SEB
Iceland Day

18 November 2021

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Chief Financial Officer

Íslandsbanki‘s shares have performed better than any other Nordic bank since IPO

Both compared to large, mid and small cap banks

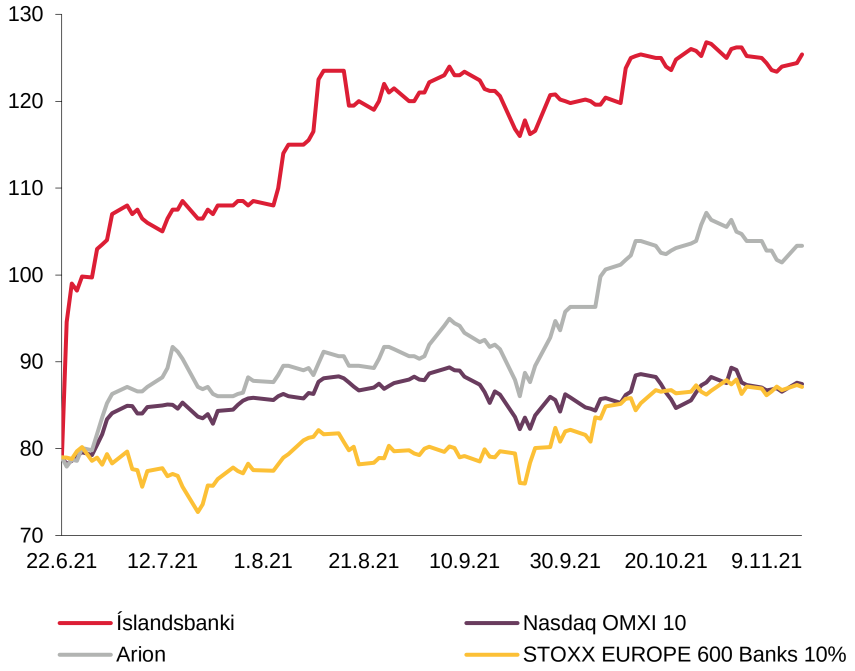
Largest Icelandic IPO ever

+17,000
shareholders

ISK 363m
Average daily turnover from end June 2021

Íslandsbanki´s share price development since IPO

Closing price[1]



Íslandsbanki‘s shareholders

Ten largest shareholders, 30.9.21

The Icelandic Government	65.0%
Capital Group	4.3%
Live Pension Fund	3.4%
Gildi Pension Fund	3.3%
LSR Pension Fund	2.9%
RWC Asset Management	1.3%
Iceland Funds	1.0%
Kvika banki hf.	0.9%
Landsbankinn – Nominee account 1	0.8%
Almenni Pension Fund	0.8%
Other shareholders with less than 0.82% shareholding	16.2%
Total	**100.0%**

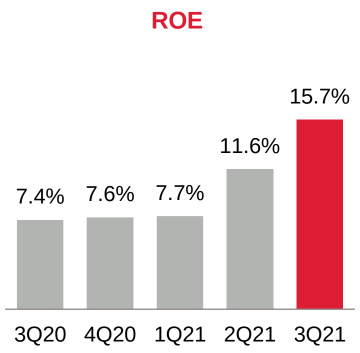
1. Source: Nasdaq Iceland

3Q21 Financial highlights – above market expectations

ROE above financial targets supported by economic recovery and resilience of borrowers

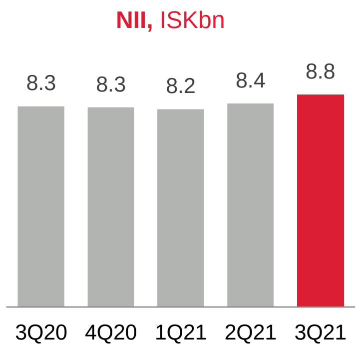
1. Exceptionally strong third quarter earnings

- Profit of ISK 7.6bn and ROE of 15.7% - best quarter in +5 years
- Impacted by positive impairment due to improving economic conditions along with robust income generation
- Annualised cost of risk was -64bps in the quarter compared with 0.44bps in 3Q20



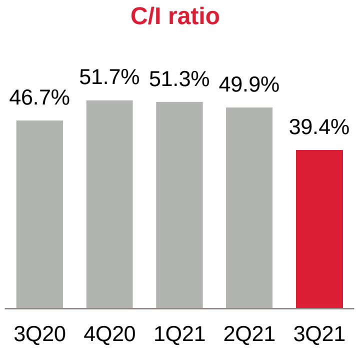
2. Strong customer relationships lay foundation for growing income generation

- Total operating income up 21% YoY, with solid growth in main line items
- Core income (NII and NFCI) up 9.4% YoY
- Having defended margin erosion as rates fell, NIM can be expected to improve in a rising rates environment



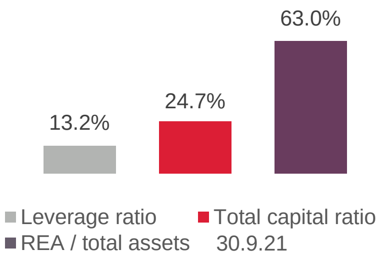
3. Improved operational efficiency with C/I ratio substantially down

- Substantial YoY reduction in C/I ratio due to revenue and cost improvements and seasonality in Q3
- Strong track record of cost savings (incl. FTE and branch reductions) without impacting revenue growth



4. High quality balance sheet and stable deposits the base for profitable bank operations

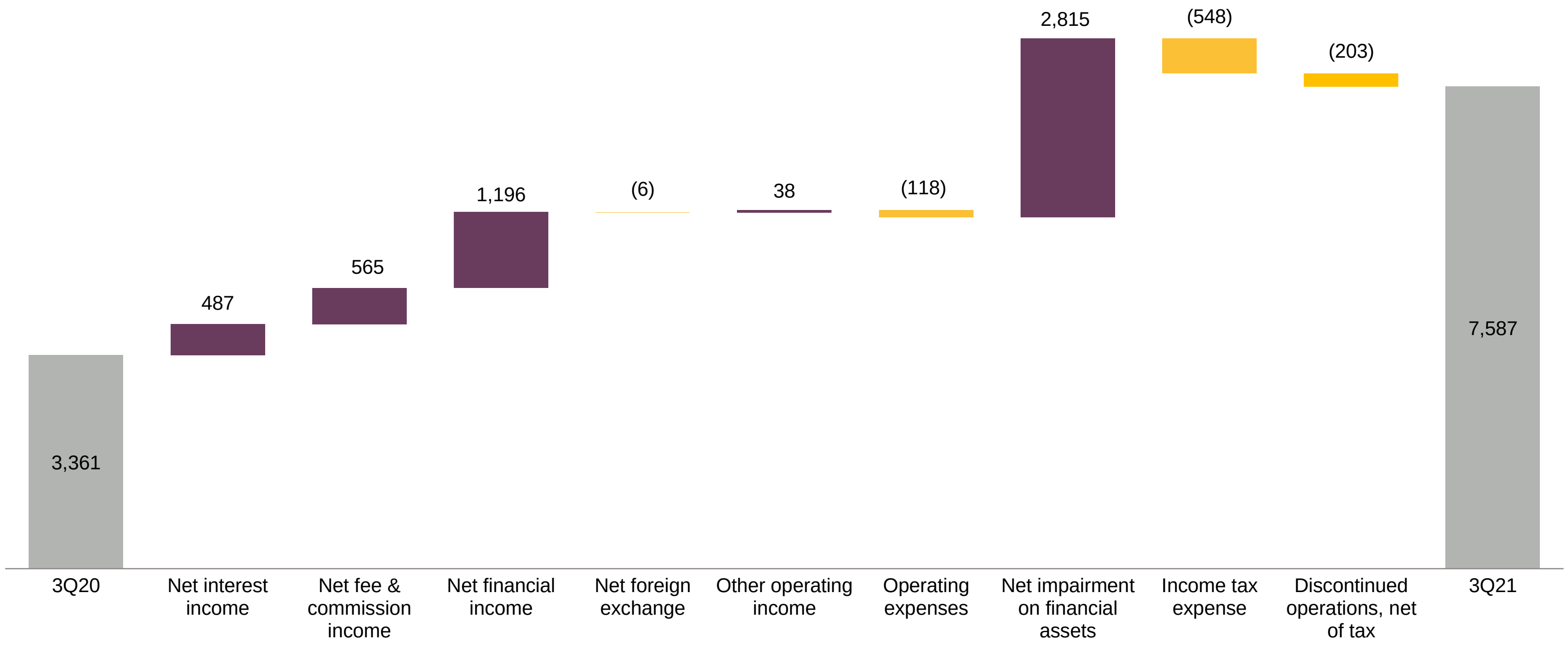
- Positive IFRS 9 stage migration, payments have resumed for 59% of loans in forbearance
- Robust liquidity and capital metrics, high REA density and low leverage versus Nordic peers



Best quarter in 5 years

Core revenue growth from robust underlying business and reversed impairments drive good result

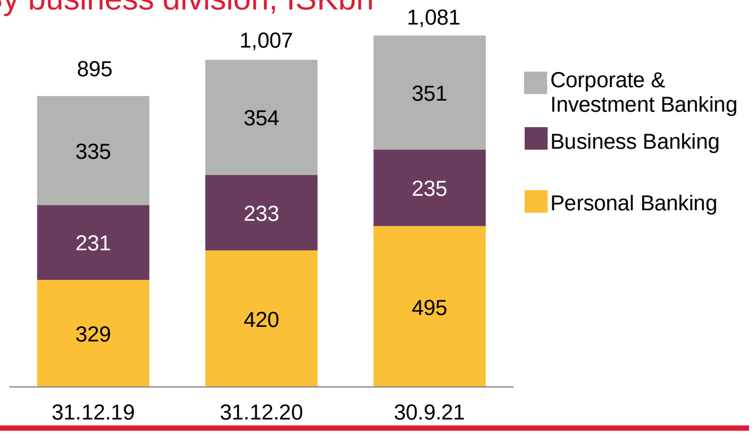
Profit for the period – 3Q20 vs 3Q21
ISKm



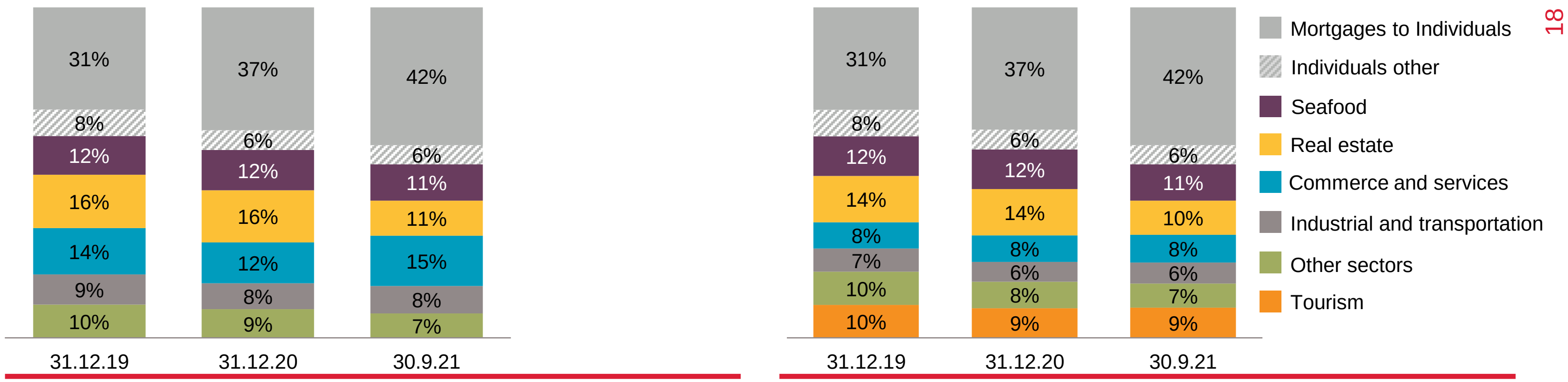
Diversified and highly collateralised loan portfolio

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

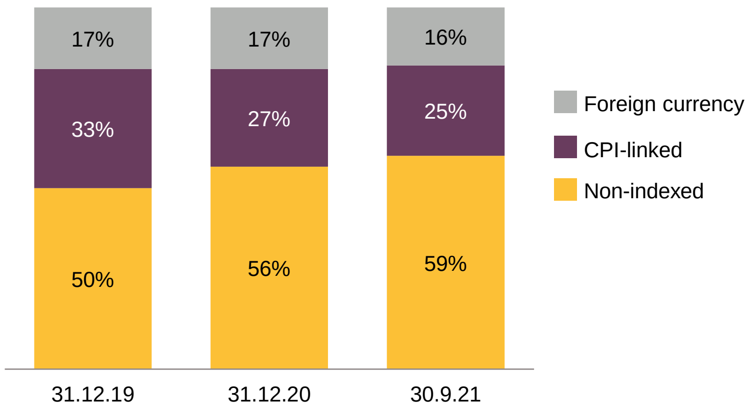
Loans to customers
By business division, ISKbn



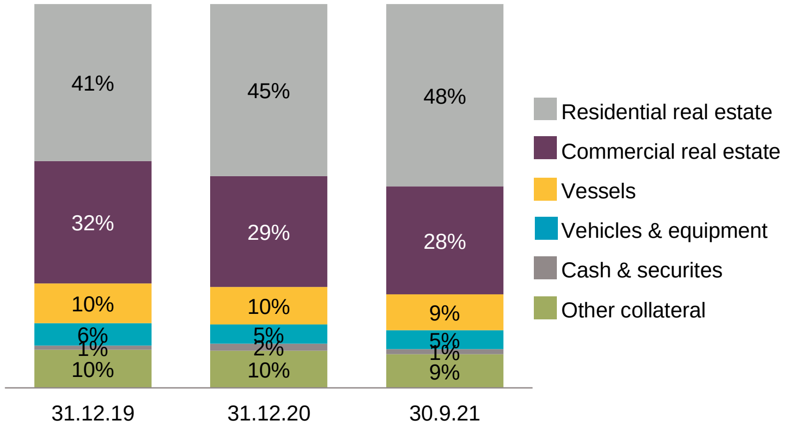
Loans to customers
By sector, standard sectors (left graph) and with tourism as a quasi-sector (right graph)



Loans to customers
By currency type



Credit exposure covered by collateral: ISK 1,042bn
By collateral type



Comments

- The sector classification is generally based on information from the tax authorities although the Bank has the possibility to reclassify customers internally based on a “see-trough principle” when another sector is more descriptive of the underlying risk
- In the case of real estate companies, this can be appropriate if the real estate is specialised and the credit risk depends more on the operations located in the building than general real estate or rental prices
- In 2021 around ISK40bn was reclassified from Real estate, mostly to Commerce & services (hotel buildings) and Industrial & transportations. The result is visible in the centre graph above

Impairment allowance sufficient, uncertainty accounted for

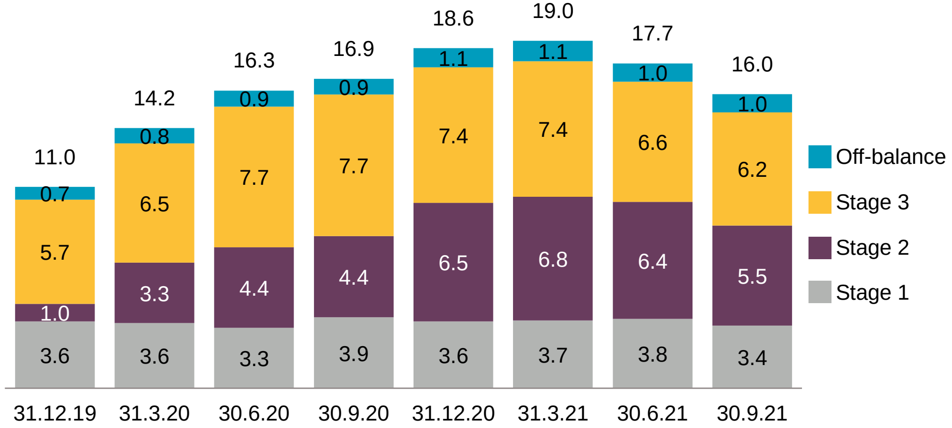
Exposures in Stage 2 continue to lower as COVID-19 pandemic recedes and Stage 3 has decreased

Highlights

- The distribution in risk classes and strong collateral ensures a modest credit risk profile
- A new risk assessment model for individuals was introduced in 3Q21. The new model utilises new information from the semi-automatic lending process for mortgages and leads to a general shift to better risk classes and an overall reduction in average probability of default
- Consequently, the expected credit loss and the impairment allowance for loans to individuals fell by ISK 0.5bn
- The impairment allowance account has risen by ISK 5.0bn since beginning of COVID-19 due to uncertainty, but the loss has not been, and might not be, realised
- The share of credit-impaired loans to customers was only 2.0% (gross) down from 2.9% at year-end, following full repayments of exposures in Stage 3

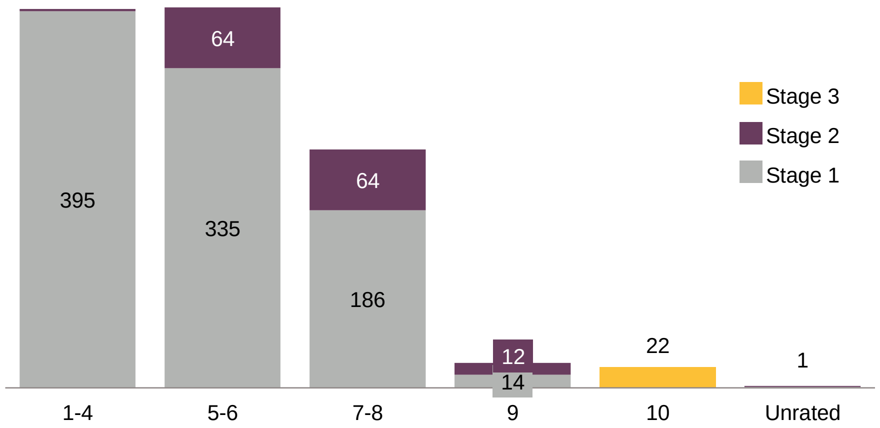
Loans to customers & off-balance sheet items

Impairment allowance account, ISKbn



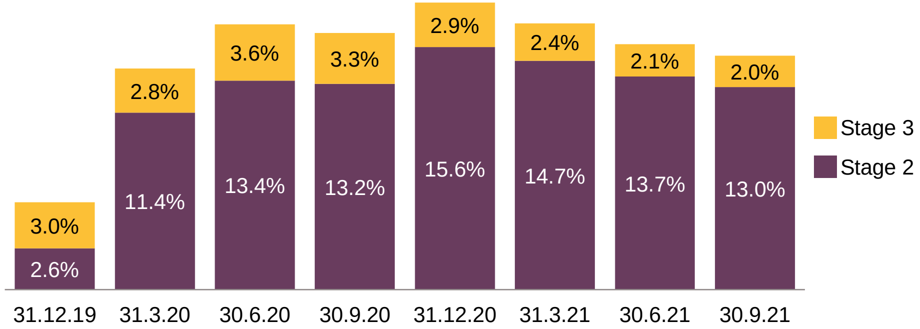
Loans to customers: gross carrying amount

30.9.2021, risk class and impairment stage, ISKbn



Loans to customers: Stage 2 and 3

Development of gross carrying amount as ratio of total loans



Loans to customers: credit quality

30.9.2021, Break-down of loans to customers

	Gross carrying amount		Impairment allowance		Net carrying amount	
	(ISKbn)	% of total	(ISKbn)	RCR	(ISKbn)	% of total
Stage 1	932	85.0%	3.4	0.4%	928	85.8%
Stage 2	143	13.0%	5.5	3.8%	137	12.7%
Stage 3	22	2.0%	6.2	28.0%	16	1.5%
Total	**1,096**	**100.0%**	**15.1**	**1.4%**	**1,081**	**100.0%**

Deposits are largest source of funding

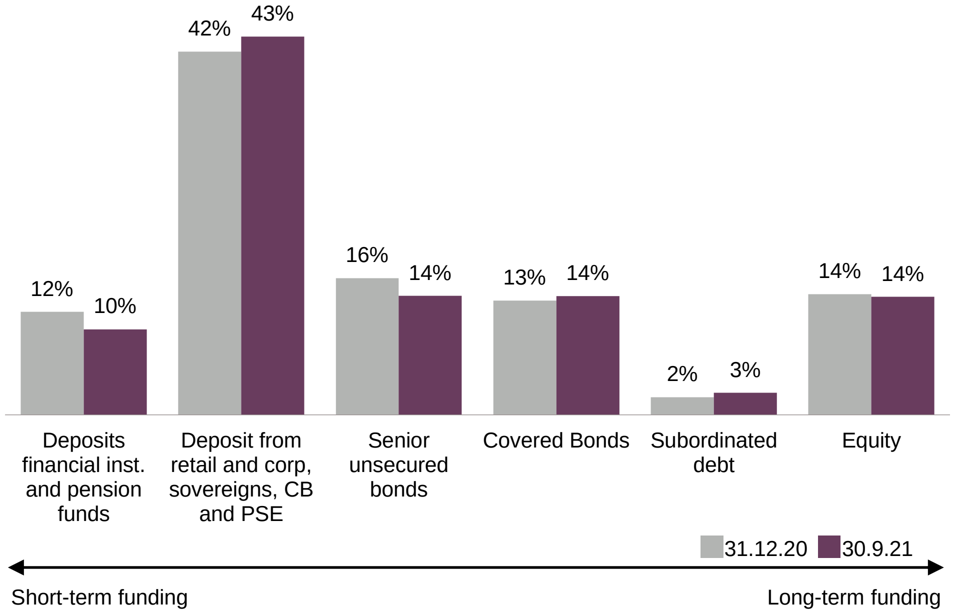
Steady deposit growth of 11% since year-end 2021 provides a solid funding base

Highlights

- Total reduction in deposits amounted to ISK 23bn in 3Q21
- A substantial part of the decrease in Corporations and sovereigns (ISK 50bn) is due the settlement of the ISB IPO as mentioned in the 1H21 financial results
- Term deposits are 20% of total deposits
- Deposit concentration is stable. 13% of the Bank's deposits belonged to the 10 largest depositors and 29% to the 100 largest depositors at 3Q21, compared to 16% and 31% respectively at YE20
- On 30.9.2021, 77% of deposits were in non-indexed ISK, 12% CPI-linked and 11% in foreign currencies

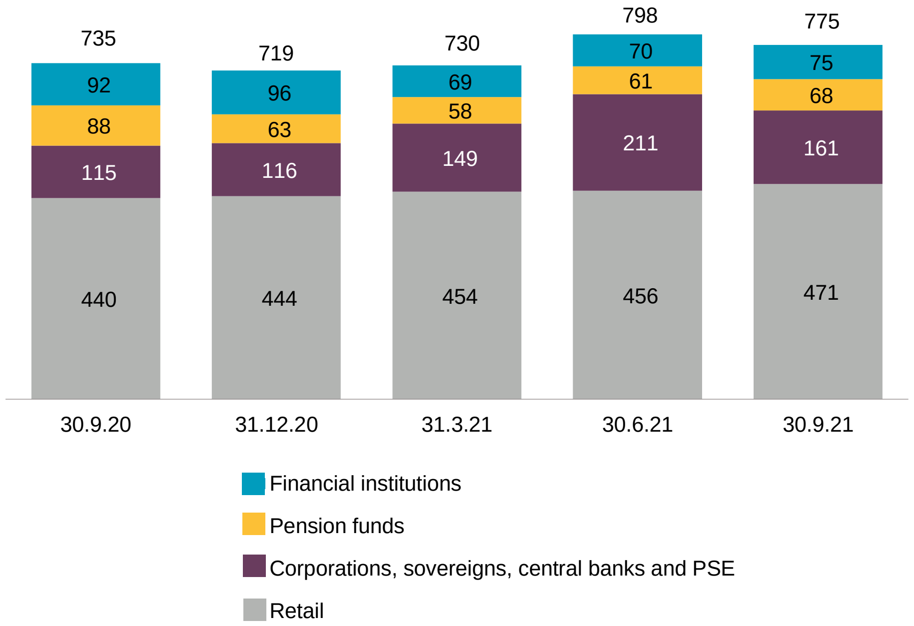
Funding sources

By type, % of total liabilities and equity



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



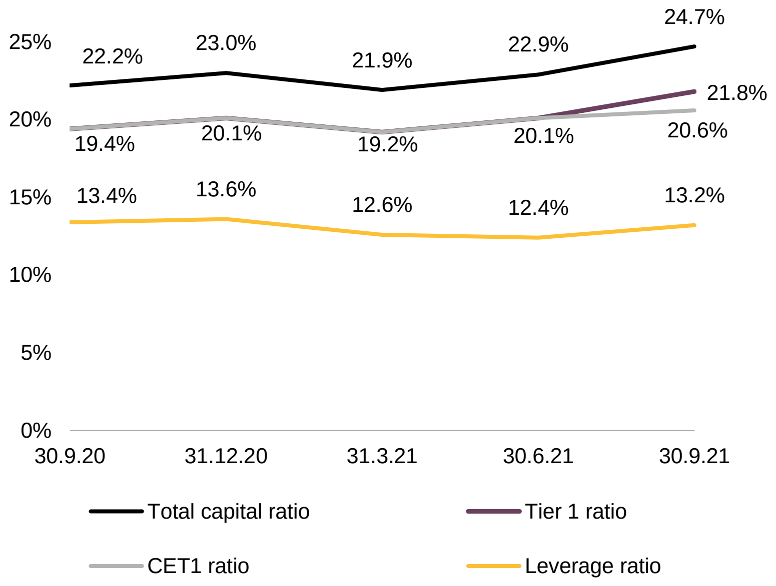
Sound capital position

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

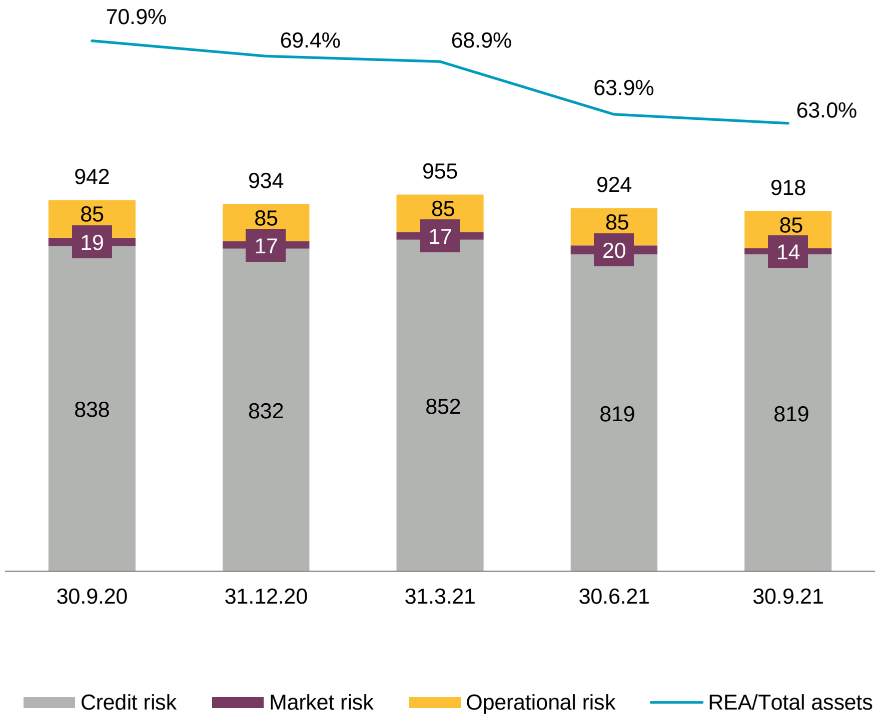
Highlights

- A dividend payment in March and changes in IFRS 9 transitional rules in January lowered the CET1 capital by ISK 4.7bn. These two changes along with the profit in the period result in CET1 capital of ISK 189bn at the end of September (2020: ISK 188bn)
- Note that expected dividend, based on 50% of profit, has been deducted in the total capital ratio from 1Q21 onwards
- In September, the Bank issued Additional Tier 1 (AT1) notes amounting to SEK 750m or ISK 11bn
- The AT1 along with CET1 comprise the Tier 1 capital, totalling ISK 197bn at the end of September
- The implementation of EU regulation 2019/876 (CRR II) in Iceland led to a reduction in REA, contributing to a 60bp rise in the capital ratios. As a result, the ratio of REA/total assets fell sharply at end of June
- The most material effect was the amendment of the SME supporting factor, lowering the REA by ISK 35bn
- The Bank is currently reviewing the methodology for calculating REA for operational risk. Changing from the basic indicator approach to the standardised approach could reduce the REA and offer some relief in the Pillar 1 requirement

Capital ratios and leverage ratio[1]



Risk exposure amount (REA)
ISKbn



1. Including third quarter profit

Attractive and achievable financial targets

Clear path to ROE expansion, attractive capital return and optimisation

	Financial targets	3Q21	2Q21	2020	Guidance
Return on equity[1]	**8-10% by 2023** **>10% long-term**	15.7% ✓	11.6% ✓	3.7%	— Based on average expected risk-free rates through the business cycle — The Bank has a clearly identified path to ROE improvements, supported by a clear action plan and economic recovery — **The Bank assumes the loan book will grow in line with nominal GDP on average through the business cycle**
Cost-to-income ratio[2]	**<45% by 2023**	39.4% ✓	49.9% ✓	54.3% ✓	— The Bank continues to invest in IT infrastructure and process efficiency to improve the C/I ratio in the medium to long-term — Costs to remain broadly flat over the next 3 years
CET1 capital ratio	**>16%**	20.6% ✓	20.1% ✓	20.1% ✓	— Based on current regulatory requirements and management buffer of 50-200bps, the CET1 target range is currently 13.7-15.2% — The target assumes that the countercyclical buffer increases from 0% to 2% which will take effect from September 2022 — **The Bank will start paying out a part of its excess capital in parallel with its ordinary dividend payable for the FY 2021 – the amount to be decided at that time**
Total capital ratio	**18.3-19.8%**	24.7% ✓	22.9% ✓	23.0% ✓	— Based on current regulatory requirements and management buffer of 50-200bps — Long term target range is 19.5-21.0%, assuming that the countercyclical buffer increases from 0% to 2%, which will take effect from September 2022, and the COVID-19 effects on the Pillar 2-R requirements is reversed — Íslandsbanki issued AT1 notes amounting to SEK 750m as part of its plan to optimise its capital structure. Further headroom for AT1 issuance remains ISK 6bn.
Dividend payout ratio	**c. 50%**			50% ✓	— Target for annual regular dividend — Excess capital to support further dividend payments, buybacks, and/or ROE enhancing growth — Additional capital return to approach capital targets over the medium term

1. ROE excluding one-off cost is 12.6% for 2Q21, one-off cost for 2Q21 is 627m. 2. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). Target was updated in 1Q21 from the previous <55%

18 November 2021

Clear path to a long term double-digit ROE

Strong revenue generation and reversed impairments main drivers in a vigorous quarter

Reported annualised ROE 9M21
11.7%

Reported ROE 2020

Reported annualised cost of risk in 9M21
-30bps

Normalisation of credit losses

- Negative CoR in 3Q21 and favourable short-term outlook if economic recovery continues
- Mortgages larger part of BS, might lower future CoR[1]

Steady progress

Base rate
1.5% vs. 0.75% at YE20

Rising risk-free rates

- Higher base rate feeds into NIM and liquidity portfolio with a lag
- Economic forecasts and market curves indicate quarterly 25bp increase during the next 18-24 months

Ahead of forecast

NFCI growth YoY
20%

Net fee & commission income growth

- Strong growth YoY with growth coming from asset management, Investment banking and brokerage
- Payments and asset management areas of opportunities

Ahead of forecast

Real cost decrease YoY excluding one-offs
4%

Cost efficiencies

- Ongoing efforts via continued digital uptake, branch optimisation and contained cost inflation

On track

AT1 issue of SEK
750m
in 3Q21

Capital optimisation

- Headroom for further AT1 issue is ISK 6bn
- A partial release of excess capital to commence in 1Q22
- Excess capital of ISK >35bn[2]
- Financial targets will be reviewed in 4Q21

On track

Target ROE
8-10%
by 2023
>10%
long-term

1. The average cost of risk in 2019 and 2020, excluding the effect of COVID-19, amounted to +0.35%, which would have been closer to +0.30% based on the current composition of the loan book with a higher proportion of mortgages. 2. Based on long term capital targets. An increase in 3Q21 in excess of CET1 is due to strong financial result and lower REA. This amount will fluctuate with the level of net profits and changes in REA.

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Q&A

Annex

Substantial increase in total operating income YoY

Economic recovery yields positive net impairment

Highlights

- The Bank focuses on core banking operations with NII and NFCI accounting for around 92% of total operating income in 3Q21
- Cost-to-income is 39.4%, below target, due to strong revenue generation, cost reduction efforts and seasonality in other operating expenses
- Annualised cost of risk was -0.64% in 3Q21 and -0.30% in 9M21, compared to +0.91% for the full year 2020 and +0.44% for 3Q20
- The average cost of risk in 2019 and 2020 excluding the effect of COVID-19 amounted to +0.35%, which would have been closer to +0.30bp based on the current composition of the loan book with a higher proportion of mortgages
- The positive net impairment in 3Q21 is mostly due to the brightening outlook for the tourism industry and reduced impairments on loans to individuals resulting from an updated risk assessment model
- Lower effective tax rate due to tax treatment of equity forwards

Income statement, ISKm	3Q21	3Q20	Δ%	2Q21	Δ%	9M21	9M20	Δ%	2020
Net interest income	**8,792**	8,305	6%	8,417	4%	**25,399**	25,113	1%	33,371
Net fee and commission income	**3,427**	2,862	20%	2,907	18%	**9,196**	7,660	20%	10,525
Net financial income (expense)	**941**	(255)	-	619	52%	**1,853**	(2,174)	-	(1,391)
Net foreign exchange gain	**95**	101	(6%)	95	0%	**320**	364	(12%)	451
Other operating income	**82**	44	86%	82	0%	**286**	134	113%	197
Total operating income	**13,337**	11,057	21%	12,120	10%	**37,054**	31,097	19%	43,153
Salaries and related expenses	**(2,953)**	(2,842)	4%	(3,594)	(18%)	**(10,121)**	(9,536)	6%	(12,917)
Other operating expenses	**(2,135)**	(2,268)	(6%)	(2,894)	(26%)	**(7,307)**	(7,137)	2%	(9,829)
Administrative expenses	**(5,088)**	(5,110)	(0%)	(6,488)	(22%)	**(17,428)**	(16,673)	5%	(22,746)
Contribution to the Depositor's and Investors' Guarantee Fund	**(173)**	(50)	246%	(162)	7%	**(517)**	(525)	(2%)	(679)
Bank tax	**(433)**	(416)	4%	(451)	(4%)	**(1,294)**	(1,174)	10%	(1,588)
Total operating expenses	**(5,694)**	(5,576)	2%	(7,101)	(20%)	**(19,239)**	(18,372)	5%	(25,013)
Profit before net impairment on financial assets	**7,643**	5,481	39%	5,019	52%	**17,815**	12,725	40%	18,140
Net impairment on financial assets	**1,757**	(1,058)	-	1,140	54%	**2,379**	(6,987)	-	(8,816)
Profit before tax	**9,400**	4,423	113%	6,159	53%	**20,194**	5,738	252%	9,324
Income tax expense	**(1,898)**	(1,350)	41%	(769)	147%	**(3,703)**	(2,238)	65%	(2,472)
Profit for the period from continuing operations	**7,502**	3,073	144%	5,390	39%	**16,491**	3,500	371%	6,852
Discontinued operations held for sale, net of income tax	**85**	288	(70%)	41	107%	**142**	(270)	-	(97)
Profit for the period	**7,587**	**3,361**	**126%**	**5,431**	**40%**	**16,633**	**3,230**	**415%**	**6,755**

Key ratios	3Q21	3Q20	2Q21	9M21	9M20	2020
Net Interest Margin (NIM)[1]	**2.4%**	2.5%	2.4%	**2.4%**	2.6%	2.6%
Cost-to-income ratio (C/I)[2]	**39.4%**	46.7%	49.9%	**46.6%**	55.3%	54.3%
Return on Equity (ROE)	**15.7%**	7.4%	11.6%	**11.7%**	2.4%	3.7%
Cost of risk (COR)	**(0.64%)**	0.44%	(0.42%)	**(0.30%)**	0.98%	0.91%
Effective income tax rate	**20.2%**	30.5%	12.5%	**18.4%**	39.0%	26.5%

1. On total assets. 2. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items).

Net interest income rises following increased lending

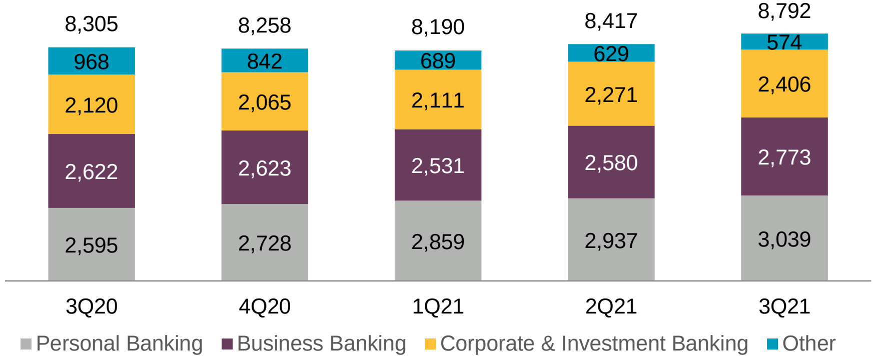
NIM likely to be supported by rising policy rates

Highlights

- Greater lending volumes drive the higher NII YoY
- Net interest margin on loans fell from 2.3% to 2.2% in 3Q21 while net interest margin on deposits increased from 1.1% to 1.3% in 3Q21
- The CB policy rate was hiked once in 3Q21, on 25 August. Average CB policy rate in 3Q21 was 1.1% compared to 1.0 in 3Q20
- Higher rate feeds into NIM and liquidity portfolio with a lag
- Based on the Bank's assessment, a 100bp increase in Central Bank rates can increase the ROE by 60-70bp over time, mainly due to improved earnings in the liquidity portfolio

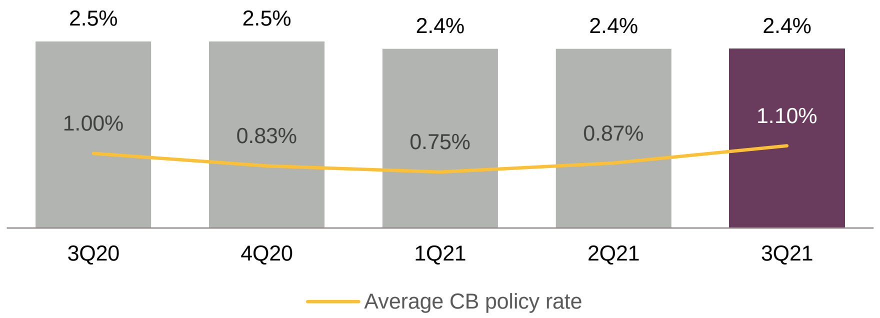
Net interest income

By business segments, ISKm



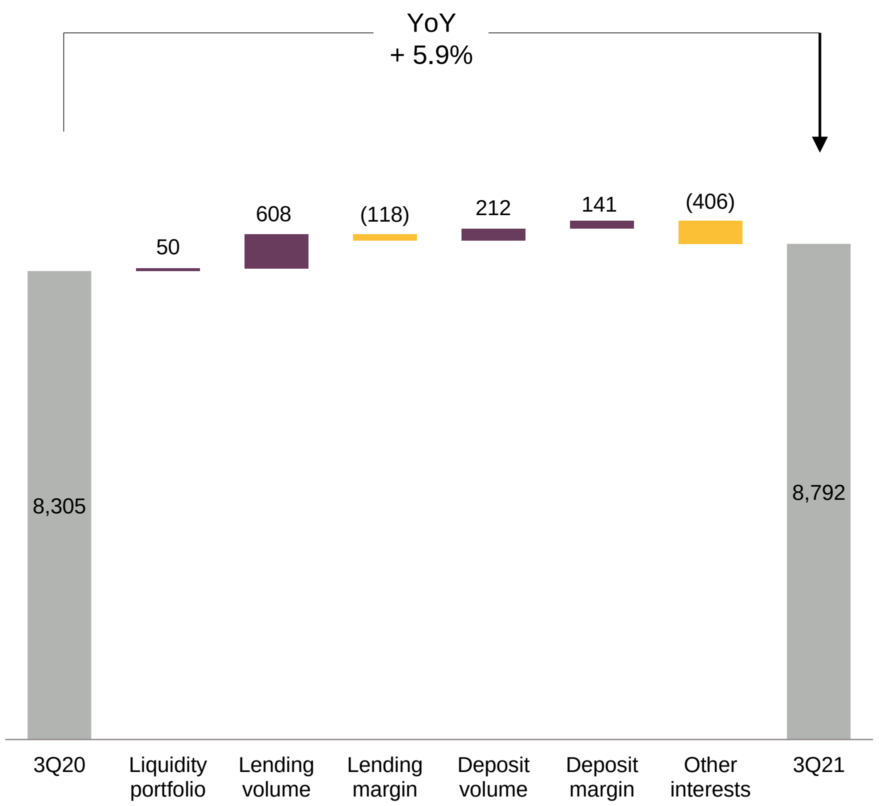
Net interest margin

Total assets



NII – 3Q20 vs 3Q21

ISKm



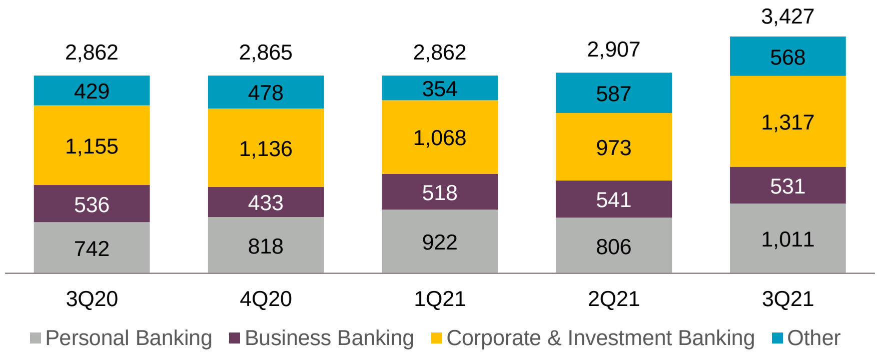
Diversified sources of NFCI

20% increase YoY distributed across business segments

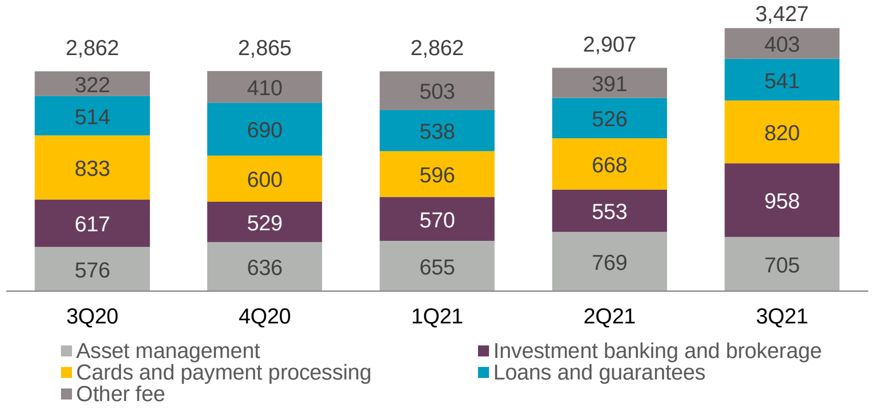
Highlights

- Asset management and Investment banking and brokerage are primary drivers for the increase in NFCI
- Asset management saw a strong inflows into equity funds, balanced funds and asset portfolios from all client segments leading to a strong growth in fee and commission income
- Strong performance in all fee generating divisions within investment banking
- Several corporate finance projects completed including successful IPO of the Bank
- Future growth expected to be in line with nominal GDP growth on average through the business cycle
- Payments and asset management areas of opportunities

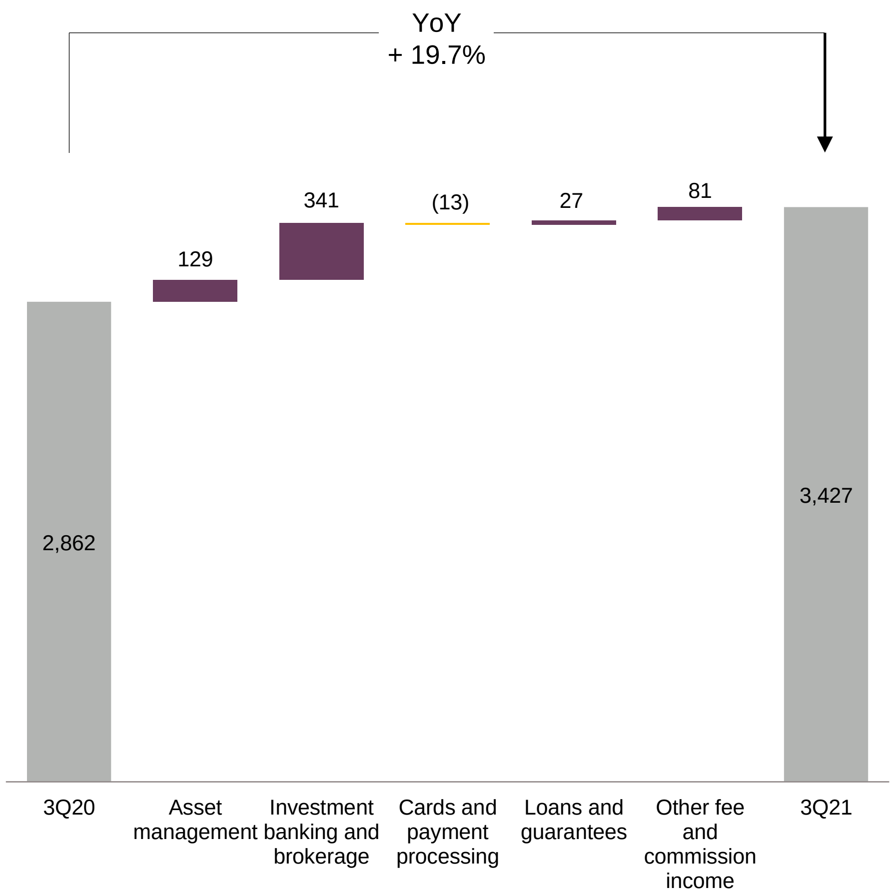
Net fee and commission income
Business segments, ISKm



Net fee and commission income
By type, ISKm



NFCI – 3Q20 vs 3Q21
ISKm



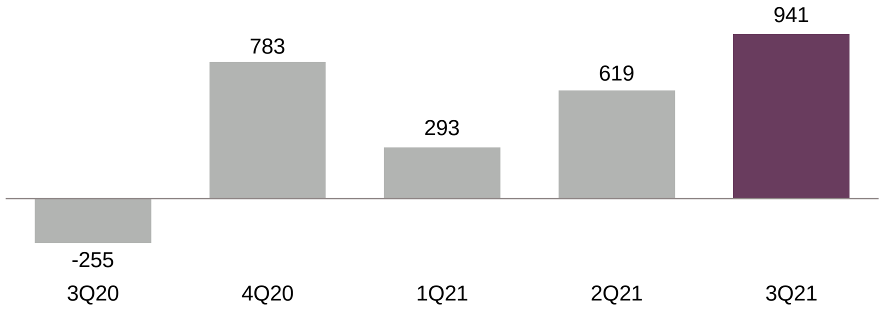
Strong NFI due to favourable market conditions

Positive value changes of unlisted shares and a strong equity market are the main factors

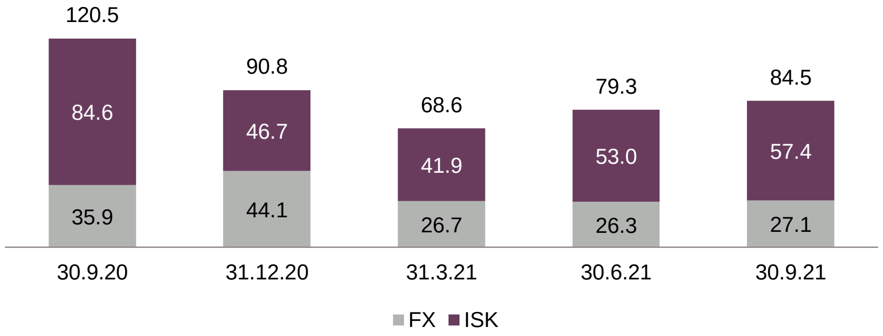
Highlights

- The increase in net financial income in 3Q21 YoY is largely explained by:
  - a positive value change in unlisted equity instruments
  - income from listed shares and equity instruments in a strong domestic equity market
  - mark-to-market of balance sheet management derivatives in Treasury
- The domestic equity market has shown strong performance
- The domestic equity market index rose by 26% in 9M21
- Low interest rates, good operating results and the opening of the economy all contributed to higher equity prices
- Approximately ISK 1.1bn of listed shares are assets in domestic bond funds

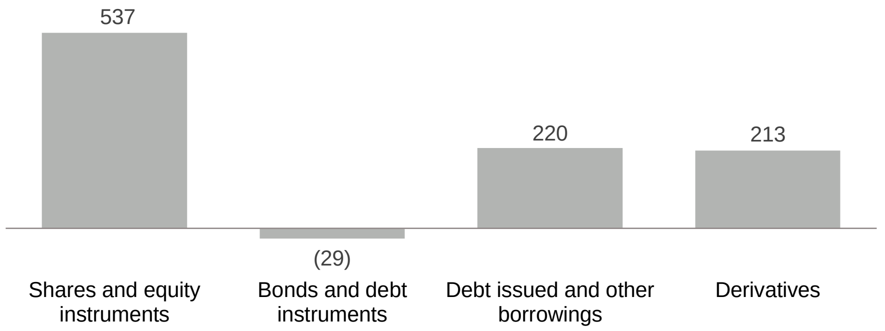
Net financial income
ISKm



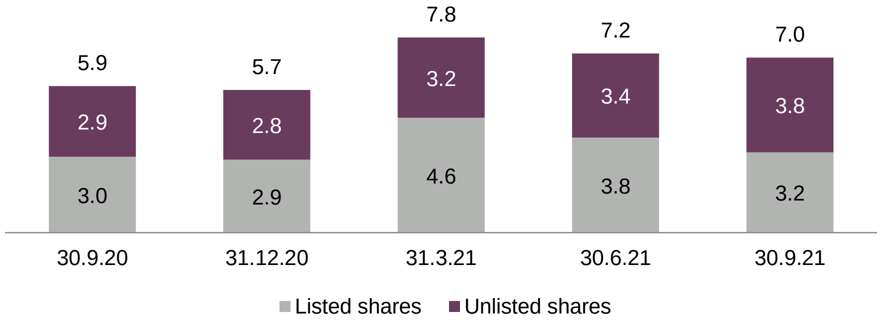
Bonds and debt instruments[1]
ISKbn



Net financial income by type in 3Q21
ISKm



Shares and equity instruments[2]
ISKbn



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

Cost/income ratio at an all-time low level and beats target

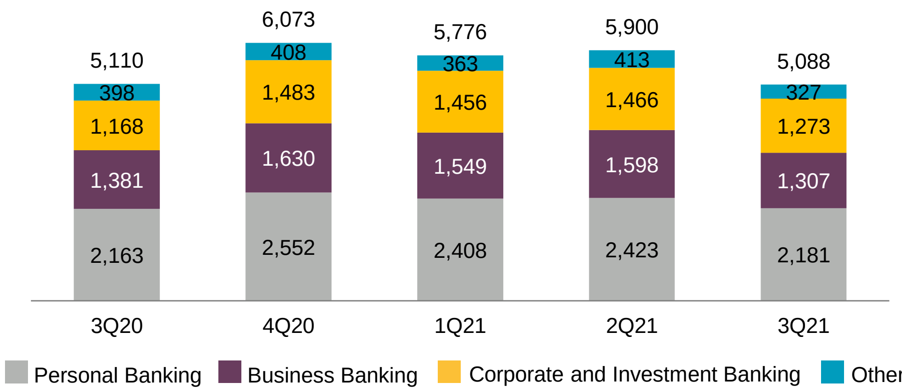
Supported by strong revenue generation, cost reduction efforts and cyclicality in expenses

Highlights

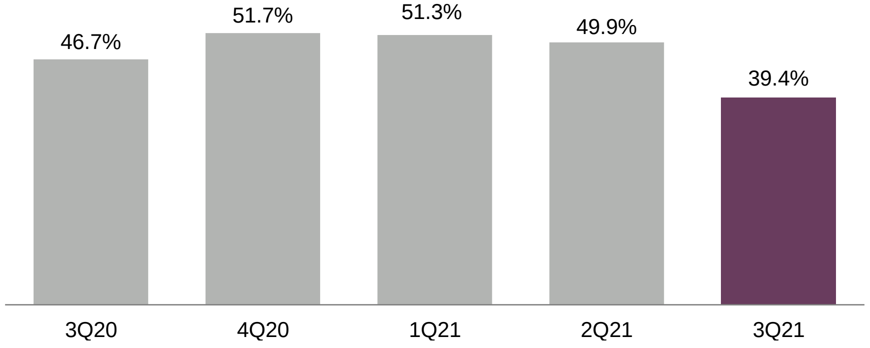
- Cost-to-income ratio was 39.4% in 3Q21, below the Bank's target, and is 46.7% for 9M21
- The reduction in administrative expenses between 2Q21 and 3Q21 is largely due to seasonality in salary expenses along with decrease in other operating expenses
- The increase in salaries YoY is due to collective salary increase and redundancy costs following layoffs
- One-off cost related to IPO totalled ISK 663m in 1H21

Administrative expenses[1]

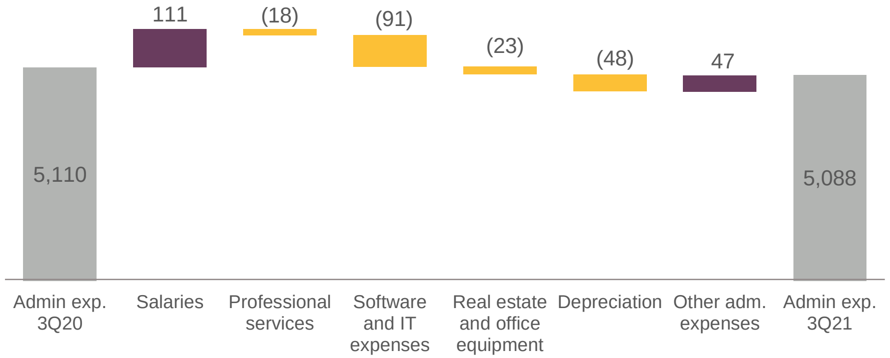
ISKm



Cost-to-income ratio[2]

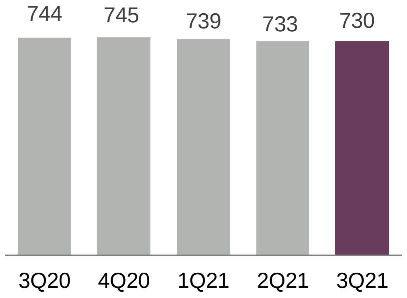


Administrative expenses – 3Q20 vs 3Q21



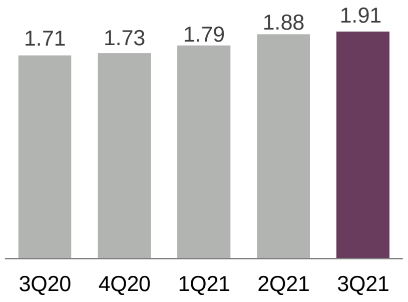
FTE period end[3]

Parent company



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). IPO costs in 1Q21 were not adjusted for when 1Q21 results where published. 3. FTE numbers exclude seasonal employees.

Robust growth in total assets in 9M21

Steady mortgage growth supported by an even stronger capital base

Highlights

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

  amounted to about ISK 346bn of which ISK 314bn are liquid assets
- Loans to customers contracted by 0.8% in 3Q21 as growth in mortgages lending normalises following Central Bank rate hikes
- Increase in bonds and debt instruments is mostly due to issuance of AT1 notes in 3Q21

Assets, ISKm	30.9.2021	30.6.21	Δ	Δ%	31.12.20	Δ	Δ%
Cash and balances with Central Bank	**110,233**	130,968	(20,735)	(15.8%)	78,948	31,285	39.6%
Loans to credit institutions	**81,117**	57,793	23,324	40.4%	89,920	(8,803)	(9.8%)
Bonds and debt instruments	**123,599**	110,499	13,100	11.9%	128,216	(4,617)	(3.6%)
Derivatives	**2,374**	2,649	(275)	(10.4%)	6,647	(4,273)	(64.3%)
Loans to customers	**1,081,418**	1,089,723	(8,305)	(0.8%)	1,006,717	74,701	7.4%
Shares and equity instruments	**31,456**	31,751	(295)	(0.9%)	14,851	16,605	111.8%
Investment in associates	**952**	911	41	4.5%	775	177	22.8%
Property and equipment	**7,082**	7,246	(164)	(2.3%)	7,341	(259)	(3.5%)
Intangible assets	**3,249**	3,307	(58)	(1.8%)	3,478	(229)	(6.6%)
Other assets	**13,954**	10,474	3,480	33.2%	4,125	9,829	238.3%
Non-current assets and disposal groups held for sale	**938**	1,539	(601)	(39.1%)	3,173	(2,235)	(70.4%)
Total Assets	**1,456,372**	**1,446,860**	**9,512**	**0.7%**	**1,344,191**	**112,181**	**8.3%**

Key ratios

Risk Exposure Amount (REA)	**917,764**	924,375	(6,611)	(0.7%)	933,521	(15,757)	(1.7%)
Non-performing loans (NPL) ratio[1]	**2.0%**	2.1%			2.9%		
Asset encumbrance ratio	**18.9%**	18.9%			18.7%		

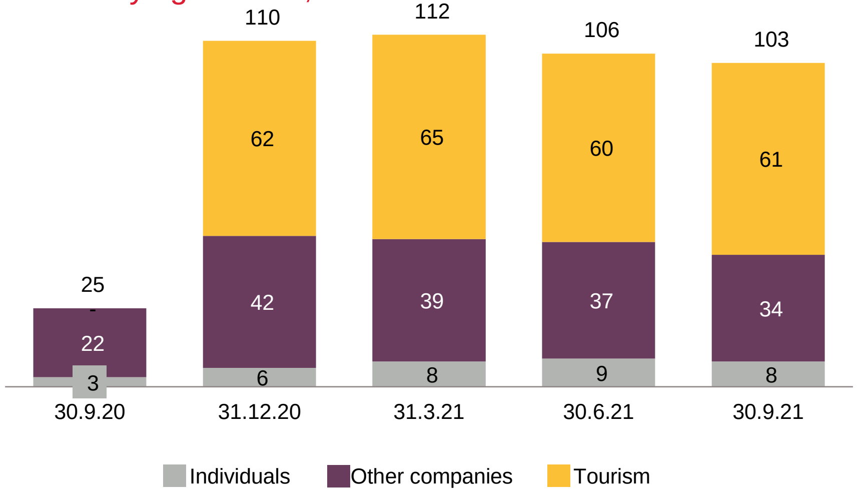
1. Stage 3, loans to customers, gross carrying amount

COVID-19 moratoria over, more clarity on forbearance

Temporary moratorium uniformly executed and broadly applied during 2020 providing shelter for customers as they weathered the storm. Payments have resumed for 59% of loans in forbearance

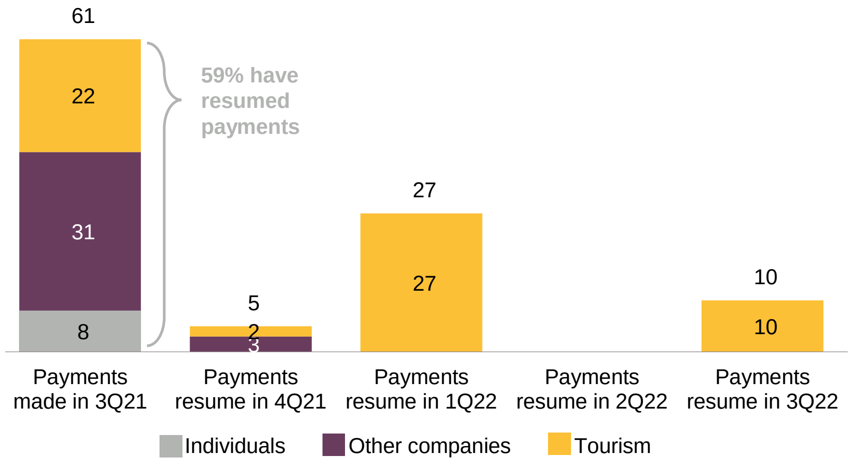
Performing loans with forbearance

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 is due to loans that are fully repaid

Clarity on when payments are expected to resume

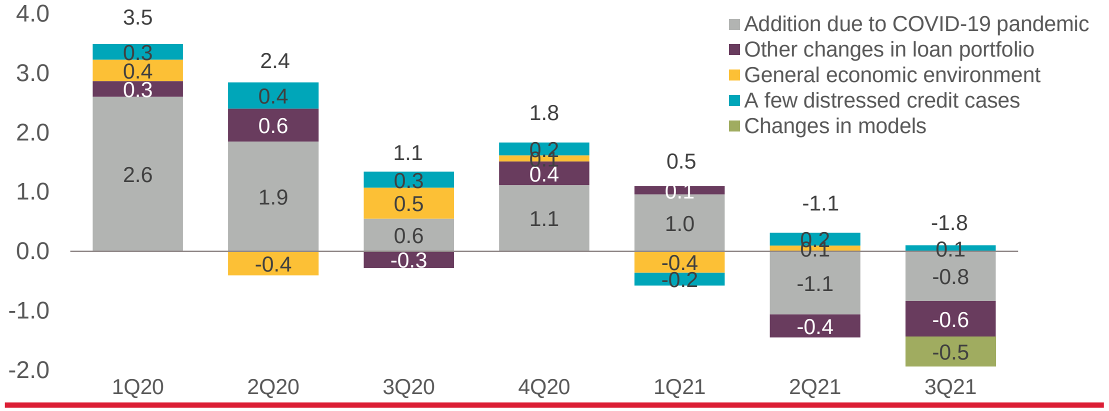
- Loans amounting to ISK 103bn are classified as performing with forbearance, but ISK 61bn have already begun regular payments or 59%
- Performing loans with forbearance that have not yet started regular payments are almost exclusively in the tourism industry
- According to current schedule, additional ISK 27bn should resume regular payments again in the first quarter of next year
- Note that some customers might request further extension of moratoria when the current moratoria expires

Majority of net impairments are COVID-19 related

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

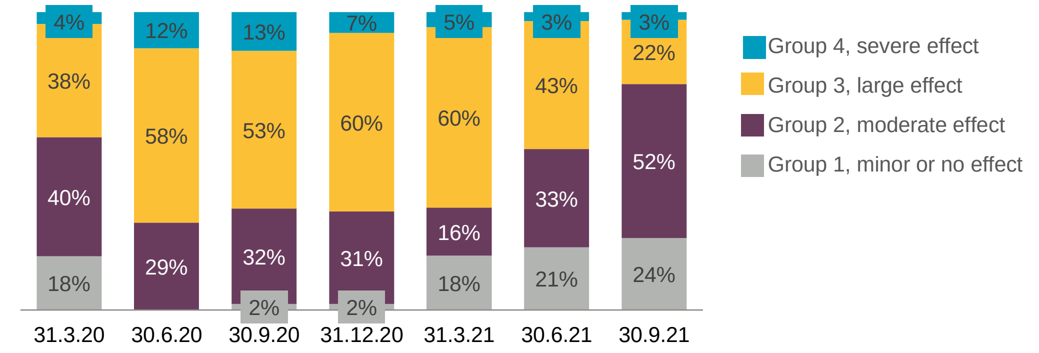
Net impairment on financial assets

By period, ISKbn



Exposure to tourism by effect of COVID-19

A proportion of approximately ISK 100bn



Macroeconomic scenario applied to IFRS 9 model[1]

Baseline forecast assumes 1.3 million tourists in 2022

Change in economic indicators %	2020	2021	2022	2023	2024
Economic growth	(6.5)	4.2	3.6	3.0	2.4
Housing prices in Iceland	6.4	11.3	6.9	3.4	3.5
Purchasing power	3.5	3.6	1.4	1.9	1.6
ISK exchange rate index	11.1	(3.6)	(5.1)	(0.9)	0.0
Policy rate, Central Bank of Iceland	1.5	1.0	2.2	3.2	3.5
Inflation	2.8	4.4	3.0	2.5	2.4
Capital formation	(8.7)	7.5	2.3	2.0	3.5
thereof capital formation in industry	(14.2)	9.5	0.9	2.2	3.5

1. The table shows the assumptions used in the forward-looking IFRS 9 model, figures for 2020 were estimates while the other years are based on forecast.

Highlights

— Annualised cost of risk was -0.64% in 3Q21 and -0.30% in 9M21, compared to +0.91% for the full year 2020 and +0.44% for 3Q20. The average cost of risk in 2019 and 2020 excluding the effect of COVID-19 amounts to +0.35%

— The positive net impairment in 3Q21 is mostly due to an updated model for risk assessment of individuals (see next slide) and a brighter outlook for the tourism industry, reflected in a shift from impact group 3 to 2. The additional impairment allowance currently attributable to the tourism overlay and stage transfer is approximately ISK 2.8bn

— In addition to the baseline forecast, scaling factors are produced for an optimistic and pessimistic case. The probability weights of the scenarios were set to 15% (good), 50% (baseline), and 35% (bad) at end of 3Q, unchanged from end of 2Q21

— A shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 0.6bn while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 0.2bn

Diversified funding base

Deposits are largest source of funding

Highlights

- Deposits from customers contracted by 1.5% due to settlement following the Bank's IPO
- Deposits from retail and corporations are the Bank's main source of funding, comprising 43% of the Bank's total funding sources and 82% of the Bank's total deposit base at period end
- Subordinated loans increased due to and AT1 issue

Liabilities & Equity, ISKm	30.9.2021	30.6.21	Δ	Δ%	31.12.20	Δ	Δ%
Deposits from Central Bank and credit institutions	**20,409**	32,240	(11,831)	(36.7%)	39,758	(19,349)	(48.7%)
Deposits from customers	**754,442**	765,614	(11,172)	(1.5%)	679,455	74,987	11.0%
Derivative instruments and short positions	**10,869**	10,079	790	7.8%	6,936	3,933	56.7%
Debt issued and other borrowed funds	**397,672**	398,786	(1,114)	(0.3%)	387,274	10,398	2.7%
Subordinated loans	**36,923**	25,297	11,626	46.0%	27,194	9,729	35.8%
Tax liabilities	**6,256**	6,025	231	3.8%	5,450	806	14.8%
Other liabilities	**32,420**	18,464	13,956	75.6%	11,920	20,500	172.0%
Total Liabilities	**1,258,991**	1,256,505	2,486	0.2%	1,157,987	101,004	8.7%
Total Equity	**197,381**	190,355	7,026	3.7%	186,204	11,177	6.0%
Total Liabilities and Equity	**1,456,372**	**1,446,860**	**9,512**	**0.7%**	**1,344,191**	**112,181**	**8.3%**

Key ratios	30.9.2021	30.6.21	31.12.20
Customer loans to customer deposits ratio	**143%**	142%	148%
REA/total assets	**63.0%**	63.9%	69.4%
Liquidity coverage ratio (LCR)	**225%**	187%	196%
Net stable funding ratio (NSFR)	**121%**	122%	123%
CET 1 ratio[1]	**20.6%**	20.1%	20.1%
Tier 1 ratio[1]	**21.8%**	20.1%	20.1%
Total capital ratio[1]	**24.7%**	22.9%	23.0%
Leverage ratio[1]	**13.2%**	12.4%	13.6%

1. Including third quarter profit

Íslandsbanki’s capital ratios well above target

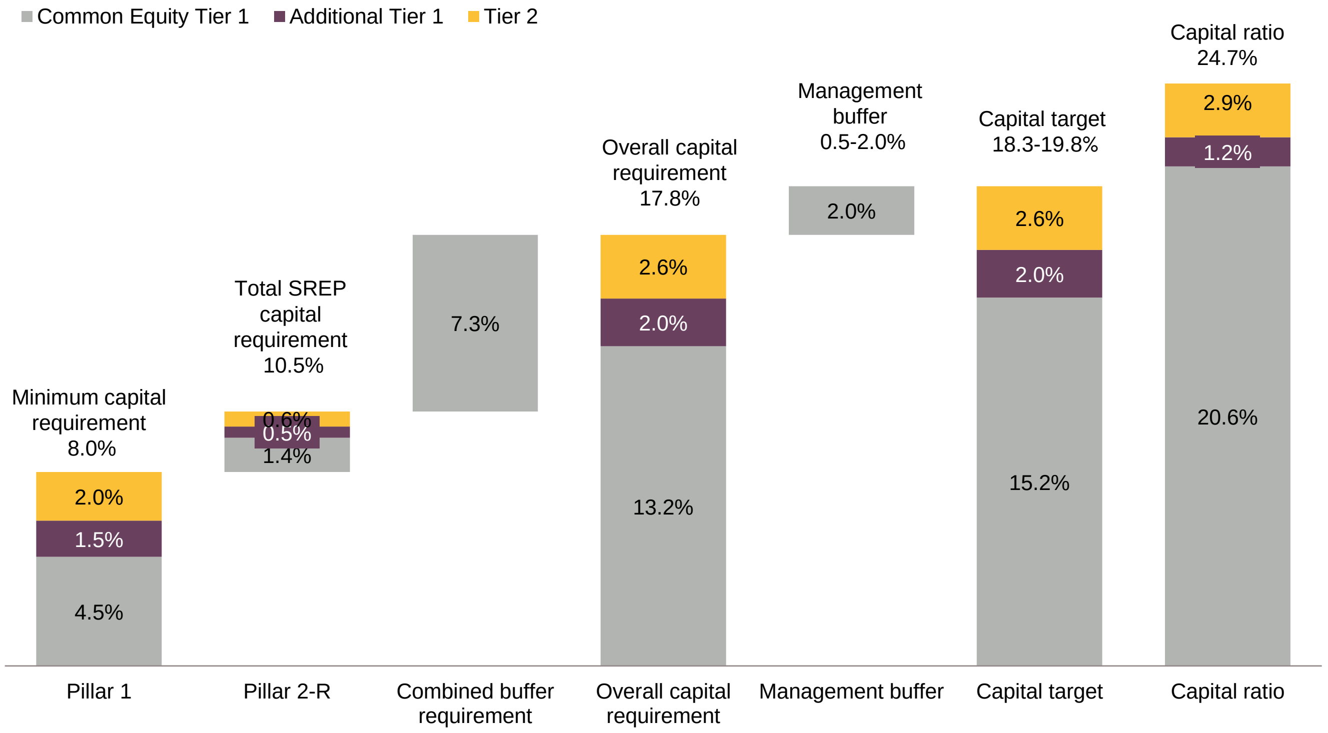
Excess capital of ISK >35bn including capital structure optimisation

Highlights

- The Pillar 2-R capital requirement has been revised, leading to an increase from 1.7% to 2.5%, in line with the Bank’s expectations of a temporary increase as a result of COVID-19
- The overall capital requirement is therefore 17.8% of REA
- Íslandsbanki's total capital target ratio is based on the overall regulatory requirement in addition to a 50-200bp management buffer and is therefore currently at 18.3–19.8%
- The Financial Stability Committee has announced an increase of the countercyclical capital buffer (CCB) from 0% to 2%, effective from September 2022
- The Bank’s long-term target range is 19.5-21.0% with a CET1 target of >16% and already assumes the increases of the CCB to 2% and a reversal of the COVID-19 effect on the Pillar 2-R
- Headroom for further AT1 issue is ISK 6bn

Current regulatory requirements and minimum capital target

30.9.2021, by capital composition



Excess capital based on long-term capital targets

ISK >35bn[1]

1. Based on long term capital targets. An increase in 3Q21 in excess of CET1 due to strong financial result and lower REA. Figure will fluctuate with the level of net profits and changes in REA