Press Release

# First Quarter 2019 Results

**Íslandsbanki hf.**

8 May 2019

## First quarter 2019 (1Q19) financial highlights

- Profit after tax was ISK 2.6bn (1Q18: ISK 2.1bn) generating an 5.9% annualised return on equity (1Q18: 4.8%).
- Earnings from regular operations were ISK 2.7bn (1Q18: ISK 2.9bn) with 6.7% annualised return on equity from regular operations normalised for 16% CET1 (1Q18: 8.0%).
- Net interest income was ISK 8.2bn (1Q18: ISK 7.7bn), an increase of 5.3% between years and the net interest margin was 2.8% (1Q18: 2.9%).
- Net fee and commission income was ISK 3.2bn (1Q18: ISK 2.8bn), up by 15.8% from the same time last year.
- Net impairment on financial assets generated a loss of ISK 919m in 1Q19, compared to ISK 88m gain in 1Q18.
- Administrative costs grew by approximately 3.5% between years and totalled ISK 7.1bn (1Q18: ISK 6.9bn.
- The cost to income ratio for the Group by end March was 62.6% compared to 69.8% for same period in 2018, while the same ratio for the parent company was 58.1% and slightly above the Bank‘s 55% long term target.
- Loans to customers grew by 3.2% (ISK 26.9bn) to a total of ISK 874bn at the end of March. Total new lending during the first three months of 2019 amounted to ISK 51.3bn, split across business segments.
- Deposits from customers grew by 5.6% (ISK 32.3bn) to ISK 611bn at the end of March.
- The Bank’s liquidity position is strong in both the Icelandic krona and foreign currencies and exceed all internal and external requirements. Capital ratios are high and in line with the long term targets.

## Key figures and ratios

| | | 1Q19 | 4Q18 | 3Q18 | 2Q18 | 1Q18 |
|---|---|---|---|---|---|---|
| PROFITABILITY | ROE 16% CET1 (regular operations)[1] | **6.7%** | 5.3% | 8.1% | 11.1% | 8.0% |
| | ROE (after tax) | **5.9%** | 3.2% | 4.7% | 11.6% | 4.8% |
| | Net interest margin (of total assets) | **2.8%** | 3.0% | 3.0% | 2.8% | 2.9% |
| | Cost to income ratio[2] | **62.6%** | 68.5% | 62.1% | 65.0% | 69.8% |
| | After tax profit, ISK m | **2,589** | 1,404 | 2,111 | 5,033 | 2,097 |
| | Earnings from regular operations, ISK m[3] | **2,653** | 2,144 | 2,928 | 3,881 | 2,881 |

| | | 31.3.2019 | 31.12.2018 | 30.9.2018 | 30.6.2018 | 31.3.2018 |
|---|---|---|---|---|---|---|
| CAPITAL | Total equity, ISK m | **173,621** | 176,313 | 174,630 | 172,182 | 166,337 |
| | Tier 1 capital ratio | **19.1%** | 20.3% | 19.9% | 20.5% | 20.3% |
| | Total capital ratio | **20.9%** | 22.2% | 21.7% | 21.6% | 21.4% |
| | Leverage ratio | **13.5%** | 14.6% | 14.0% | 14.5% | 14.3% |
| BALANCE SHEET | Total assets, ISK m | **1,205,228** | 1,130,403 | 1,162,639 | 1,111,742 | 1,088,308 |
| | Loans to customers, ISK m | **873,530** | 846,599 | 835,582 | 799,938 | 776,149 |
| | Deposits from customers, ISK m | **611,303** | 578,959 | 608,646 | 578,414 | 575,196 |
| | Customer deposit / customer loan ratio | **70.0%** | 68.4% | 72.8% | 72.3% | 74.1% |

1. Return from regular operations and corresponding ratios on normalized CET1 of 16%, adjusted for risk free interest on excess capital.
2. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / (Total operating income – one off items).
3. Earnings from regular operations is defined as earnings excluding one-off items e.g. bank tax and one-off costs and income.

## Birna Einarsdóttir, CEO of Íslandsbanki

*Robust lending growth and a substantial rise in fee income, marks the Bank's first quarter performance, where it earned a profit of ISK 2.6bn, which is in line with expectations.*

*The Bank´s funding and capital metrics are strong, with liquidity ratios in domestic and foreign currencies in line with internal limits and requirements set by the regulator and capital ratios at the Bank's long term target. The loan portfolio is likewise performing well by international comparisons.*

*I am pleased how very well the Bank's recent EUR 300 million bond issue was received by investors. This is continuing testimony to trust in the Bank from international investors and confidence in the resilience of the Icelandic economy.*

*Íslandsbanki launched several new digital solutions for its customers in early 2019. New digital solutions: "Welcome to business" and "Loan in the app" were both received favourably by customers and there is more to come from the Bank in this area. The Bank published a new report on the tourism sector last week, which has not gone unnoticed and which is understandable given the importance of this sector for the Icelandic economy.*

*A new strategy for the Bank, which international consultancy firm, Boston Consulting Group advised on, was presented to employees in March. I am convinced that the new strategy will prepare the Bank for a changing banking world and we have already started implementing it.*

*Íslandsbanki's future is an exciting one, where we intend to move Iceland forward by empoweing our customers to succeed, and to have a more active role in shaping and progressing society, always with the vision to be number 1 for service.*

## First quarter 2019 (1Q19) operational highlights

- For the sixth year in a row, Íslandsbanki received recognition for excellence in corporate governance from the University of Iceland Institute of Business Administration‘s Centre for Corporate Governance.
- Íslandsbanki had eight nominations for marketing awards “Lúðurinn“, as well as being nominated to the “Áran“, for the most successful advertising campaign for the Íslandsbanki Reykjavik Marathon.
- New digital solutions: “Welcome to business (“Velkomin í viðskipti”) and “Loan in the app („Lán í appi”) have both been received favourably by customers. Customers can also now perform contactless payments with Garmin and Fitbit watches.
- The Bank‘s new strategy was presented to employees in March as well as the Bank‘s enhanced focus on societal impact. The Bank will from now on put a special emphasis on supporting four of the UN´s Sustainable Development Goals (SDGs): #4 Quality Education; #5 Gender Equality; #9 Industry, Innovation and Infrastructure; and #13 Climate Action.
- As part of the Bank‘s support to the SDGs, it has been decided to stop giving out gifts made out of plastic to children and teens to counter pollution and waste.
- Íslandsbanki recently received Equal Pay Certification and the main purpose of the certificate is to promote gender equality vis-a-vis equal pay in the job market.
- Íslandsbanki launched a new website in January. The site has been redesigned and reprogammed from the ground up, in collaboration with Kolibri and Brandenburg. The look of the Íslandsbanki brand has been updated in recent months, and the website reflects this new interface.
- The Bank´s annual general meeting was held in March where the shareholders approved the board‘s proposal to pay a dividend of ISK 5.3bn of 2018 profits. Tómas Már Sigurðsson was elected to the Board to replace Helga Valfells, who did not seek re-election.
- Íslandsbanki‘s customers are the most satisfied in the banking market according to the Icelandic Customer Satisfaction Index for the sixth consecutive year.

# INCOME STATEMENT

| ISK m | 1Q19 | 1Q18 | Δ | 4Q18 | Δ | 2018 |
|---|---|---|---|---|---|---|
| Net interest income | 8,152 | 7,740 | 412 | 8,294 | (142) | 31,937 |
| Net fee and commission income | 3,217 | 2,778 | 439 | 3,478 | (261) | 12,227 |
| Net financial income (expense) | 448 | (283) | 731 | (637) | 1,085 | (962) |
| Net foreign exchange loss | (30) | (10) | (20) | 76 | (106) | 1 |
| Other operating income | 1,144 | 13 | 1,131 | 120 | 1,024 | 1,784 |
| **Total operating income** | 12,931 | 10,238 | 2,693 | 11,331 | 1,600 | 44,987 |
| Salaries and related expenses | (4,051) | (3,926) | (125) | (4,047) | (4) | (15,500) |
| Other operating expenses | (3,039) | (2,924) | (115) | (3,418) | 379 | (12,150) |
| **Administrative expenses** | (7,090) | (6,850) | (240) | (7,465) | 375 | (27,650) |
| Contribution to the Depositor's and Investors' Guarantee Fund | (312) | (292) | (20) | (299) | (13) | (1,173) |
| Bank tax | (880) | (785) | (95) | (740) | (140) | (3,281) |
| **Total operating expenses** | (8,282) | (7,927) | (355) | (8,504) | 222 | (32,104) |
| **Profit before net impairment on financial assets** | 4,649 | 2,311 | 2,338 | 2,827 | 1,822 | 12,883 |
| Net impairment on financial assets | (919) | 88 | (1,007) | (297) | (622) | 1,584 |
| **Profit before tax** | 3,730 | 2,399 | 1,331 | 2,530 | 1,200 | 14,467 |
| Income tax expense | (1,153) | (1,015) | (138) | (1,118) | (35) | (4,734) |
| **Profit for the period from continuing operations** | 2,577 | 1,384 | 1,193 | 1,412 | 1,165 | 9,733 |
| Profit from discontinued operations, net of income tax | 12 | 713 | (701) | (8) | 20 | 912 |
| **Profit for the period** | 2,589 | 2,097 | 492 | 1,404 | 1,185 | 10,645 |

## Considerable rise in Income compared to same period last year

- Total income increased by 26% between years and amounted to ISK 12.9bn in 1Q19.
- Net interest income totalled ISK 8.2bn, an increase of 5.3% from the previous year mainly due to increase in loan book. The net interest margin was 2.8%, which is at comparable levels to 1Q18. The net interest margin is expected to be slightly below 3.0% in the near to medium term.
- Net fee and commission income amounted to ISK 3.2bn, compared to ISK 2.8bn in 1Q18. Overall net fee income grew by 15.8% between years, partly due to higher fees and commissions from two of the Bank’s fee generating subsidiaries.
- Core income (net interest income and net fee and commission income) contributed 88% to the Bank’s total operating income during the three months of 2019. The Bank remains focused on strong core earnings and stable long-term income.
- The Bank recorded a net financial gain of ISK 448m in 1Q19, compared to a loss of ISK 283m in 1Q18.
- Other operating income totalled ISK 1.1bn in 1Q19, as opposed to ISK 13m in 1Q18 and is primarily attributed to the Bank‘s settlement with old Byr concerning the value of old Byr´s loanbook from when the Bank acquired old Byr in 2011.

## Cost to income ratio on downward trend and parent company close to 55% C/I target

- Administrative expenses grew by ISK 240m year-on-year or 3.5%. This can be explained by various factors, such as wage increases coming from collective wage agreements.

- The number of FTE's at the close of the period excluding seasonal employees was 834 (856 in 1Q18) in the parent company and 1,078 (1,040 in 1Q18) for the Group.

- The cost-to-income (C/I) ratio at end March was 62.6%, compared with 69.8% in 1Q18. The C/I ratio excludes the bank tax and other one-off cost items. The C/I in the parent company was 58.1% in 1Q19 for the same period, which is slightly above the Bank's long-term target of 55%.

- The after-tax profit from discontinued operations was ISK 12m in 1Q19, compared with ISK 713m in 1Q18.

## Negative net impairment on financial assets reflects changes in economic outlook

- Net impairment on financial assets generated a loss of ISK 919m in 1Q19, compared to ISK 88m gain in 1Q18, reflecting changes in the economic outlook in the Bank‘s risk calculations which are based on the IFRS 9 methodology.

## Taxes and levies continue to affect profitability

- The tax on the profit for the period amounted to ISK 1.1bn, compared to ISK 1.0bn in 1Q18. The effective tax rate was 30.9%, compared to 42,2% in 1Q18. The bank tax accounted for ISK 880m in 1Q19, compared with ISK 785m in 1Q18. The bank tax increased significantly in 2013 as a temporary measure, but according to the government's long-term plans, the tax is expected to gradually decrease from 0.376% to 0.145% until 2023. In addition, the Bank is subject to the special financial tax of 6% on taxable profits in excess of ISK 1bn and makes contributions to the Debtors' and Investors' Guarantee Fund, the Financial Supervisory Authority, and the Office of the Debtors' Ombudsman. The contribution to the Depositors' and Investors' Guarantee Fund, was at ISK 312m, marginally higher than previous year. Total taxes and levies amounted to ISK 2.9bn in 1Q19, compared to 2.4bn in 1Q18.

## Standard international NPL measurement not yet available since adoption of IFRS 9

- Following the implementation of IFRS 9, a new standard measure for non-performing loans (NPL's) has not been fully established at the international level. It is therefore currently difficult to compare the quality of the Bank's loan book to other banks and to analyse historical develo-ment. However, the European Banking Authority (EBA) has published a measure of NPL's as the ratio of the gross carrying amount of loans and advances in Stage 3 as a proportion of the total gross carrying amount of loans and advances. At the end of the reporting period this ratio was 2.0% for the Group compared to a 3.6% weighted average for European banks at the end 2018. When only taking into account the quality of loans to customers, the NPL ratio was at 1.7% at the end of March (net carrying amount).

### Profitability in line with the Bank's expectations

- Profit after tax was ISK 2.6bn in 1Q19 (1Q18: ISK 2.1bn) and annualised return on equity (after tax) was 5.9% in 1Q19 (1Q18: 4.8%) is in-line with the Bank's expectations. Earnings from regular operations were ISK 2.7bn, (1Q18: ISK 2.9bn) and annualised return on equity from regular operations normalised for 16% CET1 was 6.7% in 1Q19, compared to 8.0% in 1Q18. Regular earnings decreased by ISK 229m between years.

## BALANCE SHEET

### Assets – growing balance sheet through continued strong loan growth

- The balance sheet grew by 6.6% from year-end 2018, to ISK 1,205bn with loans to customers growing by 3.2%, or ISK 26.9bn. Demand for new credit came from all of the Bank's business segments but was concentrated mostly in Corporate & Investment Banking. Mortgage loans rose by ISK 6.3bn from year-end 2018. New lending amounted to ISK 51.3bn in 1Q19, as opposed to ISK 42.3bn in the previous year, an increase of 21.3%. Outstanding loans to the tourism industry in Iceland are 12% of the loan portfolio which is well diversified, unchanged from year-end 2018.

- Loans are generally well covered by stable collateral, majority 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 residential mortgage portfolio was 61% at end March 2019 compared to 61% at end 2018. The Bank's asset encumbrance ratio was 17.1% at end March 2019 compared to 18% at end 2018.

- Three items – cash and balances with the Central Bank, bonds and debt instruments, and loans to credit institutions – amount to about ISK 275bn.

| **Assets, ISK m** | **31.3.2019** | 31.12.2018 | Δ |
|---|---|---|---|
| Cash and balances with Central Bank | **129,039** | 135,056 | (6,017) |
| Bonds and debt instruments | **80,809** | 69,415 | 11,394 |
| Shares and equity instruments | **15,268** | 13,074 | 2,194 |
| Derivatives | **4,837** | 4,550 | 287 |
| Loans to credit institutions | **65,145** | 41,577 | 23,568 |
| Loans to customers | **873,530** | 846,599 | 26,931 |
| Investment in associates | **682** | 682 | - |
| Property and equipment | **9,642** | 5,271 | 4,371 |
| Intangible assets | **4,868** | 5,002 | (134) |
| Other assets | **21,408** | 9,177 | 12,231 |
| **Total assets** | **1,205,228** | 1,130,403 | 74,825 |

## Liabilities – diversified funding strategy

- Total liabilities amount to ISK 1,032bn, an increase of 8.1% from year-end 2018. The Bank maintained strong liquidity levels into 2019, and all regulatory and internal metrics were well above the set limits.

- At March 2019, the Bank's liquidity coverage ratio (LCR) for all currencies was 158% for the Group and 93% in Icelandic kroners and 144% for the parent company in all currencies. The net stable funding ratio (NSFR) for the Group in all currencies was 115% and the NSFR in foreign currencies for the Group was 166%.

- Total deposits increased by 5.6% from year-end 2018, to ISK 325bn. Deposits are still the Bank's main source of funding and concentration levels are monitored closely. The increase was due mainly to a rise in pension fund positions and from SMEs and individuals. The ratio of customer deposits to customer loans increased to 70.0% at end March 2019, compared to 68.4% at end 2018.

| **Liabilities & equity, ISK m** | **31.3.2019** | 31.12.2018 | Δ |
|---|---|---|---|
| Deposits from Central Bank and credit institutions | **16,404** | 15,619 | 785 |
| Deposits from customers | **611,303** | 578,959 | 32,344 |
| Derivatives and short positions | **7,325** | 5,521 | 1,804 |
| Debt issued and other borrow ed funds | **325,035** | 300,976 | 24,059 |
| Subordinated loans | **16,468** | 16,216 | 252 |
| Tax liabilities | **8,303** | 7,150 | 1,153 |
| Other liabilities | **46,769** | 29,649 | 17,120 |
| Total liabilities | **1,031,607** | 954,090 | 77,517 |
| Total equity | **173,621** | 176,313 | (2,692) |
| **Total liabilities and equity** | **1,205,228** | 1,130,403 | 74,825 |

- In 1Q19 the Bank issued five private placements amounting to EUR 11.5 million, SEK 650 million and NOK 1.4 billion with maturities of between 18 months and 5 years.

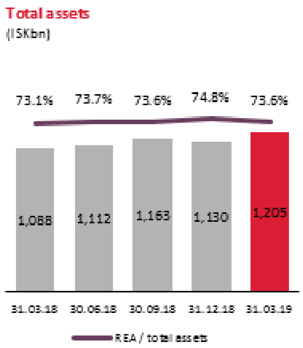
- In April 2019, the Bank issued a highly successful EUR 300 million 3-year benchmark fixed rate bond at a spread of 130 basis points over 3-year mid swaps. The transaction was over subscribed by nearly 5 times and was issued concurrently with a tender to buy back EUR 300 million of the Bank´s outstanding EUR 500 million 2020 benchmark bond. The combined effect of the two transactions was a very marked outperformance of the new bond which has tightened over 30 basis points since launch and lengthening of the Bank´s maturity profile.

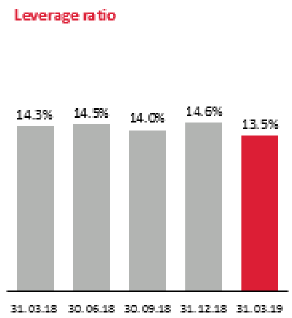
## Equity

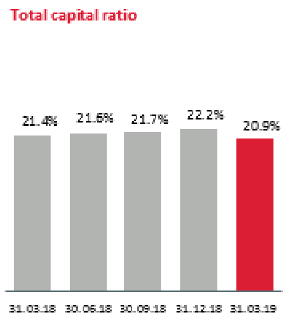
- Total equity amounted to ISK 173.6bn at March 2019, compared to ISK 176.3bn at the end of 2018. Of that total, ISK 2.4bn is attributable to non-controlling interests. At the Bank's AGM in March shareholders approved the Board's proposal to pay dividends amounting to ISK 5.3bn. The nominal value of the Bank's authorised share capital was ISK 10bn at the end of the quarter, and total share capital amouunted to ISK 65bn.

— At the end of March, the Bank's total capital ratio was 20.9%, compared to 22.2% at year-end 2018, which is in line with the Bank's target. The Bank's Tier 1 ratio was 19.1% at March 2019, compared to 20.3% at year-end 2018. In late 2018, the Icelandic Financial Supervisory Authority (FME) lowered the minimum requirement for total capital for Íslandsbanki from 19.8% to 18.8%. The decrease was credited to the Bank's lower risk profile.

— In light of recent changes to regulatory requirements and an updated assessment of the business environment, the Bank has decided to revise its management buffer from 0.5-1.5% to 0.5-2.0%. It is worth noting that the FME has instructed that the countercyclical capital buffer should be increased from 1.25% to 1.75%, effective in May 2019.




— Íslandsbanki uses the standardised method to calculate its risk exposure amount (REA), which amounted to ISK 886.9bn at the end of March 2019, or 73.6% of total assets, down from 74.8% at year-end 2018. The leverage ratio was 13.5% at the end of March compared to 14.6% at end 2018, indicating low leverage. The RAC ratio for the Bank was 20.9% at end-year 2018.

## Ratings

— Íslandsbanki is rated by S&P Global Ratings (S&P).

— In October 2017, S&P upgraded Íslandsbanki's credit ratings to BBB+/A-2 with a stable outlook and affirmed the ratings in July 2018.

# INVESTOR RELATIONS

### Investor call in English at 2.00 pm (GMT)

On Thursday 9 May, the Bank will host an investor call in English to present the financial results at 2.00 pm (GMT). The call will start with a short macro update on the Icelandic economy, followed by a review of the financial results and Q&A.

Please register by replying to: ir@islandsbanki.is. Dial-in details and presenation will be sent out prior to the call.

### Financial calendar

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

- Q2/2019 results — 31 July 2019

- Q3/2019 results — 30 October 2019

Please note that the dates are subject to change.

### Additional investor material

All presentation 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 is also available: https://www.islandsbanki.is/en/landing/about/investor-relations