Straumur-Burdaras Investment Bank hf.

Consolidated Financial Statements 2007
EURO

Straumur-Burdaras Investment Bank hf.
Borgartun 25
105 Reykjavik
Iceland

Reg. no. 701086-1399

Contents

Report and Statement of the Board of Directors and the CEO

The Consolidated Financial Statements of Straumur-Burdaras Investment Bank hf. for the year 2007 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Icelandic disclosure requirements applicable to listed companies. The Consolidated Financial Statements comprise Straumur-Burdaras Investment Bank hf. and its subsidiaries (together referred to as the "Bank").

According to the income statement, after tax profits for the year amounted to EUR 163 million. The Bank's equity at the end of 2007 amounted to EUR 1,569 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings, was 23.7% at year-end. As of 31 December 2007 the Bank's total assets amounted to EUR 7,137 million.

At the end of 2007 the Bank's shareholders numbered 21,692 as compared to 20,666 at the beginning of the year. Samson Global Holdings SARL, which holds 32.9% of the Bank's share capital, is the only shareholder with a holding exceeding 10%.

The Board of Directors recommends that EUR 48.9 million, which is 30% of profits and approximately 0.0047 EUR per share, be paid to shareholders as dividend.

The Bank's total share capital at year-end amounted to ISK 10,359 million (EUR 103 million). The share capital is divided into an equal number of shares of ISK 1 each with equal rights within a single class of shares. The Board of Directors is authorised, within its discretion, to increase the Bank’s share capital by ISK 2,000,000,000 by issuing new shares. Furthermore, the Board is authorized to purchase treasury shares to an extent not exceeding 10% of the Bank’s share capital. Apart from constraints derived from the general law, shares in the capital of the Bank are not subject to any restrictions on transfers.

The Articles of Association constitute the basis for the Bank’s existence and activities. They specify the Bank’s purpose and include provisions on inter alia its share capital, Shareholders’ Meetings, the Board of Directors, and their respective powers. Except for cases otherwise specified in the Articles or the general law, the Articles may only be amended by a qualified majority (two-thirds of votes) in a Shareholders’ Meeting.

The Bank’s Board of Directors comprises five members elected at the Annual General Meeting, held before the end of May each year (normally in March). Those persons willing to stand for election shall give formal notice thereof in writing to the Bank’s Board no later than five working days prior to the meeting. All current Directors are independent of the Bank and three Directors are also independent of large shareholders.

In August 2006 the Board of Directors approved a plan authorizing the granting of options to management and key employees to buy up to a total of 375 million shares. At year-end 2007, the number of issued and outstanding options under this plan was 252. The options are exercisable over period 2008 to 2011 and their weighted average strike price is 18.4. According to the terms of the stock option plan, the options vest in parts during their lifetime and as a general rule the exercise of non-vested options is subject to the relevant employee still being employed by the Bank.

In the course of the Bank’s normal business it has entered into agreements with employees which may be affected by the event of a take-over or termination without cause. The Board of Directors considers none of these to be of material importance to the Bank’s operations.

In October the Bank completed the acquisition of a 50% shareholding in Wood & Company, a Czech investment bank. Wood & Company is now included in the Bank’s consolidated accounts for the first time.

Report and Signatures of the Board of Directors and the CEO, contd.:

To the best of our knowledge, the consolidated financial statements of Straumur-Burdaras Investment Bank hf. for the year 2007 give a true and fair view of the assets, liabilities, financial position and financial performance of the Bank. Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the Chief Executive Officer gives a fair view of the development and performance of the Bank's operations and its position and describes the principal risks and uncertainties faced by the Bank.

Reykjavík, 28 January 2008.

Board of Directors:

Björgólfur Thor Björgólfsson

Birgir Már Ragnarsson

Guðmundur Kristjánsson

Hallbjörn Karlsson

James Leitner

CEO:

William Fall

Independent Auditors’ Report

To the Board of Directors and Shareholders of Straumur-Burdaras Investment Bank hf.

We have audited the accompanying consolidated financial statements of Straumur-Burdaras Investment Bank hf. and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as at December 31, 2007, 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 principles 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, 2007, 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, 28 January 2008.

KPMG hf.

Helgi F. Arnarson

Ólafur Már Ólafsson

Consolidated Income Statement for the year 2007

	Notes	2007	2006
Interest income		493,103	256,828
Interest expense		(424,270)	(214,284)
Net interest income	39	68,833	42,544
Fee and commission income		139,478	85,534
Fee and commission expense		(8,203)	(1,129)
Net fee and commission income	40	131,275	84,405
Dividend income	41	33,707	28,135
Net gains on financial assets and financial liabilities held for trading	42	48,044	155,016
Net gains on financial assets designated at fair value through profit or loss	43	26,592	140,834
Net foreign exchange gains		3,062	68,308
Other net operating income	44	18,501	9,360
		330,014	528,602
Administrative expenses	45	(118,937)	(44,072)
Impairment losses on loans		(20,161)	(11,833)
Share of profit of associates		44	0
Profit before tax		190,960	472,697
Income tax	49	(28,017)	42,704
Profit for the year		162,943	515,401
Attributable to:			
Equity holders of the Parent		158,262	511,605
Minority interest		4,681	3,796
Profit for the year		162,943	515,401
Basic earnings per share	51	0,017	0,051
Diluted earnings per share	51	0,017	0,051

Notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Amounts are in thousand of EUR

Consolidated Balance Sheet as at 31 December 2007

	Notes	2007	2006
Assets:			
Cash and cash equivalents	52	1,427,171	694,968
Financial assets held for trading	53	1,056,406	945,235
Pledged assets	54	211,923	398,562
Financial assets designated at fair value through profit or loss	55	923,939	644,661
Loans	56-57	2,411,342	1,351,274
Financial assets available-for-sale	58	338,960	0
Investments in associates	59	11,097	539
Property and equipment	60	21,679	14,089
Investment properties	32	0	67,784
Intangible assets	61	500,723	186,777
Deferred tax asset	68	491	0
Other assets	62	233,192	53,874
Total Assets		7,136,923	4,357,763
Liabilities:			
Financial liabilities held for trading	63	101,786	87,686
Deposits from banks	64	34,538	0
Deposits from customers	65	1,233,725	0
Borrowings	66	3,778,515	2,572,772
Subordinated loans	67	113,641	88,690
Current tax liability		26,829	50,861
Deferred tax liability	68	2,377	6,247
Other liabilities	69	277,011	57,489
Total Liabilities		5,568,422	2,863,745
Equity:			
Share capital		102,777	100,275
Share premium		647,970	615,802
Other reserves		(36,006)	(13,417)
Retained earnings		843,116	771,127
Total equity attributable to equity holders of the Parent		1,557,857	1,473,787
Minority interest		10,644	20,231
Total Equity	70-71	1,568,501	1,494,018
Total Liabilities and Equity		7,136,923	4,357,763

Notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Amounts are in thousand of EUR

Consolidated Statement of Changes in Equity for the year 2007

2007	Share capital	Share premium	Other reserves	Retained earnings	Total share-holders' equity	Minority interest	Total equity
Equity as at 1 Jan 2007	100,275	615,802	(13,417)	771,127	1,473,787	20,231	1,494,018
Translation difference			(26,457)		(26,457)	2,635	(23,822)
Fair value changes in Available-for-sale financial assets			(24,695)		(24,695)		(24,695)
Net earnings recognised directly in equity			(51,152)	0	(51,152)	2,635	(48,517)
Profit for the year				158,262	158,262	4,681	162,943
Total recognised income statement for the year			(51,152)	158,262	107,110	7,316	114,426
Dividends paid ISK 0,75 per share				(87,792)	(87,792)	(7,561)	(95,353)
Purchased and sold treasury shares (note 71)	2,502	32,168			34,670		34,670
Treasury share stated as other liability on account of put options, reversed			25,469		25,469		25,469
Increase due to call options			3,094	1,519	4,613		4,613
Purchase and sales of subsidaries						(9,342)	(9,342)
Equity as at 31.12.2007	102,777	647,970	(36,006)	843,116	1,557,857	10,644	1,568,501
2006							
Equity as at 1 Jan 2006	119,448	831,834	(28,420)	407,189	1,330,051	8,460	1,338,511
Translation difference			1,402		1,402		1,402
Profit for the year				511,605	511,605	3,796	515,401
Total recognised income statement for the year				918,794	1,843,058	12,256	1,855,314
Dividends paid ISK 0,65 per share				(78,455)	(78,455)		(78,455)
Purchased and sold treasury shares (note 71)	(8,710)	(149,647)			(158,357)		(158,357)
Treasury share stated as other liability on account of put options			(19,471)		(19,471)		(19,471)
Treasury shares stated as other liability on account of put options, reversed			21,546		21,546		21,546
Expense due to call option			752		752		752
Increase of share capital in subsidiary						9,371	9,371
Translation of own funds	(10,463)	(66,385)	10,774	(69,212)	(135,286)	(1,396)	(136,682)
Equity as at 31.12.2006	100,275	615,802	(13,417)	771,127	1,473,787	20,231	1,494,018

Notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Amounts are in thousand of EUR

Consolidated Statement of Cash Flows for the year 2007

	Notes	2007	2006
Operating activities:			
Profit for the year		162,943	515,401
Adjustments for operating activities:			
Impairment on loans and advances		20,161	11,833
Depreciation of property and equipment		2,300	354
Net interest income		(68,833)	(42,544)
Income tax expense		28,017	(42,704)
		144,588	442,340
Changes in operating assets and liabilities:			
Financial assets held for trading		(111,171)	(394,995)
Pledged assets		186,639	0
Financial assets designated at fair value through P/L		(279,278)	296,557
Loans		(1,080,229)	(819,309)
Other assets		(111,534)	(22,572)
Deferred tax assets		(491)	0
Financial assets available for sale		(338,960)	0
Financial liabilities held for trading		14,100	75,923
Deposits from banks		34,538	0
Deposits from customers		1,233,725	0
Other liabilities and provisions		191,620	26,284
		(116,453)	(395,772)
Interest and dividends received		508,055	244,367
Interest paid		(482,706)	(239,067)
Income tax paid		(52,763)	(45,815)
Net cash used in operating activities		(143,867)	(436,287)
Investing activities:			
Purchase of investment property		0	(73,108)
Purchase of property and equipment		(13,310)	(2,234)
Proceeds from sale of subsidiaries (net of cash disposed)		36,850	0
Payment for acquisition of subsidiaries (less cash acquired)		(314,484)	(27,314)
Other changes		(10,558)	(581)
Net cash used in investing activities		(301,502)	(103,238)
Financing activities:			
Subordinated loan		24,951	34,017
Borrowings and other liabilities		1,205,743	1,357,335
Purchase and sold treasury shares		34,670	(158,356)
Dividend paid		(87,792)	(78,455)
Net cash from financing activities		1,177,572	1,154,541
Increase in cash and cash equivalents		732,203	615,017
Cash and cash equivalents at beginning of year		694,968	128,099
Translation adjustments		0	(48,148)
Cash and cash equivalents at the end of the year		1,427,171	694,968

Notes on pages 10 to 57 are an integral part of these consolidated financial statements.

Amounts are in thousand of EUR

Notes to the Consolidated Financial Statements

1. **Reporting entity**

Straumur-Burdaras Investment Bank hf. (the Parent) is a company incorporated and domiciled in Iceland. The address of the Parents registered office is Borgartun 25, Reykjavik. The Consolidated Financial Statements for the year 2007 comprise Straumur-Burdaras Investment Bank hf. 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, retail banking, capital markets services and asset management.

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-Burdaras Investment Bank hf. on 28 January 2008.

b. *Functional and presentation currency*

The Consolidated Financial Statements are presented in Euro, which is the Parent's functional currency. Except as indicated, financial information presented in Euro has been rounded to the nearest thousand.

The Parents functional currency for the year 2006 was ISK. The change in functional currency from ISK to EUR was made as of 1 January 2007 because of changes in the focus of the Banks' operations and primary economic environment in which it operates. The comparative figures for the year 2006 have been translated to EUR.

c. *Basis of measurement*

The Consolidated Financial Statements are prepared on the historical cost basis except the following assets and liabilities that are measured at fair value: financial assets and liabilities held for trading, financial assets designated at fair value through profit or loss, financial assets available-for-sale, investment properties and financial liabilities held for trading.

d. *Use of estimates and judgements*

The preparation of the Consolidated Financial Statements in accordance 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. The estimates and underlying 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 assumptions made.

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 made by management in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities in the next year are discussed in note 31.

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 rights 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 completion, of the assets received, liabilities incurred or assumed and equity instruments issued, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

b. *Special purpose entities*

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

c. *Funds management*

The Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these Consolidated Financial Statements except when the Bank controls the entity.

d. *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. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Associates

Associates are those entities in which the Bank has significant influence but not control or joint control over the financial operating policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting rights, 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 59).

Investments in associates held as venture capital assets 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 Bank 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. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

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 Euro, at foreign exchange rates at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at rates approximating the foreign exchange rates current at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in translation reserve in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement as a apart of the gain or loss of sale and included in other operating income.

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 there from, such as income from Corporate Finance, Debt Finance 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. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

c. *Dividend income*

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

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

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

e. *Net gains on financial assets and financial liabilities at fair value through profit or loss*

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes except interest, dividends and foreign exchange difference which are presented as separate line items in income statement.

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 Bank 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 Bank 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 Banking together financial assets (carried at amortised cost) with similar risk characteristics.

7. a. contd.:

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 Bank on terms that the Bank 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 Bank of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

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

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

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

b. *Impairment of goodwill*

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

c. *Calculation of recoverable amount*

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

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

d. *Reversals of impairment*

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

An impairment loss in respect of goodwill is not reversed.

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

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

8. **Income tax**

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

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

The deferred income tax asset / liability is 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 any 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 an 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 an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and which is settled at a future date.

The Bank uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange risk and interest rate risk arising from operating, financing and investing activities. The Bank does not apply hedge accounting.

Derivatives are recognised at fair value. Fair value changes are recognised in the income statement. Fair values of derivatives are split into interest income, foreign exchange differences and other gains and losses. 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.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for as the same way as free-standing derivatives.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 12.

10. **Cash and cash equivalents**

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, balances with banks, unrestricted balances with central banks and money market placements.

11. Financial assets measured at fair value

a. *Financial assets held for trading*

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 through profit or loss*

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:

- 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 Bank significant influence over the issuer but not control.

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.

c. *Financial assets available-for-sale*

Financial assets available-for-sale consists of bonds held for long term investment purposes.

Financial assets available-for-sale are recognised at fair value. Unrealised gains or losses on available-for-sale investments are recognised in equity, net of income taxes, until such investments are disposed of or until they are determined to be impaired. On disposal of an available-for-sale investment, the accumulated unrealised gain or loss included in equity is transferred to the income statement. Gains and losses on disposal are determined using the average cost method.

12. 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. For all other financial instruments fair value is determined by using valuation techniques.

12. contd.:

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.

13. 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.

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.

14. 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 when they relate to gains or losses arising from a group of similar transactions such as in the Bank's trading activity.

15. **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, less any reduction for impairment.

16. **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 risks and rewards of ownership 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. Interest incurred is recognized as interest expense over the life of each agreement.

17. **Loans**

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, participations 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.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan, and the underlying asset is not recognised in the Bank's financial statements.

Loans are initially reported at disbursement of the loan. They are initially recognised at fair value, which is the cash paid 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.

18. **Property and equipment**

a. *Recognition and measurement*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

b. *Subsequent costs*

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

18. contd.:

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:

Property	50 years
Equipment	3 - 5 years

The residual value is reassessed annually.

19. Investment properties

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.

20. Intangible assets

a. *Goodwill*

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of a company or the assets of a company.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.
Negative goodwill arising on an acquisition is recognised directly as income.

b. *Other intangible assets*

Intangible assets other than goodwill, such as software developments or customer lists that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

c. *Subsequent expenditure*

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

d. *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

Software	5 years
Customer lists..	10 years

21. **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.

22. **Deposits from banks and customers**

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

23. **Borrowings**

The borrowings 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. These 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 within the capital base. Subordinated loans, are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, subordinated liabilities 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 Bank 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. **Other assets and other liabilities**

Other assets and other liabilities are measured at cost.

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.

27. a. contd.:

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

When classifying a financial instrument (or component of it) in the Consolidated Financial Statements, all terms and conditions agreed between 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 shareholders of the Parent.

d. *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.

28. Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares.

Earnings per share are calculated by dividing the net earnings attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank calculates dilutive potential ordinary shares by determining the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

29. New standards and interpretation

a. *New standards and interpretations effective in 2007*

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures became mandatory for the Bank's 2007 financial statements. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

IFRIC 7 – 10 became mandatory for the Bank's 2007 financial statements but their adoption had no impact on the Bank's 2007 financial statements.

29. contd.:

b. *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 2007, and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Bank’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business and geographical segments (see notes 36-38). Under the management approach, the Bank will present segment information in respect of Corporate Finance, Debt Finance, Treasury, Property Trading, Capital Markets, Asset Management and Merchant Banking.

IAS 1 *Presentation of Financial Statements (revised in 2007)* replaces IAS 1 *Presentation of Financial Statements (revised in 2003)* as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Bank’s 2009 financial statements if endorsed by the EU, is expected to impact the presentation of the Group’s income statement and statement of changes in equity.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for the Bank’s 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional provisions the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

The amendments to IFRS 2 Share Based Payment – Vesting Conditions and Cancellations (January 2008) clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for the Bank’s 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the consolidated financial statements of the Bank.

IFRS 3 *Business Combinations* (revised in 2008) and amended IAS 27 Consolidated and Separate Financial Statements introduce changes to the accounting for business combinations and for non-controlling (minority) interests. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:

IFRS 3 (2008) also applies to business combinations involving only mutual entities and to business combinations achieved by contract alone;

The definition of a business combination has been revised to focus on control;

The definition of a business has been amended;

Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;

Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;

Disposals of equity interests while retaining control are accounted for as equity transactions;

New disclosures are required.

29. contd.:

IFRS 3 (revised in 2008) and amended IAS 27 will become mandatory for the Bank’s 2010 financial statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Bank has not yet determined the potential effect of IFRS 3 (revised in 2008) and amended IAS 27 on the consolidated financial statements.

IFRIC 11 IFRS 2 – Bank and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank’s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank’s 2008 financial statements if endorsed by the EU, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank’s 2009 financial statements if endorsed by the EU, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Bank’s 2008 financial statements if endorsed by the EU, with retrospective application required. The Bank has not yet determined the potential effect of the interpretation on the consolidated financial statements.

30. Segment reporting

Business segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

31. 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.

31. 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 financial instruments*

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.

c. *Financial asset and liability classification*

The Bank’s accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets or liabilities as “trading”, the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.

In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

d. *Securitisations*

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risk and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

i) When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's balance sheet.

ii) When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's balance sheet.

iii) When the Bank has transferred substantially all the risk and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's balance sheet.

e. *Income taxes*

The Bank is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is mate.

32. **Changes Within the Bank**

In May Straumur-Burdaras acquired 100% in eQ Corporation, a bank in Finland. In October Straumur-Burdaras acquired 50% in an investment bank in Czech Republic, Wood & Company, with the option of acquire 100% no later than 2011. The Bank sold 15% of shares in Brú Venture Capital ehf. in December and after the sale Straumur-Burdaras holds a 49% share in the company. In August the Bank sold most of it's shares in Property Group A/S and holds now a 5% share in the company.

The effects of these acquisitions and disposals on the Bank's consolidated balance sheet is presented in the following table:

Assets	eQ Corporation	Wood & Company	Property Group	Bru Venture Capital ehf.	Total
Financial assets	407,932	4,690	(7,363)	(17,141)	388,118
Loans	190,762	19,085	(9,629)	(10,627)	189,591
Investment property			(77,597)		(77,597)
Investment in associated	16			(150)	(134)
Property and equipment	4,899	630	(260)		5,269
Intangible assets	27,544	227			27,771
Other assets	228,038	145,993	(82,021)	(1,920)	290,090
Total Assets	859,191	170,625	(176,870)	(29,838)	823,108
Liabilities					
Financial liabilities held for trading	12,810	1,132			13,942
Borrowings	540,927	4,415	(99,721)	(6,670)	438,951
Subordinated loans			(26,875)		(26,875)
Tax liabilities	1,193	296	(2,111)		(622)
Other liabilities	238,764	145,407	(24,213)	(841)	359,117
Total Liabilities	793,694	151,250	(152,920)	(7,511)	784,513
Net estimated value	65,497	19,375	(23,950)	(22,327)	38,595
Minority interest		(8,939)	10,355	7,926	9,342
Goodwill			(5,480)		(5,480)
The Bank's % in subsidiaries			1,513	11,094	12,607
Gain on disposal			(15,981)		(15,981)
Intangible assets	194,637	79,512			274,149
Total acquisition price	260,134	89,948	(33,543)	(3,307)	313,232

The profit of the Bank for the year 2007 amounted to EUR 163 million. If the acquisition of eQ Corporation and Woods & Company had taken place on 1 January 2007, the profit of the Group would have amounted to EUR 174 million.

33. **Capital management and allocation.**

a. *Capital management*

It is the Bank's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Bank currently uses a benchmark minimum tier 1 capital ratio of 13,0 per cent for the purposes of its long term capital planning. The Bank recognises the impact on shareholder returns of the level of equity capital employed within the Bank and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

Amounts are in thousand of EUR

33. a. contd.:

A capital plan is prepared on an annual basis and approved by the Board with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Bank’s policy is to hold capital in a range of different forms and from diverse sources.

The principal forms of capital are included in the following balances on the consolidated balance sheet: share capital, share premium account, other reserves, retained earnings, and subordinated liabilities. Capital also includes the collective impairment allowances held in respect of loans and advances.

b. *Capital management and allocation*

The lcelandic Financial Supervisory Authority (FME) supervises the Bank on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. In most jurisdictions, nonbanking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

In implementing the EU’s Banking Consolidation Directive, the FME requires each bank and banking group to maintain individually prescribed ratios of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance sheet transactions. The Bank calculates regulatory capital using the Standardized Approach for credit and market risks, and the Basic Approach for the Operational risk.

For internal purposes the Bank calculates its own economic capital using internal rating system for measurement of credit risk, and Value at Risk model for calculating capital requirements for market risk. The confidence level of the Value at Risk model corresponds to the current rating of the Bank, BBB-. At no time should the economic captial exceed the Bank's total own funds.

The Bank's capital is divided into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative tier 1 securities), retained earnings, translation reserve and minority interest after adjusting for items reflected in shareholders equity which are treated differently for capital adequacy purposes. The book values of goodwill and intangible assets are deducted in arriving at tier 1 capital.

- Tier 2 capital, which includes qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of overall tier 1 capital, qualifying tier 2 capital cannot exceed tier 1 capital, and qualifying term subordinated loan capital may not exceed 50 per cent of tier 1 capital. There are also limitations on the amount of collective impairment allowances which may be included as part of tier 2 capital. From the total of tier 1 and tier 2 capital are deducted the carrying amounts of unconsolidated investments, investments in the capital of banks, and certain regulatory items.

The Banks and its individually regulated operations have complied with all externally imposed capital requirements throughout the year 2007.

Capital allocation

The allocation of capital between specific operations and activities is, to large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect different risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The Risk Committee recommends the Capital Allocation to the Board of Directors for approval at least annually and each time should significant changes require so.

33. b. contd.:

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

c. *Regulatory captital*

Equity at the end of the period amounted to EUR 1.569 million, equivalent to 23.0% of total assets according to the balance sheet. The capital adequacy ratio of the Bank, calculated in accordance to Article 84 of the Act on Financial Undertakings, is 23.7%. This ratio may not be lower than 8.0% according to that Act. The ratio is calculated as follows:

	Weighted value
Total Equity	1,568,501
Intangible assets	(500,723)
Subordinated loans	113,641
Total own funds	1,181,419
Total capital requirements for:	
Credit risk	285,687
Market risk under standardised approaches (SA)	48,473
Operational risk (Opr)	64,604
Capital requirements	398,764
Surplus of own funds	782,655
Capital adequacy ratio	23.7%

Amounts are in thousand of EUR

34. Risk management disclosure

The Bank 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.

Committees

The risk management platform is clearly defined within the Bank. Ultimate responsibility for risk lies with the Board of Directors, which approves on the Bank's risk policy drafted by Risk Management. To facilitate appropriate risk control and oversight the bank operates a Risk Committee (RC), chaired by the Chief Risk Officer.

The RC is the primary governance forum for discussion and approval of policies applicable to the Bank’s credit risk, market risk, liquidity risk and operating risk exposures. It defines risk appetite, policies, procedures and limits, and ensures that all risks taken by the Bank conform to the overall risk strategy set by the Board. Reporting to the RC are three committees, each handling different types of risk exposure within the Bank.

The Credit and Investment Committee (CIC) is chaired by the Chief Risk Officer and is the primary forum for the approval of individual loan and investment transactions. All transactions that result in an extension of credit or the purchase of an equity interest in a company require approval by the CIC unless it has specifically delegated approval to an individual or sub-committee for a specific class of loans or assets.

The Market Risk Committee (MRC) is chaired by the Chief Risk Officer and is the primary forum for reviewing the Bank’s market risk exposures. It is a forum for communication and discussion of the key market risks being run by trading desks, and agrees on action to be taken in the event of limit breaches.

The Asset & Liability Committee (ALCO) is chaired by Chief Financial Officer and is responsible for overseeing the Bank’s assets and liabilities, balancing risk exposures and helping it to achieve operating objectives. ALCO evaluates market and liquidity risk across a range of scenarios, positioning the Bank to be operational in all market conditions.

Credit risk

The risk of losses sustained when counterparties default on their obligations with the Bank is collectively called Credit Risk (default-risk). The Credit Risk Management Unit (a team within the Risk Management Division) is responsible for controlling credit risk and monitoring extended credit, both at the individual and the portfolio level.

The primary source of credit risk is the Banks loan portfolio which includes loans ranging from highly collateralized senior loans to mezzanine loans. For such a loan portfolio an ongoing management of each loan and obligor is essential.

a. *Credit approval process*

The originating department prepares a proposal for each loan which is presented to the Credit and Investment Committee for approval. The proposal includes a thorough analysis of the credit risk involved, assed by the Credit Risk Management Unit. 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. In addition to the qualities of individual loans and collaterals, the Credit Risk Management Unit 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.

34. contd.:

b. *Credit collateral*

The Bank applies appropriate haircuts on all collaterals in listed securities to ensure proper risk mitigation. 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 Value-at-Risk models to estimate the appropriate haircuts for collateral in listed securities taking into account price volatility and the liquidity of the underlying securities. To safeguard against the development of unexpected counterparty credit exposures due to market dynamics. The Bank makes use of ISDA (International Swaps and Derivatives Association) agreements to ensure netting and minimize counterparty credit risk.

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 has recently implemented comprehensive credit rating models to facilitate the credit risk assessment of the current loan portfolio and new potential assets. The models employ both quantitative and qualitative factors to estimate the probability of default for counterparties and, furthermore, assess likely losses in the event of default (loss given default) by using the widely recognized waterfall approach. The models were tailor made to best suit the Bank’s loan portfolio, resulting in four different scorecards, one for leverged finance, one for corporates, one for investment holding companies, and one for commercial real estate. The models have been carefully calibrated and validated using both internal and external data to ensure relevance with the Bank’s loan history, and coherence with historical default data.

d. *Credit control and provisioning*

The Credit Risk Management Unit is responsible for reviewing the loan portfolio for any defaults and organizing the process of collection of problem loans. Loan documents include covenants when appropriate to ensure timely intervention when loans deteriorate in quality. Credit Risk Management Unit is responsible for monitoring covenant breaches and ensuring that information is provided by 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 fulfill its obligations. The Bank monitors the value of collateral, relating to its loans secured by listed securites, on a daily basis, ensuring that prompt action can be taken if necessary.

The provisioning for loan impairments is estimated using the credit rating models, which have been employed to assess the expected loss of all loans in the Bank's portfolio. Risk Management suggests a provisioning percentage for each loan in the portfolio, based on the expected loss assessment. All loans that show any evidence of their obligors' inability to fulfill their obligations are carefully analized in a special asset review. Special provisioning is then applied, as is considered appropriate by Risk Management. Provisions require the approval of the CEO, CFO, and CRO.

e. *Loan portfolio management*

A set of limits ensuring proper diversification of the loan portfolio is drafted and monitored by the Risk Management Division and approved by the Risk Committee. In order to prevent firm wide concentration on a limited set of counterparties, the Bank limits the exposure to a single group of connected clients to 20% of the Bank’s own funds. To enforce this limit on a group wide level, risk management has established rules on the supervision of large exposures that all of the Bank's subsidiaries must comply with.

To minimize the effects of localized downswings on the Banks' performance the Bank limits the total exposure to a single country to 20% of its total assets. Furthermore, the Bank’s total exposure to a single industry sector is limited to 20% of the Bank’s total assets. Risk Management conducts regular stress testing and scenario analysis of the loan portfolio and uses loan portfolio risk simulation tools to study the correlated behavior of the collection of loans, both for assisting Debt Finance in origination as well as to validate independent economic capital estimates.

34. contd.:

f. *Maximum exposure to credit risk before collateral held or other credit enhancements*

The below table represents a worse case scenario of credit risk exposure to the Group at 31 December 2007 and 2006, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

	2007	2006
Cash and cash equivalents:		
Balances with banks	215,283	582,125
Money market placements	1,190,845	112,387
Financial assets held for trading:		
Bonds and other fixed-rate securities	747,101	347,458
Derivatives financial instruments	186,495	34,140
Pledged assets	11,488	0
Financial assets designated at fair value through profit and loss:		
Listed bonds	165,164	122,866
Loans:		
Senior	1,994,587	1,135,070
Junior	335,417	202,691
Mezzanine	81,338	13,513
Financial assets available-for-sale:		
Unlisted bonds	118,887	0
Other assets	233,192	53,874
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	49,894	33,970
Loan commitments and other credit related liabilities	77,321	0
As 31 December	5,407,012	2,638,094

g. *Breakdown of loans by seniority*

The Bank's loan portfolio is split into four categories, depending on their seniority and the quality of collateral, if any. Senior I loans are secured with collateral which can be marked to market, and have asset coverage exceeding 100%. The average asset coverage for Senior I loans was 156% at year end 2007. Senior II loans have first priority claims on all of the obligor's assets, and in some cases additional collateral such as unlisted shares and other collateral which cannot be marked to market. Junior loans have second lien claims on the obligor's assets. Mezzanine loans are unsecured and subordinated to all of the obligor's liabilities.

The change in the allowance account for credit losses on loans specifies as follows:

2007	Senior	Junior	Mezzanine	Total
Provision for loan impairment	10,888	3,405	1,700	15,993
Provision for losses during the year	11,207	5,922	3,032	20,161
Loans written off during the year as uncollectible	(5,930)	0	0	(5,930)
Exchange differences	(4)	(2)	(1)	(7)
Total	16,161	9,325	4,731	30,217

2006	Senior	Junior	Mezzanine	Total
Provision for loan impairment	4,328	1,835	197	6,360
Provision for losses during the year	8,057	2,205	1,571	11,833
Exchange differences	(1,497)	(635)	(68)	(2,200)
Total	10,888	3,405	1,700	15,993

Amounts are in thousand of EUR

34. contd.:

Status of loans that are past due:

	2007	2006
Past due up to 29 days	75,828	0
Past due 30-59 days	7,784	0
Past due 60-89 days	8,124	0
Total	91,736	0
Loans past due and impaired	0	0

Fair value of collateral amounted to EUR 0,1 million.

Liquidity risk

Liquidity risk is the risk of financial loss to the Bank arising from its inability to meet obligations as they fall due without incurring unacceptable costs or losses. Liquidity risk is managed through a rigorous control and limit framework. At all times the Bank should be able to cover all liabilites falling due in three months time using secure liquidity, defined as cash and deposits placed, repoable bonds with the central bank and committed revolving facilities. 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. A limit is placed on a single day net outflow of 50% of secured liquidity.

Secure days	**2007**		**2007**
Average	142 days	Secured liquid assets	1,439,000
End of year	270 days	Liabilities due in three months	1,138,000

The breakdown by contractual maturity of financial assets and liabilities.

2007 **Assets:**	0-1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Cash and cash equivalents	1,401,144	23,755	2,222	50			1,427,171
Financial assets held for trading	802,089	41,176	44,205	145,995	19,224	3,717	1,056,406
Pledged assets				11,488	200,435		211,923
Financial assets designated at fair value through P/L					172,881	751,058	923,939
Loans	206,212	193,287	254,014	556,884	1,199,962	983	2,411,342
Financial assets available-for-sale	230,061	79,609	24,739			4,551	338,960
Other assets	314	149,232	73,775	809	9,062		233,192
Total	2,639,820	487,059	398,955	715,226	1,601,564	760,309	6,602,933
Liabilities:							
Financial liabilities held for trading	22,632	67,563	11,591				101,786
Deposits from banks	15,988	18,550					34,538
Deposits from customers	824,025	213,687	193,919	2,094			1,233,725
Borrowings	411,364	194,080	554,892	1,588,696	1,029,483		3,778,515
Subordinated loans					113,641		113,641
Other liabilities	16,862	199,311	45,795	533	9,701	4,809	277,011
Total	1,290,871	693,191	806,197	1,591,323	1,152,825	4,809	5,539,216
Assets - liabilities	1,348,949	(206,132)	(407,242)	(876,097)	448,739	755,500	1,063,717

Amounts are in thousand of EUR

34. contd.:

2006	0-1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	stated maturity	Total
Total assets	1,962,594	193,965	425,896	752,151	237,744	785,413	4,357,763
Total liabilities	1,152,384	305,951	514,142	660,871	169,199	4,090	2,806,637
Assets - liabilities	810,210	(111,986)	(88,246)	91,280	68,545	781,323	1,551,126

Liquidity management for Straumur Bank is based on contractual maturity profile of liabilities. Amounts represented are principal amounts at the earliest maturity date. Financial liabilities held for trading are measured by gross principal outflow where no netting is performed at maturity, and include cross-currency interest rate swap, and currency swaps.

2007

Liabilities:	0-1 demand	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities held for trading	1,567,924	574,409	13,810	277,902	2,143	2,436,188
Deposits from banks	35,470	16,308	6,254			58,032
Deposits from customers	451,728	61,533	152,384			665,645
Borrowings	291,511	279,523	553,205	1,289,388	43,309	2,456,936
Subordinated loans					107,913	107,913
Total	2,346,633	931,773	725,653	1,567,290	153,365	5,724,714

2006

Liabilities:	0-1 demand	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities held for trading	2,185,634	2,236	735	208,782	18,020	2,415,407
Deposits from banks	3,878	9,812	1,554			15,244
Deposits from customers	446,499	79,653	24,602			550,754
Borrowings	677,073	365,532	229,682	725,195	10,431	2,007,913
Subordinated loans					88,006	88,006
Total	3,313,084	457,233	256,573	933,977	116,457	5,077,324

Market risk

Market risk constitutes risk due to changes in market prices, such as interest rates, currency rates, and prices for equites and bonds. The Banks strategy is to keep a firm grasp of the market risk and control it within limits set by the Risk Committee. To do so, Risk Management enforces market risk limits on a daily basis and communicates results to the Risk Committee. Also Risk Management develops, and reviews regularly, robust models to calculate both market risk and credit risk and reports daily to those who manage the risk. Risk limits employed at the Bank to control and capture the risks include: Value-at-Risk, Stop-loss limits, and absolute principal amount limits.

a. *Derivatives*

The Bank’s main use of derivatives is for managing risks and market exposures by hedging assets and liabilities using such contracts as: currency swaps, interest rate swaps, forward currency contracts and forward equity contracts. When the Bank is on the opposite side of the scenario, selling derivatives to customers, then again the exposures are fully hedged.

Amounts are in thousand of EUR

34. contd.:

b. *Interest rate risk*

Interest rate risk arises due to currency or maturity mismatch between assets and liabilities. When mismatched, changes in interest rates affect the value of the aggregated assets and liabilities (equity), as well as net interest income. The VaR is also affected by such mismatching. The Bank's Treasury is responsible for managing this risk by matching investment assets to their own funding liabilities. The trading assets on the other hand are managed entirely by their respective owners (Capital Markets or Proprietary Trading) who match their own assets to funding liabilities. This funding of trading assets can come from either the market or Treasury (by use of internal trades). The risk of the banking book (investment assets & liabilities) is measured as 100bp paralell shift in the yield curve, whereas the Trading Book risk (trading assets & liabilities) is traditionally expressed in terms of Value-at-Risk.

The Bank carries assets and liabilities linked to the Icelandic Consumer Price Index (CPI). The net exposure to the CPI was negative 133,534 thousand at year end 2007, and 284,603 thousand the year before. The exposure to the CPI is monitored daily. The Trading book expoure is captured through the Value-at-Risk measure. The Banking book exposure is managed through the Bank's Asset & Liability Committee.

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

	0-1 months	1 to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Currency:							
EUR	7,455	4,687	(6,940)	9,848	(22,144)	5,139	(1,955)
ISK	(5,536)	29	216	67	(1,107)	1,041	(5,290)
CHF	(415)	4	48	75	784	0	496
DKK	(3,629)	345	151	705	3,914	0	1,486
GBP	(1,832)	(77)	(336)	836	862	(60)	(608)
USD	(2,224)	2,287	(21)	1,281	(2,423)	166	(934)
Other	1,338	124	(455)	297	(2,933)	5,102	3,472
Banking Book Total	(4,844)	7,398	(7,338)	13,110	(23,046)	11,387	(3,332)

c. *Market price risk*

Flucuating and unpredicatable markets are the source of Market price risk which includes the risk of loss due to movements in listed securities, currencies, commodities, listed options, etc. Market price risk is measured with Value-at-Risk (VaR) as well as a few other more trade specific measures. Daily reports that monitor market prices and risk limits are sent to the appropriate Managing directors as well as the CEO.

	Total VaR (99%, 1Day)	VaR Limit	VaR Limit Utilisation
Trading Book	10,210	25,000	40.8%
Capital Markets	2,220	8,000	27.8%
Proprietary Trading	1,490	12,500	11.9%
Proprietary Trading (Strategic Investments)	7,040	12,500	56.3%

The Bank employes Value-at-Risk to measure its market risk. An amount is calculated (the Value-at-Risk) and according to the model, daily trading losses will remain within this amount with a given statistical confidence or certainty. The Bank employs a confidence level of 99%, which means that losses are expected to exceed VaR only once every hundred trading days. The model is validated through backtesting.

Amounts are in thousand of EUR

34. contd.:

d. *Currency risk*

Foreign exchange risk is controlled by continuously monitoring the Bank's net exposure to the foreign currencies, reporting findings and enforcing limits. The Risk Committee has defined exposure limits to individual currencies as well as the gross exposure. The exposures are expressed in terms of the FX delta making it meaningful for complex derivative instruments while retaining its currency cash meaning for the vanilla instruments. Risk Management monitors compliance with these procedures on a daily basis. The Bank's policy, implemented by Treasury in this case, is to maintain currency neutrality in the Banking Book (investment assets) but net currency exposures are possible in the trading book given the approval of the Risk Committee.

Breakdown of assets and liabilities by currency:

2007	EUR	ISK	GBP	USD	DKK	Other	Total
Assets:							
Cash and cash equivalents	836,392	281,771	3,265		68,561	237,182	1,427,171
Financial assets held for trading	546,250	246,916	16,632	9,305	160,582	76,721	1,056,406
Pledged assets	10,540	5,625	4,536	33,029	72,740	85,453	211,923
Financial assets designated at fair value through P/L	718,320	160,469	652	44,007	0	491	923,939
Loans	1,502,030	260,477	207,208	93,846	256,718	91,063	2,411,342
Financial assets available for sale	121,426	217,417				117	338,960
Investments in associates	104	10,993					11,097
Property and equipment	4,867	15,143	274		806	589	21,679
Investment property							0
Intangible assets	476,229		24,139			355	500,723
Tax assets, deferred	491						491
Other assets	183,103	50,089					233,192
Total	4,399,752	1,248,900	256,706	180,187	559,407	491,971	7,136,923
Liabilities and equity:							
Financial liabilities held for trading	68,989	5,673			84	27,040	101,786
Deposits from banks		34,538					34,538
Deposits from customers	575,468	587,351	1,547	17,174	40,583	11,602	1,233,725
Borrowings	2,838,112	845,912	1,149	92,689	105	548	3,778,515
Subordinated loans	46,774	66,867					113,641
Tax liabilities, current	22,604	3,427	463			335	26,829
Tax liabilities, deferred	2,142		13		222		2,377
Other liabilities		277,011					277,011
Total equity	1,568,501						1,568,501
Total	5,122,590	1,820,779	3,172	109,863	40,994	39,525	7,136,923
Net Balance Sheet position	(722,838)	(571,879)	253,534	70,324	518,413	452,446	
Net off Balance Sheet position	781,365	496,635	(190,319)	(108,070)	(462,042)	(517,569)	
Net position	58,527	(75,244)	63,215	(37,746)	56,371	(65,123)	

Amounts are in thousand of EUR

34. contd.:

2006	EUR	ISK	GBP	USD	DKK	Other	Total
Assets:							
Cash and cash equivalents	148,702	365,246	9,632	67,851	18,797	84,740	694,968
Financial assets held for trading	76,316	663,186	26,426	32,449	16,645	130,213	945,235
Pledged assets	116,412		23,107		71,150	187,893	398,562
Financial liabilities designated at fair value through P/L	381,239	206,226	2,945	28,009	24,984	1,258	644,661
Loans	298,703	477,635	201,794	62,664	266,775	43,703	1,351,274
Investment in associated .... companies					539		539
Property and equipment		12,493	571		1,025		14,089
Investment property					67,784		67,784
Intangible assets		158947	26,467		1,363		186,777
Other assets	1,966	16,742	5,306		29,860		53,874
Total	1,023,338	1,900,475	296,248	190,973	498,922	447,807	4,357,763
Liabilities and equity:							
Financial liabilities held for trading		87,686					87,686
Borrowings	682,581	1,271,018	115,685	95,814	253,800	153,874	2,572,772
Subordinated loans	27,280	61,410					88,690
Tax liabilities	983	2,939	814		1,511		6,247
Other liabilities		99,598	1,765		6,987		108,350
Total equity	1,481,387	2,579	10,052				1,494,018
Total	2,192,231	1,525,230	128,316	95,814	262,298	153,874	4,357,763
Net Balance Sheet position	(1,168,893)	375,245	167,932	95,159	236,624	293,933	
Net off Balance Sheet position	(31,921)	(16,956)	(7,762)	(17,290)	98,689	(24,760)	
Net position	(1,200,814)	358,289	160,170	77,869	335,313	269,173	

Amounts are in thousand of EUR

34. contd.:

f. *Derivative financial instruments*

	Nominal account		Carrying amount	
	Assets	Liabilities	Assets	Liabilities
Currency and interests rate derivatives, agreements unlisted:				
Forward exchange rate agreements	3,092,861	3,242,091	55,538	42,860
Interest rate and exchange rate agreements	6,880,188	7,340,512	49,827	27,401
Options - purchased agreements	33,030,566		7,373	6,639
Options - sold agreements		27,737,600		
Total	43,003,615	38,320,203	112,738	76,900
Equity derivatives:				
Equity swaps, agreements unlisted	8,628	196,032	61,590	4,085
Equity options, purchased unlisted agreements	176,414	138,620	11,178	11,233
Equity options, sold unlisted agreements	0	28,414	0	1,995
Futures, agreements listed	3,268	161,916	(56)	(60)
Total	188,310	524,982	72,712	17,253
Credit derivative contracts:				
Credit default swaps	319,381	355,074	650	1,141
Total	319,381	355,074	650	1,141
Bond derivatives:				
Bond swaps, agreements unlisted	0	55,652	394	0
Options - sold agreements	0	33,441	0	793
Total	0	89,093	394	793
Total Derivative financial instruments	43,511,306	39,289,352	186,494	96,087

Operational Risk Strategy

Operational Risk is inherent in every activity undertaken within the Bank, in outsourced activities and in all interaction with external parties. The Bank aims to reduce the frequency and impact of operational risk events in a cost-effective manner. The Bank can reduce it's exposure to operational risk through internal control, quality management, and well educated and qualified staff. The Bank can choose to transfer operational risk through outsourcing the activity or to transfer the financial consequences through insurance programs.

The Bank should keep firm track of the operational risk that the Bank is exposed to. Measurement should be done through Control and Risk Self Assessment, registration of loss events, near misses and quality deficiencies and through monitoring of potential risk indicators and other early-warning signals. Operational risk can be reduced through staff training, process re-design and enhancement of the control environment.

Amounts are in thousand of EUR

34. contd.:

Fair Value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation. The existence of published price quotations in an active market allows for the most accurate determination of Fair Value. In the absence of in active market fair value can be estimated through various sophisticated methods. These methods are usually based on the principle of reconstructing the financial instrument (as nearly as possible) by a portfolio of financial instruments each of which has an active market. The Fair Value is then the sum of the constituents.

The following table presents the fair value of financial instruments, including those not reflected in the Financial Statements at fair value. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

2007

Financial assets:	Valuation technique	Carrying value 2007	Fair value 2007	Unrealised gain / (loss) 2007
Cash and cash equivalents	n/a	1,427,171	1,427,171	0
Financial assets held for trading	(1)	1,056,406	1,056,406	0
Pledged assets	(1)	211,923	211,923	0
Financial assets designated at fair value through P/L	(2)	923,939	923,939	0
Loans	(3)	2,411,342	2,225,208	(186,134)
Financial assets available for sale	(1)	338,960	338,960	0
Financial liabilities:				
Financial liabilities held for trading	(1)	101,786	101,786	0
Deposits from banks	(3)	34,538	34,538	0
Deposits from customers	(3)	1,233,725	1,233,725	0
Borrowings	(3)	3,778,515	3,473,525	304,990
Subordinated loans	(3)	113,641	96,518	17,123
Net unrealised gains not recognised in the Income Statement				135,979

Valuation technique:
(1) Mark-to-market and Mark-to-Model
(2) Principal & Accrued interest
(3) Net present value with credit rating based spread

Amounts are in thousand of EUR

34. contd.:

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 risk, 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, 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.

35. **Financial assets and liabilities**

Accounting classifications and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities.

2007	Note	Trading	Designated at fair value	Loans	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	52			1,427,171			1,427,171
Financial assets held for trading	53	1,056,406					1,056,406
Pledged assets	54	200,435	11,488				211,923
Financial assets designated at fair value through P/L	55		923,939				923,939
Loans	56-57			2,411,342			2,411,342
Financial assets available-for-sale	58				338,960		338,960
Investments in associates	59					11,097	11,097
		1,256,841	935,427	3,838,513	338,960	11,097	6,380,838
Financial liabilities held for trading	63	101,786					101,786
Deposits from banks	64					34,538	34,538
Deposits from customers	65					1,233,725	1,233,725
Borrowings	66					3,778,515	3,778,515
Subordinated loans	67					113,641	113,641
		101,786	0	0	0	5,160,419	5,262,205

2006	Note	Trading	Designated at fair value	Loans	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	52			694,968			694,968
Financial assets held for trading	53	945,235					945,235
Pledged assets	54	384,868	13,694				398,562
Financial assets designated at fair value through P/L	55		644,661				644,661
Loans	56-58			1,351,274			1,351,274
Investments in associates	62					539	539
		1,330,103	658,355	2,046,242	0	539	4,035,239
Financial liabilities held for trading	66	87,686					87,686
Borrowings	69					2,572,772	2,572,772
Subordinated loans	70					88,690	88,690
		87,686	0	0	0	2,661,462	2,749,148

Amounts are in thousand of EUR

36. 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.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

Business segments

The Bank comprises the following main business segments:

Proprietary Trading trades in securities for the Bank's own account in all major markets.

Corporate Finance provides advisory services to corporate clients in respect of M&A and equity and debt, capital market transactions.

Debt Finance provides advice and a wide range of financing products to clients in Northern and Central Europe.

Treasury is responsible for managing the Bank's funding, foreign exchange and interest rate risk management.

Capital Markets offers securities brokerage service to the Bank's clients.

Asset Management provides banking and investment service for institutional and private clients.

Support areas are managed under the following functional headings: Operations, Risk Management, Finance, Legal & Compliance, Information Technology, Human Resources, Corporate Services, Investor Relations and Group Management.

Geographical segments

The Bank operates in four main geographical regions, being: Iceland, other Nordic countries, the United Kingdom, Central and Eastern Europe.

36. contd.:

2007

Segment	Proprietary trading	Corporate finance	Debt finance	Treasury	Capital Markets	Asset Manage-ment	Other operation and elimination	Total
Net interest income (expense)	(7,055)	(4,360)	57,148	24,634	(7,738)	4,818	1,386	68,833
Net fee and commission income	(671)	68,596	21,833	(1,611)	37,253	5,878	(3)	131,275
Dividend income	29,104	45	0	67	(81)	0	4,572	33,707
Net gains on financial assets and liabilities held for trading	52,194	1,353	(513)	669	(6,024)	(1,611)	1,976	48,044
Net gains on financial asset designated at fair value thought P/L		26,121	3	348	(82)	182	20	26,592
Net foreign exchange gains (losses)	(23,916)			26,978				3,062
Other operating income		16,084			36	26	2,355	18,501
Net operating income	49,656	107,839	78,471	51,085	23,364	9,293	10,306	330,014
Net operating expense	(9,029)	(34,733)	(16,809)	(10,716)	(30,410)	(6,253)	(10,987)	(118,937)
Impairment	0	(1,621)	(18,525)	0	(14)	0	(1)	(20,161)
Share of profit of associates	0	71	0	0	16	(88)	45	44
Profit before tax	40,627	71,556	43,137	40,369	(7,044)	2,952	(637)	190,960
Income tax							(28,017)	(28,017)
Profit for the year	40,627	71,556	43,137	40,369	(7,044)	2,952	100	191,697
Segment assets								
Cash and cash equivalents				1,361,888	2,427	62,856		1,427,171
Financial assets held for trading	120,431		30,419		623,046	251,148	31,362	1,056,406
Pledged assets					211,923			211,923
Financial assets designated at fair value through P/L		524,827	100,678	165,163		119,309	13,962	923,939
Loans		104,450	2,229,945			76,947		2,411,342
Financial assets available for sale		119,310		215,638		4,012		338,960
Investment in associated companies							11,097	11,097
Property and equipment	99	928	4		1,252	763	18,633	21,679
Intangible assets	29,602	67,064	102,378		2,094	5,719	293,866	500,723
Tax assets, deferred	491							491
Other assets		113,000	113,301			6,891		233,192
Total assets	150,623	929,579	2,576,725	1,742,689	840,742	527,645	368,920	7,136,923

Amounts are in thousand of EUR

36. contd.:

2006	Proprietary trading	Corporate finance	Debt finance	Treasury	Capital Markets	Asset Manage-ment	Other operation and elimination	Total
Net interest income (expense)	(85,488)	(16,211)	58,972	88,554	(616)		(2,667)	42,544
Net fee and commission income	194	49,259	8,037	46	27,998		(1,129)	84,405
Dividend income	27,930	57					148	28,135
Net gains on financial assets and liabilities held for trading	155,620	(730)	126					155,016
Net gains on financial asset designated at fair value thought P/L		137,187					3,647	140,834
Net foreign exchange gains (losses)	40,504			27,804				68,308
Other operating income		9,257					103	9,360
Net operating income	138,760	178,819	67,135	116,404	27,382	0	102	528,602
Net operating expense	(5,415)	(16,724)	(7,752)	(8,516)	(3,705)		(1,960)	(44,072)
Impairment			(11,833)					(11,833)
Profit before tax	133,345	162,095	47,550	107,888	23,677	0	(1,858)	472,697
Income tax							42,704	42,704
Profit for the year	133,345	162,095	47,550	107,888	23,677	0	40,846	515,401
Segment assets								
Cash and cash equivalents		55,765		639,203				694,968
Financial assets held for trading	397,217	130,546	22,820	382,337	7,504		4,811	945,235
Pledged assets	398,562							398,562
Financial assets designated at fair value through P/L	116,334	348,346		136,561			43,420	644,661
Loans		13,266	1,327,651				10,357	1,351,274
Investment in associated companies		539						539
Property and equipment		1,723					12,366	14,089
Investment properties		67,784						67,784
Intangible assets	29,606	50,037	102,378				4,756	186,777
Other assets		42,004	2,674				9,196	53,874
Total assets	941,719	710,010	1,455,523	1,158,101	7,504	0	84,906	4,357,763

Amounts are in thousand of EUR

37. **Geographical analysis**

Operating income specified by location of its markets and customers.

The geographical analysis of operating income is provided in order to comply with IFRS and does not reflect the way the Bank is managed.

2007	Iceland	Other Nordic Countries	UK	Central Eastern Europe	Other	Total
Net interest income	19,219	19,883	9,728		20,003	68,833
Net fee and commission income	56,685	52,703	15,151	5,143	1,593	131,275
Net financial income	51,170	22,024	17,348	14,652	6,211	111,405
Other income		18,501				18,501
Operating income	127,074	113,111	42,227	19,795	27,807	330,014
2006						
Net interest income	35,273	3,499	36	262	3,474	42,544
Net fee and commission income	77,501	6,904				84,405
Net financial income	203,258	135,450	18,700	19,560	15,325	392,293
Other income	9,360					9,360
Operating income	325,392	145,853	18,736	19,822	18,799	528,602

38. Assets specified by location of its markets and customers.

2007						
Total Assets	1,739,927	1,345,923	850,553	1,162,810	2,037,710	7,136,923
2006						
Total Assets	1,263,751	915,130	457,565	392,199	1,329,118	4,357,763

Amounts are in thousand of EUR

Notes to the Income Statement

39. Net interest income

	2007	2006
Interest income is specified as follows:		
Cash and cash equivalents	233,653	123,688
Loans	181,024	112,369
Financial assets held for trading	76,510	20,429
Other interest income	1,916	342
	493,103	256,828
Income expense is specified as follows:		
Amounts due to credit institutions	(209,755)	(128,534)
Borrowings	(208,450)	(82,934)
Subordinated loans	(2,782)	(2,622)
Other interest expense	(3,283)	(194)
	(424,270)	(214,284)
Net interest income	68,833	42,544

40. Net fee and commission income

Fee and commission income is specified as follows:		
Asset management fee	7,700	0
Underwriting fee	21,446	8,037
M&A advisory	68,819	49,259
Net brokerage	41,513	28,238
Total fees and commission	139,478	85,534
Fee and commission cost	(8,203)	(1,129)
Net fee and commission income	131,275	84,405

41. Dividend income

Dividend income is specified as follows:	2007	2006
Financial assets held for trading	33,707	25,866
Financial assets designated at fair value through profit or loss	0	2,269
Total dividend income	33,707	28,135

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

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

	2007	2006
Shares	53,806	155,728
Bonds	115	(1,801)
Derivatives	(5,877)	1,089
Total net gains on financial assets and financial liabilities held for trading	48,044	155,016

Amounts are in thousand of EUR

43. Net gains on financial assets designated at fair value

Net gains on financial assets designated at fair value are specified as follows:

Listed shares	1,524	(2,462)
Unlisted shares	25,306	76,572
Unlisted units share	(206)	66,724
Other	(32)	0
Total net gains on financial assets designated at fair value	26,592	140,834

44. Other operating income

Other operating income is specified as follows:

Gain on disposal	16,084	0
Other operating income	2,417	9,360
Total other operating income	18,501	9,360

45. Administrative expenses

Administrative expenses are specified as follows:

Salaries and related expenses	65,339	23,678
Other administrative expenses	50,560	20,041
Depreciation	3,038	353
Total administrative expenses	118,937	44,072

46. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	46,721	15,971
Salary-related expenses	10,496	2,975
Share-based payment expense	8,122	4,732
Total salary and salary related expenses	65,339	23,678
Average number of employees during the year	328	69
The Bank's total number of employees at year end	486	109

Amounts are in thousand of EUR

47. 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 Bank, 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
William Fall, CEO	573.5		103.5	
Friðrik Jóhannsson, former CEO	4,295.8			
Björgólfur Thor Björgólfsson, Chairman of the Board	124.3			
Birgir Már Ragnarsson	77.7			
Friðrik Hallbjörnsson	39.9			
Guðmundur Kristjánsson	39.9			
Páll Magnússon	6.8			
Eggert Magnússon	5.1			
Þórunn Guðmundsdóttir	3.4			
Edgar Alden Edmond	5.7			
Jón Ásgeir Jóhannesson	5.1			
Hannes Smárason	6.8			
Baldur Guðnason	1.0			
Senior management	7,293.5	10	88	0
	12,478.5			

The remuneration of the Chairman of the Board and the other directors of the Board is decided by the annual general meeting of shareholders. In addition board members receive remuneration for work in committees of the board, such as audit, compensation and credit committees.

Remuneration to the CEO and former CEO and other members of senior management consists of base salary, variable salary or bonus, other benefits, pension contributions and stock options. Senior management comprises the Heads of the Business Liner and support areas. Total remuneration for Senior management includes that former and current Heads of Business lines.

[1] Call option contracts with the CEO were issued on 15 May 2007 and are based on an exercise price of 20.4. They are exercisable in the years 2008 to 2011.

[2] Included among the holdings of the aforementioned persons are holdings of their spouses, dependent children, and companies owned by them, if any.

48. Auditors' Fees

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

	2007	2006
Audit of Annual Accounts	423	268
Review of Interim Accounts	199	148
Other services	175	125
Total auditor's fee	797	541

Amounts are in thousand of EUR

49. **Income tax**

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

	2007	2006
Current tax expense	19,780	(64,418)
Adjustment to current tax for prior years	15	37,403
Deferred tax income (expense)	8,387	65,709
Translation difference	(165)	4,010
Total tax income (expense)	28,017	42,704

Reconciliation of effective tax rate:

		2007		2006
Profit before tax		190,960		472,697
Income tax using the domestic corporation tax rate	18.0%	34,373	18.0%	85,089
Tax exempt revenue	(3.%)	(5,767)	(2.5%)	(11,890)
Deferral of gains from sale of equity investments against tax base of investments in subsidiaries	(0,2%)	(388)	(24.5%)	(116,017)
Effects of branches and subsidiaries	(1,0%)	(1,821)		
Other changes	0.8%	1,620		114
Effective tax	14.7%	28,017	(9.0%)	(42,704)

50. Tax assets and tax liabilities recognised directly in equity:

	2007	2006
Available-for-sale investment securities	5,397	0

51. **Earnings per share**

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

	2007	2006
Profit for the year according to the Consolidated Financial Statements	162,872	515,401
Weighted average share capital:		
Weighted average of outstanding shares for the period	9,724	10,122
Effects of stock options	4	37
Weighted average of total shares for the period, diluted	9,728	10,159
Basic earnings per share	0,017	0,051
Diluted earnings per share	0,017	0,051

Notes to the Balance Sheet

52. **Cash and cash equivalents**

Cash and cash equivalents are specified as follows:

	2007	2006
Cash	81	0
Balances with banks	215,283	582,125
Unrestricted balances with central banks	20,963	167
Money market placements	1,190,844	112,676
Total cash and cash equivalents	1,427,171	694,968

Amounts are in thousand of EUR

53. Financial Assets held for trading

Financial assets held for trading are specified as follows:

Bonds and other fixed-rate securities:		
Listed on the OMX (Iceland Stock Exchange)	31,865	311,849
Other listed bonds	715,236	35,609
Total	747,101	347,458
Shares and other variable-yield securities:		
Listed on the OMX (Iceland Stock Exchange)	40,388	317,060
Other listed shares	79,430	246,249
Unlisted shares	2,992	328
Total	122,810	563,637
Positive balance of derivatives	186,495	34,140
Financial assets held for trading total	1,056,406	945,235

54. Pledged assets

Pledged assets are specified as follows:

Corporate bonds	11,488	0
Equities	200,435	398,562
Total pledged assets	211,923	398,562

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) at 31 December 2007 was EUR 556 million (2006: EUR 752 million).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as an intermediary.

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is EUR 15 million (2006 EUR 85 million). The same amount have been accepted as collateral that have been sold or repledged.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

	2007	2006
Mortgage loans in ALP Star	595,660	0
Mortgage loans in Creditor B.V.	397,058	152,592

In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets to third parties or special entities. The Bank has transferred loans to Creditor, but has retained substantially all of the credit risk associated with the transferred assets, and continues to recognise these assets within loans to customers.

55. Financial Assets designated at fair value

Financial assets designated at fair value specify as follows:

	2007	2006
Listed shares	321,321	32,201
Unlisted shares	330,191	140,397
Listed unit shares	20,331	0
Unlisted unit shares	86,932	335,504
Listed bonds	165,164	136,559
Total financial assets designated at fair value	923,939	644,661

Amounts are in thousand of EUR

56. **Loans**

Loans to customers are specified as follows:

	2007	2006
Senior	2,010,756	1,145,957
Junior	344,733	207,305
Mezzanine	86,070	14,004
Gross loans and advances	2,441,559	1,367,266
Less: allowance for impairment	(30,217)	(15,992)
Net	2,411,342	1,351,274

57. Loans to customers are specified as follows by sectors:

Financial services diversified	359,908	318,698
Real Estate	245,405	319,089
Media	218,611	4,934
Special Retail	199,294	92,643
Hotels	131,356	13,132
Diversified telecommunication Services	107,134	20,372
Pharmaceutical	103,923	167,889
Food Products	103,040	77,994
Other	942,671	336,523
Total loans to customers	2,411,342	1,351,274

58. **Financial assets available-for-sale**

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

Unlisted shares	4,130	0
Unlisted unit shares	421	0
Listed bonds	215,522	0
Unlisted bonds	118,887	0
Total available-for-sale	338,960	0

59. **Investment in associates**

Investment in associates are specified as follows:

Carrying amount at the beginning of the year	539	0
Transferred from subsidiaries to associates	11,094	0
Purchased during the period	0	539
Sold during the period	(580)	0
Share of profit	44	0
Carrying amount at the end of the year	11,097	539

Main associates are specified as follows:

	Total assets	Total liabilities	Owner-ship	Profit share	Nominal value	Book value
Brú Venture Capital ehf.	29,839	7,511	49.69%	8,354	17,757	11,094

Amounts are in thousand of EUR

60. Property and equipment

Property and equipment specify as follows:

Cost	Property	Equipment	Total
Balance at 1 January 2006	14,966	296	15,262
Acquisitions	695	1,596	2,291
Net acquisition through business combinations		411	411
Translation	(3,212)	(172)	(3,384)
Balance at 31 December 2006	12,449	2,131	14,580
Balance at 1 January 2007	12,449	2,131	14,580
Acquisitions	10,892	2,418	13,310
Net acquisition through business combinations		5,318	5,318
Sale		(65)	(65)
Disposals	(7,728)	(592)	(8,320)
Translation	(373)	7	(366)
Balance at 31 December 2007	15,240	9,217	24,457
Depreciations and impairment loss			
Balance at 1 January 2006	39	150	189
Depreciation for the year	80	274	354
Translation	(26)	(26)	(52)
Balance at 31 December 2006	93	398	491
Balance at 1 January 2007	93	398	491
Depreciation for the year	533	1,767	2,300
Translation	(14)	1	(13)
Balance at 31 December 2007	612	2,166	2,778
Carrying amounts			
Balance at 1 January 2006	14,927	146	15,073
Balance at 31 December 2006	12,356	1,733	14,089
Balance at 31 December 2007	14,628	7,051	21,679

Depreciation and amortisation in the Income Statement is specified as follows:

	2007	2006
Depreciation of property and equipment	2,300	354
Amortisation of intangible assets	738	0
Depreciation and amortisation	3,038	354

61. 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.

Amounts are in thousand of EUR

61. contd.:

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

	Allocation	Discount rate
Proprietary Trading	29,602	10.00%
Debt Finance	102,378	7.65%
Corporate Finance	67,064	10.00%
Capital Markets	2,094	13.76%
Asset Management	5,719	13.76%
Unallocated arising from acquisitions during the year	286,199	-
	493,056	

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.

	Brand name	Goodwill	Customer Contracts	Software	Developement projects	Total
Balance at 1 January 2006	4,756	154,189	0	0	0	158,945
Acquisitions		27,832	0	0	0	27,832
Balance at 31 December 2006	4,756	182,021	0	0	0	186,777
Balance at 1 January 2007	4,756	182,021	0	0	0	186,777
Acquisitions	0	313,360	1,355	1,476	817	317,008
Exchange difference	0	(2,324)	0	0	0	(2,324)
Balance at 31 December 2007	4,756	493,057	1,355	1,476	817	501,461
Amortisation and impairment						
Balance at 1 January 2007	0	0	0	0	0	0
Amortisation for the year	0	0	146	401	191	738
Balance at 31 December 2007	0	0	146	401	191	738
Carrying amounts						
Balance at 1 January 2006	4,756	154,189	0	0	0	158,945
Balance at 31 December 2006	4,756	182,021	0	0	0	186,777
Balance at 31 December 2007	4,756	493,057	1,209	1,075	626	500,723

62. Other assets

Other assets are specified as follows:	2007	2006
Securities Brokerage receivable	80,550	0
Accounts receivable	81,824	50,677
Prepaid expenses	70,818	3,197
Total other assets	233,192	53,874

Amounts are in thousand of EUR

63. Financial liabilities held for trading

	2007	2006
Financial liabilities held for trading are specified as follows:		
Trading liabilities	5,699	0
Derivatives	96,087	87,686
Total financial liabilities held for trading	101,786	87,686

64. Deposits from banks

	2007	2006
Deposits from banks are specified as follows:		
Deposits from other Banks	34,538	0

65. Deposits from customers

Deposits from customers are specified as follows:

	2007	2006
Financial and institutions	595,790	0
Households	370,973	0
Corporations and housing corporations	177,923	0
Public sector entities	70,911	0
Other	18,128	0
Total deposits from customers	1,233,725	0

66. Borrowings

The Bank's borrowings are specified as follows:	2007	2006
Loans from central bank	252,178	866,621
Loans from Banks	1,728,910	678,015
Debt securities issued	1,071,568	412,673
Short term borrowings	725,859	615,463
Total borrowings	3,778,515	2,572,772

67. Subordinated Loans

	Currency	Maturity date	2007 Book value	2006 Book value
Loans that qualify as Tier II capital:				
Subordinated loan - listed on the Iceland Stock Exchange, interest 5%	ISK	01/03/2015	66,855	61,410
Subordinated loan, interest Euribor + 3%	EUR	15/12/2018	27,083	27,280
Subordinated loan, interest Euribor + 3%	EUR	19/04/2019	19,703	0
			113,641	88,690

68. Deferred Income Tax Liability

Changes in tax liability during the year are as follows:

2007	Assets	Liabilities	Net
Balance at the beginning of the year	0	6,247	6,247
Other changes	0	(152)	(152)
Calculated income tax for the year	491	28,508	28,017
Income tax recognised in equity	0	(5,397)	(5,397)
Income tax to be paid in next year	0	(26,829)	(26,829)
Net tax assets and (liabilities)	491	2,377	1,886

Amounts are in thousand of EUR

68. contd.:

2006	Assets	Liabilities	Net
Balance at the beginning of the year	0	84,565	84,565
Transfer into Group	0	296	296
Translation difference	0	(12,905)	(12,905)
Calculated income tax for 2006	0	(65,709)	(65,709)
Net tax assets and (liabilities)	0	6,247	6,247

69. Other liabilities

Other liabilities are specified as follows:	2007	2006
Securities brokerage liabilities	82,784	0
Unsettled securites trading	91,275	0
Account payable	48,659	26,995
Sundry liabilites	54,293	30,494
Total other liabilities	277,011	57,489

70. 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 2006 and 2007 amounted to ISK 872 and 636 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. The Board of Directors is authorised, within its discretion, to increase the Bank’s share capital by ISK 2,000,000,000 by issuing new shares.

Increase of share capital during the year is broken down as follows:

	2007		2006	
	Share capital	Market value	Share capital	Market value
Shares outstanding at 1. January	9,487	1,744,966	10,251	1,310,536
Purchased treasury stock	(1,898)	(556,253)	(2,040)	(422,791)
Sales of treasury stock	2,135	590,926	1,276	264,451
Changes in market value	0	(181,898)	0	592,770
Shares outstanding at 31 December	9,724	1,597,741	9,487	1,744,966
Own shares	636		872	

Movement in share capital during the year segregates as follows:

2007	Share capital	Share premium	Total
Balance at 1 January	100,275	615,802	716,077
Purchases and sales of treasury stock	(20,061)	(536,192)	(556,253)
Sales of treasury stock	22,566	568,360	590,926
Balance 31 December	102,780	647,970	750,750

2006	Share capital	Share premium	Total
Balance at 1 January	119,448	831,834	951,282
Purchases and sales of treasury stock	(21,562)	(149,647)	(171,209)
Sales of treasury stock	(13,486)	(149,647)	(163,133)
Balance 31 December	84,400	532,540	616,940

Amounts are in thousand of EUR

71. **Reserves**

Movement in reserves were as follows:

2007	Translation reserve	Fair value reserve	Stock options	Total
Balance at 1 January	9,359	0	(22,776)	(13,417)
Translation difference	(26,457)	0	0	(26,457)
Changes in fair value of available for sale financial assets	0	(24,695)	0	(24,695)
Changes in stock options	0	0	28,563	28,563
Balance 31 December	(17,098)	(24,695)	5,787	(36,006)

2006				
Balance at 1 January	0	0	(28,420)	(28,420)
Translation difference	9,359	0	2,817	12,176
Changes in stock options	0	0	2,827	2,827
Balance 31 December	9,359	0	(22,776)	(13,417)

Fair value reserve

The fair value reserve includes the cumulative portion of the cumulative net change in fair value of available-for-sale investments until the investment is derecognised.

Translation reserve

The translation reserve compromise all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Bank, as well as from the translation liabilities that hedge the Bank's net investment in a foreign subsidiaries.

72. 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. The subordinated loans have maturity dates between the years 2015 and 2019. The loans are entered as liabilities with accrued interest and indexation.

Off Balance Sheet information

73. **Obligations**

	2007	2006
Guarantees	49,894	33,970
Loan commitments	77,321	0
Off Balance Sheet information total	127,215	33,970

The credit risk is valued at ISK 200 billion at the end of the period (31.12.2006: ISK 226 billion) for guarantees, credit default swaps, unused overdrafts and loan commitments when calculating the capital ratio of the Bank.

74. **Operating lease commitments**

At 31 December 2007, the Bank was obligated under a number of non-cancellable operating leases for premises and equipment. The significant premises leases include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices.

Amounts are in thousand of EUR

75. Assets under management and under custody

Assets under management and assets under custody are specified as follows:

	2007	2006
Assets under management	1,743	0

The Bank provides asset custody, asset management, investment management and advisory services to its clients. These services require the Bank to make decisions on the treatment, acquisition or disposal of financial instruments. Assets in the Bank's custody are not reported in its accounts.

76. Stock options

The Board of Directors of Straumur-Burdaras 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 2008 and 2011. The options have exercise prices between of ISK 16.2 and 21,4 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 was determined using the Black-Scholes valuations model, which will be amortised over contractual life of options. The significant inputs into the model were share prices, expected volatility, option life disclosed above, annual risk free interest rate and expected dividends yield. The expected volatility is based on the historic volatility over the last 12 months from the grant date.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares.

Grant date / employees entitled:	Number of shares in thousands	Vesting conditions:	Contractual life of options	Exercise price
		56-57		
August 2006	349,000	Three years of service. One third of total stock option is exercisable each year 2007-2009	3,5 years	16.2
December 2006	1,000	Three years of service. One third of total stock option is exercisable each year 2007-2009	3,5 years	17.4
January 2007	10,000	Three years of service. One third of total stock option is exercisable each year 2007-2010	3,5 years	17.8
May 2007	112,591	Four years of service. One third of total stock option is exercisable each year 2008-2011	4 years	20.4
June 2007	2,000	Three years of service. One third of total stock option is exercisable each year 2008-2011	3,5 years	21.4
September 2007	12,000	Three years of service. One third of total stock option is exercisable each year 2008-2011	3,5 years	20.2
Total share options	486,591			

76. contd.:

The number and weighted average exercise prices of share options is as follows:

	2007		2006	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	16.2	349,000		
Forfeited during the year	16.2	(148,000)		
Exercised during the year	16.2	(87,000)		
Granted during the year	20.2	137,591	16.2	349,000
Outstanding at the end of the year	18.4	251,591	16.2	349,000

The options outstanding at 31 December 2007 have an exercise price in the range of 16,2 to 21,4and a weighted average contractual life of 2,5 years.

77. 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 2007 Financial Statements.

78. Subsidiaries

The main subsidiaries are specified as follows:

Company:	Country	Currency	Equity interest %
Straumur Eignarhaldsfélag ehf.,	Iceland	ISK	100,00
Fasteignafelagid Sjavarsida hf.,	Iceland	ISK	100,00
Straumur Equities ehf.	Iceland	ISK	100,00
Straumur Debt ehf.	Iceland	ISK	100,00
Eignarhaldsfélagid Urridi ehf.,	Iceland	ISK	100,00
Novator One	Luxembourg	EUR	100,00
Creditor B.V.	Holland	EUR	100,00
ALP Star	Ireland	GBP	50,00
eQ Corporation,	Finland	EUR	100,00
Wood & Company,	Czech Republic	EUR	50,01
Stamford Partners Ltd.	England	GBP	50,01

Amounts are in thousand of EUR

79. **Related parties**

The Bank has a related party relationship with its subsidiaries (see note above), 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.

At year-end 2007, loans to related parties amounted to EUR 440 million, guarantees related to these loans amounted to EUR 28, and ownership in companies wherein Board members have significant influence amounted to EUR 121 million. Loans to related parties amounted to EUR 240 million at the end of year 2006. Guarantees at the same time amount to EUR 30 million, and the Bank's ownership share in companies wherein Board members have significant influence amounts to EUR 73 million. There were no debts to related parties at the end of the period.

As of the end of 2007 as of the end 2006, there were no personal loans or receivables to managers or Board members.

Unaudited Information

Quarterly Statements

Summary of the Bank's operating results by quarters:

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Total
Net interest income	23,003	26,302	8,366	11,162	68,833
Net fee and commission income	36,807	21,304	42,876	30,288	131,275
Dividend income	4,333	5,083	7,163	17,128	33,707
Other net financial income	(25,909)	(41,835)	84,847	57,533	74,636
Net foreign exchange gain	17,167	4,910	9,704	(28,719)	3,062
Other operating income	1,122	17,015	(4,762)	5,126	18,501
	56,523	32,779	148,194	92,518	330,014
Administrative expenses	(46,695)	(29,969)	(30,016)	(12,257)	(118,937)
Impairment losses on loans	(8,523)	(4,255)	(4,521)	(2,862)	(20,161)
Share of profit of associates	67	(2)	(21)	0	44
Profit before tax	1,372	(1,447)	113,636	77,399	190,960
Income tax	(1,978)	1,645	(19,442)	(8,242)	(28,017)
Profit for the year	(606)	198	94,194	69,157	162,943
Attributable to:					
Equity holders of the parent	1,256	1,828	90,288	64,890	158,262
Minority interest	(1,862)	(1,630)	3,906	4,267	4,681
Profit for the year	(606)	198	94,194	69,157	162,943

	2006	2006	2006	2006	Total
Net interest income	6,794	14,341	15,880	5,529	42,544
Net fee and commission income	25,547	19,311	12,563	26,984	84,405
Dividend income	5,997	353	13,851	7,934	28,135
Other net financial income	121,820	35,534	(57,068)	195,564	295,850
Net foreign exchange gain	37,483	(37,574)	28,488	39,911	68,308
Other operating income	9,257	0	0	103	9,360
	206,898	31,965	13,714	276,025	528,602
Administrative expenses	(18,845)	(7,991)	(8,618)	(8,618)	(44,072)
Impairment losses on loans	(3,375)	(2,052)	(3,374)	(3,032)	(11,833)
Profit before tax	184,678	21,922	1,722	264,375	472,697
Income tax	92,056	(4,264)	1,778	(46,866)	42,704
Profit for the year	276,734	17,658	3,500	217,509	515,401
Attributable to:					
Equity holders of the parent	274,055	17,020	2,485	218,045	511,605
Minority interest	2,679	638	1,015	(536)	3,796
Profit for the year	276,734	17,658	3,500	217,509	515,401

Amounts are in thousand of EUR