Press Release

Third Quarter 2020 Results

Íslandsbanki hf.

28 October 2020

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Third quarter 2020 (3Q20) financial highlights

- Íslandsbanki reported a profit of ISK 3.4bn in 3Q20 compared to ISK 2.1bn in 3Q19, generating a 7.4% annualised return on equity after tax (3Q19: 4.7%).

- NII increased by 1.4% YoY. NIM was at 2.5%, down from 2.6% in 2Q20. NFCI increased by 12.3% YoY, due to higher fees from asset management, investment banking and brokerage and related to the sale of Borgun hf. as eliminations from the first half are reversed following the sale of the subsidiary. Net financial loss was ISK 255m compared to ISK 602m in 3Q19.

- Administrative expenses fell by 8.9% YoY as a result of cost reduction initiatives in recent years. C/I ratio for the Group was 46.7% in 3Q20 compared to 56.3% in 3Q19, therefore under the Bank's target (<55%).

- An additional impairment amounting to ISK 1.1bn was applied in 3Q20. This charge is mostly COVID-19 related and due to updated macroeconomic scenarios.

- Loans to customers grew by ISK 37.0bn QoQ, largely driven by mortgage lending. Deposits from customers rose by ISK 17.4bn QoQ mainly from retail customers and pension funds.

First 9 months of 2020 (9M20) financial highlights

- Íslandsbanki reported a profit of ISK 3.2bn during the first nine months of 2020 (9M19: ISK 6.8bn) and the annualised return on equity (after tax) was 2.4% (9M19: 5.1%).

- The main reason for lower profit YoY is an impairment charge amounting to ISK 7.0bn that reflects the economic uncertainty following COVID-19. In addition, net financial loss amounted to ISK 2.2bn due to unfavourable market conditions, mainly in 1Q20.

- Net interest income (NII) rose by 2.4% YoY and net interest margin was 2.6% compared to 2.7% after 9M19. Net fee and commission income (NFCI) fell by 3.7% YoY and is in most part explained by reduced payment card activity in the wake of COVID-19.

- Administrative expenses fell by 7.6% YoY due to FTE reductions, modest wage increases and an overall reduction in expenses. The C/I ratio was 55.3% for 9M20 (9M19: 57.5%).

- Loans to customers amounted to ISK 970bn at the end of September and rose by 7.9% from YE19 or by ISK 70.7bn. This growth was mostly due to mortgage lending and the depreciation of the Icelandic króna in 9M20. NPL ratio was 3.3% for Stage 3 loans (gross) by end 9M20 from previous 3.6% by end of 6M20.

- Deposits from customers amounted to ISK 699bn at the end of September and grew by 13.0% from YE19 or by ISK 80.3bn. The rise is largely due to increased deposits from retail customers and pension funds. The Bank's strong liquidity position has meant a period of no new issuance in foreign currencies. The Bank will nonetheless remain alert to possibilities to issue and to undertake liability management exercises where appropriate.

- Capital position is strong with total capital ratio at 22.2% by the end of 9M20, CET 1 ratio at 19.4%, leverage ratio at 13.4%. The Bank's liquidity ratios remain sound.

Key figures and ratios

		3Q20	3Q19	9M20	9M19	2019
PROFITABILITY	After tax profit, ISKm	**3,361**	2,086	**3,230**	6,795	8,454
	Return on equity (after tax)	**7.4%**	4.7%	**2.4%**	5.1%	4.8%
	Net interest margin (of total assets)	**2.5%**	2.7%	**2.6%**	2.7%	2.8%
	Cost to income ratio[1]	**46.7%**	56.3%	**55.3%**	57.5%	62.4%

		30.09.2020	30.06.2020	31.03.2020	31.12.2019	30.09.2019
BALANCE SHEET	Loans to customers, ISKm	**970,309**	933,320	923,850	899,632	909,175
	Total assets, ISKm	**1,328,724**	1,303,256	1,255,691	1,199,490	1,233,855
	Risk exposure amount, ISKm	**942,339**	923,133	911,375	884,550	912,843
	Deposits from customers, ISKm	**698,610**	681,223	647,795	618,313	610,281
	Customer loans to customer deposits ratio	**138.9%**	137.0%	142.6%	145.5%	149.0%
	NPL ratio[2]	**3.3%**	3.6%	2.8%	3.0%	2.8%
LIQUIDITY	Liquidity coverage ratio (LCR), for all currencies	**136%**	179%	177%	155%	174%
	Net stable funding ratio (NSFR), for all currencies	**113%**	117%	120%	119%	117%
CAPITAL	Total equity, ISKm	**182,509**	179,722	179,542	180,062	177,984
	Tier 1 capital ratio	**19.4%**	19.4%	19.2%	19.9%	19.0%
	Total capital ratio	**22.2%**	22.2%	21.9%	22.4%	21.4%
	Leverage ratio	**13.4%**	13.4%	13.5%	14.2%	13.6%

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

Birna Einarsdóttir, CEO of Íslandsbanki

Íslandsbanki reported a profit of ISK 3.4bn in 3Q20. Total income grew between years and administrative expenses continued to decline, or by 9% between years as a result of cost reduction initiatives in recent periods. The Bank's balance sheet grew by 2% in 3Q20 with a great rise in demand for mortgages driven by lower interest rates. Digital solutions have accelerated the mortgage process greatly which has proven essential now when activity has reached new heights.

The first nine months of 2020 have been characterised by providing services and solutions for our customers who have been the most impacted by COVID-19 where about 700 customers have been granted moratorium. Economic uncertainty still prevails and in the Bank's updated macroeconomic forecast, a deep contraction in 2020 is assumed followed by a rebound with positive GDP growth in 2021.

The Bank jointly managed the successful issuance of new shares in local airline Icelandair which will certainly ensure resilience for the tourism industry when travel restrictions will be lifted. The Bank's new solution for the digital onboarding of customers to enable securities trading proved invaluable leading up to the share offering when thousands of customers benefitted from the smooth and easy process.

Íslandsbanki was the first Icelandic bank to publish a sustainable financing framework. The framework paves way for sustainable bond issuances. Íslandsbanki was also awarded the Icelandic Knowledge Award by the Association of Business and Economist graduates in Iceland (FVH) for taking a lead regarding sustainability. The award is acknowledgement for the sustainability policy that the Bank has in place and the purpose of moving Iceland forward by empowering our customers to succeed.

COVID-19 pandemic in Iceland – status update

- Iceland entered a third wave of the COVID-19 pandemic in September. Restrictions were tightened again and double testing at the borders remains in place.

- The Icelandic Government estimates a negative impact amounting to ISK 192bn on the Treasury next year in order to protect jobs and provide resilience via fiscal policy. It is further estimated that the combined deficit in 2020 and 2021 could amount to ISK 600bn.

- Measures introduced by the Icelandic Government and the Central Bank in 1H20 continue apart from a general moratorium which will in future be applied on a case-by-case basis.

First 9 months of 2020 (9M20) operational highlights

- Íslandsbanki received the Icelandic knowledge award for the year 2020, awarded by the Association of Business and Economist graduates in Iceland (FVH). The Bank is said to be exemplary among Icelandic businesses by international comparison in terms of standards in environmental, social and governance practices.

- Íslandsbanki was awarded as exemplary in good governance for the seventh year consecutively. [1]

- Due to limited face-to-face services during the COVID-19 pandemic increased focus has been placed on digital and phone services.

- Fróði, a new virtual advisor, was introduced as a quick and easy way of interacting with the Bank. More detailed inquiries are referred to the contact centre. This reduces waiting time and increases service.

- A new and comprehensive corporate banking app facilitates daily banking for business owners and managers.

- Íslandsbanki jointly managed the issuance of new shares in the local airline Icelandair. Strong demand with 85% oversubscription, both from institutional and retail investors. As a result, underwriting of ISK 14bn jointly committed by Íslandsbanki and Landsbankinn was not utilised.

- Substantial effort regarding sustainability has been ongoing during 9M20
  - Íslandsbanki has signed a declaration of intent regarding allocation of investment and capital for a sustainable recovery along with a broad part of participants in the Icelandic economy.[2]
  - Íslandsbanki published a sustainable financing framework, first of the Icelandic banks at the end of October. The framework is built on Green/Social Bond Principles issued by ICMA. It consists of nine Green categories (environment), three Blue categories (ocean) and five Red (social) categories. Project categories have been mapped against the Bank's loan portfolio, paving way for sustainable bond issuances.
  - Íslandsbanki approved seven sustainability goals for 2025. They are as follows: 1. Become carbon neutral in our operations, 2. Offer our customers green and sustainable products, 3. Balance gender ratios through all of the Bank's operations, 4. Create a work culture that celebrates diversity and inclusion, 5. Work with suppliers and partners that champion sustainability, 6. Assess and publish sustainability risk and define internal decision making, 7. Emphasise four of the UN SDGs.

- A new marketing campaign was launched, addressing the Bank's role as a responsible and positive force in society.

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[1] Awarded by Excellence Iceland, Iceland Chamber of Commerce, Confederation of Icelandic Enterprise and Nasdaq in Iceland
[2] See declaration here

INCOME STATEMENT[3]

ISKm	3Q20	3Q19	Δ	Δ%	9M20	9M19	Δ	Δ%
Net interest income	**8,305**	8,190	115	1.4%	**25,113**	24,531	582	2.4%
Net fee and commission income	**2,862**	2,549	313	12.3%	**7,660**	7,954	(294)	-3.7%
Net financial income (expense)	**(255)**	(602)	347	-57.6%	**(2,174)**	20	(2,194)	-10970.0%
Net foreign exchange gain	**101**	159	(58)	-36.5%	**364**	23	341	1482.6%
Other operating income	**44**	37	7	18.9%	**134**	1,205	(1,071)	-88.9%
Total operating income	**11,057**	10,333	724	7.0%	**31,097**	33,733	(2,636)	-7.8%
Salaries and related expenses	**(2,842)**	(3,242)	400	-12.3%	**(9,536)**	(10,395)	859	-8.3%
Other operating expenses	**(2,268)**	(2,366)	98	-4.1%	**(7,137)**	(7,646)	509	-6.7%
Administrative expenses	**(5,110)**	(5,608)	498	-8.9%	**(16,673)**	(18,041)	1,368	-7.6%
Contribution to the Depositor's and Investors' Guarantee Fund	**(50)**	(210)	160	-76.2%	**(525)**	(720)	195	-27.1%
Bank tax	**(416)**	(900)	484	-53.8%	**(1,174)**	(2,714)	1,540	-56.7%
Total operating expenses	**(5,576)**	(6,718)	1,142	-17.0%	**(18,372)**	(21,475)	3,103	-14.4%
Profit before net impairment on financial assets	**5,481**	3,615	1,866	51.6%	**12,725**	12,258	467	3.8%
Net impairment on financial assets	**(1,058)**	(208)	(850)	408.7%	**(6,987)**	(2,017)	(4,970)	246.4%
Profit before tax	**4,423**	3,407	1,016	29.8%	**5,738**	10,241	(4,503)	-44.0%
Income tax expense	**(1,350)**	(1,328)	(22)	1.7%	**(2,238)**	(3,250)	1,012	-31.1%
Profit for the period from continuing operations	**3,073**	2,079	994	47.8%	**3,500**	6,991	(3,491)	-49.9%
Discontinued operations, net of income tax	**288**	7	281	4014.3%	**(270)**	(196)	(74)	37.8%
Profit for the period	**3,361**	2,086	1,275	61.1%	**3,230**	6,795	(3,565)	-52.5%
Key ratios								
Net Interest Margin (NIM)	**2.5%**	2.7%			**2.6%**	2.7%		
Cost to income ratio (C/I)	**46.7%**	56.3%			**55.3%**	57.5%		
Return on Equity (ROE)	**7.4%**	4.7%			**2.4%**	5.1%		

Total operating income increased in the quarter due to higher NFCI

– Net interest income rose during the period as a result of higher interest-bearing assets. NIM fell to 2.5% in 3Q20 from 2.6% in 2Q20 and 2.7% from YE19 due to lower interest rate environment following the Central Bank's 200bp policy rate cut in 1H20.

– The rise in net fee and commission income for the Group in 3Q20 is attributable to slightly higher fees from asset management, investment banking and brokerage. Following the sale of Borgun hf., eliminations from the first half are reversed following the sale of the subsidiary. This further contributes to higher NFCI in 3Q20. The decrease in 9M20 is due to reduced payment card and currency exchange activity in the wake of COVID-19. Fees from asset management and investment banking and brokerage increased slightly between years.

– The Bank experienced a net financial loss due to losses in both the trading book and banking book for equity and equity like instruments in 1Q20 and CPI hedges in 2Q20. The loss in 3Q20 is due to fair value changes in shares.

Cost reduction continues

– The drop in administrative expenses in the period is mainly explained by a decrease in salaries and related expenses, modest wage rises and an overall reduction in the Bank's cost base, partly due to COVID-19.

– The number of FTEs at the end of the period excluding seasonal employees was 744 (749 at YE19) for the parent company and 778 for the Group (783 at YE19, not including FTEs from a subsidiary previously held for sale for comparability). The increase in the parent company from 735 at the end of 2Q20 is

[3] Before its sale on 7 July 2020, the subsidiary Borgun hf. was classified as non-current assets and disposal groups held for sale, accordingly the comparative figures in this disclosure have been restated.

explained by temporary addition in order to provide excellent and prompt service throughout the mortgage lending process.

- The cost-to-income (C/I) ratio for the Group was 46.7% in 3Q20 compared to 56.3% in 3Q19, therefore on target, which is a C/I ratio below 55%. For 9M20 the C/I ratio was 55.3% compared to 57.5% in 9M19. The C/I ratio excludes the bank tax and other one-off items.

Lower bank tax contributes to lower expenses

- The effective tax rate for the period was 39.0%, compared to 31.7% in 9M19. In general, the main driver for the fluctuation in the effective tax rate is the combination of income due to dissimilar tax rates for different types of income. The tax base increase in 3Q20 is mainly due to changes from derivatives resulting in a higher effective tax rate for the special financial activities tax and non-deductible financial losses. The bank tax accounted for ISK 1.2bn compared to ISK 2.7bn in 9M19. The Bank is subject to the special financial tax of 6% on taxable profits in excess of ISK 1bn and makes contributions to the Depositors' 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 ISK 525m, an ISK 195m decrease from the previous year. Total taxes and levies amounted to ISK 5.5bn for the period compared to ISK 8.2bn in 9M19.

Impairment charges continue and uncertainty in operating environment still in place

- The ISK 1,058m impairment charge in 3Q20 is mostly COVID-19 related and due to update in macroeconomic scenarios and weights.

- Loan impairment charges and net valuation changes generated a loss of ISK 6,987m in 9M20, compared to a loss of ISK 2,017m in 9M19. Thereof, ISK 5.0bn is COVID-19 related, ISK 1bn is related to a handful of customers, ISK 0.5bn linked to an update in macroeconomic scenarios and weights and ISK 0.5bn is other changes in the composition of the loan portfolio.
- The economic scenarios used to calculate the impairment were updated in 3Q20, although it must be noted that determining the appropriate scenarios in the current environment is challenging. The main assumptions in the base scenario are that GDP will be -8.6% in 2020 and 3.1% in 2021. Additionally, the weights of the scenarios have been adjusted to reflect the outlook, the weights are now at 15%-55%-30% (good, base, bad) from previous 20%-50%-30%.
- The net impairment charge over loans to customers was 0.11% in 3Q20 (0.44% annualised) and 0.75% in 9M20 (0.98% annualised).

Profit in 3Q20 and revenue growth but impairments continue to mark profitability

- Íslandsbanki reported a profit of ISK 3.4bn in 3Q20 (3Q19: ISK 2.1bn), generating a 7.4% annualised return on equity after tax (3Q19: 4.7%).

- For the 9M20 period, profit after tax was ISK 3.2bn (9M19: ISK 6.8bn) and annualised return on equity after tax was 2.4% in 9M20 (9M19: 5.1%). Lower profit between years is mainly explained by an increase in loan impairment charges and net financial loss.

BALANCE SHEET

Assets – substantial growth in mortgages lending

Assets, ISKm	30.09.2020	30.06.2020	Δ	Δ%	31.12.2019	Δ	Δ%
Cash and balances with Central Bank	**95,022**	103,569	(8,547)	-8.3%	146,638	(51,616)	-35.2%
Loans to credit institutions	**61,898**	70,307	(8,409)	-12.0%	54,376	7,522	13.8%
Bonds and debt instruments	**149,426**	140,422	9,004	6.4%	52,870	96,556	182.6%
Derivatives	**3,731**	6,366	(2,635)	-41.4%	5,621	(1,890)	-33.6%
Loans to customers	**970,309**	933,320	36,989	4.0%	899,632	70,677	7.9%
Shares and equity instruments	**14,657**	10,943	3,714	33.9%	18,426	(3,769)	-20.5%
Investment in associates	**750**	750	-	0.0%	746	4	0.5%
Property and equipment	**7,409**	7,549	(140)	-1.9%	9,168	(1,759)	-19.2%
Intangible assets	**3,554**	3,667	(113)	-3.1%	4,330	(776)	-17.9%
Other assets	**17,159**	6,370	10,789	169.4%	6,608	10,551	159.7%
Non-current assets and disposal groups held for sale	**4,809**	19,993	(15,184)	-75.9%	1,075	3,734	347.3%
Total Assets	**1,328,724**	1,303,256	25,468	2.0%	1,199,490	129,234	10.8%
Key ratios							
Risk Exposure Amount (REA)	**942,339**	923,133	19,206	2.1%	884,550	57,789	6.5%
NPL ratio[1]	**3.3%**	3.6%			3.0%		
Asset encumbrance ratio	**17.3%**	17.9%			18.1%		

1 Stage 3, loans to customers, gross carrying amount

Solid growth in loans to customers

- The growth of the Bank's asset side is mainly attributable to bonds and debt instruments, loans to customers and other assets. The loan growth is a result of strong demand for mortgages (increase of ISK 23.0bn in 3Q20 and ISK 35.4bn from YE19) and the depreciation of the Icelandic króna in 9M20 (ISK 25.7bn). The rise in demand for mortgage lending was largely driven by the lower interest rate environment. Outstanding loans to the tourism industry in Iceland remain 10% of the loan portfolio, which is well diversified.

- 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 was 64% at the end of September 2020 compared to 62% at YE19.

- Three items, cash and balances with the Central Bank, loans to credit institutions and bonds and debt instruments, amounted to about ISK 306bn, of which ISK 267bn are liquid assets. The Bank continued to shift liquidity to Treasury bills, short dated Treasury bonds and covered bonds, growing the bonds and debt instruments line.

- Other assets increased due to unsettled transactions by the end of 3Q20. Non-current assets and disposal groups held for sale decreased mainly due to the sale of Borgun hf.

Moratorium tapers off and support lending with Government guarantees continues

- 14% of the total loan book was in moratorium by the end of 3Q20, or 20% of the corporate loan book and 5% of loans to individuals. In the wake of COVID-19, Íslandsbanki entered into an agreement with other lenders in Iceland to provide a moratorium for corporate and household customers. This measure closed for new applications on 30 September 2020. Further extensions of moratoria may be granted on a case-by-case basis and will be classified as forbearance going forward.

- Support loans amounted to roughly ISK 1.7bn by the end of 3Q20. Around 85% of the amount is with full Government guarantee and about 60% is to companies operating in the tourism sector. These loans are part of the support measures that the Government has put in place following COVID-19 and Íslandsbanki facilitates the process.

Quality of loan portfolio high but uncertainty of COVID-19 pandemic impact prevails

- At the end of the reporting period, the ratio of credit-impaired loans to customers at Stage 3 was 3.3% (gross) for the Group (9M19: 2.8%). The collateral coverage in Stage 3 was 72% (ISK 23bn) at the end of September.

Liabilities – strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKm	**30.9.2020**	30.6.2020	Δ	Δ%	31.12.2019	Δ	Δ%
Deposits from Central Bank and credit institutions	**36,438**	35,461	977	2.8%	30,925	5,513	17.8%
Deposits from customers	**698,610**	681,223	17,387	2.6%	618,313	80,297	13.0%
Derivative instruments and short positions	**8,406**	7,519	887	11.8%	6,219	2,187	35.2%
Debt issued and other borrow ed funds	**324,752**	321,803	2,949	0.9%	306,381	18,371	6.0%
Subordinated loans	**26,798**	25,834	964	3.7%	22,674	4,124	18.2%
Tax liabilities	**7,137**	6,438	699	10.9%	7,853	(716)	-9.1%
Other liabilities	**44,074**	45,256	(1,182)	-2.6%	27,063	17,011	62.9%
Total Liabilities	**1,146,215**	1,123,534	22,681	2.0%	1,019,428	126,787	12.4%
Total Equity	**182,509**	179,722	2,787	1.6%	180,062	2,447	1.4%
Total Liabilities and Equity	**1,328,724**	1,303,256	25,468	10.8%	1,199,490	129,234	10.8%
Key ratios							
Customer loans to customer deposits ratio	**138.9%**	137.0%			145.5%		
Leverage ratio	**13.4%**	13.4%			14.2%		
REA/total assets	**70.9%**	70.8%			73.7%		
Liquidity coverage ratio (LCR)	**136%**	179%			155%		
Net stable funding ratio (NSFR)	**113%**	117%			119%		
Total capital ratio	**22.2%**	22.2%			22.4%		
Tier 1 captial ratio	**19.4%**	19.4%			19.9%		

Stable growth in customer deposits

- Deposits from customers grew by 2.6% QoQ and by 13.0% from YE19. The ratio of customer loans to customer deposits rose to 138.9% at the end of the quarter. Almost two thirds of the Bank's customer deposit base comes from retail customers. The largest share of the increase, during the period, came from retail customers and pension funds. Deposits are the Bank's main source of funding and concentration levels are monitored closely.

- Other liabilities increased due to unsettled transactions.

- The Bank held four covered bond auctions during the first nine months of 2020, issuing a total of ISK 12bn by tapping three outstanding bonds as well as issuing a new bond ISLA CB 27. Net issuance in the period amounted to ISK 6bn, net of maturities. The Bank's 2020 issuance plan assumes gross issuance of ISK 20-25bn. The issuance of covered bonds is to fund the Bank's mortgage portfolio and furthermore to diversify and optimise the Bank's funding base.

- September saw the maturity of the EUR 500 million benchmark bond, the first that the bank had issued. The bond was the subject of two liability management exercises – a clear demonstration of the Bank's commitment to optimising its balance sheet and its engagement with investors. The Bank did not have need to issue senior or subordinated debt during the period.

- At end of the period, the Group's liquidity coverage ratio (LCR) was 136% (135% for the parent) decreasing from 155% since YE19, due to strong demand for new mortgages. After the sale of the subsidiary Borgun hf. in July 2020 the difference between Parent and Group LCR is negligible. The LCR in foreign currencies increased to 405% at end of 9M20 from 325% YE19 and LCR in ISK was 96% compared to 110% at YE19.

- The Central Bank's reduction of the reserve requirement in 1Q20 resulted in increased liquidity. No unexpected increase was in the use of overdrafts and revolvers during the period.

- The net stable funding ratio (NSFR) was 113% at period end compared with 119% at YE19 and the NSFR in foreign currencies was 149% compared with 156% at YE19.

- As the Bank's liquidity position remains strong across currencies, the Bank may consider debt buybacks and/or refinancing or exchanges of outstanding transactions during 2020.

Strong capital ratios

- Total equity amounted to ISK 182.5bn as of the end of September 2020, compared to ISK 180.0bn at YE19. Thereof, ISK 1.9bn is attributable to non-controlling interests.

- The Financial Supervision Committee announced in September 2020 that that the results of the 2019 SREP assessment concerning additional capital requirements (Pillar 2-R) shall remain unchanged at 17% of REA.

- In March 2020 the Central Bank of Iceland lowered the countercyclical capital buffer from 2.0% to 0.0% due to the economic uncertainty caused by the COVID-19 pandemic. This lowered the Bank's total capital requirement from 19.0% to 17.0%. The Bank's total capital ratio target, which is currently the Bank's regulatory total capital requirement in addition to the Bank's management buffer of 0.5-2.0%, lowered in line with the removal of the countercyclical capital buffer to 17.5-19.0%.

- At the end of September, the Bank's total capital ratio was 22.2% compared to 22.4% at YE19. That is considerably higher than the Bank's total capital ratio target. The Bank's Tier 1 ratio was 19.4% at the end of September compared to 19.9% at YE19. Implementation of IFRS 9 transitional rules in Iceland, where IFRS 9 impairment is partially included as CET1, increase the CET1 capital by ISK 4.0bn. The depreciation of the ISK increased the value of the Tier 2 subordinated loan, increasing the capital base even further.

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

- Íslandsbanki uses the standardised method to calculate its risk exposure amount (REA), which amounted to ISK 942bn at the end of September 2020 compared to ISK 885bn at year-end. REA amounts to 71% of total assets. The SME supporting factor was implemented in Iceland on 1 January 2020, resulting in an ISK 13bn deduction in the risk exposure amount at the end of June 2020. REA in total increased due to growth in loans to customers.

- The leverage ratio was 13.4% at the end of September compared to 14.2% at YE19, 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 September 2020, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 39.8bn, compared to ISK 20.6bn at YE19. 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 3.2bn (1.5% of the total capital base) at the end of September 2020, compared to ISK -93m (0.05% of the total capital base) at year end 2019. The Bank's imbalances are strictly monitored and are within regulatory limits.

Credit rating

- Íslandsbanki is rated by S&P Global Ratings (S&P). In late April 2020 S&P lowered Íslandsbanki's rating to BBB/A-2 with a stable outlook from previous BBB+/A-2 with a negative outlook.

- S&P's rational for the change is mostly derived from its view that economic activity will reduce in Iceland and Europe in 2020 and thus could impair Íslandsbanki's asset quality, increase credit losses, reduce business and revenue generation, and potentially erode its capital. S&P's view is that Iceland's operating environment will remain challenging, affected by the 2020 economic recession, declining interest rates, stiff competition from pension funds in mortgage lending and thus contributing to the declining profitability of Icelandic banks.

- In its report, S&P expects Íslandsbanki to enter this crisis on a more solid foothold than the 2008 financial crisis. The 'BBB' rating level and stable outlook factor in the solid market position of the Bank in Iceland, which has a relatively advanced digitalised banking platform. In S&P's view, the Bank is well ahead of many other European banks in its preparation for technological disruption. S&P also notes the Bank's funding and liquidity metrics are adequate for the Bank's risk profile, with comfortable liquidity ratios and liquid assets covering more than 3x the average short-term funding in 2019. Moreover, S&P states that the wholesale funding needs are limited in 2020, which coupled with the additional central bank liquidity facilities announced recently by the Icelandic Central Bank, eases pressure on liquidity needs.

INVESTOR RELATIONS

Investor call in English on Thursday 29 October at 9.30 AM (GMT)

The Bank will host an investor call in English at 9.30 AM (GMT) on Thursday, 29 October. 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 presentation will be sent out prior to the call.

Financial calendar

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

4Q2020/Annual 2020 results – 10 February 2021
Annual General Meeting – 18 March 2021
1Q2021 results – 5 May 2021
2Q2021 results – 28 July 2021
3Q2021 results – 27 October 2021

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