

# SECOND QUARTER RESULTS 2008

Lárus Welding CEO

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## Income

Asset quality

Funding & liquidity

Business units

Niche expertise

Q&A

Appendix

01.

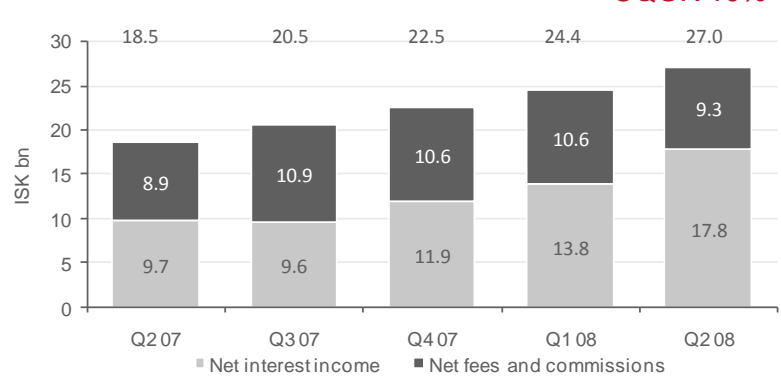
# Continued strong result from core operations

Net profit of ISK 7.6 bn up 29% QoQ

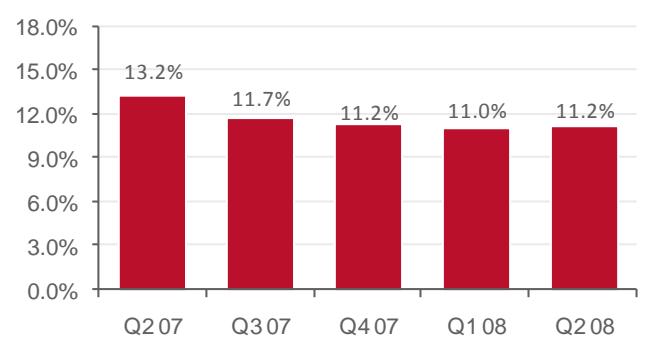
## Delivering highest net operating income ever

- Core profits increasing by 1.3 bn QoQ
- Return on equity in Q2 is 17%
- Salaries 4% down QoQ
- Loan book scaled down by ISK 45 bn in Q2 08, corrected for FX and inflation
- CAD remains strong at 11.2%

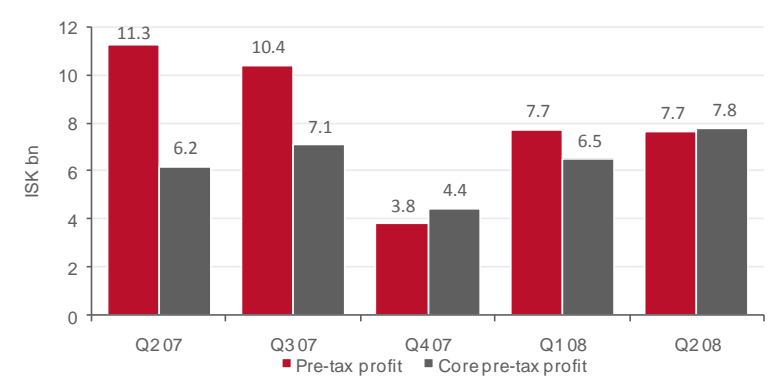
## Core income development



## CAD ratio



## Profit before tax / Core profit before tax\*



\*Core profit is defined as Pre-tax profit minus other income minus profit from associates & JV's

# Positive profit development QoQ

Core profit before tax up 20%

(ISK bn)	Q2 08	Q1 08	% QoQ
Net interest income	17.8	13.8	29%
Net fees and commissions	9.3	10.6	-13%
Other income	-0.1	1.2	-111%
<b>Net operating income</b>	<b>26.9</b>	<b>25.6</b>	<b>5%</b>
Expenses	-14.8	-13.8	7%
- Salaries	-7.3	-7.6	-4%
- Other expenses	-7.5	-6.2	21%
Impairment	-4.5	-4.1	9%
Profit before tax	7.7	7.7	-1%
Income tax	-0.1	-1.9	-96%
<b>Net profit</b>	<b>7.6</b>	<b>5.9</b>	<b>29%</b>
Core profit before tax*	7.8	6.5	20%
Cost/Income ratio	55%	54%	
Total recognized income in equity	11.6	28.4	-59%

\*Core profit is defined as Pre-tax profit minus other income minus profit from associates & JV's

# Net operating income up 16% YoY

Core profit before tax up 26%

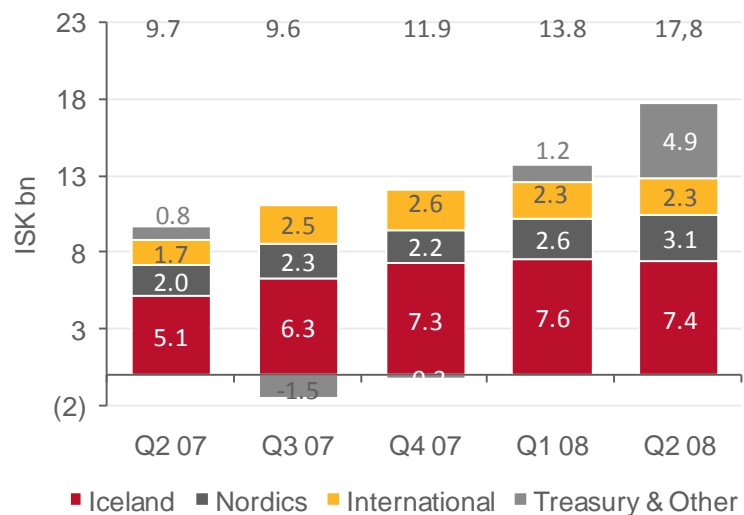
(ISK bn)	Q2 08	Q2 07	% YoY
Net interest income	17.8	9.7	84%
Net fees and commissions	9.3	8.9	4%
Other income	-0.1	4.6	N/A
<b>Net operating income</b>	<b>26.9</b>	<b>23.2</b>	<b>16%</b>
Expenses	-14.8	-12.1	22%
- Salaries	-7.3	-7.1	3%
- Other expenses	-7.5	-5.0	49%
Impairment	-4.5	-0.2	N/A
Profit from associates & JV's	0.0	0.5	-95%
Profit before tax	7.7	11.3	-32%
Income tax	-0.1	-1.8	-95%
<b>Net profit</b>	<b>7.6</b>	<b>9.5</b>	<b>-20%</b>
Core profit before tax*	7.8	6.2	26%
Cost/Income ratio	55%	52%	

\*Core profit is defined as Pre-tax profit minus other income minus profit from associates & JV's

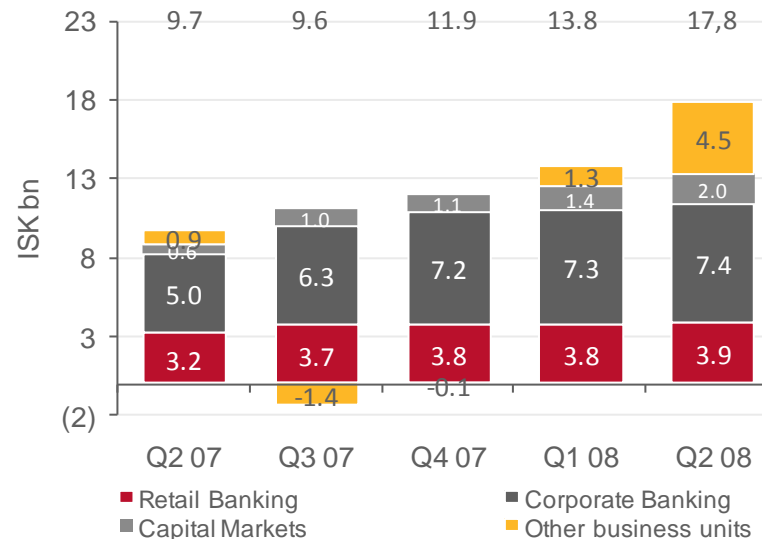
# Robust net interest income development

## Balanced contribution of business units and regions

Net interest income by region



Net interest income by business units



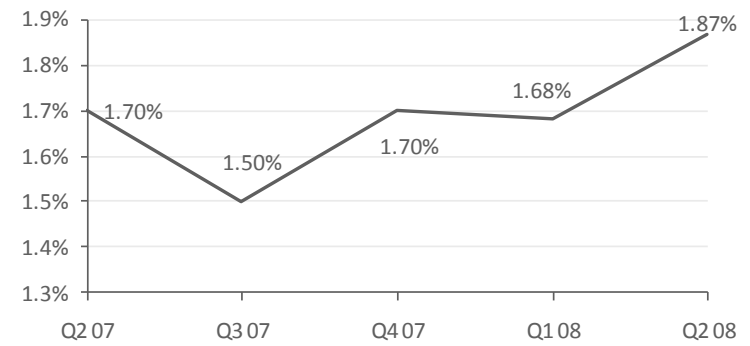
# Significant increase in net interest margin

Loan book decreasing by ISK 45 bn in real terms during the quarter

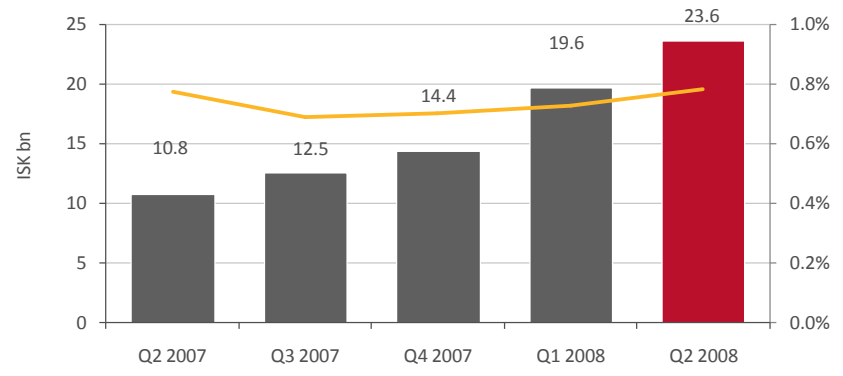
## A strong net interest margin on back of ISK inflation

- The bank is currently 105 bn long inflation
- Allowances rising from Q1 08

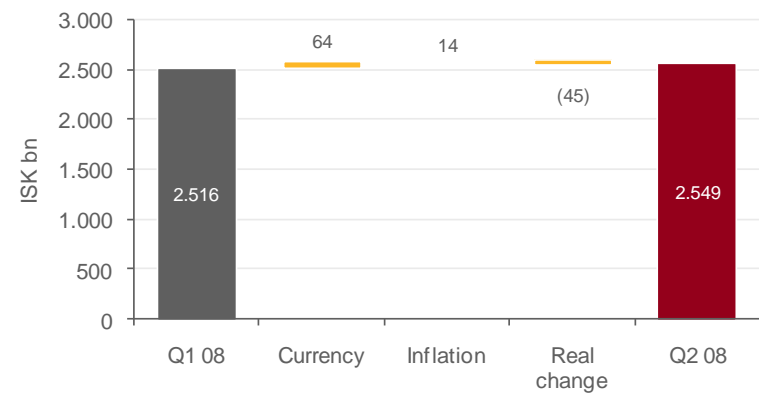
Net interest margin



## Allowances for impairments and allowances / loans to customers



Loan book bridge

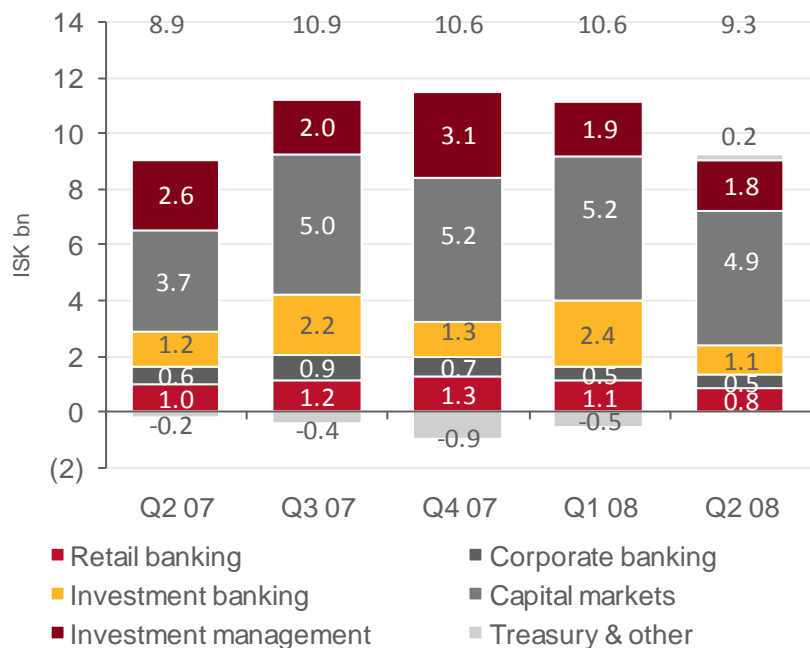




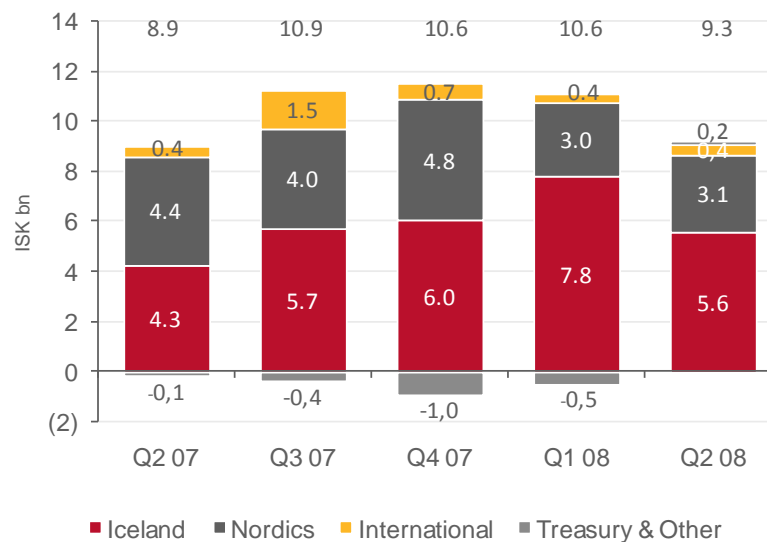
# Net fees and commissions

Down 13% QoQ but increasing 4% YoY

Net fees by region



Net fees by business units

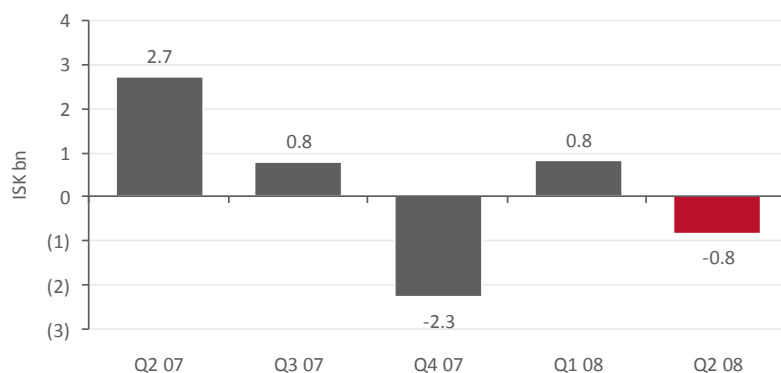


# Other income

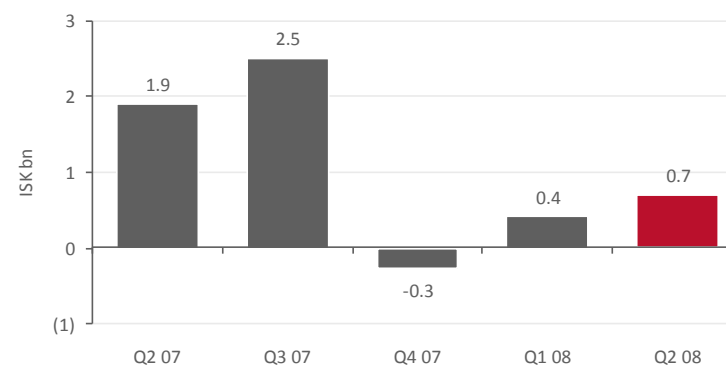
Acceptable results taking into account difficult market conditions

(ISK million)	Q2 08	Q1 08
Net gains (loss) on financial instruments held for trading	-3,626	-7,357
Net gains on financial instruments designated at fair value through profit or loss	2,956	2,980
Fair value adjustments in hedge accounting	-649	662
Net foreign exchange gains (loss)	477	4,527
Other financial income	-842	812
Other net operating income	706	415
<b>Net financial and other operating income</b>	<b>-136</b>	<b>1,227</b>

## Other financial income



## Other net operating income



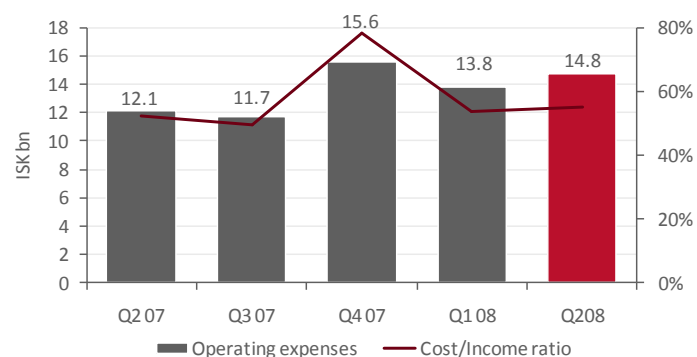
# Cost saving initiatives will come through in 2H

**Cost / income ratio 55%**

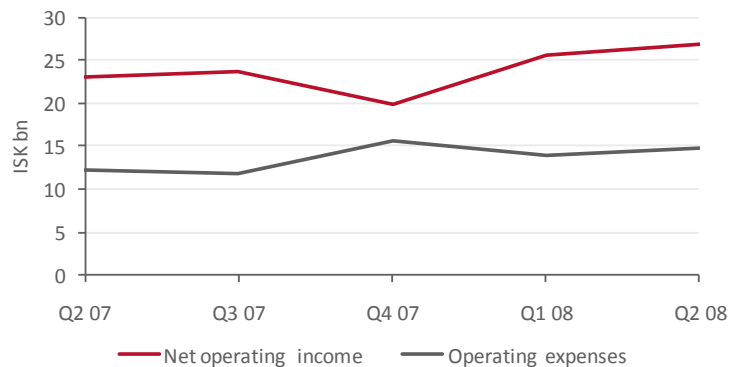
## Salaries decreased by 297m

- Number of employees decreased by 117 in Q2
- Other expenses higher in the quarter due to one off cost associated with lay-offs and funding initiatives
- Positive development in operating income vs. expenses
- Targeting 50% cost / income ratio before year end

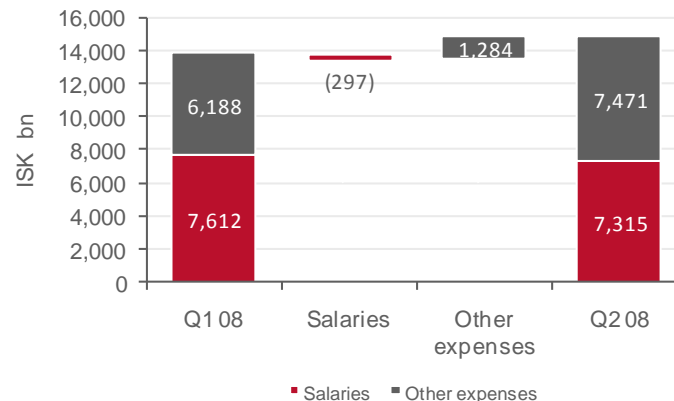
## Operating expenses & cost / income ratio



## Operating income vs. operating expenses



## Operating expenses in Q2 08





Income

**Asset quality**

Funding & liquidity

Business units

Niche expertise

Q&A

Appendix

02.

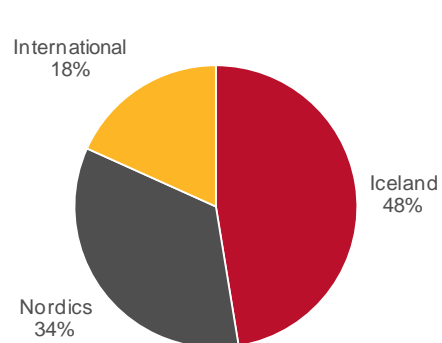
# Deleveraging of the balance sheet

Loans to customers increasing due to currency and inflation –decreasing in real terms

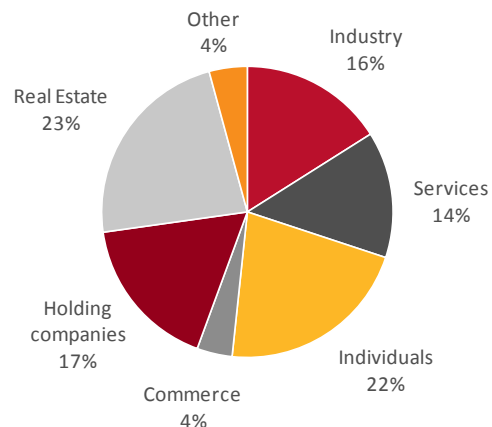
(ISK bn)	Q2 08	Q1 08	% QoQ	Q4 07	Q3 07
Cash and loans to banks	366	424	-13.7%	334	327
Loans to customers	2,548	2,516	1.3%	1,975	1,786
Financial assets	730	738	-1.0%	503	501
Intangible assets	63	62	1.6%	47	54
Other	155	125	24.7%	90	98
<b>Total assets</b>	<b>3,863</b>	<b>3,865</b>	<b>-0.1%</b>	<b>2,949</b>	<b>2,766</b>

## Loan portfolio 30.06.2008

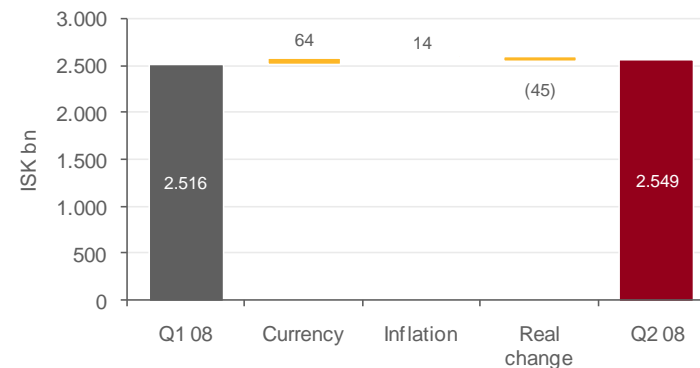
By region



By sector (ISAT)



Real growth



# Real estate in Norway is the largest industry exposure

## Low LTV's in strong Norwegian economy

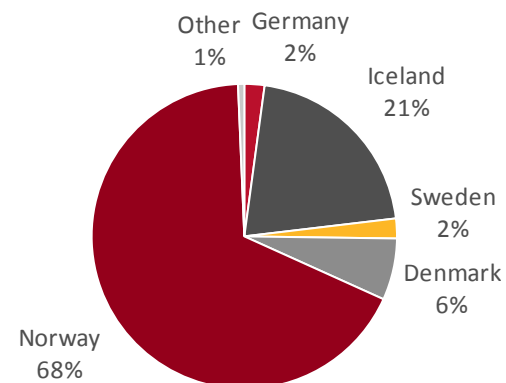
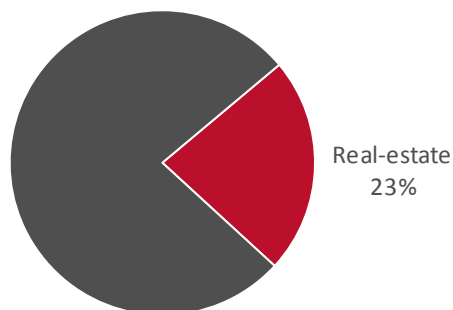
A quality real estate portfolio built on client relations and fundamental risk analysis

- 68% of portfolio in the strong Norwegian economy
- 77% of the Norwegian portfolio below LTV 80%
- 21% of real estate portfolio is in Iceland
  - Thereof 90% in income producing real estate

### Real estate portfolio 30.06.2008

Real estate portfolio, total ISK 585 bn

Real estate by country



# A strong retail portfolio – 71% in mortgages

88% of mortgages have LTV of less than 80%

62% of mortgage book in Norway and 38% in Iceland

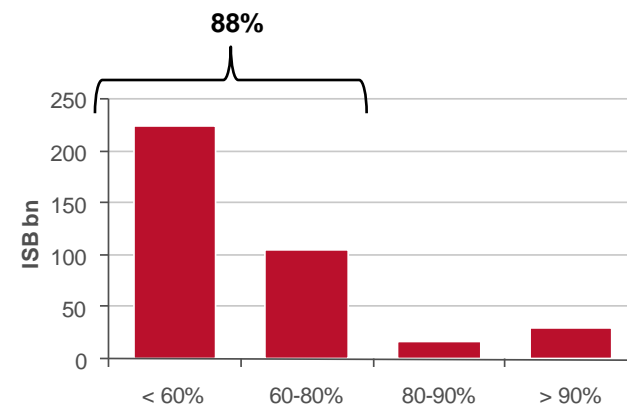
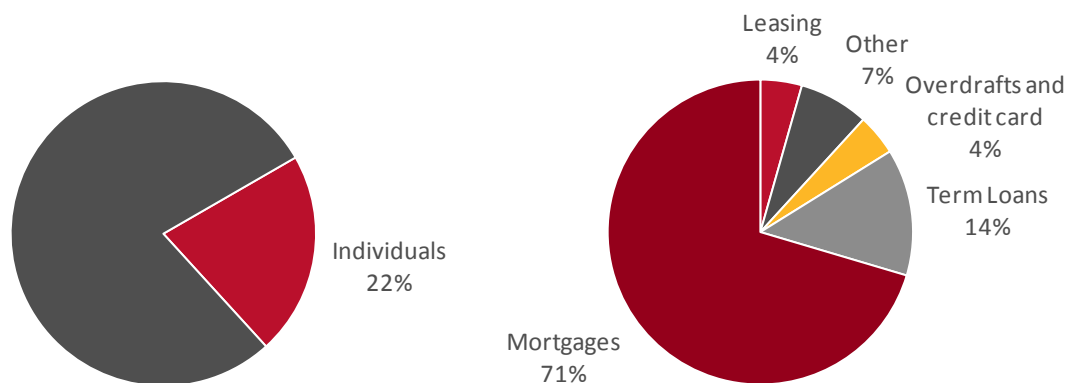
- Approximately 60% of portfolio with loan to value below 60%
- Disciplined lending methodology based on clients financial strength and credit history

## Individuals portfolio 30.06.2008

Individuals portfolio, total 550 bn

Individuals by type

Mortgages (LTV)



# Exposure to holding companies well collateralized

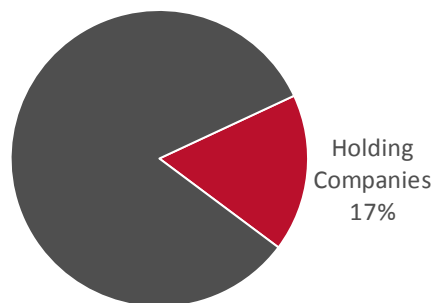
## Disciplined lending procedures and collateral management

### Underlying risk in various sectors and geographies

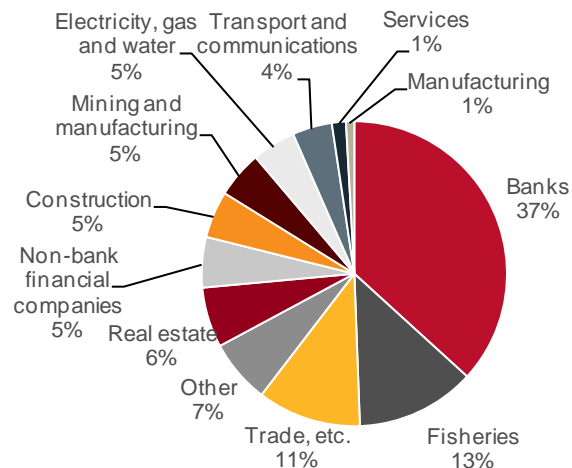
- Carefully analyzed and managed portfolio
  - Both financial status and underlying assets
- Portfolio holds up to vigorous stress testing
- Portfolio contracting by ISK 16 bn from Q1

Holding companies portfolio 30.06.2008

Holding companies portfolio, total ISK 437 bn



Underlying risk of counterparties by sector





# A diversified acquisition and leveraged finance portfolio

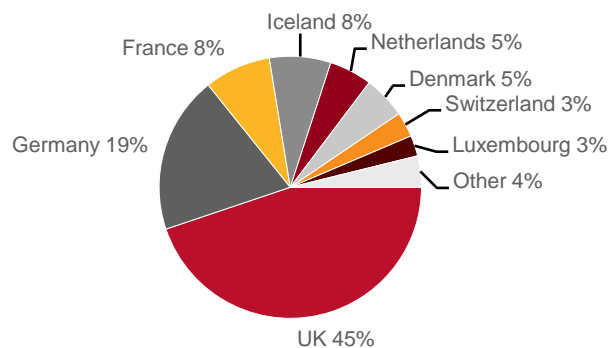
93% in senior secured lending

DCM loan portfolio is approximately 9.2% of Glitnir's loan portfolio

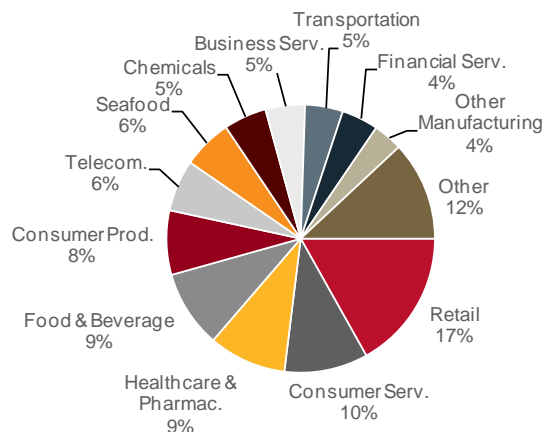
- Diversification both geographically and by sectors
- The portfolio has been built and managed through fundamental credit analysis
- Modest change over the past 18 months

## DCM portfolio ISK 234 bn

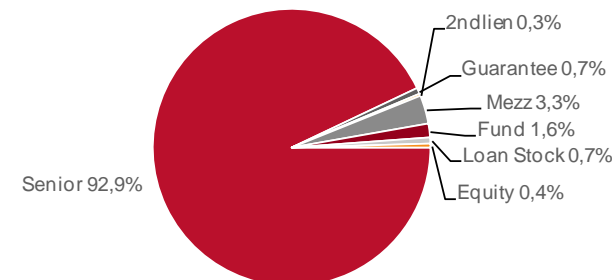
By country



By sector



By type of facility



# Strong overall asset quality

## Default ratio remains low

### Quality loan portfolio with low default ratio

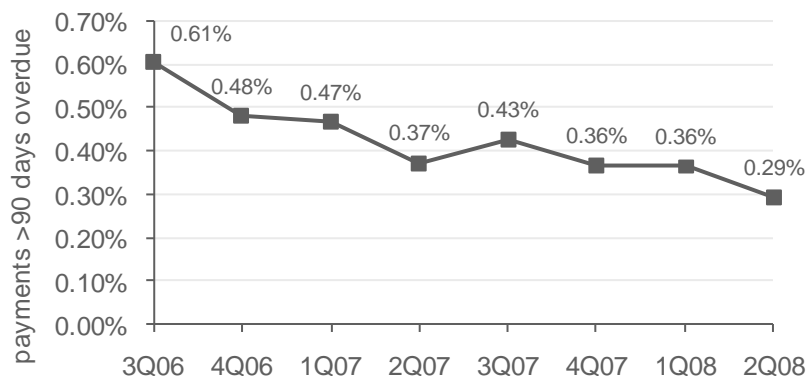
- Prudent risk management
- Strict monitoring of overdue loans
- Quick response to non-performing assets
- Default ratio decreasing QoQ

### Allowance for impairments on a consolidated basis

	Amount	As % of loans
Loan loss reserves (LLR)	23,649	0.93%
Impaired loans (IL)	31.237	1.23%
LLR / IL	76%	

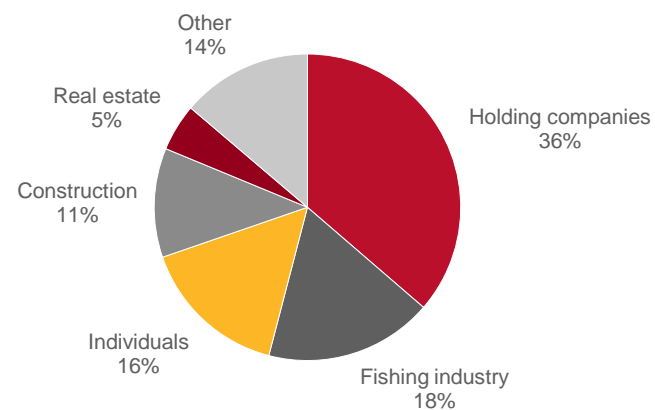
## Defaults and impairments

Defaults as a ratio of total lending\*



\*Parent, >90 days overdue but not impaired

Specific allowance by sectors





Income  
Asset quality  
**Funding & liquidity**  
Business units  
Niche expertise  
Q&A  
Appendix

03.

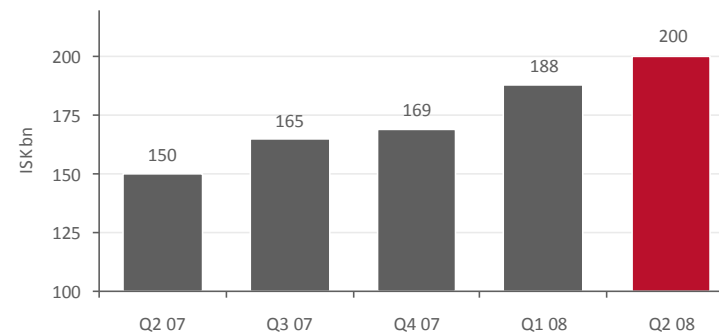
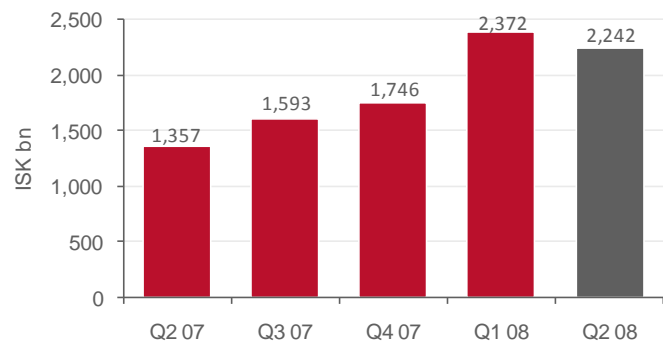
# Deleveraging balance sheet

Increased shareholder equity and decreased borrowings

(ISK bn)	Q2 08	Q1 08	% QoQ	Q4 07	Q3 07
Deposits	1,021	891	14.6%	781	720
Borrowings	2,242	2,372	-5.5%	1,746	1,593
Subordinated loans	146	147	-1.0%	102	99
Other liabilities	253	266	-4.8%	151	186
Equity	200	189	6.2%	170	168
<b>Total Liabilities &amp; Equity</b>	<b>3,863</b>	<b>3,865</b>	<b>-0.1%</b>	<b>2,949</b>	<b>2,766</b>

Total borrowings

Shareholders' equity



# Strong liquidity position maintained

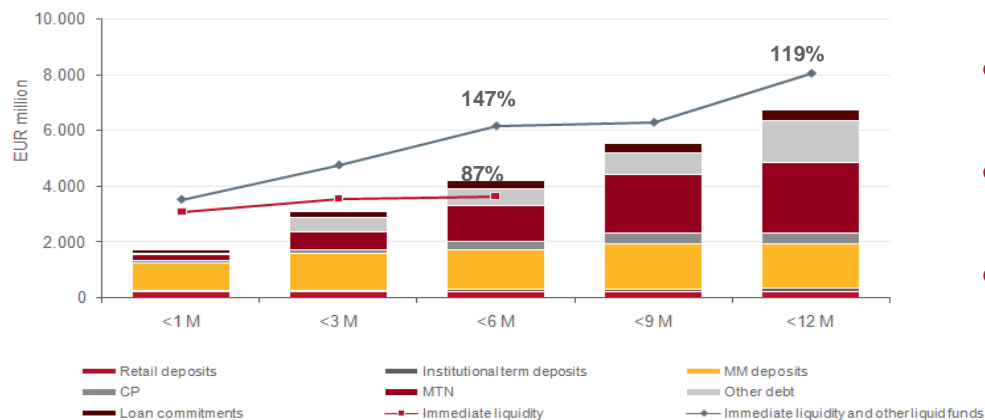
## EUR 8.1 bn liquid assets

- Liquid assets cover all upcoming maturities for more than 12 months
- Contractual inflows from loans not included in liquid assets
- Matched funding - long term maturities of assets are in line with long term liabilities
- Successful transformation of unencumbered assets to liquid instruments
- Scaling down of non-core portfolios

30.06.2008

Liquidity position

Prudent liquidity policy



- Immediate liquidity to cover all maturing debts within 6 months
- Immediate liquidity and other liquid assets to cover all debt maturing within 12 months
- Appropriate haircuts applied to liquid assets

# Successful funding transactions in turbulent markets

## Evenly distributed redemption profile in coming years

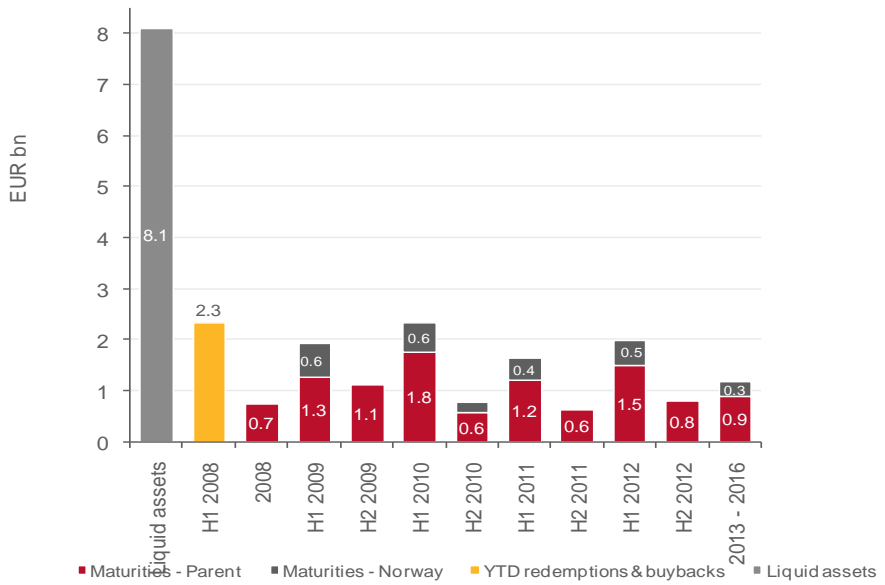
EUR 2.4 bn raised in H1 08 in several funding projects despite challenging conditions

- NOK 7 bn covered bond issue
- ISK 65 bn covered bond issue
- ISK 15 bn mandatory convertible bond issue
- Private placements and bilateral loans

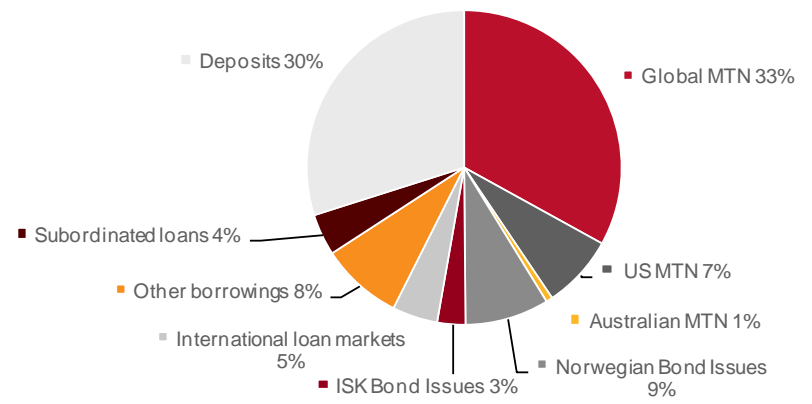
Increased focus on different funding sources and balance sheet management

- Continued focus on using unencumbered assets on the strong balance sheet for asset backed funding
- Actions to further reduce non core balance sheet
- Increased focus on retail deposits through Save&Save

### Maturity profile of outstanding non-ISK long-term debt



### Consolidated funding mix



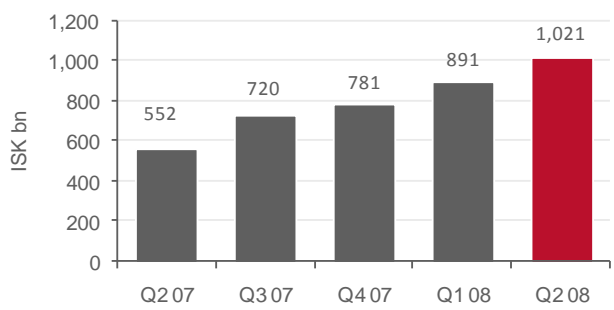
# Growth in total deposits

## Sticky deposits in home markets

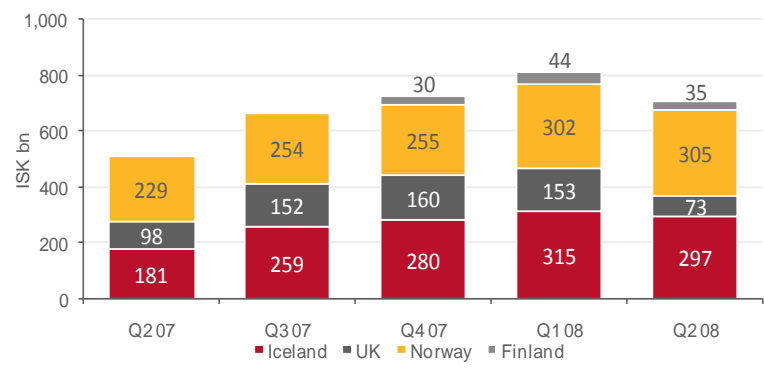
- UK wholesale deposits under pressure
- Save&Save – an international internet based deposit product
- Launched at the end of Q2 in Norway and Iceland
- Expanded to new markets in coming quarters
- Contributing to a new global environmental fund
  - Glitnir Globe – Sustainable Future Fund



## Total deposits



## Current deposits from customers by geography



# Capital ratios remain strong

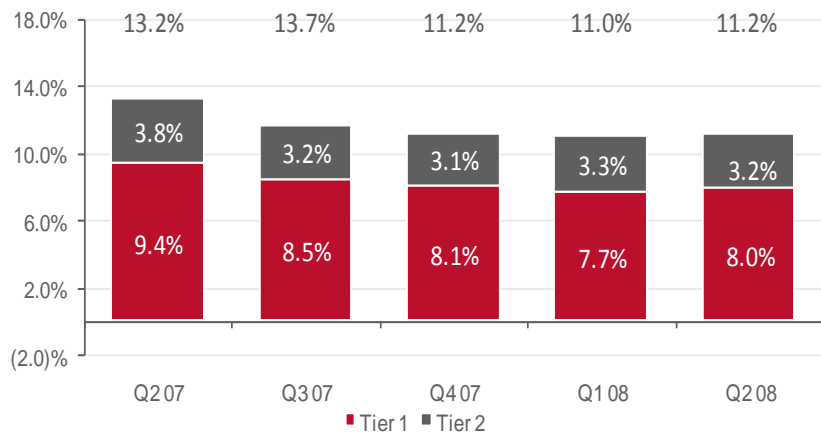
## Outperforming Nordic peers

### Solid capitalisation

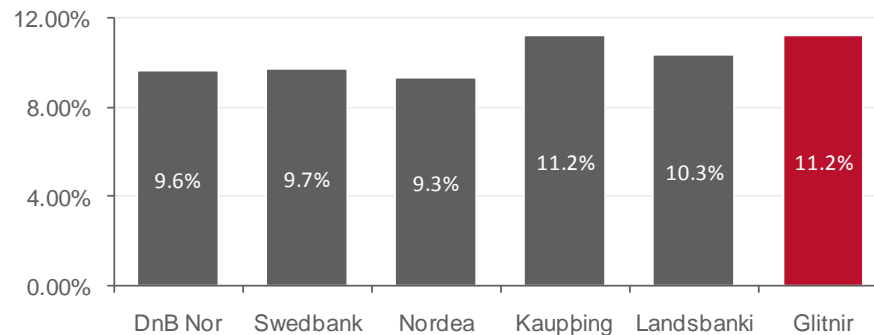
- CAD ratio of 11.2% - increases QoQ
- Tier 1 of 8.0%
- CAD ratio fully hedged for ISK movements

### Capital ratios

CAD ratio



CAD ratio, peer comparison







Income  
Asset quality  
Funding & liquidity  
**Business units**  
Niche expertise  
Q&A  
Appendix

04.

# Corporate banking

Net operating income increasing 15% YoY

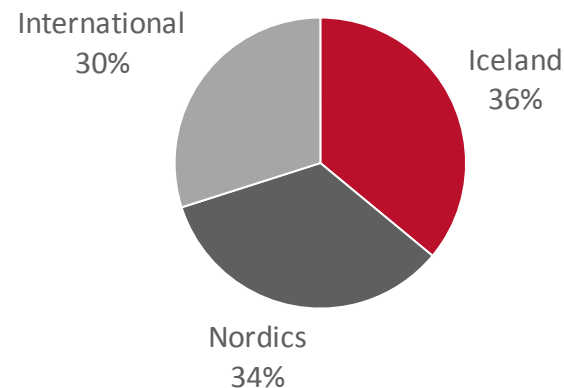
Profits down due to higher expenses and impairments

- Specific impairments in relation to Icelandic portfolio
- Lending minimized due to market conditions
- Emphasizing core business relations

Q2 08 results

Loan portfolio at 30.06.2008

(ISK billion)	Q2 08	Q1 08	% QoQ	Q2 07	% YoY
Net interest income	7.4	7.3	2%	5.0	48%
Net fees and commissions	0.5	0.5	-8%	0.6	-24%
Other income	-0.7	0.6	-232%	0.6	-218%
<b>Net operating income</b>	<b>7.2</b>	<b>8.4</b>	<b>-14%</b>	<b>6.3</b>	<b>15%</b>
Expenses & Other	-2.3	-1.9	26%	-1.5	52%
Impairment	-2.7	-3.5	-22%	-0.1	N/A
<b>Profit before allocation &amp; tax</b>	<b>2.2</b>	<b>3.0</b>	<b>-29%</b>	<b>4.7</b>	<b>-54%</b>
Allocated costs	-0.1	0.0	293%	-0.8	-93%
Profit before tax	2.1	3.0	-30%	3.9	-46%



# Retail banking

Net operating income increasing 22% YoY

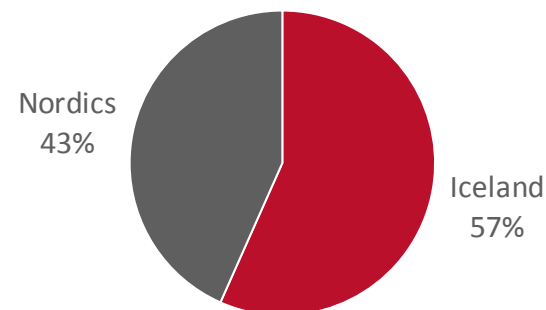
## One-off costs impact profits

- Expenses rising due to organizational layoff
- Prudent specific impairments
- Good underlying core business

Q2 08 results

(ISK billion)	Q2 08	Q1 08	% QoQ	Q2 07	% YoY
Net interest income	3.9	3.8	4%	3.2	23%
Net fees and commissions	0.8	1.1	-24%	1.0	-18%
Other income	0.8	0.2	271%	0.3	137%
<b>Net operating income</b>	<b>5.6</b>	<b>5.1</b>	<b>10%</b>	<b>4.6</b>	<b>22%</b>
Expenses & Other	-3.5	-3.0	18%	-2.1	65%
Impairment	-1.3	-0.6	127%	-0.2	623%
<b>Profit before allocation &amp; tax</b>	<b>0.8</b>	<b>1.5</b>	<b>-51%</b>	<b>2.3</b>	<b>-67%</b>
Allocated costs	-0.6	-0.5	22%	-1.1	-48%
Profit before tax	0.2	1.1	-82%	1.2	-84%

Loan portfolio at 30.06.2008



# Investment banking

Niche 40% of advisory fees YTD

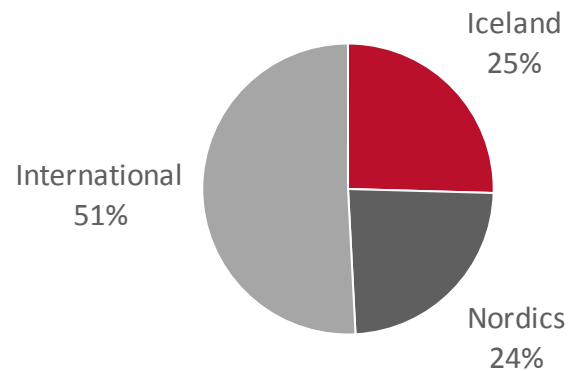
Advisory fee generation on targets despite difficult market conditions

- 75% of income outside of Iceland
- Niche and ECM expertise showing strength in current environment
- Steady deal flow, healthy pipeline

Q2 08 results

(ISK billion)	Q2 08	Q1 08	% QoQ	Q2 07	% YoY
Net interest income	-0.8	-0.2	265%	-0.1	-
Net fees and commissions	1.1	2.4	-55%	1.2	-11%
Other income	1.7	0.7	-	1.2	46%
<b>Net operating income</b>	<b>2.0</b>	<b>2.9</b>	<b>-32%</b>	<b>2.2</b>	<b>-12%</b>
Expenses & Other	-0.7	-0.6	8%	-0.4	60%
Impairment	0.0	0.0	-10%	0.0	-
<b>Profit before allocation &amp; tax</b>	<b>1.3</b>	<b>2.3</b>	<b>-43%</b>	<b>1.8</b>	<b>-30%</b>
Allocated costs	-0.1	-0.1	-10%	-0.3	-53%
Profit before tax	1.2	2.1	-45%	1.5	-25%

Income, by location of client



# Capital markets

Record profits – net operating income up 23% YoY

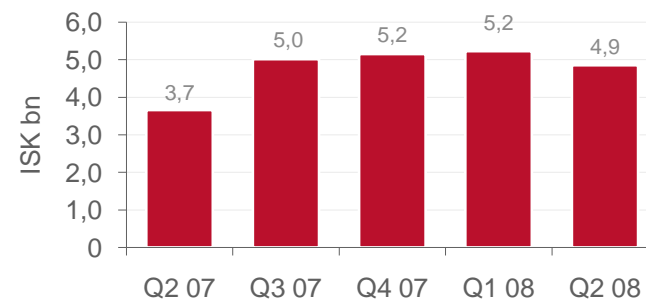
Profit before tax climbing up to 4.1bn

- PBT up 19% QoQ and 45% YoY
- Expenses down 8% QoQ
- High activity in Icelandic FX and currency markets

Q2 08 results

(ISK billion)	Q2 08	Q1 08	% QoQ	Q2 07	% YoY
Net interest income	2.0	1.4	38%	0.6	-
Net fees and commissions	4.9	5.2	-7%	3.7	33%
Other income	0.4	-0.3	-	1.7	-73%
<b>Net operating income</b>	<b>7.3</b>	<b>6.3</b>	<b>15%</b>	<b>5.9</b>	<b>23%</b>
Expenses & Other	-2.5	-2.7	-8%	-2.4	2%
Impairment	-0.5	0.0	-	0.0	-
<b>Profit before allocation &amp; tax</b>	<b>4.3</b>	<b>3.6</b>	<b>19%</b>	<b>3.4</b>	<b>25%</b>
Allocated costs	-0.2	-0.2	11%	-0.6	-72%
<b>Profit before tax</b>	<b>4.1</b>	<b>3.4</b>	<b>19%</b>	<b>2.8</b>	<b>45%</b>

Quarterly F&C development



# Investment Management

Net operating income up 4% QoQ

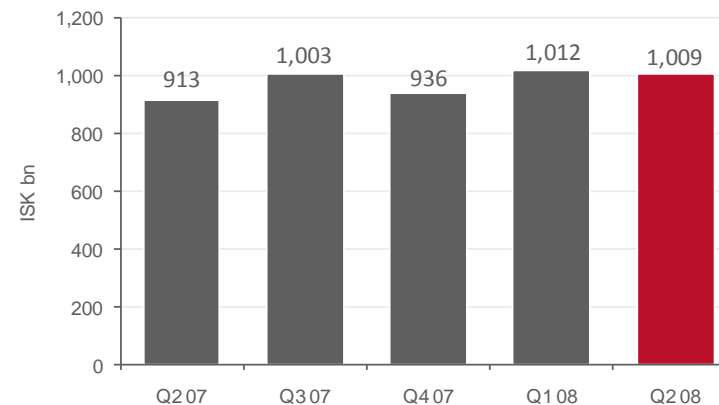
Profit before tax up 8% QoQ

- Iceland on target despite challenging market conditions
- Assets under management stable QoQ
- Market share in UCITS funds in Iceland, #1 position

Q2 08 results

(ISK billion)	Q2 08	Q1 08	% QoQ	Q2 07	% YoY
Net interest income	0.3	0.3	6%	0.2	109%
Net fees and commissions	1.8	1.9	-6%	2.6	-29%
Other income	0.0	-0.1	-126%	-0.1	-161%
<b>Net operating income</b>	<b>2.2</b>	<b>2.1</b>	<b>4%</b>	<b>2.7</b>	<b>-18%</b>
Expenses & Other	-1.7	-1.6	8%	-1.4	27%
Impairment	0.1	0.0	-290%	0.0	177%
<b>Profit before allocation &amp; tax</b>	<b>0.5</b>	<b>0.5</b>	<b>6%</b>	<b>1.3</b>	<b>-61%</b>
Allocated costs	-0.2	-0.2	4%	-0.6	-67%
<b>Profit before tax</b>	<b>0.3</b>	<b>0.3</b>	<b>8%</b>	<b>0.7</b>	<b>-55%</b>

Assets under management





Income  
Asset quality  
Funding & liquidity  
Business units  
**Niche expertise**  
Q&A  
Appendix

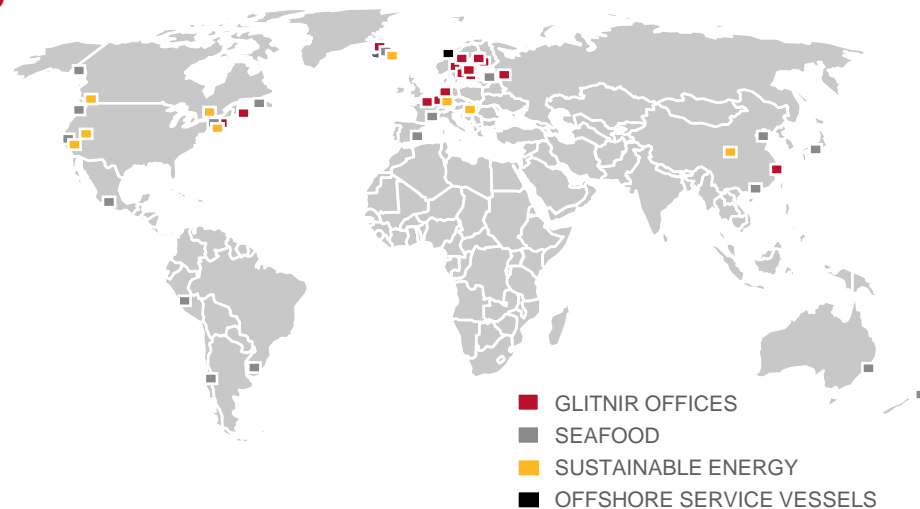
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# Competitive advantage built on niche strategy

## A clear value proposition built on Icelandic heritage

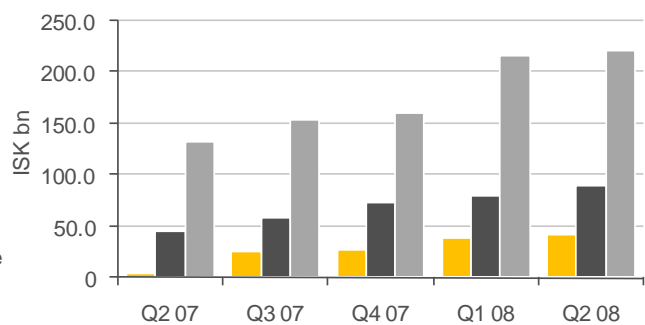
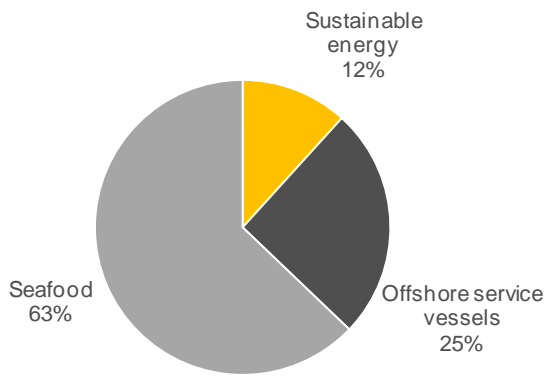
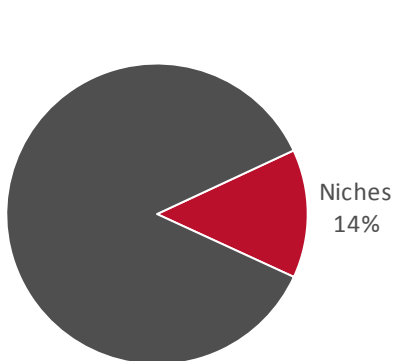
### Niches are 14% of the banks loan portfolio

- The seafood niche is the largest niche
- Sustainable energy is the fastest growing one
- The niche portfolio will continue to grow proportionally
- 40% of advisory business is niche related YTD



### Focus Niche portfolio 30.06.2008

Niche related portfolio, total ISK 352 bn	Niches by type	Development
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# Delivering satisfactory results

## Clear strategy in current market environment

### Robust Q2 results

- Positive development in core income and profits
- Signs of cost reductions starting to come through

### Strong position

- Opportunities to scale down the loan book
- Strong liquidity position and capital ratios

### Strategy and outlook

- Continue to focus on core operations
  - Leveraging niche strategy internationally
- Balance sheet management
  - Deleveraging of non-core assets
  - Continue to diversify funding sources
  - Utilize asset quality as a source of secured funding

Income statement

Asset quality

Funding & liquidity

Business units

Niche expertise

**Q&A**

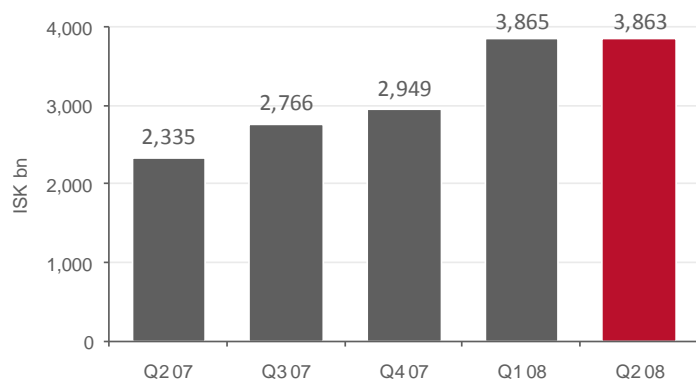
Appendix

Income  
Asset quality  
Funding & liquidity  
Business units  
Niche expertise  
Q&A  
**Appendix**

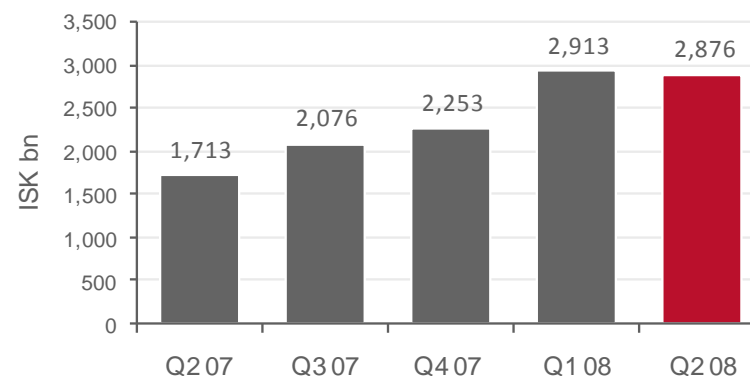
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# Key figures

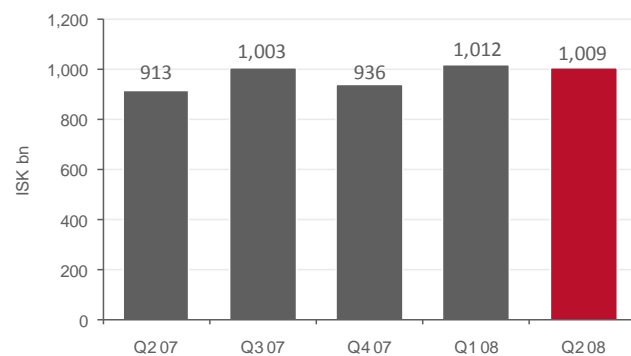
### Total assets



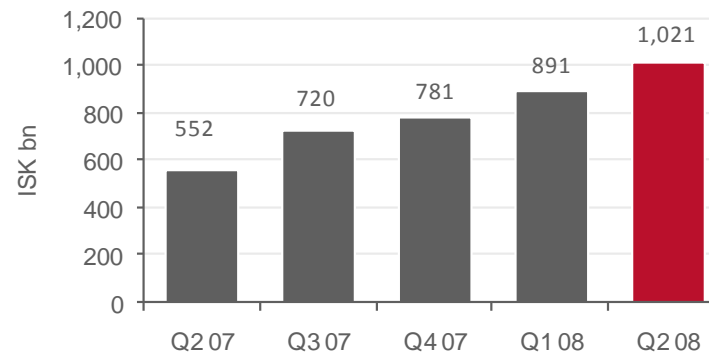
### Loan book



### Asset under management

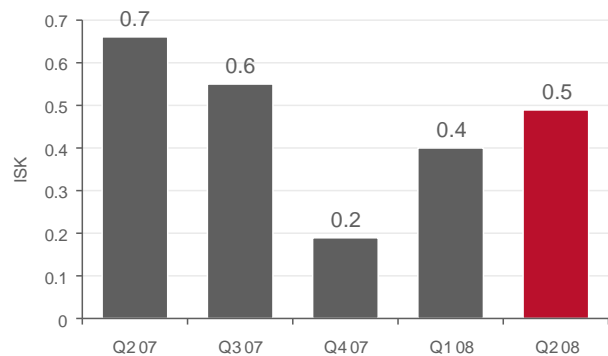


### Total deposits

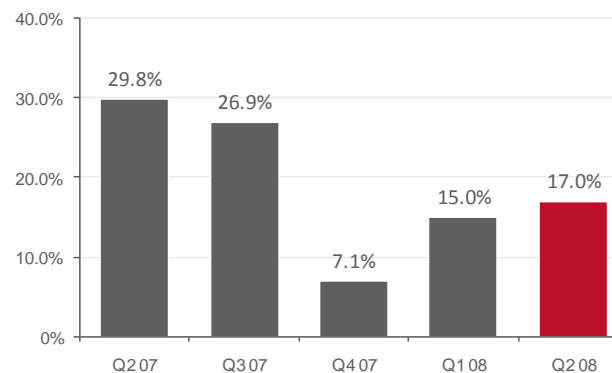


# Key figures

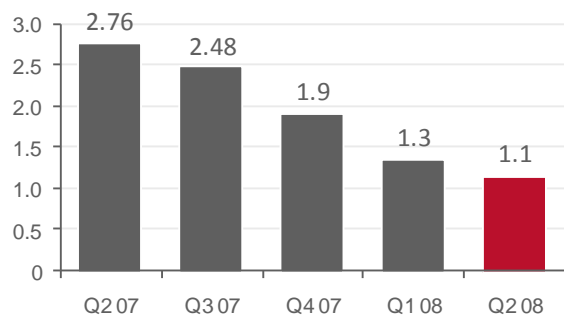
## EPS



## ROE



## Price to book



## Equity

