



November 2014

# Icelandic Seafood Market Report

## Foreword

The Icelandic seafood industry has long been the main source of employment in Iceland and the foundation for a diversified economy. It has been one of the main food sources for Icelanders and has played an important role in Icelandic society, both culturally and financially.

At present, the Icelandic seafood industry is extremely dynamic something that can be seen in numerous areas. The operation of fishing vessels and processing has generally been successful and catches have been good. Increased public charges on the sector, however, have led to considerable concentration, a trend that is expected to continue. The sector's positive results will lead to increased investment opportunities and greater scope. Innovation has thrived, and many original ideas have every chance of becoming profitable sales goods. This is vital if the sector is to attract new, well-educated and dedicated people who can see the opportunities in the seafood industry.

Íslandsbanki and its predecessors have issued reports on the Icelandic fisheries sector since 2003. As previously, we seek to provide a good insight into the status of the Icelandic fisheries sector and its development over the past few years. In preparing the report this year, the Bank has enjoyed the assistance of Deloitte and the Icelandic Ocean Cluster, and we would like to express our appreciation for their help. It is hoped that this report will be a good addition to other reports and the diverse range of papers and magazines specialising in covering the Icelandic fisheries sector in past years. The report is also accessible electronically on the website of Íslandsbanki. We hope that the readers of this report will gain a better understanding of the Icelandic fisheries sector and see how important it is for Icelanders to nurture this important resource.

**Rúnar Jónsson**

Executive Director, Íslandsbanki's Seafood Industry Team

## Íslandsbanki

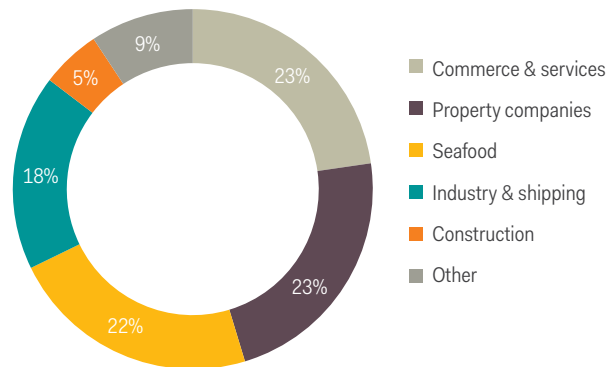
Íslandsbanki offers comprehensive financial services to individuals, households, companies and Institutional investors. Building on a tradition of service to the nation's base industries, Íslandsbanki has developed expertise in providing services to the fisheries sector.

The Bank's Corporate Finance Division operates a dedicated seafood industry team. The team consists of a multidisciplinary group of people from various departments within the Bank. The group handles relations and services for domestic and foreign fisheries companies, as well as the publication of analyses and reports.

Many of the largest and leading fisheries companies in Iceland and overseas have been among Íslandsbanki's customers in recent decades.

According to the Bank's 1H 2014 interim statement, loans to the seafood industry were the third largest in its loan portfolio, or approximately 22%. The importance of the fisheries industry to the bank, therefore, is quite clear.

**Figure 1.** Íslandsbanki's loan portfolio by sector – 1H 2014



Source: Íslandsbanki

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## Highlights

The fisheries sector's direct contribution to GDP in 2013 was 10%. Fishing accounted for 6.3% and processing for 3.7%. The sector's indirect contribution is considerably greater. Studies carried out by the Icelandic Ocean Cluster indicate that companies belonging to the cluster are responsible for 25–30% of Iceland's GDP.

In 2013, approximately 8,600 people were directly employed in the fisheries sector, whereof 5,000 were employed on land in the seafood industry and 3,600 were employed at sea. This is the first time since 2004 that there are a greater number of jobs on land than at sea. The reason for this turnaround can be traced to the increasingly less economical operation of freezer vessels and increased opportunities for processing fresh goods on land.

The average age of the fishing fleet has been steadily rising and is at present 25 years according to figures from Statistics Iceland. The trawlers are on average 28 years, and some vessels are over 50 years old. News of the planned construction of new fishing vessels has been floating around for a while. It is clear, therefore, that actions are being taken to respond to these developments.

In 2013, the revenues of fisheries companies amounted to ISK 263bn, a 5% decrease from 2012. EBITDA amounted to ISK 61.6bn, a 20% decrease from 2012. The downturn between years, therefore, can be seen in both revenue and in margins.

The reorganisation of debts and the positive results in the sector in recent years has led to sound foundations for investment. Investment in 11 new fishing vessels for Icelandic vessel operators – nine wetfish trawlers and two pelagic vessels – has been announced. These vessels are scheduled to be delivered over the next 2–3 years. These investments are believed to amount to around ISK 30bn.

Income tax due in 2013 (for the 2012 operating year) amounted to ISK 8.7bn. The fisheries industry has, on average, paid approximately ISK 2.8bn a year in income tax since 2004. Fully utilised accrued losses and higher results explain the increase in income tax for the most part, as the fisheries companies have been paying much higher income tax in the past two years than in the years before that.

The direct public charges, i.e. income tax, fishing fee and estimated payroll taxes of the fisheries companies, amounted to ISK 25bn in 2013. The fishing fee formed the most prominent proportion, or ISK 9.7bn. The fee consists of the general fishing fee, ISK 4.9bn, and the special fishing fee, ISK 4.8bn.

The total catch in 2013 was 1,363,000 tonnes, representing a decrease of approximately 6% from 2012. The decrease in the pelagic catch was 12% between years and can be attributed for the most part to smaller catches of capelin and herring. Demersal catches increased by more than 8% between years, with the increase in cod catches being the greatest.

Just under 786,000 tonnes of seafood products were exported in 2013, a 5% increase from the preceding year. The export value of seafood products in 2013 amounted to ISK 272bn, or the equivalent of 45% of the total export value of goods from Iceland. The share of seafood products has been growing for the past four years due to increases in the volume exported as well as rising seafood product prices.

In 2013, seafood products with a value of ISK 218bn were exported to Europe, corresponding to approximately 80% of the total seafood exports. The greatest proportion goes to the UK, or approximately 16% of exported seafood products. There have been considerable increases in exports to Russia recently which can be attributed for the most part to the export of mackerel, as almost half of all mackerel caught in Icelandic waters is exported there.

There appears to be considerable growth in ocean-related and fisheries-related innovation in Iceland. According to the analyses of the Icelandic Ocean Cluster, the sector as a whole has grown by 10–15% annually since the economic collapse in 2008.

Approximately 6,900 tonnes of farmed fish were harvested in 2013, or 500 tonnes less than the year before. Projections assume some growth over the next few years and that 9,600 tonnes will be harvested in 2014 and 13,700 tonnes in 2015. The greatest growth is believed to be in salmon and rainbow trout.

## Key aspects

- 8,600 persons were directly employed in the fisheries sector in 2013. Land-based positions were more numerous than those at sea for the first time since 2004. 5,000 persons were employed in land-based operation, or approximately 58%.
- The Icelandic fishing vessel fleet has decreased in both the number of vessels and gross tonnage, each by approximately 15% since 2000. The average age of the vessels in 2013 was 25 years.
- Over the past three decades, the cod catch has decreased by almost half, while the export value of the catch has increased by 138% during the same period.
- The revenue of fisheries companies in 2013 amounted to ISK 263bn, a decrease of 5% from the previous year. EBITDA was ISK 63bn, decreasing by 20% from 2012.
- Dividend payments in 2013 amounted to just less than ISK 12bn and have increased by ISK 5.5bn between years, or by 87%.
- Investments in the fisheries sector amounted to ISK 11bn in 2013, which is 22% higher than the average investments during the past decade or so.
- Public charges paid by fisheries companies in 2013 amounted to ISK 24.5bn and have more than quadrupled since 2009.
- The export value of seafood products has increased by 31% over the past five years and was ISK 272bn in 2013.
- In 2013, for the first time, a greater volume of seafood products was exported to Russia than to the UK or Norway, which have hitherto been the main trading partner countries with Icelandic seafood products.
- There is considerable growth in innovation in connection with the fisheries sector, and Icelanders are among the leading nations in the full utilisation of seafood products.
- Projections anticipate that farmed fish manufacture will double between 2013 and 2015 and that around 13,700 tonnes will be harvested in 2015.

## Icelandic Seafood Market

### The fisheries sector's contribution to GDP

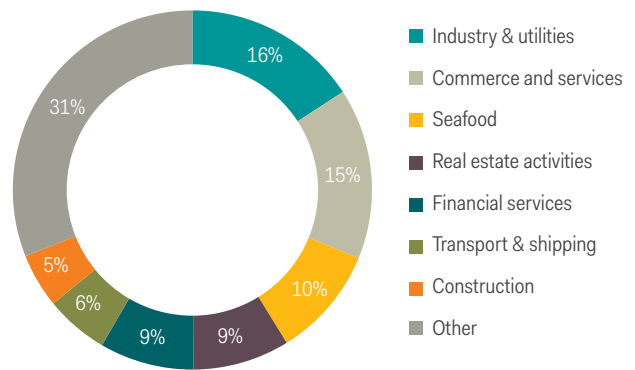
The Icelandic fisheries sector was responsible for around 10% of direct contributions to GDP in 2013, a decrease of 0.4% from 2012. The proportion of fishing was 6.3% and that of processing was 3.7%.

There are various reasons for this decrease, such as smaller catches, both as regards volumes and value, between 2012 and 2013.

If the average of the past ten years is examined, the fisheries sector has had a direct contribution of 8.5%. The statistics supplied by Statistics Iceland do not include the indirect contribution of the fisheries sector to GDP. The Icelandic Ocean Cluster, however, has evaluated this aspect and is of the opinion that the total contribution of the fisheries sector to GDP is much higher, or between 25% and 30%.

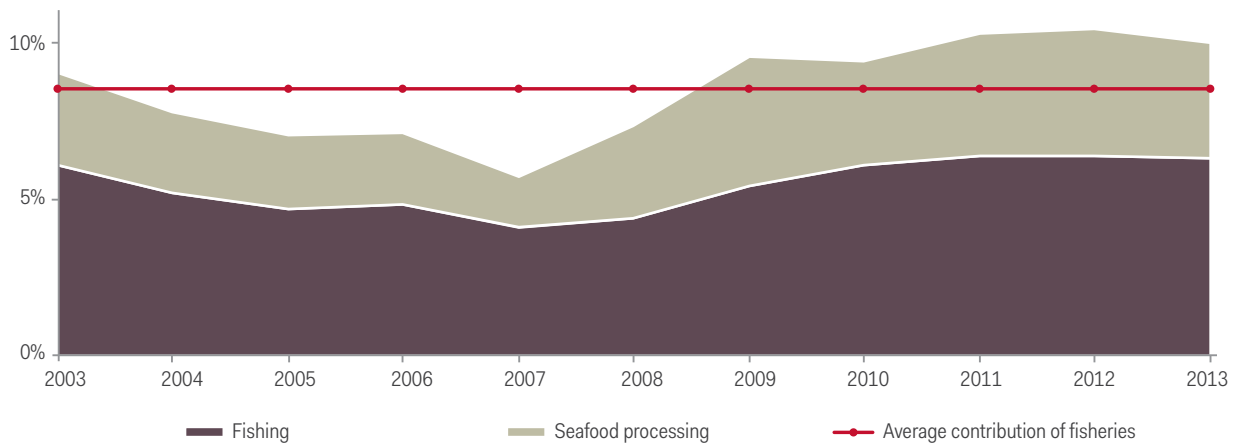
Exchange rate fluctuations and an unstable economic environment account for the instabilities in the proportional contribution of the fisheries sector to GDP during the past decade for the most part.

Figure 2. Share of industries in GDP in 2013



Source: Statistics Iceland

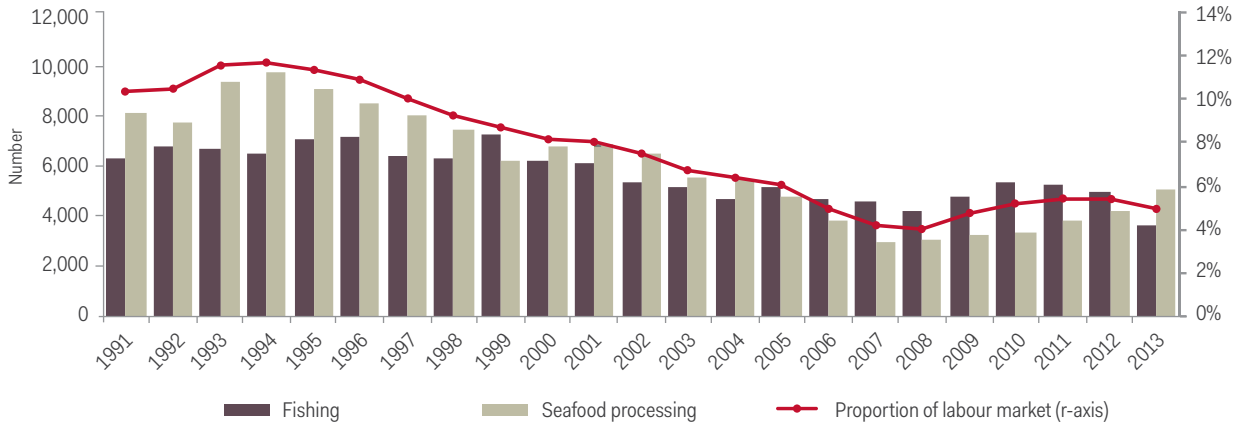
Figure 3. Fisheries as a proportion of GDP



Source: Statistics Iceland

## Jobs in the fisheries sector

Figure 4. Employees in the fisheries industry



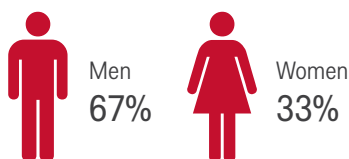
Source: Statistics Iceland

In 2013, approximately 8,600 people were employed directly in the fisheries industry in Iceland, a decrease of 400 persons from the year before. Of these, 5,000 were employed in fish processing and 3,600 in fishing.

Over the past few years, a greater number were employed at sea than on land, but in 2013, this proportion was reversed, with more people were employed on land. There are many reasons for this, such as increased revenue options in the processing of fresh products, lower costs due to the lower exchange rate of the króna and rising operating costs for frozen-at-sea products.

Women number 2,800 of the workforce in the fisheries industry, or 33%. The proportion of women in the industry has been around 24% over the past decade. Their number increased considerably between 2012 and 2013 as the number of jobs on land grew. Just under 86% of the women who work in the fisheries industry are employed in fish processing, or around 2,400.

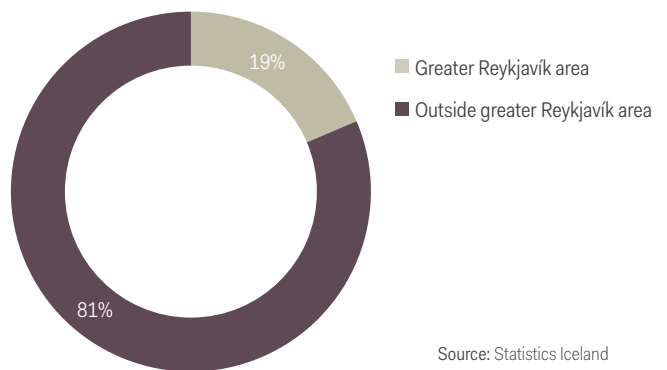
Figure 5. Gender division in the fisheries industry in 2013



Source: Statistics Iceland

The Women's Association in Fisheries in Iceland was founded in the spring of 2013. One of the association's main objectives is to strengthen and support women in the industry. The association's focus areas include encouraging women to educate themselves in fisheries sciences.

Figure 6. Jobs in the fisheries industry according to residency in 2013



Source: Statistics Iceland

The fisheries industry plays a important role outside Reykjavík, as approximately 81% of those employed in the sector reside there. The fisheries industry is, e.g. responsible for just greater than 11% of jobs outside the greater Reykjavík area, while it accounts for only slightly more than 1% within the area.

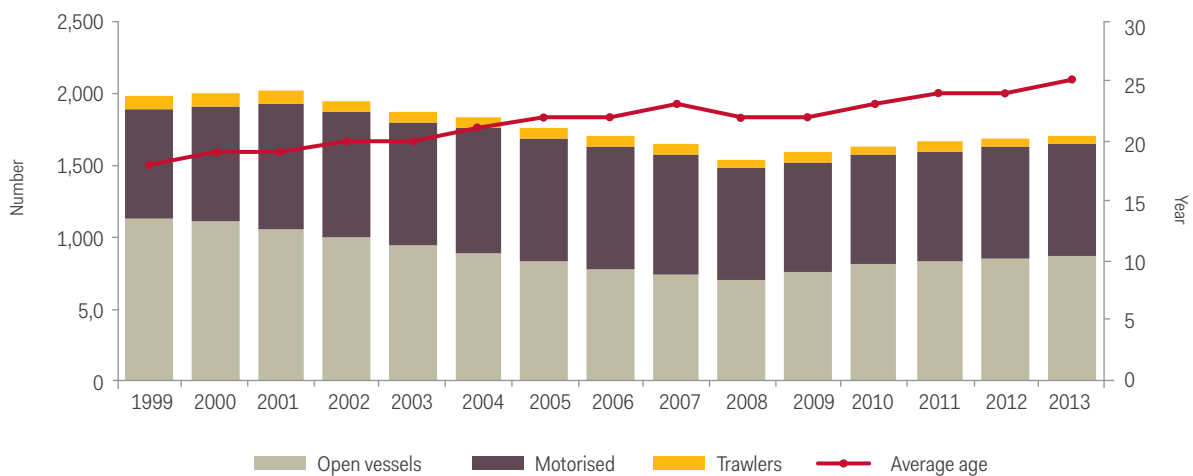
### The Icelandic fishing fleet

The Icelandic fishing vessel fleet has shrunk over the past decade. The number of vessels has decreased by 15% since 2000 and numbered 1,696 vessels in 2013. The fleet when measured in gross tonnage has also decreased by almost 15% during the same period. Figures from Statistics Iceland, moreover, show that the number of trawlers has decreased by almost 40% during the period. The average age of the fishing fleet has been steadily rising, as can be seen in Fig. 7 and is at present 25 years according to Statistics Iceland. The trawlers are on average 28 years, and some vessels are over 50 years old. News of the planned construction of new fishing vessels has been floating around for a while. It is clear, therefore, that actions are being taken to respond to these developments. The average age of ships that will probably be removed from operation after this renewal is approximately 35 years.

The greatest number of fishing vessels, 401, had their registered homeport in the Westfjords in 2013, which corresponds to 24% of the fishing vessel fleet. The second most numerous, a total of 324, listed their registered home port in West Iceland, or just over 19%. The fewest number of vessels had a registered homeport in South Iceland, a total of 72, which corresponds to just more than 4% of the total number of fishing vessels.

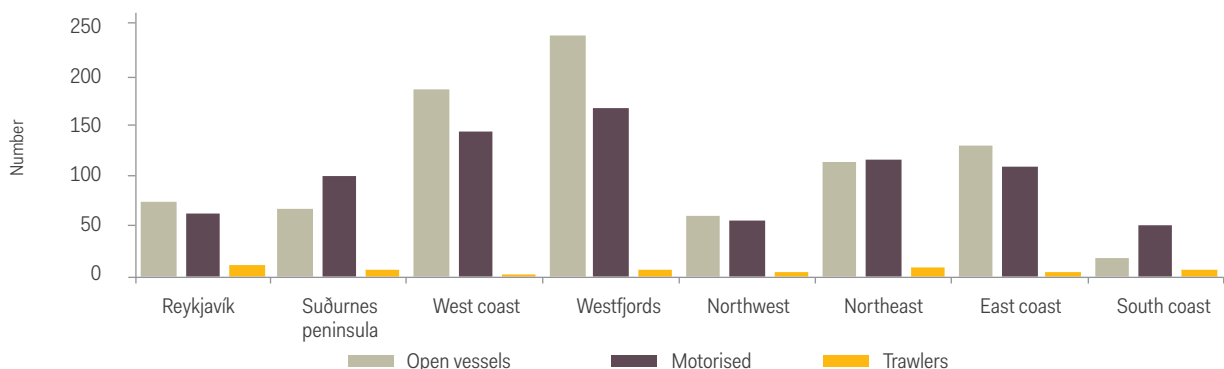
The figures from Statistics Iceland do not take account of the vessels' fishing rights in their database. The figures, therefore, contain the fishing vessels registered in the Icelandic fishing zone irrespective of whether they have harvesting rights or not.

Figure 7. Icelandic fishing vessel fleet



Source: Statistics Iceland

Figure 8. Fishing vessel fleet by type and region in 2013



Source: Statistics Iceland

## Operation of fisheries companies

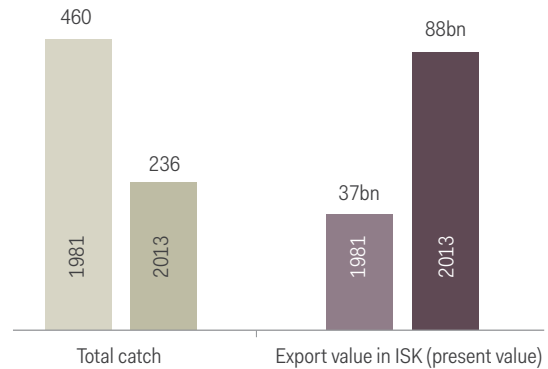
Deloitte has collected information on the operation of fisheries companies in Iceland in an extensive database. This information is used here. The database contains 89% of the operating information for 2013 for the companies that have been allocated harvesting rights, and the figures are restated to 100%.

Profitability in the fisheries sector increased significantly as of the adoption of the quota system. Competition within the sector grew in conjunction with restrictions placed on access to the fisheries resource. As a result, economisation in the operation of fisheries companies has increased significantly.

When the EBITDA margin is examined in historical context with the cod catch, which has generally been Iceland's most valuable seafood product, we can see that despite falling catch volumes, the margin has remained quite stable. This development is evidence of the increased economisation in the operation of fisheries companies together with the greater value creation that has been achieved in the full utilisation of cod catches. Icelanders are quite advanced as regards the full utilisation of fish catches, and better utilisation of seafood products has significantly increased value in the fisheries industry in recent years.

If the cod catch from 1981 is compared to the current catch, both as regards volume and value, this reveals that the catch has decreased by almost half, or 49%, while at the same time the export value of the cod catch has more than doubled, increasing by 138%.

**Figure 10.** Development of cod catches (in thousands of tonnes and ISK billions)

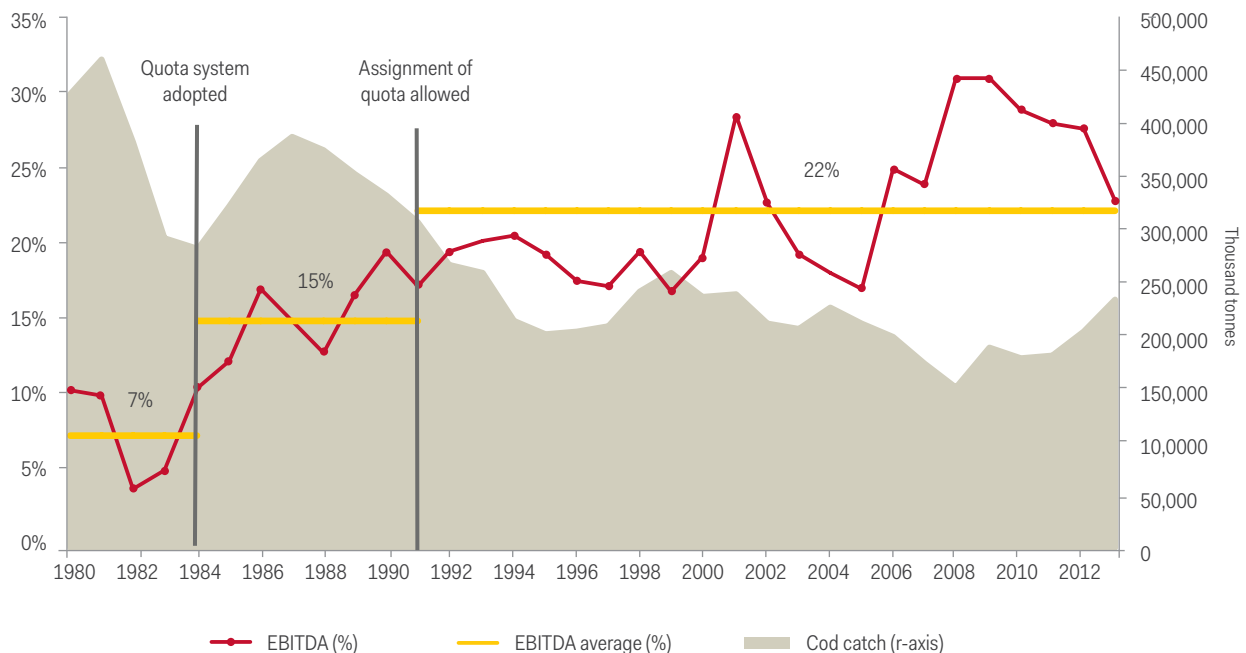


Source: Statistics Iceland

Despite considerable growth in revenue since 2008, this does not appear to lead to increased profitability, as the EBITDA margin decreases over the same period.

Figures for 2013 show that revenue amounted to ISK 263bn, a decrease of 5% from 2012. EBITDA was ISK 61.6bn, decreasing by 20% from the year before. Both revenue and margins, therefore, decrease between years.

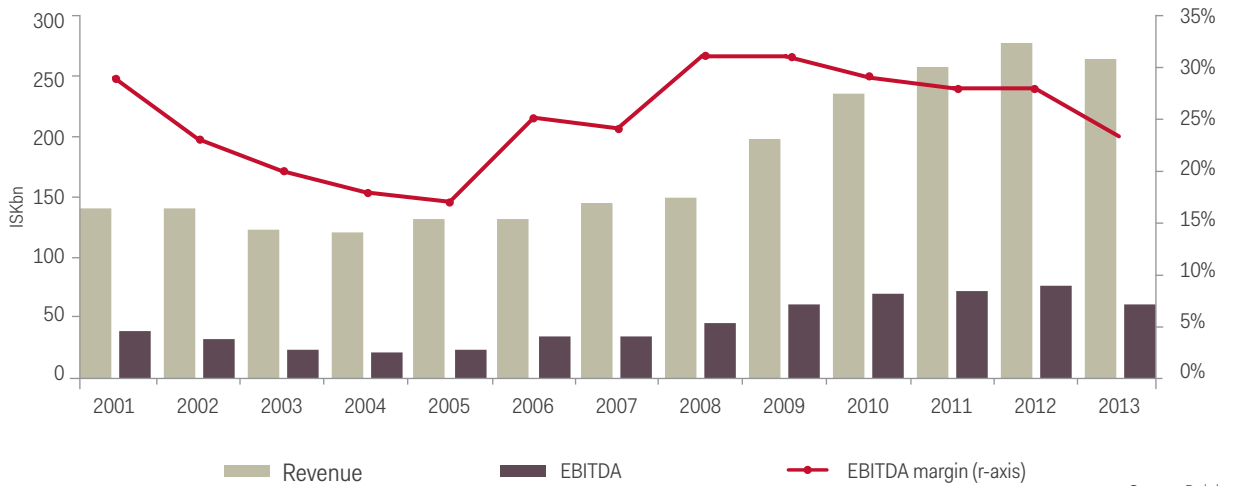
**Figure 9.** Earnings of Icelandic fisheries companies before financial items, taxes and depreciation (EBITDA)



Source: Statistics Iceland

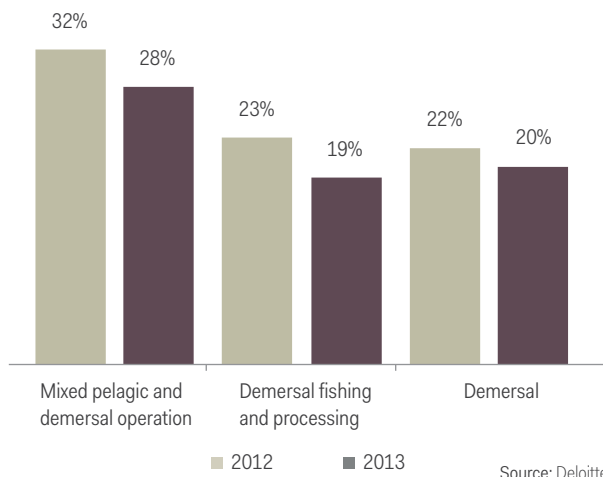


Figure 11. Revenue and EBITDA margin of fisheries companies



Source: Deloitte

Figure 12. EBITDA margin by operation of fisheries companies



Source: Deloitte

An examination of EBITDA margin according to the activities of fisheries companies reveals that mixed pelagic and demersal companies have the highest margins.

The margin decreases between years in all categories, as it does in general in the sector.

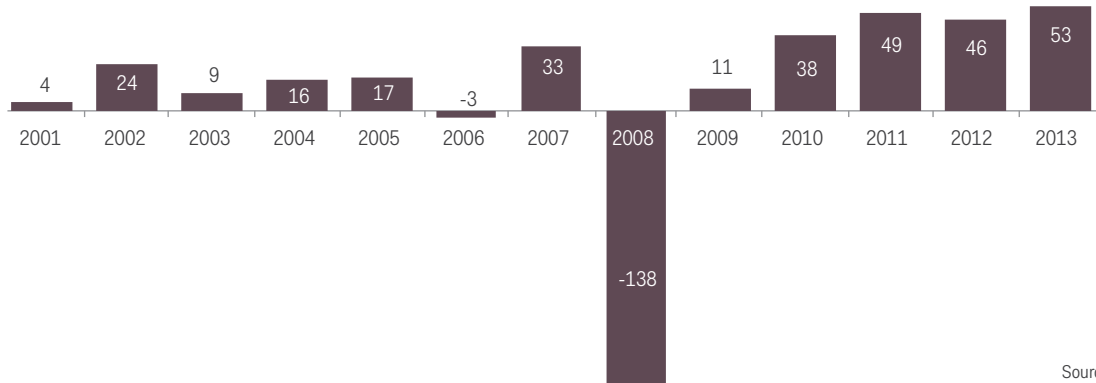
### Debt position

The results of fisheries companies are becoming more stable, with profits amounting to ISK 53bn in 2013, or a 15% increase between years. Despite a decrease in both revenue and margins, the profits of the fisheries companies have increased. The debt position of the fisheries companies has improved significantly since it peaked at ISK 449bn in 2009. Debts have decreased by approximately ISK 153bn from that time and now stand at ISK 341bn, a decrease of 31%. The interest burden of fisheries companies, therefore, has

decreased, which in part explains the increase in profits despite a decrease in both revenue and margins.

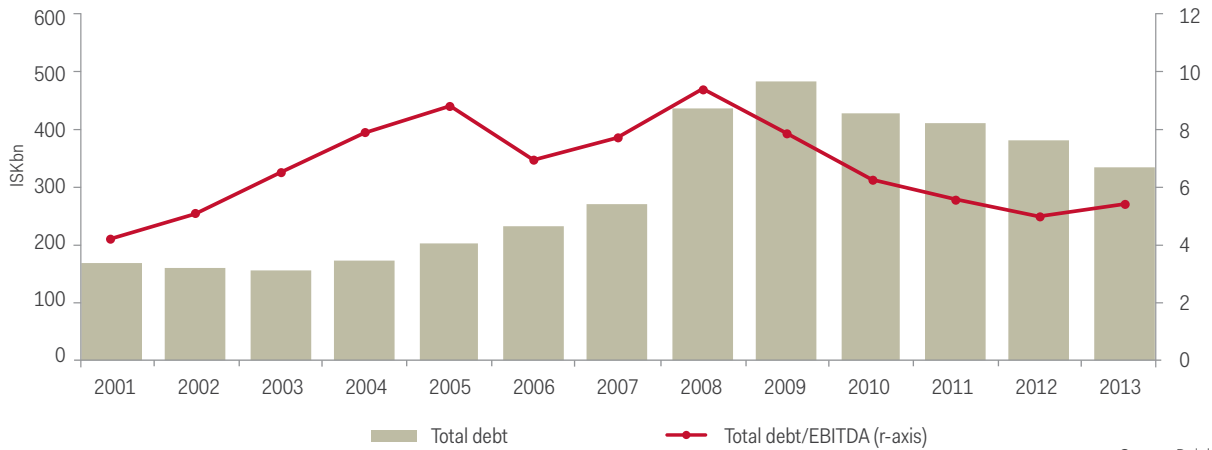
Dividend payments in 2013 to the owners of fisheries companies amounted to ISK 11.8bn, increasing by ISK 5.5bn, or 87%, from 2012. It should be noted that dividend payments are based on the profits of the preceding year.

Figure 13. Profits of fisheries companies in ISK billions in 2013



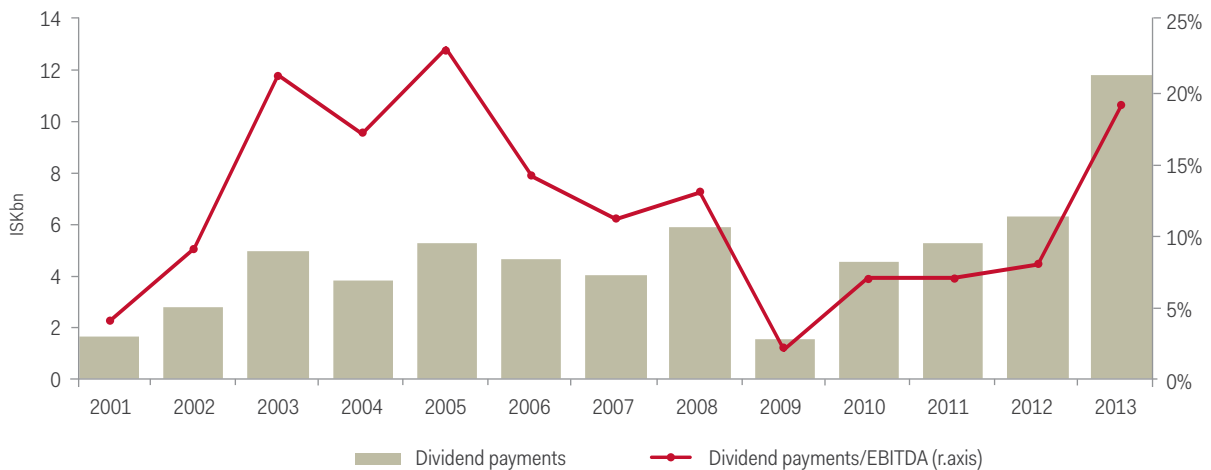
Source: Deloitte

Figure 14. Total debt of fisheries companies



Source: Deloitte

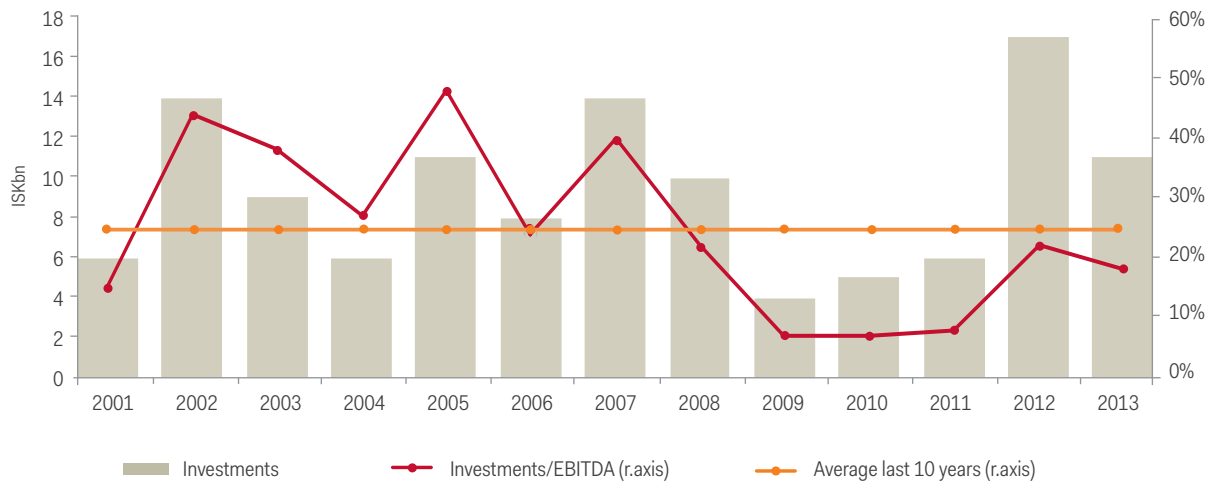
Figure 15. Dividend payments in the fisheries sector



Source: Deloitte

## Investments

Figure 16. Net investments in operational assets

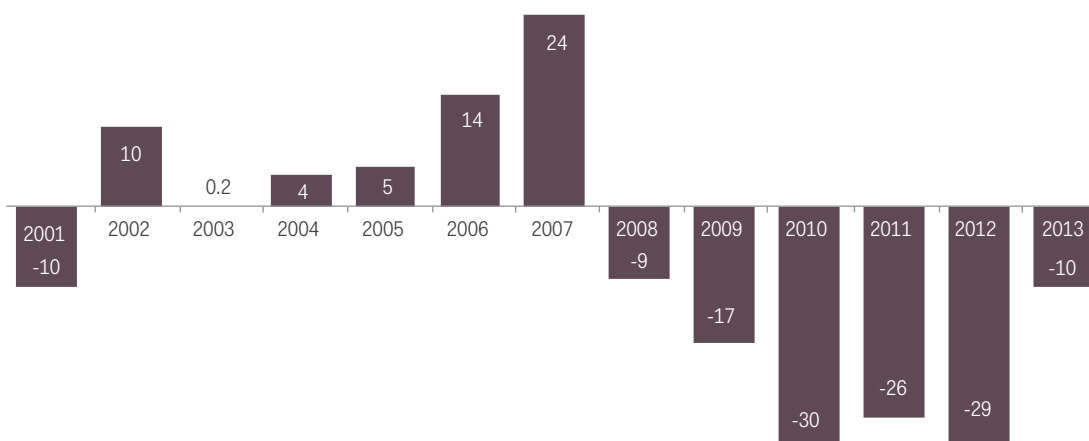


Source: Deloitte

Despite good results in the fisheries industry, investments as a proportion of EBITDA have been below average in recent years. These years were characterised by considerable changes in the economy of Icelandic fisheries companies, and the focus was on restructuring and repayment of debts. The sector, for instance, has paid approximately ISK 121bn in instalments in excess of borrowings over the past six years. In addition, there were uncertainties as regards the Icelandic fisheries management system, i.e. reductions in catch allowances and increased fishing fees.

Until 2012, only necessary investments to maintain equipment used in fishing and processing were embarked on. At present, the reorganisation of debts and good results in the sector have resulted in an excellent basis for investments, and significant investments in new vessels have been announced. There are plans to construct a total of 11 new fishing vessels for Icelandic fishing vessel operators, nine wetfish trawlers and two pelagic vessels. These are expected to be delivered over the next 2–3 years. The investment in these 11 vessels is estimated to be around ISK 30bn.

Figure 17. Financing activities of fisheries companies in ISK billions in 2013



Source: Deloitte

### Public charges

According to data from Deloitte, the income tax from Icelandic fisheries companies payable in 2013 (2012 operating year) amounted to approximately ISK 8.7bn, as compared to ISK 5.5bn in 2012 (2011 operating year).

The state's tax revenue from the fisheries sector has increased in conjunction with increased profitability in the sector. The fisheries industry has on average paid approximately ISK 2.8bn in income tax per year since 2004. Since 2008, the fisheries companies have been clearing up the accrued losses that occurred following the collapse of the Icelandic economy, as such losses may be set off against profits when income tax is calculated. Some of the companies have cleared up these accrued losses and have, therefore, paid much higher income tax for the past two years than in the preceding years. Decreasing accrued losses, therefore, partially explain the increase in tax payments. The income tax of fisheries companies as proportion of the total income tax from legal entities has risen from 4.7% to 21.5% since 2009. The fisheries sector, therefore, provides the state with just over a fifth of the income tax that the state collects from legal entities.

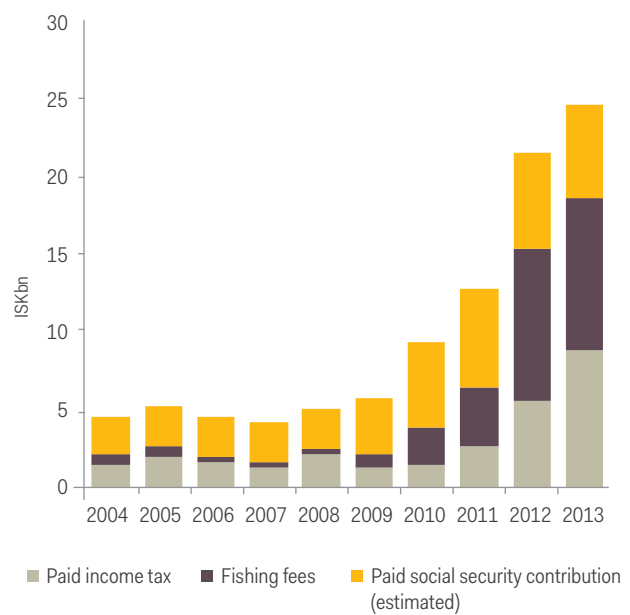
According to the Act on Fishing Fees that was passed in mid-2012, fishing fees are imposed on vessel operators in two ways. On the one hand, there is a general fishing fee and, on the other, a special fishing fee. The general fee is intended to cover the state's cost of research, management, monitoring and supervision of fishing and processing activities. The special fishing fee is intended to ensure the nation a share in the excess dividends that the utilisation of a limited resource can create.

An examination of the public charges paid by fisheries companies reveals that such charges amounted to ISK 28bn in 2013. The fishing fee formed the greatest proportion, or ISK 9.7bn. The fee consists of the general fishing fee, ISK 4.9bn, and the special fishing fee, ISK 4.8bn. The increases in fishing fees in 2012 and 2013 are due to the special fishing fee. In 2010, the fishing fees were, for the first time, higher than the income tax and have been so ever since.

On 23 April 2014, the Ministry of Industries and Innovation announced a bill for the amendment of the Act on Fishing Fees that

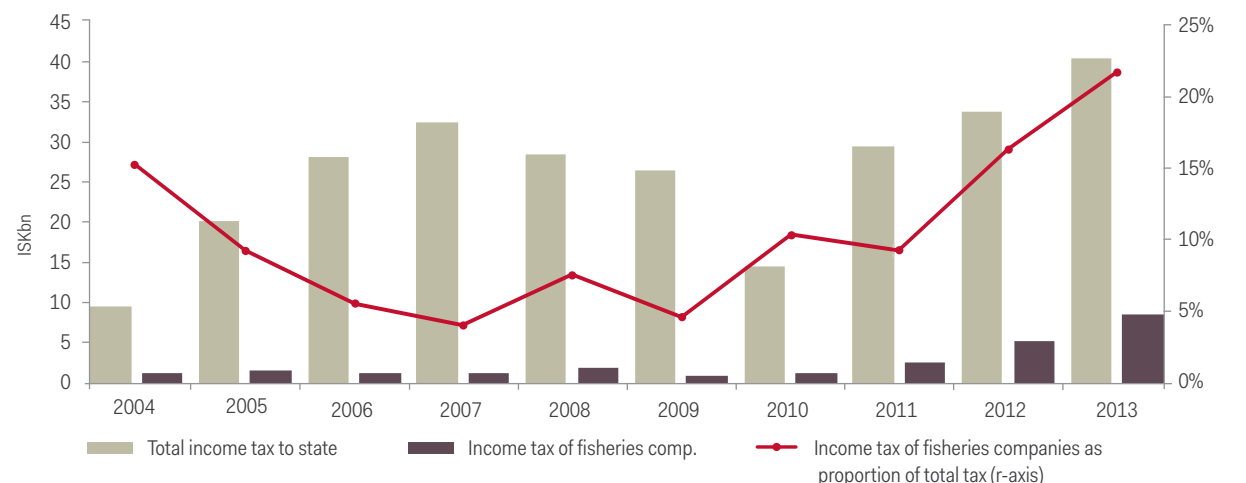
was to apply to the following fishing year. Taking into account the results of the fisheries sector, the charged fishing fees are comparable to those charged during the present year. The projections issued by the Ministry estimate that fishing fees will amount to ISK 9.5bn during the next fishing year once account has been taken of deductions. These deductions are estimated to decrease the gross fishing fees by approximately ISK 1.5bn.

Figure 19. Direct public charges imposed on fisheries companies



The total amount of the fishing fees is the sum of 35% of the profits of 2012 excluding the effects of income tax from harvesting and 20% of the profits of seafood processing. It is estimated, therefore, that the state's revenue will amount to ISK 8bn in the up-coming fishing year. The 2014 Budget anticipates that revenue from fishing fees will amount to ISK 9.77bn.

Figure 18. Total income tax from legal entities and income tax from fisheries companies



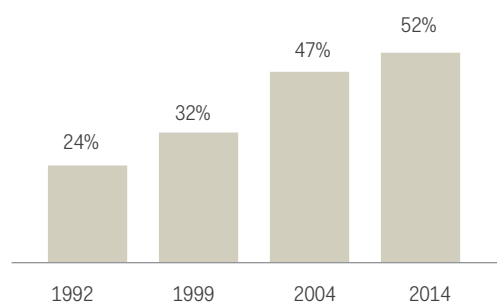
## Vessel operators and catch quotas

There has been a strong trend towards consolidation in the Icelandic fisheries industry in past two decades after fishing quotas became transferable. The driving force behind this trend is increased operational economisation.

This consolidation has entailed increased indebtedness within the sector, while at the same time contributing greatly to increased economisation and improved profitability in the companies. In addition, larger companies, who have harvesting rights to a greater number of species, are better able to tackle operating fluctuations.

At present, the 50 largest companies hold approximately 87% of issued quotas. The 10 largest companies control almost 52% of issued quotas, and the 20 largest companies control approximately 72%, as can be seen in Table 1.

Figure 20. Share of ten largest quota holders in authorised total catch



Source: Directorate of Fisheries

Table 1. Permitted total catch of the largest companies during the 2014/15 fishing year

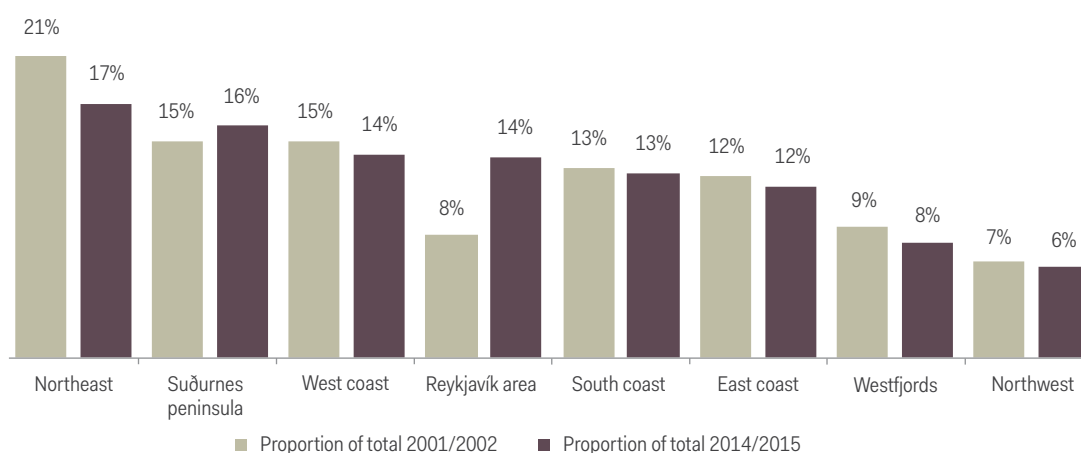
Company	Cod equivalent (kg)	Proportion of total	Company	Cod equivalent (kg)	Proportion of total
HB Grandi hf.	50,439,933	11.8%	Eskja hf.	11,441,818	2.7%
Samherji Ísland ehf.	27,578,804	6.4%	Gjögur hf.	10,814,836	2.5%
Síldarvinnslan hf.	22,309,179	5.2%	Nesfiskur ehf.	9,167,715	2.1%
Þorbjörn hf.	20,846,016	4.9%	Útgerðarfélag Akureyringa ehf.	7,467,751	1.7%
FISK-Seafood ehf.	19,436,862	4.5%	Ögurvík hf.	7,371,914	1.7%
Vinnslustöðin hf.	17,308,310	4.0%	Bergur-Huginn ehf.	5,916,680	1.4%
Brim hf.	17,232,949	4.0%	Loðnuvinnslan hf.	5,610,589	1.3%
Skinney-Þinganes hf.	16,068,872	3.8%	Jakob Valgeir ehf.	5,014,663	1.2%
Rammi hf.	15,540,848	3.6%	<b>Largest 10</b>	<b>221,980,011</b>	<b>52%</b>
Vísir hf.	15,218,238	3.6%	<b>Largest 20</b>	<b>309,928,686</b>	<b>72%</b>
Ísfélag Vestmannaeyja hf.	13,288,122	3.1%	<b>Largest 30</b>	<b>342,880,296</b>	<b>80%</b>
Hraðfrystihúsið - Gunnvör hf.	11,854,587	2.8%	<b>Largest 50</b>	<b>374,094,546</b>	<b>87%</b>

Source: Directorate of Fisheries

Fig. 21 shows the proportional division of catch quotas by region for the fishing year 2012/13. Northeast Iceland has the highest share, or approximately 17.5%, and Northwest Iceland has the lowest share, or approximately 6.3%.

When the developments of the past decade or so are examined, it is interesting to see that the only regions that increased their share were the greater Reykjavík area and Suðurnes peninsula.

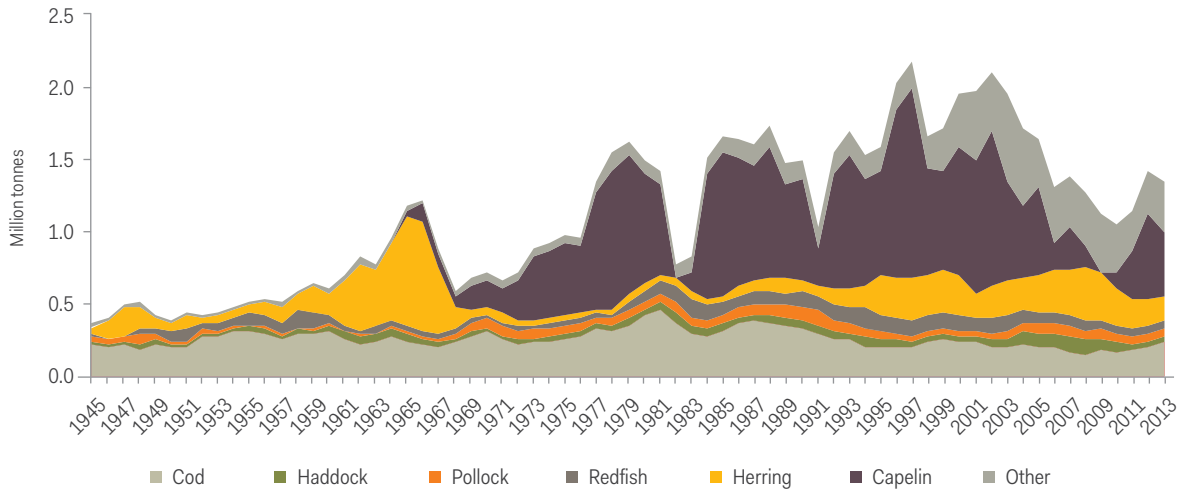
Figure 21. Proportional division of catch quotas by region



Source: Directorate of Fisheries

## Catch and catch value

Figure 22. Catch of Icelandic vessels from all fishing areas

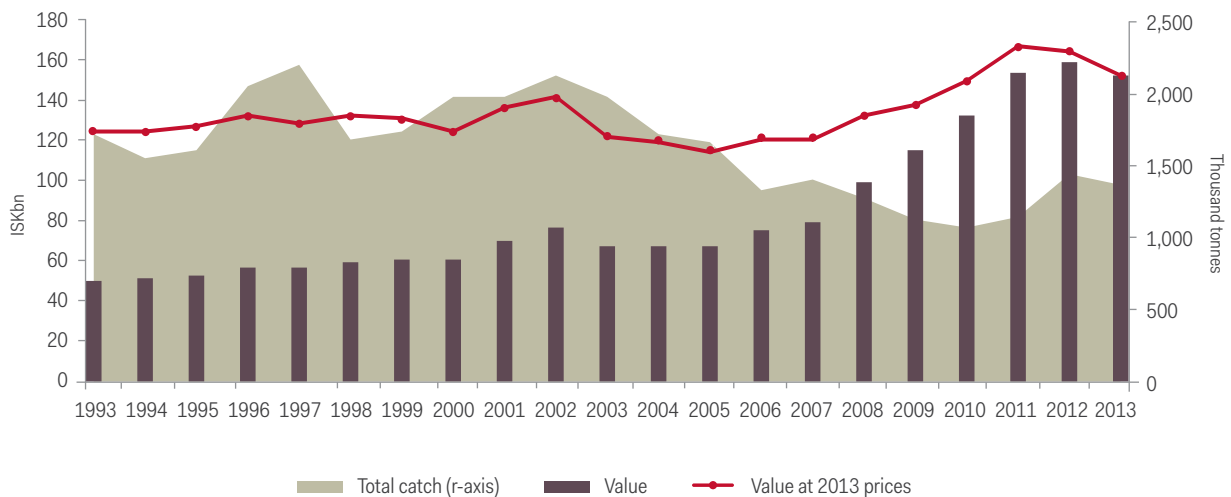


Source: Statistics Iceland

Total catch by Icelandic fishing vessels, from all fishing areas was just under 1,363,000 tonnes. The catch was 86,000 tonnes less than in 2012, a decrease of 5.9%. The catch of demersal species increased by 8.3% between years, the greatest increase being in cod catches. The decrease in the total catch of pelagic species was approximately 121,000 tonnes. The greatest decrease was in capelin and herring. The 2013 catch value was just under ISK 153bn and has decreased by around ISK 6.5bn or 4.1% since 2012.

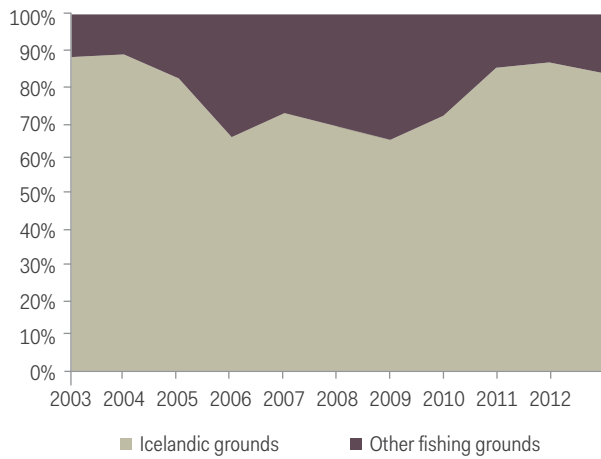
An examination of these figures over the past two decades, shows that the total catch has decreased significantly. The total catch stood at its highest in 1997 and was approximately 2.2 million tonnes. The total catch, therefore, has fallen by just less than 40%. At the same time, the total value has increased.

Figure 23. Catch and catch value



Source: Statistics Iceland

**Figure 24.** Total catch by fishing grounds

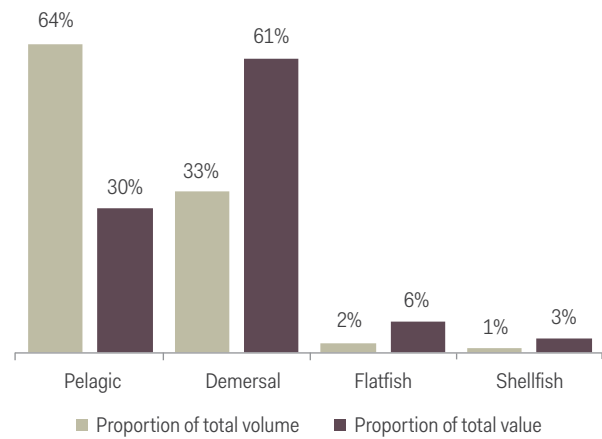


Source: Statistics Iceland

An average of approximately 78% of landed catches over the past decade have been caught in Icelandic fishing grounds. The proportion was lowest in 2009, or 65%, due to, for the most part, smaller capelin catches. Migratory species such as the Norwegian/Icelandic herring, blue whiting and mackerel stand out when catches outside Icelandic fishing grounds are examined.

A comparison of the 2013 catch volumes with catch value shows that large volumes do not necessarily mean the highest value. As an example, the pelagic catch was around 869,000 tonnes, the equivalent of 64% of the total catch, while the value of the pelagic catch amounted to ISK 45bn which is 39% of the total value.

**Figure 25.** Division of catch and catch value in 2013

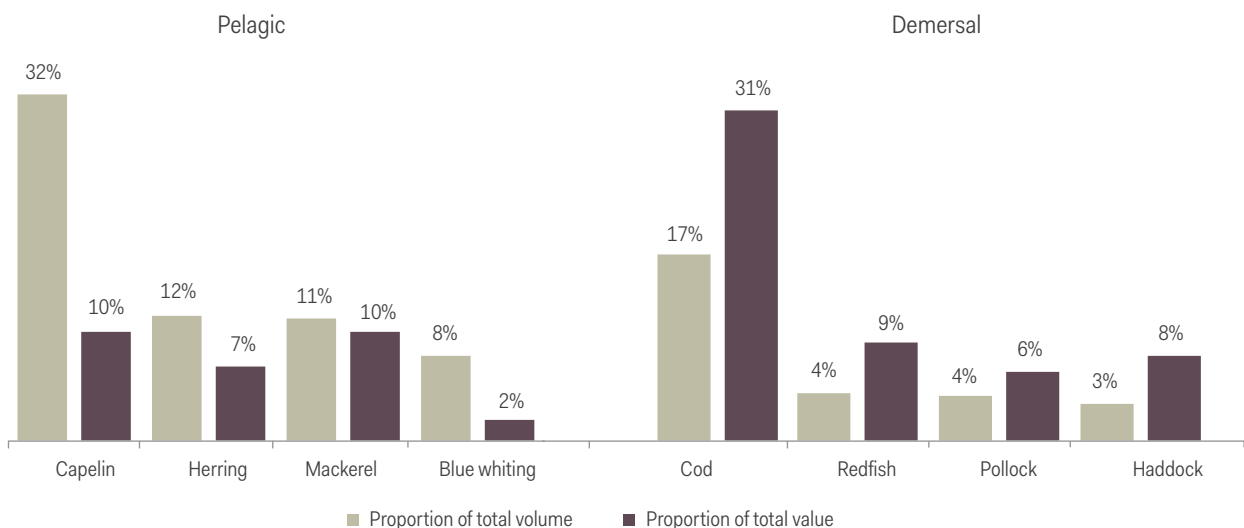


Source: Statistics Iceland

Around 453,000 tonnes of demersal species were caught, or 33% of the total volume. The greatest value is in the demersal catch, or 61% of the total catch value.

An examination of the main species shows that the greatest volume caught was capelin, or around 443,000 tonnes, which represents around 32% of the total catch. The catch value of capelin was approximately ISK 15.6bn, or around 10% of the total catch value. Cod is, as previously, the most valuable species, with a catch value of approximately ISK 47bn, or 31% of the total catch value.

**Figure 26.** Division of catch and catch value by main species in 2013



Source: Statistics Iceland

## Prices and exchange rate developments

Price indices of seafood products have risen by 163% since the beginning of 2006. The index has risen in 2014 and measured 258.8 points in ISK by September, an increase of almost 7% since January. At the same time, the index in SDR has been quite stable. The SDR measurement is commonly used due to the instability of the Icelandic króna. SDR is the basket index of the International

Monetary Fund and is based on the euro, yen, pound sterling and US dollar. An examination of the development of sub-indices shows price increases for pelagic species in excess of other sub-indices. Price increases for meal and fish liver oil are for the most part responsible for this increase.

Figure 27. Seafood products indices (2005=100)



Figure 28. Seafood products price indices, sub-indices (2005=100)

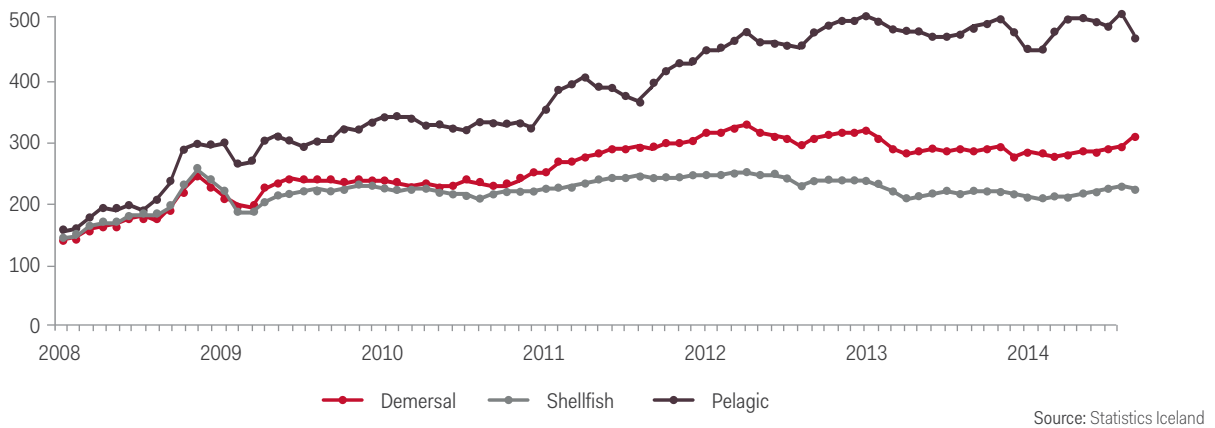
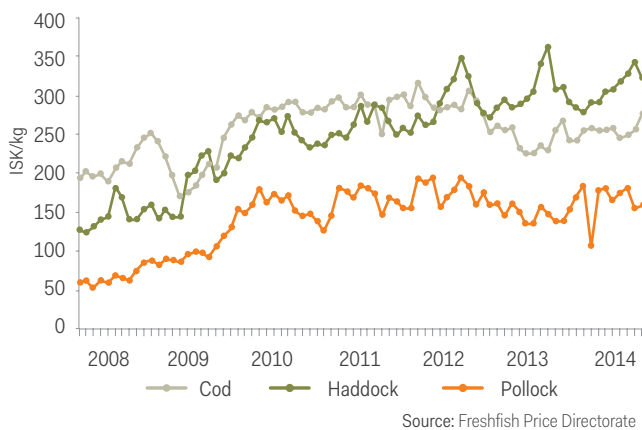


Figure 29. Weighted average price (sold directly to processors and sold in domestic markets)



The Freshfish Price Directorate monitors weighted average prices for various fish categories, including cod, haddock, and pollock. Price and quantity are based on landed catch, and only data on direct purchases by domestic fish processors and sales on domestic markets are used. The weighted average price of these two is then reached.

According to the Directorate, the price of cod has risen by just less than 8% since January 2014. The price of haddock has risen by 11% during the same period, while the price of pollock has fallen by around 11%. The weighted average price of cod in the domestic market was ISK 272 in July 2014. Increased availability of cod in the international market lead to its price decreasing internationally, which also had an impact on the Icelandic market. The price of cod, however, appears to have recovered during the past few months.



## Exports of marine products

Almost 786 thousand tonnes of marine products were exported in 2013, an increase of 5% from the previous year and an approximately 17% increase from 2011. The value of exported seafood products amounted to just over ISK 272bn in 2013 and increased by 1.5% from 2012.

If the development of exported seafood products is compared with the development of the EBITDA margins of fisheries companies, this shows that this increased scope does not translate into an increased margin for the companies. The reason can be traced for the most part to increased tax levies and lower product prices.

Export value of marine products 2013 corresponds to just less than 45% of the total goods export value of Iceland. The share of marine products has been rising over the past four years due to increased export volumes and increases in marine product prices. The export value of industrial goods has decreased proportionately since 2010 and now represents around 51% of the total goods export value of Iceland.

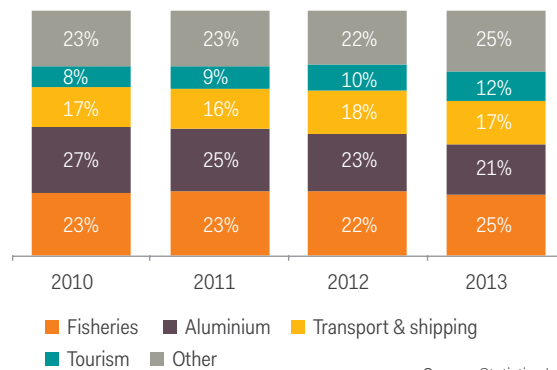
The share of the fisheries sector in goods and service exports is approximately 25% of the total export value. The share of the fisheries sector has remained relatively stable in recent years, while the total goods and services export value has increased between years. The share of tourism in the goods and services export is approximately 12%, and the share of transport and shipping is around 17%. In total, these two sectors are responsible for approximately 29% of the total export value. The value of the sectors has risen by 52% since 2010.

**Table 2.** Exports of marine products

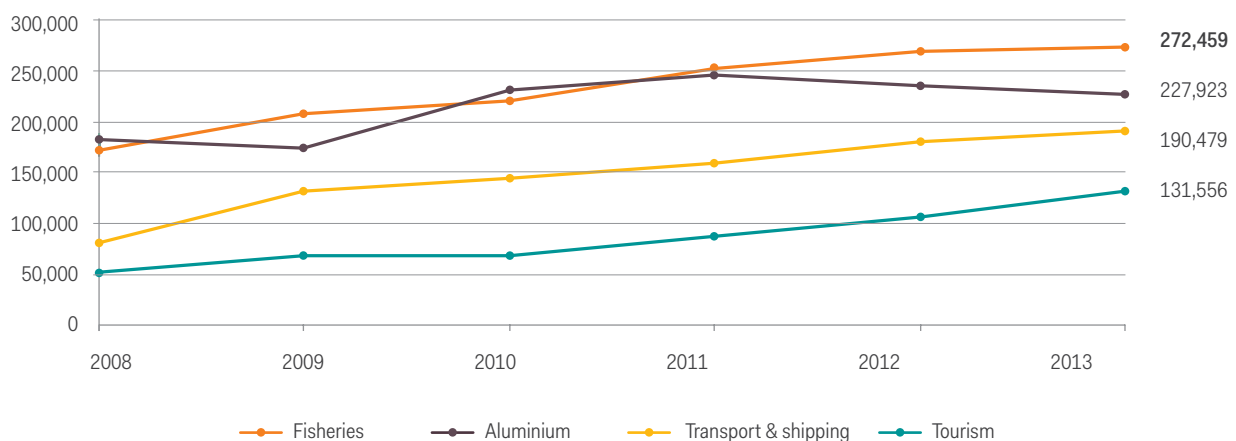
	2010	2011	2012	2013
Exports (thousand tonnes)	626,291	672,247	748,619	785,683
Proportional increase between years	-6%	7%	11%	5%
Value (ISK millions)	218,609	251,573	268,631	272,459
Proportional increase between years	5%	15%	7%	1%
EBITDA	69	73	77	62
EBITDA margin	29%	28%	28%	23%

Source: Statistics Iceland

**Figure 30.** Proportion of goods and services exports of total export value



**Figure 31.** Export value at each year's price level (ISK billion)

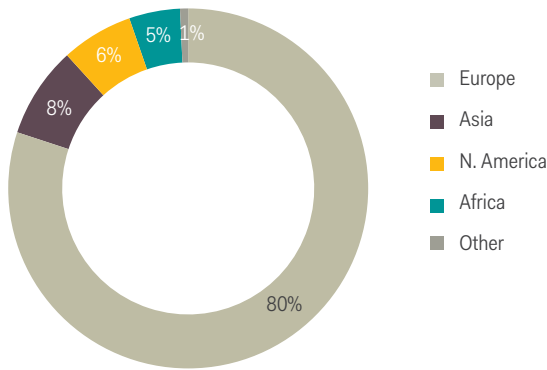


### Exports according to market areas and countries

Europe is the most important market area for Icelandic seafood products. In 2013, seafood products with a value of ISK 218bn were exported to Europe, corresponding to approximately 80% of the total seafood exports. The value of exported seafood products to Europe increased by ISK 6.7bn between years, or just over 3%.

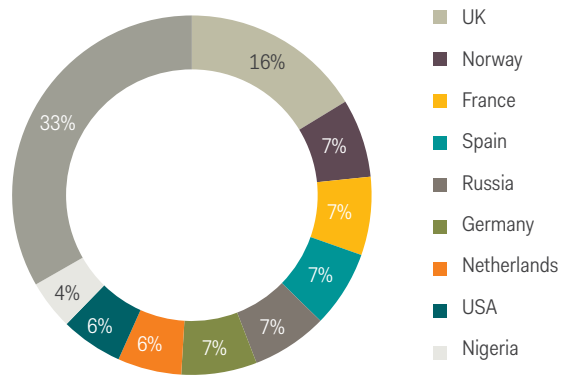
seafood products to a number of nations according to data from 2010. The value of exported Icelandic seafood products to countries such as Russia (76% increase), Germany (80% increase) and Denmark (67% increase) has risen significantly during the past four years.

**Figure 32.** Proportional value of exported seafood products by continent 2013



Source: Statistics Iceland

**Figure 33.** Proportional value of exported seafood products by country 2013



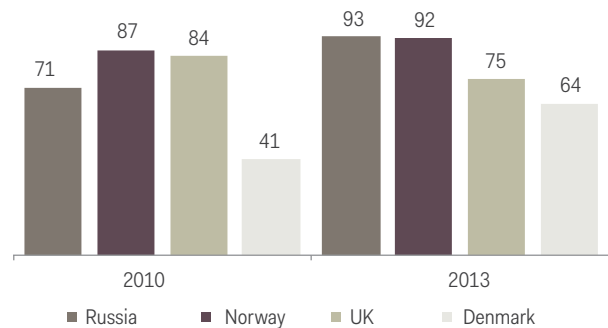
Source: Statistics Iceland

Approximately 16% of the value of exported seafood products is shipped to the UK. The principal export products are frozen or refrigerated cod and haddock as well as frozen shrimp. Approximately 24% of exported cod was shipped to the UK in 2013. There are indications of changes to come in this respect, as during the first 9 months of 2014, Spain moved up to first place in the list of countries importing Icelandic cod, if volume figures are examined. If account is taken of total value, however, the UK remains at the top of the list.

The volume of marine product exports to Russia exceeded that to Norway and the UK for the first time in 2013. This increase can for the most part be attributed to the increased export of mackerel to the country, as almost half of all mackerel caught in Icelandic waters is exported to Russia.

Norway is also an important export country for Icelandic seafood products, with the main exports being herring meal and fish oil, capelin and blue whiting. Norwegians use the fishmeal and fish oil as feed in aquaculture. Approximately 92,000 tonnes were exported to Norway in 2013, a decrease of 16% since 2012. This decrease in exported volume is mainly attributable to smaller capelin catches.

**Figure 34.** Exports by country in thousands of tonnes



Source: Statistics Iceland

The top ten nations, on the list of buyers of Icelandic seafood products, account collectively for 71% of the total export value, with the top five countries accounting for 44%. The category "Other" in Fig. 33 consists of 31 nations that each have a share of less than 4%. There have been considerable increases in the export of Icelandic

### Exports by species and species groups

Almost 255 thousand tonnes of demersal species were exported in 2013. This corresponds to approximately 32% of the total export of seafood products.

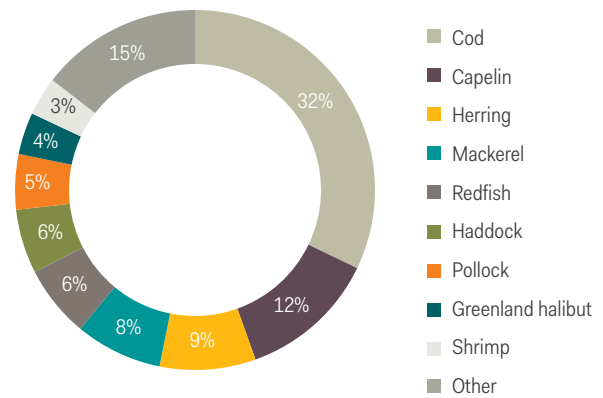
The export value of demersal species was just less than 57% of the total value of exported seafood products in 2013, or approximately ISK 155bn. The increase in the export of demersal products between years was around 1.5% and can be attributed to the increased export of cod for the most part

Just less than 121,000 tonnes of cod were exported in 2013, which corresponds to an increase of approximately 20% from 2012. Cod is the most valuable species exported by Iceland and accounted for ISK 88bn, an increase of 6% between years.

The share of pelagic species was around 55% of the total volume of exported seafood in 2013 and was 434,000 tonnes, a volume similar to the year before.

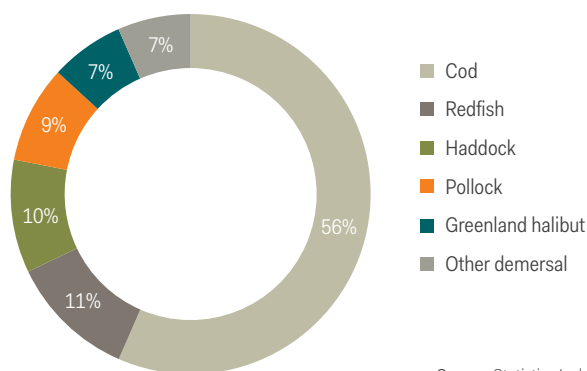
The share of pelagic species in the export value of seafood products was just more than ISK 82bn, increasing by 5.5% from 2011. As regards individual species, the largest catches were capelin, whose value increased by almost 14% between years and amounted to approximately ISK 34bn in 2013.

Figure 35. Proportional value of exported seafood products by species in 2013



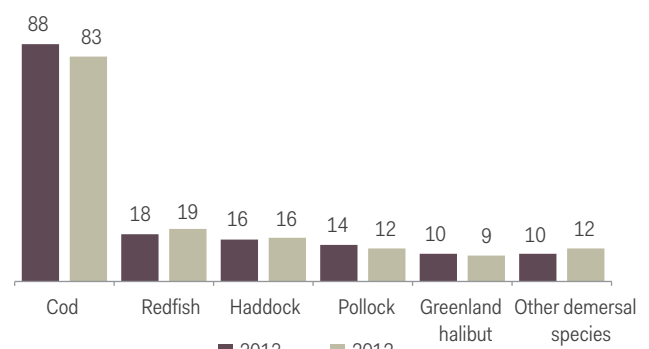
Source: Statistics Iceland

Figure 36. Proportional value of exported demersal species in 2013



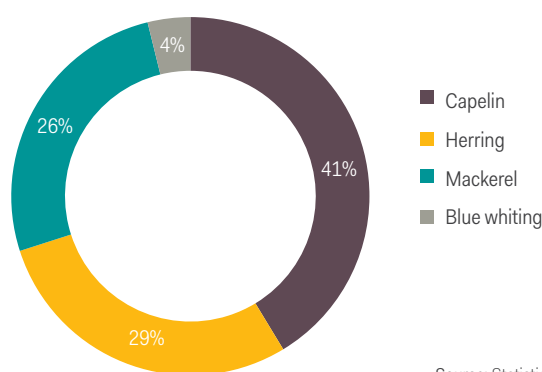
Source: Statistics Iceland

Figure 37. Value of exported demersal species in ISKbn



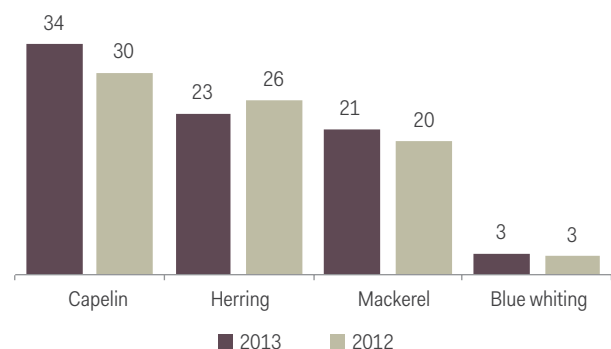
Source: Statistics Iceland

Figure 38. Proportional value of exported pelagic species 2013



Source: Statistics Iceland

Figure 39. Value of exported pelagic species in ISKbn



Source: Statistics Iceland

Figure 40. Export value of seafood products, fixed price in ISKbn in 2013

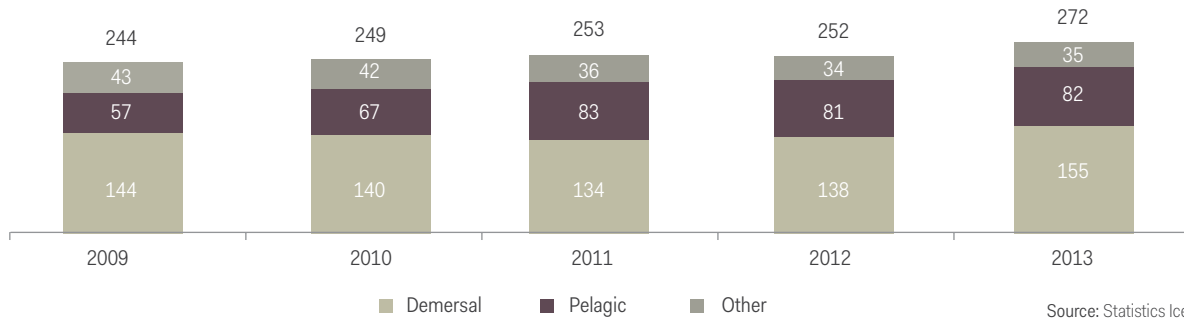


Figure 41. Export value of demersal species, fixed price in ISKbn in 2013

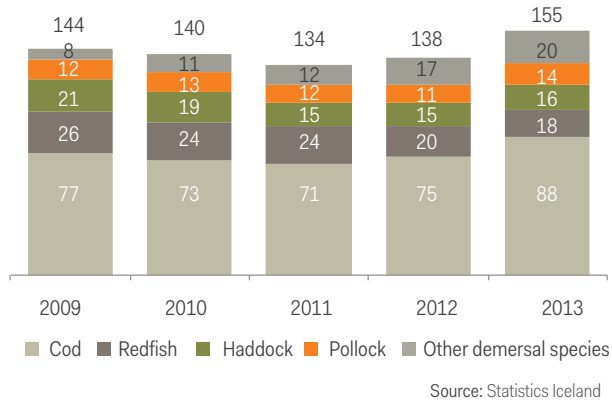


Figure 42. Export value of pelagic species, fixed price in ISKbn in 2013

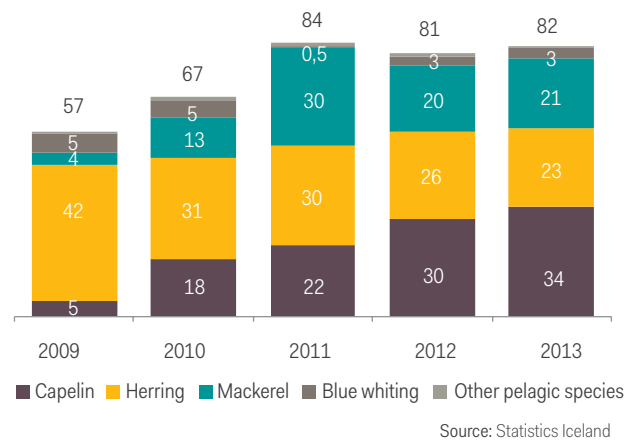


Table 3. Export value according to species and country for the eight most valuable species in 2013

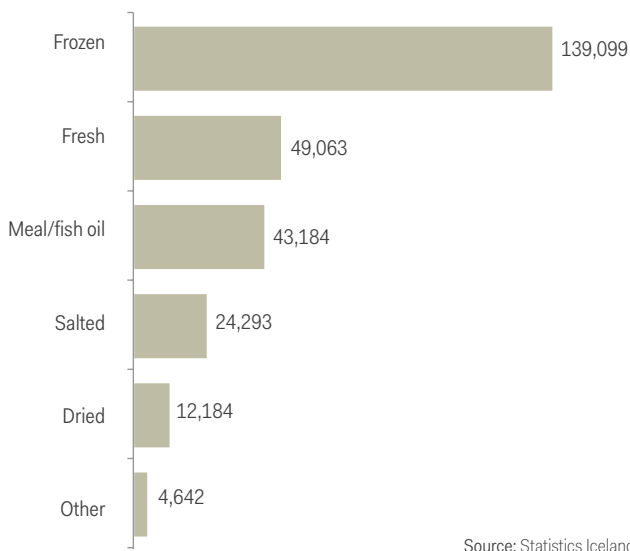
Species	Country	ISKm	% of total
1. Cod	UK	21,387	24.4%
	France	13,838	15.8%
	Spain	13,052	14.9%
	USA	6,996	8.0%
3. Herring	Norway	6,193	26.4%
	Poland	4,491	19.1%
	Lithuania	2,964	12.6%
	Russia	2,872	12.2%
5. Haddock	UK	7,052	44.8%
	USA	5,387	34.2%
	Nigeria	932	5.9%
	Belgium	731	4.6%
7. Pollock	Germany	3,847	28.4%
	Netherlands	1,566	11.6%
	Spain	1,190	8.8%
	France	1,125	8.3%
2. Capelin	Norway	7,251	21.5%
	Denmark	4,858	14.4%
	Russia	3,385	10.0%
	Germany	3,194	9.5%
4. Mackerel	Russia	8,929	41.9%
	Netherlands	3,874	18.2%
	Lithuania	2,790	13.1%
	China	670	3.1%
6. Redfish	Germany	4,428	25.1%
	Russia	2,763	15.7%
	Japan	2,443	13.9%
	Netherlands	1,263	7.2%
8. Greenl. halibut	Japan	3,003	29.2%
	Netherlands	1,917	18.7%
	China	1,880	18.3%
	Hong Kong	662	6.4%

### Exports by product categories

Of individual product categories, frozen products were responsible for just more than half the total export value, or approximately 51%, a 2% decrease from 2012.

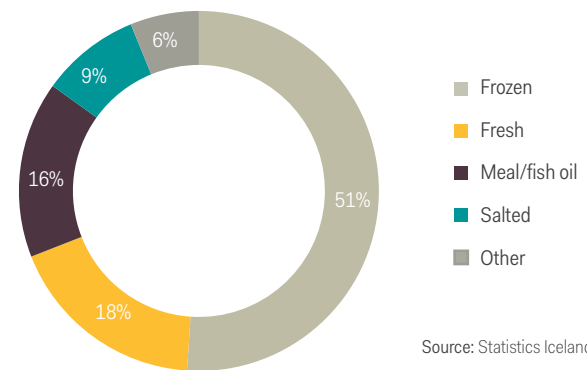
Thereafter are fresh (chilled) fish products, responsible for ISK 49bn, an increase of 11% from the previous year.

**Figure 43.** Export of seafood by product category, in ISKm in 2013



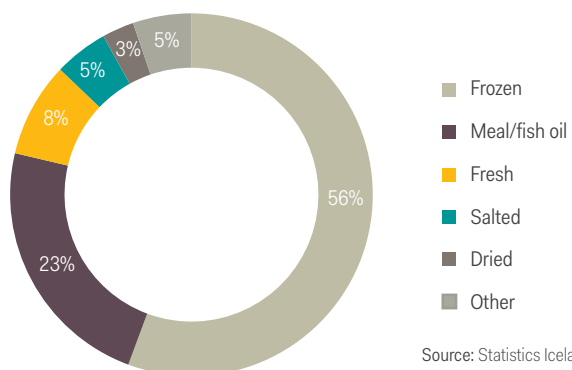
Source: Statistics Iceland

**Figure 44.** Proportional export value of seafood products by product category in 2013



Source: Statistics Iceland

**Figure 45.** Proportion of exported seafood products by product category in tonnes in 2013



Source: Statistics Iceland

## Aquaculture

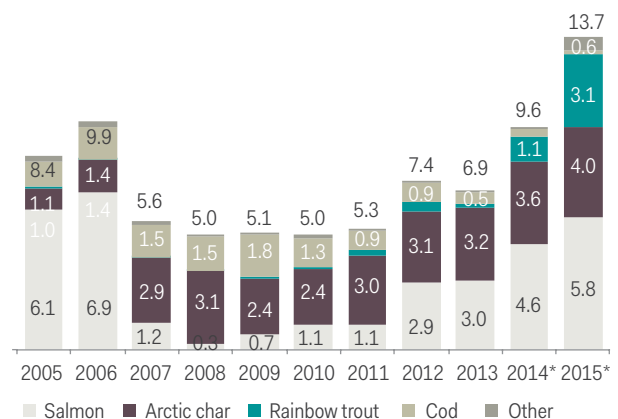
### Production

Approximately 6,900 tonnes of farmed fish were harvested in Iceland in 2013, or 1,600 tonnes less than was projected. The harvest in 2012 was around 7,400 tonnes, or a decrease of 500 tonnes between years.

As in recent years, the largest proportion harvested in 2013 was Arctic char, or approximately 3,215 tonnes. Approximately 3,000 tonnes of salmon were harvested and around 500 tonnes of farmed cod.

Production increases in salmon, Arctic char and rainbow trout are anticipated over the next few years. The current projections assume that the sector will double between 2013 and 2015 and that a total of 13,700 tonnes will be harvested in 2015.

**Figure 46.** Harvested farmed fish in thousands of tonnes, whole, non-gutted fish



\*Estimated

Source: Icelandic Aquaculture Association

### Export value

The export value of farmed fish remained almost the same between 2012 and 2013. The value for both years was ISK 4,900m.

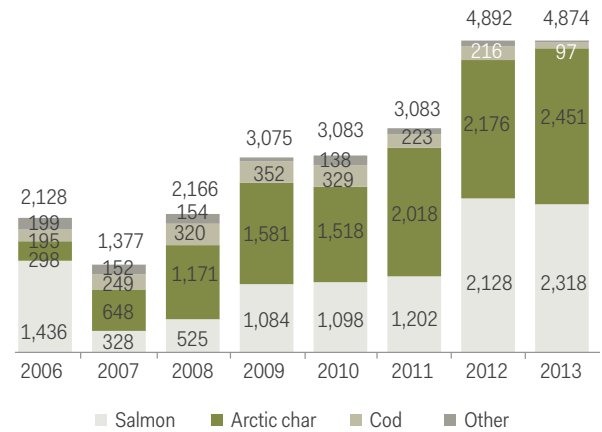
The increase in the export value between 2010 and 2013, amounting to ISK 1.8bn, can largely be attributed to the involvement of new entities.

### Salmon prices

Salmon prices have remained relatively high in recent months after peaking at the turn of the year 2013/2014 when the price came to just over NOK 49 per kg. Salmon prices have fallen since then and decreased to NOK 32.5 per kg in September 2014, as the supply is quite high at this time of year when producers harvest the summer growth.

If account is taken of the futures price of salmon, which is somewhere between NOK 37–45 per kg, the market expects prices to rise again soon.

Figure 47. Export value of farmed fish in ISKm



Source: Statistics Iceland

Figure 48. Price and futures price of salmon



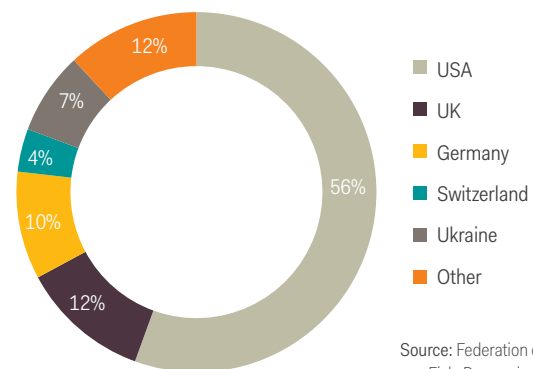
Source: Fish Pool

### Export markets

The US is by far the most important market for Icelandic farmed fish, with around 56% of the production being exported there in 2013, the majority as a whole, fresh fish. The total value of these exports according to figures from the Federation of Icelandic Fish Processing Plants amounted to ISK 4.3bn in 2013.

The UK is the second-largest market in regards to volume, with 795 tonnes of farmed fish products exported to the UK, for approximately ISK 591 million. Germany was the third-largest market in 2013 in volume, with around 663 tonnes but is much more valuable than the UK market, with around ISK 809m in value. The Ukraine was the fourth-largest market measured in volume, with around 508 tonnes, with a value of around ISK 318m, involving for the most part fresh, whole trout. Despite conditions in the Ukraine, there has been little reduction in exports there in 2014.

Figure 49. Exports of farmed fish by country in 2013



Source: Federation of Icelandic Fish-Processing Industries

By September 2014, around 216 tonnes of products had been exported to the Ukraine. Switzerland was the fifth-largest market in volume, with around 264 tonnes, while measuring fourth largest in value, with ISK 407m. Other countries import around 12% of produced volumes, or approximately 817 tonnes, with a value of around ISK 991m.

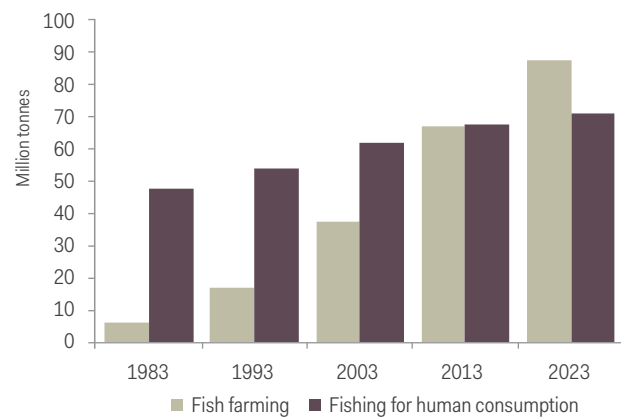
### Geographic locations

As the farming of salmonids at sea is for the most part limited to the Westfjords and Eastfjords, the main development focus in aquaculture has occurred in these regions. According to figures from the Directorate of Fisheries, there are at present permits to farm a total of around 16,300 tonnes per year in the Westfjords, whereof salmon and rainbow trout comprise 11,500 tonnes, cod 4,600 tonnes and Arctic char 200 tonnes. In the Eastfjords, there are permits to farm a total of 17,799 tonnes per year, whereof salmon and rainbow trout comprise 10,025 tonnes and cod 7,774 tonnes. In South Iceland there are permits to farm a total of 6,920 tonnes per year whereof salmon and rainbow trout comprise 2,790 tonnes, Arctic char 2,130 tonnes and Senegalese sole 2,000 tonnes. North Iceland is the region with the least amount of fish farming, with permits to farm a total of 3,380 tonnes per year, whereof salmon and rainbow trout comprise 1,450 tonnes and Arctic char 1,930 tonnes. In total, therefore, there are permits to farm 25,765 tonnes of salmon and rainbow trout per year and 4,260 tonnes of Arctic char. At present, it appears that the permits to farm Arctic char are almost fully utilised but that it is possible to increase the farming of salmon and rainbow trout considerably under the current permits.

### Worldwide fish farming

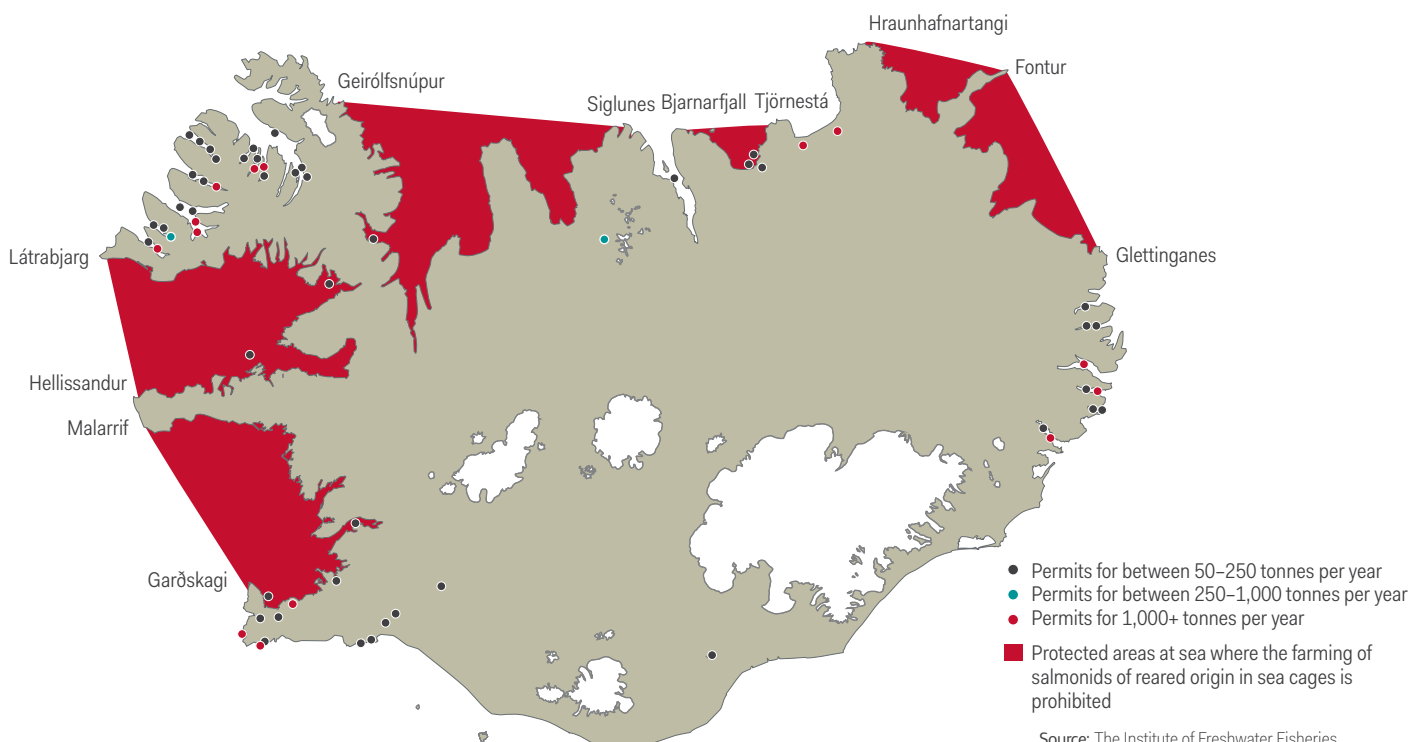
Worldwide fish farming in 2013 was approximately 70.1 million tonnes according to the FAO. Fish farming in 2012 produced 66.2 million tonnes, making the increase between years approximately 4 million tonnes, or a growth of about 5.8%. FAO believes that the volume produced by fish farming in 2014 will for the first time exceed catches for human consumption. The growth between 2012 and 2013 is similar to what it has been over the past decade. FAO, however, predicts lesser growth over the next decade, or the equivalent of around 2.5% a year. The reasons for reduction in increase in the coming years are believed to be due to environmental concerns and increased competition as regards water and land.

Figure 50. Fishing for human consumption and worldwide fish-farming



Source: OECD-FAO Agricultural Outlook 2014-2023

Mynd 51. Operating permits for fish farming and protected areas of salmonids at sea



## Innovation in the fisheries sector

Innovation enterprises in the fisheries sector have been receiving a great deal of attention recently. There appears to be considerable growth in ocean-related and fisheries-related innovation in Iceland, and many interesting start-up efforts have been growing. Over time, innovations involving services to the fisheries sector or further processing of the sector's goods have led to the establishment of numerous companies in Iceland, some of which have grown into large companies here in Iceland or have even become large international concerns.

There has been a great deal of discussion on the significant development that has taken place as regards the full processing of catches, with cod being the prime example of such development. It is safe to say that the value of cod has increased significantly in recent years. Iceland is among the leading nations in the full processing of seafood products and is considerably more advanced in this respect than its neighbours. The image below was obtained from the Icelandic Ocean Cluster and illustrates what is being used and prepared from cod.

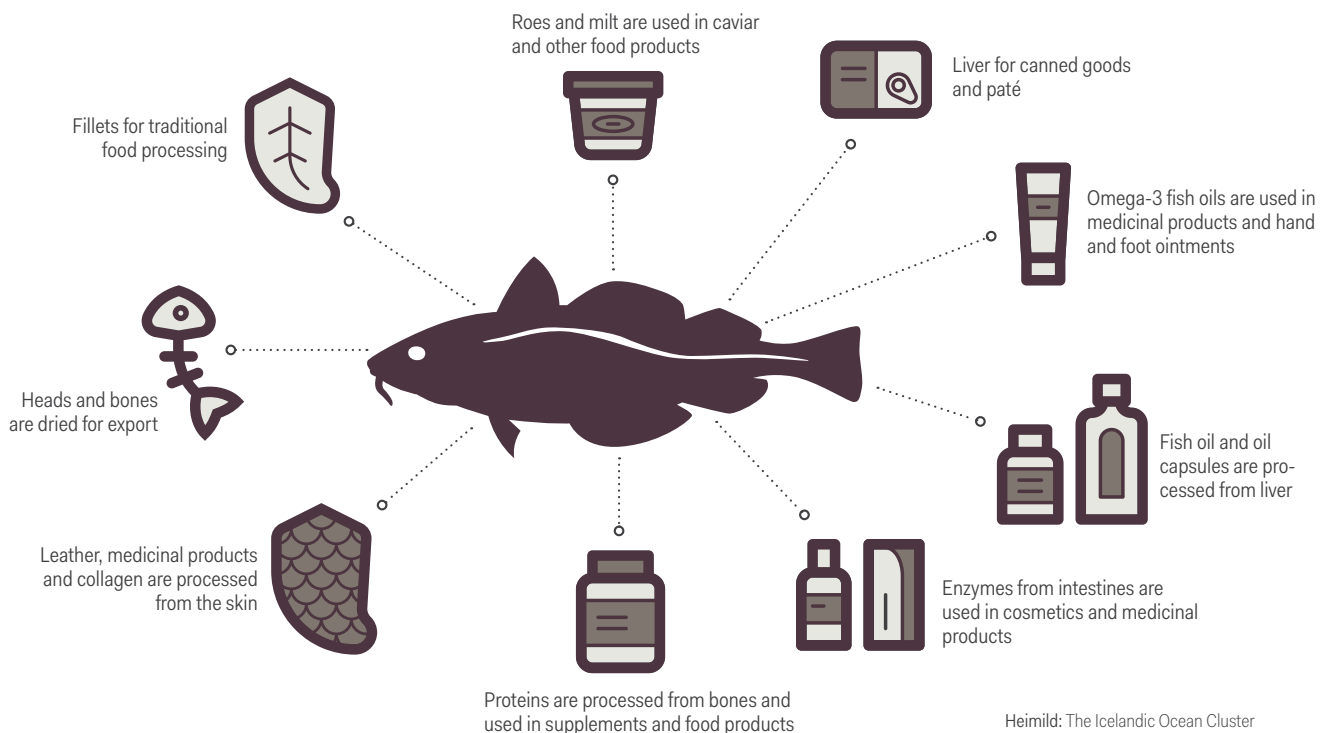
Technology is without a doubt the support industry of the fisheries sector that has achieved the strongest foothold, and among the 70+ companies that offer technical solutions for the fisheries industry, one can find several large and well-established companies that have become successful in international markets. According to the analyses of the Icelandic Ocean Cluster, the sector as a whole has grown by 10–15% annually since the economic collapse. At the same time, there has been a slow escalation in the number of newly established companies, and many smaller undertakings have grown rapidly in recent years. The largest enterprise in this

field, Marel, is the most obvious example of a company that has developed from a small innovation and development company into a large international enterprise over a short period, and it is clear that many existing small technology companies contain the seeds for future success.

The biotechnology sector as it relates to the utilisation of by-products is one of the most exciting start-up opportunities within the fishing industry. Several companies are engaged in the development and sale of such biotechnology products, although not all have come equally far in the development of their products. Naturally, the companies working on the development of biotechnology products need to spend a great deal of funds and time on research and development work, and as a result, such an operation needs both patient funds and the steadfast belief of the innovators and investors. One can easily see some of these companies becoming major enterprises in the future, as most of their products involve medicines or medicinal products that have both varied utilisation options and can prove significantly valuable if successful.

There have been numerous examples in recent decades of companies in fisheries support industries that have achieved an excellent foothold in a relatively short time. Small start-up companies, however, face large challenges, particularly as regards access to funds, before a certain amount of growth and stability is achieved. In light of the increased focus on innovation in these sectors, turn-over increases in many companies and increased public financing of innovation funds, it is likely that this group contains a future large international company.

Figure 52. Full utilisation of cod





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