Straumur-Burdarás
INVESTMENT BANK

Annual report 2006

ISK 46.4 billion
net operating income

ISK 45.2 billion
after-tax profit

ISK 412.3 billion
total assets

Six-fold
increase in net interest and commission income

54%
of net operating income from international sources

42%
return on equity

37.6%
CAD

Contents

The year in brief

Corporate highlights

January

Holding in Islandsbanki (now Glitnir) reduced to 4.89 per cent through disposal of 21.05 per cent of Islandsbanki's total share capital. Profit realised was ISK 16 billion.

2005 announced as being the best year in the Bank's history: ISK 26,718 million after-tax profit, ISK 82,865 million increase in equity, ISK 259,349 million total assets.

Danish FSA gave permission for Straumur-Burdarás to open an office in Copenhagen.

February

Fitch Ratings affirmed credit ratings of, Long-term BBB-, Short-term F3, Individual C/D and Support 3. These ratings were maintained throughout the year.

April

First quarter results announced: compared with 2005, after-tax profit up four fold, to ISK 19,080 million.

June

Fridrik Jóhannsson appointed CEO.

July

After-tax profit for Q2 announced as ISK 307 million.

Acquisition of 50.01 per cent of UK investment banking firm Stamford Partners announced. The deal was authorised by the UK's FSA in October.

November

Senior notes issued on international debt market under a CLO (collateralised loan obligation) to raise EUR 200 million. The notes, which will mature in 2012, were bought by Dresdner Bank AG, London.

December

A decision was made to report in Euros and for the Bank's equity to be denominated in the same currency.

UK FSA granted Straumur-Burdarás a permit to open an office in London. Initially, the office will focus on lending activities.

Trading highlights

January

Straumur-Burdarás sold its holdings in a number of unlisted companies to Baugur Group.

February

The Bank acted as adviser to Smáey in its purchase of Hertz Iceland.

As one of the largest shareholders in Skandia, Straumur-Burdarás supported the takeover bid from Old Mutual.

March

Straumur-Burdarás provided advice and debt financing for the acquisition of IT company, Kögun hf.

April

The Bank participated in underwriting senior loan refinancing for the UK supermarket chain, Iceland Limited.

Straumur-Burdarás acted as adviser to Tryggingamidstödin in its acquisition, and subsequent delisting, of Nemi ASA, Norway.

May

In Denmark, the Bank acted as adviser to Sjælsø Gruppen on its acquisition of Ikast Bryggerindustri.

June

In Denmark, Straumur-Burdarás acted as arranger of financing and sole financial adviser in World Class Iceland's acquisition of Equinox Fitness.

November

The Bank acquired 10.3 per cent of Swedish IT company, Pricer, for an estimated SEK 89 million and is now Pricer's second-largest shareholder.

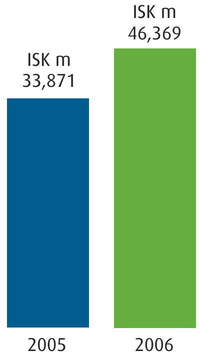
December

Straumur-Burdarás participated in the refinancing of Teymi, the former telecoms arm of Iceland's media conglomerate, Dagsbrún.

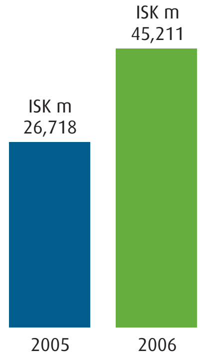
The Bank arranged funding and advised on an acquisition of the UK's The Fresh Olive Company.

As part of the buy-back of the Bank's shares from FL Group, the Bank sold shares to the value of ISK 10.2 billion in the Finnish airline, Finnair.

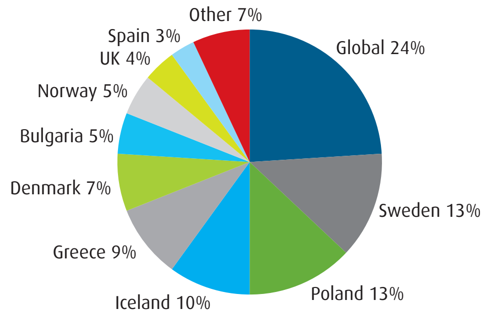
Net operating income



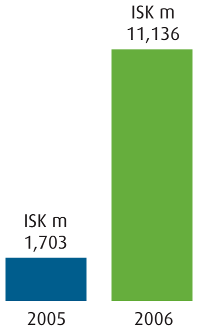
After-tax profit



Equity holdings by country of risk

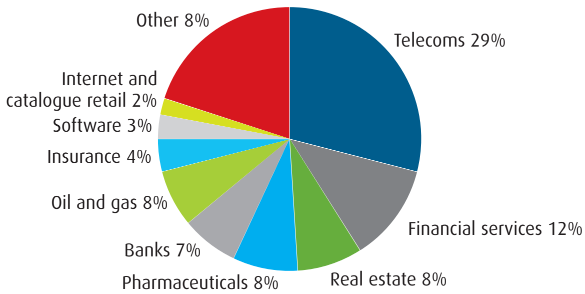


Net interest and commission income

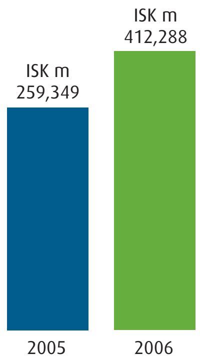


Trading gains

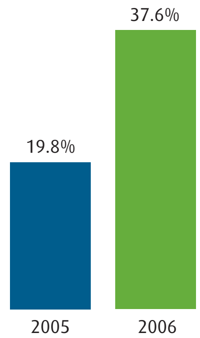
Equity holdings by sector



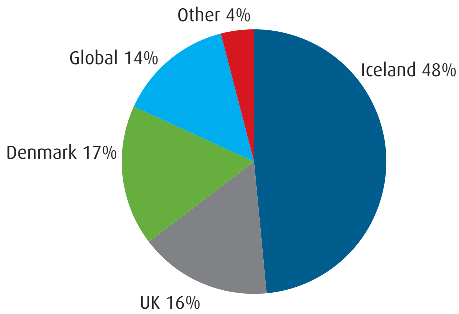
Total assets



CAD ratio

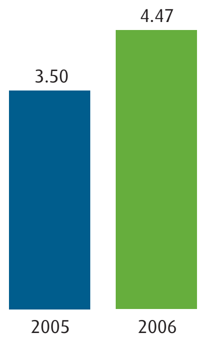


Loans by country of risk

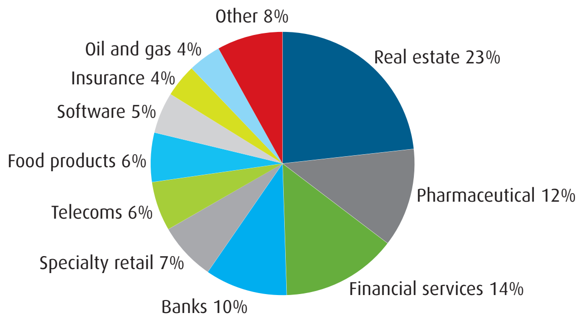


Market value

Earnings per share



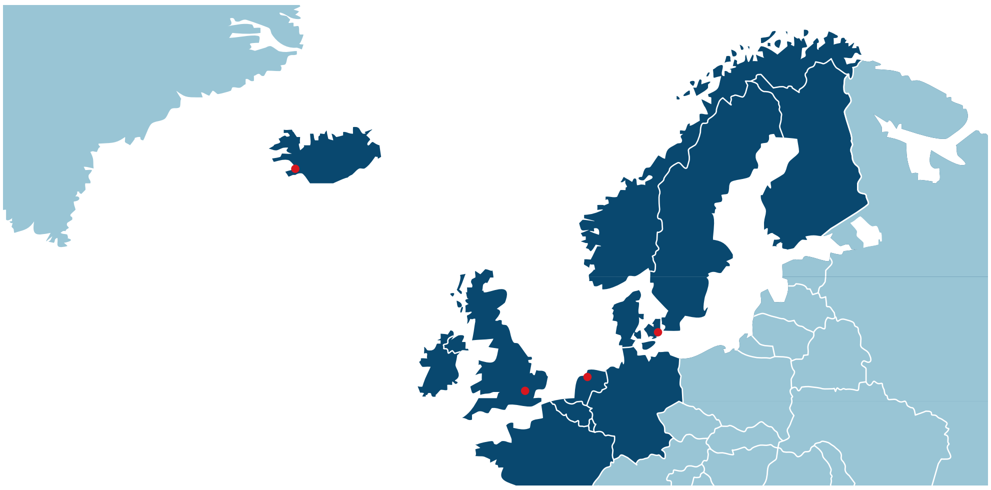
Loans by sector



Straumur-Burdarás Investment Bank

Straumur-Burdarás is a dynamic, Icelandic-based, international investment bank. We provide integrated financial services – from corporate and debt financing, to securities brokerage and IPOs – for small and medium-sized companies in northern Europe.

We work in partnership with our clients to help them grow their businesses and in selected cases, if predetermined conditions are met, we are willing to act as co-investor. We believe that helping our clients to achieve their ambitions will help us to achieve our own – to become a leading independent Nordic investment bank.



Our core market is northern Europe, with particular emphasis on the Nordic countries and the UK. Our headquarters are in Reykjavik; we also have offices in Copenhagen, London and Amsterdam.

Chairman's statement

The past year, 2006, has been another eventful period for Straumur-Burdarás. We have made significant progress in our stated strategy: to become a leading Nordic investment bank.

Three important events had moved us closer to our goal by the end of 2006. First, we improved our access to the rest of the Nordic region when we opened an office in Copenhagen; second, we gained access to the important UK financial markets when we acquired 50.01 per cent in the London-based specialist investment banking firm, Stamford Partners (this also gave us a foothold in mainland Europe through Stamford's office in The Netherlands); and third, and I believe most significant, we made the decision to report in Euros. Since we already generate a majority of our income in foreign currencies and a majority of our assets are outside the smallest currency area in the world, we are in no doubt that this decision is in the long-term interests of the Bank and its shareholders

Reporting in Euros not only puts us in a position which other members of the international financial community understand, it also encourages them to do business in association with us by simplifying the process. By being the first Icelandic financial institution to make this important move, Straumur-Burdarás has taken the lead in the internationalisation of Iceland's financial operations – a position which, as an innovative and progressive investment bank, we are determined to continue to hold.

Our focus on the Nordic region

The success of any financial services business depends, to a large degree, on the prevailing economic trends of the geographic area in which it operates. The Nordic region is extremely strong: Denmark, Finland, Iceland, Norway and Sweden all have stable economies and there are currently no indications of any change in that position. Our definition of "Nordic" also enables us to extend our interests to the United Kingdom – London is one of the world's leading financial centres – and, if we believe the conditions warrant it, to the Baltic and central European countries. I believe that the financial markets in the Nordic area will see rapid development in the next few years. There will be big changes, most evident now being the upcoming sale of the government stake in Nordea, and I believe Straumur-Burdarás should be an active participant in the area during these changes. Straumur-Burdarás should look to invest in the area and gain exposure to the most dynamic industries, offering new products and building a team of the best professionals.

The Icelandic economy continues to perform well. Since the privatisation of the financial sector began in 1998, the economy has grown by around 5 per cent a year. The capital and energy which privatisation released has, without doubt, been the key element in our country's domestic and international success. There is, however, a further important element: Iceland's excellent educational system has produced a generation of entrepreneurial business leaders whose ambitions lead them to look beyond the confines of our shores.

Results for the year

We were extremely successful in delivering on our targets in 2006. Profitable growth, foreign investments and the development of our infrastructure resulted in a net operating income of ISK 46,369 million and an after-tax profit of ISK 45,211 million. Once again, the management and employees have performed exceptionally well and deserve our thanks.

Management team

There have been a number of changes in the management team during the year, the most important of which was that of the Chief Executive Officer. The Board and I are grateful to the former CEO, Thórdur Már Jóhannesson, for his achievement in building the Straumur business over five years to what it had become by the time of the merger with Burdarás. The formation of Straumur-Burdarás, however, changed the organisation's direction. By the beginning of 2006, it was clear that we were not developing quickly enough towards our stated objective of creating a leading Nordic investment bank – within the tight timeframe of three to five years – and we believed that we needed someone with more international experience to lead the business. We were fortunate that Fridrik Jóhannsson, who had demonstrated an ability to expand overseas during his time as CEO of Burdarás, agreed to join us. The developments the Bank has made in the past six months have made it clear that we took the right decision. We also welcome three other senior managers: Skúli Valberg Ólafsson, who has joined the management team as MD Operations, Óttar Pálsson, who has joined as MD Legal, and Höskuldur Ari Hauksson, who will join as MD Capital Markets in April.

Looking ahead

We now have the management team in place to ensure our long-term profitability by expanding our geographic reach – which will help to broaden our shareholder base – and by diversifying our investment and revenue streams effectively. I look forward to the coming year with confidence.

Björgólfur Thor Björgólfsson

Chief Executive's report

The major events which have defined our year – the opening of our Copenhagen office, the acquisition of 50.01 per cent in Stamford Partners, the granting of a licence from the UK's FSA (Financial Services Authority) to operate in London, and the decision to report in Euros – have been important steps towards realising our strategy of becoming a leading Nordic investment bank.

We intend to achieve that goal by sharing our clients' ambitions, offering integrated financial services to small and medium-sized companies in northern Europe, and by focusing on selected projects to leverage our resources.

These events have been highlights in a truly successful year in which we have delivered on all our targets while, at the same time, increasing our banking activities. The income generated by our corporate finance, debt finance, and capital markets divisions has covered our expenses by more than four times. This has been achieved while, at the same time, investing significantly in our support and risk management infrastructure. With the Bank's first full year figures as a merged entity, our cost/income ratio was 8.3 per cent and our return on equity was 42 per cent – by any measure, a good result.

A platform for growth

The August 2005 merger of Straumur and Burdarás created a strong asset and equity platform for growth. Geographic diversification forms a key part of our strategy for growth, and we devoted a great deal of time and attention to that during 2006. Iceland's geographic and demographic size make it a limited market, and its banks are disproportionately large; if, therefore, we are to continue to succeed we must look for opportunities abroad. We already earn more than 50 per cent of our income overseas and I believe that proportion is likely to increase to 80-90 per cent by the end of 2009. This was a major consideration in our decision to change the denomination of our equity; reporting in Euros will not only give a clearer picture of our operations, it will also reduce volatility.

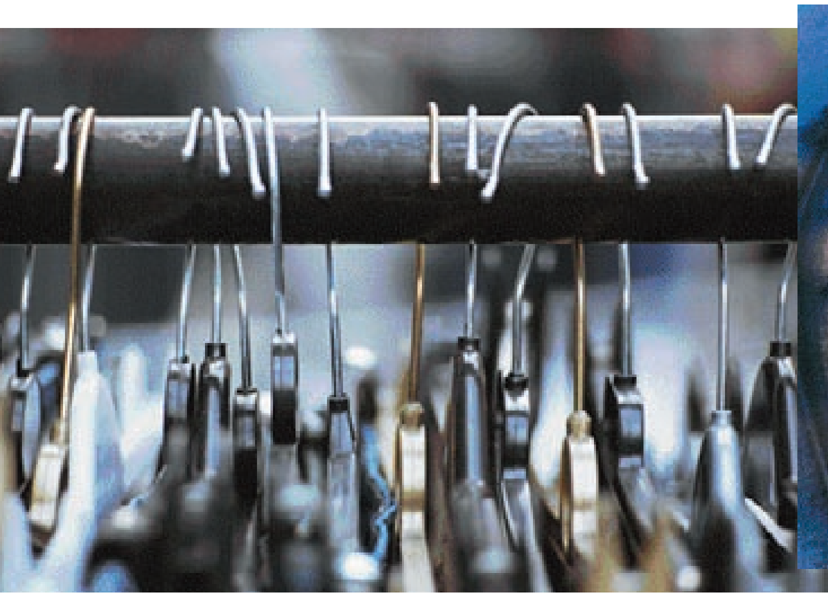
As an international investment bank it is imperative for us to have a presence in London, one of the world's largest M&A and leverage finance market, and the financial centre of Europe; our aquired part in Stamford Partners, together with the FSA licence to operate in the UK, has already given us a strong foothold in that market. Our focus on the Nordic region and the UK does not, however, preclude us from looking for opportunities elsewhere. Other countries in northern Europe also seem to us simply to be an extension of our "home ground". We seek, of course, to invest in countries with stable economies, but we will always be prepared to consider any opportunities for profitable growth which present themselves.

We minimise the risks inherent in expanding to new areas by working with people who have a proven record in that market and who share our vision. While we understand that cultures in other countries are different from ours, we choose to work with partners who are as progressive, decisive, thorough and solution-orientated as we are: it is not in our nature to say that something is "not possible", rather we look at what's needed to make it possible. When we created a presence in Denmark in November 2005 and the UK in July 2006, we did so by forming alliances with local people who have local knowledge. We started the Copenhagen operation with two corporate advisers who were known and respected in the Danish financial market; that team has now increased to 12 people. In London, our alliance is with a highly-regarded specialist investment banking firm, which also has a strong office in The Netherlands. In addition, we have set up a debt finance operation in London and, from early 2007, will build a strong Capital Markets division there. Our objective is to bring all the London operations together under one roof during the coming year.

A strategy for growth

During 2006, we addressed the issue of cross-ownership in Iceland when we sold a substantial proportion of our holdings in other Icelandic banks, and began to reduce our reliance on funding from domestic sources. We have a strong balance sheet – total assets amount to ISK 412,288 million, but although our dependence on other Icelandic banks for finance was reduced from more than 50 per cent in 2005 to 13 per cent in 2006, that level of reliance still resulted in our balance sheet showing only moderate growth at the year end. Now, with the majority of our funding coming from international banks, we are ready to take the next, substantial, step forward in our expansion.

We provide our clients with debt and equity financing, as well as advice. This integrated approach will, we believe, win more deals and will enable us to deliver on an important element of our strategy: to increase our customer base threefold by the end of 2009. By that time, we also aim to earn 20 per cent of our revenue from new products and services and to achieve an ROE (Return on Equity) of at least 15 per cent above base rate. The provision of integrated services has already resulted in a four-fold increase in net commission income – up ISK 5,453 million year-on-year, and net interest income – up ISK 3,980 million year-on-year – and makes us confident of realising our ambition of earning 50 per cent of our net revenue from these sources by the end of 2009. Our pursuit of this goal is manifested in the change in our asset base: during 2006 interest-bearing assets increased by 74 per cent to represent 59 per cent of total assets, while listed equities reduced by 87 per cent and unlisted equities by 45 per cent. We expect a greater focus on lending activities to increase our balance sheet to ISK 750 billion



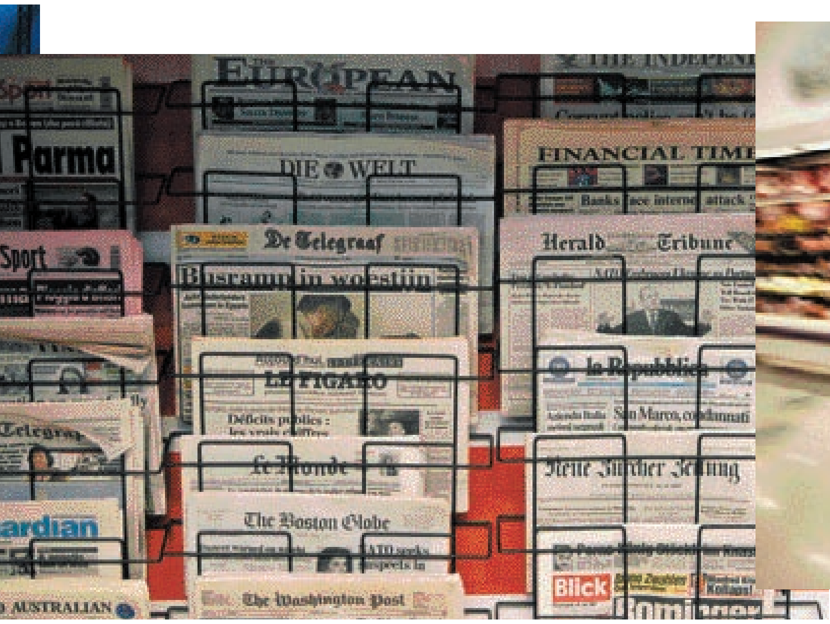
January: *we sold our holdings in the unlisted companies, Magasin du Nord, Illum and Iceland, to Baugur Group. Our holding in Islandsbanki (now Glitnir) reduced to 4.89 per cent through the disposal of 21.05 per cent of Islandsbanki's total share capital. Profit realised was ISK 16 billion.*

February: *we acted for Smáey in its acquisition of Hertz Iceland. Fitch Ratings assigned Straumur-Burdarás ratings at Long-term BBB-, Short-term F3, Individual C/D and Support 3.*

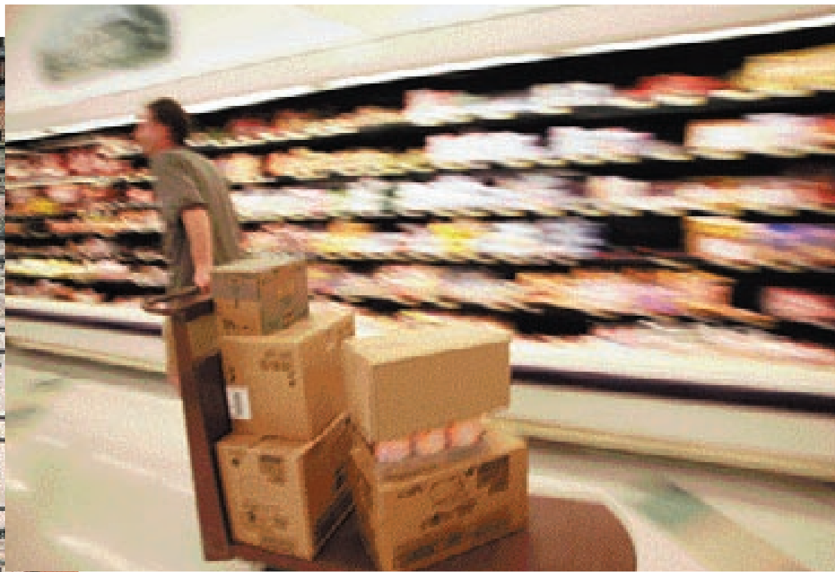
over the next three years. We will also implement MiFID (the Markets in Financial Instruments Directive) which comes into force on 1 November 2007. MiFID, a major element in the EU's plan to integrate Europe's financial markets, sets out a number of regulations; for us, the most important is that by clarifying the responsibility of "home" states for overseas branches it will facilitate cross-border business.

We will continue to diversify: this has already reaped benefits in 2006 by enabling us to stabilise our income. We intend to continue along this path so that, in three years' time, no business stream or geographic sector will represent more than 20 per cent of our revenue. Our intention of having operations in at least eight countries by the end of 2009 will help to facilitate that – although we will still focus on keeping our cost/income ratio, which was 8.3 per cent in 2006, below 25 per cent.

We will continue to focus on our vision of becoming a leading Nordic investment bank. We are already well known for offering integrated deal financing and advisory services to small and medium-sized companies in northern Europe and, in the Nordic market, have become the preferred partner for integrated deal financing. We are well on the way to achieving our ambition of becoming one of the ten most-preferred investment banking partners in the Nordic region by the end of 2009. We specialise in the financing of selected, high-margin transactions, and are renowned for our agility, flexibility, strong risk management and our ability to meet clients' needs. Most important, particularly for small and medium-sized companies, is our will and ability to act quickly. We share our clients'



March: *we advised Icelandic conglomerate Dagsbrún on the acquisition of listed company Kögun hf, and also provided debt financing.*



April: *we participated in underwriting the senior loan financing for the UK supermarket chain, Iceland Limited.*

ambitions. We are unusual in that, in some instances, we are also willing to share the risk by investing in projects with our customers, although in doing that we always have a clear exit strategy.

A structure for growth

Our plans for international expansion and rapid growth not only demand that we have the right structure in place to support our ambitions, but also that we hire people who have extensive and relevant experience of the markets in which we operate. As part of this policy, in September 2006 we were pleased to welcome Óttar Pálsson as head of our Legal Division, Skúli Valberg Ólafsson joined the management team as Managing Director of Operations, and Höskuldur Ari Hauksson will join us as Managing Director of our Capital Markets Division in April 2007.

Our business is organised into five operating divisions: Capital Markets, Corporate Finance, Debt Finance, Proprietary Trading and Treasury.

Capital Markets, Managing Director, from April 2007, Höskuldur Ari Hauksson. The division handles the Bank's securities brokering and co-ordinates share and bond offers with other divisions of the Bank. Its clients are primarily pension funds and other institutional investors, investment and asset management companies, corporations and high-net-worth individuals. Net operating income at the end of the year was ISK 2,402 million, after particularly good results in Q4.

April: we advised Tryggingamidstödin on its acquisition, and delisting, of Nemi ASA, Norway.

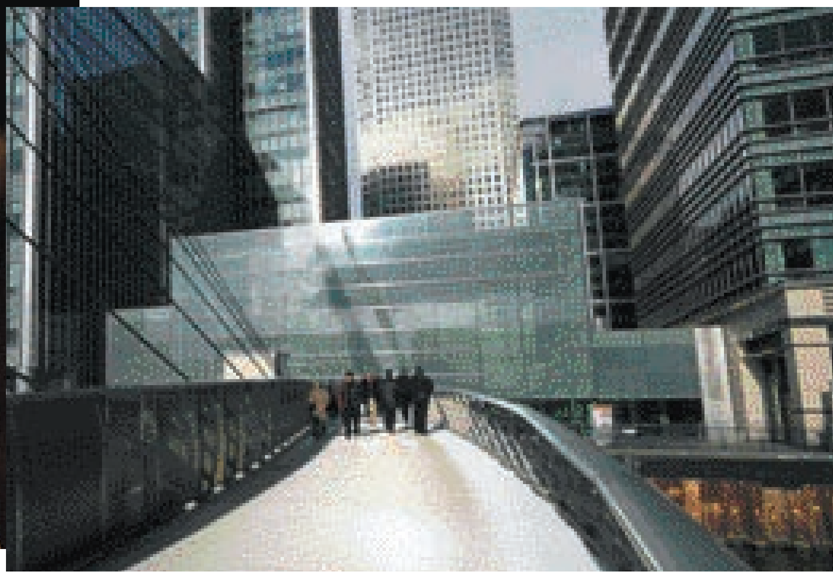
May: in Denmark we advised Sjælsø Gruppen on its acquisition of Ikast Bryggerindustri.

Corporate Finance, Managing Director Gudmundur Thordarson, advises the Bank's clients on the acquisition, merger, disposal and/or financing of companies and investment vehicles. The division had its best-ever year in 2006, with net operating income at the year end of ISK 15,686 million, and the outlook for 2007 is positive. The quality of assets continues to be strong. The 50.01 per cent acquisition of the UK firm, Stamford Partners, will broaden the division's sources of fee income in the coming year and that, combined with its strong foothold in the Copenhagen office, will enable it to maintain its focus on the Nordic and UK markets.

Debt Finance, Managing Director Margit Robertet, focuses on leveraged and acquisition funding; it offers corporate and institutional investors comprehensive financing solutions which range from general corporate loans to loan financing of LBOs, including senior and mezzanine debt. In 2006, the division's loan book increased by 158 per cent to ISK 125,609 millions. Commission income more than tripled and net interest income reached ISK 5,173 million. The team doubled in size during 2006 and received FSA approval to operate in London.

Proprietary Trading, Managing Director Benedikt Gíslason, is responsible for transactions on our own account. These are either part of market-making for certain classes of securities, or our own exposures in bonds, listed equities, FX and derivatives, on domestic and overseas markets. During the year, the division managed the Bank's successful exit from four of its largest holdings in listed equities: Glitnir, ISK 60 billion; Skandia, ISK 18 billion; Finnair, ISK 13 billion; and Avion, ISK 9 billion. Profit from FX trading, including the cost of carry, was ISK 1.7 billion.

June: *in Denmark, we were arranger of financing and sole financial adviser in World Class Iceland's acquisition of the Danish company, Equinox Fitness. We opened a Proprietary Trading desk in our Copenhagen office.*

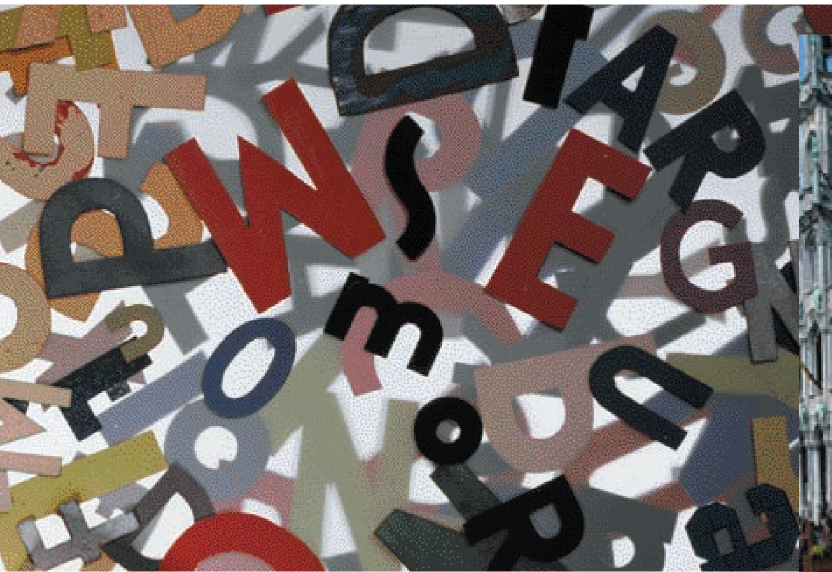


July: *we announced our acquisition of 50.01 per cent of the UK specialist investment banking firm, Stamford Partners. The deal was authorised by the UK's FSA in October.*

Treasury, Managing Director Svanhildur Nanna Vigfúsdóttir, is responsible for the Bank's financing and the management of short-term cash flow, interest rate balance and FX balance. The division has operations in Iceland and Denmark. During the year, it organised among other a EUR 200 million warehouse CLO funding; a two-year EUR 55 million committed back-up facility; a US$ 35 million private placement in the US, repayable in five years; and a US$ 29 million subordinated loan in the US, repayable in 12 years.

These five income-generating divisions work together to provide our clients with a comprehensive service from a single source and are supported by Risk Management, Managing Director Jakob Ásmundsson; Legal, Managing Director Óttar Pálsson; and Operations, Managing Director Skúli Valberg Ólafsson.

Our team, now more than 100 strong, is performance driven: it constantly looks to see if there is a better way of doing something. Its members are highly educated – over 90 per cent are university educated, 50 per cent of those to post-graduate level and 4 per cent with doctorates – and have brought an invaluable mix of commercial expertise to the Bank. We have an excellent record in staff retention and, with a reputation for being a good employer, foresee no problems in being able to recruit the quality of staff we will need to continue our growth and achieve our ambitions.



***November**: we acquired 10.3 per cent of Swedish IT company, Pricer, and are now the second-largest shareholder in the company.*

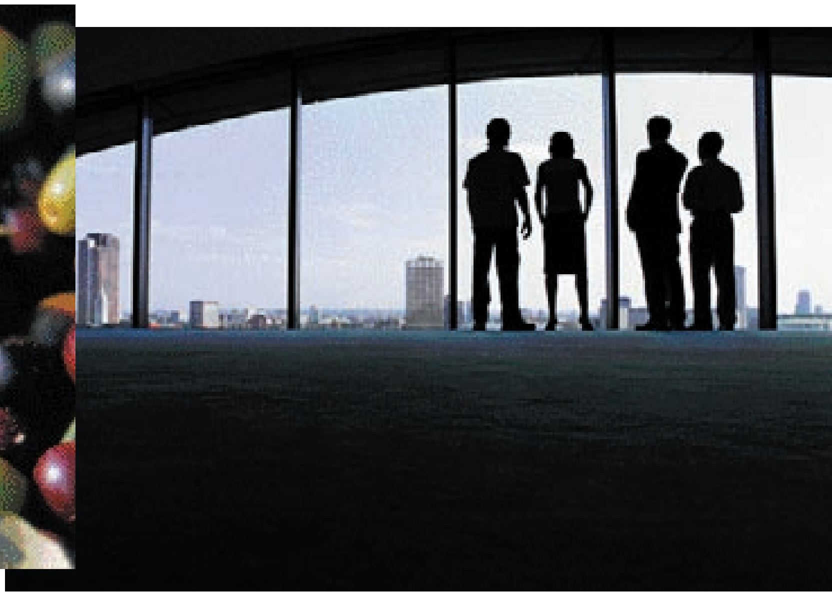
***November:** we raised EUR 200 million through an issue of senior notes on the international debt market, under a tailored warehouse CLO structure.*

A strong foundation for growth

Straumur-Burdarás has a particularly strong financial foundation – the result of a number of factors.

First, we have a strong shareholder base (20,666 shareholders at year end 2006) that is willing to support our growth. Iceland's low tax rate on companies and on individual income encourages people to invest, and the country's excellent pension system creates a virtuous circle by giving them the means to do so. Second, we strengthened our capital base when we sold our 26 per cent stake in Islandsbanki (now Glitnir) earlier in the year; this had the additional benefit of clarifying the direction we intended to follow by removing the speculation on a merger with that organisation. Third, we have been successful in increasing our interest-bearing asset base and in switching our revenues out of more volatile trading revenues into commission-fee-type and interest-bearing income. One of our major successes as a growing company in a volatile market has been in maintaining our focus on profitability while, at the same time, paying good dividends to our shareholders.

December: *in the UK, we advised on, and arranged funding for, the acquisition of The Fresh Olive Company.*



December: *in the UK, the FSA authorised us to open a branch in London on 1 January 2007. Initially, it will focus on lending. We also announced our decision to denominate our equity, and to report in, Euros.*

Looking ahead

We believe that our strategy of becoming a leading Nordic investment bank is well within our reach: no other bank offers the same services in the Nordic market and, as a result, the opportunities for us are practically unlimited. Our focus on offering integrated services and our innovative “can-do” attitude, combined with our integrity, strong risk management and efficient systems, makes us the natural partner for small and medium-sized businesses in the region.

I look forward to the future with confidence.

Fridrik Jóhannsson

Senior executive management

Fridrik Jóhannsson

Chief Executive Officer

Fridrik, who has more than 20 years' experience of working in financial markets, was appointed CEO in June 2006. He was previously CEO of listed investment company, Burdarás hf., and, before that, Skandia in Iceland, a life and non-life insurance, asset management and brokerage company. He has been a board member of a number of companies and was the Chairman of the Iceland Stock Exchange, leading the merger with OMX in November 2006. Fridrik holds a degree in Business Administration (cand.oecon) from the University of Iceland and is a certified public accountant.



Jakob Ásmundsson

Managing Director
Risk Management

Jakob joined Straumur-Burdarás in 2005. He was previously at Kaupthing Bank, where he specialised in risk management and, before that, he was a senior engineer at Intel Corporation. Jakob holds a BSc in Mechanical and Industrial Engineering from the University of Iceland, an MSc in Industrial Engineering from the University of Illinois at Urbana-Champaign, USA, and a PhD in Industrial Engineering from Purdue University, Indiana, USA.

Benedikt Gíslason

Managing Director
Proprietary Trading

Benedikt joined Straumur Investment Company, the predecessor to Straumur-Burdarás, in 2001. He previously worked in capital markets for the Icelandic Investment Bank (FBA). Following FBA's merger with Islandsbanki, he was Head of Foreign Securities Brokerage and Hedge Fund Manager. Benedikt holds a CSc in engineering from the University of Iceland.

Höskuldur Ari Hauksson

Managing Director
Capital Markets

Höskuldur Ari will join Straumur-Burdarás in April 2007. Since 2003, he has been an Executive Director and Commodity Strategist at Goldman Sachs where he has been responsible for developing commodity-linked investor business and for co-ordinating a team of seven strategists in London, New York and Singapore. Before that, he worked as Head of Research at RWE Trading. Höskuldur Ari holds a double BSc in Mathematics and Physics from the University of Iceland and a PhD in Mathematics from the University of California.

Senior executive management
continued

Skúli Valberg Ólafsson

Managing Director
Operations

Skúli joined Straumur Investment Company in 2003 when it acquired Brú Investments. In 2004 he established the Bank's venture capital vehicle, Brú Venture Capital, as well as the Bank's Corporate Finance Division, of which he was MD until late 2005 when he joined the CEO's office to focus on growth-related assignments. Skúli holds a BSc in Industrial and Systems Engineering from the University of Florida.

Óttar Pálsson

Managing Director
Legal

Óttar joined Straumur-Burdarás in September 2006. He was previously Executive Director of Corporate and Investment Banking at Glitnir. Before that, from 2001 to 2006, he was a partner at LOGOS, Iceland's largest law firm, where he headed the Company Law and Financial Markets Group and was also responsible for advising domestic and international clients on a wide range of transactions. Óttar holds a cand.jur degree from the University of Iceland and an LLM from University College, London, where he focused on Company Law and Financial Markets. He lectures on Company and Securities Law at the University of Iceland.

Margit Robertet

Managing Director
Debt Finance

Margit was appointed Managing Director in September 2005 after joining Burdarás as an investment manager earlier that year. From 2003 she was Operating Officer of CSFB in Paris, after working in the corporate finance team since 1997. She began her investment banking career in 1994 at Barclays, London, working in the equity capital markets origination team before being seconded to the Paris office in 1996. Margit holds an MBA from Erasmus University's Rotterdam School of Management.

Gudmundur Thordarson

Managing Director
Corporate Finance

Gudmundur joined Straumur Investment Company in 2003. He was previously at Islandsbanki (now Glitnir), first in the development division and later in the international division, and, before that, was Head of Asset Management at Landsbréf hf, Landsbanki's securities division. Gudmundur holds a degree in Business Administration (cand.oecon) from the University of Iceland.

Svanhildur Nanna Vigfúsdóttir

Managing Director
Treasury

Svanhildur Nanna joined Straumur-Burdarás in November 2005. She was previously Head of Funding at Kaupthing Bank. Before that, she worked for Islandsbanki – which she joined when it merged with her previous company, the Icelandic Investment Bank (FBA) – as a part of the capital markets team and later took on the role as director of internet trading. Svanhildur Nanna holds a Degree in Business Administration (cand.oecon) from the University of Iceland, and an MSc in International Business and Marketing from Copenhagen Business School.

Board of Directors

Björgólfur Thor Björgólfsson
Non-executive Chairman

Björgólfur Thor, an internationally-known investor and entrepreneur, was appointed Chairman of Straumur-Burdarás in October 2005. He has extensive experience in the financial services, pharmaceuticals and telecommunications sectors and holds a significant stake in the international generic pharmaceutical company, Actavis, of which he is also Chairman. He is a leading investor in the investment company, Novator, through which he also has significant shareholdings in telecommunications companies in Finland, Poland, the Czech Republic, Bulgaria and Greece. He also has investments in financial services companies in Iceland and Bulgaria. Björgólfur Thor holds a BSc in Finance from New York University.

Alternate Directors

Birgir Már Ragnarsson
Non-executive Director

Birgir Már was appointed to the Board in July 2006. He is Chief Executive Officer of the holding company Samson. He was previously a Partner at Lex-Nestor Law Offices, Senior Attorney for the Iceland Financial Supervisory Authority, and Legal Adviser to the Iceland Ministry of Industry and Commerce. Birgir Már became a member of the Icelandic Bar Association in 2000 and, in June 2003, earned an LLM from Harvard Law School, where he specialised in international finance.

Eggert Magnússon
Non-executive Director

Eggert was appointed to the Board in October 2005. He is the former owner and CEO of the manufacturing and import-export companies, Frón and Esja. Over the past 16 years, he has been a member of various UEFA and FIFA (International Federation of Football Associations) committees and, in 2006, acquired the UK Premier League club, West Ham United. He is also a director of Avion Group.

Baldur Örn Gudnason
Alternate Director

Baldur Örn was appointed as an alternate director with Eimskip ehf., the shipping division from which Burdarás had originated, in May 2004. He has been active in the transport industry, in Iceland and overseas, for 15 years and, until 2000 owned Sjöfn hf. in Akureyri. He is a board member of the Icelandic Group hf. and is on the council of the University of Akureyri. Baldur Örn has an MBA from the University of Reykjavik.

Thórunn Gudmundsdóttir
Alternate Director

Thórunn, who was appointed as an alternate director in 2005, is a Supreme Court Attorney and a Partner in Lex Law Offices. She has served on a number of government committees and on the boards of several companies. She is a part time lecturer at the University of Iceland and at Reykjavik University, and is the author of several articles on the concept of law. Thórunn graduated from the Law Faculty of the University of Iceland in 1982 and, in 1983, gained an LLM from Cornell University Law School, where she specialised in Contract Law.

Heidar Gudjónsson
Alternate Director

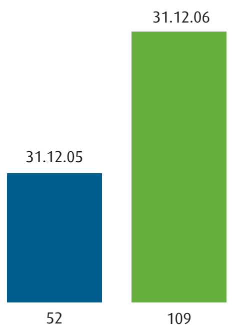
Heidar was appointed as an alternate director in July 2006. He is a Managing Partner at Novator, which he joined in 2005. He began working in the finance industry, as an equity trader with Fjárvangur Securities, in 1996 and joined Islandsbanki as head of institutional sales in 1997. He was one of the founders of Kaupthing New York in 2000 and managed GIR, a global macro hedge fund, after which he ran a managed account for Islandsbanki. Heidar has a BSc in economics from the University of Iceland.

Our people

Our people
continued

Straumur-Burdarás's competitive spirit, which has resulted in its rapid growth, springs from the people who work for the Company.

Number of employees



At the year end 2006, we employed 109 people and have a deserved reputation as a good employer. This not only enables us to attract the highest-quality candidates from academic institutions – from which we recruit many employees – but also enables us to attract more senior people from the industry. We have an enviable record on staff retention: in a September 2006 workplace audit, employee loyalty was measured as one of highest in Iceland – 4.56 out of 5.00.

We take pride in being a great place to work and provide our employees with excellent working environments and good opportunities for career development. Our increasing international presence, taste for innovation, and financial strength help to make us a dynamic workplace, but one that retains the advantages of a small company in which each person's voice is heard. This environment creates the flexibility for change and the opportunity to learn about new industries and markets, as well as providing a multitude of career opportunities.

We place considerable emphasis on our integrity and sense of ethics, both of which drive our business. Our internal policies and practices help ensure that we hold true to these values.

Education and training

All employees, including management, are offered opportunities to further their education and training to enable them to meet their professional duties.

Compensation and performance

The contribution of teams and individuals is recognised, through a performance-based salary structure. Teamwork and peer-monitoring is encouraged to guarantee integrity and to minimise the taking of risks, while the need for cross-divisional teamwork is assessed on an individual project basis.

Employees are expected to be committed to the Company's core principles; their contribution is measured and acknowledged through their salary. Compensation of key employees is commensurate with the high performance we expect from them. The extremely competitive market for talented people demands that our salary system is flexible and individually focused. We reward these employees with a mixture of salary, incentives and benefits.

Benefits

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

Stock option plan

The Remuneration Committee, acting for the Board of Directors, has approved a stock option plan for the Bank's managers and key employees. Options are dependant on a holder continuing to be employed by the Company; if a holder leaves the Company, the unexercised portion of the option expires.

All options are settled by the granting of shares. The stock option contracts are effective until 1 March 2010. Employees are able to realise one-third of their options on 1 September 2007; one-third on 1 March 2009; and one-third on 1 March 2010. Alternatively, they can realise them in one tranche on the final date.

Options issued, together with authorisation for the issue of additional shares, totals 375,000,000 shares at nominal value, 3.62 per cent of total shareholders' equity.

Equal opportunities

Straumur-Burdarás does not consider age, colour, disability, ethnic origin, gender, political or other opinion, religion or sexual orientation as a barrier to employment. If any member of staff becomes disabled, their needs and abilities are assessed with a view to them continuing in their current role. If this is impossible, every effort is made to offer them alternative employment.

Future objectives

Straumur-Burdarás has a clear vision to enable it to realise its strategy of becoming a leading Nordic independent investment bank by the end of 2009.

Our strategic vision for the next three years includes increasing our net interest and fee income to 50 per cent of net revenue (2006: 24 per cent), and for new products and services to represent 20 per cent of our revenue.

We expect our balance sheet, which in 2006 was ISK 412 billion, to increase over the next three years to ISK 750 billion. To enable us to achieve this, we will continue to expand geographically as well as organically – we plan to have offices in eight countries by the end of 2009 – and will increase the number of international investors in the Bank. As we announced in January 2007, we are already operating and reporting in Euros.

New overseas offices will help us to grow our income in foreign currencies and to develop our international assets. They will, of course, also lead to us employing more international staff.

We will combine this geographic expansion with our historic focus on clients, innovation and flexibility to achieve our ultimate objective of becoming an international investment bank.

Risk management

Straumur-Burdarás is exposed to a number of risks in its activities as a an investment bank. It considers good risk management to be fundamental to its profitability and has a clearly-defined strategy to enable it to measure and monitor credit, market, liquidity, and operational risk. This, in turn, enables it to produce a consistently high return for its shareholders while maintaining adequate capitalisation to meet unforeseen events.

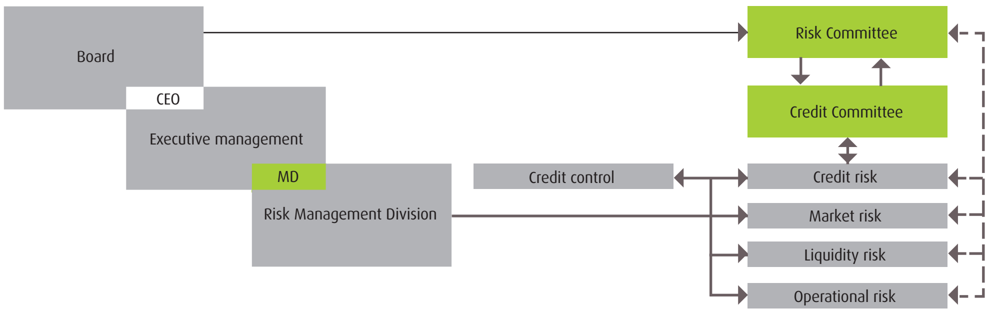
Risk management structure

The Board of Directors defines the Bank's risk strategy and is responsible for ensuring that its organisation and activities are adequate and effective at all times.

The Bank's Risk Committee decides which risks to accept. The members of the committee are appointed by the Board; the Chief Executive Officer is Chairman. The committee defines risk policies, procedures and limits, and ensures that all risks taken by the Bank conform to its overall risk strategy. Limited authority is further delegated to the Credit Committee, which makes decisions on individual credit-risk limits and is responsible for credit exposure. The Managing Director of the Risk Management Division, who is a member of both committees and chairs the Credit Committee, is responsible for enforcing the policy across the firm through appropriate methods and procedures.

Responsibility for the evaluation and management of risk lies with a centralised Risk Management Division and conforms with the risk policy set out in the Bank's Handbook on Policies & Procedures. Risk assessments, together with the various limits used to control exposure, are reported on a daily basis to leaders of each business unit, and on a regular basis to the Risk Committee.

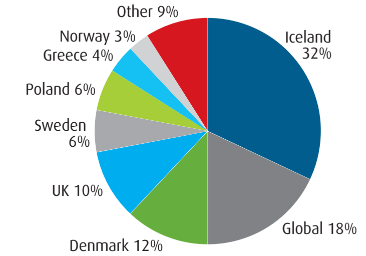
Risk appetite



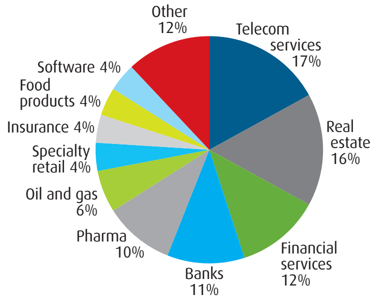
Risk appetite is the risk the Bank is willing to take to achieve its goals and is measured both qualitatively and quantitatively. The Risk Committee sets the level of risk appetite, in line with guidance from the Board. Risk is categorised into three main areas: market, credit and operational risk; in addition liquidity and firm-wide risks are covered.

Risks are identified and measured, and the Bank's appetite for each is defined. The use of risk, particularly the way limits are adhered to, is monitored daily and reported to the Risk Committee.

Risk by geographic area



Risk by sector



Risk concentration

Risk concentration refers to an exposure which, by having the potential to incur severe losses, could threaten the Bank's health or ability to maintain its core operations. Concentrations are characterised by a combination of individual exposures that are highly correlated. For the purpose of limiting the bank-wide risk concentration, the Bank monitors the concentration across all its asset classes. The methodology is largely based on Rules on Large Exposures as enforced by the FSA.

Exposure to a single group of financially-related counterparties may not exceed 20 per cent of the Bank's equity. The Icelandic FSA requires all exposures of more than 10 per cent of the Bank's equity to be reported. At the end of 2006 four exposures were reported, none of which exceeded the internal limit of 20 per cent.

Exposure to a single foreign country may not represent more than 20 per cent of the Bank's total asset portfolio. The country assigned to each exposure should reflect the country in which the majority of the cash flow originates and/or assets reside. Global exposure represents exposures to counterparties that do not have the majority of their cash flow and assets in a single country. Our largest exposure in a single foreign country is in Denmark which, at 12 per cent of the total portfolio, is well within limits.

Exposure to a single industry or sector may not represent more than 20 per cent of the Bank's total asset portfolio. The GICS standard, developed by Morgan Stanley Capital International, is used for classification. In addition, the industry classification reflects the underlying exposure and, in the case of holding companies, the business from which the cash flow originates or assets reside. The Bank's asset portfolio is quite well diversified; the largest sector accounts for 17 per cent.

Capital adequacy

Every financial institution must hold adequate capital to compensate for risks taken. CAD (capital adequacy ratio), the common measure used to calculate total eligible capital to risk-weighted assets should be at least 8 per cent, of which the Tier 1 capital element must be at least 4 per cent. The Bank's equity structure is composed of Tier 1 core capital – shareholders' equity and retained earnings – and, to a lesser extent, Tier 2 capital – subordinated debt.

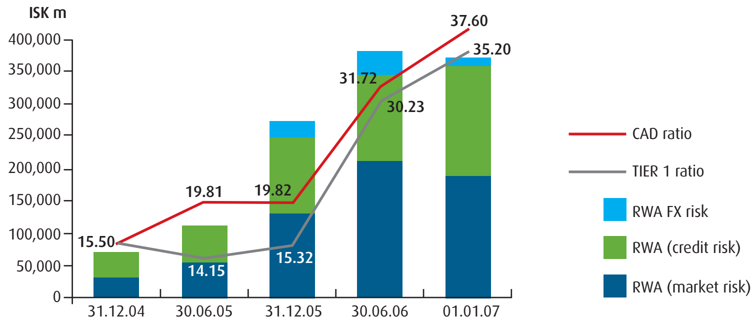
The Bank's internal limit for capital ratio is 15 per cent and, for Tier 1 ratio, 13 per cent. These targets have been comfortably maintained on a consistent basis. On 1 January 2007, after the Bank changed the denomination of its equity to Euros, the capital ratio was 37.6 per cent, of which Tier 1 accounted for 35.2 per cent.

The Bank also has a process for ICAAP (internal capital adequacy assessment) in accordance with the Basel II directive, which quantifies all material risks. This is forward looking and takes the Company's own plans and conceivable external changes into consideration.

Evolution of the CAD ratio

	1.1.2007	31.12.2005
Tier 1	123,629	99,833
Tier 2	8,391	5,408
Deductions	–	-64,033
Total capital	132,070	41,208
Risk weighted assets	351,352	207,118
Tier 1 ratio	35.2%	15.3%
CAD ratio	37.6%	19.8%

Evolution of the CAD ratio, %



The Icelandic FSA carried out a stress test on the Bank's capital ratio in October 2006 to verify the Bank's ability to withstand setbacks that may lead to changes in the value of shares, market bonds, non-performing/impaired loans and appropriated assets, and the Icelandic Krona, without its capital adequacy ratio falling below 8 per cent.

The Bank's financial strength was demonstrated by its capital ratio being calculated at 24.0 per cent after such an event. Since changing its equity to Euros, the Bank will be even less vulnerable to Icelandic market conditions.

Basel II

On 1 January 2007, the CAD rules based on the accord developed by the Basel Committee for Banking Supervision came into effect. The intention of the directive, to promote more effective risk management by encouraging the use of sophisticated control and measurement methods, is in line with the Bank's aspirations constantly to improve its risk management techniques and culture.

The directive is based on a three-pillar structure: the first pillar addresses the calculation of minimum capital requirements and includes generic rules on calculating credit, market and operational risk; the second specifies the framework for the supervisory review process and comprises risk not defined under Pillar I, as well as stress testing; the third covers market discipline and transparency to ensure that relevant information is published.

To meet the Pillar I requirements, the Bank will use the standardised approach for credit risk and market risk, and the basic indicator approach for operational risk. The Bank currently uses statistics, developed in line with Basel II, to evaluate and control its risks. It continually adopts more sophisticated ways to manage risk, and aims to adapt more advanced methods, such as internal rating-based approaches, for assessing capital needs.

Pillar II, enables institutions to tailor their internal governance to their operations and account for capital requirements not covered in Pillar I. Straumur-Burdarás has been working on the implementation of Internal Governance rules set by the CEBS (Committee of European Banking Supervisors). These include the creation of an ICAAP for evaluating capital adequacy in relation to risk profile.

Pillar III includes a number of recommendations and requirements to increase and improve disclosure. The Bank already fulfills many of these requirements, is aware of the importance of this interactive dialogue and intends to focus on further development in disclosure.

Credit risk

The Risk Management Division controls credit risk and monitors extended credit, at individual and portfolio level.

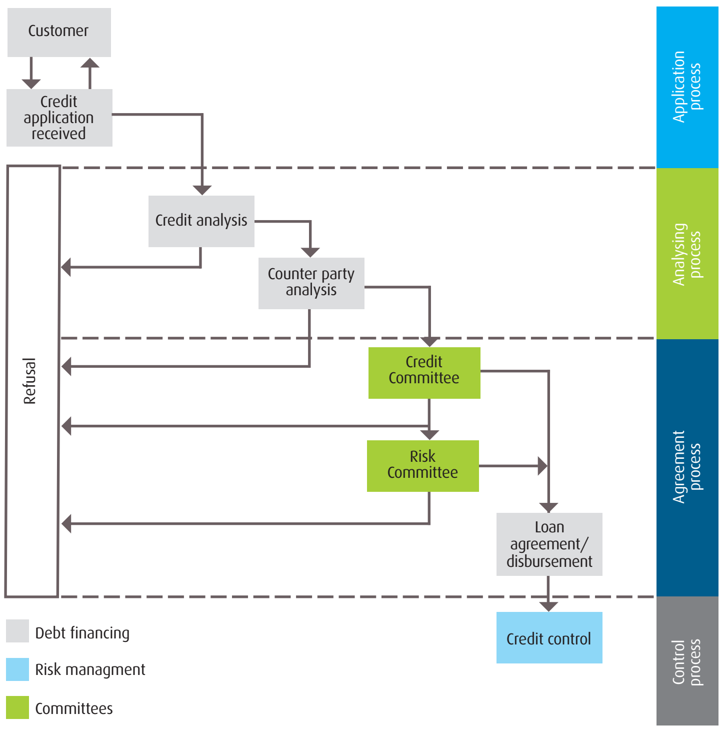
The primary credit risks are a wide range of loans, ranging from well collateralised senior loans to mezzanine loans. To ensure that risk for each credit extended is assessed effectively, the credit worthiness of the counterparty and the collateral, if present, is used to evaluate the overall risk. Derivatives and guarantees are treated in a similar way.

Credit approval process

For each loan, the Debt Finance Department presents a proposal, which includes a thorough analysis of the risk involved, to the Credit Committee for approval. In addition to the qualities of individual loans and collateral, the committee assesses the effect of the credit on the loan portfolio and ensures it is in line with the risk strategy. Credit that goes beyond the Credit Committee's remit is referrred to the Risk Committee.

A thorough credit assessment, including an assessment of a borrower's fundamental credit strength as well as the value of any collateral, is carried out on all borrowers. Stress tests are undertaken on a borrower's cash flow to assess its capacity to repay in a situation of stress and an independent third-party credit check is obtained when relevant.

Credit approval process



Collateral management

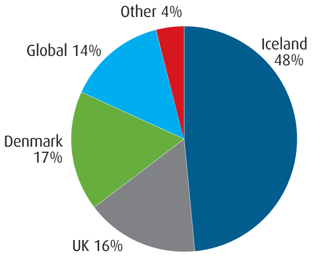
Rules on mitigating risk are set by the Board through the Rules on Lending. The Bank reserves the right to protect its exposure by liquidating the collateral of a listed security if the market value of that security falls below a pre-defined limit. The Risk Management Division uses statistical models to estimate the risk of holding listed shares as collateral.

The Bank limits the amount of shares in a single listed company held as collateral to 20 per cent of its free float adjusted market cap. These limits also apply to positions taken by the Bank for hedging purposes.

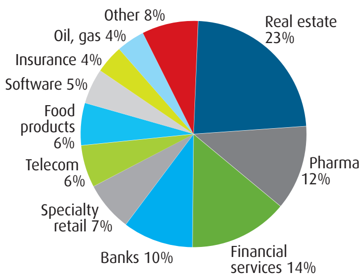
Credit rating models

Straumur-Burdarás is aware of the importance of a well-designed functional credit rating process. In 2006, the Risk Management Division implemented a risk model which is able to estimate the credit risk included in loans and derivatives contracts and also facilitates the risk of a significant part of the Bank's credit portfolio to be assessed. It aims to have models to rate the majority of the portfolio by the end of 2007.

Loans by country of risk



Loans by sector



Credit control and provisioning

Credit Control, part of the Risk Management Division, reviews the loan portfolio for defaults and organises the collection of problem loans. It ensures that loan covenants are not broken and that information from borrowers is provided as stipulated in loan agreements. The Bank monitors the value of listed shares, given as collateral, daily to ensure that prompt action can be taken if necessary.

The loan portfolio is classified by the underlying risk of each loan and the quality of its collateral. Each class of loans has a certain range of provisioning percentage, consistent with historical default and recovery rates, attached to it. The Debt Finance Division establishes the provisioning percentage within that range for approval by the Credit Committee. Special provisioning is applied, as considered appropriate by the Debt Finance Division and the Credit Committee, in the case of non-performing and problem loans that are suspected to incur severe losses.

The Bank classifies loans that are 30 days overdue as non-performing. The portfolio is quite healthy: the ratio of non-performing loans to total lending did not rise above 0.01 per cent in 2006, while the Bank had made provisions accounting for 1.18 per cent of its total lending.

Loan portfolio management

Limits to ensure the diversification of the loan portfolio are decided and monitored by the Risk Management Division and approved by the Risk Committee. The Bank also maintains sector and country limits on exposures to minimise the effects of local downturns on its performance. Risk Management conducts regular stress testing and analysis of the loan portfolio.

The country with the greatest credit exposure is Iceland, with 48 per cent of the total loan portfolio. Real estate represents the largest exposure in a single industry – 23 per cent of the total portfolio – within the Bank's 30 per cent limit.

Market risk

The Bank's risk exposure can be categorised as securities price, foreign exchange, and interest rate risk. The risk is monitored and measured, so that the overall exposure is clear at all times, and reports are available to senior management at any time.

Risk Management also enforces market risk limits, including (but not limited to) counterparty exposure, stop-loss and value-at-risk limits. Risk limit compliance is reported to the Risk Committee, which takes appropriate action if necessary.

Risk Management is constantly developing, and the Bank's Risk Management team updates its methods accordingly. Experts in analytical financial engineering and IT work towards building up a strong structure to enable the Bank to expand its operations. Models and systems are being developed, tested and improved to ensure that the Division maintains a comprehensive overview and control of the Bank's exposures and positions.

The majority of the Bank's market risk resides on the trading book, which is managed separately from the banking book. Treasury, which manages the banking book, seeks a neutral position to market risk factors.

Trading book

Market price risk is measured with internal models, which include sensitivity calculations for various shifts in market variables, situation tests and VaR models. Market prices are monitored daily, risk limits are set and compliance reports are sent to the appropriate managing directors and to the CEO. The majority of the Bank's market price risk is in Proprietary Trading, which oversees the position the Bank takes in listed securities, FX, and fixed income.

The Bank uses VaR (Value-at-Risk) to control market risk. VaR for the proprietary trading portfolio at the end of the year was ISK 740 million calculated for a one-day horizon with 95 per cent confidence. This implies that a loss greater than ISK 740 million should be expected only every 20 days. This has been confirmed: 13 days exceeded this loss during 2006.

1 day – VaR 95%

	Max	Min	Average	31.12.06
Equities	1,370	724	959	729
Fixed income	155	45	73	151
FX	501	–	313	–
All	1,384	740	1,067	740

Towards the end of 2006, Proprietary Trading sold its positions in foreign currency, as evidenced by the zero value of FX VaR at the year end. Liquidity in the trading book is ensured by setting exposure limits to individual securities, sectors and countries which are dependent on the liquidity of the underlying assets.

Banking book

Foreign exchange risk is controlled by continuously monitoring the Bank's net exposure in all foreign currencies and ensuring that it is within the set net-position limits. Risk limits for maximum and gross exposure to individual currencies have been defined by the Risk Committee and compliance with the procedures is monitored daily. The Bank's policy is to stay neutral in foreign currencies against the reporting currency, which was ISK for 2006. Proprietary trading can take a trading position above certain limits if approved by the Risk Committee.

From 1 January 2007, the Bank's equity, accounting and financial statements are denominated in Euros. Accordingly, Treasury had accumulated a currency position in the Euro at the year end which corresponded to the Bank's equity. The net position in Euros at 1 January 2007 was ISK 3,137 million.

Currency exposure 1 January 2007

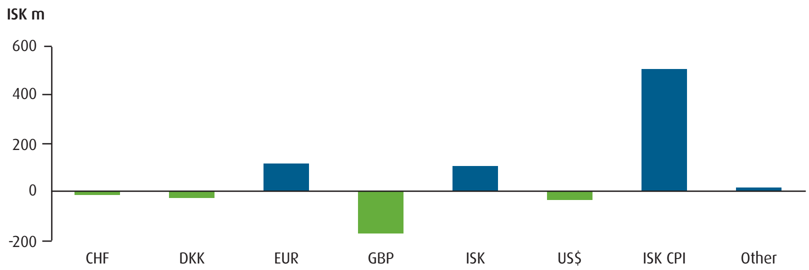
Currency	Assets ISK m	Liabilities ISK m	Net off-balance sheet ISK m	Net position ISK m
EUR	111,856	207,408	98,689	3,137
US$	18,068	9,065	(7,762)	1,241
GBP	28,028	11,433	(16,956)	(361)
DKK	47,203	25,767	(17,290)	4,146
ISK	164,766	144,057	(31,921)	(11,212)
Other	42,367	14,558	(24,760)	3,049
Total	412,288	412,288		

The Bank has loans and liabilities in its banking book in various currencies with a wide range of maturities and fixed or floating interest rates. It is exposed to interest rate risk because there is a mismatch of maturities between assets and liabilities within each currency.

Treasury controls the interest rate risk and ensures that the duration of any mismatch is within the Risk Committee's set limits. Interest rate risk resulting from a position taken by Proprietary Trading in market securities is controlled separately, and measured with VaR and other risk models.

The interest rate risk on the banking book resulting from a 100bp shift in the yield curves for each currency is monitored and managed. The aggregated risk is ISK 562 million given a simultaneous change in rates across all currencies. The highest exposure in an individual currency is ISK 523 million in interest rate instruments related to the Icelandic CPI (Consumer Price Index).

Interest rate risk given 100bp shift in the yield curve



The Bank carries borrowings and lending in its banking book, the principals of which are linked to the Icelandic CPI. Mismatch between the total assets and liabilities linked to the CPI may cause the Bank to be exposed to an indexation risk caused by unexpected changes in the index. Treasury is responsible for managing the indexation risk in the banking book to keep the net exposure at all times within given risk limits. The net exposure to the CPI at the end of the year was ISK -747 million in the banking book.

Liquidity and funding risk

Liquidity risk is critical to financial institutions. The Bank has a control and limit framework in place to keep the core business running under adverse circumstances. The Bank's liquidity is secured through:

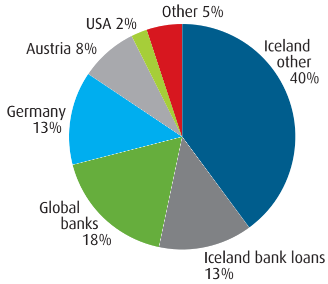
- **Secured liquidity** – the Bank has set limits to be able to cover 90 days' liabilities using only sources of secure liquidity – cash, deposits with financial institutions, government bonds and bills – and other securities eligible in repurchase agreements with central banks, as well as committed revolving facilities.
- **Unsecured liquidity** – the Bank must also be able to cover six months using secure liquidity and other liquid assets such as listed and liquid securities, referred to as unsecured liquidity.
- **Maturity management** – to manage the maturity of assets and liabilities to prevent an unnecessary imbalance in cash requirements.
- **Diversification of funding** – to ensure the sources of funding are spread across types of lenders, geographic region and currencies.

Treasury is responsible for managing the funding and liquidity of the Bank; Risk Management is responsible for overseeing and monitoring liquidity risks. Detailed reports are created daily and distributed to Treasury. Monthly reports on liquidity status are compiled by Finance and filed with the Central Bank of Iceland.

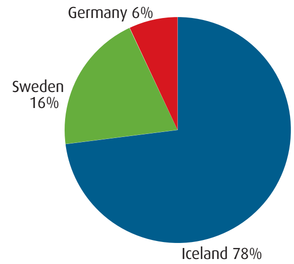
The Bank had, at the year end, securely liquid assets of ISK 99,705 million, a substantial increase from the previous year. Greater diversification of funding was also achieved between years, the Bank's funding had been concentrated in the Icelandic sector. Today Icelandic bank loans account for 13.4 per cent of total liabilities.

	2006 ISK m	2005 ISK m
Securely liquid assets	99,705	17,167
Other liquid assets	124,485	114,457
Liabilities due in three months	121,807	56,717
Liabilities due in six months	153,276	73,615

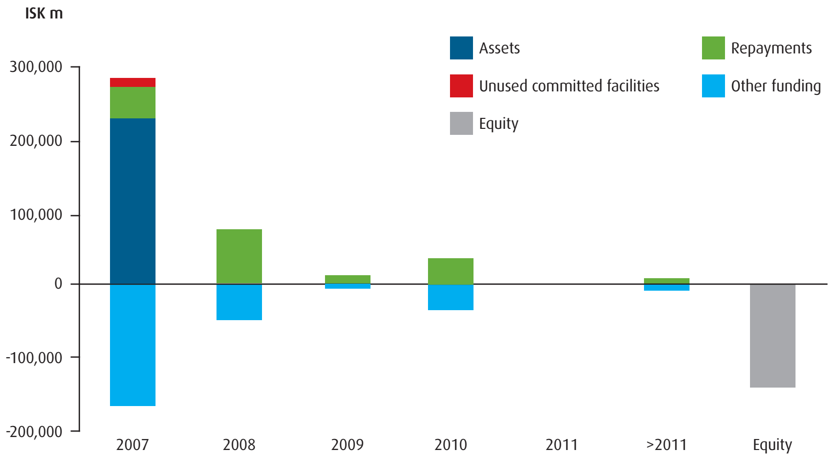
Funding profile 2006



Funding profile 2005



Maturity profile



Operational risk

Operational risk can stem from inadequate internal processes, people or systems, or from external business, political or environmental events. It also includes the potential or actual impact on the Bank's reputation from its activities. The Bank approaches operational risk with the aim of minimising potential losses.

To achieve this, the Bank operates within a framework of policies and procedures which encompass all critical aspects of its operations. This ensures that employees have the tools and guidelines necessary to carry out their duties. Individual components of the framework are updated to keep pace with an ever-changing environment and more complex operations.

Good IT management is a key component of effective operational risk management. It is an integral part of operations. The operational risk management team focuses on the design and use of the Bank's IT systems in an effort to streamline work and enable easy access to all business transactions, and to facilitate analysis, monitoring, and decision making. The Bank is well on its way to implementing IS/IEC 27001:2005, the international standard for information security management. Policies, processes, rules and controls concerning information, information systems and communication channels should be sound and in keeping with best practice.

Risk management processes ensure that external risk issues are quickly resolved by qualified staff. Straumur-Burdarás has insurance policies in place to cover operational risk exposures.

Credit rating

In January 2006, Fitch Ratings assigned Straumur-Burdarás Investment Bank credit ratings at Issuer Default BBB-, Short-term F3, Individual C/D, and Support 3. The Outlook on the Issuer Default rating was Stable. On 11 November Fitch Ratings affirmed the Bank's ratings.

In its announcement Fitch Ratings stated that the ratings reflected Straumur-Burdarás's strong capital base, the rapid growth of its more sustainable revenue streams, the growing geographic diversification of its assets and revenues and its very low cost-base. They factored in the Bank's large equity exposures, high concentrations on its balance sheet, high reliance on wholesale funding and limited record in corporate and debt finance activities. Fitch viewed the progress made in these areas during 2006 as encouraging and stated that further marked improvements would support an increased rating.

According to Fitch, Straumur-Burdarás's management had been focusing on developing the Bank's corporate and debt finance franchise. Recent initiatives which, Fitch said, would support further growth, included investments in overseas operations and the acquisition of a majority stake in the UK specialist investment banking firm, Stamford Partners. Net interest and fee income had benefited from the growing franchise and a favourable economic environment to increase substantially. According to Fitch, reported performance over the first nine months of 2006 was, however, also characterised by unsustainable financial gains on the back of large equity holdings. These holdings had decreased to around 82 per cent of the Bank's equity at year end 2006, from 143 per cent at the end of 2005.

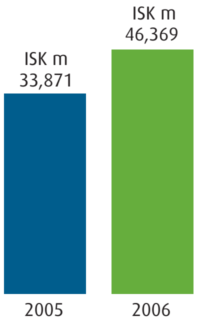
The quality of the Bank's loan book, Fitch said, was supported by negligible non-performing loans, offset by its lack of seasonality and still high, albeit decreasing, concentration. Funding was highly reliant on wholesale markets, although the recent launch of a European CLO had helped to diversify funding sources. The Bank's strong capital base represented a buffer against some of its specific risks and was instrumental in supporting its planned asset growth.

The credit rating is a significant step in the progress of Straumur-Burdarás towards its goal of becoming a leading Nordic investment bank, ensuring it access to additional markets and financing on better terms.

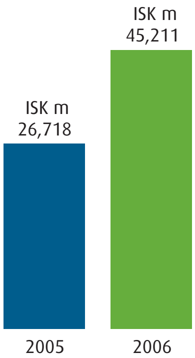
Financial review

Straumur-Burdarás recorded outstanding results in 2006: net operating income increased by 37 per cent to ISK 46.4 billion and after-tax profit increased by 69 per cent to ISK 45.2 billion.

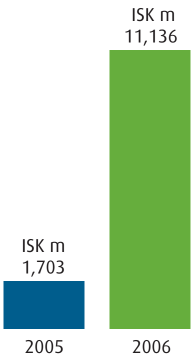
Net operating income



After-tax profit



Net interest and commission income



The year was characterised by profitable growth, the development of our infrastructure, and a marked increase in income and projects from overseas, which enabled us to create a robust and diverse income base.

Net income

Straumur-Burdarás has five profit divisions: Capital Markets, Corporate Finance, Debt Finance, Proprietary Trading, and Treasury. In addition it has a 50.01 per cent holding in London-based Stamford Partners, an investment banking firm. The operating divisions are supported by Legal, Risk Management, and Operations. Operating expenses of the support divisions are proportionally allocated to each profit division.

After-tax profit for the year increased by 69 per cent to ISK 45,211 million, from ISK 26,718 million in the previous year. The year-on-year increase for the fourth quarter, at 92 per cent, was particularly remarkable.

In 2005's annual report we set out a number of objectives: for net interest and commission income to represent 50 per cent of net income by the end of 2009 in a bid to reduce our exposure to volatility on the equity markets; to strengthen our Debt Finance, Corporate Finance, and Capital Markets divisions; and to increase our income from overseas sources.

By the end of 2006, we had gone a long way to achieving those goals. Net interest and commission income, at ISK 11,136 million, up from ISK 1,703 million in 2005, had already increased by 554 per cent to represent 24 per cent of net operating income. The opening of our office in Copenhagen, and our relationship with Stamford Partners, had both added to our corporate finance activities, while debt financing increased with the opening of our branch in London and the UK FSA's approval on 1 January 2007 for us to operate in the UK. The proportion of our net operating income derived from international markets had reached 54 per cent.

Dividend income was ISK 2,468 million, up from ISK 1,597 million in 2005. Net income from current assets and current liabilities decreased slightly to ISK 13,598 million from an exceptionally good result of ISK 16,726 million in the previous year. Net income on financial assets at fair value was ISK 12,354 million against ISK 14,095 million in 2005. Net currency gains were ISK 5,992 million compared with a loss of ISK 255 million in 2005.

Expenses

Administrative expenses for 2006 were ISK 3,866 million against ISK 1,306 million in 2005, an increase of 196 per cent. This reflects the Company's growth during the year – domestically and internationally – and its concomitant increase in staff. Salary expenses accounted for ISK 2,077 million of total expenses; other administrative expenses were ISK 1,758 million.

The Bank's cost/income ratio was contained at 8.3 per cent despite the costs incurred in increasing its international presence. By the end of 2009, our ambition is to have offices in eight countries, but still to hold our cost/income ratio below 25 per cent. This will not only enable us to continue to benefit from a high profile level compared with our size, but will also create a strong platform for continued growth.

Balance sheet

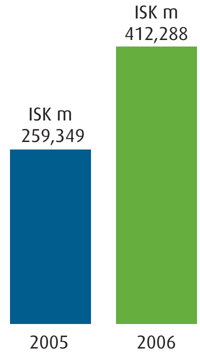
Straumur-Burdarás's total assets at 31 December 2006 were ISK 412,288 million compared with ISK 259,349 million the previous year, an increase of 59 per cent. The loan book grew from ISK 48,595 to ISK 125,609, an increase of 158 per cent. During 2006 we focused on refinancing, with the aim of making us independent from other Icelandic Banks for funding. Our improved use of our equity and increased gearing is borne out by our balance sheet which supports our goal of becoming a leading Nordic investment bank, through internal and external growth. The capital adequacy ratio, calculated on a CAD basis, was 37.6 per cent, including a Tier 1 ratio of 35.2 per cent.

Assets

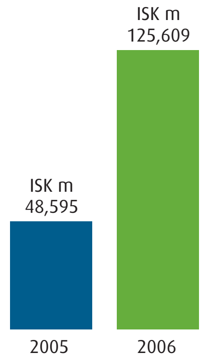
Loans and receivables in 2006 were ISK 193,595 million against ISK 59,994 million in 2005. The balance of the credit provisioning account in the year was ISK 1,513 million – equivalent to 1.18 per cent of total loans outstanding at the end of 2006 – compared with ISK 475 million at the close of 2005.

Financial assets held for trading – principally bonds and shares, although derivatives with positive fair values are also included – are those acquired primarily for the purpose of generating profits from short-term price fluctuations or from a dealer's margin. At the year end, current assets were ISK 125,841 million, compared with ISK 92,230 million in 2005. The total value of the Bank's equity holdings recognised as current assets was ISK 89,738 million at 31 December 2006, and the value of its bond assets was ISK 32,873 million. A portion of equity assets is balanced against derivative contracts. At the end of 2006, a number of the Bank's clients had used forward contracts to sell shares to, or buy shares from, the Bank to the amount of ISK 32,943 million, compared with ISK 7,947 million at the end of 2005.

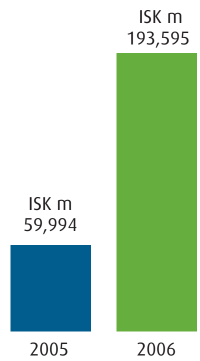
Total assets



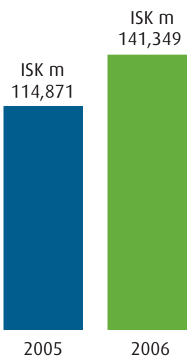
Total loans



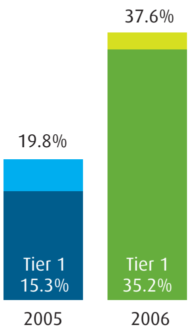
Loans and receivables



Equity



CAD ratio



Financial assets carried at fair value are long-term assets in which the company often has a controlling stake, and are frequently unlisted. Financial assets carried at fair value in 2006 amounted to ISK 62,287 million compared with ISK 87,843 million at the end of 2005. Other assets amounted to ISK 5,097 million at the year end, ISK 1,979 million more than at 31 December 2005.

Liabilities

Total borrowings at 31 December 2006 were ISK 243,410 million. Of this figure, the amount owed to credit institutions was ISK 146,138 million, compared with ISK 72,883 million at 31 December 2005, an increase of ISK 73,255 million over the year as a result of the successful refinancing of the Bank. Other borrowings amounted to ISK 97,272 million, ISK 48,498 million more than at 31 December 2005.

Subordinated debt was ISK 8,391 million at the year end. Current liabilities amounted to ISK 4,812 million, compared with ISK 3,565 million at the beginning of the year.

Deferred income tax liability at the end of 2006 was calculated at ISK 591 million, while other liabilities amounted to ISK 5,439 million.

Shareholders' equity

At the end of the year, shareholders' equity stood at ISK 141,349 million up from ISK 114,871 million at the beginning of 2006. The equity to assets ratio was 34.3 per cent.

Straumur-Burdarás's capital ratio, calculated in accordance with the provisions of Article 84 of the Act on Financial Undertakings, was 37.6 per cent at the end of 2006. Following the issue of subordinated bonds classified as Tier 2 capital in Q1 2006, its Tier 1 equity ratio is 35.2 per cent.

When the capital adequacy ratio is calculated, holdings in other financial institutions exceeding 10 per cent of equity have to be deducted in full. The Islandsbanki sale in January 2006 increased the capital adequacy ratio to 36.5 per cent.

Total dividends paid to shareholders for 2006 were ISK 7,769 million.

Divisional results

The Bank's operations are structured into income and support divisions.
All the income-earning divisions returned healthy profits during 2006.

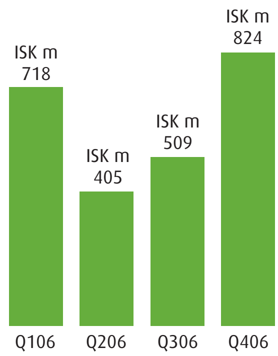
Capital Markets

The Capital Markets team provides services and products for institutional investors, mutual funds and high-net-worth individuals. By constantly seeking to increase what it offers new and existing clients, it is not only developing its own business but is also supporting the growth in the Corporate Finance and Debt Finance divisions. Equity trading in overseas' markets, for domestic and foreign clients, has been increasing in importance and is expected to grow to well above 50 per cent of total equity trading by the end of 2009. To help facilitate this, we plan to open a Capital Markets Division in London during 2007.

The division delivers a consistently high-quality service to its clients and continuously works to identify and access new investment opportunities.

At the end of the year, the division's income was ISK 2,402 million, an increase of ISK 1,514 million over 2005.

Net commission income



Income overview

	Q4 2006 ISK m	Q3 2006 ISK m	Q2 2006 ISK m	Q1 2006 ISK m	Q4 2005 ISK m
Net interest income	(1)	(16)	(26)	(11)	–
Net commission income	824	509	405	718	216
Operating income	823	493	379	707	216
Operating expense	(110)	(76)	(47)	(92)	
Pre-tax profit	713	417	332	615	

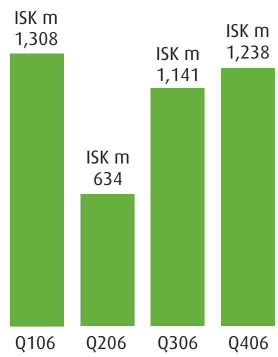
Corporate finance

Corporate Finance advises the Bank's clients on the acquisition, disposal and/or financing of companies and investment vehicles. This may involve mergers, acquisitions, or general restructuring which requires the issuing of share capital and/or debt financing. In today's rapidly-changing market, corporate clients increasingly ask the Bank to act as principal in managing their risk.

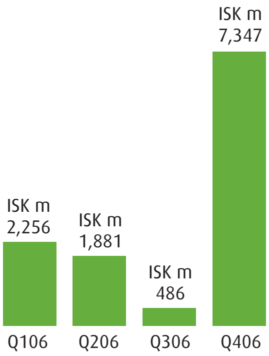
The division, which operates from Reykjavík and Copenhagen, focuses on large corporations in Iceland and mid-sized companies in Scandinavia and the UK. The Bank also provides acquisition financing on a selective basis.

At the end of the year, the division's net operating income was ISK 15,686 million, an increase of ISK 12,606 million over 2005. Of that, net fee and commission income totalled ISK 4,321 million, an increase of ISK 3,360 million over 2005. Capital gains were ISK 11,970 million.

Net commission income



Trading gains



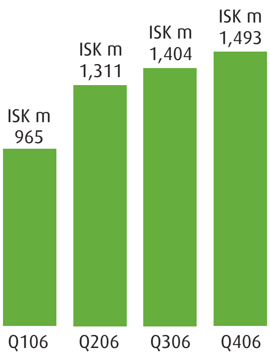
Income overview

	Q4 2006 ISK m	Q3 2006 ISK m	Q2 2006 ISK m	Q1 2006 ISK m	Q4 2005 ISK m
Net interest income	(431)	(481)	(265)	(245)	(136)
Net commission income	1,238	1,141	634	1,308	657
Dividends	–	5	–	–	13
Net income on equity	7,347	486	1,881	2,256	922
Net income on investments	812	–	–	–	–
Operating income	8,966	1,151	2,250	3,319	1,456
Operating expense	(760)	(304)	(186)	(217)	
Pre-tax profit	8,206	847	2,064	3,102	

Selected transactions in 2006

- The sale of Hertz in Iceland. The Corporate Finance Division acted as adviser to the buyer, Smáey.
- The take-over and delisting of Kögun, Iceland's largest IT company. The Corporate Finance Division acted as sole financial adviser to Dagsbrun.
- The acquisition of Equinox Fitness in Denmark. The Corporate Finance Division acted as sole financial adviser to World Class Iceland.
- The acquisition of Ikast Bryggerindustri in Denmark. The Corporate Finance Division acted as adviser to Sjælsø Gruppen.
- The take-over of Nemi ASA Insurance in Norway and its delisting from Oslo Stock Exchange. The Corporate Finance Division acted as adviser to the buyer, Tryggingamidstödin.
- The take-over of The Fresh Olive Company in the UK. The Corporate Finance Division was financial adviser.

Net interest income



Debt Finance

Debt Finance focuses on providing the Bank's clients with acquisition and leveraged financing. The division has the ability to provide the entire range of financing – from senior to junior debt – for various types of transactions, including MBOs/MBIs, public-to-private, recaps and propco/opco deals. It also takes an active part in leveraged loan syndications and has significant underwriting capacity.

The division does not specialise in sector or industry-specific financing. Through past transactions, however, it has gained expertise in financial services, specialty retail, media and telecoms, and junior real estate financing. Its clients are typically domestic large caps, local and overseas SMEs, and investment companies and financial sponsors.

The division's aim is to continue the strong growth of its loan portfolio which more than doubled in size in 2006 while maintaining the quality of assets. The current loan portfolio is well diversified between sectors and around half of it relates to non-domestic projects.

At the end of the year, the division's income was ISK 5,889 million, an increase of ISK 4,197 million over 2005.

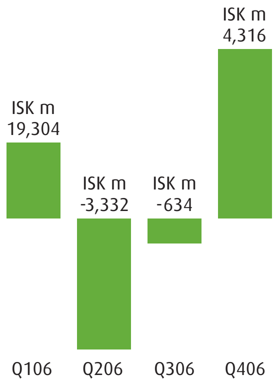
Income overview

	Q4 2006 ISK m	Q3 2006 ISK m	Q2 2006 ISK m	Q1 2006 ISK m	Q4 2005 ISK m
Net interest income	1,493	1,404	1,311	965	495
Net commission income	213	61	90	341	123
Net income on equity	11	–	–	–	–
Net income on bonds	(11)	–	11	–	–
Operating income	1,706	1,465	1,412	1,306	618
Operating expense	(304)	(159)	(113)	(104)	
Impairment	(296)	(180)	(296)	(266)	
Pre-tax profit	1,106	1,126	1,003	936	

Selected transactions in 2006

- Debt financing for the acquisition of the publicly-listed Icelandic IT company, Kögun hf.
- Participated in the underwriting of the senior loan refinancing for the UK frozen food supermarket chain Iceland Limited.
- Arranged financing for Iceland's World Class acquisition of the Danish fitness centre chain Equinox.
- Participated in the refinancing for Teymi, the telecoms division of Iceland's media conglomerate, Dagsbrún, following the corporate restructuring of the company.

Trading gains



Proprietary Trading

The Bank's transactions on its own account are handled by the Proprietary Trading Division. Transactions are either part of market making for certain classes of securities or the Bank's own exposures in bonds, listed equities, FX, and derivatives of these products, on domestic and overseas markets. At the end of the year, the division's income was ISK 12,172 million, a decrease of ISK 14,864 over 2005.

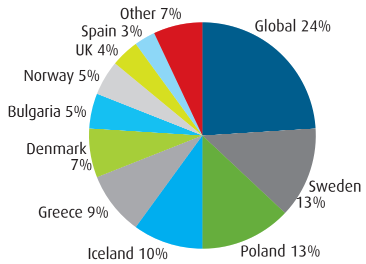
Income overview

	Q4 2006 ISK m	Q3 2006 ISK m	Q2 2006 ISK m	Q1 2006 ISK m	Q4 2005 ISK m
Net interest income	(2,180)	(1,173)	(2,190)	(1,956)	(1,046)
Net commission income	3	10	3	–	–
Dividends	513	26	1,215	696	85
Net income on equity	3,279	2,835	(7,303)	14,998	14,246
Net income on bonds	(37)	(188)	11	56	(72)
Net foreign exchange gain/loss	561	(3,307)	2,745	3,554	(108)
Operating income	2,139	(1,797)	(5,519)	17,348	13,105
Operating expense	(129)	(118)	(70)	(158)	
Pre-tax profit	2,010	(1,915)	(5,589)	17,190	

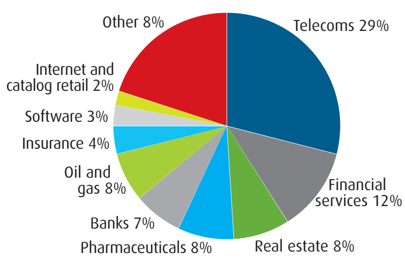
Largest holdings at the end of 2006

Company	Business	Listed on	Holding %	Market value ISK bn
Actavis	Generic pharmaceuticals manufacturer	ICEX	3.2	6.9
Tanganyika Oil	Oil and gas exploration, development and production	XTSX, XOME	10.4	6.8
Nordea	Banking, rated by S&P AA-/A-1+ and by Moodys As3/P-1	OMX	0.1	3.8
BulgarianTelecom	Telecommunications and related services	XBUL	2.6	3.6
Danske Bank	Banking, rated by S&P AA- and by Moodys Aa1/P-1	KFX	0.1	3.2

Equity holdings by country of risk



Equity holdings by sector



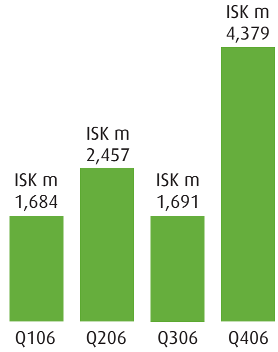
Treasury

Treasury is responsible for the Bank's financing and for the management of short-term cash flow, interest rate balance and FX balance. Its functions are structured into interbank trading, funding and derivatives. The interbank trading desk manages the Bank's FX exposure and liquidity; the derivatives desk is responsible for derivatives structures and for hedging for the Bank, and third-party activities, in the form of interest rate options and swaps, structured products, and securities lending to take short positions in Icelandic securities; the funding desk manages the Bank's overall funding, from domestic and, increasingly, overseas' markets.

The Bank is not part of the Icelandic Banks' central clearing system and has no deposit accounts. When corporate and institutional investors transfer funds into the Bank's account, they are considered to be borrowings.

At the end of the year, the division's income was ISK 10,211 million, an increase of ISK 9,038 over 2005.

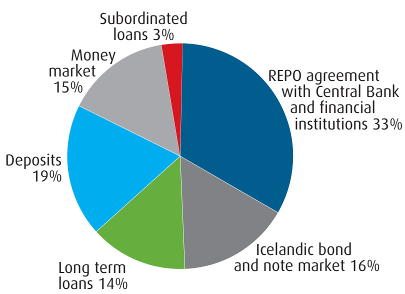
Operating income



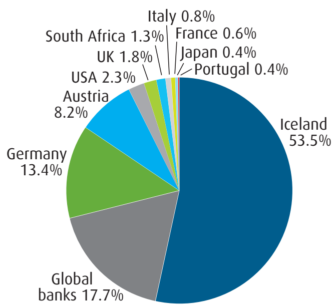
Income overview

	Q4 2006 ISK m	Q3 2006 ISK m	Q2 2006 ISK m	Q1 2006 ISK m	Q4 2005 ISK m
Net interest income	1,692	1,613	2,672	1,791	506
Net commission income	–	4	–	–	(3)
Net foreign exchange gain/loss	2,687	74	(215)	(107)	–
Operating income	4,379	1,691	2,457	1,684	503
Operating expense	(295)	(159)	(142)	(151)	
Pre-tax profit	4,084	1,532	2,315	1,533	

Funding by type



Funding by geography



Corporate governance

Straumur-Burdarás recognises the importance of good corporate governance and endeavoured throughout 2006 to comply with the Guidelines on Corporate Governance which were issued by the Icelandic Chamber of Commerce and the Iceland Stock Exchange in 2004.

The objectives of the Guidelines are:

1 to encourage good corporate governance in Iceland;
2 to assist directors and management of limited companies in fulfilling their obligations and in promoting the growth and prosperity of the companies which they have been entrusted to manage;
3 to encourage confidence in companies, and in business and industry in general;
4 to promote trust between investors and management;
5 to increase the competitiveness of Icelandic business and industry by ensuring that the country's corporate governance requirements are generally in line with those of neighbouring countries;
6 to help prospective investors in Icelandic companies to understand the country's corporate governance practices;
7 to facilitate Icelandic companies' access to domestic and international funding;
8 to supplement the framework set by the Public Limited Companies Act No 2/1995, the Private Limited Companies Act No 138/1994, and other Icelandic company law.

Composition and operation of the Board

The Board should, in accordance with the Company's Articles of Association, comprise five Directors, together with an equal number of alternates, which are all elected at the Annual General Meeting. The provisions of the Acts on Limited Liability Companies and Financial Undertakings apply. Those people who are willing to stand for election as Directors are expected to give written notice to the Board of Directors at least five working days before the beginning of the meeting at which the elections are to be held.

A new board was elected on 18 July 2006. At the EGM on 19 July, Björgólfur Thor Björgólfsson, Birgir Már Ragnarsson, Eggert Magnússon, Hannes Smárason and Jón Ásgeir Jóhannesson were elected as directors; Eiríkur S. Jóhannsson, Heidar Már Gudjónsson, Smári S. Sigurdsson, Thórunn Gudmundsdóttir and Baldur Örn Gudnason were elected as alternate directors. When FL Group sold their 22.6 per cent share in Straumur-Burdarás, Jón Ásgeir Jóhannesson and Hannes Smárason resigned as directors, and Smári S. Sigurdsson and Eiríkur S. Jóhannsson resigned as alternates. Biographies of current board members are on page 16; biographies of the current alternate directors are on page 17. The new board will be elected at the Annual General Meeting (AGM) on 8 March 2007. If more persons are nominated than are to be elected to the Board, elections shall be by cumulative voting. The Board of Directors shall elect its Chairman and divide tasks among themselves as deemed necessary.

Audit committee Straumur-Burdarás has not to date considered it necessary to establish an Audit Committee, primarily because it discloses comprehensive financial information, prepared in consultation with its auditor, at monthly Board meetings. The auditor attends Board meetings on a quarterly basis to review the Company's accounts. The Board reviews this decision annually, as stipulated in the Guidelines on Corporate Governance.

Remuneration committee A Remuneration Committee was elected at a board meeting on 19 July 2006. The committee members are Birgir Már Ragnarsson, chairman, and Eggert Magnússon. It is the committee's intention to publish a report on remuneration in the 2007 annual report.

The role of the Chairman

The Chairman convenes meetings of the Board of Directors and sees to it that other Directors be called to attend these. The Chairman presides at Board meetings and has a casting vote in matters to be resolved. Between Board meetings the Chairman serves as the principal contact person between the CEO and the Board of Directors.

The Board of Directors has ultimate authority, between shareholder meetings, on all matters concerning the Company and is responsible for ensuring that the Bank's organisation and activities are adequate and effective at all times. The Board takes all major decisions on policy and strategy; the Chief Executive Officer directs day-to-day operations in accordance with those decisions.

Executive management

The executive management is responsible for implementing the strategy approved by the Board. The members of the executive management, together with their biographies, are on page 12.

Internal audit

The Board of Directors appointed an internal auditor in 2006. The internal auditor is responsible for ensuring that the Bank's organisation and activities are adequate and effective at all times. The auditor's role is defined by Icelandic law, regulation and guidance that applies to financial institutions, the Bank's Articles of Association, and its Procedures. Internal auditing, an independent, objective assurance and consulting activity, is an integral part of the Bank's governance. It adds value and improves operations through a systematic, disciplined approach to risk management, internal control, and governance. The internal audit activity is defined in a charter together with the nature of the Bank's assurance and consulting service. The auditor's activities encompass the Bank´s operations; its independence and ability to fulfil its responsibilities are assured by reporting direct to the Board. It has unrestricted access to all relevant records, personnel, and physical properties and carries out its duties in accordance with the laws, regulations, guidance and standards for the professional practice of internal auditing.

The chief audit executive, who co-operates with the Bank´s external auditor, establishes an annual risk-based plan to determine the priorities of audit, consistent with the Bank´s goals. This is reviewed and approved by senior management and the Board. The internal auditor reports to the Board at least annually, and more often if necessary.

Auditors

The Bank's auditors are elected each year at the Annual General Meeting. At the 2006 Annual General Meeting, it was agreed to appoint KPMG hf. for the 2006 accounting year.

Compliance

A compliance officer is appointed by the Board of Directors. The compliance officer has the following responsibilities:

1. to oversee compliance with the Bank's General Rules on Working Procedures, including rules on employee transactions, participation of employees in commercial operations, separation of operational divisions;
2. to maintain a record of employees' transactions as provided for in these Rules and exceptions granted from them;
3. to take the initiative in interpreting the rules and making decisions based on them;
4. to inform employees of the Bank's internal rules;
5. to keep a record of employees working across separate divisions;
6. to deal with complaints from clients on alleged violations of the Bank's internal rules, to direct them to the appropriate channels, to maintain a record of complaints, and to carry out other tasks as assigned.

Shareholder meetings

Shareholders' meetings wield supreme power over the affairs of company in accordance with the Law and the Company's Articles of Association. All shareholders, their agents and advisers are entitled to attend these meetings, and to ask the Board members questions. All shares in Straumur-Burdarás carry voting rights and each share confers one vote.

Annual General Meeting The AGM is held before the end of May each year. The items on the agenda at the meeting include: the Board's report on the Bank's activities for the past year; the Bank's financial statements for the past operating year; the distribution of the Company's profit or loss for the past accounting year; the remuneration of the directors; the election of Board members; the appointment of the auditors; and any other matters which are relevant and accord with Icelandic legislation.

The AGM shall be announced by advertisement in daily papers or by other verifiable means. The agenda of the meeting shall be specified in the announcement. If a motion to amend the Company's Articles of Association is to be discussed, the substance of such a motion shall be included in the announcement of the meeting.

The AGM shall be announced with at least one week's notice and no more than four weeks' notice. An AGM is properly constituted if it has been lawfully announced, regardless of how many people attend.

Amendments to the Articles of Association

The Articles of Association may be amended by a legally constituted AGM or other shareholders' meeting by a qualified majority (2/3rds of votes), save for cases where otherwise specified in the Articles or by Icelandic law. Motions for amendments to the Articles of Association must be included in the Agenda for the meeting.

All shareholders are entitled to raise specific matters at shareholders' meetings. They must submit a written request to the Board, giving enough notice to enable resolutions to be put on the agenda. The agenda must be available at least one week before a shareholders' meeting.

Items which are not on the agenda of a shareholders' meeting may not be finalised without the approval of all shareholders, although resolutions on these items may be passed as guidelines for the Board of Directors. If an item were not included on the agenda, it would not preclude the calling of an EGM to discuss it. In addition, the AGM is authorised to deal with items which it is obliged to handle according to law or the Company's Articles of Association.

Treasury shares

The Annual General Meeting of Straumur-Burdaras on 3 March 2006 authorised the Bank to buy its own shares, or accept them as collateral. This authorisation was limited to 18 months from the date of the meeting to ensure that the shares purchased or acquired as collateral combined should not exceed 10 per cent of the total shares of the Bank at any given time. The purchase price should be no lower than 10 per cent, and no higher than 10 per cent, of the price of the shares on the OMX Nordic Exchange at the time they were aquired.

Relationships with shareholders

The Board makes considerable efforts to establish and maintain good relationships with its shareholders. The Company maintains a regular dialogue with institutional shareholders throughout the year, other than during close periods, and also maintains an open and continuous dialogue with analysts, media, and other stakeholders. It encourages communication with private shareholders, the principal forum for which is the AGM.

A section of the Bank's website, www.straumur.net, is dedicated to providing accurate and timely information about the business and includes all press releases. It enables shareholders to follow the performance of the Bank's shares and compare it with other companies, as well as to stock indices, and to look up the historic performance of the shares.

Corporate Social Responsibility

Straumur-Burdarás considers itself to be a good corporate citizen and makes every effort to reduce the impact it makes on the environment and to foster connections with the communities in which it operates. Efforts are made to communicate effectively with the Company's shareholders, partners and employees.

"Straumur-Burdarás's financial support for the Vigdís Finnbogadóttir Institute of Foreign Languages is crucial to the promotion of the institute and its activities. The institute researches 13 languages, and the cultures they represent, and will make information on the world's cultures and languages available electronically."
***Vigdís Finnbogadóttir**, a former President of Iceland, is UNESCO's Goodwill Ambassador for Languages.*

The environment

Since the Company's business is investment banking, it does not produce harmful waste or emissions. We recycle paper and toner cartridges through a specialist recycling company. Our caretakers sort waste and take it for disposal. Two-thirds of the cleaning products used by our cleaning company are environmentally friendly.

Health and safety

The Company has an effective health and safety policy in place, which defines the obligations of the Company and of its employees. It is legally obligated to provide its employees with a safe and healthy workplace. It must, as far as is possible, control any risks to employees' health and safety and must also, where necessary, provide personal protective and safety equipment. If employees have any reasonable concerns about their safety, they are entitled to stop work, and leave their workplace, without being disciplined. If the Company has taken no action after being notified of any health or safety concerns, an employee is entitled to contact the Health and Safety Executive or the local authority without being disciplined for doing so.

"Reykjavik University sets great store in collaborating with dynamic and progressive companies. The President's List programme is an important element in our policy. Straumur-Burdarás's financial backing of the programme is evidence of the Bank's dedication to effective university-level education and of its desire to attract the highest quality people." ***Svava Grönfeldt, Dean of Reykjavík University.***

"The agreement with Bifröst University for Straumur-Burdarás Investment Bank to support the new 'Banking, Finance & International Business' MSc, which we launched in the Summer of 2006, has been invaluable. This type of collaboration not only makes it possible for people to pursue a demanding international course of study, but also creates a larger resource of well-educated people who will benefit the economy." ***Ágúst Einarsson, Dean of Bifröst University.***

Employees are entitled to rest breaks during the working day, and to annual paid holiday of two days for each month worked. They are expected to take reasonable care for their own health and safety, and to avoid putting others at risk. Equally, they are expected to co-operate with the Bank and to ensure that they receive proper training in, and understand, the health and safety policy. They should not misuse anything that has been provided for their health, safety or welfare, and should report any injuries, strains or illnesses incurred in carrying out their work (this may necessitate a change in the way they work). They are expected to inform the Company of anything that might affect their ability to work. Because the Company is responsible for employees' health and safety, it is sometimes necessary to suspend someone (normally with pay) until a solution has been found to the problem.

Connecting with local communities

As a leading financial organisation, Straumur-Burdarás is conscious of the impact it has on the Icelandic economy. It carries out its social duties overtly or discreetly, as is appropriate to each particular circumstance, and acts independently or in co-operation with others, including industry and special interest organisations. In Iceland it focuses on educational projects and is currently sponsoring and co-operating with Reykjavík University, Bifröst University and the Vigdís Finnbogadóttir Institute of Foreign Languages at the University of Iceland.

Report and Signatures of the Board of Directors and the CEO

The consolidated financial statements of Straumur-Burdarás Investment Bank hf. for the year 2006 are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The consolidated financial statements for the year 2006 comprise Straumur-Burdarás Investment Bank hf. (the Parent) and its subsidiaries (together referred to as "the Bank").

According to the income statement, after-tax profits for the year amounted to ISK 45,211 million. The Bank's equity at the end of 2006 amounted to ISK 141,349 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings, was 37.6 per cent at year-end. As of 31 December 2006 the Bank's total assets amounted to ISK 412,288 million.

The Bank's total share capital at the end of the year amounted to ISK 10,359 million.

At the end of the year, the Bank had 20,666 shareholders as compared with 22,032 at the beginning of the year. Samson Global Holdings, which holds 30.2 per cent of the Bank's share capital, is the only shareholder with a holding over 10 per cent.

In July the Bank acquired more than 50.01 per cent of the shares in Stamford Partners, a specialist investment banking firm with operations in London and Amsterdam. Stamford Partners is part of the Bank's consolidation as of 1 October 2006.

In January 2007 the Bank opened a branch in London. The activities of the London branch will initially centre on lending activities, with particular emphasis on syndicated loans.

From January 2007 the Bank's accounting is in Euros, and its quarterly and annual financial statements will be prepared in Euros.

The Board of Directors recommends that ISK 7,769 million, which is 17.2 per cent of profits and 75 per cent of share nominal value, be paid to shareholders as a dividend.

The Board of Directors and the CEO hereby confirm the consolidated financial statements of Straumur-Burdarás Investment Bank hf. for 2006 by affixing their signatures hereto.

Reykjavík, 30 January 2007

Board of Directors:

Björgólfur Thor Björgólfsson

Birgir Már Ragnarsson

Eggert Magnússon

Thórunn Gudmundsdóttir

Fridrik Jóhannsson, CEO

Independent Auditors' Report

To the Board of Directors and shareholders of Straumur-Burdarás Investment Bank hf.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Straumur-Burdarás Investment Bank hf. and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as at December 31, 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.

Management´s responsibility for the consolidated 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 EU. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 opinion.

Opinion

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

Reykjavík, 30 January 2007

KPMG hf.

Helgi F. Arnarson

Ólafur Már Ólafsson

Consolidated income statement
for the year 2006

	Notes	2006	2005
		ISK m	ISK m
Interest income		22,529	5,854
Interest expense		(18,797)	(6,102)
Net interest income (expense)	34	3,732	(248)
Fee and commission income		7,503	1,998
Fee and commission expense		(99)	(47)
Net fee and commission income	35	7,404	1,951
Dividend income	36	2,468	1,597
Net gains on financial assets and financial liabilities held for trading	37	13,598	16,726
Net gains on financial assets designated at fair value through profit and loss	38	12,354	14,095
Net foreign exchange (losses) gains		5,992	(255)
Other operating income		821	5
		46,369	33,871
Administrative expenses	39	(3,866)	(1,306)
Impairment losses on loans and receivables		(1,038)	(385)
Profit before tax		41,465	32,180
Income tax		3,746	(5,462)
Profit for the year		45,211	26,718
Attributable to:			
Equity holders of the Parent		44,878	26,617
Minority interest		333	101
Profit for the year		45,211	26,718
Earnings per share	44	4.47	3.50
Diluted earnings per share	44	4.45	3.50

All amounts are in ISK millions

Consolidated balance sheet
as at 31 December 2006

	Notes	2006 ISK m	2005 ISK m
Assets:			
Financial assets held for trading	*48*	125,841	92,230
Loans and receivables	*49*	62,287	87,843
Financial assets designated at fair value through profit and loss	*45, 46*	193,595	59,994
Investment in associated companies		51	–
Property and equipment	*50*	1,333	1,126
Investment properties		6,413	–
Intangible assets	*51, 52*	17,671	15,038
Other assets		5,097	3,118
Total assets		412,288	259,349
Liabilities:			
Financial liabilities held for trading		8,296	1,636
Borrowings	*53*	243,410	121,657
Subordinated loans	*54*	8,391	5,408
Tax liabilities, current		4,812	3,565
Tax liabilities, deferred	*55*	591	9,881
Other liabilities		5,439	2,331
Total liabilities		270,939	144,478
Equity:			
Share capital		9,487	10,251
Share premium		58,261	71,388
Other reserve		(1,402)	(2,439)
Retained earnings		73,089	34,945
Total shareholders attributable to equity holders of the Parent		139,435	114,145
Minority interest		1,914	726
Total equity	*56 – 58*	141,349	114,871
Total liabilities and equity		412,288	259,349

All amounts are in ISK millions

Consolidated statement of changes in equity
for the year 2006

2005	Share capital ISK m	Share premium ISK m	Other reserves ISK m	Retained earnings ISK m	Total share-holders' equity ISK m	Minority interest ISK m	Total equity ISK m
Equity as at 1 January 2005	5,371	16,650	(465)	10,215	31,771	235	32,006
Dividends paid ISK 0.35 per share	–	–	–	(1,887)	(1,887)	–	(1,887)
Treasury shares purchased and sold	(53)	(807)	–	–	(860)	–	(860)
Treasury shares stated as other liability on account of put options	–	–	(1,974)	–	(1,974)	–	(1,974)
Increase of share capital due to merger	4,233	49,248	–	–	53,481	–	53,481
Other increase of share capital	700	6,297	–	–	6,997	–	6,997
Increase of share capital in subsidiary	–	–	–	–	–	390	390
Profit for the year	–	–	–	26,617	26,617	101	26,718
Equity as at 31 December 2005	10,251	71,388	(2,439)	34,945	114,145	726	114,871

2006	ISK m	ISK m	ISK m	ISK m	ISK m	ISK m	ISK m
Equity as at 1 January 2006	10,251	71,388	(2,439)	34,945	114,145	726	114,871
Dividends paid ISK 0.65 per share	–	–	–	(6,733)	(6,733)	–	(6,733)
Treasury shares purchased and sold	(764)	(13,127)	–	–	(13,891)	–	(13,891)
Treasury shares stated as other liability on account of put options	–	–	(1,671)	–	(1,671)	–	(1,671)
Treasury shares stated as other liability on account of put options, reversed	–	–	1,890	–	1,890	–	1,890
Increase due to call options	–	–	66	–	66	–	66
Increase of share capital in subsidiary	–	–	–	–	–	822	822
Translation differences	–	–	752	–	752	33	785
Profit for the year				44,877	44,877	333	45,210
Equity as at 31 December 2006	9,487	58,261	(1,402)	73,089	139,435	1,914	141,349

All amounts are in ISK millions

Statement of cash flows
for the year 2006

	2006	2005
	ISK m	ISK m
Operating activities:		
Profit before income tax	41,465	32,180
Adjustments to reconcile net profit to cash flow from/(used in) operating activities:		
Impairment on loans and advances	1,039	385
Depreciation of property and equipment	23	5
Changes in other non-cash items	(367)	(101)
Cash flows used in operating assets and liabilities:		
Changes in loans and receivables	(107,776)	(23,060)
Changes in financial assets held for trading	(34,649)	(10,762)
Changes in financial assets designated at fair value through profit and loss	26,014	(13,268)
Changes in other assets	(1,980)	580
Changes in borrowings and other liabilities	121,222	6,680
Financial liabilities held for trading	6,660	(142)
Net cash provided/used in operating activities	51,651	(7,503)
Investing activities:		
Purchase of investment property	(6,413)	–
Purchase of property and equipment	(196)	(140)
Payment for acquisition of subsidiaries (less cash acquired)	(2,396)	(36)
Other changes	(51)	42
Cash used in investing activities	(9,056)	(134)
Financing activities:		
Subordinated loan	2,984	5,408
Debt with minority	570	592
Treasury shares purchase and sold	(13,891)	6,137
Dividend paid	(6,733)	(1,887)
Cash provided by financing activities	(17,070)	10,250
Increase in cash and cash equivalents	25,525	2,613
Cash and cash equivalents at beginning of year	9,569	1,233
Cash and cash equivalents from merger	–	5,423
Cash and cash equivalents at end of the year	35,094	9,269

All amounts are in ISK millions

Notes to the consolidated financial statements

1. Reporting entity

Straumur-Burdarás Investment Bank hf. is a company incorporated and domiciled in Iceland. The address of the Bank's registered office is Borgartún 25, Reykjavik. The consolidated financial statements for the year 2006 comprise Straumur-Burdarás Investment Bank hf. (the parent) and its subsidiaries (together referred to as "the Bank"). The Bank offers integrated financial services to companies, institutional investors and individuals. These services include corporate banking, investment banking and capital markets services.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements were authorised for issue by the Board of Directors of Straumur-Burdarás Investment Bank hf. on 30 January 2007.

b. *Functional and presentational currency*

The consolidated financial statements were presented in Icelandic krona (ISK) which was the Bank's functional currency during 2006. The statements are presented in Euros, which is now the Bank's functional currency, for the purpose of this document. Except as indicated, financial information presented in ISK has been rounded to the nearest million.

c. *Basis of measurement*

The consolidated financial statements are prepared on the historical cost basis with the exception of the following assets and liabilities that are stated at their fair value: financial instruments held for trading, financial instruments designated at fair value through profit and loss, investment properties and financial liabilities held for trading.

d. *Use of estimates and judgements*

The preparation of the financial statements to IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities, as well as income and expenses in the financial statements presented. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcome can, to some extent, differ later from the estimates and the assumptions made.

Estimates

The 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.

Judgements

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates, with a significant risk of material adjustment in the next year, are discussed in note 30.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Bank's entities.

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 than the 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are currently 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 value, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued, plus costs 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 directly in the income statement.

b. *Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Bank's consolidated financial statements where the substance of the relationship is that the Bank controls the special purpose entity.

c. *Transactions eliminated on consolidation*

Intra-bank balances, unrealised gains and losses or income and expenses arising from intrabank transactions, are eliminated in the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investors are eliminated against the investment to the extent of the Bank's interest in the investee.

4. Associates

Associates are those entities in which the Bank has significant influence but not control or joint control over the financial operating policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting power, including potential voting rights, if any. Investments in associates are initially recognised at cost. The Bank's investment in associates includes goodwill (and any accumulated impairment loss) (see note 21).

Investments in associates held as venture capital in investment banking are not accounted for on an equity basis but 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.

The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates not held as venture capital, which are accounted for on an equity basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank's share of loss exceeds its interest in an associate, the Bank's carrying amount is reduced to zero 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 the 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.

5. Foreign currency

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 transactions*

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. *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the presentation currency, at foreign exchange rates current at the balance sheet date. The revenues and expenses of foreign operations are translated to ISK at rates approximating the foreign exchange rates current at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

6. Income and expenses

a. *Interest income and expense*

Interest income and expense are recognised in the income statement as they accrue, using the effective interest method.

The effective interest 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 and expense*

The Bank provides various services to its clients and earns income therefrom, such as income from investment banking, corporate banking and capital markets. Fees earned from services that are provided over a certain period of time are recognised as the services are performed. Fees earned from transaction-type services are recognised 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 trading income*

Net financial income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes.

7. *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, see note 7c.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

a. *Identification and measurement of impairment*

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and a collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates, and the expected timing of future recoveries are regularly benchmarked against actual outcome to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured at cost as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

b. Impairment of goodwill

The Bank assesses whether there is any indication of impairment of goodwill on an annual basis. Goodwill is written down for impairment.

c. Calculation of recoverable amount

The recoverable amount of the Bank's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their fair value less costs to sell 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.

d. 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 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.

8. 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 financial statements, on the other, taking into consideration a carry-forward 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 it is 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.

9. 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 variable (such as share, commodity or bond prices, an index value or an exchange or interest rate), which requires no initial net investment or 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, foreign exchange and interest rate risk arising from operating, financing and investing activities.

Derivatives are recognised at fair value. Fair value changes are recognised in the income statement. Fair values of derivatives are split into (i) interest income (see note 34), and (ii) foreign exchange differences and other gains and losses (see note 37). Interest income is recognised on an accrual basis. Derivatives with positive fair values are recognised as trading assets and derivatives with negative fair values are recognised as trading liabilities (see note 37).

The fair value of derivatives is determined in accordance with the accounting policy presented in note 13.

10. Hedging

Due to the Bank's risk positions and funding structure, its risk management policies require that the Bank should minimise its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines (see also risk management section on page 21). The Bank uses both derivative and non-derivative financial instruments to manage the potential impact of these risks on earnings.

Several types of derivatives are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the Bank's hedging activities is to protect the Bank from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank enters into transactions to ensure that it is economically hedged in accordance with risk management policies. The Bank does not apply hedge accounting.

Each hedge relationship is evidenced and driven by the management's approach to risk management and the decision to hedge the particular risk.

The Bank's risk management activities concentrate on hedging the Bank's net exposure based on its asset and liability positions. Therefore the Bank monitors its interest rate risk exposures by reviewing the net asset or liability gaps within repricing bands.

11. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash, demand deposits with central banks and demand deposits with other credit institutions.

12. Loans and receivables

Loans 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 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 which the Bank has no intention of selling immediately or in the near future.

Loans are initially reported at disbursement of the loan. They are initially recognised at fair value, which is the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans.

13. Financial assets measured at fair value through profit and loss

a. *Trading assets*

Trading assets are financial instruments acquired principally for the purpose of generating profits from short-term price fluctuations or from a dealer's margin.

Financial assets held for trading mainly consist of bonds and shares. Derivatives with positive fair values are also included in this category.

Financial assets held for trading are measured at fair value. Gains and losses realised on disposal or redemption, and unrealised gains and losses from changes in the fair value of financial assets held for trading, are reported in the income statement as net gains on financial assets and financial liabilities held for trading. Interest and dividend income on financial assets held for trading are reported as interest income and dividend income. Interest income on non-derivates debt instruments is calculated using the effective interest rate method.

b. Financial assets designated as at fair value

The Bank classifies certain financial assets upon their initial recognition as financial assets held at fair value, with fair value changes recognised in profit or loss, if 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

- 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 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;

- equity and debt instruments that are acquired by the Bank with a view to profiting from their total return and fair value bases, including equity instruments held by the venture capital organisation of the Bank which give the significant influence over the issuer but not control (see notes 2a and 2b);

- structured products that contain embedded derivatives.

Fair value changes of financial assets classified under this category are reported in the income statement as net gains on financial assets designated as at fair value, while interest and dividend income are reported as interest revenue and dividend income, respectively. Interest income on non-derivatives debt instruments is recognised on an accrual basis.

14. Fair value measurement 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. For all other financial instruments, fair value is determined by using valuation techniques. 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.

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, 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.

The best evidence of the fair value of a derivative 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 on day one.

For more complex 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. When entering into a transaction, the financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation 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 state fairly financial instruments carried at fair value on the balance sheet.

15. Recognition and de-recognition 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.

Financial assets are de-recognised 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 de-recognised when the obligation of the Bank specified in the contract is discharged or cancelled, or expires.

16. 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 enforcable 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.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains or losses arising from a group of similar transactions, such as in the Bank's trading activity.

17. Amortised cost measurement of financial assets and financial liabilities

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

18. Repurchase agreements

A repurchase agreement involves the sale of securities subject to the simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price. In repurchase agreements, the cash received, including accrued interest, is recognised in the balance sheet.

The proceeds from the legal sale of these securities are reported as borrowings.

The control of the securities remains with the Bank throughout the entire term of the transaction and the securities continue to be reported in the Bank's balance sheet as financial assets measured at fair value, as appropriate.

19. Property and equipment

a. *Recognition and measurement*

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

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

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 are 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:

Real estate	50 years
Equipment	3–5 years

The residual value is reassessed annually.

All amounts are in ISK millions

20. Investment property

Investment properties are properties that are held to earn rental income for capital appreciation or both. Investment properties are stated at fair value. The Bank uses internal real estate experts who determine the fair value of investment property by applying recognised valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Properties under an operating lease are classified as an investment property on a property-by-property basis when the Bank holds them to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Any gain or loss arising from a change in fair value is recognised in the income statement as Other operating income.

21. Intangible assets

a. *Goodwill*

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of company. A part of intangible assets is allocated to the brand name, Burdarás.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see note 51). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

Negative goodwill arising on an acquisition is recognised directly as income.

b. *Other intangible assets*

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

c. *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill and any brand name with an indefinite useful life is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

22. Financial liabilities held for trading

Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities.

Trading liabilities are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading liabilities are reported as net gain on financial assets/liabilities measured at fair value. Interest expenses on trading liabilities are included in Interest expenses.

23. Borrowings

Some of the borrowings of the Bank are classified as other financial liabilities and are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the cost and redemption amounts being recognised in the income statement over the period of the borrowings on an effective interest basis. Accrued interest is included in the carrying amount of the borrowings.

24. Subordinated loans

The Bank has borrowed funds by issuing bonds on subordinated terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Bank. In the calculation of the capital ratio, the bonds are included with equity as shown in note 54 Subordinated loans and are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, subordinated loans are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

25. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, and initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

26. Employee benefits

a. *Defined benefit plan*

The Bank's obligation in respect of a defined benefit pension obligation consists of 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 an independent actuary 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%.

b. *Share-based payment transactions*

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 grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Bank has sold shares in the Bank to some of its employees at market value. The employees hold put options on the shares at predetermined terms. The cost attached to the agreements is evaluated in manner similar to comparable agreements on the market and the cost is expensed during the term of the agreements.

27. Share capital

a. *Treasury shares*

Acquired own shares and other equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognised directly in equity.

Incremental transaction costs of treasury share transactions are accounted for as a deduction from equity (net of any related income tax benefit).

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

b. *Treasury shares stated as other liabilities on account of put options*

When the Bank sells treasury shares to its employees with put options – i.e., the right to sell the shares back to the Bank at the purchase price – equity is not increased. Equity will be increased if the put option is not exercised. In the financial statements the nominal value of share capital and share premium is increased, but other reserves decreased. The value is classified as a liability among other liabilities.

c. *Dividends on shares*

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

28. Other assets and other liabilities

Other assets and other liabilities are stated at cost.

29. New standards and interpretations not yet adopted

A number of new standards, amendments to standards, and interpretations are not effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- *IFRS 7 Financial Instruments: Disclosures* requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. The new standard is a pure disclosure standard and does not change the recognition and measurement of financial instruments. Accordingly, it will have no effect on net profit and equity attributable to Straumur-Burðarás Investment Bank hf.'s shareholders.

– *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

– *IFRIC 8 Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some of, or all, goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Bank's 2007 financial statements, with retrospective application required. The Bank has not yet determined the potential effect of the interpretation.

– *IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

– *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Bank's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004).

30. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. *Impairment losses on loans*

The management reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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. Management uses estimates based on historical loss experience for assets with 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.

b. *Fair value of derivatives*

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent that is practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

31. Changes within the Group

The Bank acquired 50.01% an investment banking firm in England, Stamford Partners Ltd, in July, which became a part of the Bank's consolidated financial statement in October. The company is located in London and Amsterdam, The Netherlands, and is a part of the Bank's Corporate Finance unit.

The effect of the acquisition of the company on the Bank's consolidated balance sheet is:

	Stamford Partners Ltd ISK m
Assets	
Loans and receivables	99
Property and equipment	6
Other assets	229
Total assets	334
Liabilites	
Tax liabilities	12
Other liabilities	166
Total liabilities	178
Net estimated value	156
Intangible asssets	2,278
Total acquisition price	2,434

The profit of the Bank for the year 2006 amounted to ISK 45,211 million. If the merger with Stamford Partners Ltd had taken place on 1 January 2006, the profit of the Group would have amounted to ISK 45,345 million.

32. Risk management disclosure

Straumur-Burdarás is exposed to a number of risks in its daily activities as a financial services firm. The bank considers risk management, with a clearly defined framework, a core competency to enhance profitability. In order to provide comprehensive risk management and control the main activities, it includes measuring and monitoring credit risk, market risk, liquidity risk, and operational risk.

Risk policy of Straumur-Burdarás

Straumur-Burdarás actively mangages risk in order to produce consistently high return for its shareholders while at the same time maintaining adequate capitalisation to meet unforeseen events. The task of evaluating and managing the risk lies within a centralised risk management Division which is responsible for assessing the Bank's financial and operational risks.

The Board of Directors oversees the overall risk management of the Bank, as well as the granting of credit, by deciding on a risk policy. Authority regarding all risk taking at the Bank is delegated to the Risk Committee that further delegates limited authority to the Credit Committee. The CEO chairs the Risk Committee; the Managing Director of Risk Management is a member of both committees and is responsible for enforcing the policy firm-wide by appropriate methods and procedures.

Credit risk

Credit risk arises when counterparties default on their obligations to the Bank. The Risk Management Division is responsible for controlling credit risk and monitoring extended credit, both at the individual and the portfolio level.

The primary products featuring credit risk are a wide selection of loans, ranging from highly collateralised senior loans to mezzanine loans. In a loan portfolio such as this, risk awareness is essential and the price of each loan should reflect the risk associated with it. To ensure proper risk assessment for each credit extended, the credit worthiness of both the counterparty and the collateral, if present, is estimated and used to evaluate the loans' overall risk.

Other products incurring credit risk, such as derivatives and guarantees, are treated and processed in a similar manner.

a. Credit approval process

The Debt Finance Department prepares a proposal for each loan which is presented to the Credit Committee for approval. The proposal includes a thorough analysis of the credit risk involved. In addition to the qualities of individual loans and collaterals, the Credit Committee also assesses the loan with respect to its effect on the loan portfolio and ensures it is in line with the risk policies set by the Risk Committee. Credit that goes beyond that which the Credit Committee is authorised to grant is presented to the Risk Committee.

A thorough credit assessment is conducted on all borrowers including an assessment of a borrower's fundamental credit strength as well as the value of any collateral. Stress tests are undertaken on the cash flows of a borrower to assess the capacity to repay in a stressed situation and an independent third-party credit assessment is obtained when required.

b. Credit collateral

The Bank applies restrictions on all collaterals to ensure proper risk mitigation. Rules are set by the Board of Directors through the Rules on Lending. For all collateral in listed securities, the Bank maintains the right to liquidate collateral if its market value falls below a predefined limit, enabling the Bank to act quickly to protect its exposure. The Risk Management Division uses statistical models to estimate the risk included in collaterals consisting of listed shares.

c. Credit rating models

The Bank is well aware of the importance and advantages of having a well designed and fully functioning credit rating process. Risk management uses a risk model capable of estimating the credit risk included in loans and derivatives contracts. The model was implemented in 2005 and enables the risk assessment of a significant part of the Bank's credit portfolio.

d. Credit control and provisioning

The credit control function of the Bank is a part of the Risk Management Division and is responsible for reviewing the loan portfolio for any defaults and for organising the process of the collection of problem loans. It is also responsible for ensuring that no loan covenants are broken and that information is provided from borrowers in a timely manner, as stipulated by loan agreements. Loans fall into the problem category if there is a significant delay in payments or in the case of other events that imply a potential inability to repay the debt. The Bank monitors the value of collateral relating to its loans secured by listed shares, ensuring that prompt action can be taken if necessary.

The loan portfolio is classified by the underlying risk of each loan and the quality of its collateral. Each class of loans has a certain range of provisioning percentage attached to it which is consistent with historical default and recovery rates. The Debt Finance Division suggests a provisioning percentage within that range for each loan which must then be approved by the Credit Committee. Special provisioning is applied, as is considered appropriate by the Debt Finance Division and the Credit Committee, in the case of non-performing and problem loans that are suspected may incur severe losses.

e. Loan portfolio management

A set of limits ensuring diversification of the loan portfolio is decided on and monitored by, the Risk Management Division and must be approved by the Risk Committee. This includes limits to prevent firm-wide concentration on a limited set of counterparties. The Bank also maintains sector limits and country limits on credit exposures to minimise the effects of localised downswings on the Bank's performance. Risk Management conducts regular stress testing and analysis of the loan portfolio.

Liquidity risk

Liquidity risk is the risk of financial loss to the Bank arising from its inability to fund increases in assets and/or meet obligations as they fall due without incurring unacceptable costs or losses. Liquidity risk is managed through rigorous control and a limit framework. Using active liquidity management the Bank seeks to match the maturities of assets and liabilities and seeks to preserve cost-effective funding through diverse sources.

The breakdown by contractual maturity of financial assets and liabilities.

2006 **Assets:**	On demand ISK m	Up to 3 months ISK m	3-12 months ISK m	1-5 years ISK m	Over 5 years ISK m	No stated maturity ISK m	Total ISK m
Financial assets held for trading	125,223	618	–	–	–	–	125,841
Loans and receivables	60,458	12,636	40,294	71,161	9,046	–	193,595
Financial assets designated at fair							
Value through profit and loss	–	–	–	–	13,447	48,840	62,287
Investments in associates	–	–	–	–	–	51	51
Property and equipment	–	–	–	–	–	1,333	1,333
Investment property	–	–	–	–	–	6,413	6,413
Intangible assets	–	–	–	–	–	17,671	17,671
Other assets	–	5,097	–	–	–	–	5,097
Total	185,681	18,351	40,294	71,161	22,493	74,308	412,288
Liabilities:							
Financial liabilities held for trading	3,569	3,049	–	1,499	179	–	8,296
Borrowings	104,909	25,014	42,621	63,428	7,438	–	243,410
Subordinated loans	–	–	–	–	8,391	–	8,391
Tax liabilities	–	–	–	–	–	591	591
Other liabilities	549	883	6,022	2,410	–	387	10,251
Total	109,027	28,946	48,643	67,337	16,008	978	270,939
Assets–liabilities	76,654	(10,595)	(8,349)	3,824	6,485	73,330	141,349
2005							
Total assets	50,541	6,176	26,732	38,820	12,177	10,032	144,478
Total liabilities	103,492	4,202	16,707	25,055	7,475	102,418	259,349
Assets–liabilities	52,951	(1,974)	(10,025)	(13,765)	(4,702)	92,386	114,871

Market risk

Market risk at Straumur-Burdaras is divided into market price risk, interest rate risk and liquidity risk. The strategy is to keep a firm grasp of the market risk and control it within limits set by the by the Risk Committee. To do so Risk Management enforces market risk limits and communicates results to the Risk Committee. Risk Management also develops and regularly reviews, robust models to calculate market risk factors, and reports daily to those who manage the risk.

a. Derivatives

The Bank's main use of derivatives is for hedging currency and interest rate risks. The types of derivatives used are currency swaps, interest rate swaps, forward currency contracts, and forward equity contracts. Derivatives contracts sold to customers are fully hedged for market risk.

b. Interest rate risk

Interest risk arises as the result of duration mismatch of assets and liabilities. If not properly matched, changes in interest rates can affect net interest income. The Bank's Treasury is responsible for managing this risk and ensuring that duration mismatch is within limits set by the Risk Committee and monitored by Risk Management. Interest rate risk due to position taking by Proprietary Trading in market securities is controlled separately and monitored through risk limits and other risk models.

The Bank carries assets and liabilities linked to the Icelandic Consumer Price Index (CPI). The net exposure to the CPI was a loss of ISK 747 million in the banking book.

Interest rate risk by currency and maturity posed by 100bp shift in the yield curve:

Banking book	On demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Currency							
ISK	(10)	77	3	(22)	(173)	–	(126)
ISK CPI	–	–	–	(1)	50	(572)	(523)
CHF	–	9	1	–	–	–	10
DKK	(5)	3	4	–	15	–	17
EUR	33	3	(112)	(4)	(58)	3	(135)
GBP	(9)	(6)	1	28	5	163	182
US$	(5)	(4)	34	–	–	13	39
Other	(9)	2	(14)	–	(5)	–	(26)
Banking book total	(5)	84	(83)	1	(166)	(393)	(562)
Trading book							
DKK	–	–	–	–	–	109	109
ISK	–	–	–	–	15	20	35
ISK CPI	1	–	–	–	132	2,247	2,380
US$	–	1	–	–	–	–	1
Trading book total	1	1	–	–	147	2,376	2,525
Total	(4)	85	(83)	1	(19)	1,983	1,963

All amounts are in ISK millions

c. Market price risk

Market price risk corresponds to the risk associated with volatile market prices for listed securities, currencies, and commodities. Market price risk is measured with internal models, developed by Risk Management, including Value-at-Risk (VaR) calculations. Daily reports that monitor market prices and risk limits are sent to the appropriate Managing Directors as well as to the CEO. The majority of the Bank's market price risk resides in Proprietary Trading. Other divisions seek to be neutral to market price risk as described in the Bank's risk limits.

Value-at-Risk is the potential loss Straumur-Burdarás might experience on its trading positions, for a given time horizon and confidence level. Straumur-Burdarás uses the historical simulation method to calculate VaR. All investments within Proprietary Trading are included in the calculations. On 31 December 2006 one day 95% VaR amounted to ISK 740 million.

d. Currency risk

Foreign exchange risk is controlled by continuously monitoring the Bank's net exposure in all foreign currencies and ensuring that it is within the set net position limits. The Risk Committee has defined risk limits for maximum exposure allowed for individual currencies as well as gross exposure. Risk Management monitors compliance with these procedures on a daily basis. The Bank's policy is to stay neutral in regard of currency risk; however Proprietary Trading can take a trading position within certain limits given the approval of the Risk Committee.

d. Breakdown of assets and liabilities by currency, shown in ISK:

2006 **Assets:**	ISK ISK m	GBP ISK m	US$ ISK m	DKK ISK m	EUR ISK m	Other currencies ISK m	Total ISK m
Financial assets held for trading	62,744	3,609	3,070	8,088	18,234	30,096	125,841
Loans and receivables	79,745	20,003	12,348	27,018	42,329	12,152	193,595
Financial assets designated at fair value through profit and loss	19,511	1,356	2,650	2,582	36,069	119	62,287
Investment in associated companies	–	–	–	51	–	–	51
Property and equipment	1,182	54	–	97	–	–	1,333
Investment property	–	–	–	6,413	–	–	6,413
Intangible assets	15,038	2,504	–	129	–	–	17,671
Other assets	1,584	502	–	2,825	186	–	5,097
Total	179,804	28,028	18,068	47,203	96,818	42,367	412,288
Liabilities and equity:							
Financial liabilities held for trading	8,296	–	–	–	–	–	8,296
Borrowings	120,251	10,945	9,065	24,012	64,579	14,558	243,410
Subordinated loans	5,810	–	–	–	2,581	–	8,391
Tax liabilities	278	77	–	143	93	–	591
Other liabilities	9,423	167	–	661	–	–	10,251
Total equity	140,154	244	–	951	–	–	141,349
Total	284,212	11,433	9,065	25,767	67,253	14,558	412,288
Net balance sheet position	(104,408)	16,595	9,003	21,436	29,565	27,809	
Net off-balance sheet position	(31,921)	(16,956)	(7,762)	(17,290)	98,689	(24,760)	
Net position	(136,329)	(361)	1,241	4,146	128,254	3,049	
2005							
Total assets	105,641	14,639	16,783	8,898	71,665	41,723	259,349
Total liabilities	126,301	12,291	15,695	8,271	68,074	28,717	259,349
Net balance sheet position	(20,660)	2,348	1,088	627	3,591	13,006	

On 1 January 2007 the equity of Straumur was changed from being denominated in ISK to being denominated in EUR. For this purpose, the Treasury Division had accumulated at the year end, a currency position in EUR which corresponded to the Bank's equity. The net position in EUR as of 1 January 2007 is ISK 3,137 million.

1 January 2007 **Assets:**	ISK ISK m	GBP ISK m	US$ ISK m	DKK ISK m	EUR ISK m	Other currencies ISK m	Total ISK m
Financial assets held for trading	62,744	3,609	3,070	8,088	18,234	30,096	125,841
Loans and receivables	79,745	20,003	12,348	27,018	42,329	12,152	193,595
Financial assets designated at fair value through profit and loss	19,511	1,356	2,650	2,582	36,069	119	62,287
Investment in associated companies	–	–	–	51	–	–	51
Property and equipment	1,182	54	–	97	–	–	1,333
Investment property	–	–	–	6,413	–	–	6,413
Intangible assets	–	2,504	–	129	15,038	–	17,671
Other assets	1,584	502	–	2,825	186	–	5,097
Total	164,766	28,028	18,068	47,203	111,856	42,367	412,288
Liabilities and equity:							
Financial liabilities held for trading	8,296	–	–	–	–	–	8,296
Borrowings	120,251	10,945	9,065	24,012	64,579	14,558	243,410
Subordinated loans	5,810	–	–	–	2,581	–	8,391
Tax liabilities	–	77	–	143	94	–	314
Other liabilities	9,700	167	–	661	–	–	10,528
Total equity	–	244	–	951	140,154	–	141,349
Total	144,057	11,433	9,065	25,767	207,408	14,558	412,288
Net balance sheet position	20,709	16,595	9,003	21,436	(95,552)	27,809	
Net off-balance sheet position	(31,921)	(16,956)	(7,762)	(17,290)	98,689	(24,760)	
Net position	(11,212)	(361)	1,241	4,146	3,137	3,049	

33. Segmental reporting

The Capital Markets Division handles the Bank's securities brokering and co-ordinates share and bond offers with other divisions of the Bank.

The Corporate Finance Division advises the Bank's clients on the acquisition, merger, disposal and/or financing of companies and investment vehicles.

Debt Finance focuses on leveraged and acquisition funding; it offers corporate and institutional investors comprehensive financing solutions, which range from general corporate loans to loan financing, and LBOs, including senior and mezzanine debt.

The Proprietary Trading Division is responsible for transactions on our own account. These are either part of market-making for certain classes of securities, or our own exposures in bonds, listed equities, FX and derivatives, on domestic and overseas markets.

Treasury is responsible for the Bank's financing and the management of short-term cash flow, interest rate balance and FX balance.

2006

Segmental assets	Proprietary trading ISK m	Corporate finance ISK m	Debt finance ISK m	Treasury ISK m	Capital Markets ISK m	Elimina-tion ISK m	Total ISK m
Net interest income (expense)	(7,499)	(1,422)	5,173	7,768	(54)	(234)	3,732
Net fee and commission income	17	4,321	705	4	2,456	(99)	7,404
Dividend income	2,450	5	–	–	–	13	2,468
Net gains on financial assets and liabilities held for trading	13,651	(64)	11	–	–	–	13,598
Net gains on financial assets designated at fair value throught profit and loss	–	12,034	–	–	–	320	12,354
Net foreign exchange gains (losses)	3,553	–	–	2,439	–	–	5,992
Other operating income	–	812	–	–	–	9	821
Net operating income	12,172	15,686	5,889	10,211	2,402	9	46,369
Net operating expense	(475)	(1,467)	(680)	(747)	(325)	(172)	(3,866)
Impairment	–	–	(1,038)	–	–	–	(1,038)
Profit before tax	11,697	14,219	4,171	9,464	2,077	(163)	41,465
Income tax	–	–	–	–	–	3,746	3,746
Profit for the year	11,697	14,219	4,171	9,464	2,077	3,583	45,211
Financial assets held for trading	73,993	12,351	2,159	36,173	710	455	125,841
Loans and recievables	–	6,531	125,609	60,475	–	980	193,595
Financial assets designated at fair value through profit and loss	12,302	32,957	–	12,920	–	4,108	62,287
Investment in associated companies	–	51	–	–	–	–	51
Property and equipment	–	163	–	–	–	1,170	1,333
Investment properties	–	6,413	–	–	–	–	6,413
Intangible assets	2,801	4,734	9,686	–	–	450	17,671
Other assets	–	3,974	253	–	–	870	5,097
Total assets	89,096	67,174	137,707	109,568	710	8,033	412,288

2005

Segmental assets	Proprietary Trading ISK m	Corporate Finance ISK m	Debt Finance ISK m	Treasury ISK m	Capital Markets ISK m	Elimina-tion ISK m	Total ISK m
Net interest income (expense)	(2,548)	(463)	1,490	1,273	–	–	(248)
Net fee and commission income	–	961	202	(100)	888	–	1,951
Dividend income	1,584	13	–	–	–	–	1,597
Net gains on financial assets and liabilities held for trading	16,726	–	–	–	–	–	16,726
Net gains on financial asset designated at fair value throught profit and loss	11,529	2,566	–	–	–	–	14,095
Net foreign exchange gains (losses)	(255)	–	–	–	–	–	(255)
Other operating income	–	3	–	–	–	2	5
Net operating income	27,036	3,080	1,692	1,173	888	2	33,871
Impairment	–	–	(385)	–	–	–	(385)
Net operating expense	–	–	–	–	–	(1,306)	(1,306)
Profit before tax	27,036	3,080	1,307	1,173	888	(1,304)	32,180
Income tax	–	–	–	–	–	(5,462)	(5,462)
Profit for the year	27,036	3,080	1,307	1,173	888	(6,766)	26,718
Financial assets held for trading	89,319	–	2,911	–	–	–	92,230
Loans and recievables	–	1,537	48,595	9,862	–	–	59,994
Financial assets designated at fair value through profit and loss	50,297	37,546	–	–	–	–	87,843
Investment properties	–	–	–	–	–	1,126	1,126
Intangible assets	–	–	–	–	–	15,038	15,038
Other assets	–	–	–	–	–	3,118	3,118
Total assets	139,616	39,083	51,506	9,862	–	19,282	259,349

34. Net interest income

	2006 ISK m	2005 ISK m
Interest income:		
Cash and cash equivalents	10,850	1,916
Loans and receivables	9,857	3,274
Financial assets held for trading	1,792	663
Other interest income	30	1
	22,529	5,854
Income expenses:		
Amounts due to credit institutions	(11,275)	(2,719)
Borrowings	(7,275)	(3,165)
Subordinated loans	(230)	(216)
Other income expense	(17)	(2)
	(18,797)	(6,102)
Net interest income	3,732	(248)

35. Net fee and commission income

	2006 ISK m	2005 ISK m
Fee and commission income:		
Proprietary Trading	17	–
Treasury	4	–
Capital Markets	2,456	888
Corporate Finance	4,321	887
Debt Finance	705	223
Total fees and commission	7,503	1,998
Commission expenses	(99)	(47)
Net fee and commission income	7,404	1,951

36. Dividend income

	2006 ISK m	2005 ISK m
Financial assets held for trading	2,269	1,584
Financial assets designated at fair value	199	13
Dividend income	2,468	1,597

All amounts are in ISK millions

37. Net gains on financial assets and financial liabilities held for trading

	2006 ISK m	2005 ISK m
Shares	13,756	16,988
Bonds	(158)	(262)
Total net gains on financial assets and financial liabilities held for trading	13,598	16,726

38. Net gains on financial assets designated at fair value

	2006 ISK m	2005 ISK m
Listed shares	(216)	12,459
Unlisted shares	6,717	(831)
Unlisted units share	5,853	2,467
Total net gains on financial assets designated at fair value	12,354	14,095

39. Administrative expenses

	2006 ISK m	2005 ISK m
Salaries and related expenses	2,077	661
Other administrative expenses	1,758	633
Depreciation	31	12
Total administrative expenses	3,866	1,306

40. Salaries and related expenses

Salaries and related expenses are specified as follows:	2006 ISK m	2005 ISK m
Salaries	1,816	565
Salary-related expenses	261	96
Total salary and salary-related expenses	2,077	661
Average number of employees during the year	69	34
Total number of employees at year end	109	52

All amounts are in ISK millions

41. Employment terms for the Board of Directors and the CEO

Salaries paid to the Board of Directors and the CEO for their work for companies within the Group, their share options and ownership in the Bank are specified as follows:

	Salaries and fringe benefits ISK m	Put options[2] ISK m	Call options[1] ISK m	Ownership at year-end ISK m
Fridrik Jóhannsson, CEO	63.3		40	
Thórdur Már Jóhannesson, former CEO	88.0			
Björgólfur Thor Björgólfsson, Chairman of the Board	3.5			
Magnús Kristinsson	1.2			
Kristinn Björnsson	0.9			
Eggert Magnússon	2.7			8
Páll Magnússon	1.5			
Jón Ásgeir Jóhannesson	0.8			
Hannes Smárason	1.1			
Six other board members	1.0			
Gudmundur Thórdarson, Head of Corporate Finance	55.0	15	35	15
Benedikt Gíslason, Head of Proprietary Trading	20.0	15	35	18
Five other heads of departments	117.0	50	125	50
	356.0			

1) Call option contracts with the CEO and Managing Directors were issued on 1 September 2006 and are based on the exercise prices 16.2 and 16.3. They are exercisable in the years 2007, 2009, and 2010.
2) Put option contracts with the former CEO, which were concluded in 2004 and 2005, were foreclosed in connection with the termination of his employment with the Bank.
3) Put contracts concluded with Managing Directors at the beginning of 2006 are based on the exercise price 17.4 and are exercisable in 2008. Put option contracts concluded with Managing Directors in the year 2005 are based on the exercise price 12.0 and are exercisable in 2007. The present CEO does not have put option contracts against shares in the Bank.
4) Included among the holdings of the aforementioned persons are holdings of their spouses, dependent children, and companies owned by them, if any.

42. Auditors' fees

	2006 ISK m	2005 ISK m
Fees paid to the Bank's Auditors are as follows:		
Audit of annual accounts	24	8
Review of interim accounts	13	12
Other services	11	7
Total	48	27

43. Tax income (expense)

	2006 ISK m	2005 ISK m
Tax income (expense) recognised in the income statement is as follows:		
Current tax expense	(4,812)	(3,565)
Adjustment to current tax for prior years	2,794	–
Deferred tax income (expense)	5,764	(1,897)
Total tax income (expense)	3,746	(5,462)

Reconciliation of effective tax rate:

	%	2006 ISK m	%	2005 ISK m
Profit before tax		41,465		32,180
Income tax using the domestic corporation tax rate	18.0	7,464	18.0	5,792
Tax exempt revenue	(2.5)	(1,043)	(0.9)	(274)
Deferral of gains from sale of equity investments against tax base of investments in subsidiaries	(24.5)	(10,177)		
Non-deductible expenses	–	10	(0.1)	(56)
Effective tax	(9.0)	(3,746)	17.0	5,462

44. Earnings per share

Calculations of earnings per share are based on profit and the weighted average share capital:

	2006 ISK m	2005 ISK m
Profit	45,241	26,718
Calculated average share capital:		
Share capital at the beginning of the year	10,251	5,371
Effect of the increase of share capital during the year	(129)	2,268
Calculated average share capital	10,122	7,639
Earnings per share in ISK	4.47	3.50
Calculated average share capital:		
Share capital at the beginning of the year	10,251	5,371
Effect of the increase of share capital during the year	(129)	2,268
Effect of changes in stock options	37	–
Calculated average share capital	10,159	7,639
Diluted earnings of share	4.45	3.50

45. Loans and receivables

	2006 ISK m	2005 ISK m
Balances with credit institutions	65,751	11,083
Loans to customers	127,844	48,911
Total	193,595	59,994

46. Loans to customers are specified by sectors, as follows:

	2006 ISK m	2005 ISK m
Investment companies	17,249	8,301
Real estate	30,189	2,267
Pharmaceutical	15,884	4,486
Software	6,213	710
Telecommunication	9,835	8,824
Banks	12,903	7,109
Specialty retail	8,765	8,781
Insurance	5,052	782
Food products	7,379	7,042
Other	14,375	609
Total loans to customers	127,844	48,911

47. Changes in the provision

The allowance account for credit losses has been deducted from loans and recievables, as shown below:

	2006 ISK m	2005 ISK m
The allowance account at the beginning of the year	475	76
Provision for losses during the year	1,038	399
The allowance account at year end	1,513	475

48. Financial assets

	2006 ISK m	2005 ISK m
Financial assets held for trading are specified as follows:		
Bonds and other fixed-rate securities:		
Listed on the Iceland Stock Exchange	29,504	11,491
Foreign listed bonds	3,369	4,152
Total	32,873	15,643
Shares and other variable-yield securities:		
Listed on the Iceland Stock Exchange	29,997	33,797
Other listed shares	59,710	37,984
Unlisted shares	31	2,031
Total	89,738	73,812
Positive balance of derivatives	3,230	2,775
Total financial assets held for trading	125,841	92,230

49. Financial assets designated as at fair value

	2006 ISK m	2005 ISK m
Listed shares	4,342	46,004
Unlisted shares	13,283	23,683
Unlisted unit shares	31,742	16,568
Listed bonds	12,920	–
Unlisted bonds	–	1,588
Total	62,287	87,843

50. Property and equipment

Fixed assets as follows:

	Real estate ISK m	Equipment ISK m	Total ISK m
Book value at 31 December 2005	1,115	11	1,126
Additions during the year	61	140	201
Net acquisition through business combinations	–	37	37
Depreciation during the year	(7)	(24)	(31)
Book value at 31 December 2006	1,169	164	1,333
Depreciation ratios, %	2	20-33	

51. Intangible assets

Goodwill is distributed among cash-generating units (CGUs) in keeping with the main emphasis of monitoring and managing activities. With regard to this, goodwill in the Bank's accounts has been distributed among the cash-generating units 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 basis for results for the five years of the scheme; after that it is based on the long-term yield of comparable units. Return objectives are different within each CGU.

The allocation of the goodwill and discount rate for each CGU is as follows:

	Allocation ISK m	Discount rate %
Proprietary Trading	2,801	9.85
Debt Finance	9,686	7.40
Corporate Finance	4,734	8.75
	17,221	

A sensitivity analysis of the budgets and key premises revealed that a significant deviation from the budget or a breakdown must take place in order to effect an impairment of the goodwill that has been distributed to any of the Bank's CGUs.

52. Intangible assets

	2006 Total ISK m	2005 Total ISK m
Brand name	450	450
Goodwill	17,221	14,588
	17,671	15,038

53. Borrowings

	2006 Total ISK m	2005 Total ISK m
The Bank's borrowings are specified as follows:		
Balances with the Central Bank and other credit institutions due to repurchase agreement	81,991	30,693
Other balances with credit institutions	64,147	42,190
Bonds	39,043	33,109
Money market loans	58,229	15,665
Total borrowings	243,410	121,657

54. Subordinated loans

	Currency	Maturity date	2006 Book value ISK m	2005 ISK m
Loans that qualify as Tier II capital:				
Subordinated loan–listed on the Iceland				
Stock Exchange, interest 5%	ISK	01.03.2015	5,810	5,408
Subordinated loan, interest Euribor +3%	EUR	15.12.2018	2,581	–
			8,391	5,408

55. Deferred income tax liability

Changes in tax liability during the year are as follows:

	2006 ISK m	2005 ISK m
Deferred tax liability at the beginning of the year	6,317	1,531
Transferred into Group	26	2,889
Translation difference	12	–
Deferred tax income recognised in income statement	(5,764)	1,897
Deferred tax liability at the year end	591	6,317

56. Equity

According to the Parent Company's Articles of Association, total share capital amounts to ISK 10,359 million. The nominal amount of treasury shares at the end of 2005 and 2006 amounted to ISK 108 and ISK 872 million respectively. One vote is attached to each share of one ISK and the holders of ordinary shares are entitled to one vote per share at meetings of the Bank.

57. Equity

The Bank has borrowed funds by issuing bonds on subordinated terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Bank. In the calculation of the capital ratio, the bonds are included with equity, as shown in note 60. The subordinated loans have a maturity date after nine years. The loans are entered as liabilities with accrued interest and indexation.

58. Equity

Equity at the end of the period amounted to ISK 141,349 million, equivalent to 34.3% of total assets. The capital adequacy ratio of the Group, calculated in accordance with Article 84 of the Act on Financial Undertakings, is 37.6%. This ratio may not be lower than 8.0% according to that Act.

58. Equity continued

The ratio is calculated as follows:

	Book value ISK m	Weighted value ISK m
Risk base:		
Assets recorded in the balance sheet	412,288	365,809
Assets subtracted from equity		(17,671)
Guarantees and other items not included in the balance sheet		3,214
Risk base, total		351,352
Equity:		
Tier 1 capital		
Book value of equity		141,349
Minority interest in net assets of subsidiaries		1,914
Goodwill		(17,671)
Tier 2 capital		
Subordinated loans		8,391
Assets deducted from equity		
Total equity		132,070
Capital adequacy ratio		37.6%

The calculation of the capital adequacy ratio above is based on currency risk in relation to the Euro. However, the ratio would be 27.7% if the calculation were based on currency risk in relation to ISK.

59. Guarantees

The Bank has granted its customers guarantees totalling ISK 3,214 million.

60. Share options

The Board of Directors of Straumur-Burdarás Investment Bank hf. has decided on the basis of the Bank's share option scheme to grant employees in the Group options to buy shares in the Bank. Share option holders are entitled to exercise their total options between 2007 and 2010. Options have an exercise price of ISK 16.2 and ISK 16.3 per share.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. Expectations of early exercise are not incorporated into the Black-Scholes model.

The fair value of options granted during the year determined using the Black-Scholes valuations model was ISK 1,393 million, which will be amortised over contractual life of options. The significant inputs into the model were share prices of ISK 16.2 and ISK 16.3, expected volatility of 23.1%, option life disclosed above, annual risk free interest rate of 9.0%, and expected dividend yield of 4.0%. The expected volatility is based on the historic volatility over the 12 months before the grant date.

61. Post-balance sheet events

There have been no other material post-balance sheet events that would require disclosure or adjustments to the 31 December 2006 Financial Statements.

62. Subsidiaries

Shares in main subsidiaries are as follows:

Company:	Country	Currency	Equity interest %
Brú Venture Capital hf.	Iceland	ISK	64.69
Straumur Eignarhaldsfélag ehf.	Iceland	ISK	100.00
Fasteignafélagid Sjávarsída hf.	Iceland	ISK	97.50
Ida hf. eignarhaldsfélag	Iceland	ISK	100.00
Ida fjárfestingar ehf.	Iceland	ISK	100.00
STRB Investments S.A.R.L.	Luxembourg	EUR	100.00
Burdarás Luxembourg Holding S.A.R.L.	Luxembourg	EUR	100.00
Novator telecom Poland II	Luxembourg	EUR	100.00
MGM eignarhaldsfélag ehf.	Iceland	ISK	100.00
Property Group	Denmark	DKK	50.01
Stamford Partners Limited	England	GBP	50.01
Creditor B.V.	Holland	EUR	100.00
Straumur Equities ehf.	Iceland	ISK	100.00
Eignarhaldsfélagid Urridi ehf.	Iceland	ISK	100.00

63. Related parties

The Bank has a related-party relationship with its subsidiaries (see note 64), the Board of Directors of the parent company, the managing directors of the group and close family members of individuals referred to herein. This definition is based on IAS 24.

Loans to related parties amounted to ISK 22,693 million at the end of 2006. Guarantees at the same time amount to ISK 2,649 million, and the Bank's shareholding in companies wherein Board members have significant influence amounts to ISK 5,911 million. At the year end 2005, loans to related parties amounted to ISK 13,544 million, guarantees related to these loans amounted to ISK 7,214 million, and ownership in companies wherein Board members have significant influence amounted to ISK 1,744 million. There were no debts to related parties at the end of the period.

As at the end of 2006, there were no personal loans or receivables to managers or Board members. Among debts is ISK 2,039 million due to shares against which managers own put options. At the year end 2005, the equivalent amount was ISK 2,000 million.

All amounts are in ISK millions

Unaudited information

Quarterly statements 2005

Summary of the Group's operating results by quarters:

	Q4 2005 ISK m	Q3 2005 ISK m	Q2 2005 ISK m	Q1 2005 ISK m	Total ISK m
Net interest income (expense)	(73)	375	(366)	(184)	(248)
Net fee and commission income	205	411	241	994	1,951
Dividend income	1,385	114	–	98	1,597
Other net financial income	4,015	3,062	8,503	14,986	30,566
Other operating income	3	–	2	–	5
	5,535	3,962	8,380	15,894	33,871
Administrative expenses	(205)	(244)	(243)	(614)	(1,306)
Impairment losses on loans and receivable	(63)	(96)	(384)	158	(385)
Profit before tax	5,267	3,622	7,753	15,438	32,180
Income tax	(690)	(570)	(1,380)	(2,822)	(5,462)
Profit for the year	4,577	3,052	6,373	12,616	26,718
Attributable to:					
Equity holders of the parent	4,647	2,895	6,383	12,592	26,617
Minority interest	(70)	157	(10)	24	101
Profit for the year	4,577	3,052	6,473	12,616	26,718

All amounts are in ISK millions

Quarterly statements 2006

Summary of the Group's operating results by quarters:

	Q4 2006 ISK m	Q3 2006 ISK m	Q2 2006 ISK m	Q1 2006 ISK m	Total ISK m
Net interest income	596	1,258	1,393	485	3,732
Net fee and commission income	2,241	1,694	1,102	2,367	7,404
Dividend income	526	31	1,215	696	2,468
Other net financial income	10,686	3,117	(5,006)	17,155	25,952
Net foreign exchange gain	3,288	(3,296)	2,499	3,501	5,992
Other operating income	812	–	–	–	821
	18,149	2,804	1,203	24,213	46,369
Administrative expenses	(1,653)	(701)	(756)	(756)	(3,866)
Impairment losses on loans and receivable	(296)	(180)	(296)	(266)	(1,038)
Profit before tax	16,200	1,923	151	23,191	41,465
Income tax	8,075	(374)	156	(4,111)	3,746
Profit for the year	24,275	1,549	307	19,080	45,211
Attributable to:					
Equity holders of the Parent	24,040	1,493	218	19,127	44,878
Minority interest	235	56	89	(47)	333
Profit for the year	24,275	1,549	307	19,080	45,211

All amounts are in ISK millions

Five-year overview

	2006 ISK m	2005 ISK m	2004 ISK m	2003 ISK m	2002 ISK m
Total assets	412,288	259,349	89,589	22,530	7,986
Equity at end of period	141,349	114,871	32,006	16,094	7,761
Shares at end of period	9,487	10,251	5,371	4,083	2,540
Equity per share	15	11	6	4	3
Net operating income	46,369	33,871	8,615	4,287	1,070
Operating costs	(3,866)	(1,306)	(494)	(317)	(106)
Profit before tax	41,465	32,180	8,041	3,969	967
Profit after tax	45,211	26,718	6,685	3,815	812
Return on equity, on annual basis, after tax, %	42.00	46.50	34.50	40.10	10.90
Profit (losses) per share, %	4.47	3.5	1.51	1.17	0.32
Dividend per share, %	0.75	0.65	0.35	0.35	0.18
Full-time equivalent positions	109	52	17	12	4
Net operating income/total assets, %	11.2	13.1	9.6	13.3	13.4
Operating expenses/total assets, %	0.9	0.5	0.6	1.4	1.3
Cost/income, %	8.3	3.9	6.1	7.4	9.9

All amounts are in ISK millions

Key data

	2006	2005	2004	2003	2002
Earnings per share (basic and fully diluted), ISK m	4.45	3.50	1.50	1.17	0.30
Book value per share, ISK m	14.9	11.21	5.96	3.94	3.06
Dividend per share, ISK m	0.75*	0.65	0.35	0.35	0.18
Pay-out ratio	0.17	0.25	0.28	0.12	–
Share price, ISK	17.40	15.90	9.60	4.93	3.12
Total return. %	14.2	72.4	101.9	69.3	9.7
Price/earnings ratio	3.9	4.55	6.40	4.22	10.37
Price/book ratio	1.18	1.42	1.61	1.25	1.02
Average number of shares	10.122	97.76	51.17	37.6	31.3
Number of shares at year end	100.270	137.220	64.315	45.480	29.98
Return on equity, %	42.0	46.5	34.5	40.1	10.9
Return on assets, %	13.5	15.3	11.9	25.0	8.2
Cost/income ratio, %	8.3	3.9	5.7	–	–
Profit margin, %	0.76	0.66	0.69	–	–
Total assets, ISK m	412,288	259,349	89,589	22,530	7,986
Shareholders' equity, ISK m	141,349	114,871	32,006	16,094	7,761
Capital ratio, %	37.6	19.8	15.5	–	–
Tier 1 ratio, %	35.2	15.3	15.5	–	–
Total risk-weighted assets, EUR m	351,352	207,934	59,276	–	–
Employees at year end, number	109	52	17	12	4

* proposed dividend

Share price refers to the closing price at year end.

All amounts are in ISK millions

Shareholder information

The financial calendar

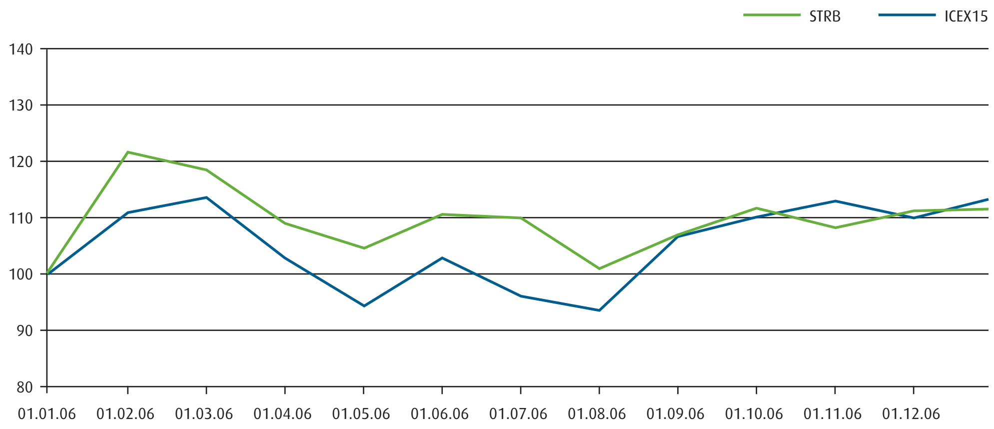
Annual General Meeting: 8 March 2007
Q1 2007: 26 April 2007
Q2 2007: 26 July 2007
Q3 2007: 25 October 2007
Q4 2007: 29 January 2008

Ten largest shareholders in Straumur-Burdarás
as at 2 March 2007

Name	Share	%
Landsbanki Luxembourg S.A.*	5.137.463.496,00	49,59
Straumur-Burdarás	429.945.858,00	4,15
Barclays Bank Plc (Dorset)	408.074.655,00	3,94
Löngusker ehf	388.888.889,00	3,75
GLB Hedge	373.528.406,00	3,61
Arion safnreikningur	241.937.552,00	2,34
Gildi Pension Fund	188.175.660,00	1,82
Lífeyrissjóður verslunarmanna Pension Fund	145.336.341,00	1,40
Sund ehf	144.500.000,00	1,39
LI-Hedge	135.389.153,00	1,31

*Of the shares held by Landsbanki Luxembourg, 30.2 per cent are owned by Samson Global Holdings.

Shareholder return chart



Share capital structure

At the end of 2006, there were 10,359,144,971 Straumur-Burdarás shares in circulation. These are of a single class and have a nominal value of ISK 1 per share. Straumur-Burdarás is listed on the OMX Nordic Exchange in Reykjavík. Each share carries one vote at shareholders' meetings.

The Bank held 726,667,889 treasury shares at the end of the year, an increase of 618,313,996 over the year. No privileges are conferred by the shares. They may be sold or mortgaged, unless otherwise indicated by law.

Annual General Meeting

The Annual General Meeting (AGM) will be held on 8 March 2007 at 16.00 at the Nordica hotel.

The AGM will vote on the distribution of the Bank's profits. The proposed dividend is 75 per cent of the nominal value of each share. This will amount to ISK 7,769 million, 17.2% of the year's profits.

All shareholders and their proxies have the right to attend the AGM. In addition, the meeting will be open to analysts and to members of the media.

Share price

The share price at the year end was 17.40

Total return

14.2 per cent

For further information

The Company welcomes contact with its shareholders. For information, please contact
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Glossary

Acquisition
When one company purchases a majority interest in another.

CAD
Capital Adequacy Directive, used as a basis for calculating different capital ratios.

CLO
Collateralised loan obligation. A special-purpose vehicle with securitisation payments in different tranches. Backed with receivables from loans.

Commission income
The charges for arranging the sale or purchase of securities. Charges to clients are based on the number of transactions, or the amount of assets bought or sold.

Cost/income ratio
A useful way of comparing changes in costs with income.

CPI
Consumer Price Index, most commonly used to assess changes in the cost of living by comparing the weighted average of prices of a “basket” of goods and services.

Derivative
A security, the price of which depends on, or is derived from, one or more underlying assets. Its value is determined by fluctuations in the underlying asset. Derivatives are generally used to hedge (cf) risk, but can also be used for speculation.

Dividend income
Dividends received by the Company.

Dividends
Distribution of a portion of a company’s earnings to a class of its shareholders.

Fair value
The estimated value of an acquired company’s assets and liabilities. It is used to consolidate the financial statements of both companies.

Fee income
Total fees based on a set percentage of a client’s assets.

Fixed income security
An investment that provides fixed periodic payments, agreed in advance, together with the eventual return of the principal at maturity.

FSA (UK)
Financial Services Authority, an independent non-government body, given statutory powers by the UK Financial Services and Markets Act 2000.

FX
Foreign exchange, otherwise referred to as “forex”.

Hedge
An investment which reduces or cancels the risk in another investment.

ICAAP
Internal capital adequacy assessment process. A means of ensuring that management identifies and measures risks adequately, maintains sufficient internal capital in relation to a company’s risk profile, and uses – and develops – sound risk management systems.

LBO
Leveraged buyout. An acquisition (cf) using mainly borrowed money in the form of bonds or loans without commiting large amounts of capital.

Leverage
The amount of debt used to finance a firm’s assets. A firm with significantly more debt than equity is considered to be highly leveraged.

Maturity
The end a security’s life, most commonly the date the funds borrowed through the issue of a bond must be repaid.

Mezzanine debt
Debt capital that gives the lender the right to convert to ownership of, or an equity interest in, a company if a loan is not fully repaid in time.

MiFID
Markets in Financial Instruments Directive. An EU directive that will come into effect on 1 November 2007 and will replace the existing Investment Services Directive (ISD). MiFID introduces new, and more extensive, requirements for the conduct of business and internal organisation.

Net commission income
Commission income (cf) after the deduction of related costs.

Net fee income
Fee income (cf) after the deduction of related costs.

Net interest income
Income received as interest on loans granted and receivables, after deduction of interest paid on interest-bearing debt.

Net operating income
Operating income (cf) after deduction of operating expenses and depreciation.

Net revenue
Income received during a specific period, after discounts and deductions.

Operating income
Profit from a business's own operations, excluding operating expenses (such as cost of goods sold) and depreciation from gross income. Does not include items such as investments in other firms, tax or interest.

Operating expenses
Overhead costs which are essential for a company to maintain its business.

Proprietary model
A wholly-owned process, tool or system which provides a benefit or advantage to the owner.

Risk assessment
An appraisal of how much risk is involved in a given financial operation.

ROE
Return on Equity. A measure of a corporation's profitability that reveals how much profit a company generates from the money shareholders have invested. ROE is calculated by dividing net income by shareholders' equity.

Securities
Essentially a contract that can be assigned a value and traded. Examples are instruments representing ownership (stocks), debt agreements (bonds) or the rights to ownership (derivatives).

Senior debt
A bond or other form of debt that takes priority over other debt securities sold by the issuer.

Shareholder base
The total number of shareholders who own at least one share in a company.

Tier 1 capital ratio
A bank's capital adequacy. Tier 1, core capital, includes equity capital and disclosed reserves.

Tier 2 capital ratio
A bank's capital adequacy. Tier 2 capital, secondary bank capital, includes undisclosed reserves, general loss reserves, subordinated term debt, and more.

Treasury shares
Shares bought in the market and held by the company that issued them.

VaR
Value at Risk. A means of estimating the probability of portfolio losses based on a statistical analysis of historical price trends and volatilities.

Yield curve
A line that plots the interest rates, at a set point in time, of bonds which have equal credit quality, but different maturity dates. It is used as a benchmark for other debt in the market, such as mortgage or bank lending rates. It is also used to predict changes in economic output and growth.

Memos

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