22 August 2016

1H2016
Financial Results

Forward Looking Statements

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I. Overview

This is Íslandsbanki

A leader in financial services in Iceland, Íslandsbanki is a universal bank with a proven strategy

RECOGNITION

The Banker – Bank of the Year 2014 ICELAND

EUROMONEY – Awards for Excellence 2013-2016

Íslenska ánægjuvogin – 2013, 2014, 2015

Driven by the vision to be #1 for service, our business model is based on four traditional business divisions that together with the Relationship banking division drive how we build relationships with our customers, simplify our product offering and unify our objectives with society at large – or as we like to say it - how we multiply, simplify and unify.

KEY FIGURES 1H2016

ROE (Regular operations)	11.9%
Cost / Income	56.0%
Capital Ratio	28.9%
Total Assets	1,030bn

EMPLOYEES

- 955
- Job 92% satisfaction among Íslandsbanki's employees
- 5 training courses a year per employee

MARKET SHARE

- 31%
- 33% market share in SMEs
- market share in 33% large companies

WAYS TO BANK

- 50,000 APP USERS
- 1 Self-service branch
- 46 ATMs
- 17 Branches
- users 100,000 online banking

CREDIT RATINGS

FitchRatings	STANDARD &POOR'S
BBB-/F3	BBB-/A-3
Stable outlook	Positive outlook

RELATIONSHIP BANKING MULTIPLY – SIMPLIFY – UNIFY

Retail

- +31% market share
- Most efficient branch network
- Leading in mobile payments and digital solutions
- Kreditkort exclusive issuer of AMEX

Markets

- 20-45% market share
- Leader in investment banking and corporate finance
- Instrumental in rebuilding domestic securities and derivatives markets
- Market analysis, economic forecasts and daily newsletter

Corporate

- +33% market share
- Leader in servicing large companies in all major sectors in Iceland, and international sector expertise in selected industries
- Ergo, market leader in asset financing with 50% market share

Wealth – VÍB

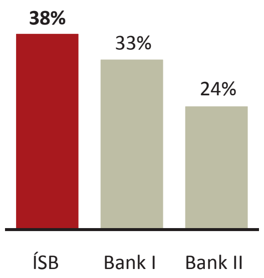
- 20-40% market share
- Leader in wealth management and private banking
- Private equity funds, Eldey TLH, FAST-1 and Akur
- Ambitious educational activities

Leading customer perception in key segments

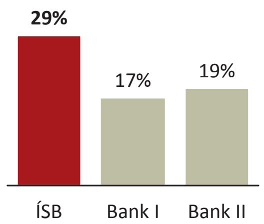
Opportunity to transform positive market perception to market share

CONSIDERED THE LEADING BANK FOR:

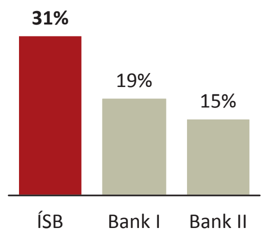
INDIVIDUALS[1]



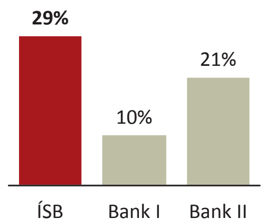
SMEs[4]



LARGE COMPANIES[2]

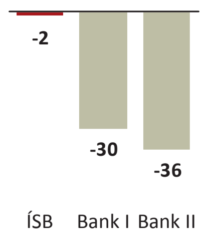


CORPORATE FINANCE[6]

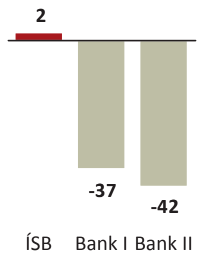


#1 for SERVICE

NPS SMEs

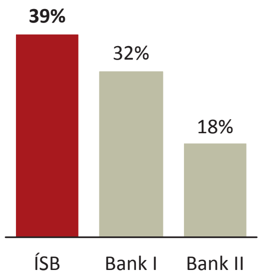


NPS LARGE COMPANIES

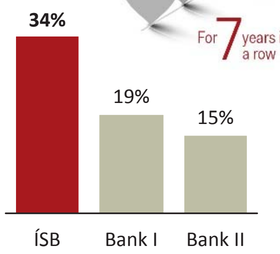


MOST PROFESSIONAL

SMEs[4]

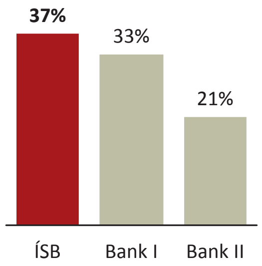


LARGE COMPANIES

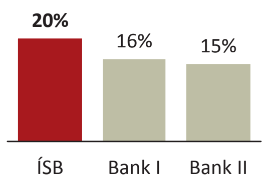


FIRST CHOICE FOR:

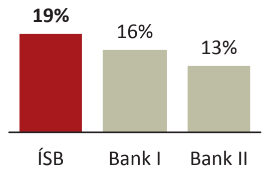
ASSET FINANCING[5]



ASSET MANAGEMENT[3]



MUTUAL FUNDS INVESTMENT[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 March 2016. 2. Source: Capacent Gallup: Large corporate survey among 300 top corporates in Iceland according to Frjáls Verslun, an Icelandic Business Magazine, December 2015. 3. Source: Capacent Gallup : Market position in savings, May 2016. 4. Source: Capacent Gallup: Survey amongst small and medium enterprises according to Capacent in December 2015. 5. Source: Capacent Gallup: Asset financing: Survey done for Ergo in December 2015. 6. Source: Capacent Gallup: Survey amongst corporate finance in December 2015.

Eventful first half 2016

Íslandsbanki

#1

The best Bank in Iceland according to Euromoney
4th year in a row

Ranked the #1bank in the **Customer Satisfaction index 2013, 2014 & 2015**

Stable Outlook
FitchRatings
BBB-/F3

STANDARD &POOR'S
BBB-/A-3
Positive Outlook

USD 35m
private placement

EUR 75m tap → now
a **EUR 300m** benchmark

Disposal of equities in non-related domestic business completed with the sale of Frumherji

New Board of Directors

MULTIPLY

Mortgages
Free borrowing fees for first time buyers

Online credit assessments and digital signatures

Íslandsbanki´s APP
Ongoing development and increased usage

tix.is

Ongoing development
Kass and Tix* collaboration

The Central Bank foreign currency auction
ÍSB intermediary for 41% of accepted offers

SIMPLIFY

Four locations to be combined in our 4 → 1
New headquarters
Activity based working

A centralized core banking system for deposits and payment system

New branch at North tower 3 → 1
(A merger of three branches, in the greater Reykjavik area, planned 2016)

2 → 1 **New branch at Sudurlandsbraut**
(A merger of two branches planned early 2017)

UNIFY

ÍSB Research macroeconomic forecast
presented

Received The Knowledge Award from The Iceland Association of Economist and Business Graduates

Reykjavík Marathon
over 15,000 participants & charity contribution in excess of ISK 100m

3 Industry reports issued

Education
72 events
~3,550 guests
~11,600 online views

Recognition for good corporate governance renewed for 2015-2016

100 employees
participated in the voluntary program „We offer a helping hand"

* Icelandic webpage that handles ticket sales for all kinds of events

Key takeaways in 1H2016

Íslandsbanki

Solid recurring revenues and resilient ROE based on very high capital levels

1. MACRO

- Positive and timely step towards capital liberalisation finally introduced
- As of the beginning of 2017, individuals and firms are allowed to invest up to ISK 100m abroad

2. COSTS

- Cost income ratio of 56.0%
- One-off cost due to Kirkjusandur building
- Majority of salary increase due to contractual wage agreements

3. ROE IN LINE WITH EXPECTATIONS

- Profit of 13.0bn and ROE of 12.9%
- Regular earnings of ISK 8.0bn and ROE of 11.9% on CET1 14%
- Rising NIM at 3.1% with NII up 17% YoY, due to high interest rate environment and rising equity levels
- Sale of Borgun´s share in Visa Europe recognized as ISK 6.2bn profit

4. ROBUST BALANCE SHEET

- Loans to customers grew 5% in 1H16 on the back of ISK 91bn in new lending (3% in 2Q16)
- NPL was 2.5%, up from 2.1% at Mar16 due to international exposures
- Low asset encumbrance ratio of 11.6%

5. HIGH QUALITY CAPITAL AND SOLID LIQUIDITY POSITION

- Well prepared for removal of capital controls, liquidity, capital and leverage ratios are solid and compare well with international peers
- Total capital ratio of 28.9%, CET1 of 27.1%, and leverage ratio of 18.3%
- Group´s liquidity coverage ratio (LCR) was 173% and NSFR 117%
- Positive outlook from S&P BBB-/A-3 and Fitch BBB-/F3 affirmed with stable outlook in April

Overview

Key figures & ratios

		1H16	1H15	2Q16	2Q15	2015
PROFITABILITY	ROE 14% CET1 (regular operations)*	**11.9%**	13.9%	**13.9%**	12.8%	13.2%
	ROE (after tax), %	**12.9%**	11.7%	**19.1%**	11.7%	10.8%
	Net interest margin (of total assets), %	**3.1%**	2.9%	**3.3%**	3.1%	2.9%
	Cost to income ratio, %**	**56.0%**	56.0%	**53.3%**	56.6%	56.2%
	After tax profit, ISKm	**13,017**	10,790	**9,507**	5,394	20,578
	Earnings from regular operations, ISKm***	**8,017**	8,219	**4,508**	3,865	16,199

		30.6.2016	31.3.2016	31.12.2015	31.12.2014
CAPITAL	Total equity, ISKm	**198,837**	205,627	202,227	185,487
	Tier 1 capital ratio, %	**27.1%**	28.1%	28.3%	26.5%
	Total capital ratio, %	**28.9%**	29.7%	30.1%	29.6%
	Leverage ratio	**18.3%**	18.7%	18.1%	19.5%
BALANCE SHEET	Total assets, ISKm	**1,029,617**	1,020,775	1,045,769	911,328
	Risk weighted assets, ISKm	**724,713**	716,592	699,693	695,102
	Loans to customers, ISKm	**698,669**	677,079	665,711	634,799
	Total loans, ISKm	**731,757**	704,890	701,245	669,871
	Total deposits, ISKm	**580,853**	572,768	618,876	555,243

*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

Íslandsbanki

Income statement

Stable growth in NII and NFCI, but one off items on both income and cost side have significant impact

ISKm	1H16	1H15	Δ	2Q16	2Q15	Δ
Net interest income	**15,895**	13,550	2,345	**8,356**	7,359	998
Net fee and commission income	**6,659**	6,423	236	**3,515**	3,518	(3)
Net financial income	**6,666**	2,039	4,628	**6,062**	275	5,788
Net foreign exchange gain (loss)	**317**	(281)	597	**305**	(141)	446
Other operating income	**624**	541	83	**473**	252	221
Total operating income	**30,161**	22,272	7,888	**18,711**	11,263	7,448
			-			-
Salaries and related expenses	**(7,636)**	(6,881)	(755)	**(3,697)**	(3,421)	(277)
Other operating expenses	**(6,480)**	(5,051)	(1,429)	**(3,902)**	(2,688)	(1,214)
Administrative expenses	**(14,116)**	(11,932)	(2,184)	**(7,599)**	(6,109)	(1,490)
Depositors´and Investors Guarantee Fund	**(528)**	(534)	6	**(267)**	(265)	(2)
Bank Tax	**(1,407)**	(1,328)	(79)	**(716)**	(710)	(6)
Total operating expenses	**(16,051)**	(13,794)	(2,256)	**(8,582)**	(7,084)	(1,498)
			-			-
Profit before net loan impairment	**14,110**	8,478	5,632	**10,129**	4,179	5,950
			-			-
Net loan impairment	**369**	4,308	(3,939)	**689**	1,977	(1,288)
Profit before tax	**14,479**	12,786	1,693	**10,818**	6,156	4,663
			-			-
Income tax expense	**(2,586)**	(2,920)	334	**(1,720)**	(1,524)	(196)
Profit for the period from continuing operations	**11,893**	9,866	2,027	**9,098**	4,632	4,466
			-			-
Profit from discontinued ops. net of income tax	**1,124**	924	200	**409**	762	(353)
Profit for the period	**13,017**	10,790	2,226	**9,507**	5,394	4,114

Stable recurring revenues

- Net interest income benefited from a higher interest rate environment, higher equity level and greater loan portfolio
- The net interest margin was 3.1% (2Q16: 3.3%), compared to 2.9% in 1H15 (2Q15: 3.1%), and is expected to remain around 3.0% in the near to medium term
- Net fee and commission income rose 3.7% year-on year due to fee-generating subsidiaries and increased customer activity within the parent company
- Net financial income´s exceptional revenue due to sale of Borgun´s share in Visa Europe totalling ISK 6.2bn

Cost awareness

- Cost income ratio was 56.0%* in 1H16
- In nominal terms, administrative expenses** rose by ISK 964m YoY or 8.1%
- Total salaries and related expenses grew to ISK 7.6bn (2Q16: ISK 3.7bn), a 11% increase from 1H15, primarily due to collective wage agreements (4Q15 and 1Q16)
- According to Statistics Iceland, the wage index has risen by 12.5% over the same period
- One off loss of 1.2bn due to building damages at Kirkjusandur headquarters

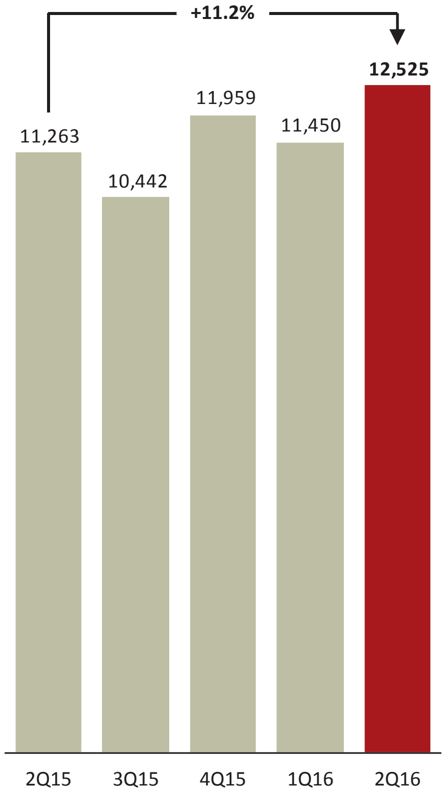
*Excluding Bank tax and one-off cost items
** Excluding one-off extraordinary expenses

Operating income

Growth in core earnings, NII and NFCI continue to generate majority of total income

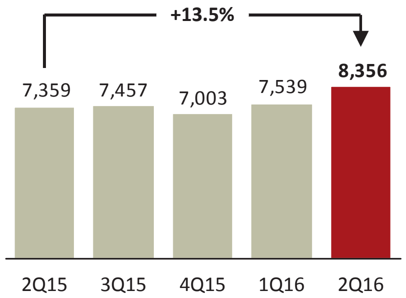
INCOME GROWTH

TOTAL OPERATING INCOME
Excluding one-off income (ISKm)

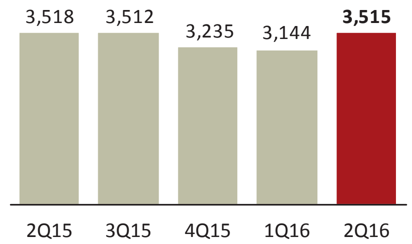


STRONG RECURRING REVENUES

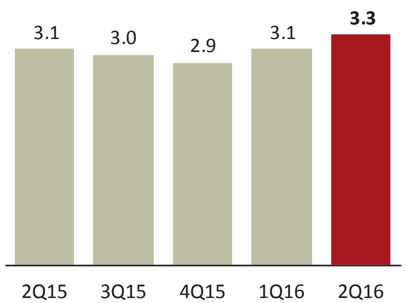
NET INTEREST INCOME (NII)
(ISKm)



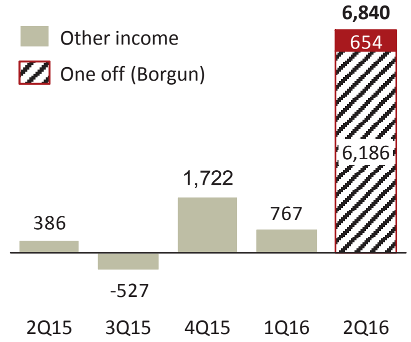
NET FEE AND COMMISSION INCOME
(ISKm)



NET INTEREST MARGIN (NIM)
(%)



OTHER INCOME*
(ISKm)



* Diagonal column represents the sale of Borgun´s share in Visa Europe which was recognized for ISK 6bn and is considered one-off

Earnings from regular operations

Excludes one off items and ROE and adjusted to normalised CET1 of 14%

HIGHLIGHTS

Borgun

- In 2015, ÍSB's subsidiary Borgun´s shares in Visa Europe were classified as available for sale financial asset and remeasured to fair value with changes in other comprehensive income to ISK 5,445m
- In 2016, the increase of ISK 740m was recognized in other comprehensive income
- Total increase in value in 2015 and 2016, ISK 6.2m was reclassified to profit and loss in the first half of 2016
- Part of the proceed of the sale was paid with preferred shares in Visa Inc. and deferred cash payment

Kirkjusandur building

- A one off loss of ISK 1.2bn due to damages in the Kirkjusandur building

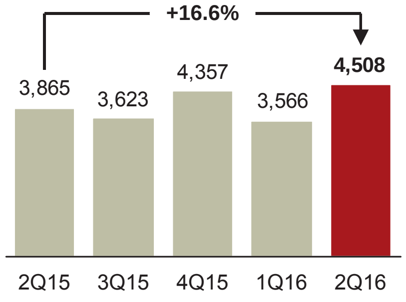
Net loan impairments

- As of 2016, the earnings reported from regular operations will include all net loan impairments as there should be a lot less impact from those revaluations going forward

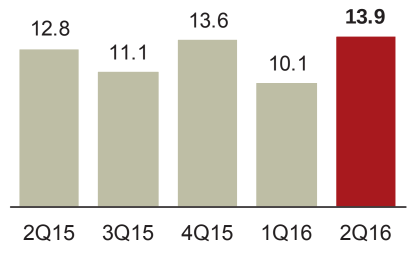
RESILIENT ROE FROM REGULAR OPERATIONS

ISKm	1H16	1H15	Δ	2Q16	2Q15	Δ
Reported after tax profit	**13,017**	10,790	2,227	**9,507**	5,394	4,114
One-off revenue	**(6,186)**	0	(6,186)	**(6,186)**	0	(6,186)
One-off costs*	**1,220**	0	1,220	**1,189**	0	1,189
Bank tax	**1,407**	1,328	79	**716**	710	6
Net loan impairment before collective impairment**	**0**	(4,020)	4,020	**0**	(1,994)	1,994
Profit (loss) from discontinued ops	**(1,124)**	(925)	(199)	**(409)**	(762)	353
Tax impact of adjustments	**(317)**	1,045	(1,362)	**(309)**	518	(828)
Earnings from regular operations***	**8,017**	8,219	(201)	**4,508**	3,865	643
ROE 14% CET1 (regular operations)****	***11.9%***	*13.9%*		***13.9%***	*12.8%*	
ROA from regular operations (after tax)	***1.6%***	*1.8%*		***1.8%***	*1.6%*	
Net interest margin adj. 14% CET1	***2.7%***	*2.6%*		***2.9%***	*2.8%*	
Cost / income ratio adj. 14% CET1	***61.3%***	*59.6%*		***68.3%***	*60.3%*	

EARNINGS FROM REG.OPERATIONS
(ISKm)



ROE REG. OPERATIONS CET1 14%
(%)



* Please note that the line item net loan impairment 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 the impact of settlement with the competition authorities, repayment from debt ombudsman and transfer of summer houses to the employee association,

*** 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

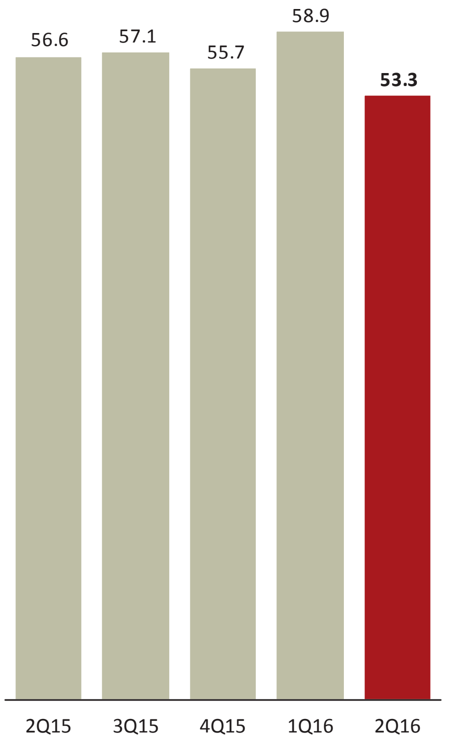
Administrative expenses

Íslandsbanki

Costs rising due to one-off items and salary expenses increase due to contractual wage agreements

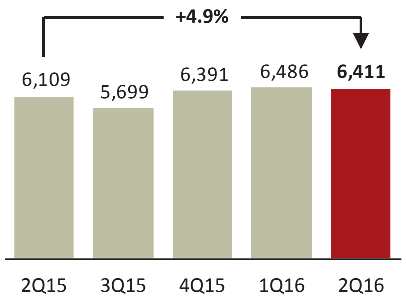
EFFICIENCY

COST INCOME RATIO*
(%)

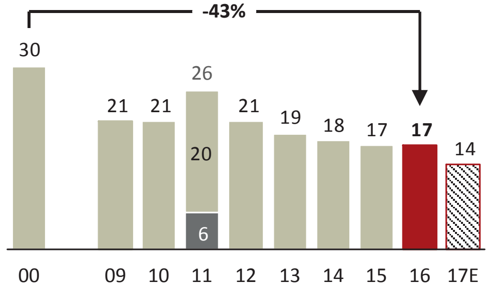


COST STRUCTURE IMPROVING OVERALL

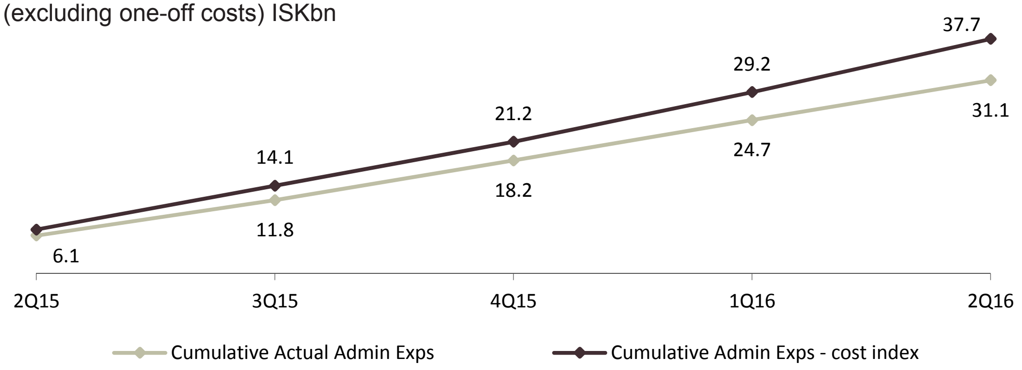
ADMINISTRATIVE EXPENSES**
(ISKm)



BRANCH NETWORK
(#, Byr branches due to merger in dark gray)



ADMINISTRATIVE EXPENCE vs COST INDEX***
(excluding one-off costs) ISKbn



* The cost-to-income ratio for the period was 56.0%.Cost to income-ratio excludes Bank tax and one-off cost items.

** Excluding write down of goodwill and bank tax

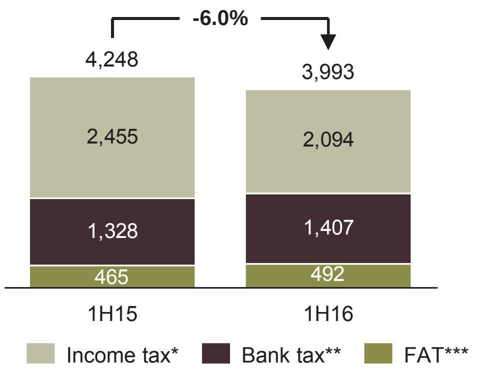
*** Administrative expense - cost index is calculated as 40% inflation and 60% salary index excluding one-off items.

Tax & levies paid to various institutions

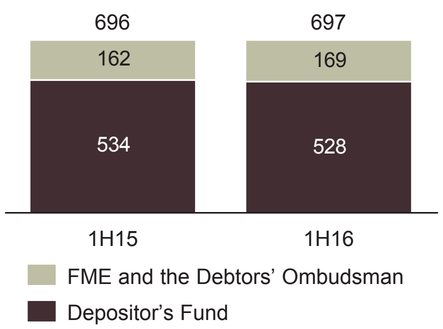
Total tax footprint represents a significant contribution to society or over ISK 13bn

TAX & LEVIES

INCOME TAX & SPECIAL TAXATION
ISKm



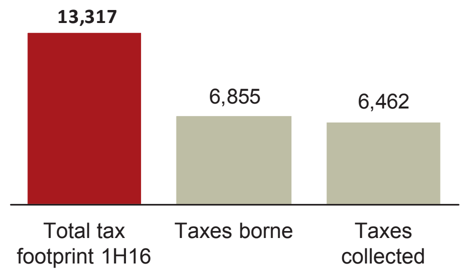
CONTRIBUTION TO TIF, FME & OMBUDSMAN
ISKm



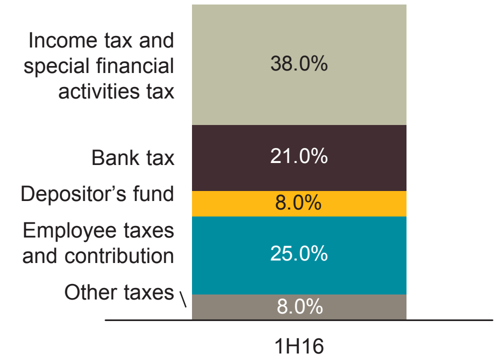
ÍSLANDSBANKI'S GLOBAL TAX FOOTPRINT

- Íslandsbanki's global tax footprint is more than just corporate income tax, it consists of all taxes borne and all taxes collected
- Taxes borne are the company's cost that will have impact on the Group's results, e.g. corporate income tax payments, property taxes, etc.
- Taxes collected are not borne by the company, other than the cost of administrating the collection, e.g. VAT, payroll taxes, etc.

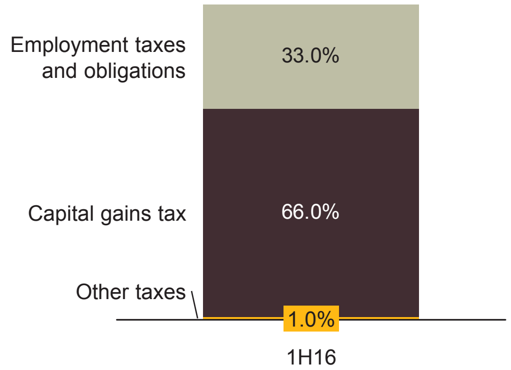
GLOBAL TAX FOOTPRINT
(ISKm)



TAXES BORNE
(%)



TAXES COLLECTED
(%)



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

III. Assets

Assets

5% loan growth since year-end 2015

ISKm	30.06.2016	31.03.2016	31.12.2015
Cash and balances with CB	**182,177**	**182,453**	216,760
Bonds and debt instruments	**71,756**	**79,873**	78,606
Shares and equity instruments	**12,692**	**18,664**	18,320
Derivatives	**2,036**	**2,759**	1,981
Loans to credit institutions	**33,088**	**27,811**	35,534
Loans to customers	**698,669**	**677,079**	665,711
Investment in associates	**764**	**1,009**	716
Property and equipment	**5,884**	**7,289**	7,344
Intangible assets	**1,700**	**1,471**	1,331
Other assets	**11,268**	**11,177**	6,674
Non-current assets held for sale	**9,583**	**11,190**	12,792
Total assets	**1,029,617**	**1,020,775**	1,045,769

Liquid assets

- The three line items, Cash and balances with CB, Bonds and debt instruments, and Loans to credit institutions, amount to about ISK 287bn, whereby ISK 285bn are considered to be liquid assets

Loans to customers

- New lending amounted to ISK 91bn since year-end 2015
- The loan book has grown by 5.0% since year-end, despite 53bn loans being fully repaid (3% over the quarter)

Other assets

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

Non-current assets held for sale

- Reduction through sale of assets within non-core subsidiaries and foreclosed assets

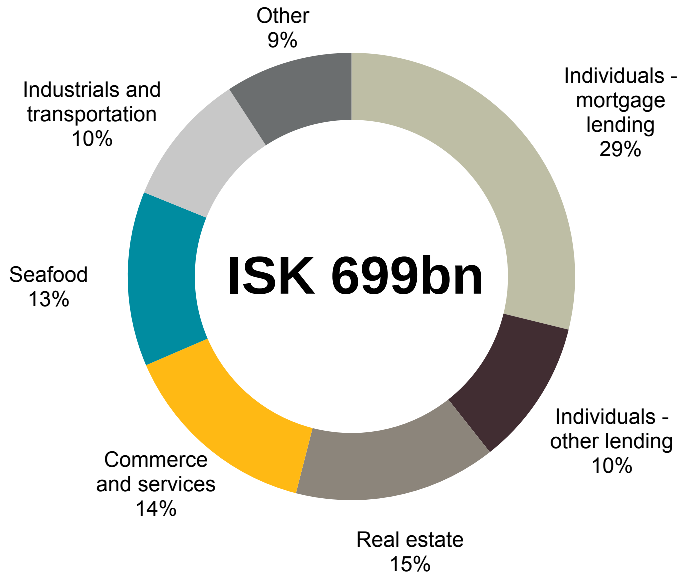
Asset encumbrance

- The asset encumbrance ratio was 11.6% was at end of June 2016

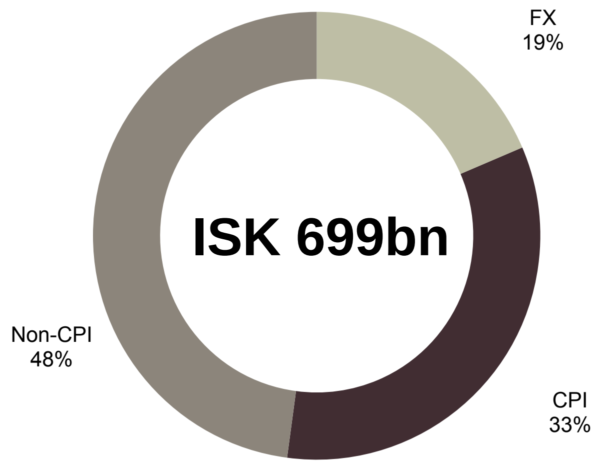
Diversified loan portfolio

The loan portfolio grew by 3% in the second quarter 2016 and a total of 5% since year-end

LOANS TO CUSTOMERS
ISKbn, by sector, consolidated



LOANS TO CUSTOMERS
ISKbn, by currency, consolidated

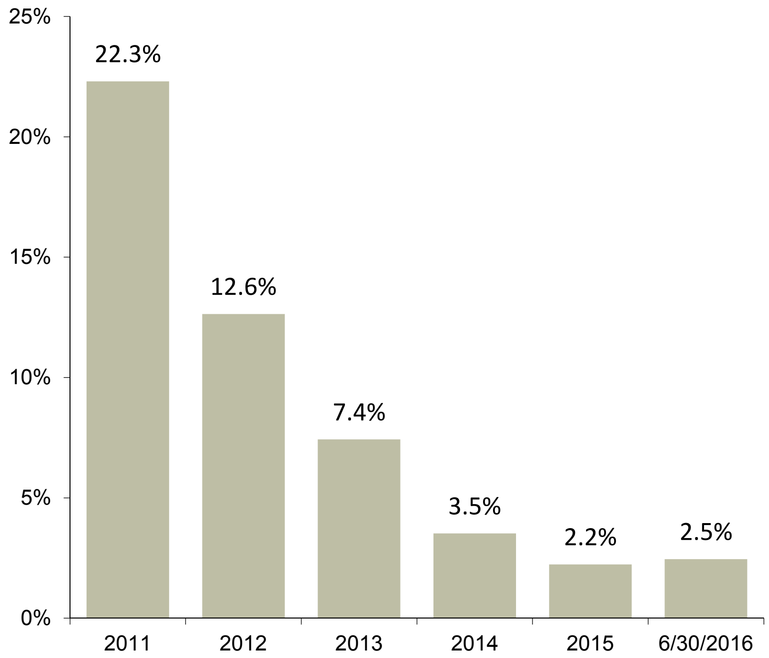


- The mortgage portfolio continues to grow but at a slower rate due to stiffening competition, especially from the pension funds. The Bank's market share in mortgages however has remained resilient with only slight fluctuations between market surveys
- Tourism continues to be growing sector in Iceland, outstanding loans to the tourism industry are 13% of the loan portfolio, most are in the real estate (hotels), commerce & service (car rentals, restaurants, tour operators) and industrials & transportation sectors (airport services)
- Most of the Bank's activities are in Iceland, but in the last few years the Bank has increased its international activities in the North-Atlantic region (4.7% of loans to companies) anchored in its heritage of servicing the core industries in Iceland, primarily focusing on the seafood industry and offshore service vessels

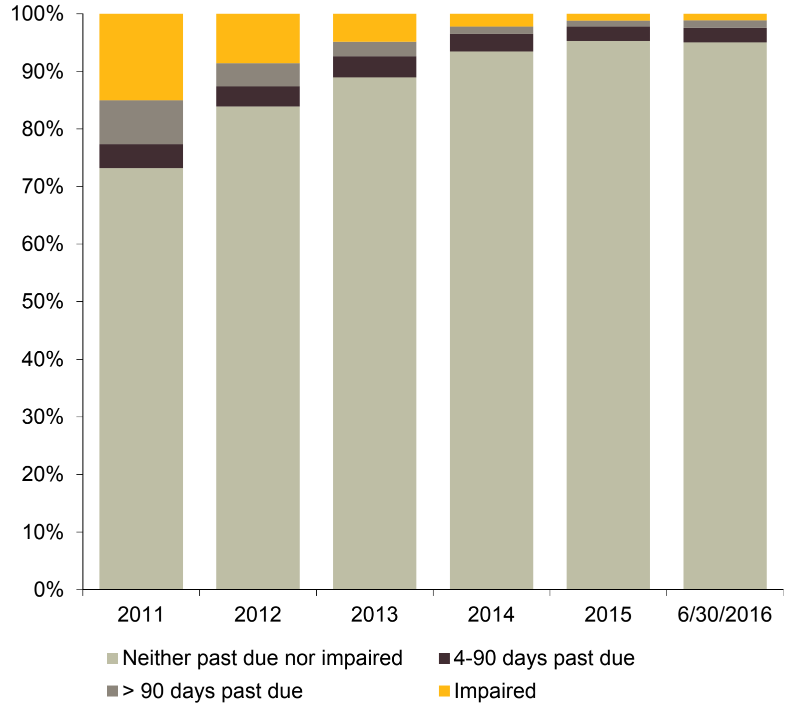
Non-performing loans

Past due loans increase this quarter due to problems in the oil offshore service sector

NON-PERFORMING LOANS
Impaired loans and past due (>90 days) loans to loan to customers



PERFORMANCE OF LOANS TO CUSTOMERS
Impaired, past due, and neither past due nor impaired loans

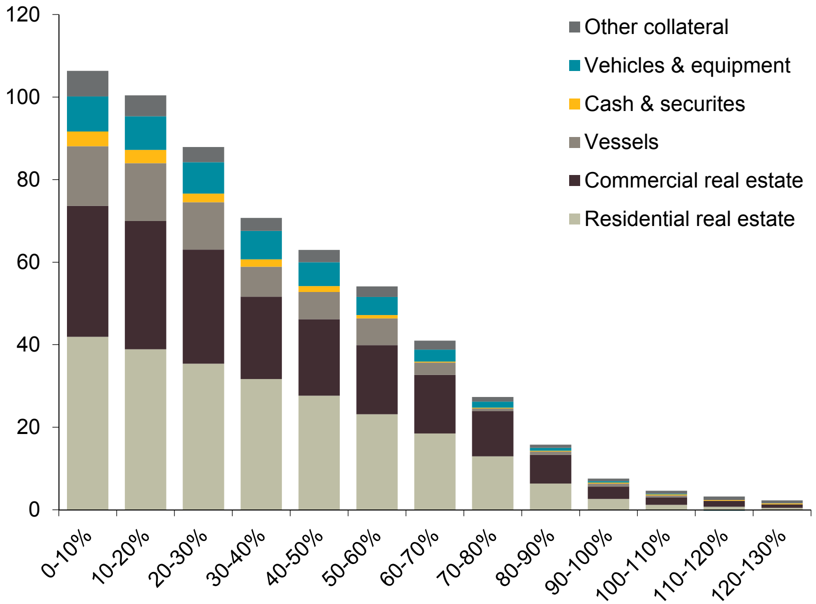


- A part of the international lending portfolio to the oil offshore service sector has been affected by the volatility of oil prices in 2015 and early 2016, international activities amount to 3% of the loan portfolio
- The NPL ratio increases slightly this quarter due to previously disclosed issues in the oil offshore service sector

LTV distribution of loan portfolio

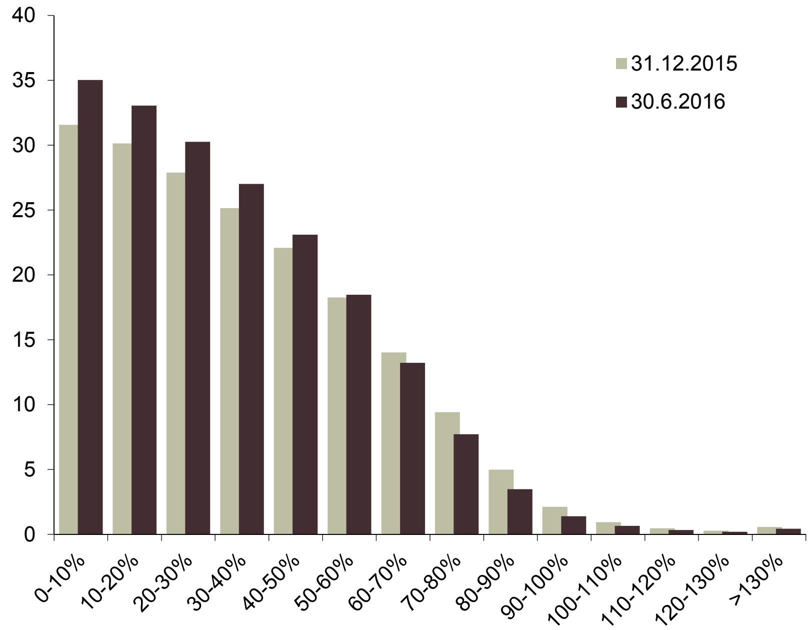
Loans generally well covered by stable collateral, majority in residential and commercial real estate

LTV DISTRIBUTION BY UNDERLYING ASSET CLASS
ISKbn, by type of underlying asset, as of 30.06.2016



- Most of the Bank's collateral is in the form of residential and commercial real estate
- The second most important collateral type is vessels, mostly fishing vessels

CONTINUOUS LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS
ISKbn, as of 30.06.2016 – average LTV 65% (69% 31.03.2016)*



- Average LTV decreases and is now 65%, drop mainly due to the June update in tax value of residential real estate
- See the Bank's Pillar 3 Report for more detail on the 2015 full year results

* 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

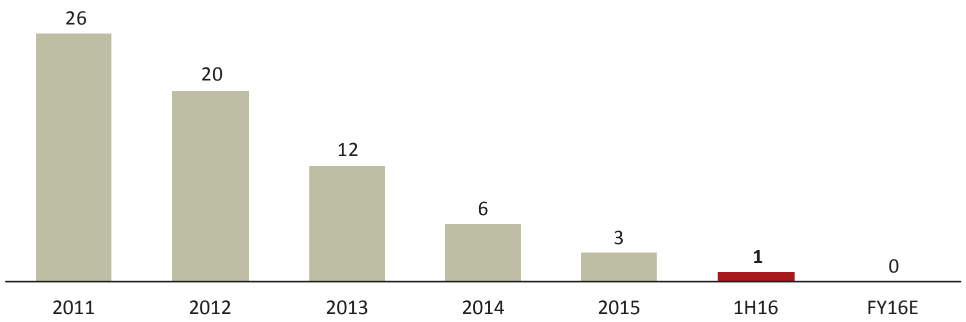
All equity holdings in non-related domestic businesses have been sold

HIGHLIGHTS

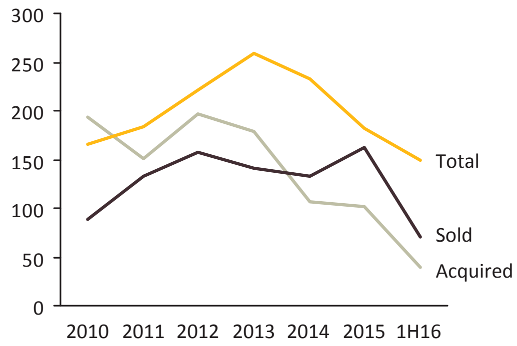
- Non current assets and disposal groups held for sale contracted ISK 3.2bn since year-end
- All equity holdings in non-related businesses in Iceland have been sold, only remaining holding does not have domestic operations
- In 2Q16, Frumherji, an inspection and certification company, was sold in an open and transparent sales process.
- Only one asset in non related business remains on the Bank's books at 30.06.16, however, an agreement has been reached on the Banks exit which is expected to finalise in 2H16
- Repossessed capital was down 13% to ISK 4.8bn at 30.06.16, which is mainly land and properties, both commercial and residential
- 17% of the total number of repossessed assets were sold in 1H16
- In 1H16, there was an 18% reduction in the number of residential property which has been repossessed as collateral

LEGACY ISSUES COMING TO AN END

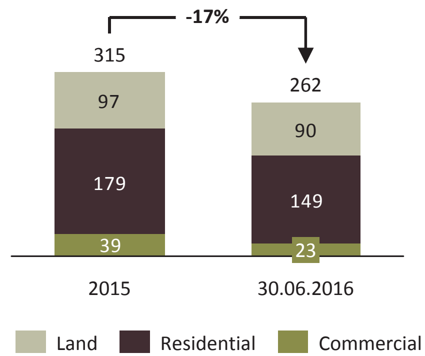
EQUITY HOLDINGS IN NON RELATED BUSINESS
No. of Equity stakes



REPOSSESSED CAPITAL
No. residential properties



DIVESTMENT OF REPOSSESSED ASSETS*
(Total number of assets)



*Parent company.

IV. Liabilities, Liquidity & Capitalisation

Liabilities

Growth in deposits in Q2

ISKm	30.06.2016	31.03.2016	31.12.2015
Deposits from CB and credit inst.	**14,633**	**28,338**	25,631
Deposits from customers	**566,220**	**544,430**	593,245
Derivatives and short positions	**6,079**	**4,902**	6,981
Debt issued and other borrowings	**163,469**	**161,802**	150,308
Subordinated loans	**18,886**	**19,415**	19,517
Tax liabilities	**9,894**	**8,963**	8,358
Other liabilities	**49,252**	**44,170**	36,677
Non-current liabilities held for sale	**2,347**	**3,128**	2,825
Total liabilities	**830,780**	**815,148**	843,542
Total equity	**198,837**	**205,627**	202,227
Total liabilities and equity	**1,029,617**	**1,020,775**	1,045,769

Deposits

- Customer deposits increased by ISK 21.8bn in 2Q16; majority of these were demand deposits
- The deposit to loan ratio rose to 82%
- Customer term deposits now 39% of total customer deposits

Debt issued and other borrowings

- Includes covered bonds, commercial paper and bond issued in ISK to the Central Bank secured on a pool of mortgages, highlights include:
  - Covered bond issuance increased ISK 9.0bn (2Q16: 3.4bn)
  - The outstanding debt in relation to the GMTN program at 30 June 2016 totalled ISK 73bn

Subordinated loans

- EUR 138m denominated Tier 2 issue maturing in 2019. Only 70% of the amount eligible as regulatory capital

Equity

- Total equity decreased 3.4% in the quarter
- ISK 10bn (just under 50% of the previous years' profits) was paid out to shareholders on 27 April 2016
- In total, ISK 26bn have been paid out in dividends to shareholders since 2013

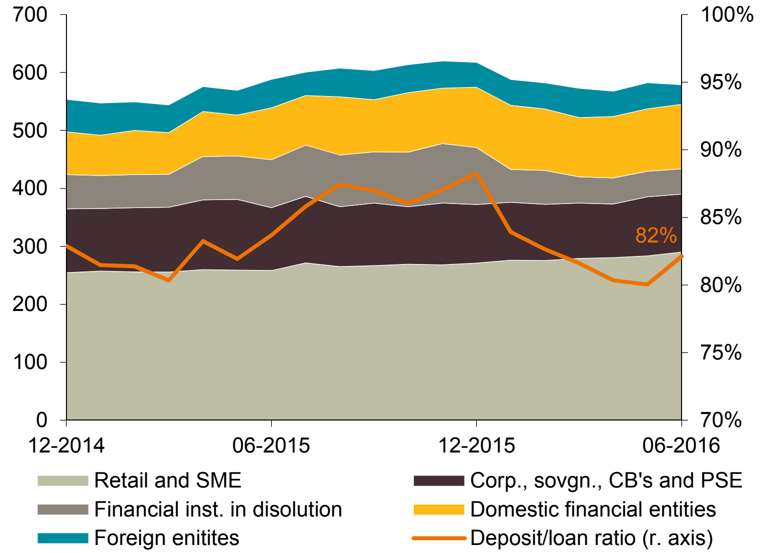
Leverage

- The leverage ratio was 18.3% at the end of the period

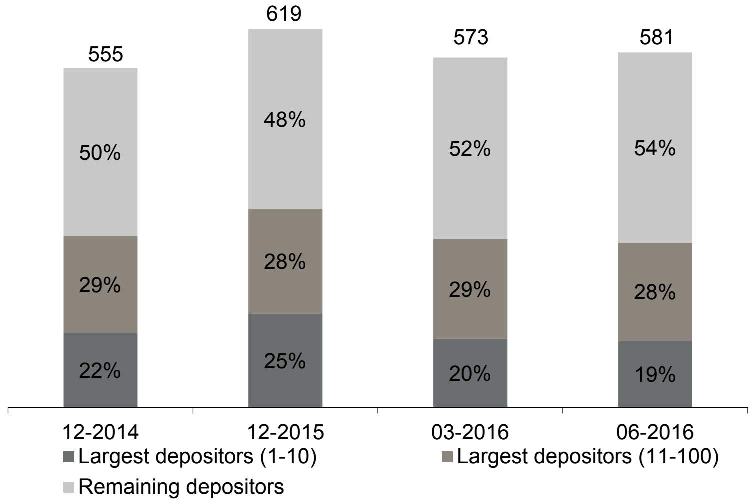
Deposits remain the main source of funding

Decrease in non core deposits

DEPOSIT DEVELOPMENT AND DEPOSIT RATIO
ISK bn, year-end, consolidated



DEPOSIT CONSENTRATION
ISK bn, year-end, consolidated



Stable core deposit base

- Deposits remain the main funding source for the Bank and the deposit to loan ratio remains high
- Deposits from foreign financial entities and other foreign entities decreased by ISK 17bn as outflow of ISK offshore deposits entered the CB auction
- Core deposits remain stable

Concentration in deposits has decreased

- At the end of June 2016, 19% of the Bank's deposits belonged to the 10 largest depositors, down from 25% at year-end 2015, largely attributable to the reduction in deposits from old Glitnir following their composition agreement
- The average LCR outflow factor for the 10 largest deposits is 93% and 66% for the 100 deposits

Continued diversification of funding

Stable growth in debt issuance in 1H 2016, mainly domestic CBs and FX under the GMTN Programme

Domestic funding

- Íslandsbanki is the largest issuer of covered bonds in the domestic market
- Domestically, the Bank is also a frequent issuer of unsecured listed securities

Íslandsbanki's covered bonds

- Total outstanding at end of June amounted to ISK 60.54bn (EUR 442m), thereof ISK 9.02bn was issued during 1H16
  - CPI-linked issuance ISK 44bn
  - Non-indexed issuance ISK 16.54bn
- Funding plan of ISK 20-30bn (EUR 142-213m) CB issuance in 2016 on track

Only bank in Iceland with two international credit ratings

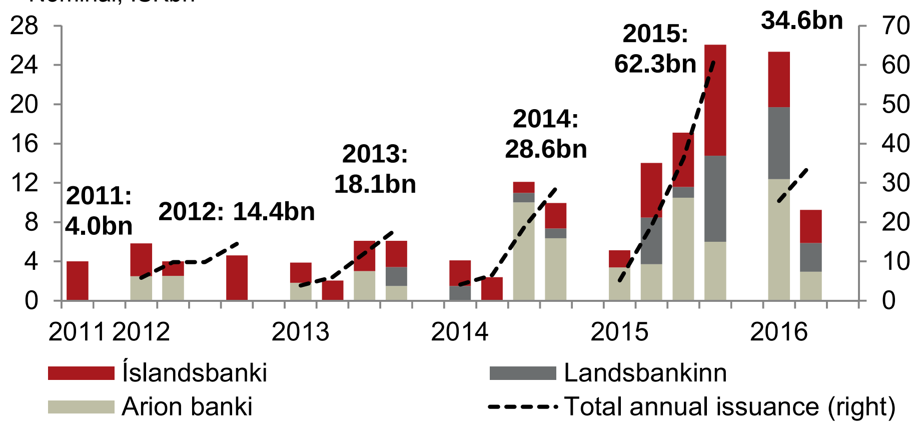
- Íslandsbanki is investment grade
  - S&P – BBB-/A-3 with positive outlook (Jan16)
  - Fitch – BBB-/F3 with stable outlook (Apr16)

Issuance highlights of 2015-16 in FX include:

- Terms continue to improve with successive FX transactions in SEK, NOK, EUR and USD
- May 2016, Íslandsbanki issued a EUR 75m tap of its existing EUR July 2018 bond at a spread of mid-swaps +247 basis points

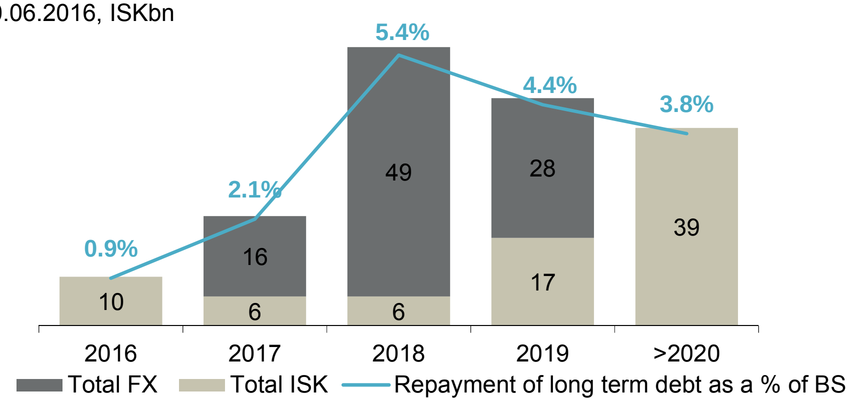
ANNUAL COVERED BOND MARKET ISSUANCE

Nominal, ISKbn



MATURITY PROFILE OF LONG-TERM DEBT

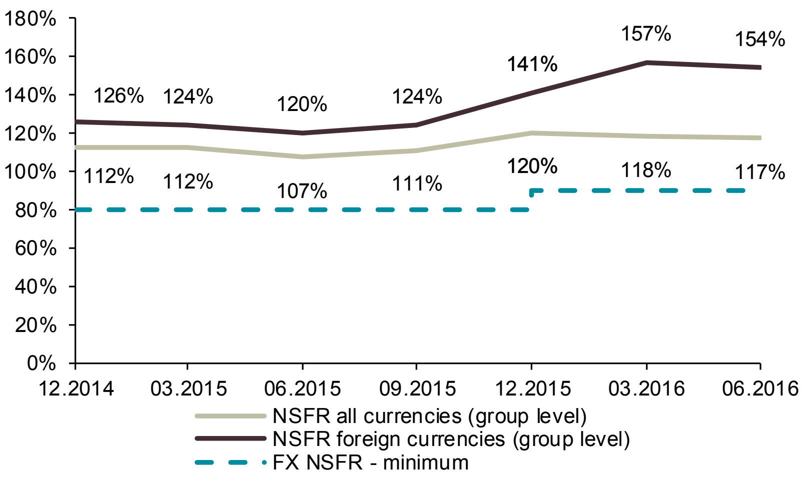
30.06.2016, ISKbn



Sound management of liquidity

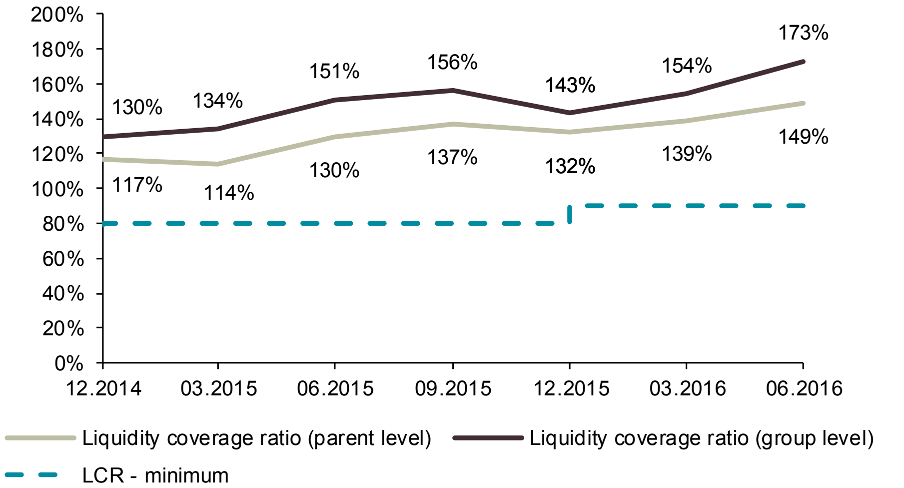
Liquid assets of ISK 276bn exceed internal and external requirements

NET STABLE FUNDING RATIO (NFSR)

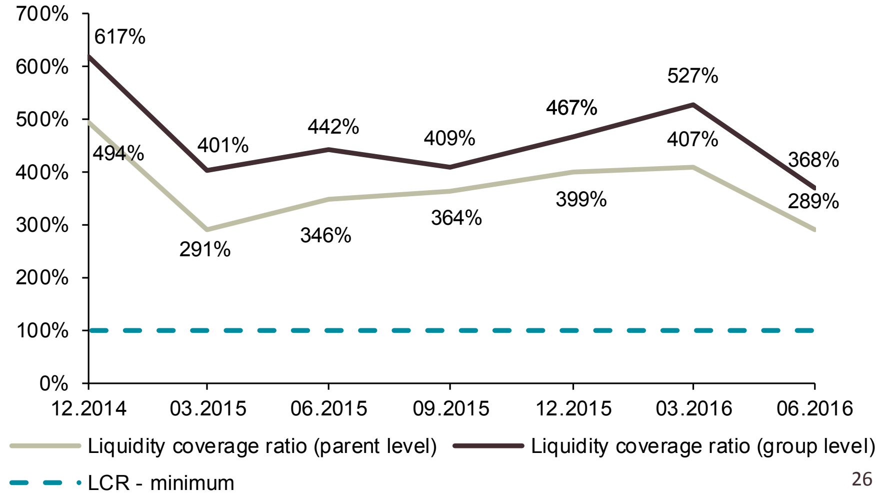


- All liquidity measures are above regulatory requirements
- FX liquid assets:
  - FX Government bonds have a minimum requirement of AA rating
  - FX cash placed with highly rated correspondent banks
- The regulatory requirements for the NSFR only apply to foreign currencies
- The LCR has increased over the past two quarters reflecting an increase in term deposits, lower CB reserve requirements and the fact that the Bank was well prepared for the deposit outflow related to the CB currency auction for offshore ISK in June.
  - The LCR in foreign currency decreased over the quarter mostly due to increases in corporate lending

LIQUIDITY COVERAGE RATIO – ALL CURRENCIES

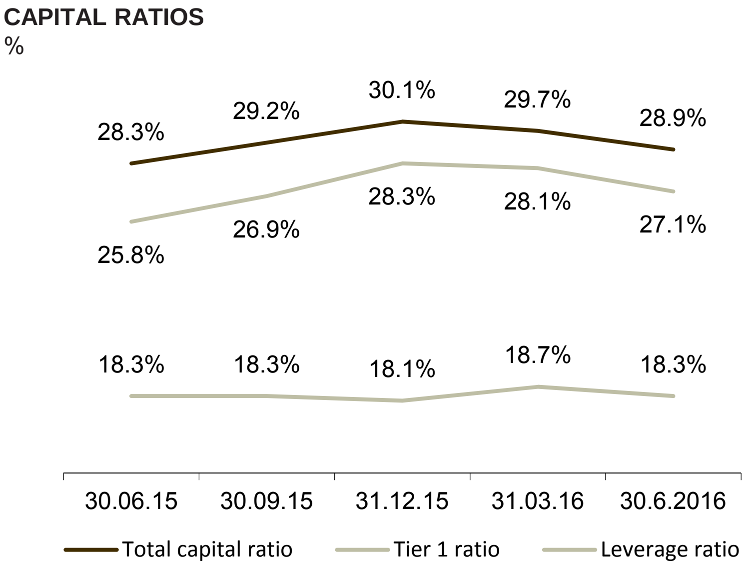


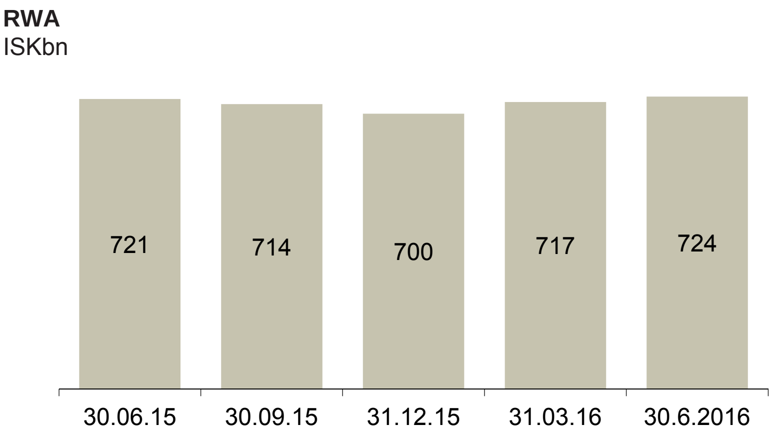
LIQUIDITY COVERAGE RATIO – FOREIGN CURRENCIES



Sound capital position

The capital ratio remains well above target





Capital ratios

- Total capital base was ISK 209bn at 30.06.2016 compared to ISK 213bn at 31.03.2016
  - The capital base decrease is mainly due to a dividend payment in the quarter and the reduction of the Tier 2 subordinated loan where only 70% is eligible as capital
  - The leverage ratio was 18.3% at the end of the period

Risk weighted assets (RWA)

- Risk weighted assets increase between quarters mainly due to an increase in the loan portfolio
- Ratio of RWA to total assets around 70%

Capital target

- The Bank's total capital ratio target is to be above 23% for the near to medium term based on:
  - Conservative requirements set by the FME
  - The Bank´s view that it is important to retain a sizable strategic buffer due to lifting of capital controls
- The medium to long-term capital targets may be revised in the next 6 - 12 months, as further clarity is expected regarding the regulatory capital requirements and in the Bank's operating environment

Dividends

- Long-term dividend pay-out target ratio of 40 - 50% of net profit
- Approved at the annual meeting on 19 April 2016:
  - Dividend payment of up to 50% of the net profit 2015 (ISK 10bn paid out 27 April 2016)
  - Dividend due to previous years' retained earnings might be disbursed later this year

Ratings by both Fitch and S&P

Positive outlook by S&P and Fitch affirmed its BBB- / F3 rating with stable outlook on 21 April 2016

FITCH BBB- / F3 STABLE OUTLOOK

Press Release 21 April 2016

- *“The ratings are underpinned by the leading Icelandic universal banking franchise of Islandsbanki, but also its exposure to a small economy susceptible to domestic and international shocks. […] The constraints of the operating environment affect Fitch's assessment of other factors driving the ratings, such as the need to maintain strong capitalisation and the sustainability of asset quality improvements. “*
- *“We believe that Islandsbanki is well prepared for the* ***removal of capital controls****. Islandsbanki's capital and leverage ratios are solid and compare well with international peers (Tier 1 capital ratio of 28.3% and leverage ratio of 18.1% at end-2015). Liquidity is prudently managed, and the bank has a large liquidity buffer in place (around one-quarter of total assets at end-2015) to absorb the outflows accompanying the lifting of capital controls”*
- *“The bank's* ***asset quality*** *has been consistently improving since 2010. […] The restructurings have reduced the borrowers' debt levels, and restructured loans have been performing well with limited impairment”*

S&P BBB- /A-3 POSITIVE OUTLOOK

Press release 19 jan 2016

- *“All in all, we now see a positive economic risk trend for banks in Iceland, given the more resilient economy and likely lower risk from potential large swings in the exchange rate. That said, we observe ongoing house price growth, which could lead to widening imbalances.”*
- *“The compositions of failed Icelandic banks' wind-down estates have been agreed, significantly reducing uncertainties relating to the eventual* ***lifting of capital controls****. “*
- *“We understand that the amount owed to non-resident investors is roughly equivalent to Icelandic krona (ISK) 300 billion (about $2.3 billion) or 14% of GDP. […] There is also a possibility that a significant simultaneous withdrawal of non-resident krona holdings could weigh on Iceland's foreign currency reserves. However, we expect the government to deal with this complex issue in a prudent way.*
- *Although there might be some more volatility over the coming two years, we don't anticipate the increase in* ***loan loss provisions*** *will exceed 50bps. Similarly, we forecast a continued decline in nonperforming loans as banks' portfolios are restructured and the economy continues to expand.”*

ÍSLANDSBANKI

	S&P	FITCH
Long-term	BBB-	BBB-
Short-term	A-3	F3
Outlook	Positive	Stable
Rating action	Jan 2016	April 2016

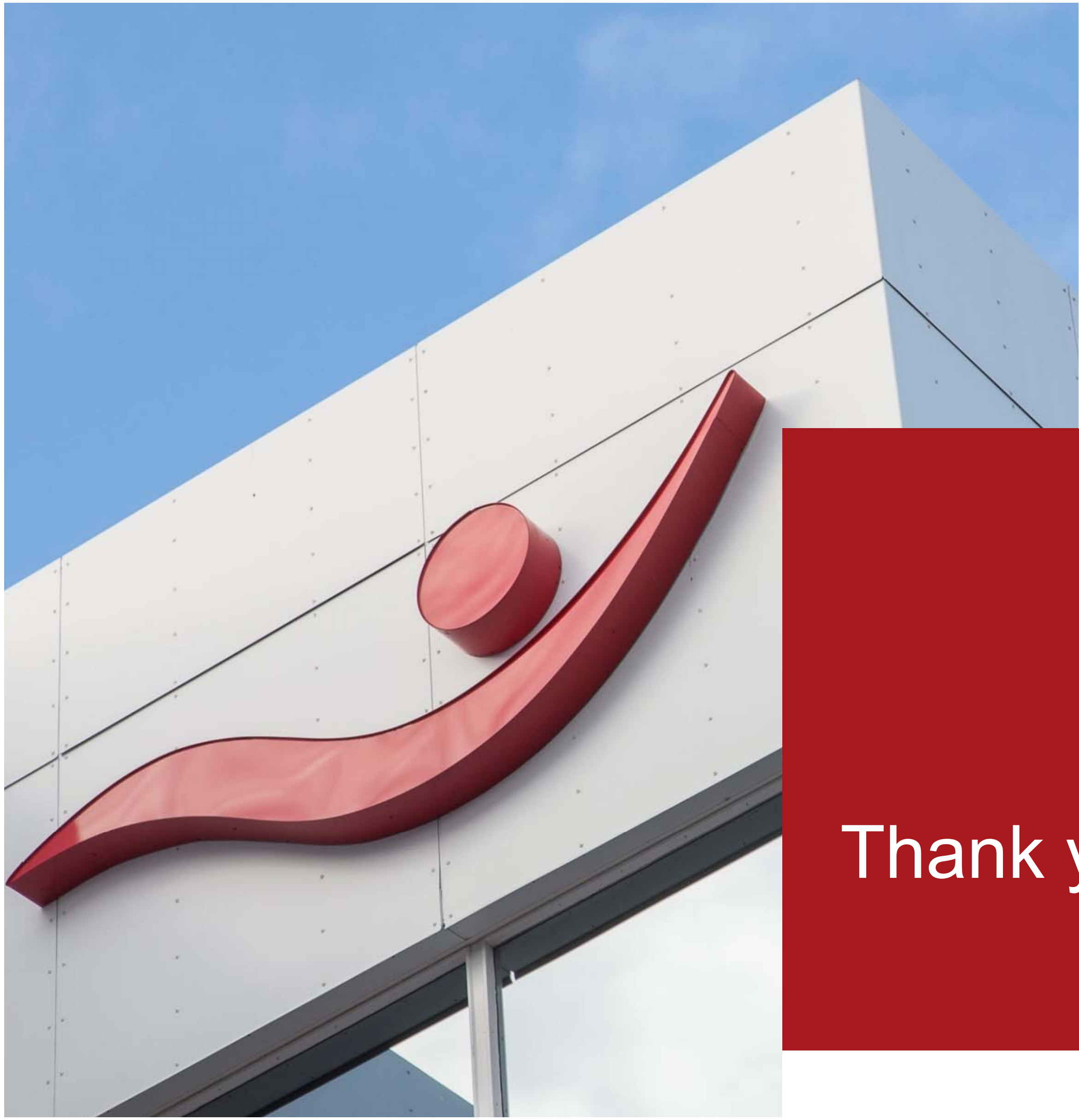
ICELANDIC SOVEREIGN

	S&P	FITCH	MOODY'S
Long-term	BBB+	BBB+	Baa2
Short-term	A-2	F2	P2
Outlook	Stable	Stable	Stable
Rating action	July 2016	July 2016	June 2015

Key points

Sustainable business model driven by vision to be #1 for service

1. WELL PREPARED FOR RELAXATION OF CAPITAL CONTROLS
2. HEALTHY LENDING GROWTH BENEFITING FROM A MORE BALANCED ECONOMY
3. GROWTH IN RECURRING REVENUES AND A RESILIENT ROE
4. LARGE ONE OFF ITEMS ON BOTH INCOME AND EXPENSE SIDE (VISA & HQ)
5. SOLID CAPITAL AND LEVERAGE RATIOS THAT COMPARE WELL WITH PEERS
6. INVESTMENT GRADE RATINGS FROM BOTH FITCH BBB-/F3 AND S&P BBB-/A-3



Thank you