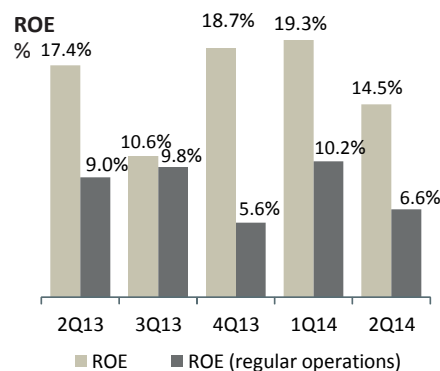
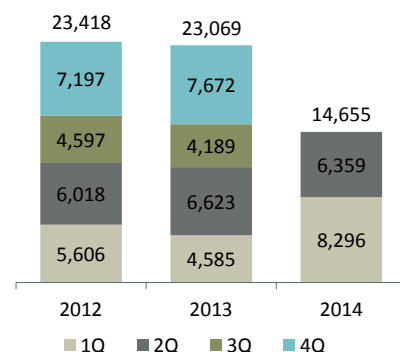


CONSOLIDATED INTERIM FINANCIAL STATEMENTS 2Q2014

HIGHLIGHTS

- Profit after tax was ISK 6.4bn in 2Q14 (2Q13: ISK 6.6bn), and ISK 14.7bn in 1H14 (1H13: ISK 11.2bn)
- Return on equity was 14.5% in the quarter (2Q13: 17.4%), and was 16.9% in 1H14 (1H13: 14.8%). This improvement in 1H is despite the equity base increasing 14% YoY from 156bn to 178bn.
- Total capital ratio remains strong at 29.3% (Mar14: 30.3%), and Core Tier 1 ratio was 26.1% (Mar14: 27.0%), decrease in part due to a 2% increase in RWA to ISK 674bn (1Q14: 644bn).
- Net interest income amounted to ISK 6.9bn in 2Q14 (2Q13 ISK 7.0bn), and ISK 13.6bn in 1H14 (1H13: ISK 14.5bn). The net interest margin was 3.1% in 2Q14 (2Q13: 3.4%) and now at expected long term level.
- Net fee and commission income was ISK 2.8bn in 2Q14 (2Q13: ISK 2.7bn) a 5.5% increase and 5.7bn in 1H14 (1H13: 5.1bn). This increase can mainly be attributed to Markets, Wealth and fee generating subsidiaries.
- Cost to income ratio was 56.0% (2Q13: 58.8%); decrease is attributable to lower FTE's and continual cost management initiatives.
- Around 36 thousand individuals and 4,200 corporates have received ISK 561bn in write-offs and remissions since the Bank's establishment.
- All large restructuring cases are now finalised, LPA ratio was 7.3% (Mar14: 7.8%) and remaining cases are small and will each only move the ratio marginally. Ratio of loans more than 90 days past due was 3.5% (Mar14: 3.8%).
- Total assets were ISK 908bn (Mar14: ISK 884bn) or 3% growth since Mar14. Loans to customers amounted to ISK 604bn (Mar14: ISK 566bn), up 7% from Mar14.
- Total deposits increased to ISK 543bn (Mar14: ISK 530bn), due to normal fluctuation in deposits from customers and credit institutions.

NET PROFIT ISKbn



Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

„The second quarter results are very satisfying with a return on equity of 14.5%. In the past two quarters we have seen increased demand for new loans, which have risen by 9% since the beginning of the year. We also note broad growth in fee and commission income across the Bank's income divisions.

Cost initiatives continue to deliver good results with a 13.4% reduction in administrative expenses year-on-year. We continued to improve the efficiency of our branch network, replacing the Bank's Kringlan branch with a new self-service ATM Service Centre and merging branches in Seltjarnarnes and Central Reykjavik into a new branch in western Reykjavik scheduled for early 2015. We also note a great rise in numbers of App-users and customers have welcomed recent additions e.g. ability to pay bills, make large transfers and gain a good overview of their personal finance.

The Bank issued its first EUR denominated bond in the quarter. The EUR 100m bond was the first EUR issue for an Icelandic bank since 2008, and marks a very positive step for the Icelandic financial system. The trade followed Bank's recently assigned S&P rating of BB+/B with stable outlook, which is one notch below the Icelandic sovereign.

Íslandsbanki's leading market position in Iceland has been well noted abroad, most recently by Euromoney who awarded Íslandsbanki as the best bank in Iceland for the second year in a row. Íslandsbanki also won in the category for best investment bank in Iceland, but this was the first time Euromoney gives out an award in that category in Iceland.“

For further information:

- Investor Relations – Tinna Molphy, tinna.molphy@islandsbanki.is and tel: +354 440 3187.
- Media – Dögg Hjaltalín, dogg.hjaltalin@islandsbanki.is and tel: +354 440 3925.

KEY FIGURES	30.06.14	31.03.14
Balance sheet	ISKbn	ISKbn
Total assets	908	884
Total loans	649	614
Total deposits	543	530
Equity	178	175
Deposit / loan ratio	84%	86%
Core Tier 1 ratio	26.1%	27.0%
Total capital ratio	29.3%	30.3%

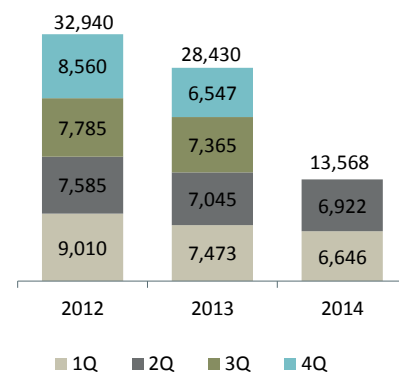
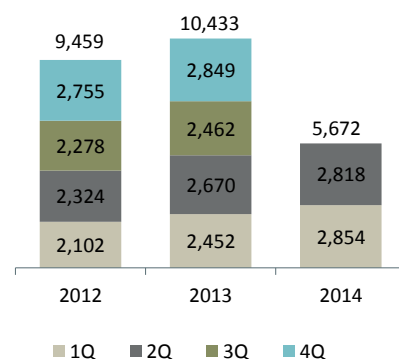
KEY FIGURES	2Q14	2Q13
Income statement	ISKbn	ISKbn
ROE	14.5%	17.4%
ROE regular operations	6.6%	9.0%
Profit after tax	6.4	6.6
Profit from reg. ops.	2.9	3.5
Cost / income ratio	56.0%	58.8%
Net interest margin	3.1%	3.4%

INCOME STATEMENT

ISKm	2Q14	2Q13	1H14	1H13	FY13	FY12
Net interest income	6,922	7,045	13,568	14,518	28,430	32,940
Net fee and commission income	2,818	2,670	5,672	5,122	10,433	9,459
Net foreign exchange (loss) gain	(12)	(152)	(303)	(1,715)	(2,423)	2,737
Net financial income	19	669	882	1,550	4,612	1,517
Other net operating income	267	716	1,380	1,131	1,545	996
Total operating income	10,014	10,948	21,199	20,606	42,597	47,649
Salaries and related expenses	(3,441)	(3,551)	(6,881)	(7,020)	(13,361)	(13,080)
Other operating expenses	(1,909)	(2,628)	(4,378)	(5,395)	(12,190)	(11,509)
Administrative expenses	(5,351)	(6,179)	(11,259)	(12,415)	(25,551)	(24,589)
Impairment of goodwill	0	0	0	0	0	(425)
Depositors' and investors guarantee fund	(260)	(256)	(518)	(502)	(1,016)	(1,055)
Bank Tax	(623)	(65)	(1,215)	(132)	(2,321)	(858)
Total operating expenses	(6,233)	(6,500)	(12,992)	(13,049)	(28,888)	(26,927)
Profit before impairment and net valuation changes	3,781	4,448	8,207	7,557	13,709	20,722
Loan impairment charges and net valuation changes	4,219	4,857	5,739	7,850	16,299	5,710
Profit before tax	8,000	9,305	13,946	15,407	30,008	26,432
Income tax	(2,156)	(2,347)	(3,550)	(3,795)	(7,866)	(6,253)
Profit for the period from continuing operations	5,844	6,958	10,396	11,612	22,142	20,179
Profit (loss) from discontinued ops. net of tax	515	(335)	4,259	(404)	927	3,239
Profit for the period	6,359	6,623	14,655	11,208	23,069	23,418

INCOME

- *Total operating income* was ISK 10.0bn in 2Q14 (2Q13: ISK 10.9bn), and ISK 21.2bn in 1H14 (1H13: ISK 20.6bn).
- 97% of the Bank's net operating income in the quarter 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 6.9bn in 2Q14 (2Q13: ISK 7.0bn), and 13.6bn in 1H14 (1H2013: 14.5bn).
- *Net interest margin*, calculated as the ratio of net interest income to the average carrying amount of total assets, was 3.1% (2Q13: 3.4%). NIM has reached a long term sustainable level, after being relatively high due to various factors.
- CPI imbalance amounted to ISK 26.8bn at end of June 2014 (Mar14: 5bn) 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 2.8bn in 2Q14 (2Q13: ISK 2.7bn) a 5.5% increase and 5.7bn in 1H14 (1H13: 5.1bn). This increase can mainly be attributed to Markets, Wealth and fee generating subsidiaries.
- *Foreign exchange loss* amounted to ISK 303m in 1H14, compared to a ISK 1.7bn loss in 1H13. The net FX imbalance, amounting to ISK 21.7bn at the end of the period (Mar14: 24.3bn) is strictly monitored and is around 12% of equity.
- *Net financial income*, which is mainly due to fair value gains on equity amounted to ISK 19m in 2Q14 (2Q13: ISK 669m), and ISK 882m in 1H14 (1H2013: 1.550m).
- *Other net operating income*, predominately a result of rental income, fees from service agreements and foreclosed assets, amounted to ISK 267m in 2Q14 (2Q13: ISK 716m).

NET INTEREST INCOME
ISKmNET FEE AND COMMISSION INCOME
ISKm

INCOME STATEMENT – cont.

EXPENSES

- Total operating expense** was ISK 6.2bn in 2Q14 (2Q13: ISK 6.5bn) and ISK 12.9bn 1H14 (1H13: ISK 13.0bn).
- Cost to income ratio** was 56.0% (2Q13: 58.8%), 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 13.4% to ISK 5.4bn (2Q13: ISK 6.2bn) which translates to 15.8% 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 in 2Q14, down 3.1% 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.
- The average number of full time employees (FTEs)** for the Group was 1,164 in 2Q14, a 7% reduction from 2Q13. Total salaries are calculated on the Group consolidated level of FTEs.
- The average number of full time employees (FTEs)** for the parent was 1,014 in 2Q14, a 6.6% reduction from 2Q13.
- Other operating expenses** decreased 27.4% YoY, or to ISK 1.9bn in 2Q14 from ISK 2.6bn in 2Q13. This is attributable to a partial reversal of one-off costs booked in 4Q13.
- Contributions to the Depositors' and Investors' Guarantee Fund** was ISK 260m in 2Q14 (2Q13: ISK 256m). 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 4.2bn in 2Q14 (2Q13: ISK 4.9bn) and total 5.7bn in 1H14 (1H13: 7.9bn). Revaluation of the loan portfolio in the second quarter drives these results.

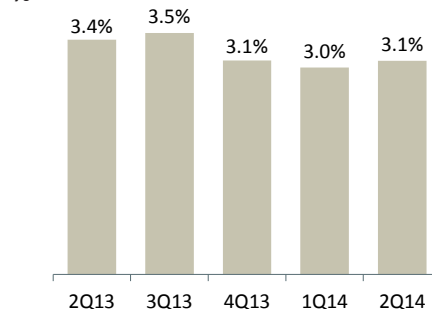
TAXES AND LEVIES PAID

- 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 2.2bn in 2Q14 (2Q13: ISK 2.3bn).
- Bank tax** amounted to ISK 623m (2Q13: ISK 65m) and ISK 1.2bn 1H14 (1H13: ISK 132m). 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.
- Financial activities tax on salaries**, now 5.5% down from 6.75% in 2013, amounted to ISK 168m (2Q13: 199m) and 320m in 1H14 (1H13: 391m).
- Expenses due to FME and the Debtors' Ombudsman** were ISK 88m in 2Q14 (2Q13: ISK 113m) and ISK 176m in 1H14 (1H13: ISK 254m).
- Total taxes and levies paid** to regulatory institutions amounted to ISK 3.3bn in 2Q14, compared to ISK 3.0bn in 2Q13; up 11% YoY.

PROFIT/LOSS FROM DISCONTINUED OPERATIONS

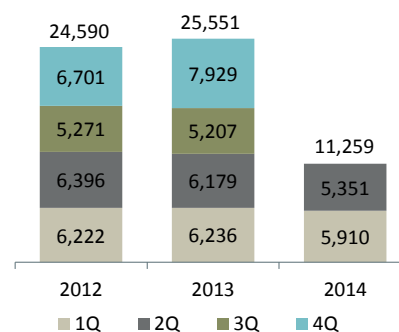
- Profit/Loss from discontinued operations** net of tax was a profit of ISK 515m in 2Q14 (2Q13: -335m), and 4.3bn in 1H14 (1H13: -404m) The main driver of the profit during the first half of 2014 was the sale of non-core subsidiaries.
- Non-current assets** amounted to ISK 24bn (Mar14: ISK 24bn), unchanged but has halved in 1H (YE13; ISK 47). This is in line with the Bank's commitment to divest of assets it receives following financial restructuring.

NET INTEREST MARGIN



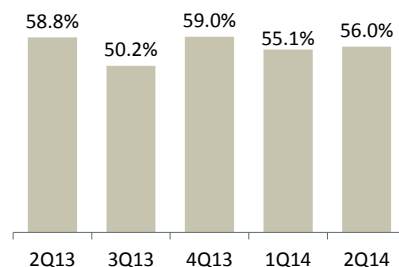
ADMINISTRATIVE EXPENSES

ISKm (exl. goodwill write-off)



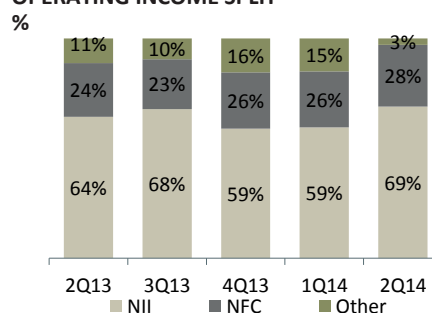
COST INCOME RATIO

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



TAX & LEVIES	2Q14	2Q13
Income statement	ISKm	ISKm
Income tax	2,156	2,347
Bank tax	623	65
Financial activities tax	168	199
FME and the Debtors' Ombudsman	88	113
Deposits' and investors' Guarantee Fund (TIF)	260	256
Total	3,294	2,980

OPERATING INCOME SPLIT

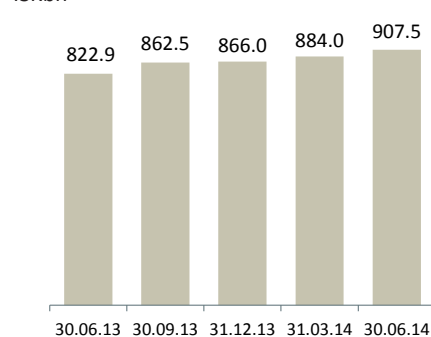


INCOME STATEMENT – cont.

PROFIT

- Profit after tax was ISK 6.4bn in 2Q14 (2Q13: ISK 6.6bn), and ISK 14.7bn in 1H14 (1H13: ISK11.2bn).
- Return on equity was 14.5% in 2Q14 (2Q13: 17.4%), and 16.9% in 1H14 (1H13: 14.8%) well above the Bank's long term target of 12% ROE. The YoY increase in 1H14 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 2.9bn in 2Q14 (2Q13: ISK 3.5bn) and ISK 7.2bn in 1H14 (1H13: ISK 5.9bn). Return on equity from regular operations was 6.6% in 2Q14, compared to 9.2% in 2Q13.

ASSETS



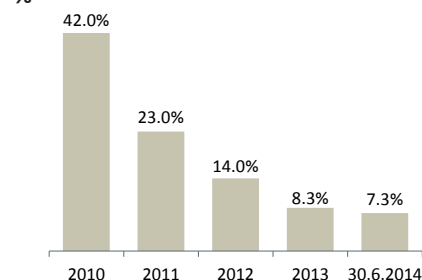
BALANCE SHEET - ASSETS

ISKm	30.06.2014	31.03.2014	31.12.2013
Cash and balances with CB	128,135	136,735	111,779
Derivatives	1,348	1,328	843
Bonds and debt instruments	72,380	76,165	75,186
Shares and equity instruments	12,006	11,795	9,208
Loans to credit institutions	45,334	47,895	44,078
Loans to customers	603,697	565,952	554,741
Investment in associates	1,583	1,556	1,563
Property and equipment	8,610	8,691	8,772
Intangible assets	357	292	299
Deferred tax assets	981	1,155	1,275
Non-current assets held for sale	23,996	24,116	47,106
Other assets	9,104	8,363	11,159
Total assets	907,531	884,043	866,009

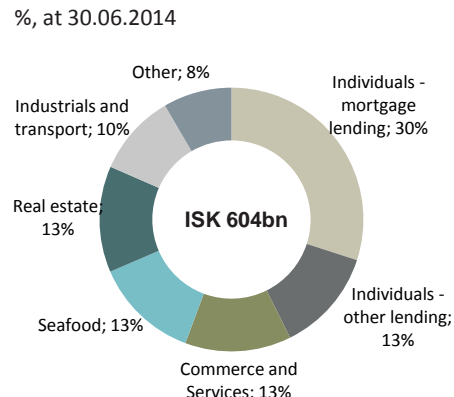
ASSETS

- Bonds and debt instruments* amounted to ISK 72bn. The portfolio consists mainly of G5 government bonds in the Bank's liquidity portfolio.
- Shares and equity instruments* amounted to ISK 12bn, up from ISK 11.8bn at Mar14. The change is mainly attributable to fair value gains of the Sjóva equity share holding.
- Loans to customers* amounted to ISK 604bn (Mar14: ISK 566bn), up 7% from Mar14.
- 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 7.3% from 8.3% at YE13. Remaining restructuring cases are smaller and will only move the ratio marginally.
- Loans more than 90 days past due date was 3.5% (Mar14: 3.8%).
- Non-current assets held for sale* decreased to ISK 24bn (Mar14: ISK 24.1bn), down 49% from YE 2013.
- Total assets* were ISK 908bn (Mar14: ISK 884bn) or 3% growth since Mar14.

LOAN PORTFOLIO ANALYSIS (LPA)



LOAN PORTFOLIO BY SECTOR

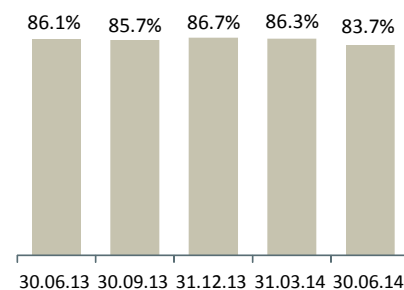
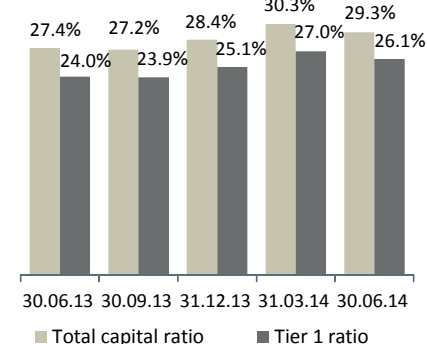


BALANCE SHEET – LIABILITIES

ISKm	30.06.2014	31.03.2014	31.12.2013
Derivatives and short positions	8,288	8,806	11,176
Deposits from CB and credit inst.	23,287	26,847	29,689
Deposits from customers	520,128	502,925	489,331
Debt issued and other borrowings	100,249	95,035	89,193
Subordinated loans	21,278	21,437	21,890
Tax liabilities	13,554	11,672	10,826
Non-current liabilities held for sale	3,483	3,447	9,456
Other liabilities	39,542	38,501	37,130
Total liabilities	729,809	708,670	698,691
Total equity	177,722	175,373	167,318
Total liabilities and equity	907,531	884,043	866,009

LIABILITIES AND EQUITY

- *Deposits from customers* have increased to ISK 520bn, compared to ISK 503bn at March 2014. Deposit to loan ratio was 83.7% (Mar14: 86.3%) and the customer deposit to customer loan was 86.2% (Mar14: 88.9%).
- *Deposits from CB and credit institutions* decreased to ISK 23.3bn from ISK 26.8bn at March 2014. These deposits tend to fluctuate somewhat as they are less sticky.
- *Debt issued and other borrowings* amounted to ISK 100bn (Mar14: ISK 95bn), up 5% from Mar14. Thereof, covered bonds amounted to ISK 29.4bn and commercial paper ISK 6.8bn.
- *Subordinated loans* amounted to ISK 21.3bn. This represents a Tier 2 bond of EUR 138m due in 2019.
- *Total liabilities* amounted to ISK 729.8bn (Mar14: ISK 708.7bn).
- *Total equity* was ISK 178bn (Mar14: ISK 175.4bn), up 1.3% from Mar14.
- Total capital ratio remained strong at 29.3% (Mar14: 30.3%), and Core Tier 1 ratio was 26.1% (Mar14: 27.0%).
- Leverage ratio was 18.8% which is high in global comparison (Mar14: 19.1%).

DEPOSIT RATIO
%**CAPITAL RATIOS**
%**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 122% at Jun14, 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 total assets was 10% at Mar14.

FINANCIAL CALENDAR

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

- 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.