

## PRESS RELEASE

### **Icebank's strongest showing ever**

**REYKJAVÍK, 6 February 2007.** Icebank hf. reported a net profit of ISK 5,662 million for 2006, as compared to the IFRS-adjusted profit of ISK 2,381 million in 2005. The net profit in 2006 corresponds to earnings per share of ISK 8.5, as compared to ISK 3.9 in 2005. Return on equity for 2006 was 63.8%, as compared to 54.3% in 2005 and 28.5% in 2004.

#### **1. Highlights from the financial statements**

- Profit for the year increased by 138% from 2005.
- Earnings per share more than doubled between years.
- Return on equity is among the highest for any Icelandic or foreign financial institution.
- Net interest income increased by 52% between 2005 and 2006.
- Net operating income increased by 107% between years.
- The cost-income ratio is only 12.8%, as compared to 18.8% in 2005 and 35.1% in 2004.
- A review of impairment on loans and advances has led to a reduction in the provision for impairment on loans and advances of ISK 15 million. This adjustment appears as an income item in the income statement.
- Total assets amounted to ISK 86.9 billion at year-end 2006, as compared to ISK 65.7 billion at year-end 2005, an increase of 32%.
- The Bank's capital adequacy ratio (CAD) is very strong at 17.0%, as compared to 12.5% at year-end 2005. Owners' equity increased from ISK 5.7 billion to ISK 12.0 billion over the same period. A high CAD-ratio gives the Bank room to grow.
- The number of employees increased by 20% between 2005 and 2006 due to increased activities of the Bank.
- The Board of Directors will propose at the Annual General Meeting that no dividend shall be paid to the Bank's shareholders for the year 2006, but that instead the profit of the year should accrue in full to the Bank's equity.

#### **Finnur Sveinbjörnsson, CEO:**

"The year 2006 was the best ever in Icebank's history. We are proud of the fact that the Bank has performed exceptionally well over the last three years. Profit and returns for the Bank as a whole have risen significantly. The Bank's specialised lending activities and its foreign exchange and derivatives businesses have grown substantially, which is in line with the Bank's changed focus. The Bank is in a much stronger financial position than before and better prepared to move ahead and implement the exciting new

strategic vision of its owners, the savings banks in Iceland, by developing its services further and expanding its operations in Iceland and abroad.”

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## 2. Key conclusions from the financial statements

Icebank's financial statements in 2006 are its first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The main effects of the changes in accounting policies are outlined in section 3 below. The Bank's financial statements for the year 2005 have been restated based on the IFRS, which makes the figures for 2005 and 2006 comparable.

Key conclusions from the financial statements:

- Profit amounted to ISK 5,662 million and has never been higher in the Bank's history. The profit in 2005 was ISK 2,381 million. The increase is 138%.
- Return on equity after tax was 63.8% in 2006, as compared to 54.3% in 2005. The return on equity has never been higher in the Bank's history.
- Total assets grew from ISK 65.7 billion at the end of 2005 to ISK 86.9 billion at year-end 2006, an increase of 32%. At year-end 2004, total assets amounted to ISK 46.1 billion. This growth is entirely organic.
- Lending to customers other than financial institutions increased from ISK 21.4 billion at year-end 2005 to ISK 31.2 billion at year-end 2006, or by 46%. This is mostly due to an increase in specialised lending, such as M&A-related, real estate financing and lending abroad. The intention is to further increase this type of lending.
- Net lending to savings banks increased considerably in 2006. Total loans to savings banks at year-end 2006 amounted to ISK 18.2 billion, up from ISK 16.3 billion at year-end 2005. Savings banks' deposits in the Bank amounted to ISK 14.2 billion at year-end 2006, as compared to ISK 16.7 billion one year earlier. Thus, the net position of the savings banks *vis-à-vis* the Bank decreased by ISK 4.4 billion in 2006. The change is even more dramatic when looking back to year-end 2004. At that time the savings banks were net depositors in the Bank to the amount of ISK 4.3 billion.
- Net interest income continued to increase and has never been higher in the Bank's history. It amounted to ISK 1,254 million, as compared to ISK 823 million in 2005, an increase of 52%. For the second consecutive year, net interest income is higher than total operating expenses and impairment on loans and advances. This is one of the strongest indications of the substantial change in the Bank's lending activities since the ration was between 50-80% over the last few years.

- A gradual change in the Bank's loan portfolio has led to an increase in the total interest rate margin. It was 1.8% in 2006, as compared to 1.6% in 2005, 1.6% in 2004 and 1.4% in 2003.
- Trends in the domestic and foreign equities markets were favourable in 2006. This shows up most clearly in the item *Net gain on financial assets designated at fair value*. This item amounted to ISK 6,230 million in 2006, as compared to ISK 1,403 million in 2005. The Bank owned 4.6% of the shares in Exista when the company was listed on the Iceland Stock Exchange in September 2006. The listing led to a considerable increase in the value of that company. The Bank sold a quarter of its shares in Exista in December, thereby realizing some of the booked profits. The Bank still owns 3.45% of Exista. This shareholding was valued at ISK 8.4 billion at year-end 2006. The Bank's Board of Directors plans to further reduce this holding in 2007.
- Total operating expenses, i.e. salaries and payroll related expenses, other operating expenses and depreciation of fixed assets, increased from ISK 708 million in 2005 to ISK 996 million in 2006. The change is mostly due to an increase in the number of employees, in particular in management positions and among experts, performance related bonuses, payments to consultants in relation to the development of the Bank's new strategic vision and IT-costs. The average number of full-time-equivalent positions was 67 in 2006, as compared to 56 in 2005. The number of FTEs at year-end 2006 was 71, as compared to 58 one year earlier.
- A review of impairment on loans and advances showed that the quality of the loan portfolio has improved and that accumulated provisions were higher than necessary. This adjustment appears as an income item in the income statement of ISK 15 million in 2006. This is in stark contrast with the impairment of ISK 142 million in 2005, ISK 220 million in 2004 and ISK 222 million in 2003 and clearly shows the extensive change in the quality of the Bank's loan portfolio over the last few years. The provision for impairment amounted to 1.3% of total loans and advances at year-end 2006.
- The Bank's capital adequacy ratio (CAD) was 17.0% at year-end 2006, as compared to 12.5% at year-end 2005. The Bank aims for a CAD-ratio of 10-12%. At year-end 2006, the Tier 1 ratio stood at 12.1%, as compared to 8.8% at year-end 2005. The main reasons for the increase in the CAD-ratio are the net profit of the Bank and the selling of a quarter of the Bank's shareholding in Exista. Exista is categorized by the Icelandic Financial Supervisory Authority as a company related to financial services and the Bank is therefore required to deduct the value of this shareholding from its capital when calculating the CAD-ratio.

The tables below shows highlights from Icebank's 2002-2006 financial statements. The 2005 and 2006 financial statements are fully comparable and are therefore shown separately from other years. In addition, however, a few key indicators are shown for the period 2002-2006.

*Income Statement 2005 and 2006:*

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

*Balance Sheet 2005 and 2006:*

Million ISK	2006	2005
Cash and balances with central banks	7,293	10,387
Loans and advances	61,520	45,555
Trading assets	8,870	5,124
Financial assets designated at fair value	8,787	4,201
Investments in associates	18	25
Property and equipment	437	374
Total assets	86,925	65,666
Deposits from credit institutions and the Central Bank	12,705	13,675
Other deposits	4,131	4,165
Borrowings	53,258	39,828
Other liabilities	293	204
Subordinated loans	2,430	1,126
Trading liabilities	7	17
Tax liabilities	2,094	916

Equity	12,007	5,735
Total liabilities and equity	86,925	65,666

*Profit and Loss Account 2002-2004:*

Million ISK	2004	2003	2002
Net interest income	629	541	492
Other operating income	1,233	477	494
Net operating income	1,862	1,018	986
Salaries and other operating exp.	-654	-589	-625
Impairment on loans and advances	-220	-222	-205
Profit before taxes	988	206	156
Taxes	-181	-43	-30
Net profit for the period	806	163	125

*Balance Sheet 2002-2004:*

Million ISK	2004	2003	2002
Amounts due from credit inst.	15,389	13,865	21,599
Loans to other customers	14,818	10,973	9,186
Bonds and shares	10,304	9,927	11,168
Other assets	5,609	2,811	2,292
Total assets	46,120	37,577	44,244
Amounts due to credit inst.	33,605	27,790	33,230
Customer accounts, on demand	2,265	1,305	1,736
Borrowings	5,387	4,707	5,732
Other liabilities	493	254	218
Subordinated loans	1,134	1,091	1,062
Equity	3,236	2,430	2,267
Total liabilities and equity	46,120	37,577	44,244

*Key Indicators 2002-2006:*

	2006	2005	2004	2003	2002
Cost-income ratio, %	12.8%	18.8%	35.1%	57.9%	63.4%
Interest rate margin, %	1.8%	1.6%	1.6%	1.4%	1.0%
Return on equity after taxes, %	63.8%	54.3%	28.5%	7.0%	5.7%
Capital adequacy ratio (CAD), %	17.0%	12.5%	11.8%	14.3%	15.7%
Tier 1 capital ratio, %	12.1%	8.8%	6.9%	9.8%	11.2%
Full-time equivalent positions, average over period	67	56	55	54	59
Full-time equivalent positions, end of period	71	58	53	54	53

### **3. Effects of changes in accounting standards**

The 2006 financial statements for Icebank are the Bank's first annual financial statements that are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Their implementation leads to significant changes in the presentation of the Bank's income statement and balance sheet. However, the nature of the Bank's operations and its assets and liabilities is such that the implementation of IFRS has a relatively small effect on individual items in its financial statements. The 2005 financial statements have been restated to allow comparison with 2006.

Changes in the valuation of assets and liabilities had a relatively little effect on the Bank's profit, equity, total assets and CAD-ratio. The main effect is 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 provision for impairment of ISK 41 million (net of taxes), with a corresponding increase in total equity.

### **4. New strategic vision**

In late 2006, Icebank's owners approved a new strategic vision for the Bank. The Bank has over its 20 year history offered comprehensive services to all the Icelandic savings banks. However, the strong organic growth of many savings banks, in particular the larger ones, and consolidation within the group has made them more and more willing and able to act on their own rather than depend upon the services of the Bank. The Bank will continue to offer its traditional and comprehensive services to the savings banks, but the emphasis will be on providing companies, professional investors and other large customers, both in Iceland and abroad, with a wide range of services, including long-term credits, foreign exchange and derivatives. It also supports Icelandic companies that are building up operations abroad

through advice, lending and equity participation, while at the same time taking part in various types of syndicated loans and structured finance both in Iceland and abroad. Thus, the Bank will continue to stay out of the retail market and focus instead on wholesale and investment banking services.

## **5. Outlook for 2007**

The outlook for 2007 is healthy, although a repetition of the stellar return on equity of 2004-2006 is not anticipated. The Bank is in the midst of hiring additional staff and developing its infrastructure further to underpin the sound implementation of its owners' new strategic vision for the Bank. A slowdown is expected in the Icelandic economy in 2007 after several years of rapid economic growth, but given the focus of the Bank's services in Iceland this will not have a significant impact on earnings and profit. The outlook for the Bank's foreign activities is positive and an expansion is foreseen.

## **6. Annual general meeting and dividend**

The annual general meeting of Icebank will be held on 23 March 2007. The Board of Directors will propose at the meeting that no dividend shall be paid to the Bank's shareholders for the year 2006, but that instead the profit of the year should accrue in full to the Bank's equity and thus underpin the Bank's new strategic vision.

## **7. Shareholders**

All Icelandic savings banks are shareholders in Icebank. They are currently 21. Five savings banks own more than 5% each of the Bank's share capital: The Engineers' Savings Bank (SPV, 28.7%), Reykjavík Savings Bank (Spron, 24.5%), Keflavík Savings Bank (SpKef, 12.2%), Mýrasýsla Savings Bank (SPM, 8.7%), and Kópavogur Savings Bank (SPK, 5.6%). The new strategic vision assumes the opening up of ownership of the Bank and listing of the shares on the Iceland Stock Exchange.