



First Quarter 2020 Results

Íslandsbanki hf.



First quarter 2020 (1Q20) financial highlights

- Íslandsbanki made a loss in 1Q20 of ISK 1.4bn compared to a profit of ISK 2.6bn in 1Q19. Annualised return on equity (after tax) in 1Q20 was -3.0% (1Q19: 5.9%).
- Net interest income was ISK 8.6bn (1Q19: ISK 7.9bn), an increase of 8.1% between years and the net interest margin was 2.8% (1Q19: 2.7%).
- Net fee and commission income totalled ISK 2.5bn (1Q19: ISK 2.6bn), down by 5.9% between years.
- Loan impairment charges and net valuation changes generated a loss of ISK 3,490m in 1Q20, compared to ISK 907m loss in 1Q19.
- Administrative costs dropped by 8.4% between years and totalled ISK 5.7bn (1Q19: ISK 6.2bn).
- The cost to income ratio for the Group for the period was 62.9% compared to 59.6% for the same period in 2019 while the same ratio for the parent company was 61.5% compared to 58.1% in 1Q19.
- Loans to customers grew by 2.7% during 1Q20, to a total of ISK 924bn. The loan book grew mainly as a result of the depreciation of the Icelandic króna in the period, or by ISK 20.8bn. Total new lending amounted to ISK 57bn and refinancing amounted to ISK 16bn.
- Deposits from customers stood at ISK 648bn at end of 1Q20, an increase of 4.8% in 1Q20.
- Íslandsbanki's liquidity position is strong, both the Icelandic króna and in foreign currencies, and exceeds all internal and external requirements. LCR and NSFR ratios were 177% and 120% respectively in all currencies for the Group at the end of March.
- Capital ratios are robust with the total capital ratio at 21.9% compared to 22.4% at year-end 2019, well above the Bank's regulatory requirement of 17%, and the Tier 1 ratio at 19.2% at the end of March compared to 19.9% at year-end 2019.
- Leverage ratio was 13.5% at end of 1Q20 compared to 14.2% year-end 2019, which is moderate by domestic and international comparison.
- Despite the Bank's long-term dividend payout ratio target of 40-50%, the Annual General Meeting approved that a dividend to shareholders for the 2019 financial year should not be paid in light of uncertainties due to unprecedented circumstances in the financial markets. The Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for previous fiscal years could be considered.



Key figures and ratios

		1Q20	4Q19	3Q19	2Q19	1Q19
PROFITABILITY	Return on equity (after tax)	-3.0%	3.7%	4.7%	4.9%	5.9%
	Net interest margin (of total assets)	2.8%	2.7%	2.7%	2.8%	2.7%
	Cost to income ratio ¹	62.9%	62.9%	56.3%	56.5%	59.6%
	After tax profit (loss), ISKm	(1,376)	1,659	2,086	2,120	2,589
		31.3.2020	31.12.2019	30.9.2019	30.6.2019	31.3.2019
BALANCE SHEET	Total assets, ISKm	1,255,691	1,199,490	1,233,855	1,229,976	1,205,228
	Loans to customers, ISKm	923,850	899,632	909,175	894,446	873,530
	Risk exposure amount, ISKm	911,375	884,550	912,843	911,784	886,901
	Deposits from customers, ISKm	647,795	618,313	610,281	615,869	611,303
	Customer loans to customer deposits ratio	142.6%	145.5%	149.0%	145.2%	142.9%
LIQUIDITY	Liquidity coverage ratio (LCR)	177%	155%	174%	185%	158%
	Net stable funding ratio (NSFR)	120%	119%	117%	117%	115%
CAPITAL	Total equity, ISKm	179,542	180,062	177,984	175,784	173,621
	Tier 1 capital ratio	19.2%	19.9%	19.0%	18.8%	19.1%
	Total capital ratio	21.9%	22.4%	21.4%	21.4%	20.9%
	Leverage ratio	13.5%	14.2%	13.6%	13.4%	13.5%

¹ Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / (Total operating income – one off items).

Birna Einarsdóttir, CEO of Íslandsbanki

Íslandsbanki is committed to work closely with its customers and to support them through the challenges they may face as a result of the ongoing pandemic. In order to support customers who are affected, several measures such as payment deferrals have already been put in place. The actions announced by the government also are rigorous and I am optimistic that the economy will have a swift recovery.

The financial results for the first quarter are impacted by large negative impairments and losses the trading and banking books for equity and equity like instruments. ROE is below our target as a result of the unprecedented circumstances that COVID-19 has led to. We are however pleased to see administration cost reduce by 8.4% and an increase in net interest income by 8.1% quarter on quarter. Íslandsbanki continued to provide liquidity to the economy with new lending amounting to ISK 57bn in the quarter. Deposits, that remain the Bank's main source of funding, increased by 4.8% from year-end outpacing lending growth.

Íslandsbanki enters these turbulent times in a position of strong capital and liquidity with relevant ratios well above internal and regulatory targets. As a result, the Bank's funding requirement for 2020 in foreign currencies is minimal. The Bank's CET1 ratio is robust at 19.6%, ensuring our ability to support our customers.

In Q1, the Bank introduced three digital solutions that will make customers' life easier. Customers can now refinance their mortgages via a digital solution, onboard themselves for securities trading in just a few minutes and sign documents electronically where laws allow.

Changed conditions in the community due to COVID-19 have meant that we have had to think in terms of solutions. We would like to thank our customers for adapting quickly to changing circumstances and for showing patience during these challenging times. I am also proud of the swift adjustment to remote working environment that the Bank's employees have done with professionalism.

The strong balance sheets of households, corporates and the Icelandic state and strength of the Icelandic banking system coupled with a highly adaptable economy will enable the Icelandic nation to navigate through current events. Íslandsbanki will be there to support its customers and live by its vision to be number one for service.



Response to COVID-19 by the Government of Iceland and the Central Bank

- The main measures taken by health authorities in response to COVID-19 have been extensive quarantine requirements, a ban on larger gatherings (currently 50-person limit), university and upper secondary school-closures and limited opening of elementary schools and preschools. Communication by Department of Civil Protection and Emergency Management with the general public has been active, including daily press briefings.
- Large scale testing has been conducted with over 50,000 samples. 57% of infected were already in quarantine. Infection tracing rate is >95% thanks to active tracing team and an app to analyse individuals' travel in case of infection.
- Official actions for individuals include ensured wages during quarantine, partial unemployment benefits enabling companies to maintain employment until 31st August, special child benefits are provided as well as access to third-pillar pension savings. Reimbursement of value-added tax on labour is also increased and expanded.
- Corporates who fulfil certain requirements will be able to defer pay-as-you-earn (PAYE) tax and payroll tax, levies and loan payments for up to six months. The state will also provide guarantee for up to 70% of new operating loans and provide loans up to ISK 6m with 100% guarantee to companies fulfilling certain conditions. The Treasury's total exposure to risk from these loans could range up to ISK 35 bn. Salary costs are covered during notice period for companies who have suffered 75% loss in revenue and simpler rules on financial restructuring of companies are put in place.¹
- In order to revitalise the economy when impacts of the pandemic has begun to taper off authorities will support with strong public investment to promote long-term GDP growth and measures to support the tourism industry.
- The bank tax has been reduced to 14.5 basis points from 31.8 basis points, reducing the Bank's taxes by ISK 1.7bn annually.
- The Central Bank has lowered the countercyclical capital buffer on financial institutions from 2% to 0%, lowered its key policy rate from 3% to 1.75% during the year and lowered reserve requirements for financial institutions from 1% to 0%. At the beginning of May, the Central Bank will begin buying Treasury Bonds in the secondary market for up to ISK 150bn.
- The Central Bank has also established special temporary credit facilities in the form of collateralised loans for financial institutions where the range of eligible collateral has been temporarily expanded. The Central Bank reiterated that the financial institutions' liquidity position is sound, but due to the current uncertainty it is important to have such a measure at their disposal.

Íslandsbanki's actions to support its customers

- Íslandsbanki has supported individuals by allowing deferral of payments of principal and interest with more than 1,000 applications approved. Use of digital solutions has increased greatly, following closure of all branches, phone advisory has been available with bookable hours and special support has been available for senior citizens.
- In order to support corporates, suspension of repayments and interests on loans for up to six months is available. This is in line with agreement between financial institutions and SFF (Icelandic Financial Services Association). Focus has also been increased on proactively contacting customers to offer advice, conversation and solutions to challenges arising for corporate customers. An early allocation will also be made from the Bank's Entrepreneur Fund.

¹ Source: Government of Iceland - for further information see announcements from [21 March](#), [21 April](#) and [28 April](#)



- Electronic signatures have enabled quicker service and limited visits to branches as well as support offered to navigate via digital channels.

Business continues via remote work

- Branches have been closed except for matters of urgent importance but will reopen on 11th of May.
- Business continuity has been ensured as approximately 85% of employees have been working from home during the COVID-19 period. The Bank was technically well prepared for remote working. Continuity and pandemic plans were already in place.

First quarter 2020 (1Q20) operational highlights

- Íslandsbanki signed an agreement to sell 63.5% of its holding in Borgun hf. to Salt Pay Co Ltd. As part of this transaction, Salt Pay Co. also purchased the holding owned by Eignarhaldsfélagið Borgun slf. and following the transaction, Salt Pay Co. owns 95.9% of shares in Borgun. The transaction is subject to the Central Bank's approval of the purchaser's acquisition of a qualifying holding. Borgun has been classified as disposal group held for sale in the interim financial statements. The comparative figures in the Consolidated Interim Income Statement for the first quarter of 2020 have been restated accordingly. The sale will have a limited impact on the Bank's capital position.
- Íslandsbanki's Annual General Meeting (AGM) was held on 19th of March. The Departing Chairman of the Board, Friðrik Sophusson, delivered the Board's address. Friðrik has been chairman of the Board of Íslandsbanki for 10 years he is wholeheartedly thanked his contribution to the Bank. The CEO, Birna Einarsdóttir, reviewed the Bank's annual accounts and highlights of operations for 2019. Flóki Halldórsson, Frosti Ólafsson and Guðrún Þorgeirsdóttir were elected as new members of the Board
- Íslandsbanki introduced three digital solutions in 1Q20. In mortgages refinancing, customers can now apply for refinancing of their mortgage whenever they want, wherever they are in a quick process. In some cases, loan approval is given automatically at the end of the process. This solution allows the user to line up new loan structure and, at the same time, compare the estimated monthly payment to their current payments, before applying. All refinancing now goes through this digital process. Customers can now also sign all documents with electronic ID which makes many processes even more lean and quick. So far, over 6,500 customers have used the solution, saving most a trip to a branch. Furthermore, customers can now onboard to securities trading in a few minutes in a fully automated solution. In the first months there was a 69% increase year-on-year in custody account openings.
- Íslandsbanki bought back in full a SEK 350 million bond maturing in July 2020. The Bank has thereby reduced its refinancing risk, lowered its interest costs and offered liquidity to its investors at a time of considerable market dislocation. The Bank's funding requirement for 2020 in foreign currencies is minimal.
- Satisfaction among corporate customers measured at a decade high in the quarter.
- Ergo and Tesla have signed an agreement where Ergo is Tesla's preferred partner. The partnership has been successful and Ergo is proud to have been selected by Tesla as a growing company, whose activities support the Bank's environmental protection policy and climate action.
- Íslandsbanki had the second highest volume in the Icelandic equity- and bond market in 1Q20 and a 19% market share.
- Íslandsbanki's Corporate Finance led the sale of Icelandair Group's 75% share in Icelandair Hotels, completing the sale by delivering the share on 3rd April 2020.



INCOME STATEMENT²

ISKm	1Q20	1Q19	Δ	4Q19	Δ	2019
Net interest income	8,580	7,937	643	8,291	289	32,822
Net fee and commission income	2,491	2,647	(156)	2,945	(454)	10,899
Net financial income (expense)	(1,738)	442	(2,180)	(840)	(898)	(820)
Net foreign exchange gain (loss)	55	(121)	176	116	(61)	139
Other operating income	19	1,141	(1,122)	920	(901)	2,125
Total operating income	9,407	12,046	(2,639)	11,432	(2,025)	45,165
Salaries and related expenses	(3,247)	(3,464)	217	(3,624)	377	(14,019)
Other operating expenses	(2,445)	(2,749)	304	(2,823)	378	(10,469)
Administrative expenses	(5,692)	(6,213)	521	(6,447)	755	(24,488)
Contribution to the Depositor's and Investors' Guarantee Fund	(228)	(312)	84	(216)	(12)	(936)
Bank tax	(359)	(880)	521	(814)	455	(3,528)
Total operating expenses	(6,279)	(7,405)	1,126	(7,477)	1,198	(28,952)
Profit before net impairment on financial assets	3,128	4,641	(1,513)	3,955	(827)	16,213
Net impairment on financial assets	(3,490)	(907)	(2,583)	(1,463)	(2,027)	(3,480)
Profit before tax	(362)	3,734	(4,096)	2,492	(2,854)	12,733
Income tax expense	(769)	(1,196)	427	(659)	(110)	(3,909)
Profit (loss) for the period from continuing operations	(1,131)	2,538	(3,669)	1,833	(2,964)	8,824
Discontinued operations, net of income tax	(245)	51	(296)	(174)	(71)	(370)
Profit (loss) for the period	(1,376)	2,589	(3,965)	1,659	(3,035)	8,454

Net interest income above target

- Total income fell by 21.9% between years and amounted to ISK 9.4bn in 1Q20. The decrease is mainly due to a lower net fee and commissions and considerable net financial loss.
- Net interest income totalled ISK 8.6bn, an increase of 8.1% from Q1 previous year mainly due to a growth in the loan book. The net interest margin was 2.8% compared to 2.7% in 1Q19, the increase is due to net interest income in 1Q19 having been restated as Borgun has been classified as disposal group held for sale, but average assets remain the same.
- Net fee and commission income amounted to ISK 2.5bn in 1Q20, compared to ISK 2.6bn in 1Q19, a decrease of 5.9% between years. This is due to less card and currency exchange activity and higher cost related to cards in the quarter.
- The Bank recorded a net financial loss of ISK 1.738m in 1Q20, compared to a gain of ISK 442m in 1Q19. The Bank experienced losses in both the trading book and banking book for equity and equity like instruments.
- Other operating income totalled ISK 19m in 1Q20, as opposed to ISK 1.1bn in 1Q19 which was primarily attributed to the Bank's settlement with old Byr concerning the value of its-loan book from when the Bank acquired old Byr in 2011.

² Borgun hf. has been classified as disposal group held for sale in the interim financial statements. The comparative figures in the Consolidated Interim Income Statement for the first quarter of 2019 have been restated.



Cost decreases on all fronts

- Administrative expenses dropped by ISK 521m between years or 8.4% year-on-year. The decrease in salaries and related expenses is due to FTE reductions in 2019 and modest wage increases while the decrease in other operating expenses is related to overall reduction in costs.
- The number of FTEs at the close of the period excluding seasonal employees was 746 (749 at year-end 2019) in the parent company and 980 (984 at year-end 2019) for the Group. FTE for the Group includes 200 employees in disposal groups held for sale.
- The cost-to-income (C/I) ratio for the Group in 1Q20 was 62.9%, compared to 59.6% in 1Q19. The C/I ratio excludes the bank tax and other one-off items. The C/I for the parent company was 61.5% for the same period compared to 58.1% in 1Q19.
- The after-tax loss from discontinued operations was ISK 245m in 1Q20 compared with ISK 51m gain in 1Q19. The loss is mainly from a subsidiary classified as held for sale.

Negative net impairment reflects current economic situation following COVID-19

- Loan impairment charges and net valuation changes generated a loss of ISK 3,490m in 1Q20, compared to a loss of ISK 907m in 1Q19. Increased impairment from exposures to the tourism industry that were moved to IFRS 9 stage 2 following the COVID-19 pandemic account for 2.6bn. The economic scenarios used to calculate the impairment have been updated, although it must be noted that determining the appropriate scenarios in the current environment is quite challenging. The main assumptions in the base scenario are that GDP will be 1.9% in 2020 and -5.0% in 2021, unemployment will be 3.7% in 2020 and 6.3% in 2021, inflation at 3.0% in 2020 and 2.6% in 2021 and capital formation in industry -17.5% in 2020 and -22.0% in 2021. Additionally, the weights of the scenarios have been adjusted downwards to reflect the outlook, the weights are now at 20%-50%-30% (good, base, bad) from previous 25%-50%-25%. The effect of the changes in economic scenarios is an additional impairment of 0.4bn. Increased impairment for a handful of customers in stage 3 accounts for 0.3bn.³

Lower bank tax contributes to lower expenses

- Tax for the period amounted to ISK 769m, compared to ISK 1,196m in 1Q19. The effective tax rate was -212.4%, compared to 32.1% in 1Q19. This is due to costs that are not tax deductible, such as losses on equity exposures. The bank tax accounted for ISK 359m compared with ISK 880 in 1Q19. 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 228m, an ISK 84m decrease from the previous year. Total taxes and levies amounted to ISK 1.9bn for the period compared to ISK 2.9bn in 1Q19.

Profitability marked by negative net impairments but underlying business robust

- Loss after tax was ISK 1.4bn in 1Q20 (1Q19: Profit ISK 2.6bn) and annualised return on equity (after tax) was -3.0% in 1Q20 (1Q19: 5.9%). Earnings fell by ISK 4.0bn between years, mainly explained by an increase in loan impairment charges, net valuation changes and net financial loss.

³ See note 2 in consolidated statement for further detail



BALANCE SHEET

Lending growth impacted by ISK depreciation

Assets, ISKm	31.3.2020	31.12.2019	Δ
Cash and balances with Central Bank	123,062	146,638	(23,576)
Loans to credit institutions	84,263	54,376	29,887
Bonds and debt instruments	69,368	52,870	16,498
Derivatives	4,772	5,621	(849)
Loans to customers	923,850	899,632	24,218
Shares and equity instruments	12,496	18,426	(5,930)
Investment in associates	712	746	(34)
Property and equipment	8,015	9,168	(1,153)
Intangible assets	3,736	4,330	(594)
Other assets	5,154	6,608	(1,454)
Non-current assets and disposal groups held for sale	20,263	1,075	19,188
Total Assets	1,255,691	1,199,490	56,201

- The balance sheet grew by 4.7% from year-end 2019, to ISK 1,256bn with loans to customers growing by 2.7%, or ISK 24.2bn. The loan growth is mainly a result of the depreciation of the Icelandic króna in the period, or ISK 20.8bn. New lending amounted to ISK 57bn in 1Q20, as opposed to ISK 51bn in 1Q19, an increase of 11.8%. Mortgage loans rose by ISK 4.2bn from year-end 2019. Outstanding loans to the tourism industry in Iceland are now 10% of the loan portfolio which is well diversified.
- The ratio of customer loans to customer deposits decreased to 142.6% at end of 1Q20, compared to 145.5% at the end of 2019, as greater proportion of lending was funded with deposits.
- 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 62% at end of March 2020 and is unchanged from year-end 2019.
- Shares and equity instruments decrease as a subsidiary classified as held for sale is moved to non-current assets and closure of derivatives against shares.
- The Bank's asset encumbrance ratio was 18.2% at end of March compared to 18.1% at year-end 2019.
- Three items, cash and balances with the Central Bank, loans to credit institutions and bonds and debt instruments, amounted to about ISK 277bn, were ISK 253bn of which are liquid assets.
- Total assets of Borgun hf. included in non-current assets and disposal groups held for sale amount to ISK 19.2bn.

Quality of loan portfolio measures highly by international comparison

- At the end of the reporting period, the ratio of impaired loans and advances was 2.3% for the Bank (2019: 2.4%) compared to a 2.7% weighted average for European banks at the end of 2019. When only considering the quality of loans to customers, the NPL ratio in terms of the gross book value was at 2.8% at end of March (2019: 3.0%).



Liabilities – strong capital and liquidity ratios as well as low leverage

Liabilities & Equity, ISKm	31.3.2020	31.12.2019	Δ
Deposits from Central Bank and credit institutions	33,773	30,925	2,848
Deposits from customers	647,795	618,313	29,482
Derivative instruments and short positions	12,045	6,219	5,826
Debt issued and other borrowed funds	322,280	306,381	15,899
Subordinated loans	24,456	22,674	1,782
Tax liabilities	8,155	7,853	302
Other liabilities	14,392	27,063	(12,671)
Non-current liabilities and disposal groups held for sale	13,253	-	13,253
Total Liabilities	1,076,149	1,019,428	56,721
Total Equity	179,542	180,062	(520)
Total Liabilities and Equity	1,255,691	1,199,490	56,201

- Total liabilities amounted to ISK 1,076bn, an increase of 5.6% from year-end 2019. The Bank maintained strong liquidity levels and all regulatory and internal metrics were well above set limits at the end of the period.
- Deposits from customers increased by 4.8% from year-end 2019, to ISK 648bn outpacing growth in lending. Largest share of the increase came from companies. Deposits are still the Bank's main source of funding and concentration levels are monitored closely.
- The Bank held two covered bond auctions during the period, in January and March, issuing a total of ISK 6bn by tapping three outstanding bonds. The Bank is therefore on schedule with its ISK 20-25bn annual funding plan. The issuance of covered bonds is to fund the Bank's mortgage portfolio and furthermore to diversify and optimise the Bank's funding base.
- The Bank did not have need to issue senior or subordinated debt during the quarter. The Bank's funding requirement in 2020 in foreign currencies is minimal as the Bank does not have any large maturities of foreign denominated debt in 2020 or 2021.
- The strength of the Bank's foreign currency liquidity ratios has meant that liability management exercises have been feasible. In December 2019 the Bank tendered for the second time to buy back additional bonds of its €500 million benchmark issue maturing in September 2020. The Bank succeeded in repurchasing an additional €143 million, bringing the total repurchased up to €444 million. The Bank also bought back in full a SEK 250 million note maturing in February 2020. Following on from these repurchases the Bank undertook one further liability management exercise in 1Q20 by buying back in full a SEK 350 million bond maturing in July 2020. The Bank has thereby further reduced its refinancing risk, lowered its interest costs and offered liquidity to its investors at a time of considerable market dislocation.
- At end of March, the Group's liquidity coverage ratio (LCR) was 177% (169% for the Bank) increasing from 155% since year-end 2019 which shows that the Bank has substantial resistance to short-term disruptions in debt capital markets. The LCR in foreign currencies was 324% at period end compared to 325% at year-end 2019 and LCR in ISK was 103% compared to 110% at year-end 2019. The Central Bank's reduction of the reserve requirement 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 120% at period end compared with 119% at year-end 2019 and the NSFR in foreign currencies was 151% compared with 156% at year-end 2019. The subsidiary Borgun hf. has

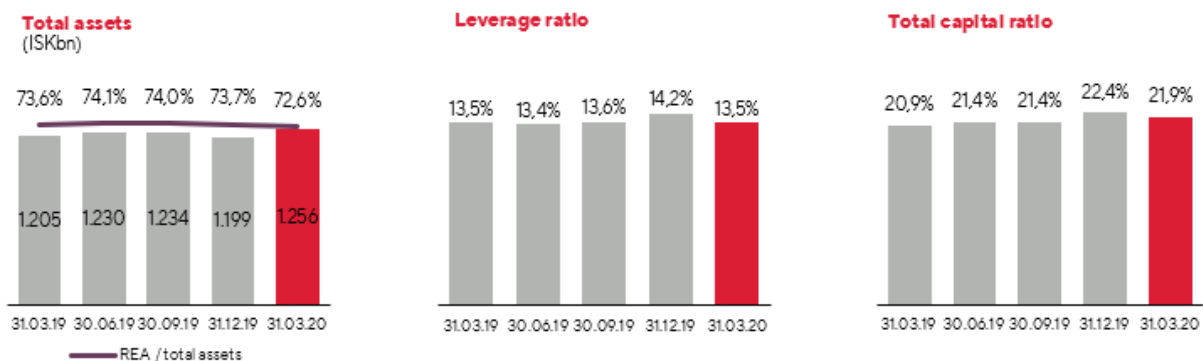


been classified as disposal group held for sale but is included in the LCR and NSFR calculations for the Group.

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

Equity

- Total equity amounted to ISK 179.5bn as of end of March 2020, compared to ISK 180bn at the end of 2019. Thereof, ISK 2.2bn is attributable to non-controlling interests.
- At the end of March, the Bank's total capital ratio was 21.9% compared to 22.4% at year-end 2019. That is considerably higher than the Bank's total capital ratio target. The Bank's Tier 1 ratio was 19.2% at the end of March compared to 19.9% at year-end 2019. The depreciation of the ISK increased the value of the Tier 2 subordinated loan, increasing the capital base despite the decrease in CET1 capital.
- 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 outbreak. 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%.



- Íslandsbanki uses the standardised method to calculate its risk exposure amount (REA), which amounted to ISK 911.4bn at the end of March 2020 compared to ISK 884.6bn at year-end, an increase of 1.1% from year-end. REA amounts to 72.6% of total assets. The SME supporting factor was implemented in Iceland on 1st of January 2020, resulting in an ISK 13bn deduction in the risk exposure amount at the end of March 2020. REA in total increased due to an increase in loans to customers.
- The leverage ratio was 13.5% at the end of March compared to 14.2% at year-end 2019, indicating low leverage.
- Despite the Bank's long-term dividend pay-out ratio target of 40-50%, the Annual General Meeting approved that a dividend to shareholders for the 2019 financial year should not be paid in light of uncertainties due to unprecedented circumstances in the financial markets. The Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for previous fiscal years could be suggested.



Imbalances

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At end of March 2020, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 32.1bn (17.9% of the total capital base), compared to ISK 9.3bn at year-end 2019 (5.1% of the total capital base). 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 -3.1bn (1.7% of the total capital base) at the end of March 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.

Ratings

- 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 rationale 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 digitalized 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 7th May at 9.30 AM (GMT)

The Bank will host an investor call in English at 9.30 AM (GMT) on Thursday, 7th May. 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:

2Q2020 results – 29 July 2020

3Q2020 results – 28 October 2020

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>