# First Quarter 2021 Results

Íslandsbanki hf.

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# FINANCIAL AND OPERATIONAL HIGHLIGHTS

First quarter 2021 (1Q21) financial highlights – another robust quarter with strong underlying operations

- Íslandsbanki reported a net profit of ISK 3.6bn in the first quarter (1Q20: ISK -1.4bn) generating an annualised return on equity of 7.7% (1Q20: -3.0%).

- Net interest income amounted to ISK 8.2bn in the quarter compared to ISK 8.6bn in 1Q20. Net interest margin was 2.4% during the quarter compared to 2.8% in 1Q20. NII and NIM have shown resilience despite lower base rate.

- Overall growth in both fee and commission income and expense supported an 14.9% increase in net fee and commission income, from ISK 2.5bn in 1Q20 to ISK 2.9bn in 1Q21.

- The Bank recorded a net financial income of ISK 293m in 1Q21 (1Q20: -1.7bn) partially due to net valuation changes and favourable market conditions.

- Administrative expenses increased slightly between years and totalled ISK 5.9bn (1Q20: 5.7bn). Increase in salaries between years is explained by general wage agreements, accrued leave, and redundancy payments while other operating expenses decrease between years.

- Continuous digital uptake contributed to lower cost-to-income ratio (C/I ratio) which was 52.0% in the quarter, down from 62.9% in 1Q20.

- Net impairment on financial assets dropped significantly YoY amounting to ISK 518m in 1Q21 (1Q20: ISK 3.5bn) due to more favourable economic environment. The net impairment charge over loans to customers (cost of risk) was 0.05% (0.20% annualised) compared to 0.91% in FY20.

- Loans to customers grew 2.3% from YE20 mostly driven by mortgage lending.

- At the end of March, the share of credit-impaired loans to customers was down 0.5% from year-end 2020, to 2.4% (gross).

- Deposits from customers, the Bank's main source of funding, grew ISK 19bn or 2.8% in the quarter.

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

- Total equity amounted to ISK 185bn at the end of March and the Bank's capital ratio was 21.9%, considerably higher than the total capital ratio target which is currently at 17.5-19%. The leverage ratio was 12.6% at the end March compared to 13.6% at YE20, indicating low leverage.

- Íslandsbanki's financial targets have been updated, demonstrating the Bank's development and the economic recovery.

## Key figures and ratios

| | | 1Q21 | 4Q20 | 3Q20 | 2Q20 | 1Q20 |
|---|---|---|---|---|---|---|
| **PROFITABILITY** | After tax profit, ISKm | **3,615** | 3,525 | 3,361 | 1,245 | (1,376) |
| | Return on equity (after tax) | **7.7%** | 7.6% | 7.4% | 2.8% | (3.0%) |
| | Net interest margin (of total assets) | **2.4%** | 2.5% | 2.5% | 2.6% | 2.8% |
| | Cost-to-income ratio[1] | **52.0%** | 51.7% | 46.7% | 57.5% | 62.9% |
| | Cost of risk (annualised) | **0.20%** | 0.73% | 0.44% | 1.03% | 1.51% |
| | | **31.3.2021** | 31.12.2020 | 30.9.2020 | 30.6.2020 | 31.3.2020 |
| **BALANCE SHEET** | Loans to customers, ISKm | **1,029,415** | 1,006,717 | 970,309 | 933,320 | 923,850 |
| | Total assets, ISKm | **1,385,235** | 1,344,191 | 1,328,724 | 1,303,256 | 1,255,691 |
| | Risk exposure amount, ISKm | **954,712** | 933,521 | 942,339 | 923,133 | 911,375 |
| | Deposits from customers, ISKm | **698,575** | 679,455 | 698,610 | 681,223 | 647,795 |
| | Customer loans to customer deposits ratio | **147%** | 148% | 139% | 137% | 143% |
| | NPL ratio[2] | **2.4%** | 2.9% | 3.3% | 3.6% | 2.8% |
| **LIQUIDITY** | Liquidity coverage ratio (LCR), for all currencies | **172%** | 196% | 136% | 179% | 177% |
| | Net stable funding ratio (NSFR), for all currencies | **119%** | 123% | 113% | 117% | 120% |
| **CAPITAL** | Total equity, ISKm | **185,471** | 186,204 | 182,509 | 179,722 | 179,542 |
| | Total capital ratio | **21.9%** | 23.0% | 22.2% | 22.2% | 21.9% |
| | Tier 1 capital ratio | **19.2%** | 20.1% | 19.4% | 19.4% | 19.2% |
| | Leverage ratio | **12.6%** | 13.6% | 13.4% | 13.4% | 13.5% |

1. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund) / (Total operating income)
2. Stage 3, loans to customers, gross carrying amount

## Birna Einarsdóttir, CEO of Íslandsbanki

We are pleased with the first quarter results which are in line with the positive trend of the latter half of 2020. The Bank's net profit was ISK 3.6bn, a turnaround from the same period last year, resulting in 7.7% return on equity. Total operating income rose between years and net impairment charges significantly dropped. The Bank has made investments in IT structure and digitisation over the past years which, along with the boost in customers' digital usage, contribute to lower cost to income ratio. Deposits from customers grew by 2.8% from year-end and loans to costumers grew by 2.3%, driven by demand for mortgages and customers are very satisfied with our improved service and shorter queuing time. The Bank now offers green mortgages offering lower interest rate, fulfilling customers diverse demands.

Digital development has expedited over the past years and notably in the beginning of the COVID-19 pandemic. Annual growth in app usage between 2017 and 2019 was 20% and 99% of interactions with individuals are now via digital channels. We continue our digital journey, with the latest addition to the app being carbon footprint tracker for the Bank's mobile banking app users.

Íslandsbanki recently announced its commitment to net zero emissions by 2040. The Bank's own operations have been carbon neutral for the past two years and with this decision that commitment will also extend the carbon footprint to Íslandsbanki's entire loan and asset portfolio. We are proud of this commitment which conforms with Iceland's ambitious plan in climate changes. In April, the Bank was given the highest rating for sustainability that has been awarded by local ratings agency Reitun. According to the assessment, the Bank has worked effectively at incorporating sustainability-centred thinking into its operations. Íslandsbanki was also awarded the Kuðungur (the Conch), the Ministry for the Environment and Natural Resources' environmental prize, for its outstanding work on environmental affairs in the past year. These steps clearly support the Bank's role to be a force for good and shows that the Bank is successful on the sustainability front.

The Bank's financial position and underlying operations are strong. Íslandsbanki has a robust balance sheet and equity and liquidity ratios are well above internal goals and regulatory requirements. The Bank's financial targets have been updated to support development and strategic initiatives. It has been publicly stated by the Minister of Finance and Economic affairs that the process of preparing Íslandsbanki for a listing on a local regulated stock market has been initiated and that the consequent sale of shares in a public offering is scheduled in June. We look forward to exciting times ahead.

### First quarter 2021 (1Q21) operational highlights

- The Bank saw a significant increase in digital mortgage applications during the first quarter of the year, with the number of applications exceeding the annual total for 2019. Activity in the housing market continued in the first quarter and the number of real estate purchase agreements increased by 27% compared to the same period in 2020. Additionally, customers have continued to refinance their mortgages.

- 3 in 5 SME online banking users are already actively using the app for their day to day banking activities only 5 months after the app was first introduced in November 2020. The Bank has a strong presence in the SME market with 38% market share for the whole country and 45% in the greater Reykjavík area, up from 35% and 42% in year-end 2020, respectively.

- Íslandsbanki was involved in several large projects in the first quarter, including bond issuance for Eik real estate company and advisory to Strengur in their takeover bid in Skeljungur.

- The first phase of implementing electronic notarisation was finalised during the first quarter, with the aim of simplifying property conveyancing.

- Íslandsbanki launched SmartId, new next generation digital identity option which is not based on SIM card.

- The Bank launched an extensive marketing campaign that revolves around the bank's focus on climate change, sustainability, equality, and innovation.

- Íslandsbanki is the first Icelandic financial institution to become a member of Green Building Council Iceland, a cooperative forum that undertakes research and development projects and holds regular educational events to encourage continuous reforms. Green Building Council Iceland is a not-for-profit organisation and a member of the World Green Building Council.

- Íslandsbanki's Annual General Meeting (AGM) was held on 18 March. The Chairman of the Board, Hallgrímur Snorrason, delivered the Board´s address, and the CEO, Birna Einarsdóttir, reviewed the Bank's annual accounts and operational highlights for 2020. Jökull H. Úlfsson was elected as new member of the Board.

- Eco-friendly property buyers are now offered a new type of mortgage loan – the green mortgage with no lending fee and discounted interest rates at Íslandsbanki.

- The Bank's employees take an active part in improving and changing work processes for the better and in January, Íslandsbanki's canteen received the Swan certification.

- Through co-operation agreements, Íslandsbanki became UN Women's main partner in Iceland in the field of banking services, in addition to being a special sponsor of UN Women light bearers.

- New financial literacy programme aimed at young adults (16-25 years old) was launched successfully.

- Íslandsbanki was nominated for three Icelandic Web Awards. The Bank was nominated for its website, design system and digital refinancing process.

- On track for a full replacement of loan systems which is expected by the end of 2021.

## Operational highlights after close of period

- In April refinancing of Míla, subsidiary of Síminn was completed. Íslandsbanki, together with Lazard, has been mandated to advise on Mila's strategic goals and future possibilities.

- Íslandsbanki launched Meniga's Carbon Insight service to help customers fight climate change, enabling the Bank's app users estimate their carbon footprint based on spending.

- In April Íslandsbanki was awarded the 2021 Kuðungur prize (the Conch), the Ministry for the Environment and Natural Resources' environmental prize, for its outstanding work on environmental affairs in the past year. According to the adjudication panel, Íslandsbanki has made outstanding progress in environment-related matters and has created positive incentives to accelerate investment in green solutions via responsible lending, investment, and purchasing.

- In April, the Bank was rated with the highest rating (90 out of 100 points) for sustainability that has been awarded by local ratings agency Reitun.

- Íslandsbanki announced its commitment to achieving full carbon neutrality no later than 2040. The Bank's own operations have been carbon neutral for the past two years, and with this decision, its commitment will also extend to "financed emissions" which include the carbon footprint of Íslandsbanki's entire loan and asset portfolio.

# INCOME STATEMENT

## Focus on stable core revenue streams

| Income statement, ISKm | 1Q21 | 1Q20 | Δ | Δ% | 4Q20 | Δ | Δ% | 2020 |
|---|---|---|---|---|---|---|---|---|
| Net interest income | **8,190** | 8,580 | (390) | (4.5%) | 8,258 | (68) | (0.8%) | 33,371 |
| Net fee and commission income | **2,862** | 2,491 | 371 | 14.9% | 2,865 | (3) | (0.1%) | 10,525 |
| Net financial income (expense) | **293** | (1,738) | 2,031 | - | 783 | (490) | (62.6%) | (1,391) |
| Net foreign exchange gain | **130** | 55 | 75 | 136.4% | 87 | 43 | 49.4% | 451 |
| Other operating income | **123** | 19 | 104 | 538.7% | 63 | 60 | 95.2% | 197 |
| **Total operating income** | **11,598** | 9,407 | 2,191 | 23.3% | 12,056 | (458) | (3.8%) | 43,153 |
| Salaries and related expenses | **(3,574)** | (3,247) | (327) | 10.1% | (3,381) | (193) | 5.7% | (12,917) |
| Other operating expenses | **(2,278)** | (2,445) | 167 | (6.8%) | (2,692) | 414 | (15.4%) | (9,829) |
| **Administrative expenses** | **(5,852)** | (5,692) | (160) | 2.8% | (6,073) | 221 | (3.6%) | (22,746) |
| Contribution to the Depositor's and Investors' Guarantee Fund | **(183)** | (228) | 45 | (19.7%) | (154) | (29) | 18.8% | (679) |
| Bank tax | **(410)** | (359) | (51) | 14.2% | (414) | 4 | (1.0%) | (1,588) |
| **Total operating expenses** | **(6,445)** | (6,279) | (166) | 2.6% | (6,641) | 196 | (3.0%) | (25,013) |
| **Profit before net impairment on financial assets** | **5,153** | 3,128 | 2,025 | 64.7% | 5,415 | (262) | (4.8%) | 18,140 |
| Net impairment on financial assets | **(518)** | (3,490) | 2,972 | (85.2%) | (1,829) | 1,311 | (71.7%) | (8,816) |
| **Profit (loss) before tax** | **4,635** | (362) | 4,997 | - | 3,586 | 1,049 | 29.3% | 9,324 |
| Income tax expense | **(1,036)** | (769) | (267) | 34.7% | (234) | (802) | 342.7% | (2,472) |
| **Profit (loss) for the period from continuing operations** | **3,599** | (1,131) | 4,730 | - | 3,352 | 247 | 7.4% | 6,852 |
| Discontinued operations, net of income tax | **16** | (245) | 261 | - | 173 | (157) | (90.8%) | (97) |
| **Profit (loss) for the period** | **3,615** | (1,376) | **4,991** | **-** | **3,525** | **90** | **2.6%** | **6,755** |
| **Key ratios** | | | | | | | | |
| Net Interest Margin (NIM) | **2.4%** | 2.8% | | | 2.5% | | | 2.6% |
| Cost-to-income ratio (C/I) | **52.0%** | 62.9% | | | 51.7% | | | 54.3% |
| Return on Equity (ROE) | **7.7%** | (3.0%) | | | 7.6% | | | 3.7% |
| Cost of risk (annualised) | **0.20%** | 1.51% | | | 0.73% | | | 0.91% |

### 15% increase in net fee and commission income YoY

- Total operating income grew 23.3% YoY amounting to ISK 11.6 bn (1Q20: ISK 9.4bn) as lower net fee and commissions income, impairments and considerable net financial loss marked 1Q20 operating income.

- The lower interest rate environment contributed to 4.5% lower net interest income for the quarter compared to 1Q20. Net interest income totalled ISK 8.2bn and was driven by loan growth and lower funding costs, producing a net interest margin of 2.4% (1Q20: 2.8%). NII and NIM have shown resilience despite lower base rate.

- Net interest margin on loans increased YoY from 2.0% to 2.2% and net interest margin for deposits decreased from 1.7% to 1.1%.

- Fees originating in asset management, investment banking and brokerage, loans and guarantees, and other fee and commission income all contributed to 14.9% growth in net fee and commission income.

- In 1Q21 the Bank recorded a gain of ISK 293m in net financial income compared to a loss of ISK 1.7bn in 1Q20.

- Other operating income totalled ISK 123m (1Q20: ISK 19m).

### Administrative expenses continued a downward trend

- Administrative expenses dropped 7.1% for the year 2020 partly explained by overall reduction in the Bank's cost base and were further down by 3.6% in 1Q21 compared to 4Q20. Compared to 1Q20 administrative expenses show an increase of 2.8% mostly by means of collective salary increase and redundancy costs. This increase is somewhat offset by a reduction in software and IT expenses as well as other operating expenses.

- The number of FTEs at the end of the period excluding seasonal employees was 739 (745 at YE20) for the parent company and 774 for the Group (779 at YE20).

- The cost-to-income (C/I) ratio was 52.0% in 1Q21 compared to 62.9% in 1Q20. After having reached the <55% target in 2020 the Bank has now set the target for <45% by 2023. The C/I ratio excludes the bank tax and other one-off items.

### Income tax expense

- Income tax for the period amounted to ISK 1,036m, compared to ISK 769m in 1Q20.The effective tax rate for the period was 22.4%, compared to -212.4% in 1Q20. The bank tax accounted for ISK 410m compared to ISK 359m in 1Q20. The Bank is subject to the special financial tax of 6% on taxable profits over ISK 1bn. The Bank pays 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. The contribution to the Depositors' and Investors' Guarantee Fund, was ISK 183m, an ISK 45m reduction from the previous year. Total taxes and levies amounted to ISK 2.1bn for the period compared to ISK 1.9bn for the same period 2020.

### Impairment charges descend YoY

- The cost of risk, measured as net impairment charge over loans to customers, was 0.05% in 1Q21 (0.20% annualised) falling from 0.91% for FY2020.

- The economic scenarios used to calculate the impairment were updated in 1Q21, although it must be noted that determining the appropriate scenarios in the current environment remains challenging. The main assumption in the baseline scenario is that the number of tourists visiting Iceland will be 700,000 in 2021, while the optimistic scenario assumes 1 million and the pessimistic scenario 400,000. Additionally, the weights of the scenarios have been adjusted to reflect the outlook; the weights are now at 10%-55%-35% (good, base, bad) compared to 25%-50%-25% before the pandemic.

– Net impairment charge in 1Q21 amounted to ISK 518m which is the net result of more favourable general economic forecast and positive outcome of restructuring cases, offset by a 5% shift in probability weights from the optimistic to pessimistic scenario.

### Solid foundations deliver strong financial performance

– Íslandsbanki reported a profit of ISK 3.6bn in 1Q21 (1Q21: ISK -1.4bn), generating a 7.7% annualised return on equity (1Q20: -3.0%). A drop in net impairment charges contributes to a turnaround in profit YoY while strong underlying operations, driven particularly by residential mortgages, supports net interest income and net fee and commission income in the quarter.

## BALANCE SHEET

### Assets – increase in mortgages drives growth in loans to customers

| Assets, ISKm | 31.3.2021 | 31.12.2020 | Δ | Δ% |
|---|---|---|---|---|
| Cash and balances with Central Bank | **88,748** | 78,948 | 9,800 | 12.4% |
| Loans to credit institutions | **103,333** | 89,920 | 13,413 | 14.9% |
| Bonds and debt instruments | **103,627** | 128,216 | (24,589) | (19.2%) |
| Derivatives | **2,536** | 6,647 | (4,111) | (61.8%) |
| Loans to customers | **1,029,415** | 1,006,717 | 22,698 | 2.3% |
| Shares and equity instruments | **25,763** | 14,851 | 10,912 | 73.5% |
| Investment in associates | **841** | 775 | 66 | 8.5% |
| Property and equipment | **7,191** | 7,341 | (150) | (2.0%) |
| Intangible assets | **3,357** | 3,478 | (121) | (3.5%) |
| Other assets | **17,566** | 4,125 | 13,441 | 325.8% |
| Non-current assets and disposal groups held for sale | **2,858** | 3,173 | (315) | (9.9%) |
| **Total Assets** | **1,385,235** | **1,344,191** | **41,044** | **3.1%** |
| **Key ratios** | | | | |
| Risk Exposure Amount (REA) | **954,712** | 933,521 | 21,191 | 2.3% |
| NPL ratio[1] | **2.4%** | 2.9% | | |
| Asset encumbrance ratio | **18.3%** | 18.7% | | |

1 Stage 3, loans to customers, gross carrying amount

### Growth in loans to customers

– The growth of the Bank's asset side by 3.1% is mainly attributable to loans to customers. The loan growth is a result of strong demand for residential mortgages (increase of ISK 33.6bn in 1Q21 and ISK 125.1bn from 1Q20). The rise in demand for mortgages was largely driven by the lower interest rate environment. Outstanding loans to the tourism industry in Iceland at end of March were 9% of the loan portfolio.

– Loans are generally well covered by stable collateral, the majority of which is 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 at end of March was 65%, 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 321bn, of which ISK 302bn are liquid assets. The Bank shifted ISK liquidity from Treasury bills to longer dated government bonds and covered bonds to earn higher yield.

### Quality of loan portfolio high although COVID-19 uncertainty remains

- At the end of Q1, 11.0% 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 loans with forbearance is due to extension of moratoria granted on a case-by-case basis to customers affected by COVID-19, mostly in the tourism sector.

- Support loans with government guarantees are a part of the measures that the Government has put in place following COVID-19 and Íslandsbanki is facilitating the initiative. Loans amounting to ISK 4.1bn have been originated since the beginning of the programme. Around 60% of the amount is with full government guarantee and the rest partial guarantee.

- At the end of the reporting period, the share of credit-impaired loans to customers was 2.4% (gross) down from 2.9% at year-end following a full repayment of one material exposure in Stage 3. The collateral coverage in Stage 3 was around 70% at the end of 1Q21 and the reserve coverage ratio was 29.9%.

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

| Liabilities & Equity, ISKm | 31.3.2021 | 31.12.2020 | Δ | Δ% |
|---|---|---|---|---|
| Deposits from Central Bank and credit institutions | **31,565** | 39,758 | (8,193) | (20.6%) |
| Deposits from customers | **698,575** | 679,455 | 19,120 | 2.8% |
| Derivative instruments and short positions | **9,533** | 6,936 | 2,597 | 37.4% |
| Debt issued and other borrowed funds | **398,225** | 387,274 | 10,951 | 2.8% |
| Subordinated loans | **25,259** | 27,194 | (1,935) | (7.1%) |
| Tax liabilities | **5,947** | 5,450 | 497 | 9.1% |
| Other liabilities | **30,660** | 11,920 | 18,740 | 157.2% |
| Total Liabilities | **1,199,764** | 1,157,987 | 41,777 | 3.6% |
| Total Equity | **185,471** | 186,204 | (733) | (0.4%) |
| **Total Liabilities and Equity** | **1,385,235** | **1,344,191** | **41,044** | **3.1%** |

| **Key ratios** | | |
|---|---|---|
| Customer loans to customer deposits ratio | **147%** | 148% |
| REA/total assets | **68.9%** | 69.4% |
| Liquidity coverage ratio (LCR) | **172%** | 196% |
| Net stable funding ratio (NSFR) | **119%** | 123% |
| Total capital ratio | **21.9%** | 23.0% |
| Tier 1 capital ratio | **19.2%** | 20.1% |
| Leverage ratio | **12.6%** | 13.6% |

### Growth in customer deposits

- Deposits from customers grew by 2.8% in the quarter. The ratio of customer loans to customer deposits fell from 148.2% YE20 to 147.4% at end of March. Deposits from retail and corporations are the Bank's main source of funding, comprising 44% of the Bank's total funding sources and 83% of the Bank's total deposit base at period end. Total deposits grew during the quarter, up 8% from retail customers and corporations and deceased 20% from financial institutions and pension funds. All deposit concentration levels are monitored closely, with concentration falling slightly during the year.

- Other liabilities increased during the period because of unsettled transactions at the end of March.

- Debt issued and other borrowed funds increased from ISK 387bn at end of year 2020 totalling ISK 398bn at end of March as the Bank continued to build on its main long-term funding sources by issuing covered bonds and senior unsecured bonds.

- During the quarter the Bank issued several times in domestic and overseas markets. Over the course of the quarter, the Bank issued ISK 10bn through its regular covered bond auctions in the domestic market. In March, Íslandsbanki posted issuing levels and issued a total of NOK 900 million and SEK 700 million of senior unsecured bonds in 3-and 4-year maturities. Danske Bank, Nordea, SEB and Swedbank placed the paper with investors in Sweden and Norway. The Bank issued at levels equivalent to STIBOR + 85 basis points for 3 years, and +105 bps for 4 years.

- The liquidity position remains strong with all ratios well above regulatory requirements and internal thresholds. The Bank's total liquidity coverage ratio (LCR) was 172% falling from 196% at YE20. The LCR in foreign currencies fell to 235% at end of the reporting period from 463% at YE20 and LCR in ISK was 93% at end of March compared to 95% at YE20.

- The total net stable funding ratio (NSFR) was 119% at period end compared to 123% at YE20 and the NSFR in foreign currencies was 182% 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, excess capital in the amount of ISK ~30bn including capital structure optimisation

- Total equity amounted to ISK 185bn at the end of March 2021, compared to ISK 186bn at YE20. Thereof, ISK 800m is attributable to non-controlling interests.

- The Financial Supervision Committee announced in September 2020 that the results of the 2019 SREP assessment concerning additional capital requirements (Pillar 2-R) shall remain unchanged at 1.7% of REA but a revised requirement is expected following the SREP 2021 process in the second half of the year.

- The Pillar 2-R capital requirement could increase temporarily as a result of COVID-19 but based on the Bank's own assessment (ICAAP), the negative impact should be lower than the positive impact of the reduction of counter-cyclical buffer from 2% to 0%.

- The Bank's 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 17.5-19.0%.

- Due to the uncertainty in relation to the effects of COVID-19 on the capital base, the Bank aims to have an ample buffer above the current target until there is further clarity regarding international travel and other sources of uncertainty.

- At the end of the quarter, the Bank's total capital ratio was 21.9% compared to 23.0% at YE20. That is considerably higher than the Bank's total capital ratio target. The corresponding Tier 1 ratio was 19.2% compared to 20.1% at YE20.

- The capital base was ISK 209bn compared to ISK 215bn at year-end. An ISK 3.4bn dividend payment to shareholders was approved at the AGM in March, amounting to 50% of 2020 profits in line with the

Bank´s dividend policy. The coefficient for the IFRS 9 transitional rules, where IFRS 9 impairment is partially included as CET1, decreased from 70% to 50%, decreasing the CET1 capital by ISK 1.3bn. The appreciation of the ISK lowered the value of the Tier 2 subordinated bonds, reducing the capital base even further.

- The presentation of the total capital ratio has been restated, where expected dividend, based on 50% of the previous year's profit, is now deducted.

- Íslandsbanki uses the standardised method to calculate its risk exposure amount (REA), which amounted to ISK 955bn compared to ISK 934bn at year-end 2021. REA amounts to 69% of total assets, unchanged from year-end 2020. REA increased due to growth in loans to customers and committed lending, contributing to 50bp drop in the capital ratio.

- The leverage ratio was 12.6% at the end of March compared to 13.6% at YE20, indicating low leverage.

### Strictly monitored imbalances

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the end of March 2021, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 25.1bn, 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 3.6bn (1.7% of the total capital base) at the end of 1Q20, 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.

### Updated financial targets define a clear path to ROE expansion

- Íslandsbanki's financial targets have been updated in line with the Bank development and the economic recovery. Targeted return on equity is now 8-10% by 2023 and over 10% in the long-term. Cost to income ratio target is now set to <45% by 2023 and the dividend payout ratio target changed to c. 50% from previous 40-50%.

| | Updated targets | Previous targets |
|---|---|---|
| Return on equity | **8-10% by 2023<br>>10% long-term** | 8-10% |
| Cost-to-income ratio | **<45% by 2023** | <55% |
| CET1 capital ratio | **>16%** | >16% |
| Total capital ratio | **17.5-19.0%** | 17.5-19.0% |
| Dividend payout ratio | **c. 50%** | 40-50% |

### Credit rating

- Íslandsbanki has a BBB/A-2 rating with a stable outlook, by S&P Global Ratings (S&P).

# INVESTOR RELATIONS

## Earnings conference call and webcast in English on Wednesday 5 May

The Bank will host a virtual meeting in English for investors and market participants on Wednesday 5 May at 16.00 Reykjavík/GMT, 1700hrs London/BST, 1800hrs CET. Birna Einarsdóttir, CEO, and Jón Guðni Ómarsson, CFO, will give an overview of the first quarter financial results and operational highlights.

Participant registration is accessible **here**. 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 3 544 55 77
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: 268 994 31#

## Financial calendar

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

2Q21 results – 28 July 2021
3Q21 results – 27 October 2021

## 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