

Íslandsbanki

1Q2012 INTERIM FINANCIAL STATEMENTS

HIGHLIGHTS

- Profit after tax, was ISK 5.6bn compared to ISK 3.6bn in 1Q11.
- Profit after tax from regular operations, 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, was ISK 4.8bn, compared to ISK 3.8bn in 1Q11 and ISK 13.9bn in FY11.
- Net valuation change on the loan portfolio resulted in a loss of ISK 1.5bn in 1Q12, compared to a loss of ISK 664m in 1Q11.
- Return on equity was 17.7%, compared to 11.7% in 1Q11. Return on equity from regular operations was 15.1% in 1Q12, compared to 12.4% in 1Q11.
- Around 18,200 individuals and 3,000 corporates have received write offs, debt forgiveness or some form of debt correction since the Bank's establishment, totaling ISK 370bn to date.
- Total assets were ISK 792.4bn at the end of March 2012, compared to ISK 795.9bn at year-end 2011.
- Total deposits were ISK 509.3bn at the end of March 2012, compared to ISK 525.8bn at year-end 2011.
- The net interest margin was 4.4% in 1Q12, compared to 4.5% in FY11.
- Funding diversification continued with two new domestic covered bond issuances listed in Mar 2012 amounting to ISK 3.3bn.
- Equity was ISK 129.4bn having increased by 5% throughout the first quarter. The total capital ratio was 23.3%, which is well above the 16% regulatory minimum set by the Icelandic Financial Services Authority.

Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

"The first quarter in 2012 sends a strong signal for the rest of the year. The Bank's capital is well above the minimum regulatory requirements and earnings from regular operations continue to grow. This quarter will always be notable in the history of the Bank as the merger of Íslandsbanki and Byr was completed. I am immensely proud of our employees for their dedication and positive attitude shown in this great task.

Another Supreme Court ruling on loans in foreign currency was passed in February, inevitable delaying the restructuring process. Not only is it inconvenient for customers but also for the Bank and the community as a whole, especially as the final interpretation of the ruling will not be available until later this Autumn.

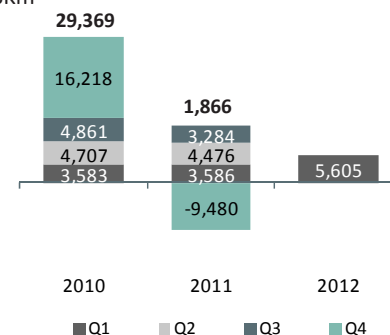
We saw an increase in loan growth during the quarter, in particular at Ergo, the Bank's asset based financing division. This suggests that companies are starting to take cautious steps in their investments. However, we also clearly note that the seafood industry and related companies are holding back on new investments while uncertainty remains on new legislation and fishing fees.

The Bank's covered bonds have been well received by investors, who welcomed two new issuances in March and tap issuances in May. This diversifies the Bank's funding profile and enables us to provide our customers with better business terms."

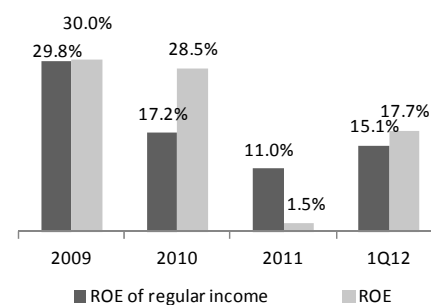
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NET PROFIT ISKm



ROE %



Key figures

	31.03.12	31.12.11
Total assets	792	796
Total loans	584	608
Total deposits	509	526
Equity	129	124
Net Interest Margin	4.4%	4.5%
Deposit / Loan	87%	77%
Tier 1	19.7%	19.1%
Total capital	23.3%	22.6%
Employees – parent, #	1,075	1,003
Employees – consolid., #	1,404	1,344

Key figures

	1Q2012	1Q2011
ROE	17.7%	11.7%
ROE regular income	15.1%	12.4%
Profit after tax	5.6	3.6
Profit adjusted income	4.8	3.8
Core Cost / income	60.7%	52.9%

INCOME STATEMENT

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

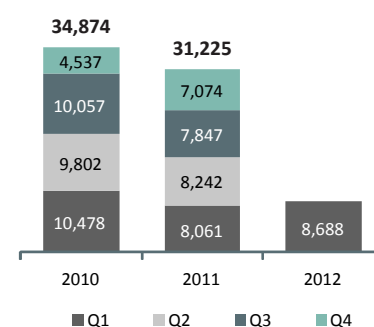
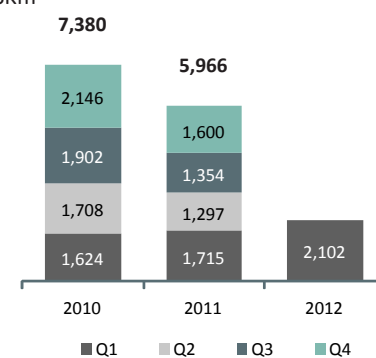
Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gain deriving from changes in accounting treatment, costs associated with the Byr merger and the impairment of goodwill, and net earnings from discontinued operations.

PROFIT

- Profit after tax was ISK 5,605 in 1Q12, compared to ISK 3,586m in 1Q11. This translates to a return on equity of 17.7%, compared to 11.7% in 1Q11.
- Adjusted net earnings resulted in a pre-tax profit of ISK 4,783m and a return on equity of 15.1%. In comparison, adjusted net earnings from was ISK 3,805m in 1Q11, translating into a return on equity of 12.4%.
- 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

- Net interest income amounted to ISK 8,688m in 1Q12, compared to ISK 8,061m in 1Q11. The net interest margin, as the ratio of net interest income to the average carrying amount of total assets, was 4.4% in 1Q12, compared to 4.5% in FY2011.
- Net fee and commission income amounted to ISK 2,102m in 1Q12, compared to ISK 1,715m for the first quarter in the previous year. This is an YoY increase of 23%.
- In line with the bank's focus on long-term stable cash flows, core operations continue to generate the 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.

NET INTEREST INCOME
ISKmNET FEE AND COMMISSION INCOME
ISKm

INCOME STATEMENT – cont.

- Foreign exchange gain in 1Q12 amounted to ISK 1,104m, compared to a ISK 202m gain in 1Q11 due to weakening of the ISK. The net FX gap 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 financial income amounted to ISK 1,323m in 1Q12, compared to a loss of ISK 138m in 1Q11, representing a gain due to mark-to-market of shares and equity instruments.
- Other net operating income, mainly rental income and fees from service agreements, amounted to ISK 295m in 1Q12, compared to ISK 359m in 1Q11.

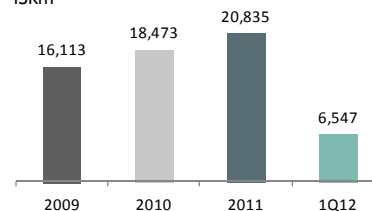
EXPENSES

- Core cost to income ratio, calculated as the ratio of total operating expenses over net interest income and net fee and commission income, was 60.7% in 1Q12, compared to 52.9% in 1Q11.
- Total administrative expenses amounted to ISK 6,547m in 1Q12, compared to ISK 5,170m in 1Q11. Part of the increase is cost attributable to the acquisition of Byr, in particular in relation to professional fees and IT services.
- Contributions to the Depositors’ and Investors’ Guarantee Fund decreased by ISK 142m between years, from ISK 467m in 1Q11 to ISK 325m in 1Q12, due to a legislation change in 2011 and a slight decrease in the deposit base.
- Salaries and related expenses amounted to ISK 3,285m in 1Q12, compared to ISK 2,492m in 1Q11. The increase is largely due to the introduction in 2012 of a financial activities tax of 5.45% of total salaries.
- The average number of full time employees at the Bank was 1,404 in 1Q12, compared to 1,344 at year-end 2011.

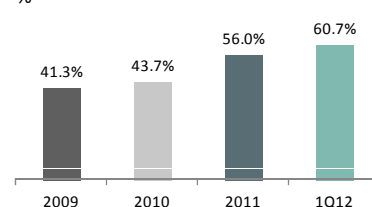
TAXES

- Income tax for 1Q12 was ISK 1,452m compared to ISK 865m in 1Q11. Taxation in 2011 increased considerably from the previous year with the corporation income tax rate increasing from 18% to 20%. In addition, financial institutions have to pay financial activities tax of 6% of profit above ISK 1bn.
- The effective income tax rate for 1Q12 was 27.4% compared to 20.6% in 1Q11.
- The bank tax, introduced in 2010, is calculated as 0.041% of the previous year’s total liabilities, amounts to ISK 207m. In comparison, bank tax for 1Q11 was ISK 55m. This includes a temporary tax on financial intuitions of 0.0875% of the previous year’s total liabilities to finance a two year (2011 and 2012) tax credits on mortgage interest expenses.

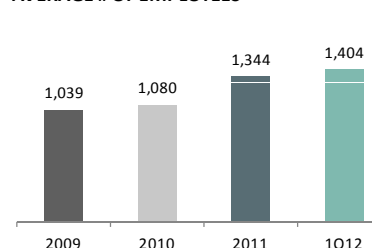
**ADMINISTRATIVE EXPENSES
excluding goodwill**
ISKm

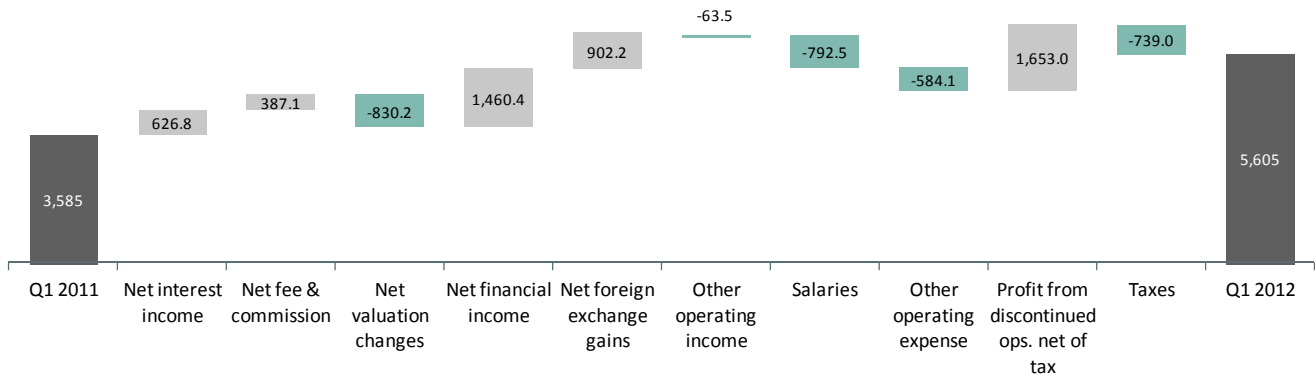


**CORE COST / INCOME RATIO
excluding impairment of goodwill***
%

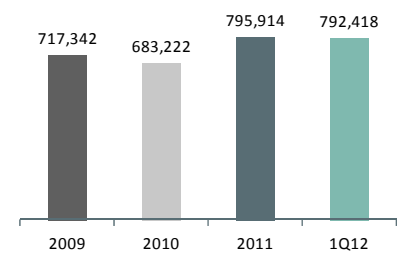
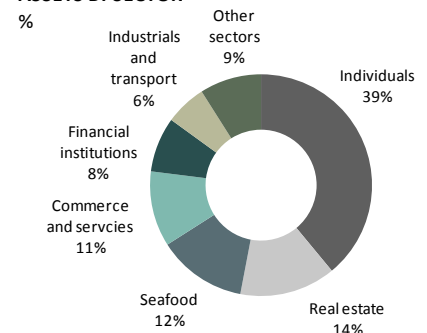


AVERAGE # OF EMPLOYEES

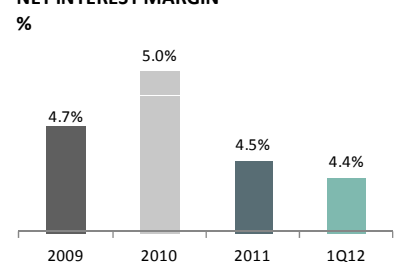


DEVELOPMENT OF P&L LINE ITEMS 1Q11 – 1Q12
ISKm

BALANCE SHEET

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

TOTAL ASSETS
ISKm

ASSETS BY SECTOR

ASSETS

- The Bank's total assets amounted to ISK 792,418m at end of March, compared to ISK 795,915m at year-end 2011.
- Loans to customers amounted to ISK 537,847 at end of March, compared to ISK 564,394m at year-end 2011. Repayments continue to exceed new lending in line with deleveraging of households and corporates in Iceland.
- Restructuring of the largest corporate clients' loan portfolio is expected to complete by the end of 2012 and by the end of 2013 for the remaining loan portfolios.
- The bank's bonds and debt instruments amounted to ISK 55,579m. The portfolio consists mainly of G5 government bonds with no exposure to GIPSIs. Shares and equity instruments amount to ISK 12,736m, and saw a slight increase in the quarter due to mark to market of equity stakes.
- Non-current assets held for sale amounted to ISK 39,723m at the end of March, compared to ISK 42,690m at year-end. The decrease is partly due to a sale of a majority stake in Jarðboranir, owned by Íslandsbanki's subsidiary Miðengi.

NET INTEREST MARGIN


BALANCE SHEET

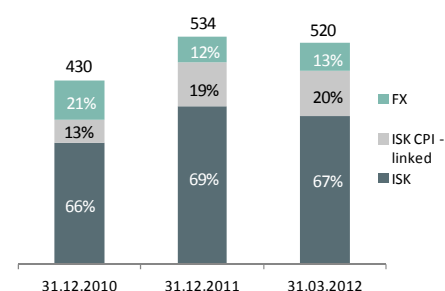
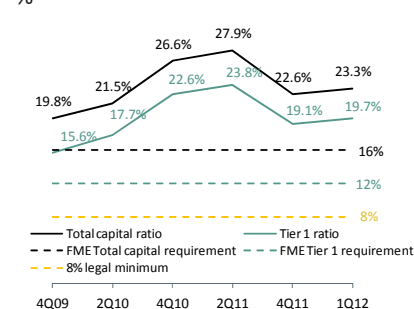
LIABILITIES & EQUITY	ISKm	31.03.12	31.12.11
Financial liabilities		10,596	9,346
Derivatives		5,761	4,027
Deposits from CB and credit inst.		52,470	62,845
Deposits from customers		456,821	462,943
Debt issued and other borrowings		65,647	63,221
Subordinated loans		23,303	21,937
Current tax liabilities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

LIABILITIES

- Total liabilities amounted to ISK 662,998m at end of March, compared to ISK 672,212m at year-end 2011. The slight decrease in deposits is in line with development on the asset side. The total deposit to loan ratio thus remained stable, with a slight increase from 86.5% at year-end 2011 to 87.2% at end of March.
- Subordinated loans amounted to ISK 23,303 and comprise a EUR 138m denominated Tier II Government bond following an agreement with Glitnir and the Icelandic Government in September 2009.
- At end of March, the Bank's total equity was ISK 129,420m, compared to ISK 123,703m at year-end 2011, which is an increase of 5%.
- The Tier 1 ratio was 19.7%, compared to 19.1% at year-end 2011. Total capital ratio was 23.3%, compared to 22.6% at year-end 2011 and well above the 16% regulatory minimum set by the Icelandic Financial Supervisory Authority.

FUNDING AND LIQUIDITY POSITION

- The Bank has been largely funded with deposits since its incorporation in 2008. The ratio of total deposits over total loans was 87.2% at the end of March, while the ratio of customer deposits over customer loans was 84.9%.
- The Bank's liquidity position is sound and all liquidity ratios well above regulatory requirements.
- Íslandsbanki was the first bank to list securities on the NASDAQ OMX Iceland since the fall of 2008, an important step towards diversification of funding for the Bank. Under the ISK 100bn covered bond programme that's in place, Íslandsbanki plans to issue around ISK 10bn of covered bonds annually. To date, Íslandsbanki has issued three CPI-linked covered bonds, the five year ISLA CBI 16, the 7 year ISLA CBI 19, and the 12 year ISLA CBI 24 totalling of ISK 8.8bn. All issuances were oversubscribed and sold to a broad group of institutional investors.
- 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 should they arise.

DEPOSITS - PARENT
ISKbn**CAPITAL RATIO**
%**FINANCIAL CALENDAR**

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

- 1Q2012 - 30 May 2012
- 2Q2012 - 30 August 2012
- 3Q2012 - 29 November 2012
- 4Q2012 - 7 March 2013
- AGM - April 2013

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