

2018

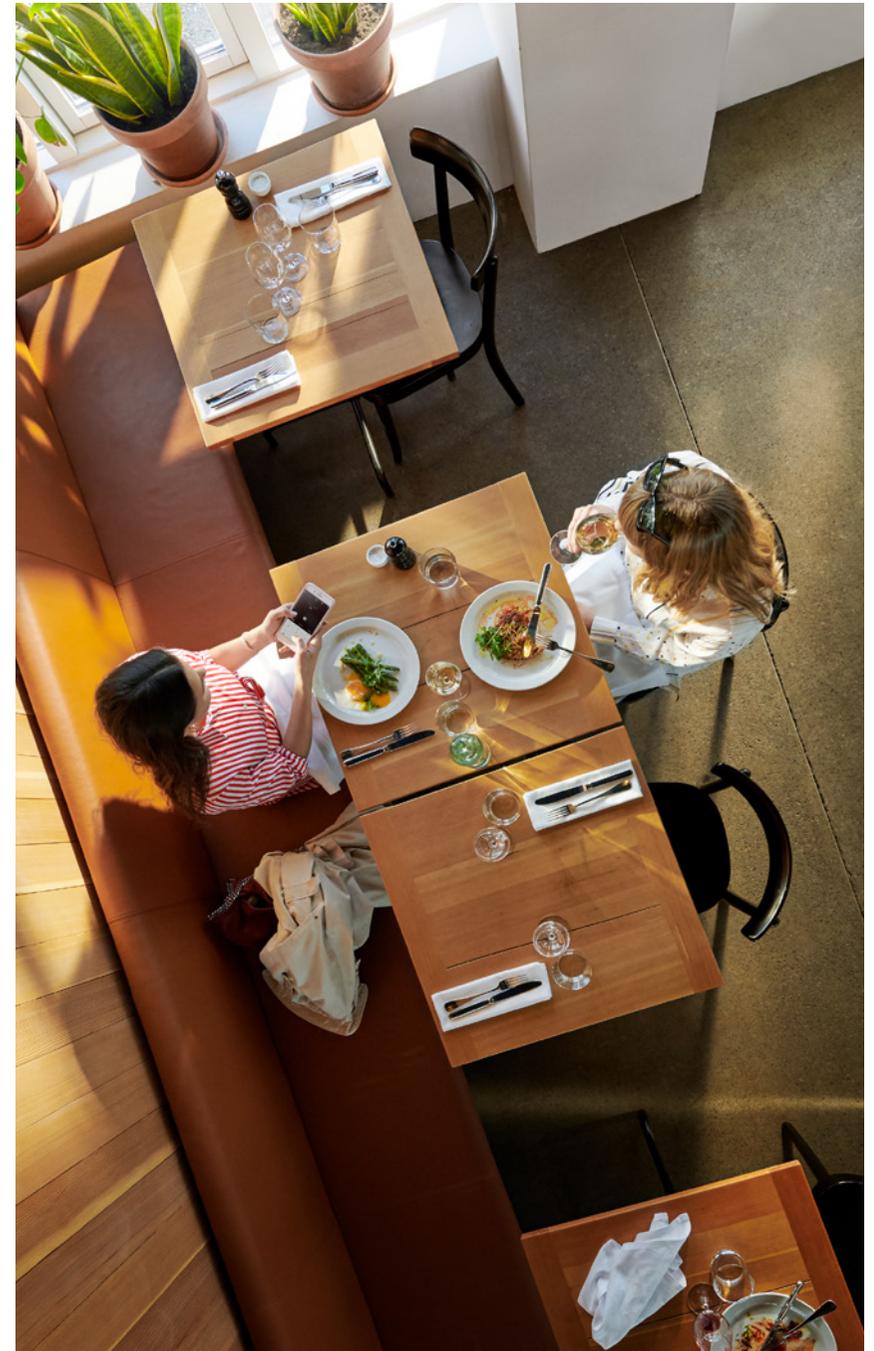


Annual Report

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This Annual Report may include typos, discrepancies or other errors. If such errors are found the Bank reserves the right to correct them. This Annual Report is published for information purposes only and should not be considered to include any investment advice, whether it be for the sale or purchase of securities.





Highlights of 2018

This is Íslandsbanki

Íslandsbanki provides individuals, companies and institutional investors comprehensive financial services

Driven by the Bank's vision to be **#1 for service**, three business divisions work closely together to manage and build relationships with customers. A clear focus is on simplifying operations and demonstrating corporate social responsibility.

Awards



Leading the Icelandic Customer Satisfaction Index for **six consecutive years**



Group's key figures 2018

ROE* (Regular operations)	8.0%
Cost / Income	66.3%
Total capital ratio	22.2%
Total assets	ISK 1,130bn

Bank's employees

 **834**
Number of FTEs for parent company at end of 2018

 **Job satisfaction 91%**
Among Íslandsbanki's employees

 **5 training courses a year per employee**

Market share



32% Individuals

37% SMEs

33% Large companies and investors

Ways to bank



54 ATMs



14 branches



81,500 APP users



112,000 online banking users

Credit rating

S&P Global Ratings

BBB+/A-2

Stable outlook

Personal banking



For individuals

Provides customers with comprehensive banking services through digital channels and a progressive nationwide branch network.

Business banking



For SMEs

Responsible for service to SMEs in the Bank's branches, as well as Ergo, Íslandsbanki's asset based financing unit.

Corporate and investment banking



For large companies and investors

Provides comprehensive financial services to investors and large companies, including lending, securities and currency brokerage, corporate advisory services, private banking services, and financial instruments.

*Return from regular operations on normalised CET1 of 16%, adjusted for risk free interest on excess capital. Earnings from regular operations is defined as earnings excluding one-off items e.g. bank tax and impairment on financial assets.

Highlights 2018

Try clicking on the pictograms

Q1

January

Íslandsbanki issues a **EUR 300m bond at a 75 basis point spread over interbank rates in euros**. The bond has a six-year maturity but is callable in five years



February

Íslandssjóðir launches **development company 105 Miðborg**, which will collaborate with investors to build a new 42,000-m² neighbourhood in Kirkjúsundur in the next few years



The Bank launches **Georg and the clock app**, its third under the brand *Georg and friends*



March

The Bank's Annual General Meeting approves a **dividend payment of ISK 13bn**



The Depositors' and Investors' Guarantee Fund concludes an asset management agreement with Íslandsbanki



Q2

April

The Bank begins collaborating with innovation companies on the **development of fintech solutions for customers**



The Bank receives **renewed recognition for excellence in corporate governance** from the University of Iceland Institute of Business Administration's Centre for Corporate Governance



Íslandsbanki issues a **SEK 1,000m** senior bond



Íslandsbanki leads **the sale process for Jarðboranir**



May

Ground is broken on the new mixed commercial-residential neighbourhood at Kirkjúsundur in Reykjavík



The Bank's **Selfoss branch reopens** after extensive renovations



June

Íslandsbanki acts as arranger for **EUR 190m syndicated loan taken by HB Grandi**



Q3

July

International financial magazine **Euromoney** names **Íslandsbanki Iceland's best bank**



International credit rating agency S&P Global Ratings affirms **Íslandsbanki's credit rating at BBB+/A-2, with a stable outlook**



Íslandsbanki subsidises **international relief work** by the Red Cross



August

Over **ISK 157m is raised in pledges to charity** by participants in the Íslandsbanki Reykjavík Marathon. A **total of 14,000 people** took part, and participation in the 10km and 3km races was stronger than ever before



Íslandsbanki issues **SEK 500m subordinated bond**. The bond bears a 10-year maturity and is callable after five years



September

Íslandsbanki launches a new core deposits and payments system, one of the largest software projects ever undertaken in Iceland. The new system will enable the Bank to function more effectively in a changed competitive environment



Q4

October

Íslandsbanki opens a **secure, identifiable online chat** feature on its website



Íslandsbanki holds an open meeting at Hótel Nordica on **finances at retirement, total of 310 guests** attended



November

Íslandsbanki announces a **new solution that will allow users to pay for goods and services** at all point-of-sale terminals using their mobile phones



Íslandsbanki **enters into co-operation** with the world's largest fintech centre



Íslandsbanki invests in **Meniga for ISK 410m**



Íslandssjóðir **launches a green bond fund** which invests in bonds intended to have a positive impact on our environment and society



Fitch Ratings affirms Íslandsbanki's **credit rating at BBB, with a stable outlook**



December

The Government issues its **White Paper on a Future Vision for the Financial System**, which recommends that the State sell Íslandsbanki



Íslandsbanki employees travel to Africa **to assist with an information technology project** for the Red Cross



Íslandsbanki's customers are **the most satisfied in the banking market**, according to the Icelandic Customer Satisfaction Index, for the sixth consecutive year



Reports published by the Bank in 2018

The Bank's educational programme continued its wide-ranging activities of previous years and about 5,300 guests attended 96 meetings on various topics organised by the Bank. About 200 guests participated on a meeting on equality and over 300 guests attended a meeting on finance at retirement. The Bank published economic forecasts and various reports on the tourism industry, the seafood industry, municipalities, real estate market, the World Cup and SMEs.



96 meetings on various topics



About 5,300 guests



70 videos published on social media and 140,000 views

Reports of 2018 - click on images for further information



February

Annual Report, Annual Accounts, Risk Report and Íslandsbanki in Society



April

Tourism Industry Report



June

Report on World Cup Finances



July

Report on Icelandic Municipalities (Icelandic only)



September

Report on the economic impact of small and medium-sized enterprises (Icelandic only)



September

Macroeconomic forecast (Icelandic only)



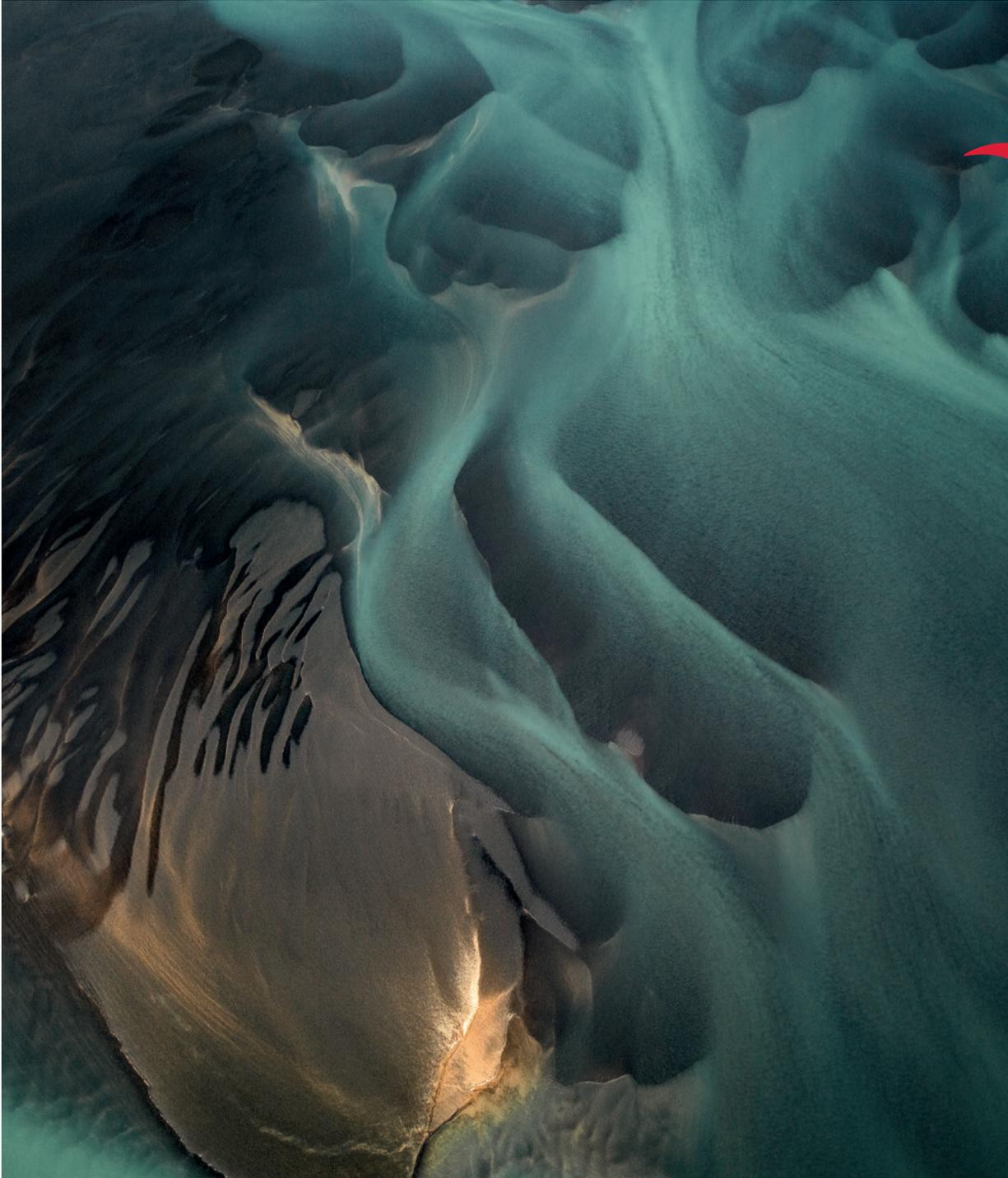
October

Housing Market Report (Icelandic only)



December

Icelandic Fisheries Report (Icelandic only)



**To our
stakeholders**



Chairman's statement

2018 was a year of significant change and development at Íslandsbanki. It has seldom been more obvious than in the past year how rapidly the financial system is changing with the introduction of new technology – change the Bank has embraced. The domestic economy has slowed down after the swift growth of the past few years, and further concentration and streamlining can be expected in key sectors. The Government's new White Paper on a Future Vision for the Financial System was published at the end of 2018, and it will be exciting to see the outcome of that work in the near future. Íslandsbanki is a leading company in Iceland in terms of social responsibility and corporate governance, and the Bank will continue to rely on its employees to provide customers with even better service than before.

Changed banking system with digital advances

Rapid technological advances are changing the activities of conventional banks, and the entry of fintech companies into the financial markets stimulates competition, to the benefit of consumers. Íslandsbanki is well prepared, however, to face the challenges entailed in these changes in its operating environment. For example, the Bank passed an important milestone in autumn 2018 with the launch of a new core system, its largest tech project to date. We kick-started a tech campaign during the year, developing a number of new business solutions to meet the needs of the ever-increasing number of customers who choose to handle their banking activities themselves via digital channels rather than visiting a branch office.

Time to tidy up the economy

GDP growth was robust last year, even though the phenomenal growth phase in the tourism industry ended in 2017. This year, GDP growth is expected to ease, owing to a contraction in business investment and moderate growth in private consumption. In addition, service exports are now growing more slowly than in the past few years. As a result, it can be expected that these drivers of GDP growth in the past few years will slow down for the present, although growth is expected to pick up again in 2020.

Iceland's largest economic sectors have seen significant change, including increased concentration in both tourism and fishing. According to a report prepared for Íslandsbanki last year, small and medium-



sized companies are the drivers of domestic GDP growth. They are better prepared for various types of shocks and have built up sound operations, which is extremely satisfying. As a result, this is an opportune time for Icelandic firms to use the new year to restructure, streamline their operations, and prepare themselves well before the next growth phase starts.

Challenges facing the financial system

The Government's White Paper on a Future Vision for the Financial System, published at the end of 2018, presents a number of excellent comments and suggestions for possible improvements to the Icelandic financial system. The sale of Íslandsbanki has been under discussion for some time, and the White Paper notes that there are indeed arguments for reducing the Icelandic state's substantial ownership of financial undertakings in order to reduce the risk, opportunity cost and negative impact on competition. The Bank has been privately owned through the years, and its culture reflects this. It is clear that Íslandsbanki is ready to be sold after several years of streamlining and investing in strong foundations. Based on the figures that have been floated, the sale could generate the equivalent of four to five new teaching hospitals. It is therefore of vital interest to Icelandic taxpayers that the sale of Íslandsbanki be undertaken successfully, and foreign ownership or listing on foreign and domestic equity markets would be

“Taxes on Icelandic financial institutions are still many times higher than those in neighbouring countries. This is extremely unfortunate in an environment where pension funds and fintech companies have joined the ranks of our competitors without having to pay commensurate levies to the State.”

desirable. Naturally, it is the owner – the Icelandic Government – that will decide the matter, but it is exceedingly important that the sale process be fair, trustworthy, and transparent.

The White Paper also discusses financial market efficiency and the importance of pressing for operational streamlining that could improve the terms offered to consumers. Íslandsbanki is always working towards lowering operating expenses in pursuit of that goal. But by the same token, it is the responsibility of the authorities to ensure that taxes and levies on financial institutions are not so onerous that they undermine the Bank's competitive position. Taxes on Icelandic financial institutions are still many times higher than those in neighbouring countries. This is extremely unfortunate in an environment where

pension funds and fintech companies have joined the ranks of our competitors without having to pay commensurate levies to the State. Competition is a good thing, but it is vital to maintain a level playing field, with the same ground rules for all.

Responsible participant in the community

Last year Íslandsbanki joined an organisation called Nordic CEOs for a Sustainable Future, whose members include several of the largest companies in the Nordic region. The objective is to work towards the UN Sustainable Development Goals in co-operation with governmental authorities. Íslandsbanki has placed strong emphasis on social responsibility, in keeping with our belief that it is important for large companies to set a good example and be a positive force in the community. Responsible business practices affect firms' long-term competitiveness, and banks have an important part to play, through investments and through financing responsible projects. Equal rights have long been a priority in Iceland, and the Bank has been a leader in the discourse, including through its annual equal rights meetings. Íslandsbanki has also been active in environmental issues, particularly to include its participation in the establishment of the Wetland Fund, which will have significant impact on climate issues in the future, and the establishment by Íslandssjóðir, its subsidiary, of Iceland's first green bond fund at the end of 2018.

Professional governance practices

Íslandsbanki believes in managing its activities in line with best practice in corporate governance. Its employees and Board of Directors are determined to adhere to the Bank's core values and to be professional, positive and progressive. It has implemented a sound corporate governance practice policy, an element of which is to improve the decision-making process and enhance stakeholders' confidence in the Bank. Íslandsbanki was first recognised for excellence in corporate governance by the University of Iceland Institute of Business Administration's Centre for Corporate Governance in March 2014. The award was granted following an in-depth examination of the practices of the Bank's Board of Directors, Board subcommittees, and management. It was renewed in 2015, 2016, 2017, and 2018.

Thanks to Bank employees

Íslandsbanki employees have done an outstanding job in recent years — often under difficult conditions. There is every reason to thank both employees and managers, who will continue to do their utmost to strengthen the Bank and boost confidence in it. Exciting times lie ahead in the financial sector, which is changing at an ever more rapid pace. I have every confidence that this strong and competent Group will lead us successfully through those changes.





CEO's address

We are delighted to rank #1 for banking services in Iceland among customers, and for the sixth year in a row we topped the Icelandic Customer Satisfaction Index. We introduced many digital solutions during the year and contributed to growth in the economy through lending to households and corporates. Our corporate finance and FX brokerage teams had an excellent year, and our subsidiary, Íslandssjóðir, launched Iceland's first green bond fund. The Bank and Íslandssjóðir turned in a good operating performance during the year, with the Group delivering a profit of ISK 10.6bn. The Bank's funding activities were successful during the year, its liquidity position is strong in both domestic and foreign currencies, and its risk is moderate and well managed. In the past year, we have focused on modernising the Bank and building up a responsible business and risk culture. We intend to continue on that path in the coming year by formulating strategies that we are certain will make our Bank even better, for the benefit of the entire community. We welcome the publication of the new White Paper on a Future Vision for the Financial System, issued at the end of the year, which confirms how much the Icelandic banking system has reformed in recent years. The White Paper also points out how heavy a tax burden the Icelandic banking system bears. This situation is mainly harmful to Icelandic consumers, and we hope to see it change.

Digital advances at the forefront

Digital advances were a salient feature of Íslandsbanki's operations in 2018, when we launched a large number of innovations. We announced our intention to open the door to collaboration with fintech companies, and with the launch of our new core system during the autumn, we completed the biggest tech project since the Bank's establishment. With this as a cornerstone, we look forward to developing sophisticated digital solutions at an even faster pace and to offering our customers innovations that

will make their banking more convenient and the service we provide them even better.

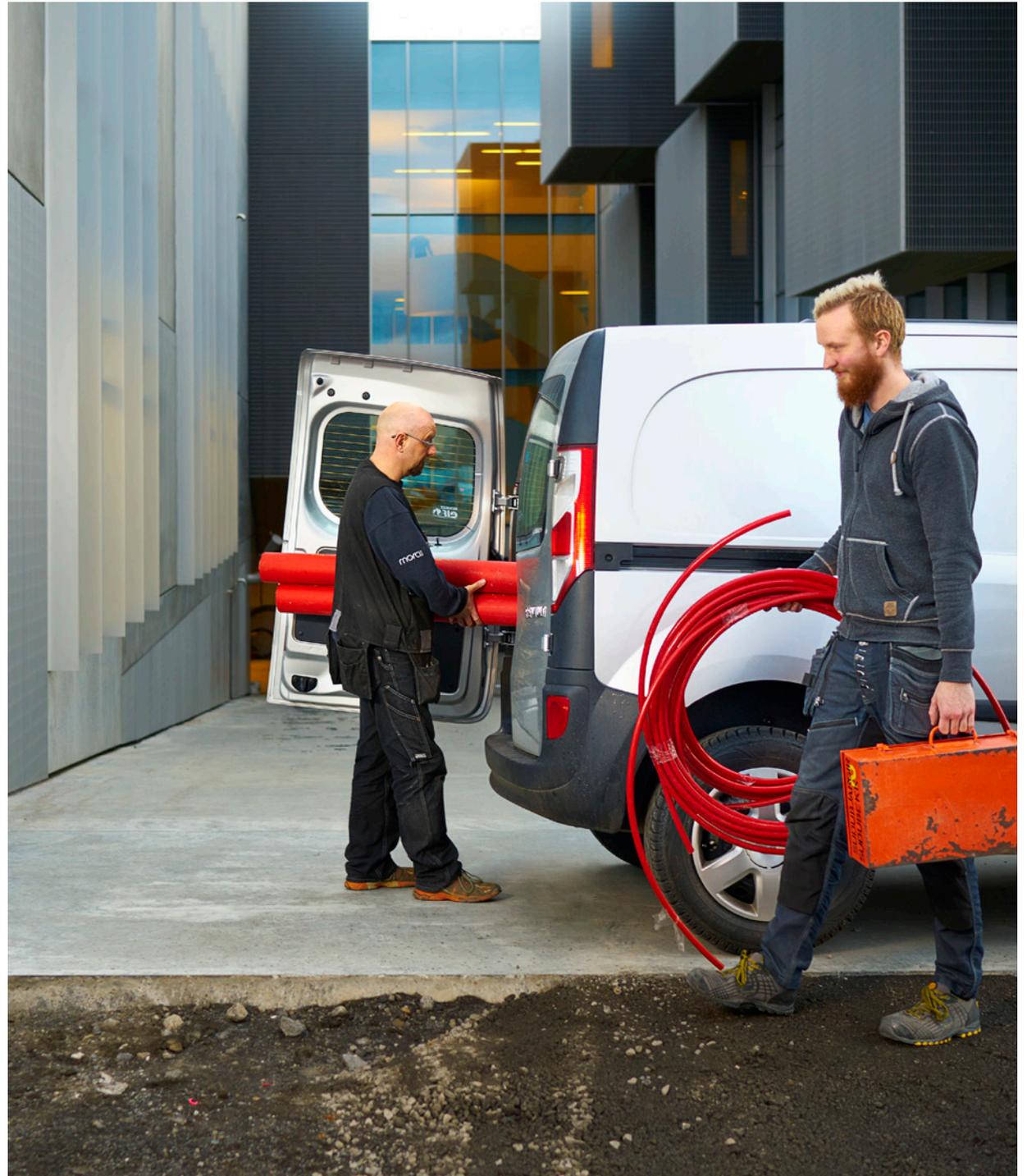
The most satisfied customers in the market

We are delighted that for yet another year, Íslandsbanki tops customer satisfaction rankings in the Icelandic banking market. Without doubt, a high level of service is one of the main reasons for this, and in the software development work that lies ahead, we will stress strongly that the user experience must be the best possible. We

have made every endeavour to offer state-of-the-art solutions that our customers can use at any time, no matter where they are. A large and constantly growing share of our customers communicate with the bank by electronic means. For example, the Íslandsbanki app user group grew by 27% during the year, and roughly 95% of credit assessments for mortgage loans now take place online.

Financing and service to large firms and SMEs

We turned our attention to small and medium-sized enterprises (SME) over the course of the year. For the first time, we published a thorough report on the position and operating environment of SMEs and followed through with an ambitious programme of informational seminars. According to the report, SMEs are the drivers of output growth in Iceland, and it is therefore important to support them. Customer satisfaction metrics show that Íslandsbanki ranks #1 for service to this vital segment of the Icelandic economy, which greatly pleases us. Our position among large companies and institutional investors is strong as well. We have carved out a niche as a leader in syndicated loans, including arranging the largest syndicated loan in the history of the Icelandic fishing industry last year. We emphasise responsible participation in project financing, and our thoroughness and strong relationship with our customers has proven successful for



us as well as for them. The Bank's corporate finance unit had an outstanding year, completing 40 projects, and the foreign currency brokerage team had a successful year as well.

Íslandsbanki subsidiary Íslandssjóðir established Iceland's first commodities fund, and the country's first green bond fund was offered to institutional investors. We are tremendously proud to participate actively in developing a market for green bonds based on sustainable, socially responsible projects.

“We are delighted that for yet another year, our customers are the most satisfied in the Icelandic banking market. Without doubt, a high level of service is one of the main reasons for this, and in the software development work that lies ahead, we will stress strongly that the user experience must be the best possible.”

Íslandsbanki and Íslandssjóðir: strong position and diversified funding

Íslandsbanki and Íslandssjóðir turned in strong operating results during the year, but

operational difficulties among subsidiaries – which the Bank recently put up for sale – had a negative impact on the consolidated accounts. The consolidated profit for 2018 totalled ISK 10.6bn and the return on equity 8.0%. The return on equity from regular operations was in line with expectations, at 6.1%. The Bank's funding activities were successful during the year, and its liquidity position is very strong in both domestic and foreign currencies. Risk management was also robust, and the Bank's non-performing loan ratio has continued to fall, to 1.7%, which is excellent in international context.

Participants in the community

As before, we are committed to top-quality educational and informational programmes and discussions. It is particularly gratifying that, at a time when young people visit Bank branches less and less often, our informational meetings and seminars on savings, investment, and homebuying should attract full houses time and time again. Our educational seminars on retirement have never been larger in scope than they were in 2018, with some 1,600 guests attending 34 meetings. Our educational meetings for refugees have been well received, also. Íslandsbanki TV drew deserved attention on the web, as did our extremely well-attended meeting on equal rights, the fourth in a series on women's labour participation and opportunities.

Strategy in line with changing times

At the end of the year, the Government issued a highly interesting report entitled White Paper on a Future Vision for the Financial System. Many of the recommendations in the White Paper are in line with work already underway within the Bank, reflecting the shared commitment of all parties to building up a sound financial system. Surveys indicate that confidence in the financial system is still low, as it takes a long time – and it might take a full generation – to restore trust after the banking collapse of 2008. Clearly, though, the Bank has changed greatly in the past decade, with a more responsible business culture and a more rigorous regulatory framework. Íslandsbanki will continue to change rapidly, and within a few years it will be entirely different from the Bank we know today. It is our job to shape its operations to align with new times while building confidence through responsible business practices. We have decided to use the first half of 2019 to focus on a strategy-setting initiative for the Bank. We do this with our customers' expectations in mind, and we are certain that it will deliver further operational improvements in harmony with the community. We will therefore place strong emphasis on sustainability and responsible operations. We look forward to continued positive interactions with our customers, owners, and other stakeholders, and we are optimistic about the exciting times ahead.



Economic review

Economic review

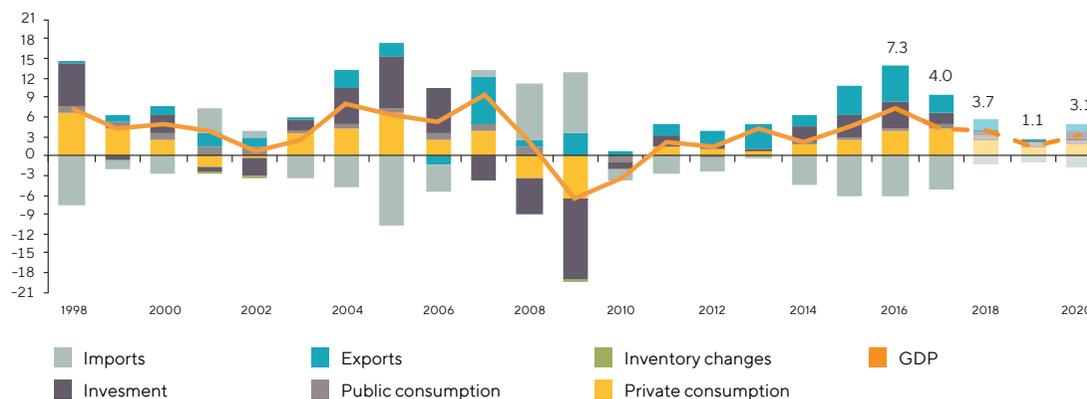
Iceland's current business cycle has proven more resilient than many expected. GDP growth averaged 4.4% per year in 2013-2017. The surge in tourism has played a major role in this, as have a number of other factors that have supported private consumption growth and investment. Rapid growth has not given rise to a surge in debt or substantial economic imbalances, unlike many previous growth episodes in Iceland.

GDP growth was robust in 2018, although it eased in the second half of the year. It was driven in large part by rapid private consumption growth and a steep rise in residential investment, together with a positive contribution from net trade. For 2018 as a whole, GDP growth is estimated at 3.7%.

Current account to remain in surplus

Increased services exports stemming from the emergence of tourism as Iceland's chief export sector have been the main source of the rise in export revenues in recent years. The tourism industry is still growing, although the pace has eased considerably from the 2015-2016 peak, when tourist arrivals increased 39% year-on-year. In 2018, the number of foreign visitors to Iceland grew by 5.5% between years.

GDP, YoY change and contribution of main subitems (%)

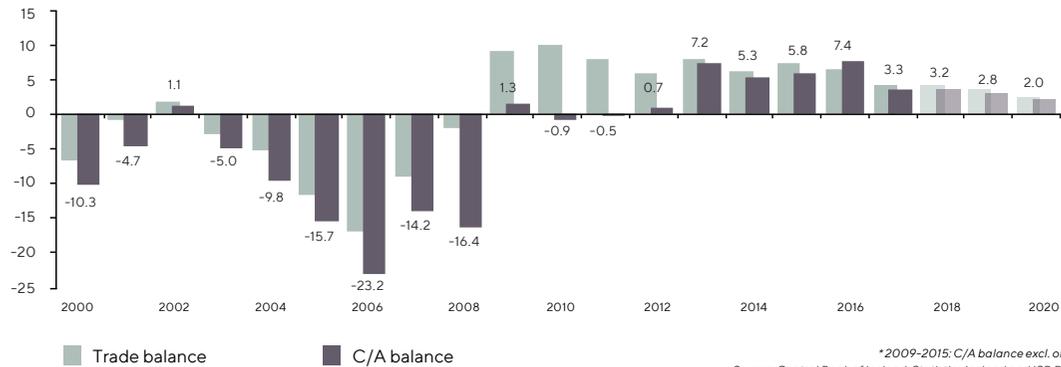


Source: Statistics Iceland and ISB Research



Iceland's current account balance is at its most favourable in the history of the Republic. The current decade stands out, featuring a persistent current account surplus paired with strong GDP growth and a rising real exchange rate. 2018 was no exception in this regard, with an estimated current account surplus of over 3% of GDP. This situation is highly likely to continue, with these variables remaining more favourable than they have been in recent decades. The current account surplus of the past few years is one of the main reasons for the ongoing improvement in Iceland's net external position, with external assets exceeding external liabilities by over 13% of GDP as of end-September 2018.

Current account balance*, % of GDP



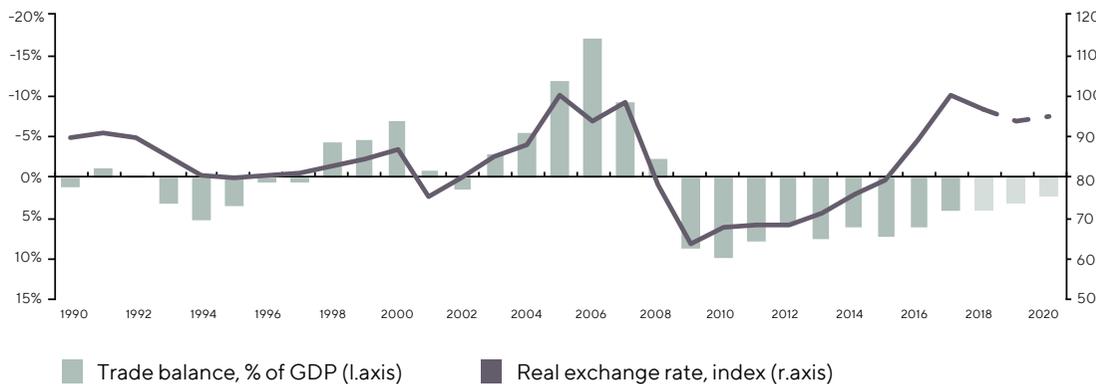
*2009-2015: C/A balance excl. old banks
Source: Central Bank of Iceland, Statistics Iceland and ISB Research

ISK depreciation supports current account surplus

The ISK depreciated by nearly 7% in the last four months of 2018, after a twelve-month period of relative stability. This was positive for Iceland's external balance and will tend to mitigate the risk of a negative contribution from net trade in the near future.

The outlook is for the real exchange rate to remain relatively high, however. The net asset position in the economy is at its best in decades, and the Central Bank (CBI) has large international reserves at its disposal if temporary capital flight should threaten to derail the exchange rate. There is also the prospect of a continued current account surplus in the coming term.

Trade balance and real exchange rate



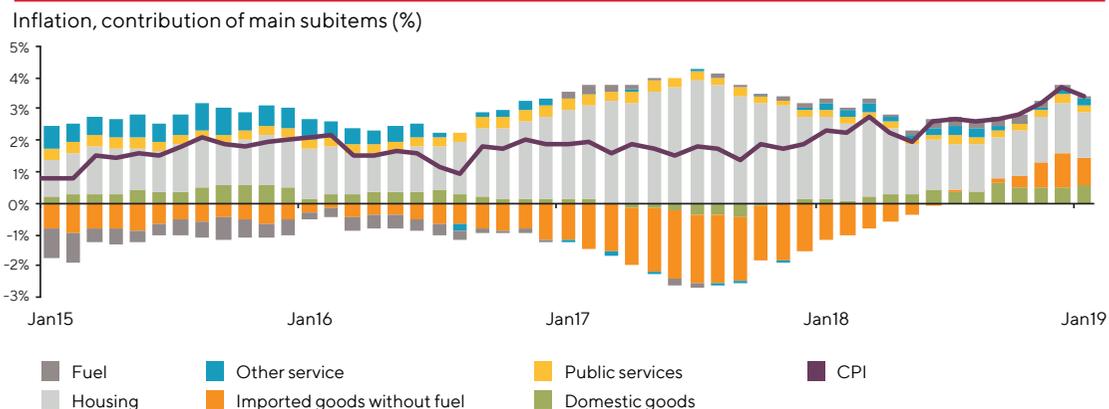
Source: Central Bank of Iceland and ISB Research forecast

In most senses, the economy stands on solid ground, and prospects for long-term growth are good. It is therefore likely that foreign investors will remain interested in investing in Iceland. Investment-related inflows and the current account surplus will probably offset the outflows stemming from foreign investments by pension funds and other domestic investors.

2019 – a year of adjustment

The outlook is for slow output growth in 2019. The drivers of the recent growth spurt will all be more or less in stasis during the year. Private consumption growth will be slow relative to recent years and services export growth very sluggish, and business investment will contract YoY, according to our forecast, which provides for GDP growth of 1.1% in 2019.

On the whole, we expect investment to remain flat in 2019, as a continued contraction in business investment will offset growth in other types of investment. In 2020, however, all categories of investment will increase, delivering 6.7% growth in total investment that year.



Source: Statistics Iceland

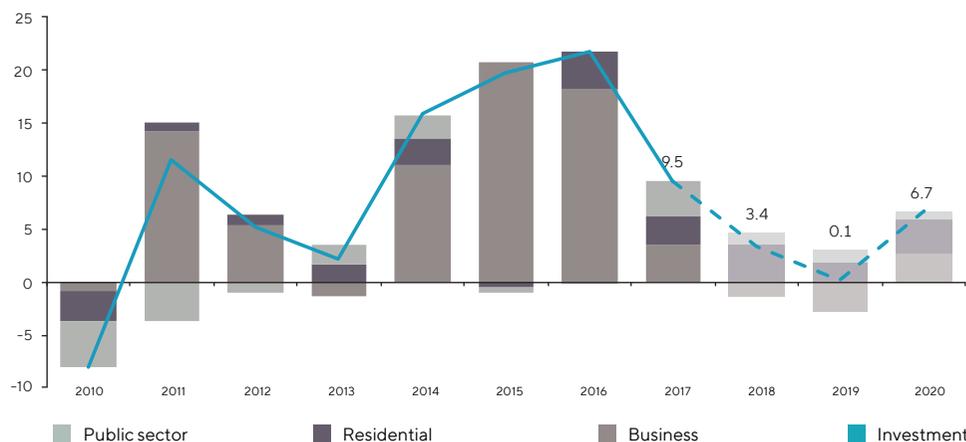
The outlook is for a 9% increase in residential investment in 2019, which will boost the available supply of new homes. This, plus weaker demand due to reduced population growth, more modest real wage growth, and unfavourable borrowing terms, will keep house price inflation below recent levels.

The outlook is for house prices to rise by an average of just over 5% YoY in 2019.

On average, inflation will probably be somewhat above the CBI's inflation target this year. It looks set to peak at 3.8% in Q3 and then taper off, measuring 3.3% at the year-end. The slowdown in house price inflation and a stable exchange rate are the main reasons for declining inflation further ahead, while wage hikes and other domestic cost increases explain much of the continuing inflationary pressures.

The outlook is for growth to pick up again in 2020, soaring to 3.1%, buoyed up by livelier private consumption growth, a resumption of growth in business investment, and continued growth in other investment and in goods and services exports.

Investment, % of GDP



Source: Central Bank of Iceland and ISB Research forecast



Investment for the future

#1 for digital
service

Strategy

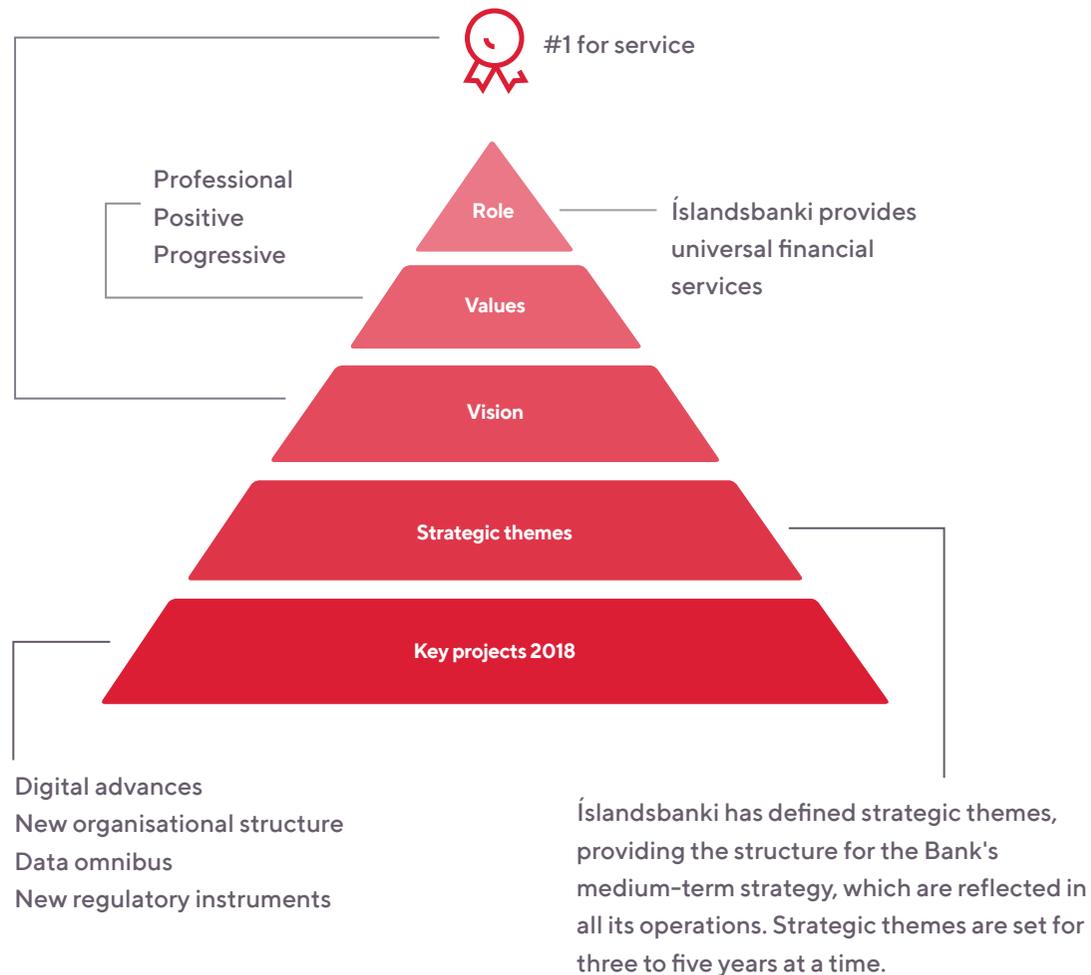
Since Íslandsbanki's establishment, its Board of Directors and employees, as well as its customers, have participated actively in shaping the Bank's strategy at annual strategy meetings, the first one held in January 2009. The theme of each meeting has been related to the Bank's focus at the time. The result is Íslandsbanki's clear strategy, based on a stable business model and its vision of being #1 for service.

The phases of the Bank's strategy can be divided into four periods



Íslandsbanki's strategy pyramid

The strategy pyramid provides a framework for the Bank's strategy. It comprises five building blocks, each supporting the next. The building blocks are role, values, vision, strategic themes, and key projects for the year. The top three, role, values, vision, change seldom, while the bottom two, strategic themes and key projects, are reviewed regularly.



Strategic themes

The Bank reviews its strategic themes regularly so as to adapt them to changes in the Bank's operating environment and its customers' needs.

The Bank's objective is to make a positive impact on the community with participation in a variety of projects, a professional and constructive work environment for employees, with equal rights at the forefront, and healthy operations based on sound business practice. These are key features of the Bank's activities.

With its vision of being **#1 for service**, the Bank emphasises strengthening its business relationship with current customers, boosting value creation, and meeting customers' needs by providing access to the Bank's service through the channels that best suit them.

Continuous improvements in the operation and development of a tech environment ensure that the Bank is technologically prepared to face a changed banking world, where emphasis is on flexibility, increased importance of digital channels, and use of artificial intelligence in provision of service.

New technology and digital development

Íslandsbanki has a strong tradition of providing outstanding services and has received numerous awards in terms of customer satisfaction. Historically, this service has been based primarily on personal interactions and close contact with the customer. It is a challenge to retain this close customer relationship in a new and changed digital environment. But showing interest in challenges facing customers, having the courage to “think outside the box” and more placing more emphasis on user-friendly interfaces, Íslandsbanki's ambition is to be a digital service leader in the Icelandic financial market.



Most knowledgeable people who write about the future of banking mention replacement of old core systems as perhaps the most important prerequisite for being able to compete in tomorrow's digital world. This is one of the main reasons the Bank brought in a new core deposits and payments system in 2015–2018, in co-operation with RB and Sopra Banking Software. This enormous tech project required what could justifiably be called a surgical operation on the Bank's tech environment and a shift to a service-oriented architecture. The implementation was completed in the autumn and was extremely successful and without any substantive issues. After making this change, the Bank is now many times better prepared to meet demands for new products and services and to respond more quickly to a constantly changing competitive environment.



#1 for digital service

“In order to offer exemplary digital services, it is necessary to understand customers' needs based on their expectations, develop the right solutions through testing and build on solid data and core systems. Last but not least, it is paramount to have superb employees and partners with a positive attitude towards the Bank's changed business model and who see opportunities where others see challenges. We at Íslandsbanki, consider ourselves to be on the right path regarding this which can be demonstrated by the impressive digital advancements made in 2018 and we are excited about participating in the future digital banking environment.”

Sigríður Olgeirsdóttir
Managing director of IT and Operations

Creating solutions for customers

The future in product development and exemplary digital services, calls for a more efficiency.

Companies' approaches to product development have changed radically in recent years. Development is shifting from the creation of a fully formulated product to the development of products with minimum functionality in a shorter period of time, reducing development risk and allowing for a change in direction if customers are dissatisfied. To ensure a right path for the Bank, it is placing a strong emphasis on user testing at all stages of the development process, with users' needs in the foreground. Prototypes are introduced that provide original solutions to customers' needs and identify problems as early as possible in the innovation process. This testing is an inseparable part of the Bank's "design dash", ruling out weak ideas quickly while encouraging employees to think outside the box.

Íslandsbanki considers it important to understand better its customer expectations - do the ground rules for app-based advisory services differ from those applying to face-to-face interactions? A recent study, in which Íslandsbanki employees were compared with customers, revealed a

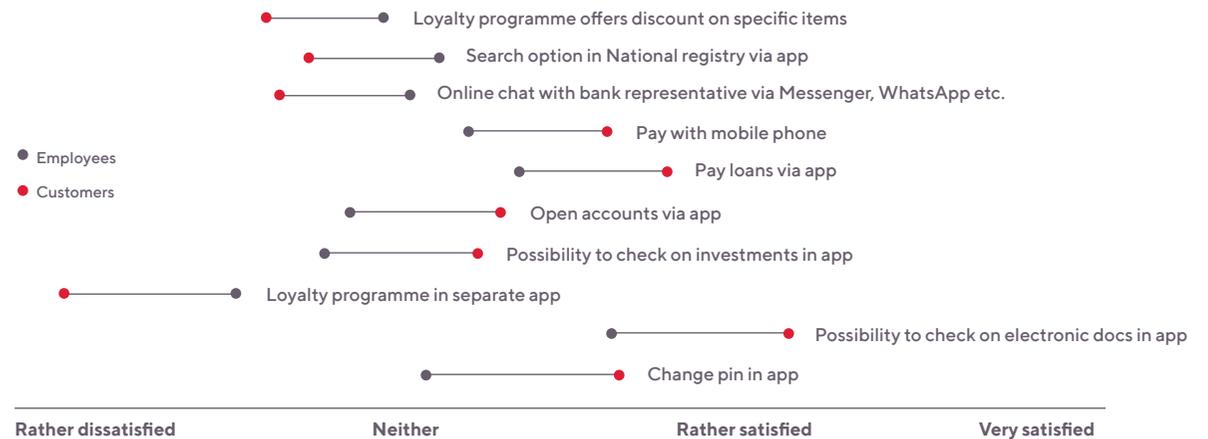
distinct difference in preference towards the Bank's digital solutions offering.

Development of digital solutions and the problem solving within the Bank relies more and more on data. The Bank considers data to be the crude oil of the 21st century as they represent immense value that can be used to provide better service and develop new digital solutions that are without parallel in the Icelandic market.

As with crude oil, data must also be processed and cleaned. Such cleaning entails, standardising the data, which facilitates both data analysis and interpretation.

Major advances have taken place in the development of algorithms for machine learning and there are numerous opportunities for the use of such algorithms in the Bank. These opportunities include automated text analysis, automated asset management, analysis of which products suit customers, more effective discovery of fraud, and many others. Strong emphasis is placed on processing all data securely and in compliance with data protection requirements

Expectations regarding digital solutions from customers and Bank employees



Collaborations

Open banking

Changed world, new challenges and a new business model. It can be expected that there will soon be many companies in the market offering specialised solutions and competing with the banks for customers. External requirements call for access to bank accounts and payments, and the Bank's objective is to open its doors to further business-related access. To a degree, the banks will take the role of wholesaler, and they will continue to guarantee secure transactions and satisfy the requirements made by financial market supervisors. Íslandsbanki intends to participate actively in this process, both by satisfying minimum requirements for access to services and by expanding access to its product offerings in the interest of good business.

However, given that the Bank wants to secure this important relationship with the customer it intends to cooperate with other, and smaller, fintech companies; Kass is an example of this.



In 2018, the Bank took its first steps towards enabling external providers to link their banking services to Íslandsbanki. Based on dialogues with these companies, there is a genuine interest in further collaboration, with the Bank now reflecting this in its digital strategy.



Hackathon

In order to strengthen the foundations of this collaboration, the Bank invites employees and collaborators to unleash their imagination at so-called hackathons.

During the year, the Bank held a hackathon in Ukraine, where Bank employees and foreign consultants worked together in international teams to create fintech solutions for the future.

Events of this type represent an important opportunity to cooperate more closely and give tech experts free rein to tackle business challenges.

Fintech centre

In the first half of the year, the Bank collaborated on a project with graduating students from Reykjavík University (RU), a website called [starfslok.is](#). Icelanders can use this website to see their estimated year-by-year income after retirement, based on information about pension benefits and other savings. Following on from that project, and in view of the Bank's changed focus, the Bank established a fintech centre with RU. The fintech centre creates a forum for students to specialise in both business and computer science. Íslandsbanki's involvement in the centre includes providing instruction through participation in symposia and offering students the chance to work on collaborative projects with the Bank. Students have expressed a keen interest in the projects, and the Bank sees excellent opportunities to utilise both their technological knowledge and, no less important, their view of the world, which has not been coloured by working in a financial institution. In this way, the Bank wants to be open to new ideas and new solutions to past, present, and future challenges.

Major digital strides

Split payments

Íslandsbanki is the only bank in Europe to offer its customers the option of creating a payment plan by splitting individual payments into parts or grouping several payments, assigning them a name, and then splitting them. This idea had its origins in a design dash, and split payments was one of the first products to undergo the new product development process for digital solutions. As part of this process, an interdisciplinary group of individuals got together to work on solving customers problems relating to spreading of payments.

The solution has been embraced by the Bank's customers, and now about half of all split payments are processed this way, even though the feature was rolled out only a short time ago. It has also attracted interest abroad, which is a feather in the cap for the Bank's development team.



Tap and pay

Last November, Íslandsbanki began offering contactless payments via mobile phone to Android users. This solution stands out in comparison with competitors in terms of the user experience, as regards both set-up and oversight. For example, setting up a new card for contactless payments with Íslandsbanki requires only four clicks and no data entry. Íslandsbanki clearly capitalised on its small size in developing this solution. The project was completed in six months, which is considered very good in comparison to a similar project at a large Scandinavian bank. Customers' responses have exceeded expectations, and users of Íslandsbanki's Kort app increased in number by 50% in the two months following the rollout of contactless payments.

Digital solutions



**We are where
you are**
organisation, business
divisions and
governance

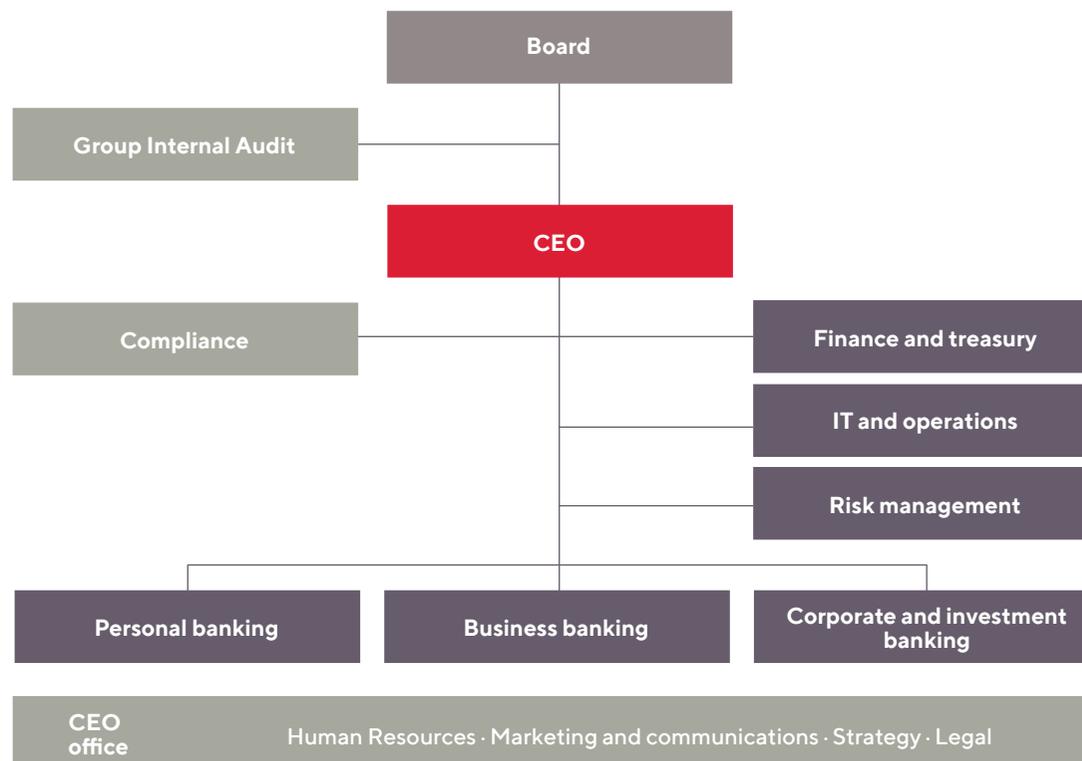
Organisation

Management and control of Íslandsbanki is divided among shareholders, the Board, and the CEO in accordance with the Bank's Articles of Association, other Board directives, and applicable regulatory instruments.

Articles of association

Íslandsbanki's articles of association contain provisions on the Bank's purpose, share capital, and shareholders' meetings, as well as the election and responsibilities of the Board of Directors and the procedures governing amendments to the articles of association.

Organisational chart



Ownership structure

Since January 2016, the Bank has been wholly owned by the Icelandic Government, both directly and through ÍSB Holding, which is also Government-owned. Icelandic State Financial Investments administers the Government's holding in the Bank, in accordance with the Act on Icelandic State Financial Investments, no. 88/2009.



CEO and senior management committees

The CEO is responsible for ensuring that the Bank's operations and activities are in compliance at all times with the Bank's Articles of Association, its approved strategy, Board directives, and applicable legislation. The CEO hires managing directors and appoints members to serve on senior management committees.

The Executive Committee and All Risk Committee are considered strategic committees and take major decisions on the implementation of Board-approved strategies. Their membership comprises all of the Bank's managing directors, together with other managers appointed by the CEO.

The Executive Committee is tasked with oversight and harmonisation of key elements of Íslandsbanki's operations, and it has decision-making authority in matters assigned to it by the CEO, in accordance with policies, goals, and risk appetite. The Executive Committee comprises seven members, one of whom is the CEO.

The All Risk Committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement.

Business committees take a position on individual business and operational matters in accordance with policies, rules, and other guidelines approved by the Board, Executive Committee, or Risk Management Committee. The Bank's Senior Management Committees are **the Senior Credit Committee, Assets and Liabilities Committee, Investment Committee, and Operational and Security Committee.**

Senior management committees



Executive Committee



More on the executive committee



Birna Einarsdóttir
Chief executive officer
since October 2008



Ásmundur Tryggvason
Managing director of corporate &
investment banking since January
2019 when Vilhelm Már Þorsteinsson
left the Bank



Guðmundur Kristinn Birgisson
Chief risk officer since October 2018



Jón Guðni Ómarsson
Chief financial officer since
October 2011



Sigríður Hrefna Hrafnkelsdóttir
Managing director of personal
banking since May 2017



Sigríður Olgeirsdóttir
Chief operating officer since
September 2010



Una Steinsdóttir
Managing director of business
banking since May 2017

Personal banking

Personal banking provides comprehensive financial services to customers, with special emphasis on digital channels. Íslandsbanki's market share for individuals is strong and that is reflected in surveys. The Bank launched an improved mortgage lending service based on digital foundations, one of many digital innovations unveiled during the year. Íslandsbanki announced last spring that it was open to collaborations with fintech companies. That is a new philosophy in the Icelandic banking market to not limit the product offerings with known customers or progress and collaborations with its own solutions.



Personal banking services

"We are grateful for the trust of our customers and their enthusiastic reception of our new digital solutions over the course of the year. It is particularly gratifying to see how many have chosen to make digital banking services a part of their daily lives through the Íslandsbanki website and apps. Our dialogue with our customers has become more active and effective, and a large number of customers now participate

in the development of new digital solutions. Íslandsbanki will continue to develop new service channels on the internet and through its apps, thereby making it easier for our customers to conduct their daily banking activities at any time, wherever they are. Íslandsbanki customers are the most satisfied in the Icelandic banking market, and it is our goal that they should continue to be so."



Sigríður Hrefna Hrafnkelsdóttir
Managing director of personal banking

✓ Visits to branches declined in number by **10%**

📄 Number of invoices paid via the app **grew by 60%**

⬆️ Transfers of funds made through the Íslandsbanki app increased **by 31%**

👤 **1 of 3** customers uses the app at least **30 days each month**



Fees & commissions
ISK 4.6bn

~ 37% of the Group's total net fee & commission income

Organisation

Personal banking offers a full range of personal financial services to customers through its digital channels and progressive branch network

Loans

Offers a wide range of loans to customers, from overdrafts to mortgage loans, with special emphasis on supporting first-time homebuyers. It is now possible to make an appointment with a mortgage loan advisor online

 **95%** of credit assessments are handled electronically

Savings and insurance

Offers regular periodic savings and specially designed savings options that meet customers differing needs, including mutual funds, investment funds, and real estate-linked insurance products.

Regular savings

Digital solutions

In 2018 Íslandsbanki interacted with its customers more than 20 million times with the majority taking part through digital solutions

Payment solutions

Offers simple, effective payment solutions at the cutting edge of the payment market. In 2018, the brand Kreditkort was discontinued and all of its customers placed under Íslandsbanki. With this merger, Íslandsbanki became the leader in the Icelandic credit card market, with a 41% market share. Concurrent with the change, the name of the Kreditkort app was changed to Íslandsbanki Kort.

 In the Kort app **45% of split payment requests**

 **50%** of credit limit changes are executed in the app.

Service desk

Assists customers in executing various transactions and offers mortgage lending advice by telephone, e-mail, or secure online chat, as about half of customers choose to identify themselves during online chat calls.

 **81,000** have downloaded the app

 **About 40%** of approved overdraft applications were made through the app

Better services through digital service channels

The development of digital solutions has made it possible for Íslandsbanki's customers to take care of their daily banking business in a simple manner, wherever and whenever. In developing digital solutions, the Bank has had the objective to meet its customers at milestones in their lives, such as becoming first-time homeowners. Now, customers are able to use digital channels and make an appointment with a mortgage loan advisor at a time that suits them.

Real-time credit card balances provide a better financial overview. Solutions such as payment distribution and increase/decrease of overdrafts have been very well received and now about half of payment distributions are made in the app. Íslandsbanki will continue 2019 to develop digital solutions for its customers and the Bank has just launched a solution called "new customer" which enables customers to sign up for business in few minutes.



Business banking

Business Banking provides wide-ranging financial services to small and medium-sized enterprises (SME) through Íslandsbanki's devolved and efficient branch network. The Bank's asset financing service, Ergo, is also part of Business Banking. The Bank serves a growing group of SMEs in Iceland near their own community and has developed strong business relationships. Each branch is staffed with employees who have broad-based expertise and experience. Íslandsbanki is therefore in a strong position to offer its customers excellent service, in line with the Bank's vision of being #1 for service.

Employees
131
Number of FTEs at year-end

Strong market share
37% SMEs

For SMEs

"It is extremely gratifying that for yet another year, our service to businesses, both through our branches and through Ergo, has topped the rankings in the Gallup corporate survey omnibus. We stand out in terms of service and consultancy, we have the highest net promoter score (NPS), and we are clearly in the forefront when respondents are asked who is the leader in the corporate market. This testimony is clearly

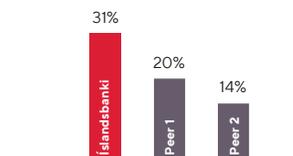
*bringing Íslandsbanki a growing share of the market. The economic environment continued to be favourable during the year, characterised by a vibrancy that can be seen in rising demand for credit and a steadily growing number of corporate customers. During the year, Reykjavík Economics prepared an interesting report for Íslandsbanki, entitled **Keyrir þú áfram hagvöxt?**, which focused on the economic importance of SMEs."*



Una Steinsdóttir
Managing director of business banking

Which bank is the leader?

Gallup corporate survey omnibus



Every year, we visit **3.000** SMEs

Business Banking provides service to **55% of Iceland's outstanding companies**

According to CreditInfo list

98% of banking transactions done online

34% market share in financing of industrial machinery

Organisation

Efficient branch network and Ergo, asset based financing

Branches

Íslandsbanki operates 14 branches, five in the greater Reykjavík area and nine situated around the country. The branches have a flexible design and offer new technology and effective advisory services, which results in better service to customers. The Bank's branches have been converted to strong advisory and sales centres, while at the same time self-service solutions have evolved, delivering improved access to service and saving customers' time.



About **40% of total lending** is to customers in regional Iceland

Ergo

Ergo, a part of Business Banking, specialises in financing business equipment and commercial-industrial real estate for corporate customers, as well as financing motor vehicles and recreational vehicles for individuals. Ergo has over 30 years' experience and broad-based expertise in the asset financing market. The company makes a concerted effort to distinguish itself from its competitors by offering fast, high-quality service focused on customers' needs. In Gallup's corporate survey, Ergo receives top scores in service among asset financing companies.



Ergo ranked **first in satisfaction** with asset financing company service

Informational seminars for SMEs

Íslandsbanki holds informational seminars on matters of importance to SMEs in its branch offices nationwide. These seminars provide a unique opportunity to learn about and discuss various practical matters relating to the operations and operating environment of companies in Iceland. The seminars have been well attended and well received.

Keyrir þú áfram hagröxt?

Report by Reykjavík Economics for Íslandsbanki

(Icelandic only)



97% of companies have turnover amounting to ISK 500m or less



Some **99% of Icelandic companies** have 50 employees or fewer

The importance of SMEs in the Icelandic economy

SMEs are the backbone of the Icelandic economy. They have grown in recent years, and their balance sheets have become stronger. SMEs ensure economic and social stability and are important as regards investment, innovation, and inventions, and their numbers have risen in all regions throughout Iceland in the past eight years. Demand for new loans has exceeded GDP growth in the past two years, with the strongest increase in retail, services, and manufacturing. Competition is on the rise, and new financing options based on digital solutions have entered the market. But there are also clouds on the horizon that should be heeded: growth in tourism has slowed, and sales of new motor vehicles fell by 15% between 2017 and 2018. But there are clear signs of reduced leverage and increased profitability, suggesting strongly that companies are better prepared to face small or large economic fluctuations in the future.



Corporate and investment banking

Corporate and Investment Banking provides a broad range of financial and investment banking services to large firms, pension funds, municipalities, mutual funds, investors, and affluent individuals. The division's experts have decades of experience in the field, including trading in securities and foreign currency, investment advice, corporate finance, and lending. With strong emphasis on knowing the Bank's customers, the division's employees have in-depth knowledge of all of Iceland's key economic sectors. Íslandsbanki has developed a clear policy on lending outside Iceland, under the aegis of Corporate and Investment Banking. One of the key sectors under the division's purview is the North Atlantic fishing industry.



For large companies and investors



"In 2018, we took advantage of our strengths and placed all of our services to large companies and investors under the same division. With increased co-operation, we are even better prepared to tackle complex and extensive projects with our customers, as we have seen

numerous times this year. This distinguishes us in the market. Íslandsbanki provides the best service to companies according to a survey among the 300 largest corporates in Iceland and is also considered the most professional bank. That makes us very proud."

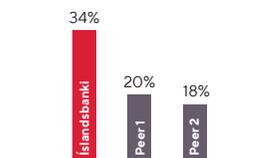


Ásmundur Tryggvason
Managing director of corporate & investment banking appointed in January 2019

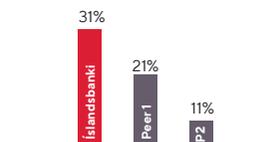


The Bank's **20-year collaboration with Vanguard** was celebrated during the year

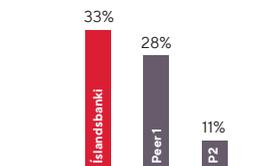
Which bank is the market leader?
300 largest



Which bank is the most professional?
300 largest



Which bank is the best at servicing companies?
300 largest



Organisation

Financial and investment bank services to large corporates and investors

Corporate banking

Corporate banking comprises **trade and services, buildings and infrastructure, and fishing and foreign lending**, which manage business relationships with large firms and are responsible for all services to these customers.

Brokerage and derivatives desk

Brokerage includes brokerage of stocks and bonds, as well as trading in foreign currencies and derivatives, such as forwards and swaps in both domestic and foreign equity and bond markets.

Largest syndicated loan in the history of the Icelandic fishing industry

Corporate finance oversaw a takeover offer to HB Grandi hf. The Bank was the arranger for a EUR 190m syndicated loan taken by HB Grandi to finance a new freezer trawler and refinance all of the company's existing debt. The success of the project demonstrated the efficiency of the division, in line with the objective of the organisational changes taking effect in mid-2017: to shorten lines of communication and increase co-operation across divisional units, thereby meeting customers' needs more effectively.

Arranger for Útgerðarfélag Reykjavíkur's (ÚR) takeover offer for HB Grandi

Corporate finance unit was the arranger for ÚR's takeover offer to HB Grandi's shareholders which followed from ÚR's investment in the company in May 2018. The Bank's brokerage units also participated in the project.

Corporate finance

The unit assists firms and individuals with purchase and sale of companies, mergers and acquisitions, and other ownership-related changes, as well as acting as a consultant for stock offerings and market listing of shares. The Bank is a Certified advisor in the First North Market and assists companies with listings.

Asset management

Private banking and Investment banking. Íslandsbanki's Private banking unit offers asset management and consultancy for affluent individuals, investment companies, funds, and charitable organisations. Professional investors manage business relationships with large investors and are responsible for all of the Bank's services to these customers.

Strong position with large firms and investors

Corporate and investment banking made significant strides in 2018, participating in a number of large and extensive projects. The loan portfolio grew strongly, with ISK 82bn in new loans taken by customers representing a wide range of sectors. Íslandsbanki has carved out for itself a position as a leader in syndicated lending, leading four large syndicated loans in Iceland during the year. Corporate finance had an exceptional year, concluding 40 projects, including the takeover offer to HB Grandi, the sale of all share capital in FAST-1 to real estate company Reginn, and successful bond issues valued at nearly ISK 20bn. Among the bond issuers Eik, the Icelandic Regional Development Institute, Iceland State Electricity, HS Veitur, and the town of Garðabær, in co-operation with the Bank's securities brokerage unit. In addition, the foreign currency brokerage unit had a very good year, the Bank strengthened its position in securities brokerage, and assets under management and assets in custody increased during the year.



Íslandssjóðir hf.

Íslandsbanki subsidiary Íslandssjóðir hf. is Iceland's oldest asset management company, founded in 1994. The company manages 23 mutual and investment funds and three institutional investment funds, as well as providing service to investment companies that invest in unlisted shares and real estate. Íslandssjóðir has roughly ISK 250bn in assets under management, and over 10,000 depositors and investors choose to invest their assets with the company. In addition, Íslandssjóðir has specialised in real estate projects and venture funds, currently operating two funds in each category.

Employees
 **21**
 Number of FTEs at year-end

Strong market share
 **31,5%**
 (without foreign funds)

Investment funds and specialised investments

“Íslandssjóðir has grown and evolved in spite of stiff competition and demanding conditions in the domestic securities market in recent years. The main reason for this is its vibrant and highly experienced team of employees who provide professional asset management services. This growth has delivered increased staff expertise,

enabling us to develop new and exciting investment options, both for the general public and for institutional investors. An example is the new green bond fund founded by Íslandssjóðir, 105 Miðborg building a new neighbourhood in Kirkjusandur and the commodity fund that invests in international commodity markets.”



Kjartan Smári Höskuldsson
 Managing director of Íslandssjóðir hf.

 **Liquid asset portfolio**
 buy and sell on demand at no cost

 **Best returns** of all Treasury bond funds in 2018

 **3 real estate funds**
2 entrepreneur funds
10 bond funds
9 mixed funds
4 equity funds

 **Main projects 2018**

105 Miðborg	FAST-1
Akur	FAST-3
Eldey TLH	Alpha

Organisation

Íslandssjóðir is composed of three business units, a risk management function, business development, legal staff and a managing director.

Fund management

Íslandssjóðir' fund managers oversee funds that invest in bonds, equities, and other financial instruments. The funds are an economical and effective avenue for depositors who want to invest in a portfolio of securities, thereby diversifying risk.

Asset management

Íslandssjóðir' strong asset management team handles assets on behalf of customers – individuals, public entities, or institutional

investors – that have entered into an asset management agreement with Íslandsbanki.

Specialised investments

Since 2012, Íslandssjóðir has acquired substantial experience in real estate investments, real estate development, and venture capital. The team comprises seven experienced specialists who manage institutional investment funds and other investments via special investment companies. Íslandssjóðir also operates a specialised institutional investment fund that invests in commodities, as well as the Alpha Fund, an institutional investment fund that takes positions in the domestic equity market.

Responsible investment

Íslandssjóðir signed a co-operation agreement with *Principles for Responsible Investment* (PRI) in December 2017. PRI is an independent organisation on responsible investment, supported by two member organisations of the United Nations: *the United Nations Environment Programme Finance Initiative* and *the United Nations Global Compact*. Íslandssjóðir is also a founding member of the Icelandic Sustainable Investment Forum (IcelandSIF), which was established in November 2018. The purpose of IcelandSIF is to promote increased knowledge and discussion of the methodologies of sustainable and responsible investment.

[Principles for Responsible Investment](#)

[IcelandSIF](#)

IS Green Bond Fund

During the year, Íslandssjóðir established a Green Bond Fund, which invests in bonds intended to have a positive impact on the environment and society; for instance, by financing projects that mitigate the impact of climate change. The fund participated in the City of Reykjavík's auction of the first green Icelandic bonds issued in Icelandic krónur.

Commodity Fund

Iceland's first commodity fund Íslandssjóðir established Iceland's first commodity fund (an institutional investment fund) during the year.



Corporate governance

Íslandsbanki's Board of Directors has resolved to maintain outstanding corporate governance practices and to ensure that these practices comply with applicable regulatory provisions, internationally recognised criteria, and best practice in the field of corporate governance.

Guidelines on corporate governance

Íslandsbanki's corporate governance practices are in compliance with the recognised Guidelines on Corporate Governance. Each year, Íslandsbanki carries out an appraisal of whether the recognised Guidelines on Corporate Governance are followed, and whether the Bank's practices at any given time are in compliance with them.

The Bank's corporate governance practices are described in further detail in its Corporate Governance Statement.

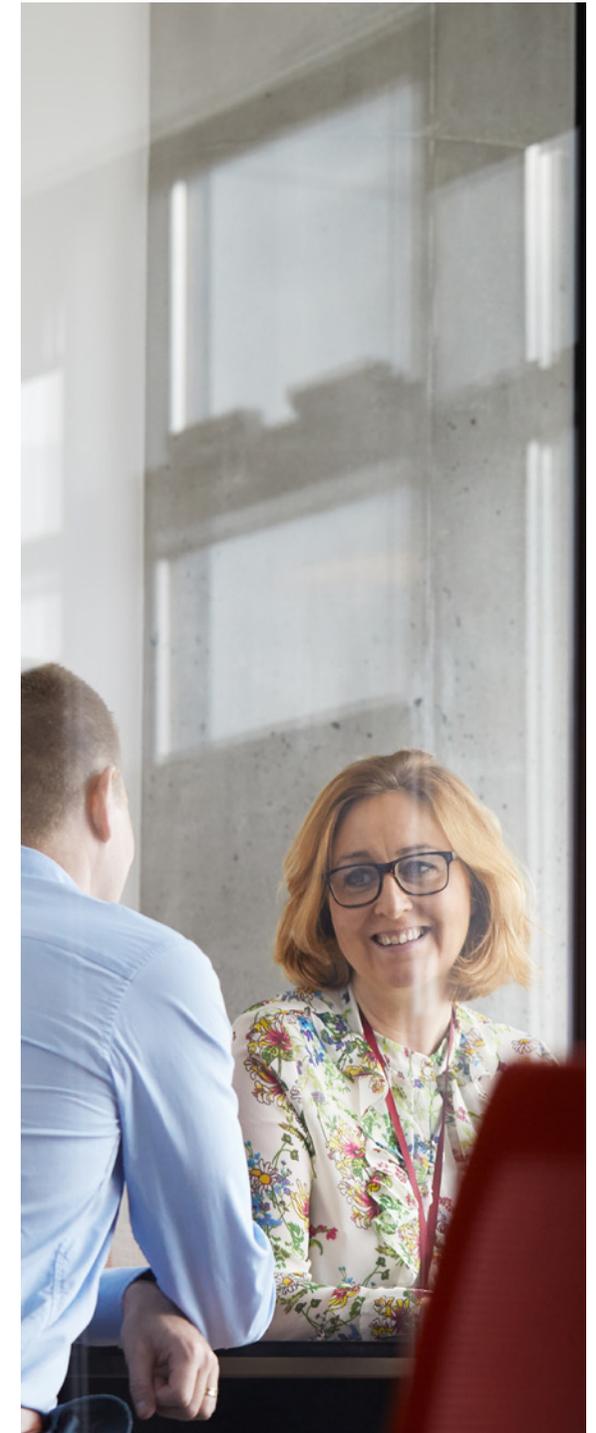
[Corporate governance statement](#)

Excellence in corporate governance

Íslandsbanki was first recognised for excellence in corporate governance by the University of Iceland Institute of Business Administration's Centre for Corporate Governance in March 2014. The recognition was renewed in 2015, 2016, 2017, and 2018.

Sound corporate governance practice policy and decision-making matrix

Íslandsbanki has adopted a sound corporate governance practice policy and implemented a decision-making matrix that maps out the requirements for all major decisions made within the Bank. The decision-making matrix is an element in improving the decision-making process and enhancing stakeholders' confidence in the Bank. The matrix lays down given requirements and stipulates specified processes for major decisions.



Sound governance practices continuously evolving

The Board of Directors has approved a sound governance practice policy, which entails a commitment by the Bank to comply with the applicable governance rules in effect at any given time. Thus the Bank's governance practices are always evolving.

Competition law plan

During the year, the Board of Íslandsbanki approved a competition law plan for the Bank and its subsidiaries. It is the Bank's policy to compete actively in the markets in which it operates and to ensure that its activities fulfil the obligations that follow from the Competition Act at any given time.

Íslandsbanki's general ownership policy

The aim of the policy is to clarify Íslandsbanki's corporate governance focus and criteria as regards its role as owner of other companies, thereby promoting transparency in investments, sound governance practices, and overall development of the companies concerned. The policy applies to the Bank's subsidiaries, whether they are firms engaged in ancillary activities or holdings in unrelated operations.

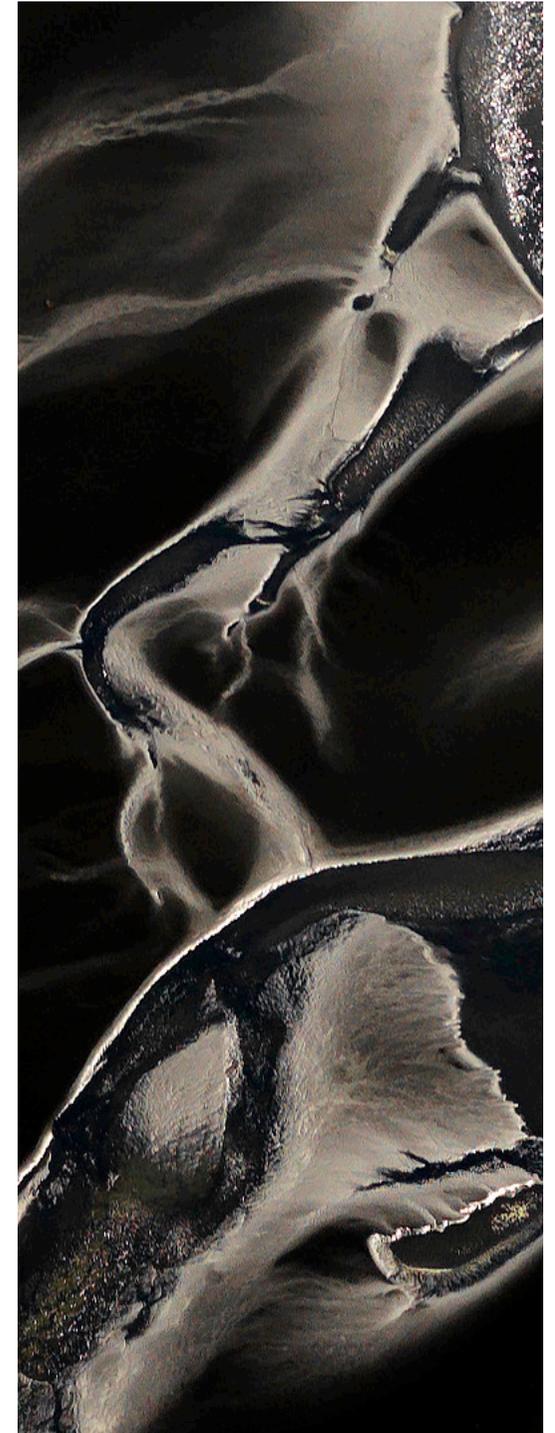
Policy on eligibility of Board members, directors, and key employees

The objective of the policy is to ensure that the Bank's Board, CEO, and key employees satisfy at all times the relevant eligibility requirements and that the framework for their appointment and/or hiring is in compliance with the applicable internal and external regulatory provisions pertaining to the Bank's activities

Íslandsbanki policy on asset sales

The policy applies to the sale of the Bank's assets, including appropriated assets. The objective of the policy is to promote transparency, impartiality, non-discrimination, and economy in the Bank's decisions on asset sales, thereby bolstering investors' confidence in the Bank and demonstrating integrity vis-à-vis stakeholders.

Corporate governance



Board of Directors and board subcommittees

Íslandsbanki's Board of Directors oversees the Bank's operations so as to ensure that they are in compliance with the applicable regulatory instruments, sound business and governance practices, and the rules set by the Board itself.

Íslandsbanki Board of Directors

The Board of Directors comprises seven members and two alternates who are elected at each Annual General Meeting for a term of one year. The Board's work is further specified in the Rules of Procedure for the Board of Directors, which were updated in August 2018.

[Rules of Procedure](#)

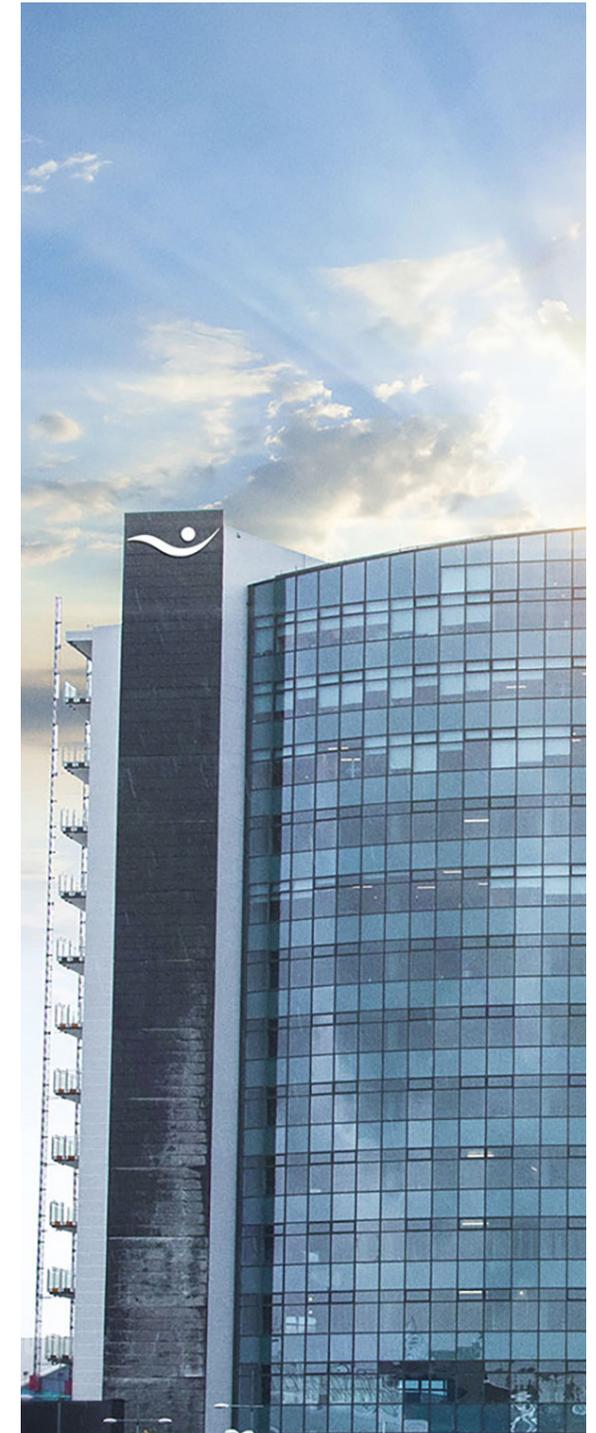
Board subcommittees

In order to support development, implementation, and supervision of Board tasks requiring additional expertise or attention, the Board appoints separate subcommittees whose work is governed by letter of mandate from the Board.

There are three Board subcommittees, all comprising Board members

- Board Audit Committee
- Board Corporate Governance, Compensation and Human Resource Committee
- Board Risk Management Committee

[Board subcommittees](#)



Board of Directors



More about Board members



Friðrik Sophusson

Chairman of the board since January 2010



Anna Þórðardóttir

Joined the Board in April 2016



Auður Finnbogadóttir

Joined the Board in April 2016



Árni Stefánsson

Joined the Board in April 2016



Hallgrímur Snorrason

Joined the Board in April 2016



Heiðrún Jónsdóttir

Joined the Board in April 2016



Helga Valfells

Joined the Board in April 2013



**Positive force
in society**
UN sustainable
development goals

Priorities for corporate social responsibility

Corporate social responsibility is one of Íslandsbanki's strategic priorities. In all of its work, the Bank has been guided by its determination to be a positive force in the community. Íslandsbanki's social strategy is based on five pillars: **business, education, environment, workplace, and community**. Since 2009, the Bank has adhered to the corporate social responsibility principles laid down by the United Nations in the UN Global Compact and has pledged to work towards ten fundamental social responsibility principles defined by the UN and to support its key objectives. The Bank is also a proud contributor to the UN's 17 Sustainable Development Goals.

Corporate social responsibility

UN Global Compact

UN's 17 SDG

10 principles of the UN Global Compact that Íslandsbanki has pledged to follow



Human Rights

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights

Principle 2

Businesses should make sure that they are not complicit in human rights abuses



Labour

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 4

Businesses should uphold the elimination of all forms of forced and compulsory labour

Principle 5

Businesses should uphold the effective abolition of child labour

Principle 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation



Environment

Principle 7

Businesses should support a precautionary approach to environmental challenges

Principle 8

Businesses should undertake initiatives to promote greater environmental responsibility

Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies



Anti-Corruption

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery

Business

Sustainable and responsible business activities

Íslandsbanki has put a great deal of emphasis on responsible lending during the year. This has meant looking into environmental and social factors along with corporate governance, when selecting companies to cooperate with. This approach both mitigates risk and promotes sustainability in the long run. An important milestones for Íslandssjóðir was the launch of the first domestic green bond fund.

Responsible lending

Íslandsbanki focuses strongly on responsible lending and demonstrates this in practice by weighing lending decisions carefully and providing customers with sound advice during the lending process. One of Íslandsbanki's main tasks during the year was to update its procedures for responsible lending so as to make the process more goal-oriented.

Íslandsbanki seeks to support those who utilise environment-friendly energy and give consideration to the effect of their activities on nature and the environment, which is in line with the Bank's corporate social responsibility policy.

Responsible purchasing

Íslandsbanki is a large purchaser of goods and services, and its impact can be felt widely. The Bank seeks to understand

stakeholders' requests and requirements so as to develop new solutions for the benefit of the environment, the community, and the economy. It has worked closely with suppliers with the aim of improving the operations of both parties while minimising environmental impact and supporting the immediate community. Increased emphasis has been placed on harmonisation and oversight of purchasing activities, digital signatures on contracts, and the visibility of the department within the Bank.

Routing all purchasing through a centralised unit creates a stronger foundation for the business relationship with providers of goods and services. Oversight is enhanced, leading to better-informed decision-making, enhanced efficiency and speed, and reduced costs. In addition, it is easier to monitor and implement the Bank's corporate social responsibility policy.

Green bonds

Íslandssjóðir established the **IS Green Bond Fund**, which invests in bonds intended to have a positive impact on the environment and society; for instance, by financing projects that mitigate the impact of climate change. The Nasdaq Iceland exchange has set up a list of sustainable bonds, and the IS Green Bond Fund will participate actively in building up this market. The fund is already well financed and is a sound option for depositors wishing to emphasise environmental and social issues without sacrificing strong long-term returns.



Renewable energy



Clean transportation



Energy efficiency



Responsible waste management

Education

Extensive educational programmes

Íslandsbanki's educational programme was almost unprecedented in scope in 2018. The Bank held 96 educational and informational meetings and talks for almost 5,300 guests and 9,000 online viewers. This is in line with one of the Bank's objectives, which is to enhance the public's knowledge of finances by offering accessible and interesting information on finances and economic affairs.

Lectures

Among the offerings were talks on finances at retirement, a seminar in finances for refugees, informational meetings on homebuying and saving in Icelandic and English and, on the lighter side, entertaining presentations about the finances of Disney, the World Cup, and other topics. Meetings were also held about the Icelandic króna, equal rights, tourism, foreign investment, and operation of SMEs.

Podcasts

A new podcast series was launched during the year, as was the publication on social media of regular bullet points about matters such as inflation, value-added tax, the current account balance, tourism, and other subjects. Nearly 70 videos were published on Íslandsbanki's social media pages and watched by almost 140,000 viewers.



70 videos published on social media and **140,000** views



New podcast launched



9,000 website views



Environment

Positive environmental impact

In recent years, Íslandsbanki has taken decisive action so as to have a positive impact on the environment. The Bank has taken climate issues very seriously and, in 2015, signed an agreement with Festa on action to combat climate change. This is in line with UN Sustainable Development Goal no. 13, which centres on stepping up contingency plans and preventative measures to combat the threats caused by climate change and natural disasters worldwide.

Motor fleet goes green

The Bank has downsized its motor vehicle fleet by nine since 2017. It now operates 27 vehicles: five electric cars, six petrol vehicles, six petrol/electric hybrids, and ten diesel vehicles. Fuel usage in 2018 totalled 26,263 litres, down from 34,644 litres in 2017.

Digital focus

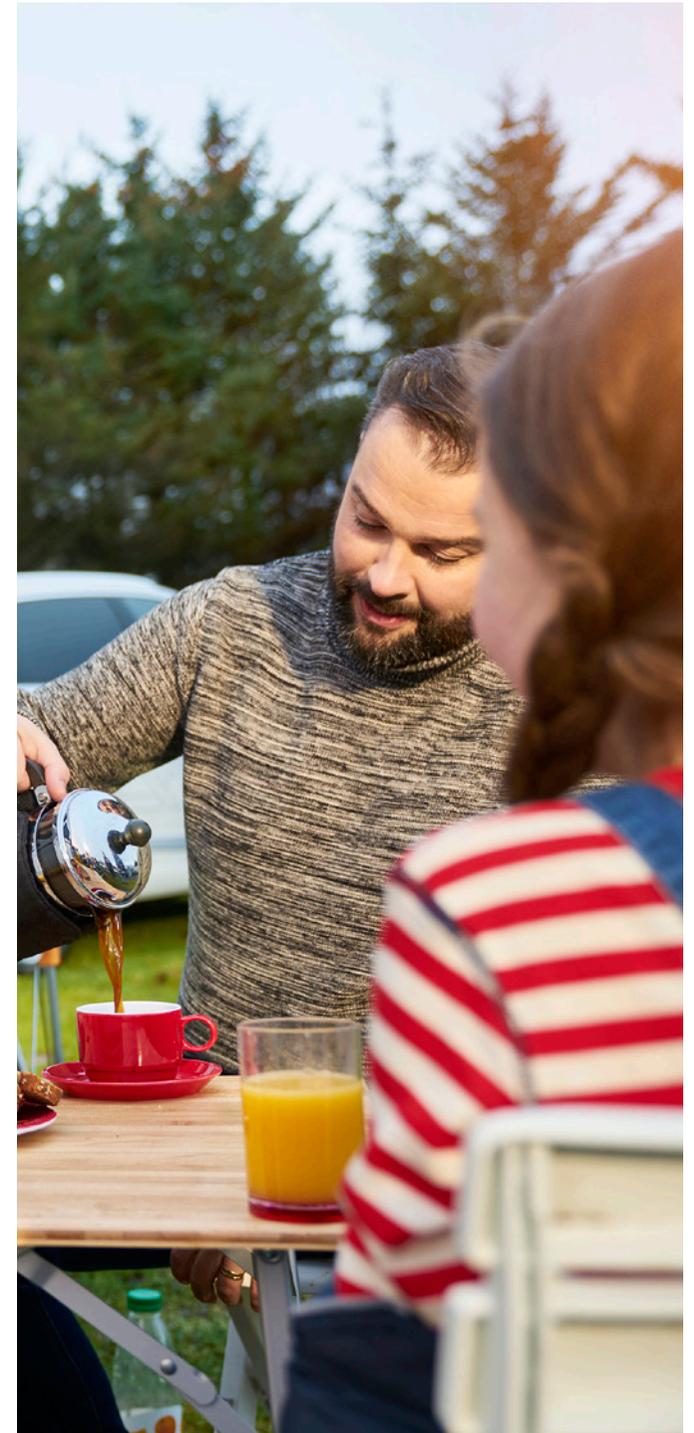
The Bank's focus on digital solutions has led to a reduction in in-house printing costs from ISK 58.5m in 2014 to less than ISK 18.5m in 2018. Íslandsbanki's aim is to become a paperless bank. The Bank also urges service providers and suppliers to adopt electronic billing rather than sending invoices by postal mail.

Íslandsbanki sends a large share of its marketing material to customers in

electronic form by e-mail instead of sending targeted marketing materials by postal mail. The number of postal letters sent to customers fell by about 50% between 2010 and 2018.

Stopping greenhouse gas emissions

During the year, Íslandsbanki decided to make an agreement with the Wetland Fund on stopping 200 tons of greenhouse gas emissions, in line with UN Sustainable Development Goal no. 15. The objective is to protect and reclaim land-based ecosystems and promote their sustainable utilisation, as well as working towards sustainable forest management, combatting desertification, stopping soil erosion, reclaiming land, and working against loss of biodiversity. Under the project, interested companies cooperate with the Wetland Fund by adopting





predefined drained or disturbed land areas such as swamps or wetlands in a given valley and reclaim them at their own pace. They also have the option of making financial contributions to the Fund.

Energy use on the decline

Energy use has contracted since 2013. The combined difference between 2017 estimates and 2018 estimates is shown in the table below, which indicates that electricity costs have fallen by 38% and cold-water usage by 55%. Hot water usage has increased by 25%, however.

It should be noted that not all of the Bank's business locations remained the same between years; therefore, it is not always possible to compare figures between years and between locations.



Cold-water usage **decreased by 55%** between years



Electricity costs **have fallen by 38%** between years

Sorting and recycling

Íslandsbanki employees sort trash, rough waste, painted timber, metals, organic waste, corrugated cardboard, and other items. The Bank is a customer of two recycling companies, Íslenska gámafélagið and Gámapjónustan, depending on business location. It is not always a simple matter to compare sorting figures, but the conclusion is nevertheless that the Bank is making significant progress in this area.

The share of raw material sent to Gámapjónustan for recycling in 2018 was 69%, which is excellent news. The share of waste disposal in landfills fell from 86% in 2014 to 31% in 2018.

Energy use

	2018	2017	Difference	%
Electricity	1,244,146	2,015,975	-771,829	-38.0%
Hot water	52,787	42,252	10,535	25.0%
Cold water	19,981	44,666	-24,685	-55.0%

Workplace

Equal rights at the forefront

Íslandsbanki has worked effectively for equal rights, and management and employees participated in equal rights discourse during the year. The Bank has held annual equal rights meetings for a combined total of 2,000 attendees. In 2018, the discussion centred on women and men in various economic sectors.

UN Women and UN Global Compact

Íslandsbanki is a signatory of the UN Women and UN Global Compact's Women's Empowerment Principles. Its equal rights policy is a part of the Bank's Human Resources Policy. In 2015–2016, Íslandsbanki received the Gold Award in the PwC Equal Pay Assessment, and at the end of 2018 it received Equal Pay Certification according to the ÍST 85:2012 standard on gender equality, which was incorporated into the law in June 2017. The law applies to firms and institutions with 25 or more employees. Systematic measures to promote gender equality have proven successful, as can be seen in the gender ratios of Bank management.



Íslandsbanki and the Association of Women Business Leaders in Iceland

Íslandsbanki has been a supporter of the Association of Women Business Leaders

Íslandsbanki aims to have as equal gender ratios as possible in its divisions, departments, committees, councils, and boards, as well as in management positions. Managers have a set objective of working towards strengthening the position of women still further by preparing an action plan with dated targets.

in Iceland since 2010. The objectives of the agreement between the two are to strengthen the Association and emphasise sharing finance-related knowledge and experience to its members via co-operative projects, events, and information. Recently the Association launched a project called the Equality Scale in co-operation with the Ministry of Welfare and several companies: Sjóvá, Deloitte, Pipar/TWBA, and Morgunblaðið. The aim of the Equality Scale is to have a gender ratio of 40/60 in corporate executive committees by 2027. Íslandsbanki has already reached this goal but intends to participate in the work ahead.

Gender ratios of Bank management	Total	Male	Female	Male	Female
Department managers	25	13	12	52.0%	48.0%
Business managers	18	7	11	38.9%	61.1%
Department supervisors	47	27	20	57.4%	42.6%
Branch managers	13	9	4	69.2%	30.8%
Executive Committee	7	3	4	42.9%	57.1%

Community

Helping hand initiative for a good cause in society

Íslandsbanki's ambition is to have a positive effect on society by supporting good causes. Projects are supported either financially or with assistance from Bank employees who lend a Helping Hand by contributing their time in support of good causes. The Bank invites its employees to contribute to charitable causes. It gives employees the chance to take one work day per year and donate their time to the cause of their choice, where they work as volunteers. Over 400 Bank employees lent a Helping Hand in this manner in 2018.

Winter festival for asylum seekers

As part of the Helping Hand initiative, Íslandsbanki held its second annual winter festival for asylum seekers, welcoming over 100 people to the Bank. The festival is prepared by Bank employees who wrap gifts and cook food for the occasion. The evening was very successful, and it is safe to say that the Helping Hand group were as grateful as the children who ate good food, received gifts, and greeted the Icelandic Yule lads.



400 employees **donated one work day for a good cause**

Íslandsbanki Reykjavík Marathon

This year, runners collected a record ISK 157m in pledges to 175 charitable organisations. This exceeded the previous amount, ISK 118m, by 33%. The total amount collected since 2006, when it was first possible to solicit pledges for participation in the Íslandsbanki Reykjavík Marathon, exceeds ISK 820m. A total of 14,000 people took part this year, and participation in the 10km and 3km races was stronger than ever before.

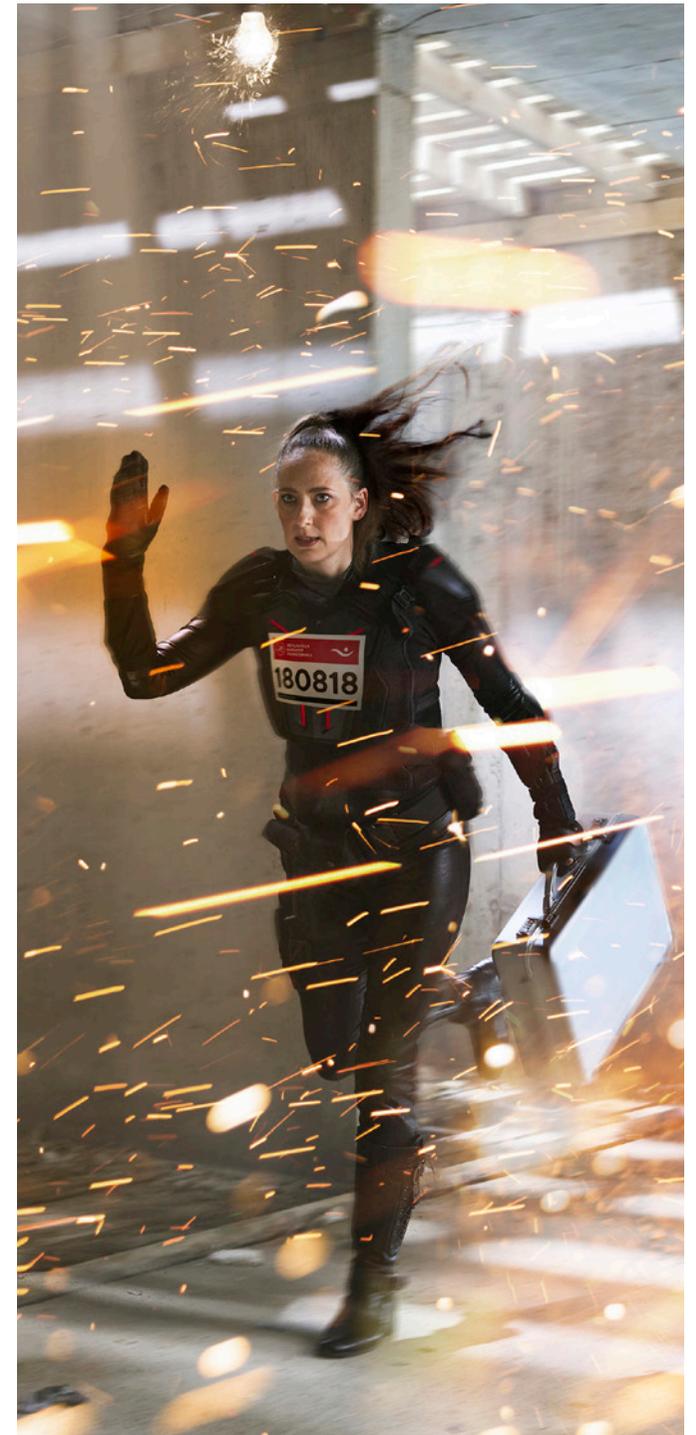


Runners **collected ISK 157m**



175 charities were supported

Charities





The Red Cross

Íslandsbanki supports the worldwide charitable work of the Red Cross by contributing to the Bridging the Digital Divide initiative. With this project, Íslandsbanki does its part to eliminate poverty, in line with UN Sustainable Development Goal no. 1.

In this collaboration between Íslandsbanki and the Red Cross, the Red Cross works with national Red Cross and Red Crescent organisations in over ten African countries with the aim of improving information technology knowledge and equipment and enhancing the organisations' capacity to use IT in their charitable work. Íslandsbanki supports this initiative by sending employees with the knowledge and training in IT to work as resident representatives, as well as by providing financial subsidy. The Bank has also provided employees to conduct financial verifications to ensure that funds raised by the Red Cross are being deployed as intended for in Africa.

Íslandsbanki employees have already travelled as resident representatives to national organisations in Malawi, Burundi, Kenya, Tanzania, Liberia, Somaliland, Uganda, and Zambia.

Combining forces in clusters

The ideology behind cluster activities centres on bringing dissimilar parties together in a structured cooperative forum so that they can join forces and utilise the resulting synergies as a driver of innovation and development. Íslandsbanki is a supporter of the Icelandic Ocean Cluster, which operates the cluster-based activities of more than 60 companies in the fishing sector. The Bank has also participated in developing the Icelandic Geothermal Cluster, which centres on collaboration among a large number of firms based on the needs of the sector.

Moreover, Íslandsbanki is a founding member of the Icelandic Tourism Cluster, a project-driven cooperative initiative among dissimilar tourism companies. In 2017, Íslandsbanki took the helm of the Responsible Tourism project, which was established by Festa, the Icelandic Tourism Cluster and others. As a lender to the tourism industry, the Bank wants Iceland to be a desirable tourism destination in the future, with sustainability as a guiding principle. In the spirit of UN Sustainable Development Goal no. 9 on building resilient infrastructure and promoting inclusive and sustainable industrialisation, the Bank is a reliable partner.

Festa

Nordic co-operation to support the UN SDGs

In 2018, Íslandsbanki became a member of Nordic CEOs for a Sustainable Future, an association comprising large Nordic firms that work jointly towards the UN Sustainable Development Goals. Members of the group include the CEOs of Equinor, Hydro, GSMA, Íslandsbanki, Nokia, SAS, Swedbank, Telenor Group, Telia Company, Vestas, and Yara.



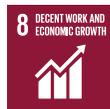
Equal rights are important

„We are proud to work with this group towards realizing the UN Sustainable Development Goals and to join forces with Nordic companies that are world leaders in corporate social responsibility. At Íslandsbanki, we have long placed strong emphasis on equal rights inside and outside the Bank. Gender Equality is goal number 5. We are aware that Iceland's success in gender equality is noticed abroad, and we intend to keep the discourse on the agenda.”

Birna Einarsdóttir
CEO of Íslandsbanki
at the launch of the group

Íslandsbanki is a proud sponsor of the UNSDGs through various societal initiatives

Business



- Informational seminars for SMEs
- Responsible tourism

Education



- Educational grants
- Various financial literacy initiatives

Environment



- Responsible lending
- Responsible investments
- Fixed loan book ratio for a affordable clean energy



- Green car fleet
- Employee allowance for limited car use to work



- Responsible purchasing / fair trade
- Paperless bank
- Recyclable bank



- Investment in Wetland fund
- First Icelandic green bond fund



- Incentive for less plastic consumption
- Responsible fisheries

Workplace and equality



- Equal gender ratios
- Mentor training for employees
- Annual equal rights meetings
- Certification for equal pay
- Sponsor Association of women business leaders in Iceland (FKA)

Community



- Employee participation in Helping hand
- Debt deferral programme
- Holiday celebration for refugees



- Helping hand in Africa
- Cantine co-operation with local food kitchen (Samhjálp)



- Íslandsbanki Reykjavik marathon
- Month of Masters



- Startup Tourism
- Entrepreneur fund
- Co-operation with Lattice 80
- Fintech centre



Financials and funding

Financials and funding

Íslandsbanki continued investing in new technologies during the year and successfully launched new core systems as well as introducing various new digital solutions for customers. The Bank and its core subsidiary, Íslandssjóðir enjoyed a solid year with steady income growth as well as increasing the loan portfolio by 12% while a reduction in profits for other subsidiaries negatively impacted the Group's overall result. The Bank's balance sheet continues to be robust, risk is being prudently managed and the liquidity position is very strong in ISK and FX.

Total income rose marginally between years

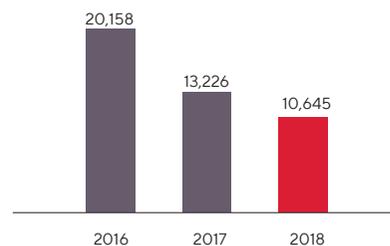
Total income in 2018 amounted to ISK 45bn, an increase of 1.8% YoY. Net interest income totalled ISK 32bn, an increase of 6.5% between years, as the loan portfolio grew. The net interest margin was 2.9%, which is broadly unchanged from the prior year. It is expected to remain just below 3.0% in the short and medium term.

Net fee and commission income totalled ISK 12.2bn, as compared with ISK 13.8bn for the

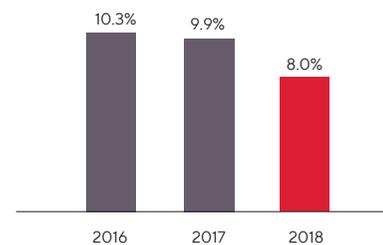
same period in the previous year. The decline is due mainly to reduced fee and commission income from two of the Bank's subsidiaries, as the parent company and Íslandssjóðir recorded an increase of 6% YoY.

Income from core operations (net interest income and fee and commission income) accounted for some 98% of total operating income for 2018. The Bank continues to place strong emphasis on maintaining strong core income and stable long-term in-come flows.

Profit after tax (ISKm)



ROE reg. operations CET116%*



*Return from regular operations on normalised CET1 of 16%, adjusted for risk free interest on excess capital. Earnings from regular operations is defined as earnings excluding one-off items e.g. bank tax and impairment on financial assets.



Successful funding

"It was gratifying to see the level of support our bond issues were met with across the course of 2018. In spite of the fact that credit markets were in bearish mode for more than half the year, the Bank enjoyed good success with its funding programme in foreign currencies. The Bank issued two very well placed senior callable bonds in the first quarter, one in EUR and the second in SEK, and then issued a number of private placements in SEK over the course of the Summer, even as spreads were widening across the spectrum. The issuing programme for the came to a close with a second issue of Tier 2 bonds in SEK, taking our issuance volume in Swedish kroner to approximatel SEK 4 bln in the year. The Bank remains committed to showing investors as much liquidity as it can, and will remain responsive to their requirements."

Jón Guðni Ómarsson
Chief financial officer



The Bank's net financial income was negative by ISK 962m compared to a negative net financial income of ISK 715m in 2017, owing largely to losses on financial assets and financial liabilities mandatorily at fair value through profit and loss, which amounted to ISK 720m.

Other operating income totalled ISK 1.8bn in 2018, as opposed to ISK 628m in 2017, and derives from the sale of a real estate development subsidiary.

Administrative expenses rose by ISK 682m YoY, or 2,5%, mainly as a result of collective wage increases and costs relating to the implementation and launch of the Bank's new core deposits and payments system.

In 2018, the average number of full-time position equivalents (FTEs) was 873 for the parent company (2017: 915) and 1,076 for the Group (2017: 1,098). At the end of 2018, there were 834 non-seasonal parent company

employees (2017: 860) and 1,075 non seasonal employees at the Group level (2017: 1,042).

The year-end cost-to-income ratio was 66.3%, as opposed to 62.5% at the end of 2017, above the Bank's long-term target of 55%. The calculation of the cost-to-income ratio excludes the bank tax and one-off items. The parent company's cost-to-income ratio was 60.4% for the period.

The after-tax profit from discontinued operations was ISK 912m in 2018, as opposed to ISK 2.6bn in 2017. The profit for the period was due to asset sales and income from appropriated assets.

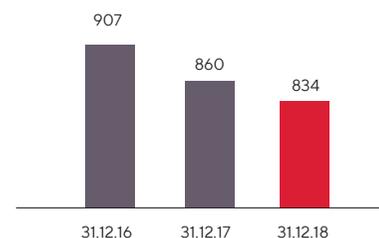
Positive net loan impairment

Net loan impairment generated a gain of ISK 1.6bn in 2018, comparable to that in the prior year, and derived largely from the removal of obligations due to foreign-denominated loans.

Taxes and levies continue to affect profits and dividend payment capacity

Income tax for 2018 totalled ISK 4.7bn, as compared with ISK 4.2bn in 2017. The effective tax rate was 32.7%, as opposed to 28.0% in 2017. The increase is due primarily to an increase in non-deductible expenses and

Number of FTEs for parent company



tax-exempt levies. The bank tax amounted to ISK 3.3bn in 2018, as compared with ISK 2.9bn in 2017. The bank tax increased substantially in 2013 and was presented as a temporary measure, but according to the Government's long-term plans, it is expected to decrease gradually from the current 0.376% to 0.145% by 2023. The Bank pays a special 6% financial administration tax on profits in excess of ISK 1bn, as well as contributing to the Depositors' and Investors' Guarantee Fund, (DIGF) the Financial Supervisory Authority (FME), and the Debtors' Ombudsman. The contribution to the DIGF totalled ISK 1.2bn in 2018, slightly higher than in the previous year. Total taxes and levies amounted to ISK 10.6bn in 2018, as opposed to ISK 9.5bn in 2017.

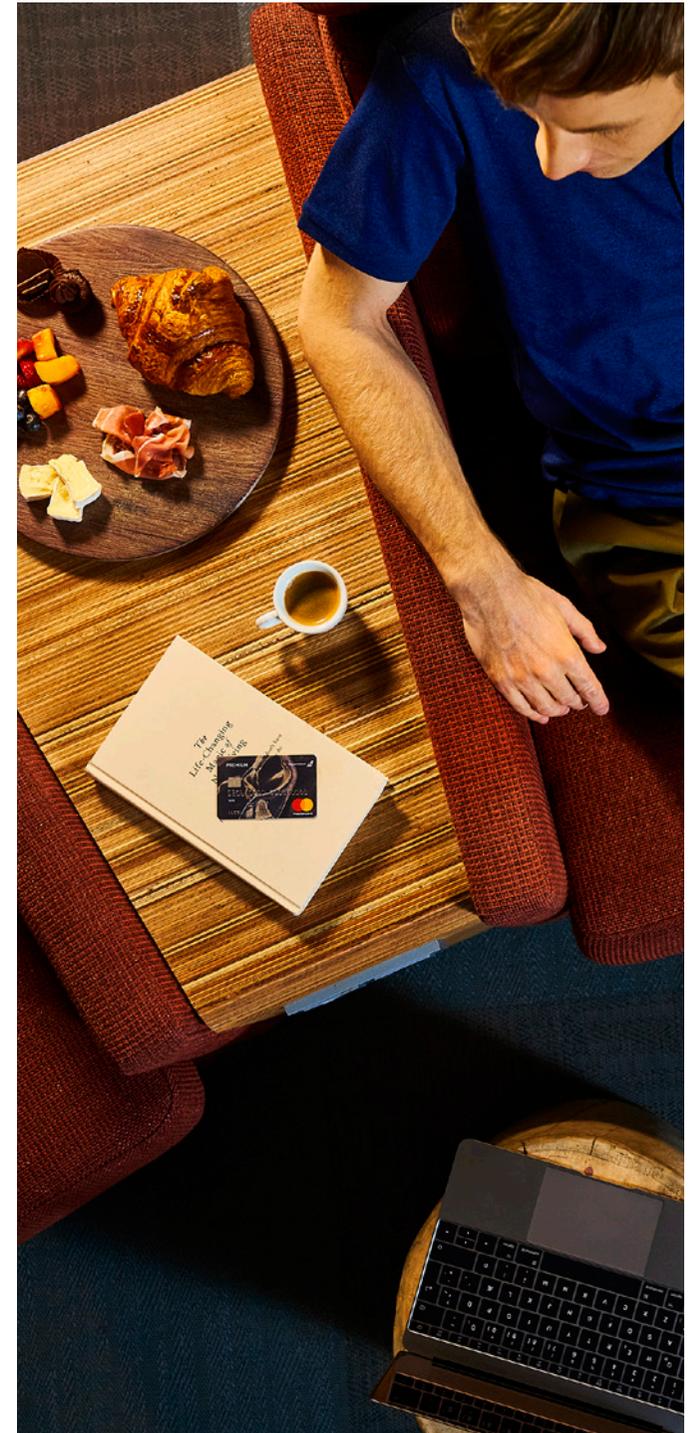
Standard international NPL metric not available since implementation of IFRS 9

Following the adoption of the international financial reporting standard IFRS 9, no consensus has been reached among banks on a defined metric for loan portfolio quality. It is therefore difficult to compare the Bank's loan book with those of other credit institutions and analyse historical developments, as the metrics published by different banks are frequently non-

comparable. The European Banking Authority (EBA) has defined such a metric as the ratio of non-performing loans (NPL) to the gross book value of the total loan book. In this context, NPLs are defined as loans in arrears by more than 90 days or those deemed unlikely to be paid. At the end of 2018, Íslandsbanki's NPL ratio thus calculated was 1.7%, as compared with the European average of 3.4% as of end-September 2018. The NPL ratio in terms of the gross book value of loans to customers was 2.0% at the end of 2018, and in terms of net book value it was 1.6%.

Profit in line with expectations

The Bank's after-tax profit was ISK 10.6bn (2017: ISK 13.2bn), and the annualised return on equity was 6.1% (2017: 7.5%), in line with expectations. Earnings from regular operations totalled ISK 12.0bn (2017: ISK 13.8bn), and the annualised return on equity from regular operations normalised for a 16% CET1 ratio was 8.0%, as compared with 9.9% in 2017. The profit from regular operations contracted by ISK 1.8bn, owing primarily to a reduction in fee and commission income from two subsidiaries and to negative financial items.



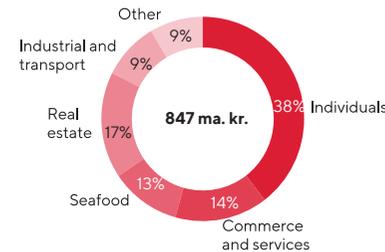
Balance Sheet

Assets – balance sheet expands through continued strong credit growth

The Bank's balance sheet grew by 9.1% during the year, to ISK 1,130bn at the end of 2018. Loans to customers increased by 12.1% (ISK 91.4bn) in 2018. The increase in lending was distributed across all of the Bank's lending units, although large companies were the largest borrowers. Mortgage lending increased by ISK 23.5bn in 2018. New loans totalled ISK 239bn during the period, up 20% from the previous year's total of ISK 199bn. As a share of the Bank's broadly diversified total loan portfolio, lending to the tourism industry has declined YoY, to 12% (2017: 13%).

Loans are generally backed by strong assets, with real estate and ships the most important types of collateral. The weighted average loan-to-value (LTV) ratio of the Bank's residential mortgage portfolio was 61% at the end of 2018, as compared with 63% a year earlier. LTV has decreased since year-end 2017 which is mainly due to the increase in published tax value of properties that raised housing valuation of about 12.8% from its previous publication.

Loans to customers
(Sector split as at 31.12.18)

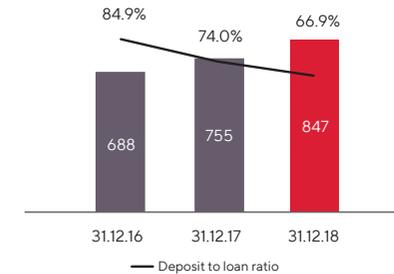


Liabilities – diversified domestic and foreign funding

The Bank's total liabilities amounted to ISK 954bn, an increase of 11.6% since the beginning of the year. The Bank maintained a strong liquidity position in both foreign currencies and ISK. Liquidity ratios were well above regulatory requirements and internal limits. At the end of 2018, the liquidity coverage ratio (LCR) was 172% in all currencies for the Group, 111% in ISK for the Group and 153% (all currencies) for the parent company. The net stable funding ratio (NSFR) was 114% for the Group in all currencies, 149% for the Group in foreign currencies and 151% for the parent company.

Customer deposits increased by 2.1% during the year, to ISK 579bn. Deposits are the Bank's largest funding item, and concentration risk is closely monitored. The ratio of customer deposits to customer loans

Loans to customers (ISKbn)

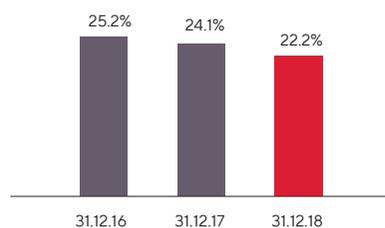


declined to 68.4% in 2018, from 75.1% at the end of 2017. The Bank's asset encumbrance ratio was 18.0% at end of year, compared to 15.2% at end of 2017.

The Bank's debt issuance continued to be successful during the year, with the issue of domestic bills and covered bonds, as well as foreign currency denominated bonds. The aim of the issues is to mitigate risk through increased diversification of funding. Covered bond issues totalled ISK 24bn in 2018, in line with the Bank's funding plan. Íslandsbanki remains the largest issuer of covered bonds in Iceland.

In January 2018, the Bank issued a EUR 300 million (approx. ISK 38bn) six-year bond. The bond is callable by the issuer after five years (6NC5). It bears a fixed interest rate of 1.125%, or the equivalent of a 75-bp margin over the mid-swaps rate. The orders for the

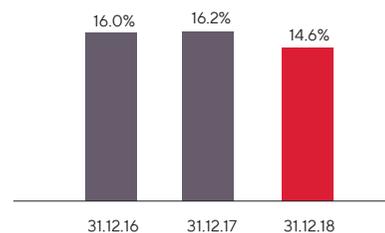
Total capital ratio (%)



new bond totalled EUR 1,255m from 121 investors, thus oversubscribing the issue by a factor of four. The bonds were sold to a broad group of investors, including from the UK, mainland Europe, the Nordic region, and Asia. The transaction was notable as it was simultaneously the longest-dated and most tightly-priced foreign bond issued by an Icelandic financial institution since 2008. The Bank also issued other bonds during the year, for a total value of SEK 1,700m.

In August 2018, the Bank issued a ten-year subordinated bond in the amount of SEK 500m. The bond is callable by the issuer after five years (10NC5). The Tier 2 issue bears a floating interest rate of 250 bp above the three-month Swedish interbank rate (STIBOR). This second subordinated issue follows from a successful SEK 750m Tier 2 issue in November 2017, the first subordinated bond issued by an Icelandic financial institution in foreign markets since 2008.

Leverage ratio (%)



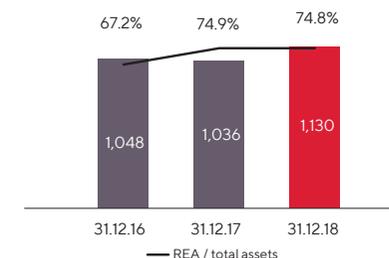
Equity

The Bank's total equity amounted to ISK 176bn at the end of 2018, as compared with ISK 181bn a year earlier, ISK 2.3bn of that total is attributable to non-controlling interests. At the Annual General Meeting in March 2018, the Board of Directors agreed to pay shareholders a dividend of ISK 13bn on 2017 profits. The nominal value of the Bank's share capital was ISK 10bn at the end of 2018, and total share capital amounted to ISK 65bn.

The Bank's capital ratio was 22.2% at year-end 2018, as compared with 24.1% at the end of 2017, and was above the Bank's internal target and regulatory requirement. Its Tier 1 ratio was 20.3% at the end of 2018, as opposed to 22.6% at year-end 2017.

A year ago, the Bank announced for the first time a new long-term capital target. The target is based on the Bank's internal capital adequacy assessment (ICAAP)

Total assets (ISKbn)



and the FMEs supervisory review and evaluation process (SREP). The target assumes that the Bank will maintain a management buffer in excess of the SREP requirement so as to ensure that short-term fluctuations do not cause the ratio to fall below the regulatory minimum. The capital target supports the Bank's business strategy and takes into account changes or uncertainties in the operating environment. It can change over time, reflecting changes in the Bank's risk profile, business strategy, and external environment. In view of changes to capital requirements and the economic environment, the Bank decided in September 2018 to increase the management buffer from 0.5-1.5% to 0.5-2.0%. In October the FME lowered Íslandsbanki's required total capital ratio from 19.8% to 18.8%, in recognition of the Bank's reduced market risk.



In May 2018, the FME announced that the countercyclical capital buffer would be increased by 0.5%, to 1.75%, effective in May 2019. In January 2019, the FME also announced a 0.25% increase in the countercyclical capital buffer, effective in February 2020.

Íslandsbanki uses the standardised method to calculate its risk-weighted assets, which amounted to ISK 845.9bn at the end of 2018, or 74.8% of total assets, about the same as in the prior year. At the end of December 2018, the leverage ratio was 14.6%, as compared with 16.2% as of end-2017, which is considered modest.

The Board of Directors of Íslandsbanki proposes that ISK 5.3 billion will be paid in dividends to shareholders for the 2018 financial year. The dividend corresponds to about 50% of after tax profits for 2018, and is consistent with the Bank's dividend payout ratio target of 40-50%. The Board may convene a special shareholders' meeting later in the year where a proposal regarding payment of dividends of profit for the previous financial years could be suggested.

Credit ratings

Íslandsbanki drops Fitch Ratings but continues with S&P

Íslandsbanki has been the only bank in Iceland with credit ratings from two international rating agencies, Fitch Ratings and S&P Global Ratings (S&P).

In January 2019 the Bank announced it would terminate its credit rating agreement with Fitch, a decision which was driven primarily from a cost perspective. In November 2018, Fitch had affirmed the Bank's rating of BBB/F3, with a stable outlook.

In October 2017, S&P upgraded the Bank to BBB+/A-2, with a stable outlook. It affirmed those ratings in July 2018.

