

September 2011

REBUILDING RESILIENCE 1H Financial update



Forward Looking Statements

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I. Our Profile

Domestic universal bank and global specialist

100+ years of full-service banking and financial services

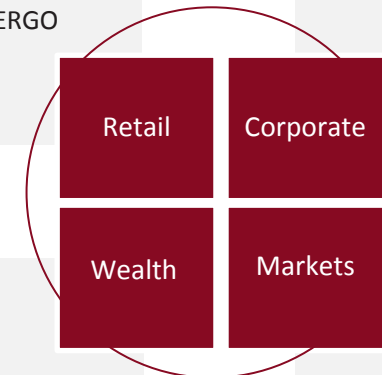
- One of Iceland’s largest universal banking and financial services groups, est. 1904
- 1000+ staff; assets of ISK 683 BN (\$6.0 BN)
- 25% - 35% market share across all domestic franchise areas
- International reach through focus on specialist industry sectors
- Strong capital base, high liquidity and a quality loan book through comprehensive restructuring in 2008

20 BRANCHES PROVIDE NATIONAL COVERAGE

- High ranking in customer service and satisfaction
- Looking to consolidate to a market leading share in 2011
- Independent Asset Based Financing unit - ERGO

FULL-SERVICE CORPORATE BANK & INTERNATIONAL SPECIALIST

- Domestic corporate banking for industries
- Specialist teams in Iceland and in the US for geothermal energy & seafood



LEADING FUND MANAGER

- One of Iceland’s leading wealth manager by AUM
- Managed through an independent unit, VÍB providing regulated investment advice

LEADING FULL RANGE CAPITAL MARKETS UNIT

- Equities, fixed income, FX, corporate finance and research
- Leading trade volume of sovereign bonds

Strong banking heritage

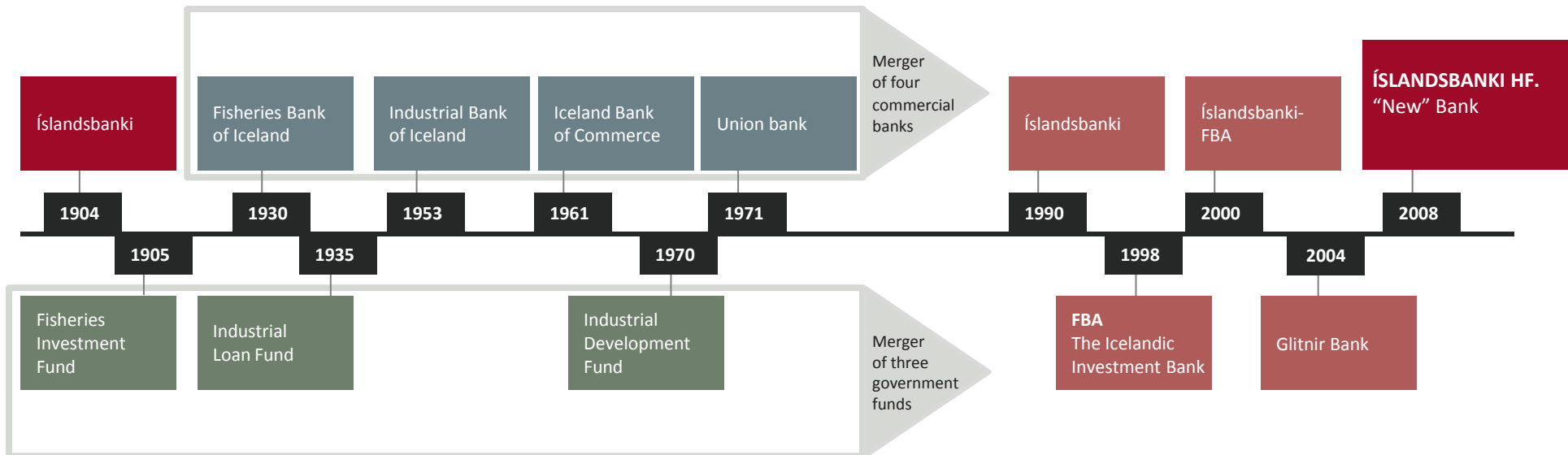
Serving Icelandic industry, households and commerce since 1904

Re-established as Íslandsbanki on 15 October 2008 after the collapse of Glitnir Bank

- Assumed Glitnir's domestic assets and deposits
- Conservative valuation of acquired assets and liabilities completed in September 2009

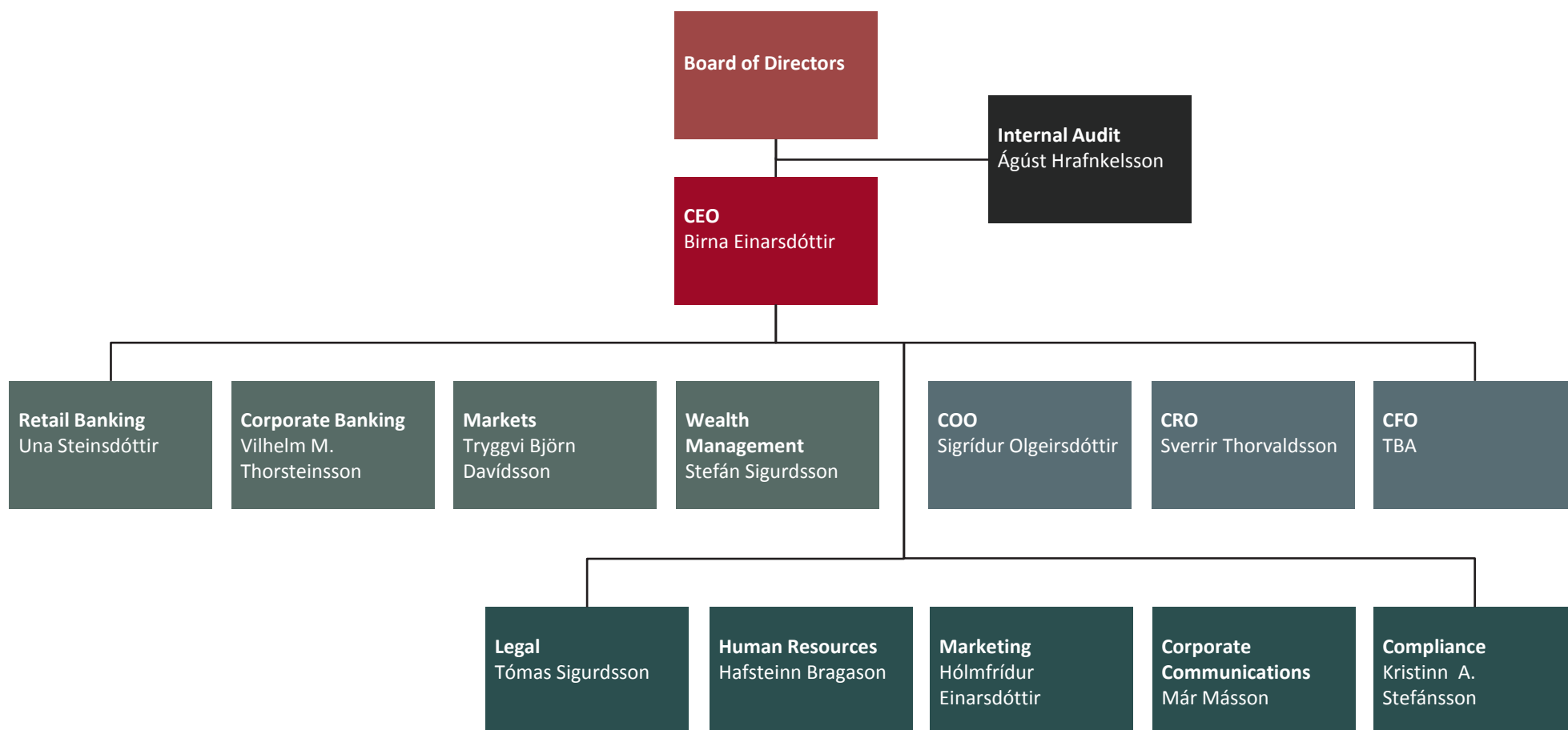
Glitnir was a leading domestic franchise

- Strong share of domestic deposits
- Attractive retail and SME loan products
- International and domestic expertise in fisheries and geothermal lending



Increased management reporting clarity

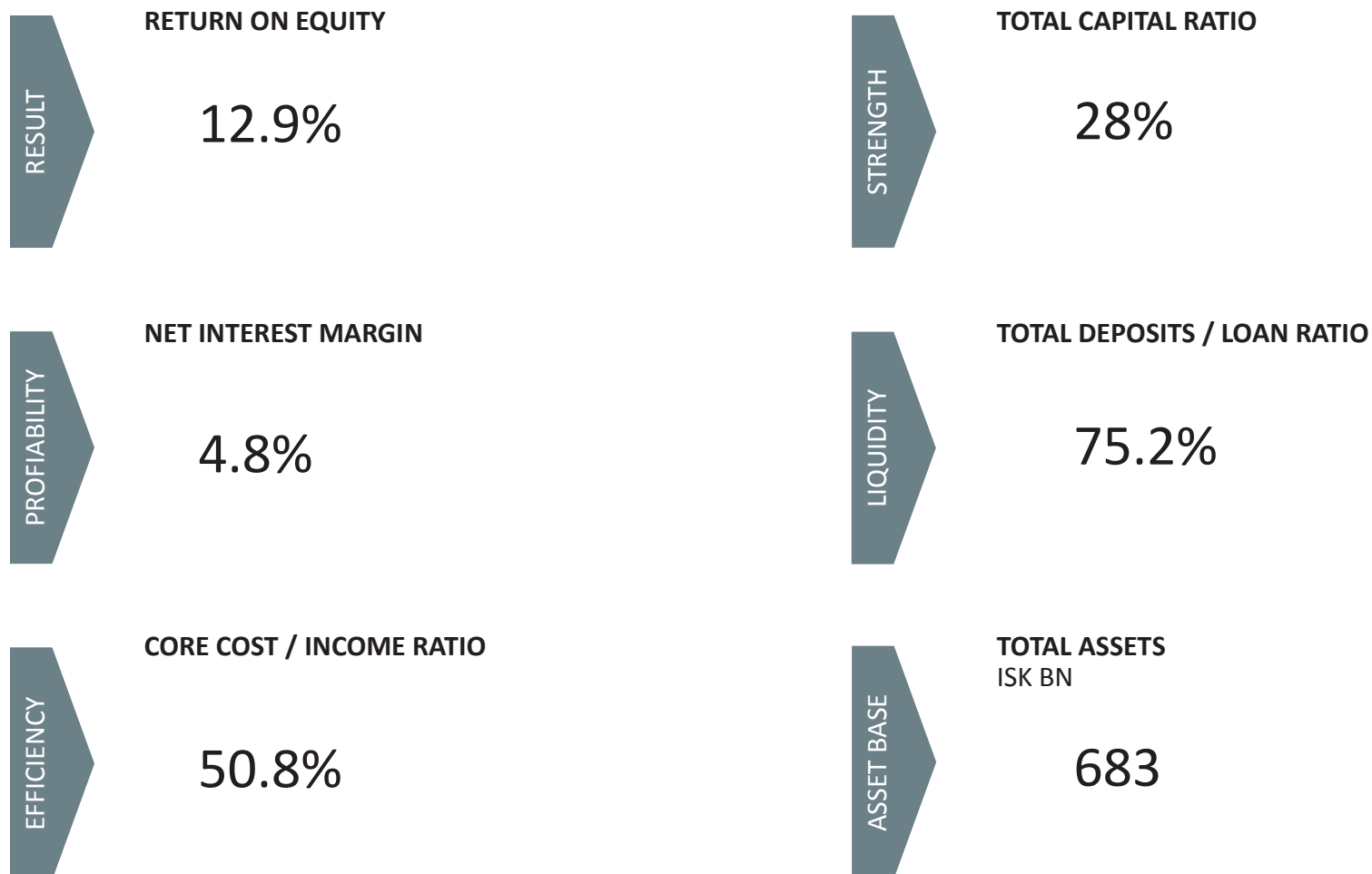
New, clearer reporting structure improving accountability and transparency



II. Highlights - 1H 2011

1H financial highlights

Key ratios developing in line with expectations



1H operational highlights

Focus on strengthening the foundations and preparing the Bank for future growth

GROWTH

- Acquisition of credit card issuer Kreditkort
 - Supports new retail credit card strategy
- Glacier Securities, NY office, granted a broker dealer licence
 - Advisory business in the seafood and geothermal energy sectors

SERVICE

- Extensive internal and external service surveys conducted
 - Supports work on the Bank's vision - #1 in Service
- Íslandsbanki licensed to broker off-shore ISK when capital controls are lifted

RESTRUCTURING

- Restructuring continues to be a top priority
 - Growth in FTE's during period to finalise vast majority of the restructuring efforts during 2011

EFFICIENCY

- Increased branch network efficiency
 - Merger of two Reykjavík based branches in June 2011

STRATEGY

- Rebranding of business units in line with strategy
 - ERGO , Íslandsbanki's Asset-based financing unit
 - VÍB , Íslandsbanki's Wealth Management service
 - Promotes increased focus and customer service

III. Income Statement

1H income statement

Period from 1 January – 30 June

ISK million	H1 2011	H1 2010
Net interest income	16,303	17,438
Net valuation changes on loans	(255)	(474)
Latent impairment	(155)	(610)
Net fee & commission income	3,013	3,332
Net financial expenses	(468)	(434)
Net foreign exchange gain	336	53
Other net operating income	656	479
Total operating income	19,430	19,784
Salaries & related expenses	(4,969)	(4,597)
Other operating expenses	(4,405)	(4,136)
Insurance fund	(432)	(562)
Total operating expenses	(9,806)	(9,295)
Profit before tax	9,624	10,539
Income tax	(2,067)	(2,347)
Bank tax	(344)	0
Income from discontinued operations	849	98
Net Profit	8,062	8,290
Net interest margin (total assets)	4.8%	4.9%
Return on equity	12.9%	17.3%
Core cost / income ratio	50.8%	44.8%

Net interest income

- Bank earns less on the large equity base due to sizeable drop in risk free interest rates YoY
- Margin on deposits has tightened

Net valuation changes

- Changes in the value of the acquired loan portfolio
- Comprises future estimated cash flow from loans and collectively and specifically assessed impairment

Net fees & commissions

- Slow recovery of financial markets impacts fee income
- Subsidiary leaving the group

Other net operating income

- Net gain on real FX imbalance
- ISK trade weighted index up nearly 6% in 1H

Taxes

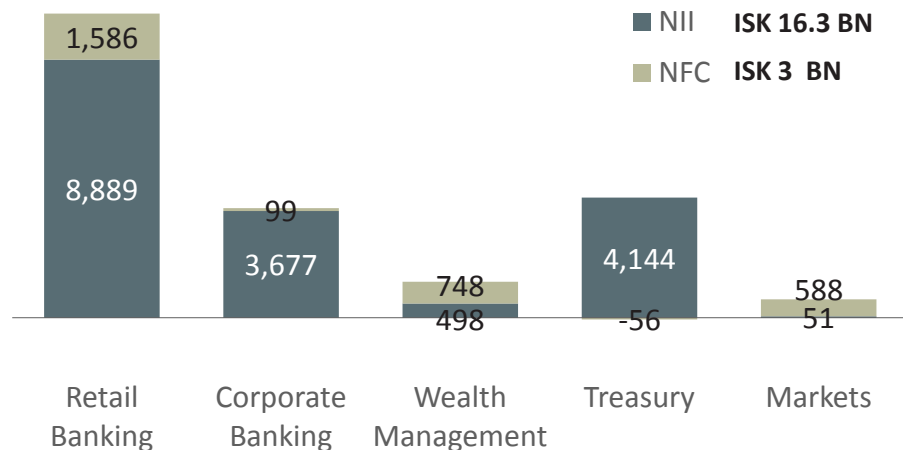
- Bank tax comprises, a tax introduced in 2011, calculated as 0.041% of total liabilities, and a special tax to meet costs associated with a special 2-year tax credit for mortgage holders

1H income split: 97% from core operations

Brokerage fees yet to pick up as capital markets remain inactive

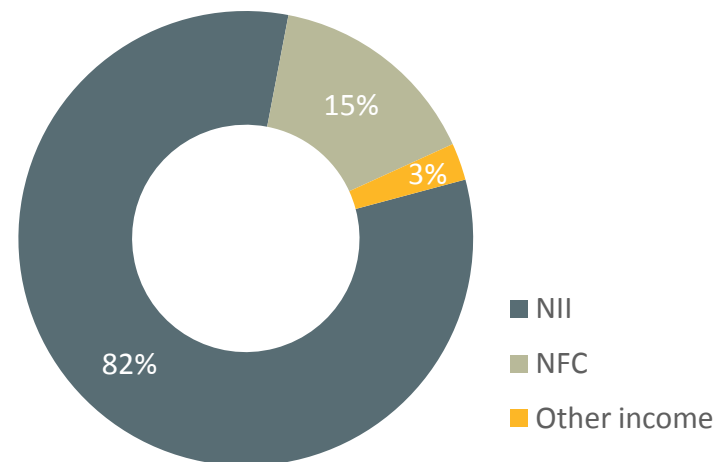
CORE INCOME 1H 2011

By division



OPERATING INCOME SPLIT

By category



Net interest income impacted by lower interest rates

- Consistent progress in resetting of contractual interest rates
- Net interest margin expected to be 2.5-3%, on average, going forward

Equity and non-government bond markets still dormant

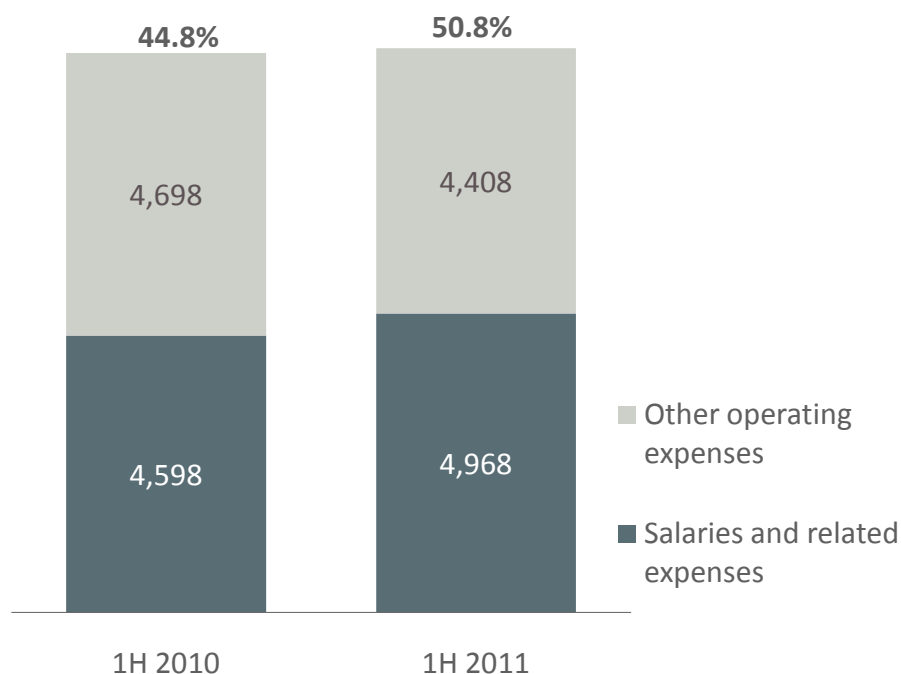
- Translates to lower than anticipated fee and commission income
- Capital controls limit revenue growth in FX trading
- Slight dip in NFC in 1H due to payment processing firm Borgun leaving the group

Administrative expenses

Collective wage agreement increases coming through

ADMINISTRATIVE EXPENSES

ISK BN, Core cost to income ratio



Salaries and related expenses

- Number of full time equivalent employees (FTEs) was 980 on average in 1H 2011 as opposed to 933 in 1H 2010 (parent company)
- Increase in FTEs is mainly in back office due to temporarily increased work load in restructuring the loan book
- Increase in salary costs stem from a collective wage agreement one-off payment and wage increase effective as of 1 June 2011, as well as rise in National Insurance

Other operating expenses

- Payment to Depositors' and Investors' Guarantee Fund lower due to new legislation

Core cost / income ratio

- Administrative expenses / NII+NFC
- High costs during the restructuring period

IV. Assets & Restructuring

Assets

Little change despite sale of subsidiary

ISK millions	30.06.2011	31.12.2010
Cash and balances with Central Bank	27,761	30,799
Derivatives	136	70
Bonds and debt instruments	50,456	68,024
Shares and equity instruments	3,240	3,022
Loans to credit institutions	41,627	30,870
Loans to customers	509,914	515,161
Investment in associates	744	354
Property and equipment	4,543	5,419
Intangible assets	261	187
Deferred tax assets	201	283
Non-current assets held for sale	23,990	23,489
Other assets	19,702	5,544
Total assets	682,575	683,222

Bonds and debt instruments

- Mainly government bonds of G-5 countries
- No exposure to GIPSIs
- Movement of liquid assets from bonds to loans to financial institutions

Loans to credit institutions

- Increase in MM deposits with foreign banks
- No exposure to troubled banks

Loans to customers

- Repayments continue to exceed new lending
- Growth not expected until economy starts to grow

Other assets

- 16.4bn in unsettled securities transactions

Total assets

- Borgun (ISK 11bn) left the Group in 1H

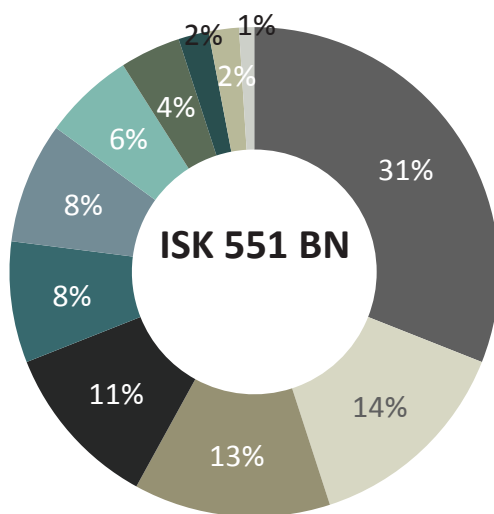
Tier 1 ratio	23.8%	22.6%
Total capital ratio	28%	26.6%
Deposit / loan ratio	75.2%	77.5%
Customer deposit/ loan ratio	62.9%	63.5%

Loan portfolio: well diversified

Repayments still exceeding new lending as customers continue to deleverage

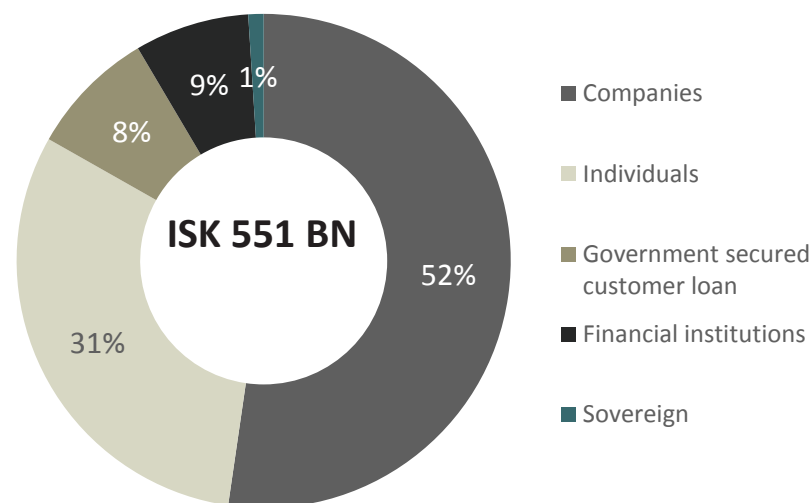
CONSOLIDATED LOAN PORTFOLIO

Book value, by sector



CONSOLIDATED LOAN PORTFOLIO

Book value, by borrower



Book and claim value substantially different

- 38% denominated in FX
- FX exposure to non-FX income clients actively being reduced

Modestly increased exposure to banks

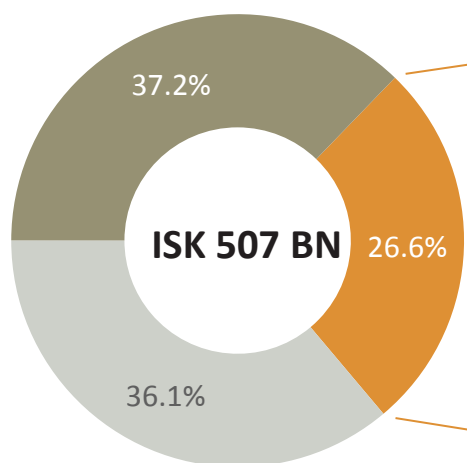
- Due to management of liquidity portfolio
- Financial institutions exposure is deposits (MM or Nostro accounts)
- No exposure to GIPSIs

Loan portfolio performance

Clear objectives have guided consistent progress in restructuring

LOAN PORTFOLIO ANALYSIS (LPA*)

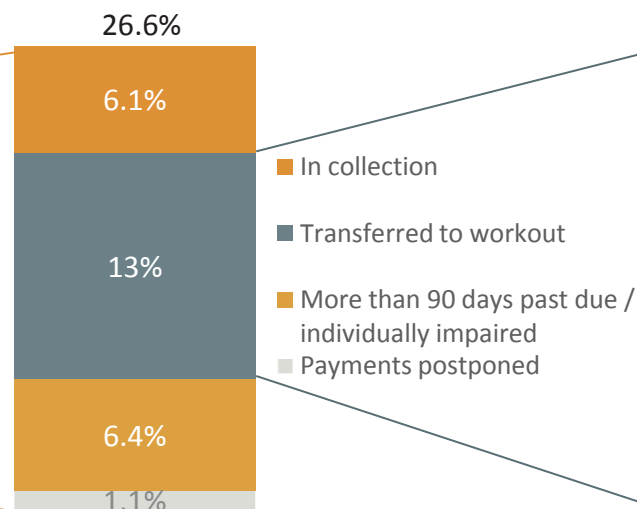
Excludes loans to credit institutions, that are fully performing



- Non-performing by LPA definition
- Performing after restructuring
- Performing w/o restructuring

NON-PERFORMING LOANS (NPL**)

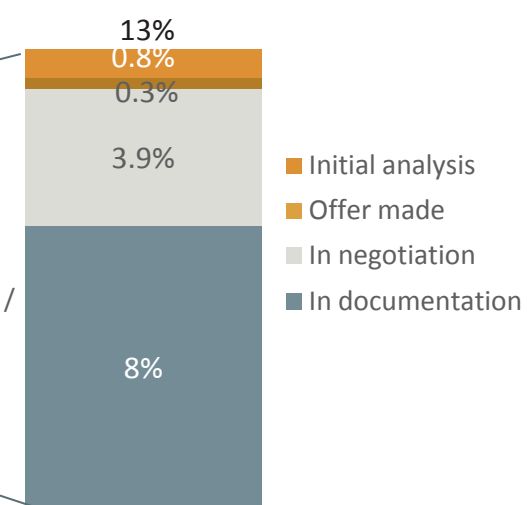
By status of restructuring



- In collection
- Transferred to workout
- More than 90 days past due / individually impaired
- Payments postponed

TRANSFERRED TO WORKOUT

By level of completion



- Initial analysis
- Offer made
- In negotiation
- In documentation

- LPA report submitted monthly to the FME
- Exposure is monitored on obligor level – not facility level

- Vast majority already in workout process
- Carrying amount reflects expected recovery of these loans
 - No further impairments should therefore be needed

- The preservation of the business relationship informs the restructuring process at Íslandsbanki
- Modus operendi: “Lower principal [but] at market rates”
- Restructuring to be largely completed by year-end 2011

* parent company only

**as defined by LPA

V. Liabilities, Liquidity & Capitalisation

Liabilities

Deposits decrease as companies and households deleverage

ISK millions	30.06.2011	31.12.2010
Financial liabilities	10,582	9,090
Derivatives	1,738	429
Deposits from Central Bank and credit institutions	93,849	96,238
Deposits from customers	320,961	327,158
Debt issued and other borrowings	55,529	55,425
Subordinated loans	22,887	21,241
Current tax liabilities	9,248	9,024
Deferred tax liabilities	510	18
Non-current liabilities held for sale	6,251	16,442
Other liabilities	32,243	26,694
Total liabilities	553,798	561,759
Total equity	128,777	121,463
TOTAL liabilities and equity	682,575	683,222

Deposits

- Change in customer deposits largely due to loan pre-payment from a single large customer

Debt issued and other borrowings

- ISK 52bn bond issued to the Central Bank secured on a pool of mortgages

Subordinated loans

- EUR 138m denominated Tier II government bond provided as liquidity and equity support following agreement with creditors in September 2009

Other liabilities

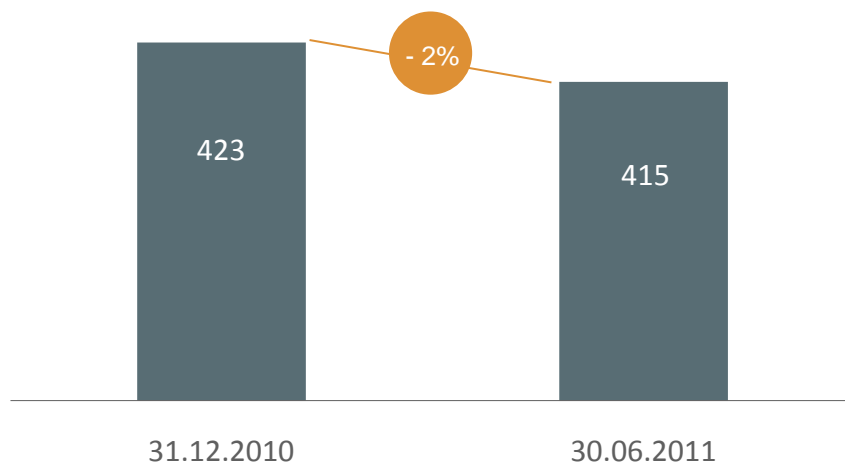
- Unsettled securities transactions, provisions for FX loans to customers with ISK income, creditors and accruals

Deposits

Stable source of funding with blanket guarantee still in place

DEPOSIT DEVELOPMENT

Total exposure, ISK BN

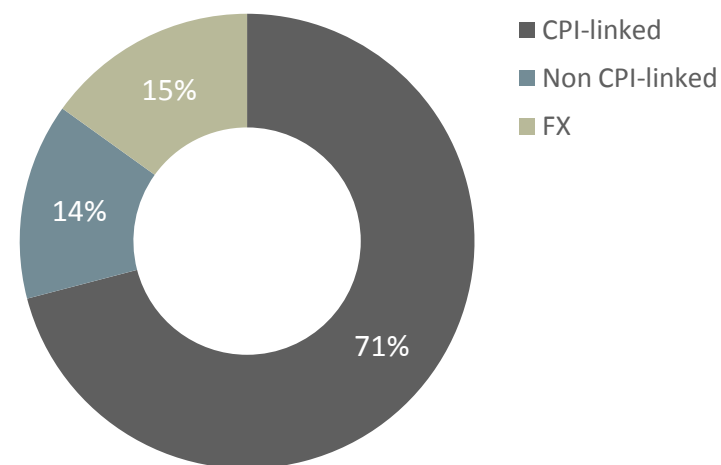


Slight contraction in deposits

- Changes in the insurance scheme have been approved
- Could result in deposit outflow from holders of non-insured funds

DEPOSIT BASE

By currency



Concentration is monitored closely

- Funding and liquidity management aims at diversifying funding sources
- Increased focus on term deposits

Sound management of liquidity

Liquid assets far exceeding targets

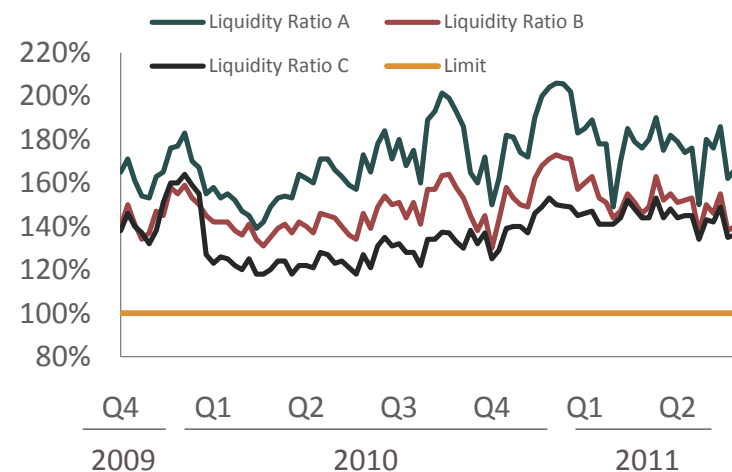
LIQUID ASSETS / DEPOSIT COVERAGE RATIO

30 June, parent company, ISK BN

Class	Asset type	ISK	FX	Total
A	Cash and balances with CB	26.6	1.1	27.8
A	Balances with credit institutions	0.0	33.2	33.2
A	Repo eligible bonds	56.9	0.0	56.9
A	Foreign government bonds	0.0	11.0	11.0
A	Government facility line	25.0	0.0	25.0
B	Depo	0.0	0.0	0.0
B	Cash collateral	0.0	6.2	6.2
A&B	Total	108.5	51.5	160.0
Total deposits		354.1	62.9	415.0
Liquid assets to total deposits		31%	82%	38%

INTERNAL LIQUIDITY RATIOS

Development, all currencies



ISK 160 BN in liquid assets

- Have remained high for past 3 years
- Cash or cash-like assets against demand deposits 21%
 - FME requires 5%
- Liquid assets against all deposits 38%
 - FME requires 20%
- Íslandsbanki reports in-house on Basel III liquidity ratios

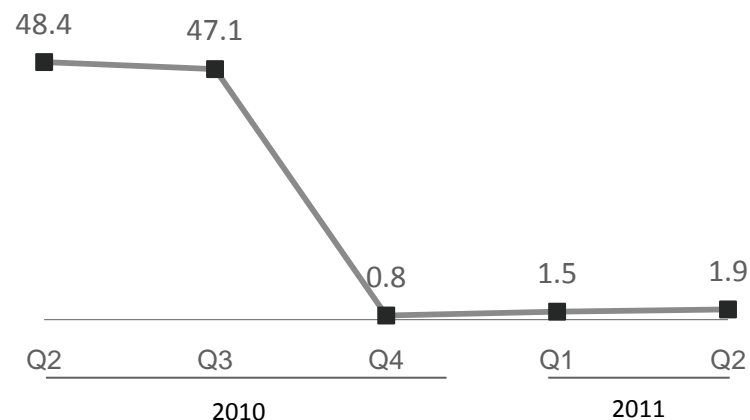
Imbalances strictly monitored

Net foreign currency gap actively improved

IMBALANCES 30 June, ISK BN

	FX	Inflation
Assets	250	147
Liabilities	(173)	117
Gross gap	77	30
Adjustment for FX/ISK assets	(75)	
Net gap	2	30

NET FX GAP Development, ISK BN



Foreign currency assets divided based on customer cash flow

- Real FX assets (FX/FX) amount to ISK 175 BN
- Exchange rate changes are fully offset in the impairment account in cases where recovery is fixed in ISK (FX/ISK assets)
- Net FX gap is strictly monitored and within limits

Net gap between inflation indexed assets and liabilities

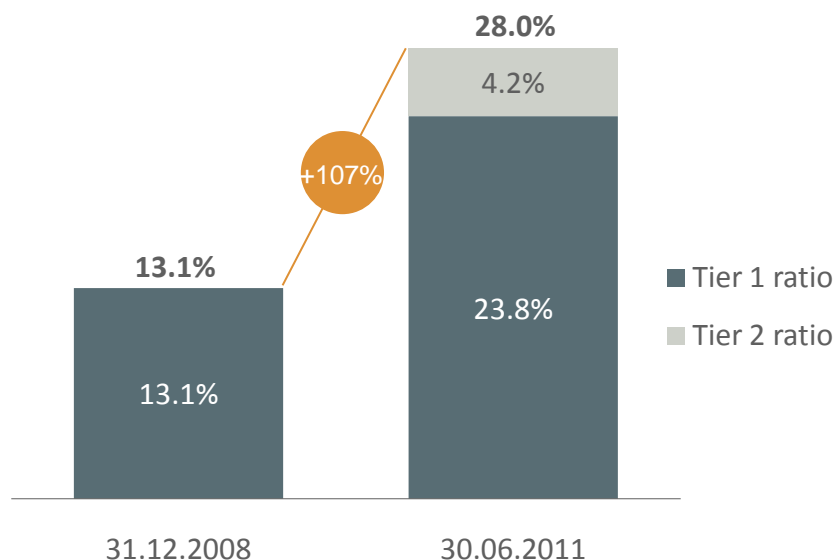
- Various opportunities for issuing inflation indexed debt in the medium-term to reduce this gap

Sound capital position

Ratios continue to strengthen on back of retained earnings

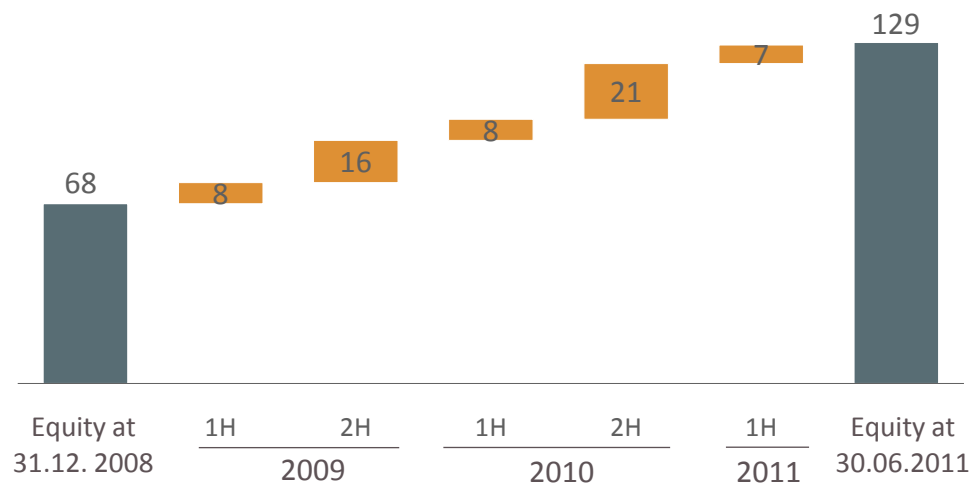
CAPITAL RATIOS

Change over past 30 months



TOTAL EQUITY CAPITAL

Development, ISK BN



Strong capitalisation forms opportunity for growth

- Far above temporarily heightened regulatory requirements of 16%
- Legal limit for total capital is 8%
- Íslandsbanki has stated a desire to lead consolidation in the Icelandic financial sector
 - Offer to acquire all outstanding equity in Byr is pending approval of the Competition Authority

Large equity base starting to weigh down on profitability

- Low interest rates decrease ability to earn a good return
- Un-economical as means of funding
- Íslandsbanki is not permitted to pay dividends for the time being

VI. Icelandic Economy – an update

Past the low point of an economic cycle

Some uncertainty, but economic indicators point to improving conditions

Indicators of economic turnaround in 2011

- Economic growth was positive in both Q1 and Q2 2011
 - Driven by investment and consumption
 - slow growth in exports
- Recovery will be gradual
 - Consumption growing on basis of moderate growth in real purchasing power of wages

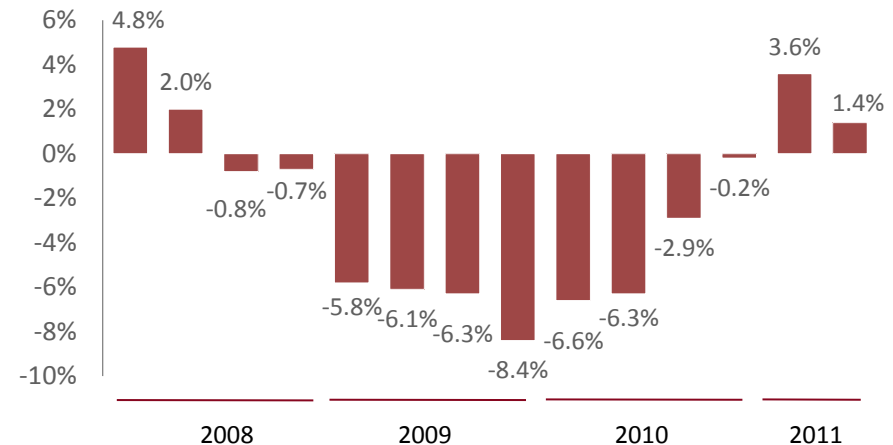
Icelandic real estate shows signs of recovery

- Real estate prices have dropped by approximately 40% from its highest value, without much change in nominal value
- Some time will pass before the real estate market stabilizes and further drop in prices is possible
- However, number of transaction are rising

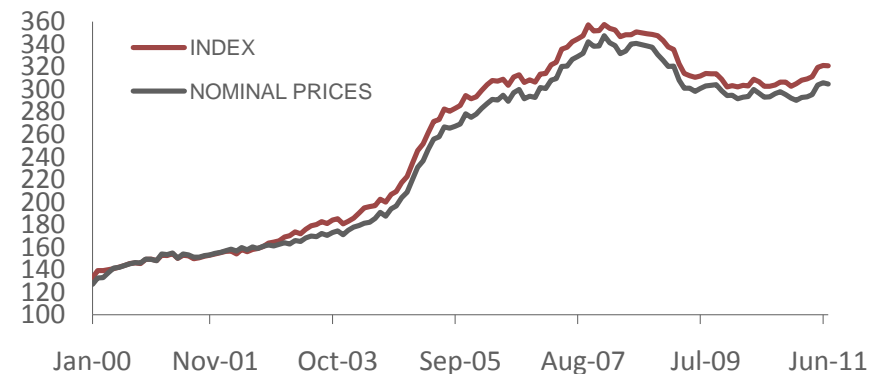
Troubled Euro-countries increase uncertainty

- Major structural problems yet to be resolved
- Concern about co-ordination of euro-zone action and level of intervention of the ECB in relation to PIIGS countries, indirectly influencing the Icelandic economy
- ≈80% of Icelandic exports to Europe

ICELANDIC ECONOMY, Quarterly Economic Growth
Corrected for seasonality



REAL ESTATE PRICE INDEX
Inflation adjusted



Economy is stabilising

Iceland is not suffering a debt crisis

Moderate inflation has supported rate cuts

■ Inflation

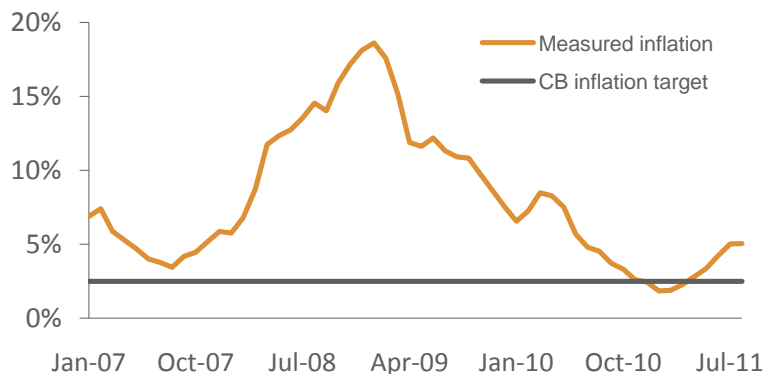
- Currently 5%, double the Central Bank's target
- Temporary drop to 1.8% in Q1
- Deteriorated outlook due to weaker ISK, larger wage rises, higher commodity prices and recovering housing market

■ Benchmark interest rates

- Increase of 25bps brought rate up to 4.5% from historic low
- Monetary Policy Committee has implied that monetary easing may be at an end

CONSUMER PRICE INDEX (CPI)

Year on Year % Change



Unemployment thought to have peaked

■ Unemployment

- CB expects 7.1% unemployment this year compared with 8.1% last year
- High historically for Iceland but near OECD average
- Rise in long-time unemployment is a concern

■ Debt level

- Sovereign debt high but manageable
- Iceland is not suffering a debt crisis
- Principle of IceSave expected to be covered by old Landsbanki's assets

ISK CURRENCY INDEX, ISK/EUR RATE

Corrected for seasonality



Iceland completes IMF programme

Successful conclusion of the stand-by arrangement in August 2011

IMF programme main objectives

- **Exchange rate stability**
 - ISK severely devalued following October 2008 collapse
 - Capital controls imposed
- **Fiscal sustainability**
 - A sizeable deficit had to be tolerated initially
 - Fiscal austerity measures imposed
- **Resurrect financial system**
 - Restructure the collapsed banks
 - Aim at sector wide consolidation and increased efficiency

Objectives largely fulfilled

- **Icelandic Krona (ISK)**
 - Stable albeit under strict capital controls
 - Depreciated by ~7% during 1H, after strengthening in 2010
 - Expected to weaken when capital controls are lifted
 - EUR/ISK 165.7 at end of 1H 2011 – from 153.2 at start of 2011
- **Budget**
 - Central government fiscal deficit just under 3% this year
- **Financial system**
 - Resurrection largely completed
 - Restructuring of loan portfolios well underway

Board of Directors

Independent board combining international experience with domestic expertise



FRIDRIK SOPHUSSON
Chairman of the Board

Mr. Sophusson is an Icelandic national, with nearly forty years of wide-ranging experience in fiscal policy making, management and public service in Iceland.

Mr. Sophusson was appointed the CEO of The National Power Company, in 1999 and held that position for almost 11 years.

Mr. Sophusson served as a Member of Parliament for a period of twenty years from 1978 to 1998, during which time he was appointed as Iceland's Minister of Industry and Energy, 1987 – 1988, and Minister of Finance, 1991 – 1998.



JOHN E. MACK
Vice-Chairman

A US national, Mr. Mack was Corporate Executive Officer and CFO of Shinsei Bank from 2002 - 2005. He spent 27 years working for Bank of America. Has specific experience in corporate work-outs and problem loans through his former role as director of Strategic Solutions, Inc



NEIL GRAEME BROWN

A British national, has extensive experience of finance and restructuring of international businesses. Among positions held by Mr. Brown are head of buyouts and financial services at Apax Partners and partner at Coopers & Lybrand (now PwC)



ÁRNI TÓMASSON

An Icelandic national, Mr. Tomasson began his work in accounting in 1979 and has worked in bank and financial institution auditing since 1985.

Mr. Tómasson was appointed chairman of Glitnir's Resolution Committee in October 2008 and has led the committee's work since that time



DANIEL LEVIN

Dr. Daniel Levin is a US and Swiss national, with broad experience of governance, finance and markets. He has advised financial supervisory authorities on the implementation of ethical and corporate governance and has represented corporate and sovereign issuers and borrowers.



MARIANNE ØKLAND

A Norwegian national, currently holds the position of Managing Director of Avista Partners.

Ms. Økland has spent most of her career in banking dealing with debt financing in various positions at JP Morgan and UBS



KOLBRUN JONSDOTTIR

An Icelandic national, was the managing director of finance for VÍS Insurance from 2008-2010.

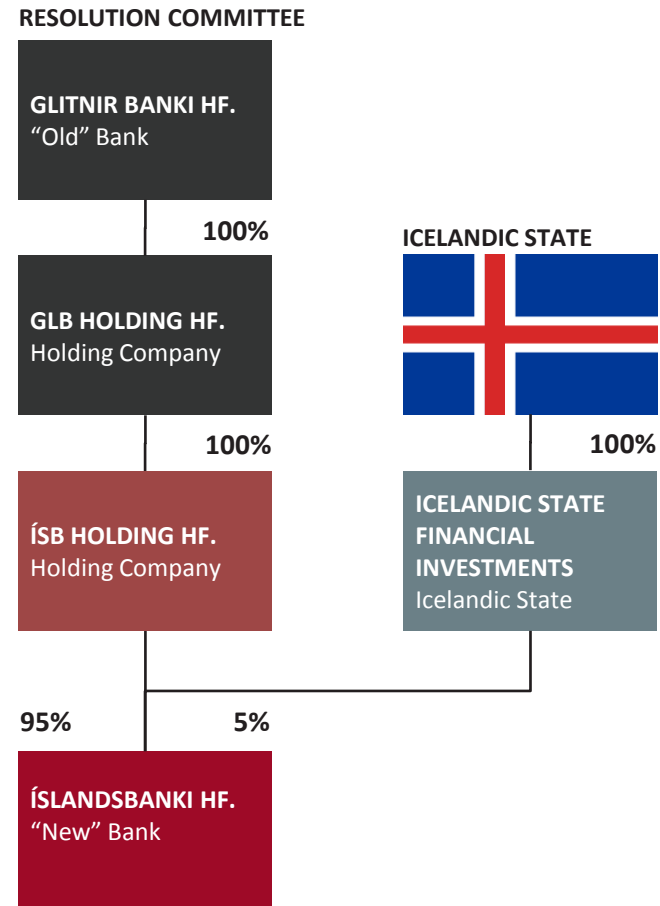
She worked in Íslandsbanki from 1996-2008 both as branch manager in the Reykjavik area and head of back office. Prior to that she was the managing director of finance for the home improvement and construction retailer Húsasmíðjan

Current ownership structure

Current Resolution Committee owner intends to exit within 5 years

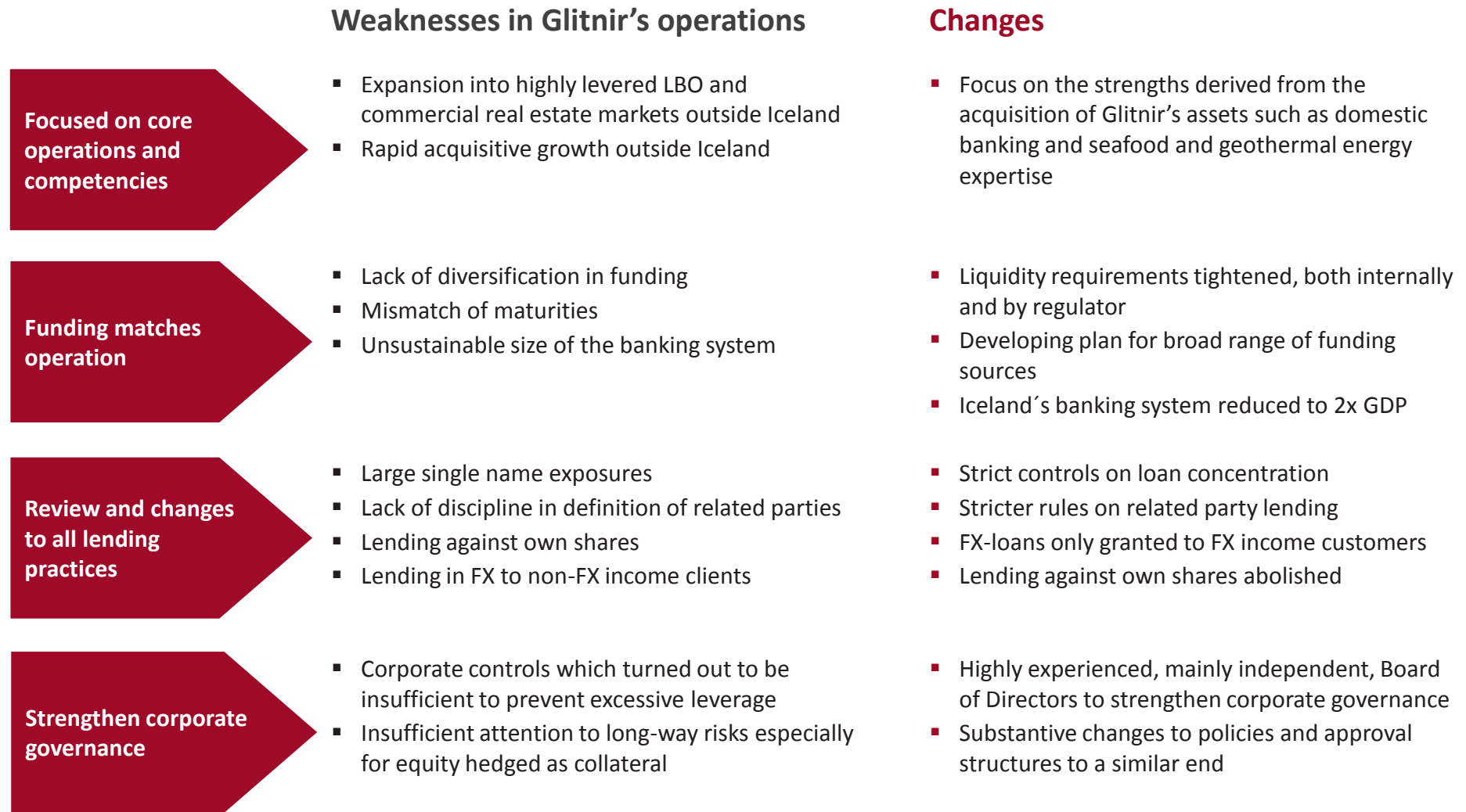
Shareholders

- On 13 Sept 2009 Glitnir, Íslandsbanki and the Icelandic Government agreed on the settlement of assets and liabilities between the “old” and the “new” banks
- A Resolution Committee, on behalf of the creditors of Glitnir, the "old" bank, owns a 95% stake in Íslandsbanki,
- The Icelandic Government, through Icelandic State Financial Investments retains a 5% stake
- Glitnir is not intended to be a long-term owner of Íslandsbanki
 - It has been stated publicly that Glitnir intends to sell its stake within the next five years



Material changes have been made

Íslandsbanki is a substantially different bank



Íslandsbanki

