



Third Quarter 2023 Results

Íslandsbanki hf.



3Q23 RESULTS HIGHLIGHTS

Third quarter 2023 (3Q23) financial highlights

- Íslandsbanki reported a net profit of ISK 6.0 billion in the third quarter (3Q22: ISK 7.5 billion), generating an annualised return on equity (ROE) of 11.0% (3Q22: 14.4%). 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 ROE exceeding 10%.
- Net interest income (NII) amounted to ISK 11.8bn and grew by 4.7% in 3Q23 compared to 3Q22 when it was ISK 11.3bn.
- The net interest margin (NIM) was 2.9% in 3Q23, compared to 3.0% in 3Q22.
- Net fee and commission income (NFCI) decreased by 3.3% compared to 3Q22 and amounted to ISK 3.4 billion in 3Q23.
- Net financial expense was ISK 193 million in 3Q23, compared to ISK 471 million in 3Q22.
- Administrative expenses in the third quarter were ISK 6.0 billion compared to ISK 5.3 billion in 3Q22, an increase of 14.5%.
- The cost-to-income ratio was 39.0% in 3Q23, which is lower than the Bank's guidance of the ratio being 40-45% and its financial target of the ratio being below 45%. The cost-to-income ratio was 36.3% in 3Q22.
- Negative impairment amounted to ISK 583 million in 3Q23 and is mostly due to a few distressed credit cases, compared to a positive impairment of ISK 1,165 million in 3Q22. The net impairment charge as a share of loans to customers, the annualised cost of risk, was 19bp in 3Q23, compared to -40bp in 3Q22.
- Loans to customers decreased by ISK 27.3 billion in the quarter, or by 2.2% from the previous quarter to ISK 1,210 billion at the end of third quarter 2023.
- Deposits from customers grew by ISK 47.5 billion, or 5.8%, during the quarter, up to ISK 864 billion.
- Total equity at period-end amounted to ISK 219.7 billion compared to ISK 218.9 billion at year-end 2022.
- The Bank's total capital ratio was 24.3% at end of 3Q23, compared to 22.2% at year-end 2022. The corresponding CET1 ratio was 20.6%, compared to 18.8% at year-end 2022 which is 580bp above regulatory requirements, and above the Bank's financial target of having a 100-300bp capital buffer on top of CET1 regulatory requirements.

First nine months 2023 (9M23) financial highlights

- Íslandsbanki's net profit for the first nine months of 2023 was ISK 18.4 billion (9M22: ISK 18.6 billion), with annualised return on equity for 9M23 of 11.3%, compared to 12.1% in 9M22.
- Net interest income totalled ISK 36.9 billion in 9M23, an increase of 19.8% compared to the first nine months of 2022.
- Net fee and commission income (NFCI) has grown by 4.5% YoY and amounted to 10.5 billion in 9M23, compared to ISK 10 billion in 9M22.
- Net financial expense was ISK 214 million in 9M23 compared to an expense of ISK 358 million in 9M22.
- Administrative expenses were ISK 19.8 billion in 9M23, excluding an administrative fine in the amount of ISK 860 million charged in the second quarter of 2023, compared to ISK 17.1 billion in 9M22.
- Cost-to-income ratio fell YoY from 41.9% in 9M22 to 41.3% in 9M23.
- Net impairment on financial assets was negative and amounted to ISK 13 million in the first nine months of 2023 having been positive and amounting to ISK 2,223 million for the same period of 2022.



Key figures and ratios

		3Q23	2Q23	1Q23	4Q22	3Q22
PROFITABILITY	Profit for the period, ISKm	6,007	6,139	6,211	5,982	7,486
	Return on equity	11.0%	11.5%	11.4%	11.1%	14.4%
	Net interest margin (of total assets)	2.9%	3.2%	3.2%	3.1%	3.0%
	Cost-to-income ratio ^{1,2}	39.0%	42.6%	42.1%	40.6%	36.3%
	Cost of risk ³	0.19%	(0.40%)	0.22%	0.22%	(0.40%)
		30.9.23	30.6.23	31.3.23	31.12.22	30.9.22
BALANCE SHEET	Loans to customers, ISKm	1,210,499	1,237,758	1,218,999	1,186,639	1,153,047
	Total assets, ISKm	1,643,600	1,593,239	1,551,530	1,566,235	1,548,672
	Risk exposure amount, ISKm	986,355	1,015,197	1,004,978	999,491	1,012,986
	Deposits from customers, ISKm	864,189	816,641	800,071	789,897	781,614
	Customer loans to customer deposits ratio	140%	152%	152%	150%	148%
	Non-performing loans (NPL) ratio ⁴	1.8%	1.7%	1.7%	1.8%	1.7%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	120%	119%	115%	118%	127%
	Liquidity coverage ratio (LCR), for all currencies	247%	259%	171%	205%	371%
CAPITAL	Total equity, ISKm	219,694	215,524	210,385	218,874	211,613
	CET1 ratio ⁵	20.9%	20.0%	19.9%	18.8%	18.2%
	Tier 1 ratio ⁵	21.9%	20.9%	20.8%	19.8%	19.2%
	Total capital ratio ⁵	24.6%	23.2%	23.2%	22.2%	21.4%
	Leverage ratio ⁵	12.7%	12.8%	12.9%	12.1%	11.9%
	MREL ratio ⁶	39.2%	38.4%	33.2%	34.5%	-

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, 3Q22 profit for 30.9.22 and 3Q23 profit for 30.9.23.

6. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.

Jón Guðni Ómarsson, CEO of Íslandsbanki

The Bank's results for the third quarter were solid with an annualised return on equity being 11.0% for the quarter, which is above our financial targets. Deposits increased significantly while loans to customers decreased during the quarter. The Bank's financial position remains very strong and share of non-performing loans continues to be stable. Moody's decision to assign Íslandsbanki an A3 issuer rating with a stable outlook demonstrates the Bank's strong capitalisation and recurring profitability. Moody's decision is a clear recognition of the hard work and commitment shown by our employees.

One of the biggest projects this season is without a doubt to help our customers ride out these challenging times, with high interest rates and stubborn inflation making it more difficult for many people. Consequently, the Bank's customers are now increasingly looking for index-linked loan financing. Customers can avail themselves of a few alternatives to help limit the impact of high interest rates. For instance, a large part of the mortgages the Bank has granted in recent years allow for an interest rate ceiling, which can reduce the monthly payment burden of customers.

Alongside rapid and significant technical developments the frequency of cyber-crimes and frauds has also increased. The Bank has significantly enhanced its customer services in that field, both offering around-the-clock emergency services and a recently implemented a solution allowing customers to sign out of all devices with a single click.

We accept applications for Íslandsbanki's Entrepreneurship Fund until 1 November and look forward to awarding grants by year end. Íslandsbanki strives to be a force for good, and supporting the entrepreneurial community is an important part of our projects.



Third quarter 2023 (3Q23) operational highlights

- A new Board of Directors for the Bank was elected at a shareholder meeting held on 28 July. At the meeting Linda Jónsdóttir was elected as chairman of the Board and in total there were four new individuals elected to the Bank's Board of Directors at the meeting. The meeting was well attended by the Bank's shareholders, with holders of shares of more than 79% of the outstanding shares being represented at the meeting.
- On 30 August 2023 Moody's Investor Services (Moody's) assigned an A3 issuer rating to Íslandsbanki. The rating has a stable outlook and reflects Íslandsbanki's strong capitalisation and good recurring profitability. At the time of the announcement the rating was the highest of the Icelandic banks. Additionally, Moody's assigned A2 long-term and P-1 short-term foreign and local currency deposit ratings. By this announcement Íslandsbanki became the first Icelandic bank to acquire a single A rating since 2008.
- Following the Central Bank hike of the policy rate in August, by 0.50 percentage points Íslandsbanki responded by raising rates, generally by that same amount, for both loans and deposits.
- The Bank published its macroeconomic forecast for 2023–2025 in September, available [here](#).

Operational highlights after the period-end

- Ellert Hlöðversson has been appointed CFO of Íslandsbanki and will assume the position at the end of the year. He will replace Jón Guðni Ómarsson, who was appointed CEO in June 2023.
- On 4 October 2023 the Central Bank of Iceland announced its decision to keep the policy rate unchanged. Next decision on policy rates will be announced by the Central Bank on 22 November 2023.
- On 18 October the Central Bank's Resolution Authority announced that a resolution plan had been approved for Íslandsbanki and thereby updated the MREL-Requirement. The MREL-requirement, including the combined buffer requirement, is 30.1% of the Bank's Risk Exposure Amount (REA). The updated requirement applies from the date of the announcement.
- Íslandsbanki was awarded the Equality Scale by the Association of Businesswomen in Iceland for the fifth consecutive time. The award is a clear recognition of the good results achieved by the Bank in terms of equality and a confirmation of the effectiveness and impact of Íslandsbanki's equality policy.

INCOME STATEMENT

Income statement, ISKmn	3Q23	3Q22	Δ%	9M23	9M22	Δ%	2022
Net interest income	11,846	11,315	5%	36,881	30,778	20%	43,126
Net fee and commission income	3,400	3,517	(3%)	10,461	10,015	4%	14,053
Net financial income (expense)	(193)	(471)	(59%)	(214)	(358)	(40%)	(1,257)
Net foreign exchange gain	176	64	175%	468	305	53%	881
Other operating income	248	111	123%	312	435	(28%)	433
Total operating income	15,477	14,536	6%	47,908	41,175	16%	57,236
Salaries and related expenses	(3,353)	(2,916)	15%	(11,142)	(9,734)	14%	(13,452)
Other operating expenses	(2,687)	(2,357)	14%	(8,631)	(7,366)	17%	(10,166)
Administrative fine	-	-	-	(860)	-	-	(300)
Administrative expenses	(6,040)	(5,273)	15%	(20,633)	(17,100)	21%	(23,918)
Contribution to the Depositor's and Investors' Guarantee Fund	-	-	-	-	(165)	-	(165)
Bank tax	(522)	(535)	(2%)	(1,469)	(1,377)	7%	(1,858)
Total operating expenses	(6,562)	(5,808)	13%	(22,102)	(18,642)	19%	(25,941)
Net impairment on financial assets	(583)	1,165	-	(13)	2,223	(101%)	1,576
Profit before tax	8,332	9,893	(16%)	25,793	24,756	4%	32,871
Income tax expense	(2,334)	(2,525)	(8%)	(7,461)	(6,319)	18%	(8,485)
Profit for the period from continuing operations	5,998	7,368	(19%)	18,332	18,437	(1%)	24,386
Discontinued operations held for sale, net of income tax	9	118	(92%)	25	116	(78%)	149
Profit for the period	6,007	7,486	(20%)	18,357	18,553	(1%)	24,535
Key ratios							
Net Interest Margin (NIM)	2.9%	3.0%		3.1%	2.8%		2.9%
Cost-to-income ratio (C/I)	39.0%	36.3%		41.3%	41.9%		41.6%
Return on Equity (ROE)	11.0%	14.4%		11.3%	12.1%		11.8%
Cost of risk (COR)	0.19%	(0.40%)		0.00%	(0.26%)		(0.14%)

Core income continues to be the most important part of the Bank's revenue

Net interest income (NII) in the third quarter of 2023 grew by 4.7% from the third quarter of 2022 and amounted to ISK 11.8 billion, mainly as a result of a higher interest rate environment and larger balance sheet compared to 3Q22. The average CB policy rate was 9.0% in the third quarter of 2023, compared to 5.1% in 3Q22. Net interest margin (NIM) on total assets was 2.9% in 3Q23 (3.0% in 3Q22). Lending margin was 1.8% in 3Q23 (1.9% in 3Q22) while deposit margin was 2.0% in 3Q23 (2.1% in 3Q22).

Net fee and commission income (NFCI) decreased slightly by 3.3% compared to 3Q22 and was ISK 3.4 billion. Fees from cards and payment processing remain the largest single component of 3Q23 NFCI, with other fee and commission income and net fee and commission income from investment banking and brokerage following in terms of significance in the third quarter.

Core banking operations remain the most important part of the Bank's revenues, with NII and NFCI accounting for 98.5% of total operating income in 3Q23 (102% in 3Q22).

Low cost-to-income ratio in 3Q23 – financial target achieved

The cost-to-income ratio was 39.0% in the third quarter of 2023, compared to 36.3% in 3Q22. This is below the Bank's guidance of the ratio being 40–45% and achieves the Bank's financial target of staying below 45%.

Salaries and related expenses increased by 15% in 3Q23 compared to 3Q22 and were ISK 3.4 billion in the third quarter. Other operating expenses rose by 14% compared to 3Q22, mostly due to higher inflation, investments in IT and strategic advisory and consulting. The reduction in administrative expenses between 2Q23 and 3Q23 however is largely due to seasonality in salary expenses and expense recorded in the second quarter of 2023 relating to an administrative fine.

Net impairment on financial assets in 3Q23

The net impairment of ISK 583 million in 3Q23 (3Q22: positive net impairment of ISK 1,165 million) is due to a few distressed credit cases. The current impairment outlook is relatively benign due to low



unemployment, stable 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 19 bp in 3Q23 (-40 bp in 3Q22).

BALANCE SHEET

Lending growth moderates, but credit quality remains good

Assets, ISKm	30.9.23	30.6.23	Δ	Δ%	31.12.22	Δ	Δ%
Cash and balances with Central Bank	84,332	78,275	6,057	8%	94,424	(10,092)	(11%)
Loans to credit institutions	117,699	97,749	19,950	20%	110,364	7,335	7%
Bonds and debt instruments	178,830	131,471	47,359	36%	130,804	48,026	37%
Derivatives	5,581	5,374	207	4%	7,461	(1,880)	(25%)
Loans to customers	1,210,499	1,237,758	(27,259)	(2%)	1,186,639	23,860	2%
Shares and equity instruments	13,270	12,120	1,150	9%	15,868	(2,598)	(16%)
Investment in associates	3,841	3,828	13	0%	3,844	(3)	(0%)
Property and equipment	6,528	6,748	(220)	(3%)	6,752	(224)	(3%)
Intangible assets	3,120	3,241	(121)	(4%)	3,279	(159)	(5%)
Other assets	19,156	15,945	3,211	20%	6,072	13,084	215%
Non-current assets and disposal groups held for sale	744	730	14	2%	728	16	2%
Total Assets	1,643,600	1,593,239	50,361	3%	1,566,235	77,365	5%

Key ratios

Risk Exposure Amount (REA)	986,355	1,015,197	(28,842)	(2.8%)	999,491	(13,136)	(1.3%)
REA/total assets	60.0%	63.7%			63.8%		
Non-performing loans (NPL) ratio ¹	1.8%	1.7%			1.8%		

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

Loan portfolio is well diversified and highly collateralised

Loans to customers decreased by 2.2% in the quarter. Loans to customers amounted to ISK 1,210 million at the end of third quarter 2023. Mortgages account for 44% 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. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 57% at the end of 3Q23 (58% at YE22), and the LTV for the residential mortgage portfolio was 58% at the end of 3Q23 (60% at YE22).

Credit quality continues to be strong and stage 2 loans expected to have reached normalised levels

At the end of 3Q23, 1.9% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 2.0% at the end of 2Q23. At the end of the 3Q23, the ratio of credit-impaired loans to customers, Stage 3, was 1.8% (gross) compared to 1.7% at the end of 2Q23. For the mortgage portfolio, the ratio was 0.8% at end of 3Q23 the same percentage as at end of 2Q23.

Loans to customers in Stage 2 was 2.6% at the end of third quarter 2023 and remained unchanged between quarters while Stage 3 increased from 1.7% to 1.8%. For the mortgage portfolio the ratio of loans in Stage 2 was 1.1% at the end of 3Q23 compared to 1.0% at end of 2Q23.

Liabilities – strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKbn	30.9.23	30.6.23	Δ	Δ%	31.12.22	Δ	Δ%
Deposits from Central Bank and credit institutions	15,159	14,306	853	6%	15,269	(110)	(1%)
Deposits from customers	864,189	816,641	47,548	6%	789,897	74,292	9%
Derivative instruments and short positions	10,797	12,064	(1,267)	(11%)	10,804	(7)	(0%)
Debt issued and other borrowed funds	451,701	460,913	(9,212)	(2%)	468,270	(16,569)	(4%)
Subordinated loans	36,517	33,104	3,413	10%	34,392	2,125	6%
Tax liabilities	16,323	14,832	1,491	10%	12,128	4,195	35%
Other liabilities	29,220	25,855	3,365	13%	16,601	12,619	76%
Total Liabilities	1,423,906	1,377,715	46,191	3%	1,347,361	76,545	6%
Total Equity	219,694	215,524	4,170	2%	218,874	820	0%
Total Liabilities and Equity	1,643,600	1,593,239	50,361	3%	1,566,235	77,365	5%

Key ratios

Customer loans to customer deposits ratio	140%	152%	150%
Net stable funding ratio (NSFR)	120%	119%	118%
Liquidity coverage ratio (LCR)	247%	259%	205%
Total capital ratio	24.6%	23.2%	22.2%
Tier 1 capital ratio	21.9%	20.9%	19.8%
Leverage ratio	12.7%	12.8%	12.1%
MREL ratio	39.2%	38.4%	34.5%

Deposits continue to be 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. Customer deposits grew by 5.8% in the third quarter with deposit concentration remaining stable. The ratio of customer loans to customer deposits was 140% at the end of 3Q23, decreasing from 152% from the end of 2Q23. When excluding mortgages funded with covered bonds, the ratio was 111% for the third quarter, having been 120% at the end of 3Q23.

In the third quarter of 2023, Íslandsbanki issued an ISK 9.6bn Tier 2 bond replacing a SEK 500 million bond that was called in August. Total demand in the Tier 2 issue amounted to ISK 13.66bn. The Bank also sold ISK 2.7bn of covered bonds locally whilst also buying back ISK 6.5bn of covered bonds in the quarter. During the quarter, credit spreads on the Bank's outstanding foreign currency bonds tightened sharply. For example, the spread over mid-swaps on the EUR 300 million May 2026 benchmark, issued in May 2023, contracted from a spread at launch of +420 basis points to the vicinity of +225 basis points.

The Bank's total liquidity coverage ratio (LCR) was 247% at end of 3Q23, down from 259% at 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 in the coming months.

Strong capital position and ratios well above requirements

Total equity amounted to ISK 220 billion at the end of 3Q23, compared to ISK 219 billion at YE22. At the end of 3Q23, the Bank's total capital ratio was 24.6%, including the 3Q23 profit, compared to 22.2% at YE22. The corresponding Tier 1 ratio was 21.9%, compared to 19.8% at the YE22. The CET1 ratio, including the 3Q23 profit, was 20.9%, compared to 18.8% at YE22, (580bp above requirement), and above the Bank's financial target of having a 100–300bp capital buffer on top of regulatory requirements. The Bank plans to continue its ISK 5bn share buyback in the coming months, subject to market conditions.

Íslandsbanki uses the standardised method to calculate its REAs, which amounted to ISK 986 billion at the end of 3Q23, compared to ISK 999 billion at YE22. The REA amounts to 60.0% of total assets at the end of 3Q23, compared to 63.8% at YE22.

The leverage ratio including the 3Q23 profit, was 12.7% at the end of 3Q23, and was 12.8% at the end of June.



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 27 October 2023

Íslandsbanki will host a webcast in English for investors and market participants on Friday 27 October at 8.30 Reykjavík/GMT, 9.30 London/BST, 10.30 CET. Jón Guðni Ómarsson, CEO, and Bjarney Anna Bjarnadóttir, Investor Relations, will give an overview of the third quarter 2023 financial results and operational highlights.

The webcast will be accessible live through a link on the Bank's [Investor Relations](#) website where a recording will also be available after the meeting. Participation and the ability to ask written question is accessible [via this link](#). If you wish to participate in the webcast via teleconference and be able to ask questions verbally, please register [via this link](#). After registration you will be provided phone numbers and a conference ID to access the conference. Full details on the webcast are available [here](#).

Further information is available through Íslandsbanki Investor Relations, ir@islandsbanki.is.

Financial calendar

Íslandsbanki plans to publish its 4Q23/FY23 financial results on 8 February 2024. Further information on Íslandsbanki's financial calendar is available on the [Bank's website](#).

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.