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RESEARCH

Glitnir Bank

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Major Rating Factors

Counterparty Credit Rating

A-/Stable/A-2

Strengths:

- Strong domestic banking franchise in Iceland;
- Improving geographic diversification;
- Consistently high profitability; and
- Good asset quality.

Weaknesses:

- Relatively high risk appetite;
- Aggressive growth strategy involving considerable execution risk; and
- Heavy reliance on wholesale foreign-currency funding.

Rationale

The ratings on Iceland-based Glitnir Bank (Glitnir) reflect its strong domestic franchise and improving geographic diversification through its growing international presence. They also recognize the bank's consistently high profitability and good asset quality. The ratings are constrained by the bank's relatively high risk appetite, aggressive acquisition-led growth strategy, and heavy reliance on wholesale foreign currency funding.

With assets of Icelandic krona (ISK) 2.25 trillion (€24 billion at ISK93.5 to €1), and market shares of 25%-35% in most key segments, Glitnir is the second-largest universal bank in Iceland. Despite Glitnir's size and importance within the Icelandic economy, Standard & Poor's Ratings Services does not factor any external support due to extraordinary government intervention into the counterparty credit rating on the bank.

Since 2004 the group has been building up an international presence, mainly in Norway, which now represents 40% of the total loan portfolio, but also in the U.K. and Sweden. This has improved the whole group's credit risk profile by diversifying both revenues and assets and providing exposure to low-risk mortgage lending in Norway.

Profitability has been consistently high, albeit volatile, over a number of years, despite the Icelandic economy dipping into recession in 2002, stock market falls in 2001 and 2002, and rather turbulent Icelandic markets in 2006. In each of the past four years, core earnings, which exclude one-off gains, have never fallen below 2.2% of risk assets. This very high level of profitability has been driven partly by large trading gains and capital market-related revenue, which are not sustainable over the long term. Even with less favorable capital market conditions, however, Glitnir's strong franchises and good cost efficiency should enable it to keep profitability at satisfactory levels.

Glitnir's credit risk management is effective, and its asset quality is good. In 2006, the bank's loan loss provisions rose slightly again having fallen in 2004-2005. Gross NPLs remained low, however, and fell in both absolute and relative terms. At year-end 2006, NPLs amounted to 0.45% of loans. NPLs and provisions are expected to rise moderately in 2007-2008 as the Icelandic economy slows down and corporate credit quality generally weakens in the markets where Glitnir operates.

The ratings are constrained by the bank's relatively high risk appetite, which is indicated by the presence of fairly large exposures to single names and the bank's involvement in leveraged finance. A cause of concern is the fact that the bank is at times significantly exposed to major shareholders.

Glitnir's acquisition-based growth strategy is aggressive and involves considerable execution risk. This weakness is partly offset by Glitnir's systematic and collaborative approach to acquisitions.

Although Glitnir's liquidity management is very prudent, the high reliance on wholesale foreign currency funding makes the cost of its funding sensitive to foreign investor confidence in the relatively volatile Icelandic economy.

Outlook

The stable outlook reflects the expectation that Glitnir will maintain comfortable profitability even with a likely increase in credit losses and lower capital market income. The bank is expected to integrate its non-Icelandic operations successfully, thereby improving group revenue diversification. In addition, it is assumed that risk management and control structures will continue to be strengthened in line with the size and scope of a larger group.

A positive rating action, although currently unlikely, could follow if Glitnir were to prove the sustainability of its business model, integrate its recent acquisitions successfully, and substantially reduce its lending concentrations.

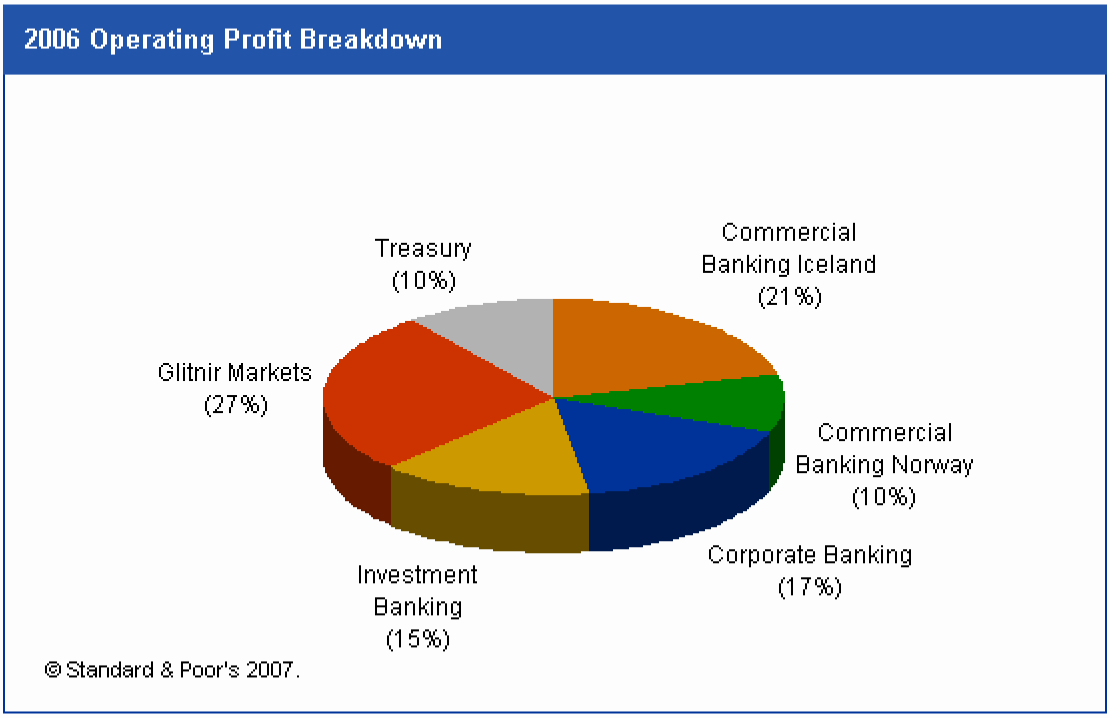
A negative rating action could follow if execution risk were to increase further as a result of continued rapid acquisition-driven expansion, or if the integration process were to run into difficulties. A more severe than expected macroeconomic downturn in Iceland could also put downward pressure on the ratings through a significant deterioration in asset quality.

Profile: Icelandic-Norwegian Group, Nordic Investment Bank

With assets of ISK2.25 trillion, Glitnir is the second-largest universal bank in Iceland. Since 2004 the bank has been in a constant state of transformation, having acquired a number of institutions in Norway, Sweden, and Finland. At the same time, Glitnir has been undergoing rapid organic growth both abroad and at home. As a result, total assets have quintupled over the past three years and non-Icelandic business now represents about 55% of the consolidated loan portfolio and one-third of revenues.

Glitnir provides a wide range of banking services to both households and companies in Iceland and Norway, which it regards as its home markets. Outside these two markets the bank is a mainly corporate-focused specialist investment bank. This is reflected in the 2006 profit breakdown, which shows that commercial banking in Iceland and Norway combined contributed less than one-third of profits, while the single largest contributor was the markets division (Glitnir Markets) with 27% (see chart 1).

Chart 1



In Iceland, Glitnir offers a broad range of banking, asset management and asset finance products and is one of three large commercial banks that together dominate the market. Although its network of 23 branches is the smallest of the three large banks, Glitnir has shares of between 20% and 30% of the Icelandic household and corporate markets. Glitnir also offers non-life insurance products through a strategic partnership with a former subsidiary, non-life insurer Sjóvá.

The bank's commercial banking operations in Norway mainly consist of midsize mortgage specialist BNbank ASA and the much smaller corporate-focused Glitnir Bank ASA (formerly KredittBanken ASA). Glitnir Bank ASA is also responsible for the group's efforts in the offshore supply vessels sector, one of its three global niches.

Glitnir Markets consists of the group's brokerage operations in Iceland, Norway and Sweden. Glitnir holds the number two position in Icelandic equity and bond brokerage and is the fourth-largest brokerage in the Nordic equities market with a combined market share of about 4%.

The corporate and investment banking divisions provide services to large Icelandic companies as well as to foreign companies in certain areas in which the bank believes it has special expertise, such as leveraged and property finance. The corporate division is responsible for two of the group's three niche market segments: food (primarily seafood); and sustainable energy (mainly geothermal energy). The international activities of the corporate and investment banking divisions are supported by branches in London and Copenhagen, a subsidiary bank in Luxembourg, and offices in Halifax (Canada) and Shanghai.

Support And Ownership

Glitnir is publicly owned and listed on the OMX Nordic Exchange. The ownership of the bank is dominated by a number of Icelandic investment companies. The ownership structure changed significantly in April 2007 when the second-largest owner, Milestone Group, sold a large part of its stake. Following this reshuffle, the four largest shareholders were FL Group hf. (31.9%), Milestone group (7.0%), Jötunn Holding ehf. (6.9%), and Saxbygg ehf. (5.7%). FL Group is listed on the OMX and has a number of listed and unlisted equity investments, including stakes in airlines Finnair and AMR Corp., parent of American Airlines.

Licensed as a commercial bank under the Icelandic Financial Undertakings Act, Glitnir is regulated and supervised by the FME, Iceland's financial supervisory authority. Despite Glitnir's size and importance within the Icelandic economy, Standard & Poor's Ratings Services does not factor any external support due to extraordinary government intervention into the counterparty credit rating on the bank.

Strategy: Consistent But Aggressive

Although Glitnir's overall strategy is consistent, it is also aggressive and therefore involves considerable execution risk. Rapid addition of new subsidiaries in new markets increases the risk of management overstretch and operational failure. This concern is partly offset by Glitnir's systematic and collaborative approach to acquisitions, characterized by friendly takeovers where support from local management and staff is key.

Glitnir defines both Iceland and Norway as its home markets. Its strategy here is to maintain its strong position as one of three universal banks in Iceland, and to become a specialist alternative to the universal banks in Norway. Its international strategy is based on three pillars: (1) to become a Northern European investment and corporate bank specializing in areas such as leveraged and property finance; (2) to support customers as they expand into new markets; and (3) to become a global player within three niche market segments: food, sustainable energy, and offshore supply.

The focus on the food sector, sustainable energy, and offshore supply seems sensible given the bank's experience in these sectors. The ambition to become an international player in leveraged and integrated finance seems slightly more challenging, however. These are markets where Glitnir has no obvious competitive advantage.

To achieve these ambitious goals, the bank is relying on a combination of acquisitions and organic growth. For example, the expansion in the food and sustainable energy sectors has been mainly organic as it has been built on experience and established customer relationships in these sectors. Conversely, its expansion in offshore supply vessels financing and Nordic investment banking has been achieved through acquisitions.

Since Glitnir embarked on international expansion in 2004, it has made nine acquisitions. Two of these have been tiny add-ons, while the acquisitions of KredittBanken (2004) and BNbank (2005) together constituted a substantial investment and transformed the previously purely Icelandic bank into an Icelandic-Norwegian group. The improved diversification resulting from the Norwegian operations supports the rating. The last five significant acquisitions –- Norse Securities ASA, UNION Group, Fischer Partners in 2006, and FIM Group and Leimdörfer Holdings AB in 2007 -– all conform with the strategy of building an investment and corporate banking platform in the Nordic region. The combination of these entities should provide cost synergies as well as opportunities to develop a stronger Nordic franchise. In addition, FIM Group adds a small but well-established asset management business, which is an area where Glitnir has lacked critical mass.

Individually, Glitnir Bank's acquisitions make sense, but taken together they present a major challenge in terms of managerial resources and will require significant effort and dedication from management. At the same time, the bank is showing very strong organic growth domestically and in the U.K. and will need to be alert to possibly less favorable conditions in the Icelandic market in the coming year.

The current pace of expansion means that, over the near term, Standard & Poor's is likely to consider any further acquisitions or significant new growth initiatives as negative for the ratings.

Risk Profile And Management

The main form of risk Glitnir faces is credit risk in its domestic and international corporate portfolio and the liquidity risk arising from its reliance on confidence-sensitive market funding. Glitnir's risk appetite is slightly higher than that of the average commercial bank. This is indicated by, for example, the pace of its corporate lending growth, the concentration within its corporate credit and equity investment portfolios, and its involvement in leveraged and acquisition finance.

Enterprise Risk Management: Adequate

Glitnir's enterprise risk management is adequate. This reflects generally prudent and well-established risk policies and controls and an independent risk management function. The group's risk management is centralized under the leadership of the CFO/Credit Risk Officer who chairs the bank's main committees: the risk committee for credit, market and counterparty risk; the asset and liability committee; and the operational risk committee.

Management faces a challenge, however, in terms of integrating the group's newly acquired and culturally different businesses into a single consolidated risk management framework. Failure to achieve this may jeopardize its control over the overall risks that the group faces.

Credit risk: large corporate portfolio with some concentration risk

Glitnir's credit risk management is effective and its asset quality is good. Concentration risk, however, is relatively high, due to some significant lending exposures to single names. It is a source of concern that these large exposures from time to time include lending to large shareholders of the bank. Connections with related parties always create a risk that transactions are not made at arm's length.

Glitnir's gross customer loans grew by 46% in 2006. This was largely due to the depreciation of the Icelandic krona, however. In real terms, lending grew by about 20%, mainly driven by very rapid growth in the corporate banking division (45%). Although still strong, growth was more in line with the overall market in the commercial banking divisions in Iceland (13%) and Norway (18%).

The loan portfolio is relatively well diversified (see table 1). Iceland and Norway account for 45% and 39%, respectively, followed by the U.K. with 6%. Lending to companies accounts for about 75% of consolidated lending, with the most extensive industry exposures being to real estate and services. The corporate loan book features some relatively large exposures to single names. There has been a notable improvement during the past year, with large exposures falling. This is only partly explained by active tightening of limits, however, while part of the reason is overall balance sheet growth.

Table 1

Consolidated Loan Portfolio Breakdown

Divisional breakdown			Sectoral breakdown		
	(Bil. ISK)	(%)		(Bil. ISK)	(%)
International Corporate Banking	411	26.1	**Households**	365	23.2
Leveraged finance	64	4.1	Mortgages	293	18.6
Glitnir Luxembourg	99	6.3	Other consumer loans	72	4.6
Corporate banking	248	15.8	**Corporate sector**	1196	76.1
Commercial Banking Iceland	567	36.1	Real estate	446	28.4
Retail	161	10.2	Services	409	26.0
Retail mortgage lending	114	7.3	Fishing industries	143	9.1
Corporate	240	15.3	Industry & Contractors	126	8.0
Asset backed financing	39	2.5	Commerce	68	4.3
Other	14	0.9	Agriculture	5	0.3
Glitnir Bank Norway	594	37.8	**Public sector**	9	0.6
Glitnir Bank ASA	52	3.3	Municipalities	5	0.3
BNbank	492	31.3	Government	5	0.3
Norwegian operations & other	50	3.2			
TOTAL	1,572	100.0	**TOTAL**	1,572	100.0

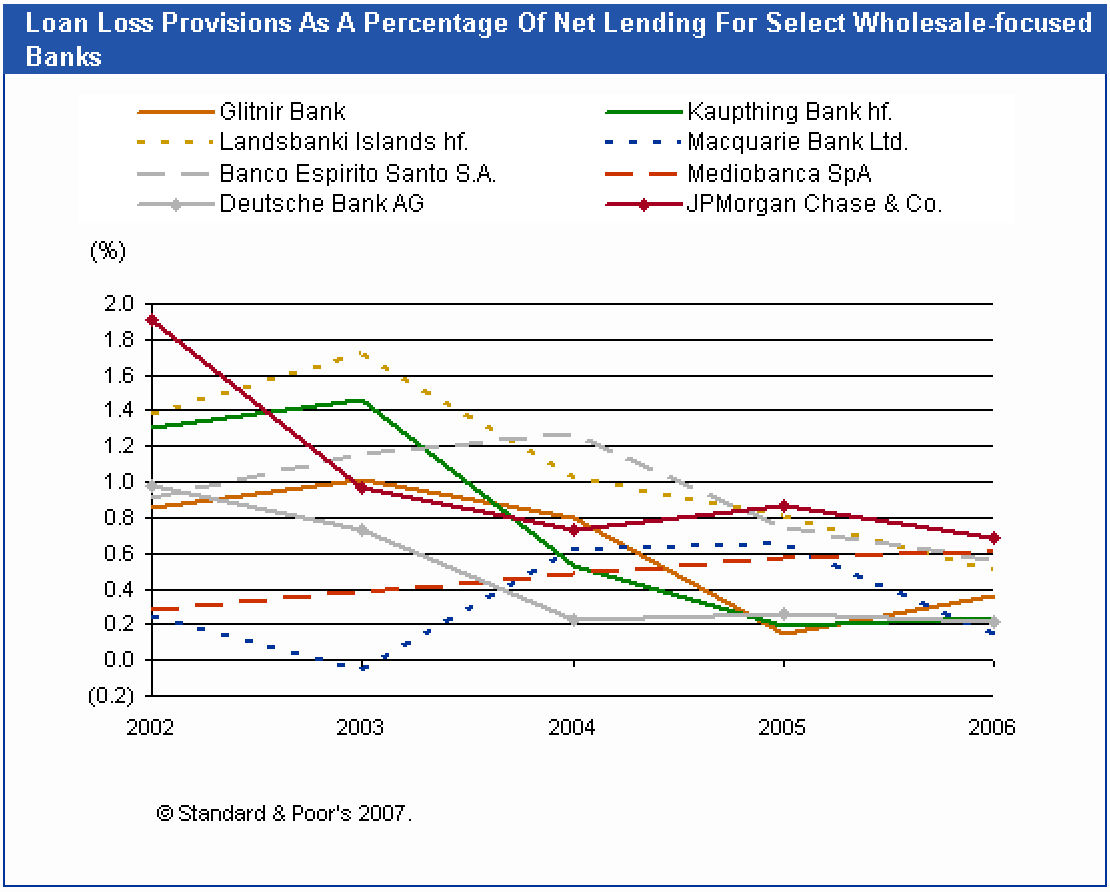
One particularity about the Icelandic loan portfolio is that about 45% of the lending is denominated in foreign currency. Almost all of it is extended to Icelandic companies although Icelandic households have also been increasing their foreign currency borrowing. In the small and export-oriented Icelandic economy it is common for exporters with earnings in foreign currency to have part of their borrowing in foreign currency, often in the form of a basket of currencies. Even if the majority of Icelandic borrowers in foreign currency are naturally hedged by having assets or income in foreign currency, some could be vulnerable to a sharp depreciation of the Icelandic krona.

The Icelandic mortgage portfolio is still small. A restructuring of the mortgage market, which started in 2004, has led to lower real interest rates for households and higher LTV ratios. This in turn fueled a housing price boom in 2005-2006, which now seems to be abating. Although no major credit problems are expected to originate from Icelandic households, the rapid rise in household indebtedness has increased the vulnerability of the overall economy to an economic downturn.

The Norwegian credit exposure is dominated by the corporate and retail mortgage book of BNbank. The quality of this mortgage book is strong with conservative LTV ratios and a long track record of consistently low losses. The remaining share of the Norwegian loan book has a higher risk profile due to its large exposures to the offshore supply, manufacturing, and fishing sectors.

As a mainly corporate lender with a relatively small mortgage portfolio, the risk in Glitnir's loan book is slightly higher than for other rated Nordic banks. NPLs peaked at 3.63% during a recession in 2002 but have since come down markedly and stood at 0.45% at year-end 2006. The fall is due to both the strong development in the Icelandic economy and the consolidation of BNbank, which had a much lower NPL ratio than Glitnir's own. Losses, measured as net charge-offs, have ranged between 0.16% and 0.77% over the past five years, which is clearly higher than the average for major Nordic banks, but in line with the levels generally seen in corporate banks (see chart 2).

Chart 2



Given the transformation and growth of the group's assets in recent years, past performance is probably a poor guide to the future. While the consolidation of BNbank's mortgage book clearly reduced the overall risk of the portfolio, the simultaneous expansion of international corporate lending has added new risks. The very rapid growth of the corporate book is a source of concern. Although lending is mainly related to the financing of Icelandic companies' international expansion or to Glitnir's global specialist niches, the quality of this portfolio is untested in less benign macroeconomic conditions.

Assuming a widely expected slowdown in the Icelandic economy and a gradual, though undramatic, weakening of credit quality in the markets where Glitnir operates, NPLs and loan losses are likely to rise moderately from their current low levels. This is not, however, likely to become a serious problem for the bank.

Market risk: low trading value-at-risk but some appetite for equity investment

Glitnir's market risk management is satisfactory. The bank's overall equity exposure has decreased in terms of capital in the past year. Its relatively aggressive investment culture remains a concern, however, although it seems to have worked well in the past.

The currency and interest rate risks in Glitnir's balance sheet are fairly limited. Assets and liabilities are closely balanced in terms of currency, and any remaining mismatch is treated as a trading position and subject to strict limits. Interest rate risk in foreign currency is completely hedged, while there is a structural maturity mismatch in the Icelandic krona-denominated banking book. Measured as the loss after a 100 basis point(bp) parallel shift in the yield curve, the overall interest rate risk amounted to 4.5% of adjusted total equity (ATE) at year-end 2006.

The group's net equity exposure amounted to 24.7% of ATE at year-end 2006, down from 35.9% in 2005. The trading portfolio, including strategic investments, constituted about one-third of such exposure, while the remainder consisted of various other equity holdings at fair value, mainly holdings of preferred shares, as well as a 50% stake in investment company Fjarfestingafelagid Mattur ehf. The equity value-at-risk in the trading book is insignificant. The main risk in the equity portfolio is related to the individual investments.

Funding and liquidity risk: sensitive to swings in investor confidence

Glitnir's heavy reliance on wholesale markets for funding is a source of concern given the fragility of foreign investor confidence in the Icelandic banking system and economy in general. The bank follows prudent liquidity policies, and the probability that it will run out of liquidity is remote. Nevertheless, the price of Glitnir's funding is highly sensitive to changes in investors' perception of the risk in Icelandic banks.

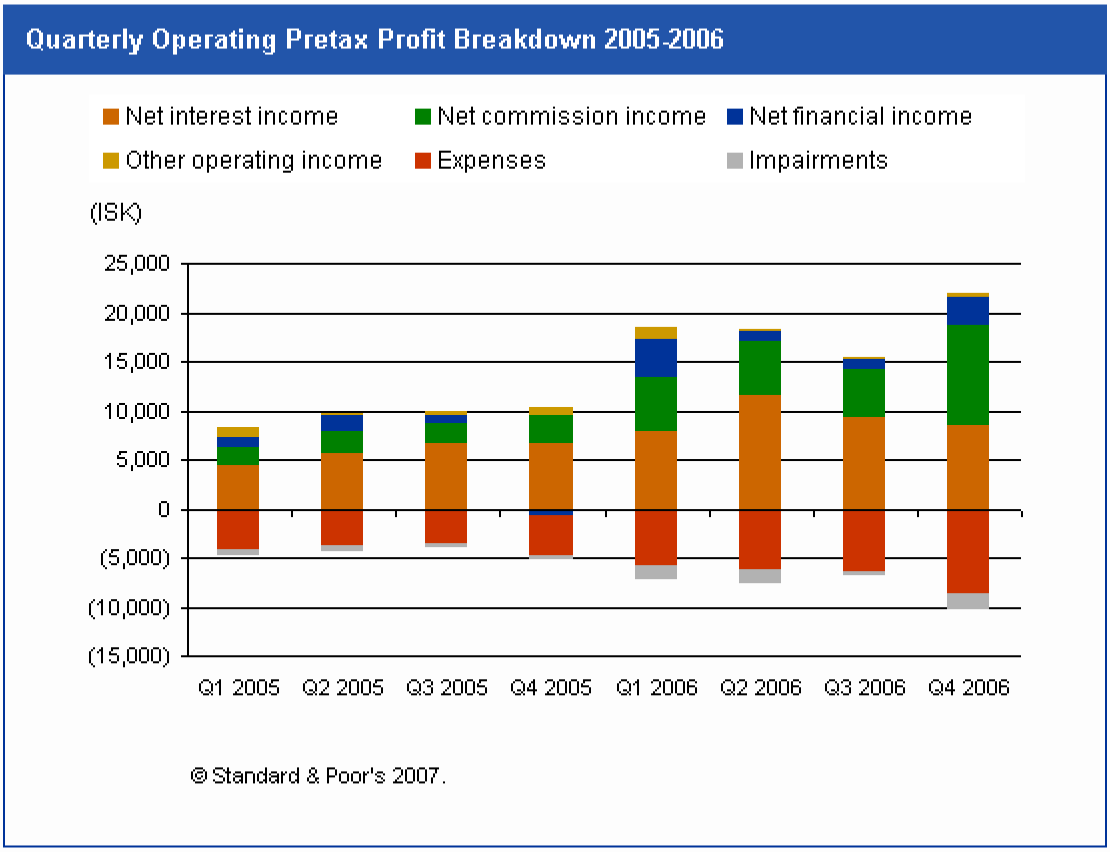
Glitnir has only a limited deposit base and needs to raise 75% of its funding on the wholesale market. BNbank funds itself independently and raises almost one-quarter of the group's wholesale funding by issuing Norwegian bonds. The remaining wholesale funding is raised on the international market by the parent bank, mainly through an EMTN program, complemented by U.S. and Australian-dollar MTNs, U.S. dollar extendible notes, and euro CP. A wave of European investor skepticism about Icelandic bank debt that began in February 2006 forced Glitnir to broaden its investor base significantly. The group's funding is now well diversified both geographically and in terms of instruments.

The parent bank and its subsidiaries are subject to various local regulatory liquidity requirements, and all keep portfolios of liquid assets. At the parent bank level, the liquidity policy is for all debt maturing within six months to be covered by liquid assets and committed credit lines. At the time of writing, the level of liquidity was significantly above this target, however. Liquid assets covered more than all debt maturing within 12 months, and all of the refinancing need for 2007 had already been met.

Profitability: High But Volatile

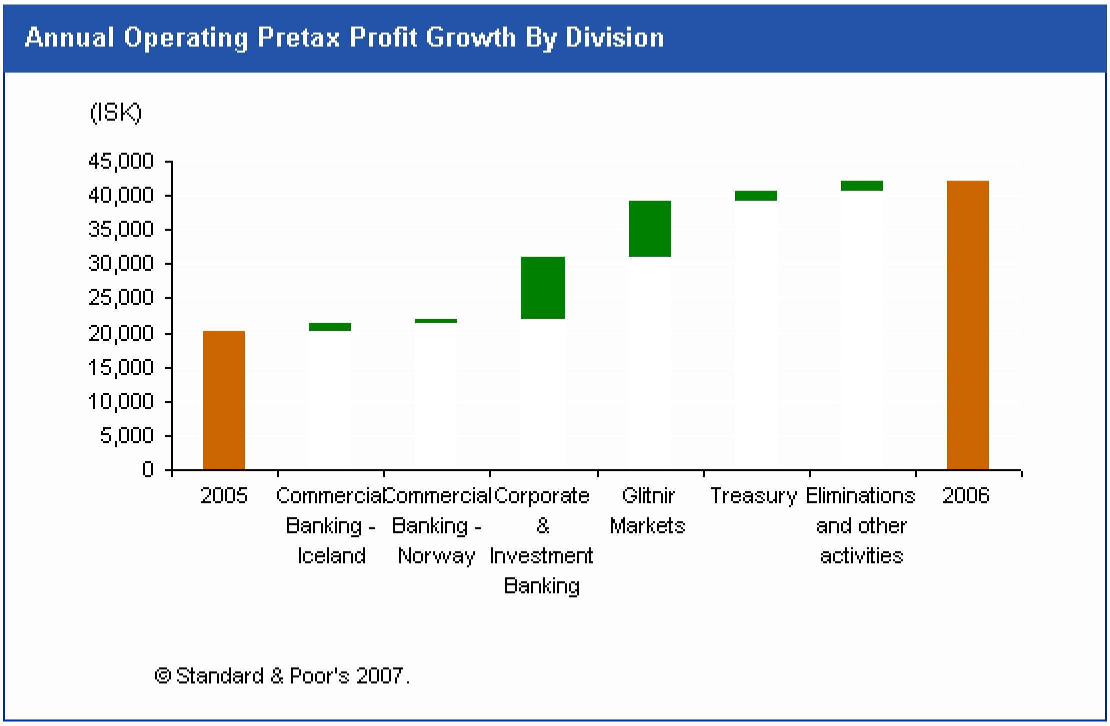
Glitnir's core profitability is high but volatile. In 2006, net interest income constituted about half of revenue, but the composition changes significantly from quarter to quarter (see chart 3). Net interest income is sensitive to swings in Icelandic interest and inflation rates, while net commission and financial income are heavily influenced by capital market activity and stock market valuations. The currently very high profitability levels are supported by strong external conditions and are not sustainable. Nevertheless, Glitnir's income is sufficiently well diversified to maintain profitability at comfortable levels, even in a less benign environment than at present.

Chart 3



Glitnir's operating pretax profit doubled in 2006 driven by strong organic growth and acquisitions. The main profit drivers were the corporate and investment banking divisions and Glitnir Markets, which together accounted for 80% of growth (see chart 4). These divisions benefited from strong corporate lending growth and a number of corporate transactions, most importantly an IPO by Icelandair in the fourth quarter with Glitnir acting as the lead manager. About one-third of Glitnir Markets' profit growth was generated by acquisitions in Norway and Sweden. The commercial banking divisions in Iceland and Norway also showed healthy, albeit considerably lower, growth.

Chart 4



As with its Icelandic peers, Glitnir's profitability has been very high during the past four years, with core earnings averaging 2.43% of risk assets. These outstanding profitability levels have been mainly due to generally strong and bullish capital markets and in particular a highly active Icelandic corporate sector. This has clearly benefited Glitnir's business model. By the same token, Glitnir's earnings are sensitive to deteriorations in business confidence and market conditions. For example, more than half of the groups' commission income comes from volatile sources such as securities brokerage and corporate finance advisory services.

Nevertheless, Glitnir's core profitability is strong enough to withstand a significantly weaker operating environment than at present. This can be illustrated by a simple stress test of 2006 core earnings with the following assumptions:(a) a drop in net interest margin to 1.6% from 2.1%; (b) a drop in net commission income by 50%; (c) zero net financial and other operating income; (d) constant expenses; and (d) an increase in loan loss provisions to 100bps from 36bps. Even in this severe scenario where all income items are seriously hit at the same time, Glitnir would not incur a loss, although full year pretax profit would shrink to just ISK831 million. Another indicator of Glitnir's earnings resilience is the experience in 2001 and 2002, when the bank maintained its profitability at comparatively high levels despite a weak Icelandic economy and stock market, and despite lacking its current diversity.

Glitnir's core earnings are expected to fall slightly in 2007, due to lower profits from its investment banking, markets and Icelandic banking divisions. At the same time, its corporate banking and the international operations should continue to benefit from a generally strong Nordic and global economy. The main uncertainty factor is the timing of the turn in the credit cycle, which is likely to result in increasing loan losses in Glitnir's corporate lending book.

Capital: Satisfactory

Standard & Poor's considers Glitnir's capitalization to be satisfactory given the higher-than-average risk profile of the group. The bank targets a regulatory Tier 1 capital ratio of at least 8%, a level it has comfortably managed to achieve over the past three years. At year-end 2006, the ratio was 10.8%, up from 9.9% a year before. The increase in capitalization came despite very strong growth in risk weighted assets and acquisition-related goodwill and was accomplished through significant issuance of new shares and hybrid capital.

ATE, which includes hybrid capital up to 35% but is net of any intangible assets or equity invested in financial subsidiaries, was equivalent to 10.02% at year-end 2006 (see table 4). This compares favorably with Western European commercial banks but is rather average when compared to more wholesale-oriented banks (see chart 5). Glitnir is expected to maintain its current levels of capitalization.

Chart 5

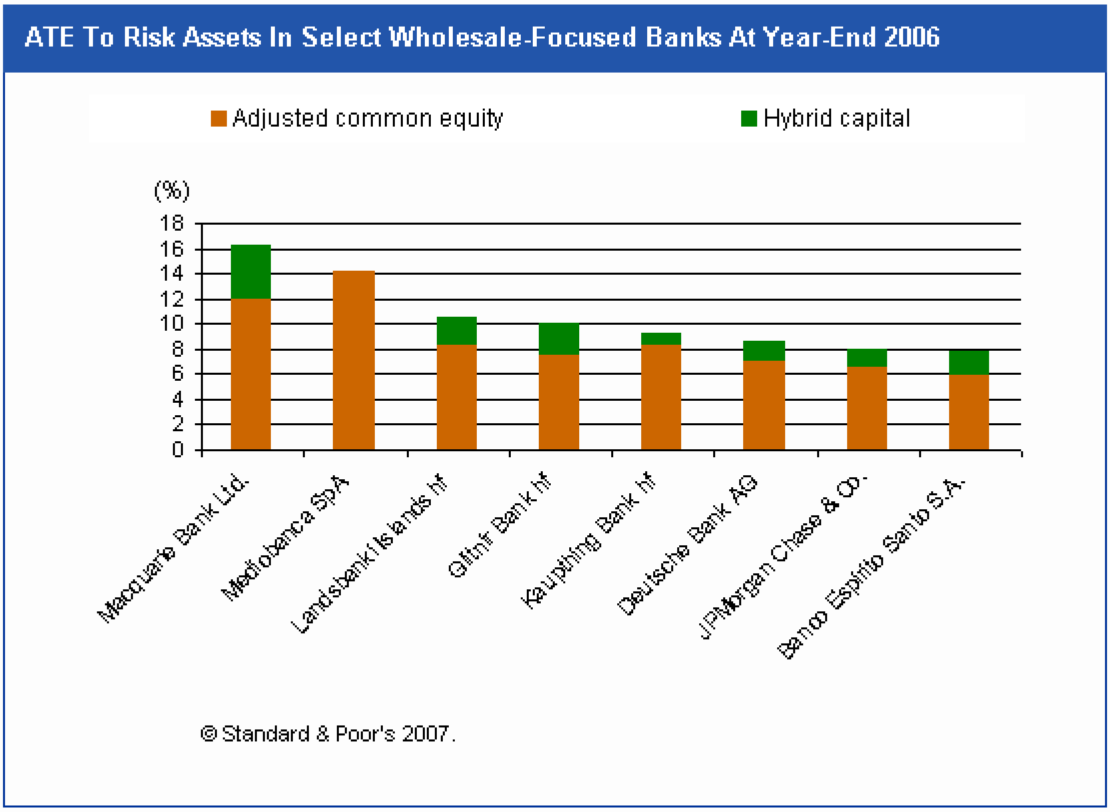


Table 2

Balance Sheet Statistics

						Breakdown as a % of assets (adj.)				
(Mil. ISK)	**2006***	**2005**	**2004**	**2003**	**2002 -**	**2006***	**2005**	**2004**	**2003**	**2002**
Assets										
Cash and money market instruments	52,444	52,923	63,115	39,538	29,932	2.35	3.62	9.50	9.16	9.59
Securities	364,979	235,446	109,389	55,520	21,440	16.38	16.11	16.46	12.86	6.87
Nontrading securities	364,979	235,446	109,389	55,520	21,440	16.38	16.11	16.46	12.86	6.87
Loans to banks (net)	144,983	43,425	0	0	0	6.51	2.97	0.00	0.00	0.00
Customer loans (gross)	1,584,188	1,087,574	480,776	324,097	259,466	71.10	74.42	72.36	75.06	83.14
All other loans	1,584,188	1,087,574	480,776	324,097	259,466	71.10	74.42	72.36	75.06	83.14
Loan loss reserves	12,462	8,886	10,279	8,931	6,470	0.56	0.61	1.55	2.07	2.07
Customer loans (net)	1,571,726	1,078,688	470,497	315,166	252,996	70.54	73.81	70.81	72.99	81.06
Earning assets	2,126,177	1,398,507	647,835	414,210	304,488	95.43	95.69	97.50	95.93	97.56
Equity interests/participations (nonfinancial)	4,379	2,149	2,605	2,334	1,271	0.20	0.15	0.39	0.54	0.41
Inv. in unconsolidated subsidiaries (financial co.)	0	5,932	0	5,065	1,724	0.00	0.41	0.00	1.17	0.55
Intangibles (nonservicing)	18,310	10,824	10,875	12,149	270	0.82	0.74	1.64	2.81	0.09
Fixed assets	3,296	1,987	4,326	3,283	1,145	0.15	0.14	0.65	0.76	0.37
Derivatives credit amount	72,603	18,852	N.A.	N.A.	N.A.	3.26	1.29	N.A.	N.A.	N.A.
Accrued receivables	11,632	20,558	4,733	1,661	1,112	0.52	1.41	0.71	0.38	0.36
All other assets	1,987	1,466	9,793	9,227	2,477	0.09	0.10	1.47	2.14	0.79
Total reported assets	2,246,339	1,472,250	675,333	443,943	312,367	100.82	100.74	101.64	102.81	100.09
Less nonservicing intangibles	(18,310)	(10,824)	(10,875)	(12,149)	(270)					
Adjusted assets	2,228,029	1,461,426	664,458	431,794	312,097	100.00	100.00	100.00	100.00	100.00
						Breakdown as a % of liabilities + equity				
	2006*	**2005**	**2004**	**2003**	**2002**	**2006***	**2005**	**2004**	**2003**	**2002**
Liabilities										

Total deposits	581,876	409,994	230,389	135,448	109,977	25.90	27.85	34.11	30.51	35.21
Noncore deposits	143,604	105,858	74,787	27,776	24,150	6.39	7.19	11.07	6.26	7.73
Core/customer deposits	438,272	304,136	155,602	107,672	85,827	19.51	20.66	23.04	24.25	27.48
Repurchase agreements	36,045	N.A.	N.A.	N.A.	N.A.	1.60	N.A.	N.A.	N.A.	N.A.
Other borrowings	1,357,855	897,215	350,127	243,250	170,783	60.45	60.94	51.85	54.79	54.67
Other liabilities	92,133	65,208	44,990	33,685	7,785	4.10	4.43	6.66	7.59	2.49
Total liabilities	2,067,909	1,372,417	625,506	412,383	288,545	92.06	93.22	92.62	92.89	92.37
Total shareholders' equity	178,430	99,833	49,827	31,560	23,822	7.94	6.78	7.38	7.11	7.63
Preferred stock and other capital	41,726	20,074	4,039	4,403	4,393	1.86	1.36	0.60	0.99	1.41
Minority interest-equity	1,541	N.A.	N.A.	N.A.	N.A.	0.07	N.A.	N.A.	N.A.	N.A.
Common shareholders' equity (reported)	135,163	79,759	45,788	27,157	19,429	6.02	5.42	6.78	6.12	6.22
Share capital and surplus	66,008	46,000	11,200	13,709	9,400	2.94	3.12	1.66	3.09	3.01
Revaluation reserve	845	176	319	275	84	0.04	0.01	0.05	0.06	0.03
Reserves (incl. inflation revaluations)	5,888	(641)	14,176	N.A.	341	0.26	(0.04)	2.10	N.A.	0.11
Retained profits	62,422	34,224	20,093	13,173	9,604	2.78	2.32	2.98	2.97	3.07
Total liabilities and equity	2,246,339	1,472,250	675,333	443,943	312,367	100.00	100.00	100.00	100.00	100.00
Common shareholders' equity (reported)	135,163	79,759	45,788	27,157	19,429					
Plus minority interest - Equity	1,541	0	0	0	0					
Less nonservicing intangibles	(18,310)	(10,824)	(10,875)	(12,149)	(270)					
Less revaluation reserves	(845)	(176)	(319)	(275)	(84)					
Tangible common equity	117,549	68,759	34,594	14,733	19,075					
Less equity in unconsolidated subsidiaries	0	(5,932)	0	(5,065)	(1,724)					
Adjusted common equity	117,549	62,827	34,594	9,668	17,351					
Plus preferred stock and other hybrid capital	41,726	20,074	4,039	4,403	4,393					
Less excess preferred stock	(2,543)	0	0	(1,180)	0					
Adjusted total equity	156,732	82,901	38,633	12,891	21,744					

*Data as of fiscal year end. N.A.--Not available.

Table 3

Profit and Loss Statement Statistics

							Adj. avg. assets (%)				
(Mil. ISK)	**2006***	**2005**	**2004**	**2003**	**2002**	**-**	**2006***	**2005**	**2004**	**2003**	**2002**
Profitability											
Interest income	119,115	62,565	33,293	24,144	24,481		6.46	4.96	6.07	6.49	7.42
Interest expense	82,031	39,175	18,854	13,105	14,773		4.45	3.10	3.44	3.52	4.48
Net interest income	37,084	23,390	14,439	11,039	9,708		2.01	1.85	2.63	2.97	2.94
Operating noninterest income	36,987	14,281	14,033	8,038	4,366		2.01	1.13	2.56	2.16	1.32
Fees and commissions	26,459	8,773	4,947	3,752	3,480		1.43	0.70	0.90	1.01	1.05
Equity in earnings of unconsolidated subsidiaries	1,470	1,262	148	786	196		0.08	0.10	0.03	0.21	0.06
Trading gains	8,677	3,406	7,726	2,905	65		0.47	0.27	1.41	0.78	0.02
Other market-sensitive income	(185)	(434)	N.A.	N.A.	N.A.		(0.01)	(0.03)	N.A.	N.A.	N.A.
Net insurance income	0	229	886	366	0		0.00	0.02	0.16	0.10	0.00
Other noninterest income	566	1,045	326	229	625		0.03	0.08	0.06	0.06	0.19
Operating revenues	74,071	37,671	28,472	19,077	14,074		4.02	2.98	5.19	5.13	4.26
Noninterest expenses	27,301	15,731	14,812	9,785	7,723		1.48	1.25	2.70	2.63	2.34
Personnel expenses	15,747	8,848	8,299	5,422	4,302		0.85	0.70	1.51	1.46	1.30
Other general and administrative expense	10,892	6,402	5,304	3,651	2,879		0.59	0.51	0.97	0.98	0.87

Depreciation and amortization-other	662	481	1,209	712	542	0.04	0.04	0.22	0.19	0.16
Net operating income before loss provisions	46,770	21,940	13,660	9,292	6,351	2.54	1.74	2.49	2.50	1.92
Credit loss provisions (net new)	4,759	1,900	3,137	2,864	2,184	0.26	0.15	0.57	0.77	0.66
Net operating income after loss provisions	42,011	20,040	10,523	6,428	4,167	2.28	1.59	1.92	1.73	1.26
Nonrecurring/special income	4,244	3,325	3,166	0	0	0.23	0.26	0.58	0.00	0.00
Pretax profit	46,255	23,365	13,689	6,428	4,167	2.51	1.85	2.50	1.73	1.26
Tax expense/credit	8,024	4,266	2,244	593	760	0.43	0.34	0.41	0.16	0.23
Net income before minority interest	38,231	19,099	11,445	5,835	3,407	2.07	1.51	2.09	1.57	1.03
Net income before extraordinaries	38,231	19,099	11,445	5,835	3,407	2.07	1.51	2.09	1.57	1.03
Net income after extraordinaries	38,231	19,099	11,445	5,835	3,407	2.07	1.51	2.09	1.57	1.03
Core earnings	34,723	16,381	8,798	5,835	3,407	1.88	1.30	1.61	1.57	1.03

	2006*	**2005**	**2004**	**2003**	**2002**
Asset Quality					
Nonperforming assets	7,133	9,098	9,259	10,572	9,423
Nonaccrual loans	7,133	9,098	9,259	10,572	9,423
Net charge-offs	1,901	2,077	3,029	1,260	1,735
Average balance sheet					
Average customer loans	1,325,207	1,273,021	392,832	284,081	256,511
Average earning assets	1,762,342	1,224,978	531,023	359,349	315,130
Average assets	1,859,295	1,273,021	559,638	378,155	330,289
Average total deposits	495,935	308,691	182,919	122,713	109,952
Average interest-bearing liabilities	1,641,493	943,863	479,607	329,729	299,583
Average common equity	107,461	71,266	36,473	23,293	19,235
Average adjusted assets	1,844,728	1,262,172	548,126	371,946	330,000
Other data					
Number of employees (end of period, actual)	1,518	1,153	1,141	1,085	870
Number of branches	25	N.A.	N.A.	N.A.	N.A.
Off-balance-sheet credit equivalents	120,441	45,954	0	0	0

*Data as of fiscal year end. N.A.--Not available.

Table 4

Ratio Analysis

	2006*	**2005**	**2004**	**2003**	**2002**
ANNUAL GROWTH (%)					
Customer loans (gross)	45.66	126.21	48.34	24.91	(0.22)
Loss reserves	40.24	(13.55)	15.09	38.04	N.M.
Adjusted assets	52.46	119.94	53.88	38.35	(10.29)
Customer deposits	44.10	95.46	44.51	25.45	10.28
Tangible common equity	70.96	98.76	134.81	(22.76)	1.84
Total equity	78.73	100.36	57.88	32.48	(0.50)
Operating revenues	96.63	32.31	49.25	35.55	8.92
Noninterest expense	73.55	6.20	51.37	26.70	8.76
Net operating income before provisions	113.17	60.61	47.01	46.31	9.12
Loan loss provisions	150.47	(39.43)	9.53	31.14	3.36
Net operating income after provisions	109.64	90.44	63.71	54.26	12.41
Pretax profit	97.97	70.68	112.96	54.26	12.41
Net income	100.17	66.88	96.14	71.27	8.50

	2006*	2005	2004	2003	2002
PROFITABILITY (%)					
Interest Margin Analysis					
Net interest income (taxable equiv.)/avg. earning assets	2.10	1.91	2.72	3.07	3.08
Net interest spread	1.76	0.96	2.34	2.74	2.84
Interest income (taxable equiv.)/avg. earning assets	6.76	5.11	6.27	6.72	7.77
Interest income on loans/avg. total loans	7.36	4.38	6.59	7.14	7.86
Interest expense/avg. interest-bearing liabilities	5.00	4.15	3.93	3.97	4.93
Interest expense on deposits/avg. deposits	3.93	4.03	3.18	3.59	4.42
Revenue Analysis					
Net interest income/revenues	50.07	62.09	50.71	57.87	68.98
Fee income/revenues	35.72	23.29	17.38	19.67	24.73
Market-sensitive income/revenues	11.46	7.89	27.14	15.23	0.46
Noninterest income/revenues	49.93	37.91	49.29	42.13	31.02
Personnel expense/revenues	21.26	23.49	29.15	28.42	30.57
Noninterest expense/revenues	36.86	41.76	52.02	51.29	54.87
Noninterest expense/revenues less investment gains	36.77	41.28	52.02	51.29	54.87
Expense less amortization of intangibles/revenues	36.86	41.76	52.02	51.29	54.87
Expense less all amortizations/revenues	35.96	40.48	47.78	47.56	51.02
Net operating income before provision/revenues	63.14	58.24	47.98	48.71	45.13
Net operating income after provisions/revenues	56.72	53.20	36.96	33.70	29.61
New loan loss provisions/revenues	6.42	5.04	11.02	15.01	15.52
Net nonrecurring/abnormal income/revenues	5.73	8.83	11.12	0.00	0.00
Pretax profit/revenues	62.45	62.02	48.08	33.70	29.61
Net income/revenues	51.61	50.70	40.20	30.59	24.21
Tax/pretax profit	17.35	18.26	16.39	9.23	18.24

	2006*	2005	2004	2003	2002
Other Returns					
Pretax profit/avg. risk assets (%)	3.68	3.35	3.69	2.44	1.69
Net income/avg. risk assets (%)	3.05	2.74	3.09	2.22	1.38
Revenues/avg. risk assets (%)	5.90	5.40	7.68	7.25	5.70
Net operating income before loss provisions/avg. risk assets (%)	3.73	3.15	3.69	3.53	2.57
Net operating income after loss provisions/avg. risk assets (%)	3.35	2.87	2.84	2.44	1.69
Net income before minority interest/avg. adjusted assets	2.07	1.51	2.09	1.57	1.03
Net income/avg. assets + securitized assets	2.07	1.51	2.09	1.57	1.03
Net income/employee (currency unit)	27,464,799	15,706,414	10,164,298	5,969,309	3,880,410
Personnel expense/employee (currency unit)	11,312,500	7,276,316	7,370,337	5,546,803	4,899,772
Cash earnings/avg. tang. common equity (ROE) (%)	41.75	37.89	51.31	38.73	20.89
Core earnings/avg. tang. common equity (ROE) (%)	37.28	31.70	35.67	34.52	18.02

	2006*	2005	2004	2003	2002
FUNDING AND LIQUIDITY (%)					
Customer deposits/funding base	22.18	23.27	26.80	28.43	30.57

	2006*	2005	2004	2003	2002
Total loans/customer deposits	394.54	371.87	308.98	301.00	302.31
Total loans/customer deposits + long-term funds	252.81	262.19	217.20	215.29	223.00
Customer loans (net)/assets (adj.)	70.54	73.81	70.81	72.99	81.06

	2006*	2005	2004	2003	2002
CAPITALIZATION (%)					
Adjusted common equity/adjusted assets	5.28	4.30	5.21	2.24	5.56
Adjusted common equity/adjusted assets + securitization	5.28	4.30	5.21	2.24	5.56
Adjusted common equity/risk assets	7.51	6.64	7.71	3.31	7.42
Adjusted common equity/customer loans (net)	7.48	5.82	7.35	3.07	6.86
Internal capital generation/prior year's equity	47.93	41.71	42.14	30.03	17.89
Tier 1 capital ratio	10.80	9.90	9.40	8.00	10.10
Regulatory total capital ratio	15.00	12.60	12.40	11.40	12.70
Adjusted total equity/adjusted assets	7.03	5.67	5.81	2.99	6.97
Adjusted total equity/adjusted assets + securitizations	7.03	5.67	5.81	2.99	6.97
Adjusted total equity/risk assets	10.02	8.76	8.61	4.41	9.30
Adjusted total equity plus LLR (specific)/customer loans (gross)	10.68	8.44	10.17	6.73	10.87

	2006*	2005	2004	2003	2002
ASSET QUALITY (%)					
New loan loss provisions/avg. customer loans (net)	0.36	0.15	0.80	1.01	0.85
Net charge-offs/avg. customer loans (net)	0.14	0.16	0.77	0.44	0.68
Loan loss reserves/customer loans (gross)	0.79	0.82	2.14	2.76	2.49
Credit-loss reserves/risk assets	0.80	0.94	2.29	3.06	2.77
Nonperforming assets (NPA)/customer loans + ORE	0.45	0.84	1.93	3.26	3.63
NPA (excl. delinquencies)/customer loans + ORE	0.45	0.84	1.93	3.26	3.63
Net NPA/customer loans (net) + ORE	(0.34)	0.02	(0.22)	0.52	1.17
NPA (net specifics)/customer loans (net specifics)	(0.34)	0.02	(0.22)	0.52	1.17
Loan loss reserves/NPA (gross)	174.71	97.67	111.02	84.48	68.66

*Data as of fiscal year end. N.M.--Not meaningful.

Ratings Detail (As Of 25-Apr-2007)*

Glitnir Bank	
Counterparty Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2
Junior Subordinated	
Foreign Currency	BBB
Senior Unsecured	
Foreign Currency	A-
Subordinated	
Foreign Currency	BBB+
Counterparty Credit Ratings History	
28-Mar-2006	A-/Stable/A-2
Sovereign Rating	
Iceland (Republic of)	
Foreign Currency	A+/Stable/A-1
Local Currency	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact: Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com