

Icebank's Annual Accounts for 2005:

54% return on equity

1. Icebank and highlights from the annual accounts.

Icebank (Sparisjódabanki 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 main 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 referred by savings banks to the Bank or customers in areas of business where the savings banks do not operate.

The largest owners of Icebank are the Reykjavik Savings Bank (SPRON, 24.5%), Hafnarfjörður Savings Bank (14.7%), Engineers' Savings Bank (14.0%) and Keflavik Savings Bank (11.6%).

The annual accounts for 2005 are prepared according to the same accounting principles as for the previous years. The main principles of the International Financial Reporting Standards (IFRS) will be implemented as from the beginning of 2006.

Highlights from the 2005 accounts:

- Net profit amounted to ISK 2,423 million and has never been higher in the Bank's history. In 2004, net profit amounted to ISK 806 million. This is an increase of 200.5%.
- Return on equity (ROE) after taxes came to 54.3% in 2005, as compared to 28.5% in 2004. ROE has never been higher in the Bank's history and is among the highest ever achieved by an Icelandic financial institution.
- The balance sheet grew from ISK 46.1 billion at year-end 2004 to ISK 65.6 billion at year-end 2005, an increase of 42.1%. Total assets amounted to ISK 37.6 billion at year-end 2003. The change is entirely due to organic growth.
- Loans to customers other than credit institutions increased from ISK 14.8 billion at year-end 2004 to ISK 20.9 billion at year-end 2005, or by 41%. This growth is mostly due to increased participation in syndicated loans abroad.
- Loans to savings banks increased from ISK 9.3 billion at year-end 2004 to ISK 16.3 billion at year-end 2005. Deposits in the Bank from savings banks increased over the same period by ISK 3.1 billion and amounted to ISK 16.3 billion at year-end 2005.

This means that the savings banks' net-position in the Bank, i.e. deposits in excess of lending, declined by ISK 3.9 billion in 2005. This is in stark contrast to the trend in 2003 and 2004.

- Net interest income continues to increase and has never been higher in the Bank's history. It amounted to ISK 823 million in 2005, as compared to ISK 629 million in 2004. The increase is 30.9%. For the first time in many years the net interest income is sufficiently high to cover the Bank's total operating expenses in addition to the provision for losses.
- The changed composition of the Bank's loan portfolio has led to an increase in the total interest rate margin during the last few years. It came to 1.6% in 2005, which is the same ratio as in 2004. This ratio was 1.4% in 2003 and 1.0% in 2002.
- Conditions in the domestic equity market were unusually favourable in 2005. This is evident from the item *other operating income*, which amounted to ISK 2,951 million, as compared to ISK 1,233 million in 2004. This is an increase of 139.3%.
- Net operating income amounted to ISK 3,774 million in 2005, as compared to ISK 1,862 million in 2004. The increase is 102.7%.
- Operating expenses increased by only 8.3% from 2004 and amounted to ISK 708 million. The increase in payroll was 10.0%, which is to a large extent due to a negotiated salary increase by the Union of Bank Employees late in 2004 and settlements with outgoing employees. The average number of employees in 2005 was 56, as compared to 55 in 2004, and the number of full-time-equivalent positions was 58 at year-end 2005, as compared to 53 one year earlier.
- Provision for losses declined substantially, from ISK 220 million in 2004 to ISK 92 million in 2005. The provision in 2005 corresponds to 0.4% of total loans and guarantees at year-end 2005. During the last few years the Bank has been dealing with several lending projects that went wrong and where the value of the collateral turned out to be lower than expected when it had to be realized. Total accumulated provisions for losses at year-end 2005 correspond to 2.2% of total loans and guarantees.
- The Bank's cost-income ratio continues to decline. It was 18.8% in 2005, as compared to 35.1% in 2004.
- The capital adequacy ratio (CAD) was 12.5% at year-end 2005, as compared to 11.8% at year-end 2004. The Bank's goal is to maintain the CAD-ratio in the range of 10-12%. The tier 1 capital ratio was 8.8%, as compared to 6.9% at year-end 2004.

The table below shows highlights from the 2005 annual accounts of Icebank and several key ratios:

Profit and Loss Account:

Million ISK	2005	2004	2003	2002	2001
Net interest income	823	629	541	492	421
Other operating income	2,951	1,233	477	494	285
Net operating income	3,775	1,862	1,018	986	706
Operating expenses	-708	-654	-589	-625	-535
Provision for losses	-92	-220	-222	-205	-220
Profit before taxes	2,975	988	206	156	-49
Taxes	-552	-181	-43	-30	64
Net profit for the period	2,423	806	163	125	15

Balance Sheet:

Million ISK	2005	2004	2003	2002	2001
Amounts due from credit inst.	26,493	15,389	13,865	21,599	31,327
Loans to other customers	20,898	14,818	10,973	9,186	11,300
Bonds and shares	9,349	10,304	9,927	11,168	10,587
Other assets	8,869	5,609	2,811	2,292	1,095
Total assets	65,610	46,120	37,577	44,244	54,309
Amounts due to credit inst.	42,429	33,605	27,790	33,230	44,156
Customer accounts, on demand	4,165	2,265	1,305	1,736	2,706
Borrowings	11,092	5,387	4,707	5,732	4,027
Other liabilities	1,109	493	254	218	238
Subordinated loans	1,126	1,134	1,091	1,062	1,041
Equity	5,689	3,236	2,430	2,267	2,141
Total liabilities and equity	65,610	46,120	37,577	44,244	54,309

Key Indicators:

	2005	2004	2003	2002	2001
Cost-income ratio, %	18.8%	35.1%	57.9%	63.4%	75.8%

Interest rate margin, %	1.6%	1.6%	1.4%	1.0%	0.85%
Return on equity after taxes, %	54.3%	28.5%	7.0%	5.7%	0.7%
Capital adequacy ratio (CAD), %	12.5%	11.8%	14.3%	15.7%	11.5%
Tier 1 capital ratio, %	8.8%	6.9%	9.8%	11.2%	9.5%
Full-time equivalent positions, average over period	56	55	54	59	54
Full-time equivalent positions, end of period	58	53	54	53	55

2. Outlook for the remainder of 2006.

The Board of Directors has been reviewing Icebank's role, strategy and main objectives as well as the organization chart. This review will be concluded formally within a few weeks. The Bank's business and assets have grown considerably over the last two years and the Bank has expanded its lending activities abroad. The Bank has shown that it can reconcile profitably the double role of being a service and central bank for the savings banks in Iceland and having customers of its own.

Market conditions were very favourable for Icebank in 2005. 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 2006 have also been favourable, and the outlook for the main areas of operations are good. However, it is unlikely that this year will match the record year of 2005, notwithstanding the positive economic prospects in Iceland and abroad.

3. Annual general meeting, dividend and capital increase.

The annual general meeting of Icebank will be held on 24 March 2006. The Board of Directors will propose at the meeting that no dividend should be paid to the Bank's shareholders for the year 2005, but that instead the net profit of the year should accrue in full to the Bank's equity. The Board will also propose to the shareholders a twofold capital increase to support further growth of the Bank. On the one hand, an increase of 81,325,920 shares, which will be issued immediately after the meeting at the price of 7.75 (ISK 609.9 million at purchase price). On the other hand, an increase of 200,000,000 shares which, will be issued at the Board's discretion but within three years from the meeting.

For further information, please contact:

Finnur Sveinbjörnsson, Managing Director, finnur@icebank.is, tel. +354-540 4000

Ólafur Ottósson, General Manager, oso@icebank.is, tel. +354-540 4000