

CONSOLIDATED FINANCIAL STATEMENTS 2014

HIGHLIGHTS

FY 2014

- Profit after tax was ISK 22.8bn in 2014 compared to ISK 23.1bn in 2013
- Return on equity was 12.8% in 2014 compared to 14.7% in 2013. Healthy return despite growing equity base.
- Total capital ratio remains strong at 29.6% (YE13 28.4%) and Core Tier 1 ratio was 26.5% (YE13: 25.1%)
- Net interest income amounted to ISK 27.1bn in 2014 (YE13 ISK 28.4bn), a decrease of 4.7%. The net interest margin was 3.0% in 2014 (2013: 3.4%) and is now at expected long term level.
- Net fee and commission income was ISK 11.5bn in 2014 (YE13: 10.4bn). This is an YoY increase of 10% and mainly attributable to Retail and fee generating subsidiaries.
- Cost to income ratio was 57.7% in 2014 (YE13: 58.5%). Cost to income-ratio excludes Bank tax and one-off cost items.
- LPA ratio was 5.9% (YE13: 8%) and remaining cases are small and will each only move the ratio marginally. Ratio of loans more than 90 days past due was 2.5% (YE13: 4%).
- Total assets amounted to ISK 911bn (Dec13: ISK 866bn).

4Q14

- Profit after tax was ISK 4.6bn in 4Q14 (4Q13: ISK 7.7bn).
- Return on equity was 9.9% in the quarter (4Q13 19.5%).
- Net interest income amounted to ISK 6.5bn in 4Q14 (4Q13 ISK 6.5bn).
- Net fee and commission income was ISK 3.0bn in 4Q14 (4Q13: ISK 2.8bn) a 4% increase.

Birna Einarsdóttir, Chief Executive Officer at Íslandsbanki:

“2014 was a good year for Íslandsbanki. We strengthened our core operations by increasing efficiency and enhancing revenue growth. Efforts to streamline the business lines have been effective with the cost from regular operations falling by 2% year on year, which is about 4% in real terms. Amongst the measures that have been taken are the merging of branches, the renegotiation of supplier contracts and a reduction in the number of employees, indeed 240 fewer than November 2011

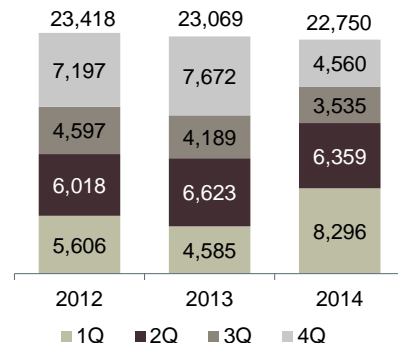
Good progress has been made in diversifying the Bank’s funding with Íslandsbanki now the largest issuer of covered bonds in Iceland. Íslandsbanki was also the first Icelandic bank to issue a Euro- denominated bond, and the outstanding SEK bond was tapped.

The Bank’s performance has attracted attention abroad with both Euromoney and The Banker awarding Íslandsbanki as the best bank in Iceland. In addition, the Bank received the highest rank of any credit institutions in the Icelandic customer satisfaction survey. This momentum has resulted in an increased market share for the Bank with the largest growth in lending since its establishment. New lending amounted to ISK 165 billion, a 80% increase on the previous year. Customer satisfaction is an essential part of a successful business, and the Bank continues to focus on providing an excellent service.”

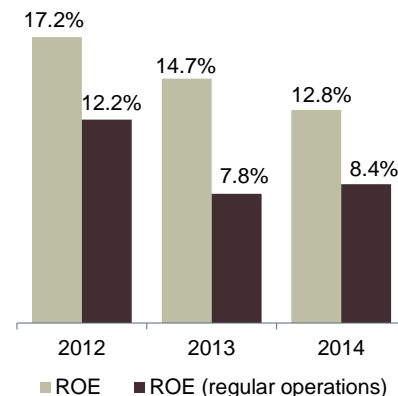
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NET PROFIT ISKm



ROE %



KEY FIGURES	31.12.14	31.12.13
Balance sheet	ISKbn	ISKbn
Total assets	911	866
Total loans	670	599
Total deposits	555	519
Equity	185	167
Deposit / loan ratio	83%	87%
Core Tier 1 ratio	26.5%	25.1%
Total capital ratio	29.6%	28.4%
Income statement	2014	2013
	ISKbn	ISKbn
ROE	12.8%	14.7%
ROE regular operations	8.4%	7.8%
Profit after tax	22.8	23.1
Profit from reg. ops.	14.8	12.2
Cost / income ratio	57.7%	58.5%
Net interest margin	3.0%	3.4%

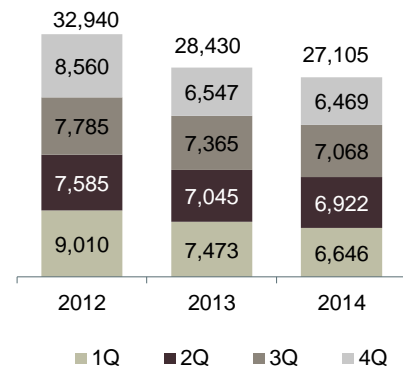
INCOME STATEMENT

ISKm	2014	2013	2012
Net interest income	27,105	28,430	32,940
Net fee and commission income	11,483	10,433	9,459
Net financial income	1,568	4,612	1,517
Net foreign exchange gain (loss)	165	(2,423)	2,737
Other operating income	2,122	1,545	996
Total operating income	42,443	42,597	47,649
Salaries and related expenses	(13,307)	(13,361)	(13,080)
Other operating expenses	(9,594)	(12,190)	(11,509)
Administrative expenses	(22,901)	(25,551)	(24,589)
Impairment of goodwill	0	0	(425)
Depositors' and Investors Guarantee Fund	(1,055)	(1,016)	(1,055)
Bank Tax	(2,444)	(2,321)	(858)
Total operating expenses	(26,400)	(28,888)	(26,927)
Profit before impairment and net valuation changes	16,043	13,709	20,722
Loan impairment charges and net valuation changes	8,810	16,299	5,710
Profit before tax	24,853	30,008	26,432
Income tax	(6,239)	(7,866)	(6,253)
Profit for the period from continuing operations	18,614	22,142	20,179
Profit (loss) from discontinued ops. net of tax	4,136	927	3,239
Profit for the period	22,750	23,069	23,418

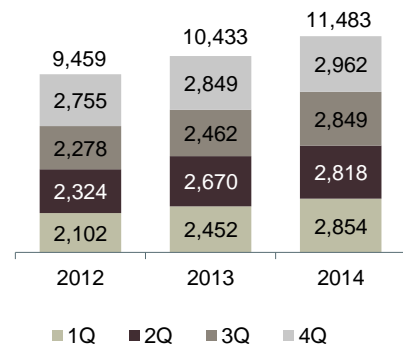
INCOME

- *Total operating income* was ISK 42.4bn in 2014 (4Q14: ISK 10.7bn) compared to 42.6bn in 2013 (4Q13: ISK 11.1bn).
- 91% of the Bank's total operating income in 2014 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 27.1bn in 2014 (4Q14: ISK 6.5bn) compared to ISK 28.4bn in 2013 (4Q13: ISK 6.5bn)
- *Net interest margin*, calculated as the ratio of net interest income to the average carrying amount of total assets, was 3.0% (4Q14: 2.8%) compared to 3.4% in 2013 (4Q13: 3.1%). NIM has reached a long term sustainable level, after being relatively high due to various factors.
- CPI imbalance amounted to ISK 57.5bn at conclusion of 2014 (2013: 6.4bn) 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 11.5bn in 2014 (4Q14: ISK 3.0bn) compared to 10.4bn in 2013 (4Q13: ISK 2.8bn). This is a YoY increase of 10% and mainly attributable to Retail and fee generating subsidiaries.
- *Foreign exchange gain* amounted to ISK 165m in 2014 (4Q14: 116m), compared to a ISK 2.4bn loss in 2013 (4Q13: -1.1bn). The net FX imbalance, which amounted to ISK 26.6bn at the end of 2014 (YE13: 23.7bn) is strictly monitored and is around 12.9% of equity.
- *Net financial income*, which is mainly due to fair value gains on equity amounted to ISK 1.6bn in 2014 (4Q14: 0.6bn) compared to ISK 4.6bn in 2013 (4Q13: 2.7bn).
- *Other operating income*, predominately rental income, fees from service agreements and foreclosed assets, amounted to ISK 2.1bn in 2014 (4Q14: 0.5bn) compared to ISK 1.5bn in 2013 (4Q13: 0.1bn).

NET INTEREST INCOME ISKm



NET FEE AND COMMISSION INCOME ISKm

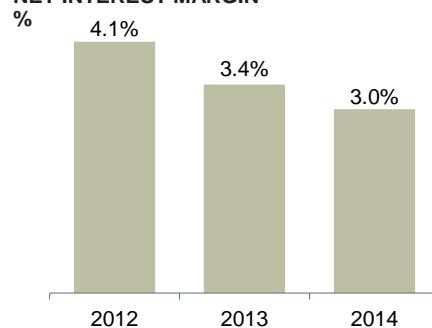


INCOME STATEMENT – cont.

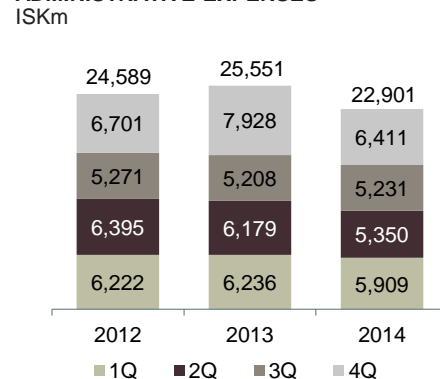
EXPENSES

- *Total operating expenses* were ISK 26.4bn in 2014 (4Q14: ISK 7.2bn) compared to ISK 28.9bn in 2013 (4Q13: ISK 10.3bn).
- Cost to income ratio was 57.7% (4Q14: 62.6%), which is marginally above the Bank's long term target of 55%. Cost to income-ratio excludes Bank tax and one-off cost items.
- *Administrative expenses* decreased by 10% YoY to ISK 22.9bn (4Q14: ISK 6.4bn) from 25.6bn in 2013 (4Q13: ISK 7.9bn) which translates to a 11.4% decrease in real terms. 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 13.3bn in 2014 (4Q14: 3.5bn), an YoY decrease of 0.4%.
- The average number of full time employees (FTEs) for the group (excluding held for sale companies) was 1,139 in 2014, a 5.2% reduction from 2013.
- *Other operating expenses* decreased by 21.3% YoY, or to ISK 9.6bn in 2014 (4Q14: 2.9bn) from ISK 12.2bn in 2013 (4Q13: 4.4bn).
- *Contributions to the Depositors' and Investors' Guarantee Fund* was ISK 1.1bn in 2014 (4Q14: ISK 0.3bn). The contribution fluctuates with total deposits and lower risk weighting 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 8.8bn in 2014 (4Q14: ISK 3.0bn) compared to 16.3bn in 2013 (4Q13: ISK 7.9bn).

NET INTEREST MARGIN



ADMINISTRATIVE EXPENSES

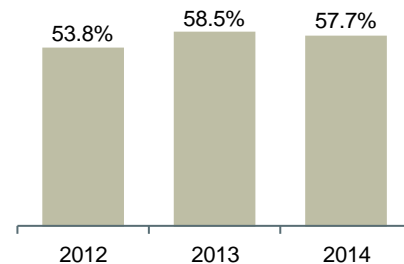


TAXES AND LEVIES PAID TO GOVERNMENT INSTITUTIONS

- 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 6.2bn in 2014 (4Q14: 1.4bn) compared to ISK 7.9bn in 2013 (4Q13: 2.5bn), which is a YoY decrease of 16.6%.
- *Bank tax* amounted to ISK 2.4bn (4Q14: ISK 0.6bn) compared to ISK 2.3bn in 2013. It is calculated as 0.376% of the previous year's total liabilities in excess of 50bn.
- Financial activities tax on salaries, now 5.5% down from 6.75% in 2013, amounted to ISK 637m in 2014 compared to 778m in 2013.
- Expenses due to FME and the Debtors' Ombudsman were ISK 354m in 2014 compared to 448m in 2013.
- Total taxes and levies paid to regulatory institutions amounted to ISK 10.7bn in 2014 compared to ISK 12.4bn in 2013; down 13.7% YoY.

COST INCOME RATIO

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

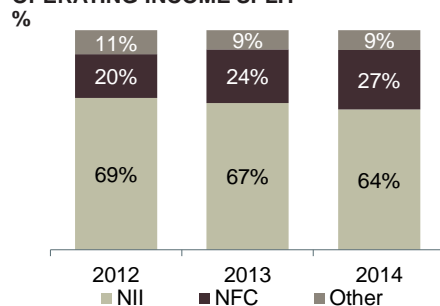


TAX & LEVIES	2014	2013
Income statement	ISKm	ISKm
Income tax	6,239	7,866
Bank tax	2,444	2,321
Financial activities tax	637	778
FME and the Debtors' Ombudsman	354	448
Deposits and investors' Guarantee Fund (TIF)	1,055	1,016
Total	10,729	12,429

PROFIT/LOSS FROM DISCONTINUED OPERATIONS

- *Profit/loss from discontinued operations* net of tax was a profit of ISK 4.1bn (4Q14: ISK -0.4bn) in 2014 compared to a profit of ISK 0.9bn in 2013 (4Q13: ISK 1.5bn). The main driver of the profit during 2014 was the sale of non-core subsidiaries.
- Non-current assets held for sale amounted to ISK 22bn at YE14 and have decreased by more than half since YE13 when they stood at ISK 47bn. This is in line with the Bank's commitment to divest assets acquired as part of financial restructuring.

OPERATING INCOME SPLIT

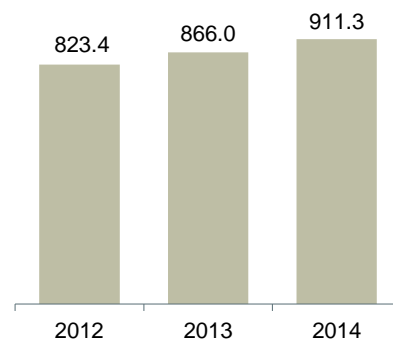


INCOME STATEMENT – cont.

PROFIT

- Profit after tax was ISK 22.8bn in 2014 (4Q14: ISK 4.6bn), compared to ISK 23.1bn in 2013 (4Q13: ISK 7.7bn).
- Return on equity was 12.8% in 2014 (4Q14: 9.9%) compared to 14.7% in 2013 (4Q13: 19.5%), well above the Bank's long term target of 12% ROE. Healthy return despite growing equity base.
- Earnings from regular operations resulted in a profit of ISK 14.8bn in 2014 (4Q14: ISK 3.4bn) an increase of 2.7bn from 2013 (4Q13: 2.3bn). Return on equity from regular operations was 8.4% in 2014.

ASSETS ISKbn



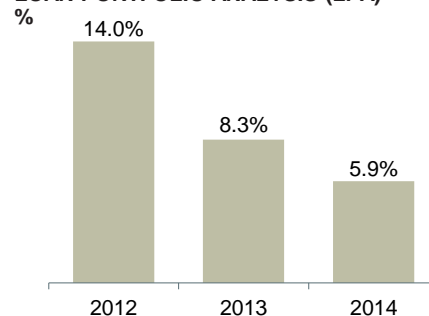
BALANCE SHEET - ASSETS

ISKm	2014	2013	2012
Cash and balances with CB	103,389	111,779	85,500
Derivatives	1,810	843	127
Bonds and debt instruments	87,347	75,186	64,035
Shares and equity instruments	10,531	9,208	10,445
Loans to credit institutions	35,072	44,078	54,043
Loans to customers	634,799	554,741	557,857
Investment in associates	570	1,563	503
Property and equipment	7,402	8,772	5,579
Intangible assets	619	299	261
Deferred tax assets	521	1,275	864
Non-current assets held for sale	21,649	47,106	39,046
Other assets	7,619	11,159	5,115
Total assets	911,328	866,009	823,375

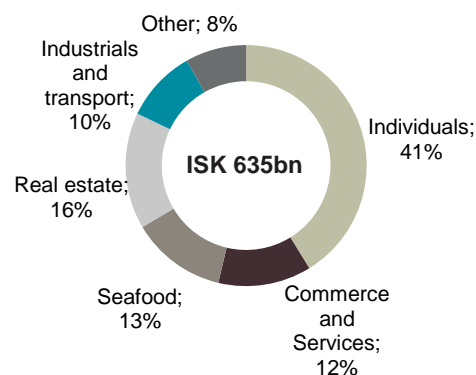
ASSETS

- Bonds and debt instruments* amounted to ISK 87bn at YE14. The portfolio consists mainly of G5 government bonds in the Bank's liquidity portfolio.
- Shares and equity instruments* amounted to ISK 11bn at YE14, an increase from ISK 9bn at YE13. The change is mainly attributable to fair value gains in equity shares.
- Loans to customers* amounted to ISK 635bn (YE13: ISK 555bn), up by 14%. New lending amounted to ISK 165bn.
- Restructuring of the loan portfolio was completed in 2014.
- Asset quality continued to improve with YE14 LPA ratio down to 5.9% from 8% at YE13. Remaining restructuring cases are smaller and will only move the ratio marginally.
- Loans more than 90 days past due date were 2.5% (YE13: 4%).
- Non-current assets held for sale* decreased to ISK 22bn (YE13: ISK 47bn), down by 54%.
- Total assets* amounted to ISK 911bn compared to ISK 866bn at YE13.

LOAN PORTFOLIO ANALYSIS (LPA)



LOAN PORTFOLIO BY SECTOR %, at 31.12.2014

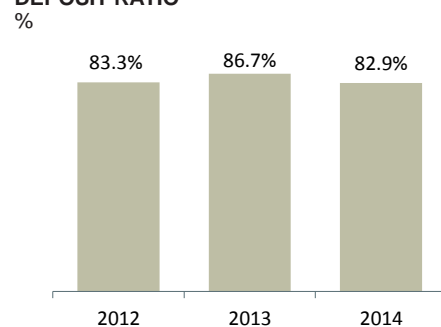


BALANCE SHEET – LIABILITIES

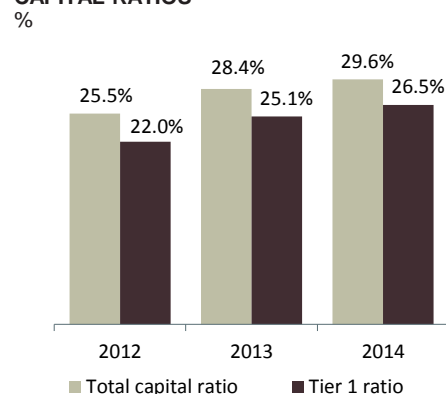
ISKm	2014	2013	2012
Derivatives and short positions	3,963	11,176	18,435
Deposits from CB and credit inst.	25,796	29,689	38,272
Deposits from customers	529,447	489,331	471,156
Debt issued and other borrowings	96,889	89,193	66,571
Subordinated loans	21,306	21,890	23,450
Tax liabilities	8,388	10,826	2,072
Non-current liabilities held for sale	2,790	9,456	6,805
Other liabilities	37,262	37,130	48,954
Total liabilities	725,841	698,691	675,715
Total equity	185,487	167,318	147,660
Total liabilities and equity	911,328	866,009	823,375

LIABILITIES AND EQUITY

- *Deposits from customers* have increased to ISK 529bn, compared to ISK 489bn at YE13. Deposit to loan ratio was 82.9% (YE13: 86.7%) and the customer deposit to customer loan ratio remained strong at 83.4% (YE13: 88.2%).
- *Debt issued and other borrowings* amounted to ISK 97bn (YE13: ISK 89bn), an increase of 7.7%. Thereof, covered bonds amounted to ISK 32bn and commercial paper ISK 4bn.
- *Subordinated loans* amounted to ISK 21bn. This represents a Tier 2 bond of EUR 138m due in 2019.
- *Total liabilities* amounted to ISK 726bn (YE13: ISK 699bn) YoY up by 3.9%.
- *Total equity* was ISK 185bn (YE13: ISK 167bn) up by 11% from previous year.
- Total capital ratio remains strong at 29.6% (YE13 28.4%), and Core Tier 1 ratio was 26.5% (YE13: 25.1%)

DEPOSIT RATIO**FUNDING AND LIQUIDITY POSITION**

- The Bank's liquidity position is sound and all liquidity ratios are well above regulatory requirements and internal guidelines.
- The Basel III liquidity ratio (LCR) was 130% at YE14, 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, followed a successful SEK issue in Dec13 and a tap issue in Mar14. The Bank has since issued SEK 300m in Feb15.
- The bonds were issued under the Bank's USD 750m Global Medium Term Note (GMTN) programme and are listed on the Irish Stock Exchange.
- Terms continue to improve. The first SEK issue was issued at 3 month Stibor + 400bp, while the Feb15 issue was priced at Stibor + 310 bp.
- The Bank was assigned BB+/B ratings with stable outlook from S&P in April. The outlook was revised to positive in October.
- 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 were 10.6% of total assets compared to 12.2% at YE13.

CAPITAL RATIOS**FINANCIAL CALENDAR**

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

- Silent period 3 – 13 May 2015
- 1Q15 – 13 May 2015
- 2Q15 – 25 August 2015
- 3Q15 – 12 November 2015

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