greatest opportunity to be a force for good is through its product and service offerings; i.e., through encouraging and empowering its customers as they travel their own road towards sustainability.

Financed emissions in 2024

The Bank's calculations are based on Partnership for Carbon Accounting Financials (PCAF) methodology. When performing the calculations, the Bank attempts to use information obtained directly from customers. Because not all companies publish their carbon footprint, the Bank must estimate that part of the portfolio based on estimates for various sectors and loan classes. The Bank uses external data utilities to estimate emissions from companies in Iceland. The Bank did not assess scope 2 emissions for motor vehicle loans due to lack of access to data. The Bank will incorporate these emissions in 2025. It is not believed it will have a significant effect on financed emissions.

Emissions within various sectors in the Bank's loan portfolio are broadly unchanged year-on-year. Loans falling under international maritime activity caused the most emissions in 2024, at about 33%, but account for less than 2% of the loan portfolio. Industry, which includes agriculture, generated just over 13% of emissions but accounts for 4% of total lending. Industry generated about 30% of emissions in the loan portfolio in 2023, and the difference is due mainly to changes in emissions data. Emissions from seafood and air transport were roughly the same as in the previous year, at 19% and 10%, respectively. Emissions due to road transportation declined from 20% to 16%. Mortgage lending and commercial real estate, which account for a combined 60% of lending, generated just over 1% of emissions in the loan portfolio. Financed emissions in the loan and asset portfolio increased by 4% relative to 2023. The largest increase is due to improved data quality in the international maritime sector, which led to a 200% jump in that category of emissions. The main changes between years are due to a change in methodology and the Bank's use of external data utilities to estimate emissions.

Total financed emissions declined by 14% year-on-year, however, owing to a significant reduction in emissions from sovereign bonds, which in turn stems from a decline in sovereign bond holdings relative to 2023.

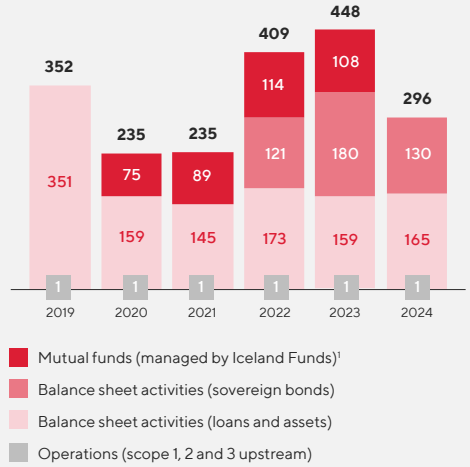
Methodology

For further information please refer to the Bank´s Pillar 3 Report and Road to net zero Report.

Road to net zero

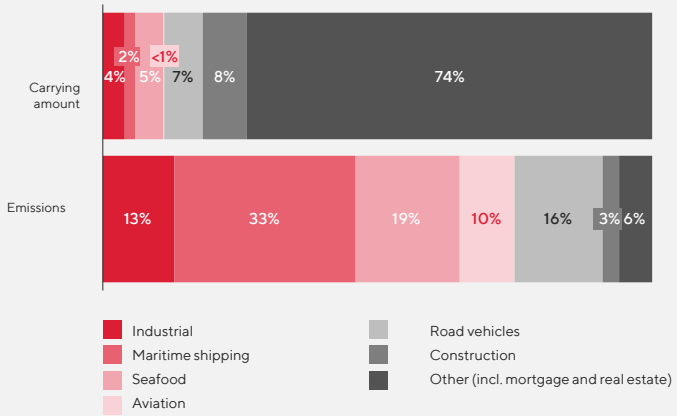
Pillar 3 Report

Íslandsbanki's total emissions 2019-2023
$ktCO_2e$



[1] The estimate of financed assets under management in 2024 was not available when this report was written.

Emissions from balance sheet activities in 2024
(total = 162 $ktCO_2e$)



Assured by an independent party

The Bank has assessed emissions from 92% of loans to customers and 82% of the Bank's balance sheet, which is a similar coverage compared to previous years.

On the road to a net-zero loan portfolio

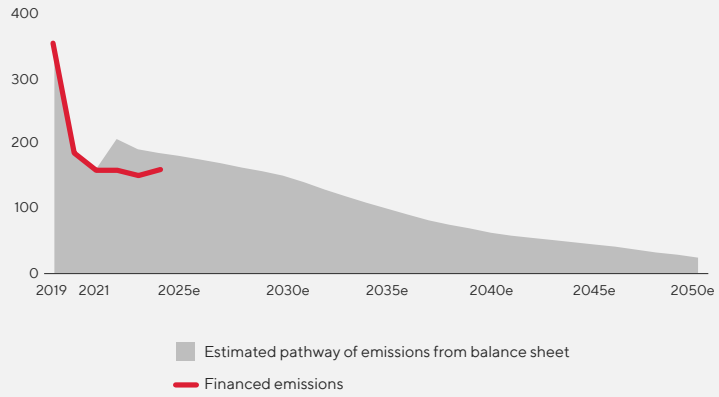
Íslandsbanki was unable to publish scientific targets for reducing its carbon footprint as it had intended to do. This is because the net-zero methodology for financial corporations from the Science-Based Targets initiative (SBTi) was set for publication at the end of 2023 but was not issued until year-end 2024.

Íslandsbanki has adopted a range of climate-related measures and is the only Icelandic bank among the founding members of the Net-Zero Banking Alliance (NZBA), an international network of banks dedicated to achieving carbon neutrality in their operations. Through the NZBA, participating banks – 135 banks in 44 countries – share their experience and their ideas on how to work towards carbon neutrality. Íslandsbanki has published targets for 64% of its loan portfolio and 78% of total emissions (based on 2019 figures). The Bank intended to publish targets for the construction and agriculture sectors as well but was unable to because of a shortage of data. The Bank hopes to add this information when data from these sectors become available.

The methodology used to develop the targets is based on recommendations from the NZBA. Íslandsbanki aims to adopt science-based targets and will therefore have to adapt its targets to reflect that methodology.

Road to net zero

Estimated pathway of emissions from balance sheet
$ktCO_2e$



Sectoral target for carbon footprint reduction in the Bank's loan portfolio[1]
Contraction relative to base year (2019)

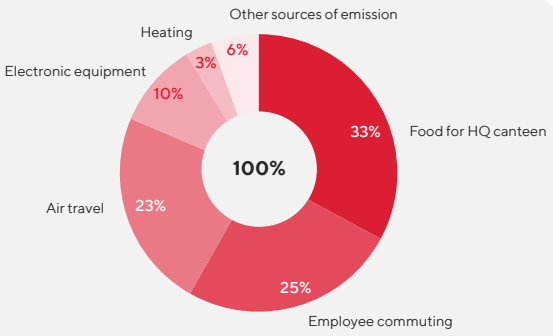
Sector	2030	2040	2050
Aviation and maritime shipping	>65%	>75%	>95%
Road vehicles	>50%	>75%	>95%
Commercial and residential real estate	<0%	<0%	<0%
Power generation	<0%	<0%	<0%
Seafood	>43%	>75%	>95%

[1]No sectoral targets have been defined for sectors other than the five listed in the table. The graph assumes a 50% contraction for other sectors, in accordance with Iceland's climate objectives and committments.

Carbon-neutral operations

The banking industry is not an energy-intensive industry; nevertheless, Íslandsbanki considers it important to set an example and adopt ambitious targets for emissions from its operations, minimisation of the carbon footprint, and mitigating measures. In this way, the Bank contributes to bringing about the changes in attitude that are essential in supporting climate action.

Top 5 operational emissions sources in 2024
Assured by an independent party



United Nations
Carbon offset platform

Since 2018, the carbon footprint from Íslandsbanki's operations has been estimated and published in accordance with Greenhouse Gas Protocol methodology. Íslandsbanki's total emissions from operations came to 1,000 tonnes of carbon dioxide equivalent (tCO_2e) in 2024. The Bank gained a better overview of emissions from food purchases and air travel, which have been among the largest sources of emissions from operations in recent years. It proved impossible to estimate the carbon footprint from road delivery of goods, as information on the weight of the cargo was lacking. Emissions from this category have been less than 0.2% in the past three years, however.

Íslandsbanki aimed to shrink the carbon footprint from its operations by 50% between 2019 and year-end 2024. Efforts to reduce the carbon footprint from scope 1 have been quite successful, with a contraction of 94% from 2019 through 2024. This is due mostly to the switch to electric vehicles in the Bank's fleet of cars. The total carbon footprint from scope 2 and scope 3 emissions, which were measured in 2019 and in 2024, shrank by 36%, which is very positive even though it falls short of the targeted 50% contraction. Emissions due to air travel increased by 44% year-on-year in 2024. The Bank switched systems and now maintains more detailed information on employees' air travel, however, and part of the increase between years probably stems from this change. Furthermore, the method for handling data on food purchases was changed and now captures a larger share of food purchases than before.

It is difficult to estimate how much of the increase in the carbon footprint is due to these changes. In addition, the methodology for estimating waste volume at one Bank branch was updated, causing a considerable reduction in waste volume for the Bank as a whole, while other branches use smart meters. This updated estimate of waste is more accurate than those from prior years.

In 2025, the Bank will set new five-year sustainability targets. The aim is to link targets for reducing the carbon footprint more closely with the budgeting process, thereby making it possible to estimate the decline in the carbon footprint from operations more effectively at the time annual spending plans are prepared.

Carbon neutralisation with mitigating measures

Since 2019, the Bank has ensured that its operations are carbon-neutralised by using mitigating measures to offset the portion that it has not been able to reduce. Íslandsbanki undertakes a variety of projects in order to offset the carbon footprint from its operations in full. Priority is given to certified international projects. Íslandsbanki neutralised its activities in full by purchasing 1,100 certified carbon emission reduction units through the United Nations Carbon Offset Platform. The projects in question include a solar energy project in India, which has been certified by both Gold Standard and the Clean Development Mechanism (CDM) (900 tCO_2e), and a project relating to the use of cleaner ovens in Africa (200 tCO_2e), which has been certified by CDM.

Social
2024
Assured by an independent party

S1-7 Characteristics of the Undertaking's Employees

Total employees	**854**
Male	374
Female	480
Number of permanent employees	**738**
Male	330
Female	408
Number of non-guaranteed hours employees	**26**
Male	11
Female	15
Top management gender diversity	
Male	68%
Female	32%
Total employee turnover rate	**11.5%**

S1-9 Training and Skills Development

The percentage of employees that participated in regular performance and career development reviews **100%**

The average number of training hours per employee and by gender

Male	6
Female	7

S1-10 Coverage of the health and safety management system

The percentage of workforce covered by health and safety management system **100%**

Íslandsbanki cares about its employees' well-being and supports their health in a number of ways, in line with its human resources policy. The policy covers factors such as the importance of an encouraging work environment.

S1-11 Performance of the health and safety management system

Fatalities as a result of work-related -injuries and -ill health	0
Fatalities as result of work-related injuries and work-related ill health of other workers working on undertaking's sites	0
Number of recordable work related accidents	0

S1-13 Work-life Balance

The percentage of employees entitled to take family-related leave **100%**

The percentage of entitled employees that took family-related leave	**8.3%**
Male	5%
Female	3.30%

S1-16 Pay gap between women and men

The gender pay gap, defined as the difference of average pay levels between female and male employees, expressed as percentage of the average pay level of male employees **21.90%**

Outcome of equal pay certification **0.2%**

Íslandsbanki has received equal pay certification according to the ÍST 85:2012 standard every year since 2018. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%

S1-17 Annual total compensation ratio

The annual total remuneration ratio of the highest paid individual to the median annual total remuneration for all employees (excluding the highest-paid individual) **504.70%**

S1-18 Discrimination incidents related to equal opportunities

Total number of incidents of discrimination, including harassment **0**

The Bank has in place a policy of sexual harassment and/or equality.

S1-19 Identified cases of severe human rights issues and incidents

The number of severe human rights incidents connected to the undertaking's workforce **0**

The Bank's Sustainability Policy states that the Bank emphasises respect for human rights and that it does not conduct business related to any human rights violations, such as discrimination based on gender, religion or race, inequality in the labour market as well as slavery and child labour.Further, suppliers must comply with laws, regulations and international agreements on the protection of human rights according to suppliers' code of conduct.

S1-22 Collective bargaining coverage

The percentage of total employees covered by collective bargaining agreements **100%**

All employees except for the CEO are covered by a collective bargaining agreement

S4-3 Channels for consumers and end-users to raise concerns

Number of complaints received from consumers and/or end users during the reporting period **403**

Consumers and/or endur-users can raise concerns through the Bank's website.Covers complaints the Bank received from customers and consumers through the Bank's business units.

Other social factors selected based on sector and internal materiality assessment

Does the company have procedures for detection and reporting of alleged misconduct that are well known by employees? ☑

Mechanisms for anonymous reporting of inappropriate conduct are available to all employees.

Are managers assigned responsibility for ethical marketing and reputational risk? ☑

Managers are responsible for ethical marketing and reputational risk, and there is targeted annual management training covering a large number of these and related factors.

Are the company and its products accessible to marginalised groups, small companies, or If yes, does your human rights policy cover communities? ☑

Various factors such as equal rights and accessibility are considered. Furthermore, the Bank stresses that its offices and branches must be accessible to marginalised groups, small companies, and communities

Is there a plan for human resource development that includes targets for recruitment, staff development, and turnover? ☑

Does the company offer sustainable loans that support the Government's social objectives? ☑

The Bank's Sustainable Funding Framework includes categories that support the Government's social objectives

Has the company board of directors approved and published equal rights objectives? ☑

The Bank aims to ensure that no single gender accounts for more than 60% of each management layer.

Sustainability Statement 2024

Strategy and policies

Auditor's Limited Assurance Report

Diversity for the future

Íslandsbanki places strong emphasis on ensuring diversity by welcoming all customers and employees. The Bank makes systematic efforts to treat all employees equally, and its objective is to improve each year, thereby being a force for good.

Íslandsbanki Human Resources Policy

Íslandsbanki's Human Resources Strategy supports the Bank's overall strategy which is based on the values **progressive thinking, collaboration** and **professionalism.**

Íslandsbanki Human Resources Policy

Systematic steps in the right direction

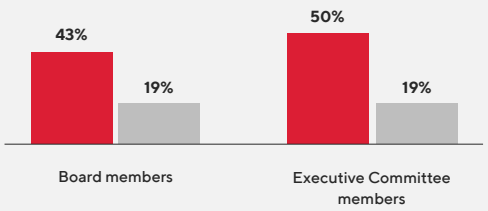
Íslandsbanki endeavours to maintain gender ratios that are as equal as possible in all of its divisions, departments, committees, councils, boards, and executive positions. One of the Bank's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. The Bank has taken systematic steps towards gender equality and is viewed as a model for good practice in this respect.

It has adopted an equal rights plan, and both the plan and the targets are in compliance with the Act on Equal Status and Equal Rights Irrespective of Gender. The equal rights plan lays down the Bank's equal pay targets. Íslandsbanki has received equal pay certification every year since 2018.

Employment advertisements are ungendered, and when selecting from between two equally qualified candidates, the Bank shall hire the applicant whose gender is underrepresented in the department concerned. In addition, the Bank has set targets aimed at increasing the number of women in departments that have had large gender gaps, such as investment banking and information technology.

Strong emphasis is placed on enabling employees to harmonise their professional responsibilities and their family life, with flexible work hours, remote work, part-time employment, and other adjustments insofar as is feasible and necessary at any given time.

Share of women on the Board and Executive Committee



Íslandsbanki, year-end 2024

Sample of international banks, average (December 2022)

Globally, within financial services institutions, women held 20% of board seats, 18% of C-suite roles in 2022.

Source: https://www2.deloitte.com/content/dam/insights/articles/us175770_cfs_within-reach-global-update-article/DI_Within_reach_global_update.pdf

Support and supervision aimed at fostering improvement

During the year, Íslandsbanki created a path for equal rights and diversity within the Bank, with strong emphasis on education and awareness. For example, employees were invited to attend educational sessions on ADHD and autism, and all employees in customer service positions were given special training on queerness from the National Queer Organisation of Iceland (Samtökin '78). Both of these aim to enhance employees' understanding of diversity and equality.

Íslandsbanki offers employees access to Icelandic language instruction through the smart device app BARA TALA. This solution gives Bank employees increased access to Icelandic instruction, which fosters inclusion in the workplace and in society more broadly.

Respect and well-being

All employees deserve to be treated with respect and not be subjected to any type of bullying, gender-based or sexual harassment, or violence (BHV). Such conduct is prohibited by law and is never tolerated within the Bank under any circumstances.

During the year, the Bank continued to hone its procedures relating to BHV and communication problems. All employees received annual training to strengthen their proficiency in addressing all types of communication problems or similar issues. In this way, we safeguard our employees' security, health, and well-being.

Equality Scale

Íslandsbanki received the Equality Scale gold seal in 2024, for the sixth year in a row. The Equality Scale is a dynamic project undertaken by the Icelandic Association of Businesswomen in Iceland (FKA). An important element in the programme is to raise consciousness about the value of diversity and equal rights through greater gender equality in management positions. The recognition associated with the Equality Scale confirms that the Bank has made outstanding progress towards the achievement of the programme's goals and has equalised the gender ratios in the top layers of its management.

Childbirth leave

Íslandsbanki encourages its employees, fathers and mothers alike, to exercise their right to childbirth leave. With the aim of further increasing gender equality, the Bank guarantees its employees 80% of their salary during childbirth leave.

We make a concerted effort to meet our employees' needs for flexible childbirth leave, with the aim of making it easier for them to return to work.

Financial health

Íslandsbanki prioritises strengthening its customers' financial health. The Bank wants to build financial knowledge among its customers and the general public, so as to enable its customers to take responsibility for their own finances and enhance their security and financial freedom.

Educational information

Íslandsbanki provided a range of educational offerings on financial matters during the year, through events, written articles, and informational outreach on social media. In all, over two thousand guests attended 27 open lectures held by the Bank. The events were held in Icelandic, English, and Polish in order to reach a broad group of attendees. Topics ranged from teaching interested people the basics of saving, how to read annual accounts, what type of mortgage might suit them best, what they need to know about childbirth leave, and how to prepare for retirement. The events were held at Íslandsbanki's headquarters in Norðurturn, online via Teams, and in Bank branches throughout Iceland. Furthermore, the Bank welcomed over 300 university students on science trips and gave them instruction on finances and on Íslandsbanki as a workplace.

The Bank emphasised sharing instructional information on finances with the public via social media. Íslandsbanki publishes videos in which Bank employees explain financial terminology and concepts in plain language. Summaries of articles by staff members and Íslandsbanki Research were published on social media and distributed as widely as possible.

Financial education (in Icelandic)

Word Bank

Íslandsbanki emphasised educating the public about terms and concepts relating to banking and finance. In 2023 we launched our Word Bank, where users can find explanations of various financial terms and concepts. The idea behind the Word Bank is to bolster financial literacy and help people to understand all of the terms and phrases used in the banking industry. Users can also send in terms for which they want definitions, thereby further expanding their financial literacy.

The Word Bank contained over 100 terms by the end of 2024, and more are added on a regular basis.

Word Bank (in Icelandic)

Information security and defences against cyberattacks

Íslandsbanki prioritises digital development and use of information technology (IT). Increased use of IT can have both positive and negative effects on the Bank's customers. Digital development enhances efficiency and can expedite and simplify the provision of service, but it can also expose the Bank and its customers to fraud and cyberattacks. The Bank's Operational and Security Committee, which works under the auspices of the CEO, is tasked with analysing matters relating to operations, systems, and security, as well as the health of information systems.

Cybersecurity

Instances of fraud have increased significantly and target both individuals and companies. It is important to consider cybersecurity, and here you can find useful information to prevent fraud.

Cybersecurity

Information security

In order to ensure customers' security, the Bank has an information security management system that protects data from unauthorised access, modification, destruction, or loss. Since 2016, Íslandsbanki has been certified according to information security standard ISO27001:2013, and its compliance with the standard is appraised annually by KPMG in Finland. The certification indicates that Íslandsbanki has verifiably set up, executed, maintained, and updated its information security management system in a responsible and reliable manner. It also means that the Bank has selected and applied the appropriate measures to protect the information it possesses or handles, by having taken account of potential threats and weaknesses and the impact they have on information.

Íslandsbanki's fraud monitoring team

During the year 2024, the Bank's fraud monitoring team expanded its activity in response to new challenges. Team members are working continuously to improve the Bank's defences against fraud. They also instruct other employees by holding seminars and sending weekly e-mails on important fraudulent activities. The Bank offers instruction for customers on its cybersecurity page, and announcements of known fraud incidents or advice on avoiding fraud are communicated with targeted mail and on social media. Íslandsbanki participates in the cooperative organisation Nordic Finance CERT, which disseminates information to its members concerning fraud, cyberattacks, and defences against cyberattacks. In 2024 the Bank began using the Defend Iceland phishing portal, which promotes cybersecurity and enhances companies' resilience against severe cyberattacks. The Bank also pledged to participate in the research project AwareGo, which focuses on the key online fraud risks facing individual and corporate users of online banking, and on the development of mitigating measures related to security training.

Testing and exercises

The Bank carries out regular tests on its IT systems and conducts contingency exercises, as well as performing automated and manual testing and internal appraisals to ensure security. All software coding is reviewed and tested automatically and manually before it is put into use. The Bank's operating environment is divided into development, testing, receipt, and operations, so as to prevent incidents relating to the development and launch of computer systems. Furthermore, risk assessments are used to manage risk. Competent parties are engaged to attack the Bank's computer systems and search thoroughly for loopholes from within and without.

Several times a year, the Bank's cybersecurity team conducts contingency exercises focusing on all types of cyberthreats. At least once a year, the Bank's emergency management team carries out exercises centring on major shocks, including ransomware attacks and data leaks. The Bank is designated as systemically important at the national level and, as such, is subject to stringent requirements that it must satisfy in order to guarantee the security of the assets it holds in custody.

Internal and external innovation

Íslandsbanki is committed to fostering innovation in Iceland, and UN Sustainable Development Goal number nine — Industry, Innovation, and Infrastructure — is one of the four goals the Bank has chosen to support in various ways.

Companies that received grants in 2024

Mirno
Kvennasögusafn
Okkar heimur
Cloud Solutions
Flöff
Ísponica
Oxstone
Shirako
GreenFish
Svepparíkið
Minamo
Rekovy
Hringvarmi
SonoMicro

Further descriptions of the projects

The Bank held its Brainstorm innovation day during the year. A new framework for innovation and brainstorming days was launched, and all Bank staff were invited to put their creativity to work and contribute ideas for improved products, services, or internal operations. The ideas could centre on new technology, an improved service experience in the app or online bank, more effective processes, enhanced job satisfaction, or whatever a fertile mind might conjure. Employees formed small groups and were given 24 hours to develop their idea before presenting it to co-workers and an adjudication panel in two rounds. A total of 14 groups participated during the year, offering a wide range of intriguing ideas.

Emphasis is placed on having managers meet with the groups and explore their ideas more closely. Some ideas are developed further and eventually included in the Bank's product offerings, while others are fine-tuned by product teams, and still others wait for later. This establishes a framework to support creative thinking and a forum for developing ideas further, with the aim of enhancing value for the Bank and its customers.

Allocations from the Entrepreneurship Fund

Fourteen projects received grants from the Íslandsbanki Entrepreneurship Fund in 2024, totalling ISK 50 million. A total of 875 applications have been submitted since 2019, including 145 in 2024, a 10% increase from the previous year. Total allocations from the Fund now amount to ISK 265 million.

Behind the projects that received grants in 2024 are diverse teams of entrepreneurs, as in previous years. Regional Iceland was very well represented, with one-third of applicants. This year, 29% of the teams were composed of women and 19% were composed of men, and 52% were mixed groups.

The Íslandsbanki Entrepreneurship Fund encourages innovation and development and supports entrepreneurial endeavours that further the four UN Sustainable Development Goals that the Bank has decided to prioritise.

Cooperation and dialogue with customers

Íslandsbanki prioritises wide-ranging dialogue with its customers. Sustainability comes up more and more often in dialogue with representatives from the Bank's corporate customers, and interest in sustainable financing options has grown. In line with this trend, Íslandsbanki has strengthened its educational material on sustainability as it applies to various sectors, including by publishing sectoral guidelines and holding educational seminars with employees.

Sustainable financing and financial incentives

The transition to carbon neutrality demands substantial investment that creates opportunities for banks to meet their customers' financing needs. The Bank is determined to create positive incentives to expedite investment in the transition needed to combat climate change. The possibility of providing such incentives comes from more favourable financing terms offered to the Bank for sustainable bond issues and from robust management of sustainability risk, which can affect credit risk. This enables the Bank to offer more favourable interest rates for sustainable projects undertaken by its customers.

As is noted above, Íslandsbanki issued an updated Sustainable Funding Framework at the beginning of 2024. It has categorised loans according to a sustainable lending framework since 2020. Sustainable loans accounted for 9% of the Bank's total loan portfolio at the end of 2024.

Sustainable Funding Framework

Sustainability training and education

Íslandsbanki endeavours to support its customers on their sustainability journey. The Bank's customers operate in a wide range of sectors and are faced with various sustainability-related risks and opportunities. The Bank has issued four sets of sectoral guidelines covering the construction, fishing, and tourism industries, as well as the manufacturing, retail trade, and services sector. The guidelines are conceived as a tool to provide firms with a better overview of the sustainability-related risks and opportunities in their industry. Exposure to risks varies from one sector to another, and the guidelines contain customised advice on risk management. The Bank hopes that the guidelines will create a shared foundation for Íslandsbanki, its customers, and other stakeholders to engage in further dialogue on sustainability.

Sector guidelines (in Icelandic)

ESG risk assessment and management of sustainability risk

By the end of 2024, 93% of all credit risk had undergone an ESG risk assessment. The Bank therefore has a good overview of where in the loan portfolio the key sustainability-related risks lie, and it is committed to taking account of ESG criteria when assessing risk and determining the pricing of its loans, thereby integrating sustainability risk into its lending decisions.

Governance
2024

Assured by an independent party

GOV1 The role of the administrative, supervisory and management bodies

Does the company prohibit the CEO from serving as board chair? ☑

In accordance with the Act on limited companies No. 2/1995 and the companies Articles of association the CEO of the company cannot serve as board chair.

Share of independents in board **100%**

GOV2 Board diversity

43%

Total **board seats** occupied by women

67%

Committee chairs occupied by women.

GOV3 Incentivised pay

Are executives formally incentivised to perform on sustainability? ☐

According to Article 7 of the Bank's employment terms policy, the Bank does not authorise bonus payments.

G1-2 Management of relationships with suppliers

Are your vendors or suppliers required to follow a code of conduct? ☑

If yes, what percentage of your suppliers have formally certified their compliance with the code? **92%**

G1-3 Prevention and detection of corruption or bribery

Does your company follow an ethics and/or anti-corruption policy? ☑

Íslandsbanki has a policy on Anti Bribery and Corruption. Further the Bank has a policy against money laundering and as well as it has established a Code of Conduct for its employees and the Bank's Sustainability Policy also addressed ethics and anti-corruption.

If yes, what percentage of your workforce has formally certified its compliance with the policy? **99%**

G1-4 Confirmed incidents of corruption or bribery

Number of convictions for violation of anti-corruption and anti- bribery laws **0**

Number of confirmed incidents of corruption or bribery **0**

G1-5 Political influence and lobbying activities

Financial political contributions made **0 ISK m**

In accordance with the Bank's Grant policy, the bank does not support political organisations or individual campaigns, neither on behalf of organisations nor individuals.

G1-6 Payment practices

Number of outstanding legal proceedings for late payments **0**

Other governance factors selected based on sector and internal materiality assessment

Does your company follow a data privacy policy? ☑

The Bank's Data Privacy Policy is comprehensive and available online. Data privacy is an important component to Íslandsbanki's operations and the Bank takes these responsibilities seriously.

Does your company publish a sustainability report? ☑

Íslandsbanki publishes an integrated Annual and Sustainability Report each year.

Is sustainability data included in your regulatory filings? ☑

The Bank provides the Central Bank of Iceland with sustainability information.

Does your company provide sustainability data to sustainability reporting frameworks? ☑

Íslandsbanki provides information on its sustainability activities to CDP, the UN Global Compact and UN Environmental Programme - Financial Initiative.

Does your company focus on specific UN Sustainable Development Goals (SDGs)? ☑

Íslandsbanki places special emphasis on four of the UN's Sustainable Development Goals: # 4 education for all, # 5 gender equality, # 9 innovation and infrastructure, # 13 climate action.

Does your company set targets and report progress on the UN SDGs? ☑

Íslandsbanki has published sustainability golas for 2025 with special emphasis on four of the UN SDGs.

Has the company examined ESG risk in connection with unlikely major occurrences? ☑

Yes, as part of internal stress tests.

Has the company examined long-term risk in connection with ESG factors? ☑

For further information, see the Pillar 3 Report for 2024.

Does the company enforce a competition law plan? ☑

Does the company enforce a policy on conflicts of interests? ☑

Does the company enforce a policy on handling of complaints? ☑

What obligations or accords has the company undertaken in connection with ESG issues? ☑

UN Global Compact, UN Principles for Responsible Banking, CDP, NZBA, TCFD, PCAF, UN Principles for Responsible Investments (Iceland Funds), Festa - Center for Sustainability, Iceland SIF.

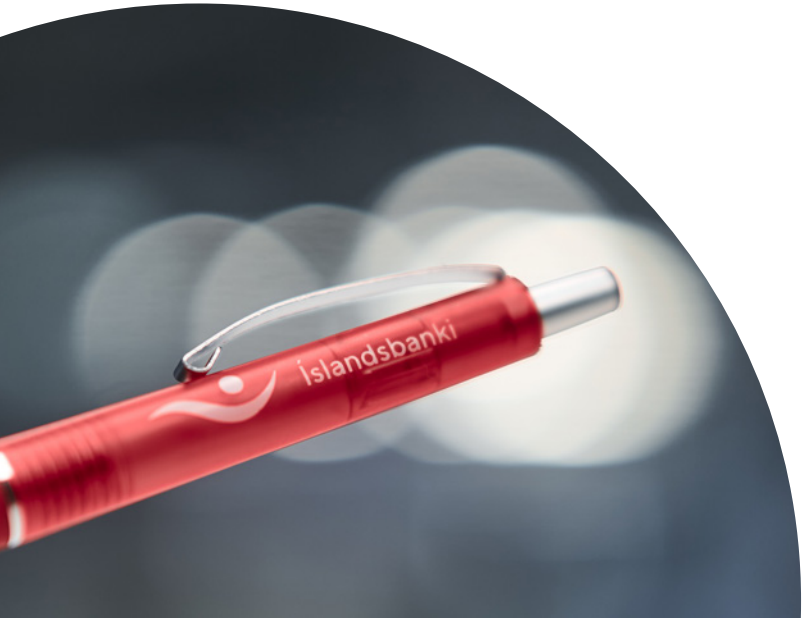
Sustainability Statement 2024

Strategy and policies

Auditor's Limited Assurance Report

Sound governance practices

One of the Íslandsbanki Board's key goals is to continuously develop and strengthen the Bank's governance practices. The Board has resolved to adhere to exemplary corporate governance practices that are consistent with applicable regulatory provisions, internationally recognised criteria, and best practice in corporate governance. For example, the Bank's internal regulatory framework is reviewed on a regular basis with an eye to relevant changes in the internal and external environment.



Guidelines on Corporate Governance

Íslandsbanki's governance practices are in compliance with the Guidelines on Corporate Governance, and each year the Bank conducts an appraisal to ensure that they remain consistent with the Guidelines. The Bank's governance practices are described more fully in its Corporate Governance Statement.

Corporate Governance

Code of Conduct

Íslandsbanki's Code of Conduct is intended to promote sound governance practices within the Bank and to support the regulatory framework applying to its activities. It contains important guidelines for employees, including on risk culture, personal data protection, and notifications of misconduct.

Code of Conduct

Policy on conflicts of interests

During the year, the Board revised the Bank's policy on conflicts of interests. The Bank stresses strongly that all of its employees should be aware of the risk of conflicts of interests in their work and take appropriate action to prevent or address conflicts of interests in Bank operations.

Policy on conflicts of interests

Anti-money laundering and terrorism financing measures

Measures to combat money laundering and terrorism financing are an important facet of Íslandsbanki's operations, and the Bank is committed to ensuring that neither it nor its products will be used to launder money or finance acts of terrorism. Strong defences against money laundering are based on an effective mixture of monitoring by employees and system-based monitoring, as well as on sound governance. In addition to the Bank's anti-money laundering and terrorism financing policy, employees work according to procedures designed to reduce the risk of such activity, and all employees receive training and education on the topic at least once a year.

Policy

Competition law plan

During the year, the Board of Directors updated the Bank's competition law plan. It is the Bank's policy to engage in active competition in the markets where it operates, and to ensure that its activities fulfil the obligations that follow from competition legislation at all times.

Competition law plan (in Icelandic)

Sustainability-related governance structure

Clear sustainability-related roles and responsibilities for managers ensure regular follow-up and strengthen the Bank's capacity to respond to challenges and opportunities associated with sustainability.

Roles of the Board and Executive Committee

The Board of Directors approves the Bank's sustainability policy and targets, and determines the Bank's sustainability-related risk appetite. The Board is updated regularly on key sustainability-related issues and on the status of the Bank's Sustainable Funding Framework. The Board Corporate Governance and Human Resource Committee supports the Board by maintaining an overview of key issues relating to sustainability.

The CEO is responsible for implementing the sustainability policy and has appointed the Sustainability Committee to function as a key actor in sustainability-related governance. The Executive Committee is responsible for the implementation of sustainability targets and for ensuring that the relevant rules and procedures within their departments are in compliance with the sustainability policy.

Sustainability Committee

The Sustainability Committee is one of the Bank's business committees and is an organised forum for examination and discussion of matters relating to the Bank's sustainability-related policy formulation and obligations. The Committee focuses on and forms opinions about the implementation of the Bank's sustainability policy, and it ensures that sustainability is integrated into the Bank's business strategy and risk management, in line with the policy. Furthermore, it focuses on the impact of the sustainability-related regulatory framework on the Bank's activities and prepares changes in operations to accord with the relevant requirements. The Committee has the role of monitoring the use of the Bank's Sustainable Funding Framework and providing opinions on sustainability targets and related action plans.

Members of the Committee include the CEO, the Chief Risk Officer, and the head of Strategy and Sustainability. The Committee is kept abreast of progress made on all of the Bank's sustainability targets at least quarterly, and it gives particular attention to measures to be taken when targets are not met.

Transparency

Íslandsbanki strongly emphasises transparency in its sustainability-related information disclosures. The carbon footprint from the Bank's loan portfolio for 2019 through 2024 has been published, in accordance with the PCAF methodology. In addition, the Bank's subsidiary Iceland Funds was the first fund management company in Iceland to publish the financed emissions of its assets under management.

Íslandsbanki publishes its climate targets for 2030 in accordance with the NZBA methodology. It has also submitted measurements of the carbon footprint from its operations and loan portfolio to the Climate Disclosure Project, the world's largest database of companies' environmental impact, and has provided reporting in accordance with the UN Principles for Responsible Banking (UN PRB). Íslandsbanki has received a provisional opinion from external appraisers concerning selected sustainability information in its Annual and Sustainability Report for 2024, as it has in previous years. This year, pages that have been assured with limited assurance from KPMG are specially labelled.

Interactions with suppliers

Íslandsbanki updated its Suppliers' Code of Conduct during the year. The update was based on experience gained from previous versions of the Code and on new requirements in this area. The suppliers from whom the Bank requests confirmation of compliance with the Code account for a combined 80% of its expenses. In 2024, the Code was signed by 92% of suppliers (in terms of turnover), slightly short of the Bank's goal of 100%. For 2025, Íslandsbanki aims for 100% of the relevant suppliers to confirm their adherence to the Code.

The Bank considers sustainability factors in all of its purchasing. Furthermore, sustainability must carry a weight of at least 10% in all decision-making on the Bank's purchasing-related tenders. Íslandsbanki does not have a formal policy regarding the method of payment to suppliers. It endeavours to pay its suppliers promptly, however. In 2024, the Bank began calculating the number of days between the final due date on supplier invoices and the actual payment date, as well as the share of invoices paid in accordance with payment terms. The results will be published after one year.

Íslandsbanki prioritised sustainability-related governance practices in 2024. Among the projects undertaken was the approval of a policy on defences against bribery and corruption and increased focus on sustainability in the Bank's product offerings. This was done in part by involving a sustainability expert in the new product approval process and by making significant changes to product offerings.

Employee participation and sustainability culture

Employee participation is key to achieving the Bank's sustainability objectives and creating a corporate culture that supports the process.

A Helping Hand

For over ten years, Íslandsbanki has encouraged its employees to contribute to charitable causes. Employees can dedicate one workday per year to a good cause under the Bank's Helping Hand programme.

During the year, 75 employees gave a Helping Hand in connection with a range of projects such as Christmas gift distribution and wrapping for the mothers' support organisation Mæðrastyrksnefnd, assisting the Icelandic Cancer Society's Pink Ribbon initiative, and acting as patrols during the Cancer Society's Mustache March running race. Many of Íslandsbanki's departments have supported the same cause or NGO for a number of years; for instance, one group of Bank employees has helped the cancer survivors' association Ljósið with Christmas season cleaning and decoration each year since 2016.

Helping Hand

Social grants and a record-breaking Reykjavík Marathon

We support selected projects that strengthen the community and protect the environment by subsidising people, NGOs, and companies that promote positive developments in society.

Íslandsbanki became a primary sponsor of a Cancer Society project focusing on a specialised digital appointment booking solution for the National – University Hospital's Breast Cancer Centre. In 2024, only 56% of women in Iceland went for mammograms, thereof only 16% of women of foreign origin, which can detect breast cancer before symptoms appear.

For the second year in a row, the Íslandsbanki Reykjavík Marathon generated a record amount in pledges, which totalled ISK 257 million, up from ISK 199 million the year beforehand. The pledges are donated to the charitable organisations listed as beneficiaries of the race. Íslandsbanki is also the primary sponsor of the Reykjavík Marathon, the biggest charity donation drive in Iceland. Íslandsbanki covers all of the cost of the Hlaupastyrkur website and the collection of pledges, which revert in full to the beneficiary organisations. A total of 14,646 people of all ages and genders participated in the event. Both the half marathon and the 10 km event were sold out.

Sustainability targets further ahead

Íslandsbanki's sustainability objectives are approved by the Board and have a clear link to the UN Sustainable Development Goals, as well as complying with other international benchmarks. The secondary objectives for 2025 are in line with the Bank's basic double materiality assessment. Emphasis has been placed on climate change and consumers and customers, as well as equal rights, which were spotlighted in the Bank's previous impact analysis. These are the areas where Bank believes it has the greatest opportunity to be a force for good.

In 2025, the Bank will update its sustainability objectives and set new ones for the period through 2030.

	Íslandsbanki's sustainability objectives through 2025	Sustainability objectives for 2025[1]
Environmental	1. Achieve full carbon neutrality no later than 2040	Conduct at least 25 meetings with corporate customers to discuss sustainability and carbon neutrality. Educate SMEs on sustainability and carbon neutrality.
	2. Offer our customers green and sustainable products	The share of sustainable assets within Personal Banking should reach 10%. The share of sustainable assets of the Bank's corporate portfolio should reach 15%.
Social	3. Encourage equality and inclusion through products and services	Assess gender ratios of owners and boards within the Bank's SME portfolio and prepare an action plan. Increase access to digital solutions for diverse groups who are unable to utilise current solutions.
	4. Further increase diversity and inclusion in the workplace	Reduce the unadjusted gender pay gap by 1% each year for the next five years.[2] Support for individuals who need assistance entering the job market.
Governance	5. Work with suppliers and partners that champion sustainability	Maintain the compliance of all major suppliers with the Suppliers' Code of Conduct and strengthen monitoring on suppiers sustainability issues. Conduct meetings with 10 suppliers from different areas of the Bank to discuss sustainability issues.
	6. Assess sustainability risk, define responsibility, and increase information disclosure	Maintain performance in ESG risk assessments of customers. Continued development and strengthening of the process for ESG risk assessment of customers and the assessment itself.
	7. Clear and strong governance	Further advancement, automation, and strengthening of defenses against money laundering, terrorism, and fraud prevention.
	8. Place special emphasis on four of the UN SDGs	Allocate ISK 40-50 million from the Entrepreneur Fund to support entrepreneurs and promote innovation in Iceland. Increase staff knowledge across the Bank on the UN SDGs and sustainable development.

[1] Annual sub-goals are built upon the work of the Bank's departments and units which is a part of the annual five year planning process.
[2] Applies to all permanent employees.

Economic review

Economic review

The year 2024 marked a turning point for the Icelandic economy, transitioning from a robust growth phase to a period of adjustment. Unfavourable net trade contribution offset moderate domestic demand growth, resulting in a mild contraction in GDP. Both the housing and labor markets saw reduced tensions. Inflation declined notably during the year, prompting the start of an interest rate reduction cycle in 4Q. Moderate GDP growth is expected in 2025, characterised by continued economic rebalancing and declining inflation, which will enable further rate cuts in the coming year.

2024

The Icelandic economy in 2024 adjusted towards equilibrium after rapid growth in prior years. Over the first nine months, GDP contracted by 1% year-on-year (YoY). The contraction stemmed from a negative net trade contribution, with exports declining over 2% YoY and imports increasing by 1%. National expenditure grew by 0.6%, driven by nearly 4% investment growth and a 3% rise in public consumption, while private consumption remained largely unchanged.

The stagnation in private consumption reflects limited real wage growth, rising real interest rates affecting consumption and savings, and declining economic expectations among households. Higher real rates also impacted investment alongside challenges in export industries and declining business sentiment early in the year.

However, optimism among households and businesses rebounded significantly in 4Q, potentially boosting domestic demand in the final months of the year.

A contraction on exports led to a moderate current account deficit

Export industries faced numerous challenges in 2024. Tourism contracted in 1H due to seismic activity in Reykjanes, increased competition from other northern destinations, and a stronger real exchange rate. However, the sector recovered somewhat in 2H, with total foreign tourist numbers rising moderately compared to 2023. Additionally, a failed capelin season and energy rationing for aluminium smelters slowed goods export growth. Meanwhile, imports, particularly services imports, continued to grow.

During the first three quarters, Iceland recorded a trade deficit of ISK 26 billion, a sharp reversal from the ISK 63 billion surplus a year earlier. The deficit stemmed from declines in all major components of the trade balance, notably a ISK 46 billion drop in services surplus and a ISK 35 billion reduction in primary income balance surplus. The full-year trade deficit is projected at around 1.5% of GDP.

Labour market seeking equilibrium

Iceland's labour market has seen strong demand for labour in recent years, but tensions eased gradually in 2024. Unemployment edged up to 3.5% on average, from 3.2% in 2023. Concurrently, fewer firms reported labour shortages, and hiring plans diminished, as indicated by surveys.

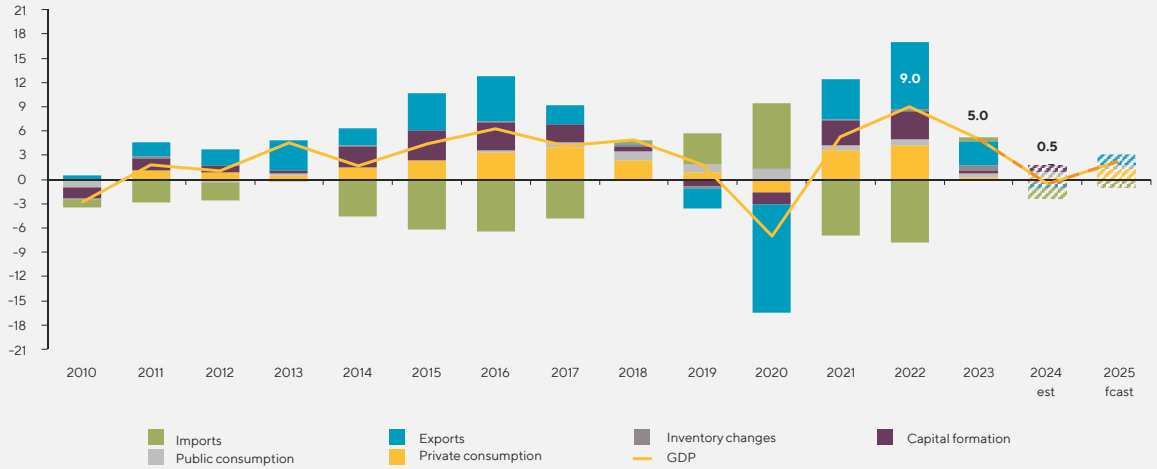
Wages rose by an average of 6.6% YoY. Despite significant inflation, real wages increased by 0.7%, with the greatest gains seen among lower-income earners, driven by fixed minimum nominal increases in collective agreements.

Moderating inflation facilitated policy rate cuts

The Icelandic króna was stable on average in 2024 compared to 2023, with an annual average trade-weighted exchange rate index of 195.2, almost exactly the same value as a year before. However, 3Q saw depreciation in the ISK, which reversed in 4Q. The currency movements in the second half of the year were likely influenced by capital flows rather than trade dynamics.

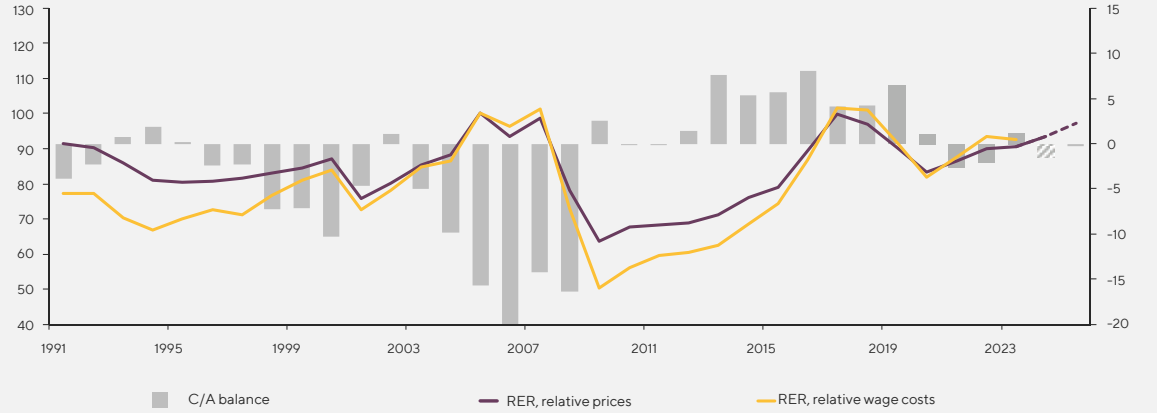
Despite high interest rates, stricter lending conditions, and increased new housing supply, Iceland's housing market remained buoyant. However, turnover declined, and market balance improved as the year went on. Over 3,800 new homes were completed in 2024, a

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



Shaded columns and broken lines: Íslandsbanki Research forecast / Source: Statistics Iceland

Real exchange rate and current account balance
Index and share of GDP



Shaded columns and broken lines: Íslandsbanki Research forecast / Source: Central Bank of Iceland

slight increase YoY. Housing prices rose by 8% YoY, maintaining real price growth despite considerable inflation.

Inflation declined significantly from 6.7% at the start of the year to 4.8% by year-end, driven by reduced housing market price pressures, slower wage cost growth, and economic cooling coupled with high real interest rates and a stable currency.

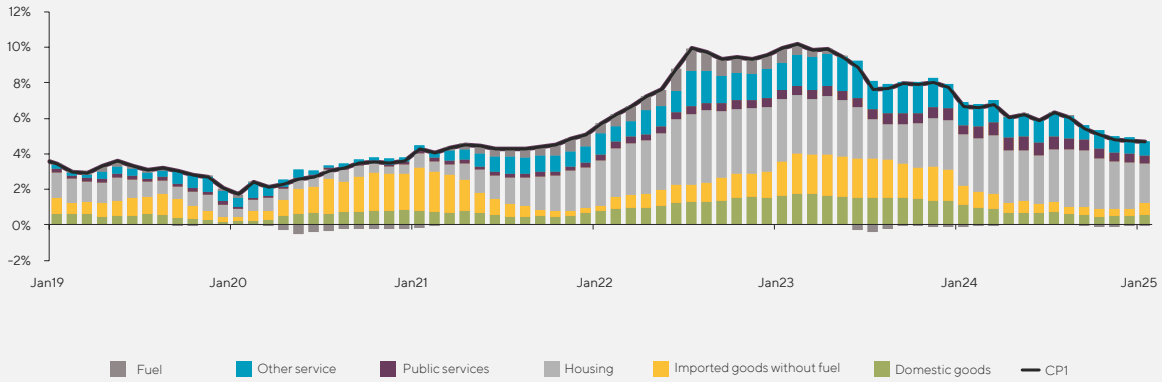
The Central Bank responded by cutting policy rates twice in 4Q, ending the year at 8.5% after holding rates steady at 9.25% for over a year.

Moderate GDP growth and subsiding inflation in the cards for 2025

GDP is expected to grow modestly by 2.2% in real terms in 2025, reflecting ongoing economic rebalancing. Private consumption and exports are likely to drive growth, while investment remains almost flat YoY.

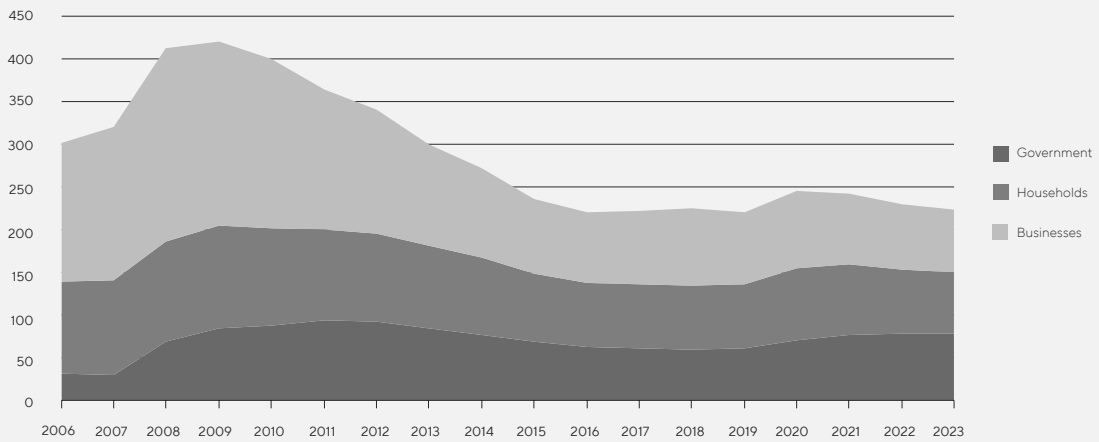
Tourism is projected to contribute modestly to export revenue increases, with foreign tourist numbers likely to increase moderately YoY to nearly 2.3 million. Robust growth in aquaculture, pharmaceuticals, and human capital intensive industries will support exports, while seafood and aluminium exports are likely remain stable. Faster export growth than in imports will likely facilitate a more balanced external trade in 2025 compared to 2024.

Inflation, by source (%)



Source: Statistics Iceland

Household, corporate, and public debt
% of GDP



Source: The Central Bank of Iceland

Private consumption is expected to grow by almost 3% in real terms, supported by low unemployment, modest real wage growth, declining interest rates, and population growth. Lower interest rates, persistent demand and slower cost increases will support also housing investment, while business investment may decline slightly due to high real rates and limited need for capacity expansion in some export sectors. Overall, gross fixed capital formation is projected to remain flat YoY.

Wage growth is expected to moderate to just over 5% YoY due to easing wage drift and moderate collective agreement increases. With inflation projected to average 3.6%, real wage growth should exceed 1%. Unemployment is forecast to rise slightly to 3.8%. The króna is expected to remain stable, supported by balanced trade and steady capital inflows. Inflation is projected to decline rapidly in 1H 2025, approaching the Central Bank's 2.5% target by mid-year and averaging 3.6% for the year. Declining inflation and reduced economic pressures will enable the Central Bank to continue cutting rates, with the bank's policy rate expected to reach 6.5% by year-end.

Financials and funding

Financials and funding

The Bank's loan portfolio grew by a total of 6% year-on-year. All business units contributed to the increase, although growth was strongest in residential mortgage lending.

High interest rates have caused changes in loan portfolio composition, however, as customers have in increasing amounts refinanced their loans, replacing non-indexed with CPI-linked loans. Due to this, they have been able to meet growing payment burden of non-indexed loan thus reducing their debt service – albeit at the cost of slower equity accumulation. There was a steady trend in this direction all year, with the result that the Bank's indexed assets now exceed indexed liabilities by ISK 193 billion. The Bank's CPI-linked loan portfolio is therefore funded to a degree with non-indexed liabilities – both deposits and bonds.

On the other hand, the Bank's fixed-rate imbalance, which stems from loans issued at low interest rates in 2020-2022, has reduced rapidly as the loans concerned have come up for interest rate reset. Most of this imbalance will disappear from the Bank's accounts in coming months.

Loan portfolio quality remains strong, with few signs of growing delinquencies

Although high inflation and interest rates have made their mark on the Icelandic economy in recent years, the Bank's loan portfolio is both stable and of high-quality. This is due to the Bank's thorough lending process and a conservative lending culture with emphasis on sound collateral, which has resulted in a portfolio that is 94% secured.

Ellert Hlöðversson
Chief Financial Officer

“

Strong capital position and abundant liquidity

Íslandsbanki's operations were strong in 2024. The Bank generated a profit of ISK 24.2 billion, which is equivalent to an annualised return on equity of 10.9%. The cost-to-income ratio for the year as a whole was 43.9%. In terms of both return on equity and cost-to-income ratio, the Bank's performance exceeded its financial targets, thanks to strong results from all of its operational units and subsidiaries. The Bank's balance sheet remains strong and is largely composed of the loan portfolio, on the one hand, and deposits, bond issues, and capital, on the other. Credit growth was robust during the year, at 6%, and deposits grew by 10%. The funding terms offered to the Bank continued to improve in 2024 and now are at their most favourable in quite some time. Capital ratios are strong, meeting internal targets and supervisory requirements with considerable room to spare. The entry into force of the third Capital Requirements Regulation (CRR III), set for 2025, will probably increase that scope still further. The Bank has set the objective of streamlining its capital, through growth and/or distributions to shareholders.

The share of loans in stage 3 was 1.8% until the third quarter of 2024, when it fell to 1.6%, where it has remained since. The share of stage 2 loans increased in the last quarter of 2023, owing mainly to the volcanic eruptions in Grindavík, but has remained largely stable since then.

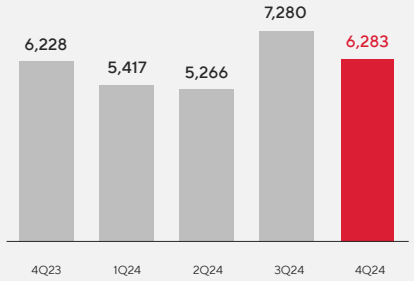
In 2024, the Bank accounted for a total of ISK 645 million as impairment reversals. This was due mainly to a recalibration of the Bank's models and due to changed economic assumptions, in line with declining inflation and interest rates.

Funding has been successful

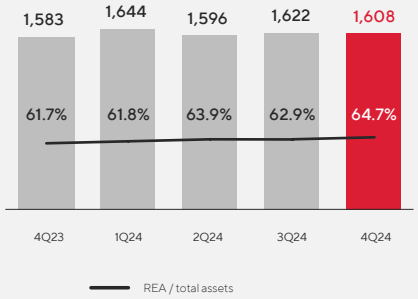
Despite uncertainty in the markets during and after the COVID-19 pandemic, Íslandsbanki has maintained continuous access to the markets in recent years, although funding terms have at times been unfavourable. This clearly shows the Bank's strong position in the assessment of domestic and foreign investors, which is reflected in its excellent credit ratings from international rating agencies Moody's and S&P Global.

In 2024, the Bank issued bonds in euros, Norwegian kroner (NOK), Swedish kronor (SEK), and Icelandic krónur. Spreads on the Bank's issuances compressed over the course of the year, indicating investor confidence in the Bank and favourable market conditions. At the beginning of January 2025, the Bank issued bonds in NOK and SEK at the most favourable rates it has been offered in years, with spreads ranging from 98 - 120 basis points above the base rate, depending on currency and maturity.

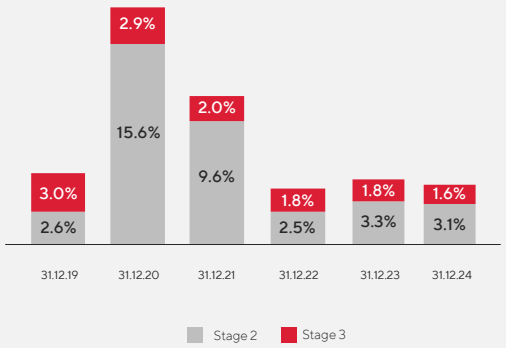
Profit after tax
(ISKm)



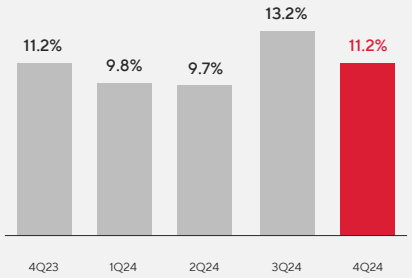
Total assets
(ISKbn)



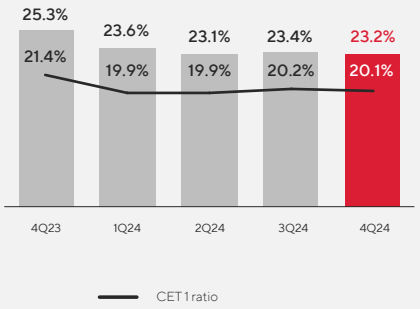
Asset Quality



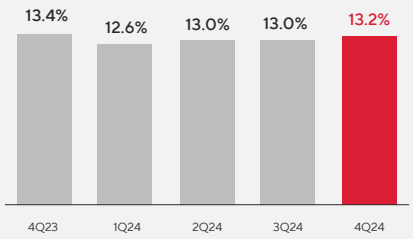
Return on equity



Total capital ratio[1]



Leverage ratio[1]



[1]Including 1Q24 profit for 31.3.24

Customer deposits grew by 10% in 2024, driven mainly by individuals and other depositors in the 10% LCR category. The Bank's high-yielding savings products, such as Ávöxtun accounts, were the most popular.

Net interest income was affected by a wide CPI imbalance

As the CPI imbalance has grown, month-to-month inflation has had an increasing effect on the Bank's interest income. On the other hand, interest expense, particularly deposit interest, is determined mainly by domestic policy rates. It is largely for this reason that the Bank's net interest income shrank by 2.8% year-on-year in 2024. As inflation eases and interest rates seek a new equilibrium, the Bank expects the negative impact of the CPI imbalance to disappear from its books.

The state of the economy also affected fees and commissions. For example, activity in the securities market was subdued early in the year but then surged in the second half, with the associated rise in commissions from investment banking. The same effects could be seen in Asset Management and in income from payment intermediation and payment card use.

Strong capital position and abundant liquidity

Around mid-year, the Central Bank set the Bank's capital requirement, which is now 19.7%, including a CET1 capital requirement of 15.4%. At the end of the year, the Bank's CET1 ratio was 20.1%, or 270 basis points ahead of the midpoint of the management buffer.

The Bank therefore has excess share capital in the amount of ISK 28 billion, assuming an optimal capital structure. In addition, the Bank expects amendments to the Capital Requirements Regulation – CRR III – to take effect in 2025. In the Bank's assessment, the changed regulatory framework will lower its risk base by the approximately 5%, which will increase its excess capital to just over ISK 37 billion.

By the same token, the Bank's liquidity ratios are well above internal targets and regulatory requirements, owing to strong growth in deposits and ready access to bond markets in the recent term.

The Bank was active in buying back its own shares in 2024, with buybacks totalling ISK 9.1 billion during the year. The Board plans to propose at the Annual General Meeting that a dividend of ISK 12.1 billion be paid to shareholders, in line with the Bank's dividend payment policy. The Bank has also set the objective of streamlining its capital, through growth or distributions to shareholders. The Bank's target is to maintain a CET1 excess of 100-300 bps on top of regulatory requirements.

Corporate and organisational structure

Organisational structure
Board of Directors and Board subcommittees
Board of Directors
CEO and CEO's advisory committees
Executive Committee

Organisational structure

The management and ultimate control over Íslandsbanki is divided among shareholders, the Board of Directors, and the CEO, in accordance with the Bank's Articles of Association and the applicable regulatory provisions.

Íslandsbanki Articles of Association

The Bank's Articles of Association contain provisions on, among other things, the purpose of the Bank, its share capital, shareholders' meetings, election of the Board, and the Board's duties.

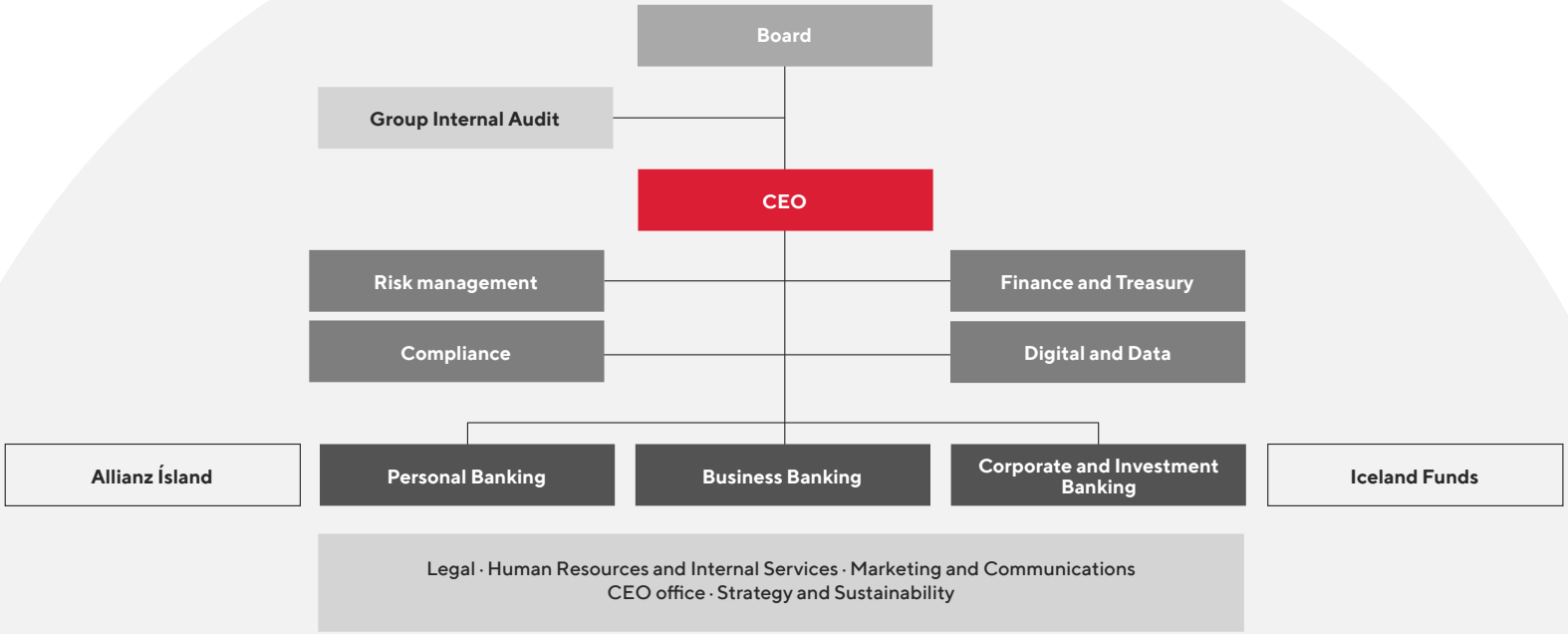
Íslandsbanki Articles of Association

Ownership structure

Shares in the Bank are listed on the Nasdaq Iceland Main Market. The Bank publishes on its website a list of shareholders who own more than 1% of shares in the Bank.

Shareholders

Organisation chart



Board of Directors and Board subcommittees

The Board is responsible for setting the Bank's general strategy and instructs the CEO on its further implementation and execution. The Board oversees the Bank's activities and ensures that they are in compliance with the applicable regulatory provisions, sound business and governance practices, and rules adopted by the Board for the Bank's activities.

Íslandsbanki Board of Directors

The Board of Directors comprises seven non-executive members and two alternates who are elected at each Annual General Meeting for a term of one year. Further provisions on the functions of the Board can be found in the Board's Rules of Procedure.

Rules of Procedure

Board subcommittees

In order to support the development, execution, and supervision of Board tasks requiring additional expertise or attention, the Board appoints subcommittees that operate according to a specific Board mandate. There are three subcommittees, all comprising Board members, plus one external member in the case of the Audit Committee.

The committees' letters of mandate can be found on the Bank's website.

Risk Management Committee

Audit Committee

Corporate Governance and Human Resource Committee

Board of Directors

Linda Jónsdóttir

Chairman
of the Board
since July 2023

Agnar Tómas Möller

Joined the Board
in March 2023

Haukur Örn Birgisson

Joined the Board
in July 2023

Helga Hlín Hákonardóttir

Joined the Board
in July 2023

Stefán Pétursson

Vice-Chairman of the
Board since July 2023

Stefán Sigurðsson

Joined the Board
in March 2024

Valgerður Hrund Skúladóttir

Joined the Board
in March 2024

**Further information
on the Board of Directors
of Íslandsbanki**

CEO and CEO's advisory committees

The CEO is responsible for ensuring that the Bank's operations and activities are at all times in compliance with the Bank's Articles of Association, its approved policies and strategies, Board directives, and the applicable regulatory instruments.

The CEO hires Managing Directors for the Bank's divisions and appoints members to serve on the CEO's advisory committees. The CEO's advisory committees fall into two categories: Policy-Setting Committees, which implement Board policies, and Business Committees, which take a position on specific business matters.

The Executive Committee and the All-Risk Committee are considered Policy-Setting committees, and they take major decisions on the implementation of the policies set by the Board. Committee members include all of the Bank's Managing Directors, in addition to other managers appointed by the CEO.

The Executive Committee oversees and coordinates key aspects of the Bank's activities and has decision-making authority in matters assigned to it by the CEO, in accordance with policies, goals, and risk appetite as defined by the Board.

The All-Risk Committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement.

The Bank's Business Committees take decisions on individual business and operational matters in accordance with policy documents, rules, and other guidelines approved by the Board, the Executive Committee, or the All-Risk Committee. The Bank's Business Committees are the Senior Credit Committee, the Asset and Liability Committee, the Investment Committee, the Operational and Security Committee, the Sustainability Committee, and the Digital Product Committee.

Executive Committee

Jón Guðni Ómarsson
Chief Executive Officer

Barbara Inga Albertsdóttir
Chief Compliance Officer

Ellert Hlöðversson
Chief Financial Officer

Guðmundur Kristinn Birgisson
Chief Risk Officer

Kristín Hrönn Guðmundsdóttir
Managing Director of Corporate and Investment Banking

Ólöf Jónsdóttir
Managing Director of Personal Banking

Riaan Dreyer
Managing Director of Digital and Data

Una Steinsdóttir
Managing Director of Business Banking

Further information on the Executive Committe

Independent Auditor's Limited Assurance Report

To the Board of Directors of Íslandsbanki hf.

Limited assurance report on selected information in Íslandsbanki hf.'s sustainability report for the year 2024.

Conclusion

We have been engaged by Íslandsbanki hf. (Íslandsbanki or the bank) to provide limited assurance on selected information in Íslandsbanki's sustainability report for the year 2024 (information or the sustainability information). The information has been prepared in accordance with Nasdaq ESG guidelines, the Global Reporting Initiative (GRI) standards, the UN Principles for Responsible Banking and the UN Sustainable Development Goals.

Assurance scope

- Sustainable lending under the Sustainable Financing Framework as presented on page 46
- Sustainable financing impact indicators on page 47
- The bank's ESG statement as follows:
  - Environmental statement
    - Environmental statement and indicators on page 48
    - Financed emissions in accordance with PCAF methodology on page 49
    - Information on 5 largest emission sources in pie chart on page 51
  - Social factors on page 52
  - Governance on page 59
- Íslandsbanki's self-assessment of its fulfilment of its commitments as a signatory of the Principles for Responsible Banking for the year 2024, as presented in accordance with template published by UNEP FI in October 2024.

Based on the procedures performed and evidence obtained, nothing has come to our attention to cause us to believe that the selected sustainable information in Íslandsbanki hf. sustainability report for the year 2024 are not prepared, in all material respects, in accordance with Nasdaq ESG guidelines, the Global Reporting Initiative (GRI) standards, the UN Principles for Responsible Banking and the UN Sustainable Development Goals and the underlying data of the sustainability report.

Basis for conclusion

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board (IAASB). Our responsibilities under this standard are further described in the "Our responsibilities" section of our report.

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA).

Our firm applies International Standard on *Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, issued by the IAASB. This standard requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Comparative information

Assurance over information for the year 2023 was provided by different auditor. His conclusion is dated 8th of February 2024 and is unmodified.

Responsibilities for the sustainability information

The Board of Directors and the Executive Management are responsible for preparing and presenting the sustainability information. This responsibility includes the decision of presenting the information in accordance with Nasdaq ESG guidelines, the Global Reporting Initiative (GRI) standards, the UN Principles for Responsible Banking, and the UN Sustainable Development Goals. They are responsible for designing, implementing, and maintaining internal control relevant to the preparation of the sustainability information in accordance with Nasdaq ESG guidelines, the Global Reporting Initiative (GRI) standards, the UN Principles for Responsible Banking, and the UN Sustainable Development Goals. They are also responsible for collecting, analysing, and presenting information which is presented in the sustainability information such that it is free from material misstatement, whether due to fraud or error. Furthermore, they are responsible for ensuring that employees involved in the processing and presentation of the sustainability information have received appropriate training and that information systems are appropriate.

Our responsibilities

We are responsible for providing independent limited assurance of selected information in the bank's sustainability statement. This responsibility includes planning and performing the engagement to obtain limited assurance about whether the sustainability information is free from material misstatement, whether due to fraud or error. We are responsible for forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained and reporting our conclusion the the Board of Directors of Íslandsbanki.

Summary for the work we performed as the basis for our conclusion

We exercised professional judgment and maintained professional scepticism throughout the engagement. We designed and performed our procedures to obtain evidence about the sustainability information that is sufficient and appropriate to provide a basis for our conclusion. Our procedures selected depended on our understanding of the sustainability information and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise. In carrying out our engagement, the procedures we performed primarily consisted of:

- Obtaining information, mainly from those employees that were responsible for the information presented in the sustainability information, analyse, evaluate, and obtain confirmations as appropriate.
- Inquiries to management and other appropriate employees to obtain understanding of the bank's process preparing and reviewing the sustainability information.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Reykjavík, 13th of February 2025

KPMG ehf.
Hrafnhildur Helgadóttir
State Authorised Public Accountant