



# 1Q23 Financial Results

4 May 2023

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Chief Executive Officer

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Chief Financial Officer

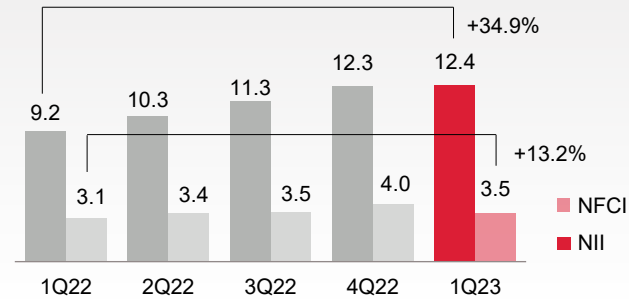


# Solid financial results in challenging market conditions

ROE of 11.4% in 1Q23 led by growth in core income

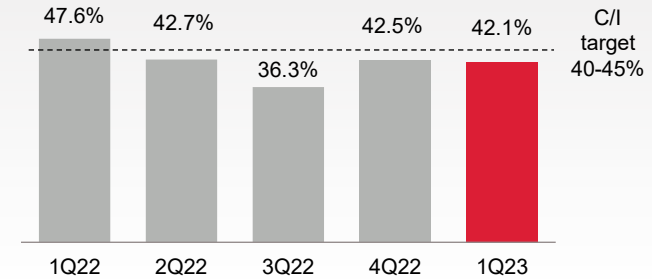
## Solid top line growth in 1Q23

NII and NFCI, ISKbn



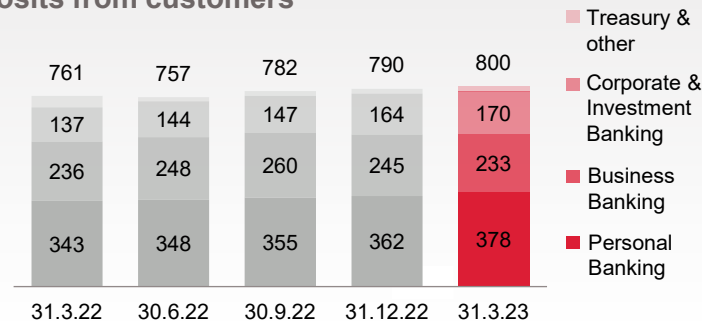
## Low C/I ratio supported by strong revenues

C/I ratio



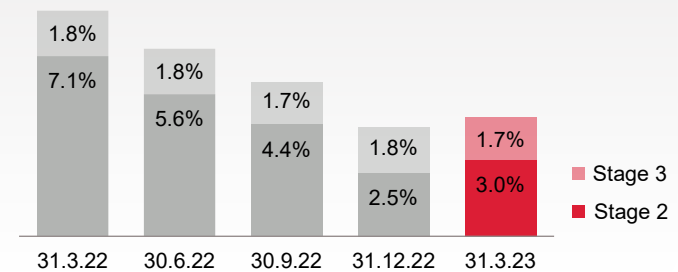
## Diversified deposit base

Deposits from customers



## Strong asset quality

Loans to customers: Stage 2 and 3 (NPL)





# Delivering on financial targets in the first quarter

Cost increases offset by strong revenue generation

	Target	1Q23
<b>Return on equity<sup>1</sup></b>	> 10%	11.4% ✓
<b>Cost-to-income ratio<sup>2</sup></b>	< 45%	42.1% ✓
<b>CET1 capital buffer</b>	100-300bp	460bp ✓
<b>Dividend-payout-ratio</b>	50%	

## CET1 target updated

- CET1 capital target updated to a buffer of 100-300bp on top of regulatory requirements
- CET1 capital target range at 16.3%-18.3% based on current regulatory requirements
- Optimal operational capital buffer remains at about 200bp, giving a CET1 of 17.3% based on current requirements
- CET1 requirement will increase by 50bp in 1Q 2024 with an increase in the CCyB
- The Pillar 2-R requirement is currently at 2.6%, an increase from 1.7% at the end of 2019, largely due to Covid related forbearance measures, which are coming to an end

1. 2023 guidance is for ROE to be in the range of 10-11% 2. 2023 guidance is for C/I Ratio to be in the range of 40-45% with Cost-to-income ratio calculated as (Administrative expenses – One-off items) / (Total operating income – One-off items).

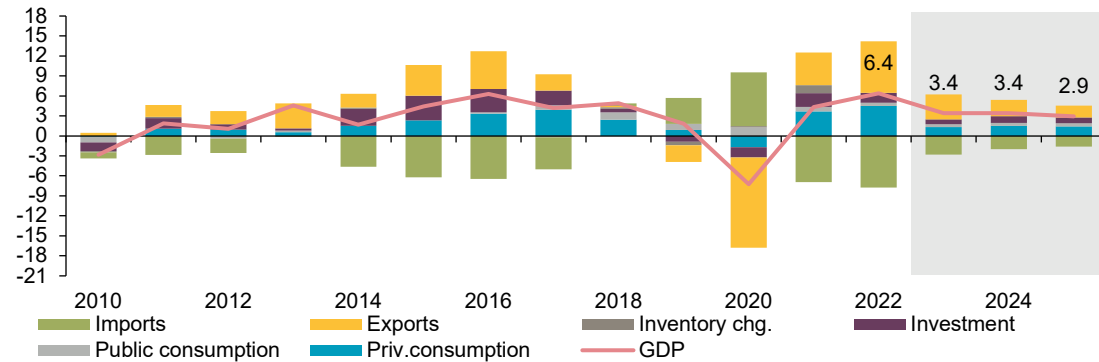


# Icelandic economy adjustment in the offing

Moderate GDP growth on the cards after an impressive surge

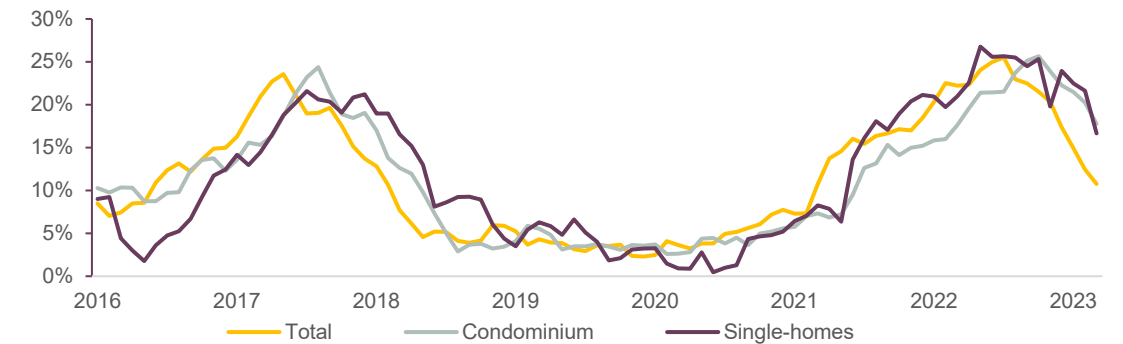
## Steadier, export led growth to take over from the strong recovery...

Real GDP and main subitems, YoY change, %



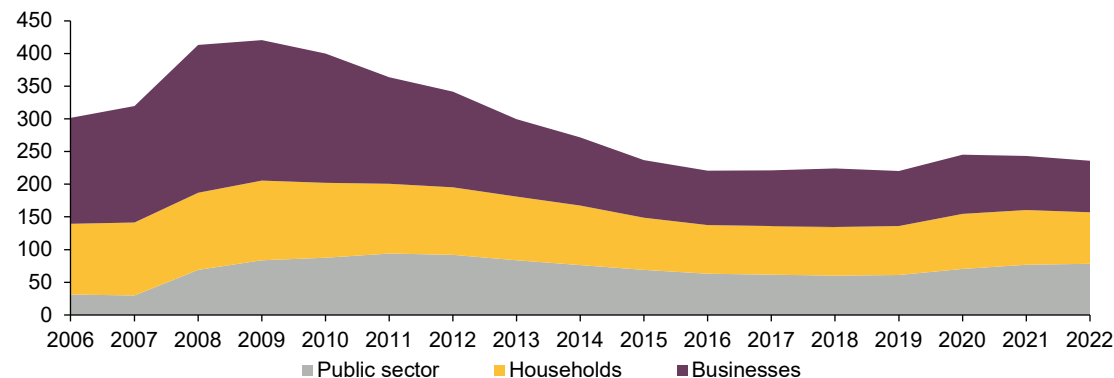
## ..and housing market is leveling off after steep price increases up to 2Q 2022

Year-on-year increase in residential house prices, capital region



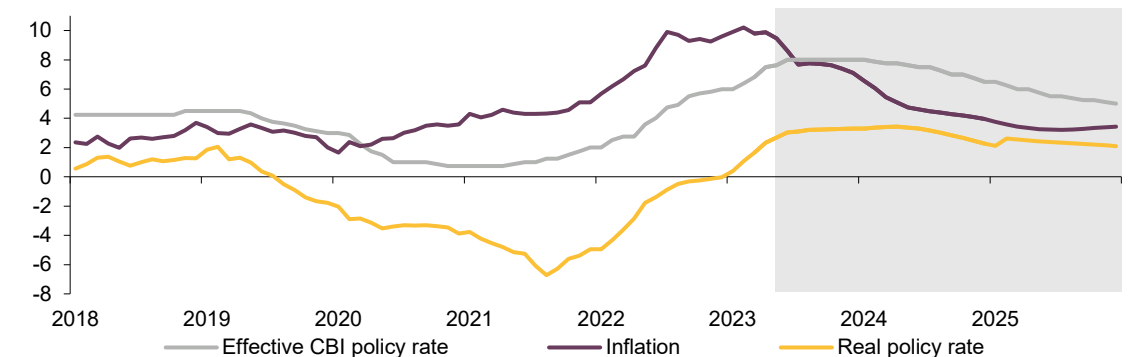
## Moderate leverage throughout the economy increases resilience to shock...

Gross debt as % of GDP



## ...while more persistent inflation has led to tighter monetary policy
































Inflation and policy rate, %





# First quarter of 2023 produced solid results

Strong ROE across all business units

Personal Banking 	Business Banking 	Corporate & Investment Banking 	Iceland Funds 
<div><div> <b>15.4% ROE</b></div><div> <b>52.2% Cost-to-income ratio</b></div><div> <b>3.0 NIM</b></div></div> <div><div> Loan portfolio grew by 8% and deposits by 10% YoY</div><div> All debit card operations moved to Paymentology</div><div> 92% of new savings accounts in 1Q23 opened through digital channels</div></div>	<div><div> <b>14.2% ROE</b></div><div> <b>41.9% Cost-to-income ratio</b></div><div> <b>5.8% NIM</b></div></div> <div><div> Growth in lending volumes in 1Q23 with 20% growth YoY</div><div> Highest NPS score amongst domestic peers for SMEs and 38% market share<sup>2</sup></div><div> A report on the significance of SMEs in Iceland published in cooperation with Reykjavík Economics</div></div>	<div><div> <b>11.9% ROE</b></div><div> <b>40.2% Cost-to-income ratio</b></div><div> <b>3.4% NIM</b></div></div> <div><div> 35% market share amongst Iceland's 300 largest companies</div><div> New lending amounted to ISK 11bn in 1Q23</div><div> Successful quarter for Derivatives Desk and FX Sales due partly to large volume in FX</div></div>	<div><div> <b>29.3% ROE</b></div><div> <b>49.4% Cost-to-income ratio<sup>1</sup></b></div><div><b>AUM ISK 392bn</b></div></div> <div><div> Total operating income in 1Q23 increased by 2.3% YoY</div><div> IS Haf fjárfestingar, a fund investing in sea related activities established</div></div> <div><div><b>Allianz Ísland hf. </b></div><div><div> <b>43% ROE in 1Q23</b></div><div> <b>64% Cost-to-income ratio</b></div><div> Robust results driven by revenue generation</div><div> Net fee &amp; commission income increase by 82% YoY</div></div></div>

1. As calculated from the Bank's Consolidated Income Statement. 2. According to a Gallup Survey conducted in March



## Digital services continue to soar in Personal Banking

Íslandsbanki's website awarded the best in its category



Íslandsbanki's website awarded corporate website of the year in the category of large companies by the Web Industry Association (SVEF)

**92%**

of new savings accounts in Personal Banking opened digitally in 1Q23, an increase from 74% in 1Q22

**85%**

increase in new customers in Personal Banking in 1Q23 YoY

**87%**

of all sales in 1Q23 through digital channels

**82%**

of all sales in 2022 carried out through digital channels while leading Europe is 78%\*

\*according to Finalta

**75%**

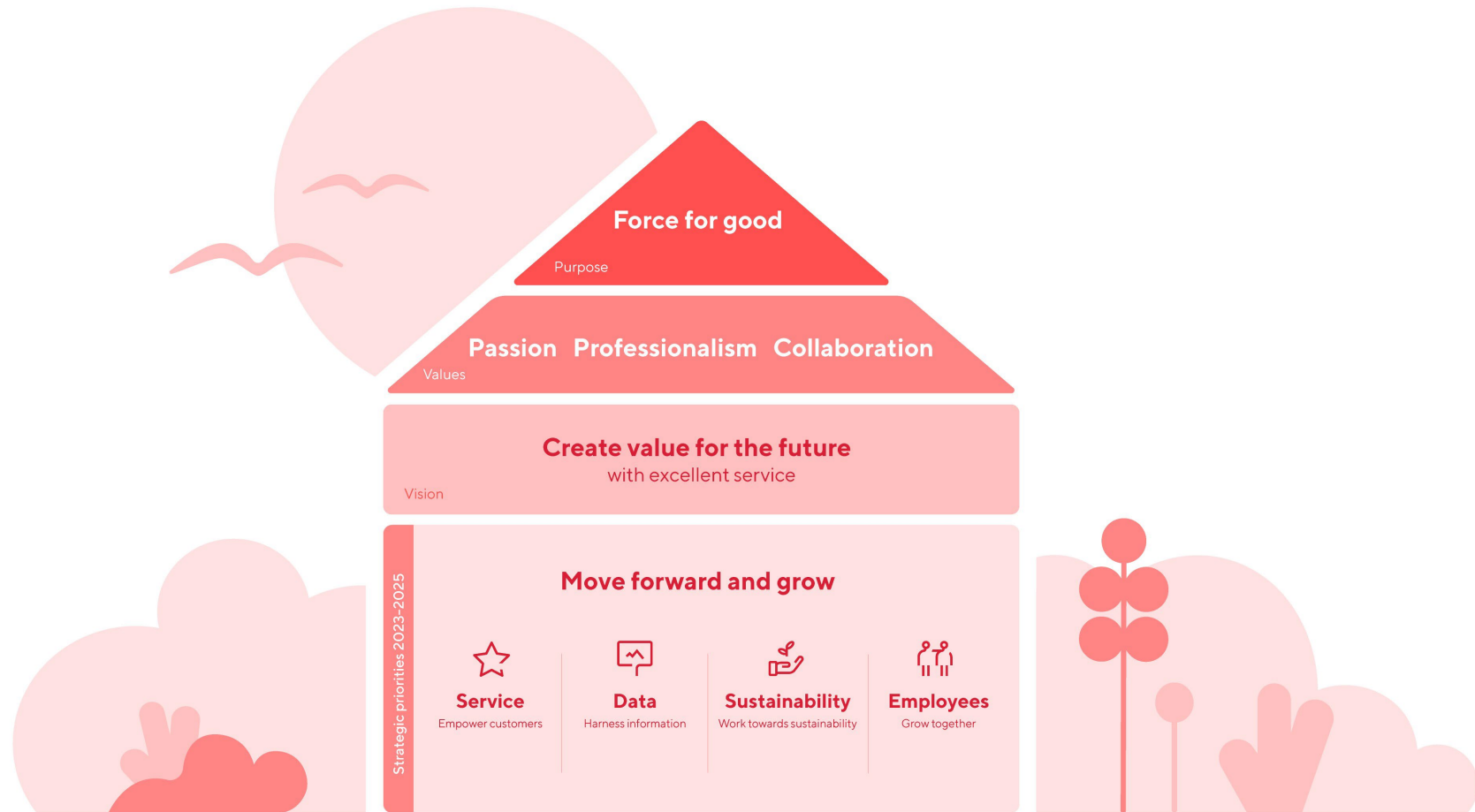
new Ávöxtun savings account opened in 1Q23 amount to 75% of the total number of Ávöxtun accounts opened in 2022



# New strategy – direction of strategic priorities 2023-2025

Empowering our customers to succeed by increasing the effective implementation of data in our services

- With continued focus on the **purpose** to be a force for good our vision is to **create value for the future**, with excellent service
- **Service, Data, Sustainability** and **Employees** are the four strategic priorities for the next two years
- Reference to increased appetite for external growth included in the heading of the set strategy period: **Move forward and grow**





# Financial overview

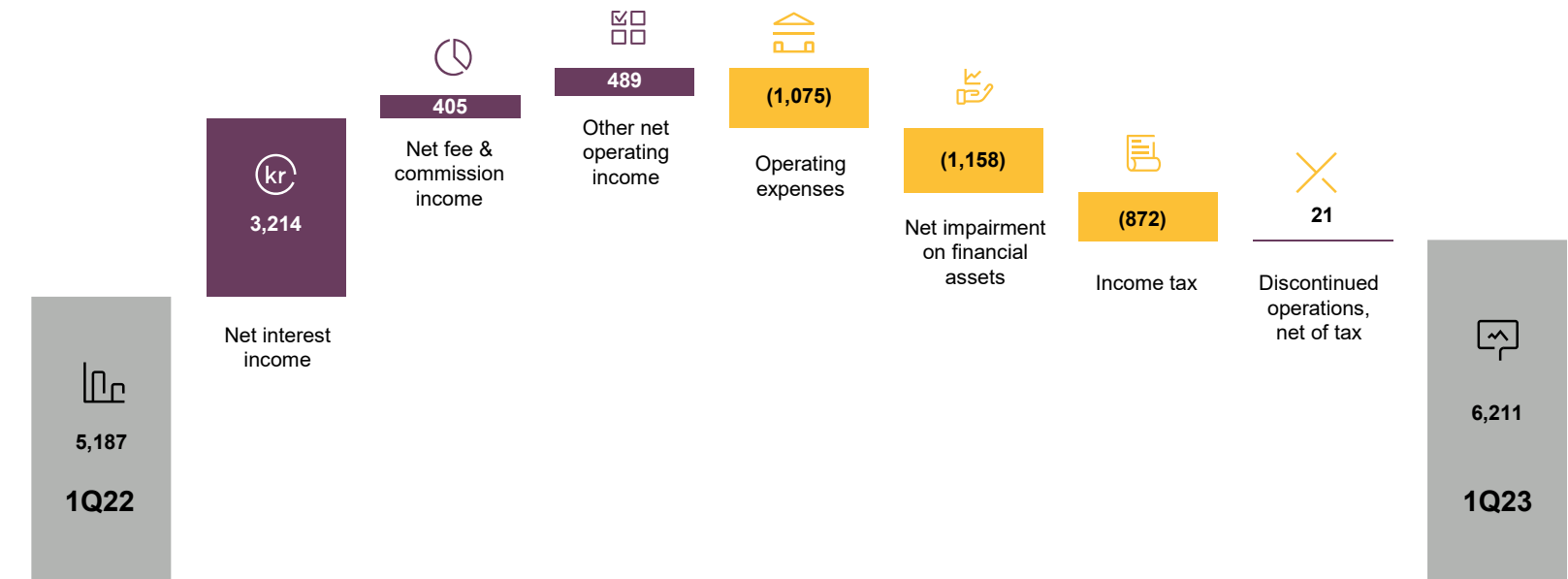




# Solid results driven by increase in core income

Increased revenues offset surge in costs

Profit for the period – 1Q22 vs 1Q23  
ISKm





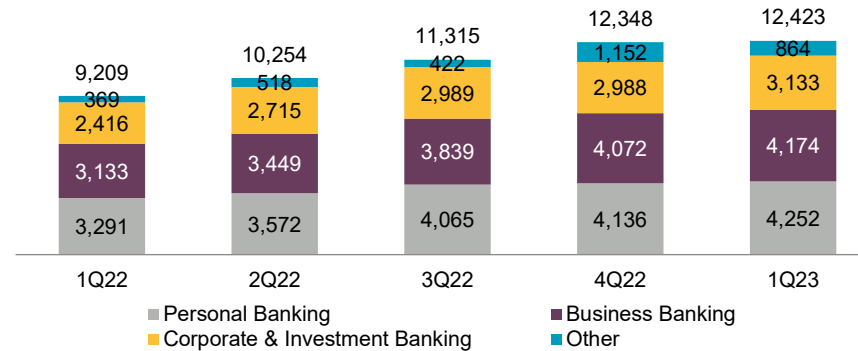
# Strong NII increase due to a higher rates environment

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

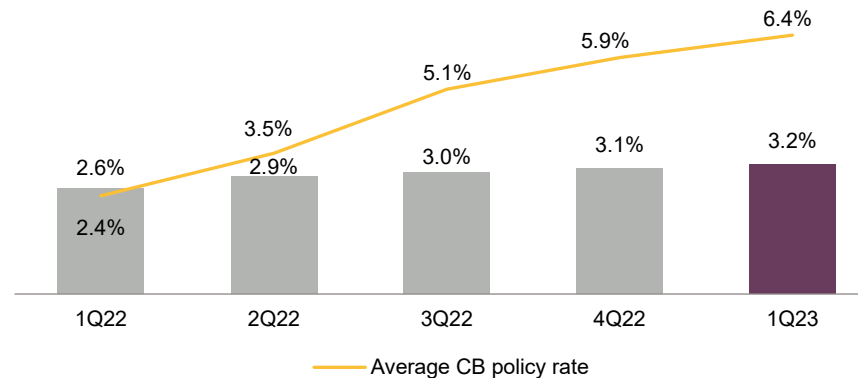
## Highlights

- Lending margin was 1.8% in 1Q23 (2.0% in 1Q22)
- Deposit margin was 2.2% in 1Q23 (1.6% in 1Q22)
- Net interest margin was 3.2% in 1Q23 (3.1% in 4Q22 and 2.6% in 1Q22)
- Average CB policy rate rose from 2.4% in 1Q22 to 6.4% in 1Q23

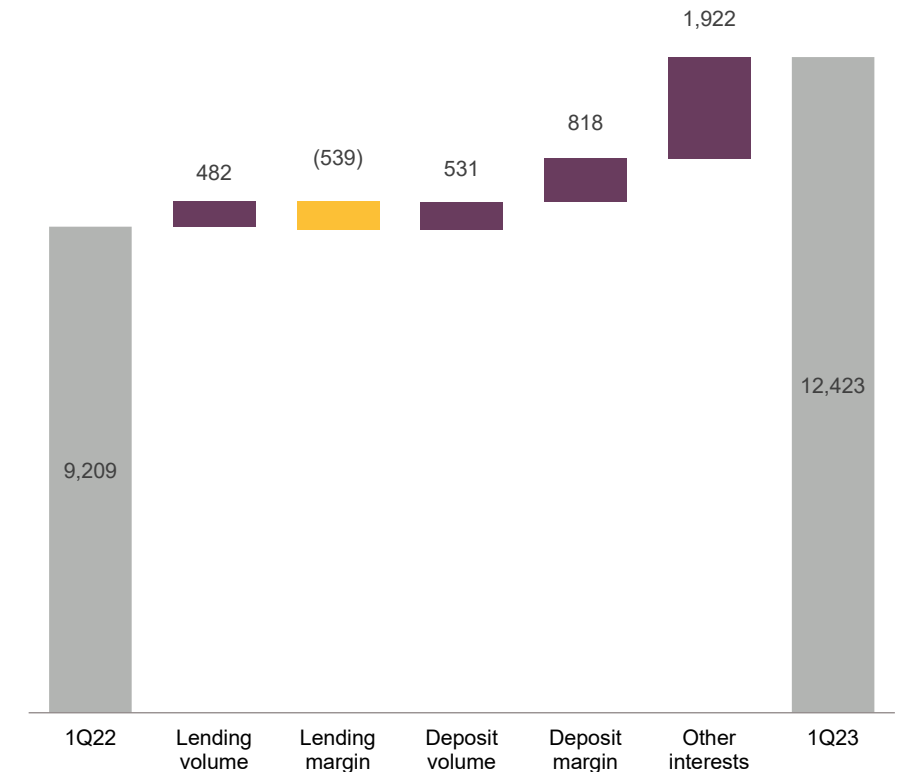
## Net interest income By business segments, ISKm



## Net interest margin On total assets



## Net interest income – YoY comparison ISKm





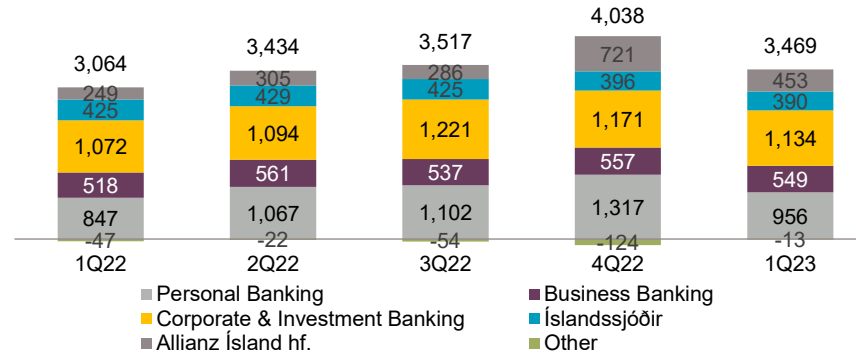
# Increased fee income from cards and payment processing

Allianz Ísland hf., a subsidiary of the Bank, continues to contribute to NFCI growth

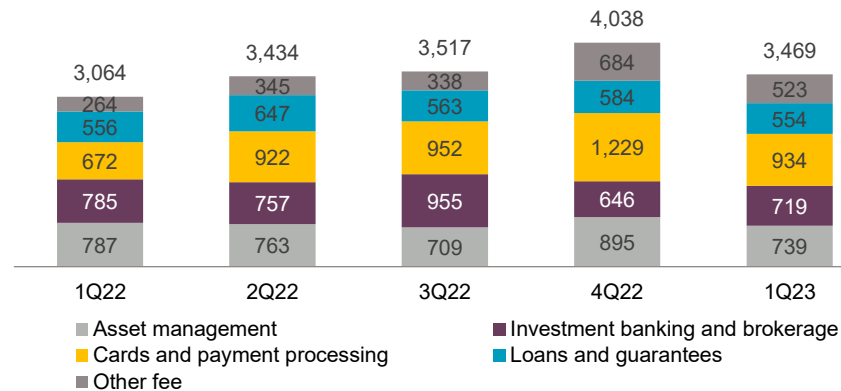
## Highlights

- Income from cards and payment processing continues to rise, although at a more moderate pace than in 4Q22
- Allianz Ísland hf., a subsidiary of the Bank is the largest contributor to other fee and commission income
- Lower income from asset management is explained by a drop in AuM in 2022 due to market conditions and negative returns

**Net fee and commission income**  
Business segments, ISKm



**Net fee and commission income**  
By type, ISKm



**Net fee and commission income – YoY comparison**  
ISKm





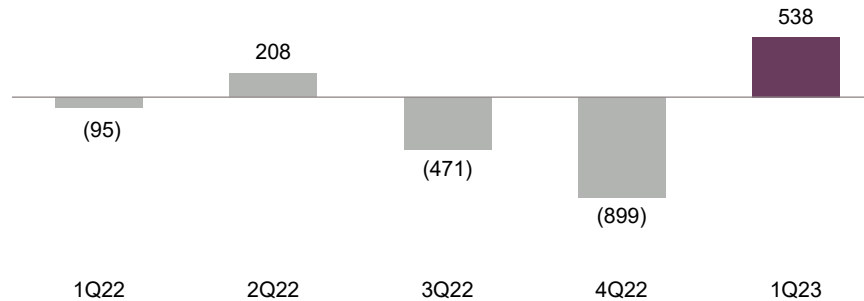
# NFI affected by volatile market environment

Losses in liquidity book more than offset from gains from derivative hedges

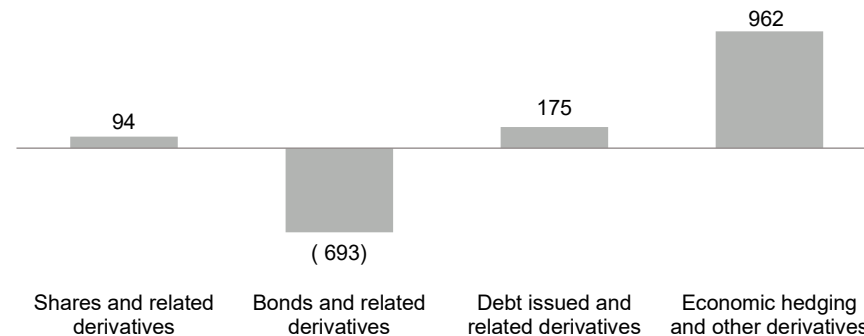
## Highlights

- Rise in NFI in the quarter is largely due to rate variations
- Loss in Bonds and related derivatives is resulting from a rise in ISK rates this year
- The ISK liquidity portfolio is largely in fixed rate assets which causes a MtM loss when rates rise
- Income in other derivatives due to affect of the rise in ISK rates in 1Q23 on NIL contracts

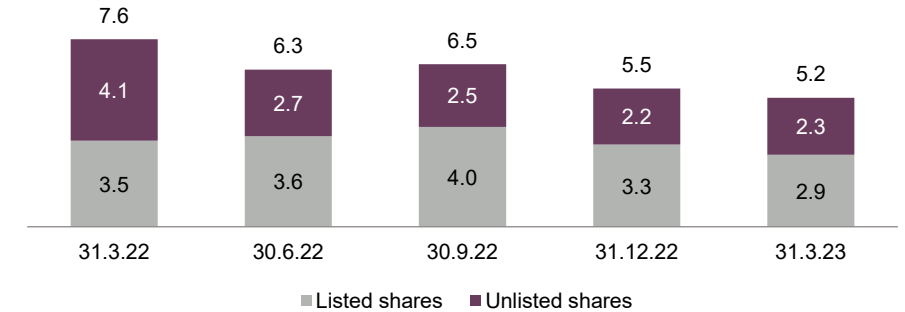
## Net financial income (expense) ISKm



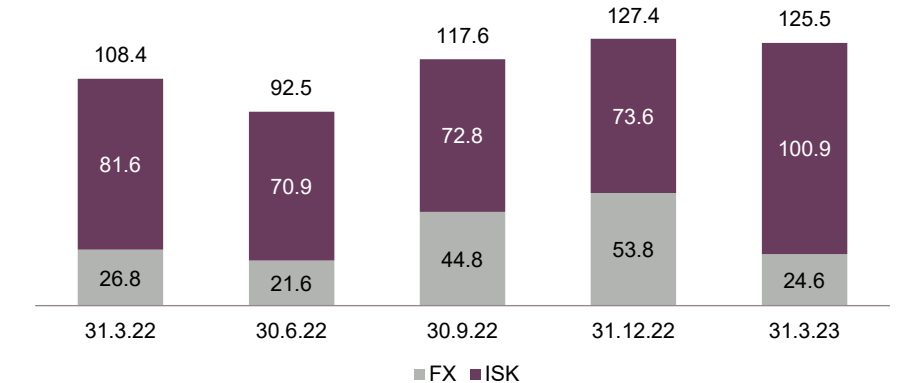
## Net financial income (expense) by type in 1Q23 ISKm



## Shares and equity instruments<sup>1</sup> ISKbn



## Bonds and debt instruments<sup>2</sup> ISKbn



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



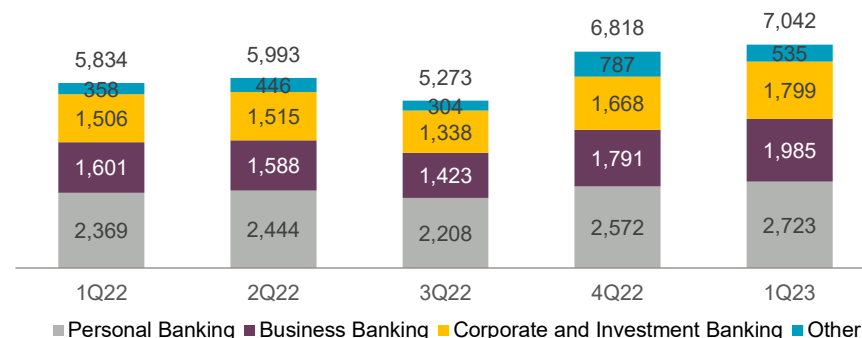
# C/I ratio in 1Q23 remains under target due to higher revenue

High costs in 1Q23, which will partly even out through the year

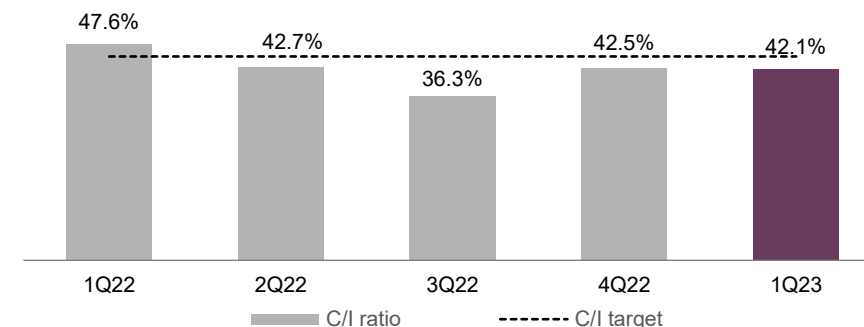
## Highlights

- Substantial increase in costs between years, largely explained by wage increases through general wage agreements in Iceland and high inflation
- Some of the high 1Q23 costs should partly even out through the year or are offset by higher revenue. Those include costs relating to redundancies, strategic projects, increased activity in Allianz Iceland, IT costs, renovation of headquarters and other FTE related costs
- Accrued leave (cost of ISK 318m in 1Q23) is expensed in the winter months and released in the summer as employees go on vacation. This causes fluctuations in salary costs between quarters

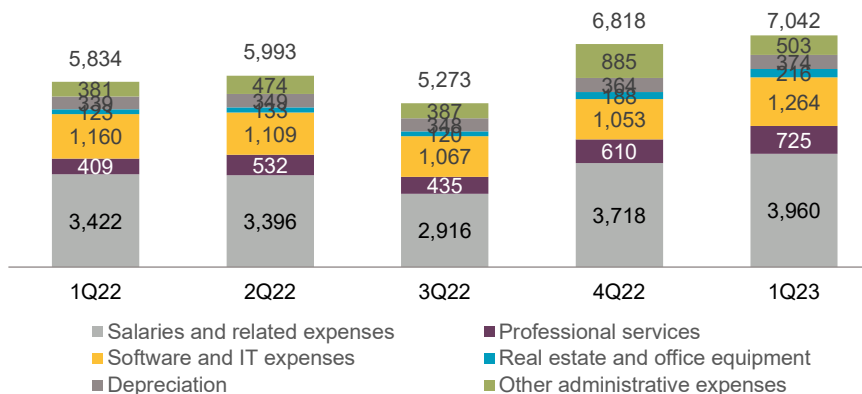
## Administrative expenses ISKm



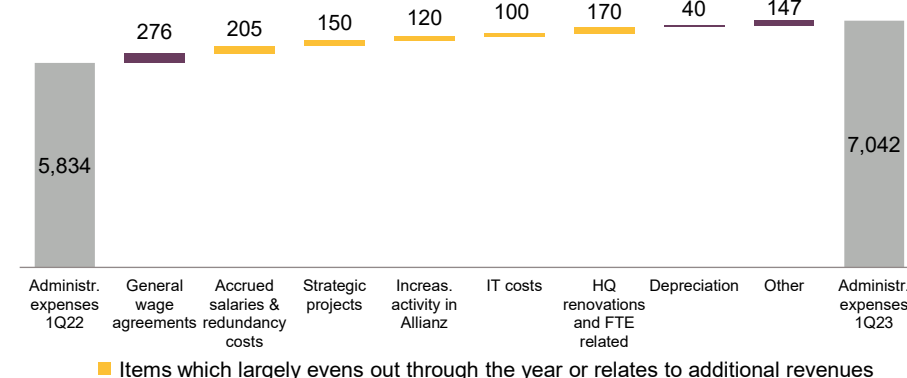
## Cost-to-income ratio<sup>1</sup>



## Administrative expenses – by type ISKm



## Administrative expenses – YoY comparison ISKm



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



# Steady lending growth with a modest credit risk profile

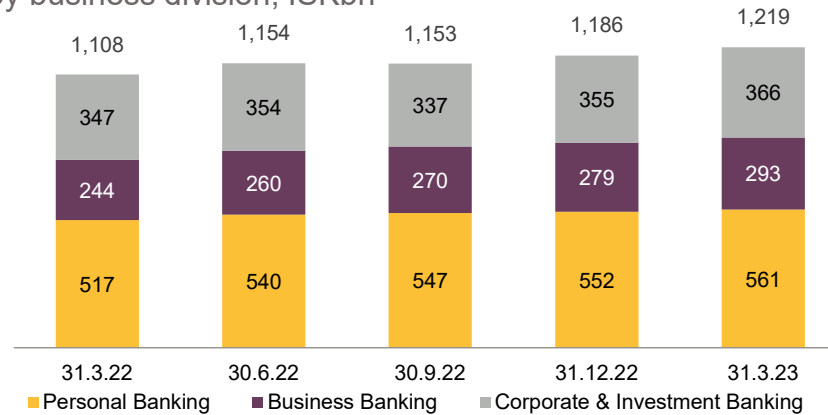
Diversified and highly collateralised loan portfolio

## Highlights

- The Bank's credit quality remains strong which is attributed to robust risk management and conservative lending policies
- The increase in loans to "other sectors" is mostly to the construction industry as shown in a separate page
- Credit exposure fully covered by collateral is ISK 1,130bn or 93% of loans to customers

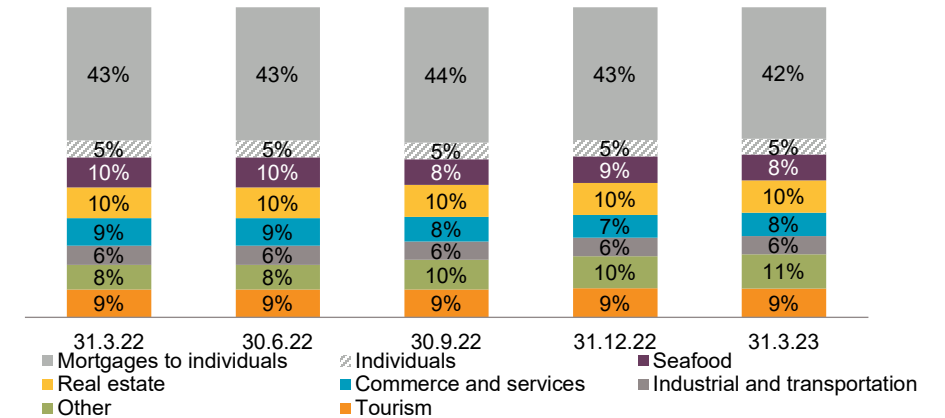
### Loans to customers

By business division, ISKbn



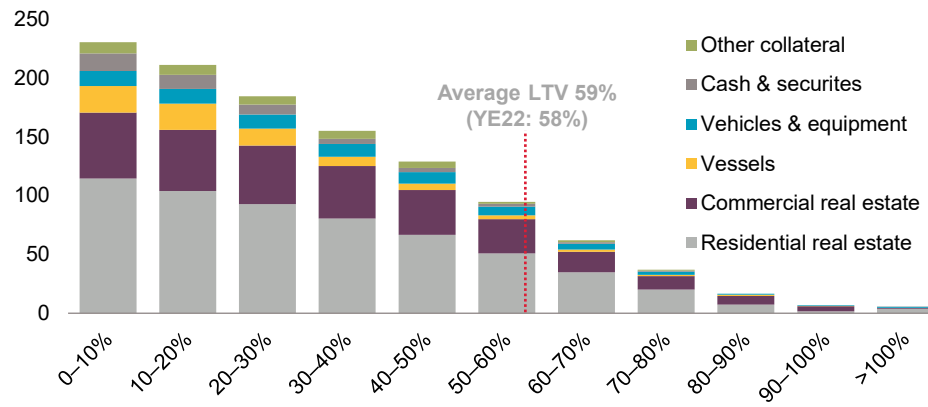
### Loans to customers

By sector, with tourism as a separate sector



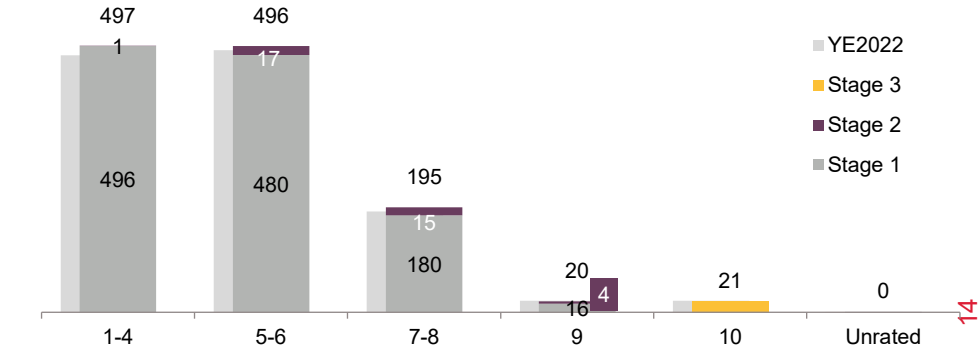
### LTV distribution by underlying asset class

31.3.2023, loan splitting approach, ISKbn



### Loans to customers: gross carrying amount<sup>1</sup>

31.3.2023, risk class and impairment stage, ISKbn



1. Risk class distribution at YE2022 shown as comparison



# Credit quality remains strong

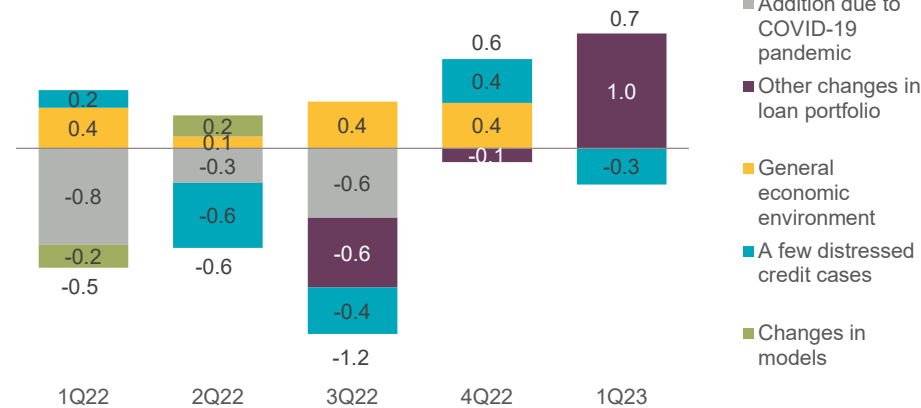
Increase in stage 2 loans due to specific credit cases

## Highlights

- The 1Q23 impairment is mostly due to growth in the loan portfolio
- Loans amounting to ISK 20bn are expected to exit forbearance probation in 2023
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forborne even after normal payments have resumed
- Reserve coverage ratio (RCR) for impairment allowance on Stage 3 was 19.6% at end of 1Q23 reflecting good collateral position

## Net impairment on financial assets

By period, ISKbn

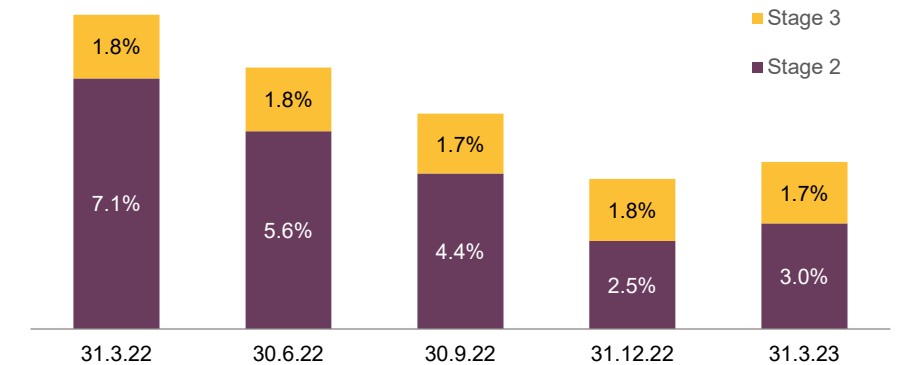


## Current and expected cost-of-risk

- Annualised cost of risk was +22bp in 1Q23 (-17bp for 1Q22) and -14bp FY22
- Current impairment outlook relatively benign due to low unemployment and good economic growth. Increased interest rates have not impacted the NPL ratio
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 1Q23
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 0.3bn while 5% shift from the baseline to the good would decrease the allowance by ISK 0.2bn

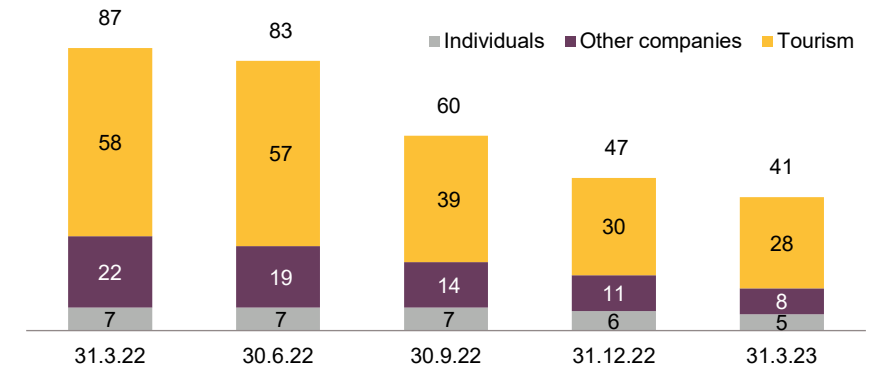
## Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans



## Performing loans with forbearance

Gross carrying amount, ISKbn





# Mortgage portfolio resistant to rising rates

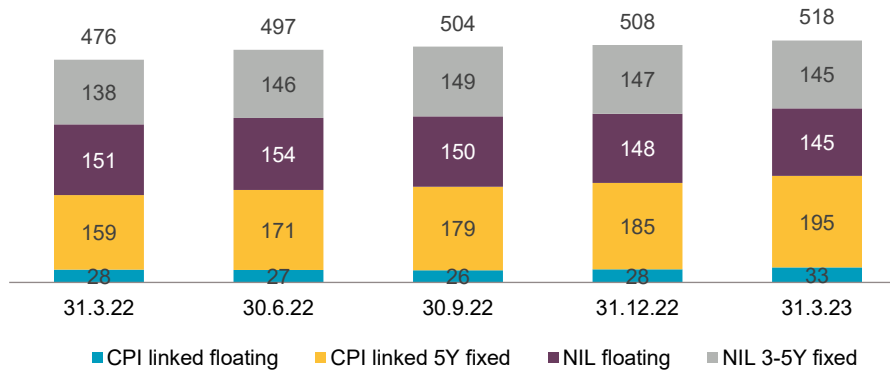
Origination process has built-in buffers for expected rate increases, resulting in healthy coverage ratios

## 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 30% (35% for first-time buyers)
- There has not been a significant increase in stage 2 or in NPLs despite increase in variable NIL mortgage rates and high inflation

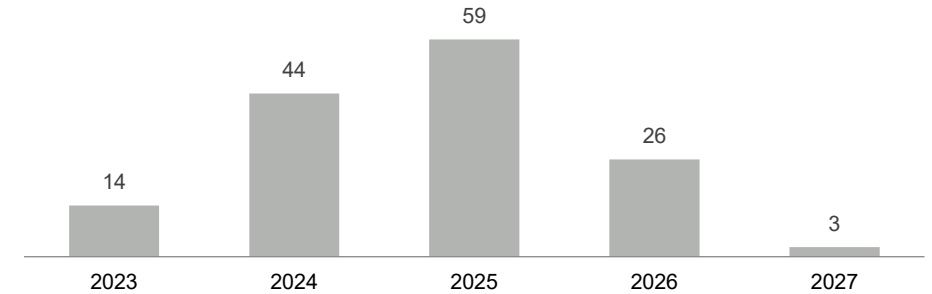
## Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



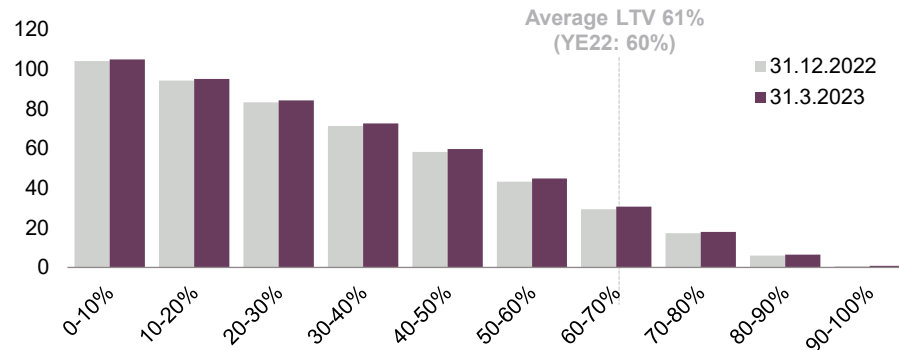
## Interest rate reset profile for NIL 3-5Y fixed rate mortgages<sup>1</sup>

Gross carrying amount, ISKbn



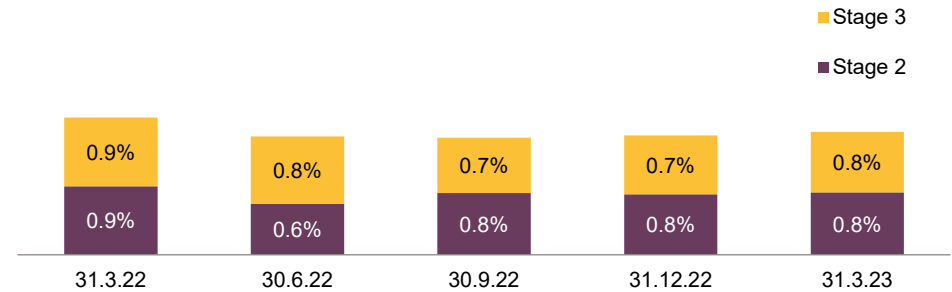
## LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



## Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages



1. NIL stands for non-index linked loans.





# Real estate and construction sector in a good shape

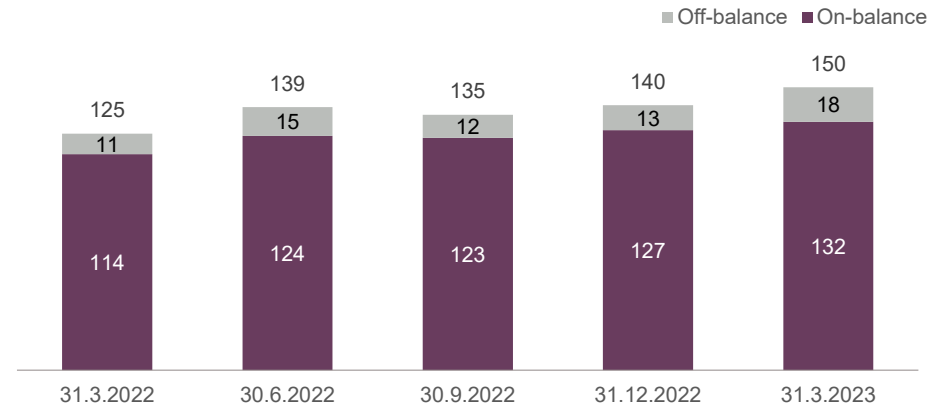
Exposures in the real estate sector mostly to companies with diverse portfolios

## Highlights

- Loans to real estate companies and construction amount to 11% and 6% of loans to customers, respectively
- Disciplined origination with conservative LTV requirements and debt service criteria
- Third party security agents for largest real estate clients
- Most real estate companies use CPI-linked rental contracts as a form of hedging and have long-term financing to minimize influence of short-term changes in market value of real estate
- Growth in exposure to construction is expected to continue to rise as the market is in need for new housing
- Loan commitments are disbursed in line with the construction progress
- Over half of exposure in the construction sector is for residential real estate, 20% for commercial real estate and the rest is mixed or to general construction contractors

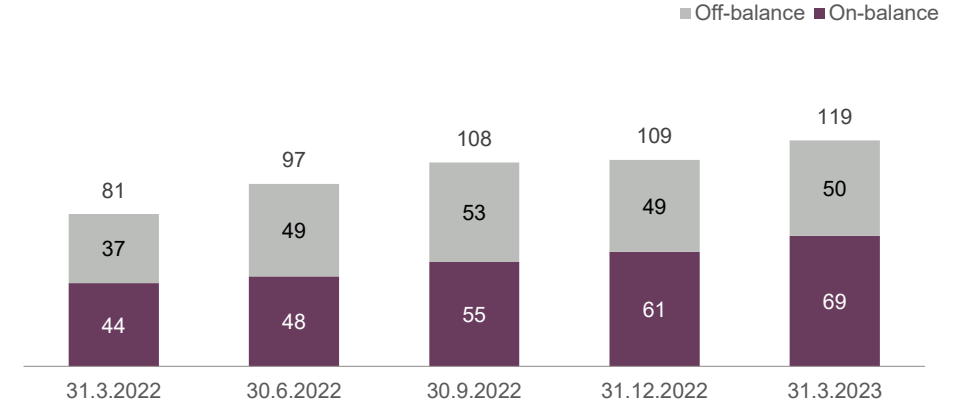
## Development of exposure to real estate companies

Gross carrying amount by period, ISKbn



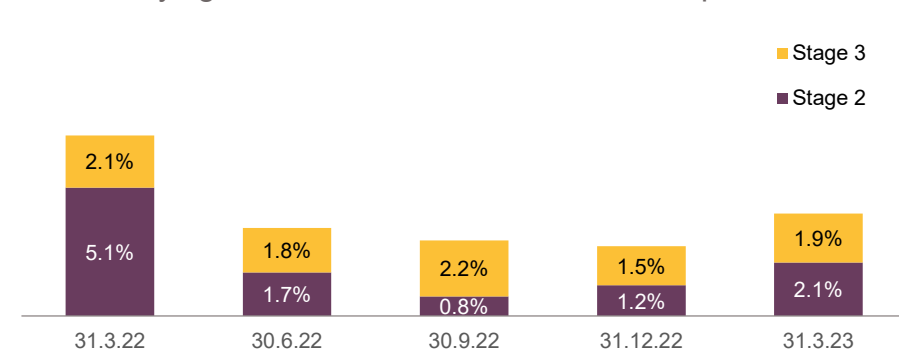
## Development of construction exposure

Gross carrying amount by period, ISKbn



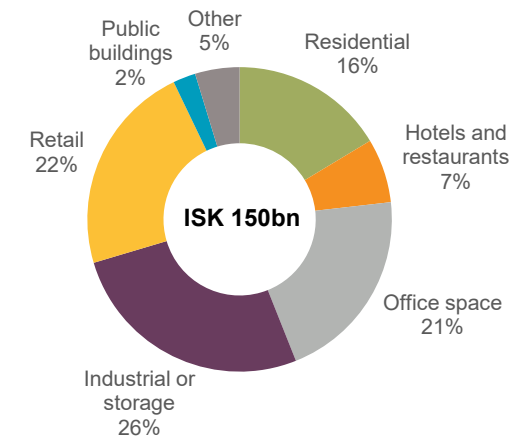
## Real estate portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of the real estate portfolio



## Real estate collateral by type

31.3.2023





# Deposits are the largest source of funding

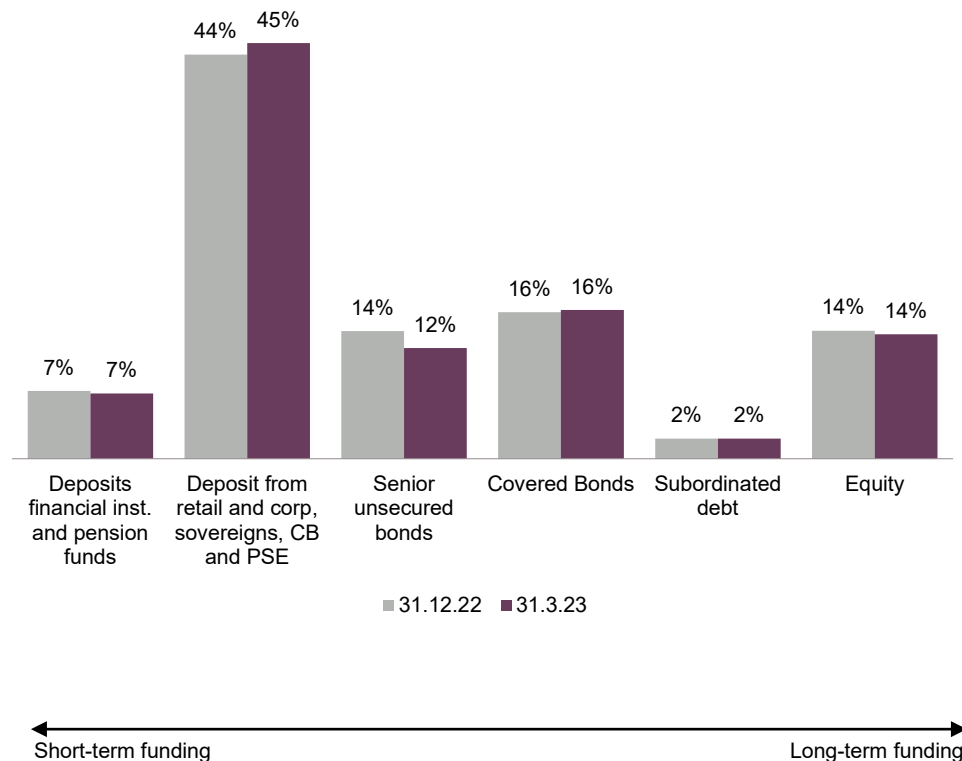
Retail deposits continue to increase

## Highlights

- Term deposits are 20% of total deposits. Term deposits with maturity of more than 3 months are 11% of deposits from customers.
- Deposit concentration is stable. At end of 1Q23, 12% of deposits belonged to the 10 largest depositors and 27% to the 100 largest, compared to 12% and 20% respectively at YE22
- At end of 1Q23, 71% of total deposits were in non-indexed ISK, 15% CPI-linked and 14% in foreign currencies
- The Bank conducts various internal stress tests and all tests required by the Central Bank
- In the notes to the financial statements there is a detailed split of the deposit base and LCR calculations, providing investors with the necessary information to perform their own stress tests on deposits
- 78% of deposits held by individuals (across business segments) and 45% of all deposits covered by deposit guarantee scheme

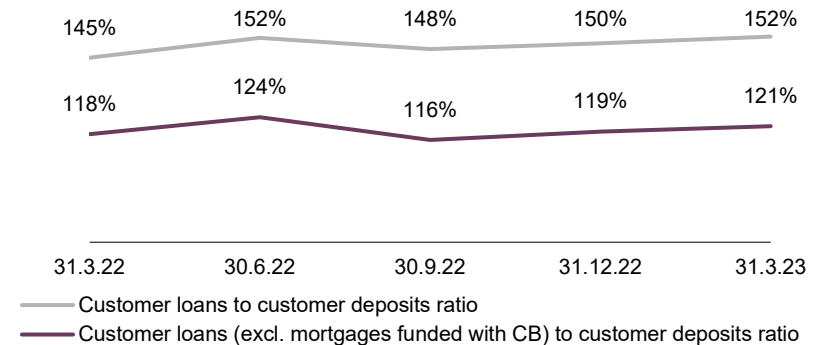
## Funding sources

By type, % of total liabilities and equity



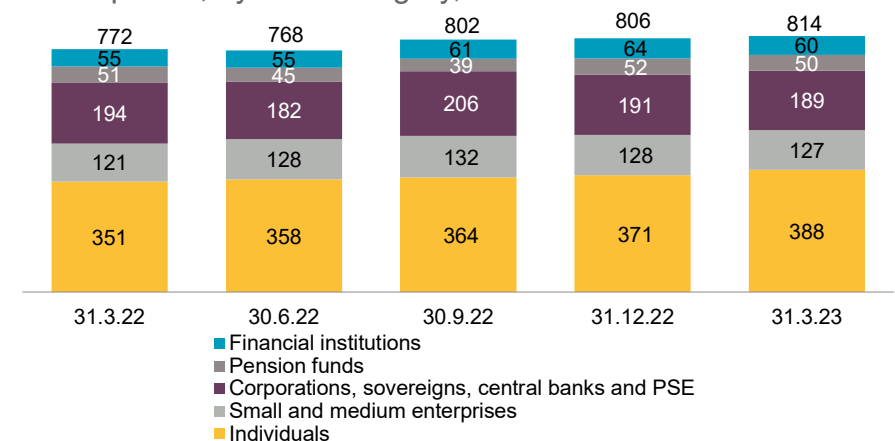
## Customer loans to customer deposits ratio

Development, %



## Deposits from customers and credit institutions

Development, by LCR category, ISKbn





# Seasoned and diversified long-term funding programme

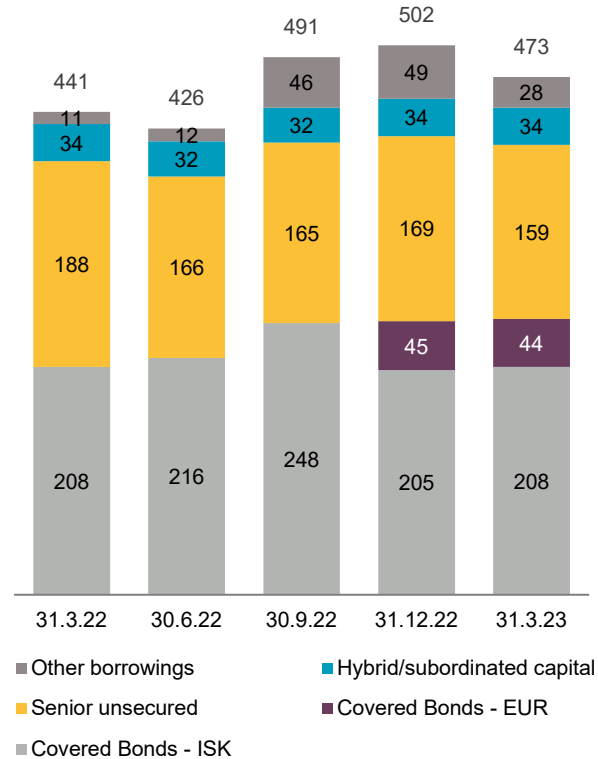
Continued focus on local issuance in 1Q23

## Highlights

- The Bank continued its green efforts by tapping its ISK Green 2027 bond in February
- In January the Bank exercised its call option on the remaining EUR 37m of the EUR 300m callable bond maturing January 2024

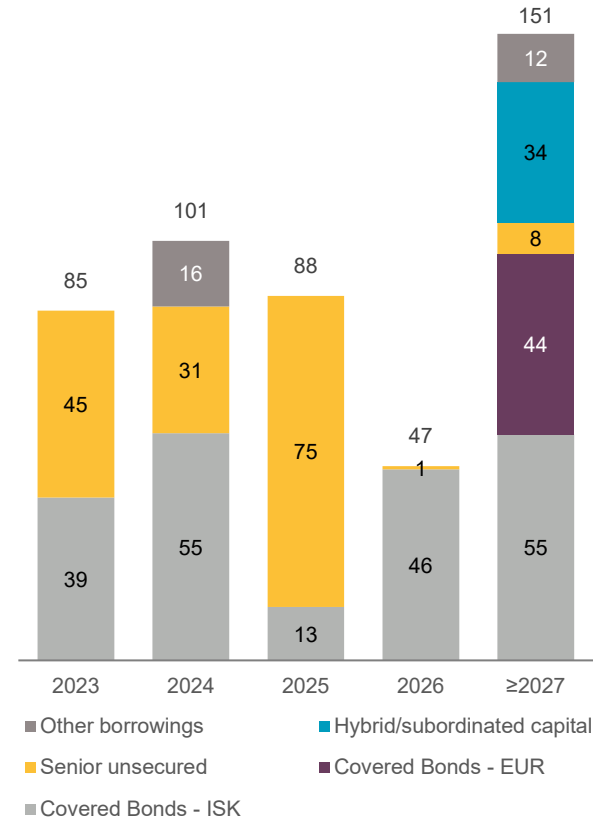
## Sources of borrowings

Development, ISKbn



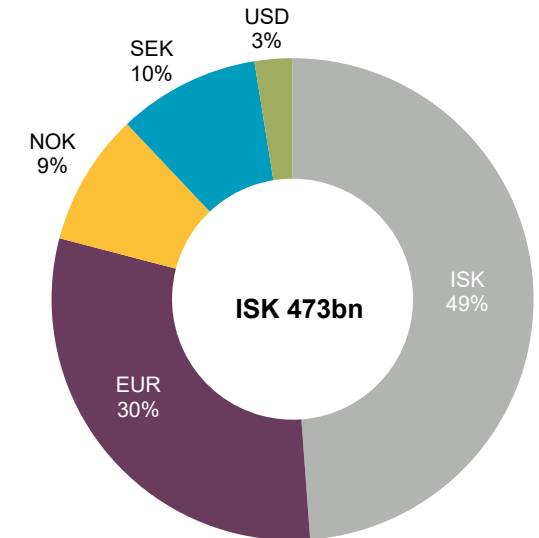
## Contractual maturity profile of borrowings

31.3.23, ISKbn



## Currency split of borrowings

31.3.23





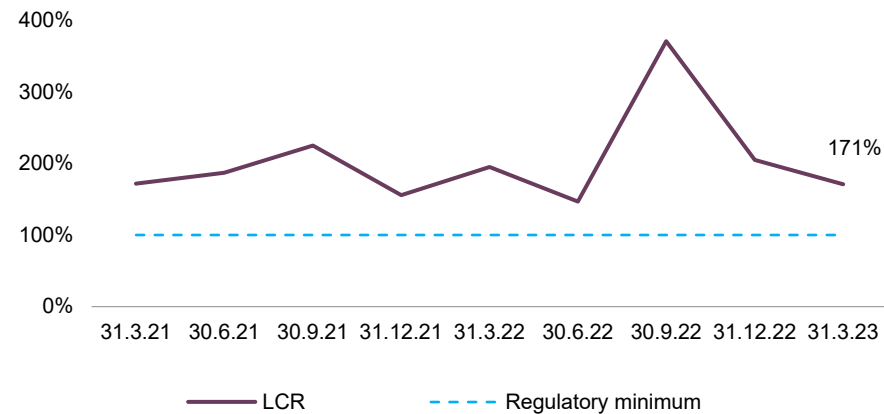
# Sound liquidity management, ratios well above requirements

Liquid assets of ISK 283bn, representing 18% of total assets

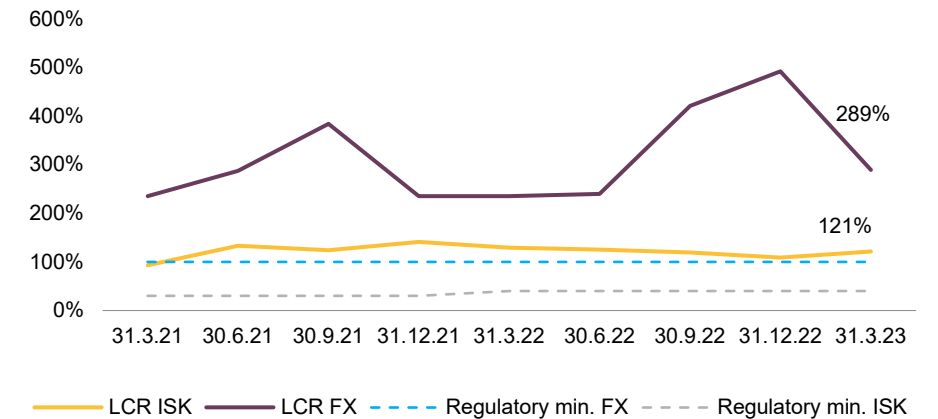
## Highlights

- All liquidity measures above regulatory requirements
- Central Bank set a EUR LCR minimum requirement of an 80% liquidity ratio in beginning of Q1
- The Bank's EUR LCR at end of 1Q23 was 437%
- The securities portfolio is all MtM (FV over P&L), in particular there is no unrealised loss due to HtM
- IRRBB is carefully monitored and managed. The Bank expects to be fully compliant to the supervisory outlier test.

## Total liquidity coverage ratio (LCR)

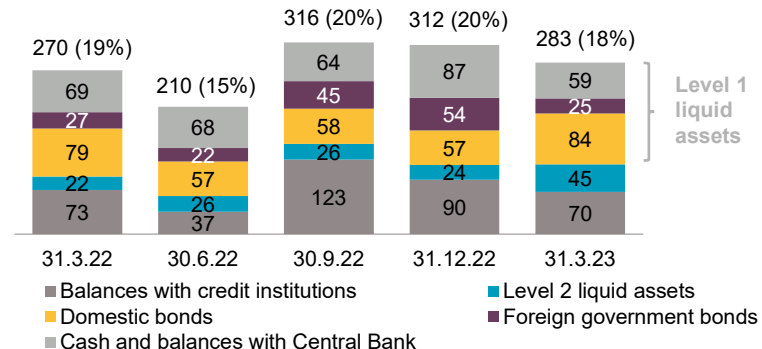


## Liquidity coverage ratio – foreign currencies and ISK

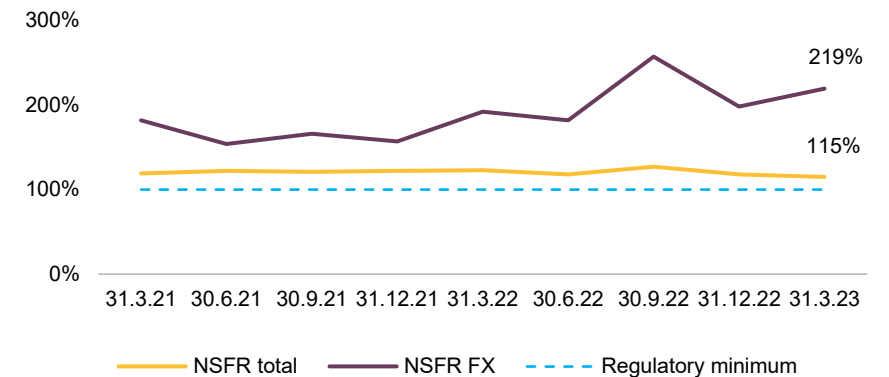


## Liquid assets

% of total assets, ISKbn



## Net stable funding ratio (NSFR)





# Strong capital position

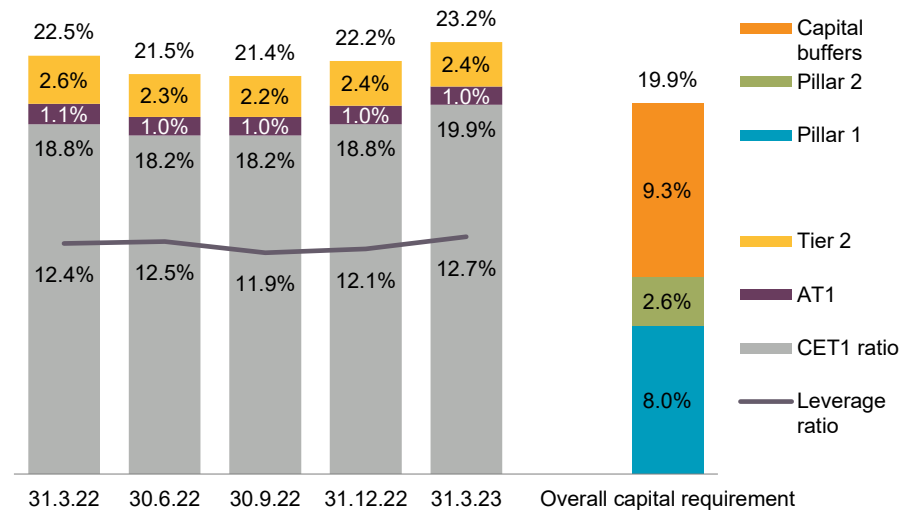
## Updated CET1 target

### Highlights

- The financial stability board has announced an increase in the counter-cyclical buffer in Iceland from 2.0% to 2.5% effective from March 2024
- This change will raise the Bank's overall capital requirement from 19.9% to 20.4% assuming no other changes
- MREL ratio at 33.2% at the end of 1Q23, 270bp above the MREL requirement of 30.5%
- The Bank plans to continue its ISK 5bn share buyback plan over the coming few months and to optimize its capital structure before year-end 2024, both being subject to market conditions

### Capital ratios and leverage ratio

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



### Updated CET1 target based on 100-300bp capital buffer

- CET1 capital target range at 16.3%-18.3% based on current regulatory requirements
- Optimal operational capital buffer continues to be at around a 200bp buffer
- Pillar 2-R requirement currently at 2.6%, compared to 1.7% pre-Covid
- CCyB has fluctuated from 0% to 2.5% in recent years

### Strong capital position

- > CET1 buffer of 460bp
- > Total capital buffer of 330bp
- > MREL buffer of 270bp



# Q&A



# **Appendix I – About Íslandsbanki and additional financial information**



# This is Íslandsbanki

 Our purpose is to be a force for good by empowering our customers to succeed

## Vision and Values

**To create value  
for the future**  
with excellent service



Passion



Professionalism



Collaboration

## The Bank



**FTEs**  
**701**  
number of FTEs at  
Íslandsbanki at  
period end



**12** branches



Listed on  
Nasdaq  
Iceland as  
of June  
2021



## Market share<sup>1</sup>



**31%** retail customers



**38%** SMEs



**35%** large  
companies

## Sustainability 1Q23



IS Haf fjárfestingar, a fund  
investing in sea related  
activities, established



Íslandsbanki purchased  
certified carbon units from  
Yggdrasil Carbon



A report on the significance  
of SMEs in Iceland published  
in cooperation with Reykjavík  
Economics

## Key Figures 1Q23

ROE	<b>11.4%</b>	LCR Group, all currencies	<b>171%</b>
Cost-to-income ratio	<b>42.1%</b>	NSFR Group, all currencies	<b>115%</b>
CET1 ratio	<b>19.9%</b>	Leverage ratio	<b>12.9%</b>
Total capital ratio	<b>23.2%</b>	Total assets	<b>ISK 1,552bn</b>

## Ratings and certifications

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



## Digital milestones 1Q23



All debit cards have now been  
migrated to Paymentology's  
new card system



Important milestone was  
reached with closing of the RB  
Mainframe



Customers can subscribe to  
regular savings in the  
Íslandsbanki app

1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, February 2023 survey for SMEs and 2022 average for large companies.





# Financial overview

## Key figures & ratios

		1Q23	4Q22	3Q22	2Q22	1Q22
<b>PROFITABILITY</b>	Profit for the period, ISKm	6,211	5,982	7,486	5,880	5,187
	Return on equity	11.4%	11.1%	14.4%	11.7%	10.2%
	Net interest margin (of total assets)	3.2%	3.1%	3.0%	2.9%	2.6%
	Cost-to-income ratio <sup>1</sup>	42.1%	42.5%	36.3%	42.7%	47.6%
	Cost of risk <sup>2</sup>	0.22%	0.22%	(0.40%)	(0.20%)	(0.17%)
		31.3.23	31.12.22	30.9.22	30.6.22	31.3.22
<b>BALANCE SHEET</b>	Loans to customers, ISKm	1,218,999	1,186,639	1,153,047	1,153,677	1,107,893
	Total assets, ISKm	1,551,530	1,566,235	1,548,672	1,437,253	1,446,355
	Risk exposure amount, ISKm	1,004,978	999,491	1,012,986	992,883	945,321
	Deposits from customers, ISKm	800,071	789,897	781,614	756,862	761,471
	Customer loans to customer deposits ratio	152%	150%	148%	152%	145%
	Non-performing loans (NPL) ratio <sup>3</sup>	1.7%	1.8%	1.7%	1.8%	1.8%
<b>LIQUIDITY</b>	Net stable funding ratio (NSFR), for all currencies	115%	118%	127%	118%	123%
	Liquidity coverage ratio (LCR), for all currencies	171%	205%	371%	147%	195%
<b>CAPITAL</b>	Total equity, ISKm	210,385	218,874	211,613	203,662	197,201
	CET 1 ratio <sup>4</sup>	19.9%	18.8%	18.2%	18.2%	18.8%
	Tier 1 ratio <sup>4</sup>	20.8%	19.8%	19.2%	19.2%	19.9%
	Total capital ratio <sup>4</sup>	23.2%	22.2%	21.4%	21.5%	22.5%
	Leverage ratio <sup>4</sup>	12.9%	12.1%	11.9%	12.5%	12.4%

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 first quarter profit for 31.3.23 and third quarter profit for 30.9.22.



# Income Statement

Income growth continues and profitability is robust

<b>Income statement, ISKm</b>	<b>1Q23</b>	<b>1Q22</b>	<b>Δ%</b>	<b>4Q22</b>	<b>Δ%</b>
Net interest income	12,423	9,209	35%	12,348	1%
Net fee and commission income	3,469	3,064	13%	4,038	(14%)
Net financial income (expense)	538	(95)	(666%)	(899)	(160%)
Net foreign exchange gain	244	166	47%	576	(58%)
Other operating income	43	265	(84%)	(2)	(2,250%)
<b>Total operating income</b>	<b>16,717</b>	12,609	33%	16,061	4%
Salaries and related expenses	(3,960)	(3,422)	16%	(3,718)	7%
Other operating expenses	(3,082)	(2,412)	28%	(3,100)	(1%)
<b>Administrative expenses</b>	<b>(7,042)</b>	(5,834)	21%	(6,818)	3%
Contribution to the Depositor's and Investors' Guarantee Fund	-	(165)	(100%)	-	-
Bank tax	(462)	(430)	7%	(481)	(4%)
<b>Total operating expenses</b>	<b>(7,504)</b>	(6,429)	17%	(7,299)	3%
Net impairment on financial assets	(675)	483	(240%)	(647)	4%
<b>Profit before tax</b>	<b>8,538</b>	6,663	28%	8,115	5%
Income tax expense	(2,335)	(1,463)	60%	(2,166)	8%
<b>Profit for the period from continuing operations</b>	<b>6,203</b>	5,200	19%	5,949	4%
Discontinued operations held for sale, net of income tax	8	(13)	(162%)	33	(76%)
<b>Profit for the period</b>	<b>6,211</b>	5,187	20%	5,982	4%

## Key ratios

Net Interest Margin (NIM)	3.2%	2.6%	3.1%
Cost-to-income ratio (C/I)	42.1%	47.6%	42.5%
Return on Equity (ROE)	11.4%	10.2%	11.1%
Cost of risk (COR)	0.22%	(0.17%)	0.22%



# Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

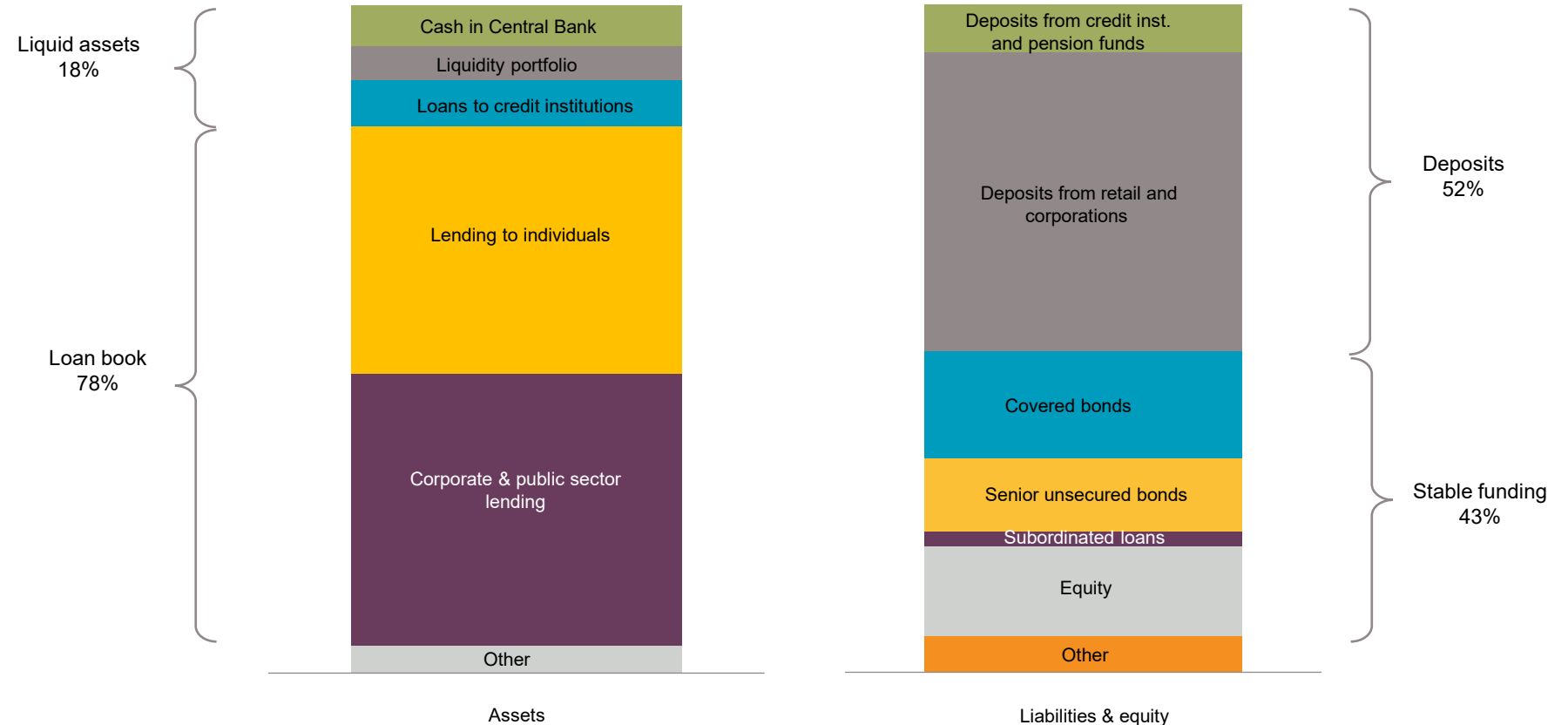
## Assets

- 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**  
31.3.2023, ISK 1,552bn





# Assets

Total assets in first quarter affected by market conditions

Assets, ISKm	31.3.23	31.12.22	Δ	Δ%
Cash and balances with Central Bank	67,764	94,424	(26,660)	(28%)
Loans to credit institutions	81,331	110,364	(29,033)	(26%)
Bonds and debt instruments	127,254	130,804	(3,550)	(3%)
Derivatives	5,605	7,461	(1,856)	(25%)
Loans to customers	1,218,999	1,186,639	32,360	3%
Shares and equity instruments	13,839	15,868	(2,029)	(13%)
Investment in associates	3,853	3,844	9	0%
Property and equipment	6,734	6,752	(18)	(0%)
Intangible assets	3,252	3,279	(27)	(1%)
Other assets	22,191	6,072	16,119	265%
Non-current assets and disposal groups held for sale	708	728	(20)	(3%)
<b>Total Assets</b>	<b>1,551,530</b>	<b>1,566,235</b>	<b>-14,705</b>	<b>(1%)</b>

## Key ratios

Risk Exposure Amount (REA)	1,004,978	999,491	5,487	1%
Non-performing loans (NPL) ratio <sup>1</sup>	1.7%	1.8%		
Asset encumbrance ratio	25.1%	26.5%		

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



# Liabilities and equity

Deposits continue to be the largest source of funding

Liabilities & Equity, ISKm	31.3.23	31.12.22	Δ	Δ%
Deposits from Central Bank and credit institutions	13,694	15,269	(1,575)	(10%)
Deposits from customers	800,071	789,897	10,174	1%
Derivative instruments and short positions	12,745	10,804	1,941	18%
Debt issued and other borrowed funds	438,605	468,270	(29,665)	(6%)
Subordinated loans	33,839	34,392	(553)	(2%)
Tax liabilities	13,206	12,128	1,078	9%
Other liabilities	28,985	16,601	12,384	75%
Total Liabilities	1,341,145	1,347,361	(6,216)	(0%)
Total Equity	210,385	218,874	(8,489)	(4%)
<b>Total Liabilities and Equity</b>	<b>1,551,530</b>	<b>1,566,235</b>	<b>(14,705)</b>	<b>(1%)</b>

## Key ratios

Customer loans to customer deposits ratio	152%	150%
REA/total assets	64.8%	63.8%
Net stable funding ratio (NSFR)	115%	118%
Liquidity coverage ratio (LCR)	171%	205%
Total capital ratio <sup>1</sup>	23.2%	22.2%
Tier 1 capital ratio <sup>1</sup>	20.8%	19.8%
Leverage ratio <sup>1</sup>	12.9%	12.1%

1. Including quarter profit for 31.3.23



# Appendix II – Icelandic economy update



# Steadier growth to take over from the strong recovery

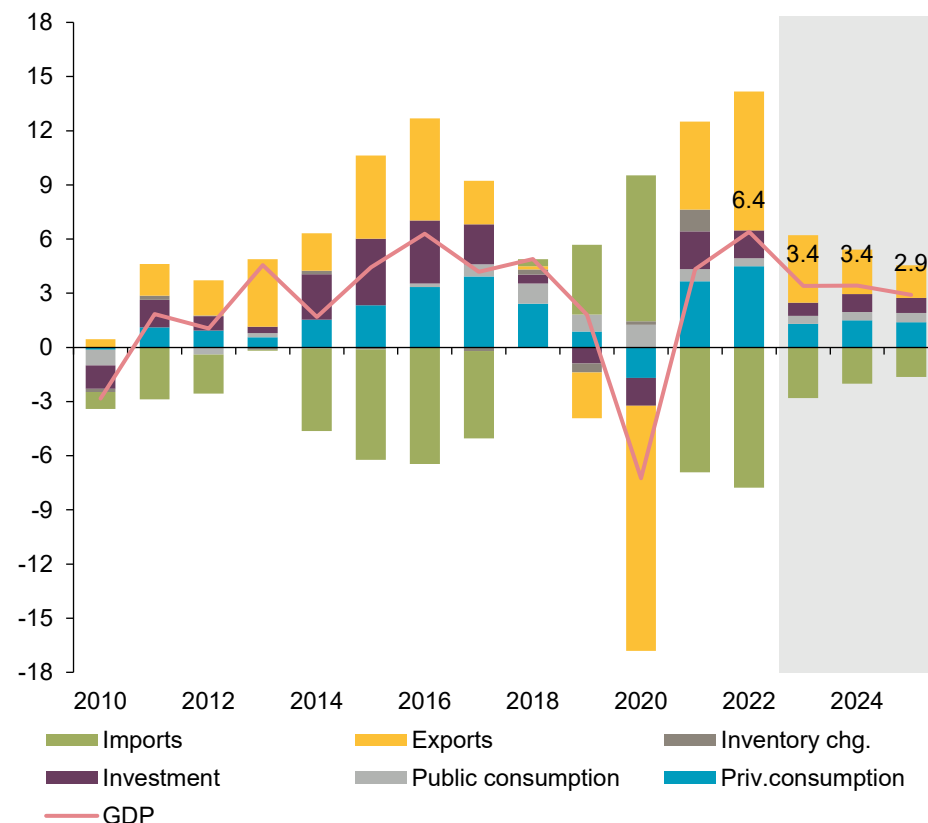
Exports the main driver of GDP growth in 2023, but domestic demand will gain steam in coming years

## Highlights

- GDP growth is estimated to have measured 6.4% in 2022, following on from 4.3% 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.

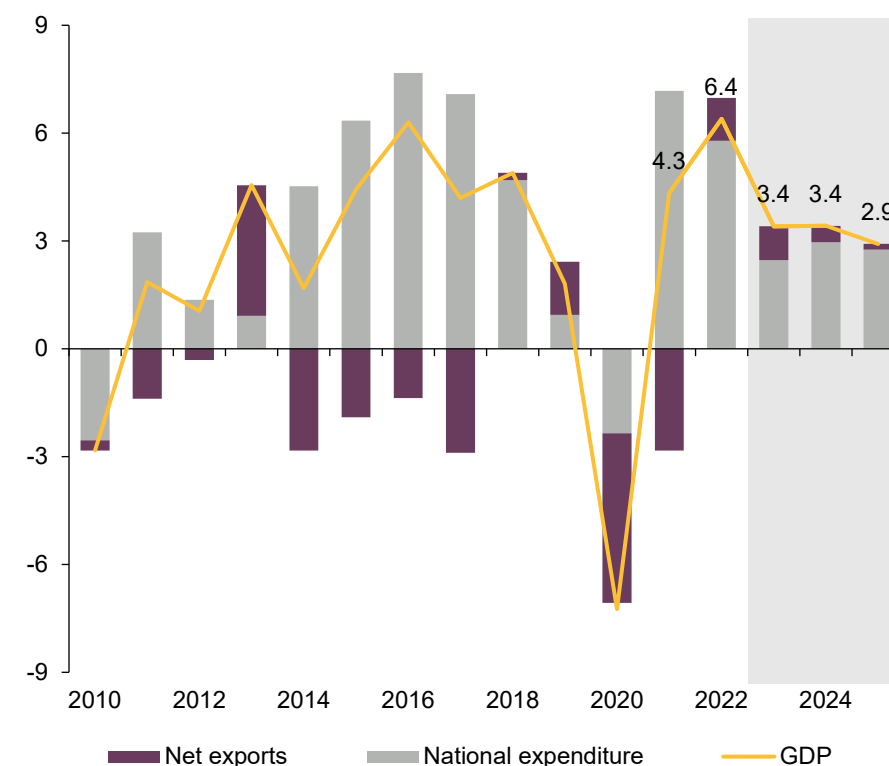
## GDP and contribution of its subcomponents

Volume change from prior year (%)



## GDP, domestic demand, and external trade

Volume change from prior year (%)





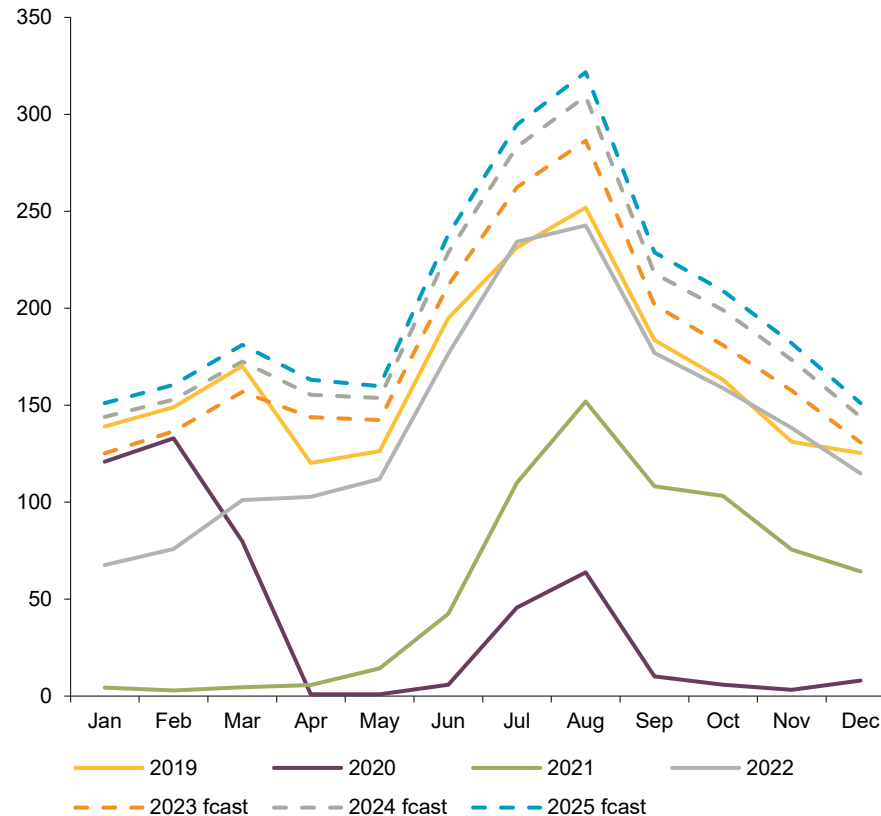
# Tourism rises to new heights

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

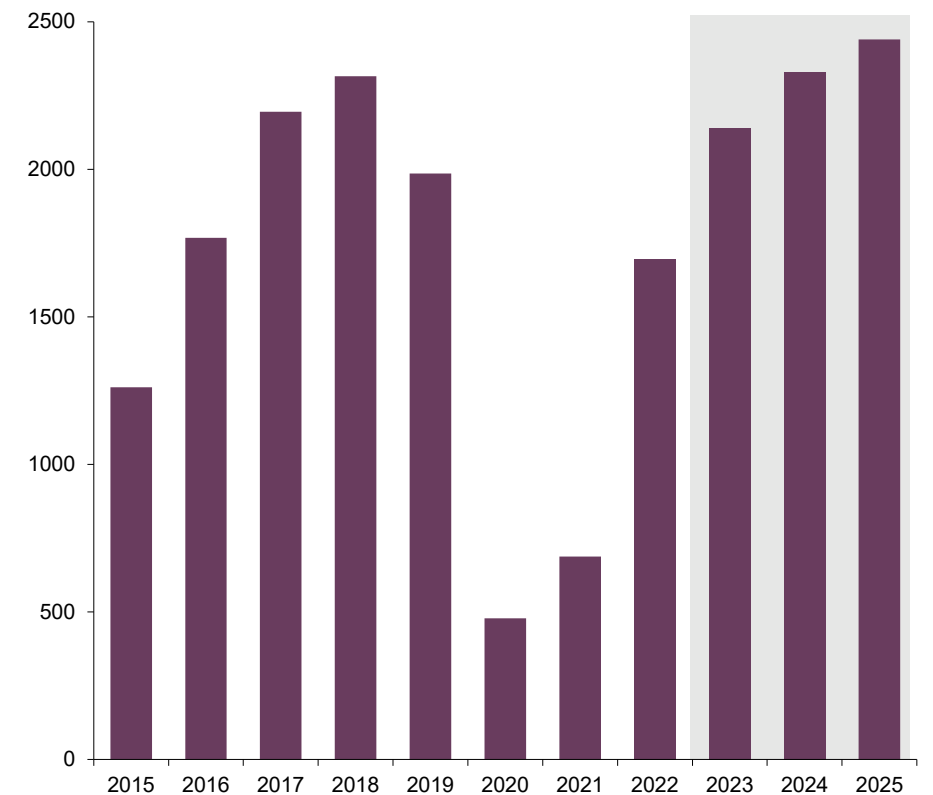
## Highlights

- 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, ISB Research.





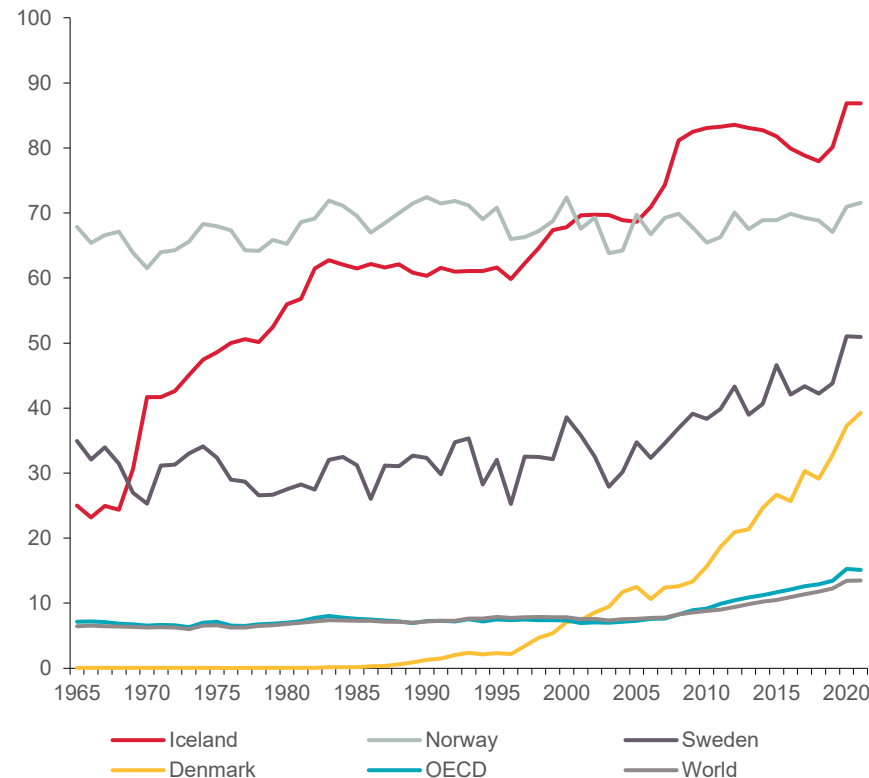
# Icelandic economy resilient to European energy crisis

## Geothermal heating keeps energy costs at bay

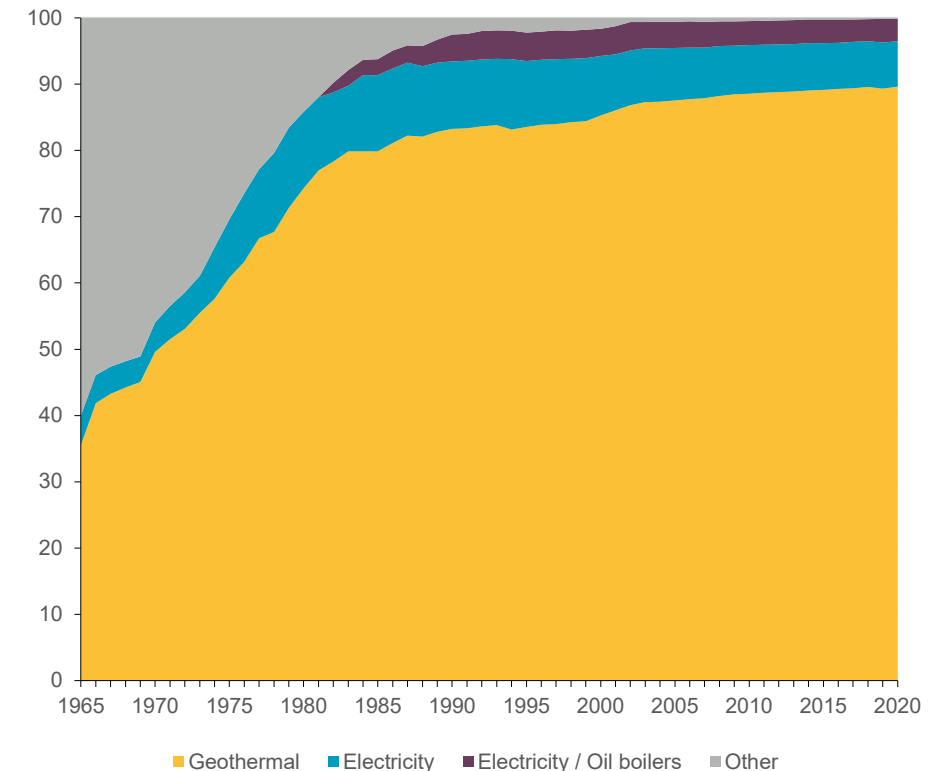
### Highlights

- 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<sup>3</sup>, 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 %





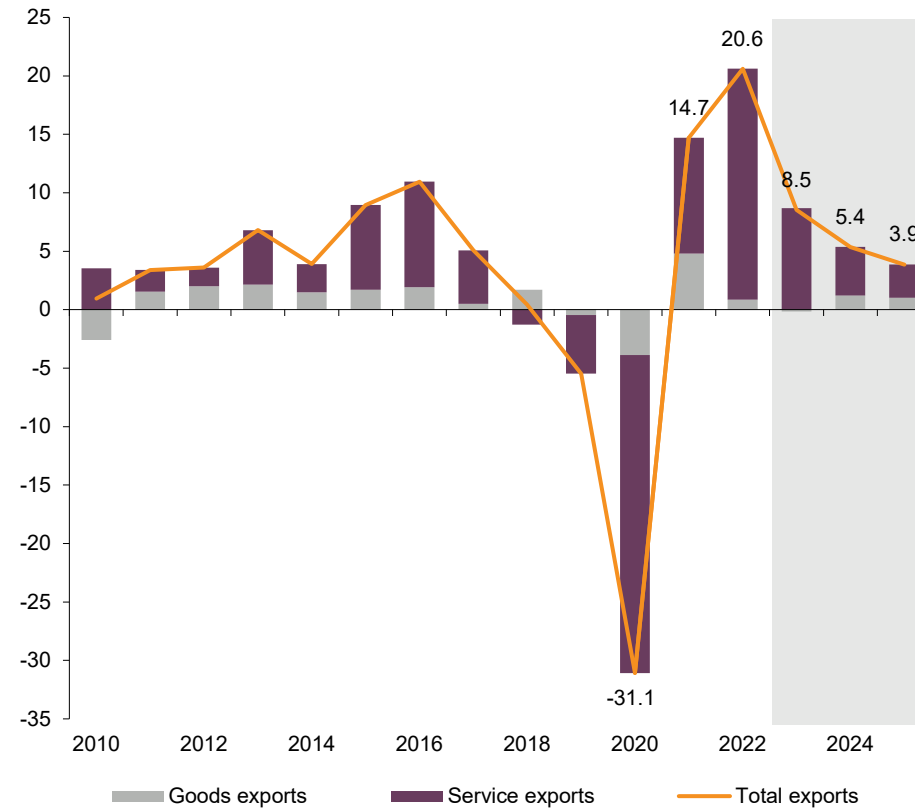
# Current account deficit set to close during the forecast horizon

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

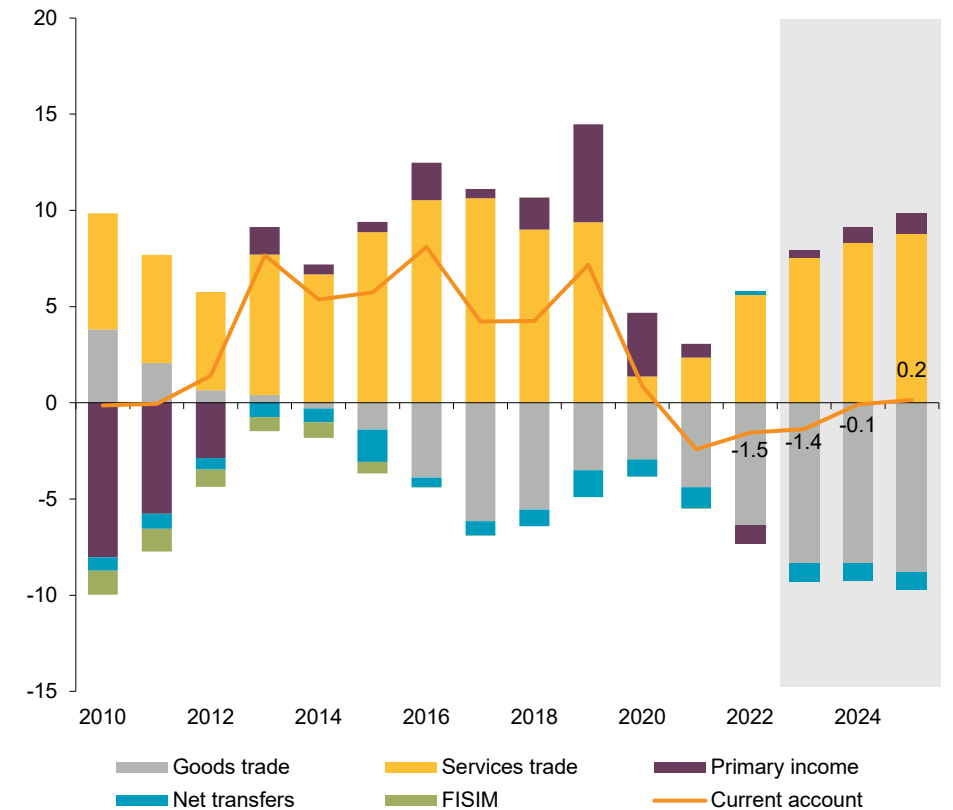
## Highlights

- 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 1.5% 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 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

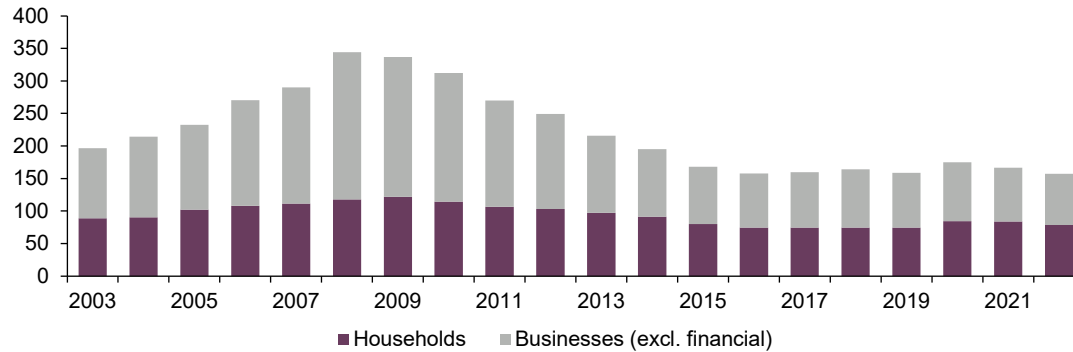




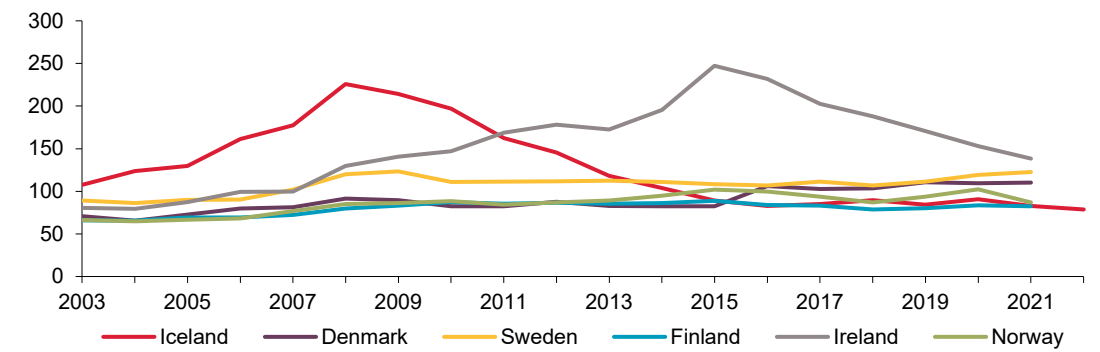
# Domestic balance sheets remain healthy

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

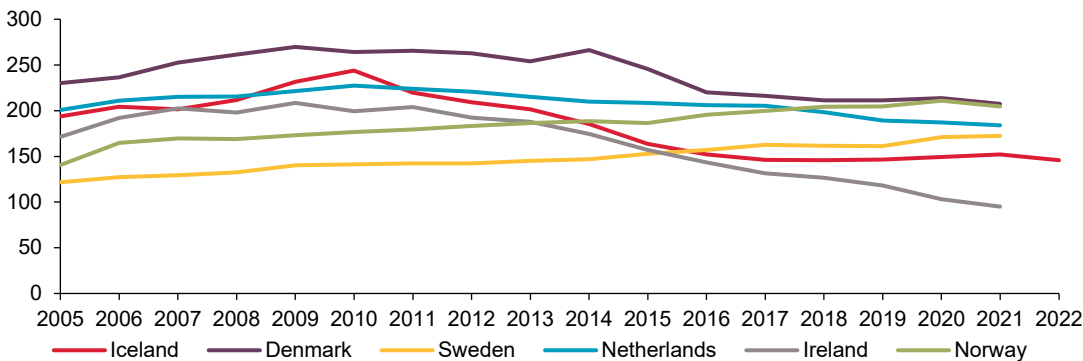
**Private sector debt**  
% of GDP



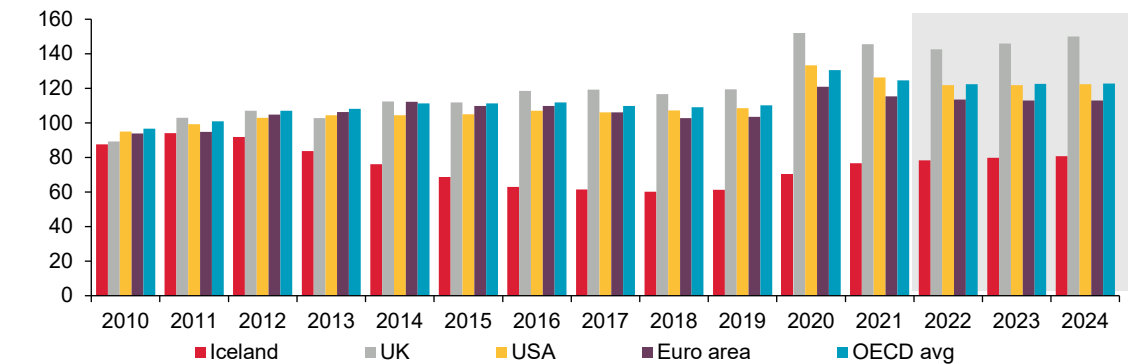
**Corporate debt**  
% of GDP



**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.



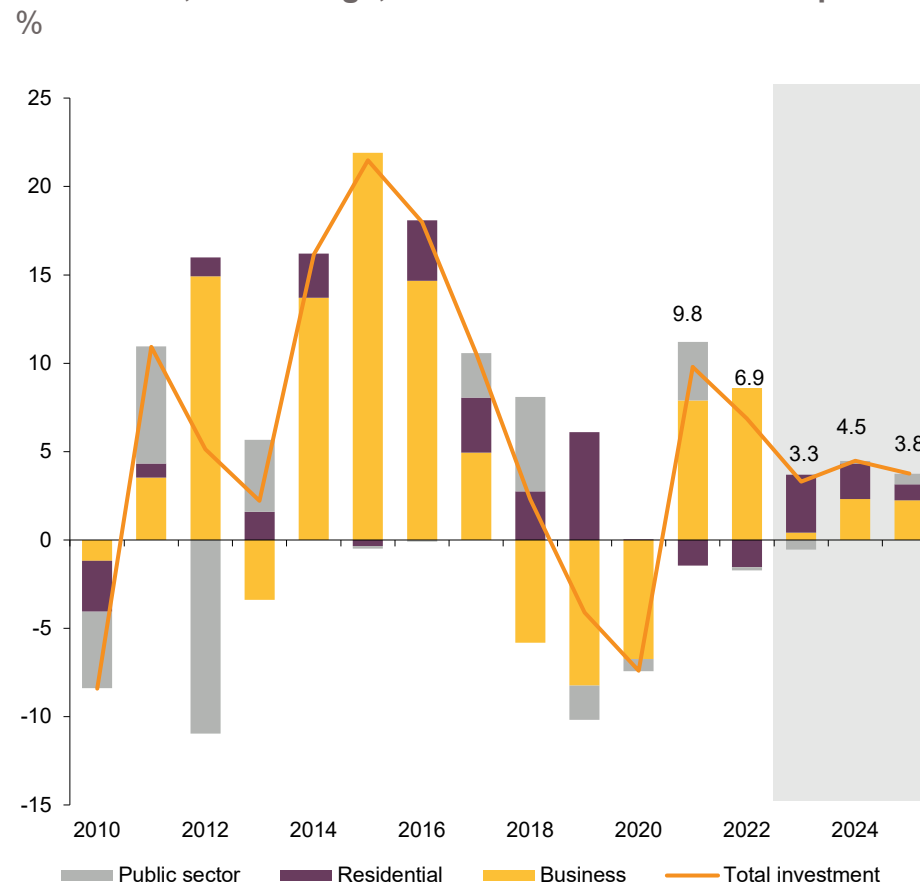
# Investment keeps growing steadily in the wake of an upsurge

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

## Highlights

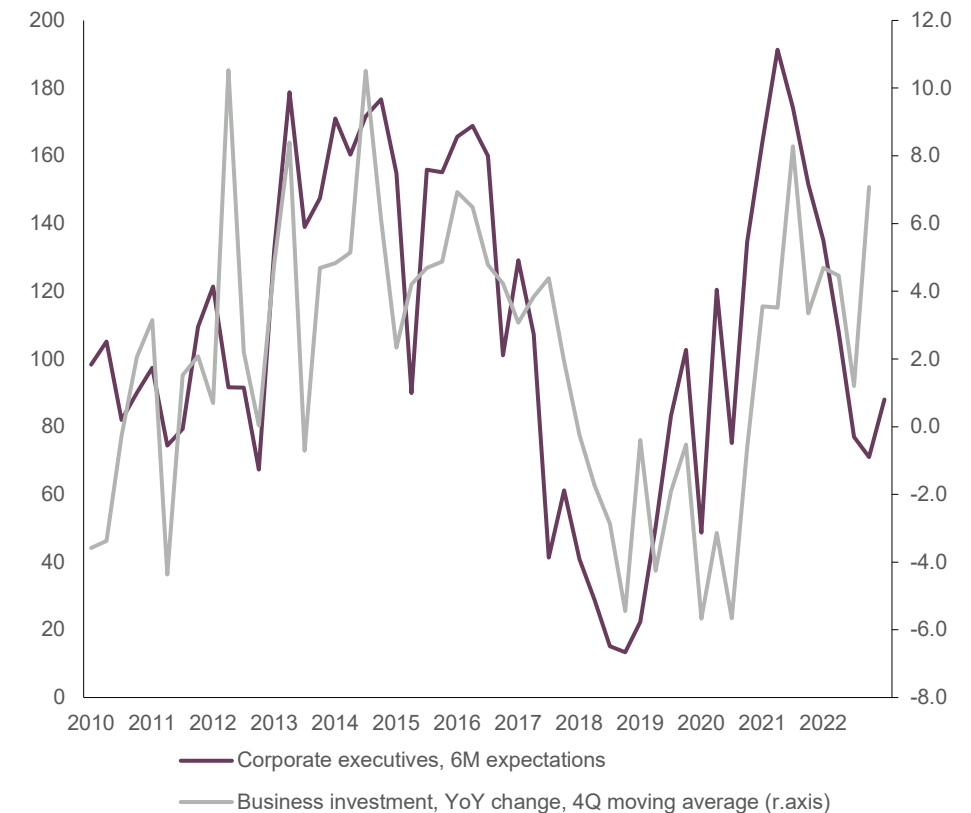
- After spiking in 2021, investment growth lost some pace in 2022.
- For 2022, growth is estimated at just under 7%, owing entirely to business investment, as both residential and public investment contracted somewhat year-on-year.
- For 2023, though, robust growth in residential investment looks set 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.



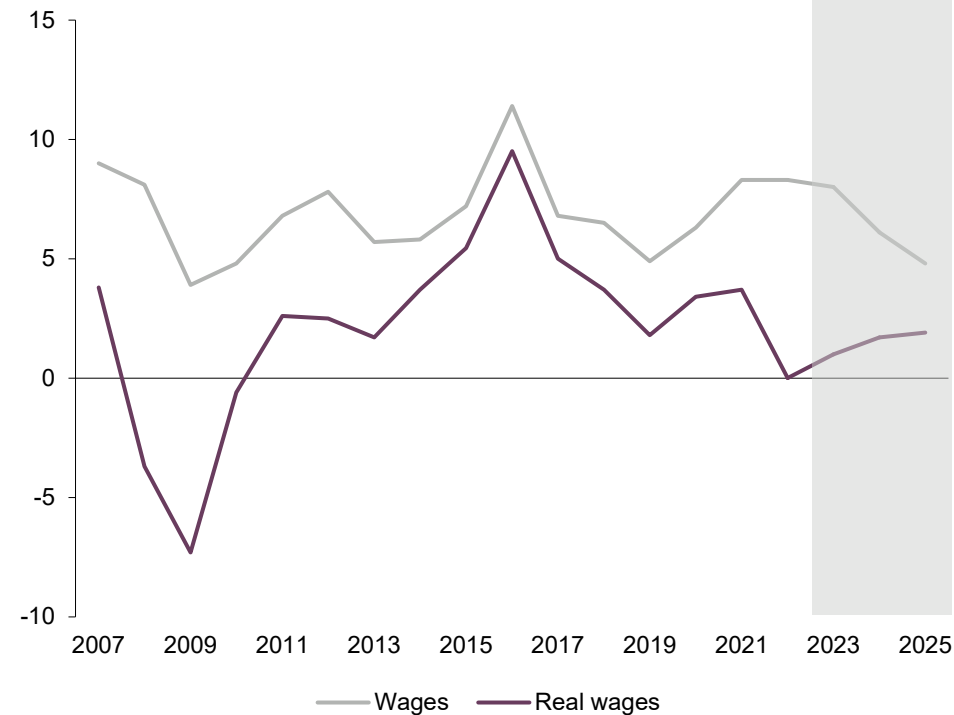
# Unemployment set to remain flat in 2023

Real wage growth expected throughout the forecast horizon

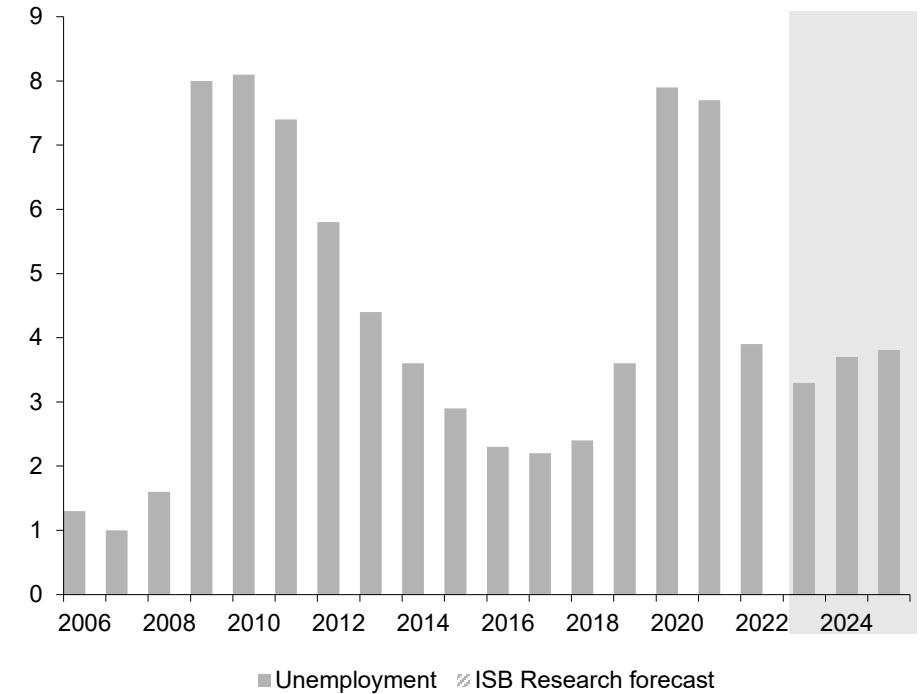
## Highlights

- 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.

Wages, year on year change  
%



Unemployment<sup>1</sup>  
% of workforce, annual average



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



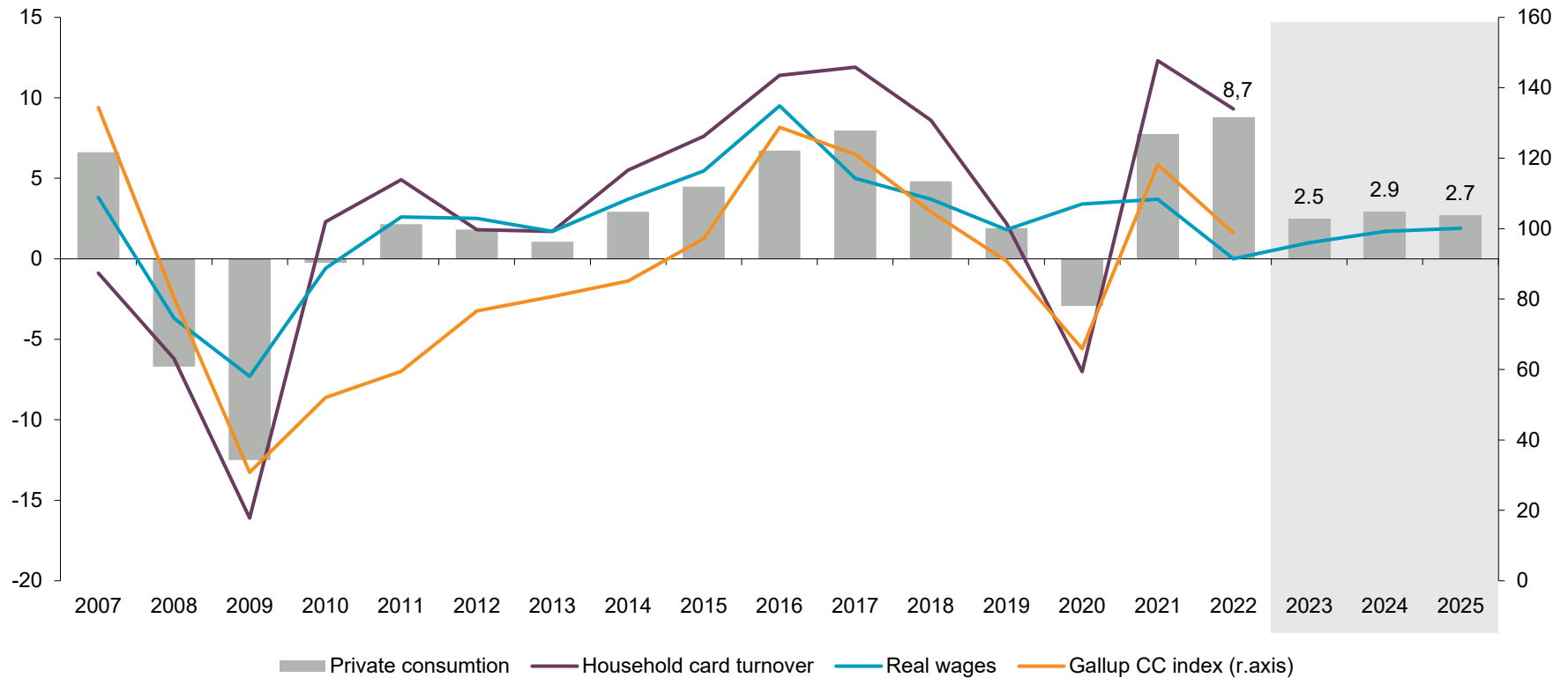
# Private consumption growth remains resilient

## Household saving ratio still above average

### Highlights

- Icelanders were willing spenders in 2022, as private consumption grew in real terms by 8.7%, the fastest rate in 17 years.
- 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 growth 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)



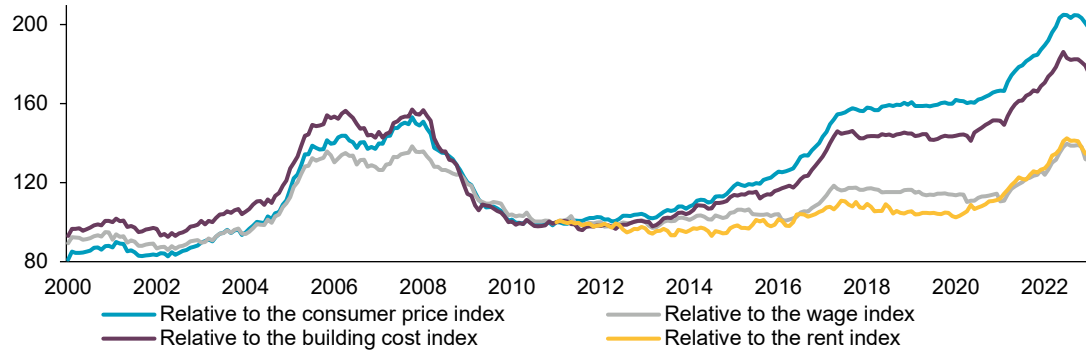


# The real estate market appears to be stabilising

Central Bank measures seem to be achieving the intended result

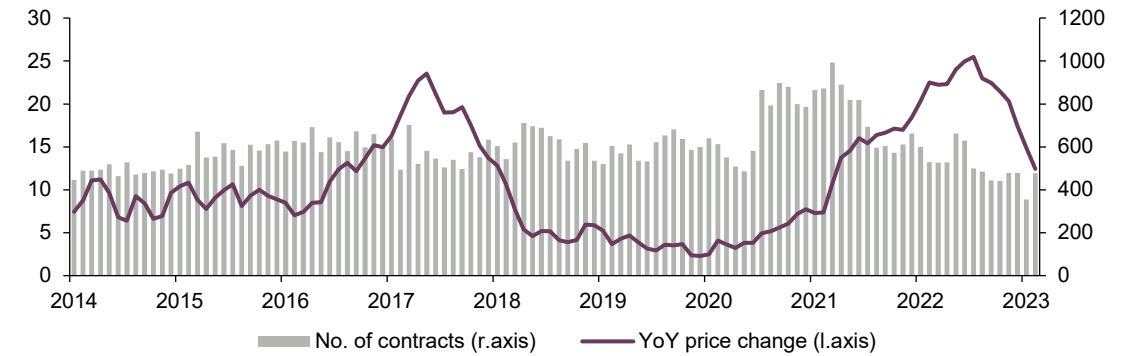
## Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



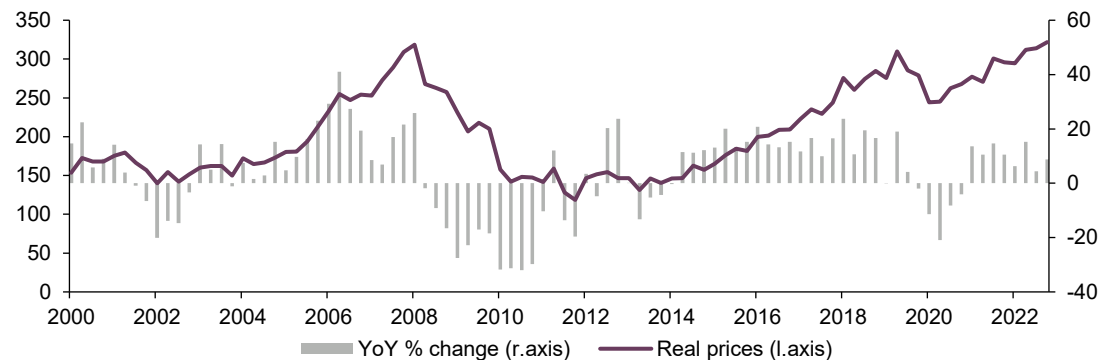
## Residential house prices and turnover in greater Reykjavik

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



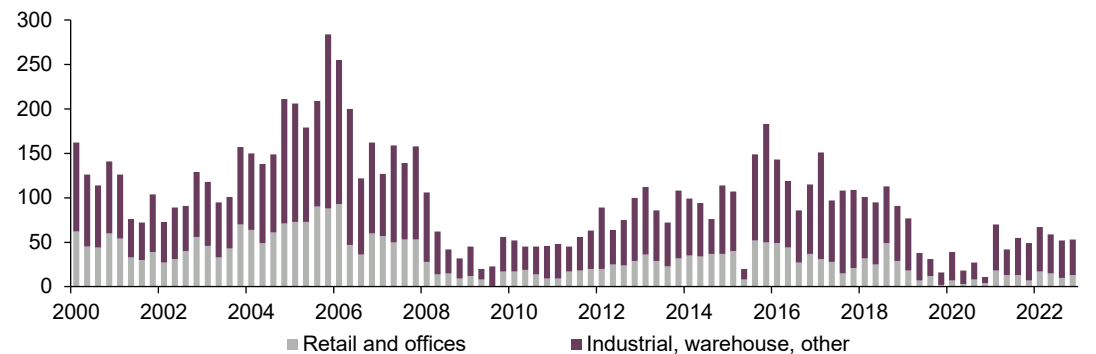
## Commercial property real prices in greater Reykjavik

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



## Commercial real estate market activity

No. of registered purchase agreements



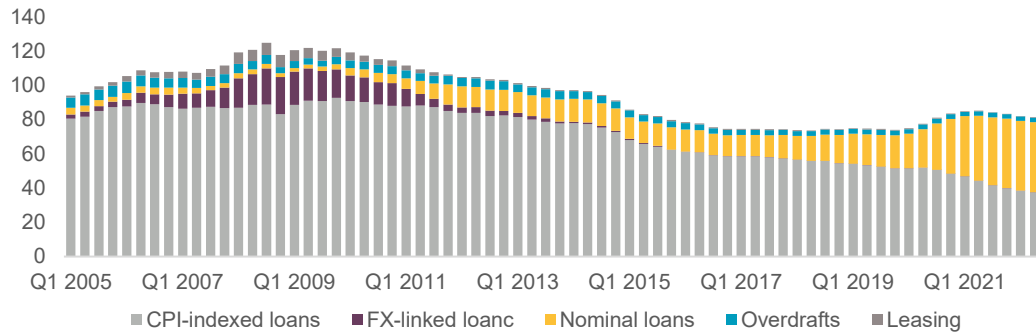


# The Icelandic housing market is relatively resilient

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

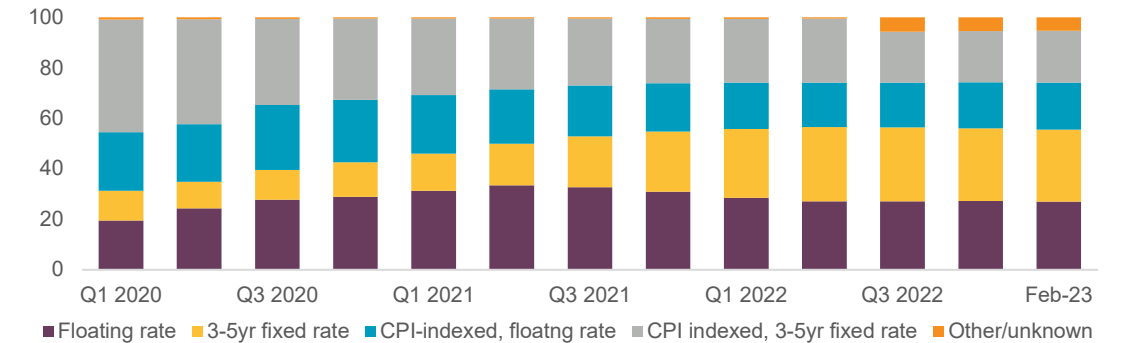
## Households are not highly indebted compared to peers

Household debt, % of GDP



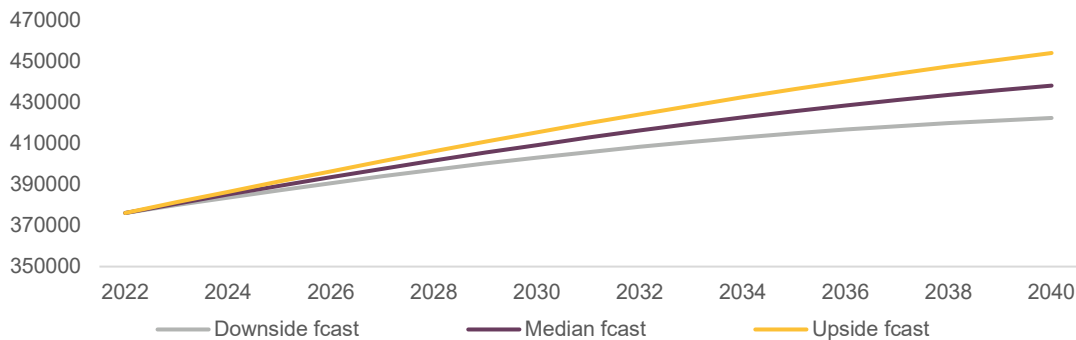
## Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



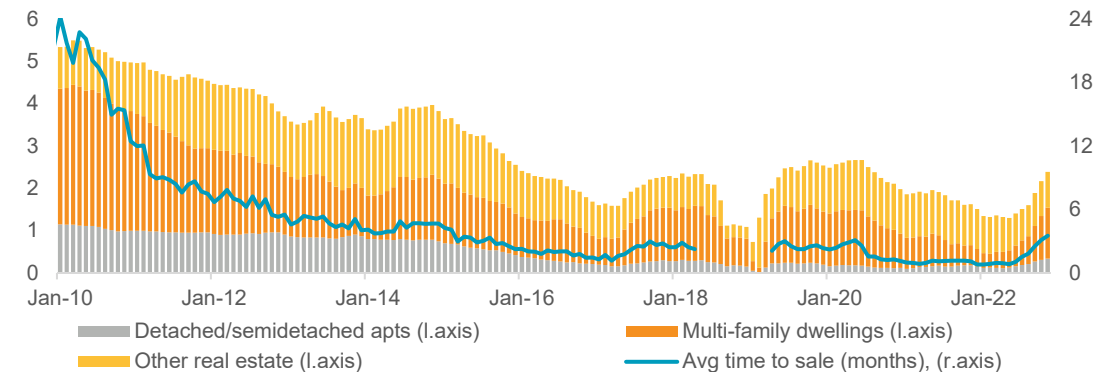
## Underlying upward demand trend steady as population growth remains robust

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.





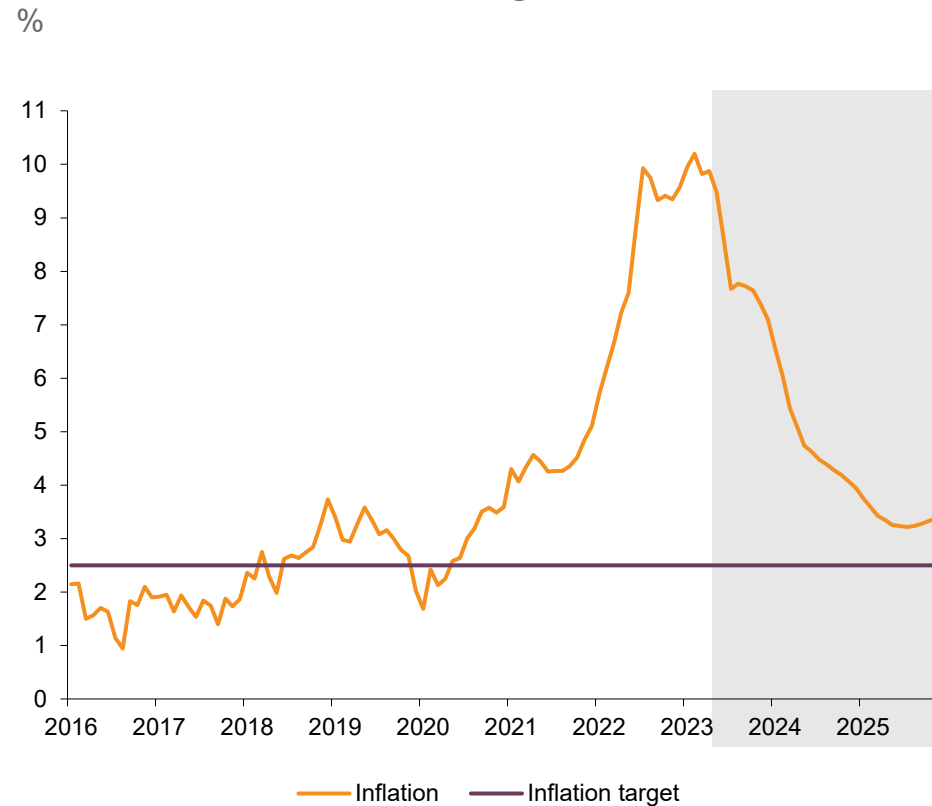
# Inflation will fall, but how fast?

The road back to the inflation target is rocky and circuitous

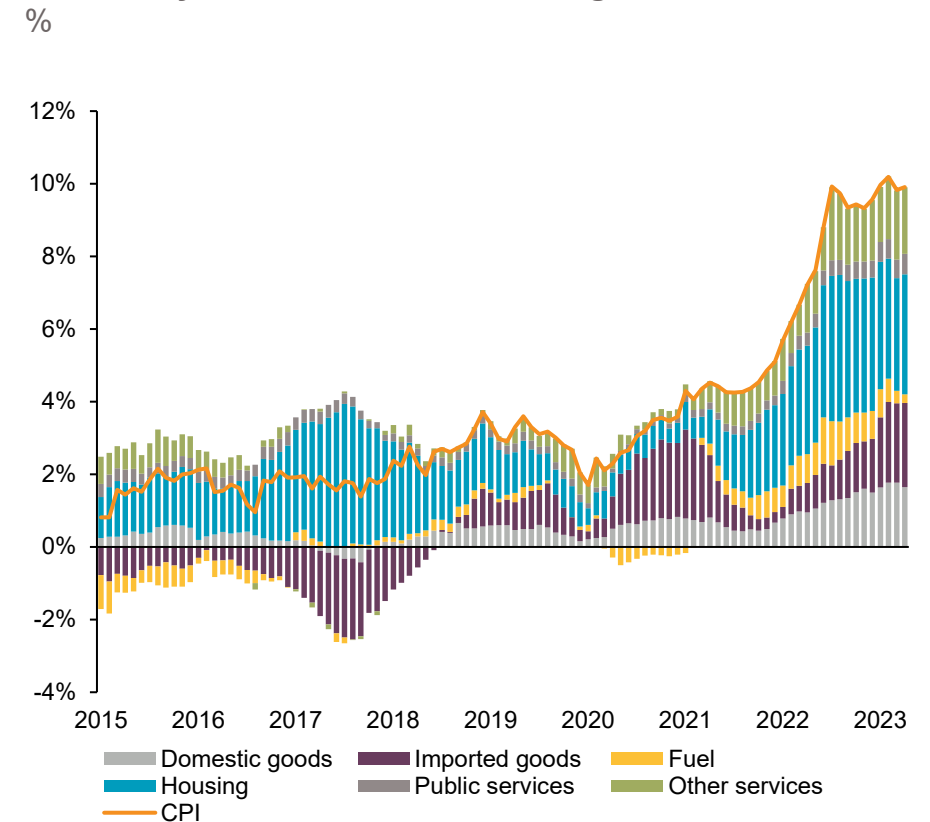
## Highlights

- Twelve-month inflation peaked in February at 10.2% and eased to 9.9% in April.
- The outlook is that inflation will ease 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 April inflation figure of 9.9%, the housing component accounts for 3.3%. This percentage peaked at 4% last summer, and looks set to keep declining in the near future.
- Imported inflation, another key driver of inflation, has been rising and will remain a substantial share of total inflation in the near term.
- There are hopes that inflation will taper off sharply over the course of the year, though, particularly if the ISK holds its ground.
- ISB Research expects inflation to average 8.6% in 2023, 4.8% in 2024, and 3.4% in 2025.

## Inflation and the CBI inflation target



## Inflation by contribution of main categories





# Interest rates relatively high near-term but will ultimately fall

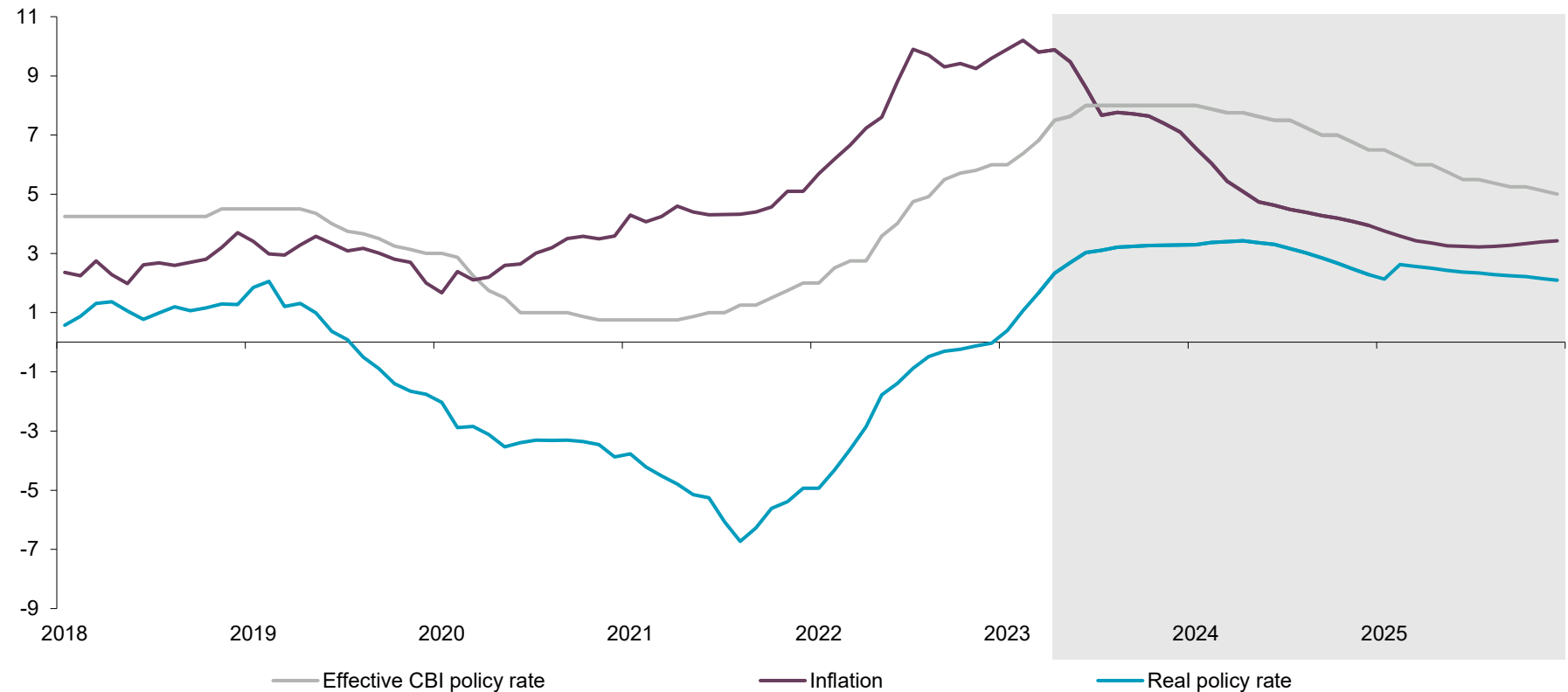
Gradual easing further ahead; equilibrium rate in sight by the end of the horizon

## 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 7.5%, after being raised by 6.75 percentage points since spring 2021.
- The real policy rate has risen somewhat in recent quarters in terms of forward-looking measures. The long-term real rate is around 2.1%, 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 8.0% by the end of Q2.
- Further ahead, however, the policy rate will fall again, perhaps starting in Q1 2024 – provided that inflation subsides and the economy cools as expected.
- The policy rate is assumed to average 6.0% in 2025, the last year of the forecast horizon.
- By the end of the forecast horizon, long-term benchmark 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





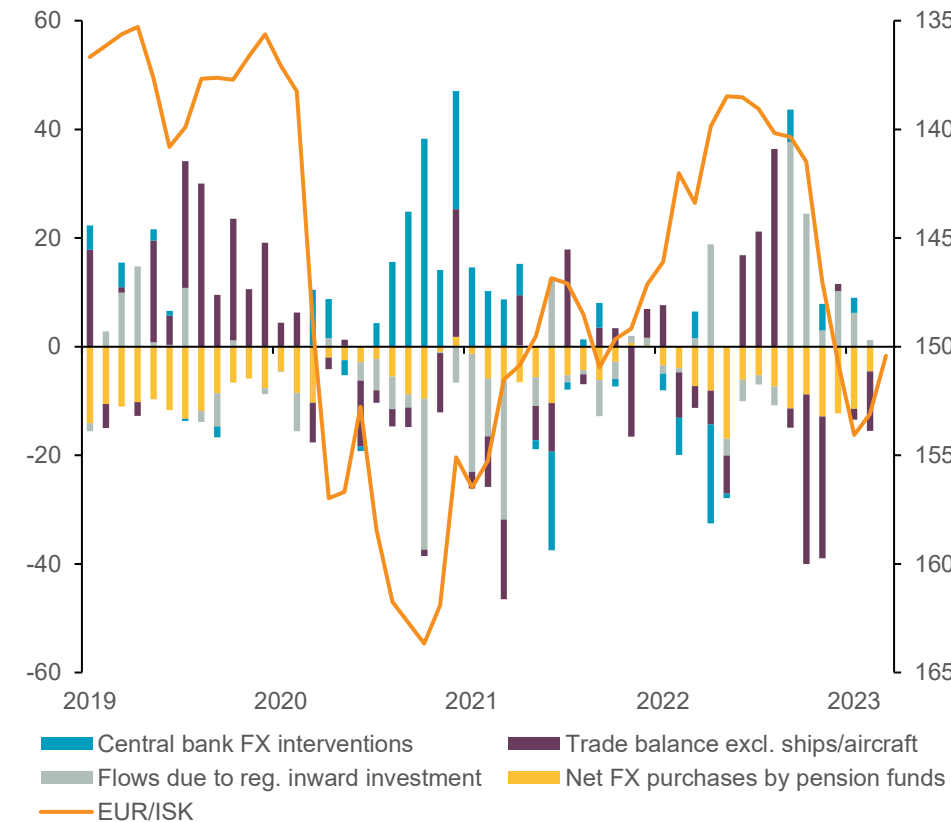
# ISK likely to strengthen somewhat over time

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

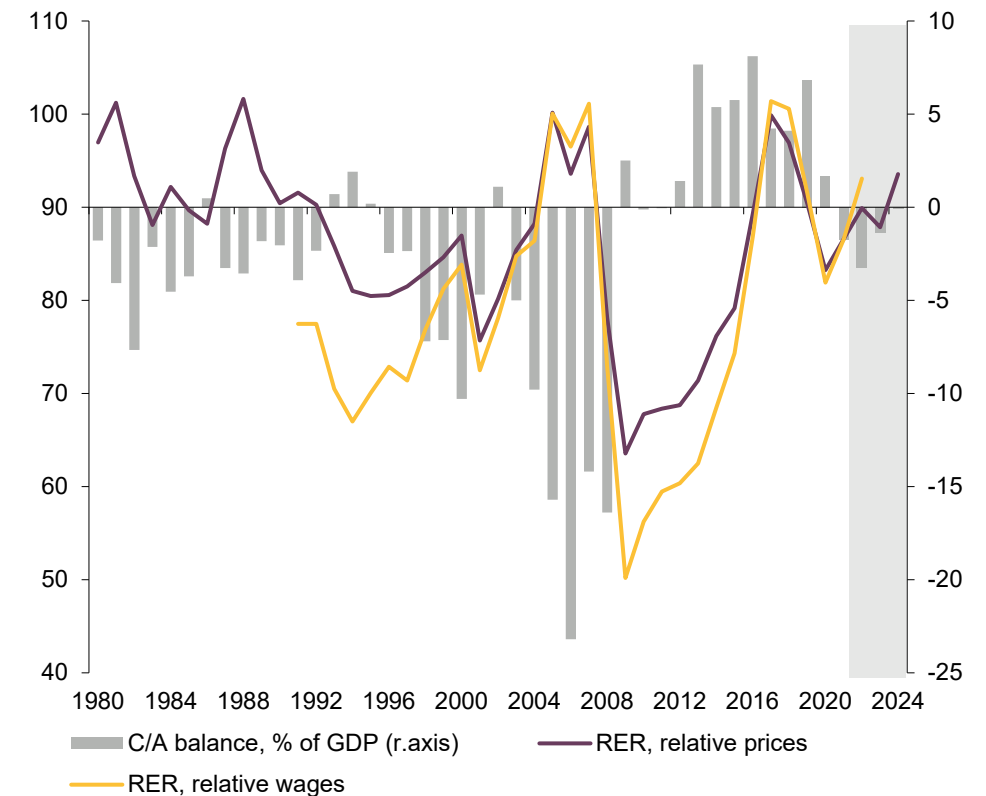
## Highlights

- 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

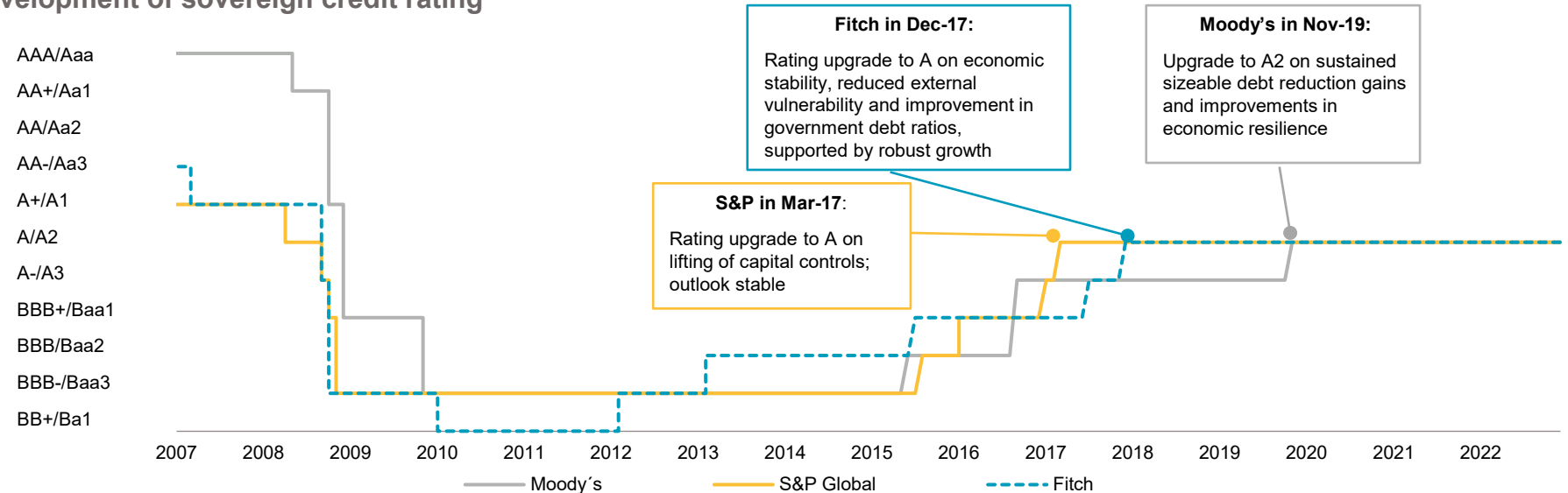




# Iceland's credit rating has been resilient in turbulent times

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.”

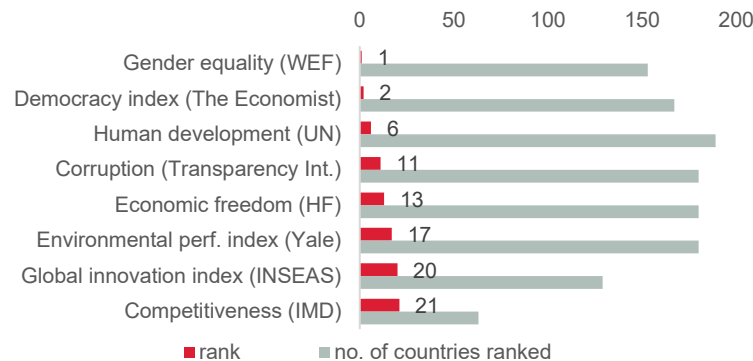
Source: Moody's, S&P, Fitch Ratings and Central Bank of Iceland.



# The Icelandic economy and society draw on many strengths

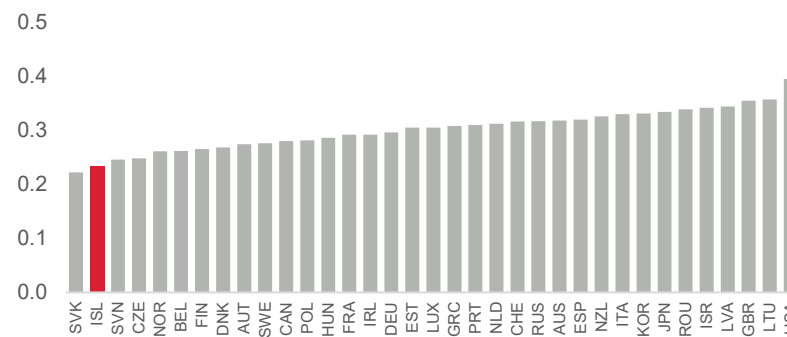
Icelanders enjoy high standards of living in a modern, open and egalitarian society

## Iceland ranks highly on a variety of global development benchmarks



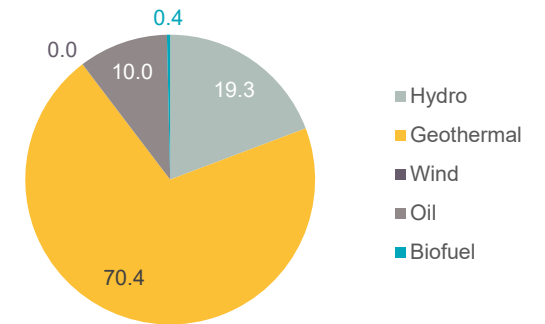
## Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



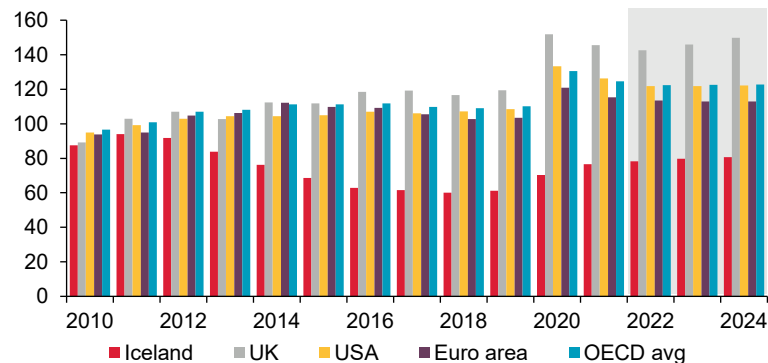
## Sustainable energy usage is prevalent

Energy consumption by source, 2020



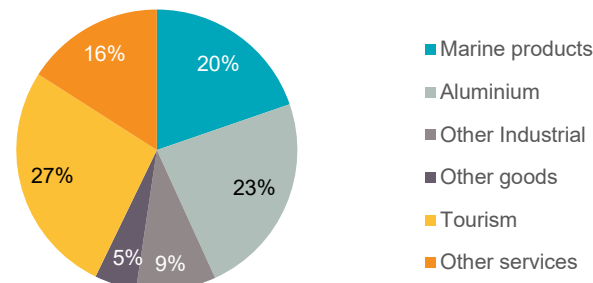
## Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



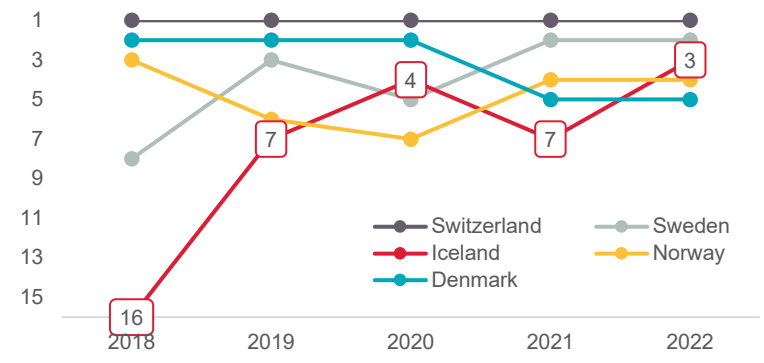
## Export base has grown more diverse over time

Export contribution by industry, 9M 2022



## Iceland ranks highly in attracting/retaining talent

IMD World Talent Ranking 2018-2022





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