1Q21 Financial Results

5 May 2021

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islandsbanki.is

Agenda

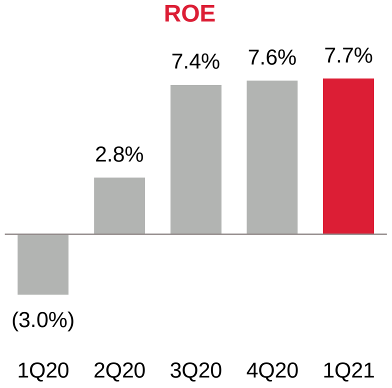
1. Key takeaways and highlights

1Q21 Key takeaways

Solid foundations and robust balance sheet deliver strong financial performance in the quarter

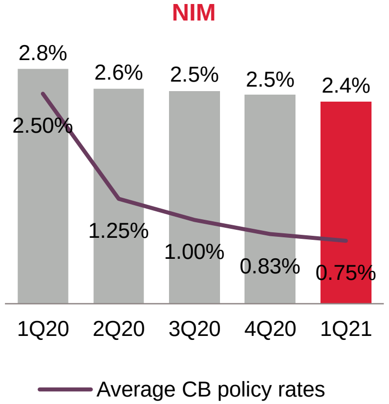
1. Steady and reliable underlying operations

- Universal relationship banking strategy delivered another strong quarter
- Annualised cost of risk was 20bps in the quarter compared with 91bps in 2020



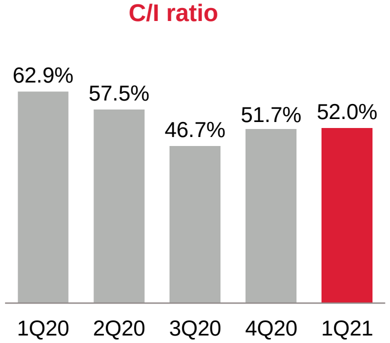
2. Resilient top line performance

- The Bank has successfully increased lending margins to offset margin erosion due to lower interest rate environment
- Focus on stable core revenue streams – NFCI rose 15% YoY



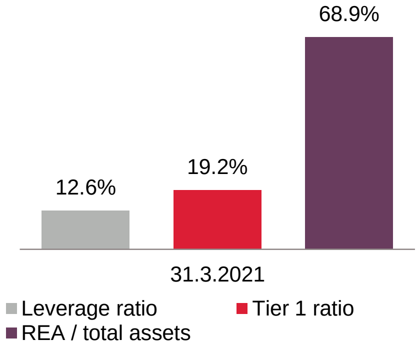
3. Continuous digital uptake contributes to improved cost to income ratio

- Substantial YoY reduction in C/I ratio due to revenue and cost improvements
- Strong track record of cost savings (incl. FTE and branch reductions) without impacting revenue growth



4. Strong, clean and diversified balance sheet mainly funded with stable deposits

- Falling NPLs, strong credit quality and conservative LTV distribution
- Robust liquidity and capital metrics, high REA density and low leverage versus Nordic peers

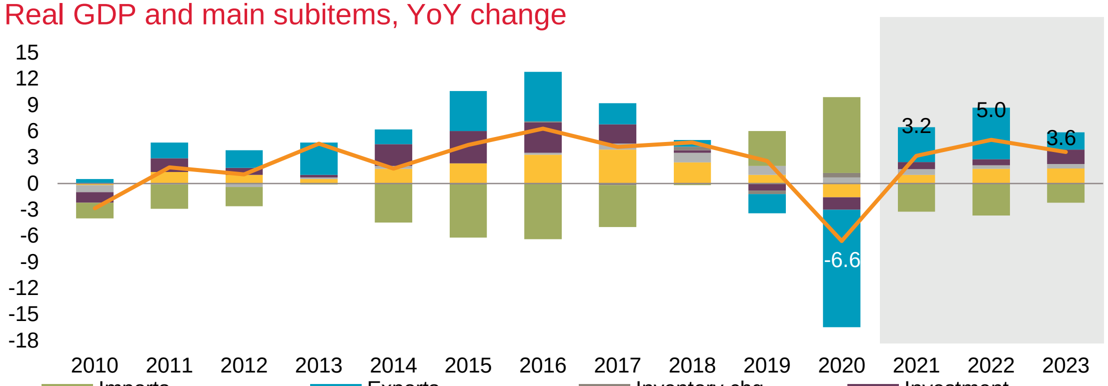


A return to solid growth in 2021 following COVID-19 recession

Strong foundations facilitate a robust recovery when world-wide pandemic impact fades

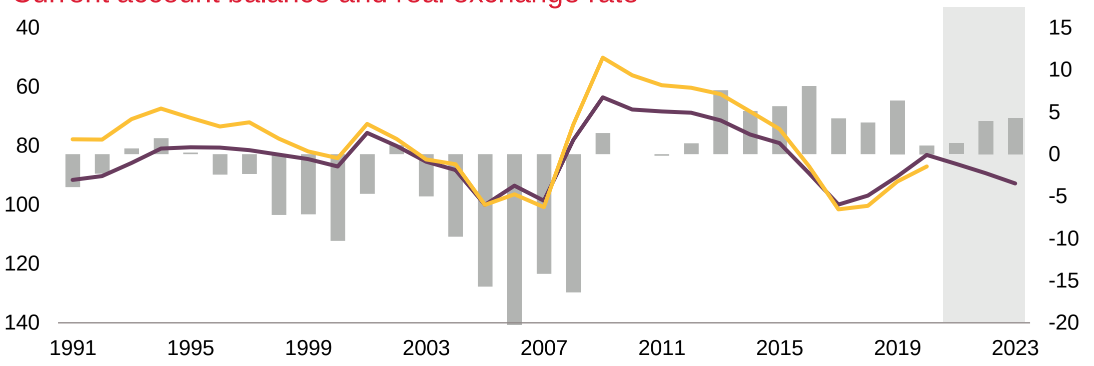
Following a recession in 2020, the economy is likely to return to growth..

Real GDP and main subitems, YoY change



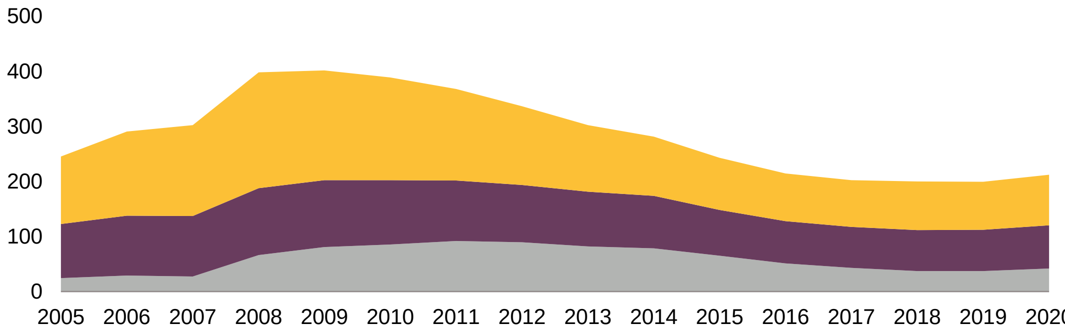
...supported by a lower real exchange rate and strong external balance

Current account balance and real exchange rate



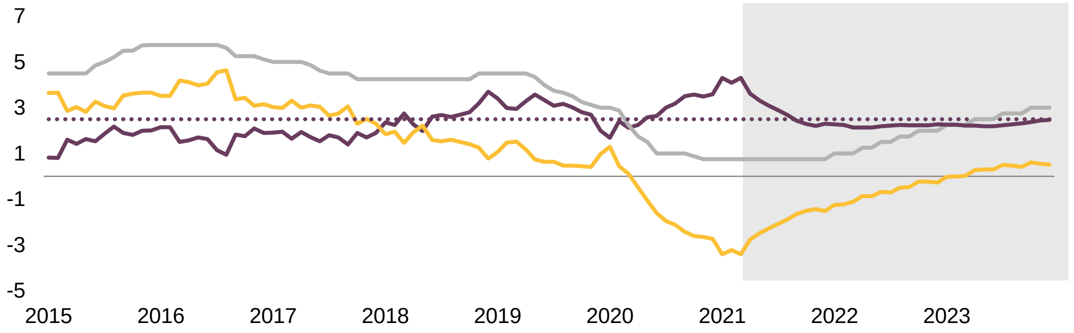
Moderate leverage throughout the economy increases resilience to shock..

Gross debt as % of GDP



...and counter-cyclical economic policy supports households and businesses

Inflation and policy rate, %



Shaded areas indicate ISB Research forecasts
Source: Statistics Iceland and ISB Research

1Q21 operational highlights

Meaningful progress in all business and support units during the quarter

- Continued activity in the housing market – 27% increase in real estate purchase agreements YoY
- Significant increase in digital mortgage applications – number of applications in the quarter exceeding the annual total in 2020

- Market share for SMEs reached a record high at 38% and 45% in the Reykjavik area
- 3 in 5 SME online banking users actively using the app for their day-to-day banking activities
- Significant increase in new loans to SMEs YoY

- Several large projects completed, including bond issuance for Eik real estate company and advisory to Strengur in their Skeljungur takeover bid
- In April, the refinancing of Míla, a subsidiary of Síminn, was completed

- On track for a full replacement of loan systems which is expected by the end of 2021
- Once completed, all core banking systems will successfully be upgraded – modern infrastructure enables digital innovation and cost efficiency

Sustainability frontrunner with ESG-ingrained culture

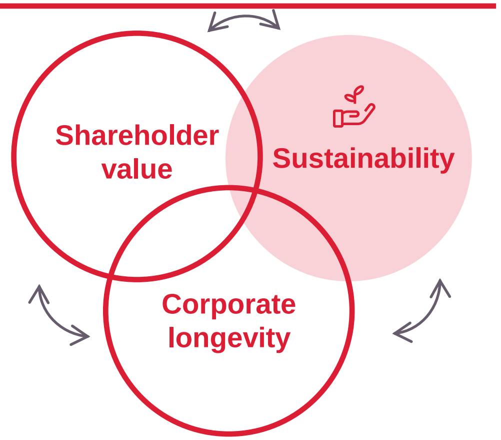
Íslandsbanki's objective is to be a model of exemplary operations and a force for good in the Icelandic business community

Clear sustainability leadership

Selected key facts

- **Highest ESG rating in Iceland** awarded by Reitun[1]
- Twice as many mention Íslandsbanki as a **sustainability leader**, compared to the top 2 competitors[2]
- The **Environmental award** for 2020 from the Ministry for the Environment and Natural Resources[3]
- **1st Icelandic bank announcing net zero commitment by 2040**
- 1st Icelandic bank with a **Sustainable Financing Framework** and issuance of sustainable **bonds**
- Leader in **gender equality**

Sustainability approach and guiding frameworks



UN environment programme finance initiative – Principles for Responsible Banking
Nordic CEOs for a Sustainable Future
Iceland SIF
PCAF Partnership for Carbon Accounting Financials
TCFD Task Force on Climate-Related Financial Disclosures
PRI Principles for Responsible Investment
UN Global Compact
honored member Festa

Successful translation into customer proposition

- **1st green bond fund** in Iceland
- **Discounted green car financing**
- **Sustainable financing** for companies
- **Discounted green mortgages**

Offering 3 sustainable investment funds in Iceland with: storebrand

1st bank mobile carbon footprint calculator in app with: meniga

Local financing partner of: Tesla

1. 90 out of 100 points. Reitun is an Icelandic rating agency. 2. Gallup survey of the 300 largest corporates in Iceland, December 2020. 3. The Kuðungur (the Conch) is awarded to one company annually for outstanding work on environmental affairs in the past year.

Attractive and achievable financial targets

Updated targets define a clear path to ROE expansion, attractive capital return and optimisation

	Updated targets	Previous targets	1Q21	2020	Guidance
Return on equity	**8-10% by 2023** **>10% long-term**	8-10%	7.7%	3.7%	— Based on average expected risk-free rates through the business cycle — The Bank has a clearly identified path to ROE improvements, supported by a clear action plan and economic recovery — **The Bank assumes the loan book will grow in line with nominal GDP on average through the business cycle**
Cost-to-income ratio[1]	**<45% by 2023**	<55%	52.0% ✓	54.3% ✓	— The Bank continues to invest in IT infrastructure and process efficiency to improve the C/I ratio in the medium to long-term — Costs to remain broadly flat over the next 3 years
CET1 capital ratio	**>16%**	>16%	19.2% ✓	20.1% ✓	— Based on current regulatory requirements and management buffer of 50-200bps, the CET1 target range is currently 13.2-14.7% — Assuming that the countercyclical buffer increases from 0% to 2% — **The Bank will start paying out a part of its excess capital in parallel with its ordinary dividend payable for the FY 2021 – the amount to be decided at that time**
Total capital ratio	**17.5-19.0%**	17.5-19.0%	21.9% ✓	23.0% ✓	— Based on current regulatory requirements and management buffer of 50-200bps — Long term target range is 19.5-21.0%, assuming that the countercyclical buffer increases from 0% to 2% — **The Bank will issue an AT1 instrument over the course of next 6-18 months, given favourable market conditions (including tax deductibility of such instruments)**
Dividend payout ratio	**c. 50%**	40-50%		50% ✓	— Target for annual regular dividend — Excess capital to support further dividend payments, buybacks, and/or ROE enhancing growth — Additional capital return to approach capital targets over the medium term

1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items).

2. Income statement

Focus on stable core revenue streams

Another robust quarter with strong underlying operations

Highlights

- Universal relationship banking strategy delivered another strong quarter with ROE at 7.7% following a 7.6% ROE in 4Q20 and 7.4% in 3Q20
- NIM holds firm at 2.4% despite lower rates environment
- The Bank focuses on core banking operations with NII and NFCI accounting for around 99% of income in the period 2018-2020 and 95% in 1Q21
- Continuous digital uptake during the COVID-19 period contributes to improved cost-to-income ratio YoY at 52.0%
- Annualised cost of risk was 20pbs in 1Q21, compared to 91bps for FY2020. The average cost of risk in 2019 and 2020 excluding the effect of COVID-19 was 35bps

Income statement, ISKm	1Q21	1Q20	Δ	Δ%	4Q20	Δ	Δ%	2020
Net interest income	**8,190**	8,580	(390)	(4.5%)	8,258	(68)	(0.8%)	33,371
Net fee and commission income	**2,862**	2,491	371	14.9%	2,865	(3)	(0.1%)	10,525
Net financial income (expense)	**293**	(1,738)	2,031	-	783	(490)	(62.6%)	(1,391)
Net foreign exchange gain	**130**	55	75	136.4%	87	43	49.4%	451
Other operating income	**123**	19	104	538.7%	63	60	95.2%	197
Total operating income	**11,598**	9,407	2,191	23.3%	12,056	(458)	(3.8%)	43,153
Salaries and related expenses	**(3,574)**	(3,247)	(327)	10.1%	(3,381)	(193)	5.7%	(12,917)
Other operating expenses	**(2,278)**	(2,445)	167	(6.8%)	(2,692)	414	(15.4%)	(9,829)
Administrative expenses	**(5,852)**	(5,692)	(160)	2.8%	(6,073)	221	(3.6%)	(22,746)
Contribution to the Depositor's and Investors' Guarantee Fund	**(183)**	(228)	45	(19.7%)	(154)	(29)	18.8%	(679)
Bank tax	**(410)**	(359)	(51)	14.2%	(414)	4	(1.0%)	(1,588)
Total operating expenses	**(6,445)**	(6,279)	(166)	2.6%	(6,641)	196	(3.0%)	(25,013)
Profit before net impairment on financial assets	**5,153**	3,128	2,025	64.7%	5,415	(262)	(4.8%)	18,140
Net impairment on financial assets	**(518)**	(3,490)	2,972	(85.2%)	(1,829)	1,311	(71.7%)	(8,816)
Profit (loss) before tax	**4,635**	(362)	4,997	-	3,586	1,049	29.3%	9,324
Income tax expense	**(1,036)**	(769)	(267)	34.7%	(234)	(802)	342.7%	(2,472)
Profit (loss) for the period from continuing operations	**3,599**	(1,131)	4,730	-	3,352	247	7.4%	6,852
Discontinued operations, net of income tax	**16**	(245)	261	-	173	(157)	(90.8%)	(97)
Profit (loss) for the period	**3,615**	(1,376)	**4,991**	-	**3,525**	**90**	**2.6%**	**6,755**

Key ratios

Key ratios	1Q21	1Q20	4Q20	2020
Net Interest Margin (NIM)	**2.4%**	2.8%	2.5%	2.6%
Cost-to-income ratio (C/I)	**52.0%**	62.9%	51.7%	54.3%
Return on Equity (ROE)	**7.7%**	(3.0%)	7.6%	3.7%
Cost of risk (annualised)	**0.20%**	1.51%	0.73%	0.91%

Substantial increase in net profit YoY

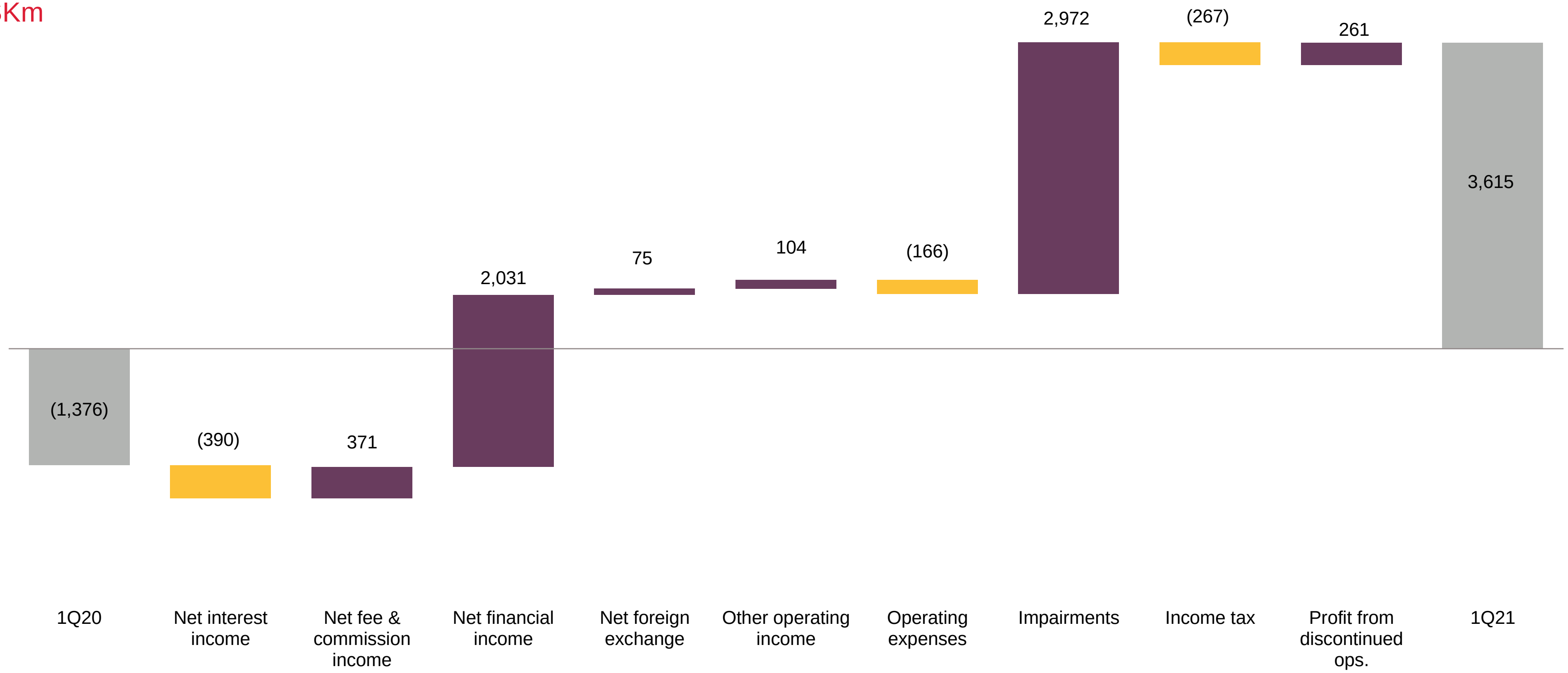
Positive developments in impairments and net financial income

Highlights

- Net fee and commission income increases YoY for all business segments and for Iceland Funds
- Net financial income attributing to the growth in net profit, from loss of ISK 1.7bn in 1Q20 to income of ISK 293m in 1Q21
- Net impairment on financial assets decrease significantly YoY due to more favourable economic environment
- ROE at 7.7% in 1Q21 compared with -3.0% in 1Q20

Net profit development 1Q20 vs. 1Q21

ISKm



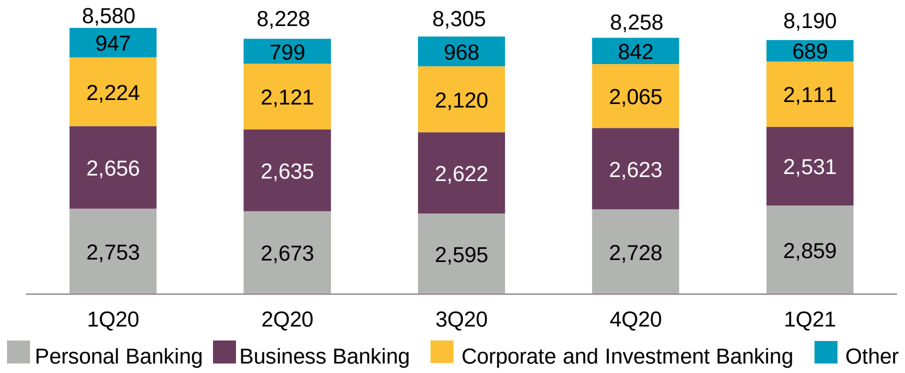
NII and NIM have shown resilience despite lower base rate

Higher NIM on loans offsetting lower NIM on deposits

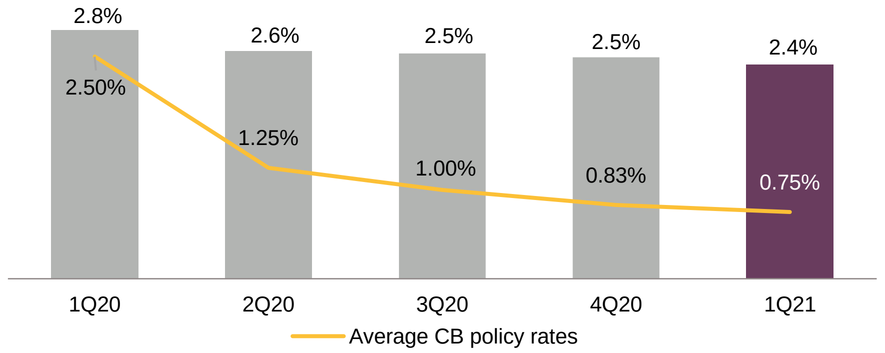
Highlights

- The Bank has successfully increased lending margins to offset margin erosion caused by lower interest rates
- CB policy rate is 0.75% compared to 1.75% at the end of 1Q20
- The NII trend demonstrates the resilience of the loan book
- In Personal Banking, NII grew thanks to strong growth in the loan book, offsetting the pressure on NIM

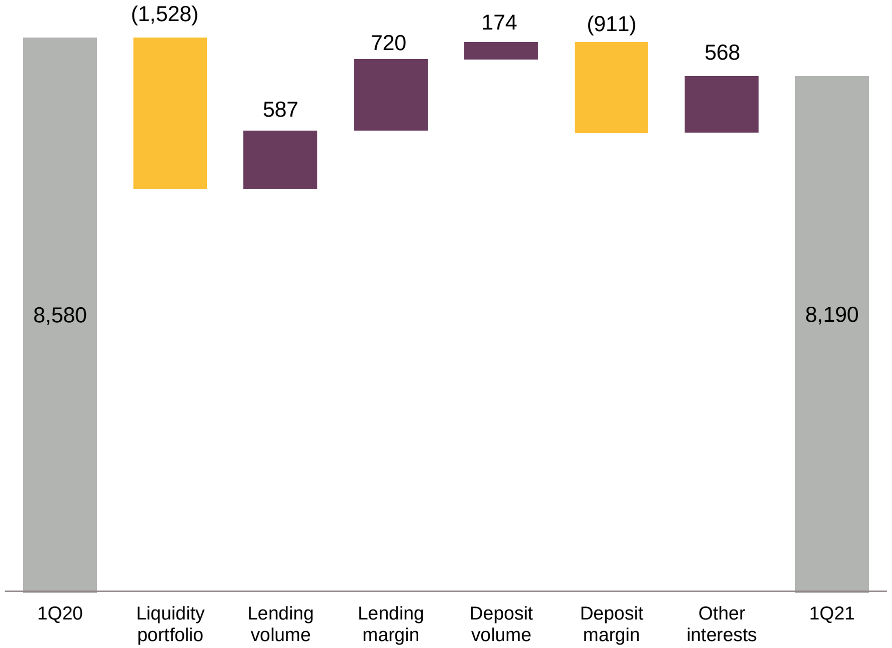
Net interest income
Business segments, ISKm



Net interest margin



NII – Comparison 1Q YoY
ISKm



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Diversified sources of NFCI

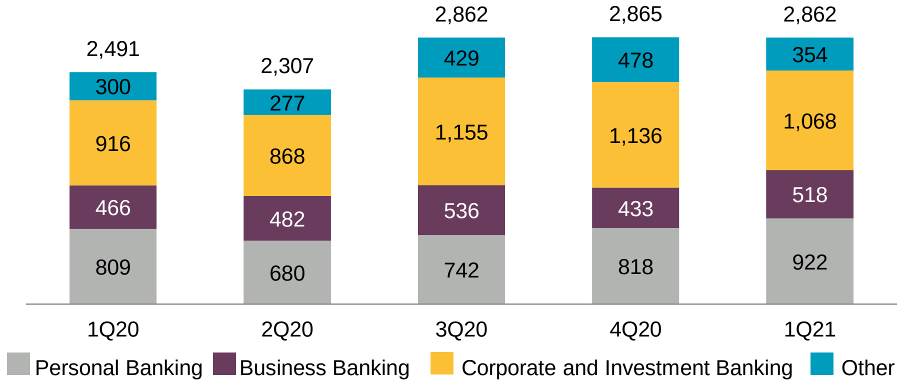
15% increase YoY – well distributed by type and across business segments

Highlights

- Business Banking and Corporate and Investment Banking have shown YoY growth in NFCI since 2018
- Personal Banking recorded a significant decline in 2020 due to the impact of COVID-19 on payment processing fees

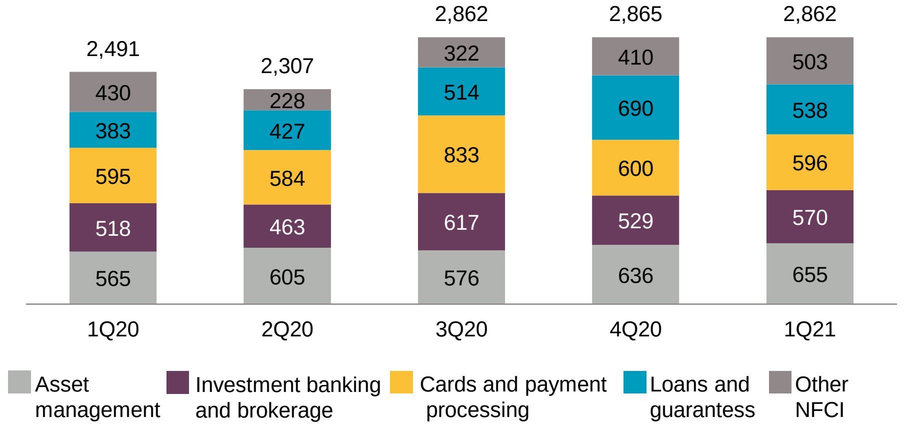
Net fee and commission income

Business segments, ISKm



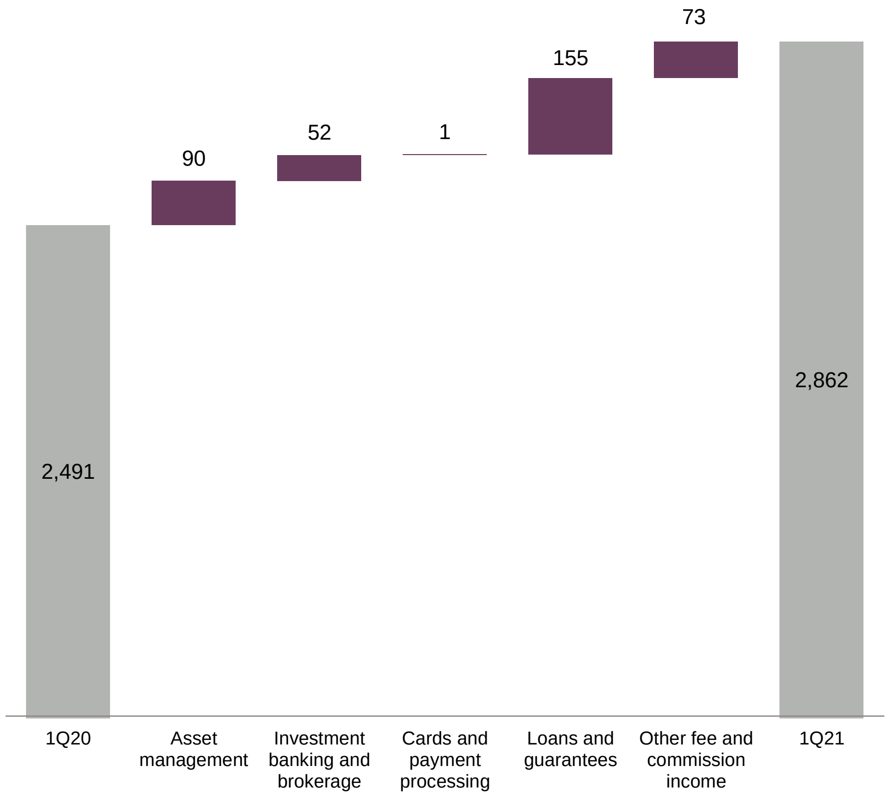
Net fee and commission income

By type, ISKm



NFCI – Comparison 1Q YoY

ISKm



Strong historical track record of consistently reducing OpEx

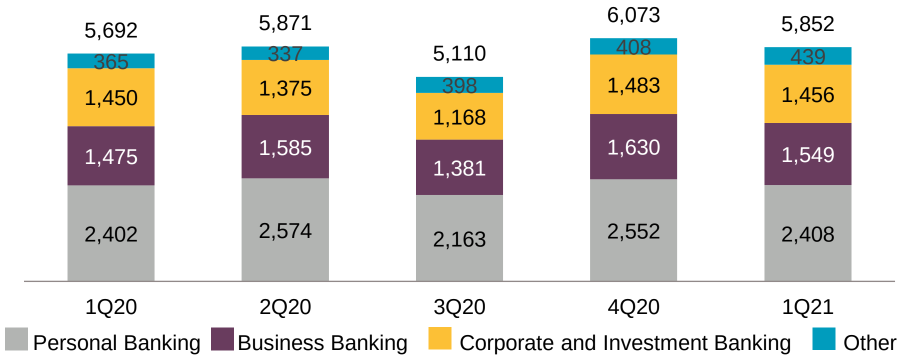
Continued operating cost savings reflection of transformation into a digitised bank

Highlights

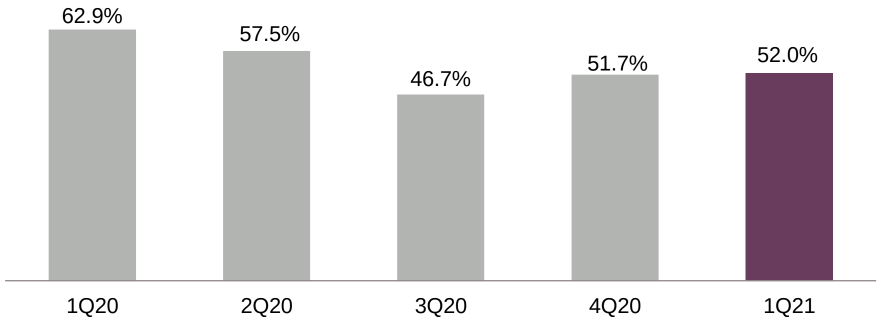
- Salaries rose between years due to wage increase in line with general wage agreements (ISK 150m), redundancy payments (ISK 100m) and accrued leave (ISK 50m)
- Operating costs benefits from large investments in core banking systems in the past few years
- Strong track record of cost savings (incl. FTE and branch reductions) without impacting revenue growth
- Various cost initiatives in process, such as robotics and automated stamp duty
- All managers at the Bank have clear targets and responsibility to enhance efficiencies further
- FTE number has been on a downward trajectory over the past few years. Smaller reduction in 2020 than planned due to additional hiring to support increased demand for mortgages
- Cost-to-income ratio was 54.3% in 2020 and 58.8% in 2019

Administrative expenses

ISKm

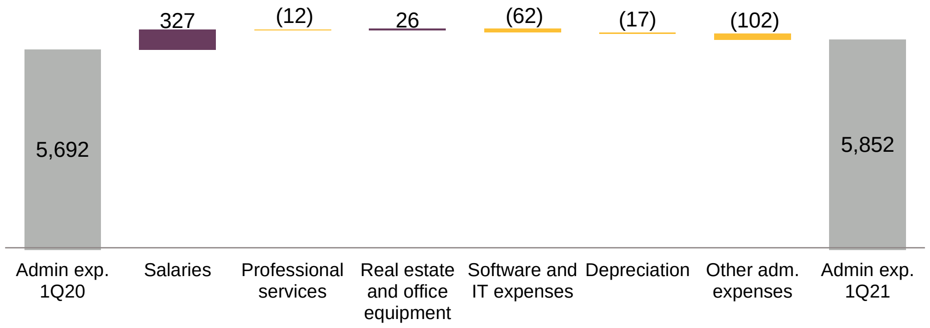


Cost-to-income ratio[1]



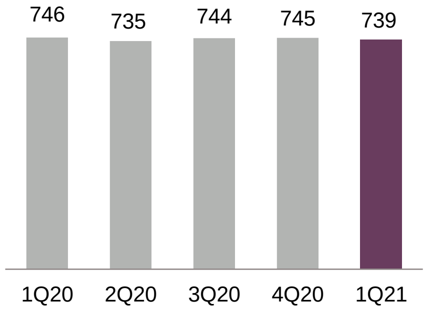
Administrative expenses – Comparison 1Q YoY

ISKm



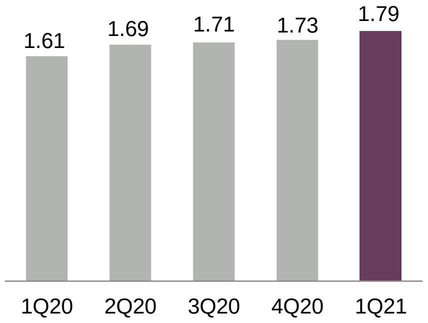
Period end FTE numbers[2]

Parent company



Total assets / FTE

ISKbn



1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 2. FTE numbers exclude seasonal employees.

3. Balance sheet

Balance sheet reflects balanced loan and funding profile

Broad product offering, strong liquidity portfolio and stable funding

Assets

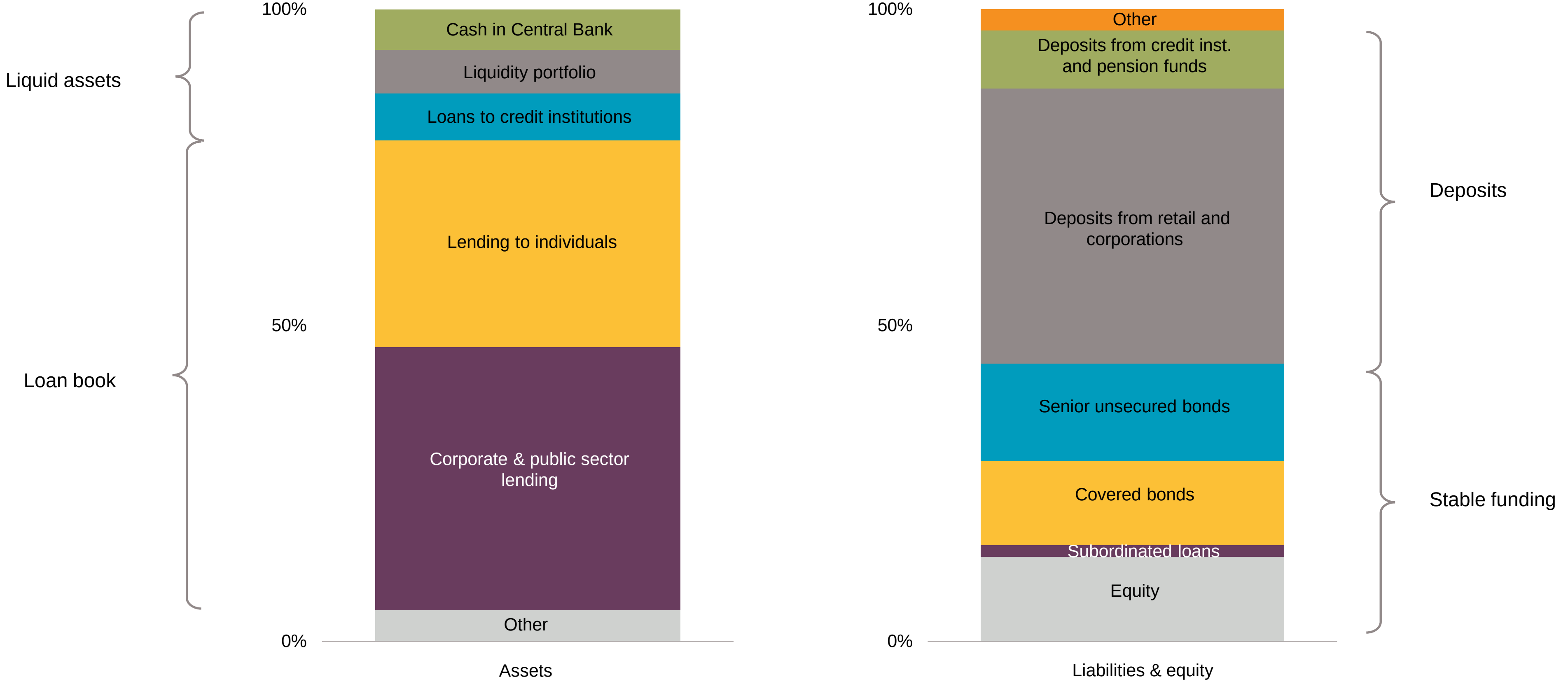
- Strong liquidity portfolio is a consistent factor in balance sheet management
- Vast majority of assets consist of lending to both individuals and corporates
- Very limited exposure to non-liquid or non-lending assets

Liabilities

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

Simplified balance sheet structure

31.3.2021, ISK 1,385bn



Growth in total assets

Loans to customers grew by 2.3% during the quarter, mainly from increase in mortgage lending

Highlights

- Four line-items:
  - cash and balances with the Central Bank
  - loans to credit institutions
  - bonds and debt instruments, and
  - shares and equity instruments,

  amounted to about ISK 321bn, of which ISK 302bn are liquid assets
- The growth of the Bank's asset side by 3.1% is mainly attributable to loans to customers. The loan growth is a result of strong demand for residential mortgages
- The Bank's asset encumbrance ratio was 18.3% at end of 1Q21 compared to 18.7% at year-end 2020
- Growth in shares and equity instruments due to increase in equity forwards, which are fully hedged by the Bank, and share price increases
- Unsettled transactions at end of 1Q21 explaining increase in other assets compared to year-end 2020

Assets, ISKm	31.3.2021	31.12.2020	Δ	Δ%
Cash and balances with Central Bank	**88,748**	78,948	9,800	12.4%
Loans to credit institutions	**103,333**	89,920	13,413	14.9%
Bonds and debt instruments	**103,627**	128,216	(24,589)	(19.2%)
Derivatives	**2,536**	6,647	(4,111)	(61.8%)
Loans to customers	**1,029,415**	1,006,717	22,698	2.3%
Shares and equity instruments	**25,763**	14,851	10,912	73.5%
Investment in associates	**841**	775	66	8.5%
Property and equipment	**7,191**	7,341	(150)	(2.0%)
Intangible assets	**3,357**	3,478	(121)	(3.5%)
Other assets	**17,566**	4,125	13,441	325.8%
Non-current assets and disposal groups held for sale	**2,858**	3,173	(315)	(9.9%)
Total Assets	**1,385,235**	**1,344,191**	**41,044**	**3.1%**

Key ratios

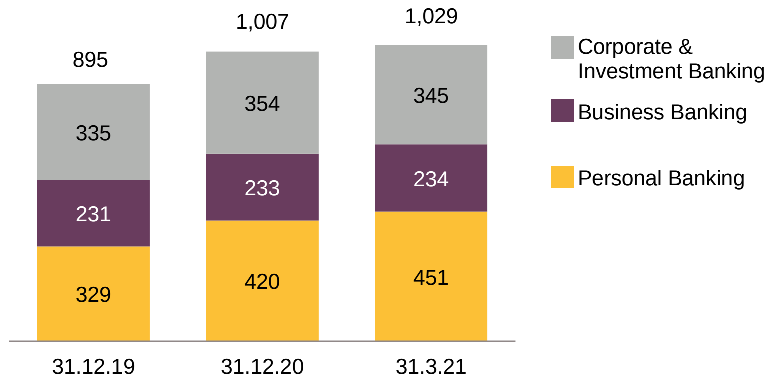
Risk Exposure Amount (REA)	**954,712**	933,521	21,191	2.3%
NPL ratio[1]	**2.4%**	2.9%		
Asset encumbrance ratio	**18.3%**	18.7%		

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

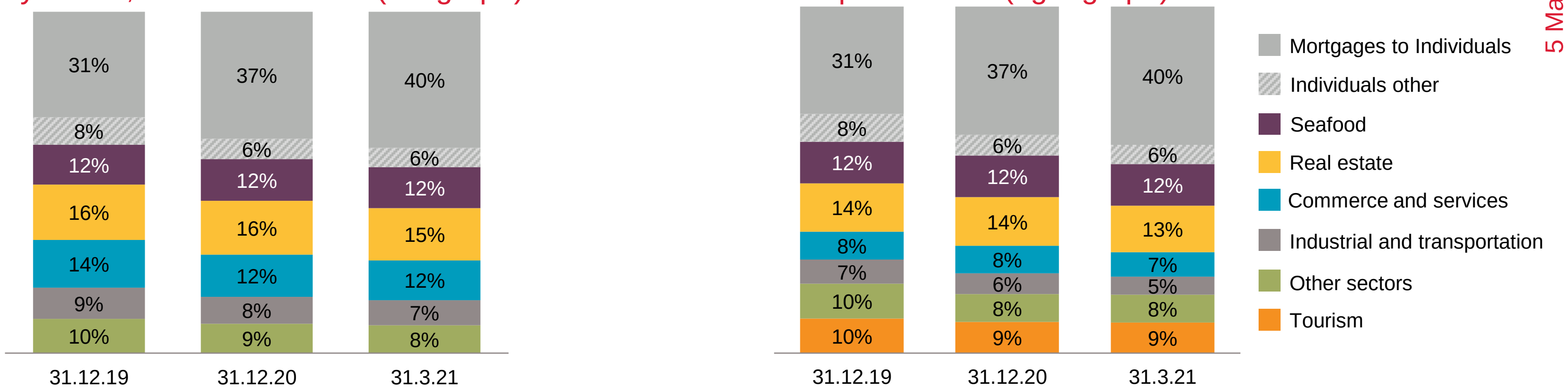
Diversified and highly collateralised loan portfolio

Loans to individuals are 46% of loans to customers, mainly residential mortgages

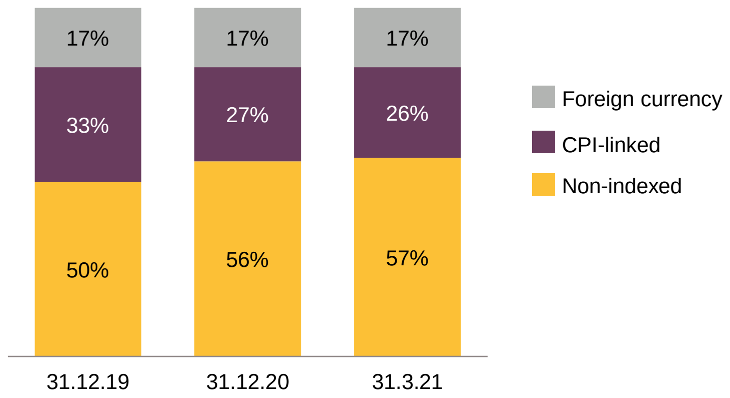
Loans to customers
By business divisions, ISKbn



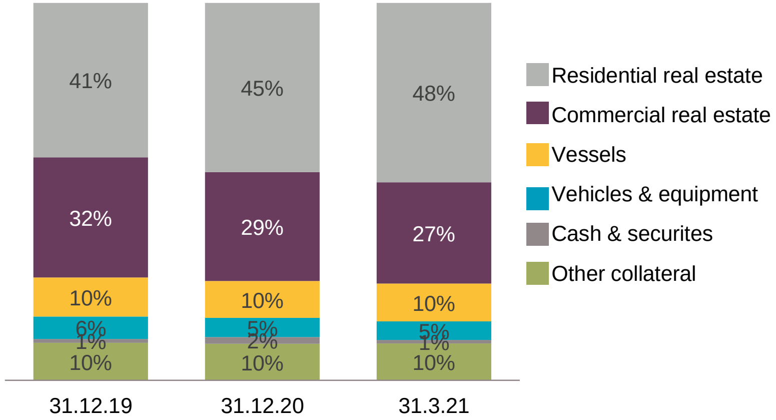
Loans to customers
By sector, standard sectors (left graph) and with tourism as a quasi-sector (right graph)



Loans to customers
By currency type



Credit exposure covered by collateral: ISK 1,016bn
By collateral type



Comments

- Business divisions support customer centric structure
- The recent increase in the mortgage portfolio (35% CAGR since year-end 2019) is mostly due to refinancing from other institutions such as pension funds
- The shift from CPI-linked to non-indexed loans follow the Central Bank's cuts in key rates from 3.0% to 0.75% in 2020
- Tourism as a quasi-sector amounts to 9% of the loan portfolio. This sector has been affected by the COVID-19 pandemic and is as a result in IFRS 9 Stage 2

LTV distributions point to healthy coverage ratios

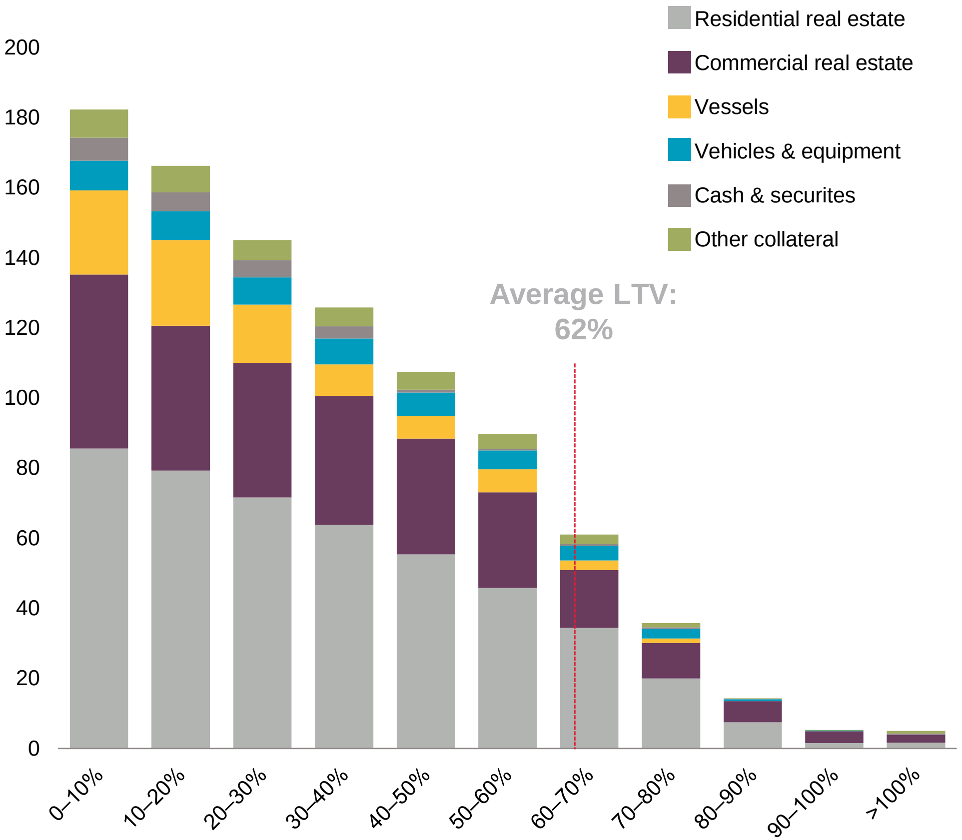
Majority of collateral is in residential and commercial real estate

Highlights

- The weighted average LTV for mortgages[1] was 65% at end of Q1, compared to 64% at year-end 2020
- The LTV distribution for commercial real estate is shown for the industry sectors where this is the most important collateral type: real estate, commerce & services and industrials & transportation
- Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Group's employees, depending on availability
- Íslandsbanki's registered value of commercial real estate is less vulnerable to market fluctuations as collateral valuation has risen at a much slower rate and lagged market prices in prior years

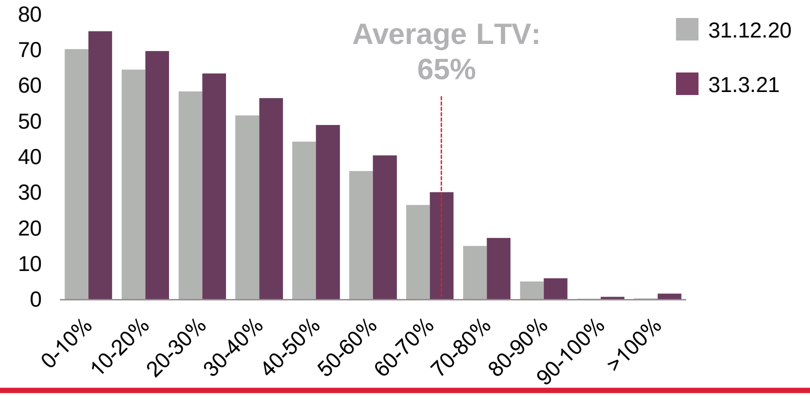
LTV distribution by underlying asset class

31.3.2021, loan splitting approach, ISKbn



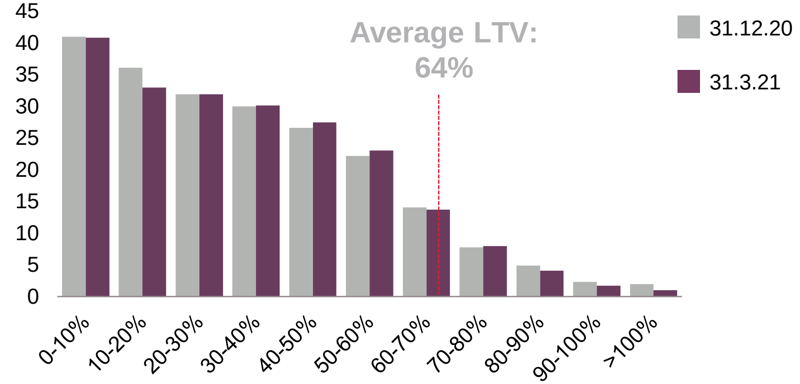
LTV distribution of mortgages to individuals

Loan splitting approach, ISKbn



LTV distribution of loans secured by commercial real estate

Loan splitting approach, ISKbn



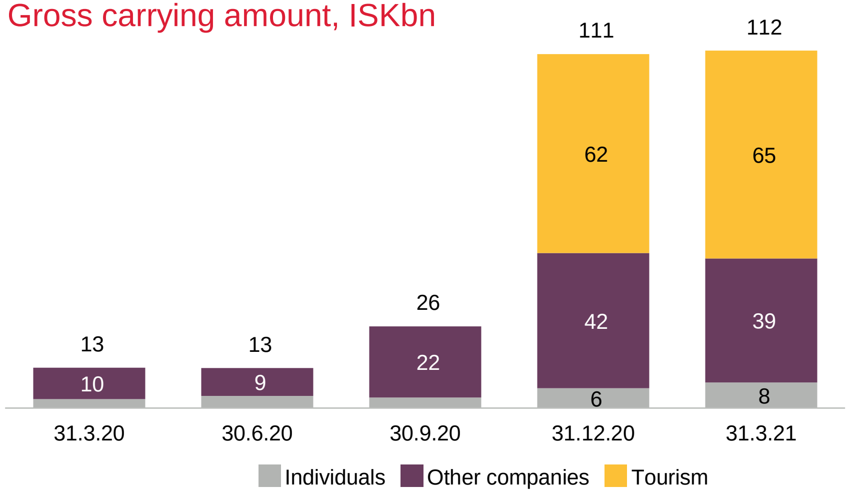
1. The average LTV can be calculated in different ways and therefore the definition is important for comparison to other banks. For mortgages to individuals, the weight is Íslandsbanki's total amount outstanding on the property and the LTV used is the maximum LTV of all Íslandsbanki's loans of the property. See more in the Pillar 3 Report. For other portfolios with more complex collateral agreements a generalised method is used.

COVID-19 moratoria over, forbearance increases

Temporary moratorium uniformly executed and broadly applied during 2020 providing shelter for customers as they weathered the storm

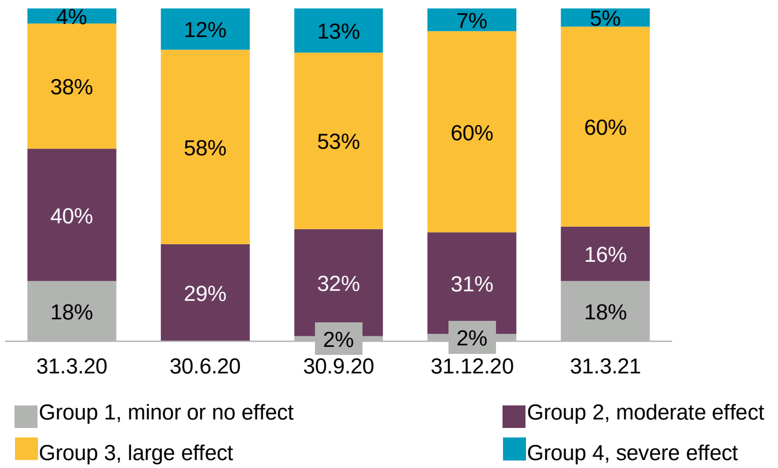
Performing loans with forbearance

Gross carrying amount, ISKbn



Exposure to tourism by effect of COVID-19 crisis

A proportion of approximately ISK 100bn



Further extension of moratorium

— Íslandsbanki entered into an agreement with other lenders in Iceland to provide a moratorium for corporate and household customers, uniformly executed across institutions

— The forbearance increase at end of 2020 was mostly due to extension of COVID-19 moratoria to companies in the tourism sector

— Loans that have been granted extended moratoria are primarily with collateral in residential or commercial real estate

Temporary changes to the impairment model due to COVID-19

— To account for the uncertainty in the operating environment of companies in the tourism industry they are classified into four groups based on an assessment of vulnerability to when the pandemic subsides

— All loans to customers in groups 2-4 were transferred to Stage 2 and thus carry a life-time expected credit loss

— In 1Q21 customers with substantial new equity were upgraded to Group 1 but remain on Stage 2

— In addition, an overlay factor has been applied to the expected credit loss, comparable to an increase in up to three risk classes. A higher haircut was applied to value of collateral for the higher impact groups in the more severe scenarios

Impairment allowance sufficient, uncertainty accounted for

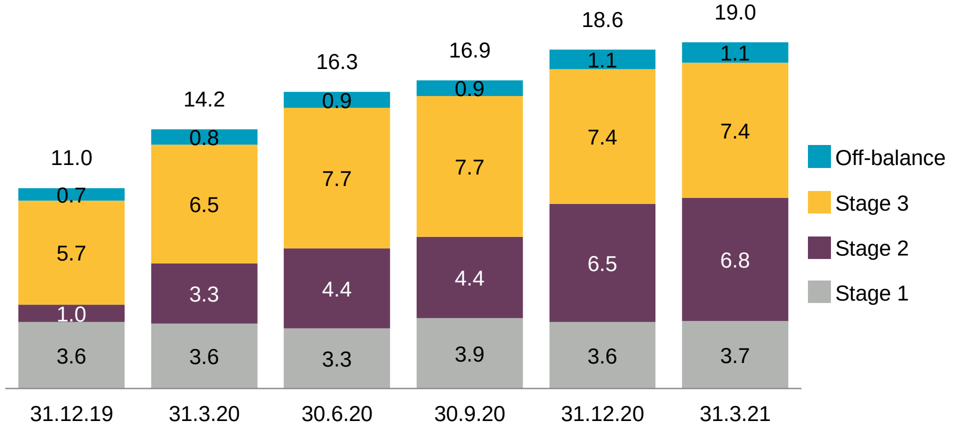
Exposures in Stage 2 rose due to the COVID-19 pandemic, but Stage 3 has not increased

Highlights

- The distribution in risk classes and strong collateral ensures a modest credit risk profile
- The impairment allowance account has risen by ISK 8bn since beginning of COVID-19 due to uncertainty, but the loss has not been, and might not be, realised
- The fall in Stage 2 is mostly due to repayments
- The share of credit-impaired loans to customers was only 2.4% (gross) down from 2.9% at year-end, following a full repayment of one material exposure in Stage 3
- The reserve coverage ratio (RCR) in Stage 3 is explained by good collateral coverage and high cure rate
- The collateral coverage in Stage 3 was around 70% (ISK 16bn) at quarter end

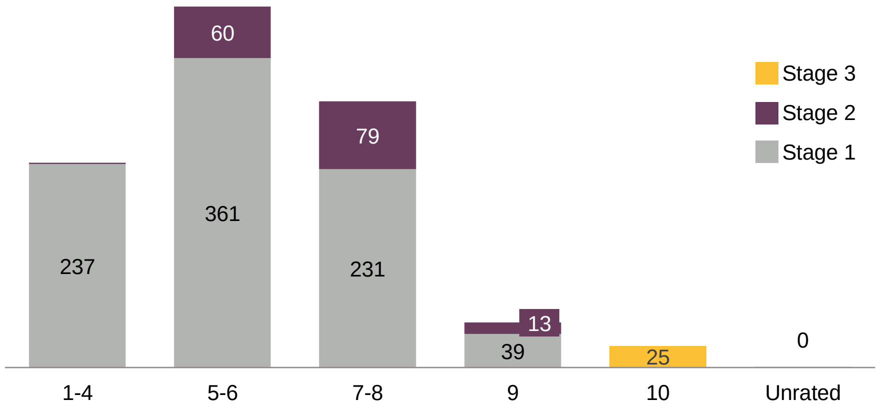
Loans to customers & off-balance sheet items

Impairment allowance account, ISKbn



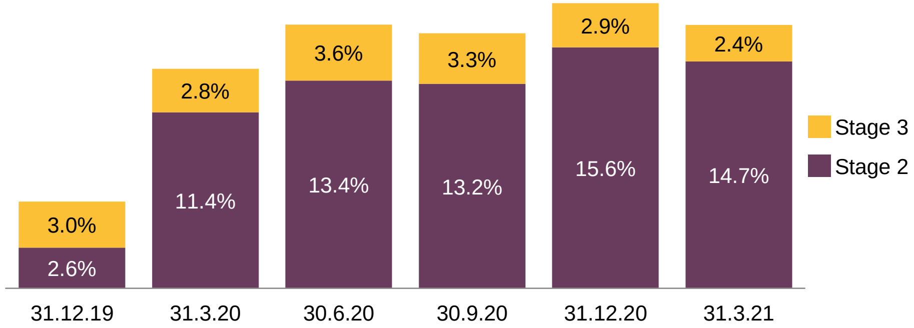
Loans to customers: gross carrying amount

31.3.2021, risk class and impairment stage, ISKbn



Loans to customers: Stage 2 and 3

Development of gross carrying amount as ratio of total loans



Loans to customers: credit quality

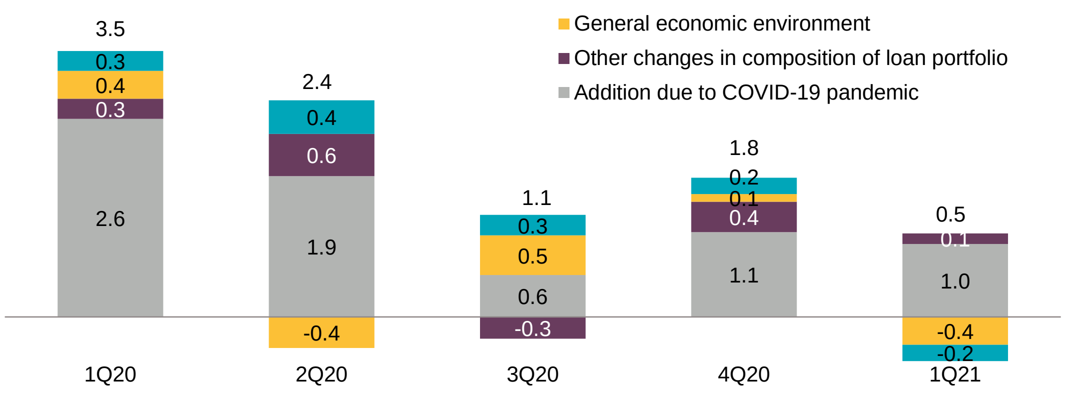
31.3.2021, Break-down of loans to customers

	Gross carrying amount		Impairment allowance		Net carrying amount	
	(ISKbn)	% of total	(ISKbn)	RCR	(ISKbn)	% of total
Stage 1	869	83.0%	3.7	0.4%	865	84.1%
Stage 2	154	14.7%	6.8	4.4%	147	14.3%
Stage 3	25	2.4%	7.4	29.9%	17	1.7%
Total	**1,047**	**100.0%**	**17.9**	**1.7%**	**1,029**	**100.0%**

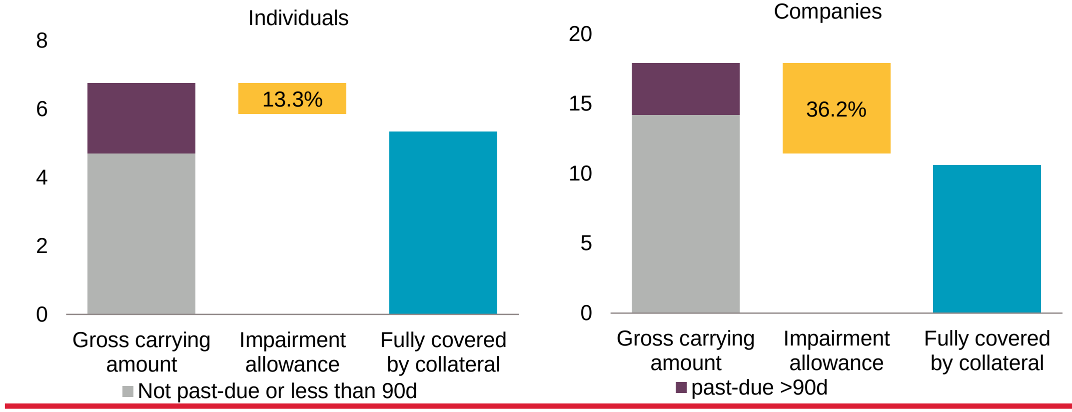
Majority of net impairments are COVID-19 related

Tourism sector hit hard and fully in Stage 2, overlay factors to account for uncertainty

Net impairment on financial assets
By period, ISKbn



Loans to customers in stage 3, impairment and collateral
31.3.2021, by customer type and days past-due, ISKbn



Macroeconomic scenario applied to IFRS 9 model[1]
Baseline forecast assumes 700 thousand tourists in 2021

Change in economic indicators %	2020	2021	2022	2023	2024
Economic growth	(8.7)	3.2	5.0	3.6	2.8
Housing prices in Iceland	6.4	6.5	4.7	4.4	3.5
Purchasing power	3.0	1.1	2.1	2.1	1.6
ISK exchange rate index	11.1	(1.6)	(3.3)	(3.2)	0.0
Policy rate, Central Bank of Iceland	1.5	0.8	1.5	2.6	3.3
Inflation	2.8	3.0	2.2	2.3	2.2
Capital formation	(10.5)	3.8	3.5	8.4	3.5
thereof capital formation in industry	(11.8)	5.6	9.3	5.8	3.0

Highlights

— Annualised cost of risk was 0.2% in 1Q21, compared to 0.9% for the full year 2020. The average cost of risk in 2019 and 2020 excluding the effect of COVID-19 amounts to 0.35%

— The impairment model of IFRS 9 is forward-looking and reflects a probability weighted average of possible outcomes. In addition to the baseline forecast, scaling factors are produced for an optimistic and pessimistic case

— The probability weights of the scenarios were set to 10% (good), 55% (baseline), and 35% (bad) at end of Q1, effectively shifting 5% from good to bad compared to year-end. The optimistic (good) scenario assumes 1 million tourists in 2021 while the pessimistic (bad) scenario only 400 thousand. This partly offsets more favourable general economical forecast

— A shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 0.55bn while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 0.25bn

1. The table shows the assumptions used in the forward-looking IFRS 9 model, figures for 2020 were estimates while the other years are based on forecast. The full set of economic indicators is available: https://cdn.islandsbanki.is/image/upload/v1/documents/Macro-forecast-21-01_EN.pdf.

Diversified funding base

Continued increase in deposits from customers

Highlights

- Customer deposits grew by 2.8% in the period
- The customer loans to customer deposit ratio was 147% at end of March 2021
- Debt issued and other borrowed funds increased from ISK 387bn at end of year 2020 totalling ISK 398bn at end of March as the Bank continued to build on its main long-term funding sources by issuing covered bonds and senior unsecured bonds
- Over the course of the quarter, the Bank issued ISK 10bn through its regular covered bond auctions in the domestic market
- An ISK 3.4bn dividend payment to shareholders was approved at the AGM in March, amounting to 50% of 2020 profits in line with the dividend policy

Liabilities & Equity, ISKm	31.3.2021	31.12.2020	Δ	Δ%
Deposits from Central Bank and credit institutions	**31,565**	39,758	(8,193)	(20.6%)
Deposits from customers	**698,575**	679,455	19,120	2.8%
Derivative instruments and short positions	**9,533**	6,936	2,597	37.4%
Debt issued and other borrowed funds	**398,225**	387,274	10,951	2.8%
Subordinated loans	**25,259**	27,194	(1,935)	(7.1%)
Tax liabilities	**5,947**	5,450	497	9.1%
Other liabilities	**30,660**	11,920	18,740	157.2%
Total Liabilities	**1,199,764**	1,157,987	41,777	3.6%
Total Equity	**185,471**	186,204	(733)	(0.4%)
Total Liabilities and Equity	**1,385,235**	**1,344,191**	**41,044**	**3.1%**

Key ratios

Customer loans to customer deposits ratio	**147%**	148%
REA/total assets	**68.9%**	69.4%
Liquidity coverage ratio (LCR)	**172%**	196%
Net stable funding ratio (NSFR)	**119%**	123%
Total capital ratio	**21.9%**	23.0%
Tier 1 capital ratio	**19.2%**	20.1%
Leverage ratio	**12.6%**	13.6%

Stable deposits remain the main source of funding

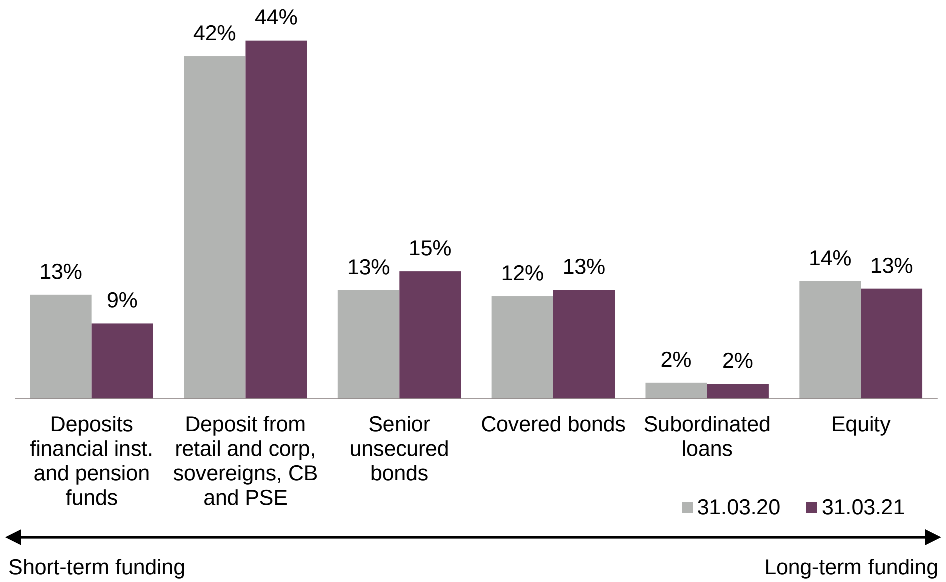
Long term funding sources grew steadily during the year

Highlights

- Total increase in deposits amounted to ISK 11bn in 1Q21
- Term deposit are 24% of total deposits
- Deposit concentration is stable. 15% of the Bank's deposits belonged to the 10 largest depositors and 30% to the 100 largest depositors at 1Q21, compared to 16% and 31% respectively at year-end 2020
- A substantial part of the reduction in financial institutions (ISK 19bn) is due to customer reclassification into PSE
- On 31.3.2021, 76% of deposits were in non-indexed ISK, 13% CPI-linked and 11% in foreign currencies

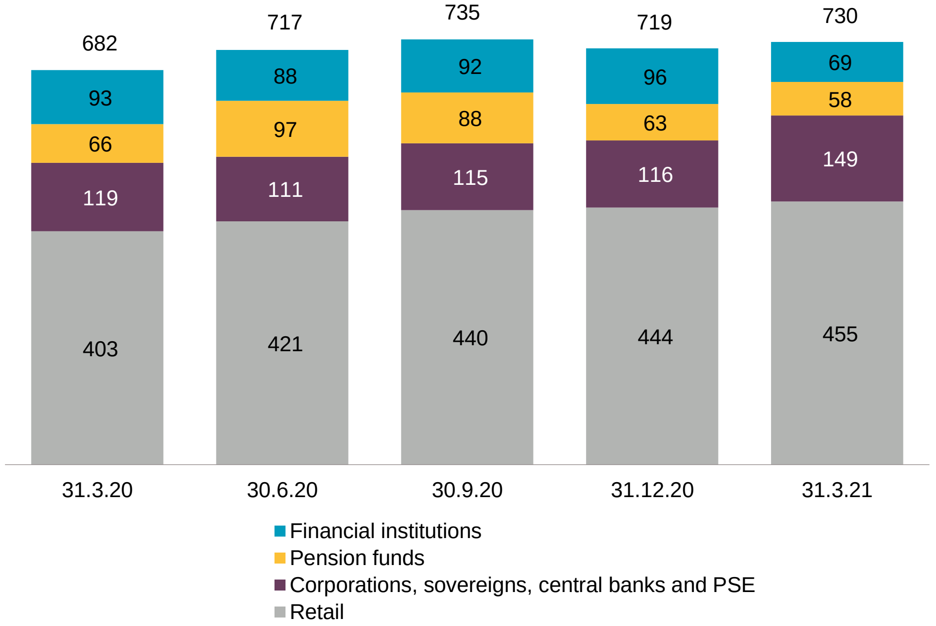
Funding sources

By type, % of total liabilities and equity



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



Established, seasoned and diversified long-term funding programme

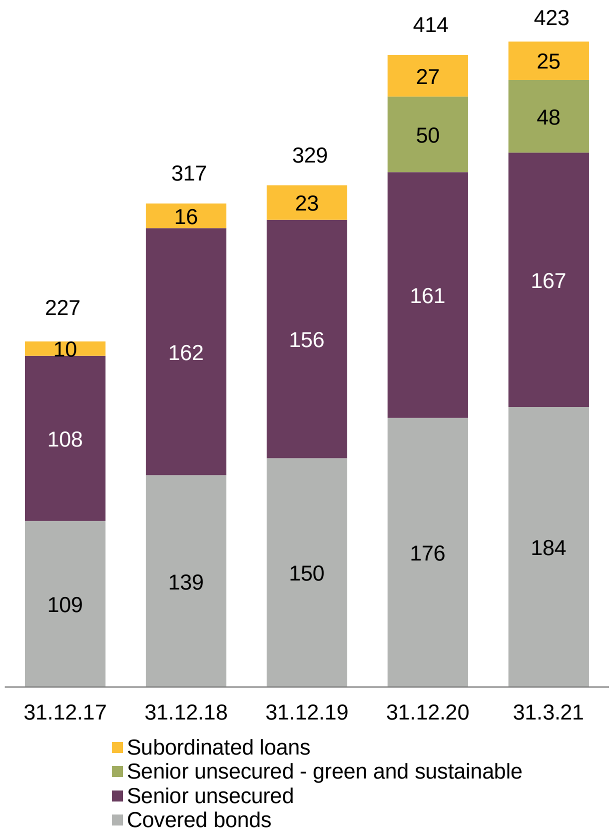
Recent issuances demonstrate the depth of the available investor pool for targeted issues

Highlights

- The Bank's funding model is designed in a straightforward way to:
  - Limit refinancing and liquidity risks
  - Optimise cost of funding and use of proceeds
- Funding is raised to match the lending programme of the Bank using three main funding sources:
  - Stable deposits
  - Covered bonds
  - Senior unsecured bonds
- The three EUR benchmark non-ESG bonds were placed with 226 discrete institutional investors in 23 countries. The Bank is also an active issuer in Scandinavian local currency bond markets and has issued 15 senior unsecured deals in SEK and NOK. The Bank has issued all 3 of its Tier 2 bonds in SEK
- 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

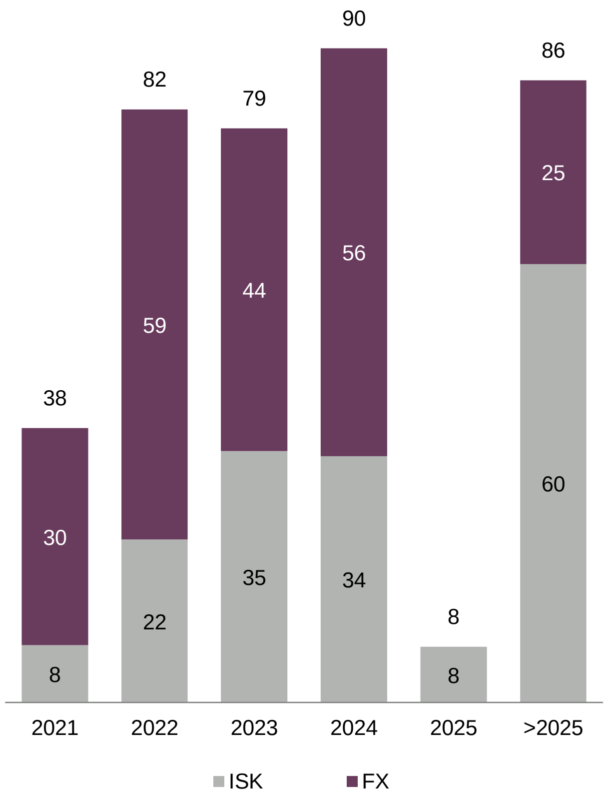
Sources of market borrowings

Book value, ISKbn



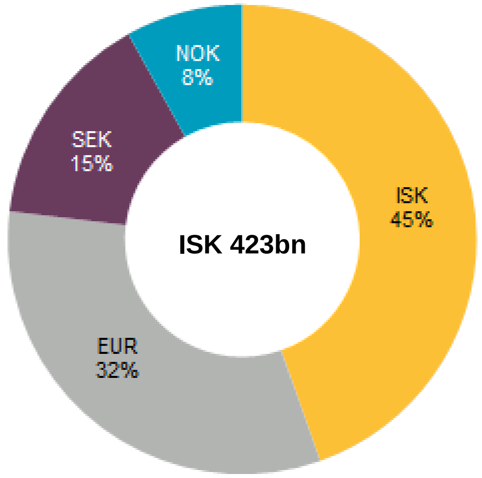
Maturity profile of long-term funding

31.3.2021, nominal value, ISKbn



Currency split of capital market transactions

31.3.2021



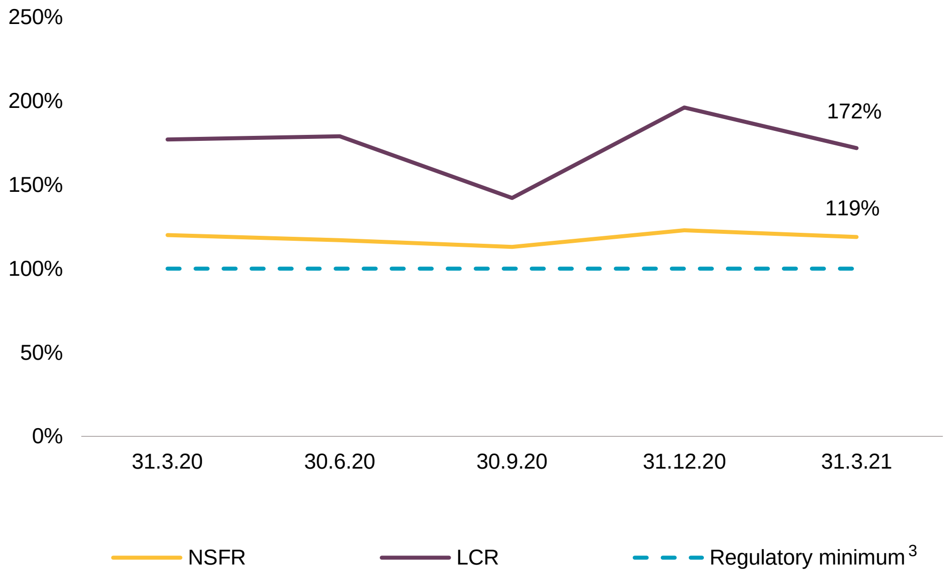
Sound liquidity management, meeting all requirements

Liquid assets of ISK 302bn are prudently managed, representing 22% of total assets

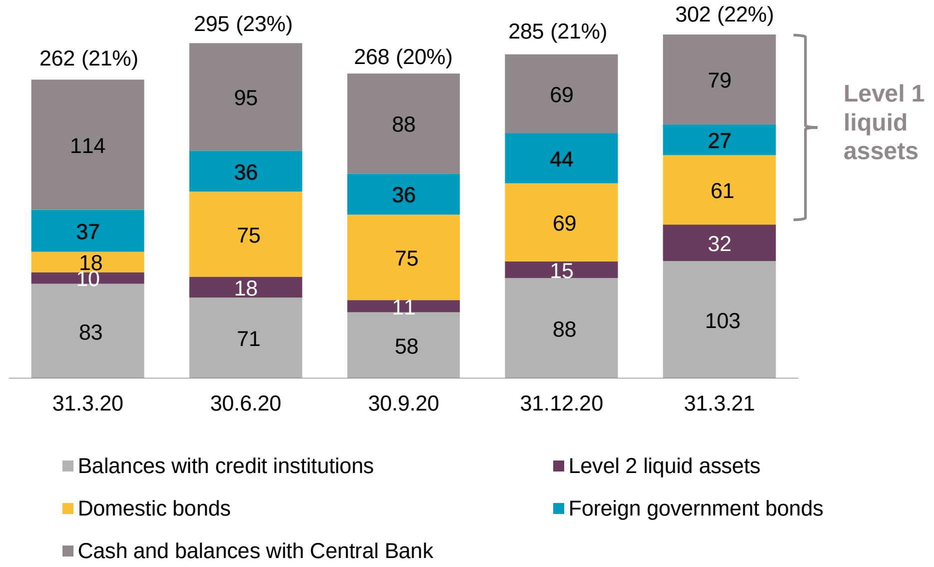
Highlights

- The Icelandic Central Bank postponed a planned increase in the minimum requirements for LCR in ISK. The minimum requirements will therefore continue to be 30% for the year 2021 but will rise to 40% in 2022
- After the Central Bank decided to stop offering one-month term deposits the Bank shifted ISK liquidity to Treasury bills, short dated Treasury bonds and covered bonds to earn higher yield

Total liquidity coverage ratio[1] (LCR) and total net stable funding ratio[2] (NSFR)



Liquid assets
% of total assets, ISKbn



1. LCR in ISK was 93% at 1Q21 compared to 95% at YE20. LCR in foreign currencies decreased to 235% at 1Q21 from 463% YE20 2. NSFR in foreign currencies was 182% at 1Q21 compared to 179% at YE20. 3. Total NSFR minimum requirements taking effect 1 June 2021.

Market risk well within appetite

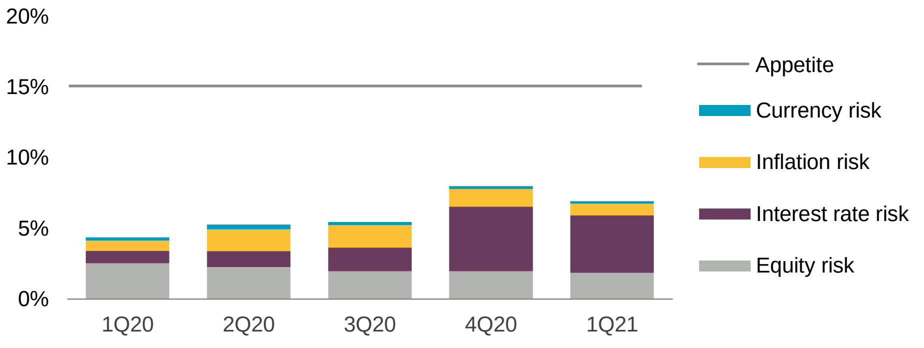
The Bank has a modest market risk profile

Highlights

- The Bank's market risk is mainly due to aggregate balance sheet imbalances in interest rate, inflation and currency positions as well as the Bank's liquidity portfolio managed by Treasury
- Equity risk is due to strategic investments and market making activities
- Interest rate risk in the banking book has fallen after having risen in Q4 due to increased fixed rate mortgage lending, primarily in non-indexed ISK

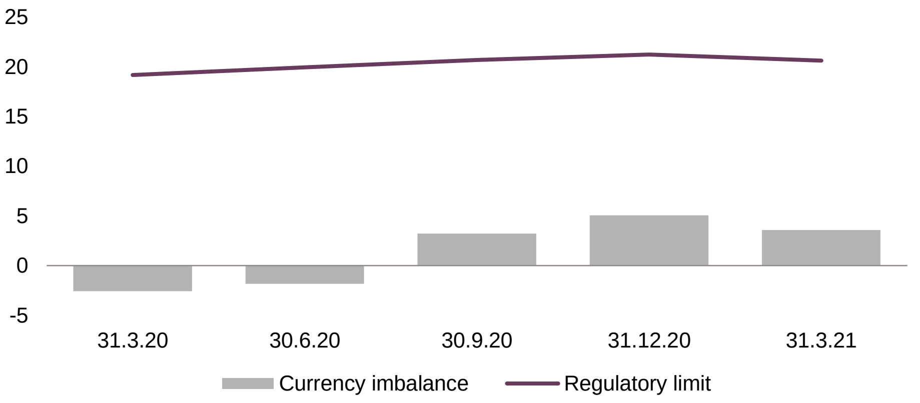
Market risk exposure and market risk appetite

Average positions per quarter, % of total capital base[1]



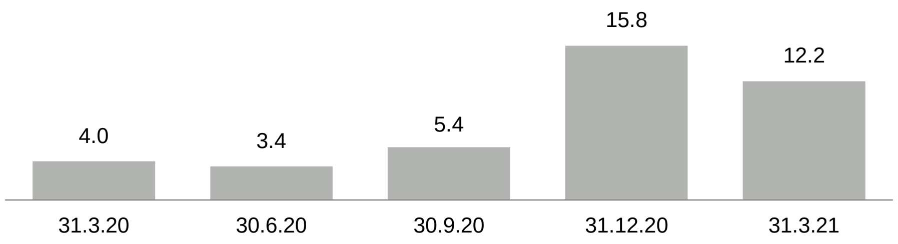
Currency imbalance, compared with regulatory limit

End of quarter, ISKbn



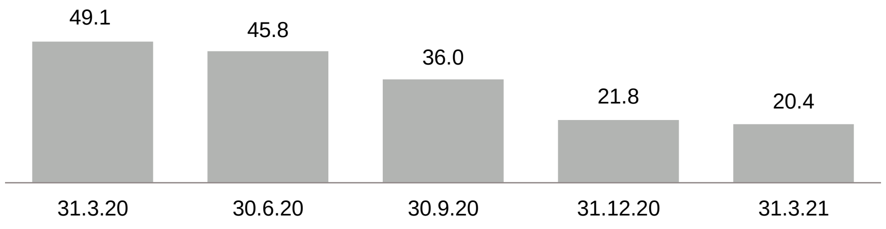
Interest rate risk in the banking book

Weighted average BPV, end of quarter, ISKm



Banking book inflation imbalance

End of quarter, ISKbn



1. The market risk measurement for 4Q20 has been revised since the 4Q20 financial results.

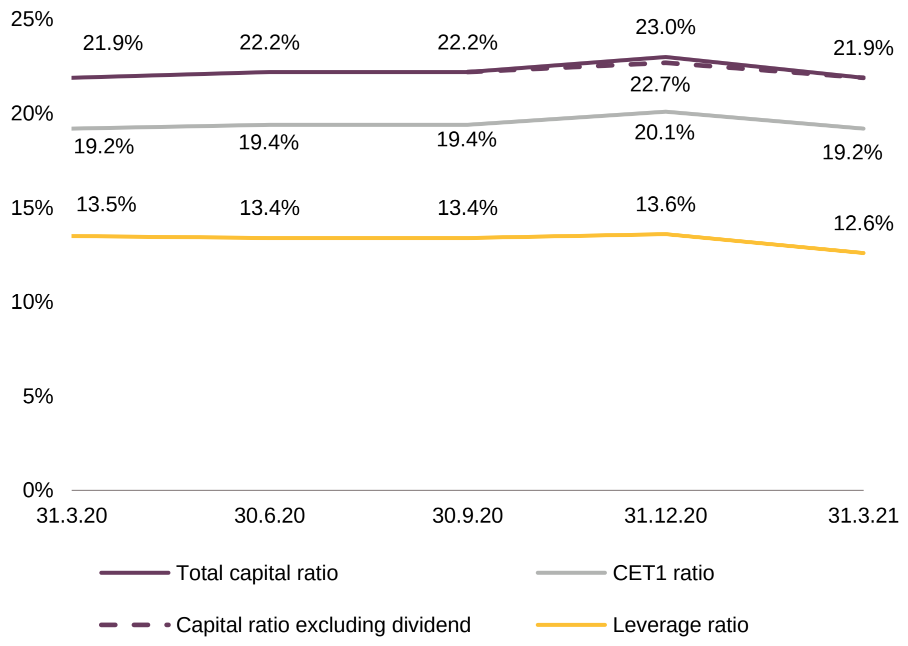
Sound capital position to navigate uncertain environment

High REA density and high leverage driven by CRD IV standardised approach

Highlights

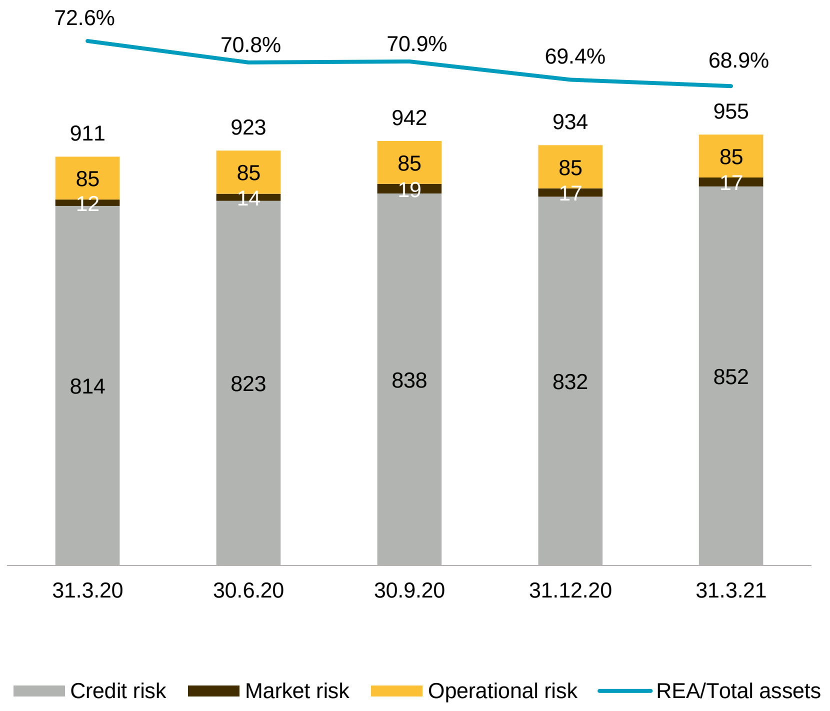
- An ISK 3.4bn dividend payment to shareholders was approved in March, amounting to 50% of 2020 profits in line with the dividend policy
- The coefficient for the IFRS 9 transitional rules fell from 70% to 50% in January 2021 lowering the CET1 capital by ISK 1.3bn
- This contributes to a fall in CET1 capital to ISK 184bn at the end of March (2020: ISK 188bn)
- The appreciation of the ISK lowered the value of the subordinated loan, reducing the capital base to ISK 209bn (2020: ISK 215bn)
- The presentation of the total capital ratio has been restated, where expected dividend, based on 50% of profit, is now deducted
- The REA grew during the quarter mainly due to new and committed lending, contributing to 50bp drop in the capital ratio
- The resulting capital ratio (adjusted for dividend) therefore fell since end of 2020, but continues to be well above capital target

Capital and leverage ratios



Risk exposure amount (REA)

ISKbn



Íslandsbanki’s capital ratios well above target

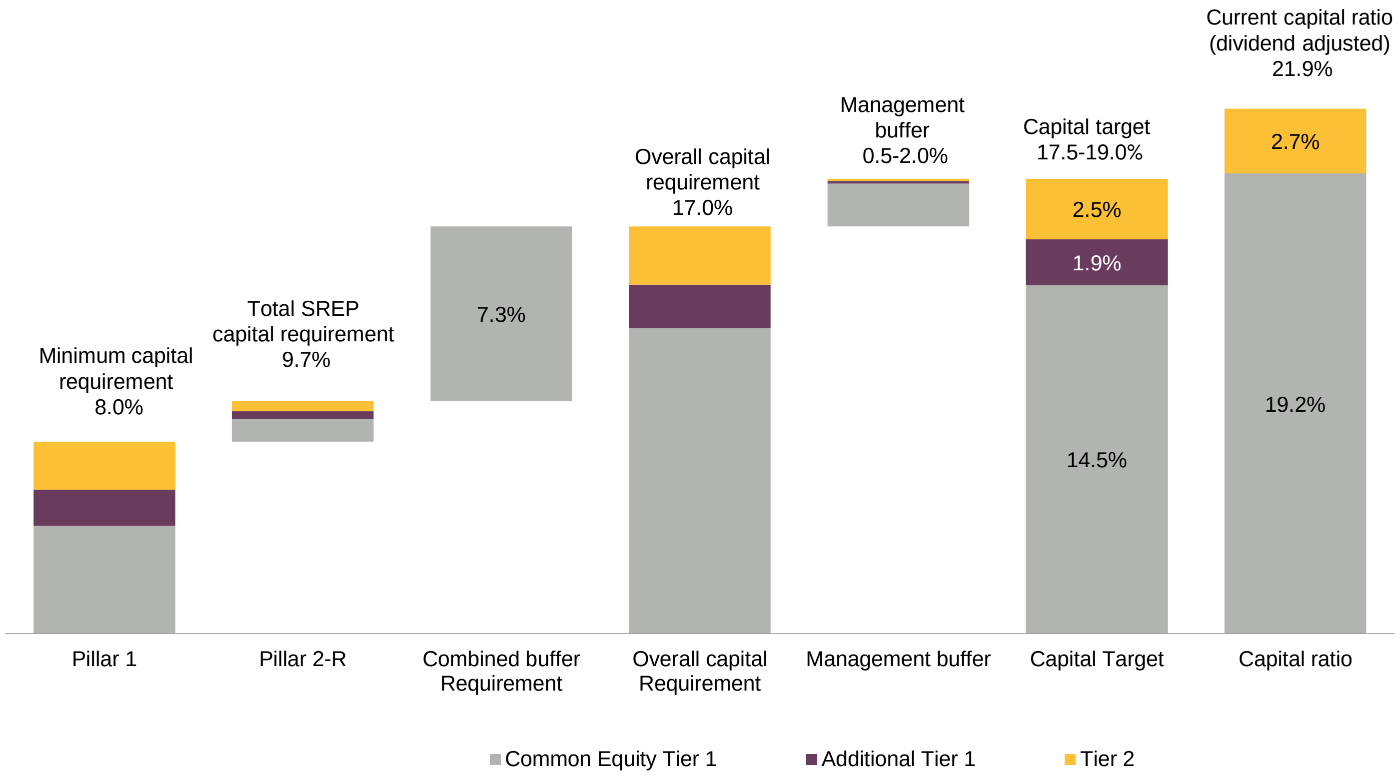
Excess capital of ISK ~30bn including capital structure optimisation

Highlights

- The Pillar 2-R capital requirements have remained unchanged at 1.7% for two years, but a revised requirement is expected following the SREP 2021 process in the second half of the year
- The Pillar 2-R requirements are expected to increase temporarily as a result of COVID-19. Based on the Bank‘s own assessment (ICAAP), the increase should be less than the reduction of counter-cyclical buffer from 2% to 0%
- The overall capital requirement is therefore at 17% of REA
- Íslandsbanki's total capital target ratio is based on the overall regulatory requirement in addition to a 50-200bp management buffer and is therefore currently at 17.5–19.0%
- The countercyclical capital buffer was lowered from 2% to 0% in March 2020 as a response to COVID-19. Assuming that the countercyclical buffer increases to 2%, the long-term target range is 19.5-21.0% with a CET1 target of 16%
- Excess CET1 capital based on long-term CET1 capital target[1] is ISK ~30bn

Current regulatory requirements and minimum capital target

31.3.2021, by capital composition



Excess capital based on long-term capital targets

ISK ~30bn

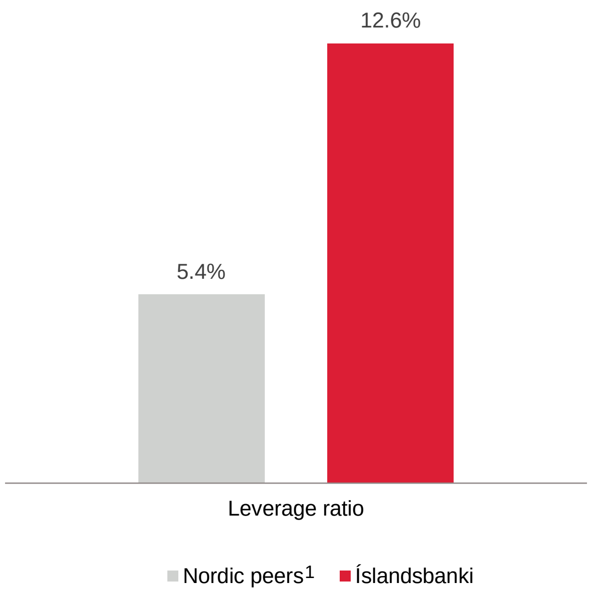
1. Based on current regulatory requirements, excess CET1 capital amounts to approximately ISK 44bn. Based on expected changes to the regulatory capital requirements, the Bank estimates that the long-term excess CET1 capital is approximately ISK 30bn.

Highly attractive capital return and growth opportunity

Credible plan leveraging on strong foundations and proven track record of executing strategy

Solid foundations for growth

Leverage ratio



Clear path to existing ROE target

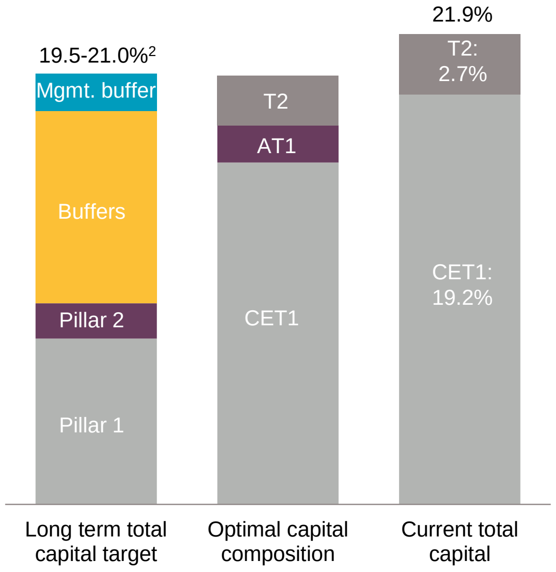
ROE target:

8-10% by 2023

>10% long-term

Significant capital return potential

Current regulatory requirements and minimum capital target



1. Consists of Danske Bank, DNB, Handelsbanken, Nordea, SEB, Swedbank for 2020. 2. Assuming a long term counter-cyclical buffer of 200bps.

Q&A

4. Annex - Financial overview and about Íslandsbanki

This is Íslandsbanki

Moving Iceland forward by empowering our customers to succeed

Vision and Values

Vision to be
#1 for service

Passion
Professionalism
Collaboration

The Bank

FTEs
739
number of FTEs at Íslandsbanki end of March 2021

12 branches

Market share[1]

32% retail customers

38% SMEs

35% large companies

Sustainability

Green mortgages product launched

Íslandsbanki tops Reitun's ESG rankings with 90 points out of 100

Íslandsbanki received environmental award from Ministry for the Environment and Natural Resources

Key Figures 1Q21

ROE	7.7%	LCR Group, all currencies	172%
Cost-to-income ratio	52.0%	NSFR Group, all currencies	119%
Total capital ratio	21.9%	Leverage ratio	12.6%
Tier 1 capital ratio	19.2%	Total assets	ISK 1,385bn

Ratings and certifications

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

EQUAL PAY CERTIFICATE 2018 - 2021

EXEMPLARY IN CORPORATE GOVERNANCE

Digital milestones

Carbon calculator introduced in the app

Push notifications added to the app, replacing older services

SmartId launched, next generation digital identity option not based on SIM card

1. Based on Gallup surveys regarding primary bank.

Financial overview

Key figures & ratios

		1Q21	4Q20	3Q20	2Q20	1Q20
PROFITABILITY	After tax profit, ISKm	**3,615**	3,525	3,361	1,245	(1,376)
	Return on equity	**7.7%**	7.6%	7.4%	2.8%	(3.0%)
	Net interest margin (of total assets)	**2.4%**	2.5%	2.5%	2.6%	2.8%
	Cost-to-income ratio[1]	**52.0%**	51.7%	46.7%	57.5%	62.9%
	Cost of risk (annualised)	**0.20%**	0.73%	0.44%	1.03%	1.51%

		31.3.2021	31.12.2020	30.9.2020	30.6.2020	31.3.2020
BALANCE SHEET	Loans to customers, ISKm	**1,029,415**	1,006,717	970,309	933,320	923,850
	Total assets, ISKm	**1,385,235**	1,344,191	1,328,724	1,303,256	1,255,691
	Risk exposure amount, ISKm	**954,712**	933,521	942,339	923,133	911,375
	Deposits from customers, ISKm	**698,575**	679,455	698,610	681,223	647,795
	Customer loans to customer deposits ratio	**147%**	148%	139%	137%	143%
	NPL ratio[2]	**2.4%**	2.9%	3.3%	3.6%	2.8%
LIQUIDITY	Liquidity coverage ratio (LCR), for all currencies	**172%**	196%	136%	179%	177%
	Net stable funding ratio (NSFR), for all currencies	**119%**	123%	113%	117%	120%
CAPITAL	Total equity, ISKm	**185,471**	186,204	182,509	179,722	179,542
	Total capital ratio	**21.9%**	23.0%	22.2%	22.2%	21.9%
	Tier 1 capital ratio	**19.2%**	20.1%	19.4%	19.4%	19.2%
	Leverage ratio	**12.6%**	13.6%	13.4%	13.4%	13.5%

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

5. Annex – Icelandic economy update

Economy likely to gain a foothold this year after COVID-19

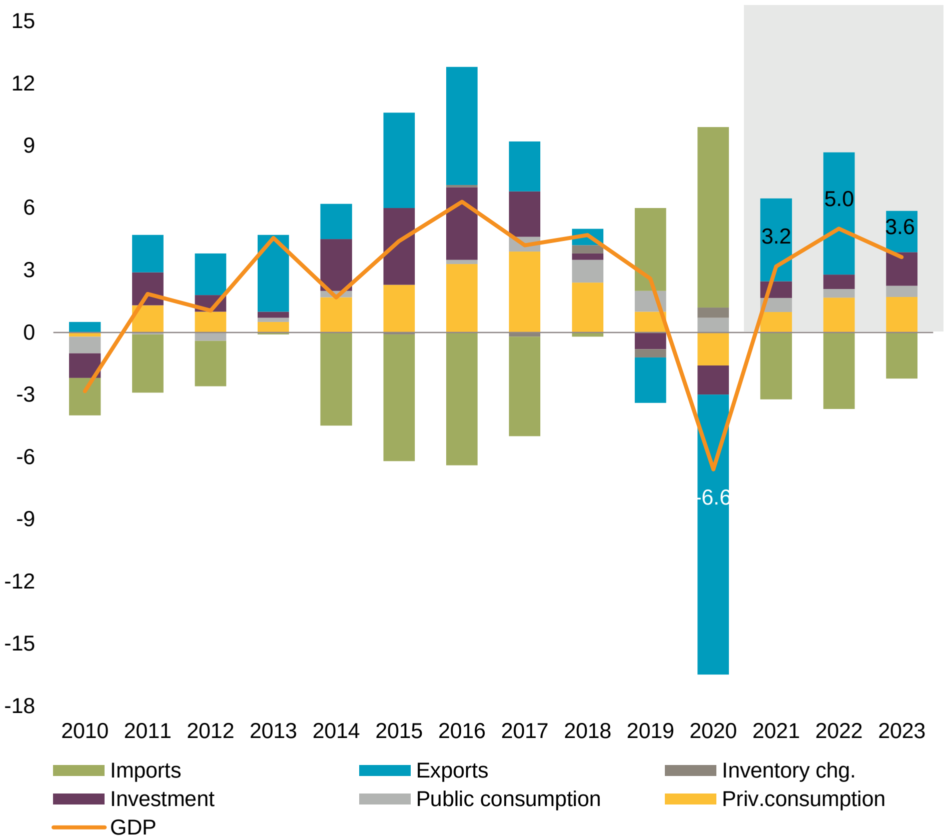
GDP growth to gain pace in H2/2021; robust growth expected in 2022

Highlights

- The COVID-19 pandemic has impacted the Icelandic economy strongly
- GDP contracted by 6.6% in 2020 following an upwardly-revised 2.6% growth in 2019. The contraction was milder than expected due to more resilient domestic demand than forecast
- A sharp decline in exports and a moderate contraction in private domestic demand contributed to the fall in GDP while decreasing imports and increased public consumption softened the impact
- ISB research forecasts GDP growth at 3.2% in 2021, driven mainly by the recovery of exports and moderate growth in consumption and investment
- In 2022 the outlook is for 5% growth, with exports and domestic demand set to regain an even more secure footing during the year
- In 2023, growth at just under 4% is projected, driven by exports, investment, and consumption in roughly equal measure
- Other recent forecasts paint a similar picture with real GDP regaining pre-COVID-19 levels by 2022

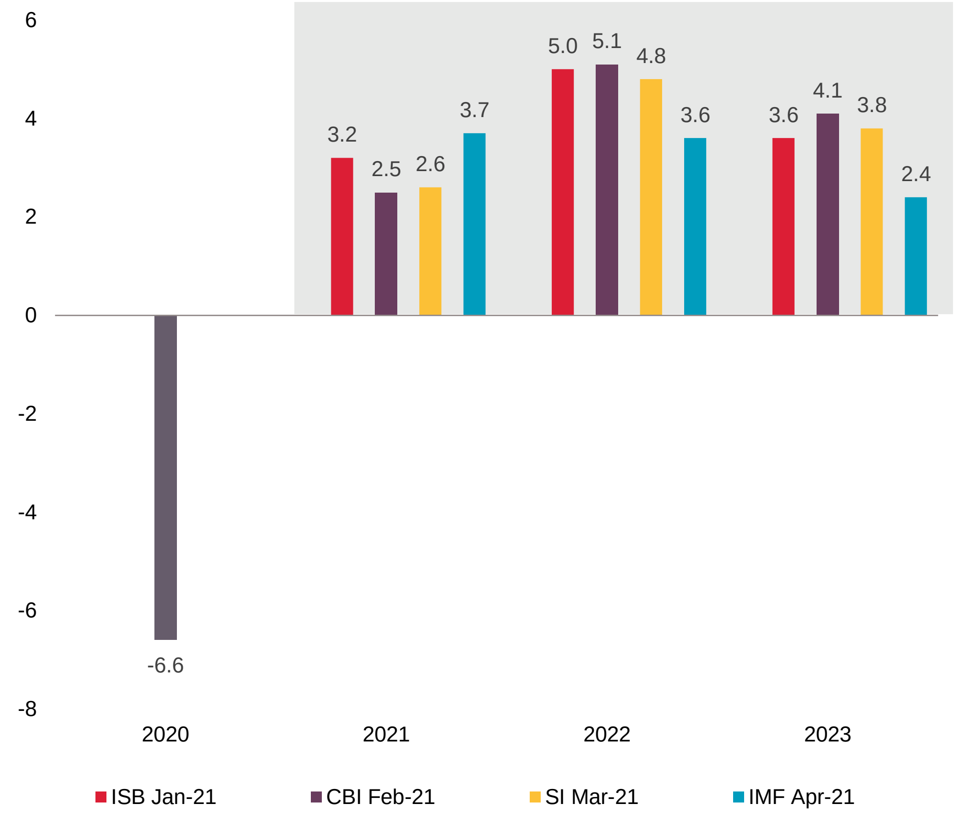
GDP and the contribution of major subitems

YoY change %



GDP forecast comparison

YoY change %



Shaded areas indicate forecasts.

Source: Statistics Iceland, ISB Research, the Central Bank of Iceland, OECD.

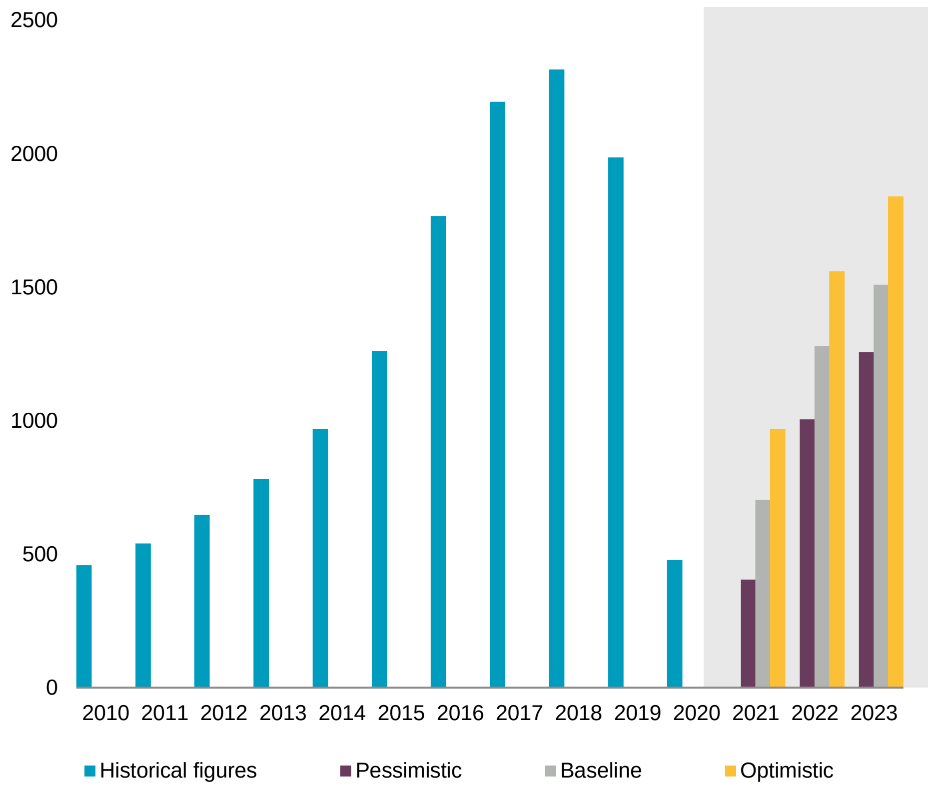
Tourism sector hit hard by COVID-19 pandemic

The pace of recovery in the sector a major uncertainty factor for near-term GDP growth

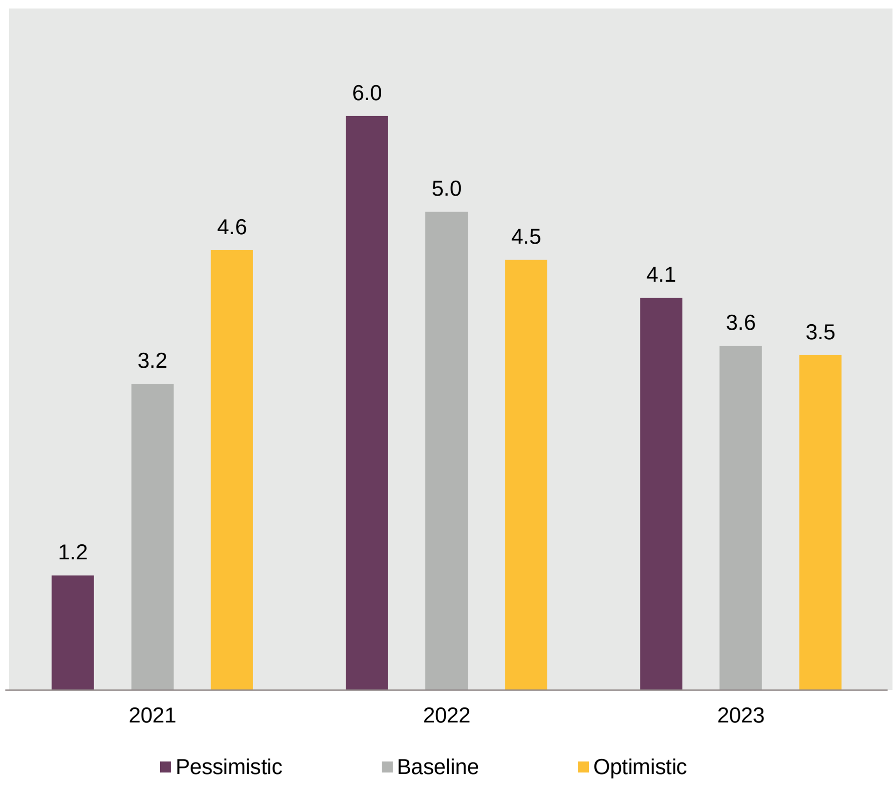
Highlights

- As the recovery of the tourist sector is the most significant short-term risk factor, ISB Research has prepared an optimistic and pessimistic scenario along with the baseline forecast
- The baseline assumes that 700,000 tourists will visit Iceland in 2021, the vast majority of them in H2, followed by 1.3 million arrivals in 2022 and 1.5 million in 2023
- The optimistic scenario assumes nearly 1.0 million tourists will visit in 2021, followed by 1.6 million in 2022 and 1.8 million in 2023
- The pessimistic scenario assumes tourist arrivals will total only 400,000 this year, followed by 1.0 million in 2022 and 1.3 million in 2023
- Growth could rise to nearly 5% in 2021 in the optimistic scenario while the pessimistic scenario results in just over 1% growth in 2021
- The number of tourist arrivals will be positively correlated with GDP growth and ISK exchange rate and inversely correlated with decline in inflation and unemployment

Foreign visitors
Departures through KEF airport, thousand



GDP growth assuming different scenarios for tourism
%



Shaded areas indicate ISB Research forecasts.
Source: Statistics Iceland, Iceland Tourist Board, ISB Research, the Central Bank of Iceland.

Current account resilient to export shock

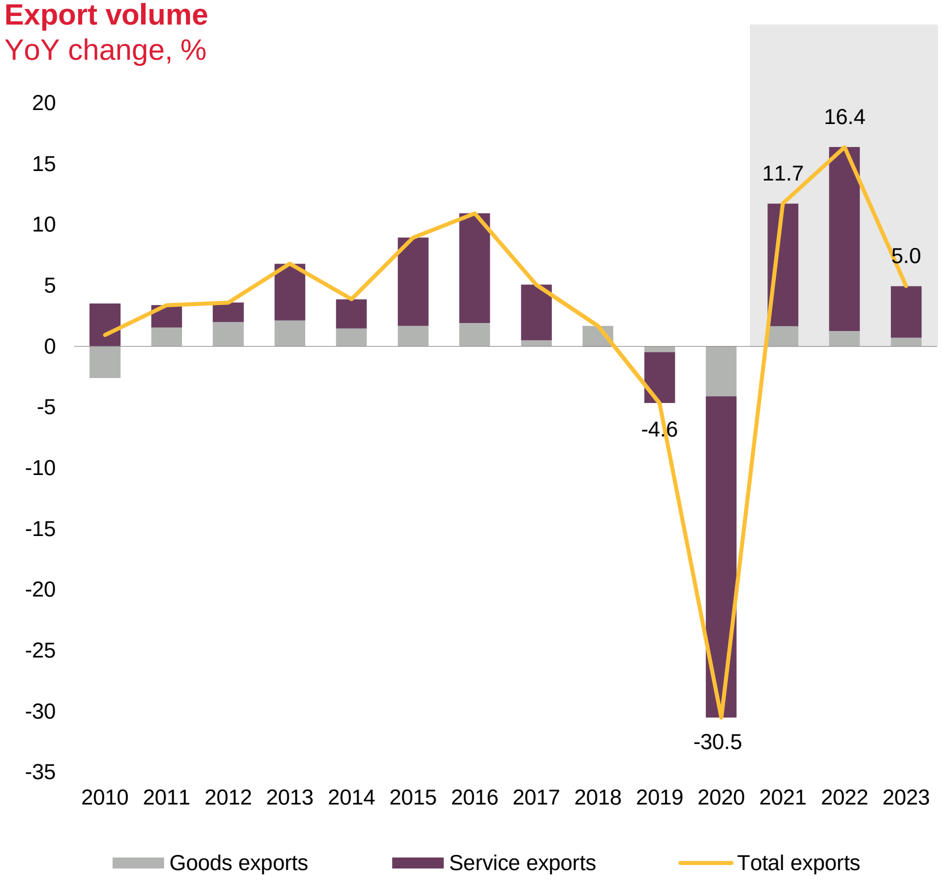
Current account surplus in 2020 despite dramatic fall in exports, medium term outlook benign

Highlights

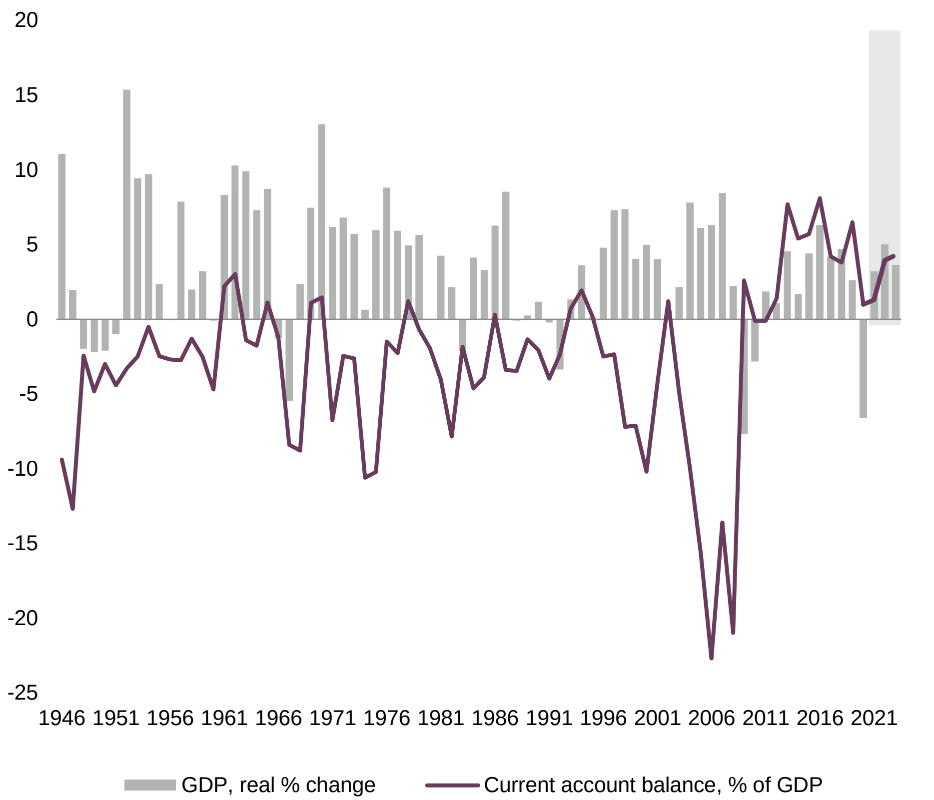
- In the baseline forecast, this year's number of tourists would be about one-third of the 2019 figure. Revenue growth in the tourism sector would nevertheless be over 40% YoY
- This is supplemented by growth in goods exports, chief among them farmed fish, aluminium, and other industrial goods. Overall, the outlook is for nearly 12% export growth in 2021
- For 2022, tourism will deliver the lion's share of the year's 16% export growth. In 2023, we expect moderate export growth of 5%
- Imports will broadly follow the export trend at a more moderate pace
- Despite the nearly 1/3 drop in exports, the current account was broadly balanced in 2020, with the contraction in imports and a handsome income account surplus compensating for the plunge in exports
- The CA surplus is expected to measure 1.3% of GDP, or ISK 40bn, this year. In 2022 and 2023, it will measure 4.0% or more of GDP, according to our forecast

Export volume

YoY change, %



Current account balance[1] and GDP growth



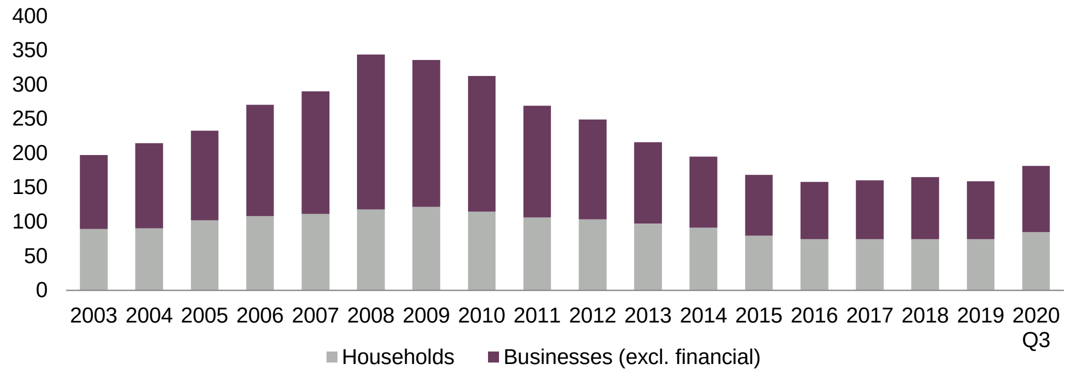
1. Excluding old banks' estates 2009-2015.
Shaded areas indicate ISB Research forecasts.
Source: Central bank of Iceland, Statistics Iceland and ISB Research.

5 May 2021

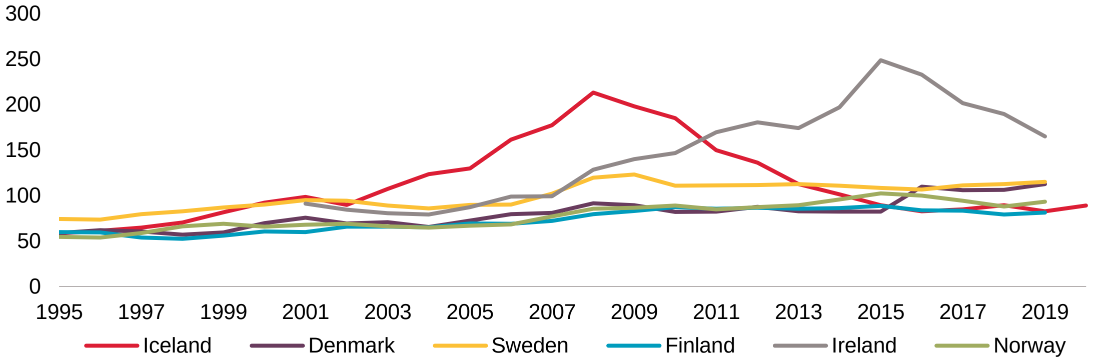
Domestic balance sheets staying healthy despite COVID-19

Economy-wide leverage remains moderate in comparison with peers and historical levels

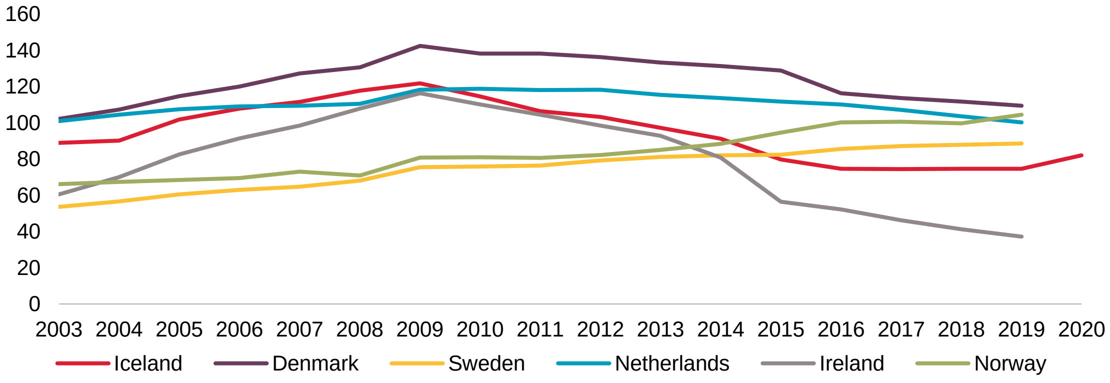
Private sector debt
% of GDP



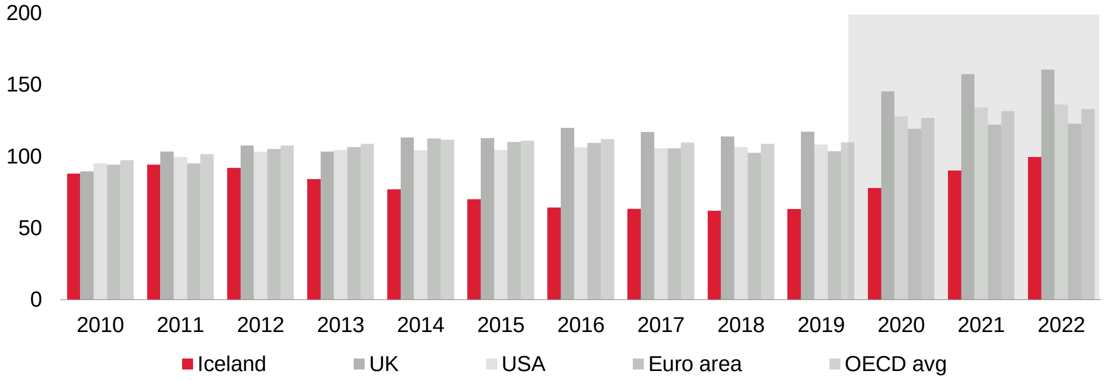
Corporate debt
% of GDP



Household debt
% of GDP



General government gross financial liabilities
% of GDP



Shaded areas indicate forecasts.
Source: Central bank of Iceland, Statistics Iceland, OECD and ISB Research.

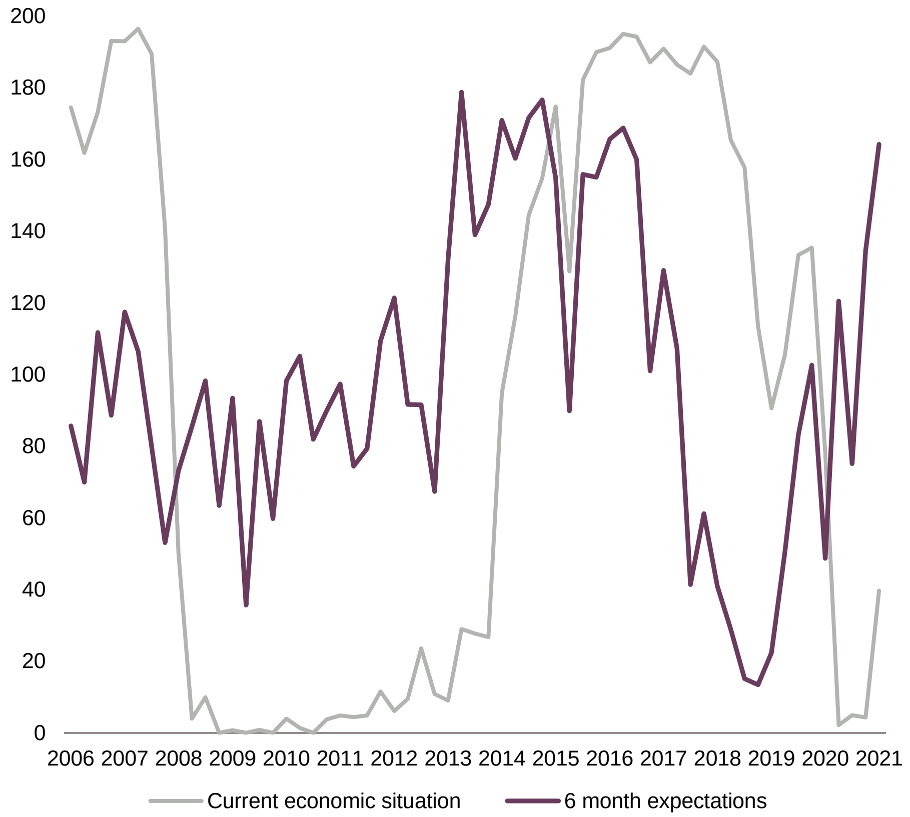
Businesses expect improving conditions following headwinds

Business investment has contracted and lending to businesses is stable

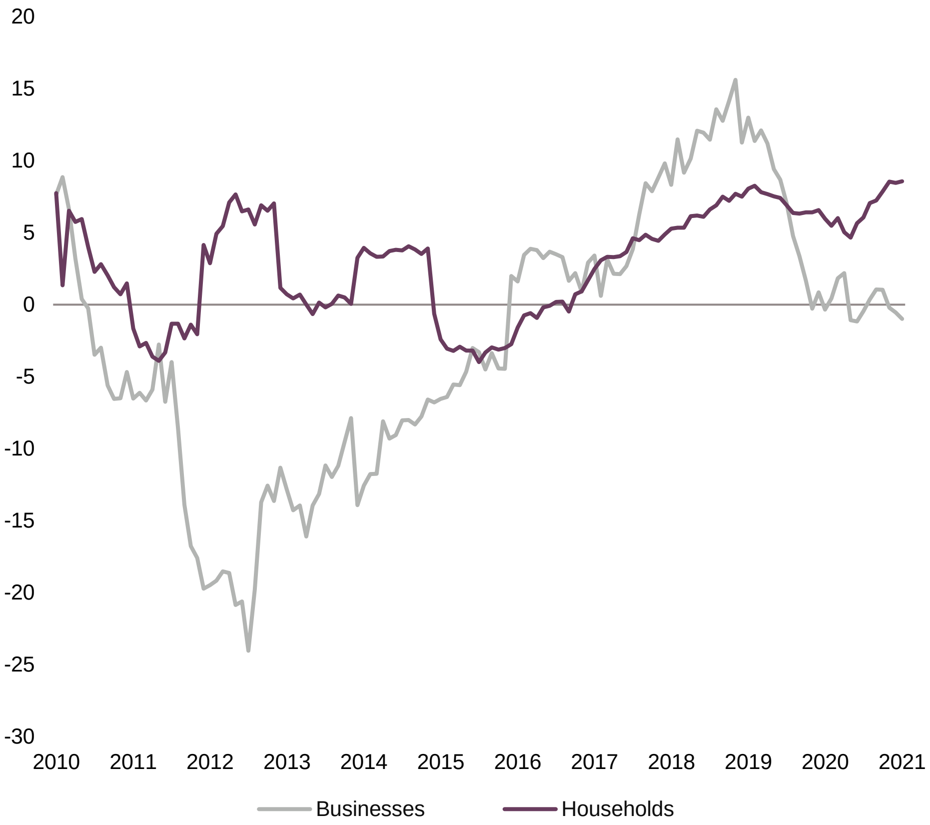
Highlights

- Following a 3.7% decline in investment in 2019, the contraction was steeper in 2020 as all main components of investment turned downwards. In total, capital formation contracted by 6.8% in 2020
- The investment-to-GDP ratio has not suffered much, however, unlike the post-financial crisis situation
- The outlook is for investment to gather pace gradually, but without sudden surges, in the next few years. Public sector investment will lead growth in 2021 with the private sector taking the reins in 2022-2023
- Business sentiment has seesawed recently. After a sharp drop in sentiment as the pandemic hit, business executives generally seem increasingly optimistic that the headwinds will prove temporary, and conditions will improve later in 2020
- Lending growth to businesses has slowed markedly after peaking in H2 2018. Corporate lending was almost unchanged over the year 2019 and growth has remained stable since

Business sentiment, 400 largest companies
Index



Credit system net lending
YoY % change



Source: Statistics Iceland, the Central Bank of Iceland and Gallup.

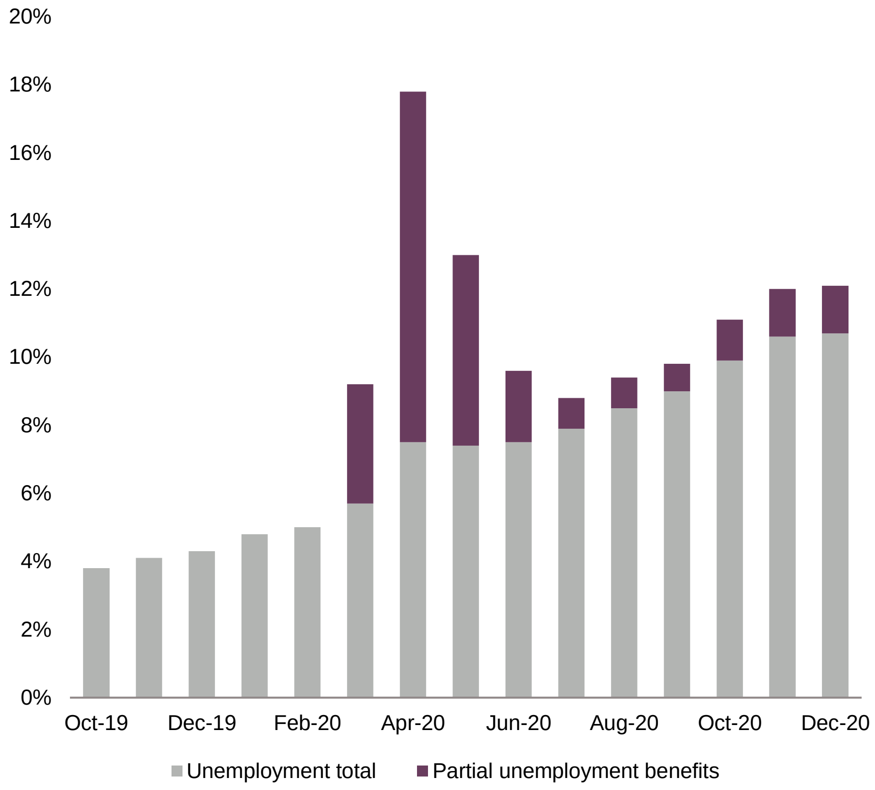
Unemployment spike likely to subside in the near term

The recovery of tourism plays a key role in determining how fast unemployment subsides

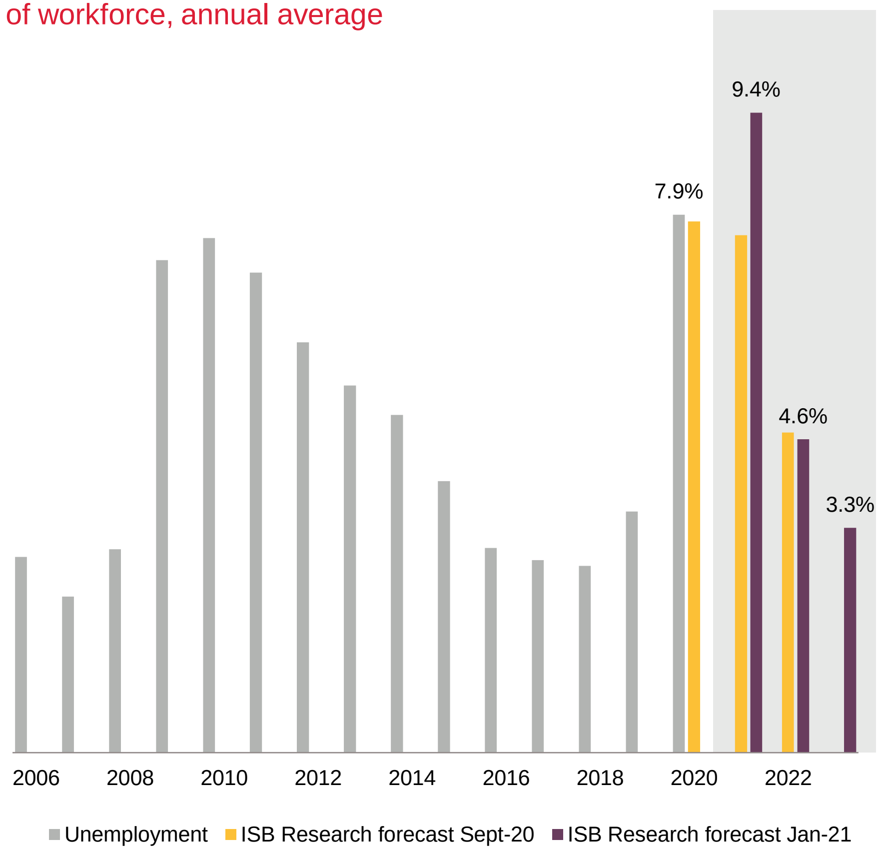
Highlights

- The pandemic has laid bare Iceland's vulnerability to shocks in labour-intensive industries such as tourism, other services sectors, and construction
- Unemployment rose considerably in the course of 2020 and over 10% of the labour force is now without work despite the mitigating measures taken by the government
- Due to a more protracted period of low tourism, unemployment also looks set to be more persistent than previously projected
- The labour market is likely to start gradually improving by Q3 and some slack is likely to remain throughout most of the forecast horizon
- Unemployment is expected to average 9.4% in 2021, 4.6% in 2022, and 3.3% in 2023
- If economic developments follow the path set out in the downside scenario, unemployment will be even more persistent, remaining above 10% for most of 2021 and above 5% until 2023

Unemployment
% of workforce, monthly average



Unemployment
% of workforce, annual average



Shaded areas indicate forecasts.
Source: Statistics Iceland, the Directorate of Labour and ISB Research.

Private consumption a countercyclical force

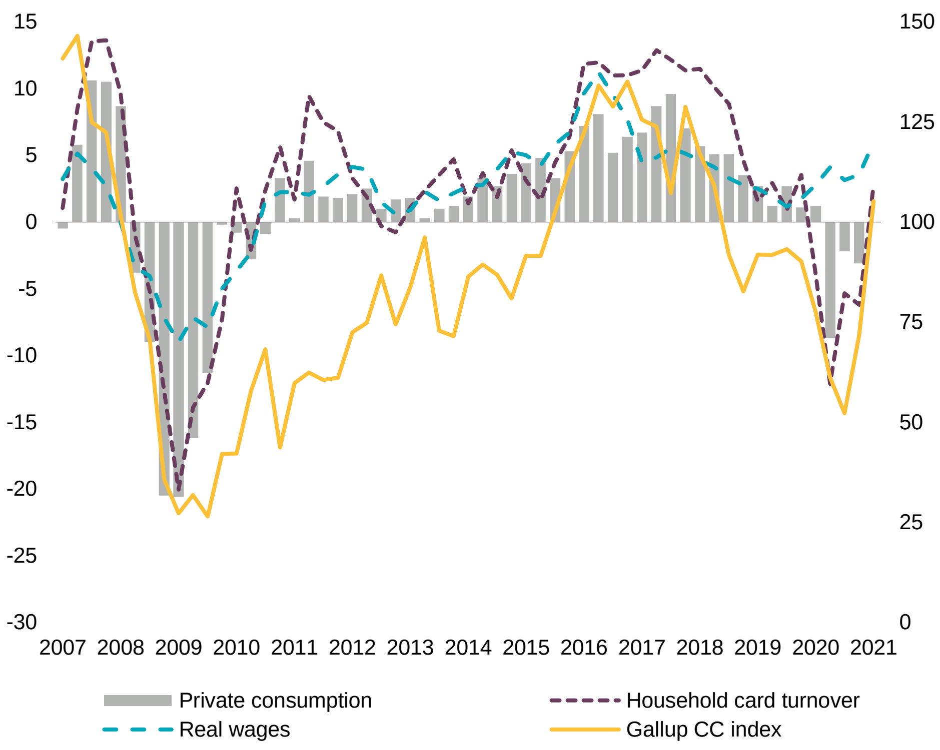
High unemployment impacting private consumption but the financial strength of most households and continuing rise in real wages is helping

Highlights

- Although private consumption contracted by 3.3% in 2020, the contraction was concentrated in consumption abroad while consumption within Iceland largely held its own
- Households' strong asset position, higher real wages among those still employed, and the effects of interest rate cuts have boosted consumers' appetite for spending and will continue to do so
- Rising consumer expectations and real wage growth have recently been reflected in increased card turnover
- On the other hand, high unemployment has had a significant negative impact although rising employment will support consumption further afield
- ISB Research forecasts that private consumption will grow by nearly 2% in 2021 and just over 3% per year in 2022 and 2023
- Households' consumption will therefore act as a countercyclical force throughout the business cycle this time, in a departure from the pattern seen in recent decades in Iceland

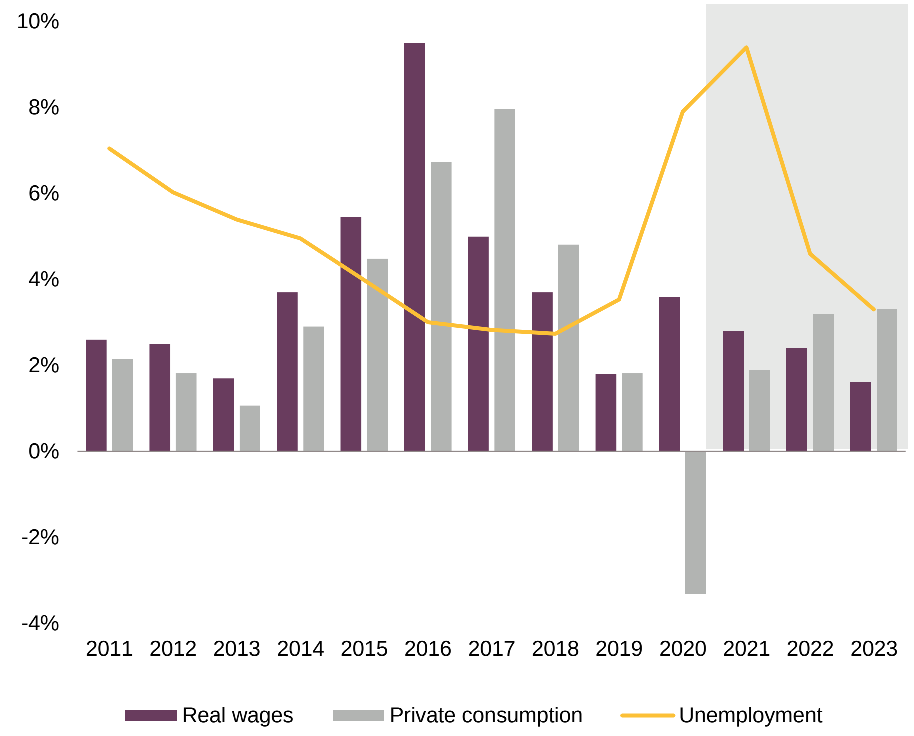
Private consumption and related indicators

YoY real % change (l.axis) and index (r.axis)



Private consumption, unemployment and real wages

YoY % change (consumption, real wages) and % (unemployment)



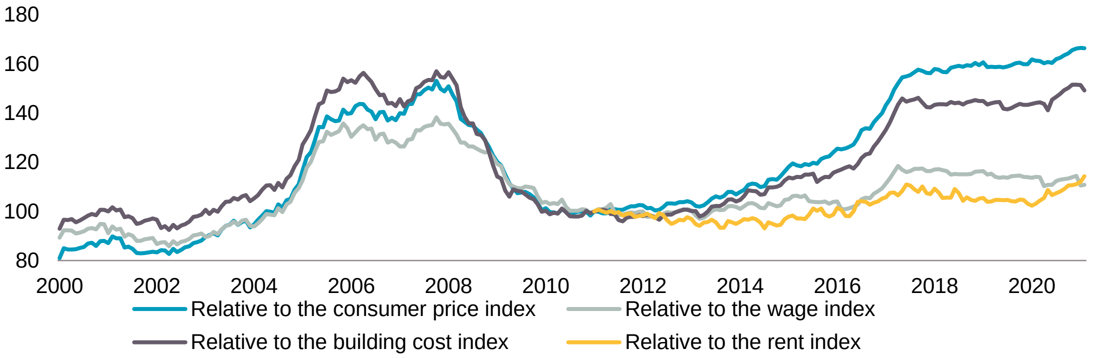
Shaded areas indicate ISB Research forecasts.
Source: Statistics Iceland, Gallup and the Central Bank of Iceland.

Real estate market resilient despite recession

Residential housing market turnover has been brisk and prices have risen steadily. Commercial property prices stabilizing after price decline in H1 of 2020

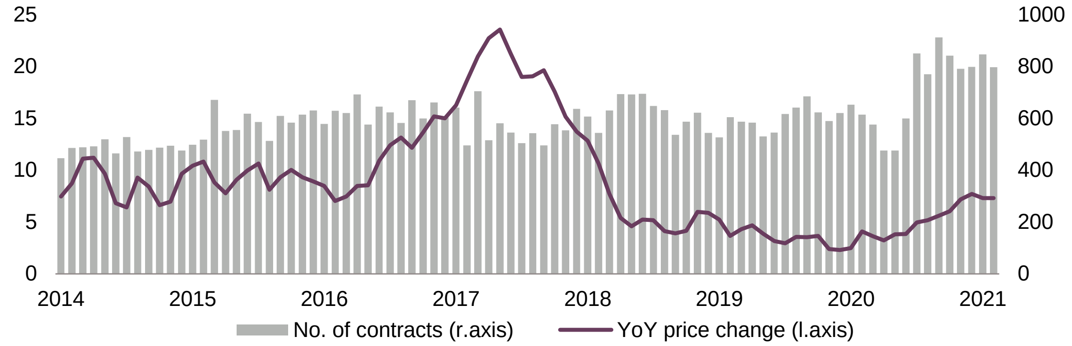
Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



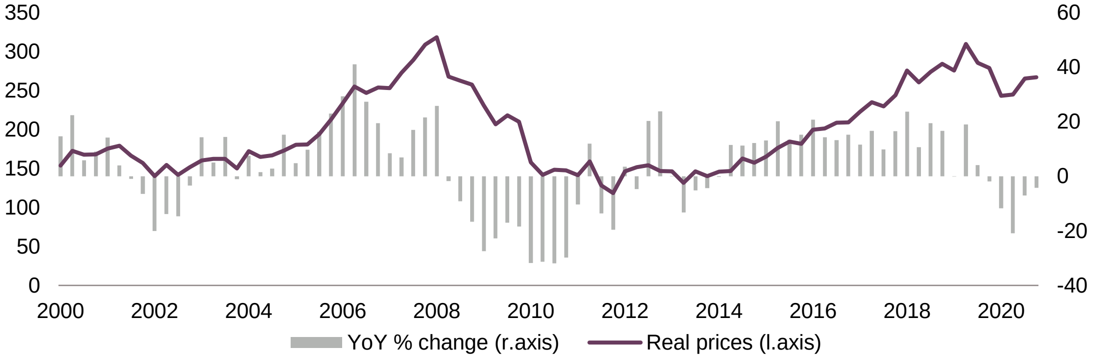
Residential house prices and turnover in greater Reykjavik

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



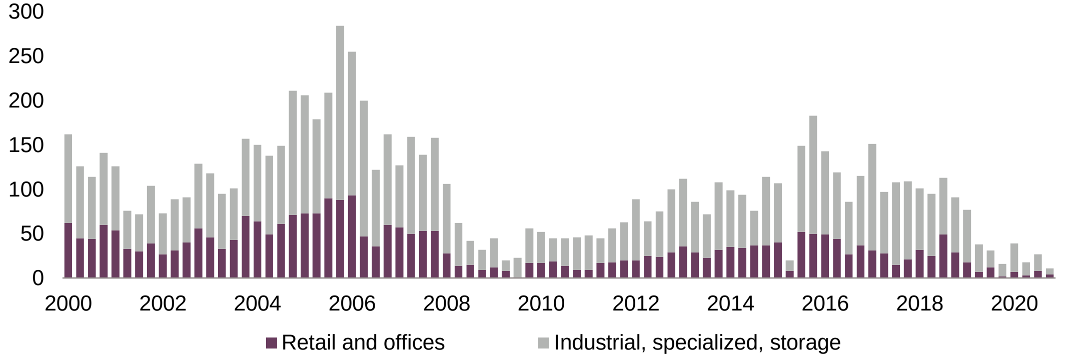
Commercial property real prices in greater Reykjavik

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



Commercial real estate market activity

No. of registered purchase agreements



Source: The Central Bank of Iceland.

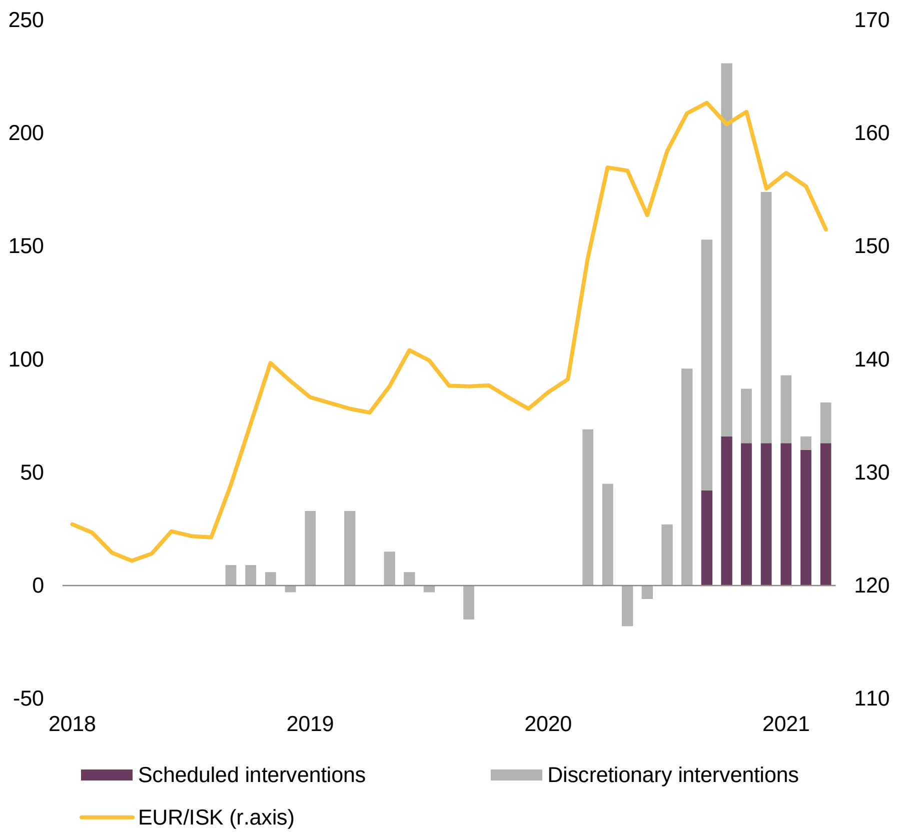
ISK likely to strengthen with rising tourist numbers

The CBI has significantly mitigated exchange rate volatility but is scaling down interventions

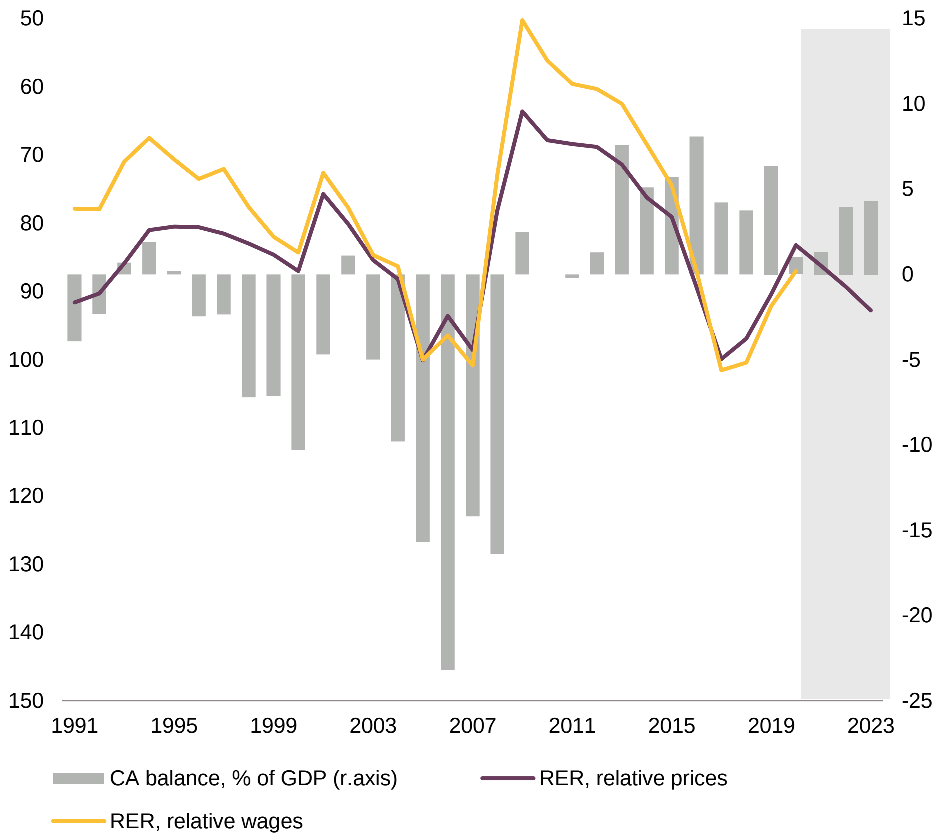
Highlights

- The ISK depreciated by nearly 10% against major currencies over the course of 2020
- The CBI sold a total of EUR 820m from its FX reserves in 2020 with the aim of mitigating ISK volatility and reducing the impact of financial account outflows
- In 2021 to date, FX flows have been more balanced, and the ISK has appreciated somewhat, allowing the CBI to scale down its regular FX sales as of end-March
- A strong net external position, measuring 30% of GDP at end-2020, and ample central bank FX reserves provide a more solid foundation for the ISK than in earlier decades
- Once the trade balance moves back into surplus, the ISK is expected to appreciate further as fundamentals remain sound and short-term FX obligations are at a low
- ISB Research's forecast assumes that the ISK exchange rate will be 8-9% above its 2020 average by 2023

ISK exchange rate and Central Bank FX interventions



Real exchange rate indices and current account balance



Shaded areas indicate ISB Research forecasts.
Source: Central bank of Iceland, Statistics Iceland, Íslandsbanki Research.

Inflation spike to retreat quickly in coming quarters

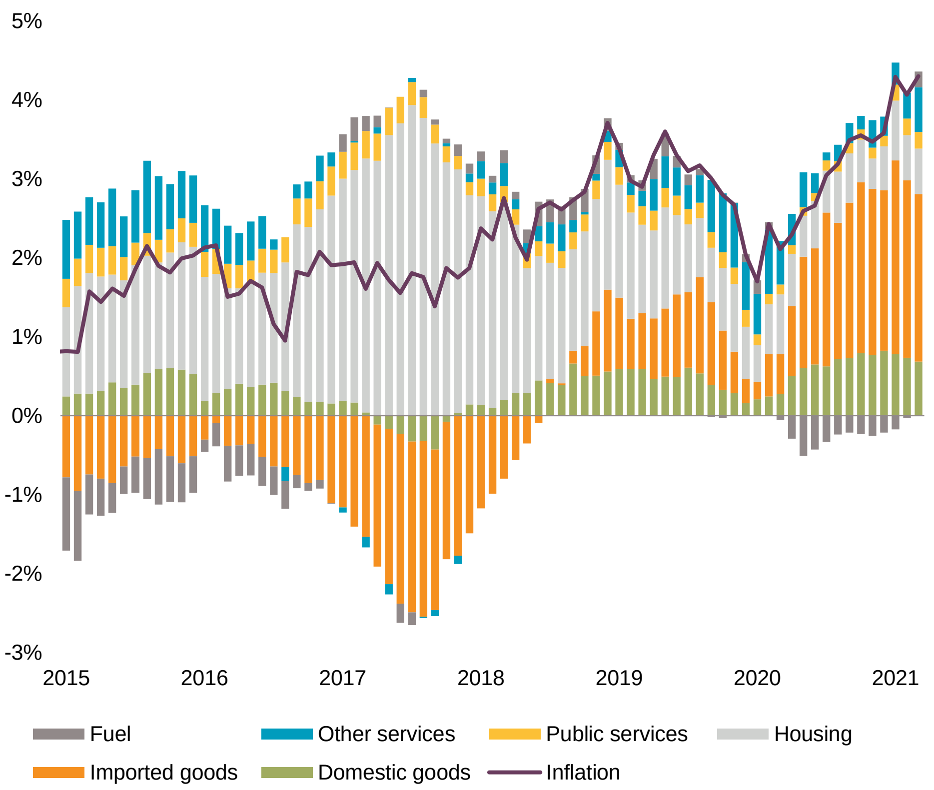
Policy rate to remain low throughout 2021 but rise gradually thereafter

Highlights

- Inflation has risen steadily since early 2020, from 2.0% at end-2019 to 3.6% by December and 4.3% in March 2021
- ISK depreciation in 2020 is the largest cause of rising inflation, although there have been domestic inflationary pressures as well and house prices have not had a downward impact as expected
- The outlook is for a relatively swift disinflation episode as the slack in the economy takes hold and the ISK eventually appreciates
- Inflation could reach the CBI's 2.5% target by year-end and stay close to the target in 2022-2023
- Following cuts totalling 2.25% in 2020, the policy rate is likely to stay at 0.75% until the economy is on solid footing again
- Rate hikes unlikely until early 2022 and expected to be gradual thereafter
- Long-term rates to rise modestly in 2022-2023 but stay below historical averages

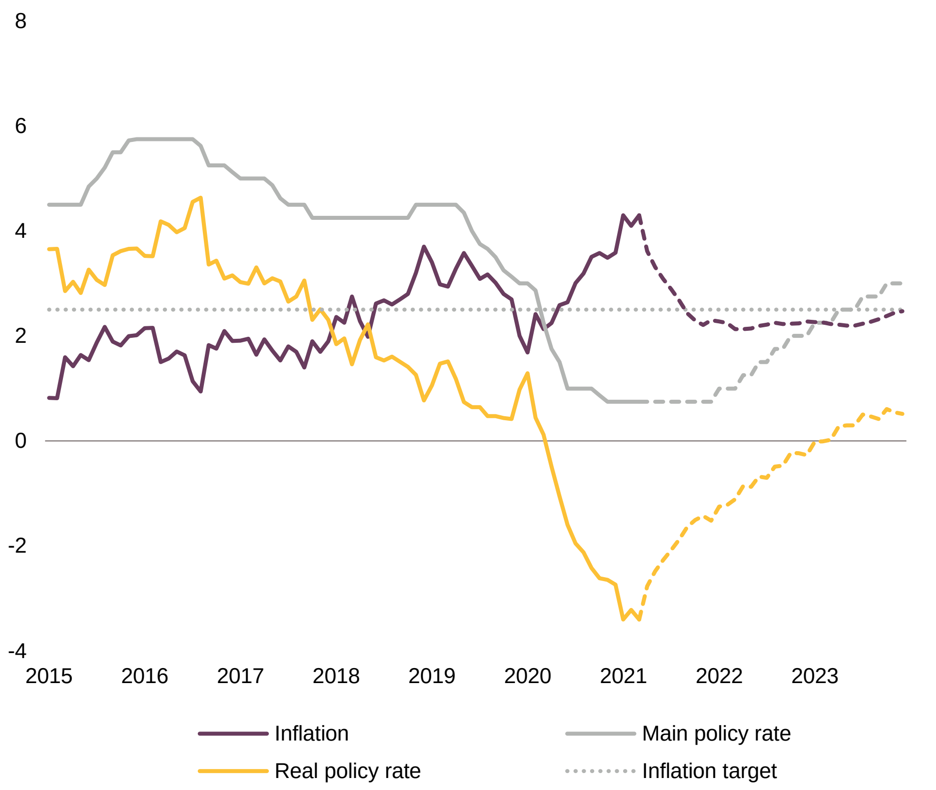
Inflation and contribution of main subitems

%



Inflation, policy rate and real policy rate[1]

%



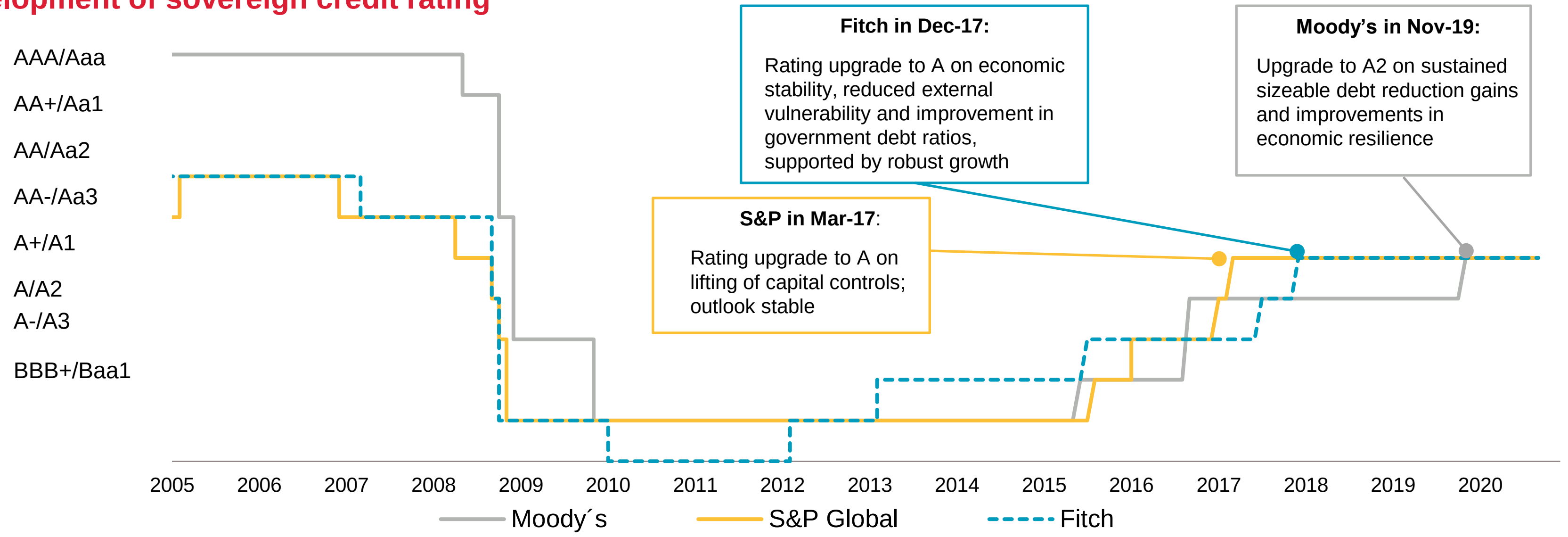
1. Real policy rate based on 12M trailing inflation.
Dashed lines indicate ISB Research forecasts.
Source: Statistics Iceland, the Central Bank of Iceland and ISB Research.

5 May 2021

Iceland's credit rating has remained at A

Setbacks in the tourist sector have not affected the sovereign ratings

Development of sovereign credit rating



MOODY'S IN OCTOBER 2020

- "The stable outlook reflects our view that downside risks stemming from the economy's small size and high concentration are mitigated by Iceland's relative macroeconomic and financial robustness, based on reduced indebtedness and improved external balance"

FITCH IN OCTOBER 2020

- Rating affirmed at A with a negative outlook
- The 'A' rating is driven by Iceland's very high income per capita, very strong performance on governance, human development and doing business indicators that are more consistent with that of 'AAA' and 'AA' rated countries
- The negative outlook reflects rising government debt/GDP and downside risks of a prolonged and intensified pandemic leading to macroeconomic and financial spill-overs

S&P IN NOVEMBER 2020

- "The stable outlook reflects our expectation that Icelandic authorities will be able to gradually stabilize the damage done to public finances by the global pandemic through 2023"
- "Moreover, despite the significant hit to the tourism sector, we also expect that Iceland will be able to maintain its current account balance in surplus over the next few years"

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

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5 May 2021

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