



---

ICEBANK LTD.

## INTERIM REPORT

*January – June 2001*

### ***Operating results:***

---

The first 6 months of 2001 show an improvement in profits compared to the same period in 2000. Net operating income amounts to ISK 339.3 million, up from ISK 242.5 million, or 39.9%, for the first half of 2001. Operating expenses have at the same time increased by 34.0%, amounting to a total of ISK 265.2 million. The result is explained mainly by losses in other financial operations, where trading shares show a loss of 129.3 million, bonds and fx trades show a profit of 60.3 million, resulting in a net loss on financial transactions of 68.9 million. There is, however, a clear improvement in regular operations. Although net interest income increased by 32.1% over the same period last year, interest expenses increased by 30.1%, bringing the net interest income to ISK 200.2 million, as compared to ISK 130.4 million for the first half of 2000. This is a turnaround from 2000, showing that the action taken to increase the net interest margin of the bank has shown some success as the interest margin increased from 0.6% to 0.84%. The net profit for the period, after provision for possible credit losses and deduction of calculated taxes, hence amounts to ISK 21.5 million, as compared to ISK 14.7 million in the same period of 2000.

### ***Corporate lending and provisions:***

---

The bank's direct participation in the corporate lending of the Savings Banks continues to increase and amounts to ISK 12.7 billion by mid-year, as compared to ISK 9.6 billion as at the end of 2000, an increase of 32%. Half of this increase is due to the depreciation of the krona and the indexation of loans. Provisions for possible credit losses are based on the volume of this lending as well as issued Letters of Credit and Guarantees. An amount of ISK 51 million is set aside for the first 6 months of 2001 and that figure is projected to reach ISK 102 million for the full year. The total reserves for possible credit losses now amount to ISK 584.2 million, of which specific provisions amount to ISK 224.2 million.

### ***The Balance Sheet:***

---

Total assets of the bank increased during the first six months of 2001, from ISK 45.1 billion to ISK 49.6 billion, or by 9.8%. The bank's equity amounts to ISK 2,090 million as at 30 June 2001, of which ISK 604.4 million is capital stock. The Savings Banks have provided Icebank with guarantees equal to the amount of its capital stock, which the Board of Icebank is authorized to call on at any time. These guarantees have the purpose of supporting the bank in its capacity as the international front of the Icelandic Savings Banks. Adding the guarantees to the equity brings the effective capital of the bank to ISK 2,694 million.

The capital adequacy ratio of the bank is 10.1%, up from 8.9%. Icebank issued bonds on subordinated terms during the past year amounting to ISK 936.1 million. Icebank holdings in credit institutions amount to 799.5 million, so the risk weighted equity, excluding the savings banks guarantees, is ISK 2,226 million.

### ***The economic environment:***

The first half of 2001 has been very eventful on the economic front, especially in terms of monetary policy. Three things deserve particular mention in this context. First, growing inflation, which peaked in June when the annualized monthly change in the consumer price index reached 20.0%; the y/y change in the same month, however, was 6.8%. The Central Bank's inflation forecast for 2001 is for 8.1% inflation within the year and is expected to be down to around 3% in 2002. Second, high volatility in the foreign exchange market and a sharp depreciation of the krona, by 16.9%, in the first half of 2001. On 27 March, the Icelandic government and the Central Bank of Iceland announced a change in monetary policy switching from an exchange rate band to inflation targets, with a target of 2½% set for annual average inflation and a tolerance limit of ±1½% from 2003, but higher adjustment limits this year and the next. This change in policy brought on an unexpected depreciation of the krona. Third, a general slowdown in economic activity with an outlook for a soft landing after rapid growth over the past 5 years. According to the Ministry of Finance, tax income is almost unchanged from last year and turnover taxes show signs of reduction from last year. Consumption and investment figures also show signs of falling. The main explanations for this development are a decline in the purchasing power of households and reduced profit for companies. Trading in the bond market has increased substantially from last year as investors seek shelter from the bearish equities market. This year's trading volume has already doubled from last year.

### ***Prospects for the remainder of year:***

The bank expects that the second half of the year will be as good as the first for regular operations. There is, however, greater uncertainty regarding stock market trends, and thereby the outcome of other financial operations.

In our opinion, the inflation and the exchange rate fluctuations of the krona are stabilising and we expect that economic conditions in general will be more positive around the turn of the year.

Over the past 20 years, accounting principles applied by Icelandic companies have been different from those applied in neighbouring countries as regards calculating the effects of general price-level changes. The Bank plans to cease calculating these changes in the year 2002, thereby improving comparability with the international market and bringing the accounts into greater conformity with international accounting principles.

This Interim Report is based on the rules and regulations pertaining to the Icelandic Banking Act and is fully consistent with the accounting principles hitherto applied to Icebank's Annual Reports.

Reykjavik, September 2001

Sigurður Hafstein  
Managing Director

**ICEBANK LTD.**

**SAVINGS BANKS**

<u><b>Profit &amp; Loss Account (ISK '000)</b></u>	<b>Jan.-Jun. 2001</b>	<b>Jan.-Jun. 2000</b>	<b>Change %</b>	<b>Full year 2000</b>	<b>Full year 2000 mio kr.</b>
Financial income	1.995.794	1.510.254	32,1%	3.300.590	14.529
Financial expenses	-1.795.525	-1.379.560	30,2%	-3.033.155	9.745
<b>Net interest income</b>	<b>200.269</b>	<b>130.694</b>	<b>53,2%</b>	<b>267.435</b>	<b>4.784</b>
Other operating income	207.913	135.544	53,4%	367.246	6.481
Net result from financial transactions	-68.865	-23.691	190,7%	60.381	
<b>Net operating income</b>	<b>339.317</b>	<b>242.547</b>	<b>39,9%</b>	<b>695.062</b>	<b>11.265</b>
Salaries and related expenses	-124.712	-105.571	18,1%	-224.678	2.516
Operating expenses incl. depreciation	-140.509	-92.308	52,2%	-232.284	3.016
Provision for losses	-51.000	-30.000	70,0%	-101.500	1.457
<b>Profit before taxes</b>	<b>23.096</b>	<b>14.668</b>	<b>57,5%</b>	<b>136.600</b>	<b>4.276</b>
<b>Profit for the period</b>	<b>21.546</b>	<b>14.668</b>	<b>46,9%</b>	<b>103.090</b>	<b>3.140</b>
<u><b>Balance Sheet (ISK '000)</b></u>	<b>Jun. 30 2001</b>	<b>Dec. 31 2000</b>	<b>Change %</b>	<b>Jun. 30 2000</b>	<b>Dec. 31 2000</b>
<b>Assets</b>					
Cash and treasury bills	870.370	1.176.750	-26,0%	809.596	11.415
Credit institutions	25.427.393	25.255.135	0,7%	24.579.714	2.484
Loans to customers	12.859.854	9.640.445	33,4%	8.572.460	102.861
Securities	9.737.469	8.573.190	13,6%	7.176.662	22.126
Other assets	713.443	523.538	36,3%	386.790	2.646
	<b>49.608.529</b>	<b>45.169.058</b>	<b>9,8%</b>	<b>41.525.222</b>	<b>141.532</b>
<b>Liabilities and Equity</b>					
Credit institutions	38.629.026	32.975.869	17,1%	30.890.877	20.405
Deposits	2.583.106	2.466.227	4,7%	2.284.446	69.332
Borrowings	5.061.464	6.957.888	-27,3%	6.236.341	27.277
Other liabilities	308.696	294.202	4,9%	252.715	6.105
Subordinated loans	936.160	500.233	87,1%		3.681
Capital	2.090.077	1.974.639	5,8%	1.860.843	14.732
	<b>49.608.529</b>	<b>45.169.058</b>	<b>9,8%</b>	<b>41.525.222</b>	<b>141.532</b>
<b>Off-Balance Sheet Items</b>	525.567	1.349.182	-61,0%	1.012.873	7.113
<u><b>Key Indicators (%)</b></u>	<b>Jun. 30 2001</b>	<b>Dec. 31 2000</b>		<b>Jun. 30 2000</b>	<b>Dec. 31 2000</b>
Operating income / Operating expenses	78,2%	65,7%		81,6%	49,1%
Return on equity (ROE)	2,1%	5,2%		1,6%	21,3%
Capital adequacy ratio (CAD)	10,1%	8,9%		9,3%	12,6%
Loss and provision ratio	0,1%	0,3%		0,1%	1,4%
Interest rate margin	0,82%	0,60%		0,64%	3,4%
Full time equivalent employees	54	53		46	651

## *The Icelandic Savings Banks*

---

There are 24 Savings Banks in Iceland operating a branch network of 56 offices throughout the country and jointly representing one fifth of the banking market. Some of the Savings Banks have been operating for over a century, and some are among the youngest banking institutions in Iceland.

Each of the Savings Banks is an independent entity, each with its own Board of Directors and firmly rooted in its local community. The respective municipal authorities appoint two out of five board members with the remaining three elected by the Annual General Meeting. In many instances, they are the only financial institutions in their area of operation and render services to individuals as well as corporate entities and local authorities.

The Icelandic Savings Banks Association was established in 1967 and started, albeit on a modest scale, co-operation between the Savings Banks who had until then been working totally independently of each other. The co-operation has increased year by year, initially mainly in administrative and legislative matters.

With the establishment of Icebank and The Savings Banks Guarantee Fund (mutual guarantee on deposits) in 1986, close financial co-operation was started. That cooperation has resulted in an increased market share from some 15% in 1986 to a current market share of approximately 20% in terms of total deposits. Recent regulatory changes regarding the aforementioned Savings Banks Guarantee Fund allow for the merger of the fund with other similar guarantee funds, to form an industry-wide deposit guarantee fund.

The role of Icebank is to be the central banking institution for the Icelandic Savings Banks and their subsidiaries with all the related tasks involved, such as liquidity administration, interbank lending and international service and representation.

Besides their ownership of Icebank, the Savings Banks are 50% owners of Kaupthing Ltd., a securities house and investment bank, the leasing company SP Fjarmagnun Ltd., the life insurance company Althjoda liftryggingafelagið Ltd. and jointly they operate the Computer Center of the Icelandic Savings Banks. The Savings Banks, in cooperation with the Icelandic commercial banks, operate a joint clearing house and data processing center, the Icelandic Banks Data Center. The Savings Banks also hold a quarter share of VISA Iceland and Europay Iceland. Icebank also belongs to The Banker's Association of Iceland.

The close co-operation of the Savings Banks has made them a significant and solid group of interrelated and modern financial institutions representing a large proportion of the Icelandic banking market.

---

Postal address:	P.O. Box 5220, 125 Reykjavik, Iceland
Street address:	Raudararstigur 27, 105 Reykjavik, Iceland
Telephone numbers:	General Business: +354 540 4000
	Treasury/Forex: +354 540 4030
Fax numbers:	General business: +354 540 4001
	Treasury/Forex: +354 540 4181

	Payments/SWIFT:	+354 540 4182
	Guarantees:	+354 540 4187
	Loans/Forfeiting	+354 540 4186
Reuter:	ICEBANK	
Telex number:	5462512 (call back 62512 icebanks)	
SWIFT address:	LSIC IS RE	
e-mail:	<a href="mailto:icebank@icebank.is">icebank@icebank.is</a>	
Internet	<a href="http://www.icebank.is/">http://www.icebank.is/</a>	