4Q21 Financial Results

10 February 2022

Birna Einarsdóttir
Chief Executive Officer

Jón Guðni Ómarsson
Chief Financial Officer

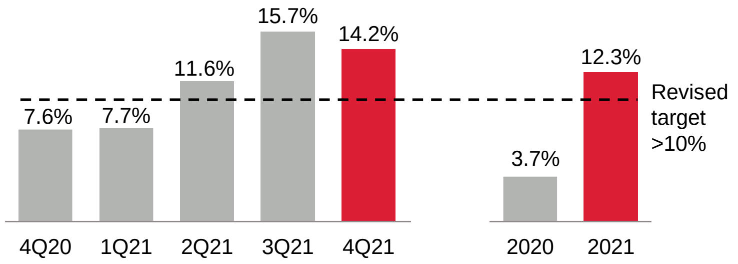
islandsbanki.is

ROE of 14.2% in 4Q21 exceeds financial targets and consensus

Stronger economic recovery and resilient borrowers drive performance

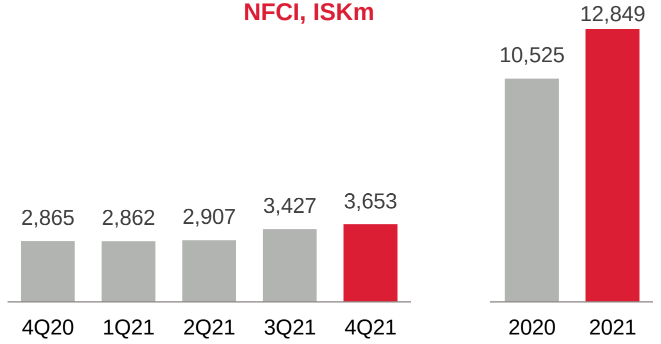
1. Exceptionally strong fourth quarter earnings

ROE



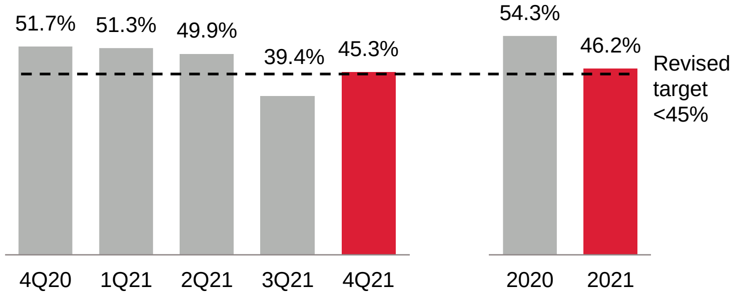
2. NFCI up 28% in 4Q21 (YoY) from payments, investment banking and asset management

NFCI, ISKm



3. Administrative expenses reduced by 5% YoY and 9.4% in real terms

C/I ratio[1]

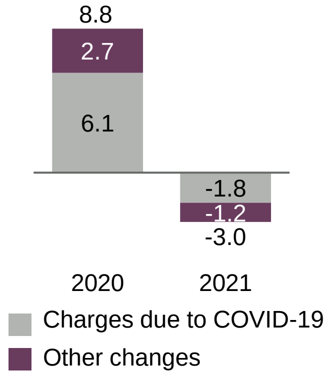


4. Positive impairment as tourism rebounds

58% of loans with forbearance have resumed payments

2.0% of loans to customers in stage 3

Impairments, ISKbn



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

Customer success in an outstanding year

Digital services at the heart of the ambition to be #1 for service

Personal Banking

- **11.5%** ROE
- **61.1%** Cost-to-income ratio
- **2.5%** NIM

Market share
32% individuals[2]

NPS ranking
#2 vs domestic peers[2]

20% growth in loans to customers in 2021
>90% of mortgages customers very satisfied with the Bank's service

Digital sales are now over **75%** of all sales to retail customers

Business Banking

- **18.1%** ROE
- **46.8%** Cost-to-income ratio
- **4.6%** NIM

Market share
37% Iceland[3]

NPS ranking
#1 vs domestic peers[3]

Over **26%** increase in deposits in 2021

ergo **45%** market share in financing of newly registered heavy machinery

Corporate & Investment Banking

- **9.8%** ROE
- **39.3%** Cost-to-income ratio
- **2.6%** NIM

Market share
35% Iceland's largest companies[4]

NPS ranking
#1 vs domestic peers[4]

26% increase in AuM and surge in refinancing activity through lending and bond issuances

#1 in fixed income sales, leading in Corporate Finance and FX sales in 2021

Iceland Funds

- **51.2%** ROE
- **38.0%** Cost-to-income ratio[1]

Market share
30% Domestic mutual funds[5]

AUM
ISK 410bn
17% increase in 2021

Highest return of all Icelandic mutual funds in 2021 with IS EQUUS Equity Fund and the 2nd highest return, within the mixed mutual funds category, with IS Einkasafn E

Steady **40%** market share in fixed income mutual funds and a doubled market share in equity mutual funds to **21%** in 5 years

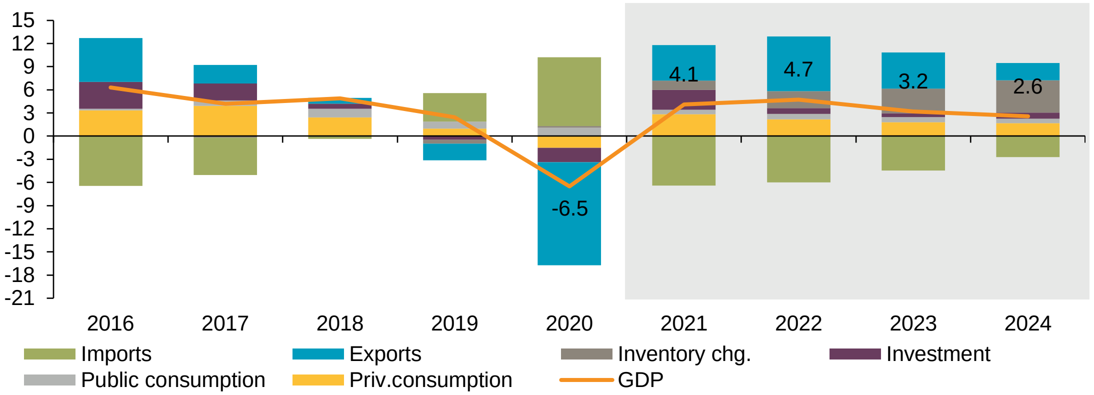
1. As calculated from the Bank's Consolidated Income Statement 2. Gallup Iceland Internet-panel survey age 18+, rolling average 6 months conducted for Islandsbanki. 3. Gallup Iceland telephone/internet survey among companies with +4 employees in Iceland as of December 2021 conducted for Íslandsbanki. 4. Gallup Iceland telephone/internet survey among 300 largest companies in Iceland December 2021 conducted for Islandsbanki. 5. Market share of Icelandic fund management companies as of 31.12.2021

Economic recovery continues

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

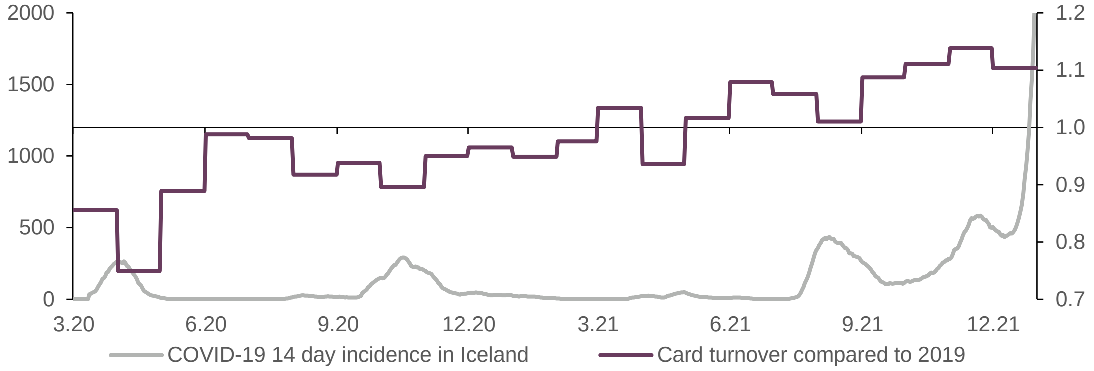
Exports replace domestic demand as the key catalyst of healthy GDP growth..

Real GDP and main subitems, YoY change, %



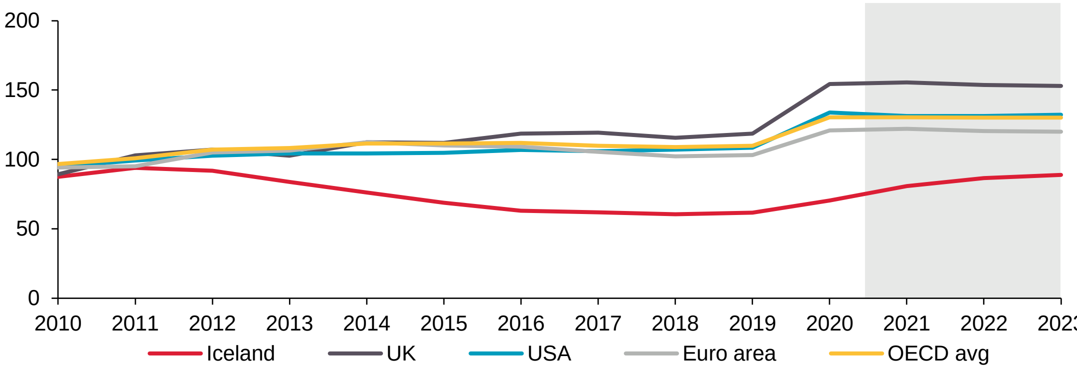
...as domestic demand keeps rising despite short-term pandemic trends

COVID-19 incidence per 100,000 (l.axis) and payment card turnover (r.axis)



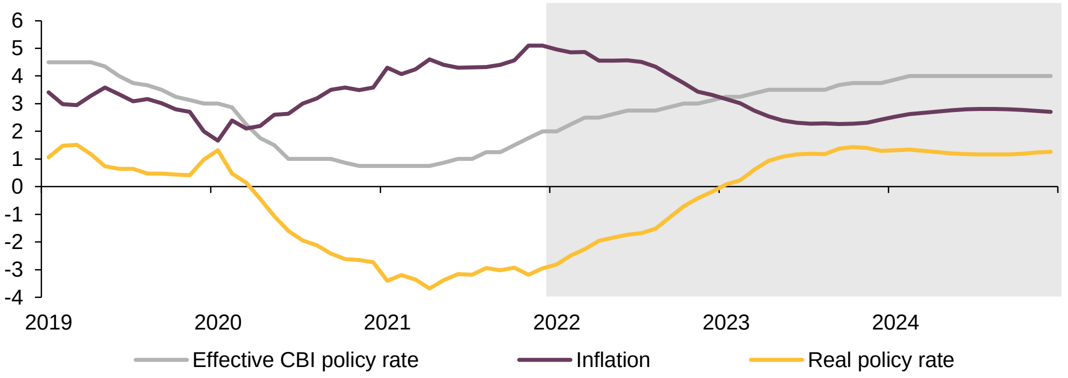
Government finances remain on a sustainable path post-pandemic..

General government gross debt as % of GDP



...and monetary policy normalises as economy recovers

Inflation and policy rate, %



1. Shaded areas indicate ISB Research forecasts. 2. Source: Statistics Iceland, the Central Bank of Iceland and ISB Research

ROE above 10% as financial targets are revised

Strong performance calls for revised targets

Targets	Revised	Previous	4Q21	2021
Return on equity[1]	>10%	8-10% by 2023 >10% long-term	14.2% ✓	12.3% ✓
Cost-to-income ratio[2]	<45%	<45% by 2023	45.3% ✓	46.2% ✓
CET1 capital ratio[3]	~16.5%	>16% Total capital ratio: 18.3-19.8%	21.3% ✓	21.3% ✓
Dividend-payout-ratio	unchanged	~50%		50% ✓

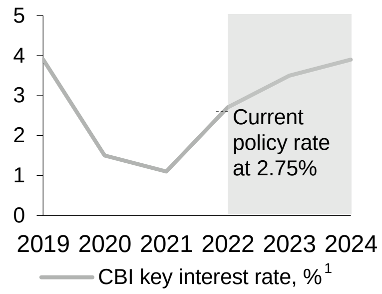
1. ROE excluding one-off cost is 12.9% for 2021, one-off cost for 2021 is ISB 663m. 2. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 3. Long term CET1 capital target is subject to regulatory requirements and includes a management buffer of 50-200bp.

Highly attractive capital return and growth opportunity

A solid strategy building on strong foundations

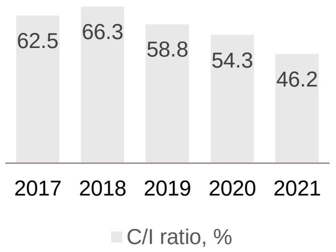
Growth

- Loans to customers and revenues, in general, **to grow** in line with **nominal GDP** growth through the business cycle
- Strong rebound in fee income from payment services expected in 2022
- **Attractive market** with strong growth outlook and rising rates



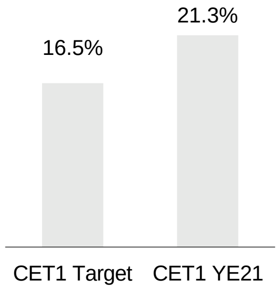
ROE

- **Target of >10%** supported by growth, cost control and capital optimisation, a 100bp increase in CB rates can increase ROE by approximately 60-70bp
- **Cost to remain broadly flat** from 2021 to 2023, C/I ratio in the 45-50% range in 2022
- ROE expected to be in the 8-10% range in 2022, normalised CoR of 30bp could push the ratio towards the lower end of the range



Financial strength

- **ISK 11.9bn in ordinary dividend** to be proposed to AGM, in line with dividend policy
- **ISK 40bn in excess capital,** post ordinary dividend, optimised in the next 12-24 months
- **ISK 15bn buyback of own shares** in the coming months subject to AGM´s and Central Bank approval



1. Shaded area: Forecast, ISB research

Íslandsbanki's four strategic themes in 2022

The strategy house has served the Bank well as is reflected in the latest results and successful IPO

PURPOSE
Moving Iceland forward by empowering our customers to succeed

VALUES
Passion | Professionalism | Collaboration

VISION
#1 for service

INCREASED EFFICIENCY
Simpler, smarter and dynamic

- Service: Personal and digital
- Optimised pricing
- Simple and smarter
- Digital champions

COMPETITIVE ADVANTAGE
Building a sustained competitive advantage

- Data powerhouse
- Open banking
- Sustainability

Increased efficiency and focus

Data-driven and personalised sales and services

Diverse ecosystems for corporate and individual clients

Concrete milestones on the road to net zero 2040

Key sustainability milestones in 2021

The Bank's sustainability policy has set short- and medium-term goals with a clear link to ESG criteria and the UN SDGs.

Carbon footprint from operations is down by

20%

year-on-year (excluding new emission factors which were measured for the first time in 2021)

20

meetings with suppliers to discuss sustainability performance

46%

of suppliers have formally certified their compliance with the **supplier code of conduct**

First round of **PCAF**-aligned calculations of financed emissions were completed during the year – showing that financed emissions amount to

~360x

carbon footprint from operations in 2020

27

internal educational meetings related to sustainability

ISK 58 bn of sustainable funding outstanding as of year-end 2021, thereof

50% in green

34% in blue funding

16% in Social funding

Íslandsbanki's **Entrepreneurship Fund** grants

ISK 35m

to **12 sustainability related innovations**

24%

of credit risk exposure (excluding individual banking and small enterprises which are out of scope) has been assessed with regards to **ESG risk**

Íslandsbanki launched **carbon calculator in app** and **green mortgages** while Íslandsbanki corporate finance team advised on the first **Blue bond issuances** in Iceland

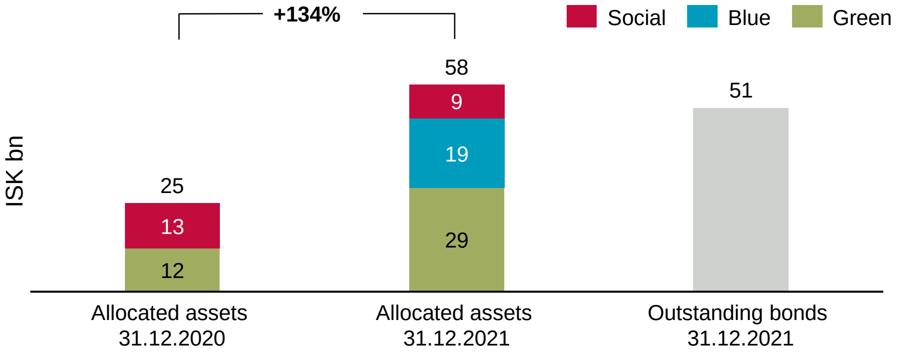
Sustainability priorities ahead in 2022

Increasing sustainable lending and mapping out path to net-zero emissions in 2040 are the Bank´s biggest sustainability priorities in 2022

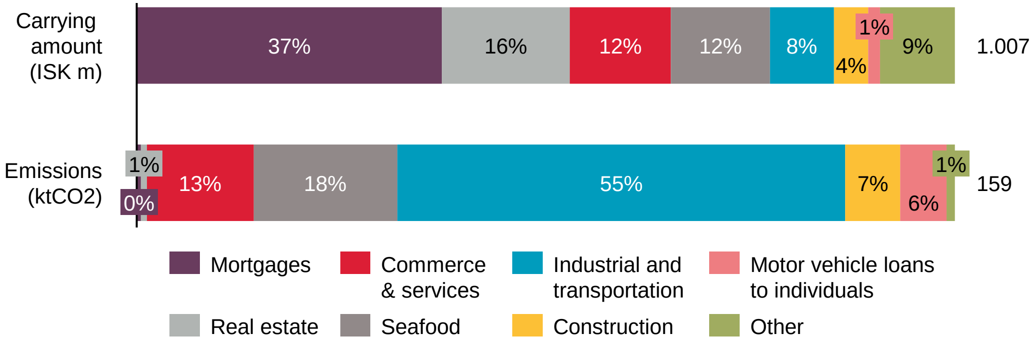
Financed emissions

- Initial estimates of financed emissions for 2019 and 2020 published according to the PCAF standard
- Financed emissions were ~360x higher than emissions from operations in 2020
- This can be compared to a global avg. for finance sector of 700x according to CDP

Sustainable lending more than doubled and outpaced outstanding bonds by year-end



Industrial and transportation account for 55% of emissions from loan book in 2020, although only 8% of carrying amount[1]



Sustainability goals for 2022 include[2]

- Present **officially validated science-based targets** for short- and medium term financed emissions
- **Increase sustainable lending by ISK 40bn** bringing % of sustainable corporate loans to **15%**
- **>50%** of credit exposure in the loan portfolio to be **ESG risk rated**
- **Reduce operations-related carbon footprint by 40%** from 2019-2022
- Further increase customer access to and awareness of **sustainable savings options**

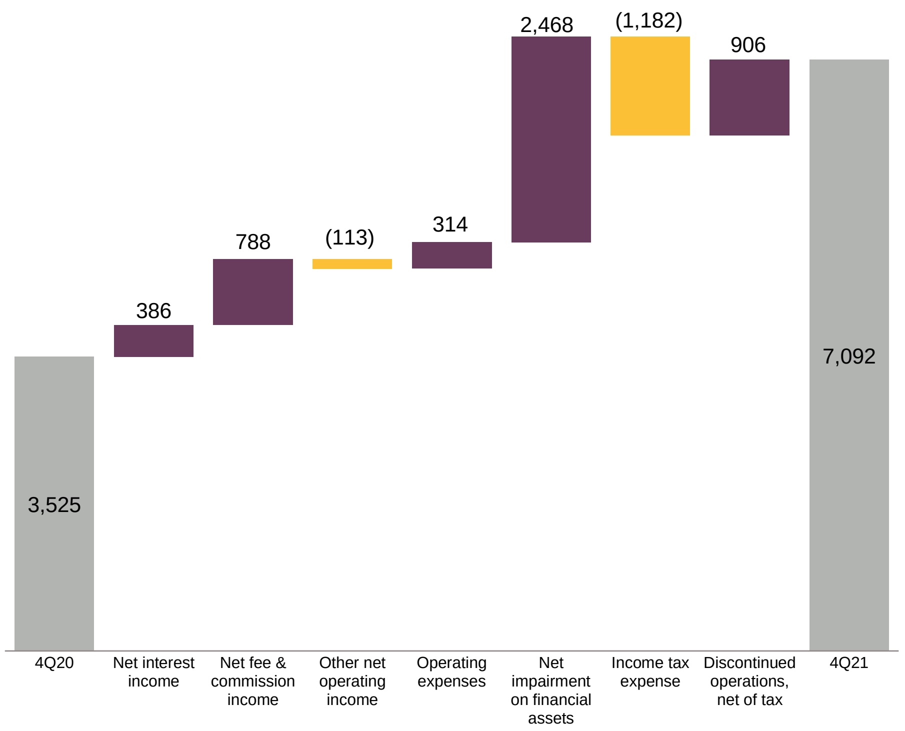
1. Other loans to customers include investment companies, financial services, energy, public sector and non-profit organisations and loans to individuals other than mortgages and motor vehicles some of which are out of scope according to the PCAF methodology, 2. Full list of objectives can be found in the annual and sustainability report for 2021

Financial overview

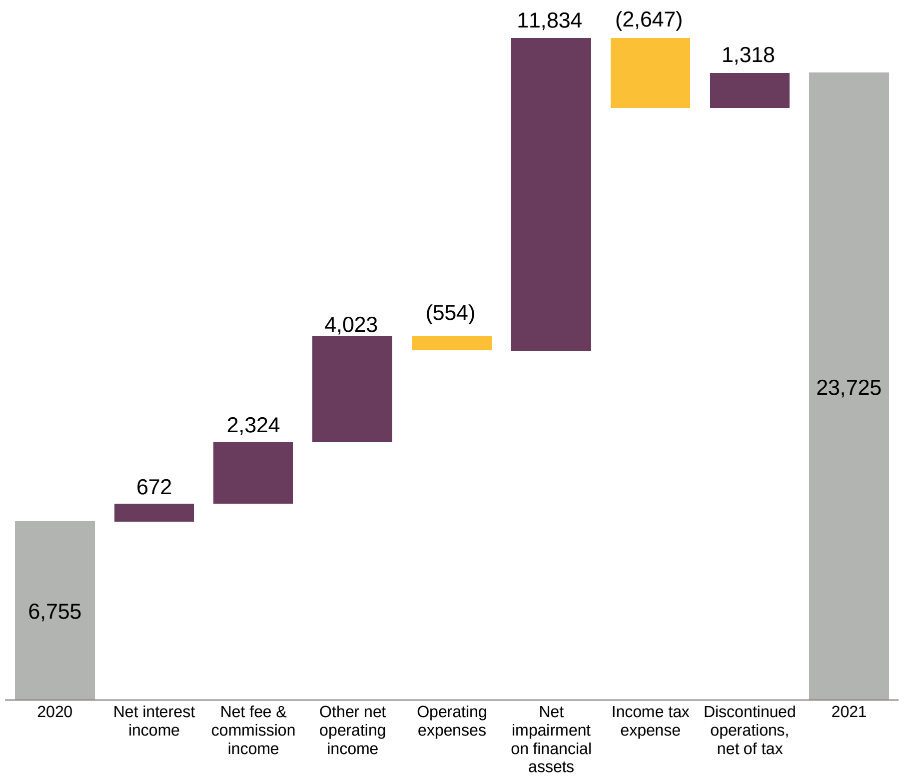
Profitability exceeds expectations

Driven by strong underlying business and reversed impairments

Profit for the period – 4Q20 vs 4Q21
ISKm



Profit for the period – 2020 vs 2021
ISKm



Net interest income rises for all business units

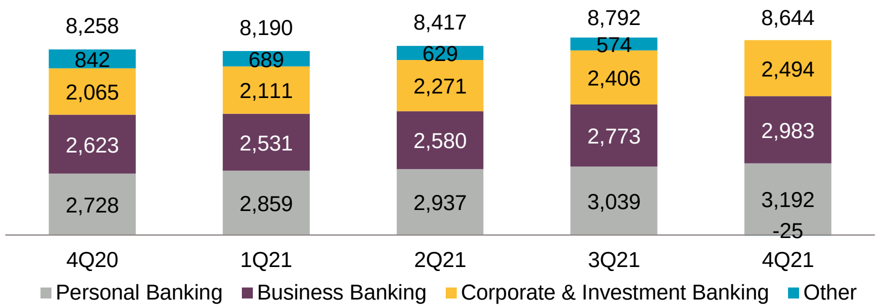
NIM resilient as interest rates fluctuate

Highlights

- Fall in NII from 3Q21 is explained by decrease in loans and deposits on average, as well as increase in subordinated loans and decrease in the Bank´s CPI gap
- Net interest margin on loans fell from 2.2% to 2.1% in 4Q21 while net interest margin on deposits increased from 1.3% to 1.4% in 4Q21
- Higher CBI rates feed into NIM and liquidity portfolio with a lag

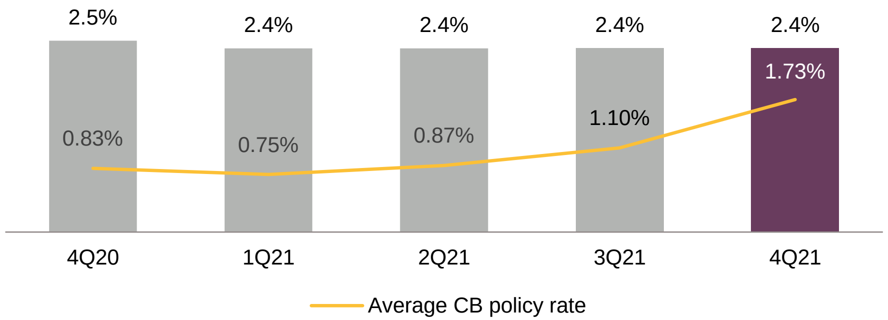
Net interest income

By business segments, ISKm



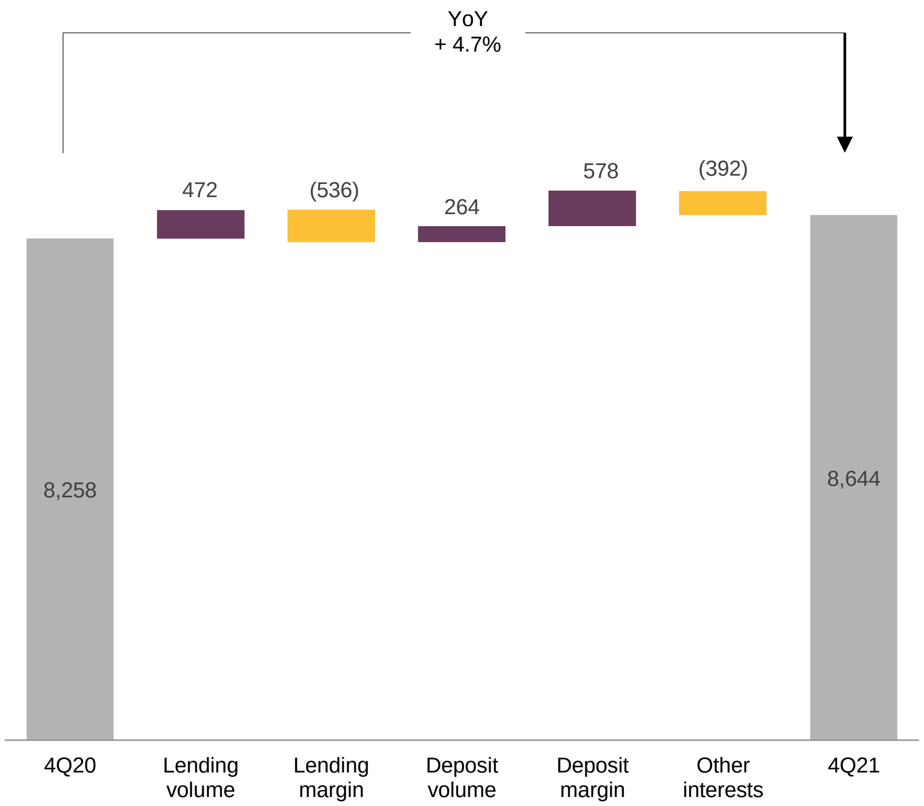
Net interest margin

On total assets



NII – 4Q20 vs 4Q21

ISKm



Diverse sources of NFCI and strong growth

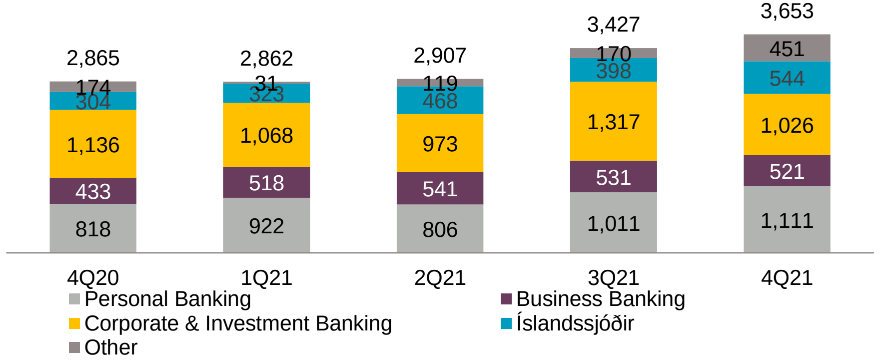
Headwinds from COVID-19 recede and cards and payment processing fees reach previous levels

Highlights

- NFCI up 22.1% from 2020 mostly from asset management, investment banking and brokerage and payment processing
- Card turnover rose swiftly in the past year, particularly turnover abroad
- AuM growth of 19.9% and 46% growth in NFCI for Iceland Funds
- Other income increases due to good performance of the Allianz Ísland subsidiary

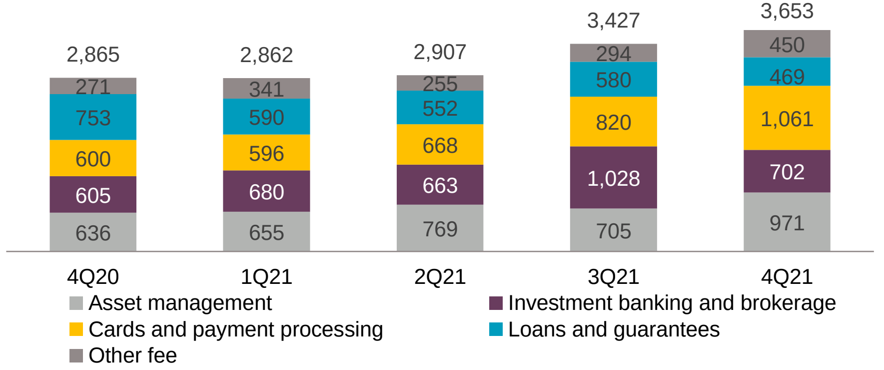
Net fee and commission income

Business segments, ISKm



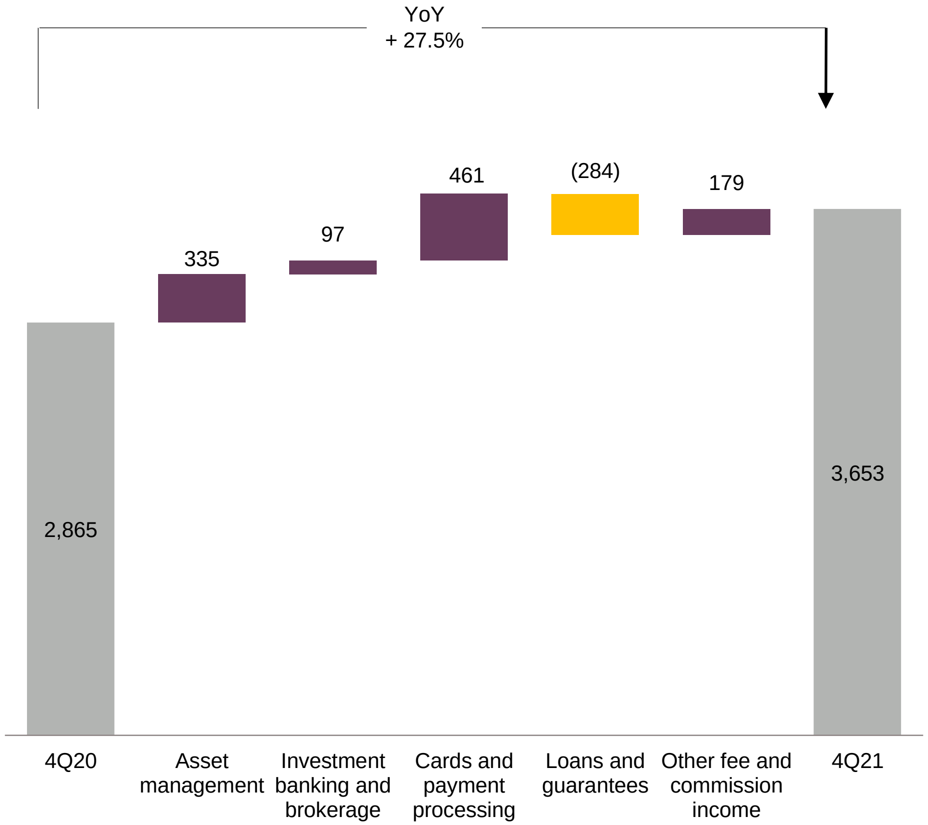
Net fee and commission income

By type, ISKm



NFCI – comparison 4Q YoY

ISKm



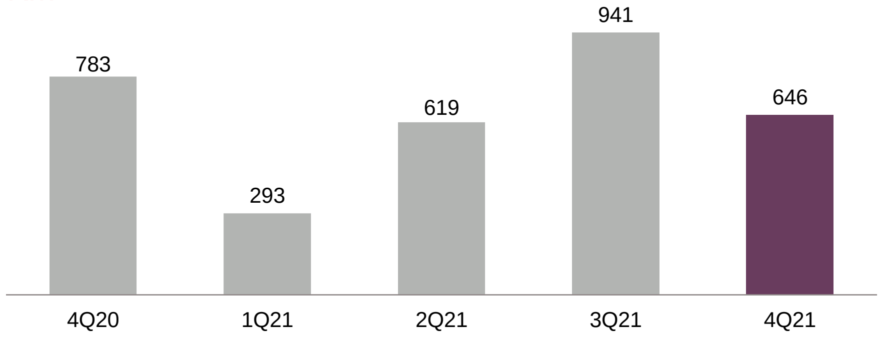
Supportive equity market lifts NFI

Positive valuation of unlisted holdings contributes to good results

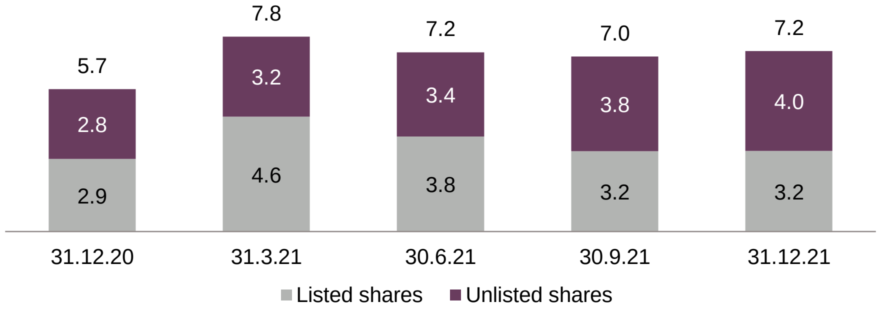
Highlights

- Fair value changes account for considerable part of net financial income in 4Q21, as well as generally favourable market conditions
- Increase in profits from discontinued operations is due to a subsidiary's sale of preferred shares and a sale of land

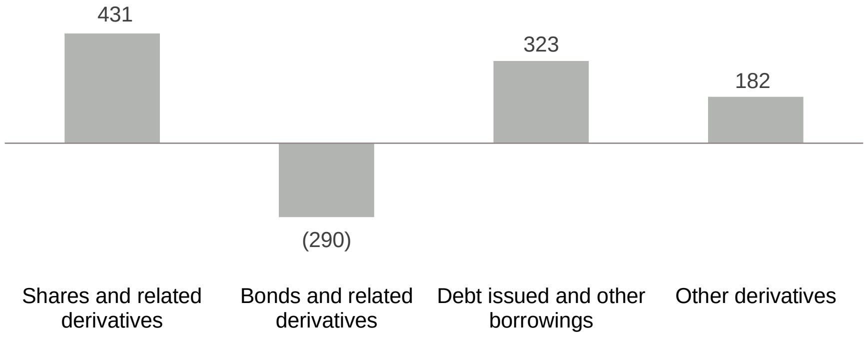
Net financial income
ISKm



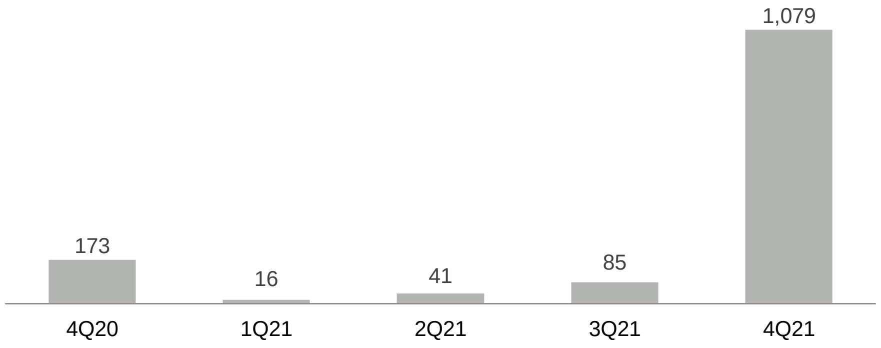
Shares and equity instruments[1]
ISKbn



Net financial income by type in 4Q21
ISKm



Discontinued operations
ISKbn



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

Cost/income hits target with real cost reduction of 9.4% YoY

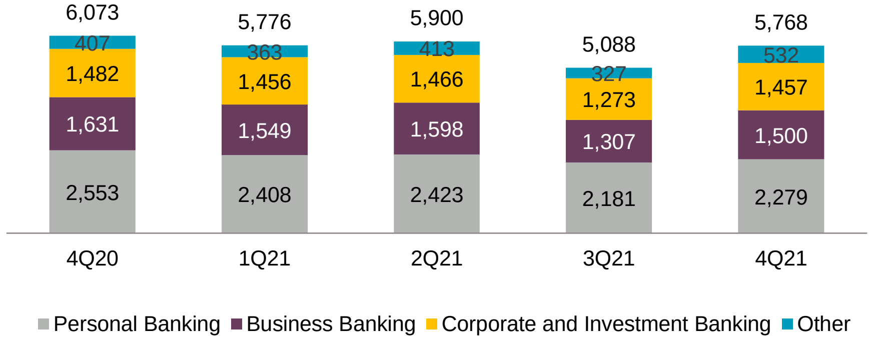
Other operating expenses down despite inflation and continued investments in technology

Highlights

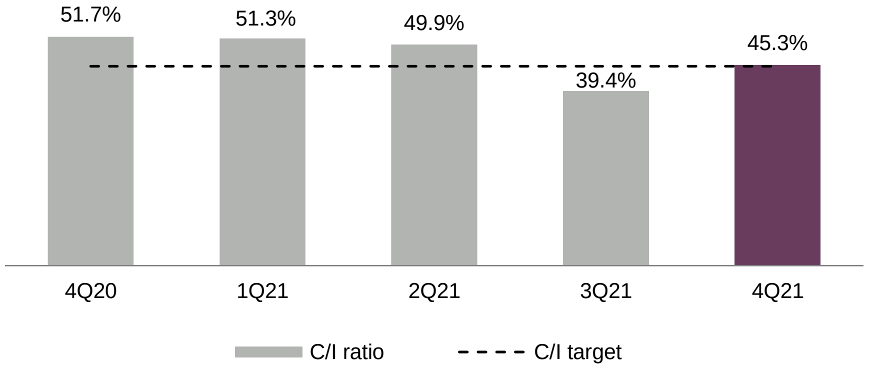
- Cost reduction YoY result of continued cost awareness
- Increase in salaries from 3Q21 due to cyclicality in salaries
- One-off cost related to IPO totaled ISK 521m in 2021 and general wage agreements, one-off cost resulting from the sale of the Bank and redundancy cost raised salary cost in 2021 relative to 2020

Administrative expenses[1]

ISKm

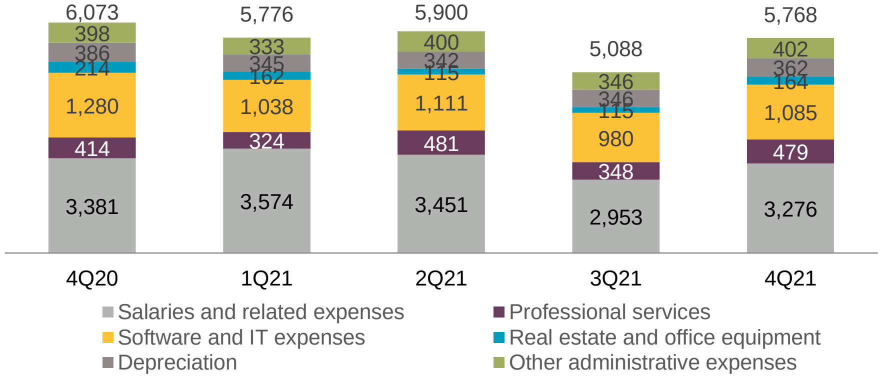


Cost-to-income ratio[2]

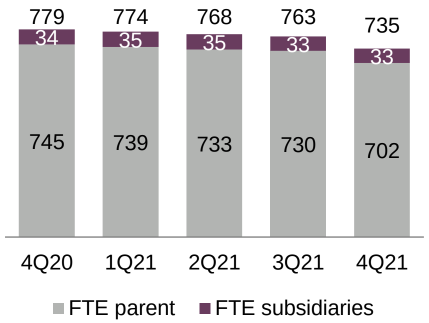


Administrative expenses – by type

ISKm

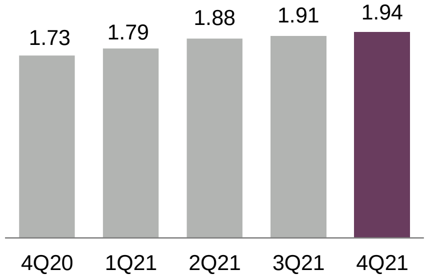


FTE period end[3]



Total assets / FTE[3]

ISKbn



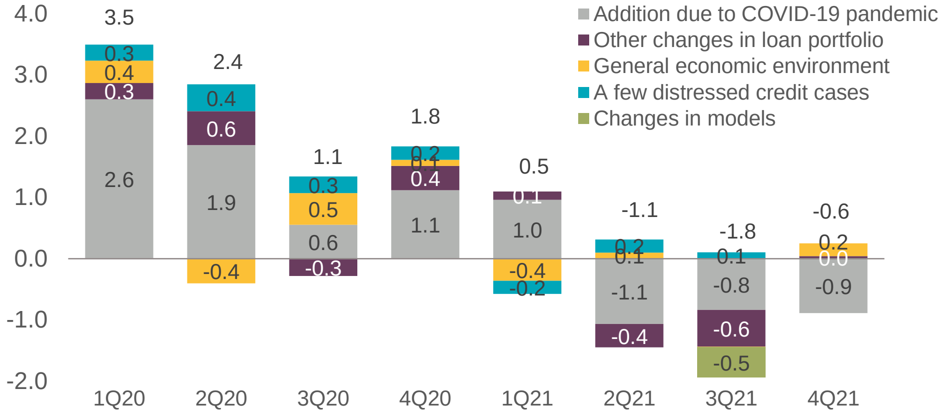
1. Administrative expenses in 1Q21 and 2Q21 are excluding one-off cost related to the Bank's IPO, 76m in 1Q21 and 588m in 2Q21. 2. Calculated as (Administrative expenses + Contribution to the Depositor's and Investors' Guarantee Fund – one off items) / Total operating income – one-off items). Target was updated in 1Q21 from the previous <55% 3. FTE numbers exclude seasonal employees.

Positive net impairment in 2021 as the economy recovers

Tourism sector in better shape than feared

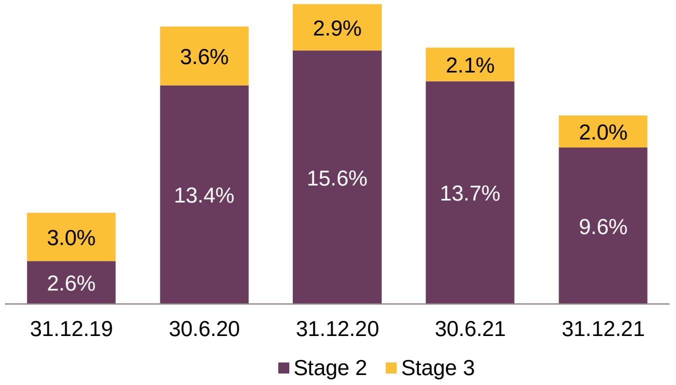
Net impairment on financial assets[1]

By period, ISKbn



Loans to customers: Stage 2 and 3

Development of gross carrying amount as ratio of total loans

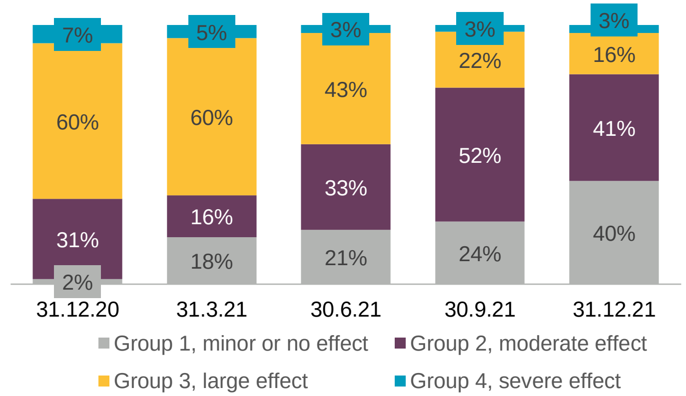


Current and expected cost-of-risk

- Annualised cost of risk was -23bp in 4Q21 and -28bp in FY21, compared to +91bp for the full year 2020 and +73bp for 4Q20
- The average cost of risk in 2019 and 2020 excluding the effect of COVID-19 amounts to +35bp, which would have been closer to +30bp based on the current composition of the loan book with a higher proportion of mortgages
- The additional impairment allowance currently attributable to the tourism overlay and stage transfer is approximately ISK 2.0bn in 4Q21 down from 2.8bn in 3Q21
- The probability weights of economic scenarios were unchanged at 15% (good), 50% (baseline), and 35% (bad) at end of 4Q21. A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 0.5bn while a 5% shift from the baseline to the good would decrease the allowance by ISK 0.2bn

Exposure to tourism by effect of COVID-19

Overall exposure to tourism approximately ISK 100bn

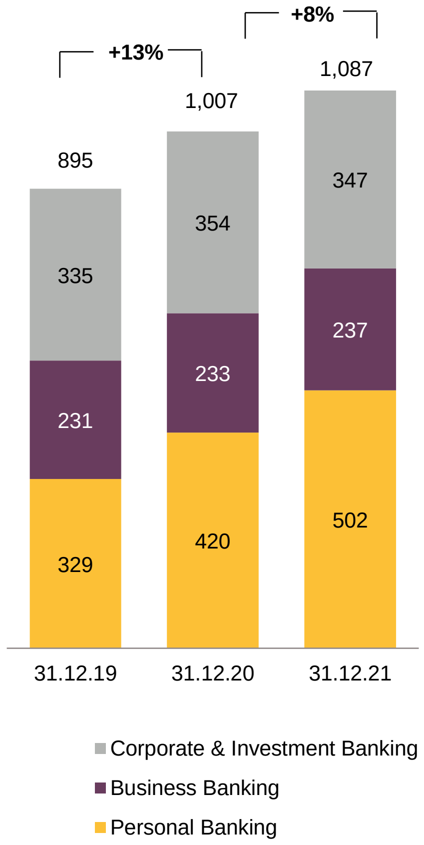


1. See further in note 3 and 66.4 in Consolidated Financial Statements 2021

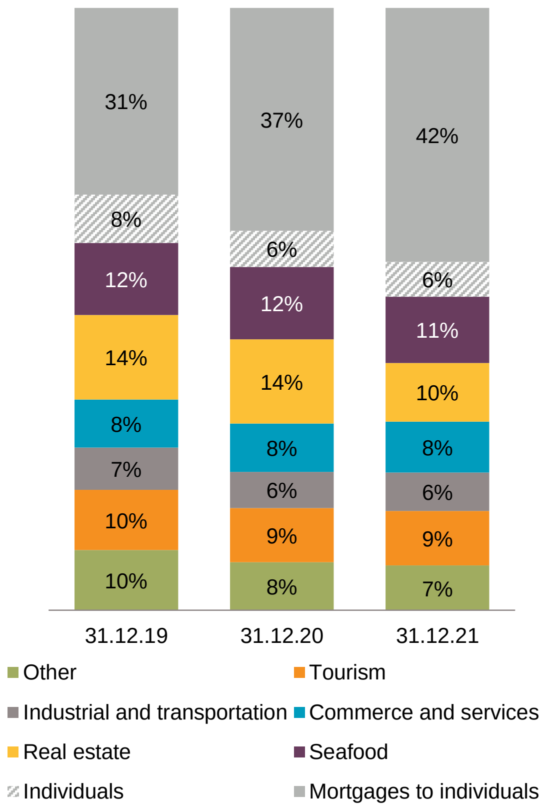
Diversified and highly collateralised loan portfolio

Loans to individuals are 48% of loans to customers, mainly residential mortgages

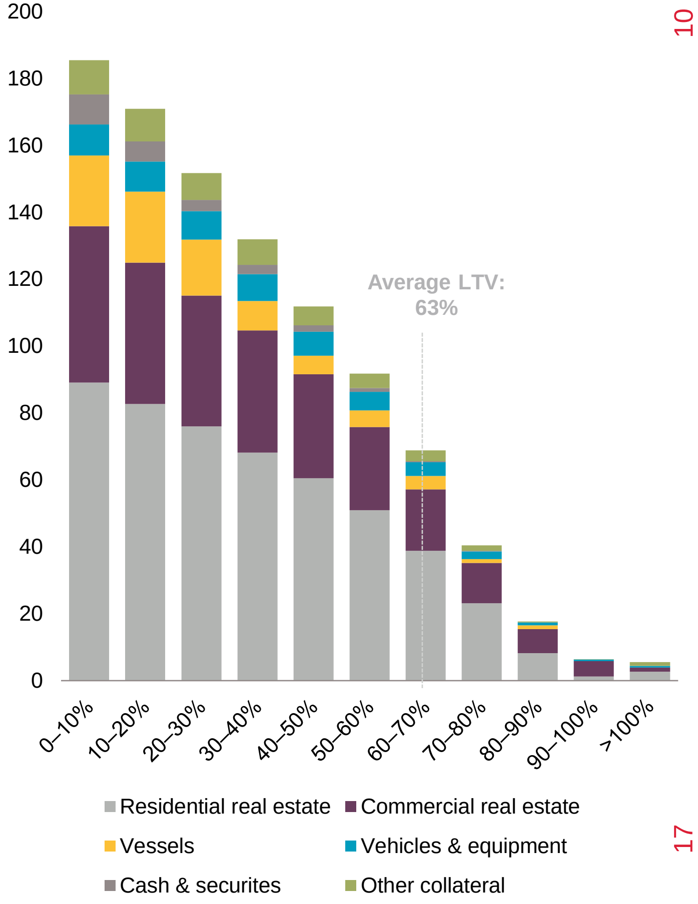
Loans to customers
By business division, ISKbn



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



LTV distribution by underlying asset class
31.12.2021, loan splitting approach, ISKbn



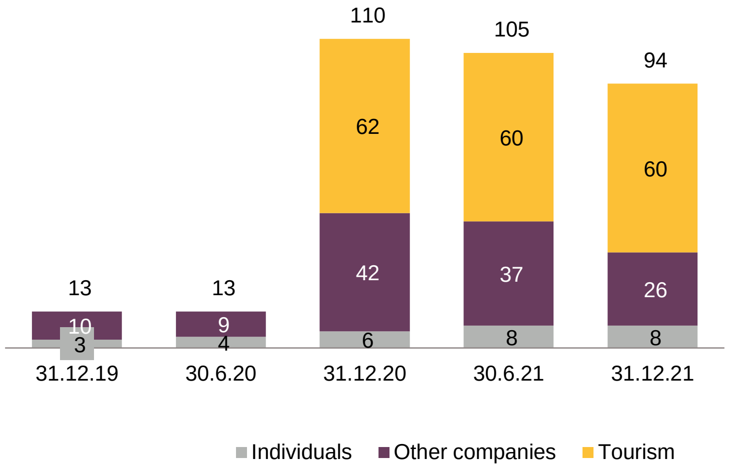
10 February 2022

COVID-19 impact on forbearance loans gradually receding

Majority of moratoria borrowers have resumed payments

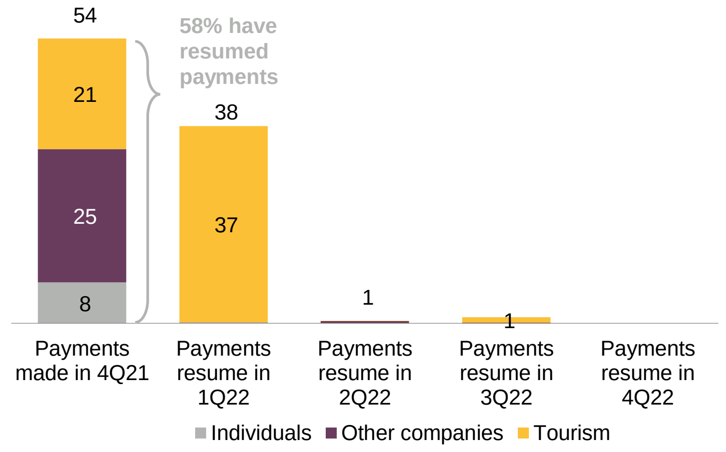
Performing loans with forbearance

Gross carrying amount, ISKbn



Indication on when payments resume after moratorium

Gross carrying amount, ISKbn



Further extension of moratorium

- The forbearance increase at end of 2020 mostly due to extension of COVID-19 moratoria to companies in the tourism sector
- Loans that have been granted extended moratoria primarily with collateral in residential or commercial real estate
- The definition of forbearance includes a 24-month probation period and therefore loans are classified with forbearance even after normal payments have resumed
- The fall in performing loans with forbearance since year-end 2020 is due to loans that are fully repaid

Clarity on when payments are expected to resume

- Loans amounting to ISK 94bn are classified as performing with forbearance, but ISK 54bn have already begun regular payments or 58%
- Performing loans with forbearance that have not yet started regular payments are almost exclusively in the tourism industry
- According to current schedule, additional ISK 38bn should resume regular payments in the first quarter of this year
- Note that some customers might request further extension of moratoria when the current moratoria expires

Deposits are largest source of funding

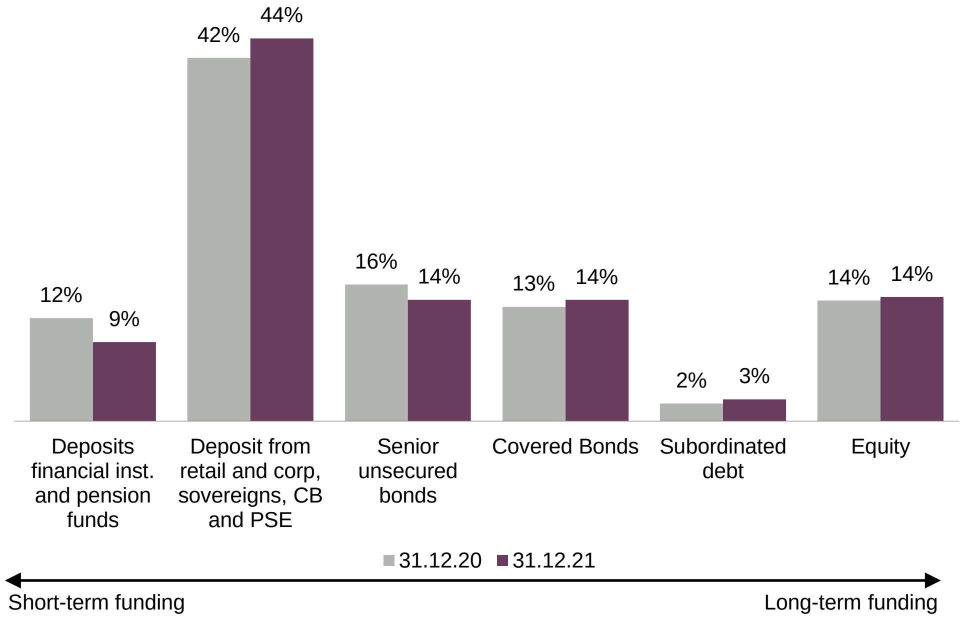
Strong growth in retail deposits in 2021 provides a solid funding base

Highlights

- Term deposits are 18% of total deposits
- Deposit concentration is stable. 12% of the Bank's deposits belonged to the 10 largest depositors and 28% to the 100 largest depositors at YE21, compared to 16% and 31% respectively at YE20
- At YE21 76% of deposits were in non-indexed ISK, 12% CPI-linked and 12% in foreign currencies

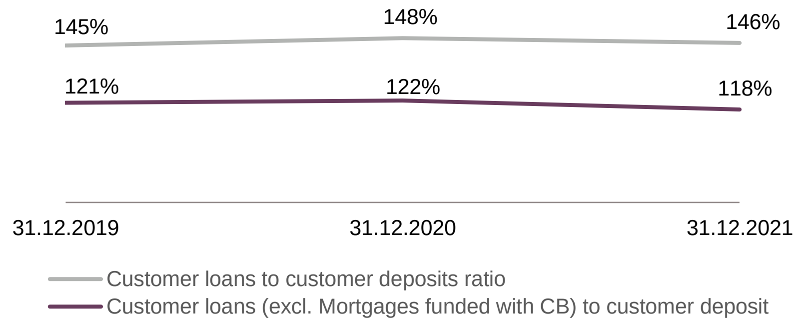
Funding sources

By type, % of total liabilities and equity



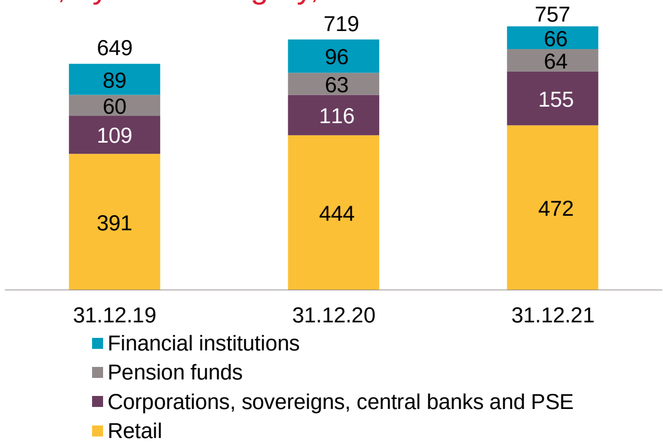
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



10 February 2022

Seasoned and diversified long-term funding programme

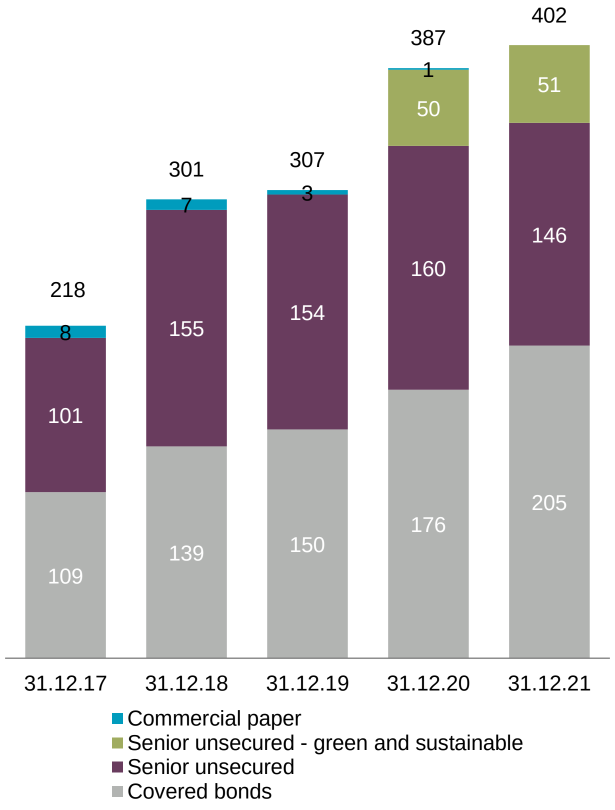
Majority of 2022 maturities already funded through recent €300m sustainable bond issuance

Highlights

- S&P Global ratings BBB/A-2 with stable outlook confirmed on 25 January 2022
- Liquidity remains very strong and all liquidity ratios well above targets and regulatory requirements
- At YE21, total LCR ratio was 156%, FX LCR was 235% and total NSFR was 122%

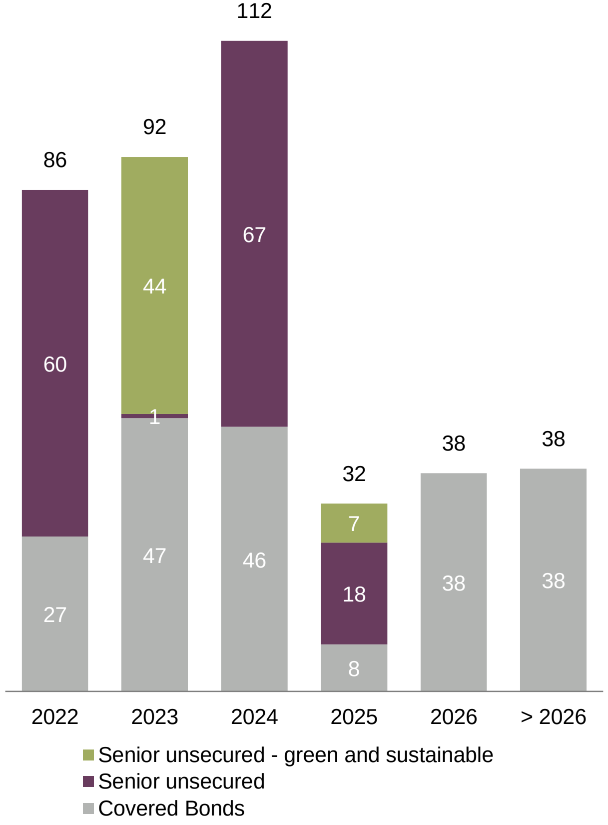
Sources of market borrowings

Book value, ISKbn



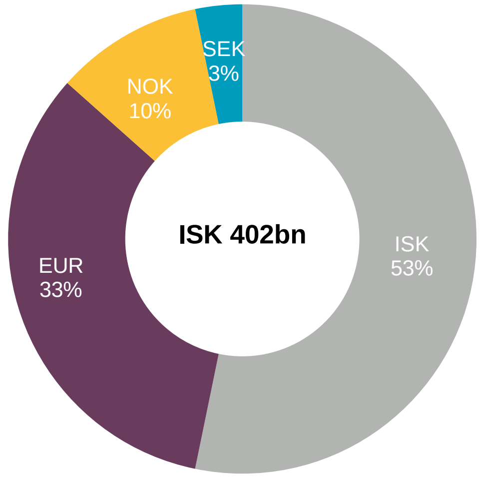
Contractual maturity profile of borrowings

31.12.2021, nominal value, ISKbn



Currency split of borrowings

31.12.2021



Strong capital position and dividend capacity

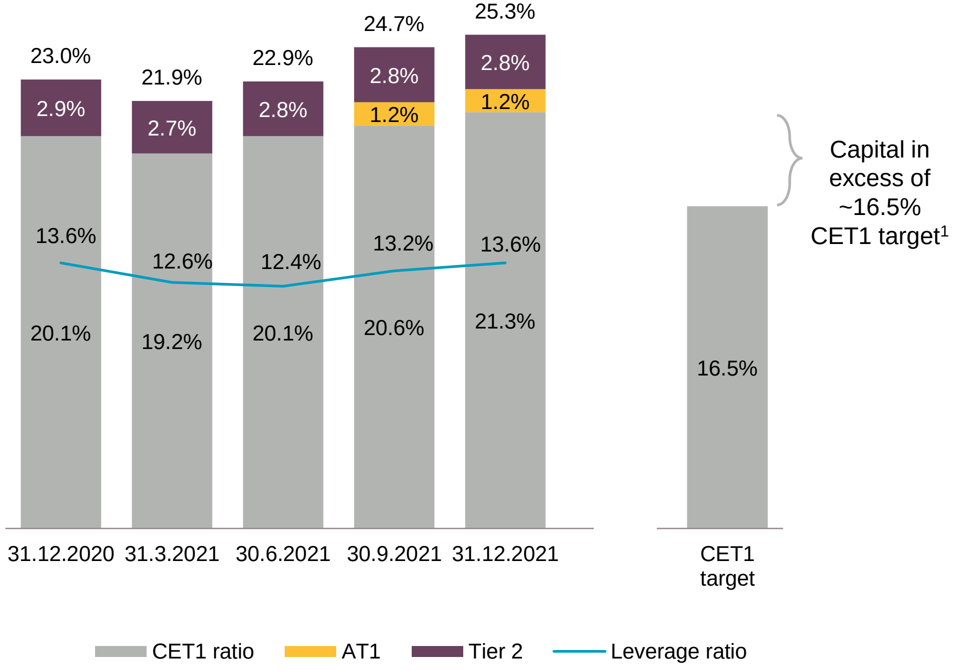
Opportunity to optimise capital composition and continue consistent delivery of ordinary dividend

Highlights

- Current and long term expected total capital requirements of 17.8% and 19.0% respectively
- Additional AT1 issuance potential of ISK 6bn to optimise capital structure

Capital ratios and leverage ratio

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



Dividend and buyback of own shares

- **ISK 11.9bn ordinary dividend** to be proposed to AGM
  - In line with the dividend policy
- **~ISK 40bn of excess CET1 capital**, post ordinary dividend
  - Optimised in the next 12-24 months
- **ISK 15bn buyback of own shares** in the coming months
  - Subject to AGM's and Central Bank's approval
- Three buyback options to be considered:
  - Share buyback program
  - Tender offer
  - Block sale participation

1. Excess CET1 capital is based on CET1 ratios at YE 2021, where ordinary dividend in line with the Bank's dividend policy has been excluded in the ratio.

4. Q&A

5. Appendix I – About Íslandsbanki and additional financial information

10 February 2022

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
702
number of FTEs at Íslandsbanki at period end

12 branches

Listed to Nasdaq Iceland as of June 2021

Market share[1]

32% retail customers

37% SMEs

35% large companies

Sustainability 4Q21

Sustainable lending up by 134% during 2021

Íslandsbanki awards ISK 35m in grants from Entrepreneurship Fund

Íslandsbanki awarded the Equality Scale from the Icelandic Association of Business Women (FKA)

Key Figures 4Q21

ROE	14.2%	LCR Group, all currencies	156%
Cost-to-income ratio	45.3%	NSFR Group, all currencies	122%
CET1 ratio	21.3%	Leverage ratio	13.6%
Total capital ratio	25.3%	Total assets	ISK 1,429bn

Ratings and certifications

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

EQUAL PAY CERTIFICATE 2018 - 2021

EXEMPLARY IN CORPORATE GOVERNANCE

Digital milestones 4Q21

New core lending system fully implemented, increasing efficiency

Authenticated requests for youth custody accounts and securities trading are now available on the external web

Credit card numbers are now securely visible in the app

1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, December 2021 survey for SMEs and 2021 average for large companies.

Financial overview

Key figures & ratios

		4Q21	4Q20	2021	2020	2019
PROFITABILITY	Profit for the period, ISKm	**7,092**	3,525	**23,725**	6,755	8,454
	Return on equity	**14.2%**	7.6%	**12.3%**	3.7%	4.8%
	Net interest margin (of total assets)	**2.4%**	2.5%	**2.4%**	2.6%	2.7%
	Cost-to-income ratio[1]	**45.3%**	51.7%	**46.2%**	54.3%	58.8%
	Cost of risk	**(0.23%)**	0.73%	**(0.28%)**	0.91%	0.39%

		31.12.21	30.9.21	30.6.21	31.12.20	31.12.19
BALANCE SHEET	Loans to customers, ISKm	**1,086,327**	1,081,418	1,089,723	1,006,717	899,632
	Total assets, ISKm	**1,428,821**	1,456,372	1,446,860	1,344,191	1,199,490
	Risk exposure amount, ISKm	**901,646**	917,764	924,375	933,521	884,550
	Deposits from customers, ISKm	**744,036**	754,442	765,614	679,455	618,313
	Customer loans to customer deposits ratio	**146%**	143%	142%	148%	145%
	Non-performing loans (NPL) ratio[2]	**2.0%**	2.0%	2.1%	2.9%	3.0%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**122%**	121%	122%	123%	119%
	Liquidity coverage ratio (LCR), for all currencies	**156%**	225%	187%	196%	155%
CAPITAL	Total equity, ISKm	**203,710**	197,381	190,355	186,204	180,062
	CET 1 ratio	**21.3%**	20.6%	20.1%	20.1%	22.4%
	Tier 1 ratio	**22.5%**	21.8%	20.1%	20.1%	19.9%
	Total capital ratio	**25.3%**	24.7%	22.9%	23.0%	22.4%
	Leverage ratio	**13.6%**	13.2%	12.4%	13.6%	14.2%

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

Income growth of 8.8% YoY as fee income still increases

Positive net impairment on back of improving economic environment

Income statement, ISKm	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Net interest income	**8,644**	8,258	5%	8,792	(2%)	**34,043**	33,371	2%
Net fee and commission income	**3,653**	2,865	28%	3,427	7%	**12,849**	10,525	22%
Net financial income (expense)	**646**	783	(17%)	941	(31%)	**2,499**	(1,391)	-
Net foreign exchange gain	**159**	87	83%	95	67%	**479**	451	6%
Other operating income	**15**	63	(76%)	82	(82%)	**302**	197	53%
Total operating income	**13,117**	12,056	9%	13,337	(2%)	**50,172**	43,153	16%
Salaries and related expenses	**(3,276)**	(3,381)	(3%)	(2,953)	11%	**(13,397)**	(12,917)	4%
Other operating expenses	**(2,492)**	(2,692)	(7%)	(2,135)	17%	**(9,799)**	(9,829)	(0%)
Administrative expenses	**(5,768)**	(6,073)	(5%)	(5,088)	13%	**(23,196)**	(22,746)	2%
Contribution to the Depositor's and Investors' Guarantee Fund	**(170)**	(154)	10%	(173)	(2%)	**(688)**	(679)	1%
Bank tax	**(389)**	(414)	(6%)	(433)	(10%)	**(1,683)**	(1,588)	6%
Total operating expenses	**(6,327)**	(6,641)	(5%)	(5,694)	11%	**(25,567)**	(25,013)	2%
Net impairment on financial assets	**639**	(1,829)	-	1,757	(64%)	**3,018**	(8,816)	-
Profit before tax	**7,429**	3,586	107%	9,400	(21%)	**27,623**	9,324	196%
Income tax expense	**(1,416)**	(234)	505%	(1,898)	(25%)	**(5,119)**	(2,472)	107%
Profit for the period from continuing operations	**6,013**	3,352	79%	7,502	(20%)	**22,504**	6,852	228%
Discontinued operations held for sale, net of income tax	**1,079**	173	524%	85	1,169%	**1,221**	(97)	-
Profit for the period	**7,092**	3,525	101%	7,587	(7%)	**23,725**	6,755	251%

Key ratios	4Q21	4Q20	3Q21	2021	2020
Net Interest Margin (NIM)	**2.4%**	2.5%	2.4%	**2.4%**	2.6%
Cost-to-income ratio (C/I)	**45.3%**	51.7%	39.4%	**46.2%**	54.3%
Return on Equity (ROE)	**14.2%**	7.6%	15.7%	**12.3%**	3.7%
Cost of risk (COR)	**(0.23%)**	0.73%	(0.64%)	**(0.28%)**	0.91%

Balance sheet reflects balanced loan and funding profile

Broad product offering, strong liquidity portfolio and stable funding

Assets

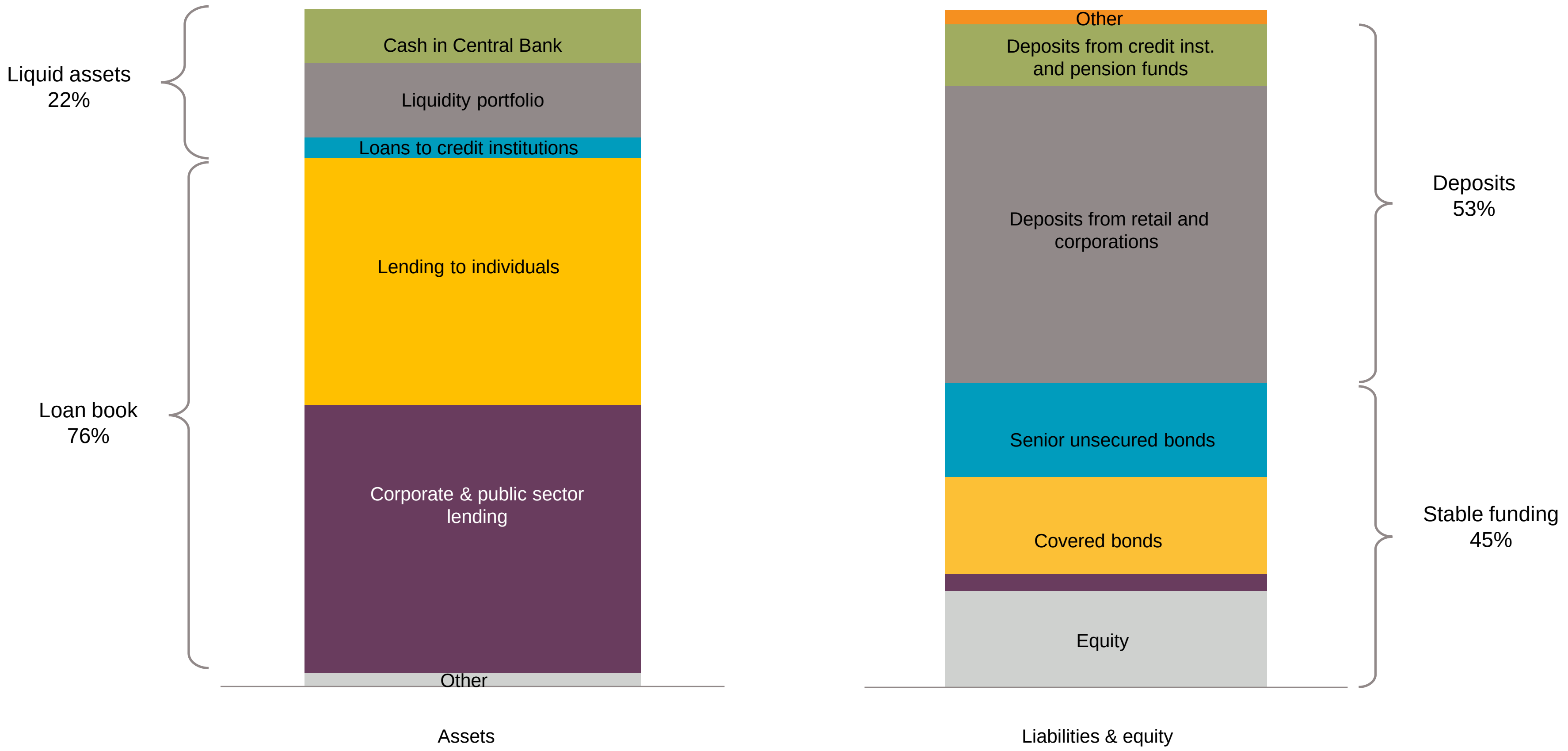
- Vast majority of assets consist of lending to both individuals and corporates
- Strong liquidity portfolio is a consistent factor in balance sheet management
- Very limited exposure to non-liquid or non-lending assets

Liabilities

- Deposits from retail and 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

31.12.2021, ISK 1,429bn



Robust growth in total assets in 2021

Steady mortgage growth supported by an even stronger capital base

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

Key ratios							
Risk Exposure Amount (REA)	**901,646**	917,764	(16,118)	(2%)	933,521	(31,875)	(3%)
Non-performing loans (NPL) ratio[1]	**2.0%**	2.0%			2.9%		
Asset encumbrance ratio	**19.6%**	18.9%			18.7%		

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

Diversified funding base

Deposits are largest source of funding

Liabilities & Equity, ISKm	31.12.21	30.9.21	Δ	Δ%	31.12.20	Δ	Δ%
Deposits from Central Bank and credit institutions	**13,384**	20,409	(7,025)	(34%)	39,758	(26,374)	(66%)
Deposits from customers	**744,036**	754,442	(10,406)	(1%)	679,455	64,581	10%
Derivative instruments and short positions	**9,467**	10,869	(1,402)	(13%)	6,936	2,531	36%
Debt issued and other borrowed funds	**402,226**	397,672	4,554	1%	387,274	14,952	4%
Subordinated loans	**35,762**	36,923	(1,161)	(3%)	27,194	8,568	32%
Tax liabilities	**6,432**	6,256	176	3%	5,450	982	18%
Other liabilities	**12,848**	32,390	(19,542)	(60%)	11,893	955	8%
Non-current liabilities and disposal groups held for sale	**956**	30	926	3,087%	27	929	3,441%
Total Liabilities	**1,225,111**	1,258,991	(33,880)	(3%)	1,157,987	67,124	6%
Total Equity	**203,710**	197,381	6,329	3%	186,204	17,506	9%
Total Liabilities and Equity	**1,428,821**	1,456,372	(27,551)	(2%)	1,344,191	84,630	6%

Key ratios	31.12.21	30.9.21	31.12.20
Customer loans to customer deposits ratio	**146%**	143%	148%
REA/total assets	**63.1%**	63.0%	69.4%
Net stable funding ratio (NSFR)	**122%**	121%	123%
Liquidity coverage ratio (LCR)	**156%**	225%	196%
Total capital ratio	**25.3%**	24.7%	23.0%
Tier 1 capital ratio	**22.5%**	21.8%	20.1%
Leverage ratio	**13.6%**	13.2%	13.6%

6. Appendix II – Icelandic economy update

Economic recovery likely to accelerate as pandemic recedes

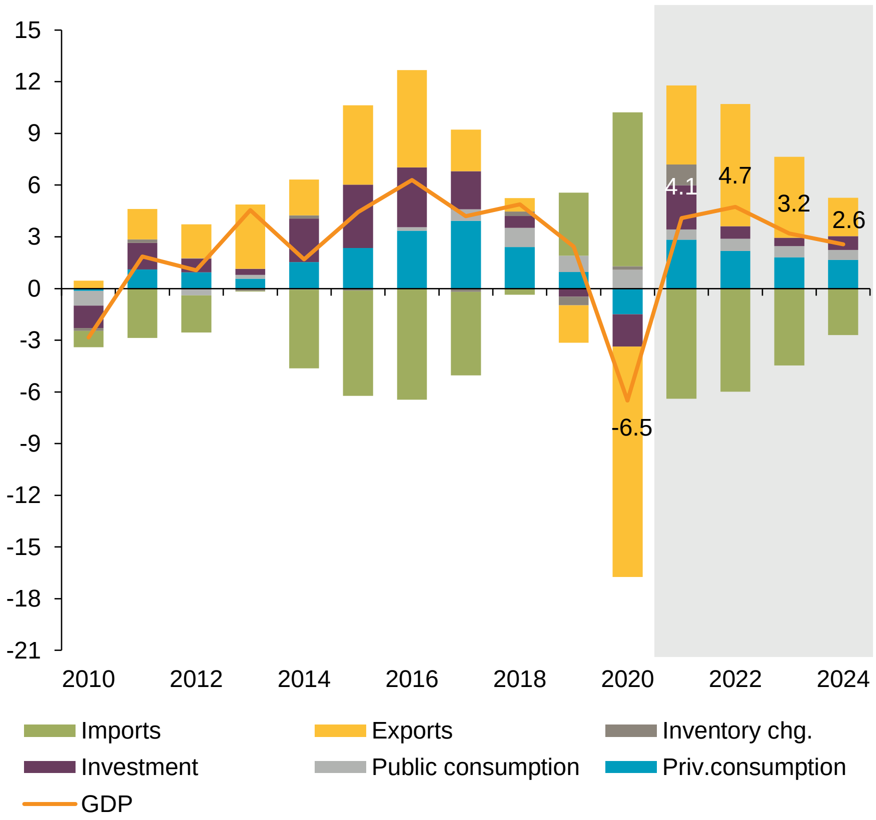
Exports replace domestic demand as the key catalyst of growth

Highlights

- After a deep contraction in 2020, the economic recovery took hold in Iceland in 2021. Year-2021 GDP growth is estimated at 4.1%
- Domestic demand gained considerable traction and, despite a modest current account deficit, exports also rebounded strongly.
- ISB Research forecasts GDP growth at 4.7% in 2022, the fastest growth rate since 2018.
- The surge is due mostly to robust growth in exports, mainly tourism and fishing. Private consumption also fuels GDP growth in 2022, while the share of investment will ease markedly relative to 2021.
- For 2023, 3.2% growth is projected, driven by exports and domestic demand in roughly equal measure.
- For 2024, the final year of the forecast horizon, GDP growth at 2.6% is forecast. By then, export growth will have started to ease significantly, and tighter economic policy and capacity constraints will slow the pace of domestic demand growth.

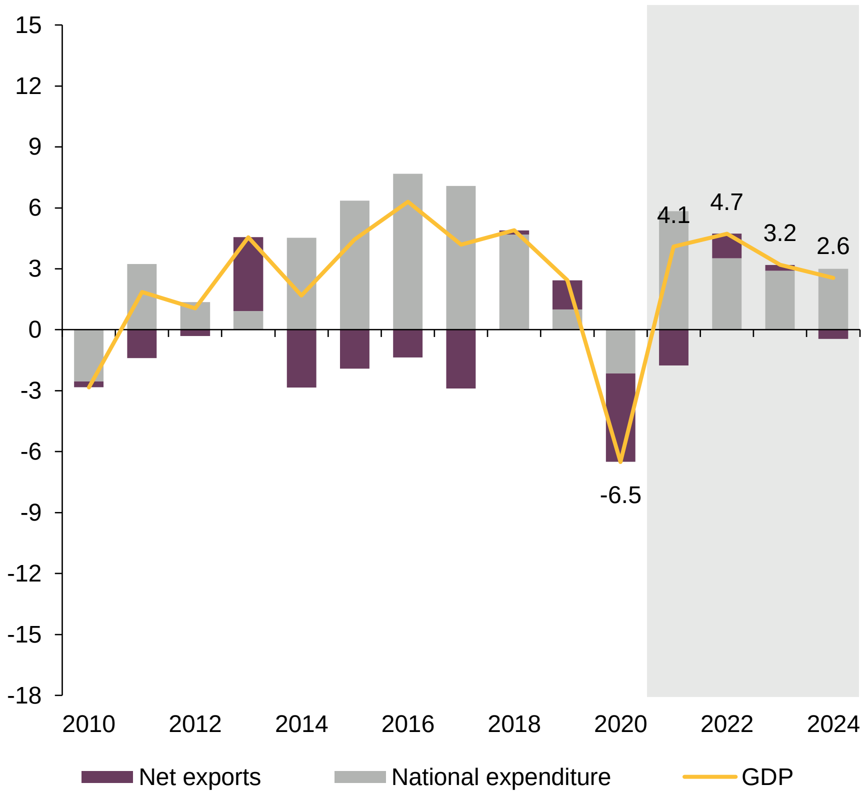
GDP and contribution of its subcomponents

Volume change from prior year, %



GDP, domestic demand, and external trade

Volume change from prior year, %



Sources: Statistics Iceland, ÍSB Research.

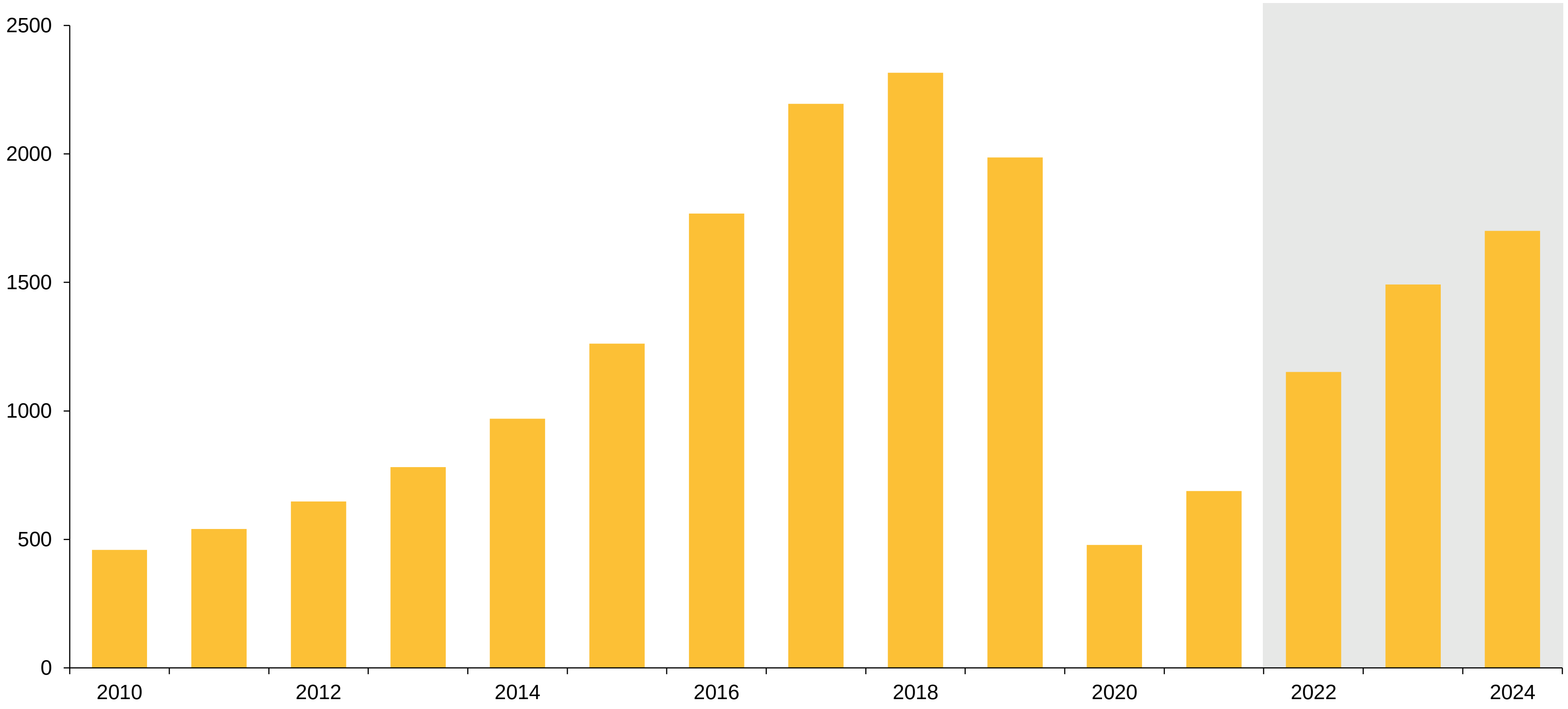
Tourism reloaded

1-1.2 million tourists are projected to visit Iceland in 2022, rising to 1.5 million in 2023

Highlights

- Nearly 700,000 tourists visited Iceland in 2021, an increase of nearly 45% relative to 2020 but still only a third of the 2019 total.
- The short-term outlook for tourism has undeniably worsened with the rise of the Omicron variant in Iceland and elsewhere. Even so, appetite for travel is keen and many seem to view Iceland as a desirable destination.
- Recent survey data as well as booking trends reported by Icelandic travel companies give grounds for cautious optimism from the summer onwards.
- 1.1-1.2 million tourist arrivals are expected this year. This would be close to 2015 numbers, albeit more than 40% less than in 2019.
- Tourist numbers are expected to rise to 1.5 million in 2023 and 1.7 million in 2024.
- Even though the pandemic has upended tourism in the past two years, those who visited Iceland in 2021 generally stayed longer and spent more than pre-pandemic travellers did. A continuation of this trend would provide a further boost for the sector.

Number of foreign tourists, by year
Thousands



Sources: Icelandic Tourist Board, ÍSB Research.

Current account surplus in the offing after a temporary deficit

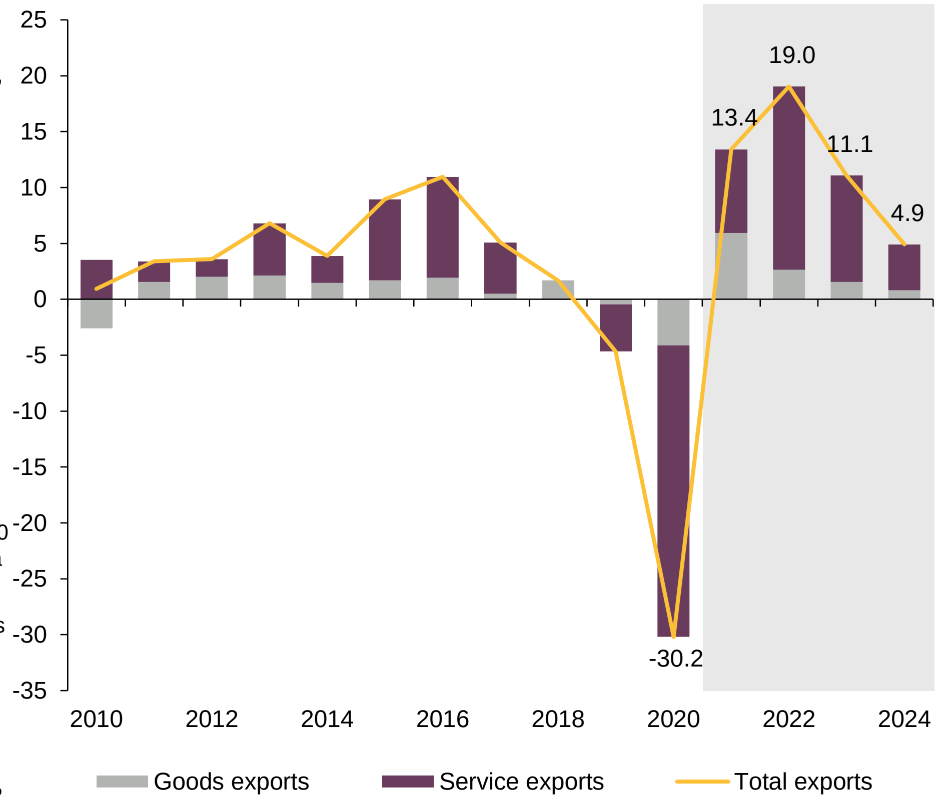
The recovery of tourism and growth in other exports explain the improvement in external trade

Highlights

- Tourism, plus exports of intellectual property and other services, is the main driver of the 19% export growth expected for this year.
- Added to this is modest growth in goods exports, with booming capelin, farmed fish, and silicon metals exports offset by a contraction in exports of aluminium and groundfish, particularly cod.
- Increased tourist arrivals will deliver the lion's share of the forecasted 11% export growth in 2023 and scant 5% growth in 2024. Furthermore, the outlook is for stronger exports of farmed fish, aluminium and other industrial goods, and increasingly, intellectual property usage as well.
- Imports are likely to grow by 11% in 2022 as rapid growth in exports calls for more inputs, and growing domestic demand requires more imports.
- Domestic demand recovered from the 2020 contraction before exports did, leading to a modest current account deficit in 2021.
- However, vastly increased export revenues will quickly offset growth in import-related expense, as export growth gains pace in tandem with slower growth in domestic demand.
- ISB Research forecasts that the current account surplus will measure 1.8% of GDP in 2022 and just over 3% in both 2023 and 2024.

Exports and contribution from subcomponents

% change



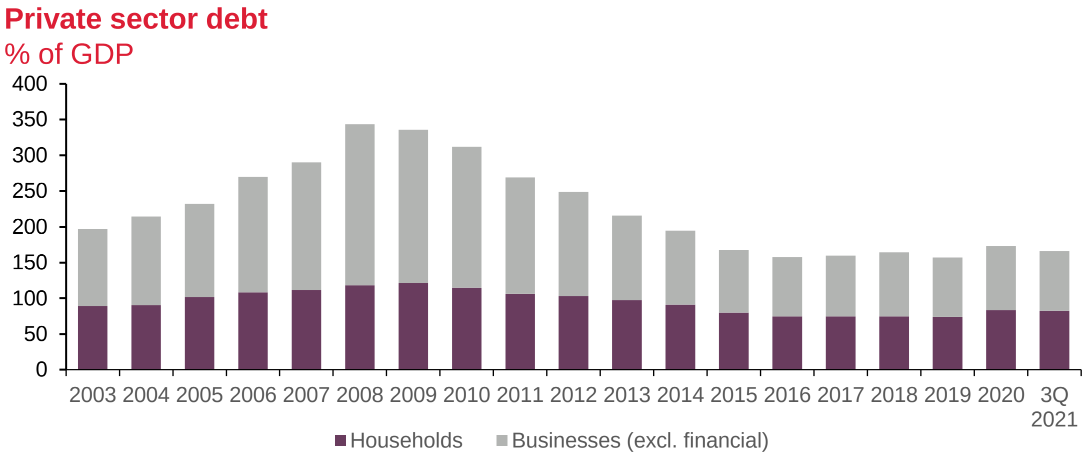
Current account balance and GDP growth

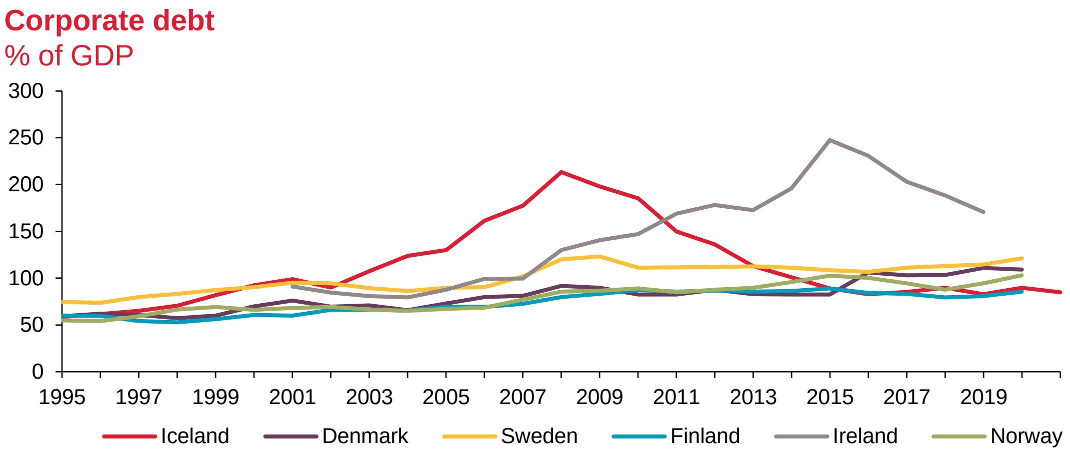
% of GDP and % change YoY

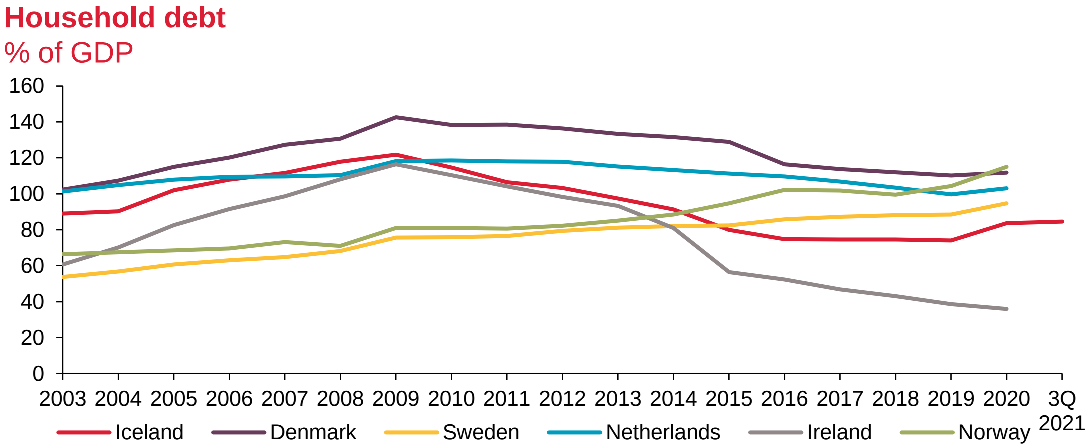
Source: Statistics Iceland, The Central Bank of Iceland, ISB Research

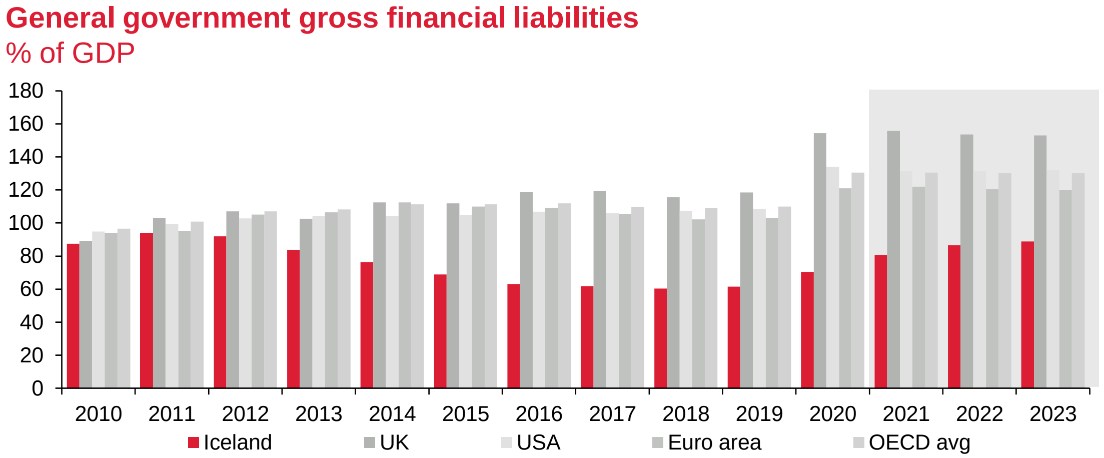
Domestic balance sheets still healthy despite COVID-19

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









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

Moderate investment growth following a spike in 2021

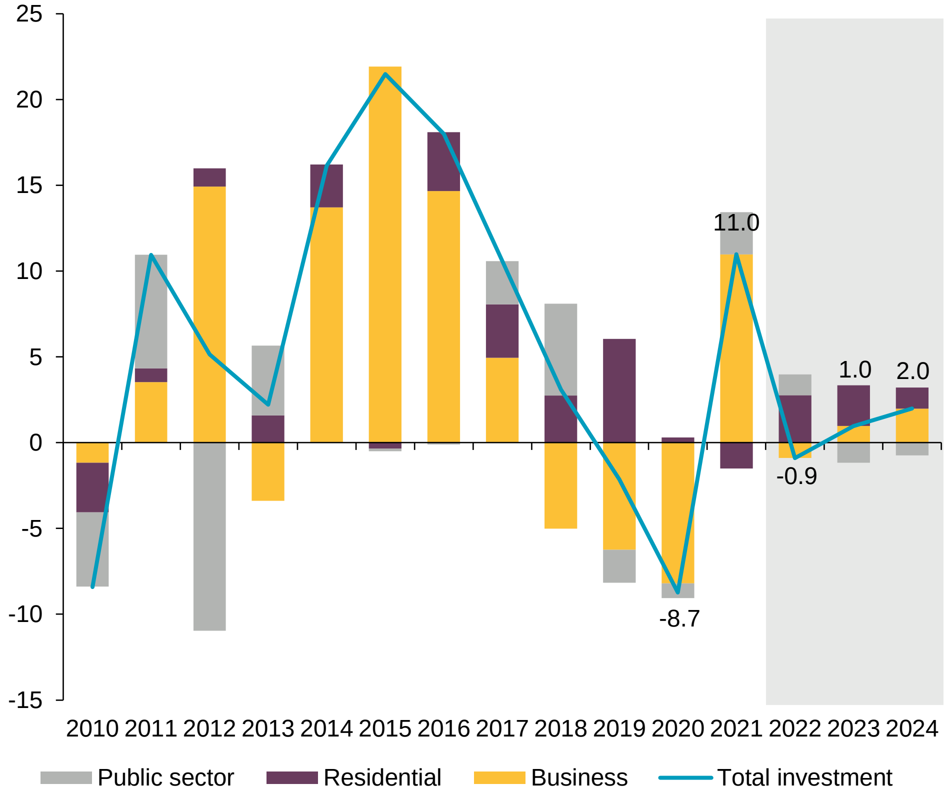
Residential investment to gain steam, while public investment will contract further ahead

Highlights

- After a two-year contraction, investment spiked in 2021, increasing by an estimated 12% which is the fastest growth rate in five years.
- The growth was fuelled in particular by nearly 20% growth in business investment just over 14% in public investment, whereas residential investment contracted.
- For 2022, the outlook is for residential investment to finally rebound after last year's contraction as flats in early stages of construction have increased markedly in number and demand for new homes is strong.
- Furthermore, public investment will gain momentum this year, although business investment looks set to contract slightly.
- In 2023, however, household and business investment will be the main driver of growth, and public investment will contract year-on-year.
- ISB Research forecasts that total investment will grow by 3.1% in 2022, 2% in 2023, and 3.5% in 2024. The investment level in the economy will therefore be relatively stable, and rather high in historical context.

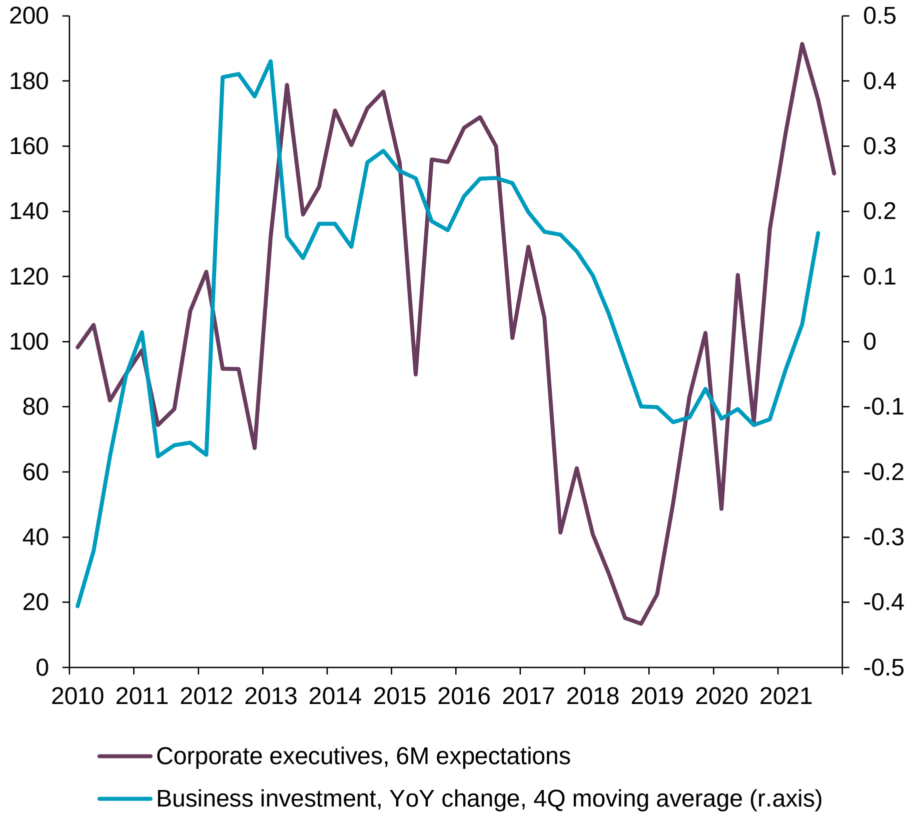
Investment, real change, and contribution of subcomponents

%



Executives' expectations and business investment

Index value (left) and % change year-on-year (right)



Source: Statistics Iceland, Gallup

Unemployment converging to a new equilibrium

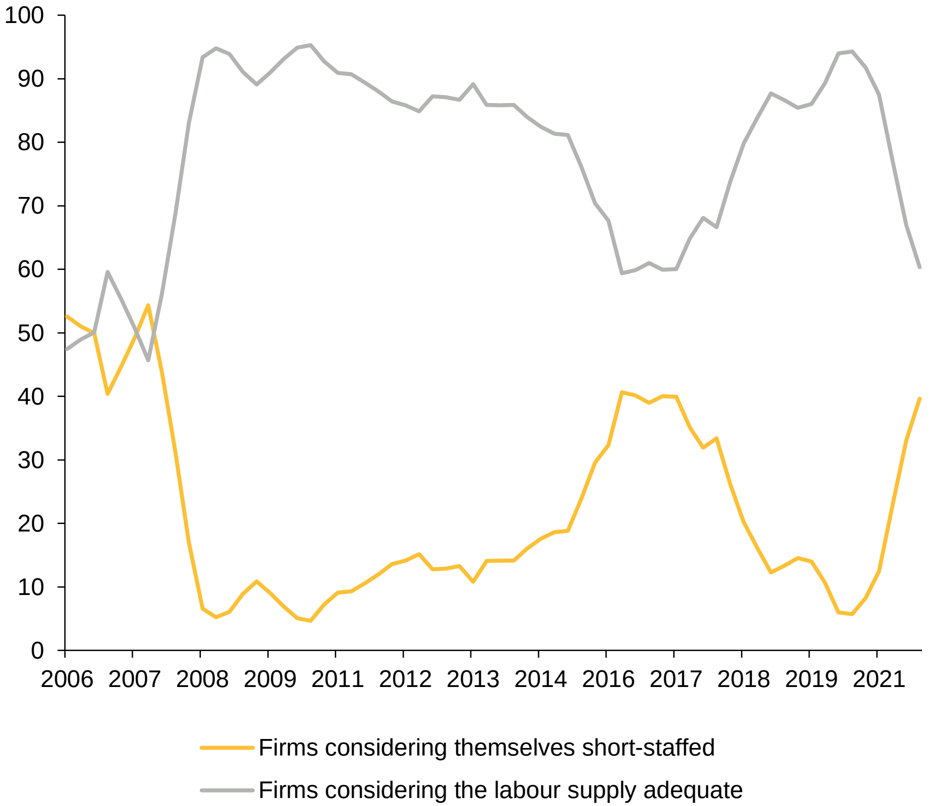
The relatively swift economic recovery has caused a rapid decline in unemployment

Highlights

- Unemployment fell rapidly in 2021, from 11.6% of the labour force at the start of the year to 4.9% by year-end.
- The relatively swift economic recovery in 2021 has fostered job growth and the decline in unemployment is expected to continue in 2022, albeit more slowly than last year.
- ISB Research forecasts average year-2022 unemployment at 4.5%.
- According to a recent Gallup survey, nearly 40% of company executives consider themselves short-staffed.
- Construction and tourism companies in particular envision adding on staff in 1H 2022. As foreign workers have been prominent in these sectors, labour importation is likely to increase markedly this year.
- Unemployment seems likely to fall to a new equilibrium in the coming term, averaging 3.7% in 2023 and 3.6% in 2024. This is roughly the level seen in 2019.

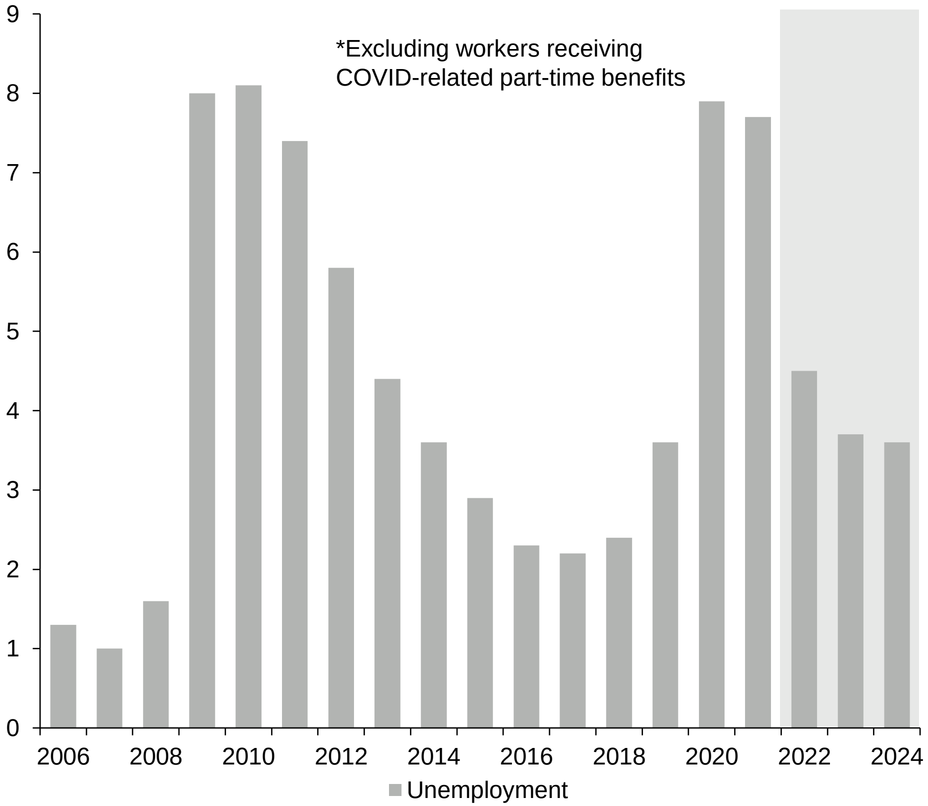
Labour supply according to corporate executives

%



Unemployment*

% of workforce, annual average



Further private consumption growth ahead after robust 2021

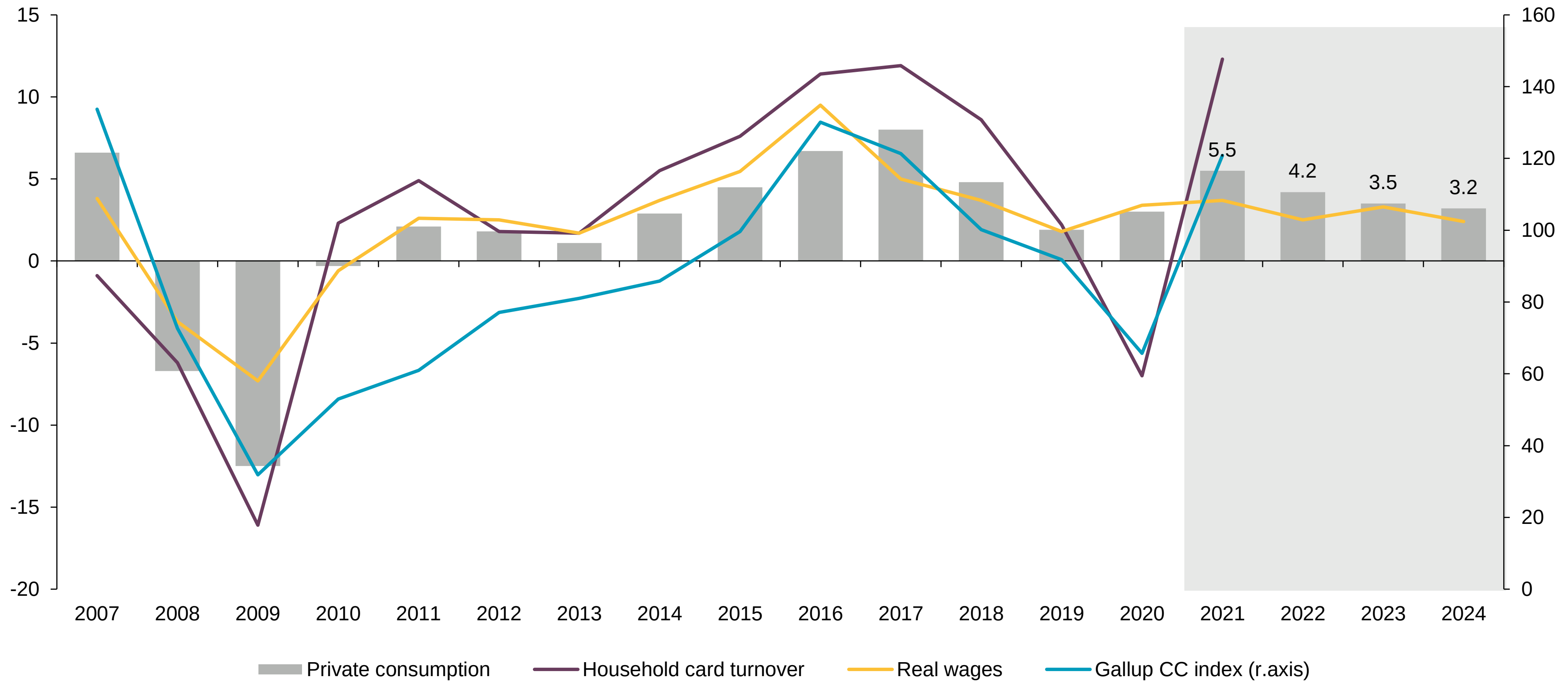
Household consumption supported by continued real wage growth and sound asset position

Highlights

- Following 3.0% contraction in 2020, domestic demand gained strongly in 2021. In the first nine months of the year, private consumption grew 5.4%, and many indicators imply a similar growth rate for 2021 as a whole.
- Relevant indicators, such as card turnover, real wage growth and the Gallup consumer confidence index, all suggest that robust growth is in the offing.
- Real wages grew by an average of 3.7% in 2021, despite high inflation
- Real wages are expected to keep rising in the near term, by 2.5% in 2022, 3.3% in 2023, and 2.4% in 2024.
- Private consumption is an important factor in Iceland's GDP growth, accounting for over 50% of GDP.
- ISB Research expects appetite for consumption to remain strong, and growth will continue over the forecast horizon, although the peace will ease gradually.
- Private consumption growth is forecast at 4.2% in 2022, 3.5% in 2023, and 3.2% in 2024.

Private consumption and related indicators

% change year-on-year (left) and index value (right)



Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

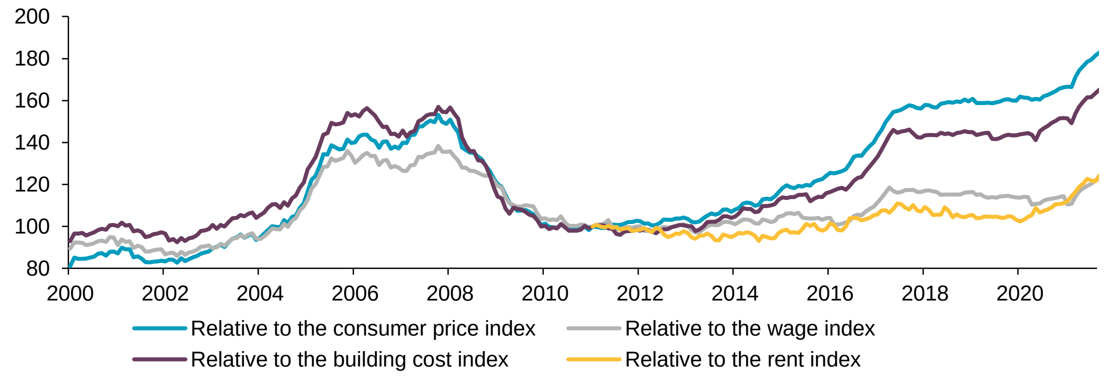
10 February 2022

Real estate markets lively despite pandemic

Commercial property prices rising again while residential house price rises have gained steam

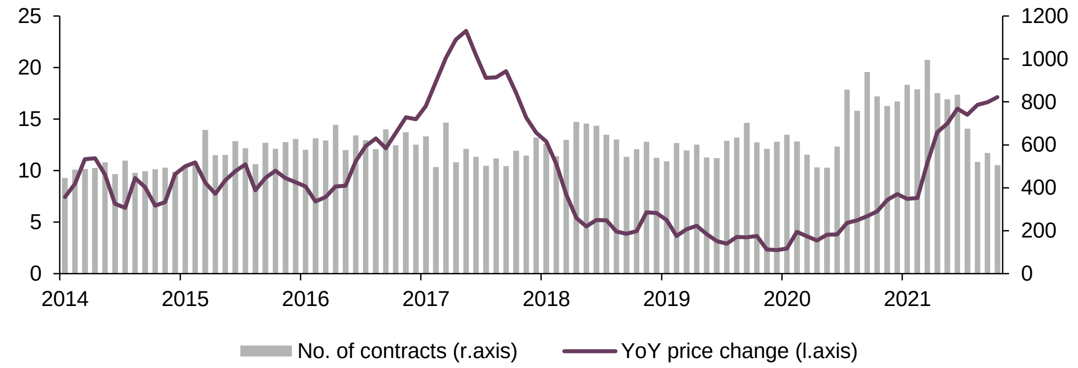
Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



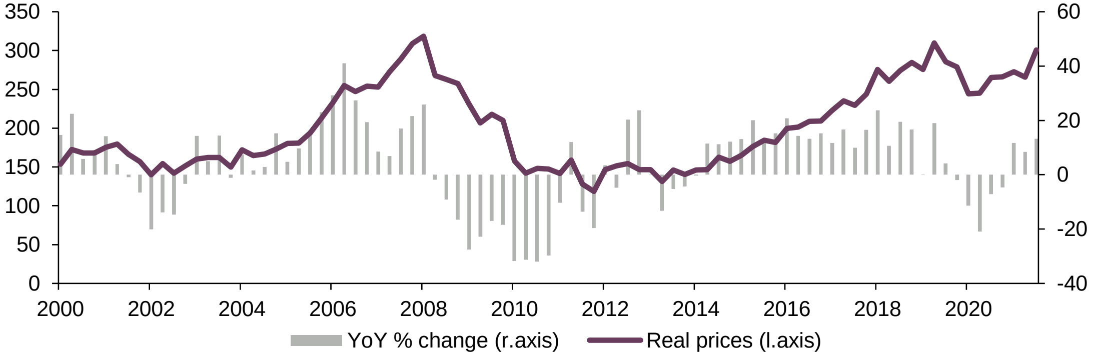
Residential house prices and turnover in greater Reykjavik

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



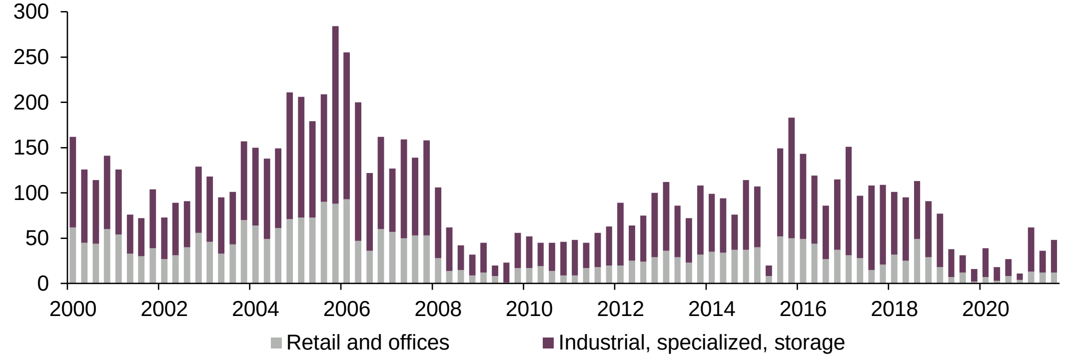
Commercial property real prices in greater Reykjavik

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 set to appreciate further with growth in export revenues

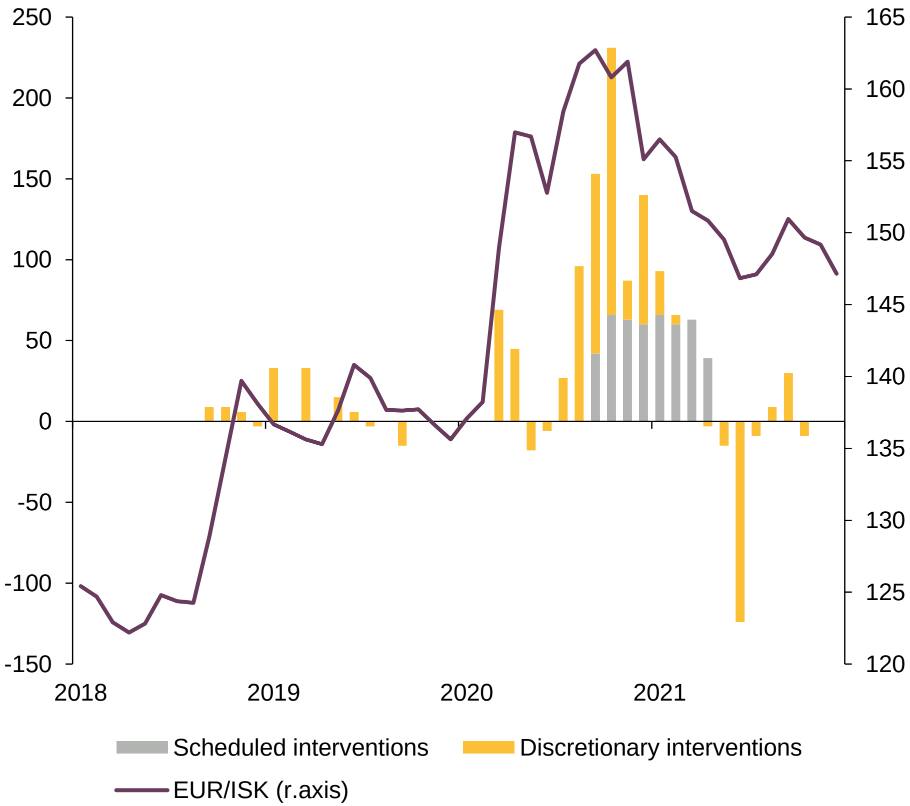
The ISK has been stable recently, and the CBI has suspended intervention

Highlights

- The ISK appreciated by nearly 3% in 2021, with all of the strengthening occurring in H1, while in H2 it fluctuated within a relatively narrow range.
- The CBI steadily scaled down its FX market intervention over the course of the year, and in Q4/2021 it hardly traded in the market at all.
- ISB Research expects the ISK to strengthen again, although the appreciation may well be delayed somewhat in the months to come.
- Improving C/A balance outlook, rising interest rates, Iceland's strong IIP, solid growth outlook and limited non-residents' securities holdings all weigh in favour of stronger ISK
- Increasing foreign investment by pension funds and possible CBI FX reserve purchases may weigh against ISK strengthening
- Although the high uncertainty inherent in exchange rate forecasts should be noted, the forecast assumes that the ISK exchange rate will be 8-9% stronger by the end of the forecast horizon than it was at the beginning of 2022.
- The real exchange rate in terms of relative consumer prices will then be similar to that in 2018.

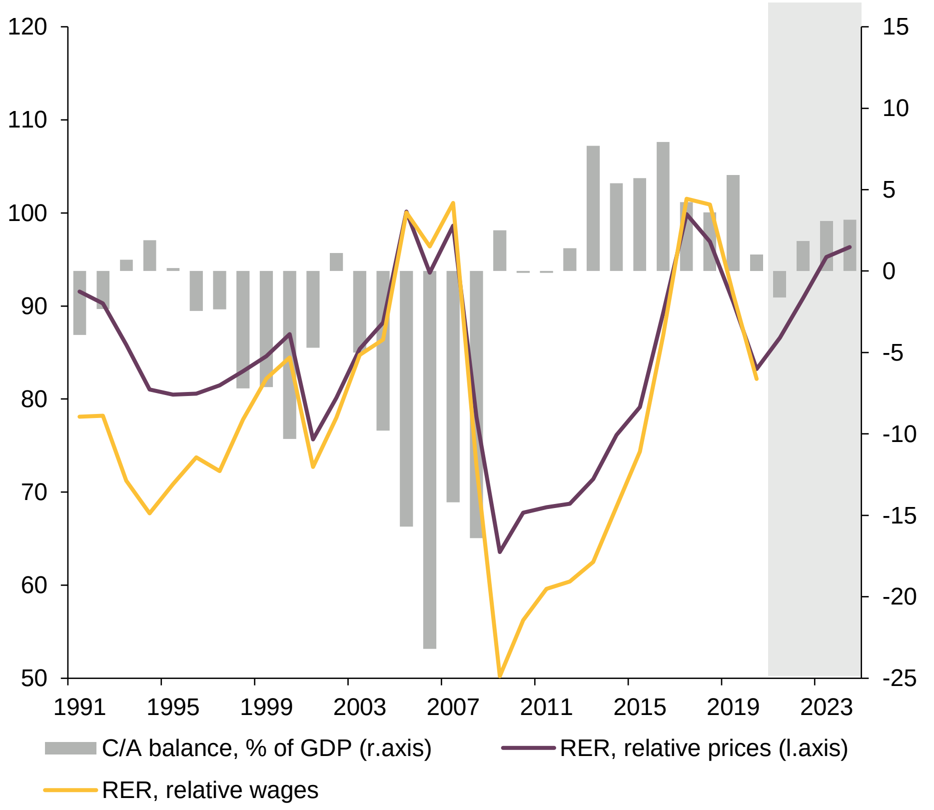
ISK exchange rate and CBI FX market intervention

EUR m (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP



Source: Statistics Iceland, The Central Bank of Iceland, ISB Rsearch

Inflation to decrease gradually over 2022

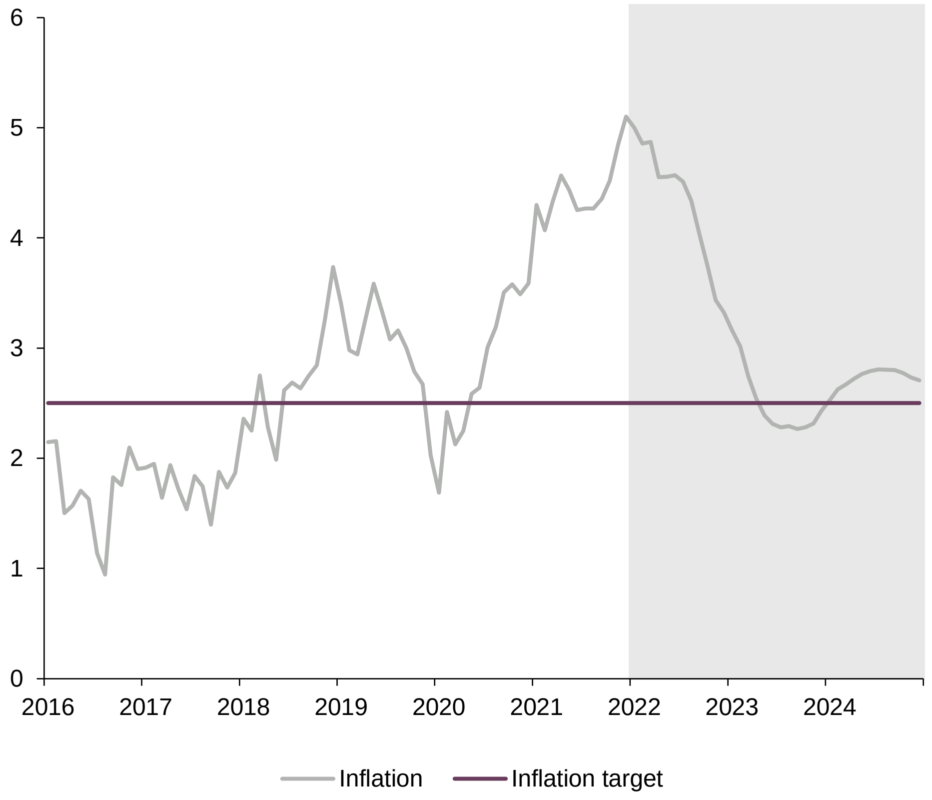
Inflation likely to reach the target in H1/2023

Highlights

- 2021 was Iceland's biggest inflation year since 2012, with prices rising by an average of 4.4%. Inflation peaked at 5.1% in December.
- Strong domestic demand, which (among other things) pushed house prices upwards, played a major role. Furthermore, foreign prices have risen markedly and shipping costs have soared because of pandemic-induced supply-chain bottlenecks abroad.
- The rise in inflation is broadly in line with trends in most Western countries during the pandemic. In the OECD, for instance, inflation averaged 5.8% in November 2021.
- The outlook is for inflation to ease steadily in 2022, averaging 4.3% in the year as a whole. It will align with the CBI's 2.5% target in H1/2023, according to ISB Research's forecast. Inflation is expected to average 2.5% in 2023 and 2.7% in 2024.
- The forecast rests on assumptions of ISK appreciation, moderating house price inflation, and a relatively favourable outcome from upcoming wage negotiations in Q4, along with supply-chain problems abating as 2022 progresses.

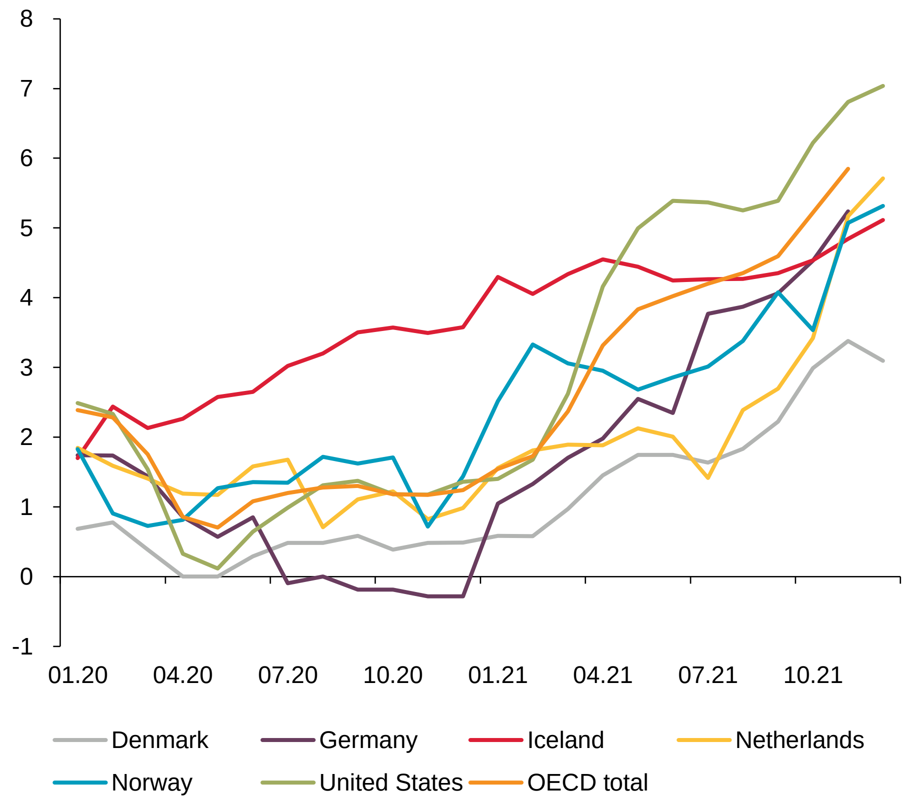
Inflation and the CBI inflation target

%



Headline inflation, by country

%



Source: Statistics Iceland, ISB Research, OECD

Policy rate to keep rising in the next two years

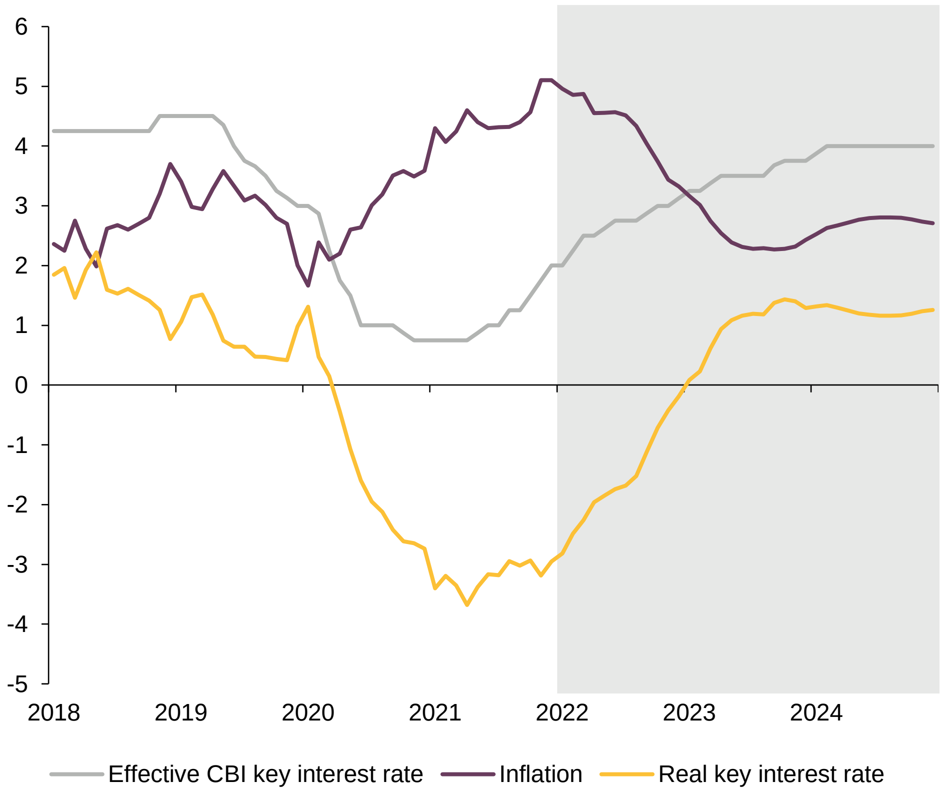
Long-term interest rates approaching equilibrium within the forecast horizon

Highlights

- Reacting to deteriorating inflation outlook and recovering economy, Central Bank of Iceland started a rate hike process in May 2021, hiking rates a total of 1.25% by year-end.
- The policy rate is now 2.75%.
- ISB Research forecasts that the policy rate will keep rising, reaching 3.25% this year. A somewhat slower increase is expected thereafter.
- By the beginning of 2024, the policy rate is expected to be up to 4.0%, which is close to its estimated equilibrium level.
- Yield curves in the market suggest that a sizeable policy rate hike has already been priced into long-term rates.
- Long-term base rates are now 4.3%, and real rates are around 0.7%. Long-term nominal interest rates have risen steeply in the past year, yet real rates are broadly unchanged despite some fluctuation.
- Assuming that the policy rate does not rise much above 4% during the forecast horizon, the rise in long-term rates is expected to be modest.
- By 2024, long-term benchmark yields are expected to be close to 4.5% for nominal rates and somewhere near 1.3% for the real rate.

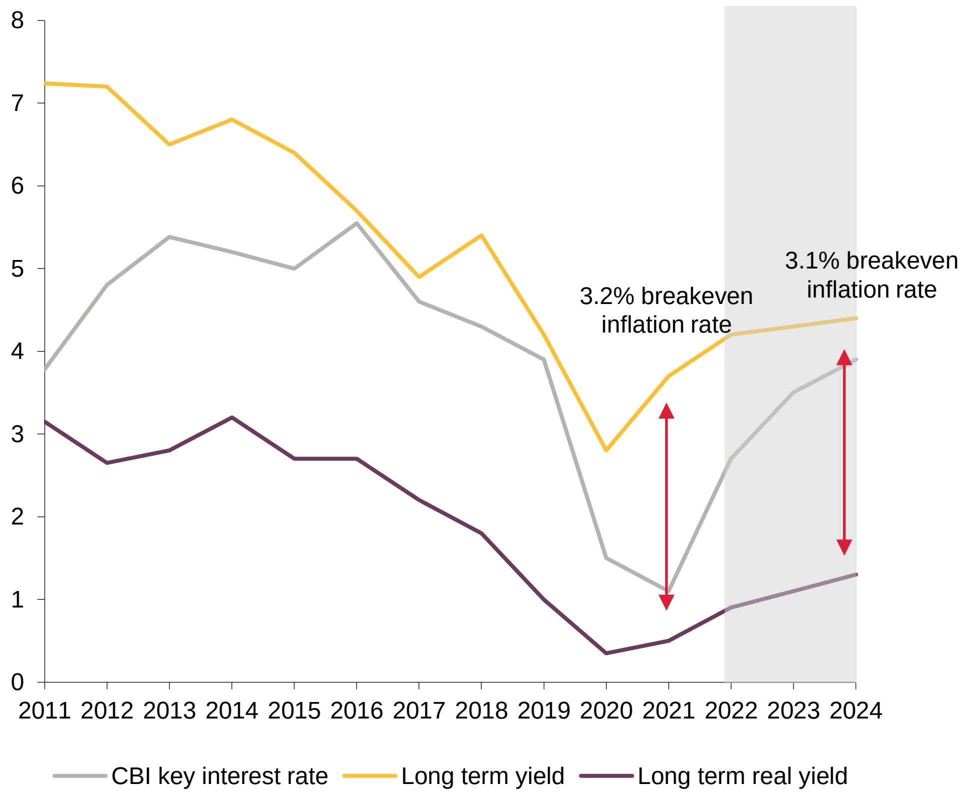
Policy rate and inflation

%



Interest rates

%

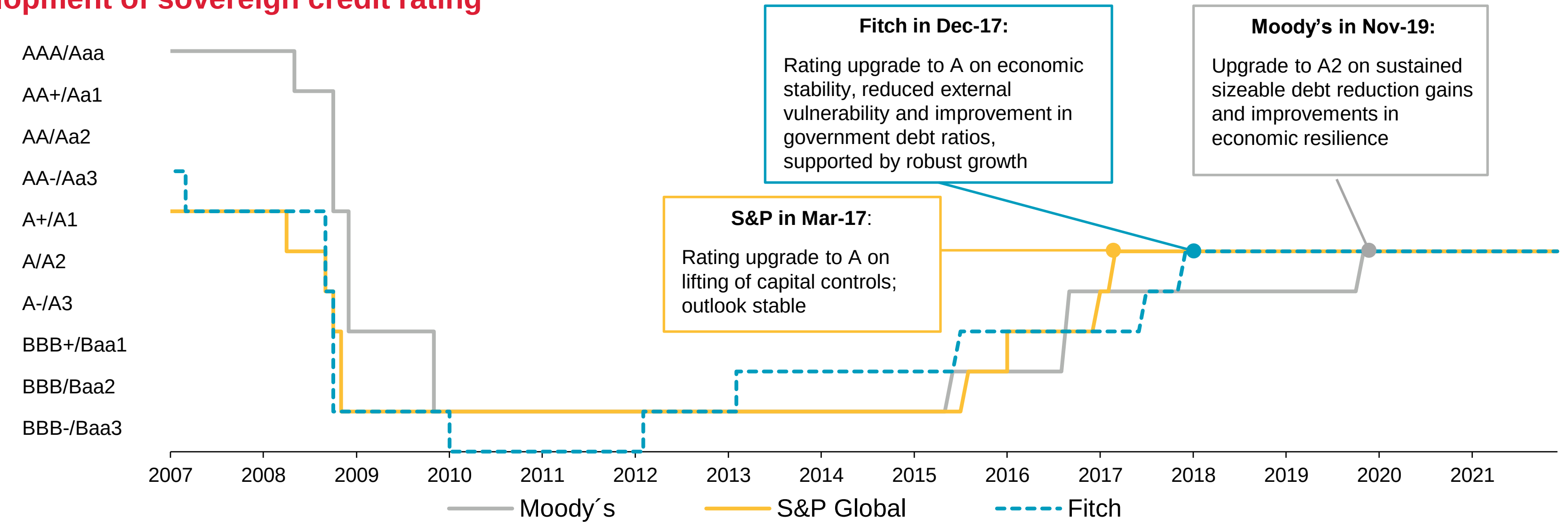


Sources: Central Bank of Iceland, Kodiak, Statistics Iceland, ÍSB Research.

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 AUGUST 2021

- “Iceland's credit strengths include the economy's flexibility, wealth, competitiveness and favourable demographics, all of which support its long-term growth prospects and help it to absorb shocks.”
- “In our baseline scenario we expect the recovery to gather pace into next year, helped by the authorities' strong and swift policy action, high wealth buffers and stronger-than-expected resilience of Iceland's other key industries.

FITCH IN SEPTEMBER 2021

- Rating affirmed at A with a negative outlook
- “Iceland’s ‘A' rating is driven by its very high income per capita, very strong governance, human development and doing business indicators that are more consistent with those of 'AAA' and 'AA' rated countries”
- “The Negative Outlook reflects the uncertainty around the path of the public finances following the Covid-19 shock, which has left the public debt ratio substantially higher than pre-pandemic, and at risk of rising further over the medium term.”

S&P IN NOVEMBER 2021

- “The economic recovery has been stronger than S&P Global Ratings expected”
- “Despite risks to the tourism recovery, we believe the medium-term growth trajectory will be strong, and supported by a public investment program.”
- “Iceland's stable institutional framework and effective policymaking also support the ratings.”

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

Disclaimer

This presentation is for information purposes only and shall not be construed as an offer or solicitation for the subscription or purchase or sale of any financial instrument.

All information contained in this presentation should be regarded as preliminary and based on company data available. The information set out in this presentation has not been independently verified. 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.

No representation or warranty is made by Íslandsbanki as to the accuracy, completeness or fairness of the information or opinions contained in this presentation. 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 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 and accepts no liability whatsoever for any direct or indirect loss, howsoever arising, from use of this presentation.

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.

10 February 2022

islandsbanki.is