

ICEBANK hf.

**Interim Accounts
1 January - 30 June 2004**

Contents

	bls.		bls.
Endorsement and Signatures of the Board of Directors and the Managing Director	3	Balance Sheet	6
Auditors' Report	4	Statement of Cash Flows	8
Profit and Loss Account	5	Notes	9

Endorsement and Signatures of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director of Icebank hf. hereby confirm the Bank's Interim Accounts for the period 1 January to 30 June 2004 by their signatures.

Reykjavik, 10 August 2004.

Board of Directors:

Geirmundur Kristinsson

Fridrik Fridriksson

Gudmundur Hauksson

Hallgrimur Jonsson

Thor Gunnarsson

Managing Director:

Finnur Sveinbjornsson

Auditors' report

To the Board of Directors and shareholders of Icebank hf.

We have reviewed the Consolidated Balance Sheet of Icebank hf. as of 30 June 2004 and the related Profit and Loss Account and Statement of Cash Flows for the six months then ended. All information included in these Interim Accounts is the representation of the management of Icebank hf.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and ratios. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Interim Accounts taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the Interim Accounts in order for them to be in conformity with generally accepted accounting principles in Iceland.

Reykjavik, 10 August 2004.

Sigurdur Jonsson

KPMG Endurskodun hf.

Profit and Loss Account for the period 1 January to 30 June

	Notes	2004 1.1-30.6	2003 1.1-30.6
Financial income:			
Interest from credit institutions		507,819	549,351
Interest on loans		289,476	203,368
Interest on bonds		225,414	258,027
	4	1,022,709	1,010,746
Financial expenses:			
Interest to credit institutions		425,827	420,516
Interest on deposits		60,914	36,845
Interest on borrowings		192,364	216,035
Interest on subordinated loans		62,001	48,205
Other interest expenses		1,398	1,404
	4	742,504	723,005
Net interest income		280,205	287,741
Other operating income:			
Dividends from shares and other holdings	6	11,541	15,847
Income from commissions	5	103,934	97,306
Commission expenses		(38,760)	(32,012)
Value adjustment of other financial operations	17	888,965	95,257
Other operating income		5,443	4,549
		971,123	180,947
Net operating income		1,251,328	468,688
Other operating expenses:			
Salaries and salary-related expenses		150,619	139,142
Other administrative expenses		129,411	132,176
Depreciation of fixed assets	12	29,632	29,361
		309,662	300,679
Provision for losses	9,20	(148,040)	(90,000)
Pre-tax profit		793,626	78,009
Calculated income tax	13	(147,018)	(14,077)
Net profit for the period	28	646,608	63,932

Balance Sheet

Assets

	Notes	30.6.2004	31.12.2003
Cash and demand deposits with the Central Bank		712,178	1,849,469
Treasury bills		1,795,235	477,940
Amounts due from credit institutions:			
Required deposits with the Central Bank		1,451,651	1,576,794
Commercial banks		2,452,504	1,658,280
Savings banks		8,479,086	10,010,764
Other credit institutions		682,856	619,610
		13,066,097	13,865,448
Loans:			
	8-10, 19-20		
Loans to customers		13,837,561	10,952,611
Mortgages foreclosed		10,000	20,181
		13,847,561	10,972,792
Bonds and shares in other companies:			
	11, 21-22		
Bonds and other fixed-income securities		5,506,801	7,993,529
Shares in other companies and other variable-yield securities		3,268,314	1,913,207
Shares in associated companies		24,286	20,461
		8,799,401	9,927,197
Other assets:			
Fixed assets	12	414,470	439,812
Other assets		15,611	34,002
Prepaid expenses and accrued income		25,671	9,909
		455,752	483,723
Total assets		38,676,224	37,576,569

30 June 2004

Liabilities and equity

	Notes	30.6.2004	31.12.2003
Amounts due to credit institutions:			
Central Bank		172,943	8,762
Commercial banks		16,638,837	14,976,165
Savings banks		10,223,803	12,425,226
Other credit institutions		376,154	379,919
		<u>27,411,737</u>	<u>27,790,072</u>
Customer accounts, on demand		<u>2,671,365</u>	<u>1,304,631</u>
Borrowings	25	<u>4,039,174</u>	<u>4,707,105</u>
Other liabilities:			
Sundry liabilities		36,707	39,580
Accrued expenses and deferred income		44,101	41,627
		<u>80,808</u>	<u>81,207</u>
Provision for deferred income-tax liability	13	<u>315,457</u>	<u>172,779</u>
Subordinated loans	14,26	<u>1,081,264</u>	<u>1,090,964</u>
Equity:	27-29		
Share capital and shareholders' guarantees		1,208,930	1,208,930
Shareholders' guarantees		(604,465)	(604,465)
Share capital		604,465	604,465
Statutory reserve		248,078	248,078
Retained earnings		2,223,876	1,577,268
Total equity		<u>3,076,419</u>	<u>2,429,811</u>
Total liabilities and equity		<u>38,676,224</u>	<u>37,576,569</u>
Off-Balance Sheet Items:			
	16,30		
Obligations on behalf of customers			
Other obligations			

Statement of Cash Flows for the period 1 January to 30 June 2004

	Notes	2004 1.1-30.6	2003 1.1-30.6
Cash flows from operations:			
Net profit		646,608	63,932
Difference between net profit and cash from operations:			
Indexation and exchange rate difference	(204,999)	(297,672)	(14,572)
Net profit of associated companies	(3,824)	(90,000)	(23,332)
Provision for losses		148,040	90,000
Other items		145,152	23,332
Changes in assets and liabilities		111,963	36,545
Net cash provided by (used in) operating activities		842,940	(98,435)
Cash flows from investing activities:			
Time deposits with the Central Bank, changes		125,143	1,945,823
Other credit institutions, changes		735,226	926,854
Loans to customers, changes	(3,039,067)	(617,451)	(3,759,254)
Trading bonds, changes		2,486,730	3,759,254
Variable-yield securities, changes	(1,163,181)	462,675	(1,175)
Investment in shares in other companies	(219,763)	(1,169)	(1,169)
Investment in fixed assets	(4,290)	(6,305)	(6,305)
Other assets, changes		18,391	6,305
Net cash (used in) provided by investing activities		(1,060,811)	6,481,116
Cash flows from financing activities:			
Amounts owed to credit institutions, changes	(398,518)	(6,051,848)	(6,051,848)
Deposits, changes		1,359,182	257,050
Borrowings, changes	(559,915)	711,197	711,197
Other liabilities	(2,874)	1,052	1,052
Net cash provided by (used in) financing activities		397,875	(5,082,549)
Increase in cash		180,004	1,300,132
Cash and cash equivalents at the beginning of the period		2,327,409	1,736,974
Cash and cash equivalents at the end of the period		2,507,413	3,037,106

Notes

Summary of accounting principles

Basis of preparation

1. The Interim Accounts have been prepared in accordance with the Annual Accounts Act and the Rules on the Financial Statements of Credit Institutions. They are based on cost accounting and are prepared according to the same accounting principles as for the previous year. The Interim Accounts are prepared in Icelandic currency and amounts are presented in thousands of Icelandic krónur.
2. Associated companies are companies where the Bank has significant influence over the financial and operational policies but not a controlling interest. The Interim Accounts include the Bank's share in the performance of associated companies during the time that the influence exists. Where the Bank's share in a loss is higher than the book-value of an associated company the book-value is recorded as zero and further entries of loss are ceased unless the Bank has granted guarantees or financing to the associated company.

Foreign currency

3. Assets and liabilities in foreign currency are converted to Icelandic currency at the 30 June 2004 exchange rate. Operational revenue and expenses in foreign currency are converted at the exchange rate of the date of transaction.

Interest income and interest expenses

4. Interest income and interest expenses are entered into the Profit and Loss Account as they accrue based on actual interest rate. Interest income is calculated on amounts due from other financial institutions, loans and trading securities. Interest expenses are calculated on amounts owed to financial institutions, deposits, borrowings and subordinated loans. If loans have been in default for more than three months interest income is no longer calculated.

Commission income

5. The Bank provides various services to its customers and derives income from such services. Commissions include income from consulting to companies and other customers. Commissions are entered into the Bank's Profit and Loss Account when they are derived.

Income from shares and other holdings

6. The Bank's share in the profit or loss of associated companies is included in income from shares and other holdings, along with dividends on shares. Dividends from trading shares are included among value adjustment of other financial operations in the Profit and Loss Account.

Earnings per share

7. Earnings per share is the ratio between profit and weighted average of share capital during the year and shows the profit per ISK 1 of share capital. The profit for the period amounted to ISK 647 million and the weighted average of the nominal value of share capital was ISK 604 million.

Notes, contd.:

Loans

8. Loans are capitalized with accrued interest, indexation and exchange rate difference at the end of the period. Indexed loans are entered based on indices effective at the beginning of July 2004 and loans in foreign currency based on the exchange rate of the relevant currencies at 30 June 2004.
9. The provision for losses on the loan portfolio is made to meet the risk attached to lending operations. The loss provision is based on estimation and does not represent a final write-off. In addition to the required contribution, certain risk factors are evaluated to determine the total contribution for this purpose. First, there are specific provisions to adjust for obligations of creditors who have received a poor risk evaluation, and second, there is a general provision to meet the general risk of lending operations. Interest on doubtful loans is not entered as income. The provision has been deducted from the appropriate Balance Sheet items, less the provision for issued, guarantees which are posted among sundry liabilities in the Balance Sheet.
10. The Bank has redeemed assets on foreclosed mortgages. Foreclosed mortgages are entered at estimated market price in the Bank's Interim Accounts.

Market securities and holdings

11. The Bank's securities are partly presented as trading securities and partly as investment securities. Investment securities are those which by a formal decision are expected to be held for more than one year, whereas other securities are categorised as trading securities.

Property and equipment

12. Property and equipment are capitalized at cost price less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the property and equipment until a scrap value is reached. Estimated useful life is specified as follows:

Real estate	50 years
Fixtures	5 years
Office equipment	4 - 5 years
Vehicles	6 years

Deferred income-tax liability

13. The deferred income-tax liability has been calculated and entered in the Balance Sheet. The calculation is based on the difference between Balance Sheet items as presented in the tax return, on the one hand, and in the Interim Accounts, on the other hand, taking into account carry-forward tax loss. This difference is due to the fact that tax assessments are based on rules which differ from those governing the Interim Accounts, mostly temporary difference because expenses are entered earlier in the tax turn than in the Interim Accounts.

Subordinated loans

14. The Bank has borrowed funds by issuing indexed bonds in Icelandic currency on subordinate terms. The bonds have the characteristics of equity in being subordinate to other liabilities of the Bank. In the calculation of the capital ratio, the bonds are included with equity, as shown in note 26. The subordinate loans mature in the year 2011. The loans are entered as liabilities with accrued interest and indexation at the end of June. Indexed loans are posted using indices effective as of 1 July 2004.

Notes, contd.:

Cash and cash equivalents

15. Cash and cash equivalents in the Statement of Cash Flows consist of cash and demand deposits with the Central Bank, treasury bills eligible for repurchase agreement with the Central Bank and demand deposits with credit institutions.

Derivatives

16. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the Bank's Balance Sheet, either because rights and obligations arise out of one and the same contract, the contracts perform after the Balance Sheet date or because the notional amounts serve merely as variables for calculating purposes. The notional amounts of derivatives do not necessarily give any indication of the size of the cash flows and the market and credit risk attached to derivatives transactions. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products.

The Bank's derivatives transactions are conducted as trading activity, entered at their market value, and as a hedge against the Bank's own interest rate and currency exposure due to securities issue and other borrowings. Hedge contracts are entered in the same manner as the hedged item. The Bank's derivatives are mainly intended to reduce the price, exchange and interest rate risk assumed by the Bank or its customers. Derivatives performance is entered in the Profit and Loss Account and in the Balance Sheet. Net assets are capitalised among amounts due from credit institutions and other assets, whereas net obligations are entered among sundry liabilities and amounts owed to credit institutions.

The market risk attached to derivatives is created by changes in the price of the factors on which the contracts are based, such as interest rate changes, or exchange rate changes in currency and listed securities. Risk attached to borrowings reflects the loss incurred by the Bank if the counter party in a derivative contract could not fulfil its part of the contract.

Forward rate agreements and futures relating to currency, securities and interest rate are entered in the Bank's Annual Accounts at their end of June market value.

Other operating income

17. Value adjustment of other financial operations is specified as follows:	30.6.2004	30.6.2003
Trading bonds	5,711	25,893
Trading shares	826,324	(197)
Foreign exchange assets and liabilities	56,929	69,561
Total	<u>888,964</u>	<u>95,257</u>

Notes, contd.:

Loans to customers and amounts due from credit institutions

18. Loans to customers itemised by types of loans:

	30.6.2004		31.12.2003	
	Credit institutions	Loans to customers	Credit institutions	Loans to customers
Required deposits with the Central Bank	1,451,651	0	1,576,794	0
Overdrafts	45,006	93,461	98,843	38,737
Production and operations credit	455,658	677,226	438,711	243,045
Bills of exchange	890,413	1,535,300	1,360,647	571,780
Bonds	3,027,064	898,397	2,721,884	2,158,045
Foreign loans	5,645,042	10,633,177	7,093,121	7,925,604
Deposits, currency linked	742,418	0	266,726	0
Inter-bank loans	753,643	0	262,315	0
Subordinated loans	55,202	0	46,407	15,400
Total	13,066,097	13,837,561	13,865,448	10,952,611

19. Non-performing loans are itemised as follows:

	30.6.2004	31.12.2003
Loans with a specific provision for losses	521,281	681,640
Specific provision for losses	(348,751)	(288,052)
Other non-performing loans	143,090	242,739
Total	315,620	636,327

20. A provision for losses on the loan portfolio has been deducted from the appropriate Balance Sheet items. However, the provision for guarantees issued is posted among sundry liabilities, amounting to ISK 30 million. The changes in the provision are itemised as follows:

	Provision for losses 30.6.2004			31.12.2003
	Specific	General	Total	Total
Balance at the beginning of the period	288,052	208,100	496,152	357,051
Provision for losses over the period	135,040	13,000	148,040	222,340
Actual losses during the period	17,021	0	17,021	0
Balance at the end of June	348,751	221,100	569,851	496,152
Provision for losses			3.8%	3.5%

Notes, contd.:

Bonds and shares in other companies

21.	Bonds and other fixed-income securities are itemised as follows:	Market value	Book value
	Trading bonds:		
	Listed on the Iceland Stock Exchange	2,610,062	2,610,062
	Other listed bonds	703,614	703,614
			<u>3,313,676</u>
	Investment bonds:		
	Other listed bonds	1,974,617	1,979,740
	Bonds, unlisted		213,385
			<u>2,193,125</u>
	Bonds and other fixed-income securities at the end of June		<u>5,506,801</u>
	Bonds issued by public bodies		2,632,625
	Bonds issued by others		2,874,176
			<u>5,506,801</u>

Bonds that mature within a year amount to ISK 1,729 million.

22.	Shares and other variable-yield securities are itemised as follows:	Market value	Book value
	Trading shares:		
	Shares listed on the Iceland Stock Exchange	480,579	480,579
	Other listed shares	734,996	734,996
	Unlisted shares		1,795,851
	Total		<u>3,011,426</u>

Assets and liabilities, index-linked or in foreign currencies

23. The total of indexed assets amounted to ISK 5,300 million at the end of June, while indexed liabilities amounted to ISK 4,118 million at the same time. Included in assets and liabilities are forward contracts, see note no. 30.
24. The total amount of assets in foreign currencies amounted to ISK 28,345 million at the end of June, and the total amount of liabilities amounted to ISK 28,351 million at the same time. Included in assets and liabilities are forward contracts, see note no. 30.

Borrowings

25.	The Bank's borrowings are itemised as follows:	30.6.2004	31.12.2003
	Bonds issued	2,911,835	3,613,957
	Borrowings from credit institutions	1,127,339	1,093,148
	Total	<u>4,039,174</u>	<u>4,707,105</u>

Notes, contd.:

Subordinated loans

26. The Bank has borrowed funds by issuing bonds on subordinate terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Bank. In the calculation of capital ratio, the bonds are included with equity, as shown in note 29. The subordinated loans have an interest rate of 7.0% and will be repaid fully with indexation in 2011. As of 26 September 2005 the Bank may redeem the bonds by submitting a notice to such effect.

Equity

27. According to the Bank's Articles of Association, total capital stock amounts to ISK 609 million. At the end of June, shares with a nominal value of ISK 5 million were unsold. One vote is attached to each share of ISK one.

28. Changes in equity are as follows:

	Capital stock	Statutory reserve	Retained earnings	Total
Equity 1.1.2004	604,465	248,078	1,577,268	2,429,811
Net profit			646,608	646,608
Equity 30.6.2004	<u>604,465</u>	<u>248,078</u>	<u>2,223,876</u>	<u>3,076,419</u>

29. Equity at the end of June amounts to ISK 3,076 million, which corresponds to 8.0% of total assets. The Bank's capital ratio, calculated according to Article 84 of the Act on Financial Undertakings, is 14.3%. According to the Act, the ratio is not allowed to go below 8.0%. The ratio is calculated as follows:

	Book value	Weighted value
		30.6.2004 31.12.2003
Risk base:		
Assets recorded in the Interim Accounts	38,676,223	27,242,267 21,401,526
Assets subtracted from equity		(62,203) (60,318)
Guarantees and other items not included in the Balance Sheet		1,497,237 2,780,431
Risk base, total		<u>28,677,301</u> <u>24,121,639</u>
Capital:		
Tier I capital:		
Recorded equity		3,076,419 2,429,811
Tier II capital:		
Subordinated loans		1,081,263 1,090,964
Investment in credit institutions		(62,203) (60,318)
Total equity		<u>4,095,479</u> <u>3,460,457</u>
Capital ratio		14.3% 14.3%

Notes, contd.:

Off-Balance Sheet items

30. The Bank has granted its customers guarantees and documentary credits. Furthermore, it has entered into forward contracts and currency and interest rate contracts with its customers. These obligations and contracts are specified as follows:

	30.6.2004	31.12.2003
Guarantees and documentary credits	2,506,551	4,052,456
Unused overdrafts	1,868	33,300
Forward contracts:		
Assets in ISK	2,349,635	2,808,453
Assets in foreign currencies	4,828,743	5,214,934
Liabilities in ISK	614,787	875,139
Liabilities in foreign currencies	6,556,785	7,147,002
Currency and interest rate swaps:		
Assets in foreign currencies	0	0
Liabilities in ISK	2,596,998	2,621,283
Liabilities in foreign currencies	105,515	102,963
Skuldir í erlendum gjaldmiðlum	2,487,081	2,483,687

The contracts are made to reduce currency and interest risk for the Bank and its customers. The Bank's risk relating to the contracts is a result of possible currency fluctuations or changes in interest rates. At the end of June, the risk is valued at ISK 128 million in the calculation of capital ratio according to applicable rules.