Press Release

Second Quarter 2022 Results

Íslandsbanki hf.

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Second quarter 2022 (2Q22) financial highlights – sound operations deliver strong performance and above-target ROE

- Íslandsbanki reported a profit of ISK 5.9bn in the second quarter (2Q21: ISK 5.4bn), generating an annualised return on equity (ROE) of 11.7% (2Q21: 11.6%), which is above both the Bank's financial targets and market consensus. The main drivers were strong income generation, good cost control and a positive net impairment.

- Net interest income (NII) grew by 21.8% YoY and totalled ISK 10.3bn in 2Q22, compared to ISK 8.4bn in 2Q21, owing mainly to higher interest rate environment and growth in loans to customers and deposits from customers. The net interest margin was 2.9% in 2Q22, compared to 2.4% in 2Q21.

- Net fee and commission income (NFCI) grew 18.1% YoY and amounted to ISK 3.4bn in 2Q22, compared to ISK 2.9bn in 2Q21. Fee income from cards and payment processing, investment banking and brokerage and from loans and guarantees are primary drivers of the increase.

- The Bank focuses on core banking operations, with NII and NFCI accounting for 97.6% of total operating income in 2Q22, compared to 93% in 2Q21. These two items combined grew 20.9% from 2Q21 to 2Q22.

- Net financial income was ISK 208m in 2Q22, compared to net financial income of ISK 619m in 2Q21.

- Administrative expenses were ISK 6.0bn in 2Q22 compared to ISK 6.5bn in 2Q21, a decline of 7.6% YoY. Excluding ISK 588m one-off cost in 2Q21, administrative expenses rose by 1.6% but declined by 5.9% in real terms.

- The cost-to-income ratio was 42.7% in 2Q22, below the Bank's target, down from 49.9% in 2Q21, due to strong revenue generation and cost reduction efforts.

- The positive ISK 575m net impairment on financial assets in 2Q22 is mainly due to a result of a court ruling regarding a fully impaired loan coupled with a brighter outlook for the tourism industry. This is compared to a positive impairment of ISK 1,140m in 2Q21. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -20bp in 2Q22, compared to -42bp in 2Q21.

- Loans to customers rose by ISK 45.8bn, or by 4.1%, during the quarter, to ISK 1,154bn, where lending in all business areas contributed.

- Deposits from customers decreased by ISK 4.6bn, or 0.6%, during the quarter, down to ISK 757bn.

- The liquidity position of the Bank remains robust with all liquidity ratios well above both internal targets and regulatory requirements.

- Total equity amounted to ISK 203.7bn at the end of June 2022. The corresponding capital base, that includes the AT1 and Tier2 issues, was reduced from ISK 228bn to ISK 213bn as a result of an authorised ISK 15bn buyback of own shares. The Bank's total capital ratio was 21.5%, compared to 25.3% at YE21. The corresponding CET1 ratio was 18.2%, down from 21.3% at YE21. This is considerably above the long-term CET1 target of ~16.5%. Lower capital ratios are mostly the result of an increase in the risk exposure amount (REA).

- The Bank estimates that long-term excess CET1 capital equals approximately ISK 30-35bn. Reduction in excess capital is due to strong and profitable loan growth in 2Q22. The Bank assumes that CET1 capital will be optimised before year-end 2023.

- The leverage ratio was 12.5% at the end of June, compared to 13.6% at YE21, indicating low leverage.

First half 2022 (1H22) financial highlights – ROE above target driven by rise in revenue

- The Bank's net profit for the first half of year 2022 was ISK 11.1bn (1H21: ISK 9.0bn) with annualised return on equity for 1H22 of 10.9% compared to 9.7% in 1H21.
- Net interest income totalled ISK 19.5bn in 1H22, an increase of 17.2% YoY, explained by growth in loans to customers and a higher interest rate environment.
- Net fee and commission income (NFCI) grew 12.6% YoY and amounted to ISK 6.5bn in 1H22, compared to ISK 5.8bn in 1H21. Fee income from cards and payment processing together with investment banking and brokerage are primary drivers of the increase.
- Net financial income was ISK 113m in 1H22 compared to income of ISK 912m for 1H21.
- Administrative expenses were ISK 11.8bn in 1H22 compared to ISK 12.3bn in 1H21, a decline of 4.2% YoY. Excluding ISK 588m one-off cost in 1H21, administrative expenses rose by 1.6% but declined by 5.9% in real terms.
- Cost-to-income ratio dropped YoY from 50.6% in 1H21 to 45.0% in 1H22.
- Net impairment on financial assets was a positive ISK 1,058m in the first half of 2022 (1H21: ISK 622m), due to brighter outlook for the tourism industry and a favourable court ruling regarding a fully impaired loan.

Revised 2022 Guidance

- In light of the good financial results and prospects for the remainder of the year, the 2022 financial guidance for ROE is now revised upwards to over 10% from the previous 8-10%. Also, the guidance for the cost-to-income ratio is now revised to 44-47% from the previous 45-50%.

Key figures and ratios

		2Q22	1Q22	4Q21	3Q21	2Q21
PROFITABILITY	Profit for the period, ISKm	**5,880**	5,187	7,092	7,587	5,431
	Return on equity	**11.7%**	10.2%	14.2%	15.7%	11.6%
	Net interest margin (of total assets)	**2.9%**	2.6%	2.4%	2.4%	2.4%
	Cost-to-income ratio[1]	**42.7%**	47.6%	45.3%	39.4%	49.9%
	Cost of risk[2]	**(0.20%)**	(0.17%)	(0.23%)	(0.64%)	(0.42%)
		30.6.22	31.3.22	31.12.21	30.9.21	30.6.21
BALANCE SHEET	Loans to customers, ISKm	**1,153,677**	1,107,893	1,086,327	1,081,418	1,089,723
	Total assets, ISKm	**1,437,253**	1,446,355	1,428,821	1,456,372	1,446,860
	Risk exposure amount, ISKm	**992,883**	945,321	901,646	917,764	924,375
	Deposits from customers, ISKm	**756,862**	761,471	744,036	754,442	765,614
	Customer loans to customer deposits ratio	**152%**	145%	146%	143%	142%
	Non-performing loans (NPL) ratio[3]	**1.8%**	1.8%	2.0%	2.0%	2.1%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**118%**	123%	122%	121%	122%
	Liquidity coverage ratio (LCR), for all currencies	**147%**	195%	156%	225%	187%
CAPITAL	Total equity, ISKm	**203,662**	197,201	203,710	197,381	190,355
	CET 1 ratio[4]	**18.2%**	18.8%	21.3%	20.6%	20.1%
	Tier 1 ratio[4]	**19.2%**	19.9%	22.5%	21.8%	20.1%
	Total capital ratio[4]	**21.5%**	22.5%	25.3%	24.7%	22.9%
	Leverage ratio[4]	**12.5%**	12.4%	13.6%	13.2%	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 31.3.22 and third quarter profit for 30.9.21.

Birna Einarsdóttir, CEO of Íslandsbanki

The Íslandsbanki team can be proud of the second quarter results in which net profit amounted to ISK 5.9bn and ROE was 11.7% - above the Bank's financial target. We saw strong growth in both net interest and net fee and commission income, combined up by 21% year-on-year. At the same time, we reached a real cost reduction of 5.9%. The cost-to-income ratio was 42.7% during the quarter, a level which beats the Bank's financial target.

Lending activity has been brisk this year and loans to customers grew by 4.1% during the second quarter, which was evenly divided between retail and corporate customers. However, following the Central Bank's latest rate hikes and policy actions, we expect loan growth to slow in the second half of 2022.

In June, Íslandsbanki signed an updated covered bond programme which permits issuance in foreign currencies. The programme, rated A by S&P, will grant to the Bank greater ease of access to overseas markets and will appeal to a more diverse range of investors.

Íslandsbanki was awarded "Best Bank in Iceland" by Euromoney for the fifth time in recent years. The magazine cited the Bank's strong financial improvement, increasing revenues and tight control of costs. The award is a pleasing endorsement of our efforts.

The Íslandsbanki Reykjavik Marathon will be held on 20 August which is the largest charitable event of the year in Iceland. Over ISK 1bn has been raised since its inception, benefitting over 115 charities. The Bank's employees have taken the marathon very much to their hearts over the years and is emblematic of the Bank's objective to be a force for good.

Second quarter 2022 (2Q22) operational highlights

- Following two 1% rate hikes by the Central Bank of Iceland the current policy rate rose to 4.75%, Íslandsbanki responded by raising interest rates. For example, nominal rate mortgage rates were raised by between 85bps and 2%. Consumer loans and overdrafts were also raised by 2%.

- Íslandsbanki successfully took part in the issuance of Íþaka's ISK 3bn bond, advised on Reginn's purchase of real estate worth almost ISK 5.6bn in the centre of Reykjavík and co-operated with Brim seafood company to complete its bond issue of ISK 5bn. The bonds, which are classified as green and blue bonds, fall under the company's sustainable financing framework and have been admitted for trading on the Nasdaq Iceland market for sustainable bonds.

- Íslandsbanki donated 56 pieces of art which go to relevant art museums in Iceland for preservation.

- Íslandsbanki took part in Girls in ICT Day, an international UN initiative and was visited by 40 young women.[1] They were introduced to the diverse jobs available in the Bank's IT department.

- The Bank published a macroeconomic forecast for 2022 – 2024 in May, available here.

- Íslandsbanki published its Allocation and Impact Report accessible here. Avoided greenhouse gas emissions in 2021 amounted to around 16,800 tCO_2e.

- The first loan granted in co-operation with the IS Corporate Credit Fund. The fund gives institutional investors access to a market that has by and large been limited to banks. It also meets firms' financing needs and supports promising projects that underpin GDP growth.

Operational highlights after the period-end

- Íslandsbanki received top ESG score from Reitun. The Bank's performance in the area of sustainability continues to improve, according to Reitun. The Bank received a total of 90 ESG points in the assessment and an overall score of A3. The Bank's score for environmental practices has risen by 12.9% year-on-year.

- S&P Global Ratings (S&P) affirmed Íslandsbanki's rating at BBB/A-2 with a stable outlook on 13 July 2022.

- Euromoney chose Íslandsbanki as the best bank in Iceland. The magazine's main reasoning is the Bank's strong financial improvement during the 12 months under review.

[1] ICT: Information and communications technology

INCOME STATEMENT

Net profit increase driven by core revenue increase, contained administrative expenses and reversed impairment

Income statement, ISKm	2Q22	2Q21	∆%	1H22	1H21	∆%	2021
Net interest income	**10,254**	8,417	22%	**19,463**	16,607	17%	34,043
Net fee and commission income	**3,434**	2,907	18%	**6,498**	5,769	13%	12,849
Net financial income (expense)	**208**	619	(66%)	**113**	912	(88%)	2,499
Net foreign exchange gain	**75**	95	(21%)	**241**	225	7%	479
Other operating income	**59**	82	(28%)	**324**	204	59%	302
Total operating income	**14,030**	12,120	16%	**26,639**	23,717	12%	50,172
Salaries and related expenses	**(3,396)**	(3,594)	(6%)	**(6,818)**	(7,168)	(5%)	(13,397)
Other operating expenses	**(2,597)**	(2,894)	(10%)	**(5,009)**	(5,172)	(3%)	(9,799)
Administrative expenses	**(5,993)**	(6,488)	(8%)	**(11,827)**	(12,340)	(4%)	(23,196)
Contribution to the Depositor's and Investors' Guarantee Fund	**-**	(162)	(100%)	**(165)**	(344)	(52%)	(688)
Bank tax	**(412)**	(451)	(9%)	**(842)**	(861)	(2%)	(1,683)
Total operating expenses	**(6,405)**	(7,101)	(10%)	**(12,834)**	(13,545)	(5%)	(25,567)
Net impairment on financial assets	**575**	1,140	(50%)	**1,058**	622	70%	3,018
Profit before tax	**8,200**	6,159	33%	**14,863**	10,794	38%	27,623
Income tax expense	**(2,331)**	(769)	203%	**(3,794)**	(1,805)	110%	(5,119)
Profit for the period from continuing operations	**5,869**	5,390	9%	**11,069**	8,989	23%	22,504
Discontinued operations held for sale, net of income tax	**11**	41	(73%)	**(2)**	57	(104%)	1,221
Profit (loss) for the period	**5,880**	5,431	8%	**11,067**	9,046	22%	23,725
Key ratios							
Net Interest Margin (NIM)	**2.9%**	2.4%		**2.7%**	2.4%		2.4%
Cost-to-income ratio (C/I)	**42.7%**	49.9%		**45.0%**	50.6%		46.2%
Return on Equity (ROE)	**11.7%**	11.6%		**10.9%**	9.7%		12.3%
Cost of risk (COR)	**(0.20%)**	(0.42%)		**(0.19%)**	0.12%		(0.28%)

Core income grew by 21% in a strong quarter

– Net interest income (NII) rose mainly as a result of larger balance sheet and higher interest rate environment. The average CB policy rate was 3.5% in 2Q22, as compared to 0.9% in 2Q21.

– Net interest margin (NIM) on total assets was 2.9% in 2Q22. NIM on loans was 1.9% in 2Q22 (2.2% in 2Q21) while NIM on deposits was 1.8% in 2Q22 (1.1% in 2Q21).

– The rise in net fee and commission income (NFCI) by 18% in 2Q22 stems from a number of sources. Revenue from investment banking and brokerage increased by 36.9% YoY from robust activity within all fee-generating businesses. Cards and payment processing increased by 38.0% YoY due to increased card activity and FX sales. Fees from loans and guarantees increased by 23.0% as a result of active lending during the quarter.

– Total core income (NII and NFCI) was up by 21% YoY in 2Q22.

– Rising benchmark interest rates, especially in ISK, led to a net financial expense in the Bank's liquidity portfolio, but supported financial income in other derivatives. Reduction in shares and equity instruments in 2Q22 is explained by Norðurturninn hf. (owner of the Bank's headquarters) which was classified as shares and equity instrument but is now classified as an associate.

Administrative expenses reduced by 5.9% in real terms during the period

– Salaries and related expenses fell by 1.6% in 2Q22 compared to 2Q21 (one-off cost in 2Q21 excluded), despite a salary increase from a wage agreement, as a result of a reduction in the number of full-time position equivalents (FTE).

- The YoY decrease in other operating expenses in 2Q22 is mainly explained by decrease in professional services which included IPO´s one-off cost in 2Q21. Travelling costs and meetings and conferences increased between years.

- The number of FTEs at the end of June 2022, excluding seasonal employees, was 702 (733 at end of 2Q21) for the parent company and 740 for the Group (768 at end of 2Q21).

- The cost-to-income ratio was 42.7% in 2Q22, compared to 49.9% in 2Q21.

Taxes and levies

- The effective tax rate was 28.4% in 2Q22, compared to 12.5% in 2Q21. Higher effective tax rate in 2Q22 is explained by the tax effect of negative fair value changes in equity shares in 2Q22 compared to positive fair value changes in equity shares in 2Q21. The Bank is subject to the special financial tax of 6% on taxable profits over ISK 1bn, a financial activities tax and social security charges. It also makes contributions to the Central Bank of Iceland financial supervisory authority and the Office of the Debtors' Ombudsman. In line with newly enacted legislation, the Bank will not be charged premiums by the Depositors' and investors' Guarantee Fund after 1Q22. This can however change in the future based on the status of the fund and the size of the deposit system. Total taxes and levies amounted to ISK 3.3bn for the period, compared to ISK 1.9bn for 2Q21.

Positive net impairment on financial assets in 2Q22

- The positive net impairment of ISK 0.5bn in 2Q22 (2Q21: ISK 1.1bn) is due to a result of a court ruling regarding a fully impaired loan coupled with a brighter outlook for the tourism industry and a shift in the economic scenario, where the baseline is 50% (previously 45%) and bad 30% (previously 35%).[2]

- The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was -20bp in 2Q22, same as in 1Q22. The average cost of risk in 2019 and 2020, excluding the effects of COVID-19, was +35bp but would have been closer to +30bp based on the current composition of the loan book, with a higher proportion of mortgages.

Solid profits driven by higher revenues

- Íslandsbanki reported a profit of ISK 5.9bn in 2Q22 (2Q21: ISK 5.4bn), generating a 11.7% annualised return on equity (2Q21: 11.6%). The ISK 449m increase in net profit between years is due mainly to higher income and positive loan impairment charges.

[2] Further information can be found in Note 2 of the Bank's condensed consolidated interim financial statements for first half 2022.

BALANCE SHEET

Loans to customers increase in all business segments

Assets, ISKm	30.6.22	31.3.22	Δ	Δ%	31.12.21	Δ	Δ%
Cash and balances with Central Bank	**77,884**	77,799	85	0%	113,667	(35,783)	(31%)
Loans to credit institutions	**37,226**	73,220	(35,994)	(49%)	43,988	(6,762)	(15%)
Bonds and debt instruments	**108,477**	130,700	(22,223)	(17%)	132,289	(23,812)	(18%)
Derivatives	**6,193**	4,245	1,948	46%	2,445	3,748	153%
Loans to customers	**1,153,677**	1,107,893	45,784	4%	1,086,327	67,350	6%
Shares and equity instruments	**25,789**	28,655	(2,866)	(10%)	31,677	(5,888)	(19%)
Investment in associates	**3,836**	767	3,069	400%	939	2,897	309%
Property and equipment	**6,846**	6,911	(65)	(1%)	7,010	(164)	(2%)
Intangible assets	**3,304**	3,327	(23)	(1%)	3,351	(47)	(1%)
Other assets	**12,126**	11,170	956	9%	5,784	6,342	110%
Non-current assets and disposal groups held for sale	**1,895**	1,668	227	14%	1,344	551	41%
Total Assets	**1,437,253**	1,446,355	(9,102)	(1%)	1,428,821	8,432	1%
Key ratios							
Risk Exposure Amount (REA)	**992,883**	945,321	47,562	5.0%	901,646	91,237	10.1%
Non-performing loans (NPL) ratio[1]	**1.8%**	1.8%			2.0%		

1 Stage 3, loans to customers, gross carrying amount

Continued lending growth with a diversified and highly collateralised portfolio

- Loans to customers grew by 4.1% during the second quarter. Of the ISK 45.8bn increase in 2Q22, mortgage lending accounted for ISK 21.0bn and corporate lending for ISK 23.5bn. At the end of 2Q22, mortgages accounted for 43% of loans to customers, in a well-diversified loan book.

- Loans to customers are generally well covered by stable collateral, the majority of which is in residential and commercial real estate, while the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 61% at the end of 2Q22 (63% at YE21) and the LTV for the residential mortgage portfolio at the end of 2Q22 was 65% (66% at YE21). Íslandsbanki's registered value of commercial real estate is less vulnerable to market fluctuations, as collateral has risen at a much slower rate and lagged market prices in prior years.

- Íslandsbanki has no direct exposure to Russia, Belarus, or Ukraine. There are a handful of Icelandic customers that have sold products or services to these countries in recent years, but the effect of sanctions or loss of markets is not material to the overall credit risk for these customers.

- Four line-items - cash and balances with Central Bank, loans to credit institutions, bonds and debt instruments and shares and equity instruments - amounted to ISK 249bn at the end of June 2022, including ISK 209bn in liquid assets.

- The Bank's asset encumbrance ratio was 20.7% at the end of 2Q22, compared with 19.6% at YE21

High asset quality

- At the end of 2Q22, 7.1% of the gross performing loan book (not in Stage 3) was classified as in forbearance, down from 7.8% at the end of 1Q22. The majority of forborne loans are those that have had moratoria granted on a case-by-case basis to customers affected by COVID-19, mostly in the tourism sector. Despite still being classified as forborne, 93% of those loans have resumed regular payments.
- At the end of the 2Q22, the share of credit-impaired loans to customers was 1.8% (gross), unchanged from 1Q22.

Liabilities – strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKm	**30.6.22**	31.3.22	Δ	Δ%	31.12.21	Δ	Δ%
Deposits from Central Bank and credit institutions	**11,437**	10,949	488	4%	13,384	(1,947)	(15%)
Deposits from customers	**756,862**	761,471	(4,609)	(1%)	744,036	12,826	2%
Derivative instruments and short positions	**11,410**	11,013	397	4%	9,467	1,943	21%
Debt issued and other borrow ed funds	**393,754**	406,845	(13,091)	(3%)	402,226	(8,472)	(2%)
Subordinated loans	**32,181**	34,139	(1,958)	(6%)	35,762	(3,581)	(10%)
Tax liabilities	**8,498**	6,980	1,518	22%	6,432	2,066	32%
Other liabilities	**18,498**	16,802	1,696	10%	12,848	5,650	44%
Non-current liabilities and disposal groups held for sale	**951**	955	(4)	(0%)	956	(5)	(1%)
Total Liabilities	**1,233,591**	1,249,154	(15,563)	(1%)	1,225,111	8,480	1%
Total Equity	**203,662**	197,201	6,461	3%	203,710	(48)	(0%)
Total Liabilities and Equity	**1,437,253**	1,446,355	(9,102)	(1%)	1,428,821	8,432	1%
Key ratios							
Customer loans to customer deposits ratio	**152%**	145%			146%		
REA/total assets	**69.1%**	65.4%			63.1%		
Net stable funding ratio (NSFR)	**118%**	123%			122%		
Liquidity coverage ratio (LCR)	**147%**	195%			156%		
Total capital ratio[1]	**21.5%**	22.5%			25.3%		
Tier 1 capital ratio[1]	**19.2%**	19.9%			22.5%		
Leverage ratio[1]	**12.5%**	12.4%			13.6%		

1 Including first quarter profit for 313.22

Deposits remain the largest source of funding

- Funding is raised to match the Bank's lending programme using three main funding sources: stable deposits, covered bonds and senior unsecured bonds.
- Deposits from customers declined by 0.6% during the second quarter mainly due to decrease in deposits from corporations and pension funds. All deposit concentration levels are monitored closely, with concentration remaining stable in 2Q22.
- The ratio of customer loans to customer deposits rose to 152% at the end of 2Q22 from the previous 145% at end of 1Q22. Deposits from retail, businesses and corporations are the Bank's main source of funding, comprising 47% of total funding sources and 87% of the Bank's total deposit base at the period-end.
- The Bank continued its successful issuance of ISK-denominated covered bonds to fund the increase in mortgage lending. Domestically, the Bank issued ISK 6.2bn in covered bonds during the quarter.
- In June, the Bank signed a new covered bond programme which permits issuance in foreign currencies. The programme and the bonds already outstanding in ISK were rated A by Standard & Poor´s Global Ratings. This programme will grant to the Bank greater ease of access to overseas markets and will appeal to a more diverse range of investors.
- The liquidity position remains strong, with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 147% in 2Q22, slightly down from 156% at YE21. The LCR in foreign currencies was stable at around 240% for both 2Q22 and YE21 and the LCR in ISK decreased from 141% at YE21 to 125% in 2Q22.
- The total net stable funding ratio (NSFR) was 118% in 2Q22, compared to 122% at YE21 and the NSFR in foreign currencies was 182% in 2Q22, compared with 157% at YE21.

- As the Bank's liquidity position remains strong across currencies and is above requirements, the Bank may consider debt buybacks or exchanges of outstanding transactions during 2022.

Capital ratios well above targets, excess capital of ISK 30-35bn provides significant capital return potential

- Total equity amounted to ISK 204bn at the end of 2Q22, comparable to YE21.

- The capital base was reduced from ISK 228bn at YE21 to ISK 213bn at the end of 2Q22. A dividend of ISK 11.9bn was approved at the AGM, in line with the Bank's dividend policy and disbursed in March. The AGM approved the Board of Directors' proposal authorising the acquisition of up to 10% of issued share capital in the Bank. The Central Bank has authorised the Bank to acquire, through buybacks, the equivalent of ISK 15bn in its own shares, which is within the 10% authorisation from the AGM. The approved amount is subtracted from the Bank's capital ratios.

- On 22 June 2022, the Central Bank Financial Supervision Committee announced the results of the SREP concerning additional capital requirements (Pillar 2-R). As of 1 July 2022, the Bank must maintain an additional capital requirement of 2.6% of the REA, which is an increase of 0.1 percentage points from the previous assessment. The Bank's overall capital requirement, including capital buffers, was therefore increased from 17.8% to 17.9%.

- The Bank's long-term CET1 target is ~16.5% and assumes an increase in the countercyclical buffer to 2.0% and a reversal of the COVID-19 effect on the Pillar 2-R requirements.

- Taking into account the ordinary dividend payment in March, the issuance of Additional Tier 1 instruments and the planned increase in the countercyclical buffer to 2%, the Bank estimates that long-term excess CET1 capital is ISK 30-35bn.[3] Reduction in excess capital is due to strong and profitable loan growth in 2Q22. The Bank assumes that CET1 capital will be optimised before year-end 2023.

- At the end of 2Q22, the Bank's total capital ratio was 21.5% compared to 25.3% at YE21. The corresponding Tier 1 ratio was 19.2%, down from 22.5% at YE21. The CET1 ratio was 18.2%, compared to 21.3% at YE21. The change in capital ratios reflects the increase in the REA.

- Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 993bn at the end of 2Q22, compared to ISK 902bn at YE21. The rise in the REA is a result of the increase in loans to customers, loans to credit institutions and derivatives. More accurate data processing regarding off-balance sheet items and the SME factor led to a rise in the REA. The REA amounts to 69.1% of total assets at the end of 2Q22, compared to 63.1% at YE21.

- The leverage ratio was 12.5% at the end of 2Q22 compared to 13.6% at YE21.

MREL

- A recent decision by the EEA Joint Committee means that EEA states will have at least 3 years to implement MREL under BRRD 2. This will allow the Bank some headroom in which to issue covered bonds in foreign currencies as a complement to more expensive senior funding.

- In April, the Central Bank of Iceland resolution authority approved a resolution plan and a decision on the minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki. The MREL requirement is 21% of the Bank's Total Risk Exposure Amount (TREA) as of year-end 2020 and applies from the date of the announcement. Íslandsbanki is considered to fulfil the MREL requirement from the outset. Directive 2014/59/EU on Bank Recovery and Resolution (BRRD I) was incorporated into

[3] Based on long-term capital targets. This amount will fluctuate with net profits and changes in the REA.

Icelandic law with Act no. 70/2020. The subordination requirement provided for in Directive 2019/879/EU on Bank Recovery and Resolution (BRRD II) has not been defined.

Modest market risk profile

- The Bank's market risk derives mainly from aggregate balance sheet imbalances in interest rate, inflation and currency positions, as well as the Bank's liquidity portfolio, which is managed by Treasury.

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the end of June 2022, the Bank's consolidated net inflation imbalance amounted to ISK 7.3bn, compared to ISK 41m at YE21. The imbalances are managed via CPI-linked swaps, the issuance of CPI-linked covered bonds and CPI-linked deposit programmes.

- The currency imbalance was ISK -1.9bn (0.9% of the total capital base) at the end of June 2022, compared to ISK -327m (0.1% of the total capital base) at YE21. The Bank's imbalances are strictly monitored and are within regulatory limits.

Ratings

- S&P Global Ratings (S&P) affirmed Íslandsbanki's rating at BBB/A-2 with a stable outlook on 13 July 2022.

- In its report, S&P views economic risks facing Icelandic financial institutions as elevated as property prices have risen higher than fundamental determinants, which could occasion a risk of a disorderly correction with a heavy impact on the Icelandic banks. However, S&P notes that the tourism sector recovery continues which will improve corporate sector performance.

- S&P states that the rating agency could lower the ratings of the Icelandic banks if a rapid and severe correction would be seen in the housing market and also if capitalisation was expected to fall below a level considered to be very strong by S&P. The rating agency could raise ratings if the housing market correction risk would ease markedly, paired with stable and robust sector earnings. Likewise, S&P would look favourably to plans to build significant additional buffers of loss absorbing capital.

INVESTOR RELATIONS

An earnings conference call and webcast will take place on Friday 29 July 2022

The Bank will host an investor meeting and webcast in English for investors and market participants on Friday 29 July at 8.30 Reykjavík/GMT, 9.30 London/BST, 10.30 CET. CEO Birna Einarsdóttir and CFO Jón Guðni Ómarsson will give an overview of the second quarter financial results and operational highlights.

Participation is accessible **via this link**. A recording will be available after the meeting on the Investor Relations website. To participate in the webcast via telephone and to be able to ask questions please use the following dial-in details and ask to join Íslandsbanki 2Q22 call (no pin code necessary):

Iceland:	+44 1 212 818 004
Denmark:	+45 327 275 25
Sweden:	+46 8 505 100 30
Norway:	+47 210 358 72, participants have to press *0 to join the call
United Kingdom:	+44 1 212 818 004
United States:	+1 718 705 8796

Financial calendar

Íslandsbanki plans to publish its financial statements according to the financial calendar below:

3Q22 results – 27 October 2022
4Q22 results – 9 February 2023
Annual General Meeting – 16 March 2023
1Q23 results – 4 May 2023
2Q23 results – 27 July 2023
3Q23 results – 26 October 2023

Please note that the dates are subject to change.

Additional investor material

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