29 July 2020

1H2020 Financial Results

islandsbanki.is

Table of Contents

1. 1H2020 highlights

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 735
Parent company end of June 2020

12 Branches

Market share[1]

33%	Retail customers
35%	SMEs
34%	Large companies

Sustainability

Environment	**1.62** CO_2tn	Carbon emission per employee
Social	**1.14%**	Gender pay gap
Governance	**67%**	of women chairing committees at board level

Key Figures 1H2020

ROE	-0.1%	LCR Group, all currencies	179%
Cost to income ratio	60.1%	NSFR Group, all currencies	117%
Total capital ratio	22.2%	Leverage Ratio	13.4%
Tier 1 capital ratio	19.4%	Total assets	ISK 1,303bn

Ratings and certifications

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

EQUAL PAY CERTIFICATE 2018 - 2021

EXEMPLARY IN CORPORATE GOVERNANCE

Digital milestones in 1H2020

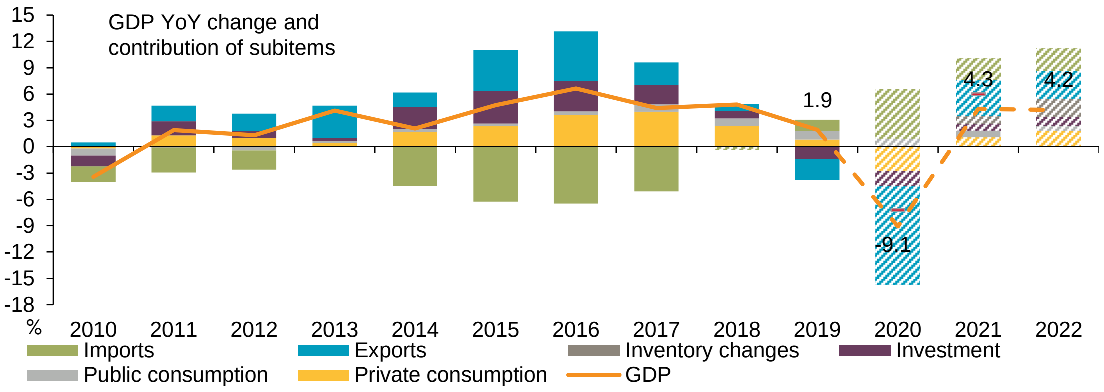
- Digital onboarding to securities trading
- Mortgages refinancing now digital
- Electronic signatures available
- Increased use of digital solutions in COVID-19 period
- Launch of chatbot Fróði for individuals

1. Based on Gallup surveys regarding primary bank

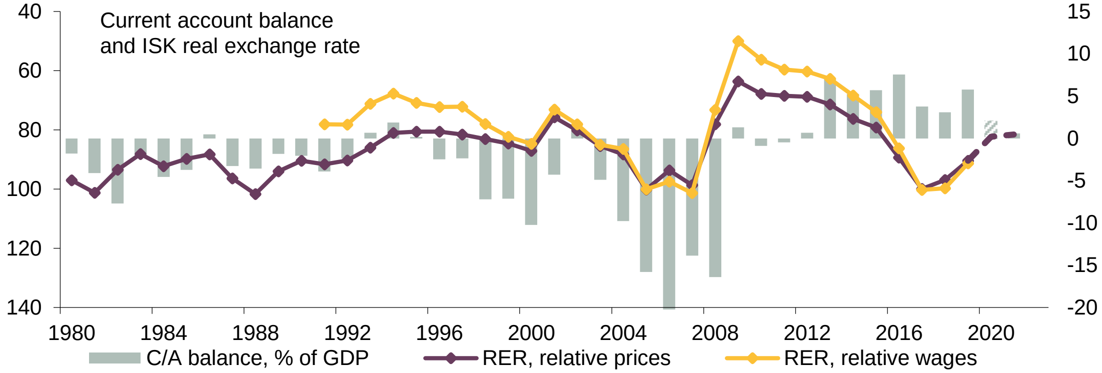
Pandemic-induced recession will hopefully prove short-lived

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

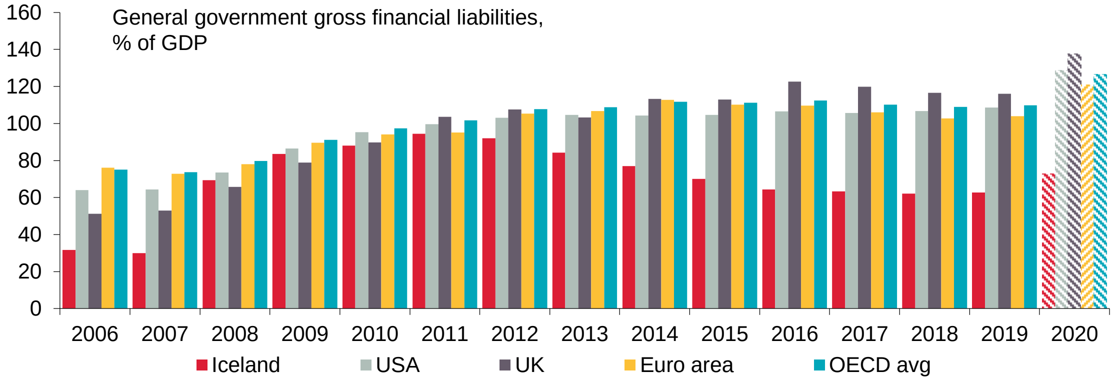
The economic impact of COVID-19 will be deep in 2020...



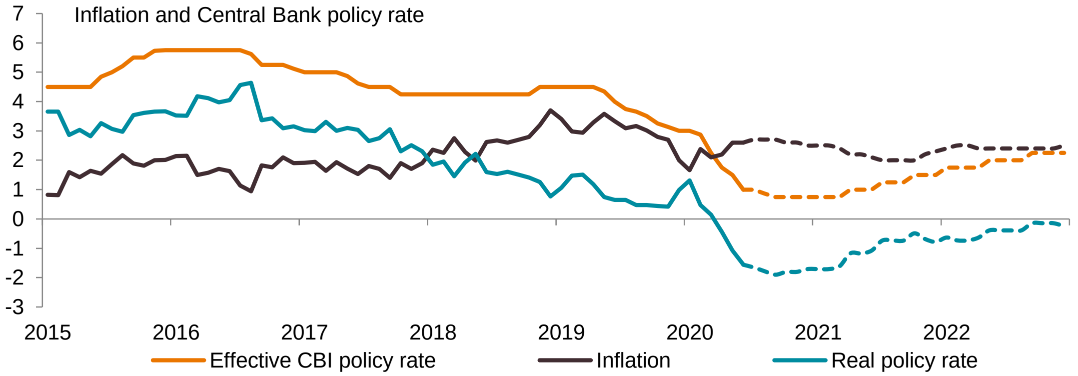
...although a lower real exchange rate will aid export sector recovery



Moderate public debt increases scope for countercyclical measures...



...and monetary conditions have been eased considerably to aid economy



Shaded areas indicate ISB Research/ forecasts
Source: Statistic Iceland and ISB Research

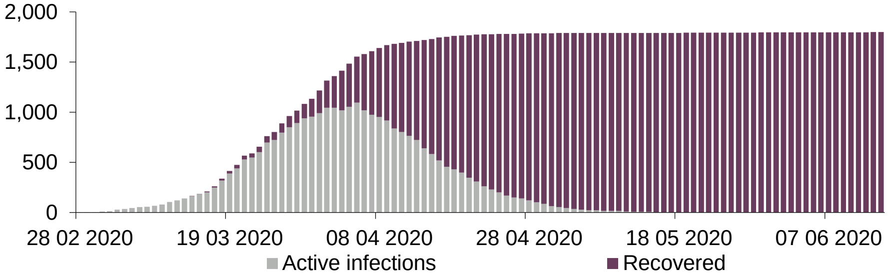
COVID-19 pandemic in Iceland

Borders now open with effective screening and number of active cases are currently 28

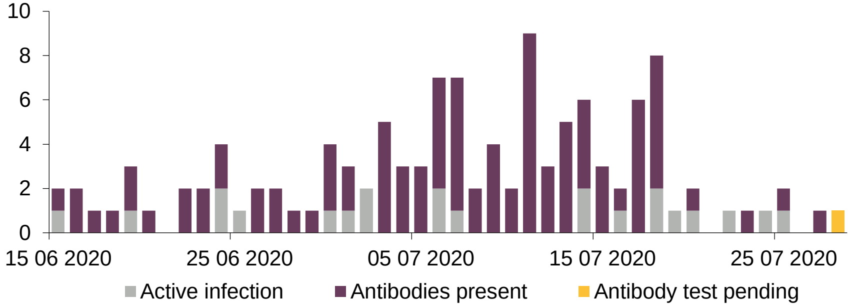
Main measures taken[1]

- On 15 June, Icelandic borders were reopened.
  - All travellers arriving in Iceland can choose to be tested for COVID-19 for a fee of ISK 15,000 (about EUR 100) as an alternative to a two week quarantine
- As of 16 July, a total of six countries are not considered high risk areas and travellers do not need to undergo testing at the boarder
- Quarantine requirements continue
  - >23,000 people completed quarantine
  - 57% of diagnosed already in quarantine
- Ban on larger gatherings (500 person limit)
- Large scale testing continues and effective tracing has played an important role in containing infections

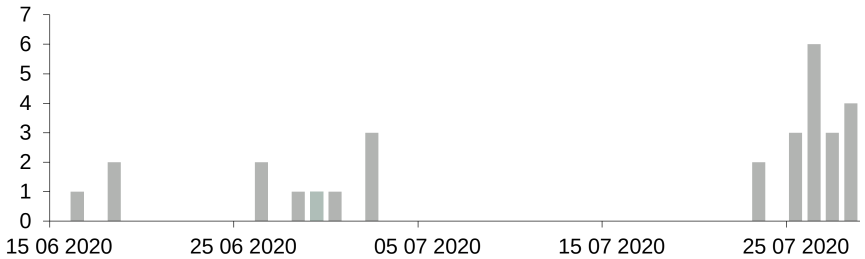
Number of active infections and number of recovered until 15.6.2020



Number of infections from abroad since 15.06.2020



Number of domestic infections since 15.06.2020



1. Source: https://www.covid.is/english

COVID-19 impact in 1H2020

Lending solutions for corporates an important measure to counteract COVID-19 impact

Official actions to counteract impact of COVID-19

- In 1Q2020 the Icelandic Government and the Central Bank took several measures to counteract the COVID-19 pandemic
  - Among them were lowering of the key policy rate, lowering of the countercyclical capital buffer, actions to counteract unemployment and support companies and lowering of bank tax
- The Government has also introduced closure grants of up to ISK 2.4m which are intended for companies who were obliged to close during restrictions on gatherings during the COVID-19 pandemic

Ísandsbanki's general actions

- Íslandsbanki has maintained a full business continuity throughout the COVID-19 pandemic and offered service via digital solutions and phone
- The Bank's branches were reopened on 11 May
- Íslandsbanki's measures that were introduced in 1Q20 include allowing suspension of payments of principal and interest for up to six months

Actions to support private customers

- As of the end of 1H20, over 2,500 loans to individuals (including mortgages) amounting to almost ISK 30bn have been granted moratorium
  - This equals about 8% of the loan portfolio to individuals

Actions to support corporates

- Solutions for corporates aim to incorporate and enable the solutions that the Government has put forward
- Supplemental lending
  - 70% Treasury guaranteed
  - For companies whose revenues have fallen by 40% in 2020, due to COVID-19
  - Salary cost was at least 25% of operating expenses in 2019
- Support loans
  - 85% or 100% Treasury guaranteed
  - For companies with income in the range of ISK 9-1,200m in 2019
  - Revenue has decreased by at least 40% in 2020
  - Support loans are fully digital and are applied for via island.is
- As of the end of 1H20, about 1,600 loans to companies amounting to almost ISK 150bn have been granted moratorium.
  - This exposure is equivalent to approximately 26% of the corporate loan book.
  - About 80% of companies in the tourism sector in business with Íslandsbanki and 47% in the Real estate sector have been granted moratorium

Operational highlights in 1H2020

Sale of Borgun and a merged SME banking centre in Norðurturn

Íslandsbanki confirmed the sale of its 63.5% holding in Borgun hf. to Salt Pay Co Ltd. on 7 July 2020, originally announced in March. The transaction will have a limited impact on the Bank's operations. Borgun hf. is classified as disposal group held for sale in the interim financial statements

The Bank's Laugardalur branch got a greater emphasis on providing service to individuals. The Branches at Höfði and Grandi merged with Laugardalur branch as part of the change

Services to SME's were merged to the Bank's corporate banking centre in Norðurturn, the Bank's headquarters

Íslandsbanki started a pilot where employees work from home one day per week. The Bank also introduced more environmentally friendly ways of travelling to work

Íslandsbanki signed a cooperation agreement with Payday services. Payday's services aim to simplify accounting, payroll, and payment of taxes and levies for self-employed individuals and small businesses

Íslandsbanki allocated ISK 30m from the Bank's Entrepreneur Fund which is guided by the UN SDGs the Bank has chosen to support in its policy. 13 projects received a grant

Ergo Finance Solutions now offers special terms when financing eco-friendly cars and offers loans for electric bikes and charging stations

Overview
Key figures & ratios

		1H20	1H19	2Q20	2Q19	2019
PROFITABILITY	After tax profit (loss), ISKm	**(131)**	4,709	**1,245**	2,120	8,454
	Return on equity (after tax)	**-0.1%**	5.4%	**2.8%**	4.9%	4.8%
	Net interest margin (of total assets)	**2.7%**	2.7%	**2.6%**	2.8%	2.8%
	Cost to income ratio[1]	**60.1%**	58.0%	**57.5%**	56.5%	62.4%
		30.6.2020	31.3.2020	31.12.2019	31.12.2018	31.12.2017
BALANCE SHEET	Loans to customers, ISKm	**933,320**	923,850	899,632	846,599	755,175
	Total assets, ISKm	**1,303,256**	1,255,691	1,199,490	1,130,403	1,035,822
	Risk exposure amount, ISKm	**923,133**	911,375	884,550	845,949	775,492
	Deposits from customers, ISKm	**681,223**	647,795	618,313	578,959	567,029
	Customer loans to customer deposits ratio	**137.0%**	142.6%	145.5%	146.2%	133.2%
	NPL ratio[2]	**3.6%**	2.8%	3.0%	2.0%	1.0%
LIQUIDITY	Liquidity coverage ratio (LCR), for all currencies	**179%**	177%	155%	172%	142%
	Net stable funding ratio (NSFR), for all currencies	**117%**	120%	119%	114%	117%
CAPITAL	Total equity, ISKm	**179,722**	179,542	180,062	176,313	181,045
	Tier 1 capital ratio	**19.4%**	19.2%	19.9%	20.3%	22.6%
	Total capital ratio	**22.2%**	21.9%	22.4%	22.2%	24.1%
	Leverage ratio	**13.4%**	13.5%	14.2%	14.6%	16.2%

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

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

2. Income statement

Profit in 2Q20 ISK 1.2bn despite impairment and COVID-19[1]

Highlights

- Total income fell in 1H20 as a result of loss in net financial income
- Interest income decreased in 2Q20 due to lower interest rate environment
- Net fee income fell explained by reduced payment card and currency exchange activity in the wake of COVID-19 and higher cost related to cards in the quarter
- Net financial loss due to loss in trading and banking books for equity and equity like instruments in 1Q20 and CPI hedges in 2Q20
- Decrease in other operating income as income in 1Q19 was settlement of a claim relating to the acquisition of Byr and income in 4Q19 was a release of a provision related to deposit insurance
- Administrative expenses fell due to FTE reductions in 2019 and continuous operational improvements
- The bank tax has been reduced to 14.5 basis points from 31.8 basis points, reducing the Bank´s taxes by ISK 1.6bn annually
- Loss for the period is largely caused by negative net impairment
- The cost of risk for loans to customers was 0,26% in the quarter (1,05% annualised) and 0,65% in the first half (1,29% annualised)

Impairments main cause for lower profits in the first half

ISKm	1H20	1H19	Δ	Δ%	2Q20	2Q19	Δ	Δ%	2019
Net interest income	**16,808**	16,341	467	2.9%	**8,228**	8,404	(176)	-2.1%	32,822
Net fee and commission income	**4,798**	5,405	(607)	-11.2%	**2,307**	2,758	(451)	-16.4%	10,899
Net financial income (expense)	**(1,919)**	622	(2,541)	-408.5%	**(181)**	180	(361)	-200.6%	(820)
Net foreign exchange gain (loss)	**263**	(136)	399	-293.4%	**208**	(15)	223	-1486.7%	139
Other operating income	**90**	1,168	(1,078)	-92.3%	**71**	27	44	163.0%	2,125
Total operating income	**20,040**	23,400	(3,360)	-14.4%	**10,633**	11,354	(721)	-6.4%	45,165
Salaries and related expenses	**(6,694)**	(7,153)	459	-6.4%	**(3,447)**	(3,689)	242	-6.6%	(14,019)
Other operating expenses	**(4,869)**	(5,280)	411	-7.8%	**(2,424)**	(2,531)	107	-4.2%	(10,469)
Administrative expenses	**(11,563)**	(12,433)	870	-7.0%	**(5,871)**	(6,220)	349	-5.6%	(24,488)
Contribution to the Depositor's and Investors' Guarantee Fund	**(475)**	(510)	35	-6.9%	**(247)**	(198)	(49)	24.7%	(936)
Bank tax	**(758)**	(1,814)	1,056	-58.2%	**(399)**	(934)	535	-57.3%	(3,528)
Total operating expenses	**(12,796)**	(14,757)	1,961	-13.3%	**(6,517)**	(7,352)	835	-11.4%	(28,952)
Profit before net impairment on financial assets	**7,244**	8,643	(1,399)	-16.2%	**4,116**	4,002	114	2.8%	16,213
Net impairment on financial assets	**(5,929)**	(1,809)	(4,120)	227.8%	**(2,439)**	(902)	(1,537)	170.4%	(3,480)
Profit before tax	**1,315**	6,834	(5,519)	-80.8%	**1,677**	3,100	(1,423)	-45.9%	12,733
Income tax expense	**(888)**	(1,922)	1,034	-53.8%	**(119)**	(726)	607	-83.6%	(3,909)
Profit for the period from continuing operations	**427**	4,912	(4,485)	-91.3%	**1,558**	2,374	(816)	-34.4%	8,824
Discontinued operations, net of income tax	**(558)**	(203)	(355)	174.9%	**(313)**	(254)	(59)	23.2%	(370)
Profit (loss) for the period	**(131)**	4,709	(4,840)	-102.8%	**1,245**	2,120	(875)	-41.3%	8,454

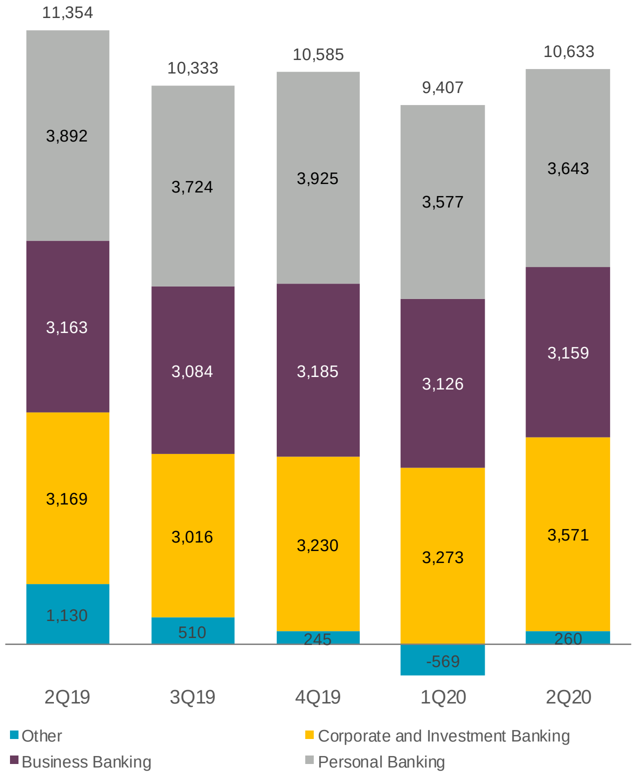
1. Borgun hf. has been classified as disposal group held for sale in the interim financial statements. The comparative figures in the Consolidated Interim Income Statement have been restated

Total operating income falls due to COVID-19 pandemic

Decrease in total income mainly due to lower NFCI and considerable net financial loss

Total operating income[1]

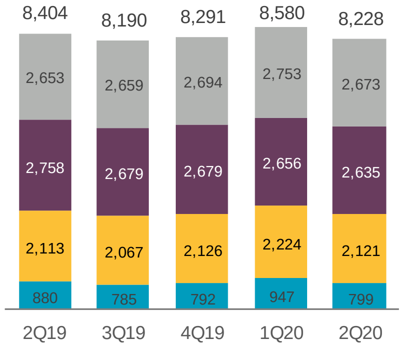
ISKm



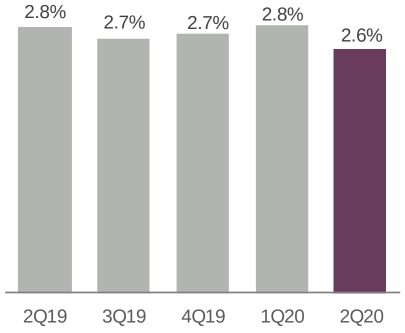
1. Excluding one-off income

Net interest income

ISKm

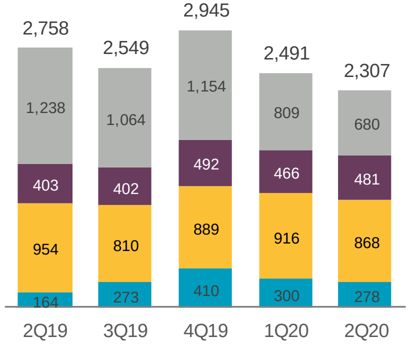


Net interest margin



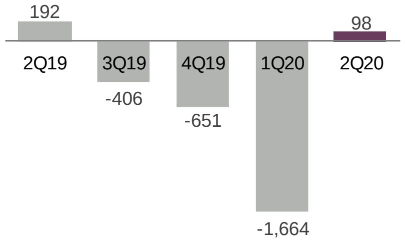
Net fee and commission income

ISKm



Other net operating income[1]

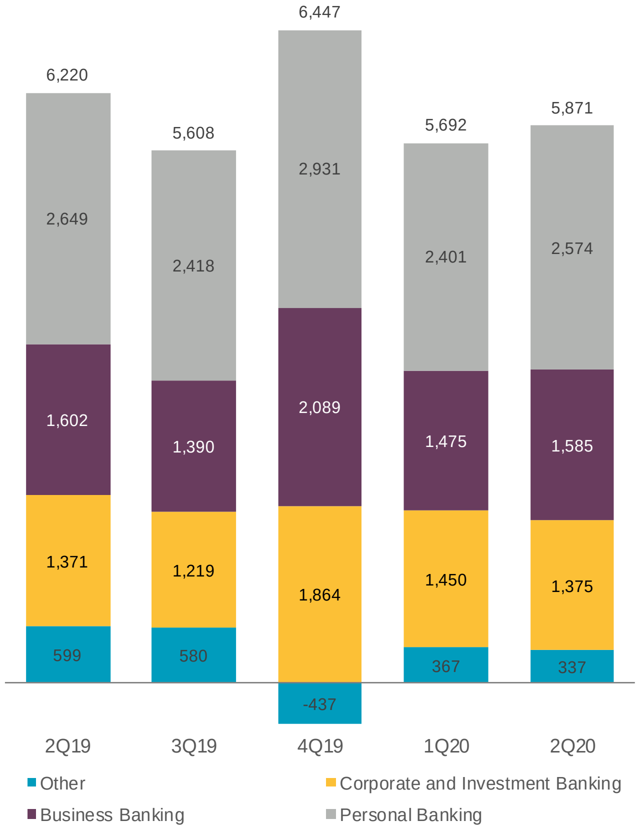
ISKm



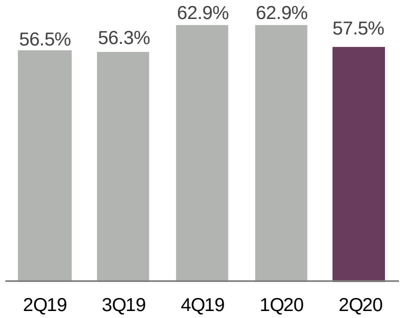
Administrative expenses decrease

Decrease in administrative expenses driven by lower salary cost and operating expenses

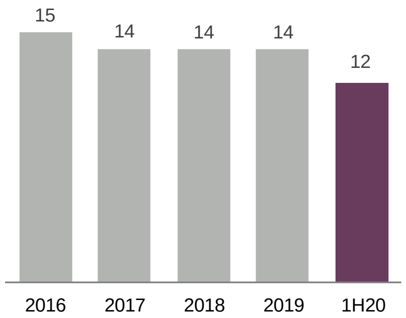
Administrative expenses[1]
ISKm



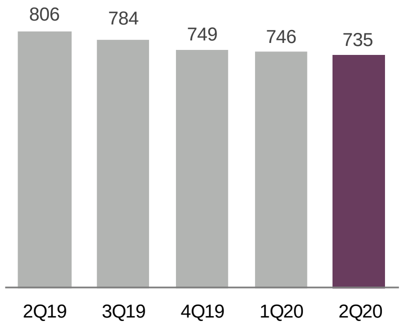
Efficiency – Cost to income ratio[2]



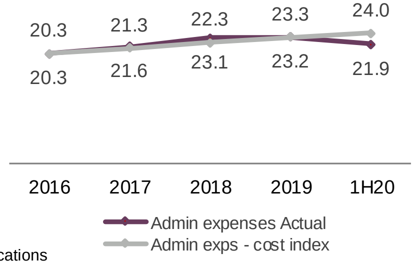
Branch network



Period end FTE numbers[3]
Parent company



Annualised admin. exp. vs cost index[4]
ISKbn. excl. one-off cost. parent company



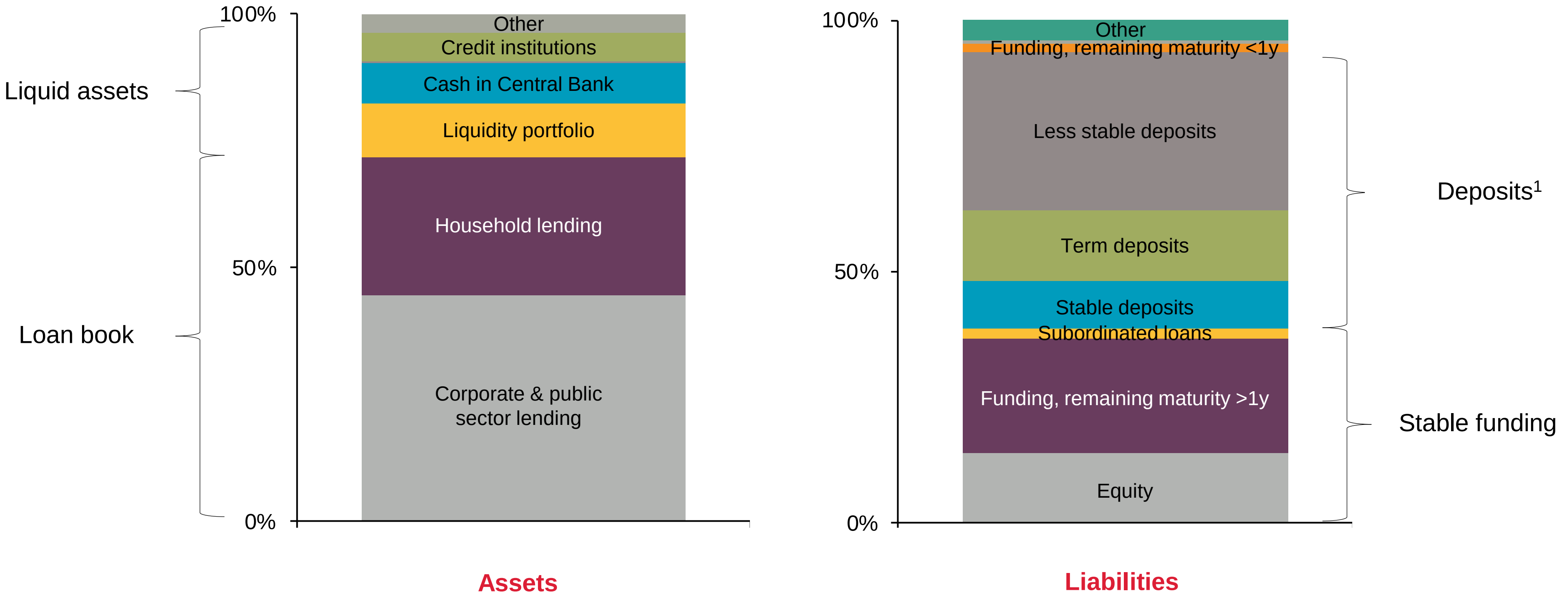
1. Negative cost in Other segment in 4Q19 due to changes in internal cost allocations
2. The cost-to-income ratio excludes bank tax and one-off items
3. FTE numbers exclude seasonal employees
4. Administrative expense - cost index is calculated as 40% inflation and 60% salary index excluding one-off items

3. Balance sheet

Balance sheet overview

Strong balance sheet structure with deposits as primary source of funding

Simplified balance sheet structure
30 June 2020, ISK 1,303bn



[1]As defined by LCR categories

Assets

Total assets are 8.7% up from year-end 2019

Highlights

Liquid assets

— Three line items – cash and balances with Central Bank, loans to credit institutions and bonds and debt instruments – amount to about ISK 314bn of which ISK 281bn are liquid assets

Loans to customers

— Net increase in loan portfolio amounted to ISK 33.7bn from year-end 2019, there of 19.2bn from depreciation of ISK

Bonds and debt instruments

— In May, the Central Bank announced it would stop offering one-month term deposits. Subsequently, some of bank's liquidity was shifted to Treasury bills, short dated Treasury bonds and covered bonds

Shares and equity instruments

— Decrease as a subsidiary classified as held for sale is moved to non-current assets and closure of derivatives against shares

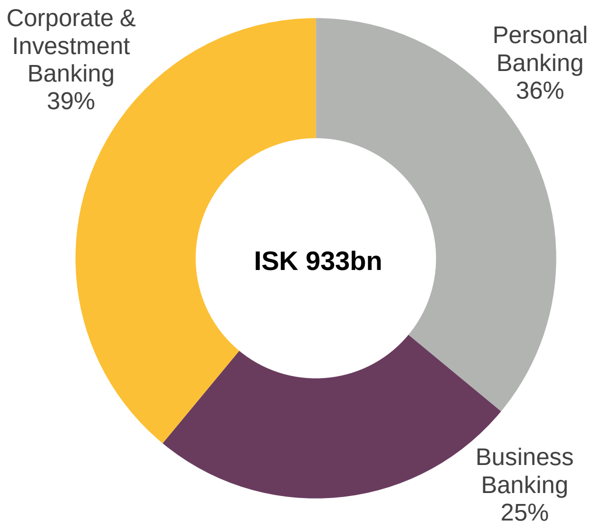
— ISK 3.0bn open unhedged exposure to equities

Assets, ISKm	30.6.2020	31.12.2019	Δ	Δ%
Cash and balances with Central Bank	**103,569**	146,638	(43,069)	-29.4%
Loans to credit institutions	**70,307**	54,376	15,931	29.3%
Bonds and debt instruments	**140,422**	52,870	87,552	165.6%
Derivatives	**6,366**	5,621	745	13.3%
Loans to customers	**933,320**	899,632	33,688	3.7%
Shares and equity instruments	**10,943**	18,426	(7,483)	-40.6%
Investment in associates	**750**	746	4	0.5%
Property and equipment	**7,549**	9,168	(1,619)	-17.7%
Intangible assets	**3,667**	4,330	(663)	-15.3%
Other assets	**6,370**	6,608	(238)	-3.6%
Non-current assets and disposal groups held for sale	**19,993**	1,075	18,918	1760.1%
Total Assets	**1,303,256**	1,199,490	103,766	8.7%

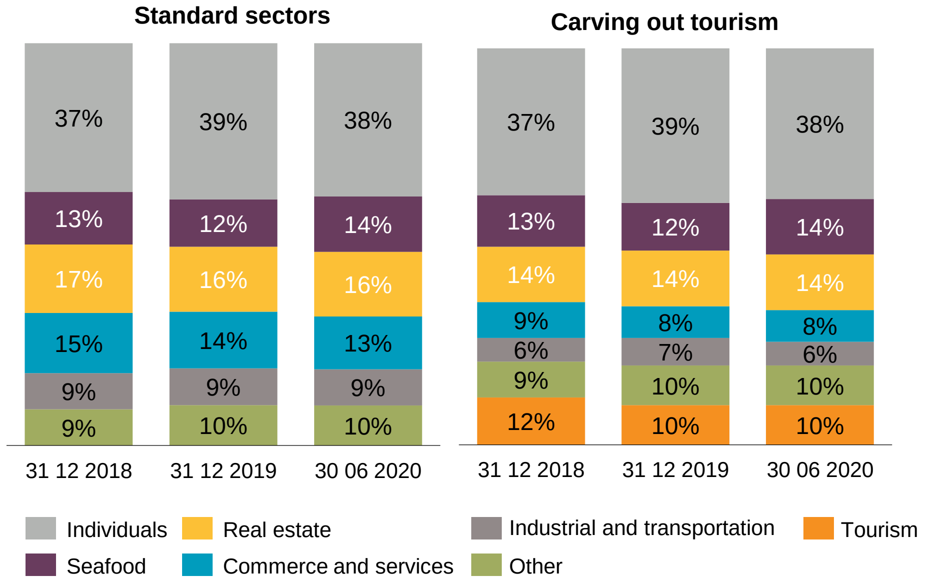
Diversified loan portfolio

Exposure to tourism is 10% of loans to customers

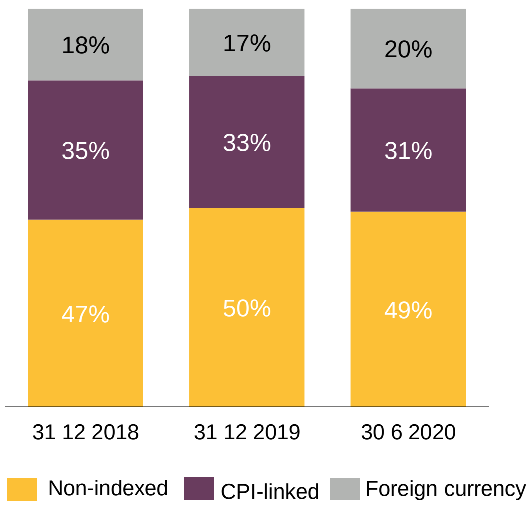
Loans to customers by business divisions
30.06.2020, consolidated



Loans to customers
By sector, consolidated



Loans to customers
% of loans by currency type, consolidated



Highlights

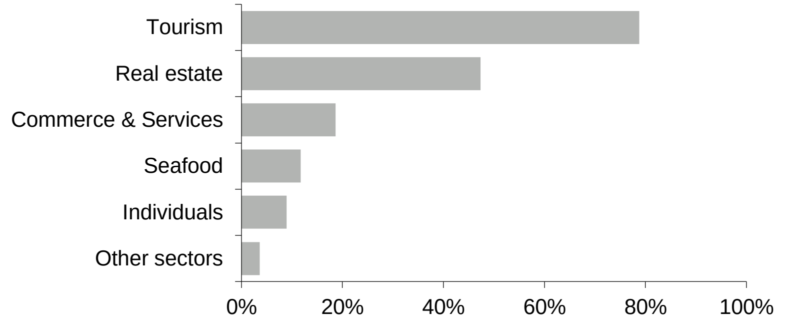
- The loan portfolio is evenly spread out by the three business divisions
- The Bank had one large exposure at end of June 2020
- The share of loans in foreign currency increased because of a 12% depreciation of the ISK
- The sector-split is shown both with tourism activities in its relevant sectors and with tourism as a sperate quasi-sector. Real estate (hotels), commerce & services (car rentals, restaurants, tour operators) and industrials and transportation are the largest underlying sectors in tourism
- The tourism sector in Iceland is expected to be greatly affected by the COVID-19 pandemic
- Many customers have been granted temporary payment holiday and have received assistance from the Government. Because of significant increase in credit risk, most of the tourism portfolio has been transferred to IFRS 9 stage 2

COVID-19 moratorium

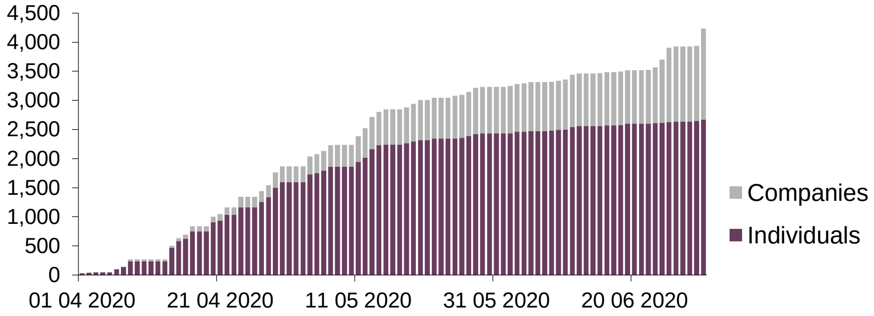
Temporary moratorium and payment holidays uniformly executed and broadly applied

- The Bank has entered into an agreement with other financial institutions and lenders in Iceland to provide a moratorium for corporate customers, uniformly executed across institutions
- Similarly, the Bank has entered into a broad agreement for temporary payment holiday for households and individuals
- In accordance with guidelines from EBA and the Central Bank, moratoria of this kind do not trigger classification as forbearance
- As expected, the usage of moratoria is highest in the tourism industry

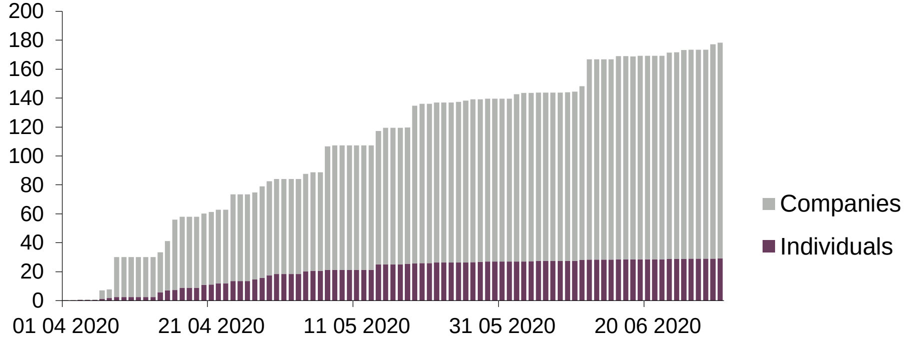
Share of loans with COVID-19 moratoria in each sector
% by gross carrying amount in each sector at Íslandsbanki



Number of loans granted COVID-19 moratorium
Number, by date since beginning of programme



Gross carrying amount of loans granted COVID-19 moratorium
ISK bn, by date since beginning of programme

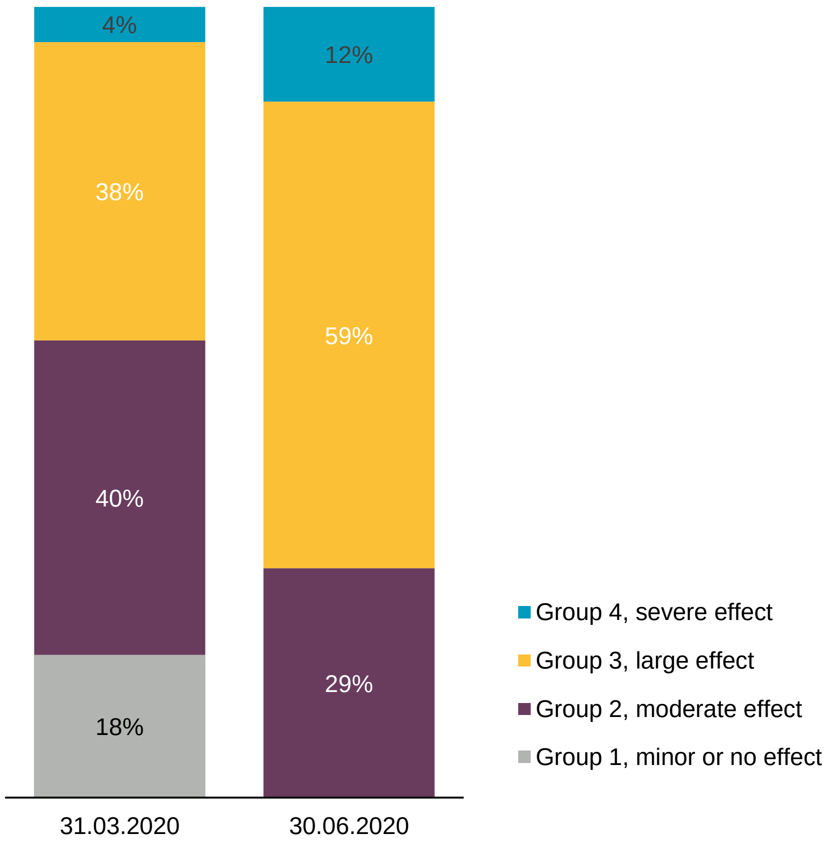


COVID-19 and the loan portfolio

In Iceland, tourism is the sector that is most affected by the pandemic

- The Bank carefully considered how the pandemic was likely to affect its customers' ability to service their debt
- An assessment was made whether there were common risk factors not captured by the modelling process where a general adjustment was warranted in terms of IFRS 9
  - It was determined to be the case for loans to the tourism industry
- Companies in the tourism industry were classified into four groups based on an assessment of how much an increase in credit risk these companies face in the short, medium and long term
  - Where the increase was found to be significant (groups 2-4), the exposure was transferred to Stage 2
  - In addition, an overlay factor was applied to the expected credit loss, comparable to an increase by one risk class for group 2 and two risk classes for groups 3 and 4
  - As the pandemic progressed in Q2 the classification was updated
- Both the Icelandic Government and the Bank have offered various measures to assist companies and households through temporary drop in income
- The Icelandic Central Bank has provided guidelines saying that: "It is important that the selection of scenarios in the application of IFRS 9 reflect the general expectation that the current situation is temporary, whereas the impact assessment must be conducted on a medium- and long-term basis."

Exposure to tourism by effect of COVID-19 crisis
Net carrying amount, a proportion of approximately ISK 90bn



Macroeconomic scenario

Base case, uncertainty is high

Change in economic indicators (%)	2019	2020	2021	2022	2023	2024
Economic growth	1.9	(9.1)	4.3	4.2	2.4	2.2
Housing prices in Iceland	3.4	2.0	1.7	3.0	4.5	4.0
Purchasing power	1.8	3.3	1.8	1.6	2.6	2.3
ISK exchange rate index	8.5	9.1	1.3	-	(1.2)	(1.2)
Policy rate, Central Bank of Iceland	3.9	1.5	1.1	2.0	3.5	3.5
Inflation	3.0	2.3	2.0	2.4	1.8	2.2
Capital formation	(6.3)	(8.4)	4.0	5.1	1.6	2.7
thereof capital formation in industry	(17.5)	(15.7)	7.4	7.0	3.5	3.5

Base scenario

- The base case assumes a continued easing of COVID-19 containment measures and gradual normalization of travel over H2 2020 and H1 2021
- Sizeable impact due to share of tourism in the economy and negative effects on private consumption and investment
- GDP rebound expected in 2021 as tourism recovers, goods exports improve, business investment increases and private consumption resumes moderate growth

Applying scenarios to IFRS 9

- The impairment model of IFRS 9 is forward-looking and reflects a probability weighted average of possible outcomes
- The effects of the economy is accounted for with the use of scaling factors. In addition, scaling factors are produced for a good and a bad case
- The update of the economic scenarios in 2Q20 does not materially change the impairment allowance as the increase in Q1 is offset by the update in Q2 resulting in a combined impairment allowance for H1 ISK -40m

Future development

- Keeping in mind the recommendation from the Central Bank, the base forecast assumes that the current situation is temporary and is built on what was known at the end of Q2
- It has become more likely that the tourism industry in Iceland will take longer to recover
- That change in scenario will be reflected in the impairment allowance at end of September 2020

Significant increase in credit risk to the tourism sector

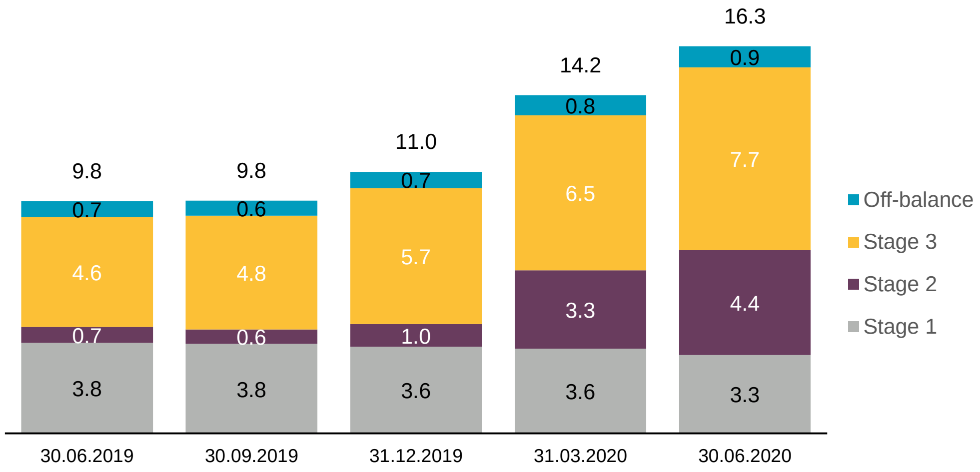
Exposure in Stage 2 increases due to the COVID-19 pandemic, but Stage 3 has not yet increased

Highlights

- In 1H20 the total impairment allowance increased by ISK 5.3bn, mostly due to the COVID-19 pandemic
- The tourism portfolio was transferred to Stage 2 during 1Q20 and an additional overlay factor was applied to the expected credit loss in tourism
  - This resulted in an ISK 4.5bn increase in impairment allowance and a rise in the share of gross loans in Stage 2 from 2.6% to 13.4%
- Revaluation of certain loans in Stage 3 increased impairment by ISK 0.7bn in 1H20
- The pandemic has not yet led to many new defaults and the NPL ratio increased from 3.0% to 3.6% during the year
- Using EBA's definition of NPL, which does not only include loans to customers but also loans and advances to central banks and credit institutions, the Bank's NPL ratio was 3.1% at the end of H1 2020
- After carving out exposures mostly affected by the COVID-19 pandemic, the update of the economic scenarios in 2Q20 does not materially change the impairment allowance

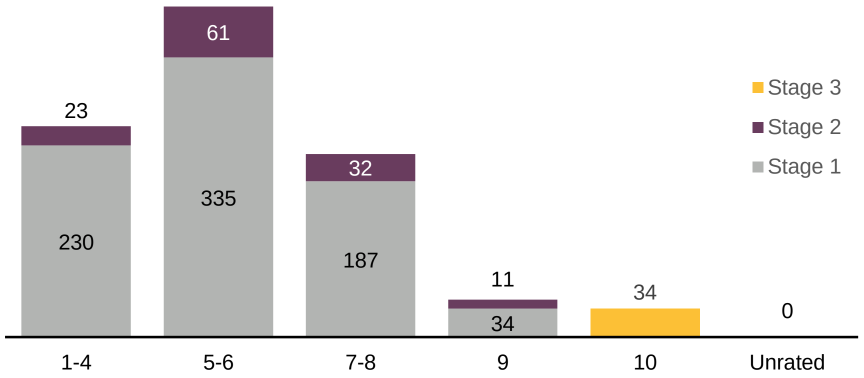
Loans to customers & off-balance sheet items: impairment allowance account

Development of allowance account, ISK bn



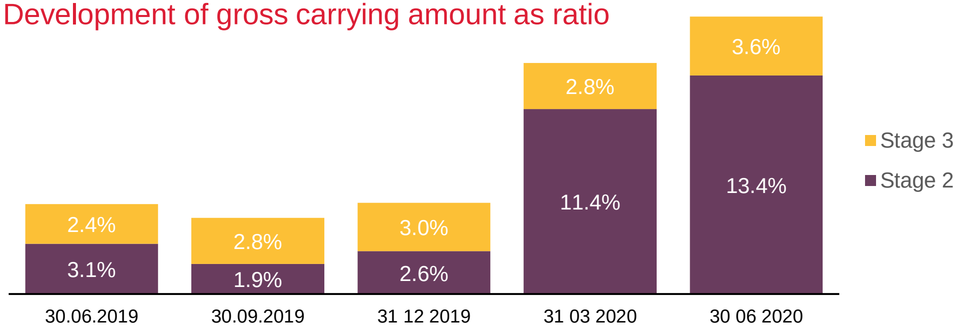
Loans to customers: gross carrying amount

30.06.2020, risk class and impairment stage, ISK bn



Loans to customers: Stage 2 and 3

Development of gross carrying amount as ratio



Loans to customers: credit quality

30.06.2020, Break-down of loans to customers

	Gross carrying amount		Impairment allowance		Net carrying amount	
	(ISK bn)	% of total	(ISK bn)	RCR	(ISK bn)	% of total
Stage 1	787	83.0%	3.3	0.4%	784	84.0%
Stage 2	127	13.4%	4.4	3.4%	123	13.2%
Stage 3	34	3.6%	7.7	22.4%	27	2.9%
Total	949	100.0%	15.4	1.6%	933	100.0%

Loan portfolio with solid collateral coverage

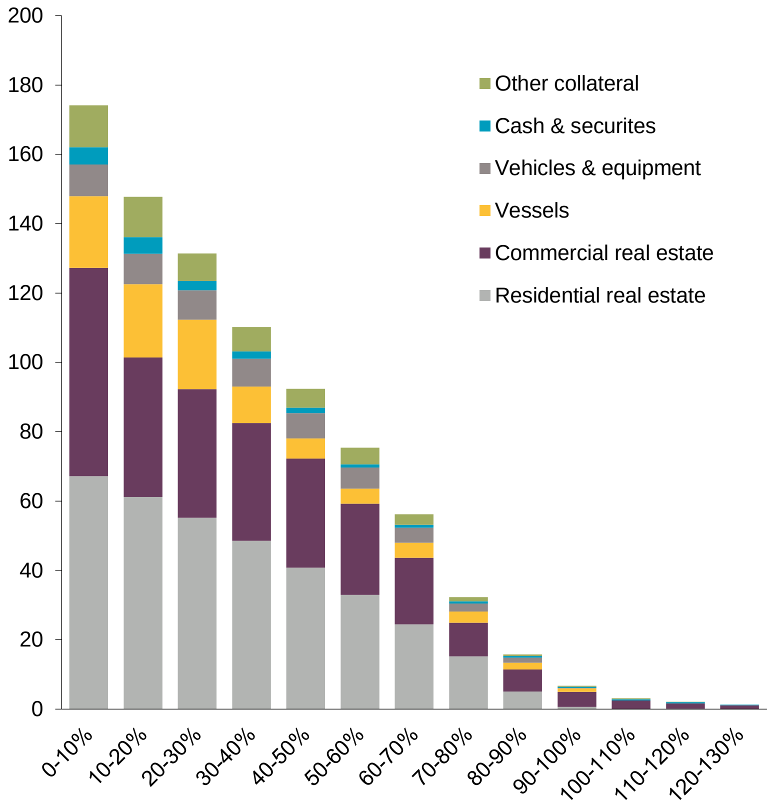
Majority of collateral in residential and commercial real estate

Highlights

- Most of the Bank's collateral is in the form of residential and commercial real estate
- The second most important collateral type is vessels, mostly fishing vessels
- For seasoned mortgages, the LTV distribution is calculated from tax value of properties, which is published annually in June, but for newly granted mortgages the purchase price of the property is used as a valuation while it is considered more accurate
- The average LTV for mortgages[1] was 63% at end of June, compared to 62% at year-end 2019
- The LTV distribution for commercial real estate is shown for the following industry sectors where this is the most important collateral type: Real estate, Commerce & services and Industrials & Transportation

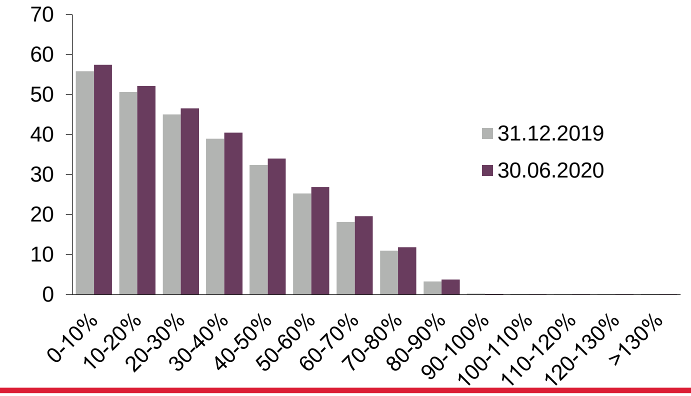
LTV distribution by underlying asset class

ISK bn, by type of underlying asset, as of 30.06.2020



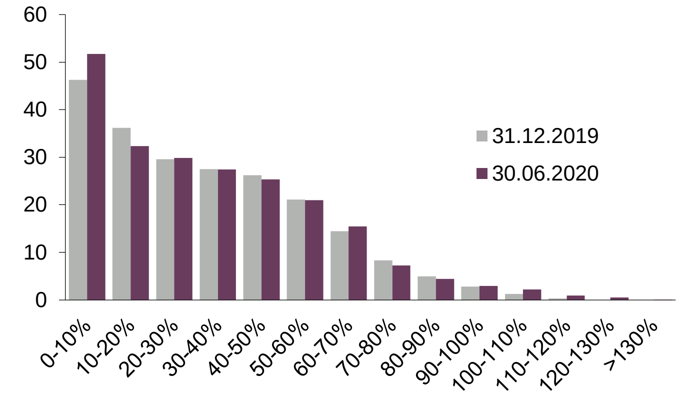
LTV distribution of mortgages to individuals

ISK bn



LTV distribution of loans secured by commercial real estate

ISK bn



1. The average LTV can be calculated in many different ways and therefore the definition is important for comparison to other banks. 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.

Liabilities

Diversified funding strategy

Highlights

Deposits

- Increased customer deposits in the period from all customer groups, mostly from pension funds and individuals
- Debt issued and other borrowed funds increased mainly due to ISK depreciation
- Íslandsbanki issued covered bonds totalling ISK 8bn in 1H20 in three auctions
- No issuance of senior or subordinated debt during the quarter due to good liquidity position
- In 2Q20, the Bank bought back SEK 75m of an FRN maturing in February 2021, following successful buybacks in 1Q20

Equity

- The annual AGM approved that dividend should not be paid in light of COVID-19 uncertainties

Liabilities & Equity, ISKm	30.6.2020	31.12.2019	Δ	Δ%
Deposits from Central Bank and credit institutions	**35,461**	30,925	4,536	14.7%
Deposits from customers	**681,223**	618,313	62,910	10.2%
Derivative instruments and short positions	**7,519**	6,219	1,300	20.9%
Debt issued and other borrowed funds	**321,803**	306,381	15,422	5.0%
Subordinated loans	**25,834**	22,674	3,160	13.9%
Tax liabilities	**6,438**	7,853	(1,415)	-18.0%
Other liabilities	**29,935**	27,063	2,872	10.6%
Non-current liabilities and disposal groups held for sale	**15,321**	-	15,321	-
Total Liabilities	**1,123,534**	1,019,428	104,106	10.2%
Total Equity	**179,722**	180,062	(340)	-0.2%
Total Liabilities and Equity	**1,303,256**	1,199,490	103,766	8.7%

29 July 2020

Deposits remain the main source of funding

Core deposits continue to be stable

Highlights

Stable core deposit base

- Deposits remain the main funding source for the Bank and the deposit to loan ratio remains high
- At the end of the period, 73% of the deposits were in non-indexed ISK, 14% CPI linked and 13% in foreign currencies

Deposits concentration stable

- 19% of the Bank's deposits belonged to the 10 largest depositors and 34% belonged to the 100 largest depositors at the end of June 2020, compared to 17% and 32% respectively at year-end 2019

Deposits development

- Total increase in deposits is ISK 67bn since year-end 2019, there of 12bn due to depreciation of ISK.
- Increase in most customer groups, but with significant increases in retail and pension funds

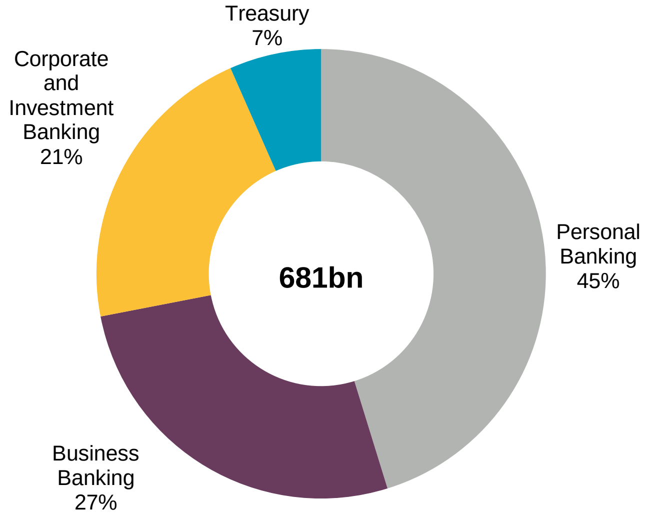
Customer and credit institutions deposits by LCR category

30.06.2020 compared with year end-2019, ISK bn, consolidated

	Deposits maturing within 30 days							
Customer type	Less stable	Δ	Stable	Δ	Term deposits	Δ	Total deposits	Δ
Retail	**220**	(8)	**120**	37	**80**	1	**421**	30
Operational relationship	**4**	1	**-**	-	**-**	-	**4**	1
Corporations	**75**	1	**0**	0	**22**	(3)	**97**	(2)
Sovereigns, central-banks and public sector entities	**9**	3	**0**	0	**1**	1	**11**	3
Pension funds	**67**	32	**-**	-	**29**	4	**97**	36
Domestic financial entities	**26**	(2)	**-**	-	**43**	(4)	**69**	(6)
Foreign financial entities	**9**	1	**-**	-	**10**	4	**19**	5
Total deposits	**411**	28	**121**	37	**184**	3	**717**	67

Breakdown of deposits from customers by divisions

30.06.2020, consolidated



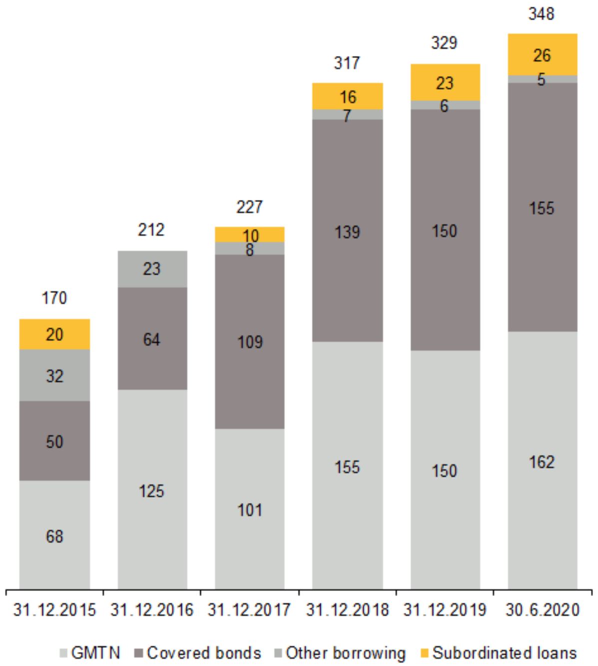
Successful funding journey

Minimal 2020 funding requirement in FX due to limited refinancing need in 2020 and 2021

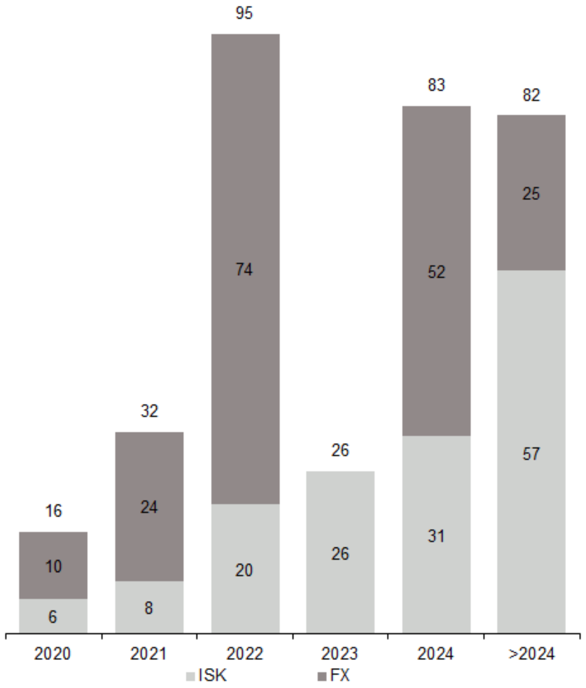
Highlights

- The Bank´s funding model is straightforward designed 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:
  - Deposits
  - Covered bonds
  - FX wholesale funding
- In March and April the Bank bought back SEK 350m bond maturing in July 2020 and conducted a further buyback of SEK 75m in 2Q20

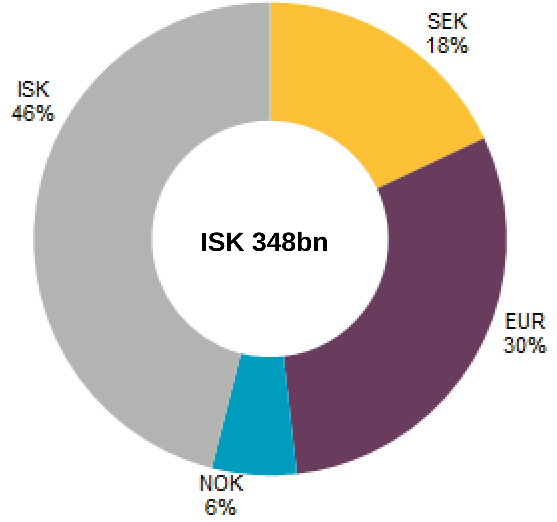
Sources of market borrowings
Book value, ISK bn



Maturity profile of long-term debt
30.06.2020, nominal value, ISK bn



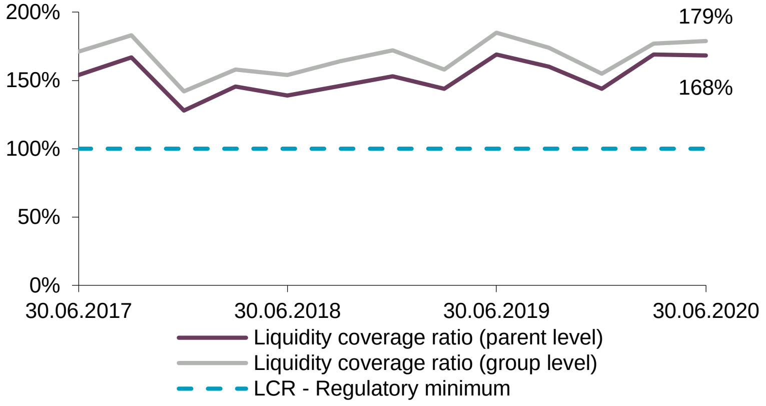
Currency split of market borrowing sources
30.06.2020, nominal value, ISK bn



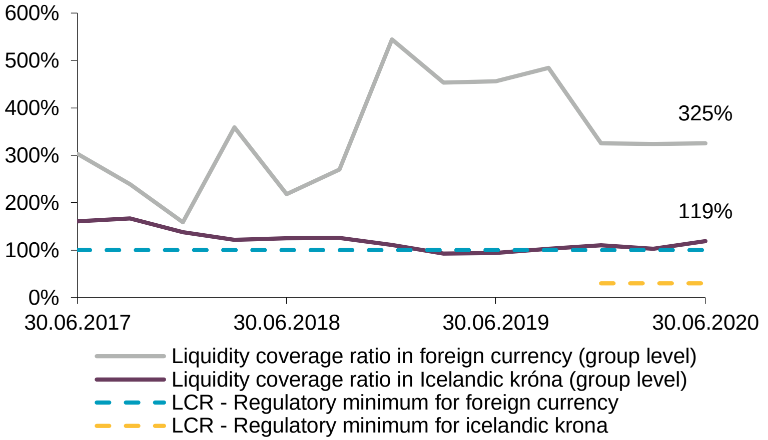
Sound management of liquidity – all ratios above requirements

Liquid assets of ISK 281bn are prudently managed

Liquidity coverage ratio (LCR)



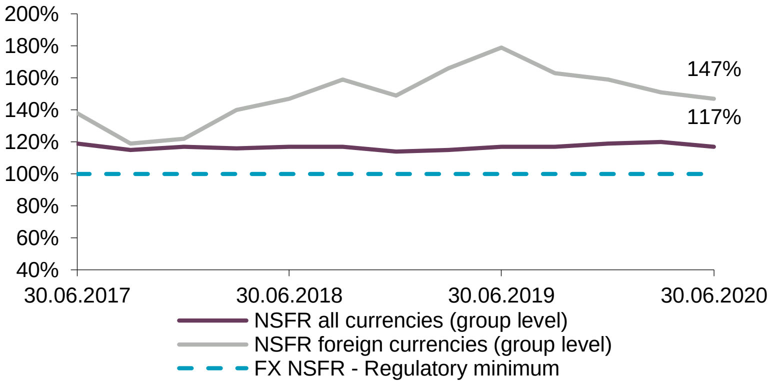
Liquidity coverage ratio – foreign currencies and Icelandic króna



Highlights

- All liquidity measures well above regulatory requirements
- FX liquid assets are composed of government bonds that have a minimum requirement of AA rating and cash placed with highly rated correspondent banks
- Borgun, a subsidiary sold in July 2020, is still included in the group LCR and NSFR for the end of June
- Liquidity and Capital Contingency Plan is tested regularly

Net stable funding ratio (NSFR)

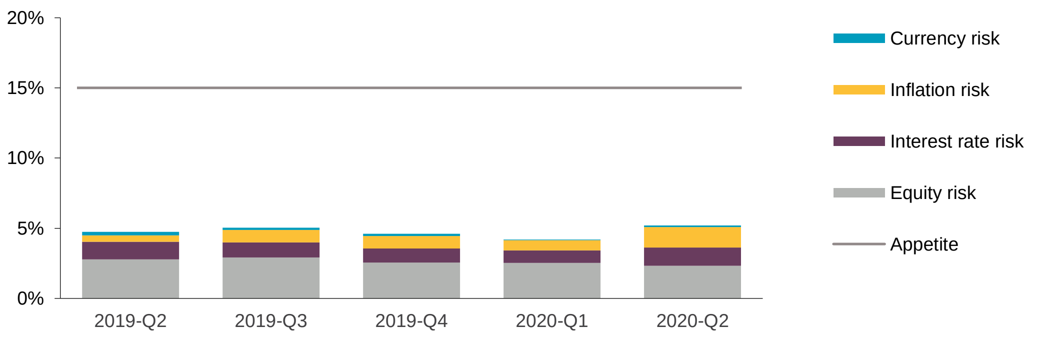


Market risk well within appetite

The Bank has a very modest market risk profile

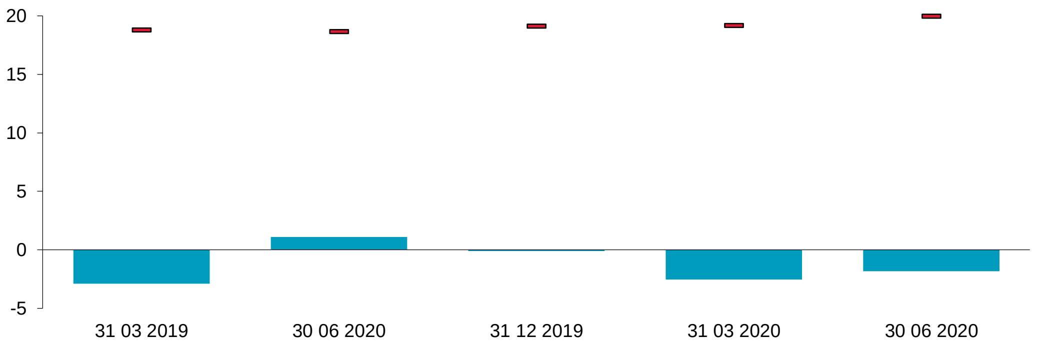
Market risk exposure and market risk appetite

Average positions per quarter, as percentage of total capital base, consolidated



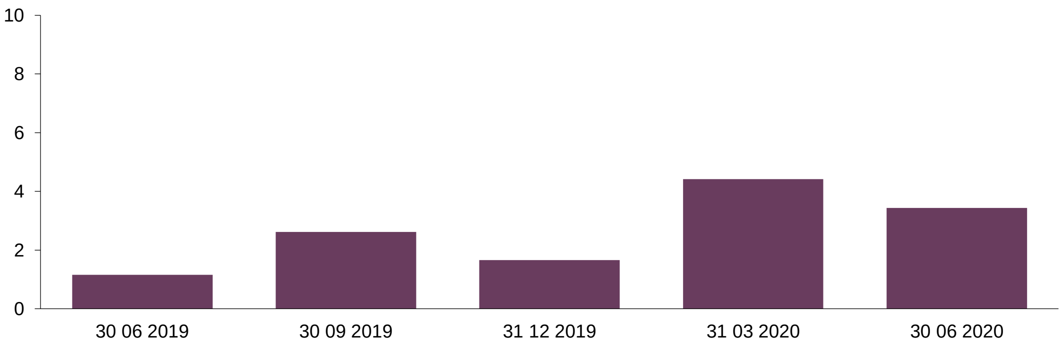
Development of the currency imbalance compared with regulatory limit

ISK bn, end of quarter, consolidated



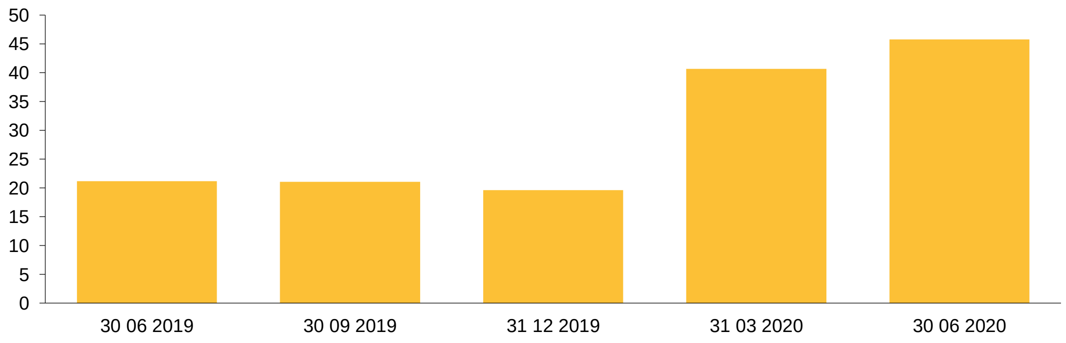
Development of interest rate risk in the banking book

Weighted average BPV, end of quarter, ISK m, consolidated



Development of the banking book inflation imbalance

ISK bn, end of quarter, consolidated



Sound capital position

The capital ratio exceeds target

Highlights

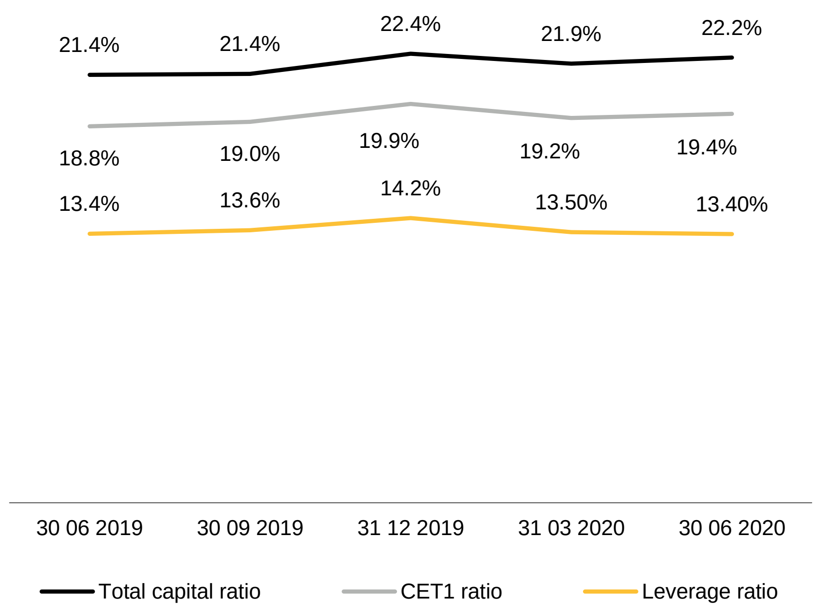
Capital ratios

- The CET1 capital was ISK 179bn at the end of June 2020 compared to 176bn at year-end 2019
- The capital base was ISK 205bn compared to ISK 198bn at year-end
- Implementation of IFRS 9 transitional rules in Iceland, where IFRS 9 impairment is partially included as CET1, increase the CET1 capital by ISK 3.8bn
- The depreciation of the ISK increased the value of the subordinated loan, increasing the capital base
- The Annual General Meeting approved that a dividend to shareholders for the 2019 financial year should not be paid in light of uncertainties due to unprecedented circumstances in the financial markets following COVID-19

Risk exposure amount (REA)

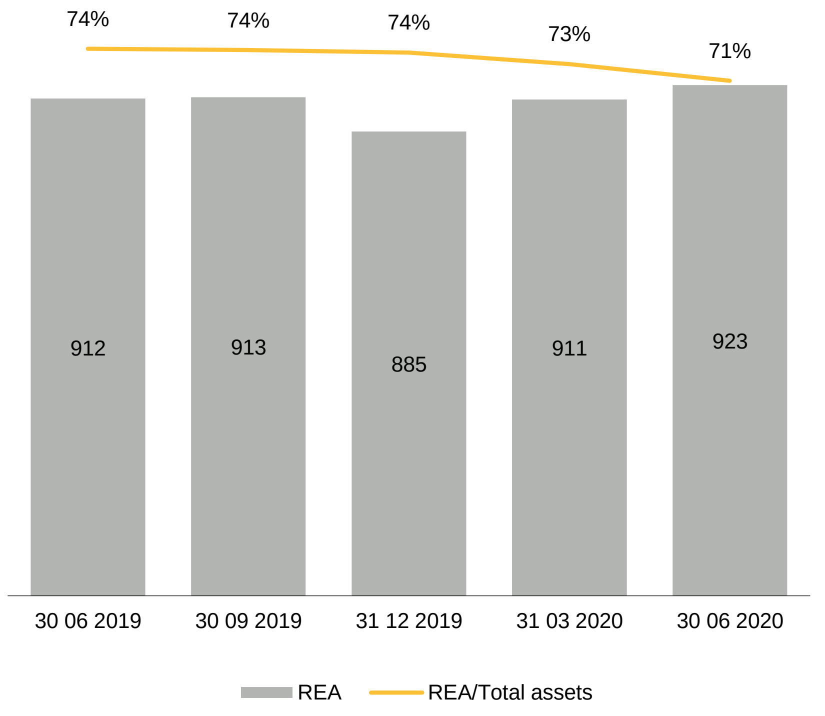
- The REA increased during the period, due to an increase in loans to customers

Capital and leverage ratios



Risk exposure amount (REA)

ISK bn



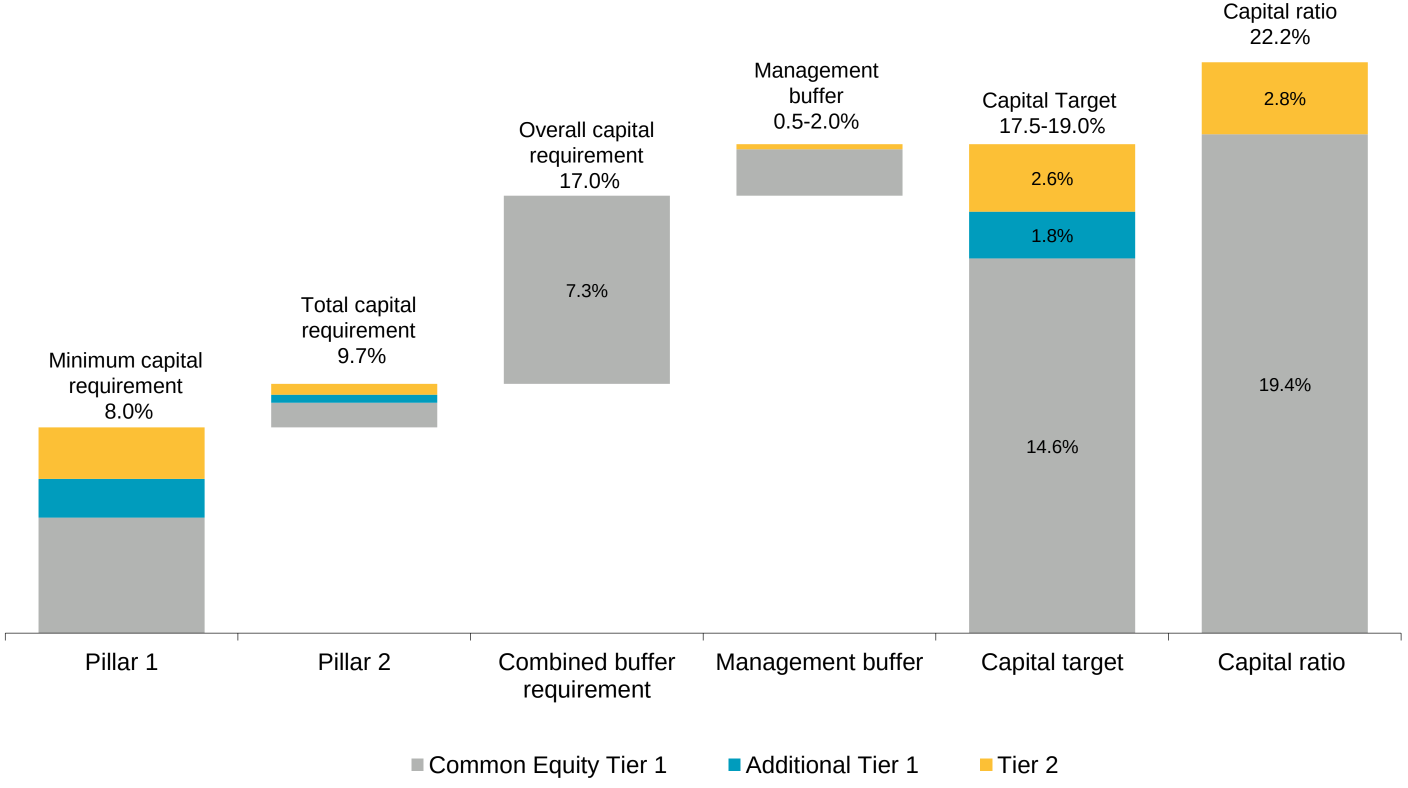
Íslandsbanki's capital ratio above capital target

Based on the regulatory requirement and a 50 – 200bp management buffer

Highlights

- The sum of Pillar 1, Pillar 2 and the combined capital buffers form the overall regulatory capital requirement
- The countercyclical capital buffer was lowered to from 2% to 0% in March 2020 due to circumstances following COVID-19
- Based on the SREP 2019 results, published in October 2019, the overall capital requirement for Íslandsbanki is 17% of risk exposure amount (REA)
- Íslandsbanki's total capital target ratio is based on the overall regulatory requirement in addition to a 50-200bp management buffer
- The capital target is currently at 17.5–19.0%, taking into account the suspension of the countercyclical capital buffer in March 2020
- Due to the uncertainty in relation to the effects of COVID-19 on the capital base, the Bank aims to have an ample buffer in excess of the current target until there is further clarity regarding international travel and other sources of uncertainty

Íslandsbanki's capital target



Íslandsbanki S&P credit rating

Rating lowered in April 2020

Íslandsbanki

	S&P
Long-term	BBB
Short-term	A-2
Outlook	Stable
Rating action	April 20

Icelandic sovereign

	S&P	FITCH	MOODY'S
Long-term	A	A	A2
Short-term	A-1	F1+	P-1
Outlook	Stable	Stable	Stable
Rating action	Nov 19	May 19	April 20

BBB/A-2 Stable Outlook

Press Release 24 April 2020

In late April 2020 S&P lowered Íslandsbanki's rating to **BBB/A-2** with a **stable outlook** from previous BBB+/A-2 with a negative outlook

In its report, S&P expects Íslandsbanki to enter this crisis on a more solid foothold than the 2008 financial crisis. The 'BBB' rating level and stable outlook factor in the **solid market position** of the bank in Iceland, which has a relatively **advanced digitalized banking platform**. In S&P's view, the bank is well ahead of many other European banks in its preparation for technological disruption. S&P also notes the Bank's funding and liquidity metrics are adequate for the Bank's risk profile, with **comfortable liquidity ratios and liquid assets** covering more than 3x the average short-term funding in 2019. Moreover, S&P states that the wholesale funding needs are limited in 2020, which coupled with the additional central bank liquidity facilities announced recently by the Icelandic Central Bank, **eases pressure on liquidity needs**

S&P's rational for the change is mostly derived from its view that economic activity will reduce in Iceland and Europe in 2020 and thus could impair Íslandsbanki's asset quality, increase credit losses, reduce business and revenue generation, and potentially erode its capital. S&P's view is that Iceland's operating environment will remain challenging, affected by the 2020 economic recession, declining interest rates, stiff competition from pension funds in mortgage lending and thus contributing to the declining profitability of the Bank

4. Financial targets and next steps

Financial targets

Negative ROE in the quarter has limited impact on capital ratios

	Target	1H2020	2019	2018	Guidance
ROE in excess of risk-free rate	4-6%	-0.85%	2.1%	1.8%	— Target of 4-6% on top of risk-free rate. Risk free-rate is currently 0.75% — 8-10% ROE is based on average expected risk-free rates through the business cycle. Based on the current risk-free rate of 0.75% the ROE target in the very short term is 4.75-6.75% — The COVID-19 pandemic will have a material adverse effect on the Bank's earnings in 2020 and it is therefore unlikely that the ROE target will be met this year. The Bank will strive to get back on track to reach its ROE targets from 2021 onwards
Return on equity	8-10%	-0.1%	4.8%	6.1%	
Cost/ Income ratio[1]	<55%	60.1%	62.4%	66.3%	— This is a medium to long term target. C/I ratio can be expected to be higher than target in the near term due to the COVID-19 pandemic — The Bank continues to invest in IT infrastructure and process efficiency to improve the C/I ratio in the medium to long term
CET1	>13.2 – 14.7%	✔ 19.4%	✔ 19.9%	✔ 20.3%	— Based on a management buffer of 50-200bp, the CET1 target range is currently 13.2-14.7% — Long term CET1 target is >16%. In line with the target range, the Bank expects to maintain a CET1 ratio of over 16% in the medium to long term — The Bank is substantially over capitalized with regard to the current regulatory requirement, which is a favourable position to be in in light of the economic uncertainties relating to COVID-19
Total capital ratio	> 17.5 – 19.0%	✔ 22.2%	✔ 22.4%	✔ 22.2%	— Based on the regulatory capital requirement with a management buffer of 50 – 200 bp — Current capital requirement is 17.0% including recent suspension of the countercyclical capital buffer in March 2020
Dividend payout ratio	40-50%	-	✔ 50%	✔ 50%	— The Annual General Meeting approved that a dividend to shareholders for the 2019 financial year should not be paid in light of uncertainties due to unprecedented circumstances in the financial markets following COVID-19 — The Board of the Bank may convene a special shareholders' meeting later in the year to propose a dividend payment in 2020 if the economic conditions improve substantially.

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

Key takeaways

Strong fundamentals should assist both Iceland and the Bank to weather conditions of economic slowdown following COVID-19

1 Effects of COVID-19 hopefully short lived

- Strong domestic balance sheets pre COVID-19 and sustainable current account increase resilience
- Businesses face headwinds but governmental support actions should offset some effect and depreciated ISK should help tourism industry
- Inflation to stay moderate and policy rate projected to stay low

2 Supporting customers in uncertain times

- Lending solutions for corporates an important measure to counteract COVID-19 impact
- Payment moratorium granted to over 2500 loans to individuals and about 1600 loans to corporates accounting for about 8% and 26% of the loan books respectively
- Continuous conversation with customers

3 Impairments main cause for lower profits in the first half

- Overlay factor increased in 2Q20 for many tourism companies, leading to rise in impairments
- Admin cost continued to lower and fell by 7% in 1H20
- Sale of Borgun hf. to have limited impact on the Bank's operations

4 Net financial loss impacts income in 1H20

- Total income fell by 14% in 1H20 compared to 1H19 mostly due to negative financial income (NFI)
- NFI loss due to loss in trading and banking books for equity and equity like instruments in 1Q20
- NII negatively impacted by policy rate cuts
- Drop in NFCI hopefully only temporary due to COVID-19, while reduction in NII due to CBI rate decreases could be more long-lived

5 Strong balance sheet structure with deposits as primary source of funding

- Loans to customers grew by 3.7%. Deposits grew by 10.2% during 1H20 mostly coming from pension funds and individuals
- NPL ratio was 3.6% (gross) for Stage 3 at the end of 1H20
- High asset quality and solid collateral coverage but significant increase in credit risk to the tourism sector

6 High liquidity ratios and limited funding needs and exceptional capitalisation

- Strong liquidity position with liquidity ratios above internal targets and regulatory requirements
- Total capital ratio at 22.2%, well above the Bank´s regulatory requirement of 17%
- Minimal 2020 funding requirement in FX due to limited refinancing need in 2020 and 2021

5. Annex – Icelandic economy update

COVID-19 economic impact will be deep

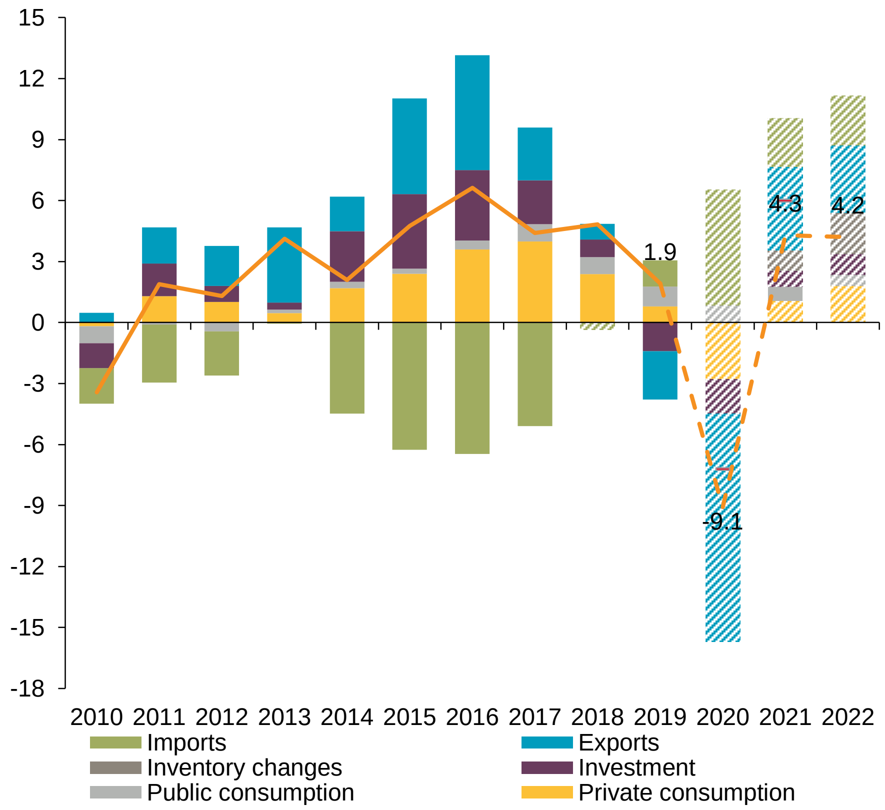
Very sharp GDP contraction likely in 2020 but robust growth could resume in 2021

Highlights

- The COVID-19 pandemic has changed the near-term outlook for the Icelandic economy drastically
- Following moderate GDP growth in 2019, the outlook is for considerable GDP contraction in 2020 due to negative impact by the pandemic on tourism as well as domestic demand
- A preliminary forecast by Íslandsbanki research indicates that GDP could contract by more than 9% in 2020
- The blow to exports could have a negative impact of around11% on GDP this year
- A sharp contraction in private investment and consumption could decrease GDP by 5-6% in 2020
- Public sector investment and consumption will contribute positively to growth, as will a sharp contraction in imports
- Assuming 2H2020 will see a normalisation of the economy and easing of restrictions, 2021 could see GDP in Iceland growing by over 4%

GDP and the contribution of major subitems [1]

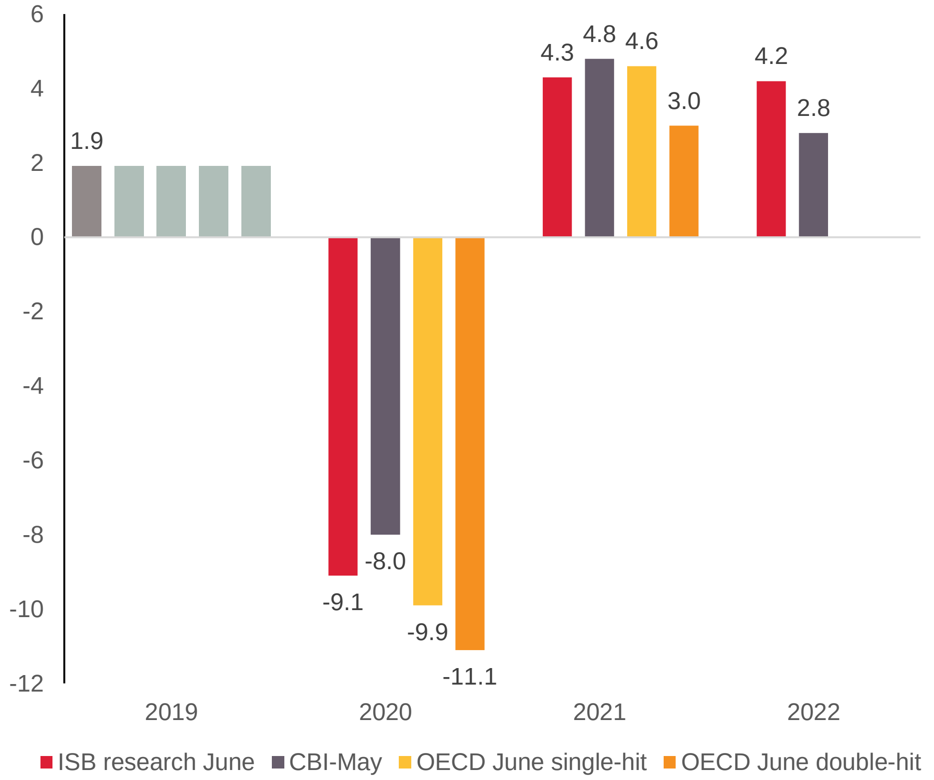
YoY change (%)



1. Shaded areas and dotted lines indicate ISB Research/ forecasts
Source: Statistic Iceland, ISB Research, the Central Bank of Iceland, OECD

GDP forecast comparison

YoY change (%)



The June OECD outlook focuses on two equally probable scenarios – one in which a second wave of infections, with renewed lock-downs, hits before the end of 2020, and one in which another major outbreak is avoided.

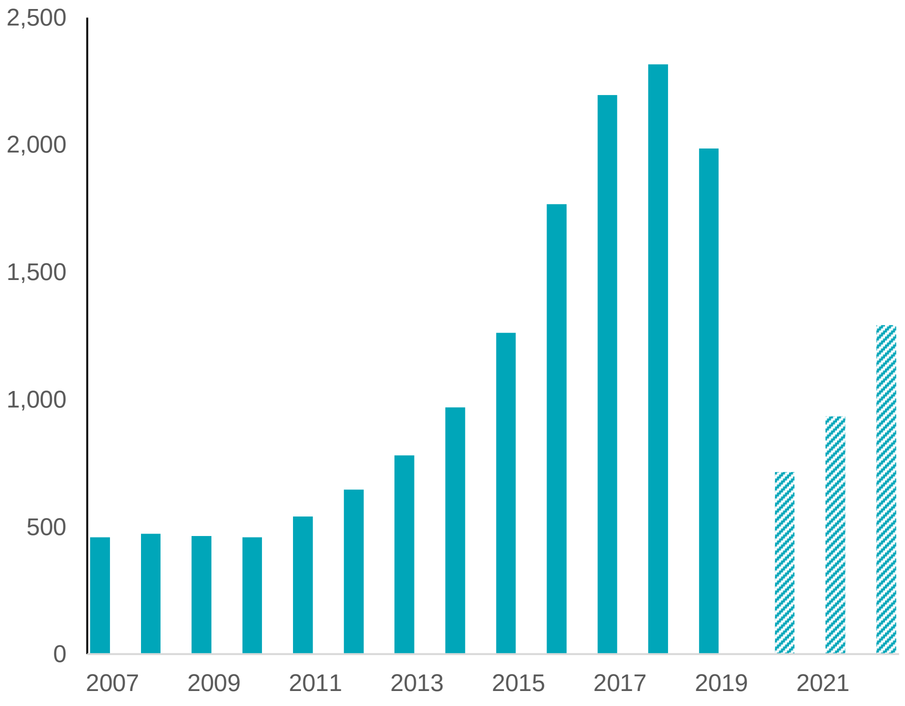
Tourism sector hit by COVID-19 pandemic

Number of tourists visiting Iceland likely to shrink by over 60% in 2020

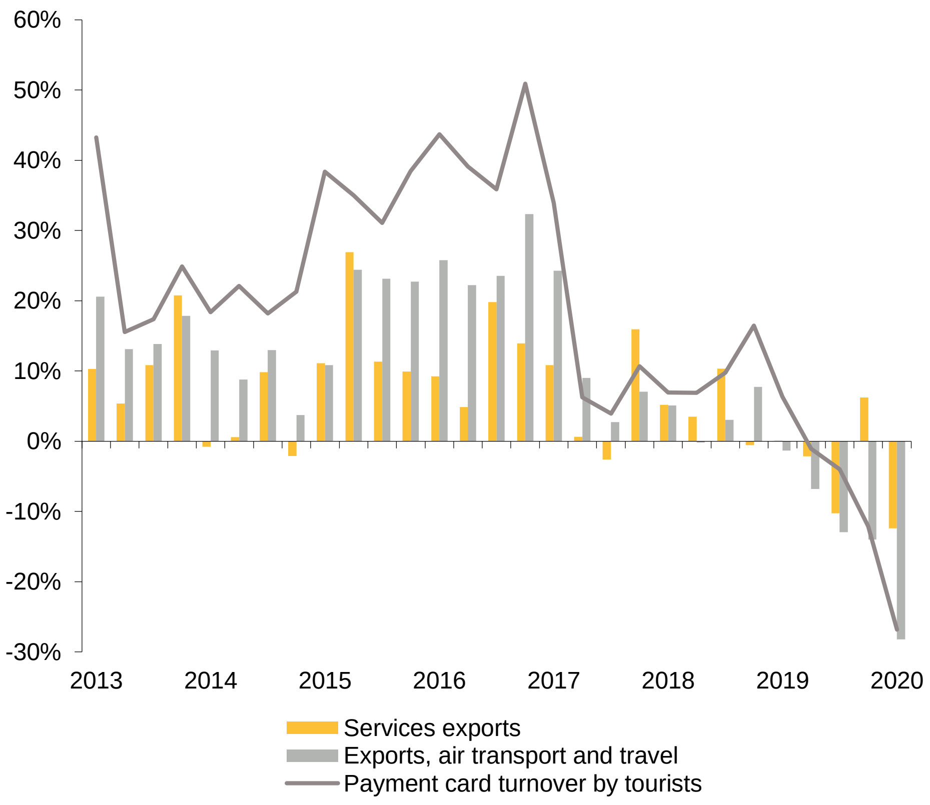
Highlights

- In Q1 2020, 334,000 tourists visited Iceland, down by 27% YoY
- By early April, tourist visits had all but ceased due to widespread restrictions on cross-border travel and cancellation of over 90% of scheduled flights
- Due to the size of the tourist sector, Iceland's economy is quite exposed to pandemic effects on travel and tourism
- The Icelandic Government has taken a number of steps to soften the impact on the sector, including deferral of paid taxes and other levies, partial unemployment benefits and guarantees on operational loan facilities
- Assuming similar assumptions to the IMF for the development of the pandemic and impact on worldwide travel, ISB research estimates that around 700,000 tourists will visit Iceland in 2020, a YoY decrease of over 60%
- Tourism is assumed to pick up again in 2021 but uncertainty on medium term developments is great and the recovery of the sector will depend on the pandemic subsiding before spring 2021

Foreign visitors
Departures through KEF airport



Services exports and foreign card turnover
YoY change



1. Shaded areas and dotted lines indicate ISB Research/ forecasts
Source: Statistics Iceland, ISB Research, the Central Bank of Iceland,

Current account resilient to shock

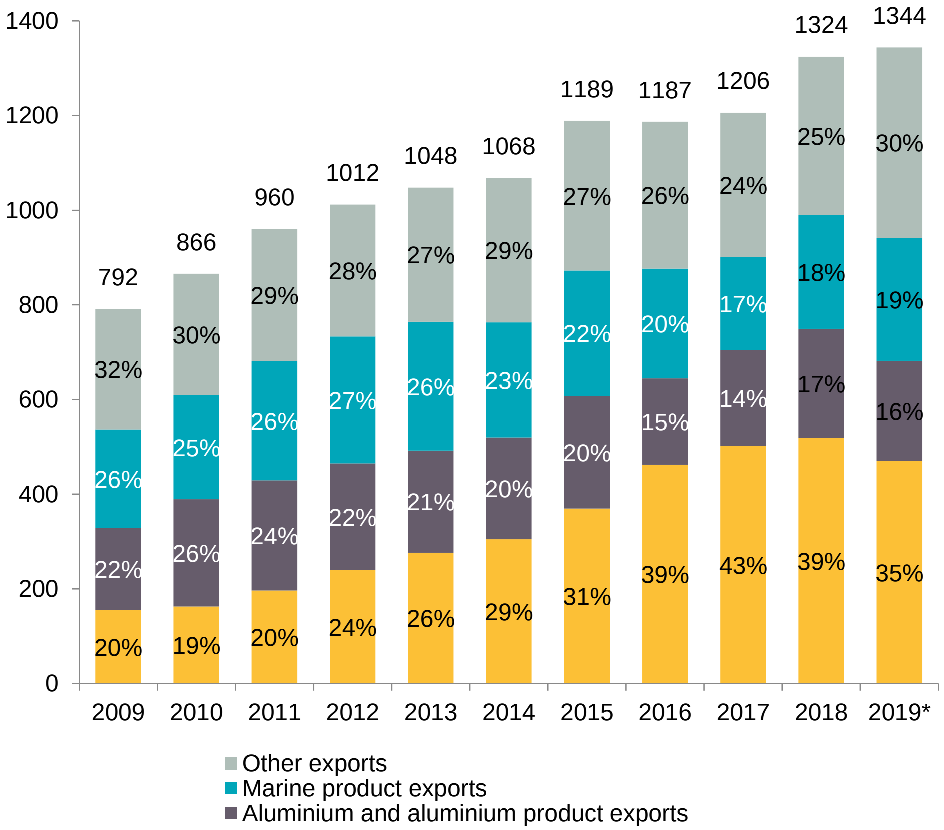
Dramatic fall in exports partially offset by a significant contraction in imports

Highlights

- Inevitably, services export revenues will decline considerably in 2020 as tourism sector generated over 1/3 of total export revenues in 2019
- Goods exports are also likely to decrease somewhat, although for the seafood sector, rising seafood prices and the recent depreciation of the ISK will partially offset volume cuts
- Imports also look likely to contract considerably in 2020
- Domestic card monthly turnover abroad in 2020 is less than half of 2019 averages
- Goods imports are likely to contract significantly in 2020 due to declining business investment and consumption
- Iceland's C/A balance, which has been in surplus for the past 8 years, could therefore prove resilient to the export shock and a return to earlier deficits is by no means certain

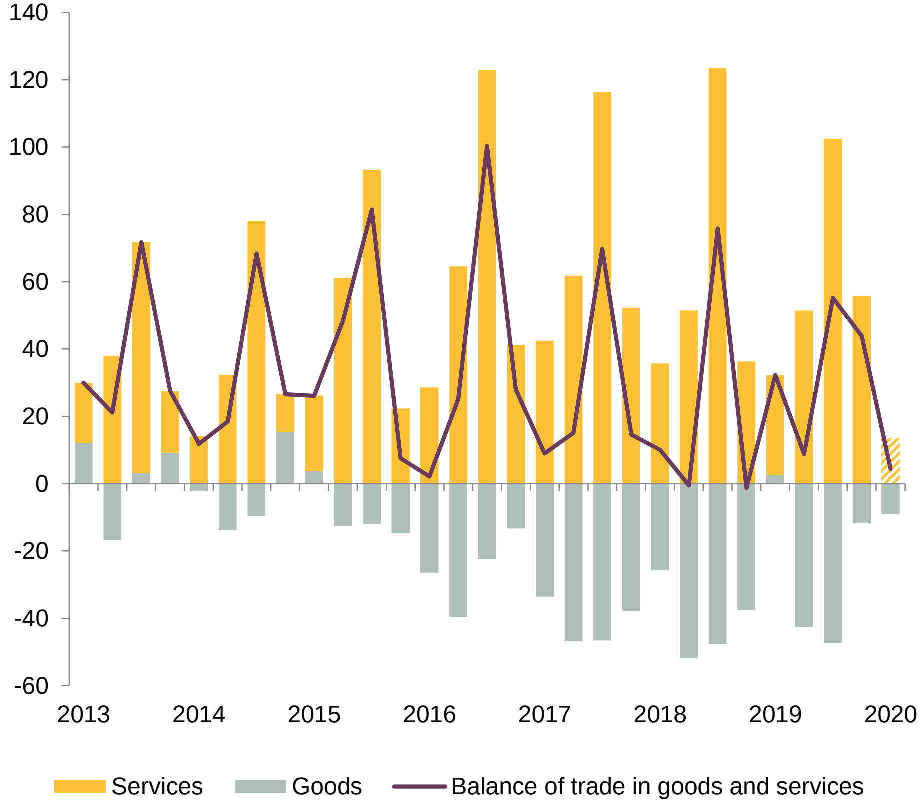
Export revenues

ISK bn



Trade balance

ISK bn

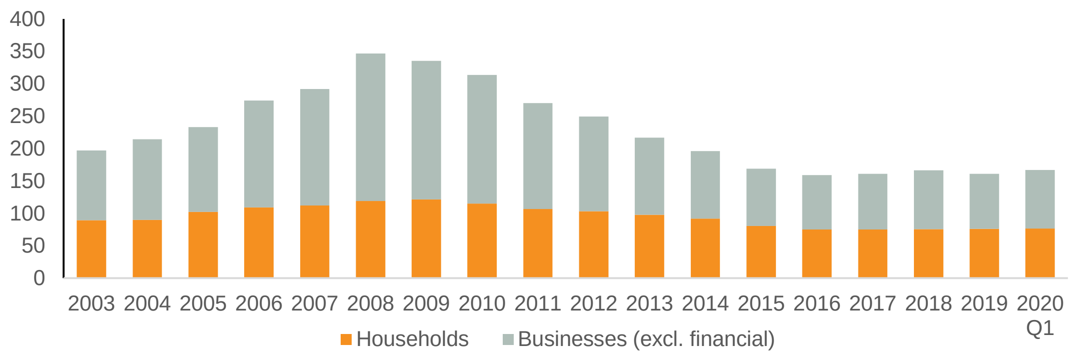


1. Shaded areas and dotted lines indicate ISB Research/ forecasts
Source: Central bank of Iceland, Statistics Iceland and ISB Research

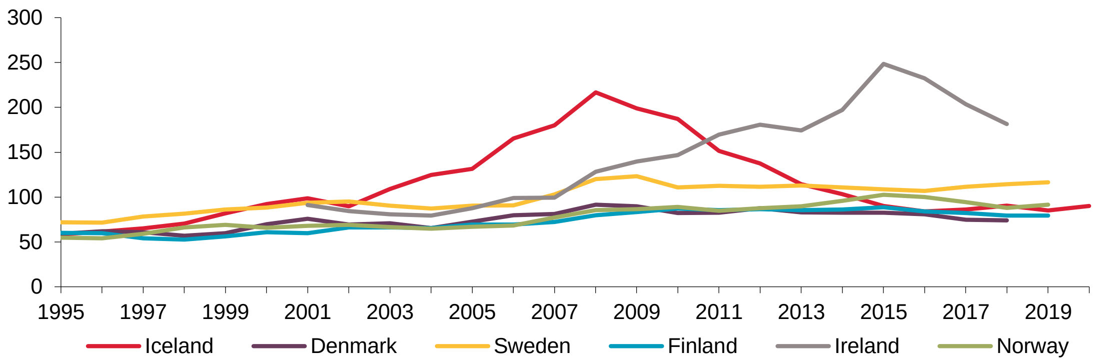
Domestic balance sheets strong before COVID-19

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

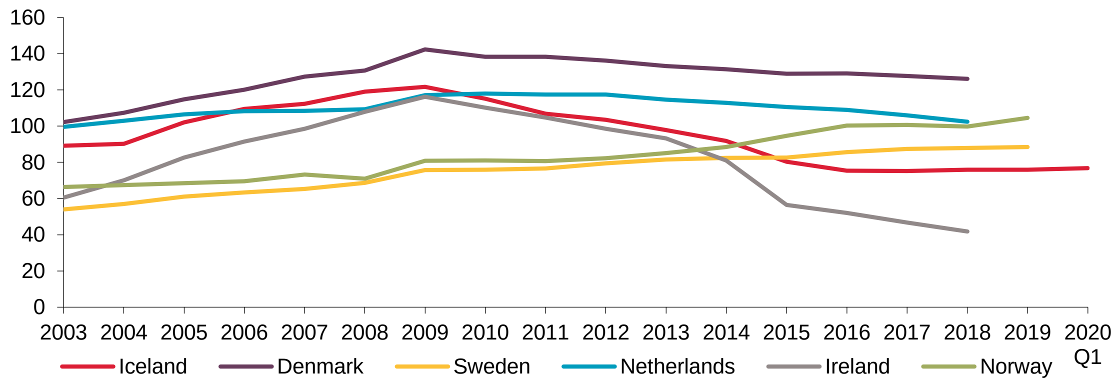
Private sector debt
% of GDP



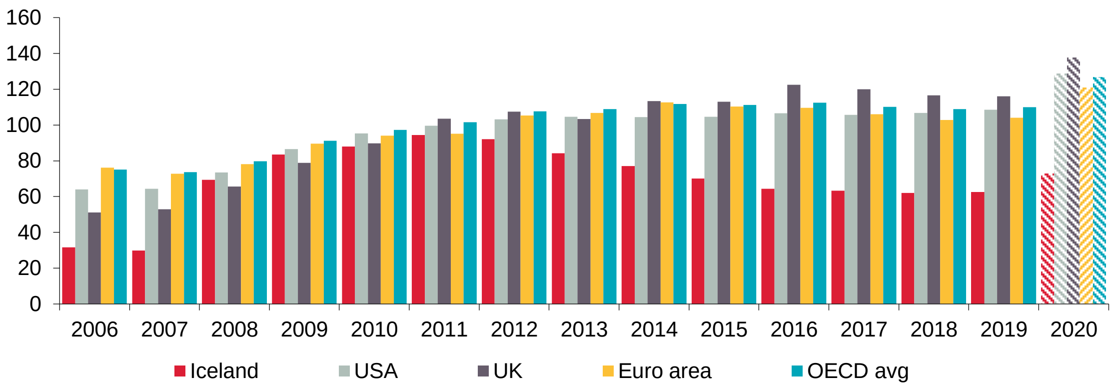
Corporate debt
% of GDP



Household debt
% of GDP



General government gross financial liabilities
% of GDP



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

Businesses facing significant headwinds

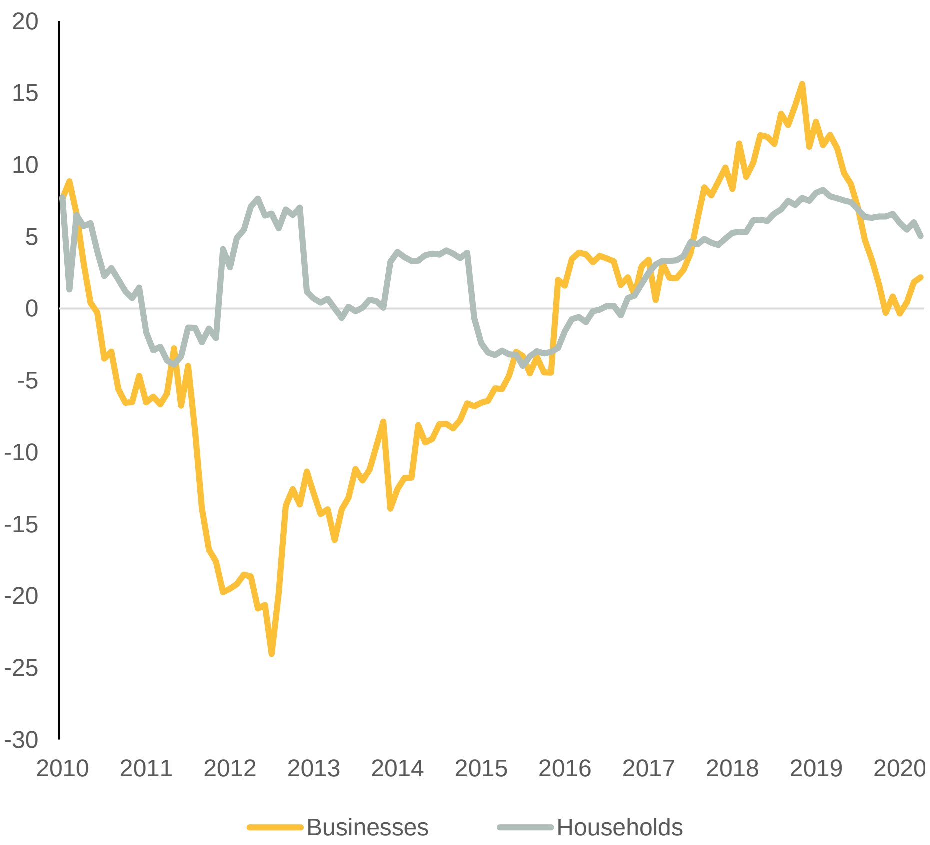
Lending growth to businesses has slowed as business investment has contracted

Highlights

- Investment lost pace in 2019, after a five-year period of uninterrupted growth.
- The outlook is for significant further contraction in investment in 2020 as private investment declines due to the impact of COVID-19
- Partially offsetting this, a counter-cyclical upturn in public investment is expected this year and through 2021
- Total investment is likely to contract by over 8% this year but recover in 2020 and increase by 4-5% in 2020 and 2021
- Business sentiment has seesawed recently. After a sharp drop in sentiment, business executives generally seem hopeful that the headwinds will prove temporary
- Lending growth has slowed markedly after peaking in 2H2018. Corporate lending was almost unchanged over the year 2019 and growth has been moderate in 2020

Business sentiment, 400 largest companies
Index

Credit system net lending
YoY % change



Source: Statistic Iceland, the Central Bank of Iceland and Gallup

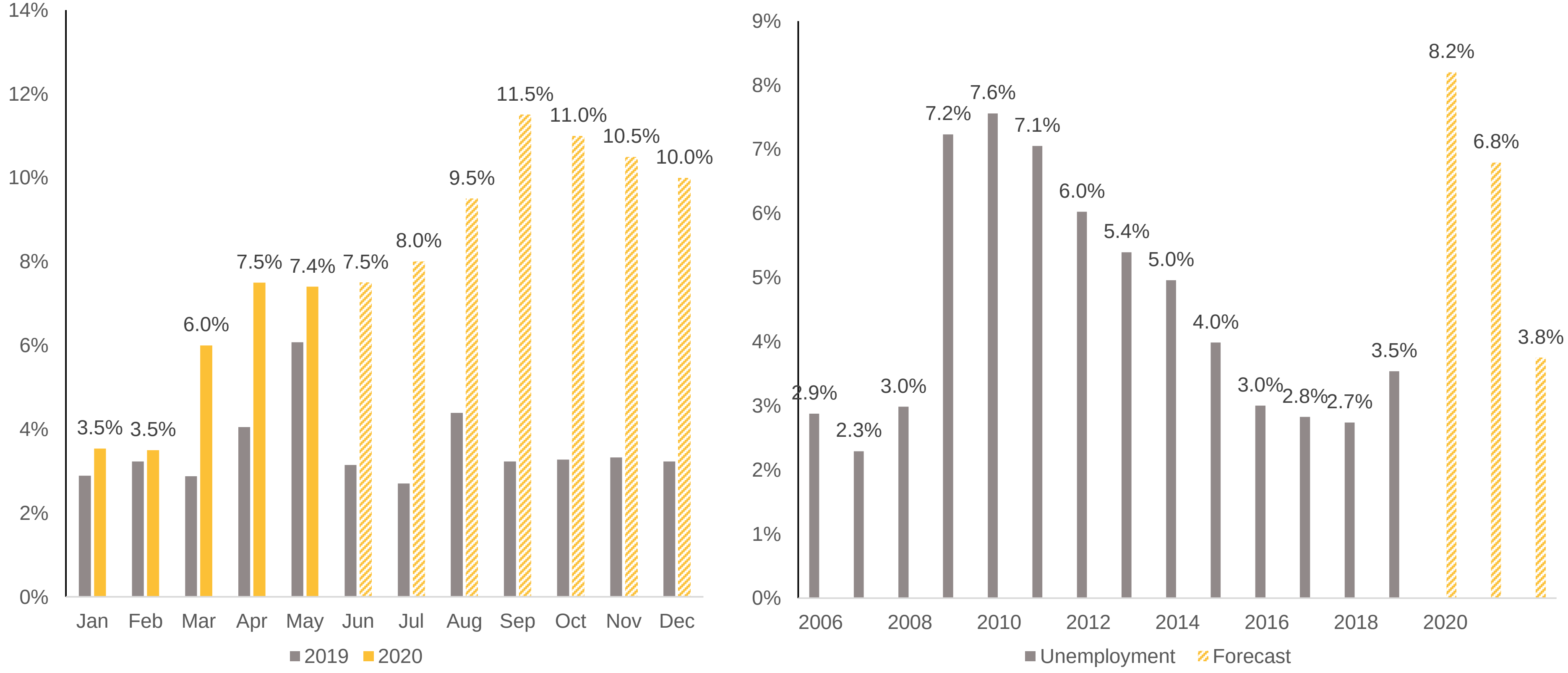
Unemployment prospects challenging for the near term

Unemployment rate likely to hit all-time high for Iceland in 2020 but rebound relatively quickly

Highlights

- Given the size of the impact of COVID-19 on the labour intensive tourism sector, it has been clear since the pandemic hit that the Icelandic labour market would be massively impacted
- The government has responded with a raft of measures, including a part-time employment option, where partial unemployment benefits complement a temporary reduction in hours worked, and financial support for companies to pay wages during termination period
- By May 2020, the unemployment rate was 7.4% and a further 5.6% of the labour force were utilising the part-time employment option
- Unemployment is likely to peak in the fall as the termination period for a share of the labour force ends
- Unemployment in 2020 is expected to average 8.2% of the labour force, an all-time high in Iceland's modern economic history
- Assuming gradual recovery in the tourist sector along with some sector relocation and emigration of foreign workers, unemployment is expected to abate to just below 4% by 2022

Unemployment
% of workforce



Source: Statistics Iceland, the Directorate of Labour and ISB Research

Household consumption contracts sharply

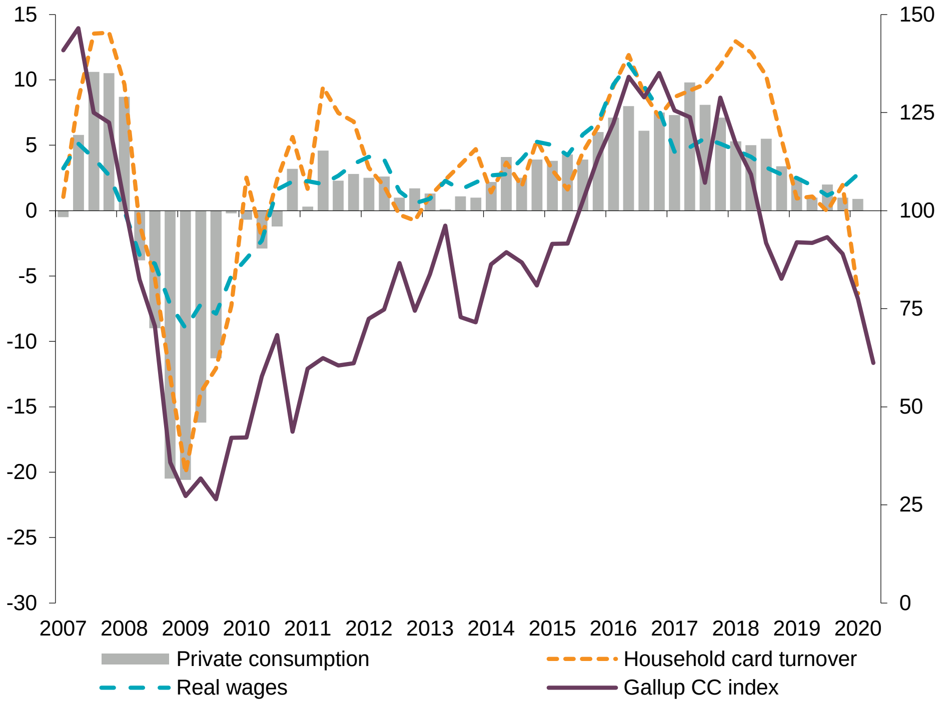
Consumption will inevitably be hit hard by the pandemic in the near term

Highlights

- The COVID-19 pandemic will have a major direct and indirect impact on consumption in coming term. The expectations surveys, unemployment rate and card turnover numbers indicate the bleakest private consumption scenario in nearly a decade
- Consumer sentiment and card turnover figures are already sounding the alarm. Consumer Confidence Index is at its lowest in over nine years and card turnover figures show a sharp contraction
- Consumption is sensitive to uncertainty at the best of times, and Icelandic households are clearly clutching their wallets tighter in response to the current situation
- Private consumption will inevitably be hit hard by COVID-19, and we expect it to contract by 5.5% this year but pick up again next year as the economic outlook improves
- The uncertainty centres on how long restrictions remain in place and households begin to see a glimmer of light at the end of the tunnel

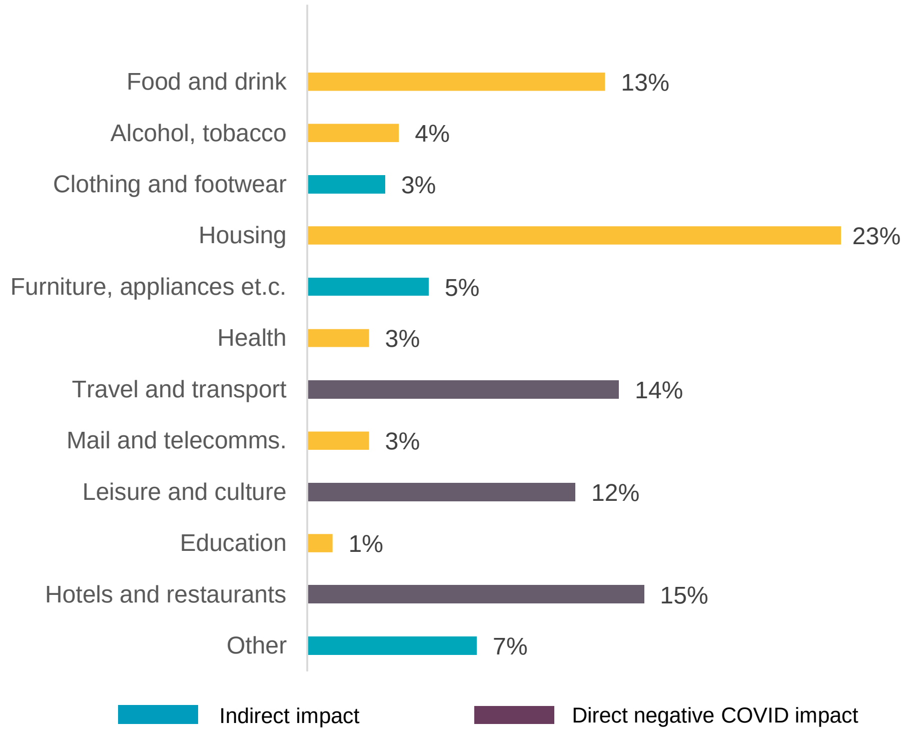
Private consumption and related indicators

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



Household private expenditure by category

Share of total in 2019



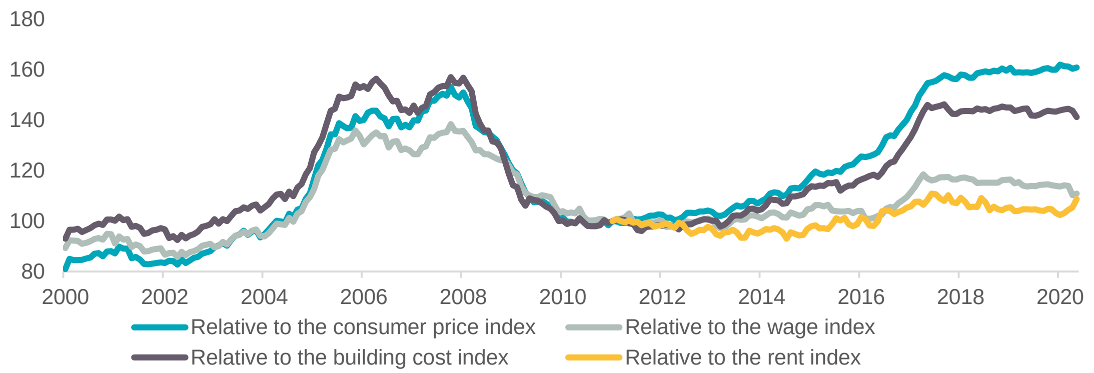
Source: Statistics Iceland, Gallup and the Central Bank of Iceland

Real estate market in balance

Residential housing market is weathering pandemic better than many expected

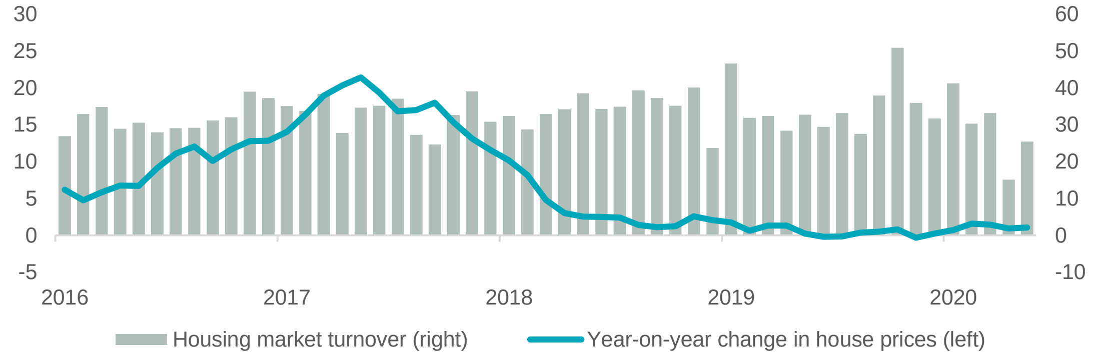
Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



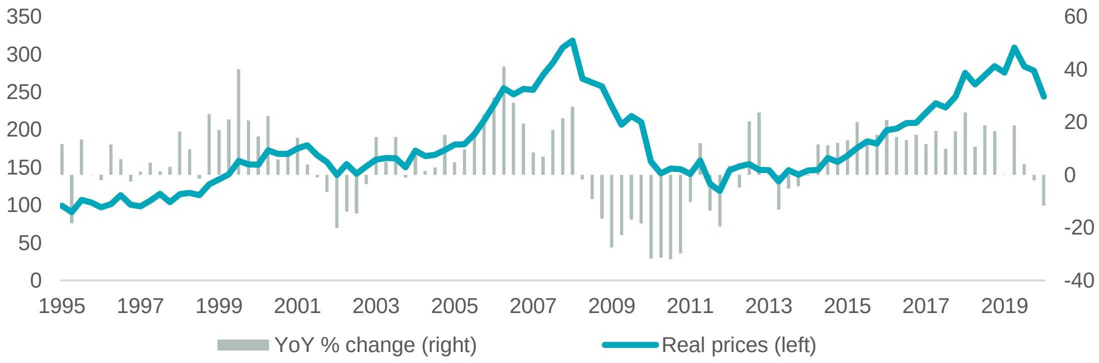
Real residential house prices and turnover in greater Reykjavik

% change (left) and ISK bn (right)



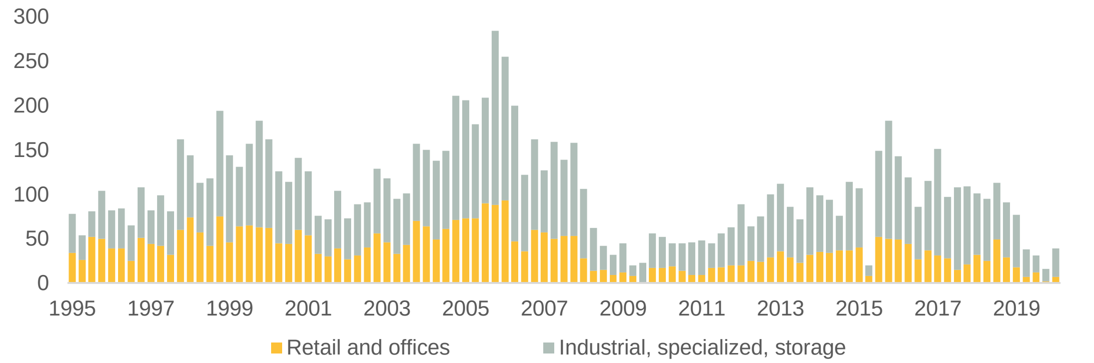
Commercial property real prices in greater Reykjavik

Index, 1995=100



Commercial real estate market activity

No. of registered purchase agreements



Source: The Central Bank of Iceland

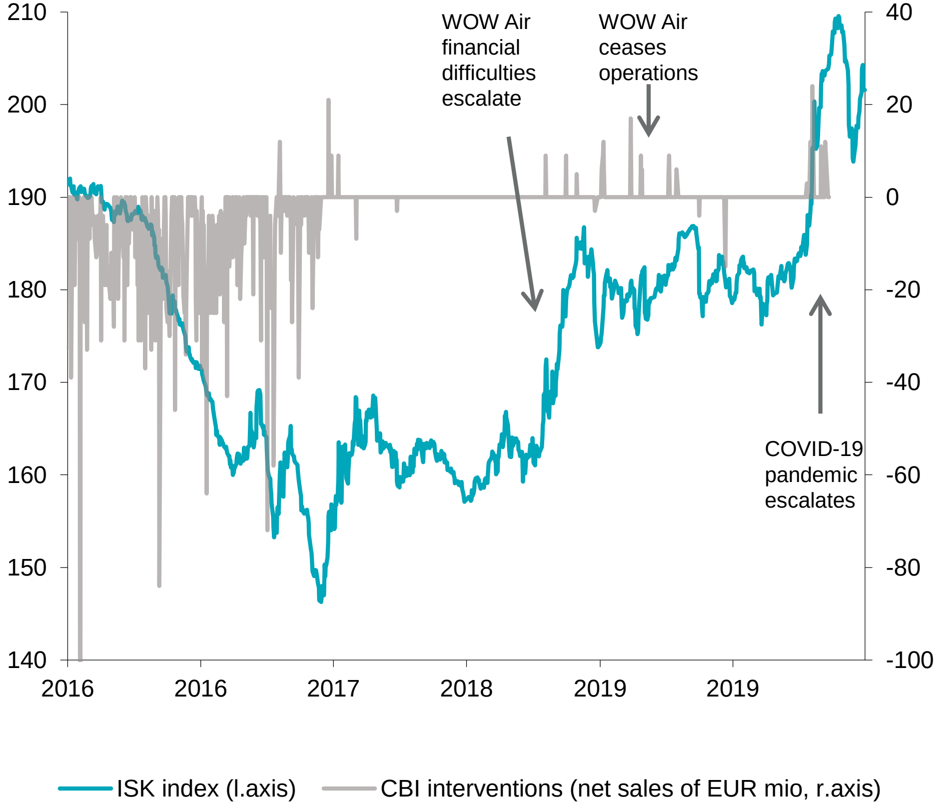
ISK has depreciated as pandemic impact has deepened

Real exchange rate likely to facilitate recovery of export sector in due course

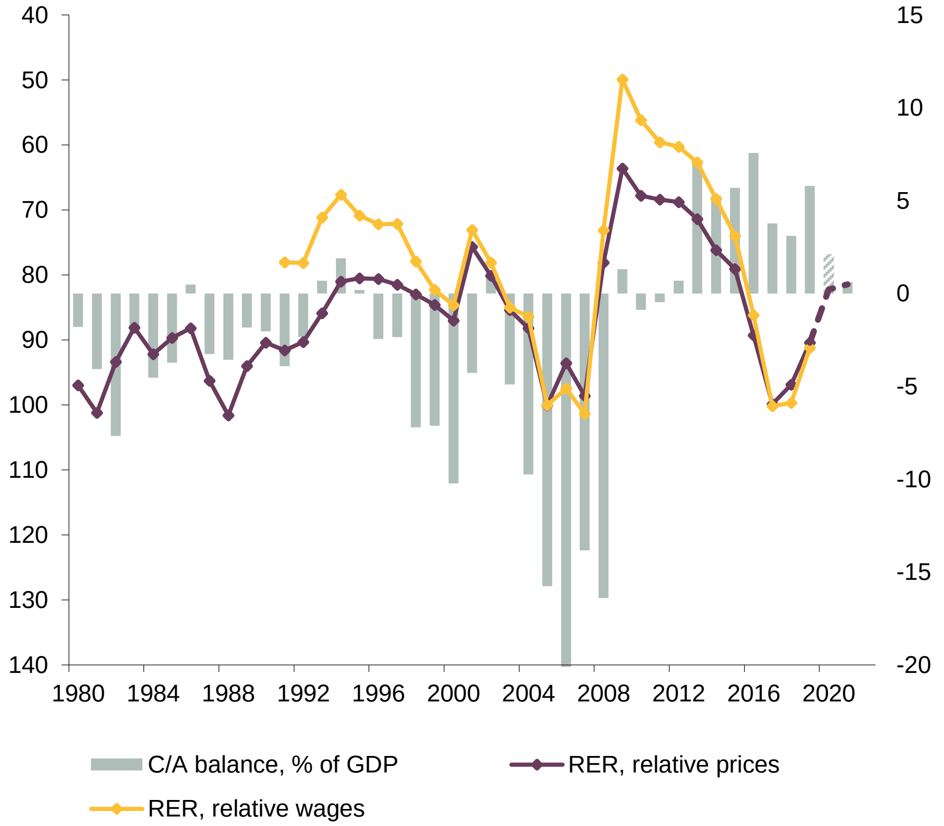
Highlights

- Following a period of relative stability throughout 2019 despite setbacks in the export sector, the ISK depreciated by 8% in Q1 2020
- The pace of depreciation accelerated in line with darkening short-term prospects as the COVID-19 pandemic impact increased
- The Central Bank has intervened in the market on numerous occasions in 2020, in line with its stated objective of reducing volatility in the FX market
- Further depreciation cannot be excluded short-term, although at present levels the ISK would likely be broadly supportive for export sector recovery
- The real exchange rate has declined by around 20% since peaking in 2017. Iceland is therefore in a considerably stronger competitive position once export sector conditions normalise
- A positive net external position, sizeable FX reserves and a reasonably benign C/A outlook for the medium term likely to support the ISK

ISK exchange rate and Central Bank FX interventions



Real exchange rate indices and current account balance



1. Dotted lines indicate ISB Research forecasts

Source: Central bank of Iceland, Statistics Iceland, Íslandsbanki Research

Inflation to stay moderate despite ISK depreciation

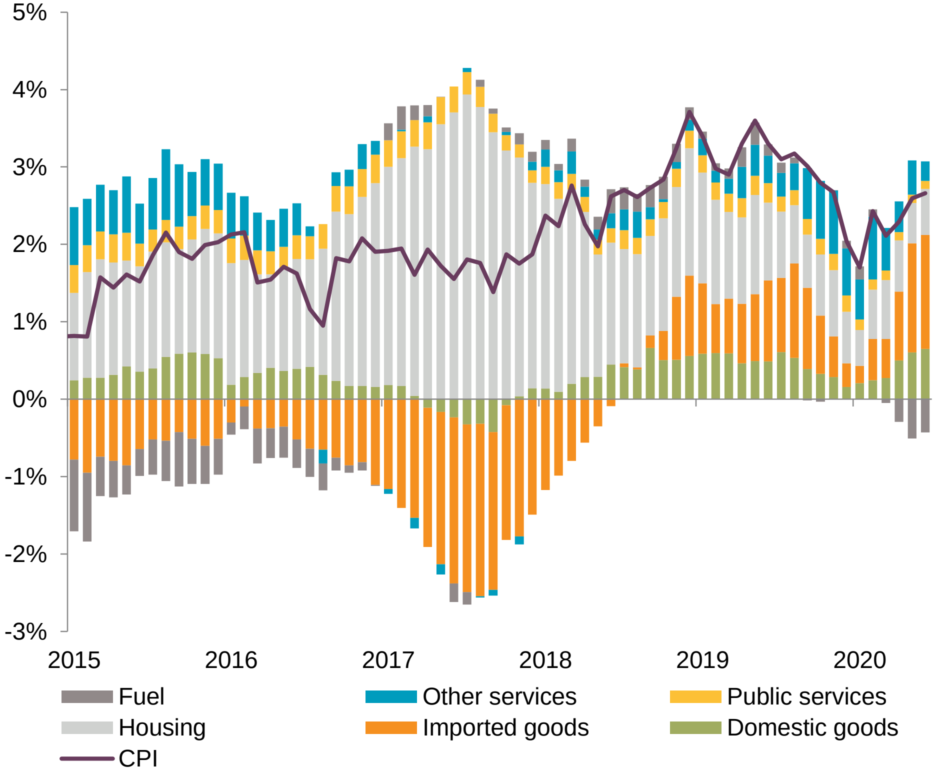
Policy rate historically low and likely to stay low in coming quarters

Highlights

- Inflation measured 2.6% in June and the outlook is for modest inflation during forecast horizon despite ISK depreciation in Q1
- ISB Research expects inflation to remain close to the CBI's target this year, averaging 2.5%. On average inflation will be 2.2% in 2021 and 2,4% in 2022
- Risk factors include potential ISK depreciation, reduced domestic inflationary pressures and stagnation/decline in house prices
- To mitigating the economic blows from the COVID-19 epidemic CBI's lowered its policy rate to 1.0% in May. The policy rate has been lowered by total 2.0 percentage points in 2020
- We expect the policy rate to fall further and then begin rising gradually in spring 2021 as the economic outlook improves

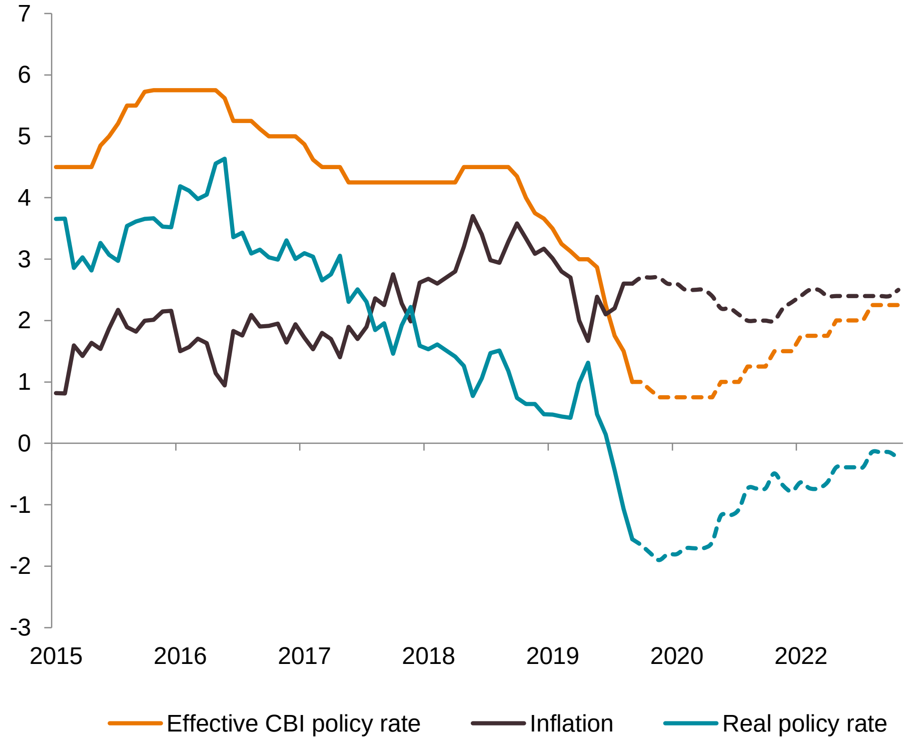
Inflation and contribution of main subitems

%



Inflation, policy rate and real policy rate

%

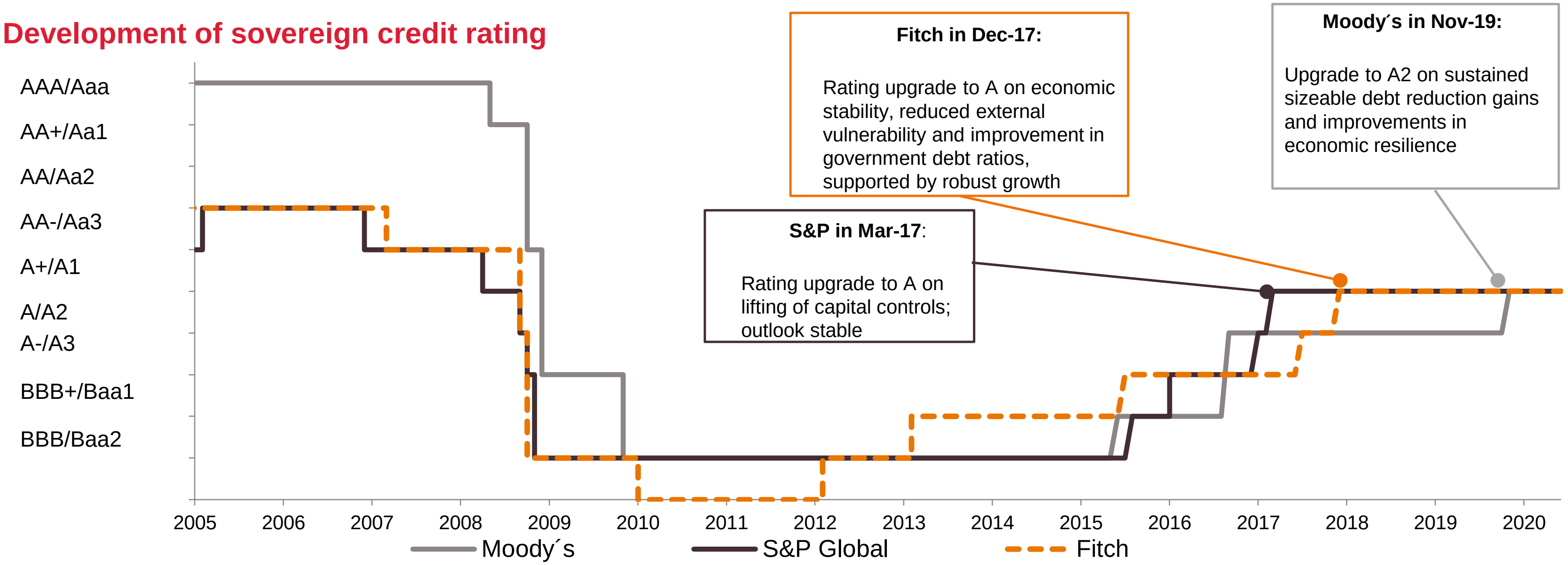


1. Dotted lines indicate ISB Research forecasts
Source: Statistics Iceland, the Central Bank of Iceland and ISB Research

Iceland’s credit rating has remained at A

Setback in the tourist sector has not affected the sovereign ratings

Development of sovereign credit rating



MOODY’S IN APRIL 2020

- Iceland’s credit profile is supported by its wealthy and flexible economy, benefiting from a natural resource base that affords robust growth potential
- The stable outlook reflects downside risks stemming from the economy's small size and high concentration being mitigated by Iceland's relative macroeconomic and financial robustness

FITCH IN MAY 2020

- Rating affirmed at A, outlook on long-term FX debt revised to negative from stable
- The revision to negative outlook reflects the deterioration in Iceland’s near-term growth and public finance outlook caused by the COVID-19 pandemic and risk of further adverse impact on the economy
- Iceland’s high level of wealth and relatively low indebtedness of the private sector are key rating strengths

S&P IN MAY 2020

- The stable outlook reflects our view that Iceland's strong fiscal and balance of payments buffers leave the authorities room for policy response over the next two years, while capturing that the country's small and open economy remains exposed to high COVID-19-related risks.

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

Disclaimer

All information contained in this presentation should be regarded as preliminary and based on company data available. Due care and attention has been used in the preparation of forecast information. However. actual results may vary from their forecasts. and any variation may be materially positive or negative. Forecasts. by their very nature. are subject to uncertainty and contingencies. many of which are outside the control of Íslandsbanki.

Íslandsbanki cannot guarantee that the information contained herein is without fault or entirely accurate. The information in this material is based on sources that Íslandsbanki believes to be reliable. Íslandsbanki can however not guarantee that all information is correct. Furthermore. information and opinions may change without notice. Íslandsbanki is under no obligation to make amendments or changes to this publication if errors are found or opinions or information change. Íslandsbanki accepts no responsibility for the accuracy of its sources.

Íslandsbanki and its management may make certain statements that constitute “forward-looking statements". These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipates.” “targets.” “expects.” “estimates.” “intends.” “plans.” “goals.” “believes” and other similar expressions or future or conditional verbs such as “will.” “should.” “would” and “could.”

The forward-looking statements represent Íslandsbanki’s current expectations. plans or forecasts of its future results and revenues and beliefs held by the company at the time of publication. These statements are not guarantees of future results or performance and involve certain risks. uncertainties and assumptions that are difficult to predict and are often beyond Íslandsbanki’s control. Actual outcomes and results may differ materially from those expressed in. or implied by. any of these forward-looking statements.

Forward-looking statements speak only as of the date they are made. and Íslandsbanki undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

Íslandsbanki does not assume any responsibility or liability for any reliance on any of the information contained herein. Íslandsbanki is the owner of all works of authorship including. but not limited to. all design. text. sound recordings. images and trademarks in this material unless otherwise explicitly stated. The use of Íslandsbanki’s material. works or trademarks is forbidden without written consent except were otherwise expressly stated. Furthermore. it is prohibited to publish material made or gathered by Íslandsbanki without written consent.