SPARISJÓÐABANKI ÍSLANDS HF.
ICEBANK

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Icebank's interim accounts for the first six months of 2004:

Highest profit ever

1. Icebank and highlights from the interim 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 Bank is not competing with the savings banks.

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

The table below shows highlights from the interim accounts of Icebank for the first six months of 2004:

Profit and Loss Account:

Million ISK	1.1.-30.6. 2004	1.1.-30.6. 2003	Change ´03-´04	2003
Net interest income	280.2	287.7	-2.6%	541,2
Other operating income	971.1	180.9	436.8%	476,5
Net operating income	1,251.3	468.7	167.0%	1.017,7
Operating expenses	-309.7	-300.7	3.0%	-589,1
Provision for losses	-148.0	-90.0	64.4%	-222,3
Profit before taxes	793.6	78.0	917.4%	206,3
Taxes	-147.0	-14.1	942.6%	-43,2
Net profit for the period	646.6	63.9	911.9%	163,1

Balance Sheet:

Million ISK	30.6. 2004	31.12. 2003	Change ´03-´04	30.6. 2003

Amounts due from credit institutions	13,066.1	13,865.4	-5.8%	18,851.6
Loans to other customers	13,847.6	10,972.8	26.2%	10,095.5
Bonds and shares in other companies	8,799.4	9,927.2	-11.4%	6,974.5
Other assets	2,963.1	2,811.2	5.4%	3.550,2
Total assets	38,676.2	37,576.6	2.9%	39,471.8
Amounts due to credit institutions	27,411.7	27,790.1	-1.4%	27,447.6
Customer accounts, on demand	2,671.4	1,304.6	104.8%	2,000.0
Borrowings	4,039.2	4,707.1	-14.2%	6,410.5
Other liabilities	396.2	254.0	56.0%	242.7
Subordinated loans	1,081.3	1,091.0	-0.9%	1,040.4
Equity	3,076.4	2,429.8	26.6%	2,330.6
Total liabilities and equity	36,676.2	37,576.6	2.9%	39,471.8

Key Indicators:

	1.1.-30.6. 2004	1.1.-30.6. 2003	1.1.-31.12. 2003	1.1.-31.12. 2002
Cost-income ratio, %	24.7	64.2	57.9	63.4
Interest rate margin, %	1.5	1.5	1.4	1.0
Return on equity after taxes, %	52.5	5.6	7.0	5.7
Capital adequacy ratio (CAD), %	14.3	15.6	14.3	15.7
Tier 1 capital ratio, %	10.5	10.2	9.8	11.2
Full-time equivalent positions, average over period	53	54	54	59
Full-time equivalent positions, end of period	56	52	54	53

The net profit and, indeed, the profitability of the bank is the highest ever realised for any reporting period (semi-annual or annual) in the entire history of the bank.

Profit after calculated tax amounted to ISK 646.6 million, as compared to ISK 63.9 million for the same period in 2003, more than tenfold. The highest profit previously realised was ISK 207 million for the whole year 1999. Return on equity for the first half of 2004 was 52.5%, as compared to 5.6% for the first 6 months of last year, almost tenfold.

Although these best-ever results reflect a strengthening of the overall profitability of the bank there are considerable variations between the different activities:

- The trends in the Icelandic stock market have been very favourable for the bank. This is reflected in the item "other operating income", which amounts to ISK 971.1 million for the period, as compared to ISK 180.9 million for the same period last year and ISK 476.5 million for the full year 2003. The 5.8% share in the investment company Meiður ehf., which is a major shareholder in KB Bank and Bakkavör Group, accounts for a considerable chunk of this item but the general rise of the Icelandic equities index counts as well. Some minor profit can also be attributed to trading in domestic bonds and foreign equities.
- There was continued contraction during the first half of this year in lending to savings banks, who have traditionally represented the largest single group of borrowers from the bank. This loan portfolio amounted to ISK 8,479.1 million at the of June, as compared to ISK 10,010.7 million at year-end 2003, a 15.3% reduction. To counteract this decline, emphasis has been put on increased corporate lending through participation in both domestic and foreign lending projects. Thus, the amount of the loan portfolio to corporations increased by 26.2% during the period and amounted to ISK 13,847.6 million, as compared to ISK 10,972.8 at the end of 2003. Increased deposits and fierce competition in the domestic loan market have led to an exceptionally high liquidity position in the savings banks and hence reduced funding needs from the bank. This situation is not expected to change in the coming months and the bank will therefore continue to pursue suitable lending opportunities outside the savings banks sector. The interest rate margin for the bank has remained on the same level as last year and was 1.5% for the period, the lowest margin seen in the Icelandic banking industry.
- The cost/income ratio came down to 24.7% for the first half of 2004, as compared to 64.2% for the same period last year and 57.9% for the whole year 2003. This is mainly due to increased income, but can also be attributed to the emphasis on overall improvement in the operation, increased efficiency and better quality within the various activities of the bank. Operating expenses increased by 3% for the period, mainly as a result of a contractual 3% increase in salaries at the beginning of 2004. Operating expenses other than salaries declined by 2.1%, as compared to same period last year.
- The high profit of the bank for this accounting period led to an increased equity of 26.6%, from ISK 2,429.8 million at the end of 2003 to ISK 3,076.4 million by mid-year 2004. The CAD ratio remains at 14.3%, exactly where it was at the end of 2003. At the same time, Tier 1 ratio increased to 10.5% from 9.8%. Hence, the capital base is strong and the bank is well prepared for an increase in the volume of its activities.
- Provisions for losses amounted to ISK 148 million, as compared to ISK 90 million for the same period last year and ISK 222 million for the whole year 2003. The bank has been dealing with certain lending projects pertaining to regional difficulties affecting companies within the fishing industry. The recovery from these projects has turned out to be slower than anticipated and realisation of collateral has been under value. The structure of the lending activities of the bank has led to involvement in relatively fewer and comparatively larger loans than the average for the industry. Hence, the difficulties of a few corporate customers is all the more significant. The experience from these projects has led to more intensive

credit control, revision of working procedures, strengthening of supervision, appraisal of collateral and new lending methods.

2. Outlook for the remainder of 2004.

Icebank's profit for the first half of this year is almost four times that of last year's profit for the full year. Market trends have been favourable for the bank, in particular the domestic equities market. It is not to be expected that prices of domestic equities will continue to follow the same pattern of constant rise as in the past 12 to 14 months. The general economic outlook is good, both in Iceland and abroad, although the hike in oil prices and fear of terrorism may constitute a disturbing factor. It is therefore to be expected that the financial results for the bank in 2004 will be better than ever before. However, it should be underlined that the operations of the bank depend on various external factors, such as the economic development at home and abroad, trends in consumer prices and the rate of exchange and indeed the development of the securities markets.

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Further information:

Finnur Sveinbjörnsson, Managing Director, finnur@icebank.is, tel. +354-540 4000
Ólafur Ottósson, General Manager, oso@icebank.is, tel. +354-540 4000