

Íslandsbanki

FINANCIAL UPDATE Q3 2011

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OUR PROFILE

■ Universal Bank in Iceland

Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations and professional investors in Iceland. The Bank has a strong market share across the client and product spectrum with 25 branches providing national coverage and is ranked highly for customer service and satisfaction.

■ Domestic leader in Asset Management

The Bank is one of Iceland's leading wealth managers by AUM, managed through an independent unit, VÍB providing regulated investment advice

■ Leading capital markets unit

Íslandsbanki has a leading full-range capital markets group covering equities, fixed income, FX, corporate finance and research, which is the country's largest trader by volume of sovereign bonds.

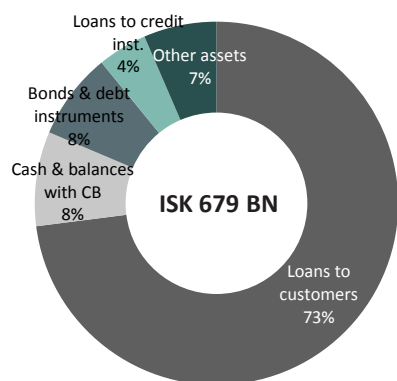
■ International Sector Specialist

Building on a heritage of lending to industry in Iceland, the Bank has developed specific expertise in two industry sectors – seafood and geothermal energy – that together form the basis for its overseas strategy.

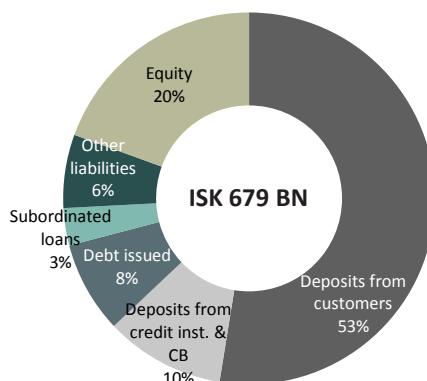
THIRD QUARTER HIGHLIGHTS

- Reduced earnings on the high equity base due to sizeable drop in risk free interest rates YoY and a lower contribution from CPI linked assets on reduced inflation.
- Merger with savings/commercial bank Byr in December 2011, grows the balance sheet by almost 20%. Byr, the result of a line of mergers of Iceland's savings banks, was Iceland's fourth largest commercial bank with assets of ISK 120bn Byr
- Íslandsbanki will be the first bank to complete a primary transaction on the Nasdaq OMX Iceland with an ISK 4BN new issue of covered bonds that starts trading Dec 7, 2011. Plans to issue up to ISK 10bn of covered bonds per year, reflecting investors preferences for greater security.

ASSETS

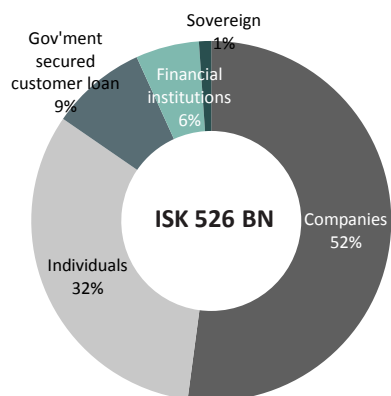


LIABILITIES

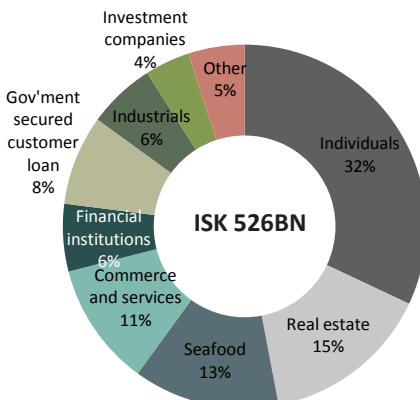


CONSOLIDATED LOAN PORTFOLIO

Split by type of borrower



Split by sector



KEY FINANCIALS

ISK

Total equity	132bn
Net interest income	24.2bn
Net fees & commissions	4.3bn
Other income	1.039m
Net operating income	28.7bn
Salaries	7bn
Other operating expenses	6.6bn
Pre-tax profit	14.3bn
Employees, parent	1,080

Ratios

Return on Equity	11.9%
Net Interest Margin	4.8%
Core Cost / income ratio	50.6%
Total capital ratio	28.8%
Loan / deposit ratio	81.4%

FINANCIAL UPDATE 3Q 2011

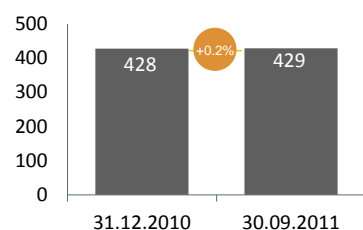
INCOME STATEMENT

ISK million	Q3 2011	Q3 2010	9M 2011	9M 2010
Net interest income	7,848	8,308	24,151	25,747
Net fee & commission income	1,353	1,902	4,366	5,234
Net financial & other op income	515	-2,117	1,039	-2,020
Net valuation changes	-576	2,714	-831	2,240
Latent impairment	167	137	12	-473
Total operating income	9,307	10,944	28,737	30,728
Salaries & related expenses	-2,140	-2,094	-7,109	-6,691
Other operating expenses	-2,490	-2,559	-6,644	-6,380
Insurance fund	-	-	-684	-876
Total operating expenses	-4,630	-4,653	-14,436	-13,948
Other income	-	-50	-	-
Profit before tax	4,677	6,241	14,301	16,780
Income tax	-1,030	-1,544	-3,097	-3,891
Bank tax	-165	-	-509	-
(Loss) profit from discontinued operations net of income tax	-198	164	651	262
Net profit	3,284	4,861	11,346	13,151

ASSETS

ISK million	30.09.2011	31.12.2010
Cash and balances with CB	57,077	30,799
Derivatives	932	70
Bonds and debt instruments	52,429	68,024
Shares and equity instruments	3,284	3,022
Loans to credit institutions	29,913	30,870
Loans to customers	495,588	515,161
Investment in associates	744	354
Property and equipment	5,608	5,419
Intangible assets	249	187
Deferred tax assets	200	283
Non-current assets held for sale	23,042	23,489
Other assets	10,022	5,544
Total assets	679,089	683,222

DEPOSIT DEVELOPMENT



CAPITALISATION

Ratio	Actual	Legal	FME
Tier 1	24.6%	8%	16%
Tier 2	4.2%	-	-

INCOME

- Bank earns less on the high equity base due to sizeable drop in risk free interest rates YoY
- CPI-linked assets earning less with lower inflation
- Net valuation changes in the value of the acquired loan portfolio
- Comprises future estimated cash flow from loans and collectively and specifically assessed impairment
- Slow recovery of financial markets impacts fee income
- Fee driven subsidiary company Borgun left the group
- Net gain on real FX imbalance
- ISK trade weighted index up 3.1% in first 9M
- New bank tax introduced in 2011 calculated as 0.041% of total liabilities

ASSET QUALITY

- Diversified loan portfolio to domestic corporations, SME's and individuals
- Conservative valuation of assets, acquired at discount with significant impairments already made
- Current restructuring through both standardised debt relief programmes and tailored solutions suited for individuals, SME's and corporations
- The aim is to maximise asset recovery and return quickly to a fully performing portfolio

FUNDING & LIQUIDITY

- Deposits stable source of funding, effectively guaranteed, expected to gradually decline as other options become available and risk appetite increases
- Prudent internal liquidity measures
- Conservative classification of liquid assets, well in excess of regulatory requirements
- Cash or cash like assets amount to 27% of demand deposits
- The Bank must be able to withstand 20% instantaneous outflow of deposits
- Íslandsbanki's ratios are well in excess of Central Bank limits on liquidity