

**Glitnir sjóðir hf.**  
**Glitnir Mutual Funds**  
**Glitnir Investment Funds**  
**Financial Statements 2006**

Glitnir sjóðir hf.  
Kirkjusandi 2  
155 Reykjavík  
Iceland

Reg. no. 690694-2719

# Contents

---

## Part-A

<b>Financial Statements of Glitnir sjóðir hf. ....</b>	<b>3</b>
Annual Report and Signatures by the Board of Directors and the Managing Director .....	3
Auditors' Report .....	4
Income Statement .....	5
Balance Sheet .....	6
Statement of Cash Flows .....	7
Notes .....	8

## Part-B

<b>Financial Statements of Glitnir Mutual Funds .....</b>	<b>10</b>
Income Statement .....	11
Balance Sheet .....	12
Statement of Changes in Net Assets .....	13
Statement of Investments .....	14
Notes .....	17
<b>Financial Statements of Glitnir Investment Funds .....</b>	<b>22</b>
Income Statement .....	23
Balance Sheet .....	24
Statement of Changes in Net Assets .....	25
Statement of Investments .....	26
Notes .....	27

# Annual Report and Signatures by the Board of Directors and the Managing Director

---

Glitnir sjóðir hf. was founded in 1994 and is the management company for Glitnir Mutual Funds and Glitnir Investment Funds. The Funds are under custody by Glitnir banki hf. Glitnir sjóðir hf. is a subsidiary of Glitnir banki hf. and is included in the consolidated financial statements of the bank and its subsidiaries.

The financial statements are divided into two parts. Part-A consists of the financial statements of the funds' management company. Part-B consists of the financial statements of Glitnir Mutual Funds and Glitnir Investments Funds. This formation of the financial statements is in conformity with the requirements of the Financial Supervisory Authority of Iceland, regarding financial statements of management companies of mutual funds.

At year-end 11 funds were under management by the company. Their net assets amounted to ISK 145,765 million. Three funds which are registered in Luxembourg are managed by the company. Their net assets amounted to ISK 11,478 million.

According to the Income Statement the profit of the company amounted to ISK 28.9 million. Equity, according to the Balance Sheet, amounted to ISK 82.7 million at year-end. The Company's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 48.1%. Under Icelandic law the minimum requirement is 8.0%. The Board of Directors do not propose a dividend payment to the shareholders for operations in the year 2006, but allocation of profit and changes in equity are further explained in the financial statements.

The capital stock of the company amounted to ISK 25 million at year-end and is owned by Glitnir banki hf. and its subsidiaries.

Ten employees worked for the company during the year and salaries amounted to ISK 110 million.

The Board of Directors and the Managing Director of Glitnir sjóðir hf. hereby confirm the financial statements of the company for the year 2006 by means of their signatures.

Reykjavik, 8 February 2007.

Board of Directors:

Almar Guðmundsson

Gunnar Jónsson

Guðmundur H. Garðarsson

Katrín Oddsdóttir

Managing Director:

Eggert Þór Kristófersson

# Auditors' Report

---

## **To the Board of Directors and Shareholders of Glitnir sjóðir hf. and owners of unit shares of Glitnir Mutual Funds and Glitnir Investment Funds.**

We have audited the accompanying financial statements of Glitnir sjóðir hf. for the year 2006. The financial statements are divided into two parts. Part-A is the financial statements of the management company of the funds and part-B is the financial statements of Glitnir Mutual Funds and Glitnir Investment Funds. Part-A comprises the annual report by the board of directors and the managing director, income statement, balance sheet, statement of cash flows and notes nr. 1-8 to the financial statements of the management company. Part-B comprises the income statement, balance sheet, statement of changes in net assets, statement of investments and notes nr. 1-15 for Glitnir Mutual Funds and Glitnir Investment Funds respectively.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with law and generally accepted accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the results of operations of the management company and the funds, their financial position as of 31 December 2006, the management company's cash flows for the year then ended and the changes in the funds' net assets as of 31 December 2006, in accordance with the law and generally accepted accounting principles in Iceland.

Reykjavík, 8 February 2007.

### **PricewaterhouseCoopers hf.**

Sigurður B. Arnþórsson

Kristinn F. Kristinsson

# Income Statement for the year 2006

	Notes	2006	2005
<b>Operating income:</b>			
Management fees .....		1,147,420	937,592
Financial income .....		6,786	4,642
Other income .....		818	22
Total operating income		<u>1,155,024</u>	<u>942,256</u>
Financial expenses .....		( 54)	( 10)
Net operating income		<u>1,154,970</u>	<u>942,246</u>
 <b>Operating expenses:</b>			
Salaries and salary-related expenses .....	3-4	133,065	89,080
Service fees to Glitnir banki hf. ....		897,880	766,199
Other expenses .....		88,816	76,795
Total operating expenses		<u>1,119,761</u>	<u>932,074</u>
Profit before income tax .....		35,209	10,172
Income tax .....	8	( 6,338)	( 1,831)
<b>Profit for the year .....</b>		<u>28,871</u>	<u>8,341</u>

# Balance Sheet as at 31 December 2006

## Assets

	Notes	2006	2005
<b>Securities:</b>			
Unit shares .....		21,434	44,370
<b>Receivables:</b>			
Receivables due from part-B .....		124,864	100,240
Other receivables .....		1,239	254
		126,103	100,494
<b>Cash and cash equivalents</b> .....		67,367	6,072
<b>Total Assets</b>		214,904	150,936

## Equity and Liabilities

### Equity:

Share capital .....		25,000	25,000
Statutory reserve .....		4,206	2,762
Retained earnings .....		53,519	26,092
Equity	5-7	82,725	53,854

### Liabilities:

Liabilities with the parent company .....		91,733	69,343
Accrued taxes payable .....	8	6,338	1,831
Other current liabilities .....		34,108	25,908
Liabilities		132,179	97,082

<b>Total Equity and Liabilities</b>		214,904	150,936
-------------------------------------	--	---------	---------

## Statement of Cash Flows for the Year 2006

---

	Notes	2006	2005
<b>Cash flows from operating activities:</b>			
Profit for the year .....	6	28,871	8,341
Items not affecting cash:			
Appreciation of securities .....		( 1,968)	( 2,884)
Changes in operating assets and liabilities .....		9,488	( 32,768)
Net cash provided by operating activities		<u>36,391</u>	<u>( 27,311)</u>
 <b>Cash flows from investing activities:</b>			
Redeemed unit shares of mutual funds .....		<u>24,904</u>	<u>0</u>
 <b>Change in cash and cash equivalents .....</b>		 61,295	 ( 27,311)
<b>Cash and cash equivalents at the beginning of the year .....</b>		<u>6,072</u>	<u>33,383</u>
<b>Cash and cash equivalents at year-end.....</b>		<u><u>67,367</u></u>	<u><u>6,072</u></u>

# Notes to the Financial Statements

## Summary of Accounting Principles

### *Basis of Preparation*

- The financial statements of Glitnir sjóðir hf., part-A, are prepared in accordance with the Annual Accounts Act and the Rules on the financial statements of management companies of mutual funds. The financial statements are based on cost accounting and are prepared according to the same accounting principles used for the previous year. The financial statements are prepared in Icelandic currency (ISK) and amounts are presented in thousands of ISK. The company is a subsidiary of Glitnir banki hf. The financial statements of the company are a part of the consolidated financial statements of the parent company and all the groups' operating and financial information can be found there.

### *Management fees*

- The company receives a fee for the management of Glitnir Mutual Funds and Glitnir Investment Funds. The company also receives management fee for the management of Glitnir Mutual Funds and Glitnir Hedge Funds in Luxembourg. The management fees are calculated as a fixed ratio of each fund's net assets and includes, among other things, the employee's salaries of the management company, marketing cost and expenses relating to the operations of the funds.

## Personnel

- Salaries and salary-related expenses are specified as follows:

	2006	2005
Salaries .....	110,390	73,858
Salary-related expenses and accrued performance based-salary .....	22,675	15,222
Total salaries and salary-related expenses .....	133,065	89,080

The company's total number of employees is as follows:

Positions at year-end .....	10	9
Average number of employees during the year .....	8.5	6.5

- The managing director's salaries amounted to ISK 19.4 million for the year 2006. The board of director's salaries amounted to ISK 3.4 million.

## Equity

- The company's share capital amounts to ISK 25 million. One vote is attached to each share of one ISK in the company.
- Changes in equity are specified as follows:

	Share Capital	Statutory Reserve	Retained Earnings	Total
Equity as at 1.1.2006 .....	25,000	2,762	26,092	53,854
Contribution to statutory reserve .....		1,444	( 1,444)	0
Profit for the year .....			28,871	28,871
Equity as at 31.12.2006 .....	25,000	4,206	53,519	82,725



# Notes to the Financial Statements

---

7. The capital adequacy ratio (CAD) of the company, calculated in accordance with Article 84 of the Act on Financial Undertakings, is 48.09%. The legal minimum capital adequacy ratio is 8.0%. The ratio is calculated as follows:

Risk base .....	172,027
Equity .....	82,725
Capital adequacy ratio .....	48.09%

## Taxation

8. Authoritative expenses for the operation in the year 2006 have been calculated and recognised in the financial statements. The company is taxed together with its parent company.

# **Glitnir Mutual Funds**

**Financial Statements 2006**

## Income Statement for the Year 2006

	Notes	Glitnir Fund 1	Glitnir Fund 5	Glitnir Fund 6	Glitnir Fund 7	Glitnir Fund 11	Glitnir Global Portfolio	Total 2006	Total 2005
<b>Financial income and expenses:</b>									
Interest income, indexation, dividends and exchange rate difference .....		3,262	655	1,334	1,491	555	573	7,870	7,463
Interest expense .....		( 74)	( 38)	( 29)	( 32)	( 12)	( 1)	( 186)	( 103)
Net financial income .....	3-4	3,188	617	1,305	1,459	543	572	7,684	7,360
<b>Operating expenses:</b>									
Management fees .....	5	345	64	65	154	49	21	698	693
Other operating expenses .....		5	2	2	5	2	1	17	18
		<u>350</u>	<u>66</u>	<u>67</u>	<u>159</u>	<u>51</u>	<u>22</u>	<u>715</u>	<u>711</u>
<b>Profit for the year recognised on unit shares .....</b>		<u>2,838</u>	<u>551</u>	<u>1,238</u>	<u>1,300</u>	<u>492</u>	<u>550</u>	<u>6,969</u>	<u>6,649</u>

## Balance Sheet as at 31 December 2006

Assets	Notes	Glitnir					Glitnir	Total 2006	Total 2005
		Fund 1	Fund 5	Fund 6	Fund 7	Fund 11	Global Portfolio		
Fixed-income securities .....		31,962	6,923	0	17,572	5,278	0	61,735	58,350
Shares .....		0	0	7,146	0	0	0	7,146	7,898
Unit shares .....		0	0	0	0	0	2,238	2,238	1,632
Balances with financial institutions ...		0	0	0	0	0	0	0	635
Derivatives .....		42	44	0	2	2	0	90	221
	6-10	<u>32,004</u>	<u>6,967</u>	<u>7,146</u>	<u>17,574</u>	<u>5,280</u>	<u>2,238</u>	<u>71,209</u>	<u>68,736</u>
<b>Other assets:</b>									
Cash and cash equivalents .....		122	0	8	451	0	10	591	1,282
Other assets .....		15	5	4	27	35	1	87	0
		<u>137</u>	<u>5</u>	<u>12</u>	<u>478</u>	<u>35</u>	<u>11</u>	<u>678</u>	<u>1,282</u>
Total Assets		<u>32,141</u>	<u>6,972</u>	<u>7,158</u>	<u>18,052</u>	<u>5,315</u>	<u>2,249</u>	<u>71,887</u>	<u>70,018</u>
<b>Liabilities:</b>									
Liabilities with credit institutions .....		0	259	83	0	23	0	365	9
Liabilities with the management company .....		30	6	8	16	7	3	70	57
Derivatives .....		0	0	0	0	10	0	10	0
Other liabilities .....		8	6	16	2	0	1	33	8
Total Liabilities		<u>38</u>	<u>271</u>	<u>107</u>	<u>18</u>	<u>40</u>	<u>4</u>	<u>478</u>	<u>74</u>
<b>Unit shares .....</b>	12-13	<u>32,103</u>	<u>6,701</u>	<u>7,051</u>	<u>18,034</u>	<u>5,275</u>	<u>2,245</u>	<u>71,409</u>	<u>69,944</u>
<b>Total Liabilities and Unit shares</b>		<u><u>32,141</u></u>	<u><u>6,972</u></u>	<u><u>7,158</u></u>	<u><u>18,052</u></u>	<u><u>5,315</u></u>	<u><u>2,249</u></u>	<u><u>71,887</u></u>	<u><u>70,018</u></u>
<b>Class-A:</b>									
Net assets .....		32,103	6,701	7,051	18,034	5,275	2,244		
Number of units, in thousands .....		3,070 *	1,532	476	8,145	2,695	1,957		
Price of unit shares at year-end .....		10,313 *	4,374	14,821	2,214	1,957	1,147		

\* Fund 1 consists of number of fund series. Number of share units and prices are as follow:

	Number of units	Price
<b>Glitnir Fund 1, bonds .....</b>	3,070	10,313
Fund shares 1 .....	14	10,313
Fund shares 3 .....	3	7,103
Fund shares 4 .....	5	4,886
Interest shares .....	28,362	7,2671
Option shares .....	6,418	6,8117

## Statement of Changes in Net Assets for the Year 2006

	Notes	Glitnir Fund 1	Glitnir Fund 5	Glitnir Fund 6	Glitnir Fund 7	Glitnir Fund 11	Glitnir Global Portfolio	Total 2006	Total 2005
<b>Cash flows used in operating activities:</b>									
Profit for the year recognised on unit shares .....		2,838	551	1,238	1,300	492	550	6,969	6,649
<b>Cash flows from investing activities:</b>									
Unit shares sold .....		15,977	667	3,460	7,899	1,979	581	30,563	36,822
Unit shares redeemed .....		( 16,746)	( 2,271)	( 5,529)	( 7,723)	( 3,267)	( 531)	( 36,067)	( 45,181)
		( 769)	( 1,604)	( 2,069)	176	( 1,288)	50	( 5,504)	( 8,359)
<b>Change in net assets .....</b>		2,069	( 1,053)	( 831)	1,476	( 796)	600	1,465	( 1,710)
<b>Net assets at the beginning of the year .....</b>		30,034	7,754	7,882	16,558	6,071	1,645	69,944	71,654
<b>Net assets at year-end .....</b>		32,103	6,701	7,051	18,034	5,275	2,245	71,409	69,944

# Statement of Investments as at 31 December 2006

## Glitnir Fund 1

### Bonds

	Market value	% of total net assets
Bakkavör Group hf. ....	2,238	7.0%
Straumur-Burðarás Investment bank hf. ....	1,981	6.2%
Glitnir bank hf. ....	1,818	5.7%
Fasteignafélagið Stoðir hf. ....	1,702	5.3%
Kaupthing bank hf. ....	1,435	4.5%
The Housing Financing Fund ....	1,226	3.8%
Baugur Group hf. ....	1,010	3.1%
Egla hf. ....	807	2.5%
Exista hf. ....	797	2.5%
Sparisjóður Hafnarfjarðar ....	773	2.4%
Nýsir hf. ....	718	2.2%
Other bonds ....	17,457	54.4%
Unrealised gain from derivatives ....	42	0.1%
Total value of investments ....	32,004	99.7%
Cash and cash equivalents ....	122	0.4%
Other assets and liabilities ....	( 23)	( 0.1%)
Total net assets ....	32,103	100.0%

## Glitnir Fund 5

### Government bonds

	Market value	% of total net assets
Housing bonds (íbúðabréf) ....	3,648	54.4%
Government bonds ....	1,531	22.8%
Housing bonds (húsnæðisbréf) ....	913	13.6%
Housing bonds (húsbréf) ....	806	12.0%
Treasury bonds ....	25	0.4%
Unrealised gain from derivatives ....	44	0.7%
Total value of investments ....	6,967	104.0%
Other assets and liabilities ....	( 266)	( 4.0%)
Total net assets ....	6,701	100.0%

# Statement of Investments as at 31 December 2006

## Glitnir Fund 6 ICEX index fund

	Nominal value/ shares*	Market value	% of total net assets
Kaupthing bank hf. ....	2*	1,681	23.8%
Glitnir bank hf. ....	39	898	12.7%
Landsbanki Íslands hf. ....	31	822	11.7%
Exista hf. ....	29	662	9.4%
Actavis Group hf. ....	9	600	8.5%
FL Group hf. ....	21	548	7.8%
Straumur-Burðarás Investment bank hf. ....	28	489	6.9%
Bakkavör Group hf. ....	6	362	5.1%
Hf. Eimskipafélag Íslands ....	5	157	2.2%
Tryggingamiðstöðin hf. ....	4	141	2.0%
Össur hf. ....	1	117	1.7%
Mosaic Fashions hf. ....	8	116	1.6%
Other companies ....	-	553	7.8%
Total value of investments .....		7,146	101.3%
Cash and cash equivalents .....		8	0.1%
Other assets and liabilities .....		( 103)	( 1.5%)
Total net assets .....		<u>7,051</u>	<u>100.0%</u>

## Glitnir Fund 7 Long term government bonds

	Market value	% of total net assets
Housing bonds (íbúðabréf) .....	15,338	85.1%
Housing bonds (húsbréf) .....	2,118	11.7%
Treasury bonds .....	116	0.6%
Unrealised gains from derivatives .....	2	0.0%
Total value of investments .....	17,574	97.4%
Cash and cash equivalents .....	451	2.5%
Other assets and liabilities .....	9	0.0%
Total net assets .....	<u>18,034</u>	<u>100.0%</u>

# Statement of Investments as at 31 December 2006

## Glitnir Fund 11 Corporate bonds

	Market value	% of total net assets
Bonds with government warranty .....	774	14.7%
Landsvirkjun .....	376	7.1%
Glitnir bank hf. ....	359	6.8%
Akureyrarkaupstaður .....	235	4.5%
Fasteignafélagið Stoðir hf. ....	230	4.4%
Oliufélagið ehf. ....	192	3.6%
Bakkavör Group hf. ....	185	3.5%
Fjarðarbyggð .....	183	3.5%
Exista hf. ....	175	3.3%
Spölur hf. ....	170	3.2%
Havila Shipping ASA .....	161	3.1%
Kögun hf. ....	160	3.0%
Landssími Íslands hf. ....	154	2.9%
Landsbanki Íslands hf. ....	141	2.7%
Sparisjóður Hafnarfjarðar .....	131	2.5%
Nýsir hf. ....	113	2.1%
Other bonds .....	1,539	29.2%
Unrealised gains from derivatives .....	2	0.0%
Total value of investments .....	5,280	100.1%
Other assets and liabilities .....	( 5)	( 0.1%)
Total net assets .....	5,275	100.0%

## Glitnir Global Portfolio Foreign shares

	Shares	Market value	% of total net assets
Glitnir Global Equity .....	36,609	406	18.1%
Vanguard Global Stock Index Fund .....	352,731	388	17.3%
GAM-Global Diversified Inc. ....	94,418	269	12.0%
Gartmore SICAV Global Funds .....	358,728	266	11.8%
S&P Depository Receipt .....	24,300	247	11.0%
Gartmore European Focus Fund .....	10,767	204	9.1%
Vanguard European Stock Index Fund .....	111,776	145	6.5%
Vanguard US500 Stock Index Fund .....	146,667	139	6.2%
GAM-Star Japan Equity Fund .....	117,555	122	5.4%
Ishares MSCI Japan Index Fund .....	51,100	52	2.3%
Total value of investments .....		2,238	99.7%
Cash and cash equivalents .....		10	0.4%
Other assets and liabilities .....		( 3)	( 0.1%)
Total net assets .....		2,245	100.0%



# Notes to the Financial Statements

## Summary of Accounting Principles

### *Basis of Preparation*

1. The financial statements of Glitnir Mutual Funds are prepared in accordance with the Annual Accounts Act and the Rules on the financial statements of management companies of mutual funds. The financial statements are based on cost accounting except that listed securities are generally valued at market value. The financial statements are prepared according to the same accounting principles used for the previous year. The financial statements are prepared in Icelandic currency (ISK) and amounts are presented in millions of ISK. The funds are a part of Glitnir Sjóðir hf. which is a subsidiary of Glitnir banki hf. and all the groups' operating and financial information can be found there. The financial statements of the funds are not a part of the banks' financial statements because of the nature of their operations.

### *Foreign Currency*

2. Assets and liabilities in foreign currency are converted to Icelandic currency (ISK) at the exchange rate at year-end 2006. Operational revenue and expenses in foreign currency are converted at the exchange rate of the date of transaction.

### *Interest income and expenses*

3. Interest income and interest expenses are recognised in the income statement as they accrue based on the effective interest rate.

### *Dividend income*

4. Dividend income is recognised in the income statement on the dividend's declaration date. Capital tax on foreign shares' dividends is deducted from dividend income in the income statement.

### *Management fees*

5. Glitnir sjóðir hf. receives management fees from the funds, which includes the salaries of the company's employees, marketing expenses and other management expenses of the funds. The fee is calculated as a fixed ratio of each fund's net assets. The fees are specified as follows:

	Series	Series	Maximum fee	
	A	B	Series	Series
			A	B
Glitnir Fund 1, bonds .....	1.0%	-	1.5%	1.0%
Glitnir Fund 5, government bonds .....	0.9%	-	1.5%	1.0%
Glitnir Fund 6, ICEX index fund .....	0.8%	-	1.5%	1.0%
Glitnir Fund 7, long government bonds .....	0.9%	-	1.5%	1.0%
Glitnir Fund 11, corporate bonds .....	0.8%	-	1.5%	1.0%
Glitnir Global Portfolio .....	1.0%	-	2.5%	2.0%

The funds also pay salaries to the board members, audit expenses and other expenses.

# Notes to the Financial Statements

---

## *Investments*

6. Bonds which are listed on public stock markets are valued at market value at year-end. Unlisted bonds are valued with consideration to the required rate of return at the date of purchase. When these assets are valued, an amortisation is calculated which takes into account the general risk of the operations.
7. Listed shares are valued at market value at year-end. Unlisted shares are recognised in the financial statements on the last known trade price or estimated market price, whichever is lower.
8. Unit shares in mutual funds are valued at year-end market value.
9. Demand deposits owed to credit institutions are capitalised with accrued interests, indexation and exchange rate differences at year-end.
10. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the funds' balance sheet, either because rights and obligations arise out of one and the same contract, the contracts will not be in effect until the year 2007 or because the notional amounts serve only as variables for calculating purposes. The notional amounts of derivatives do not necessarily give any indication of the size of cash flows or the attached risk. Examples of derivatives are forward and future exchange contracts, swaps and options. Their underlying value can be based on interest rates or prices of currencies, commodities, bonds or equities.

Derivatives are capitalised at market value. The derivatives are used to hedge the funds against interest and exchange rate risk due from securities. Their general aim is to minimise the funds price, interest and exchange rate risk. Gains and losses on derivatives are recognised in the income statement and in the balance sheet.

The market risk of derivatives is due to price changes in the factors that underlying assets are priced on, such as changes in interest rates, currency exchange rates and prices of listed securities.

## **Taxation**

11. Mutual Funds and Investments Funds do not pay income tax. Instead the profit or loss of their operations is taxed at the owners of the unit shares. Individuals pay capital tax of the profit from their shares when they cash it out. Profit and loss from unit shares is considered as taxable income or expenses at companies regardless of its redemption.

The funds are exempt from capital tax in Iceland but not in those countries where capital tax is levied on foreign parties income and no double taxation treaties apply.

# Notes to the Financial Statements

## Unit shares

12. The real return of Glitnir Mutual Funds for the year 2006 are specified as follows:

		Last 3 months	Last 6 months	Last 12 months
Glitnir Fund 1, bonds .....	(	2.9%)	0.8%	1.6%
Glitnir Fund 5, Icelandic government bonds .....	(	5.0%)	1.6%	0.9%
Glitnir Fund 6, ICEX index fund .....		9.0%	33.4%	9.7%
Glitnir Fund 7, long term government bonds .....	(	9.8%)	1.1%	0.8%
Glitnir Fund 11, corporate bonds .....	(	6.0%)	1.3%	1.3%
Glitnir Global Portfolio .....		45.9%	6.5%	23.4%

13. Summary of the book value and the price of unit shares at year-end for the last 3 years.

	Book value			Price		
	2006	2005	2004	2006	2005	2004
Glitnir Fund 1 .....	32,103	30,034	25,871	10,313	9,493	8,876
Glitnir Fund 5 .....	6,701	7,754	14,970	4,374	4,052	3,878
Glitnir Fund 6 .....	7,051	7,882	5,096	14,821	12,629	7,751
Glitnir Fund 7 .....	18,034	16,558	17,802	2,214	2,053	2,016
Glitnir Fund 11 .....	5,275	6,071	6,388	1,957	1,806	1,737
Glitnir Global Portfolio .....	2,245	1,645	1,527	1,147	869	778

14. Summary of percentage division of assets of individual funds and investment policies.

### Glitnir Fund 1, bonds

	Assets		Change	Investment policy		
	31.12.2006	31.12.2005		Aim	Minimum	Maximum
	%	%	%	%	%	%
Government bonds .....	10	8	2	10	10	30
Corporate bonds .....	56	47	9	45	25	70
Bonds issued by banks and savings banks .....	32	42	( 10)	30	20	50
Other bonds .....	2	3	( 1)	15	5	30
Cash .....	0	0	0	0	0	10

### Glitnir Fund 5, Icelandic government funds

Treasury bills .....	0	0	0	5	0	60
Unindexed government bonds .....	22	25	( 3)	35	5	60
Housing bonds (íbúðabréf)...	53	40	13	45	10	60
Housing bonds (húsbréf) .....	12	7	5	10	0	60
Housing bonds (húsnæðisbréf) .....	13	13	0	5	0	20
Other government bonds .....	0	5	( 5)	0	0	20
Cash .....	0	10	( 10)	0	0	10

# Notes to the Financial Statements

## Glitnir Fund 6, ICEX index fund

	Assets		Change	Investment policy		
	31.12.2006	31.12.2005		Aim	Minimum	Maximum
	%	%	%	%	%	%
Shares .....	100	100	0	100	95	100
Cash .....	0	0	0	0	0	5

## Glitnir Fund 7, long term government bonds

Housing bonds (íbúðabréf) .....	85	77	8	80	30	100
Housing bonds (húsbréf) .....	12	17	( 5)	20	0	50
Other government bonds .....	1	1	( 0)	0	0	10
Cash .....	2	5	( 3)	0	0	10

## Glitnir Fund 11, corporate bonds

Bonds with government warranty .....	17	42	( 25)	20	0	50
Treasury bills .....	0	0	0			
Housing bonds (húsbréf) ..	1	1	0			
Housing bonds (íbúðabréf) .....	14	26	( 12)			
Other bonds .....	2	15	( 13)			
Banks', municipalities' and corporate bonds .....	83	52	31	80	50	100
Corporate bonds .....	56	33	23			
Bonds issued by banks .....	16	15	1			
Other bonds .....	11	4	7			
Cash .....	0	6	( 6)	0	0	10

## Glitnir Global Portfolio

Unit shares .....	100	86	14	100	90	100
Shares .....	0	14	( 14)	0	0	10
Cash, bonds and bills of exchange .....	0	0	0	0	0	10

# Notes to the Financial Statements

## 15. Segmentation of the fund series' investments and relative percentage division:

	Gov., municipal. or int. institutes		Unit shares		Shares		Other		Total	
	kr.	%	kr.	%	kr.	%	kr.	%	kr.	%
<b>Glitnir Fund 1</b>										
Securities, other than money market documents listed on public stock markets .....	3,819	12					25,566	80	29,385	92
Derivatives outside public stock markets .....							42	0	42	0
Other financial instruments .....	37	0					2,540	8	2,577	8
	<u>3,856</u>	<u>12</u>					<u>28,148</u>	<u>88</u>	<u>32,004</u>	<u>100</u>
<b>Glitnir Fund 5</b>										
Securities, other than money market documents listed on public stock markets .....	6,923	99							6,923	99
Derivatives outside public stock markets .....	44	1							44	1
	<u>6,967</u>	<u>100</u>					<u>0</u>	<u>0</u>	<u>6,967</u>	<u>100</u>
<b>Glitnir Fund 6</b>										
Securities, other than money market documents listed on public stock markets .....					7,146	100			7,146	100
					<u>7,146</u>	<u>100</u>			<u>7,146</u>	<u>100</u>
<b>Glitnir Fund 7</b>										
Securities, other than money market documents listed on public stock markets .....	17,572	100							17,572	100
Derivatives outside public stock markets .....	2	0							2	0
	<u>17,574</u>	<u>100</u>					<u>0</u>	<u>0</u>	<u>17,574</u>	<u>100</u>
<b>Glitnir Fund 11</b>										
Securities, other than money market documents listed on public stock markets .....	1,493	28					3,527	67	5,020	95
Derivatives outside public stock markets .....							2	0	2	0
Other financial instruments .....	6	0					252	5	258	5
	<u>1,499</u>	<u>28</u>					<u>3,781</u>	<u>72</u>	<u>5,280</u>	<u>100</u>
<b>Glitnir Global Portfolio</b>										
Securities, other than money market documents listed on public stock markets .....			2,238	100					2,238	100
			<u>2,238</u>	<u>100</u>					<u>2,238</u>	<u>100</u>

# **Glitnir Investment Funds**

**Financial Statements 2006**

## Income Statement for the Year 2006

	Notes	Glitnir Fund 9	Glitnir Fund 10	Total 2006	Total 2005
<b>Financial income and expenses:</b>					
Interest income, indexation, dividends and exchange rate difference .....		4,334	929	5,263	2,973
Interests expense .....		( 5)	( 43)	( 48)	( 22)
Net financial income .....	3-4	4,329	886	5,215	2,951
<b>Operating expenses:</b>					
Management fees .....	5	243	78	321	154
Other operating expenses .....		5	1	6	3
		<u>248</u>	<u>79</u>	<u>327</u>	<u>157</u>
<b>Profit for the year recognised on unit shares .....</b>		<u>4,081</u>	<u>807</u>	<u>4,888</u>	<u>2,794</u>

## Balance Sheet as at 31 December 2006

<b>Assets</b>	Notes	Glitnir Fund 9	Glitnir Fund 10	Total 2006	Total 2005
<b>Stocks:</b>					
Fixed-income securities .....		28,091	0	28,091	18,426
Shares .....		0	5,131	5,131	4,149
Balances with financial institutions .....		29,638	0	29,638	9,792
Derivatives .....		1	0	1	0
	6-10	57,730	5,131	62,861	32,367
Cash and cash equivalents .....		50	26	76	0
Other assets .....		2	4	6	612
		52	30	82	612
<b>Total Assets</b>		57,782	5,161	62,943	32,979
<b>Liabilities:</b>					
Liabilities with credit institutions .....		0	0	0	10
Liabilities with the management company .....		31	9	40	22
Other liabilities .....		21	4	25	8
<b>Total Liabilities</b>		52	13	65	40
<b>Unit shares</b> .....	12-13	57,730	5,148	62,878	32,939
<b>Total Liabilities and Unit shares</b>		57,782	5,161	62,943	32,939
Net assets .....		57,730	5,148		
Number of units .....		2,429	812		
Price of unit shares at year-end .....		23,771	6,340		



# Statement of Changes in Net Assets for the Year 2006

---

	Notes	Glitnir Fund 9	Glitnir Fund 10	Total 2006	Total 2005
<b>Cash flows used in operating activities:</b>					
Profit for the year recognised on unit shares .....		4,081	807	4,888	2,794
<b>Cash flows from investing activities:</b>					
Unit shares sold .....		130,763	2,203	132,966	81,297
Unit shares redeemed .....		( 105,919)	( 1,996)	( 107,915)	( 58,878)
		<u>24,844</u>	<u>207</u>	<u>25,051</u>	<u>22,419</u>
<b>Increase in net assets.....</b>		28,925	1,014	29,939	25,213
<b>Net assets at the beginning of the year .....</b>		<u>28,805</u>	<u>4,134</u>	<u>32,939</u>	<u>7,726</u>
<b>Net assets at year-end .....</b>		<u><u>57,730</u></u>	<u><u>5,148</u></u>	<u><u>62,878</u></u>	<u><u>32,939</u></u>

# Statement of Investments as at 31 December 2006

## Glitnir Fund 9

### Money market fund

	Market value	% of total net asset
Viðskiptastofa SPRON .....	3,658	6.3%
Glitnir bank hf. ....	3,511	6.1%
FL Group hf. ....	3,310	5.7%
Baugur Group hf. ....	3,109	5.4%
MP Investment bank hf. ....	2,253	3.9%
Exista hf. ....	2,240	3.9%
Straumur - Burðarás Investment bank hf. ....	2,131	3.7%
Clearwater Fine Foods Inc. ....	1,548	2.7%
Milestone ehf. ....	1,536	2.7%
Kaupthing bank hf. ....	1,110	1.9%
Atorka Group hf. ....	1,052	1.8%
Bonds with government warranty .....	787	1.4%
Sparisjóður Kópavogs .....	490	0.8%
Fasteignafélagið Stoðir hf. ....	412	0.7%
Straumborg ehf. ....	361	0.6%
Sparisjóðurinn í Keflavík .....	296	0.5%
Sparisjóður Reykjavíkur og nágrennis .....	287	0.5%
Amounts due from credit institutions .....	29,638	51.3%
Unrealised gain from derivatives .....	1	0.0%
Total value of investments .....	57,730	100.0%
Cash and cash equivalents .....	50	0.1%
Other assets and liabilities .....	( 50)	( 0.1%)
Total net assets .....	57,730	100.0%

## Glitnir Fund 10

### Selected Icelandic equities

	Nominal value/ shares*	Market value	% of total
Kaupthing bank hf. ....	2*	1,779	34.6%
Glitnir bank hf. ....	33	771	15.0%
Landsbanki Íslands hf. ....	25	656	12.7%
Straumur-Burðarás Investment bank hf. ....	29	503	9.8%
FL Group hf. ....	14	355	6.9%
Actavis Group hf. ....	5	351	6.8%
Bakkavör Group hf. ....	3	215	4.2%
Icelandair Group Holding hf. ....	7	201	3.9%
Mosaic Fashions hf. ....	6	95	1.8%
Tryggingamiðstöðin hf. ....	2	75	1.5%
Other shares .....	-	130	2.5%
Total value of investments .....		5,131	99.7%
Cash and cash equivalents .....		26	0.5%
Other assets and liabilities .....		( 9)	( 0.2%)
Total net assets .....		5,148	100.0%

# Notes to the Financial Statements

## Summary of Accounting Principles

### *Basis of Preparation*

1. The financial statements of Glitnir Investment Funds are prepared in accordance with the Annual Accounts Act and the Rules on the financial statements of management companies of mutual funds. The financial statements are based on cost accounting except that listed securities are generally valued at market value. The financial statements are prepared according to the same accounting principles used for the previous year. The financial statements are prepared in Icelandic currency (ISK) and amounts are presented in millions of ISK. The funds are a part of Glitnir sjóðir hf. which is a subsidiary of Glitnir banki hf. and all the groups' operating and financial information can be found there. The financial statements of the funds are not a part of the banks' financial statements because of the nature of their operations.

### *Foreign Currency*

2. Assets and liabilities in foreign currency are converted to Icelandic currency (ISK) at the exchange rate at year-end 2006. Operational revenue and expenses in foreign currency are converted at the exchange rate of the date of transaction.

### *Interest income and expenses*

3. Interest income and interest expenses are recognised in the income statement as they accrue based on the effective interest rate.

### *Dividend income*

4. Dividend income is recognised in the income statement on the dividend's declaration date. Capital tax on foreign shares' dividends is deducted from dividend income in the income statement.

### *Management fees*

5. Glitnir sjóðir hf. receives management fees from the funds which includes the salaries of the company's employees, marketing expenses and other management expenses of the funds. The fee is calculated as a fixed ratio of each fund's net assets. The fees are specified as follows:

	Series A	Series B	Maximum fee	
			Series A	Series B
Glitnir Fund 9, money market fund .....	0.7%	-	1.5%	1.0%
Glitnir Fund 10, selected Icelandic equities .....	1.6%	-	1.6%	0.8%

The funds also pay salaries to the board members, audit expenses and other expenses.

### *Investments*

6. Bonds which are listed on public stock markets are valued at market value at year-end. Unlisted bonds are valued with consideration to the required rate of return at the date of purchase. When these assets are valued, an amortisation is calculated which takes into account the general risk of the operations.
7. Listed shares are valued at market value at year-end. Unlisted shares are recognised in the financial statements on the last known trade price or estimated market price, whichever is lower.

# Notes to the Financial Statements

8. Unit shares in mutual funds are valued at year-end market value.
9. Demand deposits owed to credit institutions are capitalised with accrued interests, indexation and exchange rate differences at year-end.
10. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the funds' balance sheet, either because rights and obligations arise out of one and the same contract, the contracts will not be in effect until the year 2007 or because the notional amounts serve only as variables for calculating purposes. The notional amounts of derivatives do not necessarily give any indication of the size of cash flows or the attached risk. Examples of derivatives are forward and future exchange contracts, swaps and options. Their underlying value can be based on interest rates or prices of currencies, commodities, bonds or equities.

Derivatives are capitalised at market value. The derivatives are used to hedge the funds against interest and exchange rate risk due from securities. Their general aim is to minimise the funds price, interest and exchange rate risk. Gains and losses on derivatives are recognised in the income statement and in the balance sheet.

The market risk of derivatives is due to price changes in the factors that underlying assets are priced on, such as changes in interest rates, currency exchange rates and prices of listed securities.

## Taxation

11. Mutual Funds and Investments Funds do not pay income tax. Instead the profit or loss of their operations is taxed at the owners of the unit shares. Individuals pay capital tax of the profit from their shares when they cash it out. Profit and loss from unit shares is considered as taxable income or expenses at companies regardless of its redemption.

The funds are exempt from capital tax in Iceland but not in those countries where capital tax is levied on foreign parties income and no double taxation treaties apply.

## Unit shares

12. The real return of Glitnir Investment Fund for the year 2006 are specified as follows:

	Last 3 months	Last 6 months	Last 12 months
Glitnir Fund 9, money market fund .....	13.2%	10.3%	5.2%
Glitnir Fund 10, selected Icelandic equities .....	10.5%	38.8%	11.5%

13. Summary of the book value and the price of unit shares at year-end for the last three years.

	Book value			Price		
	2006	2005	2004	2006	2005	2004
Glitnir Fund 9 .....	57,730	28,805	5,863	23,771	21,135	19,506
Glitnir Fund 10 .....	5,148	4,134	1,863	6,340	5,318	3,186

# Notes to the Financial Statements

14. Summary of percentage division of assets of individual funds and investment policies.

## Glitnir Fund 9, money market fund

	Assets		Change	Investment policy		
	31.12.2006	31.12.2005		Aim	Minimum	Maximum
	%	%	%	%	%	%
Government bonds .....	1	15	( 14)	20	0	100
Bank notes, bills of exchange and deposits..	71	75	( 4)	70	0	100
Listed corporate bonds ..	22	6	16	10	0	30
Other bonds .....	5	2	3	0	0	25
Cash .....	0	2	( 2)			

## Glitnir Fund 10, selected Icelandic equities

Shares .....	99	100	( 1)	100	90	100
Cash .....	1	0	1	0	0	10

15. Segmentation of the fund series' investments and relative percentage division:

Glitnir Fund 9	Gov., municipal. or int. institutes		Unit shares		Shares		Other		Total	
	kr.	%	kr.	%	kr.	%	kr.	%	kr.	%
Securities, other than money market documents listed on public stock markets .....	787	1					9,060	16	9,847	17
Money market documents listed on public stock markets .....							15,357	27	15,357	27
Amounts due from credit institutions .....							29,638	51	29,638	51
Derivatives outside public stock markets .....							1	0	1	0
Other financial instruments .....							2,887	5	2,887	5
	<u>787</u>	<u>1</u>					<u>56,943</u>	<u>99</u>	<u>57,730</u>	<u>100</u>

## Glitnir Fund 10

Securities, other than money market documents listed on public stock markets .....					5,131	100			5,131	100
					<u>5,131</u>	<u>100</u>			<u>5,131</u>	<u>100</u>