

1H2019



# Íslandsbanki Factbook

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## Contents

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<u>Investor relations information</u>	Page 3
<b>Overview</b>	
<u>Key performance indicators</u>	4
<u>Income statement</u>	5
<u>Balance sheet</u>	6
<u>Net interest income</u>	7
<u>Net fee &amp; commissions</u>	8
<u>Loans to customers</u>	9
<u>Capital and risk exposure amount</u>	10
<b>9 Quarters review</b>	
<u>Key performance indicators</u>	11
<u>Income statement</u>	12
<u>Balance sheet</u>	13
<u>Net interest income</u>	14
<u>Net fee &amp; commissions</u>	15
<u>Loans to customers</u>	16
<u>Capital and risk exposure amount</u>	17
<u>Macroeconomics</u>	18
<u>Other information</u>	19
<u>Financial targets</u>	20
<u>Ratings</u>	21
<u>Disclaimer</u>	22

## Investor relations

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### IR contact

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Gunnar Sveinn Magnússon  
Head of Investor Relations

Phone: +354 440 4665  
Email: [ir@islandsbanki.is](mailto:ir@islandsbanki.is)

Investor relations web-site  
<https://www.islandsbanki.is/en/landing/about/investor-relations>

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#### Investor call in English at 9:00 AM (GMT) on Thursday 1 August 2019

The Bank will host an investor call in English at 9.00 GMT on Thursday, 1 August.  
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 an e-mail to: [ir@islandsbanki.is](mailto:ir@islandsbanki.is)  
Dial-in details and presentations will be sent out to registered participants prior to the call.

#### Market participants meeting in Icelandic at 10.30 GMT on Thursday 1 August 2019

A meeting with market participants in Icelandic will take place on 1 August.  
The presentation will take place at the Islandsbanki headquarters, Hagasmári 3, 9 floor, 201 Kópavogur.  
Registration to the meeting is required.  
Please register by sending an e-mail to: [ir@islandsbanki.is](mailto:ir@islandsbanki.is)

#### Further information

All materials relating to the Bank's financial results, together with information on the financial calendar and silent periods, can be found here: <https://www.islandsbanki.is/en/landing/about/investor-relations>

#### Financial calendar

The Bank plans to publish its annual and interim statements on the following dates:

Q3/2019 results — 30 October 2019  
Q4/Annual 2019 results — 12 February 2020  
Annual General Meeting — 19 March 2020  
Q1/2020 results — 6 May 2020  
Q2/2020 results — 29 July 2020  
Q3/2020 results — 28 October 2020

Please note that these dates are subject to change.

## Key performance indicators - 5 years

ISK million	1H19	2018	2017	2016	2015
<b>Profitability</b>					
Return on equity (after tax)	5.4%	6.1%	7.5%	10.2%	10.8%
ROE 16% CET1 (regular operations)	7.4%	8.0%	9.9%	10.3%	11.9%
Return on assets	0.8%	1.0%	1.3%	1.9%	2.1%
Earnings per share	0.50	1.01	1.10	1.40	1.87
Core income / total operating income*	0.96	0.98	0.99	0.86	0.92
<b>Net interest margin</b>					
Net interest margin on total assets	2.8%	2.9%	2.9%	3.1%	2.9%
<b>Efficiency</b>					
Cost-to-income ratio**	62.0%	66.3%	62.5%	56.9%	56.2%
Number of FTEs at period end - Consolidated***	1,053	1,074	1,042	1,075	1,184
Number of FTEs at period end - Parent***	806	834	860	910	919
Number of branches at period end	14	14	14	15	17
<b>Assets</b>					
Loans to customers	894,446	846,599	755,175	687,840	665,711
LTV on mortgages to individuals	61.0%	61.0%	63.3%	67.2%	69.2%
Risk exposure amount / Total assets	74.1%	74.8%	74.9%	67.2%	66.9%
<b>Financial strength</b>					
Equity as % of total assets	14.3%	15.6%	17.5%	17.1%	19.3%
<b>Liquidity</b>					
Liquidity coverage ratio (LCR) - All currencies	185%	172%	142%	200%	143%
Liquidity coverage ratio (LCR) - Foreign currencies	456%	544%	155%	347%	467%
Net stable funding ratio (NSFR) - All currencies	117%	114%	117%	123%	120%
Net stable funding ratio (NSFR) - Foreign currencies	179%	149%	122%	144%	141%
Term deposits % of total deposits	28.2%	27.1%	29.4%	35.0%	39.0%
Deposit-to-loan ratio	65.4%	66.9%	74.0%	84.9%	88.3%
Customer deposits-to-customer loans ratio	68.9%	68.4%	75.1%	86.4%	89.1%
<b>Capital</b>					
CET1 ratio	18.8%	20.3%	22.6%	24.9%	28.3%
Tier 2 ratio	2.6%	1.9%	1.5%	0.3%	1.8%
Capital adequacy ratio	21.4%	22.2%	24.1%	25.2%	30.1%
Leverage ratio	13.4%	14.6%	16.2%	16.0%	18.1%
Risk exposure amount	911,784	845,949	775,492	704,177	699,693

\* Core income is defined as net interest income plus net fee & commission income

\*\* Cost income ratio excludes bank tax and expenditure deemed as one-off

\*\*\* Numbers exclude seasonal employees

## Income statement - 5 year summary

ISK million	1H19	2018	2017	2016	2015
Interest income	32,570	61,675	56,767	60,503	53,414
Interest expense	(15,792)	(29,738)	(26,768)	(28,701)	(25,404)
Net interest income	16,778	31,937	29,999	31,802	28,010
Fee and commission income	10,357	19,853	20,855	21,818	20,737
Fee and commission expense	(3,734)	(7,626)	(7,105)	(6,095)	(7,567)
Net fee and commission income	6,623	12,227	13,750	13,723	13,170
Net financial income (expense)	621	(962)	(715)	6,096	3,881
Net foreign exchange gain (loss)	(101)	1	527	443	(1,490)
Other operating income	1,173	1,784	628	652	1,102
Other net operating income	1,693	823	440	7,191	3,493
<b>Total operating income</b>	<b>25,094</b>	<b>44,987</b>	<b>44,189</b>	<b>52,716</b>	<b>44,673</b>
Administrative expenses	(14,363)	(27,650)	(26,968)	(27,121)	(23,760)
Contribution to the Depositors' and Investors' Guarantee Fund	(510)	(1,173)	(1,083)	(1,063)	(1,067)
Bank tax	(1,814)	(3,281)	(2,892)	(2,843)	(2,878)
<b>Total operating expenses</b>	<b>(16,687)</b>	<b>(32,104)</b>	<b>(30,943)</b>	<b>(31,027)</b>	<b>(27,705)</b>
Profit before net impairment on financial assets	8,407	12,883	13,246	21,689	16,968
Net impairment on financial assets	(1,848)	1,584	1,556	735	8,135
<b>Profit before tax</b>	<b>6,559</b>	<b>14,467</b>	<b>14,802</b>	<b>22,424</b>	<b>25,103</b>
Income tax expense	(1,779)	(4,734)	(4,151)	(5,205)	(5,851)
<b>Profit for the year from continuing operations</b>	<b>4,780</b>	<b>9,733</b>	<b>10,651</b>	<b>17,219</b>	<b>19,252</b>
Discontinued operations, net of income tax	(71)	912	2,575	2,939	1,326
<b>Profit for the year</b>	<b>4,709</b>	<b>10,645</b>	<b>13,226</b>	<b>20,158</b>	<b>20,578</b>
Basic earnings per share from profit for the year	0.50	1.01	1.10	1.40	1.87

## Balance sheet - 5 year summary

ISK million	30/06/2019	2018	2017	2016	2015
Cash and balances with Central Bank	122,794	135,056	189,045	275,453	216,760
Bonds and debt instruments	77,033	69,415	27,090	31,256	78,606
Shares and equity instruments	19,176	13,074	10,177	10,626	18,320
Derivatives	5,843	4,550	2,896	1,953	1,981
Loans to credit institutions	77,387	41,577	26,617	17,645	35,534
Loans to customers	894,446	846,599	755,175	687,840	665,711
Investments in associates	687	682	704	450	716
Property and equipment	9,504	5,271	7,128	6,211	7,344
Intangible assets	4,882	5,002	4,231	2,672	1,331
Other assets	18,224	9,177	12,759	13,448	19,466
<b>Total Assets</b>	<b>1,229,976</b>	<b>1,130,403</b>	<b>1,035,822</b>	<b>1,047,554</b>	<b>1,045,769</b>
Deposits from Central Bank and credit institutions	19,830	15,619	11,189	4,922	25,631
Deposits from customers	615,869	578,959	567,029	594,187	593,245
Derivative instruments and short positions	6,903	5,521	5,492	4,798	6,981
Debt issued and other borrowed funds	337,473	300,976	217,748	212,468	150,308
Subordinated loans	23,431	16,216	9,505	-	19,517
Tax liabilities	8,674	7,150	7,787	8,473	8,358
Other liabilities	42,012	29,649	36,027	43,781	39,502
<b>Total Liabilities</b>	<b>1,054,192</b>	<b>954,090</b>	<b>854,777</b>	<b>868,629</b>	<b>843,542</b>
Share capital	10,000	10,000	10,000	10,000	10,000
Share premium	55,000	55,000	55,000	55,000	55,000
Reserves	6,816	6,499	6,179	4,139	6,002
Retained earnings	101,534	102,496	107,387	105,563	127,288
Total equity attributable to the equity holders of Íslandsbanki hf.	173,350	173,995	178,566	174,702	198,290
Non-controlling interests	2,434	2,318	2,479	4,223	3,937
<b>Total Equity</b>	<b>175,784</b>	<b>176,313</b>	<b>181,045</b>	<b>178,925</b>	<b>202,227</b>
<b>Total Liabilities and Equity</b>	<b>1,229,976</b>	<b>1,130,403</b>	<b>1,035,822</b>	<b>1,047,554</b>	<b>1,045,769</b>

## Net interest income - 5 year summary

ISK million	30/06/2019	2018	2017	2016	2015
<b>Interest income:</b>					
Cash and balances with Central Bank	2,637	7,279	10,541	11,507	7,394
Loans at amortised cost	28,612	52,462	45,162	47,084	43,303
Financial assets mandatorily at fair value through profit or loss	1,281	1,825	-	-	-
Financial assets designated at fair value through profit or loss	-	-	50	1,672	1,558
Financial assets held for trading	-	-	879	99	980
Other assets	40	109	135	141	179
<b>Total interest income</b>	<b>32,570</b>	<b>61,675</b>	<b>56,767</b>	<b>60,503</b>	<b>53,414</b>
<b>Interest expense:</b>					
Deposits from credit institutions and Central Bank	(229)	(409)	(170)	(275)	(517)
Deposits from customers	(8,703)	(16,539)	(17,461)	(20,382)	(18,240)
Debt issued and other borrowed funds at fair value through profit and loss	(374)	(963)	-	-	-
Debt issued and other borrowed funds at amortised cost	(5,138)	(9,035)	(8,107)	(7,384)	(5,427)
Subordinated loans	(173)	(198)	(14)	(627)	(1,015)
Other interest expense	(1,175)	(2,594)	(1,016)	(33)	(205)
<b>Total interest expense</b>	<b>(15,792)</b>	<b>(29,738)</b>	<b>(26,768)</b>	<b>(28,701)</b>	<b>(25,404)</b>
<b>Net interest income</b>	<b>16,778</b>	<b>31,937</b>	<b>29,999</b>	<b>31,802</b>	<b>28,010</b>
Interest spread (as the ratio of net interest income to the average carrying amount of total assets)	2.8%	2.9%	2.9%	3.1%	2.9%

## Net fee & commission income - 5 year summary

ISK million	30/06/2019	2018	2017	2016	2015
<b>Fee and commission income:</b>					
Asset management	1,123	2,116	1,964	1,757	1,778
Investment banking and brokerage	1,144	2,303	2,280	1,987	2,132
Payment processing	6,367	12,065	13,094	14,705	13,664
Loans and guarantees	754	1,467	1,427	1,449	1,498
Other fees and commissions income	969	1,902	2,090	1,920	1,665
Total fees and commission income	10,357	19,853	20,855	21,818	20,737
<b>Commission expenses:</b>					
Brokerage	(144)	(300)	(128)	(109)	(121)
Clearing and settlement	(3,579)	(7,302)	(6,956)	(7,963)	(7,415)
Other commission expenses	(11)	(24)	(21)	(23)	(31)
Total commission expenses	(3,734)	(7,626)	(7,105)	(8,095)	(7,567)
<b>Net fee and commission income</b>	<b>6,623</b>	<b>12,227</b>	<b>13,750</b>	<b>13,723</b>	<b>13,170</b>



## Loans to customers - 5 year summary

ISK million	30/06/2019	2018	2017	2016	2015
Individuals	334,749	319,390	299,350	286,177	272,610
Commerce and services	135,041	124,242	112,144	97,943	89,781
Construction	33,445	29,095	24,797	27,878	23,013
Energy	6,934	6,858	7,109	7,216	3,737
Financial services	23	1,704	26	85	105
Industrial and transportation	81,784	79,824	69,961	63,090	60,726
Investment companies	26,052	23,799	19,726	14,402	19,362
Public sector and non-profit organisations	11,453	12,087	11,871	12,835	13,878
Real estate	153,077	142,885	127,067	100,020	99,094
Seafood	111,888	106,715	84,853	80,243	85,872
<b>Loans to customers before collective impairment allowance</b>	<b>894,446</b>	<b>846,599</b>	<b>756,904</b>	<b>689,889</b>	<b>668,178</b>
Collective impairment allowance	-	-	(1,729)	(2,049)	(2,467)
<b>Loans to customers</b>	<b>894,446</b>	<b>846,599</b>	<b>755,175</b>	<b>687,840</b>	<b>665,711</b>

### Loans to customers - by product

Overdrafts	51,836	48,581	45,650	45,383	38,654
Credit cards	17,492	18,242	18,800	19,188	18,166
Mortgages	267,762	249,296	225,765	211,233	197,307
Capital leases	50,588	45,116	40,765	40,415	39,161
Other loans	506,768	485,364	425,924	373,670	374,891
<b>Loans to customers before collective impairment allowance</b>	<b>894,446</b>	<b>846,599</b>	<b>756,904</b>	<b>689,889</b>	<b>668,178</b>
Collective impairment allowance	-	-	(1,729)	(2,049)	(2,467)
<b>Loans to customers</b>	<b>894,446</b>	<b>846,599</b>	<b>755,175</b>	<b>687,840</b>	<b>665,711</b>

## Capital and risk exposure amount - 5 year summary

ISK million	30/06/2019	2018	2017	2016	2015
Ordinary share capital	10,000	10,000	10,000	10,000	10,000
Share premium	55,000	55,000	55,000	55,000	55,000
Reserves	6,816	6,499	6,179	4,139	6,002
Retained earnings	101,534	102,496	107,387	105,563	127,288
Non-controlling interests	2,434	2,318	2,479	4,223	3,937
Fair value changes due to own credit standing	760	376	-	-	-
Tax assets	(394)	(215)	(4)	(4)	-
Intangible assets	(4,882)	(5,002)	(4,231)	(2,672)	(1,331)
Other regulatory adjustments	-	-	(1,285)	(924)	(2,779)
<b>Total CET1 capital</b>	<b>171,268</b>	<b>171,472</b>	<b>175,525</b>	<b>175,325</b>	<b>198,117</b>
Tier 2 capital					
Qualifying subordinated liabilities	23,431	16,216	9,505	-	19,517
Adjustment to eligible capital liabilities	-	-	-	-	(3,903)
Other regulatory adjustments	-	-	-	-	(2,779)
General credit risk adjustments	-	-	1,729	2,049	-
<b>Total capital base</b>	<b>194,699</b>	<b>187,688</b>	<b>186,759</b>	<b>177,374</b>	<b>210,952</b>
Risk exposure amount					
- due to credit risk	809,840	750,801	682,525	615,465	606,591
- due to market risk:	13,988	7,622	8,102	7,243	16,607
Market risk, trading book	10,072	6,649	6,709	6,418	9,931
Currency risk FX	3,916	973	1,393	825	6,676
- due to credit valuation adjustment	2,815	2,385	1,534	-	-
- due to operational risk	85,141	85,141	83,331	81,469	76,495
<b>Total risk exposure amount</b>	<b>911,784</b>	<b>845,949</b>	<b>775,492</b>	<b>704,177</b>	<b>699,693</b>
<b>Capital ratios</b>					
CET1 ratio	18.8%	20.3%	22.6%	24.9%	28.3%
Tier 2 ratio	2.6%	1.9%	1.5%	0.3%	1.8%
Total capital ratio	21.4%	22.2%	24.1%	25.2%	30.1%
Leverage ratio	13.4%	14.6%	16.2%	16.0%	18.1%

**Key performance indicators - 9 quarters**  
ISK million

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
<b>Profitability</b>									
Return on equity (after tax)	4.9%	5.9%	3.2%	4.7%	11.6%	4.8%	7.0%	4.7%	11.3%
ROE 16% CET1 (regular operations)	7.6%	6.7%	5.3%	8.1%	11.1%	8.0%	10.3%	7.9%	11.4%
Return on assets	0.7%	0.9%	0.5%	0.7%	1.8%	0.8%	1.2%	0.8%	1.9%
Earnings per share	0.24	0.26	0.15	0.21	0.51	0.15	0.40	0.19	0.33
<b>Net interest margin</b>									
Net interest margin on total assets	2.80%	2.80%	3.0%	3.0%	2.8%	2.9%	2.8%	2.8%	3.0%
<b>Efficiency</b>									
Cost-to-income ratio*	61.4%	62.6%	68.5%	62.1%	65.0%	69.8%	69.2%	62.7%	58.3%
Number of FTEs at period end - Consolidated**	1,053	1,078	1,074	1,075	1,013	1,027	1,042	1,066	1,071
Number of FTEs at period end - Parent co.**	806	834	834	835	841	855	860	881	874
<b>Asset quality</b>									
Loans to customers	894,446	873,530	846,599	835,582	799,938	776,149	755,175	741,380	721,820
LTV on mortgages to individuals	61.0%	61.0%	61.0%	61.4%	60.8%	63.2%	63.3%	62.0%	60.8%
Risk exposure amount / Total assets	74.1%	73.6%	74.8%	73.6%	73.7%	73.1%	74.9%	71.2%	70.3%
<b>Financial strength</b>									
Equity as % of total assets	14.3%	14.4%	15.6%	15.0%	15.5%	15.3%	17.5%	16.5%	16.8%
<b>Liquidity</b>									
Liquidity coverage ratio (LCR)	185%	158%	172%	164%	154%	158%	142%	183%	171%
Liquidity coverage ratio (LCR) - Foreign currencies	456%	453%	544%	270%	218%	359%	155%	239%	303%
Net stable funding ratio (NSFR) - All currencies	117%	115%	114%	117%	117%	116%	117%	115%	119%
Net stable funding ratio (NSFR) - Foreign currencies	179%	166%	149%	159%	147%	140%	122%	119%	138%
Term deposits % of total deposits	28.2%	28.0%	27.1%	26.0%	27.6%	26.9%	29.4%	34.0%	35.0%
Deposit-to-loan ratio	65.4%	66.9%	66.9%	69.2%	69.1%	71.5%	74.0%	76.9%	78.0%
Customer deposits-to-customer loans ratio	68.9%	70.0%	68.4%	72.8%	72.3%	74.1%	75.1%	79.2%	79.3%
<b>Capital</b>									
CET 1 ratio	18.8%	19.1%	20.3%	19.9%	20.5%	20.3%	22.6%	22.5%	23.3%
Tier 2 ratio	2.6%	1.8%	1.9%	1.8%	1.1%	1.1%	1.5%	0.2%	0.2%
Capital adequacy ratio	21.4%	20.9%	22.2%	21.7%	21.6%	21.4%	24.1%	22.7%	23.5%
Leverage ratio	13.4%	13.5%	14.6%	14.0%	14.5%	14.3%	16.2%	15.3%	15.7%
Risk exposure amount	911,784	886,901	845,949	855,152	819,349	795,923	775,492	767,536	736,310

\* Cost income ratio excludes bank tax and expenditure deemed as one-off.

\*\* Numbers exclude seasonal employees

**Income statement - 9 quarter summary**  
ISK million

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Net interest income	8,626	8,152	8,294	8,301	7,602	7,740	7,338	7,450	7,814
Net fee and commission income	3,406	3,217	3,478	2,939	3,032	2,778	3,632	3,305	3,543
Net financial income (expense)	173	448	(637)	(420)	378	(283)	260	(1,084)	97
Net foreign exchange (loss) gain	(71)	(30)	76	(8)	(57)	(10)	81	76	169
Other operating income	29	1,144	120	64	1,587	13	122	291	55
Other net operating income	131	1,562	(441)	(364)	1,908	(280)	463	(717)	321
<b>Total operating income</b>	<b>12,163</b>	<b>12,931</b>	<b>11,331</b>	<b>10,876</b>	<b>12,542</b>	<b>10,238</b>	<b>11,433</b>	<b>10,038</b>	<b>11,678</b>
Administrative expenses	(7,273)	(7,090)	(7,465)	(6,463)	(6,872)	(6,850)	(7,655)	(6,047)	(6,848)
Contribution to the Depositors' and Investors' Guarantee Fund	(198)	(312)	(299)	(295)	(287)	(292)	(288)	(280)	(262)
Bank tax	(934)	(880)	(740)	(944)	(812)	(785)	(614)	(806)	(752)
<b>Total operating expenses</b>	<b>(8,405)</b>	<b>(8,282)</b>	<b>(8,504)</b>	<b>(7,702)</b>	<b>(7,971)</b>	<b>(7,927)</b>	<b>(8,557)</b>	<b>(7,133)</b>	<b>(7,862)</b>
<b>Profit before net impairment on financial assets</b>	<b>3,758</b>	<b>4,649</b>	<b>2,827</b>	<b>3,174</b>	<b>4,571</b>	<b>2,311</b>	<b>2,876</b>	<b>2,905</b>	<b>3,816</b>
Net impairment on financial assets	(929)	(919)	(297)	(53)	1,846	88	(969)	147	200
<b>Profit before tax</b>	<b>2,829</b>	<b>3,730</b>	<b>2,530</b>	<b>3,121</b>	<b>6,417</b>	<b>2,399</b>	<b>1,907</b>	<b>3,052</b>	<b>4,016</b>
Income tax expense	(626)	(1,153)	(1,118)	(1,136)	(1,465)	(1,015)	(816)	(1,072)	(1,133)
<b>Profit for the period from continuing operations</b>	<b>2,203</b>	<b>2,577</b>	<b>1,412</b>	<b>1,985</b>	<b>4,952</b>	<b>1,384</b>	<b>1,091</b>	<b>1,980</b>	<b>2,883</b>
Discontinued operations, net of income tax	(83)	12	(8)	126	81	713	83	93	2,114
<b>Profit for the period</b>	<b>2,120</b>	<b>2,589</b>	<b>1,404</b>	<b>2,111</b>	<b>5,033</b>	<b>2,097</b>	<b>1,174</b>	<b>2,073</b>	<b>4,997</b>

**Balance sheet - 9 quarter summary**  
ISK million

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2019	2019	2018	2018	2018	2018	2017	2017	2017
Cash and balances with Central Bank	122,794	129,039	135,056	156,251	166,194	177,029	189,045	214,254	227,189
Bonds and debt instruments	77,033	80,809	69,415	63,324	48,603	49,140	27,090	42,871	33,301
Shares and equity instruments	19,176	15,268	13,074	13,995	13,581	10,208	10,177	11,420	11,936
Derivatives	5,843	4,837	4,550	3,479	3,209	4,673	2,896	3,266	3,942
Loans to credit institutions	77,387	65,145	41,577	67,047	59,858	47,220	26,617	37,874	23,963
Loans to customers	894,446	873,530	846,599	835,582	799,938	776,149	755,175	741,380	721,820
Investments in associates	687	682	682	533	614	672	704	669	705
Property and equipment	9,504	9,642	5,271	5,079	5,058	7,025	7,128	7,189	6,663
Intangible assets	4,882	4,868	5,002	4,910	4,774	4,412	4,231	4,077	3,644
Other assets	18,224	21,408	9,177	12,439	9,913	11,780	12,759	14,623	14,038
<b>Total Assets</b>	<b>1,229,976</b>	<b>1,205,228</b>	<b>1,130,403</b>	<b>1,162,639</b>	<b>1,111,742</b>	<b>1,088,308</b>	<b>1,035,822</b>	<b>1,077,623</b>	<b>1,047,221</b>
Deposits from Central Bank and credit institutions	19,830	16,404	15,619	15,530	15,391	13,563	11,189	12,684	9,362
Deposits from customers	615,869	611,303	578,959	608,646	578,414	575,196	567,029	586,922	572,407
Derivative instruments and short positions	6,903	7,325	5,521	5,585	7,075	8,104	5,492	5,167	7,344
Debt issued and other borrowed funds	337,473	325,035	300,976	297,318	288,360	269,255	217,748	240,259	227,274
Subordinated loans	23,431	16,468	16,216	15,531	8,872	8,838	9,505	-	-
Tax liabilities	8,674	8,303	7,150	10,311	8,925	7,908	7,787	13,143	11,581
Other liabilities	42,012	46,769	29,649	35,088	32,523	39,107	36,027	41,629	43,325
<b>Total Liabilities</b>	<b>1,054,192</b>	<b>1,031,607</b>	<b>954,090</b>	<b>988,009</b>	<b>939,560</b>	<b>921,971</b>	<b>854,777</b>	<b>899,804</b>	<b>871,293</b>
Share capital	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Share premium	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
Reserves	6,816	6,776	6,499	5,891	5,598	4,991	6,179	6,174	5,712
Retained earnings	101,534	99,401	102,496	101,280	99,159	93,930	107,387	104,144	102,436
Total equity attributable to the equity holders of Íslandsbanki hf.	173,350	171,177	173,995	172,171	169,757	163,921	178,566	175,318	173,148
Non-controlling interests	2,434	2,444	2,318	2,459	2,425	2,416	2,479	2,501	2,780
<b>Total Equity</b>	<b>175,784</b>	<b>173,621</b>	<b>176,313</b>	<b>174,630</b>	<b>172,182</b>	<b>166,337</b>	<b>181,045</b>	<b>177,819</b>	<b>175,928</b>
<b>Total Liabilities and Equity</b>	<b>1,229,976</b>	<b>1,205,228</b>	<b>1,130,403</b>	<b>1,162,639</b>	<b>1,111,742</b>	<b>1,088,308</b>	<b>1,035,822</b>	<b>1,077,623</b>	<b>1,047,221</b>

**Net interest income - 9 quarter summary**  
ISK million

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
<b>Interest income:</b>									
Cash and balances with Central Bank	1,271	1,366	1,603	1,629	1,886	2,161	2,285	2,543	2,724
Loans at amortised cost	15,339	13,273	14,521	13,565	12,023	12,353	11,455	10,710	12,183
Financial assets mandatorily at fair value through profit or loss	713	568	498	500	396	431	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	11	6	13
Financial assets held for trading	-	-	-	-	-	-	956	117	(186)
Other assets	20	20	9	13	37	50	35	30	33
<b>Total interest income</b>	<b>17,343</b>	<b>15,227</b>	<b>16,631</b>	<b>15,707</b>	<b>14,342</b>	<b>14,995</b>	<b>14,742</b>	<b>13,408</b>	<b>14,767</b>
<b>Interest expense:</b>									
Deposits from credit institutions and Central Bank	(122)	(107)	(106)	(97)	(109)	(97)	(52)	(37)	(64)
Deposits from customers	(4,660)	(4,043)	(4,389)	(4,192)	(3,863)	(4,095)	(3,921)	(4,035)	(4,797)
Debt issued and other borrowed funds at fair value through profit and loss	(194)	(180)	(250)	(133)	(292)	(288)	-	-	-
Debt issued and other borrowed funds at amortised cost	(2,915)	(2,223)	(2,676)	(2,399)	(1,910)	(2,050)	(2,417)	(1,881)	(2,084)
Subordinated loans	(93)	(80)	(109)	(18)	(37)	(34)	(14)	-	-
Other interest expense	(733)	(442)	(807)	(567)	(529)	(691)	(1,000)	(3)	(8)
<b>Total interest expense</b>	<b>(8,717)</b>	<b>(7,075)</b>	<b>(8,337)</b>	<b>(7,406)</b>	<b>(6,740)</b>	<b>(7,255)</b>	<b>(7,404)</b>	<b>(5,956)</b>	<b>(6,953)</b>
<b>Net interest income</b>	<b>8,626</b>	<b>8,152</b>	<b>8,294</b>	<b>8,301</b>	<b>7,602</b>	<b>7,740</b>	<b>7,338</b>	<b>7,450</b>	<b>7,814</b>

**Net fee and commission - 9 quarter summary**  
ISK million

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
<b>Fee and commission income:</b>									
Asset management	575	548	587	498	556	475	526	436	529
Investment banking and brokerage	614	530	621	634	552	496	637	566	646
Payment processing	3,397	2,970	3,243	3,186	3,082	2,554	3,040	3,296	3,342
Loans and guarantees	376	378	336	362	429	340	339	359	377
Other fee and commission income	384	585	786	364	344	408	670	460	503
<b>Total fee and commission income</b>	<b>5,346</b>	<b>5,011</b>	<b>5,573</b>	<b>5,044</b>	<b>4,963</b>	<b>4,273</b>	<b>5,212</b>	<b>5,117</b>	<b>5,397</b>
<b>Commission expenses:</b>									
Brokerage	(75)	(69)	(91)	(79)	(62)	(68)	(31)	(33)	(31)
Clearing and settlement	(1,876)	(1,703)	(1,988)	(2,025)	(1,865)	(1,424)	(1,544)	(1,773)	(1,815)
Other fee and commission expense	11	(22)	(16)	(1)	(4)	(3)	(5)	(6)	(8)
<b>Total fee and commission expense</b>	<b>(1,940)</b>	<b>(1,794)</b>	<b>(2,095)</b>	<b>(2,105)</b>	<b>(1,931)</b>	<b>(1,495)</b>	<b>(1,580)</b>	<b>(1,812)</b>	<b>(1,854)</b>
<b>Net fee and commission income</b>	<b>3,406</b>	<b>3,217</b>	<b>3,478</b>	<b>2,939</b>	<b>3,032</b>	<b>2,778</b>	<b>3,632</b>	<b>3,305</b>	<b>3,543</b>

**Loans to customers - 9 quarter summary**  
ISK million

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2019	2019	2018	2018	2018	2018	2017	2017	2017
Individuals	334,749	324,245	319,390	314,491	306,376	299,201	299,350	294,508	290,584
Commerce and services	135,041	130,325	124,242	123,624	126,211	118,378	112,144	114,304	107,153
Construction	33,445	31,466	29,095	30,913	29,079	26,856	24,797	27,641	27,797
Energy	6,934	6,911	6,858	7,407	6,933	7,006	7,109	7,142	7,152
Financial services	23	2,575	1,704	220	179	175	26	29	42
Industrial and transportation	81,784	80,986	79,824	84,849	74,703	74,372	69,961	68,568	68,413
Investment companies	26,052	24,657	23,799	19,532	16,900	20,627	19,726	14,642	17,221
Public sector and non-profit organisations	11,453	11,528	12,087	11,819	14,208	14,731	11,871	12,104	12,604
Real estate	153,077	148,765	142,885	136,787	134,156	130,993	127,067	118,292	112,687
Seafood	111,888	112,072	106,715	105,940	91,193	83,810	84,853	85,894	80,054
<b>Loans to customers before collective impairment allowance</b>	<b>894,446</b>	<b>873,530</b>	<b>846,599</b>	<b>835,582</b>	<b>799,938</b>	<b>776,149</b>	<b>756,904</b>	<b>743,124</b>	<b>723,707</b>
Collective impairment allowance	-	-	-	-	-	-	(1,729)	(1,744)	(1,887)
<b>Loans to customers</b>	<b>894,446</b>	<b>873,530</b>	<b>846,599</b>	<b>835,582</b>	<b>799,938</b>	<b>776,149</b>	<b>755,175</b>	<b>741,380</b>	<b>721,820</b>

**Loans to customers - by product**

Overdrafts	51,836	53,120	48,581	48,239	49,417	53,431	45,650	43,978	42,907
Credit cards	17,492	16,253	18,242	17,764	17,710	16,467	18,800	17,423	18,441
Mortgages	267,762	255,579	249,296	243,024	236,158	229,985	225,765	221,743	218,478
Capital leases	50,588	47,309	45,116	42,114	44,474	41,889	40,765	41,249	43,642
Other loans	506,768	501,269	485,364	484,441	452,179	434,377	425,924	418,731	400,239
<b>Loans to customers before collective impairment allowance</b>	<b>894,446</b>	<b>873,530</b>	<b>846,599</b>	<b>835,582</b>	<b>799,938</b>	<b>776,149</b>	<b>756,904</b>	<b>743,124</b>	<b>723,707</b>
Collective impairment allowance	-	-	-	-	-	-	(1,729)	(1,744)	(1,887)
<b>Loans to customers</b>	<b>894,446</b>	<b>873,530</b>	<b>846,599</b>	<b>835,582</b>	<b>799,938</b>	<b>776,149</b>	<b>755,175</b>	<b>741,380</b>	<b>721,820</b>



<b>Capital and risk exposure amount</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
<b>ISK million</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
Ordinary share capital	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Share premium	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
Reserves	6,816	6,776	6,499	5,891	5,598	4,991	6,179	6,174	5,712
Retained earnings	101,534	99,401	102,496	101,280	99,159	93,930	107,387	104,144	102,436
Non-controlling interests	2,434	2,444	2,318	2,459	2,425	2,416	2,479	2,501	2,780
Fair value changes due to own credit standing	760	871	376	674	730	1,277	-	-	-
Tax assets	(394)	(292)	(215)	(235)	(374)	(454)	(4)	(5)	(4)
Intangible assets	(4,882)	(4,868)	(5,002)	(4,910)	(4,774)	(4,412)	(4,231)	(4,077)	(3,644)
Other regulatory adjustments	-	-	-	-	-	(1,338)	(1,285)	(1,255)	(1,014)
<b>Total Tier 1 capital</b>	<b>171,268</b>	<b>169,332</b>	<b>171,472</b>	<b>170,159</b>	<b>167,764</b>	<b>161,410</b>	<b>175,525</b>	<b>172,482</b>	<b>171,266</b>
Tier 2 capital									
Qualifying subordinated liabilities	23,431	16,468	16,216	15,531	-	8,838	9,505	-	-
Adjustment to eligible capital liabilities	-	-	-	-	-	-	-	-	-
Other regulatory adjustments	-	-	-	-	8,872	-	-	-	-
General credit risk adjustments	-	-	-	-	-	-	1,729	1,744	1,887
<b>Total regulatory capital</b>	<b>194,699</b>	<b>185,800</b>	<b>187,688</b>	<b>185,690</b>	<b>176,636</b>	<b>170,248</b>	<b>186,759</b>	<b>174,226</b>	<b>173,153</b>
Risk exposure amount									
- due to credit risk	809,840	789,806	750,801	758,774	724,177	701,035	682,525	673,998	645,188
- due to market risk:	13,988	9,877	7,622	10,428	10,055	9,887	8,102	12,069	9,653
Market risk, trading book	10,072	7,843	6,649	7,099	6,251	6,939	6,709	9,724	7,212
Currency risk FX	3,916	2,034	973	1,393	3,804	2,948	1,393	577	668
- due to credit valuation adjustment	2,815	2,077	2,385	2,619	1,786	1,670	1,534	1,768	1,773
- due to operational risk	85,141	85,141	85,141	83,331	83,331	83,331	83,331	81,469	81,469
<b>Total risk exposure amount</b>	<b>911,784</b>	<b>886,901</b>	<b>845,949</b>	<b>855,152</b>	<b>819,349</b>	<b>795,923</b>	<b>775,492</b>	<b>767,536</b>	<b>736,310</b>
<b>Capital ratios</b>									
CET1 ratio	18.8%	19.1%	20.3%	19.9%	20.5%	20.3%	22.6%	22.5%	23.3%
Tier 2 ratio	2.6%	1.8%	1.9%	1.8%	1.1%	1.1%	1.5%	0.2%	0.3%
Total capital ratio	21.4%	20.9%	22.2%	21.7%	21.6%	21.4%	24.1%	22.7%	23.5%

**Macroeconomics - summary**

	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17
<b>YoY change, %</b>								
GDP growth	1.7	4.0	2.5	6.5	5.8	2.0	3.4	4.8
Total investment	-9.4	2.5	-8.2	7.7	7.3	3.4	17.7	9.9
Business investment	-33.6	-13.1	-15.2	6.0	1.1	2.1	11.7	7.5
Residential investment	58.4	4.9	-2.8	31.5	42.1	-7.9	45.3	19.1
Personal consumption	2.8	3.3	5.4	5.1	5.4	6.6	8.1	9.8
Unemployment rate, % of workforce	3.0	2.4	2.2	3.6	2.9	2.6	2.2	3.4
Current account, % of GDP	5.1	0.1	10.2	0.0	1.0	1.1	9.3	1.9
International investment position, % of GDP	21.0	11.7	13.1	7.2	6.3	3.5	2.7	-1.8
Gross general govt. debt, % of GDP		37.7				42.3		52.8
Household debt, gross, % of GDP	76.0	75.5	75.6	74.6	74.7	77.1	76.9	77.0
Corporate debt, gross, % of GDP	87.8	88.1	87.9	85.9	84.1	86.3	85.7	84.2
<b>YoY change, %</b>								
Inflation	3.1	3.3	2.7	2.3	2.5	1.8	1.7	1.7
Residential real estate price index	1.2	2.0	2.7	5.3	10.8	15.1	22.6	19.8
Wages	5.6	6.1	6.1	6.5	7.2	7.1	7.3	6.2
Real wages	2.5	2.8	3.2	4.1	4.7	5.1	5.5	4.9
ISK index, average	179.3	180.3	164.3	160.9	161.2	161.7	163.2	154.7
Central bank policy rate (1W)	4.5	4.5	4.3	4.3	4.3	4.3	4.5	4.5
Long-term nominal yield	5.2	5.4	5.4	5.4	5.0	4.9	5.0	4.8
Long-term real yield	1.4	1.5	1.8	1.8	1.9	1.9	2	2.4

**Other**

<b>Currencies</b>	<b>2Q19</b>	<b>1Q19</b>	<b>4Q18</b>	<b>3Q18</b>	<b>2Q18</b>	<b>1Q18</b>	<b>4Q17</b>	<b>3Q17</b>	<b>2Q17</b>
<b>Currencies</b>									
USD	124.46	122.57	120.41	108.22	103.47	101.11	106.53	105.65	104.94
GBP	157.81	159.72	154.82	141.02	140.68	140.72	137.45	138.26	134.10
EUR	141.70	137.50	120.93	125.84	123.27	124.33	120.54	124.09	115.33
DKK	18.99	18.42	18.41	16.88	16.55	16.70	16.20	16.68	15.51
SEK	13.43	13.22	13.31	12.09	11.93	12.47	12.52	12.99	11.91
CHF	127.69	123.05	120.93	110.04	105.03	106.74	108.43	109.72	106.45

## Financial targets

Medium and long term strategies structured around achieving key financial targets

	Target	1H19	2018	2017	Guidance
<b>ROE regular operations<sup>1</sup></b>	8-10%	7.2%	✓ 8.0%	✓ 9.9%	<ul style="list-style-type: none"> <li>— Based on risk free rate + 4.6% which is considered to be CBI current account rate, currently at 3.5% (average in 2019 = 4.17%)</li> <li>— As the Bank retains substantive liquid assets, interest rate levels in Iceland can have a substantial impact on ROE</li> <li>— The bank tax, excluded from target returns, will have an impact on profitability if kept at current high levels</li> <li>— ROE target will be challenging to reach in the near term in a slowing economy and before a full realisation of the Bank's planned efficiency gains</li> </ul>
<b>Cost/ Income ratio<sup>2</sup></b>	<55%	62.0%	66.3%	62.5%	<ul style="list-style-type: none"> <li>— This is a medium to long term target, CI ratio can be expected to be higher than target in the near term</li> <li>— Headcount and non-headcount related cost control programmes in place</li> <li>— Lower CI on parent company basis than on a consolidated basis (55.4% at 1H19)</li> </ul>
<b>CET1</b>	>16% LT	✓ 18.8%	✓ 20.3%	✓ 22.6%	<ul style="list-style-type: none"> <li>— Current target for CET1 ratio is 14.6% -16.3% based on SREP requirements and management buffer</li> <li>— Long term CET1 target is 16%</li> </ul>
<b>Total capital ratio</b>	> 19.8 – 21.3%	✓ 21.4%	✓ 22.2%	✓ 24.1%	<ul style="list-style-type: none"> <li>— Based on the regulatory SREP requirement with a 50 – 200 bp management buffer</li> <li>— Current SREP requirement is 19.3% including recently increased countercyclical capital buffer</li> </ul>
<b>Dividend payout ratio</b>	40-50%	—%	✓ 50%	✓ 100%	<ul style="list-style-type: none"> <li>— Dividend pay-out ability could be impacted if the bank tax will be kept at current high levels</li> <li>— The BoD agreed to pay out ISK 5.3 billion in dividend for the 2018 financial year which is in line with the Bank's dividend pay out target</li> </ul>

1. Return from regular operations and corresponding ratios on normalized CET1 of 16%, adjusted for risk free interest on excess capital.  
 2. Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / (Total operating income – one-off items).

# Íslandsbanki credit ratings

Ratings affirmed from S&P in mid-2019

## S&P

### BBB+/A-2 Negative Outlook

Press Release 23 July 2019

In July, S&P Global Ratings **affirmed** Íslandsbanki's ratings of **BBB+/A-2** but changed the outlook from **stable to negative** along with three other Icelandic financial institutions. S&P had in October 2017 upgraded the Bank to this rating.

In its press release, S&P refers to Íslandsbanki's **stable domestic market position** and acknowledges the Bank's **success in introducing new digital products and improving its IT infrastructure**, placing it well ahead of many other European banks. S&P also notes the Bank's **exceptional capitalisation, strong liquidity levels and robust asset quality**.

S&P's rationale for **the change to negative outlook** is mostly derived from its view that Iceland's **operating environment will remain challenging**, affected by the 2019 economic recession, declining interest rates, still-high taxation, and stiff competition from pension funds in mortgage lending, and thus contributing to the declining profitability of the Bank.

Íslandsbanki	
	S&P
Long-term	BBB+
Short-term	A-2
Outlook	Negative
Rating action	Jul 19

Icelandic sovereign			
	S&P	FITCH	MOODY'S
Long-term	A	A	A3
Short-term	A-1	F1	-
Outlook	Stable	Stable	Positive
Rating action	Jun 18	Jun 18	Jul 18

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