

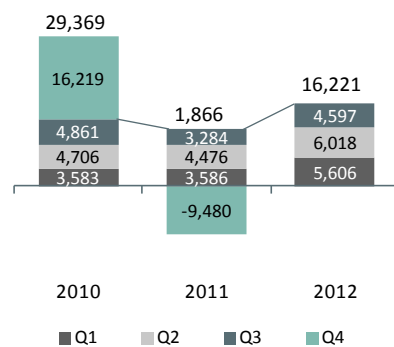
# Íslandsbanki

## 9M2012 INTERIM FINANCIAL STATEMENTS

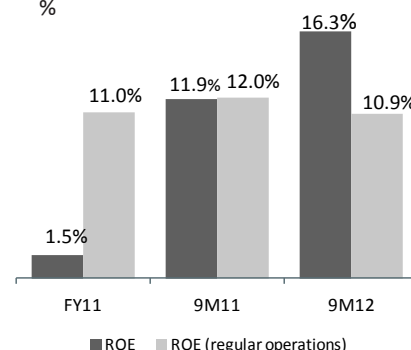
### HIGHLIGHTS OF THE UNAUDITED STATEMENTS

- Profit after tax was ISK 16.2bn compared to ISK 11.3bn for the first 9 months in 2011.
- Profit after tax for 3Q2012 was ISK 4.6bn compared to ISK 3.3bn in 3Q2011.
- Profit after tax from regular operations, defined as earnings excluding one-off items was ISK 10.8bn in the first 9 months of 2012, compared to ISK 11.4bn during the same period in 2011.
- Tax and levies paid to government institutions amounted to ISK 6.7bn in 9M12 compared to ISK 4.5bn for the same period in 2011.
- Net valuation changes on the loan portfolio resulted in a gain of ISK 2.8bn in 9M2012 compared to a loss of ISK 0.8bn during the same period in 2011.
- Return on equity was 16.3% compared to 11.9% in 2011. Return on equity from regular operations was 10.9% compared to 12.0% in 9M11.
- Around 19,300 individuals and 3,340 corporates have received write offs, debt forgiveness or some form of debt correction since the Bank's establishment, totaling ISK 420bn to date.
- Total assets were ISK 813bn at end of September 2012, compared to ISK 796bn at year-end 2011.
- Total deposits were ISK 524bn at end of September 2012, compared to ISK 526bn at year-end 2011.
- The net interest margin was 3.9% in the first 9 months of 2012, compared to 4.8% in the same period 2011.
- Equity was ISK 140bn having increased by 13.2% throughout the first 9 months of 2012. The total capital ratio was 24.3% at the end of the period.

### NET PROFIT ISKm



### ROE %



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

"I am broadly pleased with the Q3 financial results, which are in line with the previous quarterly results of 2012. Íslandsbanki's employees can be proud of the progress that we have made since the establishment of the bank in 2008. We have a strong liquidity position and our capital ratios are well above the FME's limits.

Fee and commission income has increased year on year, in part because of an increase in activity in Icelandic capital markets and more demand for corporate finance advisory. There are clear signs that the financial markets are more active than in recent years. Íslandsbanki managed the bond offering of Eik, a real-estate company, which was the largest private sector bond offering since late 2008, and it marks a milestone in corporate financing. Furthermore, the bank oversaw the listing of Eimskip shares and it is working on the planned listing of Vodafone shares on the NASDAQ OMX Iceland Stock Exchange, as well as working on the listing of other Icelandic companies.

Íslandsbanki continued to issue Covered Bonds; two existing issues were tapped in November and in October the Bank completed its first issue of non-CPI-linked bonds. Íslandsbanki has issued covered bonds amounting to ISK 11.4 billion since the beginning of December of 2011 – issues which have all been well received.

The Icelandic Supreme Court ruling in October in the case of Borgarbyggð broadened the scope of the previous precedent that was set by its February 2011 ruling on the recalculation of ISK denominated loans that were illegally indexed to foreign currencies. Prior to the ruling in October, the Icelandic banks had jointly chosen to take 11 trial cases to the courts in order to clarify their position about the recalculation of these loans in light of the February ruling. Íslandsbanki believes that most of the matters have now been clarified by the October ruling and has decided to drop three of the cases so as to speed up the recalculation process. The bank stands by its earlier statements that the customer's rights will always be valued and it will now set about recalculating 14,000 loans."

### For further information:

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Key figures	30.09.12	31.12.11
	ISKbn	ISKbn
Total assets	813	796
Total loans	608	608
Total deposits	524	526
Equity	140	124
Deposit / Loan	86%	87%
Tier 1	20.9%	19.1%
Total capital	24.3%	22.6%

Key figures	9M2012	9M2011
	ISKbn	ISKbn
ROE	16.3%	11.9%
ROE regular income	10.9%	12.0%
Profit after tax	16.2	11.3
Profit from regular operations	10.8	11.4
Cost / income	51.0%	50.2%
Net Interest Margin	3.9%	4.8%

## INCOME STATEMENT

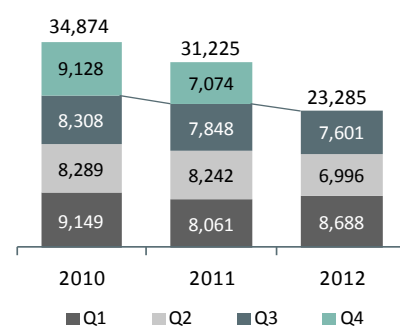
ISK m	9M12	9M11	FY11	FY10
Net interest income	23,285	24,151	31,225	34,874
Net valuation changes	2,782	-831	-1,296	14,507
Provision for latent impairment	-579	12	76	-514
Net interest income after valuation changes	25,488	23,332	30,005	48,867
Net fee and commission income	6,704	4,366	5,966	7,380
Net foreign exchange	1,544	408	937	-963
Net financial income/loss	2,099	-337	2,649	-910
Other net operating income	815	968	894	1,186
Total operating income	36,650	28,737	40,451	55,560
Salaries and related expenses	-9,429	-7,109	-10,531	-9,207
Other operating expenses	-8,459	-6,643	-9,339	-8,659
Contribution to the Depositors' and Investors' Guarantee Fund	-798	-684	-965	-607
Administrative expenses	-18,686	-14,436	-20,835	-18,473
Impairment of goodwill	0	0	-17,873	0
Share profit of associates	0	0	39	0
<b>Profit before tax</b>	<b>17,964</b>	<b>14,301</b>	<b>1,782</b>	<b>37,087</b>
Income tax	-4,463	-3,097	-75	-7,214
Bank tax	-631	-509	-682	-221
Profit from discontinued ops. net of tax	3,351	651	841	-283
<b>Profit after tax</b>	<b>16,221</b>	<b>11,346</b>	<b>1,866</b>	<b>29,369</b>
<b>Earnings from regular operations</b>	<b>10,811</b>	<b>11,359</b>	<b>13,905</b>	<b>17,756</b>

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.

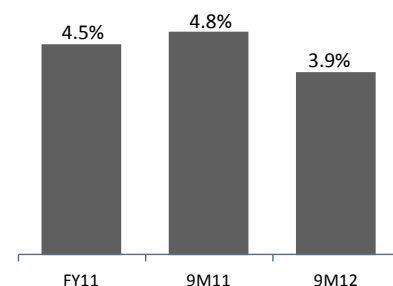
## INCOME

- In accordance with the Bank's focus on stable cash flows, over the long term core operations continue to generate the vast majority of net operating income split. Over 80% of the Bank's net operating income during 9M12 derived from net interest income and net fee and commission income.
- Net interest income amounted to ISK 23.3bn, compared to ISK 24.2bn in 9M11. The decrease can be attributed in some part to a lower amortised discount. Calculated as the ratio of net interest income to the average carrying amount of total assets, the net interest margin was 3.9% in 9M12, compared to 4.8% in 9M11 and 4.5% for the full year 2011.
- CPI-linked imbalance amounted to ISK 17bn at the end of the period. CPI-linked swaps and issuance of CPI-linked covered bonds are used to reduce the gap.
- Net fee and commission income amounted to ISK 6.7bn in 9M12, compared to ISK 4.4bn for the same period in the previous year. This is a YoY increase of 53.6% which can be attributed to the Byr merger, new fee generating subsidiaries and increased capital markets activity.
- Foreign exchange gain in 9M12 amounted to ISK 1.5bn, compared to an ISK 0.4bn gain in 9M11, mostly due to weakening of the ISK. Part of this number, ISK 0.3bn, is income related to interest differential in FX Swaps. The net FX gap, which was ISK 23bn at the end of the period, is strictly monitored and is within the regulatory limit. The gross foreign currency gap is gradually diminishing in line with restructuring of the loan portfolio.

### NET INTEREST INCOME ISKm



### NET INTEREST MARGIN %



## INCOME STATEMENT – cont.

- Net financial income amounted to ISK 2.1bn in 9M12, compared to a loss of ISK 0.3bn in 9M11, reflecting a fair value gain from equity positions and dividend gains from trading shares and bonds.
- Other net operating income, mainly rental income and fees from service agreements and foreclosed assets, amounted to ISK 0.8bn in 9M12, compared to ISK 1.0bn in 9M11.

## EXPENSES

- Cost to income ratio has remained stable at 51.0% in the first 9 months of 2012, compared to 50.2% in 9M11 and 51.5% in FY11.
- Core cost to income ratio, calculated as the ratio of total operating expenses over net interest income and net fee and commission income, was 62.3% in 9M12, compared to 50.6% in 9M11.
- Contributions to the Depositors' and Investors' Guarantee Fund increased by ISK 0.1bn between years, from ISK 0.7bn in 9M11 to ISK 0.8bn in 9M12, due to a change in legislation in 2012 and a slight increase in the deposit base.
- Salaries and related expenses amounted to ISK 9.4bn in 9M12, compared to ISK 7.1bn for 9M11. The increase between the years can mainly be attributed to the Byr merger and the new financial activities tax of 5.45% of total salaries which was introduced in the beginning of 2012.
- The average number of full time employees at the Bank was 1,132 in 9M12, compared to 1000 in 9M11, which is explained by the Byr merger and Kreditkort becoming part of the parent company in 2Q2012.
- Administrative expenses amounted to ISK 18.7bn in 9M12, compared to ISK 14.4bn in 9M11. The increase is partly attributable to the acquisition of Byr, in particular in relation to professional fees and IT services, and new subsidiaries joining the Group.

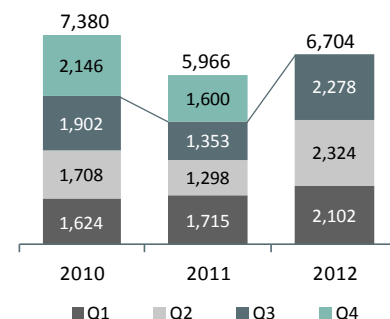
## TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- Income tax for 9M12 was ISK 4.5bn compared to ISK 3.1bn in 9M11. Taxation has increased considerably in recent years including a special financial activities tax of 6% on taxable profits above ISK 1bn for companies in financial service.
- The bank tax, introduced in 2010, includes 0.041% of the previous year's total liabilities and a 0.0875% special tax on liabilities for the years 2012 and 2013, amounts to ISK 0.6bn in 9M12. In comparison, the bank tax for 9M11 was ISK 0.5bn.
- A new financial activities tax of 5.45% is calculated on salaries and amounted to ISK 0.4bn in 9M12.
- Expenses due to FME and the Debtors' Ombudsman amounted to ISK 0.3bn compared to ISK 0.2bn for the same period in 2011 and ISK 0.3bn for the full year 2011.
- Total taxes and levies paid to government institutions amounted to ISK 6.7bn in 9M12 compared to ISK 4.5bn in the same period in 2011.

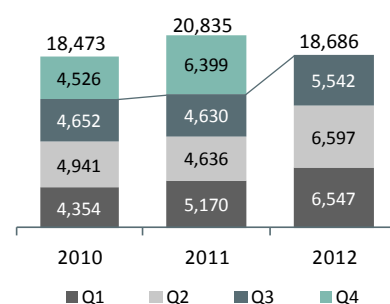
## PROFIT FROM DISCONTINUED OPERATIONS

- Profit from discontinued operations net of tax was ISK 3.4bn in 9M12, compared to ISK 0.7bn in 9M11. The increase can mainly be attributed to the sale of equity stakes as well as rental income and income from foreclosed assets.

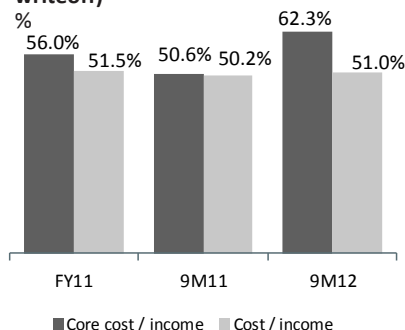
## NET FEE AND COMMISSION INCOME ISKm



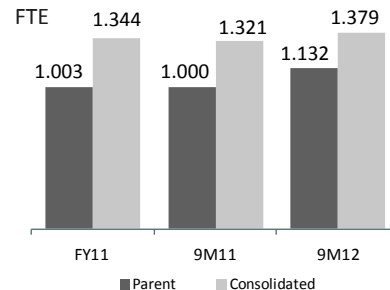
## ADMINISTRATIVE EXPENSES ISKm



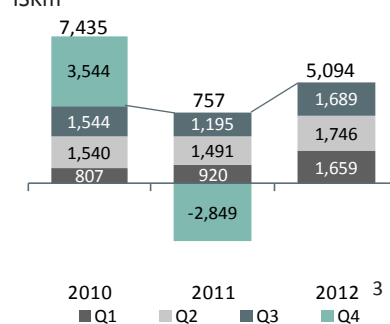
## COST / INCOME RATIOS (excl. goodwill writeoff) %



## AVERAGE # OF EMPLOYEES



## TAXES (Income tax and Bank tax) ISKm



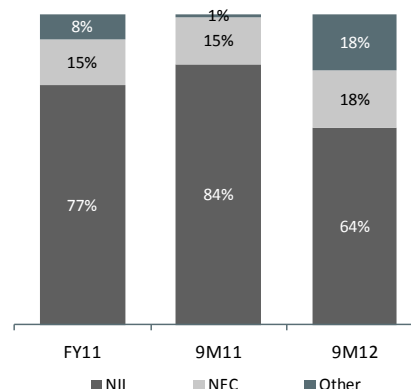
**INCOME STATEMENT – cont.**



**PROFIT**

- Profit after tax was ISK 16.2bn in 9M12, compared to ISK 11.3bn in 9M11. This translates to a return on equity of 16.3%, compared to 11.9% in 9M11.
- Earnings from regular operations resulted in a profit of ISK 10.8bn and a return on equity of 10.9%. In comparison, earnings from regular operations was ISK 11.4bn in 9M11, translating into a return on equity of 12.0%. The drop between years in the return can largely be explained by higher equity in 2012.
- Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gains 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**  
%



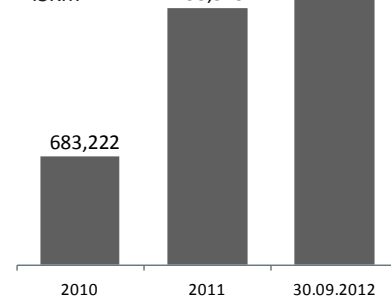
**BALANCE SHEET**

ASSETS	ISKm	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
<b>Total assets</b>		<b>812,711</b>	<b>789,937</b>	<b>795,915</b>

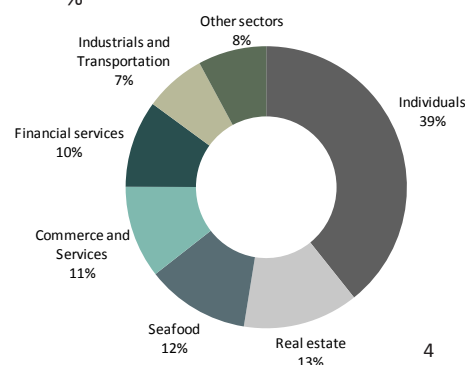
**ASSETS**

- The Bank's total assets amounted to ISK 812.7bn at end of September 2012, compared to ISK 795.9bn at year-end 2011.
- Loans to customers totalled ISK 546.9bn at end of September, compared to ISK 564.4bn at year-end 2011 and ISK 545.9bn at 1H2012. This is the second quarter in which new lending exceeded repayments. The main reason for the drop from year-end 2011 is a repayment of a large government secured customer loan.
- Restructuring of the largest corporate clients loan portfolio is expected to be largely completed by the end of 2012. Restructuring of the remainder of the loan portfolios will be completed by the end of 2013.
- The bank's holdings of bonds and debt instruments amounted to ISK 52.1bn at the end of the period. The portfolio consists mainly of G5 government bonds in the bank's liquidity portfolio, with no exposure to GIPSIs.
- Shares and equity instruments amounted to ISK 9.9bn, down from ISK 11.1bn at year-end 2011, mainly due to the sale of part of an equity stake in Icelandair.
- Non-current assets held for sale amounted to ISK 37.5bn at end of September, compared to ISK 42.7bn at year-end 2011. The decrease is partly due to a sale of an equity stake held by Íslandsbanki's subsidiary Miðengi.

**TOTAL ASSETS**  
ISKm



**ASSETS BY SECTOR, as of 30.09.2012**  
%



## BALANCE SHEET

LIABILITIES & EQUITY	ISKm	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
<b>Total liabilities</b>		<b>672,666</b>	<b>654,456</b>	<b>672,212</b>
<b>Total equity</b>		<b>140,045</b>	<b>135,481</b>	<b>123,703</b>
<b>Total liabilities and equity</b>		<b>812,711</b>	<b>789,937</b>	<b>795,915</b>

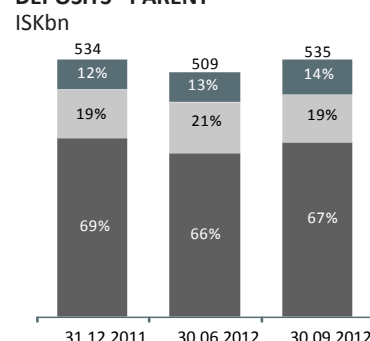
## LIABILITIES

- Total liabilities amounted to ISK 672.7bn at end of September, compared to ISK 672.2bn at year-end 2011.
- Deposits from customers have remained stable at ISK 482.5bn at end of September, compared to ISK 462.9bn at year-end 2011, rendering a strong deposit to loan ratio of 86.3% and a customer deposit to loan ratio of 88.2%.
- Subordinated loans amounted to ISK 22.1bn and comprise a EUR 138m denominated Tier II Government bond that was issued following an agreement with Glitnir and the Icelandic Government in September 2009.
- At the end of September, the Bank's total equity was ISK 140bn, compared to ISK 123.7bn at year-end 2011, which is an increase of 13.2% over the period.
- The Tier 1 ratio was 20.9% and the total capital ratio was 24.3% which is well above the regulatory minimum set by the Icelandic Financial Supervisory Authority. Capital ratios have been increasing on the back of higher retained earnings.
- 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.

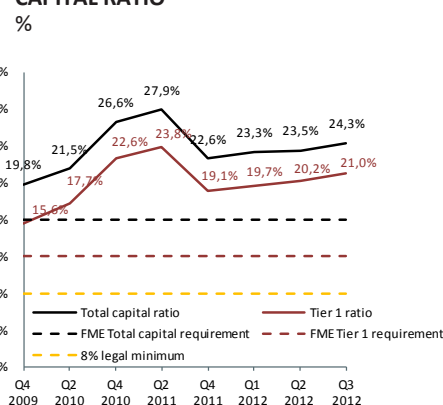
## FUNDING AND LIQUIDITY POSITION

- The Bank's liquidity position is sound and all liquidity ratios well above regulatory requirements. At the end of the quarter, the ratio of liquid assets against all deposits was 31%.
- The Bank has been largely funded with deposits since its incorporation in 2008.
- Íslandsbanki was the first bank to list securities on the NASDAQ OMX Iceland since the autumn of 2008, an important step towards diversification of funding for the Bank. Under the ISK 100bn covered bond programme that is in place, Íslandsbanki plans to issue around ISK 10bn of covered bonds annually. To date (29 November 2012), the Bank has issued covered bonds amounting to ISK 11.4bn since its inaugural transaction in December 2011
- The Bank is not reliant on foreign currency funding and does not have a need to raise such funds in the short to medium term. The Bank has, however, been exploring its options and will take advantage of opportunities to fund loan book growth in foreign currencies should they arise.

## DEPOSITS - PARENT



## CAPITAL RATIO



## FINANCIAL CALENDAR

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

- 4Q2012 - 28 Feb 2013
- Silent period 18 Feb – 27 feb
- AGM - 18 April 2013
- 1Q2013 – 30 May 2013
- Silent period 20 May – 29 May

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