

Icebank's interim accounts for the first six months of 2006:

Record half-yearly profit and very high return on equity

1. Highlights from the interim accounts

The net profit of Icebank (Sparisjódabanki Íslands hf.) for the first six months of 2006 amounted to ISK 1,759.3 million. This is the highest half-yearly figure the Bank has ever recorded. The net profit corresponds to 50.8% return on equity (annualised). This puts the Bank in the top league of financial institutions, domestic and foreign, in terms of profitability. Repeated record annual and half-yearly profits have considerably strengthened the financial position of the Bank. It is therefore in a good position to set ambitious goals for growth and continued profitability. Such plans will be announced later this year.

Icebank's accounts are for the first time based on International Financial Reporting Standards (IFRS). The main effects of changes in accounting standards are outlined in section 2 below. The Bank's half-yearly results in 2005 have been restated based on IFRS, which makes the half-yearly figures for 2005 and 2006 comparable.

The table below shows highlights from the interim accounts of Icebank for the first six months of 2006 and a comparison with 2005:

Profit and Loss Account:

Million ISK	1.1.-30.6. 2006	1.1.-30.6. 2005	Change '05-'06
Net interest income	603.2	394.0	53.1%
Net fees and commission income	81.3	61.3	32.6%
Operating income	1,806.6	890.7	102.8%
Salaries and other operating expenses	-394.1	-324.9	21.3%
Impairment on loans and advances	-12.0	-85.0	-85.9%
Profit before taxes	2,085.0	936.1	122.7%
Taxes	-325.7	-170.9	90.6%
Net profit for the period	1,759.3	765.2	129.9%

Balance Sheet:

Million ISK	30.6.2006	1.1.2006	Change
Cash and cash balances with central banks	7,496.4	8,494.4	-11.7%
Loans to credit institutions and other customers	58,207.8	47,448.1	22.7%
Financial assets held for trading	5,568.5	5,123.5	8.7%
Financial assets measured at fair value	7,323.5	4,201.2	74.3%
Investments in associates	25.2	24.6	2.4%
Property and equipment	471.2	375.0	25.7%
Total assets	79,092.6	65,666.8	20.5%
Deposits from credit institutions and central banks	14,015.2	13,675.2	2.5%
Other deposits	2,647.7	4,165.3	-36.4%
Borrowings	50,310.8	39,827.9	26.3%
Tax liabilities and other liabilities	1,530.5	1,136.9	34.6%
Subordinated loans	2,484.1	1,126.4	120.5%
Equity	8,104.4	5,735.1	41.3%
Total liabilities and equity	79,092.6	65,666.8	20.5%

Key Indicators:

	1.1.-30.6. 2006	1.1.-30.6. 2005	1.1.-31.12. 2005*	1.1.-31.12. 2004*
Cost-income ratio, %	15.8	24.1	18.8	35.1
Interest rate margin, %	1.8	1.7	1.6	1.6
Return on equity after taxes, % (per annum)	50.8	41.3	54.3	28.5
Capital adequacy ratio (CAD), %	14.5	11.3	12.5	11.8
Tier 1 capital ratio, %	7.8	7.0	8.8	6.9
Full-time-equivalent positions, end of period	72	54	58	53

* These 2004 and 2005 figures are based on previous accounting standards.

The net profit of Icebank for the first six months of 2006 is higher than in any six-month period in its history. Net profit after taxes amounted to ISK 1,759.3 million, compared to ISK 765.2 million for the same period in 2005, an increase of 129.9%. In terms of return on equity, the net profit corresponds to 50.8% (annualised), compared with 41.3% in the same period last year. This ranks among the highest profitability ratios reported by any Icelandic or foreign 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:

- Icebank's lending activities have expanded gradually during the most recent years. Net interest income amounted to ISK 603.2 million for the first six months of 2006, compared to ISK 394.0 million for the same period in 2005. This is an increase of 53.1%. The Bank's interest rate margin, i.e. net interest income as a proportion of average total assets, was 1.8% during the reporting period, as compared to 1.7% during the same period in 2005. Net interest income is now high enough to cover the Bank's total operating expenses in addition to the impairment on loans and advances, which is in stark contrast to the situation just a few years ago when the Bank had to sell stakes in sister companies to cover loan losses.
- Total lending increased from ISK 47.4 billion at year-end 2005 to ISK 58.2 billion at end of June 2006, or by 22.7%. Lending to customers other than credit institutions increased during the same period from ISK 20.9 billion to ISK 26.5 billion, an increase of 26.8%. The Bank has gradually increased its lending activities abroad and has identified various opportunities for further expansion. However, the Bank's ability to seize such opportunities rests to a large extent on its access to foreign funding. In general, access by Icelandic banks to foreign funding in both banking and capital markets has proved to be more difficult than before February 2006 when Fitch Ratings changed its outlook on the Icelandic economy. Icebank managed despite these adverse conditions to close a €100 million syndicated loan in May, which covers the refinancing needs of the Bank in foreign currency well into the year 2007. The Bank is currently exploring the possibility of various ways in which to obtain foreign funding to finance further growth.
- Icebank's lending to savings banks increased from ISK 16.3 billion at the end of 2005 to ISK 20.5 billion at the end of June 2006, an increase of 25.7%. At the same time, deposits from savings banks in Icebank decreased by ISK 1 billion. Thus, the net position of the savings banks *vis-à-vis* the Bank has declined by about ISK 5 billion since the end of 2005. This development reflects a strong credit-growth in the savings banks themselves and their continued strong position in the local banking market.
- Calculation of the impairment of loans and advances according to IFRS indicates good asset quality. The impairment during the reporting period amounts to only ISK 12.0 million, as compared to ISK 85.0 million during the first six months of 2005. At the end of June 2006 the total accumulated provisions stand at ISK 438.5 million, or 1.4% of total loans and guarantees.
- Trends in the domestic and foreign equities markets were generally unfavourable during the reporting period. However, changes at the investment company Exista led to a considerable increase in the value of Icebank's 4.6% stake in that company. Exista is the sole owner of VIS, the largest insurance group in Iceland, and the largest single shareholder in the Icelandic companies Bakkavor Group, Flaga Group, Iceland Telecom and Kaupthing Bank. The Bank's trading book is the major source behind the item "operating income", which amounted to ISK

1,806.6 million in the first six months of 2006 (before taxes), as compared to ISK 890.7 million during the same period in 2005.

- Icebank's cost-income ratio continues to be among the lowest for any Icelandic financial institution. It was only 15.8% in the first half of 2006, down from 24.1% in the same period last year. Total operating expenses grew by 21.3% from the same period last year. This increase is mainly due to an increased number of staff from 54 full-time-equivalent positions at the end of June 2005 to 72 at the end of June 2006. The Bank introduced a new organisation chart in March 2006 in preparation for a strong growth initiative. New staff have mainly been added to the top management, Treasury and Securities, Corporate Finance and Risk Management.
- Icebank's high profit for this accounting period and an increase in the share capital in April 2006 raise its total equity from ISK 5,735.1 million at the end of 2005 to ISK 8,104.4 million at the end of June 2006, an increase of 41.3%. The CAD ratio was 14.5% at the end of June, as compared to 11.3% at end of June 2005. At the end of June 2006, the Tier 1 ratio stood at 7.8%. The Bank's capital base is strong, which makes it well prepared for an increase in the volume of its activities.

At Icebank's Annual General Meeting in March 2006 it was decided to give the Board of Directors the authority to increase its share capital in two separate steps. First, an increase of 81.3 million shares at the total price of ISK 609.9 million, which were to be effected immediately. At the same time it was decided to cancel guarantees of an equal amount that the savings banks had issued to cover the commitments of the Bank to foreign financial institutions. Secondly, an increase of 200 million shares that the board can sell at any time before the end of 2008 to current shareholders.

2. Effects of changes in accounting standards

The accounts for Icebank for the first six months of 2006 are for the first time based on International Financial Reporting Standards (IFRS). Their implementation leads to significant changes in the presentation of the Bank's profit and loss account and its balance sheet. However, the Bank's operations and its assets and liabilities are of such a kind that the implementation of IFRS has relatively small effects on individual items in its accounts. The accounts for the first six months of 2005 have been restated to make possible a comparison with 2006.

Changes in the valuation of assets and liabilities had relatively little effects on the Bank's net profit, equity, total assets and CAD ratio. The main effects are that the Bank had to reduce previously stated revenues from lending commissions amounting to ISK 29.1 million. Similarly, previously expensed lending commissions had to be reduced by ISK 35.9 million. Both of these amounts will be distributed over future accounting periods according to the lifetime of the underlying assets and liabilities. The Bank's entire loan portfolio was carefully re-evaluated in order to estimate the need for impairment based on the methods stipulated in IFRS. This resulted in a reduction in the total accumulated provision for losses of ISK 41 million (net of taxes), with a corresponding increase in total equity.

3. Outlook for the remainder of 2006

Icebank's net profit for the first half of this year is slightly lower than the profit for the whole of 2005. This has happened despite unfavourable market conditions in many respects, in particular adverse developments in domestic and foreign securities markets. The economic outlook in Iceland and abroad is generally positive, although the increase in oil prices and the fear of terrorism and armed conflict in various parts of the world represent a disturbing factor. Taking all these factors into consideration, it appears safe to anticipate that the financial results for the Bank in 2006 will be better than ever before.

4. About Icebank

Icebank (Sparisjódabanki Íslands hf.), established in 1986, is a licensed commercial bank solely owned by the 24 savings banks in Iceland. It concentrates on wholesale and investment banking. It is the central banking institution for the Icelandic savings banks and their subsidiaries and provides them 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 largest customer group, but the share of other domestic and foreign financial and non-financial customers in its lending portfolio has been increasing rapidly.

Six savings banks own more than 5% each of the Bank's share capital: Reykjavik Savings Bank (SPRON, 24.5%), Hafnarfjörður Savings Bank (SPH, 14.7%), Engineers' Savings Bank (SPV, 14.0%), Keflavík Savings Bank (SpKef, 11.6%), Mýrasysla Savings Bank (SPM, 8.7%), and Kópavogur Savings Bank (SPK, 5.6%).

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