Press Release

Fourth Quarter 2020 Results

Íslandsbanki hf.

10 February 2021

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Fourth quarter 2020 (4Q20) financial highlights

- Íslandsbanki reported a net profit of ISK 3.5bn compared to 1.7bn in 4Q19, resulting in an annualised return on equity after tax of 7.6% which is in line with the Bank´s financial targets (4Q19: 3.7%). ROE margin, the return on equity in excess of risk-free rate, was at 7.1% for the quarter compared to 0.9% for 4Q19.

- Net interest income (NII) amounted to ISK 8.3bn in the quarter, in line with 4Q19 with a net interest margin (NIM) of 2.5% in 4Q20 (4Q19: 2.7%). Net fee and commission income (NFCI) was comparable YoY at ISK 2.9bn.

- The Bank recorded a net financial income of ISK 0.8bn in 4Q20 partially due to favourable market conditions.

- Administrative expenses were down 5.8% YoY, a result of cost reduction initiatives in recent years and changes in operations caused by COVID-19 pandemic. The cost to income ratio (C/I ratio) was 51.7% which is under the Bank's target ratio of 55%.

- Impairment charges were around ISK 0.4bn higher YoY amounting to ISK 1.8bn in 4Q20. This is mostly related to continued uncertainty due to COVID-19, in particular for the tourism industry. The net impairment charge over loans to customers was 0.18% in Q420 (0.73% annualised).

- The agreement that the Bank entered with other financial institutions and lenders in Iceland to provide a universal COVID-19 moratorium for customers in need ended this quarter. Further extensions of moratoria may be granted on a case-by-case basis, but such extensions are classified as forbearance. As a result, loans with forbearance have increased considerably.

- ISK 36.4bn growth in loans to customers QoQ is mostly driven by mortgage lending. Deposits from customers fell 2.7% during the quarter. This is mainly due to a drop in deposits from pension funds while stable deposits continued to grow steadily.

- Parallel to the publishing of the financial statements, the Bank publishes its Annual and Sustainability report and Pillar 3 report, along with an Impact and Allocation report for Íslandsbanki's Sustainable Financing Framework.

2020 financial highlights

- Profit after tax for the year 2020 amounted to ISK 6.8bn (2019: ISK 8.5bn) and the annualised return on equity after tax was 3.7% (2019: 4.8%). ROE margin for 2020 was at 2.6% compared to 1.2% for the year 2019 showing increase in return on equity in excess of risk-free rate between years.

- NII rose by 1.7% between years and net interest margin for 2020 was 2.6% compared to 2.7% for the year 2019.

- NFCI decreased 3.4% YoY, amounting to 10.5bn for 2020 (2019: ISK 10.9bn). This is mostly explained by reduced payment card activity in the wake of COVID-19.

- Administrative expenses fell 7.1% YoY totalling to ISK 22.7bn for the year (2019: ISK 24.5bn). The C/I ratio for the year was 54.3% compared to 58.8% for 2019. FTE reductions, modest wage increases and overall reduction in administrative expenses explain the decrease between years.

- Net impairment charges on financial assets generated a loss of ISK 8.8bn for the year (2019: ISK 3.5bn). Thereof ISK 6.1bn are due to COVID-19, reflecting the economic uncertainty.

- Loans to customers grew by ISK 107bn or 11.9% in 2020. The growth was mostly due to mortgage lending.
- The NPL ratio (loans in stage 3) was 2.9% (gross) at end of year down from 3.0% at YE19.
- Due to the COVID-19 pandemic, customers that experienced a temporary reduction in income were offered moratoria or other forbearances measures. This led to a substantial change in share of loans in stage 2 (with significant increase in credit risk), currently at 15.6% up from 2.6% the year before.
- Deposits from customers amounted to ISK 679bn at the end of December and grew by 9.9% from YE19 or by ISK 61.1bn. The rise is largely due to increased stable deposits from retail customers and corporations. The Bank continued to build its long-term funding sources, especially in the fourth quarter, by issuing both covered bonds and senior unsecured bonds during the year. In November, the Bank issued the first sustainable bonds from an Icelandic issuer. A heavily oversubscribed €300 million 3-year benchmark issued at mid-swaps +100 bps was placed with investors across continental Europe, followed by an ISK 2.7 bn domestic sustainable issue with a maturity of 5 years.
- The Bank´s capital position strengthened during the year with total capital ratio at 23.0% at the end of 2020, CET 1 ratio at 20.1% and leverage ratio at 13.6%. The Bank's liquidity ratios remained sound and above all requirements.

Key figures and ratios

		4Q20	4Q19	**2020**	2019	2018
PROFITABILITY	After tax profit, ISKm	**3,525**	1,659	**6,755**	8,454	10,645
	Return on equity (after tax)	**7.6%**	3.7%	**3.7%**	4.8%	6.1%
	ROE margin	**7.1%**	0.9%	**2.6%**	1.2%	2.1%
	Net interest margin (of total assets)	**2.5%**	2.7%	**2.6%**	2.7%	2.9%
	Cost to income ratio[1]	**51.7%**	62.9%	**54.3%**	58.8%	66.3%

		31.12.20	30.09.20	30.06.20	31.12.19	31.12.18
BALANCE SHEET	Loans to customers, ISKm	**1,006,717**	970,309	933,320	899,632	846,599
	Total assets, ISKm	**1,344,191**	1,328,724	1,303,256	1,199,490	1,130,403
	Risk exposure amount, ISKm	**933,521**	942,339	923,133	884,550	845,949
	Deposits from customers, ISKm	**679,455**	698,610	681,223	618,313	578,959
	Customer loans to customer deposits ratio	**148.2%**	138.9%	137.0%	145.5%	146.2%
	NPL ratio[2]	**2.9%**	3.3%	3.6%	3.0%	2.0%
LIQUIDITY	Liquidity coverage ratio (LCR), for all currencies	**196%**	136%	179%	155%	172%
	Net stable funding ratio (NSFR), for all currencies	**123%**	113%	117%	119%	114%
CAPITAL	Total equity, ISKm	**186,204**	182,509	179,722	180,062	176,313
	Total capital ratio	**23.0%**	22.2%	22.2%	22.4%	22.2%
	Tier 1 capital ratio	**20.1%**	19.4%	19.4%	19.9%	20.3%
	Leverage ratio	**13.6%**	13.4%	13.4%	14.2%	14.6%

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

We are very satisfied with our 4Q20 performance, with an annualised return on equity of 7.6% despite severe headwinds across much of the economy. In 2020 we cut costs by 7.1% while simultaneously expanding our loan portfolio by 11.9% and increasing deposits by 9.9%.There has been much discussion of the state of the loan portfolio and the impact of COVID-19, but about 1,500 households and 650 companies took advantage of the special COVID-related measures we offered through end-2020. Most of our customers who needed an extended moratorium on loan payments were tourism companies. Loans protected by these moratoria accounted for about 6% of the Bank's loan portfolio at the end of the year.

Íslandsbanki's year-2020 profit was ISK 6.8 billion, including ISK 3.5 billion in Q4. Interest income and commissions were stable year-on-year. The securities brokerage and Corporate Finance departments performed particularly well. Corporate Finance completed approximately 30 projects, and Íslandsbanki led the Nasdaq Iceland exchange in trading volume during the year. Among the projects undertaken by Corporate Finance were Icelandair Group's very successful share offering, the sale of Icelandair Hotels, and the sale of Borgun, as well as bond and stock issues for Iceland's listed real estate companies. Iceland Funds recorded an increased profit for the fifth year in a row and strengthened its position as the largest fund company in Iceland, with a market share of 35%.

The entire world had to adjust to changed circumstances during the year and respond to the ongoing COVID-19 pandemic. The changed global environment brought with it a strong push towards further digitisation, and the Bank rolled out a range of innovations, including a new app for companies and a digital signature solution. Íslandsbanki's digital distribution channels grew markedly, and the Bank placed strong emphasis on providing personal service to those who could not use digital products.

We could feel that, under these trying conditions, moving Iceland forward by empowering our customers to succeed was more important than ever before, and we are proud of that role. The Bank continues to take large strides in the area of sustainability. We aim to shrink the carbon footprint from our operations by 50% between 2019 and 2024. During the year, the Bank issued the largest sustainable bond in Iceland's history, and the issue was more than 3 times oversubscribed. The proceeds will be used for sustainable lending and investments. The Bank has already allocated ISK 25 billion to eligible sustainable projects, as is discussed more fully in the Allocation and Impact Report for the Sustainable Financing Framework, which is being published concurrent with the Annual and Sustainability Report for the first time.

We look to the future with hope, and we intend to continue meeting our customers' needs, with flexibility as a guidepost. Furthermore, Íslandsbanki's strong financial position and current market conditions show that this is a good time to begin preparing to list the Bank on the securities market. Exciting times lie ahead.

Fourth quarter 2020 (4Q20) operational highlights

- Íslandsbanki was involved in large projects undertaken by the three listed real estate companies. Bonds were issued for Eik and Reginn and the Bank advised on Reitir's share offering.

- 14 projects received a total of ISK 30.5 million from the Íslandsbanki Entrepreneurship Fund.

- Íslandsbanki issued the first sustainable bond by an Icelandic bank for EUR 300 million with a maturity of 3 years. The issue was more than 3 times oversubscribed and was placed to investors across Europe. The proceeds of the issue were used for loans that meet the conditions set out in Íslandsbanki's Sustainable Financing Framework.

- For the second year in a row, Íslandsbanki received the Icelandic Association of Business Women (FKA) Equality Scale in 2020.

- The Norwegian asset management company Storebrand Asset Management partnered with Íslandsbanki to offer three green investment funds in Iceland. The funds are open to both general investors and institutional investors in Iceland.

- Íslandsbanki became a member of PCAF, a global partnership of financial institutions whose objective is to develop and implement metrics for measuring greenhouse gas emission for loan and asset portfolios. PCAF (Partnership for Carbon Accounting Financials) handles the development and use of climate metrics that financial institutions can use to analyse carbon emissions in their loan and asset portfolios. Participation in the project is part of Íslandsbanki's Sustainability Policy and the Bank's initiative for extensive co-operation on responsible business practices.

- Íslandsbanki continued to be a leader in financial education and hosted educational sessions on various issues, such as finance at retirement, finances during maternity leave and savings. Due to the COVID-19 pandemic, educational meetings were held online with significant participation.

INCOME STATEMENT[1]

ISKm	4Q20	4Q19	Δ	Δ%	2020	2019	Δ	Δ%
Net interest income	**8,258**	8,291	(33)	-0.4%	**33,371**	32,822	549	1.7%
Net fee and commission income	**2,865**	2,945	(80)	-2.7%	**10,525**	10,899	(374)	-3.4%
Net financial income (expense)	**783**	(840)	1,623	-193.2%	**(1,391)**	(820)	(571)	69.6%
Net foreign exchange gain	**87**	116	(29)	-25.0%	**451**	139	312	224.5%
Other operating income	**63**	920	(857)	-93.2%	**197**	2,125	(1,928)	-90.7%
Total operating income	**12,056**	11,432	624	5.5%	**43,153**	45,165	(2,012)	-4.5%
Salaries and related expenses	**(3,381)**	(3,624)	243	-6.7%	**(12,917)**	(14,019)	1,102	-7.9%
Other operating expenses	**(2,692)**	(2,823)	131	-4.6%	**(9,829)**	(10,469)	640	-6.1%
Administrative expenses	**(6,073)**	(6,447)	374	-5.8%	**(22,746)**	(24,488)	1,742	-7.1%
Contribution to the Depositor's and Investors' Guarantee Fund	**(154)**	(216)	62	-28.7%	**(679)**	(936)	257	-27.5%
Bank tax	**(414)**	(814)	400	-49.1%	**(1,588)**	(3,528)	1,940	-55.0%
Total operating expenses	**(6,641)**	(7,477)	836	-11.2%	**(25,013)**	(28,952)	3,939	-13.6%
Profit before net impairment on financial assets	**5,415**	3,955	1,460	36.9%	**18,140**	16,213	1,927	11.9%
Net impairment on financial assets	**(1,829)**	(1,463)	(366)	25.0%	**(8,816)**	(3,480)	(5,336)	153.3%
Profit before tax	**3,586**	2,492	1,094	43.9%	**9,324**	12,733	(3,409)	-26.8%
Income tax expense	**(234)**	(659)	425	-64.5%	**(2,472)**	(3,909)	1,437	-36.8%
Profit for the period from continuing operations	**3,352**	1,833	1,519	82.9%	**6,852**	8,824	(1,972)	-22.3%
Discontinued operations, net of income tax	**173**	(174)	347	-199.4%	**(97)**	(370)	273	-73.8%
Profit for the period	**3,525**	1,659	1,866	112.5%	**6,755**	8,454	(1,699)	-20.1%
Key ratios								
Net Interest Margin (NIM)	**2.5%**	**2.7%**			**2.6%**	2.7%		
Cost to income ratio (C/I)	**51.7%**	**62.9%**			**54.3%**	58.8%		
Return on Equity (ROE)	**7.6%**	**3.7%**			**3.7%**	4.8%		

Total operating income increased in the quarter

- Net interest income remained stable in the fourth quarter but increased by 1.7% between years, as the balance sheet growth was somewhat offset by a lower interest rate environment, resulting in a slight fall of 0.1% in the net interest margin. A higher deposit margin compensated for a drop in lending margin both during the quarter and for the year as a whole.

- Net fee and commission income remained stable during the quarter. A slight drop between years was mainly due to reduced payment card and currency exchange activity in the wake of COVID-19. Fees from loans and guarantees increased considerably between years.

- In 4Q20 the Bank recorded a gain of ISK 783m in financial income. However, the Bank recorded a loss of ISK 1,391m for the full year 2020, compared to a loss of ISK 820m in 2019. This is attributable to losses in the trading book and the banking book, CPI hedges and fair value changes in shares.

Cost / income ratio below the Bank's target of 55%

- Administrative expenses dropped by 5.8% during the quarter and 7.1% for the year. The fall is mainly explained by lower salaries and related expenses and an overall reduction in the Bank's cost base, partly due to COVID-19.

[1]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 have been restated.

- The number of FTEs at the end of the period excluding seasonal employees was 745 (749 at YE19) for the parent company and 779 for the Group (783 at YE19, not including FTEs from a subsidiary previously held for sale for comparability).

- The cost-to-income (C/I) ratio for the Group was 51.7% in 4Q20 compared to 62.9% in 4Q19, therefore on target, which is a C/I ratio below 55%. For 2020 the C/I ratio was 54.3% compared to 58.8% in 2019. The C/I ratio excludes the bank tax and other one-off items.

Lower bank tax contributes to lower expenses

- Income tax for the period amounted to ISK 2.5bn, compared to ISK 3.9bn in 2019.The effective tax rate for the period was 26.5%, compared to 30.7% in 2019. The bank tax accounted for ISK 1.6bn compared to ISK 3.5bn in 2019. The Bank is subject to the special financial tax of 6% on taxable profits in excess of 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 679m, an ISK 257m reduction from the previous year. Total taxes and levies amounted to ISK 6.6bn for the period compared to ISK 10.3bn in 2019.

Impairment charges continue and uncertainty in operating environment still in place

- The ISK 1,829m impairment charge in 4Q20 is mostly COVID-19 related and due to update to macroeconomic scenarios and other assumptions.

- Loan impairment charges and net valuation changes generated a loss of ISK 8,816m in 2020, compared to a loss of ISK 3,480m in 2019. Thereof, ISK 6.1bn is COVID-19 related, ISK 1.2bn is related to a handful of customers and ISK 0.6bn linked to an update in macroeconomic scenarios and weights.

- The net impairment charge over loans to customers was 0.18% in 4Q20 (0.73% annualised) and 0.91% in FY20.

- The economic scenarios used to calculate the impairment were updated in 4Q20, 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) compared to 25%-50%-25% before the pandemic.

Underlying operations deliver stable operating income

- Íslandsbanki reported a profit of ISK 3.5bn in 4Q20 (4Q19: ISK 1.7bn), generating a 7.6% annualised return on equity after tax (4Q19: 3.7%).

- Profit after tax was ISK 6.8bn in 2020 (2019: ISK 8.5bn) and annualised return on equity after tax was 3.7% in 2020 (2019: 4.8%). The ISK 1.7bn lower profit between years is mainly explained by an increase in loan impairment charges and net financial loss. Contributing to higher profit in 2019 is a one-off item included in other operating income in 2019.

BALANCE SHEET

Assets – continued growth in loans to customers

Assets, ISKm	31.12.2020	30.9.2020	Δ	Δ%	31.12.2019	Δ	Δ%
Cash and balances with Central Bank	**78,948**	95,022	(16,074)	-16.9%	146,638	(67,690)	-46.2%
Loans to credit institutions	**89,920**	61,898	28,022	45.3%	54,376	35,544	65.4%
Bonds and debt instruments	**128,216**	149,426	(21,210)	-14.2%	52,870	75,346	142.5%
Derivatives	**6,647**	3,731	2,916	78.2%	5,621	1,026	18.3%
Loans to customers	**1,006,717**	970,309	36,408	3.8%	899,632	107,085	11.9%
Shares and equity instruments	**14,851**	14,657	194	1.3%	18,426	(3,575)	-19.4%
Investment in associates	**775**	750	25	3.3%	746	29	3.9%
Property and equipment	**7,341**	7,409	(68)	-0.9%	9,168	(1,827)	-19.9%
Intangible assets	**3,478**	3,554	(76)	-2.1%	4,330	(852)	-19.7%
Other assets	**4,125**	17,159	(13,034)	-76.0%	6,608	(2,483)	-37.6%
Non-current assets and disposal groups held for sale	**3,173**	4,809	(1,636)	-34.0%	1,075	2,098	195.2%
Total Assets	**1,344,191**	1,328,724	15,467	1.2%	1,199,490	144,701	12.1%
Key ratios							
Risk Exposure Amount (REA)	**933,521**	942,339	(8,818)	-0.9%	884,550	48,971	5.5%
NPL ratio[1]	**2.9%**	3.3%			3.0%		
Asset encumbrance ratio	**18.7%**	17.3%			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 by 12.1% is mainly attributable to loans to customers and bonds and debt instruments and depreciation of the Icelandic króna. The loan growth is a result of strong demand for residential mortgages (increase of ISK 60.3bn in 4Q20 and ISK 95.7bn from YE19). The rise in demand for mortgages was largely driven by the lower interest rate environment. Outstanding loans to the tourism industry in Iceland at year-end 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 was 64% at the end of 2020 compared to 62% at YE19. Following a sharp rise in recent years, the Central Bank's CRE price index has fallen in 2020. Íslandsbanki's registered value of commercial real estate as collateral has risen at a much slower rate and lagged market prices in prior years. The Bank's CRE loan portfolio is therefore less vulnerable to market price changes.

- Three items, cash and balances with the Central Bank, loans to credit institutions and bonds and debt instruments, amounted to about ISK 297bn, of which ISK 285bn are liquid assets. After the Central Bank decided to stop offering one-month term deposits the Bank shifted ISK liquidity to Treasury bills, short dated Treasury bonds and covered bonds to earn higher yield.

General moratoria taper off

- Íslandsbanki entered into an agreement with other lenders in Iceland to provide a moratorium for corporate and household customers, uniformly executed across institutions. At its peak, around 1,500 households and 650 companies benefitted from measure with loans amounting to around ISK 200bn.

- The agreement expired on 30 September 2020 and the maximum length of the moratoria was through 2020. Further extensions of moratoria may be granted on a case-by-case basis, but such extensions will be classified as forbearance.

- At year-end, 11.1% of the gross performing loan book (not in stage 3) was thus classified as forbearance, up from only 2.9% at end of Q3.

- Support loans with government guarantees amounting to ISK 3.7bn were originated in 2H2020. Around 60% of the amount is with full government guarantee. 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 share of credit-impaired loans to customers was 2.9% (gross) for the Group (2019: 3.0%). In January 2021 one material exposure was fully repaid as expected, bringing the ratio down to 2.7%. The collateral coverage in Stage 3 was 70% at the end of the year 2020 and the reserve coverage ratio was 25.3%.

Liabilities – strong capital and liquidity ratios combined with low leverage

Liabilities & Equity, ISKm	**31.12.20**	30.09.20	Δ	Δ%	31.12.19	Δ	Δ%
Deposits from Central Bank and credit institutions	**39,758**	36,438	3,320	9.1%	30,925	8,833	28.6%
Deposits from customers	**679,455**	698,610	(19,155)	-2.7%	618,313	61,142	9.9%
Derivative instruments and short positions	**6,936**	8,406	(1,470)	-17.5%	6,219	717	11.5%
Debt issued and other borrowed funds	**387,274**	324,752	62,522	19.3%	306,381	80,893	26.4%
Subordinated loans	**27,194**	26,798	396	1.5%	22,674	4,520	19.9%
Tax liabilities	**5,450**	7,137	(1,687)	-23.6%	7,853	(2,403)	-30.6%
Other liabilities	**11,920**	44,074	(32,154)	-73.0%	27,063	(15,143)	-56.0%
Total Liabilities	**1,157,987**	1,146,215	11,772	1.0%	1,019,428	138,559	13.6%
Total Equity	**186,204**	182,509	3,695	2.0%	180,062	6,142	3.4%
Total Liabilities and Equity	**1,344,191**	1,328,724	15,467	1.2%	1,199,490	144,701	12.1%
Key ratios							
Customer loans to customer deposits ratio	**148.2%**	138.9%			145.5%		
REA/total assets	**69.4%**	70.9%			73.7%		
Liquidity coverage ratio (LCR)	**196%**	136%			155%		
Net stable funding ratio (NSFR)	**123%**	113%			119%		
Total capital ratio	**23.0%**	22.2%			22.4%		
Tier 1 capital ratio	**20.1%**	19.4%			19.9%		
Leverage ratio	**13.6%**	13.4%			14.2%		

Growth in customer deposits YoY

- Deposits from customers fell by 2.7% in the quarter but grew 9.9% from YE19. The ratio of customer loans to customer deposits rose to 148.2% at the end of the year. Deposits from retail and corporations are the Bank's main source of funding, comprising 42% of the Bank's total funding sources and 78% of the Bank's total deposit base at year end. Stable deposits are increasing from YE19, up 12% from retail customers and corporations and up 7% from financial institutions and pension funds. All deposit concentration levels are monitored closely, with concentration falling slightly during the year.

- Other liabilities decreased between years due to less volume of unsettled transactions at the end of the period.

- Debt issued and borrowed funds increased during the year as the Bank continued to build on its main long-term funding sources by issuing covered bonds and senior unsecured bonds.

- The Bank held seven covered bond auctions during 2020, issuing a total of ISK 26bn by tapping three outstanding bonds as well as issuing a new bond ISLA CB 27. Issuance in the fourth quarter amounted to ISK 18bn, net of maturities. The issuance of covered bonds is to fund the Bank's mortgage portfolio and furthermore to diversify and optimise the Bank's funding base.

- In November, the Bank issued its first bonds in a sustainable format and the first sustainable bond by an Icelandic bank. Having just signed its Sustainable Financing Framework, the Bank approached investors with a 3-year, EUR 300 million benchmark bond through lead managers ABN Amro, Barclays, Goldman Sachs and UBS. Demand for the transaction proved to be very strong with the order book nearly reaching a 4x oversubscription. The resulting issue was priced at mid-swaps +100 basis points and placed with investors across Europe. This transaction was swiftly followed by a green bond, this time an ISK 2.7bn 5-year senior issue in the local market which was the first green bond issued by an Icelandic bank. The proceeds will be allocated to green, blue (sustainable fisheries) and red (social projects) over the course of the year ahead.

- Due to successful capital market transactions and growing deposit base the Bank's liquidity ratios strengthened during the year. The Group's total liquidity coverage ratio (LCR) was 196% (194% for the parent) increasing from 155% at YE19. 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 463% at end of 2020 from 325% at YE19 and LCR in ISK was 95% at year-end 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 total net stable funding ratio (NSFR) was 123% at period end compared with 119% at YE19 and the NSFR in foreign currencies was 179% compared with 156% at YE19.

- 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 strengthened during the year and are well above regulatory requirements

- Total equity amounted to ISK 186bn at the end of 2020, compared to ISK 180bn at YE19. Thereof, ISK 1.5bn 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 17% of REA.

- In March 2020 the Central Bank of Iceland lowered the countercyclical capital buffer from 2.0% to 0% due to the economic uncertainty caused by the COVID-19 pandemic. This lowered the Bank's overall capital requirement from 19.0% to 17.0%. The Bank's 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%.

- 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 year, the Bank's total capital ratio was 23.0% 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 20.1% at the end of December 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 5.0bn. The depreciation of the ISK increased the value of the Tier 2 subordinated bonds, increasing the capital base even further.

- Íslandsbanki uses the standardised method to calculate its risk exposure amount (REA), which amounted to ISK 934bn at the end of December 2020 compared to ISK 885bn at year-end 2019. REA amounts to 69% of total assets at year-end 2020 compared to 74% 2019. The large increase in mortgage lending lowered the ratio of REA total assets along with the SME supporting factor that was implemented in Iceland on 1 January 2020, resulting in an ISK 14bn deduction in the risk exposure amount at the end of December 2020. REA in total increased due to growth in loans to customers.

- The leverage ratio was 13.6% at the end of year compared to 14.2% at YE19, indicating low leverage.

- The Board of Directors proposes that ISK 3.4 billion will be paid in dividends to shareholders, which is 50% of profits in 2020 and is in line with the Bank's policy of paying dividends of 40-50% of the profit of the year. The Board may convene a special shareholders' meeting later in the year to propose payment of additional dividends if the Bank's accumulated capital reserves are considered to exceed its long-term capital requirements

Strictly monitored imbalances

- The Bank is exposed to inflation risk because CPI-linked assets exceed CPI-linked liabilities. At the end of December 2020, the Bank's consolidated net inflation (CPI) imbalance amounted to ISK 26.2bn, compared to ISK 20.7bn 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 5.1bn (2.4% of the total capital base) at the end of 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 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 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 11 February at 09.30 AM (GMT)

The Bank will host an investor call in English at 09.30 AM (GMT) on Thursday, 11 February. 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 sending email to: ir@islandsbanki.is. Dial-in details and investor material will be sent out prior to the call.

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

Financial calendar

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

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.