4Q22 & FY2022 Financial Results

9 February 2023

Birna Einarsdóttir
Chief Executive Officer

Jón Guðni Ómarsson
Chief Financial Officer

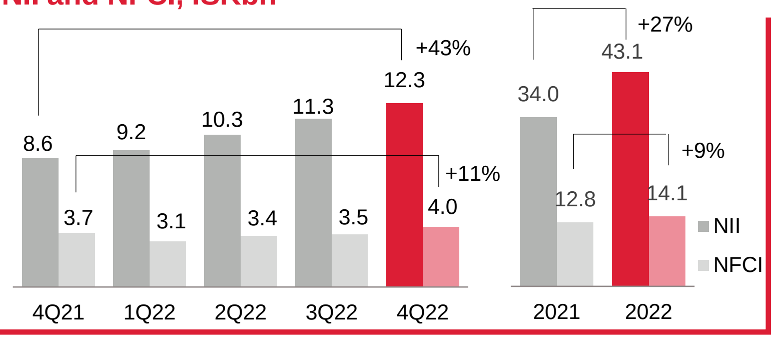
islandsbanki.is

Strong financial results in a volatile market environment

ROE of 11.1% in 4Q22 and 11.8% in 2022 mainly driven by growth in core income

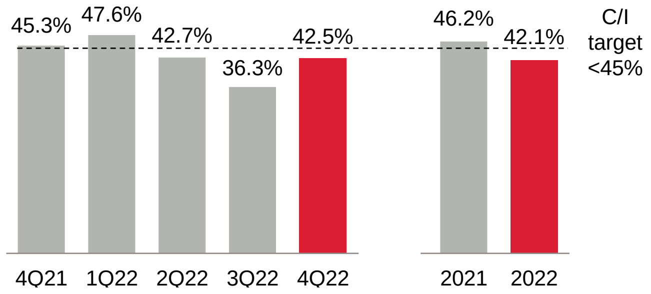
Solid top line growth in 4Q22 and 2022

NII and NFCI, ISKbn



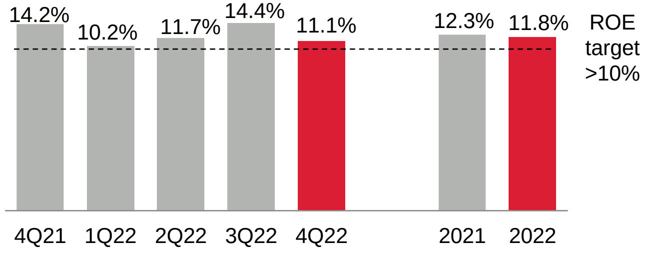
Low C/I ratio supported by strong revenues

C/I ratio



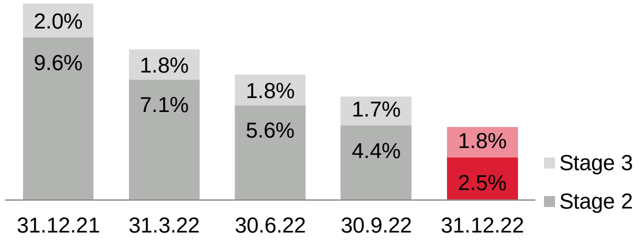
ROE above target

ROE



Strong asset quality

Loans to customers: Stage 2 and 3 (NPL)



Financial targets reached in 2022

Resulting from strong revenue generation and strict cost control

	Targets	4Q22	2022
Return on equity	>10%	11.1% ✓	11.8% ✓
Cost-to-income ratio[1]	<45%	42.5% ✓	42.1% ✓
CET1 capital ratio[2]	~16.5%	18.8% ✓	18.8% ✓
Dividend-payout-ratio	50%		50% ✓

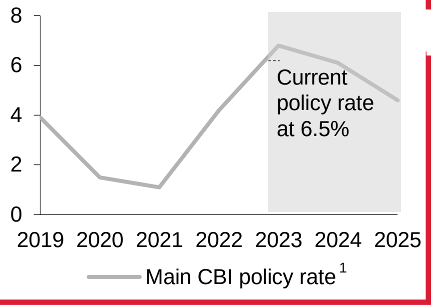
1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 2. Long term CET1 capital target is subject to regulatory requirements and includes a management buffer of 50-200bp.

Attractive capital return and growth opportunity

Strong underlying economic momentum

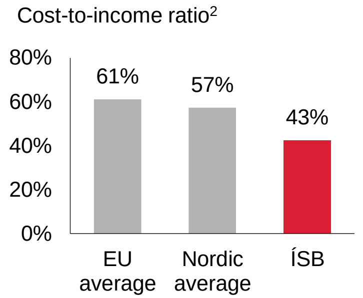
Growth

- Loans to customers and revenues, in general, **to grow** in line with **nominal GDP** growth through the business cycle
- Attractive interest rate environment
- The Icelandic economy projected to grow by 3.4% in real terms in 2023



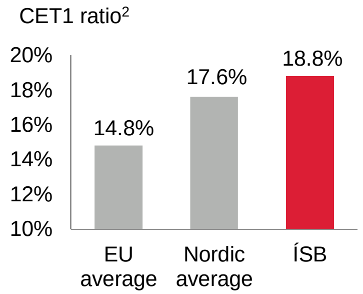
ROE

- **ROE in 2023 expected to be in the 10-11% range,** assuming normalised through-the-cycle impairment levels at 25-30bp
- Short term outlook for impairments rather favourable due to low NPL ratios and forecasts for positive GDP growth and low unemployment in 2023
- **C/I ratio expected to be in 40 - 45%** range in 2023. Inflationary pressure on cost base partly offset by hight rates environment



Financial strength

- **ISK 12.3bn in ordinary dividend** to be proposed to AGM, in line with dividend policy
- **ISK 5bn of share buyback planned** over the coming few months through a market based share buyback program
- **Capital optimization** planned before YE 2024, subject to market conditions

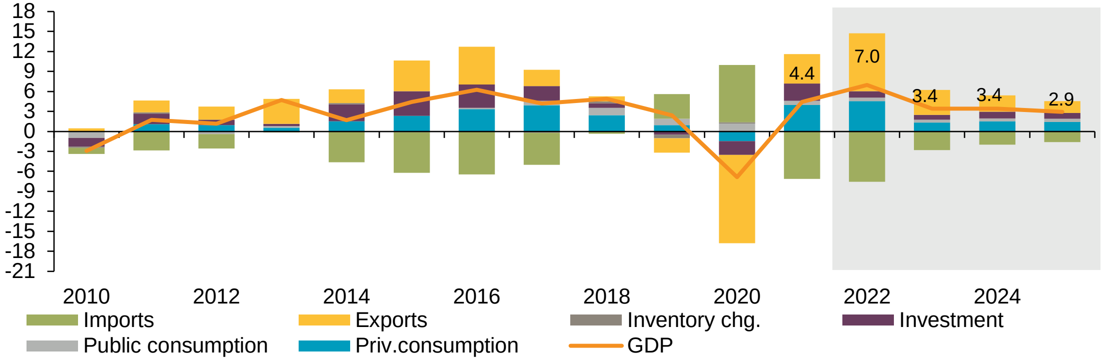


1. Shaded area: Forecast, ISB research. 2. Q3 2022 numbers for EU average and Nordic average.

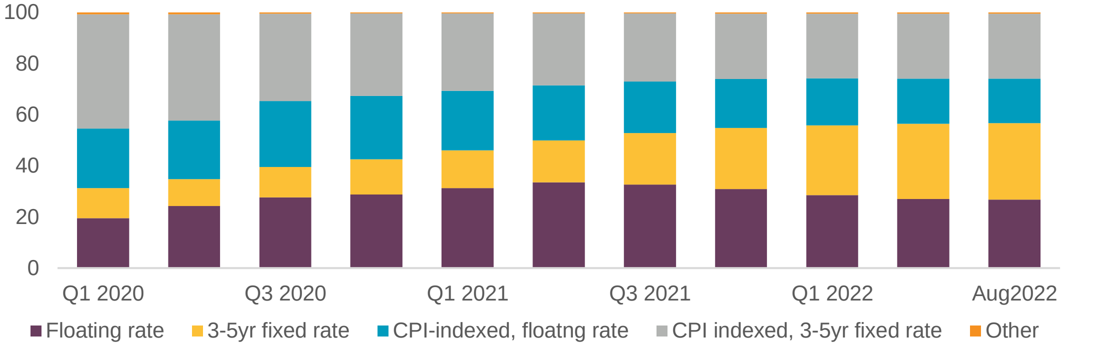
Adjustment phase ahead for the Icelandic economy

Moderate GDP growth on the cards after an impressive surge

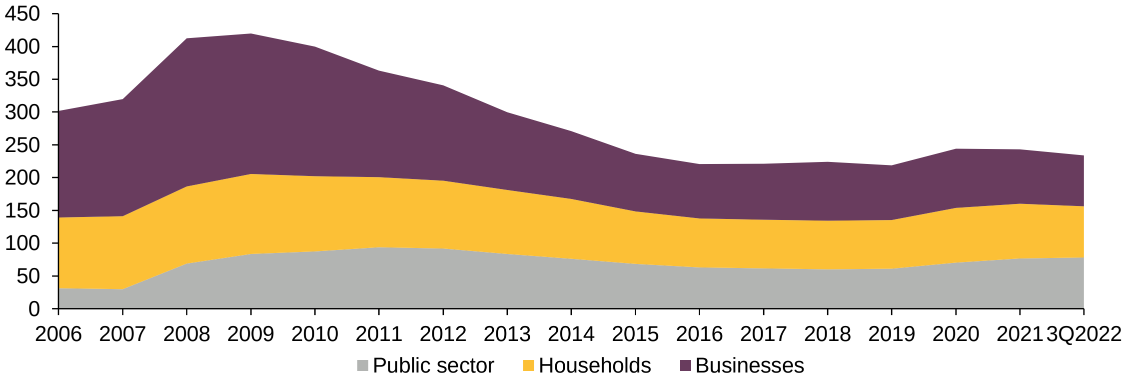
Steadier, export led growth to take over from the strong recovery…
Real GDP and main subitems, YoY change, %



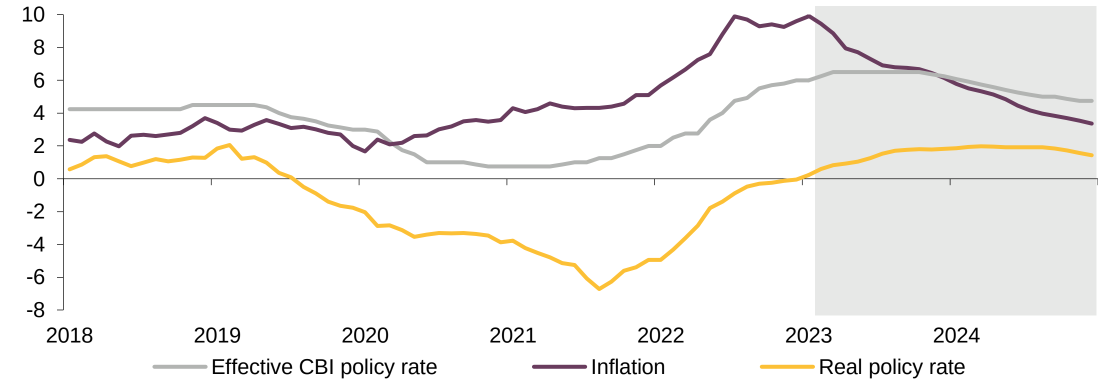
..and housing market remains resilient, partly due to flexible mortgage market
Share of different types of mortgage loans of total outstanding mortgage stock



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



…while more persistent inflation has led to tighter monetary policy
Inflation and policy rate, %

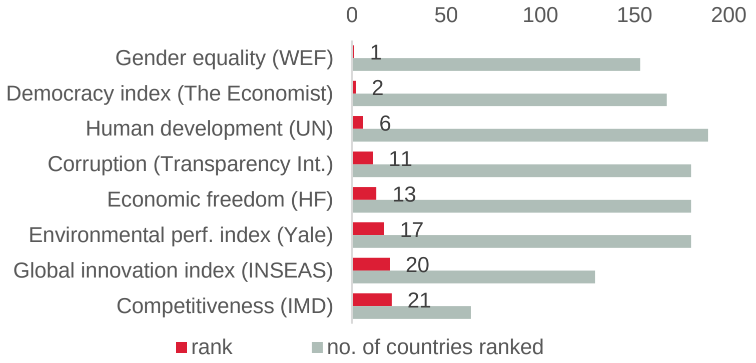


Shaded areas indicate ISB Research forecasts. Source: Statistics Iceland, the Central Bank of Iceland and ISB Research.

The Icelandic economy and society draw on many strengths

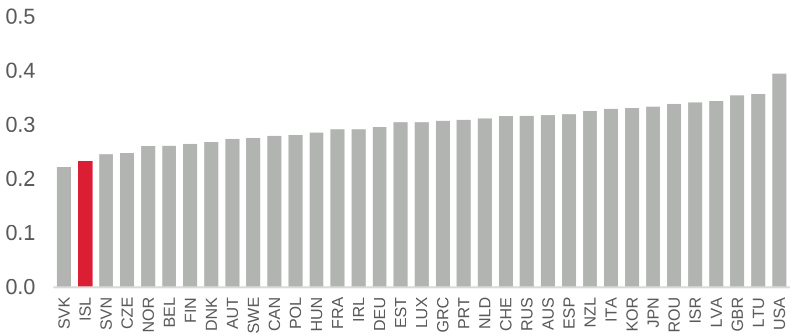
Heating and electricity generation based on sustainable energy sources

Iceland ranks highly on a variety of global development benchmarks



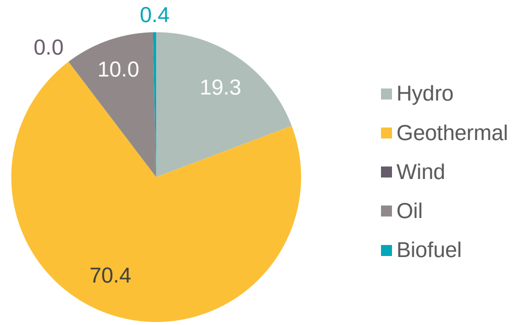
Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



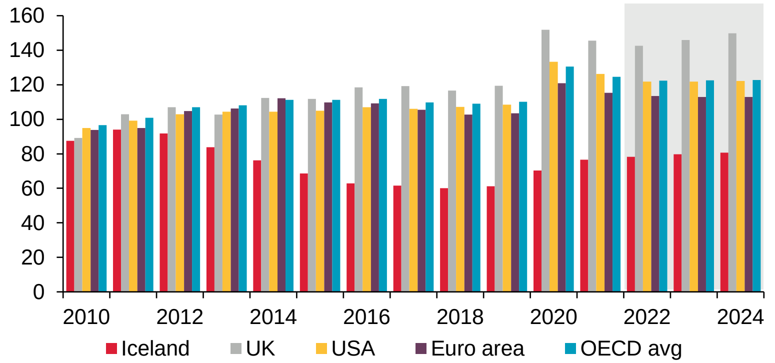
Sustainable energy usage is prevalent

Energy consumption by source, 2020



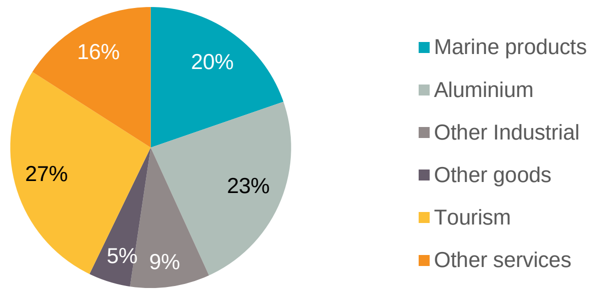
Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



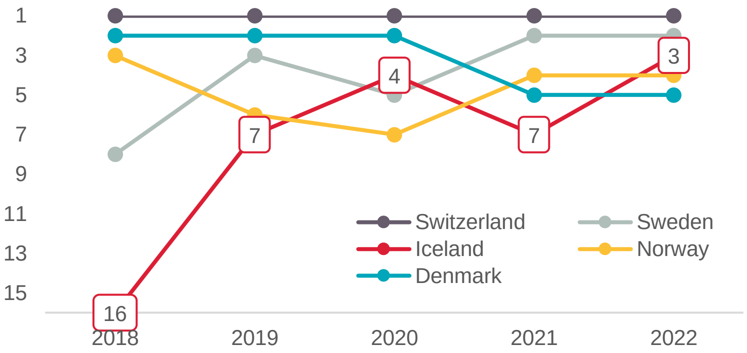
Export base has grown more diverse over time

Export contribution by industry, 9M 2022



Iceland ranks highly in attracting/retaining talent

IMD World Talent Ranking 2018-2022



Shaded area denotes OECD forecast

Source: Statistics Iceland, OECD, IMF, WEF, IEP, The Economist, UN, Transparency Int., HF, Yale, IMD, INSEAS

Strong results across business units

Increased personalised digitalisation results in higher service levels

Personal Banking

16.1% ROE
49.2% Cost-to-income ratio
2.8% NIM

- More customers enjoy benefits of the cash back loyalty program Fríða with 37% increase in users YoY
- Active app users increased by 11% YoY, with nearly 33 million app visits in 2022

- First bank in Iceland to launch Google Wallet™
- Enhanced procedures adopted to prevent customers from fraudulent transactions

Business Banking

21.0% ROE
38.4% Cost-to-income ratio
5.6% NIM

- Good growth in lending volumes with 17.5% growth in 2022
- Highest NPS score amongst domestic peers
- Serves 55% of Iceland's outstanding companies

- ESG risk assessment completed 58% of BB's loan portfolio
- Number of visits to the app has increased by 46% between years

Corporate & Investment Banking

12.6% ROE
35.5% Cost-to-income ratio
3.2% NIM

- Íslandsbanki is a leading player in corporate finance in Iceland
- New lending totalled ISK 72bn
- Revenues from FX Sales and Derivatives Desk increase by 18% YoY

- Securities brokerage activities strengthened
- ESG risk assessment completed on more than 70% of CIB's loan portfolio

Iceland Funds

28.5% ROE
49.4% Cost-to-income ratio[1]
AUM ISK **388bn**

- Iceland Fund remains a market leader in the fund market for retail clients
- Net inflow into asset management products and short-term funds

Allianz Ísland hf.

Allianz

139% ROE in 4Q22
43% Cost-to-income ratio

- Increased activities resulting in robust results
- Net fee & commission income increase by 69% YoY

1. As calculated from the Bank's Consolidated Income Statement.

Enhanced digital services in 2022

Íslandsbanki’s digital solutions in the forefront

99%
of mortgage applications now digital

50%
of retail equity trading is conducted via app

80%
of credit card limit changes done via app

95%
of new private pension savings registrations done digitally

82%
of individual customers are active in digital channels

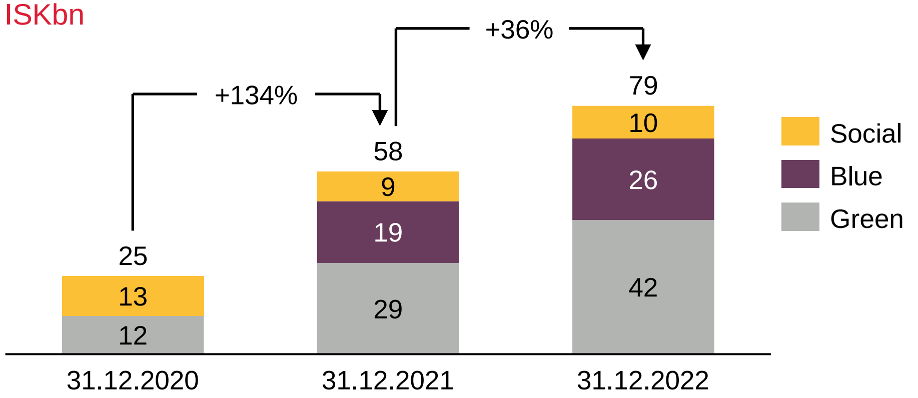
47%
of advisory centre chats are now serviced by a chatbot

Sustainability priorities ahead in 2023

Significant sustainability milestones met in 2022

Sustainable lending rose by 36% in 2022

ISKbn



2022 Highlights

Publication of ***On the road to net-zero*** **report**

Report link

76%
of the Bank's credit risk exposure[2] assessed with regards to **ESG risk** (up from 34% last year)

> 30
sustainability related seminars held within the Bank

Sustainability goals for 2023 include[1]

- Increase the portion **of sustainable corporate loans** in the loan portfolio to **15%**
- Perform and report on an initial assessment of **risks and opportunities related to biodiversity**
- Publish **net zero sectoral pathways** for seafood, agriculture and construction
- Increase share of purchasing from suppliers that have **signed the suppliers' code of conduct** from 45% to >75%

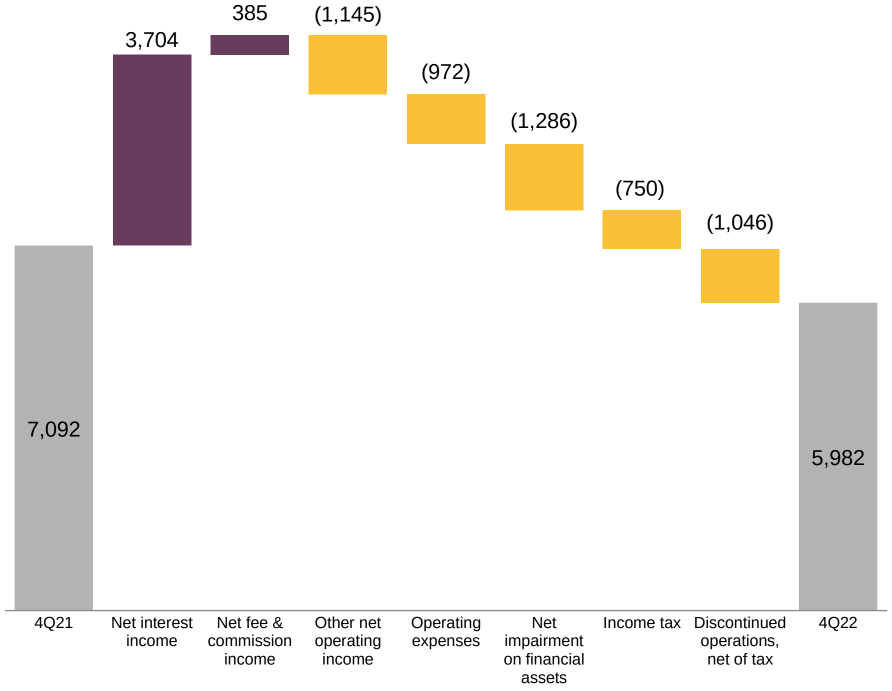
1. Full list of objectives can be found in the annual and sustainability report for 2022. 2. Excluding individual banking and small enterprises which are out of scope.

Financial overview

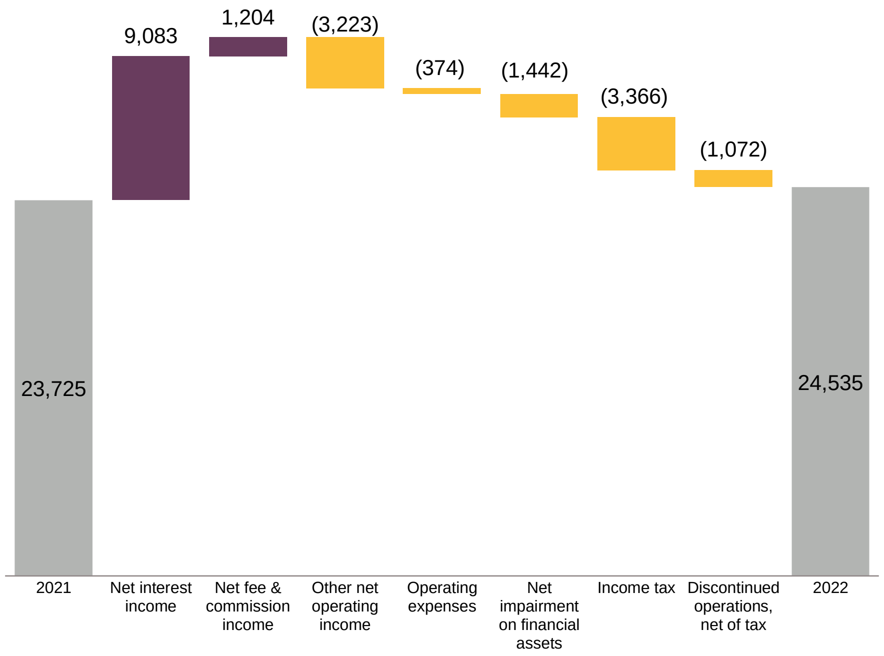
Growth in core income the key driver in strong results

Interest income continues to rise as loan portfolio grows and interest rates rise

Profit for the period – 4Q21 vs 4Q22
ISKm



Profit for the period – 2021 vs 2022
ISKm



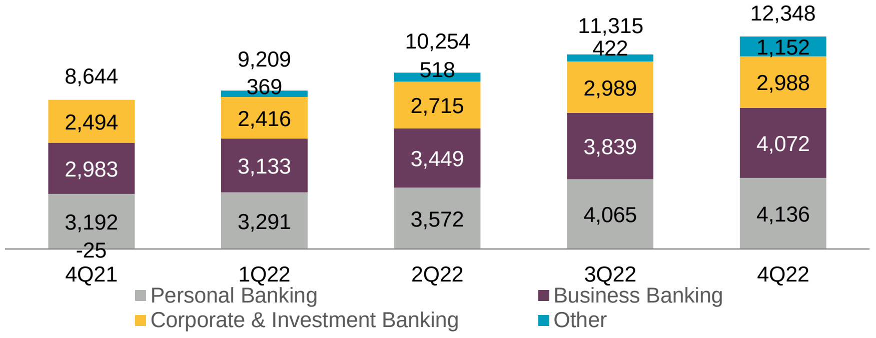
NII increases from larger loan portfolio and higher margins

Central bank rates likely near its peak, although inflation remains high

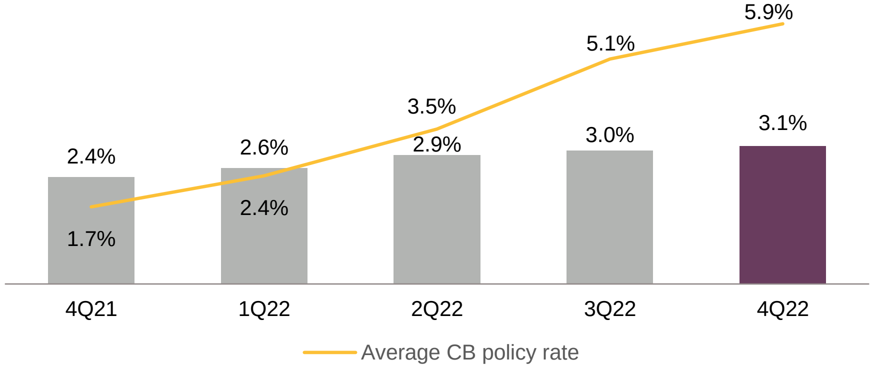
Highlights

- Lending margin was 1.8% in 4Q22 (2.1% in 4Q21) and 1.9% in 2022 (2.2% in 2021)
- Deposit margin was 2.1% in 4Q22 (1.4% in 4Q21) and 1.9% in 2022 (1.2% in 2021)
- Net interest margin was 2.9% in 2022 compared to 2.4% in 2021. Average CB policy rate rose from 1.1% in 2021 to 4.2% 2022

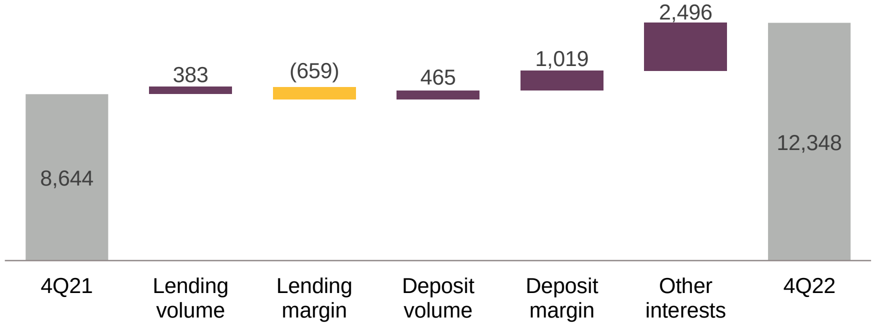
Net interest income
By business segments, ISKm



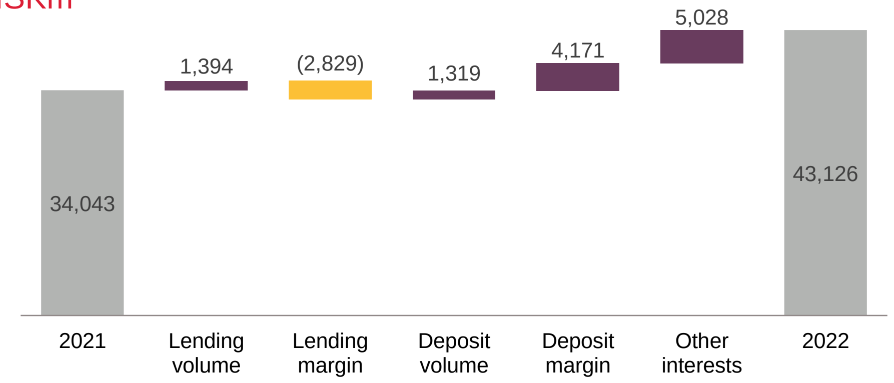
Net interest margin
On total assets



NII – comparison 4Q YoY
ISKm



NII – comparison YoY
ISKm



Rise in income from cards and payment processing continues

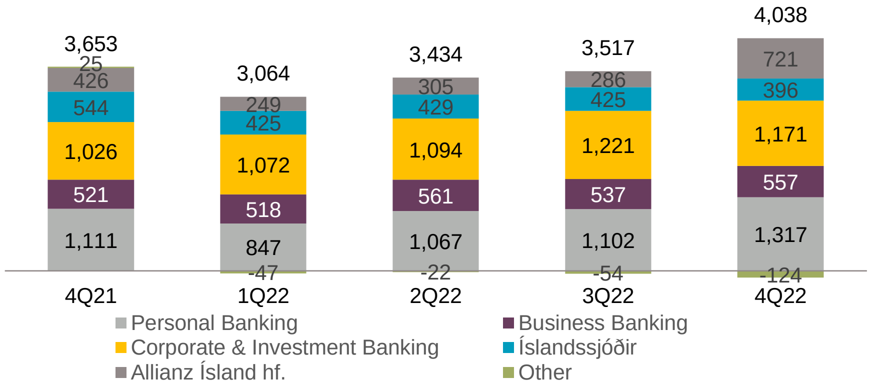
Allianz Ísland hf., a subsidiary, had a strong year contributing to rising NFCI

Highlights

- Strong result in Allianz from good sales and performance-based fees in 4Q22
- Income from cards and payment processing expected to have normalised after the COVID-19 related drop
- Reduction in performance-based fees explains the drop in asset management fees in 4Q22 YoY

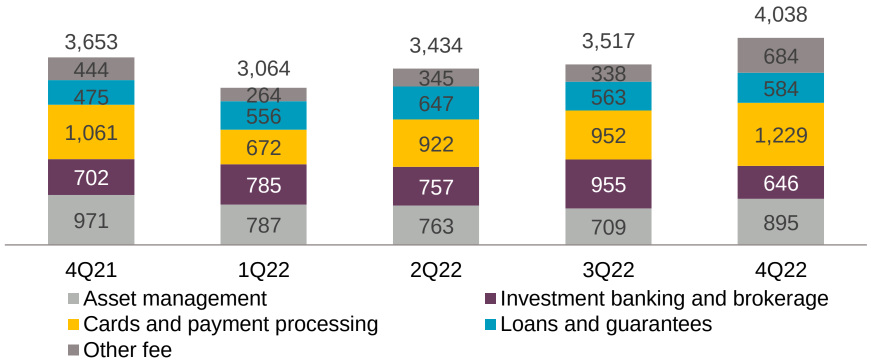
Net fee and commission income

Business segments, ISKm



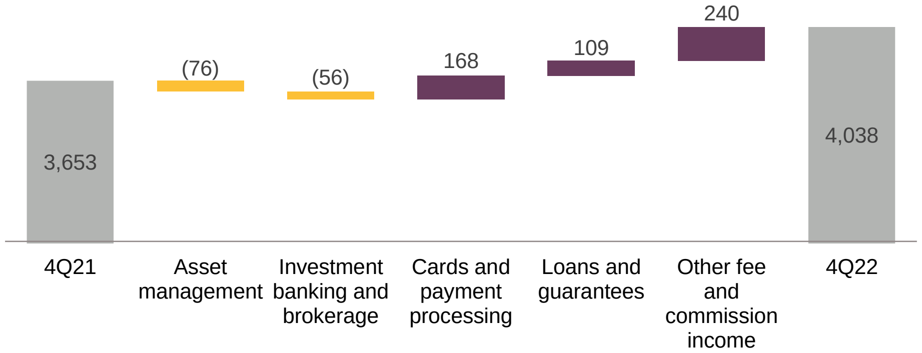
Net fee and commission income

By type, ISKm



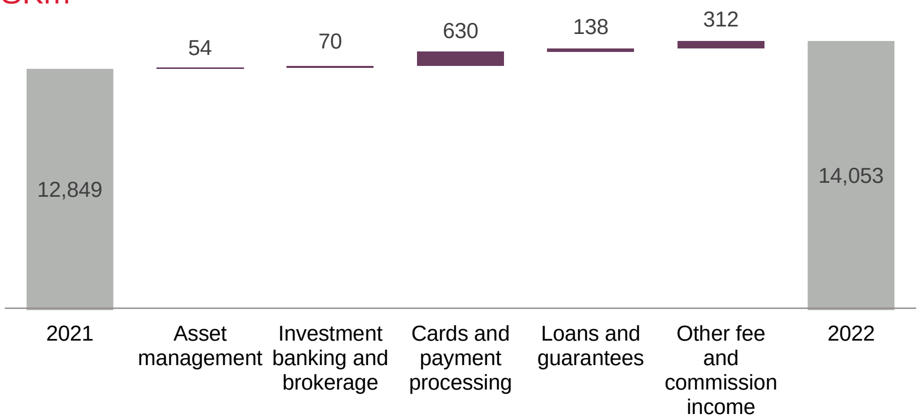
NFCI – comparison 4Q YoY

ISKm



NFCI – comparison YoY

ISKm



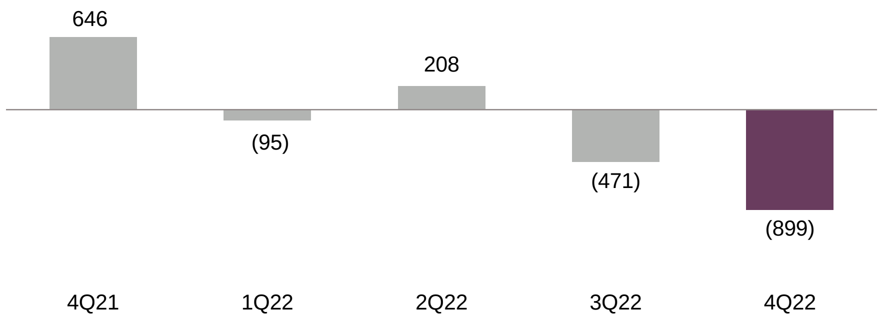
NFI affected by volatile market environment

Losses in bonds and related derivatives due to rising rates environment

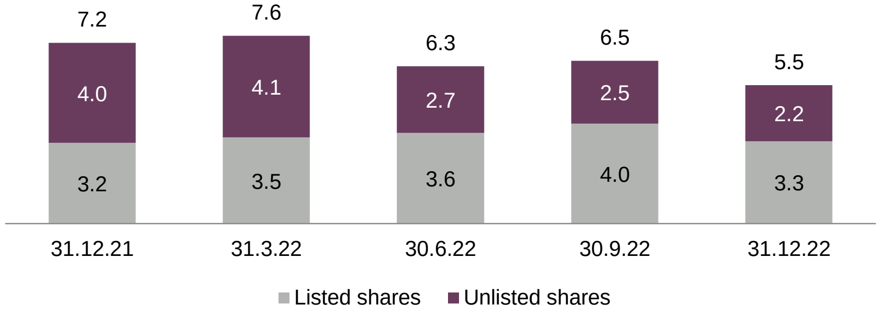
Highlights

- The loss in NFI is largely due to movements in ISK base rate curves
- Negative impact from Debt issued at fair value and related derivatives in 4Q22 due to reclassification of gains from P&L to Other Comprehensive Income (OCI)

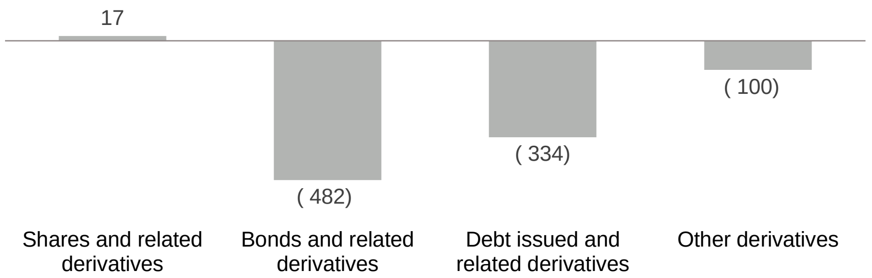
Net financial income (expense)
ISKm



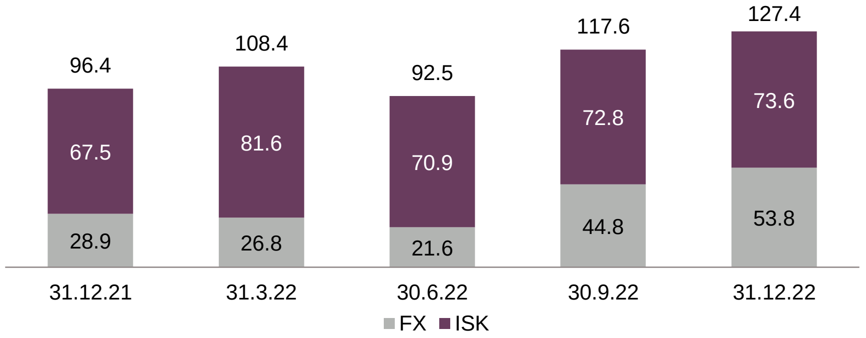
Shares and equity instruments[1]
ISKbn



Net financial expense by type in 4Q22
ISKm



Bonds and debt instruments[2]
ISKbn



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

C/I ratio in 4Q22 below target due to strong income generation

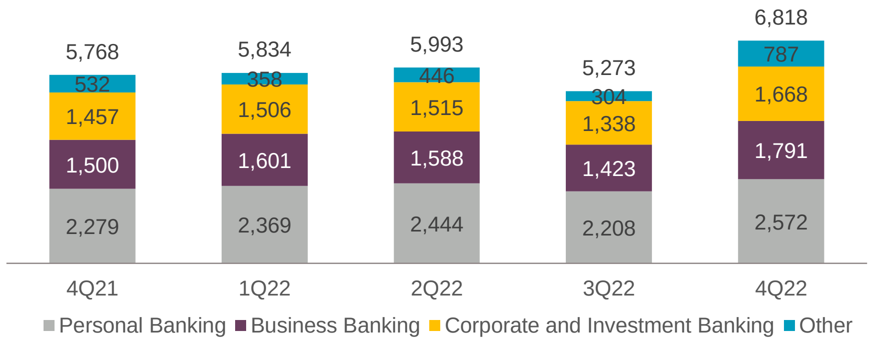
High costs in 4Q22 and ongoing cost pressure in 2023 due to high inflation

Highlights

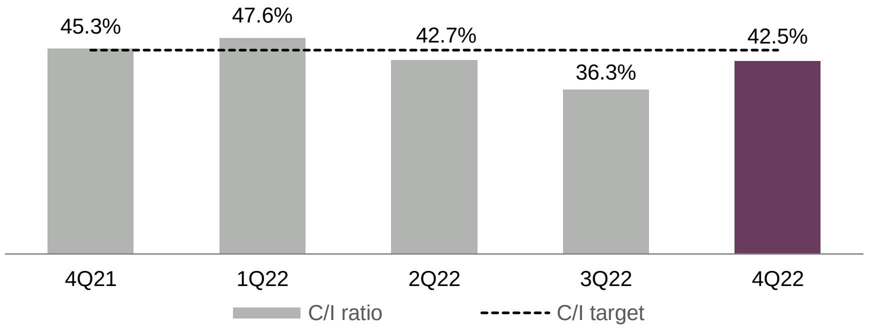
- The increase in other operating expenses in 4Q22 is resulting from a higher inflation, normalisation of travel and other activities after Covid-19, strategic projects and a provision based on internal estimate for a potential administrative fine (see note 43 on Contingencies in the 2022 financial statements)
- Current inflation levels and wage agreements put pressure on costs in 2023
- Salaries in Q4 unusually high mainly due to retroactive changes to wage agreements and accrued leave

Administrative expenses

ISKm

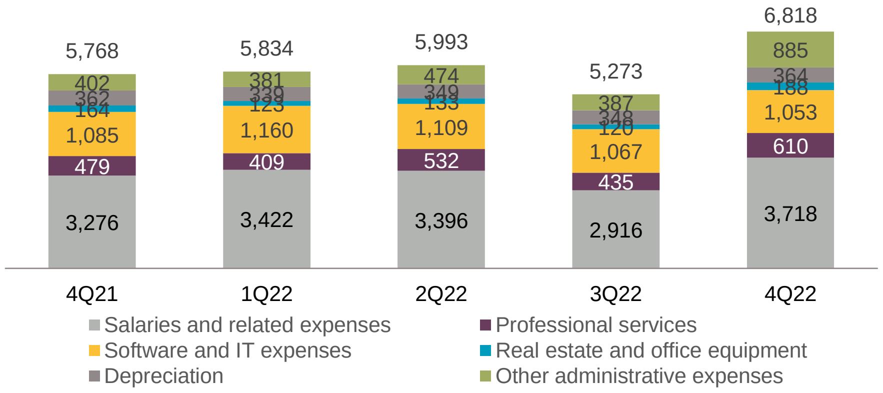


Cost-to-income ratio[1]

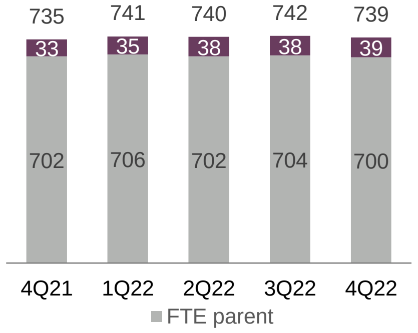


Administrative expenses – by type

ISKm

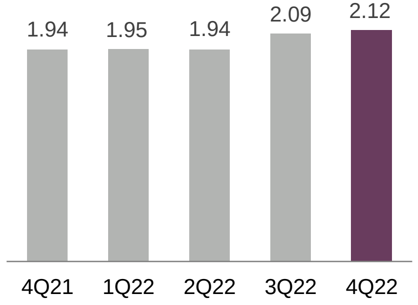


FTEs period end[2]



Total assets / FTEs[2]

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.

Asset quality continues to improve

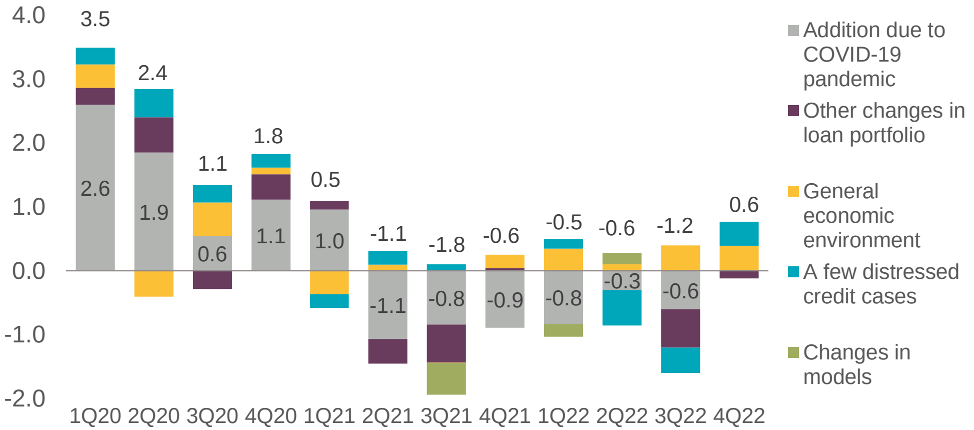
Stage 2 loans continue downward trend and have likely reached normalized levels

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
- The 4Q22 impairment is due to increased inflation and its potential impact on credit quality
- Loans amounting to ISK 27bn are expected to exit forbearance probation in 2023
- Reserve coverage ratio (RCR) for impairment allowance on Stage 3 was 20% at end of 4Q22

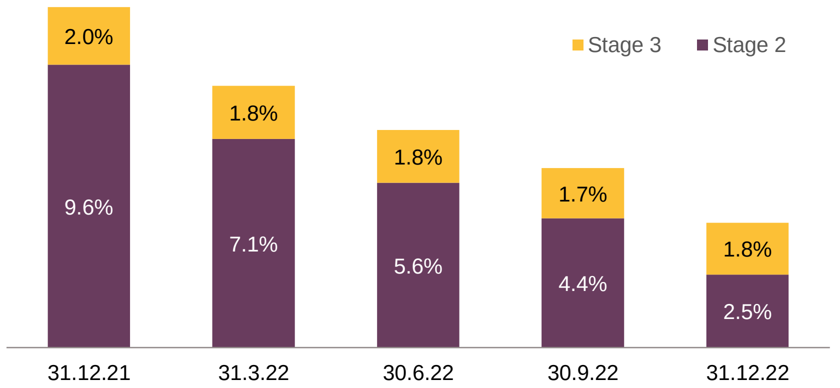
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

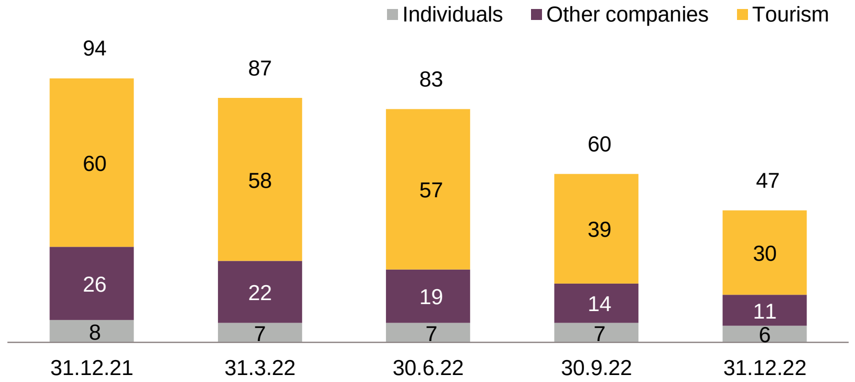


Current and expected cost-of-risk

- Annualised cost of risk was +22bp in 4Q22 (-23bp for 4Q21) and -14bp FY22
- Current impairment outlook relatively benign due to low unemployment and good economic growth outlook
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 4Q22
- 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
- Current impairment outlook relatively benign due to low unemployment and good economic growth outlook

Performing loans with forbearance

Gross carrying amount, ISKbn



Solid lending growth during the year

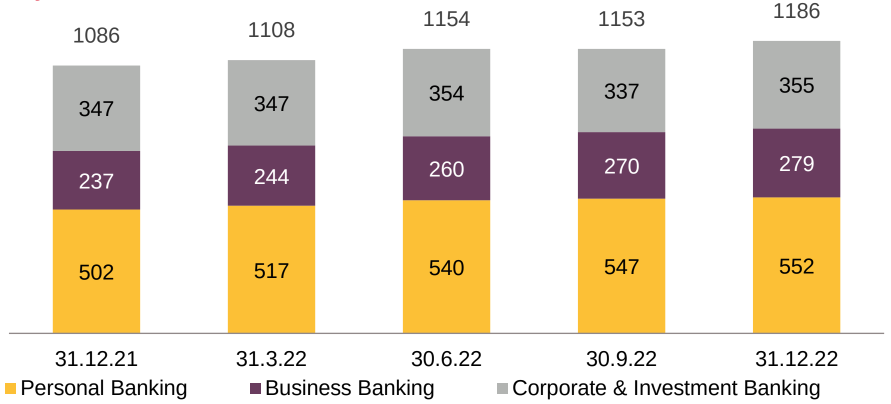
Credit quality remains strong, and the loan portfolio is highly collateralised

Highlights

- Robust risk management and conservative lending policies are attributed to the Bank's credit quality remaining strong
- Loans to customers grew 9.1% from year-end 2021. PB has grown by 10.0%, BB by 17.7% and CIB contracted by 2.3%

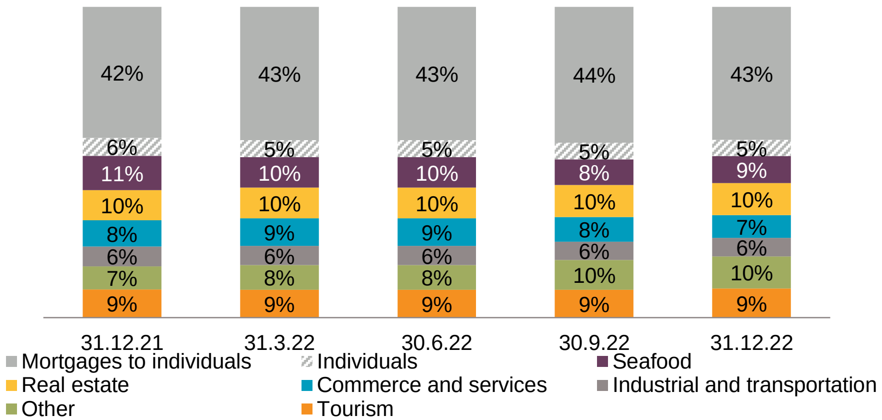
Loans to customers

By business division, ISKbn



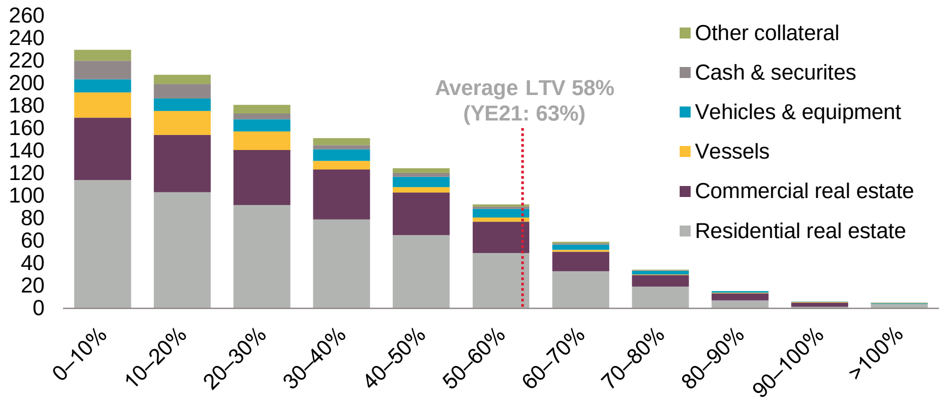
Loans to customers

By sector, with tourism as a separate sector



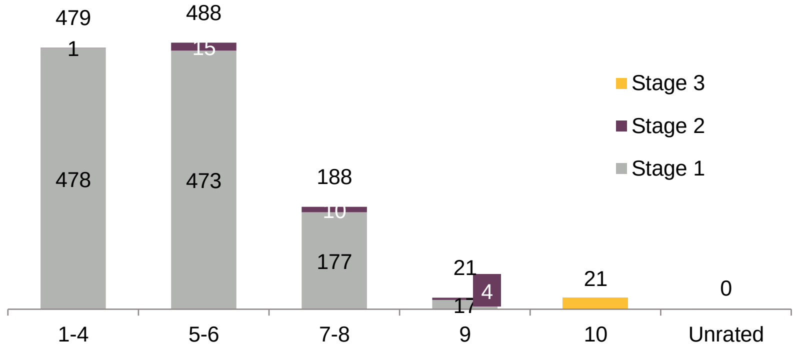
LTV distribution by underlying asset class

31/12/2022, loan splitting approach, ISKbn



Loans to customers: gross carrying amount

31/12/2022, risk class and impairment stage, ISKbn



Mortgage portfolio resistant to rising rates

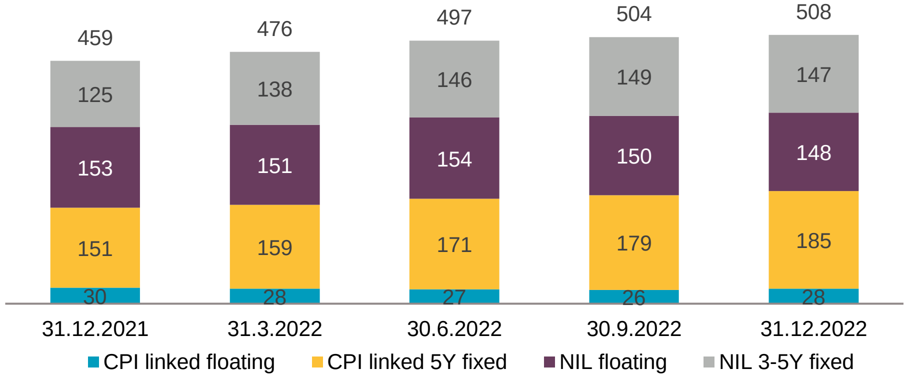
Average LTV improves, origination process had built-in buffers for expected rate increases

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)
- Despite variable NIL mortgage rates have risen by 3.8pp since year-end 2021 there has not been any observable increase in stage 2 or in NPLs

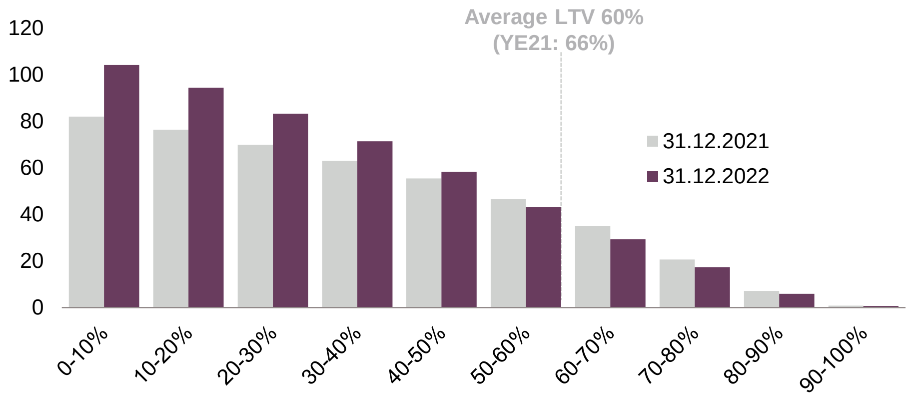
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



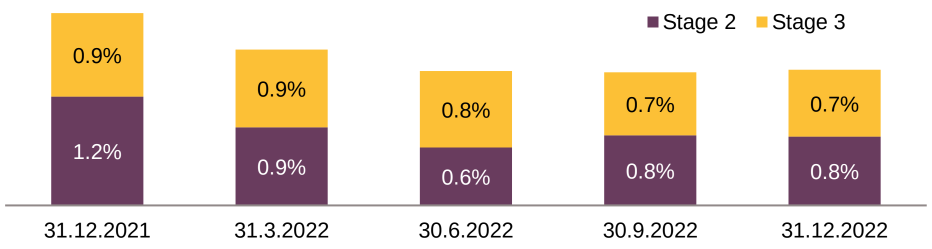
LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



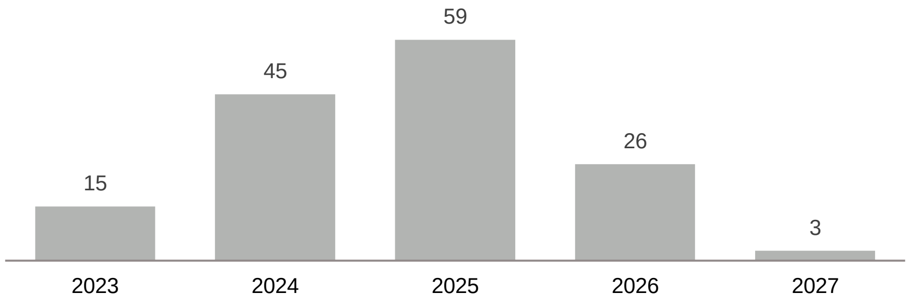
Mortgages portfolio: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total mortgages



Interest rate reset profile for NIL 3-5Y fixed rate mortgages[1]

Gross carrying amount, ISKbn



1. NIL stands for non-index linked loans.

Real estate and construction sector in a good shape

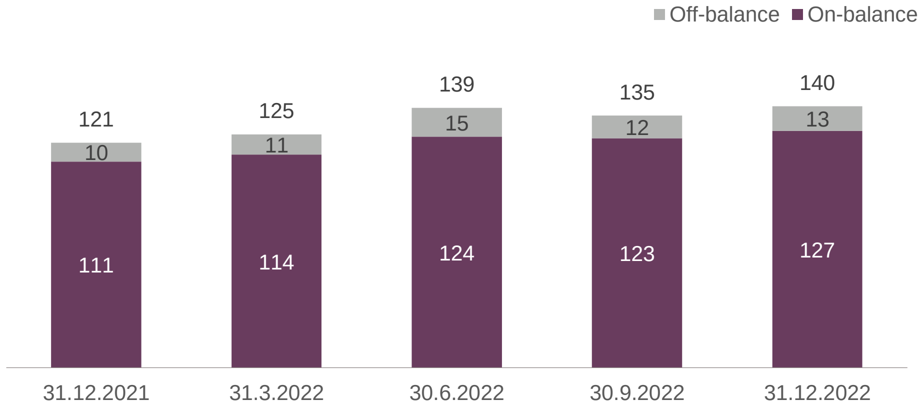
Exposures in the real estate sector mostly to companies with diverse portfolios

Highlights

- Loans to real estate companies and construction amount to 16% of loans to customers
- Disciplined origination with conservative LTV requirements and debt service criteria
- Third party security agents for largest clients
- Growth in 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

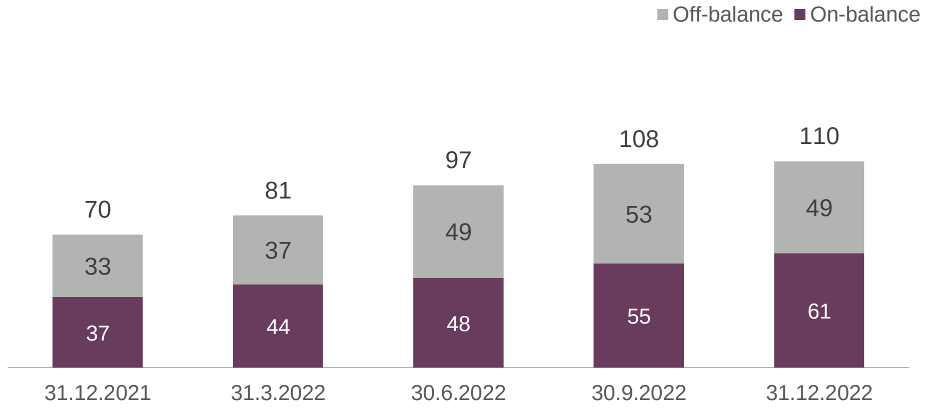
Development of exposures to real estate companies

By period, ISKbn



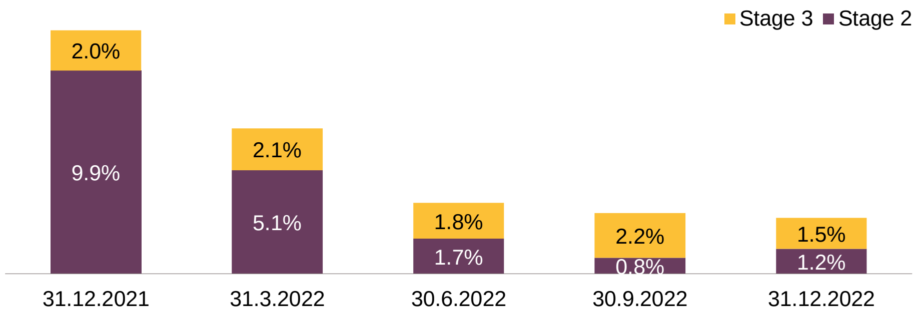
Development of construction exposures

By period, ISKbn



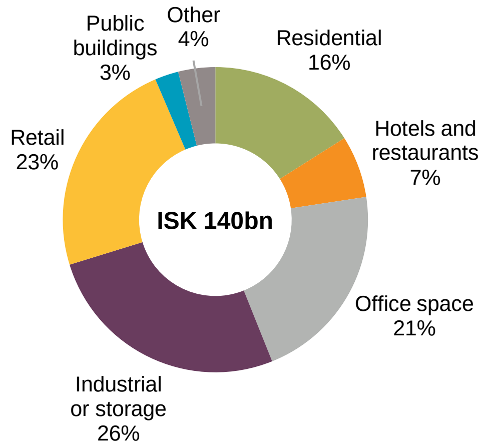
Real estate portfolio: Stage 2 and 3 (NPL)

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



Real estate collateral by type

31/12/2022



Deposits are the largest source of funding

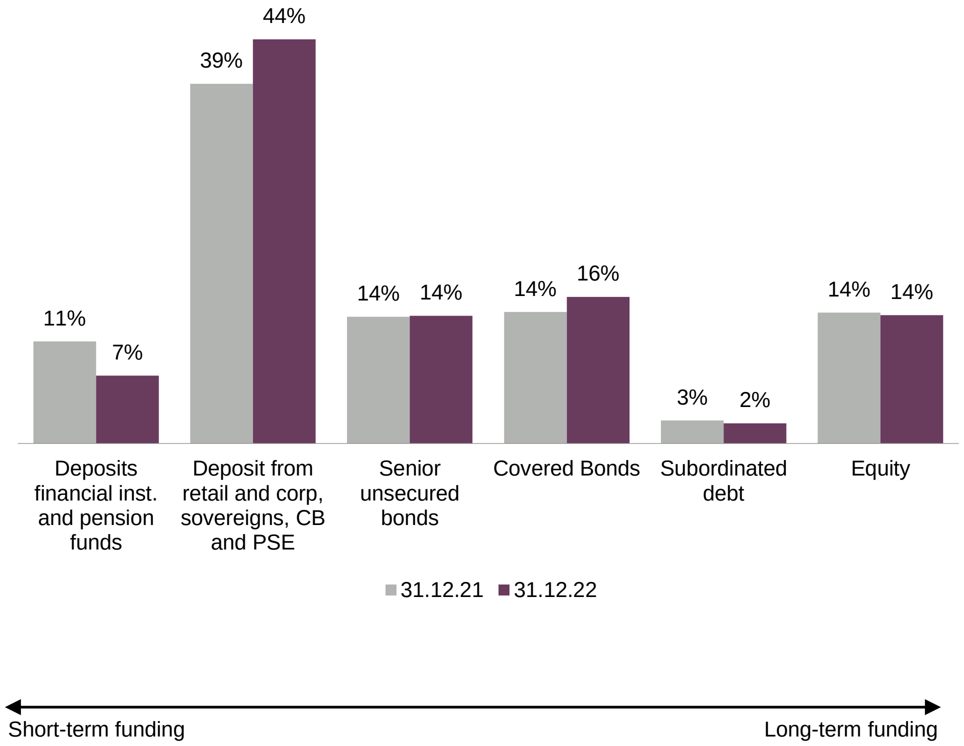
Retail deposits continue to increase

Highlights

- Term deposits are 19% of total deposits
- Deposit concentration is stable. 12% of deposits belonged to the 10 largest depositors and 29% to the 100 largest at 4Q22, compared to 12% and 28% respectively at YE21
- At end of 4Q22, 72% of deposits were in non-indexed ISK, 14% CPI-linked and 14% in foreign currencies

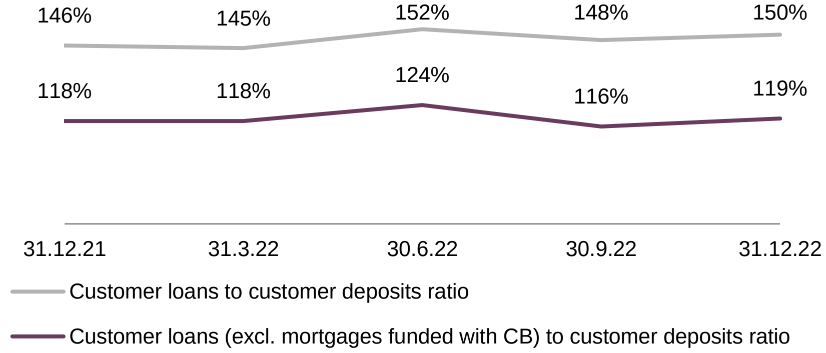
Funding sources

By type, % of total liabilities and equity



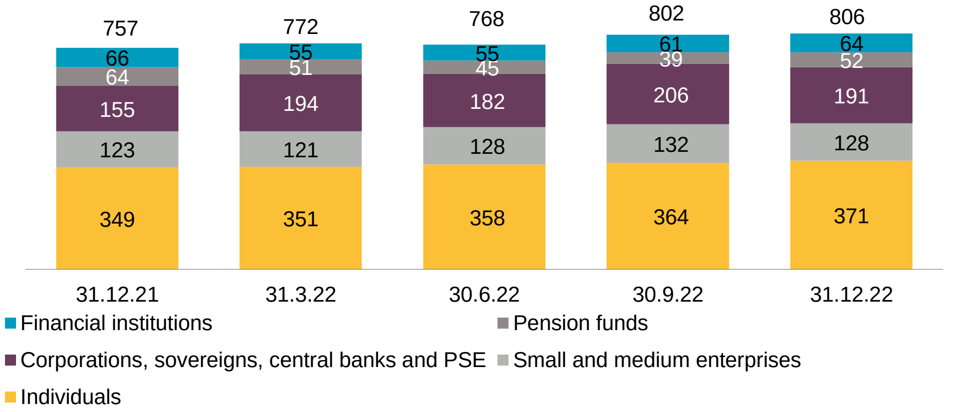
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



Seasoned and diversified long-term funding programme

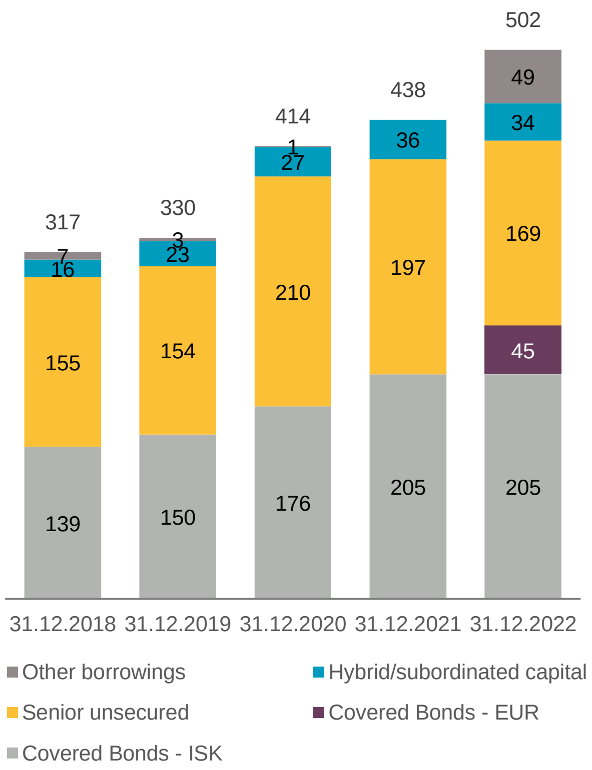
Issuance of EUR covered bonds and Tier 2 in ISK further diversifies the funding mix

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
- In November 2022 the Bank exercised its call option on its SEK 750m Tier 2 of 2027, and tendered EUR 263m of its EUR 300m callable bond maturing January 2024

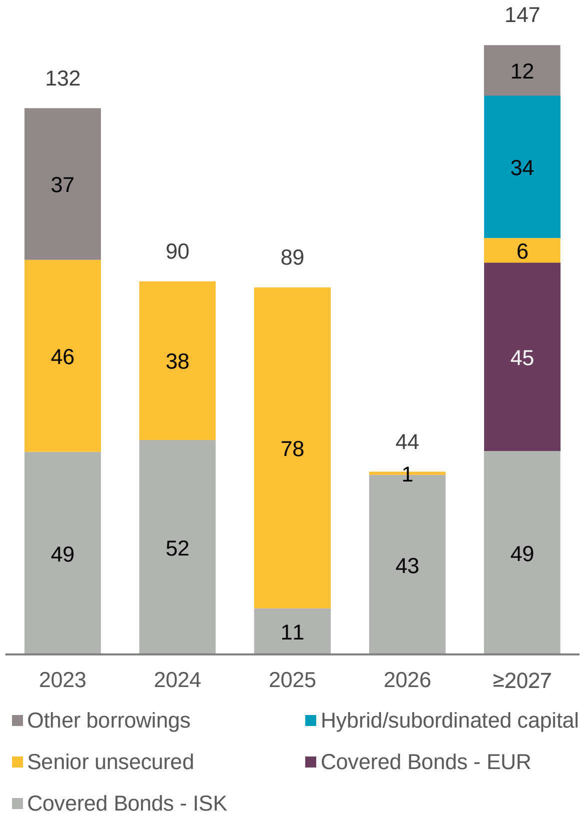
Sources of borrowings

Development, ISKbn



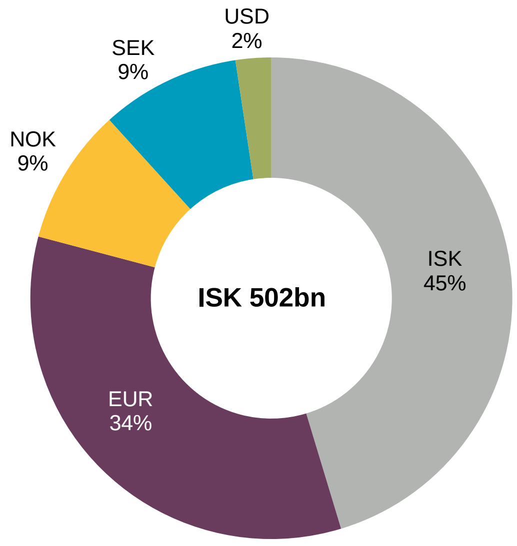
Contractual maturity profile of borrowings

31.12.22, ISKbn



Currency split of borrowings

31.12.22



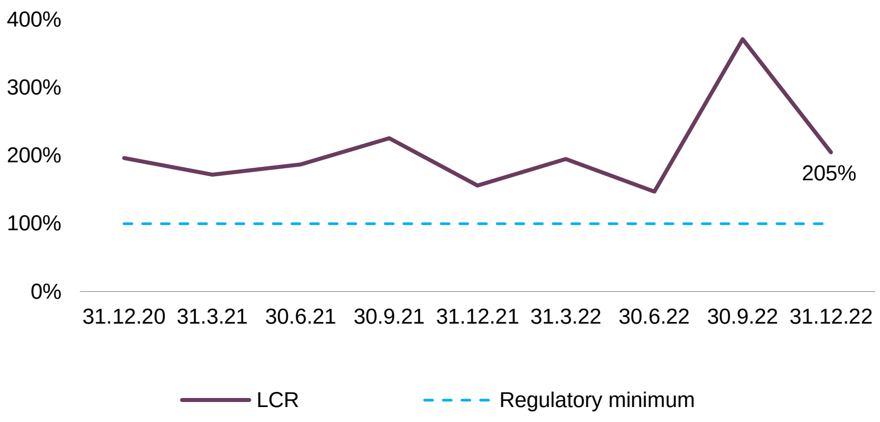
Sound liquidity management, ratios well above requirements

Liquid assets of ISK 312bn, representing 20% of total assets

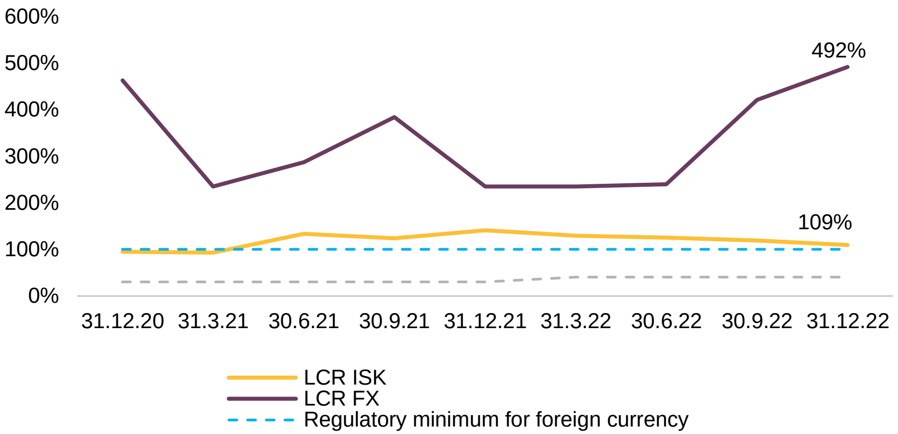
Highlights

- All liquidity measures above regulatory requirements
- The Central Bank has announced that at the beginning of 2023 a new rule takes effect with an 80% minimum liquidity ratio in euros
- The Banks EUR LCR at YE22 was 792%

Total liquidity coverage ratio (LCR)

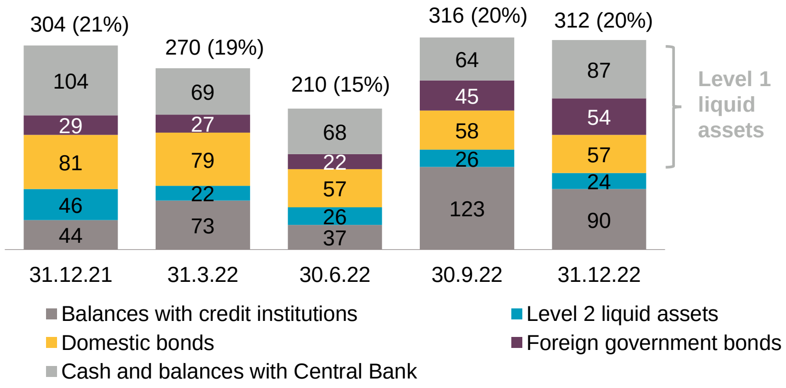


Liquidity coverage ratio – foreign currencies and ISK

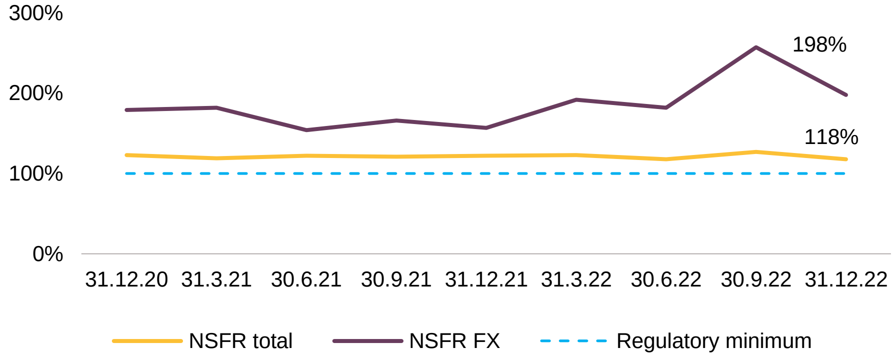


Liquid Assets

% of total assets, ISKbn



Net stable funding ratio (NSFR)



9 February 2023

Strong capital position

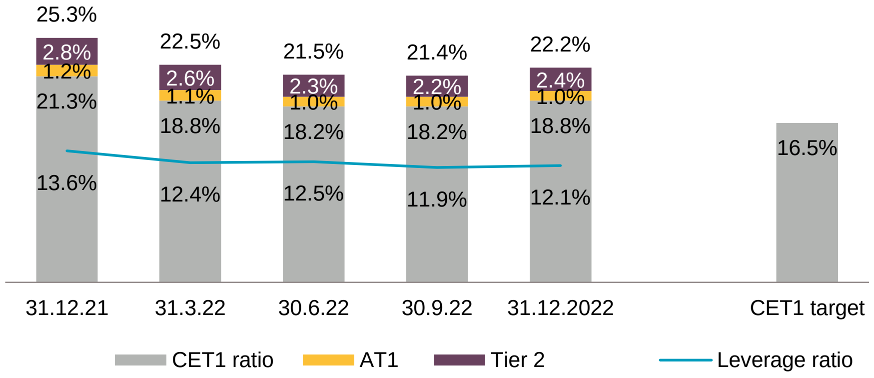
Capital position to be optimised before year-end 2024

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
- An ISK 14bn drop in REA despite an ISK 33bn increase in loans to customers in 4Q22
- The change in REA in 4Q22 is a result of decrease in loans to credit institutions and revision in the application of risk weights for the mortgage portfolio

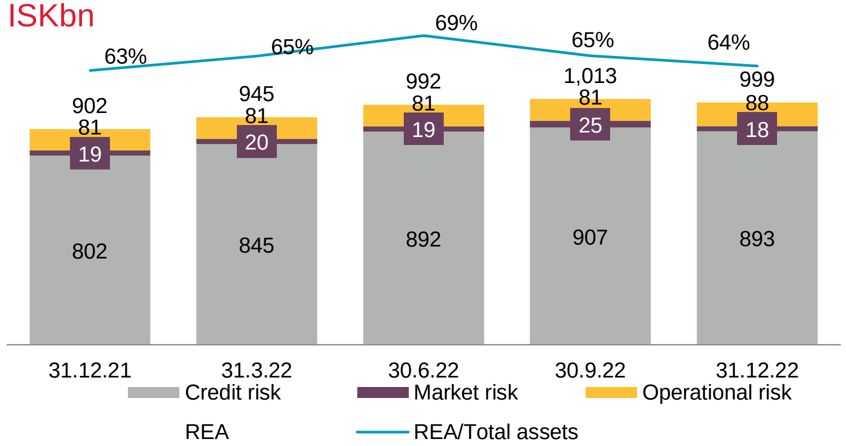
Capital ratios and leverage ratio

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



Risk exposure amount (REA)

ISKbn



Capital distribution plans

- Dividend payment of ISK 12.3bn proposed to the annual general meeting in line with the Bank's policy of paying out ~50% of preceding year's profit
- ISK 5bn of share buybacks planned over the coming few months through a market-based share buyback program
- Buyback plans for the short term reduced from ISK 15bn to ISK 5bn due to profitable loan growth and market circumstances. The ISK 10bn reduction will be added back to the Bank's capital base
- The Bank plans to optimise its capital structure before year-end 2024

MREL (Minimum Required own funds and Eligible Liabilities) according to BRRD I

Own funds and eligible liabilities (%REA)	31.12.22
Capital base	22.2%
Eligible liabilities	12.3%
Own funds and eligible liabilities	34.5%

Minimum required own funds and eligible liabilities (%REA)	
MREL	21.2%
Combined buffer requirement	9.3%
MREL including CBR	30.5%

9 February 2023

Q&A

Appendix I – About Íslandsbanki and additional financial information

9 February 2023

This is Íslandsbanki

Moving Iceland forward by empowering our customers to succeed

Vision and Values

Vision to be
#1 for service

Passion · Professionalism · Collaboration

The Bank

FTEs 700 number of FTEs at Íslandsbanki at period end

12 branches

Listed on Nasdaq Iceland as of June 2021

Market share[1]

31% retail customers

36% SMEs

35% large companies

Sustainability 4Q22

- The ratio of ESG risk-assessed credit risk has increased from 34% to 76% during 2022
- Published Road to net-zero emissions report and sector-specific reduction targets
- Íslandsbanki awarded ISK 40m in grants to 15 innovation projects

Key Figures 4Q22

ROE	11.1%	LCR Group, all currencies	205%
Cost-to-income ratio	42.5%	NSFR Group, all currencies	118%
CET1 ratio	18.8%	Leverage ratio	12.1%
Total capital ratio	22.2%	Total assets	ISK 1,566bn

Ratings and certifications

S&P Global Ratings **BBB/A-2**
Stable outlook

EQUAL PAY CERTIFICATE

Digital milestones 4Q22

- 95% of new private pension savings registrations done digitally
- Increase in personalised targeting of relevant products and services for customers
- Car lending process streamlined with electronic notarisation now available

1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, December 2022 survey for SMEs and 2022 average for large companies.

Financial overview

Key figures & 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.

Income Statement

Strong income growth and robust profitability

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 for the period	**5,982**	7,092	(16%)	7,486	(20%)	**24,535**	23,725	3%

Key ratios	4Q22	4Q21	3Q22	2022	2021
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%)

Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

Assets

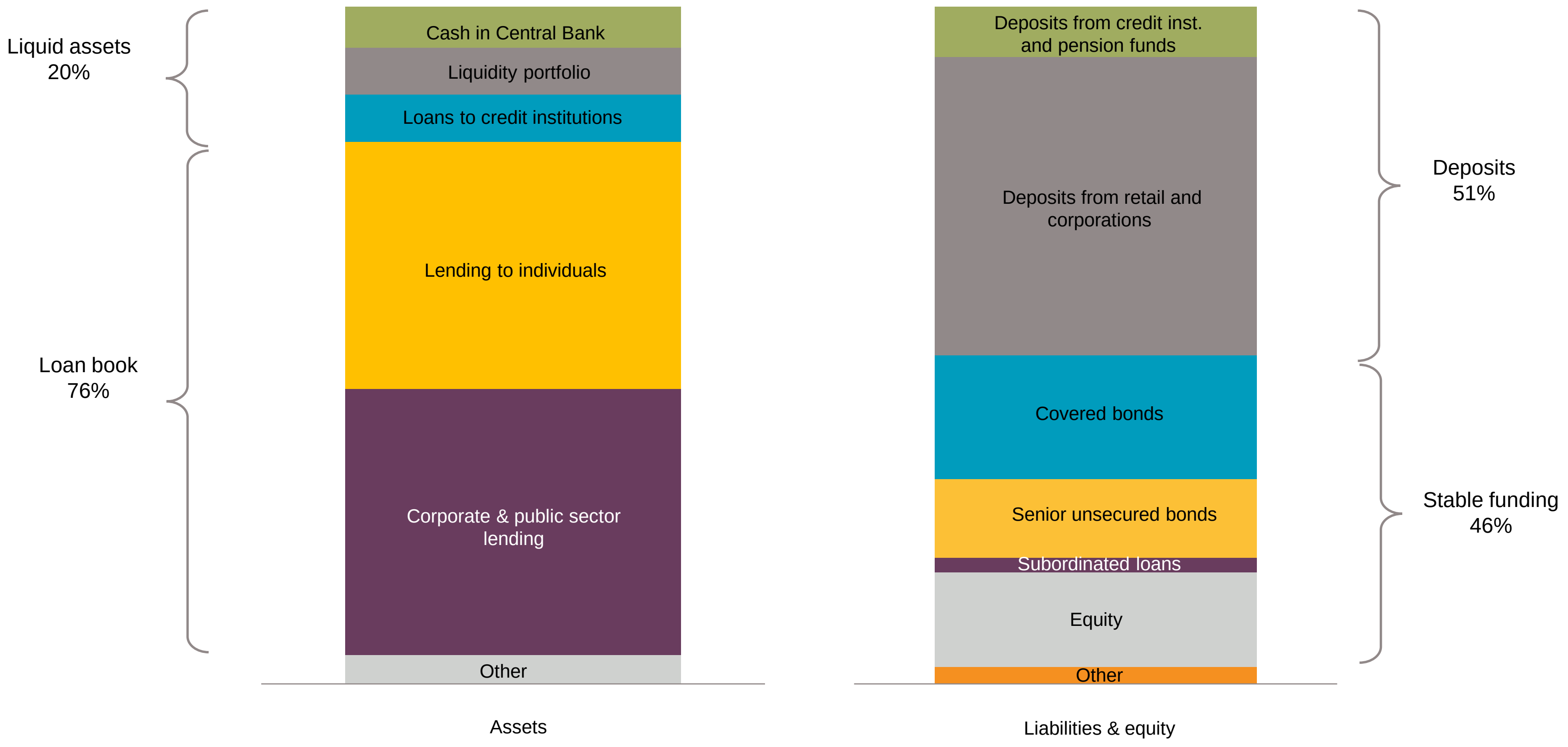
- Vast majority of assets consist of lending to both retail and corporates
- Strong liquidity portfolio is a consistent factor in balance sheet management
- Very limited exposure to non-liquid or non-lending assets

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

31.12.2022, ISK 1,566bn



Assets

Strong loan growth in 2022

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

Key ratios	31.12.22	30.9.22	Δ	Δ%	31.12.21	Δ	Δ%
Risk Exposure Amount (REA)	**999,491**	1,012,986	(13,495)	(1%)	901,646	97,845	11%
Non-performing loans (NPL) ratio[1]	**1.8%**	1.7%			2.0%		
Asset encumbrance ratio	**26.5%**	25.7%			19.6%		

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

Liabilities and equity

Deposits are the largest source of funding

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 borrowed 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	31.12.22	30.9.22	31.12.21
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[1]	**22.2%**	21.4%	25.3%
Tier 1 capital ratio[1]	**19.8%**	19.2%	22.5%
Leverage ratio[1]	**12.1%**	11.9%	13.6%

1. Including quarter profit for 30.9.22

Appendix II – Icelandic economy update

Forecasts as of 1 February 2023

Steadier growth to take over from the strong recovery

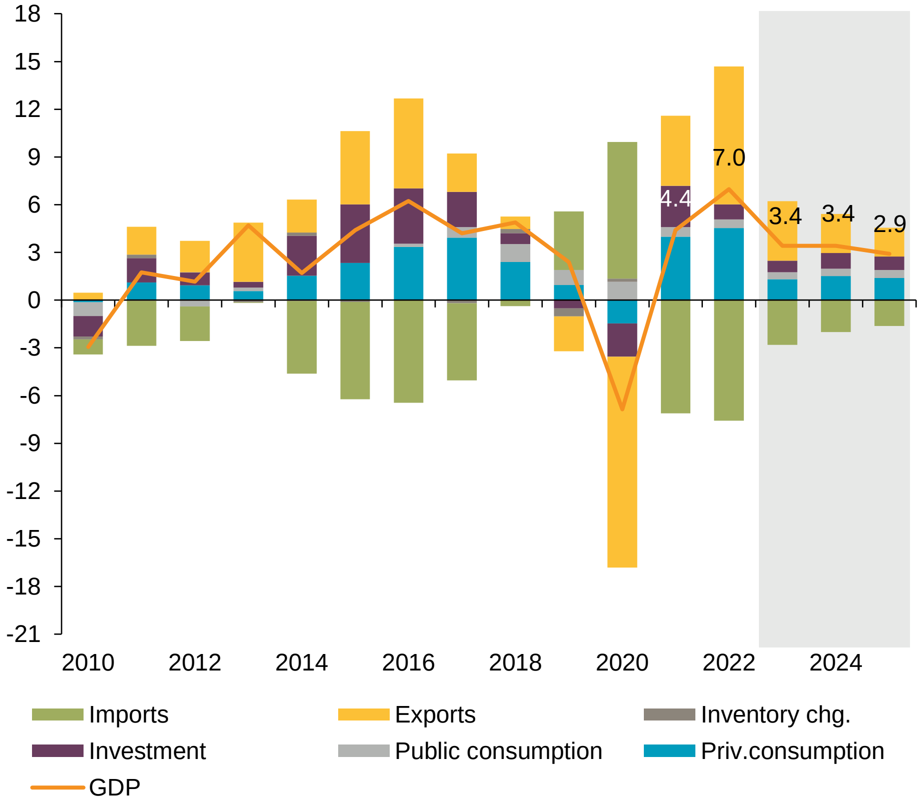
Exports the main driver of GDP growth in 2023, but domestic demand will gain steam in coming years

Highlights

- GDP growth is estimated to have measured 7.0% in 2022, following on from 4.4% growth in 2021
- Demand grew strongly – private consumption in particular. Tourism regained its footing in 2022, and other export sectors contributed to growth as well. On the other hand, imports surged
- ISB Research forecasts GDP growth at 3.4% in 2023. Export growth will be a major contributor to GDP growth in 2023, supported by relatively robust growth in demand, although private consumption growth will lose considerable steam year-on-year
- Output growth at 3.4% is also assumed in 2024, with private consumption and investment gaining pace and export growth softening
- For 2025, the outlook is for GDP growth to slow to 2.9%, owing mainly to weaker growth in exports
- External risk factors include the impact of the continuing war in Ukraine, the effects of high inflation and rising interest rates on trading partner demand, and the impact of a tighter domestic monetary stance as well as developments in the housing market on households and businesses

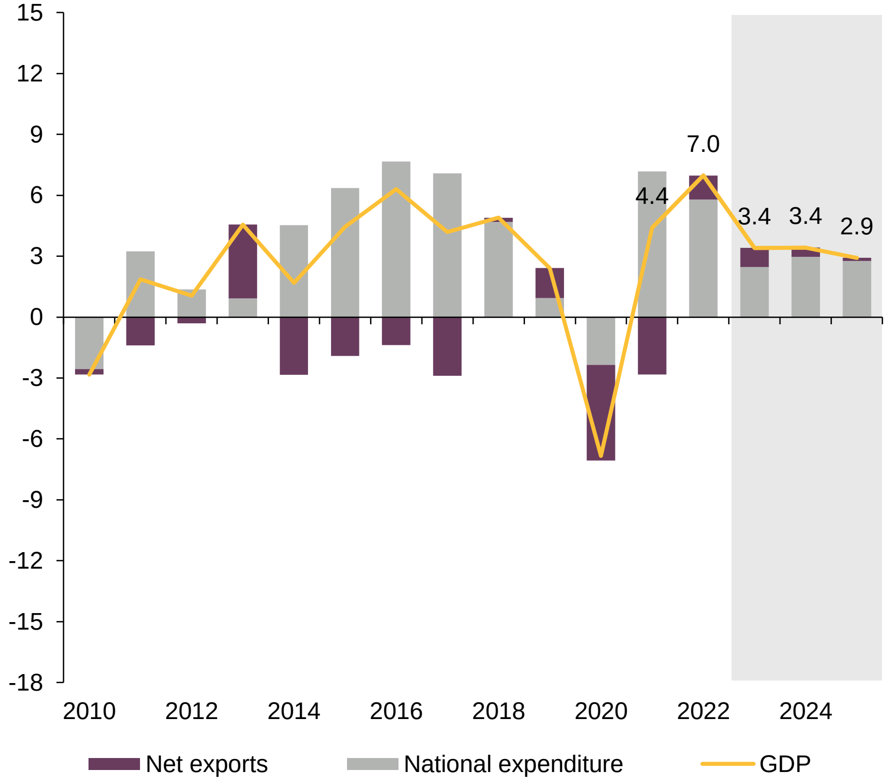
GDP and contribution of its subcomponents

Volume change from prior year (%)



GDP, domestic demand, and external trade

Volume change from prior year (%)



Sources: Statistics Iceland, ÍSB Research.

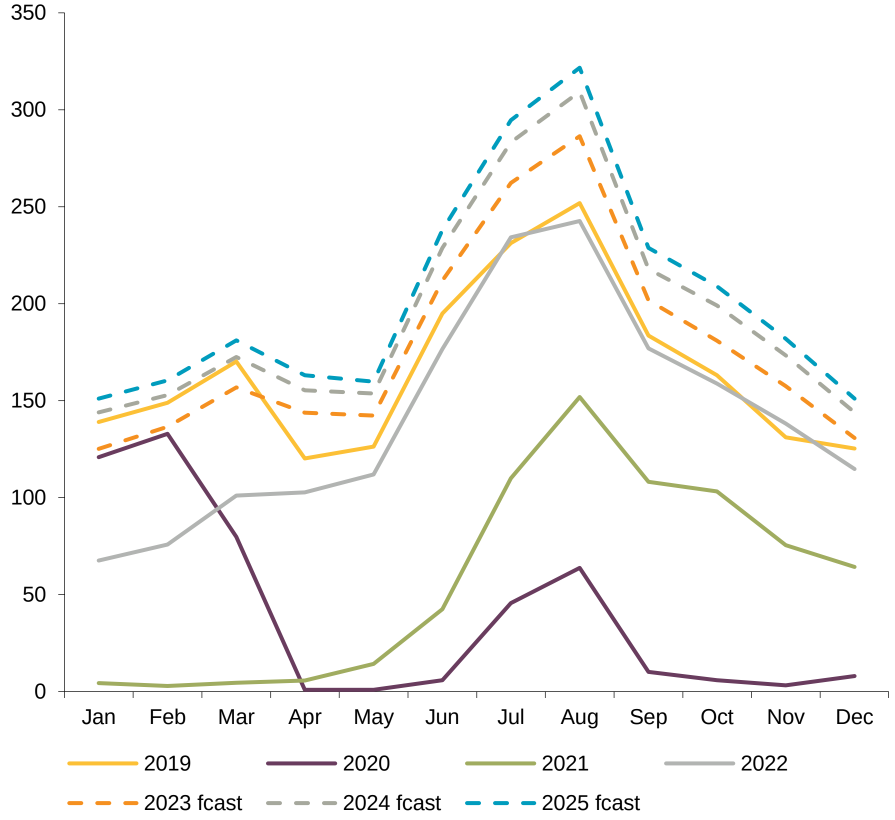
Tourism rises to new heights

Over 2.1 million tourists to visit Iceland in 2023, followed by record numbers in 2024 and 2025

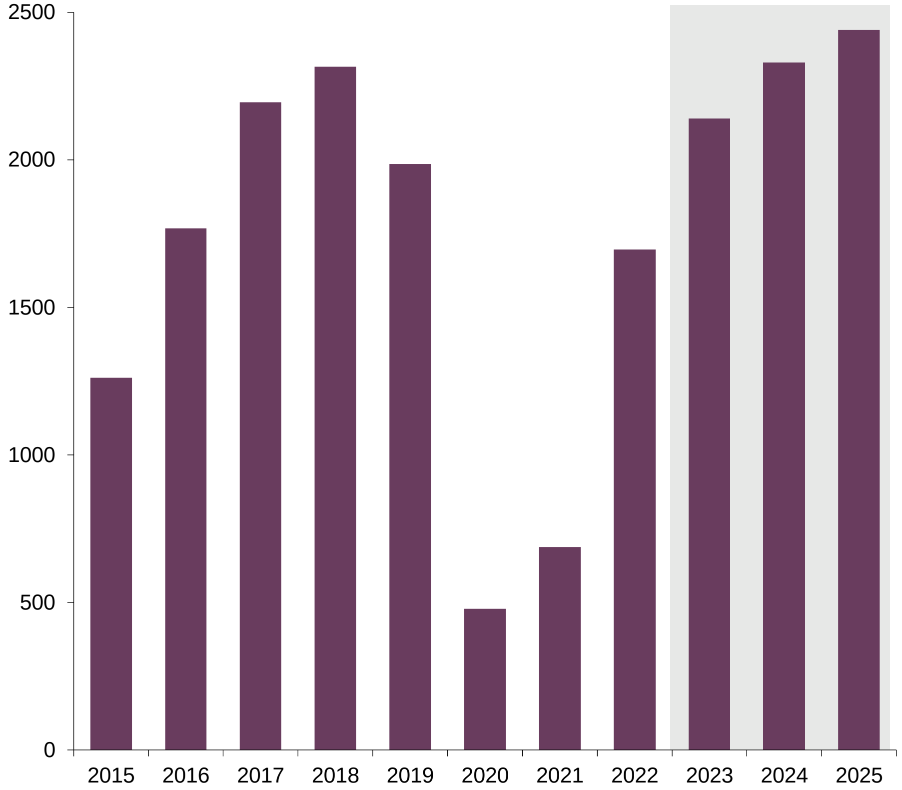
Highlights

- The tourism industry bounced back swiftly after public health restrictions were lifted last spring. As yet, the worsening economic outlook abroad seems not to have dampened appetite for travel to Iceland to any discernible degree
- Around 1.7 million tourists visited Iceland in 2022, the largest total since 2019
- Bookings, growth in the number of scheduled Iceland-bound flights, and an uptick in cruise ship arrivals all suggest that growth will remain buoyant this year
- ISB Research forecasts that over 2.1 million tourists will arrive via Keflavik Airport this year, about the same number as in 2017
- Tourist numbers are expected to rise to over 2.3 million in 2024 and 2.4-2.5 million in 2025. If this forecast is borne out, the next two years will set new records for the tourism sector
- The slower expected rate of growth in tourist arrivals further ahead is due, among other things, to a shortage of accommodation and other related infrastructure and to the possibility that a rising real exchange rate could cut into demand for Iceland as a travel destination

Number of foreign tourists, by month
thousands



Number of foreign tourists, by year
thousands



Shaded areas and dotted lines denote ISB Research forecasts

Sources: Icelandic Tourist Board, ÍSB Research.

Icelandic economy resilient to European energy crisis

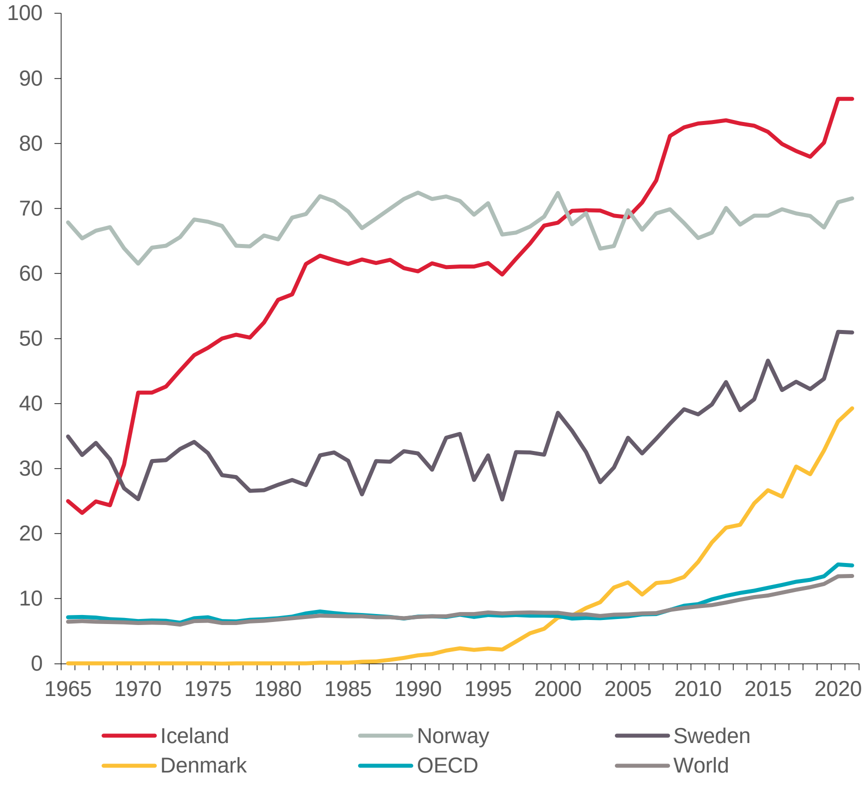
Geothermal heating keeps energy costs at bay

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 m^3, 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

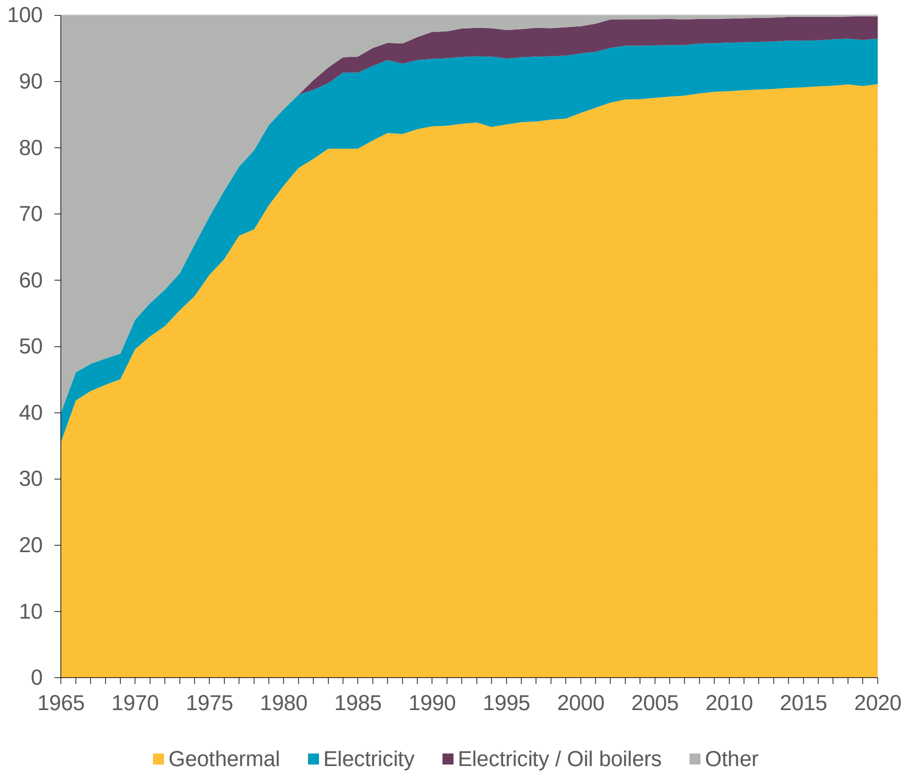
Share of primary energy from renewable sources

% of total



Proportion of energy source in space heating

%



Sources: Our World in Data, National Energy Authority

Current account deficit set to close during the forecast horizon

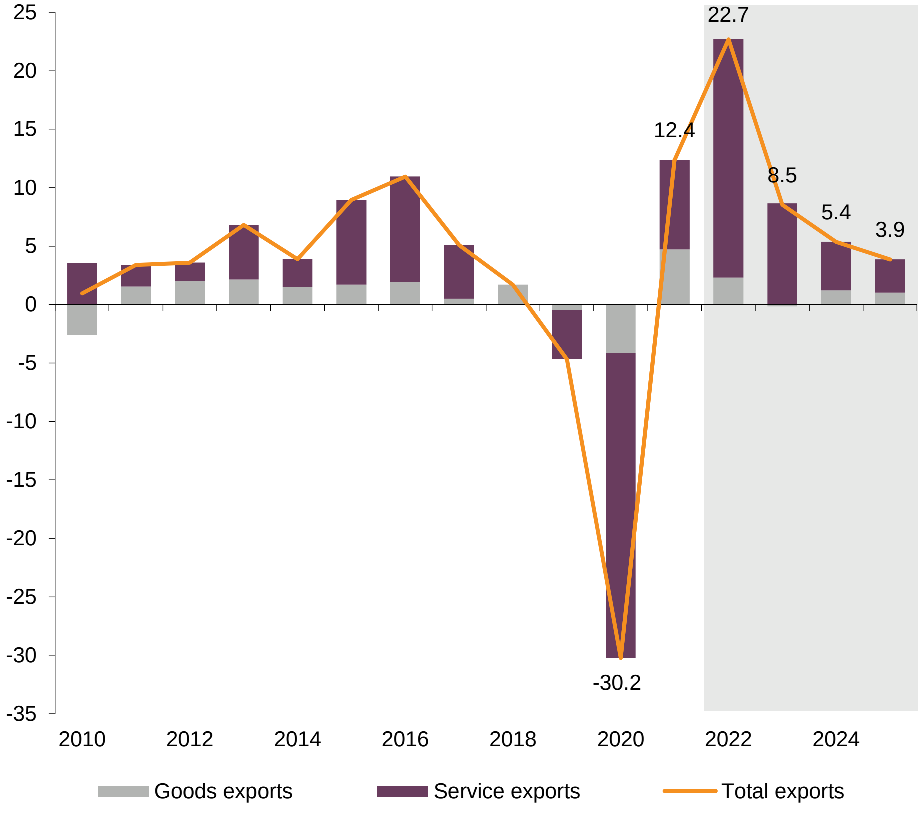
Growing exports, better terms of trade, and slower demand growth will help rebalance external trade

Highlights

- The tourism boom explains the bulk of this year's forecasted 8.5% growth in exports as well as the more moderate growth expected in 2024-2025
- Exports of intellectual property and other services look set to grow markedly as well
- Goods exports growth in coming years due to stronger exports of farmed fish, aluminium, and other industrial goods as well as an uptick in groundfish exports
- Last year's estimated current account deficit of 3.2% of GDP reflects the fact that domestic demand picked up more rapidly than exports in the wake of the pandemic as well as worsening terms of trade
- The outlook is for the current account deficit do decline to 1.4% of GDP in 2023 due to improving terms of trade, export growth outpacing import growth and an improvement in the contribution from primary income
- The current account is expected to be broadly balanced in 2024-2025, with the final outcome depending on the real exchange rate and terms of trade

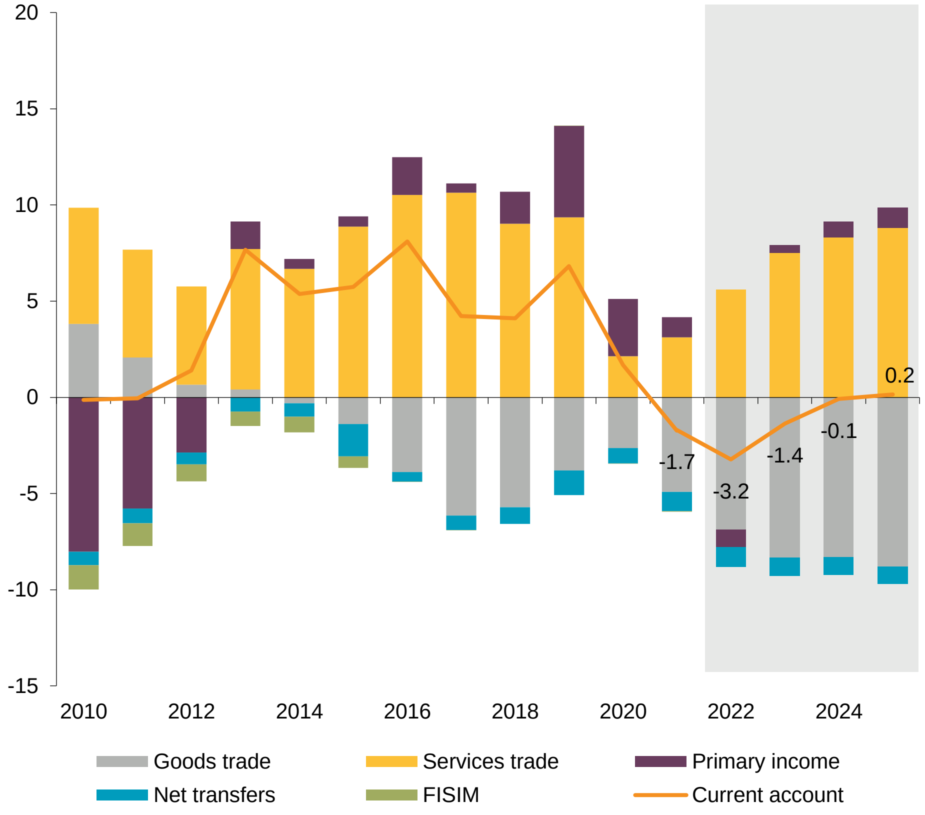
Exports and contribution from subcomponents

% change



Current account balance

% of GDP

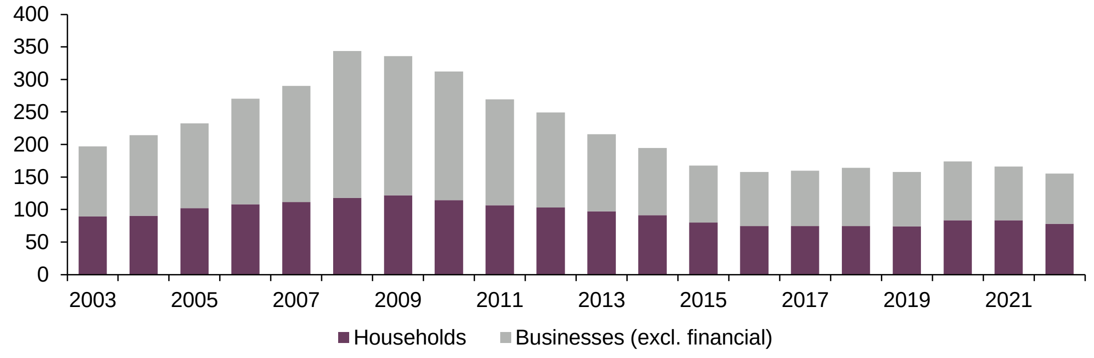


Sources: Statistics Icelandic, Central Bank of Iceland, ÍSB Research.

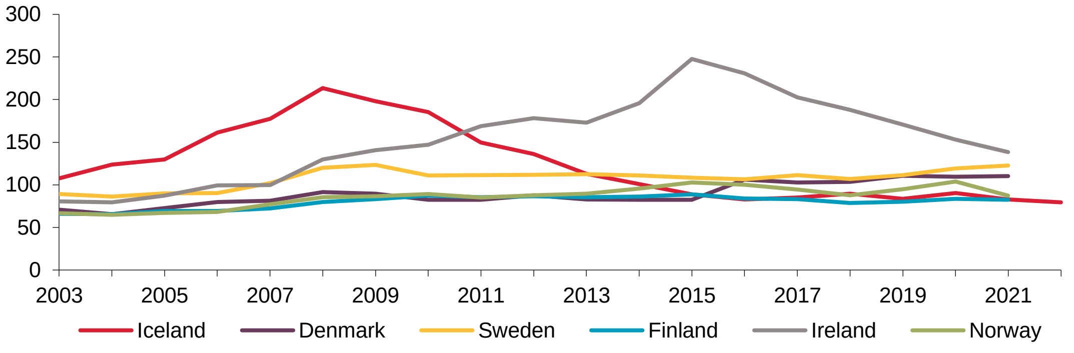
Domestic balance sheets remain healthy

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

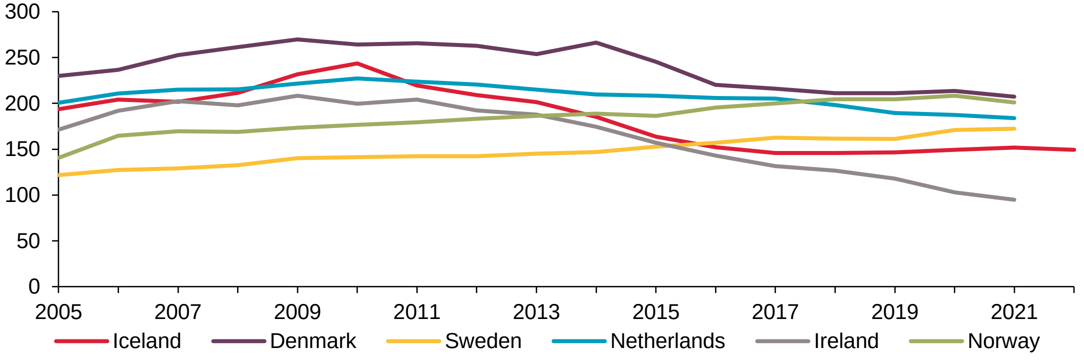
Private sector debt
% of GDP



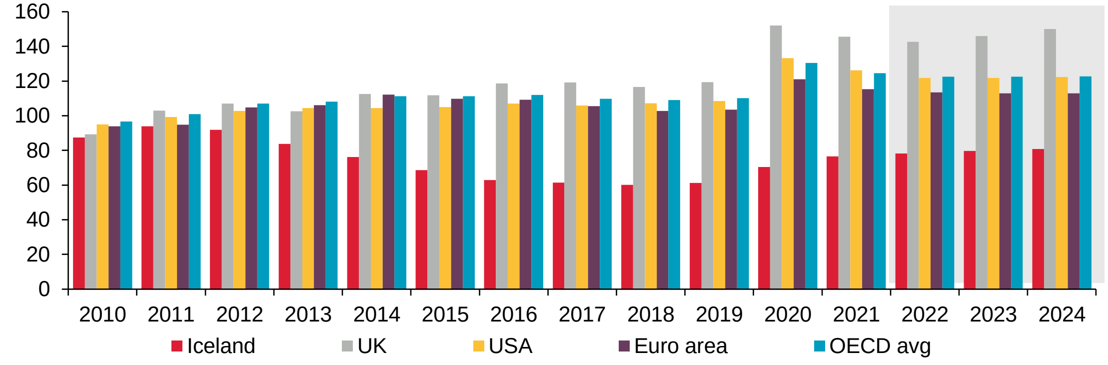
Corporate debt
% of GDP



Household debt
% of disposable income



General government gross financial liabilities
% of GDP



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

Investment keeps growing steadily in the wake of an upsurge

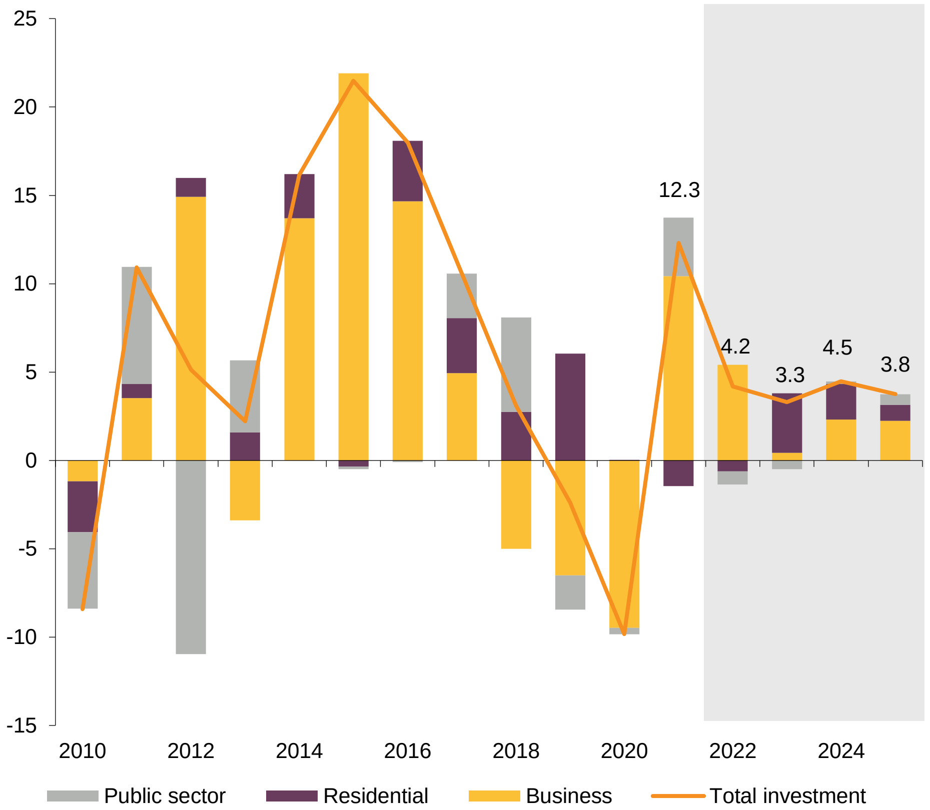
Residential investment the main driver of growth in 2023; corporate investment set to regain steam

Highlights

- After spiking in 2021, investment growth appears to have lost considerable pace in 2022
- For 2022, growth is estimated at just over 4%, owing entirely to business investment, as both residential and public investment contracted somewhat year-on-year
- For 2023, though, robust growth in residential investment looks set to weigh heaviest in the projected 3% year-on-year growth in total investment, while business investment is on track to be virtually unchanged between years
- The impact of rising interest rates and increasingly muted expectations on business investment is offset by ambitious infrastructure-related projects
- Corporate investment will then pick up again in 2024, and residential investment is expected to grow as well
- In the final year of the forecast horizon, public investment is expected to rebound somewhat, while growth in residential investment looks set to lose momentum
- ISB Research forecasts that total investment will grow by just over 3% in 2023, 4-5% in 2024, and nearly 4% in 2025
- The overall investment level will hold relatively steady over the forecast horizon, although activity will shift between sectors

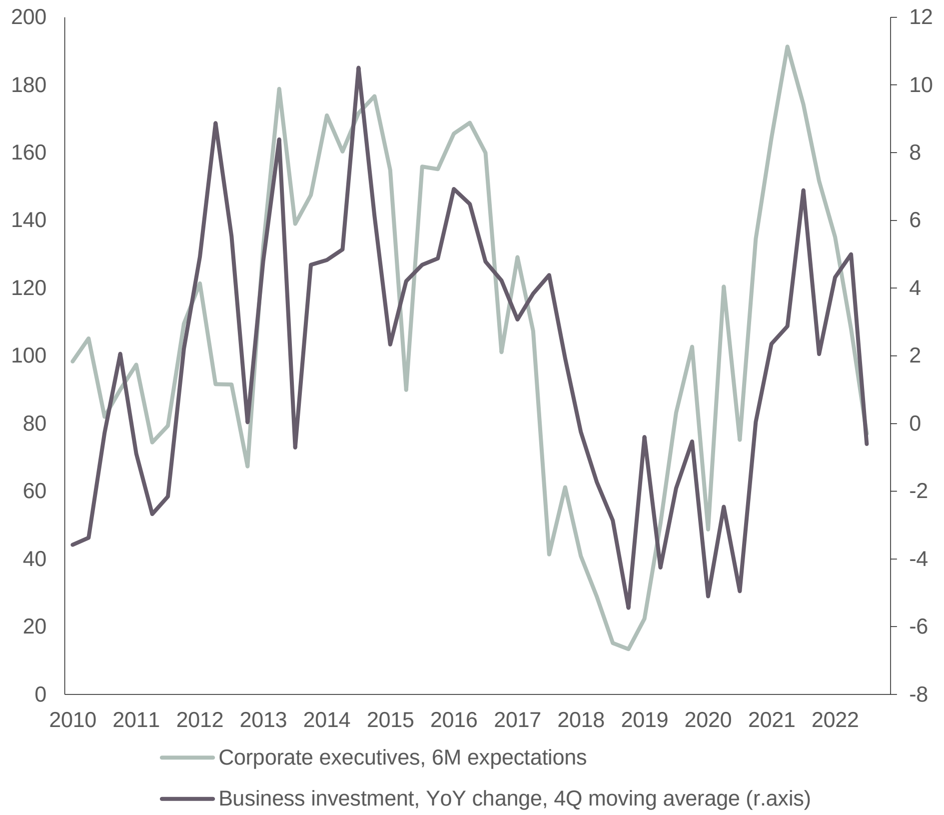
Investment, real change, and contribution of subcomponents

%



Executives' expectations and business investment

Index value (left) and % change year-on-year (right)



Source: Statistics Iceland, Gallup.

Unemployment set to remain flat in 2023

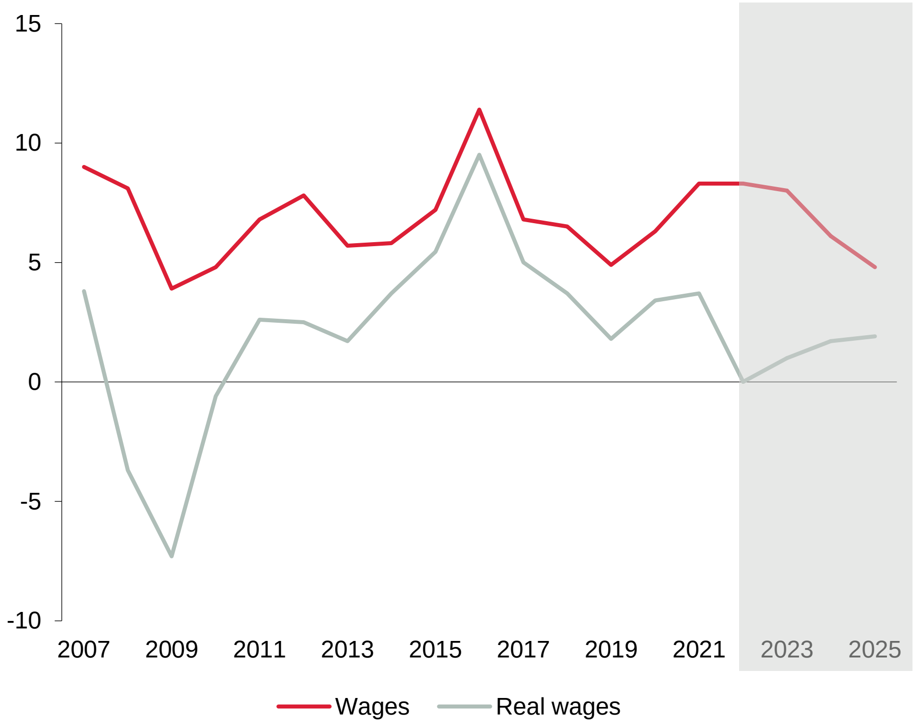
Real wage growth expected throughout the forecast horizon

Highlights

- The labour market has recovered remarkably quickly post-COVID, and job numbers are now above the pre-pandemic level
- Unemployment averaged 3.9% in 2022, close to the 3.6% seen in 2019. In 2020 and 2021, however, it hovered around 8%
- ISB Research forecasts average year-2023 unemployment at 3.3%
- Even though nominal wages rose by over 8% in 2022, they did not compensate for inflation, and real wages were flat during the year
- Real wages are projected to start to grow again as soon as this year, in view of the contracts currently on the table. ISB Research forecasts real wage growth at 1% in 2023 and nearly 2% per year in 2024 and 2025
- Unemployment is expected to remain broadly unchanged throughout the forecast horizon, although it will rise marginally in 2024 as tension in the labour market eases
- ISB Research forecasts average unemployment at 3.7% in 2024 and 3.8% in 2025

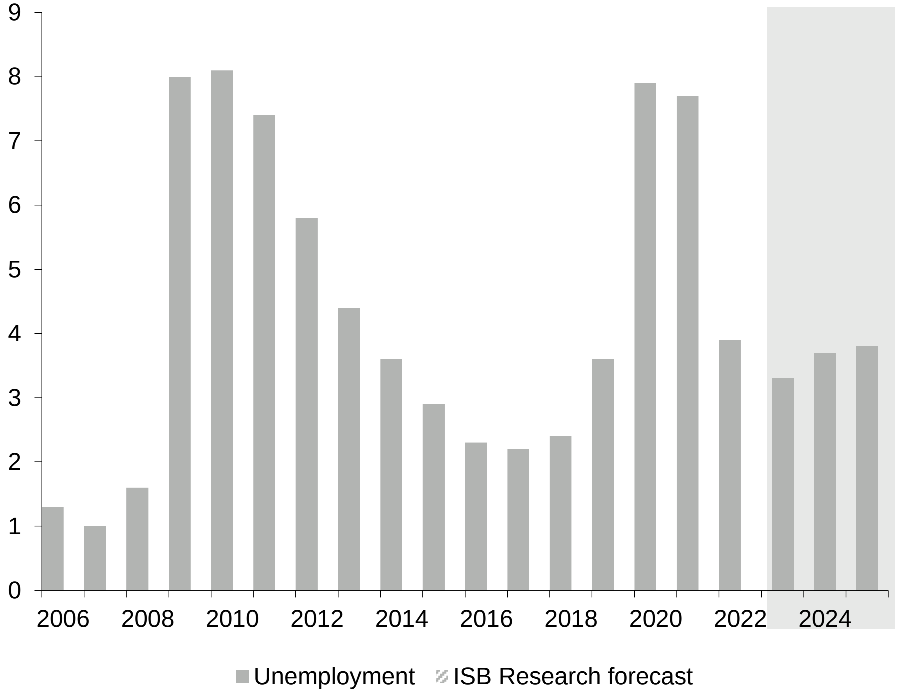
Labour supply according to corporate executives

%



Unemployment[1]

% of workforce, annual average



1. Excluding recipients of part-time unemployment benefits.

Source: Statistics Iceland, The Central Bank of Iceland, Gallup.

Private consumption growth remains resilient

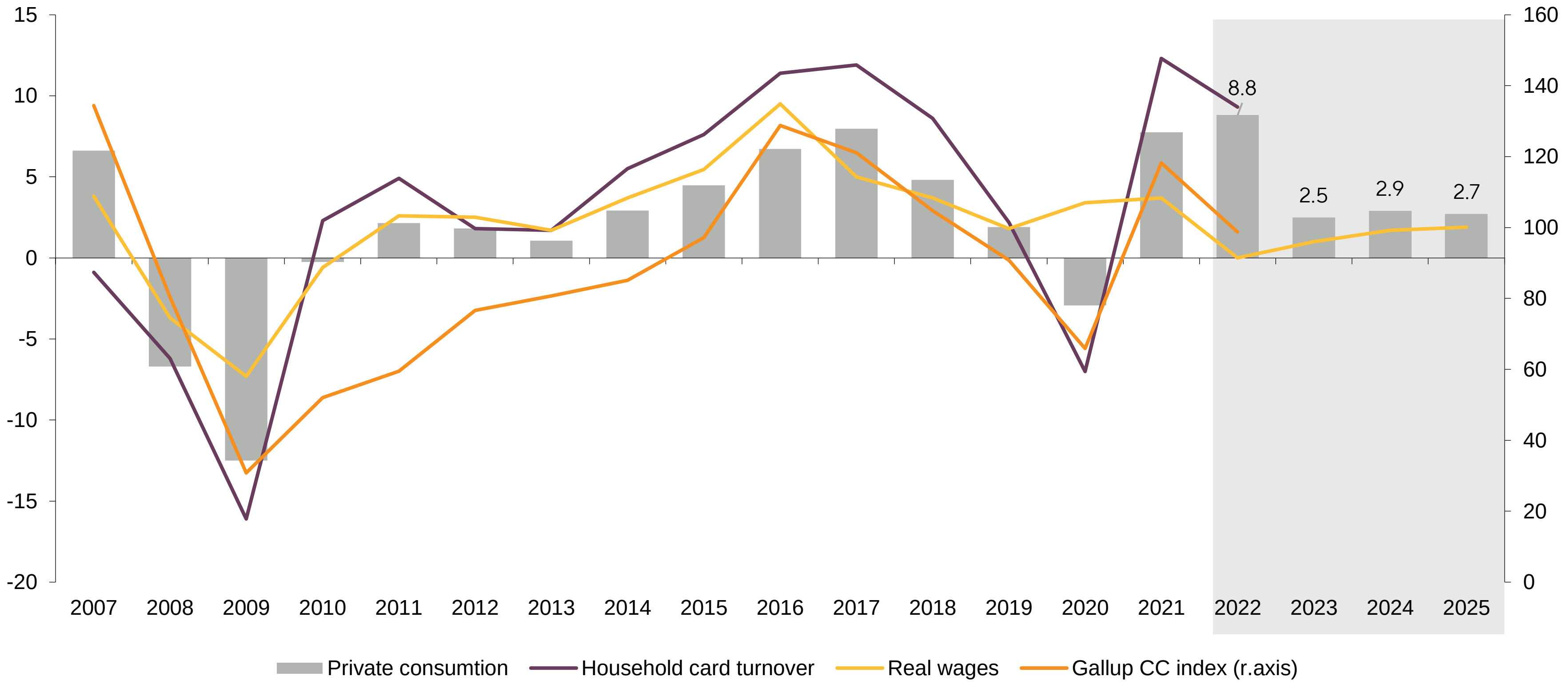
Household saving ratio still above average

Highlights

- Icelanders were willing spenders in 2022. Over the first nine months of the year, private consumption grew in real terms by 11%, the fastest rate in 17 years
- Private consumption growth appears to have eased in Q4/2022, and the growth rate for the full year is estimated at approximately 9%
- The saving ratio topped out at 23% of disposable income in Q2/2022. It is still above average, measuring around 13% of disposable income, but has begun to ease towards its average level
- This could suggest that private consumption growth will lose momentum in the near future
- Other indicators, such as payment card turnover, point in the same direction. After several record-breaking months in 2022, payment card turnover has begun to ease
- Private consumption is quite resilient, and most households are still well positioned financially
- ISB Research forecasts year-2023 private consumption growth at 2.5%. Alongside declining inflation and the associated real wage gains, private consumption will grow by 2.9% in 2024 and 2.7% in 2025

Private consumption and related indicators*

% change year-on-year (left) and index value (right)



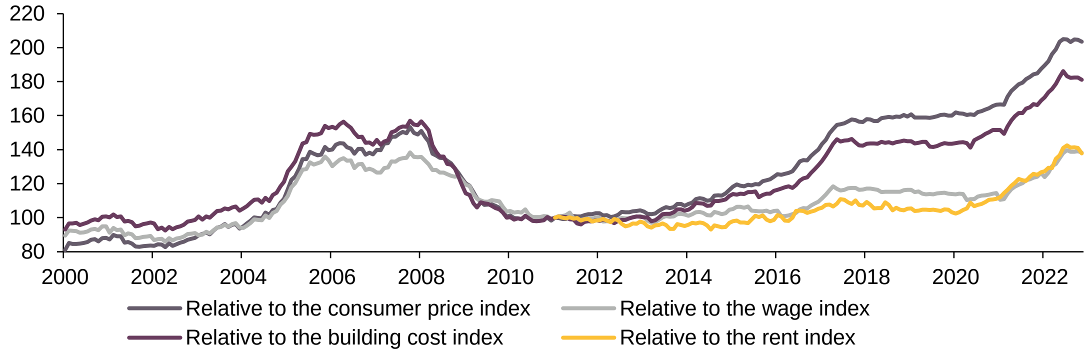
Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

The housing market has begun to turn around

Central Bank measures appear to be achieving the intended result

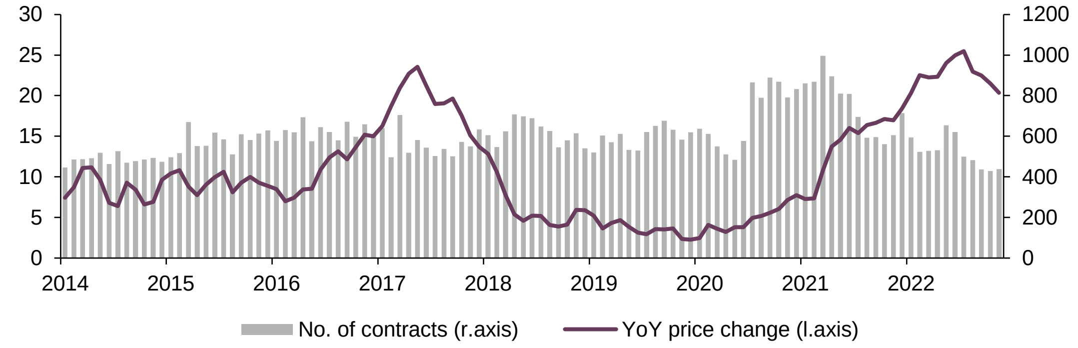
Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



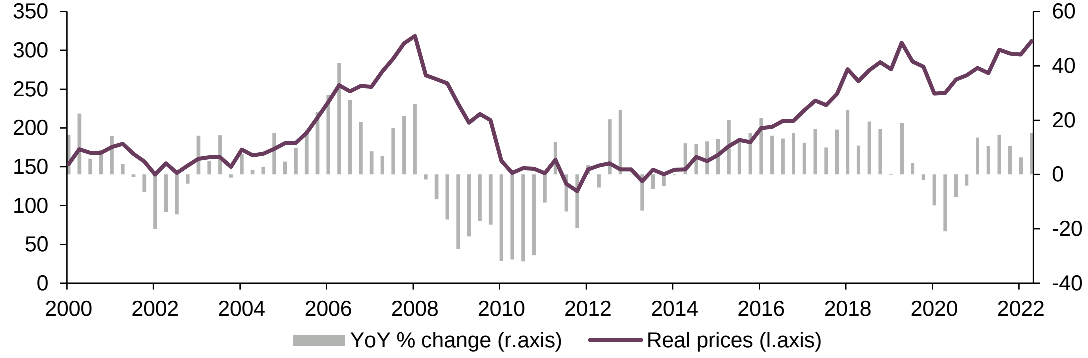
Residential house prices and turnover in greater Reykjavik

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



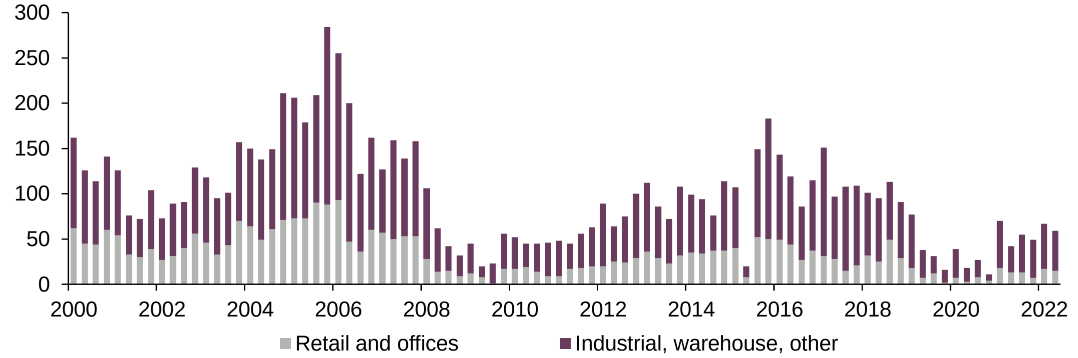
Commercial property real prices in greater Reykjavik

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



Commercial real estate market activity

No. of registered purchase agreements



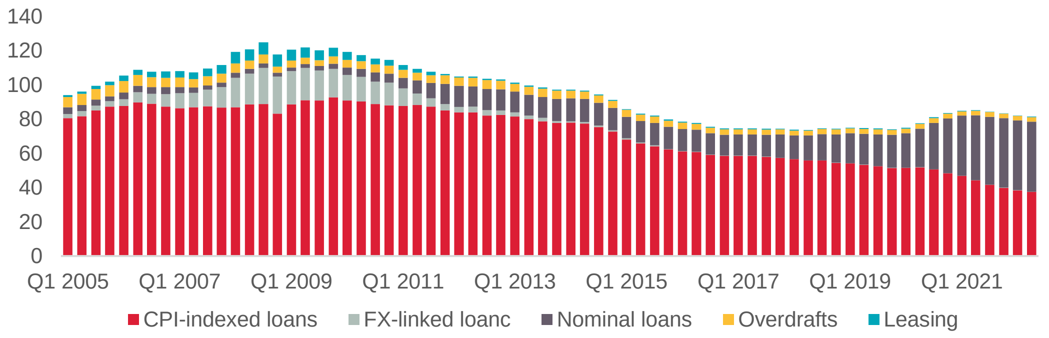
Source: The Central Bank of Iceland.

The Icelandic housing market is relatively resilient

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

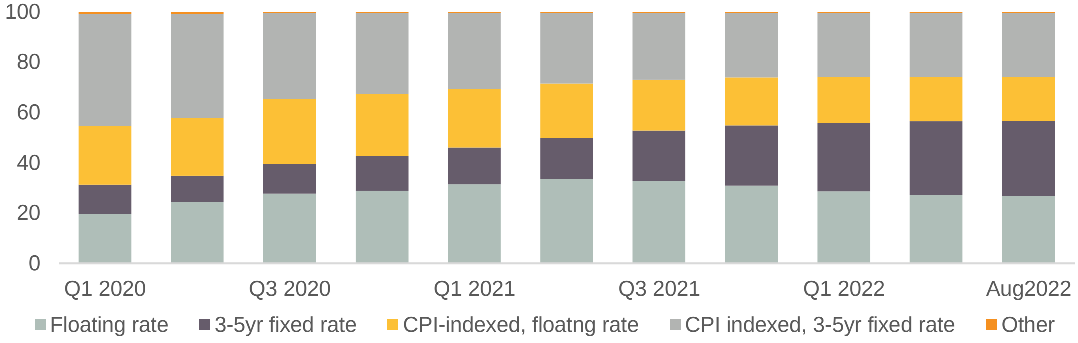
Households are not highly indebted compared to peers

Household debt, % of GDP



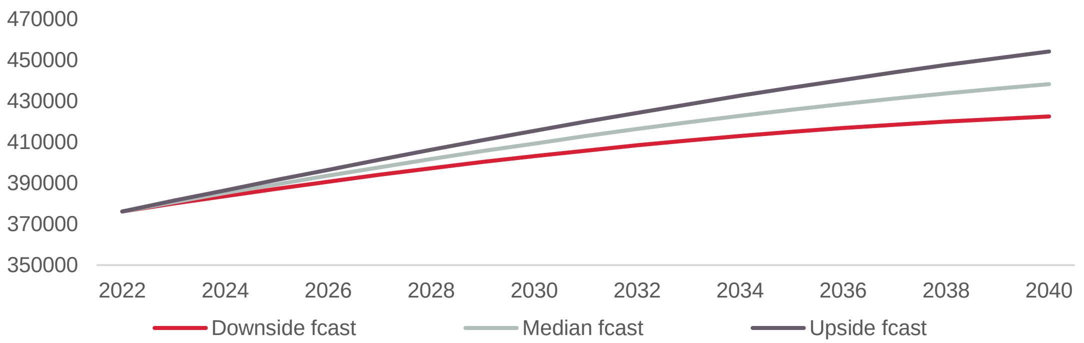
Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



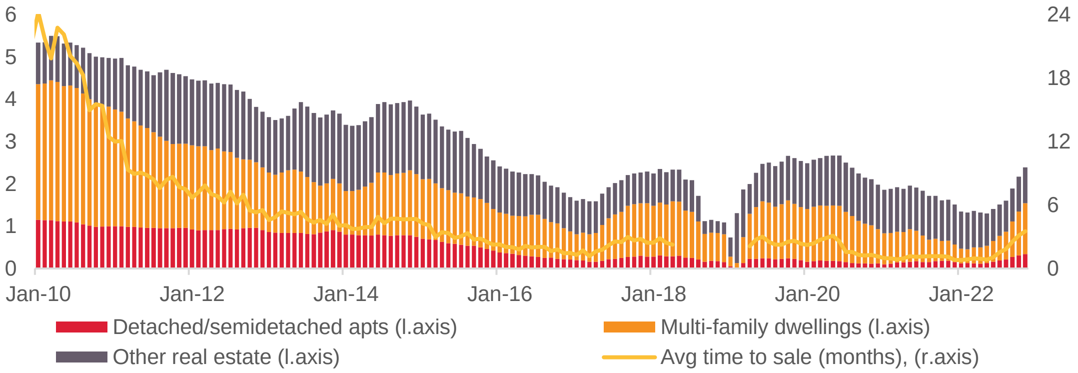
Underlying upward demand trend steady as population growth remains robust

Population forecast by Statistics Iceland



Market has until recently been characterised by limited supply

No. of purchase agreements, capital region (th.), and average time to sale



Source: The Central Bank of Iceland, Statistics Iceland.

Inflation will fall, but how fast?

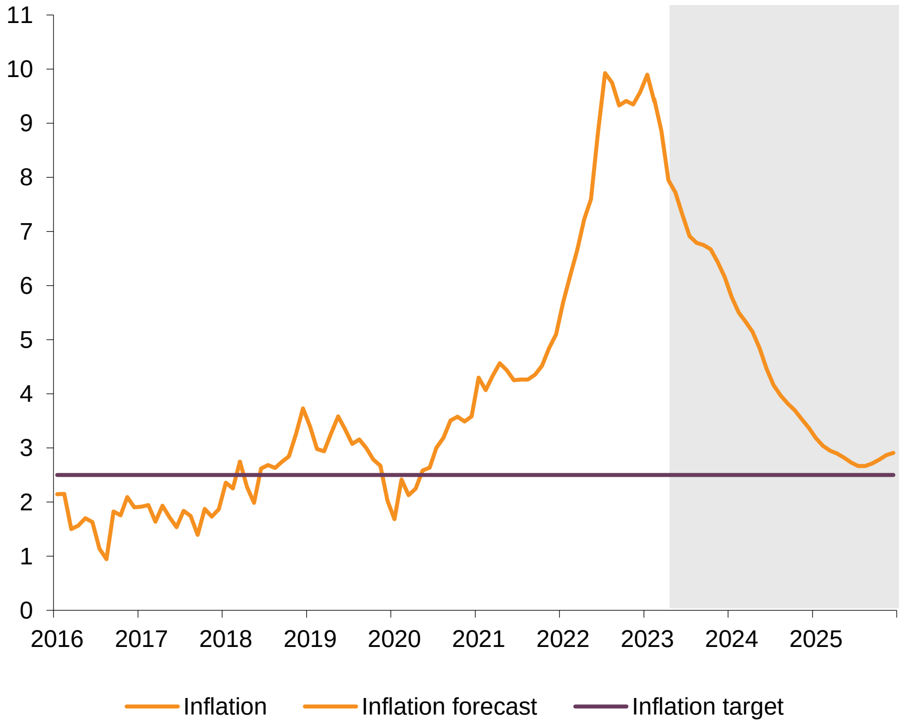
The road back to the inflation target is rocky and circuitous

Highlights

- Twelve-month inflation rose in January and measured 9.9%, where it topped out last July
- In coming months something major would have to change in order to prevent inflation from subsiding in the near future, as large monthly increases are set to drop out of twelve-month measurements
- For example, the CPI rose by an average of 1% per month over the first half of 2022
- Of the January inflation figure of 9.9%, the housing component accounts for 3.5%. This percentage has been falling, after peaking at 4% last summer, and looks set to keep declining in the near future
- Imported inflation, another key driver of inflation, is still rising and appears likely to keep doing so in coming months
- There are hopes that it will taper off sharply over the course of the year, though, particularly if the ISK holds its ground
- ISB Research expects inflation to average 7.6% in 2023, 4.5% in 2024, and 2.8% in 2025

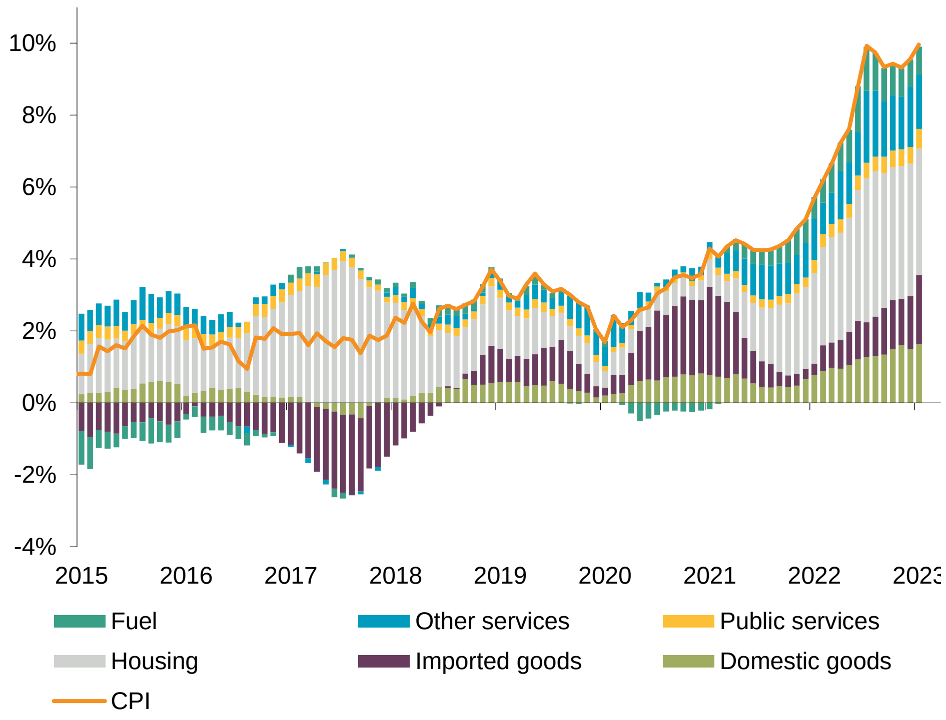
Inflation and the CBI inflation target

%



Inflation by contribution of main categories

%



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

Interest rates relatively high near-term but will ultimately fall

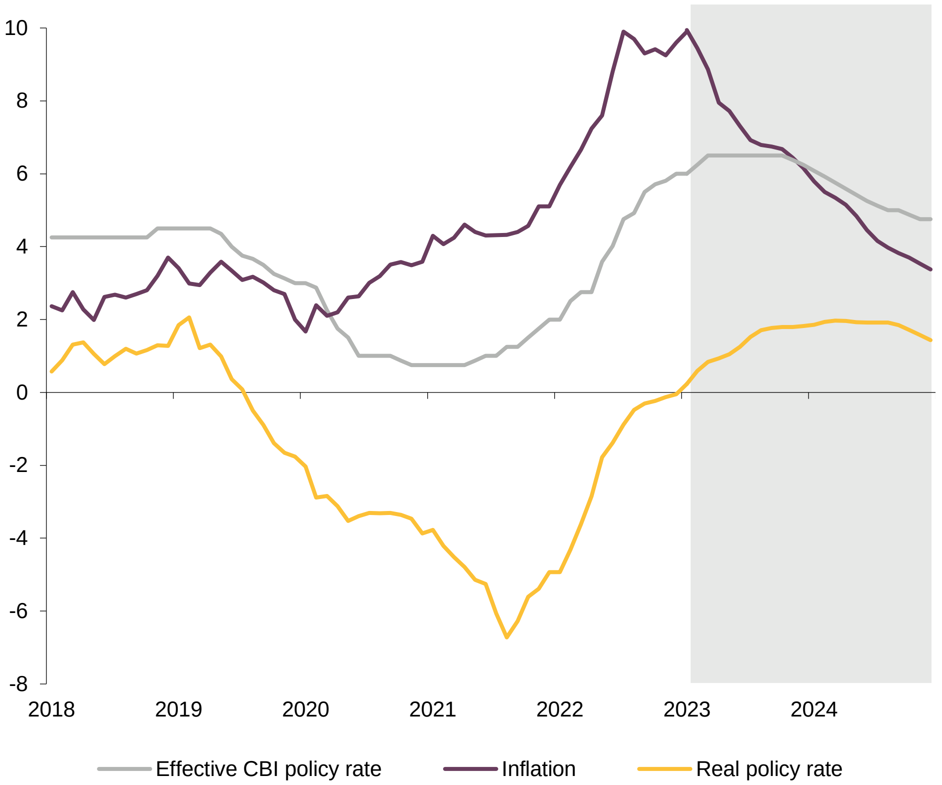
Gradual easing further ahead; equilibrium rate in sight by the end of the horizon

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 6.0%, after being raised by 4 percentage points in 2022
- The real rate has risen somewhat in recent quarters. It currently ranges between -2% and just under 2% in terms of forward-looking measures. The long-term real rate is around 1.9%, however, up from slightly below 1% in mid-2022
- The outlook is for a further 0.5 percent rise in the policy rate and for the Central Bank's rate hike process to conclude with the policy rate at 6.5% by the end of Q1
- Further ahead, however, the policy rate will fall again, perhaps starting in Q4 – provided that inflation subsides as expected
- The policy rate is assumed to average 4.5% in 2025, the last year of the forecast horizon
- By the end of the forecast horizon, long-term rates are expected to approach equilibrium, estimated at around 4.5% for nominal rates and somewhere near 1.5% for the real rate

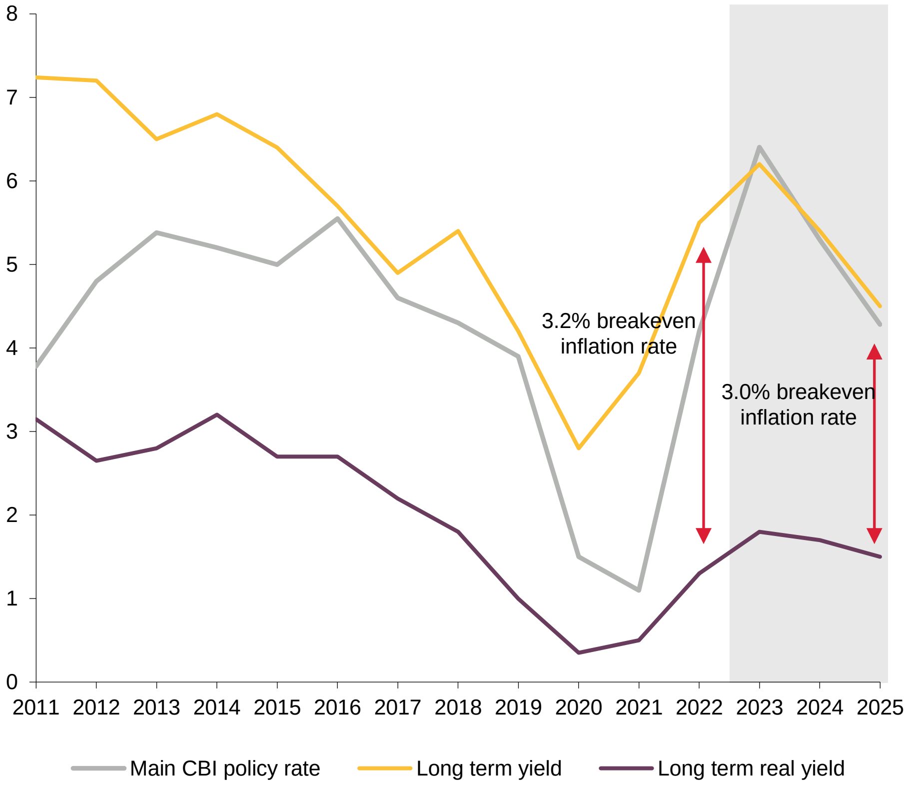
Policy rate and inflation

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



Interest rates

%



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

ISK likely to strengthen somewhat over time

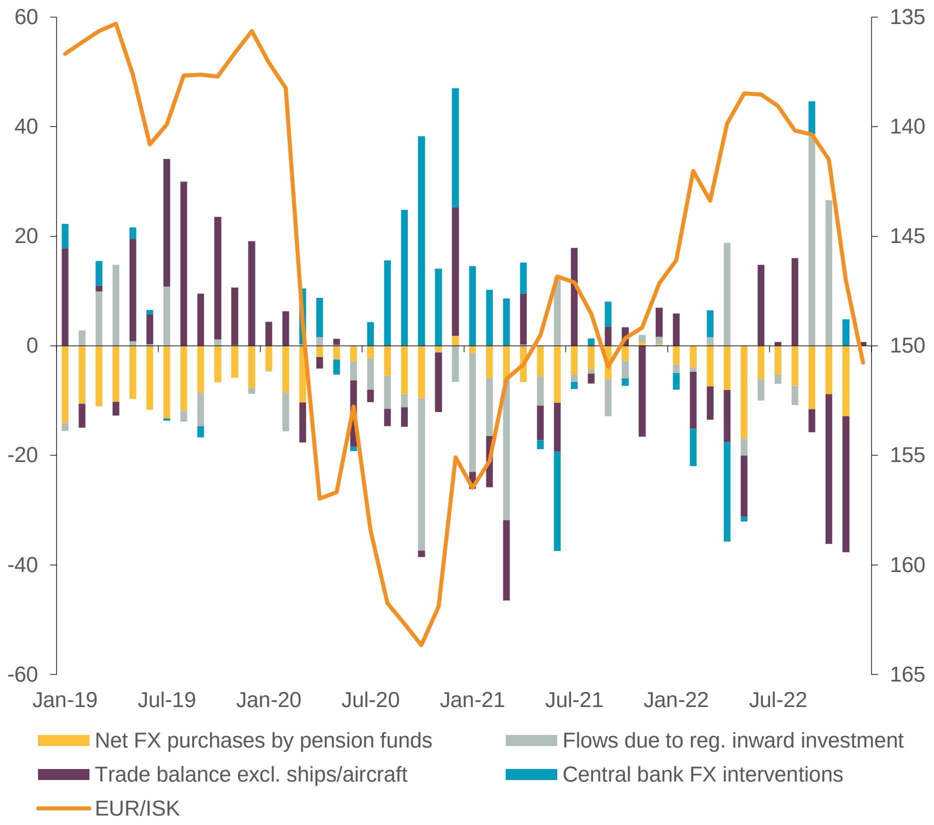
Less favourable net trade reduces the likelihood that the ISK will regain its previous strength

Highlights

- After strengthening markedly over the first five months of last year, the ISK fell steadily from early summer until the year-end. On average, the ISK was 3% stronger in 2022 than in 2021
- Increases in long-ISK forward positions were a factor in the appreciation early on and reversals in such positions played a role in the subsequent depreciation
- Unfavourable foreign trade and foreign asset purchases by domestic pension funds also played a role in ISK depreciation in 2H 2022
- The near-term outlook for external trade has deteriorated somewhat relative to earlier forecasts, and the tailwinds supporting the ISK will probably be weaker in coming quarters than earlier anticipated
- Even so, the current account looks set to be in balance further ahead, with a significant interest rate differential, a strong external position, more favourable GDP growth prospects than are generally envisioned abroad, and non-residents' securities holdings are relatively moderate
- ISB Research forecasts that the ISK will be approximately 8% stronger at the end of the forecast horizon than at year-end 2022. This would give an exchange rate of roughly ISK 142 per euro towards the end of 2025

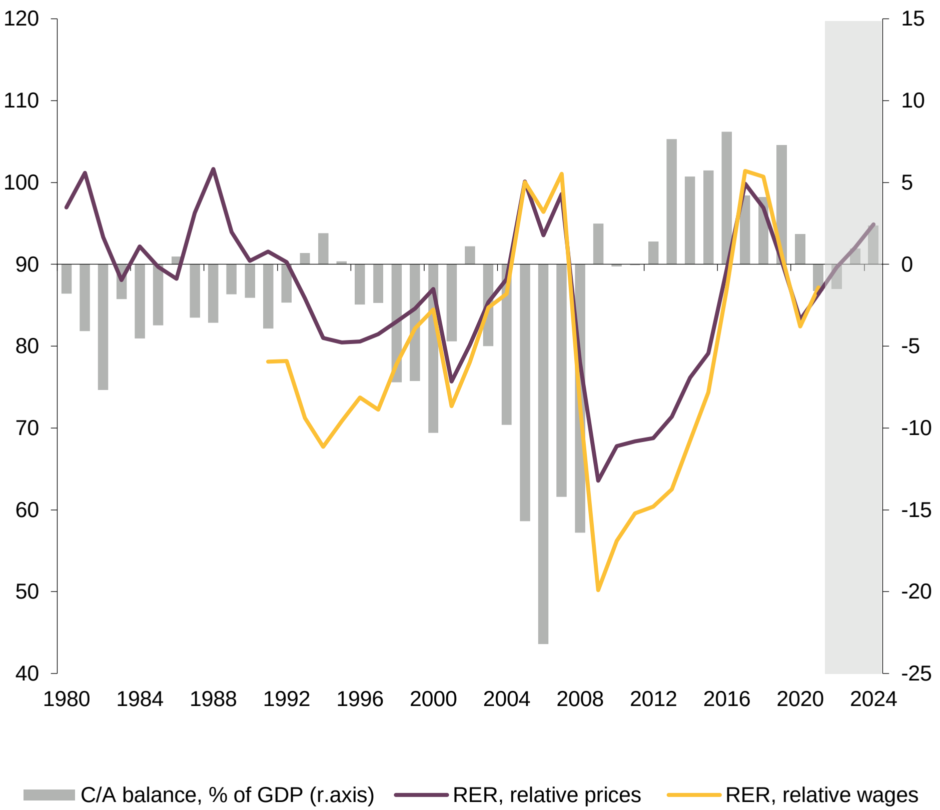
ISK exchange rate and selected determinants

ISK bn (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP

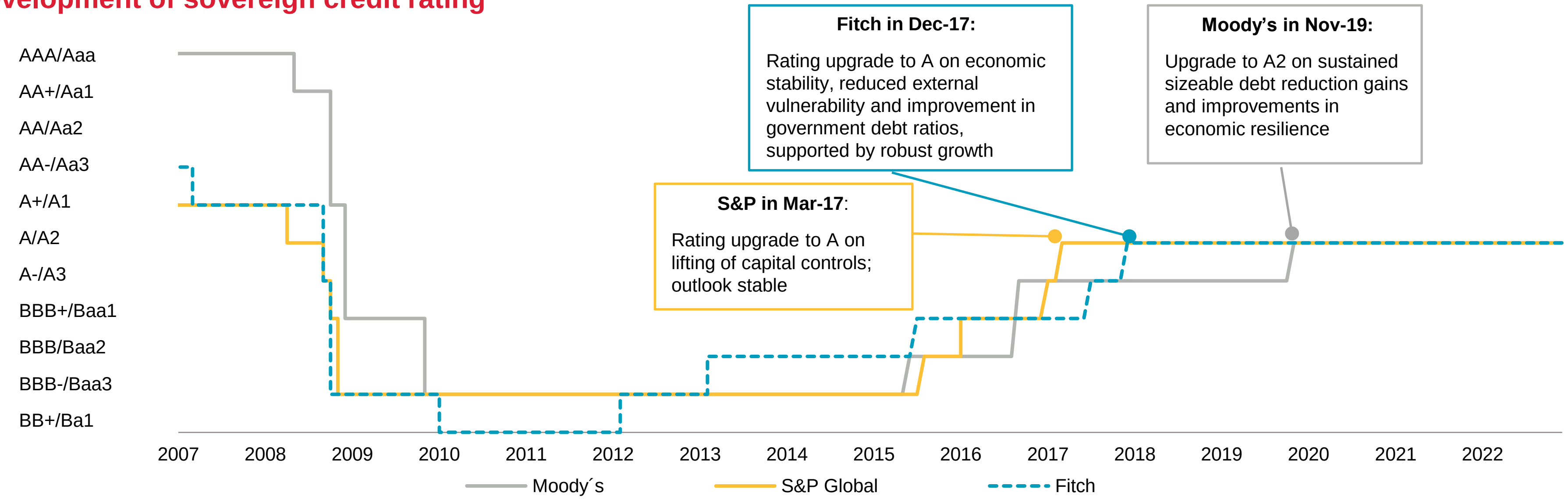


Source: Statistics Iceland, The Central Bank of Iceland, ISB Research.

Iceland's credit rating has been resilient in turbulent times

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

Development of sovereign credit rating



MOODY'S IN JANUARY 2023

- "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 which help offset its vulnerability to shocks given its small size and concentration in a limited number of sectors."
- "The pandemic-induced fiscal deterioration is being gradually reversed helped by strong economic growth."

FITCH IN OCTOBER 2022

- "Iceland's 'A' rating is driven by its very high income per capita and very strong governance and human development indicators that are more consistent with those of 'AAA' and 'AA' rated countries."
- "A favourable demographic composition (the share of people of working age was 65% in 2020) supports growth potential."
- "The rating is constrained by the high, but declining, public debt burden, the small size of the economy and limited export diversification, which result in vulnerability to external shocks and balance of payments risks."

S&P IN NOVEMBER 2022

- "The Russia-Ukraine conflict has had only a limited impact on Iceland's economy. Iceland has minimal direct trade links with Russia and Ukraine and is largely energy independent."
- "The government is speeding up its fiscal consolidation strategy, following two years of sizable deficits during the pandemic."
- "-External pressures appear manageable, especially given Iceland's net external creditor position and large foreign exchange reserves."

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

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9 February 2023

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