

CONSOLIDATED FINANCIAL STATEMENTS 1H2015

HIGHLIGHTS

1H 2015

- Profit after tax was ISK 10.8bn in 1H15 compared to ISK 14.7bn in 1H14. The difference is mainly due to irregular items.
- Return on regular operations on 14% CET1 was 13.9% in 1H15 compared to 12.4% in 1H14.
- Total capital ratio remains strong at 28.3% (Mar15 28.4%) and Core Tier 1 ratio was 25.8% (Mar15: 25.7%)
- Net interest income amounted to ISK 13.6bn in 1H15 (1H14 ISK 13.6bn). The net interest margin was 2.9% in 1H15 (1H14: 3.1%).
- Net fee and commission income was ISK 6.4bn in 1H15 (1H14 5.7bn), a 13.2% year on year increase.
- Cost to income ratio was 56.0% in 1H15 (1H14: 55.6%). Cost to income-ratio excludes Bank tax and one-off cost items.
- Leverage ratio was at 18.3% at the end of the period, indicating a moderate leverage.
- Ratio of loans more than 90 days past due and impaired was 2.7% (Mar15: 3.0%).
- Total assets amounted to ISK 976bn (Mar15: ISK 926bn).

2Q 2015

- Profit after tax was ISK 5.4bn in 2Q15 (2Q14: ISK 6.4bn).
- Return on regular operations 14% CET1 was 12.8% in the quarter (2Q14: 9.3%)
- Net interest income amount to ISK 7.4bn in 2Q15 (2Q14: ISK 6.9bn)
- Net fee and commission income was ISK 3.5bn in 2Q15 (2Q14: ISK 2.8), a 24.8% increase.

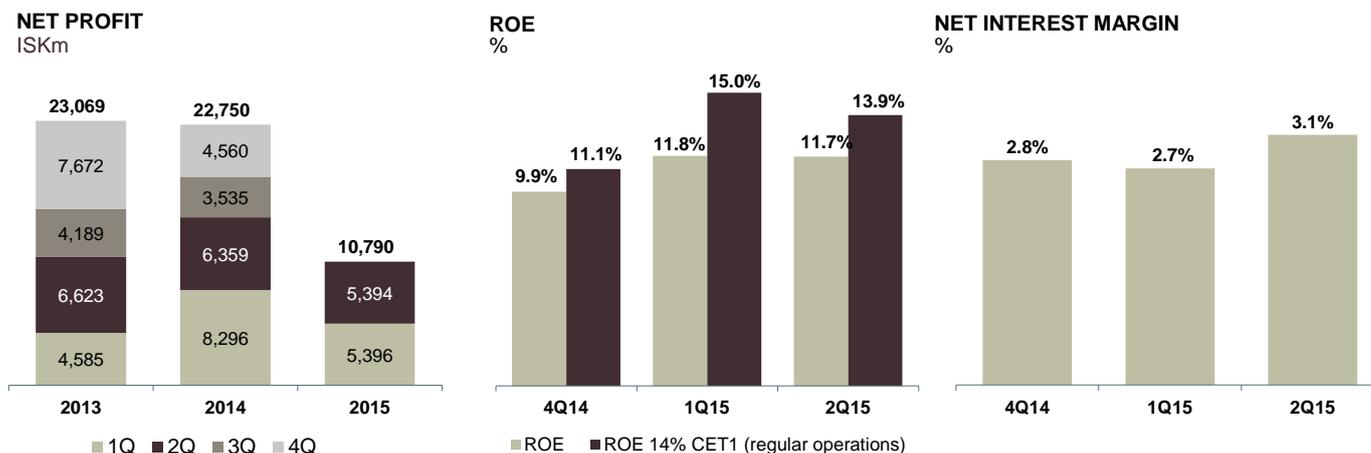
Birna Einarsdóttir, Chief Executive Officer at Íslandsbanki:

"Íslandsbanki made a good progress in the first half of 2015. The Bank's core business showed steady growth in lending, deposits and net fees and commissions. New loan loans increased by 3% over the period, in line with GDP growth. We were pleased to receive investment grade recognition both from Fitch and S&P.

Salaries and related expenses remain unchanged and the bank continues to reduce costs whilst streamlining its operations. The bank's capital and liquidity ratios remain strong, both of particular importance in this period when the lifting of capital controls has come to the fore. Íslandsbanki's role in this process is an important one, and the bank is working closely with its owners and the government. Íslandsbanki has entered into Heads of Agreement negotiations with Glitnir, with both parties co-operating to facilitate the Glitnir's composition. The outcome of this agreement will change the bank's balance sheet considerably.

Customers' needs for transacting when and wherever they want is growing rapidly. The bank has responded by expanding its mobile service. The ISB app for personal banking customers is now more heavily used than the Online Bank and is still developing. In 2015 the increase of active users of the mobile app was 43%, and 37% of users use it once or more per day on average. The online bank is a big area of focus for the bank, and surveys show that our customers are the most satisfied of online banking customers.

Íslandsbanki issued a new Global Compact Report yesterday which complies to GRI standards. The report issues nine key tasks in social responsibility. The largest projects are responsible lending, responsible purchases and responsible investments. The Bank is also proud to sponsor the Reykjavík Marathon which was held last weekend with over 15,000 participants, and resulted in a charity contribution of ISK 78 million."



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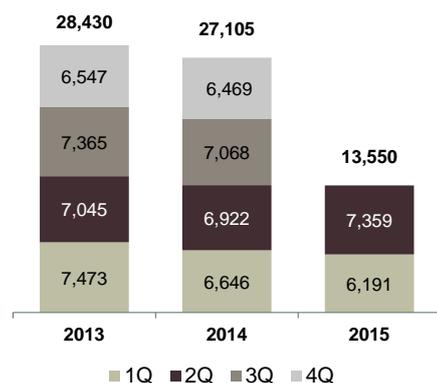
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| Income Statement (ISK m) | | | | | | |
|---|-----------------|-----------------|----------------|----------------|----------------|----------------|
| | 1H15 | 1H14 | Δ | 2Q15 | 2Q14 | Δ |
| Net interest income | 13,550 | 13,568 | (18) | 7,359 | 6,922 | 437 |
| Net fee and commission income | 6,423 | 5,672 | 751 | 3,518 | 2,818 | 700 |
| Net financial income | 2,039 | 882 | 1,157 | 275 | 19 | 256 |
| Net foreign exchange loss | (281) | (303) | 22 | (141) | (12) | (129) |
| Other operating income | 541 | 1,380 | (839) | 252 | 267 | (15) |
| Total operating income | 22,272 | 21,199 | 1,073 | 11,263 | 10,014 | 1,249 |
| Administrative expenses | (11,932) | (11,259) | (673) | (6,109) | (5,350) | (759) |
| Depositors' and Investors Guarantee Fund | (534) | (518) | (16) | (265) | (260) | (5) |
| Bank Tax | (1,328) | (1,215) | (113) | (710) | (623) | (87) |
| Total operating expenses | (13,794) | (12,991) | (803) | (7,084) | (6,233) | (851) |
| Profit before impairment | 8,478 | 8,207 | 271 | 4,179 | 3,781 | 398 |
| Net loan impairment | 4,308 | 5,739 | (1,431) | 1,977 | 4,219 | (2,242) |
| Profit before tax | 12,786 | 13,946 | (1,159) | 6,156 | 8,000 | (1,844) |
| Income tax | (2,920) | (3,550) | 630 | (1,524) | (2,156) | 631 |
| Profit for the period from continuing operations | 9,866 | 10,395 | (529) | 4,632 | 5,844 | (1,212) |
| Profit from discontinued ops. net of tax | 924 | 4,259 | (3,335) | 762 | 515 | 248 |
| Profit for the period | 10,790 | 14,655 | (3,864) | 5,394 | 6,359 | (965) |

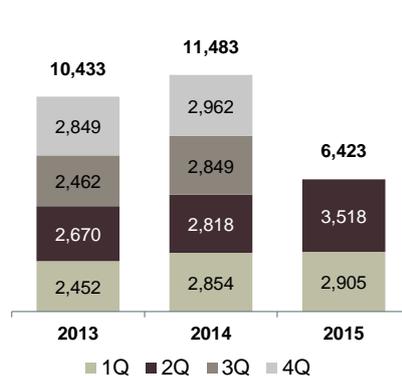
Income Statement

- 90% of the Bank's total operating income in 1H15 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 1H15 (2Q15: 3.1%) compared to 3.1% in 1H14 (2Q14: 3.1%). The increase in NIM from Q1 to Q2 is largely due to higher inflation
- CPI imbalance amounted to ISK 40.3bn at end of 2Q15 (Mar15: 46bn). The imbalance is managed via CPI-linked swaps, issuance of CPI-linked covered bonds and long term CPI-linked deposit programmes.
- The average number of full time employees (FTEs) for the parent was 958 in 1H15, reduction by 32 FTE's from 1H14.
- Loan impairment charges were 1.6bn ISK and Impairment reversal due to revised estimated future cash flows were 5.9bn ISK in 1H15, net 4.3bn ISK.

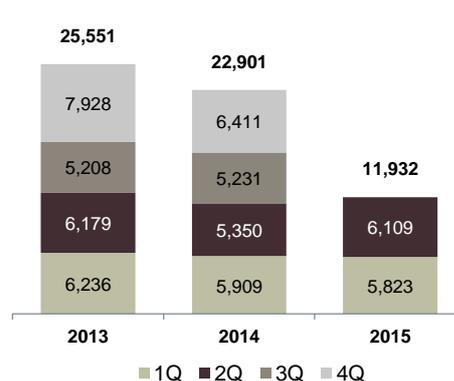
NET INTEREST INCOME
ISKm



NET FEE AND COMMISSION INCOME
ISKm



ADMINISTRATIVE EXPENSES
ISKm



| Asset (ISK m) | 30.06.2015 | 31.03.2015 | 31.12.2014 |
|----------------------------------|----------------|----------------|----------------|
| Cash and balances with CB | 126,900 | 98,274 | 103,389 |
| Derivatives | 1,581 | 1,843 | 1,810 |
| Bonds and debt instruments | 85,274 | 91,201 | 87,347 |
| Shares and equity instruments | 11,041 | 11,900 | 10,531 |
| Loans to credit institutions | 52,139 | 40,688 | 35,072 |
| Loans to customers | 653,728 | 637,877 | 634,799 |
| Investment in associates | 612 | 607 | 570 |
| Property and equipment | 7,600 | 7,521 | 7,402 |
| Intangible assets | 1,058 | 655 | 619 |
| Deferred tax assets | 45 | 270 | 521 |
| Non-current assets held for sale | 15,763 | 21,203 | 21,649 |
| Other assets | 20,516 | 14,350 | 7,619 |
| Total assets | 976,257 | 926,389 | 911,328 |

Asset

- New lending amounted to 66.7bn with loans to customers growing by 15.9bn in the last quarter despite high repayments.
- Loans to companies grew by approx. 5.8% since year end 2014 while loans to individuals decreased 1.2% mainly due to the Government's debt relief scheme.
- 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 68.1% at June 2015 (Mar15: 72.4%)
- The asset encumbrance ratio is 10.75% at June 2015.
- Liquid assets of ISK 248bn exceed both internal and external regulatory requirements.
- Basel Liquidity Cover Ratio (LCR) was 151% at the end of June

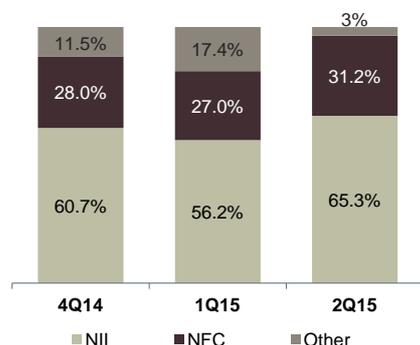
| Liabilities and Equity (ISK m) | 30.06.2015 | 31.03.2015 | 31.12.2014 |
|-------------------------------------|----------------|----------------|----------------|
| Derivatives and short positions | 5,992 | 7,203 | 3,963 |
| Deposits from CB and credit inst. | 24,017 | 24,437 | 25,796 |
| Deposits from customers | 566,678 | 520,740 | 529,447 |
| Debt issued and other borrowings | 107,421 | 100,602 | 96,889 |
| Subordinated loans | 20,336 | 20,336 | 21,306 |
| Other liabilities | 64,804 | 71,441 | 48,440 |
| Total liabilities | 789,248 | 744,759 | 725,841 |
| Total equity | 187,009 | 181,630 | 185,487 |
| Total liabilities and equity | 976,257 | 926,389 | 911,328 |

Liabilities and Equity

- Deposits remain the main funding source for the Bank.
- Deposit to loan ratio was 83.7% (Mar15: 80.3%) and the customer deposit to customer loan ratio remained strong at 86.7% (Mar15: 81.6%).
- Total equity grew 3.0% in line with profits. Based on the Heads of Agreement with the Bank's owner, total capital will be reduced to 23% level.

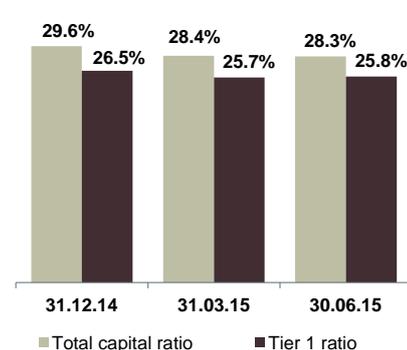
OPERATING INCOME SPLIT

%



CAPITAL RATIO

%



COST INCOME RATIO

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

