Condensed Consolidated Interim Financial Statements

30 June 2007
ISK

Glitnir banki hf.
Kirkjusandur
155 Reykjavík
Reg. no. 550500-3530

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Endorsement by the Board of Directors and the CEO

The profit from the Bank's operations for the six months ended 30 June 2007 amounted to ISK 16,529 million, which corresponds to a 24.2% return on equity. Equity, according to the condensed consolidated balance sheet, amounted to ISK 151,269 million at the end of the period. The Bank's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 13.2%. Under Icelandic law the minimum requirement is 8.0%.

The Bank's total assets amounted to ISK 2,335,008 million at the end of the period. Furthermore, the Bank held assets of ISK 913,364 million under management for its clients.

During the period, Glitnir acquired 99% of the shares in the Finnish investment services group FIM. The Bank expects to acquire the remaining 1% during the latter half of the year.

Number of outstanding shares was 14,476 million at the end of June 2007. During the period, share capital was increased by 616 million shares in relation to the acquisition of FIM and payment of dividends in the form of shares.

At the end of the period the Bank's shareholders numbered 11,375 as compared to 10,323 at the beginning of the year. At the end of the reporting period, one shareholder, FL Group hf., together with related parties, owned 31.97%. Other shareholders owned less than 10.0% of the shares in the Bank.

The Board of Directors and the CEO of Glitnir banki hf. hereby confirm the Bank's condensed consolidated interim financial statements for the six months ended at 30 June 2007 by means of their signatures.

Reykjavík, 31 July 2007.

Board of Directors:

Þorsteinn M. Jónsson

Jón Sigurðsson

Haukur Guðjónsson

Katrín Pétursdóttir

Kristinn Bjarnason

Pétur Guðmundarson

Skarphéðinn Berg Steinarsson

Chief Executive Officer:

Lárus Welding

Report on Review of Interim Financial Information

To the Board of Directors and Shareholders of Glitnir banki hf

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Glitnir banki hf and its subsidiaries as of 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Reykjavík, 31 July 2007

PricewaterhouseCoopers hf

Sigurður B. Arnþórsson

Kristinn F. Kristinsson

Condensed Consolidated Interim Income Statement for The Six Months Ended 30 June 2007

	Notes	Q2 2007	Q2 2006	Q1 - Q2 2007	Q1 - Q2 2006
Interest income		38,985	33,725	70,989	56,333
Interest expenses		(29,327)	(22,200)	(53,388)	(36,980)
Net interest income	27	9,658	11,525	17,601	19,353
Net fee and commission income	27	8,888	5,534	16,186	11,161
Net gains on financial assets and liabilities held for trading	27	792	203	1,443	3,551
Net gains on financial assets designated at fair value through P&L	27	2,068	573	3,912	1,205
Fair value adjustments in hedge accounting	9	(152)	(87)	(98)	(91)
Net foreign exchange gains	4	50	249	389	64
Other net operating income	38	1,879	181	1,962	226
Net operating income		23,183	18,178	41,395	35,469
Administrative expenses	27	(12,127)	(6,293)	(20,764)	(12,165)
Impairment losses on loans and receivables	28,41	(247)	(1,354)	(1,479)	(2,778)
Share of profit of associates	3,45	118	140	(17)	1,326
Net gains on non-current assets classified as held for sale		360	2,444	568	2,444
Profit before income tax		11,287	13,115	19,703	24,296
Income tax	29,36	(1,766)	(2,101)	(3,174)	(4,184)
Profit for the period		9,521	11,014	16,529	20,112
Attributable to:					
Shareholders of the parent company		9,437	10,702	16,052	19,800
Minority interest		84	312	477	312
Profit for the period		9,521	11,014	16,529	20,112
Earnings per share	37	0.66	0.76	1.12	1.42
Diluted earnings per share	37	0.64	0.76	1.10	1.42

Condensed consolidated Interim Balance Sheet as at 30 June 2007

	Notes	30.6.2007	31.12.2006
Assets			
Cash and cash balances with central banks	26,39	31,257	20,417
Loans and receivables	10,40,41	1,696,823	1,760,368
Financial assets held for trading	11,42	258,572	227,251
Financial assets designated at fair value through profit or loss	12,43	277,585	200,864
Financial assets available-for-sale	13,44	3,387	3,746
Derivatives used for hedging	8,9,32	4,723	5,721
Investments in associates	3,45	3,678	4,379
Investment property		2,663	0
Property and equipment	15	3,340	3,296
Intangible assets	16,47-49	47,762	18,310
Tax assets		420	264
Non-current assets and disposal groups held for sale	17	523	409
Other assets		4,275	1,314
Total Assets		2,335,008	2,246,339
Liabilities			
Deposits from credit institutions and central banks		40,289	78,576
Other deposits		511,319	438,272
Borrowings	19	1,357,275	1,377,787
Subordinated loans	20	95,142	108,998
Financial liabilities held for trading	21	87,941	51,729
Derivatives used for hedging	8,9,32	15,673	13,869
Post-employment obligations	22	729	529
Tax liabilities		13,221	10,647
Other liabilities		62,150	19,813
Total Liabilities		2,183,739	2,100,220
Equity			
Share capital	25,51	14,476	14,161
Share premium		56,596	51,847
Other reserves	52	2,549	7,504
Retained earnings		76,392	71,066
Total Shareholders' Equity		**150,013**	**144,578**
Minority interest		1,256	1,541
Total Equity	53	**151,269**	**146,119**
Total Equity and Liabilities		2,335,008	2,246,339

Condensed Consolidated Interim Statement of Changes in Equity for the Period Ended 30 June 2007

	Share capital	Share premium	Other reserves	Retained earnings	Share-holders' equity	Minority interest	Total equity
Equity as at 1.1.2006	13,112	32,888	(465)	39,002	84,537	0	84,537
Foreign exchange translation differences			13,368		13,368		13,368
Net loss on hedge of net investment in foreign operations			(6,064)		(6,064)		(6,064)
Change in fair value of financial assets available-for-sale			72		72		72
Income tax on equity items			1,079		1,079		1,079
Net income recognised directly in equity	0	0	8,455	0	8,455		8,455
Profit for the period				19,800	19,800	312	20,112
Total recognised income and expenses for the period	0	0	8,455	19,800	28,255	312	28,567
Dividend paid				(5,296)	(5,296)		(5,296)
Increase of share capital	1,130	19,752			20,882		20,882
Purchased and sold own shares	(194)	(3,358)			(3,552)		(3,552)
Change in minority interest						226	226
Accrued stock options			187		187		187
Equity as at 30.6.2006	14,048	49,282	8,177	53,506	125,013	538	125,551
Foreign exchange translation differences			(2,410)		(2,410)	(6)	(2,416)
Net loss on hedge of net investment in foreign operations			1,602		1,602		1,602
Change in fair value of financial assets available-for-sale			(2)		(2)		(2)
Income tax on equity items			(288)		(288)		(288)
Net income recognised directly in equity	0	0	(1,098)	0	(1,098)	(6)	(1,104)
Profit for the period				17,560	17,560	559	18,119
Total recognised income and expenses for the period	0	0	(1,098)	17,560	16,462	553	17,015
Purchased and sold own shares	113	2,565			2,678		2,678
Accrued stock options			425		425		425
Change in minority interest						450	450
Equity as at 31.12.2006	14,161	51,847	7,504	71,066	144,578	1,541	146,119
Foreign exchange translation differences			(7,274)		(7,274)	(139)	(7,413)
Net gain on hedge of net investment in foreign operations			2,175		2,175		2,175
Change in fair value of financial assets available-for-sale			(95)		(95)		(95)
Income tax on equity items			(375)		(375)		(375)
Net income recognised directly in equity	0	0	(5,569)	0	(5,569)	(139)	(5,708)
Profit for the period				16,052	16,052	477	16,529
Total recognised income and expenses for the period	0	0	(5,569)	16,052	10,483	338	10,821
Dividend paid				(9,403)	(9,403)		(9,403)
Increase of share capital	616	14,661			15,277		15,277
Purchased and sold own shares	(301)	(9,912)			(10,213)		(10,213)
Accrued stock options			614		614		614
Capital transactions with minority shareholders in subsidiaries				(1,323)	(1,323)	(623)	(1,946)
Equity as at 30.6.2007	14,476	56,596	2,549	76,392	150,013	1,256	151,269

Condensed Consolidated Interim Statement of Cash Flows for The Six Months Ended at 30 June 2007

	Notes	Q1-Q2 2007	Q1-Q2 2006
Net cash provided by operating activities		42,214	15,910
Net cash (used in) provided by investing activities		(12,232)	5,644
Net cash (used in) provided by financing activities		(23,728)	41,546
Net increase in cash and cash equivalents		6,254	63,100
Cash and cash equivalents at the beginning of the year		304,648	95,134
Cash and cash equivalents at the end of the period		310,902	158,234

Reconciliation of cash and cash equivalents:

	Notes	Q1-Q2 2007	Q1-Q2 2006
Cash in hand		1,108	1,142
Cash balances with central banks		28,068	6,607
Balances with credit institutions		40,613	36,172
Loans to credit institutions		100,895	49,353
Financial assets designated at fair value through profit or loss		140,218	64,960
Total cash and cash equivalents	26	310,902	158,234

Notes to the Condensed Consolidated Interim Financial Statements

Accounting policies

General information

Glitnir banki hf. is a company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements for the six months ended 30 June 2007 comprise Glitnir banki hf. (the parent) and its subsidiaries (together referred to as "the Bank"). A list with the Glitnir banki hf.'s subsidiaries is provided in note 46.

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

The condensed consolidated interim financial statements have been authorized for issue by the board of directors of Glitnir banki hf. on 31 July 2007.

Summary of significant accounting policies

1. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for interim financial statements (IAS 34). The accounting policies set out below have been applied consistently to all periods presented in the consolidated interim financial statements and to each of the Bank's entities.

2. Basis of preparation

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

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

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

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

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

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

a) *Determination of fair value*

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

Notes to the Condensed Consolidated Interim Financial Statements

b) *Impairment losses on loans and receivables*

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

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

3. Basis of consolidation

a) *Subsidiaries*

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

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

b) *Associates*

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

c) *Transactions eliminated on consolidation*

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

4. Foreign currencies

a) *Functional currencies*

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

b) *Foreign currency translations*

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

c) *Financial statements of foreign operations*

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

6. Recognition and derecognition of financial assets and financial liabilities

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

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

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

7. Offsetting financial assets and financial liabilities

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

8. Derivatives

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

The Bank uses derivatives for trading purposes and to hedge its exposure to market price risk, currency risk and interest rate risk arising from operating, financing and investing activities. Derivatives which are not own equity instruments of the Bank and which are designated and are effective hedging instruments in accordance with IAS 39, are presented as *Derivatives used for hedging* in the balance sheet. Other derivatives, except for derivatives that are own equity instruments of the Bank, are classified as *Financial assets held for trading* or *Financial liabilities held for trading* , depending on whether their fair value at the balance sheet date is positive (assets) or negative (liabilities), see note 33.

Notes to the Condensed Consolidated Interim Financial Statements

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

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

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

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

9. Hedge accounting

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

a) *Fair value hedges*

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

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

b) *Hedges of net investments in foreign operations*

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

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

10. Loans and receivables

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

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

11. Financial assets held for trading

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

The Bank classifies certain financial assets upon their initial recognition as financial assets at fair value with fair value changes recognised in profit or loss when doing so results in more relevant information because:
- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- financial assets and/or financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's risk management or investment strategy, and information about it is provided internally on that basis to the Bank's key management personnel.

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

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

13. Financial assets available-for-sale

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

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

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

14. Leases

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

a) Finance leases

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

Notes to the Condensed Consolidated Interim Financial Statements

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

b) *Operating leases*

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

15. Property and equipment

a) *Owned assets*

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

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

b) *Subsequent costs*

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

c) *Depreciation*

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

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

The residual value is reassessed annually.

16. Intangible assets

a) *Goodwill*

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

b) *Other intangible assets*

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

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

c) *Subsequent expenditure*

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

d) *Amortisation*

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

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

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

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

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

18. Repurchase agreements

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

19. Borrowings

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

Notes to the Condensed Consolidated Interim Financial Statements

20. Subordinated loans

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

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

21. Financial liabilities held for trading

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

22. Post-employment obligations

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

23. Stock option contracts

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

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

24. Provisions

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

Notes to the Condensed Consolidated Interim Financial Statements

25. Share Capital

a) *Treasury shares*

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

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

b) *Dividend on shares*

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

26. Cash and cash equivalents

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

27. Income and Expenses

a) *Interest income and expense*

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

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

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

b) *Fee and commission income*

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

Notes to the Condensed Consolidated Interim Financial Statements

c) *Dividend income*

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

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

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

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

Net gain on assets at fair value through profit or loss consists of gains and losses arising from disposals of and changes in the fair value of the financial assets designated as at fair value through profit or loss as well as dividend on fair value shares. Fair value changes of derivatives that are economically linked to financial assets which are designated at fair value through profit or loss in order to avoid an accounting measurement or recognition inconsistency, are also included in this line item in the income statement, see note 41.

f) *Administrative expenses*

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

28. Impairment

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

a) *Impairment on loans and receivables*

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:
• Delinquency in contractual payments of principal or interest;
• Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
• Breach of loan covenants or conditions;
• Initiation of bankruptcy proceedings;
• Deterioration of the borrower’s competitive position;
• Deterioration in the value of collateral; and
• Downgrading below investment grade level.

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

b) *Impairment on goodwill*

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

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

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

d) *Calculation of recoverable amount*

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

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

e) *Reversals of impairment*

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

29. Income tax

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

Changes within the Group

30. During the period, Glitnir Bank acquired the Finnish Asset Management Company FIM Group Oyj. The effects of the combination on the Bank's consolidated accounts are specified below:

Assets	
Cash and cash balances with central banks	2,836
Loans and receivables	1,828
Financial assets held for trading	2,741
Property and equipment	354
Intangible assets	28,387
Tax assets	165
Other assets	1,383
Total assets	37,694
Liabilities and minority interest	
Financial liabilities held for trading	436
Income tax liabilities	2,866
Other liabilities	3,954
Minority interest	104
Total liabilities and minority interest	7,360
Acquisition price	30,334
Ownership	98.8%
Consolidated from	1.4.2007

Notes to the Condensed Consolidated Interim Financial Statements

Risk management

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

Risk management procedures

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

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

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

Credit risk

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

Liquidity risk

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

At the end of June 2007, the Bank had ample liquidity, both according to internal measures and regulatory measures imposed by the Central Bank of Iceland. The Bank's policy is to have immediate liquidity covering all maturing debt of the parent company other than deposits for the following 6 months. In addition, all debt maturing within the following 12 months must be covered with immediate liquidity and other liquid assets. Immediate liquidity is defined as cash and cash equivalents, unused bonds eligible for repurchase agreements at central banks, regulatory liquidity reserves and committed credit facilities.

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

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

At 30 June 2007

Assets	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Undefined maturity	Total
Cash	31,257	0	0	0	0	0	0	0	31,257
Loans and receivables	219,577	120,893	61,876	82,952	160,927	262,996	695,753	91,849	1,696,823
Financial assets held for trading	107,533	0	22	0	0	0	0	151,017	258,572
Financial assets at fair value	104,009	3,994	1,509	2,281	11,662	34,013	87,431	32,686	277,585
Financial assets available f sale	101	0	0	0	0	0	0	3,286	3,387
Derivatives used for hedging	0	0	0	0	0	0	0	4,723	4,723
Investments in associates	0	0	0	0	0	0	0	3,678	3,678
Property and equipment	784	0	0	0	133	278	1,175	3,633	6,003
Intangible assets	3,753	0	0	0	196	0	1,629	42,184	47,762
Tax assets	345	0	0	30	0	3	23	19	420
Assets held for sale	0	0	0	0	0	158	0	365	523
Other assets	2,771	35	0	0	0	0	0	1,469	4,275
Total	470,130	124,922	63,407	85,263	172,918	297,448	786,011	334,909	2,335,008
Liabilities and equity									
Deposits from credit inst	37,873	0	0	0	0	0	0	2,416	40,289
Other deposits	357,471	32,633	36,499	53,465	15,156	10,961	5,134	0	511,319
Borrowing	72,248	52,950	142,426	149,180	198,995	682,495	56,216	2,765	1,357,275
Subordinated loans	2,402	836	0	0	4,274	49,688	37,925	17	95,142
Trading financial liabilities	23,592	0	0	0	0	0	0	64,349	87,941
Derivatives used for hedging	1,399	0	0	0	0	0	0	14,274	15,673
Post-employment obligations	0	0	0	67	159	0	503	0	729
Tax liabilities	3,616	226	0	871	305	0	0	8,203	13,221
Other liabilities	27,240	654	26	54	0	542	9	33,625	62,150
Equity	0	0	0	0	0	0	0	151,269	151,269
Total liabilities and equity	525,841	87,299	178,951	203,637	218,889	743,686	99,787	276,918	2,335,008
Maturity gap	(55,711)	37,623	(115,544)	(118,374)	(45,971)	(446,238)	686,224	57,991	0

At 31 December 2006

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Undefined maturity	Total
Total assets	366,098	20,246	49,676	153,660	162,590	392,320	838,286	263,463	2,246,339
Total liabilities and equity	444,905	81,189	99,712	190,535	252,265	683,666	135,911	358,156	2,246,339
Maturity gap	(78,807)	(60,943)	(50,036)	(36,875)	(89,675)	(291,346)	702,375	(94,693)	0

Notes to the Condensed Consolidated Interim Financial Statements

	30.6.2007	31.12.2006
Liquidity position		
Cash and balances with central banks	29,176	16,011
Short-term placements with credit institutions	40,613	33,981
Loans to credit institutions	100,895	144,983
Liquid debt securities at floating interest rates	140,218	109,673
Cash and cash equivalents	310,902	304,648
Unused bonds eligible for repurchase agreements at central banks	50,610	17,030
Regulatory liquidity reserves	24,275	22,274
Committed credit facilities	94,523	113,532
Immediate liquidity	480,310	457,484

Interest rate risk

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

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

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

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

Inflation risk

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

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

Assets and liabilities linked to Consumer Price Index:	Total assets	Total liabilities	Net position
30.6.2007	306,253	(161,251)	145,002
31.12.2006	302,090	(175,475)	126,615

Notes to the Condensed Consolidated Interim Financial Statements

Currency risk

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

Since the Bank's assets are largely denominated in foreign currency, but equity is issued in ISK, the exchange rate of the Icelandic krona has an effect on the measured CAD ratio. This is taken into account in the Bank's capital strategy and the Bank uses various methods to reduce this effect.

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

The table below summarises the Bank's exposure to currency risk at 30 June 2007. Included are both on-balance sheet and off-balance sheet positions. Off-balance sheet positions represent notional amounts of foreign currency derivative financial instruments.

Assets and liabilities classified according to currencies:

At 30 June 2007

	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other	Total
Assets										
Cash	16,806	12,098	10	2,179	60	47	14	4	39	31,257
Loans and receivables	463,551	503,263	44,945	263,010	131,147	98,701	88,683	55,124	48,399	1,696,823
Trading assets	222,777	16,559	3,292	3,410	2,780	1,680	8	4	8,062	258,572
FV financial assets	8,388	103,709	0	62,370	39,088	60,853	2,050	858	269	277,585
AFS financial assets	3,282	0	0	105	0	0	0	0	0	3,387
Hedging derivatives	4,723	0	0	0	0	0	0	0	0	4,723
Associates	480	1,321	0	1,877	0	0	0	0	0	3,678
Fixed assets	3,176	1,874	111	815	0	0	0	0	27	6,003
Intangible assets	480	18,213	1,704	27,364	0	0	0	0	1	47,762
Tax assets	0	56	0	364	0	0	0	0	0	420
Assets held for sale	365	158	0	0	0	0	0	0	0	523
Other assets	659	619	7	2,945	2	0	4	2	37	4,275
Total	724,687	657,870	50,069	364,439	173,077	161,281	90,759	55,992	56,834	2,335,008
Liabilities and equity										
Deposits, credit inst.	20,419	1,283	1,729	6,066	4,222	1,259	168	569	4,574	40,289
Other deposits	146,543	224,317	3,681	13,151	15,661	103,158	702	1,889	2,217	511,319
Borrowings	58,907	211,147	18,050	498,032	371,950	70,912	56,210	13,036	59,031	1,357,275
Subordinated loans	5,407	12,978	0	24,695	49,624	0	0	2,438	0	95,142
Trading liabilities	76,415	10,118	24	1,360	24	0	0	0	0	87,941
Hedging derivatives	15,549	0	0	124	0	0	0	0	0	15,673
Pension liability	0	729	0	0	0	0	0	0	0	729
Tax liabilities	11,142	1,406	0	669	4	0	0	0	0	13,221
Other liabilities	32,164	23,680	282	5,750	142	3	0	35	94	62,150
Equity	150,211	756	0	302	0	0	0	0	0	151,269
Total	516,757	486,414	23,766	550,149	441,627	175,332	57,080	17,967	65,916	2,335,008
Net on-balance sheet	207,930	171,456	26,303	(185,710)	(268,550)	(14,051)	33,679	38,025	(9,082)	0
Net off-balance sheet	(275,712)	(141,784)	(24,563)	220,547	270,599	14,295	(33,986)	(38,160)	8,764	0
Net position	(67,782)	29,672	1,740	34,837	2,049	244	(307)	(135)	(318)	0

At 31 December 2006

	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other	Total
Net on-balance sheet	175,416	176,649	22,857	(175,160)	(243,810)	27,662	10,895	30,304	(24,813)	0
Net off-balance sheet	(211,721)	(154,171)	(20,601)	178,266	248,125	(26,624)	(11,781)	(29,805)	28,312	0
Net position	(36,305)	22,478	2,256	3,106	4,315	1,038	(886)	499	3,499	0

Notes to the Condensed Consolidated Interim Financial Statements

Market Risk

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

For trading positions the Bank uses a daily Value-at-Risk (VaR) method to measure market risk in individual portfolios as well as overall. The overall measure is conservative as diversification effects across the portfolios are not taken into account. Reporting is based on a probability level of 99% and 1-day holding period. The table below summarises VaR measures for the six months ended 30 June 2007, with reference figures from full year 2006. Backtesting is used to assess the effectiveness of the VaR model.

	Min	Max	End of Q2 2007	Average Q1-Q2 2007	Average 2006
Equity risk	3	166	13	55	136
Interest risk	2	34	9	12	35
Currency risk	0	341	38	81	42
Total	18	408	60	149	213

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

Operational Risk

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

Derivatives used for hedging

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

	Notional	Fair value	
	amount	Assets	Liabilities
Interest rate	373,841	4,525	12,204
Foreign currency	10,525	198	3,469
Total	384,366	4,723	15,673

Derivatives held for trading

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

	Notional	Fair value	
	amount	Assets	Liabilities
Interest rate	834,001	5,481	14,461
Equity	230,238	23,292	19,718
Foreign currency	2,120,685	44,365	41,608
Total	3,184,924	73,138	75,787

Notes to the Condensed Consolidated Interim Financial Statements

Business segments

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

    The Bank is organised into the following business segments according to functions:

a) Retail Banking: Incorporates banking services, including asset-based financing to indivuduals and small and medium sized corporate customers.

b) Corporate Banking: Incorporates Glitnir's international operations, homemarket corporate customers and leveraged finance.

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

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

e) Investment Management: Comprises private banking in Iceland and Luxembourg as well as assets management in Iceland, Norway and Finland.

f) Treasury: Incorporates funding and interbank function.

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

The Bank was reorganised at the beginning of the year 2007 into the business segments described above. Where practical, comparative amounts in the schedules below have been reclassified to reflect the new structure.

Q2 2007	Retail Banking					Investment		Other	
Operations	Iceland	Norway	Corporate Banking	Investment Banking	Markets	manage-ment	Treasury	operations & eliminations	Total
Net interest income	2,750	448	5,061	(137)	572	166	2,425	(1,627)	9,658
Other operating income	1,304	73	777	2,373	5,322	2,506	(1,265)	2,435	13,525
Administrative expenses	(2,994)	(222)	(2,631)	(685)	(3,052)	(1,973)	(73)	(497)	(12,127)
Impairment	(223)	44	(84)	(3)	(9)	19	0	9	(247)
Other income	0	4	761	0	0	0	(119)	(168)	478
Profit before tax	837	347	3,884	1,548	2,833	718	968	152	11,287
Income tax expense									(1,766)
Profit for the period	837	347	3,884	1,548	2,833	718	968	152	9,521
Net segment revenue from external customers	10,463	3,362	(27,173)	591	8,471	2,672	23,741	1,084	23,211
Net segment revenue from other segments	(6,409)	(2,841)	33,011	1,645	(2,577)	0	(22,581)	(276)	(28)

Notes to the Condensed Consolidated Interim Financial Statements

6 months ended 30 June 2007

Operations	Retail Banking Iceland	Retail Banking Norway	Corporate Banking	Investment Banking	Markets	Investment management	Treasury	Other operations & eliminations	Total
Net interest income	5,265	805	9,730	(311)	818	270	3,573	(2,549)	17,601
Other operating income	2,407	75	2,618	5,040	9,683	3,414	(1,344)	1,901	23,794
Administrative expenses	(5,554)	(408)	(4,600)	(1,238)	(5,264)	(2,618)	(220)	(862)	(20,764)
Impairment	(344)	33	(1,146)	(6)	(2)	(18)	0	4	(1,479)
Other income	0	22	287	0	0	0	(118)	360	551
Profit before tax	1,774	527	6,889	3,485	5,235	1,048	1,891	(1,146)	19,703
Income tax expense									(3,174)
Profit for the period	1,774	527	6,889	3,485	5,235	1,048	1,891	(1,146)	16,529
Net segment revenue from external customers	0	(3,375)	(44,383)	562	10,249	3,684	75,334	(676)	41,395
Net segment revenue from other segments	7,672	4,255	56,731	4,167	252	0	(73,105)	28	0

At 30 June 2007

Segment assets	Retail Banking Iceland	Retail Banking Norway	Corporate Banking	Investment Banking	Markets	Investment management	Treasury	Other operations & eliminations	Total
Cash, balances with central banks, loans and receivables	338,662	135,613	1,039,482	6,094	42,355	19,640	1,093,051	(946,817)	1,728,080
Other financial assets	460	35,130	92,297	23,154	29,231	113	362,105	5,455	547,945
Other assets	1,292	390	1,656	2,922	9,876	4,943	0	37,904	58,983
Total assets	340,414	171,133	1,133,435	32,170	81,462	24,696	1,455,156	(903,458)	2,335,008
Segment liabilities									
Deposits, borrowings and subordinated loans	325,396	157,357	1,038,149	23,865	24,992	17,087	1,339,891	(922,712)	2,004,025
Other liabilities	1,221	4,886	13,372	1,578	39,961	664	102,018	16,014	179,714
Total liabilities	326,617	162,243	1,051,521	25,443	64,953	17,751	1,441,909	(906,698)	2,183,739

Q2 2006

Operations	Commercial banking Iceland	Commercial banking Norway	Corp. & investm. banking	Capital markets	Treasury	Other operations	Eliminations	Total
Net interest income	4,001	2,052	2,330	867	2,437	(162)	0	11,525
Other net operating income	1,219	2,194	1,296	1,543	638	(237)	0	6,653
Administrative expenses	(2,754)	(2,001)	(1,161)	(50)	(86)	(241)	0	(6,293)
Impairment losses	(1,158)	(51)	(163)	0	0	18	0	(1,354)
Other income	85	(11)	0	0	0	2,510	0	2,584
Profit before tax	1,393	2,183	2,302	2,360	2,989	1,888	0	13,115
Income tax expense								(2,101)
Profit for the period	1,393	2,183	2,302	2,360	2,989	1,888	0	11,014

Notes to the Condensed Consolidated Interim Financial Statements

	Commercial banking Iceland	Norway	Corp. & investm. banking	Capital markets	Treasury	Other operations	Elimin-ations	Total
Net segment revenue from external customers	40,076	17,828	38,946	3,037	(79,205)	(2,504)	0	18,178
Net segment revenue from other segments	(34,856)	(13,582)	(35,320)	(627)	82,280	2,105	0	0

6 months ended 30 June 2006

Operations	Commercial banking Iceland	Norway	Corp. & investm. banking	Capital markets	Treasury	Other operations	Elimin-ations	Total
Net interest income	7,592	3,526	4,223	1,212	2,913	(113)	0	19,353
Other net operating income	2,540	2,919	4,587	3,560	748	1,762	0	16,116
Administrative expenses	(5,322)	(3,161)	(2,434)	(330)	(165)	(753)	0	(12,165)
Impairment losses	(2,086)	(61)	(635)	0	0	4	0	(2,778)
Other income	85	1	0	0	0	3,684	0	3,770
Profit before tax	2,809	3,224	5,741	4,442	3,496	4,584	0	24,296
Income tax expense								(4,184)
Profit for the period	2,809	3,224	5,741	4,442	3,496	4,584	0	20,112
Net segment revenue from external customers	66,737	32,589	76,569	7,569	(152,207)	4,212	0	35,469
Net segment revenue from other segments	(56,605)	(26,144)	(67,759)	(2,797)	155,868	(2,563)	0	0

At 31 December 2006

Segment assets	Commercial banking Iceland	Norway	Corporate Banking	Investment Banking	Markets	Treasury	Other operations & eliminations	Total
Cash, balances with central banks, loans and receivables	556,646	598,314	287,529	3,987	28,030	1,356,301	(1,050,022)	1,780,785
Other financial assets	3,621	69,200	1,975	28,626	8,565	201,088	128,886	441,961
Other assets	109,471	4,895	15,872	2,031	6,383	0	(115,059)	23,593
Total assets	669,738	672,409	305,376	34,644	42,978	1,557,389	(1,036,195)	2,246,339
Segment liabilities								
Deposits, borrowings and subordinated loans	163,031	573,076	0	0	12,782	1,507,593	(252,849)	2,003,633
Other liabilities	470,556	63,732	291,473	27,350	14,472	44,633	(815,629)	96,587
Total liabilities	633,587	636,808	291,473	27,350	27,254	1,552,226	(1,068,478)	2,100,220

Notes to the Condensed Consolidated Interim Financial Statements

Quarterly Statements

35. Operations by quarters:

	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	9,658	7,943	8,421	9,310	11,525
Other operating income	13,525	10,269	13,443	5,960	6,653
Administrative expenses	(12,127)	(8,637)	(8,705)	(6,431)	(6,293)
Impairment losses	(247)	(1,232)	(1,653)	(328)	(1,354)
Other income	478	73	90	1,854	2,584
Profit before income tax	11,287	8,416	11,596	10,365	13,115
Income tax	(1,766)	(1,408)	(2,277)	(1,563)	(2,101)
Profit for the period	9,521	7,008	9,319	8,802	11,014

Effective income tax rate

36. The corporate income tax rate in Iceland is 18.0% whereas the effective income tax rate in the Bank's income statement is 16.1% for the six months ended 30 June 2007. The difference is specified as follows:

Profit before tax	19,703	
18.0% income tax calculated on the profit of the period	3,547	18.0%
Effect of tax rates in foreign jurisdictions	554	2.8%
Effects of tax exempt income	(927)	(4.7%)
Income tax according to income statement	3,174	16.1%

Earnings per Share

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

	2007 Q2	2006 Q2	2007 Q1-Q2	2006 Q1-Q2
Net profit, attributable to the shareholders of the parent	9,437	10,702	16,052	19,800
Average outstanding shares:				
Outstanding shares at the beginning of the year, millions	14,753	14,120	14,161	13,112
Issuance of new shares, millions	(358)	(91)	156	827
Average outstanding shares, millions	14,395	14,029	14,317	13,939
Earnings per share, ISK	0.66	0.76	1.12	1.42
Diluted Earnings per share, ISK	0.64	0.76	1.10	1.42

Notes to the Condensed Consolidated Interim Financial Statements

Other net operating income

38. Other net operating income is specified as follows:

	2007 Q2	2006 Q2	2007 Q1-Q2	2006 Q1-Q2
Gain from sale of land and buildings	1,057	0	1,057	0
Revaluation of investment property	792	0	792	0
Other income	30	181	113	226
Total	1,879	181	1,962	226

Cash and cash balances with central banks

39. Specification of cash and cash balances with central banks:

	30.6.2007	31.12.2006
Cash in hand	1,108	1,044
Balances with central banks other than required reserves	27,969	14,967
Required reserves at central banks	2,081	2,452
Treasury bills	99	1,954
Total	31,257	20,417

Loans and receivables

40. Loans and receivables are specified as follows:

Balances with credit institutions	40,613	32,027
Loans to credit institutions	100,895	144,983
Loans and leasing contracts to customers	1,499,080	1,571,726
Other receivables	56,235	11,632
Total	1,696,823	1,760,368

41. Allowance for losses on loans and receivables:

	Q1-Q2 2007	Q1-Q2 2006
Balance at 1.1.	12,465	9,191
Provision for loan impairment	1,479	2,778
Loans written off during the period as uncollectible	(3,134)	(846)
Amounts recovered during the period	34	19
Translation difference	(26)	299
Total at the end of the period	10,818	11,441

Notes to the Condensed Consolidated Interim Financial Statements

Financial assets held for trading

42. Specification of financial assets held for trading:

	30.6.2007 According to balance sheet	Against derivative contracts	Net position	**31.12.2006** According to balance sheet	Against derivative contracts	Net position
Bonds issued by public bodies	63,386	(63,386)	0	70,532	(66,706)	3,826
Bonds issued by others	31,425	(23,196)	8,229	10,667	(10,667)	0
Shares	90,623	(79,646)	10,977	79,170	(67,074)	12,096
	185,434	(166,228)	19,206	160,369	(144,447)	15,922
Carrying amount of derivatives...........................	73,138			66,882		
Total	258,572	(166,228)	19,206	227,251	(144,447)	15,922

Financial assets designated at fair value through profit or loss

43. Financial assets designated at fair value through profit or loss are specified as follows:

	30.6.2007	31.12.2006
Cash equivalents	140,218	109,673
Bonds issued by others	34,943	34,020
Loans	72,399	24,457
Mutual funds	7,111	7,049
Shares	4,652	6,275
Preferred shares	18,262	19,390
Total	277,585	200,864

Financial assets available-for-sale

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

	30.6.2007	31.12.2006
Bonds issued by public bodies	202	239
Bonds issued by others	3,084	3,507
Shares	101	0
Total	3,387	3,746

Notes to the Condensed Consolidated Interim Financial Statements

Investments in associates

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

	Ownership 30.6.2007	Book value 30.6.2007	Share of results Q1-Q2 2007	Book value 31.12.2006	Share of results Q1-Q2 2006
Eignarhaldsfélagið Fasteign hf.	28%	2,023	32	731	40
Norsk Privatøkonomi ASA	45%	1,001	18	1,070	0
Reiknistofa Bankanna	23%	350	0	345	1
Other		304	(67)	2,233	1,285
Total		3,678	(17)	4,379	1,326

Investment in subsidiaries

46. The parent's interest in its subsidiaries is specified as follows:

	Location	Ownership	Results
Bolig- og Næringsbanken ASA	Norway	100%	1,239
Glitnir Bank ASA	Norway	100%	419
Glitnir Factoring ASA	Norway	100%	25
Glitnir Securities ASA	Norway	100%	385
Glitnir Property Holding AS	Norway	70%	522
Glitnir AB	Sweden	100%	68
Glitnir Luxembourg SA	Luxembourg	100%	489
FIM Group Oyj	Finland	99%	523
Kreditkort hf.	Iceland	55%	314
Glitnir eignarhaldsfélag ehf.	Iceland	100%	1,125
Glitnir Real Estate Fund I hf.	Iceland	59%	291
Rivulus ehf.	Iceland	100%	312
Other	Iceland		39
Total			5,751

Intangible assets

47. Change in intangible assets during the period is specified as follows:

Balance at the beginning of the year	18,310
Additions due to acquisition of FIM Group Oyj	28,387
Additions due to buyout of minority in Glitnir Property Group AS	3,942
Translation and other changes	(2,877)
Balance at the end of the period	47,762

Notes to the Condensed Consolidated Interim Financial Statements

48. Intangible assets are specified as follows:

	30.6.2007	31.12.2006
Goodwill	36,486	17,946
Brands	4,730	0
Distribution agreements, customer lists etc.	5,693	0
Software	853	364
Total	47,762	18,310

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

Related party disclosures

50. The Bank has a related party relationship with its subsidiaries, associated companies, the board of directors of the parent company, the CEO and executive vice presidents of the Bank, close family members of individuals referred to herein and the largest shareholder, FL Group hf. (32% share). Change in related parties' lending during the period is specified as follows:

	Board & managing directors	Associated companies
Balance at the beginning of the year	42,943	13,325
Reclassification of loans due to new related parties	2,126	8
Reclassification of loans due to exit of related parties	(32,821)	(1,237)
New lendings, less repayments, of loans to related parties	5,298	594
Balance at the end of the period	17,546	12,690

In Q2 2007 the Bank charged ISK 671 million due to the departure of the former CEO and three executive vice presidents.

Equity

51. According to the Parent Company's Articles of Association, the total number of issued shares is 14,881 million. At the end of June 2007 treasury shares were 405 million. One vote is attached to each share. During the period, share capital was increased by 616 million shares at the price of ISK 24.8 per share.

52. Other reserves are specified as follows:

	Fair value change in AFS fin. assets	Accrued cost of stock options	Translation reserve	Total
Other reserves as at 31.12.2006	181	664	6,659	7,504
Translation differences			(7,274)	(7,274)
Net loss on hedge of net investment in foreign operations			2,175	2,175
Fair value changes of financial assets available-for-sale	(95)			(95)
Income tax on equity items	17		(392)	(375)
Accrued cost of stock options		614		614
Other reserves as at 30.6.2007	103	1,278	1,168	2,549

Notes to the Condensed Consolidated Interim Financial Statements

Capital adequacy ratio

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

	30.6.2007	31.12.2006
Shareholders' equity	150,013	144,578
Minority interest	1,256	1,541
Total shareholders' equity	151,269	146,119
Intangible assets	(44,896)	(18,310)
Core capital	106,373	127,809
Hybrid core capital	36,395	41,725
Tier 1 capital	142,768	169,534
Subordinated loans, excluding hybrid core capital	58,326	66,794
Deductions	(940)	(1,070)
Capital base	200,154	235,258
Risk-weighted assets		
Not included in trading portfolio	1,456,839	1,519,288
With market risk in trading portfolio	61,029	45,012
Total risk weighted items	1,517,868	1,564,300
Core capital ratio	7.0%	8.2%
Tier 1 capital ratio	9.4%	10.8%
Capital adequacy ratio	13.2%	15.0%

Obligations

54. Specification of obligations:

	30.6.2007	31.12.2006
Guarantees granted to customers	45,870	42,826
Unused overdrafts	54,156	40,858

Assets under management and in custody

55. Balance of assets under management and custody assets:

Assets under management	913,364	490,321
Custody assets	1,076,362	697,735

Notes to the Condensed Consolidated Interim Financial Statements

Stock options and stock option equivalents

56. Change in outstanding stock options and stock option equivalents during the six months ended 30 June 2007, in millions of shares:

Stock options and equivalents outstanding at 1.1.2007	442
Exercised	(63)
Terminated	(18)
New issues	727
Outstanding at 30.6.2007	1,088

Certain employees have been granted the right to receive stock options after certain time on the basis of share price when the agreements were entered into. The accounting treatment of these agreements, referred to as stock option equivalents, is principally the same as for ordinary stock options.