28 February 2013

FY 2012 Financial Results

Íslandsbanki

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Highlights during 2012

Many significant milestones reached during the year

1 STABLE RECURRING REVENUES

- Over 75% 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 and Kreditkort merger, new fee generating subsidiaries and increased capital markets activities

2 CREDIT QUALITY CONTINUES TO IMPROVE

- Several large corporate restructuring projects finalised in 2012
- Financial restructuring of corporate loans expected to finish in 2013 and of the whole loan book in 2014
- Loan portfolio performance has improved significantly, whereby the proportion of loans in restructuring decreased from 22.6% to 13.7%

3 PROMISING BUSINESS HIGHLIGHTS

- Byr and Kreditkort synergies already starting to come through, but will have more weight in 2013, with strong customer retention
- Corporate finance concluded several successful mandates that positively affected capital markets activity, including IPOs of Eimskip and Vodafone and Eik's largest private sector bond offering since 2008

4 REDUCED OPERATIONAL UNCERTAINTY

- Íslandsbanki received ESA approval of measures taken in 2008 when the Bank was established. ESA also approved measures regarding money market funds taken in 2008
- Less legal uncertainty regarding recalculation of FX loans as favourable legal precedents came through the courts
- 2013 has already seen conclusion of the Icesave issue, a sovereign upgrade from Fitch and outlook change from Moody's

Overview

Key figures & ratios

	ISK m	FY12	FY11	FY10
Profitability	ROE (after tax), %	**17.2%**	1.5%	28.5%
	ROE from regular operations (after tax), %	**11.6%**	11.0%	17.2%
	Net interest margin (of total assets), %	**3.9%**	4.5%	5.0%
	Cost to income ratio, %	**48.1%**	51.5%*	33.2%
	After tax profit, ISK m	**23,418**	1,866	29,369
	Earnings from regular operations, ISK m**	**15,694**	13,905	17,756

	ISK m	31.12.12	31.12.11	31.12.10
Capital	Total equity, ISK m	**147,660**	123,703	121,463
	Tier 1 capital ratio, %	**22.0%**	19.1%	22.6%
	Total capital ratio, %	**25.5%**	22.6%	26.6%
Balance sheet	Total assets, ISK m	**823,375**	795,915	683,222
	Risk weighted assets	**664,689**	629,419	534,431
	Total loans, ISK m	**611,900**	608,049	546,031
	Total deposits, ISK m	**509,428**	525,788	423,396
	Total deposit / loan ratio, %	**83.3%**	86.5%	77.5%

* Excluding extraordinary 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

I. Income Statement

Income statement

Full year and quarterly comparison

ISK m	Q4 12	Q4 11	Q4 10	FY12	FY11	FY10
Net interest income	**7,950**	7,074	9,128	**31,235**	31,225	34,874
Net valuation changes on loans and receivables	**3,704**	(465)	12,267	**6,486**	(1,296)	14,507
Provision for latent impairment	**(197)**	64	(41)	**(776)**	76	(514)
Net interest income after net valuation changes	**11,457**	6,673	21,354	**36,945**	30,005	48,867
Net fee and commission income	**2,755**	1,600	2,146	**9,459**	5,966	7,380
Net foreign exchange gain (loss)	**1,760**	529	1,391	**3,304**	937	(963)
Net financial income (expense)	**556**	2,986	(548)	**2,655**	2,649	(910)
Other net operating income (expense)	**181**	(74)	490	**996**	894	1,186
Total operating income	**16,709**	11,714	24,832	**53,359**	40,451	55,560
Salaries and related expenses	**(3,652)**	(3,422)	(2,516)	**(13,080)**	(10,531)	(9,207)
Other operating expenses	**(3,049)**	(2,696)	(2,279)	**(11,509)**	(9,339)	(8,659)
Insurance fund	**(257)**	(281)	270	**(1,055)**	(965)	(607)
Administrative expenses	**(6,958)**	(6,399)	(4,526)	**(25,644)**	(20,835)	(18,473)
Impairment of goodwill	**(425)**	(17,873)	0	**(425)**	(17,873)	0
Share profit of associates	**0**	39	0	**0**	39	0
Profit (loss) before tax	**9,326**	(12,519)	20,308	**27,290**	1,782	37,087
Income tax	**(1,790)**	3,022	(3,323)	**(6,253)**	(75)	(7,214)
Bank tax	**(227)**	(173)	(221)	**(858)**	(682)	(221)
Profit (loss)from discontinued ops. net of tax	**(112)**	190	(545)	**3,239**	841	(283)
Profit (loss) after tax	**7,197**	(9,480)	16,219	**23,418**	1,866	29,369
Earnings from regular operations	**4,883**	2,252	6,703	**15,694**	13,905	17,756

Earnings from regular operations

Regular operations continue to generate good profitability in 2012

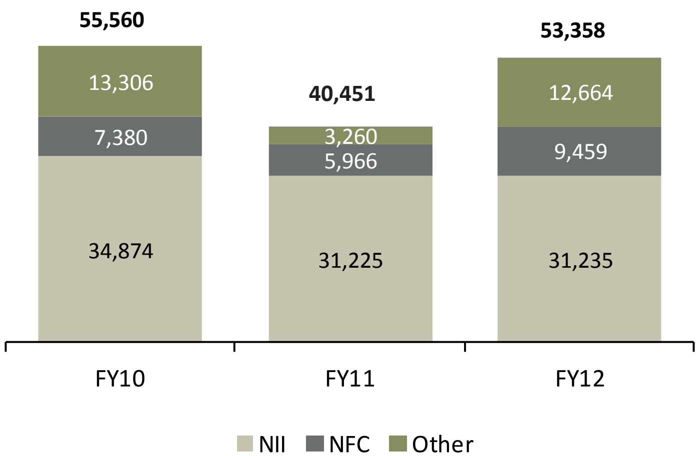
ISK m	FY12	FY11	FY10
Reported after tax profit	**23,418**	1,866	29,369
Net valuation changes on loans and receivables	**(6,486)**	1,296	(14,507)
Fair value change	**0**	(3,050)	0
Redundancy payments	**0**	496	0
Professional fees as a result of merger (BYR)	**0**	247	0
Impairment of goodwill	**425**	17,873	0
Profit from discontinued ops	**(3,239)**	(841)	283
Tax impact of adjustments	**1,576**	(3,982)	2,611
Earnings from regular operations*	**15,694**	13,905	17,756
ROE (after tax)	**17.2%**	1.5%	28.5%
ROE from regular operations (after tax)	**11.6%**	11.0%	17.2%

* 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.

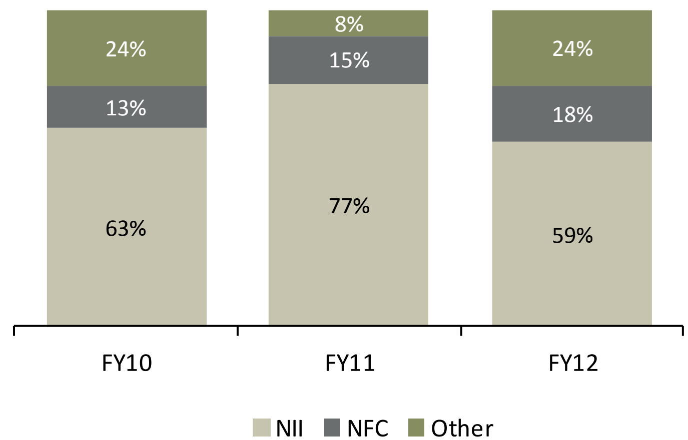
Income split

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

NET OPERATING INCOME SPLIT
By income type, ISK m



NET OPERATING INCOME SPLIT
By income type, %



- Net interest margin (of total assets) was 3.9% in 2012, compared to 4.5% in 2011, and expected to be approximately 3% in the long term
- Net fee and commission income is starting to pick up on the back of Byr and Kreditkort mergers and increased capital markets activity. Also fee generating subsidiary Borgun is now fully incorporated in 2012 numbers
- Net financial income higher in 2012 due to fair value gain on Icelandair equity shares and dividend payments from trading shares and bonds

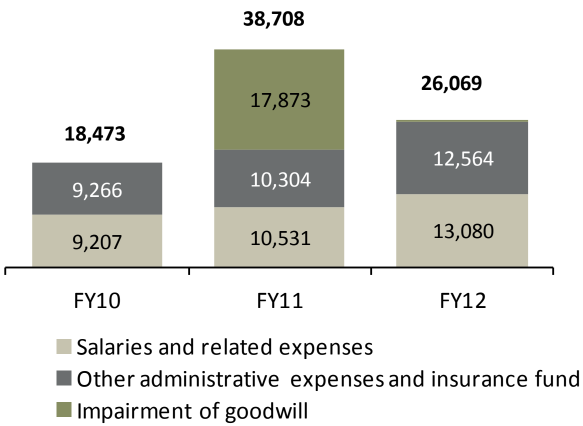
- In line with the Bank's focus on long-term stable cash flows, core operations (NII and NFC) continue to generate vast majority of the Bank's net operating income split

  Over 75% of the Bank's net operating income is from net interest income and net fee and commission income

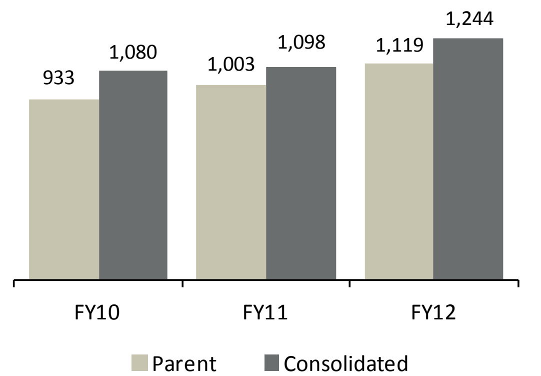
Focus on reigning in costs

Higher costs attributed to continued restructuring, mergers, regulation and investment in infrastructure

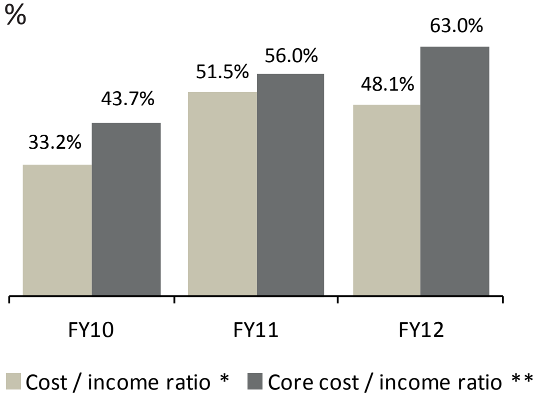
TOTAL EXPENSES
By type of expense, ISK m



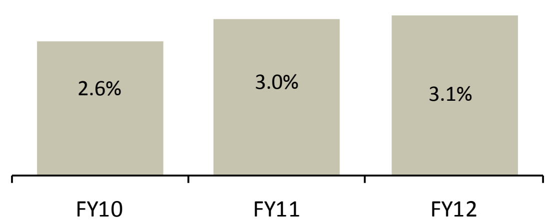
FTEs
Parent vs Consolidated*** Yearly average, #



COST / INCOME RATIOS
%



COST / AVERAGE ASSETS*
%



- Restructuring taking longer than expected, number of FTEs expected to go down when in final stages
- Increased regulatory requirements
- Merger with Byr in 4Q11 and Kreditkort in 2Q12 resulted in increase in both FTEs and higher administrative costs which will be offset by synergies realised in 2013
- Temporary costs associated with investment in infrastructure and IT systems
- Emphasis on cost effectiveness and monitoring with number of projects in place to reduce administrative expenses

* Excluding write down of goodwill in 4Q11
** Core cost/ income ratio = Administrative expenses/(Net Interest Income + Net Fee & Commission Income)
*** Excluding groups held for sale

Tax & levies paid to Government institutions

Taxation has increased considerably in recent years

ISK m	FY12	FY11	FY10
Income tax*	**6,253**	75	7,214
Bank tax**	**858**	682	221
Financial activities tax***	**623**	0	0
FME and The Debtors´ Ombudsman	**462**	303	217
Contribution to The Depositors´ and Investors´ Guarantee Fund (TIF)	**1,055**	965	607
Total	**9,251**	2,025	8,259

* Calculated at 20%. In addition, a new special financial activities tax was introduced in 2012 which is calculated as 6% of taxable profits above ISK billion. The effective income tax rate in the Bank's income statement is 22.9% for the year 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

Íslandsbanki

II. Assets & Restructuring

Assets

Consolidated – 31 December 2012

ISK m	**31.12.12**	31.12.11	31.12.10
Cash and balances with CB	**85,500**	57,992	30,799
Derivatives	**127**	339	70
Bonds and debt instruments	**64,035**	58,662	68,024
Shares and equity instruments	**10,445**	11,107	3,022
Loans to credit institutions	**54,043**	43,655	30,870
Loans to customers	**557,857**	564,394	515,161
Investment in associates	**503**	1,070	354
Property and equipment	**5,579**	5,276	5,419
Intangible assets	**261**	544	187
Deferred tax assets	**864**	2,629	283
Non-current assets held for sale	**39,046**	42,690	23,489
Other assets	**5,115**	7,557	5,544
Total assets	**823,375**	795,915	683,222

Bonds and debt instruments

- Mainly G5 government bonds in the Bank's 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

- Repayment of a large Government secured customer loan explains drop from year-end 2011
- Excluding that loan, the portfolio increased by 6.3% in 2012

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

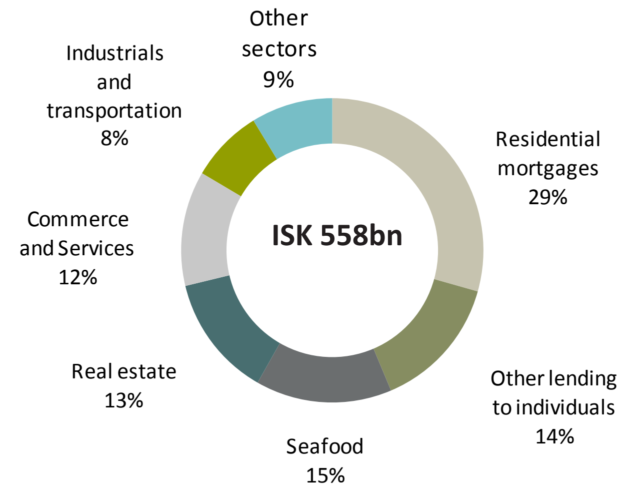
Loan portfolio

Good sector diversification

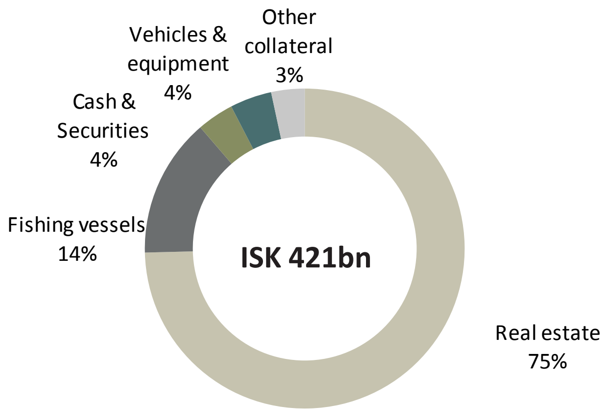
Slight decrease in the loan book during 2012

- Excluding the government secured customer loan that was paid up, the loan portfolio increased by 6.3% YoY
- Loans to individuals have increased
- Fluctuation in the corporate portfolio because of competitive environment, as well as revaluation and prepayment of loans
- FX loans to ISK customers continue to decrease
- Real estate remains the most important collateral type
- Weighted average LTV for the residential mortgage portfolio was 85% as of 31.12.2012*

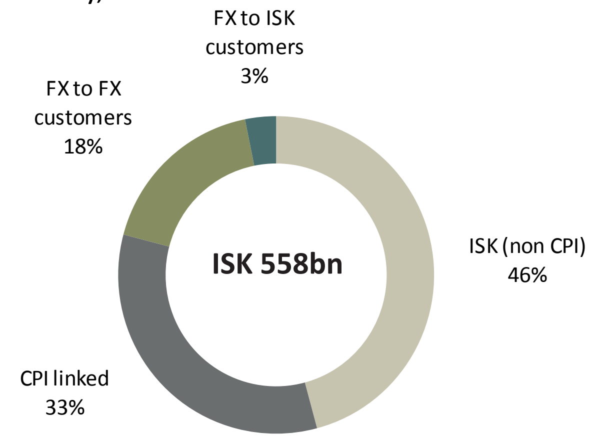
CONSOLIDATED LOAN PORTFOLIO
By sector, as of 31.12.2012



CONSOLIDATED LOAN PORTFOLIO
By collateral, as of 31.12.2012



CONSOLIDATED LOAN PORTFOLIO
By currency, as of 31.12.2012



* 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. Please note that the average LTV can be calculated in many different ways and therefore the definition is important for comparison to other banks

Improving credit quality

Both conventional ratios and Iceland specific ratios are improving

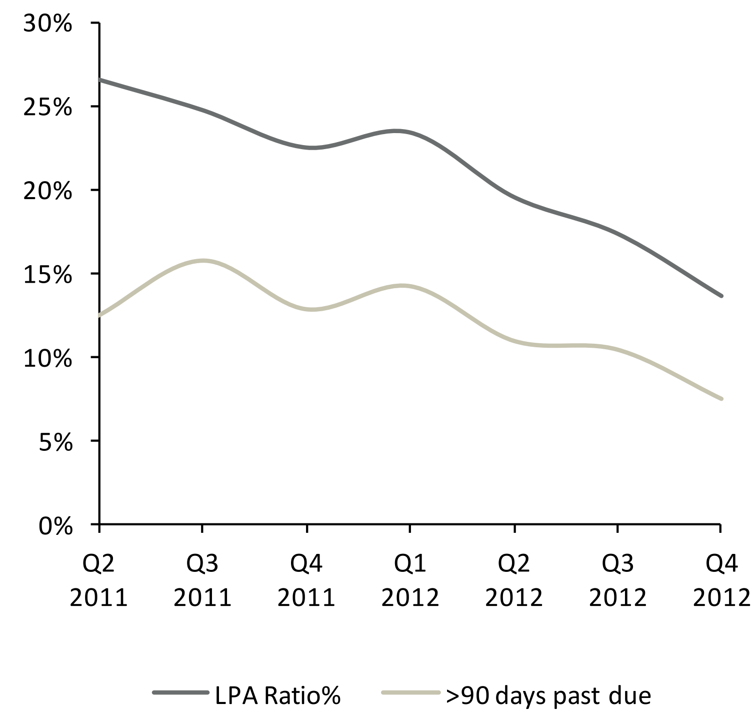
Loan Portfolio Analysis (LPA) ratio measurement

- The LPA ratio has decreased sharply over the last 18 months
- The LPA ratio was 13.7% at year-end 2012, compared to 22.6% at the end of 2011
- The LPA ratio measures the progress of restructuring
- Defined on the obligor level, an Iceland specific ratio

Loans more than 90 days past due

- Past due loans have also been decreasing
- The ratio of loans more than 90 days past due was 7.5% at year-end 2012, compared to 13% at the end of 2011
- Measures the carrying amount of all loans that are more than 90 days past due (both impaired and not impaired loans)
- Defined on the facility level, not an Iceland specific ratio

DEVELOPMENT OF LPA AND NON-PERFORMING LOANS
Percentage of the loan portfolio (book value)



Loan portfolio performance

Carrying amount reflects expected recovery of loans

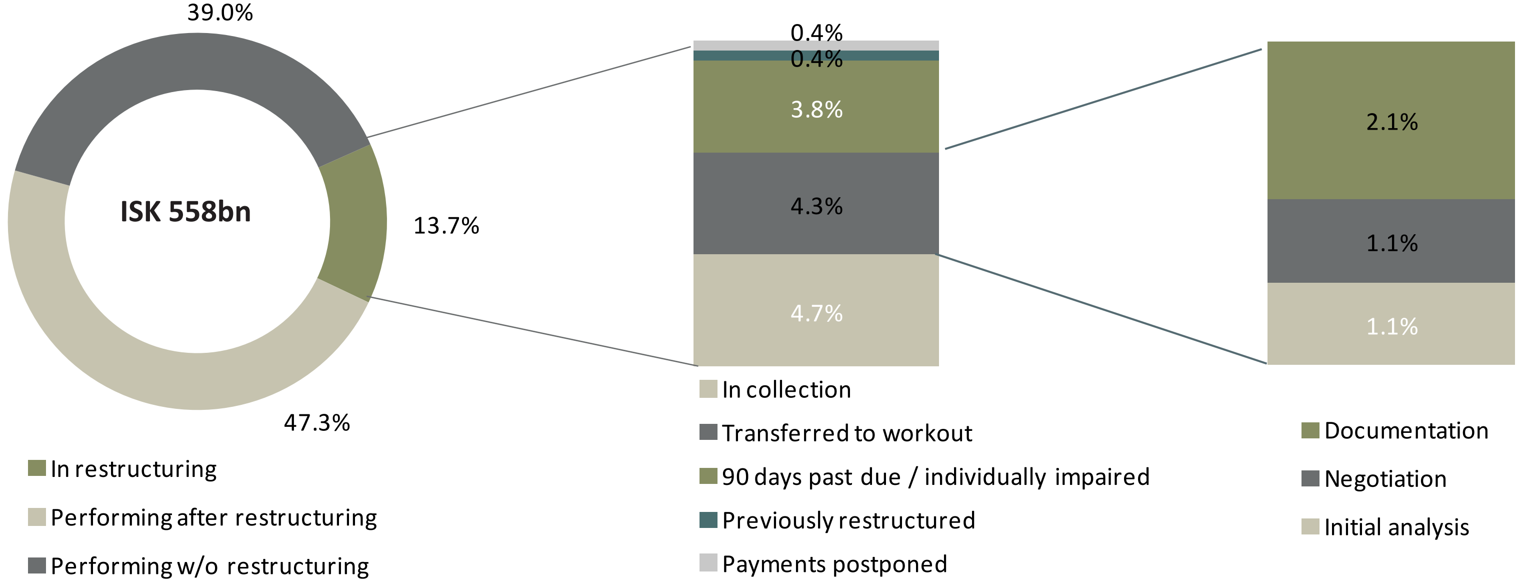
LOAN PORTFOLIO ANALYSIS (LPA*)
Excluding fully performing loans to credit institutions

LOANS IN RESTRUCTURING**
By status of restructuring

13.7% (FY11: 22.6%)

TRANSFERRED TO WORKOUT
By level of completion

4.3% (FY11: 6.5%)



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

* Parent company only, numbers as of 31.12.12
** As defined by Loan Portfolio Analysis (LPA)

III. Liabilities, Liquidity & Capitalisation

Liabilities

Consolidated – 31 December 2012

ISK m	**31.12.12**	31.12.11	31.12.10
Derivatives and short positions	**18,435**	13,373	9,519
Deposits from CB and credit inst.	**38,272**	62,845	96,238
Deposits from customers	**471,156**	462,943	327,158
Debt issued and other borrowings	**66,571**	63,221	55,425
Subordinated loans	**23,450**	21,937	21,241
Current tax liabilities	**2,052**	2,670	9,024
Deferred tax liabilities	**20**	17	18
Non-current liabilities held for sale	**6,805**	7,317	16,442
Other liabilities	**48,954**	37,889	26,694
Total liabilities	**675,715**	672,212	561,759
Total equity	**147,660**	123,703	121,463
Total liabilities and equity	**823,375**	795,915	683,222

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 13.4bn covered bond issuances

Subordinated loans

- EUR 138m denominated Tier II Government bond following agreement between Íslandsbanki, Glitnir and the Government in September 2009

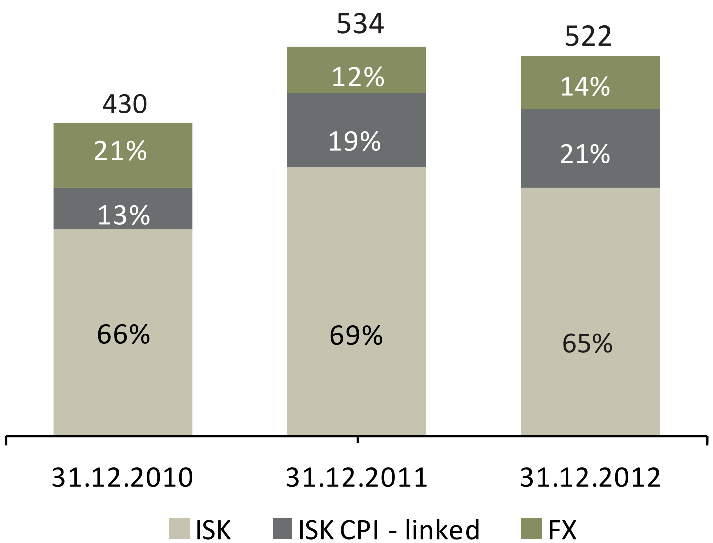
Other liabilities

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

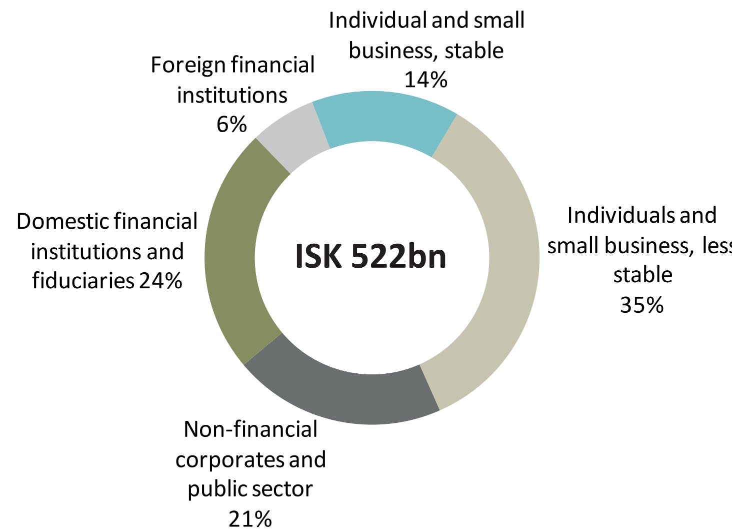
Deposits remain a stable source of funding

New term deposit products successfully introduced with objective to lower liquidity risk

DEPOSIT DEVELOPMENT
Total exposure, parent company, ISK bn



DEPOSIT COMPOSITION
As of 31.12.12, parent company, by LCR category



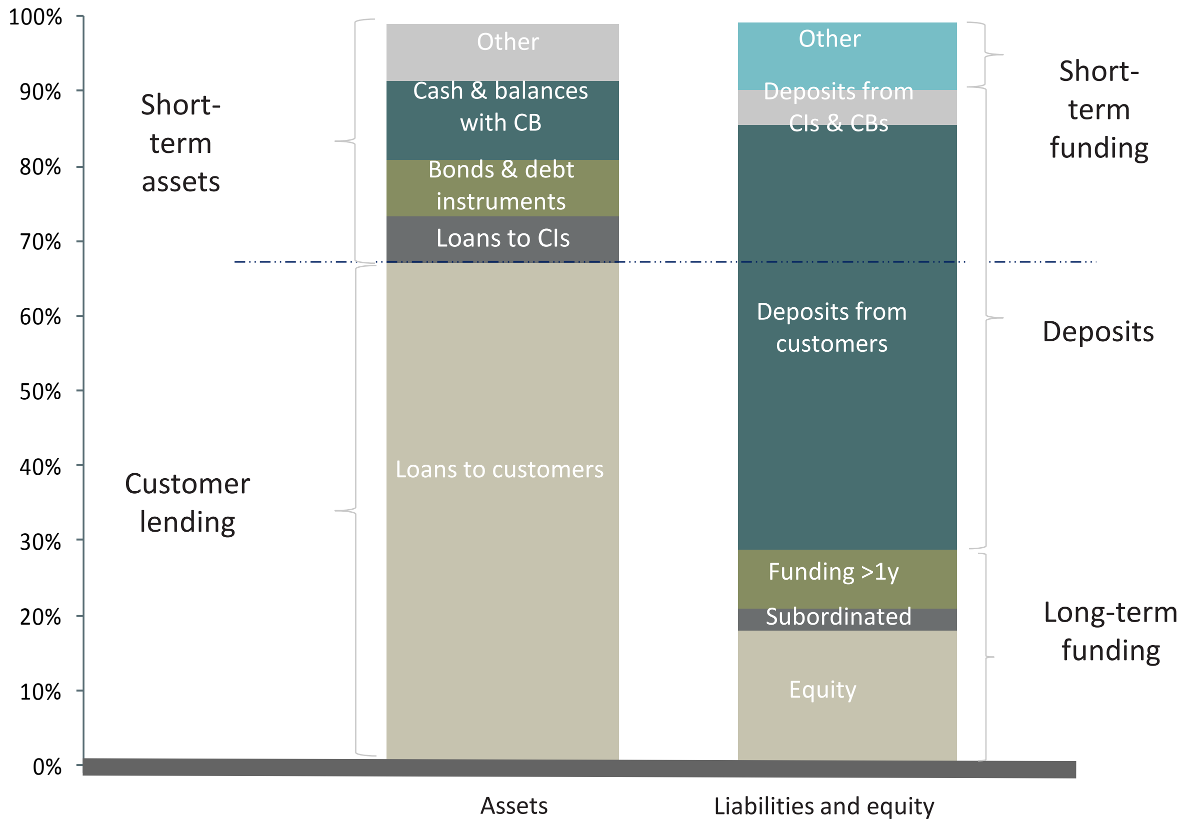
- Deposits are still the main funding source of the bank
- Funding and liquidity management aims at diversifying funding sources

- Concentration is monitored closely

Structurally sound balance sheet

Solid funding base where deposits are the largest source of funding

BALANCE SHEET COMPOSITION
31.12.12, %



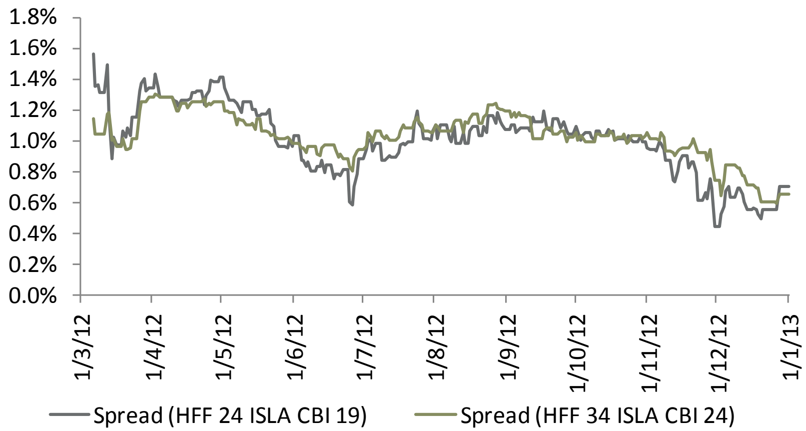
- Prudent asset and liability management
- The Bank has short term assets that can easily be liquidated to cover substantial outflow of deposits

Diversification of funding continues

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

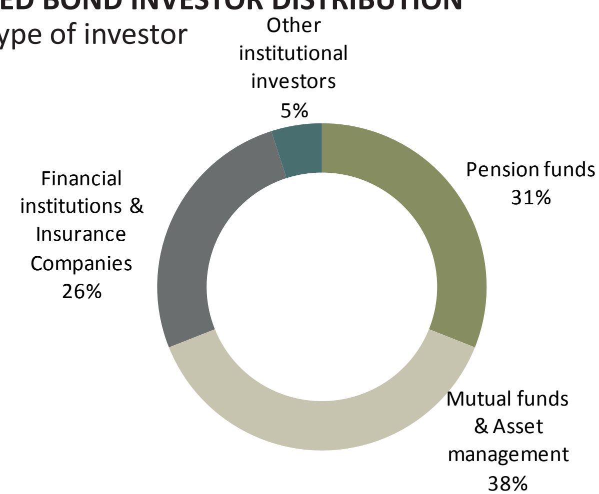
ÍSLANDSBANKI COVERED BONDS

Spread on top of HFF bonds (Government guaranteed)



COVERED BOND INVESTOR DISTRIBUTION

%, by type of investor



An ISK 100bn covered bond programme in place

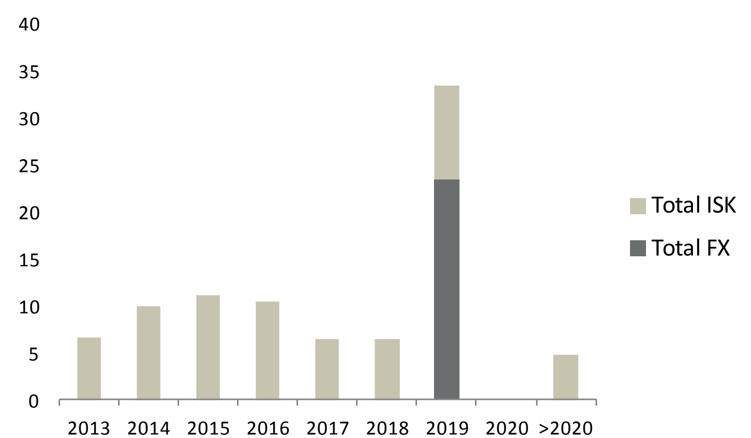
- Íslandsbanki plans to issue around ISK 10bn of CBs annually
- Four oversubscribed issues at year end 2012 amounting to ISK 13.42bn

Covered bonds performing well in the after market

- The yields on the CPI-linked issuances have trended downward and the premium on HFF bonds has decreased significantly
- 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

MATURITY OF LONG-TERM FUNDING

ISKbn



Sound management of liquidity

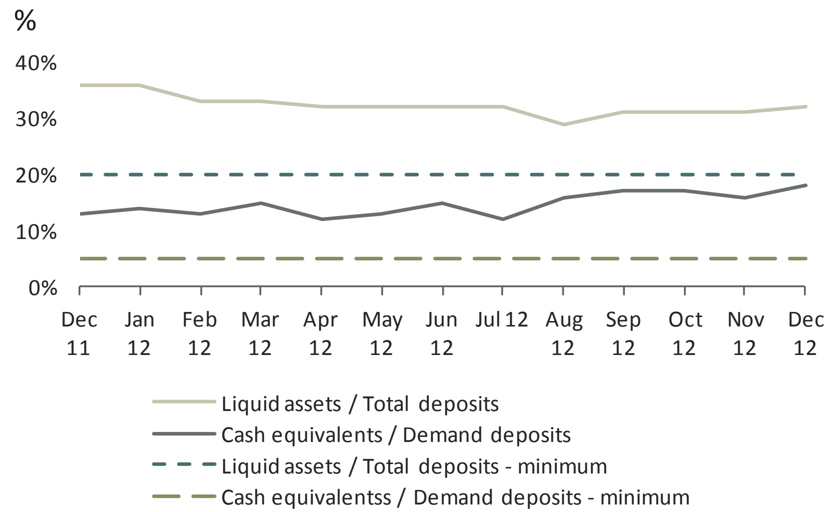
Liquid assets of ISK 170bn exceed regulatory requirements and internal targets

LIQUIDITY BACK-UP* / DEPOSIT COVERAGE RATIO
31.12.2012, parent company, ISK bn

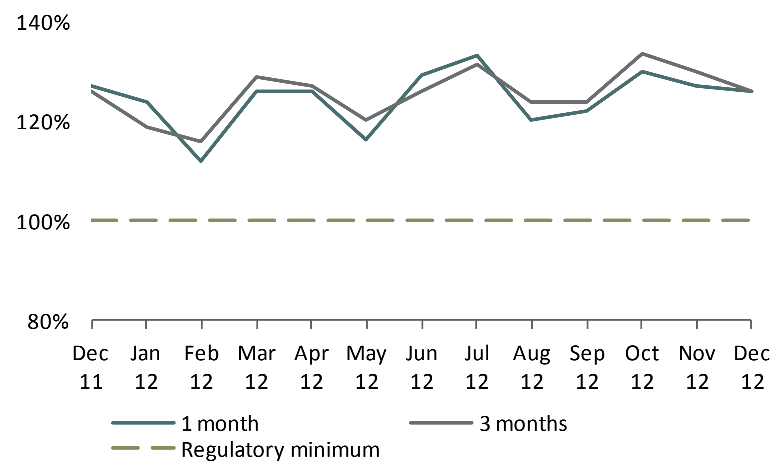
Asset type	ISK	FX	Total
Cash and balances with CB	80.5	0.9	81.5
Balances with credit institutions	3.0	46.3	49.3
Repo eligible bonds	12.7	0.0	12.7
Foreign government bonds	0.0	26.7	26.7
Total	**96.2**	**73.9**	**170.2**
Total deposits (parent)	449.2	72.4	521.6
Liquid assets to total deposits	21%	102%	33%

- The Government liquidity facility line expired in September 2012 and is no longer a part of the Bank's liquidity back-up
- Regulatory liquidity ratios and internal ratios are well above limits

FME LIQUIDITY RATIOS



CENTRAL BANK LIQUIDITY RATIO



* 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
31.12.12

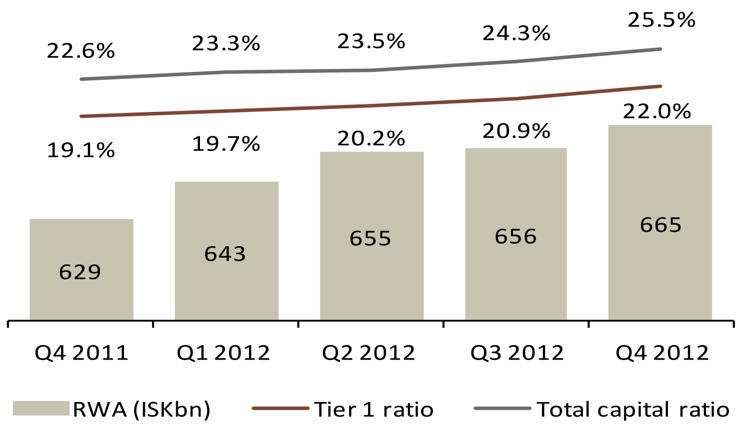
ISKbn	FX denominated	CPI-linked
Assets	214	189
Adjustments for FX / ISK assets	13	
Net assets	**201**	**189**
Liabilities	173	188
Net gap	**28**	**1**

- The gross foreign currency imbalance converges to the net imbalance as FX/ISK assets are converted to ISK assets through recalculation and restructuring
- FX/ISK assets decreased from ISK 46.6bn to ISK 12.8bn in 2012 (ISK 178.8bn in October 2008)
- In 2012 the CPI-linked imbalance went from ISK 22.2bn to ISK 1.3bn
- The Bank has actively reduced the imbalance through CPI-linked swaps, issuance of CPI-linked covered bonds and selling of long-term CPI-linked government bonds in the banking book
- In addition, new long-term CPI-linked deposits have further reduced the gap

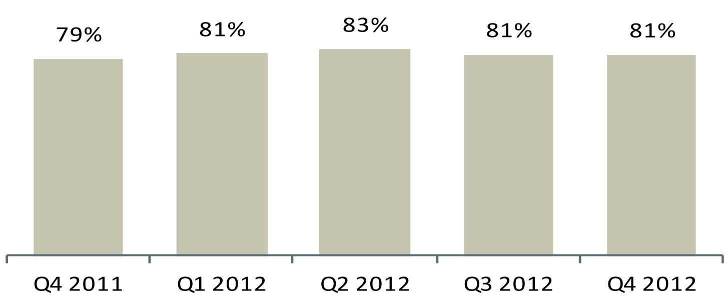
Sound capital position

Capital ratios steadily increasing despite higher risk weighted assets (RWA)

CAPITAL RATIOS and RWA
Development



RWA/TOTAL ASSETS
Development, %



YoY increase in RWA mainly due to:

- Increase in Credit risk RWA mainly due to a larger loan portfolio, both due to new lending and value adjustments in the loan portfolio
- New more stringent rules from FME regarding mortgages, increasing the risk weight on the mortgages portfolio in Q2 12
- Increase in Market risk RWA mainly due to a larger currency gap

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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.

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