Íslandsbanki

CONSOLIDATED FINANCIAL STATEMENTS **Q12015**

HIGHLIGHTS
1Q 2015

- Profit after tax was ISK 5.4bn in 1Q15 compared to ISK 8.3bn in 1Q14. The difference is mainly due to irregular items.
- Return on equity was 11.8% in 1Q15 compared to 19.3% in 1Q14.
- Total capital ratio remains strong at 28.4% (YE14 29.6%) and Core Tier 1 ratio was 25.7% (YE14: 26.5%)
- Net interest income amounted to ISK 6.2bn in 1Q15 (1Q14 ISK 6.6bn), a decrease of 6.8%. The net interest margin was 2.7% in 1Q15 (1Q14: 3.0%). Main factor is lower inflation.
- Net fee and commission income was ISK 2.9bn in 1Q15 (1Q14: 2.9bn).
- Administrative cost was down 1.5% or 2.6%in real terms. Cost to income ratio was 55.3% in 1Q15 (1Q14: 55.1%). Cost to income-ratio excludes Bank tax and one-off cost items.
- Leverage ratio was at 19.7% at the end of the period, indicating a moderate leverage.
- Ratio of loans more than 90 days past due and impaired was 3.0% (YE14: 3.5%).
- Total assets amounted to ISK 926bn (Dec14: ISK 911bn).

Birna Einarsdóttir, Chief Executive Officer at Íslandsbanki:

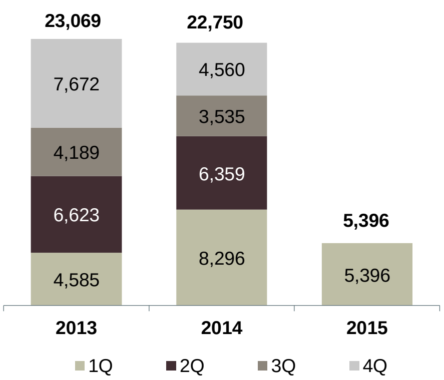
We are pleased with the first quarter results which exceed our expectations. It is important to continue to strengthen the return on equity from regular operations and to this extent, the Bank has continued to reduce costs. The Bank's performance has resulted in a ratings upgrade by Fitch Ratings to investment grade with stable outlook. Thereby, Íslandsbanki becomes the first bank in Iceland to be assigned an investment grade since 2008, which is expected to deliver more favourable terms in upcoming bond issuances.

Icelandic corporates are increasingly investing in risk management products to minimise operational risks and to ensure a more secure work environment. This is evident from the increase in sale of risk management products at Markets, a clear sign of recovery in the capital markets.

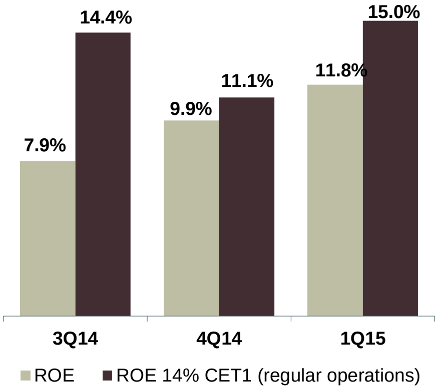
The year on year increase in new mortgage lending was 60% and we see a growing demand from first time buyers.

There has been a notable shift in the type of services offered within the branch network, where we see an increase in customers seeking financial consultation whilst day-to-day transactions are being carried out through online and mobile devices. As a part of the Bank's strategy of streamlining operations, two downtown branches were merged into one branch, opened this week. The new branch focuses on meeting customer expectations with an emphasis on providing excellent service to our customers.

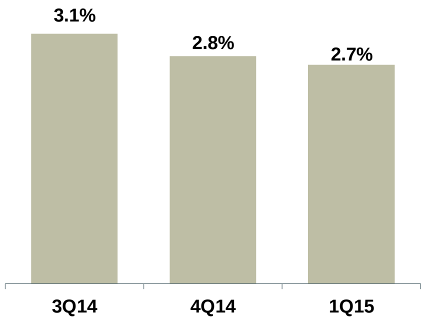
NET PROFIT
ISKm



ROE
%



NET INTEREST MARGIN
%



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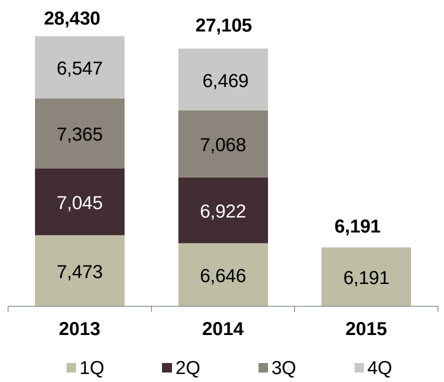
Income Statement (ISK m)	1Q15	1Q14	Δ	4Q14	Δ 14
Net interest income	**6,191**	6,646	(455)	6,469	177
Net fee and commission income	**2,905**	2,854	51	2,962	(108)
Net financial income	**1,764**	863	901	603	260
Net foreign exchange gain (loss)	**(140)**	(291)	151	116	(407)
Other operating income	**289**	1,113	(824)	509	604
Total operating income	**11,009**	11,185	(176)	10,659	526
Administrative expenses	**(5,823)**	(5,909)	86	(6,411)	502
Depositors´and Investors Guarantee Fund	**(269)**	(258)	(11)	(265)	7
Bank Tax	**(618)**	(592)	(26)	(565)	(27)
Total operating expenses	**(6,710)**	(6,759)	49	(7,241)	482
Profit before impairment and net valuation changes	**4,299**	4,426	(127)	3,418	1,008
Loan impairment charges and net valuation changes	**2,331**	1,520	811	3,006	(1,486)
Profit before tax	**6,630**	5,946	684	6,424	(478)
Income tax	**(1,396)**	(1,394)	(2)	(1,434)	40
Profit for the period from continuing operations	**5,234**	4,552	682	4,990	(438)
Profit (loss) from discontinued ops. net of tax	**162**	3,744	(3,582)	(430)	4,174
Profit for the period	**5,396**	8,296	(2,900)	4,560	3,736

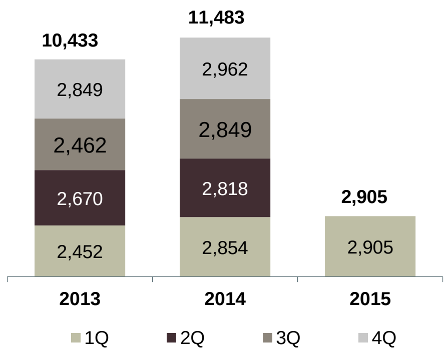
Income Statement

- 83% of the Bank’s total operating income in 1Q15 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 margin, calculated as the ratio of net interest income to the average carrying amount of total assets, was 2.7% compared to 3.0% in 1Q14.
- CPI imbalance amounted to ISK 46bn at conclusion of 1Q15 (YE14: 58bn). The imbalance is managed via CPI-linked swaps, issuance of CPI-linked covered bonds and long term CPI-linked deposit programmes.
- The average number of full time employees (FTEs) for the parent was 941 in 1Q15, reduction by 40 FTE's in 1Q14.
- Loan impairment charges were 0.9bn ISK and net valuation changes positive by 3.2bn ISK in 1Q2014

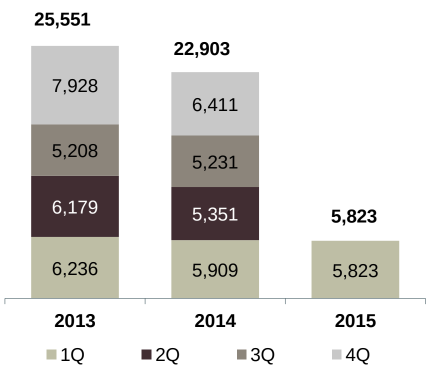
NET INTEREST INCOME
ISKm



NET FEE AND COMMISSION INCOME
ISKm



ADMINISTRATIVE EXPENSES
ISKm



Asset (ISK m)	31.03.2015	31.12.2014	Δ
Cash and balances with CB	98,274	103,389	(5,115)
Derivatives	1,843	1,810	33
Bonds and debt instruments	91,201	87,347	3,854
Shares and equity instruments	11,900	10,531	1,369
Loans to credit institutions	40,688	35,072	5,616
Loans to customers	637,877	634,799	3,078
Investment in associates	607	570	37
Property and equipment	7,521	7,402	119
Intangible assets	655	619	36
Deferred tax assets	270	521	(251)
Non-current assets held for sale	21,203	21,649	(446)
Other assets	14,350	7,619	6,731
Total assets	**926,389**	**911,328**	**15,061**

Asset

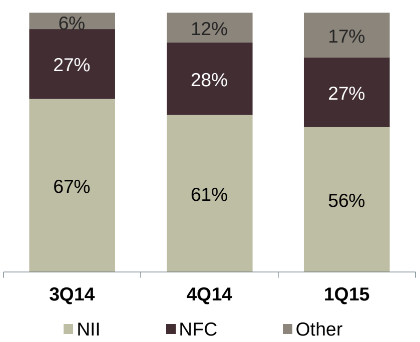
- New lending amounted to 34.1bn with loans to customers growing by 3bn despite high repayments.
- Loans to companies grew by approx. 2% while loans to individuals decreased mainly due to the Government's debt relief scheme.
- Real estate remains the Bank's most important type of collateral. The weighted average loan-to-value (LTV) ratio for the residential mortgage portfolio was 72.4% at March 2015.
- The asset encumbrance ratio is 10.6% at March 2015.
- Liquid assets of ISK 214bn exceed both internal and external regulatory requirements.

Liabilites and Equity	31.03.2015	31.12.2014	Δ
Derivatives and short positions	7,203	3,963	3,240
Deposits from CB and credit inst.	24,437	25,796	(1,359)
Deposits from customers	520,740	529,447	(8,707)
Debt issued and other borrowings	100,602	96,889	3,713
Subordinated loans	20,336	21,306	(970)
Other liabilities	71,441	48,440	23,001
Total liabilities	744,759	725,841	18,918
Total equity	181,630	185,487	(3,857)
Total liabilities and equity	**926,389**	**911,328**	**15,061**

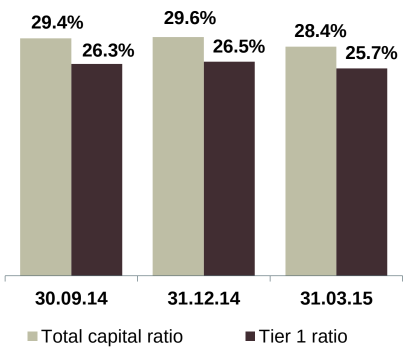
Liabilites ad Equity

- Deposits remain the main funding source for the Bank.
- Deposit to loan ratio was 80.3% (YE14: 82.9%) and the customer deposit to customer loan ratio remained strong at 81.6% (YE14: 83.4%).
- Total equity contracts 2.1% following a 9bn dividend announcement made at the Annual General Meeting; this in-line with the Bank´s strategy to reduce the capital measures closer to minimum target of 18%

OPERATING INCOME SPLIT
%



CAPITAL RATIO
%



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