

Icebank hf.

**Interim Financial Statements
1 January - 31 March 2007**

Icebank hf.
Raudarárstígur 27
105 Reykjavík

kt. 681086-1379

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Endorsements and Signatures of the Board of Directors and the CEO

The Interim Financial Statements of Icebank hf. for the three months ended 31 March 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS).

According to the Profit and Loss Account net earnings for the period 1 January to 31 March 2007 amounted to ISK 1,798 million. Equity according to the Balance Sheet at the end of the period amounted to ISK 13,805 million including shareholders' equity amounting to ISK 1,141 million. The Bank's equity ratio, calculated according to the Act on Financial Undertakings, was 19.2% for the Bank. This ratio may not be lower than 8.0%.

The Board of Directors and the CEO of Icebank hf. hereby confirm the Interim Financial Statements for the period from 1 January to 31 March 2007, by means of their signature.

Reykjavik, 15 May 2007

Board of Directors:

Geirmundur Kristinsson
chairman

Fridrik Fridriksson

Gudmundur Hauksson

Ragnar Z. Guðjónsson

Magnús Ægir Magnússon

CEO:

Finnur Sveinbjörnsson

Auditor's Review Report

To the Board of Directors and Shareholders of Icebank hf.

Introduction

We have reviewed the accompanying Balance Sheet of Icebank as of March 31, 2007 and the related Statement of Income, Changes in Equity and Cash Flows for the three month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with indicate applicable financial reporting framework. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information does not give a true and fair view of the financial position of the entity as at March 31, 2007, and of its financial performance and its cash flows for the three month period then ended in accordance with applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is International Financial Reporting Standards.

Reykjavik, 15 May 2007

Sigurdur Jónsson

Ólafur Már Ólafsson

KPMG hf.

Income Statement

for the Period from 1 January to 31 March 2007

	Notes	2007	2006
		1.1.-31.3.	1.1.-31.3.
Interest income		1,944,185	1,035,597
Interest expense		(1,437,448)	(794,604)
Net interest income		<u>506,737</u>	<u>240,993</u>
Fee and commission income		87,562	55,332
Fee and commission expense		(26,049)	(8,916)
Net fee and commission income		<u>61,513</u>	<u>46,416</u>
Dividend income	3	4,994	1,163
Net (loss) gain on trading assets and liabilities	4	(226,980)	107,967
Net gain on financial assets designated at fair value	5	2,005,218	334,282
Net foreign exchange difference		95,339	37,232
Share of profit of associates		(663)	0
Other operating revenue	6	12,670	2,315
Other net operating income		<u>1,890,578</u>	<u>482,959</u>
Net operating income		<u>2,458,828</u>	<u>770,368</u>
Salaries and related expenses		(138,341)	(105,523)
Administrative expenses		(111,819)	(61,436)
Depreciation		(3,009)	(3,705)
Impairment on loans and advances	14	(13,538)	(22,500)
		<u>(266,707)</u>	<u>(193,164)</u>
Profit before income tax		2,192,121	577,204
Income tax expense		(393,683)	(103,897)
Profit for the year		<u><u>1,798,438</u></u>	<u><u>473,307</u></u>
Earnings per share			
Basic and diluted earnings per share	7	2.4	0.8

Notes numbered 1-32 are an integral part of these interim financial statements

Balance sheet

as at 31 March 2007

	Notes	31.3.2007	31.12.2006
Assets			
Cash and balances with the Central Bank		6,397,581	7,292,521
Loans and advances	8-14	71,428,743	61,520,424
Trading assets	15	27,704,282	8,869,689
Financial assets designated at fair value	17	9,572,523	8,786,951
Investments in associates		17,381	18,045
Property and equipment		340,681	342,836
Other assets	18	92,481	94,793
Total Assets		<u>115,553,672</u>	<u>86,925,259</u>
Liabilities			
Deposit from credit institutions and the Central Bank	19	40,487,563	16,330,099
Other deposits	20	4,464,322	4,130,836
Borrowings	21	51,762,004	49,633,317
Subordinated loans	23	2,365,143	2,430,339
Trading liabilities	24	8,523	6,965
Tax liabilities		2,399,905	2,093,782
Other liabilities	25	261,132	293,279
Total Liabilities		<u>101,748,592</u>	<u>74,918,617</u>
Equity			
Share capital		1,140,596	691,270
Reserves		430,598	879,924
Retained earnings		12,233,886	10,435,448
Total Equity	26	<u>13,805,080</u>	<u>12,006,642</u>
Total Liabilities and Equity		<u>115,553,672</u>	<u>86,925,259</u>

Notes numbered 1-32 are an integral part of these interim financial statements

Statement of Changes in Equity

for the Period from 1 January to 31 March 2007

	Share capital	Reserves	Retained earnings	Total
Changes in equity 1.1.-31.3.2007:				
Equity 1 January 2007	691,270	879,924	10,435,448	12,006,642
Profit for the period			1,798,438	1,798,438
Issue of compensation shares	449,326	(449,326)		0
Equity 31 March 2007	<u>1,140,596</u>	<u>430,598</u>	<u>12,233,886</u>	<u>13,805,080</u>
 Changes in equity 1.1.-31.3.2006:				
Equity 1 January 2006	609,944	351,306	4,773,823	5,735,073
Profit for the period			473,307	473,307
Equity 31 March 2006	<u>609,944</u>	<u>351,306</u>	<u>5,247,130</u>	<u>6,208,380</u>

Notes numbered 1-32 are an integral part of these interim financial statements

Interim Statement of Cash Flows for the Period from 1 January to 31 March 2007

	2007	2006
	1.1.-31.3.	1.1.-31.3.
Net cash (used in) provided by operating activities.....	(27,123,294)	(8,480,101)
Net cash flow provided by (used in) investing activities.....	7,399	20,200
Net cash flow provided by financing activities.....	26,220,955	529,963
Net change in cash and cash equivalents.....	(894,940)	(7,929,938)
Cash and cash equivalents, beginning of the year.....	<u>7,292,521</u>	<u>10,386,957</u>
Cash and cash equivalents, end of the period.....	<u><u>6,397,581</u></u>	<u><u>2,457,019</u></u>

Notes numbered 1-32 are an integral part of these interim financial statements

Notes

Accounting Policies

Icebank hf. is a company domiciled in Iceland. The address of the Bank is Raudarárstígur 27 in Reykjavík. Icebank is a commercial bank, focusing on wholesale transactions with domestic and foreign financial institutions, especially with Icelandic savings banks and businesses. The Interim Accounts were authorised for issue by the Board of Directors of Icebank on 15 May 2007.

1. Statement of compliance

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34, *Interim Financial Reporting*, as adopted by the EU. They do not include all of the information required for full annual Financial Statements and should be read in conjunction with the Financial Statements of the Bank as at and for the year ended 31 December 2006.

2. Significant accounting policies

The accounting policies applied by the Bank in these Interim Financial Statements are the same as those applied by the Bank in its Financial Statements as at and for the year ended 31 December 2006.

The Interim Financial Statements of the Bank as of 31 March 2007 are available upon request through the Bank's registered office at Raudarárstígur 27, Reykjavik or at www.icebank.is and www.omx.is.

The Interim Financial Statements are presented in Icelandic krona (ISK), rounded to the nearest thousand.

Dividend income

	2007	2006
3. Dividend income is specified as follows:	1.1.-31.3.	1.1.-31.3.
Dividend income on trading assets	4,994	1,163

Net (loss) gain on trading assets and liabilities

4. Net (loss) gain on trading assets and liabilities is specified as follows:

Shares and related derivatives	52,789	133,580
Bonds and related derivatives	(279,769)	(25,613)
Net (loss) gain on trading assets and liabilities	(226,980)	107,967

Net gain on financial assets designated at fair value

5. Net gain on financial assets designated at fair value is specified as follows:

Shares	2,005,218	334,282
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Other operating revenue

6. Other operating revenue is specified as follows:

Gain on disposals of assets	5,393	0
Other operating revenue	7,277	2,315
Other operating revenue	12,670	2,315

Notes, contd.:

Earnings per share

	2007	2006
7. Earnings per share are specified as follows:	1.1.-31.3.	1.1.-31.3.
Net earnings	1,798,438	473,307
Equity according to Financial Statements at the beginning of the period	691,270	609,944
Effects of increase/sale of share during the period	44,933	0
Weighted average of outstanding shares for the period	<u>736,203</u>	<u>609,944</u>
Basic and diluted earnings per share	<u>2.4</u>	<u>0.8</u>

Earnings per share

Earnings per share are calculated by dividing the net earnings attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Loans and advances

8. Loans and advances are specified as follows:	31.3.2007	31.12.2006
Loans to credit institutions	37,859,277	30,270,492
Loans to customers	33,940,485	31,608,748
Provision for impairment	(371,019)	(358,816)
Loans and advances	<u>71,428,743</u>	<u>61,520,424</u>

9. Loans to credit institutions specified by types of loans:

Bank accounts	1,007,838	178,293
Money market loans	9,099,527	8,639,411
Repurchase agreements	6,602,975	13,425
Other loans	21,148,937	21,439,363
Loans to credit institutions	<u>37,859,277</u>	<u>30,270,492</u>

10. Loans to credit institutions specified by maturity:

Up to 3 months	17,029,070	9,267,655
Over 3 months and up to a year	8,089,871	9,470,845
Over 1 year and up to 5 years	9,278,296	8,070,267
Over 5 years	3,462,040	3,461,725
Loans to credit institutions	<u>37,859,277</u>	<u>30,270,492</u>

11. Loans to customers specified by types of loans:

Overdrafts	3,813,423	2,424,290
Bonds and loan agreements	12,830,378	12,243,724
Other loans	16,925,665	16,581,918
Loans to customers	<u>33,569,466</u>	<u>31,249,932</u>

Notes, contd.:

12. Loans to customers specified by sectors:	31.3.2007	31.12.2006
Municipalities	0.1%	0.1%
Business enterprises:		
Agriculture and Fishing	5.0%	6.4%
Industry	19.5%	21.1%
Commerce	8.9%	8.4%
Service	57.2%	48.0%
Other	9.3%	16.0%
Loans to customers	<u>100.0%</u>	<u>100.0%</u>

13. Loans to customers specified by maturity:

On demand	109,284	76,746
Up to 3 months	9,900,282	7,097,036
Over 3 months and up to a year	2,929,898	2,861,849
Over 1 year and up to 5 years	15,880,189	16,170,604
Over 5 years	4,749,813	5,043,697
Loans to customers	<u>33,569,466</u>	<u>31,249,932</u>

Provision for impairment of loans and advances

14. Changes in the provision for impairment of loans and advances are specified as follows:

Balance at the beginning of the year	358,816	451,039
Impairment for the period	13,538	(15,096)
Write-offs	(8,939)	(77,422)
Recoveries of loans previously written off	7,604	295
Provision for impairment of loans and advances	<u>371,019</u>	<u>358,816</u>

Trading assets

15. Trading assets are specified as follows:

Market securities and other bonds with fixed income	5,574,731	4,904,111
Shares and other securities with variable income	696,063	1,165,553
Derivatives	21,433,488	2,800,025
Trading assets	<u>27,704,282</u>	<u>8,869,689</u>

Notes, contd.:

Derivatives

16. Derivatives, remaining maturity of principal and book value are specified as follows:

31.3.2007	Principal			Total	Assets	Liabilities
	Up to 3 months	Over 3 months and up to a year	Over 1 year			
OTC currency and interest rate derivatives:						
Forward currency agreements	55,725,167	2,829,549	0	58,554,716	35,303	188,173
Interest rate agreements	19,616,987	10,192,647	5,175,160	34,984,794	218,562	33,011
	<u>75,342,154</u>	<u>13,022,196</u>	<u>5,175,160</u>	<u>93,539,510</u>	<u>253,865</u>	<u>221,184</u>
OTC equity derivatives:						
Forward equity agreements	3,562,195	61,659	0	3,623,854	146,743	143,124
	<u>3,562,195</u>	<u>61,659</u>	<u>0</u>	<u>3,623,854</u>	<u>146,743</u>	<u>143,124</u>
Total	<u>78,904,349</u>	<u>13,083,855</u>	<u>5,175,160</u>	<u>97,163,364</u>	<u>400,608</u>	<u>364,308</u>

31.12.2006	Principal			Total	Assets	Liabilities
	Up to 3 months	Over 3 months and up to a year	Over 1 year			
OTC currency and interest rate derivatives:						
Forward currency agreements	50,189,052	2,936,471		53,125,523	595,937	538,255
Interest rate agreements	8,000,000	4,000,000	5,186,660	17,186,660	106,786	98,946
	<u>58,189,052</u>	<u>6,936,471</u>	<u>5,186,660</u>	<u>70,312,183</u>	<u>702,723</u>	<u>637,201</u>
OTC equity derivatives:						
Forward equity agreements	230,865	2,654,486		2,885,351	457,626	323,213
	<u>230,865</u>	<u>2,654,486</u>	<u>0</u>	<u>2,885,351</u>	<u>457,626</u>	<u>323,213</u>
Total	<u>58,419,917</u>	<u>9,590,957</u>	<u>5,186,660</u>	<u>73,197,534</u>	<u>1,160,349</u>	<u>960,414</u>

Financial assets designated at fair value

17. Financial assets designated at fair value are specified as follows:	31.3.2007	31.12.2006
Securities	615,767	261,528
Shares	8,956,756	8,525,423
Financial assets designated at fair value	<u>9,572,523</u>	<u>8,786,951</u>

Other assets

18. Other assets are specified as follows:	31.3.2007	31.12.2006
Sundry assets	7,280	68,675
Prepaid expenses and accrued income	85,201	26,118
Other assets	<u>92,481</u>	<u>94,793</u>

Notes, contd.:

Deposits from credit institutions and the Central Bank

19. Deposits from credit institutions and the Central Bank mature as follows:	31.3.2007	31.12.2006
Up to 3 months	40,487,563	16,330,099

Other deposits

20. Other deposits mature as follows:		
Up to 3 months	4,464,322	4,122,008
Over 1 year and up to 5 years	0	8,828
Other deposits	4,464,322	4,130,836

Borrowings

21. Borrowings are specified as follows:		
Bonds issued	5,019,633	4,999,757
Bills issued	4,630,727	1,045,475
Loans from credit institutions	42,111,644	43,588,085
Borrowings	51,762,004	49,633,317

22. Borrowings mature as follows:		
Up to 3 months	14,447,500	9,042,648
Over 3 months and up to a year	2,088,185	3,399,093
Over 1 year and up to 5 years	30,206,686	32,191,819
Over 5 years	5,019,633	4,999,757
Borrowings	51,762,004	49,633,317

Subordinated loans

23. Subordinated loans are specified as follows:	31.3.2007	31.12.2006			
	Currency	Interest	Maturity date	Book value	Book value
Loans that qualify as Tier II capital:					
Issued in 2006	ISK	5.0%	2016	1,019,358	1,017,842
Issued in 2005	EUR	5.2%	2015	1,345,785	1,412,497
Subordinated loans				2,365,143	2,430,339

Trading liabilities

24. Trading liabilities are specified as follows:	31.3.2007	31.12.2006
Derivatives with credit institutions	8,523	6,965
Trading liabilities	8,523	6,965

Notes, contd.:

Other liabilities

	31.3.2007	31.12.2006
25. Other liabilities are specified as follows:		
Sundry liabilities	19,344	58,281
Unpaid expenses	140,012	224,349
Accrued expenses and deferred income	101,776	10,649
Other liabilities	<u>261,132</u>	<u>293,279</u>

Capital

26. Equity at the end of the period amounted to ISK 13,805 million. The bank issued compensation shares amounted to 449 million, during the period. Equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 19.2%. According to law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

	31.3.2007		2006	
	Book value	Weighted value	Book value	Weighted value
Risk I:				
Assets recorded in the Accounts	115,553,672	57,610,503	86,925,259	56,628,605
Assets deducted from capital		(5,413,458)		(5,209,492)
Guarantees and other items not included in the Balance Sheet		3,833,708		2,876,259
		<u>56,030,753</u>		<u>54,295,372</u>
Capital:				
Tier I capital:				
Equity		13,805,080		12,006,642
Tier II capital:				
Subordinated loans		2,365,143		2,430,339
Investment in credit institutions		(5,413,458)		(5,209,492)
		<u>10,756,765</u>		<u>9,227,489</u>
Equity ratio		19.2%		17.0%
Thereof Tier I ratio		24.6%		22.1%

Off-balance sheet information

27. The bank has granted its customers guarantees. These items are specified as follows:

	31.3.2007	31.12.2006
Guarantees	5,539,329	4,502,023
Unused overdrafts	581,264	57,521

28. At 31 March 2007 the Bank was obligated under operating leases for cars and IT-equipment.

Notes, contd.:

Pledged assets

29. Assets have been pledged as security in respect of the following liabilities:	31.3.2007	31.12.2006
Liabilities		
Repurchase agreements with the Central Bank	28,206,548	3,624,643
Assets		
Reverse repurchase agreements with credit institutions	6,602,975	13,425

Related parties

30. The Bank has a related party relationship with its associates, the Board of Directors, the CEO, close family members of individuals referred to herein, and entities with significant influence as the largest capital holders of the Bank, which are BYR-sparisjodur (28.7%), SPRON (24.5%), and Keflavík Savings Bank (12.2%). This definition is based on IAS 24. Information regarding related parties are as follows:

	31.3.2007	31.12.2006
Loans to the CEO and Board of Directors	0	0
Loans to members of the board and companies related to members of the board	0	0
Loans to associated companies	337,549	50,000

Transactions with related parties have been carried out on arm's length basis.

The Bank has entered into forward contracts with the CEO and the nominal value of the contracts amounts to ISK 88,686 thousand. At the end of the period the net balance of the contracts was negative to the amount of ISK 29,518 thousand.

Icelandic savings banks are among the Bank's main customers but their transactions are not included in the aforementioned amounts.

Monitoring and controlling liquidity risk

31. The breakdown by contractual maturity of financial assets and liabilities, at 31 March 2007.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and						
Central Bank balances	6,397,581	0	0	0	0	6,397,581
Loans and advances	19,461,084	7,577,552	11,019,769	25,158,485	8,211,853	71,428,743
Trading financial assets	9,894,648	11,616,987	6,192,647	0	0	27,704,282
Financial assets meas. at fair value ...	9,572,523	0	0	0	0	9,572,523
Total financial assets	45,325,836	19,194,539	17,212,416	25,158,485	8,211,853	115,103,129
Deposits from credit inst.	40,487,563	0	0	0	0	40,487,563
Other deposits	4,464,322	0	0	0	0	4,464,322
Borrowings and subord. loans	0	14,447,500	2,088,185	30,206,686	7,384,776	54,127,147
Total financial liabilities	44,951,885	14,447,500	2,088,185	30,206,686	7,384,776	99,079,032
Financial assets - financial liabilities	373,951	4,747,039	15,124,231	(5,048,201)	827,077	16,024,097
Unused creditlines	1,514,600	0	0	0	0	1,514,600
Unused overdrafts	581,264	0	0	0	0	581,264

Events after the Balance Sheet date

32. There have been no material post Balance Sheet events which would require disclosure or adjustment to the Financial Statements for the period 1 January 2007 to 31 March 2007.