Press Release

# Fourth Quarter 2022 and Full Year 2022 Results

Íslandsbanki hf.

9 February 2023

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

Fourth quarter 2022 (4Q22) financial highlights – Strong financial results in a volatile market environment

- Íslandsbanki reported a profit of ISK 6.0bn in the fourth quarter (4Q21: ISK 7.1bn), generating an annualised return on equity (ROE) of 11.1% (4Q21: 14.2%), which is above the Bank's financial targets. The main driver for the good performance was strong income generation, offsetting an increase in costs.
- Net interest income (NII) grew by 42.9% YoY and totalled ISK 12.3bn in 4Q22, compared to ISK 8.6bn in 4Q21, owing mainly to the higher interest rate environment and growth in both loans and deposits from customers in recent quarters. The net interest margin was 3.1% in 4Q22, compared to 2.4% in 4Q21.
- Net fee and commission income (NFCI) grew 10.5% YoY and amounted to ISK 4.0bn in 4Q22, compared to ISK 3.7bn in 4Q21. Fee income from Allianz Ísland hf., a subsidiary of the Bank, and fees from cards and payment processing are the primary drivers of the increase.
- The Bank focuses on core banking operations, with NII and NFCI accounting for 102% of total operating income in 4Q22, compared to 93.7% in 4Q21. These two items combined grew by 33.3% from 4Q21 to 4Q22.
- Net financial expense was ISK 899m in 4Q22, compared to net financial income of ISK 646m in 4Q21, mainly owing to fluctuations in interest rates in both Icelandic krona and foreign currencies.
- Administrative expenses were ISK 6.8bn in 4Q22 compared to ISK 5.8bn in 4Q21, an increase of 18.2% YoY. The rise is mainly explained by inflation, wage increases and a provision relating to an administrative fine.
- The cost-to-income ratio was 42.5% in 4Q22, below the Bank's financial target, down from 45.3% in 4Q21, due to strong revenue generation.
- The net impairment of ISK 0.6bn in 4Q22 is due to increased inflation and its potential impact on credit quality. This is compared to a positive impairment of ISK 0.6bn in 4Q21. The net impairment charge as a share of loans to customers, the annualised cost of risk, was +22bp in 4Q22, compared to -23bp in 4Q21.
- Loans to customers grew by ISK 33.6bn in the quarter, or by 2.9% to ISK 1,186bn.
- Deposits from customers grew by ISK 8.3bn, or 1.1%, during the quarter, up to ISK 790bn. The increase did primarily come from Corporate & Investment Banking and Personal Banking.
- The capital and liquidity position of the Bank remains robust with all ratios well above both internal targets and regulatory requirements.

2022 (FY22) financial highlights – Growth in core income key driver in a strong result

- The Bank's net profit for 2022 was ISK 24.5bn (2021: ISK 23.7bn) with annualised return on equity for 2022 of 11.8% compared to 12.3% in 2021.
- Net interest income totalled ISK 43.1bn in 2022, an increase of 26.7% YoY, explained by growth in loans to customers and deposits from customers and a higher interest rate environment. The net interest margin was 2.9% in 2022, compared to 2.4% in 2021.
- Net fee and commission income (NFCI) grew 9.4% YoY and amounted to ISK 14.1bn in 2022, compared to ISK 12.9bn in 2021. Rise in fee income from cards and payment processing, strong performance in Allianz Ísland hf. together with good activity in FX brokerage were the primary drivers of the increase.
- Net financial expense was ISK 1,257m in 2022 compared to income of ISK 2,499 for 2021, due to volatility in capital markets and a rising rates environment.
- Administrative expenses were ISK 23.9bn in 2022 compared to ISK 23.2bn in 2021, an increase of 3.1% YoY and a reduction by 4.8% in real terms.
- Cost-to-income ratio dropped YoY from 46.2% in 2021 to 42.1% in 2022.

- Net impairment on financial assets was positive and amounted to ISK 1,576m in 2022 (2021: ISK 3,018m), mainly due to a more positive outlook for the tourism industry along with the results of a court ruling regarding a fully impaired loan and outweighing the negative impact from increased inflation and international economic volatility. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -14bp in 2022, compared to -28bp in 2021.
- Total equity at year-end 2022 amounted to ISK 218.9bn compared to ISK 203.7bn at year-end 2021. In 2022, Íslandsbanki paid ISK 11.9bn in dividends to shareholders. The Bank's total capital ratio was 22.2% at year-end, compared to 25.3% at year-end 2021. The corresponding CET1 ratio was 18.8%, compared to 21.3% at year-end 2021. This is considerably above the Bank´s long-term CET1 target of ~16.5%.
- The Bank's MREL-requirement is 21.2% of the total risk exposure amount (TREA). The MREL-requirement including combined buffer requirements was 30.5% at year-end 2022, the Bank's ratio was 34.5% at year-end 2022.

## Capital optimisation, dividend and buyback of own shares

- The Board of Directors will be proposing an ISK 12.3bn ordinary dividend to the Bank´s Annual General meeting (AGM), in line with the Bank's dividend policy.
- The capital ratios take into account the previously planned share buyback of ISK 15bn. The Bank has seen a profitable growth in loans to customers during 2022 which exceeded initial plans and sees further opportunities to grow its loan portfolio. Furthermore, due to volatility in the global economy and capital markets, the Central Bank of Iceland has asked the Icelandic banks to be careful in terms of capital distributions in the near term. The Bank is therefore planning to start its share buybacks with a standard ISK 5 billion buyback program, to be conducted over the next few months and will make any required announcements to the market in due course. The remaining ISK 10 billion will be added back to the Bank's capital buffers and will result in a 100bps increase in the Bank's capital ratios. The Bank will seek a renewed approval for share buybacks from the Bank's AGM in March and is planning to optimise its capital structure before year-end 2024.

## Key figures and ratios

| | | 4Q22 | 4Q21 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| **PROFITABILITY** | Profit for the period, ISKm | **5,982** | 7,092 | **24,535** | 23,725 | 6,755 |
| | Return on equity | **11.1%** | 14.2% | **11.8%** | 12.3% | 3.7% |
| | Net interest margin (of total assets) | **3.1%** | 2.4% | **2.9%** | 2.4% | 2.6% |
| | Cost-to-income ratio[1] | **42.5%** | 45.3% | **42.1%** | 46.2% | 54.3% |
| | Cost of risk[2] | **0.22%** | (0.23%) | **(0.14%)** | (0.28%) | 0.91% |
| | | **31.12.22** | 30.9.22 | 30.6.22 | 31.12.21 | 31.12.20 |
| **BALANCE SHEET** | Loans to customers, ISKm | **1,186,639** | 1,153,047 | 1,153,677 | 1,086,327 | 1,006,717 |
| | Total assets, ISKm | **1,566,235** | 1,548,672 | 1,437,253 | 1,428,821 | 1,344,191 |
| | Risk exposure amount, ISKm | **999,491** | 1,012,986 | 992,883 | 901,646 | 933,521 |
| | Deposits from customers, ISKm | **789,897** | 781,614 | 756,862 | 744,036 | 679,455 |
| | Customer loans to customer deposits ratio | **150%** | 148% | 152% | 146% | 148% |
| | Non-performing loans (NPL) ratio[3] | **1.8%** | 1.7% | 1.8% | 2.0% | 2.9% |
| **LIQUIDITY** | Net stable funding ratio (NSFR), for all currencies | **118%** | 127% | 118% | 122% | 123% |
| | Liquidity coverage ratio (LCR), for all currencies | **205%** | 371% | 147% | 156% | 196% |
| **CAPITAL** | Total equity, ISKm | **218,874** | 211,613 | 203,662 | 203,710 | 186,204 |
| | CET 1 ratio[4] | **18.8%** | 18.2% | 18.2% | 21.3% | 20.1% |
| | Tier 1 ratio[4] | **19.8%** | 19.2% | 19.2% | 22.5% | 20.1% |
| | Total capital ratio[4] | **22.2%** | 21.4% | 21.5% | 25.3% | 23.0% |
| | Leverage ratio[4] | **12.1%** | 11.9% | 12.5% | 13.6% | 13.6% |

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 third quarter profit for 30.9.22.

## Birna Einarsdóttir, CEO of Íslandsbanki

We are pleased with the fourth quarter and full year 2022 results. We participated in many exciting initiatives with our customers and were a force for good.

The fourth quarter net profit amounted to ISK 6.0bn and ISK 24.5bn for the full year 2022 with ROE being 11.8% for the full year. Total operating income rose by more than 14% in 2022 with net interest income up by almost 27% year-on year. The cost-to-income ratio was 42.1%, below our target of 45%. Loan growth was distributed equally between retail and corporate customers and was 9.2% for the full year. Deposits from customers also grew substantially, by 6.2% which further reinforces our main funding source.

Conditions in the international bond markets remained challenging for most of the year. Nonetheless, the Bank successfully issued several transactions in foreign and domestic markets. Among milestones of the year were the Bank´s inaugural issues of covered bonds in euros and of subordinated bonds in Icelandic króna which further diversified the Bank´s funding mix.

We have started a strategic review that seeks to redefine and articulate the Bank's strategic projects for the coming years. Four years have passed since such review was last carried out and we can point to great success in meeting the objectives that it set out. We have retained the consulting firm McKinsey to lead the strategy work.

We are pleased with good results across all business units, all of which are generating good return on equity. We are the market leader among small and medium-sized companies and enjoy the highest market share among the 300 largest companies in the country. This success is extremely important to us as SMEs are the backbone of the Icelandic economy and they have responded vigorously to the recent international economic turbulence.

At the Bank´s AGM in March 2023 we will seek approval to pay out dividend in line with the Bank's dividend policy. The bank will also initiate buyback of its shares. I am excited by the prospects for 2023 and the opportunities to be of further service to our customers and stakeholders.

## Fourth quarter 2022 (4Q22) operational highlights

- Following the Central Bank of Iceland hike to the policy rate in October and November, both by 0.25%, Íslandsbanki made rate changes in response. Floating rates on non-indexed mortgages rose in total by 0.35%. Floating base rate for corporates rose by 0.5%. Deposit account rates were raised by up to 0.5% and current account rates were unchanged. Car loans and overdraft rates similarly rose by 0.5%.
- The second tranche of the reclassification of Iceland to the FTSE Russell's Secondary Emerging market status took place on 15 December 2022. Subsequently, Vanguard is now on Íslandsbanki's top ten shareholder list. The third, and last tranche, will take place in March 2023.
- Íslandsbanki awarded grants to 15 innovation projects. The combined amount of the grants was ISK 40m. The aim of the Íslandsbanki Entrepreneurship Fund is to encourage innovation and development and to support entrepreneurial endeavours that further the four UN Global Goals that the Bank has decided to prioritise.
- The Bank has received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland (FSA)'s inspection into the execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki that took place in March 2022. The findings indicate the FSA's view that the Bank may have violated certain laws applicable to the Bank's operations. The FSA findings refer to the FSA's powers to impose administrative fines and to conclude cases with a settlement. The Bank has requested that the case be concluded with a settlement.

## Operational highlights after the period-end

- Íslandsbanki concluded an offering of covered bonds on 17 January 2023. Total demand amounted to ISK 5,8bn. The total amount sold was ISK 5.0bn.

- On 2 February 2023 the Board of Directors of Kvika banki hf. sent a request to the Board of Directors of the Bank to commence discussion on a merger of the two companies.
- Íslandsbanki published a macroeconomic forecast for 2023 – 2025 on 1 February, available here.
- The Bank was nominated as best brand in Iceland in its category (corporates with over 50 employees).
- On 8 February 2023 the Central Bank announced a rice in its policy rate by 0.5 percentage points, bringing it to 6.5%.

# INCOME STATEMENT

## Net profit increase driven by core income increase,

| Income statement, ISKm | 4Q22 | 4Q21 | Δ% | 3Q22 | Δ% | 2022 | 2021 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Net interest income | **12,348** | 8,644 | 43% | 11,315 | 9% | **43,126** | 34,043 | 27% |
| Net fee and commission income | **4,038** | 3,653 | 11% | 3,517 | 15% | **14,053** | 12,849 | 9% |
| Net financial income (expense) | **(899)** | 646 | - | (471) | 91% | **(1,257)** | 2,499 | (150%) |
| Net foreign exchange gain | **576** | 159 | 262% | 64 | 800% | **881** | 479 | 84% |
| Other operating income | **-2** | 15 | (113%) | 111 | (102%) | **433** | 302 | 43% |
| **Total operating income** | **16,061** | 13,117 | 22% | 14,536 | 10% | **57,236** | 50,172 | 14% |
| Salaries and related expenses | **(3,718)** | (3,276) | 13% | (2,916) | 28% | **(13,452)** | (13,397) | 0% |
| Other operating expenses | **(3,100)** | (2,492) | 24% | (2,357) | 32% | **(10,466)** | (9,799) | 7% |
| **Administrative expenses** | **(6,818)** | (5,768) | 18% | (5,273) | 29% | **(23,918)** | (23,196) | 3% |
| Contribution to the Depositor's and Investors' Guarantee Fund | **-** | (170) | (100%) | - | - | **(165)** | (688) | (76%) |
| Bank tax | **(481)** | (389) | 24% | (535) | (10%) | **(1,858)** | (1,683) | 10% |
| **Total operating expenses** | **(7,299)** | (6,327) | 15% | (5,808) | 26% | **(25,941)** | (25,567) | 1% |
| Net impairment on financial assets | **(647)** | 639 | (201%) | 1,165 | (156%) | **1,576** | 3,018 | (48%) |
| **Profit before tax** | **8,115** | 7,429 | 9% | 9,893 | (18%) | **32,871** | 27,623 | 19% |
| Income tax expense | **(2,166)** | (1,416) | 53% | (2,525) | (14%) | **(8,485)** | (5,119) | 66% |
| **Profit for the period from continuing operations** | **5,949** | 6,013 | (1%) | 7,368 | (19%) | **24,386** | 22,504 | 8% |
| Discontinued operations held for sale, net of income tax | **33** | 1,079 | (97%) | 118 | (72%) | **149** | 1,221 | (88%) |
| **Profit (loss) for the period** | **5,982** | 7,092 | (16%) | 7,486 | (20%) | **24,535** | 23,725 | 3% |
| **Key ratios** | | | | | | | | |
| Net Interest Margin (NIM) | **3.1%** | 2.4% | | 3.0% | | **2.9%** | 2.4% | |
| Cost-to-income ratio (C/I) | **42.5%** | 45.3% | | 36.3% | | **42.1%** | 46.2% | |
| Return on Equity (ROE) | **11.1%** | 14.2% | | 14.4% | | **11.8%** | 12.3% | |
| Cost of risk (COR) | **0.22%** | (0.23%) | | (0.40%) | | **(0.14%)** | (0.28%) | |

## Growth in core income key driver in a strong result

- Net interest income (NII) rose mainly as a result of a larger balance sheet and higher interest rate environment. The average CB policy rate was 5.9% in 4Q22, as compared to 1.7% in 4Q21.
- Net interest margin (NIM) on total assets was 3.1% in 4Q22 (2.4% in 4Q21) and 2.9% for 2022 (2021: 2.4%). Lending margin was 1.8% in 4Q22 (2.1% in 4Q21) while deposit margin was 2.1% in 4Q22 (1.4% in 4Q21).
- The rise in net fee and commission income (NFCI) by 10.5% YoY in 4Q22 stems from several sources. Fee income from Allianz Ísland hf., a subsidiary, and fees from cards and payment processing are the primary drivers of the increase in the fourth quarter.
- Total core income (NII and NFCI) was up by 33.3% YoY in 4Q22.
- The largest change in net financial expense in the quarter is a loss in NFI which is largely due to a volatile market environment and reclassification of prior gains from P&L to OCI.

## Low cost-to-income ratio

- Salaries and related expenses increased by 13.5% in 4Q22 compared to 4Q21.
- The YoY increase in other operating expenses of 24.4% in 4Q22 derives from various sources but is mainly explained by a higher inflation, normalisation of travel and other activities after COVID-19, strategic projects and a provision relating to an administrative fine.

- The number of FTEs at the end of 2022, excluding seasonal employees, was 700 (702 at end of 2021) for the parent company and 739 for the Group (735 at end of 2021).
- The cost-to-income ratio was 42.5% in 4Q22, compared to 45.3% in 4Q21.

### Taxes and levies

- The effective tax rate was 26.7% in 4Q22, compared to 19.1% in 4Q21. The effective tax rate for 2022 was 25.8% compared to 18.5% for 2021. The higher effective tax rate in 4Q22 is mainly explained by the tax effect of positive fair value changes in equity shares in 4Q21 compared to negative fair value changes in equity shares in 4Q22. The Bank is subject to the special financial tax of 6% on taxable profits over ISK 1bn, a financial activities tax and social security charges. It also makes contributions to the Central Bank of Iceland Financial Supervisory Authority and the Office of the Debtors' Ombudsman. In line with newly enacted legislation, the Bank will not be charged premiums by the Depositors' and investors' Guarantee Fund after 1Q22. This can however change in the future based on the status of the fund and the size of the deposit system. Total taxes and levies amounted to ISK 3.1bn for the period, compared to ISK 2.3bn for 4Q21.

### Net impairment on financial assets in 4Q22

- The net impairment of ISK 0.6bn in 4Q22 (4Q21: positive net impairment of ISK 0.6bn) is due to less favourable economic environment related to inflation and a few distressed credit cases. Current impairment outlook is relatively benign due to low unemployment and good economic growth outlook.[1]
- The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was +22bp in 4Q22 (-23bp in 4Q21) and -14bp FY22.

[1] Further information can be found in Note 3 of the Bank's Consolidated Financial Statements 2022.

# BALANCE SHEET

## Loans to customers increase in all business segments

| Assets, ISKm | 31.12.22 | 30.9.22 | Δ | Δ% | 31.12.21 | Δ | Δ% |
|---|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | **94,424** | 73,566 | 20,858 | 28% | 113,667 | (19,243) | (17%) |
| Loans to credit institutions | **110,364** | 137,169 | (26,805) | (20%) | 43,988 | 66,376 | 151% |
| Bonds and debt instruments | **130,804** | 127,454 | 3,350 | 3% | 132,289 | (1,485) | (1%) |
| Derivatives | **7,461** | 6,895 | 566 | 8% | 2,445 | 5,016 | 205% |
| Loans to customers | **1,186,639** | 1,153,047 | 33,592 | 3% | 1,086,327 | 100,312 | 9% |
| Shares and equity instruments | **15,868** | 24,472 | (8,604) | (35%) | 31,677 | (15,809) | (50%) |
| Investment in associates | **3,844** | 3,925 | (81) | (2%) | 939 | 2,905 | 309% |
| Property and equipment | **6,752** | 6,760 | (8) | (0%) | 7,010 | (258) | (4%) |
| Intangible assets | **3,279** | 3,282 | (3) | (0%) | 3,351 | (72) | (2%) |
| Other assets | **6,072** | 11,303 | (5,231) | (46%) | 5,784 | 288 | 5% |
| Non-current assets and disposal groups held for sale | **728** | 799 | (71) | (9%) | 1,344 | (616) | (46%) |
| **Total Assets** | **1,566,235** | 1,548,672 | 17,563 | 1% | 1,428,821 | 137,414 | 10% |
| **Key ratios** | | | | | | | |
| Risk Exposure Amount (REA) | **999,491** | 1,012,986 | (13,495) | (1.3%) | 901,646 | 97,845 | 10.9% |
| Non-performing loans (NPL) ratio[1] | **1.8%** | 1.7% | | | 2.0% | | |

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

## Loans to customers continue to rise and the portfolio remains well diversified and highly collateralised

– Loans to customers grew by 2.9% in the fourth quarter and 9.2% during the year. Mortgages increased by ISK 4.6bn during the quarter and at the end of December accounted for 43% of loans to customers. Loans to corporates rose by ISK 27.1bn during the quarter. Personal Banking saw an increase of ISK 5.4bn, Business Banking growth of ISK 9.1bn, and Corporate & Investment Banking an increase of ISK 18.2bn.

– Loans to customers are generally well covered by stable collateral, the majority of which is in residential and commercial real estate, while the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 58% at the end of 4Q22 (63% at YE21) and the LTV for the residential mortgage portfolio at the end of 4Q22 was 60% (66% at YE21). The lower LTV is mostly explained by updated official real estate 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.

– Variable NIL mortgages rates have risen by 3.95% since year-end 2021 and are not expected to rise much further. The Bank tests the resilience to higher rates and sensitivity analysis does not indicate any need for additional impairment despite higher debt-service.

– In 2024 and 2025 a substantial part of the non-index linked, fixed rate mortgages have an interest rate reset. According to Íslandsbanki's macroeconomic forecast, published on 1 February, the policy rate is expected to start to fall again in 4Q23 with a gradual easing towards the equilibrium real rate, probably around 1-1.5%. The nominal policy rate could therefore be around 4.0% at the end of the forecast horizon in 2025, lower than the year-end 2022 6.0% policy rate.

– The Bank's liquid assets are represented in four line-items - cash and balances with Central Bank, loans to credit institutions, bonds and debt instruments and shares and equity instruments - and of the total of ISK 351bn for those line items at the end of 2022liquid assets amounted to ISK 312bn.

– The Bank's asset encumbrance ratio was 26.5% at the end of 4Q22, compared with 19.6% at YE21.

## High asset quality

- At the end of 4Q22, 3.8% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 5.3% at the end of 3Q22 and down from 8.5% from year-end 2021.
- At the end of the 4Q22, the share of credit-impaired loans to customers, Stage 3, was 1.8% (gross), up from 1.7% at the end of 3Q22. For the mortgage portfolio, the share was 0.7% at end of 4Q22 (0.7% at end of 3Q22).
- Loans to customers in Stage 2 was 2.5% at year-end 2022, down from 4.4% at the end of 3Q22. For the mortgage portfolio the share of loans in Stage 2 was 0.8% at the end of 4Q22, unchanged from the end of 2Q22.

## Liabilities – strong capital and liquidity ratios combined with low leverage

| Liabilities & Equity, ISKm | 31.12.22 | 30.9.22 | Δ | Δ% | 31.12.21 | Δ | Δ% |
|---|---|---|---|---|---|---|---|
| Deposits from Central Bank and credit institutions | **15,269** | 19,912 | (4,643) | (23%) | 13,384 | 1,885 | 14% |
| Deposits from customers | **789,897** | 781,614 | 8,283 | 1% | 744,036 | 45,861 | 6% |
| Derivative instruments and short positions | **10,804** | 13,996 | (3,192) | (23%) | 9,467 | 1,337 | 14% |
| Debt issued and other borrow ed funds | **468,270** | 458,969 | 9,301 | 2% | 402,226 | 66,044 | 16% |
| Subordinated loans | **34,392** | 32,156 | 2,236 | 7% | 35,762 | (1,370) | (4%) |
| Tax liabilities | **12,128** | 10,827 | 1,301 | 12% | 6,432 | 5,696 | 89% |
| Other liabilities | **16,601** | 19,585 | (2,984) | (15%) | 12,848 | 3,753 | 29% |
| Non-current liabilities and disposal groups held for sale | **-** | - | - | - | 956 | (956) | (100%) |
| Total Liabilities | **1,347,361** | 1,337,059 | 10,302 | 1% | 1,225,111 | 122,250 | 10% |
| Total Equity | **218,874** | 211,613 | 7,261 | 3% | 203,710 | 15,164 | 7% |
| **Total Liabilities and Equity** | **1,566,235** | 1,548,672 | 17,563 | 1% | 1,428,821 | 137,414 | 10% |
| **Key ratios** | | | | | | | |
| Customer loans to customer deposits ratio | **150%** | 148% | | | 146% | | |
| REA/total assets | **63.8%** | 65.4% | | | 63.1% | | |
| Net stable funding ratio (NSFR) | **118%** | 127% | | | 122% | | |
| Liquidity coverage ratio (LCR) | **205%** | 371% | | | 156% | | |
| Total capital ratio | **22.2%** | 21.4% | | | 25.3% | | |
| Tier 1 capital ratio | **19.8%** | 19.2% | | | 22.5% | | |
| Leverage ratio | **12.1%** | 11.9% | | | 13.6% | | |

## Deposits remain the largest source of funding

- Funding is raised to match the Bank's lending programmes using three main funding sources: stable deposits, covered bonds and senior preferred bonds.
- Deposits from customers grew by 1.1% during the fourth quarter. Personal Banking had an increase of ISK 7.1bn, Corporate & Investment Banking an increase of ISK 17.7bn and Business Banking a decrease of ISK 15.6bn. All deposit concentration levels are monitored closely, with concentration remaining stable in 4Q22.
- The ratio of customer loans to customer deposits was 150% at the end of 4Q22, from the previous 148% at the end of 3Q22. Deposits from retail, businesses and corporations are the Bank's main source of funding, comprising 45% of total funding sources and 86% of the Bank's total deposit base at the period-end.
- On 15 November the Bank launched two new ISK-denominated senior bonds in the amount of ISK 9.1bn. The bonds were green bonds issued under the Bank's sustainable programme. During 4Q22 the Bank exercised a call option on outstanding SEK 750 million Tier 2 bonds due 2027 and bought back EUR 262.7 million of a EUR 300 million senior bond due January 2024 and callable in January 2023.
- The liquidity position remains strong, with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 205% in YE22, up from 156% at YE21. The

LCR in foreign currencies was 492% for YE22, up from 235% at YE21 and the LCR in ISK decreased from 141% at YE21 to 109% at YE22.

- The total net stable funding ratio (NSFR) was 118% at YE22, compared to 122% at YE21 and the NSFR in foreign currencies was 198% at YE22, compared with 157% at YE21.
- As the Bank's liquidity position remains strong across currencies and is above requirements, the Bank may consider debt buybacks, calls or exchanges of outstanding transactions during 2023.

### Capital ratios well above targets

- Total equity amounted to ISK 218bn at the end of 4Q22, compared to ISK 212bn at the end of 3Q22 and ISK 204bn at YE21.
- The capital base was ISK 222bn at end of 2022, compared to ISK 213bn at end of Q3 2022 (ISK 228bn at year-end 2021). The Bank's board of directors proposes to the Bank's annual general meeting (AGM) that dividends amounting to ISK 12.3bn shall be paid to shareholders. This equates to approximately 50% of 2022 profits and is in line with the Bank's dividend policy.
- The Bank plans to buy back own shares amounting to ISK 5bn over the coming months through a share buyback program. This is a reduction from the previously planned ISK 15bn share buyback. The ISK 10bn difference will be added to the Bank's capital base, which results in a 100bps increase in the Bank's capital ratios. The Bank has seen a profitable growth in loans to customers during 2022 which exceeded initial plans and sees further opportunities to grow the loan portfolio. Furthermore, due to the turmoil in the global economy and international capital markets, 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 2024, subject to market conditions.
- On 22 June 2022, the Central Bank Financial Supervision Committee announced the results of the SREP process concerning additional capital requirements (Pillar 2-R). As of 1 July 2022, the Bank must maintain an additional capital requirement of 2.6% of the REA, which is an increase of 0.1 percentage points from the previous assessment. The Bank's overall capital requirement, including capital buffers, was therefore raised from 17.8% to 17.9%. At the end of September, the counter-cyclical buffer increased from 0% to 2.0% which, in turn, raised the Bank's capital requirement from 17.9% to 19.9%.
- At the end of 4Q22, the Bank's total capital ratio was 22.2% compared to 21.4% at the end of September (25.3% at YE21). The corresponding Tier 1 ratio was 19.8% compared to 19.2% at the end of September. (22.5% at YE21). The CET1 ratio was 18.8% (350bp above requirement), and above the Bank's target of about 16.5%. The change in the total capital ratio from the end of 3Q22 is due to Q4 profits and a lowering of REA.
- Íslandsbanki uses the standardised method to calculate its REAs, which amounted to ISK 999bn at the end of 2022, compared to ISK 1.013bn at the end of September (ISK 902bn at YE21). The reduction in REA in the fourth quarter is a result of lower loans to credit institutions and a reduction in risk-weights of certain mortgages due to recent changes in legislation. The REA amounts to 63.8% of total assets at the end of 2022, compared to 65.4% at the end of 3Q22.
- The leverage ratio was 12.1% at the end of 4Q22 compared to 11.9% at the end of September (13.6% at YE21).

### Meeting MREL requirements

- Directive 2014/59/EU on Bank Recovery and Resolution (BRRD I) was i.a. transposed into Icelandic law with Act no. 70/2020 on the resolution of credit institutions and investment firms (the Act). On 8 December 2021, the Icelandic Resolution Authority of the Central Bank of Iceland published its policy on minimum requirements for own funds and eligible liabilities (MREL-requirement) according to art. 17 of the Act (hereinafter the MREL-policy).

- On 29 September 2022, the Icelandic Resolution Authority of the Central Bank of Iceland announced that a resolution plan had been approved for Íslandsbanki and thereby an MREL-requirement for the Bank. The decision is based on the aforementioned MREL-policy.
- The Bank´s MREL-Requirement is 21.2% of the Bank's Total Risk Exposure Amount (TREA) as per year-end 2021 and applies from the date of the announcement. The MREL-Requirement including Combined buffer requirement was 30.5% at year-end 2022. The Bank's ratio was 34.5% at the end of December 2022. The subordination requirement provided for in Directive 2019/879/EU on Bank Recovery and Resolution (BRRD II) has not been defined.

Modest market risk profile

- The Bank's market risk derives mainly from aggregate balance sheet imbalances in interest rate, inflation, and currency positions, as well as the Bank's liquidity portfolio, which is managed by Treasury.
- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the year-end 2022, the Bank's consolidated net inflation imbalance amounted to ISK 27.7bn, compared to ISK 41m at YE21. The imbalances are managed via CPI-linked swaps, the issuance of CPI-linked covered bonds and CPI-linked deposit programmes.
- The currency imbalance was ISK -1.6bn (0.7% of the total capital base) at year-end 2022, compared to ISK -327m (0.1% of the total capital base) at YE21. The Bank's imbalances are strictly monitored and are within regulatory limits.

# INVESTOR RELATIONS

## An earnings conference call and webcast will take place on Friday 10 February 2023

Íslandsbanki will host a webcast in English market participants on Friday 10 February at 8.30 Reykjavík/GMT/London, 9.30 CET. Birna Einarsdóttir, CEO, and Jón Guðni Ómarsson, CFO, will give an overview of the fourth quarter 2022 financial results and operational highlights.

Participation is accessible **via this link**. A recording will be available after the meeting on the Investor Relations website. To participate in the webcast via telephone and to be able to ask questions verbally, please register **via this link**. There will be a list of dial-in numbers and a personal PIN. If there is no local dial-in number for your country, or if you would prefer to receive a call instead of dialling in, the Call Me option is available. Then select your country, enter your telephone number and click on the blue Call Me button to be connected.

## Financial calendar

Íslandsbanki plans to publish its financial statements and hold its annual general meeting according to the financial calendar below:

Annual General Meeting – 16 March 2023
1Q23 results – 4 May 2023
2Q23 results – 27 July 2023
3Q23 results – 26 October 2023

Please note that the dates are subject to change.

## Additional investor material

All investor material will subsequently be available and archived on the Bank's Investor Relations website, where other information on the Bank's financial calendar and silent periods can also be found: https://www.islandsbanki.is/en/landing/about/investor-relations

## Disclaimer

This press release may contain "forward-looking statements," involving uncertainty and risks that could cause actual results to differ materially from results expressed or implied by the statements. Íslandsbanki hf. undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. It is the investor's responsibility to not place undue reliance on these forward-looking statements which only reflect the date of this press release. Forward-looking statements should not be considered as guarantees or predictions of future events and all forward-looking statements are qualified in their entirety by this cautionary statement.