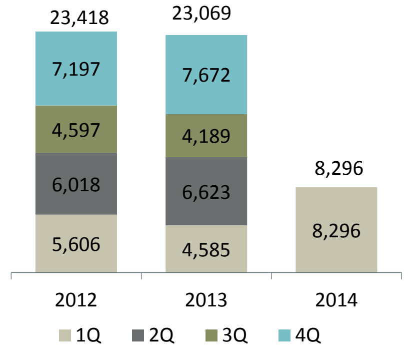
Íslandsbanki

CONSOLIDATED INTERIM FINANCIAL STATEMENTS 1Q2014

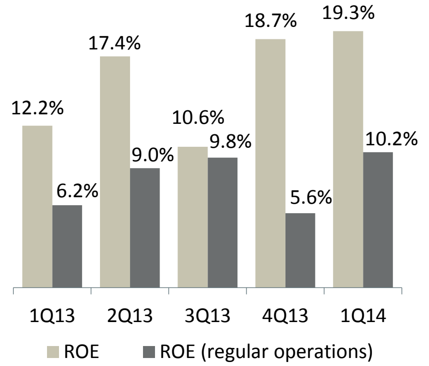
HIGHLIGHTS

- Profit after tax was ISK 8.3bn in 1Q14 compared to ISK 4.6bn for the same period in 2013. The difference is primarily driven by sale of non-current assets held for sale.
- Return on equity was 19.3% in 1Q14 (1Q13: 12.2%), despite the equity base increasing 15% YoY from 152bn to 175bn.
- Total capital ratio remains strong at 30.3% (2013: 28.4%), and Core Tier 1 ratio was 27.0% (2013: 25.1%), in part due to a 2% decrease in RWA in the first quarter to 644bn (2013: 660bn).
- Net interest income amounted to ISK 6.6bn (1Q13 ISK 7.5bn), a YoY decrease of 11.1%. The net interest margin was 3.0% in 1Q14 (4Q13: 3.1%) and has now stabilised.
- Net fee and commission income was ISK 2.9bn in 1Q14 (1Q13: ISK 2.5bn). This is a YoY increase of 16.4% which can mainly be attributed to Markets, Retail, Wealth and fee generating subsidiaries.
- Cost to income ratio decreased to 55.1% (1Q13: 67.1%); decrease is attributable to lower FTE´s and continual cost management initiatives.
- Around 35.9 thousand individuals and 4,160 corporates have received ISK 555bn in debt forgiveness of some form since the Bank's establishment.
- All large restructuring cases are now finalised, LPA ratio was 7.8% (Dec13: 8.3%) and remaining cases are small and will each only move the ratio marginally. Ratio of loans more than 90 days past due ratio 3.8% (Dec13: 3.5%) and increased temporarily due to the finalisation of restructuring of a large customer.
- Total assets were ISK 884bn (Dec13: ISK 866bn) or 2% growth since YE13.
- Total deposits increased to ISK 530bn (Dec12: ISK 519bn), due to normal fluctuation in deposits from customers and credit institutions.

NET PROFIT
ISKm



ROE
%



Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

„We are pleased with the first quarter results, with increased profitability, rise in fee and commission income and reduction in costs compared to last year. We also see growth in loans to customers in the first quarter – indeed, demand for loans has grown by 2 % this year. Core earnings continue to strengthen and net fee and commission income increased by 16% year-on-year.

Our cost initiatives have delivered good results. We recently announced the merger of two branches and plans for transforming the Kringlan service centre to a self-service operation, thereby improving branch network efficiency even further. Administrative cost was down 7.4 % in real terms year-on-year and the cost to income ratio was 55.1 % which is in line with the Bank´s long-term financial target.

The Bank took an important step in May by issuing its first Euro- denominated bond. The EUR 100 million two-year private placement was the first transaction by an Icelandic bank in that currency since 2008 and is a big milestone for the Bank and the Icelandic financial system.

Íslandsbanki has taken all the necessary steps in order to implement the Government's debt relief programme. We are diligently preparing for this task and seek to encourage all our customers to apply for the loan correction and the tax-free disposition of special savings."

KEY FIGURES	31.03.14	31.12.13
Balance sheet	ISKbn	ISKbn
Total assets	**884**	866
Total loans	**614**	599
Total deposits	**530**	519
Equity	**175**	167
Deposit / loan ratio	**86%**	87%
Core Tier 1 ratio	**27.0%**	25.1%
Total capital ratio	**30.3%**	28.4%

KEY FIGURES	1Q14	1Q13
Income statement	ISKbn	ISKbn
ROE	**19.3%**	12.2%
ROE regular operations	**10.2%**	6.2%
Profit after tax	**8.3**	4.6
Profit from reg. ops.	**4.4**	2.4
Cost / income ratio	**55.1%**	67.1%
Net interest margin	**3.0%**	3.6%

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INCOME STATEMENT

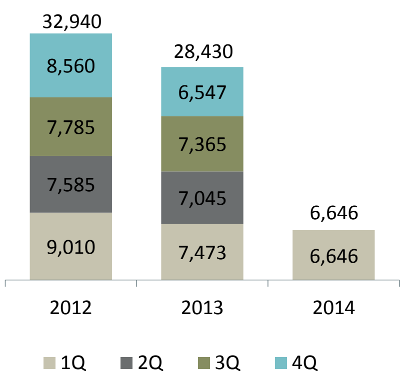
ISKm	1Q14	4Q13	1Q13	FY13	FY12
Net interest income	**6,646**	6,547	7,473	28,430	32,940
Net fee and commission income	**2,854**	2,849	2,452	10,433	9,459
Net foreign exchange (loss) gain	**(291)**	(1,117)	(1,563)	(2,423)	2,737
Net financial income	**863**	2,748	881	4,612	1,517
Other net operating income	**1,113**	101	415	1,545	996
Total operating income	**11,185**	11,129	9,658	42,597	47,649
Salaries and related expenses	**(3,439)**	(3,490)	(3,468)	(13,361)	(13,080)
Other operating expenses	**(2,470)**	(4,439)	(2,768)	(12,190)	(11,509)
Administrative expenses	**(5,910)**	(7,929)	(6,236)	(25,551)	(24,589)
Impairment of goodwill	**0**	0	0	0	(425)
Depositors´and investors guarantee fund	**(258)**	(263)	(246)	(1,016)	(1,055)
Bank Tax	**(592)**	(2,113)	(67)	(2,321)	(858)
Total operating expenses	**(6,760)**	(10,305)	(6,549)	(28,888)	(26,927)
Profit before impairment and net valuation changes	**4,425**	824	3,109	13,709	20,722
Loan impairment charges and net valuation changes	**1,520**	7,893	2,993	16,299	5,710
Profit before tax	**5,946**	8,717	6,102	30,008	26,432
Income tax	**(1,394)**	(2,501)	(1,448)	(7,866)	(6,253)
Profit for the period from continuing operations	**4,552**	**6,216**	**4,654**	**22,142**	**20,179**
Profit (loss) from discontinued ops. net of tax	**3,744**	1,456	(69)	927	3,239
Profit for the period	**8,296**	7,672	4,585	23,069	23,418

* 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, the impairment of goodwill and net earnings from discontinued operations.

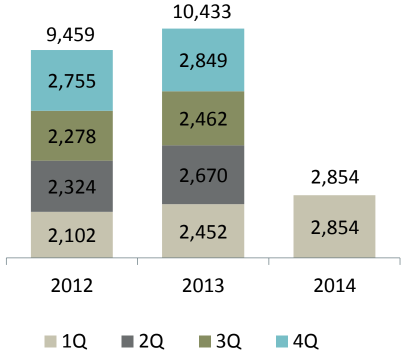
INCOME

- *Total operating income* was ISK 11.2bn in 1Q14, compared to 9.7bn in 1Q13.
- 85% of the Bank's net operating income in 2013 derived from net interest income and net fee and commission income, which 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 6.6bn (1Q13: ISK 7.5bn), a YoY decrease of 11.1% which is in line with expectations as deep discount following the acquisition of original 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 3.0% (4Q13: 3,1%). NIM has reached a long term sustainable level, after being relatively high due to various factors, e.g. amortization of discount and high inflation.
- CPI imbalance amounted to ISK 5bn at March 2014. 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 was ISK 2.9bn in 1Q14 compared to 2.5bn in 1Q13. This is a YoY increase of 16.4% which can mainly be attributed to Markets, Retail, Wealth and fee generating subsidiaries.
- *Foreign exchange loss* amounted to ISK 291m, compared to a ISK 1.6bn loss in 1Q13. The net FX imbalance, amounting to ISK 24.3bn at the end of the period (Dec13: 23.7bn) is strictly monitored and is around 14% of equity.
- *Net financial income,* which is mainly due to fair value gains on the Sjóvá equity stakes, amounted to ISK 0.9bn, similar to 1Q13 levels.
- *Other net operating income*, predominately a result of a claim settlement, rental income and fees from service agreements and foreclosed assets, amounted to ISK 1.1bn, compared to ISK 415m in 1Q13.

NET INTEREST INCOME
ISKm



NET FEE AND COMMISSION INCOME
ISKm



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INCOME STATEMENT – cont.

EXPENSES

- Cost to income ratio decreased to 55.1% (1Q13: 67.1%), which is in line with the Bank's long term target of 55%. Cost to income ratio excludes Bank tax and one-off cost items.
- *Administrative expenses* decreased 5.2% to ISK 5.9bn (1Q13: ISK 6.2bn) which translates to 7.4% when adjusted for inflation. This is in line with the Bank's continued focus on cost control and its key projects aimed at improving operational efficiency and business process management.
- *Salaries and related expenses* amounted to ISK 3.4bn, down 0.8% YoY. Part of the decrease is due to the reduction of the Financial activities tax (FAT), now 5.5% of salaries down from 6.75% in 2013. During the period there was a 2.8% statutory wage increase, while at the same time the general wage index rose 4.4% QoQ.
- The average number of full time employees (FTEs) for the Group was 1,125 in 1Q14, a 11% reduction from 1Q13. Total salaries are calculated on the Group consolidated level of FTEs.
- The average number of full time employees (FTEs) for the parent was 977 in 1Q14, a 7.5% reduction from 1Q13.
- *Other operating expenses* decreased 10.8% YoY, or to ISK 2.5bn in 1Q14 from ISK 2.8bn in 1Q13.
- *Contributions to the Depositors' and Investors' Guarantee Fund* was ISK 258m. The contribution fluctuates with total deposits and lower risk weighing as a result of the Bank's higher equity and a considerably lower LPA ratio.
- Loan impairment charges and net valuation changes amounted to ISK 1.5bn a 49% YoY decrease (1Q13: ISK 3.0bn)

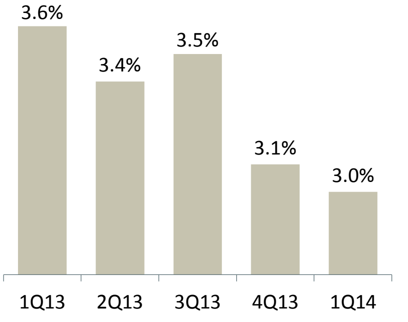
TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- Taxation has increased considerably in recent years including special taxation on financial institutions, e.g. the temporary Bank tax and a special financial activities tax of 6% on taxable profits above ISK 1bn for financial services providers.
- Income tax was ISK 1.4bn in 1Q14, which is a decrease of 3.8% YoY. Effective income tax was 23.4%, compared to 23.7% in 1Q13.
- *Bank tax* amounts to ISK 592m (1Q13: 67m). New regulations have increased the tax from 0.041% of the previous year's total liabilities to 0.376% of liabilities in excess of 50bn. The increase in the Bank tax for 2013 was charged in 4Q13 which explains the higher amount in that quarter.
- Financial activities tax on salaries, now 5.5% down from 6.75% in 2013, calculated on salaries, amounted to ISK 152m, compared to ISK 192m in 1Q13.
- Expenses due to FME and the Debtors' Ombudsman were ISK 88m compared to ISK 115m in 1Q13.
- Total taxes and levies paid to government institutions amounted to ISK 2.5bn in 1Q14, compared to 2.1bn in 1Q1Q; up 21% YoY.

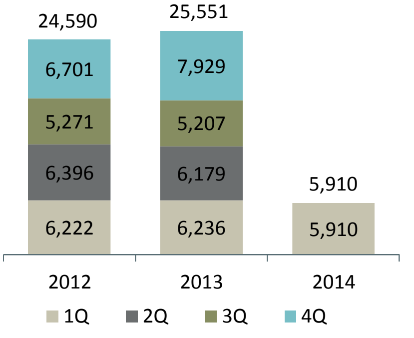
PROFIT/LOSS FROM DISCONTINUED OPERATIONS

- *Profit/Loss from discontinued operations* net of tax was a profit of ISK 3.7bn, compared to a loss of ISK 69m in 1Q13. The main driver of the profit this period was the sale of non-core subsidiaries.
- As a result, non current assets held for sale has halved since YE13. This is in line with the Bank's commitment to divest of assets it receives following financial restructuring.

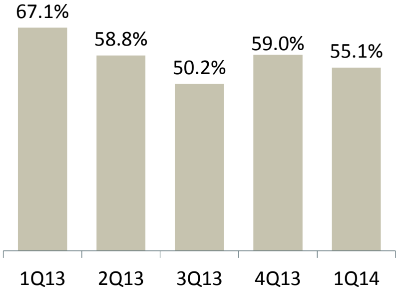
NET INTEREST MARGIN
%



ADMINISTRATIVE EXPENSES
ISKm (exl. goodwill write-off)

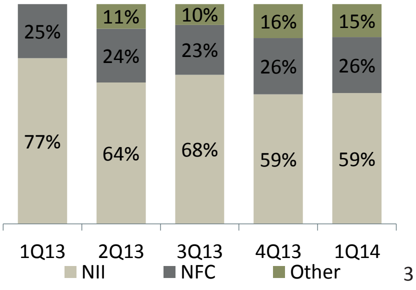


COST INCOME RATIO
% (exl. Bank tax and one-off costs)



TAX & LEVIES	1Q14	1Q13
Income statement	ISKm	ISKm
Income tax	1,394	1,448
Bank tax	592	67
Financial activities tax	152	192
FME and the Debtors´Ombudsman	88	115
Deposits´and investors´Guarantee Fund (TIF)	258	246
Total	2,484	2,068

OPERATING INCOME SPLIT
%

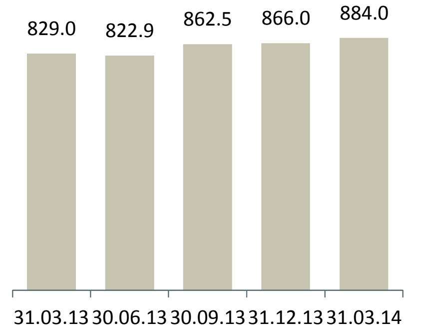


INCOME STATEMENT – cont.

PROFIT

- *Profit after tax* in 1Q14 was ISK 8.3bn, compared to ISK 4.6bn in 1Q13.
- Return on equity was 19.3% in 1Q14 (1Q13: 12.2%), well above the Bank's long term target of 12% ROE. The YoY increase in ROE is primarily driven by lower administrative expenses and profit from sale of non-current assets held for sale.
- Earnings from regular operations resulted in a profit of ISK 4.4bn in 1Q14, considerably higher than 1Q13 results ISK 2.4bn. Return on equity from regular operations was 10.2% in 1Q13.

ASSETS
ISKbn



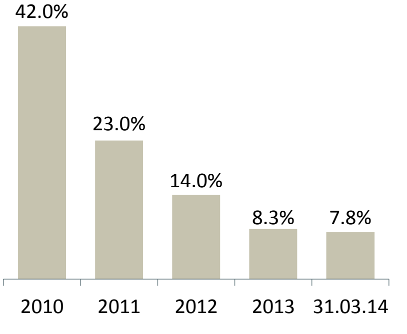
BALANCE SHEET - ASSETS

ISKm	31.03.2014	31.12.2013	31.12.2012
Cash and balances with CB	**136,735**	111,779	85,500
Derivatives	**1,328**	843	127
Bonds and debt instruments	**76,165**	75,186	64,035
Shares and equity instruments	**11,795**	9,208	10,445
Loans to credit institutions	**47,895**	44,078	54,043
Loans to customers	**565,952**	554,741	557,857
Investment in associates	**1,556**	1,563	503
Property and equipment	**8,691**	8,772	5,579
Intangible assets	**292**	299	261
Deferred tax assets	**1,155**	1,275	864
Non-current assets held for sale	**24,116**	47,106	39,046
Other assets	**8,363**	11,159	5,115
Total assets	**884,043**	866,009	823,375

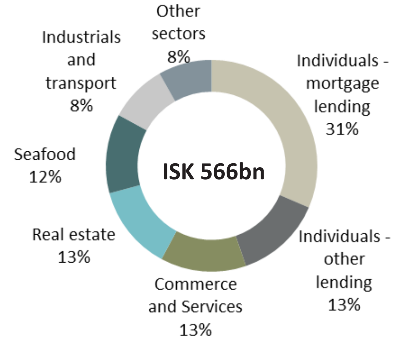
ASSETS

- *Bonds and debt instruments* amounted to ISK 76bn. The portfolio consists mainly of G5 government bonds in the Bank's liquidity portfolio.
- *Shares and equity instruments* amounted to ISK 11.8bn, up from ISK 9.2bn at Dec13. The change is mainly attributable to fair value gains of the Sjóva equity share holding.
- *Loans to customers* amounted to ISK 566bn (Dec13: ISK 554.7bn), up 2% from YE13. However, repayments continue to play a key role as customers use any capacity they have to reduce their debt.
- Restructuring of the largest corporate clients loans was completed at YE2013. Restructuring of the remainder of the loan portfolio will be completed by YE2014.
- Asset quality continued to improve with LPA ratio now down to 7.8% from 8.3% at YE13. Remaining restructuring cases are smaller and will only move the ratio marginally.
- Loans more than 90 days past due ratio was 3.8% (Dec13: 3.5%) and increased temporarily due to the finalisation of restructuring of a large customer
- *Non-current assets held for sale* decreased to ISK 24.1bn (2013: 47.1bn), down 49% QoQ.
- *Total assets* amounted to ISK 884bn, compared to ISK 866bn at 2013, an increase of 2% from YE13.

LOAN PORTFOLIO ANALYSIS (LPA)
%



LOAN PORTFOLIO BY SECTOR
%, at 31.03.2014



BALANCE SHEET – LIABILITIES

ISKm	31.03.2014	31.12.2013	31.12.2012
Derivatives and short positions	**8,806**	11,176	18,435
Deposits from CB and credit inst.	**26,847**	29,689	38,272
Deposits from customers	**502,925**	489,331	471,156
Debt issued and other borrowings	**95,035**	89,193	66,571
Subordinated loans	**21,437**	21,890	23,450
Tax liabilities	**11,673**	10,826	2,072
Non-current liabilities held for sale	**3,447**	9,456	6,805
Other liabilities	**38,501**	37,130	48,954
Total liabilities	**708,670**	698,691	675,715
Total equity	**175,373**	167,318	147,660
Total liabilities and equity	**884,043**	866,009	823,375

LIABILITIES AND EQUITY

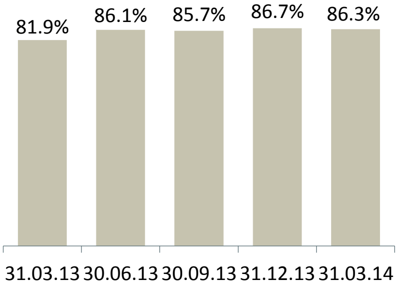
- *Deposits from customers* have remained stable and amounted to ISK 503bn, compared to ISK 489bn at December 2013. Deposit to loan ratio was 84.6% (Dec13 86,7%) and the customer deposit to customer loan ratio strengthened to 88.9% (Dec13: 88.2%).
- *Deposits from CB and credit institutions* decreased to ISK 26.8bn from ISK 29.7bn at December 2013. These deposits tend to fluctuate somewhat as they are less sticky.
- *Debt issued and other borrowings* amounted to ISK 95.0bn (Dec13: ISK 89.2bn), up 6.5% since year end. Thereof, covered bonds amounted to ISK 27.1bn and commercial paper ISK 8.0bn.
- *Subordinated loans* amounted to ISK 21.4bn. This represents a Tier 2 bond of EUR 138m due in 2019.
- *Total liabilities* amounted to ISK 708.7bn (Dec13: ISK 698.7bn).
- *Total equity* was ISK 175bn, up 4.8% from YE13 and 15% YoY.
- Total capital ratio remains strong at 30.3% (Dec13: 28.4%). The Tier 1 ratio was 27.0% (Dec13: 25.1%).
- Leverage ratio was high in global comparison, or 19.1% (Dec13: 18.6%).

FUNDING AND LIQUIDITY POSITION

- The Bank's liquidity position is sound and all liquidity ratios well above regulatory requirements and internal guidelines.
- The Basel III liquidity ratio (LCR) was 134% at Mar14, but according to CBI liquidity regulation the ratio should not be below 70% and the requirement will gradually increase to 100% in 2017.
- First Euro-denominated 2-year bond issued in May of EUR 100m, follows the Bank´s recently published S&P BB+/B rating with stable outlook and successful SEK issue in Dec13 and tap issue in Mar14.
- Terms continue to improve, with SEK December issue at 3 month Stibor + 400bp and SEK March tap tightening to 330bp
- The bonds were issued under the Bank's USD 275m Global Medium Term Note (GMTN) programme and are listed on the Irish Stock Exchange
- Íslandsbanki has established itself as the largest Icelandic issuer of covered bonds (plans to issue around ISK 10bn annually) and is a regular issuer of short term listed bonds.
- Encumbrance remains relatively low, pledged assets as a % of Balance Sheet was 13% at Mar14.

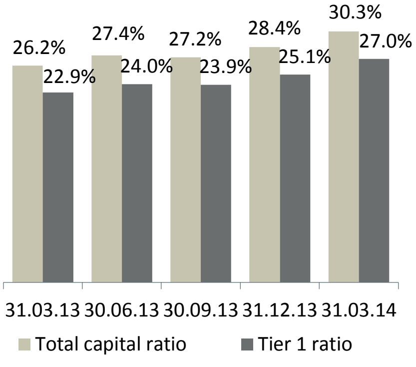
DEPOSIT RATIO

%



CAPITAL RATIOS

%



FINANCIAL CALENDAR

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

- Silent period 10 – 20 August 2014
- 2Q14 – 21 Aug 2014
- Silent period 9 – 19 November 2014
- 3Q14 – 20 Nov 2014
- 4Q14 – Feb 2015

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