Press Release

Fourth Quarter 2021 Results

Íslandsbanki hf.

10 February 2022

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Fourth quarter 2021 (4Q21) financial highlights – ROE exceeds financial targets and market consensus

- Íslandsbanki reported a profit of ISK 7.1bn in the fourth quarter (4Q20: ISK 3.5bn) generating an annualised return on equity (ROE) of 14.2% (4Q20: 7.6%) which is above both the Bank's financial targets and market consensus. Main drivers were strong income generation, good cost control, positive net impairment and rise in profit from discontinued operations.

- Net interest income (NII) grew by 4.7% YoY and totalled ISK 8.6bn in 4Q21 compared to ISK 8.3bn in 4Q20, mainly explained by growth in loans to customers during the year. Net interest margin was 2.4% in 4Q21 compared to 2.5% in 4Q20.

- Net fee and commission income (NFCI) grew 27.5% YoY and amounted to ISK 3.7bn in 4Q21 compared to ISK 2.9bn in 4Q20. Cards and payment processing, investment banking and brokerage as well as asset management are primary drivers for the increase.

- The Bank focuses on core banking operations with NII and NFCI accounting for around 94% of total operating income in 4Q21 compared to 92% in 4Q20. Combined, these two items grew 10.5% from 4Q20 to 4Q21.

- Net financial income was ISK 646m in 4Q21 compared to ISK 783m in 4Q20. Fair value changes account for a considerable part of net financial income in 4Q21.

- Administrative expenses were ISK 5.8bn, a decline of 5% YoY as a result of continued cost awareness.

- Cost-to-income ratio (C/I ratio) was 45.3% in 4Q21, at the Bank's revised target of 45.0%, down from 51.7% in 4Q20 due to strong revenue generation and cost reduction efforts.

- A positive ISK 0.6bn net impairment on financial assets in 4Q21 is mainly attributable to a brighter outlook for the tourism industry. This is compared to an impairment charge of ISK 1.8bn in 4Q20. The net impairment charge over loans to customers, the annualised cost of risk, was -23bp in 4Q21 compared to +73bp in 4Q20.

- Profit from discontinued operations amounted to ISK 1.1bn during the quarter compared with ISK 173m in 4Q20. The increase YoY is explained by a subsidiary's sale of preferred shares and by a sale of land, which was classified as held for sale.

- Loans to customers rose by ISK 4.9bn in the quarter, or by 0.5%, to ISK 1,086bn in which mortgage lending led the increase.

- Deposits from customers decreased by ISK 10.4bn in the quarter, or by 1.4%, to ISK 744bn after a strong increase earlier in 2021.

- The Bank´s liquidity position remains strong with all ratios well above regulatory requirements and internal thresholds.

- Total equity amounted to ISK 203.7bn at the end of 2021 and the Bank's total capital ratio was 25.3% compared to 23.0% at YE20. The corresponding CET1 ratio was 21.3%, up from 20.1% at YE20 This is considerably higher than the revised CET1 target of ~16.5%.

2021 (FY21) financial highlights – net profit turnaround led by higher income and positive net impairment

- Íslandsbanki's net profit for 2021 was ISK 23.7bn (FY20: ISK 6.8bn) with annualised return on equity for 2021 of 12.3% compared to a 3.7% in 2020.

- Net interest income totalled ISK 34.0bn in 2021, a growth of 2.0% YoY which is explained by higher lending volumes. Net interest margin was at 2.4% throughout 2021, down from 2.6% in 2020 as average interest rates were lower in 2021.

- Net fee and commission income rose by 22.1% from the previous year and totalled ISK 12.9bn for 2021. The rise is evenly distributed between income types, demonstrating strong income generating foundations.

- Net financial income was ISK 2.5bn in 2021 compared to a loss of ISK 1.4bn for FY20 as markets were more benign in 2021 compared to 2020.

- Administrative expenses increased by 2.0%, that includes an ISK 521m one-off cost in relation to the Bank's IPO. Salaries rose by 3.7% in 2021 mainly due to rise in general wage agreements, one-off cost resulting from the sale of the Bank and higher redundancy costs.

- The cost-to-income ratio dropped significantly YoY from 54.3% in 2020 to 46.2% in 2021.

- Net impairment on financial assets was positive by ISK 3.0bn in 2021, mainly due to the improving outlook for the tourism industry, compared to a charge of ISK 8.8bn in 2020 which reflected the economic situation following the start of the COVID-19 pandemic. The net impairment charge over loans to customers, cost of risk, was -28bp in 2021 compared to +91bp in 2020.

- Loans to customers grew by 7.9% during 2021, mostly driven by mortgage lending.

- At the end of the reporting period, the share of credit-impaired loans to customers was 2.0% (gross) down from 2.9% at YE20 following full repayment of exposures in Stage 3.

- In 2021, deposits from customers grew by ISK 64.6bn, or 9.5%, mainly as a result of a strong increase from Business Banking but also from Personal Banking.

- The leverage ratio was 13.6% at the end of 2021, same as at year-end 2020, indicating low leverage.

- Directive 2014/59/EU on Bank Recovery and Resolution (BRRD I) was i.a. transposed into Icelandic law with Act No. 70/2020 on the resolution of credit institutions and investment firms (the Act). On 8th of December 2021, the Icelandic Resolution Authority published its policy on minimum requirements for own funds and eligible liabilities (MREL) according to Art. 17 of the Act. The policy does not yet fully specify the requirements that each bank will have to fulfil, but it does give an indication on the Resolution Authority's methodology and timing of implementation. According to the policy, the Resolution Authority aims at publishing its decision on MREL for Icelandic banks early in 2022 and it would appear that Íslandsbanki will fulfil the MREL requirement by a good margin from the outset. The subordination requirement of Directive 2019/879/EU on Bank Recovery and Resolution (BRRD II) has not been defined, but the policy states that the requirement will be published once BRRD II has been transposed into Icelandic law. In any event, in common with most European jurisdictions, it is likely that Icelandic banks will have to comply with MREL requirements of BRRD II in January 2024.

- Parallel to the publishing of the financial statements, the Bank publishes its Annual and Sustainability report and Pillar 3 report, along with an Impact and Allocation report for Íslandsbanki's Sustainable Financing Framework.

Revised financial targets

- The Board of Directors approved revised financial targets in 4Q21 as strong historical performance and higher interest rate environment called for revised targets.

Financial targets	Updated	Previous
Return on Equity	>10%	8-10% by 2023, >10% long-term
Cost-to-income ratio	<45%	<45% by 2023
CET1 capital ratio	~16.5%	>16%, Total capital ratio: 18.3-19.8%
Dividend-payout ratio	unchanged	~50%

- As the Icelandic economy picks up pace the Bank anticipates both the loan portfolio and fee income to grow in line with GDP and rising economic activity. Although it is expected that ROE will lie in the range of 8-10% in 2022, the strengthening economy, a rising interest rate environment and careful control of costs strongly support the Bank's target of an ROE in excess of 10% in the medium term. The cost-to-income ratio is expected to remain stable in the range of 45-50% in 2022. ROE is expected to be in the 8–10% range in 2022, but normalised cost of risk (CoR) of 30bp could push the ratio towards the lower end of the range.

Capital optimisation, dividend and buyback

- The Board of Directors will be proposing an ISK 11.9bn ordinary dividend to the Bank´s Annual General meeting (AGM), in line with the Bank's dividend policy.

- The Bank estimates that long-term excess CET1 capital of approximately ISK 40bn, taking into account the dividend payment, will be optimised in the next 12-24 months. The Board of Directors will propose to the AGM an ISK 15bn buyback of own shares, in the coming months, subject to the Central Bank´s approval, with three options to be considered: A share buyback programme, a tender offer or a block sale participation.

Key figures and ratios

		4Q21	4Q20	2021	2020	2019
PROFITABILITY	Profit for the period, ISKm	**7,092**	3,525	**23,725**	6,755	8,454
	Return on equity	**14.2%**	7.6%	**12.3%**	3.7%	4.8%
	Net interest margin (of total assets)	**2.4%**	2.5%	**2.4%**	2.6%	2.7%
	Cost-to-income ratio[1]	**45.3%**	51.7%	**46.2%**	54.3%	58.8%
	Cost of risk	**(0.23%)**	0.73%	**(0.28%)**	0.91%	0.39%
		31.12.21	30.9.21	30.6.21	31.12.20	31.12.19
BALANCE SHEET	Loans to customers, ISKm	**1,086,327**	1,081,418	1,089,723	1,006,717	899,632
	Total assets, ISKm	**1,428,821**	1,456,372	1,446,860	1,344,191	1,199,490
	Risk exposure amount, ISKm	**901,646**	917,764	924,375	933,521	884,550
	Deposits from customers, ISKm	**744,036**	754,442	765,614	679,455	618,313
	Customer loans to customer deposits ratio	**146%**	143%	142%	148%	145%
	Non-performing loans (NPL) ratio[2]	**2.0%**	2.0%	2.1%	2.9%	3.0%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**122%**	121%	122%	123%	119%
	Liquidity coverage ratio (LCR), for all currencies	**156%**	225%	187%	196%	155%
CAPITAL	Total equity, ISKm	**203,710**	197,381	190,355	186,204	180,062
	CET 1 ratio	**21.3%**	20.6%	20.1%	20.1%	22.4%
	Tier 1 ratio	**22.5%**	21.8%	20.1%	20.1%	19.9%
	Total capital ratio	**25.3%**	24.7%	22.9%	23.0%	22.4%
	Leverage ratio	**13.6%**	13.2%	12.4%	13.6%	14.2%

1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items)
2. Stage 3, loans to customers, gross carrying amount

Birna Einarsdóttir, CEO of Íslandsbanki

Íslandsbanki´s fourth quarter result brought the year 2021 to a satisfying conclusion. In an eventful year, the Bank's shares were admitted for trading on the exchange in June which marked a new beginning for the Bank. The Bank's continuing response to the COVID-19 pandemic and our employees' ingenuity in serving our customers, under demanding and constantly changing circumstances, were other highlights.

In 4Q21, the Bank made a profit of ISK 7.1bn and an annualised ROE of 14.2% which is well above both the Bank's targets and market consensus. The profit for 2021 was ISK 23.7bn and ROE was 12.3%. Total operating income rose by 8.8% from 4Q20, with net fee and commission income up by 27.5% year-on-year. Continuous efforts to manage costs saw administrative expenses fall by 5.0% in 4Q21 compared to 4Q20 and in real terms by 9.4%. The cost-to-income ratio hit the Bank's revised target at 45%. A positive net impairment of ISK 0.6bn and a profit of ISK 1.1bn from discontinued operations lifted the results further. Retail lending helped boost loan growth by ISK 4.9bn in the quarter, with loans to customers up by 7.9% in 2021 as a whole. Mortgage customers enjoyed lower rates in 2021 as the Bank was able to offer even more competitive terms in the wake of Central Bank rate cuts in 2020. Deposits from customers grew strongly, by 9.5% in 2021.

Sustainable lending was up by 134% during 2021 and was 6% of total loans to customers at year-end. Giving support to our customers on their sustainability journey and funding the transition to a net zero future is our biggest opportunity to be a force for good. This is reflected in the fact that financed emissions in 2020 were 360x larger than emissions from the Bank's operations. For 2022 we have set clear goals including increasing sustainable lending and setting science-based targets.

In 2021 we worked as hard as ever to empower our customers to succeed. This is evidenced by, amongst others, the Bank being 1st in fixed income brokerage, operating the best performing equity fund and leading the field in corporate finance. Customer satisfaction from our corporate customers measured at a record high and over 90% of our mortgage customers are happy with our services.

In recent years, we have been focusing on optimising the Bank´s balance sheet and therefore, at the AGM, in March 2022, we will seek approval to start paying out excess capital along with the ordinary dividend. I am excited by the prospects for 2022, a year that should see a further sell-down of the Government´s holding in the Bank and the opportunity to be of further service to our customers and stakeholders.

Fourth quarter 2021 (4Q21) operational highlights

- Íslandsbanki awarded ISK 35m in grants from the Entrepreneurship Fund to twelve innovation projects. Nearly 130 applications were submitted.
- The Bank changed its branch opening hours. The change reflects the fact that more people are choosing to use the Bank's app and online services for their daily banking needs.

Operational highlights after year-end 2021

- Íslandsbanki issued a EUR 300m 0.75% fixed rate senior preferred sustainable bond with a maturity of 3 years, at a spread of 83 basis points over mid-swaps. The transaction was the Bank´s second sustainable issue in Euros and was placed with 45 investors across Europe. Alongside the new issue, a tender to buy back the Bank´s €300 million bond due in April 2022 was launched. The tender saw strong take-up, with just under €200 million bought back.
- The Bank introduced an updated macroeconomic forecast for 2022-2024, including a forecast of 4.7% growth in GDP in 2022.
- S&P Global Ratings affirmed Íslandsbanki's rating at BBB/A-2, with a stable outlook, on 25 January 2022. See S&P's report via this link.

INCOME STATEMENT

Vigorous quarter with reversed impairments, strong increase in NII and NFCI and one-off value changes as the main drivers

Income statement, ISKm	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Net interest income	**8,644**	8,258	4.7%	8,792	(1.7%)	**34,043**	33,371	2.0%
Net fee and commission income	**3,653**	2,865	27.5%	3,427	6.6%	**12,849**	10,525	22.1%
Net financial income (expense)	**646**	783	(17.5%)	941	(31.3%)	**2,499**	(1,391)	-
Net foreign exchange gain	**159**	87	82.8%	95	67.4%	**479**	451	6.2%
Other operating income	**15**	63	(76.2%)	82	(81.7%)	**302**	197	53.3%
Total operating income	**13,117**	12,056	8.8%	13,337	(1.6%)	**50,172**	43,153	16.3%
Salaries and related expenses	**(3,276)**	(3,381)	(3.1%)	(2,953)	10.9%	**(13,397)**	(12,917)	3.7%
Other operating expenses	**(2,492)**	(2,692)	(7.4%)	(2,135)	16.7%	**(9,799)**	(9,829)	(0.3%)
Administrative expenses	**(5,768)**	(6,073)	(5.0%)	(5,088)	13.4%	**(23,196)**	(22,746)	2.0%
Contribution to the Depositor's and Investors' Guarantee Fund	**(170)**	(154)	10.4%	(173)	(1.7%)	**(688)**	(679)	1.3%
Bank tax	**(389)**	(414)	(6.0%)	(433)	(10.2%)	**(1,683)**	(1,588)	6.0%
Total operating expenses	**(6,327)**	(6,641)	(4.7%)	(5,694)	11.1%	**(25,567)**	(25,013)	2.2%
Profit before net impairment on financial assets	**6,790**	5,415	25.4%	7,643	(11.2%)	**24,605**	18,140	35.6%
Net impairment on financial assets	**639**	(1,829)	-	1,757	(63.6%)	**3,018**	(8,816)	-
Profit before tax	**7,429**	3,586	107.2%	9,400	(21.0%)	**27,623**	9,324	196.3%
Income tax expense	**(1,416)**	(234)	505.1%	(1,898)	(25.4%)	**(5,119)**	(2,472)	107.1%
Profit for the period from continuing operations	**6,013**	3,352	79.4%	7,502	(19.8%)	**22,504**	6,852	228.4%
Discontinued operations held for sale, net of income tax	**1,079**	173	523.7%	85	1,169.4%	**1,221**	(97)	-
Profit (loss) for the period	**7,092**	**3,525**	**101.2%**	**7,587**	**-6.5%**	**23,725**	**6,755**	**251.2%**
Key ratios								
Net Interest Margin (NIM)	**2.4%**	2.5%		2.4%		**2.4%**	2.6%	
Cost-to-income ratio (C/I)	**45.3%**	51.7%		39.4%		**46.2%**	54.3%	
Return on Equity (ROE)	**14.2%**	7.6%		15.7%		**12.3%**	3.7%	
Cost of risk (COR)	**(0.23%)**	0.73%		(0.64%)		**(0.28%)**	0.91%	

Growth in core income due to strong underlying foundations

- Net interest income (NII) grew by 4.7% in 4Q21 compared to 4Q20 and by 2% for the whole year, mainly driven by greater lending volumes along with rising interest rates. The average CB policy rate was 1.7% in 4Q21, as compared to 0.9% in 4Q20 and 1.1% for 2021 compared to 1.5% in 2020. The reduction in NII from 3Q21 is explained by a fall in average loans and deposits, combined with higher subordinated loans and a narrower CPI gap.

- Net interest margin (NIM) on total assets was 2.4% in 4Q21, as it had been for FY21 as a whole. NIM on loans fell from 2.3% in 4Q20 to 2.1% and NIM for deposits increased from 1.1% in 4Q20 to 1.4% in 4Q21. In terms of full year comparisons, NIM on loans was unchanged at 2.2% from previous year, whereas NIM on deposits was 1.2% in 2021, down slightly from 1.3% in 2020.

- The rise in net fee and commission income by 27.5% in 4Q21 from 4Q20 and by 22.1% in 2021 is broadly based. Cards and payment processing reached pre-COVID-19 levels and fees from investment banking and brokerage continued to exceed expectations. The Bank´s asset management operations continued to see strong inflows into mutual funds from all client segments. Growth in NFCI is expected to be in line with nominal GDP growth on average through the business cycle. For Iceland Funds, Íslandsbanki's subsidiary, assets under management grew by 17% in 2021 and amounted to ISK 410bn at year-end 2021 and NFCI grew by 46% in 2021.

- In total, core income (NII and NFCI) up by 10.5% in 4Q21 from 4Q20.

- Net financial income lowered by ISK 137m in 4Q21 from 4Q20 but the turnaround for 2021 by ISK 3.9bn is explained by fair value changes and generally favourable market conditions.

C/I ratio reduced from previous year

- Salaries and related expenses decreased by 3.1% in 4Q21 compared to 4Q20, despite collective salary increases, as a result of lower FTEs. Salaries grew by ISK 480m between years, which is partly explained by one-off cost resulting from the sale of the Bank or ISK 142m. Other factors, such as general wage agreements, layoff costs and increased costs due to early retirement explains this increase.

- The reduction in other operating expenses in 4Q21 compared to 4Q20 as well as for the year 2021 is related to general cost reduction efforts. A one-off cost related to Íslandsbanki's IPO totalled ISK 663m in 2021.

- The number of FTEs at year-end 2021, excluding seasonal employees, was 702 (745 at YE20) for the parent company and 735 for the Group (779 at YE20).

- The Cost-to-income ratio was 45.3% in 4Q21 compared to 51.7% in 4Q20. For 2021 the C/I ratio was 46.2% compared to 54.3% in 2020.

Income tax expense

- The effective tax rate was 19.1% in 4Q21 compared to 6.5% for 4Q20. The effective tax rate for 2021 was 18.5% compared to 26.5% for 2020. The Bank is subject to the special financial tax of 6% on taxable profits over ISK 1bn, financial activities tax and social security charges and also makes contributions to the Depositors' and Investors' Guarantee Fund, the Financial Supervisory Authority of the Central Bank, and the Office of the Debtors' Ombudsman. Total taxes and levies amounted to ISK 9.4bn for the year compared to ISK 6.6bn for 2020.

Positive net impairment on financial assets in 4Q21

- The positive net impairment of ISK 0.6bn in 4Q21 ISK 3bn in 2021 is mostly due to a brighter outlook for the tourism industry.[1]

- The annualised cost of risk, measured as net impairment charge over loans to customers, was -23bp in 4Q21 compared to 73bp in 4Q20. The cost of risk for FY21 was -28bp compared to 91bp for FY20. The average cost of risk in 2019 and 2020, excluding the effect of COVID-19, amounted to +35bp, which would have been closer to +30bp based on the current composition of the loan book with a higher proportion of mortgages.

Discontinued operations

- An increase in profits from discontinued operations in 4Q21, as well as for the year, is explained by a subsidiary's sale of preferred shares and the sale of land, which was classified as held for sale.

Good fourth quarter result brought 2021 to a satisfying conclusion

- Íslandsbanki reported a profit of ISK 7.1bn in 4Q21 (4Q20: ISK 3.5bn), generating a 14.2% annualised return on equity (4Q20: 7.6%). Profit for the year was ISK 23.7bn in 2021 (2020: ISK 6.8bn) and return on equity was 12.3% in 2021 (2020: 3.7%). The ISK 17.0bn increase in net profit between years is mainly explained by higher income and positive loan impairment charges.

---

[1] Further reading material can be found in Note 3 and 66.4 in Consolidated Financial Statements 2021

BALANCE SHEET

Loans to customers continue to increase

Assets, ISKm	31.12.21	30.9.21	Δ	Δ%	31.12.20	Δ	Δ%
Cash and balances with Central Bank	**113,667**	110,233	3,434	3%	78,948	34,719	44%
Loans to credit institutions	**43,988**	81,117	(37,129)	(46%)	89,920	(45,932)	(51%)
Bonds and debt instruments	**132,289**	123,599	8,690	7%	128,216	4,073	3%
Derivatives	**2,445**	2,374	71	3%	6,647	(4,202)	(63%)
Loans to customers	**1,086,327**	1,081,418	4,909	0%	1,006,717	79,610	8%
Shares and equity instruments	**31,677**	31,456	221	1%	14,851	16,826	113%
Investment in associates	**939**	952	(13)	(1%)	775	164	21%
Property and equipment	**7,010**	7,082	(72)	(1%)	7,341	(331)	(5%)
Intangible assets	**3,351**	3,249	102	3%	3,478	(127)	(4%)
Other assets	**5,784**	13,954	(8,170)	(59%)	4,125	1,659	40%
Non-current assets and disposal groups held for sale	**1,344**	938	406	43%	3,173	(1,829)	(58%)
Total Assets	**1,428,821**	**1,456,372**	**(27,551)**	**(2%)**	**1,344,191**	**84,630**	**6%**
Key ratios							
Risk Exposure Amount (REA)	**901,646**	917,764	(16,118)	(1.8%)	933,521	(31,875)	(3.4%)
Non-performing loans (NPL) ratio[1]	**2.0%**	2.0%			2.9%		
Asset encumbrance ratio	**19.6%**	18.9%			18.7%		

1 Stage 3, loans to customers, gross carrying amount

Strong loan growth with a diversified and highly collateralised portfolio

- Loans to customers grew by 0.5% in the fourth quarter and 7.9% during the year, mainly from lively mortgage lending (ISK 80.6bn increase in 2021). At year-end mortgages accounted for 42% of loans to customers, in a well-diversified loan book. Loans to corporates decreased by ISK 3.7bn from YE20.

- Loans to customers are generally well covered by stable collateral, the majority of which is in residential and commercial real estate whilst the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the residential mortgage portfolio at year-end 2021 was 66%, comparable to 64% at YE20. Íslandsbanki's registered value of commercial real estate is less vulnerable to market fluctuations as collateral has risen at a much slower rate and lagged market prices in prior years.

- Four line-items, cash and balances with Central Bank, loans to credit institutions, bonds and debt instruments, and shares and equity instruments, amounted to ISK 322bn at year-end 2021, of which ISK 304bn are liquid assets.

- The rise in bonds and debt instruments in 4Q21 is mainly due to increase in listed bonds in the Bank´s liquidity portfolio.

- Other assets fell during the fourth quarter due to unsettled transactions.

- The Bank's asset encumbrance ratio was 19.6% at the end of 4Q21, up from 18.7% at YE20 which is explained by issuance of ISK denominated covered bonds.

High and improving asset quality in line with continued economic recovery following COVID-19

- At the end of 4Q21, 8.5% of the gross performing loan book (not in Stage 3) was classified in forbearance, down from 10.8% at end of 2020. The majority of forborne loans are those that have had moratoria granted on a case-by-case basis to customers affected by COVID-19, mostly in the tourism sector. Despite still being classified as forborne, 58% of those loans have resumed regular payments.

- At the end of the 4Q21, the share of credit-impaired loans to customers was 2.0% (gross) down from 2.9% at year-end 2020 primarily as some exposures in Stage 3 were fully repaid.

Liabilities – strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKm	31.12.21	30.9.21	Δ	Δ%	31.12.20	Δ	Δ%
Deposits from Central Bank and credit institutions	**13,384**	20,409	(7,025)	(34%)	39,758	(26,374)	(66%)
Deposits from customers	**744,036**	754,442	(10,406)	(1%)	679,455	64,581	10%
Derivative instruments and short positions	**9,467**	10,869	(1,402)	(13%)	6,936	2,531	36%
Debt issued and other borrow ed funds	**402,226**	397,672	4,554	1%	387,274	14,952	4%
Subordinated loans	**35,762**	36,923	(1,161)	(3%)	27,194	8,568	32%
Tax liabilities	**6,432**	6,256	176	3%	5,450	982	18%
Other liabilities	**12,848**	32,390	(19,542)	(60%)	11,893	955	8%
Non-current liabilities and disposal groups held for sale	**956**	30	926	3,087%	27	929	3,441%
Total Liabilities	**1,225,111**	1,258,991	(33,880)	(3%)	1,157,987	67,124	6%
Total Equity	**203,710**	197,381	6,329	3%	186,204	17,506	9%
Total Liabilities and Equity	**1,428,821**	**1,456,372**	**(27,551)**	**(2%)**	**1,344,191**	**84,630**	**6%**
Key ratios							
Customer loans to customer deposits ratio	**146%**	143%			148%		
REA/total assets	**63.1%**	63.0%			69.4%		
Net stable funding ratio (NSFR)	**122%**	121%			123%		
Liquidity coverage ratio (LCR)	**156%**	225%			196%		
Total capital ratio	**25.3%**	24.7%			23.0%		
Tier 1 capital ratio	**22.5%**	21.8%			20.1%		
Leverage ratio	**13.6%**	13.2%			13.6%		

Deposits remain the largest source of funding

- Funding is raised to match the lending programme of the Bank using three main funding sources: stable deposits, covered bonds and senior unsecured bonds.

- Deposits from customers contracted by 1.4% in 4Q21 but rose by 9.5% in 2021. The main increase was from Business Banking, 26% in the year, while deposits from Personal Banking increased as well, or by 6%. All deposit concentration levels are monitored closely, with concentration falling slightly during the year.

- The ratio of customer loans to customer deposits declined from 148% at YE20 to 146% at end of 2021. Deposits from retail and corporations are the Bank's main source of funding, comprising 44% of the Bank's total funding sources and 83% of the Bank's total deposit base at period end.

- The Bank continued its successful issuance of covered bonds during the year to fund the increase in mortgage lending. In 2021 the Bank tapped several outstanding issues, raising ISK 39bn, thereof ISK 7bn in 4Q21.

- The Bank kept its focus on green and sustainable funding during the year by tapping its outstanding ISK green bond twice for a total of ISK 4bn.

- The Bank has demonstrated great consistency of access to foreign capital markets even at times of market turbulence with very strong participation from real-money investors across Europe.

- The liquidity position remains strong with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 156% at YE21, down from 196% at YE20. The LCR in foreign currencies declined to 235% at YE21 from 463% at YE20 and LCR in ISK increased to 141% at YE21 from 95% at YE20.

- On 28 June 2021, the Central Bank implemented new regulations for NSFR in all currencies according to the CRR II regulation, setting the regulatory minimum at 100%. Simultaneously, minimum requirements for NSFR in foreign currencies were annulled.

- The total net stable funding ratio (NSFR) was 122% at YE21 compared to 123% at YE20 and the NSFR in foreign currencies was 157% at YE21 compared with 179% at YE20.

- As the Bank's liquidity position remains strong across currencies and above requirements, the Bank may consider debt buybacks or exchanges of outstanding transactions during 2022.

Capital ratios well above targets, excess capital of ISK >40bn provides significant capital return potential

- Total equity amounted to ISK 204bn at YE21, compared to ISK 186bn at YE20.

- The capital base increased to ISK 228bn at YE21 from ISK 215bn at YE20 based on retained earnings and the SEK 750m AT1 issuance in September 2021. The presentation of the total capital ratio was changed in 1Q21, where expected dividend, based on c. 50% of the previous year's profit, was deducted from 1Q21 onwards.

- The Financial Supervision Committee announced on 1 July 2021 the results of the SREP concerning additional capital requirements (Pillar 2-R). The Bank shall as of 30 June 2021 maintain an additional capital requirement of 2.5% of risk exposure amount (REA), which is an increase of 0.8 percentage points from the previous assessment. The Bank's overall capital requirement, taking into account capital buffers, therefore increased from 17.0% to 17.8%. The Pillar 2-R requirements were expected to rise temporarily as a result of COVID-19 and this result is in line with the Bank's expectations.

- The Bank's long-term CET1 target is ~16.5% and takes into account an increase in the counter cyclical buffer to 2.0% and a reversal of the COVID-19 effect on the Pillar 2-R.

- At YE21, the Bank's total capital ratio was 25.3% compared to 23.0% at YE20. The corresponding Tier 1 ratio was 22.5%, up from 20.1% at YE20. The CET1 ratio was 21.3% at YE21 compared to 20.1% at YE20. The rise in the capital ratios is based on retained earnings, a reduction in Risk exposure amount (REA) and the issuance of AT1 capital notes in September 2021.

- Íslandsbanki launched its inaugural issue of Additional Tier 1 notes in 3Q21 as part of its plan to optimise its capital structure. The issue of SEK 750m perpetual notes with a 5-year call was placed with investors across Scandinavia and continental Europe and was considerably oversubscribed. The transaction pays a coupon of 3-month STIBOR +475 basis points and features a temporary write-down structure, with a 5.125% CET 1 trigger. Headroom for further AT1 issuance is approximately ISK 6bn.

- The Board of Directors will be proposing an ISK 11.9bn ordinary dividend payment to the AGM, in line with the Bank´s dividend policy. Taking into account the ordinary dividend payment, the issuance of Additional Tier 1 instruments and assuming that the countercyclical buffer increases to 2%, the Bank estimates that long-term excess CET1 capital is approximately ISK 40bn.[2] The Bank assumes that CET1 capital will be so optimised in the next 12-24 months. In addition, the Bank will propose an ISK 15bn buyback of its own shares in the coming months, subject to the approval of both the AGM and the

[2] Based on long term capital targets. An increase in 4Q21 in excess CET1 is due to strong financial result and lower REA. This amount will fluctuate with the level of net profits and changes in REA

Central Bank. Three options are to be considered: A share buyback programme, a tender offer or a block sale participation.

- Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 902bn at YE21 compared to ISK 934bn at YE20. REA amounts to 63% of total assets at YE21, compared to 69% at YE20. The implementation of EU regulation 2019/876 in Iceland caused the reduction in REA, contributing to a 60bp rise in the capital ratios.

- The leverage ratio was 13.6% at YE21, same as at YE20.

Modest market risk profile

- The Bank's market risk mainly derives from aggregate balance sheet imbalances in interest rate, inflation and currency positions as well as the Bank's liquidity portfolio managed by Treasury.

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the year-end 2021, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 41m, compared to ISK 26.2bn at YE20. The imbalances are managed via CPI-linked swaps, the issuance of CPI-linked covered bonds and CPI-linked deposit programmes.

- The currency imbalance was ISK -0.3bn (0.1% of the total capital base) at year-end 2021, compared to ISK 5.1bn (2.4% of the total capital base) at YE20. The Bank's imbalances are strictly monitored and are within regulatory limits.

INVESTOR RELATIONS

An earnings conference call and webcast will take place on Friday 11 February 2022

The Bank will host an investor meeting and webcast in English for investors and market participants on Friday 11 February at 8.30am Reykjavík/GMT/London, 9.30am CET. Birna Einarsdóttir, CEO, and Jón Guðni Ómarsson, CFO, will give an overview of the fourth quarter financial results and operational highlights.

Participant registration is accessible **via this link**. A recording will be available after the meeting on the Investor Relations website. To participate in the webcast via telephone and to be able to ask questions please use the following dial-in details:

Iceland:	+354 800 74 37
Denmark:	+45 354 45 577
Sweden:	+46 8 566 42 651
Norway:	+47 235 00 243
United Kingdom:	+44 33 330 00 804
United States:	+1 631 913 1422

Confirmation Code: 97538113#

Financial calendar

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

Annual General Meeting – 17 March 2022
1Q22 results – 5 May 2022
2Q22 results – 28 July 2022
3Q22 results – 27 October 2022

Please note that the dates are subject to change.

Additional investor material

All investor material will subsequently be available and archived on the Bank's Investor Relations website where other information on the Bank's financial calendar and silent periods are also available: https://www.islandsbanki.is/en/landing/about/investor-relations

Parallel to the publishing of the financial statements, the Bank publishes its Annual and Sustainability report and Pillar 3 report, along with an Impact and Allocation report for Íslandsbanki's Sustainable Financing Framework:
https://www.islandsbanki.is/en/landing/about/annual-and-sustainability-report-2021