1Q24 Financial Results

2 May 2024

Jón Guðni Ómarsson
Chief Executive Officer

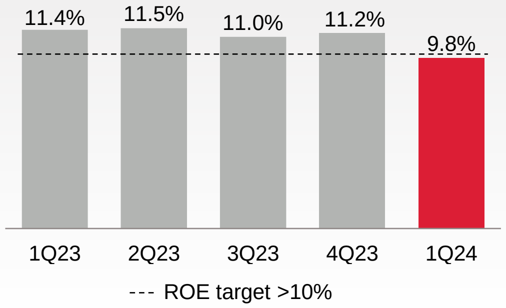
Ellert Hlöðversson
Chief Financial Officer

Total operating income in 1Q24 ahead of consensus

Fixed rate imbalance, among other effects NII year on year

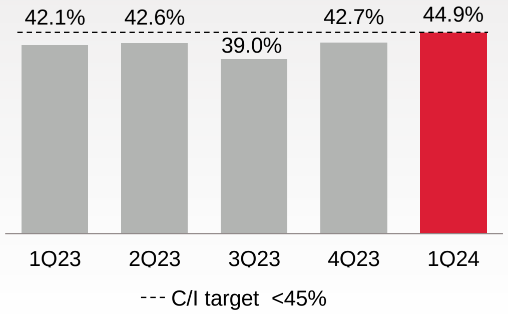
ROE at 2024 guidance

ROE



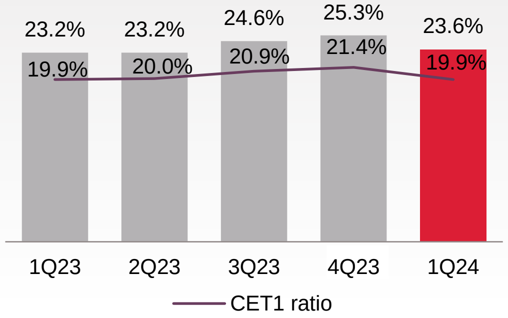
C/I ratio within guidance

C/I ratio[1]



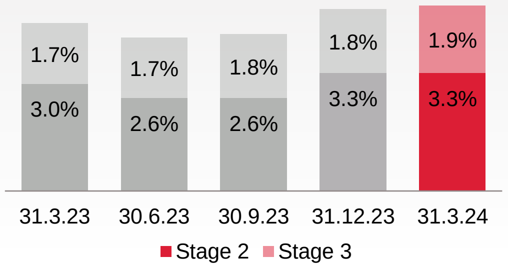
Capital position in excess of requirements

Total capital ratio



Asset quality continues to be strong

Loans to customers: Stage 2 and 3 (NPL)



1. C/I ratio in 2Q23 excluded a charge of ISK 860m due to an administrative fine.

Capital optimisation a focus point for the next 24 months

Financial results reached or close to targets in 1Q24

	Target	1Q24
Return on equity	>10%	9.8%
Cost-to-income ratio	<45%	44.9%
CET1 excess	100-300bp	420bp
Dividend-payout-ratio	50%	

2024 Guidance

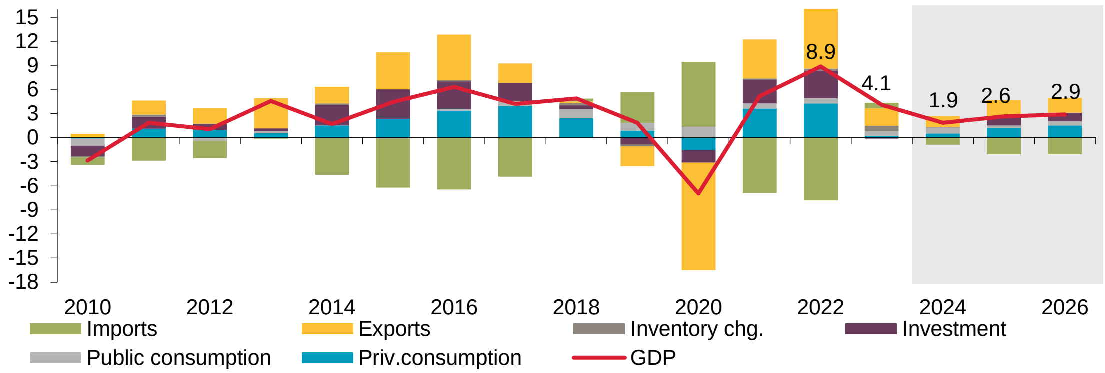
- Loans to customers and revenues, in general **to grow** in line with nominal GDP through the business cycle
- **ROE in 2024** expected to be ~10%, assuming normalised through-the-cycle-impairment levels at around 25bp
- **C/I ratio** expected to be below 45%. Inflationary pressure on cost base partly offset by high interest rates environment
- Dividend policy assumes **50% of earnings** to be paid to shareholders
- Distribution of excess CET1 capital in the amount of **ISK 10bn** throughout 2024 through share buybacks
- Capital optimisation to be concluded before YE25, subject to market conditions

From cascade to calm: Iceland’s economy crests the rapids

Tepid GDP growth in 2024, followed by steadily accelerating growth later on

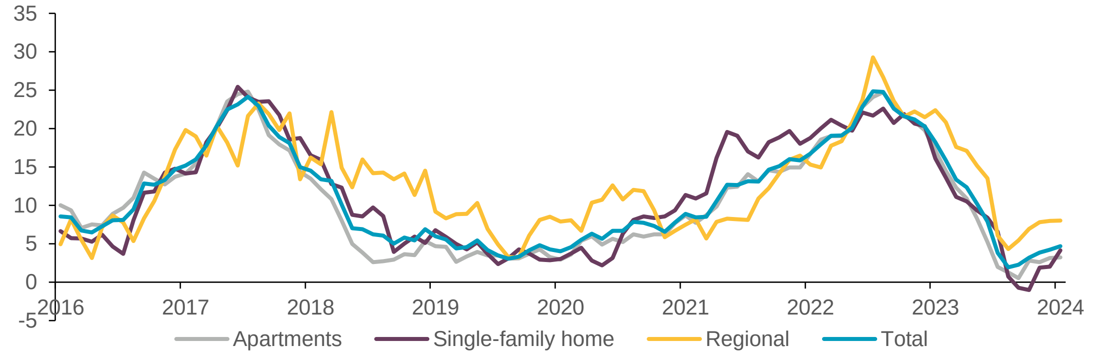
Domestic demand to take over gradually from exports as growth revives..

Real GDP and main subitems, YoY change, %



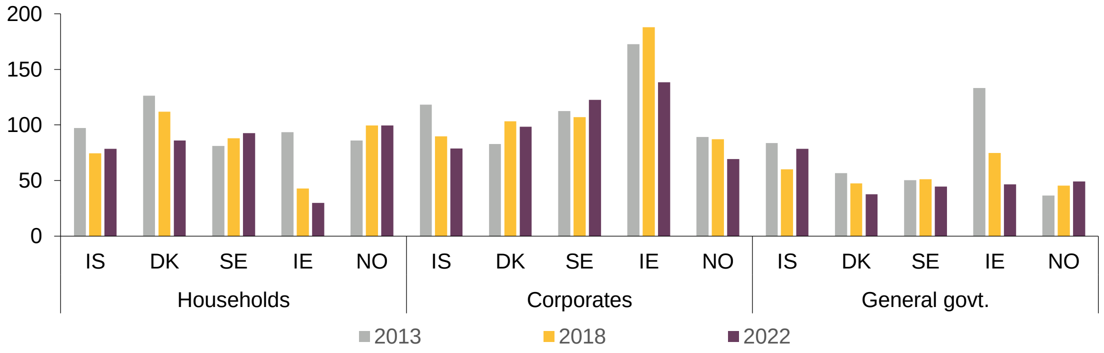
..and housing market appears more stable as price surge subsides

Year-on-year increase in residential house prices



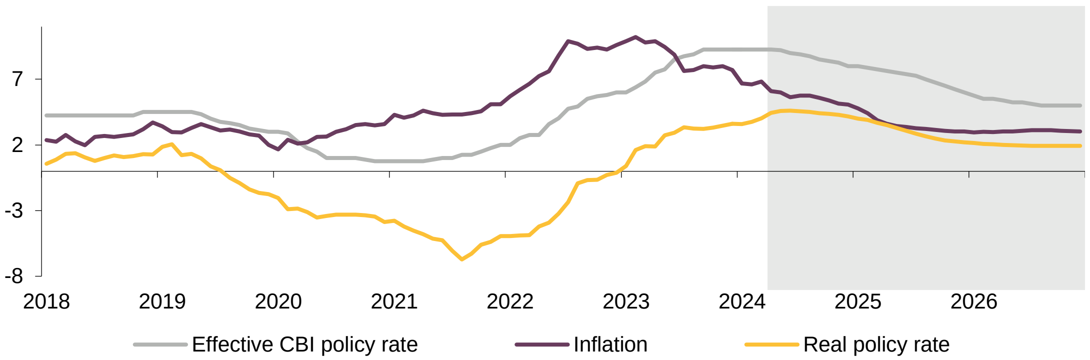
Moderate economy-wide leverage increases resilience to possible headwinds..

Gross debt of main economic sectors as % of GDP, Nordics and Ireland



...while tighter monetary policy is increasingly impacting demand and inflation

Inflation and policy rate,% Real policy rate based on expected forward inflation



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

Rating upgrade

BBB+/A-2

S&P Global

89% of key products in Personal Banking are sold via digital channels

Íslandsbanki's chatbot **Fróði nominated** for two international awards

Continued commitment to **strengthen regulatory infrastructure** and **overall governance**

Íslandsbanki 1Q24

Highest turnover in equities on Nasdaq Iceland

Development of an **internal Generative AI chatbot** (in BETA) ongoing

Renewed focus on financial health

FINANCIAL · EMOTIONAL · PHYSICAL
100% Health

Íslandsbanki **Corporate Finance** working for Íslandshótel, a leading local hotel chain, and its shareholders, relating to an intended listing on **Nasdaq Iceland**

Strong market position amongst SME's with 39% market share[1]

1. Average market share from Gallup's last four corporate surveys, the most recent one conducted in 1Q24.

Íslandsbanki

Infrastructure projects

Significant accumulated investment need

- Road system
- Airports
- Energy transition
- Critical infrastructure
- Telecommunication infrastructure

Complex projects that require multi-layered involvement with extensive know-how

- Corporate finance
- Funding
- FX, hedging and swaps
- Bond issuance/refinancing

Íslandsbanki has developed strong relationship with key international players in the infrastructure space

... and aims to be a force for good in this field

Creating value for the future

Urban development at Kirkjusandur

Landmark development close to Reykjavík city centre

Plot of the Bank's former headquarters **to be developed into mixed area** of residential housing with commercial spaces

In brief:

- **Total size** of building plot: 26,133 m^2
- **Number of apartments**: 225-240
- **Four building plots** with both residential housing and commercial spaces
- Both **underground** and **above ground** parking

Popular location **within walking distance** to Reykjavík city centre

Íslandsbanki focuses on financial health…

Wealth creation by supporting good financial habits in a digital way

FINANCIAL • EMOTIONAL • PHYSICAL • 100% Health

Our digital development supports financial health in various ways

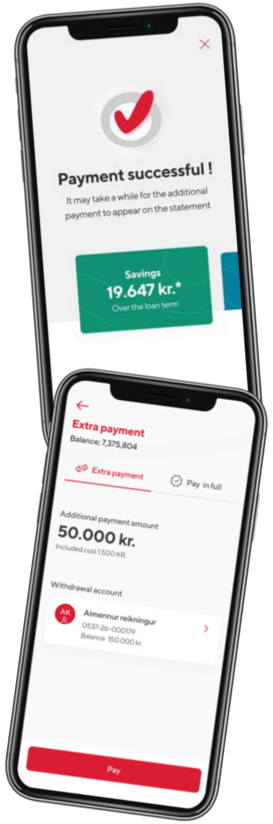
- Easily accessible information through digital channels informs our customers
- Solutions to help customers during financial hardships
- By safeguarding our customers' financial health
- Offering solutions that promote and support good financial habits

Financial literacy is key!

- Íslandsbanki is a leading force in offering financial education promoting financial literacy
- Efforts made to limit risk of fraud through raising awareness and education
- Íslandsbanki website as a gateway to easily accessible information promoting financial health

Recent digital updates include

- Loan prepayment enabled in app
- Increased automation of Corporate and Business Banking onboarding
- Digital enablement of mortgage refinancing relating to rate overhang
- Card management for debit cards in app



…while also promoting other aspects of health

Physical health and emotional wellbeing is fundamental

Physical health

- Íslandsbanki Reykjavík Marathon – held for the 40th time this summer
- Annually the biggest charitable event in Iceland
- Great turnout from employees and stakeholders

Emotional wellbeing within the Bank

- At the core of the Bank‘s human resource policies
- Working environment that promotes growth
- Numerous ways of promoting emotional wellbeing of employees

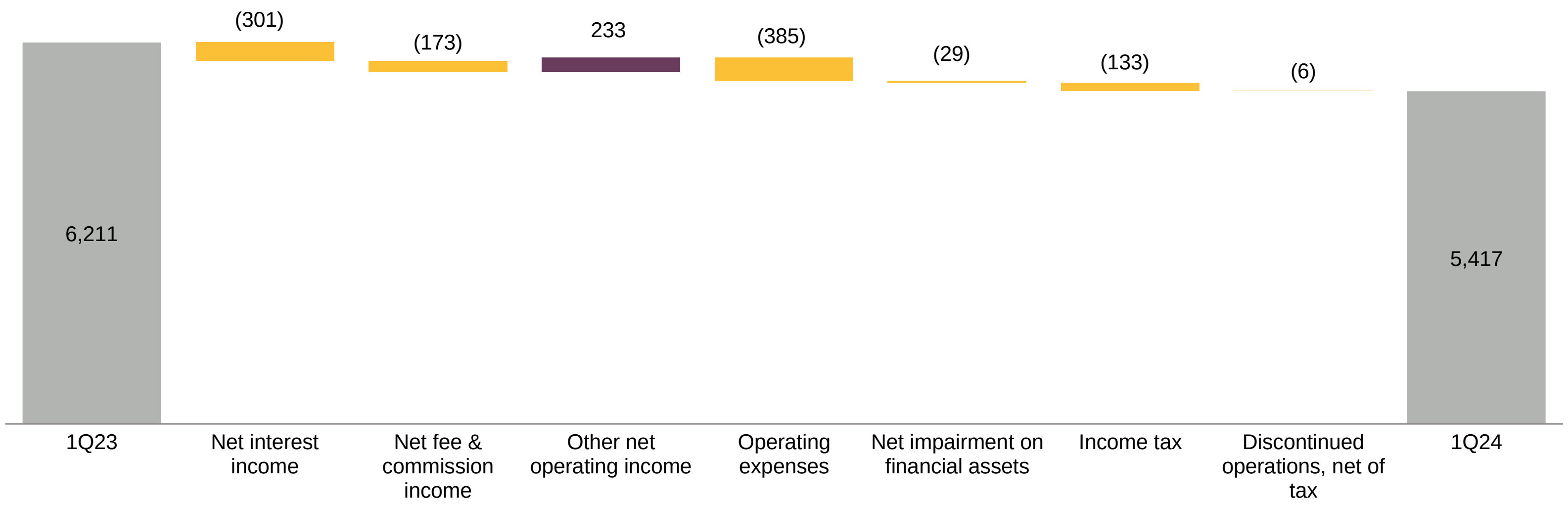
Financial overview

2 May 2024

Slight reduction in operating income year on year

Operations impacted by CPI imbalance and fixed rated imbalance within the banking book

Profit for the period – 1Q23 vs 1Q24
ISKm



Growth in interest income and margin from previous quarter

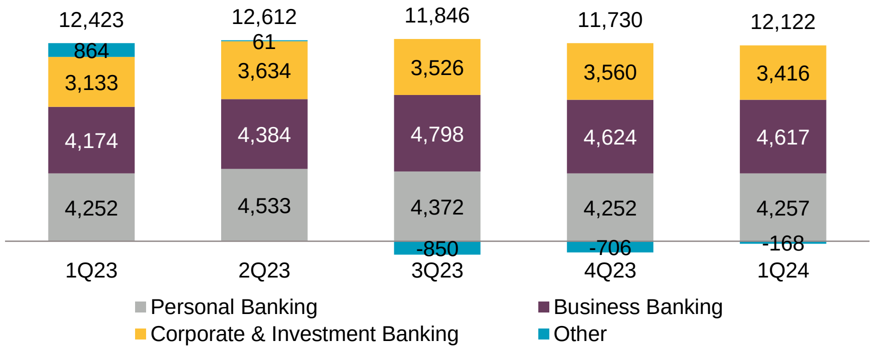
Central Bank policy rates unchanged during period

Highlights

- Lending margin was 1.7% in 1Q24 (1.8% in 1Q23)
- Deposit margin was 1.9% in 1Q24 (2.2% in 1Q23)
- Net interest margin was 3.0% in 1Q24 (3.2% in 1Q23)
- Average CB policy rate rose from 6.4% in 1Q23 to 9.25% in 1Q24
- CPI and fixed rate imbalance within the banking book continue to have adverse effect on NII
- Increased Central bank reserve requirements from 1% to 2%, announced in May 2023 and took effect in June same year have an adverse effect on year-to-year comparison

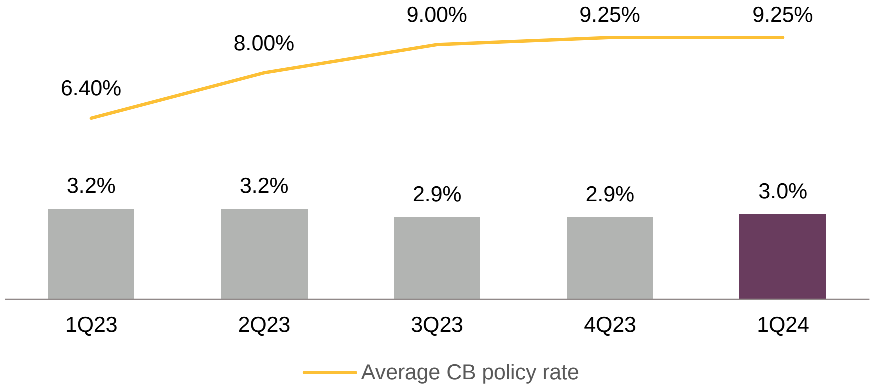
Net interest income

By business segments, ISKm



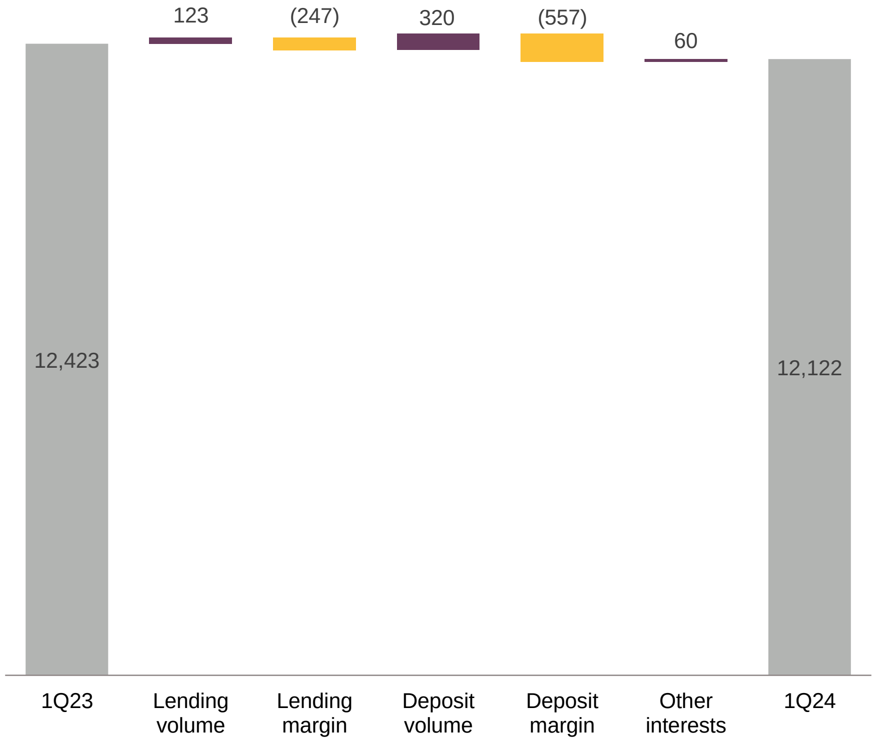
Net interest margin

On total assets



Net interest income – YoY comparison

ISKm



Strong fee income from cards and payment processing

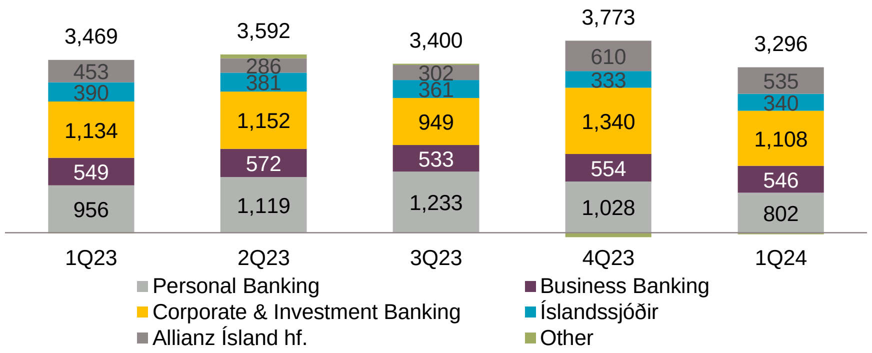
Allianz Ísland hf., a subsidiary of the Bank, continues to contribute healthily to NFCI

Highlights

- Income from cards and payment processing remains the largest type of NFCI but overall cost of payment processing has increased between years
- Alllianz Ísland hf., a subsidiary of the Bank, is the largest contributor to other fee and commission income and had a strong revenue production this quarter
- Market conditions affect fees from investment banking and brokerage
- Asset management remained pressured due to volatility on financial markets

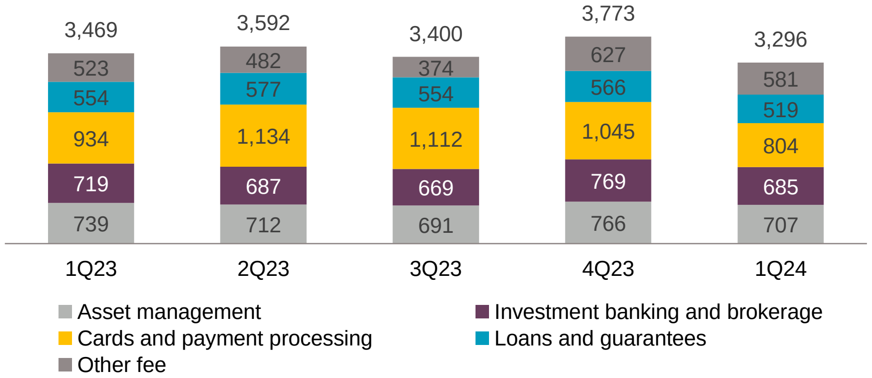
Net fee and commission income

Business segments, ISKm



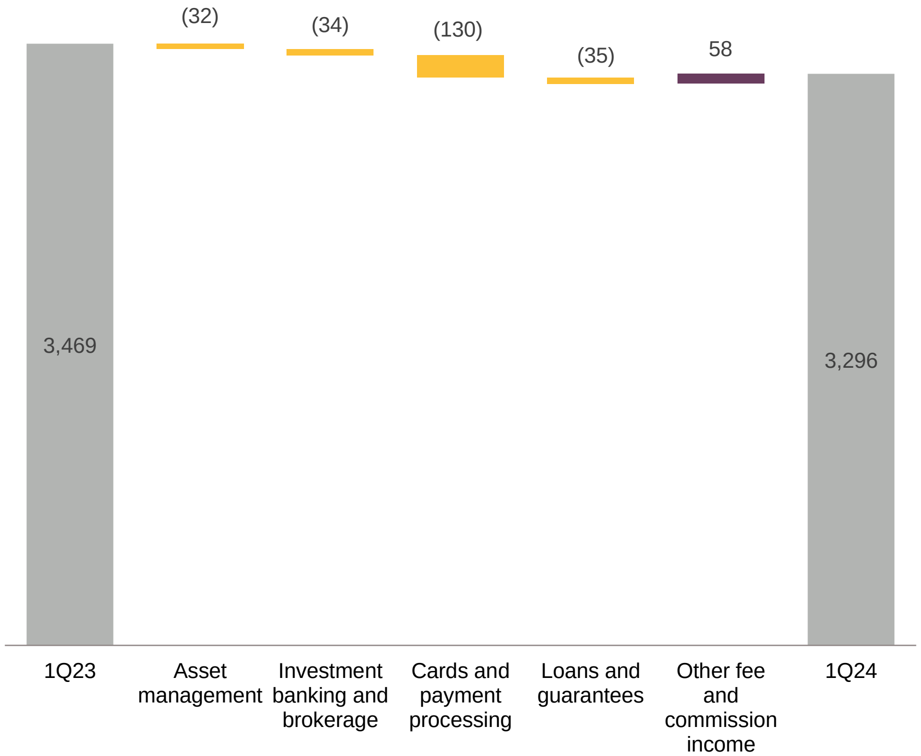
Net fee and commission income

By type, ISKm



Net fee and commission income – YoY comparison

ISKm



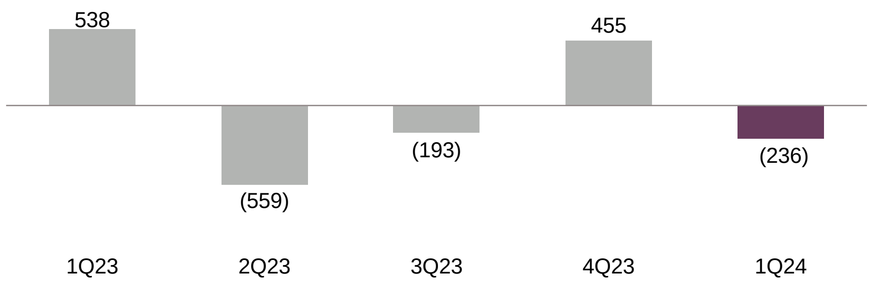
NFI affected by volatile market environment

High policy rates and persistent inflation continue to effect domestic markets

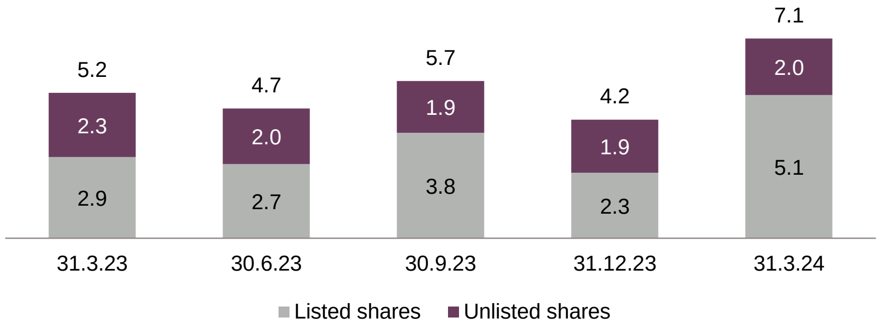
Highlights

- High policy rates due to persistent inflation and seismic activity and eruptions on the Reykjanes peninsula continued to affect the equity market
- Loss in bonds is due to unfavourable changes in the yield curve
- Increase in listed equity instruments mainly related hedging due to increased customer demand
- Derecognition of financial assets relates to the measure of waiving interest and indexation on residential mortgages in the town of Grindavík
- Effective income tax rate in 1Q24 31.3% (27.3% in 1Q23) affected by equity forward positions

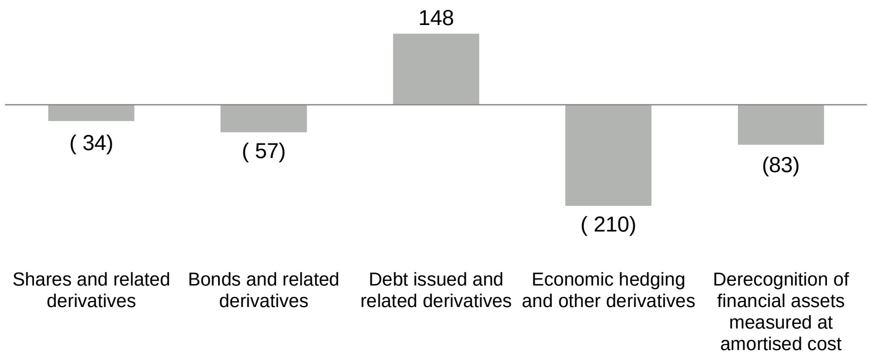
Net financial income (expense)
ISKm



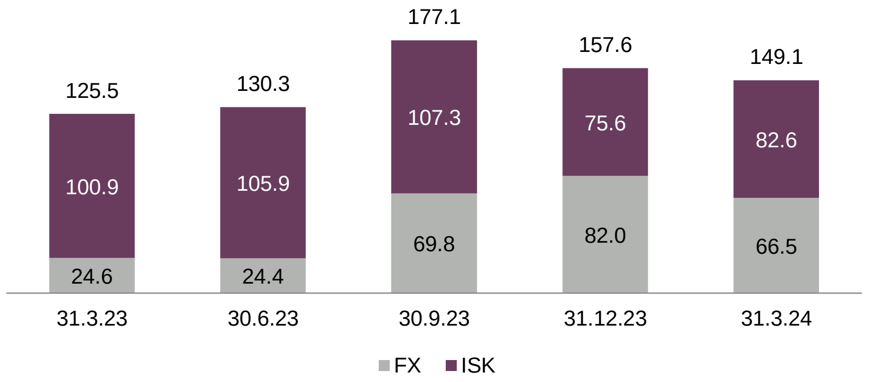
Shares and equity instruments[1]
ISKbn



Net financial income (expense) by type in 1Q24
ISKm



Bonds and debt instruments[2]
ISKbn



1.Excluding listed shares and equity instruments used for economic hedging. 2. Excluding listed bonds and debt instruments used for economic hedging.

Cost-to-income ratio beats target of below 45%

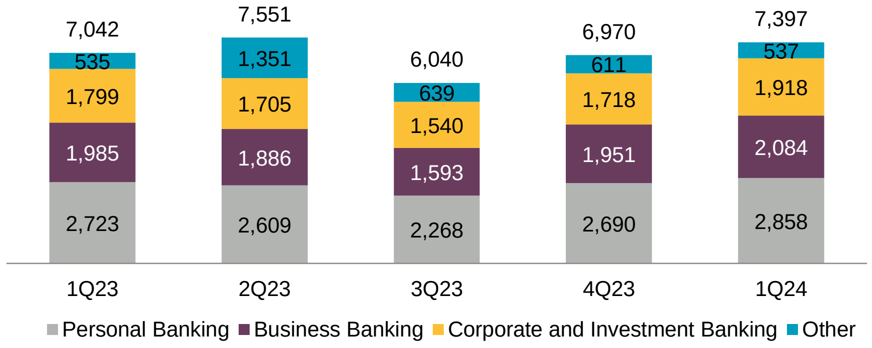
Increase in salaries mainly due to increase in FTEs

Highlights

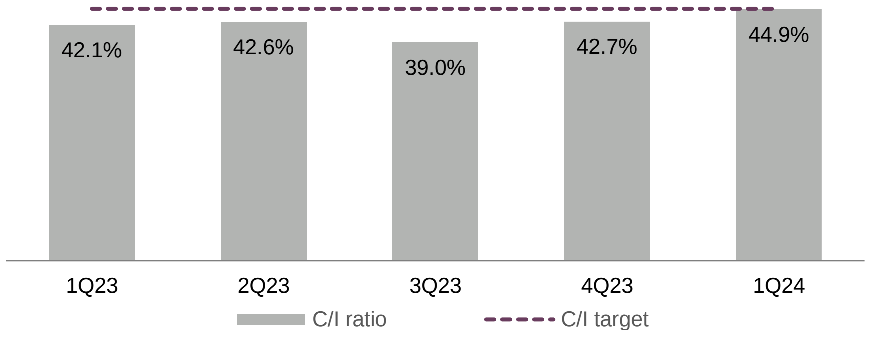
- Salaries and related expenses Increased by 5.3% from 1Q23 mainly due to additional employees being hired due to the Bank's commitment to further strengthen its regulatory infrastructure and overall governance
- Other operating expenses rose by 4.7% compared to 1Q23, and are mainly related to higher software and IT expenses and inflation
- Although new union agreements with the Confederation of Icelandic Banks and Financial Employees has not been concluded, it is assumed that results will be in line with general wage agreements with other unions recently concluded

Administrative expenses

ISKm

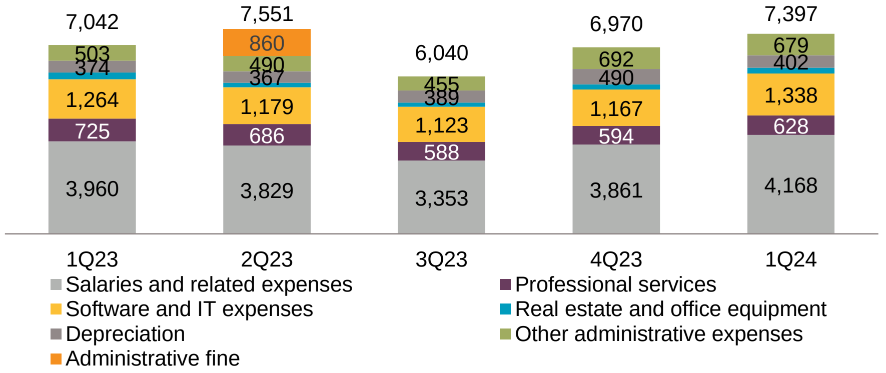


Cost-to-income ratio[1,2]



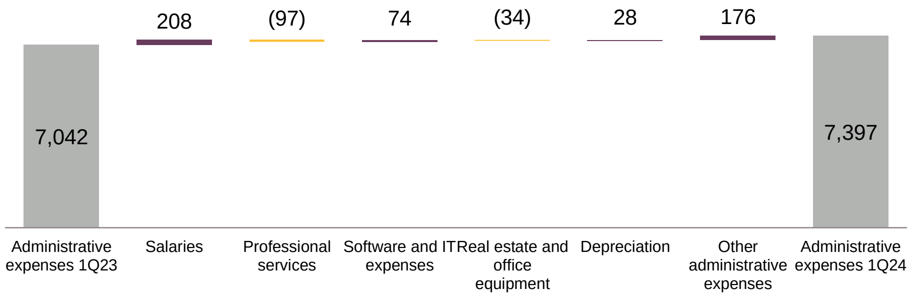
Administrative expenses – by type

ISKm



Administrative expenses – YoY comparison

ISKm



1. Calculated as (Administrative expenses + Contribution to the Depositor's and Investors' Guarantee Fund – one off items) / Total operating income – one-off items). 2. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine.

Lending growth with modest credit risk profile

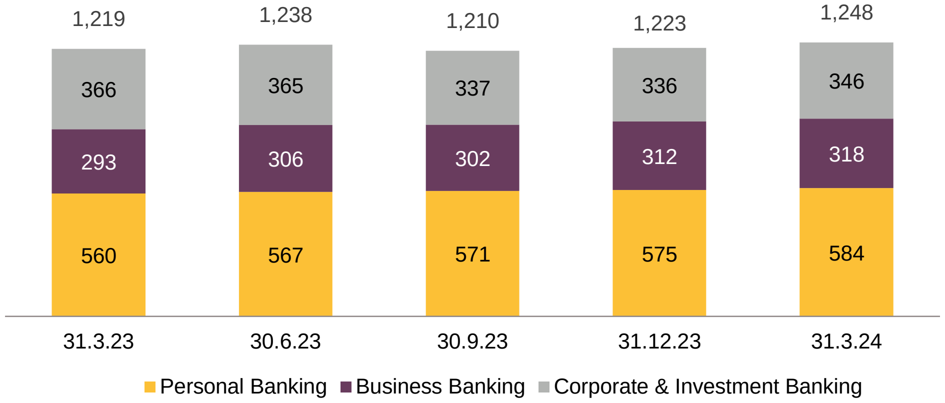
Diversified and highly collateralised loan portfolio

Highlights

- The credit quality of assets continues to be robust due to strong risk management practices and conservative lending policies
- Loans to the construction industry has gradually increased and is now shown as a separate sector
- Credit exposure fully covered by collateral is ISK 1,165bn or 93% of loans to customers

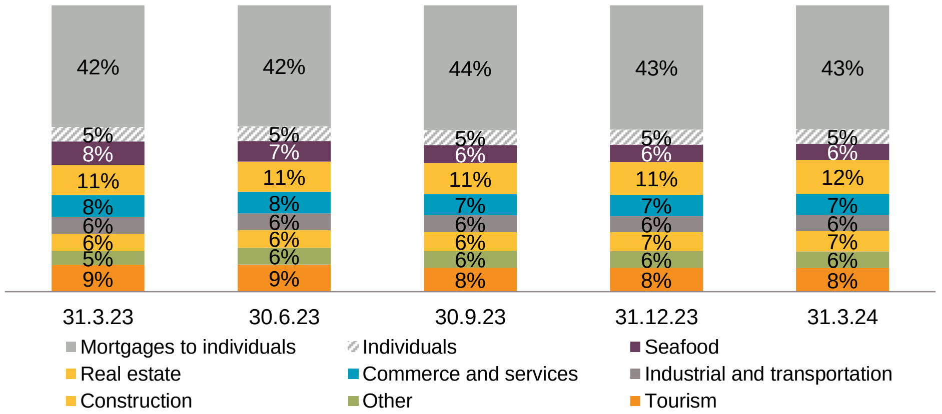
Loans to customers

By business division, ISKbn



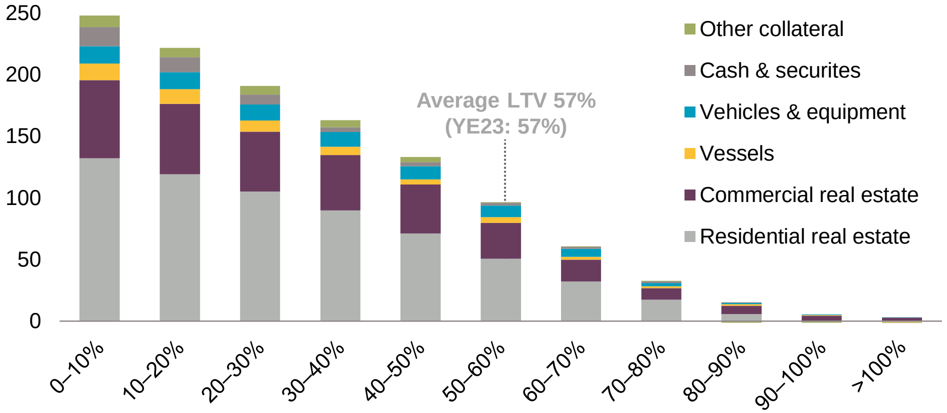
Loans to customers

By sector, with tourism as a separate sector



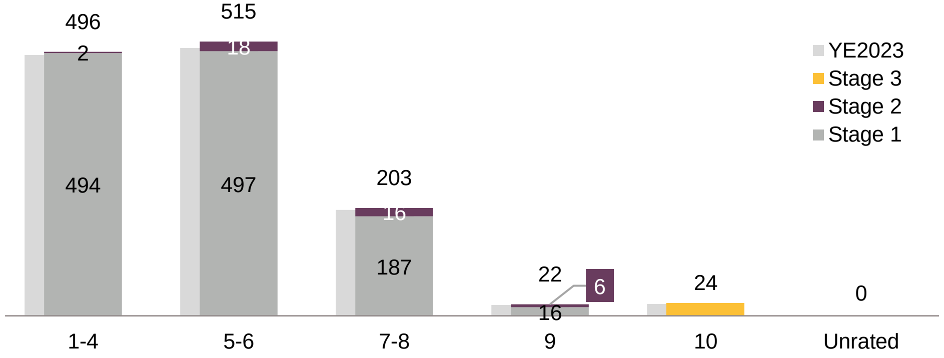
LTV distribution by underlying asset class

31.03.24, loan splitting approach, ISKbn



Loans to customers: gross carrying amount[1]

31.3.24, risk class and impairment stage, ISKbn



1. Risk class distribution at YE2023 shown as comparison

Credit quality remains strong

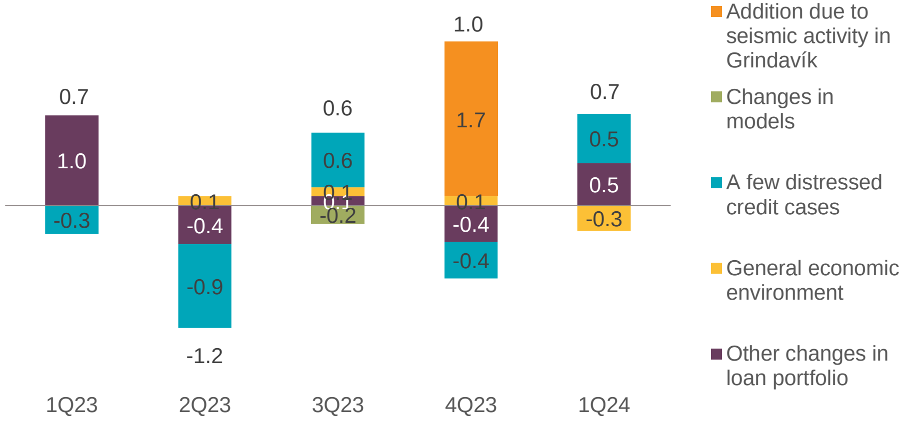
Stage 2 and 3 stable after having increased in 4Q23 mainly due to seismic activity

Highlights

- The Group continues to use temporary overlay to the impairment model due to seismic activity
- Limited exposure in the area; only 0.4% of loans to customers covered by real estate in Grindavík
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forborne even after normal payments have resumed.
- Reserve coverage ratio (RCR) for impairment allowance on Stage 3 was 20.3% at end of 1Q24 reflecting good collateral position

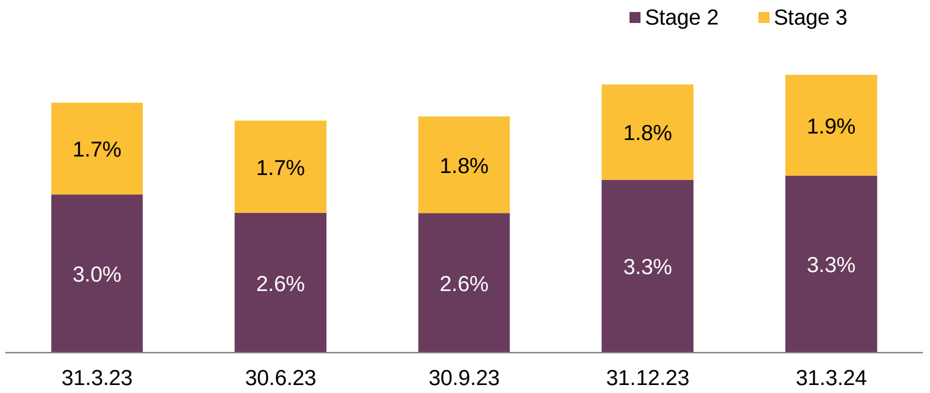
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

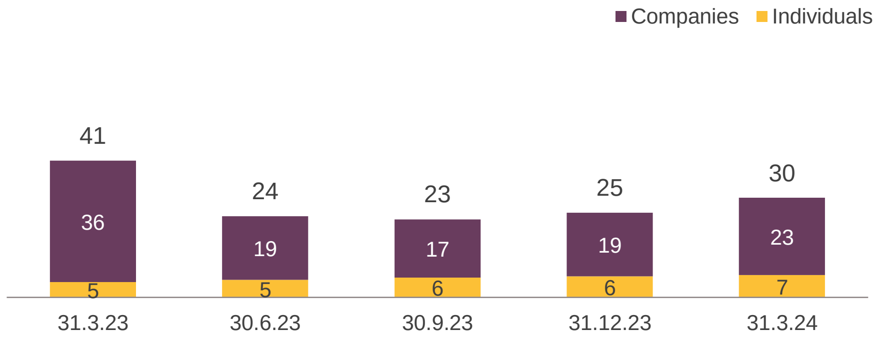


Current and expected cost-of-risk

- Annualised cost of risk was 23bp in 1Q24 (22bp for 1Q23).
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 1Q24.
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 0.3bn while 5% shift from the baseline to the good would decrease the allowance by ISK 0.2bn.

Performing loans with forbearance

Gross carrying amount, ISKbn



Loan to value at healthy levels and NPL remains low

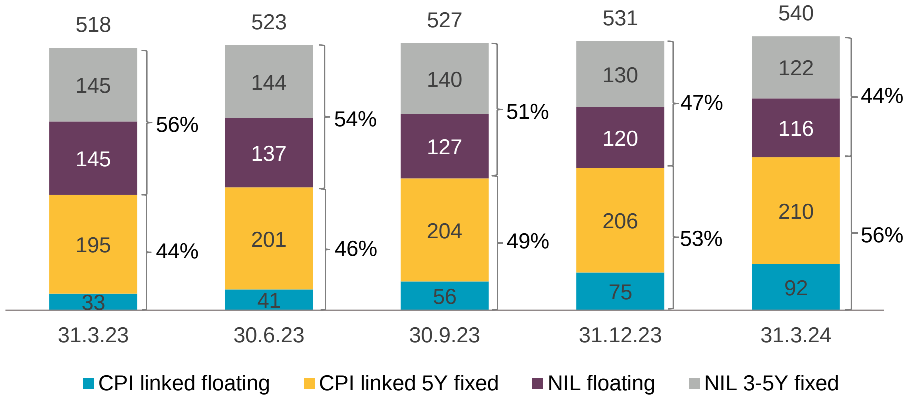
Mortgage portfolio continues to shift towards CPI-linked loans

Highlights

- Conservative payment assessment for non-indexed variable rate mortgages in the low interest environment means that households are well prepared for higher interest rate environment
- At origination, LTV is capped at 80% (85% for first time buyers) and debt service-to-income at 30% (35% for first-time buyers)
- Stage 2 mortgages remain stable between quarters
- Fixed rate imbalance to reduce gradually with interest rate reset for NIL 3-5Y fixed rate mortgages, thereof ISK 30bn until end of 2024
- Ongoing growth in CPI-linked loans due to higher interest rate environment and increase in variable NIL mortgage rates
- CPI imbalance has grown to ISK 175 billion, compared to a position of ISK 129 billion at year-end 2023

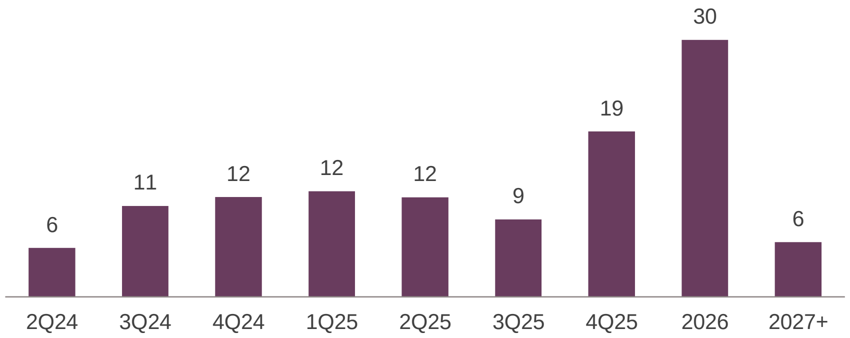
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



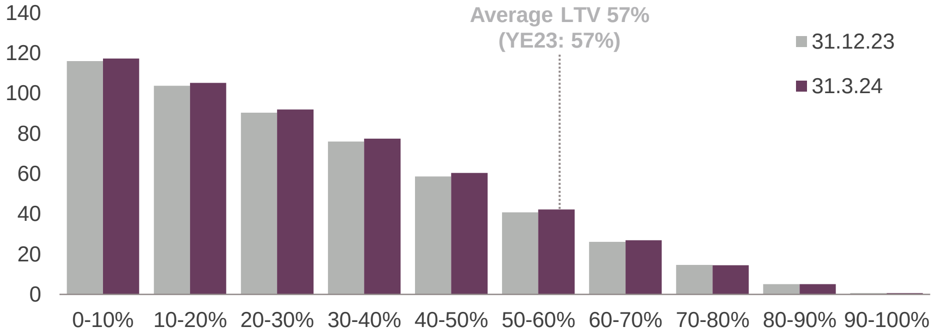
Interest rate reset profile for NIL 3-5Y fixed rate mortgages

Gross carrying amount, ISKbn



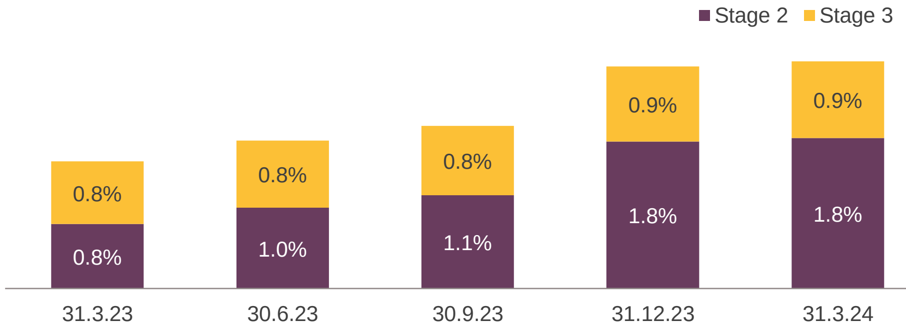
LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages



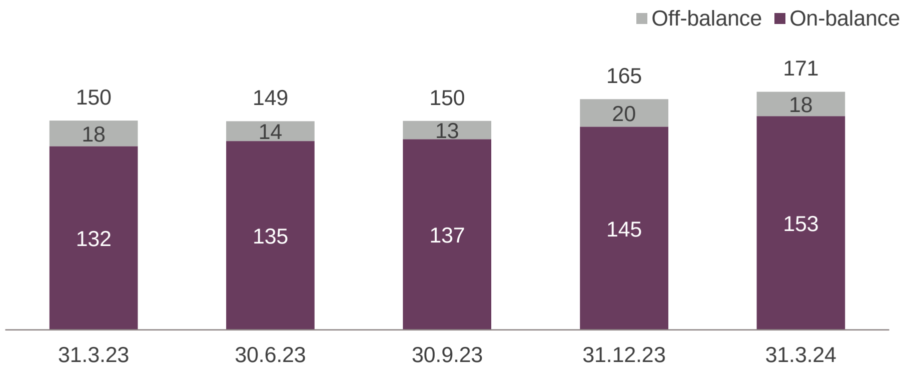
Real estate and construction sector performing well

Occupancy ratios are high, and CPI linked rental agreements provide a natural hedge for borrowers

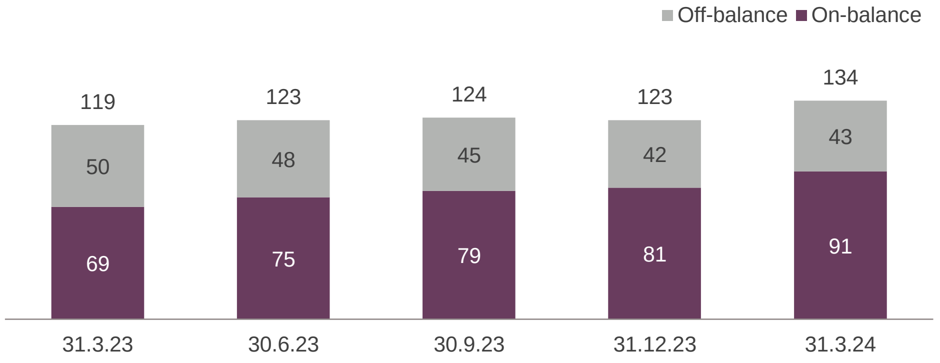
Highlights

- Loans to real estate companies and construction amount to 12% and 7% of loans to customers, respectively
- Disciplined origination with conservative LTV requirements and debt service criteria
- Real estate companies use primarily CPI-linked rental agreements as a form of hedging and have long-term financing to minimize influence of short- term changes in market value of real estate
- Occupancy ratio of the listed commercial real estate companies is around 95%
- Over half of exposure in the construction sector is for residential real estate
- All construction loan commitments are disbursed in line with construction progress

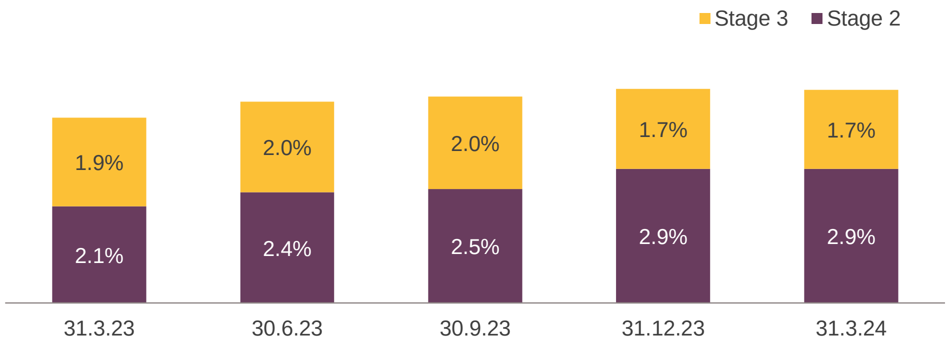
Development of exposure to real estate companies
Gross carrying amount by period, ISKbn



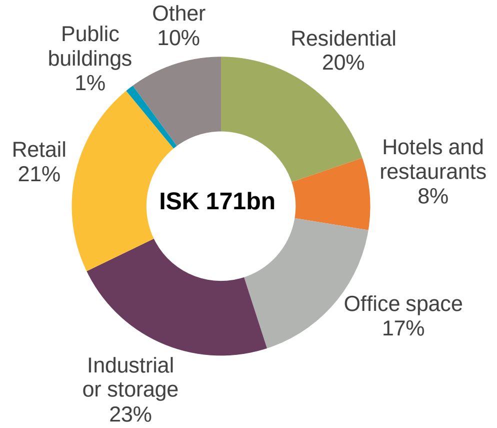
Development of construction exposure
Gross carrying amount by period, ISKbn



Real estate portfolio: Stage 2 and 3 (NPL)
Gross carrying amount as ratio of the real estate portfolio



Real estate collateral by type
31.3.2024



Deposits are the largest source of funding

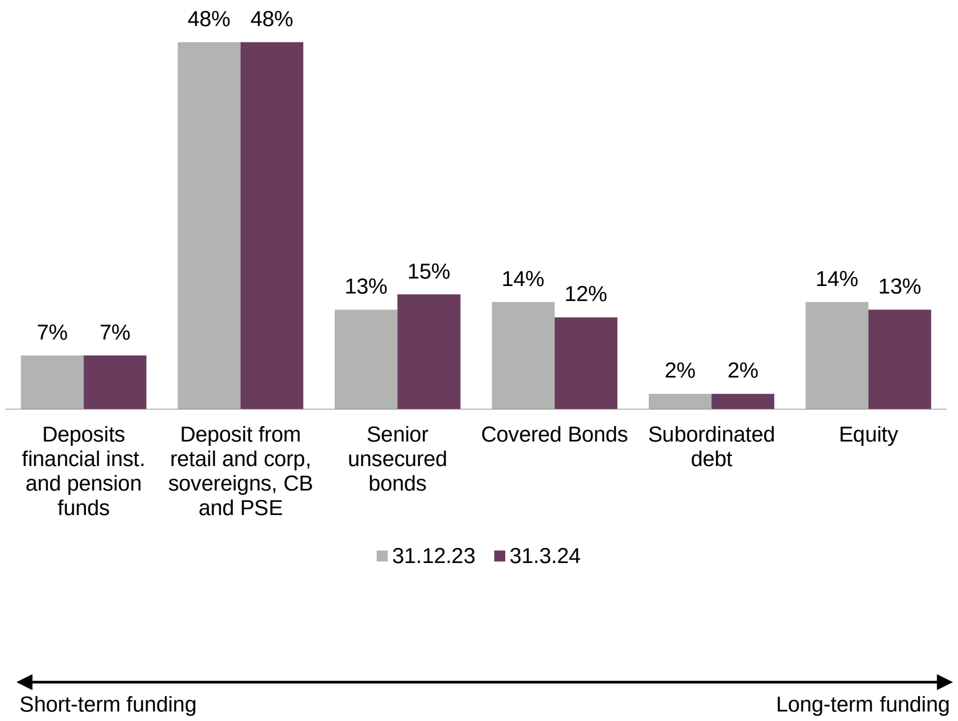
Strong growth in retail deposits in 1Q 2024

Highlights

- Retail deposits (individuals and SME's) grew by 3% in 1Q24
- Term deposits were 20% of total deposits at the end of 1Q24
- Deposit concentration stable, 11% of deposits belonged to the 10 largest depositors and 26% to the 100 largest, compared to 10% and 26% respectively at YE23
- A detailed split of the deposit base and LCR is provided in the Additional Pillar 3 Disclosure, providing investors with the necessary information to perform their own stress tests on deposits
- 74% of deposits held by individuals (across business segments) and 46% of all deposits covered by deposit guarantee scheme

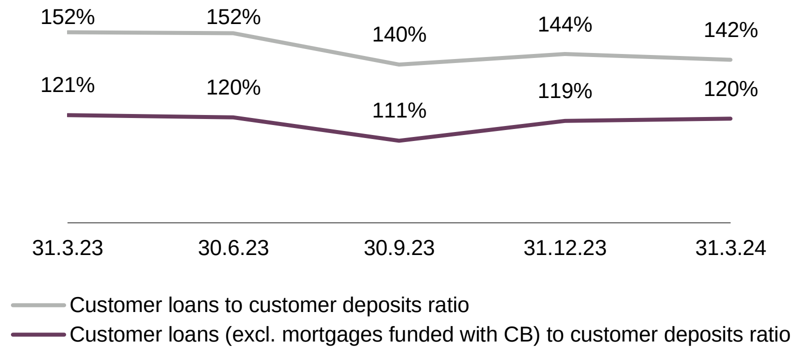
Funding sources

By type, % of total liabilities and equity



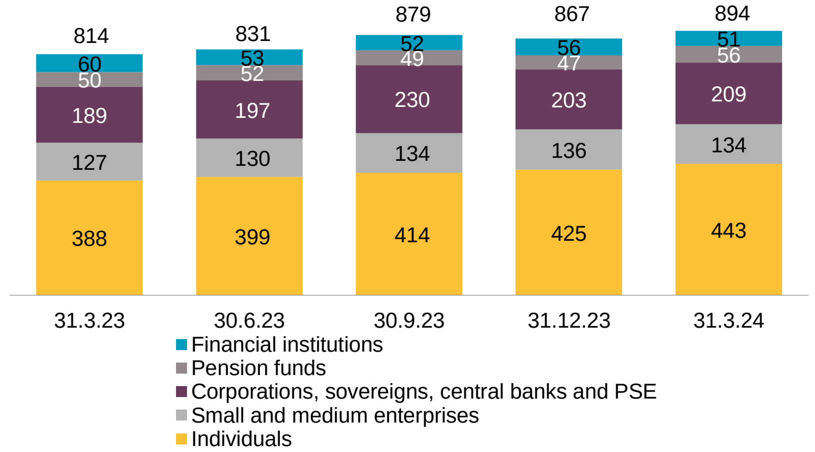
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



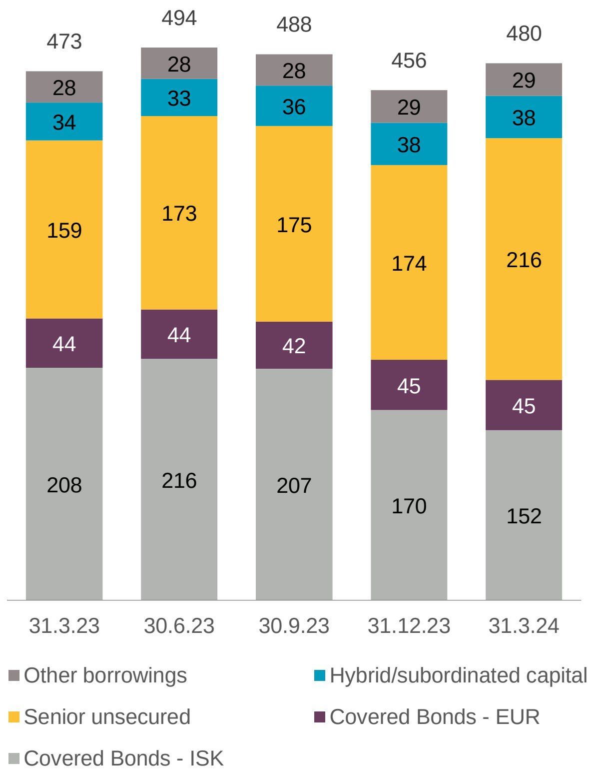
Seasoned and diversified long-term funding programme

Strong start to funding in 2024

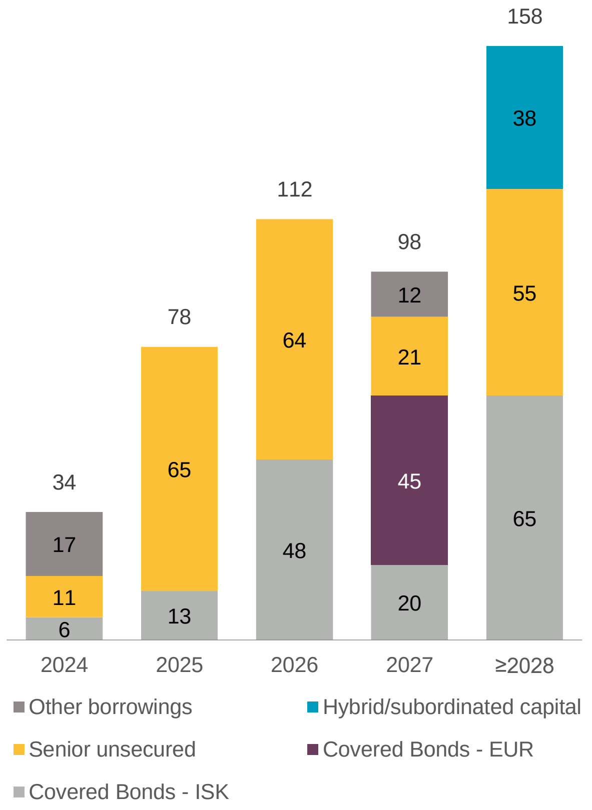
Highlights

- During 1Q24 the Bank issued a new EUR 300 million 4-year Senior Preferred as well as an ISK 5.3 billion 5 year Senior Preferred
- The Bank issued 3-year NOK 500 million and SEK 500 million senior preferred green notes in January
- S&P upgraded the Bank´s long term rating in April 2024 from BBB to BBB+

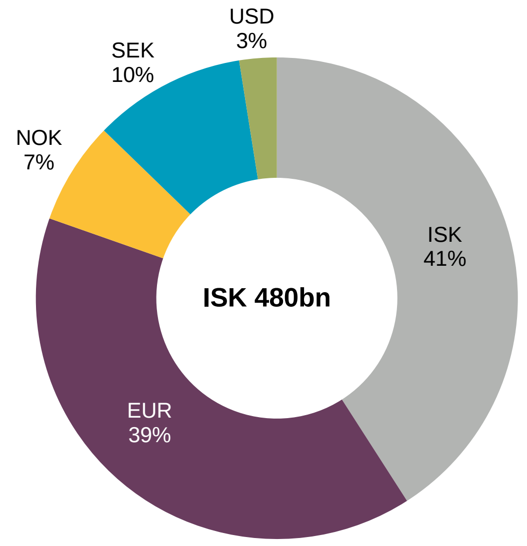
Sources of borrowings
Development, ISKbn



Contractual maturity profile of borrowings
31.3.24, ISKbn



Currency split of borrowings
31.03.24



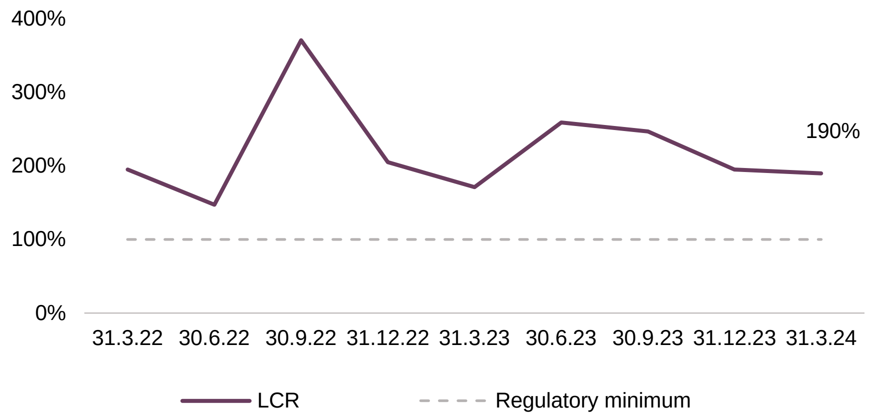
Strong liquidity position, ratios well above requirements

Liquid assets of ISK 325bn, representing 20% of total assets

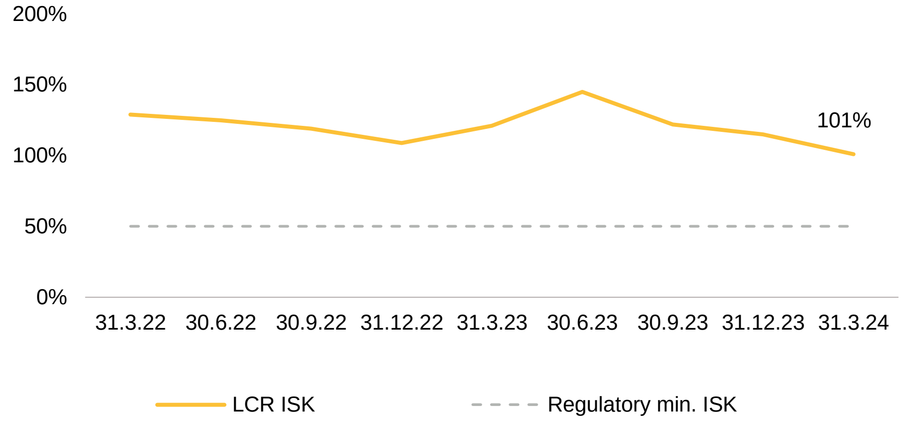
Highlights

- All liquidity measures above regulatory requirements
- Total LCR at 190% and NSFR at 127% for all currencies
- The Bank's EUR LCR at the end of 1Q24 was 404%
- The securities portfolio is all MtM (FVTPL and FVOCI). There is no unrealised loss due to HtM (amortised cost)
- IRRBB is carefully monitored and managed. The Bank is fully compliant to the supervisory outlier test

Total liquidity coverage ratio (LCR)

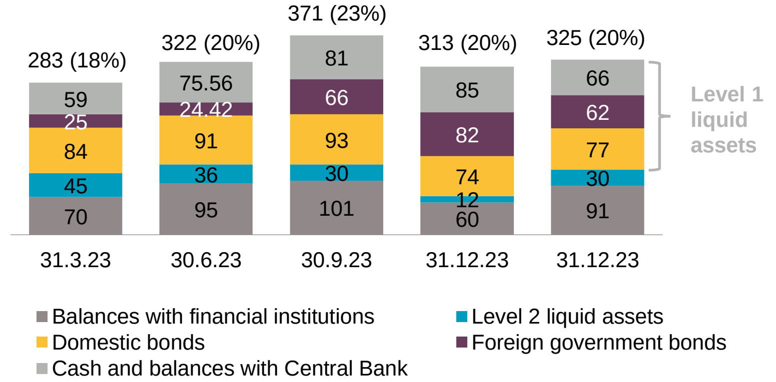


Liquidity coverage ratio for ISK

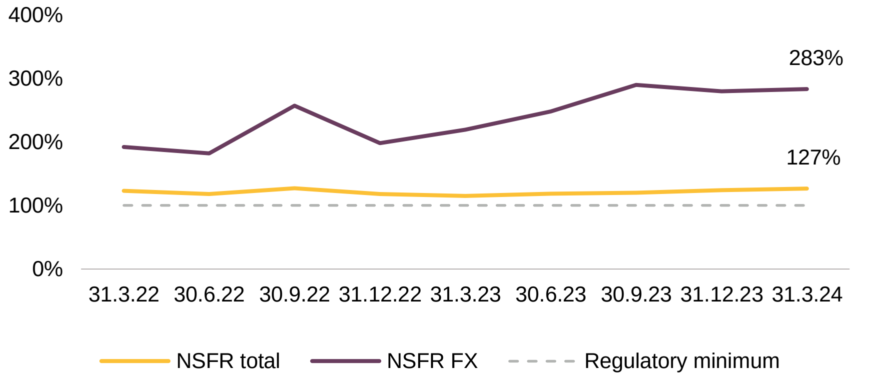


Liquid assets

% of total assets, ISKbn



Net stable funding ratio (NSFR)



2 May 2024

Capital optimisation to be concluded before year end 2025

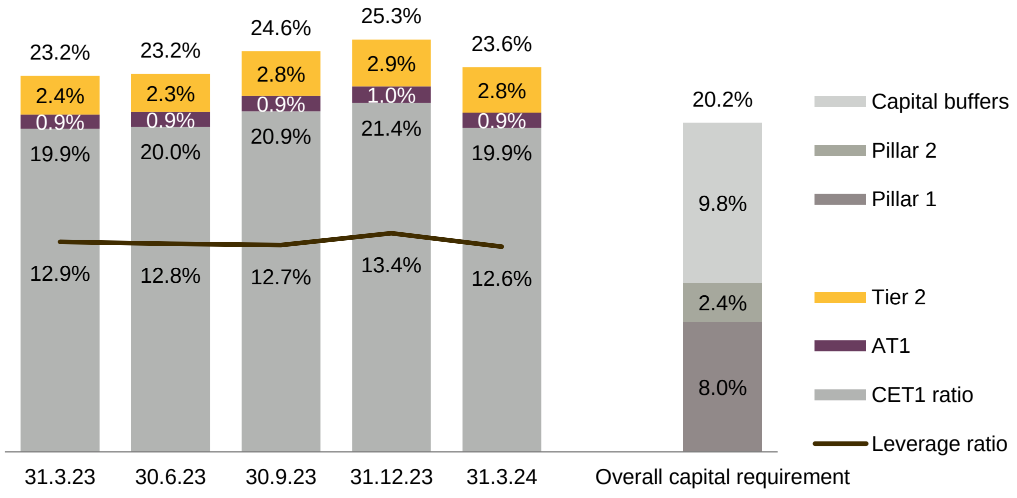
Already strong capital position to rise with further REA optimisation

Highlights

- MREL ratio, including the CET1 capital held to meet the combined buffer requirement, stood at 39.1% at the end of Q1, 850bp above the requirement of 30.6%
- SREP: As of 30 June 2023, the Bank must maintain an additional capital requirement of 2.4% of the REA, a decrease of 0.2 percentage points from the previous assessment. The Bank's total capital requirement was therefore decreased from 10.6% to 10.4%
- The combined buffer requirement is 9.8%, resulting in an overall capital requirement of 20.2%
- Preliminary assessment of the upcoming CRR regulatory change indicates REA reduction assuming the current balance sheet composition

Capital ratios and leverage ratio

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



Strong capital position

- CET1 excess of 420bp
- Total capital excess of 340bp
- MREL excess of 850bp

Capital optimisation plans

- Distribution of excess CET1 capital in the amount of ISK 10bn planned throughout 2024 already deducted from CET1 capital
- The Bank plans to optimise its capital structure before year-end 2025, subject to market conditions
- In addition to internal or external growth, the Bank may explore capital distribution in the form of ordinary share buyback programs, buybacks via reverse auctions and/or extraordinary dividend to reach its target capital composition

1Q24 results in line with guidance

Overall economic outlook indicates soft landing while inflation and policy rate uncertainty remains

Overall results in line with guidance

- NII growth quarter on quarter
- Costs within guidance although front heavy this year
- Asset quality remains strong and limited signs of delinquencies

Icelandic economy on the route to a soft landing

- General wage agreements concluded with long-term agreements
- Inflation expected to decline further from mid-year onwards
- Policy rate cuts expected in 3Q24

Íslandsbanki optimally positioned

- Strong market share amongst SMEs and in Investment Banking
- Conservative credit culture supports ongoing asset quality
- Infrastructure and customer overall-health key focus points

Capital optimisation an ongoing commitment

- Strong capital position and liquidity
- Share buybacks ongoing and further ISK 10bn have been approved
- Optimisation expected to be concluded before year-end 2025

Q&A

2 May 2024

2 May 2024

Appendix I – About Íslandsbanki and additional financial information

This is Íslandsbanki

Our purpose is to be a force for good by empowering our customers to succeed

Vision and Values

To create value for the future
with excellent service

Passion
Professionalism
Collaboration

The Bank

FTEs
735
number of FTEs at Íslandsbanki at period end

12 branches

Listed on Nasdaq Iceland as of June 2021

ergo

Market share[1]

31% retail customers

39% SMEs

30% large companies

Sustainability 1Q24

- The Bank issued senior preferred green notes in NOK and SEK
- Significant steps taken with regards to implementation of updated Sustainable Funding Framework
- Íslandsbanki purchased Icelandic carbon capture credits from Running Tide

Key Figures 1Q24

ROE	9.8%	LCR Group, all currencies	190%
Cost-to-income ratio	44.9%	NSFR Group, all currencies	127%
CET1 ratio	19.9%	Leverage ratio	12.6%
Total capital ratio	23.6%	Total assets	ISK 1,644bn

Ratings and certifications

Moody's
A3 Stable outlook

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

Euromoney Awards for Excellence 2023 Iceland Best Bank

Equal Pay Certificate

Jafnvægisvog FKA 2023 Viðurkenning

Digital milestones 1Q24

- App enhancements include loan prepayment option and additional debit card management functions
- Development of an internal Generative AI chatbot (in BETA) ongoing
- Further enhancements to the Bank's digital car financing solution enables more user journeys

1. For retail customers, based on the number of customers with active deposits as percentage of people with domicile in Iceland, for SME's on average market share from Gallup's last four corporate surveys the most recent one carried out during 1Q24 and for large companies the average market share among top 300 companies according to Frjáls verslun magazine.

Financial overview

Key figures & ratios

		1Q24	4Q23	3Q23	2Q23	1Q23
PROFITABILITY	Profit for the period, ISKm	**5,417**	6,228	6,007	6,139	6,211
	Return on equity	**9.8%**	11.2%	11.0%	11.5%	11.4%
	Net interest margin (of total assets)	**3.0%**	2.9%	2.9%	3.2%	3.2%
	Cost-to-income ratio[1,2]	**44.9%**	42.7%	39.0%	42.6%	42.1%
	Cost of risk[3]	**0.23%**	0.33%	0.19%	(0.40%)	0.22%

		31.3.24	31.12.23	30.9.23	30.6.23	31.3.23
BALANCE SHEET	Loans to customers, ISKm	**1,248,295**	1,223,426	1,210,499	1,237,758	1,218,999
	Total assets, ISKm	**1,643,707**	1,582,694	1,643,600	1,593,239	1,551,530
	Risk exposure amount, ISKm	**1,015,161**	977,032	986,355	1,015,197	1,004,978
	Deposits from customers, ISKm	**879,554**	850,709	864,189	816,641	800,071
	Customer loans to customer deposits ratio	**142%**	144%	140%	152%	152%
	Non-performing loans (NPL) ratio[4]	**1.9%**	1.8%	1.8%	1.7%	1.7%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**127%**	124%	120%	119%	115%
	Liquidity coverage ratio (LCR), for all currencies	**190%**	195%	247%	259%	171%
CAPITAL	Total equity, ISKm	**215,718**	224,693	219,694	215,524	210,385
	CET1 ratio[5]	**19.9%**	21.4%	20.9%	20.0%	19.9%
	Tier 1 ratio[5]	**20.9%**	22.5%	21.9%	20.9%	20.8%
	Total capital ratio[5]	**23.6%**	25.3%	24.6%	23.2%	23.2%
	Leverage ratio[5]	**12.6%**	13.4%	12.7%	12.8%	12.9%
	MREL ratio[6]	**39.1%**	41.3%	39.2%	38.4%	0.33

1.Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 2. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine. 3. Negative cost of risk means that there is a net release of impairments. 4. Stage 3, loans to customers, gross carrying amount. 5. Including 1Q24 profit for 31.3.24, 3Q23 profit for 30.9.23 and 1Q23 profit for 31.3.23. 6. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.

Income Statement

Income growth continues and profitability is robust

Income statement, ISKm	1Q24	1Q23	∆%	4Q23	∆%
Net interest income	**12,122**	12,423	(2%)	11,730	3%
Net fee and commission income	**3,296**	3,469	(5%)	3,773	(13%)
Net financial income (expense)	**(236)**	538	-	455	-
Net foreign exchange gain	**196**	244	(20%)	113	73%
Other operating income	**1,098**	43	2,453%	258	326%
Total operating income	**16,476**	16,717	(1%)	16,329	1%
Salaries and related expenses	**(4,168)**	(3,960)	5%	(3,861)	8%
Other operating expenses	**(3,228)**	(3,082)	5%	(3,109)	4%
Administrative expenses	**(7,396)**	(7,042)	5%	(6,970)	6%
Bank tax	**(493)**	(462)	7%	(402)	23%
Total operating expenses	**(7,889)**	(7,504)	5%	(7,372)	7%
Net impairment on financial assets	**(704)**	(675)	4%	(1,002)	(30%)
Profit before tax	7,883	8,538	(8%)	7,955	(1%)
Income tax expense	**(2,468)**	(2,335)	6%	(1,737)	42%
Profit for the period from continuing operations	**5,415**	6,203	(13%)	6,218	(13%)
Discontinued operations held for sale, net of income tax	**2**	8	(75%)	10	(80%)
Profit for the period	**5,417**	6,211	(13%)	6,228	(13%)

Key ratios					
Net Interest Margin (NIM)	**3.0%**	3.2%		2.9%	
Cost-to-income ratio (C/I)	**44.9%**	42.1%		42.7%	
Return on Equity (ROE)	**9.8%**	11.4%		11.2%	
Cost of risk (COR)	**0.23%**	0.22%		0.33%	

2 May 2024

Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

Assets

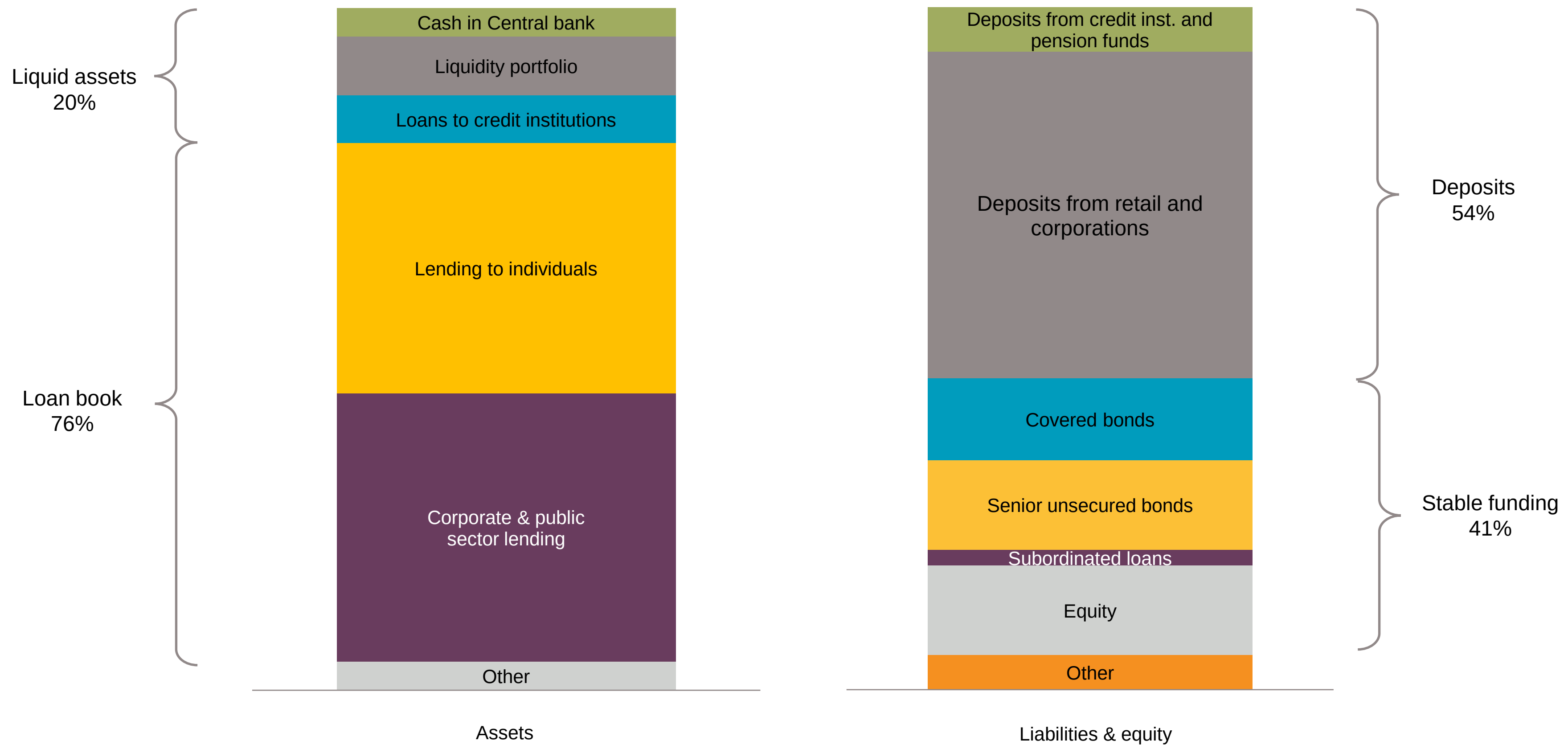
- Vast majority of assets consist of lending to both retail and corporates
- Strong liquidity portfolio is a consistent factor in balance sheet management
- Very limited exposure to non-liquid or non-lending assets

Liabilities

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

Simplified balance sheet structure

31.3.24, ISK 1,644bn



Assets

Asset base mainly consists of loans and liquid assets

Assets, ISKm	31.3.24	31.12.23	Δ	Δ%
Cash and balances with Central Bank	**68,746**	87,504	(18,758)	(21%)
Loans to credit institutions	**114,430**	73,475	40,955	56%
Bonds and debt instruments	**156,091**	161,342	(5,251)	(3%)
Derivatives	**5,138**	5,776	(638)	(11%)
Loans to customers	**1,248,295**	1,223,426	24,869	2%
Shares and equity instruments	**20,281**	13,241	7,040	53%
Investment in associates	**4,079**	4,051	28	1%
Investment property	**2,100**	-	2,100	-
Property and equipment	**5,240**	6,562	(1,322)	(20%)
Intangible assets	**2,862**	2,930	(68)	(2%)
Other assets	**15,718**	3,638	12,080	332%
Non-current assets and disposal groups held for sale	**726**	749	(23)	(3%)
Total Assets	**1,643,707**	1,582,694	61,013	4%

Key ratios				
Risk Exposure Amount (REA)	**1,015,161**	977,032	38,129	4%
REA / total assets	**61.8%**	61.7%		
Non-performing loans (NPL) ratio[1]	**1.9%**	1.8%		

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

Liabilities and equity

Deposits continue to be the largest source of funding

Liabilities & Equity, ISKm	31.3.24	31.12.23	Δ	Δ%
Deposits from Central Bank and credit institutions	**14,103**	16,149	(2,046)	(13%)
Deposits from customers	**879,554**	850,709	28,845	3%
Derivative instruments and short positions	**4,936**	5,090	(154)	(3%)
Debt issued and other borrowed funds	**440,960**	417,573	23,387	6%
Subordinated loans	**37,946**	38,155	(209)	(1%)
Tax liabilities	**13,695**	13,107	588	4%
Other liabilities	**36,795**	17,218	19,577	114%
Total Liabilities	**1,427,989**	1,358,001	69,988	5%
Total Equity	**215,718**	224,693	(8,975)	(4%)
Total Liabilities and Equity	**1,643,707**	1,582,694	61,013	4%

Key ratios		
Customer loans to customer deposits ratio	**142%**	144%
Net stable funding ratio (NSFR)	**127%**	124%
Liquidity coverage ratio (LCR)	**190%**	195%
Total capital ratio[1]	**23.6%**	25.3%
Tier1 capital ratio[1]	**20.9%**	22.5%
Leverage ratio[1]	**12.6%**	13.4%
MREL ratio[2]	**39.1%**	41.3%

1. Including first quarter profit for 31.3.24. 2. MREL ratio includes the CET1 capital held to meet the combined buffer requirements.

Appendix II – Icelandic economy update

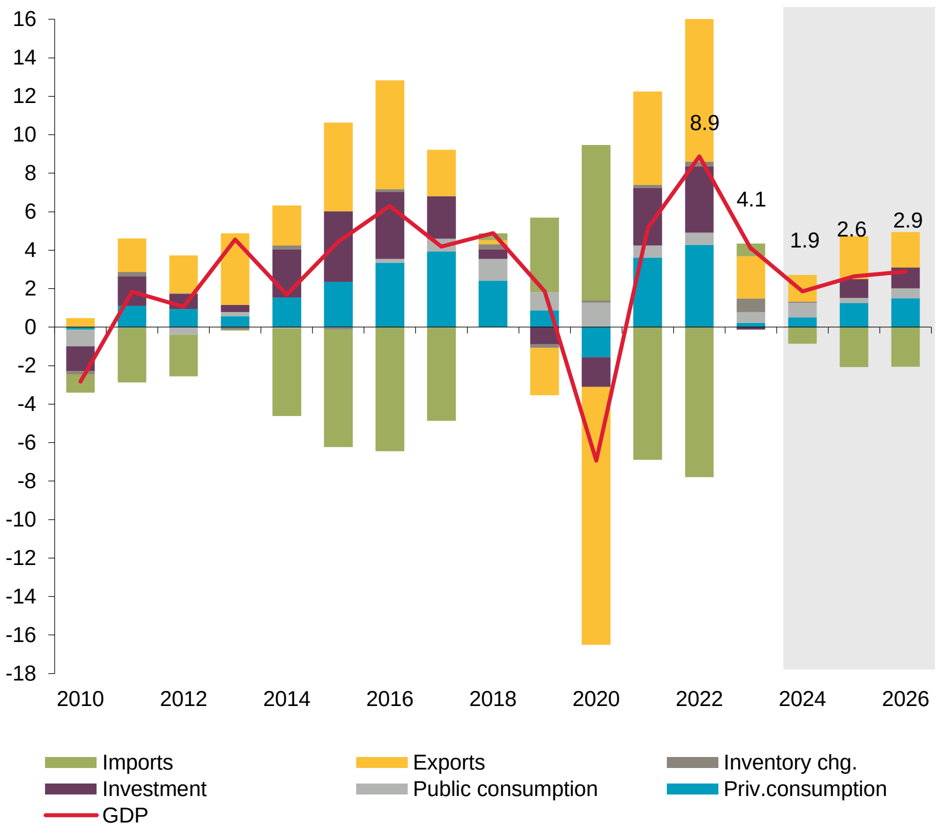
2 May 2024

Gradually accelerating GDP growth following slowdown

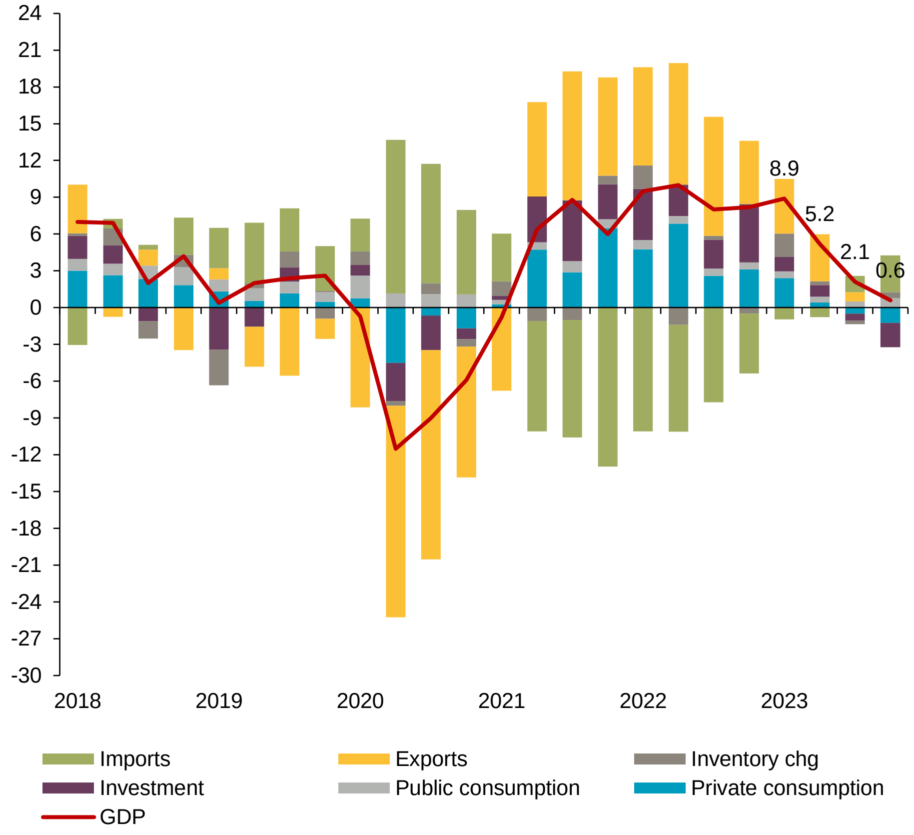
Highlights

- GDP growth surged in 2021-2022 but began to decline in 2023, with a significant drop from 8.9% in Q1 to 0.6% in Q4.
- Domestic demand saw a year-on-year decrease for the first time since 2020 during H2, with growth primarily driven by increased services exports and reduced imports.
- The year 2023 represented a pivotal point in the business cycle as the economy transitioned from an expansionary phase towards consolidation.
- Expectations for 2024 suggest a mirror image of 2023's trends, with exports leading early growth and consumption and investment strengthening later.
- ISB Research projects growth of 1.9% for 2024.
- A GDP growth forecast for 2025 is set at 2.6%, fueled by accelerated consumption and investment, alongside a resumption of goods exports, though services export growth is predicted to slow.
- For 2026, ISB Research anticipates 2.9% GDP growth, driven by increased domestic demand which is expected to surpass the impact of diminishing export growth.

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



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



Sources: Statistics Iceland, ÍSB Research.

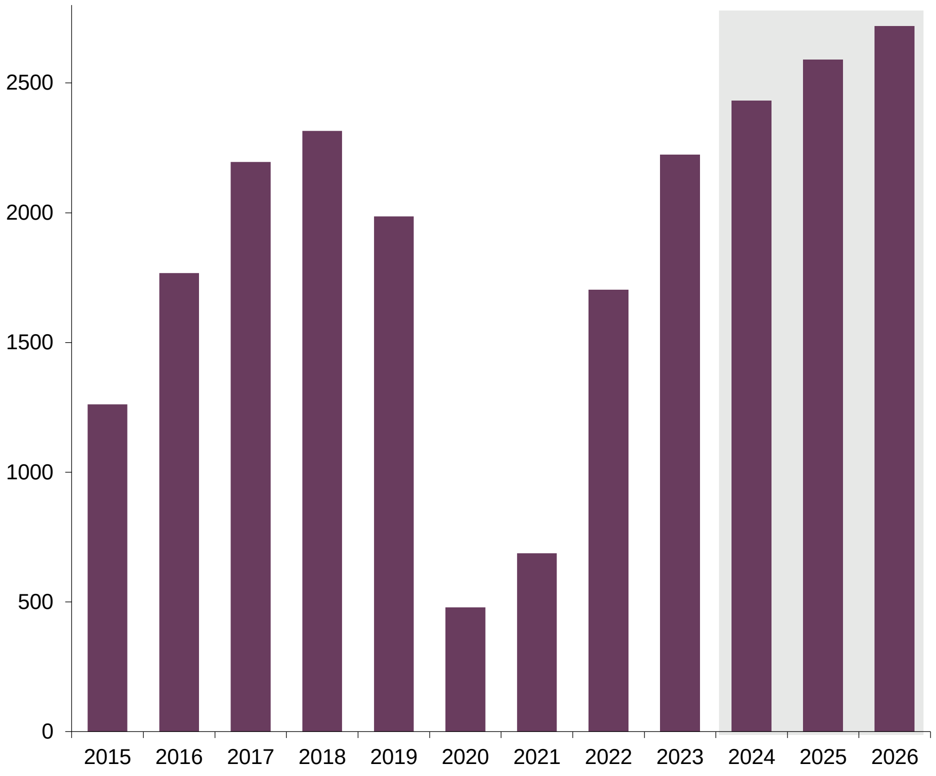
Tourism the mainstay of exports, but other sectors support

Just over 2.4 million tourists expected to visit Iceland in 2024, and more than 2.7 million in 2026

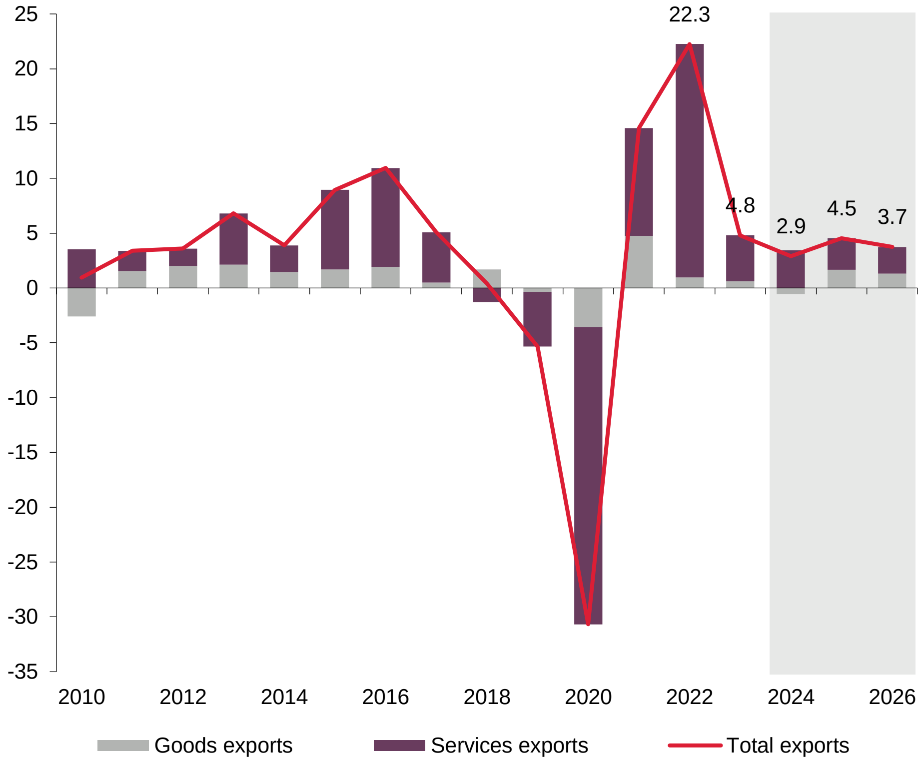
Highlights

- Despite earthquakes and the threat of volcanic eruptions, tourism in Iceland continued to rise unabated in 2023.
- Over 2.2 million tourists arrived through Keflavík Airport, with additional visitors via cruise ships and the Smyril Line ferry, marking the year as the second highest on record.
- Indicators such as airport gate allocations and bookings for 2024 point to a record-breaking year, with ISB Research predicting over 2.4 million tourist arrivals.
- ISB Research forecasts a steady climb in tourist numbers, anticipating nearly 2.6 million in 2025 and over 2.7 million in 2026, though at a slowing rate.
- With a significant contribution from service exports, particularly those leveraging expertise and brainpower, services are likely to be the primary force behind export growth in the coming years.
- A slight downturn in goods exports is anticipated for 2024 due to power rationing for aluminium smelters and a poor capelin fishing season, but modest growth is expected in 2025 and 2026, especially from farmed fish exports and a slight rise in groundfish quotas.
- Overall, ISB Research predicts that exports will increase by just under 3% in 2024 and by around 4% each year 2025-2026.

Number of foreign tourists, by year
thousands



Exports and contribution from subcomponents
% change



Shaded areas and dotted lines denote ISB Research forecasts

Sources: Icelandic Tourist Board, ÍSB Research.

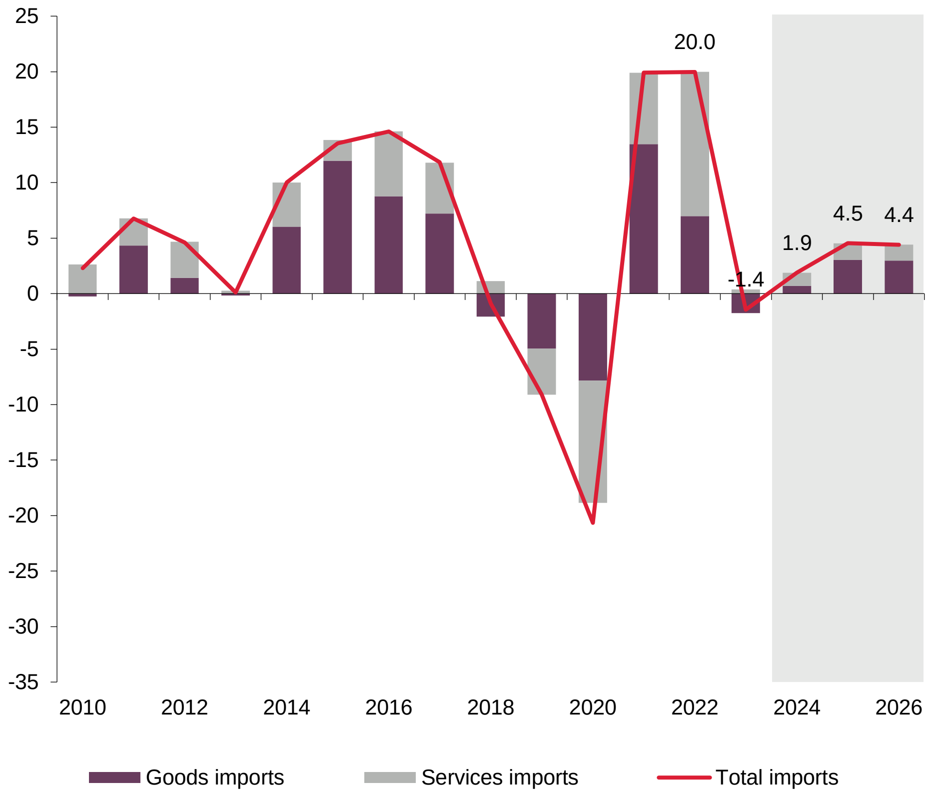
Modest current account surplus in coming years

CA surplus due to growing exports and weaker domestic demand growth , external position improves

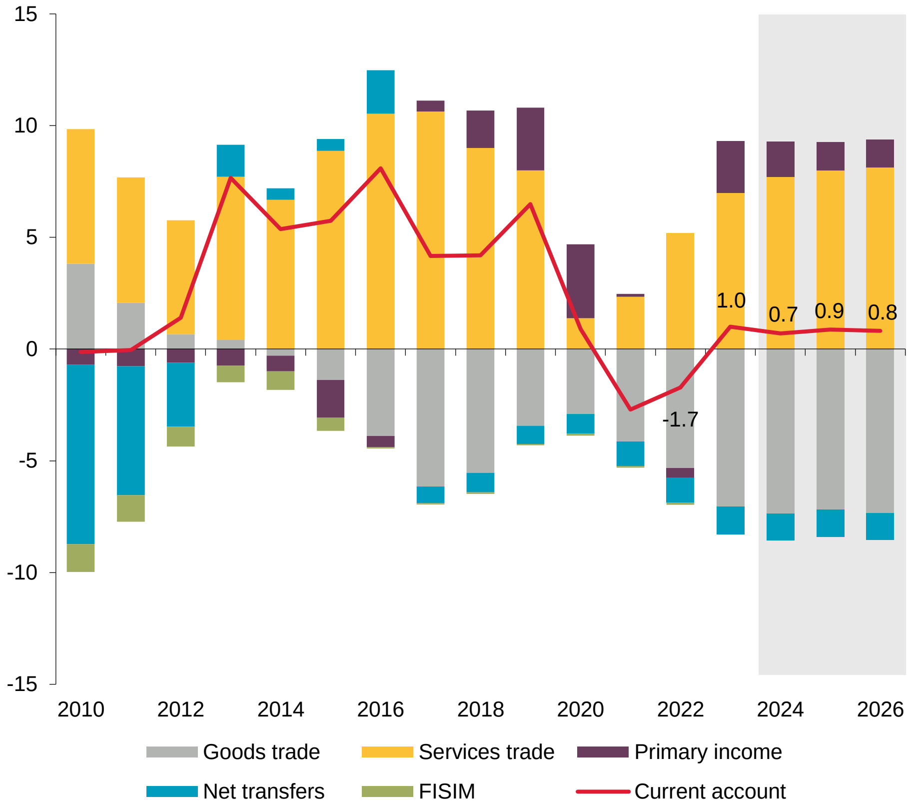
Highlights

- Iceland's import growth halted in 2023, with total imports falling by 1.4% in volume terms following two years of rapid growth.
- ISB Research sees early 2024 import growth as weak, with a pickup to under 2% in 2024, increasing to over 4% in 2025, and a similar growth in 2026.
- A move from import growth to contraction led to a better current account (CA) balance, with a CA surplus of 1% of GDP following two years of CA deficit.
- A moderate CA surplus is forecasted from 2024 to 2026, with exports rising over imports and subsequent equilibrium.
- Favorable trade terms are likely, with input prices climbing slowly and export prices remaining high.
- Risks include a higher real exchange rate potentially reverting the CA surplus to a deficit in the late 2020s.
- Iceland's robust net external assets, nearly 38% of GDP, bolster the economy, with some further improvement expected from current market tailwinds.

Imports and contribution from subcomponents
% change



Current account balance
% of GDP

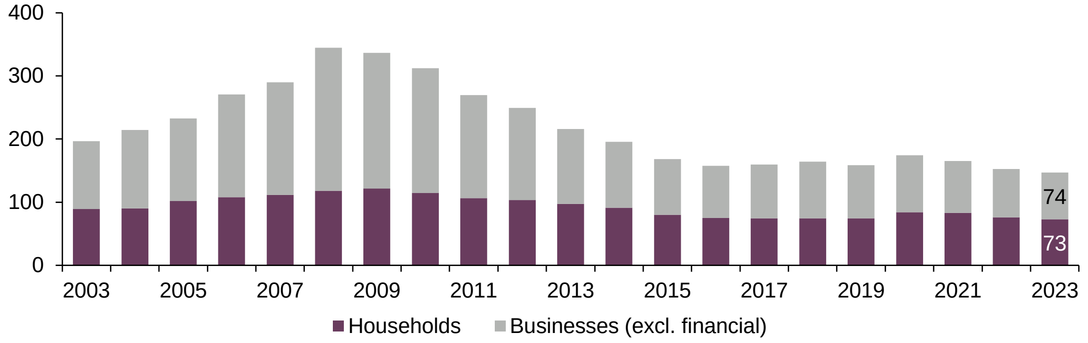


Sources: Statistics Icelandic, Central Bank of Iceland, ÍSB Research.

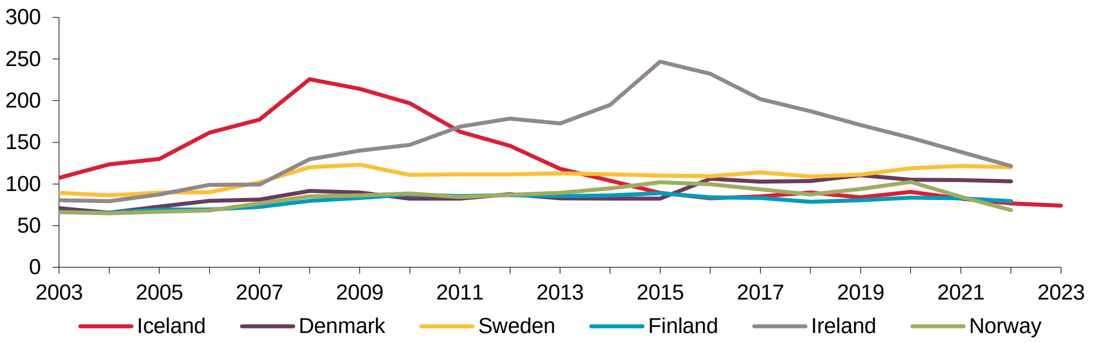
Domestic balance sheets remain healthy

Economy-wide leverage remains moderate as the ratio of private sector debt to GDP declines

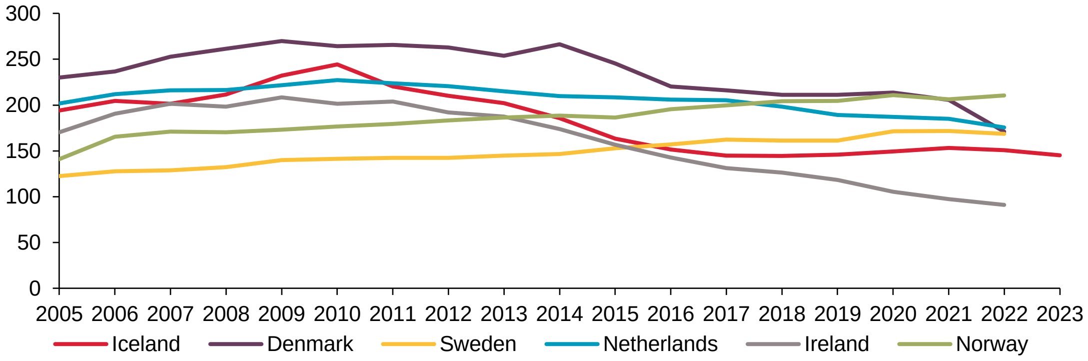
Private sector debt
% of GDP



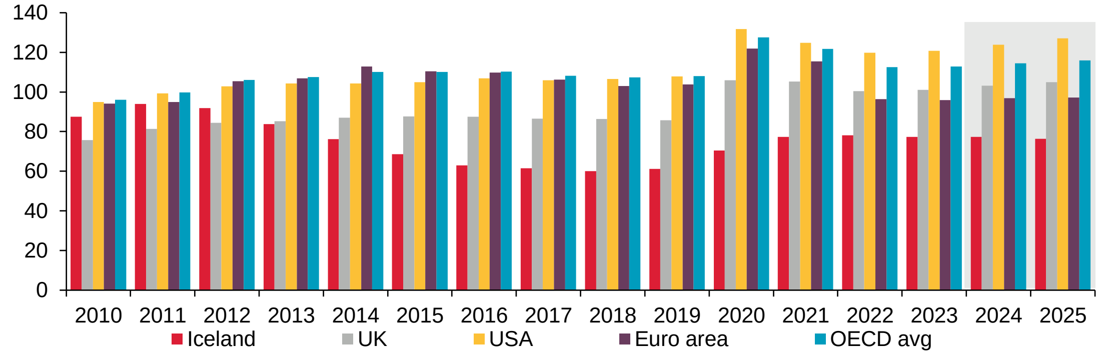
Corporate debt
% of GDP



Household debt
% of disposable income



General government gross financial liabilities
% of GDP



Shaded areas indicate OECD forecasts.
Source: Central Bank of Iceland, Eurostat, Statistics Iceland, OECD.

Investment virtually flat this year but set to regain steam

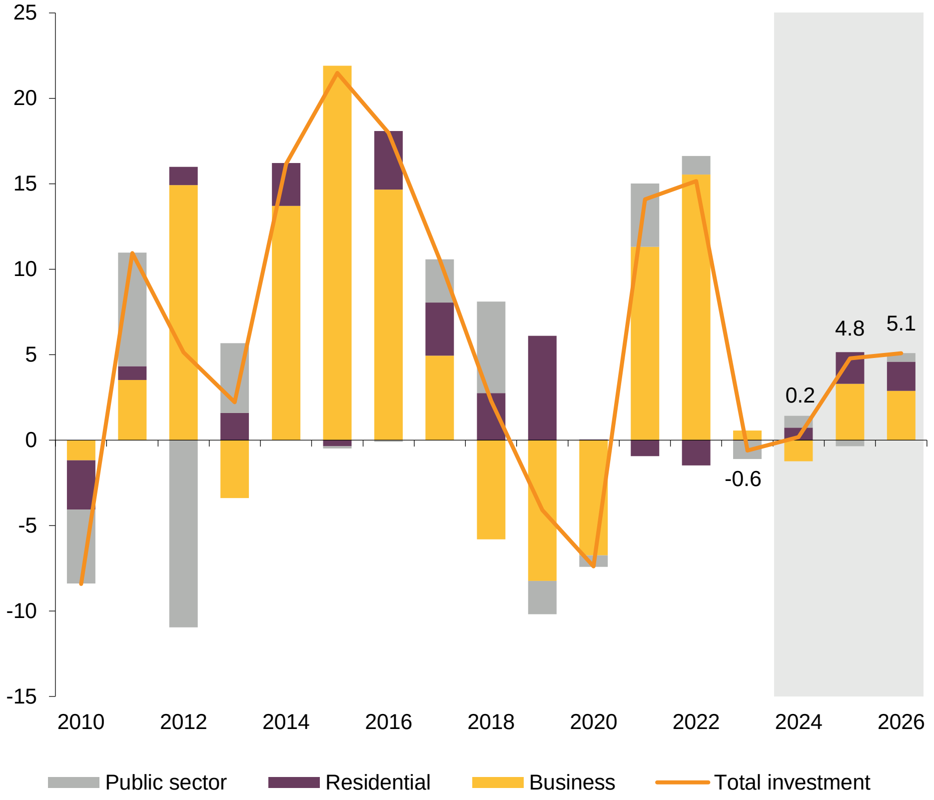
Business investment to contract in 2024 and return to growth thereafter

Highlights

- Investment shrank by 0.6% in 2023, influenced by higher interest rates, weaker business sentiment and public sector consolidation following post-pandemic deficits.
- ISB Research projects total investment to stay flat from 2023 to 2024, with slight increases in residential and public sectors offset by a decline in business investment.
- Indicators predict a significant reduction in general business investment, partially mitigated by strong growth in investment in land-based aquaculture.
- The forecast for 2025 indicates a rebound in investment growth, especially in corporate and residential sectors, though signals for the latter are mixed.
- Business investment in tourist accommodation is expected to ramp up to prevent future accommodation shortages, considering the projected rise in tourism.
- Housing demand is anticipated to rebound with falling interest rates, alongside a recognized need for new infrastructure investments.
- ISB Research anticipates a near 5% annual growth in total investment for both 2025 and 2026.

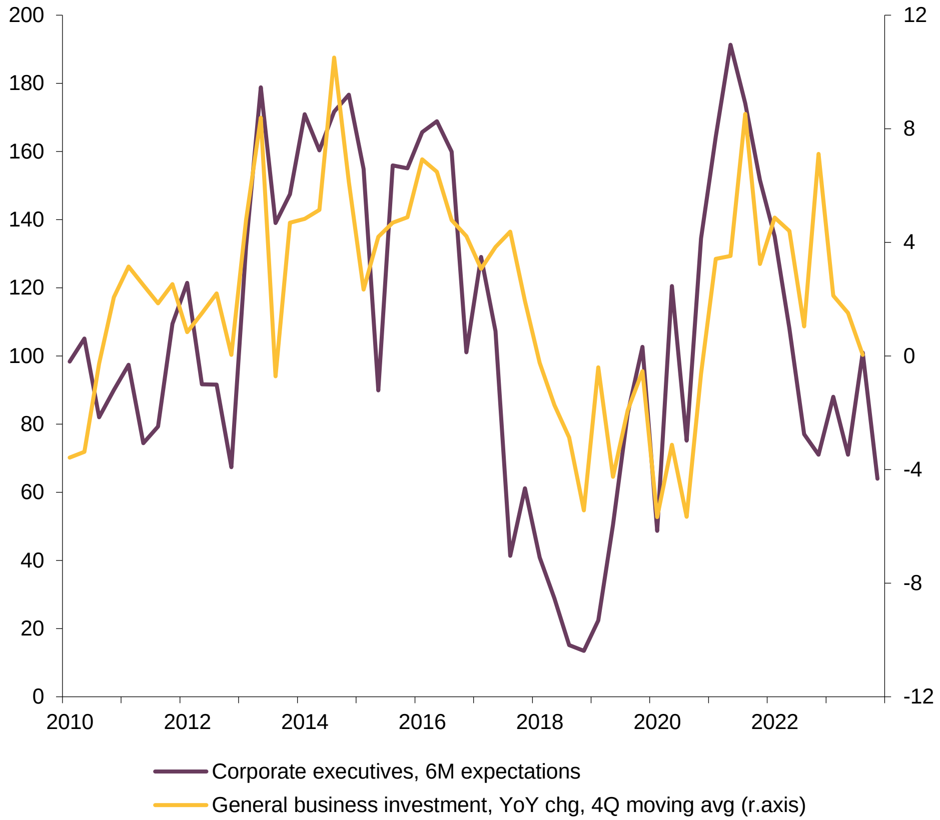
Investment, real change, and contribution of subcomponents

%



Executives' expectations and business investment

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



Source: Statistics Iceland, Gallup.

Labour market tension to ease

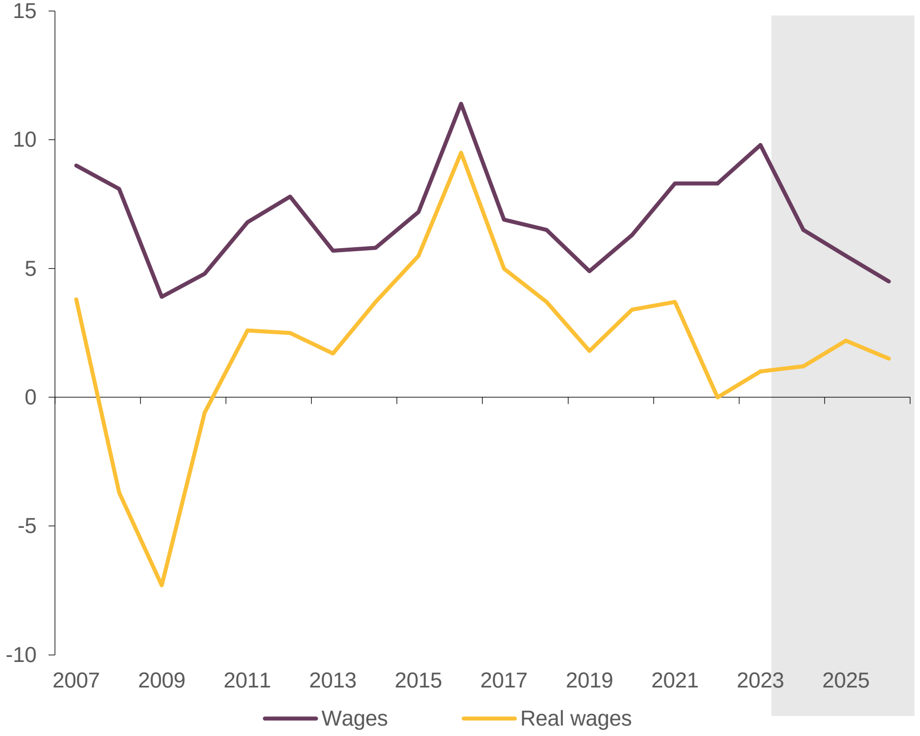
Real wage set to grow during the forecast horizon

Highlights

- The labour market has been quite tight in the recent term, and unemployment has fallen rapidly.
- Demand for labour has been met with foreign workers, who account for 23% of the labour market. In 2023, unemployment measured 3.2%, its lowest since 2018.
- As growth in the economy slows down, tension in the labour market is expected to ease further and unemployment to creep upwards in the near future. ISB research forecast average unemployment at 3.9% in 2024 and 4.0% in both 2025 and 2026.
- Wages rose in nominal terms by 9.8% in 2023, and real wages grew by 1.0% despite high inflation. The increase was due to new wage agreements covering the entire labour market.
- Recently, a major portion of the private labour market has agreed to a 4-year contract that entails somewhat more moderate pay rises than in recent years in order to facilitate lower inflation and interest rate cuts.
- ISB research forecast that wages will rise by 6.5% this year, 5.5% in 2025, and 4.5% in 2026. Based on that, real wages will rise by 1.2% in 2024.

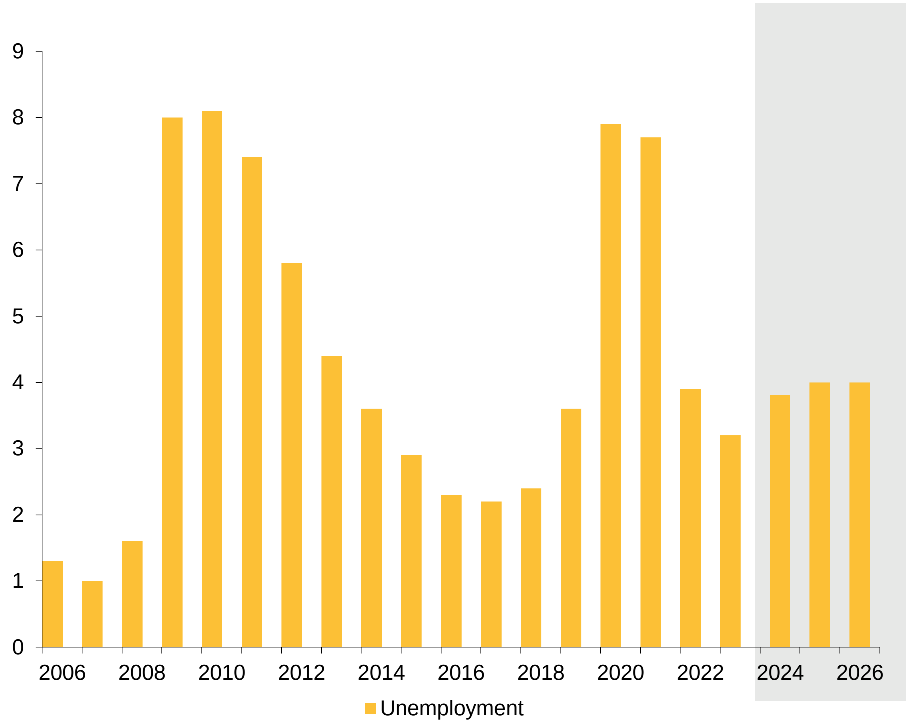
Wages, year on year change

%



Unemployment[1]

% of workforce, annual average



1. Excluding recipients of part-time unemployment benefits.

Source: Statistics Iceland, The Central Bank of Iceland and Confederation of Icelandic employers

Private consumption shifts gears

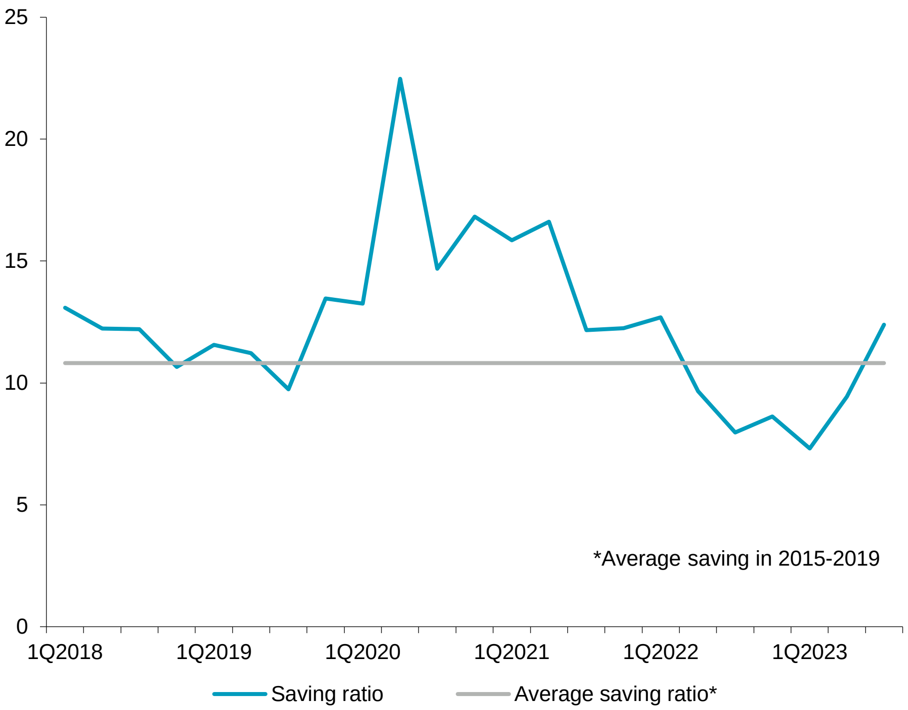
Households' consumption declines and saving rises

Highlights

- Private consumption shifted into reverse in 2023, after two-year growth spurt. Over the year, YoY change went from 4.8% growth in Q1 to a 2.3% contraction in Q4. For the whole year, private consumption grew by 0.5%.
- Domestic demand has clearly lost pace, and households are tightening their purse strings. By this measure, policy rate hikes are getting significant results.
- Most indicators imply a continued contraction in private consumption in the near term. Payment card turnover shrank in real terms throughout most of 2023 and consumer confidence is still weak despite real wage growth.
- High interest rates eat into overall demand, but they also incentivize saving. The household saving rate has risen steadily and is now back above average.
- Based on these factors, the private consumption forecast has been adjusted down to 1% for this year.
- For 2025, private consumption is projected to rise by 2.5%, supported by easing inflation and improving real wage growth.
- In 2026, the economy is expected to be better balanced, with private consumption growth measuring 3%.

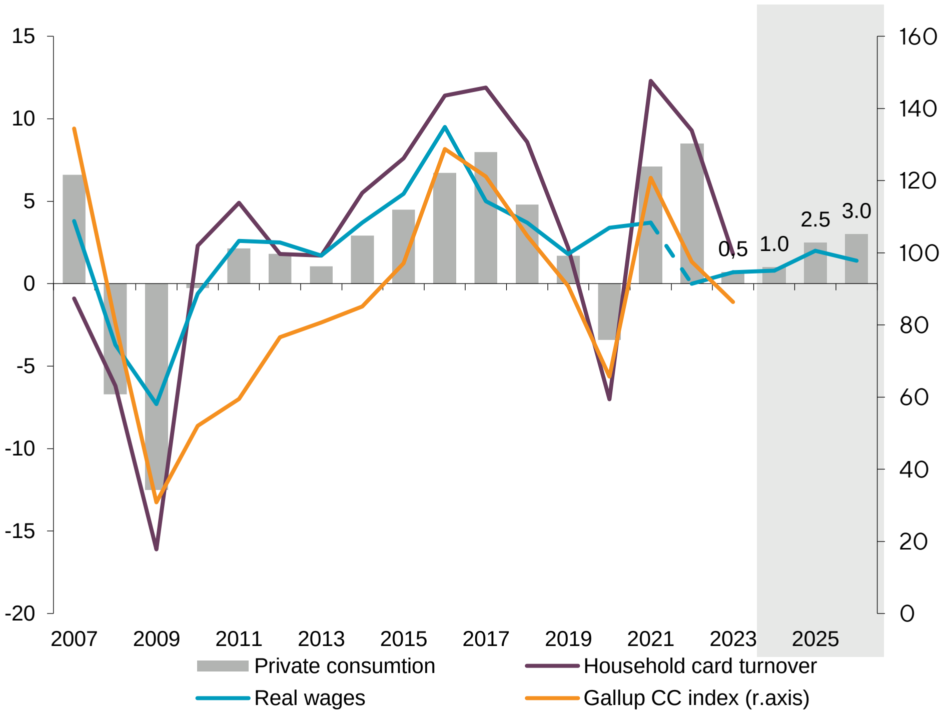
Household saving

% of disposable income



Private consumption and related indicators

% change YoY (left) and index value (right)

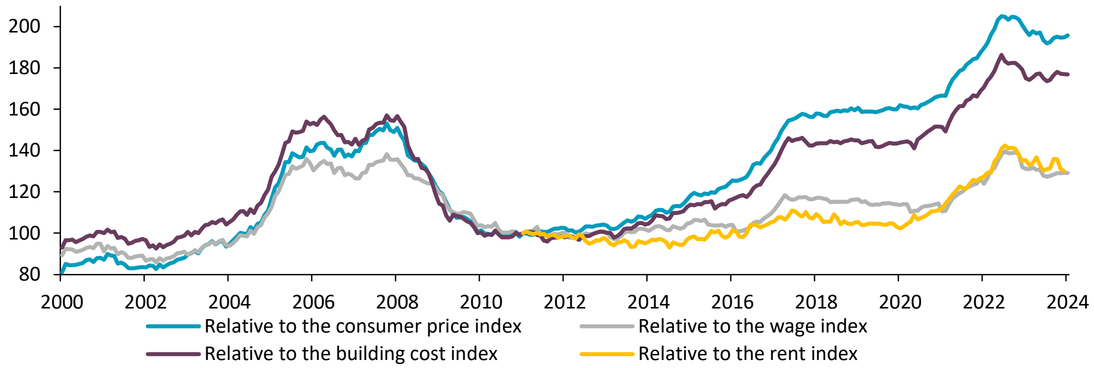


Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

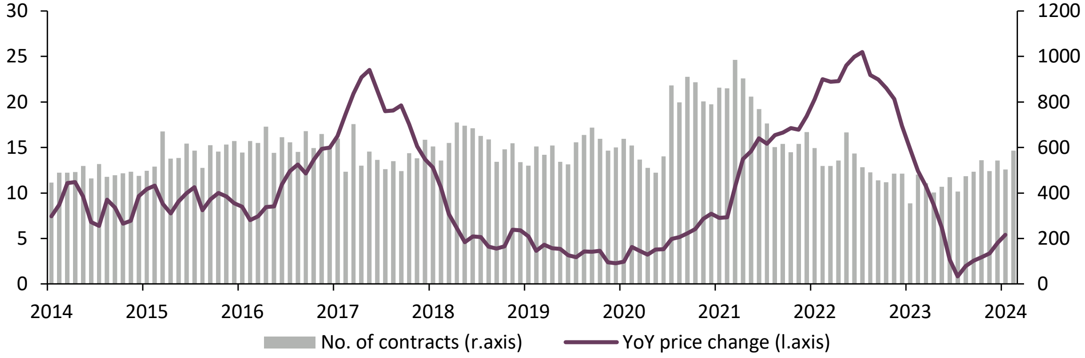
The real estate market has stabilized in recent quarters

Central Bank measures have contributed to slower price increases of residential housing

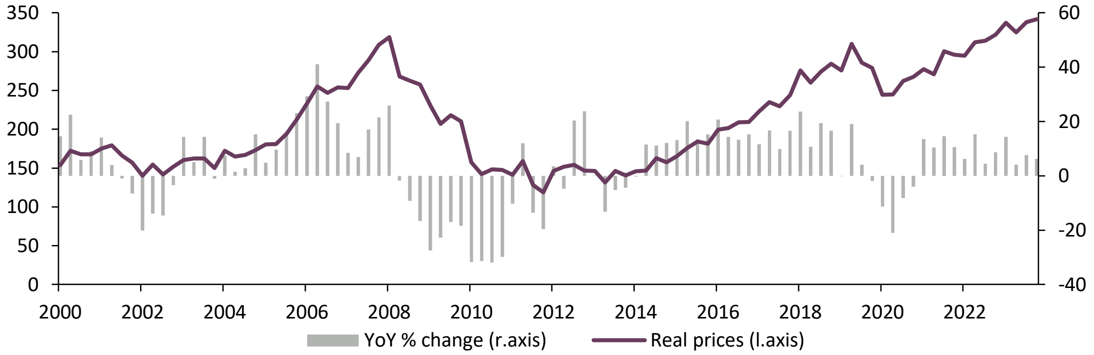
Capital area house prices relative to macroeconomic fundamentals
Index, January 2011=100



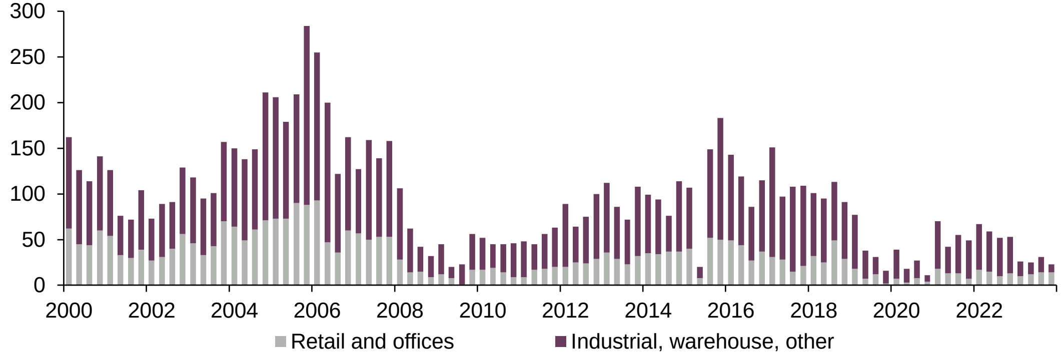
Residential house prices and turnover in greater Reykjavik
% change (l.axis) and number (r.axis)



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



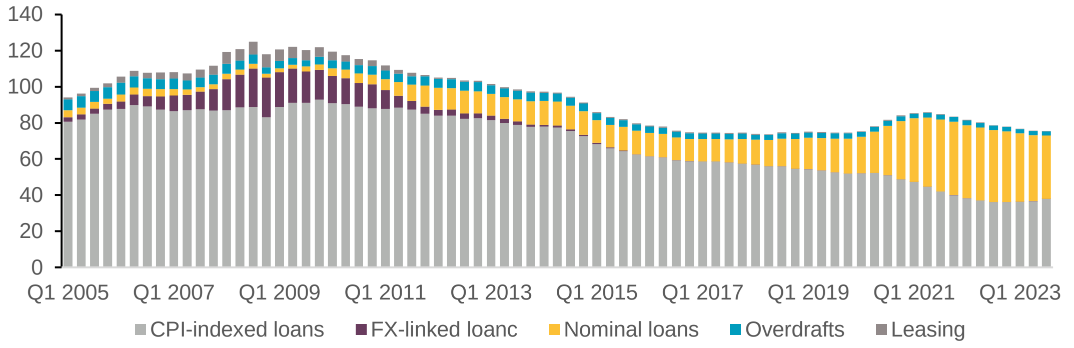
Source: The Central Bank of Iceland.

The Icelandic housing market is relatively resilient

Supply, demand, mortgage market factors combine to make a large price correction less likely

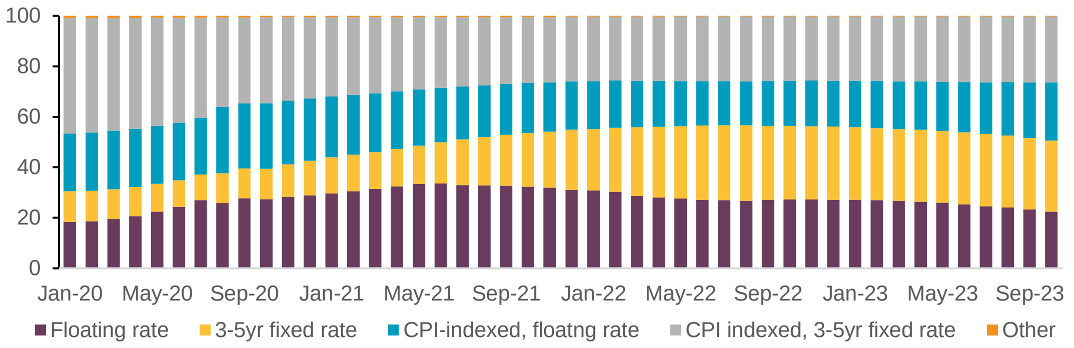
Households are not highly indebted compared to peers

Household debt, % of GDP



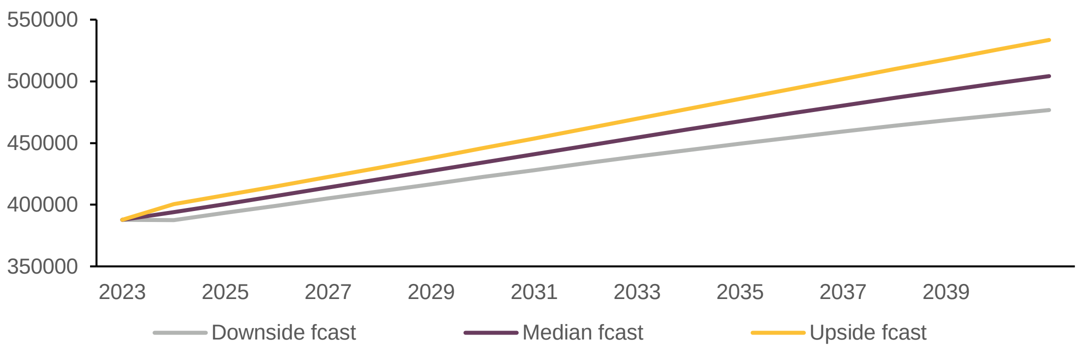
Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



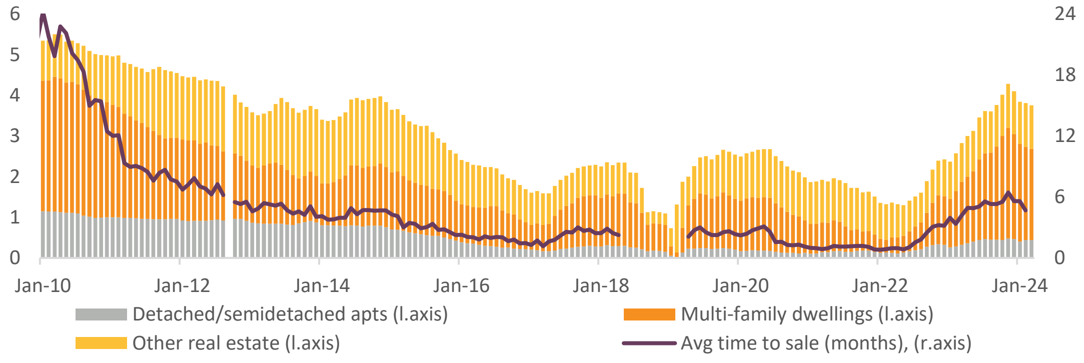
Underlying upward demand trend steady as population growth remains robust

Population forecast by Statistics Iceland



Supply of new residential housing has increased in recent quarters

No. of purchase agreements, capital region (th.), and average time to sale



Source: The Central Bank of Iceland, Statistics Iceland.

The bumpy road to disinflation

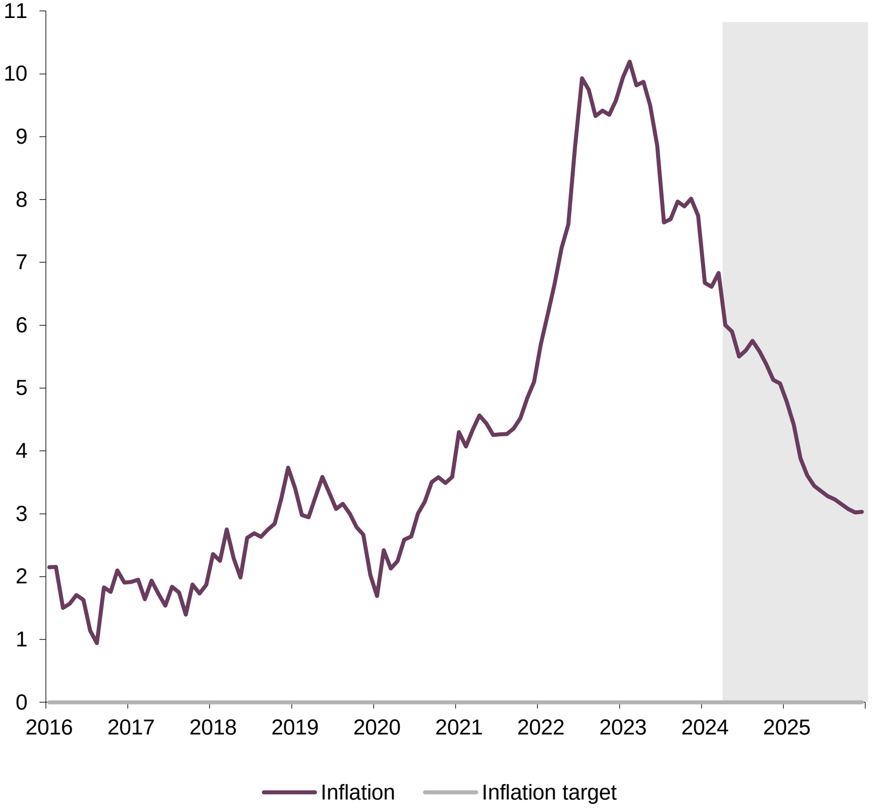
Inflation has proven persistent but looks set to decline towards target in due course

Highlights

- Twelve-month inflation measured 6.7% in 1Q24 after peaking at 10.2% in 1Q23. In April, inflation declined to 6.0%. Headline inflation averaged 8.7% in 2023.
- A continued decline in inflation looks likely of the forecast horizon although the road to disinflation could continue to prove bumpy.
- ISB Research does not expect inflation to fall to 2.5% target during the forecast horizon. It is projected to average 5.9% this year, 3.5% in 2025 and 2.9% in 2026, putting it very close to target in the final year.
- One of the biggest uncertainties in the medium term is wage developments. If pay rises are excessive, there is a significant risk of a wage-price spiral.
- However, risk of rapid wage rises in coming quarters has receded somewhat following recent wage agreements.
- Imputed rent has contributed a significant portion of total inflation in recent quarters. A change in methodology could reduce short-term volatility in this subindex although the risk of insufficient supply of new housing remains an upward risk for the housing component of inflation.

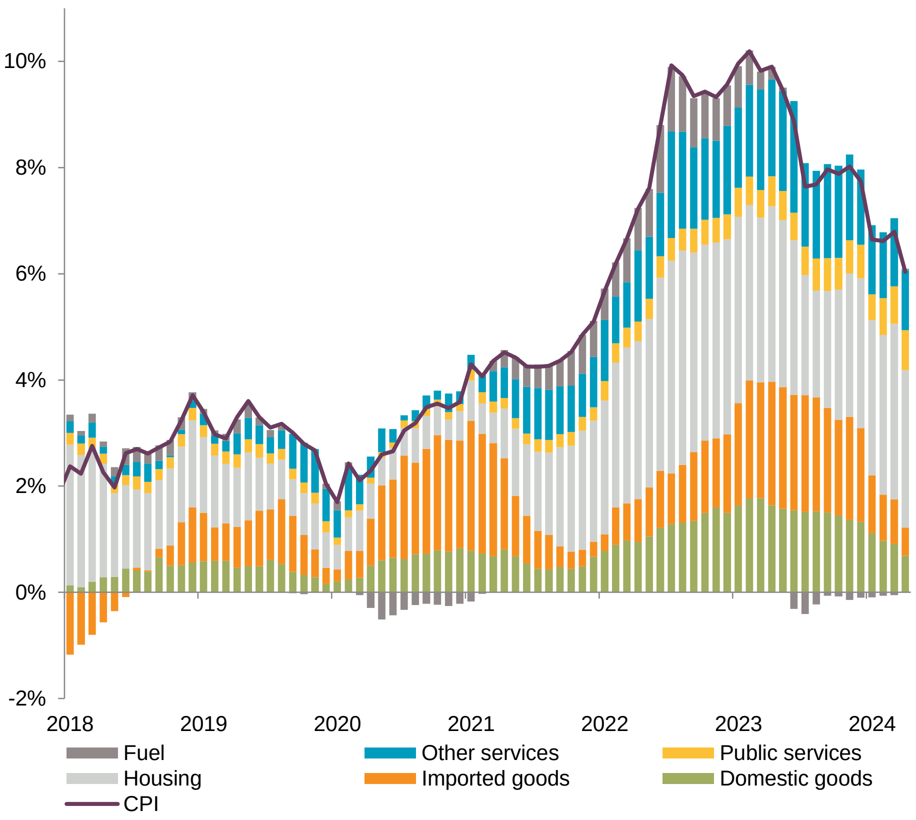
Inflation and the CBI inflation target *

% *Forecast as of April-2024



Inflation by contribution of main categories

%



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

Gradual monetary easing phase to commence in 2024

Declining inflation and a shrinking positive output gap facilitate lower interest rates later on

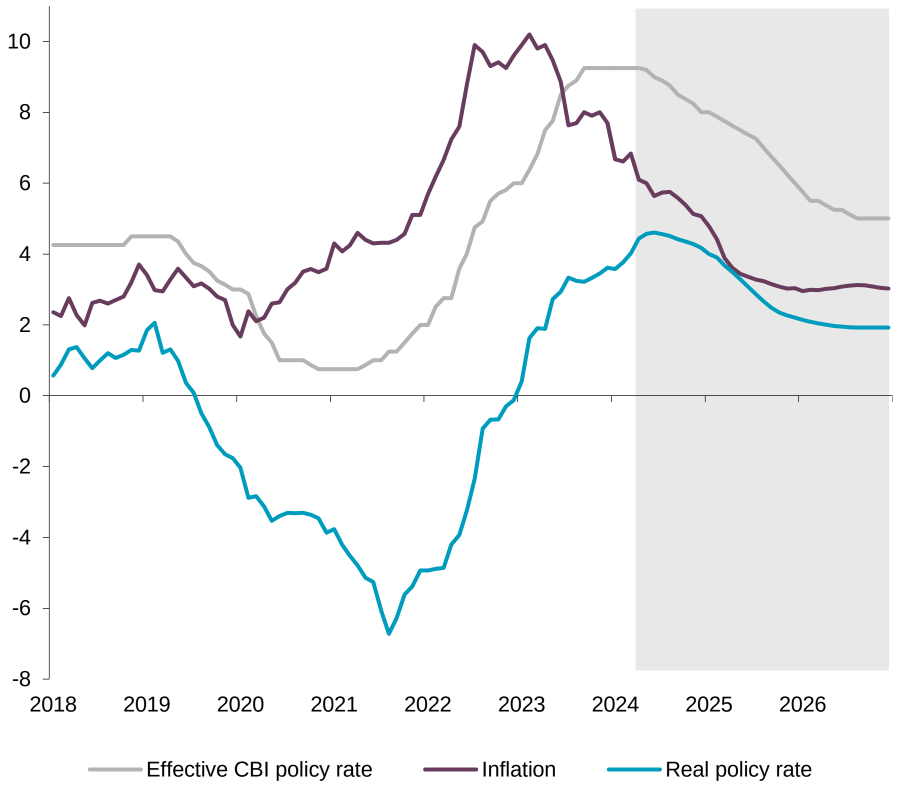
Highlights

- The Central Bank of Iceland increased the policy rate significantly to 9.25% by August 2023 but has kept the policy rate unchanged since then.
- In 1Q24, the MPC has been split on policy, with 4 of 5 members voting for unchanged rates and 1 member voting for a 0.25% rate cut.
- Recent trends show easing inflation, modestly declining inflation expectations by some measures, signs of demand contraction, and recent wage agreements facilitating disinflation.
- ISB Research considers the tightening cycle likely finished, expecting the policy rate to hold at least until May, with possible monetary easing to follow if inflation and demand pressures decrease.
- The policy rate is forecasted to drop to 8.0% by end-2024, 6% by end-2025, and 5% by the forecast period's end, with long-term interest rates decreasing concurrently.
- Risks to the forecast are increasingly skewed towards the rate cut process starting later, however, as inflation has recently proven more persistent than the CBI expected and the housing market is showing resilience.

Policy rate and inflation *

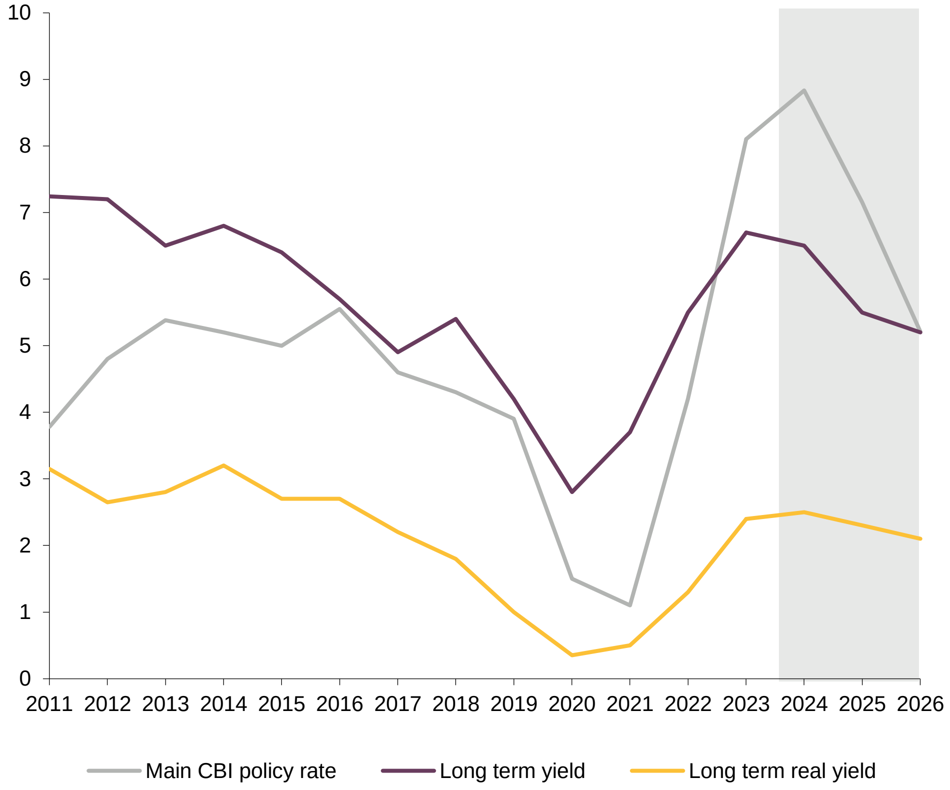
%, Real policy rate based on 12m forward forecasts

* Forecast as of April 2024



Key interest rates

%, average per year



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

Additional modest ISK appreciation in the offing

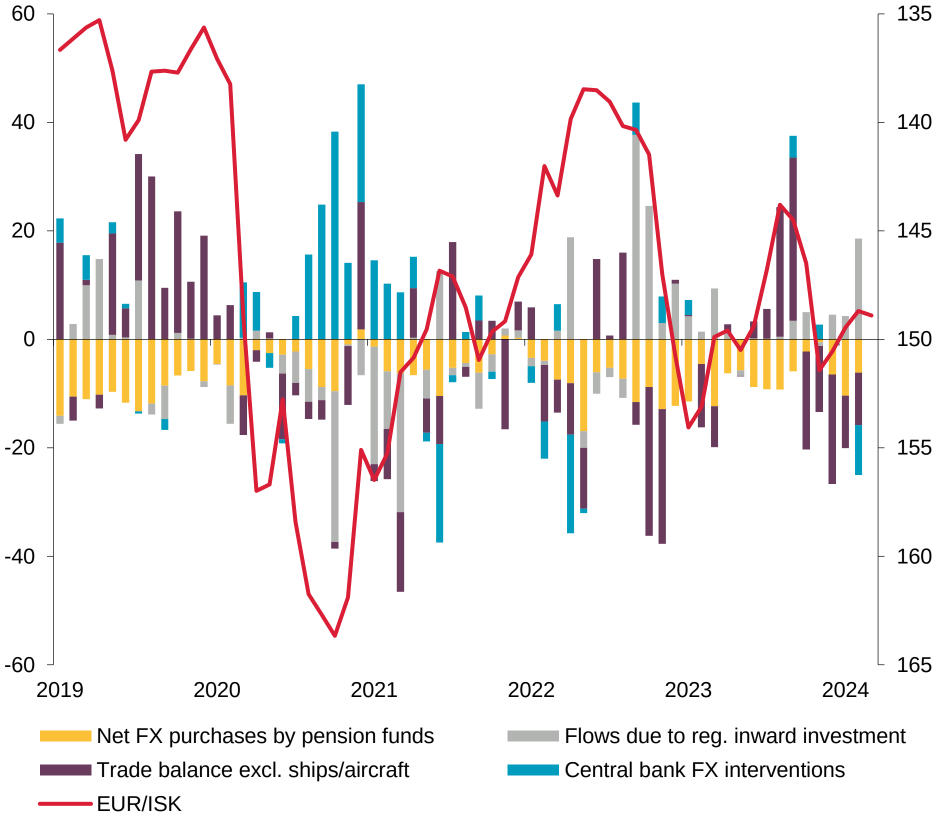
A higher real exchange rate will impede further improvement in the CA later on

Highlights

- The Icelandic króna (ISK) showed marked volatility in 2023, strengthening early on, then weakening rapidly in the fall, followed by a modest rally to end the year slightly stronger than at end-2022.
- ISB Research attributes these fluctuations to a shifting trade balance, financial flows, and changing ISK forward positions.
- The forecast predicts a steady, if modest, current account (CA) surplus, around ISK 40 billion yearly.
- Iceland maintains a robust external position with a considerable interest rate differential expected to persist, complemented by historically low foreign-owned securities stock.
- Projected FX inflows may be counterbalanced by Icelandic pension funds' ongoing foreign investments, amounting to a net ISK 83 billion in 2023.
- Although the ISK is likely to remain volatile, ISB Research is projecting a 7-8% appreciation by the end of the forecast period relative to end-2023, equating to ISK 140 per euro.
- Anticipated real exchange rate rise could limit further ISK strengthening, with wage and inflation disparities potentially leading to future depreciation.

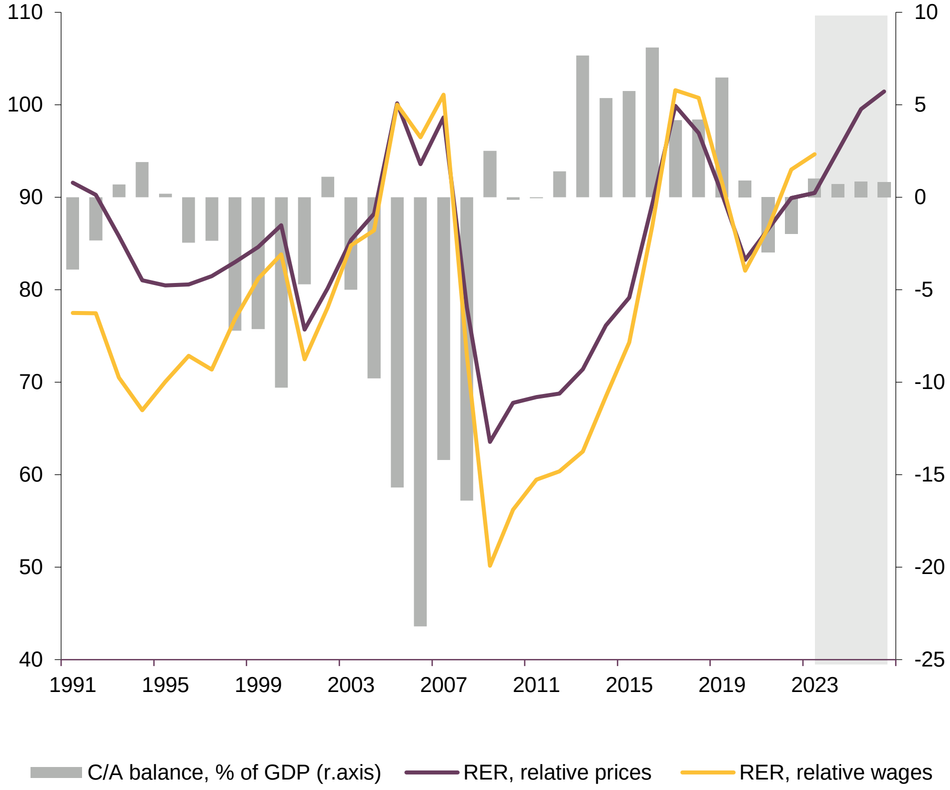
ISK exchange rate and selected determinants

ISK bn (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP

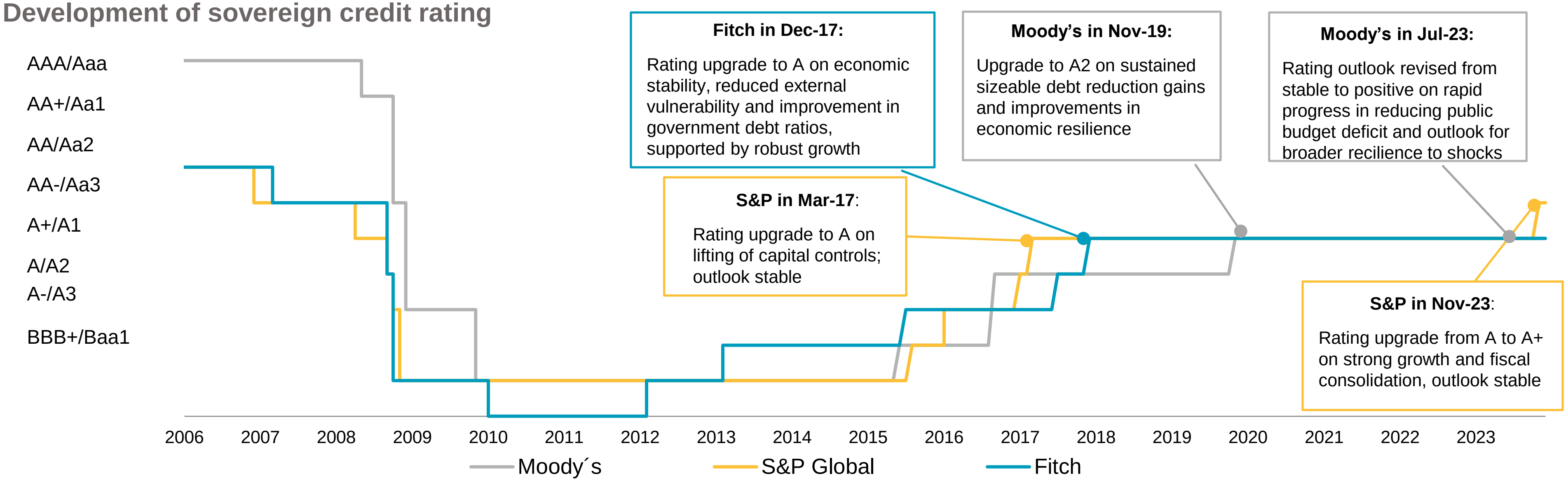


Source: Statistics Iceland, The Central Bank of Iceland, ISB Research.

Iceland’s credit rating continues its gradual upward trend

Rating companies acknowledge the flexibility of the economy and resilience to recent global shocks

Development of sovereign credit rating



MOODY’S IN AUGUST 2023

- “The credit profile of Iceland reflects the economy's flexibility, wealth, competitiveness and favourable demographics, all of which support its long-term growth prospects.”
- “The economy has demonstrated its resilience to the twin shocks of the pandemic and the war in Ukraine, rebounding strongly on an effective policy response and a recovery in tourism.”
- “The country has significantly strengthened its fiscal framework as well as banking supervision and regulation”

FITCH IN SEPTEMBER 2023

- “Iceland’s ‘A’ rating is underpinned by its very high income per capita and governance indicators that are more consistent with those of ‘AAA’ and ‘AA’ rated sovereigns.”
- “Strong credit fundamentals include the country’s sizeable pension fund assets, sound banking sector, and strong private sector balance sheets.”
- “The rating remains constrained by Iceland’s small economy with its limited export diversification and high level of public debt.”

S&P IN Nov 2023

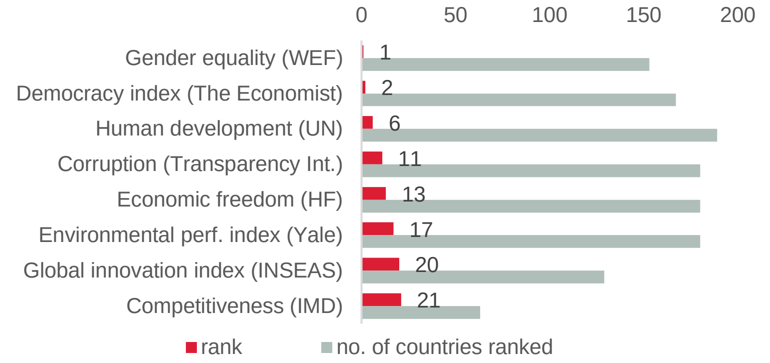
- “The government continues to focus on fiscal consolidation, not least to contain inflation, and we expect general government deficits to be lower than 2% of GDP annually through 2026.”
- “The stable outlook reflects our view that Iceland's economy will continue to expand over the next two years, while recording only modest fiscal and current account deficits.”
- “Meanwhile, we expect Iceland's extensive domestic energy sources (primarily hydro and geothermal) will shield the country from further potential adverse developments affecting global energy markets.”

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

The Icelandic economy and society draw on many strengths

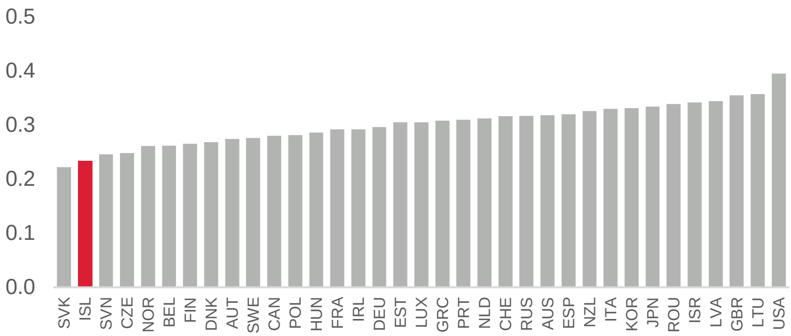
Icelanders enjoy high standards of living in a modern, open and egalitarian society

Iceland ranks highly on a variety of global development benchmarks



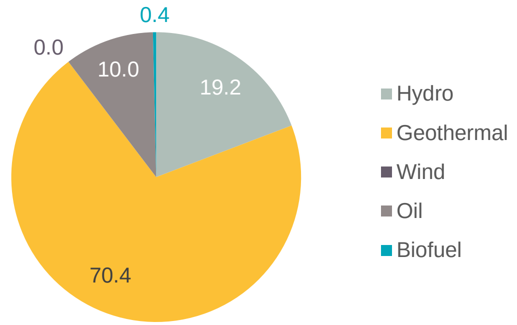
Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



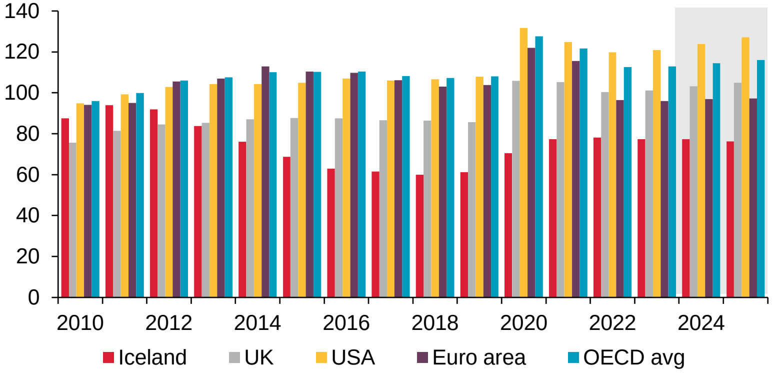
Sustainable energy usage is prevalent

Energy consumption by source, 2020



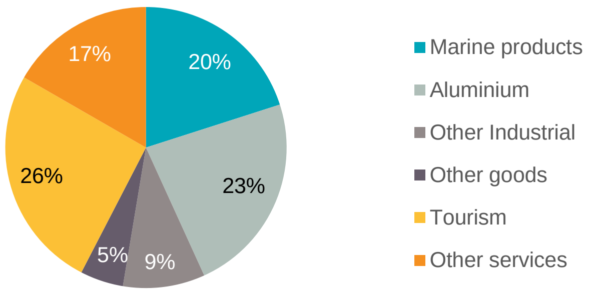
Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



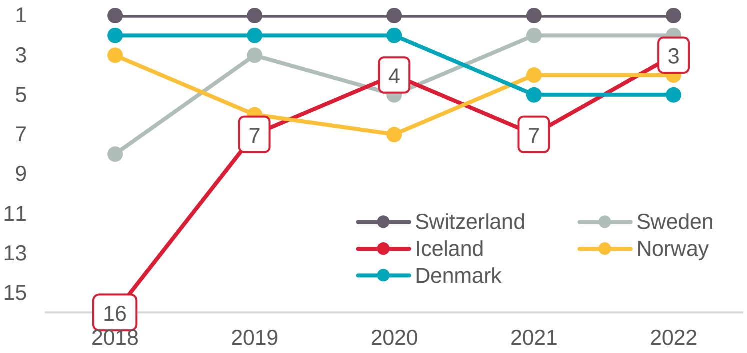
Export base has grown more diverse over time

Export contribution by industry, 2022



Iceland ranks highly in attracting/retaining talent

IMD World Talent Ranking 2018-2022



Shaded area denotes OECD forecast

Source: Statistics Iceland, OECD, IMF, WEF, IEP, The Economist, UN, Transparency Int., HF, Yale, IMD, INSEAS

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.

2 May 2024