



20 November 2014

3Q2014 Financial Results

Forward Looking Statements

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I. Overview

A strong bank with a sustainable future

Strong earnings, a sound balance sheet, and strong market shares across all business segments

1

Sound balance sheet with robust earnings from regular operations

- Loans to customers grew by ISK 53.5bn or 9.7% since YE13
- Net interest margin (NIM) is stabilising at 3% in line with amortisation of discount coming to an end
- Net fee and commission income (NFC) was 8.5bn in 9M14 (9M13: 7.6bn) or 12.4% increase YoY
- Earnings from regular operations increased by 16% YoY, increase from all segments

Effective cost cutting

- Regular administrative expense were down 3.5% YOY
- Cost to income ratio* was 54.4% (9M13: 58.4%); Results from cost projects coming through.
- 4.8% reduction in average FTEs YoY for parent company
- Continued focus on cost control and improving operational efficiency and business process management

2

9M14

Capital buffers remain strong

3

Product development in line with customer preferences

- The Bank introduced housing loans for first time buyers with better terms and higher LTV
- 45,000 thousand customers have downloaded our mobile APP. The first bank in Iceland to allow customers to view their investment portfolio with an APP

5

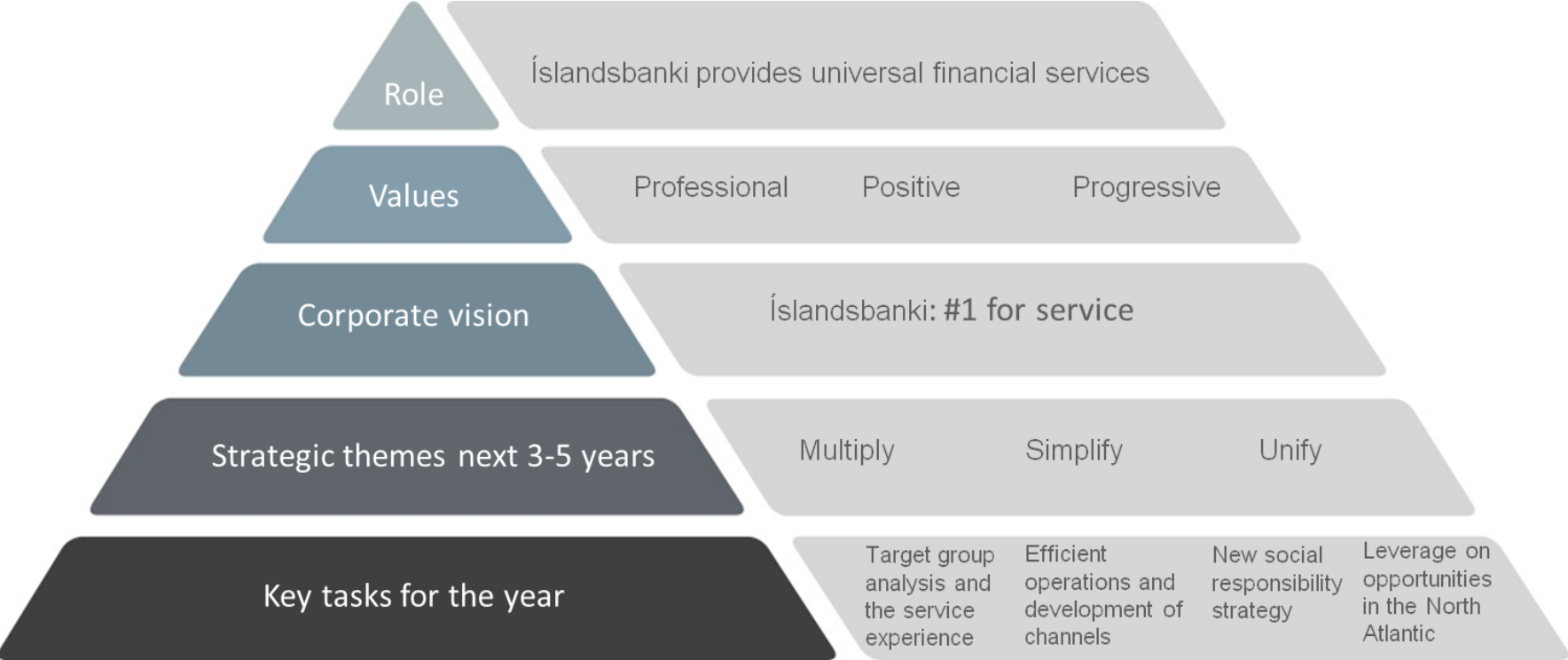
Rating outlook positive and improved terms on FX issues

- The Bank's BB+/B rating affirmed, with outlook changed from stable to positive in October
- First Euro-issue of EUR 100m senior unsecured bond
- Terms show continued improvement since SEK 500m issue at 400bp over STIBOR and SEK 300m tap issue at 330bp
- Largest issuer of covered bonds in Iceland

4

Íslandsbanki's strategy pyramid

The strategy in a nutshell



Strategic themes next 3-5 years

Formulate the Bank's medium-term strategy and support its corporate vision



Multiply

- We build relationships with our key customers and defined target groups
- We emphasise employee collaboration across departments and divisions
- We analyse data and information to meet our customers' needs more effectively

.... this is how we create more value

Simplify

- We streamline processes and operations through constant improvements
- We offer products and services in an innovative, economical way
- We improve our customers' experience and offer them services through the channel suited to them

.... this is how we simplify our lives

Unify

- We make a positive impact on society and the environment
- We emphasise healthy operations based on sound business practices
- We offer a positive, constructive work environment

.... this is how we exert positive influence

Bank of the year, two years in a row

Euromoney has awarded Íslandsbanki as the best bank and the best investment bank in Iceland



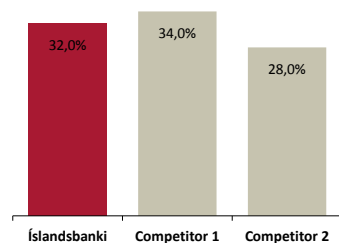
Best Bank in Iceland &
Best Investment Bank
in Iceland

- Annually Euromoney awards the best banks in nearly 100 countries with the Awards for Excellence
- The magazine considered several factors in its assessment of the Icelandic banks, including return on equity, quality of the loan portfolio, performance optimisation and market share in different business segments

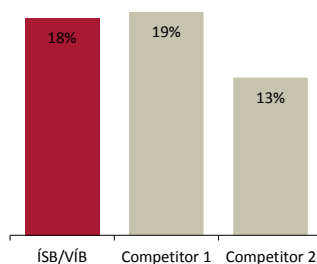
Leading market shares in key segments

Considered the most professional bank - opportunity to transform positive market perception to market share

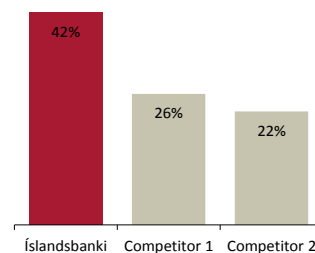
Which bank is the leading bank for individuals?



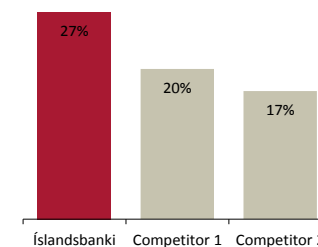
Who is your first choice for asset management?



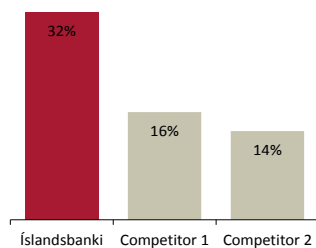
Which bank is most professional for SMEs?



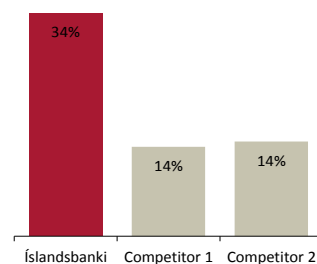
Which bank best serves SMEs?



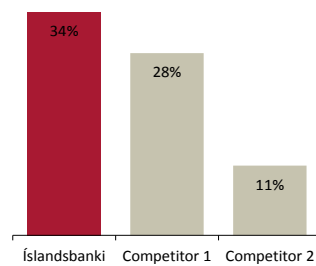
Which bank is the leading bank for large corporates?



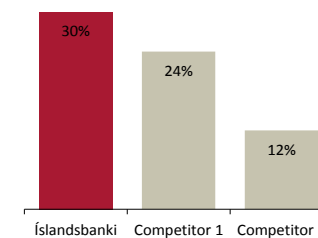
Which corporate bank is overall the most professional?



Which bank is the leading bank in investment banking?



Which bank is the leading bank in corporate finance?



Overview

Key figures & ratios

		9M14	9M13	3Q14	3Q13	FY13
PROFITABILITY	ROE (after tax), %	13.8%	13.4%	7.9%	10.6%	14.7%
	ROE on normalized equity (Regular operations)*	13.1%	11.8%	14.4%	14.7%	10.6%
	Net interest margin (of total assets), %	3.1%	3.5%	3.1%	3.5%	3.4%
	Cost to income ratio, %**	54.4%	58.4%	52.0%	50.3%	58.5%
	After tax profit, ISKm	18,190	15,397	3,535	4,189	23,069
	Earnings from regular operations, ISKm***	11,441	9,864	4,194	3,945	12,169

		30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013
CAPITAL	Total equity, ISKm	181,317	177,722	175,373	167,318	159,664
	Tier 1 capital ratio, %	26.3%	26.1%	27.0%	25.1%	23.9%
	Total capital ratio, %	29.4%	29.3%	30.3%	28.4%	27.2%

		30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013
BALANCE SHEET	Total assets, ISKm	930,969	907,531	884,043	866,009	862,533
	Risk weighted assets, ISKm	683,858	674,099	644,434	659,757	662,905
	Loans to customers, ISKm	608,328	603,697	565,952	554,741	548,537
	Total deposits, ISKm	560,509	543,415	529,772	519,019	526,220
	Total deposit / loan ratio, %	86.2%	83.7%	86.3%	86.7%	85.7%

* Return from regular operations on normalized CET1 of 14%, adjusted for risk free interest on excess capital

** Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income

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

II. Income Statement

3Q2014

Income statement

Robust earnings from regular operations supported by gains from restructuring

ISKm	9M14	9M13	3Q14	3Q13	FY13
Net interest income	20,636	21,883	7,068	7,365	28,430
Net fee and commission income	8,521	7,584	2,849	2,462	10,433
Net foreign exchange (loss) gain	50	(1,306)	352	409	(2,423)
Net financial income	965	1,865	83	315	4,612
Other net operating income	1,613	1,445	233	314	1,545
Total operating income	31,785	31,471	10,585	10,865	42,597
Salaries and related expenses	(9,811)	(9,871)	(2,930)	(2,852)	(13,361)
Other operating expenses	(6,679)	(7,752)	(2,301)	(2,355)	(12,190)
Administrative expenses	(16,490)	(17,623)	(5,231)	(5,208)	(25,551)
Impairment of goodwill	0	0	0	0	0
Depositors' and Investors Guarantee Fund	(790)	(754)	(272)	(252)	(1,016)
Bank Tax	(1,879)	(208)	(664)	(76)	(2,321)
Total operating expenses	(19,159)	(18,585)	(6,167)	(5,536)	(28,888)
Profit before impairment and net valuation changes	12,626	12,886	4,418	5,329	13,709
Loan impairment charges and net valuation changes	5,804	8,405	65	555	16,299
Profit before tax	18,430	21,291	4,483	5,884	30,008
Income tax	(4,806)	(5,365)	(1,255)	(1,570)	(7,866)
Profit for the period from continuing operations	13,624	15,926	3,228	4,314	22,142
Profit (loss) from discontinued ops. net of tax	4,566	(529)	307	(125)	927
Profit for the period	18,190	15,397	3,535	4,189	23,069

Earnings from regular operations

High ROA and ROE from regular operations show the intrinsic strength of ÍSB's core business

ISKm	9M14	9M13	3Q14	3Q13	2013
Reported after tax profit	18,190	15,398	3,535	4,189	23,069
Net valuation changes	(4,978)	(8,471)	408	(603)	(18,239)
Bank tax	1,879	208	664	76	2,321
One-off costs	(510)				1,627
Profit (loss) from discontinued ops	(4,566)	529	(307)	125	(927)
Tax impact of adjustments	1,427	2,199	(106)	157	4,319
Earnings from regular operations*	11,441	9,864	4,194	3,945	12,169
ROE (after tax)	13.8%	13.4%	7.9%	10.6%	14.7%
ROE on normalized equity (Regular operations)**	13.1%	11.8%	14.4%	14.7%	10.6%
ROA (after tax)	2.7%	2.4%	1.5%	2.0%	2.7%
ROA from regular operations (after tax)	1.7%	1.6%	1.8%	1.9%	1.4%

- Bank tax is a special tax introduced in Dec 2010. The Bank tax increased in 2013 from 0,1285% to 0,376% to fund the Government's debt relief programs. The increased taxation is assumed to be a temporary measure
- One-off costs include impairment of goodwill, a potential settlement with the competition authorities, write-down of a real estate exposure and closing of operations in the US
- Please note that the line item Loan impairment charges and net valuation change in the Income Statement, includes the collective impairment. The line item in the Regular Operations Statement above, includes only net valuation changes

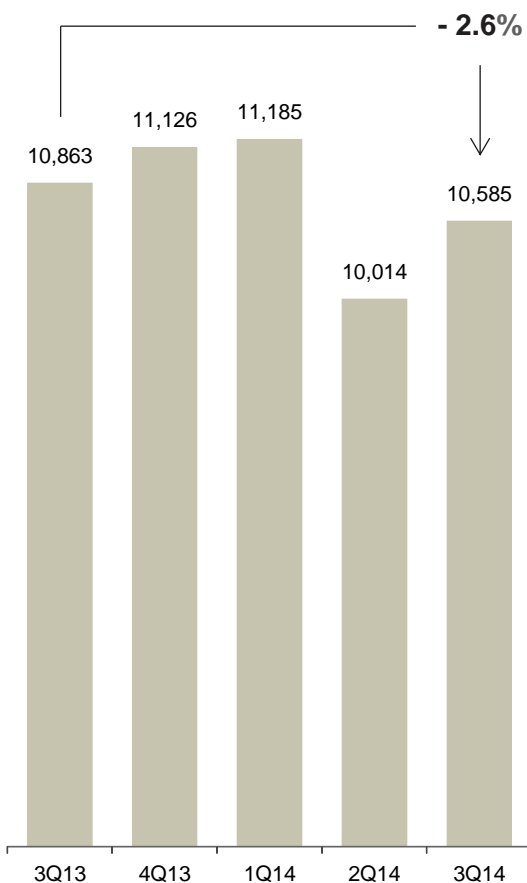
* Earnings from regular operations is defined as earnings excluding one-off items e.g. net valuation changes from the loan portfolio, fair value gain deriving from changes in accounting treatment, and the impairment of goodwill, and net earnings from discontinued operations

** Return from regular operations on normalized CET1 of 14%, adjusted for risk free interest on excess capital

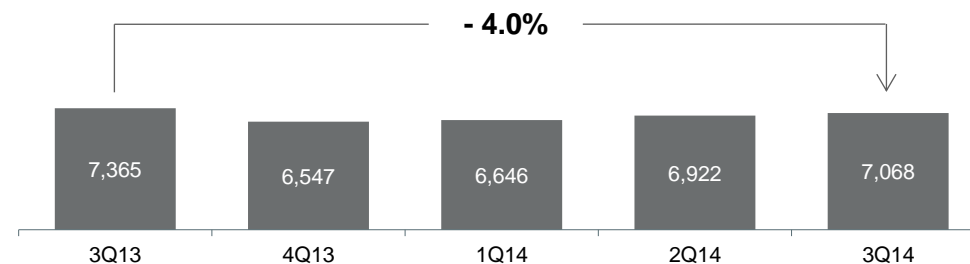
94% of operating income from NII & NFC

Stable core income and fluctuating other income continues into the 3rd quarter

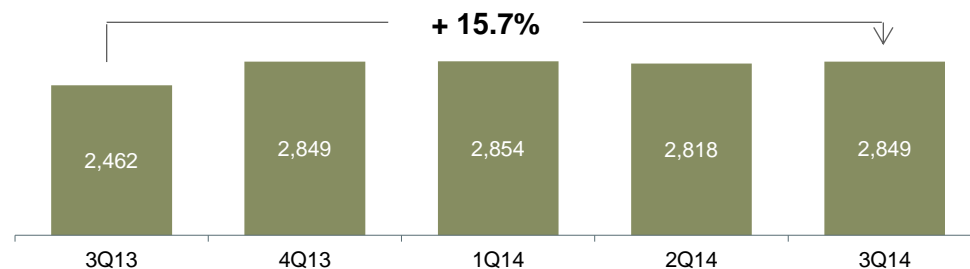
TOTAL OPERATING INCOME
ISKm



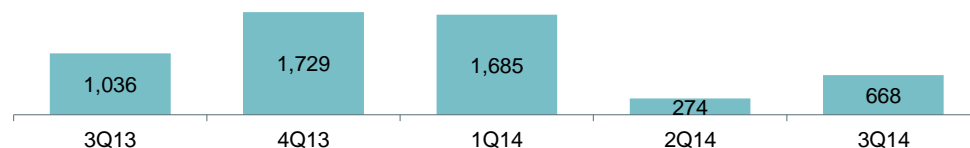
NET INTEREST INCOME (NII)
ISKm



NET FEE AND COMMISSION INCOME (NFC)
ISKm



OTHER INCOME ¹⁾
ISKm

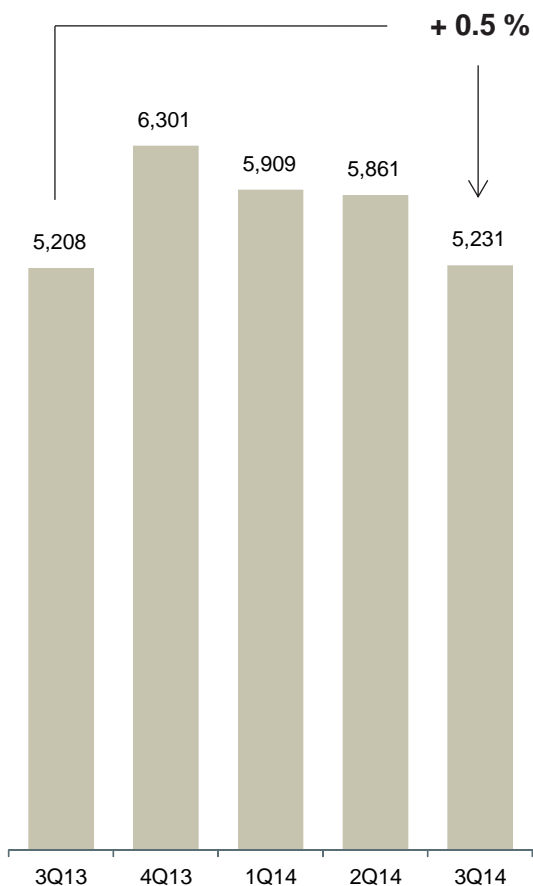


1) Note that other income includes, net foreign exchange (loss) gain, net financial income, share of profit of associates and other net operating income.

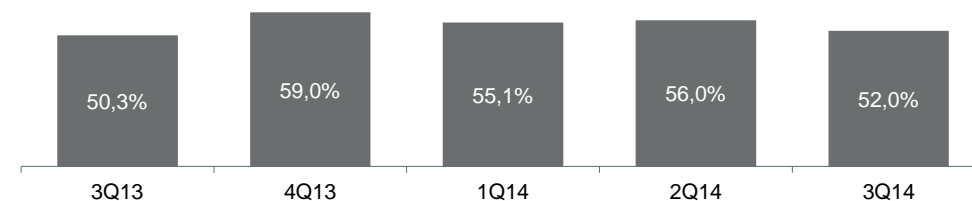
Results from cost projects coming through

Focus on lowering administrative and other operating costs

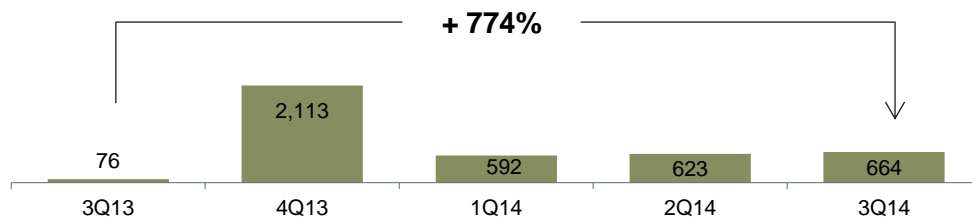
REGULAR ADMINISTRATIVE EXPENSES ¹⁾
ISKm



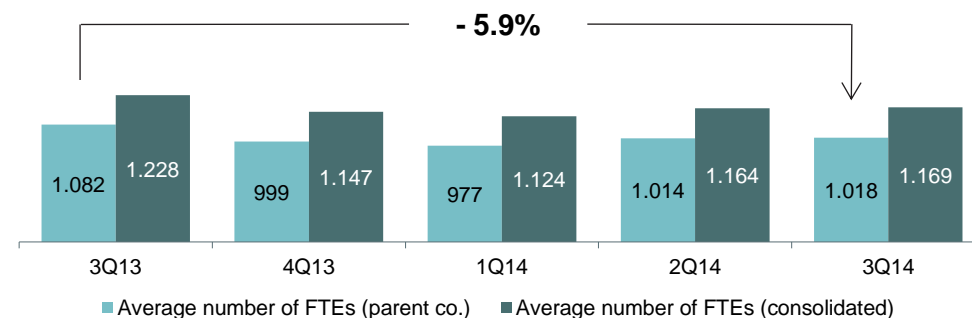
COST / INCOME RATIO ²⁾
%



BANK TAX ³⁾
ISKm



AVERAGE FTEs
Parent vs. Consolidated (excluding held for sale)



1) Excluding one-off cost

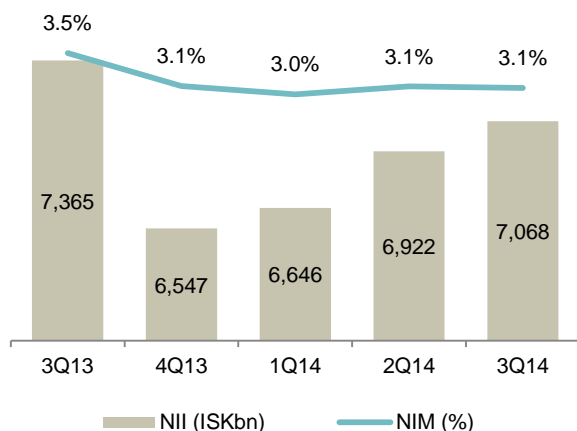
2) Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income

3) Change in legislation in Q4 2013 raised Bank tax from 0.041 on total liabilities to 0.376% in excess of 50bn

Net valuation changes and restructuring

Yearly NVC are expected to decrease going forward as financial restructuring is almost finished

NET INTEREST INCOME AND NIM

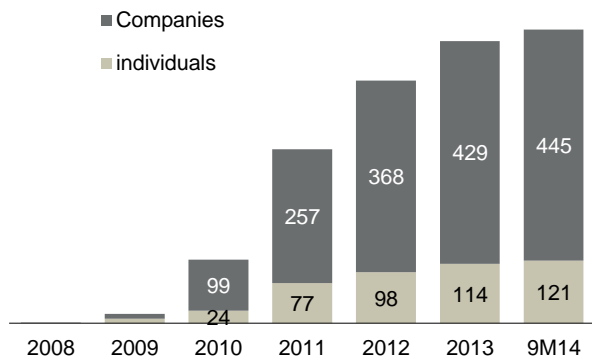


DEEP DISCOUNT AND EFFECT ON NIM

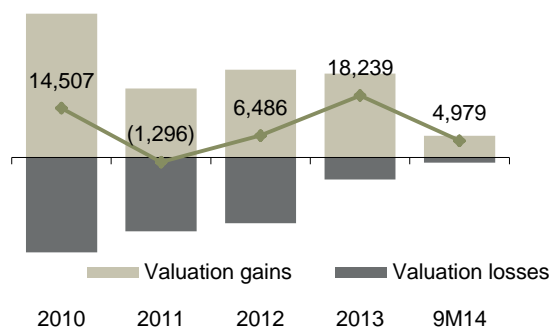
- Deep discount was initially divided into two parts:
 - *Impairment*: intended to absorb incurred and expected credit losses
 - *Discount*: intended to cover the difference between contractual interest rates and the required return, taking into account the Bank's funding cost, availability to funding and risk premium
- The restructuring has largely been completed and therefore the amortised discount is insignificant in 2014
- Net interest margin now stable at approximately 3.1%

- Loan book from Glitnir was acquired at a deep discount, or 47% - aim of internal valuation was to reflect realistic recovery
- Net valuation changes (NVC) reflect income due to positive revaluations less specific impairments
- Cumulative NVC since 2008 is positive of ISK 35bn, initial valuation has well matched actual impairment needs
- Aim of restructuring has been to transform assets into performing loans with normal term structure at market rates
- Roughly 3,600 individuals and 4,200 companies have received some form of debt relief amounting to ISK 566bn

CUMULATIVE WRITE-OFFS AND REMISSIONS ISKbn



NVC SINCE ACQUISITION ISKbn



Tax & levies paid to various institutions

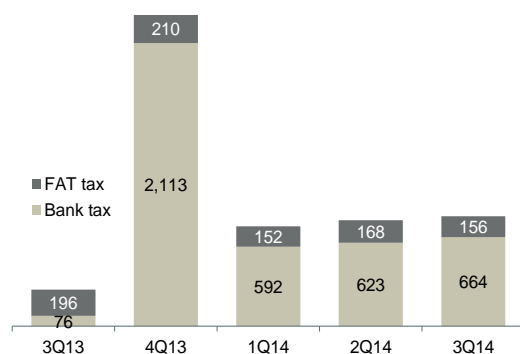
Taxation has increased considerably in recent years, there of the Bank tax is most significant

ISKm	9M14	9M13	3Q14	3Q13	2013
Income tax [*]	4,806	5,365	1,255	1,570	7,866
Bank tax ^{**}	1,879	208	664	76	2321
Financial activities tax ^{***}	476	583	156	192	778
FME and The Debtors' Ombudsman	266	332	90	105	448
Depositors' and Investors' Guarantee Fund (TIF)	790	754	272	252	1016
Total	8,216	7,242	2,437	2,195	12,429

- Taxation in general has increased considerably in recent years
- The effective income tax rate in the Bank's income statement was 26.1% for 9M14, compared to 25.2% in 9M13
- Extraordinary taxation includes a special Financial activities tax (FAT) and Bank tax
- The Financial activities tax was introduced in 2012

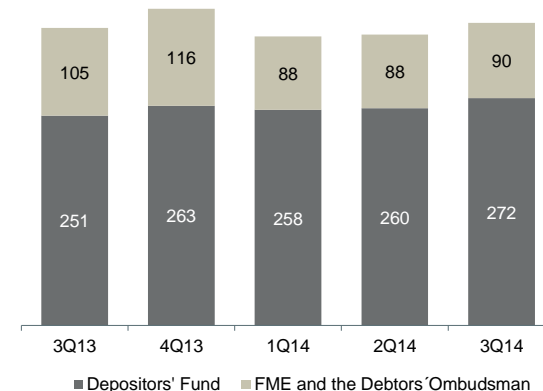
EXTRAORDINARY TAXATION

ISKm



CONTRIBUTION TO TIF, FME & OMBUDSMAN

ISKm



* Calculated at 20%. In addition, a new special financial activities tax was introduced in 2012 calculated as 6% of taxable profits above ISK 1bn.

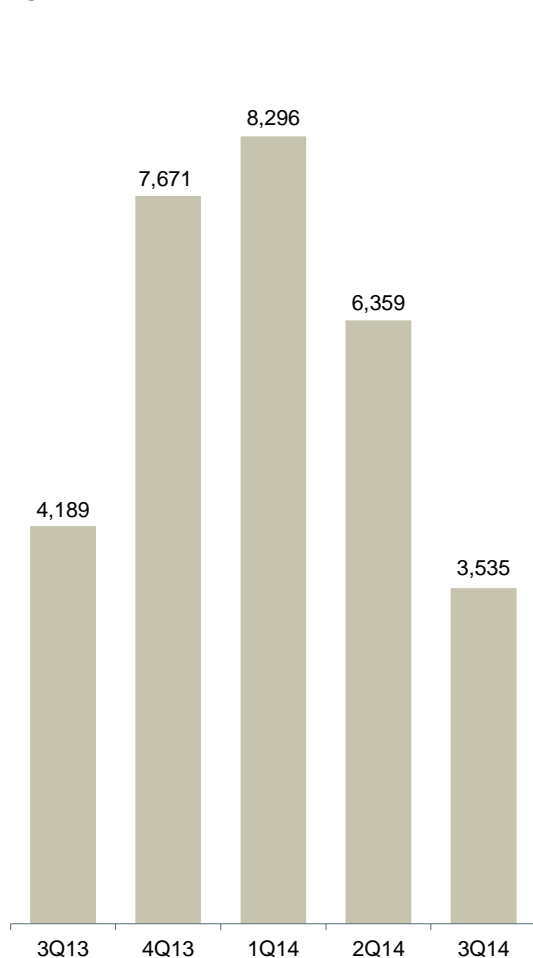
** Change in legislation in Q4 2013 raised Bank tax from 0.041 on total liabilities to 0.376% in excess of 50bn

*** 5.5% calculated on salaries in 2014. Was 6.75% in 2013

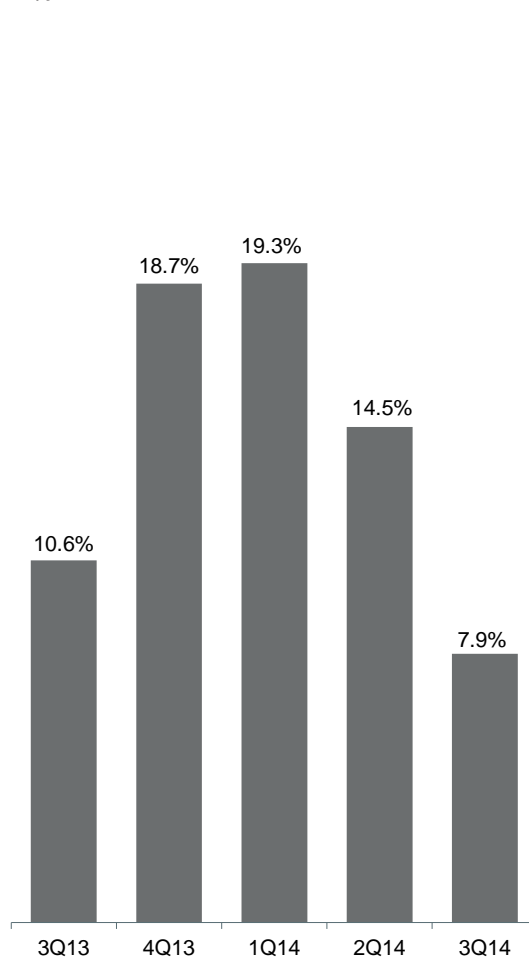
Good return despite growing equity base

ROE has remained relatively high due to irregular income and is expected to stabilise at a lower level

PROFIT AFTER TAX
ISKm



RETURN ON EQUITY
%



TOTAL EQUITY
ISKm



III. Assets & Restructuring

30.09.2014

Assets

Consolidated – 30 September 2014

ISKm	30.09.2014	30.06.2014	31.12.2013
Cash and balances with CB	135,138	128,135	111,779
Derivatives	2,165	1,348	843
Bonds and debt instruments	86,007	72,380	75,186
Shares and equity instruments	10,884	12,006	9,208
Loans to credit institutions	41,720	45,334	44,078
Loans to customers	608,328	603,697	554,741
Investment in associates	797	1,583	1,563
Property and equipment	8,129	8,610	8,772
Intangible assets	339	357	299
Deferred tax assets	694	981	1,275
Non-current assets held for sale	22,897	23,996	47,106
Other assets	13,871	9,104	11,159
Total assets	930,969	907,531	866,009

Liquid assets

- The three line items, Cash and balances with CB, Bonds and debt instruments, and Loans to credit institutions, amount to about ISK 263bn, whereby ISK 246bn are considered to be liquid assets

Bonds and debt instruments

- Mainly G5 government bonds in the Bank's liquidity portfolio

Shares and equity instruments

- decrease as a result of fair value changes on equity portfolio

Loans to credit institutions

- Part of liquidity portfolio placed with well ranked banks outside of Iceland

Loans to customers

- 10% growth since YE13 despite repayments continuing to be high

Non current assets held for sale

- Significant reduction in non-current assets held for sale since YE13 due to sale of real estate companies owned by the Bank
- Loans to these companies, which were previously eliminated when they were subsidiaries of the Bank, are now part of loans to customers

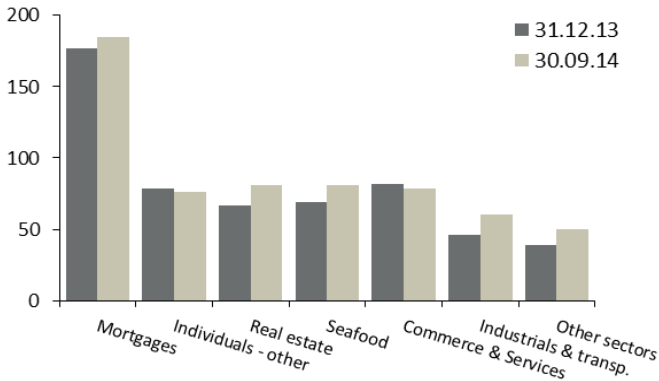
Other assets

- Includes unsettled securities transactions. The date of settling fluctuates month by month and largely causing the difference between quarters

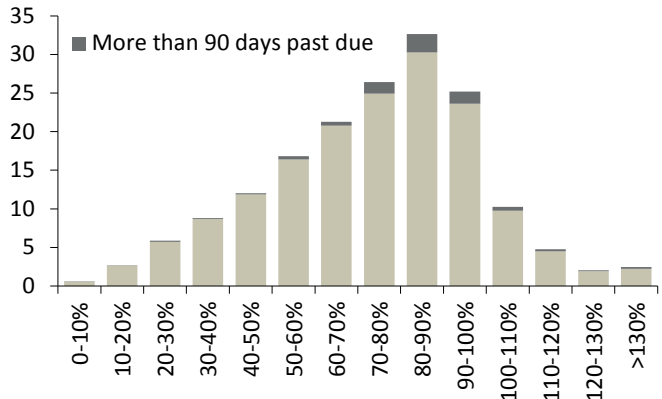
Good sector diversification of loan portfolio

Conversion of FX loans to customers with ISK revenue now completed

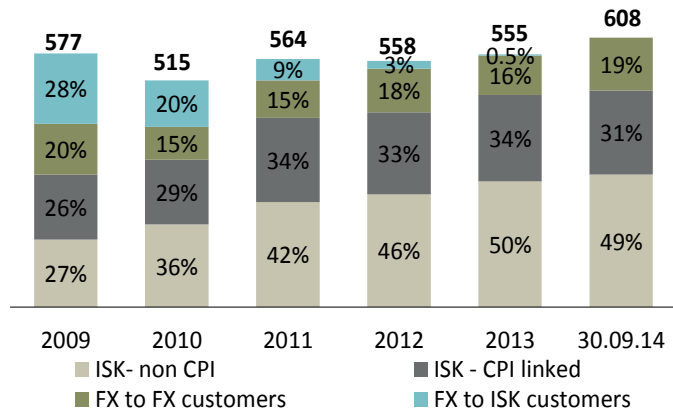
LOANS TO CUSTOMERS
ISKbn, by sector, consolidated



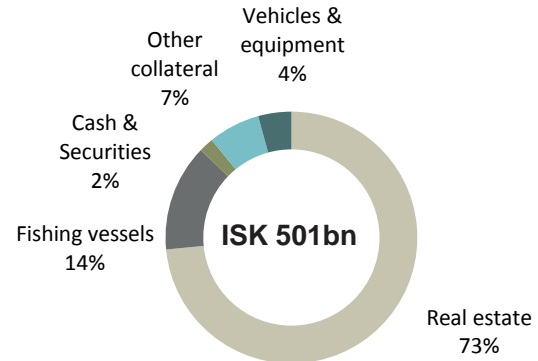
LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS
ISKbn, consolidated as of 30.09.14 – average decreased from 79% to 74%*



LOANS TO CUSTOMERS
ISK bn, % by currency, consolidated



LOANS COVERED BY COLLATERAL
% by collateral, consolidated as of 30.09.2014



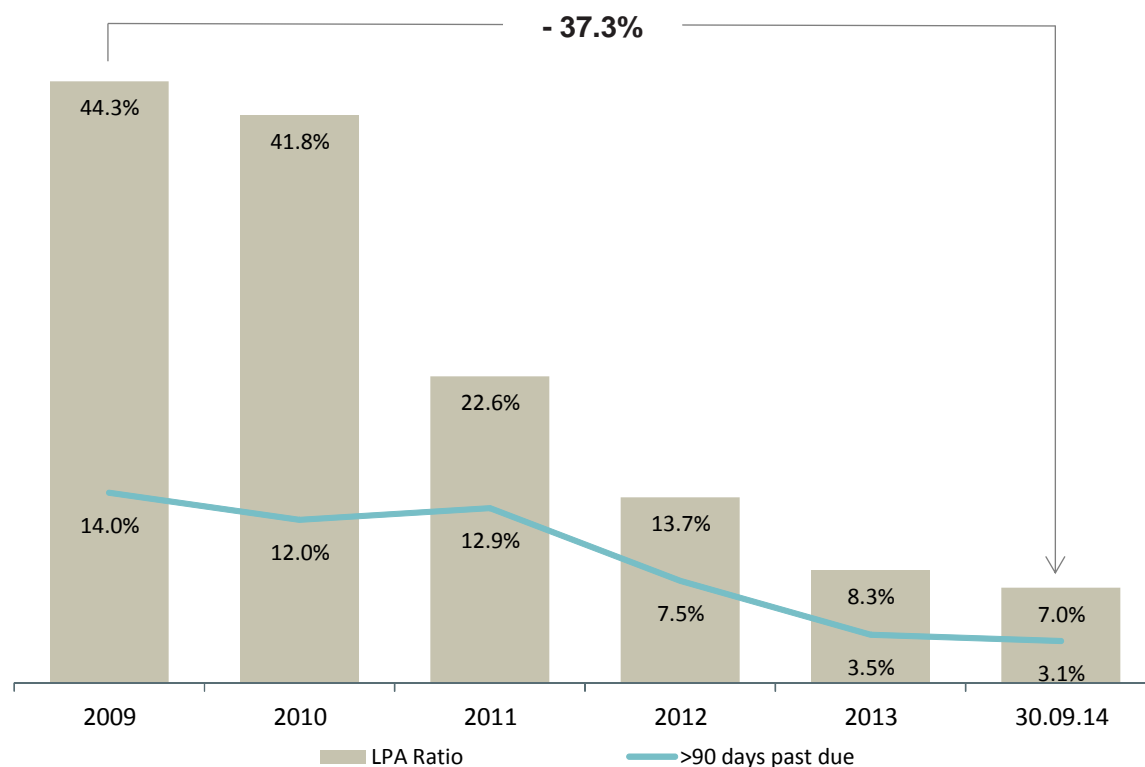
* The weight is Íslandsbanki's total amount outstanding on the property and the LTV used is the maximum LTV of all Íslandsbanki's loans of the property. The calculation is based on tax value. Please note that the average LTV can be calculated in many different ways and therefore the definition is important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

Restructuring on track

Successful transformation of loan portfolio

LOAN PORTFOLIO ANALYSIS

LPA (proportion of loans in restructuring, % book value) and 90 days past due (% book value)



- LPA ratio measures the progress of restructuring and was 7.0% at 30.09.2014
- At YE13, LPA for Íslandsbanki was 8.3%, compared to the 12.5% average for the three large banks
- LPA is an Iceland-specific credit quality measure defined on the obligor level (cross default)
- Loans more than 90 days past due at 3.1% at 30.09.14

IV. Liabilities, Liquidity & Capitalisation

30.09.2014

Liabilities

Consolidated - 30 September 2014

ISKm	30.09.2014	30.06.2014	31.12.2013
Derivatives and short positions	8,118	8,288	11,176
Deposits from CB and credit inst.	24,405	23,287	29,689
Deposits from customers	536,104	520,128	489,331
Debt issued and other borrowings	97,714	100,249	89,193
Subordinated loans	21,089	21,278	21,890
Tax liabilities	14,103	13,554	10,826
Non-current liabilities held for sale	3,565	3,483	9,456
Other liabilities	44,554	39,542	37,130
Total liabilities	749,652	729,809	698,691
Total equity	181,317	177,722	167,318
Total liabilities and equity	930,969	907,531	866,009

Deposits

- Customer deposits remain stable with deposit to loan ratio of 86.2%

Debt issued and other borrowings

- ISK 26.7bn bond issued to the Central Bank secured on a pool of mortgages
- ISK 30.5bn covered bonds (listed)
- ISK 4.6bn commercial paper (BOE)
- ISK 28.7bn foreign currency denominated issues

Subordinated loans

- EUR 139m denominated Tier 2 issue

Other liabilities

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

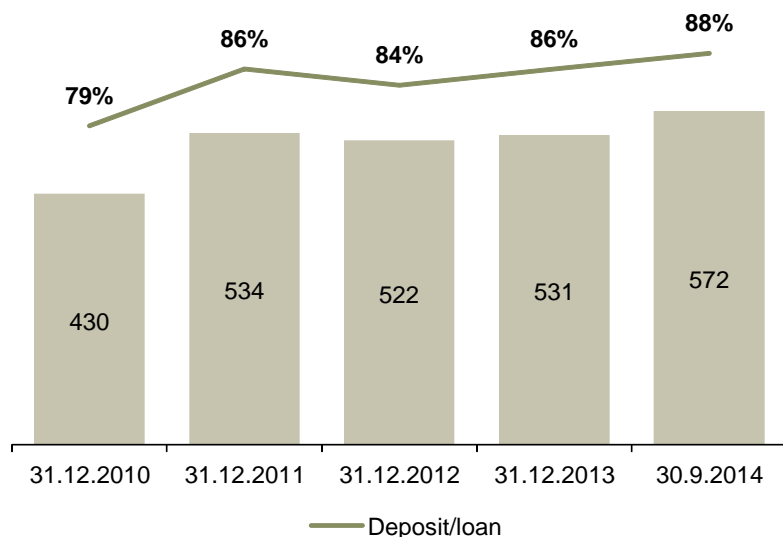
Equity

- Total equity was up 8.4% since YE13 and 14% YoY

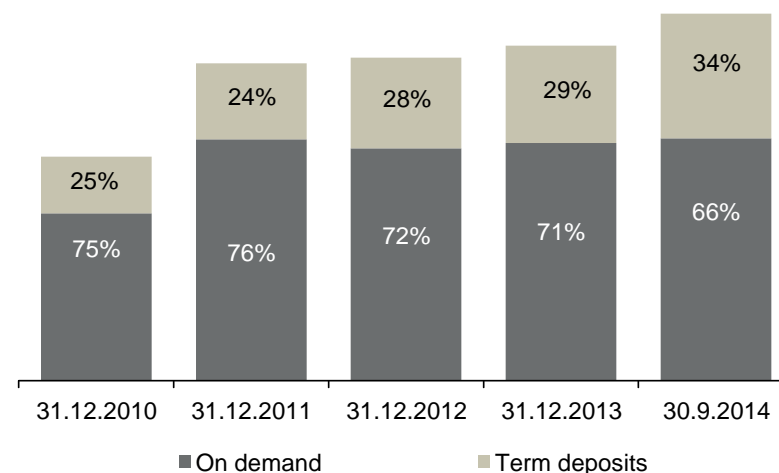
Deposits remain a stable source of funding

Deposits have remained fairly stable since the acquisition of Byr in 2011

DEPOSIT DEVELOPMENT AND DEPOSIT RATIO
ISK bn, parent company



DEPOSITS FROM CUSTOMERS
ISK bn, parent company



Stable deposit base

- Deposit to loan ratio is stable, may decrease somewhat as more investment opportunities arise in domestic market
- Deposits remain the main funding source for the Bank
- Core deposits are stable while some fluctuations are mainly due to less sticky deposits from financial institutions

Increased focus on term deposits

- The Bank has put emphasis on introducing new term deposit products parallel to the adoption of the LCR ratio
- Focus on notice accounts and fixed interest accounts
- Customer term deposits now exceed 30% of total deposits

Diversification of funding continues

Successful issues in SEK and EUR and a BB+/B rating with positive outlook from S&P

Domestic bonds

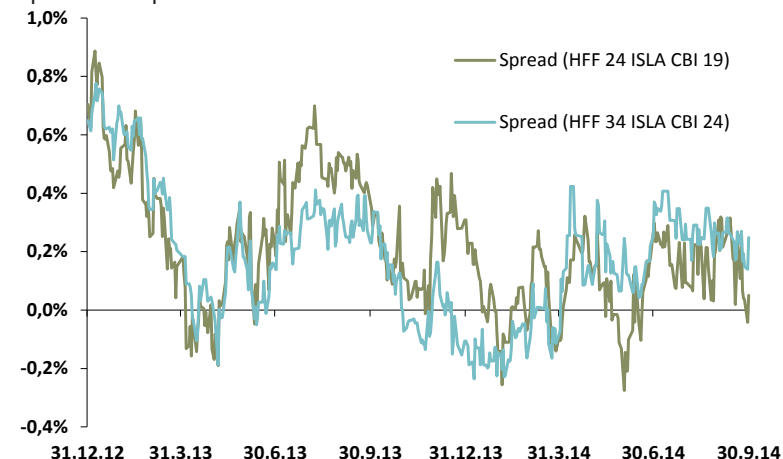
- Covered bond issue to continue at a pace of ISK 10bn annually
 - Total outstanding covered bonds amount to ISK 30bn
- Regular issuer of short-term listed bonds (commercial paper)
 - Total outstanding commercial paper amounts to ISK 6.4bn
 - Íslandsbanki issues commercial paper on a monthly basis with maturities of up to 6 months
- Encumbrance relatively low with pledged assets as a percentage of balance sheet at 10%

International funding

- The Bank's S&P BB+/B rating with stable outlook was affirmed and revised to positive outlook in October.
- First EUR-denominated bond issued in May of EUR 100m
- Inaugural FX issue in December 2013 of SEK 500m senior unsecured bond, followed by a SEK 300m tap in March
- Terms continue to improve, with December issue at 3 month Stibor + 400bp and March tap tightening to 330bp
- Listed on the Irish Stock Exchange
- Bonds were issued under Íslandsbanki's USD 750m Global Medium Term Note (GMTN) which enables Íslandsbanki to issue bonds in a broad range of currencies at fixed or floating interest rates

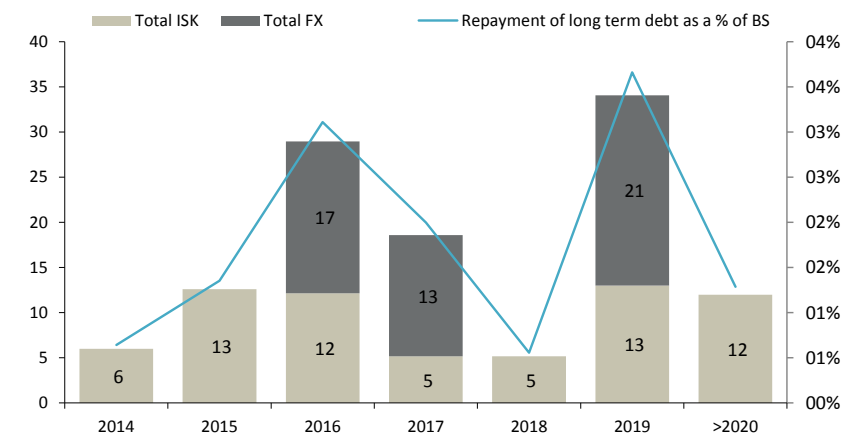
COVERED BONDS PERFORMING WELL IN AFTERMARKET

Spread on top of HFF bonds



MATURITY PROFILE OF LONG-TERM DEBT*

30.09.2014, ISKbn



*Excluding off-balance sheet items

Imbalances

Strategic FX position

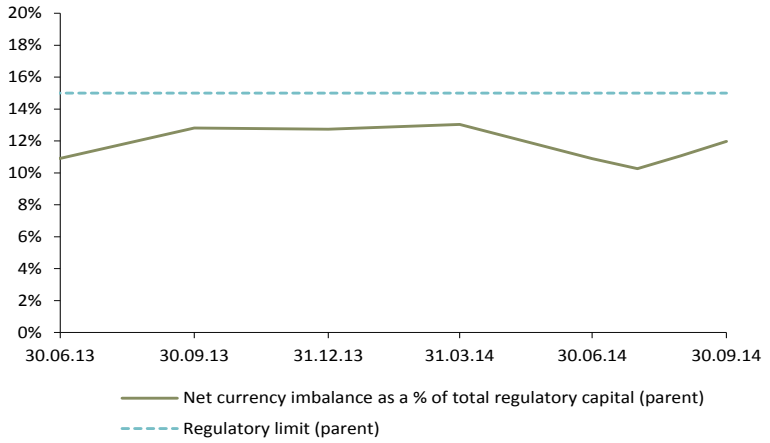
CURRENCY IMBALANCE (FX RISK)

- Regulatory requirement is that the currency imbalance (total long or short) must be less than 15% of regulatory capital
- Volatility in balances due to revaluations and recalculations of loans, has decreased over time

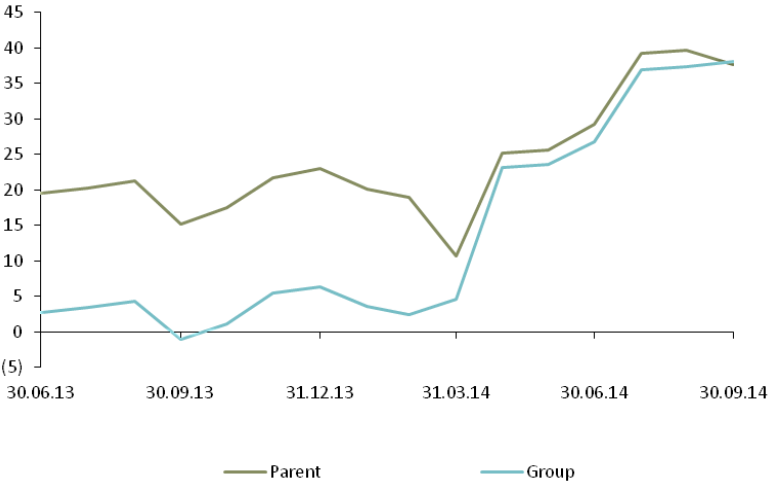
INFLATION IMBALANCE (CPI RISK)

- The Bank seeks to manage the CPI gap within a moderate range to prevent large fluctuations in operating income
- In general, fluctuations in the imbalance are largely explained by changes in the loan portfolio where offsetting funding measures often come with a lag
- Increase in the imbalance over the period also due to a smaller extent to a partial prepayment on a bond owed to the Iceland Central Bank

FX GAP
% of total regulatory capital



CPI GAP
ISKbn



Sound management of liquidity

Liquid assets of ISK 234bn exceed internal and external requirements

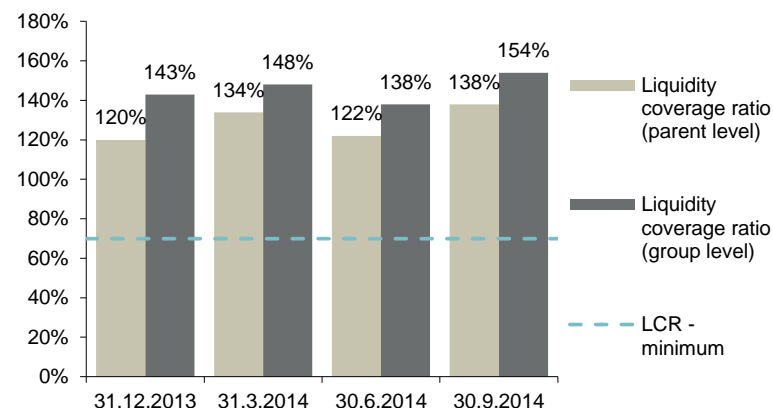
LIQUIDITY BACK-UP / DEPOSIT COVERAGE RATIO

30.09.14, parent company, ISKbn

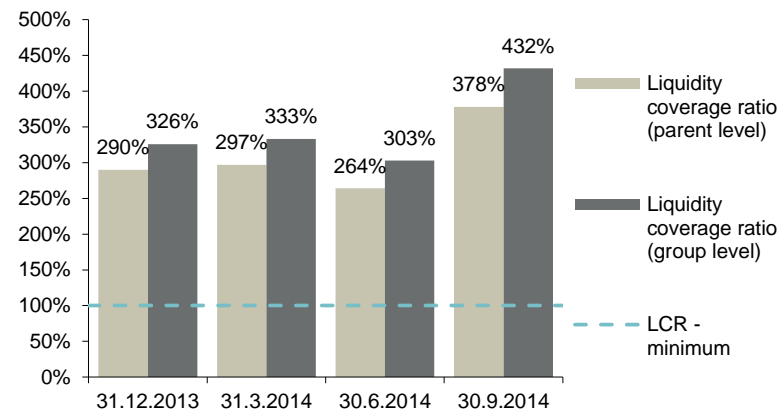
Asset type	ISK	FX	Total
Cash and balances with CB	122	1	123
Balances with credit institutions	-	39	39
Repo eligible bonds	28	-	28
Foreign government bonds	-	44	44
Total	150	84	234
Total depositis, parent company	481	91	572
Liquid assets to total deposits	31%	93%	41%

- All liquidity measures well above regulatory requirements
- FX liquid assets:
 - FX Government bonds have a minimum requirement of AA rating
 - FX cash placed with highly rated correspondent banks
- The LCR was 138% at end of September compared to the Icelandic regulatory limit of 70% as of 01.01.2014
- The corresponding LCR in foreign currency (FX LCR) was 378% at end of September, compared to the regulatory limit of 100% as of 01.01.2014

LIQUIDITY COVERAGE RATIO – ALL CURRENCIES



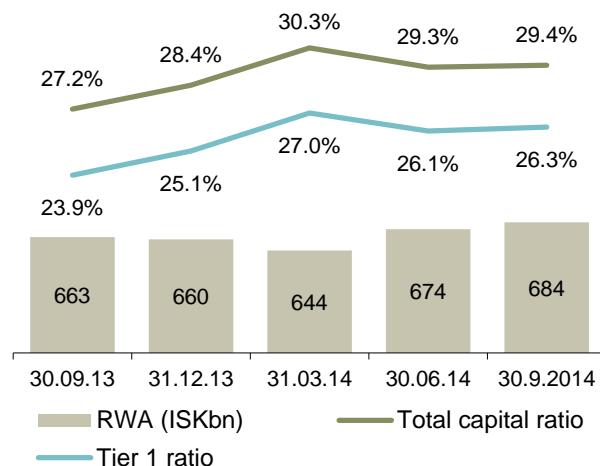
LIQUIDITY COVERAGE RATIO – FOREIGN CURRENCIES



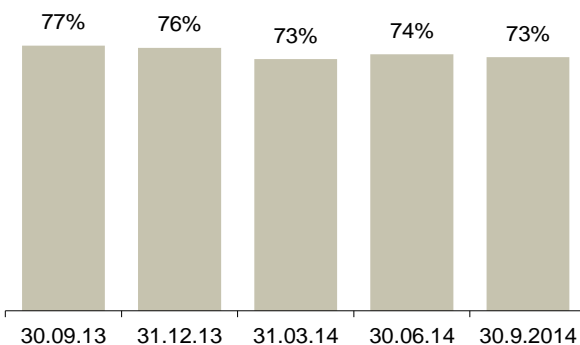
Sound capital position

Slight increase in risk weighted assets due to increase in loans to customers

CAPITAL RATIOS AND RWA



RATIO OF RWA TO TOTAL ASSETS



Capital ratios

- Total capital base was ISK 200bn at 30.09.2014 compared to ISK 187bn at 31.12.2013
 - The increase over the period is mainly explained by retained earnings, offset by the dividend payment in the first half of 2014
- Board of Directors has approved a long term total capital target of minimum 18%, and a Tier 1 ratio target of 14%
- The Bank is well prepared for the upcoming regulatory changes relating to Basel III
- Leverage ratio was at 20.2% at the end of the period, which is high in a global comparison

Risk weighted assets (RWA)

- A slight increase in RWA in the last quarter
 - Mainly due to increase in loans to customers

Dividends

- The Board of Directors has approved a long term dividend payout target ratio of 40 - 50% of net profit
- The Annual General Meeting following the FY13 results, agreed to a dividend payment of ISK 4bn, or 17% of net profit (ISK 0.40 per share) compared to a dividend payment of ISK 3bn in 2012

5 key messages

A stable performance, with healthy earnings from regular operations

1

NFC in 3Q14 is up 15.7% QoQ (9M14: 12.4%) and earnings from regular operations increased by 6.3% (9M14: 16%)

2

Other operating expenses decreased by ISK 78m in 3Q14 or 2.7% YOY (9M14: 3.5%), rendering a cost/income ratio of 54.4% (9M14: 52%)

3

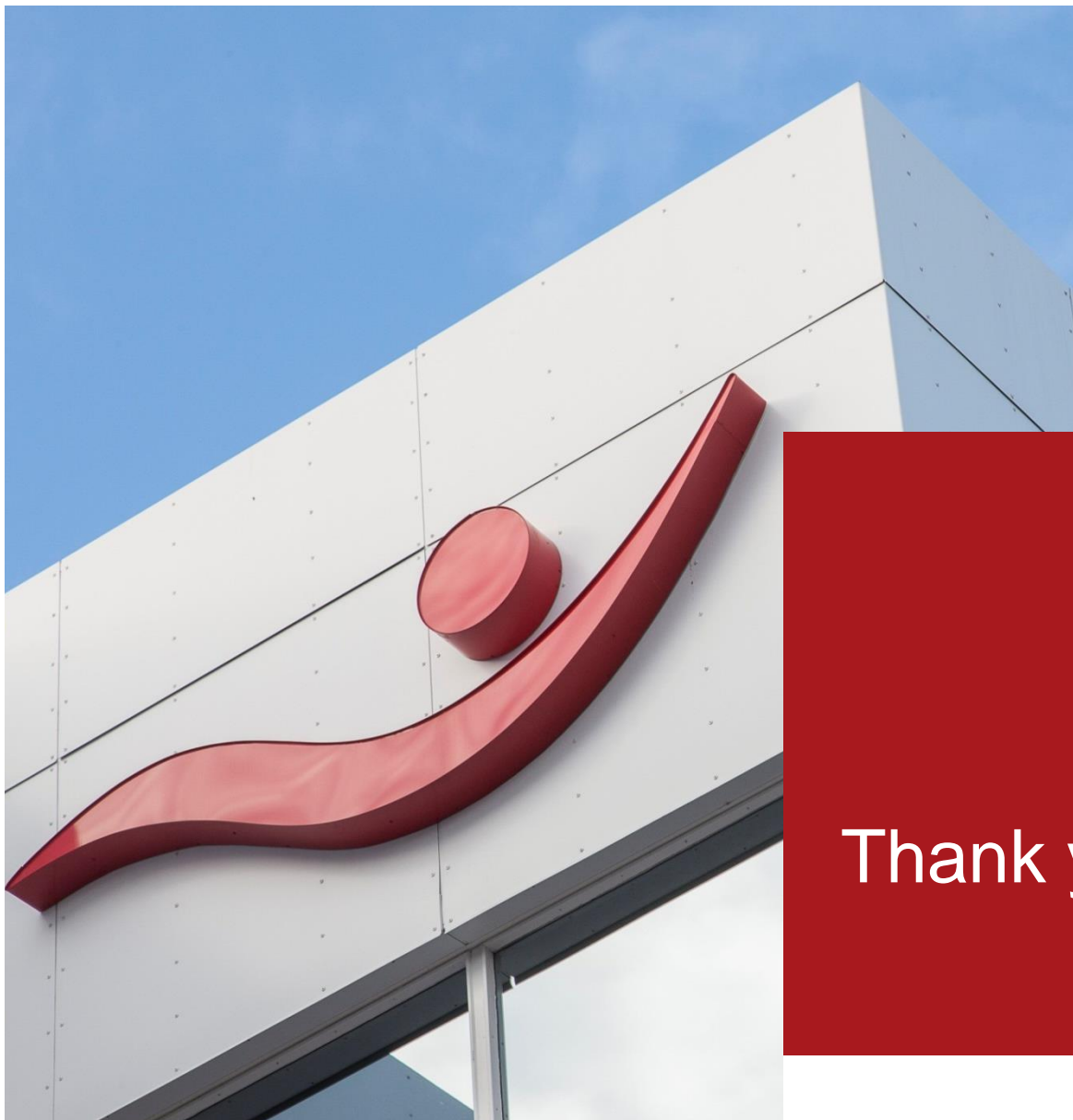
Total capital ratio and Tier 1 remain sound at 30.3% and 27.0 % respectively

4

Product development in line with customers preference; Housing loans for first time buyers and the Bank's APP

5

The Bank's S&P BB+/B rating with stable outlook was revised to positive outlook



Thank you