BANKASÝSLA RÍKISINS

Íslandsbanki

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ISFI AND ÍSLANDSBANKI HF ANNOUNCE INTENTION TO PROCEED WITH AN INITIAL PUBLIC OFFERING OF ÍSLANDSBANKI ON NASDAQ ICELAND

Reykjavík, 27 May 2021, Iceland. Bankasýsla ríkisins (Icelandic State Financial Investments, "ISFI"), on behalf of the Treasury of Iceland, and Íslandsbanki hf. ("Íslandsbanki" or the "Bank"), confirm their intention to proceed with the next step towards an Initial Public Offering (the "IPO" or the "Offering") and listing of shares in Íslandsbanki on Nasdaq Iceland. The intended IPO will consist of a secondary offering of shares in Íslandsbanki. The Offering and timing thereof are subject to, among others, market conditions. Barring unforeseen circumstances, the Offering could be launched as of Q2 2021.

Íslandsbanki hf. is wholly owned by the Treasury of Iceland, whose holdings are managed by ISFI in accordance with Act No. 88/2009. In December 2020, ISFI submitted a proposal to the Minister of Finance and Economic Affairs (the "Minister") to initiate a sale process of Íslandsbanki. As required by provisions in Act No. 155/2012, the Minister prepared a memorandum for the Budget Committee and the Economic Affairs and Trade Committee of Althing (Parliament). Following the receipt of comments on the memorandum by the parliamentary committees, the Minister decided on 29 January 2021 to initiate a sale process, that reflected certain guidelines by the committees, to be managed by ISFI, according to provisions in Act No. 155/2012.

Offer Highlights

- The Offering will comprise existing Shares of Íslandsbanki hf. offered by Icelandic State Financial Investments ("Offer Shares") on behalf of the Treasury of Iceland (the "Selling Shareholder").
- The Offering consists of a public offering of the Offer Shares to institutional and retail investors in Iceland and a private placement to certain institutional investors in various other jurisdictions.
- The Board of Directors of the Bank will submit an application for all Offer Shares in the Bank to be admitted to trading on the regulated market of Nasdaq Iceland.
- The Offering will comprise Shares representing a minimum of 25% of the total issued and outstanding share capital of the Bank.
- The Selling Shareholder will not divest its remaining Shares for a period of 180 days after the first day of trading in the Shares on Nasdaq Iceland, subject to certain exceptions – in line with standard market practise.
- Citigroup Global Markets Europe AG, Íslandsbanki hf. and J.P. Morgan AG are acting as Joint Global Coordinators and Joint Bookrunners on the Offering, alongside Barclays Bank Ireland

PLC, HSBC Continental Europe, Fossar Markaðir hf., and Landsbankinn hf., as Joint Bookrunners, Arion Bank hf., and Kvika banki hf. as Joint Lead Managers, and Arctica Finance hf., Íslenskir fjárfestar hf. (Icelandic Investors) and Íslensk verðbréf hf. (Icelandic Securities) as Co-Lead Managers.
- The IPO is subject to the receipt of all applicable registrations and regulatory and governmental approvals.

Bjarni Benediktsson, Minister of Finance and Economic Affairs:

"The listing of Íslandsbanki on Nasdaq Iceland is an important first step to reduce the Icelandic state's significant ownership in the banking sector and will provide a clear path for the state to sell its remaining shares in the bank in the near future. Thereby we move one step closer to a healthier environment in our banking sector, such as those of our neighbouring countries in the Nordics. I am very pleased to see how well the process for the IPO, run by ISFI and its advisors, is going and look forward to see it successfully completed."

Lárus L. Blöndal, Chairman of the Board of Directors of ISFI:

"*In line with the decision made by the Minister last January and comments from the Budget Committee and the Economic Affairs and Trade Committee of Althing, I am pleased to see that the IPO plans for Íslandsbanki are moving forward. The Minister assigned the responsibility to manage the sale process to ISFI and to ensure certain terms of the offering and allocation principles. The government´s ownership policy states that the objective is to sell holdings in Íslandsbanki when market conditions are favourable, and we feel that this is the right time to move forward."*

Hallgrímur Snorrason, Chairman of the Board of Directors of Íslandsbanki:

"*This is a turning point in the Bank's history when we return to private ownership, as we have primarily been throughout our history. The Bank is well-positioned to become a listed company and has since its incorporation in 2008 been acting and operating as a listed entity. The Bank's infrastructure is well developed and suitable to meet the requirements set by the regulated market. We are pleased to invite investors to participate in the continued development of the Bank and believe that the listing is a testament of the quality, not only of the Bank, but also the Icelandic banking sector and the Icelandic economy as a whole.*"

Overview of Íslandsbanki

- Íslandsbanki is headquartered in Iceland, its primary market. In December 2020, the Bank had approximately 31% market share in Personal Banking, 35% market share in Business Banking and 35% market share in Corporate & Investment Banking.[1] Íslandsbanki has a BBB/A-2 rating (stable outlook) from S&P Global Ratings.
- Íslandsbanki is a customer-centric universal bank in Iceland with strong positions across the personal, SME, corporate banking sectors, investment banking and asset management.
- The Bank is well-positioned to capture opportunities ahead in the attractive domestic market, as the outlook is vital both in terms of GDP growth and rising interest rates.
- Íslandsbanki leverages its omnichannel delivery model to maintain high customer satisfaction while operating the most efficient domestic branch network.

[1] Source: Gallup

- The Bank considers itself a digital champion with a state-of-the-art banking platform, investing significantly in digital development and replacing all legacy core systems.
- The Bank is a global leader in sustainability and gender equality and has successfully translated sustainability ambitions into differentiated customer propositions. Íslandsbanki is the first Icelandic bank to develop and publish a Sustainable Financing Framework for sustainable loans in its portfolio.
- In addition to being a model of environmental, social, and governance (ESG) in its operations, the Bank is committed to initiating broader collaboration on responsible business practices that contribute to sustainable development in the Icelandic economy.
- Íslandsbanki has a clean and robust balance sheet and a solid foundation to deliver strong financial performance. The Bank has committed itself to ambitious targets and has a clear path to provide increased return on equity (RoE) over the coming years.
- Strong capitalisation provides opportunities for capital return and further RoE growth.

Birna Einarsdóttir, CEO of Íslandsbanki:

"Since Íslandsbanki was reformed in 2008, we have followed a successful path which has led to the solid and sustainable banking platform we have today. We have a clear strategy for developing our business into the future and are focused on executing that strategy. With a strong digital offering, long-term customer relationships and a deeply ingrained service culture, we are proud of where we are and remain in an excellent position to capture the momentum ahead in Iceland. We have a clear path towards increased profitability and well-defined milestones towards double-digit RoE in the medium term, paving the way for capital return by regular dividend and return of excess capital. The Bank's management has a long history of delivering our strategic goals, and I am confident we will continue to do so in the future."

Strategy

Today Íslandsbanki operates in accordance with a strategy approved by the Board of Directors at the beginning of 2019, following extensive work involving customers, employees, and other stakeholders. According to its strategy, Íslandsbanki's objective is to be a force for good in the community, and the Bank's vision is to be #1 in service in the domestic financial sector.

To support its strategic priorities, the Bank has defined seven strategic themes. Four themes aim to extend its step change in productivity through clear focus, pricing, cost-mindfulness and a new approach to digital delivery. In comparison the remaining three themes are focused on building a sustained competitive advantage through leveraging data, open banking opportunities and sustainability leadership.

- Emphasis on cost efficiency resulted in 7% reduction in operating expenses 2020 YoY, and revised pricing strategy protected interest margin despite external rate cuts in the same year.
- The digital transformation of the Bank has already achieved efficiency gains, as digital-only individual customers rose from 34% of the total in 2017 to 71% in 2020, and the Bank is introducing different digital solutions.
- The Bank is focused on using data more effectively to implement optimised pricing models, which is expected to continue to benefit the Bank's margins as interest rates rise.

- Íslandsbanki harnesses customer data to understand the needs of the Bank's customers and offer targeted services, products and pricing.
- The Bank has in place a developer portal for its open banking partners to connect with the Bank. The first open application programming interfaces are now accessible, focusing on opportunities related to lending.
- As a leader in sustainability, the Bank seeks to capture increased customer, employee and stakeholder interest in sustainability by offering and further strengthening its brand image as a sustainability leader.

Financial Targets

- The Bank's aims to deliver a return on equity between 8-10% by 2023 and in excess of 10% in the long term.
- The Bank aims to reduce its cost-to-income ratio to less than 45% by 2023.
- The Bank targets a long-term CET1 capital ratio of >16%.
- Íslandsbanki targets approximately 50% of earnings as a base dividend and may utilise its excess capital to support further dividend payments, share buybacks or ROE enhancing growth.

Key financial information regarding the Bank

Consolidated Income Statement Data*

	Three months ended 31 March		Year ended 31 December		
	2021	**2020**	**2020**	**2019**	**2018**
	(ISK in millions)				
Net interest income	8,190	8,580	33,371	32,822	30,919
Net fee and commission income	2,862	2,491	10,525	10,899	10,423
Other net operating income	546	(1,664)	(743)	1,444	832
Total operating income	**11,598**	**9,407**	**43,153**	**45,165**	**42,174**
Total operating expenses	(6,445)	(6,279)	(25,013)	(28,952)	(28,708)
Profit before net impairment on financial assets	**5,153**	**3,128**	**18,140**	**16,213**	**13,466**
Net impairment on financial assets	(518)	(3,490)	(8,816)	(3,480)	1,660
Profit (loss) before tax	**4,635**	**(362)**	**9,324**	**12,733**	**15,126**
Income tax expense	(1,036)	(769)	(2,472)	(3,909)	(5,008)
Profit (loss) for the period from continuing operations	**3,599**	**(1,131)**	**6,852**	**8,824**	**10,118**
Discontinued operations, net of income tax	16	(245)	(97)	(370)	527
Profit (loss) for the period	**3,615**	**(1,376)**	**6,755**	**8,454**	**10,645**

*For the three months ended 31 March 2020 and the years ended 31 December 2020, 2019 and 2018, the subsidiary Borgun hf. ("Borgun") was classified as discontinued operations.

Key Investment Highlights

- Attractive industry dynamics with a concentrated banking market exhibiting strong capitalisation ratios compared to European peers[2], the highest level of digitial banking penetration in Europe[3], and an outlook for strong growth.
- Icelandic macro-economic landscape benefiting from proven track record of a fast recovery with a domestic economy that is well positioned to benefit from the on-going re-opening of the global economy from tourism, and a positive interest rate environment.
- The Bank considers itself a digital champion with 99% of customer interactions with individuals through digital channels in 2020, supported by a solid technical foundation, a customer base of which 71% are digital-only, and an efficient omnichannel strategy with the most efficient branch network in Iceland.
- The Bank has a clean and robust balance sheet with a diversified loan portfolio (where mortgages represent the largest category at 37%[4]) and funding structure (of which 54% represent deposits from customers[5]), supported by a disciplined risk management culture of which non-performing loans comprised 2.9% of gross carrying amount as at 31 December 2020 (compared to 3.0% in 2019).
- The Bank is a prominent domestic universal bank in Iceland with a differentiated and innovative approach and market leading positions across its business segments of Personal Banking, Business Banking, Corporate & Investment Banking and Iceland Funds subsidiary.
- The Bank is a sustainability frontrunner in the Icelandic financial services industry with an ESG-ingrained culture embedded across its banking activities and own operations, and currently holds the highest ESG rating in Iceland as evaluated by Reitun (90 out of 100 points).[6]
- Íslandsbanki is led by a strong and experienced management team with a proven track record of delivery at the Bank, including successful restructuring of the loan book since 2009, rigorous execution of the Bank‘s strategy towards increased efficiency and competitiveness, and an impactful response to the COVID-19 pandemic.
- The Bank has a solid financial foundation underpinning a clear path towards double-digit return on equity in the medium term, and significant capital return potential through sustainable ordinary dividends and opportunity for capital optimisation.

Enquiries

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[2] Source: European Banking Authority
[3] 96% of individuals (Source: Eurostat, 2020)
[4] As of year end 2020
[5] As of year end 2020
[6] Reitun is an Icelandic rating agency.

Important legal information

The information contained in this announcement is for background purposes only and does not purport to be full or complete. No reliance may be placed by any person for any purpose on the information contained in this announcement or its accuracy, fairness or completeness.

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In any member state of the European Economic Area, other than Iceland, this announcement and any offer if made subsequently is, and will be, directed only at persons who are "qualified investors" within the meaning of Article 2(e) of Regulation (EU) 2017/1129 and amendments thereto.

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This announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect the Bank's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Bank's business, results of operations, financial position, liquidity, prospects, growth and strategies. Forward-looking statements speak only as of the date they are made.

Each of the Bank, the Selling Shareholder, Citigroup Global Markets Europe AG, Íslandsbanki hf., J.P. Morgan AG, Barclays Bank Ireland PLC, HSBC Continental Europe, Fossar Markaðir hf., Landsbankinn hf., Arion banki hf., Kvika banki hf., Arctica Finance hf., Íslenskir fjárfestar hf. and Íslensk verðbréf hf. (together, except for the Bank and the Selling Shareholder, the "Managers") and their respective affiliates as defined under Rule 501(b) of Regulation D of the Securities Act ("affiliates"), expressly disclaims any obligation or undertaking to update, review or revise any forward looking statement contained in this announcement whether as a result of new information, future developments or otherwise, and the distribution of this announcement shall not be deemed to be any form of commitment on the part of the Selling Shareholder to proceed with the Offering or any transaction or arrangement referred to therein.

Any purchase of any securities in the proposed Offering should be made solely on the basis of information contained in the Prospectus which may be issued by the Bank in connection with the Offering. The information in this announcement is subject to change. Before purchasing any securities in the Offering, persons viewing this announcement should ensure that they fully understand and accept the risks which will be set out in the Prospectus if published. No reliance may be placed for any purpose on the information contained in this announcement or its accuracy or completeness. This announcement shall not form the basis of or constitute any offer or invitation to sell or issue, or any solicitation of any offer to purchase any securities nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor.

The date of Admission may be influenced by a variety of factors which include market conditions. The Bank may decide not to go ahead with the Offering and there is therefore no guarantee that Admission will occur. You should not base your financial decision on this announcement. Acquiring investments to which this announcement relates may expose an investor to a significant risk of losing all of the amount invested.

Persons considering making investments should consult an authorised person specialising in advising on such investments. This announcement does not form part of or constitute a recommendation concerning any offer. The value of securities can decrease as well as increase. Potential investors should consult a professional advisor as to the suitability of a possible offer for the person concerned.

None of the Selling Shareholder, the Managers or any of their respective affiliates or any of their or their affiliates' directors, officers, employees, advisers or agents accepts any responsibility or liability whatsoever for/or makes any representation or warranty, express or implied, as to the truth, accuracy or completeness of the information in this announcement (or whether any information has been omitted from the announcement) or any other information relating to the Bank, its subsidiaries or associated companies, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available or for any loss howsoever arising from any use of the announcement or its contents or otherwise arising in connection therewith. Accordingly, each of the Selling Shareholder, the Managers, and any of their respective affiliates and any of their or their affiliates' directors, officers, employees, advisers or agents expressly disclaims, to the fullest extent possible, any and all liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this announcement, whether in tort, contract or otherwise which they might otherwise have in respect of this announcement or its contents or otherwise arising in connection therewith.

Each of the Managers is acting exclusively for the Bank and no-one else in connection with the proposed Offering. They will not regard any other person as their respective clients in relation to the proposed Offering and will not be responsible to anyone other than the Bank for providing the protections afforded to their respective clients, nor for providing advice in relation to the proposed Offering, the contents of this announcement or any transaction, arrangement or other matter referred to herein.

In connection with the Offering, the Managers and any of their respective affiliates, may take up a portion of the Shares as a principal position and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Shares and other securities of the Bank or related investments in connection with the Offering or otherwise. Accordingly, references in the Prospectus, once published, to the Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by the Managers and any of their respective affiliates acting in such capacity. In addition, the Managers and any of their respective affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which they may from time to time acquire, hold or dispose of Shares. None of the Managers nor any of their respective affiliates intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("MiFID 2"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID 2; and (c) local implementing measures (together, the "MiFID 2 Product Governance Requirements"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Shares have been subject to a product approval process, which has determined that such Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID 2; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID 2 (the "Target Market Assessment"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Shares may decline and investors could lose all or part of their investment; the Shares offer no guaranteed income and no capital protection; and an investment in the Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Managers will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID 2; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Shares and determining appropriate distribution channels.