First Quarter 2025 Results

Íslandsbanki hf.

8 May 2025

1Q25 RESULTS HIGHLIGHTS

First quarter 2025 (1Q25) financial highlights

- Net profit amounted to ISK 5.2 billion in the first quarter of 2025 (1Q24: ISK 5.4 billion), generating an annualised return on equity (ROE) of 9.4% (1Q24: 9.8%).
- Net interest income (NII) amounted to ISK 12.9 billion and increased by ISK 817 million in 1Q25 compared to 1Q24.
- The net interest margin (NIM) was 3.2% in 1Q25 compared to 3.0% in 1Q24.
- Net fee and commission income (NFCI) grew by 1.9% compared to 1Q24 and amounted to ISK 3.1 billion in 1Q25.
- Net financial expense was ISK 986 million in 1Q25, compared to ISK 236 million in 1Q24.
- Other operating income was ISK 467 million in 1Q25, compared to ISK 1,098 million in 1Q24.
- Administrative expenses in the first quarter of 2025 amounted to ISK 7.4 billion, compared to ISK 7.1 billion in 1Q24, an increase of 4.0%.
- The cost-to-income ratio was 47.6% in 1Q25 compared to 43.9% in 1Q24.
- The net impairment on financial assets was ISK 3 million in 1Q25, compared to a cost of ISK 704 million in 1Q24. The net impairment charge as a share of loans to customers, the annualised cost of risk, was 0.1bps in 1Q25, compared to 23bps in 1Q24.
- Loans to customers grew in the first quarter of 2025 by ISK 3.5 billion from the fourth quarter of 2024 to ISK 1,299 billion at 1Q25.
- Deposits from customers grew by 1.1% in the quarter and amounted to ISK 937 billion at the end of 1Q25.
- Total equity at period-end amounted to ISK 217.9 billion compared to ISK 227.4 billion at year-end 2024.
- The total capital ratio was 21.6% at the end of 1Q25, compared to 23.2% at year-end 2024. The corresponding CET1 ratio was 18.6%, compared to 20.1% at year-end 2024. The CET1 ratio at period-end was 320bps above regulatory requirements, and above the Bank's financial target of having a 100-300 bps capital buffer on top of CET1 regulatory requirements.
- The minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki is 19.6% of the total risk exposure amount, in addition to the combined buffer requirement. At the end of first quarter 2025, the Bank's MREL ratio was 37.8%, 830 bps on top of requirements.

Key figures and ratios

		1Q25	4Q24	3Q24	2Q24	1Q24
PROFITABILITY	Profit for the period, ISKm	**5,209**	6,283	7,280	5,266	5,417
	Return on equity	**9.4%**	11.2%	13.2%	9.7%	9.8%
	Net interest margin (of total assets)	**3.2%**	2.7%	2.9%	3.1%	3.0%
	Cost-to-income ratio[1,2]	**47.6%**	45.7%	40.4%	45.7%	43.9%
	Cost of risk[3]	**0.00%**	(0.11%)	(0.27%)	(0.04%)	0.23%
		31.3.25	31.12.24	30.9.24	30.6.24	31.3.24
BALANCE SHEET	Loans to customers, ISKm	**1,298,849**	1,295,388	1,274,094	1,276,608	1,248,295
	Total assets, ISKm	**1,667,429**	1,607,807	1,622,458	1,595,896	1,643,707
	Risk exposure amount, ISKm	**1,061,903**	1,040,972	1,021,243	1,019,494	1,015,161
	Deposits from customers, ISKm	**936,779**	926,846	927,011	916,127	879,554
	Customer loans to customer deposits ratio	**139%**	140%	137%	139%	142%
	Non-performing loans (NPL) ratio[4]	**1.8%**	1.6%	1.6%	1.8%	1.9%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**128%**	125%	126%	123%	127%
	Liquidity coverage ratio (LCR), for all currencies	**202%**	168%	223%	190%	190%
CAPITAL	Total equity, ISKm	**217,894**	227,355	223,388	216,501	215,718
	CET1 ratio[5]	**18.6%**	20.1%	20.2%	19.9%	19.9%
	Tier 1 ratio[5]	**19.5%**	21.0%	21.2%	20.9%	20.9%
	Total capital ratio[5]	**21.6%**	23.2%	23.4%	23.1%	23.6%
	Leverage ratio[5]	**12.1%**	13.2%	13.0%	13.0%	12.6%
	MREL ratio[6]	**37.8%**	33.4%	35.6%	35.6%	39.1%

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

Jón Guðni Ómarsson, CEO of Íslandsbanki:

The first quarter of 2025 saw considerable volatility in global markets and a level of uncertainty persists with regards to the announced tariff increases. This heightened uncertainty globally has also impacted the stock market domestically, visible by the 7.7% drop in the OMXI15GI during the first quarter of 2025.

Profit from Íslandsbanki's operations during the first quarter of 2025 amounted to ISK 5.2 billion, about 3% above analyst consensus. Net interest income rose by almost 7%, compared to the first quarter of 2024 and net fee and commission income grew by almost 2%. Net interest margin was 3.2% for the quarter. Both annualised return on equity and cost-to-income ratio were outside of our targets, landing at 9.4% and 47.6%, respectively. A net financial expense of ISK 986 million adversely affects the Bank's financial results for the first quarter.

Despite tumultuous times on the world stage, Íslandsbanki demonstrated good market access in March when the Bank issued EUR 300 million green senior preferred notes, which have a maturity of 5.5 year. The coupon corresponded to a spread of 140 bps over mid-swaps in EUR. Orders were received from more than 100 investors and the final order book stood at around EUR 1.1 billion. It is the longest-dated bond that the Bank has issued since 2018. Following the issuance, the Bank has to a large degree been pre-funded throughout the year making it less subject to the current market volatility.

Digital product development continues at Íslandsbanki. We recently launched a new and improved app. New features include "Safe to spend" option and a search option, both of which promote the financial health of our customers. We also launched a new online bank in February. These updated solutions have been very well received by our customers and we see great potential in delivering even better services through them.

With our partnership with VÍS being formally launched, VÍS insurance products are now available to the Bank's customers in our app. Our customers will also have the opportunity to meet VÍS insurance advisers in some of the Bank's branches. Mutual customers of both companies will enjoy special benefits from both companies. This partnership allows us to offer better terms to our customers and at the same time promote their financial health.

A proposal on the payment of a dividend to shareholders of ISK 12.1 billion was approved at Íslandsbanki's Annual General Meeting (AGM) held at the end of March. The dividend amount is in accordance with our dividend policy of paying out 50% of the preceding year's profit. The AGM further approved a renewal of the authorisation to buy back its own shares for up to 10% of the Bank's share capital as well as a proposal reducing the share capital by cancelling own shares. When the amount of dividend paid for 2024 is reviewed together with the buybacks carried out in 2024 the ratio of distribution to shareholders is close to 100% of the Bank's profit for 2024. Plans to optimise the Bank's capital structure are still at the forefront, subject to market conditions. As has already been stated, these plans may entail both internal and external growth opportunities, as well as through distribution to shareholders, whether by means of extraordinary dividends and/or through buybacks. The Bank's purchase of its own shares and distributions to shareholders are important elements of the optimisation of the Bank's capital structure.

The Parliament of Iceland recently passed a bill amending the law on the disposal of the Government of Iceland's holding in Íslandsbanki. Work has been ongoing for the last few months amongst the Government's advisers and the joint global coordinators preparing a further sell-down of the Government's remaining stake in Íslandsbanki. We have been fully involved in this work. We have undertaken much marketing work, promoting the Bank and its robust operations to current shareholders as well as other interested parties.

First quarter 2025 (1Q25) operational highlights

- During the first quarter of 2025 the Bank purchased 21 million own shares or 1.05% of issued shares for a little over ISK 2.6 billion. During the Bank's AGM, held on 31 March, a proposal to reduce the share capital by cancelling 119,529,230 shares, equivalent to the number of shares held by the Bank on 28 February 2025, was approved. This was a reduction of ISK 597,646,150, nominal value. The Bank currently owns 6,920,000 own shares. The Bank has stated that to complete its capital optimisation, subject to market conditions, it may explore both growth opportunities and/or capital disposals.
- On 20 February 2025 the Central Bank decided to lower the policy rate by 50bps, to 8.0%. Later during the quarter, on 21 March, the Central Bank announced a further rate cut, by 25bps, landing the policy rate at 7.75%. The Bank made rate changes during the first quarter to reflect changes to the policy rate. The changes included rates on non-index linked deposits and loans, including mortgages, generally being reduced by 75bps.
- On 14 February 2025 the Bank received a letter from the CEO and chairman of the Board of Directors of Arion Bank hf. which proposed the start of merger talks between the two banks. After a careful review and thorough analysis, the Board of Directors of the Bank concluded that it would not commence merger discussions with Arion Bank hf. as was announced on 27 February 2025.
- On 18 February 2025 Moody's Ratings affirmed the Bank's A3 long-term issuer rating with a stable outlook. The rating actions followed the announcement from Arion Bank hf. to proposed merger talks with the Bank.
- During the Bank's AGM, the Board of Directors was re-elected. The AGM further approved a dividend payment of ISK 12.1 billion and renewed the authorisation to buy back the Bank's own shares up to a level of 10% of share capital.

Operational highlights after the period-end

- The previously announced partnership with the Icelandic insurance company VÍS was launched on 6 May 2025. Banking and VÍS insurance products are now available in the Íslandsbanki app and customers of both companies enjoy special benefits.

INCOME STATEMENT

Income statement, ISKm	1Q25	1Q24	Δ%	4Q24	Δ%
Net interest income	**12,939**	12,122	7%	10,875	19%
Net fee and commission income	**3,067**	3,010	2%	3,607	(15%)
Net financial income (expense)	**(986)**	(236)	318%	169	-
Net foreign exchange gain	**47**	196	(76%)	113	(58%)
Other operating income	**467**	1,098	(57%)	782	(40%)
Total operating income	**15,534**	16,190	(4%)	15,546	(0%)
Salaries and related expenses	**(4,489)**	(4,168)	8%	(4,244)	6%
Other operating expenses	**(2,907)**	(2,942)	(1%)	(2,856)	2%
Administrative expenses	**(7,396)**	(7,110)	4%	(7,100)	4%
Bank tax	**(500)**	(493)	1%	(454)	10%
Total operating expenses	**(7,896)**	(7,603)	4%	(7,554)	5%
Net impairment on financial assets	**(3)**	(704)	(100%)	352	-
Profit before tax	**7,635**	7,883	(3%)	8,344	(8%)
Income tax expense	**(2,423)**	(2,468)	(2%)	(2,058)	18%
Profit for the period before profit from non-current assets	**5,212**	5,415	(4%)	6,286	(17%)
Profit from non-current assets held for sale, net of tax	**(3)**	2	-	(3)	0%
Profit for the period	**5,209**	5,417	(4%)	6,283	(17%)
Key ratios					
Net Interest Margin (NIM)	**3.2%**	3.0%		2.7%	
Cost-to-income ratio (C/I)	**47.6%**	43.9%		45.7%	
Return on Equity (ROE)	**9.4%**	9.8%		11.2%	
Cost of risk (COR)	**0.00%**	0.23%		(0.11%)	

Net interest income and net interest margin

As expected, the CPI imbalance started to contract during the first quarter of 2025, from ISK 193 billion to ISK 178 billion, driven by the issuance of CPI-linked wholesale funding and the start of a transition in the loan book from CPI-linked loans to non-indexed loans. This positively influenced the net interest income which amounted to ISK 12,939 million during the first quarter, a rise of ISK 817 million from the first quarter of 2024. Continued run off of fixed rate imbalance in the mortgage book also continued to positively affect net interest income as in previous quarters. The Central Bank policy rate lowered twice in the first quarter, by 50bps in February and by 25bps in March and was at 7.75% at the end of first quarter of 2025. The average CB policy rate was 8.15% in 1Q25, compared to 9.25% in 1Q24. Net interest margin (NIM) on total assets was 3.2% in 1Q25 (3.0% in 1Q24). Lending margin was 1.6% in 1Q25 (1.7% in 1Q24) while deposit margin was 2.0% in 1Q25 (1.9% in 1Q24).

Net fee and commission income (NFCI) during the first quarter of 2025 grew by 1.9% compared to 1Q24, to ISK 3.1 billion. Net income on cards and payment processing was the largest contributor of NFCI in 1Q25, followed closely by NFCI from asset management, which had a strong start to the year. Although further rate cuts and the forecasted declining inflation are likely to fuel capital markets activities paving the way for net fee and commission growth the geopolitical uncertainty poses volatility to capital markets.

Other operating income amounted to ISK 467 million in 1Q25 (ISK 1,098 million in 1Q24), mainly related to fair value adjustments of Kirkjusandur 2, the plot of land where the Bank's former headquarters were located.

Compared to 1Q24, core income increased by 5.8%, to ISK 16.0 billion in 1Q25. Core banking operations remain the most important part of the Bank's revenues, with NII and NFCI accounting for the lion share of total operating income for the first quarter of 2025.

A loss of ISK 986 million was recorded in net financial income in the first quarter of 2025, compared to a loss of ISK 236 million for the same quarter during the previous year, attributed to market-making operations, losses related to economic hedging, and own market positions.

Cost-to-income ratio adversely affected by loss in NFI

The cost-to-income ratio was 47.6% in the first quarter of 2025, compared to 43.9% in 1Q24, primarily due to lower income attributable to the loss in net financial income.

Salaries and related expenses rose by 7.7% in 1Q25 compared to 1Q24 and were ISK 4.5 billion during the quarter. The number of FTEs at Íslandsbanki at the end of first quarter 2025 was 731 compared to 735 at the end of first quarter 2024. Other operating expenses dropped by 1.2% compared to 1Q24.

Taxes

The income tax rate for legal entities in 2025 is 20% (2024: 21%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion. The Bank saw a high effective income tax rate for the first quarter of 2025 of 31.7% having been 31.3% in 1Q24, mainly due to unfavourable composition of income.

Net impairment in the first quarter

The net impairment on financial assets was ISK 3 million in 1Q25 (1Q24: net impairment of ISK 704 million). Recalibration of models and revised macroeconomic forecast were the main drivers of changes in impairment allowance during the quarter. The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was 0.1bps in 1Q25 (23bps in 1Q24).

BALANCE SHEET

Assets, ISKm	31.3.25	31.12.24	Δ	Δ%
Cash and balances with Central Bank	**69,944**	65,716	4,228	6%
Loans to credit institutions	**92,259**	50,486	41,773	83%
Bonds and debt instruments	**142,937**	142,618	319	0%
Derivatives	**9,092**	5,324	3,768	71%
Loans to customers	**1,298,849**	1,295,388	3,461	0%
Shares and equity instruments	**20,606**	24,330	(3,724)	(15%)
Investment in associates	**4,857**	4,701	156	3%
Investment property	**2,900**	2,600	300	12%
Property and equipment	**5,135**	5,039	96	2%
Intangible assets	**2,636**	2,684	(48)	(2%)
Other assets	**16,532**	7,304	9,228	126%
Non-current assets held for sale	**1,682**	1,617	65	4%
Total Assets	**1,667,429**	1,607,807	59,622	4%
Key ratios				
Risk Exposure Amount (REA)	**1,061,903**	1,040,972	20,931	2%
REA / total assets	**63.7%**	64.7%		
Non-performing loans (NPL) ratio[1]	**1.8%**	1.6%		

1 Stage 3, loans to customers, gross carrying amount

Loan portfolio is well diversified and highly collateralised

Loans to customers grew by 0.3% in the first quarter of 2025 and amounted to ISK 1,299 billion at period-end. Mortgages account for 44% of loans to customers and the remaining part continues to be split between various industries. Loans to customers are predominantly well covered by stable collateral, the majority of which is in residential and commercial property. At the end of 1Q25, 93% of the loan portfolio is fully covered by collateral. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 53% at the end of 1Q25 (57% at 1Q24), and the LTV for the residential mortgage portfolio was 54% at the end of 1Q25 (57% at 1Q24).

Credit quality continues to be strong with limited delinquencies

Asset quality remains both good and stable. The Bank has not seen any material increase in delinquencies in its loan portfolio despite high inflation and interest rates clearly affecting the Bank's customers. The trend of customers turning towards CPI-linked loans stabilised from year-end 2024 to end of first quarter 2025, following a period of continuous growth in previous quarters, largely driven by the high-interest rate environment. At the end of 1Q25, 62% of the Bank's mortgage portfolio was CPI-linked compared to 56% at the end of 1Q24.

At the end of 1Q25, 1.7% of the gross performing loan book (not in Stage 3) was classified as forborne, down from 1.8% at the 4Q24. The ratio of credit-impaired loans to customers, Stage 3, was 1.8% (gross) at end of 1Q25, up from 1.6% at the end of 4Q24 due to a few distressed credit cases. For the mortgage portfolio, the ratio was 1.0% at the end of 1Q25 compared to 0.9% at the end of 4Q24.

The ratio of loans to customers in Stage 2 was 3.0% at the end of 1Q25, falling from 3.1% at the end of 4Q24. For the mortgage portfolio, the ratio of loans in Stage 2 was 1.0% at the end of 1Q25 (1.2% at 4Q24).

The group no longer makes temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula since all customers affected have been assessed on a case-by-case basis.

Liabilities – capital and liquidity ratios well in excess of regulatory requirements in addition to low leverage

Liabilities & Equity, ISKm	31.3.25	31.12.24	Δ	Δ%
Deposits from Central Bank and credit institutions	**14,374**	12,535	1,839	15%
Deposits from customers	**936,779**	926,846	9,933	1%
Derivative instruments and short positions	**6,677**	7,306	(629)	(9%)
Debt issued and other borrowed funds	**407,266**	367,586	39,680	11%
Subordinated loans	**32,502**	31,695	807	3%
Tax liabilities	**12,912**	12,916	(4)	(0%)
Other liabilities	**39,025**	21,568	17,457	81%
Total Liabilities	**1,449,535**	1,380,452	69,083	5%
Total Equity	**217,894**	227,355	(9,461)	(4%)
Total Liabilities and Equity	**1,667,429**	1,607,807	59,622	4%

Key ratios		
Customer loans to customer deposits ratio	**139%**	140%
Net stable funding ratio (NSFR)	**128%**	125%
Liquidity coverage ratio (LCR)	**202%**	168%
CET1 ratio	**18.6%**	20.1%
Tier 1 capital ratio	**19.5%**	21.0%
Total capital ratio	**21.6%**	23.2%
Leverage ratio	**12.1%**	13.2%
MREL ratio[1]	**37.8%**	33.4%

1 MREL ratio includes the CET1capital held to meet the combined buffer requirements.

Growth in deposits between quarters

The Bank funds its operation using three main funding sources: stable deposits, covered bonds, and senior preferred bonds. Total deposits from customers grew by 1.1% between quarters, with deposits from individuals and financial institutions growing by 1.7% and 10%, respectively. Deposit concentration remained stable between quarters, with around 24% of deposits belonging to the hundred largest depositors. The ratio of customer loans to customer deposits was 139% at the end of first quarter, decreasing from 140% from the end of 2024. When excluding mortgages funded with covered bonds, the ratio was 117% at the end of first quarter, the same as at year-end 2024.

In terms of funding, the first quarter of 2025 saw a slight spread compression of about 20 bps in the Bank's secondary levels, before the market unrest in the second quarter began. In January the Bank issued 2.5-year and 3.5-year bonds in SEK and NOK for a combined SEK/NOK 1 billion. In March the Bank concluded a 5.5-year green senior preferred bond offering of EUR 300 million at 140 bps above mid-swaps. This was the Bank's first green EUR bond and an amount equal to the net proceeds of that issue will be used to finance or refinance, in whole or in part, green loans, as further described in the Bank's Sustainable Funding Framework.

Domestically, the Bank sold ISK 9 billion of senior preferred bonds as well as ISK 3 billion of covered bonds during the second quarter in two transactions.

The Bank's total liquidity coverage ratio (LCR) was 202% at the end of first quarter, increasing from year-end 2024 when it was 168%. The Bank's liquidity position remains strong across currencies. Liquid assets as a percentage of total assets increased from 17% at end of 2024 to 19% at the end of 1Q25, mostly due to new debt issuance.

Sound capital position - distribution of excess capital to continue as part of capital optimisation plan

Total equity amounted to ISK 217.9 billion at the end of 1Q25 compared to ISK 227.4 billion at year-end 2024. The capital base was ISK 230 billion at the end of 1Q25, compared to ISK 241 billion at year-end 2024. The reduction is mainly due to the Bank's share buyback programme of ISK 15 billion, which was deducted from the capital base following approval from the Central Bank. At the end of 1Q25, the total capital ratio was 21.6%, compared to 23.2% at year-end 2024. The corresponding Tier 1 ratio was 19.5% at the end of 1Q25, compared to 21.0% at the year-end 2024. The CET1 ratio was 18.6% compared to 20.1% at year-end 2024, and within the Bank's financial target of having a 100-300bps capital buffer on top of regulatory requirements. The Bank plans to optimise its capital structure and may explore various ways to reach its target capital optimisation, including growth and/or capital disposals.

The minimum requirement for own funds and eligible liabilities (MREL) for the Bank is 19.6% of REA. Since any CET1 capital that is maintained to meet the combined buffer requirement (CBR) is excluded, the effective requirement can be monitored as 29.5% of REA. Own funds and eligible liabilities were 37.8% of REA at the end of 1Q25 (830bps above requirement) compared to 33.4% at year-end 2024.

The Bank uses the standardised method to calculate its REA, which amounted to ISK 1,062 billion at the end of 1Q25, compared to ISK 1,041 billion at year-end 2024. The REA amounts to 63.7% of total assets at the end of 1Q25, compared to 64.7% at year-end 2024. Adaptation to the new CRR3 framework is underway and is expected to lower the REA by 4-5%.

The leverage ratio was 12.1% at the end of 1Q25, compared to 13.2% at year-end 2024.

Investor Material

In the event of discrepancy between the Icelandic and English version of the Press Release the English version prevails.

Disclaimer

INVESTOR RELATIONS

An earnings conference call and webcast will take place on Friday 9 May 2025

Íslandsbanki will host a webcast in English for investors and market participants on Friday 9 May at 8.30 Reykjavík/GMT, 9.30 London/BST, 10.30 CET. Jón Guðni Ómarsson, CEO, and Ellert Hlöðversson, CFO, will give an overview of the first quarter 2025 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. For participation and the ability to send in written question please register **via this link**. To participate in the webcast via teleconference and be able to ask questions verbally, please register **via this link here**. Information regarding the webcast is available **here**.

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

Financial calendar

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

Second quarter results 2025 – 31 July 2025
Third quarter results 2025 – 30 October 2025

Further information on the Bank's 2025 financial calendar is available here. 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.