Press Release

Third Quarter 2022 Results

Íslandsbanki hf.

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Third quarter 2022 (3Q22) financial highlights – strong quarter with ROE above target

- Íslandsbanki reported a profit of ISK 7.5bn in the third quarter (3Q21: ISK 7.6bn), generating an annualised return on equity (ROE) of 14.4% (3Q21: 15.7%), which is above both the Bank's financial targets and market consensus. The main drivers were strong income generation and a positive net impairment.

- Net interest income (NII) grew by 28.7% YoY and totalled ISK 11.3bn in 3Q22, compared to ISK 8.8bn in 3Q21, owing mainly to higher interest rate environment and growth in loans to customers and deposits from customers in recent quarters. The net interest margin was 3.0% in 3Q22, compared to 2.4% in 3Q21.

- Net fee and commission income (NFCI) grew 2.6% YoY and amounted to ISK 3.5bn in 3Q22, compared to ISK 3.4bn in 3Q21. Fee income from cards and payment processing is the primary driver of the increase.

- The Bank focuses on core banking operations, with NII and NFCI accounting for 102% of total operating income in 3Q22, compared to 92% in 3Q21. These two items combined grew 21.4% from 3Q21 to 3Q22.

- Net financial expense was ISK 471m in 3Q22, compared to net financial income of ISK 941m in 3Q21, due to a loss in other NFI which is largely due to movements in ISK base rate curves.

- Administrative expenses were ISK 5.3bn in 3Q22 compared to ISK 5.1bn in 3Q21, an increase of 3.6% YoY and a decrease of 5.5% in real terms.

- The cost-to-income ratio was 36.3% in 3Q22, below the Bank's financial target, down from 39.4% in 3Q21, due to strong revenue generation.

- The positive ISK 1,165m net impairment on financial assets in 3Q22 is due to a more positive outlook for the tourism industry, updated real estate valuation and previously distressed credit case, but partly offset by the impact of expected inflation. This is compared to a positive impairment of ISK 1,757m in 3Q21. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -40bp in 3Q22, compared to -64bp in 3Q21.

- Loans to customers remained the same from the end of 2Q22 at ISK 1,153bn.

- Deposits from customers increased by ISK 24.8bn, or 3.3%, during the quarter, up to ISK 782bn. The increase did primarily come from Business Banking and Personal Banking.

- 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 211.6bn at the end of September 2022. The capital base was unchanged from the end of June, at ISK 213bn (ISK 228bn at year-end 2021). The Bank's total capital ratio was 21.4%, compared to 21.5% at the end of June (25.3% at YE21). The corresponding CET1 ratio was 18.2% (300bp above requirement), same as end of June (21.3% at YE21). This is considerably above the Bank´s long-term CET1 target of ~16.5%. The ratios are determined on the basis of the unaudited net earnings in the quarter, with a deduction of 50% of net earnings as foreseeable dividends in line with the Bank's dividend policy and foreseeable buybacks of ISK 15 billion. Lower total capital ratio is mostly the result of an increase in the risk exposure amount (REA) due to increase in loans to credit institutions during the third quarter.

- The Bank's MREL requirement is 21.2% of the total risk exposure amount (TREA), the Bank's ratio was 27.6% at the end of September.

- The leverage ratio was 11.9% at the end of September, including the 3Q22 profit, compared to 12.5% at the end of June (13.6% at YE21), indicating low leverage.

First nine months 2022 (9M22) financial highlights – ROE above target as revenue continues to rise

- The Bank's net profit for the first nine months of 2022 was ISK 18.6bn (9M21: ISK 16.6bn) with annualised return on equity for 9M22 of 12.1% compared to 11.7% in 9M21.
- Net interest income totalled ISK 30.8bn in 9M22, an increase of 21.2% YoY, explained by growth in loans to customers and deposits from customers and a higher interest rate environment.
- Net fee and commission income (NFCI) grew 8.9% YoY and amounted to ISK 10.0bn in 9M22, compared to ISK 9.2bn in 9M21. Fee income from cards and payment processing, strong performance in Allianz Ísland hf. together with investment banking and brokerage are primary drivers of the increase.
- Net financial expense was ISK 358m in 9M22 compared to income of ISK 1,853m for 9M21.
- Administrative expenses were ISK 17.1bn in 9M22 compared to ISK 17.4bn in 9M21, a decline of 1.9% YoY or by 5.5% in real terms.
- Cost-to-income ratio dropped YoY from 46.6% in 9M21 to 41.9% in 9M22.
- Net impairment on financial assets was positive and amounted to ISK 2,223m in the first nine months of 2022 (9M21: ISK 2,379m), mainly due to a more positive outlook for the tourism industry along with result of a court ruling regarding a fully impaired loan and outweighing the negative impact from increased inflation and international economic volatility. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -26bp in 9M22, compared to -30bp in 9M21.

Revised 2022 guidance

- Considering the good financial results during the year and prospects for the remainder of the year, the 2022 guidance for ROE is now revised upwards to 11-13% from the previous over 10%. Also, the 2022 guidance for the cost-to-income ratio is now revised to 41-44% from the previous 44-47%.

Key figures and ratios

		3Q22	2Q22	1Q22	4Q21	3Q21
PROFITABILITY	Profit for the period, ISKm	**7,486**	5,880	5,187	7,092	7,587
	Return on equity	**14.4%**	11.7%	10.2%	14.2%	15.7%
	Net interest margin (of total assets)	**3.0%**	2.9%	2.6%	2.4%	2.4%
	Cost-to-income ratio[1]	**36.3%**	42.7%	47.6%	45.3%	39.4%
	Cost of risk[2]	**(0.40%)**	(0.20%)	(0.17%)	(0.23%)	(0.64%)
		30.9.22	30.6.22	31.3.22	31.12.21	30.9.21
BALANCE SHEET	Loans to customers, ISKm	**1,153,047**	1,153,677	1,107,893	1,086,327	1,081,418
	Total assets, ISKm	**1,548,672**	1,437,253	1,446,355	1,428,821	1,456,372
	Risk exposure amount, ISKm	**1,012,986**	992,883	945,321	901,646	917,764
	Deposits from customers, ISKm	**781,614**	756,862	761,471	744,036	754,442
	Customer loans to customer deposits ratio	**148%**	152%	145%	146%	143%
	Non-performing loans (NPL) ratio[3]	**1.7%**	1.8%	1.8%	2.0%	2.0%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**127%**	118%	123%	122%	121%
	Liquidity coverage ratio (LCR), for all currencies	**371%**	147%	195%	156%	225%
CAPITAL	Total equity, ISKm	**211,613**	203,662	197,201	203,710	197,381
	CET 1 ratio[4]	**18.2%**	18.2%	18.8%	21.3%	20.6%
	Tier 1 ratio[4]	**19.2%**	19.2%	19.9%	22.5%	21.8%
	Total capital ratio[4]	**21.4%**	21.5%	22.5%	25.3%	24.7%
	Leverage ratio[4]	**11.9%**	12.5%	12.4%	13.6%	13.2%

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 quarter profit for 30.9.21, 31.3.22 and 30.9.22

Birna Einarsdóttir, CEO of Íslandsbanki

Íslandsbanki continued with a very strong performance in 3Q22 with profit of ISK 7.5bn and ROE of 14.4%, well above our financial target. Core income continued to grow with combined growth of net interest and net fee and commission income up by 21% yet again. We saw a real cost reduction of 5.5% and seasonal salary factors helped contain costs, contributing to a cost-to-income ratio of 36.3%, thereby outreaching our target.

Loans to customers remained the same while deposits grew by 3.3% which further reinforces our main funding source. Íslandsbanki offers competitive interest rates and our fully digital account, Ávöxtun, which offers one of the best rates in the Icelandic market, has been a great success with our retail customers. Íslandsbanki diversified its funding profile further in the quarter with a EUR 300m inaugural issue of covered bonds and a successful ISK 10.5bn Tier 2 issue in October.

A major milestone was passed for the Bank when Síminn's sale of Míla to Ardian France SA was completed, a transaction in which we played a key role. Íslandsbanki is a leader in investment banking in Iceland, and this project demonstrated the Bank's ability to lead and integrate multi-faceted projects.

We published our road to net-zero emissions report along with the publication of the 3Q22 financials. The main emission reduction opportunities from balance sheet activities of the Bank are concentrated in the transition to green transportation in the air, on land and at sea. One of the report's key findings is that emissions from balance sheet activities are projected to fall by 60% by 2030 and by 85% by 2040.

Íslandsbanki recently received the Equality Scale recognition from the Association of Businesswomen in Iceland for the fourth year in a row, which was a great honour. This encourages us to continue on the path of fostering equality issues and being a force for good. It was also extremely interesting to see a full hall of guests at our meeting on Women and Finance, but the Bank has held regular meetings related to equality issues since 2015.

I am satisfied with the progress that the Bank has made during the quarter. Core earnings remain solid and costs are controlled, the asset quality remains strong and the loan portfolio is well collateralised. The Icelandic economy continues to be resilient and Íslandsbanki will play its part in this success.

Third quarter 2022 (3Q22) operational highlights

- Following rate hikes of 0.75% in August and 0.25% in October by the Central Bank of Iceland the current policy rate rose to 5.75%, Íslandsbanki responded by raising interest rates. For example, nominal rate, 3-year fixed mortgage rates were raised by 0.6%. Consumer loans and overdrafts were raised by 1%.

- The global index provider FTSE Russell upgraded Iceland to Secondary Emerging Market status on 19 September 2022. Íslandsbanki's shares are eligible for the FTSE Total Cap Index and is designated a size segment of Large.

- Íslandsbanki strengthened its securities brokerage activities by merging its securities brokerage and securities advisory services units to form a single department.

- At the end of 3Q22, the sale of Míla, the key telecom infrastructure company in Iceland was completed. This sale is one of the largest M&A transactions since 2008, where Ardian, a well renowned French infrastructure fund was the buyer following an international open sales process. Íslandsbanki played a pivotal role in the sales process, in which the corporate finance unit acted as a sell side sales advisor, the lending teams provided funding for the buyer in cooperation with IS Credit Fund, the securities brokerage executed a sale of bond to further finance the buyer and the FX team executed the currency transaction needed to conclude the transaction. This is a good example of the Bank's ability to provide the full scale investment banking services needed to successfully carry out such a milestone transaction.

- Íslandsbanki's Board Nomination Committee was appointed in September 2021. The Chairman of the Board of Directors sits on the committee. Finnur Árnason replaced Hallgrímur Snorrason as Chairman in March 2022.

- Íslandsbanki published a macroeconomic forecast for 2022 – 2024 in September, available here.

- Íslandsbanki published its Road to net-zero emissions and Financed emissions 2021 Report accessible here.

Operational highlights after the period-end

- On 4 October 2022, Íslandsbanki launched a two-tranche Tier 2 issue of ISK 10.5bn aimed at domestic investors. The transactions, one CPI-linked and the other paying a nominal yield, both with maturities in April 2033, offered investors a rare opportunity to buy subordinated paper denominated in ISK.

- Íslandsbanki was awarded the Equality Scale by the Association of Businesswomen in Iceland.

INCOME STATEMENT

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

Income statement, ISKm	3Q22	3Q21	Δ%	9M22	9M21	Δ%	2021
Net interest income	**11,315**	8,792	29%	**30,778**	25,399	21%	34,043
Net fee and commission income	**3,517**	3,427	3%	**10,015**	9,196	9%	12,849
Net financial income (expense)	**(471)**	941	-	**(358)**	1,853	-	2,499
Net foreign exchange gain	**64**	95	(33%)	**305**	320	(5%)	479
Other operating income	**111**	82	35%	**435**	286	52%	302
Total operating income	**14,536**	13,337	9%	**41,175**	37,054	11%	50,172
Salaries and related expenses	**(2,916)**	(2,953)	(1%)	**(9,734)**	(10,121)	(4%)	(13,397)
Other operating expenses	**(2,357)**	(2,135)	10%	**(7,366)**	(7,307)	1%	(9,799)
Administrative expenses	**(5,273)**	(5,088)	4%	**(17,100)**	(17,428)	(2%)	(23,196)
Contribution to the Depositor's and Investors' Guarantee Fund	**-**	(173)	(100%)	**(165)**	(517)	(68%)	(688)
Bank tax	**(535)**	(433)	24%	**(1,377)**	(1,294)	6%	(1,683)
Total operating expenses	**(5,808)**	(5,694)	2%	**(18,642)**	(19,239)	(3%)	(25,567)
Net impairment on financial assets	**1,165**	1,757	(34%)	**2,223**	2,379	(7%)	3,018
Profit before tax	**9,893**	9,400	5%	**24,756**	20,194	23%	27,623
Income tax expense	**(2,525)**	(1,898)	33%	**(6,319)**	(3,703)	71%	(5,119)
Profit for the period from continuing operations	**7,368**	7,502	(2%)	**18,437**	16,491	12%	22,504
Discontinued operations held for sale, net of income tax	**118**	85	39%	**116**	142	(18%)	1,221
Profit (loss) for the period	**7,486**	7,587	(1%)	**18,553**	16,633	12%	23,725
Key ratios							
Net Interest Margin (NIM)	**3.0%**	2.4%		**2.8%**	2.4%		2.4%
Cost-to-income ratio (C/I)	**36.3%**	39.4%		**41.9%**	46.6%		46.2%
Return on Equity (ROE)	**14.4%**	15.7%		**12.1%**	11.7%		12.3%
Cost of risk (COR)	**(0.40%)**	(0.64%)		**(0.26%)**	(0.30%)		(0.28%)

Core income grew by 21% in a strong quarter, mainly due to strong NII growth

- Net interest income (NII) rose mainly as a result of a larger balance sheet and higher interest rate environment. The average CB policy rate was 5.1% in 3Q22, as compared to 1.1% in 3Q21.

- Net interest margin (NIM) on total assets was 3.0% in 3Q22. Lending margin was 1.9% in 3Q22 (2.2% in 3Q21) while deposit margin was 2.1% in 3Q22 (1.3% in 3Q21).

- The rise in net fee and commission income (NFCI) by 2.6% in 3Q22 stems from several sources. Cards and payment processing increased by 16.1% YoY due to increased card activity. Other fee income increased due to growth in fees in the Bank´s subsidiary Allianz Ísland hf. Revenue from investment banking and brokerage was also robust, despite a YoY decrease, stemming from strong 3Q22 income where both the Míla deal and strong FX Sales played a role. In 3Q21 the fees from Íslandsbanki's IPO were recognised.

- Total core income (NII and NFCI) was up by 21.4% YoY in 3Q22.

- The largest change in net financial expense in the quarter is a loss in other NFI which is largely due to movements in ISK base rate curves.

Administrative expenses reduced by 5.5% in real terms during the period

- Salaries and related expenses decreased by 1.3% in 3Q22 compared to 3Q21.

- The YoY increase in operating expenses of 10.4% in 3Q22 derives from various sources but is mainly explained by an increase in software and IT expenses, professional services, and other administrative expenses.

- The number of FTEs at the end of September 2022, excluding seasonal employees, was 704 (730 at end of 3Q21) for the parent company and 742 for the Group (763 at end of 3Q21).

- The cost-to-income ratio was 36.3% in 3Q22, compared to 39.4% in 3Q21. The reduction in administrative expenses between 2Q22 and 3Q22 is largely due to seasonality in salary expenses along with decrease in other operating expenses.

Taxes and levies

- The effective tax rate was 25.5% in 3Q22, compared to 20.2% in 3Q21. Higher effective tax rate in 3Q22 is explained by the tax effect of positive fair value changes in equity shares in 3Q21 compared to minor fair value changes in equity shares in 3Q22. 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 3.6bn for the period, compared to ISK 3.0bn for 3Q21.

Positive net impairment on financial assets in 3Q22

- The positive net impairment of ISK 1.2bn in 3Q22 (3Q21: ISK 1.8bn) is the result of a more positive outlook for the tourism industry, a previously distressed credit case where a payment from a sale of a non-significant subsidiary was received, and a positive change in the loan portfolio as updated official real estate valuation was incorporated in collateral calculations, lowering LTV levels and improving PDs for households. However, economic scenarios are negatively impacted by increased inflation.[1]

- The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was -40bp in 3Q22 (-64bp in 3Q21) and -26bp in 9M22 (-30bp in 9M21). 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 7.5bn in 3Q22 (3Q21: ISK 7.6bn), generating a 14.4% annualised return on equity (3Q21: 15.7%). The ISK 100m decrease in net profit between years is due mainly to net financial expense.

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

BALANCE SHEET

Robust growth in total assets in 9M22

Assets, ISKm	30.9.22	30.6.22	Δ	Δ%	31.12.21	Δ	Δ%
Cash and balances with Central Bank	**73,566**	77,884	(4,318)	(6%)	113,667	(40,101)	(35%)
Loans to credit institutions	**137,169**	37,226	99,943	268%	43,988	93,181	212%
Bonds and debt instruments	**127,454**	108,477	18,977	17%	132,289	(4,835)	(4%)
Derivatives	**6,895**	6,193	702	11%	2,445	4,450	182%
Loans to customers	**1,153,047**	1,153,677	(630)	-	1,086,327	66,720	6%
Shares and equity instruments	**24,472**	25,789	(1,317)	(5%)	31,677	(7,205)	(23%)
Investment in associates	**3,925**	3,836	89	2%	939	2,986	318%
Property and equipment	**6,760**	6,846	(86)	(1%)	7,010	(250)	(4%)
Intangible assets	**3,282**	3,304	(22)	(1%)	3,351	(69)	(2%)
Other assets	**11,303**	12,126	(823)	(7%)	5,784	5,519	95%
Non-current assets and disposal groups held for sale	**799**	1,895	(1,096)	(58%)	1,344	(545)	(41%)
Total Assets	**1,548,672**	1,437,253	111,419	8%	1,428,821	119,851	8%
Key ratios							
Risk Exposure Amount (REA)	**1,012,986**	992,883	20,103	2.0%	901,646	111,340	12.3%
Non-performing loans (NPL) ratio[1]	**1.7%**	1.8%			2.0%		

1 Stage 3, loans to customers, gross carrying amount

Loans to customers at the same level and the portfolio remains well diversified and highly collateralised

- Loans to customers were unchanged from the previous quarter. Mortgages increased by ISK 7.0bn during the quarter and at the end of September accounted for 44% of loans to customers. Loans to corporates decreased by ISK 7.4bn during the quarter. Personal Banking had an increase of ISK 6.8bn, Business Banking an increase of ISK 9.8bn, and Corporate & Investment Banking a decrease of ISK 17.6bn.

- 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 58% at the end of 3Q22 (63% at YE21) and the LTV for the residential mortgage portfolio at the end of 3Q22 was 60% (66% at YE21). The lower LTV is mostly explained by updated official real estate valuation that is used for around half of the mortgage portfolio. The valuation reflects market prices from 1Q22 and therefore carries a buffer for potential market price fluctuations in the near term.

- Variable NIL mortgages rates have risen by 3.6% since year-end and are not expected to rise much further. There is a slight increase in mortgages on stage 2 due to forbearance but there has not been any observable increase in NPLs. The Bank tests the resilience to higher rates and sensitivity analysis does not indicate any need for additional impairment despite higher debt-service[2]

- In 2024 and 2025 a substantial part of the non-index linked, fixed rate mortgages have an interest rate reset. According to Íslandsbanki's macroeconomic forecast, published on 26 September, the policy rate is expected to start to fall again in the second half of 2023 with a gradual easing towards the equilibrium real rate, probably around 1-1.5%. The nominal policy rate could therefore be around 4.5% at the end of the forecast horizon in 2024, lower than the current 5.75% policy rate.

[2] On 5 October, after period end, the Central Bank raised rates by 0.25% and the Bank's rates have now risen by 3.7% since year-end 2021.

- Loans to credit institutions increased mainly due to unusually high liquidity position e.g., as a result of the Bank's EUR 300m covered bond issuance and settlement related to the Míla deal.
- 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 363bn at the end of September 2022, including ISK 316bn in liquid assets.
- The Bank's asset encumbrance ratio was 25.7% at the end of 3Q22, compared with 19.6% at YE21.

High asset quality

- At the end of 3Q22, 5.3% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 7.1% at the end of 2Q22.
- At the end of the 3Q22, the share of credit-impaired loans to customers, Stage 3, was 1.7% (gross), down from 1.8% at the end of 2Q22. For the mortgage portfolio, the share was 0.7% at end of 3Q22 (0.8% at end of 2Q22).
- For the mortgage portfolio the share of loans in Stage 2 was 0.8% at the end of 3Q22, up from 0.6% at the end of 2Q22. This increase is mainly due to forbearance measures.

Liabilities - strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKm	30.9.22	30.6.22	Δ	Δ%	31.12.21	Δ	Δ%
Deposits from Central Bank and credit institutions	**19,912**	11,437	8,475	74%	13,384	6,528	49%
Deposits from customers	**781,614**	756,862	24,752	3%	744,036	37,578	5%
Derivative instruments and short positions	**13,996**	11,410	2,586	23%	9,467	4,529	48%
Debt issued and other borrowed funds	**458,969**	393,754	65,215	17%	402,226	56,743	14%
Subordinated loans	**32,156**	32,181	(25)	-	35,762	(3,606)	(10%)
Tax liabilities	**10,827**	8,498	2,329	27%	6,432	4,395	68%
Other liabilities	**19,585**	18,498	1,087	6%	12,848	6,737	52%
Non-current liabilities and disposal groups held for sale	**-**	951	(951)	(100%)	956	(956)	(100%)
Total Liabilities	**1,337,059**	1,233,591	103,468	8%	1,225,111	111,948	9%
Total Equity	**211,613**	203,662	7,951	4%	203,710	7,903	4%
Total Liabilities and Equity	**1,548,672**	1,437,253	111,419	8%	1,428,821	119,851	8%
Key ratios							
Customer loans to customer deposits ratio	**148%**	152%			146%		
REA/total assets	**65.4%**	69.1%			63.1%		
Net stable funding ratio (NSFR)	**127%**	118%			122%		
Liquidity coverage ratio (LCR)	**371%**	147%			156%		
Total capital ratio[1]	**21.4%**	21.5%			25.3%		
Tier 1 capital ratio[1]	**19.2%**	19.2%			22.5%		
Leverage ratio[1]	**11.9%**	12.5%			13.6%		

1 Including third quarter profit for 30.9.22

Deposits remain the largest source of funding

- Funding is raised to match the Bank's lending programmes using three main funding sources: stable deposits, covered bonds and senior preferred bonds.
- Deposits from customers grew by 3.3% during the third quarter. Personal Banking had an increase of ISK 6.8bn, Business Banking an increase of ISK 11.9bn and, Corporate & Investment Banking an increase of ISK 3.1bn. All deposit concentration levels are monitored closely, with concentration remaining stable in 3Q22.

- The ratio of customer loans to customer deposits was 148% at the end of 3Q22, from the previous 152% at the end of 2Q22. Deposits from retail, businesses and corporations are the Bank's main source of funding, comprising 47% of total funding sources and 88% of the Bank's total deposit base at the period-end.

- The Bank continued issuing ISK-denominated covered bonds to fund the increase in mortgage lending. Domestically, the Bank issued ISK 7.6bn in covered bonds in ISK during the quarter.

- On 11 September, the Bank launched its inaugural EUR covered bond issue. Managed by Barclays Bank and UBS, the EUR 300 million bonds due in September 2027 paid a spread of 70 basis points over mid-swap rates. The paper was placed with a range of continental European investors. Rated A by Standard & Poor's Global Ratings, the covered bond programme enables the Bank to access a wider diversity of investors than through its MTN programme alone.

- On 4 October 2022, Íslandsbanki launched a two-tranche Tier 2 issue of ISK 10.5bn aimed at domestic investors. The transactions, one CPI-linked and the other paying a nominal yield, both with maturities in April 2033, offered investors a rare opportunity to buy subordinated papers denominated in ISK.

- The Bank has announced that it will be exercising the call option on its SEK 750 Tier 2 of 2027 in November 2022.

- The liquidity position remains strong, with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 371% in 3Q22, up from 156% at YE21. The LCR in foreign currencies was 421% for 3Q22, up from 235% at YE21 and the LCR in ISK decreased from 141% at YE21 to 119% in 3Q22.

- The total net stable funding ratio (NSFR) was 127% at the end of 3Q22, compared to 122% at YE21 and the NSFR in foreign currencies was 257% at the end of 3Q22, 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, calls or exchanges of outstanding transactions during 2022.

Capital ratios well above targets

- Total equity amounted to ISK 212bn at the end of 3Q22, compared to ISK 204bn at the end of 2Q22 and ISK 204bn at YE21.

- The capital base was ISK 213bn at end of September, unchanged from end of June 2022 (ISK 228bn at year-end 2021). 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.

- The Bank continues to explore share buyback options and the potential to release capital through dividends. However, the Bank will need to assess these options in the light of generally highly volatile market conditions and the backdrop of a rapidly deteriorating global economy. Additionally, the ECB and the Central Bank of Iceland recently encouraged banks to maintain capital buffers that are consistent with the prevailing level of risk to help ensure banking sector resilience.

- The Bank plans to optimise its capital structure before year-end 2023

- On 22 June 2022, the Central Bank Financial Supervision Committee announced the results of the SREP process 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%. At the end of September, the counter-cyclical buffer increased from 0% to 2.0% which, in turn, raised the Bank's capital requirement from 17.9% to 19.9%.

- At the end of 3Q22, the Bank's total capital ratio was 21.4%, including the 3Q22 profit, compared to 21.5% at the end of June (25.3% at YE21). The corresponding Tier 1 ratio was 19.2%, including 3Q22 profit, same as at the end of June (22.5% at YE21). The CET1 ratio was 18.2% (300bp above requirement), including 3Q22 profit, same as at the end of June (21.3% at YE21) and above the Bank's target of about 16.5%. The change in the total capital ratio from the end of 2Q22 reflects the increase in the REA. The ratios are determined on the basis of the unaudited net earnings in the quarter, with a deduction of 50% of net earnings as foreseeable dividends in line with the Bank's dividend policy and foreseeable buybacks of ISK 15 billion.

- Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 1,013bn at the end of 3Q22, compared to ISK 992 at the end of June (ISK 902bn at YE21). The rise in the REA from the end of June is a result of increase in loans to credit institutions and bonds and debt instruments. The REA amounts to 65.4% of total assets at the end of 3Q22, compared to 63.1% at YE21.

- The leverage ratio was 11.9% at the end of 3Q22, including the 3Q22 profit, compared to 12.5% at the end of June (13.6% at YE21).

Meeting MREL requirements

- Directive 2014/59/EU on Bank Recovery and Resolution (BRRD I) was i.a. transposed into Icelandic law with Act no. 70/2020 on the resolution of credit institutions and investment firms (the Act). On 8 December 2021, the Icelandic Resolution Authority of the Central Bank of Iceland published its policy on minimum requirements for own funds and eligible liabilities (MREL-Requirement) according to art. 17 of the Act (hereinafter the MREL-Policy).

- On 29 September 2022, the Icelandic Resolution Authority of the Central Bank of Iceland announced that a resolution plan had been approved for Íslandsbanki and thereby an MREL-Requirement for the Bank. The decision is based on the aforementioned MREL-Policy.

- The Bank´s MREL-Requirement is 21.2% of the Bank's Total Risk Exposure Amount (TREA) as per year-end 2021 and applies from the date of the announcement. The Bank's ratio was 27.6% at the end of September. 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 September 2022, the Bank's consolidated net inflation imbalance amounted to ISK 25.0bn, 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 -2.2bn (1.0% of the total capital base) at the end of September 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.

INVESTOR RELATIONS

An earnings conference call and webcast will take place on Friday 28 October 2022

Íslandsbanki will host a webcast in English for investors and market participants on Friday 28 October at 8.30 Reykjavík/GMT, 9.30 London/BST, 10.30 CET. Birna Einarsdóttir, CEO, and Jóhann Ottó Wathne, Head of Treasury, will give an overview of the third quarter 2022 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 verbally, please register **via this link**. There will be a list of dial-in numbers and a personal PIN. If there is no local dial-in number for your country, or if you would prefer to receive a call instead of dialling in, the Call Me option is available. Then select your country, enter your telephone number and click on the blue Call Me button to be connected.

Financial calendar

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

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