

CONSOLIDATED FINANCIAL STATEMENTS 9M2015

HIGHLIGHTS

9M 2015

- Profit after tax was ISK 16.7bn in 9M15 compared to ISK 18.2bn in 9M14. The difference is mainly due to irregular items.
- Earnings from regular operations was ISK 11.9bn in 9M15 compared to ISK 11.4bn in 9M14.
- Return on equity from regular operations on 14% CET1 was 13.0% in 9M15 compared to 13.1% in 9M14.
- Net interest income amounted to ISK 21.0bn in 9M15 (9M14 ISK 20.6bn). The net interest margin was 2.9% in 9M15 (9M14: 3.1%).
- Net fee and commission income was ISK 9.9bn in 9M15 (9M14 8.5bn), a 16.6% YoY increase.
- Cost to income ratio was 56.3% in 9M15 (9M14: 56.1%). Cost to income ratio excludes Bank tax and one-off cost items.
- Loans to customers grew by 4% YoY in line with GDP growth, and 1% during the quarter. The increase is well diversified across various lending divisions.
- Total assets amounted to ISK 1,004bn (Jun15: ISK 976bn).
- Deposits from customers increased by 10% YoY to ISK 581bn.
- Two successful foreign denominated bond transactions during the quarter, a EUR 100m and tap SEK 50m.
- Total capital ratio remains high at 29.2% (Jun15 28.3%) and Core Tier 1 ratio was 26.9% (Jun15: 25.8%).
- The Bank's liquidity position is strong and exceeds internal and external requirements.
- Leverage ratio was at 18.3% at the end of the period, indicating modest leverage.
- Ratio of loans more than 90 days past due and impaired was 2.4% (Jun15: 2.7%).
- S&P and Fitch upgraded the Bank to investment grade (stable outlook) during the year, which was affirmed in November. Íslandsbanki is the only Icelandic bank to have an investment grade rating from S&P and Fitch.

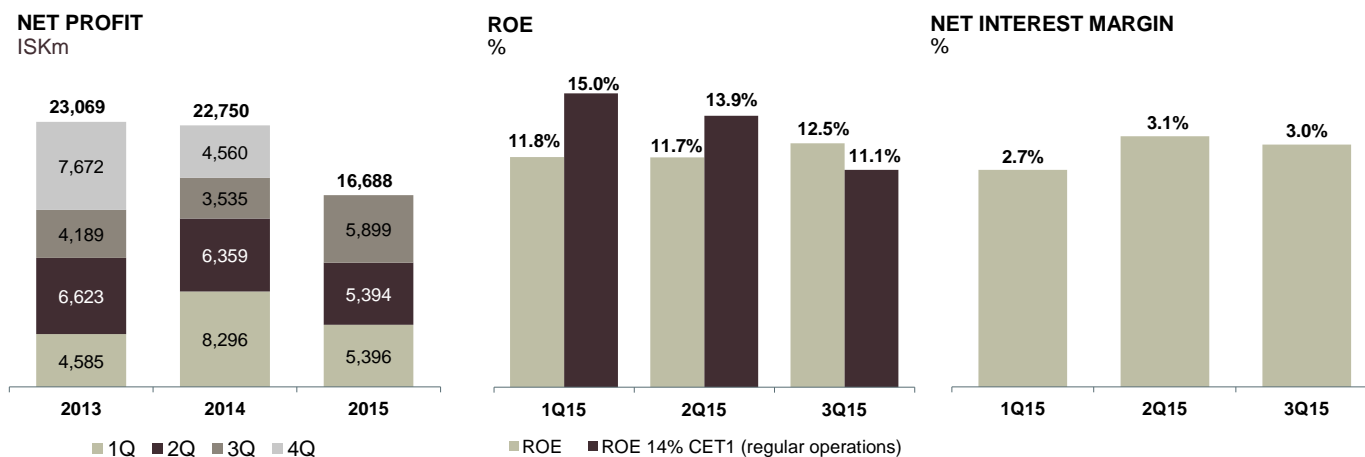
3Q 2015

- Profit after tax was ISK 5.9bn in 3Q15 (3Q14: ISK 3.5bn).
- Return on regular operations on 14% CET1 was 11.2% in the quarter (3Q14: 14.4%)
- Net interest income amounted to ISK 7.5bn in 3Q15 (3Q14: ISK 7.1bn)
- Net fee and commission income was ISK 3.5bn in 3Q15 (3Q14: ISK 2.8), a 23.2% increase.
- Loans to customers increased by ISK 6.6bn during the quarter or 1% to ISK 660bn.
- Deposits from customers increased by ISK 14bn during the quarter or 2.5% to ISK 581bn.

Birna Einarsdóttir, Chief Executive Officer at Íslandsbanki:

"Íslandsbanki's operating performance for the first nine months of the year was very strong. We see continued diversity in the Bank's sources of income, with commission and fee income up 17% year-on-year. At the same time, lending growth has been relatively modest. At the end of September, the Central Bank of Iceland increased minimum reserve requirements, thus reducing banks' lending capacity; however, we hope that this will be only a temporary measure. Credit rating agency Standard and Poor's assigned the Bank investment-grade ratings of BBB-/A-3 in July and recently affirmed the ratings following the announcement of measures in connection with capital account liberalisation.

The Bank also held a number of very well-attended meetings on finance and economic affairs. We have noted a keen interest in our educational outreach efforts, particularly to include young people's interest in meetings on investments and savings."



FOR FURTHER INFORMATION PLEASE CONTACT:

Investor Relations – Guðbjörg Birna Björnsdóttir, ir@islandsbanki.is and tel: +354 844 4752

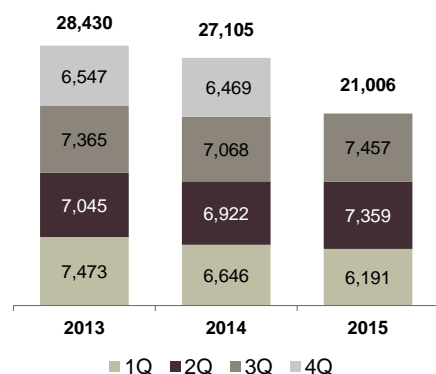
Director of Communications – Edda Hermannsdóttir, pr@islandsbanki.is and tel: +354 844 4005

Income Statement (ISK m)						
	9M15	9M15	Δ	3Q15	3Q14	Δ
Net interest income	21,007	20,636	372	7,457	7,068	389
Net fee and commission income	9,935	8,521	1,414	3,512	2,849	663
Net financial income	2,426	965	1,462	387	83	304
Net foreign exchange (loss) gain	(1,353)	50	(1,403)	(1,072)	352	(1,424)
Other operating income	699	1,613	(914)	158	233	(75)
Total operating income	32,714	31,785	929	10,442	10,585	(143)
Administrative expenses	(17,241)	(16,489)	(752)	(5,310)	(5,231)	(79)
Depositors' and Investors Guarantee Fund	(797)	(790)	(6)	(263)	(272)	9
Bank Tax	(2,060)	(1,879)	(182)	(732)	(664)	(68)
Total operating expenses	(20,099)	(19,159)	(940)	(6,305)	(6,167)	(138)
Profit before net impairment	12,615	12,626	(11)	4,137	4,418	(281)
Net loan impairment	7,726	5,804	1,922	3,418	65	3,353
Profit before tax	20,341	18,430	1,912	7,555	4,483	3,072
Income tax	(4,704)	(4,806)	102	(1,784)	(1,255)	(529)
Profit for the period from continuing operations	15,637	13,624	2,013	5,771	3,228	2,543
Profit from discontinued ops. net of income tax	1,052	4,566	(3,514)	128	307	(179)
Profit for the period	16,689	18,190	(1,501)	5,899	3,535	2,364

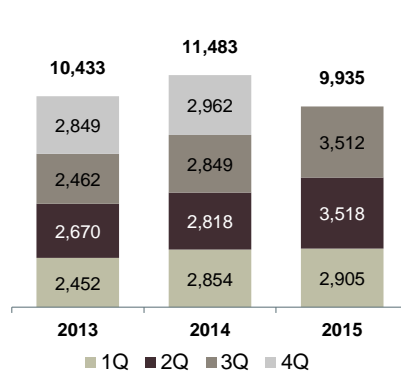
Income Statement

- 95% of the Bank's total operating income in 9M15 is 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 2.9% in 9M15 (3Q15: 3.0%) compared to 3.1% in 1H14 (3Q14: 3.1%). Expected NIM should be in the vicinity of 3.0%.
- CPI imbalance amounted to ISK 32.6bn at end of September (Jun15: 40.3bn). The imbalance is managed via CPI-linked swaps, issuance of CPI-linked covered bonds and long term CPI-linked deposit programmes.
- Loan impairment charges were 1.3bn ISK and impairment reversal due to revised estimated future cash flows were 9.0bn ISK in 9M15, net 7.7bn ISK.

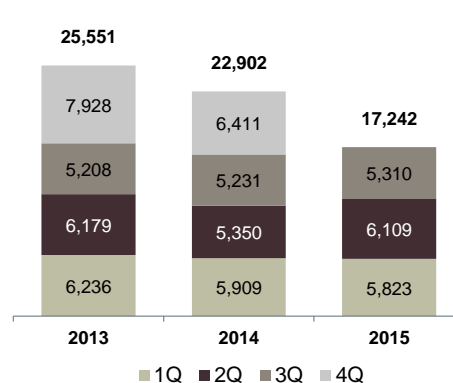
NET INTEREST INCOME
ISKm



NET FEE AND COMMISSION INCOME
ISKm



ADMINISTRATIVE EXPENSES
ISKm



Asset (ISK m)	30.09.2015	30.06.2015	31.12.2014
Cash and balances with CB	177,652	126,900	103,389
Derivatives	2,199	1,581	1,810
Bonds and debt instruments	80,053	85,274	87,347
Shares and equity instruments	9,004	11,041	10,531
Loans to credit institutions	35,522	52,139	35,072
Loans to customers	660,308	653,728	634,799
Investment in associates	648	612	570
Property and equipment	7,550	7,600	7,402
Intangible assets	1,143	1,058	619
Deferred tax assets	22	45	521
Non-current assets held for sale	13,946	15,763	21,649
Other assets	16,231	20,561	8,140
Total assets	1,004,257	976,257	911,328

Asset

- Loans to customers grew by 6.6bn, or 1% in the last quarter despite high repayments. Since YE14 the portfolio grew by 4%.
- Loans to companies grew by approx. 5.2% since year end 2014 while loans to individuals increased 2.3%.
- 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 69.1% at September 2015 (Jun15: 68.1%).
- The asset encumbrance ratio is 10.14% at September 2015.
- Liquid assets of ISK 276bn exceed both internal and external regulatory requirements.

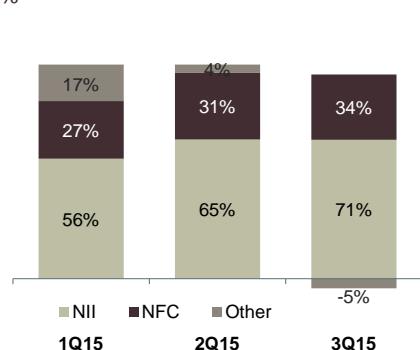
Liabilities and Equity (ISK m)	30.09.2015	30.06.2015	31.12.2014
Derivatives and short positions	8,472	5,992	3,963
Deposits from CB and credit inst.	24,208	24,017	25,796
Deposits from customers	581,095	566,678	529,447
Debt issued and other borrowings	120,957	107,421	96,889
Subordinated loans	19,717	20,336	21,306
Other liabilities	56,921	64,804	48,440
Total liabilities	811,370	789,248	725,841
Total equity	192,887	187,009	185,487
Total liabilities and equity	1,004,257	976,257	911,328

Liabilities and Equity

- Deposits remain the Bank's prime source of funding.
- Deposit to loan ratio was 87.0% (Jun15: 83.7%) and the customer deposit to customer loan ratio remained strong at 88.0% (Jun15: 86.7%).
- Total equity grew 3.1% in line with profits.
- The Bank issued ISK 5.54bn of CPI linked covered bonds in Q3. Total issued covered bonds since December 2011 now amount to ISK 52.35bn.
- Two successful bonds issued during the period; a EUR 100m, and tap SEK 150m, followed by a NOK 500m issue in October.

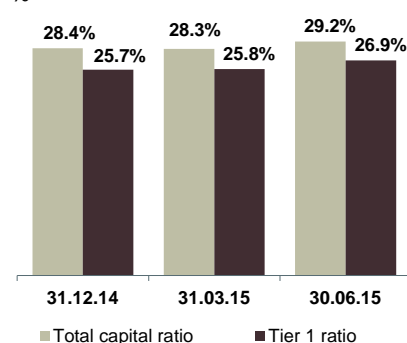
OPERATING INCOME SPLIT

%



CAPITAL RATIO

%



COST INCOME RATIO

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

