

## CONSOLIDATED FINANCIAL STATEMENTS 2013

### HIGHLIGHTS

- Profit after tax was ISK 23.1bn in 2013 (4Q13: ISK 7.7bn), compared to the 2012 result of ISK 23.4bn (4Q12: ISK 7.2bn).
- Return on equity was 14.7% in 2013 (4Q13: 19.5%), compared to 17.2% in 2012 (4Q12: 19.7%). The YoY decrease in ROE is primarily driven by higher equity 14.4% YoY.
- Total capital ratio remains strong at 28.4% (2012: 25.5%), and Core Tier 1 ratio was 25.1% (2012: 22.0%).
- Net interest income amounted to ISK 28.4bn (2012 ISK 32.9bn), a YoY decrease of 13.7%. The net interest margin was 3.4% in 2013 (4Q13: 3.1%) and is decreasing in line with expectations as deep discount following the acquisition of Glitnir loan book is being amortized.
- Net fee and commission income was ISK 10.4bn in 2013 (4Q13: ISK 2.8bn) compared to 9.5bn in 2012 (4Q12: ISK 2.8bn). This is a YoY increase of 10% which can mainly be attributed to Retail, Wealth and fee generating subsidiaries.
- Cost to income ratio was 58.5% (2012: 53.8%).
- Total taxes and levies paid to the government and other institutions increased 34%, amounted to ISK 12.4bn in 2013, compared to 9.2bn in 2012.
- Loan impairment charges and net valuation changes resulted in a gain of ISK 16.3bn in 2013 (2012: ISK 5.7bn) as reversal of already impaired loans exceeded new impairments.
- Around 35,500 individuals and 4,100 corporates have received ISK 548bn in debt forgiveness of some form since the Bank's establishment.
- Restructuring is on track, LPA ratio was 8% (Dec12: 14%), 90 days past due ratio is 4% (Dec12: 8%).
- Total assets were ISK 866bn (Dec12: ISK 823bn), but loans to customers increased 3% in 2H13.
- Total deposits increased to ISK 519bn (Dec12: ISK 509bn).

### Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

„The full year results for 2013 are satisfying. We're now reaping the rewards from the years of hard work put in from our employees across all divisions of the Bank.

A higher tax burden has reduced profits – a special bank tax of ISK 2.3bn was paid out in 2013, out of a total contribution of ISK 12.4bn in taxes and levies paid to the Government and other institutions.

We are encouraged to see the economy picking up pace with new loans in 2013 amounting to ISK 100bn, a clear sign that businesses and individuals have more capacity to invest than in previous years. We've made an effort to increase fee and commission income and it's therefore gratifying to see a 10% rise to a total of ISK 10.4bn compared to 9.5bn in 2012. Íslandsbanki had the highest turnover in equity brokerage during the year, and has established itself as a leader in the field of IPOs in Iceland.

We've achieved a great deal in cost reduction within the Bank but the results are characterised by one-off items both on the revenue and cost side of the P&L.

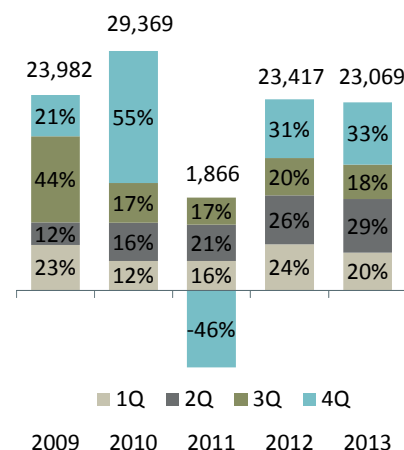
We have devoted much time and effort to the task of diversifying our funding base. Access to international capital markets makes us better equipped to support our clients who are engaged in international business and need financing in foreign currency.

Customer surveys consistently show that across the spectrum of individuals, corporations and institutional investors Íslandsbanki is the leading bank in Iceland and considered to provide the best quality service. These results are an encouragement to everyone at the Bank to continue to provide the best service it can.“

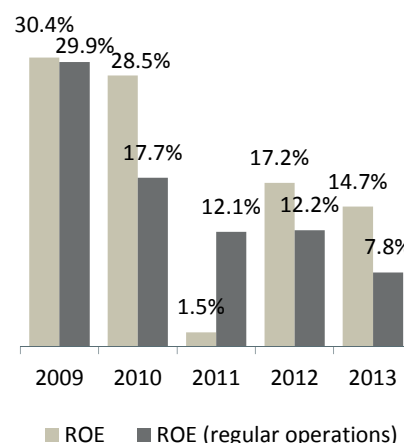
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### NET PROFIT ISKm



### ROE %



KEY FIGURES	31.12.13	31.12.12
Balance sheet	ISKbn	ISKbn
Total assets	866	823
Total loans	599	612
Total deposits	519	509
Equity	167	148
Deposit / loan ratio	87%	83%
Core Tier 1 ratio	25.1%	22.0%
Total capital ratio	28.4%	25.5%

KEY FIGURES	2013	2012
Income statement	ISKbn	ISKbn
ROE	14.7%	17.2%
ROE regular operations	7.8%	12.2%
Profit after tax	23.1	23.4
Profit from regular operations	12.2	16.6
Cost / income ratio	58.5%	53.8%
Net interest margin	3.4%	4.1%

## INCOME STATEMENT

ISKm	FY13	FY12	FY11	FY10	FY09
Net interest income	28,430	32,940	31,225	34,874	31,984
Net fee and commission income	10,433	9,459	5,966	7,380	7,061
Net foreign exchange (loss) gain	(2,423)	2,737	937	(963)	2,621
Net financial income	4,612	1,517	2,649	(910)	286
Share profit of associates	3	0	39	0	0
Other net operating income	1,542	996	894	1,186	2,760
<b>Total operating income</b>	<b>42,597</b>	<b>47,649</b>	<b>41,710</b>	<b>41,567</b>	<b>44,712</b>
Salaries and related expenses	(13,361)	(13,080)	(10,531)	(9,207)	(8,036)
Other operating expenses	(12,190)	(11,508)	(9,339)	(8,659)	(7,404)
Administrative expenses	(25,551)	(24,589)	(19,870)	(17,866)	(15,440)
Impairment of goodwill	0	(425)	(17,873)	0	0
Taxes insurance fund for deposits	(1,016)	(1,055)	(965)	(607)	(673)
Bank Tax	(2,321)	(858)	(682)	(221)	0
<b>Total operating expenses</b>	<b>(28,888)</b>	<b>(26,927)</b>	<b>(39,390)</b>	<b>(18,694)</b>	<b>(16,113)</b>
<b>Profit before impairment &amp; net valuation changes</b>	<b>13,709</b>	<b>20,722</b>	<b>2,320</b>	<b>22,873</b>	<b>28,599</b>
Loan impairment charges and net valuation changes	16,299	5,710	(1,220)	13,993	324
<b>Profit before tax</b>	<b>30,008</b>	<b>26,431</b>	<b>1,100</b>	<b>36,866</b>	<b>28,923</b>
Income tax	(7,866)	(6,253)	(75)	(7,214)	(4,678)
Profit (loss) from discontinued ops. net of tax	927	3,239	841	(283)	(263)
<b>Profit after tax</b>	<b>23,069</b>	<b>23,417</b>	<b>1,866</b>	<b>29,369</b>	<b>23,982</b>

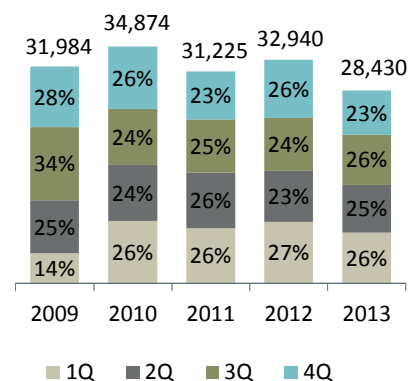
\* Earnings from regular operations is defined as earnings excluding one-off items e.g. bank tax, net valuation changes from the loan portfolio, fair value gain deriving from reclassification of assets, the impairment of goodwill and net earnings from discontinued operations.

### INCOME

- *Total operating income* was ISK 42.6bn in 2013, compared to 47.6bn in 2012.
- Over 90% of the Bank's net operating income in 2013 derived from net interest income and net fee and commission income, which is in line with the Bank's focus on core earnings and its objective to generate stable cash flows over the long term.
- *Net interest income* amounted to ISK 28.4bn (2012: ISK 32.9bn), a YoY decrease of 13.7%. The *net interest margin*, calculated as the ratio of net interest income to the average carrying amount of total assets, was 3.4% (2012: 4.1%). Interest income is decreasing in line with expectations as deep discount following the acquisition of Glitnir loan book is being amortized.
- CPI imbalance amounted to ISK 6.4bn at December 2013. The imbalance is managed via CPI-linked swaps, issuance of CPI-linked covered bonds and long term CPI-linked deposit programmes.
- *Net fee and commission income* was ISK 10.4bn in 2013 (4Q13: ISK 2.8bn) compared to 9.5bn in 2012 (4Q12: ISK 2.8bn). This is a YoY increase of 10% which can mainly be attributed to Retail, Wealth and fee generating subsidiaries.
- *Foreign exchange loss* amounted to ISK 2.4bn, compared to a ISK 2.7bn gain in 2012. The net FX imbalance, amounting to ISK 23.7bn at the end of the period (Dec12: 27.8bn) is strictly monitored.
- *Net financial income*, which is mainly due to fair value gains on the N1 hf. And Icelandair Group hf. equity stakes, amounted to ISK 4.6bn, compared to a gain of ISK 1.5bn in 2012.
- *Other net operating income*, mainly sale of real estate, rental income and fees from service agreements and foreclosed assets, amounted to ISK 1.5bn, compared to ISK 1bn 2012.

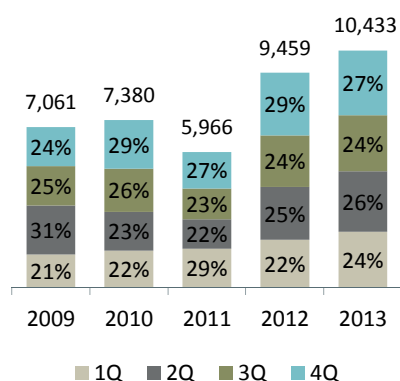
### NET INTEREST INCOME

ISKm



### NET FEE AND COMMISSION INCOME

ISKm



## INCOME STATEMENT – cont.

### EXPENSES

- Cost to income ratio increased to 58.5% (2012: 53.8%). Cost to income ratio is calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income.
- Administrative expenses increased 3.9% to ISK 25.6bn (2012: ISK 24.6bn) which translates to 0% when adjusted for inflation. The Bank continues to focus on cost control and its key projects aimed at improving operational efficiency and business process management. However, when excluding one-off costs, administrative expenses decreased 3% or 7% when adjusted for inflation.
- Salaries and related expenses amounted to ISK 13.4bn, up 2.1% YoY. Part of the increase is due to the addition of the Financial activities tax (FAT) to this line item, now 6.75% of salaries up from 5.45% in 2012, and changes in social security charges. Regular Salaries amounted to ISK 10.2bn in 2013 compared to ISK 10.1bn in 2012 on a consolidated level.
- The average number of full time employees (FTEs) for the Group was 1,265 in 2013, a 7% reduction from 2012. Total salaries are calculated on the Group consolidated level of FTEs.
- The average number of full time employees (FTEs) for the parent was 1,056 in 2013, a 6% reduction from 2012.
- Other operating expenses increased 6% YoY, or to ISK 12.2bn in 2013 from ISK 11.5bn in 2012. However, when excluding one-off costs, other operating expenses decreased 8% or 12% when adjusted for inflation.
- Total operating expenses was ISK 28.9bn, which due in large part to one-off costs increased 7% YoY, or 3% increase when adjusted for inflation.
- Loan impairment charges and net valuation changes amounted to ISK 16.3bn a 186% YoY increase (2012: ISK 5.7bn) as reversal of already impaired loans exceeded new impairments.

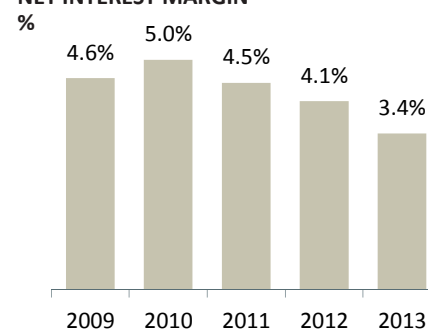
### TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- Income tax was ISK 7.9bn in 2013, which is an increase of 25.8% YoY. Taxation has increased considerably in recent years including a special financial activities tax of 6% on taxable profits above ISK 1bn for financial services providers.
- Bank tax amounts to ISK 2.3bn (2012: 858m). New regulations have increased the tax from 0.041% of the previous year's total liabilities to 0.375% of liabilities in excess of 50bn.
- Financial activities tax on salaries, now 6.75% up from 5.45% in 2012, calculated on salaries, amounted to ISK 778m, compared to ISK 623m in 2012.
- Expenses due to FME and the Debtors' Ombudsman were ISK 448m compared to ISK 483m in 2012.
- Contributions to the Depositors' and Investors' Guarantee Fund was ISK 1bn. The contribution fluctuates with total deposits and the proportion of loans in restructuring (LPA ratio).
- Total taxes and levies paid to government institutions amounted to ISK 12.4bn in 2013, compared to 9.3bn in 2012. This is a YoY increase of 34%.

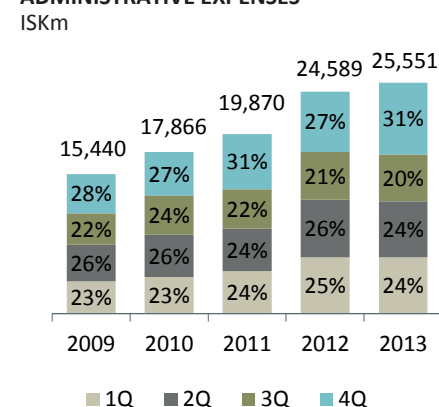
### PROFIT/LOSS FROM DISCONTINUED OPERATIONS

- Profit/Loss from discontinued operations net of tax was a profit of ISK 0.9bn, compared to a profit of ISK 3.2bn in 2012. The main driver of this line item up and down is the asset portfolio owned by Miðengi, (Íslandsbanki subsidiary), and to a lesser extent rental income and income from foreclosed assets.

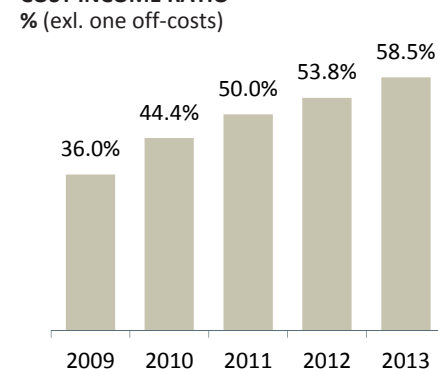
### NET INTEREST MARGIN



### ADMINISTRATIVE EXPENSES

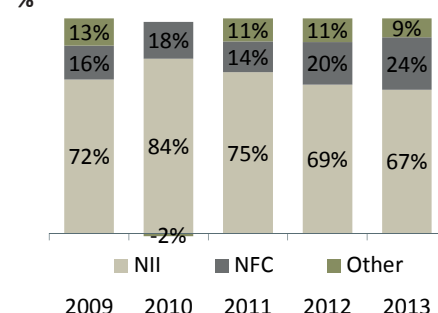


### COST INCOME RATIO



TAX & LEVIES	2013	2012
Income statement	ISKm	ISKm
Income tax	7,866	6,253
Bank tax	2321	858
Financial activities tax	778	623
FME and the Debtors' Ombudsman	448	483
Deposits' and investors' Guarantee Fund (TIF)	1016	1055
<b>Total</b>	<b>12,429</b>	<b>9,272</b>

### OPERATING INCOME SPLIT



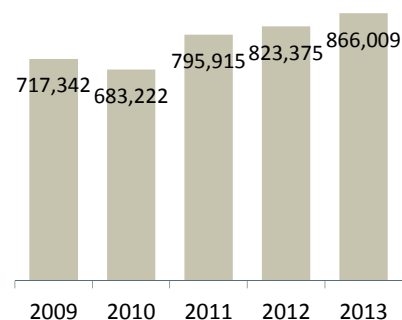
## INCOME STATEMENT – cont.



### PROFIT

- *Profit after tax* in 2013 was ISK 23.1bn, compared to ISK 23.4bn in 2012
- Return on equity was 14.7% in 2013 compared to 17.2% in 2012. The YoY decrease in ROE is primarily driven by higher equity which has increased by 14% YoY, from ISK 147bn at December 2012 to ISK 167bn at 31 December 2013.
- Earnings from regular operations resulted in a profit of ISK 12.2bn in 2013, considerably lower than 2012 results ISK 16.5bn. Return on equity from regular operations was 7.8% in 2013.

TOTAL ASSETS  
ISKm



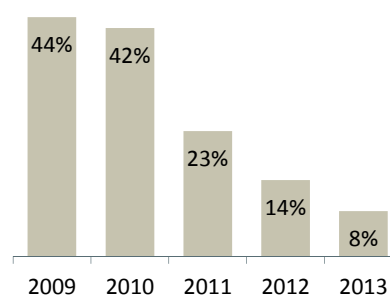
### BALANCE SHEET - ASSETS

ISKm	31/12/13	31/12/12	31/12/11	31/12/10	31/12/09
Cash and balances with CB	111,779	85,500	57,992	30,799	38,743
Derivatives	843	127	339	70	0
Bonds and debt instruments	75,186	64,035	58,662	68,024	66,701
Shares and equity instruments	9,208	10,445	11,107	3,022	2,250
Loans to credit institutions	44,078	54,043	43,655	30,870	87,416
Loans to customers	554,741	557,857	564,394	515,161	489,611
Investment in associates	1,563	503	1,070	354	827
Property and equipment	8,772	5,579	5,276	5,419	3,828
Intangible assets	299	261	544	187	107
Deferred tax assets	1,275	864	2,629	283	84
Non-current assets held for sale	47,106	39,046	42,690	23,489	19,014
Other assets	11,159	5,115	7,557	5,544	8,761
<b>Total assets</b>	<b>866,009</b>	<b>823,375</b>	<b>795,916</b>	<b>683,222</b>	<b>717,342</b>

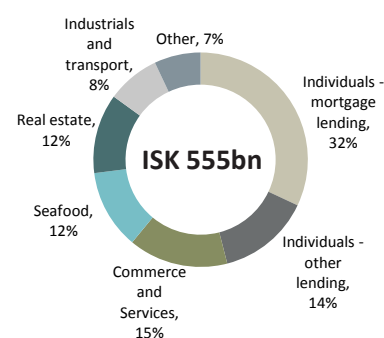
### ASSETS

- *Bonds and debt instruments* amounted to ISK 75bn. The portfolio consists mainly of G5 government bonds in the Bank's liquidity portfolio.
- *Shares and equity instruments* amounted to ISK 9.2bn, down from ISK 11.1bn at Dec12. The change is mainly attributable to sales of the Icelandair and N1 equity share holding.
- *Loans to customers* amounted to ISK 554.7 (2012: ISK 557.9bn). There was 3% loan growth in 2H13. Although new lending in FY2013 amounted to about ISK 100bn, repayments continue to exceed new lending as customers use any capacity they have to reduce their debt. Restructuring projects which have resulted in the acquisition of companies has also lowered the loan portfolio, as loans to companies owned by the Bank are not shown in the Consolidated statements.
- Restructuring of the largest corporate clients loan have been completed in YE2013. Restructuring of the remainder of the loan portfolio will be completed by YE2014.
- Asset quality continued to improve with LPA ratio now down to 8% from 14% at YE12 and 23% at YE11.
- The ratio of loans 90 days past due was 4%, compared to 8% at YE12.
- *Non-current assets held for sale* increased to ISK 47.2bn (2012: 39.0bn), up 21% YoY. *Total assets* amounted to ISK 866bn, compared to ISK 823bn at 2012, an increase of 5.2% YoY.

LOAN PORTFOLIO ANALYSIS (LPA)  
%



LOAN PORTFOLIO BY SECTOR  
%, at 31.12.2013



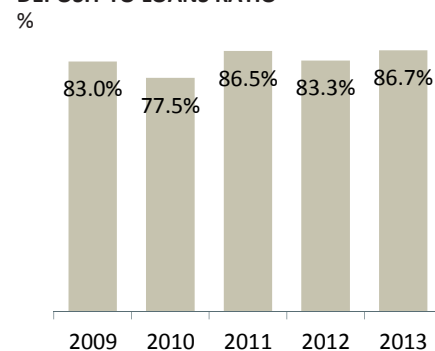
## BALANCE SHEET – LIABILITIES

ISKm	31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Derivatives and short positions	11,176	18,435	13,373	9,519	7,332
Deposits from CB and credit inst.	29,688	38,272	62,845	96,238	139,092
Deposits from customers	489,331	471,156	462,943	327,158	339,659
Debt issued and other borrowings	89,193	66,571	63,221	55,425	69,267
Subordinated loans	21,890	23,450	21,937	21,241	24,843
Current tax liabilities	10,806	2,052	2,670	9,024	5,181
Deferred tax liabilities	20	20	17	18	354
Non-current liabilities held for sale	9,456	6,805	7,317	16,442	16,905
Other liabilities	37,130	48,954	37,889	26,694	22,985
<b>Total liabilities</b>	<b>698,691</b>	<b>675,715</b>	<b>672,212</b>	<b>561,759</b>	<b>625,618</b>
<b>Total equity</b>	<b>167,319</b>	<b>147,660</b>	<b>123,703</b>	<b>121,463</b>	<b>91,724</b>
<b>Total liabilities and equity</b>	<b>866,009</b>	<b>823,375</b>	<b>795,915</b>	<b>683,222</b>	<b>717,342</b>

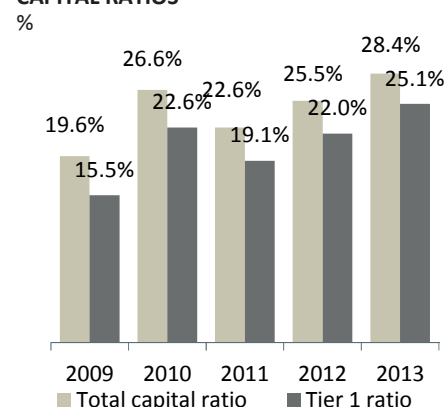
### LIABILITIES AND EQUITY

- *Deposits from customers* have remained stable and amounted to ISK 489.3bn, compared to ISK 471.2bn at December 2012. Deposit to loan ratio was 86.7% (Dec12 83.3%) and the customer deposit to customer loan ratio strengthened to 88.2% (Dec13: 84.5%).
- *Deposits from CB and credit institutions* decreased to ISK 29.7bn from ISK 38.3bn at December 2012. These deposits tend to fluctuate somewhat as they are less sticky.
- *Debt issued and other borrowings* amounted to ISK 89.2bn (Dec12: ISK 66.6bn), up 34% YoY. Thereof, covered bonds amounted to ISK 23.3bn and commercial paper ISK 8.5bn.
- *Subordinated loans* amounted to ISK 21.9bn. This represents a Tier 2 bond of EUR 138m.
- *Total liabilities* amounted to ISK 698.7bn (Dec12: ISK 675.7bn), up 3.3% YoY.
- *Total equity* was ISK 167bn, up 14% YoY.
- Total capital ratio remains strong at 28.4% (Dec12: 25.5%). The Tier 1 ratio was 25.1% (Dec12: 22.0%).

### DEPOSIT TO LOANS RATIO



### CAPITAL RATIOS



### FUNDING AND LIQUIDITY POSITION

- The Bank's liquidity position is sound and all liquidity ratios well above regulatory requirements.
- The Basel III liquidity ratio (LCR) was 120% at YE13, compared to the regulatory limit of 70% as of 01.01.2014.
- In 2013, the Bank signed a USD 250m Global Medium Term Note (GMTN) programme.
- In December, the Bank issued its first international bond – SEK 500m (ISK 9.1bn). More than 40 investors from Sweden, Norway and Finland subscribed for the issue which was oversubscribed.
- Íslandsbanki has established itself as the largest Icelandic issuer of covered bonds, with a total outstanding of ISK 23bn issued since its inaugural transaction in December 2011 when Íslandsbanki was the first bank to list securities since the autumn of 2008. With an ISK 100bn covered bond programme in place, Íslandsbanki plans to issue around ISK 10bn annually.
- Íslandsbanki was the first bank to list commercial paper on the NASDAQ OMX Iceland in February 2013 and will issue regularly throughout the year. This was an important step towards further diversification of funding.

### FINANCIAL CALENDAR

Íslandsbanki plans to publish its interim and annual financial statements according to the financial calendar below:

- AGM – 2 April 2014
- 1Q14 – 22 May 2014
- 2Q14 – 21 Aug 2014
- 3Q14 – 20 Nov 2014
- 4Q14 – Feb 2015

Please note that the dates may change so please refer to the Bank's website for correct dates.