

Press release

**Icebank's 2007 results:**

# **Total assets almost triple and interest income nearly doubles**

**– after-tax profit of ISK 1,616 million**

Reykjavík, 5 February 2008

Icebank's pre-tax profit in 2007 amounted to ISK 1,720 million, compared with ISK 6,840 million in the preceding year. After-tax profit was ISK 1,616 million and return on equity after taxes was 13.5%. Net interest income was up 87% in the year to ISK 2,341 million. Total assets almost tripled to ISK 252.5 billion at the end of the year. The capital adequacy ratio (CAD) stood at 11.0% at year-end.

## **Highlights from the 2007 financial statements:**

- After-tax profit amounted to ISK 1,616 million and pre-tax profit to ISK 1,720 million. Return on equity after taxes was 13.5%.
- Net interest income was ISK 2,341 million, compared with 1,253 million in 2006, up 87% year-on-year. Net interest income was substantially higher than operating expenses.
- Total assets were up 190% to ISK 252.5 billion at year-end 2007, compared with ISK 86.9 billion at the beginning of the year.
- Exposure to structured credit obligations (such as CDOs, SIVs and CLOs) is within 3% of total assets. These assets are not related to sub-prime loans.
- The capital adequacy ratio (CAD) stood at 11.0% at year-end. The Tier 1 capital ratio was 15.2%.

## **Highlights from Q4 of 2007:**

- After-tax loss in the fourth quarter of 2007 amounted to ISK 2,646 million.
- Net operating income for the fourth quarter was negative by ISK 2,747 million.
- Net interest income was ISK 510 million, compared with ISK 675 million in the third quarter.
- The Bank's capital loss in the fourth quarter amounted to ISK 3,505 million. This was largely owing to its holding in Exista, whose share price was down 42.5% in the period. The Bank has entered into derivative contracts which provided hedging positions against unfavourable price development. Income of nearly ISK 600 million was recognised as a result of these hedging positions.

## **A year of major changes at Icebank**

In May the Bank raised a syndicated loan amounting to EUR 217.5 million, its largest syndicated loan facility to date. The loan amount was EUR 117.5 million higher than the initial launch amount. The loan had a very positive impact on Icebank's liquidity position, as the Bank had no need to turn to the credit market in the latter half of the year when markets tightened.

In line with Icebank's strategy unveiled in 2006, its owners decided to expand its shareholder base in order to facilitate the Bank's growth. The Bank is now more than 43% owned by parties other than savings banks. Of this percentage 12% are owned by the senior management. In the wake of these changes, new parties joined the Bank's management, and at year-end 2007 a new CEO took over the reins. However, the Bank's strategic mission remains unchanged. Icebank is a commercial bank focusing on wholesale and investment banking services to savings banks, Icelandic and foreign financial institutions and other large entities.

In 2007 Icebank continued to underpin its further growth through internal and external investments:

- A new profit centre was added through the purchase of Behrens Corporate Finance.
- An extensive effort was made to strengthen the Risk Management, IT and the Legal Affairs division.
- The number of full-time equivalent positions was increased by 42% from 74 to 102.

Icebank was not immune to the turmoil in stock markets, being a shareholder in Exista. The Bank divested one-fourth of its holding in the company in the first quarter of the year. At year-end its stake in Exista was down to 2.5%. The Bank has also entered into derivative contracts which provided hedging positions against unfavourable price development.

Total assets were up by 190% in 2007 to ISK 252.5 billion at year-end, compared with ISK 86.9 billion a year earlier. This growth was largely driven by increased interbank trading with other financial institutions and repo transactions with the Central Bank.

**Agnar Hansson, CEO:**

“Icebank’s 2007 performance was satisfactory given the market conditions. Encouragingly, the Bank’s net interest income exceeded its total operating costs by a substantial margin. The Bank’s role in the domestic market has been extended. We have fostered good relations with other Icelandic financial institutions, with a view to providing them with services equivalent to those we have supplied to the savings banks over the past decades. The primary driver in tripling the Bank’s balance sheet was our participation in interbank market and repo transactions, which were caused by special market conditions.

The recent turmoil in the financial markets underscores the need to contain the risks of equity investment. In the past few years, the Bank’s performance has been overly dependent on Exista’s share price. We aim to continue scaling down our stake in the company when conditions permit. Extensive effort has gone into reinforcing the Bank’s core activities. We have strengthened the Treasury and Capital Markets division, added new investment strategies in Corporate Banking and launched a new profit centre, Investment Banking. These efforts will serve to broaden the Bank’s service range and increase its fee and commission income. We took the first step in our overseas expansion with the purchase of Behrens Corporate Finance, which includes offices in the Baltic countries for which high hopes are held.

We acknowledge that the financial markets remain in a delicate condition and the next few months could prove challenging. However, the Bank is prepared to react swiftly and utilise opportunities presented each time.”

Key indicators from the income statement and balance sheet 2005-2007:

*Income Statement 2005, 2006 and 2007:*

Million ISK	2007	2006	2005
Net interest income	2,341	1,254	823
Net fee and commission income	107	136	119
Other net operating income	890	6,430	2,831
Net operating income	3,338	7,820	3,773
Salaries and other operating exp.	-1,436	-996	-708
Impairment on loans and advances	-182	15	-142
Profit before income tax	1,720	6,840	2,923
Income tax expense	-104	-1,178	-542
Net profit for the year	1,616	5,662	2,381

*Balance Sheet 2005, 2006 and 2007:*

Million ISK	2007	2006	2005
Cash and balances with the Central Bank	4,424	7,293	10,387
Loans and advances	97,198	61,520	45,555
Trading assets	136,355	8,870	5,124
Financial assets designated at fair value	12,972	8,805	4,226
Property and equipment	332	343	330
Goodwill	1,062		
Other assets	169	95	45
Total assets	252,512	86,925	65,666
Deposits from credit institutions and the Central Bank	117,388	12,705	13,675
Other deposits	10,955	4,131	4,165
Borrowings	104,753	53,258	39,828
Other liabilities	693	293	204
Subordinated loans	2,410	2,430	1,126
Trading liabilities	841	7	17
Tax liabilities	2,111	2,094	916
Equity	13,361	12,007	5,735
Total liabilities and equity	252,512	86,925	65,666

*Key Indicators 2002-2007:*

	2007	2006	2005	2004	2003	2002
Cost-income ratio, %	43.0%	12.8%	18.8%	35.1%	57.9%	63.4%
Interest rate margin, %	1.6%	1.8%	1.6%	1.6%	1.4%	1.0%
Return on equity after taxes, %	13.5%	63.8%	54.3%	28.5%	7.0%	5.7%
Capital adequacy ratio (CAD), %	11.0%	17.0%	12.5%	11.8%	14.3%	15.7%
Tier 1 capital ratio, %	15.2%	22.1%	17.4%	12.7%	10.1%	11.3%
Full-time equivalent positions, end of period	102	71	58	53	54	53

Icebank's 2007 annual financial statements can be viewed at [www.icebank.is](http://www.icebank.is).

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