

**INTERIM REPORT**  
**JANUARY 1 TO JUNE 30, 2002**

---



**ICEBANK LTD.**

SPARISJÓÐABANKI  
ÍSLANDS HF.

## Financial Performance

For the first time in Icebank's 16-year history, a financial report is published with negative operating results. Net loss after taxes during January-June 2002 amounted to ISK 94.8 million, as compared to a net profit of ISK 21.5 million during the same period in 2001 and a net profit of ISK 15.1 million for 2001 as a whole. The Bank's total assets fell from ISK 54.3 billion at year-end 2001 to ISK 49.9 billion at mid-year 2002.

The mid-year results of 2002 are explained mainly by four factors affecting the profit and loss account:

- Provisions for bad debts doubled from budgeted figures;
- The equities portfolio continued to fall in value, producing a significant net loss;
- The yield on the Bank's portfolio of domestic T-bonds fell short of expectations during the period ;
- The Bank's loans portfolio declined in volume by approximately ISK 4 billion.

Interest margins, on the other hand, are improving in line with the Bank's strategy, reaching 1% for the period, up from 0.9% in 2001.

Despite these setbacks, however, the capital adequacy ratio of the Bank remains strong, standing at 12.2% at end-June 2002 as compared to 11.5% at year-end 2001.

---

## Economic Environment

The recent imbalances in the Icelandic economy have all but disappeared with the slowdown in economic activity. GDP is expected to shrink by 0.8% in 2002, slightly more than previously forecast. However, the economy is expected to pick up steam later this year and return to a healthy 2.4% growth rate in 2003. The contraction in the economy and the appreciation of the króna *vis-à-vis* foreign currencies this year have had positive effects on the inflation rate and the current account deficit, both of which had reached unsustainable levels in 2001 and early 2002. The current account deficit is now expected to amount to some 1% of GDP in 2002, as compared to 4.3% in 2001. The inflation rate, which peaked at over 9% on an annualised basis in early 2002, has subsided fast and the Central Bank now expects the inflation rate over the course of 2002 to be 2.1%, which is within the upper limits of their inflation rate target. The Central Bank has reacted to the slowdown in economic activity and falling inflation by cutting its repo rate five times, from late March to early August, by a total of 2.2%. Further cuts are widely expected. Yields in the bond market have also eased but neither as fast nor as much as the rate cuts of the Central Bank. The yield on 5-year T-bonds, which averaged 9.9% in 2001, had declined to 8.4% in June 2002, but the yield on price-indexed 10-year T-bonds and 25-year housing bonds remained virtually unchanged from their 2001 levels, at 5.4% and 5.8% respectively.

---

## Operating Results

Icebank's operations during the first six months of 2002 were characterised by the easing demand for credit and reduced imports, with a corresponding impact on the savings banks' needs for the Bank's services, as well as the adverse developments in foreign securities markets. The volume of outstanding loans to the savings banks declined by some ISK 2 billion from the beginning of the year to the end of June and the volume of outstanding loans to corporate customers also declined by almost ISK 2 billion during the same period. Part of this is explained by the appreciation of the Icelandic króna

*vis-à-vis* foreign currencies, but it also reflects the slowdown in economic activity and the resulting slack in credit demand. The total balance sheet of the Bank came down from ISK 54.3 billion at the end-2001 to ISK 49.9 billion at end-June, or by over 8%.

The strategy of increasing Icebank's interest rate margin is gradually making itself felt in the Bank's accounts. The margin was 1.8% five years ago, but stiff competition in the Icelandic credit market forced the Bank to lower the margin continually until it reached its lowest point, at 0.6%, in the year 2000. Last year, the ratio increased to 0.9% and in the first half of 2002 it was 1%.

Other operating income fell from ISK 339.3 million in the first six months of 2001 to ISK 314.1 million in 2002. This decline is explained mostly by a decline in income from commissions, from ISK 166.2 million in 2001 to ISK 66.6 million in 2002. Part of this is due to the significant reduction in imports and a corresponding decline in the savings banks' demand for Icebank's services. In addition, the adverse developments in domestic and foreign securities markets led to a loss of ISK 74.3 million on the Bank's portfolio of market securities.

Provisions for losses amounted to ISK 120 million in the first six months in 2002, as compared to ISK 51 million during the corresponding period of 2001, and ISK 220 million for the year 2001 as a whole. The slowdown in the Icelandic economy and negative effects from falling prices of foreign securities have resulted in difficulties for many borrowers in Iceland, including the Bank's corporate customers. In addition, provisions had to be made for a decline in the value of collateralized as well as foreclosed assets. The net accumulated provisions for losses amounted to 6.0% of total outstanding loans at mid-year 2002, as compared to 5.1% at year-end 2001, of which some 4% constitute specific provisions.

The capital adequacy ratio of Icebank continued to improve. It was 10.1% at mid-year 2001, 11.5% at year-end 2001 and rose to 12.2% at mid-year 2002.

---

## Outlook for the Remainder of the Year

Icebank expects the latter half of this year to be better than the first half. The interest rate cuts by the Central Bank have begun to make themselves felt in the domestic bond market, and the Bank has already begun to sell from its bond portfolio, thereby reaping welcome capital gains. The outlook for the Bank's portfolio of foreign equities is more uncertain, but the expectations that the main international equities markets have bottomed out should stem further losses. As mentioned earlier, the Icelandic economy will gradually start to pick up steam later this year, according to projections, and this should be reflected in greater demand for the Bank's services. Furthermore, decisions that have already been taken to reduce operating costs, including personnel costs, will gradually begin to have an impact in the latter half of the year.

Reykjavík, August 2002

**Finnur Sveinbjörnsson**  
Managing Director

	§ ICEBANK LTD.				SAVINGS BANKS
<b>Profit &amp; Loss Account (ISK '000)</b>	<b>Jan.-Jun. 2002</b>	<b>Jan.-Jun. 2001</b>	<b>Change %</b>	<b>Full year 2001</b>	<b>Full year 2001 mio ISK</b>
Financial income	1.771.144	1.995.794	-11,3%	4.024.526	20.537
Financial expenses	-1.506.621	-1.795.525	-16,1%	-3.603.578	-14.443
<b>Net interest income</b>	<b>264.523</b>	<b>200.269</b>	<b>32,1%</b>	<b>420.948</b>	<b>6.094</b>
Other operating income	123.941	207.913	-40,4%	479.384	2.841
Net result from financial transactions	-74.347	-68.865	8,0%	-194.202	-147
<b>Net operating income</b>	<b>314.117</b>	<b>339.317</b>	<b>-7,4%</b>	<b>706.130</b>	<b>8.788</b>
Salaries and related expenses	-150.242	-124.712	20,5%	-277.673	-2.907
Operating expenses inclc. depreciation	-159.468	-140.509	13,5%	-257.765	-3.304
Provision for losses	-120.000	-51.000	135,3%	-220.000	-2.620
<b>Profit before taxes</b>	<b>-115.593</b>	<b>23.096</b>	<b>-600,5%</b>	<b>-49.308</b>	<b>-43</b>
<b>Profit for the period</b>	<b>-94.793</b>	<b>21.546</b>	<b>-540,0%</b>	<b>15.053</b>	<b>716</b>
<b>Balance Sheet (ISK '000)</b>	<b>Jun. 30 2002</b>	<b>Dec. 31 2001</b>	<b>Change %</b>		<b>Dec. 31 2001</b>
<i>Assets</i>					
Cash and Treasury bills	1.734.807	432.255	301,3%		1.044
Credit institutions	27.183.453	31.326.900	-13,2%		13.229
Loans to customers	9.393.677	11.300.297	-16,9%		117.037
Securities	10.977.331	10.586.698	3,7%		26.979
Other assets	653.547	662.881	-1,4%		3.683
	<u>49.942.815</u>	<u>54.309.031</u>	<u>-8,0%</u>		<u>161.972</u>
<i>Liabilities and Equity</i>					
Credit institutions	38.474.464	44.156.000	-12,9%		25.806
Deposits	3.440.216	2.706.289	27,1%		79.262
Borrowings	4.761.610	4.026.729	18,3%		29.416
Other liabilities	197.880	237.501	-16,7%		5.019
Subordinated loans	1.022.085	1.041.159	-1,8%		5.077
<b>Capital</b>	<b>2.046.560</b>	<b>2.141.353</b>	<b>-4,4%</b>		<b>17.392</b>
	<u>49.942.815</u>	<u>54.309.031</u>	<u>-8,0%</u>		<u>161.972</u>
<b>Off-Balance Sheet Items</b>	1.170.111	952.724	22,8%		8.204
<b>Key Indicators (%)</b>	<b>Jun. 30 2002</b>	<b>Dec. 31 2001</b>	<b>Jun. 30 2001</b>		<b>Dec. 31 2001</b>
Cost-income ratio	98,6%	75,8%	78,2%		70,7%
Return on equity before taxes	-10,5%	-2,5%	2,1%		4,1%
Return on equity after taxes	-8,7%	0,7%	2,3%		
Capital adequacy ratio (CAD)	12,2%	11,5%	10,1%		12,7%
Net accumulated provisions ratio	6,0%	5,1%	2,8%		
Interest rate margin	1,02%	0,93%	0,82%		4,0%

## 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, while some are among the youngest banking institutions in Iceland.

Each of the Savings Banks is an independent entity, firmly rooted in its local community with its own Board of Directors. In many instances, they are the only financial institutions in the areas where they operate, rendering services to corporate entities and local authorities as well as individuals.

The Icelandic Savings Banks Association was established in 1967 and represented, albeit on a modest scale, the start of co-operation between the Savings Banks, which until then had been working in complete independence from one another. The co-operation, initially mainly in administrative and legislative matters, has increased year by year and branched into other fields.

With the establishment of Icebank and the Savings Banks' Guarantee Fund (mutual guarantee on deposits) in 1986, close financial co-operation was started. That co-operation has resulted in an increased market share for the Savings Banks from some 15% in 1986 to a current market share of approximately 25% in terms of total deposits. The Savings

Banks and Icebank are also covered by the sector-wide deposit guarantees under the umbrella of the Central Bank of Iceland.

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

Besides their ownership of Icebank, the Savings Banks are the largest shareholders of Kaupthing Bank Ltd., a securities house and investment bank, the leasing company SP-Fjarmognun Ltd., and the life insurance company Althjoda liftryggingafelagið Ltd. Jointly, they operate the Computer Center of the Icelandic Savings Banks and in co-operation with the Icelandic commercial banks, they 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, and Icebank is a member of the Bankers' and Securities Dealers' Association of Iceland.

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



## ICEBANK LTD.

S P A R I S J Ó Ð A B A N K I  
Í S L A N D S H F.

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

Loans/Export Finance +354 540 4186

Guarantees: +354 540 4187

Reuter:

ICEBANK - Reuter dealing: ICEB

Telex number:

5462512@tlx.maricom.telia.com

SWIFT address:

LSIC IS RE

e-mail:

icebank@icebank.is

Internet

www.icebank.is