3Q24 Financial Results

23 October 2024

Jón Guðni Ómarsson
Chief Executive Officer

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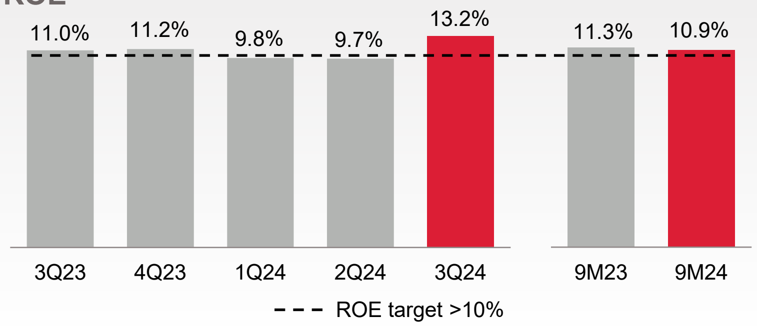
Chief Financial Officer

ROE for the first 9 months in excess of target

Growth in net fee and commission income as well as reversals of impairments contributing to profits

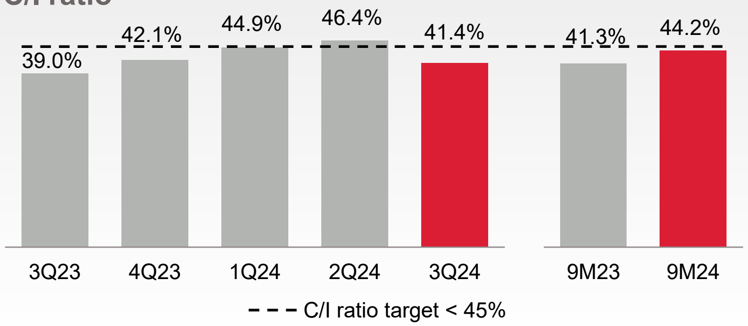
ROE for FY 2024 to be at guidance

ROE



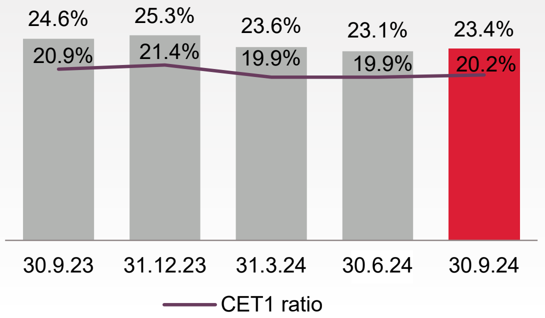
C/I ratio below target

C/I ratio[1]



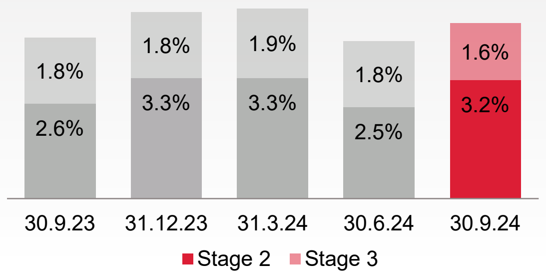
Considerable excess capital in place

Total capital ratio



Asset quality continues to be strong

Loans to customers: Stage 2 and 3 (NPL)



1. C/I ratio for 2Q24 excludes a charge of ISK 470m and C/I ratio for 4Q23 excludes a charge of ISK 100m related to an administrative fine.

23 October 2024

Capital optimisation includes additional share buybacks

Adverse effect from imbalances will likely cause ROE volatility in the coming quarters

	Target	3Q24	9M24
Return on equity	>10%	13.2%	10.9%
Cost-to-income ratio[1]	<45%	41.4%	44.2%
CET1 excess	100-300bp	480bp	
Dividend-payout-ratio	50%		

2024 Guidance

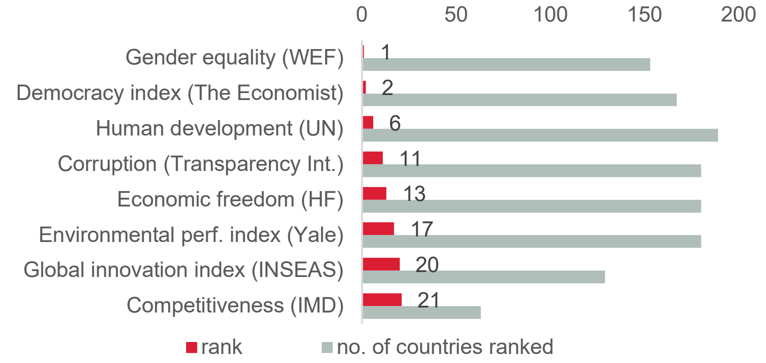
- Loans to customers and revenue, in general **to grow** in line with nominal GDP through the business cycle
- **ROE in 2024** expected to be ~10% for the year as a whole
- **C/I ratio** expected to be slightly in excess of 45% for the year as a whole, due to inflationary pressure, IT investments and loss related to CPI imbalance
- Dividend policy assumes **50% of earnings** to be paid to shareholders
- Distribution of excess CET1 capital in the amount of **ISK 10bn** throughout 2024 through share buybacks
- Capital optimisation to be concluded before YE25, subject to market conditions

1. C/I ratio for 9M24 excludes a charge of ISK 470m related to an administrative fine.

The Icelandic economy and society draw on many strengths

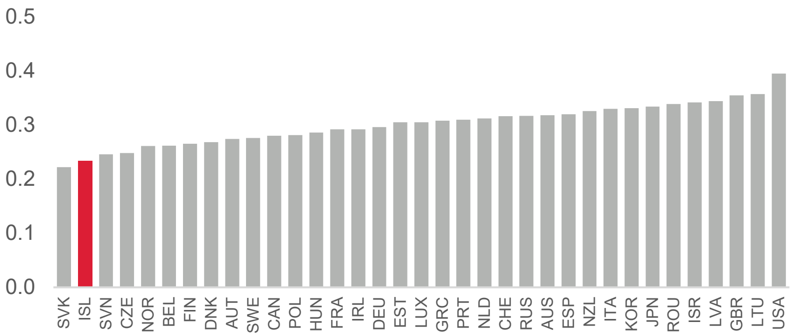
Icelanders enjoy high standards of living in a modern, open and egalitarian society

Iceland ranks highly on a variety of global development benchmarks



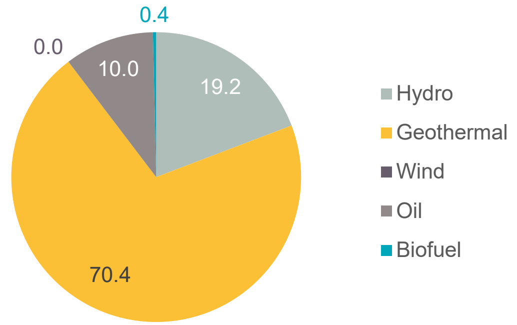
Income inequality is low compared to OECD peers

Gini coefficient, OECD, most recent data available



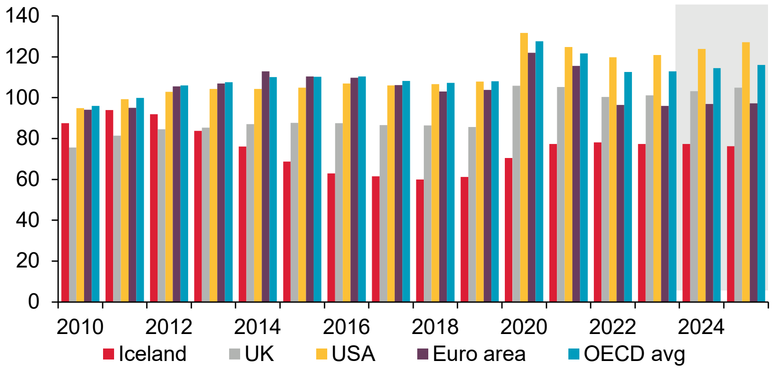
Sustainable energy usage is prevalent

Energy consumption by source, 2020



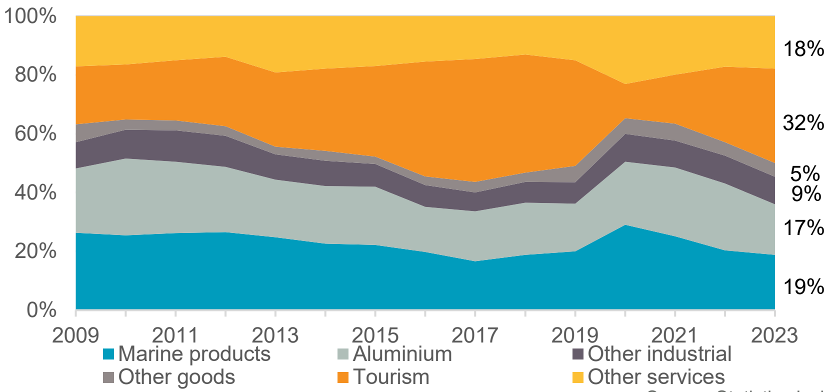
Public debt remains sustainable after pandemic

General govt. gross financial liabilities, % of GDP



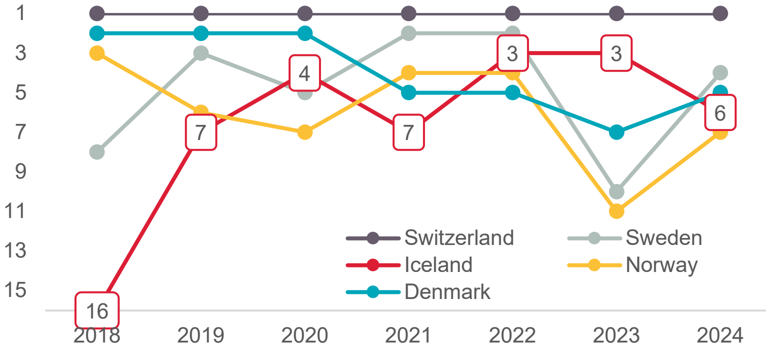
Export base has grown more diverse over time

Export contribution by industry



Iceland ranks highly in attracting/retaining talent

IMD World Talent Ranking 2018-2024



Shaded area denotes OECD forecast

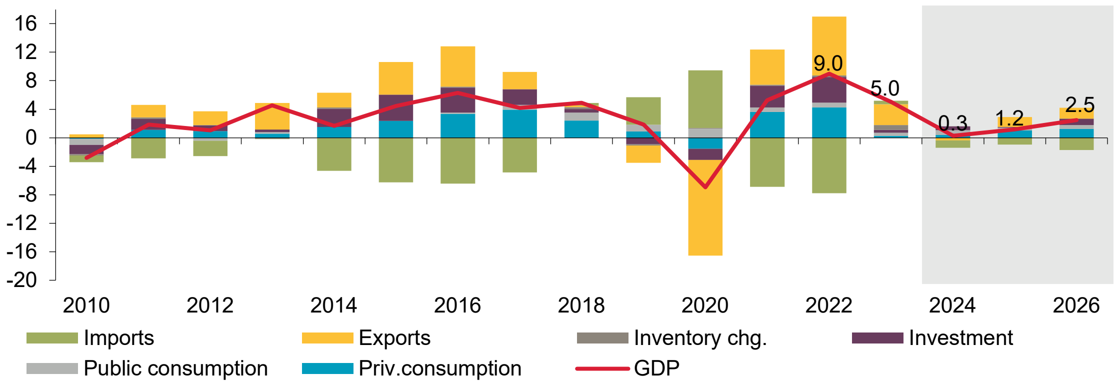
Source: Statistics Iceland, OECD, IMF, WEF, IEP, The Economist, UN, Transparency Int., HF, Yale, IMD, INSEAS

Autumn takes hold in the economy

Tepid GDP growth in 2024, followed by steadily accelerating growth later on

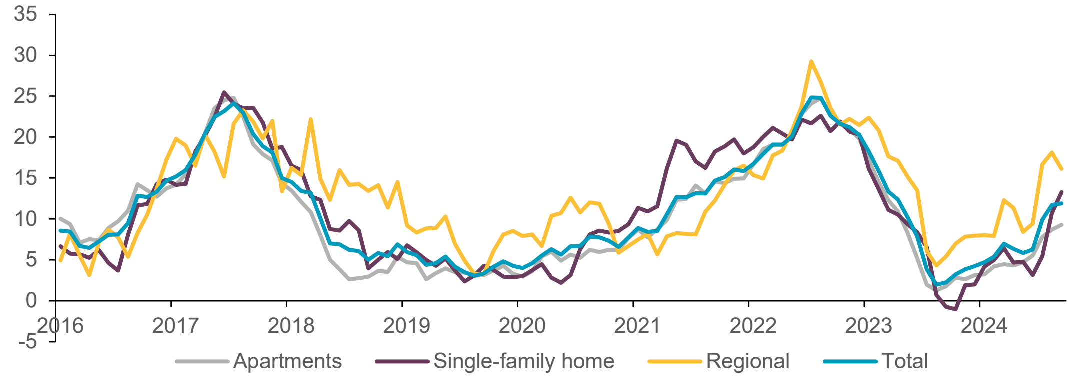
Tepid economic growth this year, but likely to gain pace in coming years..

Real GDP and main subitems, YoY change, %



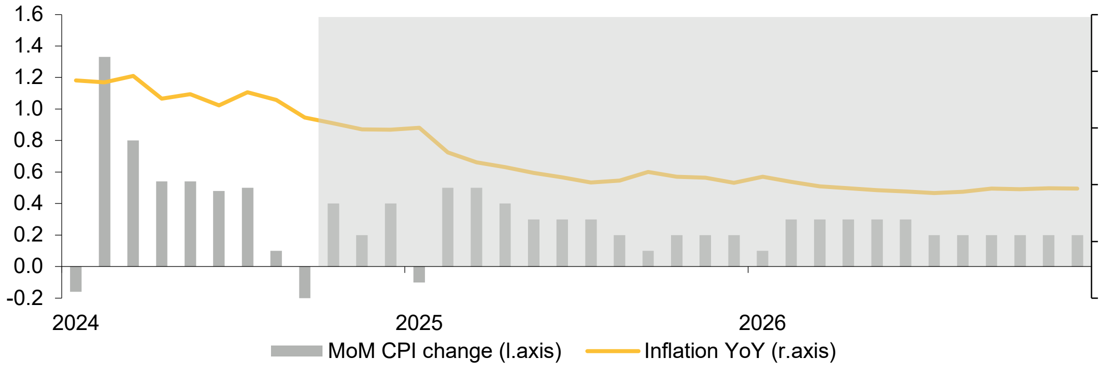
..and housing market remains resilient in the face of tight monetary policy

Year-on-year increase in residential house prices



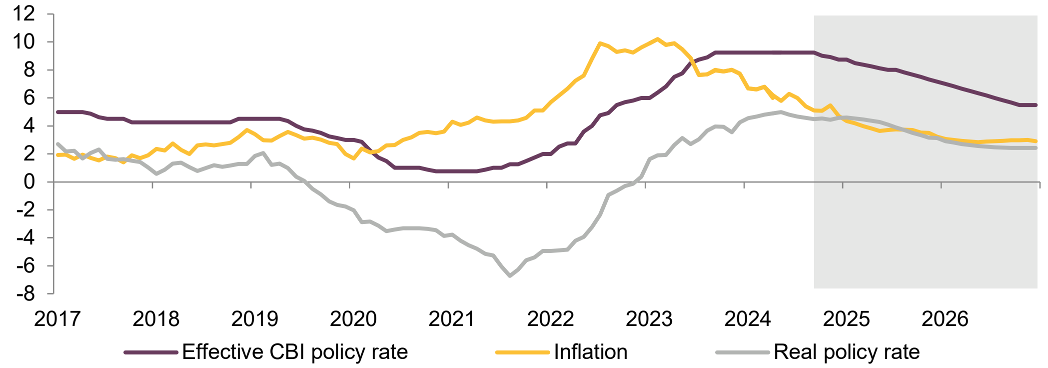
Persistent inflation looks set to keep subsiding in coming quarters…

MoM CPI change (%, left axis) and 12m trailing inflation(%, right axis)



… facilitating further gradual rate cuts by the Central Bank

CBI policy rate and real policy rate, %



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

Accounting platform **PayDay integrated into app** allowing clients to **create an invoice from app**

Resolution Plan approved and decision on **MREL at 19.6%** of REA

Biometric authentication launched in the app for payments

Market share amongst SMEs within the capital area is strong at 39%[1]

Íslandsbanki third quarter 2024

ISK 257 million raised for charities during Íslandsbanki Reykjavík Marathon **– a new record**

FINANCIAL • EMOTIONAL • PHYSICAL
100% Health

89% of key products in Personal Banking sold in digital channels

The Bank is a key financing partner for hydro power projects in northern Iceland

Ability to view status of pension savings in app

Highest turnover in equities on Nasdaq Iceland YTD

Íslandsbanki Corporate Finance has been entrusted with the management of the sale process of Olíudreifing ehf.

The internal chatbot SAM went live with Quality Manual integration to follow soon

1. Average market share from Gallup's last four corporate surveys, the most recent one conducted in 3Q24.

FINANCIAL • EMOTIONAL • PHYSICAL
100% Health

Wealth creation by supporting good financial habits of our customers

- Digital development is at the forefront
- Our digital solutions promote and support the financial health of our customers
- Íslandsbanki is a leading force in financial education promoting financial literacy

FINANCIAL

Emotional health is key for a successful workplace

- Emotional wellbeing is at the core of the Bank's human resource policies
- Access to external resources and services to enhance wellbeing of employees
- Working environment that promotes growth
- Regular workplace assessment carried out giving employees opportunity to voice their opinion
- Seminar and workshops on emotional wellbeing held throughout the year

EMOTIONAL

Physical health promoted in many ways

- Íslandsbanki Reykjavík Marathon remains a key fundraising event for charities
- ISK 257 million raised by participants this year – a new record
- Great turnout by employees and other stakeholders
- Other physical health initiatives promoted amongst employees

PHYSICAL

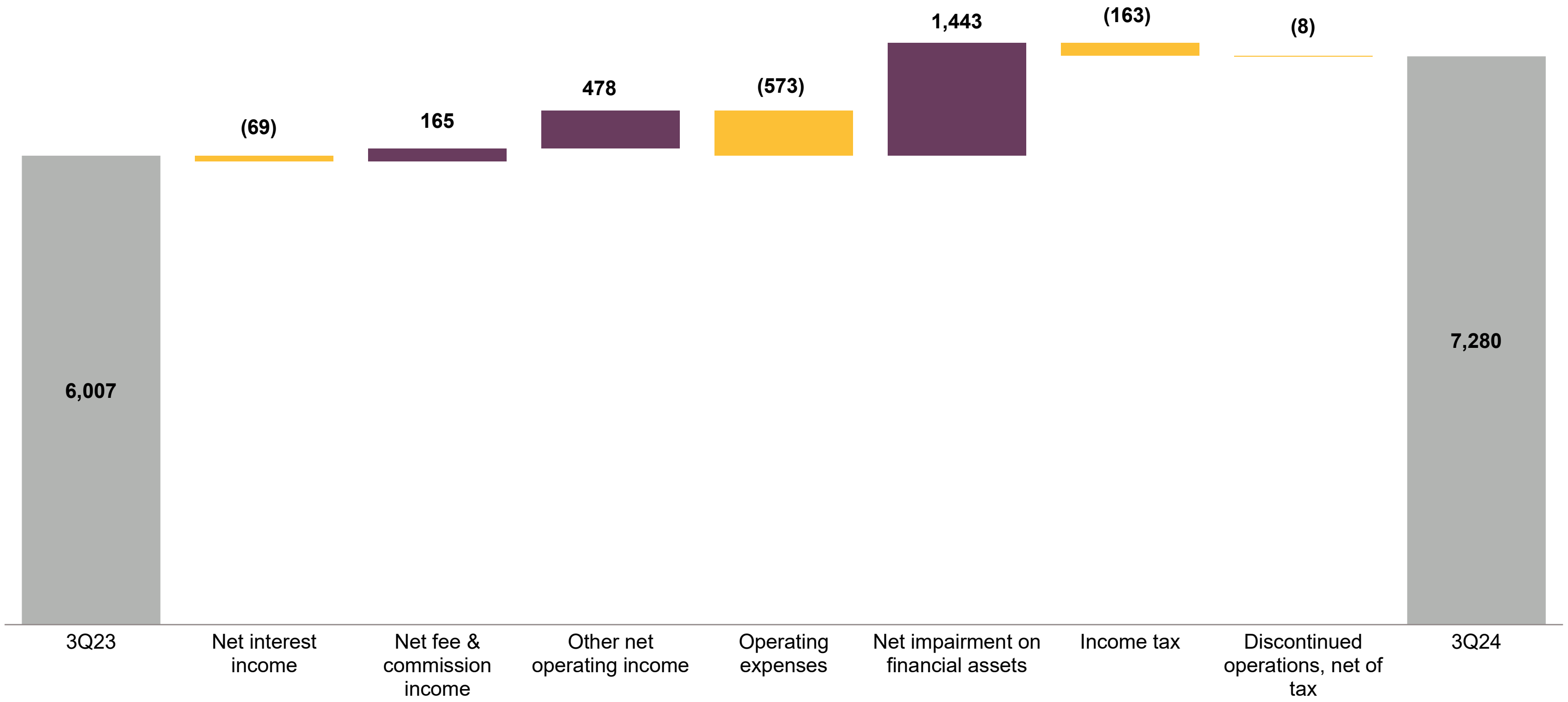
Financial overview

23 October 2024

Profit before tax considerably ahead of analyst consensus

Key drivers of this quarter's results: Loss from CPI imbalance, inflation and impairment reversals

Profit for the period – 3Q23 vs 3Q24
ISKm



Reduced inflation resulted in lower lending margin

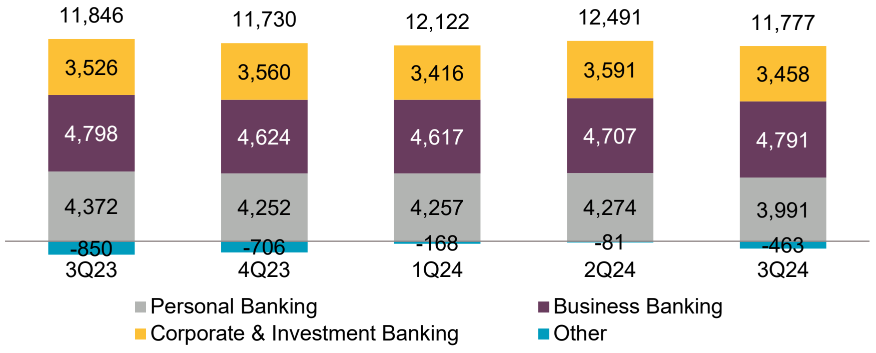
Reducing fixed rate imbalance to offset CPI imbalance pressure with time

Highlights

- Lending margin was 1.6% in 3Q24 (1.8% in 3Q23)
- Deposit margin was 1.9% in 3Q24 (2.0% in 3Q23)
- Net interest margin was 2.9% in 3Q24 (2.9% in 3Q23)
- CPI imbalance end of 3Q24 amounted to ISK 215bn compared to ISK 204bn end of 2Q24
- Inflation forecasted to subside further in 4Q24 and reach 5.1% at year-end. Assuming forecast to realise, inflationary ticks accounted for in 4Q24 would add up to 0.36% compared to 1.04% in 3Q24
- Nominal fixed rate imbalance continues to subside and provides margin uplifts

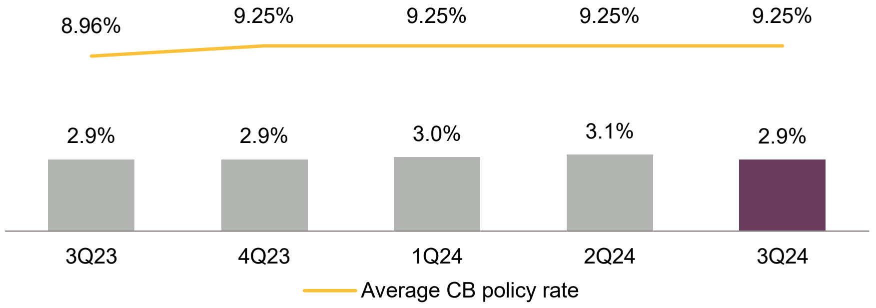
Net interest income

By business segments, ISKm



Net interest margin

On total assets



Net interest income – YoY comparison

ISKm

Growth in NFCI from previous two quarters

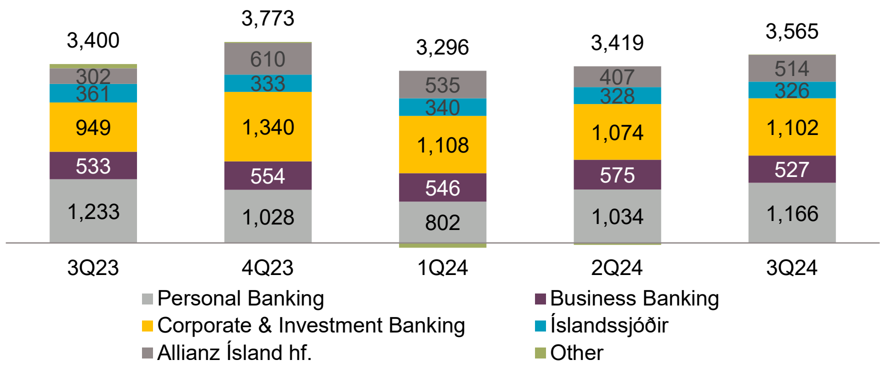
Capital markets showing signs of recovery, paving the way for continued growth

Highlights

- Net income from cards and payment processing remains the largest NFCI contributor while income related to capital markets may remain pressured
- Alllianz Ísland hf., a subsidiary of the Bank, remains, as in recent quarters, a strong contributor to the Group's net fee and commission income
- Capital market sentiment expected to turn and markets to recover with continuing policy rate cuts – which paves the way for growth in IB and AM
- Further, increased activity on the lending side is expected with lower rate environment, providing growth in fees related to loans and guarantees

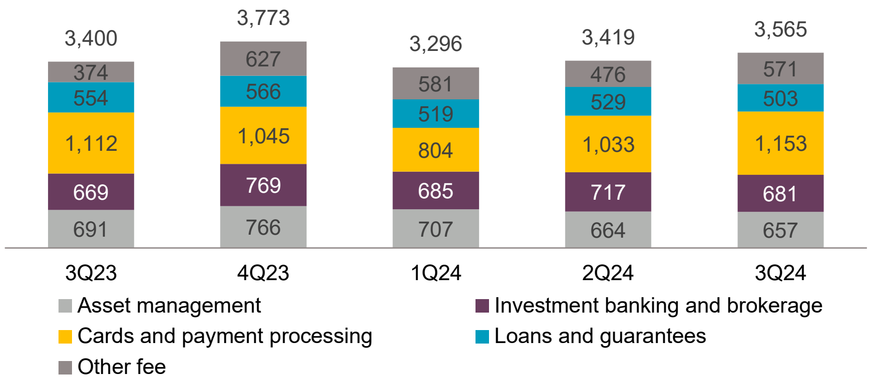
Net fee and commission income

Business segments, ISKm



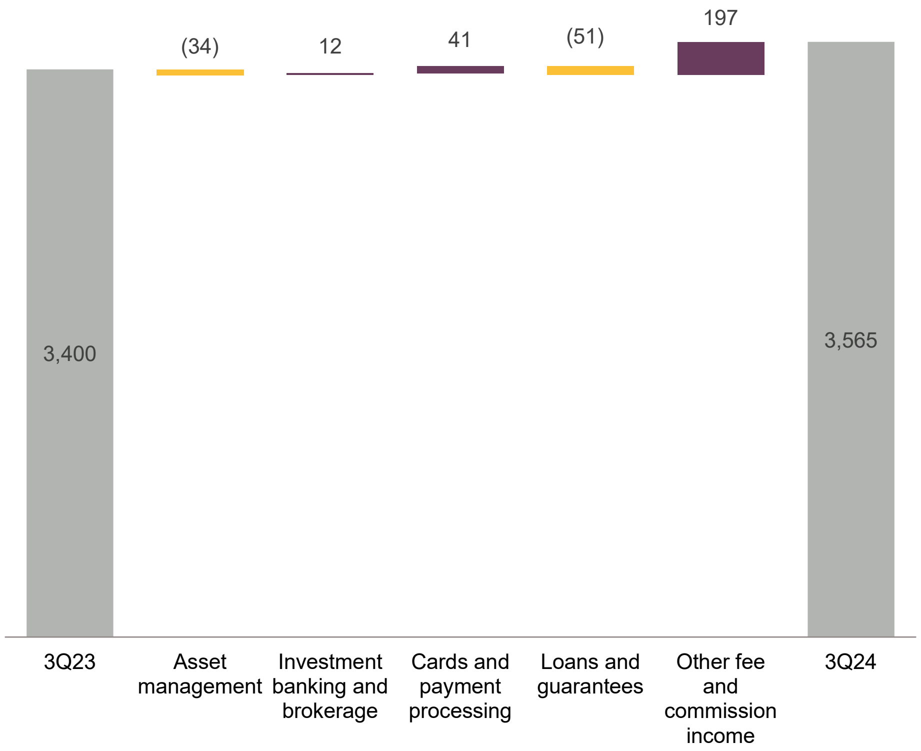
Net fee and commission income

By type, ISKm



Net fee and commission income – YoY comparison

ISKm



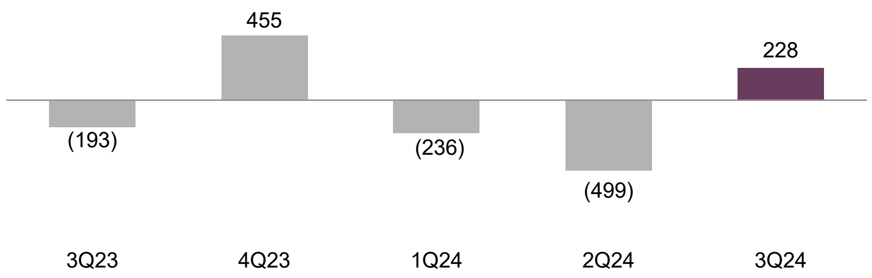
Limited market risk exposure on the Bank’s balance sheet

Volatile markets continue to affect NFI

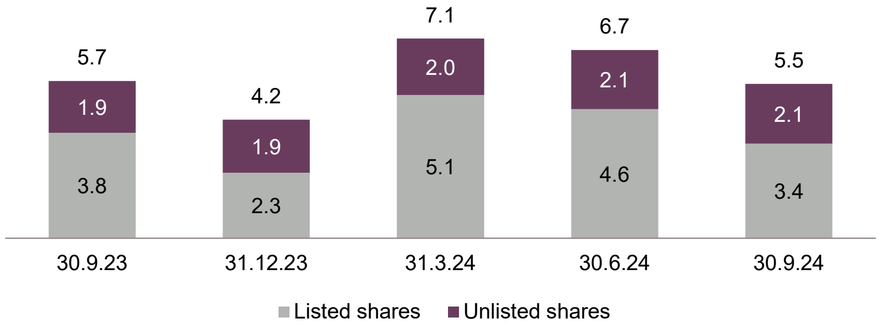
Highlights

- As in recent quarters, the Bank has limited equity risk on its books amounting to ISK 5.5bn excluding economic hedges
- Favourable market development yielded capital gains on equity during the quarter
- Reduced liquidity book size in FX mainly related to repurchase of EUR 300m note end of June 2024
- Favourable movements of bond yield curves as well as strategic changes to investments in the liquidity book yielded capital gains during the quarter

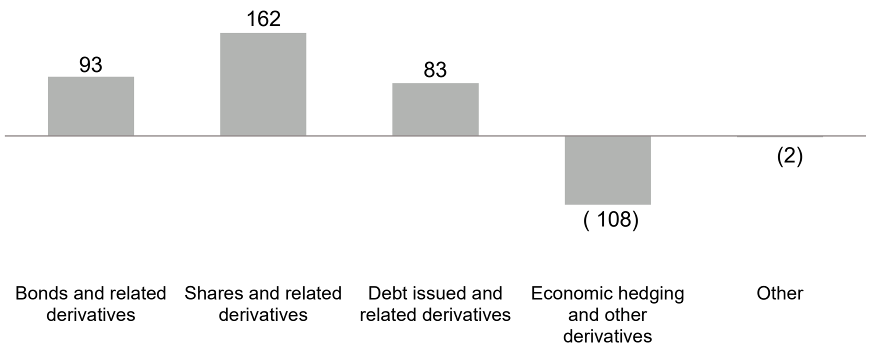
Net financial income (expense)
ISKm



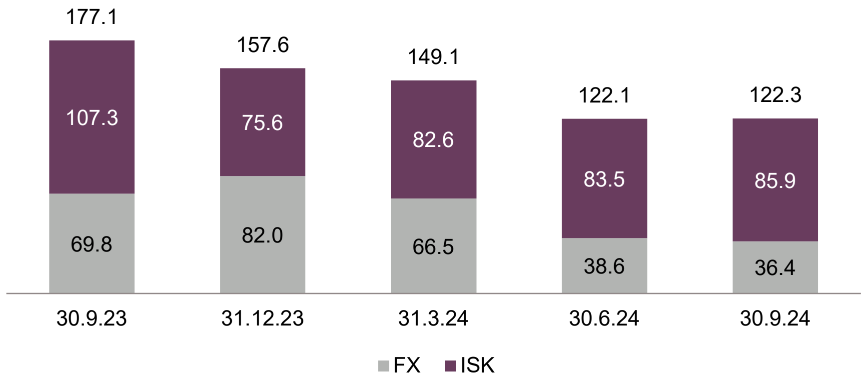
Shares and equity instruments[1]
ISKbn



Net financial income (expense) by type in 3Q24
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.

Cost-to-income for the first nine months 44.2% and below target

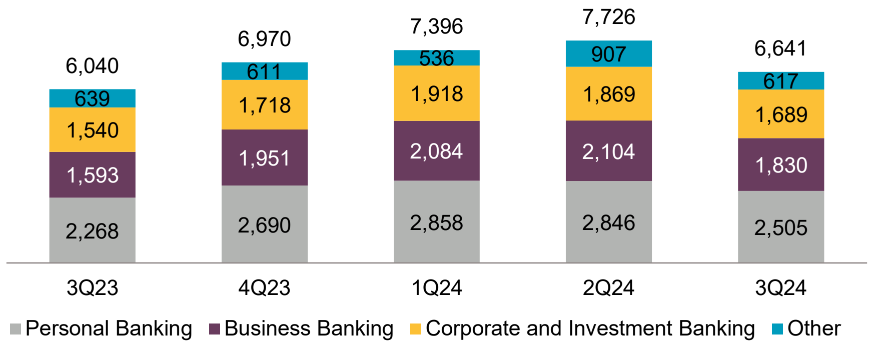
Inflation and continued investments in IT main remain largest contributors albeit seasonal fluctuations

Highlights

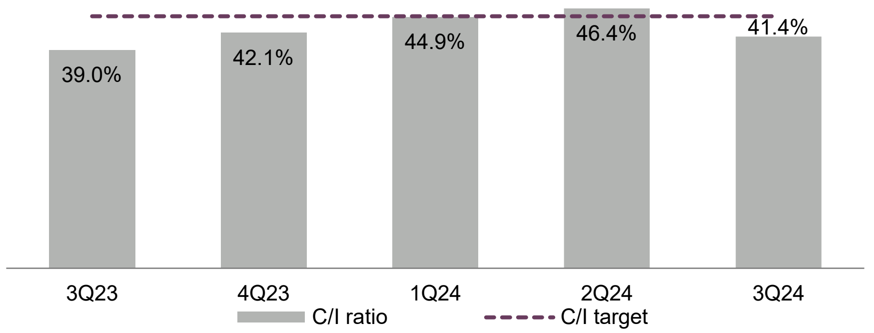
- Cost-to-income traditionally lower in third quarter compared to other quarters due to accrual of holiday leaves and less overall activity
- Number of FTEs within the Group were 783 at the end of 3Q24 compared to 756 at the end of 3Q23 – related to strengthening of regulatory infrastructure and services
- Salaries and related expenses increased by 12.9% quarter-on-quarter, but by 8.5% year-on-year for the first nine months
- Other operating expenses rose by 6.2% compared to 3Q23. As in previous quarters, inflation and continued investments in IT are the main contributors

Administrative expenses

ISKm

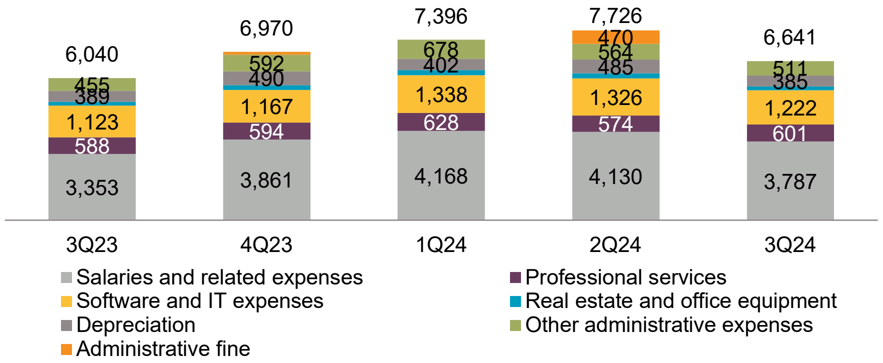


Cost-to-income ratio[1,2]



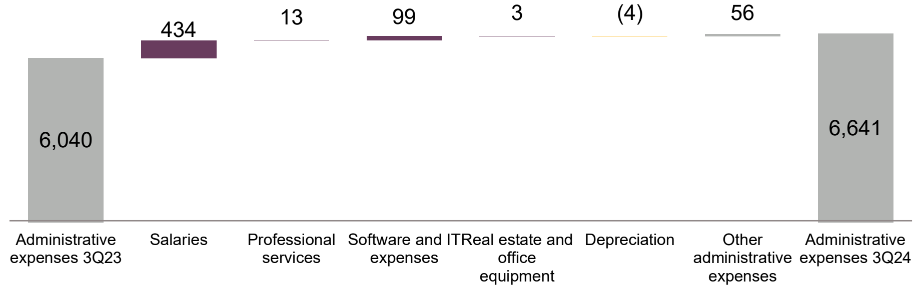
Administrative expenses – by type

ISKm



Administrative expenses – YoY comparison

ISKm



1. Calculated as (Administrative expenses – one off items) / Total operating income – one-off items). 2. C/I ratio for 2Q24 excludes a charge of ISK 470m and C/I ratio for 4Q23 excludes a charge of ISK 100m related to an administrative fine.

LTVs flat while lending growth moderates

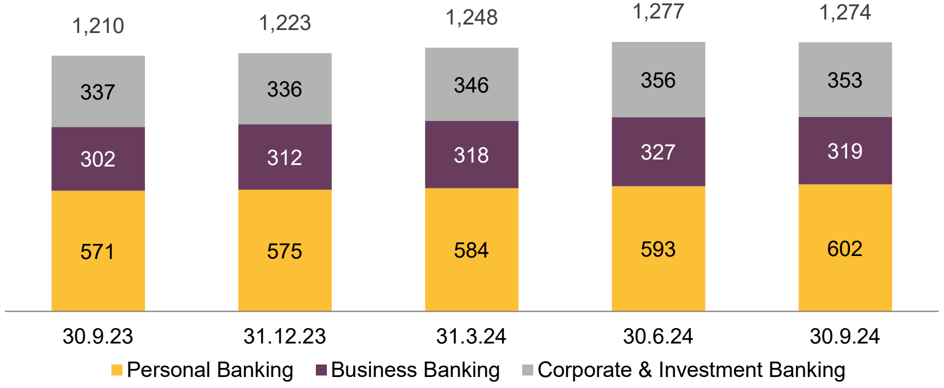
Loan portfolio focused on lower risk customers and over 94% covered by collateral

Highlights

- Mortgages remain the largest sector in the portfolio or 44%
- LTV across all types of security at the end of the third quarter was 56% - comparable to previous quarters
- Credit exposure fully covered by collateral is ISK 1,192bn or 94% of loans to customers
- The credit quality of assets continues to be robust due to strong risk management practices and conservative lending policies

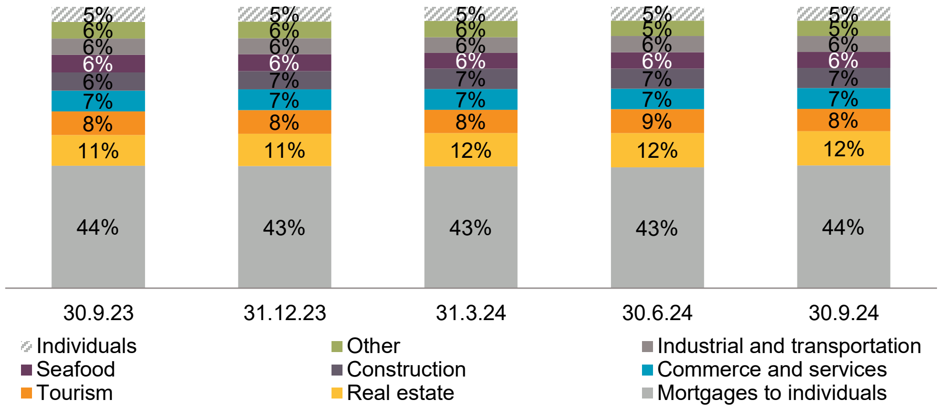
Loans to customers

By business division, ISKbn



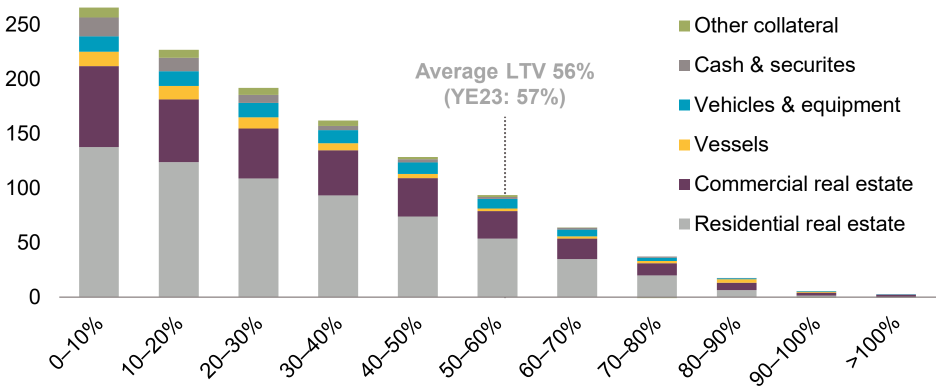
Loans to customers

By sector, with tourism as a separate sector



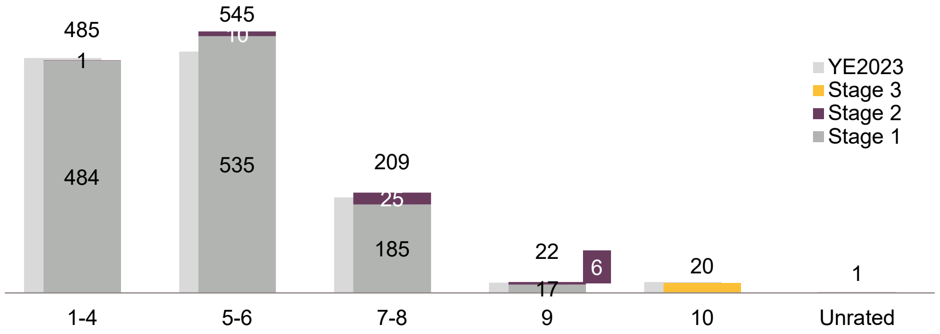
LTV distribution by underlying asset class

30.9.24, loan splitting approach, ISKbn



Loans to customers: gross carrying amount[1]

30.9.24, risk class and impairment stage, ISKbn



1. Risk class distribution at YE23 shown as comparison

23 October 2024

Asset quality remains strong across the board

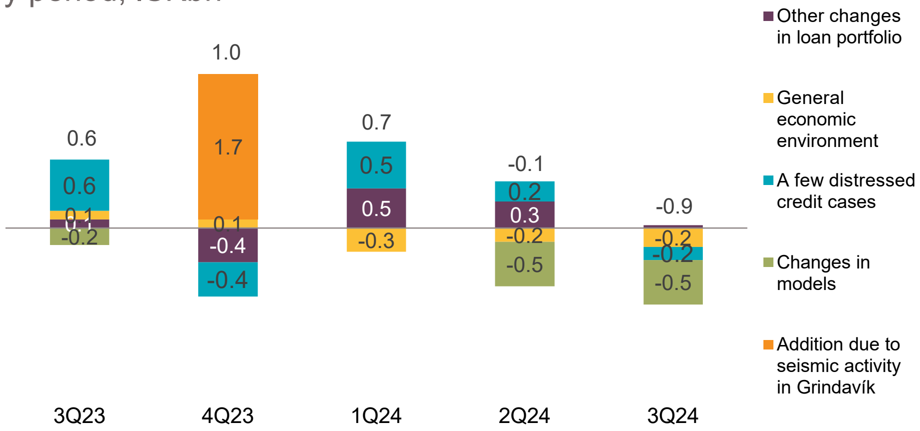
Stage 3 declines while increase in Stage 2 loans is related to a handful of distressed cases

Highlights

- During the quarter, recalibration of LGD models led to an ISK 0.5bn reversal of net impairment
- Increase in Stage 2 is primarily attributed to a handful of credit cases. Performing loans with forbearance decreased at the same time due to a credit case no longer being subject to the probation period
- Reserve coverage ratio (RCR) for impairment allowance in Stage 3 was 21.3% at end of 3Q24 reflecting good collateral position
- The definition of forbearance includes a 24-month probation period. Therefore, loans are classified as forborne even after normal payments have resumed
- The Group continues to use temporary overlay to the impairment model due to seismic activity

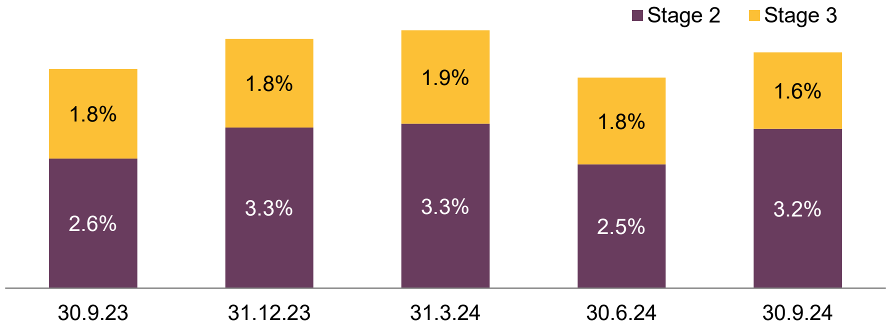
Net impairment on financial assets

By period, ISKbn



Loans to customers: Stage 2 and 3 (NPL)

Development of gross carrying amount as ratio of total loans

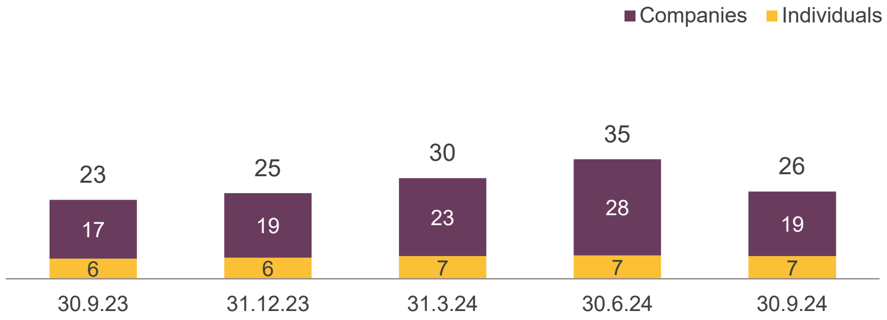


Current and expected cost-of-risk

- Annualised cost of risk was -27bp in 3Q24 (19bp for 3Q23).
- Annualised cost of risk was -3bp for 9M24 (0bp for 9M23)
- The probability weights of economic scenarios were kept unchanged at 20% (good), 50% (baseline), and 30% (bad) at the end of 3Q24. The weights were last changed at end of 1Q22.
- A shift of 5% from baseline to the bad scenario would increase the impairment allowance by ISK 350m while 5% shift from the baseline to the good would decrease the allowance by ISK 150m.

Performing loans with forbearance

Gross carrying amount, ISKbn



Well collateralised mortgage book with stable NPLs

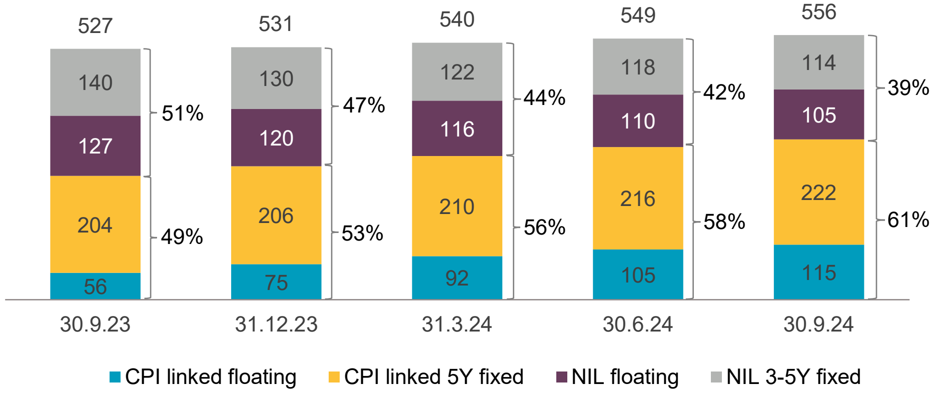
Continued shift to CPI-linked loans while fixed rate imbalance subsides in the banking book

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)
- Using the loan-splitting approach, over 98% of the gross carrying amount is below 80% LTV and 87% is within the 55% LTV range
- Ongoing growth in CPI-linked loans due to higher interest rate environment and increase in variable NIL mortgage rates as customers are managing their payment profile

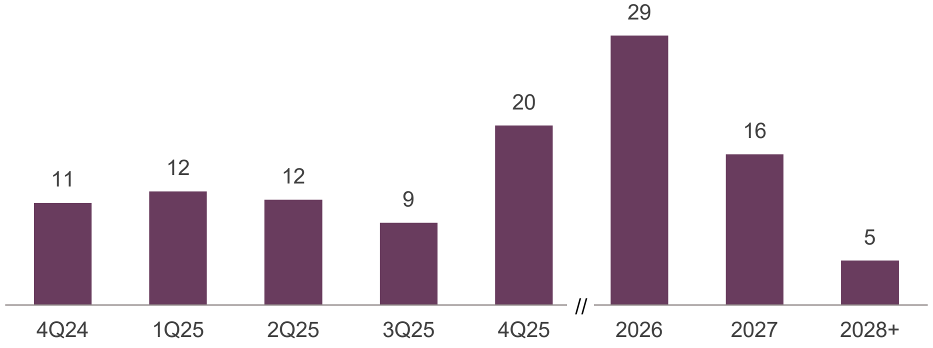
Mortgage portfolio

By interest rate type, gross carrying amount, ISKbn



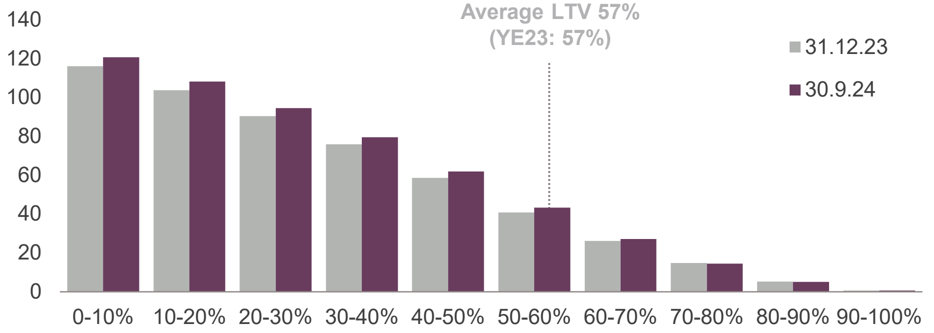
Interest rate reset profile for NIL 3-5y fixed rate mortgages

Gross carrying amount, ISKbn



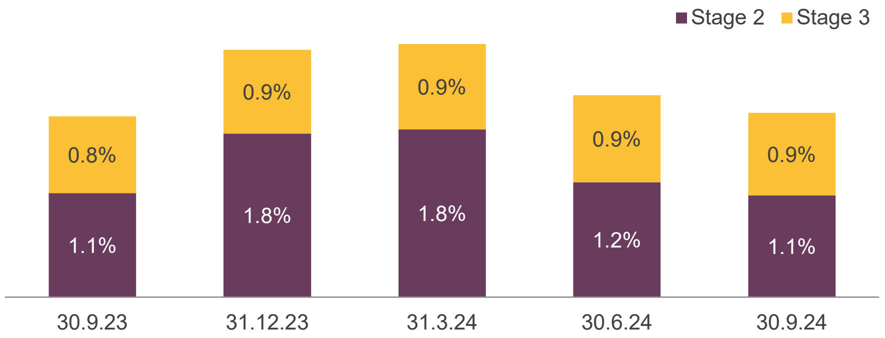
LTV distribution of mortgages

Gross carrying amount, loan splitting approach, ISKbn



Mortgages portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of total mortgages



CRE portfolio well diversified and of good quality

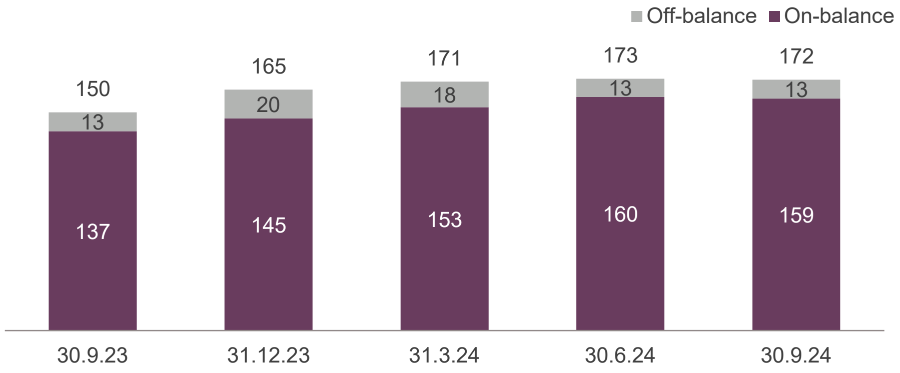
Continuing reduction in Stage 3 quarter by quarter for the last year

Highlights

- Loans to real estate companies and construction amount to 12% and 7% of loans to customers, respectively
- Disciplined origination with conservative LTV requirements and debt service criteria
- Real estate companies use primarily CPI-linked rental agreements as a form of hedging and have long-term financing to minimise influence of short- term changes in market value of real estate
- High occupancy ratio of the listed commercial real estate companies of around 95%
- Over half of exposure in the construction sector is for residential real estate
- All construction loan commitments are disbursed in line with construction progress as monitored by the Bank or its representatives

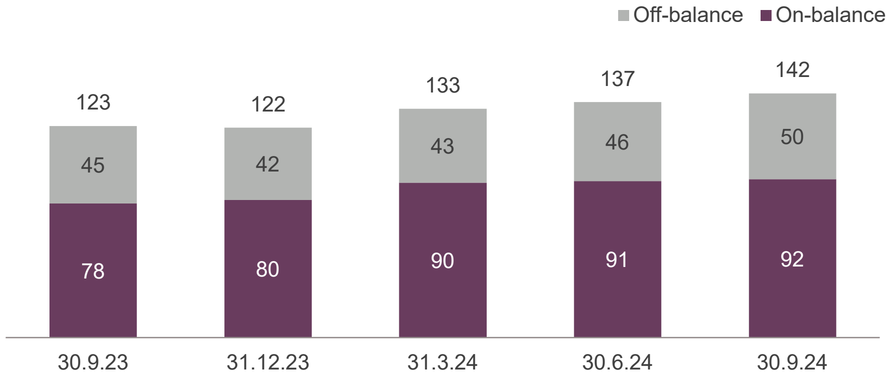
Development of exposure to real estate companies

Gross carrying amount by period, ISKbn



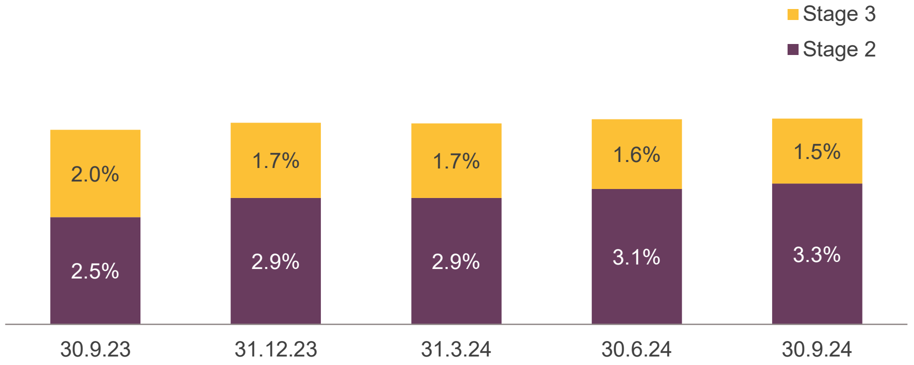
Development of construction exposure

Gross carrying amount by period, ISKbn



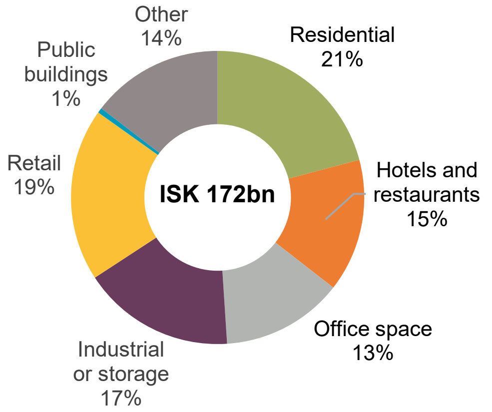
Real estate portfolio: Stage 2 and 3 (NPL)

Gross carrying amount as ratio of the real estate portfolio



Real estate collateral by type

30.9.2024



Growth in retail deposits continued in 3Q24

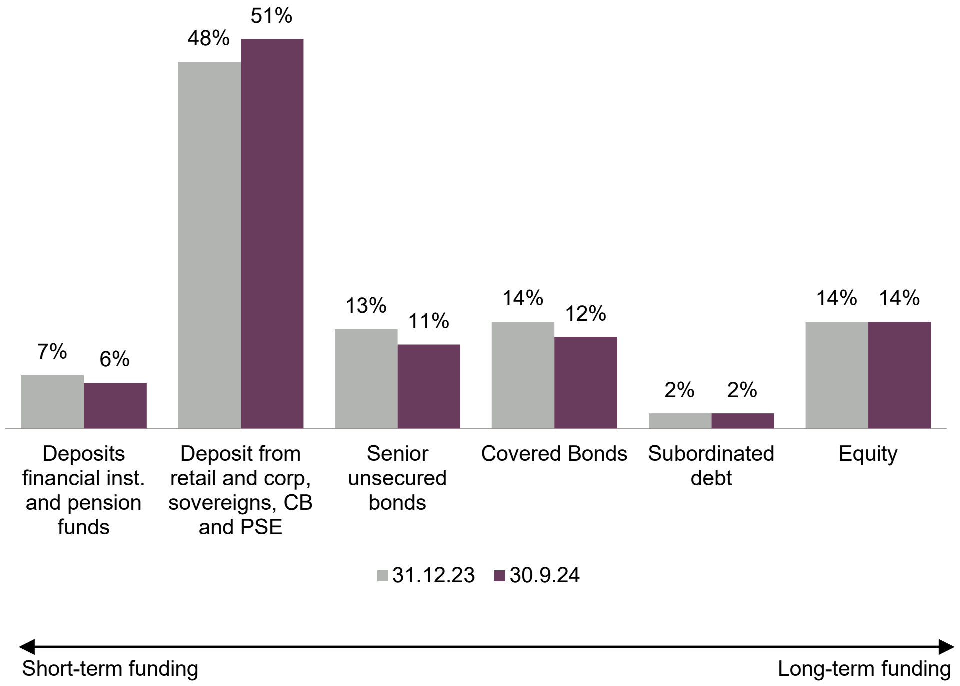
Deposits remain the largest funding base for the Bank, in excess of 50%

Highlights

- Retail deposits (individuals and SMEs) grew by 3.9% in 3Q24
- Term deposits were 19% of total deposits at the end of 3Q24
- Deposit concentration decreasing, 9% of deposits belonged to the 10 largest depositors and 24% to the 100 largest, compared to 10% and 26% respectively at YE23
- A detailed split of the deposit base and LCR is provided in the Additional Pillar 3 Disclosure, providing investors with the necessary information to perform their own stress tests on deposits
- 72% of deposits held by individuals (across business segments) and 47% of all deposits covered by deposit guarantee scheme

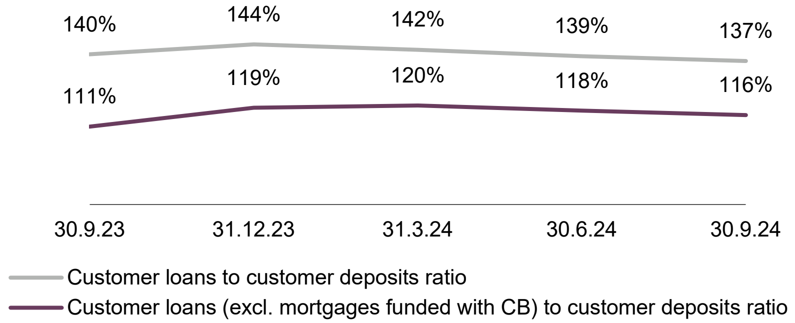
Funding sources

By type, % of total liabilities and equity



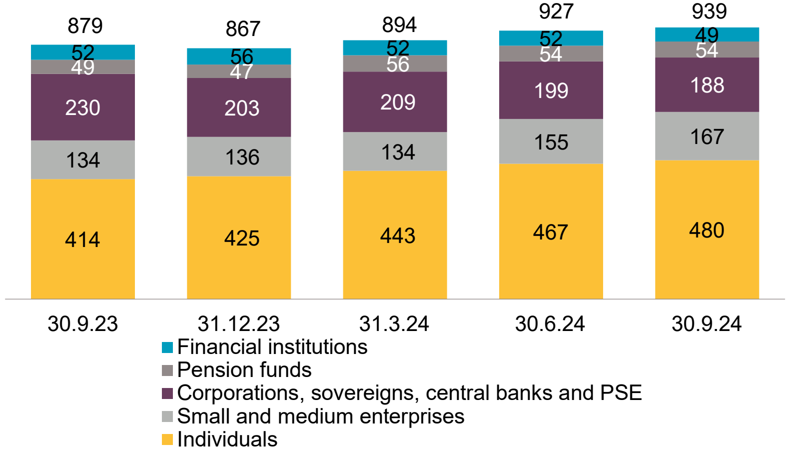
Customer loans to customer deposits ratio

Development, %



Deposits from customers and credit institutions

Development, by LCR category, ISKbn



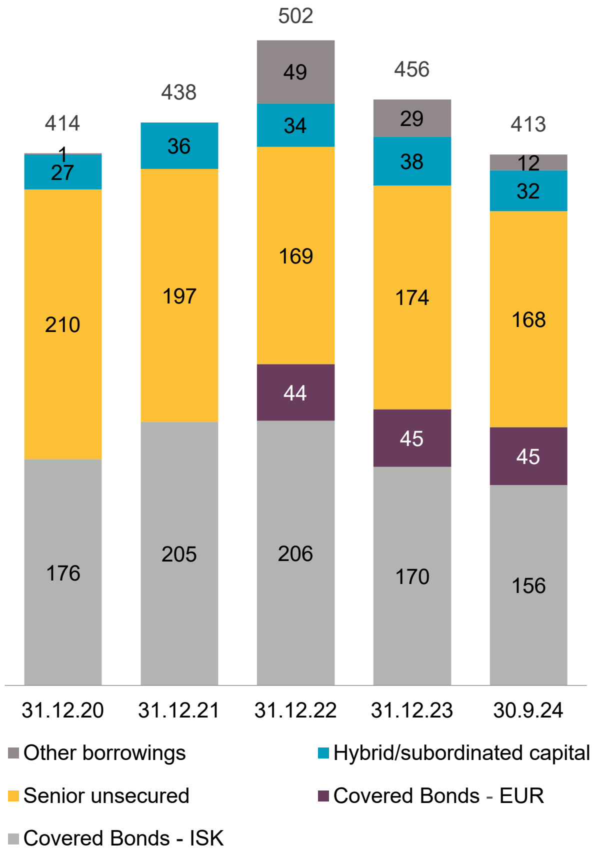
Light maturity profile will allow opportunistic issuance

Continued tightening of spreads in the international markets throughout 2024

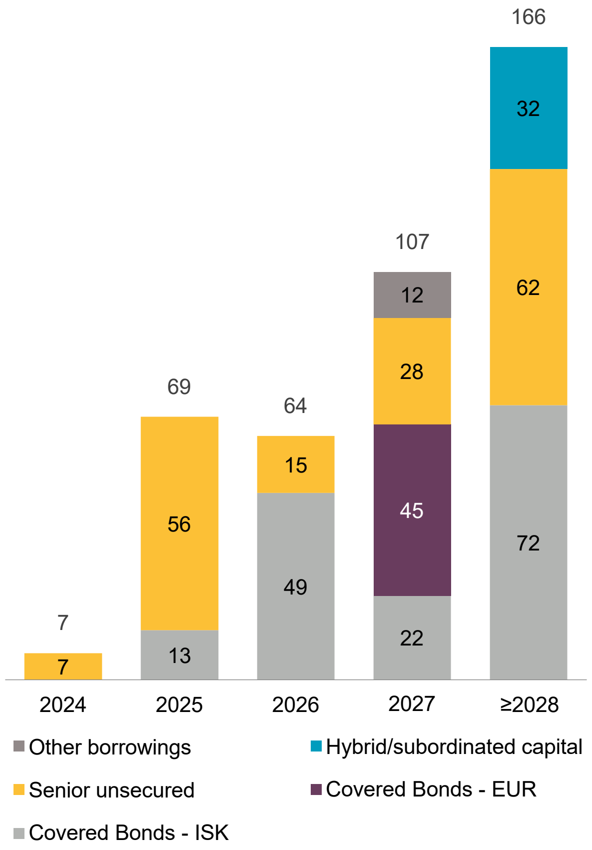
Highlights

- During 3Q24 the Bank issued ISK 5bn of covered bonds in the domestic market
- In June the Bank tendered its EUR 300m 7.375% bonds due May 2026. The tender attracted a 91% take-up, thus allowing the Bank to exercise its right to repurchase the remaining EUR 27m in July
- Low maturities throughout 2026 allow the Bank to remain an adaptive issuer in capital markets

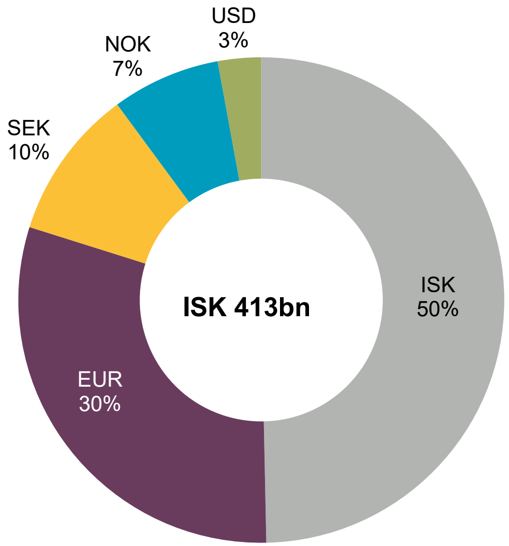
Sources of borrowings
Development, ISKbn



Contractual maturity profile of borrowings
30.09.24, ISKbn



Currency split of borrowings
30.09.24



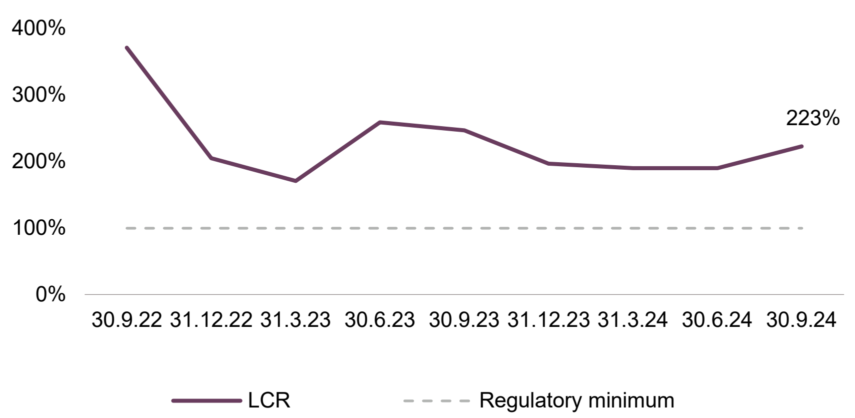
Strong liquidity position, ratios well above requirements

Liquid assets rising to 19% of total assets following a reduction in 2Q24 due to repurchase of EUR note

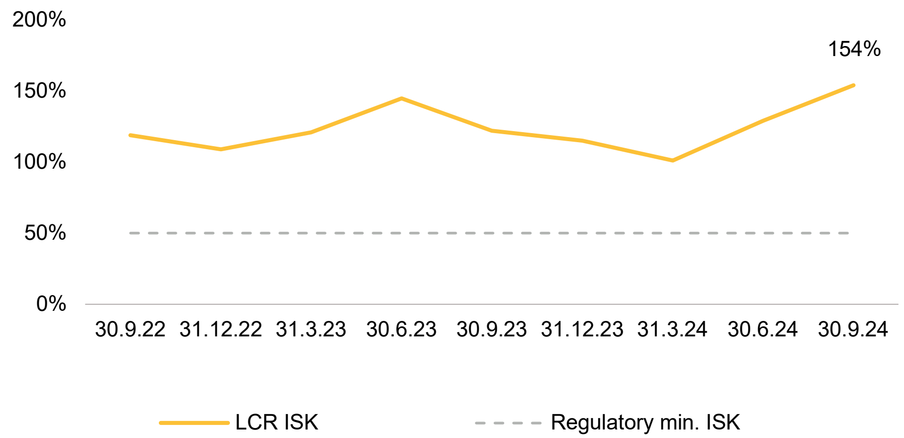
Highlights

- All liquidity measures above regulatory requirements
- Total LCR at 223% and NSFR at 126% for all currencies
- The Bank's EUR LCR at the end of 3Q24 was 621%
- Liquidity in domestic currency in 3Q24 rising mostly due to significant increase in deposits
- The securities portfolio is all MtM (FVTPL and FVOCI). There is no unrealised loss due to HtM (amortised cost)
- IRRBB is carefully monitored and managed. The Bank is fully compliant to the supervisory outlier test

Total liquidity coverage ratio (LCR)

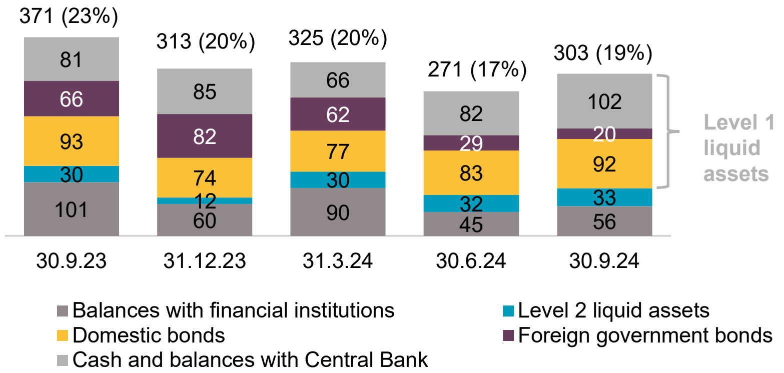


Liquidity coverage ratio for ISK

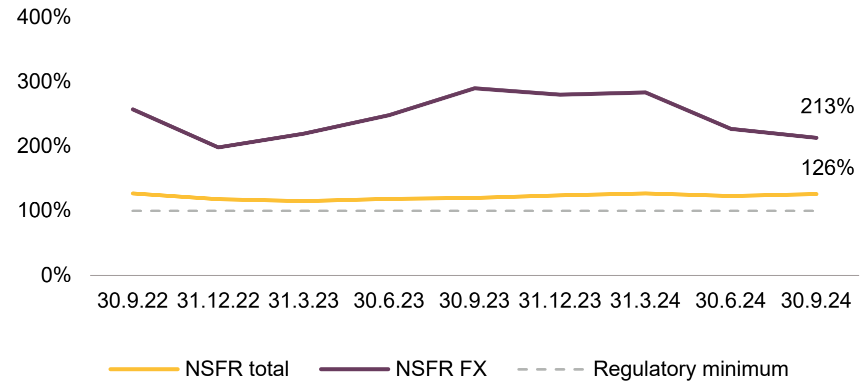


Liquid assets

% of total assets, ISKbn



Net stable funding ratio (NSFR)



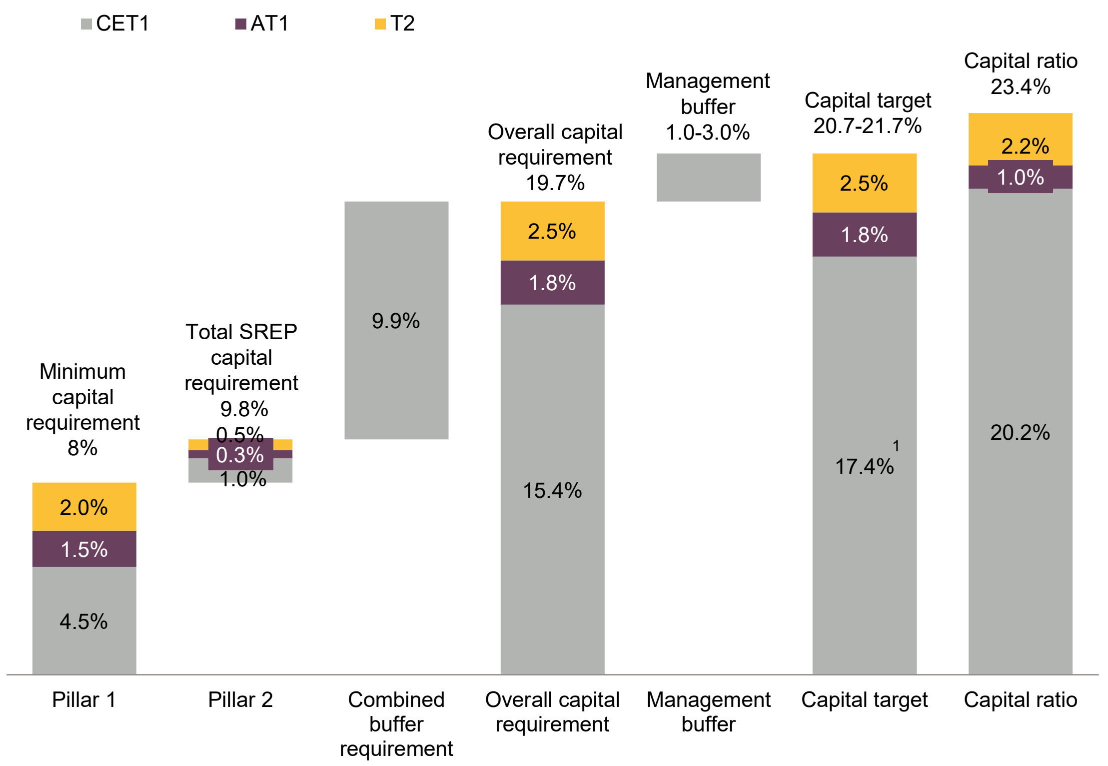
Capital position considerably in excess of targets

Capital optimisation to be completed before year-end 2025 subject to market conditions

Highlights

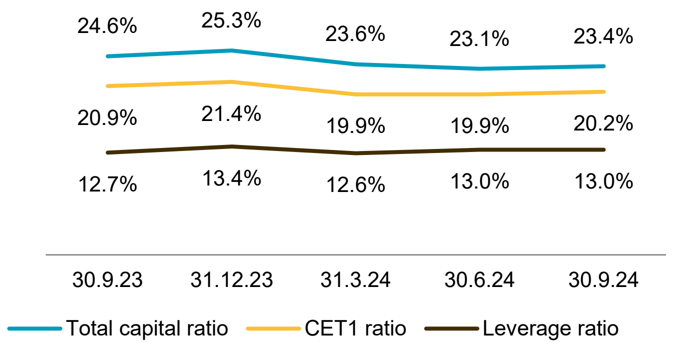
- SREP: As of 30 June 2024, the Bank must maintain an additional capital requirement of 1.8% of the REA, 0.6 percentage points less than in the previous assessment
- The combined buffer requirement is 9.9%, resulting in an overall capital requirement of 19.7%
- Íslandsbanki's total capital target ratio is based on the overall regulatory requirement in addition to a 100-300bps management buffer and is therefore currently at 20.7-22.7%
- At end of 3Q24 MREL ratio for the Bank, including the CET1 capital held to meet the combined buffer requirement (CBR), stood at 35.6% (610 bps above requirement)
- Excess CET1 capital based on long-term CET1 capital target is ISK ~28bn, excluding already approved buybacks and estimated dividends according to dividend policy
- Implementation of CRR3 in 2025 expected to reduce REA by up to 4% at implementation and grow slightly through 2025, thus providing additional capital distribution or growth capacity

Current regulatory requirements and minimum capital target
30.9.2024, by capital composition

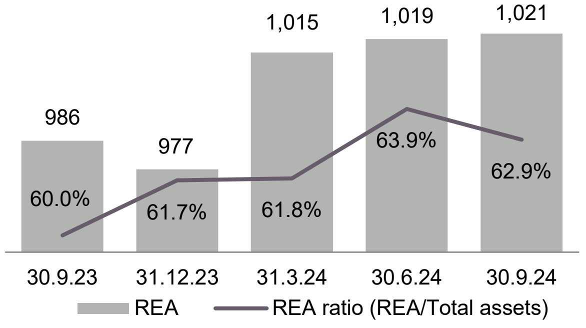


[1]CET1 capital target set at mid-point of management buffer

Capital and leverage ratios
% of REA (% of total exposure for leverage ratio)



REA ratio, ISKbn
% of total assets



ROE considerably in excess of analyst consensus

Key drivers of this quarter's results: Loss from CPI imbalance, inflation and impairment reversals

ROE for the first 9 months in excess of guidance

- Although ROE for the first nine months stands at 10.9%, full year results to be at guidance
- NII adversely effected by subsiding CPI during the quarter, while NFCI grows Q-on-Q
- Cost-to-income ratio lower due to seasonal effects in operations and expected to be slightly in excess of target for the full year
- High asset quality resulted in impairment reversals and lowering of NPL Q-on-Q

Policy rate cuts to continue as inflation subsides

- Negligible GDP growth in 2024 followed by gradual pickup in growth in coming years
- Private consumption stable as savings increase once more
- Inflation has declined meaningfully in recent months and further abatement is expected in coming quarters
- Policy rate cut process has started and is expected to gain pace in the near term

Íslandsbanki is well placed for future growth

- Rigid credit culture continues to yield high asset quality across the board
- Strong market share in corporates and investment banking provide opportunities through the rate cut cycle
- High liquidity and light maturity profile allows the Bank to be opportunistic for its funding needs

Capital optimisation before year-end 2025

- Capital optimisation may entail organic or external growth, and/or distributions through formal buyback programs, reverse tenders or extraordinary dividends.
- Strong capital position and liquidity provide ISK 28bn of capital distribution or growth capacity
- High capital density while adaption of CRR3 is assumed to provide capital relief as REA is expected to be reduced by 4% at implementation

Q&A

23 October 2024

Appendix I – About Íslandsbanki and additional financial information

23 October 2024

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
744
number of FTEs at Íslandsbanki at period end

12 branches

Listed on Nasdaq Iceland as of June 2021

Market share[1]

31% retail customers

37% SMEs

30% large companies

Sustainability 3Q24

- Assets under the Bank's Sustainable Funding Framework amounted to ISK 114bn at period-end
- Work on upcoming CRSD implementation ongoing, most notably on double materiality assessment
- 60 employee workshops focusing on governance and strategy were held

Key Figures 3Q24

ROE	13.2%	LCR Group, all currencies	223%
Cost-to-income ratio	41.4%	NSFR Group, all currencies	126%
CET1 ratio	20.2%	Leverage ratio	13.0%
Total capital ratio	23.4%	Total assets	ISK 1,622bn

Ratings and certifications

Moody's
A3 Stable outlook

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

EQUALITY SCALE
FKA 2024
AWARD

EQUAL PAY CERTIFICATE

Digital milestones 3Q24

- Enhancements to claims management service in the app allowing SMEs and Corporates to see payment status of claims
- Biometric authentication launched in the app for payments
- The internal chatbot SAM went live with Quality Manual integration to follow soon

1. For retail customers, based on the number of customers with active deposits as percentage of people with domicile in Iceland, for SMEs on average market share from Gallup's last four corporate surveys the most recent one carried out during 3Q24 and for large companies the market share among top 300 companies according to Frjáls verslun magazine at end of 2023.

Financial overview

Key figures & ratios

		3Q24	2Q24	1Q24	4Q23	3Q23
PROFITABILITY	Profit for the period, ISKm	**7,280**	5,266	5,417	6,228	6,007
	Return on equity	**13.2%**	9.7%	9.8%	11.2%	11.0%
	Net interest margin (of total assets)	**2.9%**	3.1%	3.0%	2.9%	2.9%
	Cost-to-income ratio[1,2]	**41.4%**	46.4%	44.9%	42.1%	39.0%
	Cost of risk[3]	**(0.27%)**	(0.04%)	0.23%	0.33%	0.19%

		30.9.24	30.6.24	31.3.24	31.12.23	30.9.23
BALANCE SHEET	Loans to customers, ISKm	**1,274,094**	1,276,608	1,248,295	1,223,426	1,210,499
	Total assets, ISKm	**1,622,458**	1,595,896	1,643,707	1,582,694	1,643,600
	Risk exposure amount, ISKm	**1,021,243**	1,019,494	1,015,161	977,032	986,355
	Deposits from customers, ISKm	**927,011**	916,127	879,554	850,709	864,189
	Customer loans to customer deposits ratio	**137%**	139%	142%	144%	140%
	Non-performing loans (NPL) ratio[4]	**1.6%**	1.8%	1.9%	1.8%	1.8%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**126%**	123%	127%	124%	120%
	Liquidity coverage ratio (LCR), for all currencies	**223%**	190%	190%	195%	247%
CAPITAL	Total equity, ISKm	**223,388**	216,501	215,718	224,693	219,694
	CET1 ratio[5]	**20.2%**	19.9%	19.9%	21.4%	20.9%
	Tier 1 ratio[5]	**21.2%**	20.9%	20.9%	22.5%	21.9%
	Total capital ratio[5]	**23.4%**	23.1%	23.6%	25.3%	24.6%
	Leverage ratio[5]	**13.0%**	13.0%	12.6%	13.4%	12.7%
	MREL ratio[6]	**35.6%**	35.6%	39.1%	41.3%	39.2%

1.Calculated as (Administrative expenses – One-off items) / (Total operating income – One-off items). 2. C/I ratio for 2Q24 excludes a charge of ISK 470m and C/I ratio for 4Q23 excludes a charge of ISK 100m related to an administrative fine. 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 1Q24 profit for 31.3.24 and 3Q23 profit for 30.9.23. 6. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.

Income Statement

Income statement, ISKm	3Q24	3Q23	∆%	9M24	9M23	∆%	2023
Net interest income	**11,777**	11,846	(1%)	**36,390**	36,881	(1%)	48,611
Net fee and commission income	**3,565**	3,400	5%	**10,280**	10,461	(2%)	14,234
Net financial income (expense)	**228**	(193)	(218%)	**(507)**	(214)	137%	241
Net foreign exchange gain	**124**	176	(30%)	**494**	468	6%	581
Other operating income	**357**	248	44%	**1,500**	312	381%	570
Total operating income	**16,051**	15,477	4%	**48,157**	47,908	1%	64,237
Salaries and related expenses	**(3,787)**	(3,353)	13%	**(12,085)**	(11,142)	8%	(15,003)
Other operating expenses	**(2,854)**	(2,687)	6%	**(9,208)**	(8,631)	7%	(11,640)
Administrative fine	**-**	-	-	**(470)**	(860)	(45%)	(960)
Administrative expenses	**(6,641)**	(6,040)	10%	**(21,763)**	(20,633)	5%	(27,603)
Bank tax	**(494)**	(522)	(5%)	**(1,446)**	(1,469)	(2%)	(1,871)
Total operating expenses	**(7,135)**	(6,562)	9%	**(23,209)**	(22,102)	5%	(29,474)
Profit before net impairment on financial assets	**8,916**	8,915	0%	24,948	25,806	(3%)	34,763
Net impairment on financial assets	**860**	(583)	(248%)	**293**	(13)	-	(1,015)
Profit before tax	9,776	8,332	17%	**25,241**	25,793	(2%)	33,748
Income tax expense	**(2,497)**	(2,334)	7%	**(7,368)**	(7,461)	(1%)	(9,198)
Profit for the period from continuing operations	**7,279**	5,998	21%	**17,873**	18,332	(3%)	24,550
Discontinued operations held for sale, net of income tax	**1**	9	(89%)	**90**	25	260%	35
Profit for the period	**7,280**	6,007	21%	**17,963**	18,357	(2%)	24,585

Key ratios							
Net Interest Margin (NIM)	**2.9%**	2.9%		**3.0%**	3.1%		3.0%
Cost-to-income ratio (C/I)	**41.4%**	39.0%		**44.2%**	41.3%		41.5%
Return on Equity (ROE)	**13.2%**	11.0%		**10.9%**	11.3%		11.3%
Cost of risk (COR)	**(0.27%)**	0.19%		**(0.03%)**	0.00%		0.08%

Balance sheet reflects a balanced loan and funding profile

Conservative mix of assets and stable funding

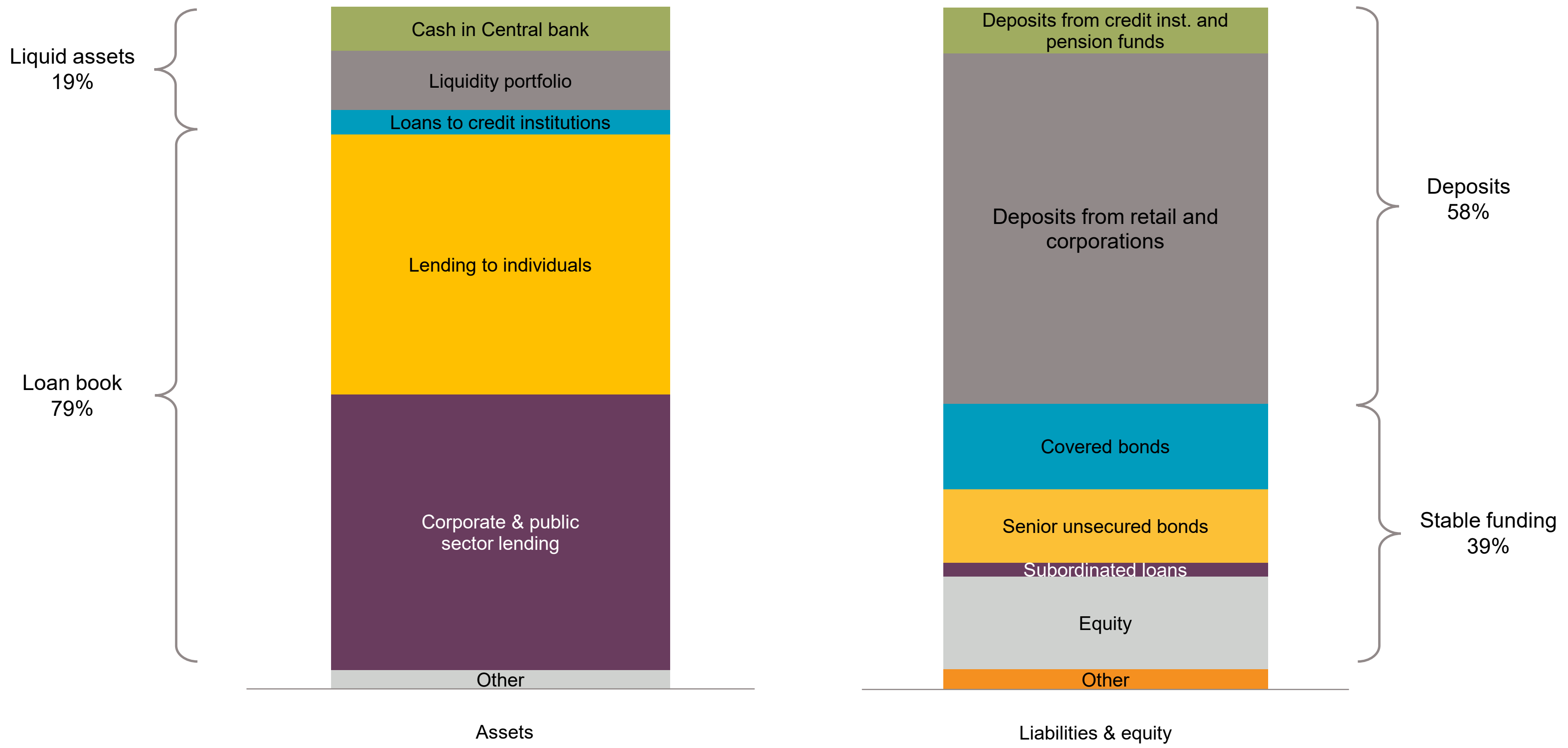
Assets

- 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
30.9.24, ISK 1,622bn



Assets

Asset base mainly consists of loans and liquid assets

Assets, ISKm	30.9.24	30.6.24	Δ	Δ%	31.12.23	Δ	Δ%
Cash and balances with Central Bank	**104,777**	84,981	19,796	23%	87,504	17,273	20%
Loans to credit institutions	**58,177**	46,599	11,578	25%	73,475	(15,298)	(21%)
Bonds and debt instruments	**126,396**	128,410	(2,014)	(2%)	161,342	(34,946)	(22%)
Derivatives	**6,014**	4,178	1,836	44%	5,776	238	4%
Loans to customers	**1,274,094**	1,276,608	(2,514)	(0%)	1,223,426	50,668	4%
Shares and equity instruments	**18,242**	19,496	(1,254)	(6%)	13,241	5,001	38%
Investment in associates	**4,489**	4,122	367	9%	4,051	438	11%
Investment property	**2,100**	2,100	-	-	-	2,100	-
Property and equipment	**5,067**	5,135	(68)	(1%)	6,562	(1,495)	(23%)
Intangible assets	**2,686**	2,715	(29)	(1%)	2,930	(244)	(8%)
Other assets	**18,807**	21,482	(2,675)	(12%)	3,638	15,169	417%
Non-current assets and disposal groups held for sale	**1,609**	70	1,539	2,199%	749	860	115%
Total Assets	**1,622,458**	1,595,896	26,562	2%	1,582,694	39,764	3%
Key ratios							
Risk Exposure Amount (REA)	**1,021,243**	1,019,494	1,749	0%	977,032	44,211	5%
REA / total assets	**62.9%**	63.9%			61.7%		
Non-performing loans (NPL) ratio[1]	**1.6%**	1.8%			1.8%		

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

Liabilities and equity

Deposits continue to be the largest source of funding

Liabilities & Equity, ISKm	30.9.24	30.6.24	Δ	Δ%	31.12.23	Δ	Δ%
Deposits from Central Bank and credit institutions	**11,525**	10,466	1,059	10%	16,149	(4,624)	(29%)
Deposits from customers	**927,011**	916,127	10,884	1%	850,709	76,302	9%
Derivative instruments and short positions	**4,764**	4,647	117	3%	5,090	(326)	(6%)
Debt issued and other borrowed funds	**380,814**	384,747	(3,933)	(1%)	417,573	(36,759)	(9%)
Subordinated loans	**32,084**	32,133	(49)	(0%)	38,155	(6,071)	(16%)
Tax liabilities	**15,637**	14,060	1,577	11%	13,107	2,530	19%
Other liabilities	**27,235**	17,215	10,020	58%	17,218	10,017	58%
Total Liabilities	**1,399,070**	1,379,395	19,675	1%	1,358,001	41,069	3%
Total Equity	**223,388**	216,501	6,887	3%	224,693	(1,305)	(1%)
Total Liabilities and Equity	**1,622,458**	1,595,896	26,562	2%	1,582,694	39,764	3%

Key ratios

Customer loans to customer deposits ratio	**137%**	139%			144%		
Net stable funding ratio (NSFR)	**126%**	123%			124%		
Liquidity coverage ratio (LCR)	**223%**	190%			195%		
Total capital ratio	**23.4%**	23.1%			25.3%		
Tier1 capital ratio	**21.2%**	20.9%			22.5%		
Leverage ratio	**13.0%**	13.0%			13.4%		
MREL ratio[1]	**35.6%**	35.6%			41.3%		

1. MREL ratio includes the CET1 capital held to meet the combined buffer requirements.

Appendix II – Icelandic economy update

23 October 2024

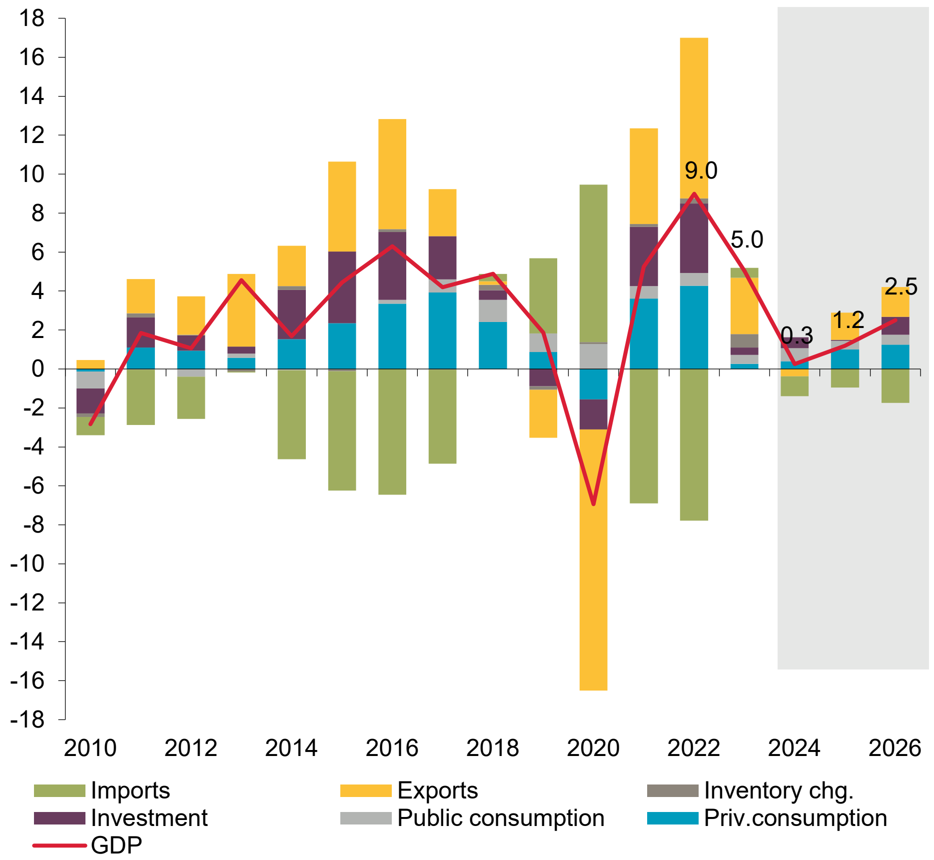
Negligible GDP growth in 2024, steady improvement ahead

Growth prospects have dimmed due to weaker export growth and the effects of chronically high interest rates

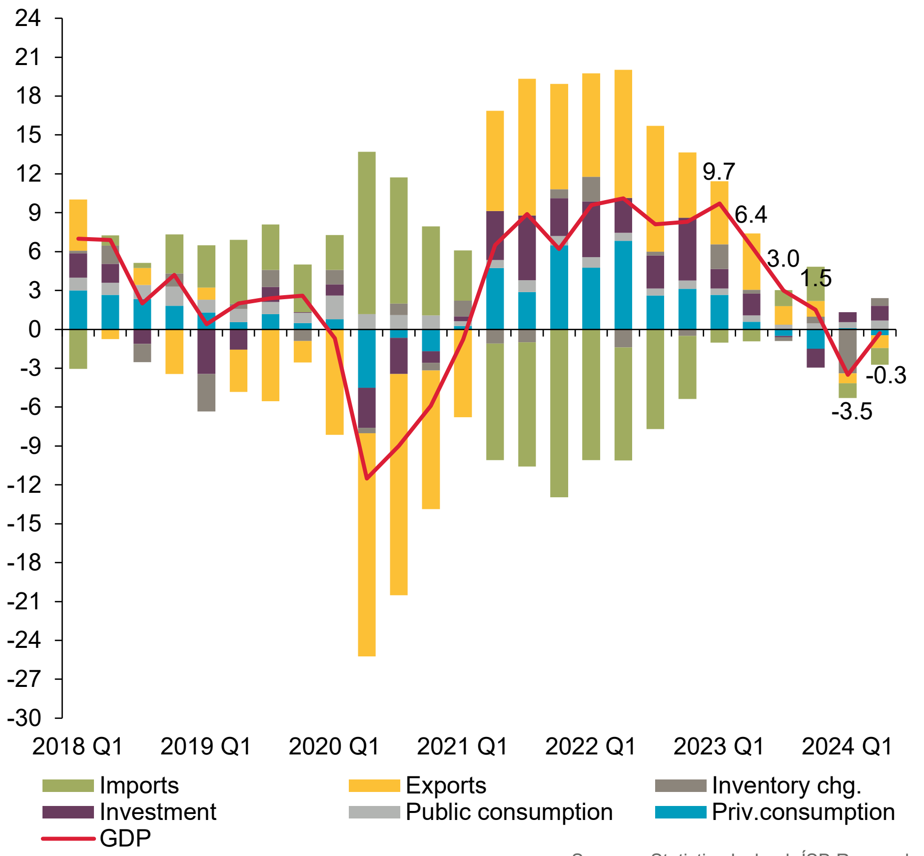
Highlights

- GDP growth declined from 9.1% in Q1 to 1.5% in Q4, with domestic demand contracting year-on-year for the first time since 2020 in the second half of 2023.
- The economy contracted by nearly 2% in the first half of 2024, partly due to a failed capelin catch, along with declining exports and reduced private consumption. GDP growth for the year is projected at 0.3%, the weakest since 2009-2010, excluding 2020.
- 2024 marks the end of a business cycle, although a full-year contraction is unlikely. The growth rate projection has been downgraded due to a poorer export outlook, increased imports, and the impact of high real interest rates.
- GDP growth is expected to pick up to 1.2% in 2025, driven by a recovery in private consumption and exports. However, investment is anticipated to remain nearly flat year-on-year.
- For 2026, growth is projected at 2.5%, with a rebound in investment and further increases in private consumption and exports, fueled by firms' enhanced investment capacity and improved economic conditions.
- The current forecast indicates slower growth than previously predicted, primarily due to weaker tourism and marine product exports, and increased impact of high real interest rates. However, growth in previous years was higher than earlier figures suggested.

GDP and contribution of its subcomponents
Volume change from prior year (%), annual data



GDP and contribution of its subcomponents
Volume change from prior year (%), quarterly data



Sources: Statistics Iceland, ÍSB Research.

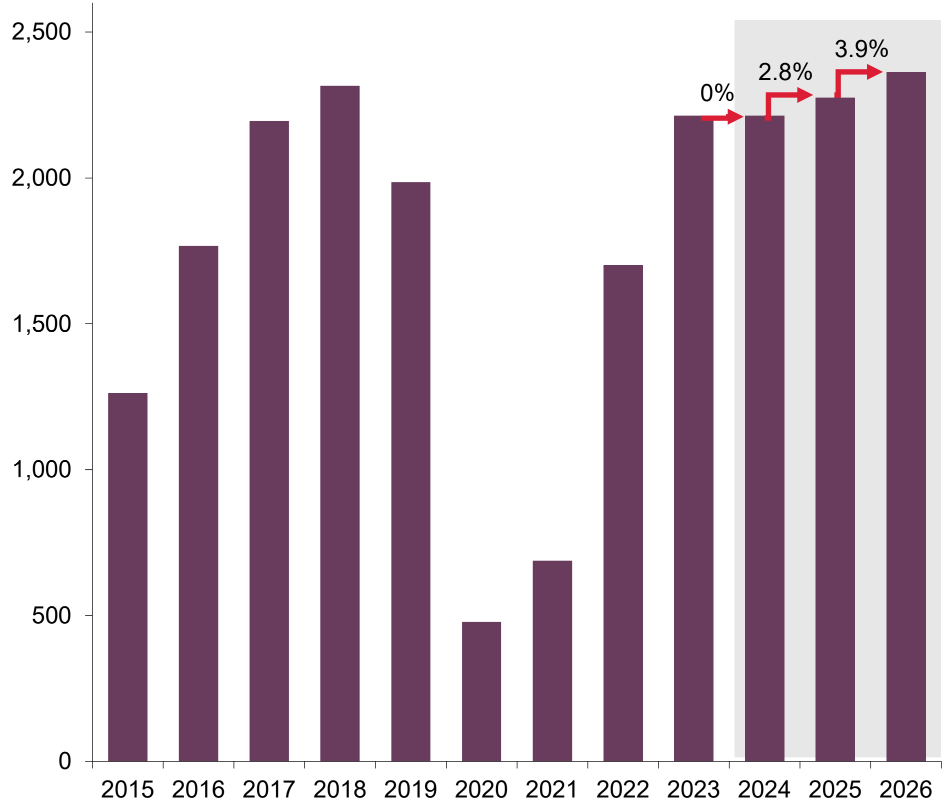
Export growth to firm up again following headwinds in 2024

Growth in tourism flat in 2024 but moderate growth expected in 2025-2026

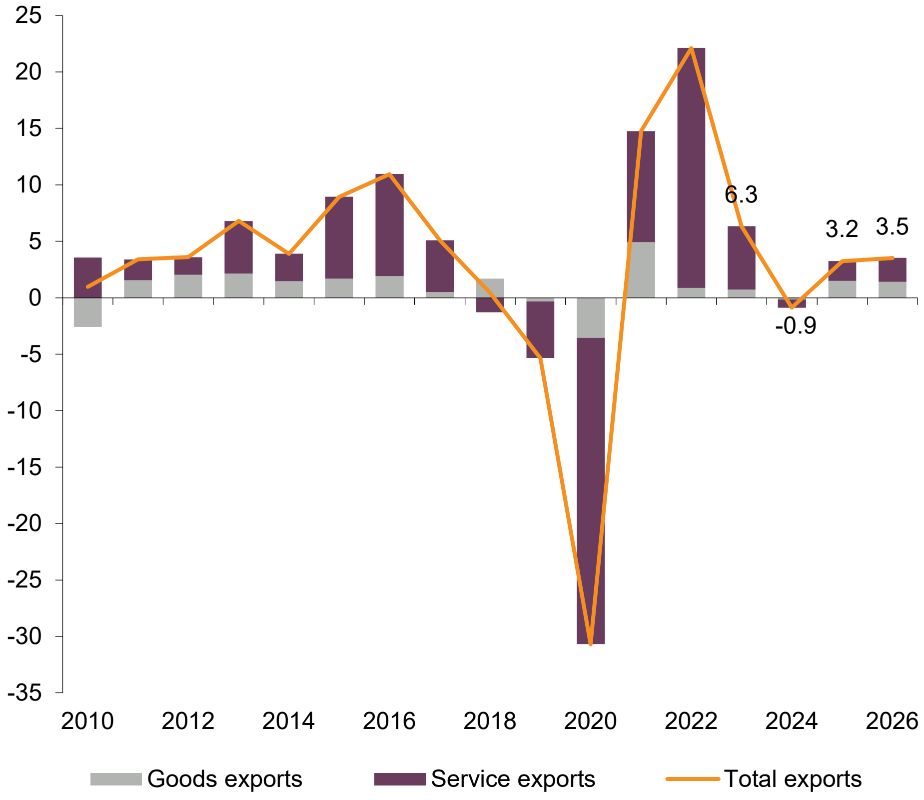
Highlights

- Following a surge in 2023 and early 2024, tourist arrivals declined by 5% year-on-year in Q2/2024. The peak season stabilized the situation, with visitor numbers in July and August marginally exceeding those of 2023.
- Expected tourist arrivals through Keflavík Airport in 2024 are just over 2.2 million, similar to 2023. However, winter airline seat capacity is set to decrease, though there is a strong interest for trips in spring and summer, with an overall positive global tourism outlook.
- While H2 shows a more positive outlook following a 6% decline in H1, a slight contraction in services exports for the year 2024 is anticipated.
- Key goods exports have moderated due to reduced electricity supply to aluminium smelters, a failed capelin catch, and a weak mackerel catch. Conversely, aquaculture and smaller export sectors are showing growth.
- Overall, exports are expected to contract by 0.9% in 2024,
- Modest growth in both goods and services exports is expected in 2025 and 2026, with increases in farmed fish as well as fish catches, and reduced impact of energy cutbacks on aluminium exports while services exports will be supported by supported by increased tourism and growth in specialized services.

Number of foreign tourists, by year
thousands



Exports and contribution from subcomponents
% change



Shaded areas and dotted lines denote ISB Research forecasts

Sources: Icelandic Tourist Board, ÍSB Research.

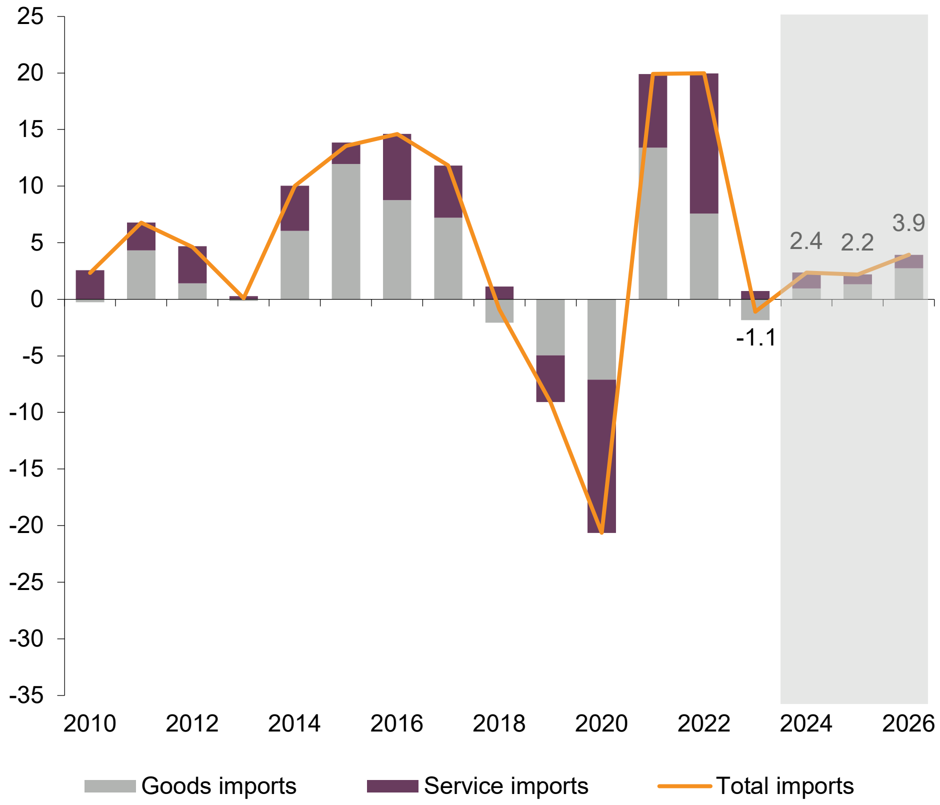
Current account flips from temporary deficit to balance

A setback in exports and buoyant imports cause a CA deficit this year, but a balanced CA is in sight

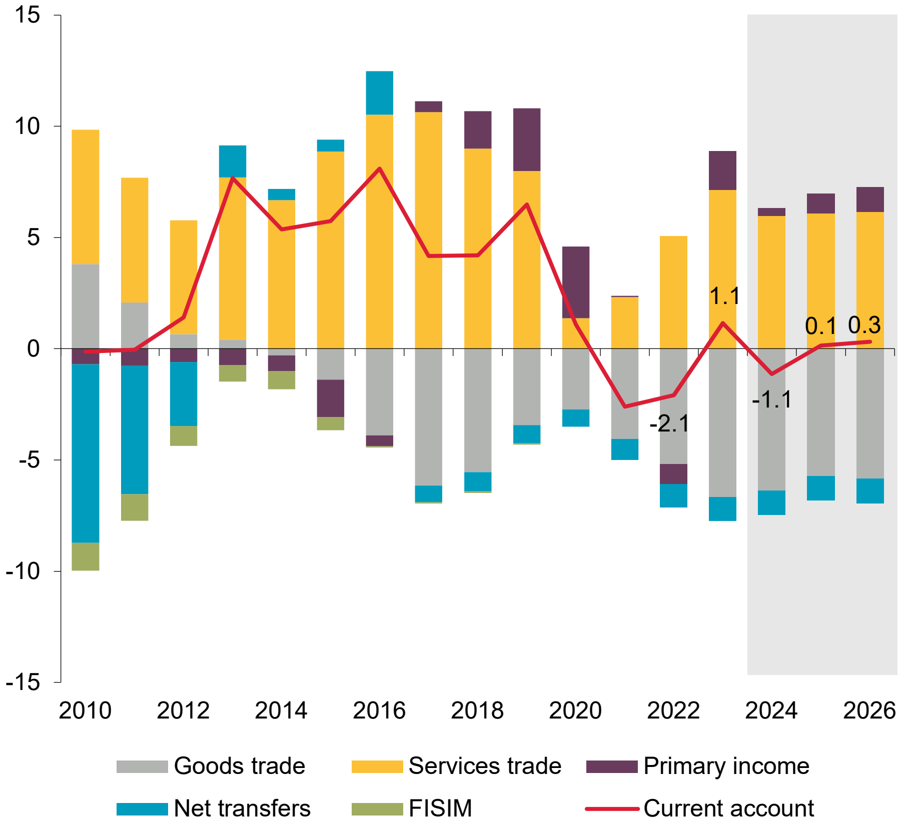
Highlights

- After contracting by 1.1% in 2023, imports rebounded with nearly 3% growth in the first half of 2024.
- Import growth is projected at just over 2% in 2024 and 2025, and nearly 4% in 2026, driven by stronger economic demand in the coming years.
- The current account balance deteriorated in 1H24, with a deficit of ISK 78 billion, mainly due to a smaller surplus on services trade, a larger goods account deficit, and a weaker income balance.
- Despite expected support from the peak tourist season, a current account deficit of just over 1% of GDP is anticipated for 2024.
- A balanced current account is likely in 2025 and 2026, influenced by export growth and modest terms of trade improvements.
- Iceland's net external assets stood at just under 39% of GDP in mid-2024, reinforcing its economic stability.
- The external position has strengthened partly due to price hikes in foreign equity markets, with its future trajectory dependent on developments in foreign asset markets and the current account balance.

Imports and contribution from subcomponents
% change



Current account balance
% of GDP



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

23 October 2024

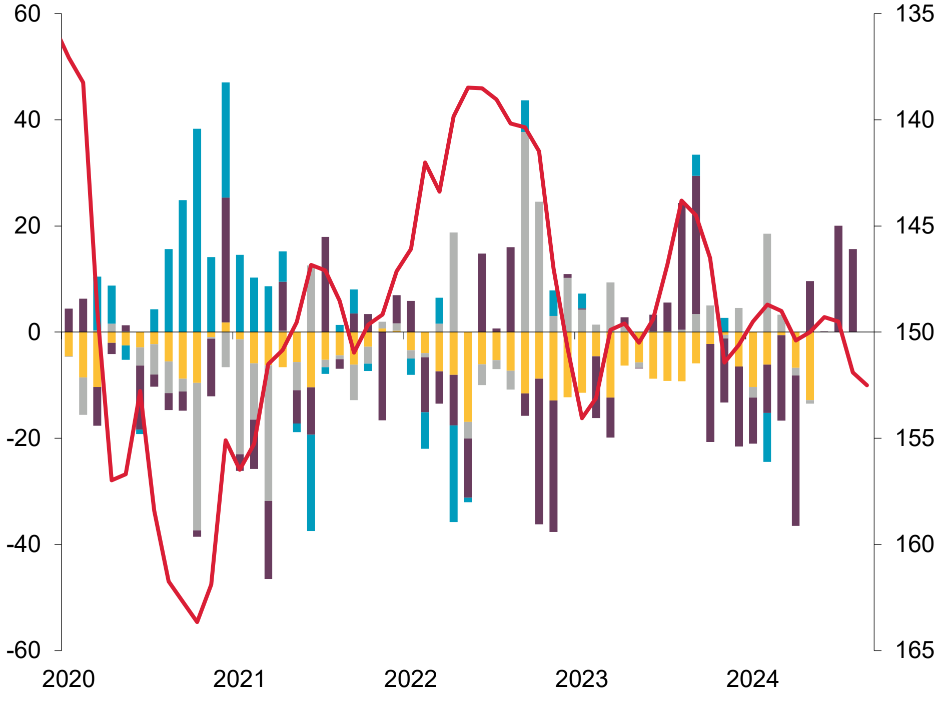
ISK set to appreciate marginally during the forecast horizon

The real exchange rate is close to equilibrium in terms of the external balance of the economy

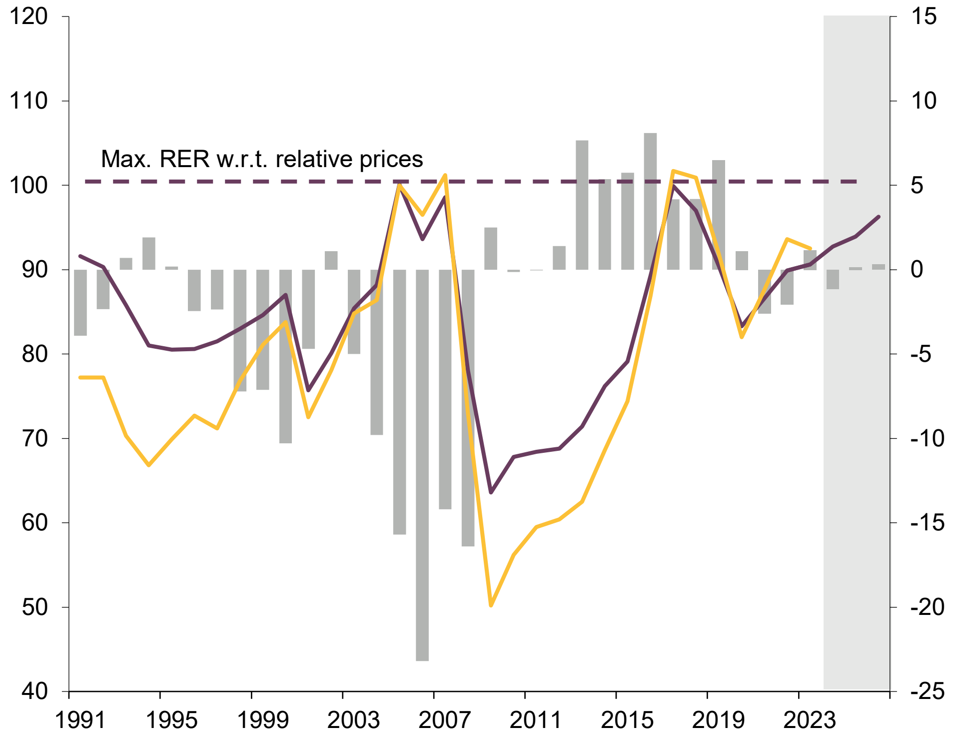
Highlights

- After a stable period through mid-2024, the ISK softened in Q3, mainly due to the YoY deterioration in the current account balance.
- Expectations about external trade have shifted and the forecast now suggests a current account deficit in 2024 and a balanced account in 2025 and 2026, compared to the previous projection of a surplus.
- Positive factors for the ISK include a significant interest rate differential with other countries and a strong external position.
- However, these may be offset by continued foreign investment by pension funds and other domestic entities, particularly if the ISK strengthens.
- Short-term ISK volatility is expected, but the overall outlook is for relative stability, with a modest appreciation as the current account balance improves.
- The ISK is forecasted to be roughly 2% stronger by the end of the forecast period than in August 2024, settling at around ISK 148 per euro.
- Despite the limited rise in the nominal exchange rate, robust wage growth and higher inflation relative to trading partners will likely increase the real exchange rate by a larger amount.

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



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

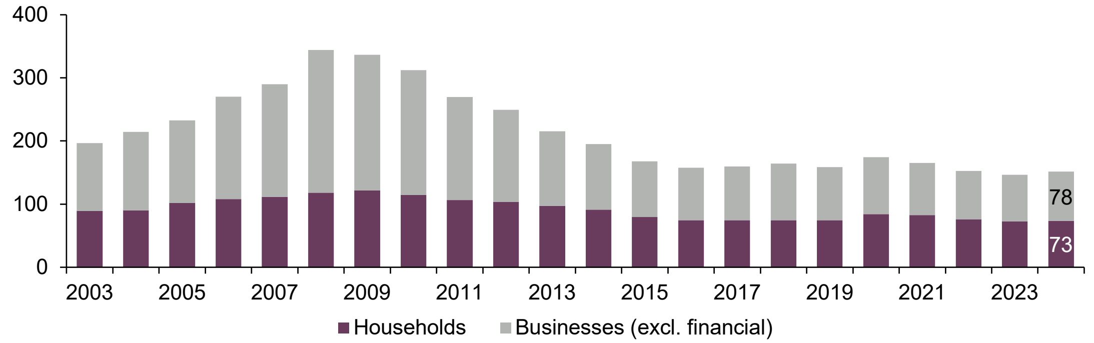


Source: Statistics Iceland, The Central Bank of Iceland, ISB Research.

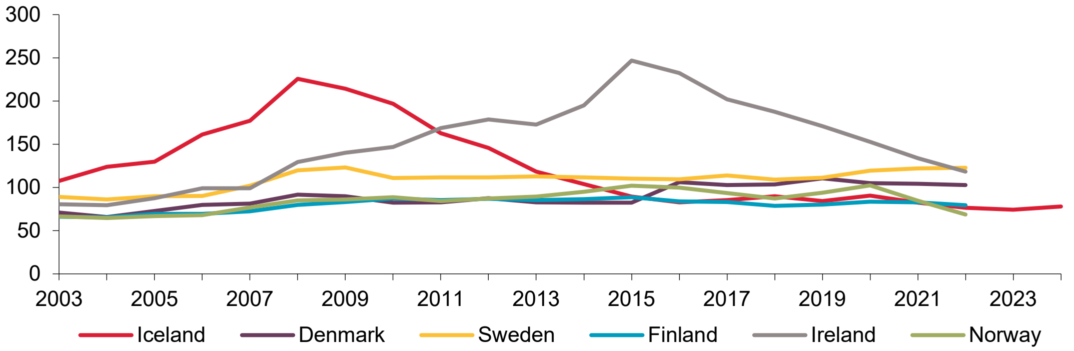
Domestic balance sheets remain healthy

Private sector debt ratios are stable and public debt remains moderate in global context

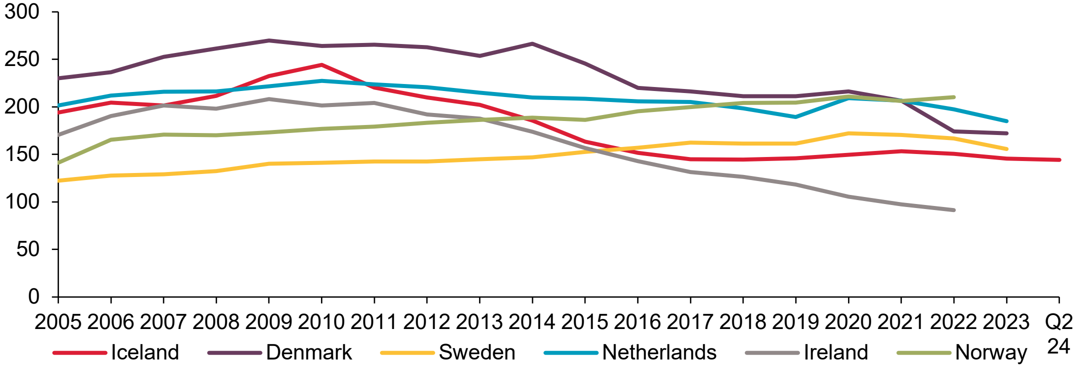
Private sector debt
% of GDP



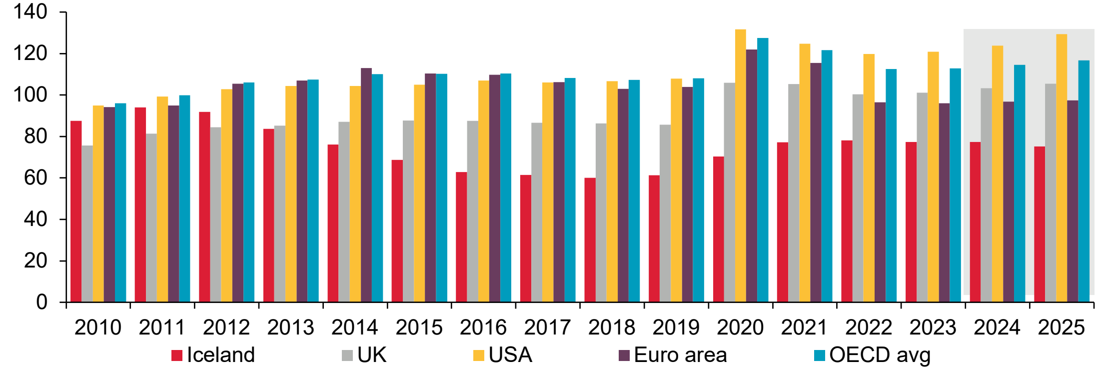
Corporate debt
% of GDP



Household debt
% of disposable income



General government gross financial liabilities
% of GDP



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

Robust investment over the forecast horizon

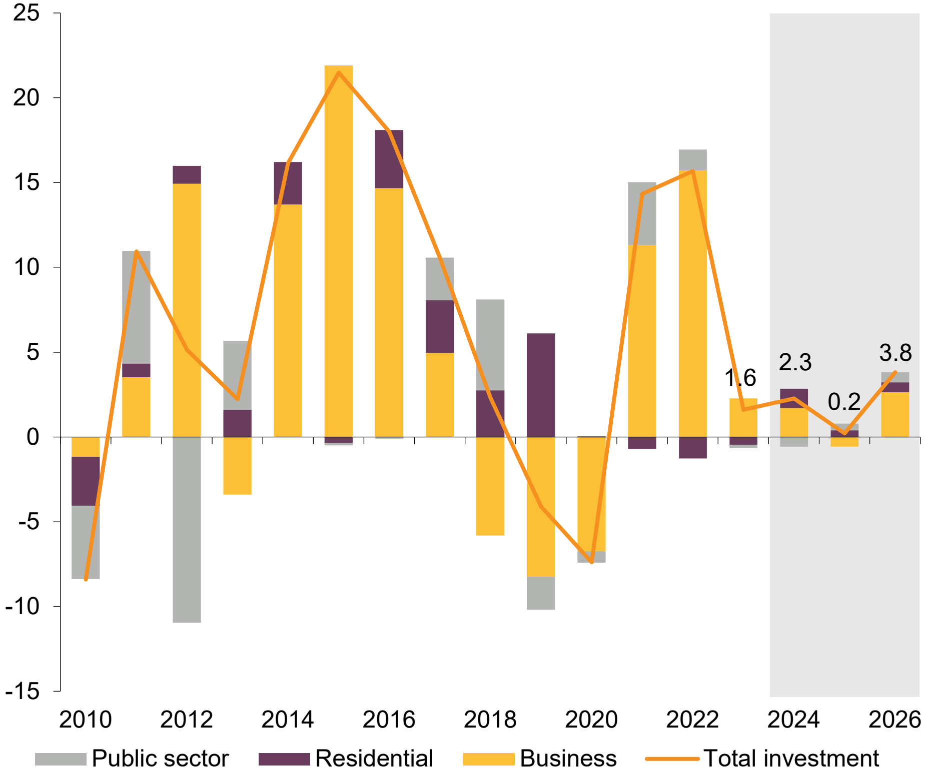
High interest rates and a more ambiguous outlook for exports will impede investment temporarily, but growth will pick up again later

Highlights

- After robust growth in 2021-2022, investment growth slowed to just under 2% in 2023 due to rising interest rates and a consolidation in public investment following pandemic-era deficits.
- Investment growth accelerated in 1H24, with overall YoY growth at 4% as growth in business and residential investment offset a decline in public investment.
- Stronger investment growth is expected in 2024 compared to 2023, driven by increased business investment, particularly in land-based aquaculture development, and sustained strength in residential investment.
- In 2025, business investment is expected to contract slightly, while residential and public investments are projected to increase marginally. High real interest rates and weak export growth are key factors in this subdued outlook.
- Business investment is likely to rebound as interest rates decline and exports grow later in the forecast period.
- Demand for housing is expected to resurface quickly once interest rates start to fall, along with a growing need for infrastructure investment.
- Overall, investment is projected to remain virtually unchanged in 2025 and then grow by just under 4% in 2026.

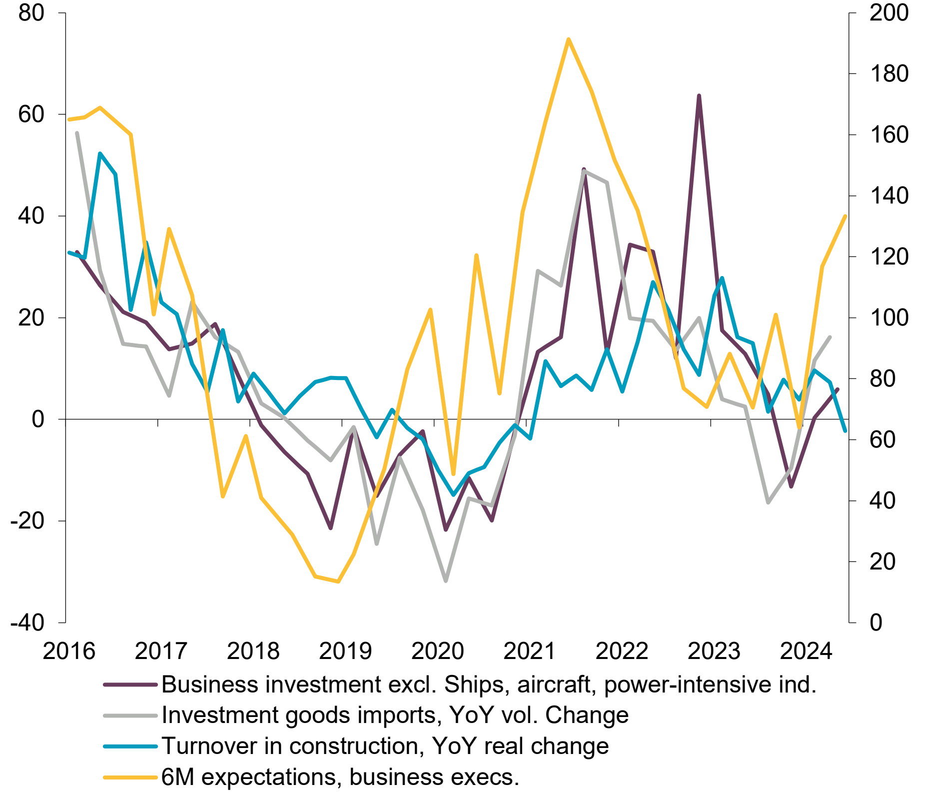
Investment, real change, and contribution of subcomponents

%



Business investment and related indicators

YoY change (%) and indices



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

Labour market shows signs of rebalancing

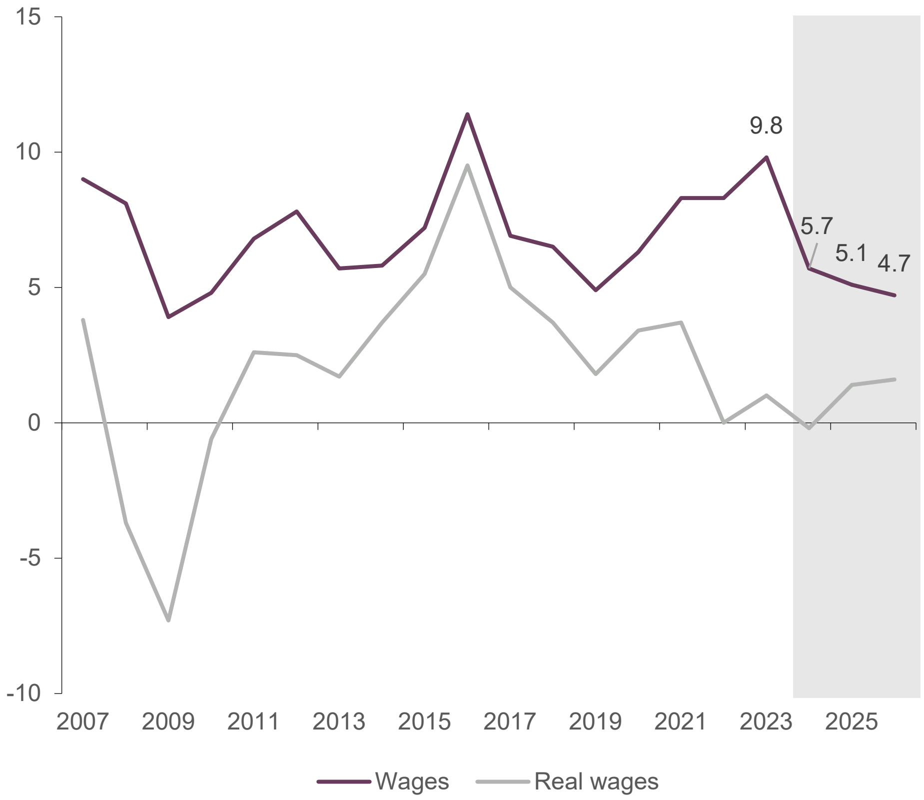
Real wages set to grow during the forecast horizon

Highlights

- The Icelandic labour market has been tight with high participation post-pandemic, supported by strong population growth and imported labor. Despite softer export growth, labour demand has remained robust but shows signs of easing.
- Unemployment averaged 3.5% in the first eight months of 2024, up from 3.2% in the same period of 2023, with a third more people unemployed for 6-12 months.
- Surveys show signs of cooling: fewer executives plan to recruit, more plan to downsize, and the share of firms facing staffing shortages dropped to its lowest in three years.
- ISB Research forecast average unemployment at 3.7% in 2024, 4.1% in 2025, falling slightly to 3.8% in 2026.
- Wage growth is expected to be 5.7% in 2024, 5.1% in 2025, and 4.7% in 2026, with real wages shrinking in 2024 but growing by 1.4% in 2025 and 1.7% in 2026.
- Recent wage agreements have reduced uncertainty about nominal and real wage developments in the coming years.

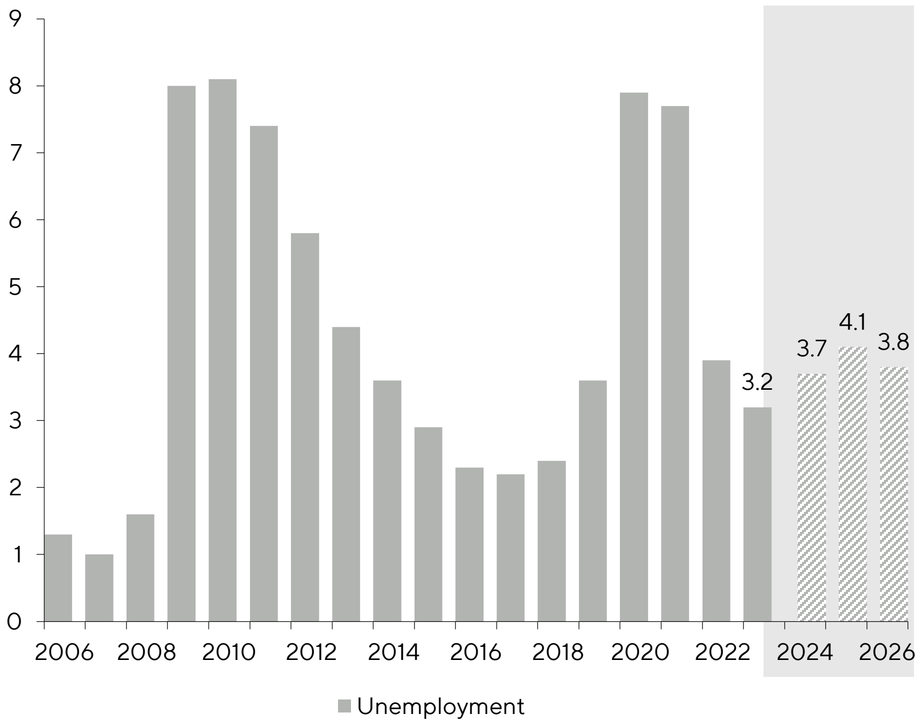
Wages, year-on-year change

%



Unemployment[1]

% of workforce, annual average



1. Excluding recipients of part-time unemployment benefits.

Source: Statistics Iceland, The Central Bank of Iceland and Confederation of Icelandic employers

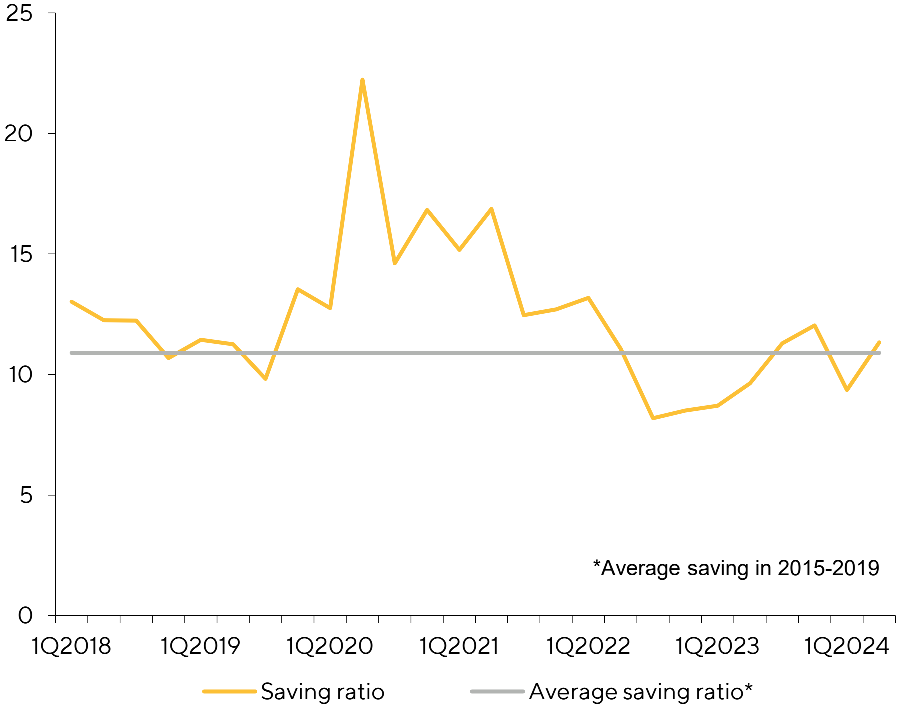
Private consumption growth eases but is still resilient

Expected to grow weakly in the near term but gain steam later in the forecast horizon

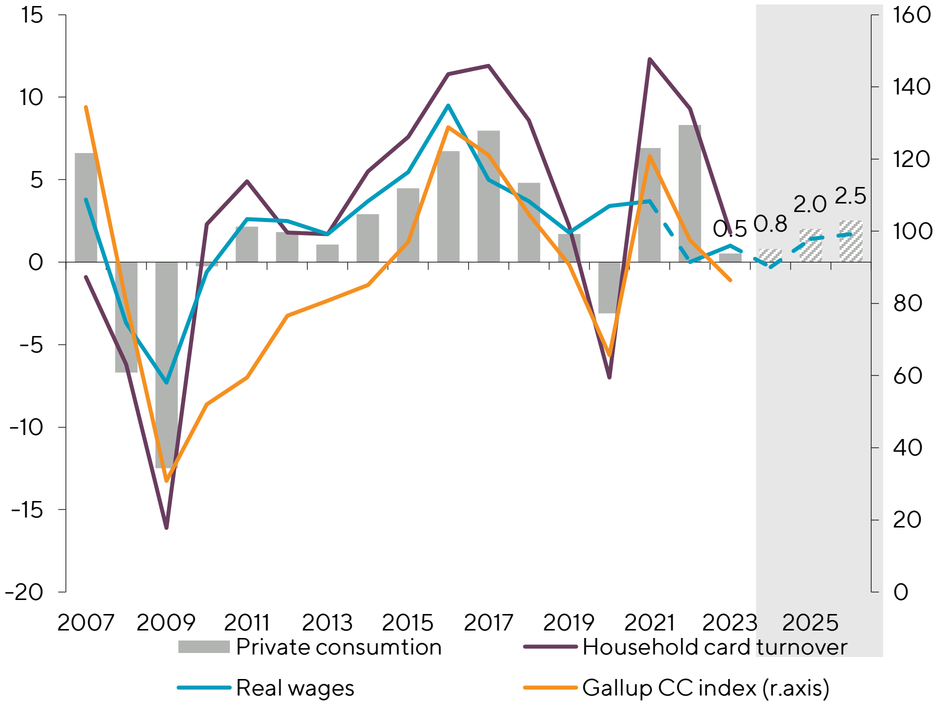
Highlights

- Private consumption ticked upwards unexpectedly in 1Q24, after shrinking in the last two quarters of 2023. Recent revision of payment card turnover data puts this into clearer context, as previous figures strongly indicated a contraction.
- Growth in payment card turnover has been modest YTD, and weaker than a few quarters ago, though turnover figures do not indicate that households are tightening their belts.
- High real interest rates on savings have prompted households to put more money aside, and households' interest income has risen steeply, offsetting rising interest expenses.
- Most indicators imply a continued contraction in private consumption in the near term. Payment card turnover has fallen in real terms and new car registrations has shrunk significantly in recent months.
- Real wages are expected to hold their ground in 2024, then rise modestly in 2025 and 2026, helping sustain private consumption growth.
- Private consumption is projected to grow by 0.8% this year, 2% in 2025, and 2.5% in 2026, with growth in the coming two quarters due in part to base effects from the contraction in 2H23.

Household saving
% of disposable income



Private consumption and related indicators
% change YoY (left) and index value (right)



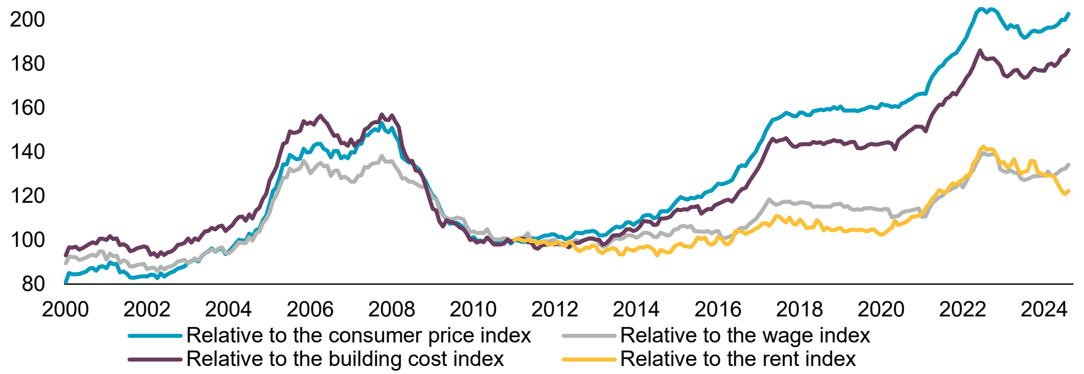
Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

The real estate market shows continued resilience

Central Bank measures seem to have a greater impact on CRE than on residential house prices

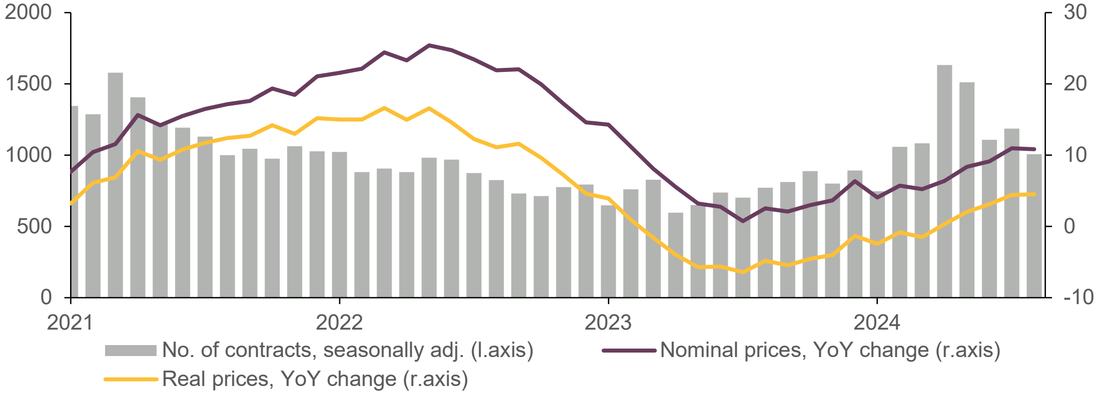
Capital area house prices relative to macroeconomic fundamentals

Index, January 2011=100



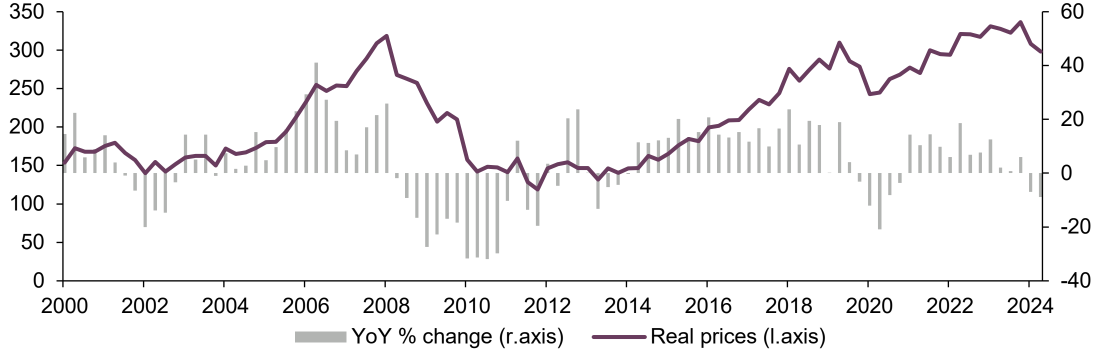
Residential house prices and turnover

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



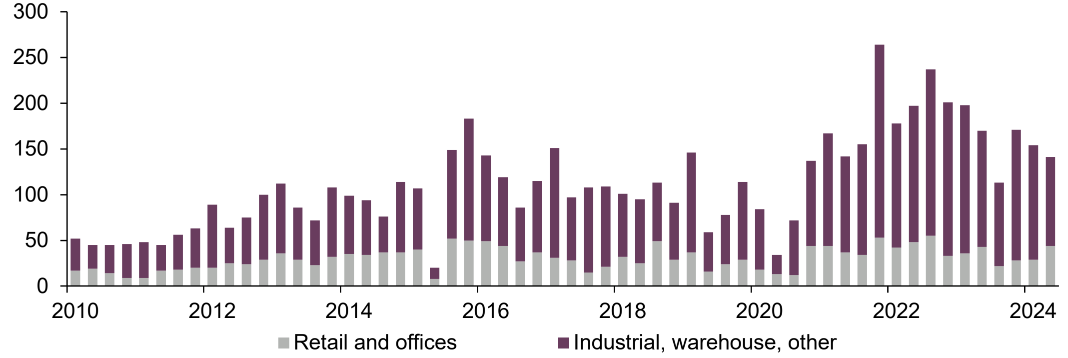
Commercial property real prices in greater Reykjavik

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



Commercial real estate market activity

No. of registered purchase agreements



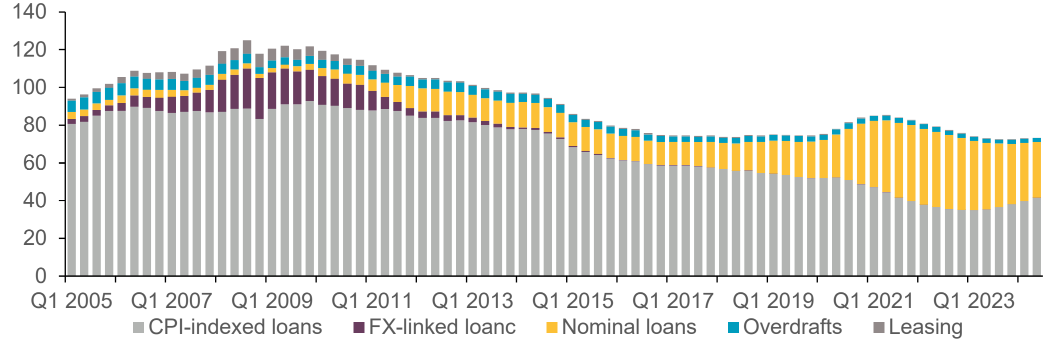
Source: The Central Bank of Iceland.

The Icelandic housing market is relatively resilient

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

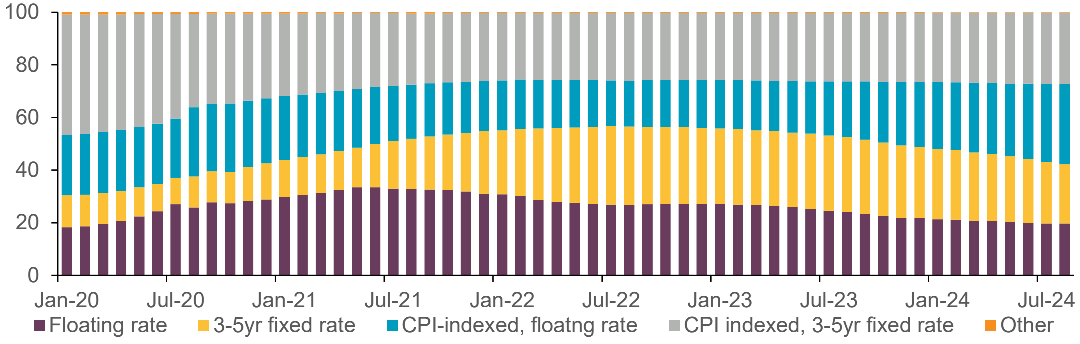
Households are not highly indebted compared to peers

Household debt, % of GDP



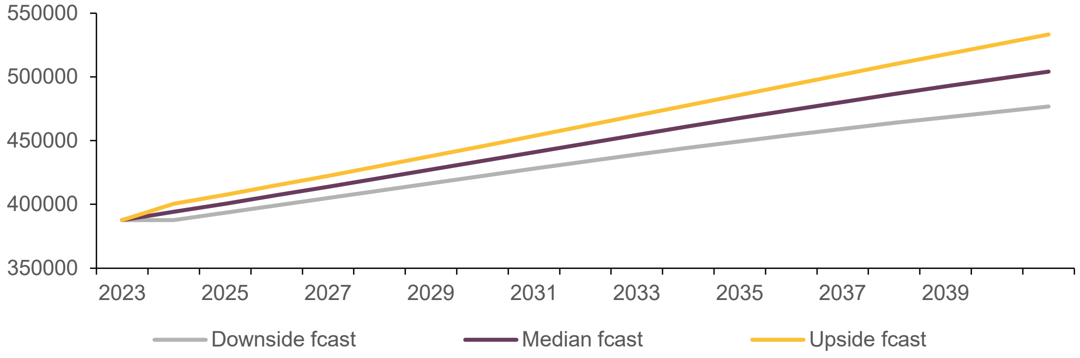
Mortgage market is flexible w.r.t. loan types with different payment burden

Outstanding mortgage loans, share of total



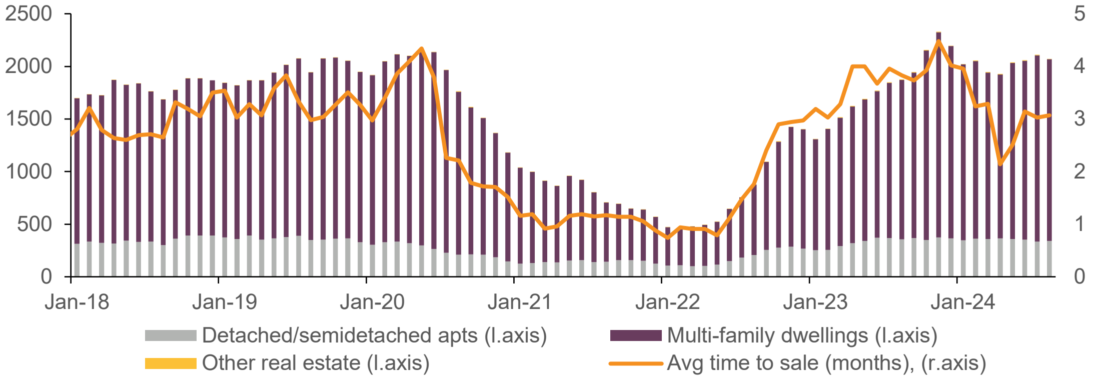
Underlying upward demand trend steady as population growth remains robust

Population forecast by Statistics Iceland



Turnover in the residential housing market remains steady despite rate hikes

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



Source: The Central Bank of Iceland, Statistics Iceland.

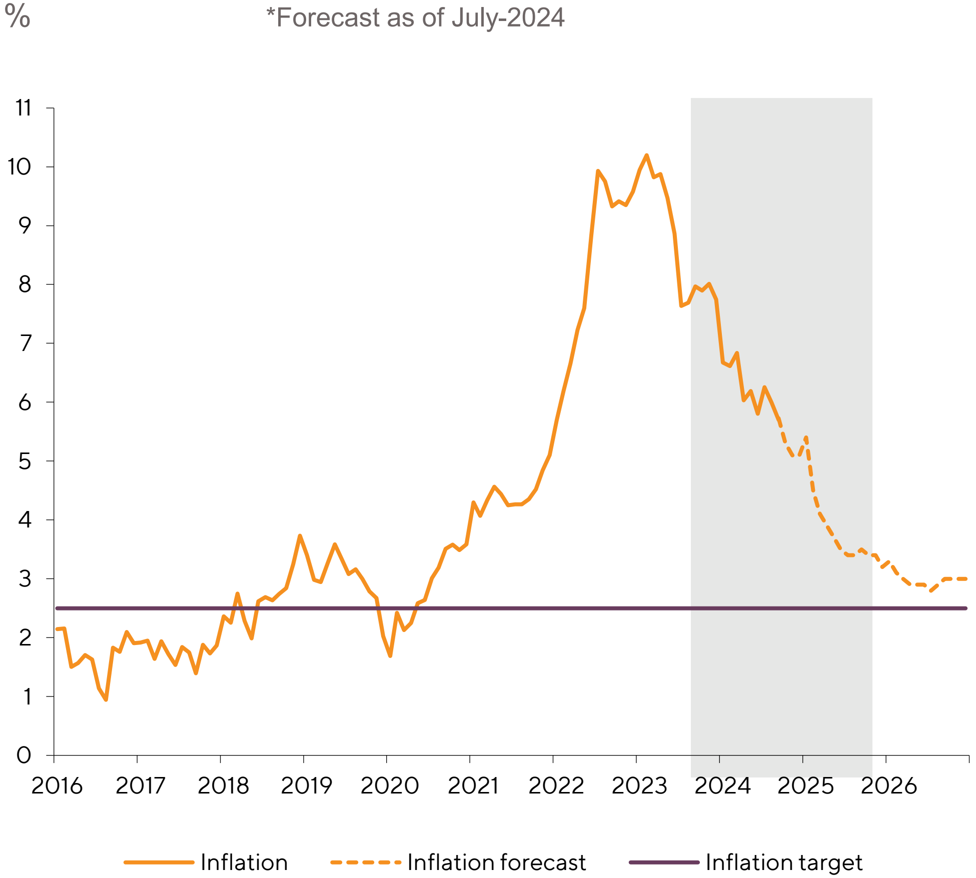
Colder weather brings cooling inflation

Inflation will not reach target during the forecast horizon but will fall below the upper tolerance limit in 2Q25

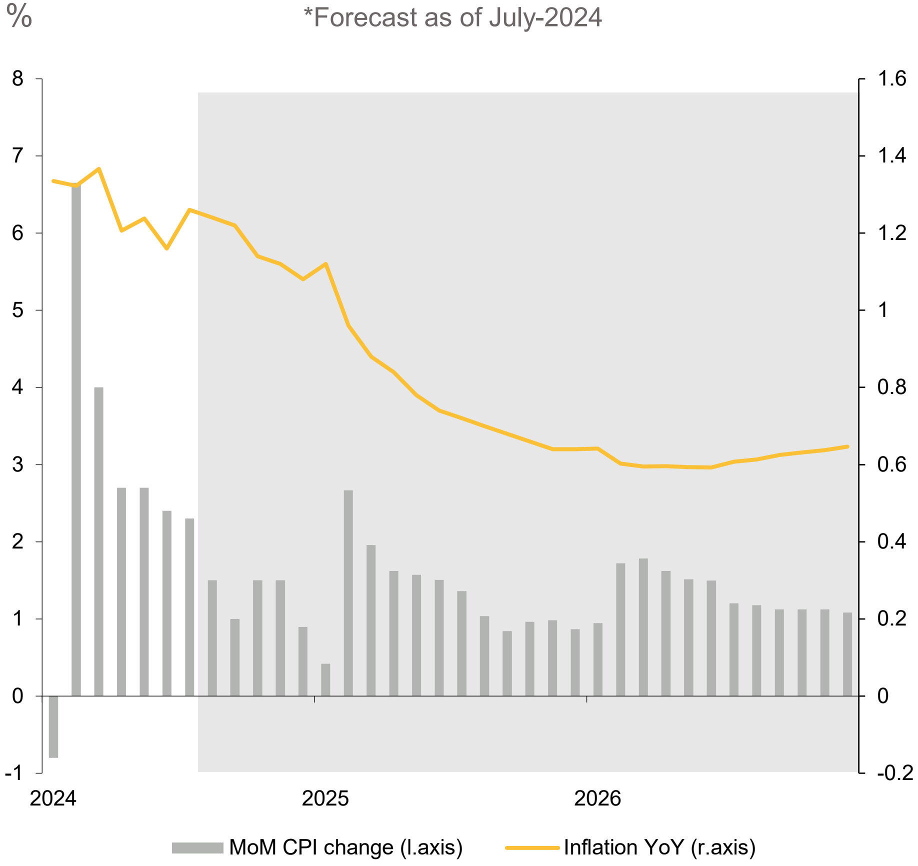
Highlights

- Inflation has dropped significantly from over 10% in 1H23, averaging 6.7% in 1Q24, 6.0% in 2Q24, and measuring 5.4% in September. It's expected to drop to 4.7% by the end of 2024.
- A major uncertainty for inflation in 2024 has been Statistics Iceland's new method for calculating owner-occupied housing costs. While there were concerns that this change would drive inflation upwards, the opposite has happened—inflation has measured lower with significantly reduced short-term volatility.
- Housing costs remain the largest contributor to inflation and are expected to continue exerting pressure.
- ISB Research does not expect inflation to fall to the CBI's 2.5% target during the forecast horizon. It is projected to average 5.8% this year, 3.6% in 2025 and 2.9% in 2026 putting it very close to target in the final year of the forecast.
- A significant short-term factor is the upcoming change in motor vehicle taxes, which will take effect at the end of 2024. This change could have a large impact on inflation measurements for 2025, potentially pushing inflation sharply down in January depending on how the tax adjustment is structured.

Inflation and the CBI inflation target *



Month-on-month and year-on-year CPI change *



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

Monetary easing has started and looks set to continue

Falling inflation and a cooling economy should facilitate further policy rate cuts this winter

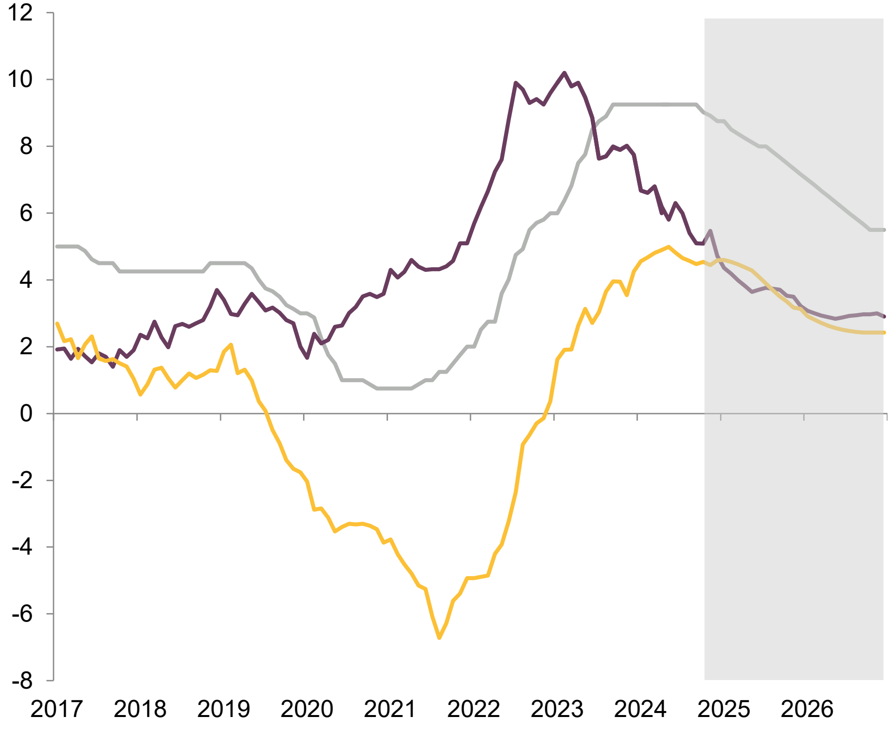
Highlights

- The Central Bank of Iceland (CBI) held its policy rate at 9.25% from 3Q23 to 3Q24. However, the real policy rate rose significantly in the period.
- In October, the CBI's MPC announced a 25bps policy rate cut, citing easing inflation by a range of metrics as well as a cooling economy.
- Although at odds with published forecasts, the rate cut was timely and well grounded.
- Assuming continuing fall in inflation and further cooling in the economy, the outlook is for further rate cuts in the coming term.
- ISB Research expects the policy rate to decline to 8.75% by end-2024 and to 7.0% by end-2025.
- Long-term interest rates are currently high, with nominal ten-year benchmark rates around 6.8% and real rates on indexed bonds near 2.7%.
- These are expected to fall to 5.8% and 2.2%, respectively, over the forecast horizon.

Policy rate and inflation *

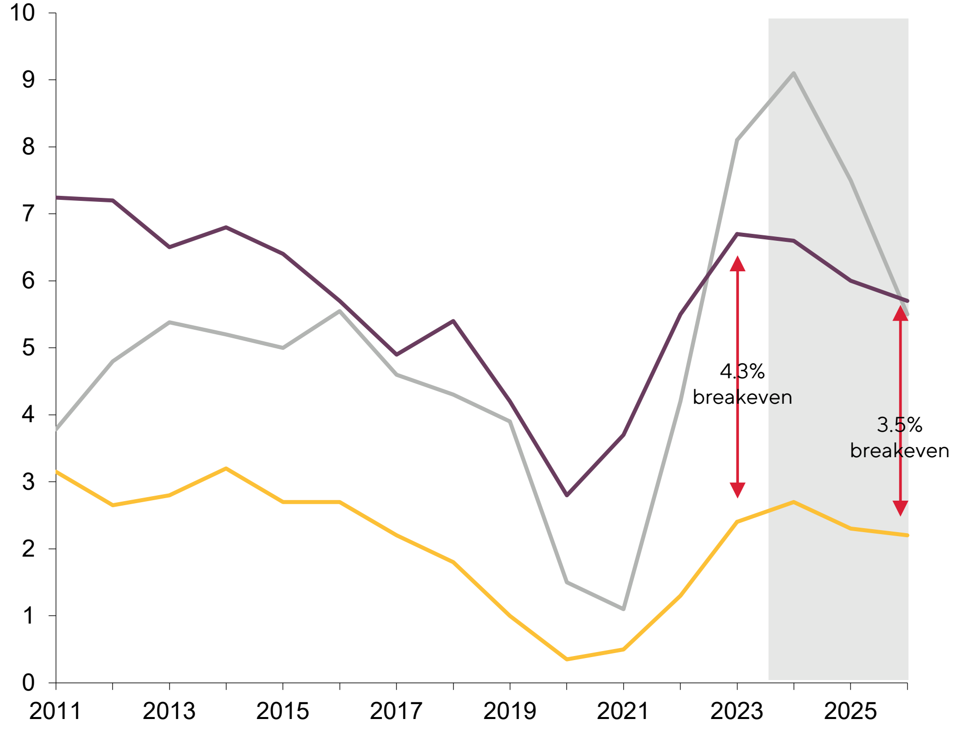
%, Real policy rate based on 12m forward forecasts

* Forecast as of Oct 2024



Key interest rates

%, average per year

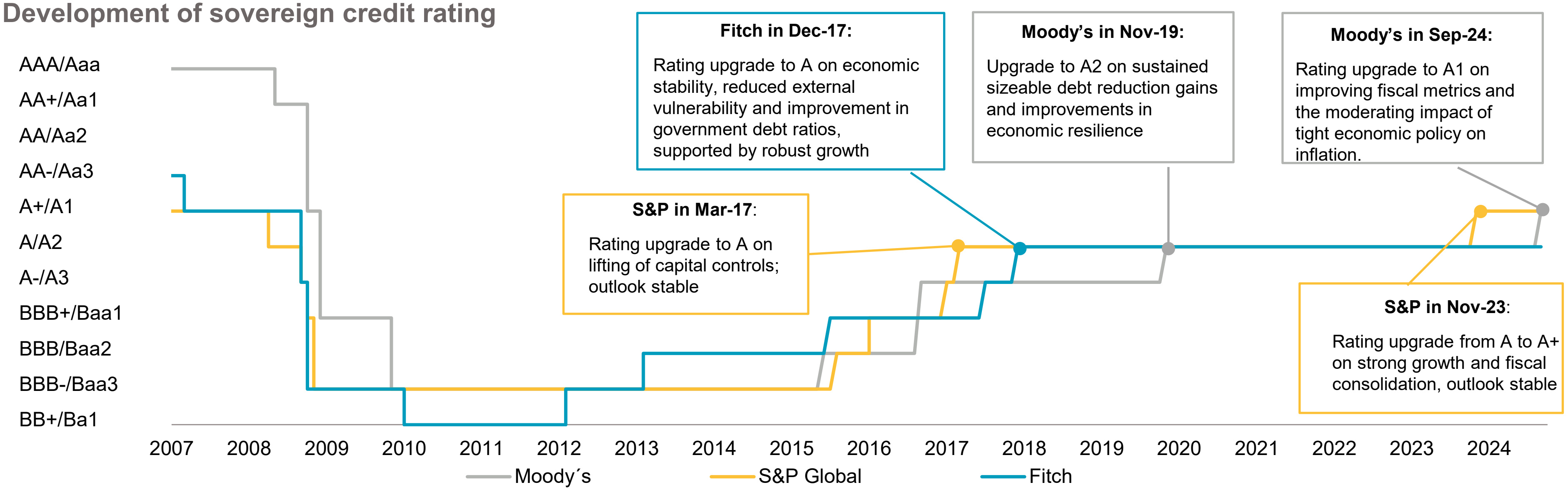


Sources: Central Bank of Iceland, Kodiak, Statistics Iceland, ÍSB Research.

Iceland's credit rating rising apace

Rating companies acknowledge the flexibility of the economy and improving public debt metrics

Development of sovereign credit rating



MOODY'S IN SEPTEMBER 2024

- "The stable outlook reflects balanced risks at the A1 rating level."
- "We expect fiscal consolidation to continue over the coming years broadly as planned in the medium-term fiscal plan."
- "The alignment of the foreign-currency ceiling with the local-currency ceiling reflects low transfer and convertibility risk, given Iceland's high policy effectiveness and robust net external creditor position at around 37% of GDP."

FITCH IN SEPTEMBER 2024

- "Iceland's 'A' rating is underpinned by very high income per capita and governance indicators more consistent with 'AAA' and 'AA' category sovereigns."
- "Sizeable buffers, including ample foreign reserves and a large fiscal cash buffer, help mitigate Iceland's external vulnerabilities."
- "Strong fundamentals include sizeable pension fund assets, a sound banking sector, and strong private-sector balance sheets."
- "However, the rating remains constrained by Iceland's small economy with limited export diversification and high public debt."

S&P IN MAY 2024

- "..we forecast Iceland's net general government debt will steadily reduce to 41% of GDP by 2027 in line with the government's commitment to fiscal consolidation."
- "The stable outlook reflects our view that Iceland's economy will continue to expand over the next two years, while recording only modest fiscal and current account deficits."
- "It also reflects our assumption that volcanic activity will remain contained and not have a significant adverse effect on the country's economic, fiscal, and balance-of-payments performance."

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

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23 October 2024