ANNUAL REPORT 2006

GLITNIR


SUCCESS IS EVERYBODY'S DESTINATION

CONTENTS

YEAR IN PICTURE
In December Glitnir opened an office in Shanghai, China.

HIGHLIGHTS OF THE YEAR 2006

- EARNINGS AFTER TAXES WERE 38.2 BILLION (EUR 435M)
- RETURN ON EQUITY 39.4%
- TOTAL ASSET INCREASED BY 53%
- TOTAL LENDING INCREASED BY 20%, EXCLUDING THE IMPACT OF DEVALUATION OF ISK
- THE COST / INCOME RATIO WAS 37.7%
- FEES AND COMMISSIONS TRIPLED AMOUNTING TO ISK 26.5 BILLION
- RECORD EARNINGS PER SHARE OF ISK 2.68
- THE BOARD OF DIRECTORS MOVES THAT SHAREHOLDERS BE PAID A DIVIDEND OF ISK 0.66 PER SHARE
- BOOK EQUITY WAS ISK 146 BILLION AT YEAR-END (EUR 1.5 BN)
- GLITNIR ACQUIRED MAJORITY IN LISTED FIM GROUP, A LEADING ASSET MANAGEMENT FIRM IN FINLAND, IN FEBRUARY 2007. THE APPROVAL OF THE FINNISH AND ICELANDIC AUTHORITIES IS AWAITED.
- GLITNIR ANNOUNCED IN FEBRUARY 2007 NEW ORGANISATIONAL STRUCTURE AND THAT THE BANK PLANS TO OPEN OFFICE IN NEW YORK TO SUPPORT ITS NORTH AMERICAN BUSINESS.

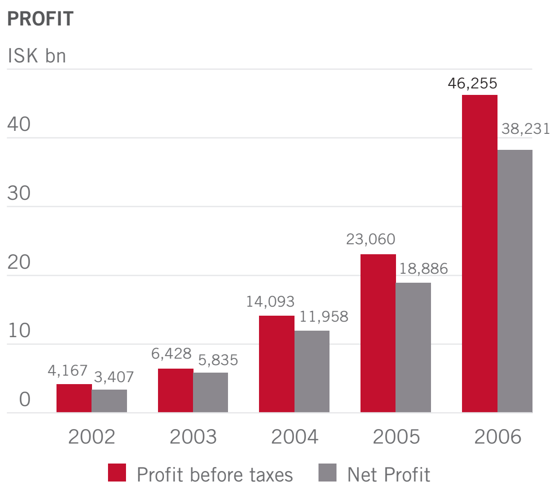
FINANCIAL HIGHLIGHTS

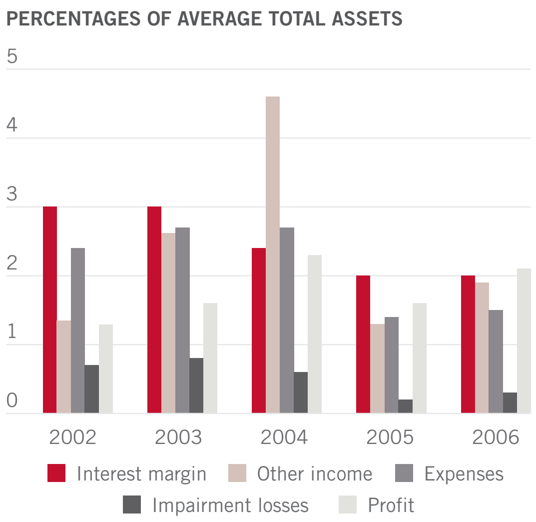
PROFIT AND LOSS ACCOUNT	2006	2005	2004*
ISK m			
Net interest income	37,084	22,351	12,776
Net insurance premium	0	229	886
Net fees and commissions income	26,459	8,773	6,610
Dividend income	11	0	242
Net trading gains	5,999	3,993	7,372
Net losses from other financial assets at fair value	2,097	491	0
Realised gains on financial assets available for sale	0	181	0
Fair value adjustments in hedge accounting	-185	-59	0
Net foreign exchange (losses) gains	581	-179	114
Other operating income	555	631	525
Net operating income	72,601	36,411	28,525
Salaries and salary-related expenses	-15,747	-8,848	-8,553
Depreciation of fixed assets	-662	-481	-571
Other operating expenses	-10,892	-6,401	-5,233
Administrative expenses	-27,301	-15,731	-14,357
Impairment losses	-4,759	-2,205	-3,137
Share of profit of associates	1,470	1,262	146
Net gains on non-current assets held for sale	4,244	3,323	2,916
Profit before income tax	46,255	23,060	14,093
Income tax expense	-8,024	-4,174	-2,135
Profit for the period	38,231	18,886	11,958

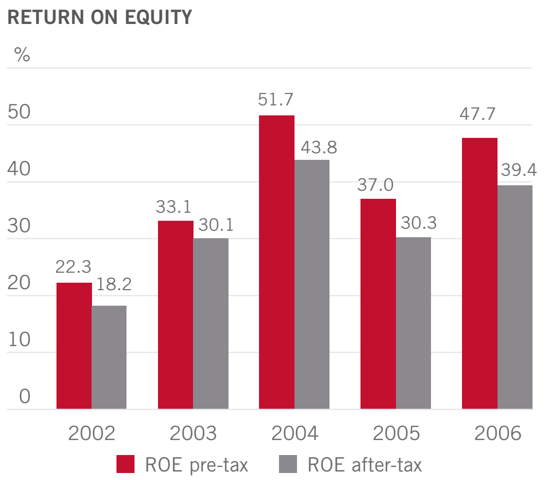
* IAS 39 corrections have not been made on 2004 figures

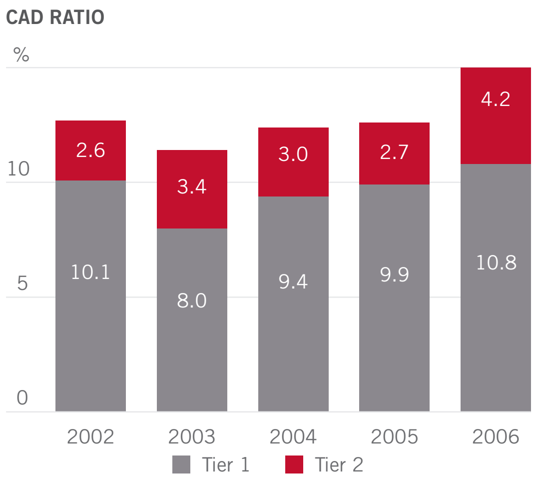
BALANCE SHEET	2006	2005	2004*
ISK m			
Average total assets	1,845,648	1,162,177	529,096
Total assets (end of period)	2,246,339	1,471,944	677,316
Equity (end of the period)	146,118	84,537	48,474
Outstanding shares	14,161	13,112	11,081
KEY RATIOS			
Return on equity before tax	47.7%	37.0%	51.7%
Return on equity after tax	39.4%	30.3%	43.8%
CAD ratio (end of period)	15.0%	12.6%	12.4%
Tier 1 capital (end of period)	10.8%	9.9%	9.4%
Cost/income ratio in banking activities	37.6%	36.2%	47.7%
Impairments/loans and guarantees (end of period)	0.3%	0.2%	0.6%
Earnings per share (ISK)	2.68	1.48	1.18
Average number of full-time employees	1.392	1.216	1.126
PERCENTAGE OF AVERAGE TOTAL ASSETS			
Net interest margin	2.0%	1.9%	2.4%
Other operating income	1.9%	1.4%	4.6%
Other operating expenses	1.5%	1.4%	2.7%
Impairment losses	0.3%	0.2%	0.6%
Profit	2.1%	1.6%	2.3%

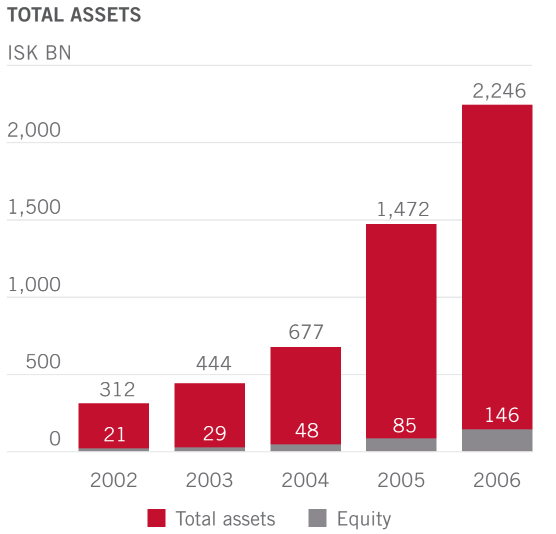
FINANCIAL HIGHLIGHTS

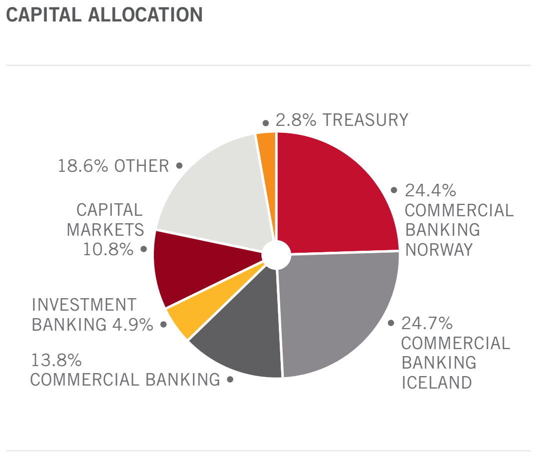










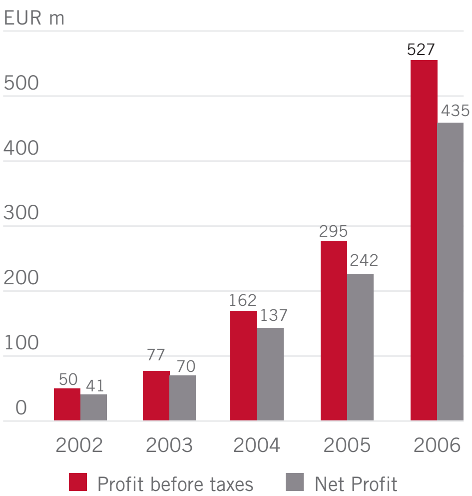


FINANCIAL HIGHLIGHTS (EUR)

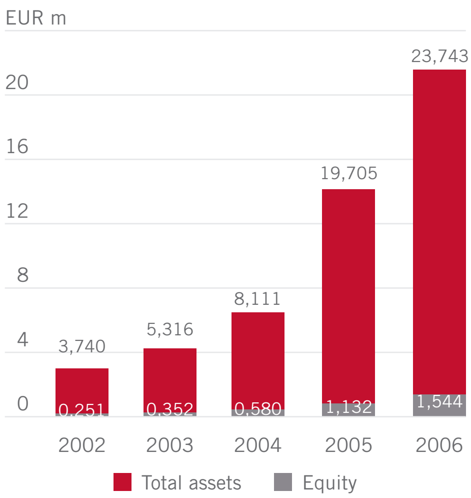
PROFIT AND LOSS ACCOUNT	2006	2005	2004*
EUR m			
Net interest income	422	286	147
Net insurance premium	0	3	10
Net fees and commissions	301	112	76
Dividend income	68	0	3
Net trading gains	68	51	85
Net gains/losses from other financial assets at fair value	24	6	0
Realised gains on financial assets available for sale	0	2	0
Fair value adjustments in hedge accounting	-2	-1	0
Net foreign exchange (losses) gains	7	-2	1
Other operating income	6	8	6
Net operating income	827	466	327
Salaries and salary-related expenses	-179	-113	-98
Depreciation of fixed assets	-8	-6	-7
Other operating expenses	-124	-82	-60
Administrative expenses	-311	-201	-165
Impairments	-54	-28	-36
Share of profit of associates	17	16	2
Net gains on non-current assets held for sale	48	43	33
Profit before income tax	527	295	162
Income tax expense	-91	-53	-24
Profit for the period	435	242	137

* IAS 39 corrections have not been made on 2004 figures

PROFIT



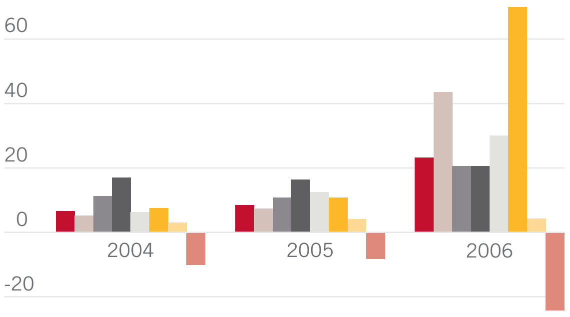
TOTAL ASSETS



FINANCIAL HIGHLIGHTS (EUR)

NET FEES AND COMMISSIONS

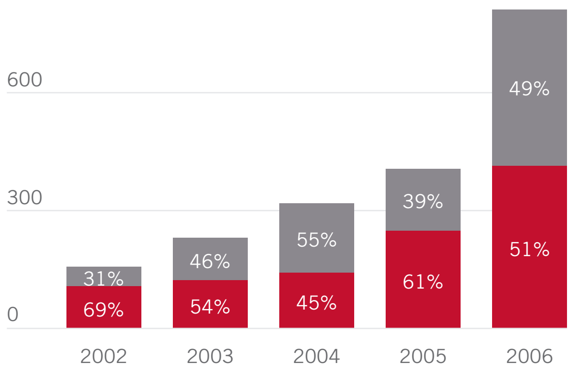
EUR m



Asset managment
Securities brokerage
Payment processing
Loans and guarantees
Foreign exchange commission
Advisory
Other fees
Fee expenses

OPERATING INCOME

EUR m



Net interest income
Other operating income

PERFORMANCE OF BUSINESS UNITS 2006

EUR m	Commercial Banking Iceland	Commercial Banking Norway	Corporate Banking	Investment Banking	Glitnir Markets	Treasury	Eliminations and other activities
Net interest income	191	82	111	-4	35	23	-16
Other operating income	65	1	31	93	168	27	19
Net operating income	256	82	142	89	203	50	3
Operating expenses	-126	-37	-43	-19	-77	-1	-8
Impairments	-32	-1	-21	0	0	0	0
Other income	0	0	0	0	0	0	65
Profit before income tax	99	45	78	70	127	49	60
Economic value-added (EVA)	38	8	48	52	94	31	26

PROFIT AND LOSS ACCOUNT 2006

EUR m	Q1	Q2	Q3	Q4	Total
Net interest income	89	131	106	96	422
Other operating income	108	76	68	153	405
Net operating income	197	207	174	249	827
Operating expenses	-67	-72	-73	-99	-311
Impairments	-16	-15	-4	-19	-54
Other income	14	29	21	1	65
Profit before income tax	127	149	118	132	527
Income tax	-24	-24	-18	-26	-91
Profit	104	125	100	106	435
Economic value-added (EVA)	78	88	58	73	296

CHAIRMAN'S AND CEO'S STATEMENT

STRATEGIC GROWTH – OUTSTANDING RESULTS

2006 proved to be another record year for Glitnir. Once again our staff showed what can be achieved through hard work, vigilance and professionalism.

Over the past few years, the bank's operations have undergone major changes. In 2006, operations were consolidated through the development of profit centres that generate earnings from fees and commissions. In March we changed the bank's name, with a view to positioning ourselves for further expansion overseas. During the year, new owners have acquired shares in the bank, changing its ownership structure and providing substantial support. Never before have we played such an active role in community projects, the largest of which was the participation by more than 500 – or roughly half – of our employees in Iceland in the Glitnir Reykjavík Marathon, raising about ISK 22 million, which was donated to 55 charities.

Strategic expansion abroad continued, including the opening of offices in Canada and China and our first acquisition in Sweden. We continued to widen the scope of our operations in Norway. In early 2007, we also announced the acquisition of the leading Finnish asset management company, FIM Group.

Thus, as of February 2007, Glitnir has offices in ten countries and operations all over the world. This represents a huge expansion over a short time. As employees and representatives of Glitnir, we are humbled by and grateful for the support and vote of confidence this represents from our customers and shareholders.

Like other Icelandic financial institutions, Glitnir experienced some turbulence in international markets in early 2006, which affected our operations to some extent. This caught the attention of foreign media and financial analysts, who are now monitoring Icelandic companies more closely than ever. This interest, which may be expected to continue into the future, may be interpreted as proof of the more prominent position of the Icelandic financial institutions in international markets.

During 2006, foreign rating agencies' and commentators' knowledge of the Icelandic economy in general, and particularly of Icelandic financial institutions, improved considerably, and with this, the market sentiment changed. Icelandic companies are now clearly in a more expansive mood than they were in the middle of last year. In 2006, Glitnir became the first Icelandic financial company to be rated by Standard & Poor's. Glitnir currently has an "A" rating by all the large credit-rating companies.

EXCELLENT PERFORMANCE FROM ALL UNITS

2006 was the best year in the bank's history. Profit came to just over ISK 38 billion, compared with ISK 19 billion the previous year. All profit centres generated good profit levels, and return on equity was 39.4%. A combination of internal growth and further strategic acquisitions continued throughout the year. Total assets grew by ISK 774 billion (53%), to ISK 2,246 billion. This growth can be partly attributed to the weakening of the Icelandic króna. Taking this factor into account, growth during the year came to 20%.

Earnings from commissions and fees, at ISK 26.5 billion, showed particularly strong growth, tripling from ISK 8.8 billion in 2005. In the fourth quarter, earnings from commissions and fees exceeded net interest earnings for the first time. This illustrates clearly the change in the composition of earnings during 2006. Assets under management came to ISK 490 billion, an increase of 42% over 2005. The incorporation of FIM in Finland will further increase the group's assets by 55%, to approx. ISK 757 billion. Last year's cost-to-earnings ratio, at 38%, illustrates the very strong performance value that Glitnir is currently generating.

Despite the temporary market setbacks, Glitnir's international bond issues went well, amounting to EUR 4.8 billion in 2006, compared with EUR 6.0 billion in the previous year. Glitnir also began accepting deposits in Britain during Q4. At the end of the year, these deposits amounted to ISK 45 billion, which we consider very satisfying.

STRATEGIC EXPANSION

The most evident change in the bank's operations in 2006 was the growth outside Iceland. More effort than ever before was placed on expanding overseas operations. The bank's representation in London, Luxembourg and Denmark was strengthened. In Norway, which, along with Iceland, is one of the bank's two home markets, Glitnir has now achieved a firm foothold. Last year saw the acquisitions of the Swedish securities brokerage Fischer Partners, now Glitnir AB, a 45% share in the Norwegian finance company Norsk Privatøkonomi via BNbank, and 51% of the Norwegian real estate brokerage company, UNION Group. Glitnir also opened offices in Canada (Halifax) and China (Shanghai) and plans to open an office in New York in 2007.

The expansion of the bank into foreign markets is part of a comprehensive strategy that rests on three principal pillars. The first pillar is the bank's expertise in certain corporate and investment banking product categories, particularly in Northern Europe. Most prominent among these categories are Corporate Credit, Corporate Finance, Leveraged Finance, Property Finance and Private Banking, with a primary focus on the Nordic region and UK.

Secondly, the bank's expansion rests on its local expertise. One of the principal functions of the new offices is to support customers' own expansion into these markets. Therefore Icelandic and Norwegian customers will often avail themselves of services from Glitnir's foreign branch offices, in the form of consultancy, financing and even direct participation in certain ventures.

Finally, Glitnir builds its initiatives on its extensive and in-depth expertise in three global niche market segments: food, with primary focus on seafood; sustainable energy, with primary focus on geothermal energy; and offshore supply, with primary focus on offshore supply vessels.

Operations in Norway, mainly through BNbank and Glitnir Bank ASA, are progressing well. BNbank, Norway's fourth largest bank, serves both the consumer and corporate sectors, and reported good results for the year. BNbank has experienced significant growth in interest earnings in connection with higher levels of lending, particularly in the form of property mortgages for private customers. Glitnir Bank ASA also turned in good results, with a substantial rise in profits.

Glitnir attaches ambitious goals to the bank's investments in Norway. Since the bank's first acquisition in Norway in 2004, the market has shown a very positive development, and so far, all of Glitnir's principal goals have been achieved. Glitnir plans to continue along its charted course: to further diversify risk and consolidate and expand the bank's operational base through strategic external growth. We will also continue to pursue our strategy of operating in clearly defined geographical areas or industry sectors. After a two-year period of substantial external growth, Glitnir will now give priority to capitalising on opportunities and synergies from integration of the acquisitions we have made.

SOUND MANAGEMENT – LARGER PROFITS

Glitnir's employees performed extremely well in 2006, achieving high profitability while laying the foundations for future operations. The bank seeks to link the interests of its employees and shareholders. In accordance with the board of directors' policy of linking salaries to performance, all Glitnir employees were awarded a bonus reflecting the bank's performance in 2006. This took the form of 7,000 shares in Glitnir at a price of ISK 25.5 (for full-time employees), equalling a cash bonus of approx. ISK 278,000-302,000, depending on individual pension arrangements. In addition, the wages of a large portion of its staff are linked to increases in the value of the bank or other performance indicators.

It is vital to ensure that trust and confidence reign between the shareholders, the board of directors, the management and other parties that retain an interest in the bank. Glitnir has established general procedures for the bank's external and internal operations and corporate governance. High management standards also promote trust and credibility in the international environment in which the bank operates. These procedures, which will be reviewed as necessary, are described in detail in the annual report.

CONTINUED GROWTH

At the beginning of a new year especially, it is gratifying to sense our shareholders' support of Glitnir's dual policy of strategic growth overseas hand in hand with careful cultivation of the home markets. This support is vital for both managers and employees. We would also like to thank Glitnir's employees, management and board of directors for their invaluable contributions in the past year. All operational units in the bank are in a strong position and plenty of interesting business opportunities lie before us.

THE NEW BRAND NAME – GLITNIR

Last year saw extensive changes in the visual appearance and image of the Bank, reflected most prominently in the change of the Bank's name. This change was preceded by a broad study of customer and market perceptions of the Bank. The work on the Bank's image resulted in the creation of new values which will provide guidance to the Bank's staff in meeting customer expectations – 'Fast – Smart – Thorough'. This approach is crystallised in the Bank's key promise: To initiate and embrace sustainable success.

Following an international search and various surveys, the decision was made both to adopt the name of Glitnir and to extend that title to all of the Group's companies. However, subsequent reflection arrived at the position that the name of BN-Bank was too valuable to be changed at this point, although BN-Bank's visual appearance was co-ordinated with Glitnir's new look.

Following the rebranding, the visual appearance of the Bank and its promotional material was redesigned. It was decided that the identifying colour of the Bank should be red. The red colour sets the Bank apart from its competitors while at the same time projecting an image of force, strength and courage. All forms, booklets and other material were reworked and all service outlets were given the new look.

Success then became the essence of the campaign launched to promote Glitnir's new brand and vision. The result of the campaign was remarkable. The Bank regained its leadership position in the annual measurement of the competitive image of the Icelandic banks. Furthermore, and according to a staff survey, 97% of the Bank's employees are already familiar with Glitnir's values.

WHAT IS IN A NAME?

Glitnir acknowledges that a strong name and an excellent reputation adds value for customers and shareholders alike. In March 2006, the bank changed names to Glitnir. The origin of the name is Norse mythology; Glitnir is the magnificent hall of the Norse god Forseti, where people met, and issues and affairs were resolved to everyone's satisfaction. The ancient Norse origins not only reflect today's pan-Nordic financial corporation, but call to mind its roots, which go back to 1904, when Glitnir's predecessor Íslandsbanki was founded with Norwegian and Danish seed capital.

"And one place is called Breidablik, and there is no place more beautiful. And in that place is a hall called Glitnir, and its walls and posts and pillars are made of red gold, and its roof is of silver. The son of Baldur and Nanna daughter of nep is named forseti. He owns the heavenly hall called Glitnir. And all who come and present their affairs to him continue on their way reconciled and at peace. This hall of justice is greatest among gods and men."

Gylfaginning, a treatise on norse Mythology by Snorri Sturluson, Chapters 17 and 31

SHAREHOLDER INFORMATION

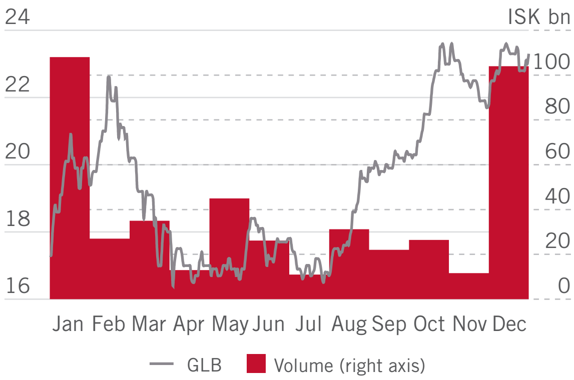
The share price of Glitnir increased by 35% during the year. In addition, shareholders received a dividend of ISK 0.38 per share. Of companies listed on OMX Iceland, Glitnir ranked number three when measuring the best return for shareholders during 2006. At year-end Glitnir had the second largest capitalization of companies listed on OMX Iceland.

In January 2006, the share capital was increased by 1,000 million shares. In connection with dividend payment, share capital was increased by additional 130 million shares. After this increase the Bank's equity amounted to 14,265 million. The number of outstanding shares at year end was 14,161 million.

MARKET CAPITALISATION

At year-end 2006, the market capitalisation of Glitnir was ISK 330 billion as compared to ISK 227 billion at the beginning of the year. The increase is explained by an 8% growth in the number of outstanding shares and a 35% rise in share price.

PRICE DEVELOPMENT AND TRADING VOLUME OF GLB SHARES IN 2006



PRICE DEVELOPMENT OF GLB SHARES IN 2006 COMPARED TO THE ICEX-15 INDEX

PRICE TRENDS

The price of Glitnir shares rose by 35% over the year 2006. Over the same period, the ICEX-15 index rose by 16% and the ICEX40-Financials index increased by 14%.

The share turnover of Glitnir was ISK 460 billion in 2006 as compared to ISK 202 billion in 2005. Glitnir's shares were the most actively traded shares on the Icelandic Stock Exchange during last year, comprising over 10% of the total turnover.

SHAREHOLDERS

At year-end 2006, shareholders in Glitnir numbered 11,323 as compared to 10,252 at the beginning of the year. Almost all the shares in Glitnir are owned by Icelandic investors. Approximately 16% of the Bank's shares are held by individuals and approximately 7% by pension funds. A total of 21 shareholders owned over 100 million shares at year-end, with their total holding amounting to about 71% of the outstanding share capital at year-end.

At the annual general meeting in February 2006, a new Board of Directors was elected consisting of the following members: Einar Sveinsson, Edward Allen Holmes, Guðmundur Ólason, Hannes Smárason, Jón Snorrason, Karl Wernersson and Skarphéðinn Berg Steinarsson. In July, Hannes Smárason was replaced by Jón Sigurðsson.

GLITNIR'S SHARES AND SHAREHOLDERS

Number of shares held	Shareholders number	Shareholders proportion	Shares Number (millions)	Shares proportion
1–100,000	7,804	68.9%	214	1.5%
100,001–1,000,000	3,049	26.9%	873	6.1%
1,000,000–10,000,000	386	3.4%	1,101	7.7%
10,000,001–100,000,000	63	0.6%	1,941	13.6%
over 100,000,000	21	0.2%	10,136	71.1%
Total	11,323	100.0%	14,265	100.0%

LARGEST SHAREHOLDERS AT YEAR-END 2006

Shareholder's name	Holdings	Share
Milestone ehf	2,134,581,012	15.0 1)
FL GLB Holding B.V.	1,925,000,000	13.5 2)
FL Group Holding Netherlands B.V.	1,451,642,197	10.2
GLB Hedge	522,011,155	3.7 3)
Arion safnreikningur	486,621,829	3.4
RedSquare Invest ehf	402,003,610	2.8
FL GROUP hf	379,093,462	2.7
SJ1 ehf	370,707,657	2.6
Straumur – Burðarás Fjárfesting	307,720,997	2.2
Hrómundur ehf	273,783,292	1.9

Notes to the list:

1) Milestone and related parties held in total 20.8% of the Bank's shares at year-end 2006.

2) FL Group and related parties held in total 30.4% of the Bank's shares at year-end 2006.

3) Held as hedge against forward contracts with customers.

GLITNIR'S INTERNATIONAL CREDIT RATINGS

	Standard and Poor's
Long-term	A-
Short-term	A-2
Outlook	Stable

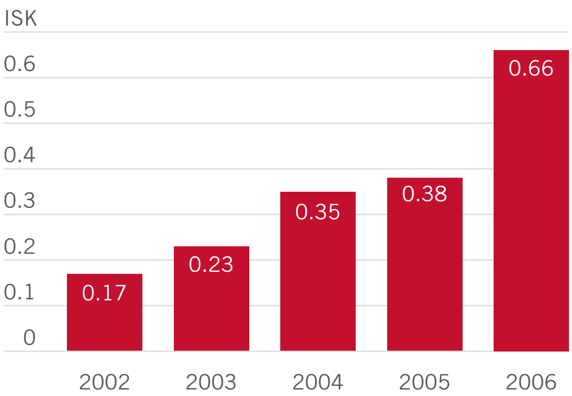
	Moody's Investors Service
Long-term rating	A1
Short-term rating	P-1
Financial strength	C

	Fitch Ratings
Long-term rating	A
Short-term rating	F1
Individual	B/C
Support	2

DIVIDEND POLICY

The Board of Directors has decided to recommend to the Annual General Meeting of Glitnir that a dividend of ISK 0.66 per share will be paid for the year 2006. The dividend corresponds to 24.6% of 2006 earnings. It is the Bank's policy to pay between 20 and 40 percent of the Bank's profit in dividends to shareholders.

DIVIDEND PER SHARE 2002–2006



FAVORABLE CREDIT RATING

Glitnir banki is rated by the international rating companies Standard and Poor's, Moody's Investors Service and Fitch Ratings. In 2006 Glitnir became the first Icelandic bank to receive a credit rating from Standard and Poor's. During the year all the rating companies affirmed their previous rating on the Bank. Moody's downgraded the financial strength ratings of the Bank from C+ to C in February 2007 and affirmed the A1/P-1 credit rating of Glitnir.

FINANCIAL CALENDAR FOR 2007

The proposed publication dates for Glitnir banki's financial reports in 2007 are as follows:

1st quarter:	30 April 2007
2nd quarter:	31 July 2007
3rd quarter:	30 October 2007
4th quarter:	29 January 2008

GLB SHARES

	2002	2003	2004	2005	2006
Share price at year-end	4.74	6.40	11.2	17.3	23.3
Highest closing price	5.10	6.65	11.9	17.4	23.6
Lowest closing price	4.34	4.64	6.3	11.0	16.4
Price to earnings (P/E ratio)	13.9	11.5	10.5	11.9	8.6
Market capitalisation at year-end (ISK m)	44,556	67,200	125,440	226,837	329,951
Authorised shares at year-end (ISK m)	10,000	10,500	11,200	13,135	14,265
Outstanding shares at year-end (ISK m)	9,400	10,500	11,200	13,112	14,161

KEY RATIOS

	2002	2003	2004	2005	2006
Earnings per share	ISK 0.36	ISK 0.63	ISK 1.18	ISK 1.47	ISK 2.68
Dividends per share (ISK)	ISK 0.17	ISK 0.23	ISK 0.35	ISK 0.38	ISK 0.66
Equity per share at year-end	ISK 2.10	ISK 2.80	ISK 4.37	ISK 6.46	ISK 10.32
Dividend per share/earnings per share	45%	41%	29%	26%	25%

YEAR IN PICTURE

In 2006 Glitnir Acquired majority share in Mastercard Iceland.

BOARD OF DIRECTORS AND CEO

EDWARD A. HOLMES

Edward A. Holmes, Member of the Board, was born 30 December 1943. He earned a degree in psychology at Dartmouth College in 1965 and an MBA degree with high distinction at Amos Truck School of Business Administration, Dartmouth, in 1974. In 1969–1987 he worked at First Pennsylvania Bank, Pennsylvania Department of Commerce, McKinsey & Company in Chicago and Copenhagen and Hafnia Insurance. In 1987–1988 he was CEO and President of the international construction company Christiania & Nielsen in Copenhagen. In 1988–1995 Mr. Holmes was senior line manager for Citibank's business in Northern Europe and in 1996–1997 director of marketing, Global Relationship Banking, and a member of a top–level management committee. In 1988–2000 he was Group Executive Europe and Chairman/CEO of Citibank International Plc. In 2000 Mr. Holmes became lead partner at Booz Allen Hamilton, Financial Services. In May 2004 he joined The International Investor, Kuwait, as CEO of Retail Financial Services. Mr. Holmes has served as a foundation board member at the IMD Management School in Lausanne, Switzerland.

Mr. Holmes was elected as a member of the Board of Glitnir banki hf. at the annual general meeting in February 2006.

EINAR SVEINSSON

Einar Sveinsson, Chairman of the Board, was born on 3 April 1948. He graduated from Reykjavik Grammar School in 1968. Mr. Sveinsson is the former CEO of the Sjóvá-Almennar insurance company. He was employed at Sjóvátryggingarfélag Íslands hf. from 1972 to 2004 (Sjóvá-Almennar tryggingar hf. from 1989), as CEO from 1984 to 2004. Mr Sveinsson was chairman of the Iceland Chamber of Commerce from 1992 to 1996. Mr. Sveinsson has been chairman of the board of the following companies: The life insurance company Sameinaða líftryggingafélagið hf., the fisheries company Haraldur Böðvarsson hf., Frumherji hf., NAIG (Nordic aviation insurance group), and the Association of Icelandic Insurance Companies. He has also served on the Board of Directors of the fisheries companies Grandi hf. and Útgerðarfélag Akureyringa hf., and the financing company Lýsing hf. Einar was first elected to the Board of Directors of Glitnir in 1991.

He was Chairman of the Board of Directors in 1991–1992 and has now been Chairman since 2004.

GUÐMUNDUR ÓLASON

Guðmundur Ólason, Member of the Board, was born 3 April 1972. He earned a BA degree in political science from the University of Iceland and MS degree in political economy from Aarhus University in 1997. In 1997–2002 Mr. Ólason worked in the Ministry of finance as a secretary of the Executive Committee on Privatisation for the same period. In that role Mr.Ólason participated in the dramatic changes of the Icelandic financial system with the implementation of new regulatory environment and privatisation of the state-owned banks. In 2002 he took over a post as Vice president in the Nordic Investment Bank in Finland where he worked until he started his current job as CEO of Milestone ehf. Mr. Ólason is a member of the Board in several companies among others Sjóvá, Teymi, Securitas, Lyf og heilsa and Merlin A/S.

Mr. Ólason was elected as a member of the Board of Glitnir banki hf. at the annual meeting in February 2006.

Mr. Ólason is not independent from a major shareholder in the company as defined in the applicable provisions of the rules of procedure of the Board of Directors.

KARL E. WERNERSSON

Karl E. Wernersson, Vice Chairman of the Board, was born on 24 October 1962. He graduated with a business degree from the University of Iceland in 1986. Following his studies Mr. Wernersson explored different fields, working for the accounting firm Endurskodun hf. and holding several management roles in various information technology companies. He was among the founders of the pharmaceuticals retailer Lyf og heilsa hf., which has played an important role in revolutionizing the Icelandic pharmacy retail market. He was CEO of that company from October 1999 and now serves as the Chairman of the Board. As a member of the board in the pharmaceutical company Delta Mr. Wernersson laid the groundwork for expansion and the internationalisation of the pharmaceutical company Actavis Group. In recent years Mr. Wernersson has focused his investment activities towards the financial sector as a majority owner and Chairman of the investment company Milestone. In 2006 Mr. Wernersson and Milestone founded a new specialised investment bank, Askar Capital. Mr. Wernersson is the Chairman of Sjóvá hf., one of the largest insurance companies in Iceland and a member of the Board of Directors of Actavis hf.

Mr. Wernersson is a major shareholder in the company as defined in the applicable provisions of the rules of procedure of the Board of Directors.

JÓN SIGURÐSSON

Jón Sigurðsson,Member of the Board, was born 18 March 1978. Mr. Sigurdsson joined FL Group as managing director in September 2005. In December 2006 he became deputy CEO of FL Group. He has relevant private equity experience from his earlier work in Corporate Finance at Landsbanki Íslands hf. and Bunadarbanki Íslands hf. (now Kaupthing Bank hf.). He received his B.Sc. in Business Administration from Reykjavík University in 2001. Mr. Sigurdsson is a member of the Board of Directors of Refresco Holding BV and Geysir Green Energy. Mr. Sigurdsson was first elected to the Board of Directors of Glitnir for the term of 2006.

Mr. Sigurðsson is not independent from a major shareholder in the company as defined in the applicable provisions of the rules of procedure of the Board of Directors.

JÓN SNORRASON

Jón Snorrason, Member of the Board, was born on 28 January 1949. Mr. Snorrason is the CEO of Taxus ehf. and an investor. Mr. Snorrason started work with hardware distributor Húsasmidjan hf. in 1965, following studies at the Commercial College of Iceland. He worked with the company as a shareholder and manager for 34 years, 20 years as executive director and later as Chairman of the Board. Mr. Snorrason has worked for his own investment company since 2001. Mr. Snorrason was first elected to the Board of Directors of Glitnir for the term of 2003.

SKARPHÉÐINN BERG STEINARSSON

Skarphéðinn Berg Steinarsson, Member of the Board, was born on 5 July 1963. Skarphéðinn is managing director of Property and Investments at Baugur Group hf. He graduated as Cand. Oecon from the University of Iceland and took an MBA degree at the University of Minnesota in 1990. He studied at the Oklahoma State University from 1990–1991. Mr. Steinarsson was the secretary of the Executive Committee on Privatisation 1992–2002. He was Head of Department at the Prime Minister's Office 1998–2002 and Head of Division at the Ministry of Finance 1991–1998. Since October 2005 he as been the Chairman of the Board of FL GROUP. Skarphéðinn also serves on the boards of Keops A/S, Fasteignafélagið Stodir hf., Húsasmidjan hf. and Thyrping hf. Mr. Steinarsson was elected as a member of the Board of Glitnir banki hf. at the annual general meeting in February 2006.

Mr. Steinarsson is not independent from a major shareholder in the company as defined in the applicable provisions of the rules of procedure of the Board of Directors.

BJARNI ÁRMANNSSON

Bjarni Ármannsson is the Chief Executive Officer of Glitnir Bank. He was born on 23 March 1968. Bjarni holds a B.Sc. degree in computer sciences from the University of Iceland in 1990 and an MBA from IMD in Switzerland in 1996. He worked at the Kaupthing securities firm in 1991 to 1997, first in Asset Management and then as CEO from the start of 1997. Bjarni was appointed Chief Executive Officer of the Icelandic Investment Bank (FBA) in 1997 on its foundation. On the merger of FBA and Íslandsbanki in 2000, Bjarni became one of the two Chief Executive Officers of Íslandsbanki.

Bjarni is the Chairman of the Board of Reykjavík University, Chairman of the Icelandic Financial Services Association, member of the board of Confederation of Icelandic Employers and Chairman of the Board of the Icelandic Children's Welfare Fund. He is married to Helga Sverrisdóttir and they have four children.

CORPORATE GOVERNANCE

Confidentiality and honesty are the cornerstones of Glitnir banki hf. business operations, and the Board of Directors of the Bank attaches great importance to the maintenance of good corporate governance in the operation of the Bank with the objective of maintaining confidence and trust between shareholders, directors, day-to-day managers and other stakeholders in the Bank. Good corporate governance also contributes to the trust and confidence enjoyed by the Bank in the global business environment in which it operates and improves its competitive position. In this way, good corporate governance serves to increase the value of the Bank for the benefit of its shareholders.

In order to strengthen the Bank's operating infrastructure and build confidence, the Board of Directors has made an effort to establish general internal and external rules for the operation of the Bank relating to the work of the Board of Directors, the management and the employees of the Bank. The rules are reviewed on a regular basis as necessary.

SHAREHOLDERS

Under statutory law and the Bank's Articles of Association, the shareholders have the supreme authority in all matters relating to the affairs of the Bank at shareholders' meetings. Every shareholder has the right to submit issues for discussion and due process at shareholders' meetings pursuant to the Articles of Association of the Bank. Thus, a shareholders' meeting can address and decide on any issues relating to the Bank's operation which are not specifically excluded under statutory law. Furthermore, there are certain aspects of the Company's operation which require the approval of shareholders' meetings, such as amendments to the Bank's Articles of Association and changes in its share capital.

BOARD OF DIRECTORS

In accordance with the Articles of Association of the Bank, shareholders elect the Board of directors at each Annual General Meeting. The Board of Directors of the Company is the supreme authority in the affairs of the Company between shareholders' meetings. The Board of Directors supervises the operation of the Company and seeks to ensure that the activities of the Bank are always within the framework of applicable laws and government regulations, as well as the rules that the Bank has undertaken to observe as a result of its listing in regulated securities markets. The Board of Directors deals with all major decisions relating to the Bank's business strategy, but delegates the day-to-day operation of the Bank pursuant to the policy and resolutions of the Board to the Chief Executive Officer. The Board of Directors is generally not involved in decisions on individual business matters except in the case of decisions which are substantial in relation to the Bank's assets.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer appointed by the Bank's Board of Directors is responsible for the day-to-day operation of the Bank pursuant to the policy and resolutions of the Board of Directors. It is also the task of the CEO to ensure that the Bank's operations are at all times consistent with the Articles of Association of the Company and applicable legislation.

INTERNAL AUDITING

In accordance with statutory law on financial undertakings, Glitnir banki hf. has an Auditing Department which is responsible for the internal auditing of the Bank. The Head of Internal Auditing is appointed by the Board of Directors of the Bank and entrusted by the Board with responsibility for internal auditing. Internal auditing thus forms a part of the Bank's organisational structure and represents an aspect of its internal surveillance system.

AUDITING

At the Annual General Meeting an auditing firm is elected for a term of one year to audit the Company's annual accounts pursuant to law and generally accepted accounting standards.

YEAR IN PICTURE
Glitnir received a credit rating with Standard and Poor´s and is the first Icelandic Bank to have a credit rating from all the major rating agencies.

STANDARD &POOR'S

RULES OF PROCEDURE OF THE BOARD OF DIRECTORS

The Board of Directors of Glitnir banki hf. has, on the basis of Article 70 of Act No. 2/1995 on Public Limited Companies and Article 54 of Act No. 161/2002 on Financial Undertakings, established rules of procedure providing in detail for the work of the Board. Among other things, the rules address the following:

1. Rules of order.
2. The independence of the members of the Board of Directors, i.e. whether individual members of the Board of Directors can be regarded as dependent upon the Bank in any way as a result of relations with the Bank.
3. The eligibility of members of the Board of Directors to participate in individual decisions of the Board.
4. Access of the members of the Board of Directors to information relating to the operation of the Bank.
5. Confidentiality and secrecy.
6. Business of members of the Board of Directors and related parties with the Bank.
7. Performance assessment.
8. Appointment of sub-committees of the Board of Directors.
9. Service of members of the Board of Directors on the boards of directors of the Bank's subsidiaries.

The substance of the rules is based on the corporate governance guidelines issued and publicised by the Iceland Chamber of Commerce, the Iceland Stock Exchange and the Confederation of Icelandic Employers. The rules are also based on the requirements of the Icelandic Financial Supervisory Authority regarding such rules pursuant to the Authority guidelines No. 1/2003. In accordance with the aforesaid rules the Board of Directors has appointed a Compensation Committee and an Auditing Committee as permanent sub-committees. Additionally, under Article 17 of the aforementioned rules, the Board of Directors has appointed a Strategy Committee, as a subcommittee of the Board of Directors, for the purpose of formulating and evaluating the management strategy of the Bank.

The majority of the members of the Board of Directors of Glitnir banki hf. is regarded as independent of the Company.

COMPLIANCE OFFICER OF GLITNIR BANKI HF.

The Compliance Officer is appointed by the CEO to undertake the statutory role assigned to compliance officers by Act No. 33/2003 on Securities Transactions, together with government regulations, guidelines of the Icelandic Financial Supervisory Authority and rules established by Bank itself on the basis of the Act. The Compliance Officer is also responsible for monitoring the access control procedures of the Bank, together with the Security Officer. The Compliance Officer works independently but subject to the surveillance of the Bank's Internal Auditing.

The work of the Compliance Officer is primarily to monitor staff trading and to ensure that all handling of information and data complies with Glitnir banki hf. rules concerning employees personal trading in securities, foreign currencies and derivatives, Chinese walls and the proprietary trading of the Bank, which financial enterprises are under obligation to set for themselves, as well as Glitnir banki hf. rules relating to the treatment of insider information and insider trading, which enterprises listed on regulated markets are required to establish. The Compliance Officer also takes the initiative in the interpretation of these rules and undertakes the necessary presentation and training required to enforce them.

Additionally, the Compliance Officer is responsible for implementing the Bank's internal rules on anti-money laundering which are based on Act No. 64/2006 on Measures to Prevent Money Laundering and Terrorist Financing, and thereby ensure that the Bank carries out its business in full compliance with both internal and external standards, in order to minimise compliance risk.


SUCCESS IS FULFILLING YOUR POTENTIAL

REVIEW OF GROUP OPERATIONS

The year 2006 was another record year for Glitnir. After-tax profit was ISK 38.2 billion which corresponds to a 102% increase from the previous year. Equity at year end was ISK 146 billion and the capital adequacy ratio was 15%.

Return on equity for the year 2006 was an impressive 39.4% compared to 30% in 2005. Average return on equity for the last three years is 38% which is far above the Bank's long term target. The cost/income ratio was 38%. The results for the year compared to the goals set by the Board of Directors are specified in the table below.

PROFIT AND LOSS ACCOUNT 2006

	Q4	Q3	Q2	Q1	Total
Net interest income	8,420	9,310	11,526	7,828	37,084
Other operating income	13,443	5,960	6,650	9,464	35,517
Administrative expenses	-8,705	-6,431	-6,293	-5,872	-27,301
Impairment losses	-1,653	-328	-1,354	-1,424	-4,759
Other income	89	1,854	2,584	1,187	5,714
Profit before income tax	11,594	10,365	13,113	11,183	46,255
Income tax	-2,278	-1,563	-2,101	-2,082	-8,024
Profit for the period	9,316	8,802	11,012	9,101	38,231

Glitnir is focused on building shareholder value through efficiency, growth and stability. The Bank seeks to generate value while keeping costs down. The Bank's operations are divided into profit centres, comprised of profit units, each with separate accounts. Calculation of shareholder value is based on EVA measurements designed to adjust accounting practices to economic reality. EVA measurement takes into consideration the cost of equity invested in the operation.

Distribution of equity among the profit centres reflects the assessed risk inherent in the centres and therefore the EVA of each division reflects their performance, taking into account the underlying risk as it is assessed by the Bank.

The cost of equity is the stock market's required rate of return for shares in Glitnir and was estimated in calculations to be 12.5% per year. The cost of operating supporting units, management cost and cost of capital are included in the calculation of the profit and EVA of each unit.

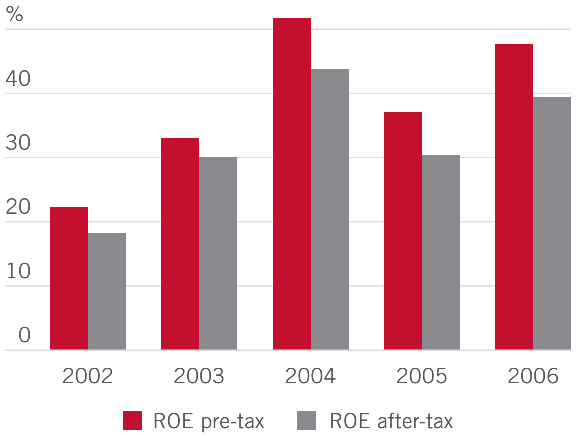
PERFORMANCE

The following discussion of the performance and financials of Glitnir banki hf. in 2006 is based on the consolidated financial statements of the Bank and its subsidiaries, unless otherwise stated.

FINANCIAL TARGETS

	Targets	2006 Results
Return on Equity	Risk free rate + 6%	39.4%
Financial strength	Tier 1 ratio over 8% CAD ratio over 11%	Tier 1 ratio 10.8% CAD ratio 15.0%
Revenue and profit growth	10–20%	Revenue 99% Profit 102%
Cost ratio	< 45%	38%
Dividends	Long-term growth in dividend pr. share. Generally 20–40% of profits	Proposed dividends ISK 0.66 per share or 25% of profits

RETURN ON EQUITY



The Bank's pre-tax profit amounted to ISK 46,255 million in 2006, as compared to ISK 23,060 million in 2005 and ISK 14,093 million in 2004. Profit after taxes was ISK 38,231 million, as compared to ISK 18,886 million in 2005 and ISK 11,958 million in 2004. Thus, both pre-tax and after-tax profits have more than tripled since the year 2004.

Earnings per share were ISK 2.68 which is 81% higher than the ISK 1.48 per share in 2005 and 127% higher than the ISK 1.18 earnings per share in 2004.

The Bank's EVA was ISK 26,028 million in 2006 as compared to ISK 11,435 million in 2005 and ISK 8,671 million in 2004. Net interest income amounted to ISK 37,084 million as compared to ISK 22,351 million in 2005, an increase of 66%.

In the first quarter of the year 2006 the Bank made two acquisitions in Norway. The Bank purchased all the shares in the brokerage firm Norse Securities (now Glitnir Securities) and a 50.1% share of the brokerage firm Union Group. Both companies are part of the Bank's consolidated financial statements from 1 January 2006. Performance of both of these companies was impressive during the year. Glitnir Securities returned an after-tax profit of ISK 620 million and Union Group made an after-tax profit of ISK 1,136 million.

The acquisition of the Swedish brokerage firm Fischer Partners Fondkommision (now Glitnir AB) was finalized at the beginning of July and the company is consolidated from 1 July. Glitnir AB returned an after-tax profit of ISK 102 million for the second half of the year 2006. Glitnir increased its share in Kreditkort hf. (MasterCard) to 55% during the year and the company was included in the consolidated financial statements of the Bank for the second half of the year. For that period, Kreditkort returned an after-tax profit of ISK 143 million.

BNBank returned an after-tax profit of ISK 1,939 million and the after-tax profit of Glitnir Bank AS (previously KredittBanken) amounted to ISK 703 million during the year. Glitnir Bank Luxembourg had an after-tax profit of ISK 1,083 million in 2006.

All of the Bank's segments returned a pre-tax profit and a positive EVA in 2006. Pre-tax profit from Commercial Banking amounted to ISK 12,621 million before taxes and pre-tax profit from Markets was ISK 11,114 million. Corporate Banking had pre-tax profit of ISK 6,828 million and Investment Banking returned an ISK 6,105 million in profit before taxes. Pre-tax profit from Treasury was ISK 4,288 million. The performance of other activities was positive by ISK 5,299 million before taxes. In calculating the result of individual profit centres, operating expenses include a share in the overhead costs of support units, management costs and cost of capital; apportioned among the profit centres.

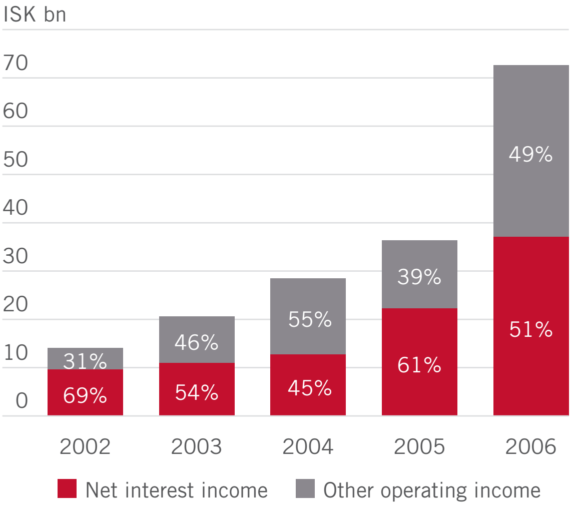
QUARTERLY PERFORMANCE IN 2006

	Commercial Banking Iceland	Commercial Banking Norway	Investment Banking	Corporate Banking	Glitnir Markets	Treasury	Other operations & eliminations	Total
Net interest income	16,778	7,196	9,736	-374	3,097	2,028	-1,377	37,084
Other operating income	5,737	47	2,742	8,190	14,759	2,369	1,673	35,517
Administrative expenses	-11,057	-3,231	-3,804	-1,686	-6,735	-109	-679	-27,301
Impairment	-2,781	-68	-1,846	-25	-7	0	-32	-4,759
Other income	0	0	0	0	0	0	5,714	5,714
Profit before tax	8,677	3,944	6,828	6,105	11,114	4,288	5,299	46,255
Income tax expense								-8,024
Profit for the period	8,677	3,944	6,828	6,105	11,114	4,288	5,299	38,231

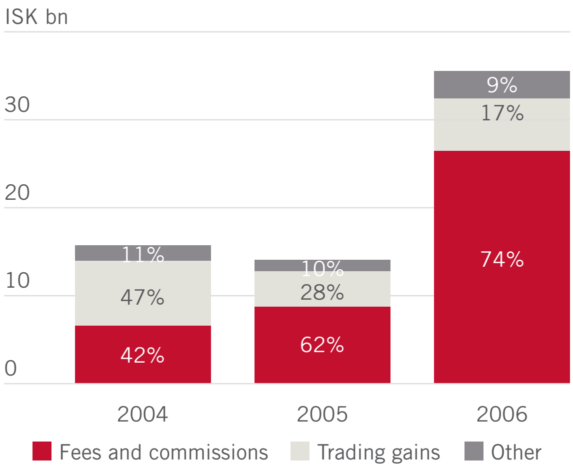
NET INTEREST INCOME

Net interest income amounted to ISK 37,084 million in 2006, which represents an increase of 66% from the year before. The average position of total capital increased from ISK 1,162 billion in 2005 to ISK 1,846 billion in 2006, or by 59%. The interest rate margin as a percentage of average capital position was the same as the year before, 2.0%.

OPERATING INCOME



OTHER OPERATING INCOME



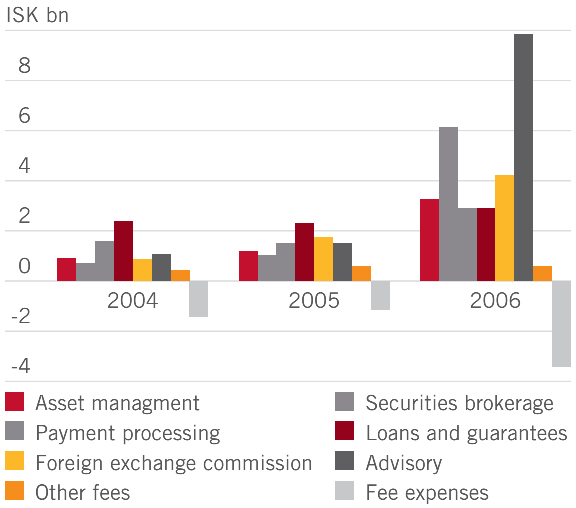
OTHER OPERATING INCOME

Other operating income amounted to ISK 35,517 million in 2006, as compared to ISK 14,060 million in 2006. The increase of 152% is mostly attributable to an impressive growth in fees and commissions income which more than tripled. Net gains on assets and liabilities held for trading amounted to ISK 5,999 million which is a 50% increase from the year before.

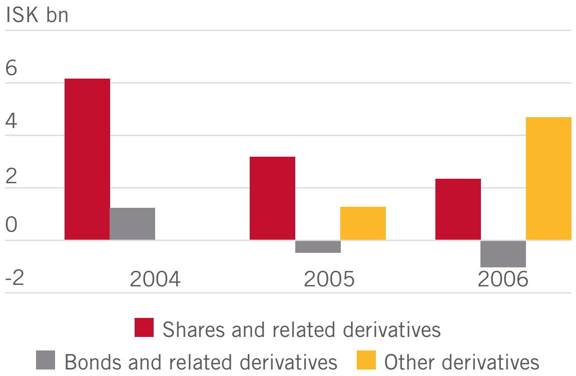
Net income from fees and commissions amounted to ISK 26,459 million, increasing by ISK 17,686 million between years, or 202%. The largest increase was in advisory and underwriting fees which were ISK 9,856 million in 2006 as compared to ISK 1,520 in 2005. Fees from asset management amounted to ISK 3,269 million as compared to ISK 1,183 million in 2005. Securities brokerage fees were ISK 6,127 million which is almost six times more than the year before. The increase is on one hand explained by the acquisitions of Glitnir Securities and Glitnir AB and on the other hand by a huge increase in brokerage turnover in the Reykjavík office. Fees from payment processing almost doubled from the previous year and amounted to ISK 2,892 million in 2006, largely due to the acquisition of Kreditkort hf. Foreign currency brokerage commission increased by 139% and was ISK 4,230 million in 2006.

Net trading gains were ISK 5,999 million in 2006 as compared to ISK 3,993 million in 2005. The increase is explained by a favourable outcome from the Bank's portfolio of derivatives which are marked-to-market. Gains on derivatives were ISK 4,688 during the year compared to ISK 1,274 million the year before. Net gains on shares were ISK 2,334 million compared to ISK 3,182 million the year before. Net loss on trading

NET FEES AND COMMISSIONS



TRADING GAINS AND LOSSES



bonds amounted to ISK 1,023 million as compared to ISK 463 million in 2005.

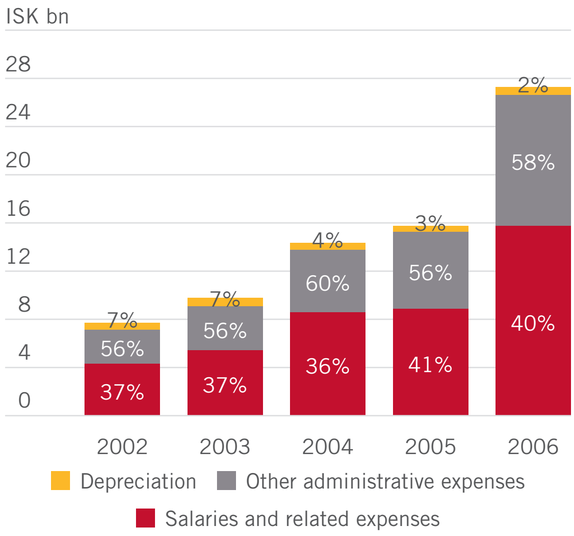
OTHER OPERATING EXPENSES

Administrative expenses totalled ISK 27,301 million in 2006 as compared to 15,731 million in 2005. Salaries and salary-related expenses amounted to ISK 15,747 million as compared to ISK 8,848 million in 2005.

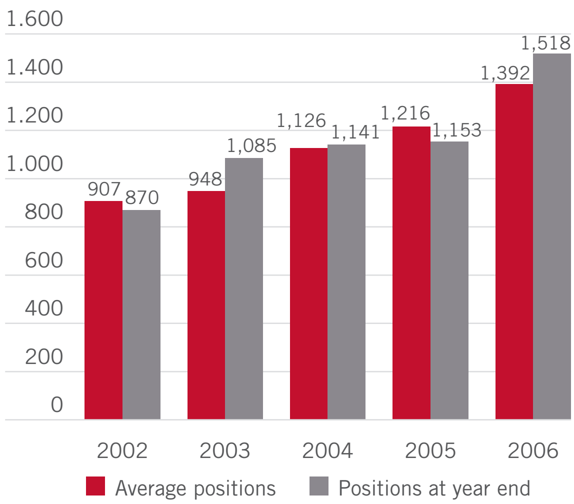
Other administrative expenses were ISK 10,892 million as compared to ISK 6,402 million in 2005.

The increase is mostly explained by acquisitions of new companies during the year, devaluation of the Icelandic krona, and performance-based payments due to good results of all units and re-branding. Cost in support units has grown as a result of recent years' expansion. The average number of employees during the year was 1,392 as compared to 1,216 in the year 2005.

ADMINISTRATIVE EXPENSES

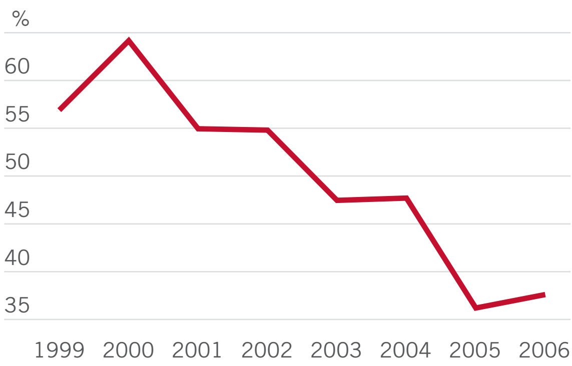


NUMBER OF EMPLOYEES

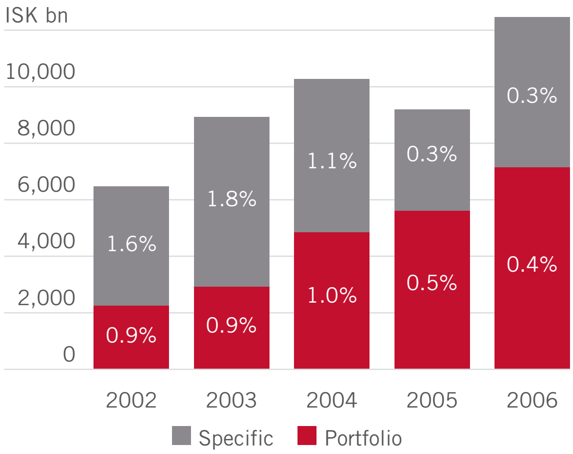


The cost/income ratio in 2006 was 38%, about the same as in 2005. The Bank has set the target of maintaining this ratio below 45%.

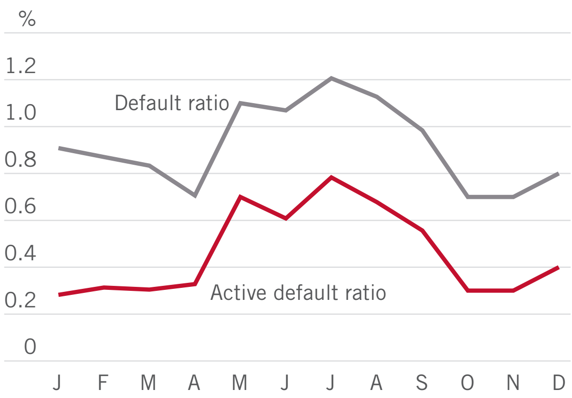
COST / INCOME RATIO



LOANS IMPAIRMENTS



DEFAULT RATIO IN 2006



PROVISIONS FOR LOAN LOSSES

The provision for losses on the loan portfolio is divided into specific and portfolio provisions. Specific provisions are intended to cover lending which has been rated at risk. Portfolio provisions are designed to cover losses which are considered probable due to other obligations than those for which specific provisions have been made.

The default ratio rose on the first half of the year but fell again during the autumn and at year-end the ratio was at similar levels as at the beginning of the year. The default ratio is based on default immediately following the due date, but the active default ratio constitutes default net of specific provisions.

The provisions for loan losses charged to the income statement in 2006 amounted to ISK 4,759 million as compared to ISK 2,125 million in 2005, which represents an increase of 124%. The total provision for loan losses amounts to ISK 12,462 million at year-end compared to ISK 9,191 million at the beginning of the year, which corresponds to 0.7% of total lending and guarantees. The portfolio provision for loan losses at year-end corresponded to 0.4% of lending and guarantees. Final write-offs were ISK 2,010 in 2006 as compared to ISK 2,174 million in 2005.

TAXES

The Bank and its domestic subsidiaries are jointly taxed. According to the Bank's financial statements, income tax expense was ISK 8,024 million in 2006, as compared to ISK 4,174 million in the preceding year. The income tax payable in 2006 amounts to ISK 7,526 million, while the income tax liability at year-end 2006 amounts to ISK 3,121 million.

BALANCE SHEET 31 DECEMBER 2006				
Assets	2006		2005	
Cash	20	1%	21	1%
Loans and receivables	1,760	78%	1,174	80%
Financial assets held for trading	227	10%	152	10%
Financial assets at fair value through P&L	201	9%	96	7%
Other assets	37	2%	28	2%
	2.246	100%	1,472	100%
Liabilities and equity				
Deposits	517	23%	335	23%
Borrowings	1,378	61%	938	64%
Subordinated loans	109	5%	47	3%
Other liabilities	97	4%	67	5%
Equity	146	7%	85	6%
	2,246	100%	1,472	100%

In December 2006, Icelandic tax authorities ruled that the Bank shall pay additional tax of ISK 589 million (including penalties) due to the merger with Framtak fjárfestingabanki hf. in 2004. The ruling will be appealed but the entire amount is charged to the income statement in December. The effective income tax rate in 2006 was 17.3% as compared to 18.1% the year before.

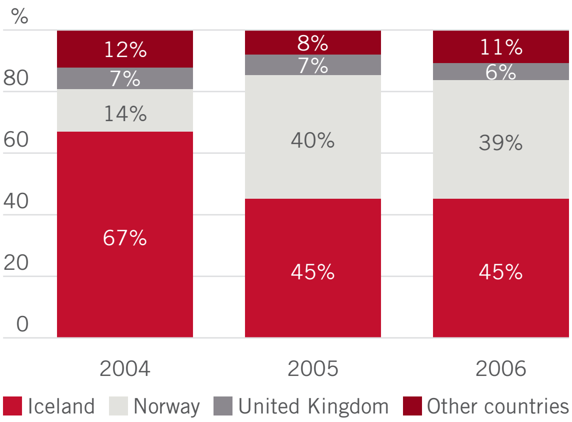
BALANCE SHEET

Glitnir's total assets amounted to ISK 2,246 billion at year-end 2006, as compared to ISK 1,472 billion at the beginning of the year. The increase of 53% is mainly explained by the devaluation of the Icelandic krona and a 20% real growth in loans and receivables. At year-end assets under management amounted to ISK 490 million and custody assets were ISK 698 million. Comparative amounts for 2005 were ISK 345 million and ISK 416 million respectively.

LOANS

Total loans and receivables amounted to ISK 1,760 billion at year-end 2006 compared to ISK 1,174 billion at year-end 2005. The increase is 50% and of that amount, around 30% is due to the inflation effect on ISK indexed loans and an increase in balance of loans denominated in foreign currencies due to the devaluation of the Icelandic krona. No major changes have occurred during the year in the geographical concentrations of the Bank's lending. Iceland and Norway remain the two most important markets comprising 84% of the total loan portfolio.

LOANS BY GEOGRAPHICAL REGIONS



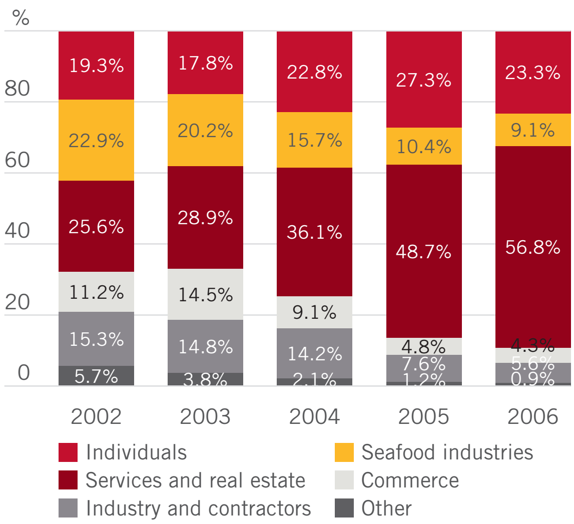
LOANS BY SECTOR

The breakdown of loans to customers and leasing contracts by borrower at year-end 2006 (2005) was as follows: Services and real estate were the largest single sector, with 56.8% (48.7%), followed by individuals with 23.3% (27.3%), seafood industries with 9.1% (10.4%), industry and contractors with 5.6% (7.6%), commerce with 4.3% (4.8%) and other sectors 0.9% (1.2%).

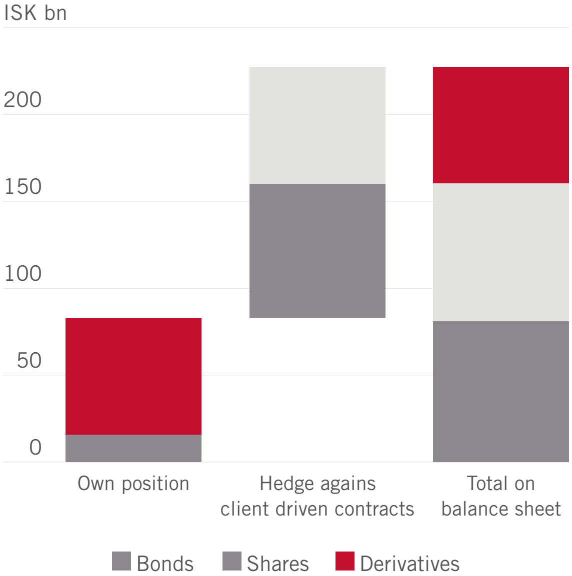
FINANCIAL ASSETS HELD FOR TRADING

Financial assets held for trading amounted to ISK 227

LOANS BY BUSINESS SECTORS



TRADING ASSETS



billion at year end as compared to ISK 152 billion at the beginning of the year. Of the ISK 227 billion ISK 144 billion were held as a hedge against client-driven, off balance sheet contracts and ISK 67 billion were carrying amount of derivatives with positive fair value at year-end. The remainder of the trading positions of the Bank at year-end were ISK 4 billion in bonds and ISK 12 billion in shares.

OTHER FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Other financial assets designated at fair value through profit or loss amounted to ISK 201 billion at year-end, as compared to ISK 96 billion at the beginning of the year. The increase is almost entirely explained by the Bank's establishment of a liquidity portfolio which amounted to ISK 110 billion at year end. The liquidity portfolio is an important element in reducing liquidity risk in the Bank's operations and serves as a liquidity management tool. The largest items in this category beside the liquidity portfolio are loans and bonds in BNbank carried at fair value.

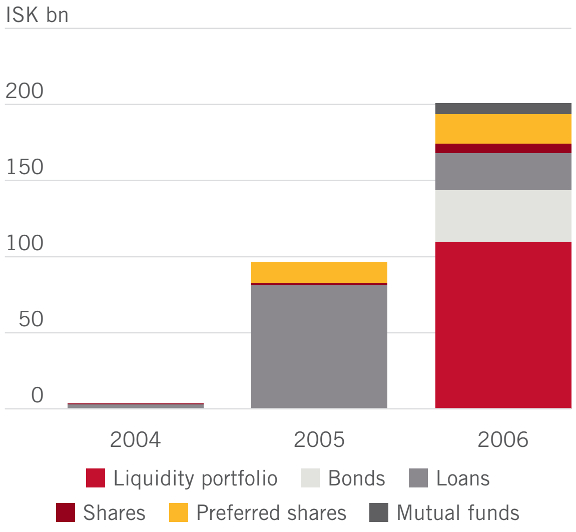
LIABILITIES

Total liabilities amounted to ISK 2,100 billion at year-end, as compared to ISK 1,387 billion at the beginning of the year. Borrowings increased by 47% during the year and deposits increased by 54%. The Bank began offering wholesale deposits in London in October and at year-end those deposits totalled ISK 45 billion.

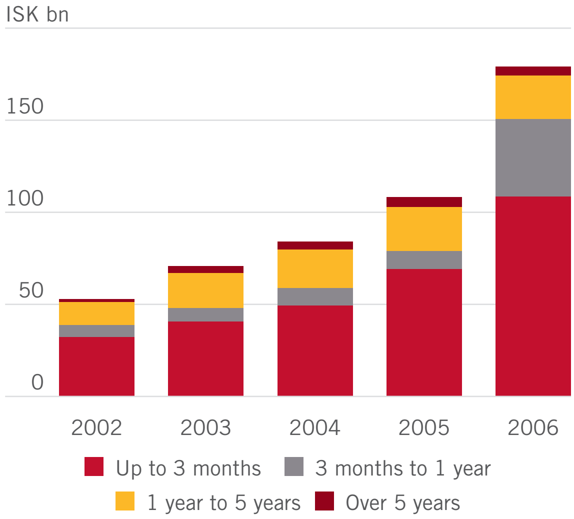
The chart below shows the trend in bond issues during the last five year

Maturities of time deposits at the end of 2006 (2005) were as follows: the large majority, or ISK 109 billion

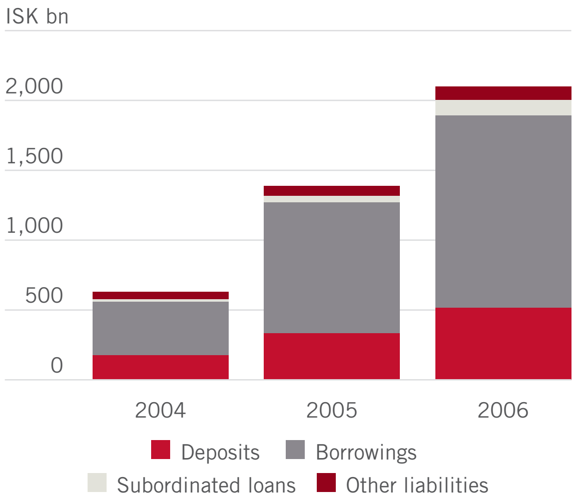
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH P&L



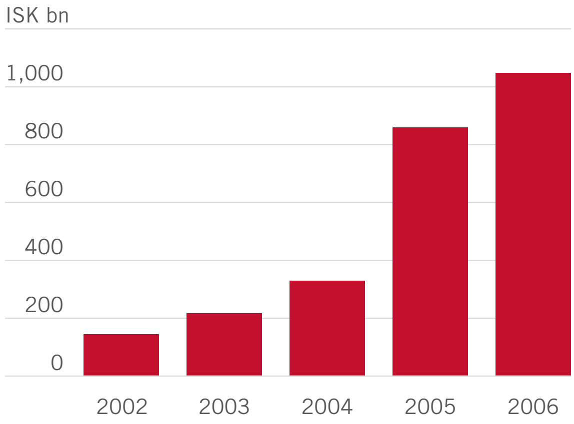
TIME DEPOSITS



LIABILITIES



BOND ISSUES AT THE END OF EACH YEAR

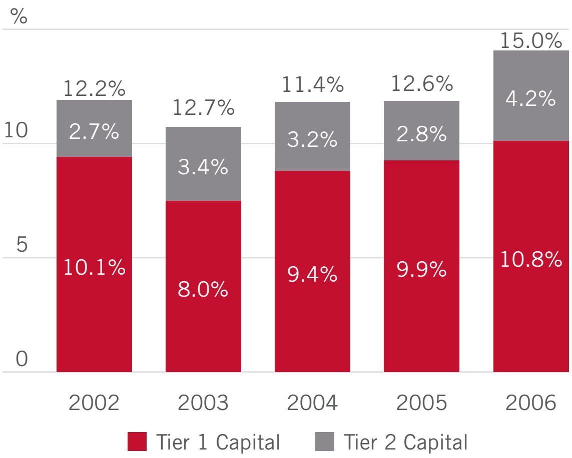


(69 bn), is up to three months, ISK 42 billion (10 bn) have a maturity from three months to one year, ISK 24 billion (24 bn) have a residual maturity from one year up to five years and ISK 5 billion (5 bn) have a maturity of more than five years.

EQUITY AND EQUITY RATIO

At year-end 2006 the Bank's equity was ISK 146,119 million compared to ISK 84,537 million at the beginning of the year, having increased by 73% over the year. Of equity ISK 1,541 million are attributable to minority

EQUITY RATIO



owners in less than 100% owned subsidiaries of the Bank. Dividends of ISK 5,296 million were paid out during the year. Equity was increased by ISK 20,822 million during the year through issue of 1,130 million new shares. The nominal value of outstanding shares was ISK 14,161 million at the end of 2006. Treasury shares at year-end were 104 million.

Calculated by CAD rules, the Bank's equity ratio was 15.0% at year-end compared to 12.6% at the beginning of the year. For the long term the Bank's goal is to maintain this ratio above 11.0%. Since the minimum ratio stipulated by law is 8.0%, the Bank's equity position is very good.

INDEXATION BALANCE

ISK million	2002	2003	2004	2005	2006
Indexed assets	71,175	101,338	161,412	241,097	302,090
Indexed liabilities	47,412	92,169	130,116	152,356	175,475
Indexation balance	23,763	9,169	31,296	88,741	126,615

FOREIGN CURRENCY BALANCE

ISK million	2002	2003	2004	2005	2006
Foreign currency balance	1,190	5,754	5,599	12,939	36,305

DERIVATIVES

	Notional amount	Assets	Fair value Liabilities
Derivatives used for hedging			
Interest rate derivatives	345,255	5,349	11,004
Foreign currency derivatives	15,125	372	2,865
	360,380	5,721	13,869
Derivatives held for trading			
Interest rate derivatives	699,410	3,894	8,535
Equity derivatives	186,311	20,514	19,046
Foreign currency derivatives	1,624,739	42,474	19,270
	2,510,460	66,882	46,851

YEAR IN PICTURE
Glitnir opened an office in Halifax, Canada in April.

Tier I capital was 10.8% at year-end as compared to 9.9% in the preceding year. The Bank's goal is to maintain Tier I capital above 8.0%.

INFLATION INDEXATION AND FOREIGN EXCHANGE BALANCE

Inflation-indexed assets in excess of inflation-indexed liabilities stood at ISK 126,615 million at year-end 2006 as compared to ISK 88,741 million at year-end 2005. The Bank's indexed assets include assets and derivatives based on indexed trading securities, which are short-term investments. Excluding these, the Bank aims to maintain a positive balance between indexed assets and liabilities.

Foreign-denominated assets in excess of liabilities were ISK 36,305 million at year-end 2006, including assets and liabilities in the form of forward contracts and currency and interest rate swaps.

OFF BALANCE SHEET ITEMS, OBLIGATIONS ON BEHALF OF CUSTOMERS

The Bank has provided guarantees and overdraft facilities to customers. Guarantees issued amounted to ISK 79,583 million at year-end as compared to ISK 19,788 million at the beginning of the year. Unused overdraft facilities amounted to ISK 40,858 million at year end as compared to ISK 26,166 million at year-end 2005.

The Bank uses derivatives mostly to hedge its exposure against foreign currencies and changes in interest rates. Those derivatives that do not meet the requirements of International Accounting Standards to be defined as a part of hedging relationship are classified as derivatives held for trading in the Bank's accounts. Nevertheless, a large share of these contracts is held for hedging purposes.

SUCCESS IS A LONG – TERM GOAL

RISK MANAGEMENT

Risk management focuses on balancing risk and return by integrating the responsibility for risk into the Bank's organization, thus providing a solid foundation for the Bank's continued strong performance and prudent growth.

RISK MANAGEMENT

The effective assessment and evaluation of risk is essential to Glitnir banki's hf. operations. The objective of the Bank's risk management policy is to balance return and risk. Effective controlling, measurement, risk modelling, tracking and reporting of risk positions is the essence of the Bank's risk management structure. The Board of Directors determines the overall risk profile, risk policies and procedures for the Bank. The Board defines the Bank's risk appetite and ensures that effective risk management is integrated into the Bank's infrastructure and efficiently reported. The Board defines acceptable levels of risk in the Bank's operations, establishes clear targets and limits for risk positions and the reporting thereof. The Board issues general rules that govern all lending activities within the Bank. It determines authorization limits for the Bank's Risk and Credit Committees, decides on loan loss provisions, final write offs, market risk limits and financial risk targets.

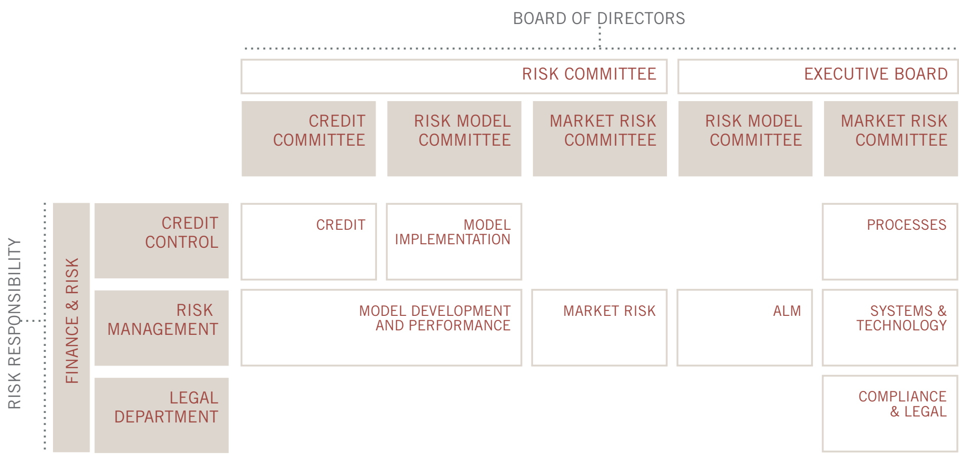
The Board of Directors of each of the Bank's subsidiaries is responsible for that subsidiary's risk management policy and procedures, both of which must be in adherence with the Bank's overall Risk and Credit Policy. Subsidiary specific rules must reflect the nature and scope of its operations and operating environment and be in compliance with governing laws and regulations. Subsidiaries report on risk to their respective Board of Directors, the parent company and to local regulatory entities.

The Board of Directors of Glitnir banki hf. has entrusted the CEO, Executive Board and the Risk Committee to internally govern the Bank's risk management and report on risk to the Board.

Risk is managed and controlled on a consolidated basis within the parent company. Daily risk monitoring, reporting and control for the Bank is the responsibility of two centralized departments, Risk Management and Credit Control, both within the Finance and Risk Division. Risk Management is accountable for the daily monitoring of market risk and other financial risk factors such as liquidity risk, interest rate risk, currency risk and refinancing risk. Credit Control is responsible for the monitoring of the Bank's credit risk.

THE RISK COMMITTEE

The Risk Committee is appointed by the CEO who also appoints its chairman. The Risk Committee is chaired by the Executive Vice President of the Finance and Risk Division. The



YEAR IN PICTURE
In May Glitnir acquired Fischer Partners , a leading Swedish brokerage firm.

Risk Committee is responsible for supervising and monitoring credit risk, market risk, and other counterparty risk on a consolidated basis. The Risk Committee is also responsible for timely and efficient reporting on risk factors to the Board.

The Risk Committee receives regular reports on the Bank's asset portfolio and closely monitors the development of the Bank's risk profile and the composition of its asset portfolio. The main responsibilities of the Risk Committee are to ensure that effective risk management policies and procedures are employed in the Bank and that efficient risk monitoring systems are integrated into the Bank's infrastructure.

The Risk Committee makes recommendations to the Board of Directors on loan impairment based on a thorough assessment and review of the Bank's loan portfolio. The Risk Committee also makes recommendations to the Board of Directors on final write-offs when every possible means of recourse has been explored.

The Risk Committee determines the Bank's credit procedures and processes in context with the Bank's credit policy as defined by the Board. The Risk Committee has established credit committees at the parent company and appoints the credit committee members. The Risk Committee has also established subcommittees, a Market Risk Committee and a Risk Modelling Committee.

Credit Committees

The Risk Committee determines the authorization limits for the Bank's credit committees within limits set by the Board. The Board of Directors of each subsidiary have similarly established credit committees at the subsidiary level with delegated authority and authorization limits.

Sound credit experience is the primary criterion for appointment to the Bank's credit committees. An effort is made to ensure balanced representation between members representing the Bank's business units and risk management.

The credit committees decide on individual credit decisions and/or other counterparty risk that arises in the Bank's business units. The credit committees can authorize single credits and decide on maximum credit limits for the Bank's customers, i.e. for consolidated exposures, according to an authorization table approved by the Board of Directors and the Risk Committee. The Bank's credit committees are administered by Credit Control.

The Board of Directors of the Bank's subsidiaries can decide to refer credit decisions to the parent company credit committees, within predefined limits set by the respective Board. Such decisions are promptly reported to the subsidiary's Board of Directors. Decisions involving exposures at or exceeding 20% of a subsidiary's equity must be handled by the respective Board of Directors.

Market Risk Committee

The Market Risk Committee decides and monitors limits on currency exposure, equity exposure and mark-to-market interest rate exposure for the Bank on a consolidated basis. The Market Risk Committee is also responsible for monitoring activity in the trading book. Risk positions are reported to the committee on a regular basis.

Risk Modelling Committee

The Risk Modelling Committee reviews and approves risk measurement and economic capital methodologies. This includes the formal approval of the Bank's risk assessment models, economic capital allocation models and Value-at-Risk models.

THE EXECUTIVE BOARD

The Executive Board has established two separate committees for the daily management and reporting the Bank's other main risk factors; the Asset and Liability Committee and the Operational Risk Committee. Both Committees report directly to the Executive Board.

Asset and Liability Committee (ALCO)

The Asset and Liability Committee is appointed by the Executive Board and chaired by the Executive Vice President of the Finance and Risk Division. The committee is responsible for the Bank's funding strategy and capital management. The Committee determines policies and procedures for the Bank's funding, liquidity and refinancing risk, along with its currency risk, interest rate risk and other financial risk factors. The committee is also responsible for the Bank's capital allocation and pricing.

Operational Risk Committee

The Operational Risk Committee is appointed to supervise the management and measurement of operational risk across the Bank. The committee is responsible for the Bank's operational risk framework and for the formal reporting of operational risk to the Board.

Basel II

The Bank is preparing for the implementation of the Basel II capital adequacy framework using the Internal

Rating Based Advanced Approach. The IRB Approach will be rolled out starting with the two largest operating units in 2008.

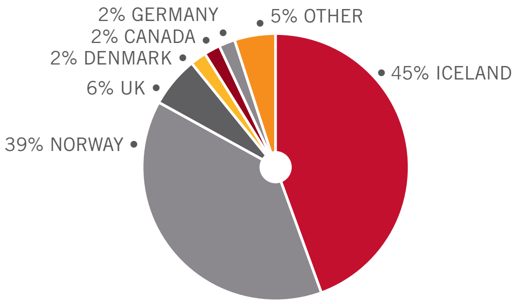
The Icelandic and Norwegian financial supervisory authorities have agreed that the latter will review BNbank's application. Other subsidiaries will initially use the Standardized Approach. The Bank has restructured its internal processes and procedures to meet the requirements of the Basel II accord.

RISK MONITORING

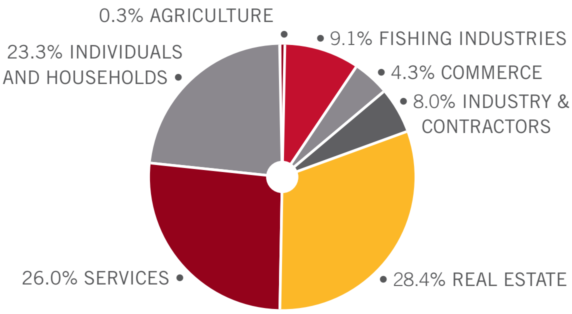
CREDIT RISK

Credit risk is a major risk factor in the Bank's operations. The Bank seeks to maintain the quality of its credit portfolio by actively diversifying credit risk within the portfolio and by prudently managing concentration risk. The Bank emphasises the distribution of credit risk within its consolidated portfolio by counterparties, sectors and country, as well as within sectors and country for individual portfolios.

LOAN PORTFOLIO – GEOGRAPHICAL



LOAN PORTFOLIO BY SECTOR



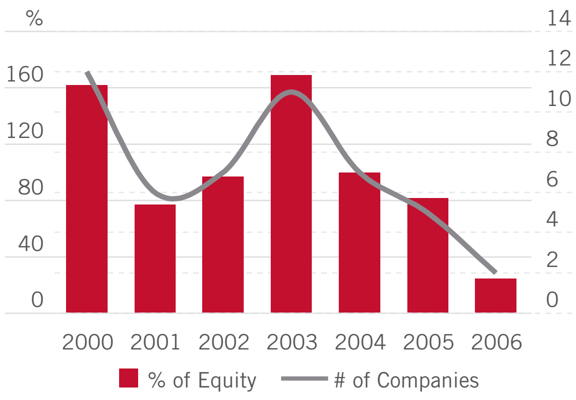
A thorough analysis of the borrower's financial standing, analysis of past and estimated future cash flows as well as the borrower's general ability to repay the engagement, forms the basis of all credit decisions. To mitigate credit risk the most traditional measure is to take formal security in pledged assets or to employ other traditional credit risk mitigants.

With Glitnir's acquisitions in Norway, i.e. the acquisition of KredittBanken in 2004, renamed Glitnir Bank ASA, and BNbank in early 2005, and the increasing diversity in the Bank's operations, the Bank has strengthened the quality of its asset portfolio significantly. The Bank has defined Iceland and Norway as its home markets and the composition of the asset portfolio reflects the emphasis on the two strong home markets.

At year end Norway accounts for 39% of the Bank's asset portfolio, the largest part being BNBank's real estate and mortgage portfolio. Iceland and Icelandic counterparties account for another 45%. Exposure to countries outside of the home markets account for 17% of the portfolio, the largest single country exposure being the UK at 6% of the portfolio.

The Bank's single largest industry exposure is to commercial real estate as 28.4% of the Bank's total loans and leasing contracts is within that sector as specified by borrowers. The largest part thereof is commercial real estate lending within BNbank to Norwegian real estate companies and to a smaller extent to Norwegian building societies. Of the commercial real estate portfolio in Norway, 89% is within 80% loan to value, based on the purchase price of the property, and 70% is within 75% loan to value, not taking into account other

CONCENTRATION RISK



collateral or credit mitigants. The largest part of the Norwegian real estate exposure, commercial and private housing, is towards properties in the greater Oslo area or 60% of BNbank's total lending.

At year end 2006 household mortgages in the Icelandic market accounted for 7% of the Bank's loan portfolio. Borrowers must meet stringent criteria to qualify for such borrowings and the maximum loan to value is 80%. An exception is made for first time buyers that can borrow up to 90% of the purchase price of their property given that they meet predefined criteria and the total loan amount does not exceed ISK 25 million. Mortgages are generally in CPI indexed ISK, which allows the changes in the CPI index to be diluted during the maturity of the loan. Customers have increasingly preferred mortgages in foreign currencies. Non-ISK denominated mortgages are subject to stricter loan to value measures and other general critera than ISK denominated loans.

Large Exposures

Aggregated large exposures to two parties, i.e. exposures that exceed 10% of the Bank's CAD equity, amounted to 25% at year end. The regulatory limit for aggregated large exposures is 800%, but the Bank's internal limit is 200%. According to the Bank's internal limits, no single exposure may exceed 20% of the Bank's CAD equity. The regulatory limit for the parent company is 25%. Each subsidiary is subject to local regulatory limits regarding large exposures.

Monitoring of Credit Risk

Credit Control is responsible for the implementation, enforcement, and monitoring of the Bank's consolidated credit risk policies and procedures. Credit Control is also responsible for the implementation of the Bank's risk assessment models. Credit risk is reported regularly to the Risk Committee and to the Board of Directors.

Credit risk within the Bank's subsidiaries is independently managed by each subsidiary and reported to the respective Board of Directors and to the parent company. However, credit risk policies and procedures and the business strategy for each subsidiary must adhere to the Bank's overall credit risk policy and procedures.

Each subsidiary has defined an operational function that is responsible for the implementation, enforcement and monitoring of its credit risk and implementation of risk assessment models and guidelines. Credit risk is reported regularly to the respective Board of Directors and top management as well as to Credit Control and to the Bank's Risk Committee.

Defaults and provisioning

Credit Control monitors defaults and issues guidelines on default monitoring and provisioning on consolidated basis. Default rates are currently very low in a historical perspective and reflect the favourable economic environment in the Bank's strong home markets. Impairment on outstanding loans of ISK 1,571,726 million amounted to ISK 4,759 million at year end 2006 as compared to impairment of ISK 2,125 million on ISK 1,078,383 million outstanding at year end 2005. The nominal increase in recognised impairment is merely a reflection of the growth in the Bank's loan portfolio. The Bank has applied the IAS accouting standard to its impairment procedures. This has resulted in more transparency of the Bank's impairment process but at the same time increased fluctuations in quarterly impairments.

Specific provisioning guidelines are determined for each subsidiary and reflect their diversified risk profiles, regulatory environment and prudent accounting practices. Portfolio provisions which are raised to cover possible losses in a portfolio comprising similar characteristics and risk factors, that is losses which have not yet been specifically identified but are likely to be inherent in the portfolio, are based on historical loss data for that specific portfolio. Changes in portfolio provisions are adjusted quarterly.

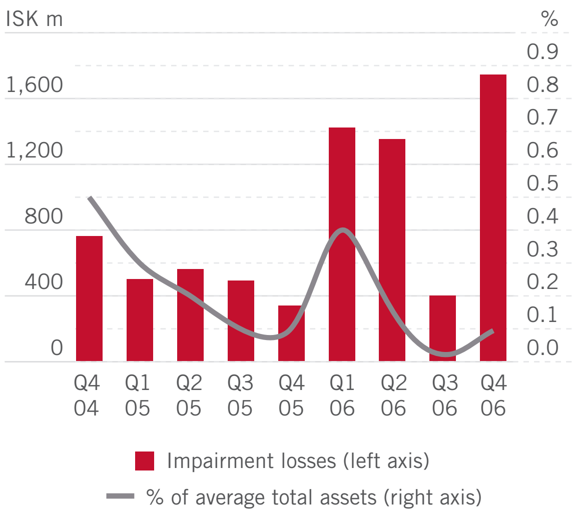
Non perfoming loans, i.e. loans exceeding 90 days in arrears and/or loans against which specific provisions have been made, are managed and monitored regularly on a consolidated basis. At least twice a year a thorough inspection of the asset portfolio is performed where the Bank's assets are examined to determine whether a specific provision should be made towards a particular loan, that is where there is objective evidence that the borrowers likelihood to repay his engagements has been impaired and/or a default event has occurred. A similar evaluation is carried out where there is evidence of a devaluation of collateral and/or changes in market conditions are deemed likely to affect the quality of a loan. Should there be evidence of objective impairment through such an inspection a specific provision is made against the loan. Specific provisions are adjusted quarterly taking into account the present value of the future cash flows of the loan and the valuation of and the timing of realisation of the loan's security and collateral.

MARKET RISK

The Bank has trading positions in bonds, currency and equities and is therefore exposed to changes in interest rates, foreign exchange rates and equity prices. As all positions are marked to market and all price changes are immediately recognised in profit or loss.

For trading positions the Bank uses a daily Value-at-Risk (VaR) method to measure market risk in individual portfolios as well as the overall market risk. The overall measure is conservative as diversification effects across portfolios are not taken into account. Reporting is based on a probability level of 99% and 1-day holding period. The table below summarizes the VaR measure for 2006, with reference figures for 2005. Backtesting is used to assess the effectiveness of the VaR model.

IMPAIRMENTS & DEFAULTS



Stress tests are carried out to provide an indication for potential loss in extreme conditions. Non-trading and unlisted equity positions that are not part of the VaR measure are covered under stress testing as well.

At year-end 2006, shares on the Bank's balance sheet amounted to ISK 85.4 billion, whereof ISK 18.4 billion were at the Bank's own risk, and ISK 67.1 billion as a hedge against customer driven derivatives transactions. Of those 18.4 billion, 12.1 billion were classified as trading assets, while ISK 6.3 billion were classified as assets at fair value through profit and loss. The trading assets at the Bank's own risk (12.1 billion) correspond to 5.1% of CAD equity. Equity trading takes place within the parent bank as well as in Glitnir AB in Sweden, the vast majority of the risk exposure is in the parent.

RISK MODELS

Glitnir employs various models and methods to assess and control risk and for the valuation of financial instruments. This includes risk assessment models used to rate credit obligations, models for economic capital as well as models such as Value-at-Risk models to assess market risk.

The Bank has developed specific risk assessment models to support credit decisions. The models estimate the borrower's probability of default and when appropriate they also estimate the likely loss should a default event occur.

The parent company risk models assign customers a risk class based on their probability of default. The model uses the scale of 1–10, where risk class 10 is a default class. Different models are used based on customer specific qualities, e.g. corporate customers, small and medium sized businesses, retail customers, consumer lending, and household mortgages.

BNbank has developed a risk assessment model for the corporate portfolio that takes into account the customer's probability of default and the loss given default. Glitnir Bank ASA similarly applies a probability of default risk assessment model that assigns borrowers a risk class from 1–6, with risk class 6 being a default risk class.

CAPITAL ALLOCATION

Allocation of economic capital, down to business units and down to individual positions, is a key element in the Bank's operation, pricing and performance measurement. The Asset and Liability Committee is responsible for capital allocation mechanisms and methodologies. For credit exposures, capital is allocated to individual positions based on the Bank's risk classification system. Each credit decision is influenced by the capital allocation, since return on allocated capital is the main output from the Bank's pricing model.

Capital is also allocated to market risk exposures. Each business line therefore carries capital according to its exposure and risk profile, and its performance is measured against that capital usage.

The Bank's capital ratios are among the financial targets set by the Bank. Return on economic capital is calculated for each business unit as a risk-adjusted performance measure. Financial targets, including capital ratios, are assessed by ALCO at least annually. The Bank's financial targets currently require a minimum CAD ratio of 11% with Tier 1 capital accounting for at least 8%. At year end 2006, the CAD ratio and the Tier 1 ratio were 15.0% and 10.8% respectively.

FINANCIAL RISK

Even though credit risk is a dominant risk factor in the Bank's operations, there are various other risk factors that affect the Bank's economic value. Among those are liquidity and refinancing risk, currency risk, interest rate risk and exposure to inflation. Some of these risk factors are managed as market risk. Other factors derived from other business activities, such as lending, are managed within the Bank's asset and liability framework and reported to the Asset and Liability Committee.

Currency risk

The majority of the Bank's assets and liabilities are denominated in foreign currencies. Changes in exchange rates can therefore have an impact on profit and loss if there is an imbalance between assets and liabilities in each currency. Any such mismatch is monitored closely and managed within strict limits.

Since the Bank's assets are largely denominated in foreign currency, but equity is issued in ISK, the exchange rate of the ISK has an effect on the measured capital ratios. The Bank uses various methods to reduce this effect and it is taken into account in the Bank's capital strategy. At the end of 2006, the Bank held long positions in NOK, SEK and EUR amounting to ISK 27.8 billion for the purpose of limiting exchange rate sensitivity of its capital ratios. Other foreign currency positions are viewed as trading positions.

Trading positions in currencies, above certain limits, are reported to the Market Risk Committee. The sensitivity of capital ratios to changes in exchange rates is reported to the Asset and Liability Committee.

Interest rate risk

The main scource of interest rate risk is in the banking book. Mismatch in assets and liabilities with fixed rate terms in the banking book can generate interest rate risk, which is not neccessarily recognised in profit and loss but can affect the Bank's economic value.

It is the Bank's policy to hedge foreign currency interest rate risk in the banking book, with interest rate swaps or other derivatives. Hedge accounting is used where applicable to reduce fluctuations in profit and loss. These hedging derivatives are marked to market, as are all other derivatives.

Since the Bank's equity is denominated in ISK, interest bearing assets denominated in ISK exceed interest bearing liabilities in ISK. To limit sensitivity to changes in interest rates, all mortgage loans have an interest rate reset five years from issuance. At the end of 2006, the overall 100bp risk for the Bank amounted to ISK 7 billion, 3% of CAD equity. Interest rate risk in the banking book is reported to the Asset and Liability Committee.

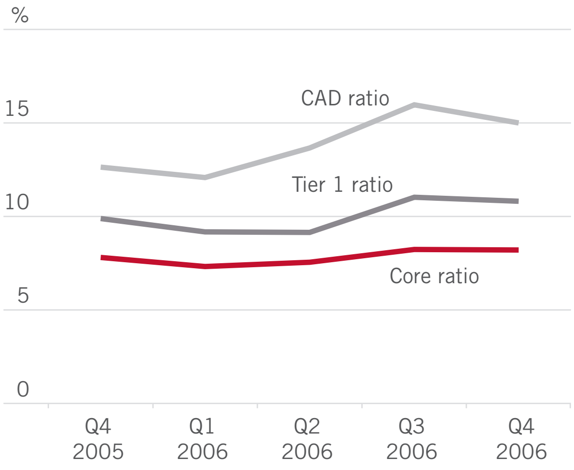
TRADING BOOK – 99% DAILY VAR

	Min	Max	End of 2006	Average 2006	Average 2005
Equity risk	14	333	71	136	79
Interest rate risk	13	67	20	35	41
Currency risk	0	170	88	42	15
Total	73	443	179	213	135

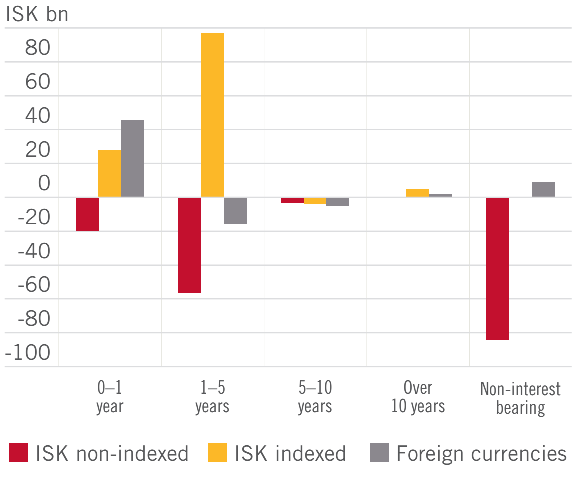
Exposure to inflation

The Icelandic retail financial market is characterized by the large portion of CPI-linked debt instruments. Glitnir Bank is exposed to Icelandic inflation since CPI-linked assets exceed CPI-linked liabilities, mainly through the Bank's mortgage lending. All CPI-linked assets and liabilities are valued according to the CPI at any given time, and changes in the CPI are therefore immediately recognised in profit and loss. These exposures are limited to the parent company and managed within the Interbank Markets unit. The Bank's exposure to inflation is reported to the Asset and Liability Committee. At year-end 2006 CPI-linked assets exceeded CPI-linked liabilities by ISK 127 billion.

DEVELOPMENT OF GLITNIR BANK'S CAPITAL RATIOS



GLITNIR BANK'S INTEREST RATE EXPOSURE AT THE END OF 2006



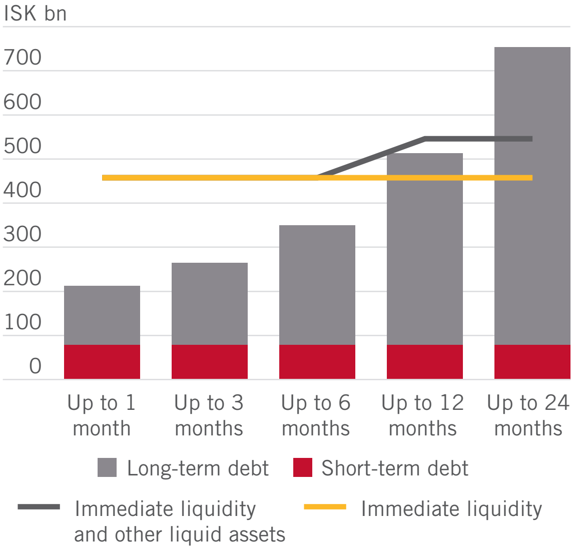
Liquidity risk

Management of liquidity risk is an important element in the Bank's operations. Much emphasis is put on diversification in funding sources, both in geographical terms and with respect to investor types. The Norwegian subsidiaries are mainly self-sufficient in their funding, through their deposit base and by bond issuance in local markets. All international funding is however co-ordinated by the parent company.

Both the parent company and the subsidiaries are subject to external regulatory liquidity requirements that differ between countries. In addition, the parent and the subsidiaries have internal liquidity targets that are more stringent than the regulatory ones. The subsidiaries are responsible for management of their day-to-day liquidity. The parent company is responsible for the liquidity strategy of the group, as well as reporting the consolidated liquidity position to the Asset and Liability Committee.

Glitnir Bank's policy assumes that the Bank has immediate liquidity covering all maturing debt of the parent company, other than core deposits, for the following six months. In addition, all debt maturing within the following twelve months must be covered with immediate liquidity and other liquid assets. It is not assumed that liquidity can be transferred from the subsidiaries to the parent company.

GLITNIR BANK'S LIQUIDITY PROFILE AT THE END OF 2006



Immediate liquidity is defined as cash, short-term placements with credit institutions and the Bank's liquidity portfolio, bonds eligible for repurchase agreements at Central Banks and committed credit facilities. Other liquid assets are defined as listed bonds and equities and the part of the loan book that can be easily liquidated at a reasonable haircut. A conservative haircut is taken for each of the asset classes described above when summing up the Bank's liquid assets. Contractual inflow from long-term lending is not included in liquid assets.

At the end of 2006, both the parent company and the group had ample liquidity according to the parent's liquidity targets.

OPERATIONAL RISK

The Bank has an operational risk framework where functions within Credit Control, Risk Management and Legal & Compliance are jointly responsible for monitoring and reporting on operational risk. These units ensure consistency in identifying, assessing and controlling operational risk. However, the primary responsibility for the management and control of operational risk lies with the business and support units of the Bank where the risk arises. Major sources of operational risk are adherence to internal procedures, processes and guidelines, IT security, fraud, error, legal and regulatory compliance as well as business risk. Operational risk is supervised by the Operational Risk Committee which is also responsible for formal reporting on operational risk to the Board.


FREDSFONDENS HUS

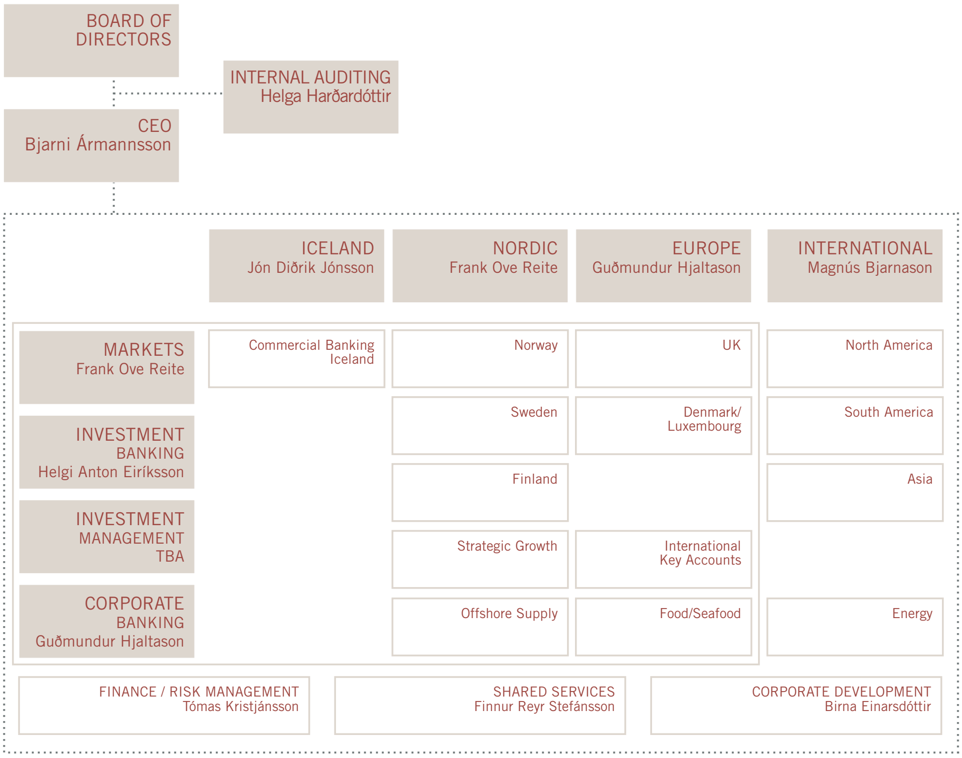

SUCCESS IS KNOWING YOUR WAY

ABOUT GLITNIR

Glitnir is a growing financial services group with strong foundations in its home markets, Iceland and Norway. In the Nordics the banks core strengths are Capital Markets activities, Investment Management and Corporate Finance. In Northern Europe the Bank focuses on product excellence in Corporate Finance, Leverage/ Integrated Finance and Property Finance. Internationally, Glitnir specializes in three industry niches: seafood/food, sustainable energy and off-shore industry. The Glitnir experience is built on the Bank's unique diversity of employees with varied sector expertise and banking knowledge.

Glitnir's history goes back to the establishment of Íslandsbanki in 1904 in Iceland, where Glitnir has its headquarters. Glitnir has a strong business focus based on the seafood industry, and has successfully applied this focus and expertise to the fields of sustainable energy and off-shore shipping. The focussed business strategy has enabled the bank to grow in its home markets and internationally while maintaining sustainable high profit and strong credit ratings.

Glitnir announced changes to the group's organisational structure in February 2007. The aim of the organisational changes is to facilitate strong and profitable integration of all business units and to accommodate further growth. Three new Executive Vice Presidents joined Glitnir's management board, Birna Einarsdóttir, Helgi Anton Eiríksson and Magnús Bjarnason



EXECUTIVE VICE PRECIDENTS

BIRNA EINARSDÓTTIR

(b. 1961) – Executive Vice President, Corporate Development. Prior to her appointment Ms. Einarsdóttir was in charge of Glitnir's marketing and sales team for the Commercial Banking in Iceland from 2004 and last year she managed the Bank's successful re-branding project. Ms. Einarsdóttir has worked in the financial sector for a number of years. She worked for 6 years for the Royal Bank of Scotland in Edinburgh and, prior to that, she was head of marketing and sales at Íslandsbanki. Birna began her career as a manager director of Íslensk Getraun, The Icelandic football pool. Birna Einarsdóttir holds an MBA degree from Edinburgh University and a B.Sc. in Business Administration from the University of Iceland.

FINNUR REYR STEFÁNSSON

(b. 1969) – Executive Vice President, Shared Services. Mr. Stefánsson was Managing Director of Capital Markets from October 2000 to September 2006, and prior to his appointment to the Glitnir Executive Board in 2000, Mr. Stefánsson was deputy managing director of Wealth Management at Glitnir from January 2000 and deputy managing director of Risk Management and Funding at FBA from 1997. Prior to that (from 1994) he was director and fund manager at Landsbanki Securities. Finnur Reyr Stefánsson holds an MBA degree (Finance) from Virginia Tech, and a B.Sc. degree in Economics from the University of Iceland.

FRANK O. REITE

(b. 1970) – Executive Vice President, Commercial Banking in Norway and Glitnir Markets. Prior to his appointment to the Glitnir Executive Board, Mr. Reite was executive director and CEO of KredittBanken from April 2004. From 2000 to 2004 Mr. Reite was the director of AkerRGI and served on the boards of directors of other companies of AkerRGI, including Norway Seafoods and Aker Yards. In 1996–2000 Mr. Reite held further management positions at Norway Seafoods after working on the restructuring of RGI's fishing companies in the USA and Norway in 1995. Prior to that he was an analyst at Cristiania Bank and Kredittkasse (CBK) in Seattle in 1993 and 1994. Frank O. Reite holds a B.Sc degree in economics from Handelshøyskolen BI in Norway.

HELGI ANTON EIRÍKSSON

(b.1967) – Executive Vice President, Investment Banking. Before taking on the role of EVP, Investment Banking in January 2007, Mr. Eiríksson was Glitnir's Global Seafood Director with responsibility for overall management of the Glitnir's international seafood activities. Mr. Eiríksson joined Glitnir Bank in 2004 from Coldwater Seafood (UK) Ltd. where he served as Director within the executive management team from 1995–2004. Mr. Eiríksson holds a Cand. Oecon degree in business administration from the University of Iceland.

GUÐMUNDUR HJALTASON

(b. 1963) – Executive Vice President, Corporate Banking. Prior to his appointment to the Glitnir Executive Board, Mr. Hjaltason was the CEO of Ker hf., a leading Icelandic investment company with an international strategy from 2003. Mr. Hjaltason was the CFO of Samskip hf., a leading Icelandic shipping and logistics company in 1999–2003. He was a partner in an international accounting firm in Iceland. Mr. Hjaltason graduated from University of Iceland in 1988 and is a chartered accountant.

JÓN DIÐRIK JÓNSSON

(b. 1963) – Executive Vice President, Investment Banking and Corporate Development. Prior to his appointment to the Glitnir Executive Board, Mr. Jónsson was CEO of Egils Beverages from 2001–2004, general manager of CCHBC Slovenia 2000–2001, commercial director/marketing director of CCHB Poland 1997–2000, marketing manager of Coca-Cola Singapore/Malaysia 1995–1997, TCCC Nordic Region business development manager 1994–1995, operational marketing manager for Nordic & Northern European Division of TCCC 1992–1993. Mr. Jónsson holds an MIM degree (management) from Thunderbird, the Garvin School of International Management, and a B.Sc. degree in management from the Florida Institute of Technology.

MAGNÚS BJARNASON

(b. 1963) – Executive Vice President, International. Mr. Bjarnason was, until now, managing director of the Asia and America Region in Glitnir's Corporate Banking Division. Before joining the Bank in 2005, Mr. Bjarnason served as a minister counselor and deputy chief of mission at the Icelandic Embassy in China 2003–5 where he worked on business development. Prior to that he was an acting consul general in New York and trade commissioner for Iceland in the USA and Canada. His previous experience also includes work in the banking and airline industries. Magnús Bjarnason has an MBA degree from Thunderbird, the Garvin School of International Management.

TÓMAS KRISTJÁNSSON

(b. 1965) – Executive Vice President, Finance Division and Risk Management. Prior to his appointment to the Glitnir Executive Board in 2000, Tómas was managing director of Risk Management and Funding at FBA, the Iceland Investment Bank from 1997 and director of Credit Control at the Industrial Loan Fund from 1992 to 1996. Prior to that (from 1990), he was responsible for problem loan management at the Industrial Loan Fund. Tómas Kristjánsson holds an MBA degree from the University of Edinburgh and a degree in business administration from the University of Iceland.

COMMERCIAL BANKING ICELAND

Commercial Banking in Iceland provides banking services to private and corporate customers; the business unit comprises Retail Banking, Asset Management, Private Banking, Asset-based Financing and Corporate Banking.

ISK m	2006	Q4 06	Q3 06	Q2 06	Q1 06
Net interest income	16,778	4,860	4,326	4,001	3,591
Other operating income	5,655	1,867	1,247	1,220	1,321
Net operating income	22,432	6,727	5,573	5,220	4,912
Operating expenses	-11,057	-3,418	-2,315	-2,756	-2,568
Impairment losses	-2,781	-293	-402	-1,158	-928
Other income	82	-3	0	85	0
Profit before income tax	8,675	3,013	2,856	1,391	1,416
Economic value-added (EVA)	3,321	1,046	1,408	389	478

The year 2006 was an outstanding year for all units of the Commercial Bank in Iceland. Profit before tax over the year was ISK 8,675 billion. These results are partly explained by the reversing entry of general provisions due to the transfer of a part of the loan book of Corporate Banking Iceland and Private Banking onto the books of Corporate Banking. Overall, the year was characterised by steady demand for credit which the Bank was largely able to provide despite some restraint on the financing side. Demand in the fourth quarter was good and steady, but, at the same time, the supply of credit was clearly growing and the market seemed to have reached equilibrium. Mortgage lending contracted considerably in the year and amounted to ISK 3 billion in fourth quarter, which is about a third of the growth in Q1. The sale of other specific services in the quarter was in line with expectations and the year as a whole exceeded the most optimistic projections.

Pre-tax profit at Commercial Banking in Iceland was ISK 8,675 million in 2006. Net operating income was ISK 22,515 million for the whole year and operating expenses ISK 11,057 million. Impairment losses totalled ISK 2,781 million.

The total pre-tax profit of Retail Banking for 2006 was ISK 3,005 million; Corporate Banking returned ISK 3,138 million in profit, Asset-Based Financing ISK 1,208 million and Asset Management and Private Banking ISK 1,148 million, and Kreditkort hf. ISK 176 million.

Lending by Commercial Banking in Iceland amounted to a total of ISK 601 billion at year-end, with Retail Banking lending ISK 265 billion, Corporate Banking ISK 265 billion, Asset Management ISK 18 billion, Asset-Based Financing ISK 44 billion and Kreditkort hf. ISK 10 billion. Commercial Banking deposits amounted to ISK 44 billion .

Total EVA for Commercial Banking was ISK 3,321 million.

RETAIL BANKING

Retail Banking provides financial services to tens of thousands of individuals and households as well as thousands of small and medium-sized enterprises through the Bank's call centre, over the Internet and in its branches across the country.

Retail Banking returned good profits in the year 2006. Profit before taxes amounted to ISK 3,005 million compared to ISK 3,775 million in the preceding year. The net operating income in 2006 amounted to ISK 12,032 million but ISK 10,412 million in 2005 due to increased lending activity, while operating costs amounted to ISK 7,100 million compared to ISK 5,927 million in the year before. The provision for loan losses for the year increased by ISK 1,216 million from 2005, which was an exceptionally favourable year in this regard, to ISK 1,926 million in the year 2006. Economic value added (EVA) for the division came to ISK 749 million in 2006.

YEAR IN PICTURE
Glitnir buys 50.1% in UNION Group, one of Norway's leading brokerage and consultancy groups.

IMPLEMENTATION OF THE RETAIL BANKING STRATEGY

Implementation of the new strategy planning for the Retail Banking division set forward in the year 2005 continued in the year 2006. The purpose of the planning is to adapt the Bank's retail services to changed times, as customer visits to the branches grow less frequent year by year and customers increasingly choose to direct their routine transactions through the Internet Bank and the Bank's call centre. The Bank's future branch network will consist of fewer and larger branches located in key market areas. The role of the branches is evolving from serving principally as processing centres and into serving as service centres focusing on advice and sales to customers.

A new sales strategy based on segmentation and clear focus on approach to customers was implemented early 2006. Sales support functions were strengthened and new sales organisation in the branches was introduced.

In the year 2006 further back office functions were moved from the branches to the Branch Service Centre. This change was made to free up more time for front line employees enabling them to focus more on sales and advisory service to customers. All telephone calls to the branches are now routed directly through the Call Centre to enable quick service for customers with routine requests. More than 70% of the incoming phone requests to the branches are now handled by the Call Centre.

The retail bank will introduce a totally new branch design in early 2007 but extensive preparations were underway in the year 2006 in cooperation with an international design firm specialized in retail operations. During the year the organization charts of the branches were streamlined and job descriptions were made more concise making the operations of the branches more focused to take on the new role.

In 2006 the branch in Siglufjördur was sold to the local savings bank. The branch in Laugavegur was merged successfully with the downtown branch in Lækjargata. The number of branches at end of the year was 23 compared to 29 at the beginning of the changes in the year 2005.

THE MORTGAGE LOAN MARKET

The booming real estate market that followed the intensified competition between the banks and the state-owned Housing Financing Fund that started in 2004, slowed down considerably during the year 2006. The hefty price increase of real estate in 2004–2005 due to the rather sudden increase of demand that resulted from easy access of financing and lower interest rates for households slowed down considerably in 2006. The interest rates started to climb again during the year slowing down the demand at the same time as the supply of new real estate was increasing. As a result, the demand for mortgage loans from Glitnir slowed down considerably from the year before.

NEW SERVICES FOR PRIVATE CUSTOMERS

During 2006 a considerable effort was put into increasing the number of customers in Glitnir's loyalty programme by offering them additional service to fulfil the criteria of the program. The loyalty programme adds considerable value to customers. The programme is divided into three tiers, Vild, Gullvild and Platinum, with membership based on volume of business. The loyalty programme has been very successful as number of participants keeps increasing.

Financial Health Check interviews for private customers were developed during the year. The customers are offered, free of charge, well prepared meetings with specialized bank advisors to discuss their finances. Surveys show that customers are very satisfied with the interviews and really appreciate this service.

A special part of the Glitnir Reykjavik Marathon was the Lazytown Marathon, a three kilometre run for the young generations.

In the autumn of 2006 a new deposit programme was introduced, “The Three Type Savings Programme”. The program is a mixture of deposits and mutual fund products, the first of its kind in Iceland. Customers can choose to subscribe to three types of regular savings, “Save to Consume”, “Save for the Unexpected” and “Save for the Long Term”. The programme has been very successful with customers, more than 2,300 customers registering for the programme in 1½ months.

The partnership agreement between Glitnir and the producers of the Lazytown television series involved co-operation in numerous forms. The partnership is kept highly visible in marketing campaigns catering to the youngest clientele. A special part of the Glitnir Reykjavik Marathon was the Lazytown Marathon, a three kilometre run for the young generations. The response to the campaigns and the sales initiatives that has followed in all of the Bank’s branches was extremely good with all previous sales records for services of this kind soundly beaten.

Glitnir’s student service was thoroughly reviewed and improved in the course of the year. The service is now designed to cater more to university students than before. The Bank was offered students in the service the best terms on deposits and loans in the market. The reviewed service was launched with an extremely successful advertising campaign resulting in yet another sales record. The student service programme is linked to the Bank’s other customer loyalty programmes and students have the option of promotion to Gullvild with time.

CONTINUED DEVELOPMENT OF CORPORATE SERVICES

During the year the Glitnir focused its efforts on providing outstanding services to corporate customers. The Bank’s objective is not only to provide quality service to customers, but outstanding service. Surveys have shown that the spokesmen of companies doing business with Glitnir are extremely pleased with the service they receive.

In 2006 a loyalty programme for corporations was launched. The programme is divided into three tiers, Vild, Gullvild and Platinum, with membership based on volume of business the company has with the Bank. The programme gives different types of value to customers depending on which tire the company subscribes to. The Platinum gives the customers the highest value. The programme was met with enthusiasms by customers and subscription to the programme far exceeded expectations.

Financial Health Check interviews for

companies were also developed during the year. The managing directors and the financial managers of the companies meet with the managers from the branches to discuss the banking relationship once a year. The interviews have been very well received by customers deepening the relationship between the two parties.

EVER GROWING INTERNET SERVICE

Glitnir strives to make its online banking and its internet sites as user-friendly as possible, constantly developing new services for companies and individuals via the online channel. Following a new brand identity, Glitnir completely revamped the look and feel of all its numerous websites.

Utilizing and building on development in mobile technology, Glitnir was the first and only Icelandic bank to launch a browser-based mobile solution for customers via the Bank's webpage Through their mobile phones, customers can now make transactions, pay bills, access account statements etc.

With an ever increasing demand for greater transaction security Glitnir, in cooperation with other Icelandic banks, implemented a security solution called "One time password" for companies. The same security measures will follow for individuals in the year 2007.

Other new services introduced in the Internet Bank include:

- Corporate tax payments deducted from salaries of employees
- The possibility to order detailed banking information to pre-register into tax returns
- Notifications of change of ownership of automobile

The number of customers banking online increased by 15% following a strong increase the year before. The volume of transactions conducted through the Internet Bank also grew dramatically continuing the trend of recent years.

ASSET MANAGEMENT

Asset Management invests and manages assets for private and professional investors. Its services include advice and investments both in the Icelandic and international markets. Advice on securities and pension investments and portfolio management services for affluent private investors is provided within AM. Almenni Pension Fund, one of the largest pension funds in Iceland, offers both defined contribution and defined benefit plans. Mutual funds and discretionary portfolios, both for institutional and private clients are managed through an independent subsidiary, Glitnir Funds ltd.

Assets under management increased from ISK 345 billion to ISK 424 billion, which corresponds to a 23% increase. Strong inflows came from all investor groups – pension funds and institutional investors, private banking customers and private customers – as well as good returns. Client portfolios performed very well in the year, despite lower returns in the Icelandic equity market than in previous years. The returns of all portfolios of Almenni Pension Funds were very good and higher than those of most peers. All domestic mutual and investment funds performed well and outperformed most peers. Private & retail investors were active in the year and inflow of funds remained strong.

The strong increase in assets under management and favourable conditions resulted in profit before taxes of Asset Management and Private Banking of ISK 1,147 million, which represents a 63% increase from the preceding year. Net operating income was ISK 2,862 million, operating expenses ISK 1,720 millions and provisions for losses ISK 5 million.

The total number of full-time employees was 63 at the end of December.

A VERY GOOD YEAR FOR FINANCIAL MARKETS

International stock markets had an exceptionally good year with all major stock markets, except Japan, posting big gains. The MSCI total return index gained 20% which was the 4th year in a row of substantial positive returns. The US stock market had a fairly good year with the S&P 500 gaining 14% and the index approaching former all time high set in early 2000. Indexes in Germany, France and UK gained 22%, 17.5% and 11% respectively and other markets, such as Spain and Norway, even more. The second half of the year was particularly good after oil prices started to drift lower, geopolitics tension eased and the US Fed signalled that no more interest-rate hikes would be needed.

Emerging markets continued to perform extremely well but many emerging economies have been riding the commodity boom. The Chinese stock market doubled in the year and stock prices in Russia rose 70%.

Despite a very challenging environment the domestic stock market posted a very decent return with the ICEX 15 total return index gaining 19%. This was despite rising interest rates, growing concerns by foreign parties about the development of the Icelandic economy, and very challenging funding condition for Icelandic banks.

The domestic bond market had another difficult year.

The biggest individual occasion was Fjarfesting 2007 held for the 10th year in a row with around 500 attendees. A special guest at the event was Mr. Róbert Wessman, CEO of Actavis.

The Central Bank hiked interest rates by 375 bps and rates stood at 14.25% at year-end. Long-term yields rose, both on index-linked and nonindex-linked bonds. Hence, most bond portfolios had headwind for most of the yea. High rates provided excellent investment opportunities at the short end of the curve, not least after it came evident that inflation would abate significantly, and long-term yields became increasingly attractive as they rose. The large interest rate differential between Icelandic rates and foreign rates attracted notable amounts of foreign capital with repercussions both for the currency market and to a somewhat lesser extent the bond market. The Icelandic krona strengthen considerably during the first weeks of the year but weakened sharply following reports by credit agencies and foreign banks expressing concerns about the economy and Icelandic banks.

SEMINARS AND OTHER OCCASIONS IN THE YEAR 2006

Asset Management held over 100 seminars and business related events throughout the year 2006. We enjoyed a record attendance of 3400 from both clients and employees.

Private Investment Services held over 50 seminars in 2006 for clients and employees of Glitnir. The seminars spanned 10 different categories and total attendees were around 2,100 plus some 300 who signed up on waiting lists.

Almenni Pension Fund held 49 seminars and meetings in 2006, both internally and for members of the fund. More than 500 members of Almenni attended seminars both on private pension schemes and regarding the merger of Almenni and Doctors Pension Fund.

ONLINE TRADING

Online Trading in Netbanki enjoyed its best year to date. Turnover was up 174% and net fees increased by 146% from the year before. Gross income from margin loan interests were up by 164%. The number of clients that have access to trade on the website rose above 12,000 at year-end, up 42% from the previous year.

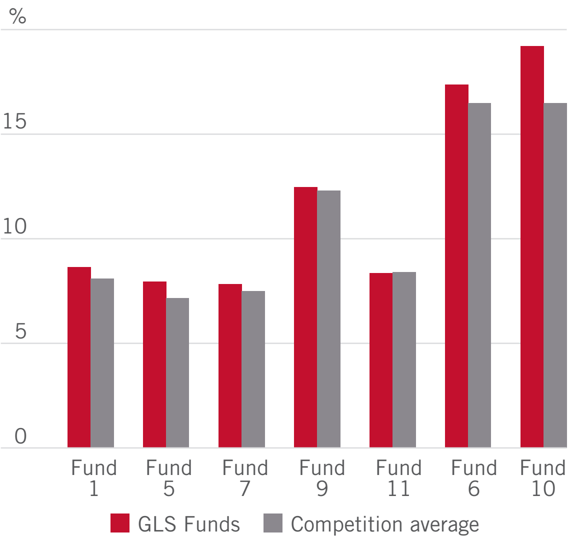
PRIVATE PORTFOLIO MANAGEMENT

The turbulence in the domestic equity market and the Icelandic Krona in 2006 emphasized once again the importance of asset allocation. The Private Portfolio Management Division offers 6 different asset alloca-

In November, Asset Management celebrated its 20th anniversary by inviting its largest clients to a conference featuring among others Mr. John J. Brennan, Chairman and CEO of The Vanguard Group.

tion strategies according to risk tolerance and emphasis on different market segments. This service is offered to affluent clients with assets from 10–100 million ISK. Last year was highly successful and the number of portfolios increased by 53% and assets under management by 58%. Outperformance of the portfolio strategies was up to 5% from its relevant benchmarks.

PERFORMANCE COMPARISON WITH COMPETITION



GLITNIR FUNDS

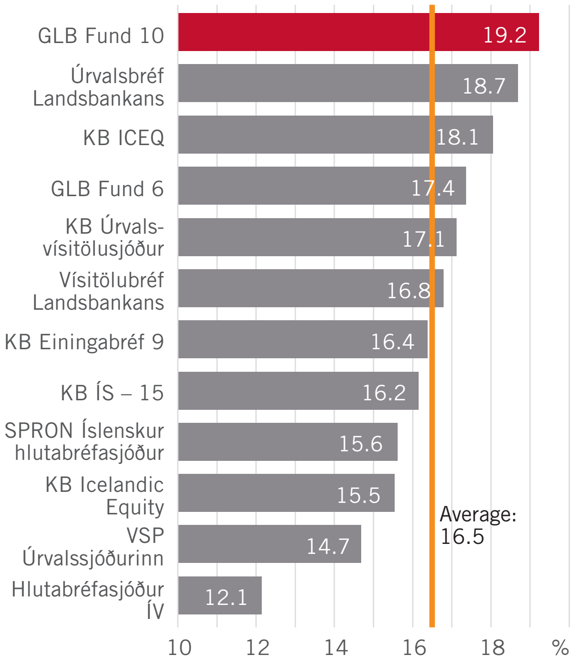
Market conditions were not favourable for the domestic CPI-linked bonds, even though the consumer price index (CPI) rose 6.9% in the year 2006. In the beginning of October the government announced changes in value added tax and excise taxes on food, drink, and services at restaurants. The changes will come into effect on 1 March 2007, and will affect the CPI. Following these news the price of CPI–linked bonds fell substantially. The domestic bond market did not perform very well, with rising yields on CPI-linked bonds also resulting from the Central Bank yet again hiking interest rates by 375bps, or from 10.5% up to 14.25% at the year-end.

Money Markets Funds did extremely well this year and Fund 9, returned 12.5%. The outlook for gains in money market funds is still good for the year 2007.

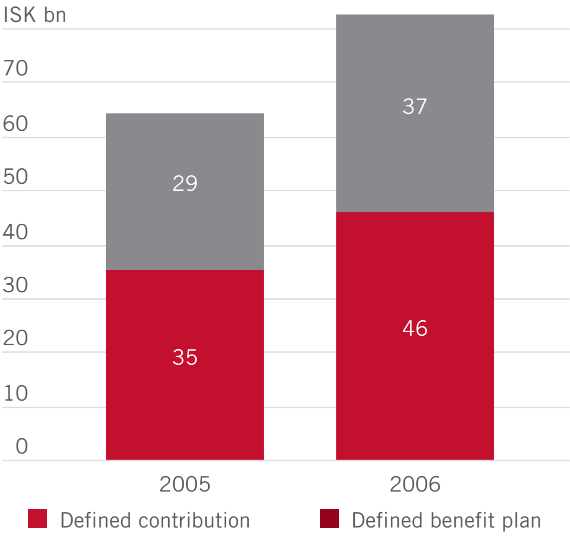
OUTSTANDING PERFORMANCE BY FUND 10 – SELECTED DOMESTIC EQUITIES

The year 2006 proved to be very favourable for Fund 10, Selected Domestic Equities, compared to comparable funds and the ICEX15 index. The fund's annual return was 19.2% while the average return for its competitors was 16.5%. Over the period the ICEX15 index rose 15.8%, thus outperforming the index by 3.4%.

DOMESTIC EQUITIES FUNDS RETURN 2006



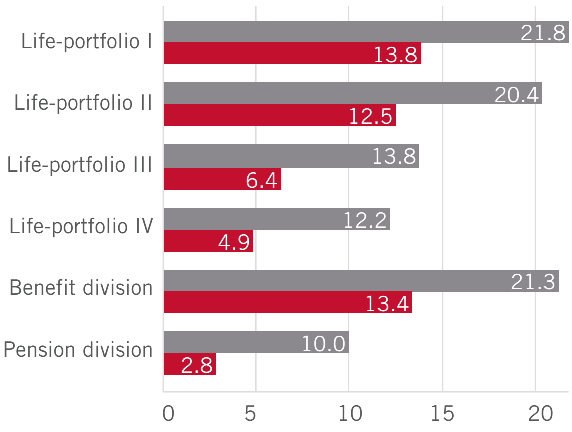
ALMENNI PENSION FUND'S TOTAL ASSETS



ALMENNI PENSION FUND – EXCELLENT RETURN AND GOOD GROWTH

At year-end 2006, the total assets of Almenni Pension Fund amounted to ISK 82.7 billion, the fund therefore growing by ISK 18.7 billion or 29% in the year. The defined contribution plan's assets were ISK 46 billion and the defined benefit plan's assets amounted to ISK 37 billion. Fund members were 29,446 at the end of the year, an increase of 4,389.

PERFORMANCE OF ALMENNI PENSION FUND'S PORTFOLIOS



All investment plans of the Almenni Pension Fund yielded an excellent return in 2006.

The Pension Division pays a lifelong pension to pensioners and invests its assets solely in bonds. Real return on the portfolio was 2.7% if the bonds are valued based on their market value at year-end. If the bonds are valued at their original purchase yield to maturity as most other pension funds do, real return on the portfolio was 5.7% (nominal return 13%).

In recent years, Almenni Pension Fund has been the leading pension fund in innovation offering new technology and service to members and pensioners. This trend continued in 2006 when Almenni was the first pension fund to introduce two new possibilities for members and pensioners.

- Members can now select or change investment plans online.
- Pensioners in the defined contribution plan can now change their monthly pension payments online and/or fetch lump sum payments.

PRIVATE BANKING

Glitnir offers a full range of international private banking services in the headquarters in Reykjavík and in our subsidiary in Luxembourg. Investment management and advisory to high net worth individuals and families along with the universal banking services of Private Banking makes this service and its surrounding a suitable platform for investors of all risk categories. Private Banking's international investment world is managed through open architecture enabling the division to access many of the best fund managers in the world.

Following the remarkable growth of family wealth in Iceland the last few years the activities of Private Banking have grown dramatically. In 2006 assets under management grew by 43% following 60% growth the year before with a record-breaking inflow of new funds. Full time employees almost doubled in number to fulfil our promise of outstanding tailor-made services to our customers.

The advisory and diversification of private banking services has never been as comprehensive as in this year with more emphasis on international investments. Customers have grown their asset portfolios into real estate investments, leveraged buyouts of companies, currency management and international equities and bonds, building on successful investments in Iceland in stocks and bonds. These successful ventures and increased demand for Private Banking services have increased the revenues of Private Banking by 162% between years.

At the end of the year a large part of the loan portfolio was transferred within the Bank which will have a strong impact on profitability of Private Banking in 2007.

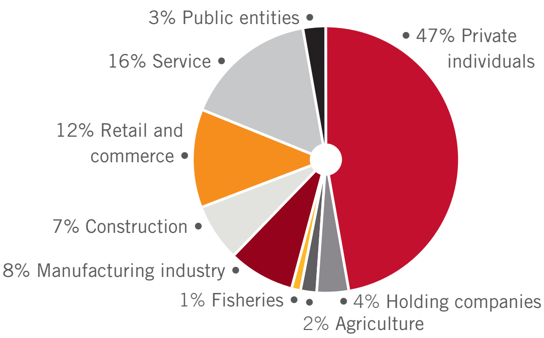
ASSET-BASED FINANCING

Glitnir Asset-Based Financing provides services that are aimed at assisting customers in leasing or acquiring equipment and commercial property. Corporate customers are assisted in financing vehicles, equipment and premises, while personal car-financing schemes are available for individuals.

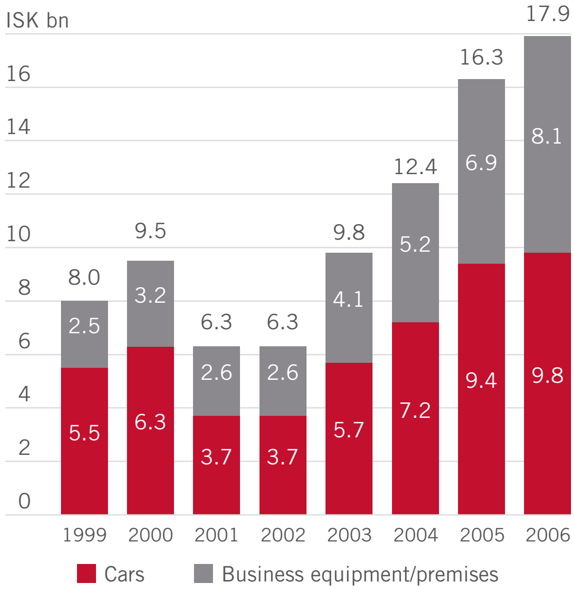
Asset-Based Financing enjoyed another successful year in 2006. The demand for cars and equipment rose sharply during the first quarter of the year, despite earlier warnings from industry experts of a decline. In the second half of the year, however, the demand for new cars stabilized, resulting in a slight decrease towards the end of 2006 that is expected to continue throughout 2007. Despite the changing market conditions, 2006 was a record year in new loans and contracts. New loans and contracts amounted to ISK 17.8 billion, which represents a 10% increase over the preceding year. New financing for vehicles for private and corporate customers increased by 4.8% from the preceding year. New financing of industrial equipment and commercial premises also increased in 2006 by 17.1%. Total lending by Asset-Based Financing amounted to ISK 44 billion at year-end.

Profit from the operation of Asset-based Financing amounted to ISK 1.208 million before taxes, exceeding the 1 billion ISK point for the first time and increasing

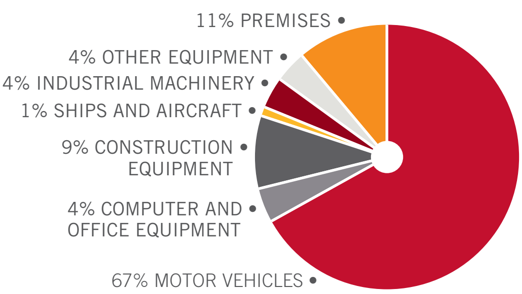
LOAN PORTFOLIO BY SECTORS AT YEAR-END 2006



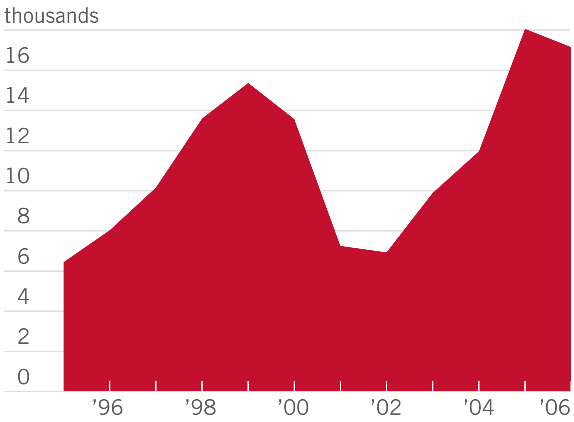
NEW LOANS AND LEASES



LOAN PORTFOLIO BY CATEGORIES AT YEAR-END 2006



NEW PERSONAL VEHICLE REGISTRATIONS



by 49.9% from the preceding year. Operating income was ISK 1,919 million, while operating expenses amounted to ISK 684 million. Provisions for loan losses were at an all-time low and amounted to ISK 27 million. Asset-Based Management's EVA was ISK 552 million in 2006. The average number of full-time equivalent positions during the year was 35.

DIVERSE FINANCING OPTIONS

Private individuals now have the option of financing vehicles through car loans, hire-purchase and private leasing. Business enterprises are offered financing for vehicles through loans, hire-purchase and operating leases. The auto financing service is offered by all the car importers and major car dealers in Iceland, who have a direct on-line link to Glitnir's information processing systems. Loan applications and pledges can also be processed at all Glitnir branches.

DOMESTIC AND CROSS-BORDER PARTNERSHIPS

Glitnir Asset-Based Financing is one of 29 member companies of the International Finance & Leasing Association (IFLA). As a rule, association members are leading companies in their field in their home countries. Customers in Iceland have access to these companies through Glitnir when they require financing overseas.

CORPORATE BANKING ICELAND

Corporate Banking Iceland's team of Business and Credit Managers serves medium and large Icelandic corporate clients and municipalities and is responsible for selling the Banks products and services to this segment of the Icelandic market. While the year 2006 was an active year in the corporate market, competition hardened and margins narrowed towards the end of the year, a development which is expected to contiune in the new year.

In order to align and sharpen the operational focus in accordance with development in the market, some organisational changes were undertaken during the year. In the fall the Risk Management Services unit was transferred to Capital Markets. Mid-year, some internationally focused clients in the energy sector were transferred to International Corporate Banking and at the end of the year several internationally focused investment companies followed suit and with them a significant part of the loan portfolio.

The loan portfolio of Corporate Banking Iceland increased by 63% over the year and after transfers to other units it amounted to ISK 219 billion at the end of 2006. The portfolio composition consists of loans to companies in most or all sectors of the Icelandic economy, real estate and project finance, seafood and services being the largest. The growth of the portfolio can be attributed to both the active and growing market and changes in the economic environment, both inflation and currency fluctuations.

Corporate Banking posted a record ISK 3,138 million in pre-tax profits in 2006, an increase of 66% over the preceeding year. Net opearting income was ISK 5,014 million and other operating expenses ISK 1,065 million. As a comparison the corresponding 2005 figures were ISK 3,248 million and ISK 810 million, respectively. Provisions for loan losses amounted to ISK 811 million, compared to ISK 546 million in 2005. EVA was positive by ISK 1,094 million in 2006, an increase of 46% over the preceeding year.

YEAR IN PICTURE
Glitnir acquired 45% share in the Norwegian finance company Norsk Privatøkonomi.

COMMERCIAL BANKING NORWAY

Glitnir's commercial banking operations in Norway provide banking services to private and corporate customers through two main entities, BNbank and Glitnir Bank ASA, formerly KredittBanken.

ISK m	2006	Q4 06	Q3 06	Q2 06	Q1 06
Net interest income	16,778	4,860	4,326	4,001	3,591
Other operating income	5,655	1,867	1,247	1,220	1,321
Net operating income	22,432	6,727	5,573	5,220	4,912
Operating expenses	-11,057	-3,418	-2,315	-2,756	-2,568
Impairment losses	-2,781	-293	-402	-1,158	-928
Other income	82	-3	0	85	0
Profit before income tax	8,675	3,013	2,856	1,391	1,416
Economic value-added (EVA)	3,321	1,046	1,408	389	478

A commercial bank with operations in both the corporate and retail market, BNbank specialises in mortgage lending. It was consolidated into Glitnir's group figures in April 2005. In October 2006 BNbank acquired 45% of Norsk Privatøkonomi, an independent financial advisory company with 12 branches throughout Norway.

Glitnir Bank ASA is a regional bank located on the west coast of Norway, providing specialised finance both nationally and internationally to two niche markets: seafood and offshore supply vessels. Glitnir Bank ASA also has a subsidiary factoring operation.

The Glitnir Group's operations in Norway have developed favourably since the Bank's entry into the Norwegian market in 2004. Despite fierce competition and pressure on margins, the balance sheet of Commercial Banking in Norway grew some 11% during the year to NOK 58.7 billion from approximately NOK 52.7 billion at year-end 2005, with improved profitability.

Both Norwegian subsidiaries showed higher customer deposits, which together rose 23% or NOK 3.7 billion over the year. The combined loan portfolio increased by 18% to NOK 51.7 billion at year-end.

Pre-tax profit at Commercial Banking in Norway rose by 9% in 2006 to ISK 3,944 million. Net operating income was also up by 35% to ISK 7,243 million, while operating expenses stood at ISK 3,231 million.

The total number of full time employees in Norway was 178 at 31 December 2006.

BNBANK

Headquartered in Trondheim, with a branch in Oslo, BNbank (Bolig- og Næringsbanken ASA) is a leading player in the Norwegian retail property market. BNbank's subsidiary, BNkreditt, is one of Norway's largest real estate financing credit companies. The group had 112 full time employees at the end of 2006.

BNbank has total assets of NOK 47.6 billion as at year-end 2006, BNbank has been profitable every year since it was founded in 1963. Its strategy is to position itself as an alternative to universal banks, by offering a limited range of competi-

The 5K rostrum in the Glitnir Oslo Marathon 2006 included the winner, Jul Fredrik Kaltenborn, and runners up Tormod Tjørnholm and Joel Anderson.

In October, Glitnir Norway announced that all of Glitnir's Oslo subsidiaries will relocate to Tjuvholmen, a new office and residential development in Oslo's attractive docks area, in November 2008.

tively priced, standardised products to selected market segments.

BNbank's retail banking product range includes combined current and savings accounts, payment transfers, mortgages and loans. Products aimed at the commercial market include long-term mortgages, building loans, credit lines, security, deposit accounts and payment transfers. BNbank's lending portfolio is split with 40% of lending going to the retail market and 60% to corporate entities. Most of the loans are extended to customers in urban areas.

2006 was a good year for BNbank, with a net profit of NOK 238 million, which is in line with 2005. Seen in relation to the interest rate level, the return on equity at 10.2% was one of the highest ever for BNbank.

Earnings were strengthened by growth on both the loan and deposit sides of the business. BNbank achieved a total loan growth of 3% (NOK 1.3 bn) in 2006 compared to 15% in 2005, while deposits increased by 13% (NOK 1.7 bn) compared to a 1% decrease in 2005. At year-end, loans to customers stood at NOK 44.9 bn and customer deposits at NOK 14.5 bn.

In the retail market, housing loans grew 9%. All housing loans have a loan-to-value ratio at the time the loan is granted of below 80%, and 81% of the portfolio has a loan-to-value ratio below 60%. The loan growth in 2006 has not altered this distribution significantly. Together with competitive terms, the introduction of a reduced transaction cost for customers switching their housing loans to BNbank, has contributed to the strong growth.

The corporate loan market saw tough competition in 2006. Turnover in the commercial property market is at an all time high. This provides both opportunities and challenges, as trading often necessitates changes in the provider of the property's financing. The bank's current loan portfolio is at record levels, but turnover is also high prompting BNbank to refocus its priorities on low credit risk over loan growth in this market during the coming year.

The level of non-performing loans is low. This is explained by a sound macroeconomic situation in Norway with relatively low interest rates, together with BNbank's strong attention to credit quality. At the end of the year, 0.15% of the loan portfolio was three months or more in arrears, versus 0.21% at the end of 2005. In 2006, BNbank reversed provisions already made for bad debts of NOK 4 million. In 2005 bad debt provisions of NOK 11 million were reversed.

Net interest income from long-term mortgage loans is the main driver for revenue within BNbank, giving a high level of stability to earnings. At the same time, the competitive environment may continue to reduce margins in the loan market without the Bank being able to cut costs correspondingly. To decrease BNbank's dependence on net interest income, the bank will continue to focus on increasing other operating income.

In October 2006, BNbank acquired 45% of the shares in Norsk Privatøkonomi ASA (NPØ), an independent financial advisory company with more than 100 employees and 12 branch offices in key locations through the country. This acquisition considerably enhances BNbank's distribution network in Norway. The combination of Norsk Privatøkonomi's strong position in the financial advisory market with BNbank's solid product platform consolidates the market position of both companies. NFØ's key products include financial planning, savings, tax advisory/tax planning, estate division and pension saving schemes. BNbank can therefore expect to diversify revenue sources without major changes in the cost efficiency of the Bank's operations.

GLITNIR BANK ASA

KredittBanken changed its name to Glitnir Bank ASA in March 2006. Glitnir Bank ASA is a full service bank sit-

Glitnir Securities helped Copeinca, a major Peruvian fish meal producer, secure USD 100 million in fresh equity in December 2006, and proceded to assist in the company's listing on the Oslo Stock Exchange 29 January 2007.

uated on Norway's west coast. The bank has a strong customer base among small and medium sized companies, although it also provides loans and investment alternatives for private individuals and is one of the country's best deposit banks. In addition, Glitnir Bank ASA has won a name for itself nationally and internationally for the provision of finance to two specialist industries: seafood and offshore supply vessels.

Glitnir Bank ASA is wholly owned by Glitnir banki hf, which acquired the Bank in 2004. Headquartered in Ålesund with a branch in Fosnavåg, a major fishing and offshore base, Glitnir Bank ASA also opened a branch in Oslo in March 2006. Glitnir Bank ASA acquired the factoring company, Glitnir Factoring AS (formerly FactoNor AS), on 1 June 2005. In total Glitnir Bank ASA had 61 employees at year-end 2006, 39 in the Bank and 22 employed by Glitnir Factoring.

Sydvestor, an asset management and corporate finance consultancy company, was sold out of Glitnir Bank on 1 January 2006.

2006 was a year of strong, sustainable growth for Glitnir Bank ASA. Total assets increased by NOK 1.28 billion or 28% in 2006, customer loans by NOK 1 billion, or 29%, and customer deposits rose 69% by NOK 2.0 billion. At year-end 2006, Glitnir Bank ASA managed a total volume of disbursed and committed loans amounting to approximately NOK 11.9 billion. Included in this figure is a NOK 3.3 billion loan portfolio administered by Glitnir Bank ASA on behalf of its parent company in Iceland.

The Bank made a net profit of NOK 54 million in 2006, compared to NOK 41 million in 2005. Improved net interest income in 2006 can be attributed to a reduction in financing costs and lower surplus liquidity throughout the year. Other revenues comprising fees and commissions, net gains on foreign exchange and financial instruments increased year-on-year in 2006 while operating expenses remained at a satisfactory level. Glitnir Bank ASA returned an operating profit before losses and tax of NOK 74.5 million, compared to NOK 58.4 million in 2005.

Glitnir Bank ASA has particular responsibility for developing and marketing the group's expertise on a worldwide basis in the specialised area offshore supply vessels. In 2006, Glitnir Bank achieved considerable success in building a sizable portfolio in offshore supply vessel financing and is now emerging as a major player in this segment, with a NOK 5.5 billion portfolio of drawn down and committed loans.

GLITNIR FACTORING AS

Wholly owned by Glitnir Bank ASA and located in Ålesund, FactoNor was brought under the umbrella of the Glitnir branding in March 2006 to become Glitnir Factoring AS. It caters to businesses' and industrial companies' needs for professional management of their receivables. Its target market is small to medium-sized operations in northwest Norway, as well as the entire Norwegian furniture industry.

Ownership by the Glitnir Group has boosted Glitnir Factoring AS' funding status, enabling the company to take on larger commitments and to develop its business in new areas, for example the seafood industry.

Glitnir Factoring AS exceeded its 2005 record results with another best ever year in 2006. Growth continued with all time highs registered for invoice flows, turnover and the bottom line. Invoice flows amounted to a value of NOK 4.43 billion, an increase of 30% over the previous year. Turnover rose 24% year-on-year to NOK 34.8 million, with a profit of NOK 6.8 million after tax and losses, a 44% increase over 2005.

The accounts for the Norwegian activities are based on Norwegian accounting practices (NGAAP). Under NGAAP, pre-payment premiums are amortised over the term of the loans. According to International Financial Reporting Standards (IFRS), premiums of this kind must be allocated to P&L at the time of realisation. Under IFRS there is also a requirement to mark-to-market interest rate derivatives. BNbank has separated a loan portfolio featuring interest rate characteristics (volume and duration) that resemble the derivatives portfolio, and this loan portfolio is mark-to-market as well. This is the principal explanation for the difference between IFRS-figures and NGAAP-figures.

GLITNIR MARKETS

ISK m	2006	Q4 06	Q3 06	Q2 06	Q1 06
Net interest income	3,097	999	837	896	365
Other operating income	14,759	6,097	2,272	3,748	2,642
Net operating income	17,856	7,096	3,109	4,644	3,007
Operating expenses	-6,735	-2,939	-1,682	-1,329	-785
Impairment losses	-7	0	-7	0	0
Profit before income tax	11,114	4,157	1,420	3,315	2,222
Economic value-added (EVA)	8,250	2,571	1,136	2,690	1,853

INTRODUCTION

Entry into the securities market and the brokerage sector outside Iceland has been Glitnir's stated goal since acquiring KredittBanken (now Glitnir Bank ASA) in 2004 and BNbank in 2005. In 2006 Glitnir Banki hf purchased outright Norse Securities ASA, now Glitnir Securities, and Fischer Partners Fondkommission AB, now Glitnir AB, as well as a 50.1% share in UNION Group.

Following this, during the third quarter of 2006, Glitnir made organizational changes to the bank's structure, by moving the various sections of the bank's brokerage business in Iceland, Norway and Sweden into a single new business unit, Glitnir Markets. Glitnir Markets includes Markets Reykjavik in Iceland, Glitnir Securities and UNION Group in Norway, and Fischer Partners, now Glitnir AB, in Sweden. Also integrated into Glitnir Markets are the group's capital markets research units. Glitnir Securities and Glitnir Kapitalforvaltning were merged in December 2006.

The total number of man-labour years in Glitnir Markets at year-end 2006 was 204, of which 41 in Iceland, 91 in Norway and 72 in Sweden.

The aggregated market shares of subsidiaries in the group's major markets of Iceland, Norway and Sweden at year-end 2006 were 26.8%, 5.7% and 6.3% respectively.

In 2006 Glitnir Markets' operations generated revenues of ISK 17,857 million. Fee income from advisory and brokerage services rose significantly to ISK 13.2 billion from ISK 2.2 billion in 2005. 2007 will be the first full year of activity in Iceland, Norway and Sweden. The new structure that has been put in place is capable of handling significant volumes and makes Glitnir Markets an attractive partner and service provider for our customers.

EVA for the year was ISK 8,250 in 2006.

In December 2006 Glitnir Markets successfully managed the company's first large crossborder sale, Icelandair's IPO, which was substantially oversubscribed. In January 2007, Glitnir Markets managed the listing on the Oslo Stock Exchange of the Peruvian fish meal producer Copeinca, the first foreign fishing company to be listed on the Oslo Stock Exchange.

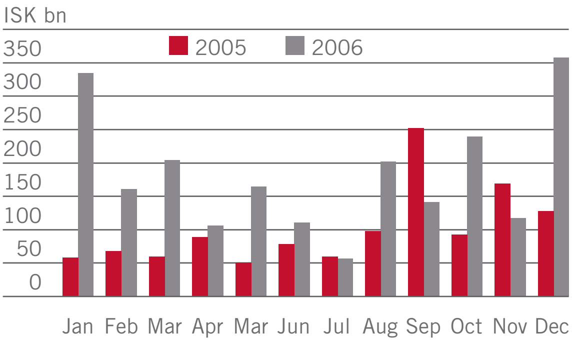
MARKETS REYKJAVIK

Markets Reykjavik offers full service brokerage in bonds, equities, foreign exchange and derivatives, as well as providing money market loans, financing securities and publishing market research. The principal customers of Markets Reykjavik are institutional investors, larger corporates and banks. These include both international and Icelandic customers.

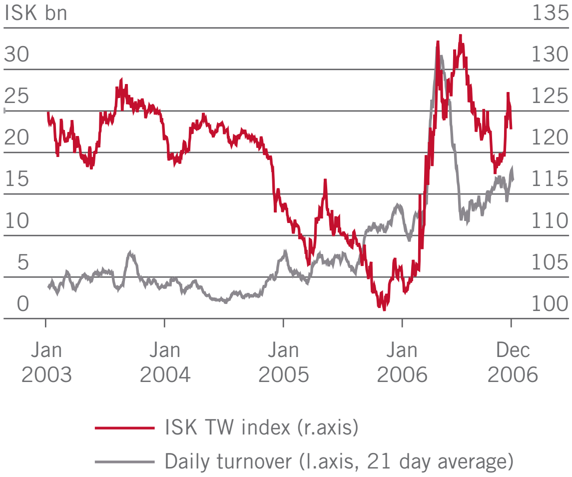
2006 saw continued growth in business volume, and revenues increased substantially across all areas. In a turbulent securities market both equity and bond desks managed to increase their market shares on the Icelandic Stock Market, ICEX, to 26.9% for bonds and 26.7% for equities, putting Glitnir Markets Reykjavik in second place in both areas.

Markets Reykjavik's pre-tax profit in 2006 was ISK 8,626 million. Net operating income was ISK 10,295 million and total operating costs were ISK 1,662 million, including all support function and other central costs.

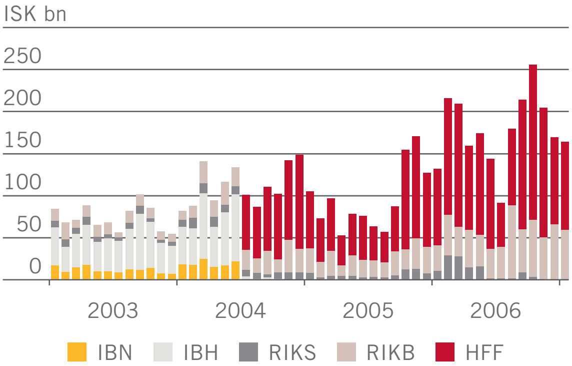
TRADING EQUITY VOLUME TRADED ON ICEX



DAILY TURNOVER IN THE FX INTERBERK MARKET AND THE ISK TRADE WEIGHTED INDEX



TURNOVER IN BENCHMARK ISSUES



THE ICELANDIC EQUITY MARKET

2006 was the fifth consecutive year of positive trends and growing volumes on OMX in Iceland. The ICEX-15 share index rose by 15.8%, following an average rise of 49% during the previous four years.

Equity trading volume increased by 82% to ISK2,192 billion, outpacing the previous year's record 67% growth to ISK1,202 billion.

THE ICELANDIC BOND MARKET

Bond trading volume in 2006 reached ISK 2,163 billion, almost twice the volume of the previous year. Bond trading volume has been growing steadily since 1998, with the exception of 2005, when there was a small reduction from 2004. The efficiency of the bond market has increased considerably with the introduction of general reforms and standardisations, which have attracted more investors, including foreign players, to the market. The market makers of major government benchmark issues account for most of the market turnover.

FOREIGN EXCHANGE MARKET

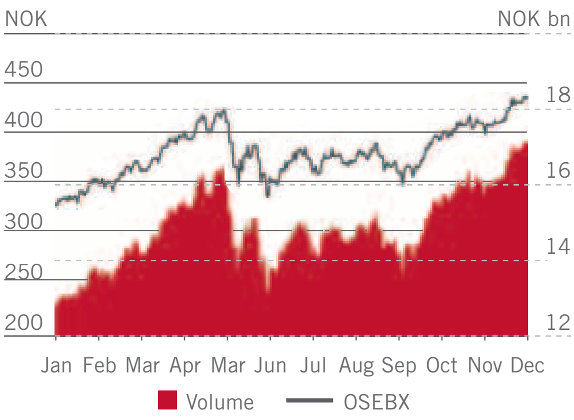
Glitnir's FX sales team performed well in a volatile currency market. The total volume of foreign exchange trading in the interbank market over the year amounted to ISK 4,394 billion, more than double the previous year's figure. Also, other channels for FX trading, such as Reuters Matching and direct FX brokering, grew rapidly last year. Increased interest of global investors, following a widening interest rate differential with the major currencies, has led to a deeper and more liquid foreign exchange market. Turnover in forward contracts and swaps increased significantly in 2006 from past years, and the FX market has become more mature and efficient in general.

MARKETS NORWAY

GLITNIR SECURITIES

Glitnir Securities is a licensed investment bank providing securities brokerage services, equity research and corporate finance advice. Through Glitnir Kapitalforvaltning, the firm also offers the investment community access to a broad selection of structured investment products from

OSEBX & VOLUME DEVELOPMENT IN 2006



first class independent suppliers in Norway and abroad. The company's current investor focus is medium-sized and large private clients and selected institutions. Glitnir Securities aims to become a leading investment bank in Norway.

Glitnir Securities grew considerably in 2006, with regards to both business volume and staff. During the second and third quarter of 2006, the company consolidated its management team by appointing a number of new officers.

The business activities of UNION Group subsidiary, UNION Corporate ASA, a niche-focused investment bank, are being merged with Glitnir Securities, and the entities will be fully integrated in the first quarter of 2007.

2006 has been a good year for Glitnir Securities in Norway, characterized by strong growth in terms of revenues, number of employees and areas of activity. During the year Glitnir Securities has consolidated its operations considerably. It strengthened its research and institutional brokerage functions, and set a new corporate finance department. This broadening of its activities base has contributed to a considerable increase in employee numbers, revenues and profits over 2005. Strong growth in the company's traditional core business, with a 70% rise in income from commissions, has also contributed to this positive development.

2006 was another record-breaking year for the Oslo Stock Exchange. OSEBX, the main index, increased by 32%. The Glitnir group had a total market share on the Oslo Stock Exchange of 5.67%, earning the group sixth place in terms of size.

Glitnir Securities and Glitnir Kapitalforvaltning were merged on 19 December 2006, and is currently in the process of merging with UNION Corporate. Pro-forma consolidated revenues for the companies in 2006 were NOK297.6 million (NOK178.7 million in 2005) while the pre-tax result was NOK89.6 million (NOK57.8 million in 2005).

Glitnir Marine Finance is a sister company of Glitnir Securities, but operates in cooperation with Glitnir Securities. The company, which is owned 50.1% by Glitnir and 49.9% by Cleaves Shipbroking Ltd., arranges markets and manages structured investment products within the shipping and offshore sector. In 2006 Glitnir Marine Finance had revenues of NOK 21.6 million and a pre-tax result of NOK 15.9 million. The company had no activity in 2005.

UNION GROUP

In early March 2006, Glitnir announced the acquisition of 50.1% of UNION Group. The transaction closed 3 May 2006. UNION's operations have been successfully integrated in Glitnir's markets activities in Norway from second quarter onwards.

At year-end 2006, UNION Group comprised:

- UNION Norsk Næringsmegling AS, Norway's largest and leading commercial real estate brokerage
- UNION Eiendomskapital AS, a fast-growing manager of commercial real estate funds and syndicates
- UNION Real Estate AS, an international real estate brokerage in its early phase

UNION is a good strategic match to Glitnir's other activities in Norway, and the acquisition of a 50.1% stake in the company further consolidates Glitnir's position in these areas.

YEAR IN PICTURE
In 2006 Glitnir listed Icelandair Group, the leading tourism and travel company in Iceland, on the Iceland Stock Exchange.

2006 was a record year for UNION, with very high activity in all three companies. UNION Norsk Næringsmegling AS' market share in Norway was approximately 20% with property turnover of approximately NOK 12 billion. UNION Eiendomskapital has NOK 6.8 billion in real estate assets under management (real estate fund and syndicates).

The property finance sector is showing good prospects, and, with a strong portfolio of ongoing projects in both UNION Norsk Næringsmegling AS and UNION Eiendomskapital AS, the group expects to continue to deliver strong results into 2007.

MARKETS SWEDEN

GLITNIR AB

Glitnir's acquisition of the Stockholm-based brokerage Fischer Partners Fondkommission AB was completed on 4 July 2006 and the company was consolidated into Glitnir's accounts from 1 July, taking the name Glitnir AB on 1 January 2007.

Supervised by the Swedish Financial Supervisory Authority, Glitnir AB is licensed to conduct commission trading in financial instruments.

Glitnir AB is a leading brokerage firm in electronic equities trading in the Nordic Region and is a member of the stock exchanges in Stockholm, Helsinki, Copenhagen, Oslo, Tallinn, Riga and of Eurex, the German derivatives exchange. Its customers are primarily institutions in the UK, USA and Sweden, together with active private individuals.

Despite pressure on prices during 2006, high volumes in the Scandinavian markets contributed to strong revenue growth. Glitnir AB's secondary trading market share in the Scandinavian markets increased slightly to 4.5%, (5.6% in Sweden, 3.9% in Norway, 3.2% in Finland and 3.5% in Denmark), making Glitnir AB the fifth largest brokerage house in the consolidated Nordic market during 2006. Together, the Glitnir companies comprise the fourth largest brokerage in the Nordic market.

The company produced pre-tax profits of SEK 35.2 million for the whole year, compared with SEK 35.6 million in 2005. Profit before loan losses was SEK 35.2 million, compared with SEK29.7 million in 2005, an increase of 8.4%.

Net operating income reached SEK 286.2 million compared to SEK 225.7 million in 2005, a rise of 27%. Operating expenses stood at SEK 251 million at 2006 year-end, a 15% increase over 2005's figure of SEK 196 million.

Glitnir AB maintains a constant focus on broadening its market presence and consolidating its market research department. Other areas of priority are business development and compliance.

The rebranding to Glitnir AB emphasises the group connection and will make the Glitnir brand better known in Sweden. Glitnir AB will move into modern and flexible new offices during late summer 2007.

CORPORATE BANKING

Corporate Banking is responsible for corporate credit and business origination, as well as fostering two of the Bank's niches; seafood and sustainable energy, while the third one – offshore supply vessels – is run out of Norway. Corporate Banking's four main units are: Asia & Americas region, North Europe region, UK & South Europe region and Leveraged Finance.

ISK m	2006	Q4 06	Q3 06	Q2 06	Q1 06
Net interest income	-374	-122	-66	-114	-72
Other operating income	8,189	3,538	1,430	723	2,498
Net operating income	7,815	3,416	1,364	609	2,426
Operating expenses	-1,686	-775	-305	-181	-425
Impairment losses	-25	62	-64	-5	-18
Profit before income tax	6,105	2,703	996	423	1,983
Economic value-added (EVA)	4,591	2,057			

ASIA & AMERICAS REGION

In 2006, Asia & Americas Region was responsible for conducting Glitnir's global development strategy in Asia and the Americas and supporting some of the Bank's Iceland based clients in their international efforts.

The division oversees the development of two of Glitnir's three global niche markets – namely seafood and renewable energy. The year 2006 saw the forming of new relationships, the deepening of cooperation with existing clients, and the diversification of the loan portfolio which is currently concentrated in the seafood industry. At year-end the portfolio totalled ISK 168 billion (USD 2.2 billion), approximately one third of which was exposure toward clients based in Americas and Asia and two thirds towards home market or cross boarder clients.

Early in 2007, the name Asia and Americas was changed to International Banking and consequently two thirds of the exposure was transferred to the European Banking unit of the Bank that will be responsible for handling cross border accounts.

USA

The U.S. is a key strategic market that supports Glitnir's seafood, renewable energy, off-shore vessel and home market customer strategies. In 2006, Glitnir structured and financed the management buyout of the American Seafoods Group and provided advisory services in the sale of F.W. Bryce to Nissui USA. These transactions marked significant steps for Glitnir as an international advisor and financer in the U.S. market.

Glitnir has announced that the Bank will open a new office in New York City in early 2007 to further strengthen its U.S. operations.

CANADA

Glitnir opened a new representative office in Halifax, Canada, in April 2006. Canada is one of the key markets in the global seafood industry and home to a large number of important clients. In 2006, major undertakings in Canada included the provision of mezzanine finance to Ocean Nutrition Canada and co-arranging the loan syndication for Cooke Aquaculture, which represents the Bank's first lead managing deal in North America.

Other important clients in Canada include companies such as Barry Group, Clearwater and Fishery Product International.

LATIN AMERICA

Latin America is one of the main sources for the world's seafood, and an important area for the Bank's main niche strategies. Glitnir has conducted business in Latin America since 2004, when the first loan was paid out to the Chilean salmon farmer Invertec. Since then, the Bank has selectively increased its operation in the continent, with focus on seafood and energy.

In December, Glitnir facilitated the USD 100 million private placement of Copeinca, one of Peru's largest fishmeal and fish oil producers. The company was subsequently listed on the Oslo stock exchange at the end of January 2007. The placement was a good example of how Glitnir can create value for its customers through innovative financial solutions.

CHINA

Glitnir established a foothold in the financial centre of one of the fastest growing economies in the world by opening a representative office in Shanghai in 2006. The primary mission of Glitnir's China operation is to support and enhance the Bank's position as a global player in its niche markets, by assisting international clients in entering China and operating in China and Chinese investment overseas.

During the year, Glitnir was involved in several strategic investments in China, including Bakkavör's minority acquisition of Creative Foods, a Chinese salad manufacturer. Glitnir also played a key role in the setup of a geothermal joint venture between Enex, an Iceland based energy company, and CGCO, a subsidiary of Sinopec, China's leading energy company. The joint venture was formed around the geothermal district heating project in the city of Xian Yang in Shaanxi Province. The project provides heating to approximately half a million people when fully developed.

NORTH EUROPE REGION

Glitnir Bank Luxembourg ("Glitnir Lux") is licensed for all forms of banking and investment activities. Its particular niche lies in providing specialist property financing solutions throughout the region, primarily within the residential and commercial property sectors. Established in the EU's largest private banking centre (and, incidentally, the world's second largest domicile for collective investment funds) the Bank specialises in providing international private banking and wealth management products and services. Our target customers are Nordic high net worth and affluent individuals and companies desiring a truly personalised investment solution to grow and protect their assets. Glitnir Lux operates local treasury and capital markets functions to support its proprietary and customers' business needs.

2006 saw Glitnir Bank Luxembourg's first full year of operations since incorporation in March 2005. The year has been a resounding success in terms of facilitating clients to realise their financial goals, profit generation, business alignment and strategic development. In February, the Bank moved to new premises, providing capacity to match its growth ambitions.

Inauguration of the new premises by Mr Luc Frieden, Luxembourg's Minister of Budget & Treasury

Luxembourg hosted the Group's first "Meet the CEOs" forum in March, which brought together international CEOs and top executives of the Group's corporate clients.

Glitnir Bank Luxembourg's balance sheet totals EUR 1.6 billion (2005: EUR 1,2 billion) EUR 1 billion of which comprises corporate loans within the Bank's niche seg-

Glitnir's CEO paints the eye of a Chinese lion, marking the beginning of Glitnir's development in China.

Gary Kasparov – one of a panel of distinguished speakers at "Meet the CEOs"

ments (2005: EUR 800 million). Equity is approximately EUR 80 million and the CAD ratio is a sound 11.6% (2005: 14.4%). The Bank's pre-tax profit for the full year is EUR 18 million, prior to general loan loss provision charges. As if 31 December there was 41 employee compared to 33 at year beginning.


Glitnir's Copenhagen office

Glitnir Luxembourg's assets and revenues continue to grow, driven by robust demand for loans within the Bank's core lending segments and backed by profitable and liquid property markets. As economies in the Nordic region continue to prosper and demand for property (as a well-established primary and alternative asset class) continues, the Bank sees many exciting investment opportunities for its corporate and private banking customers.

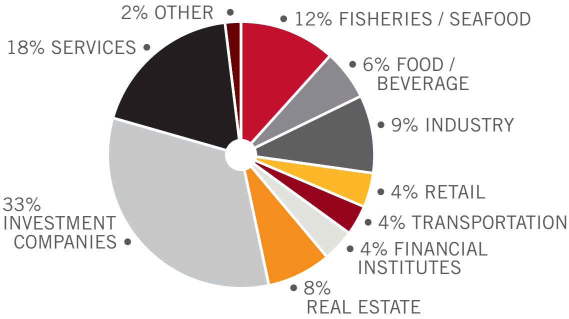
A Regional management board, comprising executives from the Luxembourg and Copenhagen offices, oversees strategic business development in the North Europe Region. From its prestigious location in the heart of Copenhagen, Glitnir's branch specialises in providing corporate finance, leveraged finance, property finance and customer-centric financial solutions to our niche seafood sector. The year 2007 will place the Copenhagen branch at the forefront of our development drive with all the opportunities this will afford our clients.

UK & SOUTH EUROPE REGION

Glitnir's London branch has grown significantly in 2006 as it has expanded the business management, funding and loan syndication capabilities. Primary activities in addition to the aforementioned are Corporate Finance (part of Investment Banking), Debt Finance and Leveraged Finance. The London branch is primarily responsible for developing business in the UK and South Europe although it executes transactions in other geographic areas as well.

A cornerstone transaction in the UK was the House of Fraser acquisition of GBP 603 million, where Glitnir was M&A Advisor to a consortium of equity investors led by Baugur, and Mandated Lead Arranger & Bookrun-

**PORTFOLIO BY SECTOR (ISK 450 bn)
AT YEAR END 2006**



ner on the financing. Other key transactions were the Eimskip acquisition in Corby Chilled as a stake in Innovate and the expansion of Thomas Food Group in partnership with Food Investment Group with the add-on acquisition of Giles Food.

The United Kingdom continues to be the largest country exposure for Glitnir outside its home markets in Iceland and Norway with around ISK 100 billion in exposure. The majority of the exposure is to the Consumer Goods sector which includes companies in food including seafood and the retail sector. With extensive expertise in the food sector Glitnir London has been nominated as the Centre of Excellence. The bank puts emphasis on the continued development of the UK businesses and has built up a team of 35 experts from strong banking and industry backgrounds to support further growth.

LEVERAGED FINANCE

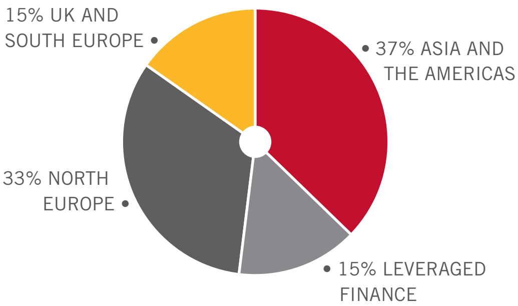
Leveraged Finance continued to perform very well in 2006, producing a pre-tax profit of ISK 2.4 billion.

The market environment in Europe for leveraged buyouts was very buoyant throughout the year, with a record volume of investments in new transactions and in the refinancing of older transactions. This high level of activities was driven by private equity funds having raised record amount of new capital globally and more and more money being invested in structured debt vehicles that focus on investing in leveraged loans. Acquisition prices and the level of leveragjng continued to rise in 2006, while credit structures continued to weaken and the pricing of leveraged senior debt declined. It is clear that senior debt investors are being asked to take on considerably more risk than before, while they have to accept diminishing return on their investments. Despite the deteriorating credit quality of leveraged loans in general, default rates remain at an all time low.

Glitnir Leveraged Finance believes that the current market conditions are unsustainable in the medium term and as a result the Bank has been very selective in which transactions to invest. We will continue to invest in leveraged buy-outs in 2007 on a selective basis, but will not compromise on the quality of our investments.

Glitnir continued to build its business activities in Integrated Finance in the UK and the Nordic region in 2006. Integrated Finance provides management teams and businesses seeking acquisition finance, development capital or partial exit, with a single source of funding, using a combination of debt and equity. This flexible funding solution makes the execution of transactions

**PORTFOLIO BY UNITS AT YEAR-END 2006
(ISK 450 bn)**



both simple and cost effective for small and medium sized businesses. Furthermore, Integrated Finance enables management to gain or maintain controlling stakes in their businesses, without the pressure of an early exit.

Among Integrated Finance transactions completed in 2006 was the expansion of Thomas Food Group in partnership with Food Investment Group with the add-on acquisition of Giles Food. The combined business was subsequently merged into Adelie Food Holdings, which was lead by Duke Street Capital. In the Nordic region Glitnir helped the management of Pelika.net in Finland to acquire the business along with co-investors and organised the acquisition of Steni AS in Norway as an Integrated Finance transaction.

We expect increasing level of activities in Integrated Finance transactions in 2007 and have recruited new members to the team to facilitate that.

INVESTMENT BANKING

Investment Banking operates three Corporate Finance units, in Reykjavík, London and Copenhagen – as well as the Equity Investments unit in Reykjavík. The year was a transformational year for investment banking operations in Glitnir, with record fees being generated and landmark deals being completed.

EQUITY INVESTMENTS

Glitnir Equity Investments offers customized high yield solutions for key customers of the Bank, as well as customers within the Bank's defined niche markets. The department operates in close co-operation with other units within the Bank, primarily Corporate Finance and Corporate Banking. The primary role of Glitnir Equity Investments is to provide underwriting and guarantees for Glitnir's customers, to facilitate corporate deals and to provide customized financial solutions through high yield bonds, mezzanine financing, convertible instruments, preferred shares and ordinary equity. Examples of successful projects are:

- The underwriting of the Icelandair Group IPO in late 2006
- The underwriting of Tryggingamidstödin equity offering in late 2006
- Guarantees for American Seafoods and FL Group
- Financing of ONC in conjunction with leading Canadian investors
- Close co-operation with Glitnir Luxembourg regarding real estate projects in Europe

Glitnir Equity Investments enters into strategic investments either on its own, or with the Bank's customers to pave the way into new markets; either specific industry sectors or regional markets. For example:

- Geyser Green Energy, an investment vehicle with FL Group and VGK designed for sustainable energy projects
- Joint venture with Bakkavor Asia to facilitate Bakkavor s entry in the Asian market

CORPORATE FINANCE REYKJAVÍK

2006 was a record year for Glitnir Corporate Finance in Reykjavik. Revenues increased to ISK 2 billion as landmark transactions were successfully handled by the division. Glitnir Corporate Finance currently has fourteen employees in Reykjavik up from ten at the end of 2005.

The prime object of Glitnir's Corporate Finance is to assist or advise their clients in their attempt to acquire, dispose, or merge their assets. Further, to assist and advise on fund raising efforts whether by debt or equity or a mix thereof.

The year was kicked off by the mandate to sell Olíufélagid Esso, the leading petroleum distributor in Iceland. The company was the 12th largest Icelandic company at the time, measured by sales volume. The company was sold to Bílanaust in January 2006.

A second important deal for Corporate Finance was the sale of Sena to Dagsbrún in the beginning of the year. Sena distributes music, movies, and video games, operates three movie theatres, and is the largest domestic producer of music.

TM's share offer in November was managed and underwritten by Glitnir. The share offer was aimed at shareholders and institutional investors.

A milestone was passed in the history of Glitnir Corporate finance with the share offer of Icelandair in late 2006. The deal confirmed Glitnir Corporate Finance ability to deliver complicated transactions very effectively and secured Glitnir's strong position within the Icelandic market for corporate finance.

CORPORATE FINANCE LONDON

The Corporate Finance team in London had a very strong year. It started with a role as sole M&A advisers on Eimskip's acquisition of a 55% holding in Innovate Group, one of the fastest-growing food distribution companies in the UK. This was followed by the GBP 28 million acquisition of Corby Chilled, again for Eimskip, a deal which was completed in September 2006. The London team also co-operated well in cross-border mandates, playing a large role in the Copeinca listing on the Oslo Stock

The first minutes of trading Icelandair shares on the Icelandic Stock Exchange

Exchange, and also executed the F.W.Bryce sale to Nissui in the US in co-operation with the Glitnir Seafood Team. One of the key strategic changes in the year was to move the team's focus onto larger deals, while continuing to execute smaller ones and this transition was executed successfully when the team was mandated as joint M&A adviser to Baugur on the acquisition of House of Fraser, a transaction which was completed in October. The team has grown slightly, based on volume of business, with 12 members expected to be in place by early 2007. The pipeline of business continues to be strong and the prospects for the team in 2007 are excellent.

CORPORATE FINANCE COPENHAGEN

Glitnir established a local Corporate Finance entity in Copenhagen in March 2006 to service Icelandic investors in their pursuit of Danish investment opportunities. The Danish Corporate Finance entity will also utilise Glitnir's strong position to obtain lead advisory roles in connection with mergers and acquisitions within real estate and the Bank's key niche sectors such as seafood and renewable energy. The Danish Corporate Finance activities are developing as expected and the pipeline and prospects for 2007 are positive.

TREASURY

Treasury forms a part of the Finance & Risk Management Division and comprises two departments, International Funding and Interbank Markets. International Funding is responsible for long-term funding in foreign currencies, the Bank's funding and liquidity policy, liquidity bond portfolio and relationship management towards financial institutions. Interbank Markets is responsible for interest rate management, short-term funding, long-term funding in ISK and proprietary trading in foreign exchange and interest rates.

ISK m	2006	Q4 06	Q3 06	Q2 06	Q1 06
Net interest income	2,028	-1,436	551	2,438	475
Other operating income	2,369	826	794	638	111
Net operating income	4,397	-610	1,345	3,076	586
Operating expenses	-109	104	-47	-88	-78
Profit before income tax	4,288	-506	1,298	2,988	508
Economic value-added (EVA)	2,706	-1,029	968	2,404	363

FUNDING

In Iceland, the Bank's main source of funding is customer deposits. Other funding sources in Iceland are driven by off balance sheet activities and issuance of structured notes. In the year 2006 the Bank launched one public bond issue for itself in ISK – an ISK 10 billion, 2 year fixed rate note. This issue was very succsessful and was in fact the first ISK denominated fixed rate benchmark issue by a Icelandic financial institution.

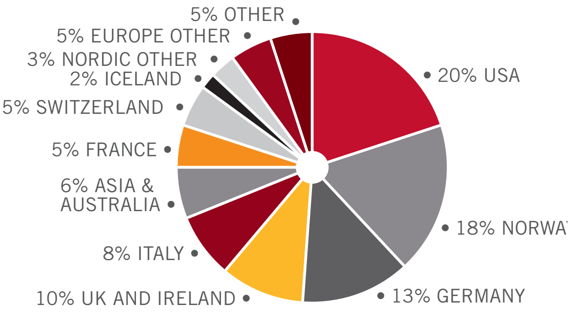
In Norway, the funding of the Bank's subsidiaries both in the form of deposits and bond issues. In the case of Glitnir Bank ASA, deposits are the main funding source whereas deposits represent approximately one third of BNbank's funding. BNbank is an active issuer of bonds in the Norwegian market and taps the syndicated loan market regularly. In 2006 BNbank raised approximately NOK 9.1 billion in long-term funding in the Norwegian bond market and EUR 225 million through a dual-tranche syndicated facility.

The vast majority of the Bank's assets are denominated in foreign currencies. Consequently, in order to ensure that these assets are fully currency-hedged, long-term borrowings are conducted largely through issues of bonds in international markets, with the Bank's EUR 15 billion Global Medium Term Note Programme (GMTN) serving as the most significant funding vehicle. As of year-end 2006, the amount outstanding under the GMTN was EUR 8.6 billion. In 2006 the Bank set up a new USD 5 billion US MTN (144A) programme which greatly facilitates access to as broad a group of US investors as possible. In the space of only 18 months the US market has grown to be the most important source of long-term funding for the Bank.

As ever, great emphasis was placed on enlarging and broadening the Bank's investor base and introducing new funding sources. Widening the geographical distribution of investors, targeting different types of investors and an appropriately well-spread redemption profile reduces the Bank's re-financing risk. During the fourth quarter of 2006 the Bank introduced two new funding sources in order to lessen the Bank's reliance on senior unsecured funding. In December, the Bank signed a ISK 100 billion Covered Bond Programme which has the Bank's Icelandic mortgage portfolio as the underlying asset. In connection with this transaction the Bank also signed an agreement with Citigroup under which Citigroup undertakes to buy Glitnir's covered bonds for up to EUR

YEAR IN PICTURE
In March Islandsbanki changed it name to Glitnir and began an energetic rebranding process.

FUNDING COUNTRY DIVERSIFICATION



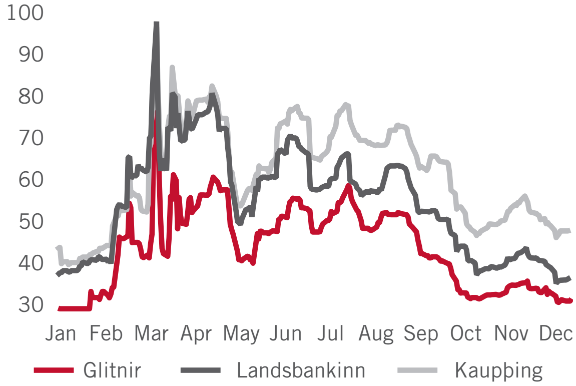
550 million at any time over the next 5 years. This secures Glitnir with additional liquidity for that amount. In October,the Bank started to accept wholesale deposits through its London branch and as of year-end that part of the deposit base amounts to more than EUR 600 million.

In spite of volatile and difficult market conditions for much of 2006, the Bank's funding operations had a successful year. The parent company issued approximately EUR 4.9 billion in 50 transactions, making 2006 the second most extensive funding year in the Bank's history after 2005. Due to volatile market conditions strengthening the bank's capitalisation further and securing sufficient liquidity to cover all of 2007 debt were the two key priorities during the year. The highlights of the year were the bank's two capital transactions in the US: USD 500 million Lower Tier II issued in June and the USD 250 million hybrid Tier 1 perpetual notes issued in September. In November the Bank signed its largest syndicated term loan to date of EUR 550 million.

The funding operations for the parent company in 2006 got off to a good start and the Bank had raised EUR 1.4 billion when the first, somewhat febrile, allegations of weaknesses in Iceland's banking sector were made. Negative sentiment towards Iceland and its banks was very considerably fuelled by the arrival of foreign speculators buying substantial sums of ISK in late 2005, and their equally abrupt departure in February 2006 when Fitch announced that it was placing the Republic of Iceland's rating on negative outlook, precipitating a sharp depreciation of ISK. This, combined with heavy speculation in the credit default swap (CDS) market in Icelandic banks' names engendered considerable, though short-lived, disturbance in the Bank's funding costs. At the height of this episode, Glitnir's 5-year CDS level traded at above 80 basis points, where only 5 months before the level was nearer the low 20s.

In March, the Bank became the first Icelandic bank to receive a credit rating from S&P and with that became a solid single-A rated bank by all the three rating agencies. During the second quarter the bank maintained a low profile in the capital markets but following the strong Q2 results from all the major Icelandic banks there was a notable change in market sentiment. The Bank's CDS levels gradually reduced, reaching levels in the mid-30s by year-end. During that time the Bank focused on building up liquidity and securing the Bank's capital ratios. The fourth quarter saw another EUR 1.6 billion raised in much more benign circumstances. Despite the negative sentiment and criticism from some parts of the international press on the Icelandic financial community, S&P, Fitch and Moody's all confirmed their ratings on the Bank in 2006 with stable outlooks.

DEVELOPMENT OF 5 YEAR CREDIT DEFAULT SWAPS DURING 2006



INTERBANK MARKETS

Interbank Markets is responsible for the Bank's market making activities in the Icelandic foreign exchange and interest rate markets. Interbank Markets manages the foreign exchange risk and interest rate risk of the parent company based on limits set out by the Bank's Market Risk Committee. Interbank Markets is also responsible for part of the banks funding activities in ISK.

2006 was characterised by the effects of the relatively recent integration of Icelandic financial markets into the global financial world. As one of the favourite destinations of carry traders worldwide due to high and rising short-term rates, Iceland was hit by a wave of negative sentiment and critical analysis when Fitch placed the Republic of Iceland's rating on negative outlook in February. That caused the ISK and the stock market to plunge. This provided a litmus test for the resilience of the domestic financial sector, which it passed with flying colours. Subsequently, faith in the Icelandic financial system and the ISK returned, lending support to the ISK. The depth of the FX market increased dramatically as turnover multiplied, largely due to the activity of foreign investors which sought to benefit from the double-digit short rates. ISK eurobond issuance, which had started in Q3 of 2005, resumed following a halt during the turbulent Q2 of last year and net issuance amounted to roughly 1/4 of GDP at year-end.

Deal volumes in foreign exchange and interest rate products in ISK increased dramatically from the previous year, both as measured in number of deals and amounts traded.


SUCCESS IS A JOURNEY

NICHES

SEAFOOD

Calculated by consumption, seafood is the world's fastest growing protein. But, as yet, the seafood industry itself remains fragmented, and industry restructuring and consolidations are expected. For Glitnir, with broad experience from a century of service to the fishing industry, this situation presents great opportunities.

Increasingly vocal health concerns, a growing world population and improved purchasing power, particularly in large seafood markets like China and Russia, have lead to a steady increase in the demand for healthy protein over the past years.

As the world's natural seafood stocks are already considered to be fully exploited, the growing seafood demand must be met by aquaculture. In 2006, the global seafood production was estimated at 145 million metric tons, to a value of around USD145 billion. Aquaculture accounts for approx. 32 percent of this.

But the profitability of the seafood industry is lagging behind when compared with other protein categories. For example, the world's 10 largest meat companies produce more than quadruple the revenues of the 10 biggest seafood companies. To improve profitability, the seafood industry is expected to continue to consolidate and rationalise.

This is the backdrop for Glitnir's broad offer of financial services to the seafood industry. Originally founded in

1904 with an explicit goal to help motorise and modernise the Icelandic fishing fleet, Glitnir builds on more than a century of experience and expertise from seafood-related industries. The bank's success in the global seafood industry can be attributed to a dedicated, diversified team of industry experts and experienced bankers with a sole focus on identifying industry opportunities and helping clients achieve their growth, profitability and consolidation goals.

Glitnir's seafood team continually researches markets, sub-industries and individual target companies. On Glitnir's seafood website, www.glitnir.is/seafood, clients can study the latest industry reports, as well as an index of 30 of the largest listed seafood companies in Asia, Europe and the Americas.

Glitnir also invites more than 100 seafood CEOs to its annual Ocean of Opportunities conference. This unique venue, which in 2006 took place in Halifax, Canada, focuses on financial aspects of the global seafood industry, such as seafood investments, target opportunities and future trends.

Next Ocean of Opportunities will take place in Shanghai, China, in 4Q 2007. Asia continues to be the most important producer of seafood, with approx. 70 percent of the global output. Asian seafood consumption is rising, with a large, emerging Chinese middle class contributing to a very strong market.

Glitnir's seafood team had a successful year in 2006. The bank led and supported many industry transformations and continued to expand its global portfolio of seafood companies. Through its new offices in North America and China, Glitnir was able to offer its clients several new and innovative financial solutions.

In early 2006 Glitnir helped structure and implement a management buyout of Seattle-based American Seafoods Group, and in April Glitnir became the first foreign bank in North America to act as an advisor to a U.S. seafood company via a structured auction process. The Icelandic,

London and Nordic teams also contributed to the success of various credit and advisory related activities in the seafood sector.

In December 2006, Glitnir Securities in Oslo, in conjunction with London Corporate Finance and Glitnir's seafood team, first raised USD100 million for the Peruvian fishmeal producer Copeinca through a private placement, and then managed the listing of the company on the Oslo Stock Exchange in January 2007.

SUSTAINABLE ENERGY

The huge energy requirements of increasingly affluent global populations as well as growing concern over environmental and climate changes have resulted in a heightened focus on sustainable and renewable sources of energy. Iceland's innate geothermal potential has enabled the country to assume global leadership in the exploitation of geothermal energy and forms the basis for Glitnir's sustainable energy business proposition.

While Iceland has the second largest electricity consumption per capita in the world, it is also one of the world's wealthiest nations. The availability of geothermal energy has to a large degree enabled this economic growth, both by providing the island's population with affordable energy and by attracting energy intensive industries, such as aluminium, to consider Iceland as base for their operations.

Although it is not always feasible or cost effective to use geothermal energy to produce electricity, geothermal resources can still be applied as a direct source, e.g. in district heating, and to heat swimming pools and greenhouses. Today, 85 percent of all Icelandic homes are heated by geothermal district heating and 18 percent of the country's total electricity needs are met by geothermal energy.

Electricity production from geothermal energy sources has great potential in nearly all major world markets, with big projects currently under way e.g. in the United States, Europe, China and Latin America. Geothermal energy for district heating is considered to have a particularly high potential for helping countries reach renewable energy targets, while simultaneously improving people's lives by replacing old, outdated and polluting coal or oil fuelled heating systems with clean, green energy.

Over the years, Iceland's huge geothermal resources have enabled Icelandic companies to develop globally recognised geothermal expertise and experience. This expertise is now being put to work in geothermal electricity production and district heating projects around the world.

Glitnir has served the Icelandic energy industry for decades, and the bank has devoted a dedicated sustainable energy team to focus exclusively on this industry. The team comprises corporate financiers, industry analysts, credit officers and dealers, who represent extensive experience from both banking and energy industries and are truly at home in both worlds. The bank offers industry-specific financial services, ranging from convenient financing, tailored financial risk consulting and equity raising, to locating appropriate industry and technology partners.

While geothermal remains Glitnir's main focus, the bank also considers projects concerning other renewable energy resources, where the bank's experience can provide

value to customers. By teaming up the bank's focused sustainable energy team with its international operations, Glitnir is able to service the sector's financial needs on a global basis and across of all functional divisions.

A good example of this is Glitnir's financial contribution to the development of the geothermal city Xian Yang, in Central West China. There an Icelandic company worked with local partners in a joint venture operation to utilize geothermal energy to heat the city. While the first step of the project involves district heating for parts of the city, further plans involve the development of a new part of the city heated solely by geothermal energy. The overall plan is to provide heating for 500,000 people, making it the largest geothermal district heating system world wide. With the support of Glitnir's office in Shanghai, the bank has played an instrumental part in getting this project off the ground.

OFF SHORE SUPPLY VESSELS

Glitnir aims to provide the sizable Norwegian offshore supply industry with bespoke financial solutions. As the North Sea market is in a mature phase, Glitnir aims to support the industry's further growth internationally.

The offshore supply industry services the needs of offshore oil and gas installations, e.g. rig moves, transportation of supplies to and from the installations and other supportive functions.

Since petroleum exploration and production began in the North Sea some 40 years ago, the region has represented some of the world's harshest conditions for offshore oil and gas activities. To be able to operate in such a demanding environment, Norwegian industry has developed expertise and innovative technology, services and solutions that are now increasingly enabling offshore oil and gas extraction in other challenging locations worldwide.

As the international demand for large and highly specialized offshore supply vessels increases, Norwegian shipowners are expanding their global operations and investing in new tonnage. Current demand hotspots include West Africa, East Asia, Brazil, India, the Mexican Gulf, and locations in the Caspian Sea, while the Barents Sea and Russia's eastern shelf are considered upcoming markets.

Glitnir aims to be a globally leading provider of financial services to the offshore supply industry. The bank is building this position through a dedicated staff of financial and offshore supply experts with long experience and intimate knowledge of the industry's expectations and needs.

Glitnir focuses mainly on state-of-the-art vessels in three offshore supply segments; platform supply vessels, anchor handling tug vessels and multi-purpose supply vessels. The bank offers industry-specific financial services along the entire value chain, ranging from traditional financing to advice on financial risk, on finding industrial partners, raising equity, buying or selling companies, and stock exchange listing. The financing solutions include long-term ship financing through senior and mezzanine loan facilities.

The core area for Norway's offshore supply industry is North-West Nor-

Norwegian off shore supply vessel Bourbon Orca. Photo: www.valderhaug.no

way, which is also one of Glitnir's main bases in Norway. Glitnir Bank ASA's headquarters in Ålesund serves as the hub for Glitnir's initiatives in the international offshore supply segment, while its Oslo office focuses on offshore activities in Glitnir's general shipping portfolio.

Glitnir Bank also has an office in the small city of Fosnavåg on Norway's western coast. 100 out of the approximately 400 offshore supply vessels under Norwegian control worldwide are operated by shipping companies located in Fosnavåg, earning Fosnavåg the nickname "Offshore Supply Capital of the World". 3500 of Fosnavåg's 8500 inhabitants are employed in the offshore supply industry, a vivid example of this industry's pivotal importance in some of Norway's coastal regions, where petroleum related industry has increasingly replaced fishery as the financial backbone.

The Glitnir system offers offshore supply clients a complete range of financial services, where Glitnir Bank ASA provides loan capital, while Glitnir Securities/Glitnir Marine Finance offer corporate services related to sale and purchase, share and bond issues, IPOs etc. The Volstad transaction, which was closed in December 2006, exemplifies Glitnir's ability to provide one-stop shopping for offshore supply clients:

Glitnir assisted Ålesund-based Volstad Marine, owner and operator of subsea and seismic vessels, in securing equity from private investors as partial financing of two high specification offshore vessels. Glitnir also provided the debt financing for the ships. The vessels are under construction at Fosen Yard in Mid-Norway, with delivery scheduled for 2007 and 2008. The offer was made through Glitnir Securities in cooperation with Glitnir Bank ASA in Ålesund. Glitnir completed the financing within a period of 24 hours, with considerable oversubscription.

TALENT MANAGEMENT

NEW STRUCTURE

Glitnir's rapid growth has called for a complete revitalization of human resource issues. In order to provide the appropriate support for the organizational units and to simultaneously implement the proper talent management strategy to meet further growth, we have created a special Talent Management unit within Corporate Development. We have also placed separate talent managers within the individual operating units in order to bring the talent function closer to the business.

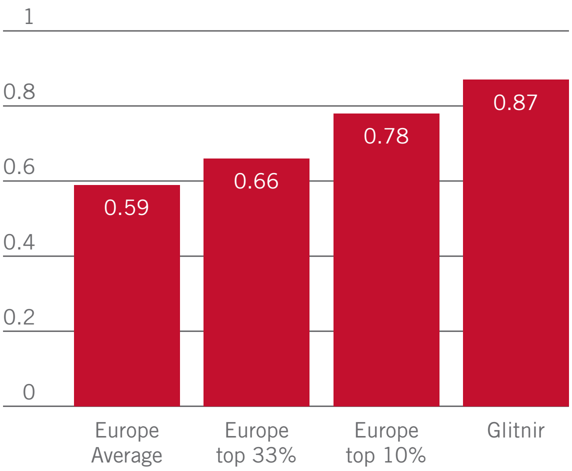
Glitnir's current success is a direct result of the Bank's historically excellent job of recruiting, managing and developing its talent. As our focus and growth outside of Iceland have evolved, however, it has become apparent that we need to change the way the Bank treats its human capital. With the establishment of a special Talent Management team, the senior management of the Bank is underlining the importance of developing its human capital further.

The purpose of the new talent management team is to identify, develop, and train our key leadership talent; to implement Glitnir's values; to encourage collaboration between units and regions; to organize talent data to support better decision making; to organize and facilitate benchmark events; and to develop an even better compensation structure to support the Bank's overall goals.

OUTSTANDING RESULTS FROM THE WORKPLACE AUDIT

Job satisfaction and commitment are highly emphasised

TRI*M COMMITTMENT INDEX



at Glitnir. It is the view of the Bank's management that job satisfaction is the foundation of good service, customer satisfaction and a positive image.

In a workplace audit conducted by Gallup in November, job satisfaction and commitment registered as strength at Glitnir for the eighth year in a row. Glitnir has the highest score of Icelandic companies in employee satisfaction and commitment. According to Gallup's benchmark, the commitment of Glitnir's employees is within the top 5% of companies in Europe as can be seen in picture 1. TheTRI*M benchmark is based on over 4 million answers from over 400 companies world wide.

Statements that register as strengths are likely to have a motivating impact on employee performance. The workplace audit surveys employees' attitudes towards various aspects of their working environment and the company's management.

The workplace audit is a robust tool for predicting employee turnover, customer satisfaction, and profitability. Glitnir's talent management team is proud that the work environment within the Bank is supporting its strong profitability.

In the course of the past year, 152 new employees joined Glitnir in Iceland and close to thirty worldwide. Nearly all the new recruits have university degrees, as the rapid development in the financial market has increased the need for university-level training in addition to industry knowledge and experience. As the Bank's international expansion continues, a greater emphasis is being placed on language skills.

TRAINING AND EDUCATION

Glitnir's management believes that the continuing education and devel-

YEAR IN PICTURE

Over 500 Glitnir employees ran the Glitnir Reykjavík Marathon in August, donating more than ISK 22 million to 55 charities.

opment of its staff is a key factor in securing its competitive position. Accordingly, our employees have access to an extensive training program.

In 2006 the Bank organized a number of in-house courses as well as conference courses outside the Bank, both in Iceland and abroad. For example, in 2005 and 2006 all of the employees working in Retail Banking completed a 40-hour course based on the Dale Carnegie training method designed specifically to meet their needs. Also, all employees attend three hours of value training where they set personal goals on how they can live the values to a greater extent.

Employees have the option of applying for grants to pursue studies concurrently with their work; numerous employees take advantage of this option every year.

To ensure the quality of training and education the Bank uses follow-up polls and performance measurements consistently.

To ensure that we are leveraging our internal knowledge to the maximum, Glitnir has held best practice sessions among employees from all of our locations, in Iceland and elsewhere. We have improved the manner in which these sessions are conducted, and are seeing good results.

Glitnir offers these training opportunities to its employees to drive a high performance culture and ensure alignment of individual objectives to the Bank's priorities and values. Our ultimate goal is to enable people at all levels to perform to their highest potential, thereby enabling Glitnir to achieve its strategic objectives.

CORPORATE RESPONSIBILITY

Glitnir aims to be proactive participant in society, not only in its business activities, but also when it comes to our employees, environmental awareness and philanthropic involvement. We acknowledge our corporate responsibility in all our markets, whether in our home markets or at our international branches and offices. Glitnir's responsibility is not only to meet with laws and regulations but to go further, employ ethics and environmental awareness in our daily operations and advance towards sustainability. In order to build value for our business amongst our stakeholders it is important to incorporate corporate responsibility into our business practices.

Glitnir has been developing its corporate responsibility policy and this year a separate report is published on Glitnir's social and environmental responsibilities. We hope that you will take time to read Glitnir's ambitions and commitments to our society and environment.

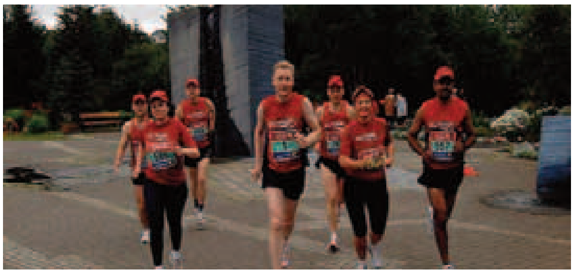
In 2006 the bank supported numerous noteworthy projects in cultural, educational and humanitarian initiatives through Glitnir's Cultural Fund. Allocations to the fund are decided by shareholders at the Annual General Meeting and last year a total of ISK 150 million was awarded to a variety of projects. Glitnir's increased activities and global expansion mean that the relevance of the Cultural Fund is constantly extending. It is therefore the fund's policy to initiate projects in all of Glitnir's markets in the coming years.

Glitnir is among the main sponsors of the Icelandic Association for Search and Rescue (ICE-SAR). The bank's support will further enable ICE-SAR to strengthen its important search and rescue activities.

The Icelandic Opera and Glitnir have been in partnership since 2005. The Opera offers music students an aspiring course in opera performance sponsored by the bank.

Glitnir was the main sponsor of the Oslo Marathon in 2006 where a record 3000 participants registered. Nearly 100 of the runners were Glitnir employees, family members and associates.

Seventeen outstanding young musicians have received support from Glitnir since 2004. In December a great musical feast took place when the recipients performed at Glitnir's Christmas Concerts. In 2006 Glitnir awarded grants to seven young musicians.



More than 500 Glitnir employees participated in the 2006 Glitnir Reykjavík Marathon. Each employee got the opportunity to run for a charity of their choice and the bank paid ISK 3,000 for every kilometre run for the cause. A total of ISK 22 million was donated to 55 charities.

Glitnir's Cultural Fund places great emphasis on education and every year the fund supports several excellent students in their studies.

At the beginning of 2006 Glitnir donated ISK 40 million to the Icelandic Cancer Organisation. The donation was used to purchase a digital breast cancer search tool.

Glitnir's Cultural Fund has from the beginning provided the Jónas Hallgrímsson award, granted on the Day of Icelandic. The award, granted for the 11th time in 2006, went to Njörður P. Njarðvík, writer, translator and lecturer, for his works for the good of the Icelandic language.

Glitnir is the primary sponsor of the Special Olympics Iceland, a project for athletes with learning difficulties. These cheerful participants took part in the Special Olympics European Games in Rome 2006.

In 2006 Glitnir sponsored Icelandic and Norwegian students of Chinese culture and technology. The support was earmarked for a study excursion to Xianyang, in China to visit Enex, China's geothermal plants and learn about the region's development of geothermal energy sources.

CONSOLIDATED ANNUAL ACCOUNTS 2006

Endorsement by the Board of Directors and the CEO

The profit from the Bank's operations for the year 2006 amounted to ISK 38,231 million, which corresponds to 39.4% return on equity. The Board of Directors proposes to pay a dividend of ISK 0.66 per share or ISK 9,415 million in the year 2007, and the remaining profit be allocated as indicated in the financial statements. Equity, according to the consolidated balance sheet, amounted to ISK 146,119 million at year end. The Bank's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 15.0%. Under Icelandic law the minimum requirement is 8.0%.

The Bank's total assets amounted to ISK 2,246,339 million at year end. Furthermore, the Bank held ISK 490,321 million under management for its clients.

Outstanding number of shares was 14,161 million at the year end and was increased by 1,130 million during the year. In January 2006 the Bank sold 1,000 million new shares at ISK 18.60 per share. Shareholders had the option to receive up to half of their dividend for the year 2005 in the form of shares at ISK 18.60 per share, resulting in an issue of 130 million new shares.

In March, the Bank changed its name from Íslandsbanki hf. to Glitnir banki hf. and at the same time adopted a new logo and appearance. The Bank's subsidiaries and offices in five countries also operate under the Glitnir brand since the adoption of the new name.

Late 2005 the Bank acquired all the shares in the Norwegian securities brokerage firm Norse Securities. The effective date of the transaction was 1 January 2006. Consequently, from that date Norse (now Glitnir Securities) is included in the consolidated financial statements of the Bank.

In the first quarter of the year, Glitnir Banki hf. acquired 50.1% share in the Norwegian brokerage firm Union group. Union group is consolidated in the financial statements from 1 January 2006.

At the end of March, the Bank increased its share in Kreditkort hf. (Mastercard) to 55%. In July formal approval from authorities was received and Kreditkort hf. is consolidated from 1 July 2006.

In May the Bank acquired all the shares in the Swedish brokerage firm Fischer Partners Fondkommission AB (Now Glitnir AB). The transaction was finalised on 4 July 2006 and the firm is consolidated from 1 July 2006.

At 31 December 2006 the Bank's shareholders numbered 11,323 as compared to 10,252 at the beginning of the year. Two shareholders owned more than 10.0% of the shares in the Bank. FL Group hf. and related parties owned 30.4% and Milestone ehf. and related parties owned 20.8%.

The Board of Directors and the CEO of Glitnir Banki hf. hereby confirm the Bank's consolidated financial statements for the year 2006 by means of their signatures.

Reykjavík, 29 January 2007.

Board of Directors:

Chief Executive Officer:

Independent Auditors' Report

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF GLITNIR BANKI HF.

We have audited the consolidated accompanying financial statements of Glitnir banki hf and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. Other auditors, whose unqualified report was dated 31 January 2006, audited the consolidated financial statements as of 31 December 2005.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 29 January 2007.
PricewaterhouseCoopers hf.

Sigurður B. Arnþórsson
Kristinn F. Kristinsson

Consolidated Income Statement for the year 2006

	Notes	2006	2005
Interest income		119,115	61,526
Interest expenses		(82,031)	(39,175)
Net interest income	39	37,084	22,351
Net fee and commission income	40	26,459	8,773
Net gains on financial assets and financial liabilities held for trading	41	5,999	3,993
Net gains on financial assets designated at fair value through profit or loss	42	2,097	491
Realised gains on financial assets available-for-sale		0	181
Fair value adjustments in hedge accounting	9	(185)	(59)
Net foreign exchange gains (losses)	4	581	(179)
Net insurance premium		0	229
Dividend income		11	0
Other net operating income		555	631
Net operating income		72,601	36,411
Administrative expenses	43-47	(27,301)	(15,731)
Impairment losses	28,48	(4,759)	(2,205)
Share of profit of associates	3,61	1,470	1,262
Net gains on non-current assets classified as held for sale	49	4,244	3,323
Profit before income tax		46,255	23,060
Income tax	29,50	(8,024)	(4,174)
Net profit		38,231	18,886
Attributable to:			
Shareholders of Glitnir banki hf.		37,360	18,886
Minority interest		871	0
Net profit	31	38,231	18,886
Earnings per share	51	2,68	1,47
Diluted earnings per share	51	2,66	1,47

Consolidated Balance Sheet as at 31 December 2006

	Notes	31.12.2006	31.12.2005
Assets			
Cash and cash balances with central banks	26,52	20,417	20,861
Loans and receivables	37,53-56	1,760,368	1,174,428
Financial assets held for trading	11,34,57	227,251	151,897
Financial assets designated at fair value through profit or loss	12,58	200,864	96,438
Financial assets available-for-sale	13,59	3,746	3,611
Derivatives used for hedging	8,9,33	5,721	2,352
Investments in associates	3,60-61	4,379	8,081
Property and equipment	15,64	3,296	1,987
Intangible assets	16,65	18,310	10,824
Tax assets	73-75	264	268
Non-current assets held for sale	17	409	551
Other assets		1,314	647
Total Assets		2,246,339	1,471,945
Liabilities			
Deposits from credit institutions and central banks	66	78,576	30,656
Other deposits	67-68	438,272	304,136
Borrowings	69	1,377,787	937,794
Subordinated loans	70	108,998	47,464
Financial liabilities held for trading	21,71	51,729	28,791
Derivatives used for hedging	8,9,33	13,869	7,233
Post-employment obligations	72	529	418
Tax liabilities	73-75	10,647	5,086
Other liabilities	76	19,813	25,830
Total Liabilities		2,100,220	1,387,408
Equity			
Share capital	25,77,84	14,161	13,112
Share premium		51,847	32,888
Other reserves	78	7,504	(465)
Retained earnings		71,066	39,002
Total Shareholders' Equity		144,578	84,537
Minority interest		1,541	0
Total Equity	79	146,119	84,537
Total Equity and Liabilities		2,246,339	1,471,945

Consolidated Statement of Changes in Equity for the year 2006

	Share capital	Share premium	Other reserves	Retained earnings	Share-holders equity	Minority interest	Total equity
Equity at 1.1.2005	11,081	12,676	287	24,430	48,474		48,474
Translation differences			(1,357)		(1,357)		(1,357)
Net gains on hedges of net investment in foreign operations			915		915		915
Fair value changes of financial assets available-for-sale			(18)		(18)		(18)
Income tax on equity items			(195)		(195)		(195)
Net income recognised directly in equity	0	0	(655)	0	(655)		(655)
Profit for the year				18,886	18,886		18,886
Total recognised income and expense for the year	0	0	(655)	18,886	18,231		18,231
Dividends paid				(4,525)	(4,525)		(4,525)
Issued new shares	1,935	18,669			20,604		20,604
Purchased and sold own shares	96	1,543			1,639		1,639
Accrued stock options			52		52		52
Revaluation of associates				62	62		62
Transferred due to sale of subsidiary			(149)	149	0		0
Equity as at 31.12.2005	13,112	32,888	(465)	39,002	84,537		84,537
Translation differences			10,958	0	10,958	(6)	10,952
Net loss on hedges of net investment in foreign operations			(4,462)		(4,462)		(4,462)
Fair value changes of financial assets available-for-sale			70		70		70
Income tax on equity items			791		791		791
Net income recognised directly in equity	0	0	7,357	0	7,357	(6)	7,351
Profit for the year				37,360	37,360	871	38,231
Total recognised income and expense for the year	0	0	7,357	37,360	44,717	865	45,582
Dividends paid				(5,296)	(5,296)		(5,296)
Issued new shares	1,130	19,752			20,882		20,882
Change in minority interest						676	676
Purchased and sold own shares	(81)	(793)			(874)		(874)
Accrued stock options			612		612		612
Equity as at 31.12.2006	14,161	51,847	7,504	71,066	144,578	1,541	146,119

Consolidated Statement of Cash Flows for the year 2006

	Notes	2006	2005
Cash flows from operating activities:			
Profit for the year		38,231	18,886
Adjustments to reconcile profit for the year to cash flows used in operating activities:			
Non-cash items included in net profit and other adjustments		29,423	(12,691)
Changes in operating assets and liabilities:			
Required reserves with central banks		(1,238)	(919)
Loans and receivables		(188,917)	(287,471)
Trading assets		(35,094)	(50,256)
Financial assets designated at fair value through profit or loss		9,968	(81,415)
Deposits		101,204	32,210
Borrowings		188,080	386,198
Trading financial liabilities		22,937	13,899
Derivatives used for hedging		3,266	2,999
Post-employment obligations		99	(1,889)
Other operating assets and liabilities		(20,089)	23,818
Net cash provided by operating activities		147,870	43,369
Cash flows from investing activities:			
Financial assets available-for-sale		0	414
Investments in associates		9,344	2,173
Investments in subsidiaries, net of cash acquired		(6,476)	(15,130)
Property and equipment		(875)	(1,042)
Net cash provided by (used in) investing activities		1,993	(13,585)
Cash flows from financing activities:			
Subordinated loans		44,401	20,995
Issued new shares		20,882	20,604
Treasury stock		(873)	1,726
Dividends paid		(5,296)	(4,525)
Net cash provided by financing activities		59,114	38,800
Net increase in cash and cash equivalents		208,977	68,584
Translation difference on cash and cash equivalents		536	0
Cash and cash equivalents at the beginning of the year		95,135	26,551
Cash and cash equivalents at year-end		304,648	95,135
Reconciliation of cash and cash equivalents:			
Cash in hand	52	1,044	864
Cash balances with central banks	52	14,967	18,369
Treasury bills	52	1,954	414
Balances with credit institutions	53	32,027	32,063
Loans to credit institutions		144,983	43,425
Financial assets designated at fair value through profit or loss	58	109,673	0
		304,648	95,135

Notes to the Consolidated Financial Statements

Accounting policies

General information

Glitnir hf. is a company incorporated and domiciled in Iceland. The consolidated financial statements for the year 2006 comprise Glitnir hf. (the parent) and its subsidiaries (together referred to as "the Bank"). A list with the Glitnir hf.'s subsidiaries is provided in note 62.

The consolidated financial statements are presented in Icelandic krona (ISK), rounded to the nearest million.

The consolidated financial statements have been authorized for issue by the board of directors of Glitnir hf. on 29 January 2007.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and to each of the Bank's entities.

2. Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are measured at fair value: financial assets and liabilties held for trading, financial assets designated at fair value through profit and loss, financial assets available-for-sale and derivatives used for hedging.

Non-current assets and disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell, unless IFRS 5 requires that another measurement basis shall be used.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements and to use accounting estimates and assumptions that affect the amounts recognised in the consolidated financial statements. The accounting estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

"The application of the amendments and interpretations listed below did not result in substantial changes to the Bank's accounting policies:

IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;

IAS 21 Amendment – Net Investment in a Foreign Operation;

IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

IAS 39 Amendment – The Fair Value Option;

IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;

IFRIC 4, Determining whether an Arrangement contains a Lease;

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

Where applicable, comparative amounts in the income statement have been transferred between items to reflect changes in the presentation for this period. This does not affect the net operating income for these periods.

The critical judgements made by management in the application of IFRS and the key assumptions and sources of estimation uncertainty are as follows:

a) *Determination of fair value*

As disclosed in note 5, the Bank determines the fair value of financial assets and financial liabilities that are not quoted in active markets by using valuation techniques. These valuation techniques are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

b) *Impairment losses on loans and receivables*

As disclosed in note 28, the Bank recognises losses for impaired loans and receivables. For this purpose the Bank's management reviews its loan portfolios to assess impairment on a semi-annually basis. In determining whether an impairment loss should be recognised in the income statement, the Bank's management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The Bank's management uses estimates based on historical loss experience for loans and receivables with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Basis of consolidation

a) *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Bank holds more then the 50% of the voting power of the subsidiaries. In assessing control, potential voting rights that presently are exercisable or convertible, if any, are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately as income in the income statement.

b) *Associates*

Associates are those entities for which the Bank has significant influence, which is the power to participate in the financial and operating policy decisions of the associates but is not control or joint control over those policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting power, including potential voting rights, if any.

Initially, investments in associates are recognised at cost. Subsequently, their carrying amount is adjusted for post-acquisition changes in the Bank's share in the net assets of the associates and for impairment losses, if any. Therefore, the consolidated financial statements include the Bank's share of the total recognised gains and losses of associates, from the date that significant influence commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in an associate, the Bank's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of an associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

If an investment in an associate is classified as held for sale the equity method is no longer applied and the investment is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations,see note 17.

Investments in associates held by the venture capital organisation of the Bank are not accounted on an equity basis but instead they are designated upon initial recognition as financial assets at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, see note 12.

c) *Transactions eliminated on consolidation*

Intrabank balances, and any unrealised gains and losses or income and expenses arising from intrabank transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Foreign currencies

a) *Functional currencies*

Items included in the financial statements of each of the Bank's entities are measured using the functional currency of the respective entity.

b) *Foreign currency translations*

Transactions in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into functional currencies at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement in a separate line. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

c) *Financial statements of foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the presentation currency, Icelandic krona, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Icelandic kronas at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

5. Determination of fair value of financial assets and financial liabilities

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. For all other financial instruments fair value is determined by using valuation techniques.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Bank calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

For more complex financial instruments, the Bank uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or estimated based on assumptions. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuations techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits or losses on initial recognition.

6. Recognition and derecognition of financial assets and financial liabilities

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date on which the Bank commits to purchase or sell the asset, except for loans, which are recognised when cash is advanced to the borrowers. For a financial asset purchased, the Bank recognises on the trade date a financial asset to be received and a financial liability to pay. For a financial asset sold, the Bank derecognises the asset on the trade date, it recognises any gains or losses on disposal and it recognises a receivable from the buyer.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the liability instrument. Financial liabilities are derecognised when the obligation of the Bank specified in the contract is discharged or cancelled or expires.

7. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

8. Derivatives

A derivative is a financial instrument or other contract within the scope of IAS 39, the value of which changes in response to a change in an underlying variables (such as share, commodity or bond prices, an index value or an exchange or interest rate), which requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and which is settled at a future date.

The Bank uses derivatives for trading purposes and to hedge its exposure to market price risk, currency risk and interest rate risk arising from operating, financing and investing activities. Derivatives which are not own equity instruments of the Bank and which are designated and are effective hedging instruments in accordance with IAS 39, are presented as Derivatives used for hedging in the balance Sheet. Other derivatives, except for derivatives that are own equity instruments of the Bank, are classified as Financial assets held for trading or Financial liabilities held for trading, depending on whether their fair value at the balance sheet date is positive (assets) or negative (liabilities), see note 34.

Derivatives which are not own equity instruments of the Bank are measured at fair value both on initial recognition and subsequently. Their fair value changes are recognised in the income statement, except in the case of derivatives that are designated and are effective hedging instruments, whose fair value changes are recognised in accordance with the accounting policies in note 9.

Fair value changes of derivatives are split into interest income or expense, foreign exchange gains or losses and gains or losses on trading and presented in the corresponding line items in the income statement. Interest income and expense is recognised on a accrual basis. Fair value changes of derivatives that are economically linked to financial assets which are designated at fair value through profit or loss in order to avoid an accounting measurement or recognition inconsistency (see Note 12), are presented in the income statement as an offset to the changes in fair value of these financial assets and included in the line item Net gains on financial assets designated at fair value through profit or loss.

Derivatives embedded in host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit and loss. These embedded derivatives are measured and presented in the consolidated financial statements as if they were free-standing derivatives.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 5.

9. Hedge accounting

As presented in the risk management section of the notes to the consolidated financial statements, there are various financial risks that arise from the Bank's activities, such as interest rate risk, credit risk, currency risk and equity risk. In order to manage the Bank's exposure to these risks, the Bank uses various hedging instruments, such as interest rate and currency swaps, options, futures and forward contracts. In accordance with the Bank's risk management objectives and strategies, the Bank enters into hedging transactions to ensure that it is economically hedged. When deemed necessary and subject to hedging relationships meeting the requirements in IAS 39, the Bank uses hedge accounting in order to recognise the offsetting effects on profit or loss of changes in the fair value of the hedging instruments and the hedged items.

Where hedge accounting is applied the Bank assesses, both at the inception of the hedge and each time the Bank prepares its annual or interim financial statements, whether the hedging instruments are highly effective in offsetting the changes in value or cash flows associated with the hedged items. A hedge is normally regarded as highly effective if the changes in fair value or cash flows of the hedged item are expected to almost fully offset the changes in fair value or cash flows of the hedging instrument. Actual effectiveness results must be within a range of 80 to 125 percent on a cumulative basis. The designation and effectiveness measurement follows the methodologies that management has in place for risk identification and measurement. The ineffective portion of any gain or loss on a hedging instrument is recognised in the income statement.

The Bank applies hedge accounting for hedges of the exposure to changes in the fair value of recognised financial assets and liabilities and for hedges of currency risk arising from net investments in foreign subsidiaries and associates.

a) *Fair value hedges*

Fair value hedges seek to eliminate risks of changes in the fair value of recognised financial assets or financial liabilities that will give rise to a gain or loss that will be recognised in the income statement.

When a derivative financial instrument hedges the changes in fair value of recognised financial assets or financial liabilities or an identified portion of such assets or liabilities, any gain or loss on the hedging instrument is recognised in the income statement. The changes in fair value of hedged items that are attributable to the hedged risks are also recognised in the income statement. The gains and losses on the hedging instruments and hedged items are presented as Fair value adjustments in hedge accounting in the income statement.

b) *Hedges of net investments in foreign operations*

Hedges of net investments in foreign operations seek to eliminate the exposure to currency risks arising from net investments in foreign subsidiaries and associates.

The exchange differences arising from the translation of net investments in foreign subsidiaries and associates into the presentation currency are recognised directly in the Translations reserve in equity. The effective portion of the gain or loss on hedging insturments are also recognised directly in the Translations reserve in equity, net of related income tax. These gains and losses are tranferred from the Translations reserve and recognised in the income statement upon disposal of the net investments in foreign subsidiaries and associates. The ineffective portion of the gain or loss on hedging insturments is recognised immediately in the income statement.

10. Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, other than those that the Bank upon initial recognition designates as at fair value through profit or loss. Loans and receivables include loans provided by the Bank to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and for which the Bank has no intention to resell immediately or in the near future.

Loans and receivables are recognised when cash is advanced to borrowers. They are measured at fair value on initial recognition, which is the cash given to originate the loan, including any transaction costs, and subsequently are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans and receivables.

11. Financial assets held for trading

Financial assets held for trading are financial assets acquired principally for the purpose of generating profits from short-term price fluctuations or from dealer's margin.

Financial assets held for trading consist of bonds, shares and derivatives with positive fair value that are not designated as hedging instrument or are not effective hedging instruments.

12. Financial assets designated at fair value through profit or loss

The Bank classifies certain financial assets upon their initial recognition as financial assets at fair value with fair value changes recognised in profit or loss when doing so results in more relevant information because:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- financial assets and/or financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's risk management or investment strategy, and information about it is provided internally on that basis to the Bank's key management personnel.

The assets classified according to the above-mentioned conditions consist of:

- fixed interest rate loans originated by the Bank whose fixed interest has been swapped into floating by entering into corresponding interest rate swaps, and
- equity and debt instruments which are acquired by the Bank with a view to profiting from their total return and which are managed and evaluated on a fair value basis.

Financial assets designated at fair value through profit or loss are measured at fair value and changes in their fair value are recognised in the income statement as Net gains on financial assets designated at fair value through profit or loss as well as dividends received. Interest income that arises from these assets is included in Interest income in the income statement. Interest income on debt instruments is calculated using the effective interest method.

13. Financial assets available-for-sale

Financial assets available-for-sale consist primarily of debt instruments held for long-term investment purposes.

Financial assets available-for-sale are measured at fair value. Unrealised gains or losses on these assets are recognised in equity, net of income taxes, until they are disposed of or until they are determined to be impaired. On disposal of a financial asset available-for-sale, the accumulated unrealised gain or loss recognised in equity is transferred to the income statement and presented as Realised gains on financial assets available-for-sale. Gains and losses on disposals are determined using the average cost method.

Interest and dividend income on financial assets available-for-sale are included in Interest income and Dividend income line items in the income statement. Exchange differences arising on equity instruments are recognised in equity while exchange differences arising on debt instruments are recognised in the income statement and included within Net foreign exchange (losses) gains.

14. Leases

The Bank classifies leases based on the extent of the transfer of risks and rewards incidental to ownership of leased assets. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership. A lease is classified as operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership.

a) *Finance leases*

The Bank's receivables from leases classified as finance leases are included in the balance sheet in the line item Loans and receivables. Finance leases are initially recognised at an amount equal to the net investment in the lease and subsequent lease payments are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Bank recognises its finance income as interest income based on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable and therefore the initial direct costs are recognised over the lease term.

b) *Operating leases*

Lease payments under operating leases where the Bank is the lessee are recognised as an expense on a straight-line basis over the lease term.

15. Property and equipment

a) *Owned assets*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, according to the cost model in IAS 16.

Where parts of an item of property and equipment have different useful lives, those components are accounted for as separate items of property and equipment.

b) *Subsequent costs*

The Bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. The decision if subsequent costs is added to the acquisition cost of the property or equipment, is based on whether an identified component, or part of such component, has been replaced or not, or if the nature of the subsequent cost means a contribution of a new component. All other costs are recognised in the income statement as an expense as incurred.

c) *Depreciation*

The depreciable amount of property and equipment is determined after deducting its residual value. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

Buildings	50 years
Fixtures	6–12 years
Machinery and equipment	4 years
Vehicles	3 years

The residual value is reassessed annually.

16. Intangible assets

a) *Goodwill*

"Goodwill has been recognised as an asset in relation to the acquisition of subsidiaries. Goodwill relating to acquisition of associates is not recognised separately as an asset but is included in the carrying amount of the investments in associates.

All business combinations after 1 January 2004 are accounted for by applying the purchase method. In this respect, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired."

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment, at each balance sheet date.

b) *Other intangible assets*

Intangible assets other than goodwill that are acquired by the Bank are measured at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

c) *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

d) *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is systematically tested for impairment. Other intangible assets are amortised from the date they are available for use. The Bank's amortisable intangible assets consist of software, whose estimated useful live is 4 years.

17. Non-current assets and disposal groups held for sale

Immediately before classification as held for sale, the measurement of all assets and liabilities in a disposal group is measured in accordance with applicable IFRS.

On initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the income statement, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

Non-current assets and disposal groups held for sale are mainly mortgages foreclosed.

18. Repurchase agreements

A repurchase agreement involves the sale of securities owned by the Bank subject to simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price. The control of the securities remains with the Bank throughout the entire term of the agreement and therefore the securities continue to be reported as assets in the Bank's balance sheet. The cash received by the Bank from the legal sale of these securities is recognised as financial liability and included in the Deposits from credit institution and Central Bank line item in the balance sheet. Interest incurred on repurchase agreements is recognised as interest expense over the life of each agreement.

19. Borrowings

Borrowings are financial liabilities of the Bank which consist of issued bonds, loans from credit institutions and other loans. They are measured at fair value less attributable transaction costs when they are recognised initially. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the borrowings.

20. Subordinated loans

Subordinated loans are financial liabilities of the Bank which consist of liabilities in the form of subordinated loan capital which, in case of the Bank's voluntary or compulsory winding-up, will not be repaid until after the claims of ordinary creditors have been meet. In the calculation of the capital ratio, the bonds are included within Tier I and Tier II, as shown in Note 70. On the one hand, there are subordinated loans with no maturity date that the Bank may retire only with the permission of the Financial Supervisory Authority. These loans qualify as Tier I capital in the calculation of the equity ratio. On the other hand, there are subordinated loans with various dates of maturity.

Subordinated loans are measured at fair value less attributable transaction costs when they are recognised initially. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the subordinated loans.

21. Financial liabilities held for trading

Trading liabilities consist of derivatives with negative fair values and short positions in securities.

22. Post-employment obligations

The liability recognised in the balance sheet in respect of defined benefit pension obligation is the present value of the obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The discount rate used for the pension liability is 2.0%.

23. Stock option contracts

The Bank has entered into stock option contracts with its employees which enable them to acquire shares in the Bank at an exercise price corresponding to the market value of the shares at grant date.

The fair value of the options granted is measured at the grant date and is recognised as a salary expense during the vesting period, with a corresponding increase in equity, taking into account the estimated number of equity instruments expected to vest. The fair value of the stock options is estimated by using the Black-Scholes valuation method.

24. Provisions

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

25. Share Capital

a) Treasury shares

Acquired own shares and other own equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares. The consideration paid or received is recognised directly in equity and incremental transaction costs are accounted for as a deduction from equity (net of any related income tax).

When classifying a financial instrument (or component of it) in the consolidated financial statements, all terms and conditions are considered. To the extent there is an obligation that would give rise to a financial liability, the Bank classifies the instrument as a financial liability, rather than an equity instrument.

b) Dividend on shares

Dividends are recognised as a deduction to equity in the period in which they are approved by the Bank's shareholders. Dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

26. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash in hand, treasury bills, demand deposits with the central banks and with other credit institutions, short term loans to credit institutions and other liquid debt securities at floating interest rates. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

27. Income and Expenses

a) Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity, calculated according to the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised at the rate of interest used to discount the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on the net amount of the financial asset taking the write-down into consideration.

b) Fee and commission income

The Bank provides various services to its clients and earns income there from, such as income from investment banking, corporate banking, securities brokerage, asset management and retail banking. Fees earned from services that are provided over a certain period of time are recognised as the services are provided. Fees earned from transaction-type services are recognized when the service has been completed. Fees that are performance-linked are recognised when the performance criteria are fulfilled.

c) Dividend income

Dividend income is recognised in the income statement on the date that the dividend is declared.

d) Net gains on financial assets and financial liabilities held for trading

Net gains on financial assets and financial liabilities held for trading include gains and losses arising from disposals, extinguishments and changes in the fair value of financial assets and financial liabilities held for trading as well as dividend on fair value shares.

e) Net gains on financial assets designated at fair value through profit or loss

Net gain on assets at fair value through profit or loss consists of gains and losses arising from disposals of and changes in the fair value of the financial assets designated as at fair value through profit or loss. Fair value changes of derivatives that are economically linked to financial assets which are designated at fair value through profit or loss in order to avoid an accounting measurement or recognition inconsistency, are also included in this line item in the income statement, see note 42.

f) Administrative expenses

Administrative expenses consist of salary and related expenses, depreciation of property and equipment, amortisation of intangible assets and other administrative expenses, such as housing costs, advertising expenses and IT-related expenses.

28. Impairment

The carrying amount of the Bank's assets, other than tax assets and financial assets measured at fair value with changes recognised in the income statement is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or of a cash-generating unit exceeds its recoverable amount.

a) Impairment on loans and receivables

If there is objective evidence that an impairment loss has been incurred on loans and receivables, their carrying amount is reduced through the use of an allowance account to the present value of expected future cash flows, discounted at their original effective interest rate.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

The Bank's management first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. Loans and receivables that are not impaired individually become a part of a portfolio which is assessed for impairment. Collective assessment based on a portfolio assumes that loans and receivables have similar credit risk characteristics. Objective evidence of impairment of a group of loans and receivables exists if objective data indicates a decrease in expected future cash flows from a portfolio of loans and the decrease can be measured reliably but cannot be identified with the individual loans in the portfolio.

The recognition of interest income on impaired loans and receivables is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment losses.

b) *Impairment on goodwill*

The Bank assesses whether there is any indication of impairment of goodwill on annual basis, with expert analysis being commissioned if necessary. Goodwill is written down for impairment. Gains or losses realised on the disposal of subsidiaries include any unamortised balance of goodwill relating to the subsidiary disposed of.

c) *Impairment on financial assets available-for-sale*

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial strength of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The amount of impairment loss is recognised in the Income Statement.

d) *Calculation of recoverable amount*

The recoverable amount of the Bank's loans and receivables is calculated as the present value of estimated future cash flows. The discount rate used for fixed rate loans and receivables is the effective interest rate computed at initial recognition while for variable rate loans and receivables the discount rate is the current effective interest rate.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

e) *Reversals of impairment*

An impairment loss in respect of financial assets carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in a debt instrument classified as available-for-sale is reversed through the income statement while an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

29. Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The deferred income tax asset / liability has been calculated and entered in the balance sheet. The calculation is based on the difference between balance sheet items as presented in the tax return on the one hand, and in the consolidated financial statements on the other, taking into consideration a carryforward tax loss. This difference is due to the fact that tax assessments are based on premises that differ from those governing the financial statements, mostly because revenues, especially of financial assets, are recognised earlier in the financial statements than in the tax return. A calculated tax asset is offset against income tax liability only if they are due to tax assessment from the same tax authorities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Changes within the Group

30. The Bank acquired five subsidiaries during the year 2006

The effects of the Bank's consolidated balance sheet are presented in the following table. The shares were paid for in cash.

Assets	Glitnir Securities	Glitnir Kapital-forvaltning	Union Group	Glitnir AB	Kredit-kort hf.	Total
Cash and cash balances with central banks	1		1,210		2	1,213
Loans and receivables	4,629	191		15,680	8,701	29,201
Financial assets held for trading	4			208		212
Financial assets at fair value through P&L			11		34	45
Investments in associates					14	14
Property and equipment	19	3	18	56	735	831
Intangible assets	9		299			308
Tax assets	19		3			22
Other assets	6		540	1,946	86	2,578
Total assets	4,687	194	2,081	17,890	9,572	34,424
Liabilities						
Borrowings	20	1	116	12,068	2,167	14,372
Subordinated loans			60			60
Post-employment obligations	7		5			12
Tax liabilities	42	7		59	27	135
Other liabilities	4,152	166	1,483	3,839	6,345	15,985
Total liabilities	4,221	174	1,664	15,966	8,539	30,564
Minority interest			205		464	669
Net estimated value	466	20	212	1,924	569	3,191
Goodwill	559	77	1,473	1,924	465	4,498
Total acquisition price	1,025	97	1,685	3,848	1,034	7,689
Ownership	100%	100%	50,1%	100%	55%	
Consolidated from	1.1.2006	1.1.2006	1.1.2006	1.7.2006	1.7.2006	

Correction of previous year's figures

31. In 2005 one subsidiary of the Bank did not apply the rules set out in IAS 39 about calculating portfolio provision for loan impairment. This has been corrected in these financial statements and prior year's figures restated accordingly. IAS 8 was followed when correcting the error and the effects are as follows:

Income statement 2005	Previously reported	Correction	Restated
Impairment	(1,900)	(305)	(2,205)
Income tax	(4,266)	92	(4,174)
Net profit	19,099	(213)	18,886
Balance sheet at 31 Desember 2005			
Loans and receivables	1,174,733	(305)	1,174,428
Income tax liabilities	5,178	(92)	5,086
Shareholders equity	84,750	(213)	84,537

Risk management

32. Risk assessment and prudent evaluation and pricing of risk are key elements in Glitnir's operations. Efficient risk assessment procedures and processes are the foundations of the Bank's risk management. The board of directors determines the general risk management policy and defines the acceptable levels of risk in the Bank's daily operations, sets targets regarding risk management and monitoring of major risk factors, i.e. credit risk, liquidity risk, market risk and operational risk.

Risk management procedures

The Bank operates centralized departments within the parent company for monitoring and reporting on different types of risks. Subsidiaries operate their own risk management functions and determine internal risk policies that reflect the nature of their operations. The individual risk management functions report to their respective board of directors, local regulators and to the parent company.

Decision making is based on a committee structure where the board of directors has granted authority to specially appointed committees that issue specific guidelines and targets regarding acceptable risk limits and decide on individual positions depending on size and risk level. Risk positions regarding credit risk and market risk are reported to the Risk Committee. Risk positions regarding refinancing risk, liquidity, interest rate risk and capital management are reported to the Asset and Liability Committee. The Operational Risk Committe supervises operational risk.

Central Risk Management is responsible for consolidated reporting to management and regulators. The risk procedures and risk management for each subsidiary is subject to the approval from the Risk Committee, Operational Risk Committee and the Asset and Liability Committee. Risk procedures and risk management are monitored and supervised from the parent company. Central Risk Management reviews the risk management procedures of subsidiaries. Frequency and detail of reporting depends on risk profile in each case. Two departments are responsible for the daily monitoring and evaluation of the Bank's credit risk, other financial risk and operational risk, i.e. Credit Control and Risk Management.

Credit risk

Credit Risk is a dominant eliment in the Bank's operations. The Bank seeks to maintain the quality of its credit portfolio by actively diversifying credit risk within the portfolio and by prudently managing concentration risk. The Bank emphasises the distribution of credit risk within its consolidated portfolio by counterparties, sectors and country, as well as within sectors and country for individual portfolios.

Credit Control is responsible for the implementation, enforcement, and monitoring of the Bank's consolidated credit risk policies and procedures. Credit Risk is reported regularly to the Risk Committee. Credit Control administers the Bank's credit committees and is responsible for the implementation of the Bank's risk assessment models.

Credit risk within the Bank's subsidiaries is independently managed by each subsidiary and reported to the respective board of directors. Each subsidiary has a separate operational function that is responsible for the implementation, enforcment and monitoring of its Credit Risk which is reported to the respective board of directors and top management. However, Credit risk policies and procedures for each subsidiary must adhere to the Bank's overall credit risk policy and procedures. Credit risk at the subsidiary level is monitored by Credit Control and regularily reported to the Bank's Risk Committee.

The Bank uses specially designed risk assessment models for the different types of credit risk assessments in its portfolio to ensure that risk evaluation measures used capture and reflect the underlying credit risk elements in the transactions involved. For the parent company and BNbank a separate operational unit, Credit Risk Control Unit (CRCU), within the Risk Management function is responsible for the design, validation and calibration of the Bank's risk assessment models.

Credit Control monitors defaults and issues guidelines on default monitoring and provisioning on a consolidated basis. Provisioning guidelines are determined for each subsidiary and reflect their diversified risk profiles and reflect the historical losses within each portfolio. Non perfoming loans, i.e. loans exceeding 90 days in arrears or loans against which specific provisions have been made, are managed and monitored on a consolidated basis. Credit Control is responsible for the overall management of non performing assets and must endevour to proactively and responsibly take measures to minimize the Bank's losses whenever possible.

Liquidity risk

Liquidity risk management is an important element in the Bank's operations since the Bank is in large part wholesale funded. Liquidity risk is monitored within Risk Management and reported to the Asset and Liability Committee. The Bank has strict limits on liquidity and has back-up funding and liquid assets in place to deal with unforeseen events.

At year-end 2006, the Bank had ample liquidity, both according to internal measures and regulatory measures imposed by the Central Bank of Iceland. The Bank's policy is to have immediate liquidity covering all maturing debt of the parent company other than deposits for the following 6 months. In addition, all debt maturing within the following 12 months must be covered with immediate liquidity and other liquid assets. Immediate liquidity is defined as cash and cash equivalents, unused bonds eligible for repurchase agreements at central banks, regulatory liquidity reserves and committed credit facilities.

The Bank's subsidiaries are to a large extent self-sufficient in their funding, through their deposit base, by bond issuance in local markets or through their lines in the money market. All international funding is however co-ordinated by the parent company.

The following table analyses the Bank's assets and liabilities according to their maturity. The classification is based on the remaining maturity as of the date of the financial statements.

At 31 December 2006

Assets	Up to 1 month	1–3 months	3–6 months	6–12 months	1–2 years	2–5 years	Over 5 years	Undefined maturity	Total
Cash	20,417	0	0	0	0	0	0	0	20,417
Loans and receivables	182,298	17,400	46,305	151,316	158,283	351,801	785,065	67,900	1,760,368
Financial assets held for trading	82,079	777	254	9	92	7,252	1,645	135,143	227,251
Financial assets at fair value	81,085	2,069	3,117	2,331	3,972	33,072	49,136	26,082	200,864
Financial assets available for sale	0	0	0	0	0	0	0	3,746	3,746
Derivatives held for hedging	0	0	0	0	0	0	0	5,721	5,721
Investments in associates	0	0	0	0	0	0	1,097	3,282	4,379
Property and equipment	0	0	0	0	0	23	1,172	2,101	3,296
Intangible assets	0	0	0	0	241	0	169	17,900	18,310
Tax assets	0	0	0	0	0	0	2	262	264
Assets held for sale	0	0	0	0	0	172	0	237	409
Other assets	219	0	0	4	2	0	0	1,089	1,314
Total	366,098	20,246	49,676	153,660	162,590	392,320	838,286	263,463	2,246,339
Liabilities and equity									
Deposits from credit inst.	78,576	0	0	0	0	0	0	0	78,576
Other deposits	232,927	28,439	15,191	26,668	12,331	11,529	4,641	106,546	438,272
Borrowings	116,722	50,261	79,837	162,485	239,235	630,097	97,852	1,298	1,377,787
Subordinated loans	1,808	980	0	0	241	34,684	31,431	39,854	108,998
Trading financial liabilities	5,002	1,006	233	34	314	7,356	1,596	36,188	51,729
Derivatives held for hedging	0	0	0	0	0	0	0	13,869	13,869
Post-employment obligations	0	0	0	147	51	0	306	25	529
Tax liabilities	47	396	758	1,154	0	0	85	8,207	10,647
Other liabilities	6,539	107	911	47	93	0	0	12,116	19,813
Total equity	3,284	0	2,782	0	0	0	0	140,053	146,119
Total liabilities and equity	444,905	81,189	99,712	190,535	252,265	683,666	135,911	358,156	2,246,339
Maturity gap	(78,807)	(60,943)	(50,036)	(36,875)	(89,675)	(291,346)	702,375	(94,693)	

At 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Total assets	205,392	172,308	109,205	335,757	627,851	21,432	1,471,945
Total liabilities and equity	179,748	249,769	172,848	679,307	101,807	88,466	1,471,945
Maturity gap	25,644	(77,461)	(63,643)	(343,550)	526,044	(67,034)	0

Liquidity position	31.12.2006	31.12.2005
Cash and balances with central banks	16,011	19,233
Short-term placements with credit institutions	33,981	32,477
Loans to credit institutions	144,983	43,425
Liquid debt securities at floating interest rates	109,673	0
Cash and cash equivalents	304,648	95,135
Unused bonds eligible for repurchase agreements at central banks	17,030	33,092
Regulatory liquidity reserves	22,274	16,960
Committed credit facilities	113,532	39,965
Immediate liquidity	457,484	185,152

Interest rate risk

Interest rate risk in the Bank is twofold. On the one hand, the Bank generally has a trading portfolio of bonds, where market rates affect prices and any fluctuations are immediately recognized in Profit and Loss. VaR figures for the bond trading portfolio are presented in the market risk chapter. On the other hand, mismatch in assets and liabilities with fixed interest terms in the banking book can generate interest rate risk which is not neccessarily recognized in Profit and Loss but nevertheless affects the Bank's economic value.

It is the Bank's policy to minimize foreign currency interest rates risk in the banking book. This holds true for the group as a whole. Assets or liabilities with fixed terms are hedged with interest rate swaps or other derivatives and hedge accounting is utilized where possible to reduce fluctuations in Profit and Loss. Those hedging derivatives are marked to market as all other derivatives.

Interest rate exposures in Icelandic kronas (ISK), are not hedged to the same extent and the Bank has banking book exposure to interest rate movements. To maintain a balance between assets and liabilites, the Bank needs to hold more assets than liabilities in ISK since equity of the Bank is denominated in ISK. This mismatch is partly invested in the Bank's Icelandic CPI linked mortgage portfolio. To reduce interest rate sensitivity, all the Bank's fixed rate mortgage lending in Iceland has a an interest rate reset in 5 years from issuance.

Interest rate risk in the banking book is reported to the Asset and Liability Committee

Inflation risk

The Bank is exposed to Icelandic inflation since Consumer Price Index (CPI) index-linked assets exceed CPI index-linked liabilities. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in the CPI are therefore recognised in profit and loss. Those exposures are limited to the parent company.

Inflationary position of the Bank is reported to the Asset and Liability Committee.

Assets and liabilities linked to Consumer Price Index:

	Total assets	Total liabilities	Net position
31.12.2006	302.090	(175.475)	126.615
31.12.2005	241.097	(152.356)	88.741

Currency risk

The majority of the Bank's assets and liabilities is denominated in foreign currency. The Bank aims to keep foreign assets and liabilities in balance in terms of currencies. Any mismatch is monitored closely.

Since the Bank's assets are largely denominated in foreign currency, but equity is issued in ISK, the exchange rate of the Icelandic krona has an effect on the measured CAD ratio. This is taken into account in the Bank's capital strategy and the Bank uses various methods to reduce this effect. At the end of 2006 the Bank held long positions in NOK, SEK and EUR amounting to ISK 27.8 billion for the purpose of limiting exchange rate sensitivity of its capital ratios. Other foreign currency positions are viewed as trading positions.

Trading positions in currencies, above certain limits, are reported to the Risk Committee. The sensitivity of capital ratios to changes in exchange rates is reported to the Asset and Liability Committee.

The table below summarises the Bank's exposure to currency risk at 31 December 2006. Included are both on-balance sheet and off-balance sheet positions. Off-balance sheet positions represent notional amounts of foreign currency derivative financial instruments.

Assets and liabilities classified according to currencies:

	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other	Total
Assets										
Cash	12,938	6,625	278	167	206	74	62	7	60	20,417
Loans and receivables	412,595	587,758	47,129	279,396	131,384	111,783	82,451	50,492	57,380	1,760,368
Trading assets	190,380	14,416	797	5,318	2,461	2,775	2	1	11,101	227,251
FV financial assets	12,377	57,591	156	74,153	47,676	8,640	0	0	271	200,864
AFS financial assets	3,732	8	0	0	0	0	0	0	6	3,746
Hedging derivatives	5,622	0	0	99	0	0	0	0	0	5,721
Associates	2,448	1,336	0	595	0	0	0	0	0	4,379
Fixed assets	1,578	1,514	0	157	0	0	0	0	47	3,296
Intangible assets	1,361	14,905	1,959	85	0	0	0	0	0	18,310
Tax assets	0	28	0	198	0	0	0	0	38	264
Assets held for sale	237	172	0	0	0	0	0	0	0	409
Other assets	615	238	0	43	24	0	3	0	391	1,314
Total	643,883	684,591	50,319	360,211	181,751	123,272	82,518	50,500	69,294	2,246,339
Liabilities and equity										
Deposits, credit institutions	32,227	3,349	3,721	13,795	16,319	772	2,117	36	6,240	78,576
Other deposits	142,736	217,697	181	11,374	11,333	53,401	153	161	1,236	438,272
Borrowings	78,474	245,387	18,651	477,823	340,039	41,437	69,349	19,999	86,628	1,377,787
Subordinated loans	5,339	16,081	0	29,708	57,870	0	0	0	0	108,998
Trading liabilities	40,833	10,826	63	0	0	0	4	0	3	51,729
Hedging derivatives	13,718	0	0	151	0	0	0	0	0	13,869
Pension liability	0	529	0	0	0	0	0	0	0	529
Tax liabilities	6,560	2,753	0	1,334	0	0	0	0	0	10,647
Other liabilities	9,381	5,673	4,721	38	0	0	0	0	0	19,813
Equity	139,199	5,647	125	1,148	0	0	0	0	0	146,119
Total	468,467	507,942	27,462	535,371	425,561	95,610	71,623	20,196	94,107	2,246,339
Net on-balance sheet	175,416	176,649	22,857	(175,160)	(243,810)	27,662	10,895	30,304	(24,813)	0
Net off-balance sheet	(211,721)	(154,171)	(20,601)	178,266	248,125	(26,624)	(11,781)	(29,805)	28,312	0
Net position	(36,305)	22,478	2,256	3,106	4,315	1,038	(886)	499	3,499	0

Market Risk

Market risk is the risk of loss due to changes in interest rates, foreign exchange and equity prices. The Bank has trading positions in bonds, currency and equities and is therefore exposed to fluctuations in price. Since all positions are marked to market, all price changes are immediately recognised in profit or loss.

For trading positions the Bank uses a daily Value-at-Risk (VaR) method to measure market risk in individual portfolios as well as overall. The overall measure is conservative as diversification effects across the portfolios are not taken into account. Reporting is based on a probability level of 99% and 1-day holding period. The table below summarises VaR measures for 2006, with reference figures for 2005. Backtesting is used to assess the effectiveness of the VaR model.

	Min	Max	End of 2006	Average 2006	Average 2005
Equity risk	14	333	71	136	79
Interest risk	13	67	20	35	41
Currency risk	0	170	88	42	15
Total	73	443	179	213	135

Note that the minimum and maximum value of the total VaR is different from adding these VaR values of the individual risk classes, as they can occur at different times.

Stress tests are carried out to provide an indication for potential loss in extreme conditions. Non-trading and unlisted equity positions that are not part of the VaR measure are covered under stress testing as well.

Operational Risk

Credit Control, Risk Management and Compliance are jointly responsible for monitoring and reporting on operational risk. Operational risk is supervised by the Operational Risk Committee. Major sources of operational risk are adherence to internal procedures, processes and guidelines, IT security, fraud, error, legal and regulatory compliance as well as business risk.

Derivatives used for hedging

33. The fair value and notional amounts of derivative instruments used for hedging are set out below.

	Notional amount	Fair value Assets	Liabilities
Interest rate	345,255	5,349	11,004
Foreign currency	15,125	372	2,865
Total	360,380	5,721	13,869

Derivatives held for trading

34. The fair value and notional amounts of derivative instruments held for trading are set out below.

	Notional amount	Fair value Assets	Liabilities
Interest rate	699,410	3,894	8,535
Equity	186,311	20,514	19,046
Foreign currency	1,624,739	42,474	19,270
Total	2,510,460	66,882	46,851

Business segments

35. Below is a business segment overview showing the Bank's performance with a breakdown by business segments. A business segment is a distinguishable component of the Bank that is engaged in providing products or services that are subject to risks and rewards that are different from those of other business segments.

The Bank is organised into six main business segments:

a) Commercial Banking Iceland: Incorporates banking services to private and corporate customers in Iceland. Retail banking, corporate banking, asset-based financing and asset management.

b) Commercial Banking Norway: Incorporates banking services to private and corporate customers in Norway. Retail banking and corporate banking.

c) Corporate Banking: Incorporates Glitnir's international operations, global home market customers and leveraged finance.

d) Investment Banking: Incorporates international corporate finance and equity investments.

e) Markets: Incorporates brokerage services in securites, foreign currencies and derivatives, sale of securities issues and money market lending.

f) Treasury: Incorporates funding and interbank activities.

Among operations that fall outside the defined business segments are the operations of associated companies and other operations of the Bank.

The Bank was reorganised during the year 2006 into the business segments described above. In 2005 the Bank was organised into the following business segments: Commercial Banking Iceland/Norway, Corporate and Investment Banking, Capital Markets and Treasury.

The year 2006

Operations

	Commercial Banking Iceland	Norway	Corporate Banking	Investment Banking	Markets	Treasury	Other operations & eliminations	Total
Net interest income	16,778	7,196	9,736	(374)	3,097	2,028	(1,377)	37,084
Other operating income	5,737	47	2,742	8,190	14,759	2,369	1,673	35,517
Administrative expenses		(11,057)	(3,231)	(3,804)	(1,686)	(6,735)	(109)	(679)
(27,301)								
Impairment	(2,781)	(68)	(1,846)	(25)	(7)	0	(32)	(4,759)
Other income	0	0	0	0	0	0	5,714	5,714
Profit before tax	8,677	3,944	6,828	6,105	11,114	4,288	5,299	46,255
Income tax expense								(8,024)
Profit for the period	8,677	3,944	6,828	6,105	11,114	4,288	5,299	38,231
Net segment revenue from external customers	53,447	28,067	62,470	11,815	21,626	(107,256)	2,431	72,601
Net segment revenue from other segments	(30,932)	(20,824)	(49,992)	(3,999)	(3,770)	111,653	(2,135)	0
At 31 December 2006								
Segment assets								
Cash, balances with central banks, loans and receivables	1,154,960	598,314	287,529	3,987	28,030	1,356,301	(1,648,336)	1,780,785
Other financial assets	72,821	69,200	1,975	28,626	8,565	201,088	55,307	437,582
Other assets	114,366	4,895	15,872	2,031	6,383	0	(115,575)	27,972
Total assets	1,342,147	672,409	305,376	34,644	42,978	1,557,388	(1,708,604)	2,246,339
Segment liabilities								
Deposits, borrowings and subordinated loans	736,107	573,076	0	0	12,782	1,507,593	(825,925)	2,003,633
Trading financial liabilities & hedging derivatives	11,568	11,568	3	0	5,924	43,228	(6,693)	65,598
Other liabilities	522,720	52,164	291,470	27,350	8,548	1,405	(872,668)	30,989
Total liabilities	1,270,395	636,808	291,473	27,350	27,254	1,552,226	(1,705,286)	2,100,220

The year 2005

Operations	Commercial banking Iceland	Norway	Corp. & investm. banking	Capital markets	Treasury	Other operations	Elimin-ations	Total
Net interest income	12,287	4,418	4,441	894	1,325	(1,014)	0	22,351
Other net operating income	4,595	966	2,139	3,062	1,831	2,788	(59)	15,322
Administrative expenses	(8,293)	(1,823)	(2,483)	(984)	(341)	(1,866)	59	(15,731)
Impairment losses	(1,401)	51	(765)	0	0	(90)	0	(2,205)
Other net income	(10)	0	0	0	0	3,333	0	3,323
Profit before tax	7,178	3,612	3,332	2,972	2,815	3,151	0	23,060
Income tax expense								(4,174)
Profit for the period	7,178	3,612	3,332	2,972	2,815	3,151	0	18,886
Net segment revenue from external customers	13,469	3,154	2,228	3,953	12,021	2,848	0	37,673
Net segment revenue from other segments	3,412	2,230	4,352	3	(8,865)	(1,073)	(59)	0
At 31 December 2005								
Segment assets								
Cash, balances with central banks, loans and receivables	562,224	413,240	272,806	10,574	849,504	38,320	(951,379)	1,195,289
Other financial assets	3,518	77,107	21,562	4,795	139,384	7,932	0	254,298
Other assets	823	1,941	345	0	12	48,891	(29,654)	22,358
Total assets	566,565	492,288	294,713	15,369	988,900	95,143	(981,033)	1,471,945
Segment liabilities								
Deposits, borrowings and subordinated loans	535,625	453,731	279,408	4,604	949,805	48,182	(951,305)	1,320,050
Trading financial liabilities & hedging derivatives	0	7,397	6	2,172	26,449	0	0	36,024
Other liabilities	2,019	5,005	760	7,652	11,250	4,501	147	31,334
Total liabilities	537,644	466,133	280,174	14,428	987,504	52,683	(951,158)	1,387,408

Geographical segments

36. Below is a geographical segment division of assets, liabilities, revenues and expenses. The geographical division has been defined by the management as the Bank's secondary division. The geographical division is based on the location of operations.

2006	Total assets	Total liabilities	Revenues	Expenses
Iceland	1,380,857	1,286,231	52,830	20,065
Norway	638,323	601,238	15,227	7,041
Other countries	227,159	212,751	10,258	4,954
Total	2,246,339	2,100,220	78,315	32,060
2005				
Iceland	684,210	642,790	29,033	12,917
Norway	493,288	466,133	5,384	1,772
Other countries	294,447	278,485	6,580	3,248
Total	1,471,945	1,387,408	40,997	17,937

37. Geographical sector risk concentrations within the customer loan portfolio were as follows:

	2006		2005	
	Loans	%	Loans	%
Iceland	710,169	45%	487,625	45%
Norway	607,057	39%	431,608	40%
United Kingdom	87,330	6%	72,599	7%
Denmark	32,048	2%	37,083	3%
Canada	31,335	2%	18,644	2%
Germany	32,407	2%	7,341	1%
Other countries	71,380	5%	23,483	2%
Total	1,571,726	100%	1,078,383	100%

Quarterly Statements

38. Operations by quarters:

2006	Q4	Q3	Q2	Q1	Total
Net interest income	8,420	9,310	11,526	7,828	37,084
Other operating income	13,443	5,960	6,650	9,464	35,517
Administrative expenses	(8,705)	(6,431)	(6,293)	(5,872)	(27,301)
Impairment losses	(1,653)	(328)	(1,354)	(1,424)	(4,759)
Other income	89	1,854	2,584	1,187	5,714
Profit before income tax	11,594	10,365	13,113	11,183	46,255
Income tax	(2,278)	(1,563)	(2,101)	(2,082)	(8,024)
Profit for the period	9,316	8,802	11,012	9,101	38,231

2005	Q4	Q3	Q2	Q1	Total
Net interest income	6,140	6,490	5,256	4,465	22,351
Net insurance premium	0	0	0	229	229
Other operating income	2,834	3,084	4,329	3,584	13,831
Administrative expenses	(4,230)	(3,539)	(3,743)	(4,219)	(15,731)
Impairment losses	(645)	(494)	(565)	(501)	(2,205)
Other income	810	284	3,441	50	4,585
Profit before income tax	4,909	5,825	8,718	3,608	23,060
Income tax	(1,381)	(1,024)	(1,199)	(570)	(4,174)
Profit for the period	3,528	4,801	7,519	3,038	18,886

Net interest income

39. Net interest income is specified as follows:

	2006	2005
Interest income on:		
Cash and cash balances with central banks	1,183	592
Loans and receivables	103,292	55,073
Financial assets held for trading	10,377	4,867
Financial assets designated at fair value through profit or loss	3,786	563
Financial assets available-for-sale	435	393
Other assets	42	38
Total interest income	119,115	61,526
Interest expenses on:		
Deposits from credit institutions and central banks	(3,218)	(2,241)
Deposits	(19,508)	(12,441)
Borrowings	(51,250)	(20,152)
Subordinated loans	(4,809)	(1,661)
Financial liabilities held for trading	(3,183)	(2,676)
Other interest expenses	(63)	(4)
Total interest expenses	(82,031)	(39,175)
Net interest income	37,084	22,351

Net fee and commission income

40. Net fee and commission income is specified as follows:

	2006	2005
Fee and commission income from:		
Asset management	3,269	1,183
Securities brokerage	6,127	1,043
Payment processing	2,892	1,514
Loans and guarantees	2,905	2,314
Foreign currency brokerage commission	4,230	1,769
Advisory	9,856	1,520
Other fees and commissions income	603	585
Total fees and commission income	**29,882**	**9,928**
Commission expenses due to:		
Inter-bank charges	(1,353)	(792)
Brokerage	(736)	(73)
Clearing and settlement	(526)	(145)
Other commission expenses	(808)	(145)
Total commission expenses	**(3,423)**	**(1,155)**
Net fee and commission income	**26,459**	**8,773**

Net gains on financial assets and financial liabilities held for trading

41. Net gains on financial assets and financial liabilities held for trading are specified as follows:

Shares and related derivatives	2,334	3,182
Bonds and related derivatives	(1,023)	(463)
Other derivatives	4,688	1,274
Net gains on financial assets and financial liabilities held for trading	**5,999**	**3,993**

Net gains on financial assets designated at fair value through profit or loss

42. Net gains on financial assets designated at fair value through profit or loss are specified as follows:

Shares	2,707	6
Bonds	138	(116)
Loans and related derivatives	(748)	601
Net gains on financial assets designated at fair value through profit or loss	**2,097**	**491**

Administrative expenses

43. Administrative expenses are specified as follows:

Salaries and related expenses	15,747	8,848
Other administrative expenses	10,892	6,402
Depreciation and amortisation	662	481
Administrative expenses	**27,301**	**15,731**

Salaries and related expenses

44. Salaries and related expenses are specified as follows:

	2006	2005
Salaries	12,074	7,111
Pension and similar expenses	1,609	1,054
Social security charges	1,140	576
Share based payments	756	88
Other	168	19
Salaries and related expenses	15,747	8,848

45. The Bank's total number of employees is as follows

Average number of employees (full year equivalents)	1,392	1,216
Positions at the end of the year	1,518	1,153

Employement Terms for the Board of Directors and the CEO

46. Employement terms for the Board of Directors and the CEO are specified as follows:

			Number of shares		
2006	Salaries and fringe benefits	Net gain on stock options	Call options	Put options	Ownership at year end
Bjarni Ármannsson, CEO	144	76	15		233
Einar Sveinsson, Chairman of the Board	6				388
Edward Allen Holmes	5				0
Guðmundur Ólason	2				50
Jón Sigurðsson	1				0
Jón Snorrason	2				0
Karl Emil Wernersson	3				13
Skarphéðinn Berg Steinarsson	2				0
Other board members	3				2
Frank Ove Reite, MD of Markets and Com. Banking Norway	50	44	38		0
Haukur Oddsson, MD of Com. Banking Iceland	53		20		48
Four other managing directors on management board	189		70		155
Total	460	120	143	0	889

Call options held by the CEO are excercisable at a price between 3.1 and 3.5. They expire in 2007. Other call options held by management are excercisable in the years 2007–2008 at a price from 10.7 to 19.8.

Ownership at year-end consists of shares owned by the employees and entities controlled by the employees.

2005	Salaries and fringe benefits	Net gain on stock options	Number of shares Call options	 Put options	 Ownership at year end
Bjarni Ármannsson, CEO	80	53	19		83
Einar Sveinsson, Chairman of the Board	4				400
Other board members	13				216
Haukur Oddsson, MD of Com. Banking Iceland	32				48
Four other managing directors on management board	95		24		127
Total	224	53	43	0	874

Auditors' Fee

■ 47. Auditors' fees are specified as follows:

	2006	2005
Audit of the annual accounts	72	33
Audit and review of interim accounts	41	18
Other services	68	26
Auditors' fees	182	77
Thereof remuneration to others than the auditors of the parent company	91	25

Impairment losses

■ 48. Impairment losses recognised in profit and loss were as follows:

Loans and receivables	4,759	2,125
Goodwill	0	80
Impairment	4,759	2,205

Net gains on non-current assets classified as held for sale

■ 49. Net gains on non-current assets held for sale are specified as follows:

Net (loss) profit from sale of foreclosed mortgages	(6)	12
Net profit from sale of subsidiaries and associates	4,159	3,325
Other	91	(14)
Net gains on non-current assets classified as held for sale	4,244	3,323

Effective income tax rate

■ 50. The corporate income tax rate in Iceland is 18.0% whereas the effective income tax rate in the Bank's income statement is 17.3%. The difference is specified as follows:

	2006		2005	
Profit before tax	46,255			23,060
18.0% income tax calculated on the profit of the year	8,326	18.0%	4,151	18.0%
Effect of tax rates in foreign jurisdictions	831	1.8%	413	1.8%
Dividends received, exempt from tax	(405)	(0.9%)	(721)	(3.1%)
Change in status of associated company	0	0.0%	161	0.7%
Acquisition price of subsidiaries reduced by gain on sale of shares	(1,311)	(2.8%)	0	0.0%
Correction in accordance with ruling on prior years' taxable income	589	1.3%	14	0.1%
Other differences	(6)	(0.0%)	156	0.7%
Income tax according to income statement	8,024	17.3%	4,174	18.1%

In December 2006, Icelandic tax authorities ruled that the Bank shall pay additional tax of ISK 589 million (including penalties) due to the merger with Framtak fjárfestingabanki hf. in 2004. The ruling will be appealed but the entire amount is charged to income statement in December.

Earnings per Share

■ 51. Earnings per share is calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average outstanding number of shares during the year, excluding the average number of shares purchased by the Bank and held as treasury shares. The calculation of diluted earnings per share takes into consideration the outstanding stock options when calculating the share capital.

	2006	2005
Net profit of the equity holders of the parent, according to the financial statements	37,360	18,886
Average outstanding shares:		
Outstanding shares according to the financial statements at the beginning of the year, millions	13,112	11,081
Issuance of new shares, millions	824	1,787
Average outstanding shares, millions	13,936	12,868
Earnings per share, ISK	2,68	1,47
Diluted Earnings per share, ISK	2,66	1,47

Cash and cash balances with central banks

■ 52. Specification of cash and cash balances with central banks:

	31.12.2006	31.12.2005
Cash in hand	1,044	864
Balances with central banks other than required reserves	14,967	18,369
Required reserves at central banks	2,452	1,214
Treasury bills	1,954	414
Total	20,417	20,861

Loans and receivables

53. Loans and receivables are specified as follows:

	31.12.2006	31.12.2005
Balances with credit institutions	32,027	32,062
Loans to credit institutions	144,983	43,425
Loans and leasing contracts to customers	1,571,726	1,078,383
Other receivables	11,632	20,558
Total	1,760,368	1,174,428

54. Loans and leasing contracts to customers are as follows:

Loans to individuals:		
Overdrafts and credit cards	25,452	12,632
Term loans	46,251	43,488
Mortgages	292,768	205,714
Loans and leasing contracts to corporate entities:		
Direct commercial loans	1,187,298	825,643
Other	32,419	97
Gross loans and advances	1,584,188	1,087,574
Less: allowance for losses on loans and advances	(12,462)	(9,191)
Net loans and advances	1,571,726	1,078,383

55. Loans to customers and leasing contracts are specified by borrowers as follows:

Central government and state-owned enterprises	0.3%	0.2%
Municipalities	0.3%	0.8%
Business Sectors:		
Agriculture	0.3%	0.2%
Fishing industries	9.1%	10.4%
Commerce	4.3%	4.8%
Industry and contractors	8.0%	7.6%
Real Estate	28.4%	27.2%
Services	26.0%	21.5%
Individuals	23.3%	27.3%
Total	100.0%	100.0%

56. Allowance for losses on loans and receivables:

	2006	2005
Balance as at 1.1.	9,191	9,643
Transferred into the group	167	526
Transferred from the group	(50)	(917)
Provision for loan impairment	4,759	2,125
Loans written off during the year as uncollectible	(2,010)	(2,174)
Amounts recovered during the year	109	97
Translation difference	296	(109)
Total at year end	12,462	9,191

Provision for losses has been deducted from the following balance sheet items:	31.12.2006	31.12.2005
Loans and leasing contracts to customers	12,462	9,191

Financial assets held for trading

57. Specification of financial assets held for trading:

	31.12.2006 According to balance sheet	Against derivative contracts	Net position	31.12.2005 According to balance sheet	Against derivative contracts	Net position
Bonds issued by public bodies	70,532	(66,706)	3,826	59,161	(55,508)	3,653
Bonds issued by others	10,667	(10,667)	0	1,901	(1,901)	0
Shares	79,170	(67,074)	12,096	74,335	(59,627)	14,708
	160,369	(144,447)	15,922	135,397	(117,036)	18,361
Carrying amount of derivatives	66,882			16,500		
Total	227,251	(144,447)	15,922	151,897	(117,036)	18,361

Financial assets designated at fair value through profit or loss

58. Financial assets designated at fair value through profit and loss are specified as follows:

	31.12.2006	31.12.2005
Cash equivalents	109,673	0
Bonds issued by public bodies	292	1,824
Bonds issued by others	33,728	29,933
Loans	24,457	49,654
Mutual funds	7,049	0
Shares	6,275	1,315
Preferred shares	19,390	13,712
Financial assets designated at fair value through profit or loss	200,864	96,438

Financial assets available-for-sale

59. Financial assets available-for-sale are specified as follows:

Bonds issued by public bodies	239	479
Bonds issued by others	3,507	3,132
Financial assets available-for-sale	3,746	3,611

Investments in associates

60. Changes in investments in associates:

	2006	2005
Investments in associates at the beginning of the year	8,081	2,605
Purchases of shares in associates	3,863	36
Sales of shares in associates	(8,020)	(104)
Transfers	(1,019)	6,458
Share of results	1,470	1,262
Dividends paid	(157)	(2,106)
Foreign exchange translation differences	161	(70)
Investments in associates at year-end	4,379	8,081

61. The Bank's interest in its principal associates, which are unlisted, are as follows:

	Ownership at year-end	Book value 31.12.2006	Share of results 2006	Book value 31.12.2005	Share of results 2005
Eignarhaldsfélagið Fasteign hf.	32.7%	731	77	548	71
Farsímagreiðslur ehf.	27.0%	11	(1)	12	(5)
Fjárfestingafélagið Máttur ehf.	50.0%	1,984	(27)	0	0
Greiðslumiðlun hf.	0.0%	0	27	338	77
Klasi hf.	0.0%	0	185	450	172
Klasi AS	20.0%	15	0	0	0
Kreditkort hf.	55.0%	0	46	392	81
Mens Mentis hf.	44.6%	78	7	71	11
Reiknistofa Bankanna	23.0%	345	0	331	0
Sjóvá-Almennar tryggingar hf.	0.0%	0	1,123	5,932	846
Bolig- og Næringsmægler AS	25.0%	43	13	0	0
Norsk Privatøkonomi ASA	45.0%	1,070	20	0	0
Auðkenni hf.	25.0%	11	0	0	0
Median – Rafræn miðlun hf.	23.5%	91	0	0	0
Other		0	0	7	9
Total		4,379	1,470	8,081	1,262

Investments in subsidiaries

62. The parent's interest in its subsidiaries are as follows:

	Location	Ownership	Assets	Liabilities	Revenue	Results
Bolig- og Næringsbanken ASA	Norway	100%	289,738	261,288	1,187	35
Bolig- og Næringskreditt ASA	Norway	100%	295,097	266,647	3,474	1,904
Bolig- og Næringsbanken Invest AS	Norway	100%	515	2	0	0
Glitnir Bank ASA	Norway	100%	64,120	58,854	1,497	656
Glitnir Factoring ASA	Norway	100%	3,338	2,991	305	47
Glitnir Norway AS	Norway	100%	370	360	432	9
Glitnir Securities ASA	Norway	100%	2,563	1,489	2,732	501
Glitnir Kapitalforvaltning AS	Norway	100%	274	125	389	120
Union Group AS	Norway	50.1%	4,278	1,308	2,585	2,431
Glitnir AB	Sweden	100%	19,861	17,787	1,257	64
Glitnir Luxembourg SA	Luxembourg	100%	152,497	146,604	2,660	1,083
Kreditkort hf.	Iceland	55%	10,644	9,468	686	143
Glitnir Capital Investment ehf.	Iceland	100%	814	779	50	45
Glitnir sjóðir hf.	Iceland	100%	215	130	257	31
Glitnir eignarhaldsfélag ehf.	Iceland	100%	8,703	7,632	(87)	843
Steinvirki ehf.	Iceland	100%	162	6	18	14
Glitnir Real Estate Fund I slhf.	Iceland	59%	1,823	1,253	(6)	(3)
11 other wholly owned subsidiaries		100%	947	474	399	178
Total			855,959	777,197	17,835	8,101

Related party disclosures

63. The Bank has a related party relationship with its subsidiaries, the board of directors of the parent company, the managing directors of the Bank, the managing directors of the largest subsidiaries, close family members of individuals referred to herein and entities with significant influence as the largest shareholders of the Bank. The balances with related parties at year end are as follows:

	2006	2005
Loans to the CEO and managing directors	5,726	3,239
Loans to members of the board and companies related to members of the board	37,217	22,982
Shares in Sjóvá-Almennar tryggingar hf., company related to a member of the board	0	5,932
Loans to associated companies	13,325	12,555

Loans granted to the CEO and managing directors, in the amount of ISK 5,685 million, were in relation of purchase of shares in the Bank. Terms of transactions with related parties are determined on an arms-length basis. No provisions have been recognised in respect of loans given to related parties.

Property and equipment

■ 64. Property and equipment are specified as follows:

	Real estate	Fixtures, equipment & vehicles	Total
Book value as at 1.1.2005	1,389	1,228	2,617
Additions during the year	207	872	1,079
Net acquistion through business combinations	584	101	685
Depreciation during the year	(11)	(421)	(432)
Disposals during the year	(9)	(28)	(37)
Transferred due to sale of subsidiary	(1,395)	(506)	(1,901)
Foreign exchange translation differences	(22)	(2)	(24)
Book value 31.12.2005	743	1,244	1,987
Additions during the year	188	637	825
Net acquistion through business combinations	392	453	845
Depreciation during the year	(16)	(519)	(535)
Disposals during the year	0	(41)	(41)
Transferred due to sale of subsidiary	0	0	0
Foreign exchange translation differences	152	63	215
Book value 31.12.2006	1,459	1,837	3,296
Total value as at 31.12.2005	960	3,377	4,337
Accumulated depreciation as at 31.12.2005	(217)	(2,133)	(2,350)
Book value 31.12.2005	743	1,244	1,987
Total value as at 31.12.2006	1,752	5,477	7,229
Accumulated depreciation as at 31.12.2006	(293)	(3,640)	(3,933)
Book value 31.12.2006	1,459	1,837	3,296
Insurance value of buildings as at 31.12.2006			1,781
Insurance value of fixtures, equipment and vehicles as at 31.12.2006			2,618

Intangible assets

■ 65. Goodwill is allocated to the Bank's cash-generating units (CGU) in keeping with the main emphasis of monitoring and managing activites. With regard to this, goodwill has been distributed between CGU according to its origin. As part of the apportioning of the Bank's goodwill, the recoverable amount is measured by value in use. Each CGU is assessed on its own, in which expectations for return on equity, payout ratio, equity and yield are the main variables in the assessment of each CGU. An independent operating budget acts as the bases for results for the five year of the scheme and after that it is based on long-term yield of comparable units. Return objectives are different within each CGU. A sensitivity analysis of budgets and key premises revealed that a significant deviation from the budget or a breakdown must take place in order to affect an impairment of the goodwill in the Bank's balance sheet.

The allocation of the goodwill for each CGU is as follows:	31.12.2006	31.12.2005
BNbank ASA	12,642	10,314
Glitnir Securities AS	655	0
Glitnir Kapitalforvaltning AS	91	0
Union Group AS	1,567	0
Glitnir AB	2,002	0
Kreditkort hf.	466	0
Other cash generating units	523	237
Total goodwill 31.12.2006	17,946	10,551

Intangible assets are specified as follows:	Goodwill	Software	Total
Intangible assets as at 1.1.2005	11,552	314	11,866
Additions during the year	11,663	193	11,856
Acquistion through business combinations	0	131	131
Disposals during the year	0	(314)	(314)
Transferred due to sale of subsidiary	(12,302)	0	(12,302)
Impairment	(80)	0	(80)
Amortization during the year	0	(49)	(49)
Foreign exchange translation differences	(282)	(2)	(284)
Intangible assets at 31.12.2005	10,551	273	10,824
Additions during the year	4,498	129	4,627
Acquistion through business combinations	299	23	322
Amortisation during the year	0	(127)	(127)
Foreign exchange translation differences	2,598	66	2,664
Intangible assets as at 31.12.2006	17,946	364	18,310

Deposits from credit institutions and central banks

66. Deposits from credit institutions and central banks are specified as follows:	31.12.2006	31.12.2005
Repurchase agreements with central banks	36,045	17,801
Deposits from credit institutions	42,531	12,855
Deposits from credit institutions and central banks	78,576	30,656

Other deposits

67. Other deposits (than deposits from credit institutions) are specified by type as follows:

Demand deposits	259,156	195,805
Time deposits	179,116	108,331
Other deposits total	438,272	304,136

68. Other deposits are specified by owners as follows:

	2006		2005	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	11,389	3%	339	0%
Municipalities	40,497	9%	1,827	1%
Other companies	171,194	39%	173,232	57%
Individuals	215,192	49%	128,738	42%
Other deposits total	438,272	100%	304,136	100%

Borrowings

69. Specification of borrowings:

	31.12.2006	31.12.2005
Issued bonds	1,225,547	808,850
Issued bonds designated at fair value	24,457	49,654
Loans from credit institution	101,073	75,202
Other borrowings	26,800	4,088
Borrowings	1,377,787	937,794

Subordinated loans

70. Specification of subordinated loans:

	Currency	Interest	Maturity date	Book value 2006
Loans which qualify as Tier 1 capital:				
Subordinated loans – unlisted	JPY	3.6%	Perpetual	2,404
Subordinated loans – unlisted	NOK	7.1%	Perpetual	1,916
Subordinated loans – unlisted	NOK	5.8%	Perpetual	964
Subordinated loans – listed on the Iceland Stock Exchange	ISK	6.0%	Perpetual	4,204
Subordinated loans – listed on the Iceland Stock Exchange	ISK	9.5%	Perpetual	1,171
Subordinated loans – listed on the Euronext Amsterdam	EUR	8.0%	Perpetual	12,391
Subordinated loans – listed on the London Stock Exchange	USD	7.5%	Perpetual	18,676
Total Tier 1				41,726
Loans which qualify as Tier 2 capital:				
Subordinated loans – listed on the Iceland Stock Exchange	NOK	5.0%	2010	60
Subordinated loans – listed on the Iceland Stock Exchange	ISK	7.0%	2008	219
Subordinated loans – listed on the Iceland Stock Exchange	EUR	4.3%	2008	4,741
Subordinated loans – listed on the London Stock Exchange	EUR	4.0%	2009	6,659
Subordinated loans – listed on the London Stock Exchange	EUR	6.6%	2011	673
Subordinated loans – listed on the London Stock Exchange	EUR	6.8%	2015	1,002
Subordinated loans – listed on the London Stock Exchange	EUR	6.9%	2015	503
Subordinated loans – listed on the London Stock Exchange	USD	5.8%	2015	5,411
Subordinated loans – listed on the London Stock Exchange	USD	6.7%	2016	36,343
Subordinated loans – listed on the London Stock Exchange	NOK	4.4%	2008	213
Subordinated loans – listed on the Oslo Stock Exchange	NOK	5.3%	2013	3,436
Subordinated loans – listed on the Oslo Stock Exchange	NOK	4.4%	2015	3,436
Subordinated loans – listed on the Oslo Stock Exchange	NOK	4.6%	2016	350
Subordinated loans – listed on the Oslo Stock Exchange	NOK	4.5%	2016	4,226
Total Tier 2				67,272
Total subordinated loans				108,998

Financial liabilities held for trading

71. Balances of financial liabilities held for trading:

	31.12.2006	31.12.2005
Short positions in trading securities	4,877	0
Derivatives, credit institutions	36,954	16,408
Derivatives, others	9,898	12,383
Financial liabilities held for trading	51,729	28,791

Post-employment obligations

72. Amounts recognised in the balance sheet for post-employment obligations are determined as follows:

Pension liability as at 1.1.	418	2,607
Transferred into the Group	9	359
Transferred due to sale of subsidiary	(3)	(417)
Increment during the year	142	134
Paid during the year	(104)	(2,259)
Foreign exchange translation differences	67	(6)
Pension liability at year-end	529	418

Specification of post-employment obligations:		
Present value of funded obligations	1,223	864
Fair value of plan assets	(868)	(638)
	355	226
Present value of unfunded obligations	111	102
Unrecognised actuarial losses	57	87
Unrecognised prior service cost	6	3
Pension liability in the balance sheet	529	418

Tax assets and tax liabilities

73. Tax in the balance sheet:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Short-term	0	7,526	0	1,404
Deferred tax	264	3,121	268	3,682
Tax in the balance sheet	264	10,647	268	5,086

74. Changes in the deferred tax assets and the tax liabilities during the year are as follows:

	Assets	Liabilities
Tax assets and tax liabilities 1.1.2005	456	2,334
Transferred into the Group	0	955
Transferred from the Group	0	(2,211)
Exchange difference due to foreign subsidiaries	(22)	0
Calculated income tax for 2005	(166)	4,008
Income tax payable in 2006 and correction due to 2005	0	(1,404)
Deferred tax assets and tax liabilities 31.12.2005	268	3,682
Transferred into the Group	0	45
Translation difference due to foreign subsidiaries	59	(252)
Calculated income tax for 2006	(63)	7,962
Income tax on equity items		(790)
Income tax payable in 2007 and correction due to 2006	0	(7,526)
Deferred tax assets and tax liabilities at the end of 2006	264	3,121

75. The Bank's deferred tax assets and tax liabilities are attributable to the following balance sheet item:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Leasing contracts		912		380
Shares in other companies	1	6		402
Property and equipment	2	213		172
Assets and liabilities denominated in foreign currencies		1,512		1,358
Tax loss of subsidiary carried forward	77		22	
Other items	184	478	246	1,370
Deferred tax assets and tax liabilities at the end of 2006/2005	264	3,121	268	3,682

Other liabilities

76. Specification of other liabilities

	31.12.2006	31.12.2005
Accruals	6,595	2,819
Unsettled securities transactions	7,637	7,665
Deferred income	86	93
Other liabilities	5,495	15,253
Total	19,813	25,830

Equity

77. According to the Parent Company's Articles of Association, the total outstanding number of shares is 14,265 million. At the end of December 2006 treasury shares were 104 million. One vote is attached to each share. In January 2006 the Bank issued 1,000 million new shares at ISK 18.6 per share. Also, 130 million new shares were issued through a payment of dividends in the form of shares.

78. Other reserves are specified as follows:

	Revaluation of fixed assets	Fair value change in AFS fin. assets	Accrued cost of stock options	Translation reserve	Total
Other reserves as at 1.1.2005	149	139	0	(1)	287
Translation differences				(1,357)	(1,357)
Net loss on hedge of net investment in foreign operations			915	915	
Fair value changes of financial assets available-for-sale	(18)			(18)	
Income tax on equity items		3		(198)	(195)
Accrued cost of stock options			52		52
Transferred due to sale of subsidiary	(149)				(149)
Other reserves as at 31.12.2005	0	124	52	(641)	(465)
Translation differences				10,958	10,958
Net loss on hedge of net investment in foreign operations			(4,462)	(4,462)	
Fair value changes of financial assets available-for-sale	70			70	
Income tax on equity items		(13)		804	791
Accrued cost of stock options			612		612
Other reserves as at 31.12.2006	0	181	664	6,659	7,504

Capital adequacy ratio

79. The capital adequacy ratio (CAD) is determined as follows:

	2006	2005
Shareholders' equity	144,578	84,537
Minority interest	1,541	0
Total shareholders' equity	146,119	84,537
Intangible assets	(18,310)	(10,824)
Core capital	127,809	73,713
Hybrid core capital	41,725	19,577
Tier 1 capital	169,534	93,290
Subordinated loans, excluding hybrid core capital	66,794	27,456
Deductions	(1,070)	(1,317)
Capital base	235,258	119,429
Risk-weighted assets		
Not included in trading portfolio	1,519,288	918,270
With market risk in trading portfolio	45,012	28,158
Total risk weighted assets	1,564,300	946,428
Core capital ratio	8.2%	7.8%
Tier 1 capital ratio	10.8%	9.9%
Capital adequacy ratio	15.0%	12.6%

Obligations

■ 80. Specification of obligations:

	31.12.2006	31.12.2005
Guarantees granted to customers	79,583	19,788
Unused overdrafts	40,858	26,166

Operating lease commitments

■ 81. Future non-cancellable minimum operating lease payments are due as follows:

Up to 1 year	411	354
1-5 years	1,417	1,268
Later than 5 years	4,472	4,255
	6,300	5,877

Assets under management and in custody

■ 82. Balance of assets under management and custody assets:

Assets under management	490,321	344,975
Custody assets	697,735	415,662

Pledged assets

■ 83. Assets have been pledged as security in respect of the following liabilities and contingent liabilities:

Repurchase agreements with central banks	36,045	17,801

Stock options

■ 84. All open stock options are listed in the tables below in millions of shares:

Stock options oustanding at 1.1.2005	45
Exercised during the year	(23)
New options issued	160
Stock options oustanding at 31.12.2005	182
Exercised during the year	(10)
Terminated during the year	(5)
New options issued	275
Stock options oustanding at 31.12.2006	442

	Millions of shares	Exercise price
Exercisable options	15	3,47
Exercisable options	3	3,10
Options exercisable in 2007 to 2008	11	10,65
Options exercisable in 2007	7	13,90
Options exercisable in 2007	141	15,50
Options exercisable in 2008	2	16,50
Options exercisable in 2008	3	13,95
Options exercisable in 2008	199	18,10
Options exercisable in 2008	1	18,50
Options exercisable in 2008	50	18,96
Options exercisable in 2008	10	19,80
Stock options outstanding at 31.12.2006	442	

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