30 May 2013

1Q2013 Financial Results

Íslandsbanki

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A leading bank in Iceland

Serving over 200,000 customers, Íslandsbanki has market share of 31% in retail and 37% in corporate

1. BUSINESS DEVELOPMENT

- Acquisition of Framtídaraudur, increasing customer base and creating opportunities of cross sales
- Operates the most efficient branch network in Iceland, focusing on fewer but larger branches with more comprehensive service offering
- Continued growth in internet banking and smart phone services

2. RESTRUCTURING ON TRACK

- Ratio of loans in restructuring (LPA) has halved since 1Q2012
- Withdrew several court cases to expedite recalculation
- 20.000 performing customers received rebates of interest payments deposited into a new term deposit account

1Q13

5. COST DOWN 3% YoY

3. CATALYST FOR GROWTH

- IPO of insurance company TM
- Highest market share in equity trading or 33%, up 7% QoQ
- New lending continued

4. DIVERSIFICATION OF FUNDING

- Largest issuer of covered bonds
- First listed issuance of commercial paper since 2008
- Provides more attractive terms to our customers

Overview

Key figures & ratios

	ISK m	1Q13	4Q12	1Q12
Profitability	ROE (after tax), %	**12.2%**	19.7%	17.7%
	ROE from regular operations (after tax), %	**6.2%**	13.4%	15.2%
	Net interest margin (of total assets), %	**3.6%**	4.2%	4.4%
	Cost to income ratio, %*	**51.8%**	43.0%	57.0%
	After tax profit, ISK m	**4,585**	7,197	5,606
	Earnings from regular operations, ISK m**	**2,346**	4,883	4,783

	ISK m	31.03.13	31.12.12	31.12.11
Capital	Total equity, ISK m	**152,101**	147,660	123,703
	Tier 1 capital ratio, %***	**22.9%**	22.0%	19.1%
	Total capital ratio, %***	**26.2%**	25.5%	22.6%
Balance sheet	Total assets, ISK m	**828,971**	823,375	795,915
	Risk weighted assets	**656,750**	664,689	629,419
	Total loans, ISK m	**600,902**	611,900	608,049
	Total deposits, ISK m	**492,048**	509,427	525,788
	Total deposit / loan ratio, %	**81.9%**	83.3%	86.5%

* Excluding write down of goodwill

** 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

*** 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

I. Income Statement

Income statement

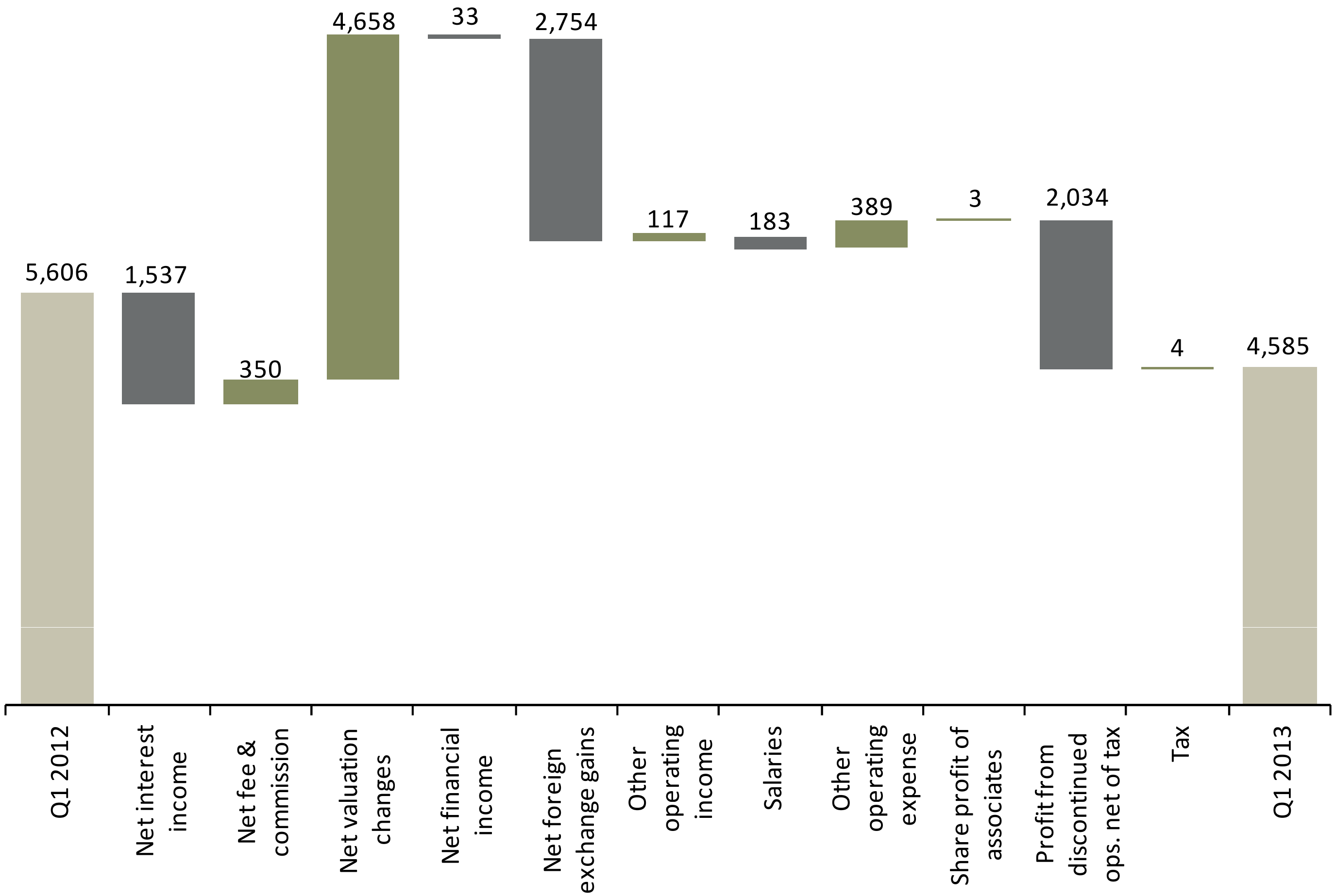
Quarterly and full year comparison

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)**	6,486	(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)
(Loss) profit 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

Development of P&L 1Q2012 – 1Q2013

Net fee and commission income up 17% YoY

Change in net profit by line items
ISK m



- NII decreasing in line with expectations as the discount following the acquisition of Glitnir loan book is amortized, net interest margin was 3.6%
- NFC up 17% YoY on the back of retail, wealth management and fee generating subsidiaries
- Net foreign exchange loss in 1Q2013 mainly attributable to strengthening of the ISK
- Profit from discontinued operations in 1Q2012 was due to the sale of equity stakes owned by Miðengi (Íslandsbanki subsidiary)

Earnings from regular operations

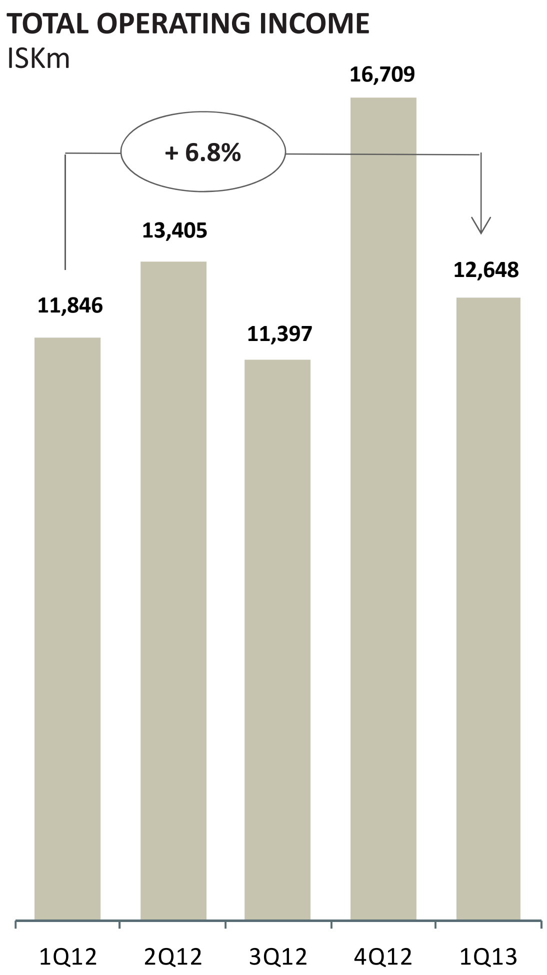
Regular operations continue to generate decent profitability

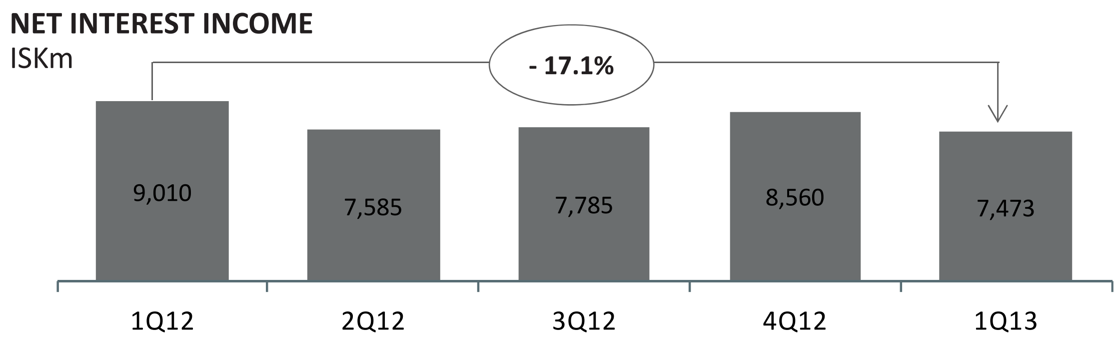
ISK m	**1Q13**	4Q12	**1Q12**	2012	2011
Reported after tax profit	**4,585**	7,197	**5,606**	23,418	1,866
Net valuation changes on loans and receivables	**(3,117)**	(3,704)	**1,544**	(6,486)	1,296
Fair value change	**0**	0	**0**	0	(3,050)
Redundancy payments	**0**	0	**0**	0	496
Professional fees as a result of merger (BYR)	**0**	0	**0**	0	247
Impairment of goodwill	**0**	425	**0**	425	17,873
Profit from discontinued ops	**(69)**	112	**(1,965)**	(3,239)	(841)
Tax impact of adjustments	**811**	852	**(401)**	1,576	(3,982)
Earnings from regular operations*	**2,346**	4,883	**4,783**	15,694	13,905
ROE (after tax)	**12.2%**	19.7%	**17.7%**	17.2%	1.5%
ROE from regular operations (after tax)	**6.2%**	13.4%	**15.2%**	11.6%	11.0%

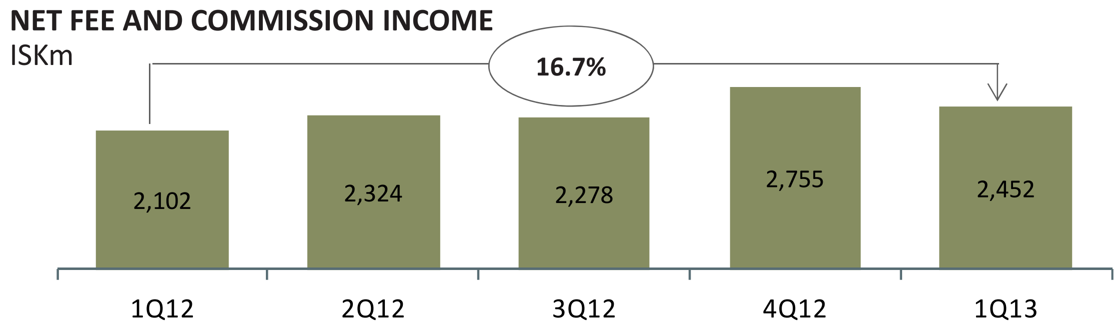
* Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gain deriving from changes in accounting treatment, costs associated with the Byr merger and the impairment of goodwill, and net earnings from discontinued operations.

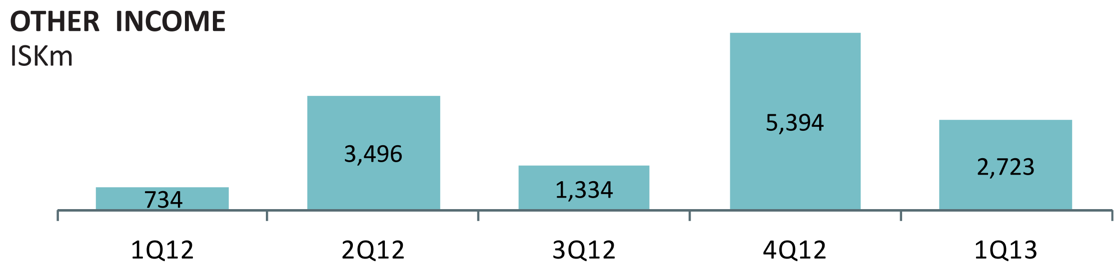
78% of operating income from NII & NFC

Focus on long-term stable cash flows, core operations continue to generate majority of total income







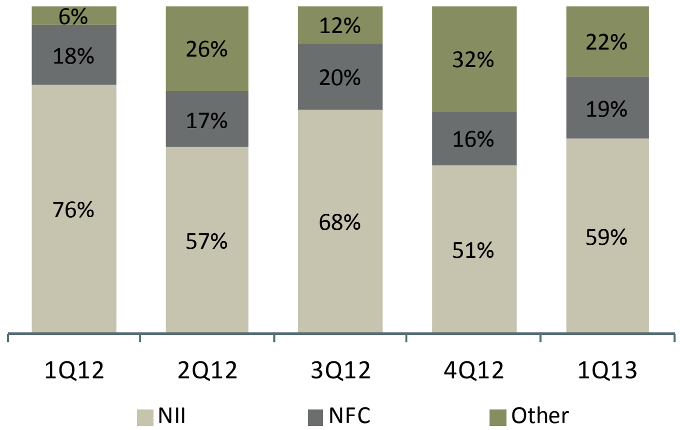


Income mix is changing

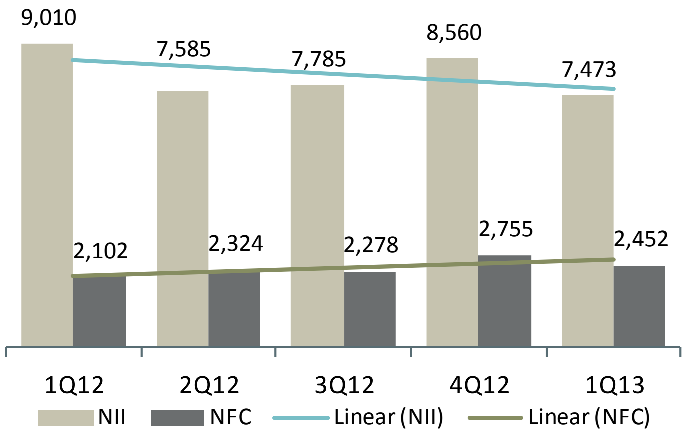
NII decreasing in line with amortization of discount following the acquisition of Glitnir loan book

- NII decreasing in line with expectations as deep discount following the acquisition of Glitnir loan book is being amortized
- Net interest margin expected to be approximately 3.5% in the long term, was 3.6% end of 1Q2013, compared to 4.2% YE2012 and 4.4% at end of 1Q2012
- NFC is starting to pick up on the back of acquisition synergies and increased capital markets activity

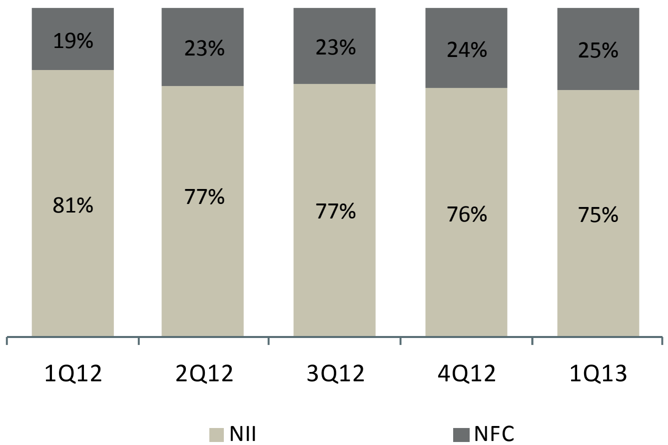
NET OPERATING INCOME SPLIT
By income type, %



NII AND NFC TRENDLINE
ISKm



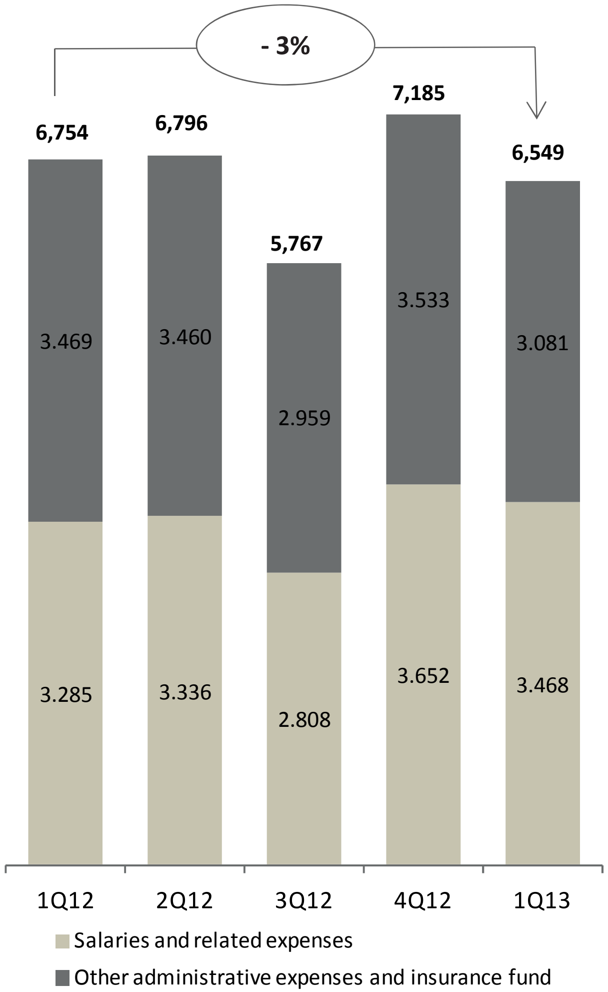
CORE INCOME SPLIT – NII AND NFC
By income type, %



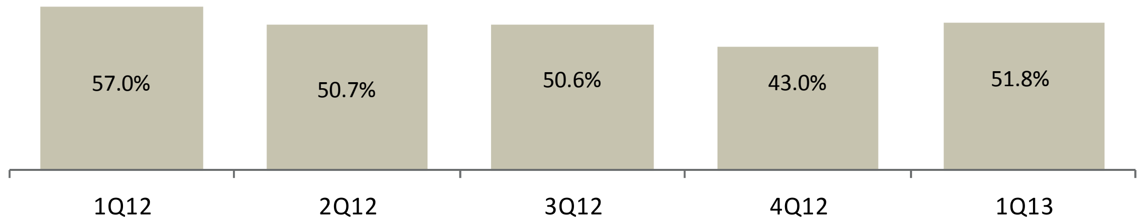
Results from cost projects coming through

Reduction in administrative expenses due to synergy effects and lower restructuring cost

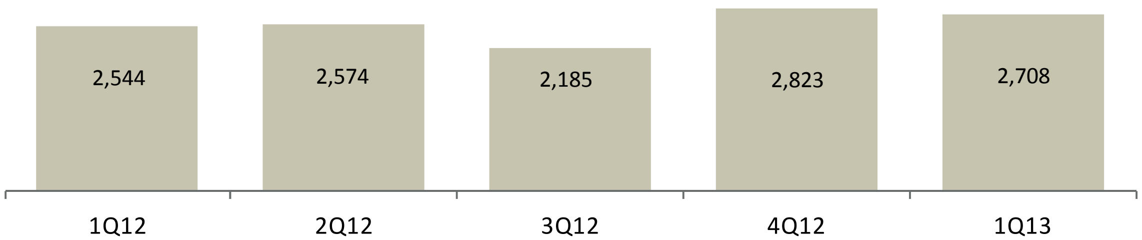
ADMINISTRATIVE EXPENSES
By type of expense, ISK m



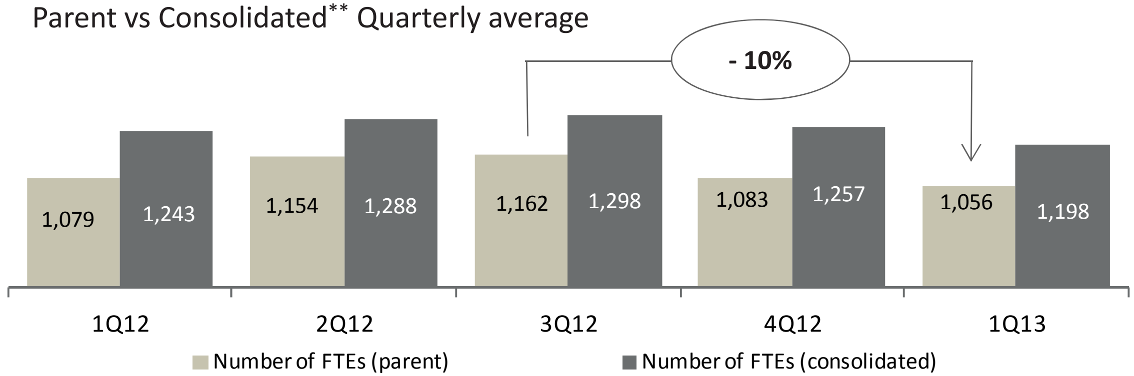
COST / INCOME RATIO*
%



SALARIES
ISK m



FTEs – reduction between 3Q12 and 1Q13 due to synergy effects
Parent vs Consolidated** Quarterly average



* Excluding write down of goodwill, ** Excluding groups held for sale

Tax & levies paid to Government institutions

Taxation has increased considerably in recent years

ISK m	1Q13	4Q12	1Q12	FY12	FY11
Income tax*	**1,448**	1,790	**1,452**	6,253	75
Bank tax**	**67**	227	**207**	858	682
Financial activities tax***	**186**	161	**139**	623	0
FME and The Debtors´ Ombudsman	**115**	121	**116**	462	303
Contribution to The Depositors´ and Investors´ Guarantee Fund (TIF)	**246**	257	**325**	1,055	965
Total	**2,062**	2,556	**2,239**	9,251	2,025

* Calculated at 20%. In addition, a new special financial activities tax was introduced in 2012 which is calculated as 6% of taxable profits above ISK billion. The effective income tax rate in the Bank's income statement is 23.7% for Q1 2013 and 22.9% for the year 2012.

** Includes a 0.041% tax on liabilities and a 0.0875% special tax on liabilities for the year 2012 and 2011.

*** 6.75% calculated on salaries in 2013. Was 5.45% before.

II. Assets & Restructuring

Assets

Consolidated – 31 March 2013

ISK m	31.03.13	31.12.12	31.12.11
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

Bonds and debt instruments

- Mainly G5 government bonds in the Bank's liquidity portfolio
- No exposure to GIPSIs

Shares and equity instruments

- Decrease due to sale of shares in Icelandair

Loans to credit institutions

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

Loans to customers

- Decrease of 3% QoQ explained partly by FX loans decreasing due to the strengthening of the ISK
- In addition, restructuring projects which have resulted in the takeover of companies have 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 to be largely completed by end of 2013 and remainder by end of 2014

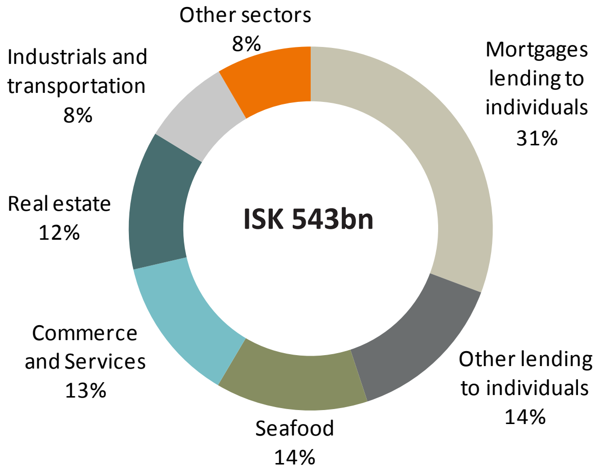
Non-current assets held for sale

- Decrease partly due to sale of equity holdings in Mar 2012, which were owned by Íslandsbanki's subsidiary Miðengi

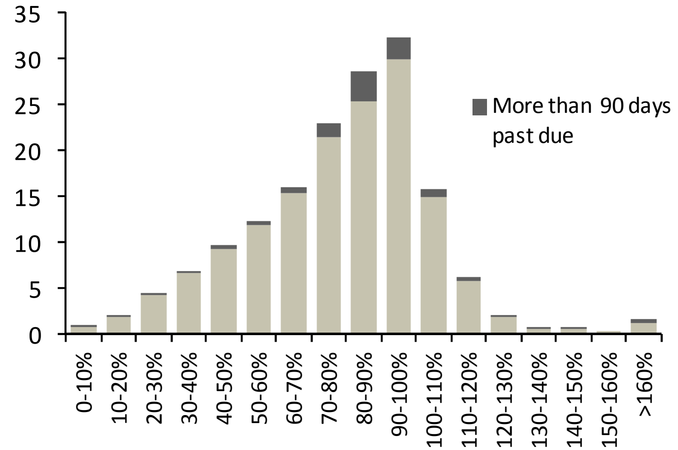
Good sector diversification of loan portfolio

Portion of FX loans to customers with ISK revenue decreasing substantially

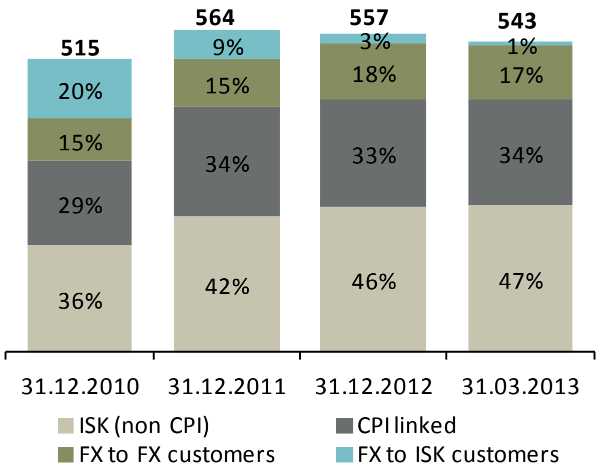
LOANS TO CUSTOMERS - CONSOLIDATED
By sector, as of 31.03.2013



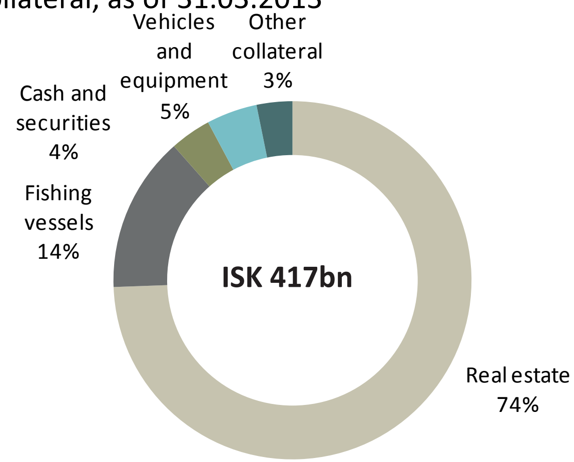
LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS
ISK bn, as of 31.03.2013 – average 79%*



LOANS TO CUSTOMERS - CONSOLIDATED
By currency, ISK bn



LOANS TO CUSTOMERS - CONSOLIDATED
By collateral, as of 31.03.2013



* The weight is Íslandsbanki's total amount outstanding on the property and the LTV used is the maximum LTV of all Íslandsbanki's loans of the property. The calculation is based on tax value. Please note that the average LTV can be calculated in many different ways and therefore the definition is important for comparison to other banks

Improving credit quality

Both cross default and facility based credit quality measures are improving

Loan Portfolio Analysis (LPA) measurement

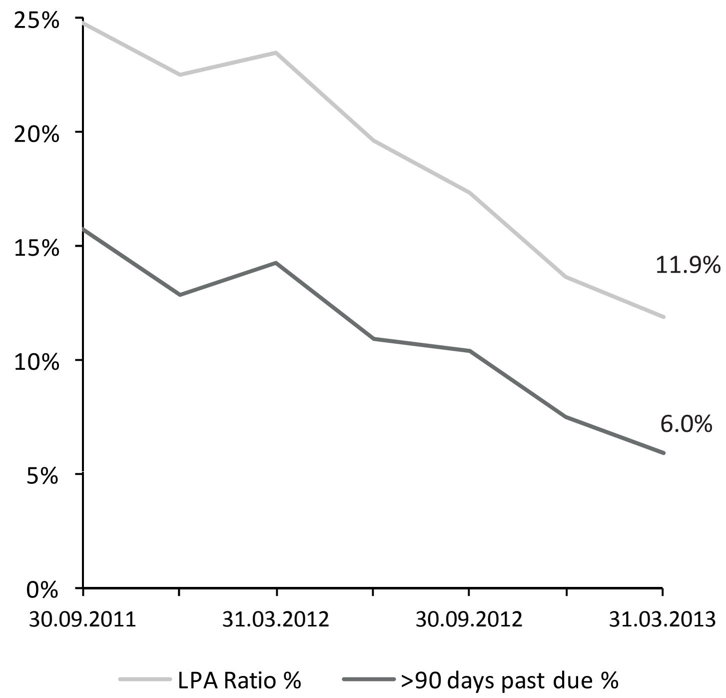
- The LPA ratio has decreased sharply in recent months
- Measures the progress of restructuring
- Defined on the obligor (cross default) level, Iceland specific

Loans more than 90 days past due

- Past due loans have also been decreasing
- Measures the carrying amount of all loans that are more than 90 days past due (both impaired and not impaired loans)
- Defined on the facility level, not an Iceland specific ratio

DEVELOPMENT OF LPA AND PAST DUE LOANS

Percentage of the total loan portfolio (book value)



Loan portfolio performance

Carrying amount reflects expected recovery of loans

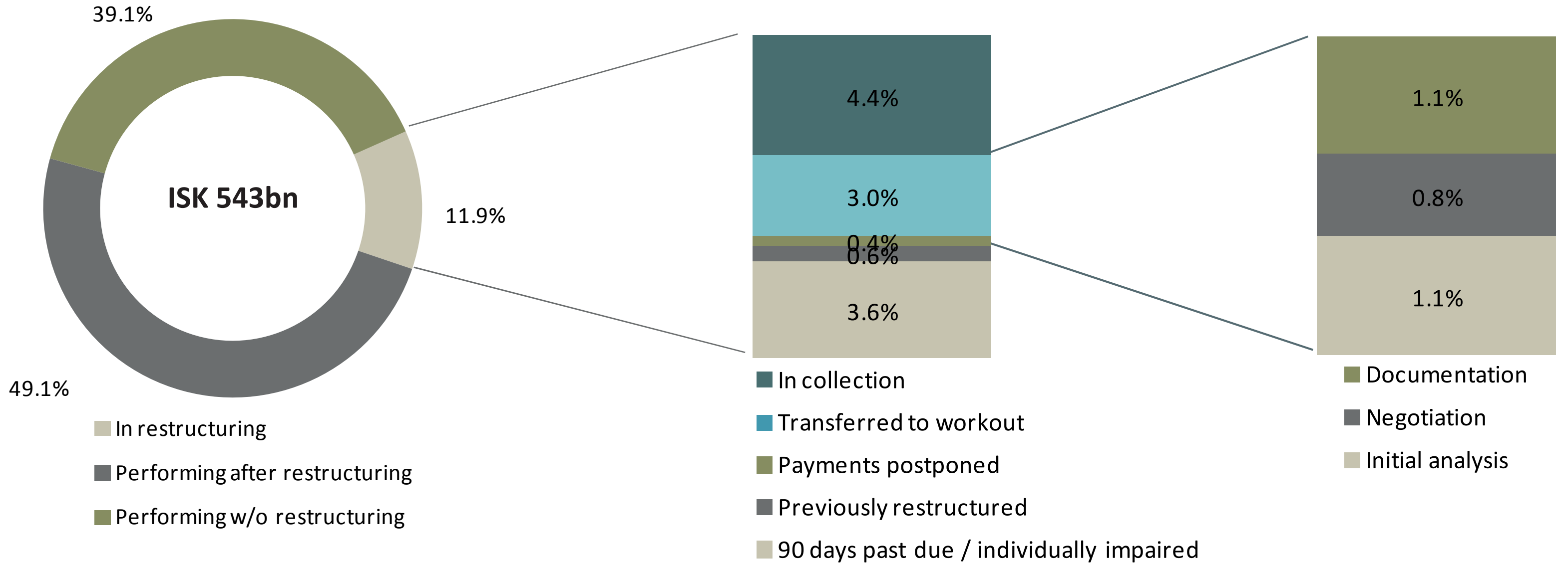
LOAN PORTFOLIO ANALYSIS (LPA*)
Excluding fully performing loans to credit institutions

LOANS IN RESTRUCTURING**
By status of restructuring

11.9% (31.12.2012: 13.7%)

TRANSFERRED TO WORKOUT
By level of completion

3.0% (31.12.2012: 4.3%)



- LPA report submitted monthly to the FME
- Exposure monitored on obligor level – not facility level

* Parent company only, numbers as of 31.03.2013
** As defined by Loan Portfolio Analysis (LPA)

III. Liabilities, Liquidity & Capitalisation

Liabilities

Consolidated 31 March 2013

Íslandsbanki

ISK m	31.03.13	31.12.12	31.12.11
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

Deposits

- With a deposit ratio of 82%, Íslandsbanki has not been competing for less sticky deposits from CB and credit institutions

Debt issued and other borrowings

- ISK 46.5bn 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 16.3bn covered bond issuances

Subordinated loans

- EUR 138m denominated Tier II Government bond following agreement between Íslandsbanki, Glitnir and the Government in September 2009

Other liabilities

- Includes accruals, provisions , unsettled securities transactions and liabilities in subsidiaries

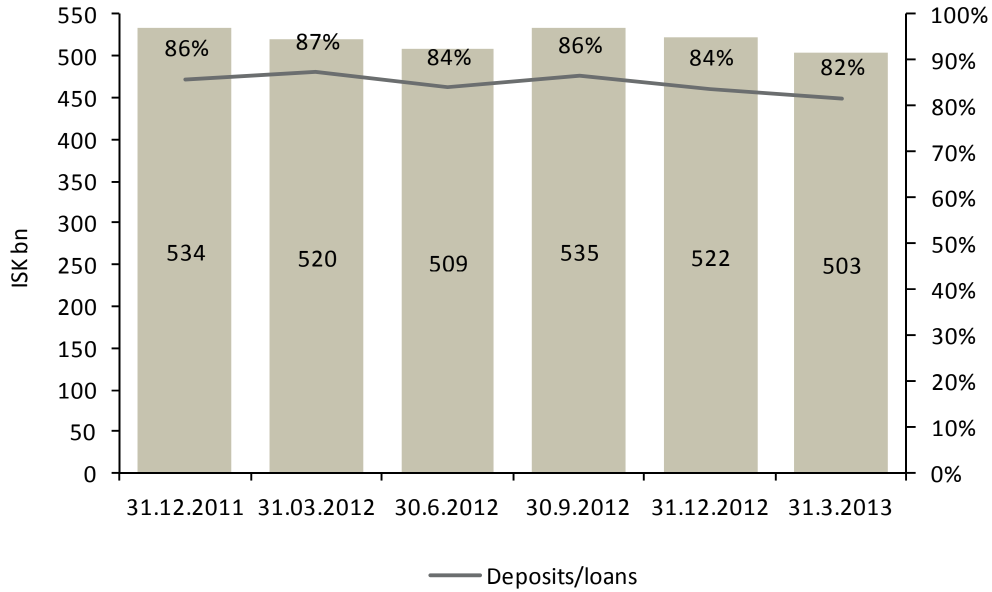
Equity

- Total equity was up 3% from year-end 2012 or 18% YoY
- Increase in equity starting to affect ROE

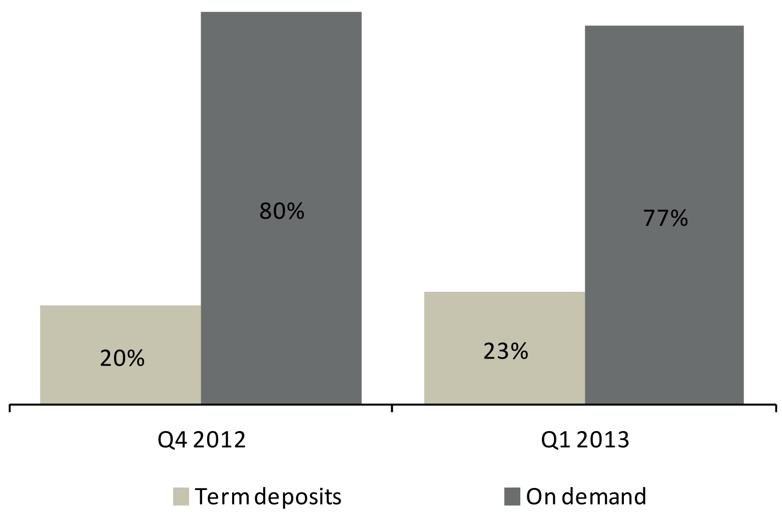
Deposits remain a stable source of funding

Normal fluctuations in deposit base

DEPOSIT DEVELOPMENT
Total exposure, parent company, ISK bn



DEPOSIT FUNDING
Term and on demand deposits split, parent company



Deposit development

- Deposits/loans ratio is stable, expected to go down as more investment opportunities arise in domestic market
- Deposits remain the main funding source for the Bank
- Core deposits are stable while some fluctuation is due to less sticky deposits from CB and credit institutions

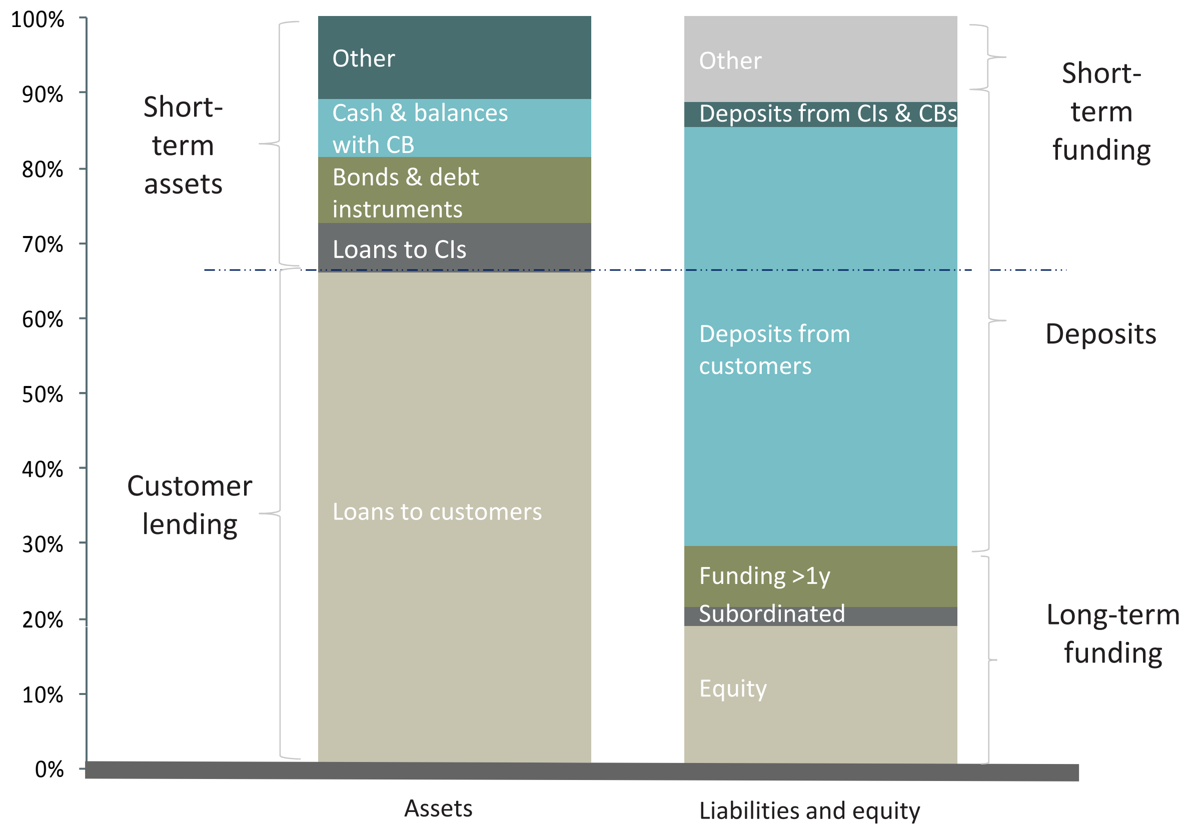
Increased focus on term deposits

- Treasury has defined targets for the ratio of term deposits as a proportion of total deposits
- Focus on notice accounts and fixed interest accounts

Structurally sound balance sheet

Solid funding base where deposits are the largest source of funding

BALANCE SHEET COMPOSITION
31.03.2013, %



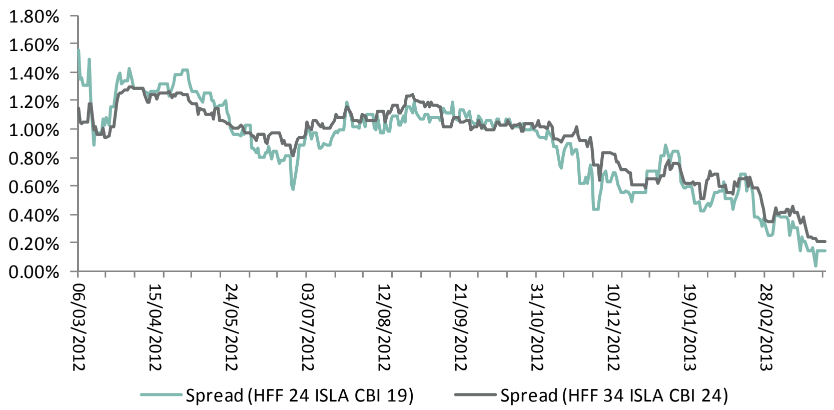
- Prudent asset and liability management
- The Bank has short term assets that can easily be liquidated to cover substantial outflow of deposits

Diversification of funding continues

Íslandsbanki the first bank to list commercial paper and covered bonds on NASDAQ OMX Iceland since 2008

COVERED BONDS PERFORMING WELL IN AFTERMARKET

Spread on top of HFF bonds (Government guaranteed)



ISK 25bn bond programme in place

- Íslandsbanki plans to issue commercial paper periodically throughout the year with maturities of up to 6 months
- Total outstanding commercial paper since April amounts to ISK 4.6bn

ISK 100bn covered bond programme in place

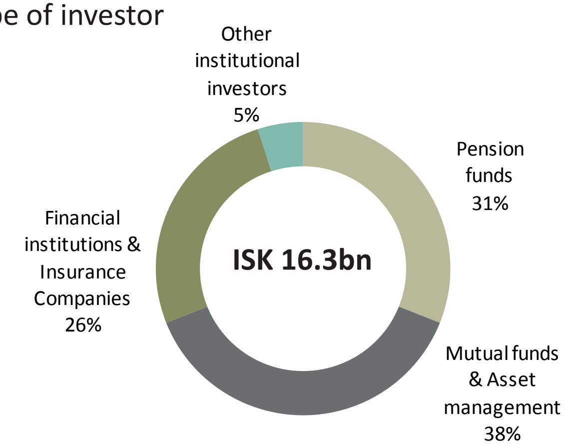
- Íslandsbanki plans to issue around ISK 10bn of CBs annually
- Total outstanding Covered Bond amounts to ISK 16.3bn

International funding

- Íslandsbanki has no pressing need for FX funding in the short or medium-term but is open to the possibility of borrowing in international markets

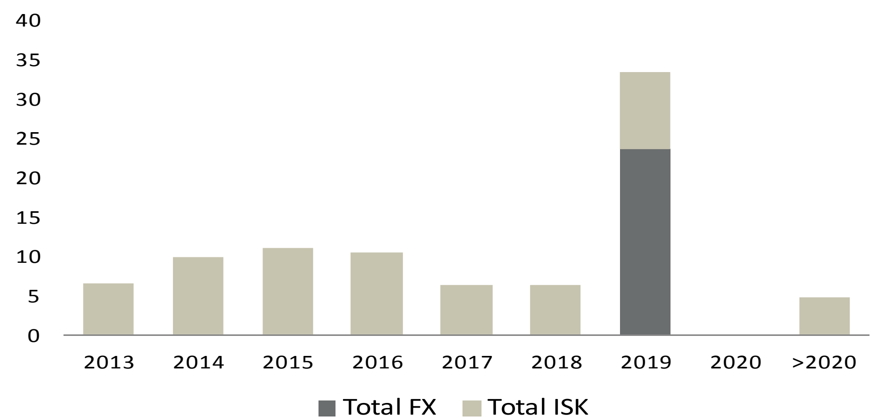
COVERED BOND INVESTOR DISTRIBUTION

%, by type of investor



MATURITY OF LONG-TERM FUNDING

ISKbn



Sound management of liquidity

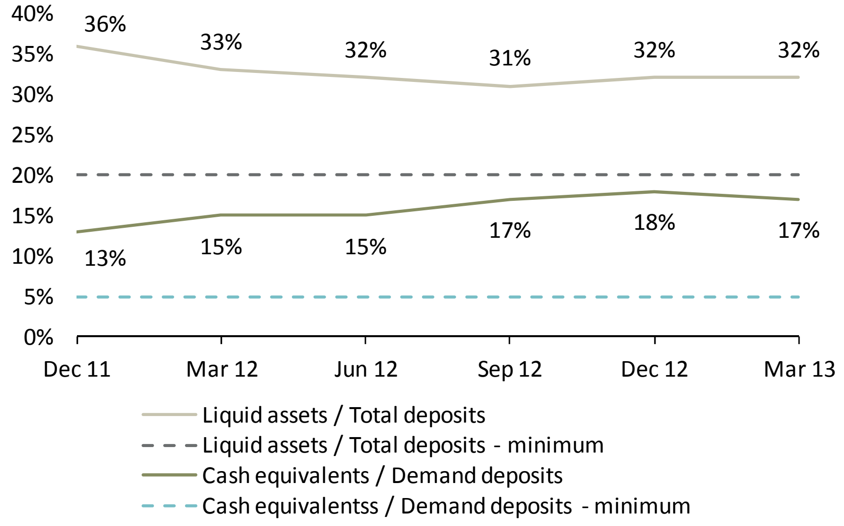
Liquid assets of ISK 165bn exceed regulatory requirements and internal targets

LIQUIDITY BACK-UP* / DEPOSIT COVERAGE RATIO
31.03.2013, parent company, ISK bn

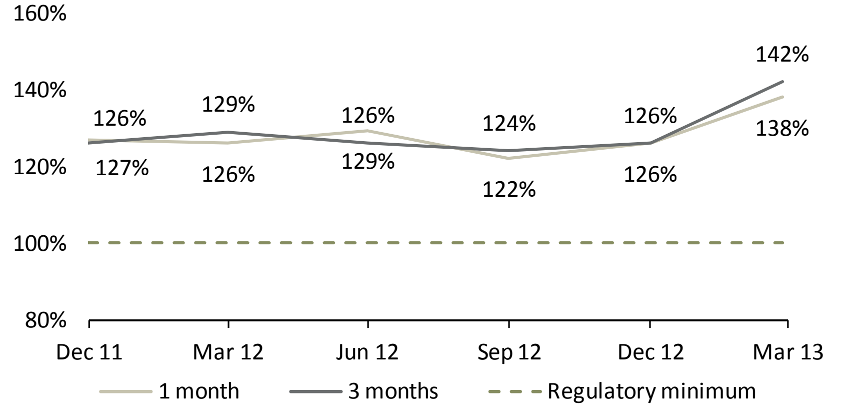
Asset type	ISK	FX	Total
Cash and balances with CB	59.9	0.8	60.7
Balances with credit institutions	5.0	49.0	54.0
Repo eligible bonds	20.4	0.0	20.4
Foreign government bonds	0.0	30.4	30.4
Total	**85.4**	**80.2**	**165.6**
Total deposits (parent)	429.2	73.9	503.1
Liquid assets to total deposits	20%	109%	33%

- Liquid assets fluctuates with changes in deposits
- Internal ratios and regulatory liquidity ratio requirements from CB and FME are well above limits

FME LIQUIDITY RATIOS



CENTRAL BANK LIQUIDITY RATIO



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

Imbalances strictly monitored

The currency imbalance decreased in Q1 2013

IMBALANCES
ISK bn, 31.03.2013

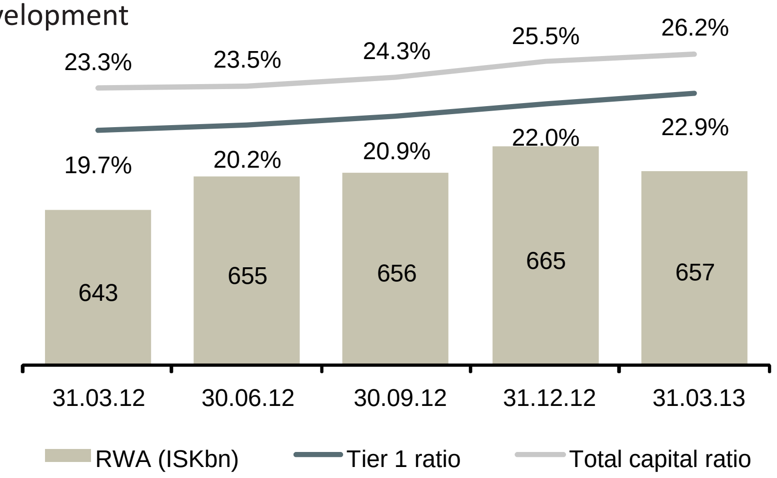
	FX denominated	CPI-linked
Assets	173	190
Liabilities	154	185
Net gap	**19**	**5**

- The adjustment of previous reports for FX/ISK loans, i.e. loans with a non-ISK contractual currency to customers with ISK income, is no longer separately reported
- Decrease of the currency imbalance mainly due to restructuring, offsetting derivative contracts and appreciation of the ISK
- An increase in trading CPI-linked bonds and CPI-linked loans to customers and a decrease in deposits from financial institutions have contributed to an increase in the CPI imbalance
- In general the Bank seeks to reduce the imbalance through CPI-linked swaps and the issuance of CPI-linked covered bonds

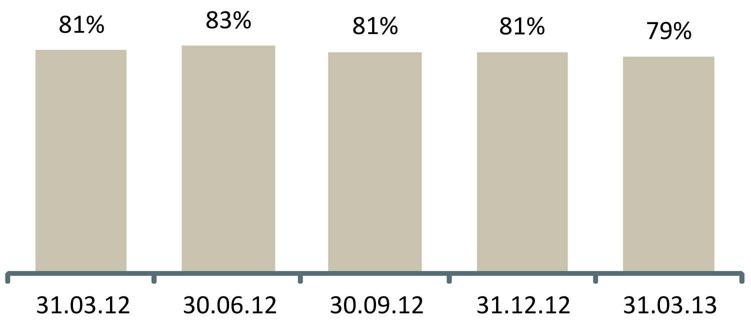
Sound capital position

Capital ratios steadily increasing

CAPITAL RATIOS and RWA*
Development



RWA/TOTAL ASSETS
Development, %



- Capital ratios rising on the back of reteained earnings
- Drop in RWA between Q4 2012 and Q1 2013 is mainly due to a shrinking currency gap
- New more stringent rules from FME introduced in Q2 2012 regarding mortgages, increasing the risk weight on the mortgages portfolio

* 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 31.12.2012

5 key messages

1Q2013 interim financial results

1. NII and NFC drive 78% of total operating income

2. NFC up 17% while NII decreasing in line with expectations as discount, following the acquisition of Glitnir loan book, is being amortized

3. Restructuring on track, asset quality improving with LPA ratio halved to 11.9%, down from 23.6% YE2011

4. Continued diversification of funding, Íslandsbanki largest issuer of covered bonds and first bank to list commercial paper

5. Total capital ratio of 26.2% and Tier 1 of 22.9%, high levels starting to affect ROE

2012 Annual Report and Risk Report

The Annual Report and all financial information is available and archived on www.islandsbanki.is/ir.

The Annual Report centres on three key themes:

- **Company** – review of the Bank's operations, strategic direction, and governance
- **Financials** – review of the 2012 results and consolidated financial statements
- **Risk report** – review of risk management procedures, and risk assessment of operations and capital position

Fact sheet at the front

Quick profile of Íslandsbanki, including operational highlights, main points from the 2012 financial results and main events in 2012

Graphics and mini case studies

Play a bigger role in highlighting interesting points in each chapter

New chapters

On funding and strategy

Disclaimer

Important information

All information contained in this presentation should be regarded as preliminary and based on company data available at the time of the presentation. Due care and attention has been used in the preparation of forecast information. However, actual results may vary from their forecasts, and any variation may be materially positive or negative. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Íslandsbanki.

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Thank you

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