



3Q22

Financial Results

27 October 2022

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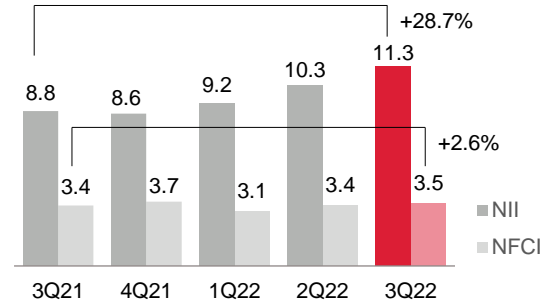


A strong result from an active quarter

ROE of 14.4% mainly driven by growth in core income and lower impairments

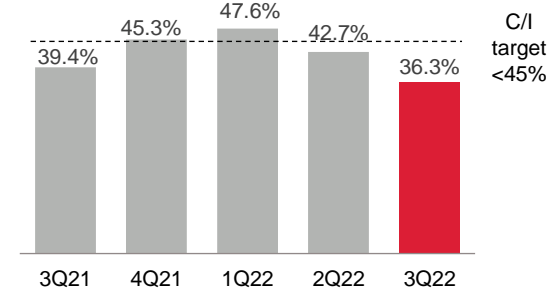
Top line growth above 2022 guidance

NII and NFCI, ISKbn



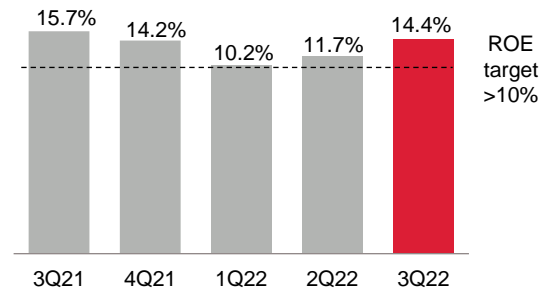
C/I ratio below 2022 guidance and target

C/I ratio



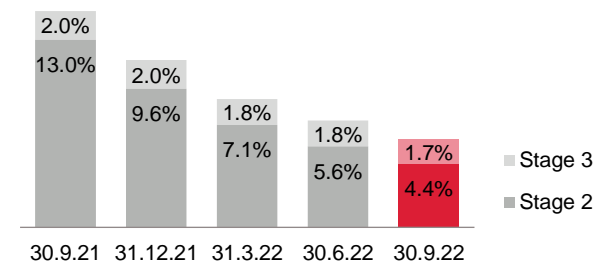
ROE exceeds expectations

ROE



Strong asset quality and robust collateral

Loans to customers: Stage 2 and 3 (NPL)





Revised 2022 guidance and financial targets on track

Guidance of 11-13% ROE and C/I ratio of 41-44% in 2022 following solid 3Q22 financial results

Highlights

- Positive revision of ROE and C/I guidance due to strong performance in the first nine months of the year

	Targets	Revised 2022 Guidance	Previous 2022 Guidance	3Q22	9M22	2021
Return on equity	>10%	11-13%¹	>10%	14.4% ✓	12.1% ✓	12.3% ✓
Cost-to-income ratio²	<45%	41-44%	44-47%	36.3% ✓	41.9% ✓	46.2% ✓
CET1 capital ratio³	~16.5%	Unchanged	Normalise before YE2023	18.2% ✓	18.2% ✓	21.3% ✓
Dividend-payout-ratio	50%	Unchanged	50%			50% ✓

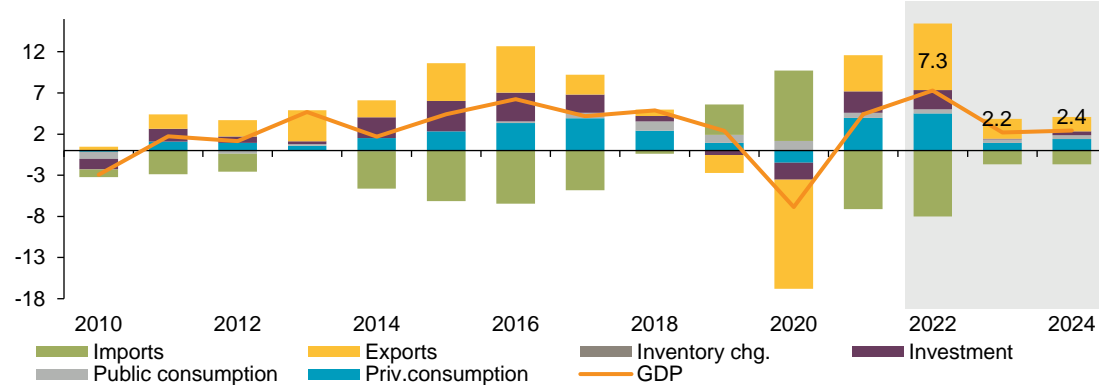
1. Cost of risk was negative by 26bp in 9M2022 and with CoR of zero, ROE for that period would have been approximately 11-13%. 2. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 3. Long term CET1 capital target is subject to regulatory requirements and includes a management buffer of 50-200bp.



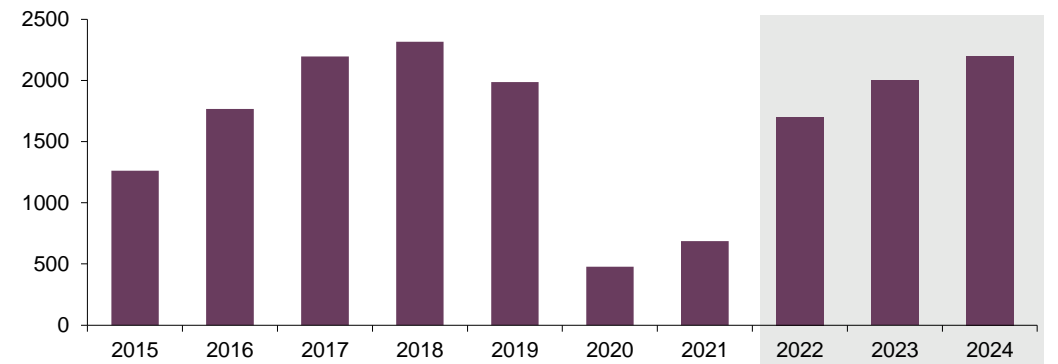
Adjustment phase ahead for the Icelandic economy

Moderate GDP growth on the cards after an impressive surge

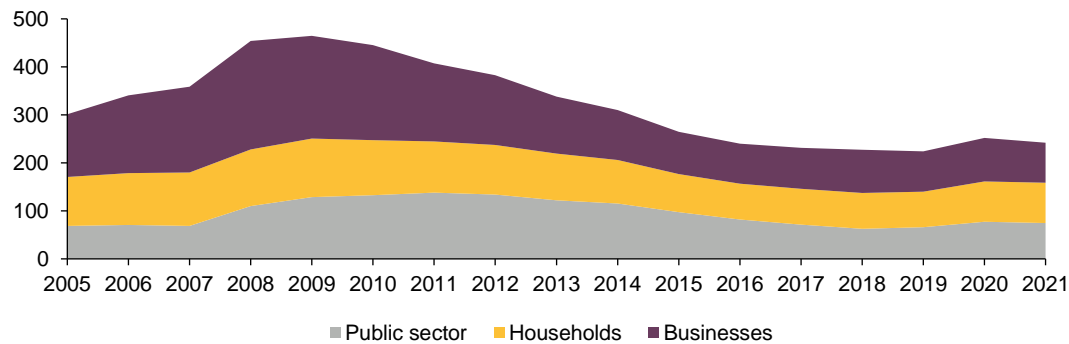
Exports replace domestic demand as the key catalyst of healthy GDP growth...
Real GDP and main subitems, YoY change, %



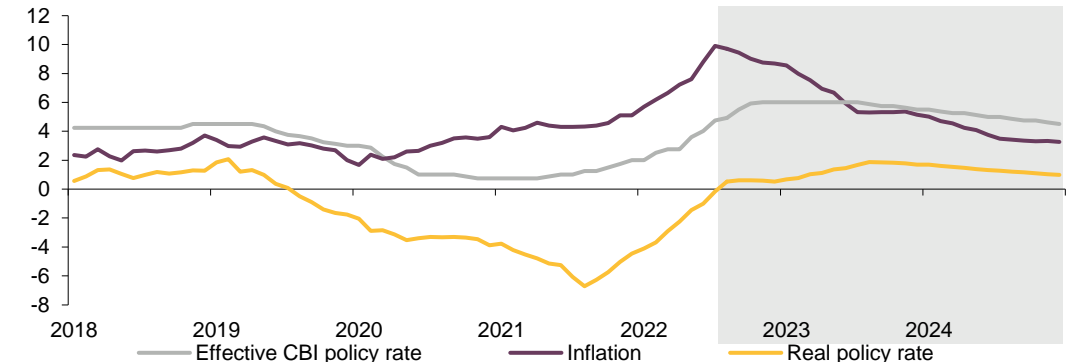
..as tourism sector recovery continues following receding pandemic impact
Number of foreign tourists per year, thousands



Moderate leverage throughout the economy increases resilience to shock...
Gross debt as % of GDP



...and the CB has tightened the monetary policy in response to inflation spike
Inflation and policy rate, %








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



Productive third quarter of 2022

Íslandsbanki's shares eligible for the FTSE Total Cap Index in "Large" size segment

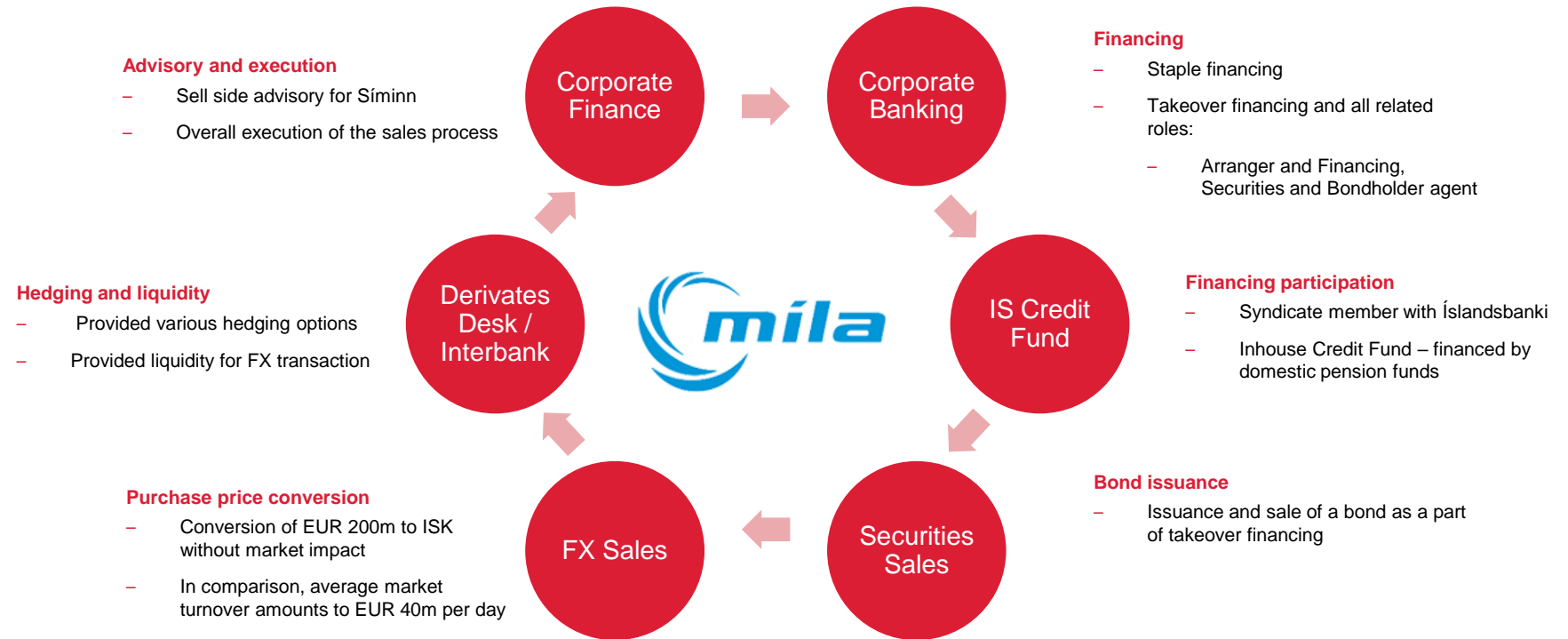
Personal Banking 	Business Banking 	Corporate & Investment Banking 	Iceland Funds 
<ul style="list-style-type: none"> 📈 21.6% ROE 📊 42.7% Cost-to-income ratio 😊 3.0% NIM 	<ul style="list-style-type: none"> 📈 26.8% ROE 📊 32.5% Cost-to-income ratio 😊 5.7% NIM 	<ul style="list-style-type: none"> 📈 14.1% ROE 📊 30.7% Cost-to-income ratio 😊 3.4% NIM 	<ul style="list-style-type: none"> 📈 38.7% ROE 📊 43.2% Cost-to-income ratio¹ AUM ISK 388bn
<ul style="list-style-type: none"> 😊 Fully digital account Ávöxtun offers highly competitive rates to retail customers 📱 Up to 50% of daily shares trading now via app, launched in 3Q22 👤 First bank in Iceland to launch Google Wallet™ 	<ul style="list-style-type: none"> 📁 Good growth in lending volumes with almost 4% growth in 3Q22 📱 Number of app visits now amounts to 50% of netbank visits each month, a 60% increase YoY and overdraft available via app 	<ul style="list-style-type: none"> ★ Íslandsbanki played a pivotal role in the sales process of Míla where the Bank provided full scale investment banking services ✓ Securities brokerage activities strengthened 	<ul style="list-style-type: none"> 📁 9% YoY increase in fee income 👤 Number of fund owners has increased continuously, now at 13,000 📁 Financed emissions for Iceland Funds measured, first of all Icelandic fund companies
Sustainability  <ul style="list-style-type: none"> 🌍 56% of all credit risk exposure has been assessed with respect to ESG² 🌱 ISK 66bn of Íslandsbanki's loan book falls under the Bank's Sustainable Financing Framework 🌱 Submitted CDP Climate Change disclosures³ 🌱 Submitted net-zero sectorial pathways to the NZBA³ 			

1. As calculated from the Bank's Consolidated Income Statement. 2. As of mid-October 2022. Excluding retail banking and small enterprises which are not in scope. 3. NZBA: Net Zero Banking Alliance. CDP: Carbon Disclosure Project



Íslandsbanki Investment Banking played a pivotal role

Sale of Míla, Iceland's largest telecom infrastructure company

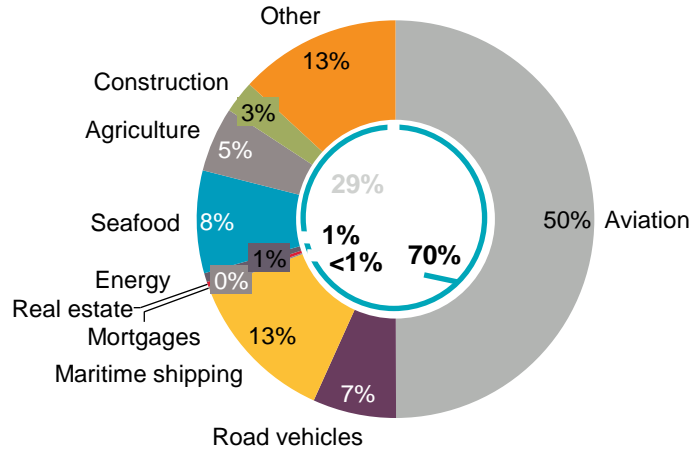




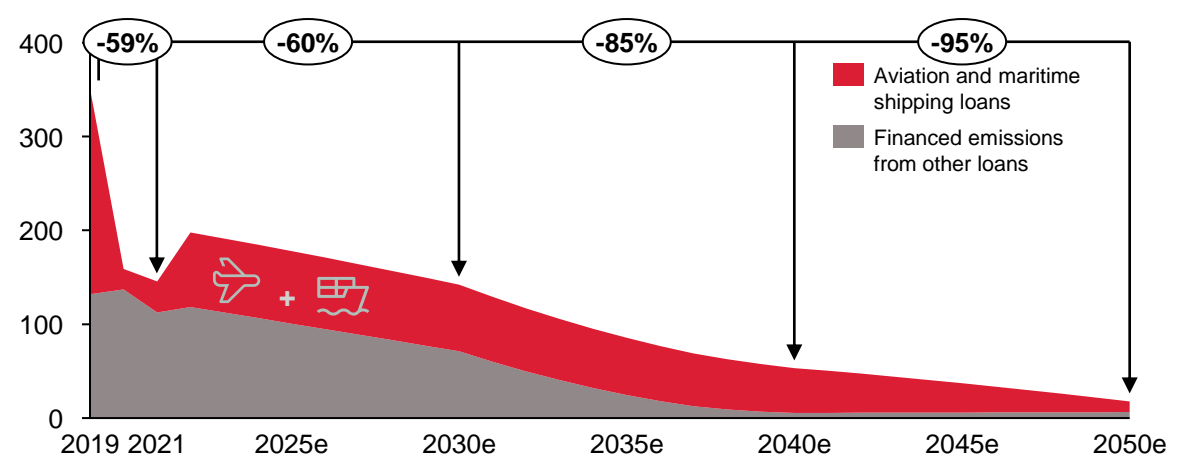
Íslandsbanki's pathway to net zero

Initial sector-specific pathways to net zero now published in accordance with the Net Zero Banking Alliance's guidelines – Iceland's different starting point is reflected in the emission reduction targets

Emissions from balance sheet at base year
ktCO₂e in 2019 = 351



Estimated pathway of emissions from balance sheet¹
(ktCO₂e)



Sector-specific emission reduction targets
Reduction from base year (2019)

Sector	2030	2040	2050
Aviation and maritime shipping	>65%	>75%	>95%
Road vehicles	>50%	>95%	>100%
Commercial and residential real estate	<0%	<0%	<0%
Power generation	0%	0%	0%

Highlights

- 2019 was chosen as base year due to significant COVID-19 impact in 2020-2021
- Íslandsbanki's ambition is to empower customers on their net-zero journeys rather than excluding sectors that have challenging and capital-intensive transitions ahead
- Due to Iceland's unique starting point of close to 100% renewable power generation and 85% of houses being heated with geothermal energy, emissions from real estate and power generation are not expected to decrease
- Íslandsbanki has negligible (and no plans to increase) credit exposure for other carbon-intensive sectors specified by NZBA: Aluminum, cement, coal, iron and steel, oil and gas
- Sectoral pathways for key industries in Iceland are under development and Íslandsbanki's pathways for seafood, agriculture and construction are due to be added before the end of 2023



[Report link](#)

1. No sector-specific targets have been set for sectors other than the four listed in the table, the estimated pathway graph includes possible development of around 50% reduction in those sectors based on Iceland's national goals and commitments.



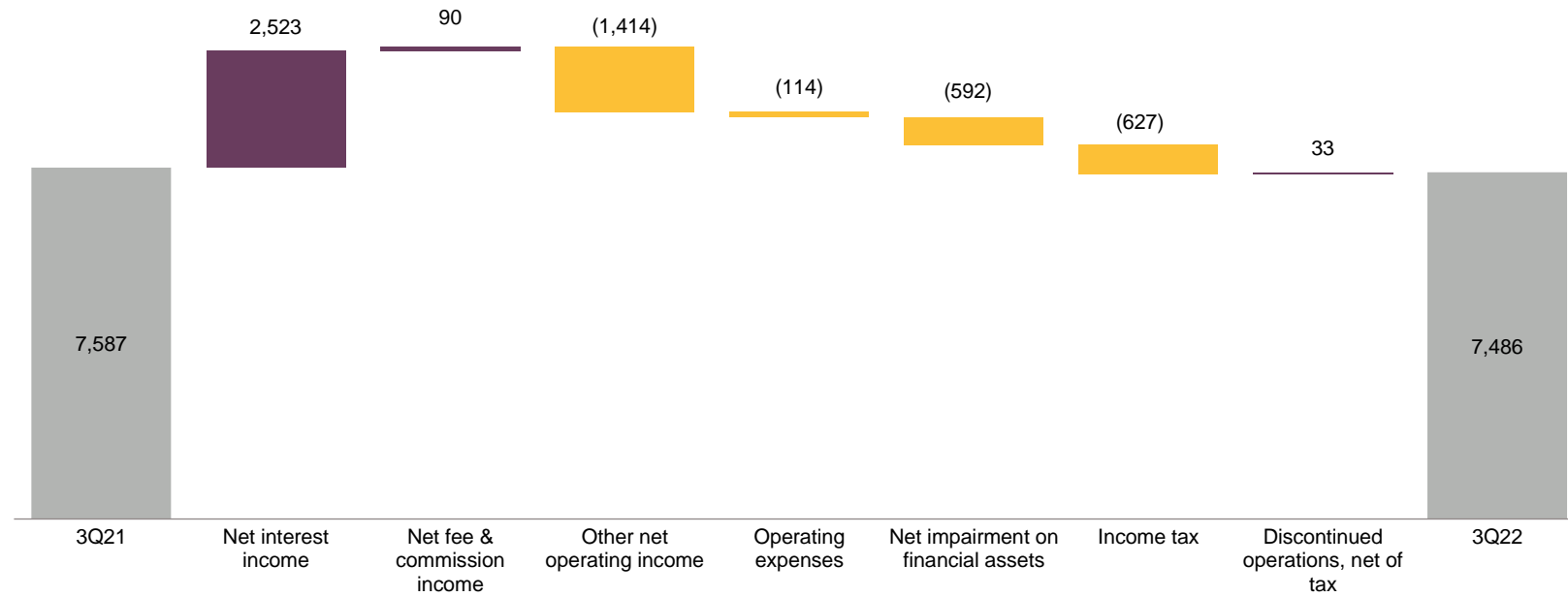
Financial overview



Increase in NII a fundamental driver of a robust result

Expense control and reversed impairments further enhance a positive result

Profit for the period – 3Q21 vs 3Q22
ISKm





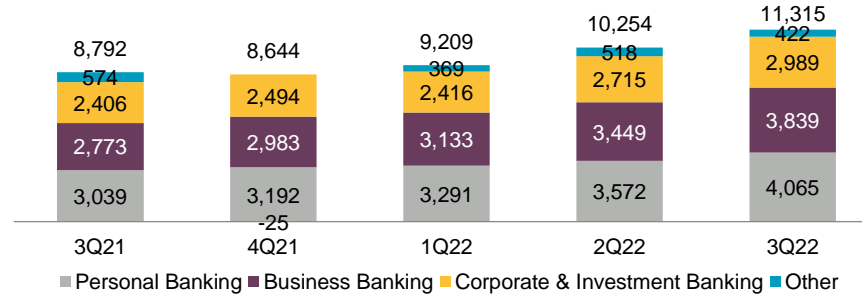
Strong rise in NII in a higher interest rate environment

NIM rose to 3.0% mainly the result of higher deposit margins

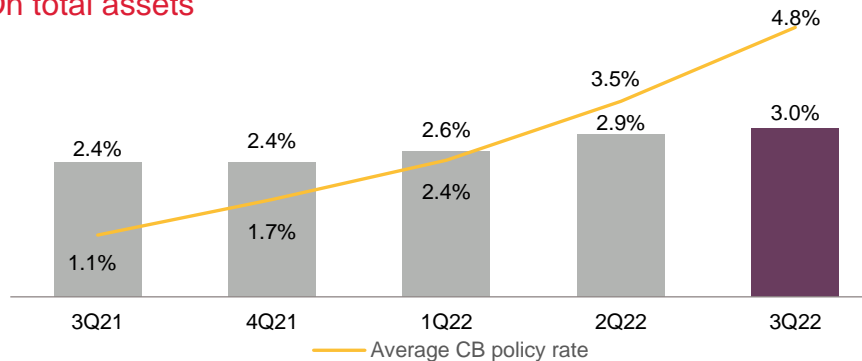
Highlights

- Lending margin was 1.9% in 3Q22 (2.2% in 3Q21) while deposit margin was 2.1% in 3Q22 (1.3% in 2Q21)
- Íslandsbanki's research anticipates that the Central Bank's monetary tightening phase has come to an end with its 5 October 25pb rate hike
- A 100 basis points increase in Central Bank policy rates can increase NIM by approximately 5-10 basis points and increase ROE by approximately 50bp over 2-4 years

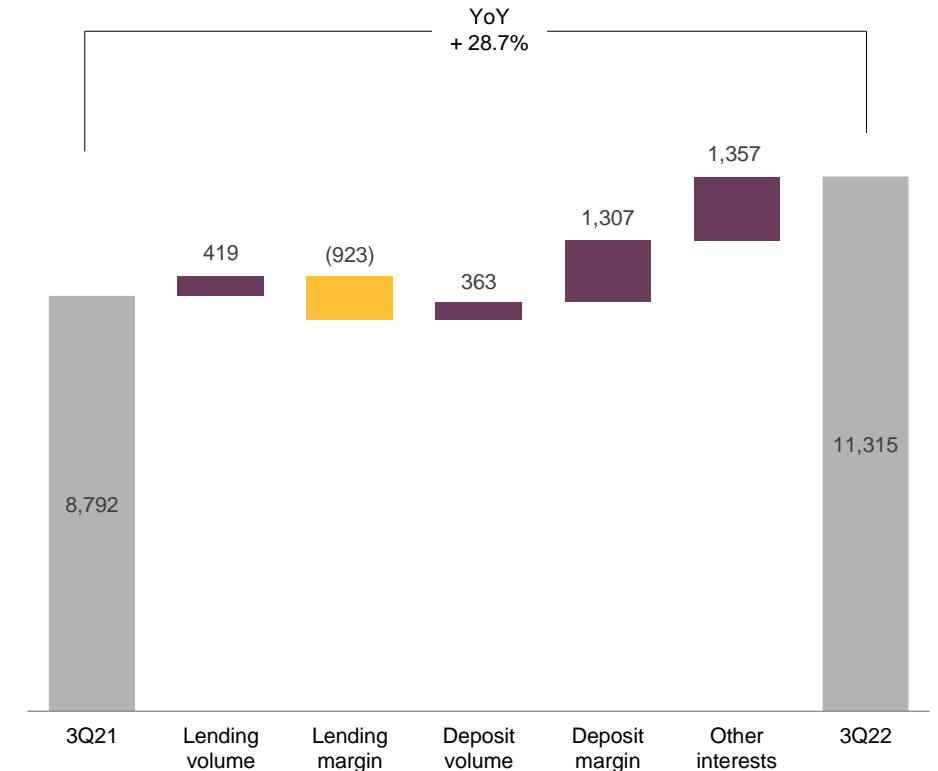
Net interest income By business segments, ISKm



Net interest margin On total assets



NII – comparison 3Q YoY ISKm





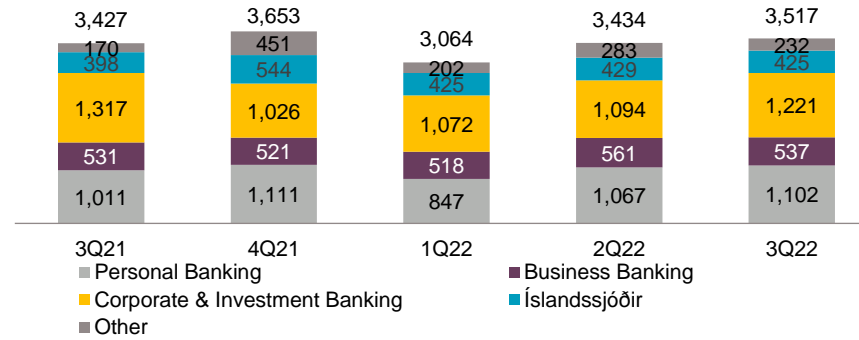
NFCI continues to rise in a good quarter

Broad-based fee generation across the business units

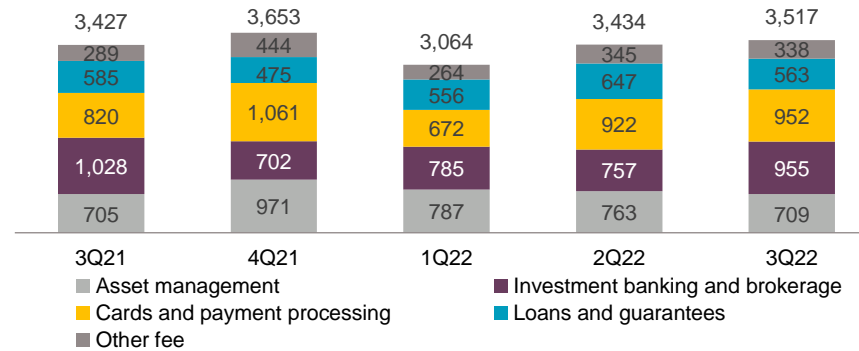
Highlights

- Card transaction income and interchange income from cards, both domestic and foreign particularly strong during summer months
- Strong quarter for FX Sales, benefitting from strong tourism in July and August. September benefitted from FTSE inclusion and the Mila transaction

Net fee and commission income Business segments, ISKm



Net fee and commission income By type, ISKm



NFCI – comparison 3Q YoY ISKm





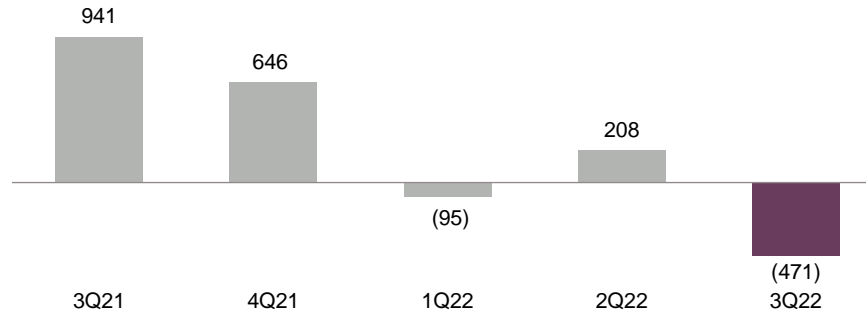
NFI affected by volatile markets

Losses in bonds and related derivatives due to rising rates environment

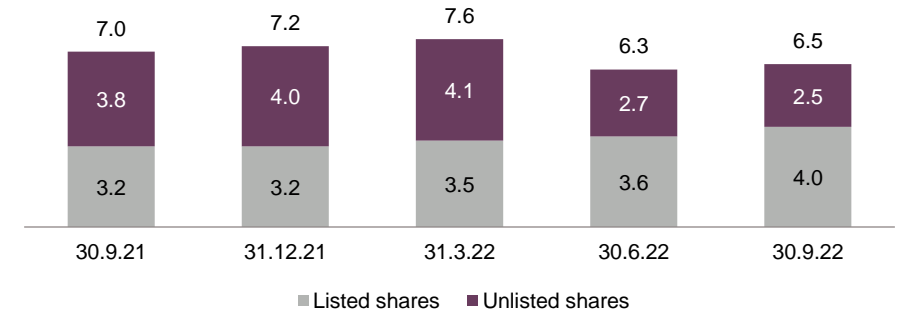
Highlights

- The largest movement in NFI in the quarter is a loss in Other NFI which is largely due to movements in ISK base rate curves

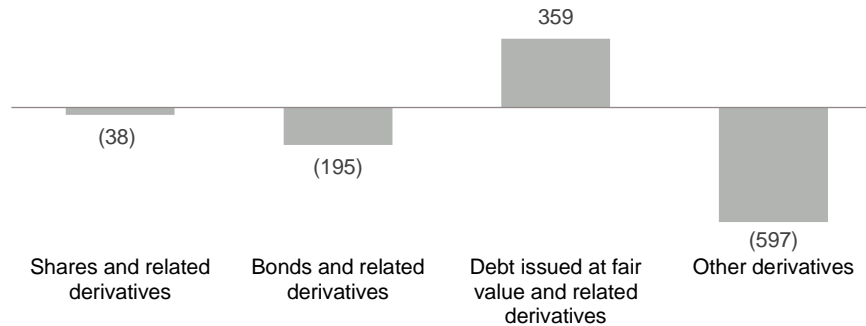
Net financial income ISKm



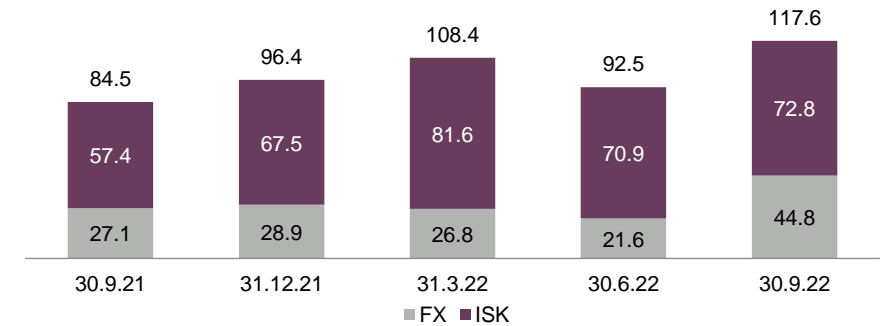
Shares and equity instruments¹ ISKbn



Net financial income by type in 3Q22 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.



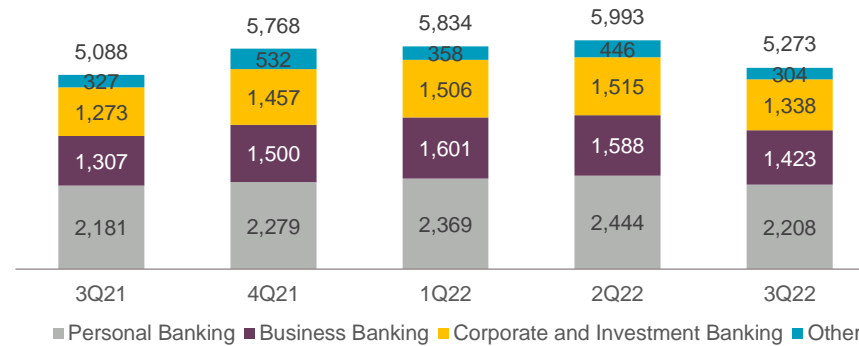
Administrative expenses kept at bay in 3Q22

5.5% reduction in real terms driven by lower salary costs

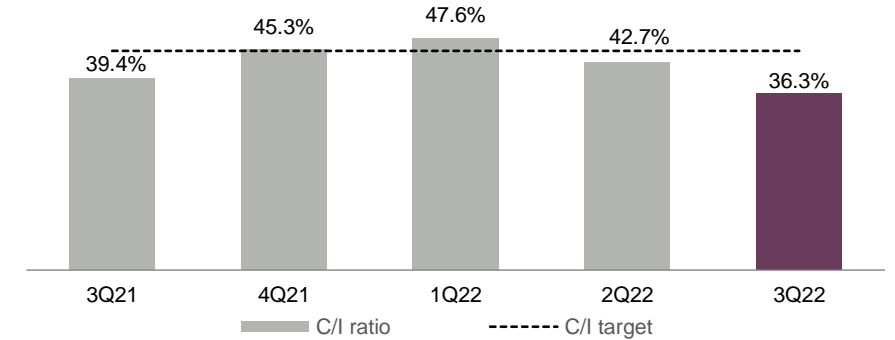
Highlights

- The reduction in administrative expenses between 2Q22 and 3Q22 is largely due to seasonality in salary expenses along with decrease in other operating expenses
- Head-count reductions made in 2021 are helping keep costs relatively flat, but rising inflation and collective salary bargaining is introducing some uncertainty to salary costs for 2023

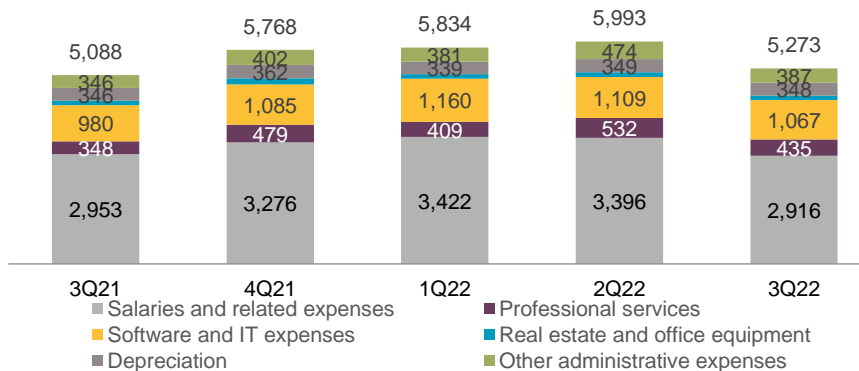
Administrative expenses ISKm



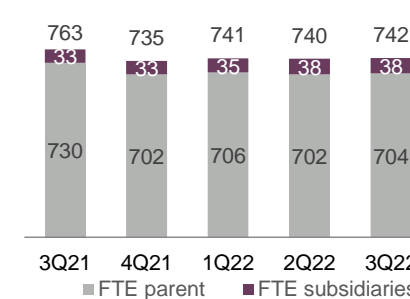
Cost-to-income ratio¹



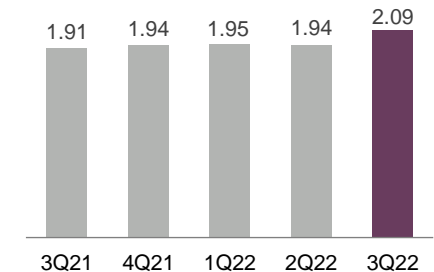
Administrative expenses – by type ISKm



FTEs period end²



Total assets / FTEs² ISKbn



1. Calculated as (Administrative expenses + Contribution to the Depositor's and Investors' Guarantee Fund – one off items) / Total operating income – one-off items). 2. FTE numbers exclude seasonal employees.



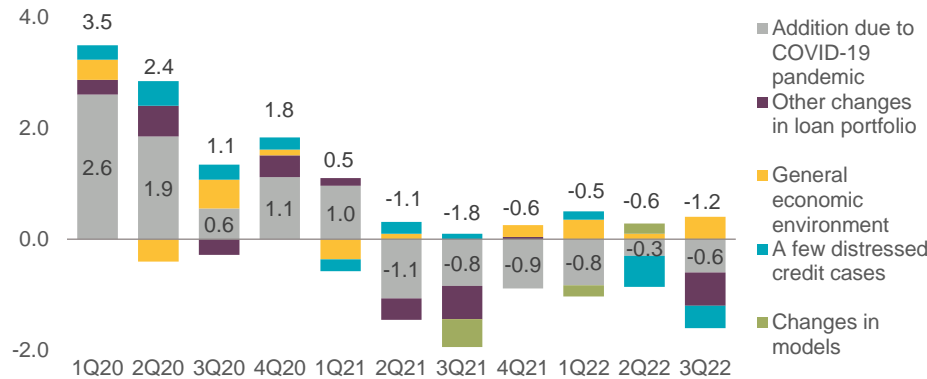
Impairment reversals continued in 3Q22

COVID-19 overlay has been turned off, new official tax valuation for real estate reduces impairment

Highlights

- Uncertainty regarding the impact of the COVID-19 pandemic on credit quality is greatly reduced following a strong tourist season
- The COVID-19 overlay factor has been removed and the transfer to Stage 2 has been reversed in cases where no other indicators have been activated, leaving no additional impairment allowance attributable to the tourism overlay or stage transfer
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forborne even after normal payments have resumed
- Loans amounting to ISK 18bn are expected to exit forbearance probation in 2022
- Reserve coverage ratio (RCR) for impairment allowance on Stage 3 was 23% at end of 3Q22

Net impairment on financial assets By period, ISKbn

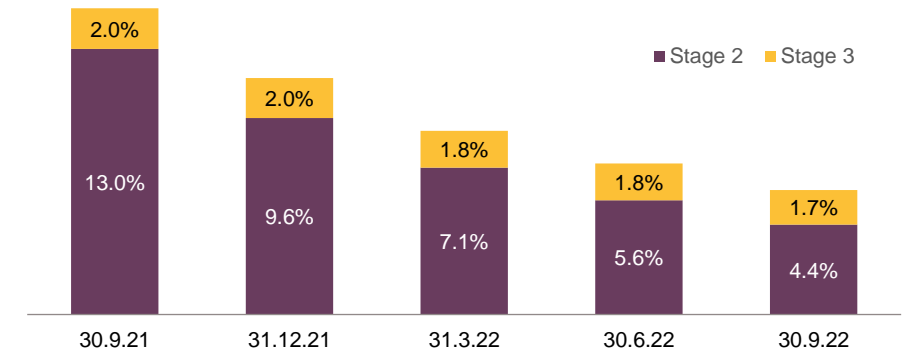


Current and expected cost-of-risk

- Annualised cost of risk was -40bp in 3Q22 (-64bp for 3Q21) and -26bp in 9M22 (-30bp in 9M21)
- In 3Q22 approximately ISK 600m of impairment reversals was a result of updated valuation for residential and commercial real estate prices (shown as part of other changes)
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 3Q22
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 0.3bn while a 5% shift from the baseline to the good would decrease the allowance by ISK 0.16bn
- The economic scenarios are impacted by expected inflation

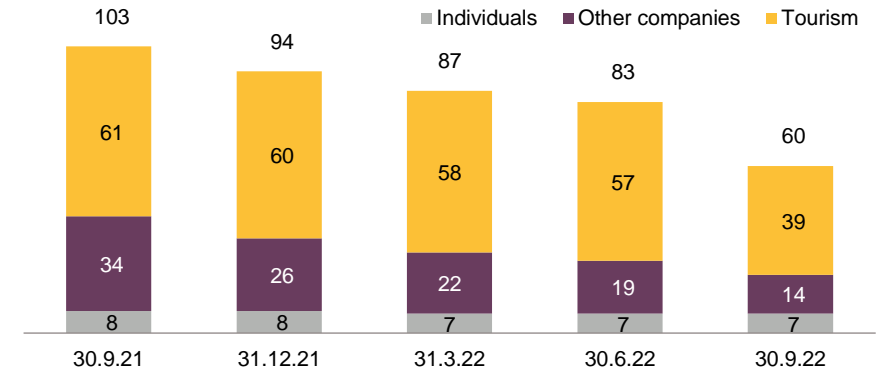
Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans



Performing loans with forbearance

Gross carrying amount, ISKbn





Lending growth evens out after years of strong loan growth

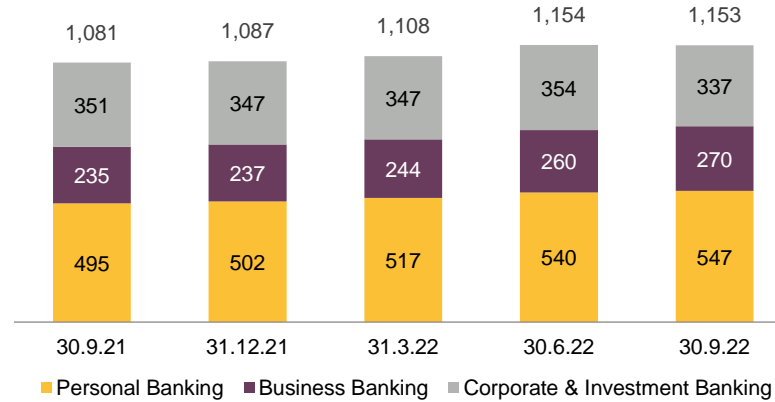
Credit quality remains strong and the loan portfolio is highly collateralised

Highlights

- 6.1% growth in loans to customers from year-end 2021. PB has grown by 8.8%, BB by 13.6% and CIB contracted by 3.0%

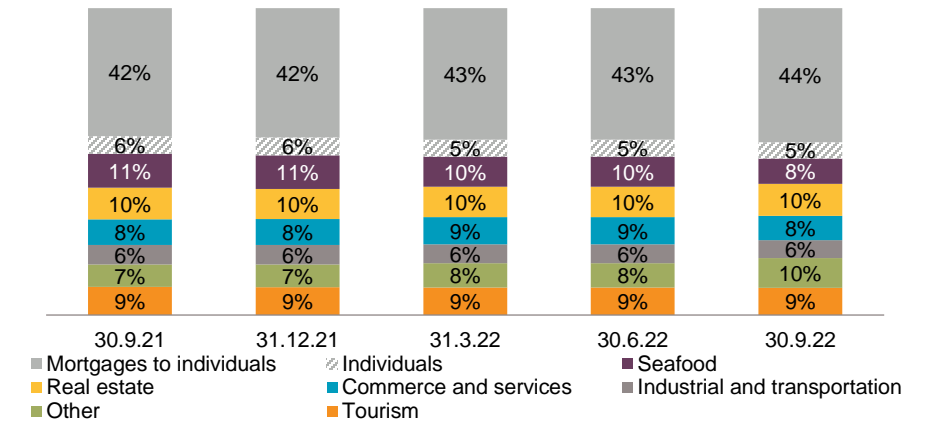
Loans to customers

By business division, ISKbn



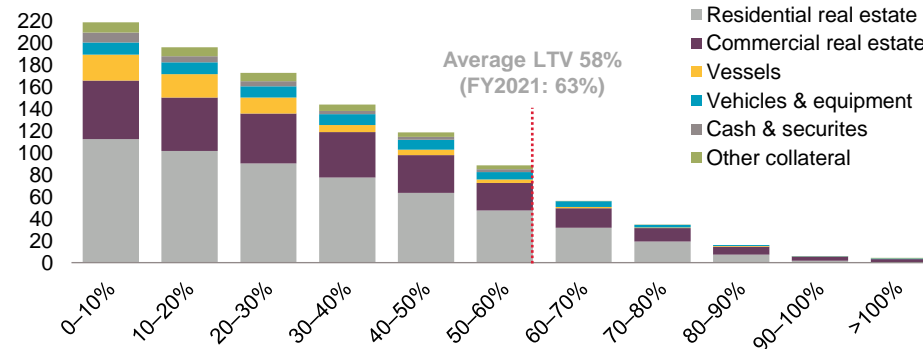
Loans to customers

By sector, with tourism as a separate sector



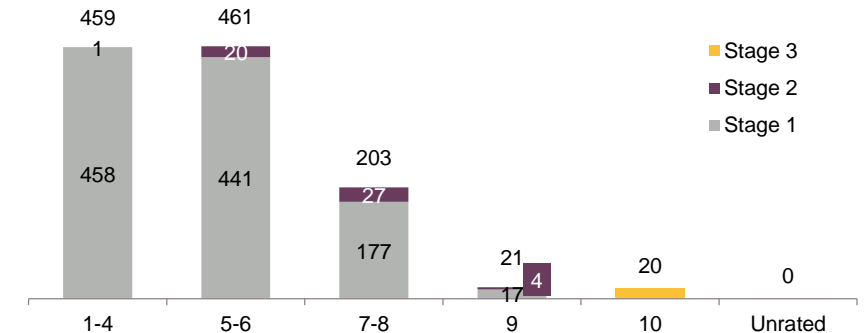
LTV distribution by underlying asset class

30.9.2022, loan splitting approach, ISKbn



Loans to customers: gross carrying amount

30.9.2022, risk class and impairment stage, ISKbn





Mortgage portfolio resistant to rising rates

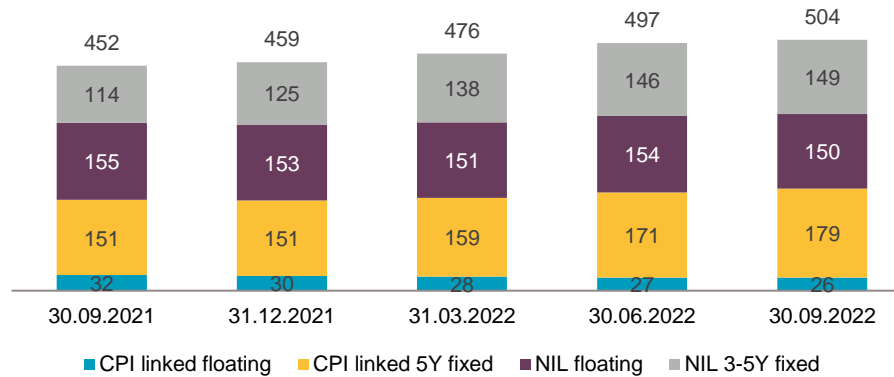
Average LTV improves, origination process had built-in buffers for expected rate increases

Highlights

- Conservative payment assessment for non-indexed variable rate mortgages in the low interest environment means that households are well prepared for higher interest rate environment
- At origination, LTV is capped at 80% (85% for first time buyers) and debt service-to-income at 35% (40% for first-time buyers)
- Variable NIL mortgages rates have risen by 3.6% since year-end and are not expected to rise much further. There is a slight increase in mortgages in Stage 2 due to forbearance but there has not been any observable increase in NPLs. The Bank tests the resilience to higher rates and sensitivity analysis does not indicate any need for additional impairment despite higher debt-service²
- The lower LTVs are mostly explained by updated tax valuation that is used for around half of the mortgage portfolio. The valuation reflects market prices from 1Q22 and therefore carries a buffer for potential market price fluctuations in the near term

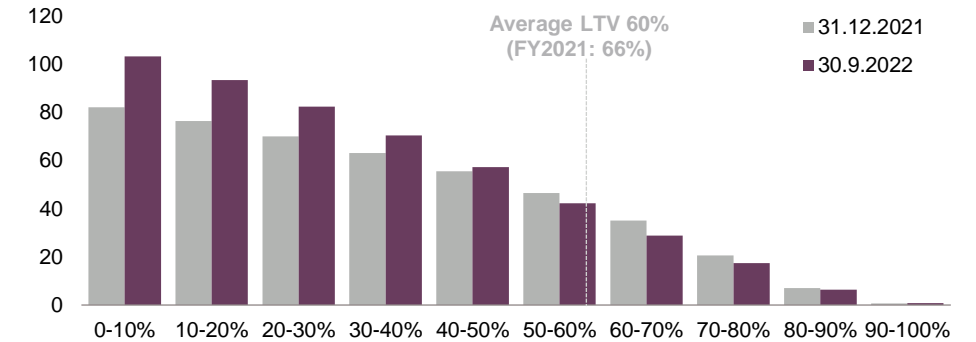
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



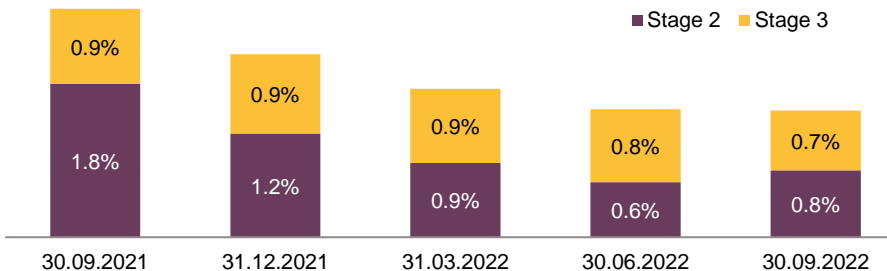
LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



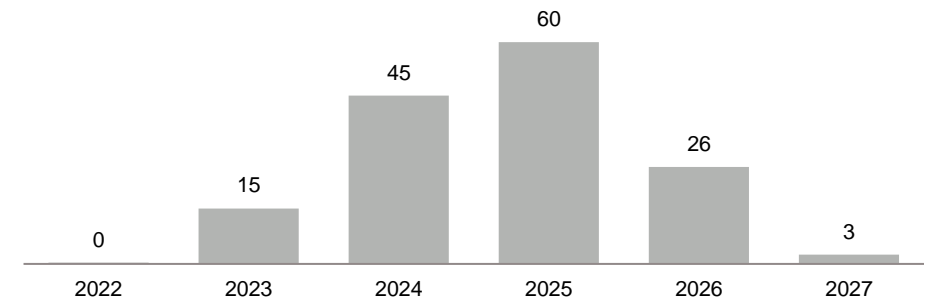
Mortgages portfolio: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total mortgages



Interest rate reset profile for NIL 3-5Y fixed rate mortgages¹

Gross carrying amount, ISKbn



1. NIL stands for non-index linked loans. 2. On 5 October, after period end, the Central Bank raised rates by 0.25% and the Bank's rates have now risen by 3.7% since year-end 2021.



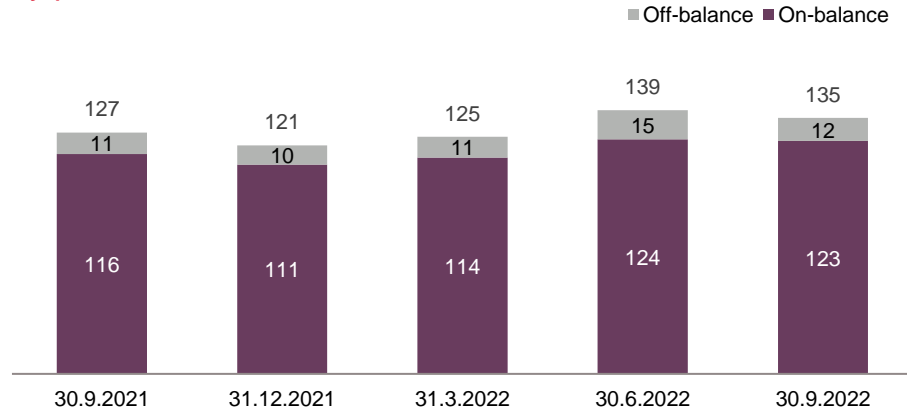
Real estate and construction sector in good shape

Exposures in the real estate sector mostly to companies with diverse portfolios

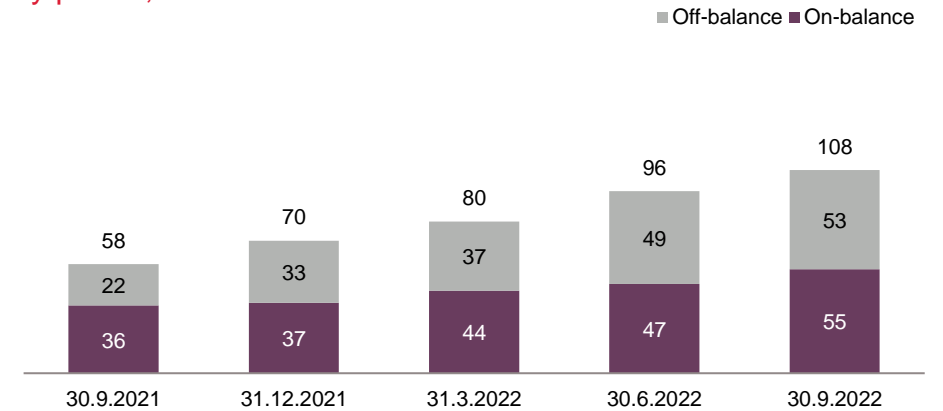
Highlights

- Loans to real estate companies and construction amount to 15% of loans to customers
- Disciplined origination with conservative LTV requirements and debt service criteria
- Third party security agents for largest clients
- Exposure to construction is expected to continue to rise as the market is in need for new housing
- Over half of exposure in the construction sector is for building apartments, 20% for commercial real estate and the rest is mixed or to general construction contractors

Development of exposures to real estate companies By period, ISKbn

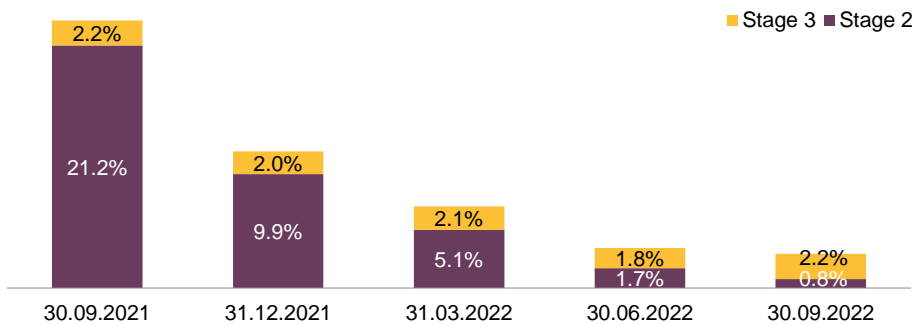


Development of construction exposures By period, ISKbn



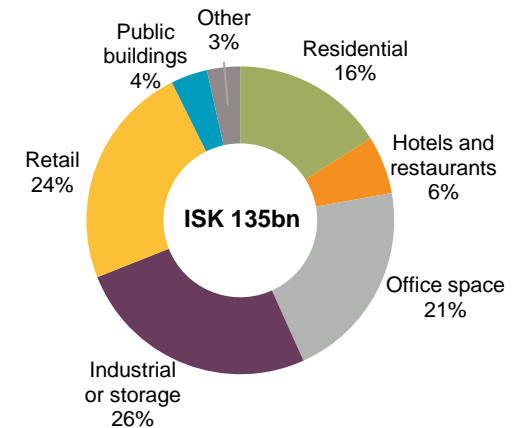
Real estate portfolio: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of the real estate portfolio



Real estate exposures by collateral type

30.9.2022





Deposits are the largest source of funding

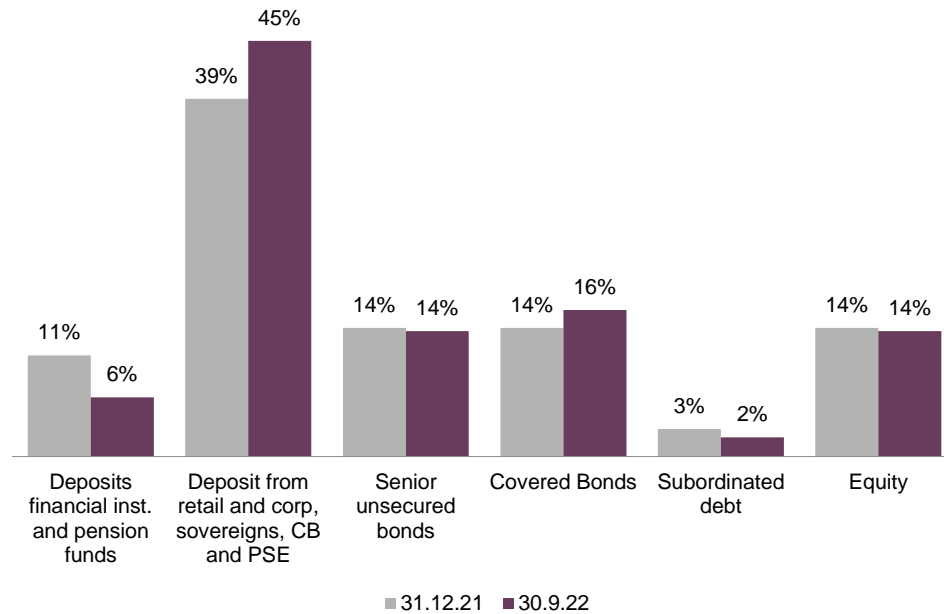
Retail deposits continue to increase

Highlights

- Term deposits are 19% of total deposits
- Deposit concentration is stable. 13% of deposits belonged to the 10 largest depositors and 29% to the 100 largest at 3Q22, compared to 12% and 28% respectively at YE21
- At end of 3Q22, 71% of deposits were in non-indexed ISK, 14% CPI-linked and 15% in foreign currencies

Funding sources

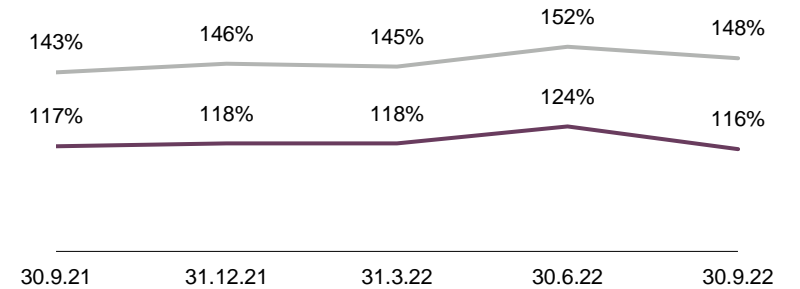
By type, % of total liabilities and equity



Short-term funding ← → Long-term funding

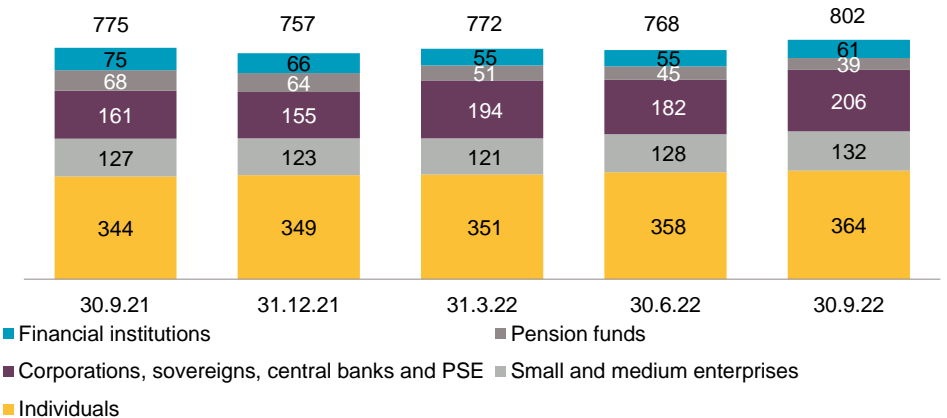
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn





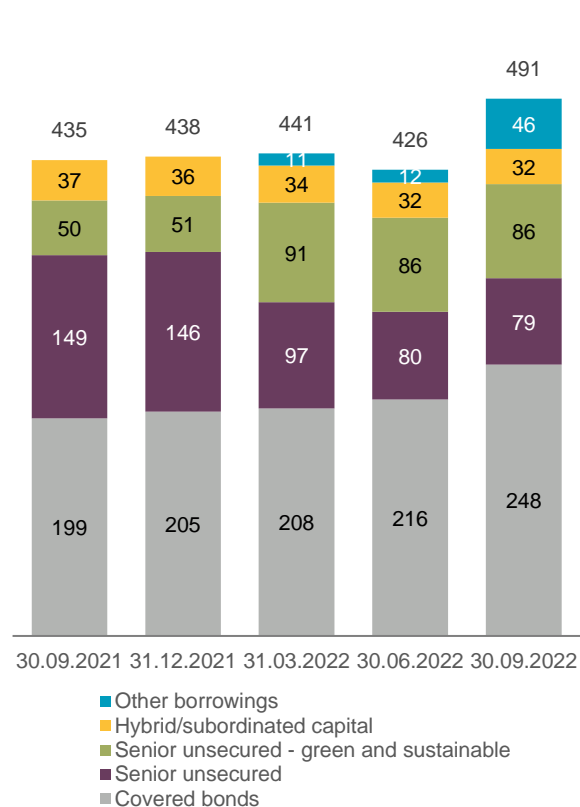
Seasoned and diversified long-term funding programme

Issuance of EUR covered bonds and Tier 2 in ISK further diversifies the funding mix

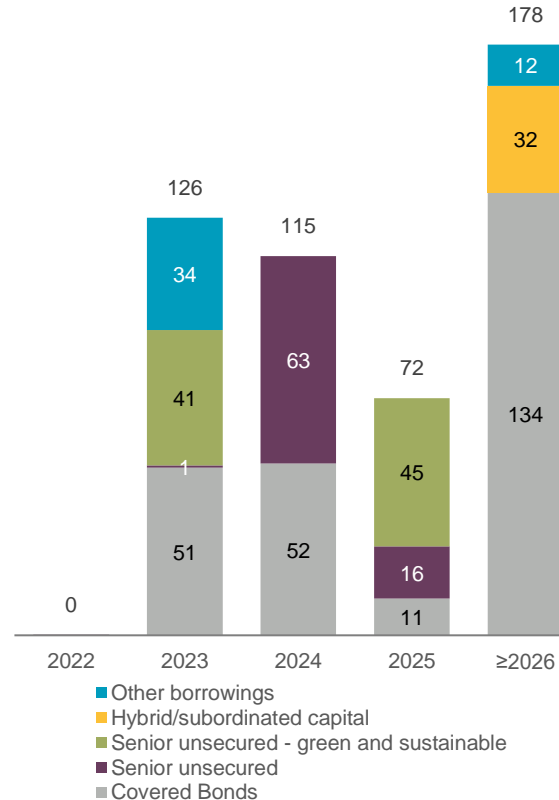
Highlights

- S&P Global ratings BBB/A-2 with stable outlook confirmed on 13 July 2022
- In June, the Bank signed a new covered bond programme. Rated A by Standard & Poor's, and sold its first EUR 300m covered bond in September
- The Bank issued its first Tier 2 in ISK in October 2022, a total of ISK 10.5bn
- The Bank has announced that it will be exercising the call option on its SEK 750 Tier 2 of 2027 in November 2022

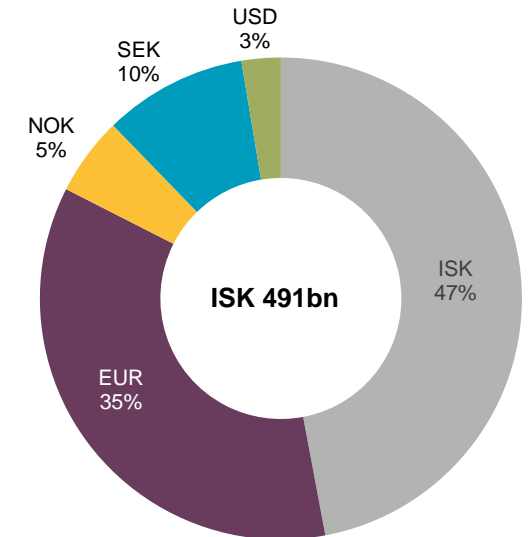
Sources of borrowings Development, ISKbn



Contractual maturity profile of borrowings 30.9.22, ISKbn



Currency split of borrowings 30.9.22





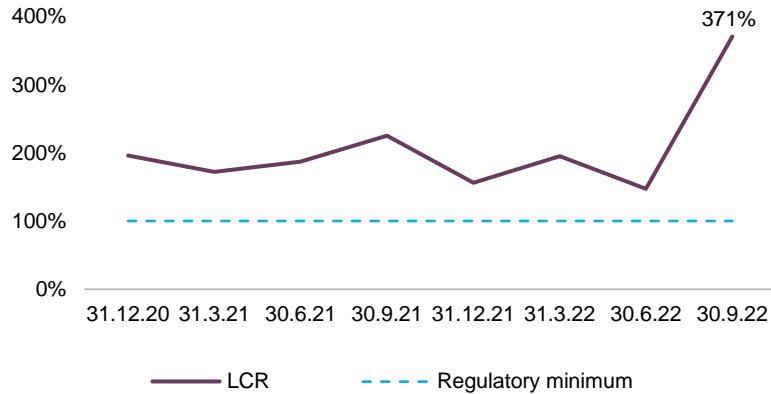
Sound liquidity management, ratios well above requirements

Liquid assets of ISK 316bn, representing 20% of total assets

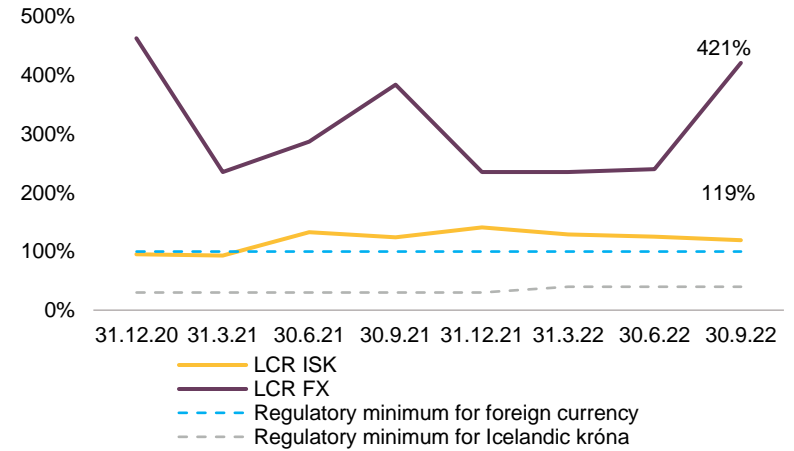
Highlights

- All liquidity measures above regulatory requirements
- Liquidity ratios increased significantly following the successful issuance of a EUR 300m covered bond in September

Total liquidity coverage ratio (LCR)

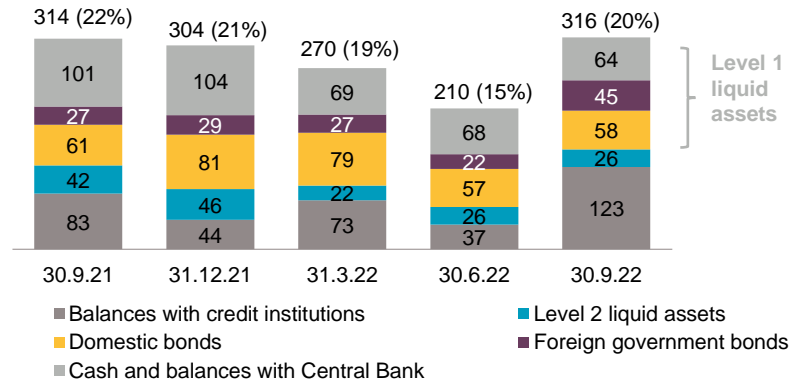


Liquidity coverage ratio – foreign currencies and ISK

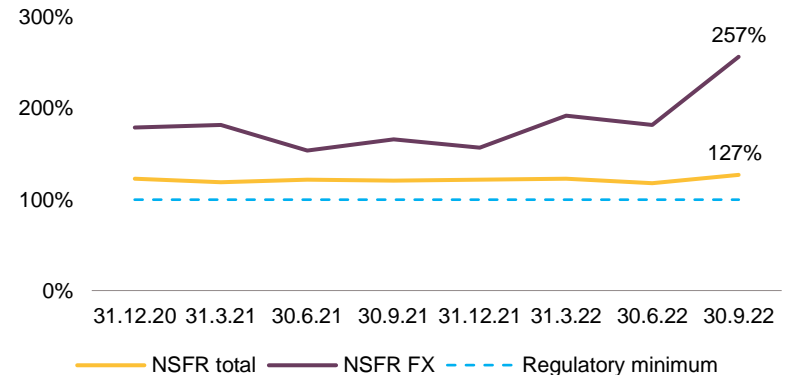


Liquid Assets

% of total assets, ISKbn



Net stable funding ratio (NSFR)





Strong capital position

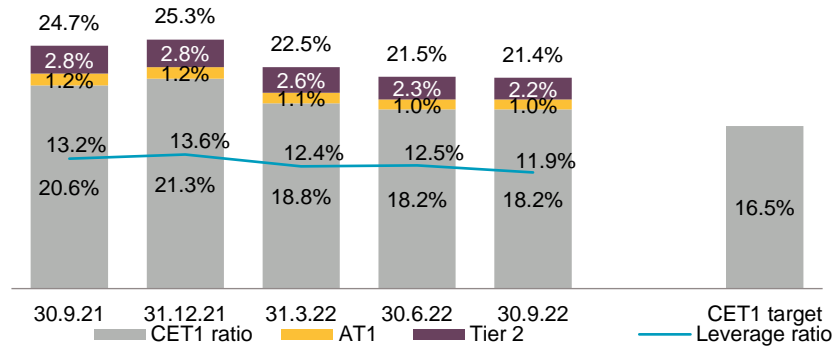
REA continued to increase

Highlights

- At the end of September, the counter-cyclical buffer in Iceland increased from 0% to 2.0% which raised the Bank's overall capital requirement from 17.9% to 19.9%
- Additional AT1 issuance potential of ISK 10bn to optimise capital structure
- The rise in REA in 3Q22 is a result of increase in loans to credit institutions and bonds and debt instruments
- The CET1 ratio is 300pb above requirement

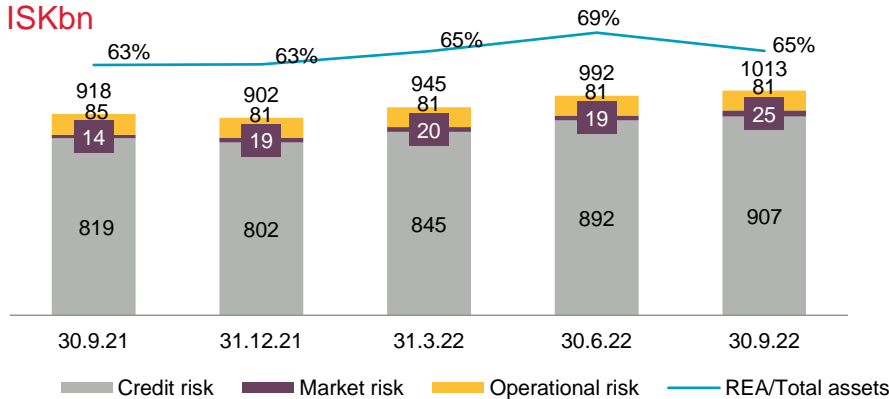
Capital ratios and leverage ratio¹

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



Risk exposure amount (REA)

ISKbn



Capital distribution plans

- The ratios are determined on the basis of the unaudited net earnings in the quarter, with a deduction of 50% of net earnings as foreseeable dividends in line with the Bank's dividend policy and foreseeable buybacks of ISK 15 billion
- The Bank continues to explore share buyback options and the potential to release capital through dividends
 - However, the Bank will need to assess these options in the light of generally highly volatile market conditions and the backdrop of a rapidly deteriorating global economy
 - Additionally, the ECB and the Central Bank of Iceland recently encouraged banks to maintain capital buffers that are consistent with the prevailing level of risk to help ensure banking sector resilience
- The Bank plans to optimise its capital structure before year-end 2023

MREL requirement according to BRRD I

- The Icelandic Resolution Authority (IRA) published its MREL policy in December 2021
- In September 2022 the IRA announced that a resolution plan had been approved for the Bank and thereby the MREL requirement based on the MREL policy
- The MREL requirement is 21.2% of the Bank's Total Risk Exposure Amount (TREA) as per year-end 2021 and applies from 29 September 2022
 - The Bank's MREL ratio was 27.6% at the end of September
- The subordination requirement provided for in BRRD II has not been defined

1. Including 3Q22 profit.



Q&A























Appendix I – About Íslandsbanki and additional financial information



This is Íslandsbanki

 Moving Iceland forward by empowering our customers to succeed

<p>Vision and Values</p> <hr/> <p>Vision to be #1 for service</p> <div style="display: flex; justify-content: space-around; align-items: center;">    </div> <p>Passion Professionalism Collaboration</p>	<p>The Bank</p> <hr/> <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>FTEs 704 number of FTEs at Íslandsbanki at period end</p> </div> <div style="text-align: center;">  <p>12 branches</p> </div> </div> <div style="display: flex; justify-content: space-between; align-items: center; margin-top: 20px;">   <p>Listed to Nasdaq Iceland as of June 2021</p>   </div>	<p>Market share¹</p> <hr/> <div style="display: flex; justify-content: space-between; align-items: center; margin-bottom: 20px;">  <p>31% retail customers</p> </div> <div style="display: flex; justify-content: space-between; align-items: center; margin-bottom: 20px;">  <p>37% SMEs</p> </div> <div style="display: flex; justify-content: space-between; align-items: center;">  <p>35% large companies</p> </div>	<p>Sustainability 3Q22</p> <hr/> <div style="display: flex; justify-content: space-between; align-items: flex-start;">  <p>Submitted net-zero sectorial pathways to the NZBA³</p> </div> <div style="display: flex; justify-content: space-between; align-items: flex-start; margin-top: 20px;">  <p>Submitted CDP Climate Change disclosures³</p> </div> <div style="display: flex; justify-content: space-between; align-items: flex-start; margin-top: 20px;">  <p>Financed emissions for Iceland Funds measured, first of all Icelandic fund companies</p> </div>																
<p>Key Figures 3Q22</p> <hr/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">ROE</td> <td style="width: 15%; text-align: right;">14.4%</td> <td style="width: 30%;">LCR <small>Group, all currencies</small></td> <td style="width: 25%; text-align: right;">371%</td> </tr> <tr> <td>Cost-to-income ratio</td> <td style="text-align: right;">36.3%</td> <td>NSFR <small>Group, all currencies</small></td> <td style="text-align: right;">127%</td> </tr> <tr> <td>CET1 ratio²</td> <td style="text-align: right;">18.2%</td> <td>Leverage ratio²</td> <td style="text-align: right;">11.9%</td> </tr> <tr> <td>Total capital ratio²</td> <td style="text-align: right;">21.4%</td> <td>Total assets</td> <td style="text-align: right;">ISK 1,549bn</td> </tr> </table>		ROE	14.4%	LCR <small>Group, all currencies</small>	371%	Cost-to-income ratio	36.3%	NSFR <small>Group, all currencies</small>	127%	CET1 ratio ²	18.2%	Leverage ratio ²	11.9%	Total capital ratio ²	21.4%	Total assets	ISK 1,549bn	<p>Ratings and certifications</p> <hr/> <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;"> <p>S&P Global Ratings BBB/A-2 Stable outlook</p> </div> <div style="text-align: center;">  <p><small>EQUAL PAY CERTIFICATE 2018 - 2021</small></p> </div> </div> <div style="text-align: center; margin-top: 20px;">  <p><small>EXEMPLARY IN CORPORATE GOVERNANCE</small></p> </div>	<p>Digital milestones 3Q22</p> <hr/> <div style="display: flex; justify-content: space-between; align-items: flex-start; margin-bottom: 20px;">  <p>Securities trading now available in app</p> </div> <div style="display: flex; justify-content: space-between; align-items: flex-start; margin-bottom: 20px;">  <p>Íslandsbanki the first Icelandic bank to implement Google Wallet™</p> </div> <div style="display: flex; justify-content: space-between; align-items: flex-start;">  <p>Íslandsbanki participated in the Fast Track programme with Copenhagen Fintech at the Nordic Fintech Week 2022</p> </div>
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Total capital ratio ²	21.4%	Total assets	ISK 1,549bn																

1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, December 2021 survey for SMEs and 2021 average for large companies. 2. Including 3Q22 profit. 3. NZBA: Net Zero Banking Alliance. CDP: Carbon Disclosure Project



Financial overview

Key figures & ratios

		3Q22	2Q22	1Q22	4Q21	3Q21
PROFITABILITY	Profit for the period, ISKm	7,486	5,880	5,187	7,092	7,587
	Return on equity	14.4%	11.7%	10.2%	14.2%	15.7%
	Net interest margin (of total assets)	3.0%	2.9%	2.6%	2.4%	2.4%
	Cost-to-income ratio ¹	36.3%	42.7%	47.6%	45.3%	39.4%
	Cost of risk ²	(0.40%)	(0.20%)	(0.17%)	(0.23%)	(0.64%)
		30.9.22	30.6.22	31.3.22	31.12.21	30.9.21
BALANCE SHEET	Loans to customers, ISKm	1,153,047	1,153,677	1,107,893	1,086,327	1,081,418
	Total assets, ISKm	1,548,672	1,437,253	1,446,355	1,428,821	1,456,372
	Risk exposure amount, ISKm	1,012,986	992,883	945,321	901,646	917,764
	Deposits from customers, ISKm	781,614	756,862	761,471	744,036	754,442
	Customer loans to customer deposits ratio	148%	152%	145%	146%	143%
	Non-performing loans (NPL) ratio ³	1.7%	1.8%	1.8%	2.0%	2.0%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	127%	118%	123%	122%	121%
	Liquidity coverage ratio (LCR), for all currencies	371%	147%	195%	156%	225%
CAPITAL	Total equity, ISKm	211,613	203,662	197,201	203,710	197,381
	CET 1 ratio ⁴	18.2%	18.2%	18.8%	21.3%	20.6%
	Tier 1 ratio ⁴	19.2%	19.2%	19.9%	22.5%	21.8%
	Total capital ratio ⁴	21.4%	21.5%	22.5%	25.3%	24.7%
	Leverage ratio ⁴	11.9%	12.5%	12.4%	13.6%	13.2%

1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 2. Negative cost of risk means that there is a net release of impairments. 3. Stage 3, loans to customers, gross carrying amount. 4. Including quarter profit for 30.9.21, 31.3.22 and 30.9.22.



Income growth of 9% YoY driven by NII and NFCI

Robust profitability in 3Q22 built on a solid platform

Income statement, ISKm	3Q22	3Q21	Δ%	9M22	9M21	Δ%	2021
Net interest income	11,315	8,792	29%	30,778	25,399	21%	34,043
Net fee and commission income	3,517	3,427	3%	10,015	9,196	9%	12,849
Net financial income (expense)	(471)	941	-	(358)	1,853	-	2,499
Net foreign exchange gain	64	95	(33%)	305	320	(5%)	479
Other operating income	111	82	35%	435	286	52%	302
Total operating income	14,536	13,337	9%	41,175	37,054	11%	50,172
Salaries and related expenses	(2,916)	(2,953)	(1%)	(9,734)	(10,121)	(4%)	(13,397)
Other operating expenses	(2,357)	(2,135)	10%	(7,366)	(7,307)	1%	(9,799)
Administrative expenses	(5,273)	(5,088)	4%	(17,100)	(17,428)	(2%)	(23,196)
Contribution to the Depositor's and Investors' Guarantee Fund	-	(173)	(100%)	(165)	(517)	(68%)	(688)
Bank tax	(535)	(433)	24%	(1,377)	(1,294)	6%	(1,683)
Total operating expenses	(5,808)	(5,694)	2%	(18,642)	(19,239)	(3%)	(25,567)
Net impairment on financial assets	1,165	1,757	(34%)	2,223	2,379	(7%)	3,018
Profit before tax	9,893	9,400	5%	24,756	20,194	23%	27,623
Income tax expense	(2,525)	(1,898)	33%	(6,319)	(3,703)	71%	(5,119)
Profit for the period from continuing operations	7,368	7,502	(2%)	18,437	16,491	12%	22,504
Discontinued operations held for sale, net of income tax	118	85	39%	116	142	(18%)	1,221
Profit for the period	7,486	7,587	(1%)	18,553	16,633	12%	23,725

Key ratios

Net Interest Margin (NIM)	3.0%	2.4%		2.8%	2.4%		2.4%
Cost-to-income ratio (C/I)	36.3%	39.4%		41.9%	46.6%		46.2%
Return on Equity (ROE)	14.4%	15.7%		12.1%	11.7%		12.3%
Cost of risk (COR)	(0.40%)	(0.64%)		(0.26%)	(0.30%)		(0.28%)



Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

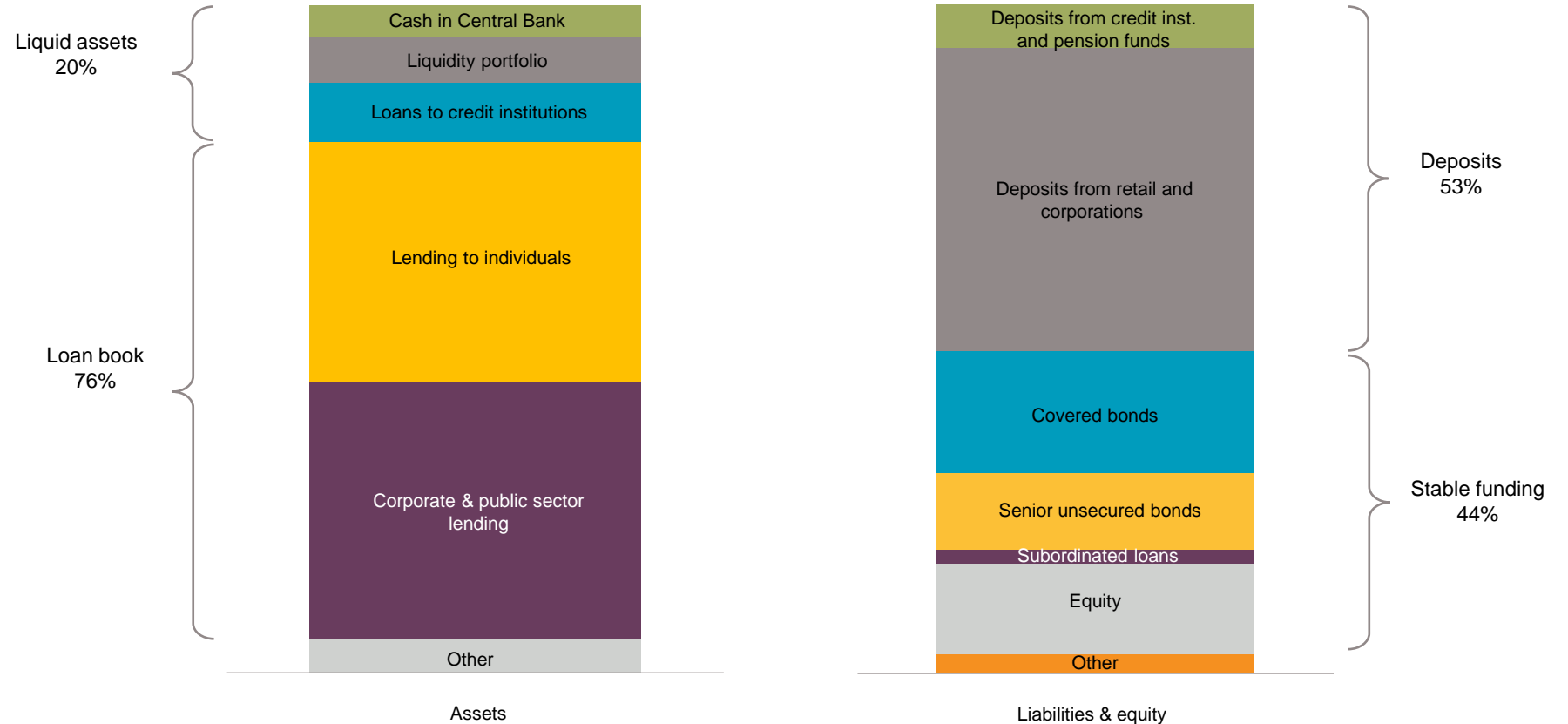
Assets

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

Liabilities

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

Simplified balance sheet structure
30.9.2022, ISK 1,549bn





Total assets continue to increase

Assets up by 8% mainly from a strong liquidity position

Assets, ISKm	30.9.22	30.6.22	Δ	Δ%	31.12.21	Δ	Δ%
Cash and balances with Central Bank	73,566	77,884	(4,318)	(6%)	113,667	(40,101)	(35%)
Loans to credit institutions	137,169	37,226	99,943	268%	43,988	93,181	212%
Bonds and debt instruments	127,454	108,477	18,977	17%	132,289	(4,835)	(4%)
Derivatives	6,895	6,193	702	11%	2,445	4,450	182%
Loans to customers	1,153,047	1,153,677	(630)	-	1,086,327	66,720	6%
Shares and equity instruments	24,472	25,789	(1,317)	(5%)	31,677	(7,205)	(23%)
Investment in associates	3,925	3,836	89	2%	939	2,986	318%
Property and equipment	6,760	6,846	(86)	(1%)	7,010	(250)	(4%)
Intangible assets	3,282	3,304	(22)	(1%)	3,351	(69)	(2%)
Other assets	11,303	12,126	(823)	(7%)	5,784	5,519	95%
Non-current assets and disposal groups held for sale	799	1,895	(1,096)	(58%)	1,344	(545)	(41%)
Total Assets	1,548,672	1,437,253	111,419	8%	1,428,821	119,851	8%

Key ratios

Risk Exposure Amount (REA)	1,012,986	992,883	20,103	2%	901,646	111,340	12%
Non-performing loans (NPL) ratio ¹	1.7%	1.8%			2.0%		
Asset encumbrance ratio	25.7%	20.7%			19.6%		

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



Diversified funding base

Deposits are the largest source of funding

Liabilities & Equity, ISKm	30.9.22	30.6.22	Δ	Δ%	31.12.21	Δ	Δ%
Deposits from Central Bank and credit institutions	19,912	11,437	8,475	74%	13,384	6,528	49%
Deposits from customers	781,614	756,862	24,752	3%	744,036	37,578	5%
Derivative instruments and short positions	13,996	11,410	2,586	23%	9,467	4,529	48%
Debt issued and other borrowed funds	458,969	393,754	65,215	17%	402,226	56,743	14%
Subordinated loans	32,156	32,181	(25)	-	35,762	(3,606)	(10%)
Tax liabilities	10,827	8,498	2,329	27%	6,432	4,395	68%
Other liabilities	19,585	18,498	1,087	6%	12,848	6,737	52%
Non-current liabilities and disposal groups held for sale	-	951	(951)	(100%)	956	(956)	(100%)
Total Liabilities	1,337,059	1,233,591	103,468	8%	1,225,111	111,948	9%
Total Equity	211,613	203,662	7,951	4%	203,710	7,903	4%
Total Liabilities and Equity	1,548,672	1,437,253	111,419	8%	1,428,821	119,851	8%

Key ratios

Customer loans to customer deposits ratio	148%	152%	146%
REA/total assets	65.4%	69.1%	63.1%
Net stable funding ratio (NSFR)	127%	118%	122%
Liquidity coverage ratio (LCR)	371%	147%	156%
Total capital ratio ¹	21.4%	21.5%	25.3%
Tier 1 capital ratio ¹	19.2%	19.2%	22.5%
Leverage ratio ¹	11.9%	12.5%	13.6%

1. Including quarter profit for 30.9.22



Appendix II – Icelandic economy update



Moderate GDP growth on the cards after an impressive surge

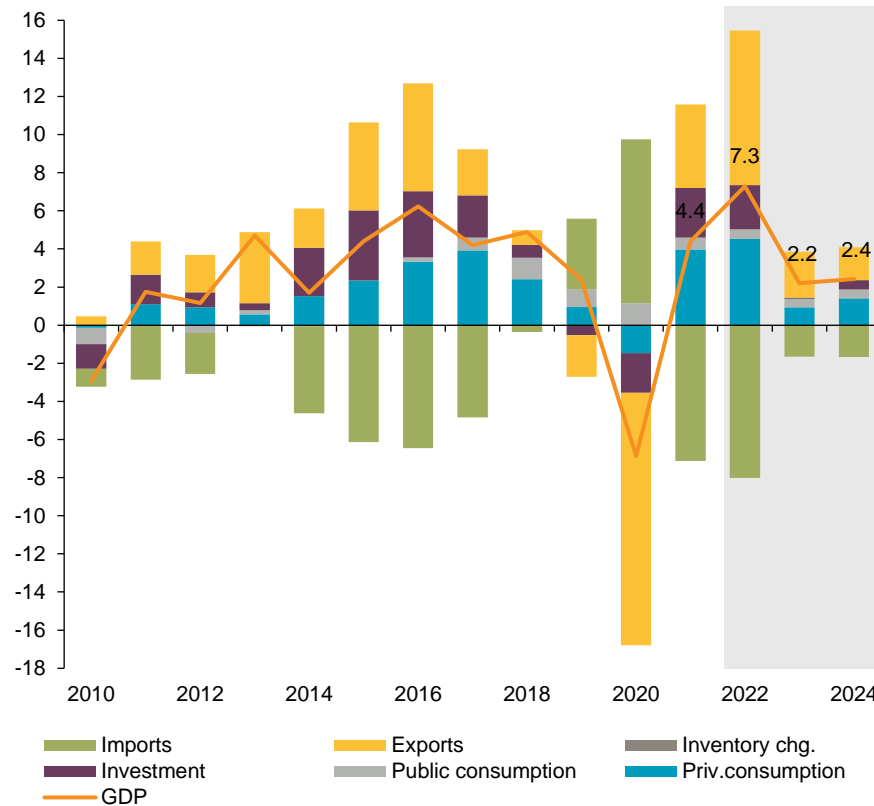
Exports take over from demand as the main driver

Highlights

- After a 6.9% contraction in 2020, the Icelandic economy picked up strongly in 2021, with GDP growth measuring 4.4%
- Growth was driven mainly by domestic demand. Exports also picked up strongly, albeit outpaced by import growth
- ISB Research (forecast published in September 2022) expects GDP growth at 7.3% in 2022, the fastest growth rate in 15 years
- Exports take over from domestic demand as the mainstay of growth, with a rapid recovery of tourism and an increase in other exports. Growing consumption and investment also fuel GDP growth in 2022
- For 2023, GDP growth is forecast to measure 2.2%, with exports once again the main driver, although growth in exports as well as domestic demand will ease year-on-year
- For 2024, GDP growth is projected at 2.4%. By then, export growth will have eased and consumption and investment will have started picking up again
- External risk factors include the war in Ukraine, the effects of high inflation and rising interest rates on trading partner demand, and the ambiguous outlook for China

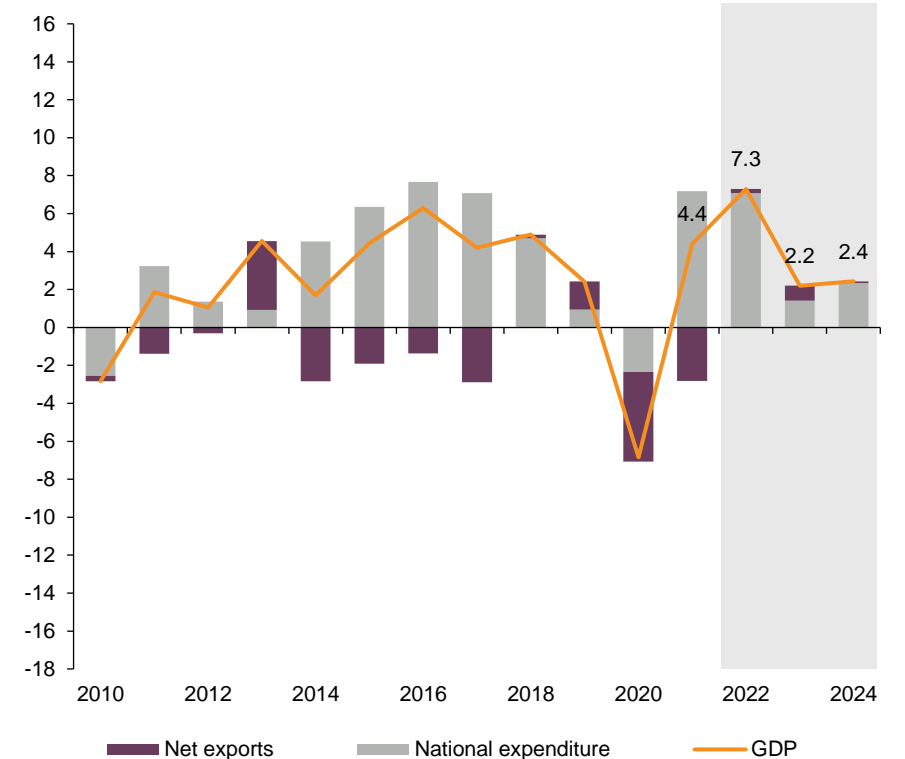
GDP and contribution of its subcomponents

Volume change from prior year (%)



GDP, domestic demand, and external trade

Volume change from prior year (%)





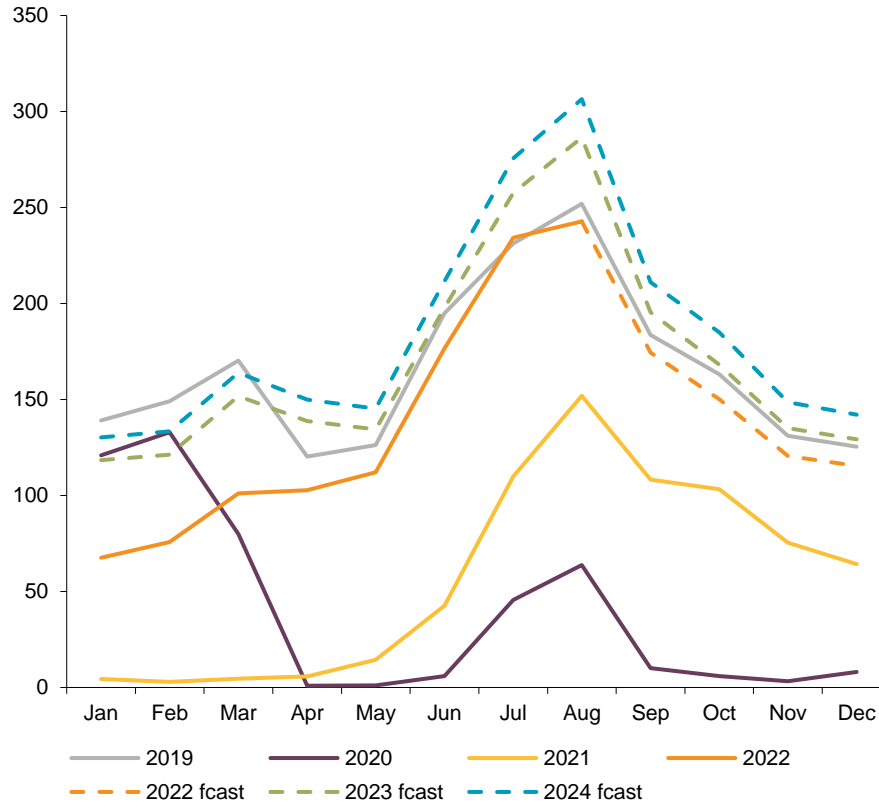
Tourism industry bouncing back after the pandemic

1.7 million tourists expected to visit Iceland in 2022, followed by 2 million in 2023

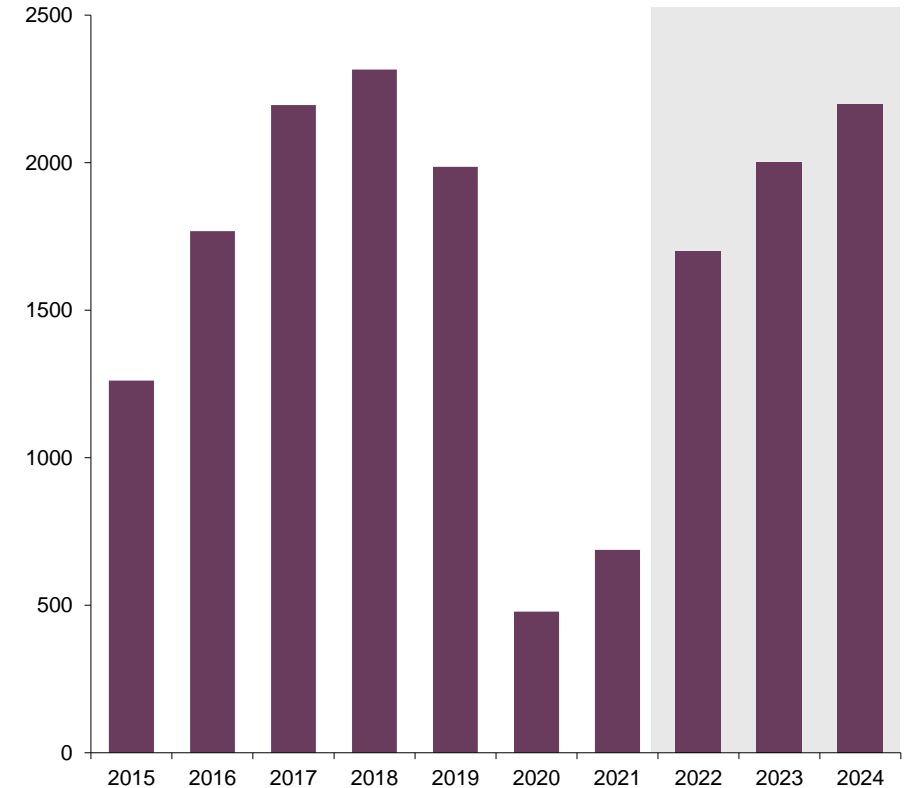
Highlights

- After two punishing years dominated by the pandemic, prospects for the tourism sector have improved rapidly
- Just over 1.1 million tourists visited Iceland in the first eight months of 2022, the largest total for this period since 2019
- The outlook for coming quarters is quite good despite significant near-term uncertainty about matters in the UK and mainland Europe
- ISB Research expects 1.7 million tourists this year, about the same number as in 2016
- Tourist numbers are assumed to rise to 2.0 million in 2023 and 2.2 million in 2024
- The slower increase later in the horizon is due in part to the ambiguous economic outlook on both sides of the Atlantic, as well as to the higher real exchange rate
- The total head count is not the only determinant of revenue generation, either: the length of each visitor's stay and the amount each spends on goods and services while in the country are also important factors which fortunately appear to be on a positive trend in Iceland

Number of foreign tourists, by month thousands



Number of foreign tourists, by year thousands



Sources: Icelandic Tourist Board, ÍSB Research.



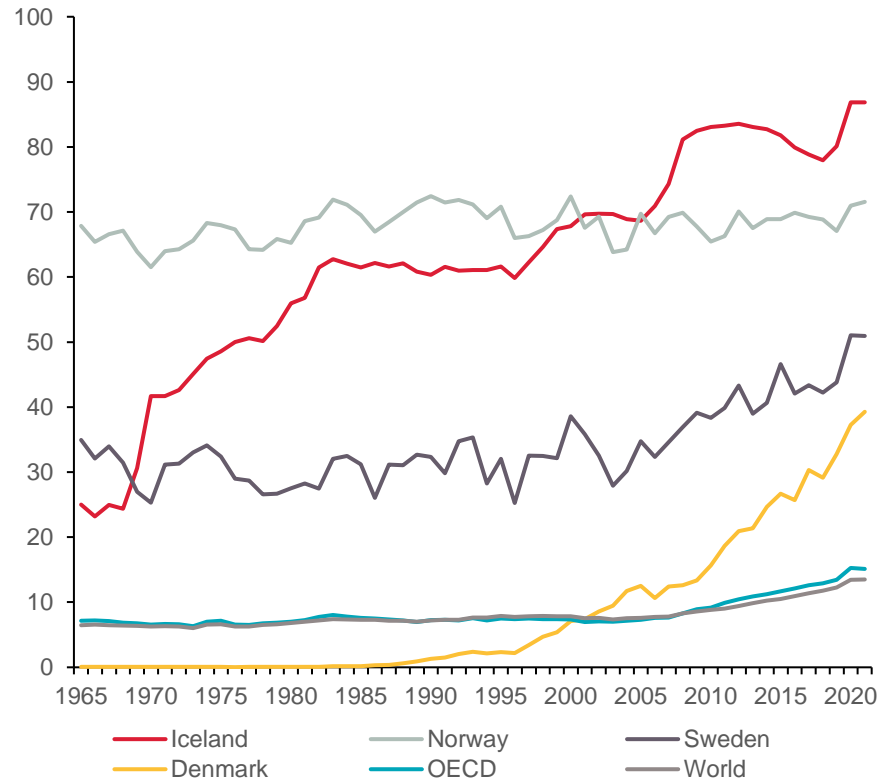
Icelandic economy resilient to European energy crisis

Geothermal heating keeps energy costs at bay

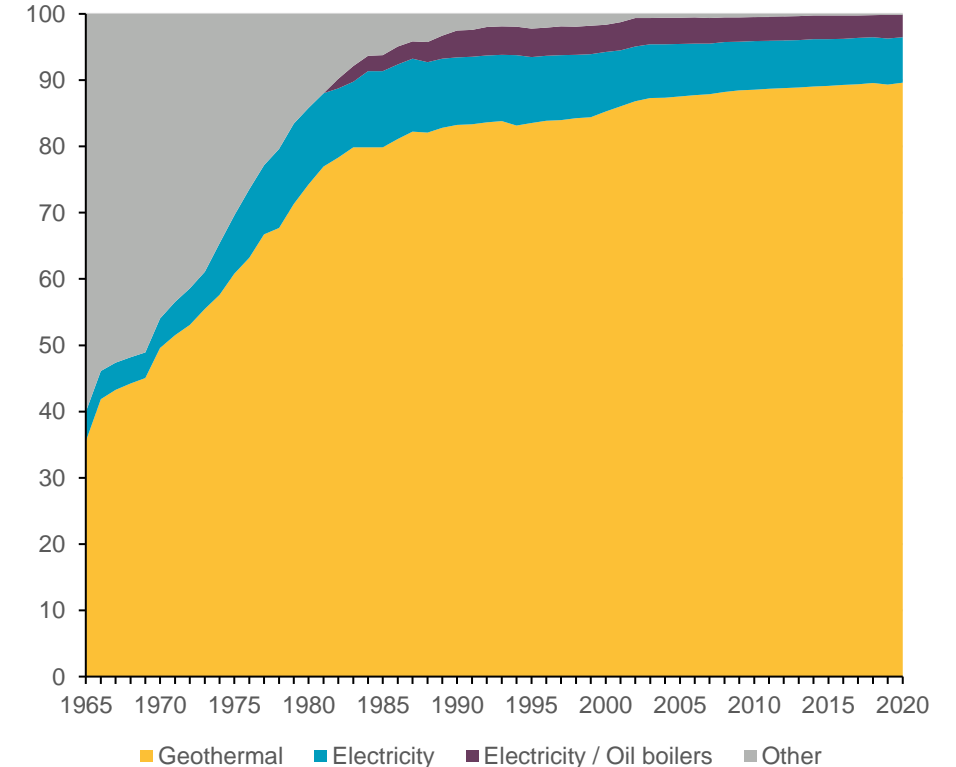
Highlights

- Being a small open economy, the economic impact of the Ukraine war and the resulting energy crisis is felt in Iceland although direct impact on trade is minimal
- However, as a commodity exporting economy with the highest share of renewable energy usage worldwide, Iceland is resilient to the energy crisis and terms-of-trade shock that most other European economies face in the coming winter
- Almost 90% of all housing in Iceland, measured in m³, is heated by geothermal energy and a further 7% is heated by domestically produced electricity
- The cost-of-living shock to European households creates a downward risk to tourism in the coming winter although, so far, the sector has not seen a backlash in demand for coming quarters
- Seafood prices have increased considerably since the onset of the Ukraine war, offsetting the YoY reduction in allowable fish catch for the current season

Share of primary energy from renewable sources % of total



Proportion of energy source in space heating %



27 October 2022



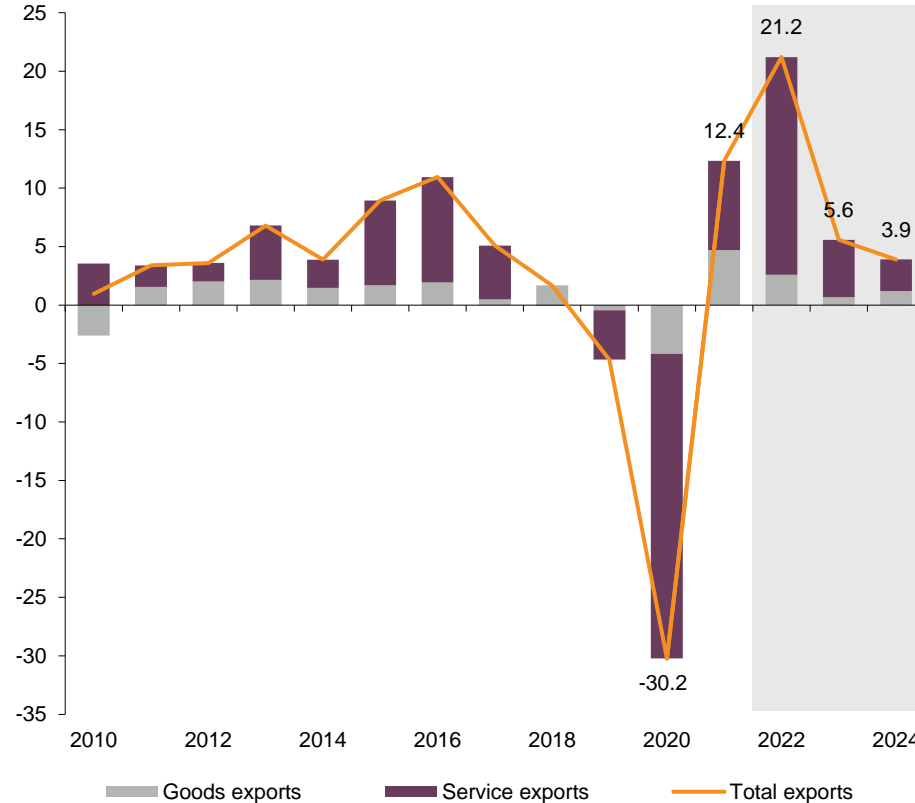
Current account flips from deficit to surplus

Export growth and reduced demand growth push the current account back into positive territory

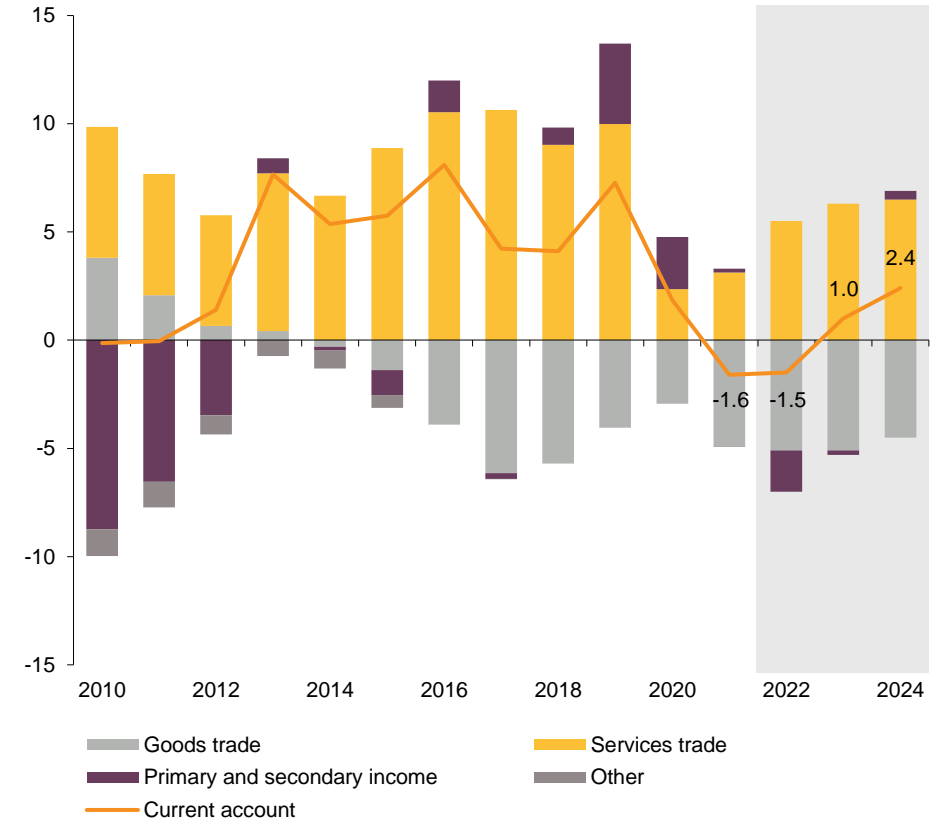
Highlights

- The return of tourism as Iceland's key export sector explains most of the 21% export growth forecasted for 2022 as well as the more moderate growth expected in 2023-2024
- Furthermore, the outlook is for modest growth in goods exports. This is due to booming exports of capelin, farmed fish, and silicon metals as well as a modest increase in exports of aluminium and manufactured goods, offset by a contraction in exports of groundfish, particularly cod
- Last year's ISK 52bn (1.6% of GDP) current account deficit reflects the fact that domestic demand picked up faster than exports in the wake of the pandemic
- Following a sizeable deficit in 1H22, the current account is expected to return to surplus in 2H22
- The current account surplus is expected to measure 1% of GDP in 2023 and 2.4% of GDP in 2024
- Iceland's net external assets currently total just under ¼ of GDP. Headwinds in global securities markets have adversely impacted the external asset position but a recovery is likely in the medium term

Exports and contribution from subcomponents % change



Current account balance and GDP growth % of GDP and % change YoY



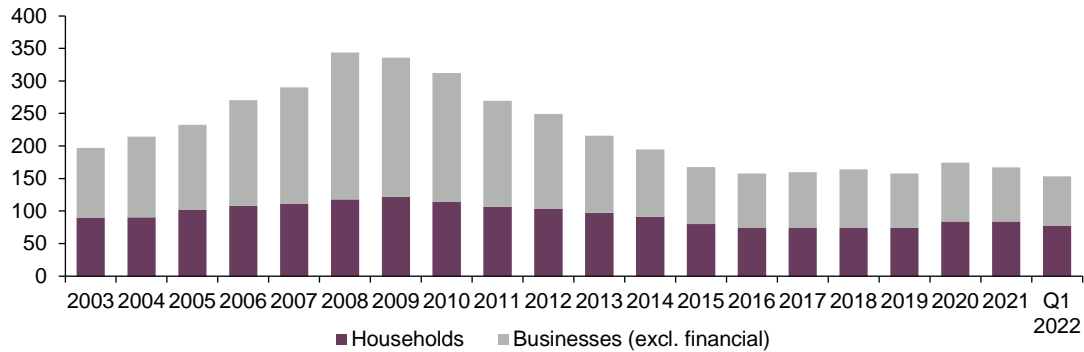
Sources: Statistics Icelandic, Central Bank of Iceland, ÍSB Research.



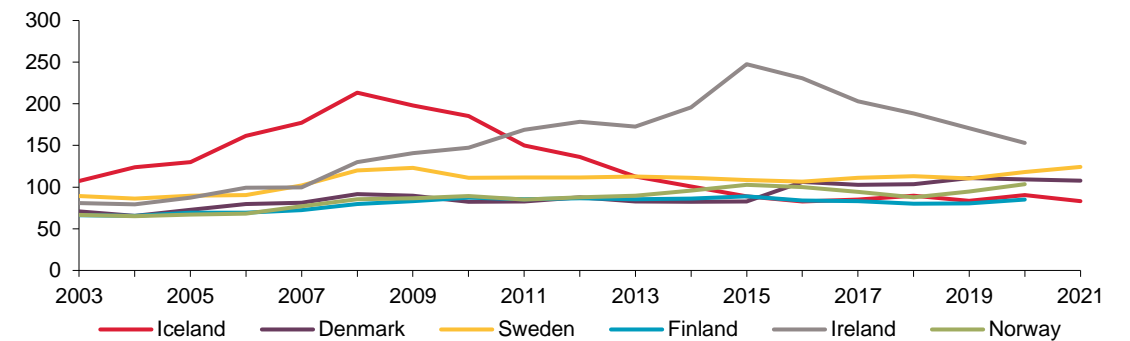
Domestic balance sheets still healthy

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

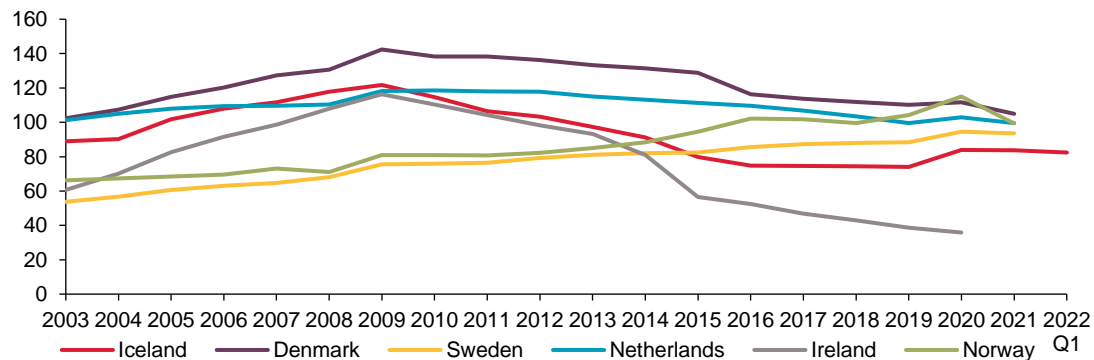
Private sector debt % of GDP



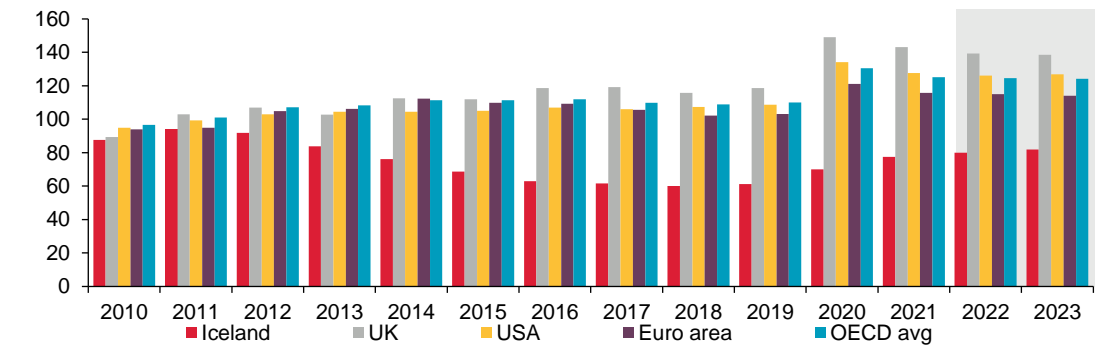
Corporate debt % of GDP



Household debt % of GDP



General government gross financial liabilities % of GDP



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



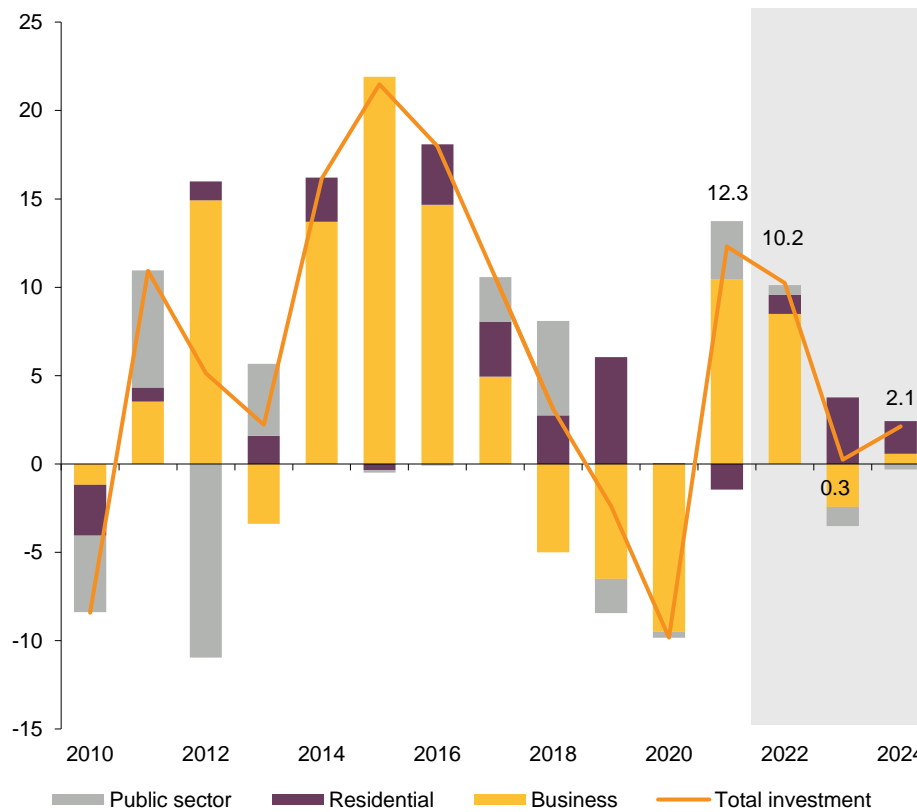
Investment growth strong in 2022 but slower further ahead

Residential investment to take over from business investment as the driver of growth

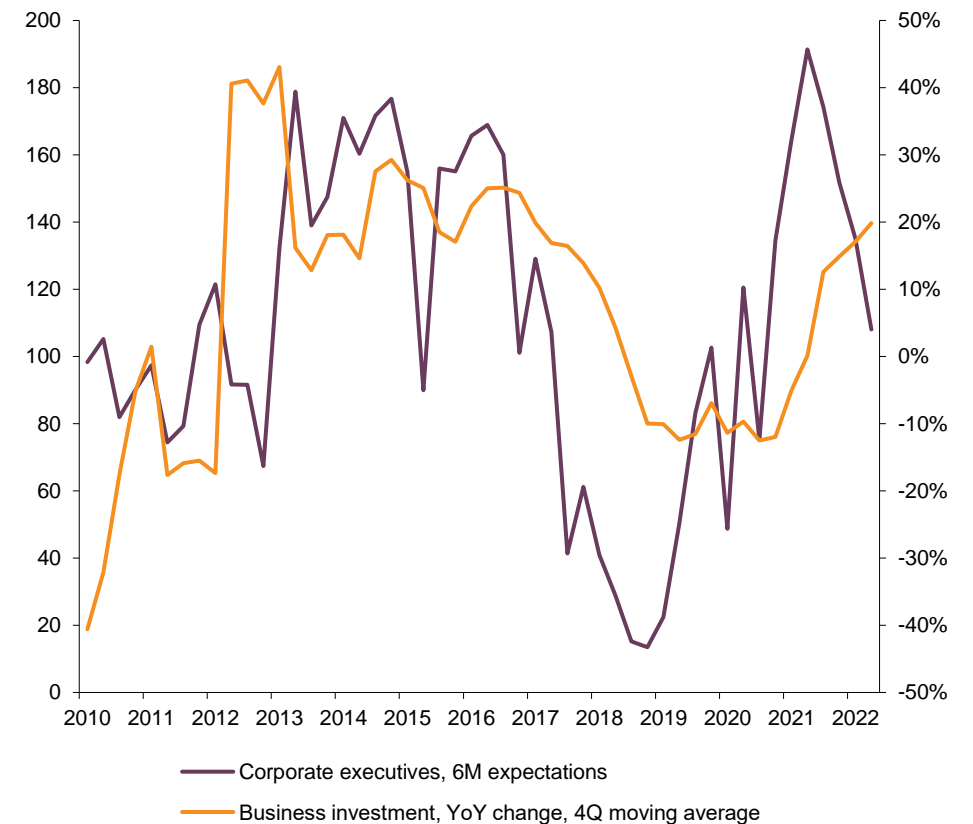
Highlights

- After a two-year contraction, investment spiked in 2021, with growth measuring just over 12%, its fastest pace in five years
- Business investment and public investment grew markedly, while residential investment contracted by over 5%
- Business investment grew by 12% in 1H22, and indicators imply that the trend will continue through the year-end. Residential investment is also picking up after contracting in 1H22, and growth is expected to be positive for the year as a whole.
- In 2023, residential investment will likely be the sole driver of growth, as business investment looks set to contract because of rising interest rates and bleaker expectations about firms' operating environment
- 2024 will probably see moderate growth in private sector investment coupled with a marginal contraction in public investment
- ISB Research forecasts that total investment will grow by over 10% in 2022, remain virtually flat in 2023, and grow by just over 2% in 2024.
- The investment-to-GDP ratio will therefore taper off gradually, although investment will be reasonably strong in historical context

Investment, real change, and contribution of subcomponents %



Executives' expectations and business investment Index value (left) and % change year-on-year (right)



Source: Statistics Iceland, Gallup.



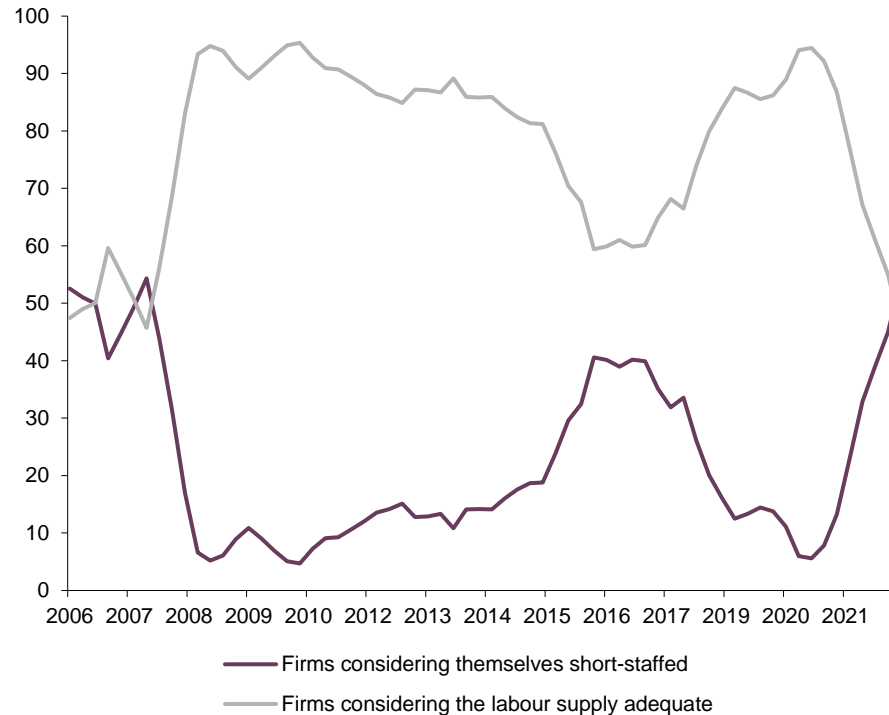
Unemployment back to pre-pandemic level

Worker shortage at its second-highest ever

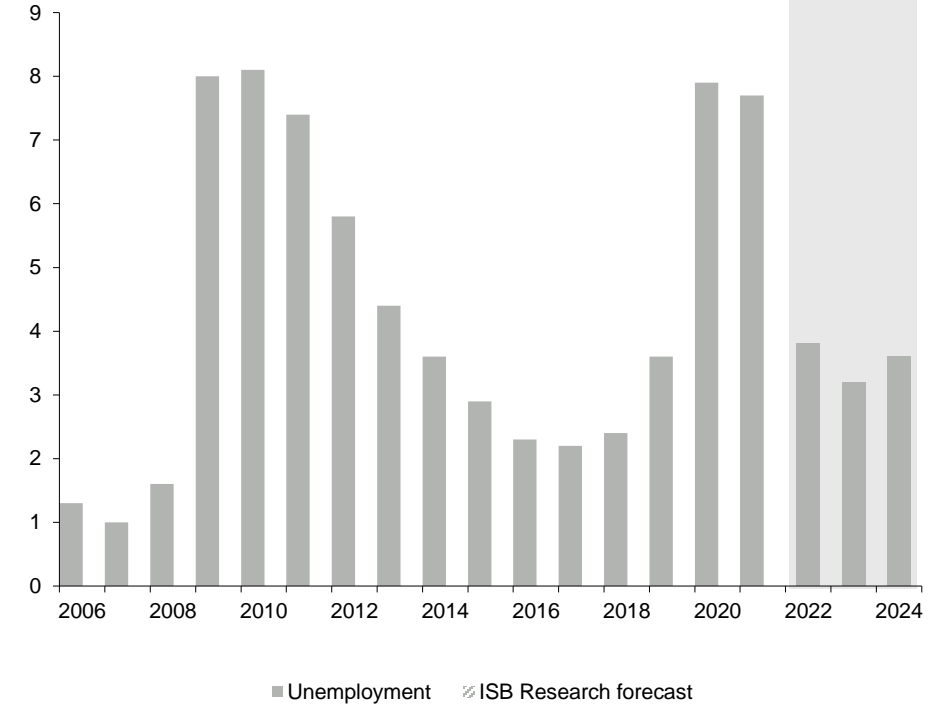
Highlights

- Unemployment has fallen swiftly after peaking in January 2021 as the relatively swift economic recovery in 2021 has fostered job growth
- Registered unemployment measures 3.1% in August 2022 and is now roughly where it was before airline WOW AIR folded in early 2019
- ISB Research forecasts average year-2022 unemployment at 3.8%
- According to a recent Gallup survey, 54% of company executives consider themselves short-staffed
- Construction and tourism companies in particular envision adding on staff
- As foreign workers have been prominent in these sectors, labour importation is likely to increase markedly this year
- Unemployment is already at its historical average, and we expect it to remain broadly at that level throughout the forecast horizon. We forecast average unemployment at 3.2% in 2023 and 3.6% in 2024

Labour supply according to corporate executives %



Unemployment¹ % of workforce, annual average



1. Excluding recipients of part-time unemployment benefits. Source: Statistics Iceland, The Central Bank of Iceland, Gallup.



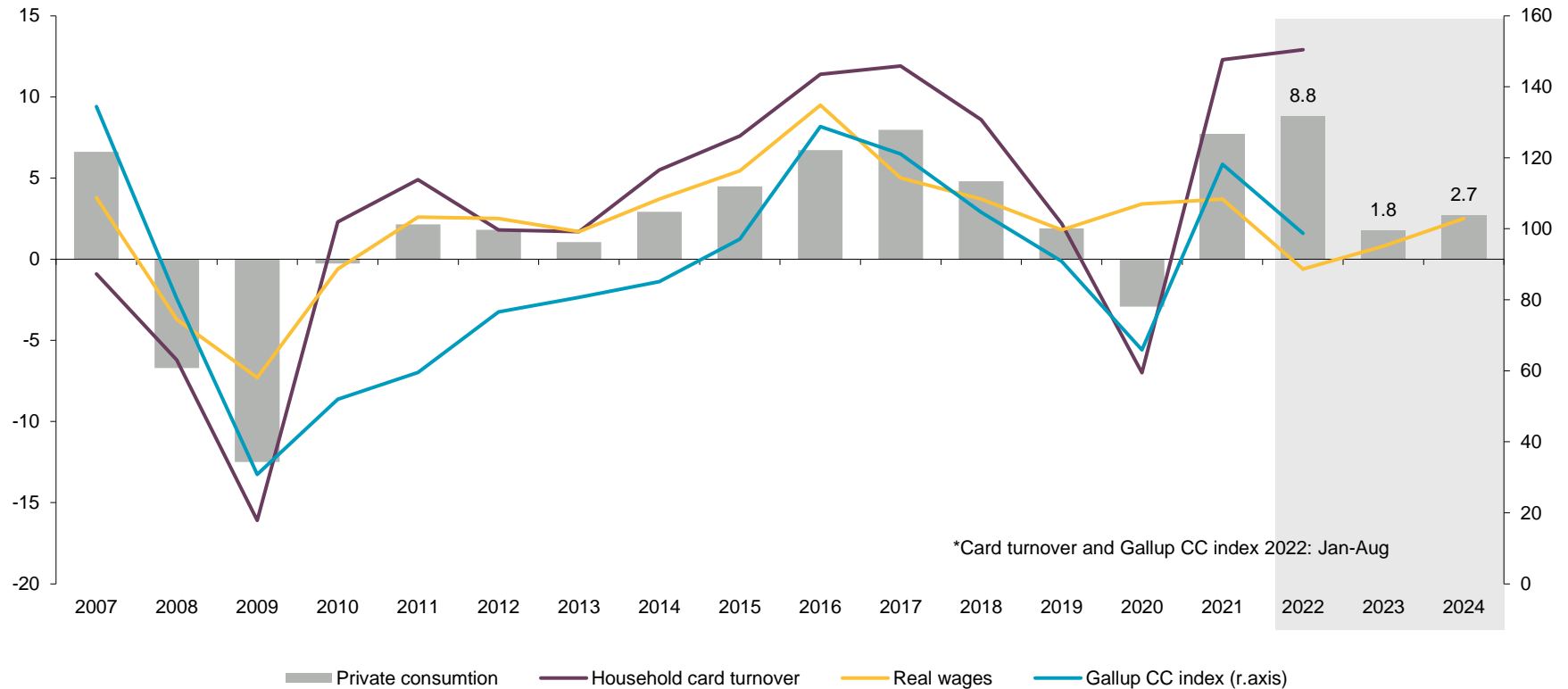
Private consumption growth eases after rising steeply

Erosion of real wages will cut a hefty slice out of private consumption growth in the near term

Highlights

- Private consumption has rebounded strongly after plummeting at the beginning of the pandemic. In 2021 it grew by 7.7% YoY in real terms and was above 2019 level
- In 1H22 private consumption grew by an even more rapid 11%, including 13.5% in 2Q22, the swiftest pace seen in 17 years
- Payment card turnover for July and August suggest robust growth in 3Q22 as well. As yet, there are no signs that erosion of real wages has affected private consumption growth
- Real wages have indeed begun to deteriorate. In July, they fell YoY for the second month in a row, after a continuous growth spurt dating back to 2010
- This trend is likely to continue in the near term – or at least until inflation truly loses steam. We forecast the real wages will deteriorate by 0.6% in 2022, but then grow by 1.0% in 2023 and 2.5% in 2024
- Given how strongly private consumption has grown in the recent term, a slowdown is inevitable, and we expect it to start as soon as 4Q22
- We project year-2022 private consumption growth at 8.8%. For the next year, we expect a growth rate of 1.8% and 2.7% in 2024 as inflation eases and real wage growth gains pace.

Private consumption and related indicators* % change year-on-year (left) and index value (right)



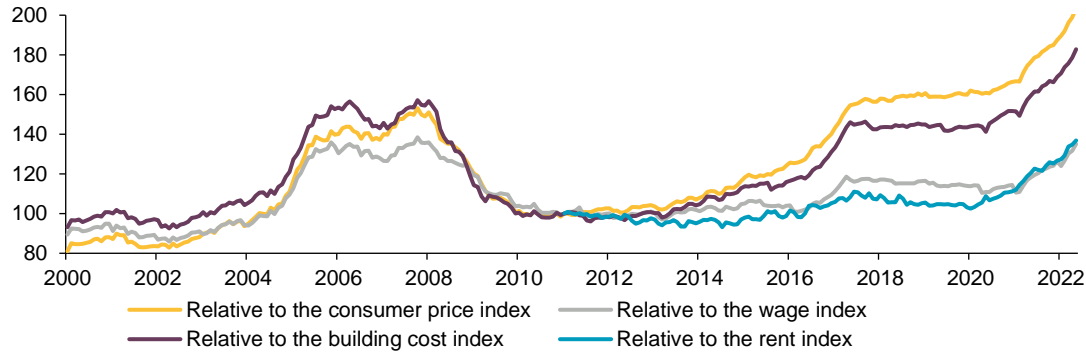


The housing market has begun to turn around

Central Bank measures appear to be achieving the intended result

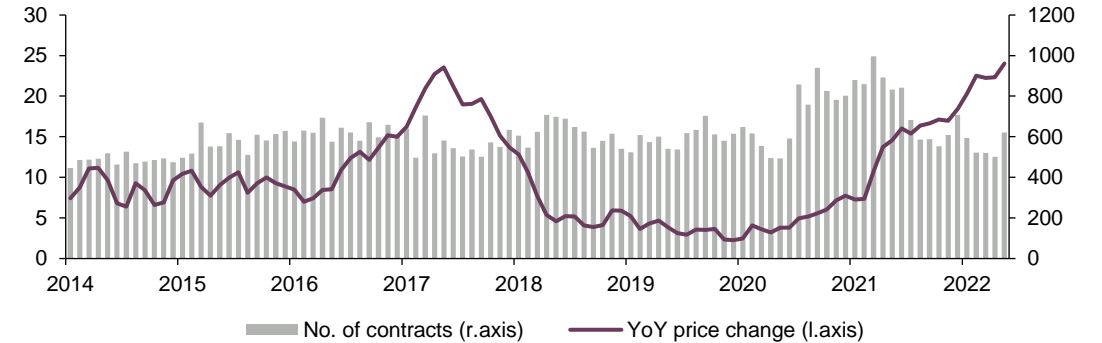
Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



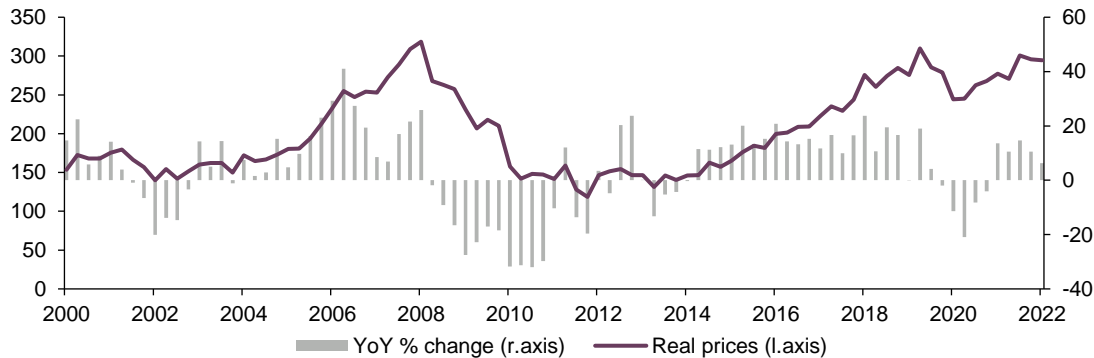
Residential house prices and turnover in greater Reykjavik

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



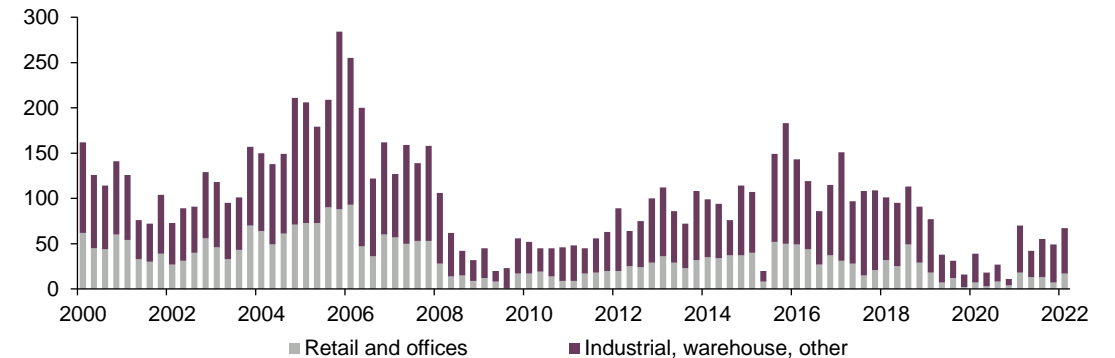
Commercial property real prices in greater Reykjavik

Index, 1995=100 (l.axis) and % change (r.axis)



Commercial real estate market activity

No. of registered purchase agreements





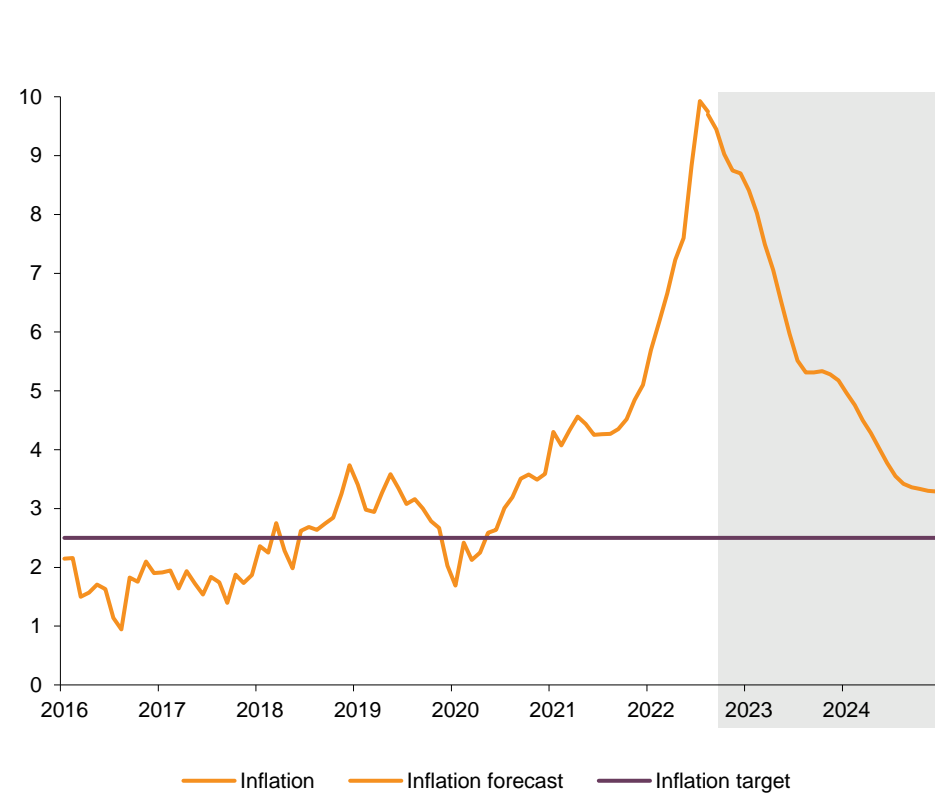
Inflation has peaked

Inflation set to subside rather quickly in the coming term

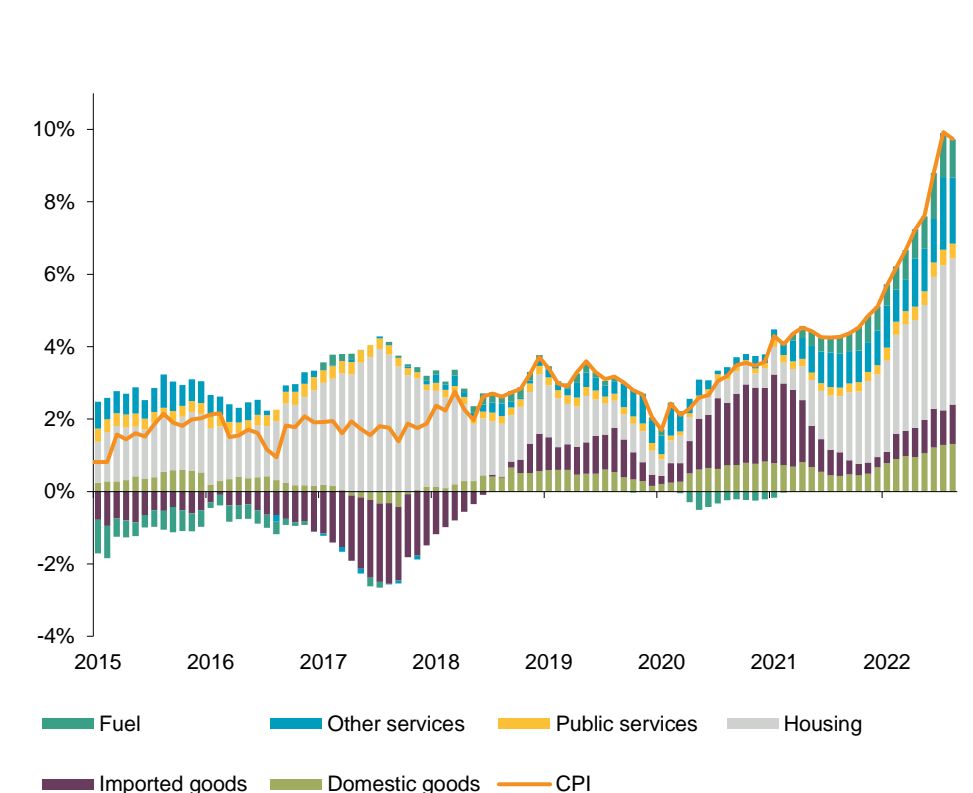
Highlights

- Inflation has risen sharply in the recent term. It peaked in July at 9.9%, its highest in nearly 13 years
- Inflation eased to 9.3% in September and looks set to keep falling. ISB Research expect it to fall rather quickly in the near future
- The main reasons inflation is likely to fall in the near future are that housing market has started cooling rather quickly and imported inflation looks set to be somewhere lower
- There is long road ahead, and considerable ground to cover before it reaches the CBI's 2.5% target
- ISB Research expect inflation to average 8.1% in 2022, 6.2% in 2023, and 3.9% in 2024. Thus it will not align with the target during the forecast horizon
- The main assumptions underlying our forecast are a calm housing market, a slowdown in imported inflation, and an ISK appreciation strong enough to contain import prices
- A key uncertainty in our forecast is the upcoming round of wage negotiations

Inflation and the CBI inflation target



Inflation by contribution of main categories





Monetary tightening phase probably well advanced

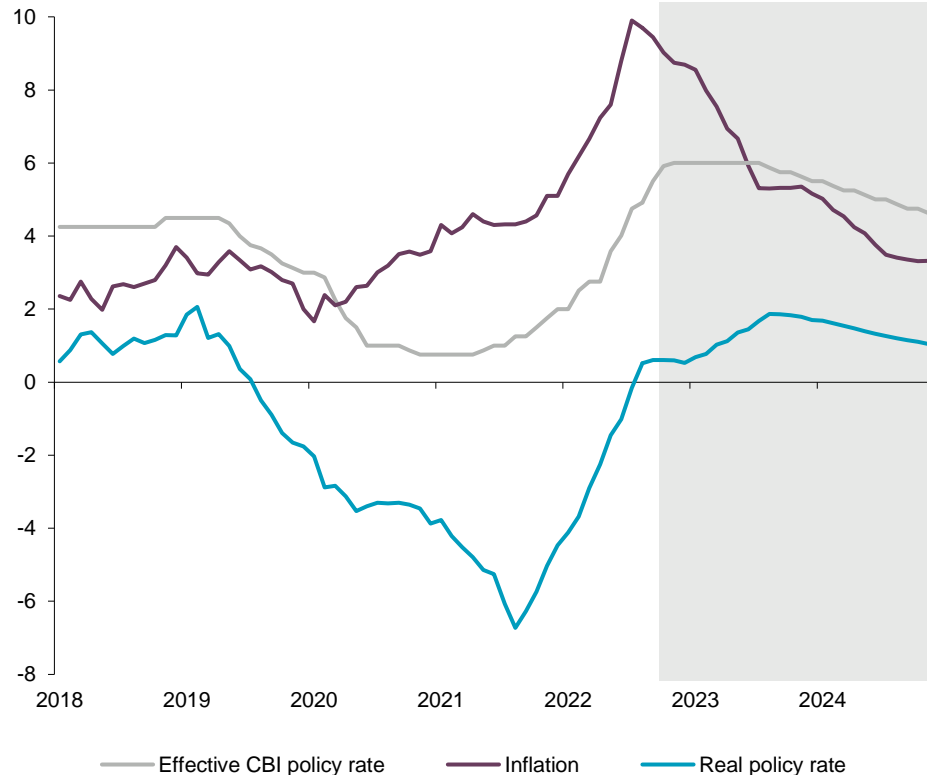
Gradual easing further ahead; equilibrium rate in sight by the end of the horizon

Highlights

- The CBI began raising interest rates in spring 2021, in response to the worsening inflation outlook and improving economic outlook. The policy rate is now 5.5%, after being raised by 3.5 percentage points in 2022 to date
- The real policy rate is still low by all measures, however, and negative by some of them
- Further rate hikes are expected in 4Q22, so as to rein inflation in, keep inflation expectations under wraps, and push the real policy rate higher
- Inflation and inflation expectations have eased since the CBI's last interest rate decision, however
- ISB Research predicts that the policy rate will peak at 6% by end-2022 before declining gradually from 2H23 onwards
- Long term nominal rates are likely to remain elevated during the policy rate hike cycle, then decrease moderately
- Long term real rates, currently just under the 2% mark, are expected to decline gradually as the economy cools and inflation subsides

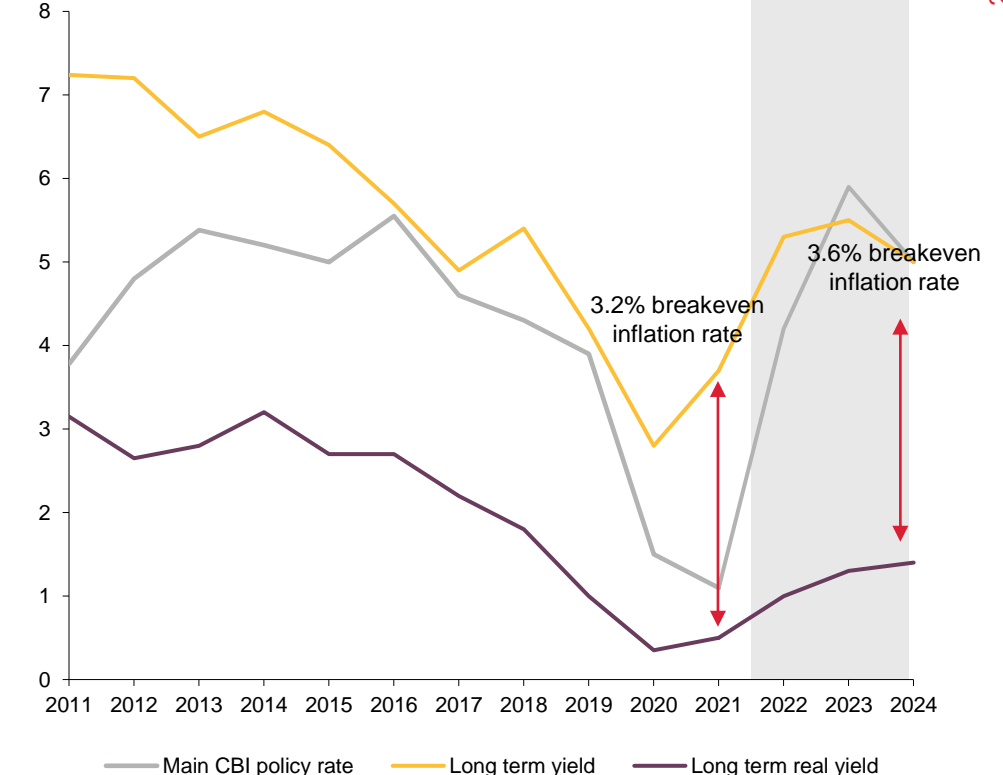
Policy rate and inflation

%, Real policy rate in terms of average expected policy rate and inflation over the coming 12 months



Interest rates

%





ISK set to strengthen further in the coming term

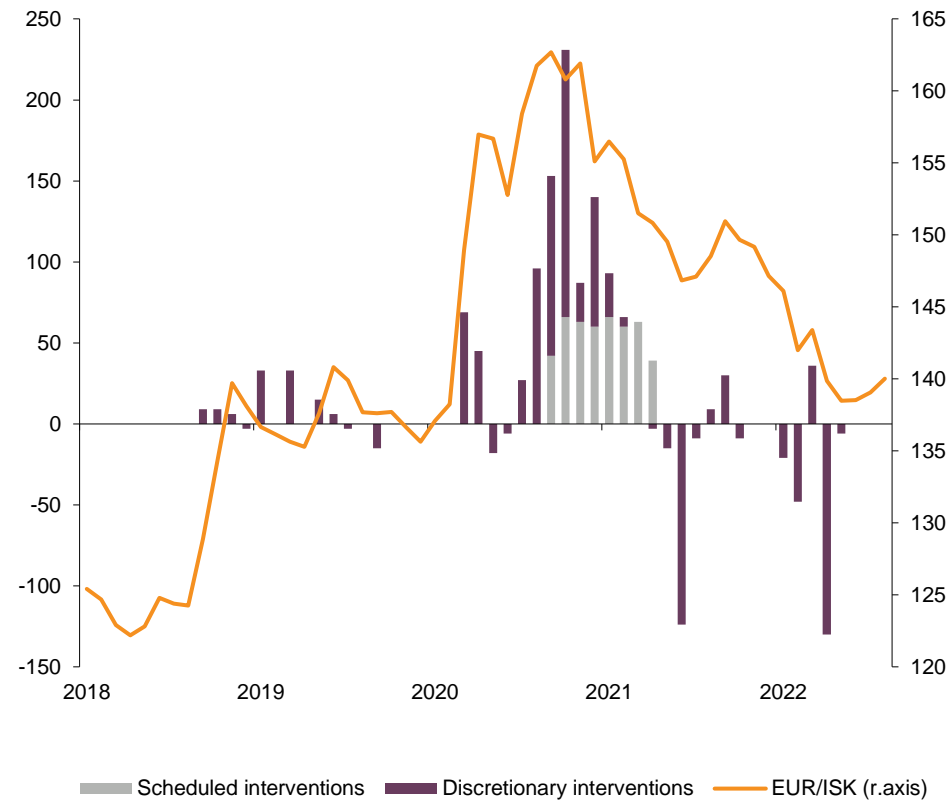
More favourable CA balance and investment inflows offset pension funds' foreign investments

Highlights

- Following nearly 3% appreciation in 2021, the ISK continued to strengthen in trade-weighted terms by just over 7% over the first five months of 2022
- However, in June through August it depreciated by 5%
- Increased position-taking with the ISK via forward contracts probably played a role in the appreciation early in the year despite the hefty current account deficit
- Consequently, part of the appreciation that would otherwise accompany FX inflows later this year has already materialised
- The near-term outlook for the current account has dimmed somewhat recently and the tailwinds supporting the ISK will probably be weaker in the coming term than previously anticipated
- Even so, a current account surplus is in the cards further ahead and a positive interest rate differential, strong external position, relatively favourable growth prospects, and low non-residents' securities holdings should also support the ISK in the medium term
- ISB Research forecasts that the ISK will be some 6% stronger at the end of the forecast horizon than at end-August 2022. The real exchange rate in terms of relative consumer prices will then be broadly as in 2018-2019

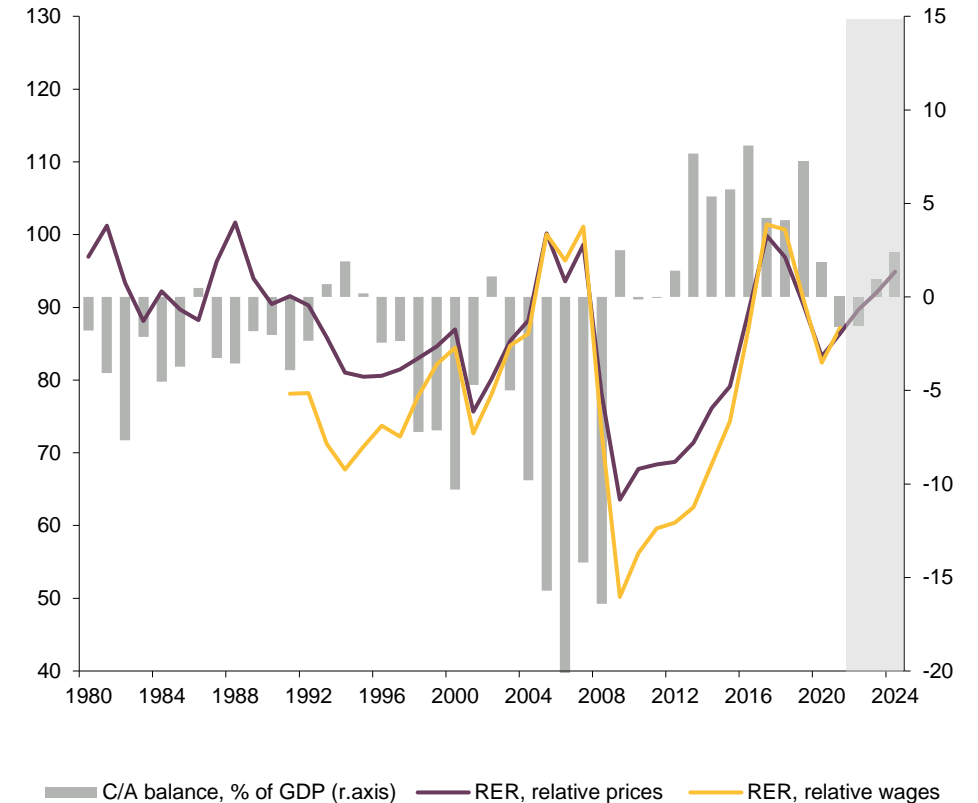
ISK exchange rate and CBI FX market intervention

EUR m (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP



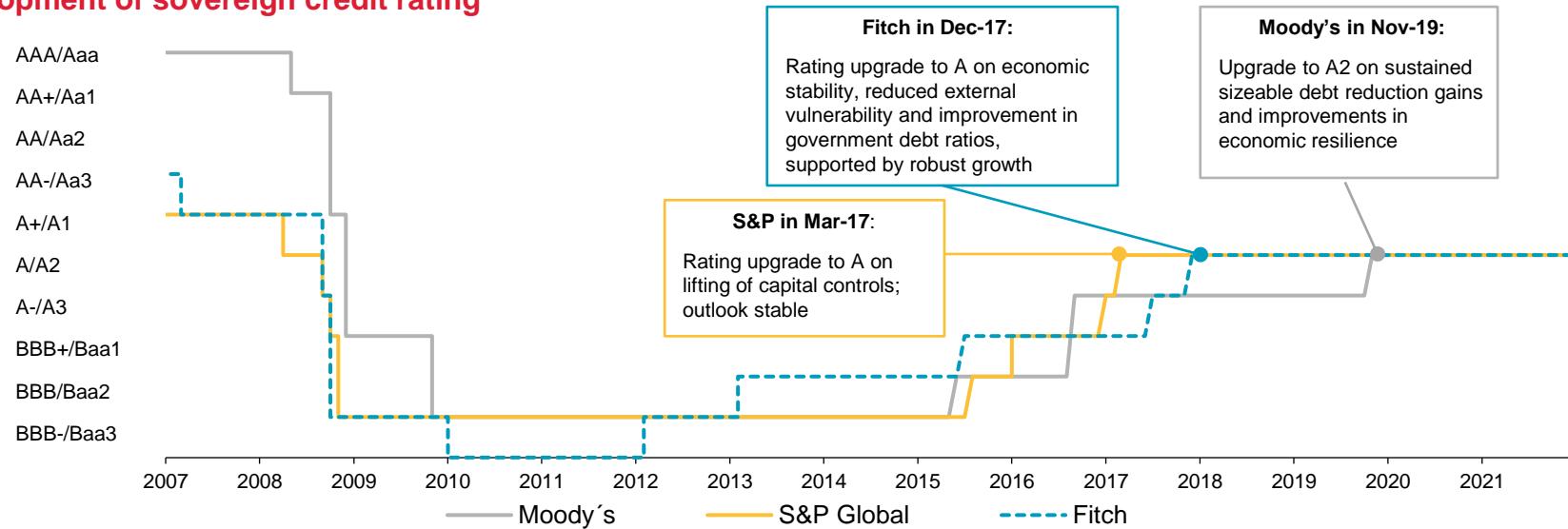
Source: Statistics Iceland, The Central Bank of Iceland, ISB Research.



Iceland's credit rating has remained at A

Rating companies acknowledge the flexibility of the economy and resilience to the pandemic shock

Development of sovereign credit rating



MOODY'S IN AUGUST 2021

- "The credit profile of Iceland is supported by its wealthy and flexible economy with favourable demographics that support its long-term growth prospects. Current-account surpluses have contributed to a net external creditor position and large foreign-currency reserves."
- "The credit profile is mainly constrained by the economy's small size and concentration in a limited number of sectors, which increase its vulnerability to shocks and cause volatility in growth."

FITCH IN APRIL 2022

- Rating affirmed at A with a stable outlook
- "Iceland's 'A' rating is driven by its very high income per capita, very strong governance, human development and doing business indicators that are more consistent with those of 'AAA' and 'AA' rated countries"
- "The revision of the Outlook to Stable reflects the resilience shown by the Icelandic economy to the pandemic shock and Fitch Ratings' expectation of a sustained growth recovery, which should facilitate a fiscal deficit and debt reduction over time."

S&P IN MAY 2022

- "The stable outlook indicates S&P's expectation that Iceland's economy will continue to recover and remain relatively unaffected by the war in Ukraine."
- "The agency believes fiscal deficits will continue to decrease over the next few years, stabilising the debt to GDP ratio net of liquid assets."
- "At the same time, ample foreign reserves will enable the CBI to deal with external pressures or exchange-rate volatility, should they occur."

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



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