Íslandsbanki

CONSOLIDATED INTERIM FINANCIAL STATEMENTS 1Q2013

HIGHLIGHTS

- Profit after tax was ISK 4.6bn in 1Q13, compared to ISK 5.6bn for the same period in 2012. The difference is primarily driven by lower net interest income and fluctuations in the ISK.
- Return on equity decreased to 12.2% (1Q2012: 17.7%). The YoY decrease in ROE is primarily driven by higher equity which has increased by 18% YoY, from ISK 129bn to ISK 152bn.
- Total taxes and levies paid to government institutions amounted to ISK 2.1bn in 1Q2013, compared to ISK 2.2bn in 1Q2012.
- Around 35,900 individuals and 3,900 corporates have received write-offs, debt forgiveness or some form of debt correction since the Bank's establishment, totalling ISK 490bn to date.
- Total assets remained on par at ISK 829bn (FY2012: ISK 823), with loans to customers down 3% to ISK 543bn (FY2012: ISK 558bn).
- The net interest margin was 3.6% (FY2012: 3.9% and 1Q2012: 4.4%) 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 increased to ISK 2.5bn (1Q2012: ISK 2.1bn), a YoY increase of 17% which can mainly be attributed to markets, retail banking, wealth management and fee generating subsidiaries.
- Net valuation changes on the loan portfolio resulted in a gain of ISK 3.1bn, compared to a loss of ISK 1.5bn during the same period in 2012.
- Total deposits reduced to ISK 492bn (FY2012: ISK 509bn). As deposits to customers remained on par, the decrease is primarily due to movements in deposits from credit institutions.
- Equity was ISK 152bn, up 3% from year-end 2012 and 18% YoY. Total capital ratio strengthened to 26.2% (2012: 25.5%), and Tier 1 ratio was 22.9% (FY2012: 22.0%).
- The Bank´s liquidity position is strong and is well above both the FME and Central Bank's regulatory requirements.

Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

"Net income from core operations in the first quarter of 2013 was in line with expectations. The effort to drive efficiencies is beginning to show results with costs declining 3% year-on-year. Net fee and commission income is up 17% from the previous year partly as a result of increasing market activity in Iceland. Íslandsbanki is the largest issuer of covered bonds in the country, and it began issuing commercial paper this quarter – the first bank to do so in Iceland since 2008.

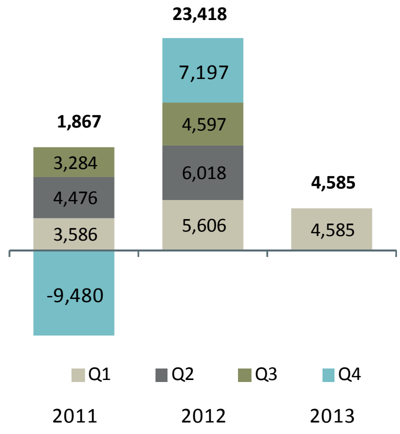
20,000 of the Bank´s customers received a rebate on interest charges in February amounting to a total of ISK 2.5bn. Customers had these rebates deposited into a new term deposit product to encourage savings, and it is gratifying to see that 50% of that refund is still held on deposit with us.

Capital levels remain robust at 26.2% - well over the Icelandic FSA´s requirement - but this high number is affecting the Bank´s return on equity."

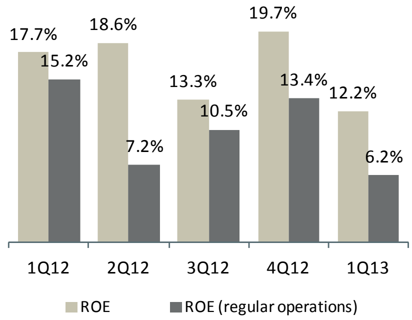
For further information:

- Investor Relations – Tinna Molphy, tinna.molphy@islandsbanki.is and tel: +354 440 3187.
- Media – Guðný H. Herbertsdóttir, gudny.helga.herbertsdottir@islandsbanki.is and tel: +354 440 3678.

NET PROFIT
ISKm



ROE
%



KEY FIGURES	31.03.13	31.12.12
Balance sheet	ISKbn	ISKbn
Total assets	**829**	823
Total loans	**601**	612
Total deposits	**492**	509
Equity	**152**	148
Deposit / Loan ratio	**82%**	83%
Tier 1 ratio	**23.2%**	22.0%
Total capital ratio	**26.2%**	25.5%

KEY FIGURES	1Q2013	1Q2012
Income statement	ISKbn	ISKbn
ROE	**12.2%**	17.7%
ROE regular operations	**6.2%**	15.2%
Profit after tax	**4.6**	5.6
Profit from regular operations	**2.3**	4.8
Cost / income ratio	**51.8%**	57.0%
Net Interest Margin	**3.6%**	4.4%

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INCOME STATEMENT

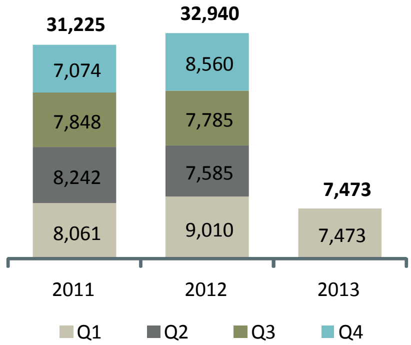
ISK m	1Q13	4Q12	1Q12	2012	2011
Net interest income	**7,473**	8,560	**9,010**	32,940	31,225
Net valuation changes on loans and receivables	**3,117**	3,704	**(1,544)**	6,485	(1,296)
Provision for latent impairment	**(124)**	(197)	**(121)**	(776)	76
Net interest income after net valuation changes	**10,466**	12,067	**7,345**	38,649	30,005
Net fee and commission income	**2,452**	2,755	**2,102**	9,459	5,966
Net foreign exchange (loss)gain	**(1,563)**	1,507	**1,191**	2,737	937
Net financial income	**881**	199	**914**	1,517	2,649
Other net operating income	**412**	181	**295**	996	894
Total operating income	**12,648**	16,709	**11,847**	53,359	40,451
Salaries and related expenses	**(3,468)**	(3,652)	**(3,285)**	(13,080)	**(10,531)**
Other operating expenses	**(2,835)**	(3,276)	**(3,144)**	(12,366)	(10,021)
Insurance fund	**(246)**	(257)	**(325)**	(1,055)	(965)
Administrative expenses	**(6,549)**	(7,185)	**(6,754)**	(26,502)	(21,517)
Impairment of goodwill	**0**	(425)	**0**	(425)	(17,873)
Share profit of associates	**3**	0	**0**	0	39
Profit before tax	**6,102**	9,099	**5,093**	26,432	1,100
Income tax	**(1,448)**	(1,790)	**(1,452)**	(6,253)	(75)
Profit (loss)from discontinued ops. net of tax	**(69)**	(112)	**1,965**	3,239	841
Profit after tax	**4,585**	7,197	**5,606**	23,418	1,866
Earnings from regular operations	**2,346**	4,568	**4,783**	15,694	13,905

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.

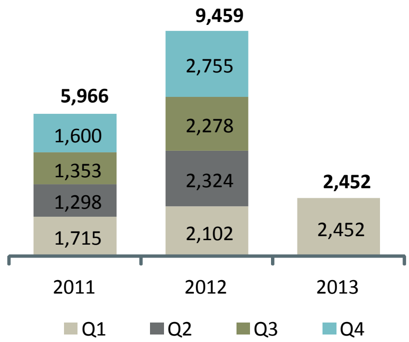
INCOME

- Over 78% of the Bank's net operating income in 1Q2013 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 7.5bn (1Q2012: ISK 9.0) and is decreasing in line with expectations as deep discount following the acquisition of Glitnir loan book is being amortized.
- *Net interest margin,* calculated as the ratio of net interest income to the average carrying amount of total assets, was 3.6% (FY2012: 3.9% and 1Q2012: 4.4%) and is expected to level off at around 3.5% going forward.
- CPI imbalance amounted to ISK 5bn at end of March. 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 (1Q2012: ISK 2.1bn), a YoY increase of 17% which can mainly be attributed to markets, retail banking, wealth management and fee generating subsidiaries.
- *Foreign exchange loss* amounted to ISK 1.6bn, compared to a ISK 1.2bn gain in 1Q2012. The decrease is partly driven by strengthening of the ISK and a larger FX imbalance in the period. The net FX imbalance, amounting to ISK 19bn at the end of the period (YE12: 28bn), is strictly monitored and is within the regulatory limit of 15% of equity or 12.5% of equity at end of March.
- *Net financial income*, which is mainly due to fair value gains on the Icelandair Group hf. equity stake, amounted to ISK 881m, compared to a gain of ISK 914m in 1Q2012.
- Note that change was made to the presentation of *net interest income*, *net financial income* and *net foreign exchange* due to change in methodology.

NET INTEREST INCOME
ISKm



NET FEE AND COMMISSION INCOME
ISKm



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INCOME STATEMENT – cont.

- Other net operating income, mainly rental income and fees from service agreements and foreclosed assets, amounted to ISK 412m, up 40% from 1Q2012.
- Total operating income increased to ISK 12.6bn (1Q2012: ISK 11.8bn), or up 7% YoY.

EXPENSES

- Cost to income ratio decreased to 51.8% (1Q2012: 57.0%) as results from various cost programmes are coming through.
- *Salaries and related expenses* amounted to ISK 3.5bn, up 5.6% 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%. There was also a contractual wage increase of 3.25% per FTE in February 2013. In comparison, the general Icelandic Wage Index rose 5.5% over the same period.
- The average number of full time employees for the parent was 1,056, compared to 1,119 at year-end 2012. This is a 10% reduction from 3Q2012.
- *Other operating expenses* decreased 10% YoY, or to ISK 2.8bn from ISK 3.1bn, and 15% in real terms when adjusting for inflation. Costs are on a downward trend with several cost programmes in place and costs associated with the acquisitions in 2012 drawing to a close.
- *Contributions to the Depositors' and Investors' Guarantee Fund* decreased 24%, or to ISK 246m from ISK 325m. This is in line with a lower risk weighing as a result of the Bank's higher equity and a considerably lower LPA ratio.
- *Total administrative expenses decreased* to ISK 6.5bn (1Q2012: ISK 6.8bn). This is in line with the Bank's focus to reign in costs and its key projects aimed at improving operational efficiency and business process management.

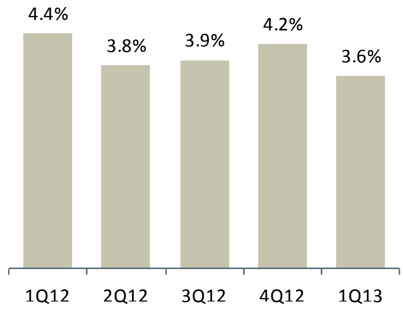
TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- Income tax was ISK 1.4bn, which is on par with 1Q2012. 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 67m (1Q12: 207m), which includes taxation of 0.041% of the previous year's total liabilities and a temporary two year 0.0875% special tax on liabilities which ended 31.12.12. Note that Bank tax is now 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 186m, compared to ISK 139m in 1Q12.
- Expenses due to FME and the Debtors' Ombudsman were ISK 115m compared to ISK 116bn in 1Q2012.
- Total taxes and levies paid to government institutions amounted to ISK 2.1bn in 1Q2013, compared to ISK 2.2bn in 1Q2012.

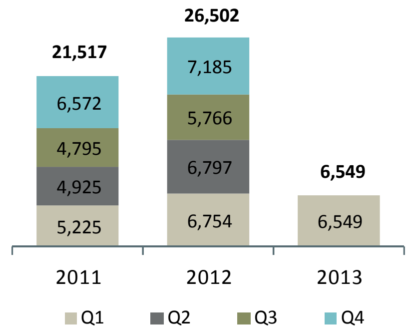
PROFIT/LOSS FROM DISCONTINUED OPERATIONS

- *Profit/Loss from discontinued operations* net of tax was a loss of ISK 69m, compared to a profit of ISK 2bn in 1Q2012. The profit in 1Q2012 was due to the sale of equity stakes owned by Miðengi (Íslandsbanki subsidiary) as well as rental income and income from foreclosed assets, and represented two-thirds of the total amount for the full year 2012.

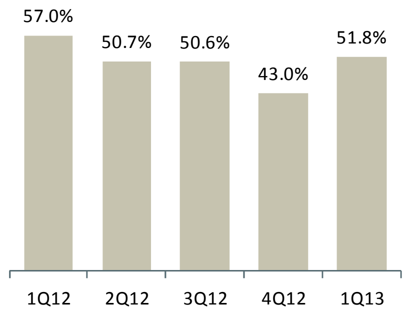
NET INTEREST MARGIN
%



ADMINISTRATIVE EXPENSES
ISKm (exl. goodwill write-off)



COST / INCOME RATIOS
% (exl. goodwill write-off)



TAX & LEVIES	1Q13	1Q12
	ISKm	ISKm
Income tax	**1,448**	1,452
Bank tax	**67**	207
Financial activities tax	**186**	139
FME and the Debtors' Ombudsman	**115**	**116**
Contribution to The Depositors' and Investors' Guarantee Fund (TIF)	**246**	325
Total	**2,062**	2,239

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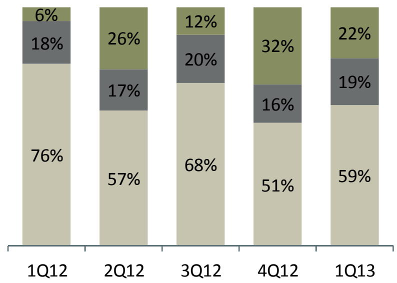
INCOME STATEMENT – cont.

PROFIT

- *Profit after tax* was ISK 4.6bn, compared to ISK 5.6bn in 1Q2012. This translates to a return on equity of 12.2%, compared to 17.7% in 1Q2012. The YoY decrease in ROE is primarily driven by higher equity which has increased by 18% YoY, from ISK 129bn to ISK 152bn.
- Earnings from regular operations resulted in a profit of ISK 2.3bn and a return on equity of 6.2%. In comparison, earnings from regular operations was ISK 4.8bn in 1Q2012, translating into a return on equity of 15.2%.
- 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

OPERATING INCOME SPLIT
%



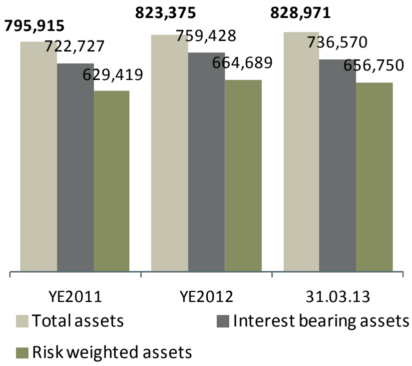
BALANCE SHEET

ASSETS	31.03.13	31.12.12	31.12.11
ISK m			
Cash and balances with CB	**65,822**	85,500	57,992
Derivatives	**119**	127	339
Bonds and debt instruments	**71,796**	64,035	58,662
Shares and equity instruments	**9,730**	10,445	11,107
Loans to credit institutions	**57,633**	54,043	43,655
Loans to customers	**543,269**	557,857	564,394
Investment in associates	**505**	503	1,070
Property and equipment	**9,740**	5,579	5,276
Intangible assets	**277**	261	544
Deferred tax assets	**1,100**	864	2,629
Non-current assets held for sale	**46,929**	39,046	42,690
Other assets	**22,051**	5,115	7,557
Total assets	**828,971**	823,375	795,915

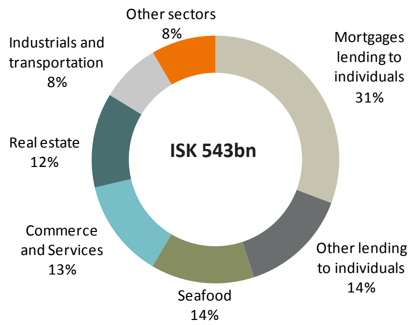
ASSETS

- *Bonds and debt instruments* amounted to ISK 71.8bn. 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 9.7bn, down from ISK 10.4bn at YE2012, mainly attributable to change in the nominal value of Icelandair equity share holding. The Bank has actively sold if its equity stakes, with the Icelandair holding at 4.7%, down from 19.9% at end of March 2012.
- *Loans to customers* amounted to ISK 543.3 (YE2012: ISK 557.9bn), which is a 3% decrease QoQ. FX loans decreased due to the strengthening of the ISK. 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 halved to 11.9% down from 23.5% in 1Q2012.
- *Non-current assets held for sale* increased to ISK 46.9bn (YE2012: 39bn), up 20% on the back of the restructuring of the real estate company Fasteign which was not included in the consolidated results in 2012.
- *Total assets* amounted to ISK 829bn, compared to ISK 823.4bn at YE2012.

ASSETS
ISKm



LOAN PORTFOLTIO BY SECTOR
%, at 31.03.2013



www.islandsbanki.is/ir

BALANCE SHEET

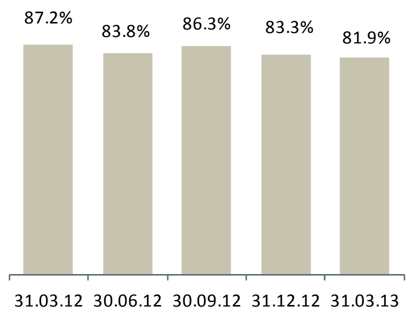
LIABILITIES	31.03.13	31.12.12	31.12.11
ISKm			
Derivatives and short positions	**12,141**	18,435	13,373
Deposits from CB and credit inst.	**26,313**	38,272	62,845
Deposits from customers	**465,735**	471,156	462,943
Debt issued and other borrowings	**68,227**	66,571	63,221
Subordinated loans	**22,014**	23,450	21,937
Current tax liabilities	**3,396**	2,052	2,670
Deferred tax liabilities	**29**	20	17
Non-current liabilities held for sale	**10,522**	6,805	7,317
Other liabilities	**68,493**	48,954	37,889
Total liabilities	**676,870**	675,715	672,212
Total equity	**152,101**	147,660	123,703
Total liabilities and equity	**828,971**	823,375	795,915

LIABILITIES AND EQUITY

- *Deposits from customers* have remained stable and amounted to ISK 465.7, compared to ISK 471.2bn at YE2012. Deposit to loan ratio was 81.9% (YE2012: 83.3%) and the customer deposit to loan ratio strengthened to 85.7% (YE2012: 84.5%).
- *Deposits from CB and credit institutions* have decreased as Íslandsbanki has not been competing for these less sticky deposits.
- *Subordinated loans* amounted to ISK 22bn, The decrease is due to exchange rate difference of the EUR 138m denominated Tier II Government bond that was issued following an agreement between Íslandsbanki, Glitnir and the Icelandic Government in September 2009.
- *Total liabilities* amounted to ISK 676.9bn (YE2012: ISK 675.7bn).
- *Total equity* was ISK 152bn, up 3% from YE2012 and 18% YoY.
- Total capital ratio strengthened to 26.2% (2012: 25.5%), and Tier 1 was 22.9% up from 22% at YE2012. The Bank's total official capital ratio, calculated according to the Act on Financial Undertakings, was 25.8% and the Tier 1 ratio was 22.3%. The official capital ratio is based on audited retained earnings at 31 December 2012.

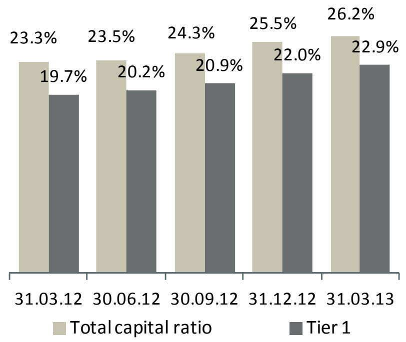
DEPOSIT RATIO

%



CAPITAL RATIOS

%



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 32%, well above the FME requirement of 20%.
- Cash equivalents over demand deposits was 17%, which was well above the 5% requirement set by the FME.
- The Bank has been largely funded with deposits since its incorporation in 2008. Deposits are expected to decrease as more investment opportunities become available in the domestic market.
- 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 issuer of covered bonds, with a total of ISK 16.3bn 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.

FINANCIAL CALENDAR

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

- Silent period 18 -27August
- 2Q2013 – 28 August 2013
- Silent period 17 November – 26 November
- 3Q2013 – 27 November 2013
- 4Q2013 – February 2014

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