30 August 2012

1H12 Financial Results

Forward Looking Statements

Important information

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Highlights during 1H12

Many significant milestones reached in the first half of 2012

1 STABLE RECURRING REVENUES

- Over 80% of the Bank's net operating income is from core operations (net interest income and net fee and commission income)
- Net fee and commission income is picking up on back of Byr merger, new fee generating subsidiaries and increased capital markets activities

2 CREDIT QUALITY CONTINUES TO IMPROVE

- Several large restructuring projects finalised in the first half of 2012
- Financial restructuring to finish in 2013
- Aim to have ratio of loans in restructuring below 11% by FY12, 5% by FY13 and 2% by FY14

3 PROMISING BUSINESS HIGHLIGHTS

- New lending exceeds repayments for the first time in 2Q12
- Corporate finance working on new mandates that will positively affect capital markets activity
- Byr synergies already starting to come through, but will have more weight in 2013, with strong customer retention

4 REDUCED OPERATIONAL UNCERTAINTY

- Íslandsbanki the first bank in Iceland to receive ESA approval of measures taken in 2008
- ESA has also approved measures taken in 2008 regarding money market funds as compatible with EEA agreement
- Less legal uncertainty regarding recalculation of FX loans as favourable legal precedents come through the courts

Overview

Key figures & ratios

		1H12	1H11	FY11
Profitability	ROE (after tax), %	**17.9%**	12.9%	1.5%
	Adjusted ROE (after tax), %	**11.1%**	12.4%	11.0%
	Net interest margin (of total assets), %	**4.0%**	4.8%	4.5%
	Cost to income ratio, %	**52.0%**	50.5%	51.5%*
	Net profit, ISK m	**11,624**	8,062	1,866
	Earnings from regular operations, ISK m**	**7,174**	7,711	13,904

		30 06 2012	31 03 2012	31 12 2011
Capital	Tier 1 capital ratio, %	**20.2%**	19.7%	19.1%
	Total capital ratio, %	**23.5%**	23.3%	22.6%
	Total equity, ISK m	**135,481**	129,420	123,703
Balance sheet	Total assets, ISK m	**789,937**	792,418	795,915
	Total lending, ISK m	**596,116**	584,308	608,049
	Total deposit / loan ratio, %	**83.8%**	87.2%	86.5%

* Excluding write down of goodwill in 2H11

** Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gain deriving from changes in accounting treatment, costs associated with the Byr merger and the impairment of goodwill, and net earnings from discontinued operations

I. Income Statement 1H12

Income statement

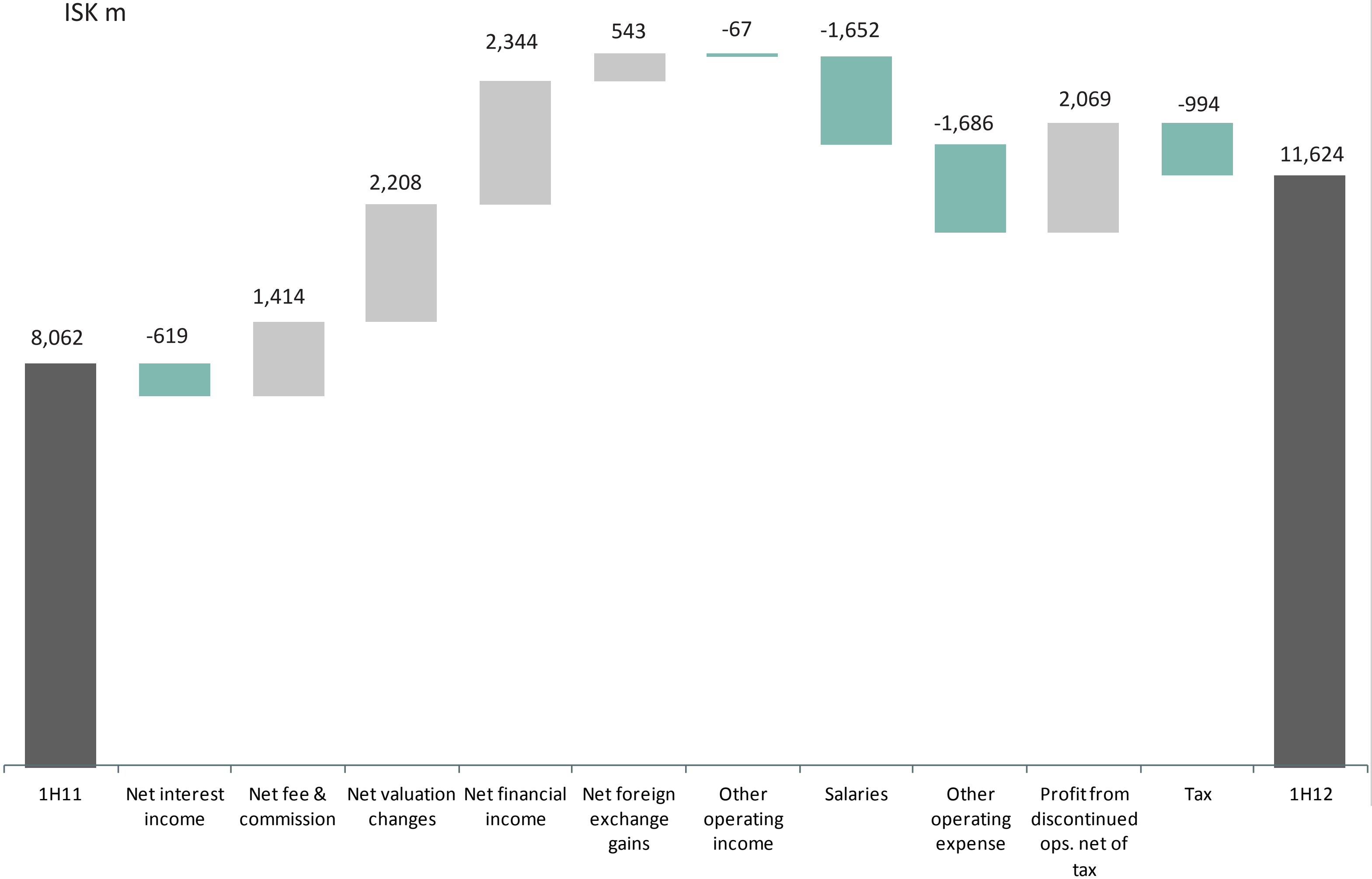
Comparison of half year statements and full year comparison

ISK m	**1H12**	1H11	FY11	FY10
Net interest income	**15,684**	16,303	31,225	34,874
Net valuation changes	**2,069**	-255	-1,296	14,507
Provision for latent impairment	**-270**	-155	76	-514
Net interest income after valuation changes	**17,483**	15,894	30,005	48,867
Net fee and commission income	**4,426**	3,012	5,966	7,380
Net foreign exchange	**879**	336	937	-963
Net financial income/loss	**1,876**	-468	2,649	-910
Other net operating income	**589**	656	894	1,186
Total operating income	**25,253**	19,430	40,451	55,560
Salaries and related expenses	**-6,620**	-4,968	-10,531	-9,207
Other operating expenses	**-5,997**	-4,405	-9,339	-8,659
Insurance fund	**-526**	-432	-965	-607
Administrative expenses	**-13,144**	-9,806	-20,835	-18,473
Impairment of goodwill	**0**	0	-17,872	0
Share profit of associates	**0**	0	39	0
Profit before tax	12,110	**9,624**	**1,781**	**37,087**
Income tax	**-2,997**	-2,067	-75	-7,214
Bank tax	**-407**	-344	-682	-221
Profit from discontinued ops. net of tax	**2,919**	849	841	-283
Profit after tax	11,624	**8,062**	**1,866**	**29,369**
Earnings from regular operations	7,174	**7,711**	**13,905**	**17,756**

Core operations continue to improve

Development of P&L line items 1H11 – 1H12

Change in net profit by line items
ISK m

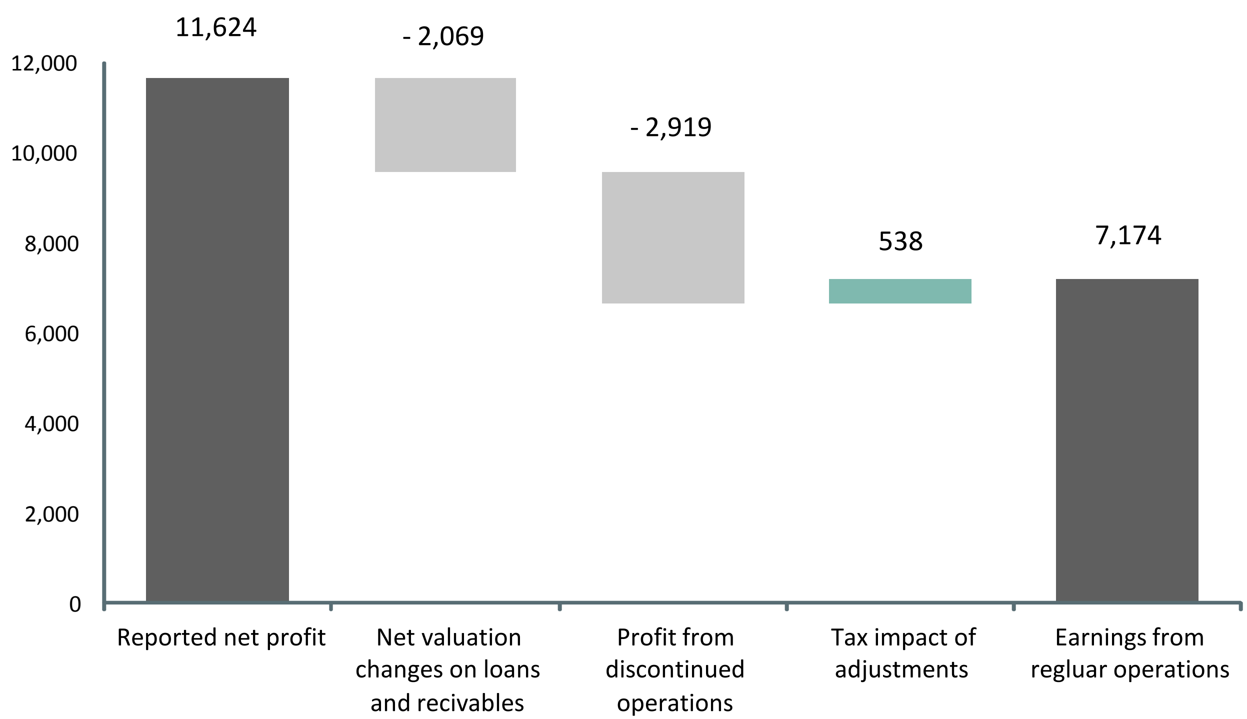


- Decrease in NII due to lower amortised discount
- Net interest margin was 4.0% in 1H12, compared to 4.8% in 1H11
- Increase in net fee and commission income mainly attributable to Byr merger, new fee generating subsidiaries and increased capital markets activities
- Net financial income includes a mark to market financial gain on a large equity stake

Adjusted earnings from regular operations

Regular operations continue to genereate good profitability in 1H12

ONE-OFF ITEMS AND OTHER EXTRAORDINARY ITEMS
ISK m



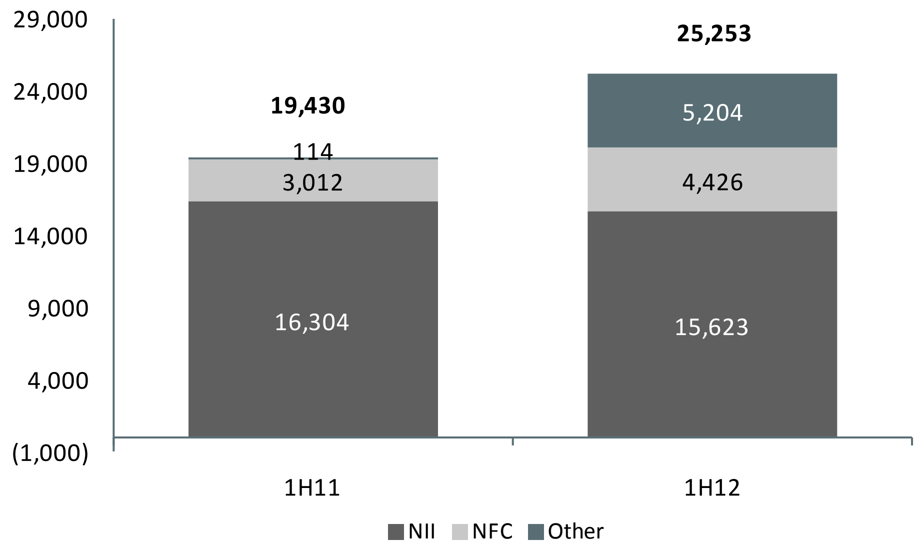
- Positive net valuation changes on loans and receivables of ISK 2.1bn
- Profit from discontinued operations of ISK 2.9bn due to sale of equity shares and foreclosed assets
- Net tax impact of adjusted earnings was ISK 538m

*Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gain deriving from changes in accounting treatment, costs associated with the Byr merger and the impairment of goodwill, and net earnings from discontinued operations.

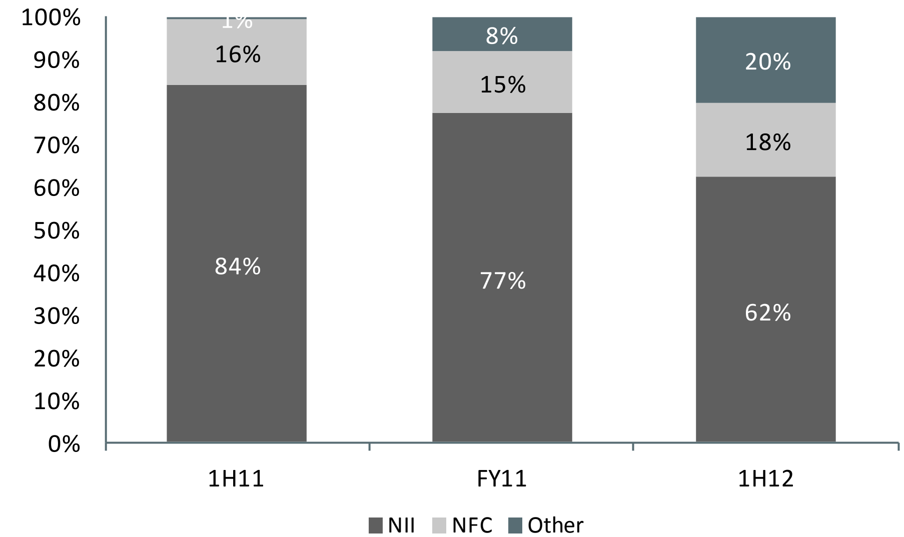
Income split

Focus on long-term stable cash flows, core operations continue to generate vast majority of income

NET OPERATING INCOME SPLIT
By income type, ISK m



NET OPERATING INCOME SPLIT
By income type, %



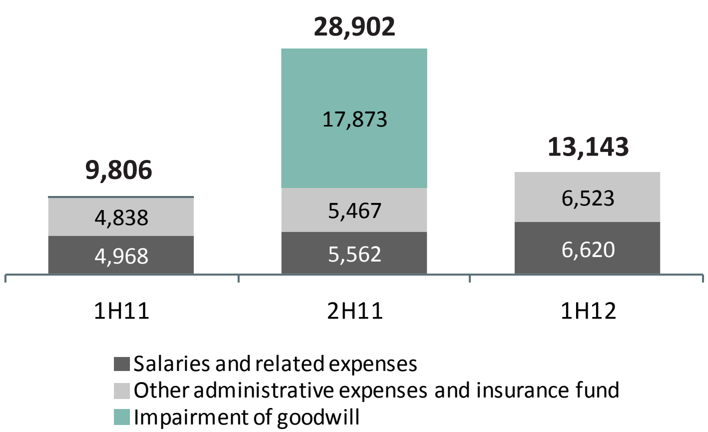
- Net interest margin normalising at 4.0% in 1H12, compared to 4.8% in 1H11, expected to be approximately 3% in the long term
- Net fee and commission income is starting to pick up on the back Byr merger and increased capital markets activity. Also fee generating subsidiary Borgun is now fully incorporated in 1H12 numbers
- Net financial income higher due to fair value gain on Icelandair equity shares and dividend payments from trading shares and bonds

- In line with the bank's focus on long-term stable cash flows, core operations continue to generate vast majority of the Bank's net operating income split
- Over 80% of the Bank's net operating income is from net interest income and net fee and commission income

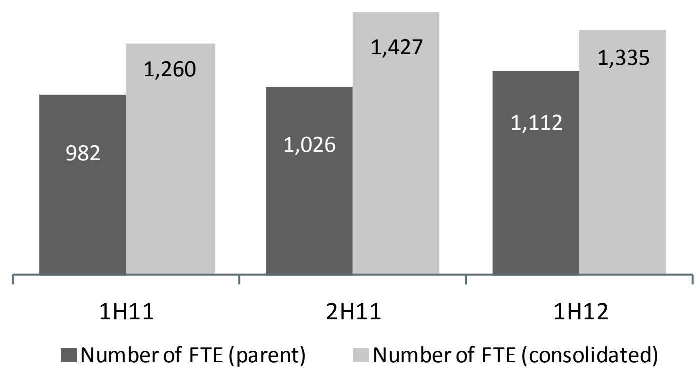
Temporary increase in expenses

Objective to build effective and sound infrastructure for future operations

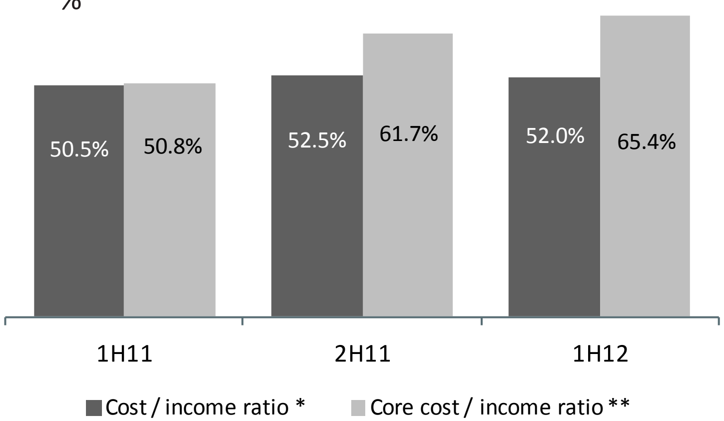
TOTAL EXPENSES
By type of expense, ISK m



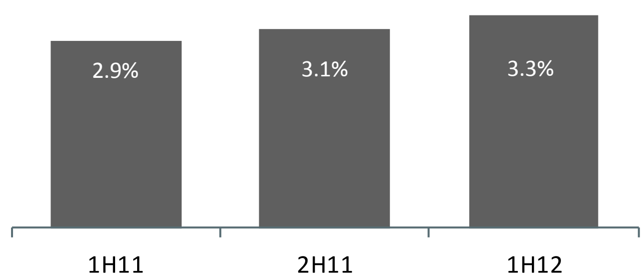
FTEs
Parent vs Consolidated, Yearly average, #



COST / INCOME RATIOS
%



COST / AVERAGE ASSETS*
%



- Higher number of FTEs
  - Merger with Byr in Q411
  - Restructuring has taken longer time than expected
  - Increased regulatory requirements
- Higher administrative cost
  - New systems and general infrastructure improvements
  - Cost associated with the Byr and Kreditkort mergers – synergies will fully materialise in 2013
  - New subsidiaries entered the group as a result of the Byr merger
- The Bank places great emphasis on cost effectiveness and monitoring
  - Number of FTEs expected to decrease once restructuring nears completion
  - Number of projects in place to reduce administrative expenses

* Excluding write down of goodwill in 2H11
** Core cost/ income ratio = Administrative expenses/(Net Interest Income + Net Fee & Commission Income)

II. Assets & Restructuring

Assets

Consolidated – 30 June 2012

ISK m	30.06.12	31.03.12	31.12.11
Cash and balances with CB	**72,072**	78,398	57,992
Derivatives	**306**	205	339
Bonds and debt instruments	**50,386**	55,579	58,662
Shares and equity instruments	**9,870**	12,736	11,107
Loans to credit institutions	**50,218**	46,461	43,655
Loans to customers	**545,898**	537,847	564,394
Investment in associates	**912**	917	1,070
Property and equipment	**5,629**	5,530	5,276
Intangible assets	**608**	580	544
Deferred tax assets	**1,997**	2,049	2,629
Non-current assets held for sale	**39,149**	39,723	42,690
Other assets	**12,892**	12,393	7,557
Total assets	**789,937**	792,418	795,915

Bonds and debt instruments

- Mainly G5 government bonds
- No exposure to GIPSIs

Shares and equity instruments

- Decrease due to sale of Icelandair shares

Loans to credit institutions

- Part of liquidity portfolio placed with banks outside of Iceland
- No exposure to troubled banks

Loans to customers

- New lending exceeds repayments for the first time in 2Q12.

Non-current assets held for sale

- Partly due to sale of equity holdings in Mar 2012, which were owned by Íslandsbanki subsidiary Miðengi

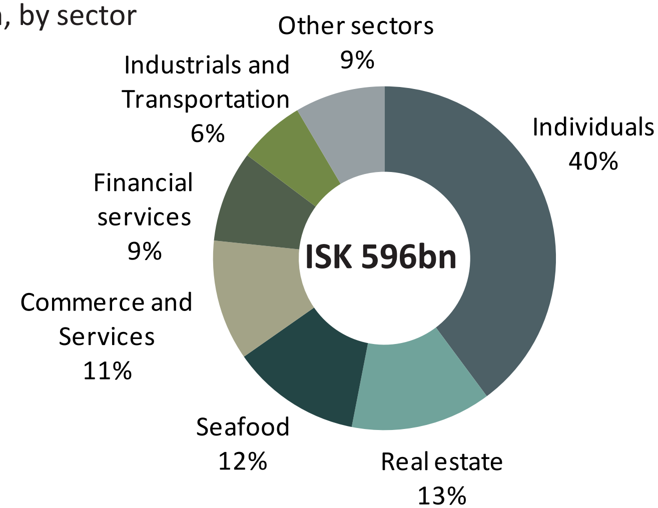
Well diversified loan portfolio

Acquisition of Byr diversified the portfolio further in terms of industry sectors and facility types

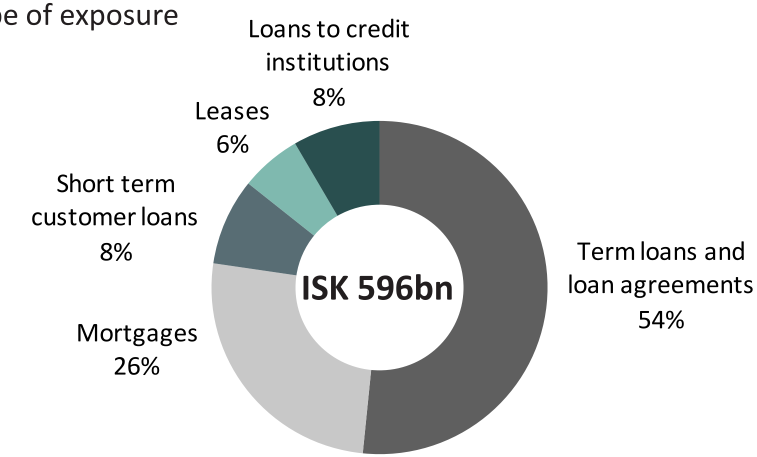
The loan portfolio increased by 2% in Q2

- New lending exceeds repayments for the first time in 2Q2012 and pipeline is promising
  - Significant increase in asset based financing, both to retail clients as well as financing of large corporate contracts
  - New mortgage products, in particular non-CPI linked
  - Demand for new lending to corporates is improving but still low due to increased competition
- However, restructuring and write-offs continue with focus on recalculation of FX loans and loans acquired from Byr

CONSOLIDATED LOAN PORTFOLIO
ISK bn, by sector



CONSOLIDATED LOAN PORTFOLIO
By type of exposure



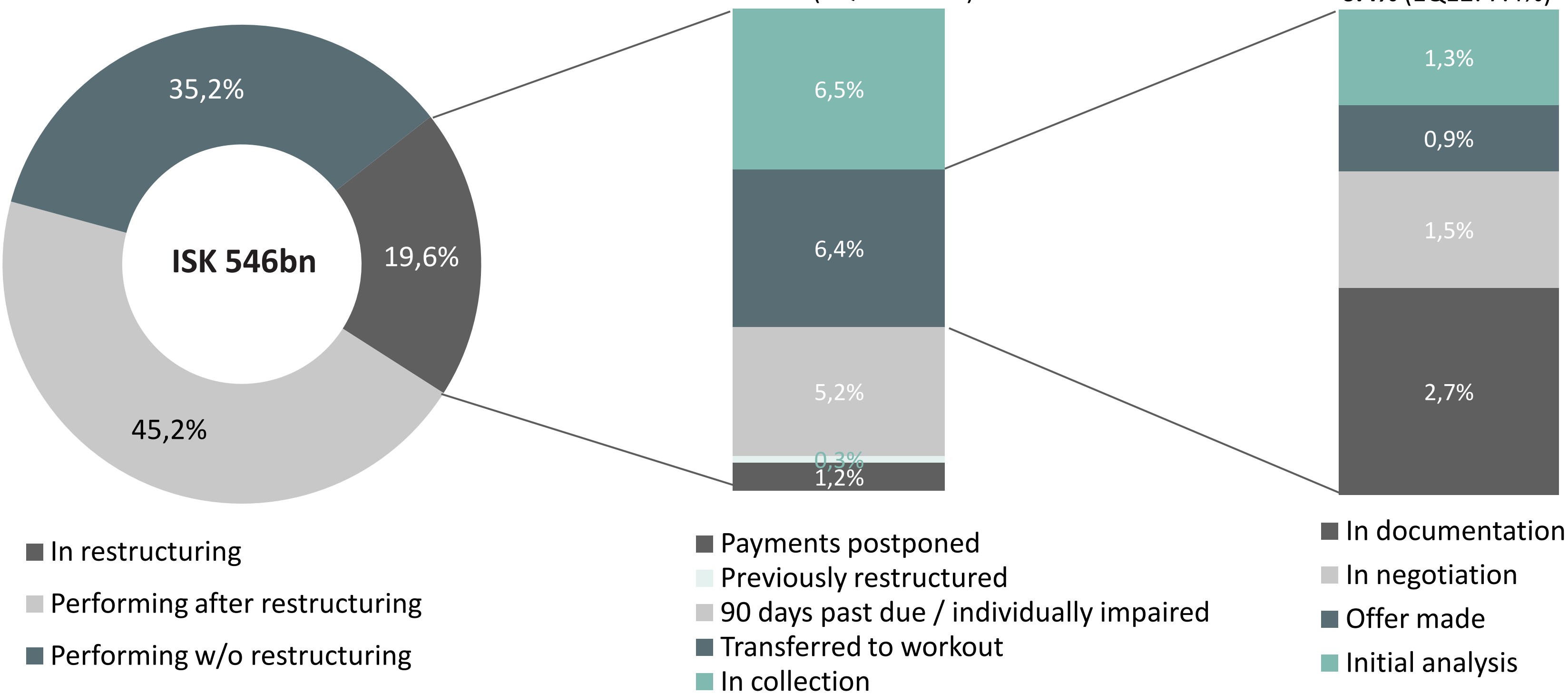
Loan portfolio performance

Carrying amount reflects expected recovery of loans

LOAN PORTFOLIO ANALYSIS (LPA[1])
Excluding fully performing loans to credit institutions

LOANS IN RESTRUCTURING
By status of restructuring
19.6% (1Q12: 23.5%)

TRANSFERRED TO WORKOUT
By level of completion
6.4% (1Q12: 7.4%)



- Carrying amount reflects expected recovery of all outstanding loans
- Large part already in workout process
- Almost half of workout portfolio already in advanced stages of documentation

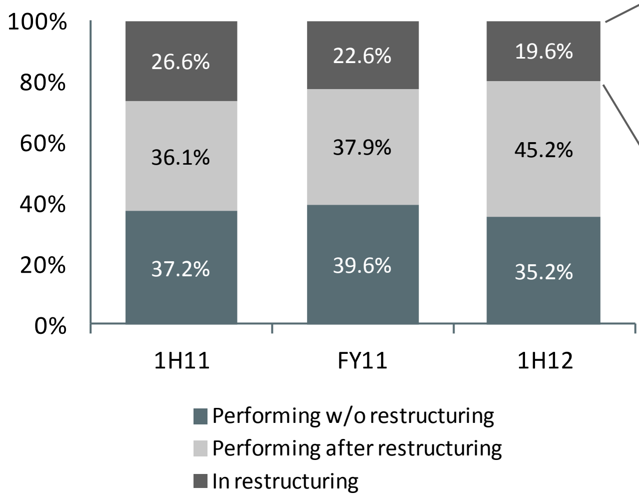
1. Parent company only, numbers as of 30 June 2012
2. As defined by Loan Portfolio Analysis (LPA)

Note:
LPA report submitted monthly to the FME
Exposure is monitored on obligor level – not facility level

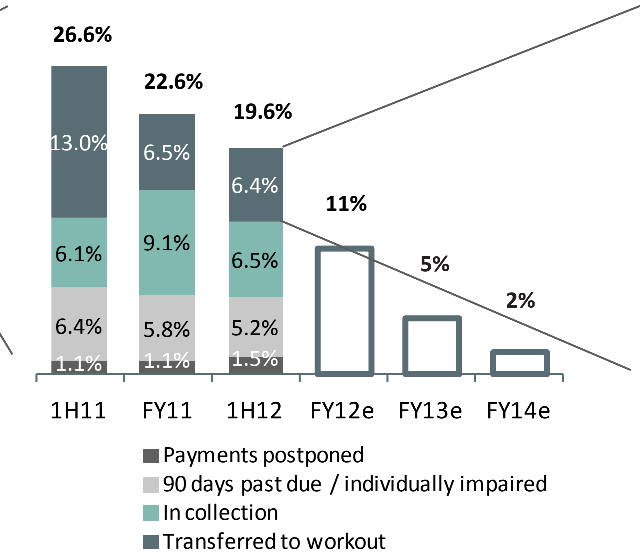
Restructuring proceeding on track

Aim to have ratio of loans in restructuring below 11% by FY12, 5% by FY13 and 2% by FY14

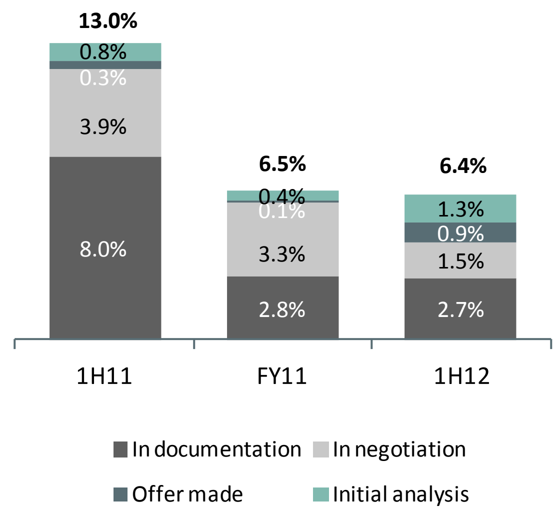
LOAN PORTFOLIO ANALYSIS (LPA[1])
Excluding fully performing loans to credit institutions



LOANS IN RESTRUCTURING
By status of restructuring



TRANSFERRED TO WORKOUT
By level of completion



- A large government secured customer loan was repaid in Q1 which had an adverse effect on portfolio ratios such as the LPA metric and problem loans ratio

- Before the Byr merger, the ratio for loans in restructuring had reached below 20%
- Aim to move this ratio further down to 11% before year-end 2012

- Almost half of workout portfolio already in advanced stages of documentation

1. Parent company only, numbers as of 30 June 2012
2. As defined by Loan Portfolio Analysis (LPA)

Note:
LPA report submitted monthly to the FME
Exposure is monitored on obligor level – not facility level

III. Liabilities, Liquidity & Capitalisation

Liabilities

Consolidated – 30 June 2012

ISK m	**30.06.12**	31.03.12	31.12.11
Financial liabilities	**11,154**	10,596	9,346
Derivatives	**5,377**	5,761	4,027
Deposits from CB and credit inst.	**41,914**	52,470	62,845
Deposits from customers	**457,887**	456,821	462,943
Debt issued and other borrowings	**66,513**	65,647	63,221
Subordinated loans	**21,853**	23,303	21,937
Current tax liabilities	**1,156**	2,706	2,670
Deferred tax liabilities	**238**	19	17
Non-current liabilities held for sale	**5,761**	6,482	7,317
Other liabilities	**42,603**	39,193	37,889
Total liabilities	**654,456**	662,998	672,212
Total equity	**135,481**	129,420	123,703
Total liabilities and equity	**789,937**	792,418	795,915

Deposits

- Slight decrease in deposits in line with development on the asset side
- Normal fluctuations in deposit base

Debt issued and other borrowings

- ISK 49bn bond issued to the Central Bank secured on a pool of mortgages
- ISK 6.6bn bond as a consideration for Byr issued in 4Q11
- ISK 8.8bn covered bond issuances

Subordinated loans

- EUR 138m denominated Tier II Government bond following agreement with creditors and Government in Sep 2009

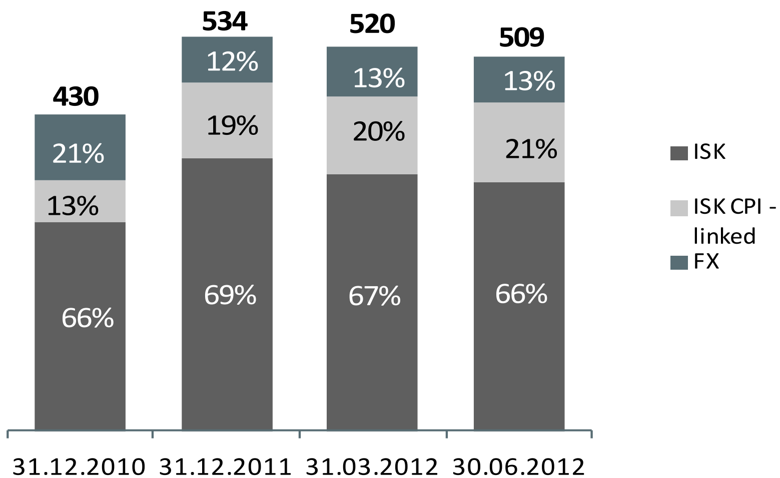
Other liabilities

- Includes accruals, unsettled securities transactions and liabilities in subsidiaries

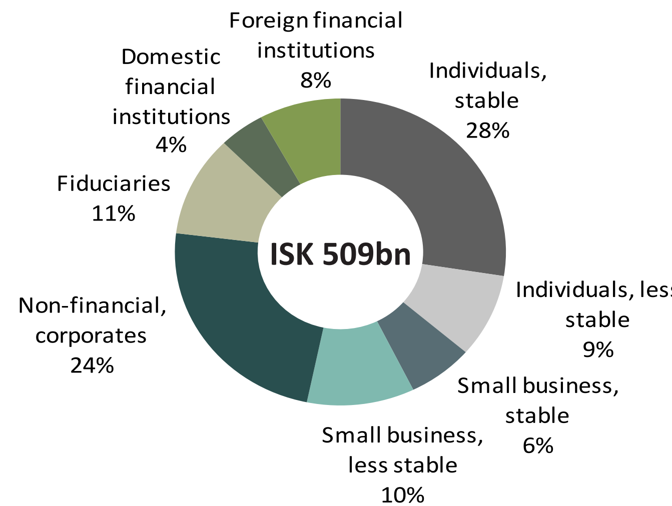
Deposits are stable

Slight decrease in deposits in line with development on the asset side

DEPOSIT DEVELOPMENT
Total exposure, parent company, ISKbn



DEPOSIT COMPOSITION
As of 30.06.12, parent company, by customer type



Increased focus on term deposits

- Treasury has defined targets for the ratio of term deposits as a proportion of total deposits
- Main focus on notice accounts and fixed interest accounts

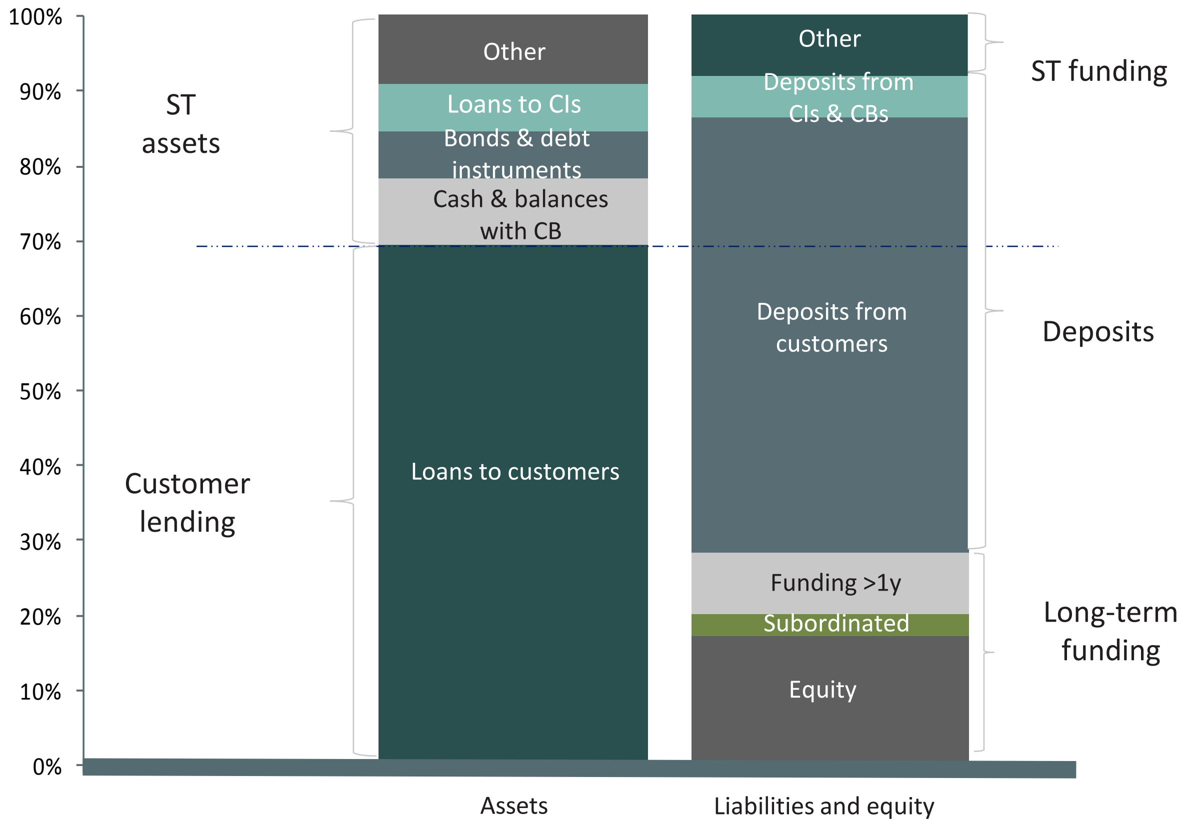
Concentration is monitored closely

- Funding and liquidity management aims at diversifying funding sources

Structurally sound balance sheet

Solid funding base where deposits are the largest source of funding

BALANCE SHEET COMPOSITION
30.06.2012, %



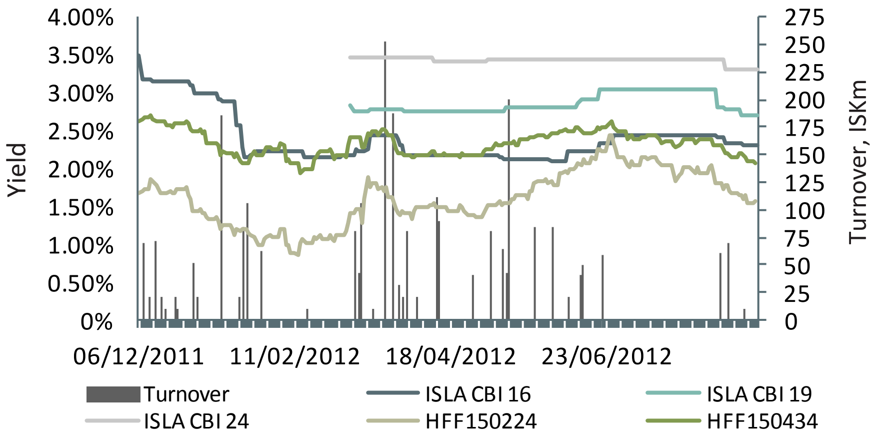
Funding diversification

- Prudent asset and liability management
- The bank has enough short term assets that can easily be liquidated to cover substantial outflow of deposits

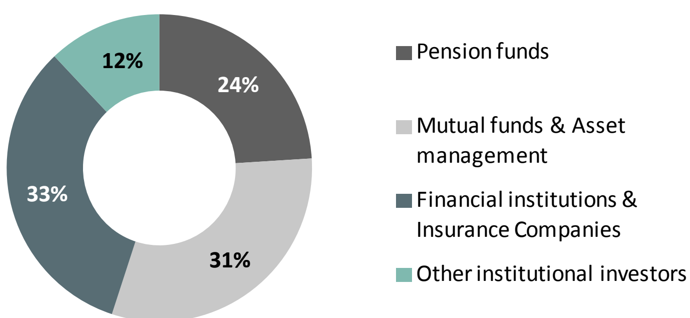
Diversification of funding continues

Íslandsbanki was the first bank to list securities on the NASDAQ OMX Iceland since 2008

ÍSLANDSBANKI COVERED BONDS
Yield and turnover as of August 2012



INVESTOR DISTRIBUTION
%, by type of investor



An ISK 100bn covered bond programme in place

- Íslandsbanki plans to issue around ISK 10bn of CBs annually
- Three oversubscribed issues to date amounting to ISK 8.8bn
  - Dec 2011: ISK 4bn, five year, CPI-linked bonds with one payment of principal on maturity date
  - Mar 2012: ISK 1.8bn, 7-year CPI-linked bonds at a real yield of 2.84% (tap issuance of ISK 630 million in May)
  - Mar 2012: ISK 1.5bn, 12-year CPI-linked bonds at a real yield of 3.45% (tap issuance of ISK 850 million in May)

Covered bonds performing well in the after market

- Issues were sold to a broad group of institutional investors, i.e. domestic pension funds, mutual funds and insurance companies
- The December 2011 issuance was issued at a yield of 3.5%, which had decreased to 2.29% in August 2012
- The yield on the two March 2012 issues that followed has trended downward with the 7 year bond issued at a yield of 2.84% (trading at 2.69% in August 2012) and the 12 year bond issued at a yield of 3.45% (trading at 3.32% in August 2012)

Íslandsbanki not reliant on FX funding in short or medium term

- The benchmark issue by the Icelandic state in 2011, followed by the USD 1bn eurobond in May 2012, is a clear sign that investors are taking note of the recovery of the Icelandic economy and financial system
- The Bank is considering its options for raising foreign currency funding, as growth in the loan book is set to resume

Sound management of liquidity

Liquid assets of ISK 162bn exceed regulatory targets

LIQUIDITY BACK-UP* / DEPOSIT COVERAGE RATIO
30.06.2012, parent company, ISKbn

Asset type	ISK	FX	Total
Cash and balances with CB	64.8	1.1	65.8
Balances with credit institutions	3.0	39.9	42.9
Repo eligible bonds	16.1	0.0	16.1
Foreign government bonds	0.0	12.2	12.2
Government facility line	25.0	0.0	25.0
Total	**108.8**	**53.2**	**162.0**
Total deposits (parent)	444.7	63.8	508.6
Liquid assets to total deposits	24%	83%	32%

Regulatory liquidity requirements

- FME requires cash or cash-like assets against demand deposits of 5%
  - Íslandsbanki (30.06.2012): 28%
- FME requires liquid assets against all deposits of 20%
  - Íslandsbanki (30.06.2012): 32%
- CB: Liquid assets and expected loan inflow cover 100% of all expected outflow over the next 3 months according to CB definitions
  - Íslandsbanki (30.06.2012): 135%
- Government facility line will expire in Sep 2012, but the Bank remains highly liquid with ratios substantially above regulatory requirements
- The Icelandic regulator has not issued any guidelines on the implementation of the Basel III liquidity measures, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
  - Íslandsbanki is prepared for adopting the Basel III liquidity measures.

* Consists of both on and off-balance sheet assets that the Bank holds and are considered liquid

Imbalances strictly monitored

Gross foreign currency gap actively improved through restructuring

IMBALANCES
30.06.2012

ISKbn	FX denominated	CPI-linked
Assets	203	196
Adjustments for FX / ISK assets	32	
Net assets	**171**	**196**
Liabilities	157	186
Net gap	**14**	**10**

FX assets

- Categorisation based on customer cash flow
- Real FX assets (FX/FX) amount to ISK 171bn
- Exchange rate changes are fully offset in the impairment account in cases where recovery is fixed in ISK
- Net FX gap is strictly monitored and is within regulatory limit

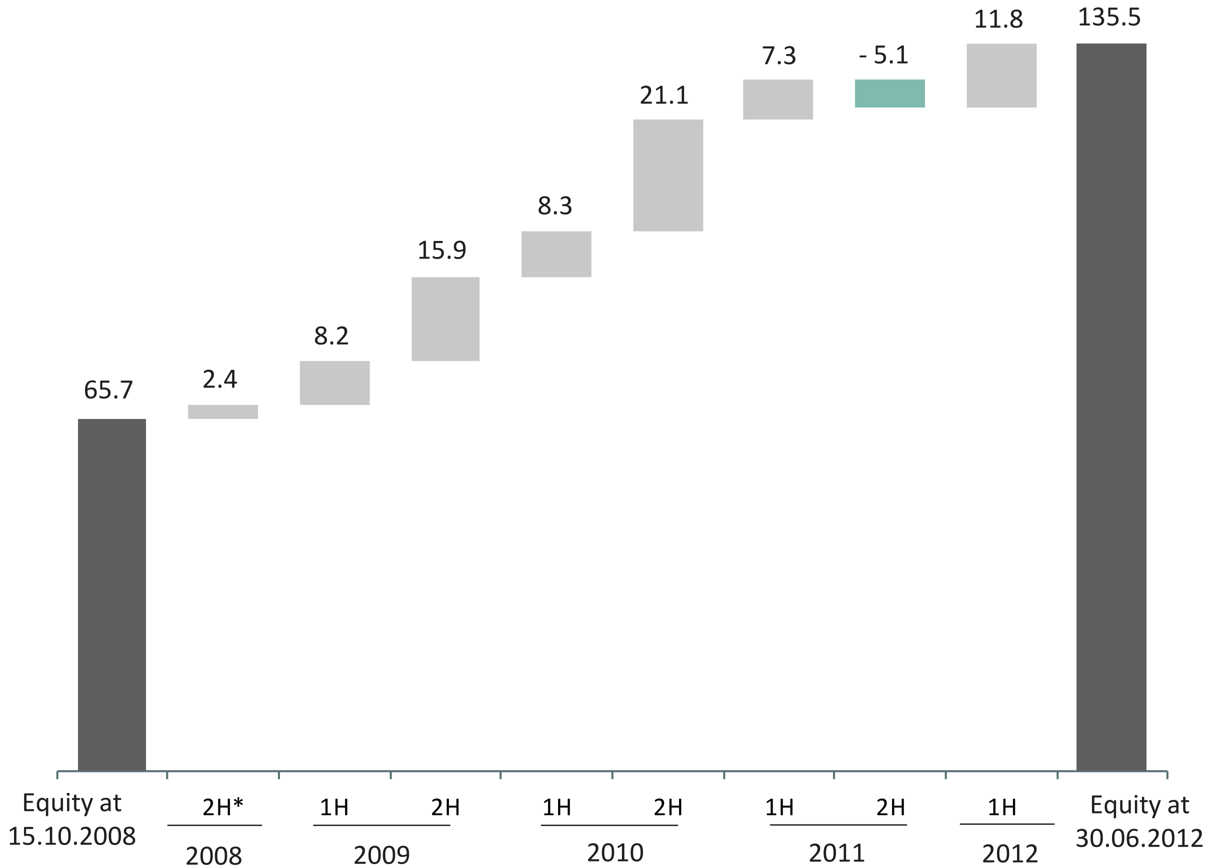
Net gap between inflation indexed assets and liabilities

- CPI-linked swaps used to reduce the gap
- Issuance of CPI-linked covered bonds also reduces the gap

Equity has doubled since establishment

Capital ratios continue to strengthen on back of retained earnings

TOTAL EQUITY DEVELOPMENT
ISK bn



Strong equity base

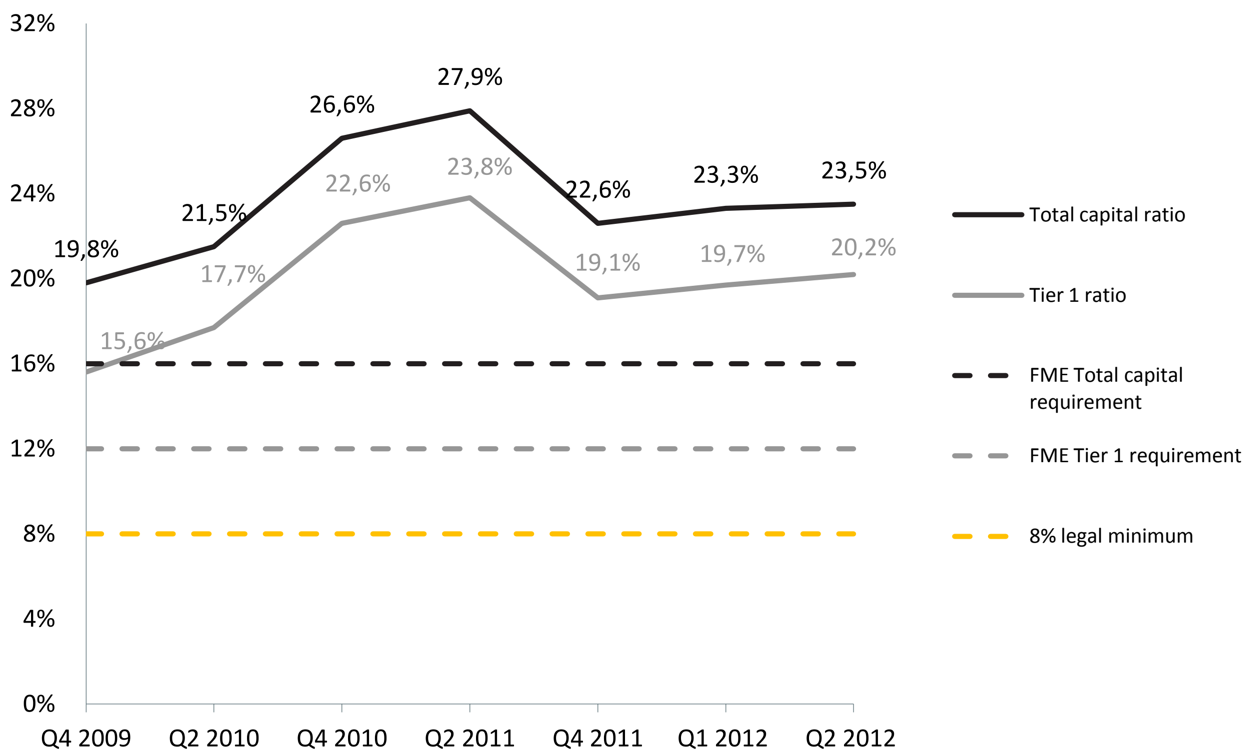
- Has provided comfort given the uncertainty in the Bank´s operating environment
- No dividend has been paid since foundation
  - Growth only due to retained earnings
- Starting to weigh down on profitability

* Period from 15.10.2008 until 31.12.2008

Sound capital position

Exceeds legal and regulatory requirements of 16% and legal limit of 8%

CAPITAL RATIOS, STANDARDISED APPROACH
Development, %



- Increase in capital ratios by on the back of retained earnings and increase in risk weighted assets
- New interpretation of rules for risk weight on real estate loans reduced the increase in capital ratios by 0.7%
- The ratio of RWA to total assets is 83% which indicates a high quality equity buffer
- The dip in Q411 was mainly due to Byr merger and write-off of goodwill
- Far exceeds regulatory requirements of 16% and legal limit of 8%

Thank you