



1Q26 Financial Results

7 May 2026

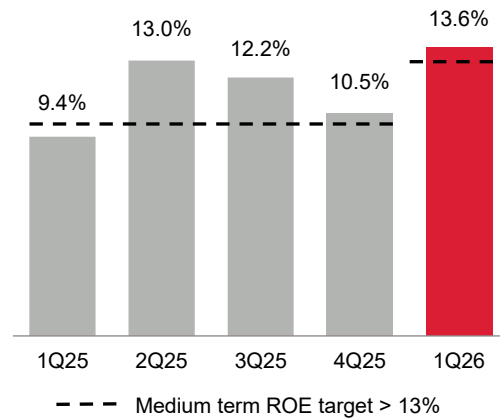
Jón Guðni Ómarsson
Chief Executive Officer

Ellert Hlööversson
Chief Financial Officer

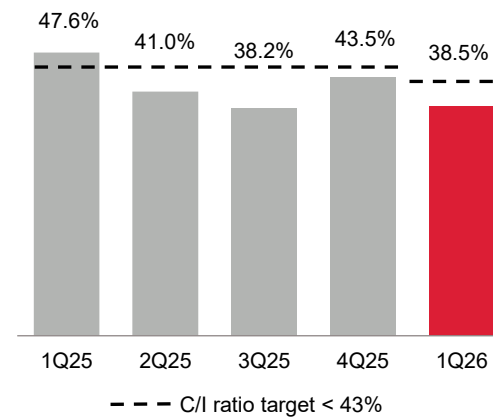
Core operating income growth of 27%

High inflation positively impacting net interest income

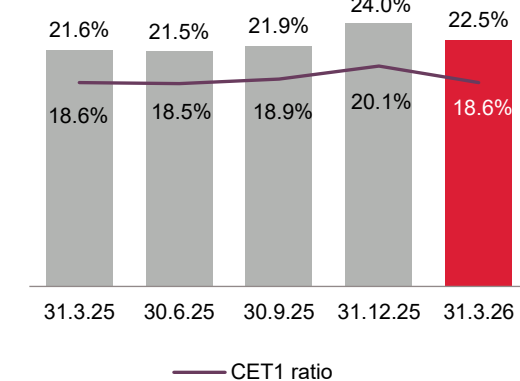
ROE in excess of financial targets ROE¹



C/I well below target C/I ratio^{2,3}



Considerable excess capital (ISK 29.2 billion) in place⁴ Total capital ratio⁵



ROE above guidance and medium-term target

Seasonality to be expected in earnings related to inflationary ticks

	Medium-term target	1Q26	2026 Guidance
Return on equity	>13%	13.6%	~12%
Cost-to-income ratio	<43%	38.5%	~43%
CET1 excess	100-300bps	363bps	200bps
Dividend-payout-ratio	50%	50%	50%



Loans to customers and revenue, in general **to grow** in line with nominal GDP through the business cycle while international lending provides additional growth



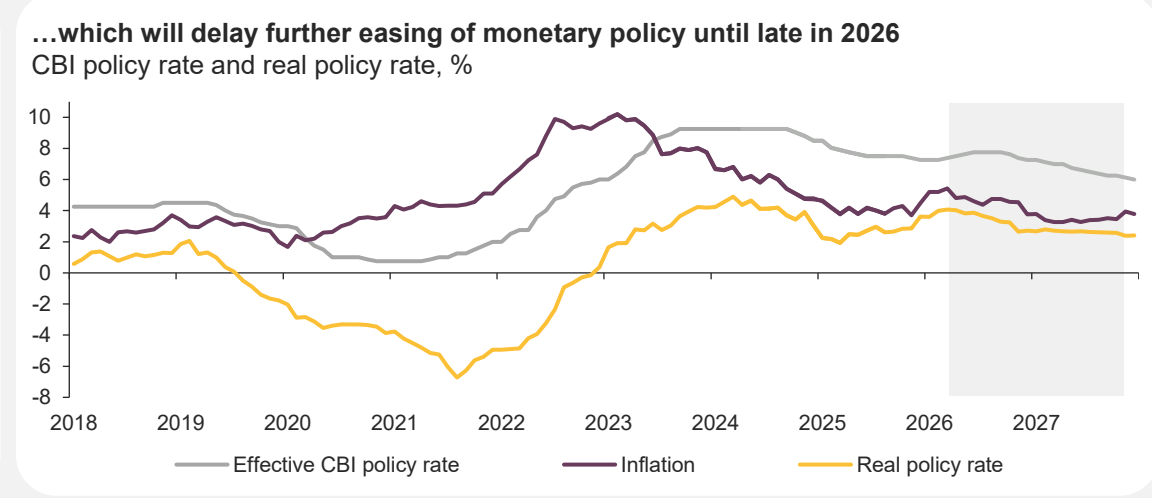
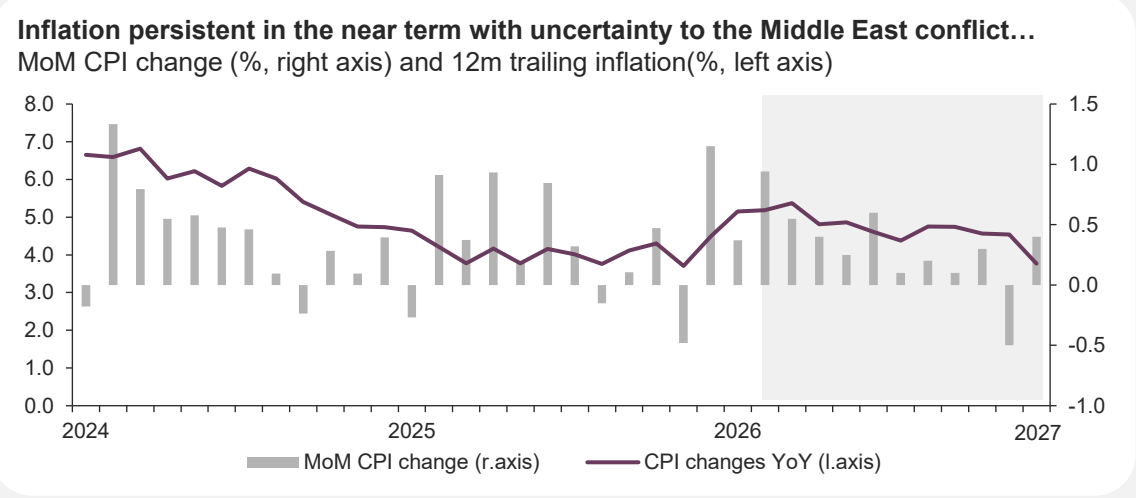
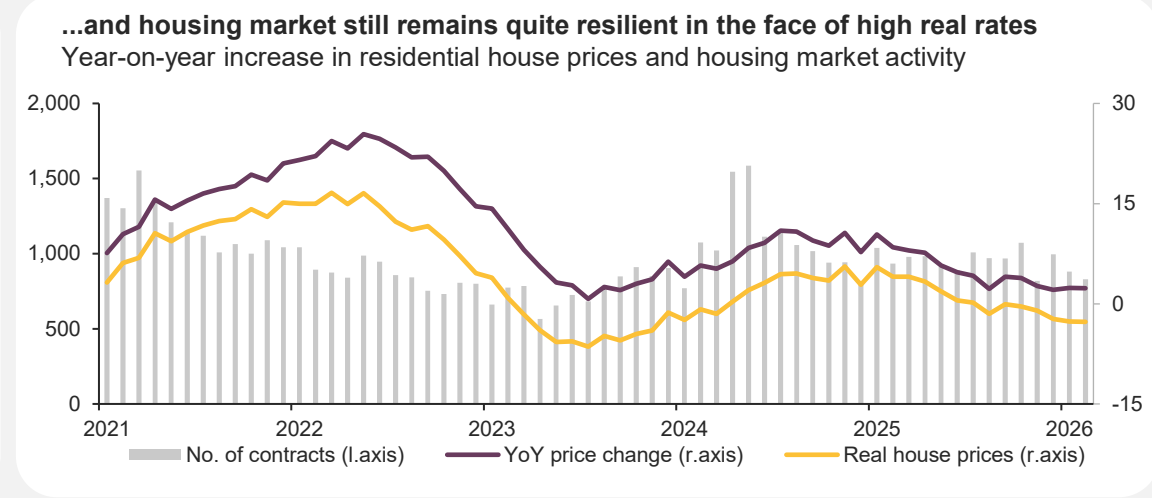
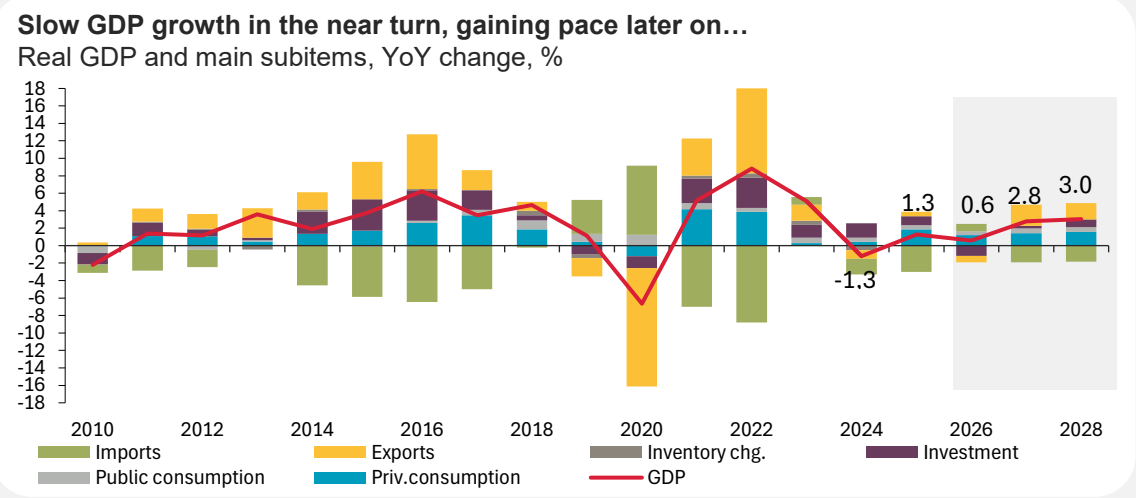
Cost of Risk is expected to average 20-25 bps over the cycle



International loan growth is progressing in line with projections

GDP growth weak in 2026 but set to gain steam in 2027

Temporary period of sluggish growth due to export sector setbacks and high real interest rates



A stable start to the year across business units

Personal Banking¹



ROE 21.1%

Cost-to-income ratio 46.1%



Loan portfolio grew by ISK 17bn and deposits by ISK 11bn in the first quarter



Solid market share across segments, with 29.5% within mortgages, 36.6% within credit cards and 27.9% within deposits²

Business Banking¹



ROE 12.3%

Cost-to-income ratio 40.8%



In 1Q26, BBs loan portfolio grew by 9% YOY, with 21% growth in the Ergo loan portfolio over the same period



Highest market share amongst SMEs with 36% overall market share and 49% within the capital area³

Corporate & Investment Banking¹



ROE 11.4%

Cost-to-income ratio 38.8%



Net inflow of AUM increased by 8% in the quarter



International lending increased by 12.7% in the quarter



To reflect a clearer and more focused strategic emphasis the Icelandic names of the units were changed to *Fyrirtækjasvið* for BB and *Fjárfestingarbankasvið* for CIB



Successful quarter for Securities brokerage with **ISK 32bn** in bond issuances. Thereof **17bn** for the Bank and approximately **15bn** for customers



Íslandsbanki became a **principal member** for Mastercard



1Q26 Highlights

The number of individuals with loans at Ergo increased by more than **30% YoY in Q1 2026**



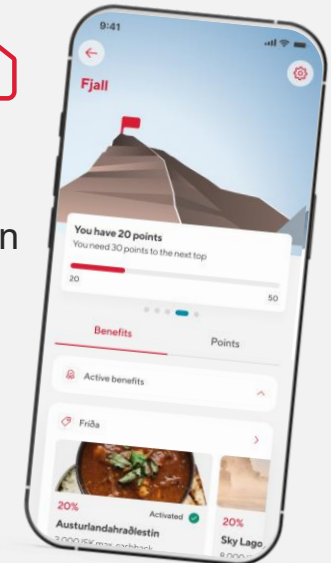
Strong start to the Bank's acquiring services which **reinforce commitment to SMEs** across the country



In parallel with the rollout of **Loyalty Services**, the Bank introduced two new products exclusively available to Loyalty Services customers:



- **The Tracker Mortgage** which carries a fixed margin on top of the Central Bank of Iceland's policy rate
- **The Loyalty Savings**, a special savings account which offers better interest rates based on your status





More than 38 thousand customers signed up in the first 3 weeks

New Íslandsbanki Loyalty Services

Emphasis placed on goal-setting related to financial health

Structured in tiers, where points are awarded based on number of products, relationship length, savings, and card turnover

Young people aged 13–23 in focus through a dedicated tier receiving special offers in Fríða along with additional banking benefits

Positive response confirms that simpler, more personal, and more transparent service matters

Cost reductions and simplified corporate structure

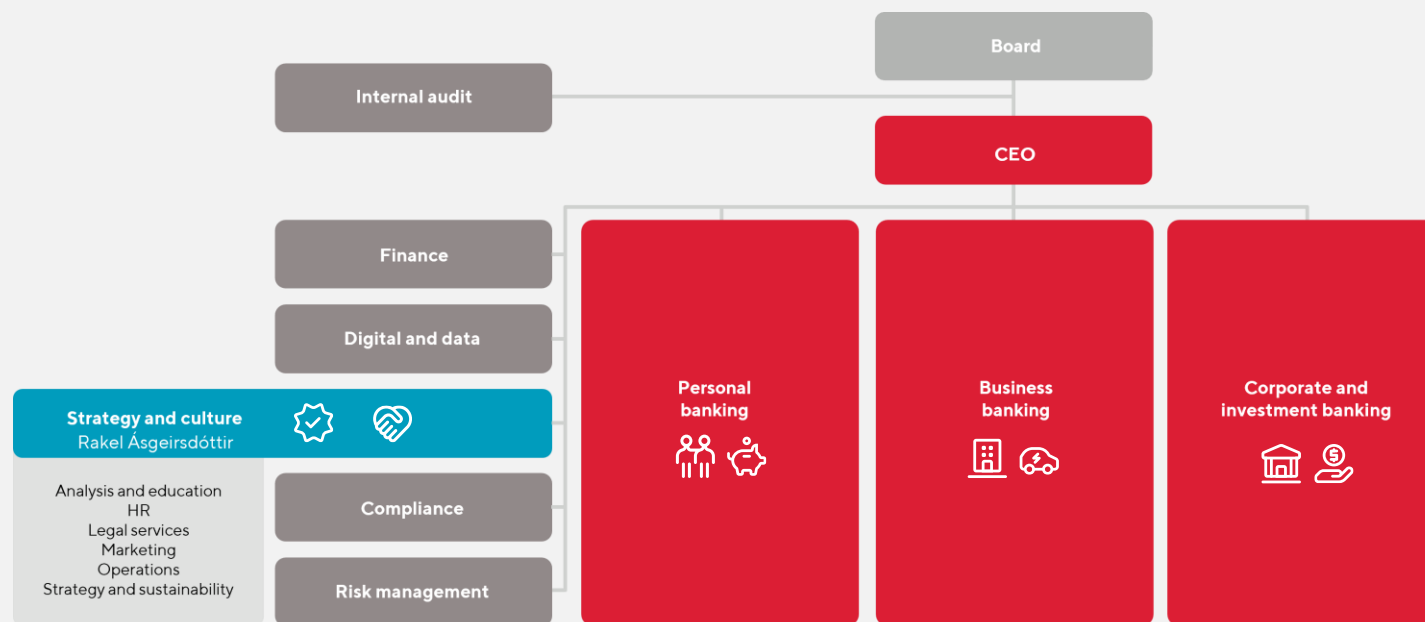
Redundancies reduce annual salary cost by approximately ISK 1 billion

Objective: To shorten communication paths and simplify governance structure, to enhance customer service

Flattening of organisational structure where the number of senior managers are reduced by 15% and executive directors by 20%

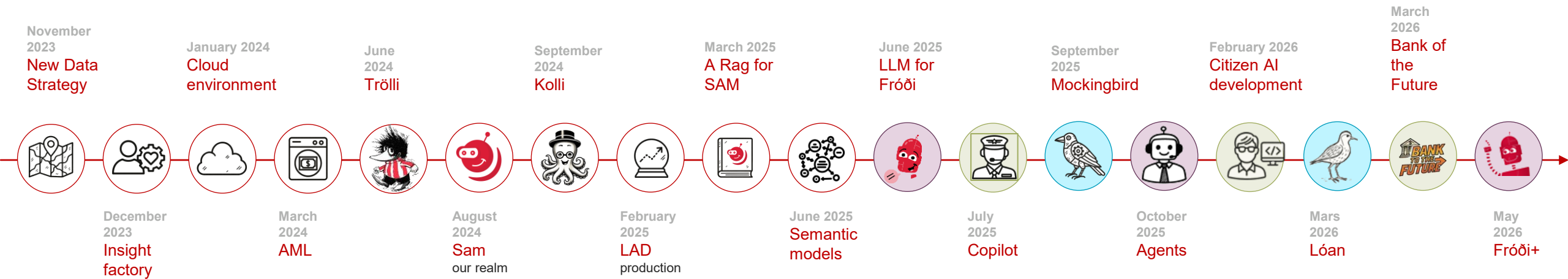
Number of top level decision making committees reduced from 11 to 4

FTEs reduced by 7% over the course of 2026



AI within Íslandsbanki

Balancing future opportunities and risks





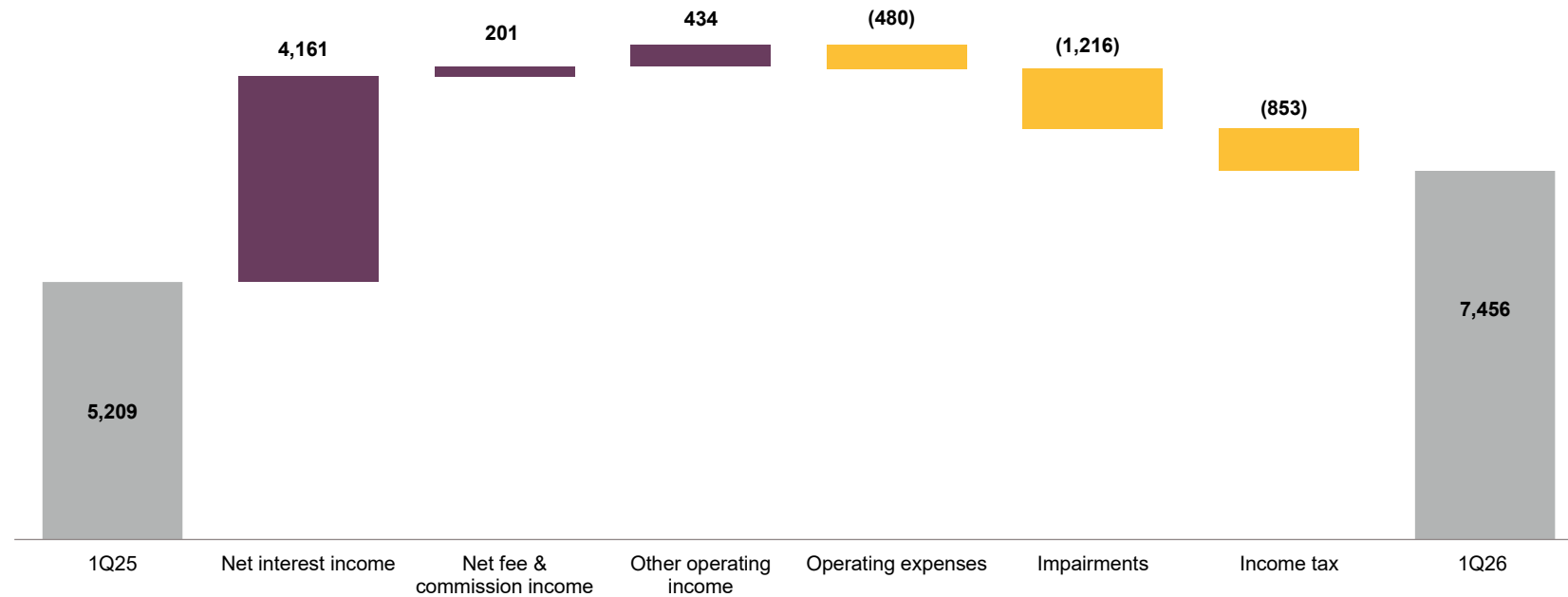
Financial Overview



1Q26 results year-on-year driven by higher core earnings

Core income growing by 27% primarily driven by inflationary effects on NII

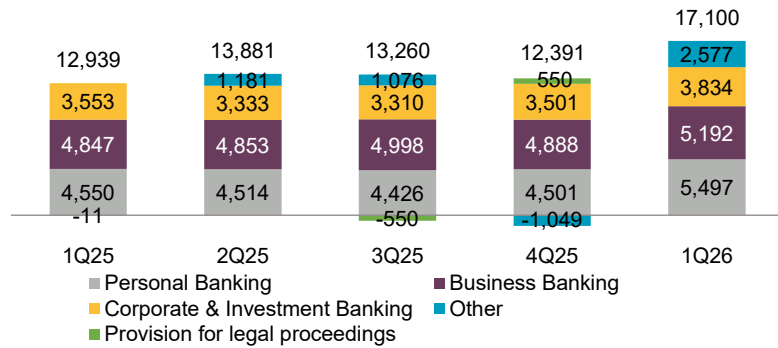
Profit for the period – 1Q25 vs 1Q26
ISKm



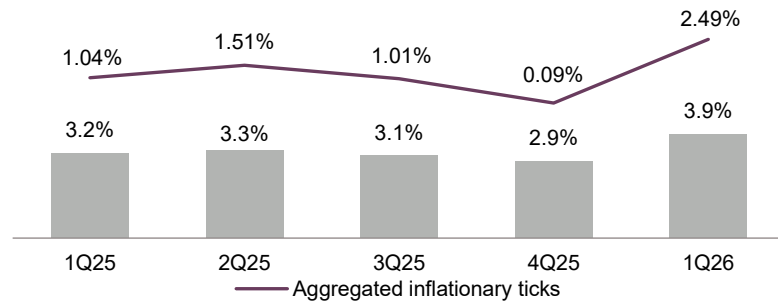
Record high NIMs – fluctuations expected throughout the year

In addition, growth in international lending contributing healthily to NII

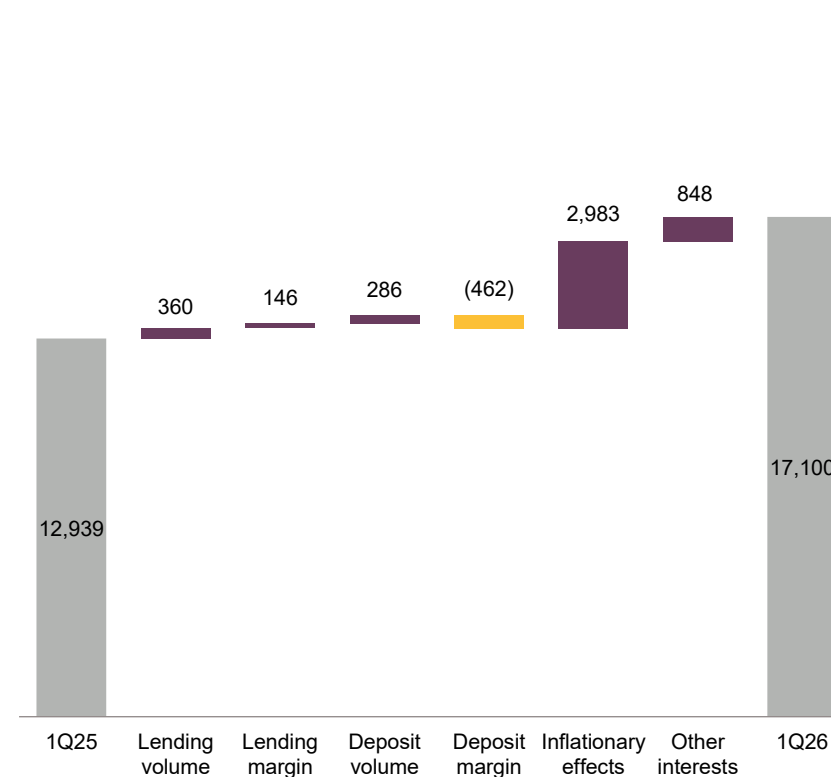
Net interest income
Business segments, ISKm



Net interest margin
On total assets



Net interest income – YoY comparison
ISKm



Highlights

- Net interest margin was 3.9% in 1Q26 (3.2% in 1Q25). The increase in the margin is 73 basis points, of which 66 basis points are attributable to higher inflation.
- The CPI imbalance remained stable in the quarter and amounted to ISK 201 billion at end of 1Q26 (200 billion at end of 4Q25).
- The CPI imbalance has been stable around the current level for the last few quarters but is assumed to grown parallel to the maturity of ISB CBI 26 in May
- Aggregated inflationary ticks for 1Q26 was 2.47% compared to 1.04% in 1Q25
- Expectations are that aggregated inflationary ticks for 2Q26 will be 1.46% (1.51% in 2Q25)
- Policy rates were raised by 25 basis points in March

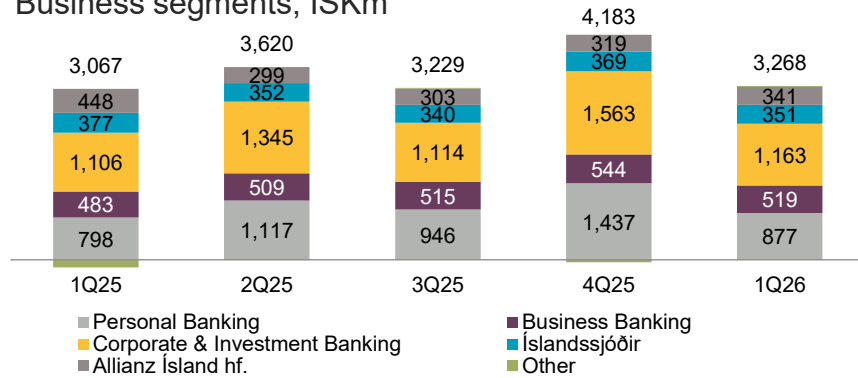


Growth on back of growth in increasing lending and guarantees fees

Income from capital markets reduced from previous quarter as volumes have developed in an unfavorable manner

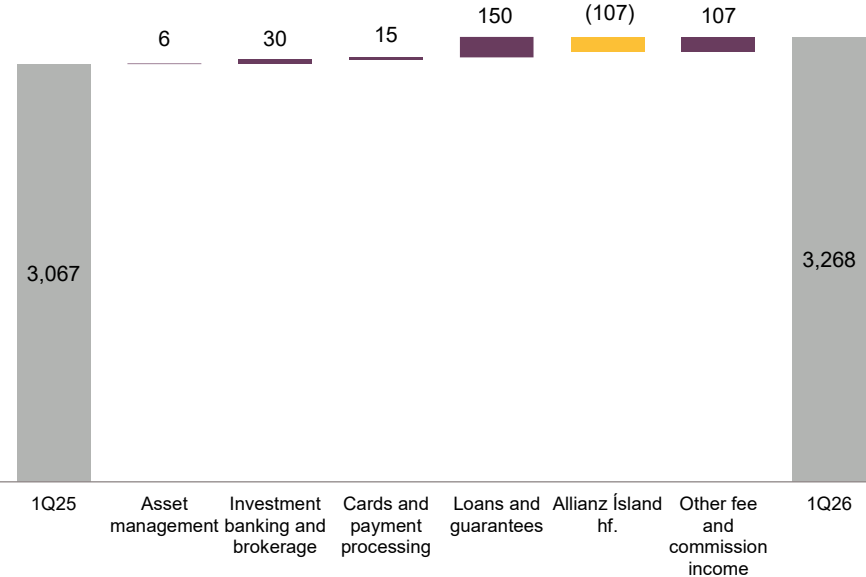
Net fee and commission income

Business segments, ISKm



Net fee and commission income – YoY comparison

ISKm

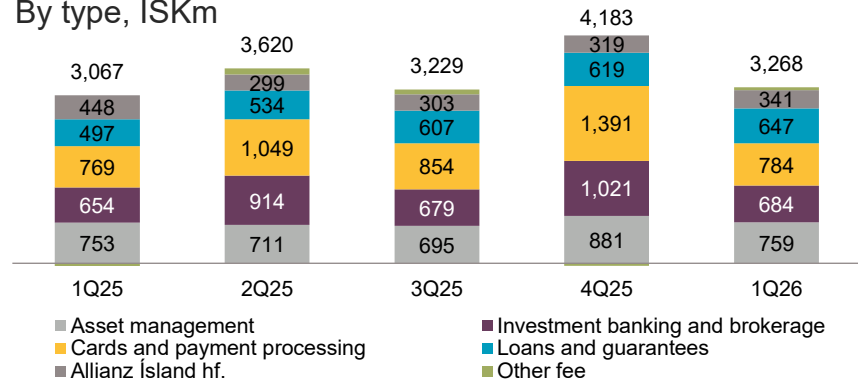


Highlights

- Net fee and commission income with a 6.6% growth year-on-year
- Considerable growth in fees related to lending and guarantees, or 30% year-on-year, and 4.5% from the previous quarter
- Income from both investment banking and asset management was adversely affected by lower volumes and pressure in capital markets - volume on equity market contracting by 25% year-on-year
- Allianz with lower income compared to previous year due to challenging market conditions and increased competition

Net fee and commission income

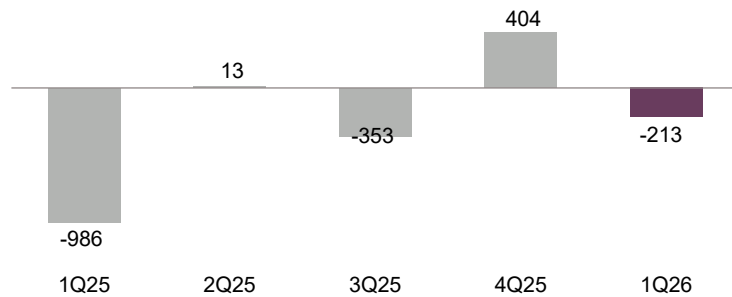
By type, ISKm



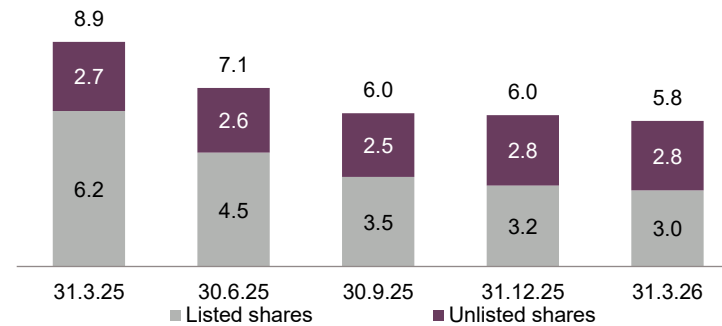
Market risk exposure continues to be a limited part of the Bank's operations

Bond and debt instruments mainly related to the Bank's liquidity portfolio

Net financial income (expense)
ISKm



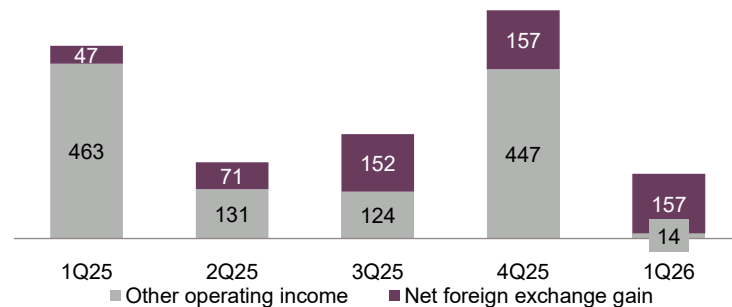
Shares and equity instruments¹
ISKbn



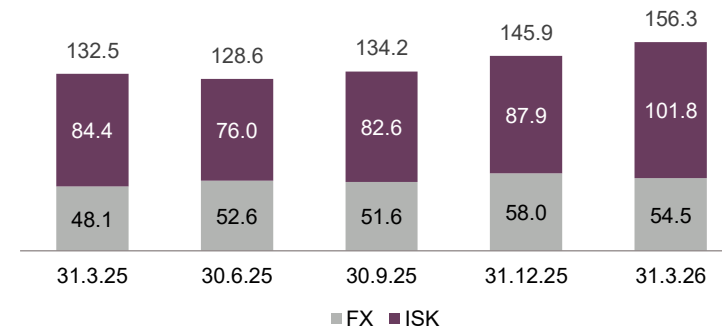
Highlights

- Net financial expense of ISK 213 million was recorded in the quarter, mainly attributable to loss on equities and related derivatives – do to considerable adverse conditions on the equity market
- Contraction of Other operating income mainly attributable to the revaluation of Norðurturn, an associate of Íslandsbanki in 4Q25 while remaining flat in the current quarter

Other operating income and net FX gain
ISKm



Bonds and debt instruments²
ISKbn



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

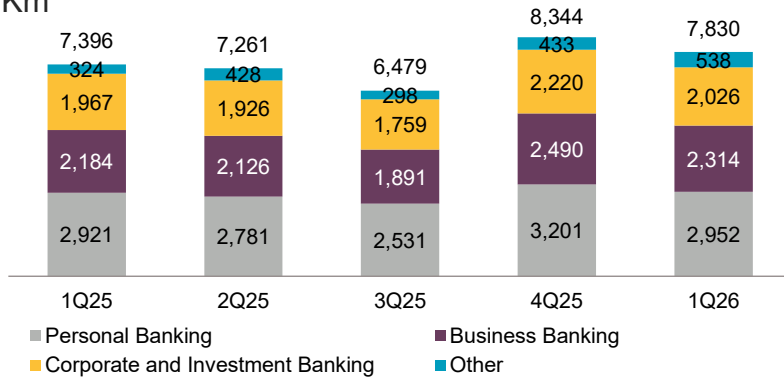
2. Excluding listed bonds and debt instruments used for economic hedging.



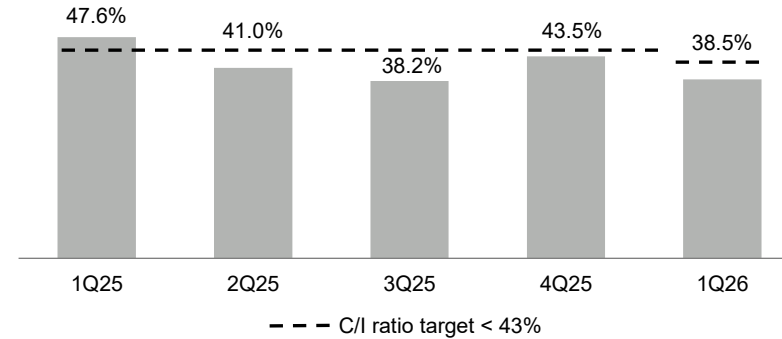
Strong cost-to-income ratio during the quarter

Results continue to be within the Bank's financial targets

Administrative expenses
ISKm



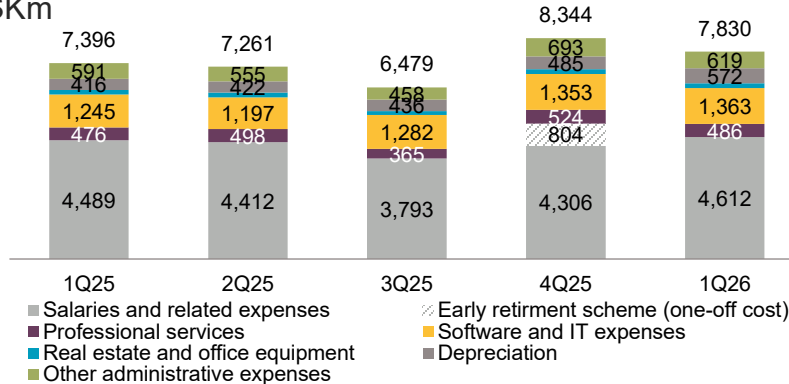
Cost-to-income ratio^{1,2}



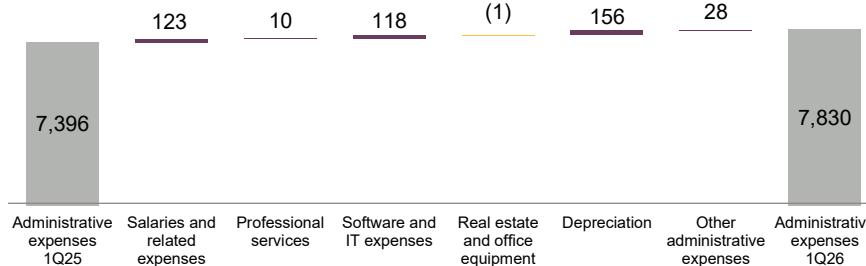
Highlights

- Salaries and related expenses rose by ISK 123m year over year or 2.7%
- In the first quarter, the Bank expensed ISK 247m related to the employee variable compensation plan and ISK 58m related to employee share-based incentive scheme – adjusted for that regular salaries contracted year-on-year
- Organisational changes were approved in April, resulting in a reduction of over 20 employees. In total, the number of FTEs will decrease by 7% over the year, including reductions from the dismantling of the early retirement scheme, as disclosed in the Bank's 2025 annual financial statements.
- Cost related to redundancies to be accounted for in 2Q26, amounting to ISK 260 million
- Overall, yearly savings are estimated around ISK 1 billion which will be fully materialised in 2027

Administrative expenses – by type
ISKm



Administrative expenses – YoY comparison
ISKm

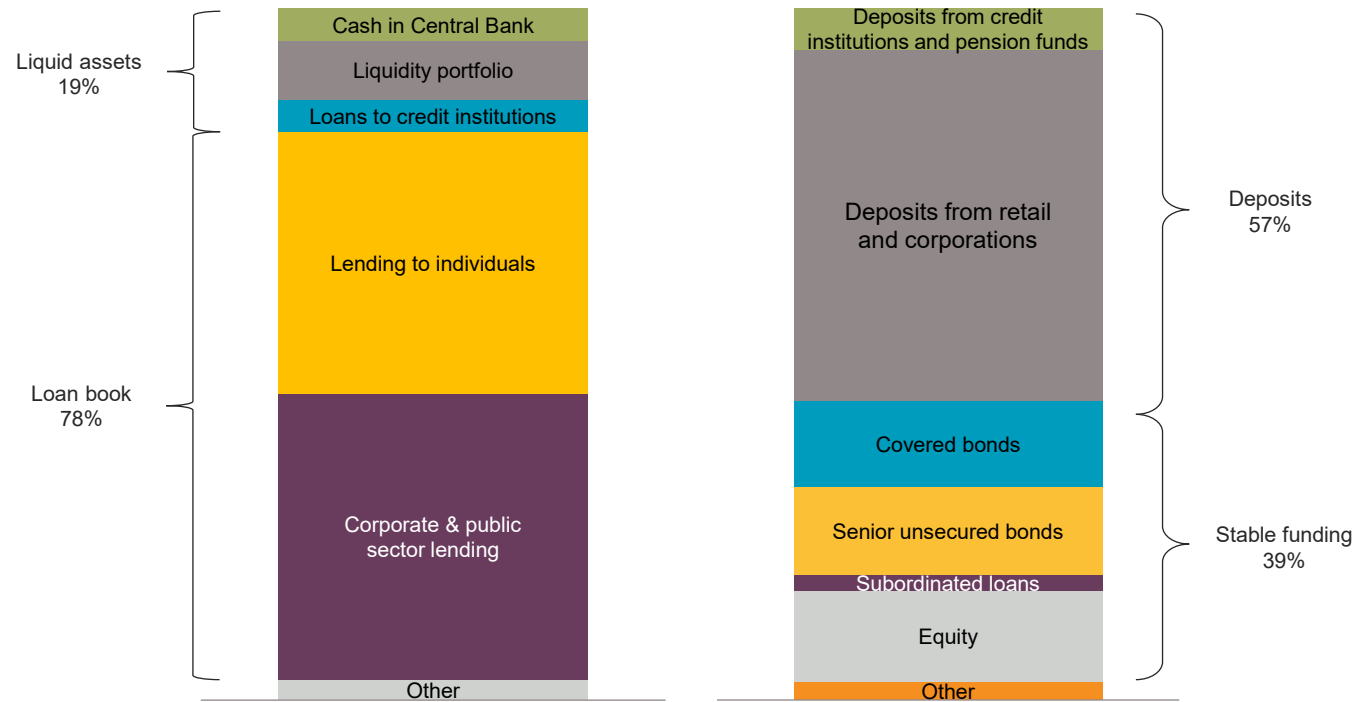


1. C/I ratio target was <math>< 45\%</math> until year-end 2025. 2. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and an income of ISK 237m within net interest income (ISK 550m reversed from charge in 3Q25 due to provision for legal proceedings and a charge of ISK 313m due to correction from previous years). C/I ratio for 3Q25 excludes a charge of ISK 550m within net interest income due to a provision for legal proceedings.

Simple balance sheet with good loan and funding profiles

All liquid assets market to market

Simplified balance sheet structure
31.3.2026, ISK 1,787bn



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

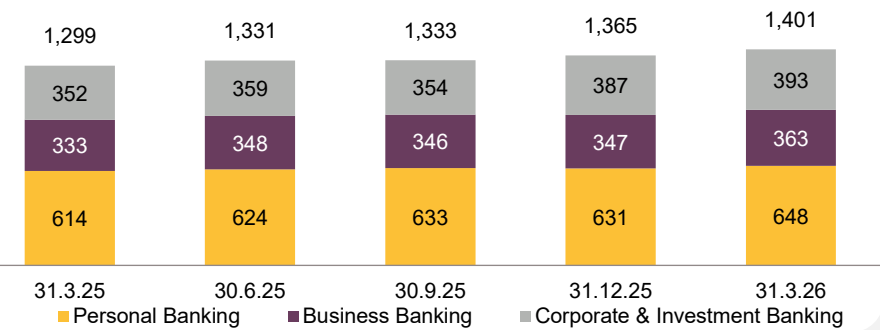


Loan growth across all business units

YTD growth amounts to 2.9%, or over 10% on an annual basis despite challenging market conditions

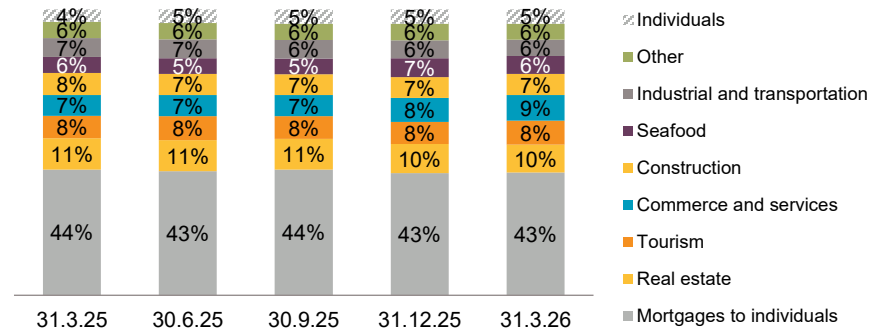
Loans to customers

By business division, ISKbn



Loans to customers

By sector, with tourism as a separate sector

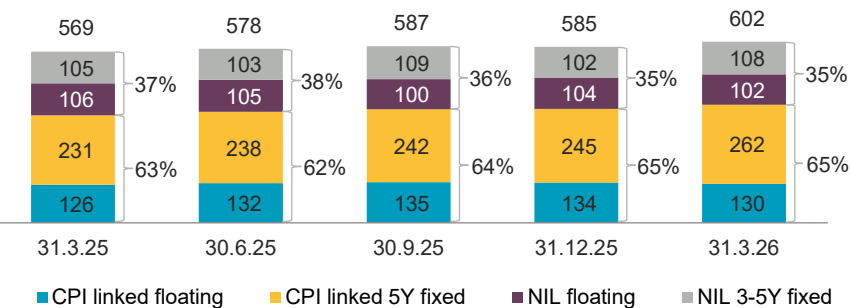


Highlights

- Around 94% of the loan book are covered by collateral – comparable to previous quarters
- Composition of the loan portfolio comparable to previous quarters
- The credit quality of assets continues to be robust due to strong risk management practices and disciplined lending policies
- Composition of mortgage products beginning to normalise, with nominal rate mortgages starting to grow
- Healthy LTVs in the mortgage book where average LTVs amount to 56% (54% year-end 2025)

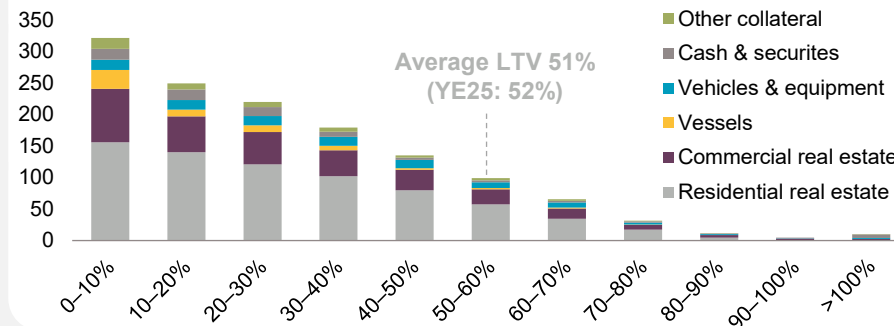
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



LTV distribution by underlying asset class

Loan splitting approach, ISKbn

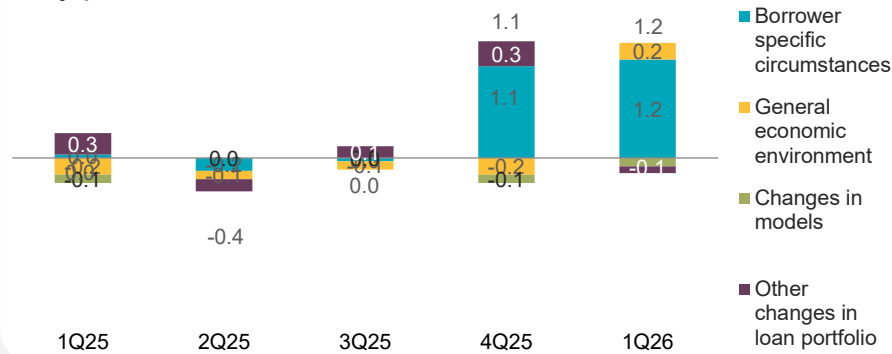


Despite economic slowdown, asset quality remains high

Increase in stage 3 among other related to exposures in the construction sector

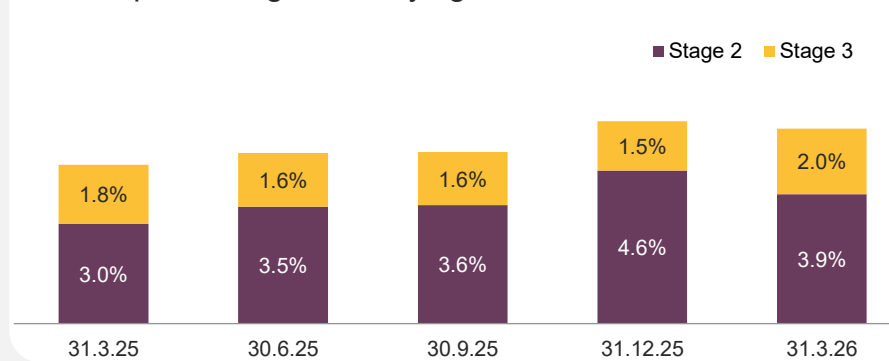
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

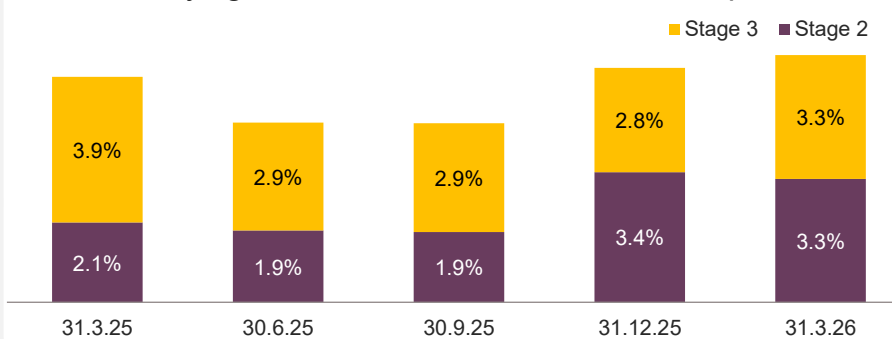


Highlights

- Annualised cost of risk was 35 bps in 1Q26 (32bps for 4Q25) – normalised cost of risk assumed 20-25 bps through the cycle
- Unchanged weights of economic scenarios: 20% good, 50% baseline and 30% bad
- Increase in stage 3 loans mainly related to borrower specific circumstances – foreclosure of an asset positively impacts stage 3
- As sale time of new residential real estate is still high, a few construction projects have been classified on stage 2
- Clear indication that prolonged high interest rate and inflationary environment has started to have an impact

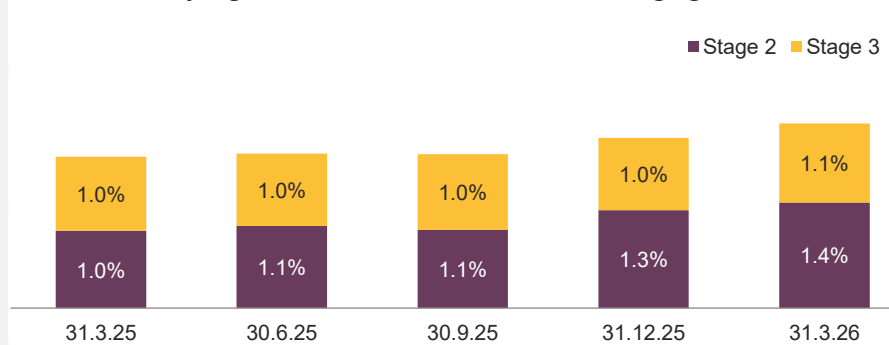
Real estate portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of the real estate portfolio



Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages

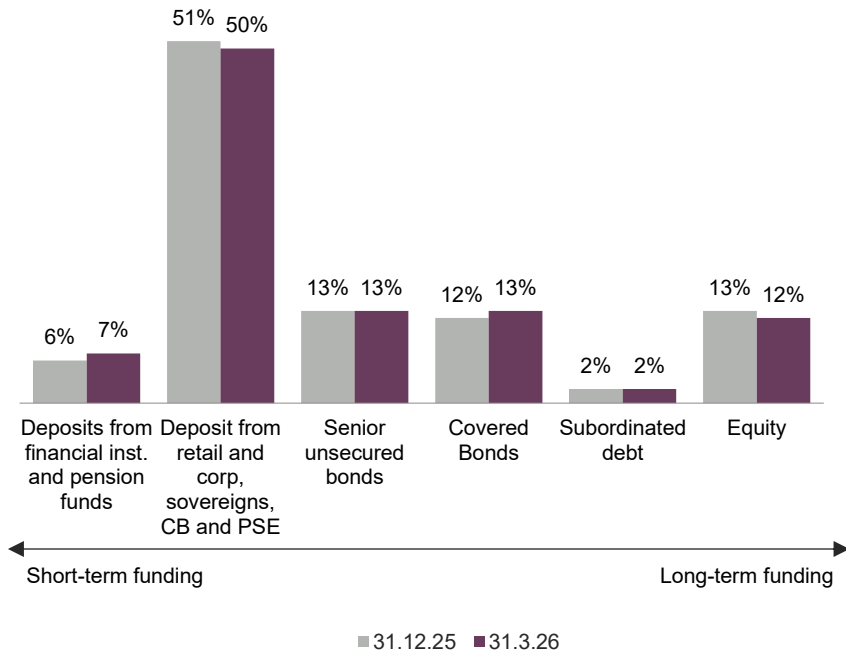


Strong deposit growth in favourable LCR brackets

Long term deposit funding allows for flexibility on the wholesale market

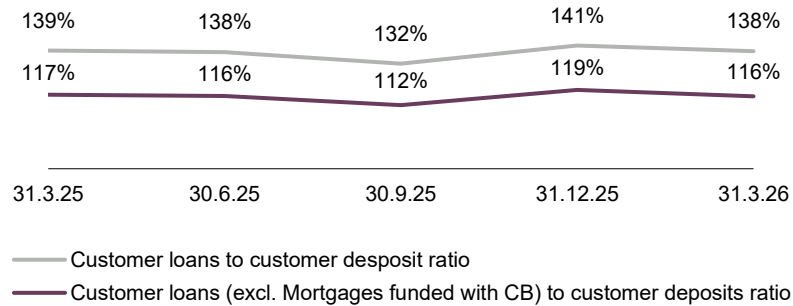
Funding sources

By type, % of total liabilities and equity



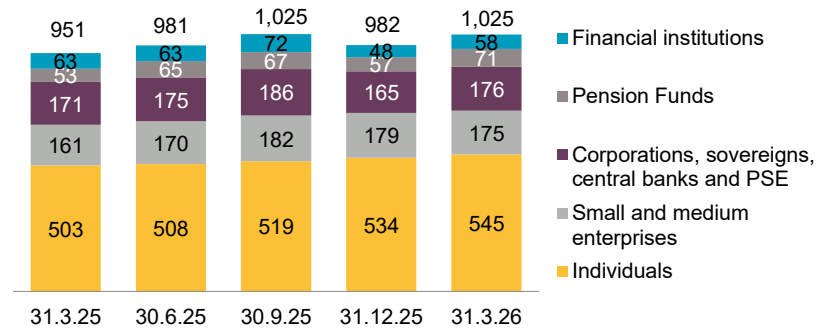
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



Highlights

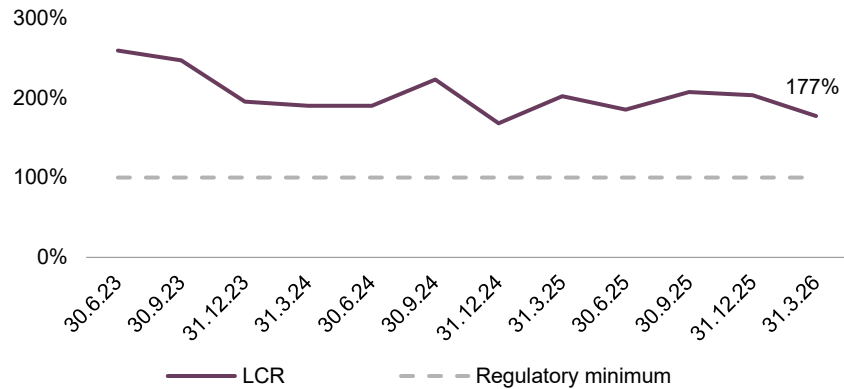
- Overall deposits levels grew by 4% in 1Q26, mainly due to increase in deposits from individuals and pensions funds
- Continued growth in deposits by individuals, which grew by 8% in 1Q26 on an annualised basis
- Term deposits were 18% of total deposits at the end of 1Q26, comparable to previous quarters
- 68% of deposits held by individuals (and 44% of all deposits) are covered by the deposit guarantee scheme



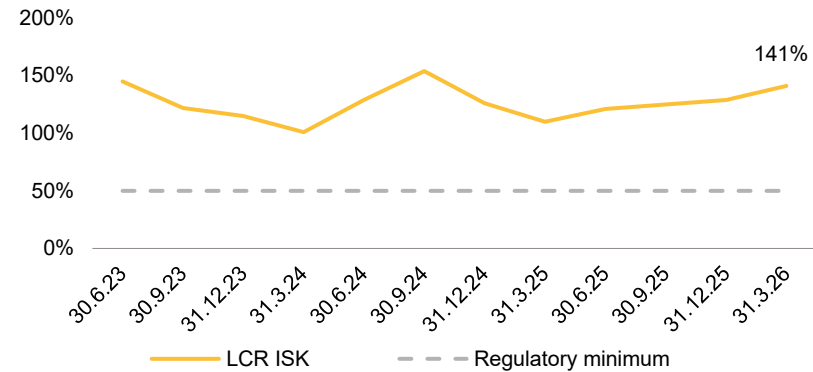
Liquidity position in excess of targets and requirements

Liquid assets remain close to 20% of the Bank's balance sheet

Total liquidity coverage ratio (LCR)



Liquidity coverage ratio for ISK

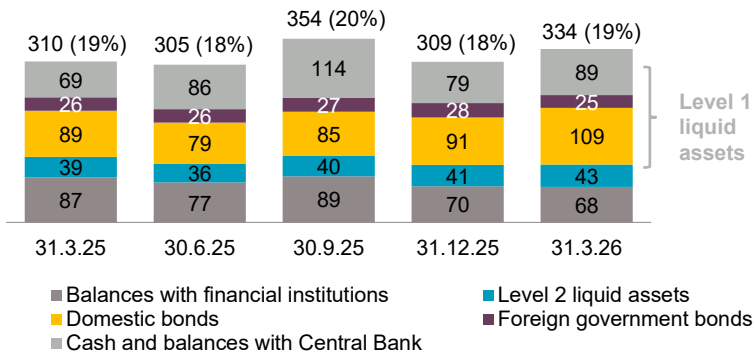


Highlights

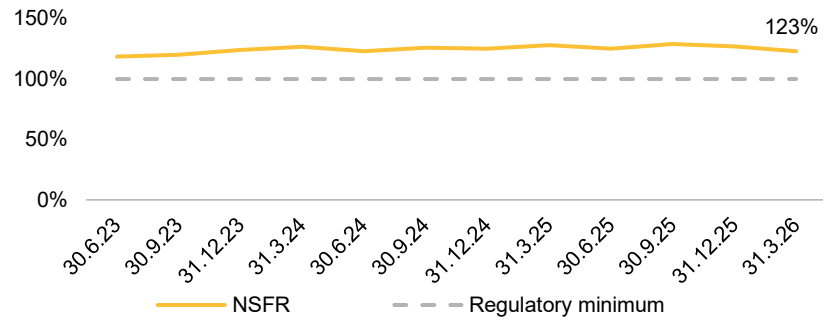
- All liquidity measures well above regulatory requirements
- Total LCR at 177% and NSFR at 123% at end of 1Q26
- The Bank's EUR LCR at the end of 1Q26 was 411%
- The Bank's securities portfolios are all MtM (FVTPL and FVOCI). There is no unrealised loss due to HtM (amortised cost)
- IRRBB is carefully monitored and managed. The Bank is fully compliant to the supervisory outlier tests

Liquid assets

% of total assets, ISKbn

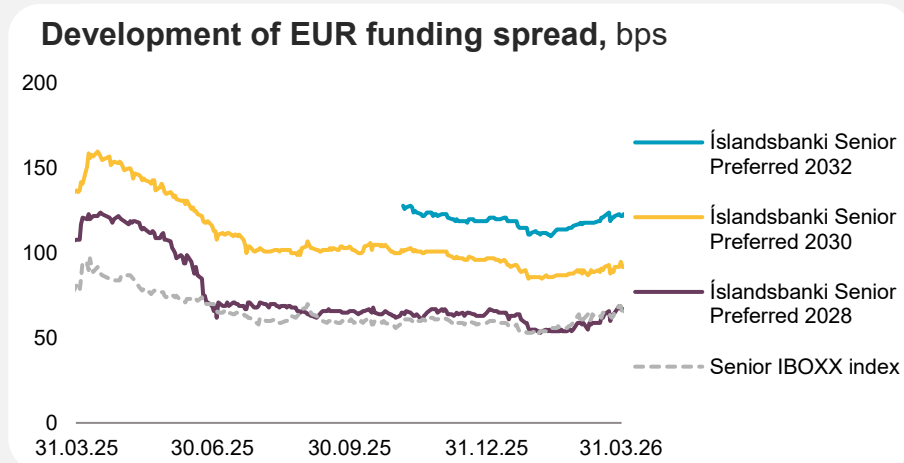
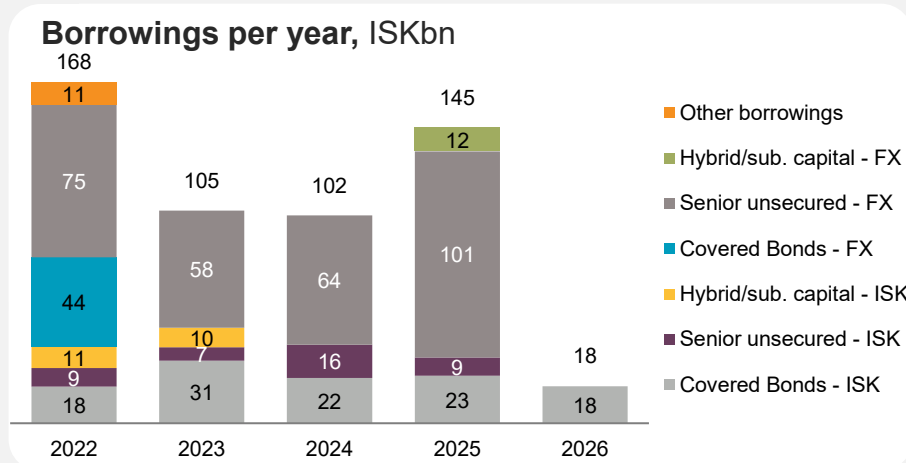
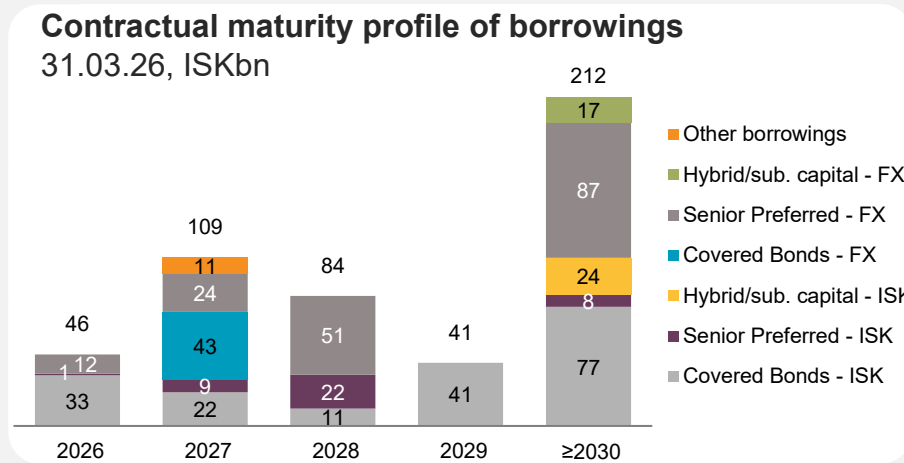
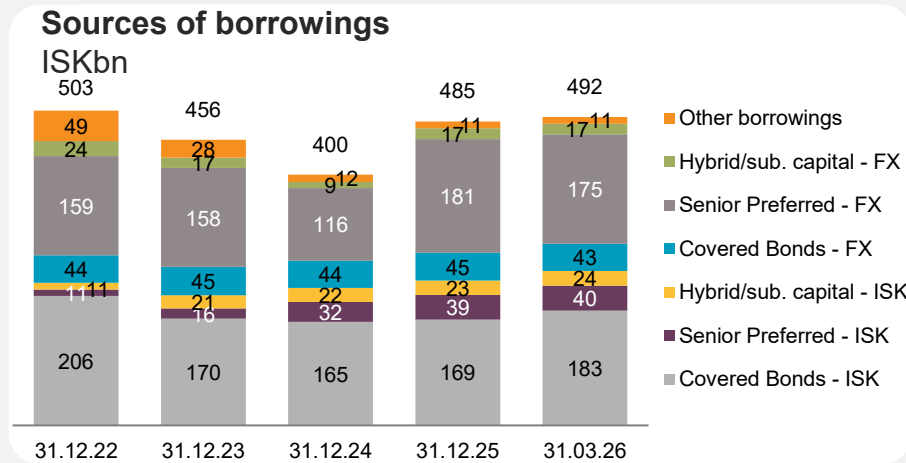


Net stable funding ratio (NSFR)



The Bank is fully MREL funded throughout the year

Good diversification of funding sources across products and maturities, as well as across investor types and locations



Highlights

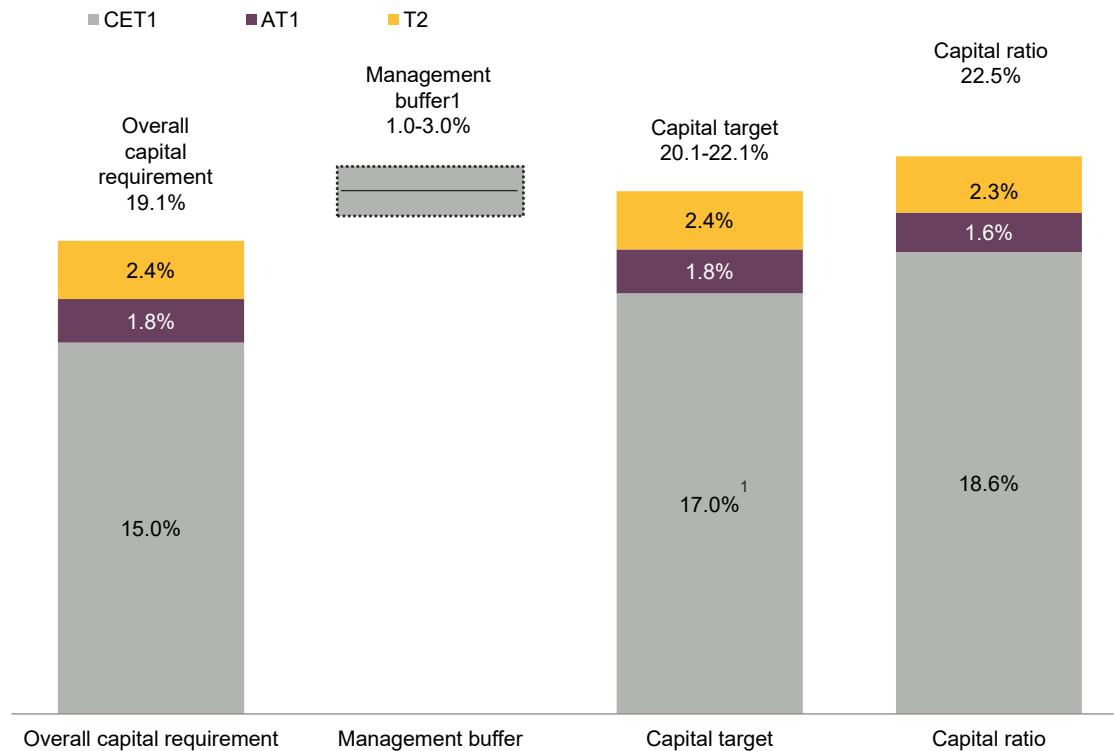
- Stable spread development through periods of market turmoil
- The Bank's wholesale borrowing split remains evenly divided between ISK and foreign currencies
- Domestically in Q1, the Bank sold ISK 18 billion of ISK denominated covered bonds
- Limited maturities in foreign currencies throughout 2026 allow the Bank to remain an adaptive issuer
- In March S&P affirmed the Bank's covered bond programme rating of A+ and revised the outlook from stable to positive
- In November 2025, Moody's Ratings affirmed Islandsbanki's A2 long-term deposit and A3 long-term issuer ratings, with a stable outlook



Íslandsbanki's capital ratios well above target

Total distribution capacity amounts to approximately ISK 29 billion end of the first quarter

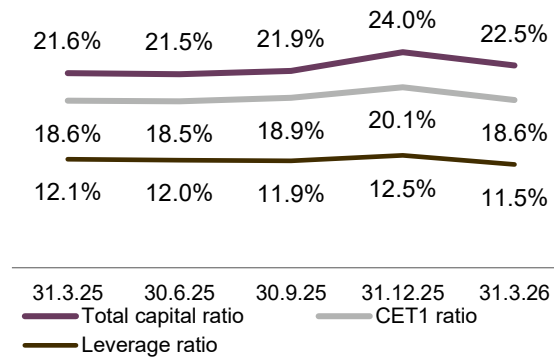
Current regulatory requirements and minimum capital target 31.3.2026, by capital composition



¹CET1 capital target set at mid-point of management buffer

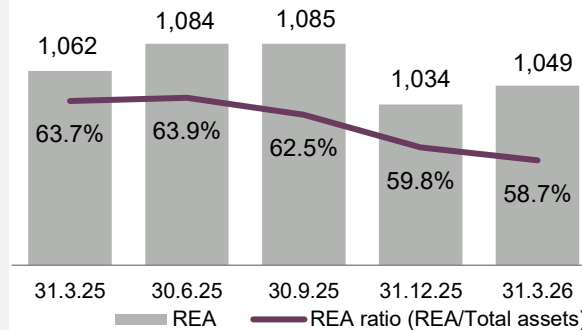
Capital and leverage ratios

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



REA and REA ratio

ISKbn and % of total assets



Highlights

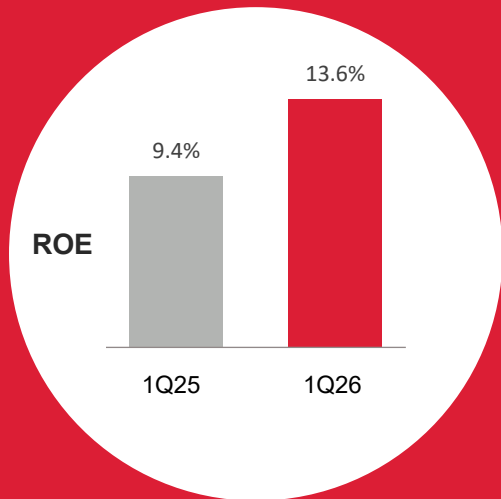
- Following a favorable CRR 3 implementation December 2025, the Central Bank approved in January 2026, the Central Bank adoption of a loan splitting approach for IPRE mortgage exposures. This adaptation led to a further 2% reduction in the Group's REA.
- SREP: As of 30 June 2025, the Bank must maintain an additional capital requirement of 1.4% of the REA, resulting in an overall capital requirement of 19.1% and capital target of 20.1-22.1% assuming a 100-300bp management buffer
- The Bank remains committed in its efforts to optimise its capital structure through both external and/or organic growth, as well as through distributions to shareholders
- Total distributions throughout the first quarter amount to ISK 19.5 billion
- As of 31 March 2026, ISK 12.1 billion have been allocated to share buybacks which are yet to be completed but deducted from the CET1 capital
- Total distribution capacity (including uncompleted buybacks) amounts to around ISK 29 billion, assuming a fully optimised capital structure





Strong performance

- ROE 13.6% for 1Q26



Strong excess capital position

- Including unused buybacks and 50% of 1Q26 profit

**Excess CET1
ISK 29.2 billion**



Proven strategic execution

- New Loyalty Services implemented
- Org. chart revised and streamlined

Strategy
↓
Execution
↓
Impact



Q&A





Appendix I

About Íslandsbanki and additional financial information



This is Íslandsbanki

We empower our customers to be a force for good

Values



Progressive thinking



Collaboration



Professionalism

The Bank



717 FTEs: Number of FTEs at Íslandsbanki at period-end



Listed on Nasdaq Iceland as of June 2021



12 branches

Market share¹



31% Retail customers



36% SMEs

Key figures 1Q26

ROE 13.6%

Cost-to-income ratio 38.5%

CET1 ratio 18.6%

Total capital ratio 22.5%

LCR 177%

Group, EUR

NSFR 123%

Group, all currencies

Leverage ratio 11.5%

Total assets ISK 1,787bn

Sustainability in 1Q26



The share of ESG risk-assessed credit risk was at 90% at end of 1Q26²



Successful enhancement and automation of the ESG risk assessment process



Íslandsbanki's sustainable assets amounted to ISK 177 billion at end of 1Q26

Digital milestones in 1Q26



Íslandsbanki's digital platforms and capabilities enhanced through the launch of a new loyalty service, with a custom system built to support it



First phase of the digital transformation of corporate lending processes completed



Numerous new features were added to the new online bank, including self-service for mandate management.

Ratings and certifications

MOODY'S
A3 Stable outlook

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



ESG risk rating

Reitun
A3 Exceptional



Financial overview

Key figures & ratios

		1Q26	4Q25	3Q25	2Q25	1Q25
PROFITABILITY	Profit for the period, ISKm	7,456	5,947	6,901	7,192	5,209
	Return on equity	13.6%	10.5%	12.2%	13.0%	9.4%
	Net interest margin (on total assets)	3.9%	2.9%	3.1%	3.3%	3.2%
	Cost-to-income ratio ¹	38.5%	43.5%	38.2%	41.0%	47.6%
	Cost of risk ²	0.35%	0.32%	(0.00%)	(0.12%)	0.00%
		31.3.26	31.12.25	30.9.25	30.6.25	31.3.25
BALANCE SHEET	Loans to customers, ISKm	1,401,212	1,367,106	1,333,234	1,331,288	1,298,849
	Total assets, ISKm	1,786,697	1,728,147	1,734,056	1,696,034	1,667,429
	Risk exposure amount, ISKm	1,049,435	1,033,788	1,084,527	1,084,492	1,061,903
	Deposits from customers, ISKm	1,013,431	968,695	1,008,919	966,075	936,779
	Customer loans to customer deposits ratio	138%	141%	132%	138%	139%
	Non-performing loans (NPL) ratio ³	2.0%	1.5%	1.6%	1.6%	1.8%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	123%	127%	129%	125%	128%
	Liquidity coverage ratio (LCR), for all currencies	177%	203%	207%	185%	202%
CAPITAL	Total equity, ISKm	212,718	225,359	226,974	224,725	217,894
	CET 1 ratio ⁴	18.6%	20.1%	18.9%	18.5%	18.6%
	Tier 1 ratio ⁴	20.2%	21.7%	19.8%	19.4%	19.5%
	Total capital ratio ⁴	22.5%	24.0%	21.9%	21.5%	21.6%
	Leverage ratio ⁴	11.5%	12.5%	11.9%	12.0%	12.1%
	MREL ratio ⁵	40.3%	44.0%	36.8%	36.7%	37.8%



Income statement

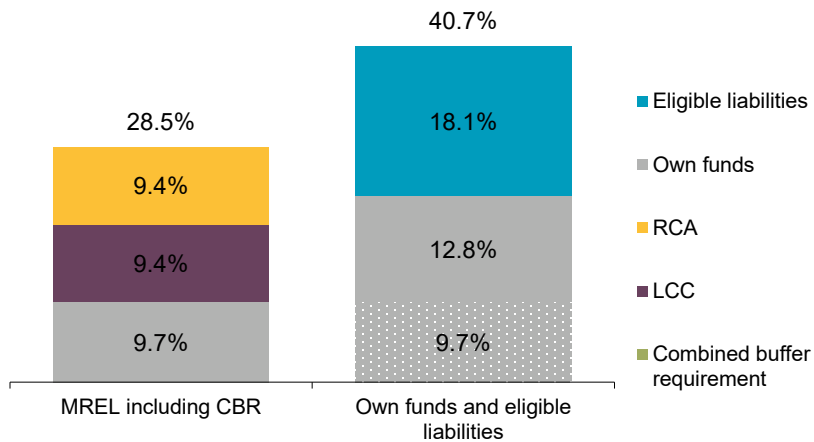
Income statement, ISKm	1Q26	1Q25	Δ%	4Q25	Δ%
Net interest income	17,100	12,939	32%	12,391	38%
Net fee and commission income	3,268	3,067	7%	4,183	(22%)
Net financial income (expense)	(213)	(986)	(78%)	404	(153%)
Net foreign exchange gain	157	47	234%	157	0%
Other operating income	14	463	(97%)	447	(97%)
Total operating income	20,326	15,530	31%	17,582	16%
Salaries and related expenses	(4,612)	(4,489)	3%	(5,110)	(10%)
Other operating expenses	(3,218)	(2,907)	11%	(3,234)	(0%)
Administrative expenses	(7,830)	(7,396)	6%	(8,344)	(6%)
Bank tax	(546)	(500)	9%	(522)	5%
Total operating expenses	(8,376)	(7,896)	6%	(8,866)	(6%)
Profit before net impairment on financial assets	11,950	7,634	57%	8,716	37%
Net impairment on financial assets	(1,219)	(3)	-	(1,087)	12%
Profit before tax	10,731	7,631	41%	7,629	41%
Income tax expense	(3,275)	(2,422)	35%	(1,682)	95%
Profit for the period	7,456	5,209	43%	5,947	25%
Key ratios					
Net Interest Margin (NIM)	3.9%	3.2%		2.9%	
Cost-to-income ratio (C/I)	38.5%	47.6%		43.5%	
Return on Equity (ROE)	13.6%	9.4%		10.5%	
Cost of risk (COR)	0.35%	0.00%		0.32%	



Íslandsbanki's MREL requirement

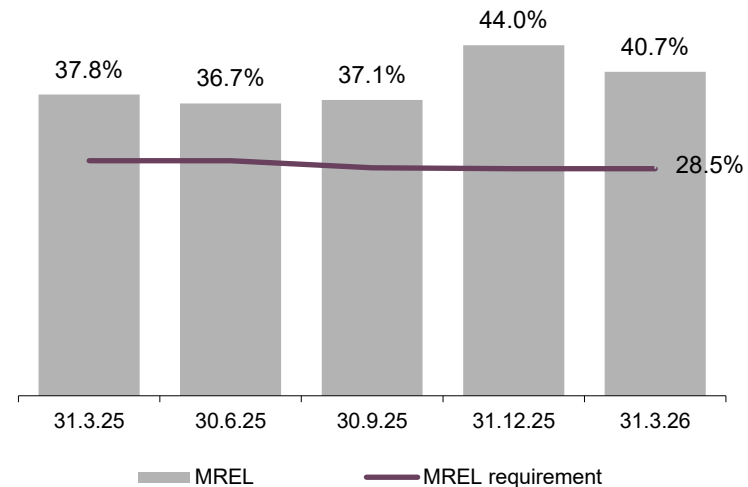
A new resolution plan approved for the Bank on October 17 2025

Minimum Requirement for Own Funds and Eligible Liabilities (MREL), 31.3.2026



Own funds and eligible liabilities as a % of REA includes 1Q26 profit
 MREL = RCA+LCC = 2x(P1+P2)

MREL Development, %



- The Icelandic Resolution Authority approves annually a resolution plan for the Bank. The Resolution plan stipulates that the MREL requirement for Íslandsbanki is the sum of the Loss absorption amount (LAA) and Recapitalisation amount (RCA), both equal to the total SREP capital requirement in force at the date of approval (9.4%), resulting in an MREL requirement of 18.8% of REA.
- CET1 capital that is maintained to meet the combined buffer requirement can not be used to fulfil MREL, therefore the effective requirement can be monitored as 28.5%



Assets

Asset base mainly consists of loans and liquid assets

Assets, ISKm	31.3.26	31.12.25	Δ	Δ%
Cash and balances with Central Bank	88,909	80,394	8,515	11%
Loans to credit institutions	79,739	80,009	(270)	(0%)
Bonds and debt instruments	164,093	151,959	12,134	8%
Derivatives	4,052	5,304	(1,252)	(24%)
Loans to customers	1,401,212	1,367,106	34,106	2%
Shares and equity instruments	15,497	20,517	(5,020)	(24%)
Other assets	33,195	22,858	10,337	45%
Total Assets	1,786,697	1,728,147	58,550	3%
Key ratios				
Risk Exposure Amount (REA)	1,049,435	1,033,788	15,647	2%
REA / total assets	58.7%	59.8%		
Non-performing loans (NPL) ratio ¹	2.0%	1.5%		

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



Liabilities and equity

Deposits continue to be the largest source of funding

Liabilities & Equity, ISKm	31.3.26	31.12.25	Δ	Δ%
Deposits from Central Bank and credit institutions	11,419	13,250	(1,831)	(14%)
Deposits from customers	1,013,431	968,695	44,736	5%
Derivative instruments and short positions	5,950	6,183	(233)	(4%)
Debt issued and other borrowed funds	452,085	444,593	7,492	2%
Subordinated loans	40,530	40,315	215	1%
Tax liabilities	13,386	12,757	629	5%
Other liabilities	37,178	16,995	20,183	119%
Total Liabilities	1,573,979	1,502,788	71,191	5%
Total Equity	212,718	225,359	(12,641)	(6%)
Total Liabilities and Equity	1,786,697	1,728,147	58,550	3%

Key ratios

Customer loans to customer deposits ratio	138%	141%
Net stable funding ratio (NSFR)	123%	127%
Liquidity coverage ratio (LCR)	177%	203%
CET 1 ratio	18.6%	20.1%
Tier 1 capital ratio	20.2%	21.7%
Total capital ratio	22.5%	24.0%
Leverage ratio	11.5%	12.5%
MREL ratio	40.3%	44.0%

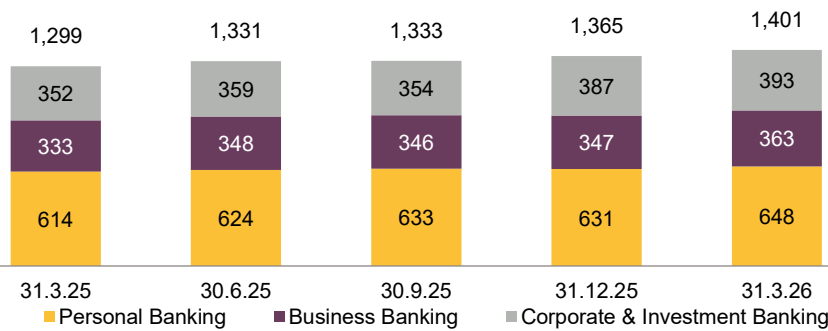


Loan growth across all business units

YTD growth amounts to 2.9% - or over 10% annualised – despite challenging market conditions

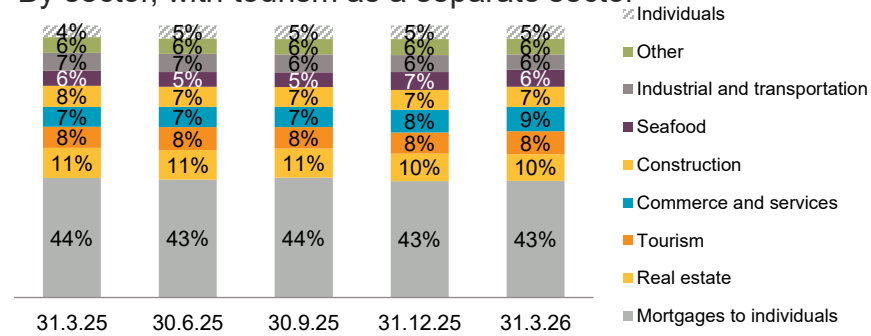
Loans to customers

By business division, ISKbn



Loans to customers

By sector, with tourism as a separate sector

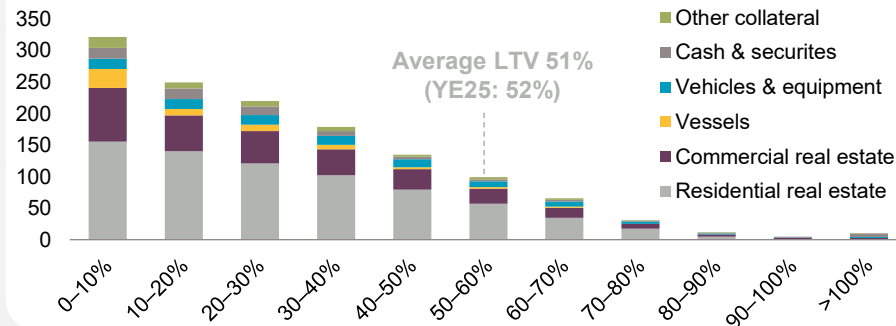


Highlights

- Around 94% of the loan book are covered by collateral – comparable to previous quarters
- Composition of the loan portfolio comparable to previous quarters
- The credit quality of assets continues to be robust due to strong risk management practices and disciplined lending policies

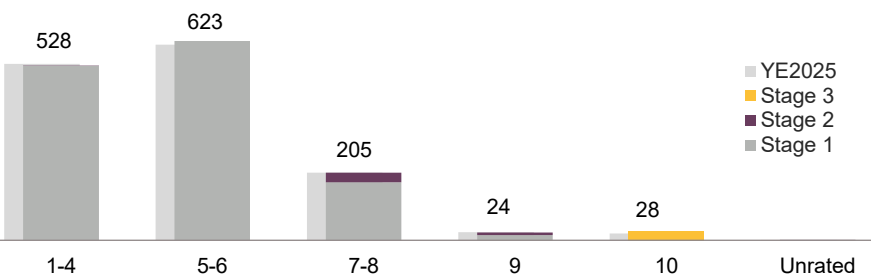
LTV distribution by underlying asset class

Loan splitting approach, ISKbn



Loans to customers: gross carrying amount¹

Risk class and impairment stage, 31.03.2026, ISKbn



1. Risk class distribution at YE25 shown as comparison

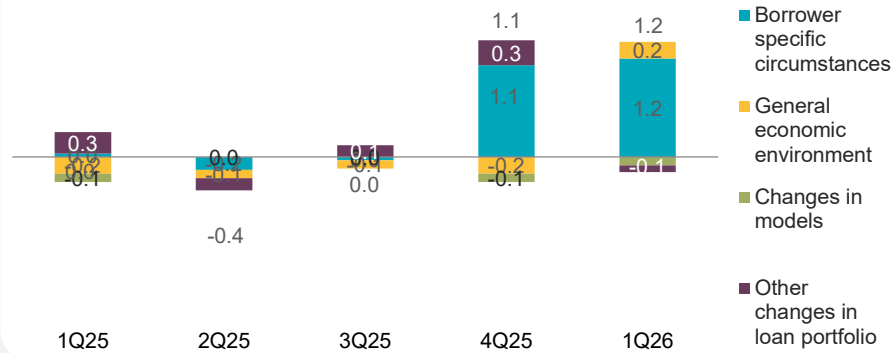


Economic slowdown starting to have an impact on impairments

Difference in stage 3 ratio between parent company and consolidated accounts due to foreclosure of asset in 1Q26

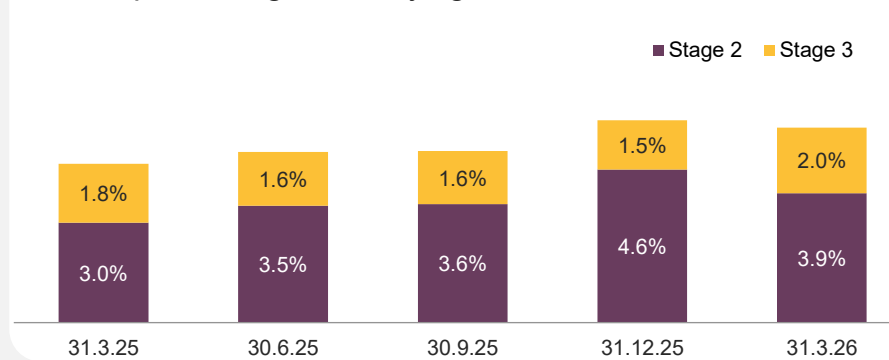
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans



Highlights

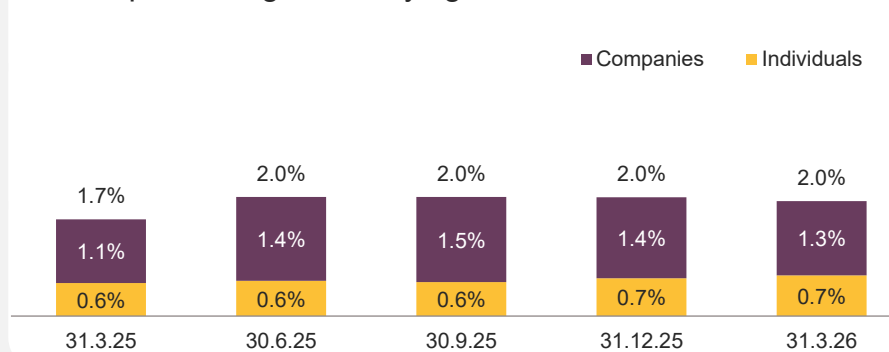
- Increase in stage 3 loans mainly related to borrower specific circumstances
- As sale time of new residential real estate is still high, a few construction projects have been classified on stage 2
- Clear indication that prolonged high interest rate and inflationary environment has started to have an impact
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forbore even after normal payments have resumed

Current and expected cost-of-risk

- Annualised cost of risk was 35bps in 1Q26 (0bps for 1Q25)
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 1Q26. The weights were last changed at end of 1Q22
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 300 million while 5% shift from the baseline to the good would decrease the allowance by ISK 130 million

Performing loans with forbearance

Development of gross carrying amount as ratio of total loans

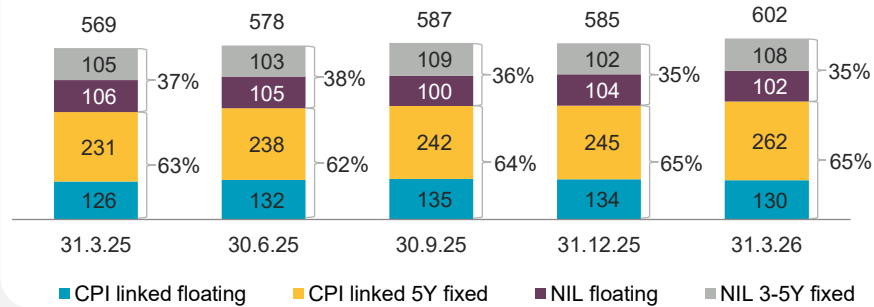


Nominal rate mortgages gaining momentum

Nominal fixed rate imbalance effectively run of by now – CPI related fixed rate imbalance still remains

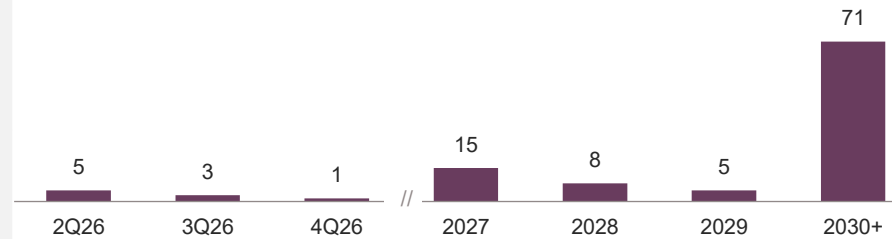
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



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

Gross carrying amount, ISKbn

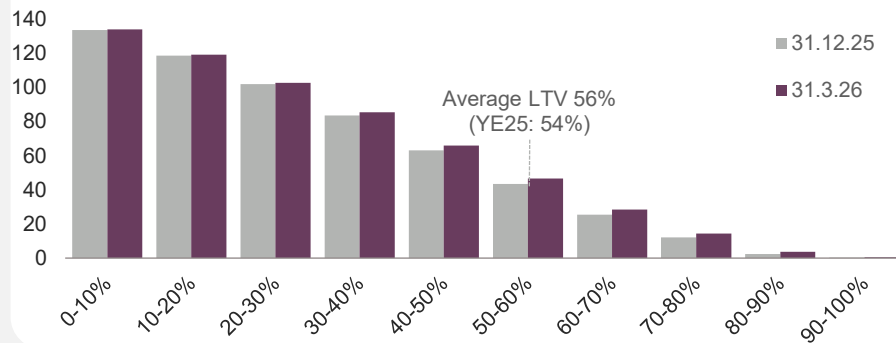


Highlights

- Composition of mortgage products beginning to normalise, with nominal rate mortgages starting to grow
- At origination, LTV is capped at 80% (85% for first time buyers) and debt service-to-income at 30% (35% for first-time buyers)
- Healthy LTVs in the mortgage book where average LTVs amount to 56% (54% year-end 2025)

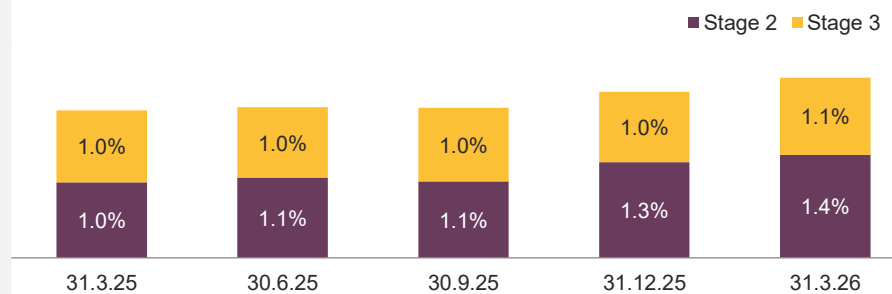
LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages

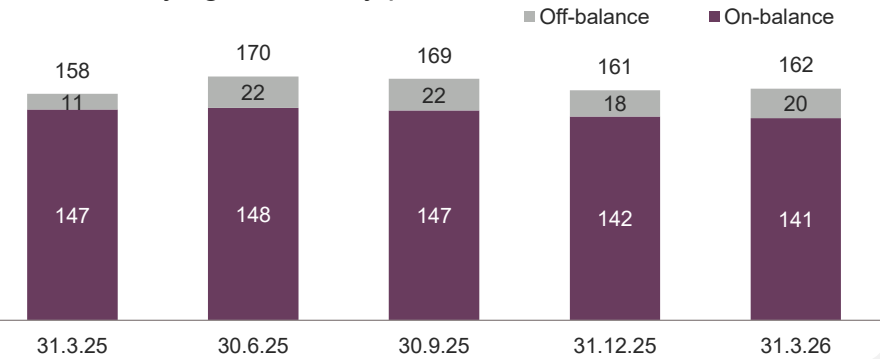


Impacts of slow residential housing market have materialised in the portfolio

Occupancy ratios are high for domestic commercial real estate companies

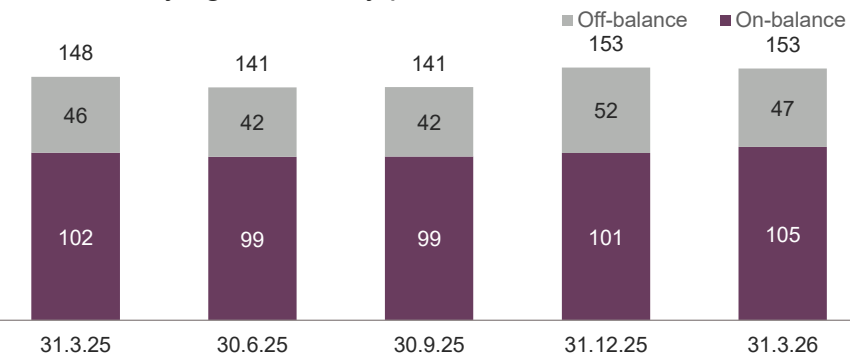
Development of exposure to real estate companies

Gross carrying amount by period, ISKbn



Development of construction exposure

Gross carrying amount by period, ISKbn

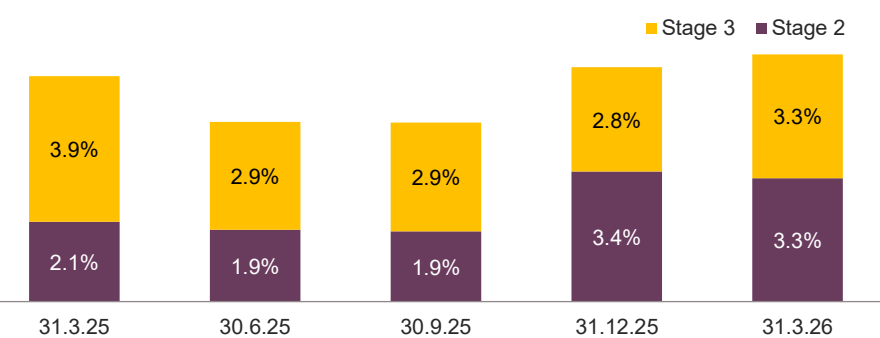


Highlights

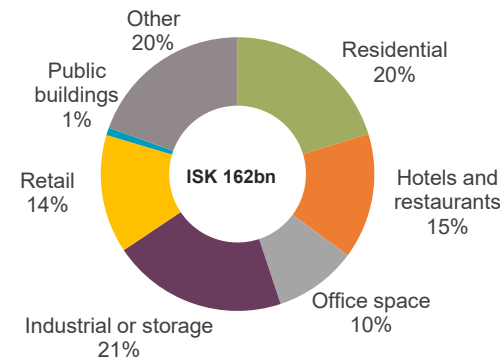
- Loans to real estate companies and construction amount to 10% and 7% of loans to customers, respectively
- Disciplined origination with conservative LTV requirements and debt service criteria
- Real estate companies naturally hedged in cash flow as both rental agreements and financing are both long-term and primarily CPI linked.
- High occupancy ratio of the listed commercial real estate companies of around 95%
- Over half of exposure in the construction sector is for residential real estate with low LTV compared to expected sales values

Real estate portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of the real estate portfolio



Real estate collateral by type





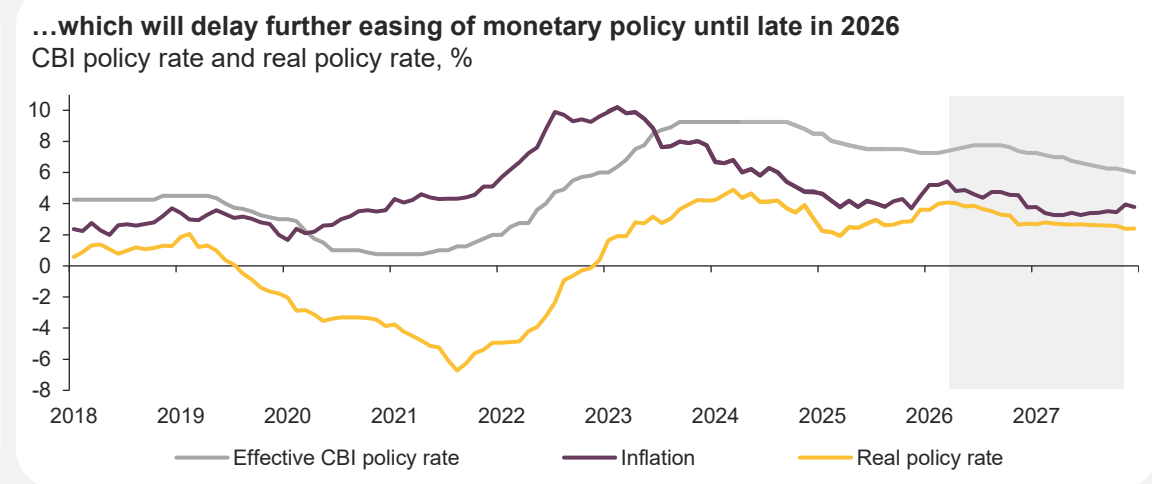
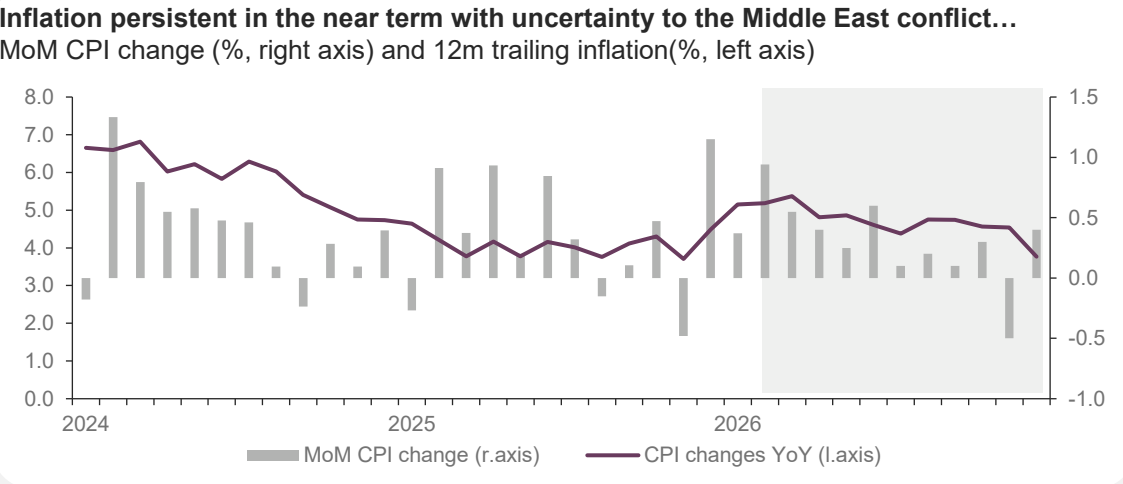
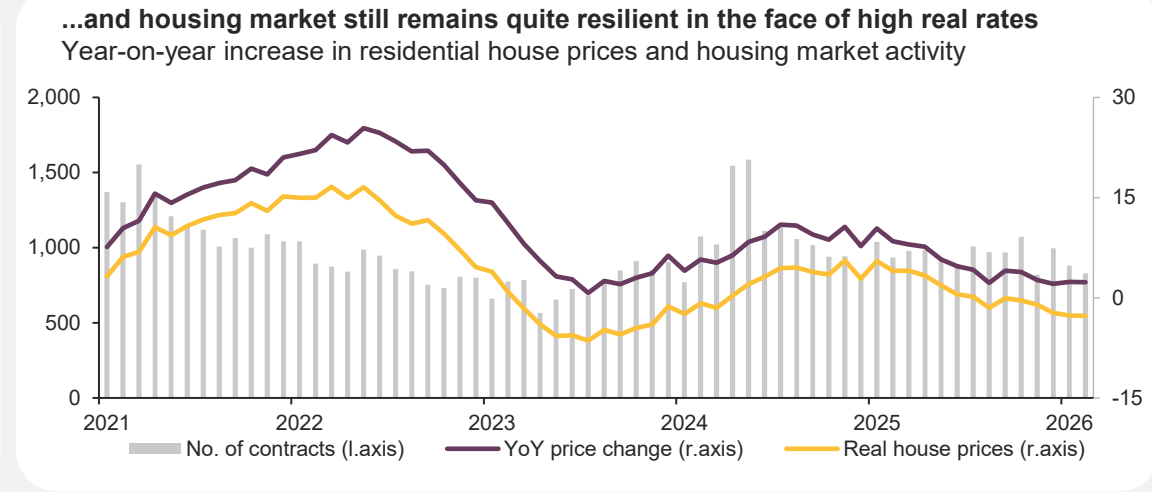
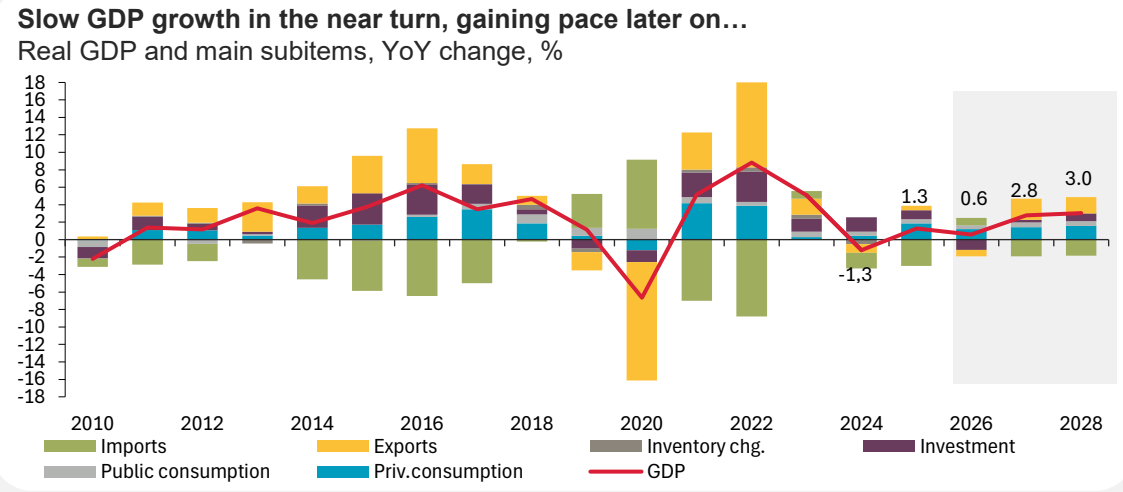
Appendix II

Icelandic economy update



GDP growth weak in 2026 but set to gain steam later on

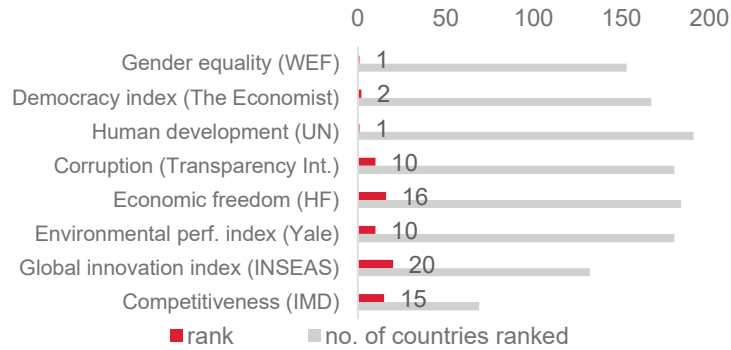
Temporary period of sluggish growth due to export sector setbacks and high real interest rates



The Icelandic economy and society draw on many strengths

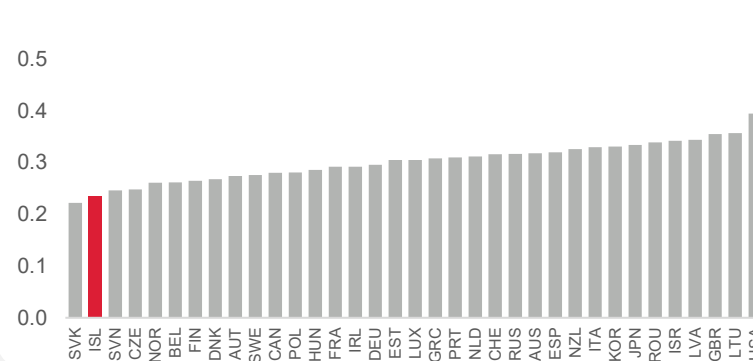
Icelanders enjoy high standards of living in a modern, open and egalitarian society

Iceland ranks highly on a variety of global development benchmarks



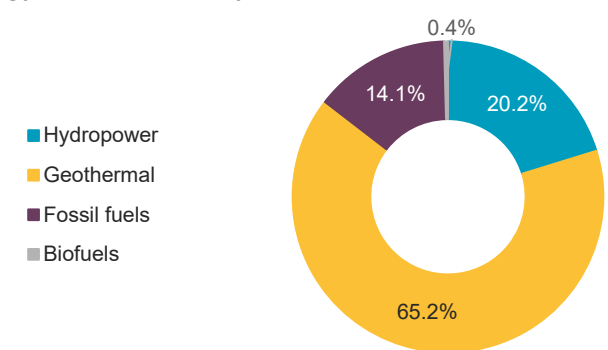
Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



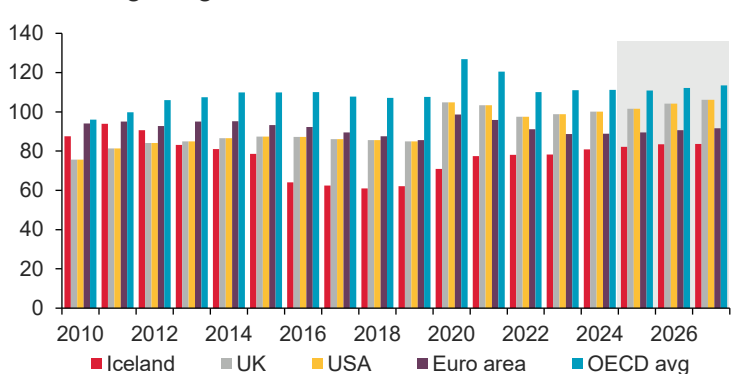
Sustainable energy usage is prevalent

Energy consumption by source, 2022



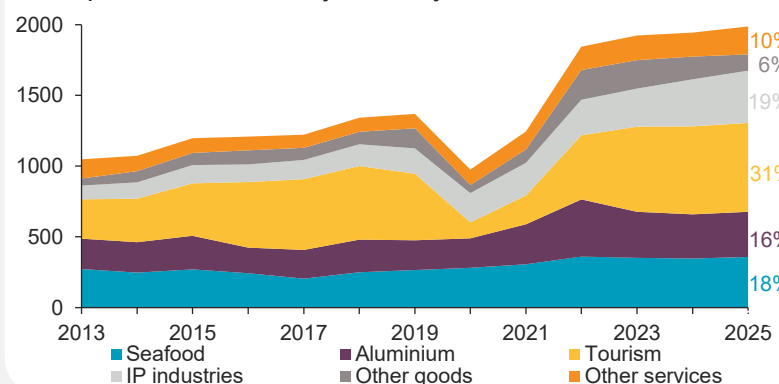
Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



Export base has grown more diverse over time

Export contribution by industry



Net international investment position has changed

% of GDP

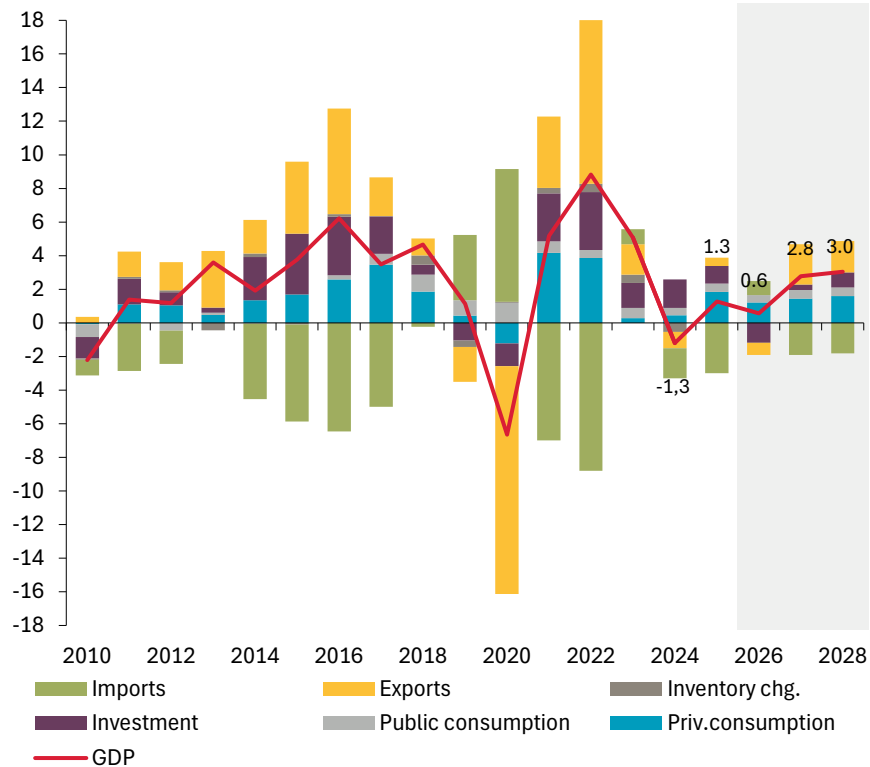


GDP growth weak in 2026 but set to gain steam later on

Temporary period of sluggish growth due to export sector setbacks and high real interest rates

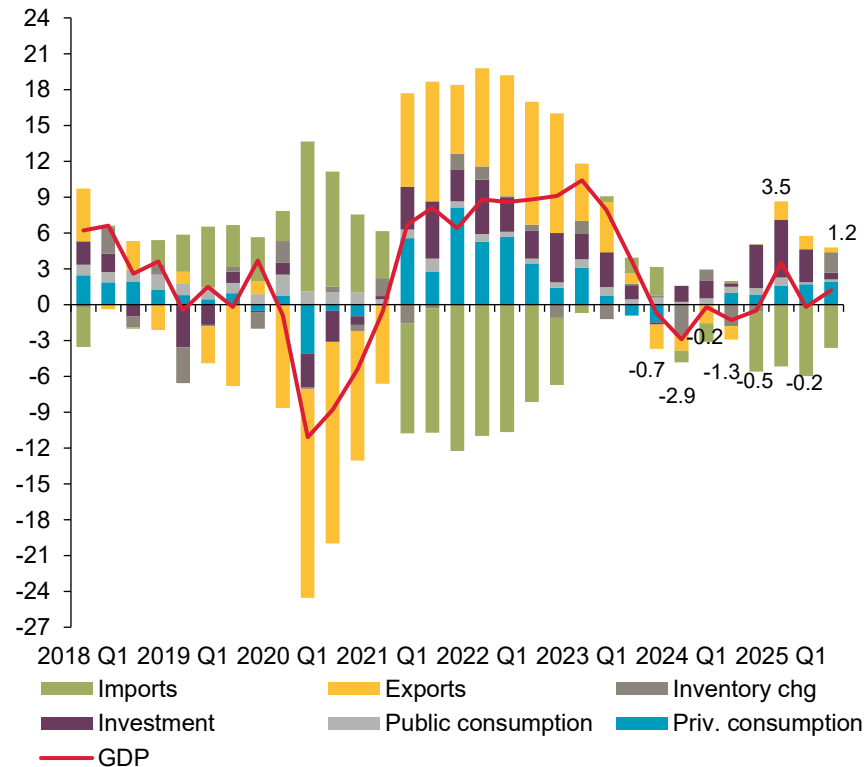
GDP and contribution of its subcomponents

Volume change from prior year (%), annual data



GDP and contribution of its subcomponents

Volume change from prior year (%), quarterly data



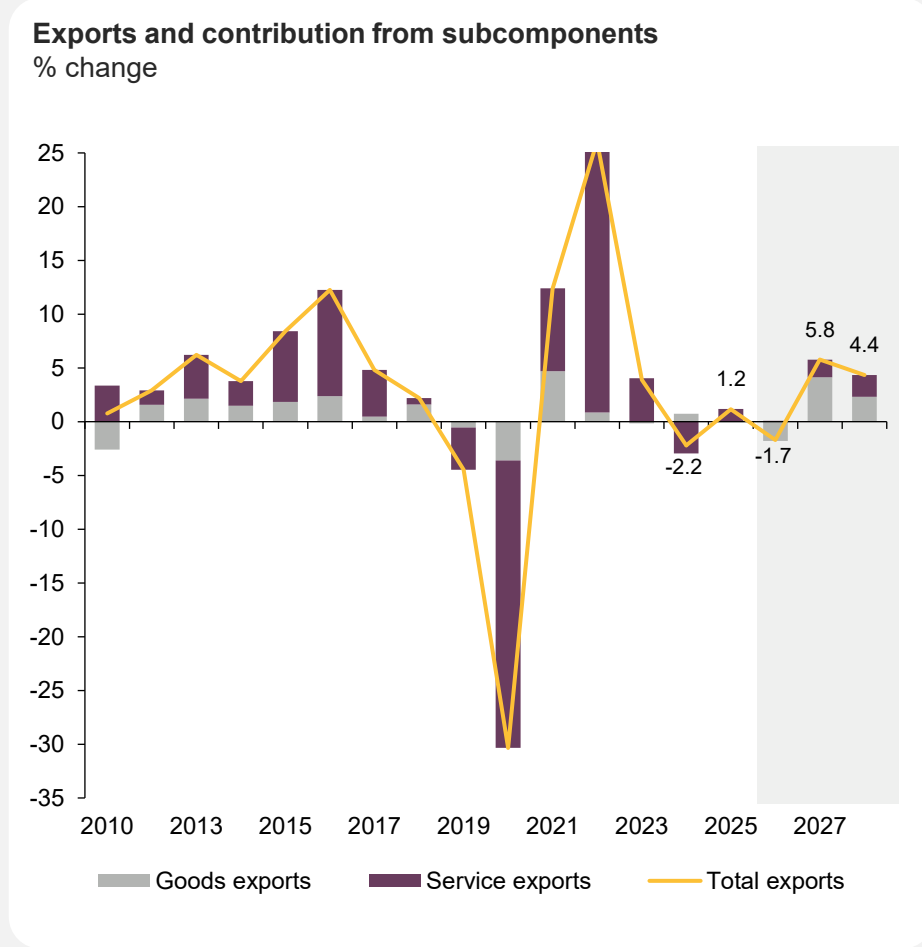
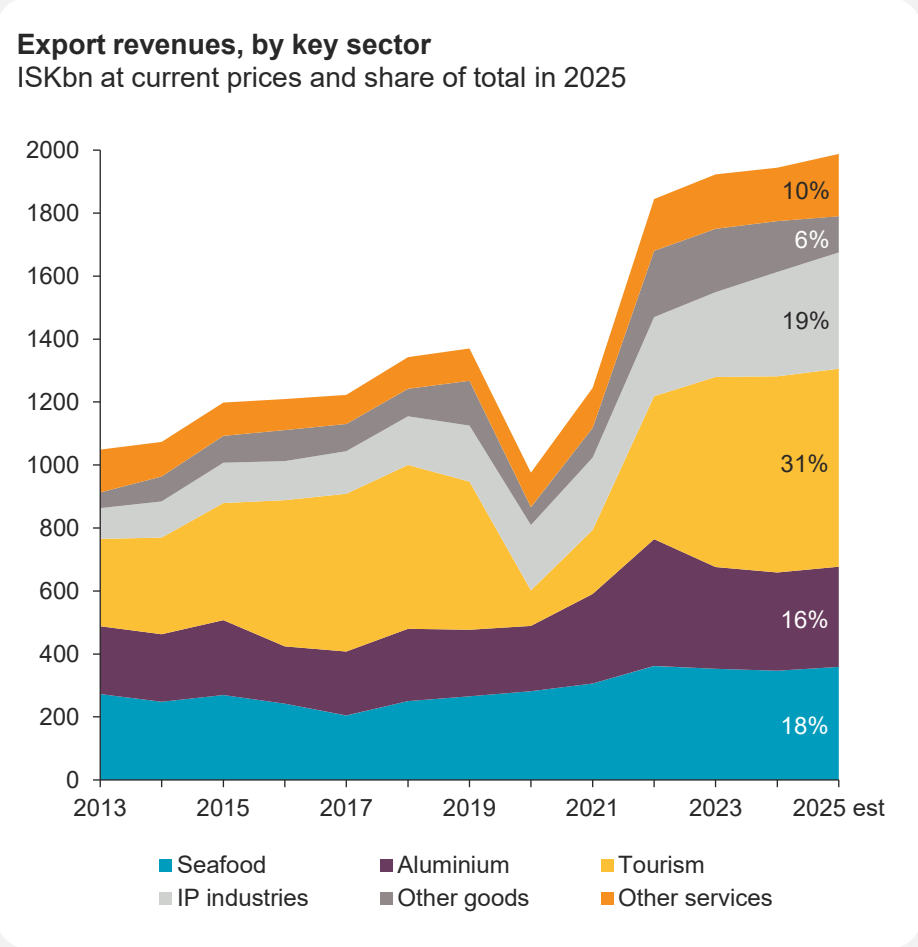
Highlights

- Following a 1.3% GDP contraction in 2024, GDP growth resumed in 2025 with the economy growing by 1.3% YoY.
- Growth in 2025 was supported by robust private consumption, rising investment, and marginal export growth while rising imports subtracted considerably from growth.
- The outlook for 2026 is weak, with GDP growth projected at just 0.6%, reflecting setbacks in key export sectors and the dampening effects of high real interest rates on domestic demand.
- Recent indicators suggest that GDP growth could prove somewhat stronger in 2026 as export outlook has improved since the publication of the forecast in January 2026.
- Growth is expected to rise to 2.8% in 2027 and 3.0% in 2028, driven by a recovery in exports, easing interest rates, stronger investment, and firmer private consumption.
- Uncertainty remains elevated, with risks related to tourism, geopolitical tensions, seismic activity, energy constraints, housing market developments, and inflation persistence.
- However, productivity gains from AI and intellectual property could support stronger long-term growth than assumed.



Tourism to languish while other export sectors blossom

Intellectual property and aquaculture will drive export growth, with legacy export sectors lagging behind



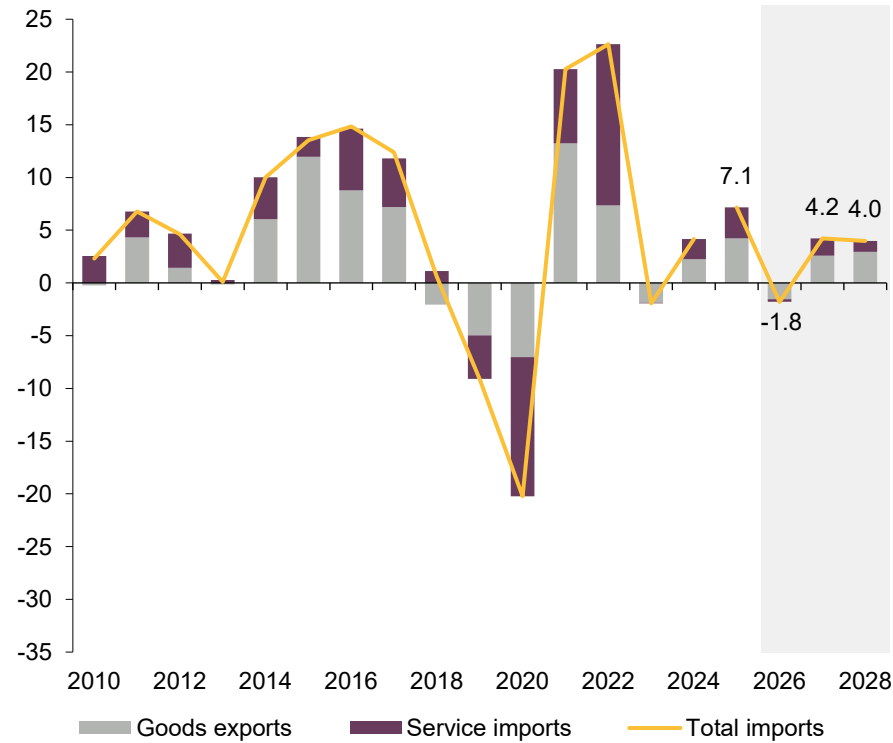
Highlights

- Tourism showed mixed performance in 2025, with strong summer arrivals offset by a sharp decline in the low season. Overall tourist numbers were virtually unchanged from 2024.
- The start of the year has proven more robust for tourism than expected. Also, the peak season outlook is relatively benign. Hence, upside uncertainty to the forecasted fall of nearly 4% in tourist numbers YoY has increased..
- Moderate tourism growth is expected in 2027–2028
- While tourism and some traditional goods export industries are likely to mostly stay the course in 2026, several other export sectors are expanding. These include land-based aquaculture, which is set for steady growth in export value.
- Exports of intellectual property products have been rising rapidly, generating an estimated ISK 369bn in 2025, or around 19% of total export revenues.
- The intellectual property sector spans diverse firms, including medical equipment producers, content creators, and game developers.
- Strong pharmaceuticals activity and major data-centre developments are expected to substantially boost revenues in the coming years.

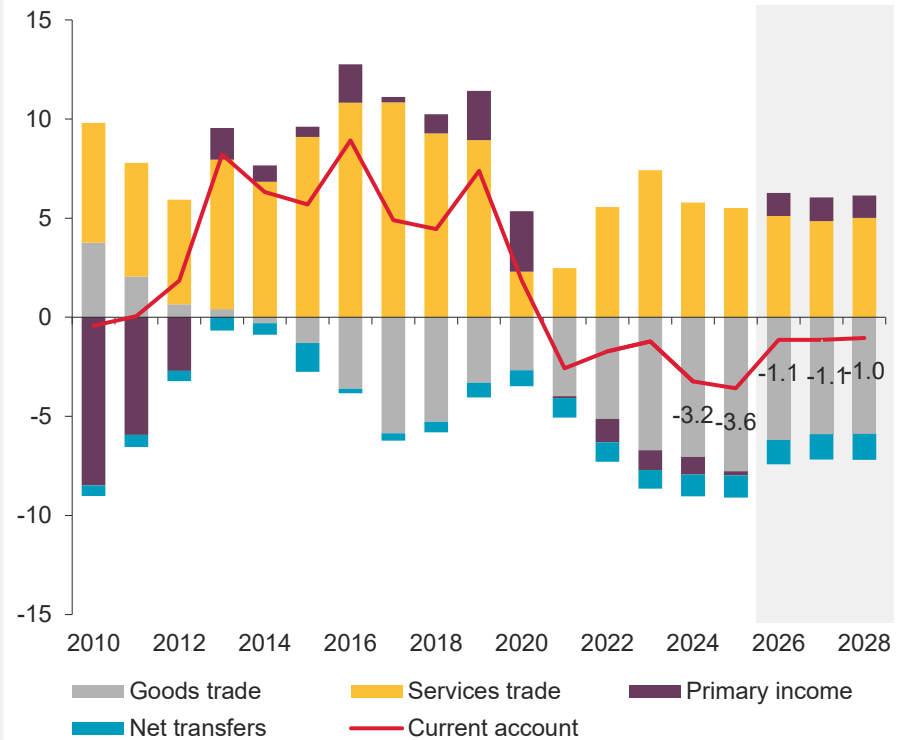
Modest current account deficit over the forecast horizon

Iceland's external asset position likely to stay robust in coming years

Imports and contribution from subcomponents
% change



Current account balance
% of GDP



Highlights

- Imports are projected to shrink by nearly 2% in 2026, reversing strong growth in 2025. The slowdown reflects the winding down of large data-centre investments and reduced imports of rental cars and equipment.
- Import growth will resume as economic activity strengthens, but exports are expected to outpace imports, resulting in a positive net trade impact on GDP growth in both 2027 and 2028.
- The current account has been in deficit since 2021, the deficit widening further in 2025 to 3.6% of GDP despite a strong services surplus.
- Data-centre-related equipment imports account for a significant share of the goods deficit, but these are fully financed by foreign owners and clients.
- The deficit is projected to improve to 1.1% of GDP in 2026–2027 and 1.0% in 2028, supported by better terms of trade and stronger export performance.
- External risks include ISK appreciation, deteriorating terms of trade due to the Persian Gulf conflict and a deeper-than-expected tourism downturn, any of which could delay improvement in the trade balance.
- Iceland's net external asset position—ISK 2,101bn (43% of GDP) as of September 2025—facilitates improved FX stability and limits the risk of disruptive capital flows.

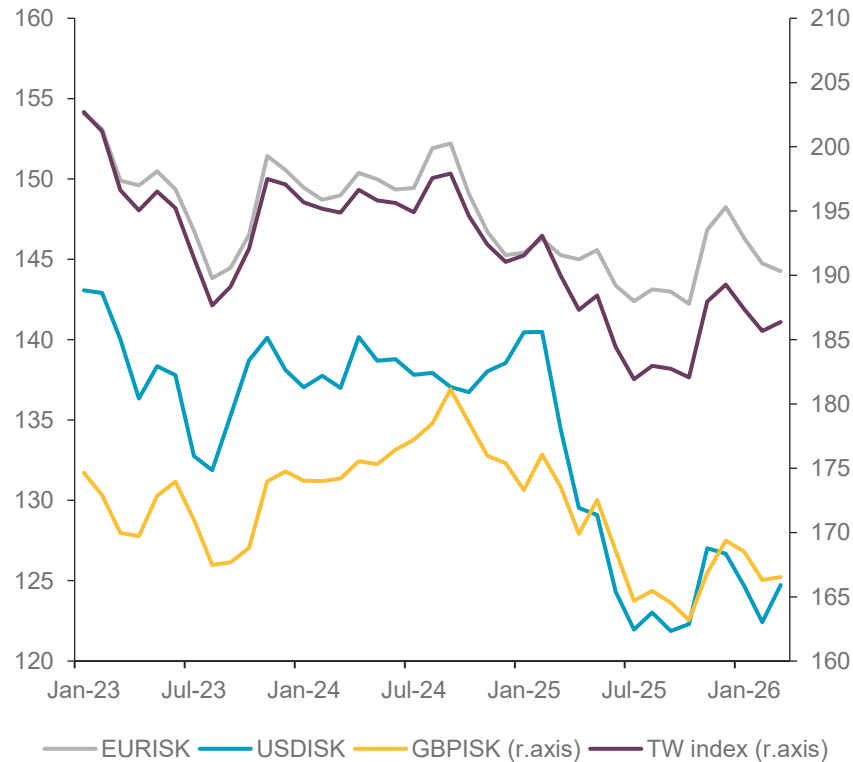


ISK likely to weaken gradually

The high real exchange rate is a growing challenge, making ISK depreciation likely further ahead

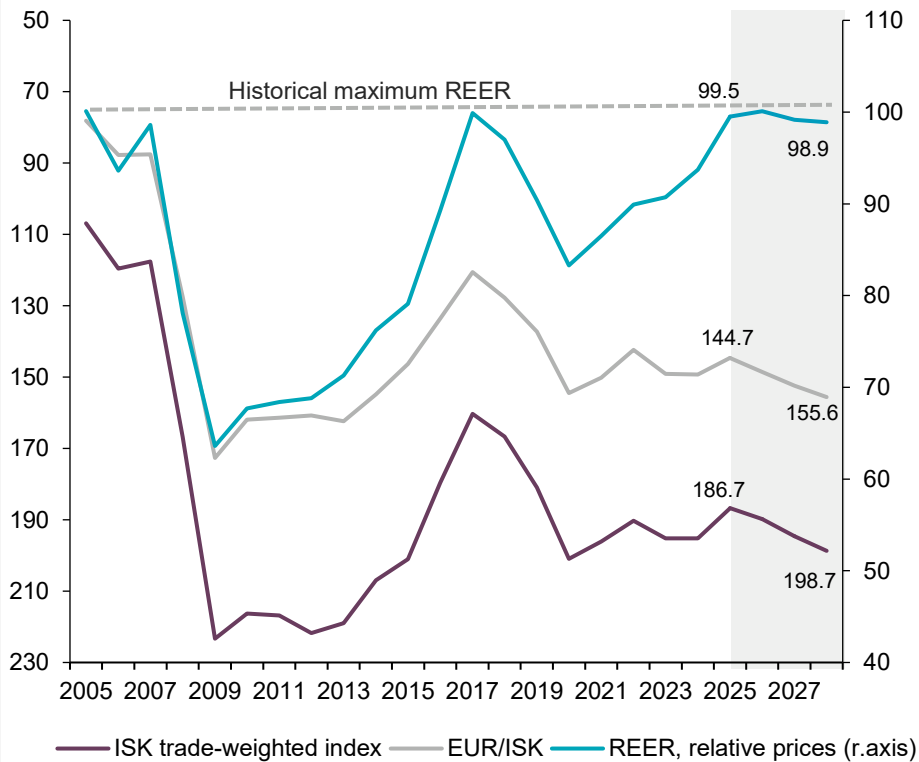
ISK exchange rate

Major currency exchange rates against the ISK and index values



ISK exchange rate and real exchange rate

EURISK levels and indices



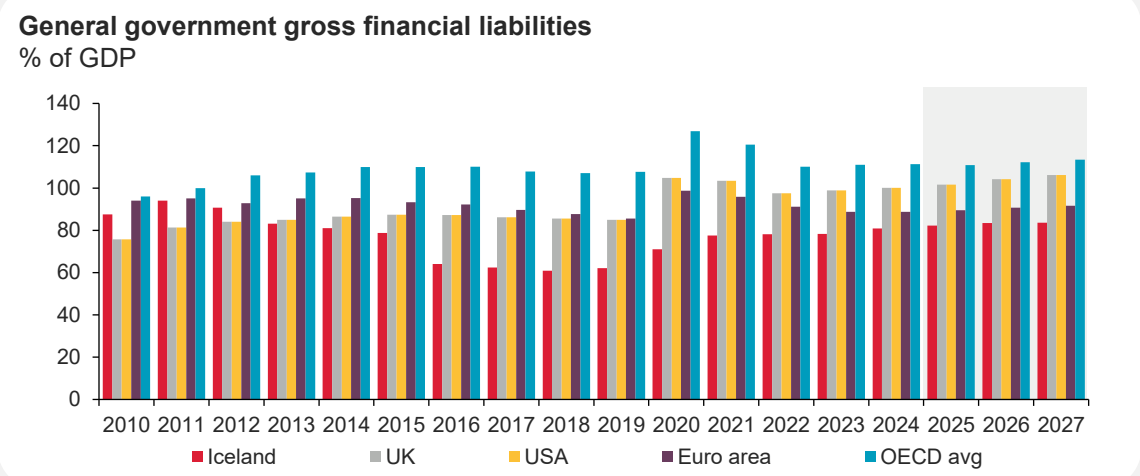
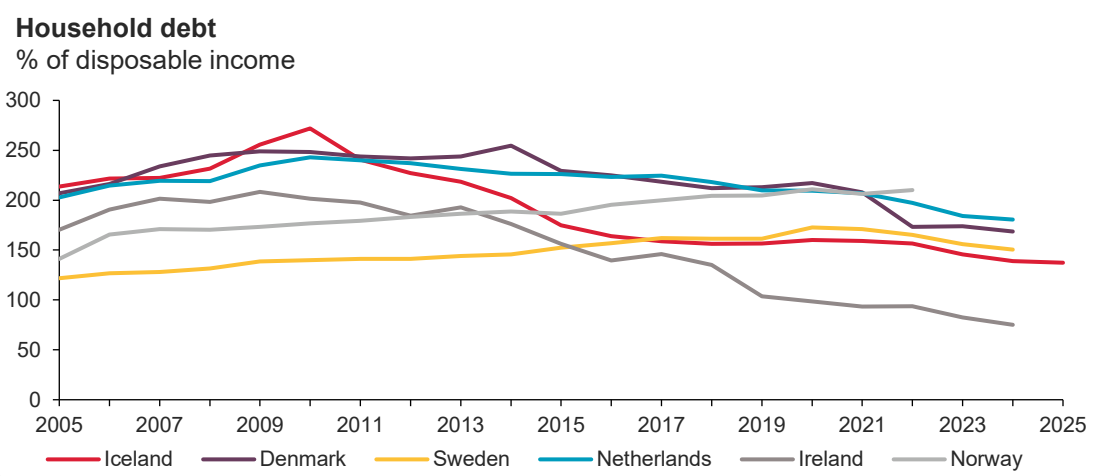
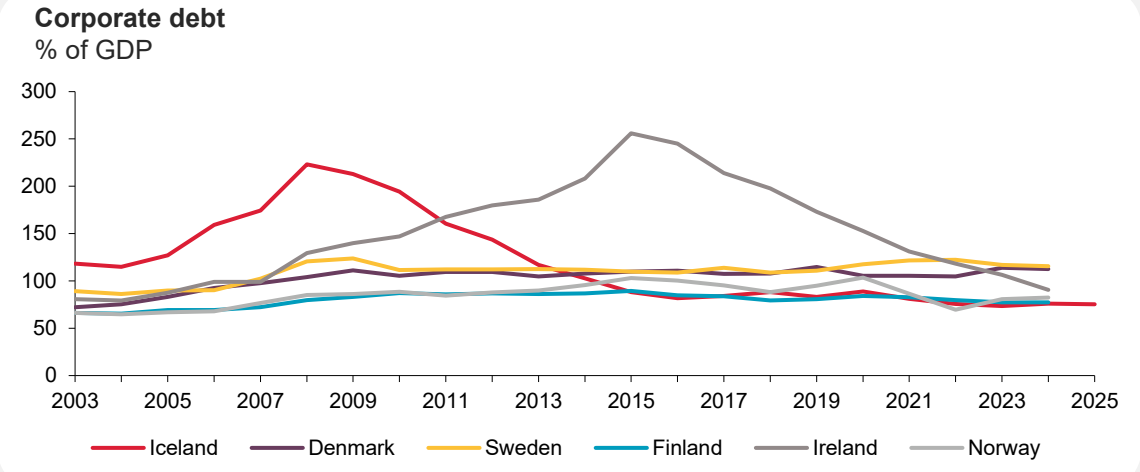
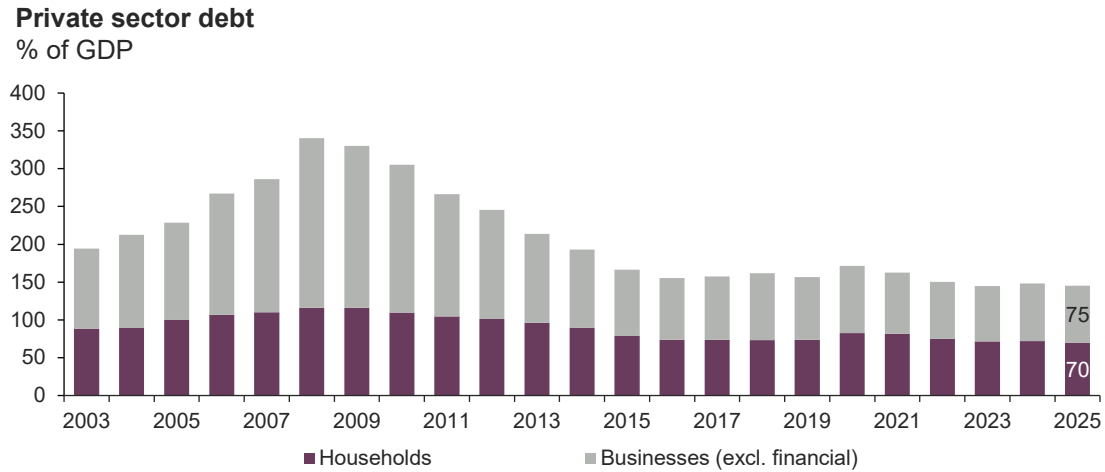
Highlights

- The ISK has shown considerable stability since the pandemic, with the trade-weighted index nearly unchanged in 2023–2024.
- In 2025, it appreciated by 1.5%, despite notable intrayear volatility. Bilateral currency movements varied significantly: the ISK weakened slightly against the EUR but strengthened 10% versus the USD and nearly 4% against the GBP, reflecting divergent global currency trends.
- Among the factors supporting the ISK despite a sizeable CA deficit were relatively favourable underlying FX flows, limited forward FX sales during the strong tourist season, muted pension-fund FX purchases, and increased FX borrowing by firms.
- Supportive conditions will persist, with a narrowing CA deficit, strong international investment position, ample FX reserves, and a wide interest-rate differential.
- Tourism performance remains the main short-term risk to FX stability.
- The real exchange rate is expected to stay historically high, assuming export-sector setbacks remain manageable. Over time, faster domestic wage and price growth implies that nominal depreciation seems unavoidable, whether gradual or sudden.
- The baseline forecast assumes a gradual weakening of the ISK, ending 5–6% lower than end-2025 levels by the end of the forecast horizon. This corresponds to roughly ISK 156–157 per EUR.



Domestic balance sheets remain broadly healthy

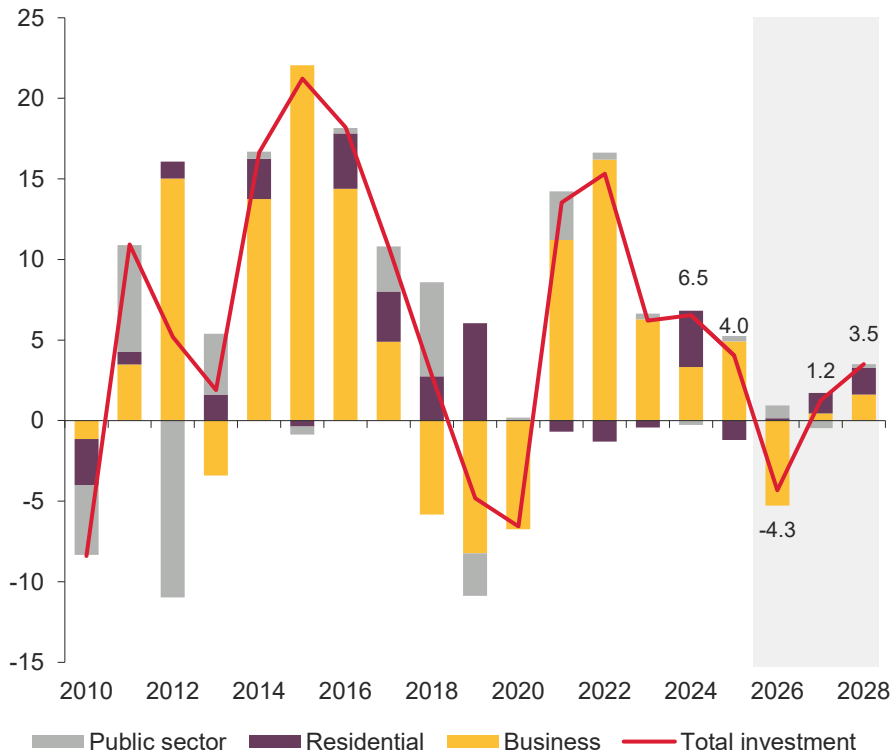
Private sector debt ratios are stable and public debt is on a more favourable trajectory than major economies



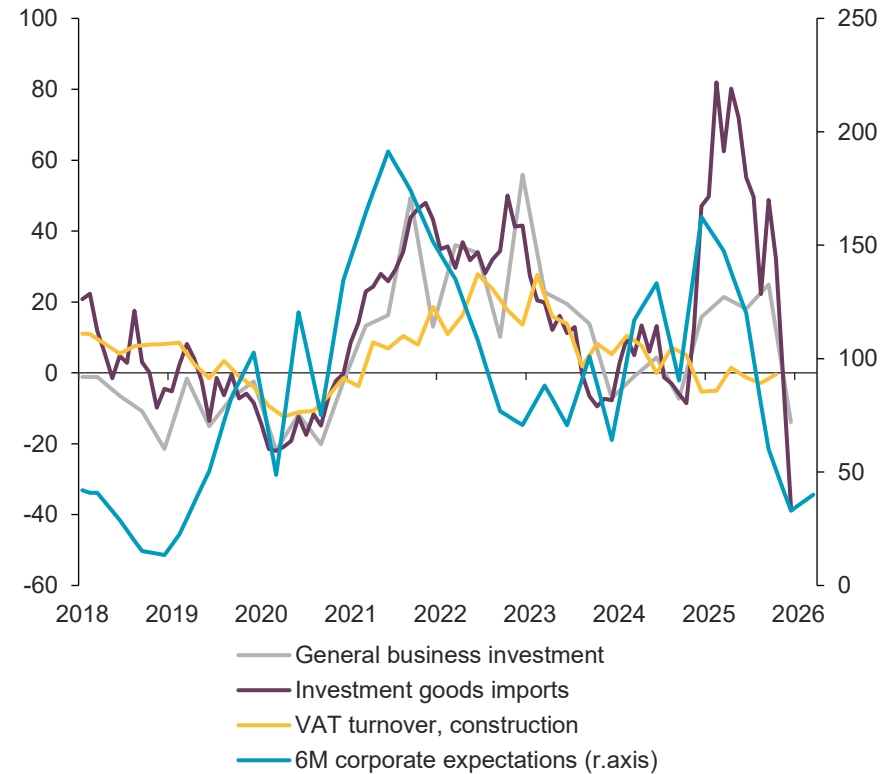
Investment to dip temporarily in 2026

Turning point in data centre development and a challenging environment impacts in the near term

Investment, real change, and contribution of subcomponents
%



Business investment and related indicators
YoY change (%) and index



Highlights

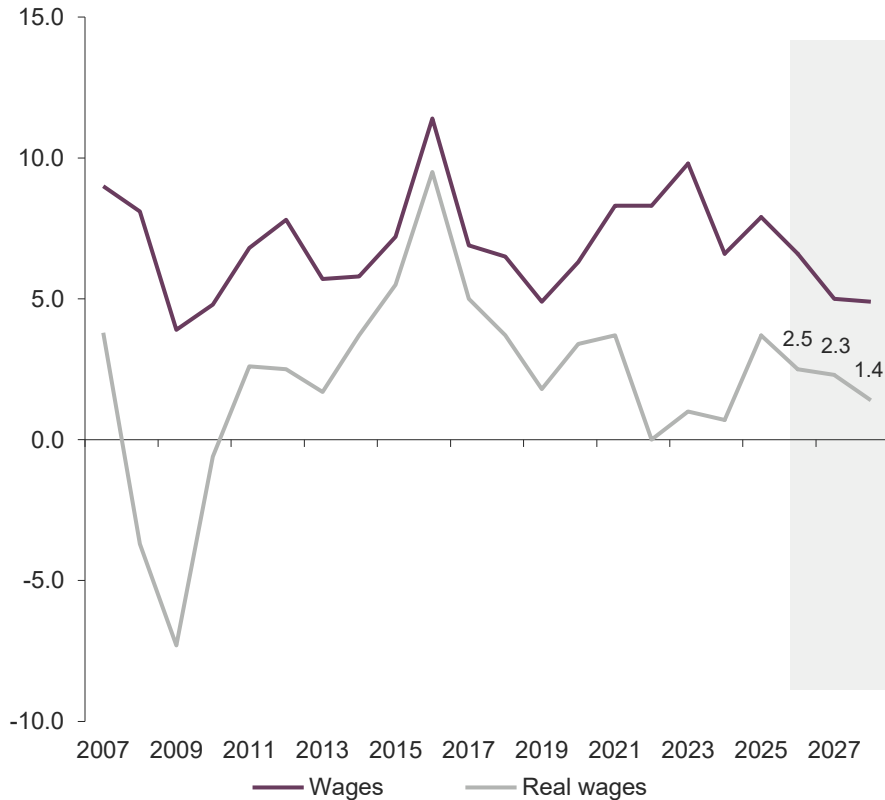
- Investment has surged in recent years, led by strong business investment in tourism, fishing, and IT. Higher real interest rates and strain on the export sector have tempered growth, but rapid expansion in data centres and aquaculture has provided a buffer.
- For 2025, full-year growth measured 4%, driven mainly by data-centre and aquaculture projects.
- Investment is projected to contract by just over 4% in 2026, reflecting an almost 8% decline in business investment. Residential investment is expected to remain broadly flat, with only modest growth in public investment.
- The decline in business investment stems from the tapering of data-centre construction, reduced spending on transport equipment and machinery, and slower hotel and commercial property development, partly offset by increased infrastructure-related investment.
- Investment growth will resume later in the forecast horizon, supported by lower interest rates, improving export-sector conditions and continued expansion of energy infrastructure and aquaculture. Residential investment is also expected to recover.
- Islandsbanki Research forecasts investment growth just above 1% in 2027 and 3–4% in 2028.



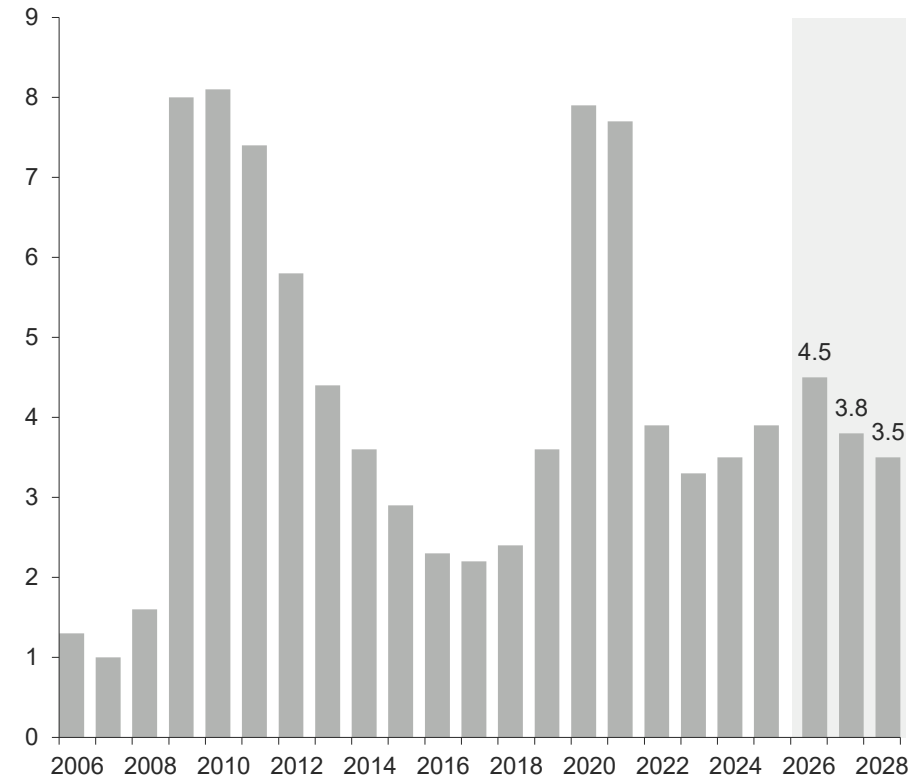
Unemployment to peak in 2026

Wage developments will be shaped by long-term contracts, and wage drift will be limited

Wages, YoY change
%



Unemployment¹
% of workforce, annual average



Highlights

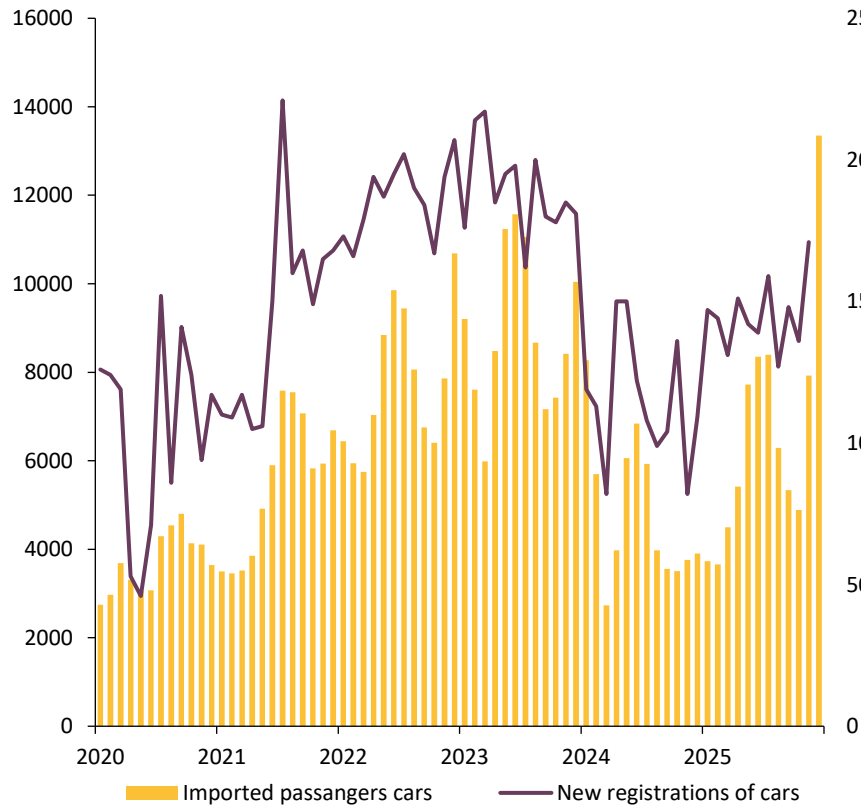
- The labour market has cooled after several years of tight conditions. Unemployment edged up in 2025, averaging 3.9%, owing mainly to export-related shocks in tourism and metals production. Despite this, firms have generally adjusted staffing through flexibility rather than layoffs, and the market remains relatively stable.
- There are clear signs of increased slack. Immigration has slowed markedly, and Gallup surveys show that labour shortages have receded sharply. Only 16% of executives at large firms now report being understaffed — the lowest share since 2021 — indicating that labour market tensions are easing.
- Unemployment is expected to rise further in 2026, reaching an annual average of 4.5% as labour demand cools, particularly in export sectors. From H2/2026 onward, unemployment is projected to decline again. The jobless rate is expected to average 3.8% in 2027 and approach its equilibrium level of 3.5% in 2028.
- Wage developments will continue to be shaped by the long-term contracts agreed in 2024, which run through 2028, provided their underlying assumptions hold. Despite greater labour market slack, wage increases will continue broadly in line with those agreements.
- Wages rose by 7.9% in 2025. We forecast average wage growth of 6.6% in 2026, 6.0% in 2027, and 4.9% in 2028. Wage drift will remain modest because labour market pressures are receding



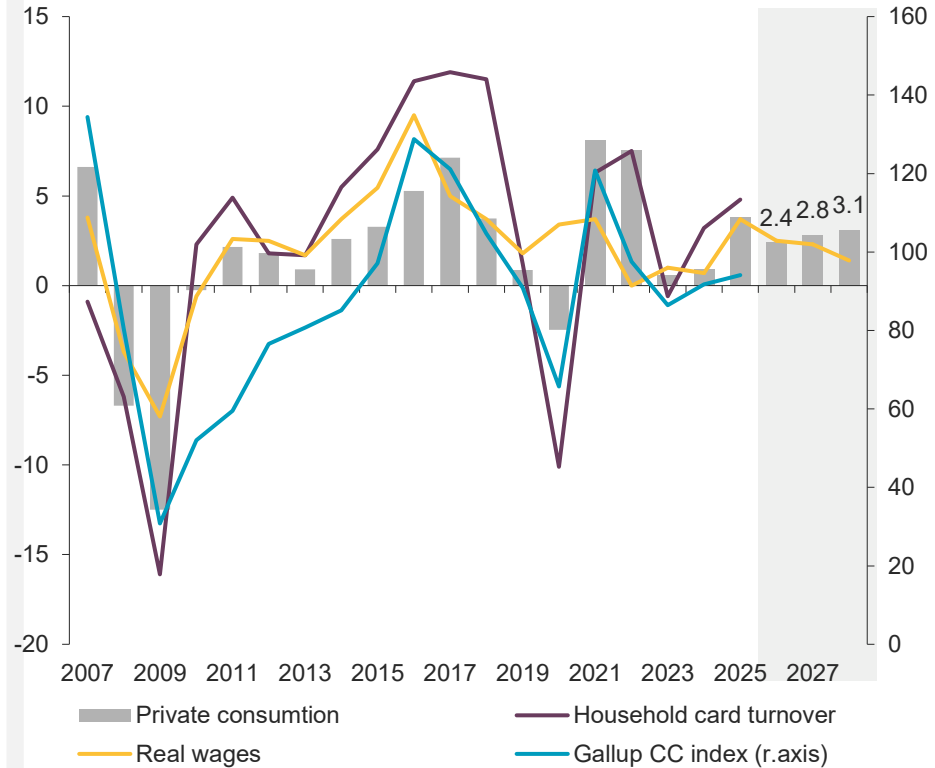
Private consumption growth to continue in 2026, but at a slower pace

Real wage growth and sizeable savings will support household consumption in the coming term

Personal vehicles, new registrations and imports
ISK m (left) and number of vehicles (right)



Private consumption and related indicators
% change YoY (left) and index value (right)



Highlights

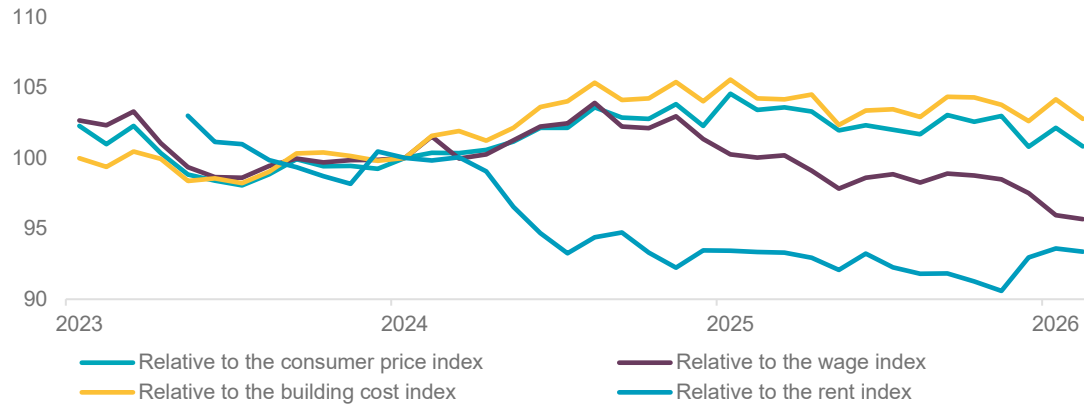
- Private consumption rebounded strongly in 2025 after two slower years marked by high interest rates and precautionary saving. Consumption picked up markedly as households began to loosen their purse strings.
- Private consumption grew strongly last year, increasing by 4.3% in real terms, the fastest pace since 2022. Growth was particularly robust in Q4, despite gradual deterioration in the economic outlook over the course of the year, weaker household expectations and persistent inflation.
- The strength towards year-end can largely be explained by a surge in motor vehicle purchases, as households brought forward demand ahead of scheduled excise tax hikes. Overall, households remain in a relatively solid financial position. Accumulated savings and recent real wage gains have continued to support consumption capacity, despite increased uncertainty.
- The private consumption forecast for 2026 has been revised slightly downward. We now expect consumption to grow 2.4%, reflecting a cooler economy, a softer labour market, and the front loading of car purchases into late 2025.
- Further ahead, consumption growth is expected to strengthen again as economic activity picks up. Private consumption is projected to grow by 2.8% in 2027 and 3.1% in 2028.



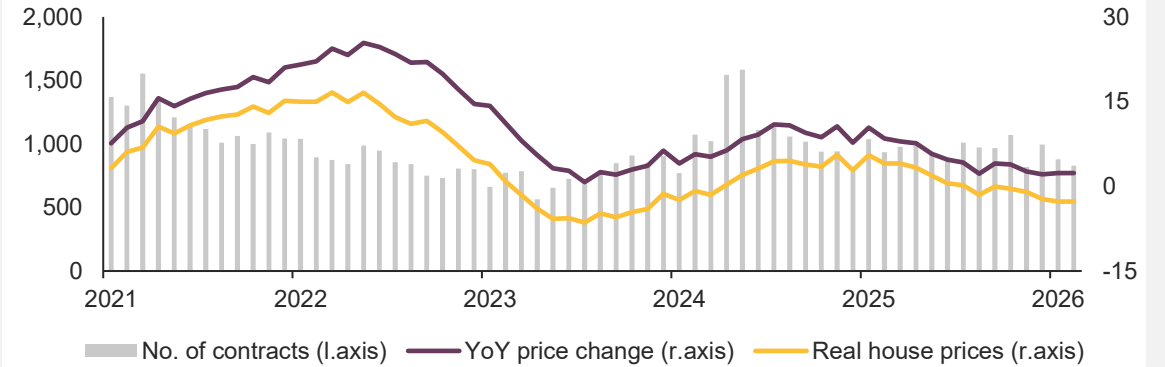
The real estate market remains broadly stable despite high interest rates

Tighter monetary policy has cooled the market with real prices edging down slightly

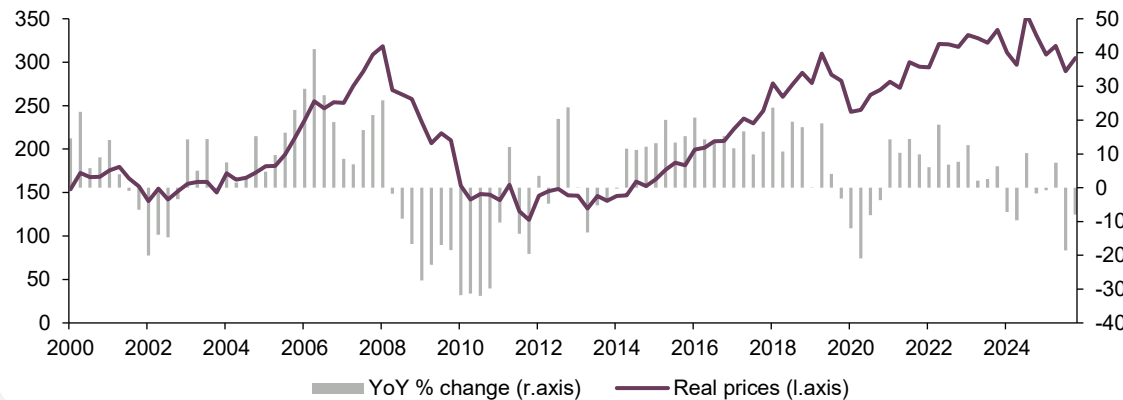
Capital area house prices relative to macroeconomic fundamentals
Index, January 2024=100



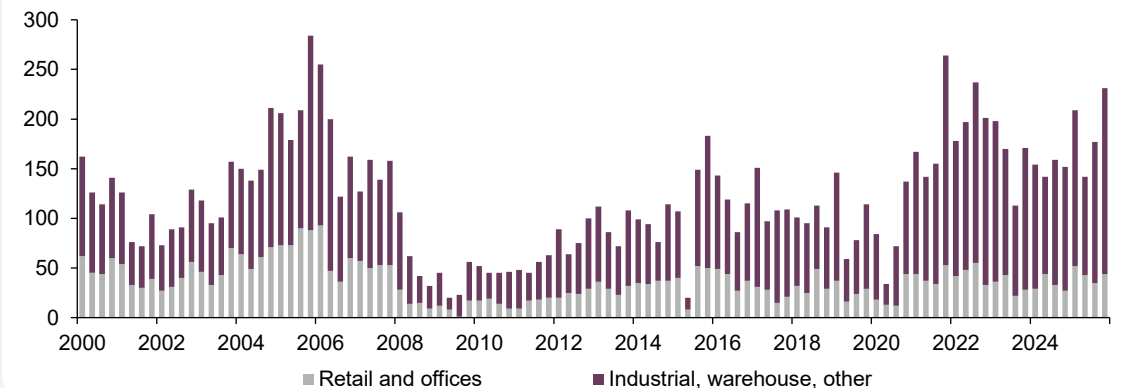
Residential house prices and turnover
% change (r. axis) and number (l. axis)



Commercial property real prices in greater Reykjavík
Index, 1995=100 (l.axis) and % change (r. axis)



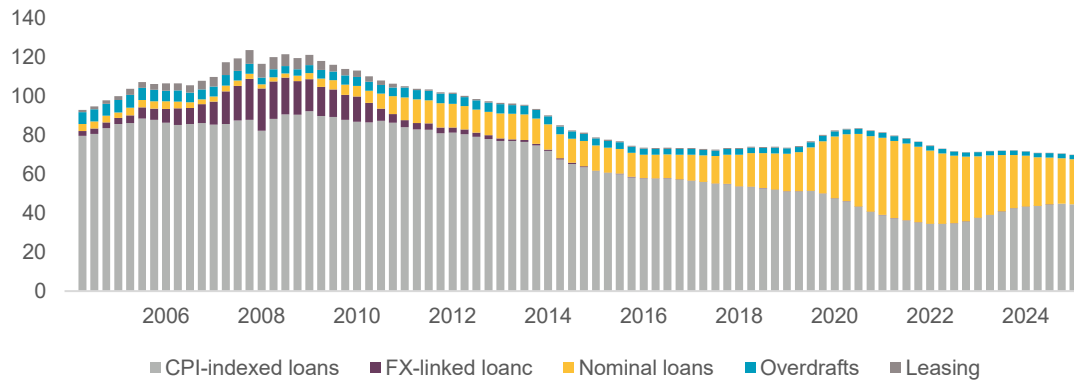
Commercial real estate market activity
No. of registered purchase agreements



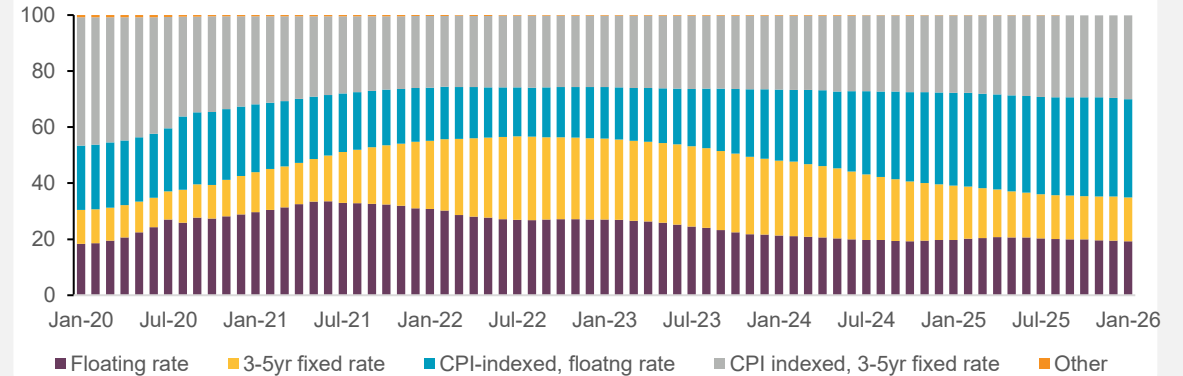
The Icelandic housing market is quite flexible as conditions change

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

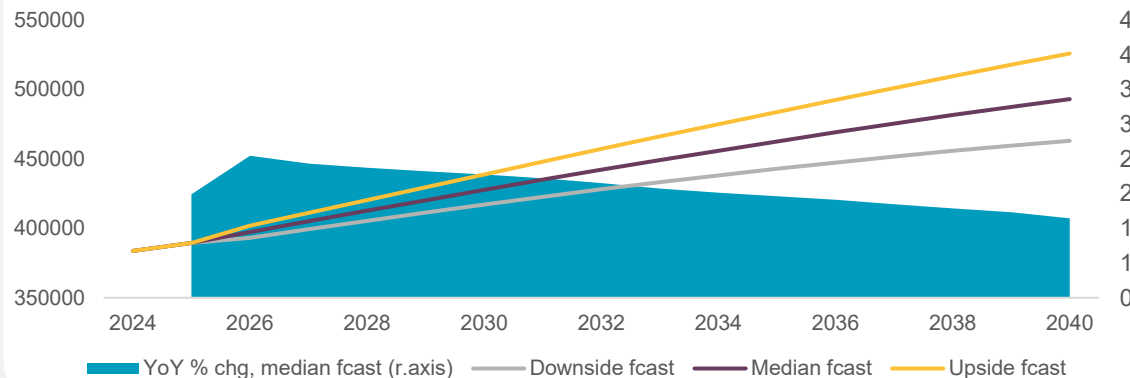
Households are not highly indebted compared to peers
Household debt, % of GDP



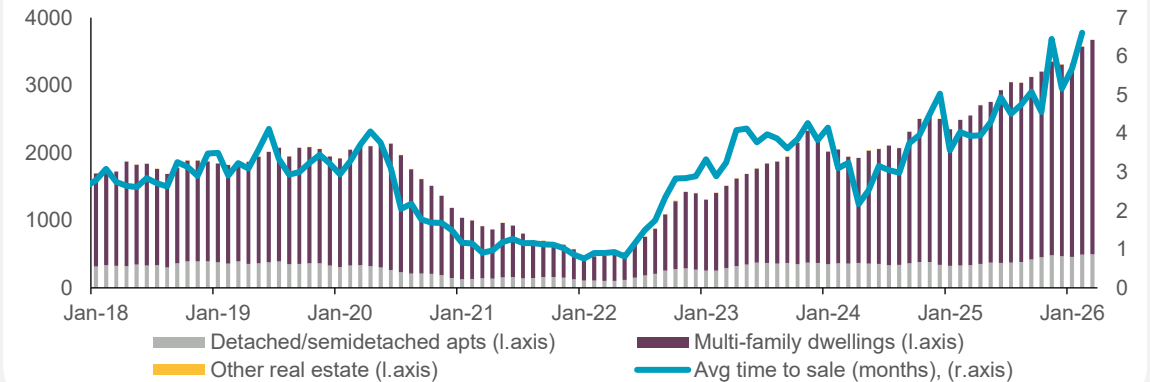
Mortgage market is flexible w.r.t. loan types with different payment burden
Outstanding mortgage loans, share of total



Underlying upward demand trend steady as population growth remains robust
Population forecast by Statistics Iceland

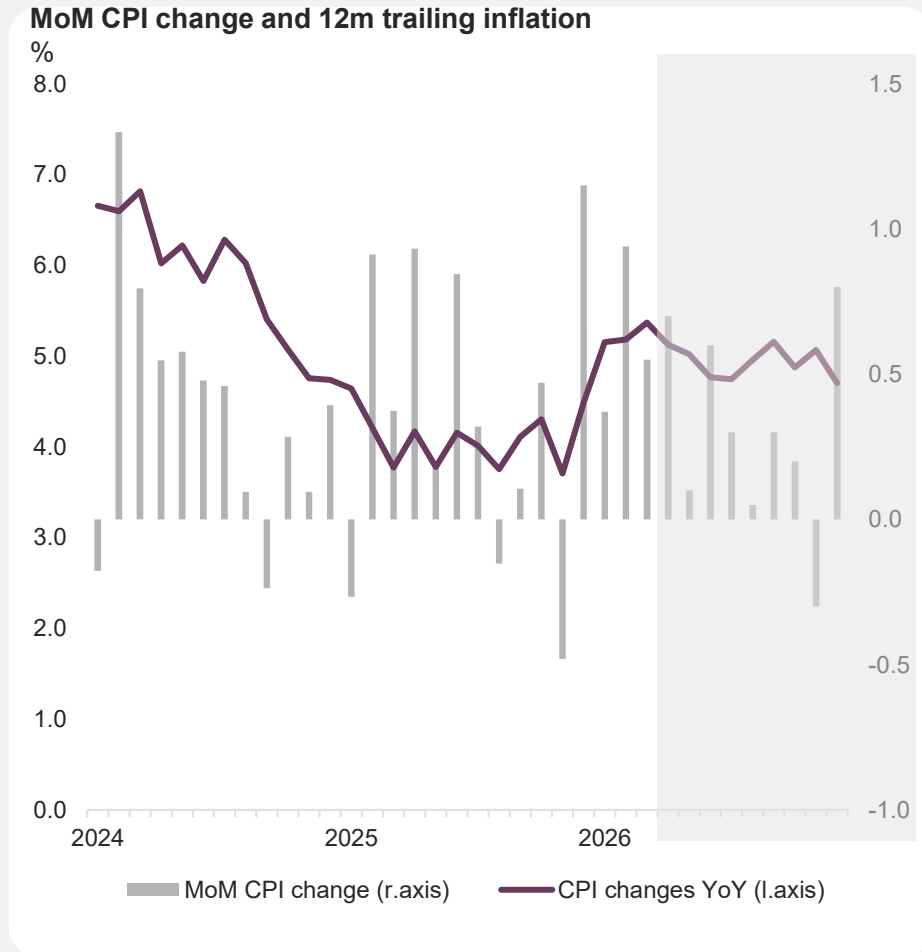
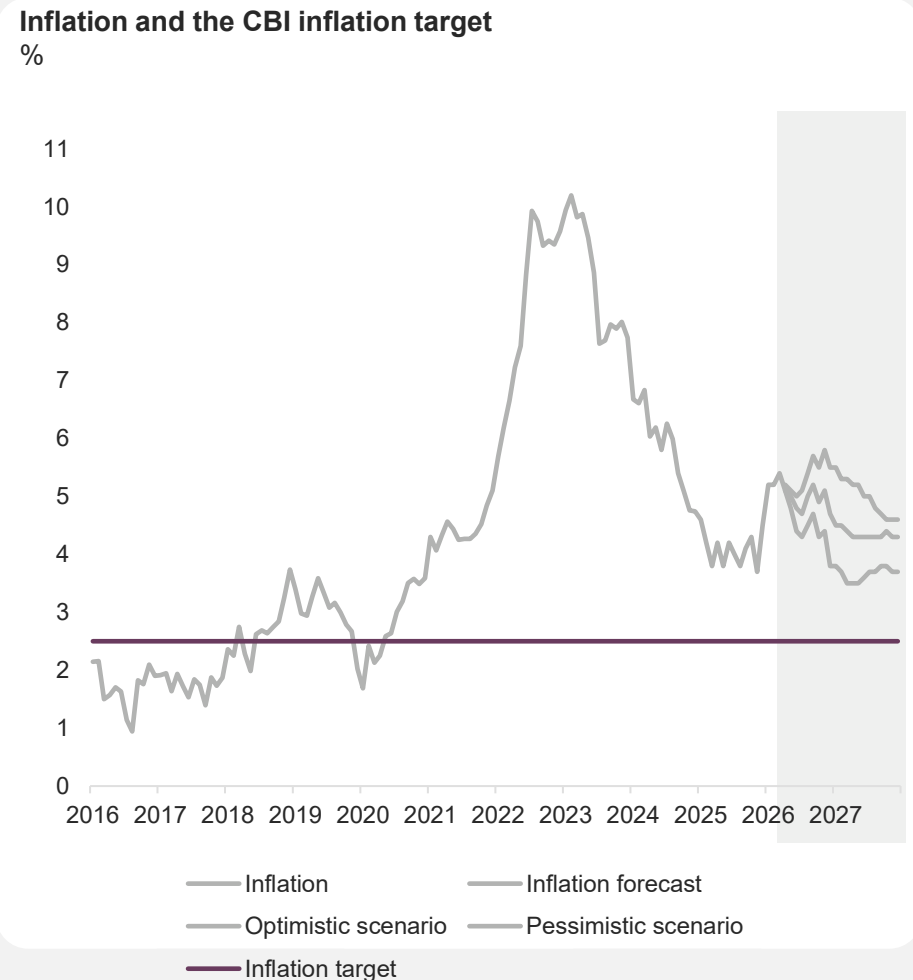


Turnover in the residential housing market remains steady despite rate hikes
No. of purchase agreements, capital region (left axis) and average time to sale (right axis)



Inflation remains stubbornly above target

Rising uncertainty as the Middle East conflict drags on



Highlights

- Inflation remained persistent in 2025, hovering close to the 4% upper deviation threshold of the Central Bank’s target, before gaining momentum in early 2026, rising to 5.2% in January and 5.4% in March, its highest level since September 2024, driven mainly by higher fuel prices and changes in public levies.
- Inflation is expected to ease in the coming months, but uncertainty about the near-term outlook remains considerable, largely depending on developments in the Persian Gulf and the timing of indirect pass-through to domestic prices.
- Government measures announced in April, including a temporary fuel VAT cut from May to August, are expected to partially dampen near-term inflation pressures.
- ÍSB Research expects inflation to measure 4.7% in July, before edging higher in August, which would imply inflation exceeding the 4.7% threshold and triggering the wage agreement review clause.
- Based on three simplified scenarios assuming differing Persian Gulf conflict impact, twelve-month inflation is expected to be around 4.7% in December in the baseline scenario, fall to 3.8% in a positive scenario, or rise to as high as 5.5% in a negative scenario.
- Developments in the Persian Gulf will therefore be a key determinant of inflation in the months ahead.

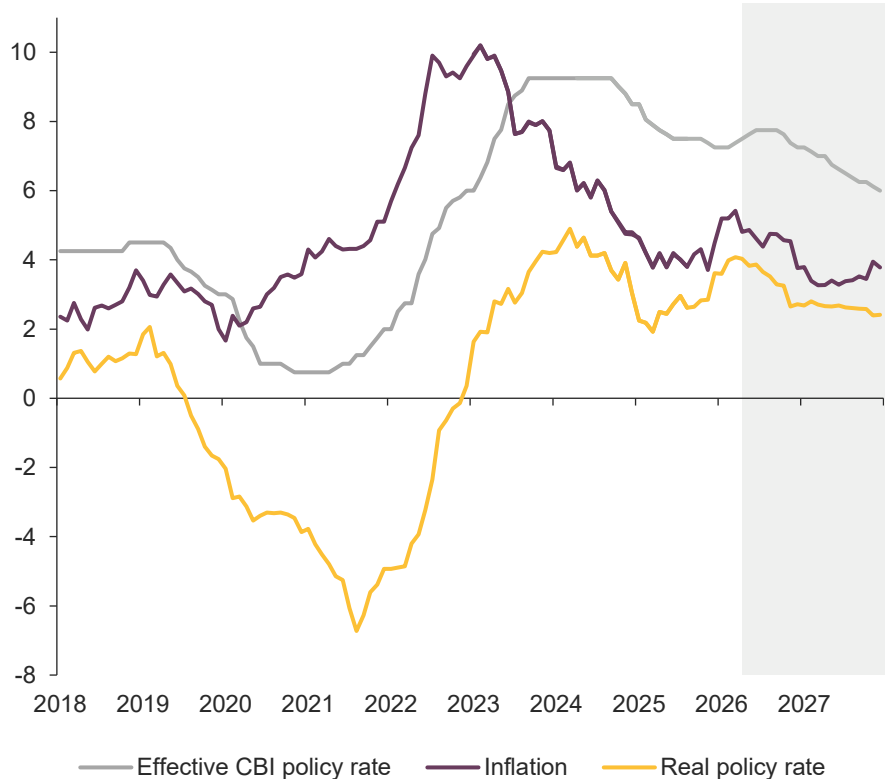


Central Bank needs to walk a fine line

Interest rate hike likely in May with rate cuts resuming in 4Q this year

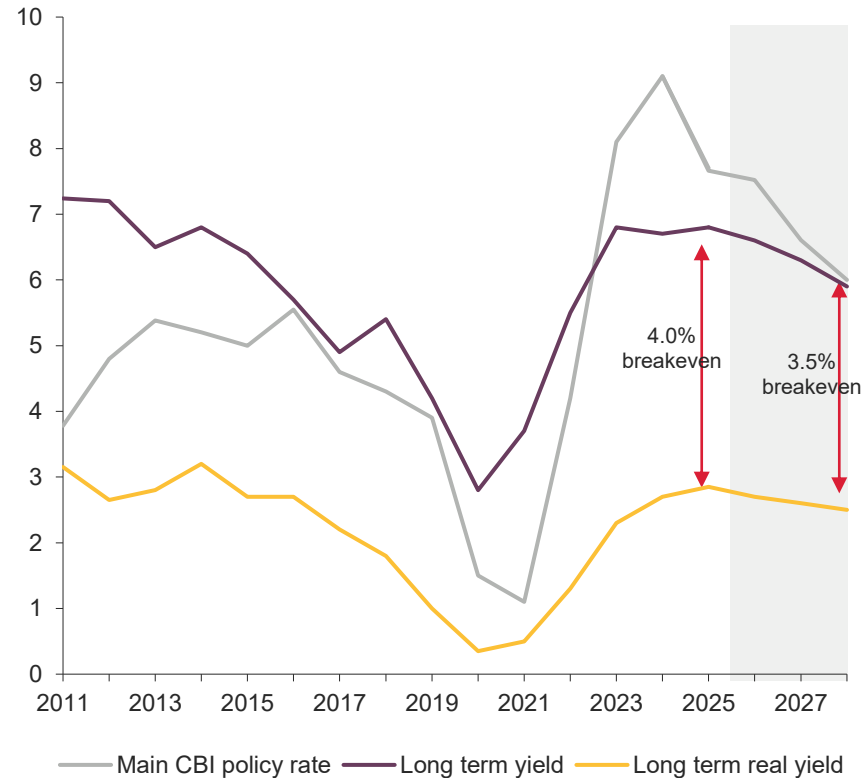
Policy rate and inflation

%, Real policy rate based on 12m forward forecast



Key interest rates

%, average per year



Highlights

- Following cumulative rate cuts from 9.25% to 7.25% in 2024-25, the Central Bank of Iceland (CBI) raised its policy rate by 25 basis points to 7.5% in March 2026.
- The March MPC decision was split, with 2 of 5 committee members preferring a 50 bp hike.
- Increased inflation, worsening near-term inflation prospects due to the Persian Gulf conflict and rising inflation expectations were the main arguments for the rate hike in March.
- The forward guidance in March was hawkish and the subsequent meeting minutes showed that the MPC's baseline for May is another rate hike.
- After May, the policy rate is expected to stay at 7.75% throughout 3Q 2026 before declining gradually to reach 6.0% by late 2027.
- Long-term interest rates remain high, with nominal 10-year Treasury yields around 7.0% and indexed yields at 2.8%, leaving Iceland's real rates elevated by international standards.
- Long-term nominal rates may fall to 5.9% and real rates to 2.5% over the forecast horizon.

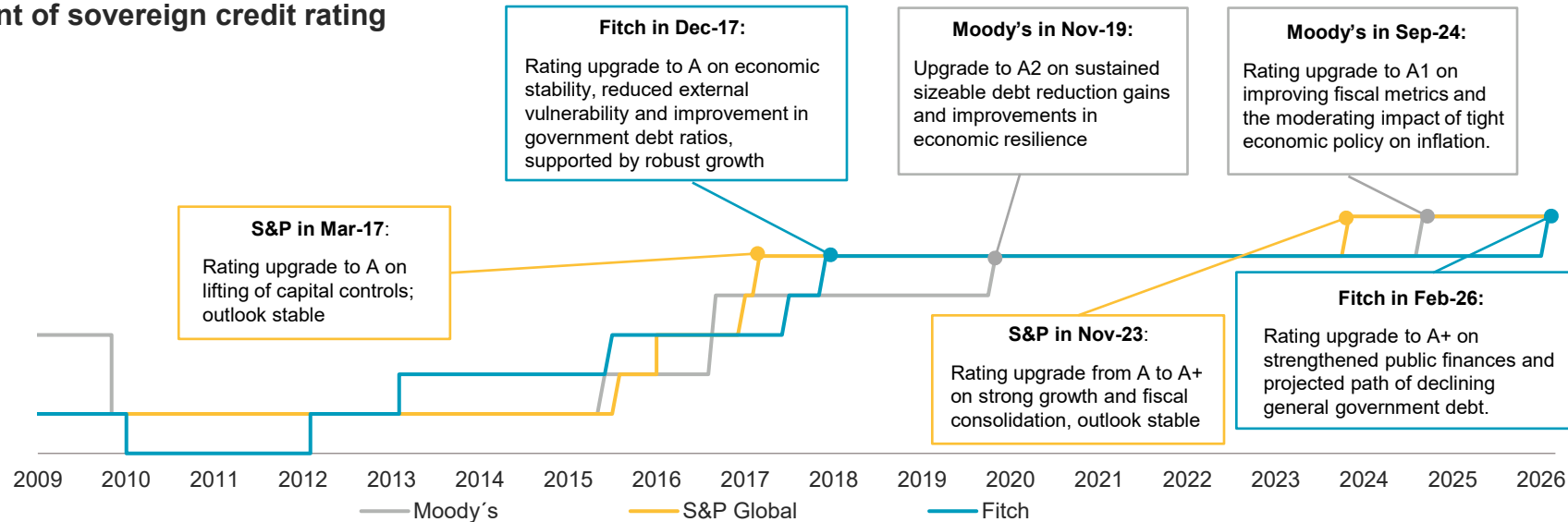


Iceland's credit rating on a secular upward path

Rating companies acknowledge the flexibility of the economy and improving public debt metrics

Development of sovereign credit rating

- AAA/Aaa
- AA+/Aa1
- AA/Aa2
- AA-/Aa3
- A+/A1
- A/A2
- A-/A3
- BBB+/Baa1
- BBB/Baa2
- BBB-/Baa3
- BB+/Ba1



MOODY'S IN MARCH 2026

- "The credit profile of Iceland is underpinned by its wealthy and flexible economy with favourable demographics that support its long-term growth prospects."
- "The country has built significant buffers in the form of large pension assets and external reserves, which help mitigate its vulnerability to shocks due to its small size and concentration in a limited number of sectors."
- "The general government debt burden, which stood at around 56% of GDP in 2025, is relatively high but the government is pursuing fiscal consolidation that is bringing debt metrics closer to peers."

FITCH IN February 2026

- "The upgrade reflects Iceland's strengthened public finances and projected path of declining general government debt, underpinned by a strong political commitment to fiscal prudence and a return towards balanced budgets."
- "Iceland's ratings and Stable Outlook are supported by its wealthy economy, high governance standards, strong institutions, and strong private-sector balance sheets."
- "Set against these strengths are the economy's small size and resulting vulnerability to sector-specific shocks. However, Iceland's strong financial buffers and policy prudence have enhanced its economic resilience"

S&P IN MARCH 2026

- "S&P Global Ratings revised the outlook on its long-term rating on Iceland to positive from stable."
- "The positive outlook primarily reflects the potential for Iceland's budgetary performance to strengthen over the next two years, leading to a further sustained decline in net general government debt."
- "We could raise the ratings if Iceland's fiscal performance proves stronger than we currently forecast."
- "We could revise the outlook back to stable if Iceland's growth performance was weaker than we expect [or] under a scenario of weaker budgetary outturns."



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