

Icebank's Annual Accounts for 2004: Highest profit and return on equity ever

1. Icebank and highlights from the annual accounts.

Icebank (Sparisjóðabanki Íslands hf.), established in 1986, is a licensed commercial bank and the central banking institution for the Icelandic savings banks and their subsidiaries. It is solely owned by the 24 savings banks in Iceland. The role of the Bank is to provide the savings banks with international services, domestic clearing, liquidity administration, foreign exchange, external funding, syndicate lending, trade finance and specialised services of various kind. The savings banks have traditionally been the Bank's most important customers, but the share of other customers in the Bank's lending portfolio has been increasing steadily. These are either customers that savings banks refer to the Bank or customers in areas of business where the savings banks are not operating.

The largest owners of Icebank are the Reykjavik Savings Bank (SPRON, 24.7%), Hafnarfjörður Savings Bank (14.8%), Engineers' Savings Bank (14.1%) and Keflavik Savings Bank (11.7%).

Highlights from the 2004 accounts:

- Net profit amounts to ISK 806 million and has never been higher in the Bank's history. In 2003, net profit amounted to ISK 163 million. This is an increase of 394,3%.
- Return on equity (ROE) after taxes came to 28.5% in 2004, as compared to 7% in 2003. ROE has never been higher in the Bank's history.
- The balance sheet grew from ISK 37.6 billion at year-end 2003 to ISK 46.1 billion at year-end 2004, an increase of 22.6% and a strong turn-around following a reduction in both 2002 and 2003.
- Loans to customers other than credit institutions increased from ISK 11.0 billion at year-end 2003 to ISK 14.8 billion at year-end 2004, or by 35.0%. Loans to savings banks declined from ISK 10.0 billion at year-end 2003 to ISK 9.3 billion at year-end 2004. Deposits in the Bank from savings banks increased over the same period by ISK 1.2 billion and amounted to ISK 13.6 billion at year-end 2004. This means that the savings banks' net-position in the Bank, i.e. deposits in excess of lending, increased by ISK 1.9 billion in 2004. This clearly reflects the strong liquidity position of the savings banks. At the same time, these figures show the shift in emphasis in the Bank's lending operations.
- Net interest income has never been higher in the Bank's history, amounting to ISK 629 million, as compared to ISK 541 million in 2003. The increase is 16.2%.

- The changed composition of the Bank's loan portfolio has led to an increase in the total interest rate margin to 1.6%, as compared to 1.4% in 2003 and 1.0% in 2002.
- Conditions in the domestic bond and equity markets were unusually favourable in 2004. This is evident from the item *other operating income*, which amounted to ISK 1,233 million, as compared to ISK 476 million in 2003. The increase of 158.8%. A large part of the total figure, or just over ISK 800 million, stems from a rise in the value of the Bank's shareholdings in the investment company Meidur, which is the largest single shareholder in three companies listed on the Iceland Stock Exchange, Kaupthing Bunadarbanki (KB Bank), Bakkavör Group and Medicare Flaga.
- Net operating income exceeded ISK 1 billion for the second consecutive year, amounting to ISK 1,862 million in 2004, as compared to ISK 1,018 million in 2003. The increase is 83.0%.
- Operating expenses increase by 11.1% from 2003 and amounted to ISK 654 million. The increase in payroll was 19.4%, which is almost entirely due to a negotiated salary increase by the Union of Bank Employees and payments to employees who left the Bank towards the end of the year. The average number of employees in 2004 was 55, as compared to 54 in 2003, and the number of full-time-equivalent positions was 53 at year-end 2004, as compared to 54 one year earlier.
- The Bank's cost-income ratio continues to decline. It was 35.1% in 2004, as compared to 57.9% in 2003. The decline is mostly due to the increase in income.
- The capital adequacy ratio (CAD) was 11.8% at year-end 2004, as compared to 14.3% at year-end 2003. The decline is partly due to the growth of the balance sheet. Another factor is the deduction of the Bank's shareholdings in the investment company Meidur, which the Financial Supervisory Authority in Iceland has classified as a company with links to financial services because of its large holdings in Kaupthing Bunadarbanki. The Bank's goal is to maintain the CAD-ratio in the range of 10-12%.

The table below shows highlights from the 2004 annual accounts of Icebank and several key ratios:

Profit and Loss Account:

Million ISK	2004	2003	2002	2001	2000
Net interest income	629.1	541.2	491.6	420.9	267.4
Other operating income	1,233.3	476.5	494.4	285.2	427.6
Net operating income	1,862.3	1,017.7	986.0	706.0	695.1
Operating expenses	-654.3	-589.1	-625.2	-535.4	-457.0
Provision for losses	-220.5	-222.3	-205.0	-220.0	-101.5

Profit before taxes	987.6	206.3	155.8	-49.3	136.6
Taxes	-181.3	-43.2	-30.4	64.4	-33.5
Net profit for the period	806.3	163.1	125.3	15.0	103.1

Balance Sheet:

Million ISK	2004	2003	2002	2001	2000
Amounts due from credit inst.	15,389.3	13,865.4	21,598.7	31,326.9	25,255.1
Loans to other customers	14,817.6	10,972.8	9,185.6	11,300.3	9,640.4
Bonds and shares	10,304.2	9,927.2	11,168.0	10,586.7	8,573.2
Other assets	5,609.0	2,811.2	2,291.7	1,095.1	1,700.3
Total assets	46,120.2	37,576.6	44,244.0	54,309.0	45,169.1
Amounts due to credit inst.	33,605.5	27,790.1	33,229.8	44,156.0	32,975.9
Customer accounts, on demand	2,264.6	1,304.6	1,735.6	2,706.3	2,466.2
Borrowings	5,387.5	4,707.1	5,731.7	4,026.7	6,957.9
Other liabilities	492.9	254.0	218.2	237.5	294.2
Subordinated loans	1,133.7	1,091.0	1,062.0	1,041.2	500.2
Equity	3,236.1	2,429.8	2,266.7	2,141.4	1,974.6
Total liabilities and equity	46,120.2	37,576.6	44,244.0	54,309.0	45,169.1

Key Indicators:

	2004	2003	2002	2001	2000
Cost-income ratio, %	35.1%	57.9%	63.4%	75.8%	65.7%
Interest rate margin, %	1.64%	1.4%	1.0%	0.85%	0.6%
Return on equity after taxes, %	28.5%	7.0%	5.7%	0.7%	5.5%
Capital adequacy ratio (CAD), %	11.8%	14.3%	15.7%	11.5%	8.9%
Tier 1 capital ratio, %	6.9%	9.8%	11.2%	9.5%	9.7%
Full-time equivalent positions, average over period	55	54	59	54	49
Full-time equivalent positions, end of period	53	54	53	55	54

2. Outlook for the remainder of 2005.

Market conditions were very favourable for Icebank in 2004. This is true of the traditional lending activities of the Bank and the conditions in the markets for domestic and foreign securities and foreign exchange. The first weeks of 2005 have also been favourable. However, it is unlikely that this year will match the record year of 2004, notwithstanding the positive economic prospects in Iceland and abroad. Nevertheless, 2005 has all the prospects of becoming another favourable year for the Bank.

3. Annual general meeting and dividend.

The annual general meeting of Icebank will be held on 18 March 2005. The Board of Directors will propose at the meeting that no dividend should be paid to the Bank's shareholders for the year 2004, but that instead the net profit of the year should accrue in full to the Bank's equity.

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