First Half 2020 Results

Íslandsbanki hf.

29 July 2020

Second quarter 2020 (2Q20) financial highlights

- Íslandsbanki reported a profit of ISK 1.2bn in 2Q20 compared to ISK 2.1bn in 2Q19, generating a 2.8% annualised return on equity (2Q19: 4.9%).

- NII fell by 2.1% compared to 2Q19 which is mostly explained by the Central Bank's 200bp cut in its policy rate in late Q1 and in Q2. NFCI fell by 16.4% mostly due to reduced payment card activity. Other net operating income were ISK 98m compared to ISK 192m in 2Q19.

- Administrative expenses fell by 5.6% as a result of cost cutting initiatives in recent years.

- Impairment amounting to ISK 2.4bn in 2Q20 is to a large extent the result of a re-evaluation of the possible effects of the COVID-19 pandemic on exposures to customers in the tourism industry, classified as Stage 2.

- Loans to customers increased by ISK 9.5bn, largely driven by loans to individuals. Deposits from customers increased by ISK 33.4bn mainly due to growth in deposits from pension funds and individuals.

First half 2020 (1H20) financial highlights

- Íslandsbanki reported a net loss of ISK 131m during the first half of 2020 compared to a profit of ISK 4.7bn in 1H19. The main reason is an impairment charge amounting to ISK 5.9bn that reflects the current economic situation following COVID-19. In addition, financial loss amounted to ISK 1.9bn due to unfavourable market conditions. Annualised return on equity (after tax) was -0.1% (1H19: 5.4%).

- Net interest income (NII) increased by 2.9% compared to 1H19 and net interest margin remained stable at 2.7%. Net fee and commission income (NFCI) fell by 11.2% compared to 1H19 and is in most part explained by reduced payment card activity in the wake of COVID-19.

- Administrative expenses fell by 7.0% compared to 1H19 due to FTE reductions in 2019, modest wage increases and overall reduction in expenses.

- Loans to customers amounted to ISK 933bn at end of 1H20 and rose by 3.7% from year-end 2019. Thereof ISK 19.2bn is a result of the depreciation of the Icelandic krona. Mortgage lending increased by ISK 12.3bn and was largely driven by the lowering interest rate environment. NPL ratio was 3.6% for stage 3 loans (gross).

- Deposits from customers amounted to ISK 681bn by end of 1H20 and have increased by 10.2% from year-end 2019. The rise is largely due to increased deposits from pension funds. The strength of the Bank´s foreign currency liquidity ratios combined with limited funding requirement has meant that liability management exercises have continued to be economical for the Bank.

- Capital position is strong with total capital ratio at 22.2% by end of 1H20, CET 1 ratio at 19.4%, leverage ratio at 13.4% and sound liquidity ratios.

Key figures and ratios

		1H20	1H19	2Q20	2Q19	2019
PROFITABILITY	After tax profit (loss), ISKm	**(131)**	4,709	**1,245**	2,120	8,454
	Return on equity (after tax)	**-0.1%**	5.4%	**2.8%**	4.9%	4.8%
	Net interest margin (of total assets)	**2.7%**	2.7%	**2.6%**	2.8%	2.8%
	Cost to income ratio[1]	**60.1%**	58.0%	**57.5%**	56.5%	62.4%
		30.6.2020	31.3.2020	31.12.2019	31.12.2018	31.12.2017
BALANCE SHEET	Loans to customers, ISKm	**933,320**	923,850	899,632	846,599	755,175
	Total assets, ISKm	**1,303,256**	1,255,691	1,199,490	1,130,403	1,035,822
	Risk exposure amount, ISKm	**923,133**	911,375	884,550	845,949	775,492
	Deposits from customers, ISKm	**681,223**	647,795	618,313	578,959	567,029
	Customer loans to customer deposits ratio	**137.0%**	142.6%	145.5%	146.2%	133.2%
	NPL ratio[2]	**3.6%**	2.8%	3.0%	2.0%	1.0%
LIQUIDITY	Liquidity coverage ratio (LCR), for all currencies	**179%**	177%	155%	172%	142%
	Net stable funding ratio (NSFR), for all currencies	**117%**	120%	119%	114%	117%
CAPITAL	Total equity, ISKm	**179,722**	179,542	180,062	176,313	181,045
	Tier 1 capital ratio	**19.4%**	19.2%	19.9%	20.3%	22.6%
	Total capital ratio	**22.2%**	21.9%	22.4%	22.2%	24.1%
	Leverage ratio	**13.4%**	13.5%	14.2%	14.6%	16.2%

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

The Bank reported a profit of ISK 1.2bn in the second quarter. Impairment of financial assets, which is to a large extent the result of a re-evaluation of the possible effects of the COVID-19 pandemic, had a significant negative impact on the results. Administrative expenses decreased by 7.0% between years as cost- cutting initiatives from last year feed through into the results.

Íslandsbanki has continued to collaborate with its customers and applications for support loans now amount to over ISK 1.5bn. Many applications have already been processed and more await approval. We saw strong growth in new lending during the first six months of the year. There was strong demand for mortgages and large number of customers benefitted from financing from Ergo, the Bank´s leasing unit, which has seen its busiest spell in years. Green loans introduced earlier this summer have been exceptionally well received. Deposits from customers grew substantially during the period or by 10.2%. Strong capital and liquidity positions enable the Bank to continue collaborating with its customers.

Customer behaviour and preferences have changed since the COVID-19 pandemic started. Visits to branches have fallen and use of digital solutions continues to rise. We, for example, introduced a new chatbot "Fróði" during the period that supports retail customers with their banking services. The Bank will also benefit from home-working and has started a pilot scheme which allows employees to work from home one day per week in order to reduce travel and thereby reducing CO2 emissions.

Íslandsbanki will continue to support its customers through uncertain times, stay optimistic for the times ahead and live by our vision to be number one for service.

COVID-19 pandemic in Iceland – status update

- Number of active cases in Iceland are currently 28 and quarantine and tracing measures continue.

- On June 15, Icelandic borders were reopened. All travellers arriving in Iceland can choose to be tested for COVID-19 for a fee of ISK 15,000 (about EUR 100) as an alternative to a two-week quarantine. As of 16 July, in total six countries are not considered high risk areas and do not need to undergo testing at the border. [1]

- In 1H2020 the Icelandic Government and the Central Bank took several measures to counteract the COVID-19 pandemic. Among them were lowering of the key policy rate, lowering of the countercyclical capital buffer, actions to counteract unemployment and support companies and lowering of bank tax.

- The Government also introduced closure grants of up to ISK 2.4m which are intended for companies who were obliged to close on account of restrictions on gatherings during the COVID-19 pandemic.

Íslandsbanki's actions to support its customers through the COVID-19 pandemic

- Íslandsbanki has maintained full business continuity throughout the COVID-19 pandemic and offered service via digital solutions and telephone banking.

- The Bank's branches were re-opened on 11 May.

- The measures that Íslandsbanki introduced in 1Q20 included allowing suspension of payments of principal and interest for up to six months.

- As of the end of 1H20, about 1,600 loans to companies amounting to almost ISK 150bn have been granted moratorium. This exposure is equivalent to approximately 26% of the corporate loan book. About 80% of companies in the tourism sector that bank with with Íslandsbanki and 47% in the real estate sector have been granted moratorium.

- As of the end of 1H20, over 2,500 loans to individuals (including mortgages) amounting to almost ISK 30bn have been granted moratorium. This equals about 8% of the loan portfolio to individuals.

- Assistance for corporates aims to incorporate and enable the solutions that the Government has put forward. Íslandsbanki and the Central Bank of Iceland signed an agreement regarding supplemental lending and support loans.

    - Support loans are 85-100% Treasury guaranteed. They are intended for companies who had income in the range of ISK 9-1,200m in 2019 and whose revenue has fallen by at least 40% in 2020. Support loans are provided via a fully digital process and are applied for via island.is.

    - Supplemental lending is an element in the Government's measures to help businesses to weather the economic headwinds caused by the COVID-19 pandemic. They are intended for companies whose revenues have fallen by 40% in 2020, directly related to the COVID-19 pandemic and whose salary costs were at least 25% of operating expenses in 2019. The Government will guarantee up to 70% of the principal amount.

First half 2020 (1H20) operational highlights

- Íslandsbanki confirmed the sale of its 63.5% holding in Borgun hf. to Salt Pay Co Ltd. on 7 July 2020, originally announced in March. The transaction will have a limited impact on the Bank's operations. Borgun hf. is classified as disposal group held for sale in the interim financial statements.

[1] See further here

- With increased use of digital solutions and the introduction of new ones such as for mortgages refinancing, onboarding for securities trading, electronic signatures and chatbot Fróði for retail customers, the Bank's Laugardalur branch now has an enhanced role in providing retail banking services to individuals. The Branches at Höfði and Grandi merged with Laugardalur branch as part of the change. Following this Íslandsbanki operates 12 branches which service its customers via a highly efficient branch network.

- Services to SMEs were merged to the Bank's corporate banking centre in Norðurturn, the Bank's headquarters. Companies will still be able to carry out simpler banking transactions at any branch office.

- Íslandsbanki started a pilot where employees work from home one day per week. The Bank also introduced more environmentally friendly ways of transport such as electric cars and electric scooters.

- The Bank introduced an updated macroeconomic forecast for 2020-2022 which e.g. forecasts a 9.1% contraction in GDP in 2020 and a rebound in 2021.

- Íslandsbanki signed a co-operation agreement with Payday services. Payday's services aim to simplify accounting, payroll, and payment of taxes and levies for self-employed individuals and small businesses.

- Íslandsbanki allocated ISK 30m from the Bank's Entrepreneur Fund which is guided by the UN SDGs the Bank has chosen to support in its policy. In total 13 projects received a grant.

- Ergo Finance Solutions now offers special terms when financing eco-friendly cars and offers loans for electric bikes and charging stations.

- Íslandsbanki continued to buy back own senior debt. In addition to the liability management exercise of SEK 350 million conducted in 1Q20, the Bank repurchased SEK 75 million of a floating rate note (FRN) maturing in February 2021 and will continue to consider further purchases of short-dated debt as opportunities arise.

INCOME STATEMENT[2]

ISKm	1H20	1H19	Δ	Δ%	2Q20	2Q19	Δ	Δ%	2019
Net interest income	**16,808**	16,341	467	2.9%	**8,228**	8,404	(176)	-2.1%	32,822
Net fee and commission income	**4,798**	5,405	(607)	-11.2%	**2,307**	2,758	(451)	-16.4%	10,899
Net financial income (expense)	**(1,919)**	622	(2,541)	-408.5%	**(181)**	180	(361)	-200.6%	(820)
Net foreign exchange gain (loss)	**263**	(136)	399	-293.4%	**208**	(15)	223	-1486.7%	139
Other operating income	**90**	1,168	(1,078)	-92.3%	**71**	27	44	163.0%	2,125
Total operating income	**20,040**	23,400	(3,360)	-14.4%	**10,633**	11,354	(721)	-6.4%	45,165
Salaries and related expenses	**(6,694)**	(7,153)	459	-6.4%	**(3,447)**	(3,689)	242	-6.6%	(14,019)
Other operating expenses	**(4,869)**	(5,280)	411	-7.8%	**(2,424)**	(2,531)	107	-4.2%	(10,469)
Administrative expenses	**(11,563)**	(12,433)	870	-7.0%	**(5,871)**	(6,220)	349	-5.6%	(24,488)
Contribution to the Depositor's and Investors' Guarantee Fund	**(475)**	(510)	35	-6.9%	**(247)**	(198)	(49)	24.7%	(936)
Bank tax	**(758)**	(1,814)	1,056	-58.2%	**(399)**	(934)	535	-57.3%	(3,528)
Total operating expenses	**(12,796)**	(14,757)	1,961	-13.3%	**(6,517)**	(7,352)	835	-11.4%	(28,952)
Profit before net impairment on financial assets	**7,244**	8,643	(1,399)	-16.2%	**4,116**	4,002	114	2.8%	16,213
Net impairment on financial assets	**(5,929)**	(1,809)	(4,120)	227.8%	**(2,439)**	(902)	(1,537)	170.4%	(3,480)
Profit before tax	**1,315**	6,834	(5,519)	-80.8%	**1,677**	3,100	(1,423)	-45.9%	12,733
Income tax expense	**(888)**	(1,922)	1,034	-53.8%	**(119)**	(726)	607	-83.6%	(3,909)
Profit (loss) for the period from continuing operations	**427**	4,912	(4,485)	-91.3%	**1,558**	2,374	(816)	-34.4%	8,824
Discontinued operations, net of income tax	**(558)**	(203)	(355)	174.9%	**(313)**	(254)	(59)	23.2%	(370)
Profit (loss) for the period	**(131)**	4,709	(4,840)	-102.8%	**1,245**	2,120	(875)	-41.3%	8,454
Key ratios									
Net Interest Margin (NIM)	**2.7%**	2.7%			**2.6%**	2.8%			2.7%
Cost to income ratio (C/I)	**60.1%**	58.0%			**57.5%**	56.5%			58.8%
Return on Equity (ROE)	**-0.1%**	5.4%			**2.8%**	4.9%			4.8%

Total operating income falls due to COVID-19 effect

– Net interest income rose by 2.9% during the period as a result of higher interest bearing assets. NII decreased slightly in 2Q20 due to the lower interest rate environment which is starting to have an impact on earnings through lower deposit margins and returns on the Bank's liquidity portfolio.

– The drop in net fee and commission income is attributable to reduced payment card and currency exchange activity in the wake of COVID-19 alongside higher costs related to payment cards in the quarter. Fees from asset management and investment banking and brokerage were stable between years.

– Net financial loss was ISK 1.9bn for the period as the Bank experienced losses in both the trading book and banking book for equity and equity like instruments in 1Q20 and CPI hedges in 2Q20.

Cost decrease continues

– Administrative expenses dropped 7.0% from 1H19. 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 the Bank´s cost base.

– The number of FTEs at the close of the period excluding seasonal employees was 735 (749 at year-end 2019) in the parent company and 980 (984 at year-end 2019) for the Group. FTE for the Group includes 210 employees in disposal group held for sale.

– The cost-to-income (C/I) ratio for the Group is 60.1% compared to 58.0% 1H19. The C/I ratio excludes the bank tax and other one-off items.

[2] Comparative figures have been restated as the subsidiary Borgun hf. has been classified as disposal group held for sale and as discontinued operations.

Lower bank tax contributes to lower expenses

- The effective tax rate for the period was 67.5%, compared to 28.0% in 1H19. This is due to costs that are not tax deductible, such as losses on equity exposures. The bank tax accounted for ISK 758m compared to ISK 1,814 in 1H19. 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 475m, an ISK 35m decrease from the previous year. Total taxes and levies amounted to ISK 3.2bn for the period compared to ISK 5.3bn in 1H19.

- The after-tax loss from discontinued operations is mainly from a subsidiary classified as held for sale.

Net impairment reflects current economic situation following COVID-19

- Loan impairment charges and net valuation changes generated a loss of ISK 5,929m in 1H20, compared to a loss of ISK 1,809m in 1H19. Increased impairment from exposures to the tourism industry that were moved to IFRS 9 stage 2 following the COVID-19 pandemic account for ISK 4.5bn. Increased impairment for a handful of customers in stage 3 accounts for ISK 0.7bn.
- The additional impairment in 2Q20 amounting to ISK 2,439m is to a large extent the result of a re-evaluation of the possible effects of the Corona virus pandemic on exposures to customers in the tourism industry. An overlay factor was applied to the expected credit loss. This factor has resulted in the majority of the additional impairment.

- The economic scenarios used to calculate the impairment were updated in 2Q20, 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 -9.1% in 2020 and 4.3% in 2021.
- After carving out exposures mostly affected by the COVID-19 pandemic, the update of the economic scenarios does not materially change the impairment allowance in 2Q20.

Profit in 2Q20 but 1H20 profitability marked by negative net impairments

- Loss after tax was ISK 131m in 1H20 (1H19: Profit ISK 4.7bn) and annualised return on equity (after tax) was -0.1% in 1H20 (1H19: 5.4%). Earnings fell by ISK 4.8bn between years, mainly explained by an increase in loan impairment charges, net valuation changes and net financial loss.

BALANCE SHEET

Assets – lending growth impacted by COVID-19 situation

Assets, ISKm	30.6.2020	31.12.2019	Δ	Δ%	31.3.2020	Δ	Δ%
Cash and balances with Central Bank	**103,569**	146,638	(43,069)	-29.4%	123,062	(19,493)	-15.8%
Loans to credit institutions	**70,307**	54,376	15,931	29.3%	84,263	(13,956)	-16.6%
Bonds and debt instruments	**140,422**	52,870	87,552	165.6%	69,368	71,054	102.4%
Derivatives	**6,366**	5,621	745	13.3%	4,772	1,594	33.4%
Loans to customers	**933,320**	899,632	33,688	3.7%	923,850	9,470	1.0%
Shares and equity instruments	**10,943**	18,426	(7,483)	-40.6%	12,496	(1,553)	-12.4%
Investment in associates	**750**	746	4	0.5%	712	38	5.3%
Property and equipment	**7,549**	9,168	(1,619)	-17.7%	8,015	(466)	-5.8%
Intangible assets	**3,667**	4,330	(663)	-15.3%	3,736	(69)	-1.8%
Other assets	**6,370**	6,608	(238)	-3.6%	5,154	1,216	23.6%
Non-current assets and disposal groups held for sale	**19,993**	1,075	18,918	1759.8%	20,263	(270)	-1.3%
Total Assets	**1,303,256**	1,199,490	103,766	8.7%	1,255,691	47,565	3.8%
Key ratios							
Risk Exposure Amount (REA)	**923,133**	884,550	38,583	4.4%	911,375	11,758	1.3%
NPL ratio[1]	**3.6%**	3.0%			2.8%		
Asset encumbrance ratio	**17.9%**	18.1%			18.2%		

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 and loans to customers. The loan growth is a result of the depreciation of the Icelandic króna (20% of the loan book is in foreign currencies) in the period, of ISK 19.2bn, and a strong demand for mortgages. New lending amounted to ISK 104.5bn in 1H20, as opposed to ISK 107.4bn in 1H19, a decrease of 2.7%. Mortgage loans increased by ISK 12.3bn from year-end 2019. 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 63% at end of June 2020 compared to 62% at year-end 2019.

- In May, the Central Bank announced that it had decided to stop offering one-month term deposits in order to increase liquidity in circulation and further strengthen monetary policy transmission. As substantial part of the Bank´s ISK denominated liquidity portfolio was held in these deposits it was necessary for the Bank to shift some parts of its liquidity to Treasury bills, short dated Treasury bonds and covered bonds which resulted in increase in the bonds and debt instruments line item.

- 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.

- Three items, cash and balances with the Central Bank, loans to credit institutions and bonds and debt instruments, amounted to about ISK 314bn, were ISK 281bn of which are liquid assets.

- Total assets of Borgun hf. included in non-current assets and disposal groups held for sale amount to ISK 18.1bn.

Quality of loan portfolio impacted by the COVID-19 pandemic

- At the end of the reporting period, the ratio of credit-impaired loans to customers at Stage 3 was 3.6% (gross) for the Group (1H19: 2.4%). The ratio of impaired loans and advances was at 3.1% and end of 1H20 (1H19: 2,0%). Revaluation of certain loans in Stage 3 increased impairment by ISK 0.7bn.

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

Liabilities & Equity, ISKm	30.06.2020	31.12.2019	Δ	Δ%	31.03.2020	Δ	Δ%
Deposits from Central Bank and credit institutions	**35,461**	30,925	4,536	14.7%	33,773	1,688	5.0%
Deposits from customers	**681,223**	618,313	62,910	10.2%	647,795	33,428	5.2%
Derivative instruments and short positions	**7,519**	6,219	1,300	20.9%	12,045	(4,526)	-37.6%
Debt issued and other borrow ed funds	**321,803**	306,381	15,422	5.0%	322,280	(477)	-0.1%
Subordinated loans	**25,834**	22,674	3,160	13.9%	24,456	1,378	5.6%
Tax liabilities	**6,438**	7,853	(1,415)	-18.0%	8,155	(1,717)	-21.1%
Other liabilities	**29,935**	27,063	2,872	10.6%	14,392	15,543	108.0%
Non-current liabilities and disposal groups held for sale	**15,321**	-	15,321	-	13,253	2,068	15.6%
Total Liabilities	**1,123,534**	1,019,428	104,106	10.2%	1,076,149	47,385	4.4%
Total Equity	**179,722**	180,062	(340)	-0.2%	179,542	180	0.1%
Total Liabilities and Equity	**1,303,256**	1,199,490	103,766	8.7%	1,255,691	47,565	3.8%
Key ratios							
Customer loans to customer deposits ratio	**137.0%**	145.5%			142.6%		
Leverage ratio	**13.4%**	14.2%			13.5%		
REA/total assets	**70.8%**	73.7%			72.6%		
Liquidity coverage ratio (LCR)	**179%**	155%			177%		
Net stable funding ratio (NSFR)	**117%**	119%			120%		
Total capital ratio	**22.2%**	22.4%			21.9%		
Tier 1 captial ratio	**19.4%**	19.9%			19.2%		

Growth in customer deposits outpacing growth in loans to customers

- Deposits from customers increased by 10.2% during the period outpacing growth in loans to customers which resulted in decrease in the customer loans to customer deposits ratio to 137%. 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 pension funds, followed by individuals. Deposits are the Bank's main source of funding and concentration levels are monitored closely.

- Debt issued and other borrowed funds increased by ISK 15bn during the period. Vast majority of the increase was due to the weakening of the ISK. 54% of the Bank´s market-based borrowings is in foreign currencies.

- Non-current liabilities and disposal groups held for sale increased as Borgun was classified as disposal group held for sale

- The Bank held three covered bond auctions during the first 6 months of 2020, issuing a total of ISK 8bn by tapping three outstanding bonds. One indexed series, of ISK 6bn, matured in June, which means that net issuance was ISK 2bn during the period. 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.

- The Bank did not have need to issue senior or subordinated debt during the period. The Bank´s funding requirement in 2020 in foreign currencies is minimal due to high FX liquidity levels and as the Bank does not have any large maturities of foreign denominated debt in 2020 or in 2021.

- The continuing strength of the Bank's foreign currency liquidity ratios has meant that liability management exercises have been appropriate. The Bank undertook one liability management exercise in 1Q20 by buying back in full a SEK 350 million bond maturing in July 2020 and a further buyback of SEK 75 million in 2Q20 maturing in February 2021.

- At end of the period, the group's liquidity coverage ratio (LCR) was 179% (168% for the parent) increasing from 155% since year-end 2019 which shows that the Bank has substantial resistance to short-term disruptions in the debt capital markets. The LCR in foreign currencies remained constant at 325% at end of 1H20 since year-end 2019 and LCR in ISK was 119% compared to 110% at year-end 2019.

- The Central Bank's reduction of the reserve requirement in Q120 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 117% at period end compared with 120% at year-end 2019 and the NSFR in foreign currencies was 147% compared with 156% at year-end 2019.

- The subsidiary Borgun hf. has been classified as a 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 transactions during 2020.

High equity ratios with low leverage

- Total equity amounted to ISK 179.7bn as of end of June 2020, compared to ISK 180.0bn at the end of 2019. Thereof, ISK 1.8bn is attributable to non-controlling interests.

- 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 June, the Bank's total capital ratio was 22.2% 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 19.4% at the end of June compared to 19.9% at year-end 2019. Implementation of IFRS 9 transitional rules in Iceland, where IFRS 9 impairment is partially included as CET1, increase the CET1 capital by ISK 3.8bn. 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 923bn at the end of June 2020 compared to ISK 885bn at year-end. REA amounts to 71% 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 June 2020. REA in total increased due to an increase in loans to customers.

- The leverage ratio was 13.4% at the end of June compared to 14.2% at year-end 2019, indicating low leverage.

Strictly monitored imbalances

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At end of June 2020, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 46.7bn, compared to ISK 20.6bn at year-end 2019. 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 -1.8bn (1.0% of the total capital base) at the end of June 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 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 30 July at 9.30 AM (GMT)

The Bank will host an investor call in English at 9.30 AM (GMT) on Thursday, 30 July. 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.

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

Financial calendar

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

3Q2020 results – 28 October 2020
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.