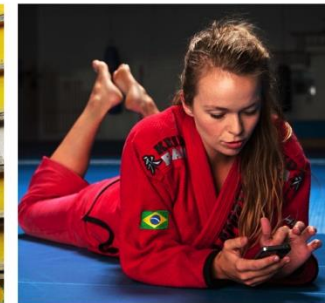


12 November 2015

9M2015 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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The forward-looking statements made represent Íslandsbanki’s current expectations, plans or forecasts of its future results and revenues and beliefs held by the company at the time of publication. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and are often beyond Íslandsbanki’s control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements.

Forward-looking statements speak only as of the date they are made, and Íslandsbanki undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

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Table of Contents

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

I. Overview

Íslandsbanki today

A universal bank

AWARDS



The Banker



Bank of the Year 2014
ICELAND



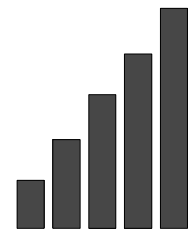
KEY FIGURES 1H 2015

ROE** (Regular operations) 13.0%

Cost / Income 56.3%

Capital Ratio 29.2%

Total Assets €7.0bn



EXPERTISE



Seafood



Energy

CREDIT RATINGS

STANDARD
& POOR'S

BBB-/A-3

FitchRatings

BBB-/F-3

EMPLOYEES



≈1000*

MARKET SHARE



+30%

BRANCHES



17

* Average number of FTE's (Parent Co.)

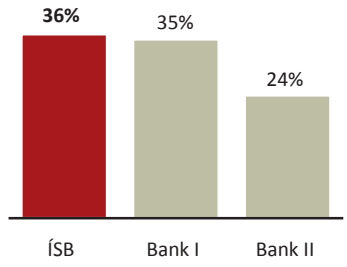
** Return from regular operations and corresponding ratios on normalised CET1 of 14%, adjusted for risk free interest on excess capital

Leading customer perception in key segments

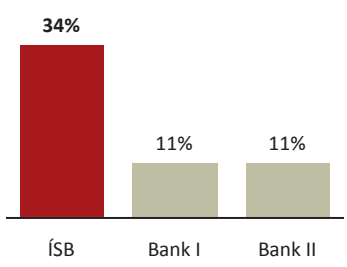
Opportunity to transform positive market perception to market share

LEADING BANK

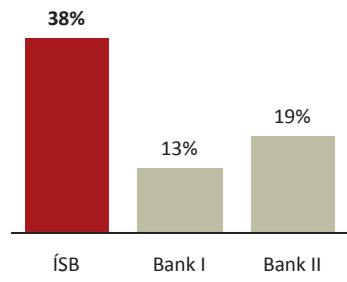
WHICH BANK IS THE LEADING BANK FOR INDIVIDUALS?¹



WHICH BANK IS THE LEADING BANK IN CORPORATE FINANCE?⁶

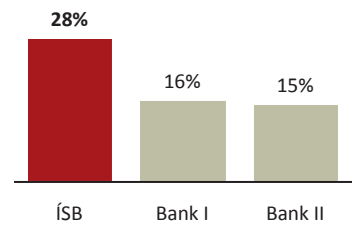


WHICH BANK IS THE LEADING BANK FOR LARGE CORPORATES?²



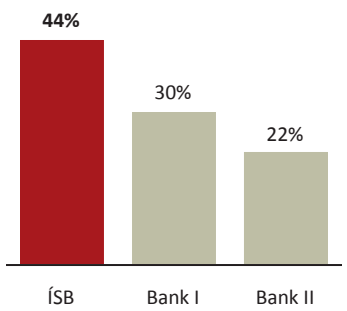
#1 for SERVICE

WHICH BANK OFFER THE BEST SERVICE FOR SME's⁴

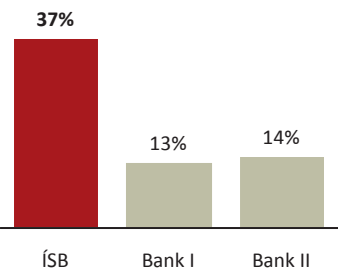


MOST PROFESSIONAL

WHICH BANK IS MOST PROFESSIONAL FOR SME's⁴

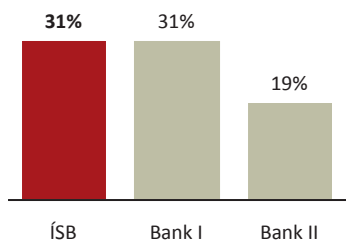


WHICH CORP. BANK IS OVERALL THE MOST PROFESSIONAL?²

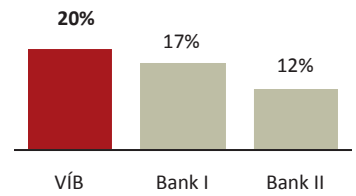


FIRST CHOICE

FIRST CHOICE FOR ASSET BASED FINANCING?⁵



WHO IS YOUR FIRST CHOICE FOR ASSET MANAGEMENT?³



1. Source: Capacent Gallup: Survey for leading bank for individuals is based on 6-month rolling average of monthly tracking done by Capacent in november 2015¹. 2. Source: Capacent Gallup: Large corporate survey among 300 top corporates in Iceland according to Frjáls Verslun, an Icelandic Business Magazine, November 2014². 3. Source: Capacent Gallup: Market position in savings, Mai 2015³. 4. Source: Capacent Gallup: Survey amongst small and medium enterprises according to Capacent in December 2014⁴. 5. Source: Capacent Gallup: Asset based financing: Survey done for Ergo in December 2014⁵. 6. Source: Capacent Gallup: Survey amongst corporate finance in Desember 2014⁶.

First 9 months of 2015

Strong underlying growth and fundamentals

1 Improved earnings from regular operations

- Growth in net interest income of 2% YoY
- Net fee and commission income up 17% YoY
- Over 95% of total operating income coming from net interest income and net fee and commission income
- 13% ROE from regular operations (14% CET1)

2 Steady balance sheet growth and improved asset quality

- Loans to customers grew by 4% YoY well diversified across various lending units
- Ratio of loans more than 90 days past due and impaired was 2.4% (June15: 2.7%)
- Deposits from customers grew by 10% YoY

3 Capital and liquidity buffers remain strong

9M15

5 Investment grade ratings with a stable outlook

- Íslandsbanki is the only Icelandic bank to have investment grade ratings from both S&P and Fitch
- S&P upgraded the Bank to BBB-/A-3 in July and confirmed the rating in November
- Fitch upgraded the Bank to BBB-/F3 in April

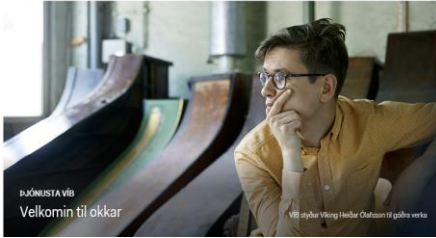
4 Successful foreign currency funding

- NOK 500m 3yr FRN in October at Nibor +260bp
- EUR 100m 2.875% 3yr Fixed rate note in July
- Tap of SEK 150m 4yr FRN at Stibor +310bp in July

Highlights 3F 2015



Íslandsbanki is a sponsor of **Startup Tourism**



VÍB launched a **new website** more accessible for customers

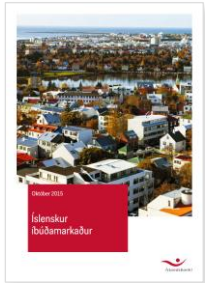


Íslandsbanki granted **Landsvirkjun** a syndicated credit facility

Standard & Poor's affirmed its rating for **Íslandsbanki**



BBB-/A-3 with stable outlook



Íslandsbanki published its **economic forecast** for the next two years



Íslandsbanki is a sponsor of the **Iceland Tourism Investment Conference & Exhibition**

Íslandsbanki published a new report on **the housing market**



Construction of the **PCC silicon plant at Bakki**, near Húsavík, was celebrated, **Íslandsbanki** was PCC's advisor on the financing



The annual **Financial Forum** and other financial education meetings were **well attended**

Bond issues in FX **EUR 100m and NOK 500m SEK 150m**



A new **educational app** for the youngest customers about childrens' mascot Georg was introduced

Overview

Key figures & ratios

		9M15	9M14	3Q15	3Q14	2014
PROFITABILITY	ROE (after tax), %	11.9%	13.8%	12.5%	7.9%	12.8%
	ROE 14% CET1 (regular operations)*	13.0%	13.1%	11.1%	14.4%	12.6%
	Net interest margin (of total assets), %	2.9%	3.1%	3.0%	3.1%	3.0%
	Cost to income ratio, %**	56.3%	56.1%	57.1%	52.0%	57.7%
	After tax profit, ISKm	16,689	18,190	5,899	3,535	22,750
	Earnings from regular operations, ISKm***	11,843	11,411	3,623	4,194	14,846

		30/09/2015	30/06/2015	31/03/2015	31/12/2014
CAPITAL	Total equity, ISKm	192,887	187,009	181,630	185,487
	Tier 1 capital ratio, %	26.9%	25.8%	25.7%	26.5%
	Total capital ratio, %	29.2%	28.3%	28.4%	29.6%
BALANCE SHEET	Total assets, ISKm	1,004,257	976,257	926,389	911,328
	Risk weighted assets, ISKm	713,592	720,552	703,188	695,102
	Loans to customers, ISKm	660,308	653,728	637,877	634,799
	Total deposits, ISKm	605,304	590,695	545,177	555,243
	Total deposit / loan ratio, %	87.0%	83.7%	80.3%	82.9%

*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 loan impairment, fair value gain deriving from changes in classification of assets, costs associated with one-off costs, and net earnings from discontinued operations

II. Income Statement

Income statement

Strong growth in net fee and commission income supported by profit from equities and valuation gains

ISKm	9M15	9M14	Δ	3Q15	3Q14	Δ
Net interest income	21,007	20,636	372	7,457	7,068	389
Net fee and commission income	9,935	8,521	1,414	3,512	2,849	663
Net financial income	2,426	965	1,462	387	83	304
Net foreign exchange (loss) gain	(1,353)	50	(1,403)	(1,072)	352	(1,424)
Other operating income	699	1,613	(914)	158	233	(75)
Total operating income	32,714	31,785	929	10,442	10,585	(143)
Salaries and related expenses	(10,221)	(9,811)	(409)	(3,340)	(2,930)	(410)
Other operating expenses	(7,021)	(6,679)	(341)	(1,970)	(2,301)	331
Administrative expenses	(17,241)	(16,489)	(752)	(5,310)	(5,231)	(79)
Depositors' and Investors Guarantee Fund	(797)	(790)	(6)	(263)	(272)	9
Bank Tax	(2,060)	(1,879)	(182)	(732)	(664)	(68)
Total operating expenses	(20,099)	(19,159)	(940)	(6,305)	(6,167)	(138)
Profit before net impairment	12,615	12,626	(11)	4,137	4,418	(281)
Net loan impairment	7,726	5,804	1,922	3,418	65	3,353
Profit before tax	20,341	18,430	1,912	7,555	4,483	3,072
Income tax	(4,704)	(4,806)	102	(1,784)	(1,255)	(529)
Profit for the period from continuing operations	15,637	13,624	2,013	5,771	3,228	2,543
Profit from discontinued ops. net of income tax	1,052	4,566	(3,514)	128	307	(179)
Profit for the period	16,689	18,190	(1,501)	5,899	3,535	2,364

Earnings from regular operations

Stable recurring revenues from broad spectrum of revenue streams

ISKm	9M15	9M14	Δ	3Q15	3Q14	Δ
Reported after tax profit	16,689	18,190	(1,501)	5,899	3,535	2,364
Net loan impairment before collective impairment	(7,523)	(4,979)	(2,544)	(3,503)	407	(3,910)
Bank tax	2,060	1,879	182	732	664	68
One-off costs*	(389)	(550)	161	(389)	0	(389)
Profit (loss) from discontinued ops	(1,052)	(4,566)	3,514	(128)	(307)	179
Tax impact of adjustments	2,057	1,438	620	1,012	(106)	1,118
Earnings from regular operations**	11,843	11,411	432	3,623	4,194	(571)
ROE 14% CET1 (regular operations)***	13.0%	13.1%		11.1%	14.4%	
ROA from regular operations (after tax)	1.7%	1.7%		1.5%	1.8%	
Net interest margin adj. 14% CET1	2.6%	2.7%		2.7%	2.7%	
Cost / income ratio adj. 14% CET1	60.4%	60.4%		62.0%	56.2%	

- Bank tax is a special tax introduced in Dec 2010. Change in legislation in Q4 2013 raised Bank tax from 0.01285% on total liabilities to 0.376% of total liabilities in excess of 50bn
- 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
- Overall profitability expected to come down in the near term due to high capital buffers and less gains from increases in asset valuations. Profitability from regular operations also to come down in the near term, with a medium to long term target of 12% ROE

*One-off costs include a potential settlement with the competition authorities and write-down of a real estate exposure

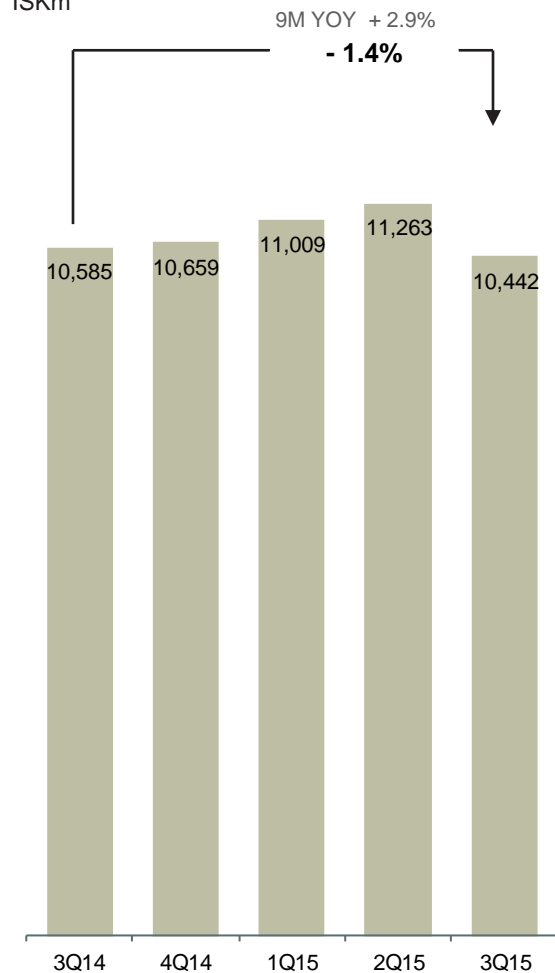
**Earnings from regular operations is defined as earnings excluding one-off items e.g. net loan impairment before collective impairment, fair value gain deriving from changes in accounting treatment, Bank tax, one off costs and net earnings from discontinued operations

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

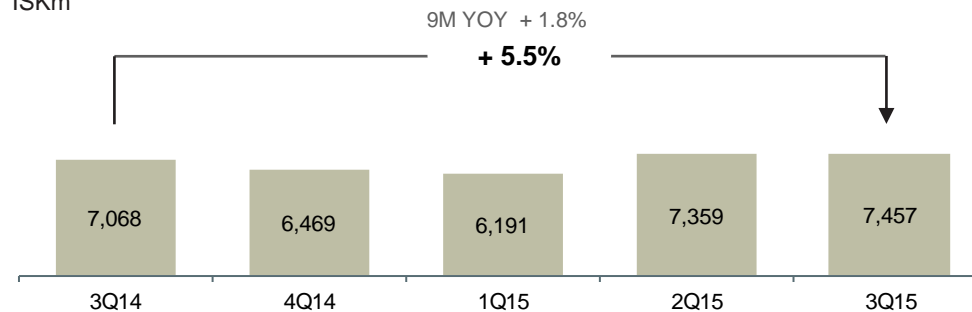
Stable interest income and growth in fee income

95% of operating income from NII and NFCI

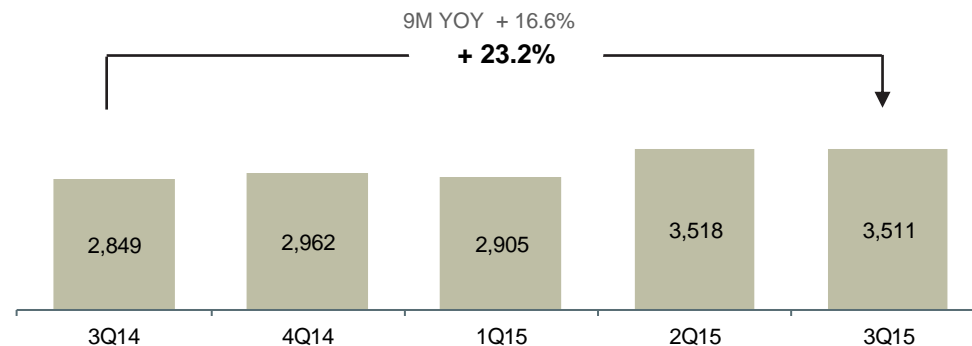
TOTAL OPERATING INCOME
ISKm



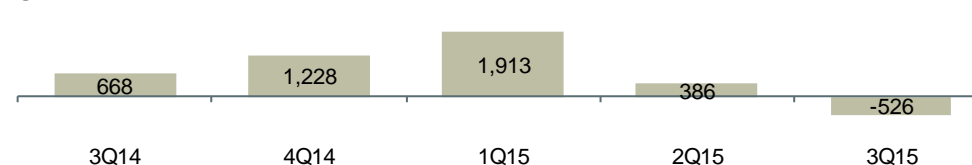
NET INTEREST INCOME (NII)
ISKm



NET FEE AND COMMISSION INCOME (NFCI)
ISKm



OTHER INCOME *)
ISKm



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

Cost awareness

Regular costs decreased 0.2% in real terms

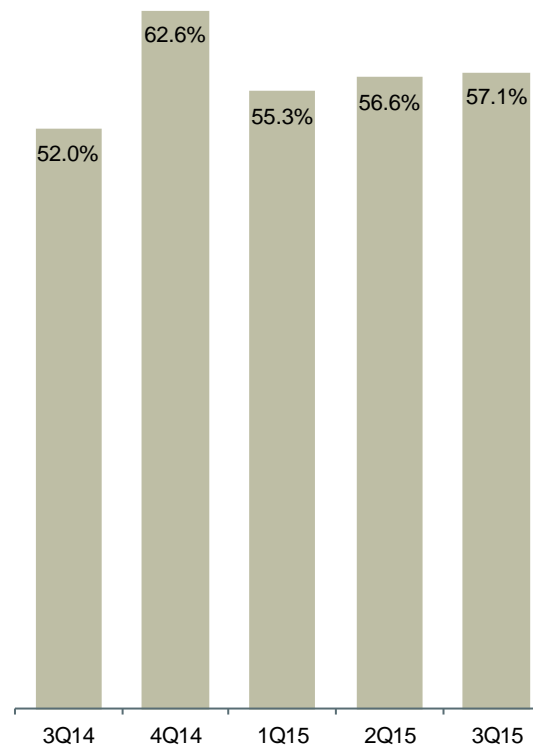
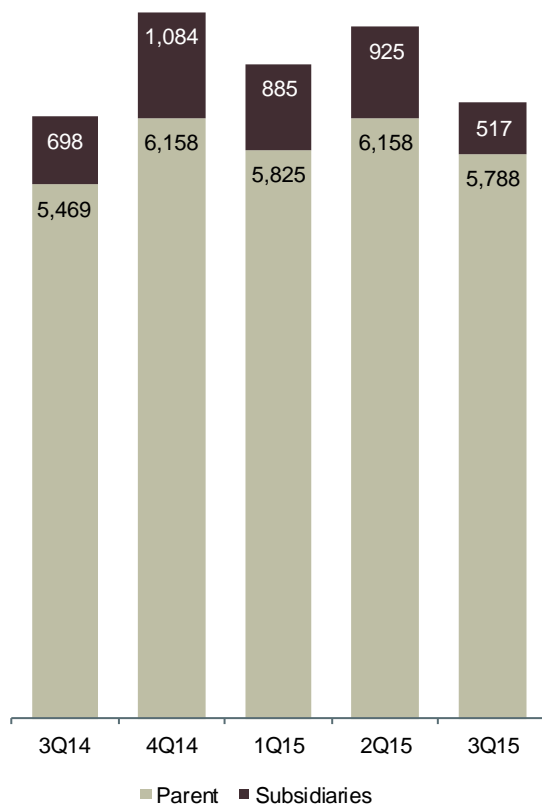
TOTAL OPERATING EXPENSES
 (excluding one-off costs) ISKm

OPERATING COST / INCOME RATIO*
 %

- Wage agreement increased salary cost

- Cost programs proofing effective

- Regular costs for the parent company increased by 1.3% in the first 9 months, but decreased by 0.2% in real terms



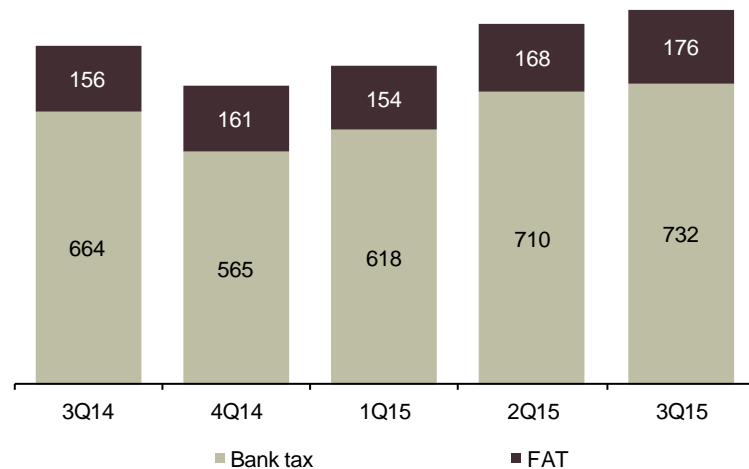
Tax & levies paid to various institutions

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

ISKm	9M15	9M14	Δ	3Q15	3Q14	Δ
Income tax*	4,704	4,806	(102)	1,784	1,255	529
Bank tax**	2,060	1,879	182	732	664	68
Financial activities tax (FAT)***	498	476	22	176	156	20
FME and The Debtors' Ombudsman	242	266	(24)	80	90	(10)
Depositors' and Investors' Guarantee Fund (TIF)	797	790	6	263	272	(9)
Total	8,301	8,216	85	3,035	2,437	598

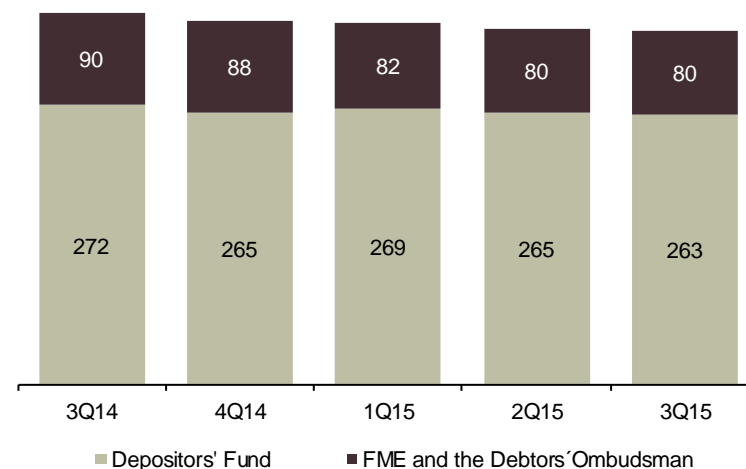
EXTRAORDINARY TAXATION

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

Assets

Consolidated – 30 September 2015

ISKm	30.09.2015	30.06.2015	31.12.2014
Cash and balances with CB	177,652	126,900	103,389
Derivatives	2,199	1,581	1,810
Bonds and debt instruments	80,053	85,274	87,347
Shares and equity instruments	9,004	11,041	10,531
Loans to credit institutions	35,522	52,139	35,072
Loans to customers	660,308	653,728	634,799
Investment in associates	648	612	570
Property and equipment	7,550	7,600	7,402
Intangible assets	1,143	1,058	619
Non-current assets held for sale	13,946	15,763	21,649
Other assets	16,231	20,561	8,140
Total assets	1,004,257	976,257	911,328

Liquid assets

- Liquid assets total ISK 276bn and consist mainly of cash and bonds

Bonds and debt instruments

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

Shares and equity instruments

- Shares in the banking and market making books and shares used for hedging against derivative exposures

Loans to credit institutions

- Forms part of the Bank's liquidity portfolio, largely placed with highly rated banks outside of Iceland

Loans to customers

- Grew by 1.0% in the quarter despite large repayments

Non-current assets held for sale

- Two minor companies divested in the Q2 er (ISK 1.8bn) in addition to a reduction in foreclosed mortgages

Other assets

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

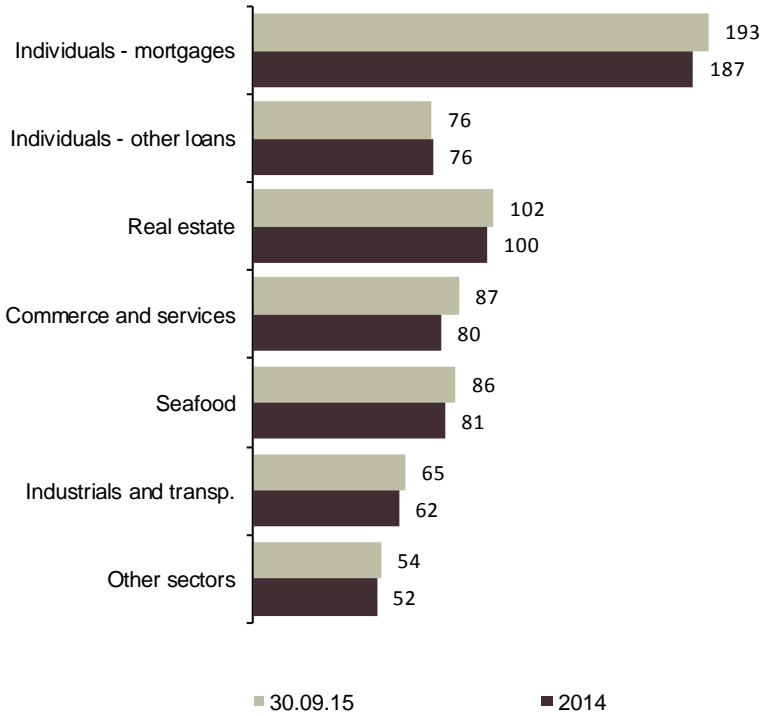
The asset encumbrance ratio

- 10.14% in September 2015.

Steady growth in the loan portfolio

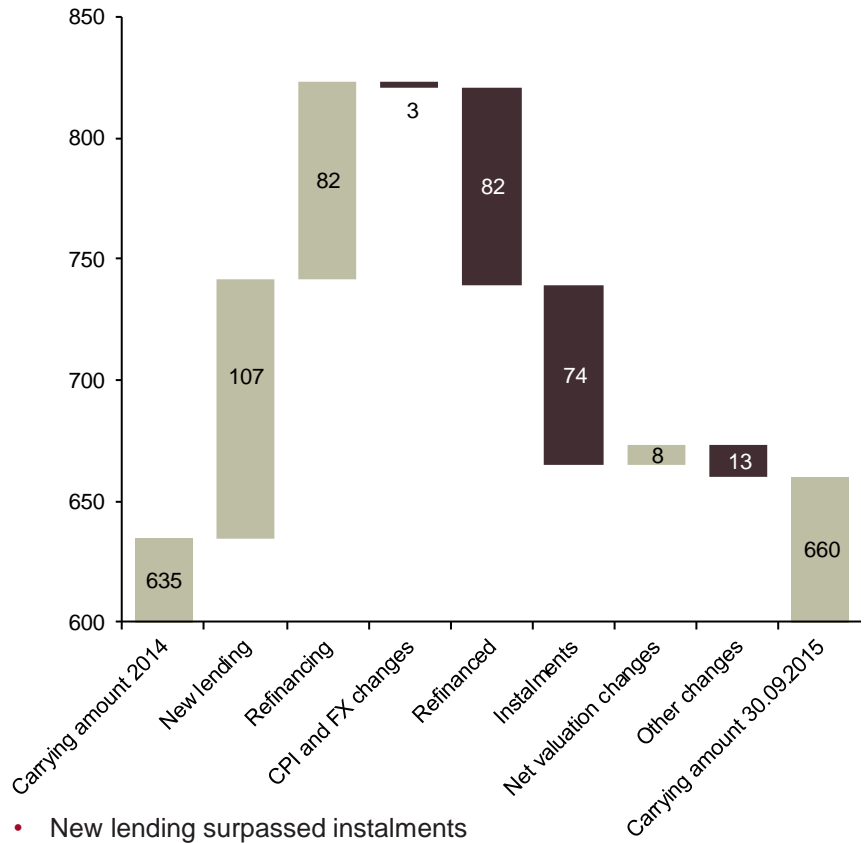
The loan portfolio grew by 4% from year end 2014

LOANS TO CUSTOMERS
ISKbn, by sector, consolidated



- Loans to customers increased by ISK 25bn in the first 9 months of 2015
- Both loans to companies and individuals increase

LOAN BRIDGE
ISKbn, 9M15, consolidated



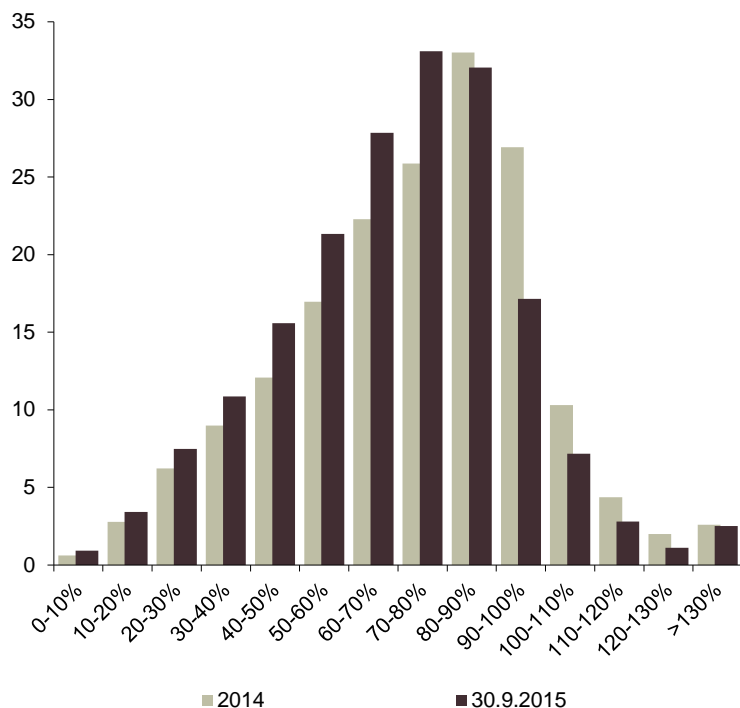
- New lending surpassed instalments
- Net valuation changes were positive ISK 8bn during the period

Healthy loan portfolio

Loan portfolio considered to be performing and restructuring completed

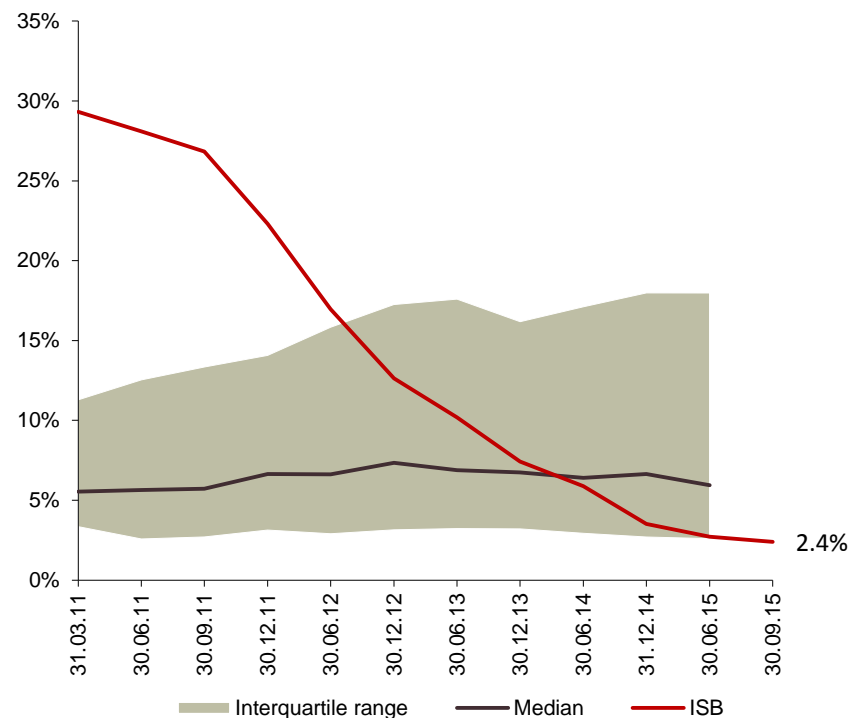
LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS

ISKbn, as of 30.09.2015 – average LTV 69% (74% 31.12.2014)*



NON-PERFORMING LOANS (INTERNATIONAL INDICATOR)

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



- Average LTV went from 74% to 69% mainly due to update in tax value but also because of the Government CPI-linked mortgage relief scheme
- The mortgage portfolio decreased by ISK 7.6bn due to the Government CPI-linked mortgage relief scheme
- The ratio measuring non-performing loans in the whole portfolio continues to decrease from 3.5% YE14 to 2.4%

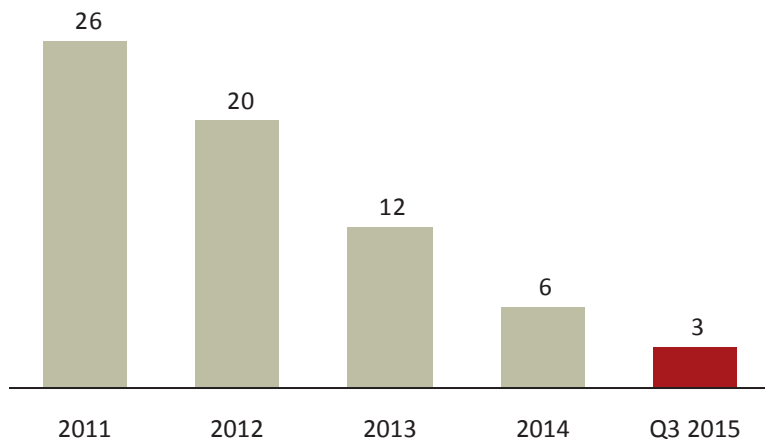
• The European Systemic Risk Board uses a solvency indicator that is based on impaired loans and loans 90 days past due. The graph shows the interquartile range* and the median of over 50 European banks compared to ISB.
 • Please note that the average LTV can be calculated in many different ways and 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-core Assets

The Bank continues to divest assets

EQUITY HOLDINGS IN NON RELATED BUSINESS

No. of Equities



EQUITY HOLDINGS IN NON RELATED BUSINESS

30.9.2015

Name	Business	Country	Expected Sale date
IG Invest	Aircraft holding	Iceland	Q4 2015 or later
Frumherji	Inspections, testing and legal metrology	Iceland	Q1 2016
Atorka Group hf.	Holding Company	Iceland /UK	Q1 2016

Assets held for sale, ISKm

Assets of disposal groups, held for sale	8,146
Residential property	4,598
Land and commercial real estate	1,120
Industrial equipment and vehicles	108
Total	15,763

RESIDENTIAL PROPERTY

No. of properties



IV. Liabilities, Liquidity & Capitalisation

Liabilities

Consolidated - 30 September 2015

ISKm	30.09.2015	30.06.2015	31.12.2014
Derivatives and short positions	8,472	5,992	3,963
Deposits from CB and credit inst.	24,208	24,017	25,796
Deposits from customers	581,095	566,678	529,447
Debt issued and other borrowings	120,957	107,421	96,889
Subordinated loans	19,717	20,336	21,306
Tax liabilities	9,090	8,627	8,388
Non-current liabilities held for sale	2,965	3,000	2,790
Other liabilities	44,866	53,177	37,262
Total liabilities	811,370	789,248	725,841
Total equity	192,887	187,009	185,487
Total liabilities and equity	1,004,257	976,257	911,328

Deposits

- Customer deposits increased by ISK 14.4 bn in Q3, largely attributable to institutional investors
- Term deposits now 38% of total customer deposits

Debt issued and other borrowings

- Includes covered bonds, commercial paper and bonds issued to the Central Bank secured on a pool of mortgages
 - Issued ISK 5.5bn of CPI-linked covered bonds in Q3
 - Total issued covered bonds since December 2011 now amount to ISK 52.4bn

Subordinated loans

- EUR 138m denominated Tier 2 issue maturing in 2019. Only 85% of the amounts eligible as regulatory capital

Other liabilities

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

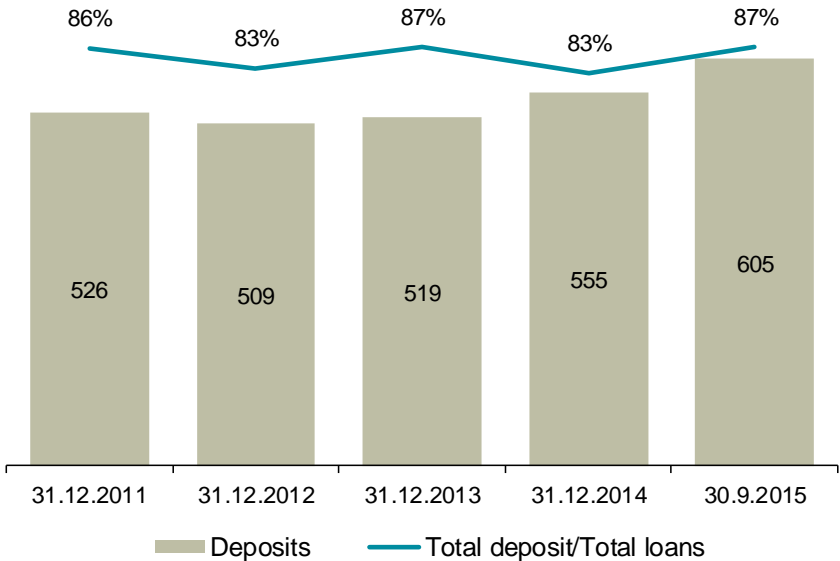
Equity

- Total equity increases by 3.1%, since end of June, in line with net profit

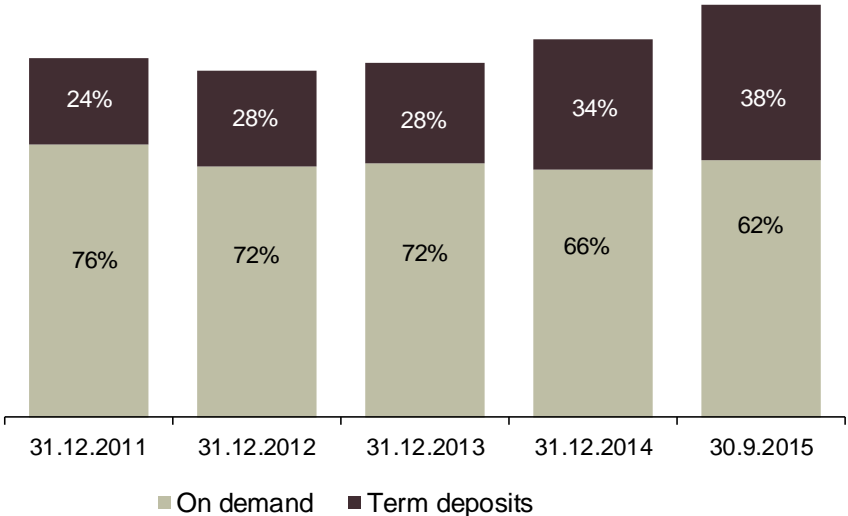
Deposits remain a stable source of funding

Deposits have increased somewhat during 2015

DEPOSIT DEVELOPMENT AND DEPOSIT RATIO
ISK bn, consolidated



DEPOSITS FROM CUSTOMERS
%, consolidated



Stable core 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 the domestic market
- Core deposits remain stable while the increase in deposits is mainly due to inflow from institutional investors

Increased focus on term deposits

- Focus on notice accounts and fixed interest accounts
- Customer term deposits have been steadily increasing
- Ratio of term deposits might lower when agreements regarding the “stability contribution” have been executed

Foreign currency funding

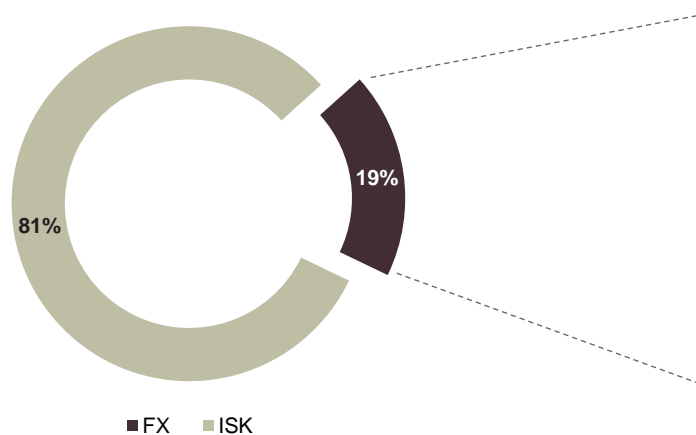
Successful issues in SEK, EUR and NOK - Investment grade rating from both Fitch and S&P

International funding

- Íslandsbanki investment grade (stable outlook)
 - S&P – BBB-/A-3
 - Fitch – BBB-/F-3
- Terms continue to improve with successive SEK transactions
- In July, the Bank issued a EUR 100m 2.875% Fixed Rate Note due 2018; its second such transaction
- In October, Íslandsbanki issued a three year NOK 500m floating rate note at Nibor +260 basis points

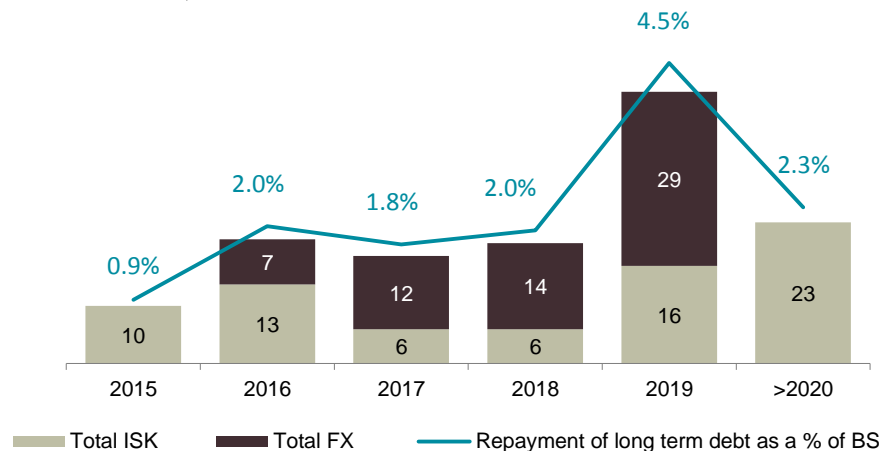
LOANS TO CUSTOMERS

% by currency as of 30.09.2015



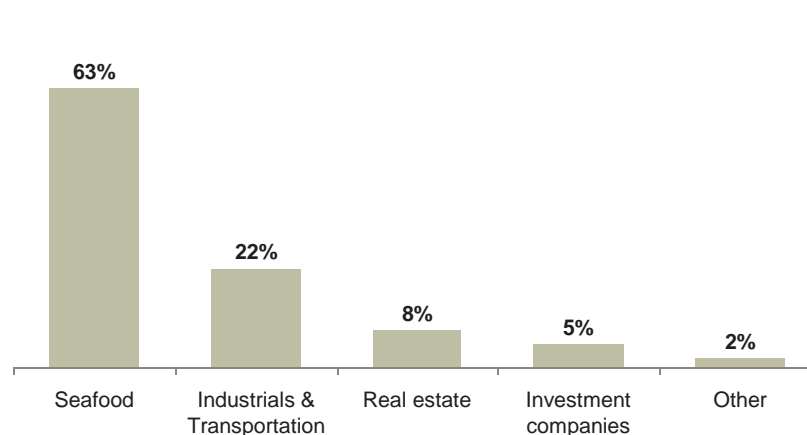
MATURITY PROFILE OF LONG-TERM DEBT

30.09.2015, ISKbn



FX LOANS TO CUSTOMERS

% by sector as of 30.09.2015



Sound management of liquidity

Liquid assets of ISK 276bn exceed internal and external requirements

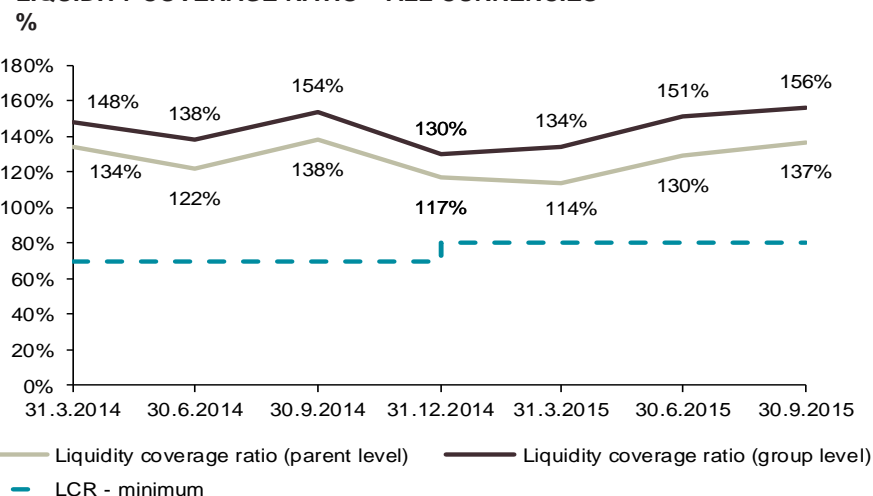
LIQUIDITY BACK-UP / DEPOSIT COVERAGE RATIO

30.09.15, consolidated, ISKbn

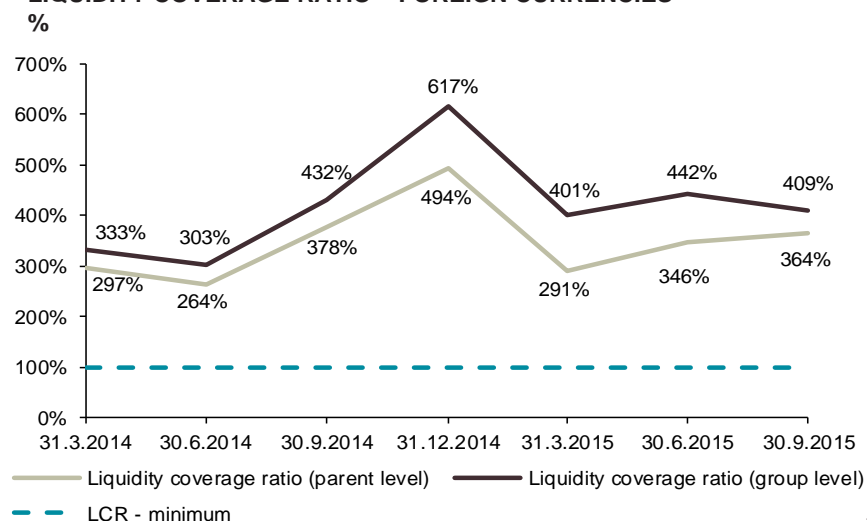
Asset type	ISK	FX	Total
Cash and balances with CB	176	1	178
Balances with credit institutions	1	33	34
Repo eligible bonds	23	-	23
Foreign government bonds	-	41	41
Total	201	75	276
<hr/>			
Total deposits, consolidated	501	104	605
Liquid assets to total deposits	40%	72%	46%

- All liquidity measures are above regulatory requirements
- FX liquid assets:
 - FX Government bonds have a minimum requirement of AA rating
 - FX cash placed with highly rated correspondent banks
- Liquidity ratios expected to decrease somewhat with deposit outflow in connection to the composition agreements of Glitnir and CBI auctions for offshore ISK, while still remaining well above the regulatory minimum
- The currency imbalance is currently 10.8% of regulatory capital as compared to the regulatory maximum of 15%

LIQUIDITY COVERAGE RATIO – ALL CURRENCIES



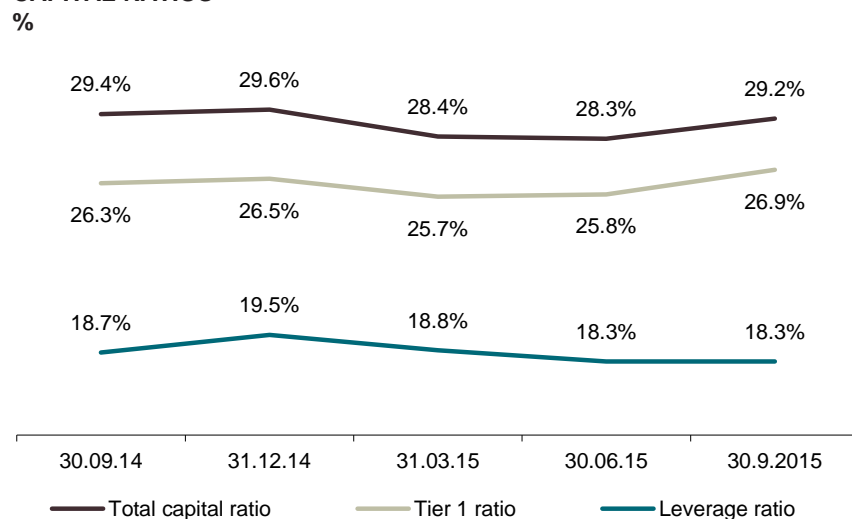
LIQUIDITY COVERAGE RATIO – FOREIGN CURRENCIES



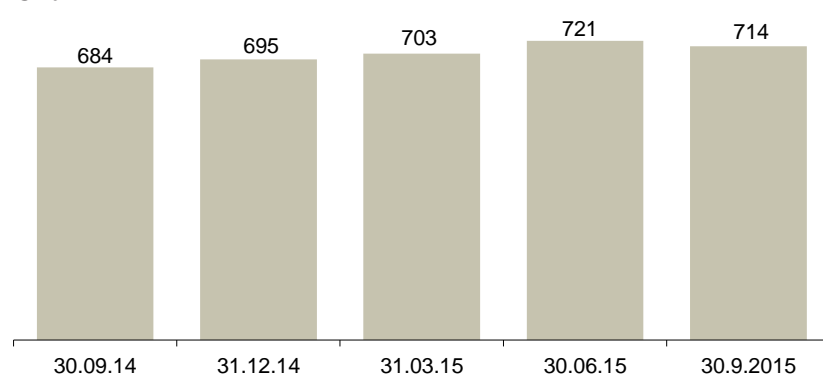
Sound capital position

Revised capital target based on more conservative regulatory requirement

CAPITAL RATIOS



RWA



Capital ratios

- Total capital base was ISK 208bn at 30.09.2015 compared to ISK 204bn at 30.06.2015
 - The capital base increase, due to retained earnings, is partly offset by the reduction of the Tier 2 subordinated loan where only 85% is eligible as a part of the capital base
- Leverage ratio was at 18.3% at the end of the period
- Ratio of RWA to total assets around 71%

Risk weighted assets (RWA)

- Risk weighted assets decrease between quarters mainly due to a decrease in non-current assets held for sale and due to changes in the liquidity portfolio

Capital target

- New minimum total capital ratio target of 23% for the near to medium term
 - More conservative requirements set by the FME
 - Bank's view that's important to retain a sizable strategic buffer due to lifting of capital controls
 - More clarity on medium to long term targets expected in the next 12-18 months

Dividends

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

Agreement with Íslandsbanki's owner

Íslandsbanki's part in facilitating liberalisation of capital controls

Change of Ownership

- Icelandic Government to become 100% owner of the Bank
- Government expected to divest the shares in coming years

Equity reduction

- Capital levels will remain intact as part of the process

FX Deposits

- Glitnir's deposits in FX to be termed out

ISK Deposits

- Repayment of Glitnir's ISK deposits subject to an agreement with the CBI

5 key messages

A stable performance, with healthy earnings from regular operations

1

Strong growth of 17% in NFCI

2

Real cost reduction of 0.2%

3

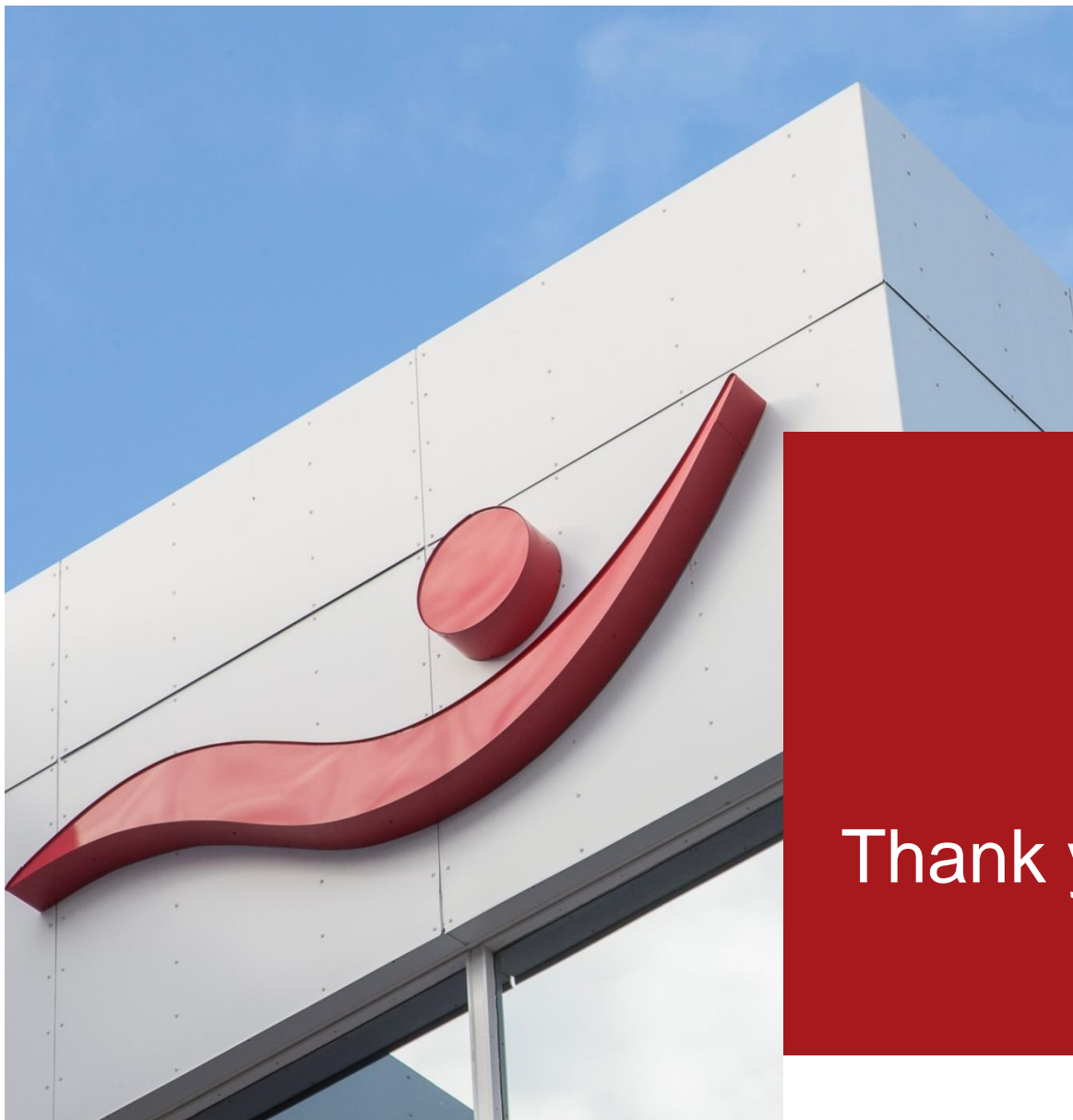
Icelandic Government to become 100% owner of the Bank

4

Successful issuances in both FX and ISK

5

BBB- rating from S&P and Fitch



Thank you