

30 May 2012

# 1Q2012 Financial Results



# Forward Looking Statements

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# Table of Contents

- I. Income Statement 1Q12
- II. Assets & Restructuring
- III. Liabilities, Liquidity & Capitalisation

# I. Income Statement 1Q12

# 1Q2012 financial highlights

## Key ratios

RESULTS

### ADJUSTED ROE\*

**15.1%**

1Q11: 12.4%  
FY 2011: 11.0%

RESULTS

### ROE

**17.7%**

1Q11: 11.7%  
FY 2011: 1.5%

PROFITABILITY

### NET INTEREST MARGIN

**4.4%**

1Q11: 4.8%  
FY 2011: 4.5%

FUNDING

### TOTAL DEPOSIT / LOAN RATIO

**87.2%**

1Q11: 77.4%  
FY 2011: 86.5%

COST

### CORE COST / INCOME RATIO

**60.7%**

1Q11: 52.9%  
FY 2011: 56.0%

STRENGTH

### TOTAL CAPITAL RATIO

**23.3%**

1Q11: 27.4%  
FY 2011: 22.6%

\*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 statement

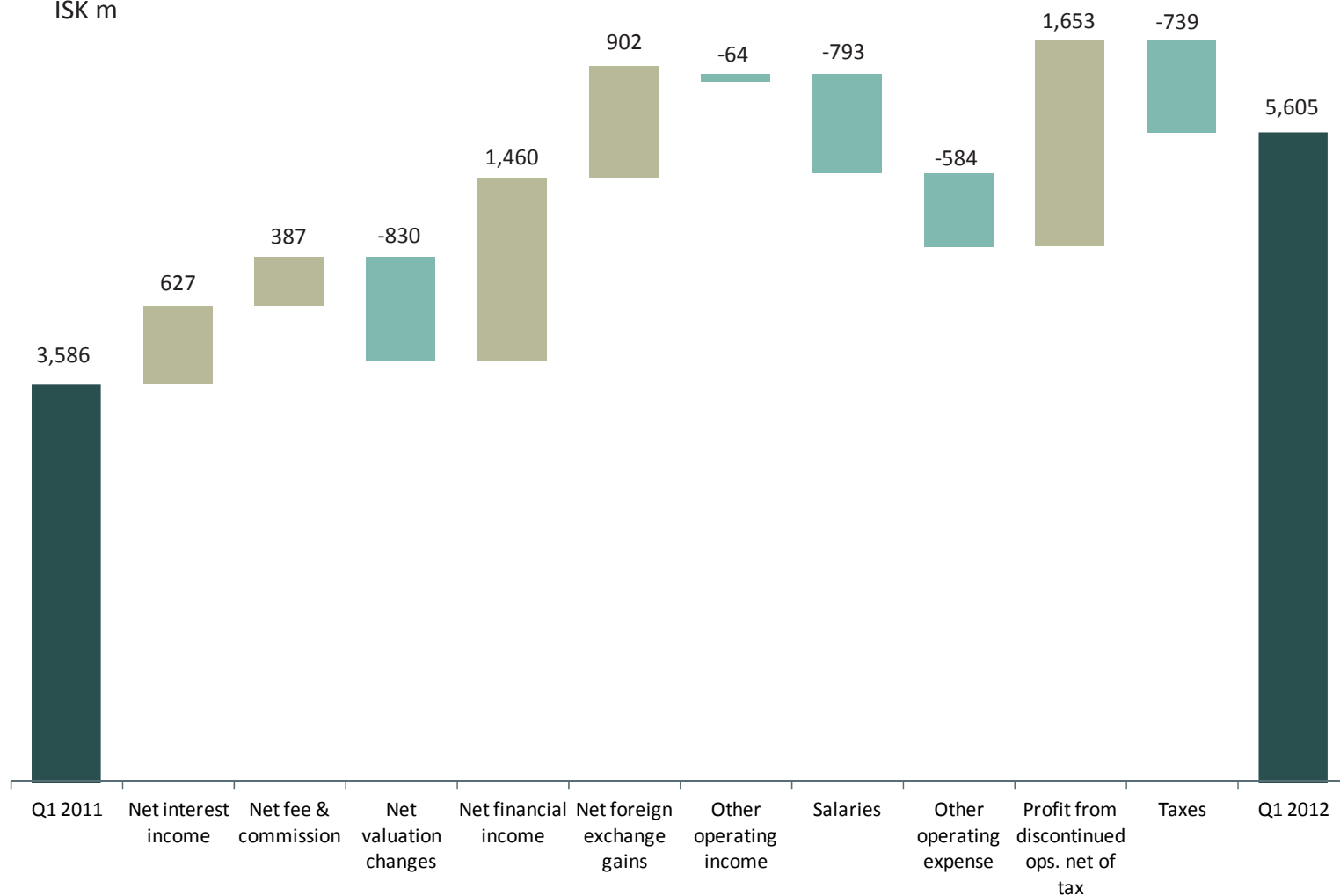
## Quarterly and full year comparison

ISK m	1Q12	4Q11	3Q11	2Q11	1Q11	FY11	FY10
Net interest income	<b>8,688</b>	7,074	7,847	8,242	<b>8,061</b>	31,225	34,874
Net valuation changes	<b>-1,544</b>	-465	-577	409	<b>-664</b>	-1,296	14,507
Provision for latent impairment	<b>-121</b>	64	167	16	<b>-171</b>	76	-514
Net interest income after valuation changes	<b>7,023</b>	6,673	7,437	8,668	<b>7,226</b>	30,004	48,867
Net fee and commission income	<b>2,102</b>	1,600	1,354	1,297	<b>1,715</b>	5,966	7,380
Net foreign exchange	<b>1,104</b>	529	71	135	<b>202</b>	937	-910
Other financial (loss) / income	<b>1,323</b>	2,986	131	-330	<b>-138</b>	2,649	-963
Other net operating income	<b>295</b>	-74	312	297	<b>359</b>	894	1,186
Total operating income	<b>11,846</b>	11,714	9,306	10,066	<b>9,364</b>	40,450	55,560
Salaries and related expenses	<b>-3,285</b>	-3,422	-2,140	-2,476	<b>-2,492</b>	-10,531	-9,207
Other operating expenses	<b>-2,937</b>	-20,569	-2,238	-2,194	<b>-2,211</b>	-9,339	-8,659
Insurance fund	<b>-325</b>	-281	-252	35	<b>-467</b>	-965	-607
Administrative expenses	<b>-6,547</b>	-24,272	-4,630	-4,636	<b>-5,170</b>	-20,835	-18,473
Impairment of goodwill	<b>0</b>	-17,873	0	0	<b>0</b>	-17,873	0
Share profit of associates	<b>0</b>	39	0	0	<b>0</b>	39	0
<b>Profit before tax</b>	<b>5,300</b>	<b>-12,519</b>	<b>4,676</b>	<b>5,431</b>	<b>4,194</b>	<b>1,781</b>	<b>37,087</b>
Income tax	<b>-1,659</b>	2,849	-1,195	-1,491	<b>-920</b>	-757	-7,435
Profit from discontinued ops. net of tax	<b>1,965</b>	190	-198	538	<b>312</b>	841	-283
<b>Profit after tax</b>	<b>5,605</b>	<b>-9,480</b>	<b>3,283</b>	<b>4,478</b>	<b>3,586</b>	<b>1,866</b>	<b>29,369</b>
<b>Earnings from regular operations</b>	<b>4,783</b>	n/a	n/a	n/a	<b>3,805</b>	<b>13,905</b>	<b>17,756</b>

# Core operations continue to improve

Development of P&L line items 1Q2011 – 1Q2012

Change in net profit by line items  
ISK m



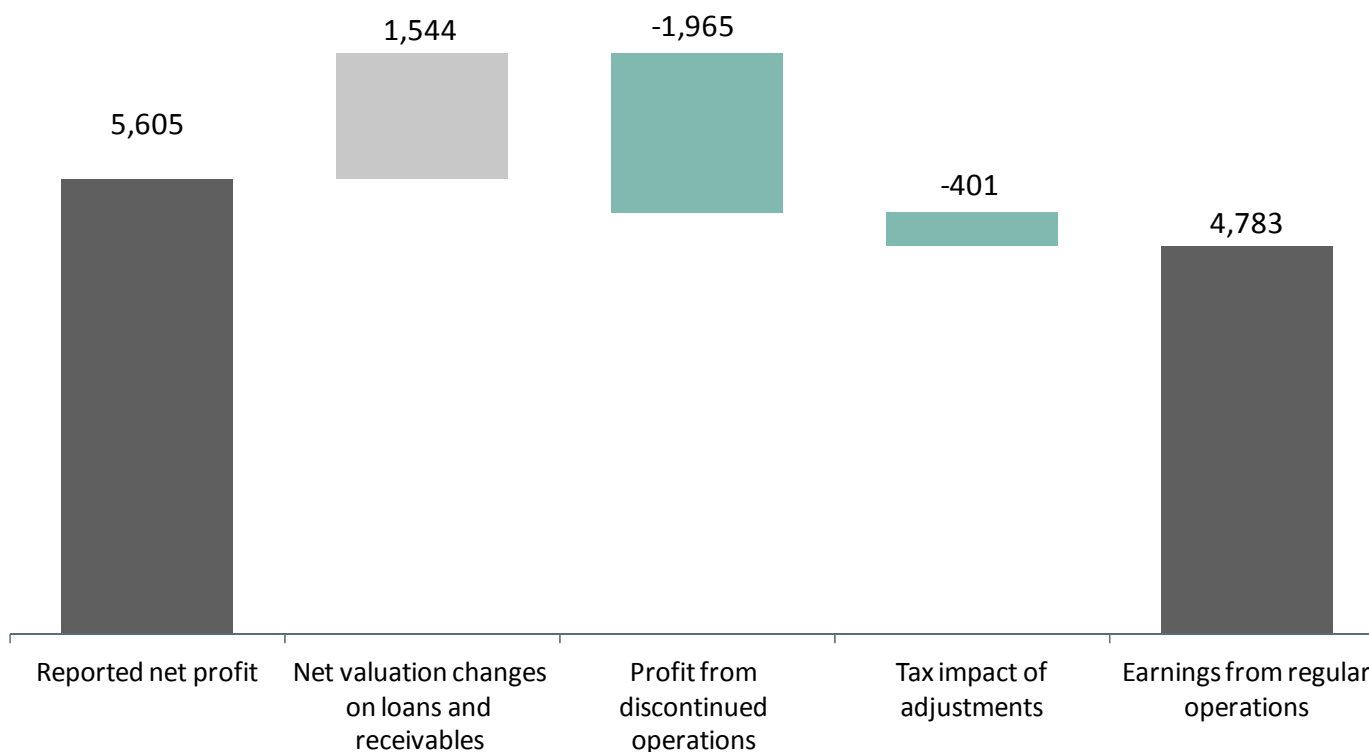
## Main items

- Increase in NII mainly due to larger loan book on average over the period and inflation effect
- Net financial income includes a mark to market financial gain on a large equity stake
- Net foreign exchange gain mainly attributable to weakening of the ISK
- Increase in salaries due to introduction in 2012 of a financial activities tax (5.45% of total salaries)

# One-off items have limited impact on profit

1Q2012

ONE-OFF ITEMS AND OTHER EXTRAORDINARY ITEMS  
ISK m



## Largest one-off items in Q1

- Negative net valuation changes on loans and receivables: ISK 1.5bn
- Profit from discontinued operations: ISK 2bn

\*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.

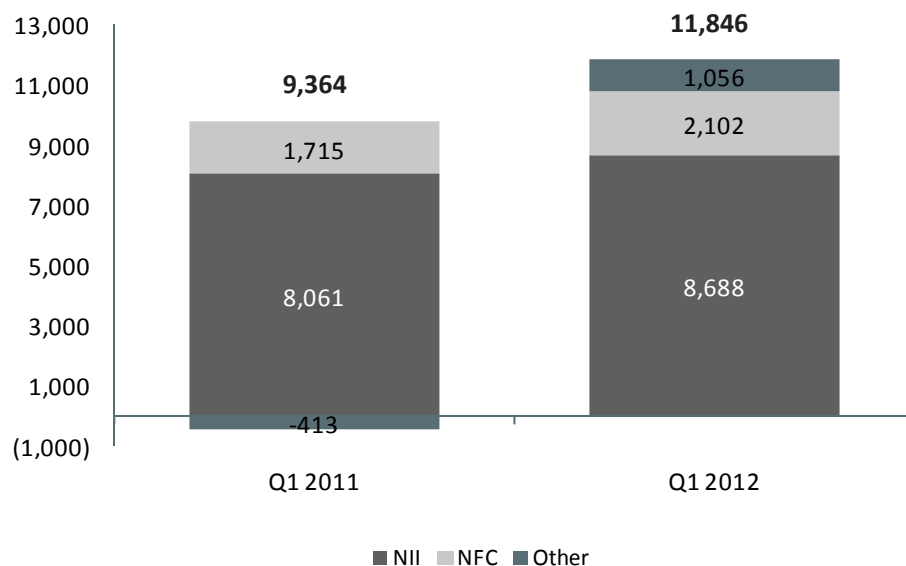


# Income split

Core operations continue to generate vast majority of income

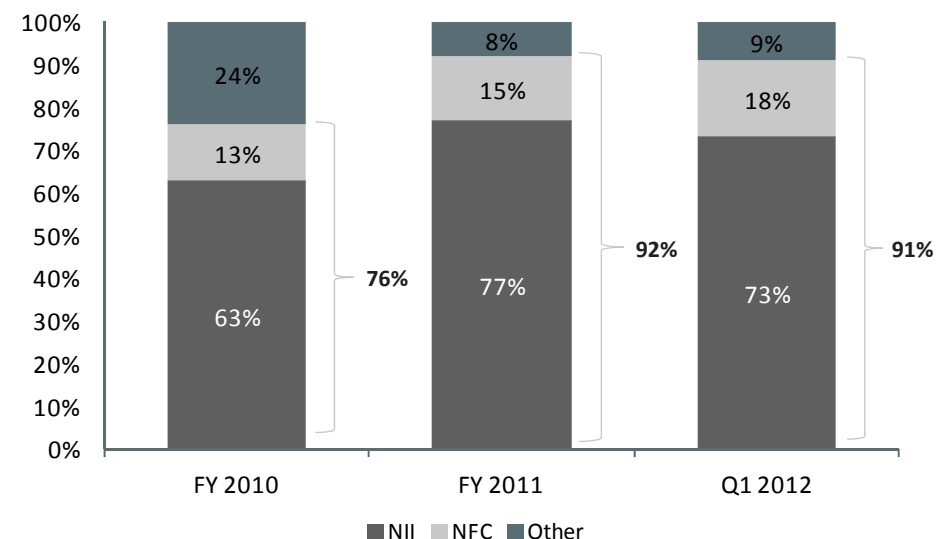
## NET OPERATING INCOME SPLIT

By income type, ISK m



## NET OPERATING INCOME SPLIT

By income type, %



### Net interest income improving between quarters

- Consistent progress in resetting of contractual interest rates
- Net interest margin of 4.4% in 1Q12, compared to 4.8% in 1Q11, expected to be approximately 3%, on average going forward

### Net fee and commission income is picking up slowly

- Restructuring of companies taking longer than anticipated, securities markets still dormant and capital controls limit revenue growth in FX trading

### Focus on long-term stable cash flows

- 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 90% of the Bank's net operating income is from net interest income and net fee and commission income

## **II. Assets & Restructuring**

# Assets

Consolidated – 31 March 2012

ISKm	31.03.12	31.12.11
Cash and balances with CB	<b>78,398</b>	57,992
Derivatives	<b>205</b>	339
Bonds and debt instruments	<b>55,579</b>	58,662
Shares and equity instruments	<b>12,736</b>	11,107
Loans to credit institutions	<b>46,461</b>	43,655
Loans to customers	<b>537,847</b>	564,394
Investment in associates	<b>917</b>	1,070
Property and equipment	<b>5,530</b>	5,276
Intangible assets	<b>580</b>	544
Deferred tax assets	<b>2,049</b>	2,629
Non-current assets held for sale	<b>39,723</b>	42,690
Other assets	<b>12,393</b>	7,557
<b>Total assets</b>	<b>792,418</b>	795,915

## Cash and balances with Central Bank

- Changes in cash balance mainly due to management of liquid assets between cash and bonds

## Bonds and debt instruments

- Mainly G5 government bonds
- No exposure to GIPSIs

## Shares and equity instruments

- Increase due to mark to market of equity stakes

## Loans to credit institutions

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

## Loans to customers

- Repayments continue to exceed new lending in line with deleveraging of households and corporates in Iceland

## Non-current assets held for sale

- Partly due to Jarðboranir sold in Mar 2012, which was owned by Íslandsbanki subsidiary Miðengi

# Well diversified loan portfolio

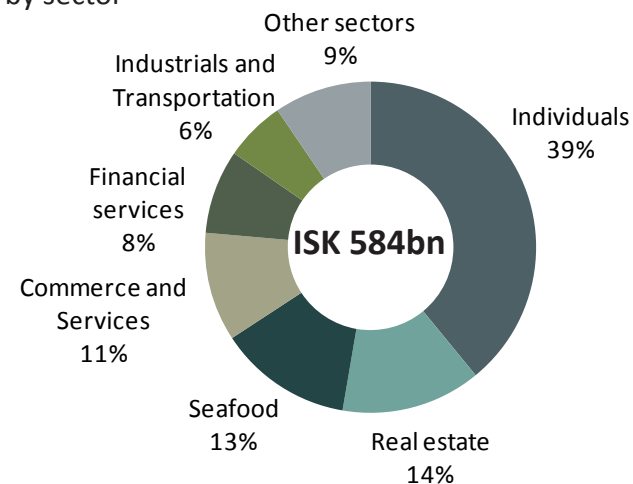
Acquisition of Byr diversified the portfolio further in terms of industry sectors and facility types

## Loan portfolio decrease of 4% in 1Q12

- A large government secured customer loan was repaid
- Increased competition in corporate banking in Iceland
- The decrease in the loan portfolio has adverse effect on portfolio ratios such as the LPA metric and problem loans ratio
- Restructuring and write-offs continue with focus on recalculation of FX loans and loans acquired from Byr

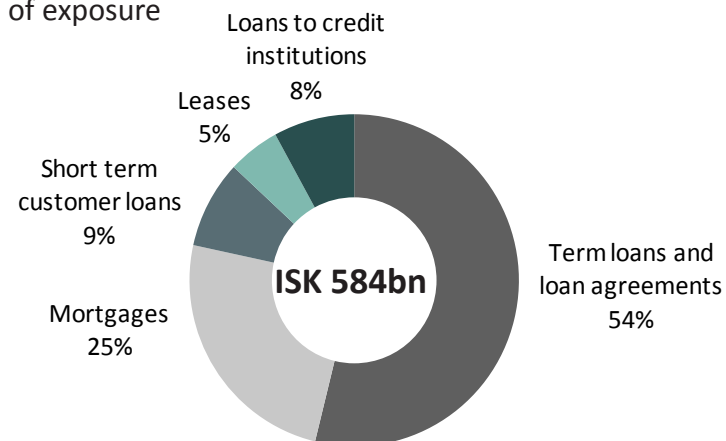
### CONSOLIDATED LOAN PORTFOLIO

ISK bn, by sector



### CONSOLIDATED LOAN PORTFOLIO

By type of exposure

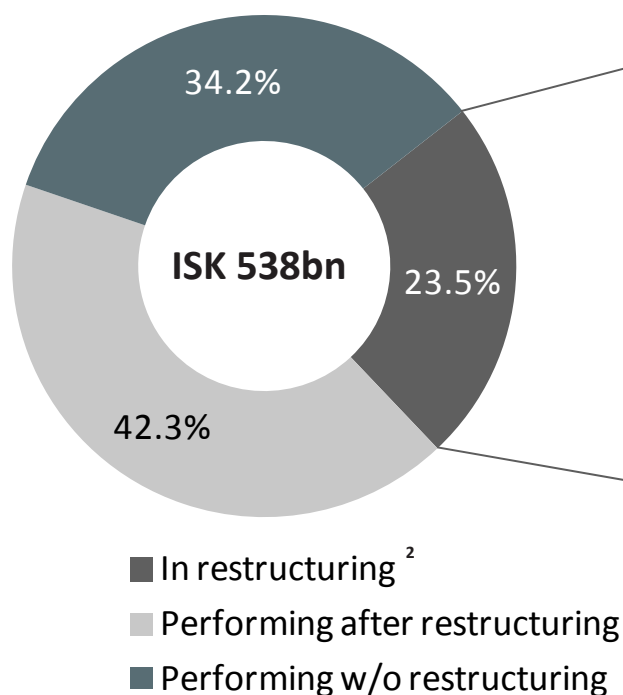


# Loan portfolio performance

No further impairments expected on portfolio, carrying amount reflects expected recovery of loans

## LOAN PORTFOLIO ANALYSIS (LPA<sup>1</sup>)

Excluding fully performing loans to credit institutions

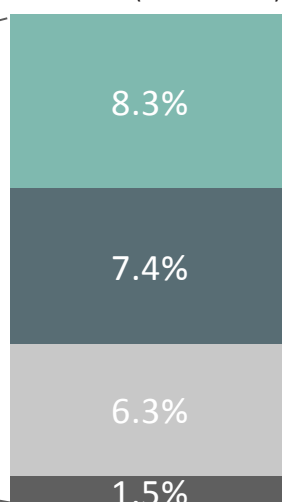


- A large government secured customer loan was repaid in 1Q12 which affected LPA ratios

## LOANS IN RESTRUCTURING

By status of restructuring

23.5% (FY11: 22.6%)



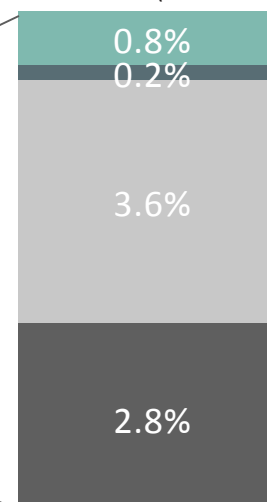
- Payments postponed
- 90 days past due / individually impaired
- Transferred to workout
- In collection

- Large part already in workout process
- Carrying amount reflects expected recovery of all outstanding loans

## TRANSFERRED TO WORKOUT

By level of completion

7.4% (FY11: 6.5%)



- In documentation
- In negotiation
- Offer made
- Initial analysis

- Almost half of workout portfolio already in advanced stages of documentation

1. Parent company only, numbers as of 31 March 2012  
2. 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 – 31 March 2012

ISK m	31.03.12	31.12.11
Financial liabilities	<b>10,596</b>	9,346
Derivatives	<b>5,761</b>	4,027
Deposits from CB and credit inst.	<b>52,470</b>	62,845
Deposits from customers	<b>456,821</b>	462,943
Debt issued and other borrowings	<b>65,647</b>	63,221
Subordinated loans	<b>23,303</b>	21,937
Current tax liabilities	<b>2,706</b>	2,670
Deferred tax liabilities	<b>19</b>	17
Non-current liabilities held for sale	<b>6,482</b>	7,317
Other liabilities	<b>39,193</b>	37,889
<b>Total liabilities</b>	<b>662,998</b>	672,212
<b>Total equity</b>	<b>129,420</b>	123,703
<b>Total liabilities and equity</b>	<b>792,418</b>	795,915

## Deposits

- Slight decrease in deposits in line with development on the asset side
- 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 Sep 2009

## Other liabilities

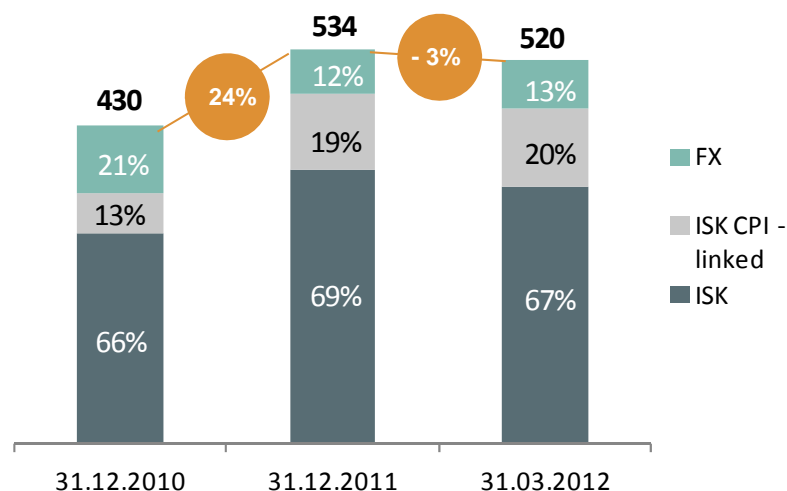
- Unsettled securities transactions

# Deposits are stable

Slight decrease in deposits in line with development on the asset side

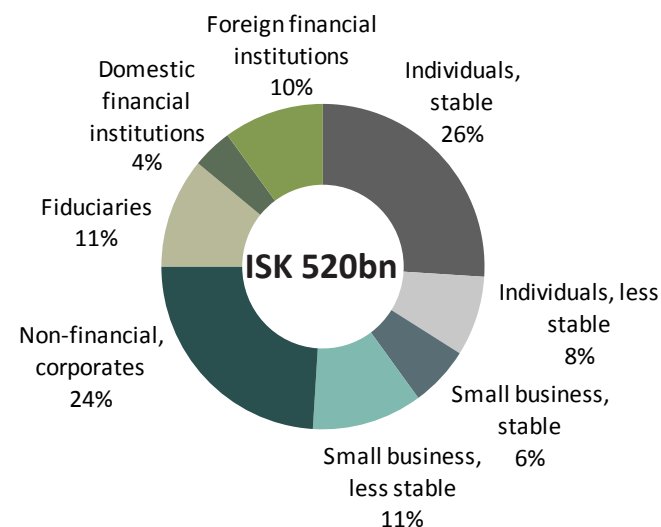
## DEPOSIT DEVELOPMENT

Total exposure, parent company, ISKbn



## DEPOSIT COMPOSITION

As of 31.03.12, 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

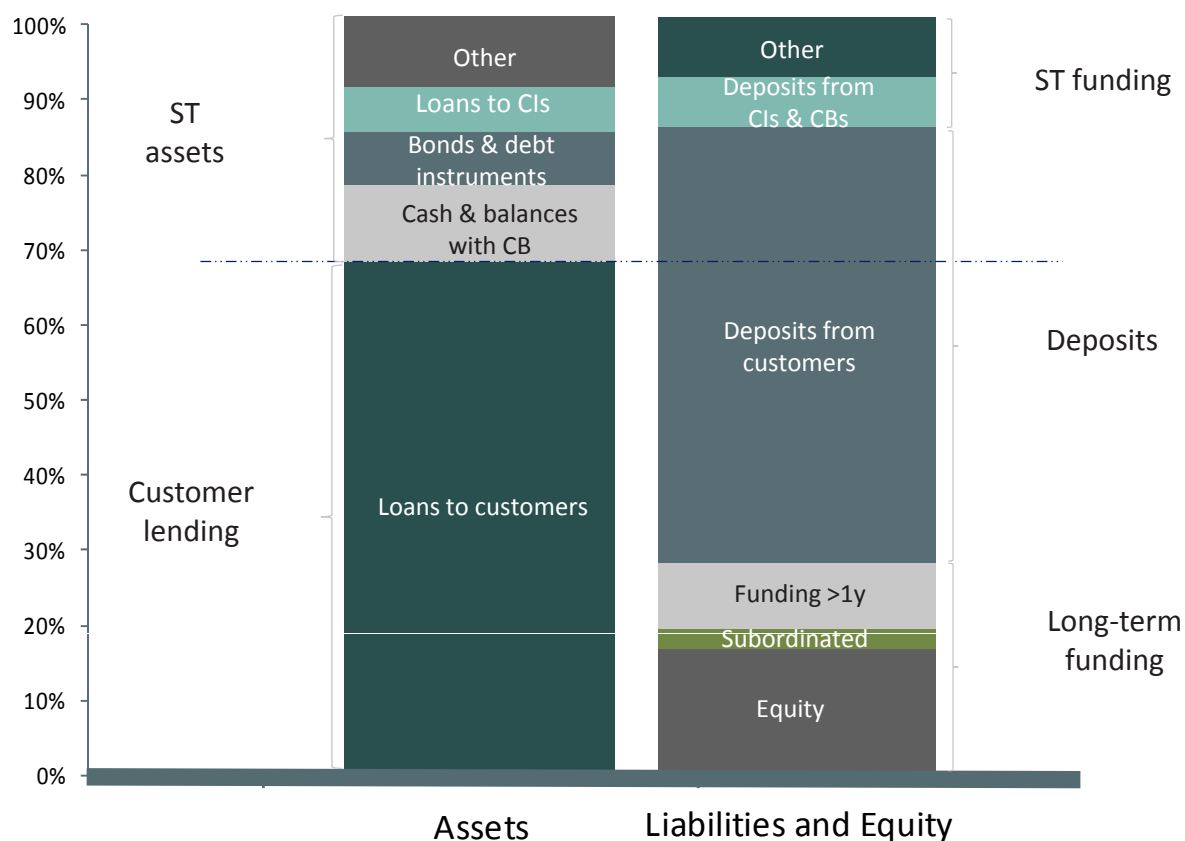


# Structurally sound balance sheet

Solid funding base where deposits are the largest source of funding

## FUNDING STRUCTURE

31.03.2012, %



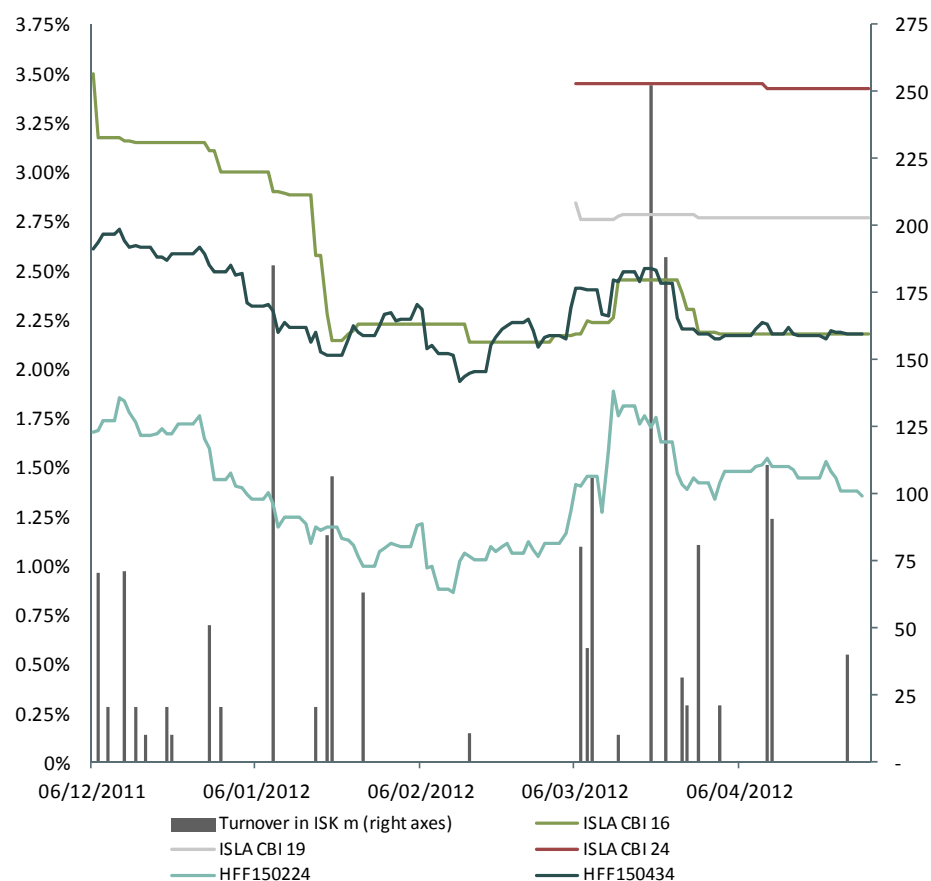
## Diversification of funding

- Prudent asset and liability management
- Maturity profile on asset and liability side well balanced
- 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

**ÍSLANDBANKI COVERED BONDS**  
Yield and turnover as of Apr 30 2012



## An ISK 100bn covered bond programme in place

- A sensible funding option in current climate, bonds are secured on a pool of mortgage loans
- Three oversubscribed issues to date amounting to ISK 8.8bn
- Issues were sold to a broad group of institutional investors, i.e. domestic pension funds, mutual funds and insurance companies
- Íslandsbanki plans to issue around ISK 10bn of covered bonds annually

## Covered bonds performing well in the after market

- The first covered bond issuance in Dec 2011 was issued at a yield of 3.5%, which performed well in the after market and had decreased to 2.18% by Apr 2012
- The yield for the two Mar 2012 issues that followed has been very stable with the 7 year issued at 2.84% (trading at 2.76% in Apr 2012) and the 12 year issued at 3.45% (trading at 3.42% in Apr 2012)

# Sound management of liquidity

Liquid assets of ISK 172bn far exceed regulatory targets

## LIQUIDITY BACK-UP\* / DEPOSIT COVERAGE RATIO

31.03.2012, parent company, ISKbn

Asset type	ISK	FX	Total
Cash and balances with CB	73.7	1.0	74.7
Balances with credit institutions	5.0	34.8	39.8
Repo eligible bonds	18.9	0.0	18.9
Foreign government bonds	0.0	13.5	13.5
Government facility line	25.0	0.0	25.0
<b>Total</b>	<b>122.6</b>	<b>49.3</b>	<b>171.9</b>
Total deposits (parent)	452.6	67.6	520.3
Liquid assets to total deposits	27%	73%	33%

## Regulatory liquidity requirements

- FME requires cash or cash-like assets against demand deposits of 5%
  - Íslandsbanki (31.03.2012): 30%
- FME requires liquid assets against all deposits of 20%
  - Íslandsbanki (31.03.2012): 33%
- CB: Liquid assets and expected loan inflow cover 100% of all expected outflow over the next 3 months according to CB definitions
  - Íslandsbanki (31.12.2012): 148%
- The Icelandic regulator has not issued any guidelines on the implementation of the Basel III liquidity measures, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
  - Íslandsbanki is prepared for adopting the Basel III liquidity measures.

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

# Imbalances strictly monitored

Gross foreign currency gap actively improved through restructuring

IMBALANCES  
31.03.2012

ISKbn	FX	
	denominated	CPI-linked
Assets	221	196
Adjustments for FX / ISK assets	(40)	
<b>Net assets</b>	<b>181</b>	<b>196</b>
Liabilities	(166)	(183)
<b>Net gap</b>	<b>15</b>	<b>13</b>

## FX assets

- Categorisation based on customer cash flow
- Real FX assets (FX/FX) amount to ISK 181bn
- 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

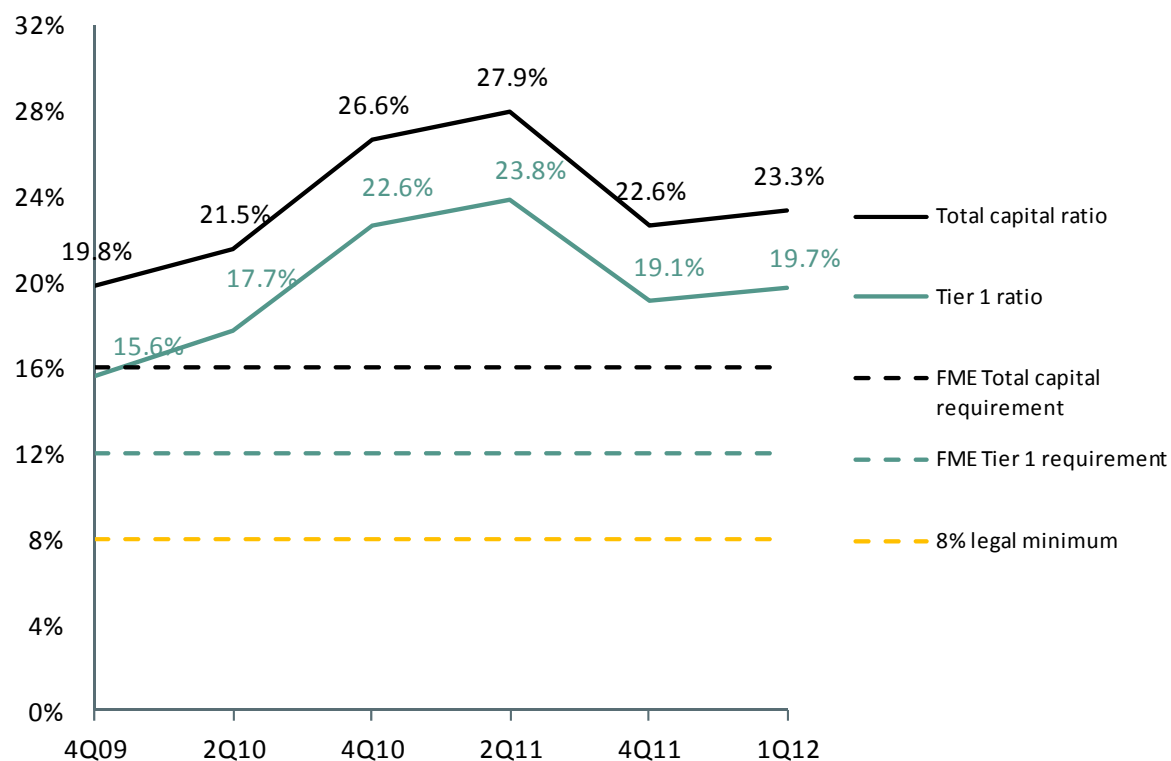
## Net gap between inflation indexed assets and liabilities

- CPI-linked swaps used to reduce the gap
- Issuance of CPI-linked covered bonds also reduces the gap

# Sound capital position

Exceeds legal and regulatory requirements of 16% and legal limit of 8%

**CAPITAL RATIOS**  
Development, %























## Strong capitalisation

- There was a slight increase in 1Q12 capital ratios
- The dip in 4Q11 was mainly due to Byr merger and write-off of goodwill
- Still far exceeds regulatory requirements of 16% and legal limit of 8%

# Improved IR website and Fact Sheet

All financial reports now easily accessible on Íslandsbanki's IR website [www.islandsbanki.is/ir](http://www.islandsbanki.is/ir)

	2011	2010	2009	2008	
	Report	Press Release	Presentation	Fact Sheet	Speech
Q1					
Q2					
Q3					
FY					
Annual Report					
Risk Report					
AGM					

ISSUED: 27 MAR 2012

## Íslandsbanki

FACT SHEET FY 2011

### OUR PROFILE

- A universal bank offering comprehensive financial services to households, corporations and institutional investors in Iceland with highest ranking for customer service and satisfaction
- Market share of 25 -35% across all business segments
- National coverage with 21 branches and staff of 1,100+
- One of Iceland's leading wealth managers by AUM, managed through an independent unit, VÍB providing regulated investment advice
- Leading capital markets covering equities, fixed income, FX, corporate finance and research, and is the country's largest trader by volume of sovereign bonds
- International Sector Expertise in two industries – seafood and geothermal energy - building on a heritage of servicing these industries in Iceland

FOR MORE INFORMATION CONTACT:  
Investor Relations  
Financial Institutions

### MACRO HIGHLIGHTS

- As the first country to suffer the full force of the global financial crisis, Iceland was also the first country to successfully complete a three-year IMF programme in August 2011
- In February, Fitch lifted its rating on Iceland to investment grade citing the nation's progress in restoring macroeconomic stability, pushing ahead with structural reform and rebuilding sovereign creditworthiness

## Web highlights

- Funding profile
- Covered bond issuances
- Ownership structure
- Financial calendar
- Useful links

## Fact Sheet

- A one-sheet presentation of Íslandsbanki in a simple concise format
- Contains information on Íslandsbanki's main activities and financial highlights
- Icelandic macro highlights

# Summary

Economy is bouncing back and Íslandsbanki sound progress in 2011 paves way for continued success

## 1Q2012 a good quarter

- Profit of ISK 5.6bn
- Earnings from regular operations of ISK 4.8bn
- ROE of 17.7% and ROE on regular operations of 12.4%
- Capital ratio of 23.3% and Tier 1 of 19.7%
- Total assets of ISK 792.4bn
- Deposit/loan ratio of 87.2%
- Core cost/income ratio of 60.7%

## Restructuring to finalise in 2012

- Percentage of loans in restructuring is trending downwards but small increase due to Byr merger
- No further impairments expected on loan portfolio
- Carrying amount reflects expected recovery of all outstanding loans
- Large part of workout portfolio already in advanced stages of documentation

## Byr integration now finalised

- Byr acquisition part of the necessary consolidation in the Icelandic banking sector
- Pushed Íslandsbanki's retail market share to around 32%
- Also improved efficiency in the Bank's own branch network
- Total banking assets in Iceland now equal 2xGDP, down from 10xGDP in 2008

## Healthy Balance Sheet & capitalisation

- Initial balance sheet valuation means significant impairments could still be taken with zero impact to the capital position
- Entire goodwill from the acquisition of Byr impaired to minimize intangible assets on Balance Sheet
- Total capital ratio of 23.3% remains well above FME's regulatory requirement of 16%

## Diversification of funding sources

- Inaugural domestic covered bond issuance in Dec 2011 of ISK 4bn, first bank in Iceland to list securities since 2008
- Two new oversubscribed issuances of covered bonds in Mar 2012 and tap issuances in May 2012
- Total covered bond issuances now stand at ISK 8.8bn
- Performing very well in after market

## Economy bouncing back

- Iceland the first country after the global financial crisis to successfully complete a three-year IMF programme in August 2011
- In February, Fitch lifted its rating on Iceland to investment grade
- Icelandic sovereign issued a second benchmark in May– a USD 1bn 10y eurobond



Thank you

