

# ICEBANK

## Registration Document Icebank



March 2007

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# **Registration Document**

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# 1 Risk Factors

## 1.1 Categories of risk

Icebank, like any other bank, faces several different categories of risk. These are the most important:

### 1.1.1 Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Bank or to perform as agreed. One element of credit risk is concentration risk, i.e. the risk resulting from large connected individual exposures and the risk resulting from significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors, e.g. industry sector, geographical location or instrument type.

### 1.1.2 Interest rate risk

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates.

### 1.1.3 Market risk

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates in the trading book of the Bank. This risk can arise from market-making, dealing and position-taking in bonds, securities, currencies, commodities or derivatives on those assets. This risk includes foreign exchange risk, which is defined as the risk arising from adverse movements in currency exchange rates.

### 1.1.4 Settlement risk

Settlement risk is the risk of the Bank delivering a sold asset or cash to a counterparty and not receiving the purchased asset or cash as expected.

### 1.1.5 Liquidity risk

Liquidity risk is the current or prospective risk to earnings and capital arising from the Bank's inability to meet its liabilities when they come due.

### 1.1.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Included is IT-risk and legal and compliance risk. IT-risk is the risk arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT strategy and policy or from inadequate use of the Bank's information technology. Legal and compliance risk is the risk arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards.

### 1.1.7 Reputation risk

Reputation risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the Bank on the part of customers, counterparties, shareholders, investors or regulators.

## 1.2 Risk Management and Credit Control

Icebank's Board of Directors has established a framework for risk management and credit control in the Bank. The daily responsibility for identifying, quantifying, controlling and reporting risk rests with a separate unit, Risk Management and Credit Control, which reports directly to the CEO. Furthermore, the Board has established a risk policy for the Bank, in which limits are established for all the major categories of risk. The Board has decided to further enhance the risk management function so that the Bank will be fully prepared to meet all the challenges that follow from the Bank's new strategic vision. In short, the Bank will develop and maintain a sound risk management practice by applying modern techniques for market, credit and operational risk modelling. In addition to the Board of Directors and Risk Management and Credit Control, the Finance Committee and the Committee on Physical Security of the Bank, as well as the Managing Directors of each Division of the Bank, play an important role in the Bank's overall risk management framework.

Even though it is not very mathematically advanced at the moment, the Bank's current risk management is based on solid and sound banking practices. This includes decision making and business processes, limit rules on positions and counterparties, and various policies regarding the daily operations of the Bank, to name a few of the main elements.

The role of Risk Management is to identify significant risk within the Bank's operations, quantify the total risk exposure of the Bank and limit the risk by implementing corresponding limit frameworks and internal monitoring procedures. Risk Management is responsible for developing models to quantify and measure the Bank's various risks and maintain the necessary computer systems to do so.

Risk Management reports regularly on the Bank's position vis-à-vis various risk limits as defined by internal rules to the Board of Directors, to senior management and to the Bank's Finance Committee, thus enabling them to assess the situation at any time and take action, if necessary.

## 2 Persons responsible

The Chairman of the Board and the CEO, on behalf of the Issuer, named below, hereby declare that they have taken all reasonable care to ensure that the information contained in the Registration Document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 5 March 2007,

On behalf of the Board of Directors of Icebank hf., Raudarárstígur 27, Reykjavík, ID No. 681086-1379

Geirmundur Kristinsson,

Finnur Sveinbjörnsson,

Chairman of the Board

CEO

### **3 Statutory auditors**

Icebank's statutory auditors at the time covered by the historical financial information in the Registration Document was KPMG endurskodun hf., ID No. 590975-0449, Borgartúni 27, Reykjavík, Iceland, and on their behalf Mr Sigurdur Jónsson. Icebank's statutory auditors have neither resigned nor been removed from their positions during the period covered by the historical information.

### **4 Manager**

Icebank's Legal Services prepared this Registration Document and were responsible on the Bank's behalf for the listing process of the Bills on ICEX.

### **5 Notice to investors**

This Registration Document concerns the listing of Bills issued by Icebank hf. and listed and admitted to trading on ICEX. The listing is conducted in accordance with Icelandic law and regulations, including Act No. 33/2003 on Securities Transactions, Directive 2003/71/EC of the European Parliament and of the Council 4 November 2003 (the "Prospectus Directive") which has been implemented by national law. This Registration Document is prepared pursuant to current legislation and rules for issuers of shares on ICEX that apply to the listing.

ICEX has scrutinized and approved this Registration Document, which is published only in English. This Registration Document forms a part of a Prospectus that consists of two independent documents: a Securities Note and a Registration Document.

This Registration Document has been prepared by Icebank, Legal Services in cooperation with the Board of Directors, senior management, and auditors of Icebank.

In the Registration Document, "Icebank", "the Bank" and "the Issuer" refer to Icebank hf., and "ICEX" refers to the Iceland Stock Exchange, unless otherwise indicated by the wording or context.

Icebank is listed on ICEX as a Bills issuer with the ticker symbol ICB, and complies with ICEX rules regarding on-going information disclosure for Bill issuers. Investors are advised to follow the news announcements and notifications which may be published in the ICEX News System concerning Icebank once the Registration Document has been issued.

The purchase of Bills is inherently a risk investment. Investors are advised to familiarize themselves thoroughly with this Registration Document. The information presented herein reflects its date of issue. Each investor must base any decision to invest in Bills issued by Icebank on his own examination and analysis of the information presented in the Registration Document. Investors are advised to study their legal position, including taxation issues that may be relevant to their transactions involving the Bills. Investors are urged especially to acquaint themselves well with the discussion of risk in Chapter 4 of this Registration Document.

This Registration Document and any document forming a part of the Prospectus shall not be distributed or mailed or otherwise disseminated or sent in or into any country where distribution would require additional registration measures or any measures other than those required under Icelandic law and regulations, or where they would conflict with any law or regulation.

## 5.1 Documents incorporated by reference

For the lifetime of the Registration Document, the following documents shall be deemed to be incorporated into and to form part of this Registration Document. The following documents which are cited in the Registration Document are available to investors:

- The Issuer's Articles of Association
- The financial statement of Icebank for the year 2003.
- The financial statement of Icebank for the year 2004.
- The financial statement of Icebank for the year 2005.
- The financial statement of Icebank for the year 2006.

Copy of the Issuer's Articles of Association can be obtained at the Issuer's head office and on Icebank's website ([www.icebank.is](http://www.icebank.is)). Copies of the financial statements may be obtained from the Bank's website, [www.icebank.is](http://www.icebank.is), and from the news section of ICEX's website, [www.icex.is](http://www.icex.is).

## 5.2 Documents on display

For the lifetime of the Registration Document, the following documents are available for viewing:

- The Registration Document and the Securities Note published on 7 March 2007 may be viewed on Icebank's website, [www.icebank.is](http://www.icebank.is), and on the news section of ICEX's website, [www.news.icex.is](http://www.news.icex.is). These documents have been scrutinized and approved by ICEX.
- Icebank's Articles of Association may be obtained from the Bank's website, [www.icebank.is](http://www.icebank.is), and from the news section of ICEX's website, [www.news.icex.is](http://www.news.icex.is).
- The financial statements of Icebank for the year 2003, 2004, 2005 and 2006 can be obtained at the Issuer's head office, on Icebank's website ([www.icebank.is](http://www.icebank.is)) and from the news section of ICEX's website, [www.icex.is](http://www.icex.is).

## 6 Information about the Issuer

### 6.1 Legal name and brief history

Legal name:	Icebank hf.
Legal form:	Public limited company.
Date of incorporation:	16 September 1986.
Country of incorporation:	Iceland.
Company registration number (ID No.):	681086-1379.
Domicile:	Raudarárstígur 27, 105 Reykjavík, Iceland.
Telephone number:	+354 540 4000.
Fax number:	+354 540 4001.
Web site:	<a href="http://www.icebank.is">www.icebank.is</a> .

Icebank is a commercial bank operating pursuant to Act No. 161/2002 on Financial Undertakings and Act No. 2/1995 on Public Limited Companies. The Bank is supervised by the Icelandic Financial Supervisory Authority.

Icebank was established in 1986 by the savings banks in Iceland on the basis of a special provision in Act No. 87/1985 on Savings Banks. At that time the legal name was Lánastofnun sparisjóðanna hf. and it was only permitted by law to offer a limited range of services. The Bank started operations in February 1987 when the savings banks moved their clearing accounts from the Central Bank of Iceland to Icebank. A change in the legislation in 1993 allowed the Bank to become a fully fledged commercial bank. The opportunity was taken to change the Bank's legal name to Sparisjóðabanki Íslands hf. In November 2006 the Board of Directors adopted a new strategic vision for the Bank and at a shareholders' meeting at the end of that month the Bank's legal name was changed to Icebank hf., the name that the Bank had used in its foreign business throughout its existence.

The Bank is still wholly owned by the 23 savings banks in Iceland. The original purpose of the Bank was to act as a central institution for the savings banks, providing them with a range of services. For example, in January 1990 Icebank took over all the foreign exchange services for the savings banks, which until then had been handled by one of Iceland's other commercial banks. The Bank has always had a portfolio of customers other than savings banks. Traditionally, these customers looked to the Bank for short-term or long-term credits, but the Bank has always stood ready to provide them with all kinds of wholesale and investment banking services.

In its 20 years of operations, Icebank's balance sheet has grown from ISK 639 million at year-end 1987 to ISK 65.6 billion at year-end 2005. During the same period, the number of employees has increased from a mere handful to around 80.

### 6.2 New strategic vision

Icebank has performed exceptionally well over the last three years, with net profit soaring and return on equity at very high levels. The Bank's business and assets have grown considerably in this period and the Bank has expanded its lending activities abroad. However, the Bank is facing multiple changes and

challenges, both in the domestic financial market in general and within the domestic savings bank sector in particular:

- The three big commercial banks in Iceland have all grown rapidly in recent years and established operations abroad. This has improved their competitive position in the domestic market, e.g. through the transfer of know-how, better commercial terms abroad and greater operating efficiency. Neither Icebank nor the savings banks have enjoyed similar benefits.
- More and more Icelandic companies and investors are looking for opportunities abroad. At the same time, there is an increasing demand in Iceland for more sophisticated foreign exchange and derivative products. The three main commercial banks offer comprehensive services in all these areas, whereas the savings banks have been lagging behind.
- The larger savings banks have grown rapidly in recent years. In addition to strong organic growth, there has been a consolidation among savings banks, most notably the merger of the second and third largest (SPH and SPV) in December 2006. With their increased size, the savings banks are both willing and more able to deal with larger and more complicated transactions than before, thereby reducing their dependence on Icebank. Furthermore, these larger savings banks now enjoy greater direct access to foreign funding, which also limits their need for Icebank.

The changes and trends outlined above have important consequences for Icebank. To tackle them, the Board of Directors of the Bank, with the support of all the owners, developed a new strategic vision for the Bank for the period 2007-2011. This vision was formally announced on 23 November 2006. Its main elements are:

- Icebank becomes the legal (official) name of the Bank instead of the Icelandic name Sparisjódabanki Íslands.
- The Bank will continue to offer comprehensive central banking and treasury services to savings banks that require such services. All services are to be provided on commercial terms.
- The Bank will focus on wholesale and investment banking services to savings banks, Icelandic and foreign financial institutions and other large customers. The Bank will not compete in the retail market in Iceland.
- The Bank will operate in the areas of trade finance and foreign exchange, payment services and funding with the aim of providing outstanding services to a select group of Icelandic and foreign customers. The Bank will achieve competitiveness and profitability through specialisation.
- The Bank will develop foreign exchange and derivative products, which will allow both Icebank and the savings banks to compete more aggressively with the three big commercial banks in Iceland in this fast-growing market.
- The Bank will further develop its corporate finance activities in Iceland and increase the emphasis on structured finance.
- The Bank will expand its overseas activities and set up operations abroad, i.a. to be able to support Icelandic companies and investors that wish to expand abroad through advice, lending and equity participation, while at the same participating in various types of syndicated loans and structured finance.

In addition to defining the role and strategy for Icebank for 2007-2011, the Board of Directors has defined ambitious financial goals for the Bank. Furthermore, it has been decided that ownership is to be expanded and the Bank's shares to be listed on ICEX with the aim of raising equity in support of further growth. However, no date has been set for this action.

## **7 Activities**

### **7.1 Overview of activities**

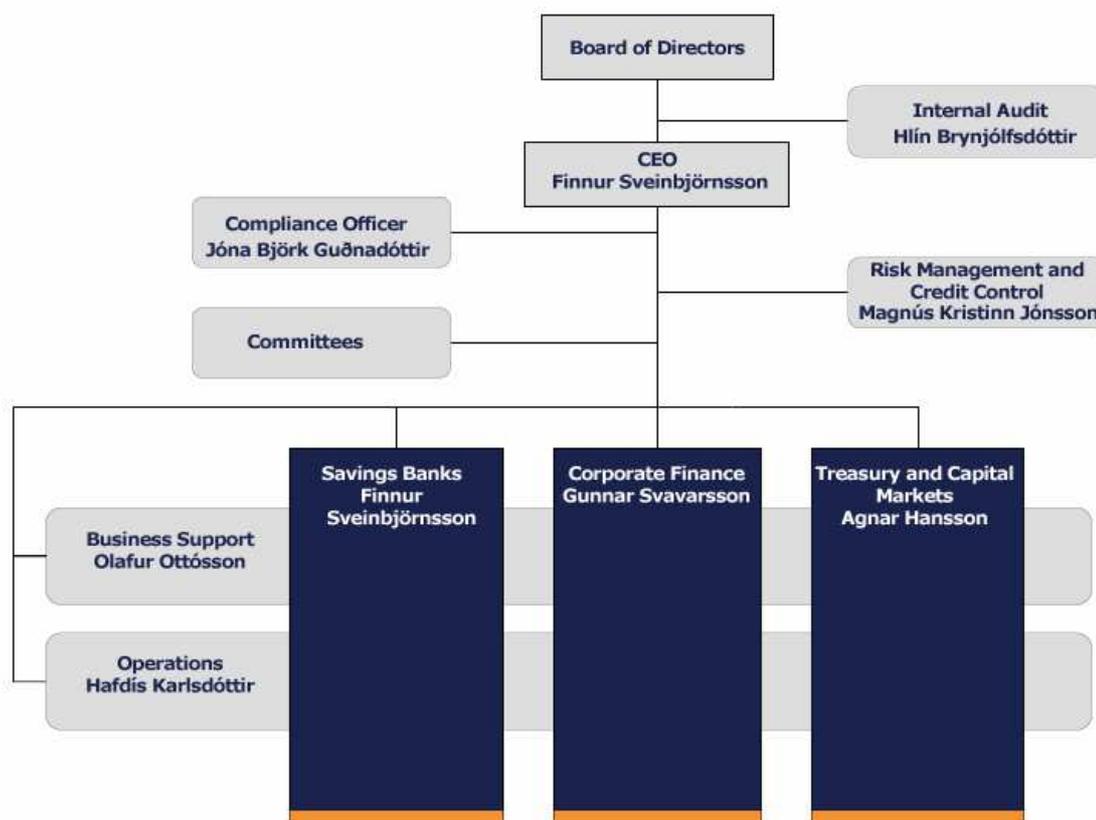
Icebank is a commercial bank, focusing on wholesale and investment banking services to savings banks, Icelandic and foreign financial institutions and other large customers. Icebank operates in the areas of trade finance and foreign exchange, payment services, treasury services and funding with the aim of providing outstanding services to a select group of Icelandic and foreign customers. The Bank achieves competitiveness and profitability through specialisation.

Icebank's customers fall into two broad categories, i.e. savings banks and other financial institutions on the one hand, and other customers on the other hand. The Bank acts as a central institution for the savings banks, playing the role of a clearing bank and a treasury for them. Furthermore, the Bank has been the backbone of the savings banks' trade finance and foreign exchange operations. It has participated with them in larger lending projects, either by assuming all the risk itself or acting as a co-lender. Savings banks have always been able to borrow short-term or long-term from the Bank in any currency and place their liquid funds with the Bank. Finally, the Bank provides the savings banks with expertise in various areas, such as accounting, payroll services, legal services, trade finance, foreign exchange, money markets, capital markets and lending.

The central theme of Icebank's new strategic vision is that the future growth of the Bank will come mainly from servicing customers other than the savings banks. The Bank provides 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.

### **7.2 Organization**

Icebank is organized into five divisions, three of which are profit centres, i.e. the Savings Banks Division, the Corporate Finance Division and the Treasury and Capital Markets. Two divisions are operated as cost centres, i.e. the Business Support Division and the Finance and Operations Division.



### 7.3 Savings Banks Division

The Savings Banks Division manages Icebank's customer relations with the savings banks. The Division is responsible for marketing the Bank's services and products among the savings banks and their customers, primarily those offered by the Business Support Division. Examples include loans administration and traditional foreign exchange services, such as Swift payments, foreign cheques and notes, guarantees and collections. In addition, the division handles all other relations between the Bank and the savings banks to the extent necessary and practicable.

### 7.4 Corporate Finance Division

The Corporate Finance Division was set up in 2006 with the adoption of a new organization chart. It replaces the former Credit Division. The change in name reflects the change in emphasis in the Bank's new strategic vision. The division will focus on corporate clients in terms of lending, participation in investment projects and consulting. Funding of Icelandic savings banks, short-term and long-term, is done through the Bank's Treasury and Capital Markets Division.

In its lending activities, one of the division's main tasks is to provide medium and long-term corporate credit since the Bank does not engage in retail lending, neither to individuals nor to corporate clients in such categories as current capital financing or other day-to-day services.

The financial solutions offered by the Corporate Finance Division may, in their simplest form, be straightforward credit or loan agreements with a maturity of 3 to 15 years. The loans are diversified in terms of industry sectors. Loans to the fisheries sector used to dominate the loan portfolio, e.g. accounting for 58% in 1997, but the sector's relative importance in the Bank, as well as in the economic sector in the Bank's loan portfolio (43.9% at year-end 2006) has declined. Instead, services has become the single largest economic sector in the Bank's loan portfolio (43.9% at year-end 2006). One of the sectors that the Bank has focused on is the real estate market, where it has built partnerships with selected clients.

Occasionally, a more complicated structure of leveraged financing is involved where the Bank provides financing for transactions such as mergers & acquisitions, Management buyout's (MBOs) and Management buy-in's (MBIs). The Corporate Finance Division is responsible for the Bank's participation in loan syndications in Leverage buyout (LBO) transactions as well as bank financing in emerging markets, to name two of the major syndication categories.

The Bank advises and assists its corporate clients with M&A projects and other complicated transactions, both locally and in their cross-border expansions. This is one aspect of the division's ambition to build strong relationships with its clients, grow with them and take part in their achievements. The Bank's financing may include bridge financing, evolving into senior and mezzanine debt, and in some cases the Bank will supply part of the equity.

At the beginning of the year 2006 total lending to clients that are now designated as Corporate Finance Division clients amounted to ISK 25.1 billion, or 38.3% of total assets. At the end of the year the amount stood at ISK 34 billion, or 39% of total assets, showing a slight proportional growth in the Bank's balance sheet.

## 7.5 Treasury and Capital Markets

Icebank's Treasury and Capital Markets Division is divided into four units:

*Inter-bank trading* manages the Bank's currency exposure and liquidity. The Bank is a market maker in the ISK REIBOR market and is active in quoting spot and derivatives prices in ISK against all major currencies. The inter-bank desk also operates as a "central bank" for the Icelandic savings banks, and clears ISK and foreign currencies for them.

The *sales and derivatives desk* is responsible for FX, money market products and derivatives sales to smaller savings banks, corporate and other institutional clients.

*Proprietary trading* takes positions through market making and trading in fixed income and equity products. The most extensive market is in Bill benchmarks for the National Debt Management Agency and the Housing Financing Fund. On the equity side, the Bank regards the Nordic equity market as its home market.

The *funding desk* is responsible for the overall funding of the Bank. The majority of the Bank's domestic funding comes from the savings banks, corporate deposits and other institutional clients. The Bank's foreign funding has mainly been through the European syndicated loan market. However, this will change if and when the Bank obtains a credit rating from one or more of the international credit rating agencies, which will give the Bank access to the international bond market

## 7.6 Business Support Division

The Business Support Division is composed of five units:

*Payments and settlements* caters for the execution of foreign payments from or destined to the Bank and to all the savings banks and for settlement of the Bank's own FX and securities trading.

*Customer accounts and reconciliation* administers the opening of all new accounts and compliance with KYC/AML rules and regulations. The unit is also responsible for the administration and reconciliation of Nostro/Vostro accounts and supervision of internal accounts reconciliations.

*Trade finance* caters for the execution of letters of credit, guarantees and documentary collections for the customers of all the savings banks, as well as the Bank's own corporate customers.

*Loans administration* is responsible for the overall administration of the Bank's total loan portfolio, including collection, statement distribution and default tracing. The unit is also responsible for administration and settlements in relation to the Bank's own long-term borrowed funds.

*Divisional administration and project management* is composed of the Head of Division and project managers looking after overall bank relations, including SWIFT. They are also responsible for finding ways to maximise the effective use of back-office software, to improve working procedures and manage temporary projects.

## 7.7 Operations and Finance

The Operations Division handles Icebank's day-to-day functions. It prepares the Bank's financial statements and budgets and does the accounting. The division is also responsible for all reporting to senior management and public authorities. The Bank has adopted the International Financial Reporting Standards (IFRS) in its statements as of 1 January 2006.

Operations is responsible for human resource management. Other elements located within the division are information and communication technology, security and quality management, property management, reception and general administration

## 7.8 Activities

Lending is the traditional mainstay of Icebank's operations. The Bank conducts its own credit rating of all customers, both for the savings banks themselves and other corporate clients. In general, savings banks are rated based on the size of their total assets and their financial soundness. Other corporate clients' ratings are based on their earnings, earning potential, ability to provide collateral and financial soundness in general.

All lending goes through Icebank's Credit Committee, which consists of the management team and the Bank's general council. The internal auditor of the Bank conducts regular random checks of all loan agreements and, in co-operation with the external auditors, carries out regular reviews of the largest exposures. The reports of these random and regular reviews are submitted directly to the CEO and to the Board of Directors.

Legal Services is in charge of all contracts in order to ensure that they are legally binding for all the parties involved. Legal Services is also responsible for all legally binding documents in Icebank. This includes standard as well as case-specific documents. Legal Services does not deal with debt collection, as the Bank has decided to outsource this activity to a specialised law firm.

Icebank's principal use of funds is for general loans to credit institutions and business clients, accounting for 36.4% and 24.7% of total assets respectively in 2006.

**Table 1 Use of funds**

<i>Use of funds</i>	<i>2006</i>	<i>2005</i>	<i>2004*</i>	<i>2003*</i>
<b>Cash and balances with central banks</b>	7,293	10,387		
<b>Loans to credit institutions</b>	30,270	24,601		
<b>Loans to customers</b>	31,250	20,955		
<b>Trading assets</b>	8,870	5,124		
<b>Financial assets designated at fair value</b>	8,787	4,201		
<b>Investments in associates</b>	18	25		
<b>Property and equipment</b>	437	374		
<b>Total assets</b>	86,925	65,667	46,120	37,577

\* Non-IFRS accounting standards

The principal lending activity of Icebank consists of loans to credit institutions, which accounted for 36.4% of total assets at year-end 2006. Loans to other customers accounted for 24.7% of total assets and the distribution by industry is shown in the table below. The Bank's lending to corporate customers grew in 2006 to ISK 34.7 billion from ISK 21.5 billion at year-end 2005. The largest industry sector over the years has been the fisheries sector. At the beginning of 2004 a new sector activity classification was taken into use by the entire Icelandic banking sector. The breakdown by activities follows ISAT95, which is the Icelandic equivalent to NACE rev.1 classification, down to 5 digit level. As a consequence, some of the companies providing services to the fishing industry are now classified under service industry rather than fisheries.

However, compared to 2003, Icebank reduced its exposure to the fishing industry and increased the diversification of its loan portfolio through increased exposure to the service sector, as well as other businesses. This diversification has been achieved mostly through participation in syndicated loans in Iceland and abroad with other Icelandic banks and a select group of close banking partners in Europe. The Bank believes there is further room for growth in this sector, especially in cross-border and overseas projects. However, the Bank will proceed with caution in its expansion and exercise great care in the selection of partners and projects. Icebank's special status as a service bank to the savings banks does not permit it to lend to the general public, i.e. to private individuals.

**Table 2** Loans to customers itemized by sector

<i>Loans to customers itemized by sector</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Municipalities</b>	0.1%	0.3%	4.4%	2.8%
<b>Business enterprises</b>				
<b>Agriculture and fishing</b>	6.4%	9.8%	15.4%	39.5%
<b>Industry</b>	21.1%	15.4%	16.5%	
<b>Service and commerce</b>	56.4%	48.9%	41.2%	35.6%
<b>Others</b>	16.0%	25.2%	39.0%	22.1%

The loan maturities to credit institutions are as follows:

**Table 3** Loan maturity – credit institutions

<i>Loan maturity – credit institutions</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Required deposits with the Central Bank</b>	0	0	0	1,577
<b>Up to 3 months</b>	9,268	7,488	7,704	3,935
<b>Over 3 months up to 1 year</b>	9,471	6,384	2,961	2,441
<b>Over 1 year up to 5 years</b>	8,070	7,686	4,497	5,192
<b>Over 5 years</b>	3,462	3,042	0,227	0,720
<b>Total Loans</b>	30,270	24,601	15,389	13,865

The maturity breakdown for other customers is set out in Table 5:

**Table 4** Loan maturity– Customers

<i>Loan maturity– Customers</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>On demand</b>	0,077	0,040	0,170	0,99
<b>Up to 3 months</b>	7,097	5,591	5,568	3,983
<b>Over 3 months up to 1 year</b>	2,862	2,653	1,460	1,543
<b>Over 1 year up to 5 years</b>	16,171	8,933	6,594	4,218
<b>Over 5 years</b>	5,044	3,736	1,025	1,109
<b>Total Loans</b>	31,250	20,955	14,817	10,952

In the evaluation of the non-performing loans, Icebank follows rules laid down by the Financial Supervisory Authority of Iceland (FSA). In 2002, the regulatory criteria for classifying non-performing loans were tightened from 180 days to 90 days overdue, although, at their discretion, banks were permitted to set an earlier date.

It is Icebank's policy to make immediate provisions whenever there is a risk of loss on an account. On a monthly basis the Bank reviews its provisioning requirements. Non-performing loans and their provision cover are as follows:

**Table 5 Coverage for non-performing assets**

<i>Coverage for non-performing assets</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Total non-performing loans</b>	445	517	561	924
<b>Percentage of customer loans</b>	1.4%	2.5%	3.8%	8.4%
<b>Total provisions</b>	409	501	565	496
<b>Provision ratio of non-performing loans</b>	91.9%	96.9%	100.7%	53.7%
<b>Percentage of loans and guarantees</b>	1.3%	2.2%	3.5%	3.5%
<b>Actual losses during the year</b>	77	169	167	83

The total provisions made in respect of 2005 are almost unchanged from 2004. This now represents 2.2% of total loans to customers due to the increase in customer lending. The provision coverage for non-performing loans is strong, or 96.9%

## 8 Financial results

Icebank's complete audited annual accounts and audited half-yearly accounts are published on the Bank's website and ICEX's website. There has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements. The tables below show a summary of the key financial figures.

**Table 6 Operational results**

<i>Operational results</i>	<i>2006</i>	<i>2005</i>	<i>2004*</i>	<i>2003*</i>
<b>Net interest income</b>	1,254	823	629	541
<b>Net fee and commission income</b>	136	119		
<b>Other net operating income</b>	6,430	2,831		
<b>Net operating income</b>	7,820	3,773	1,862	1,018
<b>Salaries and other operating expenses</b>	-996	-708	-654	-589
<b>Impairment</b>	15	-142	-220	-222
<b>Profit before income tax</b>	6,840	2,923	988	206
<b>Income tax expense</b>	-1,178	-542	-181	-43
<b>Profit for the year</b>	5,662	2,381	806	163

\* Non-IFRS accounting standards

At year-end 2006 the equity ratio (CAD) was 17.0%, compared to 12.5% at year-end 2005. The Tier 1 ratio amounted to 12.1% in 2006 compared to 8.8% in 2005. The Bank's equity was 13.8% of total assets or ISK 12.007 million at the end of 2006. The capital stock at that date amounted to ISK 691.2 million.

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.

**Table 7 Key Figures and Ratios**

<i>Key Figures and Ratios</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Total balance</b>	86,925	65,667	46,120	37,576
<b>Subordinated debt</b>	2,430	1,126	1,133	1,091
<b>Total equity</b>	12,007	5,688	3,263	2,430
<b>Share capital</b>	691	609	604	604
<b>Cost-income ratio after impairment</b>	12.8%	18.8%	35.1%	0.80
<b>Capital adequacy ratio</b>	17.0%	12.5%	11.8%	14.3%
<b>Capital adequacy ratio, Tier 1</b>	12.1%	8.80%	6.90%	10.1%
<b>Average number of full time employees</b>	67	56	55	54

## 9 Governance

### 9.1 Board of Directors

The following members were elected to the Board of Directors at Icebank's last Annual General Meeting on 18 March 2005.

#### *Geirmundur Kristinsson, Chairman of the Board*

Born in 1944. Graduated from a commercial college in 1963. Worked for an oil and petroleum importer and distributor 1963-1965. Joined the Keflavík Savings Bank in 1965, first as the Head of Administration, later as Deputy Managing Director and finally as CEO from 1993. First elected to Icebank's Board of Directors in 1998 and has been Chairman since 2001. Besides being the Managing Director of Keflavík Savings Bank, Geirmundur sits of the Board of Directors of the Icelandic Savings Banks' Association, the Savings Banks' Computer Centre, the Icelandic Banks' Data Centre and VSP Securities.

#### *Fridrik Fridriksson, Vice-Chairman of the Board*

Born in 1949. Commercial college graduate. CEO of Svarfdaelir Savings Bank in North Iceland since 1985. First elected to Icebank's Board of Directors in 1995.

#### *Gudmundur Hauksson*

Born in 1949. Graduated with a degree in business administration from the University of Iceland in 1976. Served in managerial positions at a paint manufacturer and an international airline 1976-1986 before joining Hafnarfjörður Savings Bank in 1986 as Managing Director. In 1987 he transferred to the Fisheries Bank of Iceland as a Managing Director and when that bank merged with three other banks to form Íslandsbanki, Gudmundur became one of the General Managers. In 1991 he became the CEO of Kaupthing (now Kaupthing Bank) and in 1996 he became the CEO of the Reykjavík Savings Bank (SPRON). Gudmundur first served on Icebank's Board of Directors 1986-1987 and joined the Board again in 1997. Besides being the Managing Director of SPRON, Gudmundur sits on the Board of Directors of the Savings Banks' Reserve Fund, the Icelandic Financial Services Association, Frjálsi Investment Bank, SPRON Securities and Exista.

#### *Magnús Aegir Magnússon*

Born in 1956. Graduated with a degree in business administration from the University of Iceland in 1981. MBA from the University of Edinburgh, Scotland, in 1997. He worked for an auditing firm 1981-1985. He joined the Keflavík Savings Bank in 1985, as the Head of Economics and the Head of Securities Markets and finally as Deputy Managing Director 1993-1997. Magnús joined the Hafnarfjörður Savings Bank (SPH) in 1997 as the Head of Corporate Lending and as Managing Director from 2005. He has been co-CEO of the Engineers' Savings Bank (SPV) since the merger of SPH and SPV in December 2006. First elected to Icebank's Board of Directors in 2005. Besides being the co-CEO of SPV, Magnús sits on the Board of Directors of SP-Fjármögnun and VSP Securities.

#### *Ragnar Zophanías Gudjónsson*

Born in 1970. Graduated with a degree in business administration from the University of Iceland in 1995. Worked for a media company 1995-1996. Joined the Engineers' Savings Bank (SPV) in 1995, first as the Head of Economics and Marketing, later as Internal Auditor and finally Managing Director in 2004. He has been co-CEO of SPV since the merger of SPH and SPV in December 2006. First elected to Icebank's Board of Directors in 2005. Besides being the co-CEO of SPV, Ragnar sits on the Board of Directors of the Icelandic Savings Banks' Association, FSP Investments and MasterCard Iceland.

## Conflicts of interest

None of the principal activities of the board members of Icebank performed outside the Bank, are considered to give rise to conflicts of interest.

## 9.2 Senior management

### *Finnur Sveinbjörnsson, CEO*

Born in 1958. Graduated with a B.Sc.(Econ) degree from the University of Leicester in the UK in 1981 and an M.A. from the University of Minnesota in the US. He worked as an economist in the Ministry of Finance (Budget Office) 1984-1987, in the Central Bank of Iceland 1987-1990 and the Ministry of Industry and Commerce 1990-1995, where he attained the position of director responsible for financial markets. He was the Managing Director of the Bankers' Association of Iceland 1995-2000, President of the Iceland Stock Exchange 2000-2002 and became the CEO of Icebank in 2002. Finnur sits on the Board of Directors of FSP Investments and is the Chairman of the Board of FGM (payment clearing and FTPOS services).

### *Agnar Hansson, Managing Director, Treasury and Capital Markets*

Born in 1965. Graduated with a Cand. Scient. Oecon. degree from the University of Aarhus in Denmark in 1994. He taught part-time courses in finance and economics at the University of Iceland 1995-1999. He worked in Íslandsbanki 1993-1997, first as a securities trader and later as the head of the economic and market research unit of that bank (first such unit in an Icelandic bank). He was one of the first employees of FBA Bank, which was established in 1997 through the merger of four state-owned funds and which later merged with Íslandsbanki. At FBA he built up the Treasury and Capital Markets Division. In 1999 he became the first Dean of the School of Business at the newly established Reykjavík University. He joined Kaupthing Bank in 2004 where he worked as a project manager in the CEO's office, concentrating on projects in the areas of treasury and capital markets. He joined Icebank in March 2006 as a Managing Director of Treasury and Capital Markets.

### *Gunnar Svavarsson, Managing Director, Corporate Finance*

Born in 1951. Graduated with a degree in business administration from the University of Iceland in 1975. After graduation he joined Hampidjan, one of the world's largest manufacturers of ropes, nets and trawls for the fishing industry. He rose to the rank of CFO in 1979 and became CEO in 1984. In 1999 he became the CEO of Icelandic Group, a large international seafood company with operations in numerous countries. Gunnar has served on the board of various companies and government institutions throughout the years. He has been both Vice-Chairman and Chairman of the Federation of Icelandic Industries and a member of the Executive Committee of the Confederation of Icelandic Employers. He joined Icebank in April 2006 as a Managing Director of Corporate Finance.

### *Hafðís Karlsdóttir, Managing Director, Operations*

Born in 1954. Graduated with a degree in business administration from the University of Iceland in 1979 and a degree in computer science from Seattle Pacific University in the US. She worked for a computer software company 1989-1998 as a Consultant, Head of Administration and CFO. She was the CFO of Kodak Iceland 1998-2001, served in the same capacity at KPMG Iceland 2001-2004 and as the Head of Accounting in the Municipality of Hafnarfjörður 2004-2006. She joined Icebank in May 2006 as a Managing Director of Operations. Hafðís sits on the Board of Directors of Kópavogur Savings Bank.

### *Ólafur Ottósson, Deputy CEO and Managing Director, Business Support*

Born in 1943. Graduated from a commercial college in 1962. He worked for the co-operative movement 1962-1973, first in the manufacturing division and from 1964 in the Co-operative Bank. During 1974-1977 he lived and worked in Kenya on a Nordic development project. He then joined a wool

manufacturer in Iceland and served as Head of Personnel and Marketing Director 1977-1983. Worked as Head of Administration at the Agricultural Bank of Iceland (now part of Kaupthing Bank) 1983-1984. This was followed by another stint in Kenya 1984-1985 on a Nordic development project. Ólafur served as a Deputy General Manager in the People's Bank 1985-1989 (that bank later merged with three other banks to form Íslandsbanki). He joined Icebank in 1990 as General Manager of the International Division and Deputy CEO.

#### Conflicts of interest

None of the principal activities of the senior management team of Icebank performed outside the Bank, are considered to give rise to conflicts of interest.

## 10 Ownership

Icebank is wholly owned by the 23 savings banks in Iceland. In fact, the Bank's Articles of Association stipulate that the Bank's shareholders can only be savings banks or companies fully owned by one or more savings banks. The largest shareholders are:

Engineers' Savings Bank (SPV)	28.7%
Reykjavík Savings Bank (Spron)	24.5%
Keflavík Savings Bank (SpKef)	11.6%
Mýrarsýsla Savings Bank (SPM)	8.7%
Kópavogur Savings Bank (SPK)	5.6%
18 other savings banks	20.9%

The following ownership links exist between the largest shareholders in Icebank:

- SPV owns 4,8% in SpKef and 3.65% in SPK.
- Spron owns 4,8% in SpKef.
- SpKef owns 0.42% in Spron and 0.8% in SPV.
- SPK owns 2.28% in SPV and 0.3% in SpKef.