

ICEBANK hf.

**Interim Accounts
1 January - 30 June 2005**

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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 2005 by their signatures.

Reykjavik, 16 August 2005.

Board of Directors:

Geirmundur Kristinsson

Fridrik Fridriksson

Gudmundur Hauksson

Ragnar Z. Guðjónsson

Magnús Ægir Magnússon

Managing Director:

Finnur Sveinbjörnsson

Auditors' Review Report

To the Board of Directors and shareholders of Icebank hf.

We have reviewed the accompanying Consolidated Balance Sheet of Icebank hf. as of 30 June 2005, and the related consolidated Profit and Loss Account and Statement of Cash Flows for the six months period then ended (the interim financial information). This consolidated interim financial information is the responsibility of the Icebank hf. management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the generally accepted accounting principles in Iceland. A review is limited primarily to inquiries to the Savings Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Savings Bank as of 30 June 2005, and the financial performance and cash flows for the interim period then ended, in accordance with generally accepted accounting principles in Iceland.

Reykjavik, 16 August 2005.

Sigurður Jónsson

KPMG Endurskodun hf.

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

	Notes	2005 1.1-30.6	2004 1.1-30.6
Financial income:			
Interest from credit institutions		875,844	507,819
Interest on loans		494,840	289,476
Interest on bonds		223,698	225,414
	4	1,594,382	1,022,709
Financial expenses:			
Interest to credit institutions		780,120	425,827
Interest on deposits		55,646	60,914
Interest on borrowings		310,225	192,364
Interest on subordinated loans		52,852	62,001
Other interest expenses		1,493	1,398
	4	1,200,336	742,504
Net interest income		394,046	280,205
Other operating income:			
Dividends from shares and other holdings	6	11,243	11,541
Income from commissions	5	100,387	103,934
Commission expenses		(38,205)	(38,760)
Value adjustment of other financial operations	16	869,257	888,965
Other operating income		10,158	5,443
		952,840	971,123
Net operating income		1,346,886	1,251,328
Other operating expenses:			
Salaries and salary-related expenses		167,737	150,619
Other administrative expenses		131,760	129,411
Depreciation of fixed assets	11	25,367	29,632
		324,864	309,662
Provision for losses	9,19	(60,000)	(148,040)
Profit before taxes		962,022	793,626
Calculated income tax	12	(175,604)	(147,018)
Net profit for the period	27	786,418	646,608

Balance Sheet

Assets

	Notes	30.6.2005	31.12.2004
Cash and demand deposits with the Central Bank		5,844,931	4,414,009
Treasury bills		1,148,637	795,289
Amounts due from credit institutions:			
Commercial banks		6,807,326	5,688,877
Savings banks		9,300,345	9,261,642
Other credit institutions		450,603	438,819
		16,558,274	15,389,338
Loans:			
	8-9, 18-19		
Loans to customers		16,272,049	14,817,604
Bonds and shares in other companies:			
	10, 20-21		
Bonds and other fixed-income securities		5,238,615	5,589,812
Shares in other companies and other variable-yield securities		4,485,795	4,689,660
Shares in associated companies		24,959	24,749
		9,749,369	10,304,221
Other assets:			
Fixed assets	11	362,020	387,387
Other assets		38,789	9,307
Prepaid expenses and accrued income		9,433	3,050
		410,242	399,744
Total assets		49,983,502	46,120,205

30 June 2005

Liabilities and equity

	Notes	30.6.2005	31.12.2004
Amounts due to credit institutions:			
Central Bank		258,139	10,238
Commercial banks		18,999,652	15,915,262
Savings banks		12,182,981	13,624,394
Other credit institutions		1,413,817	4,055,557
		<u>32,854,589</u>	<u>33,605,451</u>
Customer accounts, on demand		<u>2,784,256</u>	<u>2,264,563</u>
Borrowings	24	<u>8,577,521</u>	<u>5,387,479</u>
Other liabilities:			
Sundry liabilities		28,176	75,022
Accrued expenses and deferred income		74,760	63,858
		<u>102,936</u>	<u>138,880</u>
Provision for liabilities:			
Provision for deferred income-tax liability	12	<u>529,649</u>	<u>354,045</u>
Subordinated loans	13,25	<u>1,112,000</u>	<u>1,133,654</u>
Equity:	26-28		
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		3,170,008	2,383,590
Total equity		<u>4,022,551</u>	<u>3,236,133</u>
Total liabilities and equity		<u><u>49,983,502</u></u>	<u><u>46,120,205</u></u>
Off-Balance Sheet Items:			
	15,29		
Obligations on behalf of customers			
Other obligations			

Statement of Cash Flows for the period 1 January to 30 June 2005

	Notes	2005 1.1-30.6	2004 1.1-30.6
Cash flows from operations:			
Net profit		786,418	646,608
Difference between net profit and cash from operations:			
Indexation and exchange rate difference .....	(	26,170)	(204,999)
Net profit of associated companies .....	(	210)	(3,824)
Provision for losses		60,000	148,040
Other items		186,506	145,152
Changes in assets and liabilities		18,984	111,963
Net cash used in operating activities		1,025,528	842,940
Cash flows from investing activities:			
Time deposits with the Central Bank, changes		0	125,143
Other credit institutions, changes .....	(	1,137,895)	735,226
Loans to customers, changes .....	(	1,387,676)	(3,039,067)
Trading bonds, changes		351,197	2,486,730
Variable-yield securities, changes		282,164	(1,163,181)
Shares in other companies, sold		59,609	0
Investment in shares in other companies .....	(	105,035)	(219,763)
Investment in fixed assets		0	(4,290)
Other assets, changes .....	(	29,482)	18,391
Net cash used in investing activities	(	1,967,118)	(1,060,811)
Cash flows from financing activities:			
Amounts owed to credit institutions, changes .....	(	1,040,902)	(398,518)
Deposits, changes		524,414	1,359,182
Borrowings, changes		3,289,194	(559,915)
Other liabilities .....	(	46,846)	(2,874)
Net cash provided by (used in) financing activities		2,725,860	397,875
Increase in cash		1,784,270	180,004
Cash and cash equivalents at the beginning of the period		5,209,298	2,327,409
Cash and cash equivalents at the end of the period		6,993,568	2,507,413

Notes

Summary of accounting principles

Basis of preparation

1. The Interim Accounts have been prepared in accordance with the Annual Accounts Act and the Regulation on the Preparation of Annual Accounts for Commercial Banks, Savings Banks and Other 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 2005 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.

Revenue and expenses equivalent to interest, such as up-front fees, are included among interest income and expensed as they accrue.

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.

Notes, contd.:

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 786 million and the weighted average of the nominal value of share capital was ISK 604 million.

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 2005 and loans in foreign currency based on the exchange rate of the relevant currencies at 30 June 2005.
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.

Market securities and holdings

10. 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

11. 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

Deferred income-tax liability

12. 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.

Notes, contd.:

Subordinated loans

13. 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 25. 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 2005.

Cash and cash equivalents

14. 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

15. 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, changes in foreign exchange rates and changes in the price of 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

16. Value adjustment of other financial operations is specified as follows:	30.6.2005	30.6.2004
Trading bonds	(68,644)	5,712
Trading shares	850,939	826,324
Foreign exchange assets and liabilities	86,962	56,929
Total	<u>869,257</u>	<u>888,965</u>

Notes, contd.:

Loans to customers and amounts due from credit institutions

17. Loans to customers itemised by types of loans:

	30.6.2005		31.12.2004	
	Credit institutions	Loans to customers	Credit institutions	Loans to customers
Overdrafts	533,808	151,753	90,438	40,900
Production and operations credit	44,650	142,156	284,481	163,011
Bills of exchange	557,234	758,415	1,957,460	1,050,636
Bonds	2,321,656	3,539,657	3,139,627	4,234,453
Foreign loans	11,127,713	11,680,068	7,690,448	9,328,604
Deposits, currency linked	408,737	0	262,059	0
Inter-bank loans	1,486,376	0	1,867,725	0
Subordinated loans	78,100	0	97,100	0
Total	16,588,274	16,272,049	15,389,338	14,817,604

18. Non-performing loans are itemised as follows:

	30.6.2005	31.12.2004
Loans with a specific provision for losses	360,030	512,193
Specific provision for losses	(260,025)	(343,468)
Other non-performing loans	37,011	48,978
Total	137,016	217,703

19. A provision for losses on the loan portfolio has been deducted from the appropriate Balance Sheet items. The changes in the provision are itemised as follows:

	Provision for losses 30.6.2005			31.12.2004
	Specific	General	Total	Total
Balance at the beginning of the period	343,469	221,200	564,669	496,152
Provision for losses over the period	27,300	32,700	60,000	220,468
Paid-in previously written off.....				15,238
Actual losses during the period	(110,744)		(110,744)	(167,189)
Balance at the end of June	260,025	253,900	513,925	564,669
Provision for losses			2.8%	3.5%

Notes, contd.:

Bonds and shares in other companies

20.	Bonds and other fixed-income securities are itemised as follows:	Market value	Book value
	Trading bonds:		
	Listed on the Iceland Stock Exchange	3,185,743	3,185,743
	Other listed bonds		0
			<u>3,185,743</u>
	Investment bonds:		
	Listed on the Iceland Stock Exchange	18,539	18,539
	Other listed bonds	2,026,781	2,003,026
	Bonds, unlisted		31,307
			<u>2,052,872</u>
	Bonds and other fixed-income securities at the end of June		<u>5,238,615</u>
	Bonds issued by public bodies		3,217,050
	Bonds issued by others		<u>2,021,565</u>
			<u>5,238,615</u>

Bonds that mature within a year amount to ISK 697 million.

21.	Shares and other variable-yield securities are itemised as follows:	Market value	Book value
	Trading shares:		
	Shares listed on the Iceland Stock Exchange	929,790	929,790
	Other listed shares	817,464	817,464
	Unlisted shares		2,503,981
	Total		<u>4,251,235</u>

Assets and liabilities, index-linked or in foreign currencies

22. The total of indexed assets amounted to ISK 5,861 million at the end of June, while indexed liabilities amounted to ISK 5,626 million at the same time. Included in assets and liabilities are forward contracts, see note no. 29.

23. The total amount of assets in foreign currencies amounted to ISK 40,113 million at the end of June, and the total amount of liabilities amounted to ISK 40,040 million at the same time. Included in assets and liabilities are forward contracts, see note no. 29.

Borrowings

24.	The Bank's borrowings are itemised as follows:	30.6.2005	31.12.2004
	Bonds issued	7,783,282	4,239,083
	Borrowings from credit institutions	794,239	1,148,396
	Total	<u>8,577,521</u>	<u>5,387,479</u>

Notes, contd.:

Subordinated loans

25. 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 28. 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

26. 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.

27. Changes in equity are as follows:

	Capital stock	Statutory reserve	Retained earnings	Total
Equity 1.1.2005	604,465	248,078	2,383,590	3,236,133
Net profit			786,418	786,418
Equity 30.6.2005	<u>604,465</u>	<u>248,078</u>	<u>3,170,008</u>	<u>4,022,551</u>

28. Equity at the end of June amounts to ISK 4,023 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 11.3%. 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	49,983,502	28,563,940	25,324,245
Assets subtracted from equity		(1,946,438)	(1,362,172)
Guarantees and other items not included in the Balance Sheet		1,594,787	1,566,187
Risk base, total		<u>28,212,289</u>	<u>25,528,260</u>
Capital:			
Tier I capital:			
Recorded equity		4,022,551	3,236,133
Tier II capital:			
Subordinated loans		1,112,00	1,133,653
Investment in credit institutions		(1,946,438)	(1,362,172)
Total equity		<u>3,181,053</u>	<u>3,007,614</u>
Capital ratio		11.3%	11.8%

Notes, contd.:

Off-Balance Sheet items

29. 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:

	30.6.2005	31.12.2004
Guarantees and documentary credits	2,597,665	2,396,851
Unused overdrafts	21,735	133,968
Forward contracts:		
Assets in ISK	4,093,353	3,169,958
Assets in foreign currencies	11,291,354	5,091,178
Liabilities in ISK	1,889,315	1,010,907
Liabilities in foreign currencies	12,736,640	7,244,613
Currency and interest rate swaps:		
Assets in foreign currencies	2,311,135	2,235,481
Liabilities in ISK	107,753	106,992
Liabilities in foreign currencies	2,226,015	2,118,282

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 164 million in the calculation of capital ratio according to applicable rules.