2Q23 Financial Results

27 July 2023

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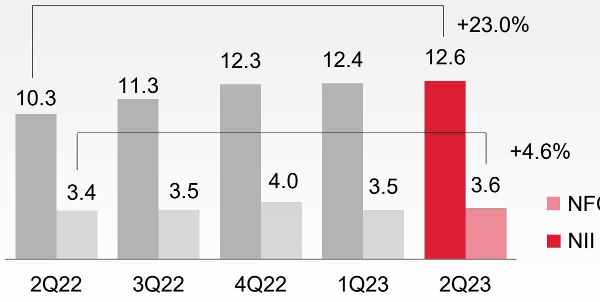
ROE of 11.5% in 2Q23 led by growth in core income

Earnings above financial target largely due to release of impairments

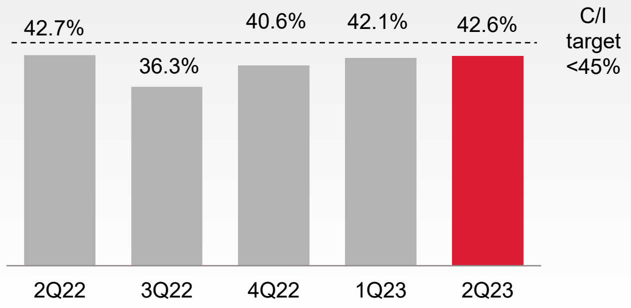
Solid top line growth in 2Q23

NII and NFCI, ISKbn



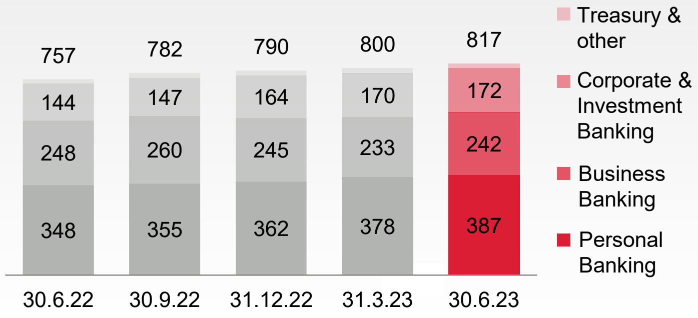
Growing revenues support C/I ratio

C/I ratio[1]



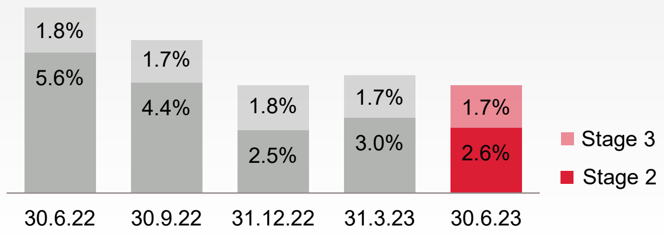
Diversified and growing deposit base

Deposits from customers



Asset quality continues to be strong

Loans to customers: Stage 2 and 3 (NPL)

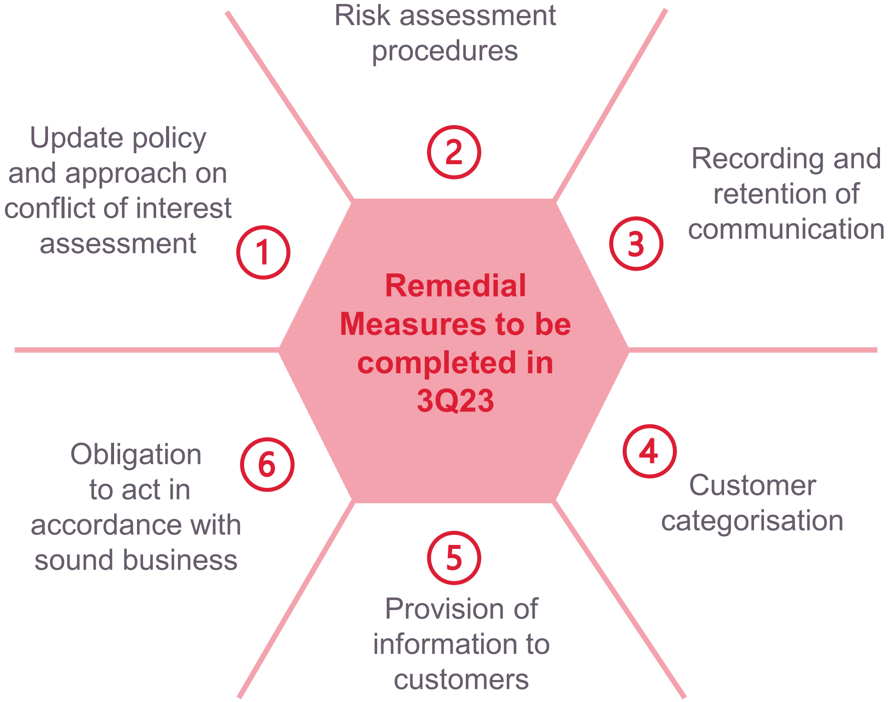


1. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 included a provision of ISK 300m made in connection with an administrative fine, the C/I ratio has been restated so it excludes the provision.

Final resolution in the FSA case

Administrative fine of ISK 1,160m and implementation of certain remedial measures

- Government sell down of a 22.5% stake in March 2022
- FSA preliminary findings received at end of 2022
- FSA draft settlement received on 9 June 2023
- Board approves offer to settle case
- New CEO appointed after former CEO steps down
- Shareholder Meeting and Board mandate renewed
- Compliance with Remedial Measures in 3Q23



Delivering on financial targets in the second quarter

CET1 ratio buffer increased by 20bp during the quarter

	Target	2Q23
Return on equity	>10%	11.5% ✓
Cost-to-income ratio[1]	<45%	42.6% ✓
CET1 capital buffer	100-300bp	480bp ✓
Dividend-payout-ratio	50%	

Highlights

- Updated ROE guidance for 2023 is towards a range of 10.7-11.7%
- 2023 guidance for C/I ratio remains in the range of 40-45%
- Pillar 2-R requirement lowered from 2.6% to 2.4%
- Current CET1 target range of 16.2-18.2% and optimal operational CET1 capital at 17.2%, based on a 200bp capital buffer
- CET1 requirement will increase by 50bp in 1Q 2024 with an increase in the CCyB

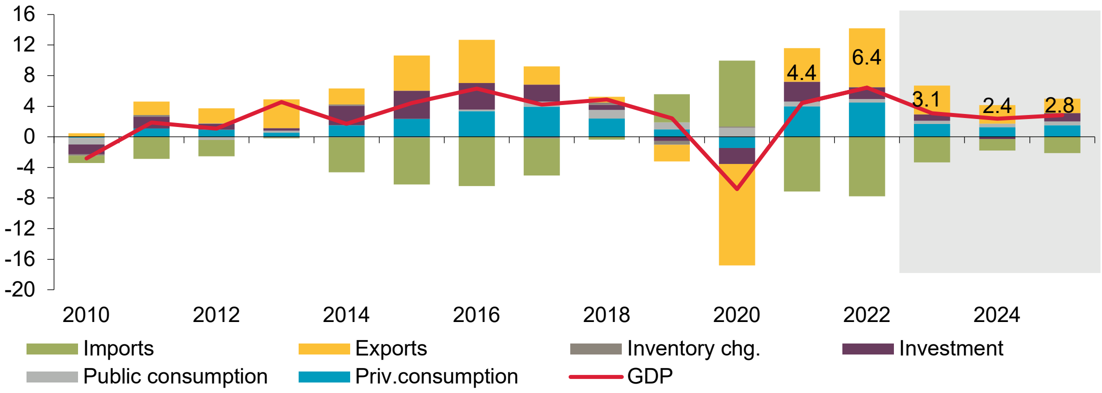
1. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine.

Fair economic weather ahead, with a chance of showers

Considerably slower GDP growth ahead as exports take the lead from domestic demand

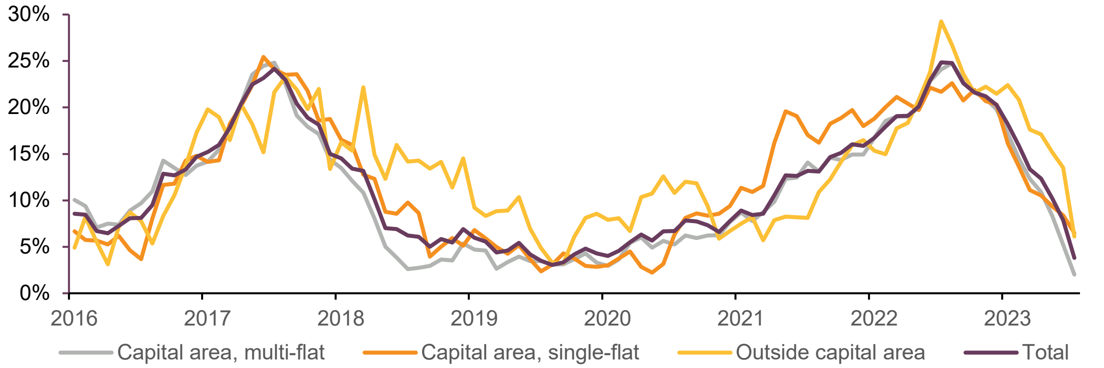
Moderate, export led growth to take over from the strong recovery…

Real GDP and main subitems, YoY change, %



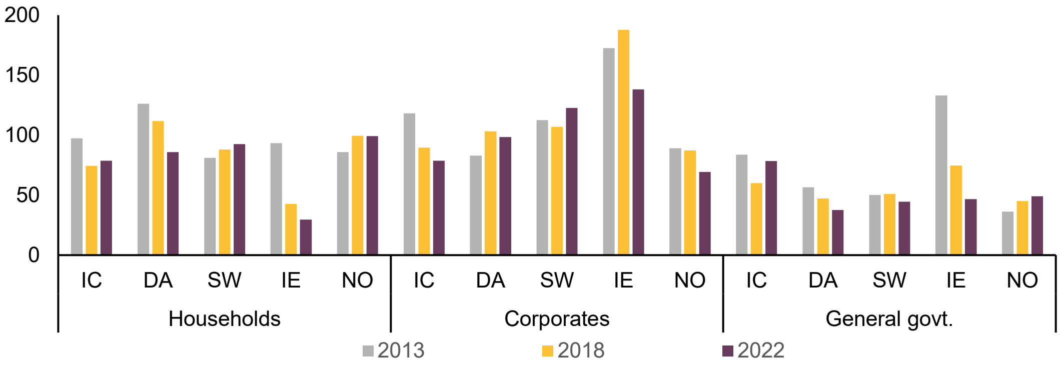
..and housing market is leveling off after steep price increases up to 2Q 2022

Year-on-year increase in residential house prices



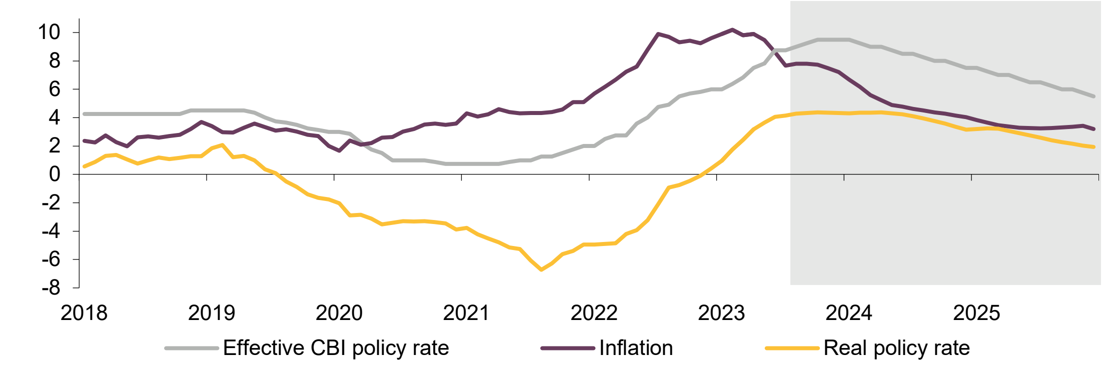
Moderate leverage throughout the economy increases resilience to shock…

Gross debt of main economic sectors as % of GDP, Nordics and Ireland



...while persistent inflation poses an ongoing challenge for monetary policy

Inflation and policy rate, %   Real policy rate b.o. expected forward inflation



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

Sound performance across all business units

Strong ROE and growth in both lending and deposits

Personal Banking

21.6% ROE

45.2% Cost-to-income ratio

3.2% NIM

- Loan portfolio grew by 5% and deposits by 11% YoY
- Ávöxtun, an online account, is the largest account in Personal Banking
- 16.5 million customer visits to Íslandsbanki's app during first half of 2023

Business Banking

21.6% ROE

37.7% Cost-to-income ratio

5.8% NIM

- Growth in lending volumes in 2Q23 with 18% growth YoY
- Highest NPS score amongst domestic peers for SMEs and 39% market share[2]
- According to annual Gallup survey among customers of BB, the service from advisors achieved the highest score yet measured

Corporate & Investment Banking

20.3% ROE

31.5% Cost-to-income ratio

3.8% NIM

- Derivatives Desk and FX Sales continue their solid performance
- CIB acted as both Facility Agent and Security Agent in a EUR 220 million sustainability-linked refinancing of Brim hf.
- 35% market share amongst Iceland's 300 largest companies

Iceland Funds

14.0% ROE

73.6% Cost-to-income ratio[1]

AUM ISK **385bn**

- Total operating income in 2Q23 increased by 2% YoY
- Slight drop in AUM by 1.9% YoY

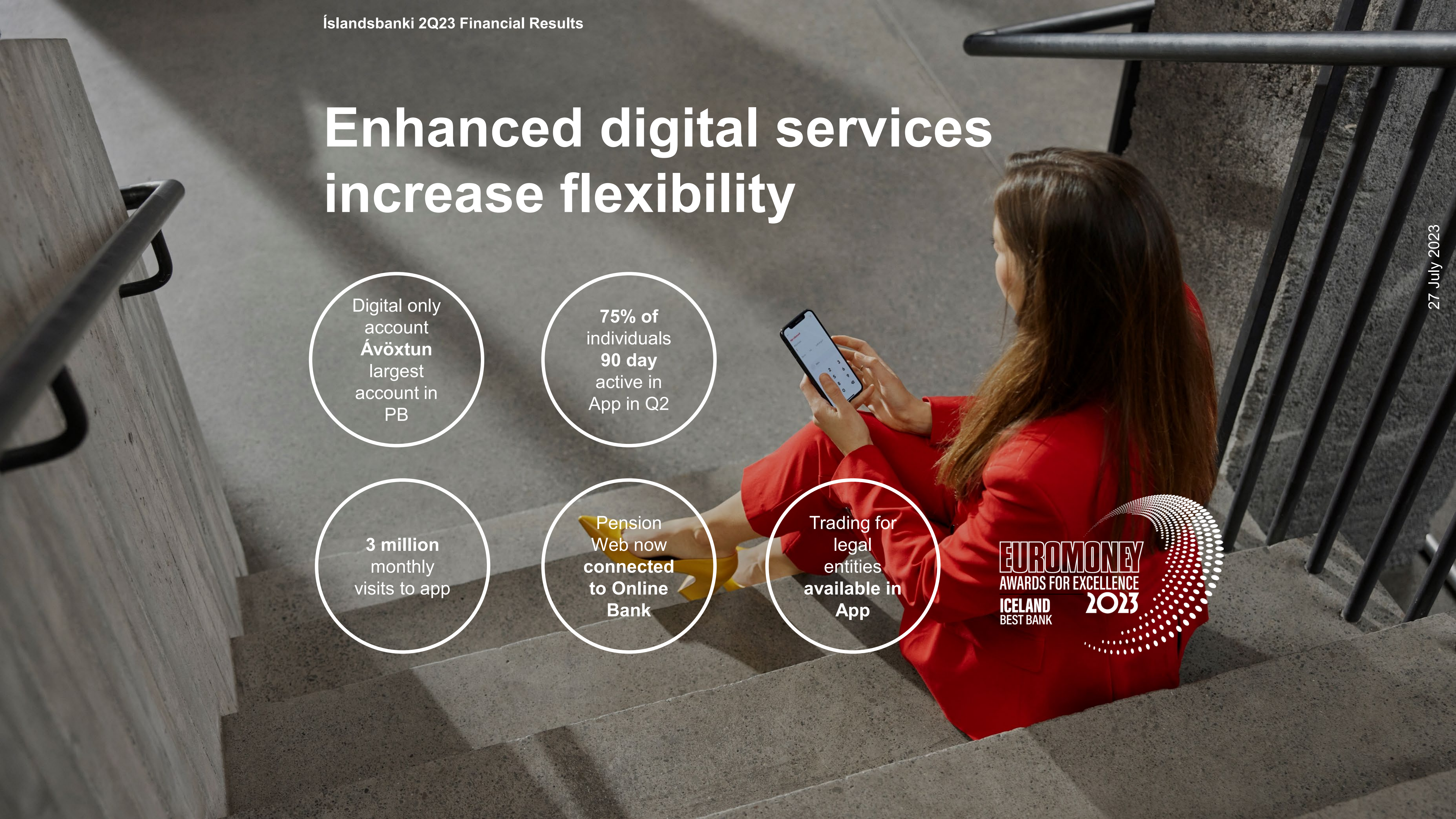
Allianz Ísland hf.

18% ROE in 2Q23

78% Cost-to-income ratio

- Net fee & commission income increase by 33% YoY
- Continued robust results driven by revenue generation

1. As calculated from the Bank's Consolidated Income Statement. 2. Average of last two Gallup Surveys conducted in Q1 and Q2 2023.



Enhanced digital services increase flexibility

Digital only account **Ávöxtun** largest account in PB

75% of individuals **90 day** active in App in Q2

3 million monthly visits to app

Pension Web now **connected to Online Bank**

Trading for legal entities **available in App**

EUROMONEY AWARDS FOR EXCELLENCE 2023
ICELAND BEST BANK

Íslandsbanki Reykjavík Marathon

Biggest charitable event of the year

ISK 1.3bn in total collected since 2006

Key funding event for many charitable organisations

Held on 19 August 2023 for the 38th time

More than 170 charitable organisations benefit

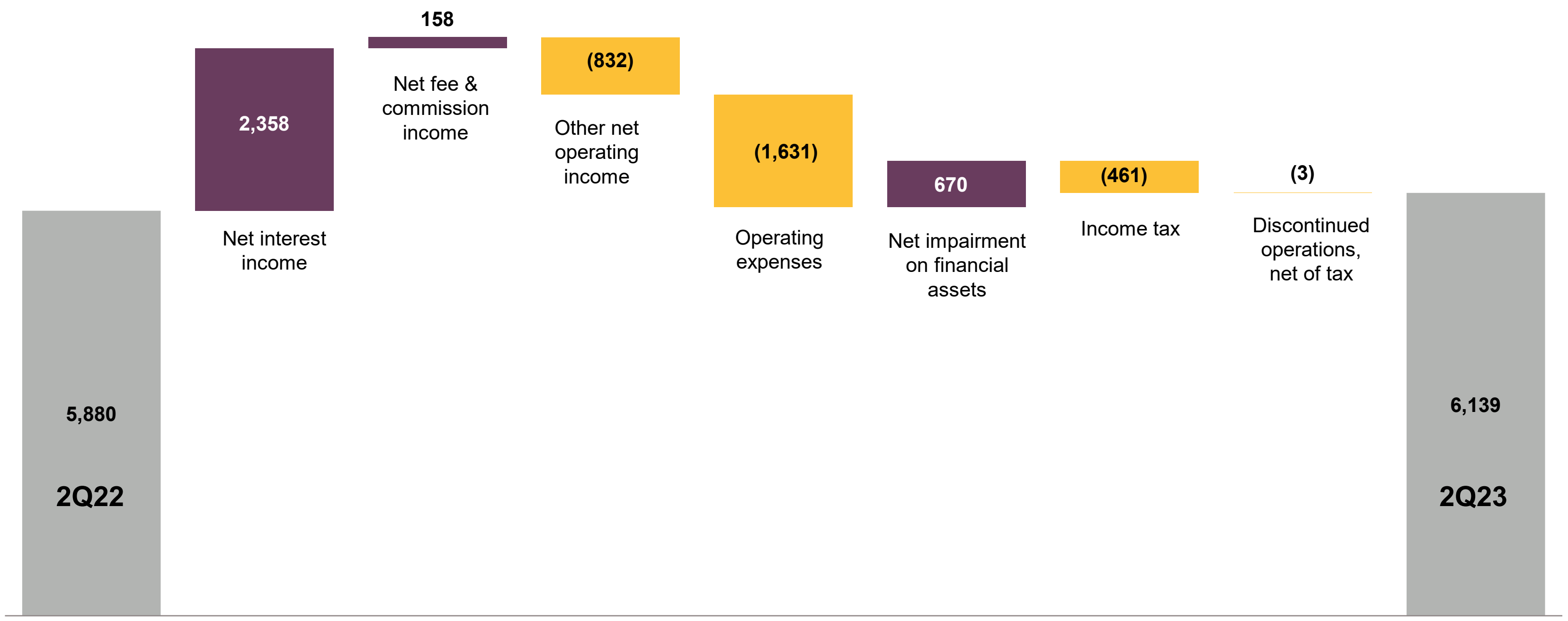
27 July 2023

Financial overview

Growth in Net Interest Income key driver in strong results

Interest income continues to rise in current interest rate environment

Profit for the period – 2Q22 vs 2Q23
ISKm



NII increase due to high rates environment

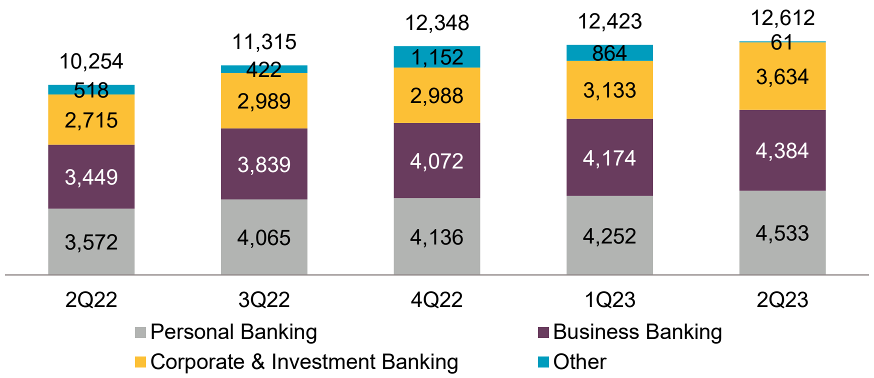
Central Bank rates likely near its peak, with inflation subsiding slowly

Highlights

- Lending margin was 1.8% in 2Q23 (1.9% in 2Q22)
- Deposit margin was 2.3% in 2Q23 (1.8% in 2Q22)
- Net interest margin was 3.2% in 2Q23 (2.9% in 2Q22)
- Average CB policy rate rose from 3.5% in 2Q22 to 8.0% in 2Q23

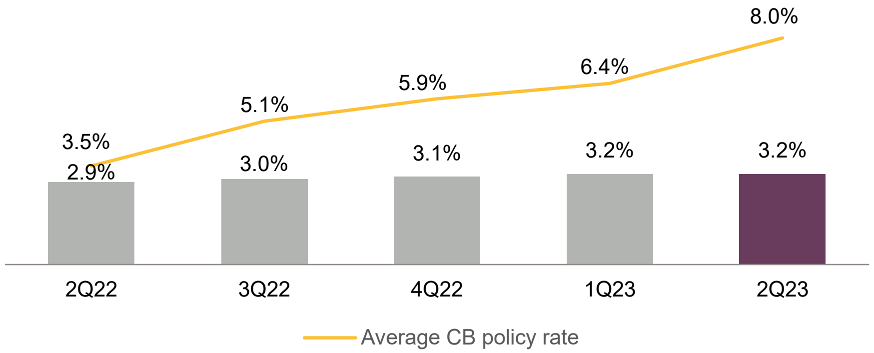
Net interest income

By business segments, ISKm



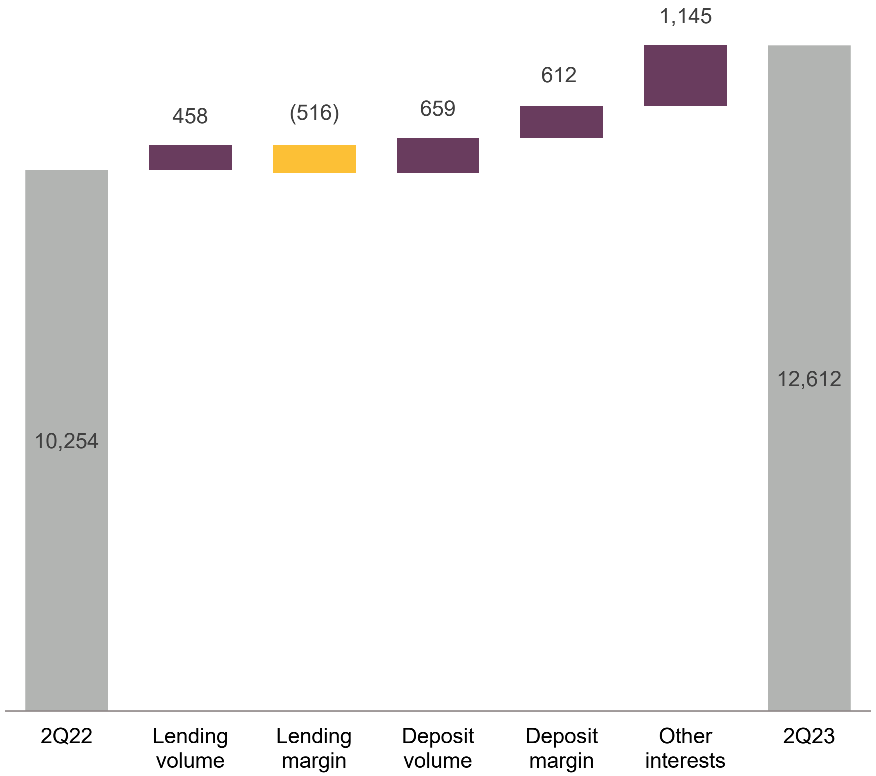
Net interest margin

On total assets



Net interest income – YoY comparison

ISKm



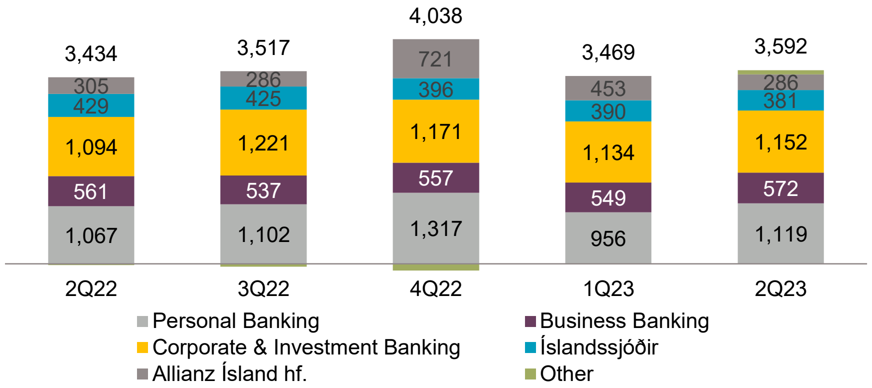
Strong fee income from cards and payment processing

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

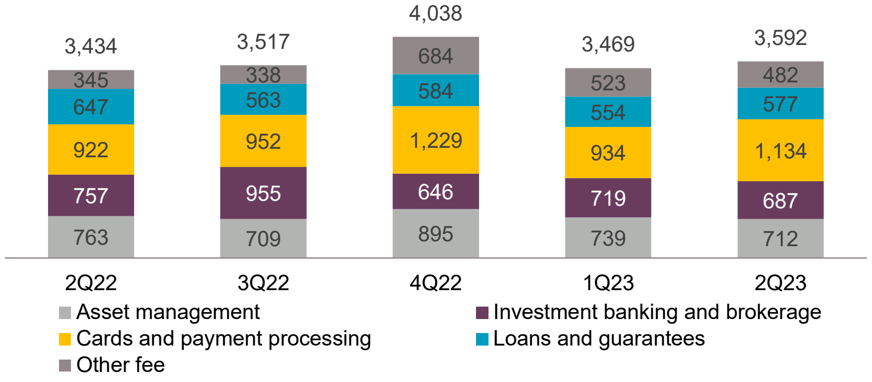
Highlights

- Income from cards and payment processing continues to rise. Transfer of card settlements to the Bank and an overall increase in card turnover
- 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 continuing drop in AuM due to market conditions and negative returns

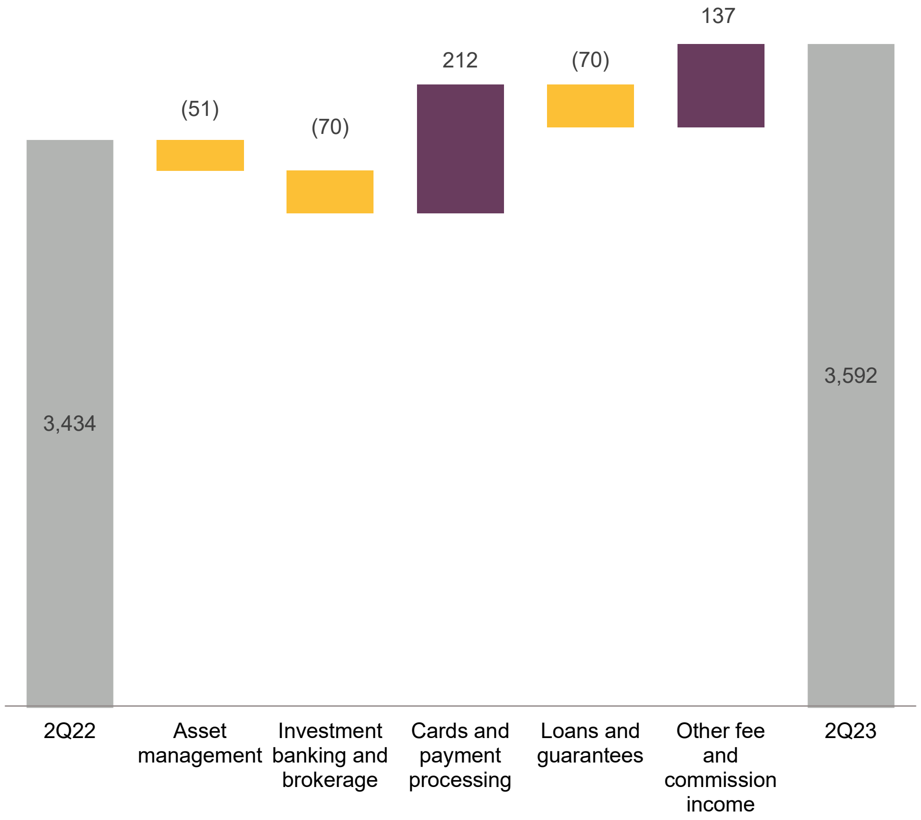
Net fee and commission income
Business segments, ISKm



Net fee and commission income
By type, ISKm



Net fee and commission income – YoY comparison
ISKm



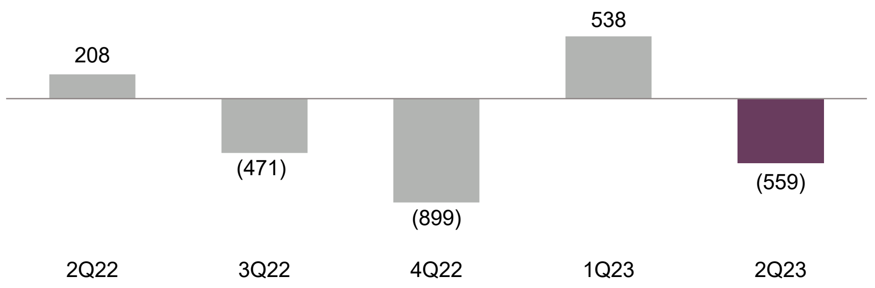
NFI affected by volatile market environment

Exposure to shares and equity instruments continues to decline

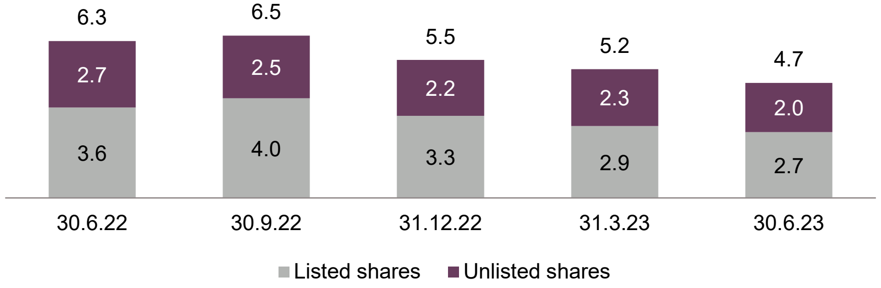
Highlights

- Loss in NFI in the quarter is largely due to loss from the liquidity portfolio due to 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
- Loss in Bonds and related derivatives is resulting from a rise in ISK rates this year

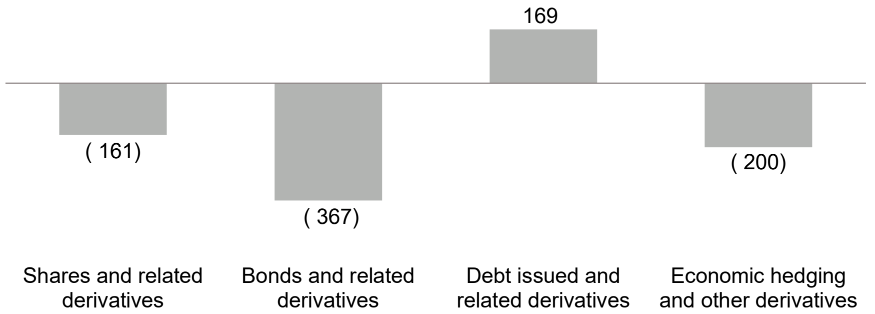
Net financial income (expense)
ISKm



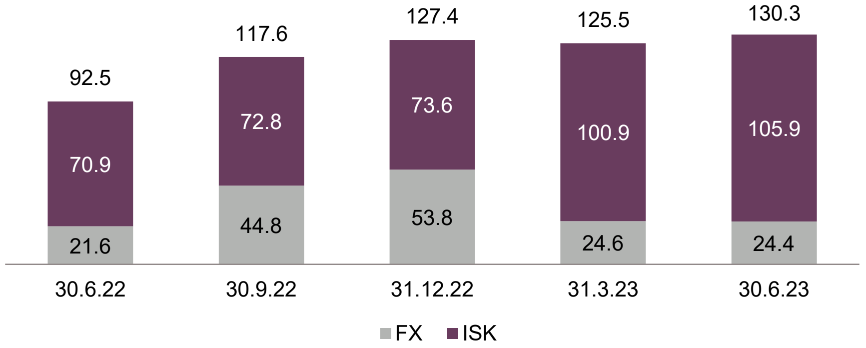
Shares and equity instruments[1]
ISKbn



Net financial income (expense) by type in 2Q23
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.

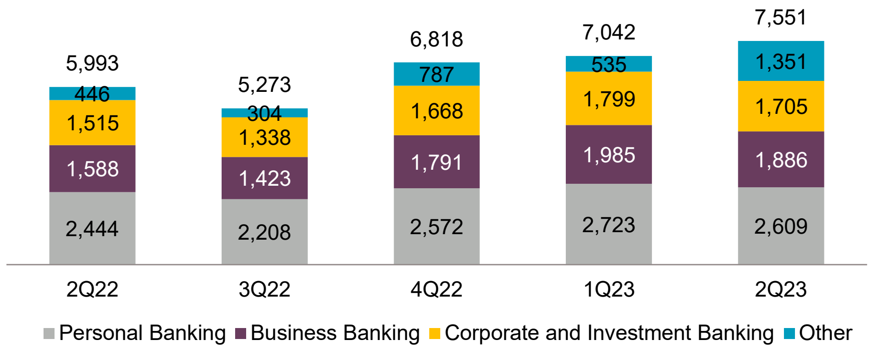
C/I ratio in 2Q23 remains below target due to higher revenue

Cost of ISK 860m due to the administrative fine

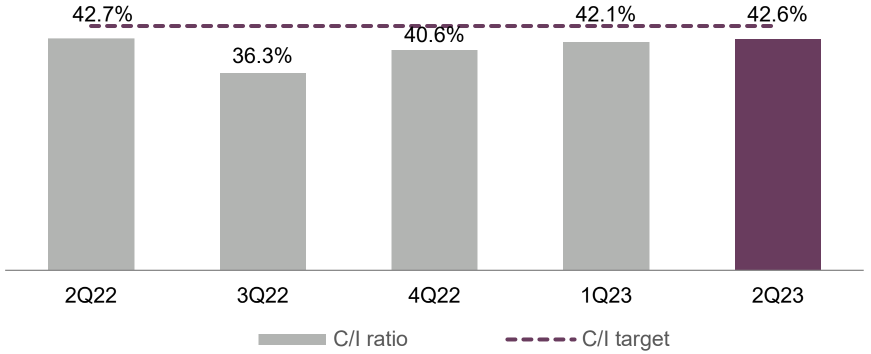
Highlights

- Substantial increase in costs between years, largely explained by wage increases through general wage agreements in Iceland and high inflation
- The Bank expensed ISK 860m in the second quarter due to an administrative fine relating to a settlement agreement with the Central bank of Iceland. The Bank had previously expensed ISK 300m in Q4 2022 due to the matter

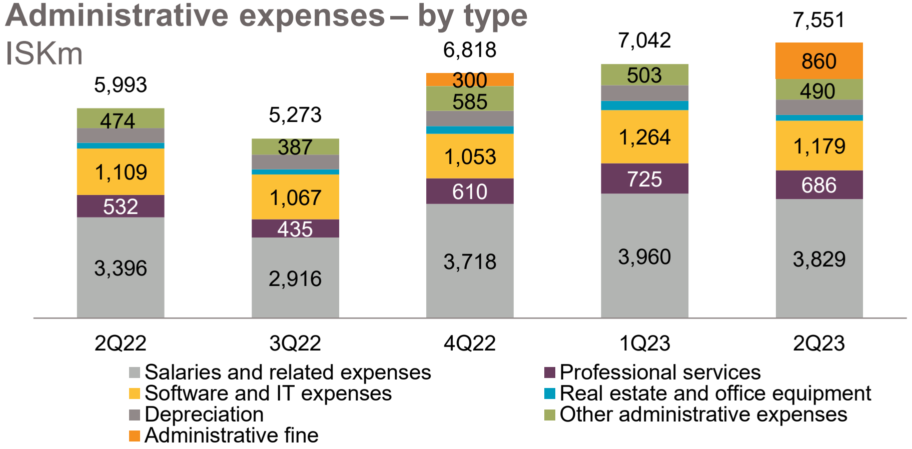
Administrative expenses
ISKm



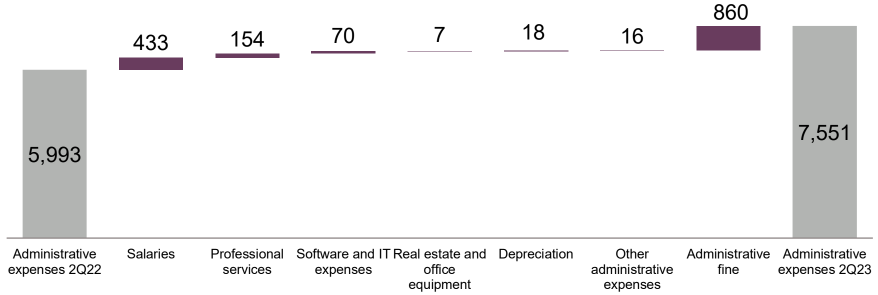
Cost-to-income ratio[1,2]



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). 2. C/I ratio in 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 included a provision of ISK 300m made in connection with an administrative fine, the C/I ratio for 4Q22 has been restated so it excludes the provision.

Steady lending growth with a modest credit risk profile

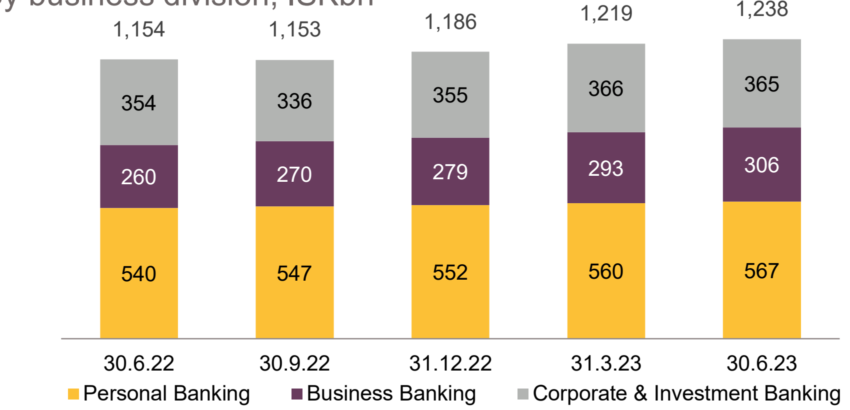
Diversified and highly collateralised loan portfolio

Highlights

- The credit quality of the Bank continues to be robust due to its strong risk management practices 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 1,146bn or 93% of loans to customers

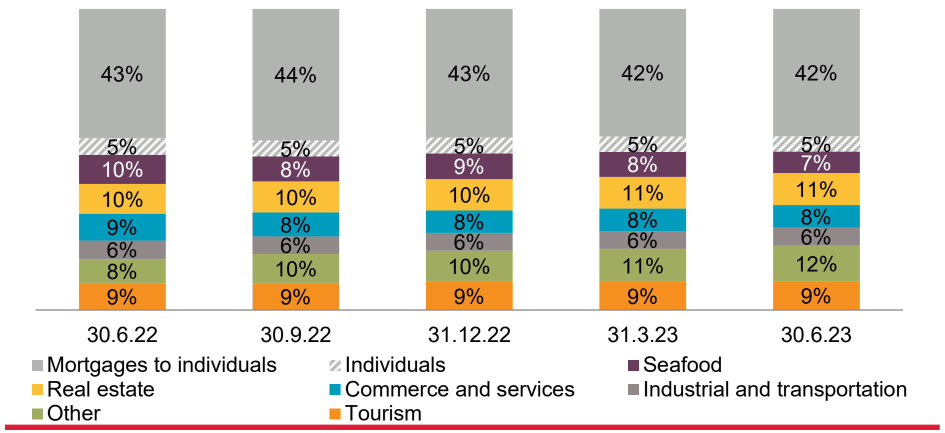
Loans to customers

By business division, ISKbn



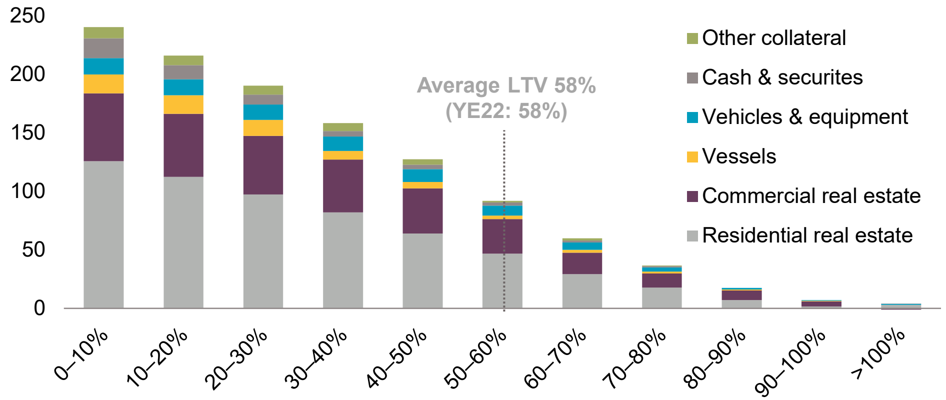
Loans to customers

By sector, with tourism as a separate sector



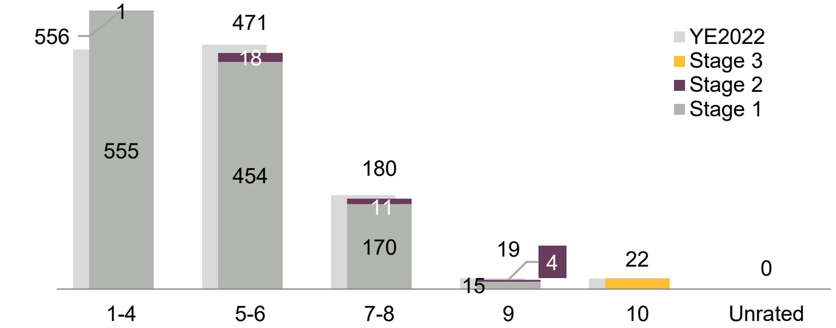
LTV distribution by underlying asset class

30.6.2023, loan splitting approach, ISKbn



Loans to customers: gross carrying amount[1]

30.6.2023, risk class and impairment stage, ISKbn



1. Risk class distribution at YE2022 shown as comparison

Credit quality remains strong

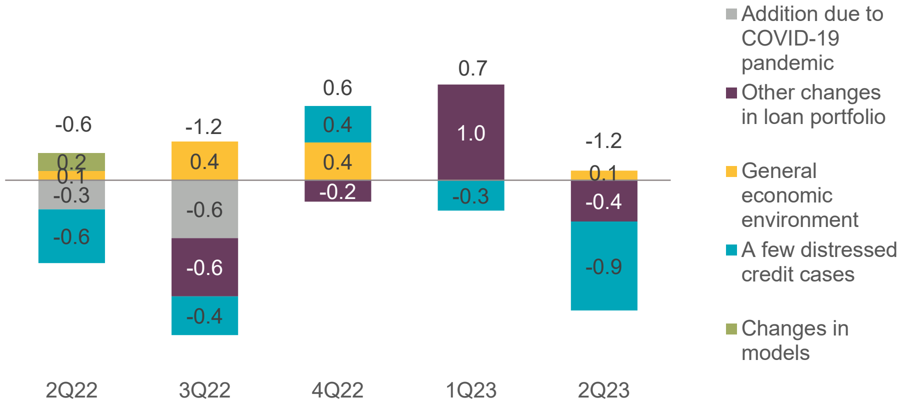
Reversal of impairment for a few distressed credit cases in the tourism industry

Highlights

- The 2Q23 impairment decrease is mostly due to a reversal for few distressed credit cases in the tourism sector
- 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 18% at end of 2Q23 reflecting good collateral position

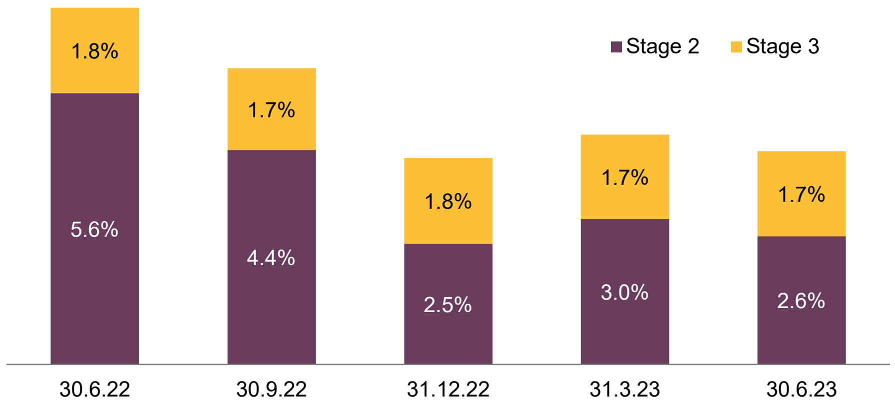
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

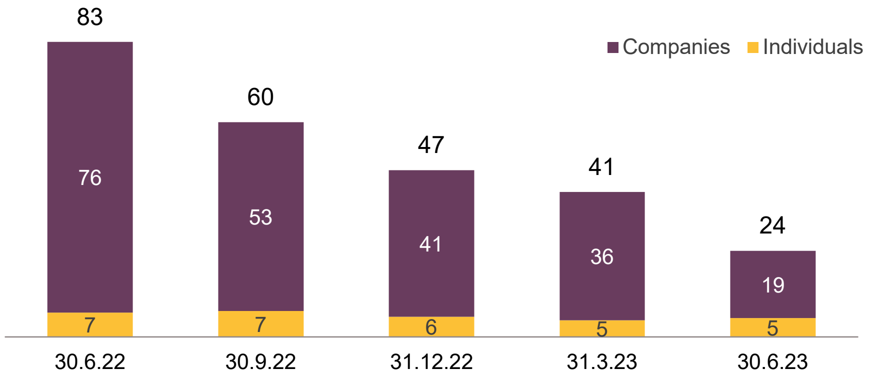


Current and expected cost-of-risk

- Annualised cost of risk was -40bp in 2Q23 (-20bp for 2Q22) and -9bp in 1H23
- 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 2Q23
- 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

Performing loans with forbearance

Gross carrying amount, ISKbn



Mortgage portfolio resistant to rising rates

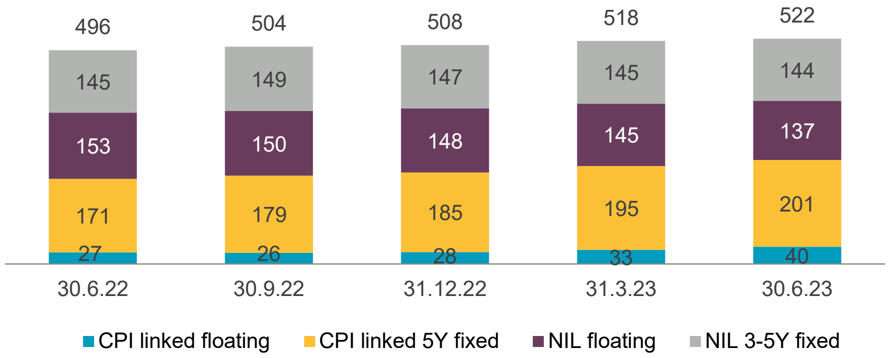
Origination process has built-in buffers for expected rate increases, resulting in healthy coverage ratios

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 although some forbearance measures have been granted to households with mortgages

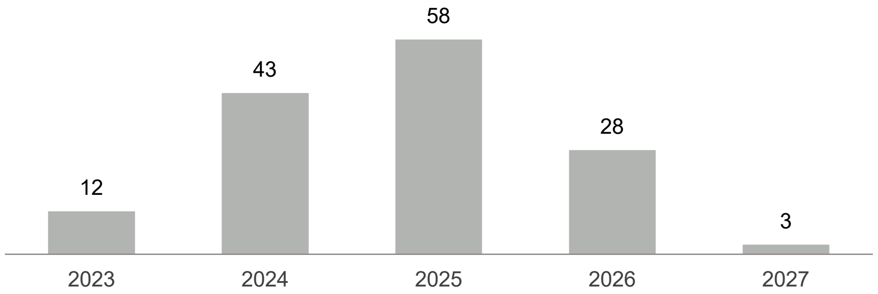
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



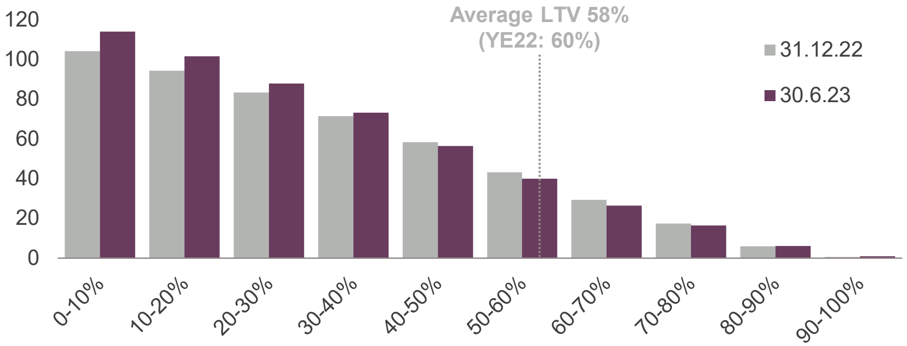
Interest rate reset profile for NIL 3-5Y fixed rate mortgages[1]

Gross carrying amount, ISKbn



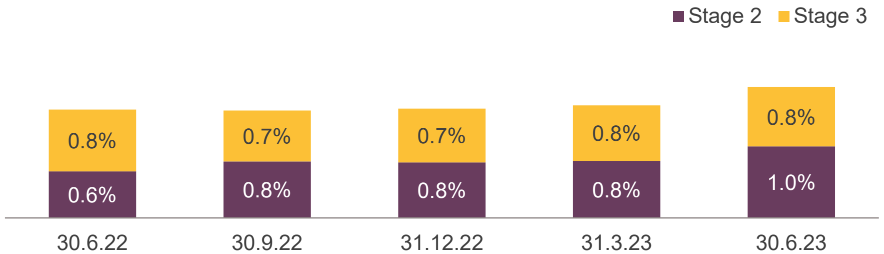
LTV distribution of mortgages

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.

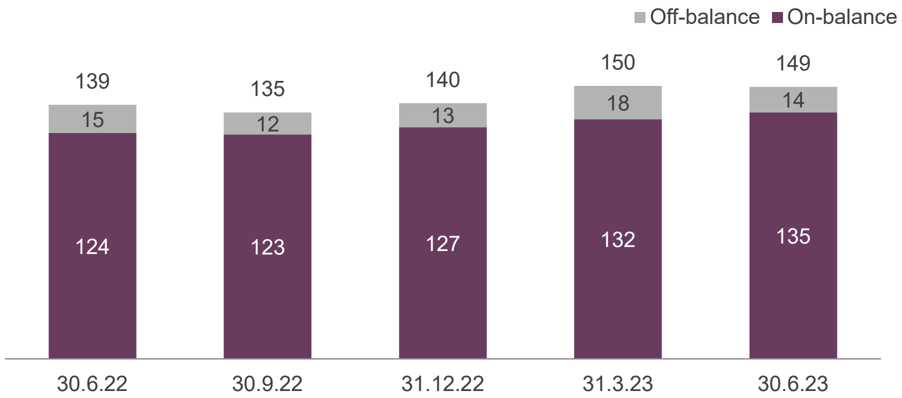
Real estate and construction sector in a good shape

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

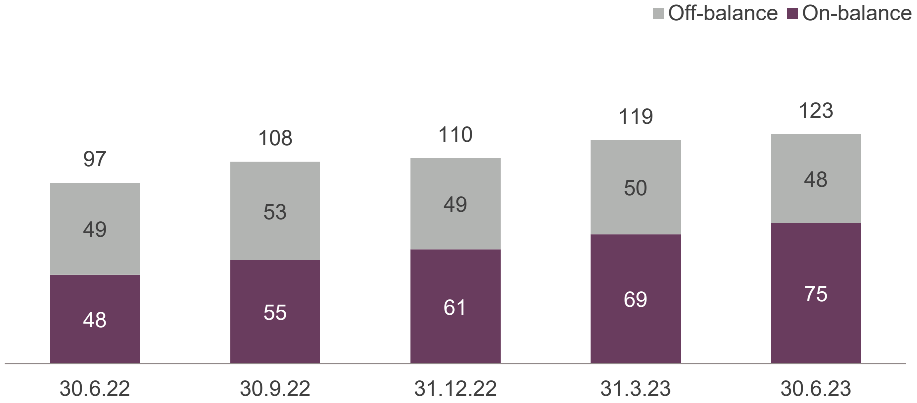
Highlights

- 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

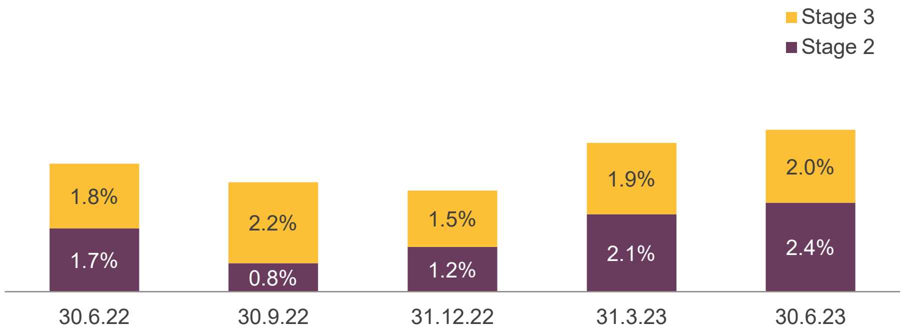
Development of exposure to real estate companies
Gross carrying amount by period, ISKbn



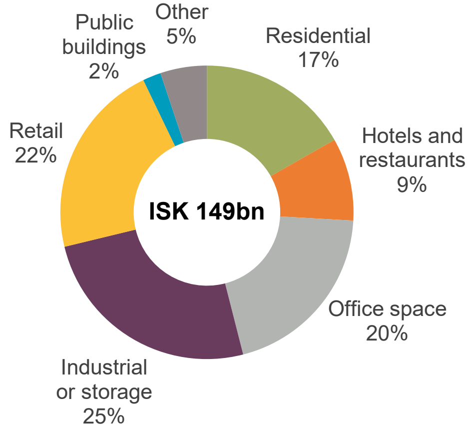
Development of construction exposure
Gross carrying amount by period, ISKbn



Real estate portfolio: Stage 2 and 3 (NPL)
Gross carrying amount as ratio of the real estate portfolio



Real estate collateral by type
30.6.2023



Deposits are the largest source of funding

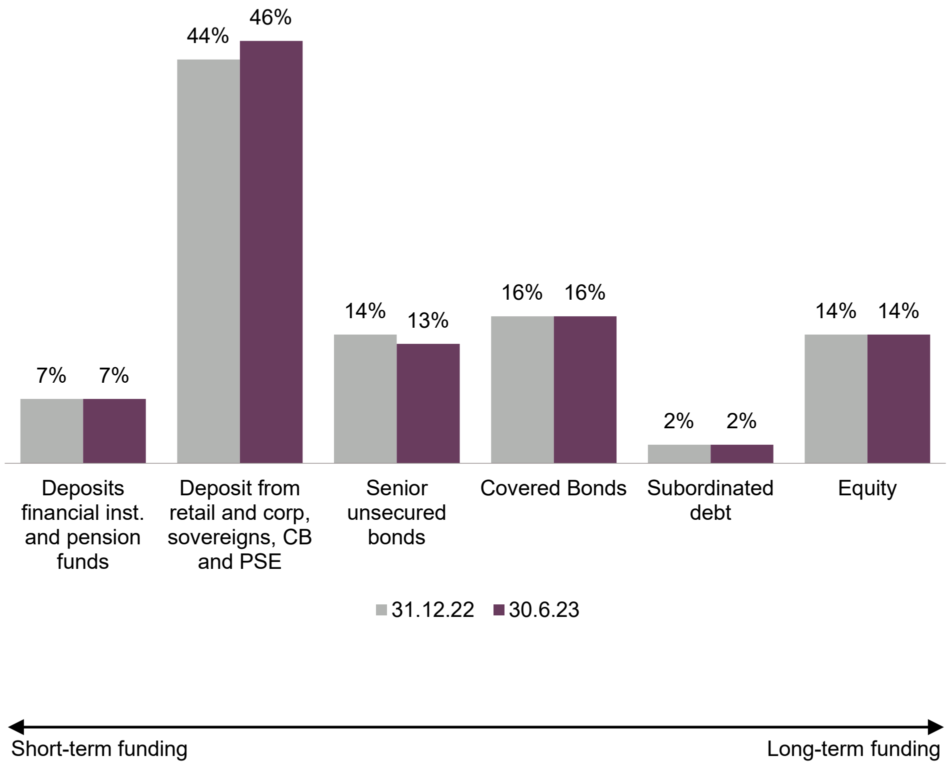
Steady increase in retail deposits

Highlights

- Term deposits are 21% of total deposits
- Deposit concentration stable, 12% of deposits belonged to the 10 largest depositors and 27% to the 100 largest, compared to 12% and 20% respectively at YE22
- The Bank conducts various internal stress tests and all tests required by the Central Bank
- A detailed split of the deposit base and LCR calculations is provided in the notes to the financial statements, providing investors with the necessary information to perform their own stress tests on deposits
- 78% of deposits held by individuals (across business segments) and 46% of all deposits covered by deposit guarantee scheme

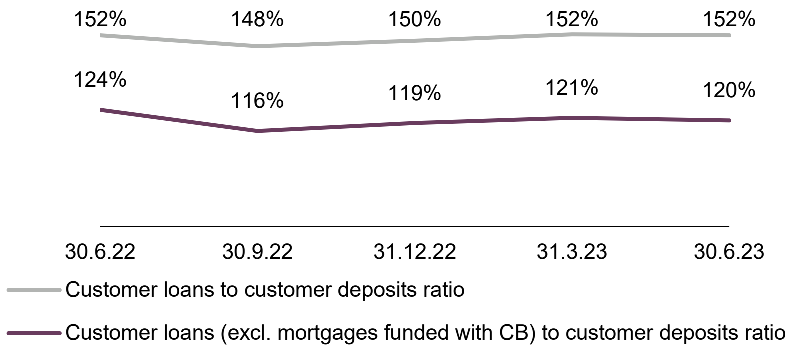
Funding sources

By type, % of total liabilities and equity



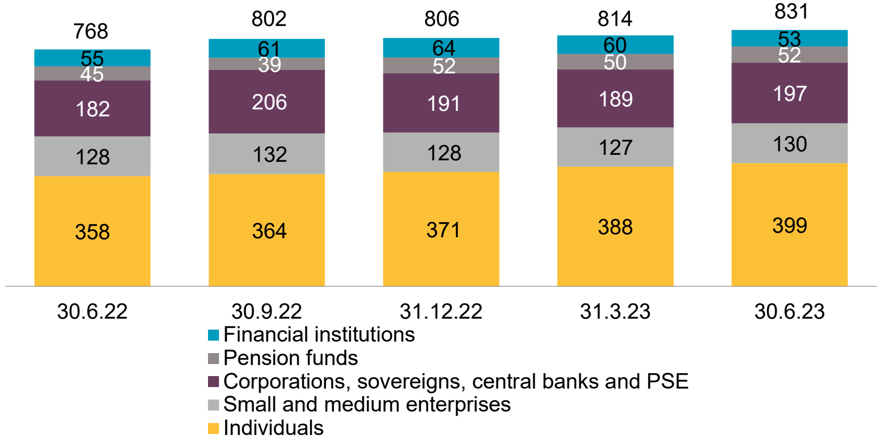
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



27 July 2023

Seasoned and diversified long-term funding programme

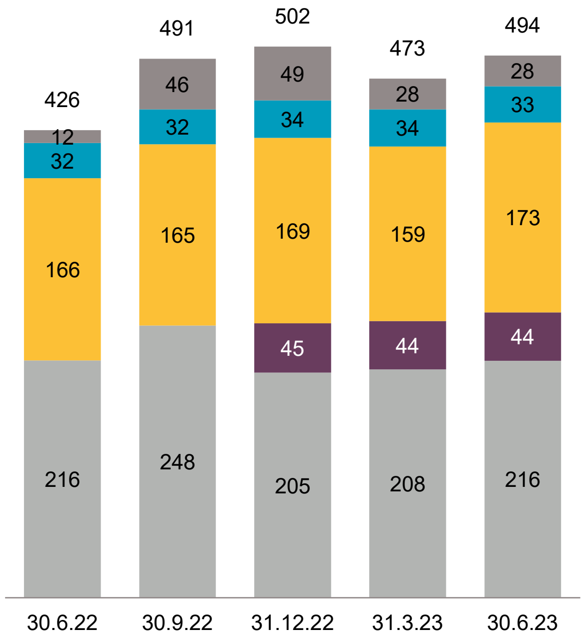
Majority of 2023 maturities already funded through a recent €300m bond issue

Highlights

- The Bank issued a EUR 300m bond off its Euro Medium Term note Programme in May and bought back EUR 251m of the EUR 300m November 2023 maturity
- The Bank issued SEK 500m in April
- The Bank continued its issuance of covered bonds in ISK during the quarter and sold ISK14.4bn and bought back 9.1bn of the ISB CB 23 October maturity

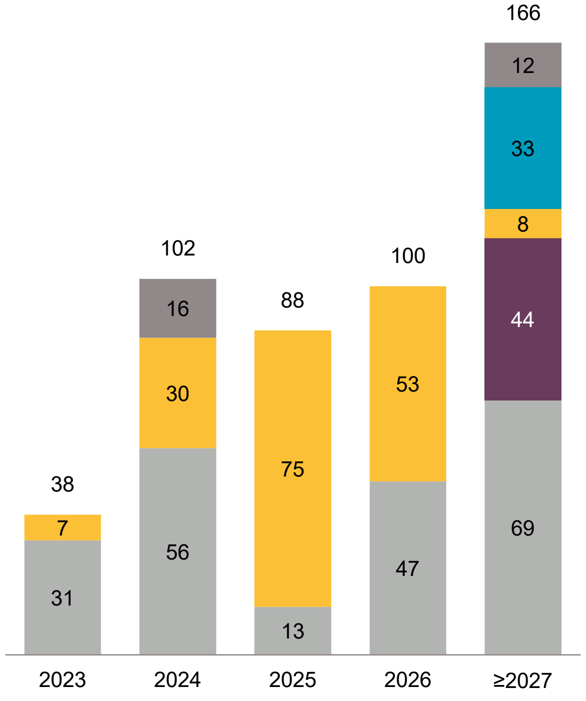
Sources of borrowings

Development, ISKbn



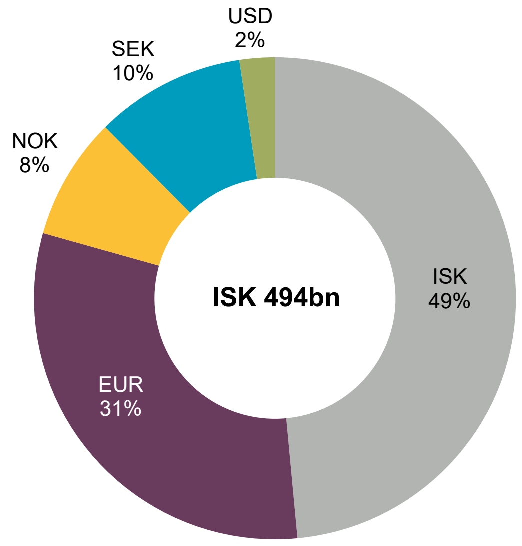
Contractual maturity profile of borrowings

30.6.23, ISKbn



Currency split of borrowings

30.6.23



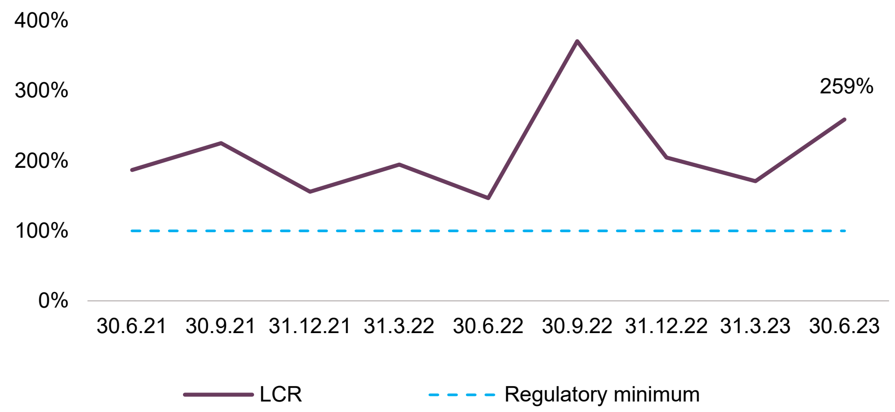
Sound liquidity management, ratios well above requirements

Liquid assets of ISK 322bn, representing 20% of total assets

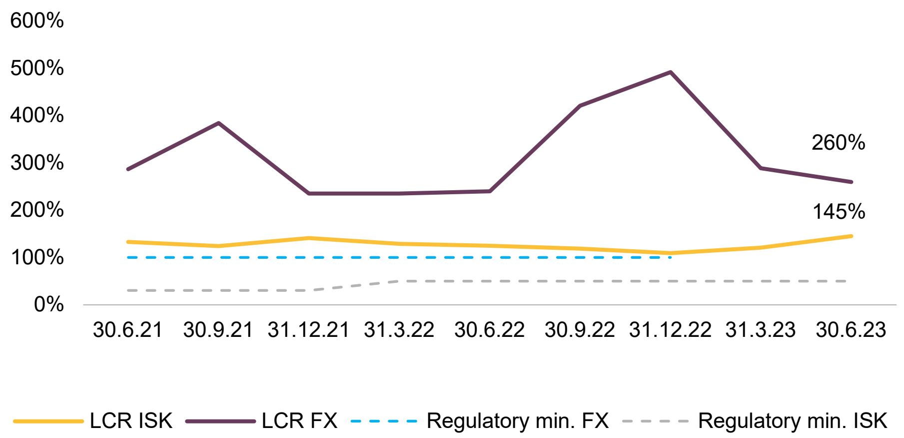
Highlights

- All liquidity measures above regulatory requirements
- Removal of regulatory minimum for LCR in FX at beginning of year; Introduction of new 80% minimum for LCR in EUR
- The Bank's EUR LCR at end of 2Q23 was 333%
- The securities portfolio is all MtM (FVTPL). There is is no unrealised loss due to HtM (amortised cost)
- IRRBB is carefully monitored and managed. The Bank expects to be fully compliant to the supervisory outlier test

Total liquidity coverage ratio (LCR)

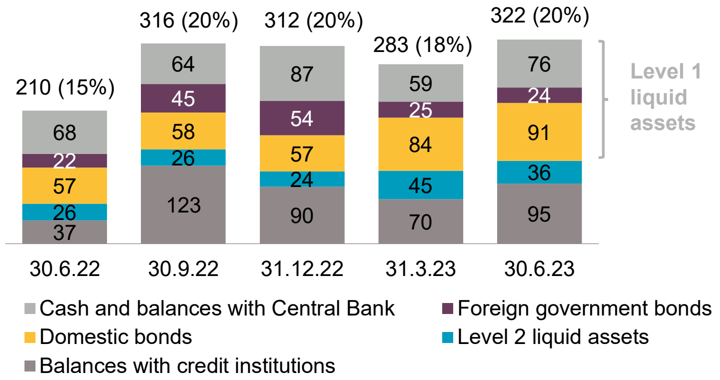


Liquidity coverage ratio – foreign currencies and ISK

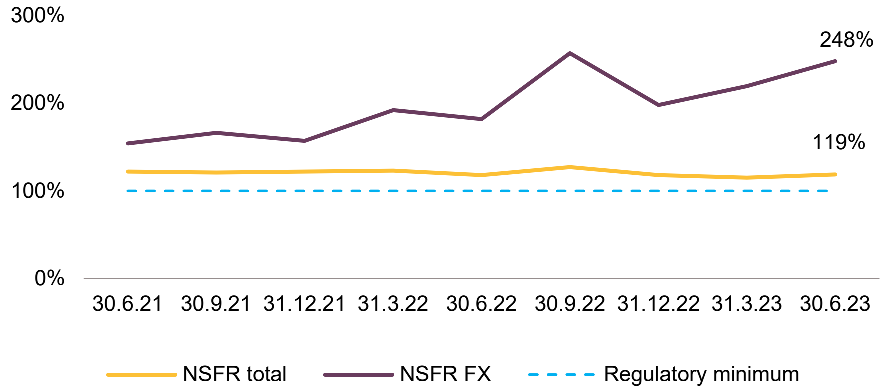


Liquid assets

% of total assets, ISKbn



Net stable funding ratio (NSFR)



Strong capital position

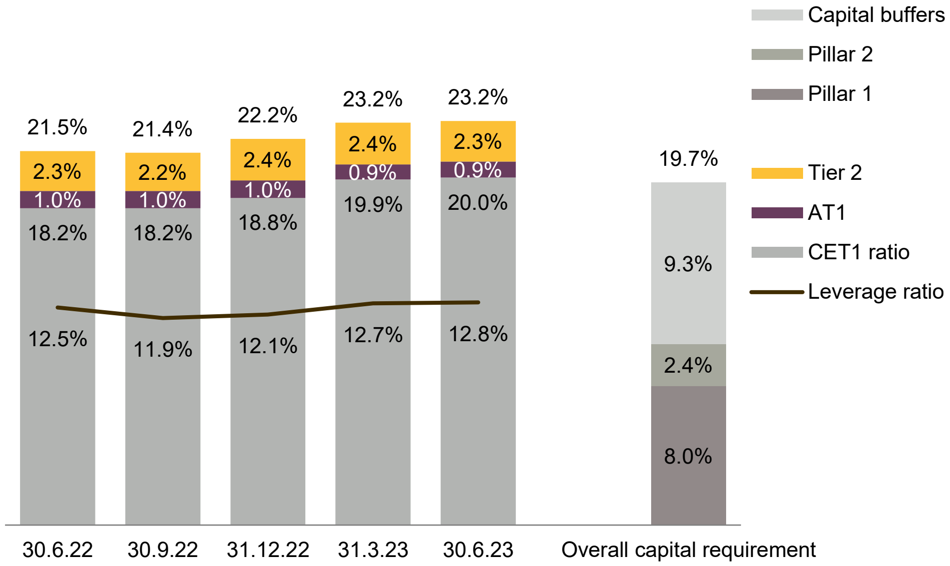
Reduced Pillar 2-R capital requirements

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 19.7% to 20.2% assuming no other changes
- MREL ratio stood at 38.5% at end of 2Q23, 790bp 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)



SREP results 2023

- The Central Bank Financial Supervision Committee has announced the results of the SREP concerning additional capital requirements (Pillar 2-R). As of 30 June 2023, the Bank must maintain an additional capital requirement of 2.4% of the REA, which is a decrease of 0.2 percentage points from the previous assessment. The Bank's overall capital requirement, including capital buffers, was therefore decreased from 19.9% to 19.7%

Strong capital position

- CET1 buffer of 480bp
- Total capital buffer of 350bp
- MREL buffer of 790bp

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
691
number of FTEs at Íslandsbanki at period end

12 branches

Listed on Nasdaq Iceland as of June 2021

Market share[1]

30% retail customers

39% SMEs

35% large companies

Sustainability 2Q23

- The Bank participated in the creation of a climate roadmap for financial entities
- Íslandsbanki completed, at investors' request, the Climate Disclosure Project's questionnaire for the second year in a row
- Íslandsbanki published the 2022 Allocation and Impact Report for its Sustainable Financing Framework

Key Figures 2Q23

ROE	11.5%	LCR Group, all currencies	259%
Cost-to-income ratio	42.6%	NSFR Group, all currencies	119%
CET1 ratio	20.0%	Leverage ratio	12.8%
Total capital ratio	23.2%	Total assets	ISK 1,593bn

Ratings and certifications

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

EUROMONEY AWARDS FOR EXCELLENCE 2023 ICELAND BEST BANK

EQUAL PAY CERTIFICATE

Digital milestones 2Q23

- Electronic notarisation streamlines the car loan process and improves service to customers
- Customer behaviour analysis and first data driven customer journeys are now live
- New "Digital and Data" unit created to support Íslandsbanki's strategic data and digital focus

1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, average of last two Gallup surveys conducted in Q1 and Q2 for SMEs and 2022 average for large companies.

Financial overview

Key figures & ratios

		2Q23	1Q23	4Q22	3Q22	2Q22
PROFITABILITY	Profit for the period, ISKm	**6,139**	6,211	5,982	7,486	5,880
	Return on equity	**11.5%**	11.4%	11.1%	14.4%	11.7%
	Net interest margin (of total assets)	**3.2%**	3.2%	3.1%	3.0%	2.9%
	Cost-to-income ratio[1,2]	**42.6%**	42.1%	40.6%	36.3%	42.7%
	Cost of risk[3]	**(0.40%)**	0.22%	0.22%	(0.40%)	(0.20%)
		30.6.23	**31.3.23**	**31.12.22**	**30.9.22**	**30.6.22**
BALANCE SHEET	Loans to customers, ISKm	**1,237,758**	1,218,999	1,186,639	1,153,047	1,153,677
	Total assets, ISKm	**1,593,239**	1,551,530	1,566,235	1,548,672	1,437,253
	Risk exposure amount, ISKm	**1,015,197**	1,004,978	999,491	1,012,986	992,883
	Deposits from customers, ISKm	**816,641**	800,071	789,897	781,614	756,862
	Customer loans to customer deposits ratio	**152%**	152%	150%	148%	152%
	Non-performing loans (NPL) ratio[4]	**1.7%**	1.7%	1.8%	1.7%	1.8%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**119%**	115%	118%	127%	118%
	Liquidity coverage ratio (LCR), for all currencies	**259%**	171%	205%	371%	147%
CAPITAL	Total equity, ISKm	**215,524**	210,385	218,874	211,613	203,662
	CET1 ratio[5]	**20.0%**	19.9%	18.8%	18.2%	18.2%
	Tier 1 ratio[5]	**20.9%**	20.8%	19.8%	19.2%	19.2%
	Total capital ratio[5]	**23.2%**	23.2%	22.2%	21.4%	21.5%
	Leverage ratio[5]	**12.8%**	12.9%	12.1%	11.9%	12.5%

1.Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items). 2. C/I ratio in 4Q22 included the provision of ISK 300m in connection with an administrative fine (one-off item). This has now been updated.3. Negative cost of risk means that there is a net release of impairments. 4. Stage 3, loans to customers, gross carrying amount. 5. Including 1Q23 profit for 31.3.23 and 3Q22 profit for 30.9.22.

Income Statement

Income growth continues and profitability is robust

Income statement, ISKm	2Q23	2Q22	Δ%	1H23	1H22	Δ%	2022
Net interest income	**12,612**	10,254	23%	**25,035**	19,463	29%	43,126
Net fee and commission income	**3,592**	3,434	5%	**7,061**	6,498	9%	14,053
Net financial income (expense)	**(559)**	208	-	**(21)**	113	-	(1,257)
Net foreign exchange gain	**48**	75	(36%)	**292**	241	21%	881
Other operating income	**21**	59	(64%)	**64**	324	(80%)	433
Total operating income	**15,714**	14,030	12%	**32,431**	26,639	22%	57,236
Salaries and related expenses	**(3,829)**	(3,396)	13%	**(7,789)**	(6,818)	14%	(13,452)
Other operating expenses	**(2,862)**	(2,597)	10%	**(5,944)**	(5,009)	19%	(10,166)
Settlement agreement	**(860)**	-	-	**(860)**	-	-	(300)
Administrative expenses	**(7,551)**	(5,993)	26%	**(14,593)**	(11,827)	23%	(23,918)
Contribution to the Depositor's and Investors' Guarantee Fund	**-**	-	-	**-**	(165)	-	(165)
Bank tax	**(485)**	(412)	18%	**(947)**	(842)	12%	(1,858)
Total operating expenses	**(8,036)**	(6,405)	25%	**(15,540)**	(12,834)	21%	(25,941)
Net impairment on financial assets	**1,245**	575	117%	**570**	1,058	(46%)	1,576
Profit before tax	**8,923**	8,200	9%	**17,461**	14,863	17%	32,871
Income tax expense	**(2,792)**	(2,331)	20%	**(5,127)**	(3,794)	35%	(8,485)
Profit for the period from continuing operations	**6,131**	5,869	4%	**12,334**	11,069	11%	24,386
Discontinued operations held for sale, net of income tax	**8**	11	(27%)	**16**	(2)	-	149
Profit for the period	**6,139**	5,880	4%	**12,350**	11,067	12%	24,535

Key ratios	2Q23	2Q22	1H23	1H22	2022
Net Interest Margin (NIM)	**3.2%**	2.9%	**3.2%**	2.7%	2.9%
Cost-to-income ratio (C/I)	**42.6%**	42.7%	**42.3%**	45.0%	41.6%
Return on Equity (ROE)	**11.5%**	11.7%	**11.4%**	10.9%	11.8%
Cost of risk (COR)	**(0.40%)**	(0.20%)	**(0.09%)**	(0.19%)	(0.14%)

Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

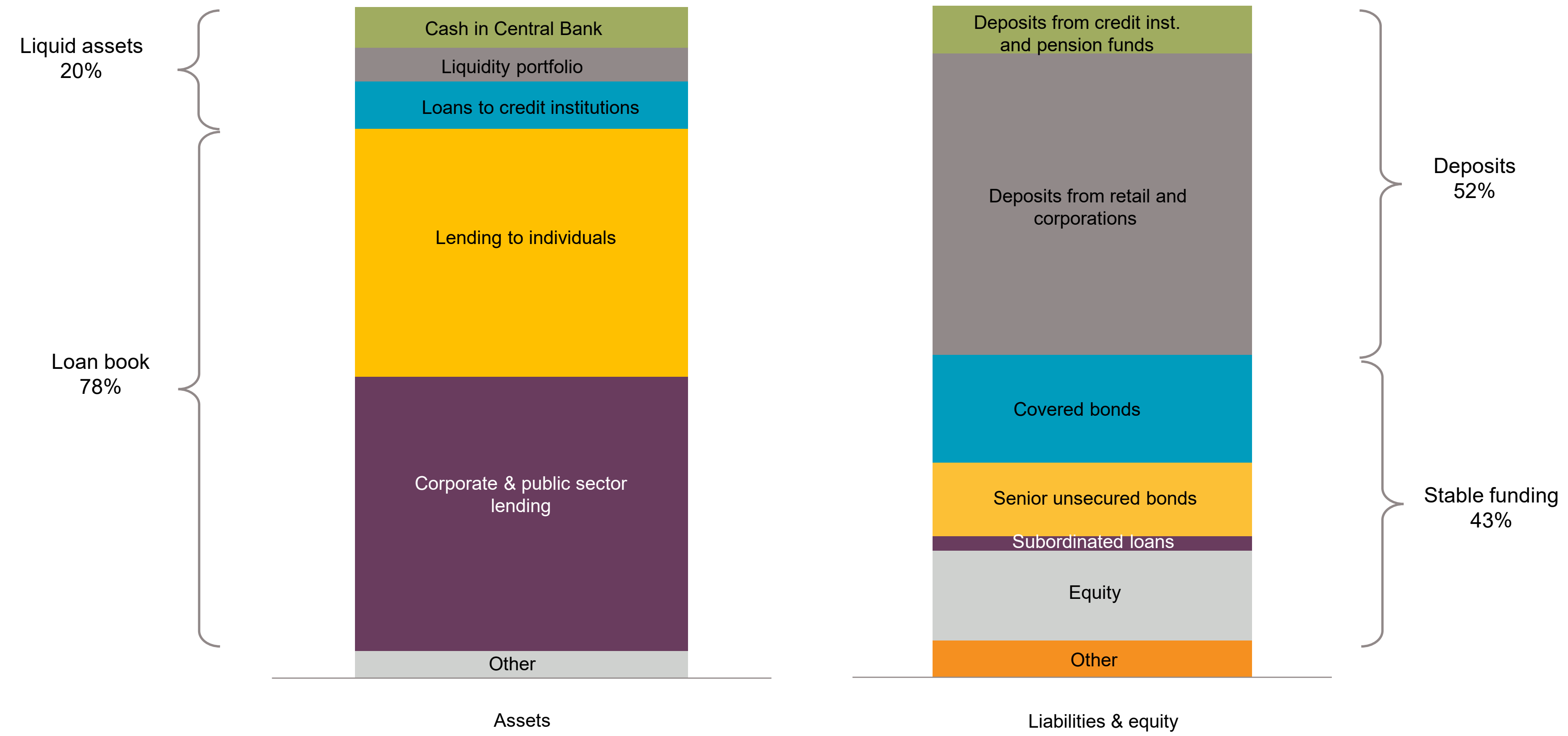
Assets

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

Liabilities

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

Simplified balance sheet structure
30.6.23, ISK 1,593bn



Assets

Asset base mainly consists of loans and liquid assets

Assets, ISKm	30.6.23	31.3.23	Δ	Δ%	31.12.22	Δ	Δ%
Cash and balances with Central Bank	**78,275**	67,764	10,511	16%	94,424	(16,149)	(17%)
Loans to credit institutions	**97,749**	81,331	16,418	20%	110,364	(12,615)	(11%)
Bonds and debt instruments	**131,471**	127,254	4,217	3%	130,804	667	1%
Derivatives	**5,374**	5,605	(231)	(4%)	7,461	(2,087)	(28%)
Loans to customers	**1,237,758**	1,218,999	18,759	2%	1,186,639	51,119	4%
Shares and equity instruments	**12,120**	13,839	(1,719)	(12%)	15,868	(3,748)	(24%)
Investment in associates	**3,828**	3,853	(25)	(1%)	3,844	(16)	(0%)
Property and equipment	**6,748**	6,734	14	0%	6,752	(4)	(0%)
Intangible assets	**3,241**	3,252	(11)	(0%)	3,279	(38)	(1%)
Other assets	**15,945**	22,191	(6,246)	(28%)	6,072	9,873	163%
Non-current assets and disposal groups held for sale	**730**	708	22	3%	728	2	0%
Total Assets	**1,593,239**	1,551,530	41,709	3%	1,566,235	27,004	2%

Key ratios							
Risk Exposure Amount (REA)	**1,015,197**	1,004,978	10,219	1%	999,491	15,706	2%
REA/total assets	**63.7%**	64.8%			63.8%		
Non-performing loans (NPL) ratio[1]	**1.7%**	1.7%			1.8%		
Asset encumbrance ratio	**25.3%**	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	30.6.23	31.3.23	Δ	Δ%	31.12.22	Δ	Δ%
Deposits from Central Bank and credit institutions	**14,306**	13,694	612	4%	15,269	(963)	(6%)
Deposits from customers	**816,641**	800,071	16,570	2%	789,897	26,744	3%
Derivative instruments and short positions	**12,064**	12,745	(681)	(5%)	10,804	1,260	12%
Debt issued and other borrowed funds	**460,913**	438,605	22,308	5%	468,270	(7,357)	(2%)
Subordinated loans	**33,104**	33,839	(735)	(2%)	34,392	(1,288)	(4%)
Tax liabilities	**14,832**	13,206	1,626	12%	12,128	2,704	22%
Other liabilities	**25,855**	28,985	(3,130)	(11%)	16,601	9,254	56%
Total Liabilities	**1,377,715**	1,341,145	36,570	3%	1,347,361	30,354	2%
Total Equity	**215,524**	210,385	5,139	2%	218,874	(3,350)	(2%)
Total Liabilities and Equity	**1,593,239**	1,551,530	41,709	3%	1,566,235	27,004	2%

Key ratios	30.6.23	31.3.23	31.12.22
Customer loans to customer deposits ratio	**152%**	152%	150%
Net stable funding ratio (NSFR)	**119%**	115%	118%
Liquidity coverage ratio (LCR)	**259%**	171%	205%
Total capital ratio[1]	**23.2%**	23.2%	22.2%
Tier1 capital ratio[1]	**20.9%**	20.8%	19.8%
Leverage ratio[1]	**12.8%**	12.9%	12.1%

1. Including quarter profit for 31.3.23

Appendix II – Icelandic economy update

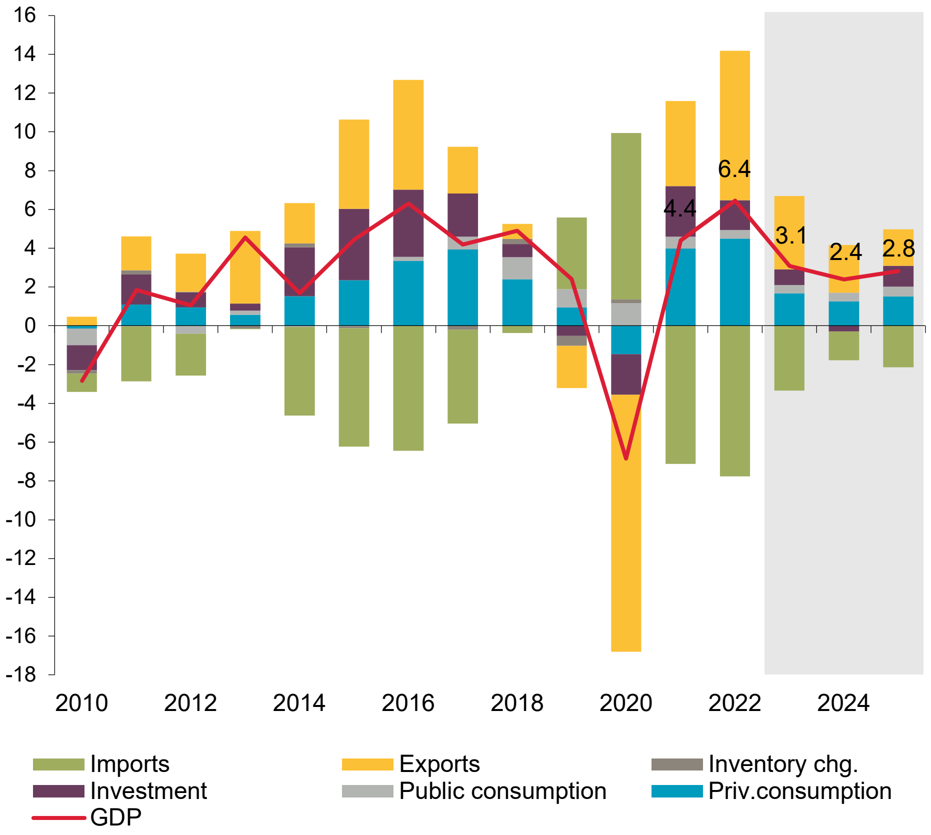
GDP growth to ease after the recent surge

GDP growth driven mainly by exports in 2023, with domestic demand gradually regaining ground

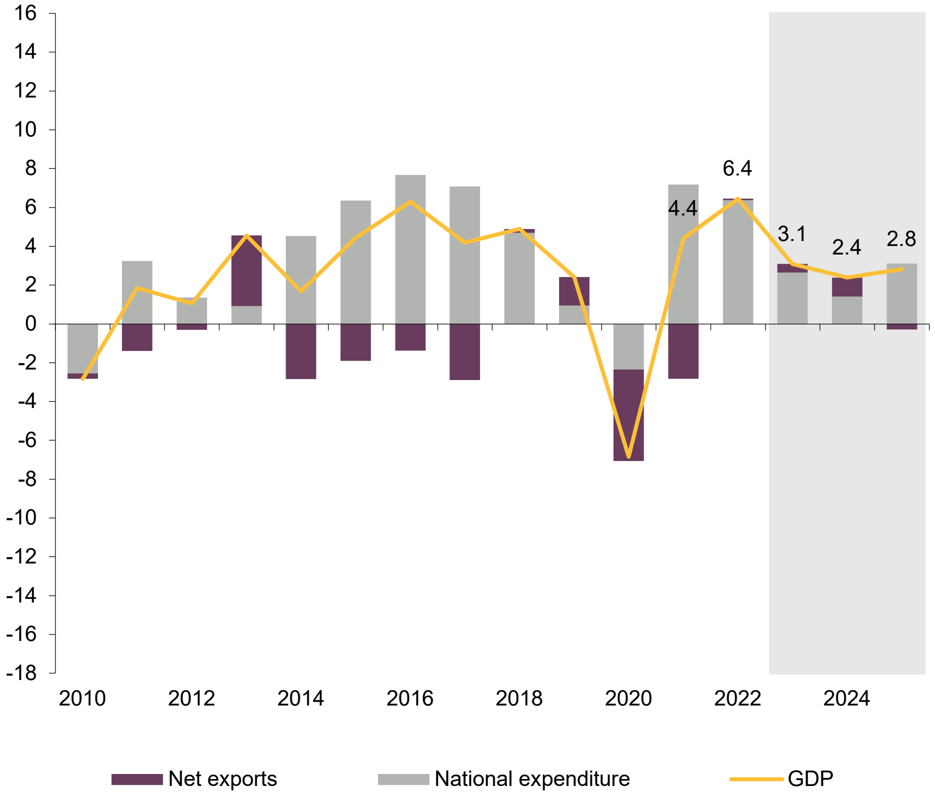
Highlights

- Iceland's GDP grew by 7.0% YoY in 1Q23, following 6.4% growth in 2022, following on from 4.3% growth in 2021.
- Recent GDP growth has been mainly driven by strong growth in private domestic demand and the post-pandemic resurgence of tourism.
- ISB Research forecasts GDP growth at 3.1% in 2023. Export growth will be a major contributor to GDP growth in 2023, and the contribution from domestic demand will be much smaller than in 2021 and 2022.
- Output growth at 2.4% is assumed in 2024, as business investment contracts and growth slows in both private consumption and exports.
- For 2025, the outlook is for GDP growth to recover to 2.8%, with domestic demand back in the lead and export growth tapering off.
- External risk factors include developments in the Ukraine war as well as the eventual impact of persistent inflation and higher global interest rates on the global economy.
- Domestically, key risk factors include the results of next winter's general wage negotiations, how strongly the tight monetary stance ultimately affects households and businesses and near-term developments in the residential housing market.

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.

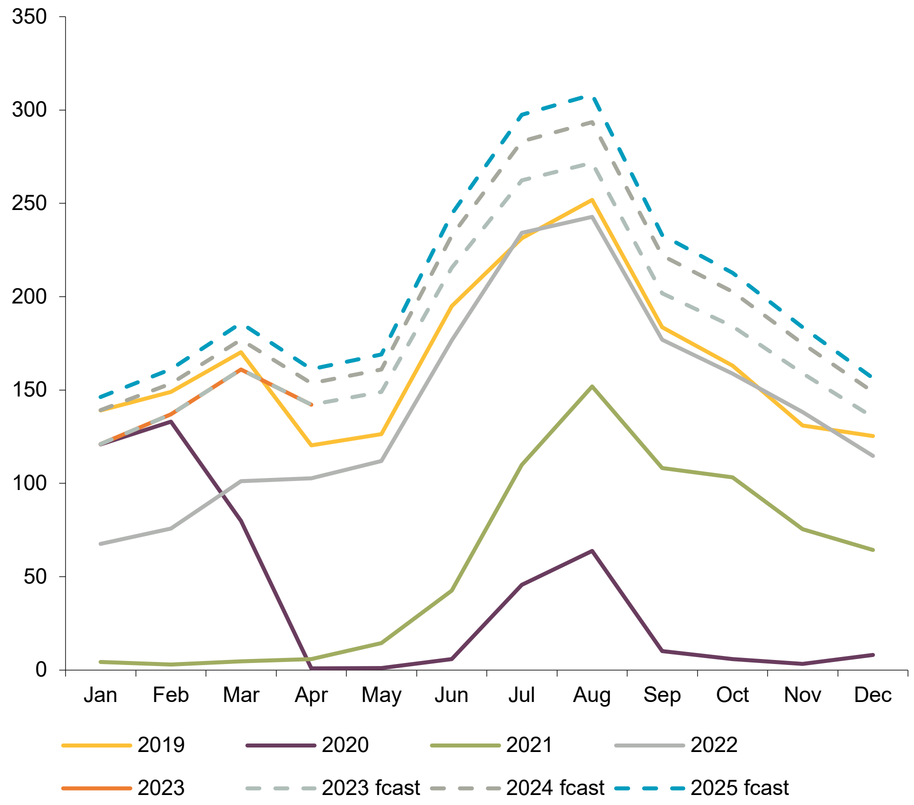
Tourism enjoying brisk tailwinds

Over 2.1 million tourists to visit Iceland in 2023, and nearly 2.5 million in 2025

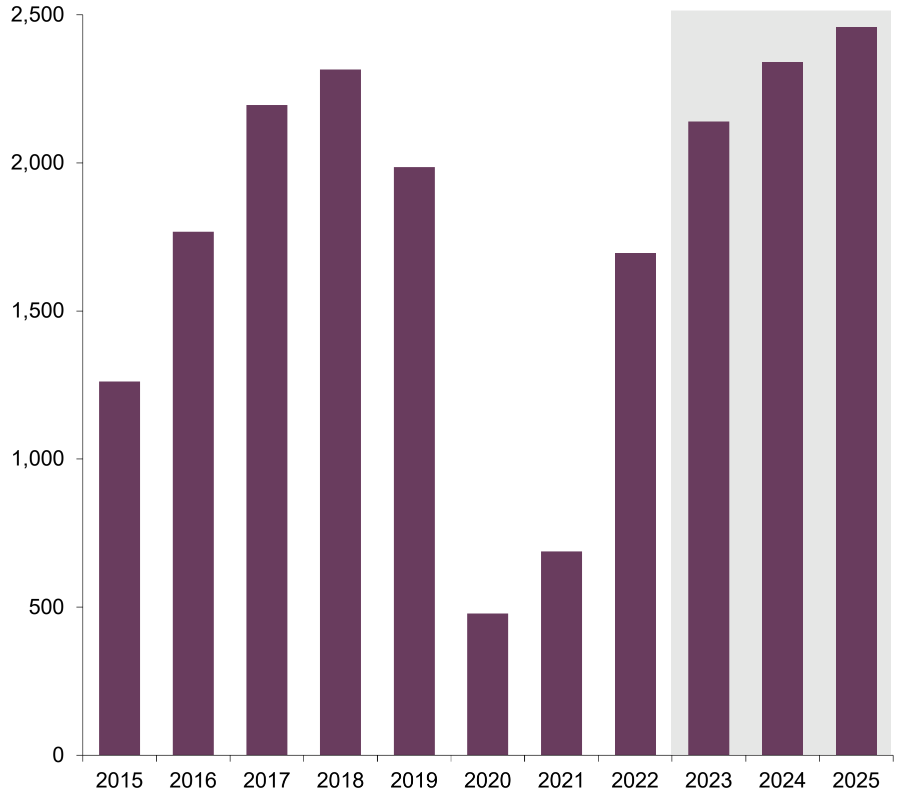
Highlights

- The post-pandemic rebound of the tourist sector has been swift.
- Around 1.7 million tourists visited Iceland in 2022, the largest total since 2019.
- In the year 2023 to May 720 thousand tourists visited Iceland, the most in that period since 2018.
- Most indicators – tourism company bookings, airline flight schedules, and opinion polls alike – suggest that the summer 2023 season will be a very busy one.
- 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 nearly 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 rate of growth in tourist arrivals further ahead is due, among other things, to a shortage of accommodation and other related infrastructure and the eventual impact of a rising real exchange rate on 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.

27 July 2023

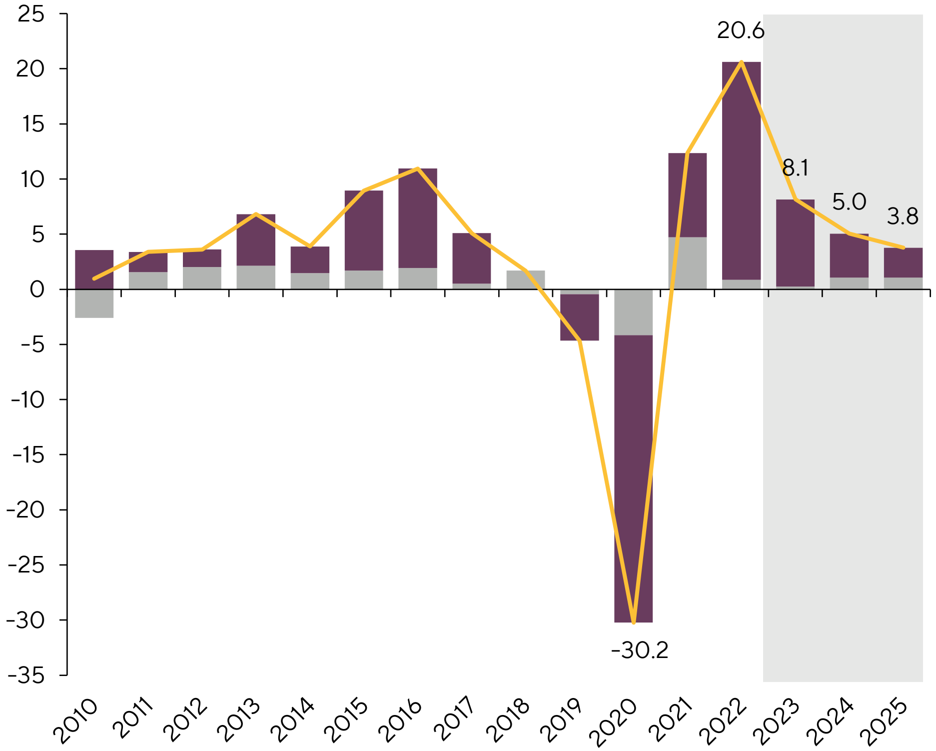
Current account balance to improve in the coming term

Tourism the backbone of export growth, but other sectors contribute

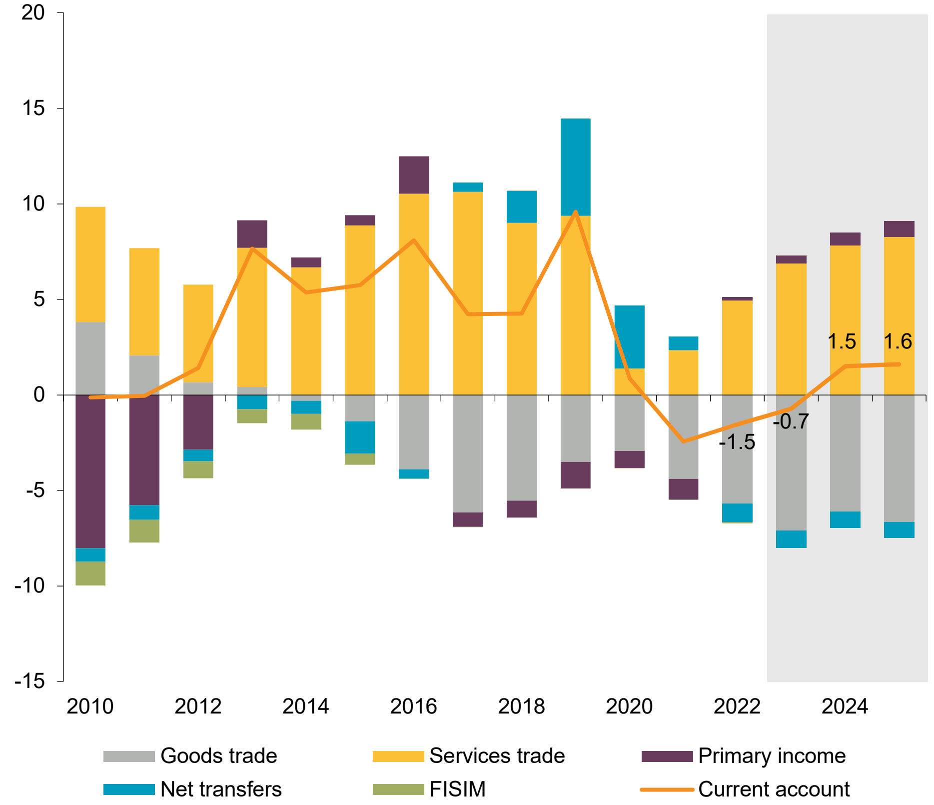
Highlights

- A buoyant tourism sector explains the lion's share of this year's forecasted 8.1% export growth as well as the more moderate growth expected in 2024-2025.
- Exports of intellectual property and other services look set for healthy growth as well.
- Brisk growth in exports of farmed fish, modest growth in power-intensive goods exports and an uptick in groundfish exports also contribute to export growth.
- Last year's 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 balance to improve in 2023. Export growth will outpace import growth, and we expect the contribution from primary income to improve after being negative in 2022.
- The outlook is for a 0.7% current account deficit in 2023, followed by a modest surplus in 2024 and 2025.
- Iceland's net external assets currently equal just over ¼ of GDP, providing important support for the ISK and the economy as a whole.

Exports and contribution from subcomponents
% change



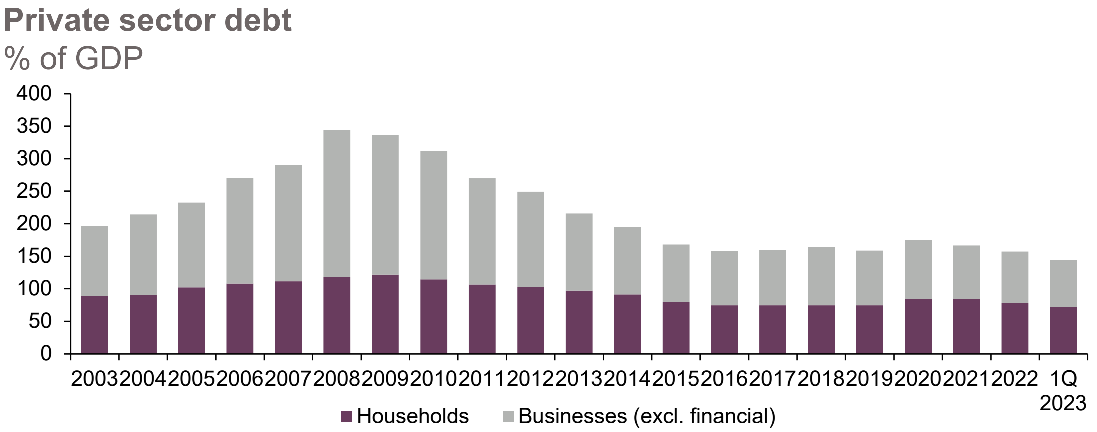
Current account balance
% of GDP

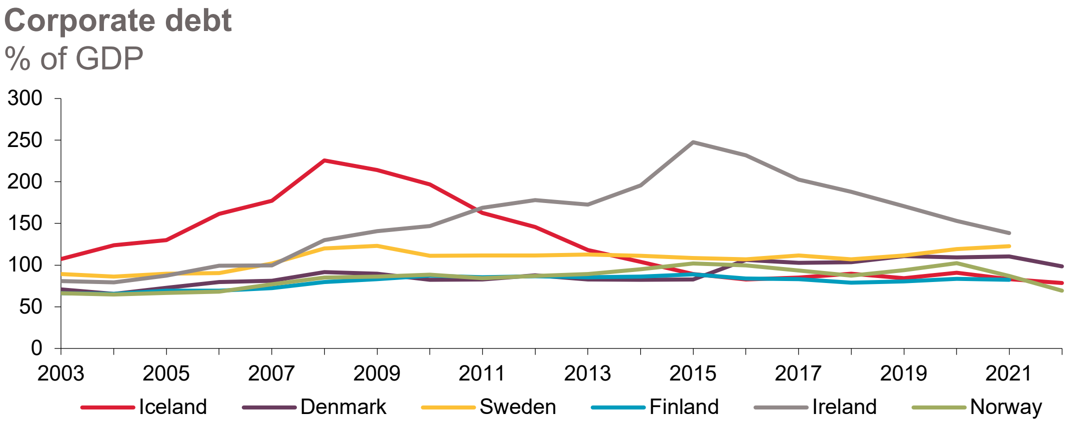


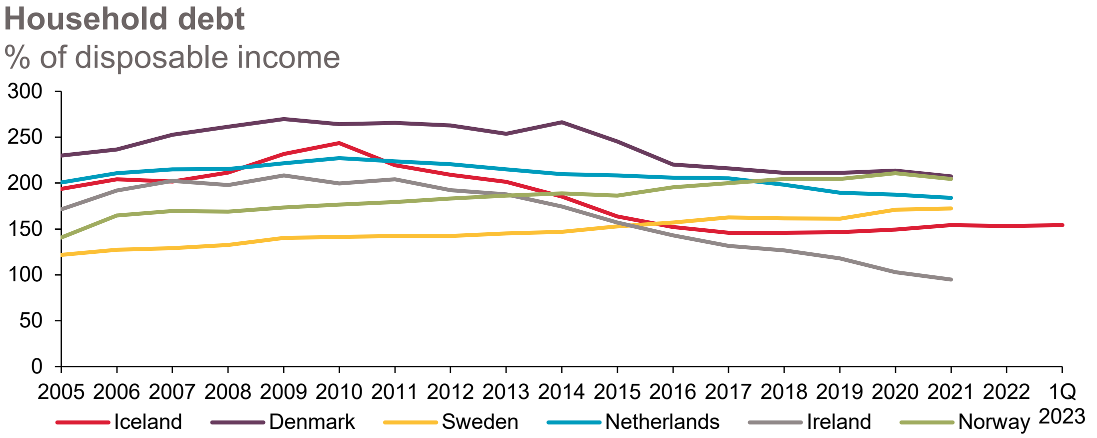
Sources: Statistics Icelandic, Central Bank of Iceland, ÍSB Research.

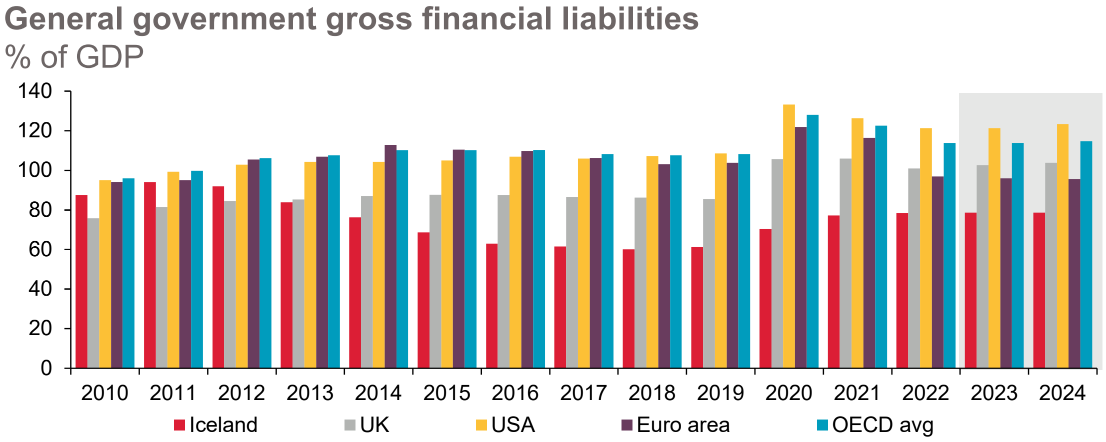
Domestic balance sheets remain healthy

Economy-wide leverage remains moderate as the ratio of private sector debt to GDP declines









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

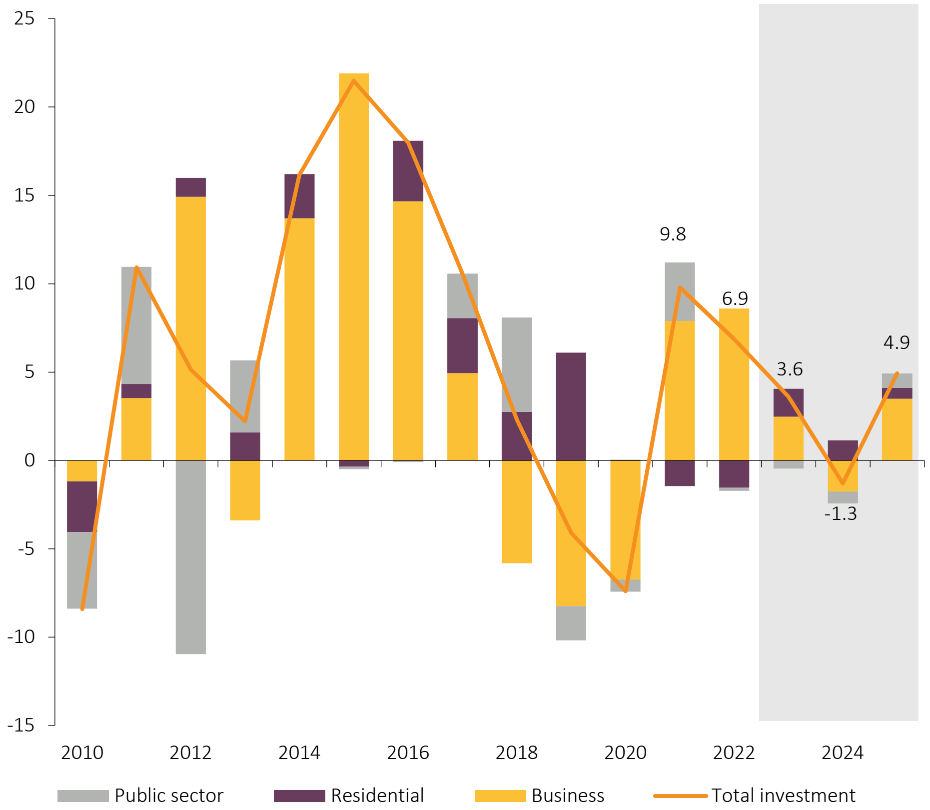
Investment set to dip in 2024 and then recover quickly

Residential investment returns to robust growth in 2023, corporate investment set to regain steam

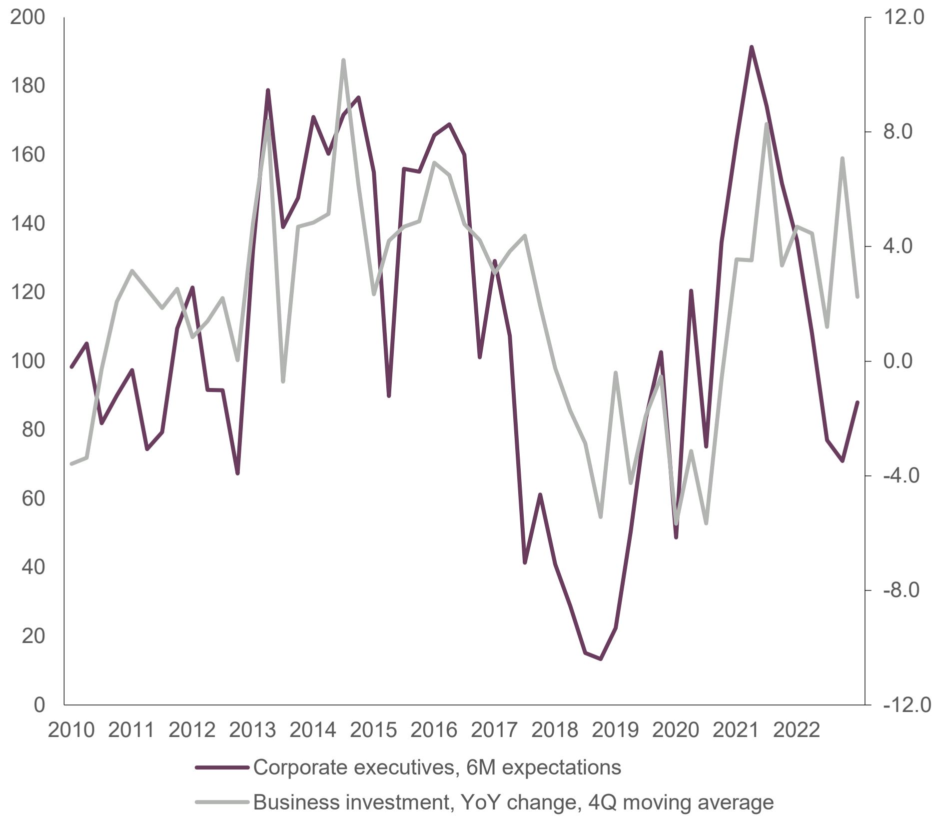
Highlights

- Investment grew strongly in 2022, as in 2021, but the nearly 7% growth rate stemmed entirely from a 15% real increase in business investment. Public investment shrank by nearly 1%, and residential investment contracted by over 6%.
- The outlook for the forecast horizon as a whole is for considerably weaker investment growth, on average, than in 2021 and 2022.
- Business investment is projected to grow by just over 4% in 2023 as the impact of rising interest rates and increasingly muted expectations of business executives is offset by ambitious infrastructure-related projects.
- Residential investment looks set to gain considerable momentum while public investment will probably contract somewhat.
- Business investment is assumed to contract by 3% as the full impact of rate hikes will come to the fore and hotel construction will be unusually limited compared to the last decade.
- For total investment, the outlook is for just over 1% contraction in 2024 while 2025 will likely see a nearly 5% rebound.

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.

Strong demand pressures in the labour market

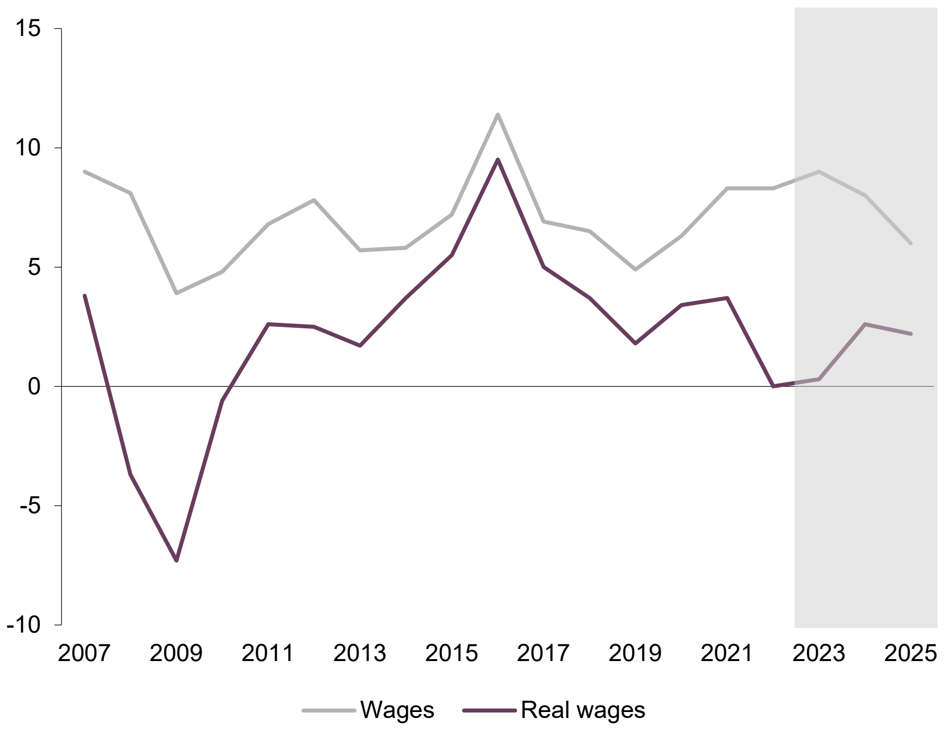
Real wage growth limited early on but will regain momentum in 2024

Highlights

- The Icelandic labour market has shown once again how flexible it is. Unemployment measured 3.0% in June 2023, after hitting its pandemic-era peak of 12% two years ago.
- ISB Research forecasts average year-2023 unemployment at 3.4%.
- In 2024 unemployment is expected to rise somewhat as tension in the labour market eases – and will measure at 3.9% in 2024 and 4.0% in 2025.
- Wages rose just over 8% in 2022, leaving average real wage growth flat – an impressive defensive victory in the midst of a high-inflation episode.
- The vast majority of the labour market has negotiated wage agreements with a term of one year. ISB Research expect wages to rise by 9% on average this year
- Real wages will stand still because of high inflation.
- In 2024 the wages are expected rise by 8% and 6% in 2024 according to the forecast.
- This, together with declining inflation, translates to postive real wage growth during those years.

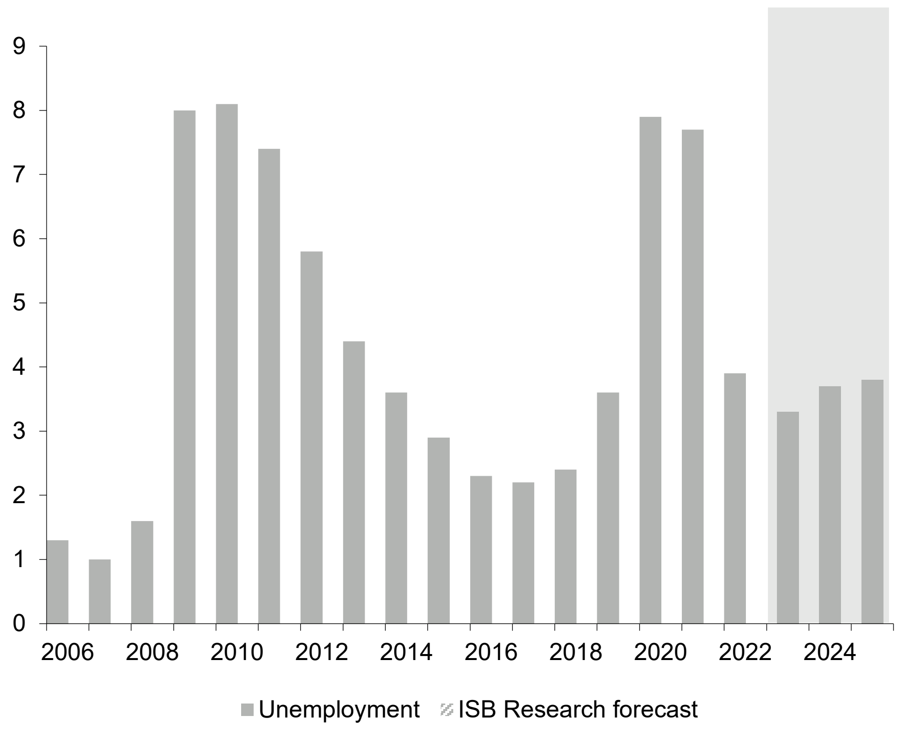
Wages, year on year change

%



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 eases after rising steeply

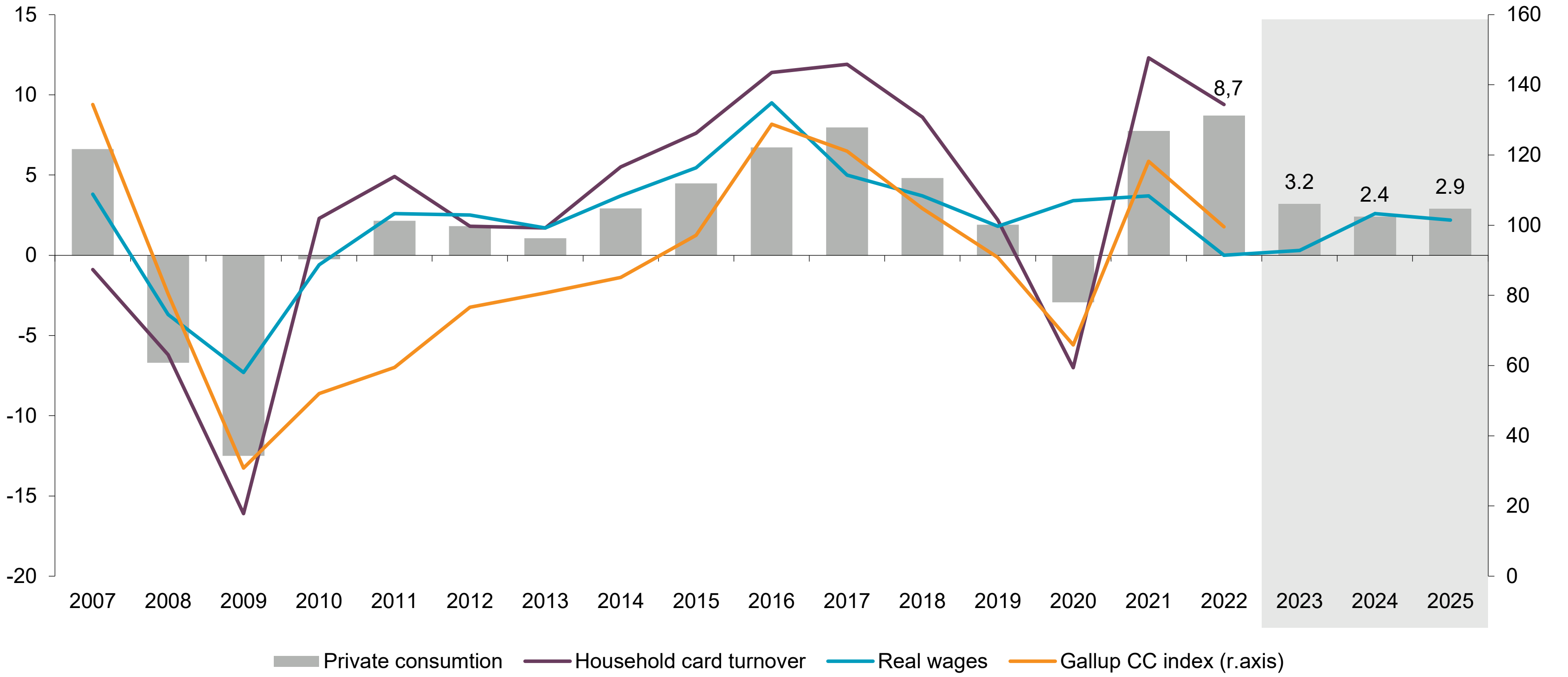
Consumption appears not to be credit-driven; household saving is now on the decline

Highlights

- Private consumption grew by nearly 9% in 2022, the fastest pace in 17 years. Nevertheless, growth eased over the course of the year amid high inflation and rising interest rates.
- In Q1/2023 private consumption picked up again mainly due to the new wage agreements that provided generous pay rises, plus retroactive pay hikes for the private sector.
- The most recent data indicate that card turnover growth has eased in Q2/2023. According to recent payment card turnover figures households appear to be hitting the brakes pretty firmly
- Furthermore, the Gallup consumer sentiment survey indicates that households are quite pessimistic.
- Even so, private consumption is holding its own, and the surge in population has done its part to sustain the overall growth rate. As a result, ISB Research forecasts year-2023 private consumption growth at 3.2%.
- In 2024 private consumption is assumed to grow by 2.4% and by 2.9% in 2025.

Private consumption and related indicators

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

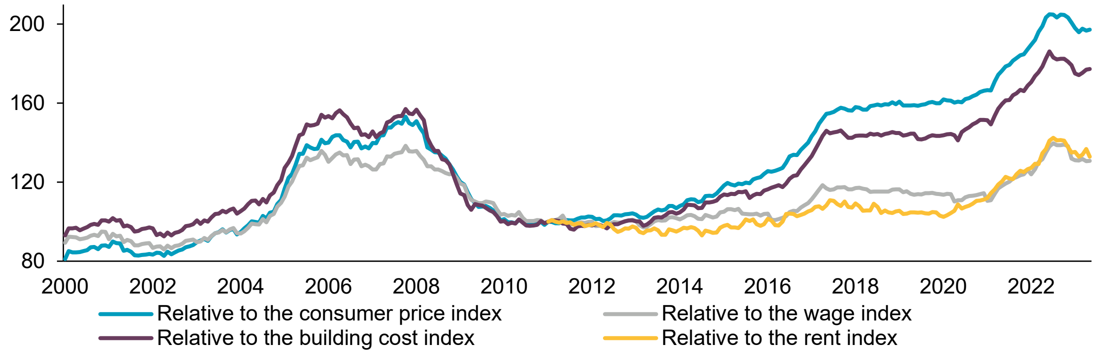


Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

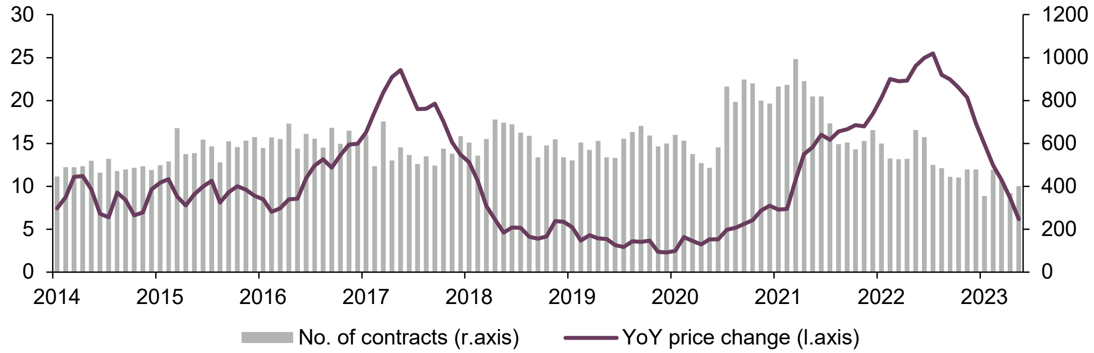
The real estate market appears to be stabilising

Central Bank measures have contributed to slower price increases of residential housing

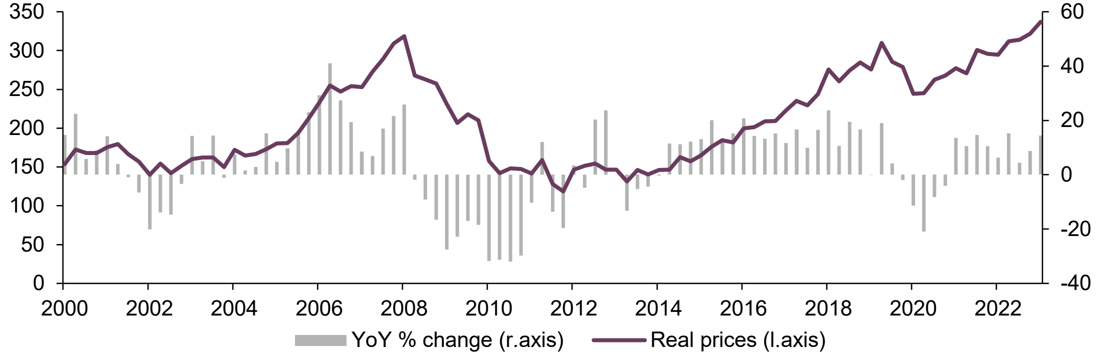
Capital area house prices relative to macroeconomic fundamentals
Index, January 2011=100



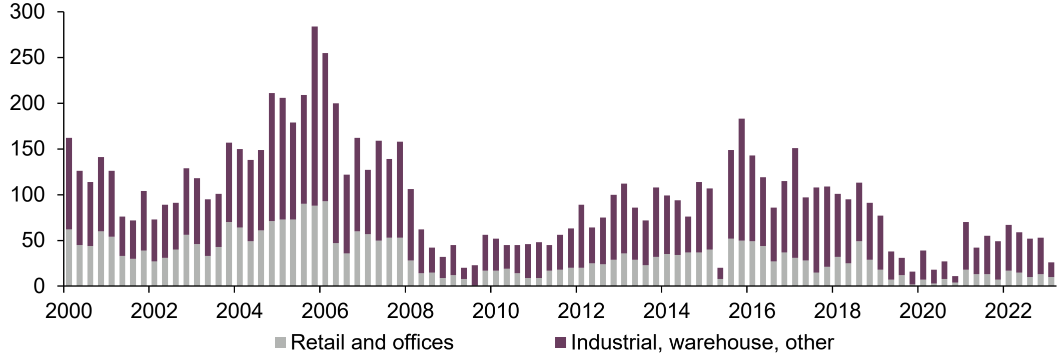
Residential house prices and turnover in greater Reykjavik
% change (l.axis) and number (r.axis)



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



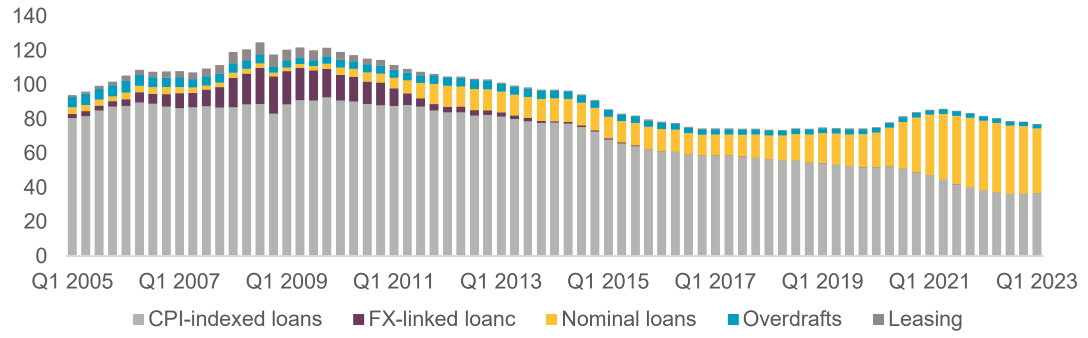
Source: The Central Bank of Iceland.

The Icelandic housing market is relatively resilient

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

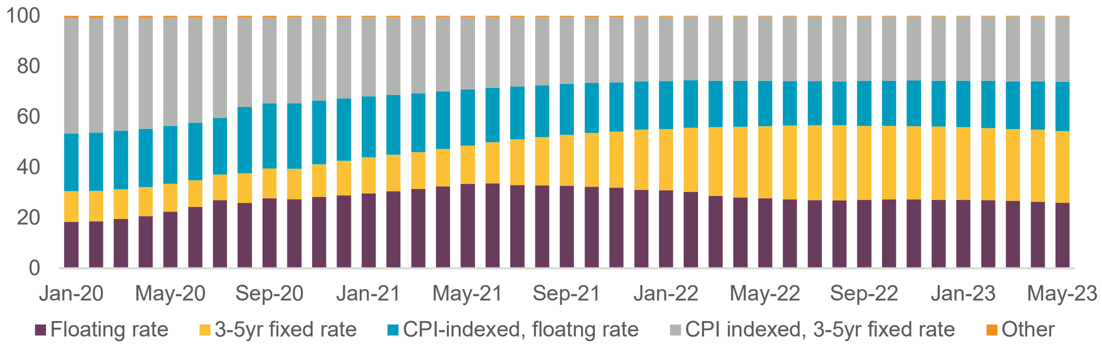
Households are not highly indebted compared to peers

Household debt, % of GDP



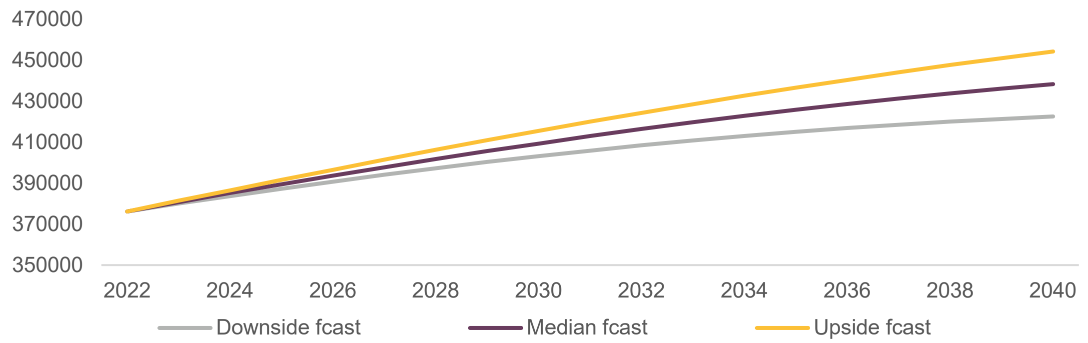
Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



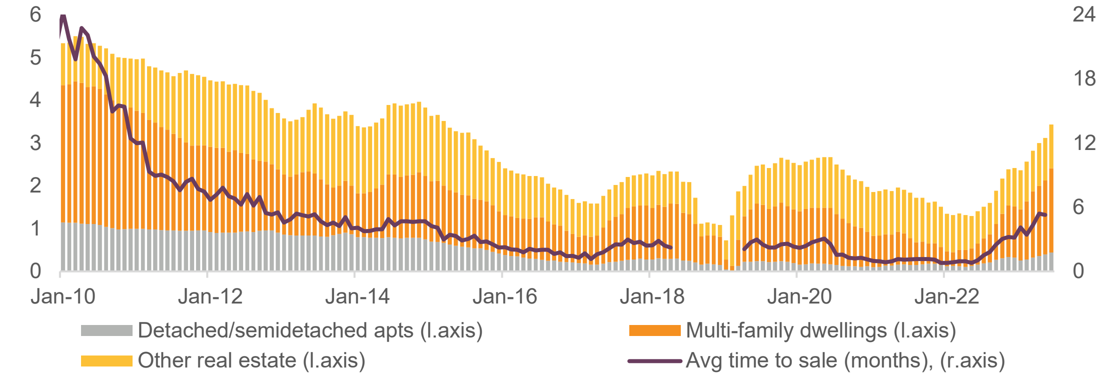
Underlying upward demand trend steady as population growth remains robust

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 set to taper off

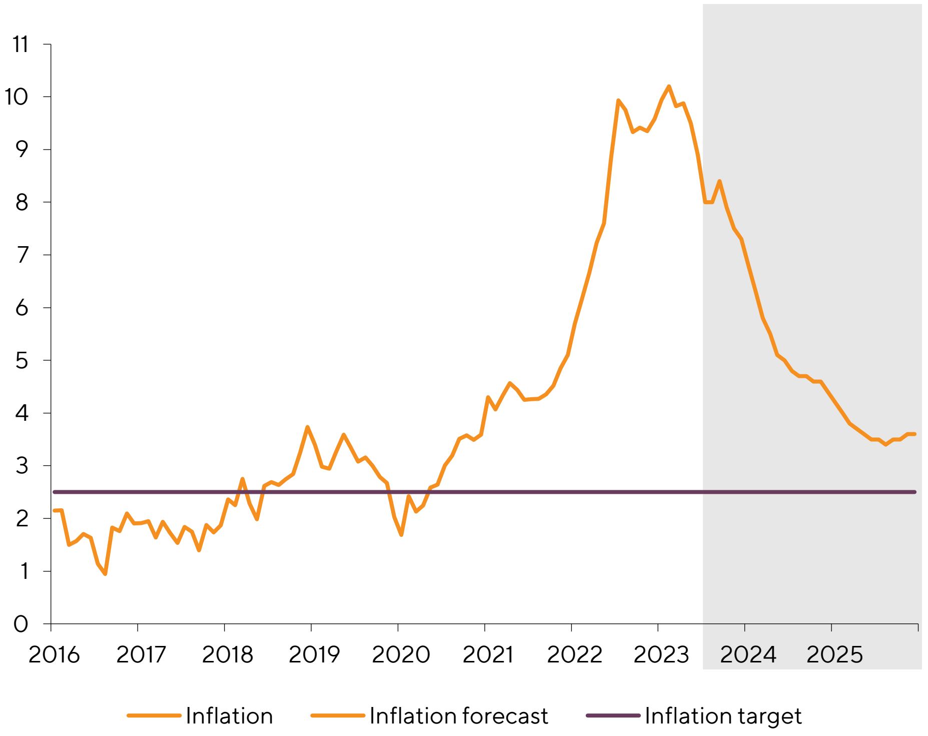
How fast it falls will depend on the housing market and imported inflation

Highlights

- Twelve-month inflation peaked in February at 10.2% and has eased since then measuring 8.9% in June.
- The outlook is that inflation will continue to ease. Two main reasons for that is the housing market that seems to be headed for a calmer period and imported inflation that looks set to fall.
- These two factors – the housing component and imported inflation - account for nearly 5% of the twelve-month inflation.
- Of the June inflation figure of 8.9%, the housing component accounts for 2.9%. This percentage peaked at 4% last summer, and looks set to keep declining in the near future.
- Although inflation is presumably moving in the right direction, the road ahead is rocky and roundabout.
- According to ISB Research the inflation is expected to fall below the 4% upper tolerance limit in 2025.
- ISB Research expects inflation to average 5.3% in 2024 and 3.6% in 2025.

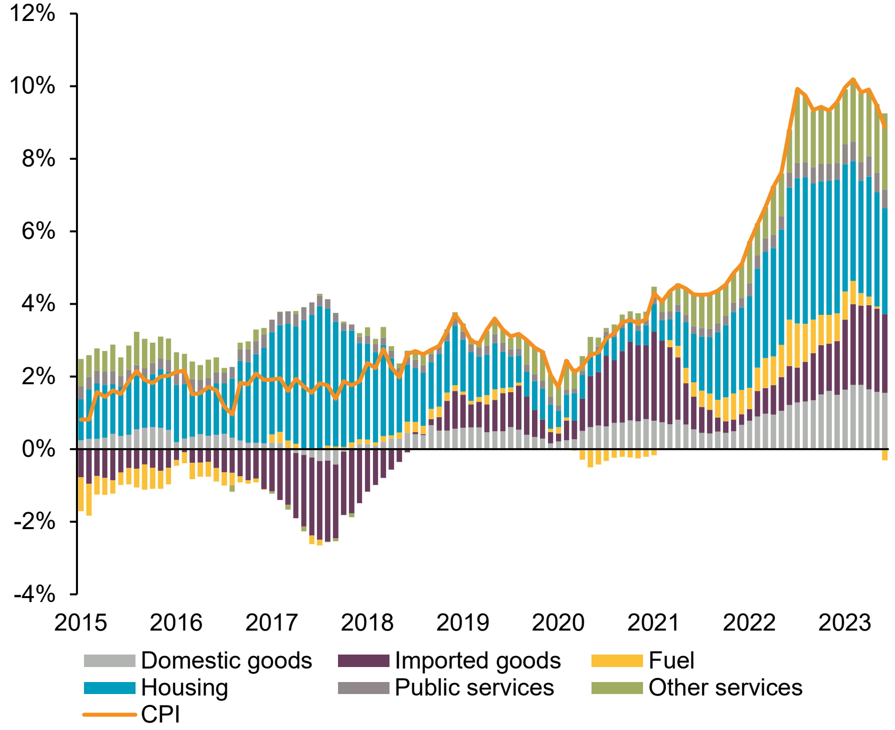
Inflation and the CBI inflation target

%



Inflation by contribution of main categories

%



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

Monetary tightening phase to end in 2H 2023

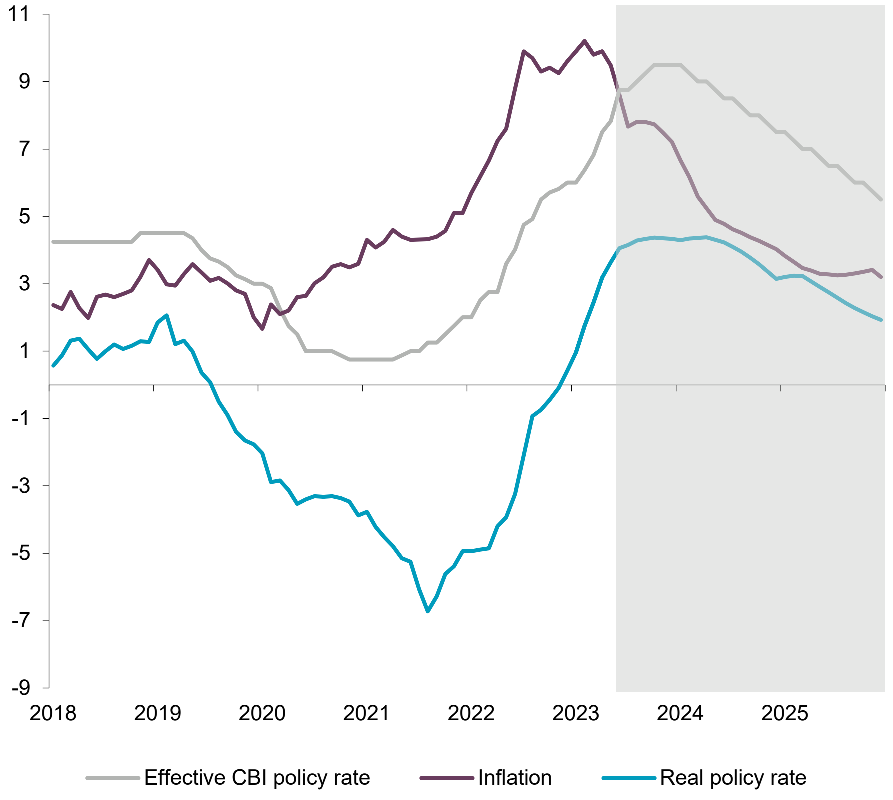
Over time, the policy rate will gradually approach equilibrium, at a higher level than assumed earlier

Highlights

- Following a series of rate hikes, the CBI's main policy rate reached 8.75% in Q2 2023.
- In May, the MPC cited stronger-than-expected GDP growth, persistent and widespread inflation and rising inflation expectations among the grounds for a 1.25pp rate hike.
- The MPC also warned that further rate hikes would probably be needed to bring inflation under control and contribute to a better-balanced economy.
- The outlook is for monetary tightening to continue for a while, with the policy rate peaking at 9.5% in H2/2023.
- As demand growth weakens and inflation declines, the policy rate is expected to fall gradually from early 2024 onwards to reach 5.5% in late 2025.
- By the end of the forecast horizon, long-term benchmark rates are expected to approach equilibrium, estimated at around 5.0 - 5.5% for nominal rates and between 1.5% - 2.0% for the real rate.

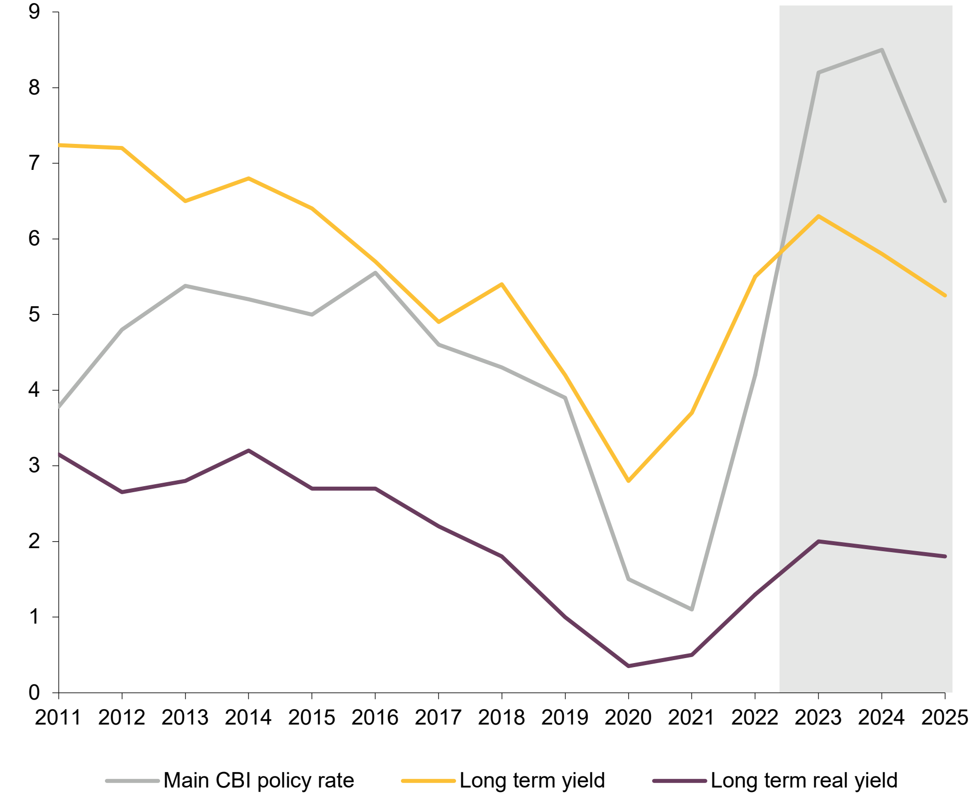
Policy rate and inflation

%, Real policy rate based on 12m forward forecasts



Key interest rates

%



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

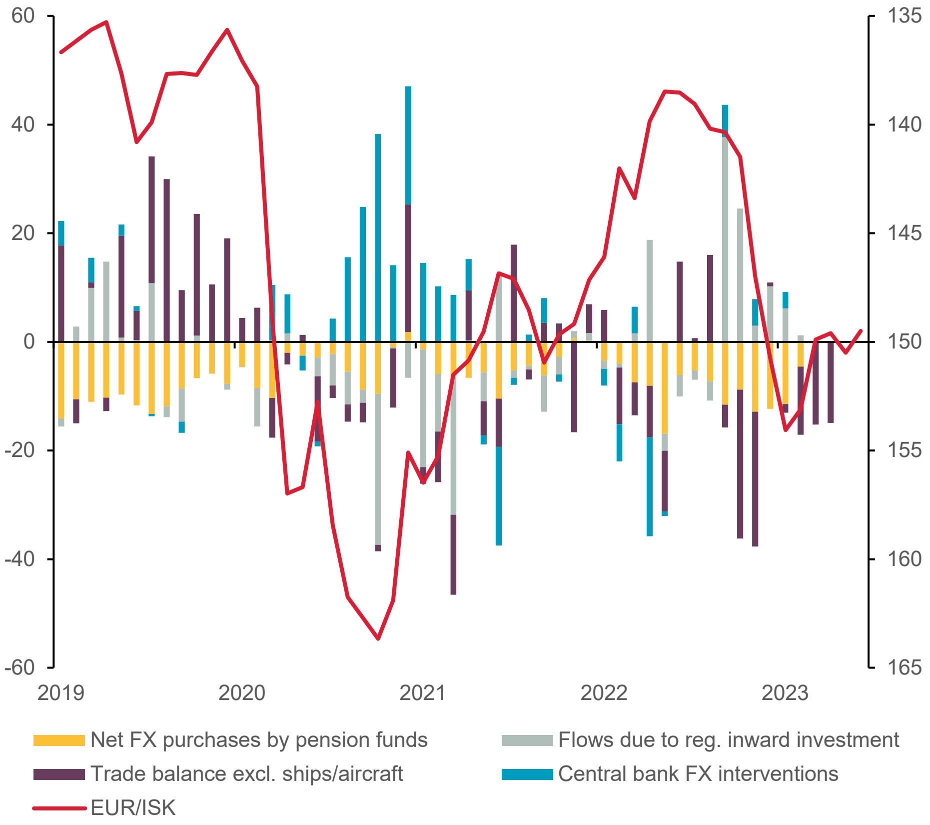
ISK likely to strengthen somewhat over time

The real exchange rate is approaching its previous high, however

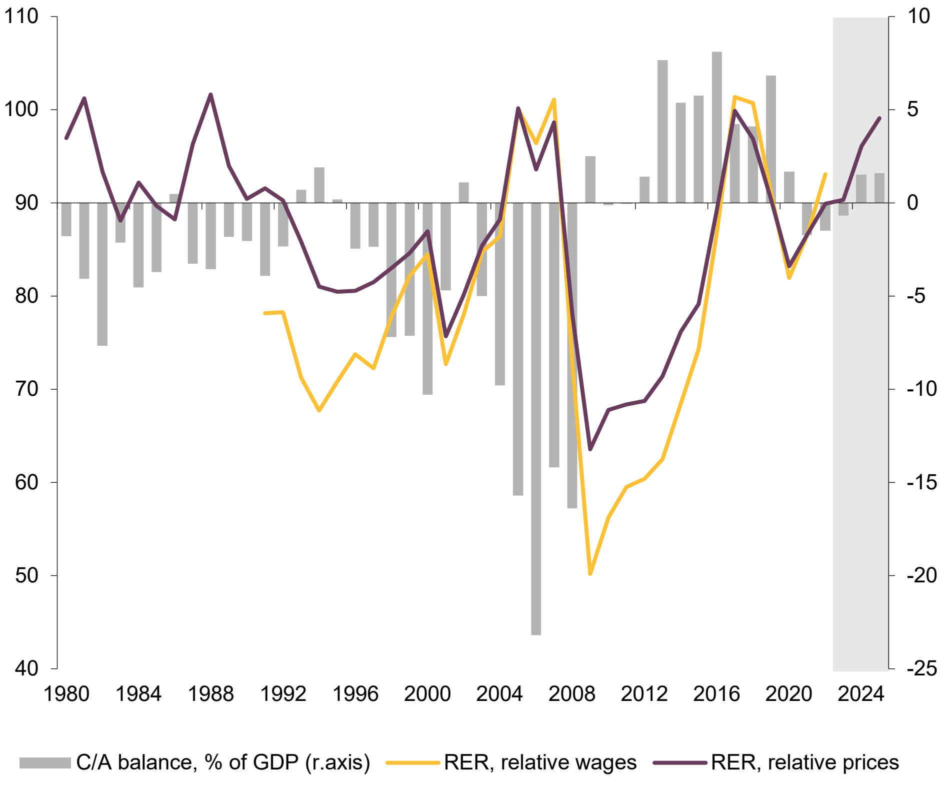
Highlights

- The ISK depreciated slightly in 2022. Intrayear exchange rate movements fell into two phases, however, with a strong appreciation through May, followed by a slide lasting until January 2023.
- In 2023 to date, the ISK has been relatively stable in comparison with previous years. The euro has lain in the ISK 148-157 range and the US dollar in the ISK 135-145 range.
- The outlook is for the C/A deficit to close and a surplus to open up in coming years, albeit a modest one.
- Also, the interest rate differential with abroad is relatively wide, Iceland's external position is strong, and the stock of foreign-owned securities is low in historical and international context.
- On the other hand, the pension funds will continue to purchase sizeable foreign assets, and other domestic entities are likely to scale up their foreign securities holdings as the global market outlook improves.
- Islandsbanki 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.
- The real exchange rate in terms of relative consumer prices will then be close to its 2017-2018 peak.

ISK exchange rate and selected determinants
ISK bn (left) and EURISK (right)



Real exchange rate and current account balance
Index and % of GDP

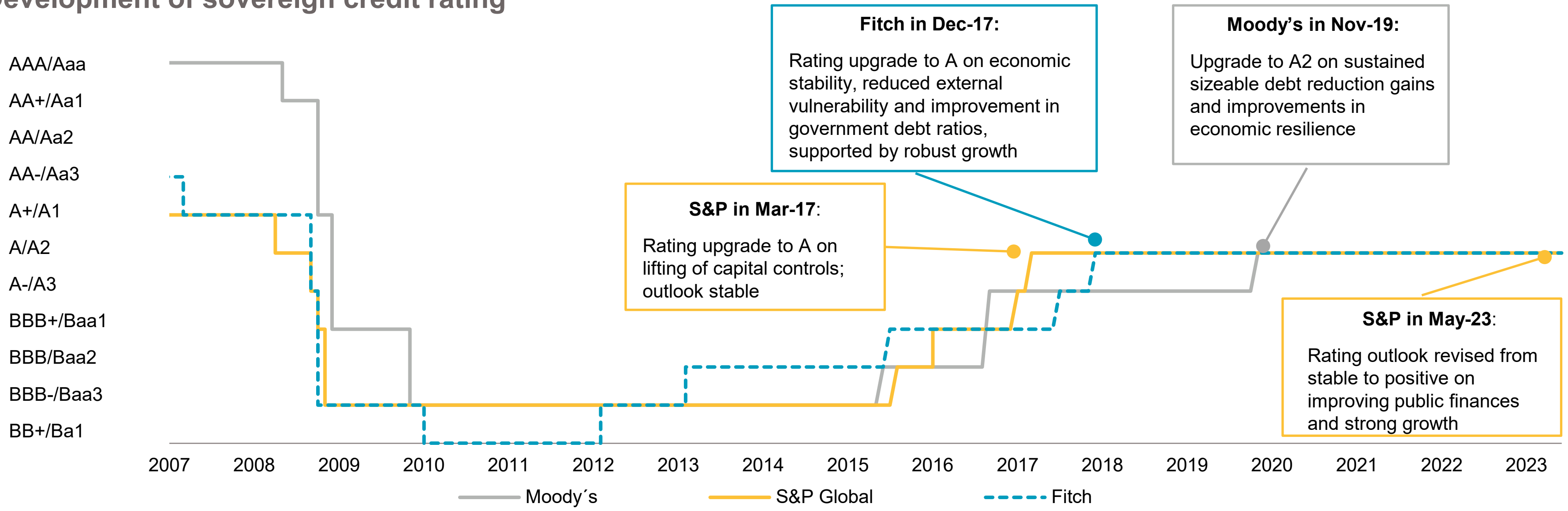


Source: Statistics Iceland, The Central Bank of Iceland, ISB Research.

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 May 2023

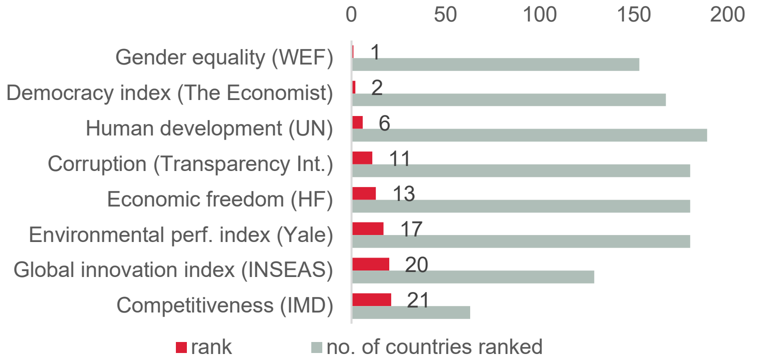
- “Strong ongoing economic recovery from pandemic fallout, alongside continued fiscal consolidation over the next few years, will improve Iceland's public finances beyond our previous expectations.”
- “We expect high domestic demand and the ongoing recovery of tourism will result in real GDP growth of 3.3% this year and an average of 2.4% in 2024-2026.”
- “Iceland has effectively managed external pressures, and the country's extensive energy independence has shielded the country from the fallout of the Russia-Ukraine conflict.”

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

The Icelandic economy and society draw on many strengths

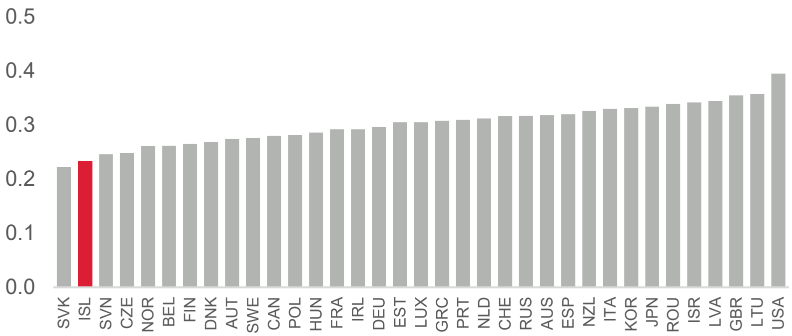
Icelanders enjoy high standards of living in a modern, open and egalitarian society

Iceland ranks highly on a variety of global development benchmarks



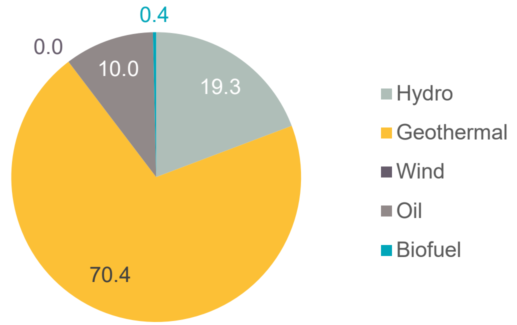
Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



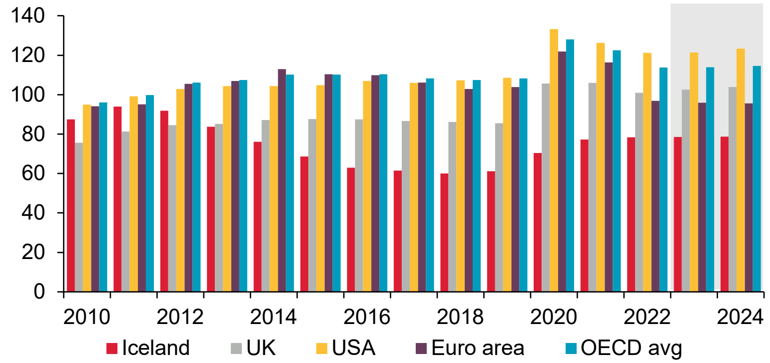
Sustainable energy usage is prevalent

Energy consumption by source, 2020



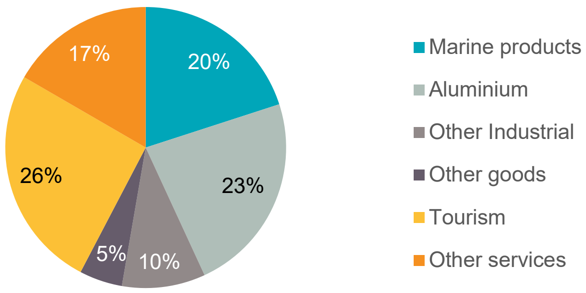
Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



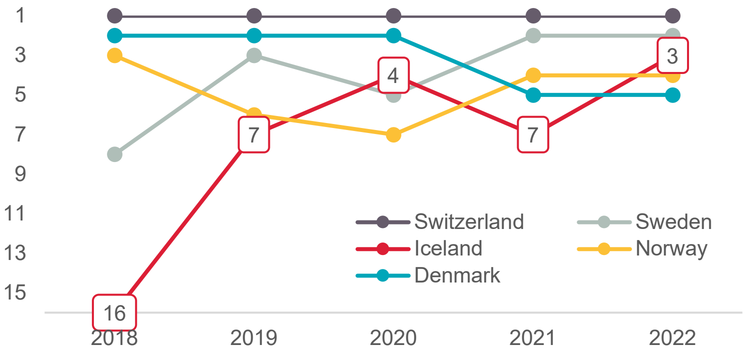
Export base has grown more diverse over time

Export contribution by industry, 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

27 July 2023

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27 July 2023