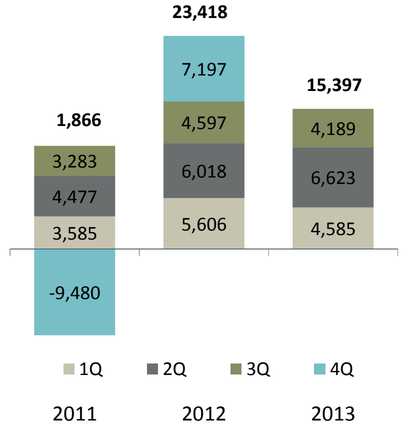
Íslandsbanki

CONSOLIDATED INTERIM FINANCIAL STATEMENTS 3Q2013

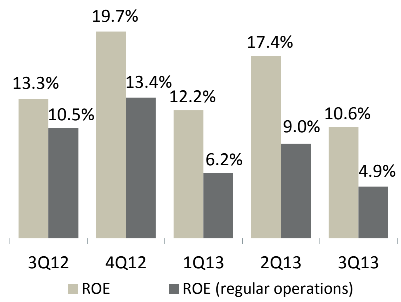
HIGHLIGHTS

- Profit after tax was ISK 4.2bn in 3Q13 (3Q12: ISK 4.6bn), and ISK 15.4bn in 9M13 (9M12: ISK16.2bn).
- Return on equity was 10.6% in the quarter (3Q12: 13.3%), and 13.4% in 9M13. (9M12: 16.3%). The YoY decrease in ROE is primarily driven by higher equity which is up 3% from Jun13 and 14% YoY.
- Total capital ratio remains strong at 27.2% (Jun13: 27.4%), and Core Tier 1 ratio was 23.9% (Jun13: 24%), albeit a 3.5% increase in RWA in the quarter to 663bn (Jun13: 641bn).
- Net interest income amounted to ISK 7.4bn (3Q12: ISK 7.8bn), a YoY decrease of 5.1%. The net interest margin was 3.5% in 3Q13 (2Q13: 3.4%) and is decreasing in line with expectations as deep discount following the acquisition of Glitnir loan book is being amortized.
- Net valuation changes on the loan portfolio resulted in a gain of ISK 0.6bn in the quarter (3Q12: ISK 0.7n) and ISK 8.5bn in the first 9 months (9M12: ISK 2.8bn).
- Net fee and commission income increased to ISK 2.5bn in the quarter (3Q12: ISK 2.3bn) and to 7.6bn in the first 9 months (9M12: ISK 6.7bn). This is a YoY increase of 8% over the quarter and 13% over 9M which can mainly be attributed to Markets, Retail, Wealth and fee generating subsidiaries.
- Cost to income ratio decreased to 48.5% (3Q12: 50.6%).
- Around 35 thousand individuals and 4,100 corporates have received ISK 524bn in debt forgiveness of some form since the Bank's establishment.
- Restructuring is on track, LPA ratio was 9.8% (Sep12: 17.4%), 90 days past due ratio is 5% (Dec12: 8%).
- Total assets were ISK 863bn (Jun13: ISK 823bn), with loans to customers increasing 2% to ISK 549bn (Jun13: ISK 539bn).
- Total deposits increased to ISK 526bn (Jun13: ISK 506bn), due to normal fluctuation in deposits from customers and credit institutions.

NET PROFIT
ISKm



ROE
%



Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

„The results for the first nine months are characterised by improved efficiency. Costs have decreased by ISK 732m representing a 7.5% reduction year-on-year when adjusted for inflation. This is the result of several cost initiatives, e.g. the Bank merged and consolidated three of its branches. As before, the Bank operates the most efficient branch network in Iceland.

Íslandsbanki´s 9m results are in line with projections and return on equity was 13.4% which is good considering the Bank's high equity ratio of 27.2%.

In a period that is normally characterised by the summer holidays, it was nonetheless a busy quarter for the Bank. Net fee and commission income increased 13% to ISK 7.6bn in the first 9 months, compared to ISK 6.7bn for the same period last year.

The quality of the loan portfolio improved between quarters, the ratio of loans more than 90 days past due was 5%, and the Loan Portfolio Analysis ratio, an Icelandic key measure of asset quality, now down to 9.8% from 44% in 2009."

KEY FIGURES	30.09.13	30.06.13
Balance sheet	ISKbn	ISKbn
Total assets	**863**	823
Total loans	**614**	588
Total deposits	**526**	506
Equity	**160**	156
Deposit / loan ratio	**86%**	86%
Core Tier 1 ratio	**23.9%**	24.0%
Total capital ratio	**27.2%**	27.4%

KEY FIGURES	3Q13	3Q12
Income statement	ISKbn	ISKbn
ROE	**10.6%**	**13.3%**
ROE regular operations	**4.9%**	**10.5%**
Profit after tax	**4.2**	**4.6**
Profit from reg. ops.	**3.9**	**3.6**
Cost / income ratio	**48.5%**	**50.6%**
Cost / income excl. Imp & Net val.changes	**51.0%**	**52.5%**
Net interest margin	**3.5%**	**3.9%**

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INCOME STATEMENT

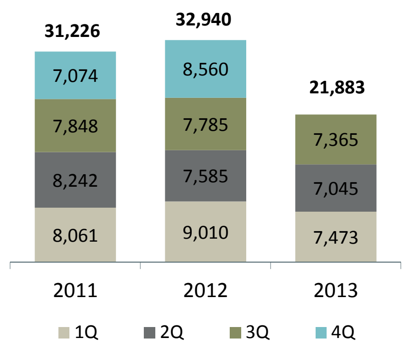
ISKm	9M13	9M12	3Q13	2Q13	1Q13
Net interest income	**21,883**	24,380	**7,365**	7,045	7,473
Net valuation changes on loans and receivables	**8,471**	2,782	**603**	4,751	3,117
Provision for latent impairment	**(66)**	(579)	**(48)**	106	(124)
Net interest income after net valuation changes	**30,288**	26,583	**7,920**	11,902	10,466
Net fee and commission income	**7,584**	6,705	**2,462**	2,670	2,452
Net foreign exchange (loss) gain	**(1,306)**	1,230	**409**	(152)	(1,563)
Net financial income	**1,865**	1,318	**315**	669	881
Other net operating income	**1,442**	815	**314**	716	412
Total operating income	**39,873**	36,651	**11,420**	15,805	12,648
Salaries and related expenses	**(9,871)**	(9,429)	**(2,853)**	(3,552)	(3,468)
Other operating expenses	**(7,959)**	(9,090)	**(2,431)**	(2,693)	(2,835)
Insurance fund	**(754)**	(798)	**(252)**	(256)	(246)
Administrative expenses	**(18,584)**	(19,317)	**(5,535)**	(6,501)	(6,549)
Share profit of associates	**3**	0	**0**	0	3
Profit before tax	**21,291**	17,333	**5,884**	9,304	6,102
Income tax	**(5,365)**	(4,463)	**(1,570)**	(2,347)	(1,448)
(Loss) profit from discontinued ops. net of tax	**(529)**	3,351	**(125)**	(334)	(69)
Profit after tax	**15,397**	16,221	**4,189**	6,623	4,585
Earnings from regular operations*	**9,654**	10,811	**3,867**	3,441	2,346

* 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, the impairment of goodwill and net earnings from discontinued operations.

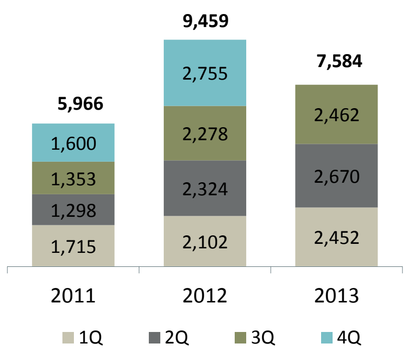
INCOME

- *Total operating income* was ISK 11.4bn in 3Q13, equivalent to levels in 3Q12.
- Over 86% of the Bank's net operating income in 3Q13 derived from net interest income and net fee and commission income. This 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 7.4bn (3Q12: ISK 7.8bn), a YoY decrease of 5.1% which is in line with expectations as deep discount following the acquisition of Glitnir loan book is being amortized.
- Net valuation changes amounted to ISK 0.6bn a 15.4% YoY decrease (3Q12: ISK 0.7bn)
- *Net interest margin,* calculated as the ratio of net interest income to the average carrying amount of total assets, was 3.5% (3Q12: 3.9%).
- CPI imbalance amounted to ISK -1.1bn at end of September. 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* increased to ISK 2.5bn (3Q12: ISK 2.3bn), a YoY increase of 8% which can mainly be attributed to Markets, Retail, Wealth and fee generating subsidiaries.
- *Foreign exchange gain* amounted to ISK 409m, compared to a ISK 491m gain in 3Q12. The net FX imbalance, amounting to ISK 22.5bn at the end of the period (Jun13: 19bn), is strictly monitored and is around 14% of equity and thus within the regulatory limit of 15%.
- *Net financial income,* which is mainly due to fair value gains on the Icelandair Group hf. equity stake, amounted to ISK 315m, compared to a gain of ISK 213m in 3Q12.
- *Other net operating income*, mainly sale of real estate, rental income and fees from service agreements and foreclosed assets, amounted to ISK 314m, compared to ISK 226m 3Q12.

NET INTEREST INCOME
ISKm



NET FEE AND COMMISSION INCOME
ISKm



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INCOME STATEMENT – cont.

EXPENSES

- Cost to income ratio decreased to 48.5% (3Q12: 50.6%). Cost to income ratio excludes impairment of goodwill from operating expenses and includes all other operating expenses and income.
- A more conventional method internationally of calculating C/I ratio would be to exclude the impairment of goodwill from operating expenses and latent impairment and net valuation changes from operating income, which translates to 51.0% (3Q12: 52.5%).
- *Total administrative expenses* decreased 4.0% to ISK 5.5bn (3Q12: ISK 5.8bn) which translates to 7.5% when adjusted for inflation. This is in line with the Bank's focus on cost control and its key projects aimed at improving operational efficiency and business process management. Several cost programmes are in place and costs associated with the acquisitions in 2012 are drawing to a close.
- *Salaries and related expenses* amounted to ISK 2.9bn, up 1.5% 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. The combined effect of these two factors is 1.2%. Regular Salaries amounted to ISK 2.1bn in 3Q13 compared to ISK 2.2bn in 3Q12 on a consolidated level.
- The average number of full time employees (FTEs) for the Group was 1,287 at the end of the quarter, a 6% reduction from 3Q12. Total salaries are calculated on the Group consolidated level of FTEs.
- The average number of full time employees (FTEs) for the parent was 1,082 at the end of the quarter, a 7% reduction from 3Q12.
- *Other operating expenses* decreased 9.5% YoY, or to ISK 2.4bn in 3Q13 from ISK 2.7bn in 3Q12, and 12% in real terms when adjusting for inflation.
- *Contributions to the Depositors' and Investors' Guarantee Fund* was ISK 252m. The contribution fluctuates with total deposits and lower risk weighing as a result of the Bank's higher equity and a considerably lower LPA ratio.

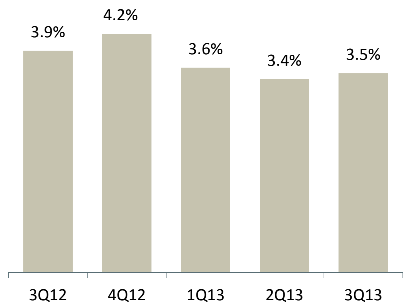
TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- Income tax was ISK 1.6bn during the quarter, which is an increase of 7.2% 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*, introduced in 2010, amounts to ISK 76m (3Q12: 224m), which includes taxation of 0.041% of total liabilities and a temporary two year 0.0875% special tax on liabilities which ended 31.12.12. Note that Bank tax is added to administrative expenses and comparative figures have been adjusted accordingly.
- Financial activities tax on salaries, now 6.75% up from 5.45% in 2012, calculated on salaries, amounted to ISK 192m, compared to ISK 149m in 3Q12.
- Expenses due to FME and the Debtors' Ombudsman were ISK 105m compared to ISK 115m in 3Q12.
- Total taxes and levies paid to government institutions amounted to ISK 2.2bn in 3Q13, equivalent to 3Q12 levels.

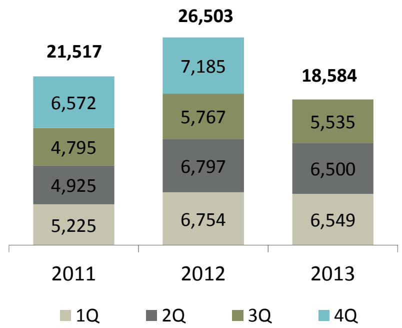
PROFIT/LOSS FROM DISCONTINUED OPERATIONS

- *Profit/Loss from discontinued operations* net of tax was a loss of ISK 125m, compared to a profit of ISK 432m in 3Q12. 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.

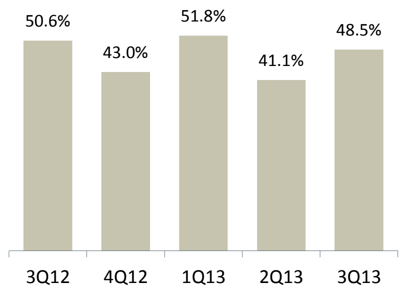
NET INTEREST MARGIN
%



ADMINISTRATIVE EXPENSES
ISKm (exl. goodwill write-off)

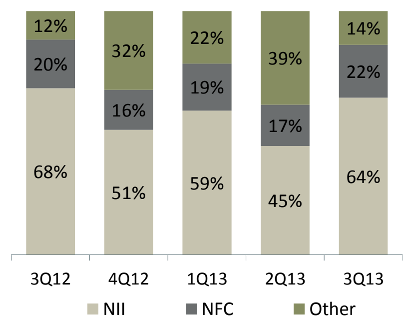


COST INCOME RATIO
% (exl. goodwill write-off)



TAX & LEVIES	3Q13	3Q12
Income statement	ISKm	ISKm
Income tax	**1,570**	1,456
Bank tax	**76**	224
Financial activities tax	**192**	149
FME and the Debtors´Ombudsman	**105**	115
Deposits´and investors´Guarantee Fund (TIF)	**252**	272
Total	**2,195**	2,224

OPERATING INCOME SPLIT
%



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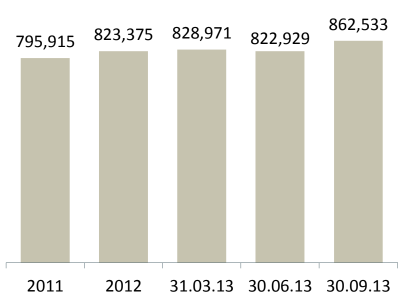
INCOME STATEMENT – cont.

PROFIT

- *Profit after tax* in the quarter was ISK 4.2bn, compared to ISK 4.6bn in 3Q12 and ISK 15.4bn in the first 9 months of 2013 (9M12: 16.2bn).
- Return on equity was 10.6% in 3Q13 and 13.4% in 9M13 compared to 13.3% and 16.3% in the same periods of 2012. The YoY decrease in ROE is primarily driven by higher equity which has increased by 14% YoY, from ISK 140bn at end September 2012 to ISK 160bn at 30 September 2013.
- Earnings from regular operations resulted in a profit of ISK 3.9bn in the quarter (3Q12: ISK 3.6bn) and ISK 9.7bn in 9M13 (9M12: ISK10.8bn). Return on equity from regular operations was 4.9% in 3Q13 and 8.4% 9M13.

ASSETS
ISKm



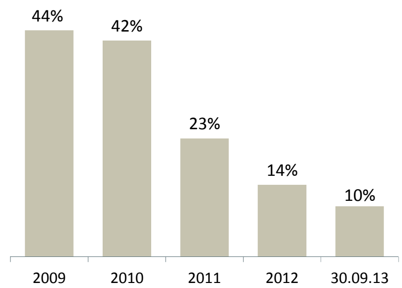
BALANCE SHEET - ASSETS

ISKm	30/09/13	30/06/13	31/12/12
Cash and balances with CB	**92,980**	98,042	85,500
Derivatives	**289**	229	127
Bonds and debt instruments	**76,902**	64,281	64,035
Shares and equity instruments	**9,528**	10,400	10,445
Loans to credit institutions	**65,824**	48,975	54,043
Loans to customers	**548,537**	538,565	557,857
Investment in associates	**1,490**	1490	503
Property and equipment	**9,085**	9,153	5,579
Intangible assets	**247**	272	261
Deferred tax assets	**1,059**	1,139	864
Non-current assets held for sale	**45,782**	44,886	39,046
Other assets	**10,810**	5,497	5,115
Total assets	**862,533**	822,929	823,375

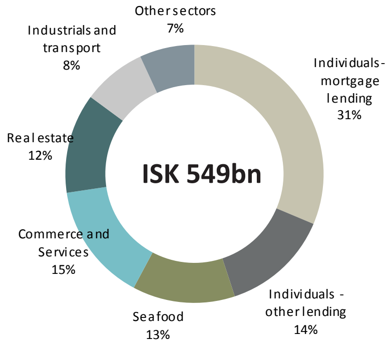
ASSETS

- *Bonds and debt instruments* amounted to ISK 77bn. The portfolio consists mainly of G5 government bonds in the Bank's liquidity portfolio.
- *Shares and equity instruments* amounted to ISK 9.5bn, down from ISK 10.4bn at Jun13. The change is mainly attributable to sale of the Icelandair equity share holding. The Bank has actively sold its equity stakes, with the Icelandair holding at 2%, down from 19.9% at end of March 2012.
- *Loans to customers* amounted to ISK 548.5 (Jun13: ISK 538.6bn), which is a 2% increase QoQ. New corporate lending in commerce and services (9bn) and real estate (6bn) lead the increase. However, year to date, 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 portfolio is expected to be largely completed by 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 9.8% from 44% in 2009.
- The ratio of loans 90 days past due was 5%, compared to 8% at YE12.
- *Non-current assets held for sale* increased to ISK 45.8bn (2Q13: 44.9bn), up 2% QoQ.
- *Total assets* amounted to ISK 863bn, compared to ISK 823bn at 2Q13, an increase of 4.8% QoQ.

LOAN PORTFOLIO ANALYSIS (LPA)
%



LOAN PORTFOLIO BY SECTOR
%, at 30.09.2013



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BALANCE SHEET – LIABILITIES

ISKm	**30/09/2013**	30/06/2013	31/12/2012
Derivatives and short positions	**12,866**	11,082	18,435
Deposits from CB and credit inst.	**29,767**	29,405	38,272
Deposits from customers	**496,453**	476,212	471,156
Debt issued and other borrowings	**79,194**	74,764	66,571
Subordinated loans	**22,565**	22,249	23,450
Current tax liabilities	**6,051**	5,269	2,052
Deferred tax liabilities	**25**	30	20
Non-current liabilities held for sale	**9,778**	8,913	6,805
Other liabilities	**46,170**	39,468	48,954
Total liabilities	**702,869**	667,392	675,715
Total equity	**159,664**	155,537	147,660
Total liabilities and equity	**862,533**	822,929	823,375

LIABILITIES AND EQUITY

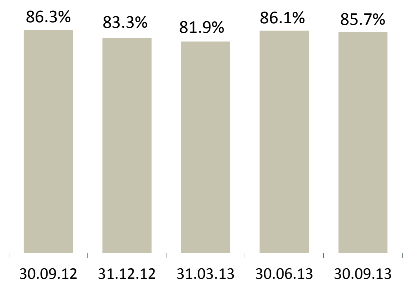
- *Deposits from customers* have remained stable and amounted to ISK 496.5bn, compared to ISK 476.2bn at the end of June. Deposit to loan ratio was 85.7% (Jun13: 86.1%) and the customer deposit to customer loan ratio strengthened to 90.5% (Jun13: 88.4%).
- *Deposits from CB and credit institutions* increased to ISK 29.8bn from ISK 29.4bn. These deposits tend to fluctuate somewhat as they are less sticky.
- *Debt issued and other borrowings* amounted to ISK 79.2bn (Jun13: ISK 74.8bn), up 6% QoQ. Thereof, covered bonds amounted to ISK 18.8bn and commercial paper ISK 9bn.
- *Subordinated loans* amounted to ISK 22.6bn, on par with end of Jun 2013. This represents a Tier 2 bond of EUR 138m.
- *Total liabilities* amounted to ISK 702.9bn (Jun13: ISK 667.4bn), up 4.9% QoQ.
- *Total equity* was ISK 160bn, up 2.7% from Jun13 and 14% YoY.
- Total capital ratio remains strong at 27.2% (Jun13: 27.4%) despite a dividend payout in the quarter. The Tier 1 ratio was 23.9% (Jun13: 24.0%).

FUNDING AND LIQUIDITY POSITION

- The Bank's liquidity position is sound and all liquidity ratios well above regulatory requirements. The ratio of liquid assets against all deposits was 38%, well above the FME requirement of 20%. Cash equivalents over demand deposits was 18%, which was well above the 5% requirement set by the FME.
- The Bank's most recent step towards further funding diversification was signing a USD 250m Global Medium Term Note (GMTN) programme. The Bank is exploring its options in international markets and will take advantage of opportunities to access foreign currency funding as they arise.
- 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.
- Íslandsbanki has established itself as the largest Icelandic issuer of covered bonds, with a total outstanding of ISK 22bn issued since its inaugural transaction in December 2011 when Íslandsbanki was the first bank to list securities since the autumn of 2008. Under the ISK 100bn covered bond programme that is in place, Íslandsbanki plans to issue around ISK 10bn of covered bonds annually.

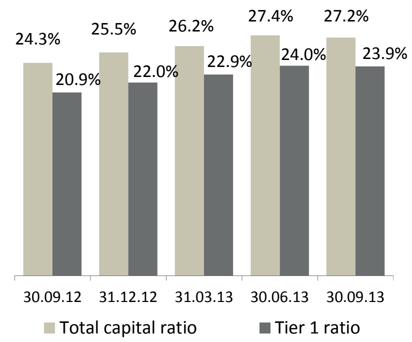
DEPOSIT RATIO

%



CAPITAL RATIOS

%



FINANCIAL CALENDAR

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

- Silent period 10 – 19 February 2014
- 4Q13 – 20 February 2014
- 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.