

Icebank's interim accounts for the first six months of 2005:

Record half-yearly profit

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 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, 24.7%), Hafnarfjörður 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 2005:

Profit and Loss Account:

Million ISK	1.1.-30.6. 2005	1.1.-30.6. 2004	Change '04-'05	1.1.-31.12. 2004
Net interest income	394.0	280.2	40.6%	629.1
Other operating income	952.8	971.1	-1.9%	1,233.3
Net operating income	1,346.9	1,251.3	7.6%	1,862.3
Operating expenses	-324.9	-309.7	4.9%	-654.3
Provision for losses	-60.0	-148.0	-59.5%	-220.5
Profit before taxes	962.0	793.6	21.2%	987.6
Taxes	-175.6	-147.0	19.5%	-181.3
Net profit for the period	786.4	646.6	21.6%	806.3

Balance Sheet:

Million ISK	30.6. 2005	31.12. 2004	Change '04-'05	30.6. 2004
Amounts due from credit institutions	16,558.3	15,389.3	7.6%	13,066.1
Loans to other customers	16,272.0	14,817.6	9.8%	13,847.6
Bonds and shares in other companies	9,749.4	10,304.2	-5.4%	8,799.4
Other assets	7,403.8	5,609.0	32.0%	2,963.1
Total assets	49,983.5	46,120.2	8.4%	38,676.2
Amounts due to credit institutions	32,854.6	33,605.5	-2.2%	27,411.7
Customer accounts, on demand	2,784.3	2,264.6	22.9%	2,671.4
Borrowings	8,577.5	5,387.5	59.2%	4,039.2
Other liabilities	632.6	492.9	28.3%	396.2
Subordinated loans	1,112.0	1,133.7	-1.9%	1,081.3
Equity	4,022.6	3,236.1	24.3%	3,076.4
Total liabilities and equity	49,983.5	46,120.2	8.4%	38,676.2

Key Indicators:

	1.1.-30.6. 2005	1.1.-30.6. 2004	1.1.-31.12. 2004	1.1.-31.12. 2003
Cost-income ratio, %	24.1	24.7	35.1	57.9
Interest rate margin, %	1.65	1.5	1.6	1.4
Return on equity after taxes, %	43.4	52.5	28.5	7.0
Capital adequacy ratio (CAD), %	11.3	14.3	11.8	14.3
Tier 1 capital ratio, %	7.0	10.5	6.9	9.8
Full-time equivalent positions, average over period	54	53	55	54
Full-time equivalent positions, end of period	53.5	56	53	54

The net profit of Icebank for the first six months of 2005 is higher than in any six-month period in its history. Net profit after taxes amounted to ISK 786 million, as compared to ISK 647 million for the same period in 2004, an increase of 21.6%. In terms of return on equity, the net profit corresponds to 43.4% (annualised), compared with 52.5% in the same period last year. This ranks among the highest profitability ratios reported by any Icelandic financial institution.

Although these best-ever results reflect a strengthening of the overall profitability of the Bank without the impact of any fundamental changes, there are a few points that should be highlighted:

- Trends in the domestic and foreign equities markets have been very favourable for Icebank and close to ISK 850 million of the Bank's revenues derive from this source. The most significant post is the gain on the Bank's 5.8% holdings in the investment company Exista, which is the largest single shareholder in the Icelandic companies Bakkavor Group, Flaga Group and Kaupthing Bank and which recently acquired Iceland Telecom from the Icelandic Treasury in partnership with several other investors. Exista is also a large shareholder in VIS, a large Icelandic insurance company. Most of the other holdings in the Bank's portfolio did quite well. However, the performance of the Bank's bond portfolio was characterised by rising yields. The Bank's trading book is the major source behind the item "other operating income", which amounted to ISK 953 million in the first six months of 2005, as compared to ISK 971 million during the same period in 2004 and ISK 1,233 million for the whole of 2004.
- Icebank's lending to savings banks was more or less unchanged at the end of June 2005 (ISK 9,300 million) as compared to year-end 2004 (ISK 9,262 million). Since the end of 2004 the deposits from savings banks in the Bank have declined from ISK 13,624 million to ISK 12,183 million. Thus, the net position of the savings banks *vis-à-vis* the Bank has declined by just under ISK 1.5 billion following continuous improvement over the last few years. This reflects, *inter alia*, the increased activity of the savings banks in the local credit market. Lending by the Bank to customers other than credit institutions continues to increase, in line with the Bank's strategy. This lending amounted to ISK 16,272 million at the end of June 2005, as compared to ISK 14,818 million at the end of 2004 and ISK 10,973 at the end of 2003. The Icelandic credit market is very competitive and margins have been driven down. This has encouraged the Bank to gradually increase its foreign lending in co-operation with various Icelandic and W-European banks. The Bank sees further growth opportunities in this area.
- Icebank's cost-income ratio continues to be among the lowest for any Icelandic financial institution. It was 24.1% in the first half of 2005, down from 24.7% in the same period last year, and 35.1% for the whole of 2004. Total operating expenses grew by 4.9%, as compared to expenses in the same period in 2004, the main reason being a 5.25% negotiated salary increase in the Icelandic banking sector in October 2004. Operating expenses other than salaries increased by only 1.8% from the same period last year. Plans to increase the activities of the Bank will result in increased expenses. However, the management of the Bank will continue to strive for maximum efficiency so that the cost-income ratio and return on equity will continue to be among the best of any Icelandic financial institution.
- Icebank's high profit for this accounting period increases its equity from ISK 3,236 million at the end of 2004 to ISK 4,023 million at the end of June 2005, an increase of 24.3%. The CAD ratio was 11.3% at the end of June, only marginally down from 11.8% at year-end 2004. At the same time, the Tier 1 ratio stood at 7%. The Bank's capital base is strong, which makes it well prepared for an increase in the volume of its activities.
- Provisions for losses amounted to ISK 60 million, as compared to ISK 148 million for the same period last year and ISK 220 million for the entire year of 2004. Icebank has been involved in certain difficult lending projects in the agricultural, fishing and fish processing sectors. The recovery from these projects has turned out to be slower than anticipated and realisation of collateral has been below anticipated value. These difficulties are now behind,

as evidenced by a sharp reduction in provisions. At the end of June 2005 the total accumulated provisions stand at ISK 514 million, or 2.8% of total loans and guarantees. This gives the Bank ample room to meet unexpected loan losses, should they arise.

2. Outlook for the remainder of 2005.

Icebank's profit for the first half of this year is slightly lower than the profit for the whole of 2004. Market trends have been favourable for the Bank, in particular the domestic and foreign equities markets. It is not to be expected that prices of domestic equities will continue to follow the same pattern of a constant rise as in the past 18 months or so. The Bank has gradually increased its lending to foreign entities and this activity will continue to increase. The general economic outlook is good, both in Iceland and abroad, although the hike in oil prices and the fear of terrorism represent a disturbing factor. Taking all these factors into consideration, it appears safe to anticipate that the financial results for the Bank in 2005 will be better than ever before. However, it should be underlined that the operations of the Bank depend on various external factors, such as economic development at home and abroad, trends in consumer prices and the rate of exchange, and indeed the course of events in the securities markets.

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