



22 August 2014

# 2Q2014 Financial Results

# Forward Looking Statements

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# I. Overview

# A strong bank with a sustainable future

Strong earnings, a sound balance sheet, and leading market shares across all business segments

1

## Past two quarters has seen new lending pick up

- Total new lending in 1H2014 was around 90bn, compared to about ISK 100bn for the full year 2013
- Loans to customers grew 12% YoY in 2Q14
- As a result, net interest income (NII) showed a slight increase over the quarter, or 4%
- Net interest margin (NIM) is stabilising at 3%
- Net fee and commission income (NFC) was up 5.5% YoY

## Effective cost cutting

- Administrative expenses were down 13.4% YoY or 15.8% in real terms and cost-income ratio was 56.0%
- 6.6% reduction in average FTEs YoY for parent company
- Continued focus on cost control and improving operational efficiency and business process management
- Recent initiatives include an ATM self-service centre in Kringlan

2

2Q14

## Capital buffers remain strong

3

## All large restructuring projects now completed

- The balance sheet continues to strengthen, with the ratio of loans in restructuring (LPA) ratio down to 7.3% from 8.3% at YE13 and 13.6% at YE12
- Assets held for sale, which the Bank holds as a result of financial restructuring has decreased from 47.1bn to 24.1bn since YE13, mainly through the sale of non core subsidiaries

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## Rating and improved terms on FX issues

- A BB+/B credit rating with stable outlook from S&P, one notch below the Icelandic Sovereign
- First Euro-issue of EUR 100m senior unsecured bond
- Terms show continued improvement since SEK 500m issue at 400bp over STIBOR and SEK 300m tap issue at 330bp
- Largest issuer of covered bonds in Iceland

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# Bank of the year, two years in a row

Euromoney has awarded Íslandsbanki as the best bank and the best investment bank in Iceland

Best Bank in Iceland &  
Best Investment Bank  
in Iceland

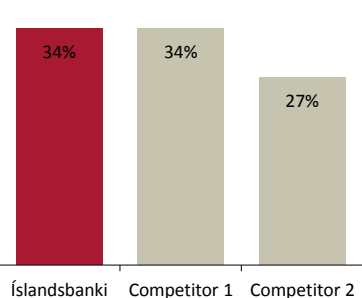
- Annually Euromoney awards the best banks in nearly 100 countries with the Awards for Excellence
- The magazine considered several factors in its assessment of the Icelandic banks, including return on equity, quality of the loan portfolio, performance optimisation and market share in different business segments



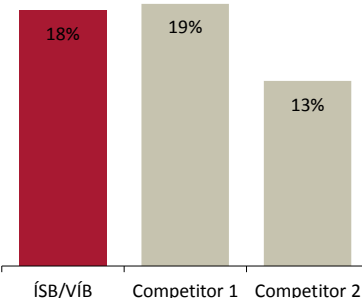
# Leading market shares in key segments

Considered the most professional bank - opportunity to transform positive market perception to market share

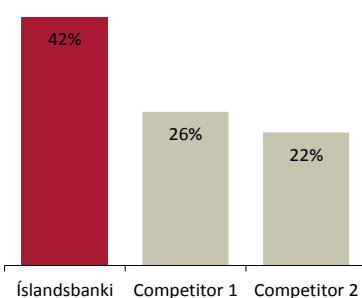
Which bank is the leading bank for individuals?



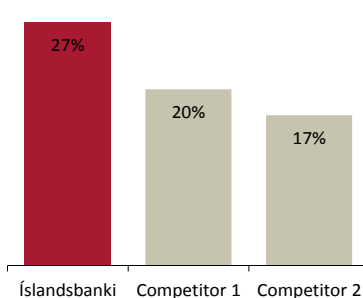
Who is your first choice for asset management?



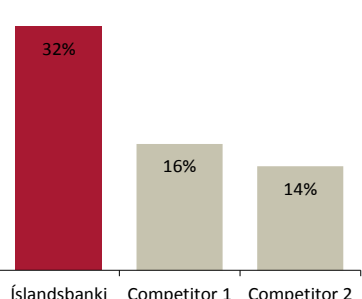
Which bank is most professional for SMEs?



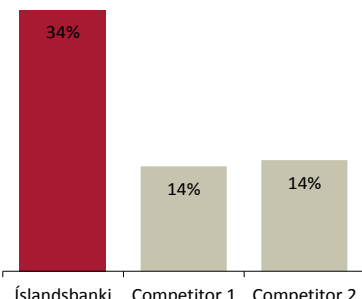
Which bank best serves SMEs?



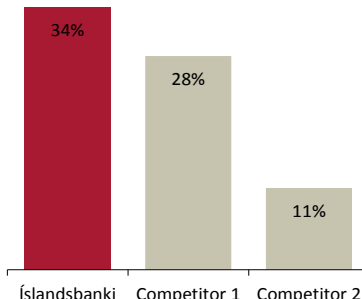
Which bank is the leading bank for large corporates?



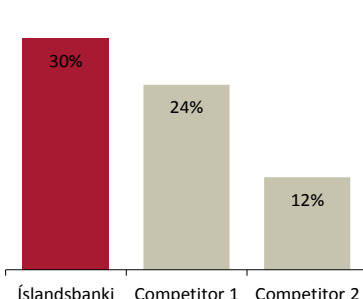
Which corporate bank is overall the most professional?



Which bank is the leading bank in investment banking?



Which bank is the leading bank in corporate finance?



Source: Capacent Gallup. Large corporate survey among 300 top corporates in Iceland according to Frjáls Verslun, an Icelandic Business Magazine. Survey for leading bank for individuals is based on 6-month rolling average of monthly tracking

# Overview

## Key figures & ratios

		2Q14	1Q14	1H14	1H13	FY13
<b>PROFITABILITY</b>	ROE (after tax), %	<b>14.5%</b>	19.3%	<b>16.9%</b>	14.8%	14.7%
	ROE from regular operations (after tax), %	<b>6.6%</b>	10.2%	<b>8.3%</b>	7.6%	7.8%
	Net interest margin (of total assets), %	<b>3.1%</b>	3.0%	<b>3.1%</b>	3.5%	3.4%
	Cost to income ratio, %*	<b>56.0%</b>	55.1%	<b>55.6%</b>	62.7%	58.5%
	After tax profit, ISKm	<b>6,359</b>	8,296	<b>14,655</b>	11,208	23,069
	Earnings from regular operations, ISKm**	<b>2,891</b>	4,357	<b>7,248</b>	5,920	12,169
		30/06/2014	31/03/2014	31/12/2013	30/09/2013	30/06/2013
<b>CAPITAL</b>	Total equity, ISK m	<b>177,722</b>	175,373	<b>167,318</b>	159,664	155,537
	Tier 1 capital ratio, %	<b>26.1%</b>	27.0%	<b>25.1%</b>	23.9%	24.0%
	Total capital ratio, %	<b>29.3%</b>	30.3%	<b>28.4%</b>	27.2%	27.4%
<b>BALANCE SHEET</b>	Total assets, ISKm	<b>907,531</b>	884,043	<b>866,009</b>	862,533	822,929
	Risk weighted assets ISKm	<b>674,099</b>	644,434	<b>659,757</b>	662,905	640,508
	Total loans to customers, ISKm	<b>603,697</b>	565,952	<b>554,741</b>	548,537	538,565
	Total deposits, ISKm	<b>543,415</b>	529,772	<b>519,019</b>	526,220	505,617
	Deposits / loan ratio, %	<b>83.7%</b>	86.3%	<b>86.7%</b>	85.7%	86.1%

\* Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income

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



## II. Income Statement

# Income statement

Robust earnings from regular operations supported by gains from restructuring (NVC & discount ops)

ISKm	2Q14	2Q13	1H14	1H13	FY13	FY12
Net interest income	6,922	7,045	13,568	14,518	28,430	32,940
Net fee and commission income	2,818	2,670	5,672	5,122	10,433	9,459
Net foreign exchange (loss) gain	(12)	(152)	(303)	(1,715)	(2,423)	2,737
Net financial income	19	669	882	1,550	4,612	1,517
Other net operating income	267	716	1,380	1,131	1,545	996
<b>Total operating income</b>	<b>10,014</b>	10,948	<b>21,199</b>	20,606	42,597	47,649
Salaries and related expenses	(3,441)	(3,551)	(6,881)	(7,020)	(13,361)	(13,080)
Other operating expenses	(1,909)	(2,628)	(4,378)	(5,395)	(12,190)	(11,509)
Administrative expenses	(5,351)	(6,179)	(11,259)	(12,415)	(25,551)	(24,589)
Impairment of goodwill	0	0	0	0	0	(425)
Depositors' and investors guarantee fund	(260)	(256)	(518)	(502)	(1,016)	(1,055)
Bank Tax	(623)	(65)	(1,215)	(132)	(2,321)	(858)
<b>Total operating expenses</b>	<b>(6,233)</b>	(6,500)	<b>(12,992)</b>	(13,049)	(28,888)	(26,927)
<b>Profit before impairment and net valuation changes</b>	<b>3,781</b>	4,448	<b>8,207</b>	7,557	13,709	20,722
Loan impairment charges and net valuation changes	4,219	4,857	5,739	7,850	16,299	5,710
<b>Profit before tax</b>	<b>8,000</b>	9,305	<b>13,946</b>	15,407	30,008	26,432
Income tax	(2,156)	(2,347)	(3,550)	(3,795)	(7,866)	(6,253)
<b>Profit for the period from continuing operations</b>	<b>5,844</b>	6,958	<b>10,396</b>	<b>11,612</b>	<b>22,142</b>	<b>20,179</b>
Profit (loss) from discontinued ops. net of tax	515	(335)	4,259	(404)	927	3,239
<b>Profit for the period</b>	<b>6,359</b>	6,623	<b>14,655</b>	11,208	23,069	23,418

# Earnings from regular operations

High ROA and ROE from regular operations show the intrinsic strength of ÍSB's core business

ISKm	2Q14	2Q13	1H14	1H13	2013	2012
Reported after tax profit	<b>6,359</b>	6,623	14,655	11,208	23,069	23,418
Net valuation changes	<b>(4,322)</b>	(4,751)	(5,386)	(7,868)	(18,239)	(6,486)
Bank tax	<b>623</b>	65	1,215	132	2,321	858
One-off costs	<b>(510)</b>		(510)		1,627	425
Profit (loss) from discontinued ops	<b>(515)</b>	335	(4,259)	404	(927)	(3,239)
Tax impact of adjustments	<b>1,256</b>	1,235	1,532	2,046	4,319	1,576
Earnings from regular operations*	<b>2,891</b>	3,507	7,248	5,922	12,169	16,552
ROE (after tax)	<b>14.5%</b>	17.4%	16.9%	14.8%	14.7%	17.3%
ROE from regular operations (after tax)	<b>6.6%</b>	9.2%	8.3%	7.8%	7.8%	12.2%
ROA (after tax)	<b>2.8%</b>	3.2%	3.3%	2.7%	2.7%	2.9%
ROA from regular operations (after tax)	<b>1.3%</b>	1.7%	1.6%	1.4%	1.4%	2.1%

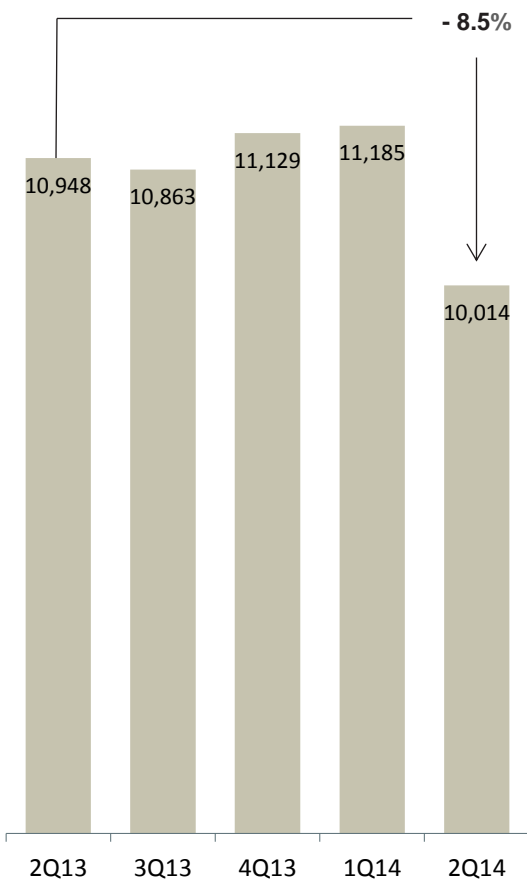
- Bank tax is a special tax introduced in Dec 2010. The Bank tax for FY2013 was raised from 0.041% on total liabilities to 0.376% in excess of 50bn to fund the Government's debt relief programs
- The increase was introduced in 4Q13 and charged for the full year in that same quarter, which explains the higher amount in 4Q13. The increased taxation is assumed to be a temporary measure
- In 2Q14 there was reversal of some one-off costs charged in 4Q13. One-off costs include impairment of goodwill, a potential settlement with the competition authorities, write-down of a specific real estate and closure of operations in the US
- Please note that the line item, Loan impairment charges and net valuation change' in the Income Statement, includes the collective impairment. The line item in the Regular Operations Statement above, includes only net valuation changes

\* 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, and the impairment of goodwill, and net earnings from discontinued operations

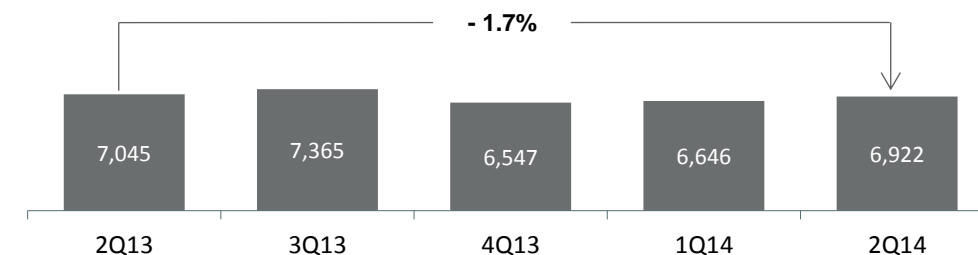
# 97% of operating income from NII & NFC

Drop in total operating income in the quarter due to lower other income from irregular items

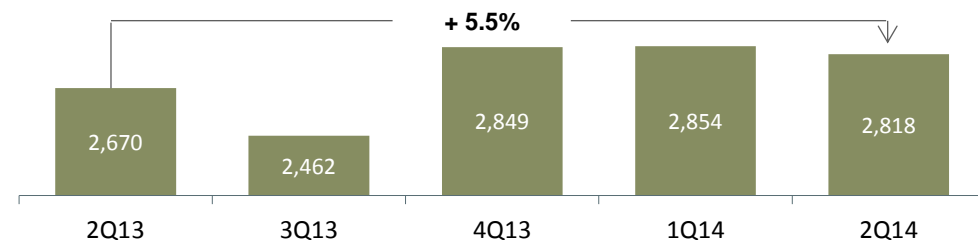
**TOTAL OPERATING INCOME**  
ISKm



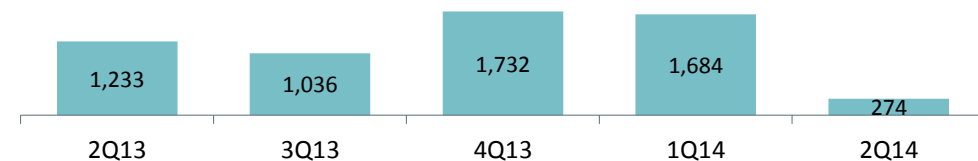
**NET INTEREST INCOME (NII)**  
ISKm



**NET FEE AND COMMISSION INCOME (NFC)**  
ISKm



**OTHER INCOME <sup>1)</sup>**  
ISKm

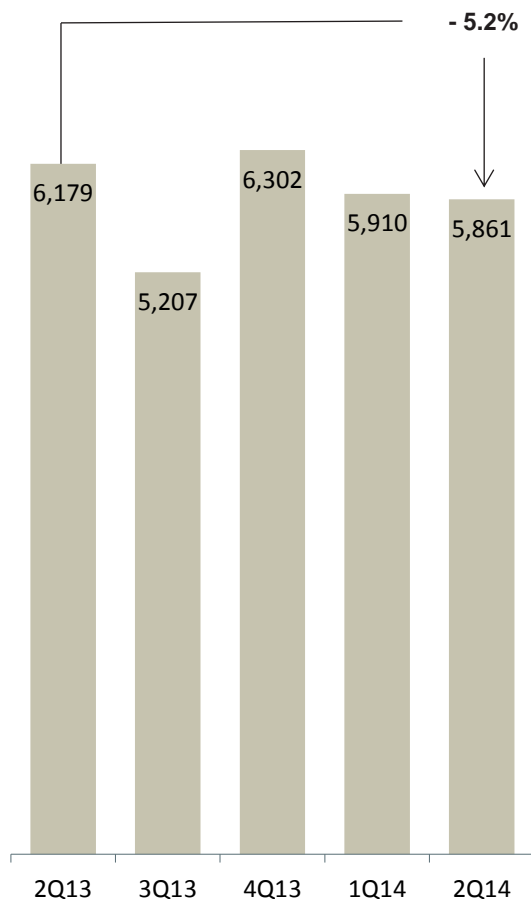


1) Other income includes, net foreign exchange (loss) gain, net financial income, share of profit of associates and other net operating income

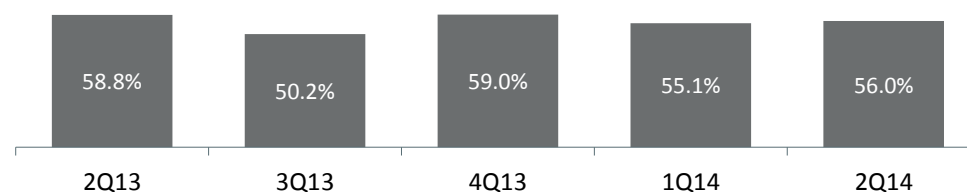
# Results from cost projects coming through

Significant results in lowering administrative and other operating costs

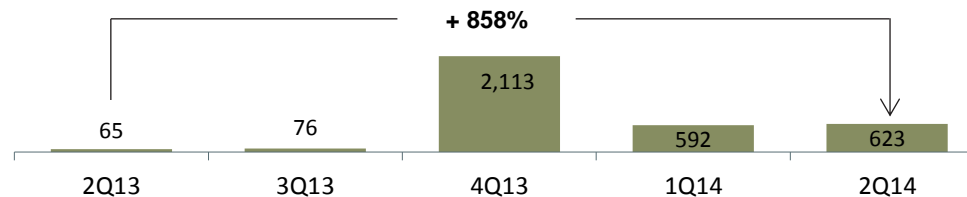
**REGULAR ADMINISTRATIVE EXPENSES <sup>1)</sup>**  
ISKm



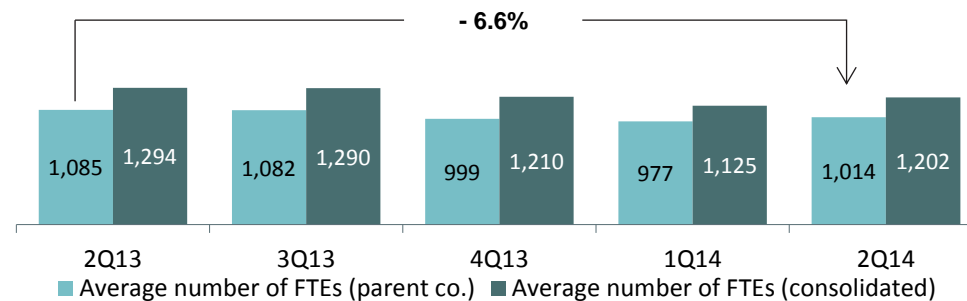
**COST / INCOME RATIO <sup>2)</sup>**  
%



**BANK TAX <sup>3)</sup>**  
ISKm



**AVERAGE FTEs**  
Parent vs Consolidated (excluding held for sale)



1) Excluding one-off costs

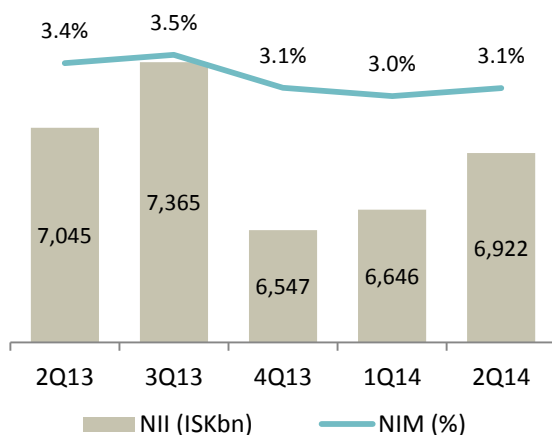
2) Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income

3) The bank tax on liabilities was raised from 0.041% on total liabilities to 0.376% in excess of 50bn. The increase in the Bank tax for FY2013 was introduced and charged in 4Q13, which explains the higher amount in that quarter

# Net valuation changes and restructuring

Yearly NVC are expected to reduce now as financial restructuring is almost finished

## NET INTEREST INCOME AND NIM

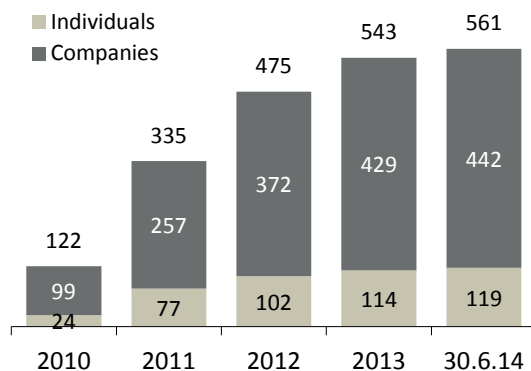


## DEEP DISCOUNT AND EFFECT ON NIM

- Deep discount was initially divided into two parts:
  - *Impairment*: intended to absorb incurred and expected credit losses
  - *Discount*: intended to cover the difference between contractual interest rates and the required return, taking into account the Bank's funding cost, availability to funding and risk premium
- The discount is amortised over the restructuring period and charged to profit or loss as part of Interest Income

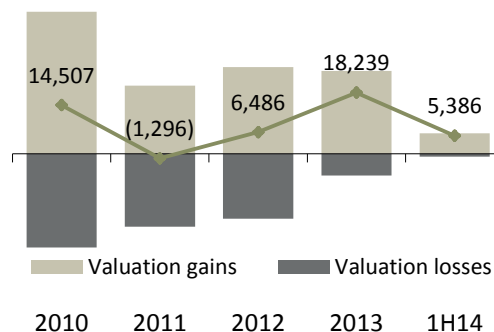
## CUMULATIVE WRITE-OFFS AND REMISSIONS

ISKbn, amounts to ISK 561bn since 2008



## NVC SINCE ACQUISITION

ISKm, cumulative positive ISK 35bn



- Loan book from Glitnir was acquired at a deep discount of 47% - goal of internal valuation was to reflect realistic recovery
- Net valuation changes (NVC) reflect income due to positive revaluations less specific impairments
- Cumulative NVC since 2008 is positive of ISK 35bn, initial valuation has well matched actual impairment needs
- Goal of restructuring has been to transform assets into performing loans with normal term structure at market rates
- Roughly 36,000 individuals and 4,200 companies have received write-offs and remissions amounting to ISK 561bn
- Only a handful of restructuring projects have had to be re-addressed

# Tax & levies paid to various institutions

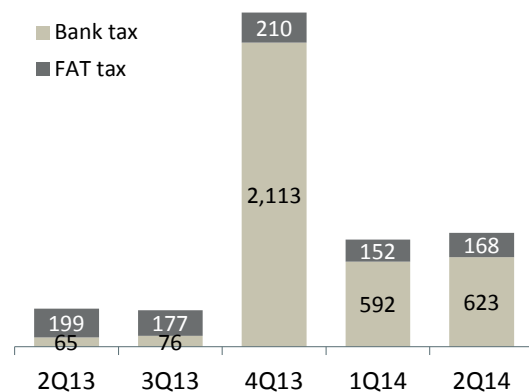
Taxation has increased considerably in recent years, there of the Bank tax is most significant

ISKm	2Q14	2Q13	1H14	1H13	2013	2012
Income tax *	2,156	2,347	3,549	3,795	7,866	6,253
Bank tax **	623	65	1,215	132	2,321	858
Financial activities tax ***	168	199	320	391	778	623
FME and The Debtors' Ombudsman	88	113	176	254	448	483
Depositors' and Investors' Guarantee Fund (TIF)	260	256	518	502	1,016	1,055
<b>Total</b>	<b>3,294</b>	<b>2,980</b>	<b>5,778</b>	<b>5,074</b>	<b>12,429</b>	<b>9,272</b>

- Taxation in general has increased considerably in recent years
- Extraordinary taxation includes a special Financial Activities Tax and the Bank tax
- The Financial activities tax was introduced in 2012
- The Bank tax which had had an added special tax on liabilities 2011-2012
- The increase in the Bank tax for FY2013 was introduced and charged for the full year in 4Q13, which explains the higher amount in that quarter

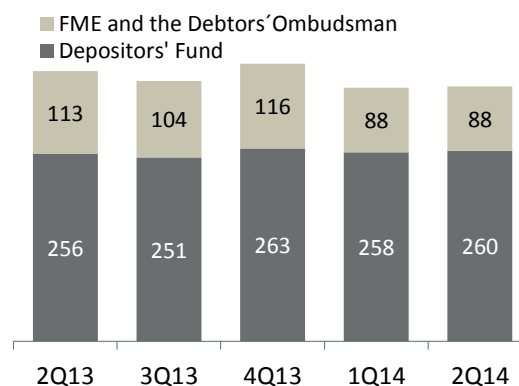
## EXTRAORDINARY TAXATION

ISKm



## CONTRIBUTION TO TIF, FME & OMBUDSMAN

ISKm



\* Calculated at 20%. In addition, a new special financial activities tax was introduced in 2012 which is calculated as 6% of taxable profits above ISK 1billion

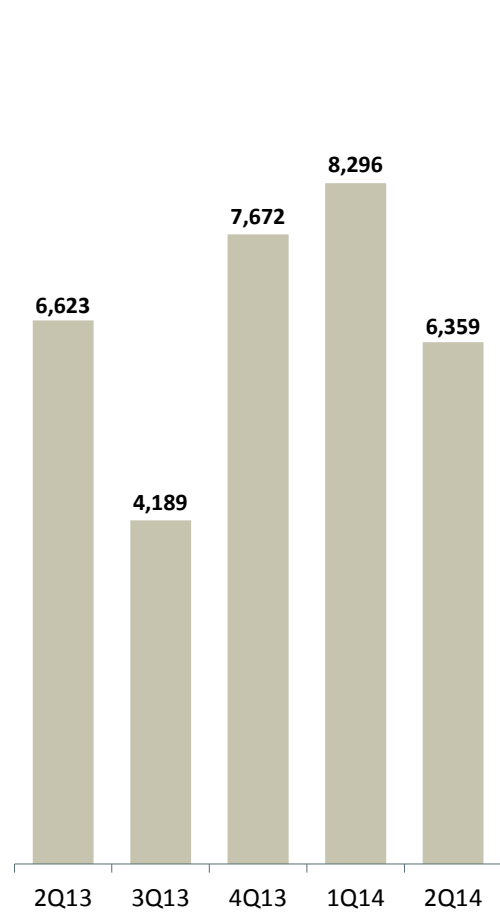
\*\* The bank tax on liabilities was raised from 0.041% on total liabilities to 0.376% in excess of 50bn

\*\*\* 5.5% calculated on salaries in 2014. Was 6.75% before

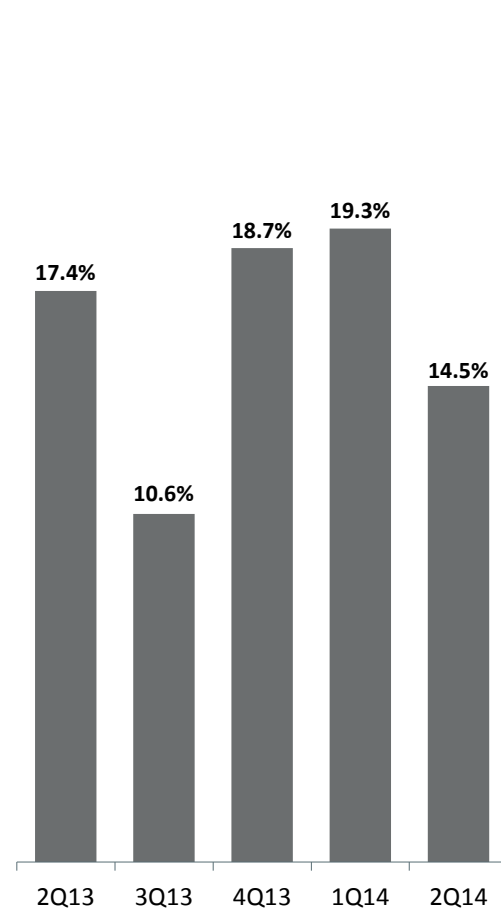
# Good return despite growing equity base

ROE has remained high due to irregular income and is expected to stabilise at a lower level

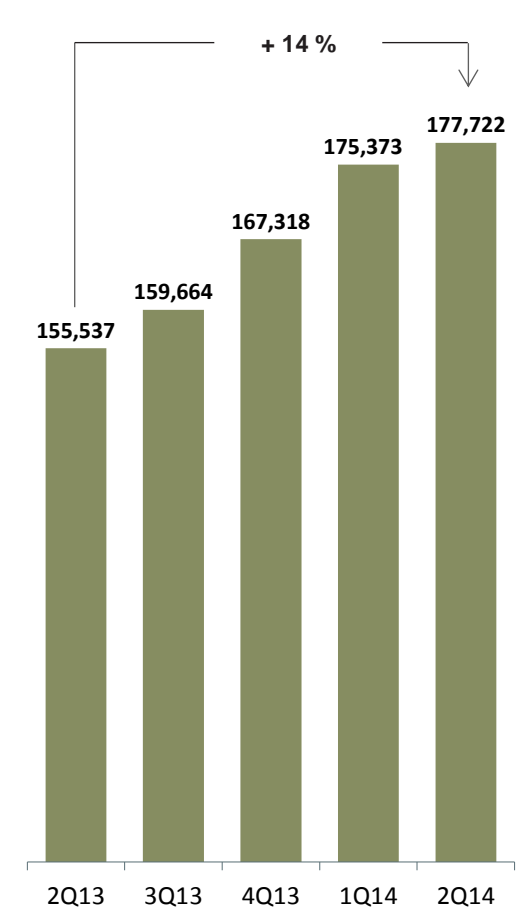
**PROFIT AFTER TAX**  
ISKm



**RETURN ON EQUITY**  
%



**TOTAL EQUITY**  
ISKm





## II. Assets & Restructuring

30.06.2014

# Assets

Consolidated – 30 June 2014

ISKm	30.06.14	31.03.14	31.12.13
Cash and balances with CB	128,135	136,735	111,779
Derivatives	1,348	1,328	843
Bonds and debt instruments	72,380	76,165	75,186
Shares and equity instruments	12,006	11,795	9,208
Loans to credit institutions	45,334	47,895	44,078
Loans to customers	603,697	565,952	554,741
Investment in associates	1,583	1,556	1,563
Property and equipment	8,610	8,691	8,772
Intangible assets	357	292	299
Deferred tax assets	981	1,155	1,275
Non-current assets held for sale	23,996	24,116	47,106
Other assets	9,104	8,363	11,159
<b>Total assets</b>	<b>907,531</b>	<b>884,043</b>	<b>866,009</b>

## Liquid assets

- The three line items, Cash and balances with CB, Bonds and debt instruments, and Loans to credit institutions, amount to about ISK 246bn, whereby ISK 226bn are considered to be liquid assets

## Bonds and debt instruments

- Mainly G5 government bonds in the Bank's liquidity portfolio

## Shares and equity instruments

- Increase as a result of fair value changes on equity portfolio

## Loans to credit institutions

- Part of liquidity portfolio placed with well ranked banks outside of Iceland

## Loans to customers

- 7% growth QoQ and 12% YoY

## Non current assets held for sale

- Significant reduction in non-current assets held for sale since YE13 due to sale of non-core subsidiaries owned by the Bank as a result of financial restructuring
- Loans to these companies, which were previously eliminated when they were subsidiaries of the Bank, are now accounted for as loans to customers

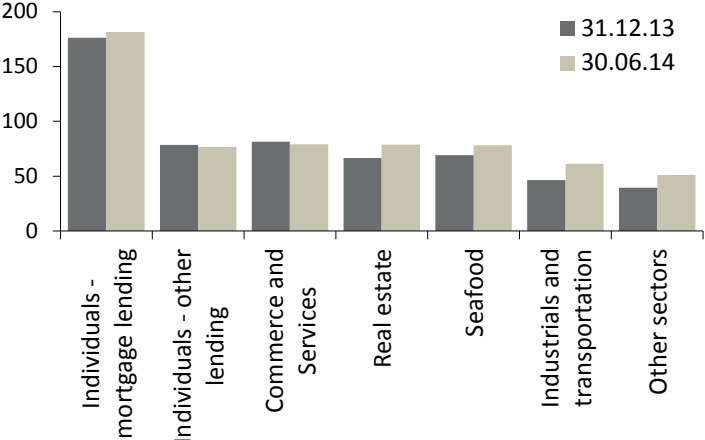
## Other assets

- Is comprised of unsettled securities transactions. The date of settling fluctuates month by month causing the difference between quarters

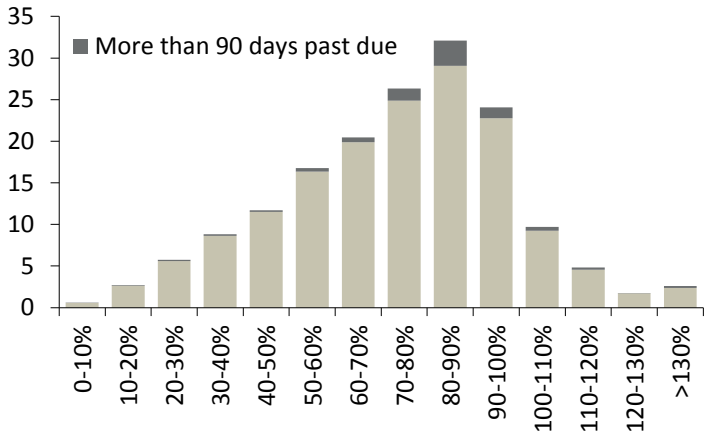
# Good sector diversification of loan portfolio

Conversion of FX loans to customers with ISK revenue now completed

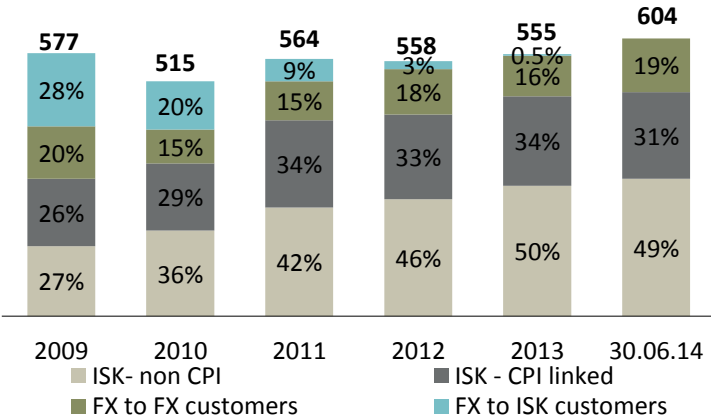
**LOANS TO CUSTOMERS**  
% by sector, consolidated



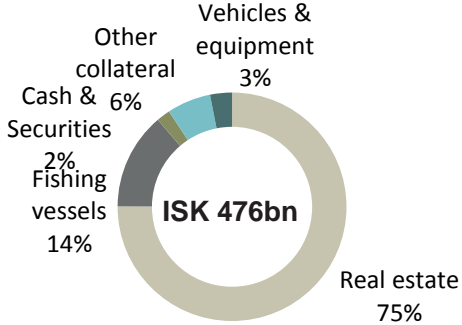
**LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS**  
ISKbn, consolidated as of 30.06.14 – average decreased from 79% to 74%\*



**LOANS TO CUSTOMERS**  
% by currency, ISKbn, consolidated



**LOANS TO CUSTOMERS**  
% by collateral, consolidated as of 30.06.2014



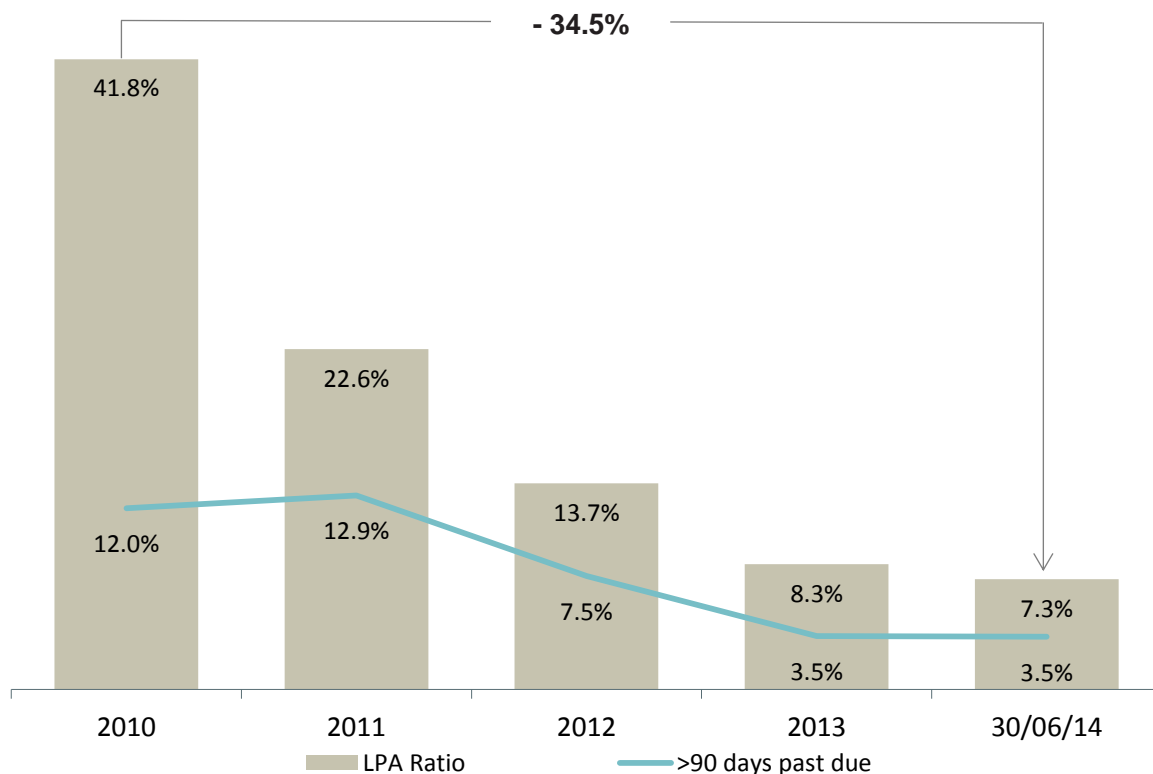
\* The weight is Íslandsbanki's total amount outstanding on the property and the LTV used is the maximum LTV of all Íslandsbanki's loans of the property. The calculation is based on tax value. Please note that the average LTV can be calculated in many different ways and therefore the definition is important for comparison to other banks

# Restructuring on track

Great success in transforming loans in restructuring to performing loans

## LOAN PORTFOLIO ANALYSIS

LPA (proportion of loans in restructuring, % book value) and 90 days past due (% book value)



- All large restructuring cases have now been finalised
- Remaining restructuring cases are smaller and will only move ratios marginally
- Loans more than 90 days past due was 3.5% at 30.06.14
- LPA ratio measures the progress of restructuring and was 7.3% at 30.06.2014
- At YE13, LPA for Íslandsbanki was 8.3%, compared to the 12.5% average for the three large banks
- LPA is an Iceland-specific credit quality measure defined on the obligor level (cross default)
- Only a handful of restructuring projects have had to be re-addressed

## II. Liabilities, Liquidity & Capitalisation

30.06.2014

# Liabilities

Consolidated - 30 June 2014

ISKm	30.06.14	31.03.14	31.12.13
Derivatives and short positions	8,288	8,806	11,176
Deposits from CB and credit inst.	23,287	26,847	29,689
Deposits from customers	520,128	502,925	489,331
Debt issued and other borrowings	100,249	95,035	89,193
Subordinated loans	21,278	21,437	21,890
Tax liabilities	13,554	11,672	10,826
Non-current liabilities held for sale	3,483	3,447	9,456
Other liabilities	39,542	38,501	37,130
<b>Total liabilities</b>	<b>729,809</b>	<b>708,670</b>	<b>698,691</b>
<b>Total equity</b>	<b>177,722</b>	<b>175,373</b>	<b>167,318</b>
<b>Total liabilities and equity</b>	<b>907,531</b>	<b>884,043</b>	<b>866,009</b>

## Deposits

- Consolidated deposits from customers remain stable
- Deposit to loan ratio remains high at 83.7%, but slightly higher when calculated on a parent level or 85%

## Debt issued and other borrowings

- ISK 14bn senior unsecured bond (SEK 800m) in 1Q14 and 15.5bn senior unsecured bond (EUR 100m) in 2Q14
- ISK 38.7bn 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 29.4bn in covered bonds

## Subordinated loans

- EUR 139m denominated Tier 2 issue

## Other liabilities

- Includes accruals, provisions, unsettled securities transactions and liabilities in subsidiaries

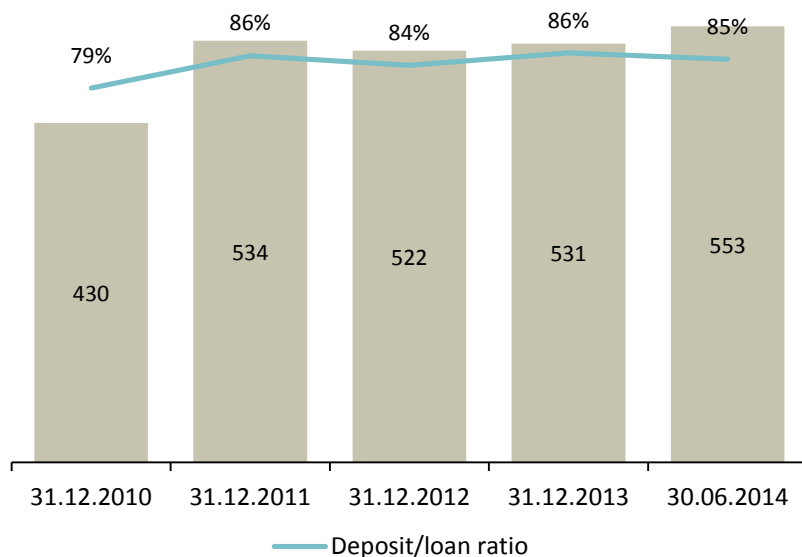
## Equity

- Total equity was up 6% since YE13 and 14% year on year

# Deposits remain a stable source of funding

Parent deposits have remained fairly stable since the acquisition of Byr in 2011

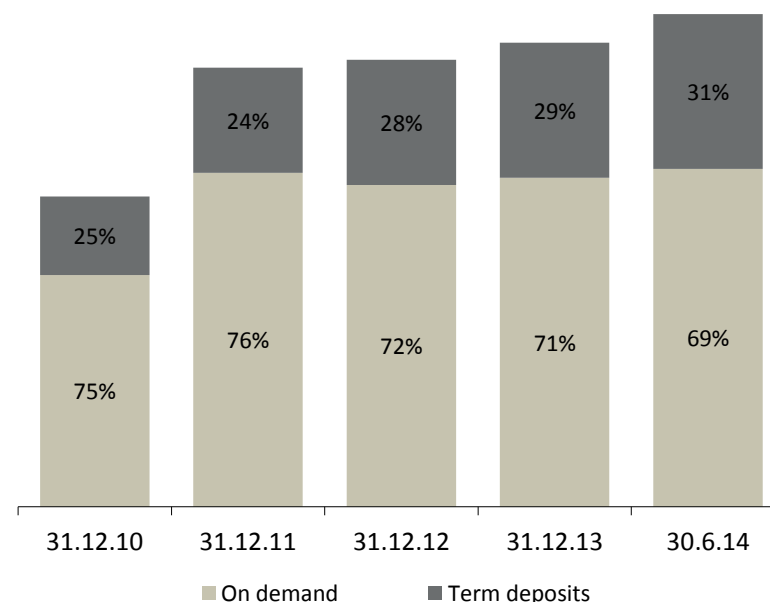
**DEPOSIT DEVELOPMENT AND DEPOSIT RATIO**  
ISKbn, parent company



## Stable deposit base

- Deposit to loan ratio is stable, may decrease somewhat as more investment opportunities arise in domestic market
- Deposits remain the main funding source for the Bank
- Core deposits are stable while some fluctuations are due to less sticky deposits from financial institutions

**DEPOSITS FROM CUSTOMERS**  
ISKbn, parent company



## Increased focus on term deposits

- The Bank has put emphasis on introducing new term deposit products parallel to the adoption of the LCR ratio
- Focus on notice accounts and fixed interest accounts
- Customer term deposits now exceed 30% of total customer deposits

# Diversification of funding continues

Successful issues in SEK and EUR and a BB+/B rating with stable outlook from S&P

## Domestic bonds

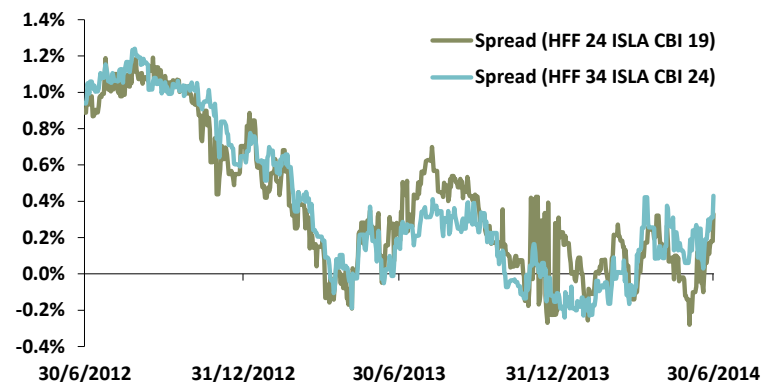
- Covered bond issue to continue at a pace of ISK 10bn annually
  - Total outstanding covered bonds amount to ISK 28.3bn
- Regular issuer of short-term listed bonds (commercial paper)
  - Total outstanding commercial paper amounts to ISK 6.9bn
  - Íslandsbanki issues commercial paper on a monthly basis with maturities of up to 6 months
- Encumbrance relatively low with pledged assets as a percentage of balance sheet at 10%

## International funding

- First Euro-denominated bond issued in May of EUR 100m
- Follows the Bank's recently published S&P BB+/B rating with stable outlook
- Inaugural FX issue in December 2013 of SEK 500m senior unsecured bond, followed by a SEK 300m tap in March
- Terms continue to improve, with December issue at 3 month Stibor + 400bp and March tap tightening to 330bp
- Listed on the Irish Stock Exchange
- Bonds were issued under Íslandsbanki's USD 750m Global Medium Term Note (GMTN) which enables Íslandsbanki to issue bonds in a broad range of currencies at fixed or floating interest rates

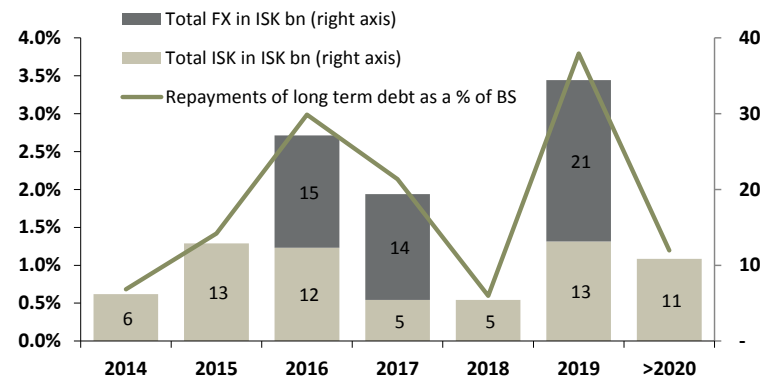
## COVERED BONDS PERFORMING WELL IN AFTERMARKET

Spread on top of HFF bonds



## MATURITY PROFILE OF LONG-TERM DEBT\*

30.06.2014, ISKbn





# Imbalances

## Imbalances mitigate risk of ISK depreciation

### Currency imbalance (FX risk)

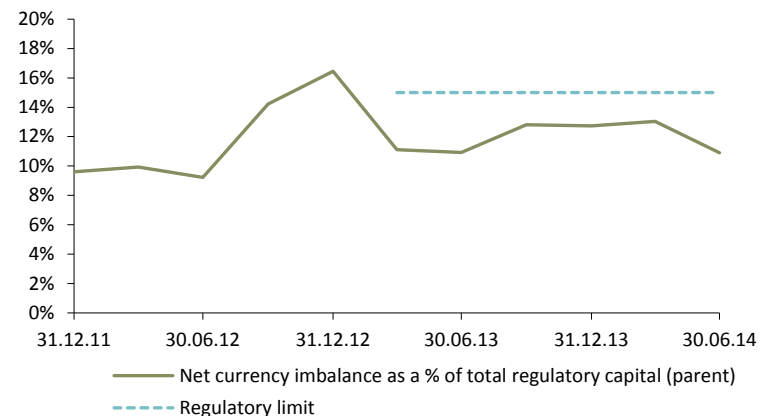
- Regulatory requirement is that the currency imbalance (total long or short) must be less than 15% of regulatory capital
- Volatility in balances due to revaluations and recalculations of loans, has decreased over time

### Inflation imbalance (CPI risk)

- The Bank seeks to manage the CPI gap within a moderate range to prevent large fluctuations in operating income
- In general, fluctuations in the imbalance are largely explained by changes in the loan portfolio where offsetting funding measures often come with a lag
- Increase in the imbalance over the period also due to a smaller extent to a partial prepayment on a bond owed to the Iceland Central Bank

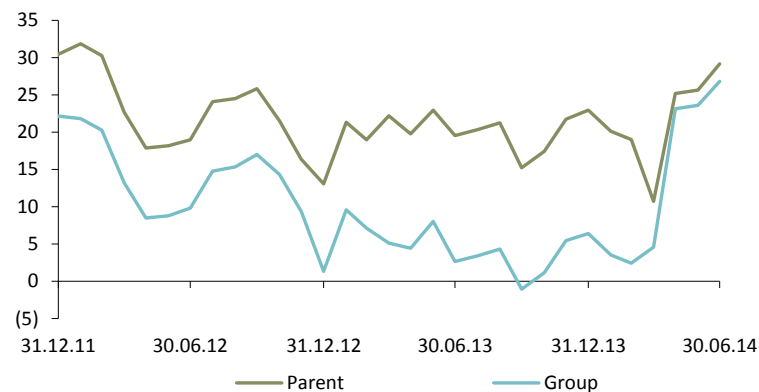
### FX GAP

% of total regulatory capital



### CPI GAP

ISKbn



# Sound management of liquidity

Liquid assets of ISK 215bn exceed internal and external requirements

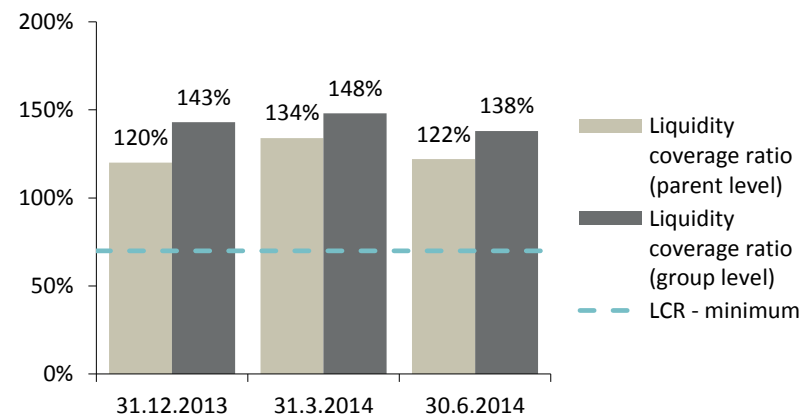
## LIQUIDITY BACK-UP / DEPOSIT COVERAGE RATIO

30.06.14, parent company, ISKbn

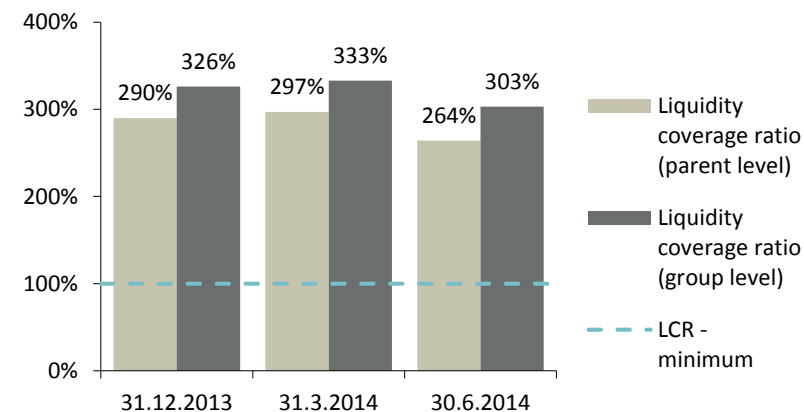
Asset type	ISK	FX	Total
Cash and balances with CB	115	1	116
Balances with credit institutions	-	42	42
Repo eligible bonds	26	-	26
Foreign government bonds	-	30	30
<b>Total</b>	<b>142</b>	<b>73</b>	<b>215</b>
Total deposits, parent company	467	86	553
Liquid assets to total deposits	30%	85%	39%

- All liquidity measures well above regulatory requirements
- FX liquid assets:
  - FX Government bonds have a minimum requirement of AA rating
  - FX cash placed with highly rated correspondent banks
- The LCR was 122% at end of June compared to the Icelandic regulatory limit of 70% as of 01.01.2014
- The corresponding LCR in foreign currency (FX LCR) was 264% at end of June, compared to the regulatory limit of 100% as of 01.01.2014

## LIQUIDITY COVERAGE RATIO – ALL CURRENCIES



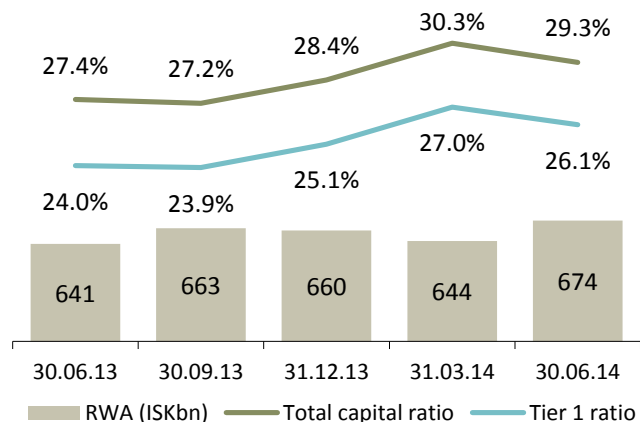
## LIQUIDITY COVERAGE RATIO – FOREIGN CURRENCIES



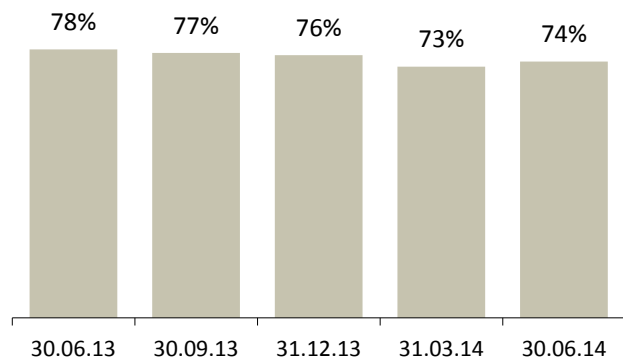
# Sound capital position

Slight decrease in capital ratios due to new lending and dividend payment

## CAPITAL RATIOS AND RWA



## RATIO OF RWA TO TOTAL ASSETS



## Capital ratios

- Total capital base was ISK 197bn at 30.06.2014 compared to ISK 187bn at 31.12.2013
- The increase over the period is mainly explained by retained earnings, offset by the dividend payment in the first half of 2014
- The total capital ratio was 29.3% and the tier 1 ratio 26.1%, both well in excess of the board approved long-term minimum of 18% and 14% respectively
- The Bank is well prepared for the upcoming regulatory changes relating to Basel III
- Leverage ratio was at 18.8% at the end of the period, which is high in a global comparison

## Risk weighted assets (RWA)

- The increase in RWA in the first half of 2014 is mainly due to an increase in loans to customers which was partly offset by a decrease in non-current assets held for sale

## Dividends

- The Board of Directors has approved a long-term dividend pay-out target ratio at 40-50% of net profit
- The Annual General Meeting following the FY13 results, agreed to a dividend payment of ISK 4bn, or 17% of net profit (ISK 0.40 per share) compared to a dividend payment of ISK 3bn in 2012

# 5 key messages

Strong earnings, a sound balance sheet, and leading market shares across all business segments

1

New lending in 1H14 about ISK 90bn and similar to total new lending for the full year 2013. Loans to customers rose by 12% YoY and 7% QoQ

2

Administrative expenses in 2Q14 were down 13.4% YoY or 15.8% in real terms, rendering a cost/income ratio of 56.0%

3

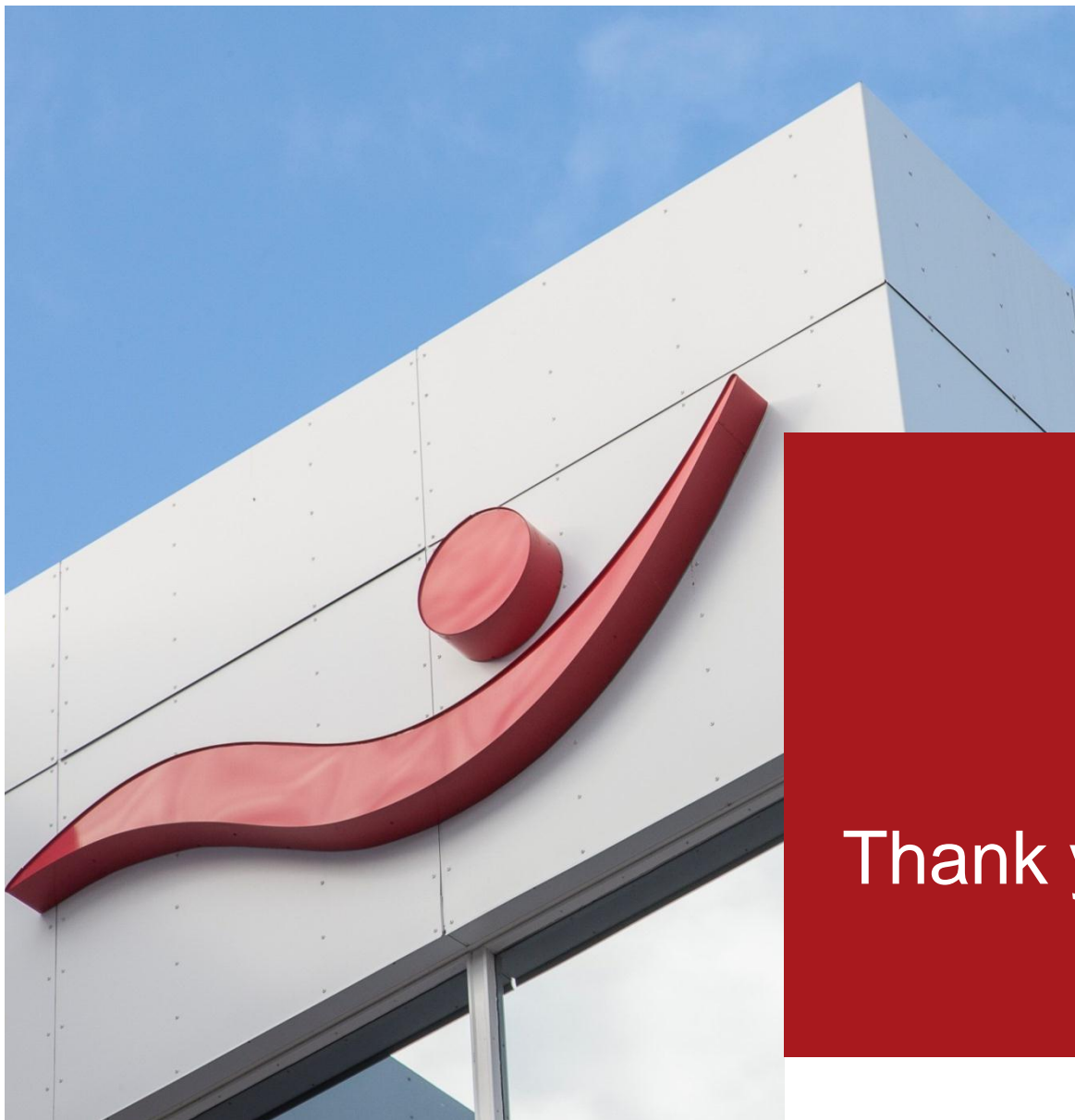
All large restructuring projects now completed, asset quality continues to improve with LPA ratio down to 7.3% and ratio of 90 days past due down to 3.5%

4

Total capital ratio and Tier 1 remain sound at 29.3% and 26.1% respectively, ROE of 14.5% remains high despite growing equity base

5

Awarded 'Best Bank in Iceland', second year in a row and 'Best Investment Bank in Iceland' by Euromoney Magazine



Thank you