

Press Release

Icebank's expansion strategy pays dividends:

Total assets more than doubled over the year

– Net interest income increased by 66% from last year

20 November 2007

Icebank's business activities in the third quarter were characterised by strong growth, as the Bank continued to strengthen its position, particularly in business with other financial institutions. Even though the third quarter returned only ISK 65 million in profit after taxes, profit after taxes in the first nine months amounted to ISK 4,263 million, and return on equity was 47.3%. This year, the Bank is for the first time publishing quarterly statements that have been reviewed by the Bank's auditors; however, the comparison figures for last year are unaudited. The statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Third quarter of 2007

- Profit after taxes amounted to ISK 65 million in the third quarter, as compared to ISK 2,399 million in the second quarter.
- Earnings per share fell as compared to the second quarter, from ISK 2.10 to ISK 0.06.
- Total assets grew by more than ISK 80 billion over the quarter, or 68.7%. The growth is primarily a result of increased lending and claims against financial institutions, as well as derivatives contracts with customers.
- Personnel grew by 10% over the third quarter, with 88 positions in the Bank at the end of the quarter.

First nine months of 2007

- Profit amounted to ISK 4,263 million after taxes in the first nine months of the year, as compared to ISK 6,195 million in the preceding year.
- Net interest income increased by 66% between years, while profit from the Bank's securities portfolio fell by just short of 50%. The biggest factor was the fluctuation in the value of the Bank's holdings in Exista.
- Earnings per share amounted to ISK 4.22, as compared to ISK 9.43 for the corresponding period last year.
- Return on equity was 47.3%, as compared to 94.9% in 2006.
- The cost-income ratio was 14.2%, compared to 7.1% for the corresponding period of 2006.
- The interest rate margin increased from 1.9% last year to the current level of 2.0%.
- The Bank's staff has grown in size by 26% over the year, to 88 employees at the end of the period. The increase is spread over all the Bank's divisions.

Finnur Sveinbjörnsson, CEO:

“Icebank has markedly strengthened its position in its business with financial institutions over the quarter, building on its experience of the last 20 years as a service and central bank for the savings banks. This is manifested in the rapid growth in the Bank's total assets, which passed the ISK 200 billion mark at the end of the quarter, having more than doubled since the start of the year. It is primarily the interest-bearing assets that are growing, and for this reason the Bank's net interest income has grown substantially. Currently, net interest income is almost twice the amount of the Bank's entire operating cost. This is unique among Icelandic financial institutions, and even overseas. This places the Bank in a better position to meet any adverse winds in the securities markets, as in fact was the case in the third quarter. The Bank recently announced its acquisition of Behrens Corporate Finance as well as its first steps in opening the ownership of the Bank. We are looking forward to an exciting time of continued growth.”

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The financial statements in their entirety can be accessed at www.icebank.is.

<i>Key Indicators</i>	2007 Q3	2007 Q2	2007 Q1	2007 Q1-Q3	2006 Q1-Q3*	Changes '06-'07
Million ISK						
Net operating income	434	3,193	2,459	6,085	6,877	-11.5%
Operating expenses	-300	-313	-253	-866	-573	51.1%
Profit	65	2,399	1,798	4,263	6,195	-31.2%
Earnings per share (ISK)	0.06	2.10	2.40	4.22	9.43	-55.2%
Total assets	206,147	122,207	115,554	206,147	74,099	178.2%
Interest rate margin	1.8%	2.2%	2.1%	2.0%	1.9%	
Capital adequacy ratio (CAD)	15.0%	17.4%	19.2%	15.0%	14.9%	
Return on equity	1.6%	63.9%	55.7%	47.3%	94.9%	
Cost-income ratio	69.1%	10.0%	10.2%	14.2%	7.1%	
Full-time equivalent positions	88	80	78	88	70	25.7%

*The figures for Jan-Sep 2006 have not been reviewed

<i>Income Statement</i>	2007 Q3	2007 Q2	2007 Q1	2007 Q1-Q3	2006 Q1-Q3*	Changes '06-'07
Million ISK						
Net interest income	675	649	507	1,831	1,104	65.9%
Net fee and commission income	28	21	62	111	118	-5.9%
Net operating income	434	3,193	2,459	6,085	6,877	-11.5%
Operating expenses	-300	-313	-253	-866	-573	51.1%
Impairment on loans and advances	-55	-35	-14	-104	-35	197.1%
Profit before income tax	79	2,844	2,192	5,116	7,492	-31.7%
Taxes	-14	-445	-394	-853	-1,297	-34.2%
Profit	65	2,399	1,798	4,263	6,195	-31.2%

*The figures for Jan-Sep 2006 have not been reviewed

<i>Balance Sheet</i>	30.9. 2007	30.6. 2007	31.3. 2007	31.12. 2006	Change '06-'07
Million ISK					
Cash and balances with central banks	3,443	2,650	6,397	7,293	-52.8%
Loans and advances	83,130	72,427	71,429	61,520	35.1%
Trading assets	104,550	33,190	27,704	8,870	1078.7%
Financial assets designated at fair value	14,478	13,372	9,572	8,787	64.8%
Investments in associates	32	27	17	18	77.8%
Property and equipment	514	541	433	438	17.3%
Total assets	206,147	122,207	115,554	86,925	137.2%
Deposits from credit institutions & central banks	98,610	39,790	40,488	16,330	503.9%
Other deposits	9,996	3,446	4,464	4,131	142.0%
Borrowings	74,353	57,211	51,762	49,633	49.8%
Other liabilities	4,546	3,264	2,670	2,394	89.9%
Subordinated loans	2,373	2,293	2,365	2,430	-2.3%
Equity	16,269	16,204	13,805	12,007	35.5%
Total liabilities and equity	206,147	122,207	115,554	86,925	137.2%

Highlights from the profit and loss account and the balance sheet

Icebank's profit after taxes for the first three quarters of the year amounted to ISK 4,263 million. The profit after taxes for the corresponding period last year was 6,195 m. Earnings per share amounted to ISK 4.22 in the first nine months, as compared to ISK 9.43 for the corresponding period last year. The principal reason for the fall in profit between years was the reduction in profit from the Bank's holdings in Exista, which returned a substantial profit in the third quarter of 2006. Toward the end of last year, a quarter of the Bank's holdings in Exista were sold, and another quarter of the holdings was sold earlier this year. The Bank has therefore reduced its investment in Exista by almost a half. Net income from the Bank's holdings in Exista amounted to ISK 3,214 million in the first nine months of the year, as compared to ISK 6,403 million last year. These amounts do not take into account taxes or the opportunity cost of binding the capital.

Net interest income continues to increase, amounting to ISK 675 million in the third quarter, as compared to ISK 501 million in the corresponding period last year. In the first nine months of the year the total came to ISK 1,831, as compared to ISK 1,104 in the corresponding period of last year. This represents an increase of 65.9%. It is worth noting that net interest income for the entire last year was ISK 1,254 million. The interest rate margin as a ratio of the average balance sheet total also continues to increase and currently stands at 2.0%, as compared to 1.9% last year. The interest rate margin was 1.8% for the whole of 2006 and 1.6% in 2005. The increase in net interest income is fully in line with the Bank's strategy of expanding its lending activities and their profitability. The recent growth is due not least to the fact that the Bank has substantially increased its business with other financial institutions, building upon its experience of the last 20 years as a service and central bank for the Icelandic savings banks. Loans to customers other than commercial banks and savings banks grew from ISK 31.2 billion at the end of 2006 to ISK 38.2 billion at the end of September. At the same time, loans to savings banks increased from ISK 18.2 billion to ISK 21.9 billion, while their deposits in the Bank declined slightly.

Income from dividends grew from ISK 294 million to ISK 382 million. To a large extent, these are dividend payments on the Bank's holdings in Exista.

Payroll expenses and other operating expenses of the Bank amounted to ISK 866 million in the first nine months of the year, as compared to ISK 573 million over the corresponding period last year. The 51.1% increase is explained by the increase in the number of staff, increased IT costs and increased activities in all of the Bank's areas of business. The increase is below projections as the progress of introducing new IT systems has not been as rapid as anticipated. The number of full time equivalent positions has grown from 71 at year-end last year to 88 at the end of September. The cost-income ratio was 14.2% in the first nine months of 2007, as compared to 7.1% for the corresponding period of 2006 and 12.8% for the whole of 2006.

Impairment on loans and advances has increased somewhat, amounting to ISK 104 million, as compared to ISK 35 million in the corresponding period of last year. The increase is largely a result of the growing loan portfolio. The total provision for impairment currently stands at ISK 462 million, which corresponds to 1% of total loans and advances at the end of September 2007. These figures are a clear indicator of the quality of the Bank's loan portfolio. The quality has improved significantly since 2003-2005, when the Bank had to cope with substantial loan-losses. The Bank has not invested in any securities, portfolios or derivatives linked to sub-prime loans in the United States.

The Bank's total assets have grown by 137.2% since year-end 2006, from ISK 86.9 billion to ISK 206.1 billion. The biggest factor in the increase is the Bank's business transactions involving acquisitions of bonds and bills of exchange from financial institutions, which qualify for trading in the Central Bank, thereby financing the investments. These instruments subsequently form a part of derivative contracts with sound customers who post security in compliance with the Bank's rules. The Bank's risk from these transactions is limited, and in addition to contributing to the substantial increase in the Bank's assets they represent the principal reason for the increase in net interest income.

The Bank's equity base amounted to ISK 16.2 billion at the end of September. The equity ratio pursuant to CAD rules is 15%, down from 17% at year-end last year. The reduction is partly due to growth in the Bank's loan portfolio and other balance sheet items, and partly due to the growth of off-balance-sheet guarantees. The Bank's policy is to maintain a CAD-ratio of 10-12%, as compared to the legal minimum of 8%. The Bank's high CAD-ratio gives it considerable scope for growth. The annualised return on equity in the first nine months of 2007 was 47.3%, which is well above the Bank's stated goal of 18%.

Key Indicators Five Years Million ISK	Jan-Sep 2007	Jan-Sep 2006*	2006	2005	2004	2003
Net operating income	6,085	6,877	7,820	3,772	1,862	1,018
Operating expenses	-866	-573	-996	-708	-654	-589
Profit	4,263	6,195	5,662	2,381	806	163
Earnings per share (ISK)	4.22	9.43	8.50	3.90	1.33	0.27
Total assets	206,147	74,099	86,925	65,667	46,090	37,577
Interest rate margin	2.0%	1.9%	1.8%	1.6%	1.6%	1.4%
Capital adequacy ratio (CAD)	15.0%	14.9%	17.0%	12.5%	11.8%	14.4%
Return on equity	47.3%	94.9%	63.8%	54.3%	28.5%	7.0%
Cost-income ratio	14.2%	7.1%	12.8%	18.8%	35.1%	57.9%
Full-time equivalent positions	88	70	71	58	53	54

*The figures for Jan-Sep 2006 have not been reviewed

Prospects for the remainder of 2007

Icebank's most recent financial statements have shown that the Bank's lending activities and other traditional banking activities are constantly improving. Continuous work is in progress on strengthening these aspects of the Bank's operations with the objective of making the Bank less exposed to fluctuations in the securities and FX markets. The Bank was for a time one of the larger investors in Exista, but has twice divested itself of large holdings. There are plans to reduce this holding still further and use the resulting cash to continue to strengthen the Bank's development based on the new strategic vision presented in November 2006. It is clear that the instability in domestic and foreign FX, bond and equity markets in recent weeks has had a negative impact on the Bank's results. Projections indicate that the Bank's profit after taxes for all of 2007 could be in the range of ISK 2.9 billion, as compared to ISK 4.3 billion in the first nine months of the year, assuming that there are no further falls in the value of shares and bonds in the Bank's investment portfolio.

The Bank recently acquired Behrens Corporate Finance, which has offices in Reykjavík, Riga in Latvia and Vilnius in Lithuania. The acquisition represented a significant step in strengthening the Bank's corporate finance advisory, which is one of the focal points in the Bank's strategic vision. At the same time, the investment represents an important milestone in the Bank's cross-border expansion, as Behrens will constitute the Bank's first overseas offices. There are plans to take further steps in this direction, as the Bank pursues its strategy of bringing together investors in the Nordic Countries and investment opportunities in the business sectors of the Baltic States.

Shareholders

All the Icelandic savings banks are shareholders in Icebank. They are currently 20. At the end of September, four savings banks owned shares of over 5% in the Bank: BYR Savings Bank (34.3%), Reykjavík Savings Bank (SPRON, 24.5%), Keflavík Savings Bank (SpKef, 12.2%) and Mýrasýsla Savings Bank (SPM, 8.7%).

In October, it was announced that BYR and SPRON, together with a subsidiary savings bank and prospective merged savings banks, had decided to reduce their respective shares in the Bank to 4%. The Buyers will be other savings banks, the senior management of Icebank and external investors. Following the transactions, savings banks will own 57.3% of the total shares in the Bank. The transactions are subject to certain conditions which have still not been lifted, so that the shares have not as yet changed hands.