# Third Quarter 2021 Results

Íslandsbanki hf.

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# FINANCIAL AND OPERATIONAL HIGHLIGHTS

Third quarter 2021 (3Q21) financial highlights – best quarter in more than five years

- Íslandsbanki reported a net profit of ISK 7.6bn in the third quarter (3Q20: ISK 3.4bn) generating an annualised return on equity of 15.7% (3Q20: 7.4%) which is above both the Bank's financial targets and market expectations.

- Growth in loans to customers during the year led an increase in net interest income YoY which totalled ISK 8.8bn in 3Q21 compared to ISK 8.3bn in 3Q20.

- Net fee and commission income grew 20% YoY and amounted to ISK 3.4bn in 3Q21. Asset management and investment banking and brokerage are primary drivers for the increase.

- The Bank focuses on core banking operations with NII and NFCI accounting for around 92% of total operating income in 3Q21. These two items grew 9% YoY.

- Net financial income was ISK 941m in 3Q21 compared to a loss of ISK 255m in 3Q20, the increase largely explained by a positive value change in unlisted equity instruments and by income from listed shares and equity instruments.

- Administrative expenses are comparable YoY totalling ISK 5.1bn in the 3Q21.

- Cost-to-income ratio (C/I ratio) was 39.4% in 3Q21, below target, down from 46.7% in 3Q20 due to strong revenue generation and cost reduction efforts.

- A positive ISK 1.8bn net impairment on financial assets in 3Q21 is mainly attributable to a brighter outlook for the tourism industry and reduced impairments on loans to individuals resulting from an updated risk assessment model. This is compared to an impairment charge of ISK 1.1bn in 3Q20. The net impairment charge over loans to customers, the annualised cost of risk, was -0.64% in 3Q21 compared to 0.44% in 3Q20.

- Loans to customers fell by 0.8% in the quarter to ISK 1,081bn as growth in mortgages lending normalises following Central Bank rate hikes, whilst the growth from year-end 2020 is 7.4%, mostly driven by mortgage lending but also by growth in loans to companies.

- At the end of the reporting period, the share of credit-impaired loans to customers was 2.0% (gross) down from 2.9% at YE20 following full repayment of exposures in Stage 3.

- Deposits from customers fell by ISK 11bn in the quarter, the outflow is a result of the cash settlement of shares from the Bank's IPO. Nonetheless, deposits grew by ISK 75bn in 2021.

- The liquidity position remains strong with all ratios well above regulatory requirements and internal thresholds.

- The Bank issued its inaugural Additional Tier 1 (AT1) issue in September – a SEK 750 million perpetual non-call 5-year transaction, paying a margin of STIBOR + 475 basis points. The deal was well oversubscribed and was sold to investors across the Nordic countries, France and Switzerland.

- Total equity amounted to ISK 197bn at the end of September and the Bank's capital ratio was 24.7%, including 3Q21 profit, compared to 23.0% at YE20. The corresponding CET1 ratio was 20.6%, up from 20.1% at YE20 This is considerably higher than the total capital ratio target which is currently at 18.3-19.8% and 19.5-21.0% in the long term.

- The leverage ratio was 13.2% at the end of September, including 3Q21 profit, compared to 13.6% fat YE20, indicating low leverage.

First nine months 2021 (9M21) financial highlights – net profit turnaround led by positive net impairment

- The Bank's net profit for the first nine months of year 2021 was ISK 16.6bn (9M20: ISK 3.2bn) with annualised return on equity for 9M21 of 11.7% compared to a 2.4% in 9M20.

- Net interest income totalled ISK 25.4bn in 9M21, a growth of 1.1% YoY which is explained by larger lending volumes and despite a low interest rate environment.

- Net fee and commission income increased by 20.1% between years. The growth is evenly distributed between income types, demonstrating a strong underlying income foundation. Net fee and commission income totalled ISK 9.2bn for the first nine months of the year.

- Net financial income was ISK 1.9bn compared to a loss of ISK 2.2bn for 9M20 as markets have been considerably more benign in 2021 compared to 2020

- Administrative expenses rose between years, mostly explained by a one-off cost in relation to the Bank's IPO (ISK 663m in 1H21) and salary increase due to collective salary increase and redundancy costs following layoffs.

- Cost-to-income ratio dropped significantly YoY from 55.3% in 9M20 to 46.6% in 9M21.

- Net impairment on financial assets was positive of ISK 2.4bn in the first nine months of 2021, mainly due to brighter outlook for the tourism industry, compared to a charge of ISK 7.0bn in 9M20 which reflected the economic situation at the start of the COVID-19 pandemic. The net impairment charge over loans to customers, the annualised cost of risk, was -0.30% in 9M21 compared to 0.98% in 9M20.

## Key figures and ratios

| | | 3Q21 | 3Q20 | 9M21 | 9M20 | 2020 |
|---|---|---|---|---|---|---|
| **PROFITABILITY** | Profit for the period, ISKm | **7,587** | 3,361 | **16,633** | 3,230 | 6,755 |
| | Return on equity | **15.7%** | 7.4% | **11.7%** | 2.4% | 3.7% |
| | Net interest margin (on total assets) | **2.4%** | 2.5% | **2.4%** | 2.6% | 2.6% |
| | Cost-to-income ratio[1] | **39.4%** | 46.7% | **46.6%** | 55.3% | 54.3% |
| | Cost of risk | **(0.64%)** | 0.44% | **(0.30%)** | 0.98% | 0.91% |
| | | **30.9.21** | 30.6.21 | 31.3.21 | 31.12.20 | 30.9.20 |
| **BALANCE SHEET** | Loans to customers, ISKm | **1,081,418** | 1,089,723 | 1,029,415 | 1,006,717 | 970,309 |
| | Total assets, ISKm | **1,456,372** | 1,446,860 | 1,385,235 | 1,344,191 | 1,328,724 |
| | Risk exposure amount, ISKm | **917,764** | 924,375 | 954,712 | 933,521 | 942,339 |
| | Deposits from customers, ISKm | **754,442** | 765,614 | 698,575 | 679,455 | 698,610 |
| | Customer loans to customer deposits ratio | **143%** | 142% | 147% | 148% | 139% |
| | Non-performing loans (NPL) ratio[2] | **2.0%** | 2.1% | 2.4% | 2.9% | 3.3% |
| **LIQUIDITY** | Liquidity coverage ratio (LCR), for all currencies | **225%** | 187% | 172% | 196% | 136% |
| | Net stable funding ratio (NSFR), for all currencies | **121%** | 122% | 119% | 123% | 113% |
| **CAPITAL** | Total equity, ISKm | **197,381** | 190,355 | 185,471 | 186,204 | 182,509 |
| | CET 1 ratio[3] | **20.6%** | 20.1% | 19.2% | 20.1% | 19.4% |
| | Tier 1 ratio[3] | **21.8%** | 20.1% | 19.2% | 20.1% | 19.4% |
| | Total capital ratio[3] | **24.7%** | 22.9% | 21.9% | 23.0% | 22.2% |
| | Leverage ratio[3] | **13.2%** | 12.4% | 12.6% | 13.6% | 13.4% |

1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One-off items) / (Total operating income – One-off items)
2. Stage 3, loans to customers, gross carrying amount
3. Including third quarter profit

## Birna Einarsdóttir, CEO of Íslandsbanki

Íslandsbanki's financial result for 3Q21 is the best in over five years with a profit of ISK 7.6bn and an annualised ROE of 15.7% which is well above the Bank's targets and market expectations. Although the improvement over the same quarter last year is mainly explained by an ISK 1.8bn positive net impairment of financial assets in 3Q21, there has also been strong underlying performance across the Bank. The reversal of impairment is mostly due to a brighter outlook for the tourism industry and subsequently, the cost of risk continues to normalise. Net interest income rose by 6% between years, largely as a result of higher lending volumes mainly in mortgages. Net fee and commission income rose by 20% due to strong operations, where nearly all income types contributed to the increase. Cost-to-income was 39.4% in the quarter, below the Bank's target, as a result of strong income generation and cost reduction efforts in previous periods. Consequently, Íslandsbanki is well on its way to reach the long-term double-digit ROE target. In addition, the Bank successfully issued its inaugural Additional Tier 1 notes amounting to SEK 750m, during the quarter, as part of its plan to optimise its capital structure.

Íslandsbanki shares have traded strongly in the Nasdaq stock exchange since the successful completion of the Bank's initial public offering (IPO) in June. The most widely held stock in Iceland, Íslandsbanki shares have traded in high volumes and have performed very well in comparison to listed companies and Iceland and listed Nordic banks.

Customer activity was vivid in the quarter and the use of the Bank's digital services greater than ever. The Bank also participated in the issue of a green/blue bond with seafood company Brim and a social bond with Grunnstoð, subsidiary of Reykjavik University.

The implementation of the new core lending system is well under way and is on track to be finalised by year-end. Íslandsbanki will then have completed the update of all its core banking infrastructure making it even better equipped to be the chosen digital banking partner to its customers.

## Third quarter 2021 (3Q21) operational highlights

**Corporate activity:**

- Business Banking had 39% market share as of September 2021 based on Gallup survey.
- The Bank had highest YTD market share in bonds brokerage, 18%.
- Íslandsbanki launched its inaugural issue of Additional Tier 1 notes as part of its plan to optimise its capital structure. The issue of SEK 750 million perpetual notes with a 5-year call was placed with investors across Scandinavia and continental Europe and was considerably oversubscribed. The transaction pays a coupon of 3-month STIBOR +475 basis points for the life of the notes and features a temporary write-down structure, with a 5.125% CET 1 trigger. The Notes are rated BB- by S&P.
- Íslandsbanki established a software development centre in Poland with the aim of evolving its extended delivery model and gaining access to a diverse range of skilled software development talent.
- The Board of Íslandsbanki hf. appointed the following to sit on its Nomination Committee: Helga Valfells, chair; and Tómas Már Sigurðsson. Additionally, Hallgrímur Snorrason, Chairman of the Íslandsbanki Board of Directors sits on the Committee as per the Bank's articles regarding Nomination Committees. The Committee, whose role is to nominate individuals to sit on the Bank's Board of Directors, operates on the basis of an authorisation in the Bank's Articles of Association. Committee members are elected by the Board for a term of one year at a time.

**Sustainability:**

- Grunnstoð, a subsidiary of Reykjavík University (RU), has completed the refinancing of the University's premises with the sale of new social bonds in the amount of ISK 12bn. Íslandsbanki oversaw the sale of the bonds and their admission to trading on the Nasdaq Iceland exchange.
- Íslandsbanki completed issuance of sustainable bonds for Icelandic seafood company Brim. The bonds fall under the company's sustainable financing framework, both green and blue. Blue bonds are a sub-category of green bonds and relate to sustainability regarding the ocean. The bonds are the first of their kind to be issued by Brim as well as the first in Iceland to be categorised both within a blue and green financing framework. The total size of the bond series is ISK 5bn at nominal value, of which to date a nominal value of ISK 2.5bn have been issued.
- A financing agreement was reached for the activities of Grænvangur through 2026. Íslandsbanki is a supporter of Grænvangur which is a cooperative forum for Governmental and business leaders, with a focus on climate issues and green solutions.
- 29% of all Ergo car loans in the quarter were electric cars.
- 5,674 tco2í avoided emissions by IS Green Bonds fund in 2020 according to impact report presented in September.
- Customers can now estimate their carbon footprint based on their spending profile via the Bank´s app.

**#1 for service**

- Assets in funds managed by Iceland Funds have increased by 28.1bn YTD.
- 30% of all fund sales now take place via the Íslandsbanki app.
- Users of Fríða, Íslandsbanki's cashback reward system more than tripled YTD.
- The Bank's chatbot, Fróði, 4th best chatbot in Europe by Boost.ai.

- For the 8th year running Íslandsbanki was designated as a model in corporate governance. The designation is presented by The Iceland Chamber of Commerce, SA – Business Iceland, Stjórnvísi and Nasdaq Iceland.

- Due to public gathering restrictions because of the COVID-19 outbreak, the Íslandsbanki´s Reykjavík Marathon was cancelled. The charitable fundraising aspect of the marathon was however maintained and close to ISK 50m was raised.

# INCOME STATEMENT

## Vigorous quarter with reversed impairments, strong increase in NII and NFCI and one-off value changes as main drivers

| Income statement, ISKm | 3Q21 | 3Q20 | Δ% | 2Q21 | Δ% | 9M21 | 9M20 | Δ% | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | **8,792** | 8,305 | 6% | 8,417 | 4% | **25,399** | 25,113 | 1% | 33,371 |
| Net fee and commission income | **3,427** | 2,862 | 20% | 2,907 | 18% | **9,196** | 7,660 | 20% | 10,525 |
| Net financial income (expense) | **941** | (255) | - | 619 | 52% | **1,853** | (2,174) | - | (1,391) |
| Net foreign exchange gain | **95** | 101 | (6%) | 95 | 0% | **320** | 364 | (12%) | 451 |
| Other operating income | **82** | 44 | 86% | 82 | 0% | **286** | 134 | 113% | 197 |
| **Total operating income** | **13,337** | 11,057 | 21% | 12,120 | 10% | **37,054** | 31,097 | 19% | 43,153 |
| Salaries and related expenses | **(2,953)** | (2,842) | 4% | (3,594) | (18%) | **(10,121)** | (9,536) | 6% | (12,917) |
| Other operating expenses | **(2,135)** | (2,268) | (6%) | (2,894) | (26%) | **(7,307)** | (7,137) | 2% | (9,829) |
| **Administrative expenses** | **(5,088)** | (5,110) | (0%) | (6,488) | (22%) | **(17,428)** | (16,673) | 5% | (22,746) |
| Contribution to the Depositor's and Investors' Guarantee Fund | **(173)** | (50) | 246% | (162) | 7% | **(517)** | (525) | (2%) | (679) |
| Bank tax | **(433)** | (416) | 4% | (451) | (4%) | **(1,294)** | (1,174) | 10% | (1,588) |
| **Total operating expenses** | **(5,694)** | (5,576) | 2% | (7,101) | (20%) | **(19,239)** | (18,372) | 5% | (25,013) |
| **Profit before net impairment on financial assets** | **7,643** | 5,481 | 39% | 5,019 | 52% | **17,815** | 12,725 | 40% | 18,140 |
| Net impairment on financial assets | **1,757** | (1,058) | - | 1,140 | 54% | **2,379** | (6,987) | - | (8,816) |
| **Profit before tax** | **9,400** | 4,423 | 113% | 6,159 | 53% | **20,194** | 5,738 | 252% | 9,324 |
| Income tax expense | **(1,898)** | (1,350) | 41% | (769) | 147% | **(3,703)** | (2,238) | 65% | (2,472) |
| **Profit for the period from continuing operations** | **7,502** | 3,073 | 144% | 5,390 | 39% | **16,491** | 3,500 | 371% | 6,852 |
| Discontinued operations held for sale, net of income tax | **85** | 288 | (70%) | 41 | 107% | **142** | (270) | - | (97) |
| **Profit for the period** | **7,587** | 3,361 | 126% | 5,431 | 40% | **16,633** | 3,230 | 415% | 6,755 |
| **Key ratios** | | | | | | | | | |
| Net Interest Margin (NIM) | **2.4%** | 2.5% | | 2.4% | | **2.4%** | 2.6% | | 2.6% |
| Cost-to-income ratio (C/I) | **39.4%** | 46.7% | | 49.9% | | **46.6%** | 55.3% | | 54.3% |
| Return on Equity (ROE) | **15.7%** | 7.4% | | 11.6% | | **11.7%** | 2.4% | | 3.7% |
| Cost of risk (COR) | **(0.64%)** | 0.44% | | (0.42%) | | **(0.30%)** | 0.98% | | 0.91% |
| Effective income tax rate | **20.2%** | 30.5% | | 12.5% | | **18.4%** | 39.0% | | 26.5% |

## Core income (NII and NFCI) up 9.4% YoY – strong underlying foundations

- Total operating income grew 21% YoY in the third quarter amounting to ISK 13.3 bn (3Q20: ISK 11.1bn).

- Net interest income grew 5.9% YoY and amounted ISK 8.8bn in 3Q21 compared to ISK 8.3bn in 3Q20. Growth in loans to customers in previous quarters was the main contributing factor to the increase along with rising interest rates, but average CB policy rate was 1.1% in 3Q21, as compared to 1.00% in 3Q20.

- Net interest margin on total assets was 2.4% in 3Q21, unchanged from 1H21. Net interest margin on loans decreased YoY from 2.3% to 2.2% and net interest margin on deposits increased YoY from 1.1% in 3Q20 to 1.3% in 3Q21.

- The boost in net fee and commission income YoY of ISK 565m or 19.7% is diversely sourced. Fees from investment banking and brokerage rose by ISK 351m YoY after a strong performance in all fee generating divisions within investment banking and number of corporate finance projects completed including successful IPO of the Bank. Asset management saw a strong inflow into equity funds, balanced funds and asset portfolios from all client segments. Growth going forward is expected to be in line with nominal GDP growth on average through the business cycle

- In 3Q21 the Bank recorded a gain of ISK 941m in net financial income compared to a loss of ISK 255m in 3Q20. The turnaround is largely explained by a positive value change in unlisted equity instruments, income from listed shares and equity instruments as domestic equity market has shown strong performance and mark-to-market of balance sheet management derivatives in Treasury.

### Improved operational efficiency with C/I ratio substantially down

- Administrative expenses remain at a similar level. The rise in salaries is due to collective salary increases and redundancy costs. The reduction in other operating expenses is related to general cost reduction efforts. The rise in other administrative expenses in 9M21 is mainly explained by a one-off cost related to Íslandsbanki's IPO. This one-off cost totalled ISK 663m for the first half of the year. The reduction in administrative expenses between 2Q21 and 3Q21 is largely due to seasonality in salary expenses along with a fall in other operating expenses

- The number of FTEs at the end of the period excluding seasonal employees was 730 (745 at YE20) for the parent company and 763 for the Group (779 at YE20).

- The cost-to-income (C/I) ratio was 39.4% in 3Q21, below the Bank's targets, compared to 46.7% in 3Q20. The C/I ratio excludes the bank tax and other one-off items.

### Lower effective tax rate

- Lower effective tax rate in the period is explained by tax treatment of equity forwards. The Bank is subject to the special financial tax of 6% on taxable profits over ISK 1bn, financial activities tax and social security charges, makes contributions to the Depositors' and Investors' Guarantee Fund, the Financial Supervisory Authority of the Central Bank, and the Office of the Debtors' Ombudsman. Total taxes and levies amounted to ISK 2.9bn for the period compared to ISK 2.3bn for the same period 2020.

### Positive net impairment on financial assets in 3Q21

- The positive net impairment of ISK 1.8bn in 3Q21 is mostly due to a brighter outlook for the tourism industry and reduced impairments on loans to individuals resulting from a new model for the risk assessment of loans to individuals.[1]

- The annualised cost of risk, measured as net impairment charge over loans to customers, was -0.64% in 3Q21 and -0.30% in 9M21. The cost of risk for FY20 was +0.91% and +0.44% for 3Q20. The average cost of risk in 2019 and 2020, excluding the effect of COVID-19, amounted to +0.35%, which would have been closer to +0.30% based on the current composition of the loan book with a higher proportion of mortgages.

- The probability weights of the economic scenarios used to calculate the impairment are unchanged since 2Q21 at 15% (good), 50% (baseline), and 35% (bad) at end of 3Q21.

### Strong financial performance in an eventful quarter

- Íslandsbanki reported a profit of ISK 7.6bn in 3Q21 (3Q20: ISK 3.4bn), generating a 15.7% annualised return on equity (3Q20: 7.4%). Positive net impairment on financial assets of ISK 1.8bn and net financial income of ISK 0.9bn contributed to financial results exceeding the Bank's financial targets. Strong underlying operations continue to support net interest income and net fee and commission income in an eventful quarter.

[1] See further in Note 2 in the Bank's 9M21 Consolidated Financial statements

# BALANCE SHEET

## Robust growth in total assets in 9M21

| Assets, ISKm | 30.9.21 | 30.6.21 | Δ | Δ% | 31.12.20 | Δ | Δ% |
|---|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | **110,233** | 130,968 | (20,735) | (15.8%) | 78,948 | 31,285 | 39.6% |
| Loans to credit institutions | **81,117** | 57,793 | 23,324 | 40.4% | 89,920 | (8,803) | (9.8%) |
| Bonds and debt instruments | **123,599** | 110,499 | 13,100 | 11.9% | 128,216 | (4,617) | (3.6%) |
| Derivatives | **2,374** | 2,649 | (275) | (10.4%) | 6,647 | (4,273) | (64.3%) |
| Loans to customers | **1,081,418** | 1,089,723 | (8,305) | (0.8%) | 1,006,717 | 74,701 | 7.4% |
| Shares and equity instruments | **31,456** | 31,751 | (295) | (0.9%) | 14,851 | 16,605 | 111.8% |
| Investment in associates | **952** | 911 | 41 | 4.5% | 775 | 177 | 22.8% |
| Property and equipment | **7,082** | 7,246 | (164) | (2.3%) | 7,341 | (259) | (3.5%) |
| Intangible assets | **3,249** | 3,307 | (58) | (1.8%) | 3,478 | (229) | (6.6%) |
| Other assets | **13,954** | 10,474 | 3,480 | 33.2% | 4,125 | 9,829 | 238.3% |
| Non-current assets and disposal groups held for sale | **938** | 1,539 | (601) | (39.1%) | 3,173 | (2,235) | (70.4%) |
| **Total Assets** | **1,456,372** | **1,446,860** | **9,512** | **0.7%** | **1,344,191** | **112,181** | **8.3%** |
| **Key ratios** | | | | | | | |
| Risk Exposure Amount (REA) | **917,764** | **924,375** | (6,611) | (0.7%) | 933,521 | (15,757) | (1.7%) |
| Non-performing loans (NPL) ratio[1] | **2.0%** | 2.1% | | | 2.9% | | |
| Asset encumbrance ratio | **18.9%** | 18.9% | | | 18.7% | | |

1 Stage 3, loans to customers, gross carrying amount

## Steady mortgage growth supported by an even stronger capital base

- Loans to customers contracted by 0.8% in 3Q21 as growth in mortgages lending normalises following CB´s recent rate hikes. Since YE20 the Bank's assets have grown by 8.3%, driven by growth in loans to customers amounting to ISK 75bn or 7.4%. This growth is mainly driven by mortgages (ISK 73.6bn). Loans to others than individuals decreased by ISK 1.5bn from YE20.

- The loan book composition has altered such that mortgages to individuals are now 42% of loans to customers from 37% YE20 and 31% YE19. Outstanding loans to the tourism industry in Iceland at the end of September 2021 were 9% of the total loan portfolio.

- Loans are generally well covered by stable collateral, the majority of which is in residential and commercial real estate whilst the second most important collateral type is fishing vessels. The weighted average loan-to-value (LTV) ratio for the residential mortgage portfolio at end of September was 66%, comparable to 64% at YE20. Íslandsbanki's registered value of commercial real estate is less vulnerable to market fluctuations as collateral has risen at a much slower rate and lagged market prices in prior years.

- Four line-items, cash and balances with the Central Bank, loans to credit institutions, bonds and debt instruments, and shares and equity instruments, amounted to about ISK 346bn at the end of the period, of which ISK 314bn are liquid assets. Increase in equity instruments in 9M21 are due to growth in equity forwards.

- The increase in bonds and debt instruments is mainly due to the issuance of AT1 notes in 3Q21.

- Growth in other assets of ISK 9.8bn from YE20 is mainly because of higher volume of unsettled transactions and includes an increase in deferred tax assets.

- The Bank's asset encumbrance ratio was 18.9% at the end of 3Q21, up from 18.7% at YE20.

## High and improving asset quality in line with continued economic recovery following COVID-19

- At the end of 3Q21, 9.5% of the gross performing loan book (not in Stage 3) was classified as forbearance, down from 11.1% at end of 2020. The majority of forborne loans are those that have had moratoria granted on a case-by-case basis to customers affected by COVID-19, mostly in the tourism sector. Despite being classified with forbearance, 59% have resumed regular payments.

- At the end of the reporting period, the share of credit-impaired loans to customers was 2.0% (gross) down from 2.9% at year-end following full repayment of material exposures in Stage 3.

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

| Liabilities & Equity, ISKm | 30.9.21 | 30.6.21 | Δ | Δ% | 31.12.20 | Δ | Δ% |
|---|---|---|---|---|---|---|---|
| Deposits from Central Bank and credit institutions | **20,409** | 32,240 | (11,831) | (36.7%) | 39,758 | (19,349) | (48.7%) |
| Deposits from customers | **754,442** | 765,614 | (11,172) | (1.5%) | 679,455 | 74,987 | 11.0% |
| Derivative instruments and short positions | **10,869** | 10,079 | 790 | 7.8% | 6,936 | 3,933 | 56.7% |
| Debt issued and other borrow ed funds | **397,672** | 398,786 | (1,114) | (0.3%) | 387,274 | 10,398 | 2.7% |
| Subordinated loans | **36,923** | 25,297 | 11,626 | 46.0% | 27,194 | 9,729 | 35.8% |
| Tax liabilities | **6,256** | 6,025 | 231 | 3.8% | 5,450 | 806 | 14.8% |
| Other liabilities | **32,420** | 18,464 | 13,956 | 75.6% | 11,920 | 20,500 | 172.0% |
| Total Liabilities | **1,258,991** | 1,256,505 | 2,486 | 0.2% | 1,157,987 | 101,004 | 8.7% |
| Total Equity | **197,381** | 190,355 | 7,026 | 3.7% | 186,204 | 11,177 | 6.0% |
| **Total Liabilities and Equity** | **1,456,372** | **1,446,860** | **9,512** | **0.7%** | **1,344,191** | **112,181** | **8.3%** |
| **Key ratios** | | | | | | | |
| Customer loans to customer deposits ratio | **143%** | 142% | | | 148% | | |
| REA/total assets | **63.0%** | 63.9% | | | 69.4% | | |
| Liquidity coverage ratio (LCR) | **225%** | 187% | | | 196% | | |
| Net stable funding ratio (NSFR) | **121%** | 122% | | | 123% | | |
| CET 1 ratio[1] | **20.6%** | 20.1% | | | 20.1% | | |
| Tier 1 ratio[1] | **21.8%** | 20.1% | | | 20.1% | | |
| Total capital ratio[1] | **24.7%** | 22.9% | | | 23.0% | | |
| Leverage ratio[1] | **13.2%** | 12.4% | | | 13.6% | | |

1 Including third quarter profit

## Deposits remain the largest source of funding - with a steady growth throughout 9M21

- Funding is raised to match the lending programme of the Bank using three main funding sources: stable deposits, covered bonds and senior unsecured bonds.

- Deposits from customers contracted by ISK 11bn in the quarter, which is wholly linked to the settlement of the Bank's IPO. Deposits from retail customers increased by ISK 15bn in the quarter. Deposits from customers have grown by 11.0% or ISK 75bn since YE20, up 13% from retail customers and corporations and decreased 10% from financial institutions and pension funds. All deposit concentration levels are monitored closely, with concentration falling slightly during the year.

- The ratio of customer loans to customer deposits declined from 148% YE20 to 143% at end of September. Deposits from retail and corporations are the Bank's main source of funding, comprising 43% of the Bank's total funding sources and 82% of the Bank's total deposit base at period end.

- The Bank continued its successful issuance of covered bonds during the quarter to fund the increase in mortgage lending. In 2021 the Bank has sold ISK 32bn of outstanding series, thereof ISK 4bn in 3Q21.

- The Bank has three EUR benchmark bonds outstanding placed with over 200 discrete investors in more than 20 countries. The Bank is also an active issuer in Scandinavian local currency bond markets and has issued numerous senior unsecured deals in SEK and NOK. The Bank has issued all 3 of its Tier 2 bonds in SEK.

- The Bank has demonstrated great consistency of access to foreign capital markets even at times of market turbulence with very strong participation from real-money investors across Europe.
- Increase in other liabilities in 9M21 is mainly explained by higher volume of unsettled transactions.
- The liquidity position remains strong with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 225%, up from 196% at YE20. The LCR in foreign currencies declined to 384% at the end of the reporting period from 463% at YE20 and LCR in ISK increased to 124% at end of September from 95% at YE20.
- On 28 June, the Central Bank implemented new regulations for NSFR in all currencies according to the CRR II regulation, setting the regulatory minimum at 100%. Simultaneously, minimum requirements for NSFR in foreign currencies were annulled.
- The total net stable funding ratio (NSFR) was 121% at period end compared to 123% at YE20 and the NSFR in foreign currencies was 166% compared with 179% at YE20.
- As the Bank's liquidity position remains strong across currencies and above requirements, the Bank may consider debt buybacks or exchanges of outstanding transactions during 2021.

Capital ratios well above targets with excess capital of ISK >35bn including capital structure optimisation

- Total equity amounted to ISK 197bn at the end of September, compared to ISK 186bn at YE20.
- The capital base, excluding 3Q21 profit, increased to ISK 222bn from ISK 215bn at the YE20 based on retained earnings. The presentation of the total capital ratio was changed in 1Q21, where expected dividend, based on c. 50% of the previous year's profit, is deducted from 1Q21 onwards.
- The Financial Supervision Committee announced on 1 July 2021 the results of the SREP concerning additional capital requirements (Pillar 2-R). The Bank shall as of 30 June 2021 maintain an additional capital requirement of 2.5% of risk exposure amount (REA), which is an increase of 0.8 percentage points from the previous assessment. The Bank's overall capital requirement, taking into account capital buffers, therefore increases from 17.0% to 17.8%. The Pillar 2-R requirements were expected to rise temporarily as a result of COVID-19 and this result is in line with the Bank's expectations.
- The Bank's total capital ratio target, which is the Bank's regulatory overall capital requirement in addition to the Bank's management buffer of 0.5-2.0% is currently 18.3-19.8%.
- The Bank's long-term target range is 19.5-21.0% with a CET1 target of >16% and already assumes the increases of the CCB to 2% and a reversal of the COVID-19 effect on the Pillar 2-R.
- The Financial Stability Committee has announced an increase of the countercyclical capital buffer (CCB) from 0% to 2%, effective from September 2022, this change was anticipated by the Bank and therefore included in its capital targets.
- At the end of September, the Bank's total capital ratio was 24.7%, including 3Q21 profit, compared to 23.0% at YE20. That is considerably higher than the Bank's total capital ratio target. The corresponding Tier 1 ratio was 21.8%, up from 20.1% at YE20. The CET1 ratio was 20.6% compared to 20.1% at YE20. The rise in the capital ratios is based on retained earnings, decrease in REA and the issuance of AT1 capital.
- Íslandsbanki hf. launched its inaugural issue of Additional Tier 1 notes in 3Q21 as part of its plan to optimise its capital structure. The issue of SEK 750 million perpetual notes with a 5-year call was placed

with investors across Scandinavia and continental Europe and was considerably oversubscribed. The transaction pays a coupon of 3-month STIBOR +475 basis points for the life of the notes and features a temporary write-down structure, a 5.125% CET 1 trigger. Headroom for further AT1 issue is approximately ISK 6bn.

- Taking into account capital structure optimisation with the issuance of Additional Tier 1 instruments and assuming that the countercyclical buffer increases to 2%, the Bank estimates that long-term excess CET1 capital is approximately ISK 35bn[2]. The Bank will start paying out a part of its excess capital in parallel with its ordinary dividend payable for the FY 2021 – the amount to be decided at that time.

- Íslandsbanki uses the standardised method to calculate its REA, which amounted to ISK 918bn compared to ISK 934bn at YE20. REA amounts to 63% of total assets, compared to 69% at YE20. The implementation of EU regulation 2019/876 in Iceland caused the reduction in REA, contributing to a 60bp rise in the capital ratios. The most material effect was the amendment of the SME supporting factor, which relaxes the conditions for obligors to be classified as small or medium sized enterprises allowing the supporting factor to be applied to a larger part of the Bank's loan portfolio lowering the REA. Another material amendment was the change in methodology for calculation of the exposure amount for counterparty credit risk, which leads to an increase in the REA.

- The leverage ratio was 13.2% at the end of September, including 3Q21 profit, compared to 13.6% at YE20, indicating low leverage.

### Market risk well within appetite

- The Bank has modest market risk profile with market risk well within appetite. The Bank's market risk mainly derives from aggregate balance sheet imbalances in interest rate, inflation and currency positions as well as the Bank's liquidity portfolio managed by Treasury.

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the end of September, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 10.6bn, compared to ISK 26.2bn at YE20. The imbalances are managed amongst other things via CPI-linked swaps, issuance of CPI-linked covered bonds and CPI-linked deposit programmes.

- The currency imbalance was ISK 0.8bn (0.4% of the total capital base) at the end of September, compared to ISK 5.1bn (2.4% of the total capital base) at YE20. The Bank's imbalances are strictly monitored and are within regulatory limits.

### Credit rating

- Íslandsbanki has a BBB/A-2 rating, with a stable outlook, by S&P Global Ratings (S&P). In S&P's latest report on Íslandsbanki, dated 18 October 2021, Íslandsbanki's key strengths are stated as high leverage ratio and very strong capital, stable franchise and market position across all domestic business lines and limited wholesale financing needs. The rating agency views key risks as material exposure to tourism and commercial real estate (CRE), concentration in Iceland and exposure to the volatile domestic economy and unpredictable operating environment and strong competition, which could weigh on profitability prospects in S&P's view.

- S&P states that they could raise the Bank's ratings if it proves able to strengthen its returns, efficiency, and risk profile such they are significantly better than those of its domestic peers, with no further widening of the gap between the Bank and its foreign peers. They could lower the ratings on Íslandsbanki if the economic environment in Iceland becomes even more difficult, causing banks' profitability prospects to weaken for a prolonged period and Íslandsbanki's RAC ratio to decline below 15%.

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[2] Based on long term capital targets. An increase in 3Q21 in excess CET1 is due to strong financial result and lower REA. This amount will fluctuate with the level of net profits and changes in REA

# INVESTOR RELATIONS

## An earnings conference call and webcast will take place on Friday 29 October 2021

The Bank will host an investor meeting and webcast in English for investors and market participants on Friday 29 October at 8.30 Reykjavík/GMT, 9.30 London/BST, 10.30 CET. Birna Einarsdóttir, CEO, and Jón Guðni Ómarsson, CFO, will give an overview of the third quarter financial results and operational highlights.

Participant registration is accessible **via this link**. A recording will be available after the meeting on the Investor Relations website. To participate in the webcast via telephone and in order to be able to ask questions please use the following dial-in details:

Iceland: +354 800 74 37
Denmark: +45 354 45 577
Sweden: +46 8 566 42 651
Norway: +47 235 00 243
United Kingdom: +44 33 330 00 804
United States: +1 631 913 1422

Confirmation Code: 90140657#

## Financial calendar

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

4Q21 results – 10 February 2022
Annual General Meeting – 17 March 2022
1Q22 results – 5 May 2022
2Q22 results – 28 July 2022
3Q22 results – 27 October 2022

Please note that the dates are 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 is also available: https://www.islandsbanki.is/en/landing/about/investor-relations