



# Second Quarter 2023 Results

Íslandsbanki hf.



## 2Q23 RESULTS HIGHLIGHTS

### Second quarter 2023 (2Q23) financial highlights

- Íslandsbanki reported a net profit of ISK 6.1 billion in the second quarter (2Q22: ISK 5.9 billion), generating an annualised return on equity (ROE) of 11.5% (2Q22: 11.7%). This is in line with the updated ROE guidance for 2023 which is in the range of 10.7-11.7% and above the Bank's financial target of being above 10%.
- Net interest income (NII) grew by 23.0% YoY and totalled ISK 12.6 billion in 2Q23 (2Q22: ISK 10.3 billion).
- The net interest margin (NIM) was 3.2% in 2Q23, compared to 2.9% in 2Q22.
- Net fee and commission income (NFCI) grew 4.6% YoY and amounted to ISK 3.6 billion in 2Q23, compared to ISK 3.4 billion in 2Q22.
- Net financial expense was ISK 559 million in 2Q23, compared to net financial income of ISK 208 million in 2Q22.
- Administrative expenses, excluding an administrative fine in the amount of ISK 860 million, rose during the second quarter and were ISK 6.7 billion in 2Q23 compared to ISK 6.0 billion in 2Q22, an increase of 11.7% YoY.
- The cost-to-income ratio was 42.6% in 2Q23, which is within the Bank's guidance of the ratio being in the range 40-45% and below the Bank's financial target of being below 45%, compared to 42.7% in 2Q22. The ratio excludes bank tax and one-off costs, including a charge in the amount of ISK 860 million relating to an administrative fine.
- Positive impairment amounted to ISK 1,245 million in 2Q23 and is mostly due to a reversal for few distressed credit cases in the tourism sector, compared to a positive impairment of ISK 575 million in 2Q22. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -40bp in 2Q23, compared to -20bp in 2Q22.
- Loans to customers grew by ISK 18.8 billion in the quarter, or by 1.5% to ISK 1,238 billion.
- Deposits from customers grew by ISK 16.6 billion, or 2.1%, during the quarter, up to ISK 817 billion.
- Total equity at period-end amounted to ISK 215.5 billion compared to ISK 218.9 billion at year-end 2022.
- The Bank's total capital ratio was 23.2% at end of 2Q23, compared to 22.2% at year-end 2022. The corresponding CET1 ratio was 20.0%, compared to 18.8% at year-end 2022 which is 480bp above regulatory requirements, and above the Bank's financial target of having a 100-300bp capital buffer on top of CET1 regulatory requirements.

### First half 2023 (1H23) financial highlights

- Íslandsbanki's net profit for the first half of 2023 was ISK 12.4 billion (1H22: ISK 11.1 billion), with annualised return on equity for 1H23 of 11.4%, compared to 10.9% in 1H22.
- Net interest income totalled ISK 25.0 billion in 1H23, an increase of 28.6% YoY.
- Net fee and commission income (NFCI) grew 8.7% YoY and amounted to 7.1 billion in 1H23, compared to ISK 6.5 billion in 1H22.
- Net financial expense was ISK 21 million in 1H23 compared to income of ISK 113 million in 1H22.
- Administrative expenses were ISK 13.7 billion in 1H23, excluding an administrative fine in the amount of ISK 860 million charged in the second quarter of 2023, compared to ISK 11.8 billion in 1H22.
- Cost-to-income ratio dropped YoY from 45.0% in 1H22 to 42.3% in 1H23.
- Net impairment on financial assets was positive and amounted to ISK 570 million in the first half of 2023 (1H22: ISK 1,058 million).



## Key figures and ratios

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

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

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

3. Negative cost of risk means that there is a net release of impairments.

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

5. Including 1Q23 profit for 31.3.23 and 3Q22 profit for 30.9.22

## Jón Guðni Ómarsson, CEO of Íslandsbanki

Íslandsbanki was faced with major challenges during the second quarter. The settlement made with the Central Bank of Iceland to conclude the matter relating to the March 2022 sale of a 22.5% Icelandic State owned stake in the share capital of the Bank by accepting an administrative fine in the amount of ISK 1,160 million was undeniably the largest one. We regret the failings in the Bank's execution of the offering and apologise for them. Substantial work has been carried out within the Bank to meet the Financial Supervisory Authority of the Central Bank's remedial measures and those efforts will continue in the coming months.

The Bank's operations went well during the quarter and the after tax profit amounted to ISK 6.1 billion and the annualised return on equity for the period was 11.5%, which is above the Bank's financial targets. The profit for the first half of the year 2023 was ISK 12.4 billion and the return on equity was 11.4%. Deposits rose during the second quarter for all business units and loans to customers has increased by more than ISK 50 billion this year. We welcome the opportunity to continue to support our customers in their diverse projects.

Coming up is the Íslandsbanki Reykjavík Marathon, which is one of our highlights every year and an important event for most of the local charities in Iceland. We encourage as many as possible to participate and support a good cause along the way.

## Second quarter 2023 (2Q23) operational highlights

- On 22 June 2023 the Bank announced that it had accepted the Icelandic Financial Supervisory Authority of the Central Bank of Iceland's (FSA) offer to conclude the case relating to its execution of the Icelandic State's offering of a 22.5% stake in the Bank with a settlement agreement. In agreeing to the settlement agreement, the Bank agreed to pay an administrative fine of ISK 1,160 million and admitted to having violated certain provisions of the Act on Markets in Financial Instruments no. 115/2021 and the Act on Financial Undertakings no. 161/2002 in connection with



the said offering. The Bank had charged ISK 300 million in its 4Q22/FY22 account. The remaining ISK 860 million was charged in the second quarter.

- On 28 June it was announced that Birna Einarsdóttir had stepped down as CEO and that the Bank's CFO, Jón Guðni Ómarsson, had been appointed as CEO of Íslandsbanki. Jón Guðni continues to discharge CFO duties until a new CFO is appointed.
- The Bank updated its ROE guidance for the year 2023 and is now guiding towards a range of 10.7-11.7%, still assuming normalised through-the-cycle annual impairments of 25-30bp on the Bank's loan portfolio for the second half of the year 2023.
- Following the Central Bank hike of the policy rate in May, by 1.25%, Íslandsbanki responded by raising rates, generally by that same amount, for both loans and deposits.
- On 29 June the Bank announced that Kvika banki hf. had decided to discontinue the merger discussions that had been ongoing since February.
- The FSA announced the results of the SREP concerning additional capital requirements (Pillar 2-R) for the Bank. As of 30 June 2023 the Bank must maintain an additional capital requirement of 2.4% of the REA, which is a reduction of 0.2% from the previous assessment. The Bank's overall capital requirement, including capital buffers, was therefore reduced from 19.9% to 19.7%.
- Íslandsbanki acted as both Facility Agent and Security Agent in a EUR 220 million sustainability-linked refinancing for Brim hf.
- The Bank published its macroeconomic forecast for 2023-2025 in May, available [here](#).
- Íslandsbanki published its 2022 Allocation and Impact Report, accessible [here](#). Projects were financed in 11 different categories out of a possible 18 in the Sustainable Financing Framework.
- Euromoney chose Íslandsbanki as the best bank in Iceland.

#### Operational highlights after the period-end

- Kristín Hrönn Guðmundsdóttir has been appointed as managing director of Íslandsbanki's Corporate and Investment Banking. She replaces Ásmundur Tryggvason, who has left the Bank.
- On 2 July 2023 the Board of Directors of the Bank announced a meeting of shareholders of Íslandsbanki to be held on 28 July 2023 in which an election of the Board of Directors will be on the agenda. Three of the current members of the Board of Directors are not seeking re-election at the meeting.



## INCOME STATEMENT

Income statement, ISKmn	2Q23	2Q22	Δ%	1H23	1H22	Δ%	2022
Net interest income	12,612	10,254	23%	25,035	19,463	29%	43,126
Net fee and commission income	3,592	3,434	5%	7,061	6,498	9%	14,053
Net financial income (expense)	(559)	208	-	(21)	113	-	(1,257)
Net foreign exchange gain	48	75	(36%)	292	241	21%	881
Other operating income	21	59	(64%)	64	324	-	433
<b>Total operating income</b>	<b>15,714</b>	<b>14,030</b>	<b>12%</b>	<b>32,431</b>	<b>26,639</b>	<b>22%</b>	<b>57,236</b>
Salaries and related expenses	(3,829)	(3,396)	13%	(7,789)	(6,818)	14%	(13,452)
Other operating expenses	(2,862)	(2,597)	10%	(5,944)	(5,009)	19%	(10,166)
Administrative fine	(860)	-	-	(860)	-	-	(300)
<b>Administrative expenses</b>	<b>(7,551)</b>	<b>(5,993)</b>	<b>26%</b>	<b>(14,593)</b>	<b>(11,827)</b>	<b>23%</b>	<b>(23,918)</b>
Contribution to the Depositor's and Investors' Guarantee Fund	-	-	-	-	(165)	-	(165)
Bank tax	(485)	(412)	18%	(947)	(842)	12%	(1,858)
<b>Total operating expenses</b>	<b>(8,036)</b>	<b>(6,405)</b>	<b>25%</b>	<b>(15,540)</b>	<b>(12,834)</b>	<b>21%</b>	<b>(25,941)</b>
Net impairment on financial assets	1,245	575	-	570	1,058	(46%)	1,576
<b>Profit before tax</b>	<b>8,923</b>	<b>8,200</b>	<b>9%</b>	<b>17,461</b>	<b>14,863</b>	<b>17%</b>	<b>32,871</b>
Income tax expense	(2,792)	(2,331)	20%	(5,127)	(3,794)	35%	(8,485)
<b>Profit for the period from continuing operations</b>	<b>6,131</b>	<b>5,869</b>	<b>4%</b>	<b>12,334</b>	<b>11,069</b>	<b>11%</b>	<b>24,386</b>
Discontinued operations held for sale, net of income tax	8	11	-	16	(2)	-	149
<b>Profit for the period</b>	<b>6,139</b>	<b>5,880</b>	<b>4%</b>	<b>12,350</b>	<b>11,067</b>	<b>12%</b>	<b>24,535</b>
<b>Key ratios</b>							
Net Interest Margin (NIM)	3.2%	2.9%		3.2%	2.7%		2.9%
Cost-to-income ratio (C/I)	42.6%	42.7%		42.3%	45.0%		41.6%
Return on Equity (ROE)	11.5%	11.7%		11.4%	10.9%		11.8%
Cost of risk (COR)	(0.40%)	(0.20%)		(0.09%)	(0.19%)		(0.14%)

### Growth in core income continues to be the most important part of the Bank's revenue

Net interest income (NII) rose by 23% from the second quarter of 2022 and amounted to ISK 12.6 billion, mainly as a result of a higher interest rate environment and larger balance sheet. The average CB policy rate was 8.0% in the second quarter, as compared to 3.5% in 2Q22. Net interest margin (NIM) on total assets was 3.2% in 2Q23 (2.9% in 2Q22). Lending margin was 1.8% in 2Q23 (1.9% in 2Q22) while deposit margin was 2.3% in 2Q23 (1.8% in 2Q22).

Net fee and commission income (NFCI) rose modestly by 4.6% compared to 2Q22 and was ISK 3.6 billion. Fees from cards and payment processing remain the largest single component of 2Q23 NFCI, with other fee and commission income following in terms of significance.

Core banking operations remain the most important part of the Bank's revenues, with NII and NFCI accounting for 103% of total operating income in 2Q23 (98% in 2Q22). These two items combined grew by 18.4% from 2Q22 to 2Q23.

### Cost-to-income ratio within 2023 C/I ratio guidance range and below financial target

The cost-to-income ratio was 42.6% in second quarter of 2023, compared to 42.7% in 2Q22. This is within the Bank's guidance of the ratio being in the range 40-45% and below the Bank's financial target of it being below 45%. The ratio excludes bank tax and one-off costs, including a charge of ISK 860 million relating to an administrative fine charged to the accounts in the second quarter.

Salaries and related expenses increased by 12.8% in 2Q23 compared to 2Q22 and were ISK 3,8 billion in the second quarter. The increase is largely explained by wage increases through general wage agreements in Iceland.

### Positive net impairment with reversal resulting from a strong recovery in the tourism industry

The positive net impairment of ISK 1.2 billion in 2Q23 (2Q22: positive net impairment of ISK 575 million) is mostly due to reversals for a few distressed credit cases in the tourism industry, which has a very strong outlook. The current impairment outlook is relatively benign due to low unemployment, good outlook for economic growth and increasing interest rates that have not impacted the NPL ratio. The annualised



cost of risk, measured as a net impairment charge as a share of loans to customers, was -40 bp in 2Q23 (-20 bp in 2Q22).

## BALANCE SHEET

### Loans to customers increase in all business segments

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

### Key ratios

Risk Exposure Amount (REA)	1,015,197	1,004,978	10,219	1.0%	999,491	15,706	1.6%
REA/total assets	63.7%	64.8%			63.8%		
Non-performing loans (NPL) ratio <sup>1</sup>	1.7%	1.7%			1.8%		

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

### Loan portfolio is well diversified and highly collateralised

Loans to customers grew by 1.5% in the quarter. Loans to customers amounted to ISK 1,238 million at the end of second quarter 2023. Mortgages increased by ISK 4.9 billion during the quarter and at the end of June accounted for 42% of loans to customers. 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 2Q23, the same as at YE22 and the LTV for the residential mortgage portfolio was 58% at the end of 2Q23 (60% at YE22).

The Bank's asset encumbrance ratio was 25.3% at the end of 2Q23, compared with 26.5% at YE22.

### Credit quality remains strong

At the end of 2Q23, 2.0% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 3.3% at the end of 1Q23. At the end of the 2Q23, the ratio of credit-impaired loans to customers, Stage 3, was 1.7% (gross) and remained unchanged between quarters. For the mortgage portfolio, the ratio was 0.8% at end of 2Q23 (0.8% at end of 1Q23).

Loans to customers in Stage 2 was 2.6% at 2Q23, down from 3.0% at the end of 1Q23. For the mortgage portfolio the ratio of loans in Stage 2 was 1.0% at the end of 2Q23 compared to 0.8% at end of 1Q23.

## Liabilities – strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKm	30.6.23	31.3.23	Δ	Δ%	31.12.22	Δ	Δ%
Deposits from Central Bank and credit institutions	14,306	13,694	612	4%	15,269	(963)	(6%)
Deposits from customers	816,641	800,071	16,570	2%	789,897	26,744	3%
Derivative instruments and short positions	12,064	12,745	(681)	(5%)	10,804	1,260	12%
Debt issued and other borrowed funds	460,913	438,605	22,308	5%	468,270	(7,357)	(2%)
Subordinated loans	33,104	33,839	(735)	(2%)	34,392	(1,288)	(4%)
Tax liabilities	14,832	13,206	1,626	12%	12,128	2,704	22%
Other liabilities	25,855	28,985	(3,130)	(11%)	16,601	9,254	56%
<b>Total Liabilities</b>	<b>1,377,715</b>	<b>1,341,145</b>	<b>36,570</b>	<b>3%</b>	<b>1,347,361</b>	<b>30,354</b>	<b>2%</b>
<b>Total Equity</b>	<b>215,524</b>	<b>210,385</b>	<b>5,139</b>	<b>2%</b>	<b>218,874</b>	<b>(3,350)</b>	<b>(2%)</b>
<b>Total Liabilities and Equity</b>	<b>1,593,239</b>	<b>1,551,530</b>	<b>41,709</b>	<b>3%</b>	<b>1,566,235</b>	<b>27,004</b>	<b>2%</b>

### Key ratios

Customer loans to customer deposits ratio	152%	152%	150%
Net stable funding ratio (NSFR)	119%	115%	118%
Liquidity coverage ratio (LCR)	259%	171%	205%
Total capital ratio	23.2%	23.2%	22.2%
Tier 1 capital ratio	20.9%	20.8%	19.8%
Leverage ratio	12.8%	12.9%	12.1%

## Deposits continue to be the largest source of funding

Funding is mainly 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 2.1% during the quarter. All deposit concentration levels are monitored closely, with concentration remaining stable in 2Q23. The ratio of customer loans to customer deposits was 152% at the end of 2Q23, the same as at the end of 1Q23. When excluding mortgages funded with covered bonds, the ratio is 120% for the second quarter, having been 121% at the end of March 2023.

The Bank continued to issue ISK-denominated covered bonds to fund the increase in mortgage lending. Domestically, the Bank sold ISK 14.4 billion in covered bonds in ISK during the quarter and bought back ISK 9.1 billion of the ISB CB 23 maturity. In May the Bank launched a EUR 300 million senior preferred bond off its Euro Medium Term Note Programme. The transaction has a maturity of 3 years and pays a coupon of 7.375%, being a spread of 421bp over mid-swaps at time of launch. The deal was more than 2.5 times oversubscribed, attracting close to EUR 800 million of orders from 116 investors.

The Bank's total liquidity coverage ratio (LCR) was 259% at end of 2Q23, up from 171% at 1Q23. The LCR in foreign currencies was 260% at end of 2Q23, down from 289% at 1Q23 and the LCR in ISK increased from 121% in 1Q23 to 145% at end of 2Q23. 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 2023.

## Strong capital position and ratios well above requirements

Total equity amounted to ISK 216 billion at the end of 2Q23, compared to ISK 219 billion at YE22. At the end of 2Q23, the Bank's total capital ratio was 23.2% compared to 22.2% at YE22. The corresponding Tier 1 ratio was 20.9%, compared to 19.8% at the YE22. The CET1 ratio was 20.0% (480bp above requirement), and above the Bank's financial target of having a 100-300bp capital buffer on top of regulatory requirements.

Íslandsbanki uses the standardised method to calculate its REAs, which amounted to ISK 1,015 billion at the end of 2Q23, compared to ISK 999 billion at YE22. The rise in REA is a result of increase in loans to customers. The REA amounts to 63.8% of total assets at the end of 2Q23, same as YE22.

The leverage ratio was 12.8% at the end of 2Q23 and was 12.9% at the end of March.

The Financial Supervisory Authority of the Central Bank of Iceland has announced the results of the SREP concerning additional capital requirements (Pillar 2-R). As of 30 June 2023, the Bank must



maintain an additional capital requirement of 2.4% of the REA, which is a reduction of 0.2% from the previous assessment. The Bank's overall capital requirement, including capital buffers, was therefore reduced from 19.9% to 19.7%.

#### Disclaimer

This press release may contain "forward-looking statements," involving uncertainty and risks that could cause actual results to differ materially from results expressed or implied by the statements. Íslandsbanki hf. undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. It is the investor's responsibility to not place undue reliance on these forward-looking statements which only reflect the date of this press release. Forward-looking statements should not be considered as guarantees or predictions of future events and all forward-looking statements are qualified in their entirety by this cautionary statement.

## INVESTOR RELATIONS

### An earnings conference call and webcast will take place on Friday 28 July 2023

Íslandsbanki will host a webcast in English for investors and market participants on Friday 28 July at 8.30 Reykjavík/GMT, 9.30 London/BST, 10.30 CET. Jón Guðni Ómarsson, CEO, and Jóhann Ottó Wathne, Head of Treasury, will give an overview of the second quarter 2023 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.

Further information is available through Íslandsbanki Investor Relations, [ir@islandsbanki.is](mailto:ir@islandsbanki.is)

#### Financial calendar

Íslandsbanki plans to publish its 3Q23 results on 26 October 2023. Please note that the date is 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.