January 31st 2006

Íslandsbanki 2005 Annual Results

ISK 19.1 Billion in Profit after Tax
30% Return on Equity

The highlights of the financial statements of Íslandsbanki hf. for the year 2005 are as follows:

- Íslandsbanki showed a record profit in 2005. After-tax profit was ISK 19.1 billion, as compared to ISK 12.0 billion in 2004, increasing by 60%.
- After-tax profit for the fourth quarter was ISK 3.7 billion, up from ISK 948 million in the fourth quarter of 2004, increasing by 295% from 2004.
- Pre-tax profit was ISK 23.4 billion for the year 2005, as compared to ISK 14.1 billion in 2004 increasing by 66%.
- Earnings per share for the year were ISK 1.48, up from 1.18 for 2004.
- The Board of Directors has decided to recommend to the Annual General Meeting that dividend per share will be ISK 0.38, bringing total dividend payment for the year to ISK 5.36 billion, which amounts to 28% of after-tax profit.
- After-tax ROE was 30% for the year 2005, as compared to 44% in the previous year.
- Net interest income increased by 83% from the previous year, to ISK 23.4 billion. Net interest income for Q4 was ISK 6.6 billion, as compared to ISK 4.0 billion in Q4 2004.
- Fees and commissions increased by 33% in 2005 and were ISK 8.8 billion. Fees and commissions were ISK 2.9 billion in Q4 2005 as compared to ISK 2.0 billion in Q3 2005.
- Cost-income ratio was 38% for the year down from 48% in 2004.
- Total assets grew from the previous year by ISK 795 billion, or 117%, to ISK 1,472 billion.
- The parent's international long-term funding amounted to ISK 450 billion (EUR 6 billion) in over 100 transactions. Increased diversification in the Bank's investor base was achieved with the Bank's inaugural issues in Australia and in the US market.
- Deposit growth was 88% over the year, bringing deposits up to ISK 335 billion.
- Assets under management grew by 36% over the year, bringing AUM to ISK 345 billion.
- Book equity was ISK 85 billion at the end of Q4. The CAD ratio was 12.6% with Tier 1 ratio at 9.9%.

Bjarni Ármannsson, CEO: "The year 2005 was the best ever in Íslandsbanki's history. All areas of business showed profit, which reflect the strength of the Bank's foundations. The expansion into Norway, as well as internationally, marked the Bank's activities over the year, and this trend is set to continue with even greater force this year. Once again the Bank's staff has done an excellent job, and yet again the Bank's shareholders have demonstrated their support through their participation in the share offering earlier this year. In my view the Bank has never been in a better position to expand its business activities and we intend to take full advantage of that position in 2006."

For further information please contact:

Bjarni Ármannsson	Tómas Kristjánsson	Vala Pálsdóttir
CEO	CFO	Investor Relations
Tel: +354 440 4005	Tel: +354 440 4656	Tel: +354 844 4989 or vp@isb.is

The accounts of the Bank are available on its website: www.isb.is.

1. The Effect of the Adoption of International Financial Reporting Standards

Íslandsbanki has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) from 1 January 2005. Figures for 2004 have been restated in accordance with the new standards.

2. Profit and Loss Account and Key Figures

It should be noted that BNbank is included in the Bank's consolidated figures from 1 April 2005 and that Sjóvá insurance was part of the Bank's consolidated figures until 31 March 2005. Sjóvá is an associate from the second quarter of 2005.

3. Consolidated Performance

3.1. Highlights from the Profit and Loss Account

ISK m	2005	2004*	2003**
Net interest income	23.390	12.776	11.039
Net insurance premium	229	886	366
Net fees and commissions income	8.773	6.610	3.752
Dividend income	414	242	770
Net trading gains	3.585	7.372	2.905
Net losses from other financial assets at fair value	-554	0	0
Realised gains on financial assets available for sale	181	0	0
Fair value adjustments in hedge accounting	-59	0	0
Net foreign exchange (losses) gains	-179	114	0
Other operating income	631	525	229
Net operating income	**36.410**	**28.525**	**19.061**
Salaries and salary-related expenses	-8.848	-8.553	-5.422
Depreciation of fixed assets	-481	-571	-696
Other operating expenses	-6.401	-5.233	-3.651
Administrative expenses	**-15.731**	**-14.357**	**-9.769**
Impairment losses on loans and receivables	-1.900	-3.137	-2.864
Share of profit of associates	1.262	146	0
Net gains on non-current assets held for sale	3.323	2.916	0
Profit before income tax	**23.365**	**14.093**	**6.428**
Income tax expense	-4.266	-2.135	-593
Profit for the period	**19.099**	**11.958**	**5.835**

* IAS 39 corrections have not been made on 2004 figures ** 2003 figures are not corrected according to IFRS

Profit

Íslandsbanki's pre-tax profit was ISK 23,365 million in 2005 and ISK 5,214 million in Q4 2005. Pre-tax profit for the year grew by 66% from previous year. After-tax profit in the year 2005 was ISK 19,099 million, as compared to ISK 11,958 million in 2004. After-tax profit in Q4 was ISK 3,741 million in 2005, up from ISK 948 million in 2004.

Earnings per share came to ISK 1.48 in 2005. This is an increase of 25% from ISK 1.18 per share in the year 2004. Earnings per share were ISK 0.28 in the fourth quarter.

Performance and economic value added

Return on equity (ROE) after taxes amounted to 30% for the year 2005, as compared to 44% in 2004.

Consolidated EVA was ISK 11,435 million, as compared to ISK 8,671 million in 2004. EVA (Economic Value Added) represents the adjusted earnings net of taxes and the opportunity cost of invested capital. The Bank estimates the required rate of return to the Bank's shares in the market to be 12.5%. EVA is measured for all the Bank's profit centres and is stated in the sections concerning the respective units.

Income

Net interest income grew by 83% to ISK 23,390 million in the year 2005. The increase is due to loan growth which is predominantly explained by BNbank. Net interest income in Q4 was ISK 6,627 million, as compared to ISK 3,953 million in Q4 2004.

The net interest rate margin was 2.0% in 2005, as compared to 2.4% in previous year. The net interest rate margin was 1.9% in the fourth quarter, as compared to 2.0% in third quarter.

Net fees and commissions were ISK 8,773 million, an increase of 33% from 2004.

Dividend income was ISK 414 million, as compared to ISK 242 million in 2004, an increase of 71%.

Net revenue from financial assets held for trading and trading financial liabilities were ISK 3,585 million. This figure is down by about 51% from the year 2004. The net effect of derivatives was ISK 1,274 million, gains on equities were ISK 2,774 million and losses on bonds ISK 463 million.

Net revenue from financial assets, designated at fair value through profit and loss, was negative by ISK 554 million. About ISK 350 million of that figure is fair value change of prepaid loans at BNbank which is offset by similar amount of prepayment fees in interest income. Realised gain on financial assets available for sale was ISK 181 million. The effect of hedge accounting was negative by ISK 59 million, and the net result of currency items was negative by ISK 179 million.

Other operating income was ISK 631 million in 2005, up by 20% between years. Other operating income was ISK 63 million in Q4. The majority of other operational revenues in Q1 2005 derived from Sjóvá, or ISK 449 million.

Expenses

Salaries and salary-related expenses were ISK 8,848 million in the year 2005, increasing by 3% from the year 2004. Salaries and salary-related expenses were ISK 2,326 million in Q4. The average number of full-time employees was 1,136 in Q4, as compared to 1,190 in the preceding quarter; the change is explained by summer employees in Q3.

Depreciation of property and equipment amounted to ISK 481 million in 2005, a 16% decrease from last year.

Other operating expenses came to ISK 6,348 million in 2005, increasing by ISK 1,158 million, or 22%, from 2004. Expenses from non-current assets were ISK 54 million, which is an increase of 28% from the previous year.

In all, operating expenses amounted to ISK 15,731 million in the year 2005, increasing by 10% from 2004.

Other items

Impairment losses of loans, receivables and goodwill, were ISK 1,900 million in the year 2005, down from ISK 3,137 million in 2004.

Share in the profit of associates was ISK 1,262 million, a significant increase from ISK 146 million from 2004.

Net gains on non-current assets held for sale were ISK 3,323 million in the year 2005, as compared to ISK 2,916 million in 2004. This is explained by the sale of Sjóvá in Q2.

The cost-income ratio in 2005 was 37.9%, as compared to 47.7% in the previous year.

Calculated income tax is ISK 4,266 million, up by 100% from the ISK 2,135 million tax of last year.

3.2. Highlights from the Balance Sheet

Assets

Total assets grew from the previous year by ISK 795 billion, or 117%, to ISK 1,472 billion. Of this figure, total assets of BNbank at the end of December were ISK 437 billion and KredittBanken's ISK 43 billion.

Cash and balances with the Central Bank were ISK 21 billion at the end of Q4, as compared to ISK 6 billion at year-end 2004.

Total lending grew by 124% over the year, to ISK 1,175 billion. Approximately 56% of lending at the end of December was to customers outside Iceland.

Financial assets held for trading were ISK 152 billion, up by 39% for the year. Total bond assets were ISK 61 billion, of which ISK 58 billion were used in hedging against derivatives, leaving the net bond position at ISK 3 billion. Equities were ISK 74 billion, of which ISK 60 billion were used in hedging against derivatives, leaving the net position of trading equities at ISK 14 billion. Net positive derivatives were ISK 17 billion.

Financial assets designated at fair value through P&L were ISK 96 billion. Interest rate risk is hedged with interest rate derivatives, which are also designated at a fair value.

Financial assets available for sale were valued at ISK 4 billion, down from ISK 11 billion at the beginning of the year. Derivatives used for hedging amounted to ISK 2,352 million, up from ISK 1,793 million at year-end 2004.

Investments in associates were ISK 8 billion, up by 5 billion over the year.

Property and equipment was ISK 1,987 million, down by 24% over the year. Intangible assets decreased by 9% to ISK 10,824 million.

Deferred tax assets decreased from ISK 456 million at year-end 2004, to ISK 268 million at the end of Q4.

Non-current assets held for sale totalled ISK 551 million at the end of Q4, a decrease of 7% over the year.

Other assets at the end of Q4 came to ISK 647 million, which represents an increase of 26% over the year.

Liabilities and Equity

Deposits were ISK 335 billion, including ISK 31 billion in deposits from credit institutions.

Total borrowings grew by 145%, to ISK 985 billion at the end of Q4, including subordinated loans of ISK 47 billion.

Trading financial liabilities were ISK 29 billion, up from ISK 13 billion at year-end 2004.

Derivatives used for hedging were ISK 7,233 million, up from ISK 3,677 million at year-end 2004.

Tax liabilities at the end of Q4 amounted to ISK 5,178 million.

Other liabilities grew from ISK 7 billion at the beginning of the year to ISK 26 billion in Q4.

Book equity was ISK 85 billion at the end of Q4, an increase of ISK 36 billion during the year. The main reason for this was the Bank's sale of 1,935 million new shares in Q1 2005 and the profit for the year.

Due to the adoption of IFRS, the Bank's own shares, which used to belong to the trading book, are now deducted from book equity. This change has no impact on the calculation of the CAD ratio.

The Bank's CAD ratio at the end of December was 12.6% of which Tier 1 was 9.9%.

Assets under management amounted to ISK 345 billion at the end of the fourth quarter, growing by 36% in 2005.

3.3. Key Figures

	2005	2004	2003
Average total assets (ISK million)	1.162.177	529.096	365.395
Equity at the end of the period (ISK million)	84.750	48.474	29.423
CAD ratio (end of period)	12,6%	12,4%	11,4%
Tier 1 capital (end of period)	9,9%	9,4%	8,0%
Pre-tax profit (ISK million)	23.365	14.093	6.428
Profit after taxes (ISK million)	19.099	11.958	5.835
Return on equity after taxes	30%	44%	30%
Earnings per share (ISK)	1,48	1,18	0,63
Average number of full-time employees	1.216	1.126	948
Net interest margin	2,0%	2,4%	3,0%
Cost as a proportion of average total assets	1,4%	2,7%	2,7%
Cost/income ratio in banking activities	37,9%	47,7%	50,0%
Provision for loan losses			
- as a proportion of average total assets	0,2%	0,6%	0,8%
- as a proport. of loans and guarantees at end of period	0,2%	0,6%	0,8%

4. Operations of Individual Profit Units

2005 ISK m	Commercial Banking - Iceland	Commercial Banking - Norway	Corporate & Investment Banking	Capital Markets	Treasury	Eliminations and other activities	Total
Net interest income	12.286	5.457	4.441	894	1.325	-1.014	23.389
Other operating income	4.595	-73	2.139	3.061	1.831	2.731	14.284
Net operating income	**16.881**	**5.384**	**6.580**	**3.955**	**3.156**	**1.717**	**37.673**
Operating expenses	-8.293	-1.823	-2.483	-984	-341	-1.807	-15.731
Impairment losses	-1.402	51	-460	0	0	-89	-1.900
Other income	-10	0	0	0	0	3.333	3.323
Profit before income tax	**7.176**	**3.612**	**3.637**	**2.971**	**2.815**	**3.154**	**23.365**
Economic value-added (EVA)	3.552	1.030	1.868	2.371	1.901	714	11.435

All profit units of the Bank were profitable in the year 2005. Commercial Banking in Iceland had a profit before tax of ISK 7,176 million. Pre-tax profit in Commercial Banking in Norway was ISK 3,612 million. Corporate and Investment Banking had a profit of ISK 3,637 million before tax. Pre-tax profit in Capital Markets was ISK 2,971 million. Treasury had a profit of ISK 2,815 million before taxes. Profit from other activities was ISK 3,154 million, which is explained by an ISK 3,300 million profit from the sale of Sjóvá, profit from Sjóvá in Q1 and other items not allocated to profit units.

Operating expenses of support functions and head office expenses are fully allocated to the profit units.

4.1. Commercial Banking in Iceland

ISK m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Net interest income	3.526	3.339	2.830	2.591	2.612
Other operating income	1.272	1.128	1.087	1.108	1.264
Net operating income	**4.798**	**4.467**	**3.917**	**3.699**	**3.876**
Operating expenses	-2.199	-1.849	-2.172	-2.073	-2.042
Impairment losses	59	-631	-402	-428	-642
Other income	-12	0	2	0	0
Profit before income tax	**2.646**	**1.987**	**1.345**	**1.198**	**1.192**
Economic value-added (EVA)	1.180	1.148	750	473	804

Commercial Banking in Iceland provides banking services to private and corporate customers; the division comprises Retail Banking, Asset Management, Private Banking and Asset-based Financing. The performance of Commercial Banking in 2005 was the best ever, and the fourth quarter surpassed all previous records. The performance is the result of a combination of extensive growth in all areas, low provisions for bad debts, a significant increase in business and insignificant changes in operating costs. A structural change was made in the Commercial Banking unit, as Private Banking now operates as an independent profit centre. Jóhann Ómarsson, who led the development of private banking services within the Asset Management, is the head of the division.

Pre-tax profit at Commercial Banking in Iceland was ISK 2,646 million in Q4 and totalled ISK 7,176 million in 2005. Net operating income was ISK 4,798 million in Q4 and operating expenses ISK 2,199 million. For the year, net operating income was ISK 16,881 million and operating expenses ISK 8,293 million. Impairment losses totalled ISK 1,402 million.

The total pre-tax profit of Retail Banking for 2005 was ISK 3,776 million; Business Banking returned ISK 1,892 million in profit, Asset-Based Financing ISK 806 million and Asset Management and Private Banking ISK 701 million. Total EVA for Commercial Banking was ISK 1,180 million in Q4, bringing EVA for the year to 3,552 million. The total number of full-time employees was 512 at the year-end 2005.

Retail Banking

Retail Banking provides financial services to individuals and households as well as small and medium-sized enterprises through Íslandsbanki's branches across the country, over the Internet and through the Íslandsbanki call centre. The Branch division was extremely successful during the year. Lending continued to increase in the fourth quarter, with the principal increase resulting from housing loans, although the increase slowed as the year wore on. Profit before taxes in the fourth quarter came to ISK 1,096 million. The total annual profit was ISK 3,776 million in 2005, as compared to ISK 987 million in the previous year.

Three branches were merged with larger branches in the fourth quarter, bringing the total number of branch mergers over the year to four, while a new branch was opened in Egilsstadir in eastern Iceland at the beginning of the year.

Asset based financing

Íslandsbanki's asset-based financing operates under the Glitnir brand. Its services are aimed at assisting customers in leasing or acquiring equipment and commercial property. Corporate customers are assisted in financing vehicles, equipment and premises, while private customers are assisted in vehicle financing.

Solid growth in sales of new vehicles and equipment in 2005, coupled with the unit´s strong marketing efforts, resulted in a substantial growth in new contracts and loans. New financing amounted to ISK 16.3 billion over the year, which represents an increase of 31% from the preceding year. Profit before taxes in the fourth quarter was ISK 233 million. The total annual profit amounted to ISK 806 million in 2005, as compared to ISK 615 million in the preceding year.

Asset Management and Private Banking

Asset Management offers investment management services to individuals and institutional investors. It offers a wide variety of mutual and investment funds which are marketed to institutional and retail clients, as well as retail brokerage services for individuals. Asset Management and Private Banking are, as of October 1st, two separate business units within the Commercial Banking unit.

Total Assets under management (AUM) at the end of the fourth quarter amounted to ISK 337 billion, as compared to ISK 306 billion at the end of the third quarter. AUM have increased by 32% from the beginning of the year. Pre-tax profit in the Q4 was ISK 193 million and totalled ISK 701 million in 2005. Total revenues were ISK 531 million in the fourth quarter, with operating expenses at ISK 331 million. Total revenues for the year in total were ISK 1,721 million and operating expenses ISK 966 million.

Business Banking

Business Banking is responsible for relations with and services to large and medium-sized Icelandic companies and municipalities, providing these customers with comprehensive financing and risk advisory services.

The Business Banking loan portfolio stood at ISK 209 billion at the end of Q4, which corresponds to a 10% decrease from the end of Q3 and a 34% increase from year-end 2004. In the fourth quarter a part of the loan portfolio, ISK 25 billion, was transferred from Business Banking to Corporate and Investment Banking. Pre-tax profit in the fourth quarter was 1,125 million and totalled 1,892 million for the year.

4.2. Commercial Banking in Norway

ISK m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Net interest income	1.977	1.661	1.676	143	0
Other operating income	-278	70	84	51	0
Net operating income	**1.699**	**1.731**	**1.760**	**194**	**0**
Operating expenses	-686	-517	-513	-107	0
Impairment losses	-70	76	33	12	0
Profit before income tax	**943**	**1.290**	**1.280**	**99**	**0**
Economic value-added (EVA)	157	452	428	-7	0

Íslandsbanki's operational banking activities in Norway are conducted by BNbank and KredittBanken. BNbank is a commercial bank with operations both in the corporate and the retail markets. BNbank is a specialist lender focusing on mortgage loans, while KredittBanken is a regional player on the west coast of Norway with a national niche focus on seafood, offshore supply vessels, and financing for building projects at Norwegian shipyards. BNbank entered the consolidated figures as of April 1st.

The Bank announced in November that it had entered into an agreement to acquire all the shares in the securities firm Norse Securities. A financial, accounting and legal due diligence has now been completed, to the satisfaction of Íslandsbanki, and the transaction is pending on governmental approval. Norse has 47 employees and generated total revenues of NOK 150 million in 2005.

Pre-tax profit at Commercial Banking in Norway was ISK 943 million in Q4 and totalled ISK 3,612 million in 2005. Net operating income was ISK 1,699 million in Q4 and operating expenses ISK 686 million. For the year, net operating income was ISK 5,383 million and operating expenses ISK 1,823 million. BNbank reversed previously charged provisions for bad debts of NOK 51 million in 2005.

ISB Norway is responsible for the development of Norway as Íslandsbanki's home market. ISB Norway is managed by a staff of four employees based in Oslo.

The accounts for the Norwegian activities are based on Norwegian accounting practices (NGAAP). Under NGAAP, pre-payment premiums are amortised over the term of the loans. According to International Financial Reporting Standards (IFRS), premiums of this kind must be allocated to P&L at the time of realisation. Under IFRS there is also a requirement to mark-to-market interest rate derivatives. BNbank has separated a loan portfolio featuring interest rate characteristics (volume and duration) that resemble the derivatives portfolio, and this loan portfolio is mark-to-market as well. This is the principal explanation for the difference between IFRS-figures and NGAAP-figures.

BNbank

Pre-tax profit in BNbank was ISK 797 million in the fourth quarter. Net operating income was ISK 1,262 million over the period and operating expenses ISK 467 million. For the full year, net operating income was ISK 4,214, operating expenses were ISK 1,219 million and profit before tax ISK 3,062 million. Total number of full-time employees was 90 at the year-end 2005.

BNbank experienced strong earnings in 2005. Seen in relation to the interest rate level, the return on equity is the best ever achieved by BNbank. The growth in net interest income is mainly due to a strong loan growth. Surveys indicate that BNbank enjoys a high customer satisfaction rate, with customers perceiving BNbank as a cost efficient bank offering competitive terms.

BNbank continues its strong loan growth in the retail market. Trends in the housing loan market were very positive. The retail loan portfolio increased by 46 percent in 2005. All of the new housing loans are made at less than 80 percent loan to value and approximately 80 percent of the total housing loan portfolio is below 60 percent loan to value.

The level of non-performing loans continues to be very low, and BNbank reversed previously charged provisions for bad debts of NOK 11 million in 2005.

KredittBanken

Pre-tax profit in KredittBanken was ISK 188 million in the fourth quarter. Net operating income was ISK 343 million over the period and operating expenses ISK 182 million. For the full year, net operating income was ISK 1,076. Operating expenses were ISK 562 million and profit before tax ISK 598 million. The total number of full-time employees was 54 at year-end 2005.

The strong growth in profit is mainly the result of an improved net interest margin and an increase in other revenues. KredittBanken's loan portfolio grew by ISK 8,808 million, or 34%, during 2005, up to ISK 34,499 million at year-end, and at the same time the quality of the portfolio has improved. KredittBanken has also initialized loans for Íslandsbanki in Reykjavik amounting to ISK 12,8 billion.

In the 4th quarter the decision was made to open an office in Oslo in the 1st quarter of 2006. FactoNor, a subsidiary of KredittBanken, had its best year ever in 2005; with the flow of invoices amounting to a value of NOK 3.4 billion through the company's invoicing system. FactoNor's company turnover in 2005 was NOK 26.8 million, with record profits of NOK 4.7million after tax and losses. The company had 23 employees at the end of 2005.

4.3. Corporate and Investment Banking

ISK m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Net interest income	1.209	1.105	1.236	891	671
Other operating income	1.270	266	538	65	263
Net operating income	**2.479**	**1.371**	**1.774**	**956**	**934**
Operating expenses	-828	-608	-615	-432	-428
Impairment losses	-252	58	-204	-62	36
Profit before income tax	**1.399**	**821**	**955**	**462**	**542**
Economic value-added (EVA)	779	306	634	149	143

Corporate and Investment Banking (CIB) leads the international expansion of the Bank, with the London branch, the Copenhagen office and the newly founded bank in Luxembourg as a part of its operations. CIB's functions entail Corporate Advisory, Private Banking in Luxembourg, Equity Investment, debt financing, including International Corporate Credit, Leveraged Finance, Property Finance in Luxembourg and Project Finance.

Pre-tax profit for Corporate and Investment Banking was ISK 1,399 million in the fourth quarter and totalled ISK 3,637 million in 2005. Net operating income was ISK 2,479 million in Q4 and operating expenses ISK 828 million. For the year, net operating income was ISK 6,580 million and operating expenses ISK 2,483 million, with 460 million in impairment losses. The loan portfolio was 259 billion at the end of December, up from 117 billion at the end of last year. As stated in Business Banking chapter, lending of ISK 25 billion was transferred from Business Banking to Corporate and Investment Banking in the fourth quarter.

EVA for Q4 was ISK 779 million, bringing EVA for the year to 1,868 million. At the end of December the Corporate and Investment Banking team comprised 94 people. Proprietary trading in equities is now part of Corporate and Investment Banking as of the beginning of 2006.

Íslandsbanki announced in December its decision to open a representative office in Shanghai, China. The new office's primary business activities will be to work with clients entering the Chinese market or expanding their operations there, focusing on the food sector, sustainable energy and shipping. These are the sectors that the Bank emphasizes in international markets in addition to supporting customers from home markets.

Total fees & commissions amounted to ISK 1,042 million in Q4, as compared to ISK 902 million in the previous three quarters combined. Furthermore, all divisions showed solid improvements in performance.

2005 has been a year of building a platform for growth in the international area, including a structure for Corporate Banking, Corporate Finance and other product units. The fourth quarter was quite an accomplishment for CIB which has started to deliver results from the structural build-up that has been conducted during the year. The unit is therefore coming into 2006 with bright prospects.

4.4. Capital Markets

ISK m	**Q4 2005**	**Q3 2005**	**Q2 2005**	**Q1 2005**	**Q4 2004**
Net interest income	391	247	118	138	232
Other operating income	886	741	880	555	554
Net operating income	**1.277**	**988**	**998**	**693**	**786**
Operating expenses	-278	-275	-220	-211	-362
Impairment losses	0	4	-4	0	2
Profit before income tax	**999**	**717**	**774**	**482**	**426**
Economic value-added (EVA)	806	562	624	380	337

Capital Markets provides brokerage and funding for institutional investors and corporate clients in securities, foreign exchange and derivatives.

Pre-tax profit in Capital Markets was ISK 999 million in the fourth quarter and totalled ISK 2,972 million in 2005. Net operating income was ISK 1,277 million in Q4 and operating expenses ISK 278 million. For the year, net operating income was ISK 3,956 million and operating expenses ISK 984 million. EVA for Q4 was ISK 806 million, bringing EVA for the year to 2,371 million.

The 29% growth in pre-tax profit from the previous year is driven by strong performance and growth in all of Capital Markets' departments. Particular advances were made in FX brokerage as well as sales of bond issues for both international and Icelandic clients of the Bank. There were 26 employees in the unit at the end of December.

4.5. Treasury

ISK m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Net interest income	148	790	115	272	294
Other operating income	-217	582	1.449	17	189
Net operating income	**-69**	**1.372**	**1.564**	**289**	**483**
Operating expenses	-128	-90	-49	-74	-87
Profit before income tax	**-197**	**1.282**	**1.515**	**215**	**396**
Economic value-added (EVA)	-286	910	1.155	123	301

Treasury is part of the Finance Division. Treasury is responsible for the Bank's funding, asset and liability management as well as proprietary trading in currencies and securities. However, as of the beginning of 2006, proprietary trading in equities is a part of Corporate and Investment Banking.

Pre-tax loss returned by Treasury was ISK 197 million in the fourth quarter and total profit ISK 2,815 million in 2005. Net operating income was negative by ISK 69 million in Q4 and operating expenses were ISK 128 million. In 2005 net operating income was ISK 3,156 million and operating expenses ISK 341 million. Treasury's income consists of ISK 1,325 million in interest income and ISK 1,831 million in other operating income, mainly from trading gains in bonds and equities amounting to ISK 1,444 million and ISK 465 million in fair value changes of derivatives and currencies.

EVA for Q4 was negative by ISK 286 million, bringing EVA for the year to 1,902 million. There were 10 employees in the unit at the end of December.

The Bank's funding operations in 2005 were very successful. The parent company's international long-term funding amounted to EUR 6 billion, equivalent to ISK 450 billion, this issuance being spread over more than 100 transactions. BNbank's bond issues in Norway amounted to NOK 11 billion, equivalent to ISK 100 billion. Also, increased diversification in the Bank's investor base was achieved with the Bank's inaugural issues in Australia and in the US market.

4.6. Other Operations

Profit from other operations was ISK 3,154 million for the year 2005. Other operations include income and expenses which are not allocated to profit units. Other operating income net of operating expenses includes ISK 1,035 million results of Sjova in first quarter, profit of associates ISK 1,262 million, loss in equity trading ISK 718 million, ISK 235 million in paid fees and ISK 421 million in other cost not allocated to profit units. Other income of 3,295 million is mainly explained by the sale of Sjova in second quarter.

5. Prospects for the year 2006

The prospects for Íslandsbanki's operations in 2006 are favourable. The extensive structuring work undertaken in recent years will be utilised to the fullest extent to achieve still further growth. All the Bank's units now find themselves in a favourable position and attractive business opportunities abound. A favourable economic environment is foreseeable in most of the Bank's markets in the year.

A fast growing number of national and international clients see the Bank as key banking partner. Therefore the Bank´s plans include increase in net interest income and a substantial increase in fee based activities. This is both due to organic growth and better utilization of our current customer relationship, increased breadth in our product portfolio, as well as acquired growth.

Rapid growth has characterised the Icelandic economy recently and the operating environment of financial companies looks set to remain favourable. The economic outlook is positive, although growth is likely to subside somewhat from the rapid pace of recent years. However, there are signs of a growing imbalance, including increasing inflationary pressure, a record current account deficit and insufficient public savings. The strong Icelandic Krona is also a concern for the export industries.

The outlook for Norway is also bright. Growth is likely to slow in the coming quarters but the economy still looks set to remain buoyant, with declining unemployment, reasonable inflation and a considerable current account surplus. There are no signs of an impending setback in the Norwegian economy and the operating environment of financial companies looks likely to remain positive.

6. Bonus for employees

In line with its decision concerning performance-related pay, the Board of Directors of the Bank has resolved to pay out a bonus to the staff of the Bank for the good operating results of 2005. All Íslandsbanki hf. employees will be paid a bonus of ISK 223.000 based on full time employment. The Board of Directors has decided that the bonus will be paid in shares at a price per share of 18.6, or a total of 7,143 shares taking tax and other charges into account.

7. Dividends and authorisation to issue new shares

One of Íslandsbanki's financial goals is to pay dividends amounting to 20 to 40% of earnings to shareholders, taking account of the Bank's equity position at any time. The Board of Directors has decided to recommend to the Annual General Meeting the payment of ISK 0.38 per share in dividend. The number of outstanding shares is approximately 14.1 billion. Total dividend will amount to ISK 5.36 billion. The dividend corresponds to 28% of after tax profit for the year 2005. The reference date for dividend payment is at the end of day of the Annual General Meeting, and the dividend will be paid out on 14. March 2006. The remainder of the profit for the year, ISK 13.7 billion, will be allocated to increase the equity of Íslandsbanki.

The board of directors has also decided to recommend to the Annual General Meeting that shareholders shall be granted the option to receive up to one half of their dividend in shares in Íslandsbanki hf. at a price no higher than 18.6 per share.

8. Annual General Meeting and publication of financial reports for 2006

The 2006 Annual General Meeting of Íslandsbanki hf. will be held at Hotel Nordica on February 21st at 2:00 p.m. in conference rooms A-B.

The proposed publication dates of the financial reports of Íslandsbanki hf. in 2006 are as follows:

1st quarter, 2 May 2006

2nd quarter, 1 August 2006

3rd quarter, 31 October 2006

Annual Results, 30 January 2007

9. Presentation of Annual Results of 2005

Following presentation conference calls will be hosted in connection with the publication of the results.

International telephone conference for the media on January 31st
Íslandsbanki's will host a telephone conference in English for the media at 2 p.m., local time, on January 31st. To participate, call +44 20 7162 0025, no later than ten minutes in advance. Bjarni Ármannsson, CEO, Pétur Óskarsson, Head of Corporate Communications and Investor Relations and Bjørn Richard Johansen, International Communication and Public Affiars Director, will participate.

Presentation for shareholders and market participants on February 1st
Bjarni Ármannsson, CEO, will present Íslandsbanki's annual results 2005 to shareholders and market participants on Wednesday, February 1st, at 8.30am at Íslandsbanki's headquarters at Kirkjusandur in Reykjavík. Bjarni Ármannsson will present the results and answer questions. The house opens at 8.15am with breakfast for guests.

International telephone conference for analysts on February 1st
Íslandsbanki will host a telephone conference in English for analysts at 11 a.m., local time, on February 1st. To participate call +44 20 7162 0025, no later than ten minutes in advance. Bjarni Ármannsson, CEO, Tómas Kristjánsson, CFO, and Vala Pálsdóttir, Investor relations, will participate.

An English version of the presentation will be available on www.isb.is as of February 1st.

10. Group Profit and Loss Account by Quarter

ISK m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Net interest income	6.627	6.713	5.586	4.465	3.953
Net insurance premium	0	0	0	229	-256
Net fees and commissions income	2.908	2.007	2.198	1.660	1.960
Dividend income	2	15	26	371	3
Net trading income	-188	788	1.737	1.248	209
Net income designated at fair value through profit and loss	-477	-59	-13	-5	0
Realised gains on financial assets available for sale	0	0	181	0	0
Fair value changes from hedge accounting	18	-33	-9	-35	0
Net foreign exhcange gains (losses)	22	89	-151	-139	209
Other net operating income	62	54	30	484	301
Administrative expenses	-4.231	-3.539	-3.743	-4.219	-4.585
Impairment losses on loans and receivables	-339	-494	-565	-501	-764
Share of profit of associates	790	281	141	50	-49
Net gains on non-current assets held for sale	20	3	3.300	0	0
Profit before income tax	**5.214**	**5.825**	**8.718**	**3.608**	**981**
Income tax expense	-1.472	-1.024	-1.199	-570	-33
Profit for the period	**3.741**	**4.801**	**7.519**	**3.038**	**948**

11. Consolidated Balance Sheet

ISK m	31.12. 2005	1.1. 2005	Change (ISK m)	Change (%)
Cash equivalents and balances with central banks	20.861	6.242	14.619	234%
Loans and receivables	1.174.733	524.020	650.714	124%
Financial assets held for trading	151.897	109.046	42.850	39%
Financial assets designated at fair value through P/L	96.438	3.632	92.806	2555%
Financial assets available for sale	3.611	11.065	-7.454	-67%
Derivatives used for hedging	2.352	1.793	559	31%
Investment in associates	8.081	2.605	5.476	210%
Investment property	0	1.560	-1.560	-100%
Property and equipment	1.987	2.617	-630	-24%
Intangible assets	10.824	11.866	-1.042	-9%
Tax assets	268	456	-188	-41%
Non-current assets and disposal groups held for sale	551	593	-42	-7%
Reinsurers' share in insurance liabilities	0	1.308	-1.308	-100%
Other assets	647	513	134	26%
Total Assets	**1.472.250**	**677.316**	**794.934**	**117%**
Deposits from credit institutions and central banks	30.656	22.676	7.980	35%
Other deposits	304.136	155.602	148.533	95%
Borrowings	937.794	382.020	555.774	145%
Subordinated loans	47.464	19.366	28.098	145%
Insurance liabilities	0	19.454	-19.454	-100%
Trading financial liabilities	28.791	12.546	16.246	129%
Derivatives used for hedging	7.233	3.677	3.557	97%
Post-employment obligations	418	2.607	-2.190	-84%
Tax liabilities	5.178	3.563	1.614	45%
Other liabilities	25.830	7.331	18.500	252%
Equity	84.750	48.474	36.276	75%
Total Liabilities and Equity	**1.472.250**	**677.316**	**794.934**	**117%**
Off-balance sheet items:				
Assets under management	344.975	254.163	90.811	36%
Guarantees	19.788	9.471	10.317	109%
Derivatives against trading bond assets	57.681	64.793	-7.112	-11%
Derivatives against trading equity assets	60.401	14.329	46.072	322%

12. Key Figures

	2005	2004	Change	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Average total assets								
Average total assets	1.162.177	529.097	*633.081*	1.404.898	1.331.085	1.206.387	706.342	624.117
Total assets at end of period	1.472.250	671.480	*800.769*	1.472.250	1.318.785	1.334.513	767.360	677.316
Equity at end of period	84.750	48.474	*36.276*	84.750	76.047	76.707	68.324	48.474
Outstanding shares	13.112	11.081	*2.031*	13.112	12.783	13.119	13.081	11.081
Key ratios:								
Return on equity before tax	37,0%	51,7%						
Return on equity after tax	30,3%	43,8%						
Earnings per share, ISK	1,48	1,18		0,28	0,37	0,58	0,25	0,08
CAD ratio at end of period	12,6%	12,4%		12,6%	12,3%	12,4%	15,5%	12,4%
Tier 1 capital at end of period	9,9%	9,4%		9,9%	9,4%	9,2%	12,0%	9,4%
Cost/income ratio for banking activities	37,9%	47,6%		43,2%	35,9%	28,7%	52,5%	59,7%
Provision for loan losses/loans & guarantess at end of p.	0,2%	0,6%		0,2%	0,2%	0,2%	0,3%	0,6%
Average number of full-time employees	1.216	1.126		1.136	1.190	1.156	1.375	1.117
Percentage of average total assets:								
Net interest margin	2,0%	2,4%		1,9%	2,0%	1,9%	2,5%	2,5%
Other operating income	1,3%	4,6%		0,7%	0,9%	2,5%	2,2%	1,6%
Other operating expenses	1,4%	2,7%		1,2%	1,1%	1,2%	2,4%	2,9%
Impairment losses	0,2%	0,6%		0,1%	0,1%	0,2%	0,3%	0,5%
Profit	1,6%	2,3%		1,1%	1,4%	2,5%	1,7%	0,6%

Kirkjusandi • 155 Reykjavík • Iceland
Tel: +354 440-4000 • Fax: +354 440-4001
ID-No. 550500-3530 • E-mail: isb@isb.is