Straumur-Burdarás Investment Bank hf.

Consolidated Financial Statements 2006
ISK

Straumur-Burdarás Investment Bank hf.
Borgartún 25
105 Reykjavík

Reg. no. 701086-1399

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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 45.2 million. The Bank's equity at the end of 2006 amounted to ISK 141.3 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings, was 37.6% at year-end. As of 31 December 2006 the Bank's total assets amounted to ISK 412.3 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's shareholders numbered 20,666, as compared to 22,032 as of beginning of the year. Samson Global Holdings, which holds 30.2% of the Bank's share capital, is the only shareholder with a holding over 10%.

In July the Bank acquired more than 50% of the shares in Stamford Partners, a specialist investment banking firm with operations in London and Amsterdam. Stamford Partners are 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.

As of January 2007 the Bank's accounting will be 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% of profits and 75.0% 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

Þórunn Gudmundsdóttir

CEO:

Friðrik Jóhannsson

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 control 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 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, 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 December 31, 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
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 gains (losses)		5.992	(255)
Other operating income		821	5
		46.369	33.871
Administrative expenses	39	(3.866)	(1.306)
Impairment losses on loans and receivable		(1.038)	(385)
Profit before tax		41.465	32.180
Tax income (expense)		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

Consolidated Balance Sheet as at 31 December 2006

	Notes	2006	2005
Assets:			
Financial assets held for trading	48	125.841	92.230
Financial assets designated at fair value through profit and loss	49	62.287	87.843
Loans and receivables	45,46	193.595	59.994
Investment in associated companies		51	0
Property and equipment	50	1.333	1.126
Investment properties		6.413	0
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 equity 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

Consolidated Statement of Changes in Equity for the year 2006

2005	Share capital	Share premium	Other reserves	Retained earnings	Total share-holders' equity	Minority interest	Total equity
Equity as at 1 Jan 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)
Purchased and sold treasury shares	(53)	(807)			(860)		(860)
Treasury share 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 Dec 2005	10.251	71.388	(2.439)	34.945	114.145	726	114.871

2006	Share capital	Share premium	Other reserves	Retained earnings	Total share-holders' equity	Minority interest	Total equity
Equity as at 1 Jan 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)
Purchased and sold treasury shares	(764)	(13.127)			(13.891)		(13.891)
Treasury share stated as other liability on account of put options			(1.671)		(1.671)		(1.671)
Treasury share 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 Dec 2006	9.487	58.261	(1.402)	73.089	139.435	1.914	141.349

Statement of Cash Flows for the year 2006

	Notes	2006	2005
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:			
Loans and receivables changes		(107.776)	(23.060)
Financial assets held for trading, changes		(34.649)	(10.762)
Financial assets designated at fair value through profit and loss, changes		26.014	(13.268)
Other assets, changes		(1.980)	580
Borrowings and other liabilities, changes		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)	0
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
Purchase and sold treasury shares		(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		0	5.423
Cash and cash equivalents at the end of the year		35.094	9.269

Notes to the Consolidated Financial Statements

1. Reporting entity

Straumur-Burðarás 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-Burðarás 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-Burðarás Investment Bank hf. on 30 January 2007.

b. *Functional and presentation currency*

The Consolidated Financial Statements are presented in Icelandic krona (ISK) which is the Bank's functional currency. 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 except 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 in conformity with 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 Statement 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 later to some extend differ from the estimates and the assumption 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 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 Bank 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 cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised 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 nor 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.

4. contd.:

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, the Icelandic króna, at foreign exchange rates current at the Balance Sheet date. The revenues and expenses of foreign operations are translated to Icelandic krónas 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 Expense

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.

6. a. contd.:

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.

7. a. contd.:

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 approprate.

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 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.

8. contd.:

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 only offset against income tax liability if they are due to tax assessment from the same tax authorities.

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

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), (ii) foreign exchange differences and other gains and losses (note 37). Interest income is recognised on 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 separate section on risk management). The Bank uses both derivative and non-derivative financial instruments to manage the potential earnings impact of these risks.

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 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 the 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.

- 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 issuer but not control.

- structured products that contain embedded derivatives.

13. b. contd.:

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 valuations techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the Balance Sheet.

15. Recognition and derecognition of financial assets and financial liabilities

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date on which the Bank commits to purchase or sell the asset, except for loans which are recognised when cash is advanced to the borrowers.

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

15. contd.:

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

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 enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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.

19. contd.:

b. *Subsequent costs*

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

c. *Depreciation*

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

Real estate	50 years
Equipment	3 - 5 years

The residual value is reassessed annually

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.

21. contd.:

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 brand name with an indefinite useful life is systematically tested for impairment a 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 cost and redemption amount 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 instruments.

Financial guarantee liabilities are initially recognised at their 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 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 similar manner as other 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 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 transaction 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 there is an obligation that would give rise to a financial liability, the instrument is classified as financial liability, rather than an equity instrument.

b. *Treasury shares stated as other liability 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 – the equity is not increased. The 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 reserve decreased. The value is classified as 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 yet 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. 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 or all of 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.

30. contd.:

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 are 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 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% in a consulting company in England, Stamford Partners Ltd., in the beginning of October. The company is located in London and Amsterdam, Netherlands and is a part of the Bank's Corporate Finance unit.

The effects of the merger of the Companies on the Bank's consolidated balance sheet is presented in the following table:

	Stamford Partners Ltd.
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 345 million.

32. Risk management disclosure

Straumur-Burðarás 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 includes measuring and monitoring credit risk, market risk, liquidity risk, and operational risk.

Risk policy of Straumur-Burðarás

Straumur-Burðarás actively mangages risk in order to produce consistently high return for its shareholders while at the same time maintaining adequate capitalization to meet unforeseen events. The task of evaluating and managing the risk lies within a centralized risk management division which is responsible for assessing the banks financial and operational risks.

The Board of directors oversees the overall risk management of the banks, as well 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 and the Managing Director of Risk Management is a member of both committees and is responsible for enforcing the policy firm wide by appropriate methodologies and procedures.

Credit risk

Credit risk arises when counterparties default on their obligations towards 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 is a wide selection of loans, ranging from highly collateralized 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 as described above.

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 alignment with the risk policies set by the Risk Committee. Credit that goes beyond what the Credit Committee is authorized 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 scenario and an independent third party credit assessment is obtained when required.

b. *Credit collateral*

The Bank applies haircuts on all collaterals to ensure proper risk mitigation. Rules regarding this 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 if needed. The Risk Management division utilizes statistical models to estimate the risk included in collaterals consisting of listed shares.

32. contd.:

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 utilizes a risk model capable of estimating the credit risk included in loans and derivatives contracts. The model was implemented last year and enables the risk assessment of a significant part of the banks 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 organizing the process of 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 in case of significant delay of payments or in case of other events that imply potential inability of the obligor to repay the debt. The Bank monitors the value of collateral relating to its loans secured by listed shares daily, 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 then must be approved by the Credit Committee. Special provisioning is applied, as is considered appropriate by the Debt Finance Division and the Credit Committee, in case of non-performing and problem loans that are suspected to incur severe losses.

e. *Loan portfolio management*

A set of limits ensuring diversification of the loan portfolio is decided 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 minimize the effects of localized downswings on the Banks' performance. Risk Management conducts regular stress testing and scenario 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 a rigorous control and 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.

32. contd.:

The breakdown by contractual maturity of financial assets and liabilities.

2006 Assets:	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
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 the Risk Management enforces market risk limits and communicates results to the Risk Committee. Also the Risk Management develops, and reviews regularly, 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 away 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.

32. contd.:

b. *Interest rate risk*

Interest risk arises due to 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 negative 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
USD	(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
USD		1					1
Trading Book Total	1	1	0	0	147	2.376	2.525
Total	(4)	85	(83)	1	(19)	1.983	1.963

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 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 banks risk limits.

Value-at-Risk is the potential loss Straumur-Burdaras might experience on it’s trading positions, for a given time horizon and confidence level. Straumur-Burdaras uses historical simulation method to calculate VaR. All investments within Proprietary Trading are included in the calculations. On the 31.12.2006 one day 95% VaR amounted to ISK 740 million.

32. contd.:

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 the 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.

Breakdown of assets and liabilities by currency:

2006	ISK	GBP	USD	DKK	EUR	Other	Total
Assets:							
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	

32. contd.:

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

1 Jan 2007	ISK	GBP	USD	DKK	EUR	Other	Total
Assets:							
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	0		1.333
Investment property	0			6.413	0		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. Segment Reporting

Segment information is presented in respect of the Bank's business and geographical segments. The primary format, business segments, is based on the Bank´s management and internal reporting structure.

Business segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Inter-segment pricing is determined on an arm's length basis.

Business segments
Capital Markets is divided into two parts: Capital Markets and Proprietary Trading. Capital Markets handles securities brokerage for the Bank's clients. Proprietary Trading handles transactions for the Bank's own account in all major markets, as well as undertaking the Bank's market making for stocks and bonds.

Investment Banking provides various services to corporate clients through its four main products areas: M&A advisory, capital market transactions, acquisition and leverage finance and principle investment.

Treasury is responsible for inter-bank trading, the Bank’s funding, derivatives and foreign exchange trading and brokerage.

Banking provides general banking services to retail customers in Iceland and services such as advice and assistance in financing to medium-sized and large companies, particularly in Iceland, Sweden, the UK and Denmark.

2006

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 asset designated at fair value throught profit and loss	0	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	0	0	(1.038)	0	0	0	(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

33. contd.:

Segment assets	Proprietary trading	Corporate finance	Debt finance	Treasury	Capital Markets	Elimina- tion	Total
Financial assets held for trading	73.993	12.351	2.159	36.173	710	455	125.841
Loans and recievable	0	6.531	125.609	60.475	0	980	193.595
Financial assets designated at fair value through	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

	Proprietary trading	Corporate finance	Debt finance	Treasury	Capital Markets	Elimina- tion	Total
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	0	0	(385)	0	0	0	(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

Notes, contd.:

33. contd.:

Segment assets	Proprietary trading	Corporate finance	Debt finance	Treasury	Capital Markets	Elimina-tion	Total
Financial assets held for trading	89.319		2.911				92.230
Loans and recievable		1.537	48.595	9.862			59.994
Financial assets designated at fair value through	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	0	19.282	259.349

34. **Net interest income**

	2006	2005
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 expense:		
Amounts due to credit institutes	(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	2005
Fee and commission income:		
Proprietary trading	17	0
Treasury	4	0
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	2005
Financial assets held for trading	2.269	1.584
Financial assets designated at fair value	199	13
Dividend income	2.468	1.597

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

	2006	2005
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	2005
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	2005
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	2005
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
The Bank's total number of employees at year end	109	52

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 stock options and ownership in the Bank are specified as follows:

	Salaries and fringe benefits	Put options [2]	Call options [1]	Ownership at year-end
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			
Other board members (6)	1,0			
Gudmundur Thórdarson, Head of Corporate Finance	55,0	15	35	15
Benedikt Gíslason, Head of Proprietary trading	20,0	15	35	18
Heads of departments (5)	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 the year 2008. Put option contracts concluded with managing directors in the year 2005 are based on the exercise price 12.0 and are exercisable in the year 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

Remuneration to the Bank's Auditors is specified as follows:

	2006	2005
Audit of Annual Accounts	24	8
Review of Interim Accounts	13	12
Other services	11	7
Total	48	27

43. Tax income (expense)

Tax income (expense) recognised in the Income Statement specifies as follows:

	2006	2005
Current tax expense	(4.812)	(3.565)
Adjustment to current tax for prior years	2.794	0
Deferred tax income (expense)	5.764	(1.897)
Total tax income (expense)	3.746	(5.462)

Reconciliation of effective tax rate:

		2006		2005
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)		
Other changes	-	10	(0,2%)	(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	2005
Profit according to the Consolidated Financial Statements	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	0
Calculated average share capital	10.159	7.639
Diluted earnings of share capital	4,45	3,50

45. **Loans and receivables**

	2006	2005
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 as follows by sectors:

Investment companies	17.249	8.301
Real Estate	30.189	2.267
Pharmaceutical	15.884	4.486
Investment	6.213	710
Software	9.835	8.824
Banks	12.903	7.109
Special 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. The Allowance account for credit losses has been deducted from Loans and Recievables. Changes in the provision are specified as follows:

	2006	2005
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**

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 specify as follows:

	2006	2005
Listed shares	4.342	46.004
Unlisted shares	13.283	23.683
Unlisted unit shares	31.742	16.568
Listed bonds	12.920	0
Unlisted bonds	0	1.588
Total	62.287	87.843

50. **Property and equipment**

Fixed assets speicify as follows:

	Real estate	Equipment	Total
Book value 31 Dec 2005	1.115	11	1.126
Additions during the year	61	140	196
Net acquisition through business combinations	0	37	34
Depreciation during the year	(7)	(24)	(23)
Book value 31 Dec 2006	1.169	164	1.333
Depreciation ratios	2%	20-33%	

51. **Intangible assets**

Goodwill is distributed among cash-generating units (CGU) 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, and after that it is based on 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	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 CGU.

52. Intangible assets are specified as follows:

	2006 Total	2005 Total
Brand name	450	450
Goodwill	17.221	14.588
	17.671	15.038

53. **Borrowings**

The Bank's borrowings are specified as follows:

	2006	2005
Balances with the Central Bank and other credit institutions regarding 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	2005 Book value
Loans that qualify as Tier II capital:				
Subordinated loan - listed on the Iceland Stock Exchange, interest 5%	ISK	1.3.2015	5.810	5408
Subordinated loan, interest Euribor + 3%	EUR	15.12.2018	2.581	0
			8.391	5.408

55. **Deferred Income Tax Liability**

Changes in tax liability during the year are as follows:

	2006	2005
Deferred tax liability at the beginning of the year	6.317	1.531
Transferred into Group	26	2.889
Translation difference	12	0
Deferred tax income regcognised in Income Statement	(5.764)	1.897
Deferred tax liability at the end of the year	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 end of year 2005 and 2006 amounted to ISK 108 and 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. 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 59. The subordinated loans have a maturity date after 9 years. The loans are entered as liabilities with accrued interest and indexation.

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

	Book value	Weighted value
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 I capital		
Book value of equity		141.349
Minority interest in net assets of subsidiaries		1.914
Goodwill		(17.671)
Tier II capital		
Subordinated loans		8.391
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. **Guaranties**

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

60. Stock options

The Board of Directors of Straumur-Burdarás Investment Bank hf. has decided on the basis of the Bank's stock option scheme to grant employees in the group stock options to buy shares in the Bank. Stock option holders are entitled to exercise their total stock option between 2007 and 2010. The option has an exercise price of ISK 16.2 and 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 16.2 and 16.3 , expected volatility of 23.1%, option life disclosed above, annual risk free interest rate of 9.0%, and expected dividends yield of 4.0%. The expected volatility is based on the historic volatility over the last 12 months from the grant date.

61. Events after the Balance Sheet date

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 specified 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 Ltd.	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 year 2006. Guarantees at the same time amount to ISK 2,649 million, and the Bank's ownership share in companies wherein Board members have significant influence amounts to ISK 5,911 million. At year-end 2005, loans to related parties amounted to ISK 13,544 million, guarantees related to these loans amounted to ISK 7,214, 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 of 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 stock against which managers own put options. At year-end 2005, the equivalent amount was ISK 2,000 million.

Unaudited Information

Quarterly Statements

Summary of the Group's operating results by quarters:

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Total
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	0	98	1.597
Other net financial income	4.015	3.062	8.503	14.986	30.566
Other operating income	3	0	2	0	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	6.483	12.592	26.617
Minority interest	(70)	157	(10)	24	101
Profit for the year	4577	3.052	6.473	12.616	26.718

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Total
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	0	0	9	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

The amounts are in million of ISK

Consolidated Income Statement for the year 2006 in EUR

	Notes	2006 (EUR)	2005 (EUR)
Interest income		256.829	74.917
Interest expense		(214.284)	(78.091)
Net interest income (expense)		42.544	(3.174)
Fee and commission income		85.534	25.569
Fee and commission expense		(1.129)	(601)
Net fee and commission income		84.405	24.968
Dividend income		28.135	20.438
Net gains on financial assets and financial liabilities held for trading		155.016	214.052
Net gains on financial assets designated at fair value through profit and loss		140.834	180.381
Net foreign exchange (losses) gains		68.308	(3.263)
Other operating income		9.359	64
		528.602	433.466
Administrative expenses		(44.072)	(16.714)
Impairment losses on loans and receivable		(11.833)	(4.927)
Profit before tax		472.697	411.825
Income tax		42.704	(69.900)
Profit for the year		515.401	341.925
Attributable to:			
Equity holders of the Parent		511.605	340.632
Minority interest		3.796	1.293
Profit for the year		515.401	341.925
Earnings per share		51	45
Diluted earnings per share		51	45

Consolidated Balance Sheet as at 31 December 2006 in EUR

	Notes	2006 (EUR)	2005 (EUR)
Assets:			
Financial assets held for trading		1.330.103	1.234.672
Loans and receivables		2.046.242	803.133
Financial assets designated at fair value through profit and loss		658.355	1.175.944
Investment in associated companies		539	0
Property and equipment		14.089	15.074
Investment properties		67.784	0
Intangible assets		186.777	201.312
Other assets		53.874	41.740
Total Assets		4.357.763	3.471.874
Liabilities:			
Financial liabilities held for trading		87.686	21.901
Borrowings		2.572.772	1.628.608
Subordinated loans		88.690	72.396
Tax liabilities, current		50.861	47.724
Tax liabilities, deferred		6.247	132.276
Other liabilities		57.489	31.205
Total Liabilities		2.863.746	1.934.110
Equity:			
Share capital		100.275	137.229
Share premium		615.802	955.663
Other reserve		(14.819)	(32.651)
Retained earnings		772.529	467.805
Total shareholders attributable to equity holders of the Parent		1.473.787	1.528.046
Minority interest		20.230	9.719
Total Equity		1.494.018	1.537.764
Total Liabilities and Equity		4.357.763	3.471.874