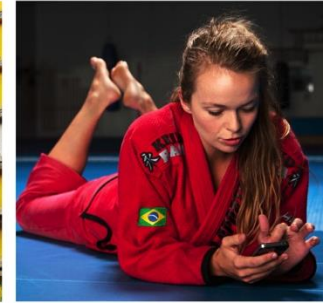
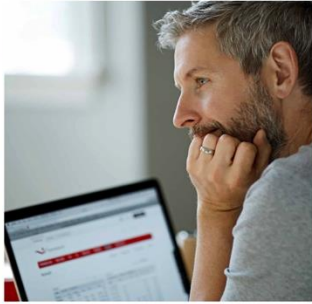




13 May 2015

# 1Q2015 Financial Results



# Forward Looking Statements

## Important information

All information contained in this presentation should be regarded as preliminary and based on company data available at the time of the presentation. Due care and attention has been used in the preparation of forecast information. However, actual results may vary from their forecasts, and any variation may be materially positive or negative. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Íslandsbanki.

Íslandsbanki cannot guarantee that the information contained herein is without fault or entirely accurate. The information in this material is based on sources that ÍSB believes to be reliable. Íslandsbanki can however not guarantee that all information is correct. Furthermore, information and opinions may change without notice. ÍSB is under no obligation to make amendments or changes to this publication if errors are found or opinions or information change. Íslandsbanki accepts no responsibility for the accuracy of its sources.

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# Table of Contents

- I. Overview
- II. Income Statement
- III. Assets & Restructuring
- IV. Liabilities, Liquidity & Capitalisation

# I. Overview

# A strong bank with a sustainable future

Healthy earnings, a sound balance sheet, and strong market share across all business segments

1

## Fitch assigned Íslandsbanki BBB-/F3 rating with stable outlook

- Íslandsbanki is the first Icelandic Bank to be assigned an investment grade since 2008
- The Bank issued a SEK 300 m 4 year Floating Rate Note in February

## Strong ROE on regular operations

- ROE on regular operations was 15.0% vs. 11.1% in Q4 2014
- Net interest margin was 2.7% in Q1 2015

2

## Capital buffers remain strong

1Q15

3

## Healthy loan growth

- Loans to customers increased by 3.1bn. Main changes are new loans to customers of ISK 31bn and instalments ISK 25 bn.
- Loans to companies grew by approx. 2% while loans to individuals decreased mainly due to the Government's debt relief scheme

## Focus on cost cutting continues

- Regular administrative expenses were down 1.5% or 2.6 % in real terms
- Cost programme delivering according to plan. Cost income ratio was 55.3%
- Reduction in FTE's by 12

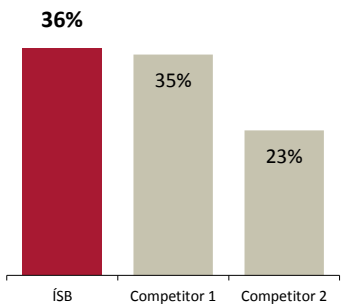
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4

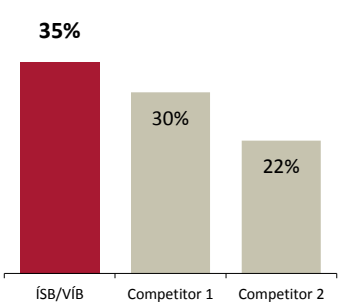
# Leading customer perception in key segments

Opportunity to transform positive market perception to market share

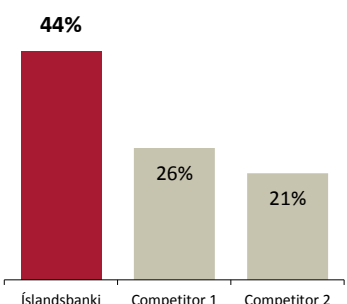
**WHICH BANK IS THE LEADING BANK FOR INDIVIDUALS?<sup>1</sup>**



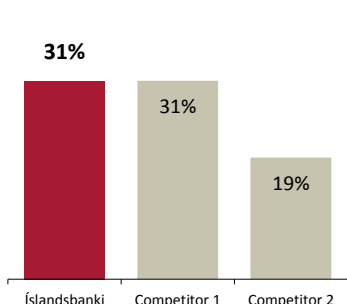
**WHO IS YOUR FIRST CHOICE FOR ASSET MANAGEMENT?<sup>3</sup>**



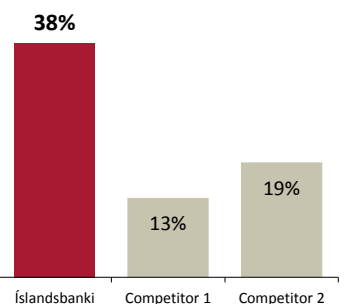
**WHICH BANK IS MOST PROFESSIONAL FOR SME'S<sup>4</sup>**



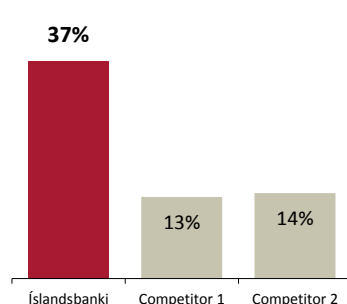
**FIRST CHOICE FOR ASSET BASED FINANCING?<sup>5</sup>**



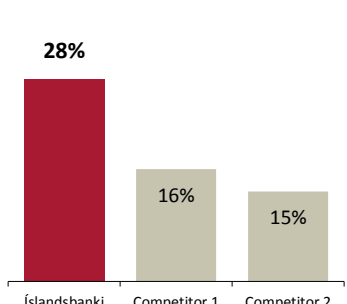
**WHICH BANK IS THE LEADING BANK FOR LARGE CORPORATES?<sup>2</sup>**



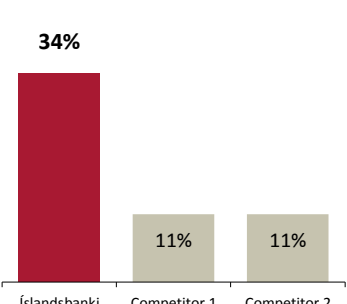
**WHICH CORPORATE BANK IS OVERALL THE MOST PROFESSIONAL?<sup>2</sup>**



**WHICH BANK OFFER THE BEST SERVICE FOR SME'S<sup>4</sup>**



**WHICH BANK IS THE LEADING BANK IN CORPORATE FINANCE?<sup>6</sup>**



1. Source: Capacent Gallup: Survey for leading bank for individuals is based on 6-month rolling average of monthly tracking done by Capacent 2015. 2.Source: Capacent Gallup: Large corporate survey among 300 top corporates in Iceland according to Frjáls Verslun, an Icelandic Business Magazine, November 2014 3. Source: Capacent Gallup : Market position in savings, Mai 2014. 4.Source: Capacent Gallup: Survey amongst small and medium enterprises according to Capacent in December 2014 5.Source: Capacent Gallup: Asset based financing: Survey done for Ergo in December 2014. 6. Source: Capacent Gallup: Survey amongst large Corporation in corporate finance in Desember 2014.

# Overview

## Key figures & ratios

		1Q15	4Q14	3Q14	2Q14	1Q14
<b>PROFITABILITY</b>	ROE (after tax), %	11.8%	9.9%	7.9%	14.5%	19.3%
	ROE 14% CET1 (regular operations)	15.0%	11.1%	14.4%	9.3%	15.8%
	Net interest margin (of total assets), %	2.7%	2.8%	3.1%	3.1%	3.0%
	Cost to income ratio, %**	55.3%	62.6%	52.0%	61.1%	55.1%
	After tax profit, ISKm	5,396	4,560	3,535	6,359	8,296
	Earnings from regular operations, ISKm***	4,352	3,436	4,194	2,891	4,357

		31.3.2015	31.12.2014	31.12.2013
<b>CAPITAL</b>	Total equity, ISKm	181,630	185,487	167,318
	Tier 1 capital ratio, %	25.7%	26.5%	25.1%
	Total capital ratio, %	28.4%	29.6%	28.4%
<b>BALANCE SHEET</b>	Total assets, ISKm	926,389	911,328	866,009
	Risk weighted assets, ISKm	703,188	695,102	659,757
	Loans to customers, ISKm	637,877	634,799	554,741
	Total deposits, ISKm	545,177	555,243	519,020
	Total deposit / loan ratio, %	80.3%	82.9%	86.7%

\*\*Return from regular operations on normalized CET1 of 14%, adjusted for risk free interest on excess capital

\*\*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 valuation gains

ISKm	1Q15	1Q14	Δ	4Q14	Δ	2014
Net interest income	6,191	6,646	(455)	6,469	(279)	27,105
Net fee and commission income	2,905	2,854	51	2,962	(57)	11,483
Net financial income	1,764	863	901	603	1,161	1,568
Net foreign exchange (loss) gain	(140)	(291)	151	116	(255)	165
Other operating income	289	1,113	(824)	509	(220)	2,122
<b>Total operating income</b>	<b>11,009</b>	<b>11,185</b>	<b>(176)</b>	<b>10,659</b>	<b>350</b>	<b>42,443</b>
Salaries and related expenses	(3,460)	(3,439)	(21)	(3,497)	37	(13,307)
Other operating expenses	(2,363)	(2,470)	107	(2,914)	551	(9,594)
<b>Administrative expenses</b>	<b>(5,823)</b>	<b>(5,909)</b>	<b>86</b>	<b>(6,411)</b>	<b>588</b>	<b>(22,901)</b>
Depositors´ and Investors Guarantee Fund	(269)	(258)	(11)	(265)	(4)	(1,055)
Bank Tax	(618)	(592)	(26)	(565)	(53)	(2,444)
<b>Total operating expenses</b>	<b>(6,710)</b>	<b>(6,759)</b>	<b>49</b>	<b>(7,241)</b>	<b>530</b>	<b>(26,400)</b>
<b>Profit before impairment and net valuation changes</b>	<b>4,299</b>	<b>4,426</b>	<b>(127)</b>	<b>3,418</b>	<b>881</b>	<b>16,043</b>
Loan impairment charges and net valuation changes	2,331	1,520	811	3,006	(675)	8,810
<b>Profit before tax</b>	<b>6,630</b>	<b>5,946</b>	<b>684</b>	<b>6,424</b>	<b>205</b>	<b>24,853</b>
Income tax	(1,396)	(1,394)	(2)	(1,434)	38	(6,239)
<b>Profit for the period from continuing operations</b>	<b>5,234</b>	<b>4,552</b>	<b>682</b>	<b>4,990</b>	<b>244</b>	<b>18,614</b>
Profit (loss) from discontinued ops. net of tax	162	3,744	(3,582)	(430)	592	4,136
<b>Profit for the period</b>	<b>5,396</b>	<b>8,296</b>	<b>(2,900)</b>	<b>4,560</b>	<b>835</b>	<b>22,750</b>

# Earnings from regular operations

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

ISKm	1Q15	1Q14	Δ	4Q14	Δ	2014
Reported after tax profit	<b>5,396</b>	8,296	(2,900)	4,561	835	22,750
Net valuation changes	<b>(2,026)</b>	(1,064)	(962)	(2,865)	839	(7,844)
Bank tax	<b>618</b>	592	26	565	53	2,444
One-off costs *	<b>0</b>	0	0	0	0	(550)
Profit (loss) from discontinued ops	<b>(162)</b>	(3,744)	3,582	430	(592)	(4,136)
Tax impact of adjustments	<b>527</b>	277	250	745	(218)	2,182
<b>Earnings from regular operations**</b>	<b>4,352</b>	4,357	(4)	3,436	917	14,846
ROE 14% CET1 (regular operations)***	15.0%	15.8%		11.1%		12.6%
ROA from regular operations (after tax)	1.9%	2.0%		1.5%		1.6%
Net interest margin adj. 14% CET1	2.4%	2.7%		2.5%		2.7%
Cost / income ratio adj. 14% CET1	59.0%	58.9%		67.1%		62.2%

- Bank tax is a special tax introduced in Dec 2010. The Bank tax increased in 2013 from 0.1285% to 0.376% to fund the Government's debt relief programs. The increased taxation is assumed to be a temporary measure
- Please note that the line item Loan impairment charges and net valuation change in the Income Statement, includes collective impairment. The line item in the regular operations statement above, includes only net valuation changes

\*One-off costs include impairment of goodwill, a potential settlement with the competition authorities, write-down of a real estate exposure and closing of operations in the US

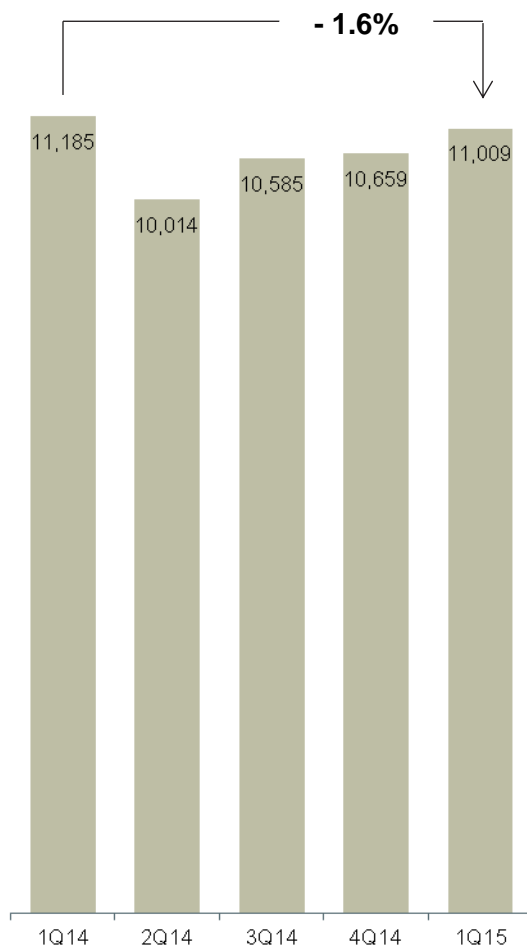
\*\*Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gain deriving from changes in accounting treatment, impairment of goodwill, Bank tax, one off costs and net earnings from discontinued operations

\*\*\* Return from regular operations and corresponding ratios on normalized CET1 of 14%, adjusted for risk free interest on excess capital

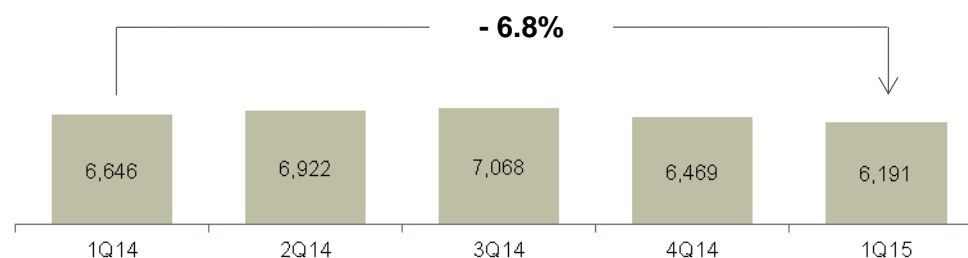
# 83% of operating income from NII & NFC

Continual growth in net fee and commission income

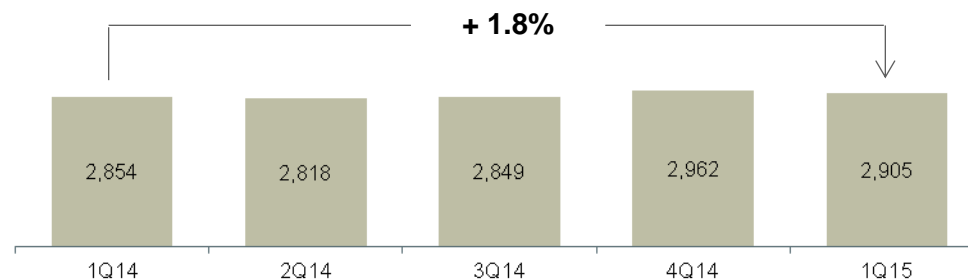
**TOTAL OPERATING INCOME**  
ISKm



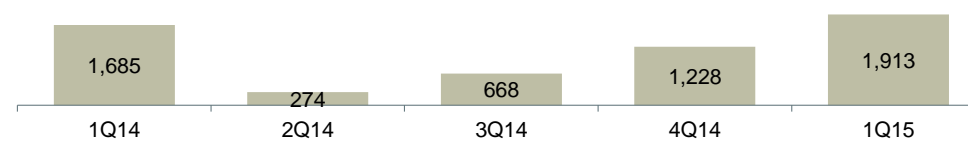
**NET INTEREST INCOME (NII)**  
ISKm



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



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

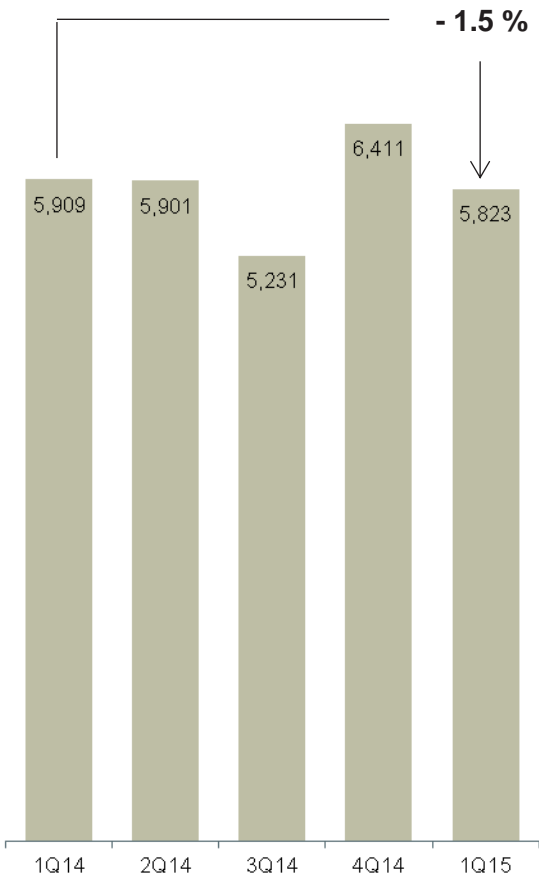


1) Note that other income includes net foreign exchange (loss) gain, net financial income, share of profit of associates and other net operating income.

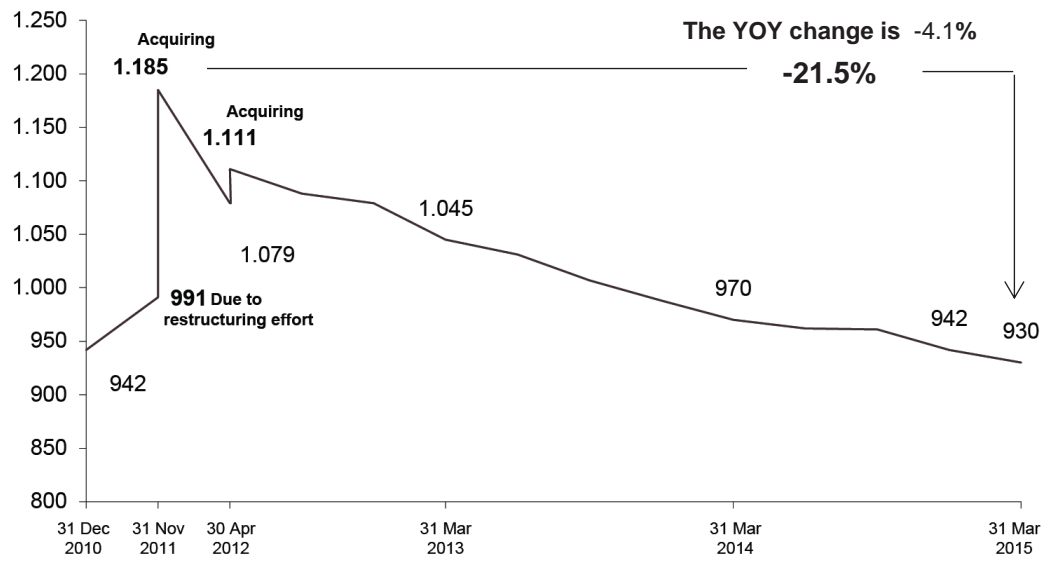
# Efficiency programs continues focus on cost

Focus on lowering administrative cost and other operating costs

**ADMINISTRATIVE EXPENSES**  
ISKm



**AVERAGE FTEs**  
Parent Company<sup>1)</sup>



1) FTE is based on Íslandsbanki Parent Company excluding redundancies, staff on leave, seasonal staff and all subsidiaries

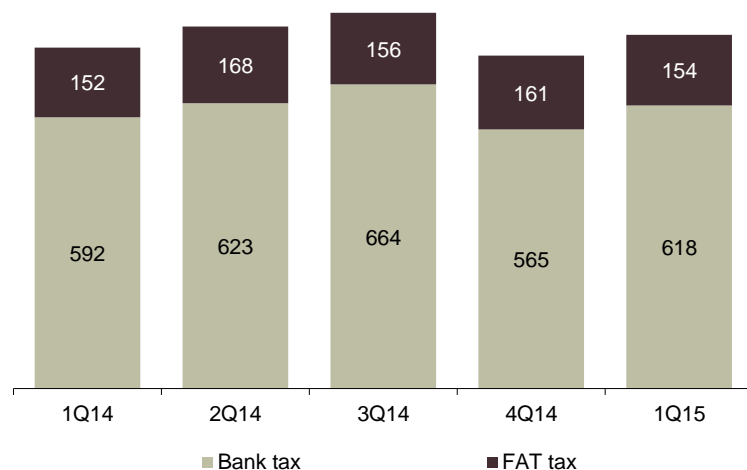
# Tax & levies paid to various institutions

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

ISKm	1Q15	1Q14	Δ	4Q14	Δ	2014
Income tax*	1,396	1,394	2	1,434	-38	6,239
Bank tax**	618	592	26	565	53	2,444
Financial activities tax***	154	152	2	162	-8	637
FME and The Debtors' Ombudsman	82	88	-6	88	-6	354
Depositors' and Investors' Guarantee Fund (TIF)	269	258	11	265	4	1,055
<b>Total</b>	<b>2,519</b>	<b>2,484</b>	<b>35</b>	<b>2,515</b>	<b>5</b>	<b>10,729</b>

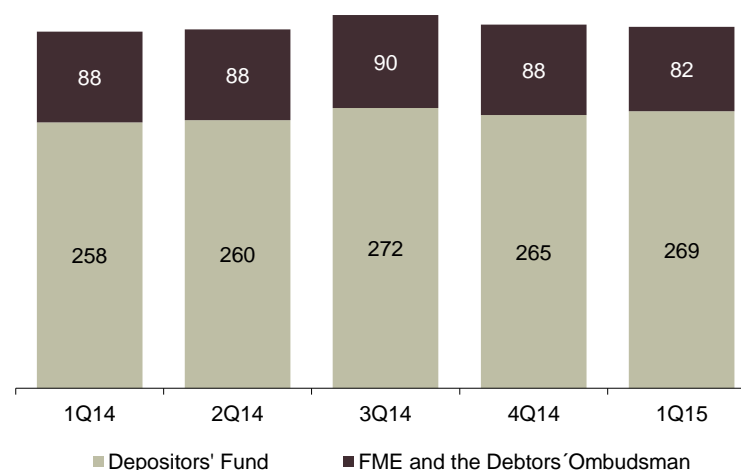
## EXTRAORDINARY TAXATION

ISKm



## CONTRIBUTION TO TIF, FME & OMBUDSMAN

ISKm



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

\*\* Change in legislation in Q4 2013 raised Bank tax from 0.041% on total liabilities to 0.376% of total liabilities in excess of 50bn

\*\*\* 5.5% calculated on salaries in 2014. Was 6.75% in 2013

## III. Assets & Restructuring

# Assets

Consolidated – 31 March 2015

ISKm	31.03.2015	31.12.2014	Δ
Cash and balances with CB	98,274	103,389	-5,115
Derivatives	1,843	1,810	33
Bonds and debt instruments	91,201	87,347	3,854
Shares and equity instruments	11,900	10,531	1,369
Loans to credit institutions	40,688	35,072	5,616
Loans to customers	637,877	634,799	3,078
Investment in associates	607	570	37
Property and equipment	7,521	7,402	119
Intangible assets	655	619	36
Deferred tax assets	270	521	-251
Non-current assets held for sale	21,203	21,649	-446
Other assets	14,350	7,619	6,731
<b>Total assets</b>	<b>926,389</b>	<b>911,328</b>	<b>15,061</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 230bn, whereby ISK 214bn are considered to be liquid assets

## Bonds and debt instruments

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

## Loans to credit institutions

- Part of liquidity portfolio placed with highly rated banks outside of Iceland

## Shares and equity instruments

- Increase mainly through increase in share prices for equities that were listed in the quarter

## Loans to customers

- 0.5% growth since YE14 despite repayments continuing to be high
- New lending amounted to ISK 31bn

## Other assets

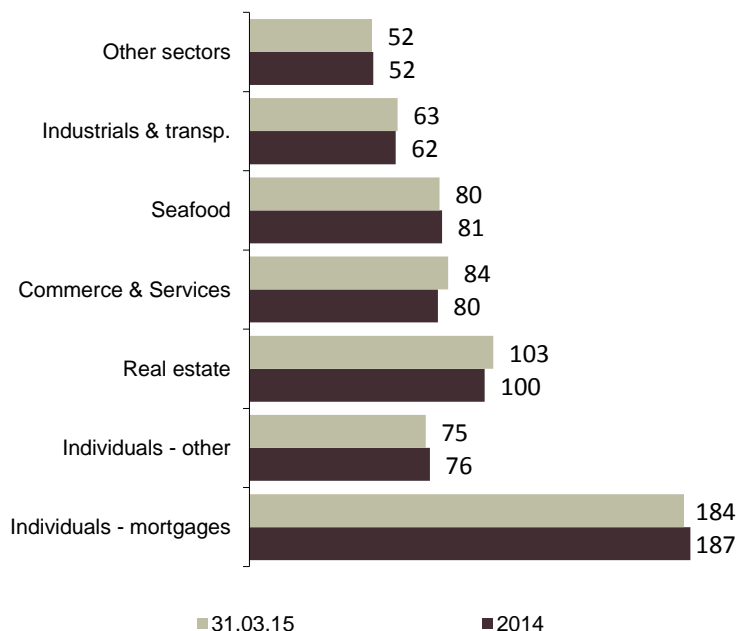
- Includes unsettled securities transactions. The date of settling fluctuates month by month and largely causing the difference between quarters

# Slower growth in the loan portfolio

Growth despite the Government's debt relief scheme

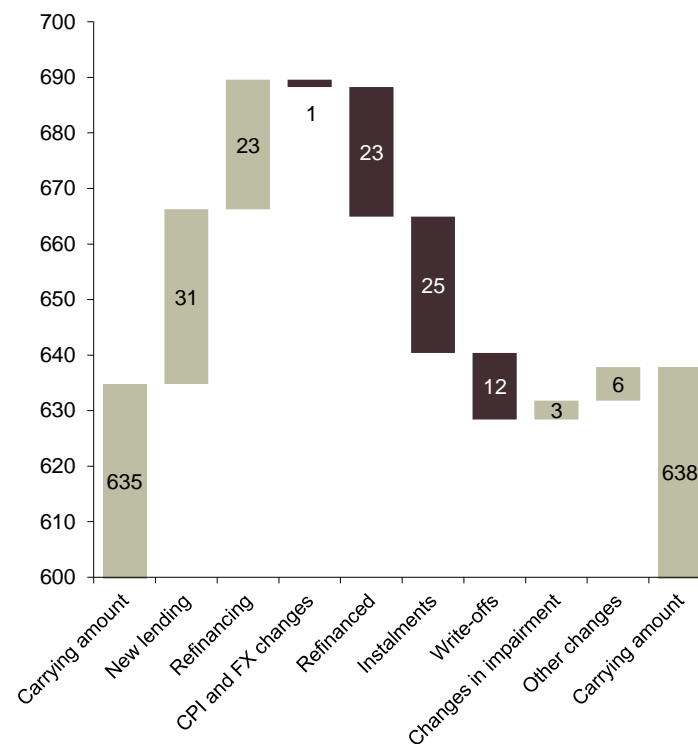
## LOANS TO CUSTOMERS

ISKbn, by sector, consolidated



## LOAN BRIDGE

ISKbn, Q1, consolidated



- The loan portfolio grew by ISK 3bn in the first 3 months of 2015.
- Loans to companies grew by approx. 2% while loans to individuals decreased mainly due to the Government's debt relief scheme.

- New lending explains the growth in the loan portfolio.

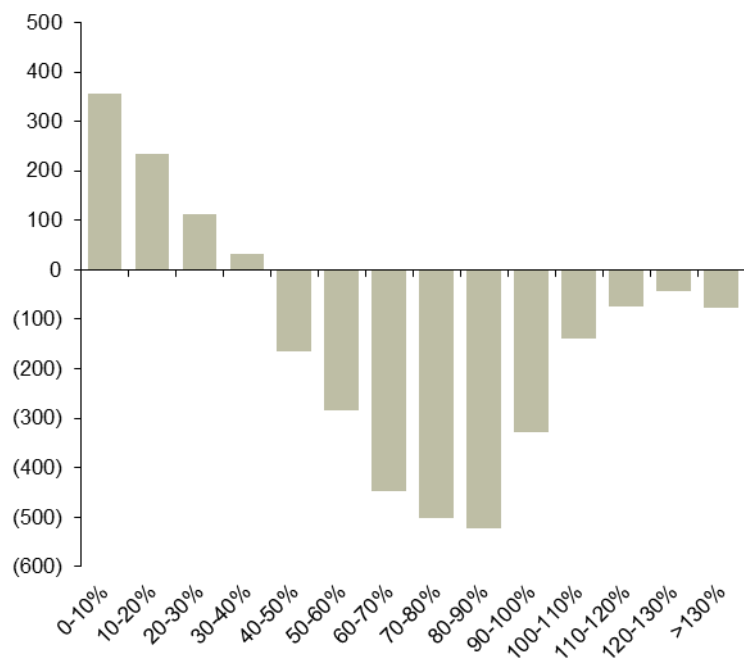


# The mortgage portfolio

## Credit quality continues to improve

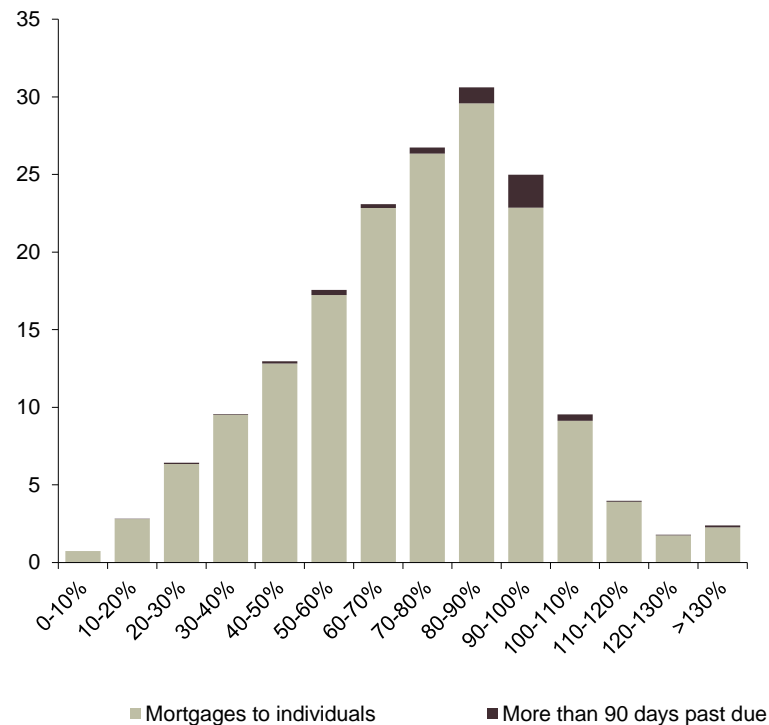
### QUARTER CHANGE IN LTV BANDS OF MORTGAGES\*

ISKm, consolidated as of 31.03.2015



### LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS

ISKbn, consolidated as of 31.03.2015 – average LTV 72% (74% 31.12.2014)\*\*



- Following extensive preparation, processing of applications for the Government CPI-linked mortgage relief scheme started in last days of 2014
- The scheme is expected to decrease the claim value of loans at Íslandsbanki by around ISK 8bn, whereof 75% has already been paid.
- The Government will compensate Íslandsbanki using a fair value-inspired approach to accomplish the goal that banks should not realise neither profit nor loss as a consequence of the scheme

\* See Risk report 2014, page 28, for further explanation.

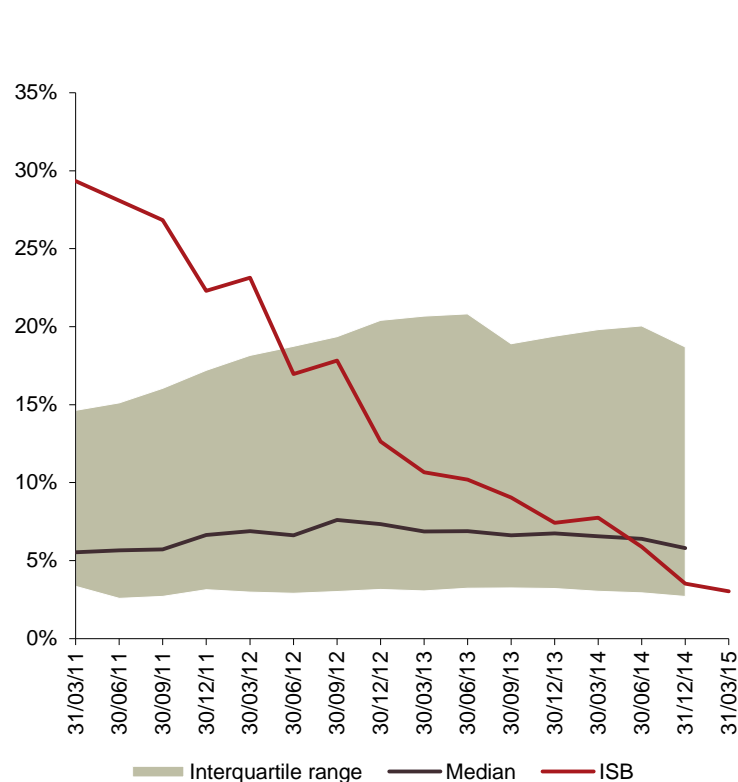
\*\* Please note that the average LTV can be calculated in many different ways and therefore the definition is important for comparison to other banks. The weight is Íslandsbanki's total amount outstanding on the property and the LTV used is the maximum LTV of all Íslandsbanki's loans of the property.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

# Non-performing loans decreasing

## Successful transformation of loan portfolio

### NON-PERFORMING LOANS (International indicator)

Impaired loans and past due (>90 days) loans to loan to customers



Asset classes	Exposure	Cross default	Non-performing criteria
(can choose many)	(choose one)	(choose one)	(can choose many)
Loans to customers	Claim value	Per facility	90 days past due
Loans to banks	Carrying amount	Per customer	Specific impairment
Other assets	Payments in arrears		Forbearance Cure period

- The European Systemic Risk Board uses a solvency indicator that is based on impaired loans and loans 90 days past due
- The graph shows the interquartile range\* and the median of over 50 European banks and how Íslandsbanki compares to that ratio.
- Íslandsbanki is now at 3% and below the median of the comparison banks.

\* The best 25% of European banks are below the interquartile range and the worst 25% of banks are above it.

## IV. Liabilities, Liquidity & Capitalisation

# Liabilities

Consolidated - 31 March 2015

ISKm	31.03.2015	31.12.2014	Δ
Derivatives and short positions	7,203	3,963	3,240
Deposits from CB and credit inst.	24,437	25,796	-1,359
Deposits from customers	520,740	529,447	-8,707
Debt issued and other borrowings	100,602	96,889	3,713
Subordinated loans	20,336	21,306	-970
Tax liabilities	8,731	8,388	343
Non-current liabilities held for sale	3,167	2,790	377
Other liabilities	59,543	37,262	22,281
<b>Total liabilities</b>	<b>744,759</b>	<b>725,841</b>	<b>18,918</b>
<b>Total equity</b>	<b>181,630</b>	<b>185,487</b>	<b>-3,857</b>
<b>Total liabilities and equity</b>	<b>926,389</b>	<b>911,328</b>	<b>15,061</b>

## Deposits

- Customer deposits remain stable with customer deposit to customer loan ratio of 81.6%
- Customer term deposits now 35% of total customer deposits

## Debt issued and other borrowings

- Includes covered bonds, commercial paper and bond issued to the Central Bank secured on a pool of mortgages

## Subordinated loans

- EUR 138m denominated Tier 2 issue maturing in 2019.

## Other liabilities

- Includes accruals, provisions, unsettled securities transactions and liabilities in subsidiaries
- Dividend approved by the Annual General Meeting of the bank, but unpaid at the end of the quarter.

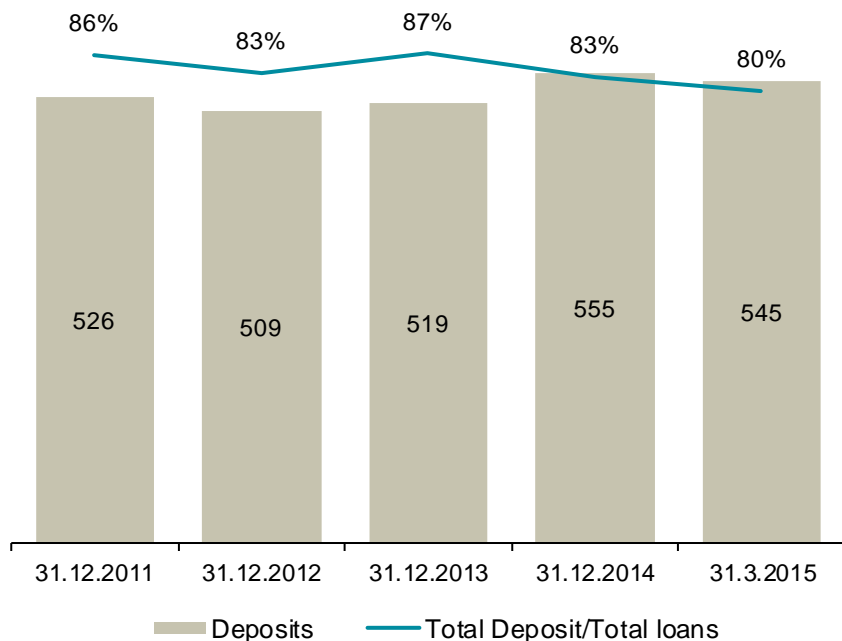
## Equity

- Total equity contracts 2.1% following a 9bn dividend announcement made at the Annual General Meeting

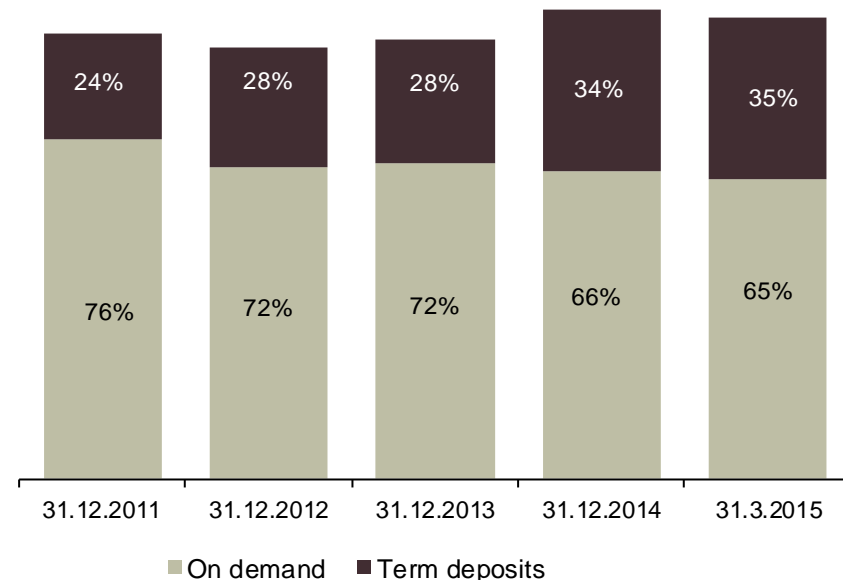
# Deposits remain a stable source of funding

Deposits have remained fairly stable since the acquisition of Byr in 2011

**DEPOSIT DEVELOPMENT AND DEPOSIT RATIO**  
ISK bn, consolidated



**DEPOSITS FROM CUSTOMERS**  
ISK bn, consolidated



## Stable deposit base

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

## 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 have been steadily increasing

# Regular bond issuance continues

BBB-/F3 rating with stable outlook from Fitch

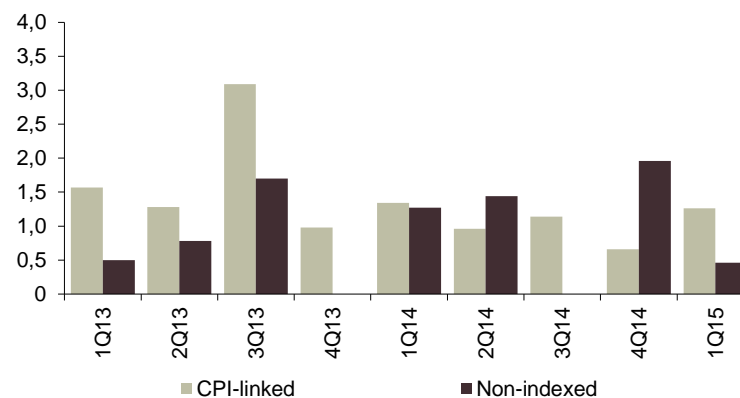
## Domestic bonds

- Covered bond issuance to continue at a pace of ISK 10bn per year
  - Total outstanding covered bonds amount to ISK 33.8bn
- Total outstanding commercial paper amounts to ISK 3.9bn
- Encumbrance relatively low with pledged assets as a percentage of balance sheet at 10.6%

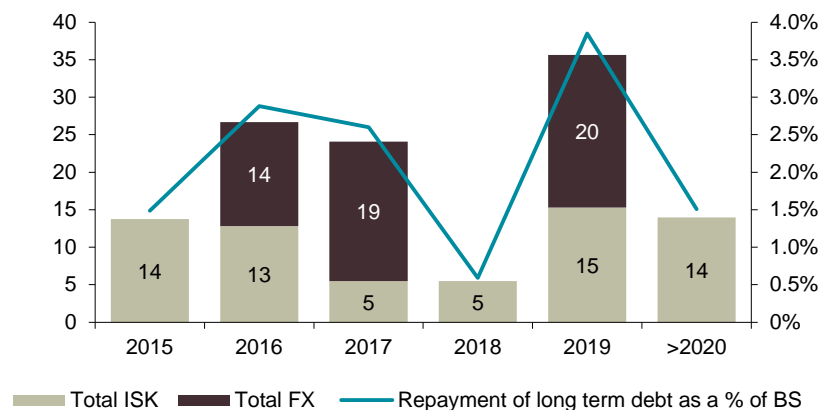
## International funding

- On April 30, Fitch assigned Íslandsbanki an investment grade of BBB-/F3 with stable outlook. The bank is the first and only Icelandic Bank to be assigned an investment grade since 2008
- SEK 300 m issuance in February 2015. Íslandsbanki issued a 4 year Floating Rate Note, with a tap issuance of SEK 150m in April
- First EUR-denominated bond issued in May 2014 of EUR 100m
- Total FX issuance at the end of Q1 2015
  - SEK 1100m
  - EUR 100m
- Bonds are issued under Íslandsbanki's MTN programme

## COVERED BOND ISSUANCE ISKbn



## MATURITY PROFILE OF LONG-TERM DEBT\* 31.3.2015, ISKbn



\*Excluding off-balance sheet items

# Sound management of liquidity

Liquid assets of ISK 214bn exceed internal and external requirements

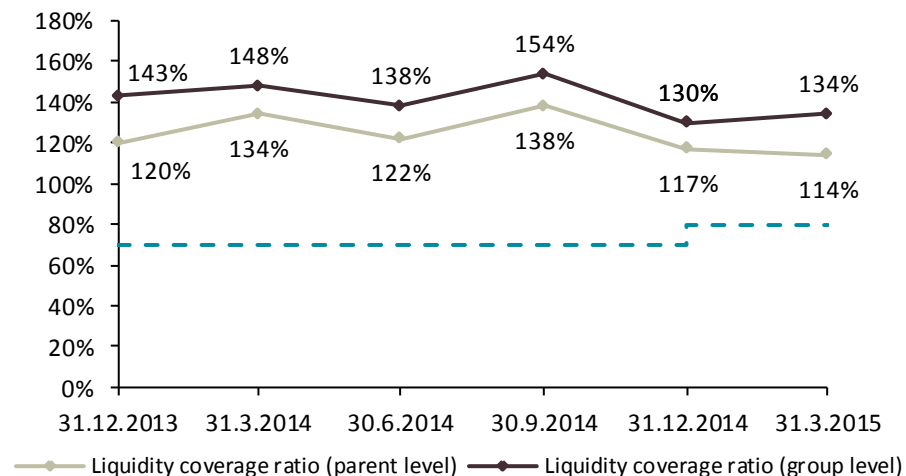
## LIQUIDITY BACK-UP / DEPOSIT COVERAGE RATIO

31.03.15, consolidated, ISKbn

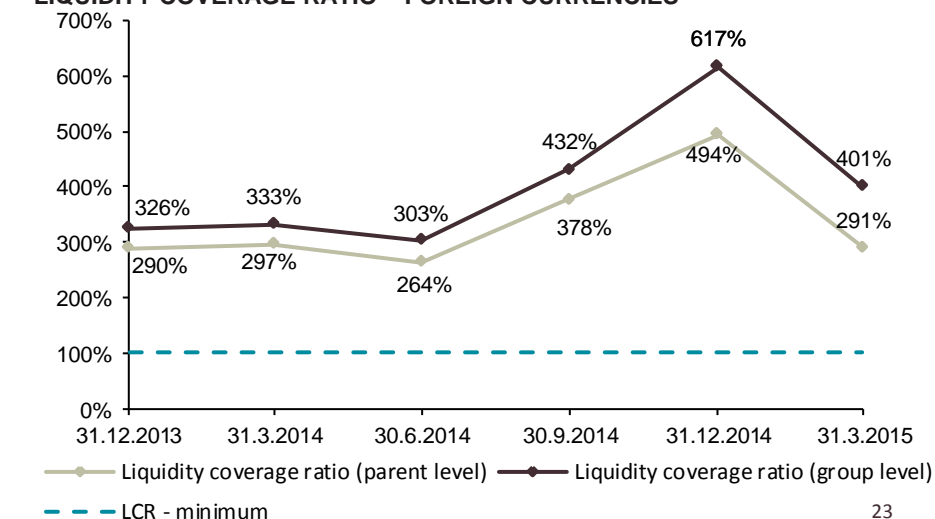
Asset type	ISK	FX	Total
Cash and balances w ith CB	97	1	98
Balances w ith credit institutions	-	39	39
Repo eligible bonds	37	-	37
Foreign government bonds	-	40	40
<b>Total</b>	<b>134</b>	<b>80</b>	<b>214</b>
Total depositis, consolidated	458	87	545
Liquid assets to total deposits	29%	92%	39%

- All liquidity measures above regulatory requirements
- FX liquid assets:
  - FX Government bonds have a minimum requirement of AA rating
  - FX cash placed with highly rated correspondent banks
- Regulatory requirement is that the currency imbalance (total long or short) must be less than 15% of regulatory capital, currently at 11.7%

## LIQUIDITY COVERAGE RATIO – ALL CURRENCIES



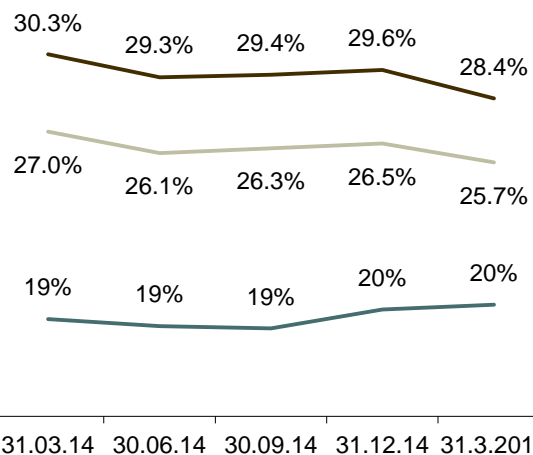
## LIQUIDITY COVERAGE RATIO – FOREIGN CURRENCIES



# Sound capital position

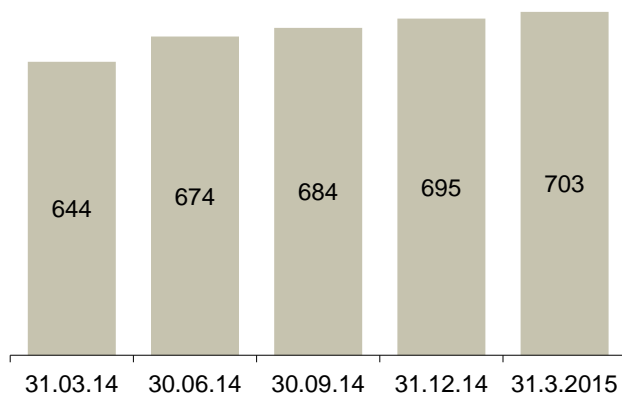
Dividend payment and RWA growth lower the capital ratios

## CAPITAL RATIOS AND RWA



— Total capital ratio — Tier 1 ratio — Leverage ratio

RWA (ISK bn)



## Capital ratios

- Total capital base was ISK 200bn at 31.03.2015 compared to ISK 206bn at 31.12.2014
  - The decrease over the period is mainly explained by the ISK 9bn dividend payment approved in March, which is partly offset by retained earnings.
  - The Tier 2 subordinated debt will mature in less than 5 years, as a result it only counts 95% into the capital base.
- Capital target of minimum 18%
- Leverage ratio was at 19.7% at the end of the period indicating moderate leverage
- Ratio of RWA to total assets around 76%

## Risk weighted assets (RWA)

- Increase over the period mainly related to growth in loan portfolio

## Dividends

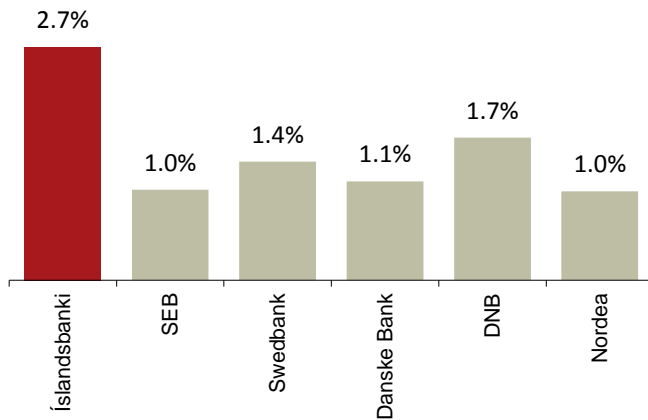
- Long term dividend pay-out target ratio of 40 - 50% of net profit



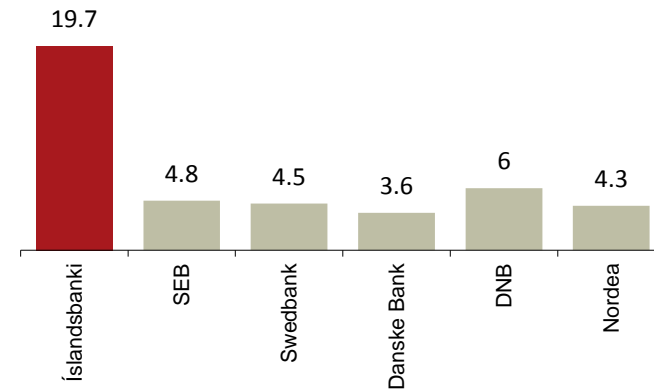
# ÍSB compares well to Nordic banks

Key ratios are in line with its peers

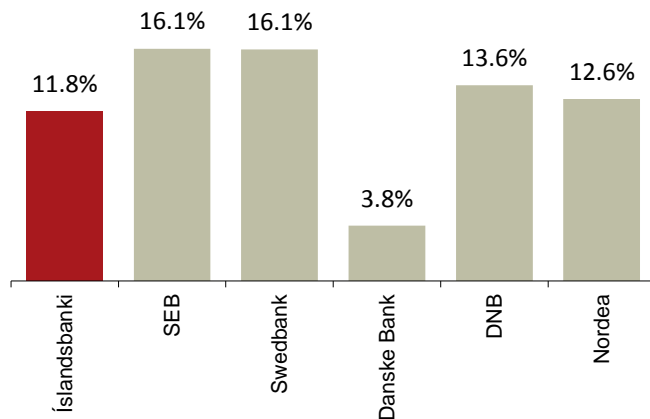
## NET INTEREST MARGIN



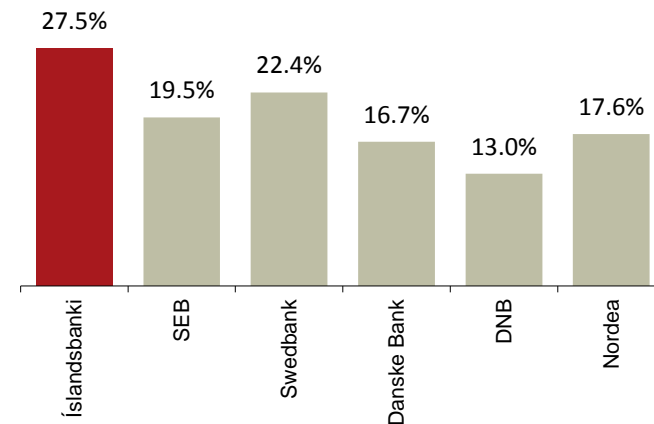
## LEVERAGE RATIO %



## RETURN ON EQUITY



## TIER 1 CAPITAL RATIO



# 5 key messages

A stable performance, with healthy earnings from regular operations

1

BBB-/F3 rating with stable outlook from Fitch

2

Administrative expense were down 2.6% in real terms and cost income ratio was 55.3%. FTE's

3

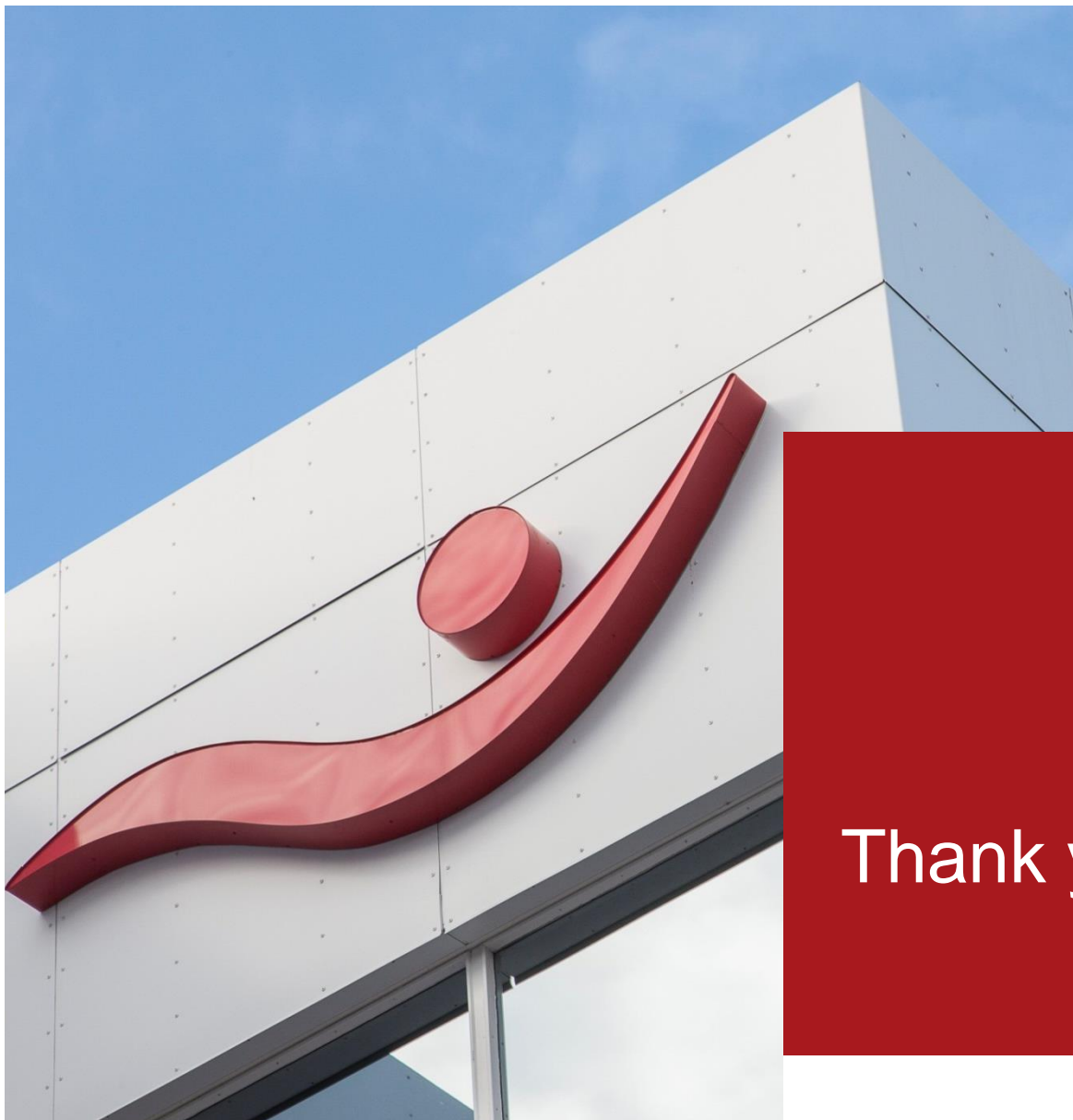
Healthy loan growth with loans to customers growing by 3.1bn or 0.5%

4

Total capital ratio and Tier 1 remain sound at 28.4% and 25.7% respectively

5

Some uncertainty in the environment due to unrest in the labour market and potential lifting of capital controls



Thank you