29 November 2012

9M Financial Results

Íslandsbanki

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Highlights during 9M12

Many significant milestones reached in the nine months of 2012

1 STABLE RECURRING REVENUES

- Over 80% of the Bank's net operating income is from core operations (net interest income and net fee and commission income)
- Net fee and commission income is picking up on back of Byr merger, new fee generating subsidiaries and increased capital markets activities

2 CREDIT QUALITY CONTINUES TO IMPROVE

- Several large restructuring projects finalised in the first nine months of 2012
- Financial restructuring to finish in 2013

3 PROMISING BUSINESS HIGHLIGHTS

- New lending continues to exceed repayments
- Corporate finance working on new IPO mandates that will positively affect capital markets activity
- Byr and Kreditkort synergies already starting to come through, but will have more weight in 2013, with strong customer retention

4 REDUCED OPERATIONAL UNCERTAINTY

- Íslandsbanki the first bank in Iceland to receive ESA approval of measures taken in 2008
- ESA has also approved measures taken in 2008 regarding money market funds as compatible with EEA agreement
- Less legal uncertainty regarding recalculation of FX loans as favourable legal precedents come through the courts

Overview

Key figures & ratios

ISK m	9M12	9M11	FY11
Profitability			
ROE (annualised, after tax), %	**16.3%**	11.9%	1.5%
ROE from regular operations (annualised, after tax), %	**10.9%**	12.0%	11.0%
Net interest margin (of total assets), %	**3.9%**	4.8%	4.5%
Cost to income ratio, %	**51.0%**	50.2%	51.5%*
After tax profit, ISK m	**16,221**	11,346	1,866
Earnings from regular operations, ISK m**	**10,811**	11,359	13,905

ISK m	30.09.12	30.06.12	31.12.11
Capital			
Total equity, ISK m	**140,045**	135,481	123,703
Tier 1 capital ratio, %***	**20.9%**	20.2%	19.1%
Total capital ratio, %***	**24.3%**	23.5%	22.6%
Balance sheet			
Total assets, ISK m	**812,711**	789,937	795,915
Total loans, ISK m	**607,847**	596,116	608,049
Total deposits, ISK m	**524,465**	499,801	525,788
Total deposit / loan ratio, %	**86.3%**	83.8%	86.5%

* Excluding write down of goodwill in 2H11

** 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, costs associated with the Byr merger and the impairment of goodwill, and net earnings from discontinued operations

*** The Bank´s total official capital ratio, calculated according to the Act on Financial Undertakings, was 23.5% and the Tier 1 ratio was 20.2%. The official capital ratio based on reviewed retained earnings at 30 June 2012

I. Income Statement

Income statement

Quarterly and 9M comparison

ISK m	Q312	Q311	9M12	9M11	FY11
Net interest income	**7,601**	7,848	**23,285**	24,151	31,225
Net valuation changes on loans and receivables	**713**	-576	**2,782**	-831	-1,296
Provision for latent impairment	**-309**	167	**-579**	12	76
Net interest income after valuation changes	**8,005**	7,439	**25,488**	23,332	30,005
Net fee and commission income	**2,278**	1,353	**6,704**	4,366	5,966
Net foreign exchange gain	**665**	72	**1,544**	408	937
Net financial income / expense	**223**	131	**2,099**	-337	2,649
Other net operating income	**226**	312	**815**	968	894
Total operating income	**11,397**	9,307	**36,650**	28,737	40,451
Salaries and related expenses	**-2,809**	-2,140	**-9,429**	-7,109	-10,531
Other operating expenses	**-2,462**	-2,238	**-8,459**	-6,643	-9,339
Insurance fund	**-272**	-252	**-798**	-684	-965
Administrative expenses	**-5,542**	-4,630	**-18,686**	-14,436	-20,835
Impairment of goodwill	**0**	0	**0**	0	-17,873
Share profit of associates	**0**	0	**0**	0	39
Profit before tax	**5,854**	4,677	**17,964**	14,301	1,782
Income tax	**-1,465**	-1,030	**-4,463**	-3,097	-75
Bank tax	**-224**	-165	**-631**	-509	-682
Profit from discontinued ops. net of tax	**432**	-198	**3,351**	651	841
Profit after tax	**4,597**	3,284	**16,221**	11,346	1,866
Earnings from regular operations	**3,638**	3,942	**10,811**	11,359	13,905

Core operations continue to improve

Development of P&L line items 9M11 – 9M12

Change in profit after tax by line items
ISK m

Earnings from regular operations

Regular operations continue to generate good profitability in 2012

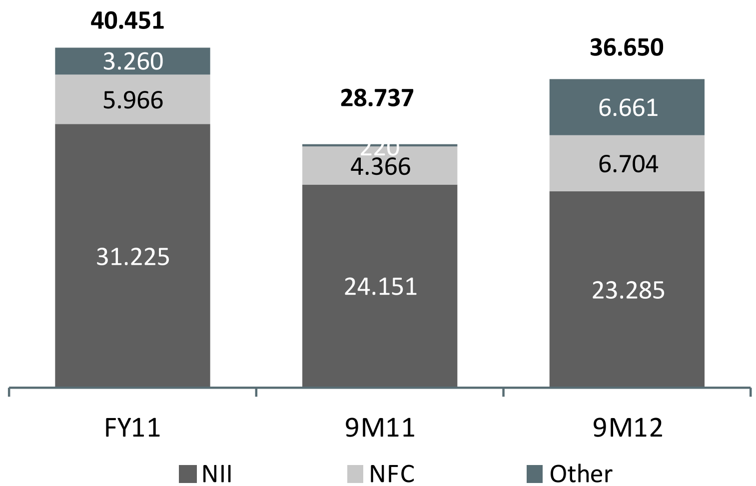
ISK m	Q312	Q311	9M12	9M11	FY11
Reported after tax profit	**4,597**	3,284	**16,221**	11,346	1,866
Net valuation changes on loans and receivables	**-713**	576	**-2,782**	831	1,296
Icelandair fair value change					-3,050
Redundancy payments					496
Professional fees as a result of merger (BYR)					247
Impairment of goodwill (BYR)					17,873
Profit of discontinued ops	**-432**	198	**-3,351**	-651	-841
Tax impact of adjustments	**185**	-116	**723**	-166	-3,982
Earnings from regular operations*	**3,637**	3,942	**10,811**	11,360	13,904
ROE (annualised - after tax)	**13.3%**	10.4%	**16.3%**	11.9%	1.5%
ROE from regular operations (annualised – after tax)	**10.5%**	12.5%	**10.9%**	12.0%	11.0%

* 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, costs associated with the Byr merger and the impairment of goodwill, and net earnings from discontinued operations.

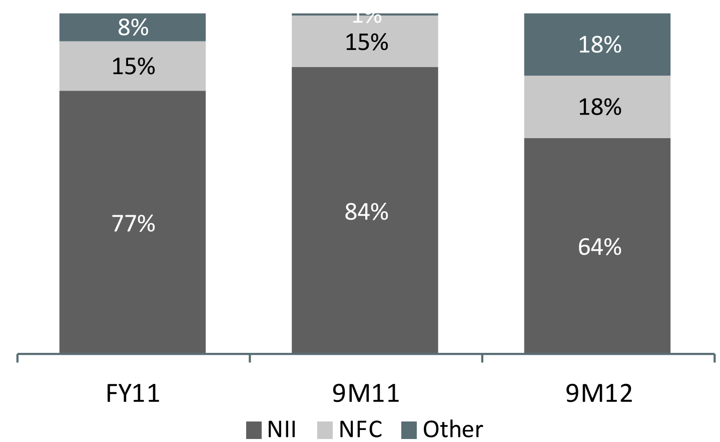
Income split

Focus on long-term stable cash flows, core operations continue to generate vast majority of income

TOTAL OPERATING INCOME SPLIT
By income type, ISK m



TOTAL OPERATING INCOME SPLIT
By income type, %



- Net interest margin of (total assets) at 3.9% in 9M12, compared to 4.8% in 9M11, expected to be approximately 3% in the long term
- Net fee and commission income is starting to pick up on the back of the Byr merger and increased capital markets activity. Also fee generating subsidiary Borgun is now fully incorporated in 9M12 numbers
- Net financial income higher due to fair value gain on Icelandair equity shares and dividend payments from trading shares and bonds

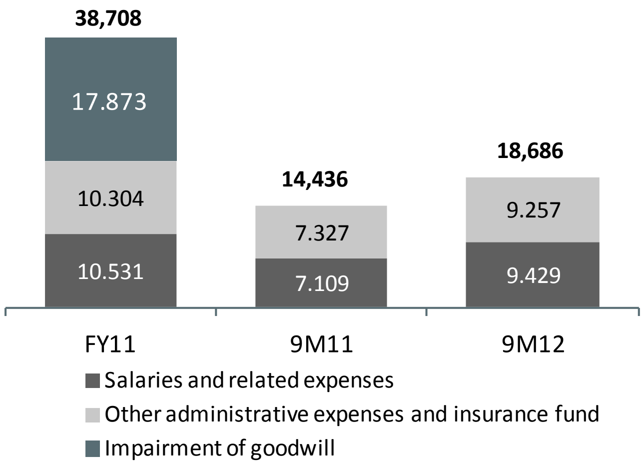
- In line with the bank's focus on long-term stable cash flows, core operations continue to generate vast majority of the Bank's net operating income split
- Over 80% of the Bank's net operating income is from net interest income and net fee and commission income

Íslandsbanki

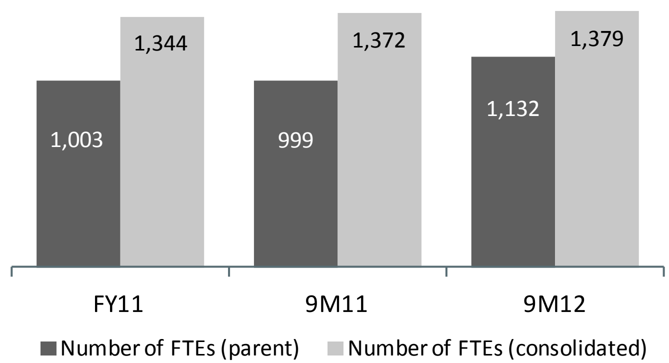
Temporary increase in expenses

Objective to build effective and sound infrastructure for future operations

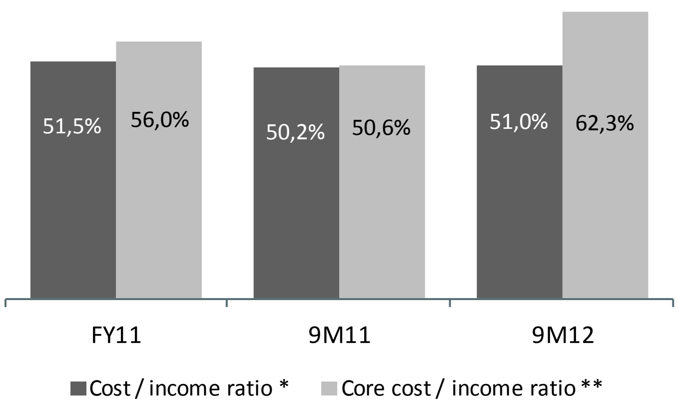
TOTAL EXPENSES
By type of expense, ISK m



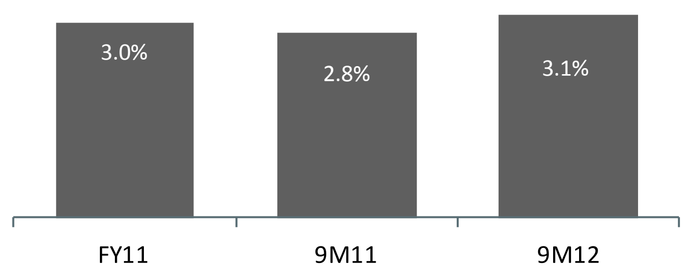
FTEs
Parent vs Consolidated, Yearly average, #



COST / INCOME RATIOS
%



COST / AVERAGE ASSETS*
%



- Higher number of FTEs
  - Merger with Byr in 4Q11 and Kreditkort in 2Q12
  - Restructuring has taken longer time than expected
  - Increased regulatory requirements
- Higher administrative cost
  - New systems and general infrastructure improvements
  - Cost associated with the Byr and Kreditkort mergers – synergies will fully materialise in 2013
  - New subsidiaries entered the group as a result of the Byr merger
- The Bank places great emphasis on cost effectiveness and monitoring
  - Number of FTEs expected to decrease once restructuring nears completion
  - Number of projects in place to reduce administrative expenses

* Excluding write down of goodwill in Q411
** Core cost/ income ratio = Administrative expenses/(Net Interest Income + Net Fee & Commission Income)

Tax and levies paid to government institutions

Taxation has increased considerably in recent years

ISK m	**9M12**	9M11	FY11
Income tax*	**4,463**	3,097	75
Bank tax**	**631**	509	682
Financial activities tax***	**425**	0	0
FME and The Debtors´ Ombudsman	**347**	227	303
Contribution to The Depositors´ and Investors´ Guarantee Fund (TIF)	**798**	684	965
Total	**6,664**	4,517	2,036

* Calculated at 20%. In addition a new special financial activities tax introduced in 2012 is calculated as 6% of taxable profits above ISK billion. The effective income tax rate in the Bank's income statement is 24.8% for the nine months ended 30 September 2012.

** Includes a 0.041% tax on liabilities and a 0.0875% special tax on liabilities for the years 2012 and 2013.

*** 5.45% calculated on salaries

II. Assets & Restructuring

Assets

Consolidated – 30 September 2012

ISK m	30.09.12	30.06.12	31.12.11
Cash and balances with CB	**87,059**	72,072	57,992
Derivatives	**257**	306	339
Bonds and debt instruments	**52,127**	50,386	58,662
Shares and equity instruments	**9,878**	9,870	11,107
Loans to credit institutions	**60,942**	50,218	43,655
Loans to customers	**546,905**	545,898	564,394
Investment in associates	**912**	912	1,070
Property and equipment	**5,545**	5,629	5,276
Intangible assets	**602**	608	544
Deferred tax assets	**1,533**	1,997	2,629
Non-current assets held for sale	**37,528**	39,149	42,690
Other assets	**9,423**	12,892	7,557
Total assets	**812,711**	789,937	795,915

Bonds and debt instruments

- Mainly G5 government bonds in the liquidity portfolio
- No exposure to GIPSIs

Shares and equity instruments

- Decrease due to sale of Icelandair shares

Loans to credit institutions

- Part of liquidity portfolio placed with banks outside of Iceland
- No exposure to troubled banks

Loans to customers

- Second quarter of new lending exceeding repayments.
- Repayment of a large government secured customer loan explains drop from year-end 2011

Non-current assets held for sale

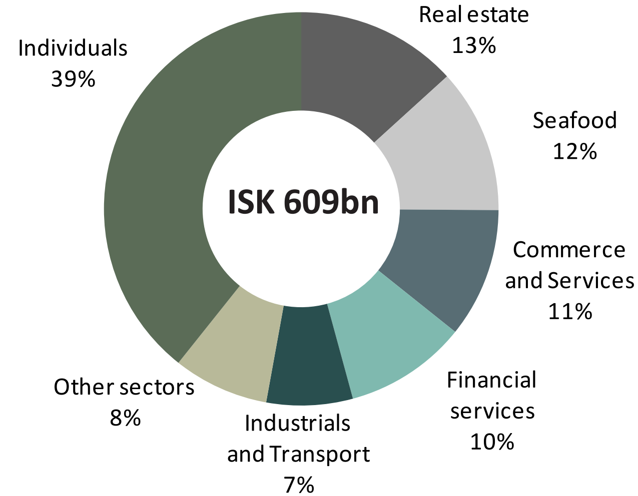
- Decrease partly due to sale of equity holdings in Mar 2012, which were owned by Íslandsbanki's subsidiary Miðengi

Well diversified loan portfolio

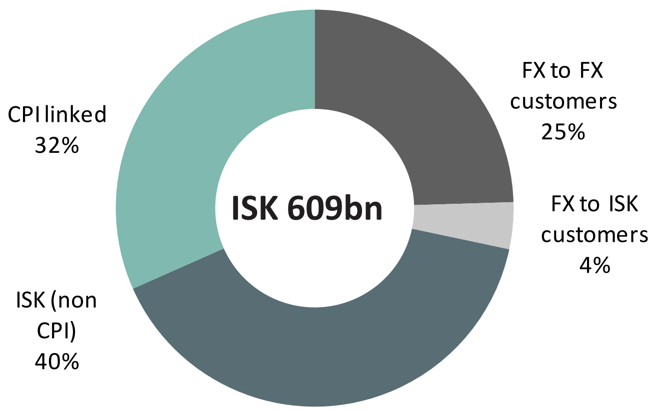
Acquisition of Byr diversified the portfolio further in terms of industry sectors and facility types

- Industry sector concentration within set limits
- Increased activity in asset based financing, both to retail clients as well as financing of large corporate contracts
- Demand from corporates for new loans is improving but still low
- FX loans to ISK customers continues to decrease through recalculation

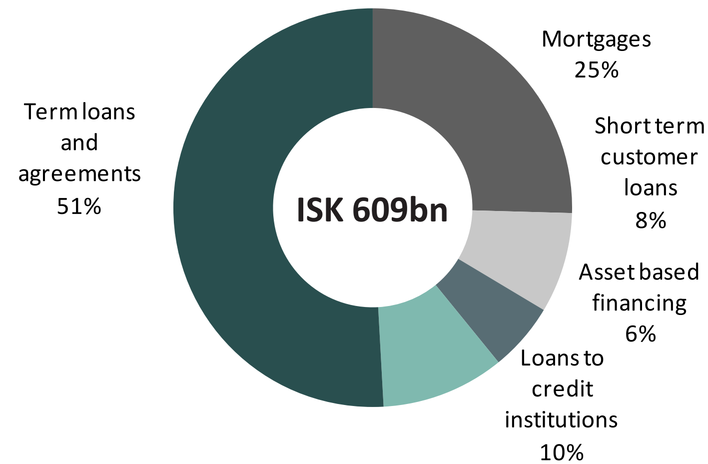
CONSOLIDATED LOAN PORTFOLIO
By sector



CONSOLIDATED LOAN PORTFOLIO
By currency type



CONSOLIDATED LOAN PORTFOLIO
By type of exposure



Exposures as at 30.09.12

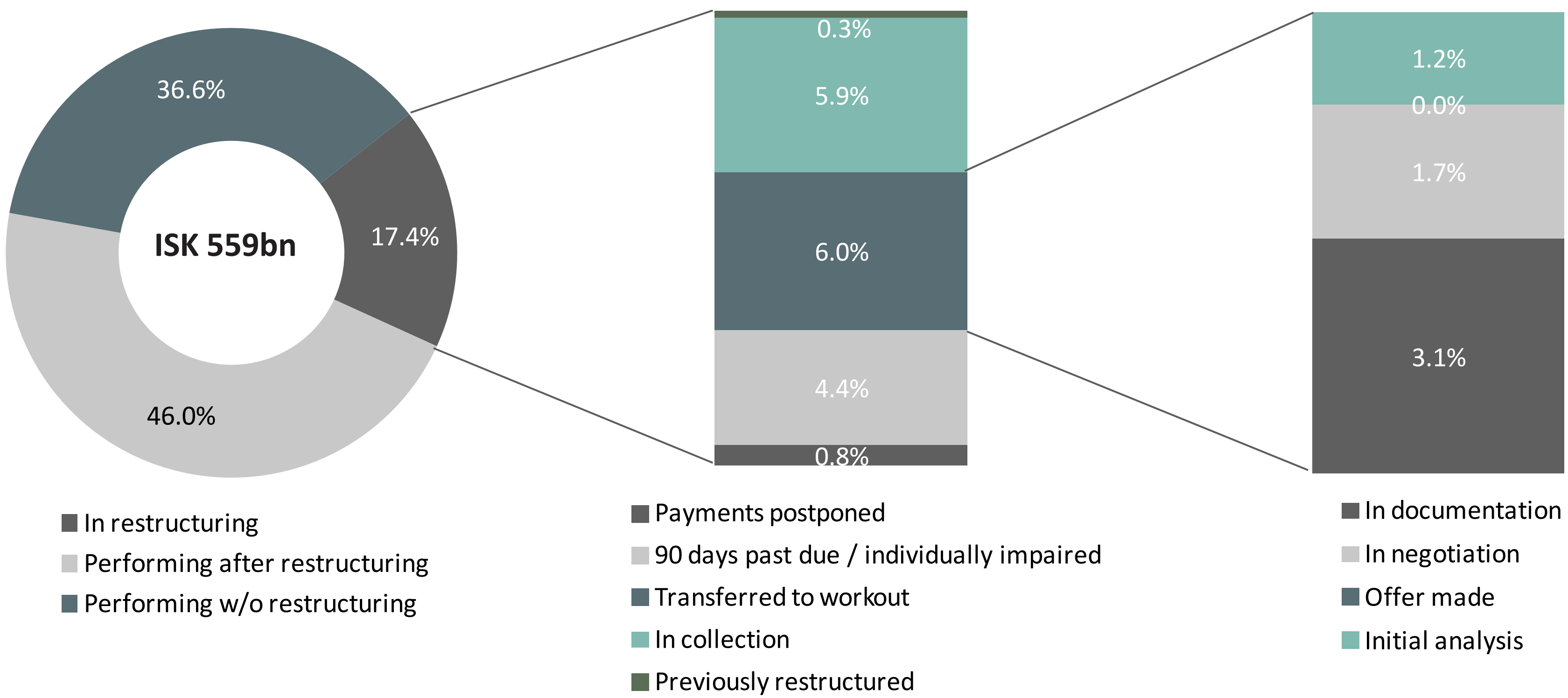
Loan portfolio performance

Carrying amount reflects expected recovery of loans

LOAN PORTFOLIO ANALYSIS (LPA*)
Excluding fully performing loans to credit institutions

LOANS IN RESTRUCTURING**
By status of restructuring
17.4% (30.06.12: 19.6%)

TRANSFERRED TO WORKOUT
By level of completion
6.0% (30.06.12: 6.4%)



- Carrying amount reflects expected recovery of all outstanding loans
- Large part already in workout process
- Almost half of workout portfolio already in advanced stages of documentation

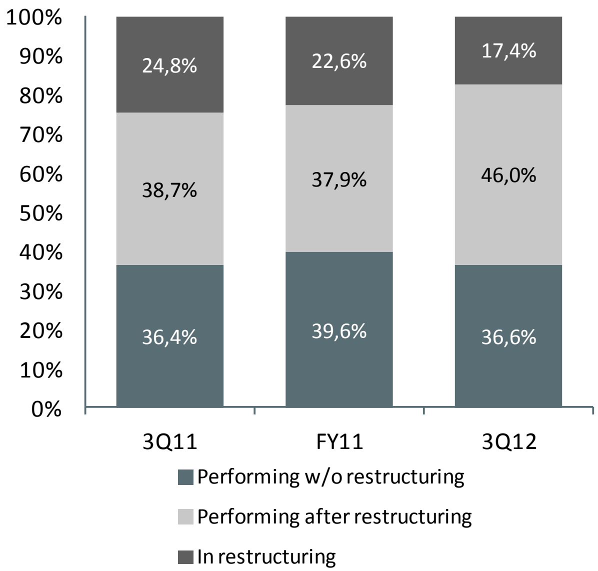
* Parent company only, numbers as of 30.09.12
** As defined by Loan Portfolio Analysis (LPA)

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

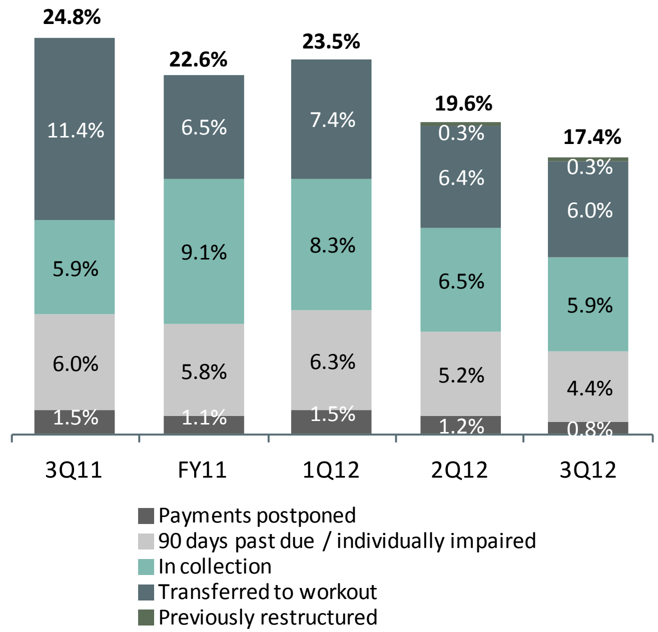
Restructuring progress

Ambitious targets for the next two years

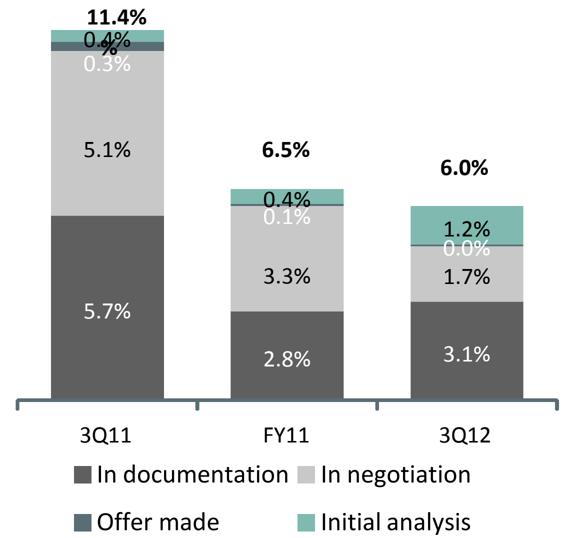
LOAN PORTFOLIO ANALYSIS (LPA*)
Excluding fully performing loans to credit institutions



LOANS IN RESTRUCTURING**
By status of restructuring



TRANSFERRED TO WORKOUT
By level of completion



- Restructuring has been slowed down by court rulings regarding foreign currency loans
- Before the Byr merger, the ratio for loans in restructuring had reached below 20%
- Almost half of workout portfolio already in advanced stages of documentation

* Parent company only, numbers as of 30 September 2012
** As defined by Loan Portfolio Analysis (LPA)

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

III. Liabilities, Liquidity & Capitalisation

Liabilities

Consolidated – 30 September 2012

ISK m	30.09.12	30.06.12	31.12.11
Financial liabilities	**10,493**	11,154	9,346
Derivatives	**5,005**	5,377	4,027
Deposits from CB and credit inst.	**41,921**	41,914	62,845
Deposits from customers	**482,544**	457,887	462,943
Debt issued and other borrowings	**64,693**	66,513	63,221
Subordinated loans	**22,093**	21,853	21,937
Current tax liabilities	**306**	1,156	2,670
Deferred tax liabilities	**235**	238	17
Non-current liabilities held for sale	**5,080**	5,761	7,317
Other liabilities	**40,296**	42,603	37,889
Total liabilities	**672,666**	654,456	672,212
Total equity	**140,045**	135,481	123,703
Total liabilities and equity	**812,711**	789,937	795,915

Deposits

- Normal fluctuations in deposit base

Debt issued and other borrowings

- ISK 49bn bond issued to the Central Bank secured on a pool of mortgages
- ISK 6.6bn bond as a consideration for Byr issued in 4Q11
- ISK 8.8bn covered bond issuances

Subordinated loans

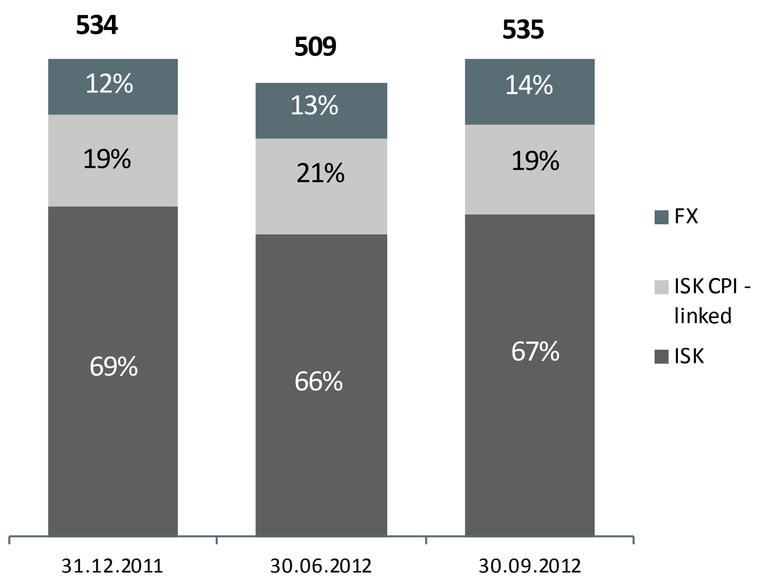
- EUR 138m denominated Tier II Government bond following agreement with creditors and Government in September 2009

Other liabilities

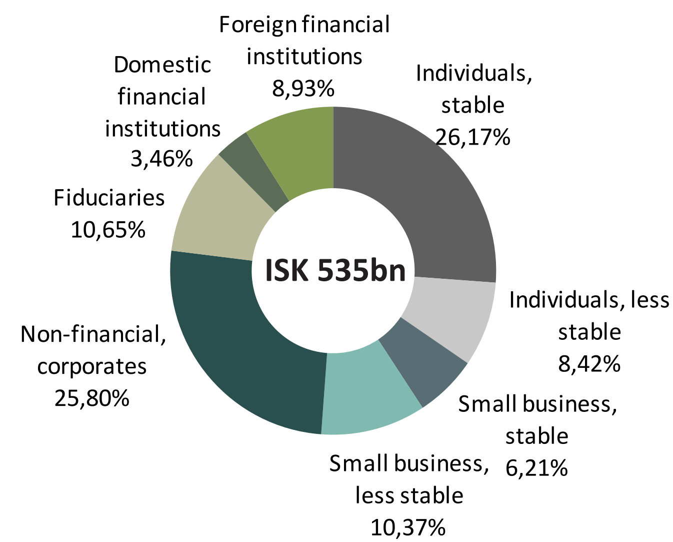
- Includes accruals, unsettled securities transactions and liabilities in subsidiaries

Deposits are stable

DEPOSIT DEVELOPMENT
Total exposure, parent company, ISKbn



DEPOSIT COMPOSITION
As of 30.09.12, parent company, by customer type



Increased focus on term deposits

- Treasury has defined targets for the ratio of term deposits as a proportion of total deposits
- Main focus on notice accounts and fixed interest accounts

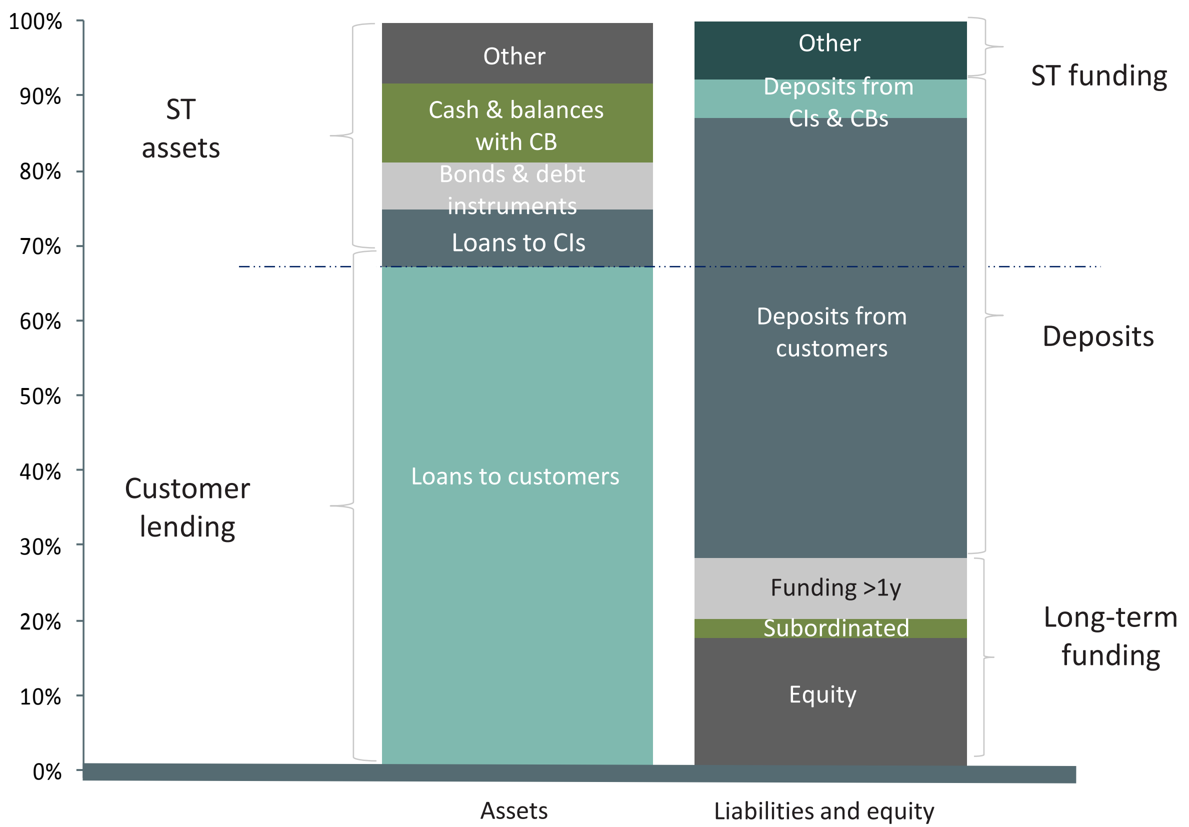
Concentration is monitored closely

- Funding and liquidity management aims at diversifying funding sources

Structurally sound balance sheet

Solid funding base where deposits are the largest source of funding

BALANCE SHEET COMPOSITION
30.09.12, %



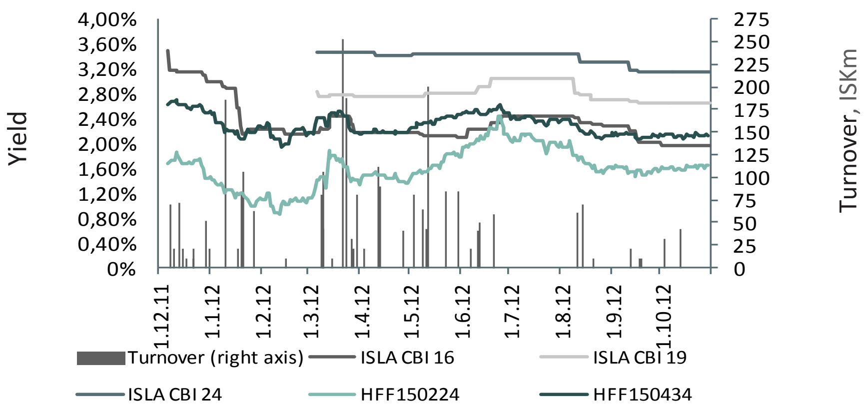
Funding diversification

- Prudent asset and liability management
- The Bank has enough short term assets that can easily be liquidated to cover substantial outflow of deposits

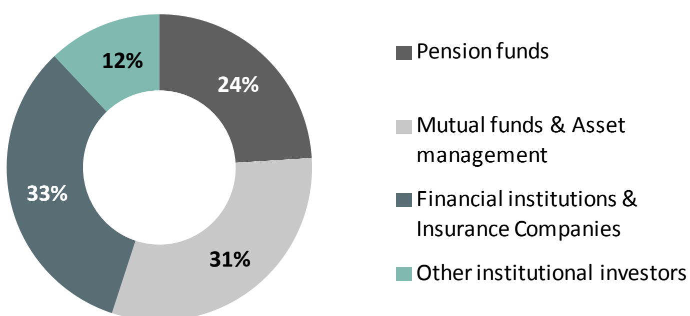
Diversification of funding continues

Íslandsbanki was the first bank to list securities on the NASDAQ OMX Iceland since 2008

ÍSLANDSBANKI COVERED BONDS
Yield and turnover as of November 2012



INVESTOR DISTRIBUTION
%, by type of investor



An ISK 100bn covered bond programme in place

- Íslandsbanki plans to issue around ISK 10bn of CBs annually
- Four oversubscribed issues to date amounting to ISK 11.4bn
  - Dec 2011: ISK 4bn, five year, CPI-linked bonds with one payment of principal on maturity date
  - Mar 2012: ISK 1.8bn, 7-year CPI-linked bonds at a real yield of 2.84% (tap issuance of ISK 630 million in May and ISK 400 million in November))
  - Mar 2012: ISK 1.5bn, 12-year CPI-linked bonds at a real yield of 3.45% (tap issuance of ISK 850 million in May and ISK 950 million in November)
  - Oct 2012: ISK 1.2bn, 3-year non index-linked bond at a nominal yield of 6.5%

Covered bonds performing well in the after market

- The yield on the two March 2012 issues has trended downward with the 7 year bond issued at a yield of 2.84% (trading at 2.64% in November 2012) and the 12 year bond issued at a yield of 3.45% (trading at 3.14% in November 2012)

Íslandsbanki has no pressing need for FX funding in the short or medium term

- The Bank is considering its options for raising term foreign currency funding, as growth in the loan book is set to resume

Sound management of liquidity

Liquid assets of ISK 167bn exceed regulatory targets

LIQUIDITY BACK-UP* / DEPOSIT COVERAGE RATIO
30.09.12, parent company, ISKbn

Asset type	ISK	FX	Total
Cash and balances with CB	79.9	0.9	80.9
Balances with credit institutions	1.0	54.5	55.5
Repo eligible bonds	15.2	0.0	15.2
Foreign government bonds	0.0	15.5	15.5
Total	**96.1**	**70.9**	**167.0**
Total deposits (parent)	460.7	73.8	534.5
Liquid assets to total deposits	21%	96%	31%

- The Government liquidity facility line expired in September 2012 and is no longer a part of the Bank's liquidity back-up

Regulatory liquidity requirements

- FME requires cash or cash-like assets against demand deposits of 5%
  - Íslandsbanki (30.09.12): 17%
  - FME changed the assumptions for calculation of the ratio in September 2012 resulting in a lower ratio
- FME requires liquid assets against all deposits of 20%
  - Íslandsbanki (30.09.12): 31%
- CB: Liquid assets and expected loan inflow cover 100% of all assumed outflow according to CB definitions over the next 3 months
  - Íslandsbanki (30.09.12): 137%
- New liquidity rules (LCR and NSFR), adapted to circumstances in Iceland, are being drafted by the Central Bank.
  - The rules are intended to take effect in 2013

* Consists of both on and off-balance sheet assets that the Bank holds and are considered liquid

Imbalances strictly monitored

Gross foreign currency gap converges to the net gap

IMBALANCES
30.09.12

ISKbn	FX denominated	CPI-linked
Assets	211	196
Adjustments for FX / ISK assets	23	
Net assets	**188**	**196**
Liabilities	165	179
Net gap	**23**	**17**

FX assets

- Gross foreign currency gap converges to the net gap as FX/ISK assets are converted to ISK assets through recalculation and restructuring
- Categorisation based on customer cash flow
- Real FX assets (FX/FX) amount to ISK 171bn
- Exchange rate changes are fully offset in the impairment account in cases where recovery is fixed in ISK
- Net FX gap is strictly monitored and is within regulatory limit

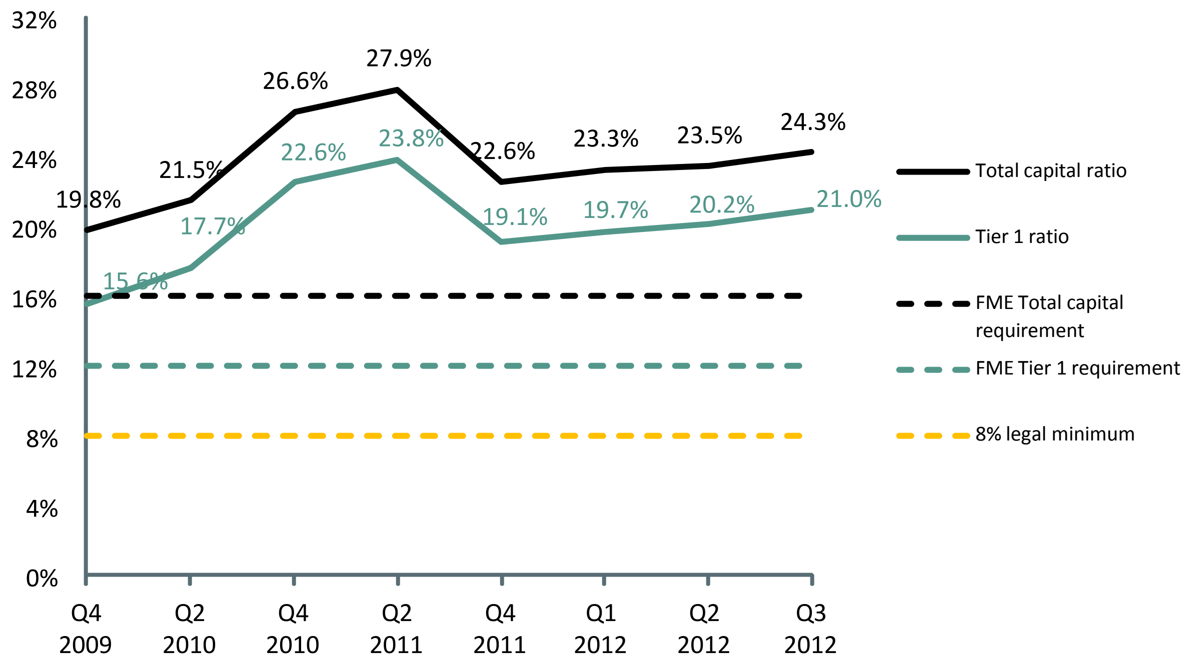
Net gap between inflation indexed assets and liabilities

- CPI-linked covered bonds and CPI linked swaps are used to manage the CPI gap

Sound capital position

Well above legal and regulatory requirements

CAPITAL RATIOS, STANDARDISED APPROACH*
Development, %



- Increase in capital ratios on the back of retained earnings and increase in risk weighted assets
- The dip in Q411 was mainly due to Byr merger and write-off of goodwill

* The Bank's total official capital ratio, calculated according to the Act on Financial Undertakings, was 23.5% and the tier 1 ratio was 20.2%. The official capital ratio is based on reviewed retained earnings at 30 June 2012

Disclaimer

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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.

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