Second Quarter 2024 Results

Íslandsbanki hf.

25 July 2024

2Q24 RESULTS HIGHLIGHTS

Second quarter 2024 (2Q24) financial highlights

- Íslandsbanki reported a net profit of ISK 5.3 billion in the second quarter of 2024 (2Q23: ISK 6.1 billion), generating an annualised return on equity (ROE) of 9.7% (2Q23: 11.5%).
- Net interest income (NII) was ahead of analysts' estimates and amounted to ISK 12.5 billion and fell by 1.0% in 2Q24 compared to ISK 12.6 billion for 2Q23.
- The net interest margin (NIM) was 3.1% in 2Q24, compared to 3.2% in 2Q23.
- Net fee and commission income (NFCI) fell by 4.8% compared to 2Q23 and amounted to ISK 3.4 billion in 2Q24.
- Net financial expense was ISK 499 million in 2Q24, compared to an expense of ISK 559 million in 2Q23.
- Administrative expenses in the second quarter of 2024 were ISK 7.3 billion in 2Q24, compared to ISK 6.7 billion in 2Q23, an increase of 8.4%. Charges in each quarter related to administrative fines, amounting to ISK 470 million for 2Q24 and ISK 860 million for 2Q23 respectively, are excluded.
- The cost-to-income ratio was 46.4% in 2Q24 but was 42.6% in 2Q23. The ratios exclude, in both instances charges, due to administrative fines.
- The net impairment on financial assets was a reversal of ISK 137 million in 2Q24, compared to a reversal of ISK 1,245 million in 2Q23. The net impairment charge as a share of loans to customers, the annualised cost of risk, was -4bp in 2Q24, compared to -40bp in 2Q23.
- Loans to customers grew by ISK 28.3 billion from the first quarter of 2024, or by 2.3%, to ISK 1,277 billion at the end of second quarter 2024.
- Deposits from customers grew during the second quarter by ISK 36.6 billion, or 4.2%, up to ISK 916 billion at the end of 2Q24.
- Total equity at period-end amounted to ISK 216.5 billion compared to ISK 224.7 billion at year-end 2023.
- The total capital ratio was 23.1% at the end of 2Q24, compared to 25.3% at year-end 2023. The corresponding CET1 ratio was 19.9%, compared to 21.4% at year-end 2023, which is 450bps above regulatory requirements, and above the Bank's financial target of having a 100-300bps capital buffer on top of CET1 regulatory requirements.

First half 2024 (1H24) financial highlights

- Íslandsbanki's net profit for the first half of 2024 was ISK 10.7 billion (1H23: ISK 12.4 billion), with an annualised return on equity for 1H24 of 9.8%, compared to 11.4% in 1H23.
- Net interest income totalled ISK 24.6 billion in 1H24, a reduction of 1.7% YoY.
- Net fee and commission income (NFCI) fell by 4.9% YoY and amounted to ISK 6.7 billion in 1H24, compared to ISK 7.1 billion in 1H23.
- Net financial expense was ISK 735 million in 1H24 compared to an expense of ISK 21 million in 1H23.
- Administrative expenses were ISK 14.7 billion in 1H24, excluding an administrative fine of ISK 470 million charged in the second quarter of 2024, compared to ISK 13.7 billion in 1H23, which in turn, excluded an administrative fine of ISK 860 million.
- Cost-to-income ratio rose YoY from 42.3% in 1H23 to 45.6% in 1H24.
- Net impairment on financial assets amounted to ISK 567 million in the first half of 2024, as compared to a reversal of ISK 570 million for the first half of 2023.

Key figures and ratios

		2Q24	1Q24	4Q23	3Q23	2Q23
PROFITABILITY	Profit for the period, ISKm	**5,266**	5,417	6,228	6,007	6,139
	Return on equity	**9.7%**	9.8%	11.2%	11.0%	11.5%
	Net interest margin (of total assets)	**3.1%**	3.0%	2.9%	2.9%	3.2%
	Cost-to-income ratio[1,2]	**46.4%**	44.9%	42.1%	39.0%	42.6%
	Cost of risk[3]	**(0.04%)**	0.23%	0.33%	0.19%	(0.40%)
		30.6.24	31.3.24	31.12.23	30.9.23	30.6.23
BALANCE SHEET	Loans to customers, ISKm	**1,276,608**	1,248,295	1,223,426	1,210,499	1,237,758
	Total assets, ISKm	**1,595,896**	1,643,707	1,582,694	1,643,600	1,593,239
	Risk exposure amount, ISKm	**1,019,494**	1,015,161	977,032	986,355	1,015,197
	Deposits from customers, ISKm	**916,127**	879,554	850,709	864,189	816,641
	Customer loans to customer deposits ratio	**139%**	142%	144%	140%	152%
	Non-performing loans (NPL) ratio[4]	**1.8%**	1.9%	1.8%	1.8%	1.7%
LIQUIDITY	Net stable funding ratio (NSFR), for all currencies	**123%**	127%	124%	120%	119%
	Liquidity coverage ratio (LCR), for all currencies	**190%**	190%	195%	247%	259%
CAPITAL	Total equity, ISKm	**216,501**	215,718	224,693	219,694	215,524
	CET1 ratio[5]	**19.9%**	19.9%	21.4%	20.9%	20.0%
	Tier 1 ratio[5]	**20.9%**	20.9%	22.5%	21.9%	20.9%
	Total capital ratio[5]	**23.1%**	23.6%	25.3%	24.6%	23.2%
	Leverage ratio[5]	**13.0%**	12.6%	13.4%	12.7%	12.8%
	MREL ratio[6]	**35.6%**	39.1%	41.3%	39.2%	38.4%

1. Calculated as (Administrative expenses – One-off items) / (Total operating income – One-off items).
2. C/I ratio for 2Q24 excludes a charge of ISK 470m and C/I ratio 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q23 included a provision of ISK 100m made in connection with an administrative fine, the C/I ratio 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 1Q24 profit for 31.3.24 and 3Q23 profit for 30.9.23.
6. MREL ratio includes the CET1 capital held to meet the combined buffer requirement.

Jón Guðni Ómarsson, CEO of Íslandsbanki:

The second quarter of 2024 profit from Íslandsbanki's operations amounted to ISK 5.3 billion with an annualised return on equity of 9.7%, both of which are in line with analysts' estimates. Operating expenses rose year-on-year and the cost-to-income ratio was 46.4% for the second quarter, which is slightly above the Bank's target of remaining below 45%. Inflation has remained persistent but expectations are for it to decline in the coming months. Rates are still elevated. There are some signs that private consumption has started to contract and there are certain indications that the current environment has started to have an effect on the ability of businesses to meet their financial obligations. The Bank will keep a close eye on developments during the second half of the year, both with regards to the general macroeconomic outlook as well as the standing of our customers.

The Bank's foundations remain strong, both when looking at its capital and liquidity positions. The programme of buybacks of its own shares continued during the quarter, both through regular repurchases as well as by means of a reverse auction. The share buybacks are steps taken toward capital optimisation, to be concluded before year-end 2025, subject to market conditions. Funding has also been strong. The Bank's decision to repurchase the entirety of the EUR 300 million May 2026 senior bonds was an important step in lowering the Bank's interest expense. This issue was launched in 2Q23 at a time when foreign currency issuances of the Icelandic banks were at historically wide levels. The FSA also announced its decision on the Bank's capital requirements, decreasing the additional capital requirement under Pillar 2 by 0.6 percentage points from the previous assessment, to 1.8% of risk-weighted assets. This reflects the Bank's strong balance sheet, both with regards to its loan portfolio and moderate market risk.

Both international rating agencies, that assign credit ratings to the Bank, have carried out a ratings action after their annual review of the Bank's operations this year, as S&P Global Ratings raised the Bank's long term issuer rating to BBB+ from BBB in April and Moody's Ratings (Moody's) affirmed the Bank's A3 issuer rating beginning of July. Both ratings are on a stable outlook.

Preparations are underway for this year's Íslandsbanki Reykjavík Marathon and registration for the event and the collection of pledges for charities has been even better than last year. Íslandsbanki is the proud main sponsor of the event and we look forward to celebrating the 40-year anniversary of the event in downtown Reykjavík on 24 August.

Second quarter 2024 (2Q24) operational highlights

- On 31 May 2024 the Bank announced it had settled a case with the Financial Supervisory Authority of the Central Bank of Iceland (FSA) that started in 2022 as an onsite inspection on the Bank's measures against money laundering by paying an ISK 570 million fine to the State Treasury. The Bank recorded an ISK 470 million in the second quarter of 2024 in relation to this matter and had previously made a provision of ISK 100 million in its 2023 Financial Statements.
- In May the EFTA Court issued its advisory opinion setting out its interpretation of certain provisions of directives incorporated into the EEA Agreement on terms of the Bank's mortgages and the method used by the Bank to set variable interest rates. The advisory opinion was sought as part of ongoing district court proceedings. The EFTA Court concluded in its opinion that the terms of a mortgage need to be sufficiently clear when describing the method used to set variable rates. In the event of that not being the case they are considered to be in breach of specific provisions of the Mortgage Credit Directive no. 2014/17/EU. It further concluded that it is for Icelandic courts to determine, on a case-by-case basis, whether the terms of variable rate mortgages meet the said directive's requirements on clarity, accessibility, objectivity and verifiability and to evaluate the impact if these requirements are not met. The Bank believes that the terms of its mortgages and other loan contracts comply with the said requirements of the Mortgage Credit Directive, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Bank on the disputed mortgage have been less than changes to policy rates during the same period. Following the publication of the EFTA Court's advisory opinion the proceedings of the court case in question will continue with the district court.
- The Bank took the opportunity in June to tender for the repurchase of any or all of the EUR 300 million 7.375% bonds due May 2026. This issue, launched in 2Q23 at a time of historically wide levels, bore a significant interest expense for the Bank. The tender attracted a 91% take-up from holders. The Bank decided to exercise its clean-up redemption option in respect of the remaining amount of the issue in circulation at par.
- The Bank continued implementation of its share repurchase programme during the second quarter and purchased 44.2 million shares, equivalent to 2.21% of the issued share capital. The amount purchased during the second quarter was ISK 4.3 billion. The repurchase was carried out through both a conventional share repurchase programme which was ongoing during the quarter and through reverse auctions whereby the Bank offered, on two occasions, to buy its shares from shareholders.
- The FSA announced the results of the annual Supervisory Review and Evaluation (SREP) process concerning additional capital requirements (Pillar 2-R) for the Bank. As of 30 June 2024, the Bank must maintain an additional capital requirement of 1.8% of risk-weighted assets, which is a reduction of 0.6 percentage points from the previous assessment. The Bank's overall capital requirement, taking into account the capital buffer on 30 June 2024, therefore reduces from 20.3% to 19.7%.
- Fróði, the Bank's chatbot, was awarded the most likable virtual agent for the second year in a row during Boost Camp 2024, Boost.ai's annual conference.
- No changes were made to the policy rate by the Central Bank during the quarter, with the policy rate remaining at 9.25% during the period. The Bank made moderate changes to its interest rates, for both loans and deposits. The next policy rate announcement will be made on 21 August 2024.

Operational highlights after the period-end

- The Bank has continued its implementation of the ISK 10 billion share repurchase program after the period-end. A new round of buybacks was announced on 14 June during which the aim is to purchase a maximum of 11 million own shares, equivalent to 0.55% of issued shares. The purchase price shall however not exceed ISK 1,000,000,000 in total. Since the start of 2024 and up until 19 July the Bank has purchased just under 62 million own shares for ISK 6.3 billion. This includes own shares purchased through reverse auctions during the second quarter.

- After the period-end Moody's affirmed its A3 long-term issuer rating for Íslandsbanki. The rating has a stable outlook.

INCOME STATEMENT

Income statement, ISKm	2Q24	2Q23	Δ%	1H24	1H23	Δ%	2023
Net interest income	**12,491**	12,612	(1%)	**24,613**	25,035	(2%)	48,611
Net fee and commission income	**3,419**	3,592	(5%)	**6,715**	7,061	(5%)	14,234
Net financial income (expense)	**(499)**	(559)	(11%)	**(735)**	(21)	3,400%	241
Net foreign exchange gain	**174**	48	263%	**370**	292	27%	581
Other operating income	**45**	21	114%	**1,143**	64	1,686%	570
Total operating income	**15,630**	15,714	(1%)	**32,106**	32,431	(1%)	64,237
Salaries and related expenses	**(4,130)**	(3,829)	8%	**(8,298)**	(7,789)	7%	(15,003)
Other operating expenses	**(3,126)**	(2,862)	9%	**(6,354)**	(5,944)	7%	(11,640)
Administrative fine	**(470)**	(860)	(45%)	**(470)**	(860)	(45%)	(960)
Administrative expenses	**(7,726)**	(7,551)	2%	**(15,122)**	(14,593)	4%	(27,603)
Bank tax	**(459)**	(485)	(5%)	**(952)**	(947)	1%	(1,871)
Total operating expenses	**(8,185)**	(8,036)	2%	**(16,074)**	(15,540)	3%	(29,474)
Net impairment on financial assets	**137**	1,245	(89%)	**(567)**	570	-	(1,015)
Profit before tax	**7,582**	8,923	(15%)	**15,465**	17,461	(11%)	33,748
Income tax expense	**(2,403)**	(2,792)	(14%)	**(4,871)**	(5,127)	(5%)	(9,198)
Profit for the period from continuing operations	**5,179**	6,131	(16%)	**10,594**	12,334	(14%)	24,550
Discontinued operations held for sale, net of income tax	**87**	8	988%	**89**	16	456%	35
Profit for the period	**5,266**	6,139	(14%)	**10,683**	12,350	(13%)	24,585
Key ratios							
Net Interest Margin (NIM)	**3.1%**	3.2%		**3.1%**	3.2%		3.0%
Cost-to-income ratio (C/I)	**46.4%**	42.6%		**45.6%**	42.3%		41.5%
Return on Equity (ROE)	**9.7%**	11.5%		**9.8%**	11.4%		11.3%
Cost of risk (COR)	**(0.04%)**	(0.40%)		**0.09%**	(0.09%)		0.08%

Net interest income and net interest margin ahead of consensus estimates

Net interest income (NII) in the second quarter of 2024 exceeded the pre 2Q24 analyst consensus of ISK 12,4 billion and amounted to ISK 12.5 billion, a reduction of 1.0% from the second quarter of 2023 when it totalled to ISK 12.6 billion. The Central Bank increased the fixed reserve requirements in April 2024 from 2% to 3% which has adverse effects on the year-on-year comparison. The previous increase to the fixed reserve requirement from 1% to 2%, announced by the Central Bank in May 2023 and took effect in June 2023 also effects the comparison. The Central Bank policy rate remained at 9.25% during the second quarter of 2024, whereas the average CB policy rate was 8.0% in 2Q23. Net interest margin (NIM) on total assets was 3.1% in 2Q24 (3.2% in 2Q23), where both CPI and fixed rate imbalances within the banking book contributed to the reduction. This exceeds the pre 2Q24 analysts' estimates of 3.0%. Lending margin was 1.7% in 2Q24 (1.8% in 2Q23) while deposit margin was 1.8% in 2Q24 (2.3% in 2Q23).

Net fee and commission income (NFCI) reduced by 4.8% compared to 2Q23, to ISK 3.4 billion. Net income on cards and payment processing was the largest contributor of NFCI although increased cost of services provided resulted in a decline year-on-year. Further, Allianz Ísland hf. remained a strong contributor to the net fee and commission income. In line with volatility on financial markets, asset management and investment banking revenues remained pressured.

Compared to 2Q23 core income fell by 1.8%, to ISK 15.9 billion from ISK 16.2 billion in 2Q23. Core banking operations remain the most important part of the Bank's revenues, with NII and NFCI accounting for 101.8% of total operating income in 2Q24 (103.1% in 2Q23).

The Bank recorded a loss of ISK 499 million in net financial income during the second quarter of 2024 compared to a loss of ISK 559 million in 2Q23.

Cost-to-income ratio adversely affected by increase in expenses

The cost-to-income ratio was 46.4% in the second quarter of 2024, compared to 42.6% in 2Q23. The ratio excludes, in both quarters, charges of ISK 470 million in 2Q24 and ISK 860 million in 2Q23 due to charges relating to administrative fines during said quarters.

Salaries and related expenses rose by 7.9% in 2Q24 compared to 2Q23 and were ISK 4.1 billion during the quarter, mainly owing to an increase in FTEs due to the Bank's commitment to strengthen further its regulatory infrastructure, overall governance and the effects of general wage agreement increases. The Bank's FTEs at end of the second quarter of 2024 were 726 compared to 691 at the end of 2Q23. Other operating expenses rose by 9.2% compared to 2Q23, mainly related to inflation and IT expenses.

Taxes

The income tax rate for legal entities in 2024 is 21% (2023: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion. The effective income tax rate for the second quarter of 2024 was 31.7% having been 31.3% in 2Q23. High effective tax rate in 2Q24 is to the largest extent explained by non-deductible expenses.

Net impairment on financial assets in 2Q24

The net impairment on financial assets was a reversal of ISK 137 million in 2Q24 (2Q23: net impairment reversal of ISK 1,245 million), mostly due to a few distressed credit cases and a recalibration of an LGD model that led to an ISK 500 million reversal of impairment. An additional impairment allowance due to the seismic activity affecting the town of Grindavík amounted to ISK 0.8 billion as of 30 June 2024 (year-end 2023: ISK 1.7 billion). Exposure and additional impairment due to the seismic activity fell in the second quarter of 2024 due to the purchase by Þórkatla of residential housing within the urban area in Grindavík. In parallel, the Bank derecognised the loans and recognised a claim on Þórkatla instead. The Bank's claim on Þórkatla is classified as bonds and debt instruments measured at fair value through profit and loss, and therefore does not contribute to the impairment allowance.

The annualised cost of risk, measured as net impairment charge as a share of loans to customers, was -4bp in 2Q24 (-40bp in 2Q23).

BALANCE SHEET

Modest lending growth

Assets, ISKm	30.6.24	31.3.24	Δ	Δ%	31.12.23	Δ	Δ%
Cash and balances with Central Bank	**84,981**	68,746	16,235	24%	87,504	(2,523)	(3%)
Loans to credit institutions	**46,599**	114,430	(67,831)	(59%)	73,475	(26,876)	(37%)
Bonds and debt instruments	**128,410**	156,091	(27,681)	(18%)	161,342	(32,932)	(20%)
Derivatives	**4,178**	5,138	(960)	(19%)	5,776	(1,598)	(28%)
Loans to customers	**1,276,608**	1,248,295	28,313	2%	1,223,426	53,182	4%
Shares and equity instruments	**19,496**	20,281	(785)	(4%)	13,241	6,255	47%
Investment in associates	**4,122**	4,079	43	1%	4,051	71	2%
Investment property	**2,100**	2,100	-	0%	-	2,100	-
Property and equipment	**5,135**	5,240	(105)	(2%)	6,562	(1,427)	(22%)
Intangible assets	**2,715**	2,862	(147)	(5%)	2,930	(215)	(7%)
Other assets	**21,482**	15,718	5,764	37%	3,638	17,844	490%
Non-current assets and disposal groups held for sale	**70**	726	(656)	(90%)	749	(679)	(91%)
Total Assets	**1,595,896**	1,643,707	(47,811)	(3%)	1,582,694	13,202	1%
Key ratios							
Risk Exposure Amount (REA)	**1,019,494**	1,015,161	4,333	0%	977,032	42,462	4%
REA / total assets	**63.9%**	61.8%			61.7%		
Non-performing loans (NPL) ratio[1]	**1.8%**	1.9%			1.8%		

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

Loan portfolio is well diversified and highly collateralised

Loans to customers grew by 2.3% in the second quarter and amounted to ISK 1,276 billion at period-end. Mortgages account for 43% of loans to customers. Loans to customers are predominantly well covered by stable collateral, the majority of which is in residential and commercial property. The weighted average loan-to-value (LTV) ratio for the loan portfolio was 57% at the end of 2Q24 (57% at YE23), and the LTV for the residential mortgage portfolio was 58% at the end of 1Q24 (57% at YE23).

Credit quality continues to be strong with limited delinquencies

The Bank is currently not seeing a material increase in delinquencies in its loan portfolio despite high inflation and interest rates clearly having an effect on the Bank's customers. The trend of customers turning towards CPI-linked loans continues in the current high interest rate environment.

At the end of 2Q24, 2.8% of the gross performing loan book (not in Stage 3) was classified as forborne, up from 2.4% at the end of first quarter 2024. The ratio of credit-impaired loans to customers, Stage 3, was 1.8% (gross) at end of 2Q24, down from 1.9% in 1Q24. For the mortgage portfolio, the ratio was 0.9% at 2Q24 and has remained the same since end of 4Q23.

The ratio of loans to customers in Stage 2 was 2.5% at the end of 2Q24, falling from 3.3% at the end of 1Q24. The reduction derives mainly from a large customer whose status has improved from previous outlook, and from the Þórkatla purchase of residential housing in Grindavík. The management overlay recognised in 4Q23 to account for the effect of seismic activity on the town of Grindavík remains unchanged for those loans that remain, although only a part is visible as impairment allowance since the Þórkatla facility is held at fair value. For the mortgage portfolio, the ratio of loans in Stage 2 was 1.2% at the end of 2Q24 (1.8% at 1Q24).

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

Liabilities & Equity, ISKm	30.6.24	31.3.24	Δ	Δ%	31.12.23	Δ	Δ%
Deposits from Central Bank and credit institutions	**10,466**	14,103	(3,637)	(26%)	16,149	(5,683)	(35%)
Deposits from customers	**916,127**	879,554	36,573	4%	850,709	65,418	8%
Derivative instruments and short positions	**4,647**	4,936	(289)	(6%)	5,090	(443)	(9%)
Debt issued and other borrow ed funds	**384,747**	440,960	(56,213)	(13%)	417,573	(32,826)	(8%)
Subordinated loans	**32,133**	37,946	(5,813)	(15%)	38,155	(6,022)	(16%)
Tax liabilities	**14,060**	13,695	365	3%	13,107	953	7%
Other liabilities	**17,215**	36,795	(19,580)	(53%)	17,218	(3)	(0%)
Total Liabilities	**1,379,395**	1,427,989	(48,594)	(3%)	1,358,001	21,394	2%
Total Equity	**216,501**	215,718	783	0%	224,693	(8,192)	(4%)
Total Liabilities and Equity	**1,595,896**	1,643,707	(47,811)	(3%)	1,582,694	13,202	1%
Key ratios							
Customer loans to customer deposits ratio	**139%**	142%			144%		
Net stable funding ratio (NSFR)	**123%**	127%			124%		
Liquidity coverage ratio (LCR)	**190%**	190%			195%		
Total capital ratio[1]	**23.1%**	23.6%			25.3%		
Tier 1 capital ratio[1]	**20.9%**	20.9%			22.5%		
Leverage ratio[1]	**13.0%**	12.6%			13.4%		
MREL ratio[2]	**35.6%**	39.1%			41.3%		

1. Including first quarter profit for 31.3.24. 2. MREL ratio includes the CET1 capital held to meet the combined buffer requirements.

Growth in retail deposits during second quarter

The Bank funds its operation using three main funding sources: stable deposits, covered bonds and senior preferred bonds. Deposits from customers grew by 4.2% in the second quarter or by ISK 36.6 billion from previous quarter, mainly from individuals. Deposit concentration remained stable. The ratio of customer loans to customer deposits was 139% at the end of 2Q24, reducing from 142% from the end of 1Q24. When excluding mortgages funded with covered bonds, the ratio was 118% for the first quarter of 2024, having been 120% at the end of 1Q24.

In terms of funding in capital markets, the second quarter saw continued spread compression in broader FIG credit markets, and this was amply reflected in the Bank's secondary levels. The recently issued EUR 300 million 4-year benchmark, launched in March at mid-swaps +185 bps, ended the second quarter at approximately swaps + 145 bps. In June, the Bank issued NOK 200 million and SEK 300 million 3-year senior preferred deals, both placed at +120 bps over NIBOR/STIBOR - or 115 bps tighter than on a previous exercise in January this year. Although Icelandic bank spreads have not yet returned to their historic tight levels, the status quo is certainly a big jump towards normalised borrowing costs in overseas markets. The Bank also exercised its option to call a SEK 500 million Tier 2 bond due 2029 during the quarter. This bond was repaid without immediate replacement. Domestically, the Bank issued a senior preferred bond in the amount of ISK 7 billion. The Bank also sold ISK 2 billion of covered bonds.

In June, the Bank took the opportunity to tender for the repurchase of any or all of the EUR 300 million 7.375% bonds due May 2026. This issue, launched in 2Q23 at a time of historically wide levels, bore a significant interest expense for the Bank. Given high liquidity levels, strong capital and ample MREL buffers the Bank was able to tender for the bond without the need for a direct replacement. The tender attracted a 91% take-up from holders with the Bank deciding to exercise its clean-up redemption option in respect of the remaining notes in circulation at par value.

The Bank's total liquidity coverage ratio (LCR) was 190% at period-end 2Q24, the same ratio as end of 1Q24. The Bank's liquidity position remains strong across currencies. Liquid assets as a percentage of total assets fell from 20% at the end of 1Q24 to 17% at the end of 2Q24, mostly due to debt buybacks.

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

Total equity amounted to ISK 216.5 billion at the end of 2Q24, compared to ISK 224.7 billion at YE23. A dividend of ISK 12.3 billion was approved at the AGM in March, in line with the Bank's dividend policy, and disbursed in April. The capital base was ISK 235 billion at the end of 2Q24, compared to ISK 248 billion at year-end 2023. The reduction is mainly due to the Bank's share buyback plan of ISK 10 billion, which was deducted from the capital base following approval from the Central Bank. The buyback is ongoing, with the remaining amount being deducted from the capital base.

At the end of 2Q24, the total capital ratio was 23.1%, compared to 25.3% at YE23. The corresponding Tier 1 ratio was 20.9% at the end of the second quarter 2024, compared to 22.5% at the YE23. The CET1 ratio, was 19.9% compared to 21.4% at YE23, (450bps 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 optimise its capital structure before year-end 2025, subject to market conditions and may explore various ways to to reach its target capital optimisation.

Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 1,019 billion at the end of 2Q24, compared to ISK 977 billion at YE23. The REA amounts to 63.9% of total assets at the end of 2Q24, compared to 61.7% at YE23. Further, adaptation to the new CRR framework is underway and is expected to provide capital relief.

The leverage ratio was 13.0% at the end of 2Q24, compared to 13.4% at year-end 2023.

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 26 July 2024

Íslandsbanki will host a webcast in English for investors and market participants on Friday 26 July 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 second quarter 2024 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 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 3Q23 results on 23 October. 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.