

CONSOLIDATED INTERIM FINANCIAL STATEMENTS 3Q14 and 9M14

HIGHLIGHTS

9M14

- Profit after tax was ISK 18.2bn in 9M14 (9M13: ISK 15.4bn)
- Return on equity was 13.8% in 9M14 (9M13: 13.4%). This improvement in 9M is despite the equity base increasing 14% YoY from 160bn to 181bn.
- Net interest income amounted to ISK 20.6bn in 9M14 (9M13: ISK 21.9bn).
- Net fee and commission income was 8.5bn in 9M14 (9M13: 7.6bn). This increase can mainly be attributed to Retail, Markets, Wealth and fee generating subsidiaries.
- Cost to income ratio was 54.4% (9M13: 58.4%); Results from cost projects coming through.
- Total capital ratio remains strong at 29.4% (YE13: 28.4%), and Core Tier 1 ratio was 26.3% (YE13: 25.1%).
- LPA ratio was 7.0% (YE13: 8.3%). Ratio of loans more than 90 days past due was 3.1% (YE13: 3.5%).
- Total assets were ISK 931bn (YE13: ISK 866bn) a 7.5% growth since YE13

3Q14

- Profit after tax was ISK 3.5bn in 3Q14 (3Q13: ISK 4.2bn)
- Return on equity was 7.9% in the quarter (3Q13: 10.6%)
- Net interest income amounted to ISK 7.1bn in 3Q14 (3Q13: ISK 7.4bn). The net interest margin was 3.1% in 3Q14 (3Q13: 3.5%) and is now at expected long term level.
- Net fee and commission income was ISK 2.8bn in 3Q14 (3Q13: ISK 2.5bn) a 16% increase.
- Total assets were ISK 931bn (Jun14: ISK 908bn) or 3% growth.
- Total deposits increased to ISK 561bn (Jun14: ISK 543bn), due to normal fluctuation in deposits from customers and credit institutions.

Birna Einarsdóttir, Chief Executive Officer of Íslandsbanki:

"I am pleased with the results for the first nine months of the year which are in line with expectations. It will, however, continue to be challenging to strengthen the core operations through cost reduction and increased revenue growth. We have focused on increasing operational efficiency, achieving a 6.4% reduction in administrative expenses year on year. Loans to customers have increased by ISK 54 billion this year.

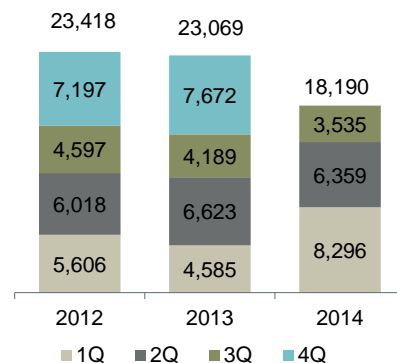
Íslandsbanki has always been strong in product development and is responsive to customer needs. Good example of this is the first-time-buyer loan we announced during the quarter, a housing loan on better terms for those who are taking their first step on the housing ladder. We are also constantly developing the App and see a 100% increase in the number of transactions from the beginning of the year, and 45,000 customers have now downloaded it.

It is estimated that about 5,000 of the Banks' customers are entitled to the debt relief program for CPI linked mortgages that the Icelandic government is implementing. This program is funded through a special bank tax, and the estimated payment this year is ISK 2.4 billion. It is important that this temporary tax remains just that - temporary. Increased taxation harms Icelandic banks very directly, allowing foreign banks a competitive advantage in lending to Iceland's largest companies."

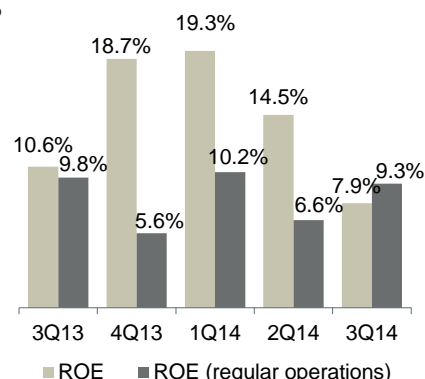
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NET PROFIT ISKm



ROE %



KEY FIGURES	30.09.14	31.12.13
Balance sheet	ISKbn	ISKbn
Total assets	931	866
Loans to customers	608	555
Total deposits	561	519
Equity	181	167
Deposit / loan ratio	92%	94%
Core Tier 1 ratio	26,3%	25,1%
Total capital ratio	29,4%	28,4%

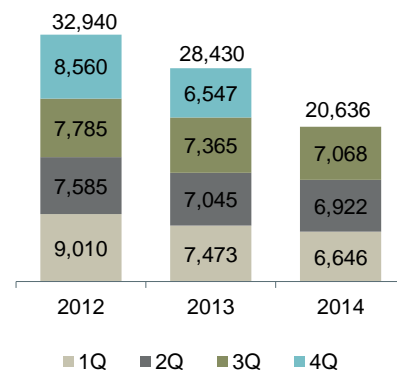
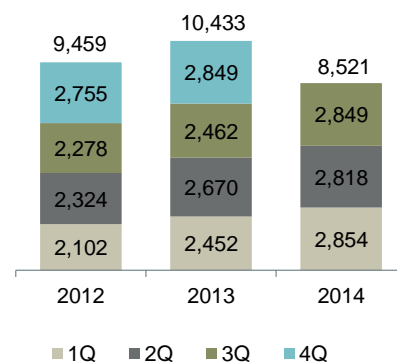
KEY FIGURES	3Q14	3Q13
Income statement	ISKbn	ISKbn
ROE	7,9%	10,6%
ROE regular operations	14,4%	14,7%
Profit after tax	3,5	4,2
Profit from reg. ops.	4,2	3,9
Cost / income ratio	52,0%	50,3%
Net interest margin	3,1%	3,5%

INCOME STATEMENT

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

INCOME

- *Total operating income* was ISK 10.6bn in 3Q14 (3Q13: ISK 10.9bn), and ISK 31.8bn in 9M14 (9M13: ISK 31.5bn).
- 94% 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 7.1bn in 3Q14 (3Q13: ISK 7.4bn).
- *Net interest margin*, calculated as the ratio of net interest income to the average carrying amount of total assets, was 3.1% (3Q13: 3.5%). NIM has reached a long term sustainable level, after being relatively high due to various factors.
- CPI imbalance amounted to ISK 38.1bn at end of September (June14: 26.8bn) 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 3Q14 (3Q13: ISK 2.5bn) a 16% increase and 8.5bn in 9M14 (9M13: 7.6bn). This increase can mainly be attributed to Retail, Markets, Wealth Management and fee generating subsidiaries.
- *Foreign exchange gain* amounted to ISK 50m in 9M14, compared to an ISK 1.3bn loss in 9M13. The net FX imbalance, amounting to ISK 22.8bn at the end of the period (Jun14: 21.7bn) is strictly monitored and is around 12.5% of equity.
- *Net financial income*, which is mainly due to fair value gains on equity amounted to ISK 83m in 3Q14 (3Q13: ISK 315m).
- *Other net operating income*, predominately derives from rental income, fees from service levels agreements and foreclosed assets, amounted to ISK 233m in 3Q14 (3Q13: ISK 314m).

NET INTEREST INCOME
ISKmNET FEE AND COMMISSION INCOME
ISKm

INCOME STATEMENT – cont. EXPENSES

- *Total operating expense* was ISK 6.2bn in 3Q14 (3Q13: ISK 5.5bn) and ISK 19.2bn 9M14 (9M13: ISK 18.6bn).
- Cost to income ratio was 52.0% (3Q13: 50.3%), 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* increased 0.4% to ISK 5.23bn (3Q13: ISK 5.20bn) which translates to 1.75% decrease 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 2.9bn in 3Q14, an increase of 2.8% YoY
- The average number of full time employees (FTEs) for the Group was 1,169 in 3Q14, a 4.8% reduction from 3Q13. Total salaries are calculated on the Group consolidated level of FTEs.
- The average number of full time employees (FTEs) for the parent was 1,018 in 3Q14, a 5.9% reduction from 3Q13.
- *Other operating expenses* decreased 2.3% YoY, or to ISK 2.3bn in 3Q14 from ISK 2.4bn in 3Q13.
- *Contributions to the Depositors' and Investors' Guarantee Fund* was ISK 272m in 3Q14 (3Q13: ISK 252m). 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 65m in 3Q14 (3Q13: ISK 555m) and total 5.8bn in 9M14 (9M13: 8.4bn).

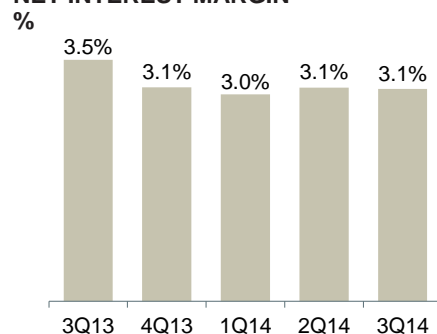
TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- Taxation has increased considerably in recent years including 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 1.3bn in 3Q14 (3Q13: ISK 1.6bn).
- *Bank tax* amounted to ISK 664m (3Q13: ISK 76m) and ISK 1.9bn 9M14 (9M13: ISK 208m). 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 156m (3Q13: 192m) and 476m in 9M14 (9M13: 583m).
- Expenses due to FME and the Debtors' Ombudsman were ISK 90m in 3Q14 (3Q13: ISK 105m) and ISK 266m in 9M14 (9M13: ISK 332m).
- Total taxes and levies paid to regulatory institutions amounted to ISK 2.4bn in 3Q14, compared to ISK 2.2bn in 3Q13; up 11% YoY.

PROFIT FROM DISCONTINUED OPERATIONS

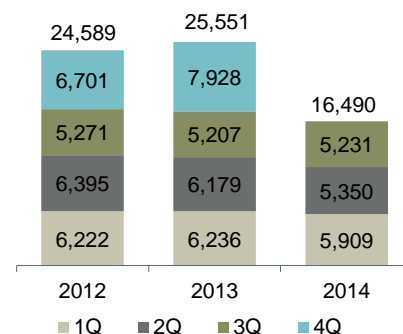
- *Profit from discontinued operations* net of tax was ISK 307m in 3Q14 (3Q13: -125m), and 4.6bn in 9M14 (9M13: -529m) The main driver of the profit during the first nine months of 2014 was the sale of non-core subsidiaries.
- Non-current assets amounted to ISK 23bn (Jun14: ISK 24bn), and has halved in 2014 (YE13: ISK 47). This is in line with the Bank's commitment to divest of assets it receives following financial restructuring.

NET INTEREST MARGIN



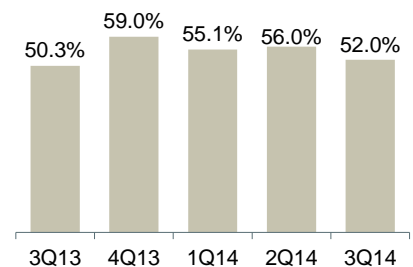
ADMINISTRATIVE EXPENSES

ISKm (exl. goodwill write-off)



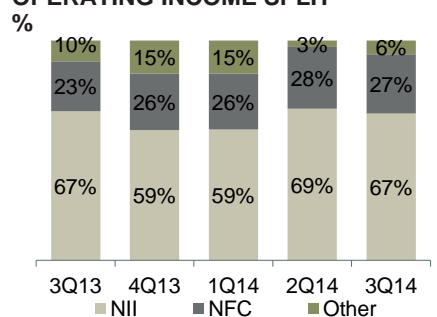
COST INCOME RATIO

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



TAX & LEVIES	3Q14	3Q13
Income statement	ISKm	ISKm
Income tax	1,255	1,570
Bank tax	664	76
Financial activities tax	156	192
FME and the Debtors' Ombudsman	90	105
Deposits' and investors' Guarantee Fund (TIF)	272	252
Total	2,437	2,195

OPERATING INCOME SPLIT

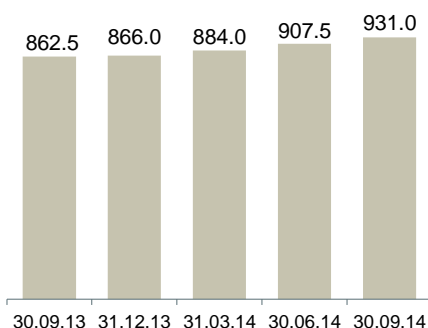


INCOME STATEMENT – cont.

PROFIT

- Profit after tax was ISK 3.5bn in 3Q14 (3Q13: ISK 4.2bn), and ISK 18.2bn in 9M14 (9M13: ISK15.4bn).
- Return on equity was 7.9% in 3Q14 (3Q13: 10.6%), and 13.8% in 9M14 (9M13: 13.4%) well above the Bank's long term target of 12% ROE. The YoY increase in year to date 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 4.2bn in 3Q14 (3Q13: ISK 3.9bn) and ISK 11.4bn in 9M14 (9M13: ISK 9.9bn). Return on equity from regular operations was 9.3% in 3Q14, compared to 9.8% in 3Q13.

ASSETS ISKbn



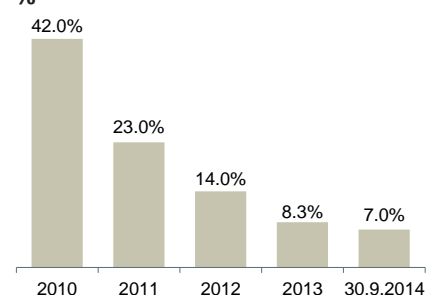
BALANCE SHEET - ASSETS

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

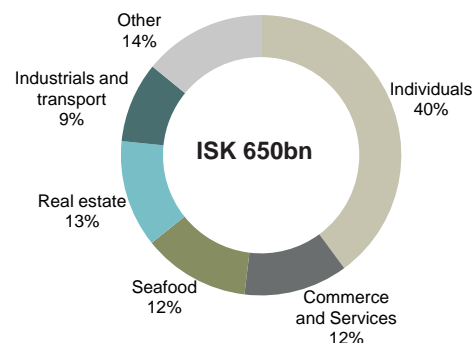
ASSETS

- Bonds and debt instruments* amounted to ISK 86bn. The portfolio consists mainly of G5 government bonds in the Bank's liquidity portfolio.
- Shares and equity instruments* amounted to ISK 11bn, down from ISK 12bn at Jun14. The change is mainly attributable to fair value losses in equity shares.
- Loans to customers* amounted to ISK 608bn (Jun14: ISK 604bn), up 1% from Jun14. Additional repayments continue 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% 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 3.1% (Jun14: 3.5%).
- Non-current assets held for sale* decreased to ISK 23bn (Jun14: ISK 24bn), down 51.4% from YE 2013.
- Total assets* amounted to ISK 931bn, compared to ISK 908bn at Jun14.

LOAN PORTFOLIO ANALYSIS (LPA) %



LOAN PORTFOLIO BY SECTOR %, at 30.09.2014



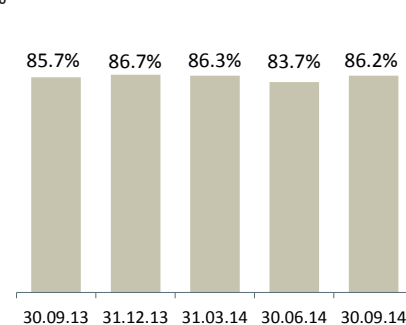
BALANCE SHEET – LIABILITIES

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

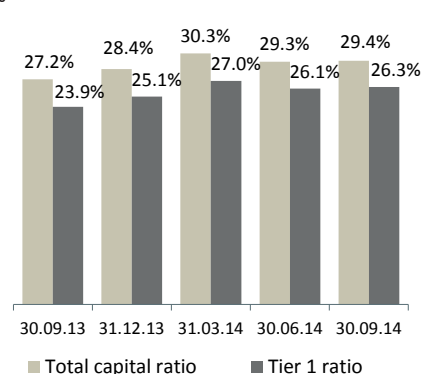
LIABILITIES AND EQUITY

- *Deposits from customers* have increased to ISK 536bn, compared to ISK 520bn at end of June 2014. Deposit to loan ratio was 86.2% (Jun14: 83.7%) and the customer deposit to customer loan ratio remained strong at 88.1% (Jun14: 86.2%).
- *Deposits from CB and credit institutions* increased to ISK 24.4bn from ISK 23.3bn at June 2014. These deposits tend to fluctuate somewhat as they are less sticky.
- *Debt issued and other borrowings* amounted to ISK 97.7bn (Jun14: ISK 100bn), down 2.5% from Jun14. Thereof, covered bonds amounted to ISK 30.5bn and commercial paper ISK 4.6bn.
- *Subordinated loans* amounted to ISK 21.1bn. This represents a Tier 2 bond of EUR 138m due in 2019.
- *Total liabilities* amounted to ISK 749.7bn (Jun14: ISK 729.8bn).
- *Total equity* was ISK 181bn (Jun14: ISK 178bn), up 2.0% from Jun14.
- Total capital ratio remains strong at 29.4% (Jun14: 29.3%), and Core Tier 1 ratio was 26.3% (Jun14: 26.1%)
- Leverage ratio was 20.2% which is high in global comparison (Jun14: 20.1%).

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 154% at Sep14, 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 2014 of EUR 100m followed by successful SEK issue in Dec13 and tap issue in Mar14.
- Terms continue to improve, with SEK Dec13 issue at 3 month Stibor + 400bp and SEK Mar14 tap tightening to 330bp.
- The Bank's S&P BB+/B rating with stable outlook was affirmed and revised to positive outlook in October 2014.
- 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.

FINANCIAL CALENDAR

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

- Silent period 14 – 24 February 2015
- 4Q14 – 24 February 2015
- 1Q15 – 13 May 2015
- 2Q15 – August 2015

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