SP-Fjármögnun hf.

Consolidated Financial Statements
2006

SP-Fjármögnun hf.
Sigtún 42
105 Reykjavík

Reg. no. 620295-2219

Contents

Endorsement by the Board of Directors and the Managing Director

SP-Fjármögnun hf. is a leasing company and operates according to the Act on Financial Institutions no. 161/2002. The company is a subsidiary of Landsbanki Íslands hf. and the consolidated financial statements are part of the consolidated financial statements of the parent company and information on the group's performance and financial position are to be found therein. The consolidated financial statements of SP-Fjármögnun hf. for the year ended 31 December 2006, have been prepared in accordance with International Financial Reporting Standards (IFRS).

In November the company was a part of a group that founded Eignarhaldsfélagið ehf. and the company holds 49% share in Eignarhaldsfélagið ehf., but the company was created to buy 98% share in Vörður-Íslandstrygging hf.

According to the consolidated income statement company's net profit for the year amounted to ISK 802.7 million. According to the balance sheet, stockholders' equity at year-end amounted to ISK 3,268.2 million which is 8.5% of total assets. The company's capital ratio, calculated in accordance with provisions in the Act on Financial Institutions, is 11.9% at year-end 2006. The board of directors proposes that no dividend will be paid to shareholders in 2007. Changes in stockholders equity are further explained in the notes to the consolidated financial statements.

SP-Fjármögnun hf.'s share capital amounted to ISK 397.6 million at year-end. Shareholders at year-end 2006 numbered 15 but at the beginning of the year they were 16. At year-end two shareholders held more than 10% of the

	Share
Landsbanki Íslands hf., Reykjavík	51.0%
Sparisjóður vélstjóra, Reykjavík	31.9%

The company's board of directors and managing director hereby confirm the company's 2006 consolidated financial statements with their signatures.

Reykjavík, January 26th 2007.

Board of Directors:

Þorgeir Baldursson

Guðmundur Pétur Davíðsson

Magnús Ægir Magnússon

Ragnar Z. Guðjónsson

Managing Director:

Kjartan Gunnarsson

Independent Auditors' Report

To the Board of Directors and Shareholders of SP-Fjármögnun hf.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SP-Fjármögnun hf., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Reykjavík, January 26th 2007.

KPMG hf.

Jón S. Helgason

Consolidated Income Statement for the Year 2006

	Notes	2006	2005
Interest income		2,873,099	1,589,953
Interest expenses		(1,507,652)	(682,747)
Net interest income	17	1,365,447	907,206
Income from commissions		178,926	120,918
Expenses from commissions		(31,360)	(18,273)
Net income from commissions		147,566	102,645
Net foreign exchange gain		45,539	66,337
Other operating income		47,074	5,293
Share in loss of associate		(24,500)	0
Operating expenses	18-22	(489,217)	(391,848)
Impairment on loans	30	(84,310)	(101,748)
Pre-tax profit		1,007,599	587,885
Income tax	23	(204,857)	(108,171)
Profit for the year		802,742	479,714
Earnings per Share:			
Earnings per each 1 krona of share of share capital	24	2.02	1.21
Diluted earnings per each 1 krona of share of share capital	24	2.02	1.21

Notes 1-48 are an intergral part of these consolidated financial statements

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Consolidated Balance Sheet as at December 31, 2006

	Notes	2006	2005
Assets			
Cash and cash equivalents	25	375,117	244,863
Loans and claims	26-30	37,118,315	21,822,288
Investment in associated company	31	601,131	0
Fixed assets	32	233,898	236,557
Intangible assets	33	63,144	50,039
Pledged assets	34	5,199	5,293
Other assets		120,414	64,637
Total Assets		38,517,218	22,423,677
Liabilities			
Borrowings	35.36	33,456,916	18,603,695
Subordinated loans	37	1,226,828	1,010,587
Tax liabilities	38.39	438,079	247,817
Other liabilities		127,208	96,133
Total Liabilities		35,249,031	19,958,232
Equity	40-42		
Capital stock		397,562	397,562
Premium account		116,561	116,561
Statutory reserve		5,482	5,482
Retained earnings		2,748,582	1,945,840
Total Equity		3,268,187	2,465,445
Total Liabilities and Equity		38,517,218	22,423,677

Notes 1-48 are an intergral part of these consolidated financial statements

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Consolidated statement of Changes in equity

	Capital Stock	Premium account	Statutory reserve	Retained earnings	Total
2005					
Equity 1.1. 2005.................................	397,562	116,561	5,482	1,466,126	1,985,731
Profit for the year...............................				479,714	479,714
Equity 31.12.2005..............................	397,562	116,561	5,482	1,945,840	2,465,445
2006					
Equity 1.1. 2006.................................	397,562	116,561	5,482	1,945,840	2,465,445
Profit for the year...............................				802,742	802,742
Equity 31.12.2006..............................	397,562	116,561	5,482	2,748,582	3,268,187

Notes 1-48 are an intergral part of these consolidated financial statements

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Consolidated statement of cash flows for the Year 2006

	Notes	2006	2005
Cash flows from operating activities:			
Pre-tax profit		1,007,599	587,885
Difference between net profit and cash from operations:			
Share in loss of associate	31	24,500	0
Depreciation of fixed assets		43,339	48,012
Impairment on loans	30	84,310	101,748
Other items		(49,442)	(64,266)
Loans and other claims, change		(11,249,123)	(8,462,813)
Other operating assets and liabilities, change		16,476	29,416
Net cash used in operating activities		(10,122,341)	(7,760,018)
Cash flows from investment activities:			
Investment in associated company	31	(625,631)	0
Investments in fixed assets	32.33	(55,514)	(42,572)
Proceeds from sale of fixed assets		1,542	852
Other assets, change		(55,777)	60,090
Net cash (used in) provided by investment activities		(735,380)	18,370
Cash flows from financing activities:			
Loans, change		10,771,734	6,772,485
Subordinated claims, change		216,241	1,010,217
Net cash provided by financing activities		10,987,975	7,782,702
Increase in cash and cash equivalents		130,254	41,054
Cash and cash equivalents at the beginning of the year		244,863	203,809
Cash and cash equivalents at the end of the year	7	375,117	244,863
Other informations			
Interest income received		2,474,418	1,521,830
Interest expenses paid		(821,829)	(406,433)
Income tax paid		(14,595)	(29,530)

Notes 1-48 are an intergral part of these consolidated financial statements

All amounts are in ISK thousand

Notes to the Consolidated Financial Statements

General information

1. ***Reporting entity***

SP-Fjármögnun hf. ("the company") is incorporated and domiciled in Iceland. SP-Fjármögnun hf. is a subsidiary of Landsbanki Íslands hf. and the financial statement of SP-Fjármögnun hf. is a part of the consolidated financial statements of Landsbanki Íslands hf. The consolidated financial statement is for SP-Fjármögnun hf. and it's subsidiary Hafnarbraut ehf., together referred to as the "group" and shares in associated companies.

2. ***Basis of preparation***

a. *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements were approved by the board of directors on 26 January 2007.

b. *Basis of measurement*

The financial statements are prepared on the historical cost basis except the derivatives that are stated at their fair value.

c. *Functional and presentation currency*

The financial statements are presented in Icelandic krona (ISK), rounded to the nearest thousand. Icelandic krona is the companies functional currency.

d. *Use of estimates and judgments*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised and in any future periods affected.

The company values and applies assumptions that has impact on the value of assets. This valuations and assumptions are constantly revaluated and build on experience and other facts, like expectations about future events.

The company values their loan collection at least every six months to value impairment. Before a decision is made about a impairment transaction, the company needs to value if sources indicate measurable decrease on expected future cash flow, either from single loan or a collection of loans before the increase will be noticeable with one loan in the collection. Methodology and assumptions that are used to value both amount and timing on the future cash flow are revaluated regularly to minimize the difference between expected loss and real loss.

Fair value of financial instruments is determined by using valuation technique.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. *Basis of consolidation*

a. *Subsidiaries*

Subsidiaries are entities controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements from the date that control commences until the date that control commences until the date that control ceases.

b. *Associates*

Associates are those entities in which the company has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the companies share of the income and expenses of equity accounted inverses, after adjustments to align the accounting policies with those of the company, from the date that significant influence commences until the date that significant influence ceases. When the company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the company has an obligation or has made payments on behalf of the investee.

c. *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. No operation was in the subsidiary, Hafnarbraut ehf, in the year 2006.

4. *Foreign currency*

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Icelandic kronas at the foreign currency closing exchange rate ruling at the balance sheet date. Foreign currency exchange difference arising on translation are recognised in the income statement.

5. *Revenue and expenses recognition*

a. *Net interest income*

Interest income and expenses are recognized in the income statement as they incur, based on effective interests. Among interest income and expenses is the distribution of discount and other difference between the initial book value of interest bearing instruments and their amount on maturity date, which is calculated based on effective interests.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

If a financial asset or a group of comparable financial assets has been subject to impairment loss, interest income is recognized based on the same imputed rate of interest as for the determination of the fair value for impairment losses. Interest income on financial assets, that are written down due to impairment loss, are calculated on the recoverable amount of financial assets.

b. *Net income from commissions*

The Company provides various services to customers, for which it receives payments, including service income from leasing agreements. Service income and fees are recognized in the income statement when the service has been provided.

c. *Income tax*

Income tax on the profit or loss for the year is deferred tax. The company will not pay income tax in the year 2007 for the operation in year 2006.

Deferred tax is calculated and entered into the financial statements. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The difference in equity items as it materializes arises due to the fact that income tax assessment is based on different premises than in the consolidated financial statements for the group and in substance, concerns a temporary difference in income and expense registration in tax accounting on the one hand, and on the other, in the financial statements.

6. ***Impairment***

The carrying amounts of the group's assets are 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 whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

a. *Loans and claims*

The company values its loans every six months at least to make sure of every impairment. The company values the collection and single loan and if the valuation indicates impairment an impairment is entered.

If the reviewing of lending's indicates an impairment of their future cash flow, the loan is recognized in accordance with the estimated present value of future cash flows. Evidence of impairment may be considerable financial difficulties of the borrower or default installment payments. In determining the impairment loss, a risk assessment is performed, amount and timing of prospect payments are estimated and insurance sales value is

Loans and claims that are not adjusted to impairment become a part of a portfolio which is assessed with regard to possible impairment. A valuation of a loan portfolio is made on the basis that the loans bear similar credit risk characteristics. Indication of impairment in a loan portfolio is if authentically data indicate that the future cash flow is decreasing and the decrease is measurable with a reliable method.

Loans are recognized as definite bad debt, in part or as a whole, when there is no realistic chance that the amount will be recovered

b. *Pledged assets*

The company has taken over assets due to mortgages foreclosed. Assets available for sale are recognized at the lower of the estimated fair value and the cost value. Any later entries on the pledged asset down to fair value are entered as impairment in the income statement. Any later entries to raise the fair value are entered in to the income statement if it is not higher than the impairment.

c. *Associated company*

Investment in associated companies are valued considering impairment if any indication of that the asset's recoverable amount is lower then the book value.

d. *Calculation of recoverable amount*

The recoverable amount of the group's receivables carried at amortized cost is calculated at the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

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 discount rate that reflects current market assessment of the time value of money and the risk specific to the assets.

e. *Reversal of impairment*

An impairment loss in respect of assets that are reported at depreciated cost value are reversed if the increase can be objectively related to an event occurring after the impairment loss was recognised.

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

7. ***Cash and cash equivalents***

Cash and cash equivalents in the statement of cash flows include cash and current accounts.

8. ***Loans and receivables***

Loans and receivables are financial assets, other than derivative agreements, which carry fixed, calculated payments and are not listed in an effective market. Loans and receivables cosist of leasing agreements that the company grants to customers for real estates, machines and equipments and loans, such as debentures.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. The company's loans are capitalized with accrued interests, indexation and exchange rate diferrences at year-end. Indexed loans are recognized based on the indices that came into effect at the beginning of year 2007 and currency indexed loans are recognized based on the exchange rate of the relevant currency at year-end.

Loans and receivables are depreciated when cash flow can no longer be obtained or when the group has transferred for the most part risk and gains from the ownership.

9. ***Derivative***

Derivative agreements are financial instruments or other agreements that fall under the application of IAS 39, where their value is based on changes in underlying factors (such as price of shares, goods or bonds, indices or currencies or interest rates).

The company uses derivative agreements to limit exchange rate risk arising in relation to the company's operations.

Derivative agreements are recognized at fair value. Profit or loss due to changes in fair value is recognized in the income statement. Derivative agreements with positive balance are recognized among assets and derivative agreements with negative balance are recognized among liabilities.

The company does not use exchange rate risk accounting.

10. ***Fixed assets***

Fixed assets are stated at cost less depreciation and impairment.

The company recognizes in the carrying amount of an item of building, ship and other fixed assets 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 company and the cost of the item can be measured reliably. All other costs are recognized in the Income statement as an expense has incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of property and equipment. The estimated useful life is specified as follows:

	Useful life	Residual value
Real estates	25-50 ár	10%
Software, equipment and cars	3-7 ár	0-55%

Residual value is revalued every year if it is not material.

11. ***Intangible assets***

Software is stated at cost less any accumulated impairment losses and depreciation. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the software. The estimated useful life of the software is 3-years.

12. ***Pledged assets***

The company has taken over assets due to mortgages foreclosed. Assets available for sale are recognized at the lower of the estimated fair value and the cost value.

13. ***Borrowings and subordinated loans***

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are recognized in the Income statement over the period of the borrowing on an effective interest rate basis.

Borrowings and subordinated loans are recognized when the group enters into a contractual debt instrument. A Financial liability is derecognized when the group's liability is settled with payment, the creditor relinquishes the debt or the debt expires.

14. ***Other assets and liabilities***

Other assets and liabilities are stated at cost.

15. ***Earnings per share***

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to basic EPS.

16. ***New standards and interpretations not yet adopted***

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

IFRS 7 *Financial Instruments*: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity’s financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the group’s 2007 financial statements, will require extensive additional disclosures with respect to group’s financial instruments and share capital.

IFRS 8 *Operating Segments* sets out requirements for disclosure of information about an entity’s operating segments and also about the entity’s products and services, the geographical areas in which it operates, and its major customers. IFRS 8, which becomes mandatory for the group's 2009 financial statements, is not expected to have any impact on the consolidated financial statement.

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

16. New standards and interpretations not yet adopted, cont.:

IFRIC 8, scope of the IFRS *Share related payments*, concerns accounting methods that apply to share related payments when return on some or all goods or services can not be specified. IFRIC 8 becomes effective as of January 1 2007 but will not affect the group's financial statements

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

IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 11 IFRS 2 – *Consolidated group and transactions with own shares* deals with how certain types of agreements on securities related payments shall be recognized in the financial statements of a company and its subsidiaries. IFRIC 11 applies for accounting periods starting as of March 1, 2007 and will not affect the consolidated financial statements of the group.

IFRIC 12 – *Service Concession Arrangements*. IFRIC 12 will become mandatory for the group's 2087 financial statements, is not expected to have any impact on the consolidated financial statements.

Net income interest

17. Interest income and interest expense are specified as follows:

	2006	2005
Interest on loans	2,834,887	1,572,586
Interest on claims from credit institutions	38,212	17,367
Total interest income	2,873,099	1,589,953
Interest on borrowing from credit institutions	(1,376,573)	(456,166)
Interest on securities	(98,398)	(222,782)
Interest on subordinated loan	(32,681)	(3,799)
Total interest expenses	(1,507,652)	(682,747)
Total net interest income	1,365,447	907,206

Operating expenses

18. Operating expenses are specified as follows:

Salary and salary related expenses	263,795	189,931
Other operating expenses	182,083	153,905
Depreciation	43,339	48,012
Total operating expenses	489,217	391,848

19. Salaries and related expenses are specified as follows:

Salaries	216,820	154,618
Pension	29,661	18,933
Salary related expenses	17,314	16,380
Total salaries and related expenses	263,795	189,931

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

	2006	2005
Average number of employees during the year	29	23
Full time equivalent positions at year-end	31	24

21. Salaries and commissions to board members and managing director are specified as follows:

Board Director	1,800	1,760
Other board members (4)	3,600	3,580
Managing Director	32,644	22,650
Total salaries and commissions to board and managing director	38,044	27,990

22. Audit expenses are specified as follows:

Audit fees	1,962	1,671
Interim Financial Statements review	1,771	943
Other services	4,158	4,257
Total auditing expenses	7,891	6,871

Income tax expenses

23. Income tax recognised in the income statement:

Deferred tax:		
Origination and reversal of temporary differences	204,857	108,171
Total income tax expense	204,857	108,171

Reconciliation of effective tax rate:		2006		2005
Profit before tax income		1,007,599		587,885
Income tax using company's domestic tax rate	18.0%	181,368	18.0%	105,819
Effect of associate	0.4%	4,410	0.0%	0
Other differences	1.9%	19,079	0.4%	2,352
Effective tax	20.3%	204,857	18.4%	108,171

Earnings per share

24. The calculation of basic earnings per share was based on the profit and a weighted average number of shares outstanding during the year. Diluted earnings per share is the same as basic earnings per share as the company has not entered into share options agreements and has no convertible loans.

	2006	2005
Profit	802,742	479,714
Weighted average number outstanding shares during the year	397,562	397,562
Basic earnings and diluted earnings	2.02	1.21

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Amounts due from credit institutions

25. Amounts due from credit institutions, maturing before year-end, are specified as follows:

	2006	2005
Amounts due from parent company	257,245	76,522
Amounts due from other credit institutions	117,872	168,341
Total amounts due from credit institutions	375,117	244,863

Loans and claims

26. Loans and claims are specified as follows:

	Effective interest rate	2006	Effective interest rate	2005
Leases	6.2%	27,948,694	5.8%	13,727,180
Bonds and other loans	6.4%	9,169,621	6.2%	8,095,108
Total loans and claims		37,118,315		21,822,288

27. Loans and claims to customers are specified by types of assets:

	2006	2005
Vehicles	27,176,358	15,081,383
Computers and office equipments	715,468	820,518
Equipments	4,521,851	2,729,968
Machineries	3,462,129	1,355,164
Properties	115,036	370,979
Other assets	1,127,473	1,464,276
Total loans and claims	37,118,315	21,822,288

28. Loans and claims to customers are specified as follows:

Individual	61.5%	51.6%
State Treasury and government institutions	1.2%	1.5%
Company's		
Agriculture	1.1%	1.2%
Fishing industry	1.5%	0.4%
Industry	6.3%	7.6%
Building contractors	7.4%	8.4%
Commerce	5.7%	6.6%
Transportation	3.3%	5.0%
Finance organization	0.4%	0.4%
Service	9.6%	16.1%
Other	2.0%	1.2%
Total loans and claims	100.0%	100.0%

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29. Loans and leases to customers are specified by maturity:

	2006	2005
On demand	313,693	230,772
Up to 3 months	2,841,277	1,717,034
Over 3 months and up to 1 year	8,306,378	5,354,737
Over 1 year and up to 5 years	22,878,829	12,434,852
Over 5 years	2,778,138	2,084,893
Total loans and claims to customers	37,118,315	21,822,288

30. Impairment on loans and claims are specified as follows:

	2006	2005
Impariment on loans and claims at January 1	634,304	595,802
Impairment on loans over the year	84,310	101,748
Actual losses during the year	(31,898)	(67,912)
Payment of loans previously written off	3,084	4,666
Impairment on loans and claims at December 31	689,800	634,304
Impairment on loan portfolio, as percentage of loans	1.8%	2.8%

Associated companies

31. At the end of November 2006, the company acquired a 49% share in Eignarhaldsfelagid ehf., a holding company for shareholdings in Vordur Islandstrygging hf. Audited accounts for Eignarhaldsfelagid ehf. had not been finalized during the preparation of the financial statements of SP-Fjarmognun hf. and the share in the loss from December is based on the estimated financial statements at year-end 2006. SP-Fjarmognun hf. also owned at year-end 2006 a 40% share in Skeifuhus ehf but the operation of that company is insubstantial. The aggregated share in the profit of associated companies was negative by ISK 24.5 million. Their estimated aggregated assets at year-end amounted to ISK 2,700 million and estimated aggregated liabilities amounted to approx. ISK 2,860 million.

Fixed assets

32. Fixed assets are specified as follows:

Cost value	Real estate	Machines, equipments and vehicles	Total
Total value 1.1.2005	238,257	31,385	269,642
Additions during the year 2005	0	6,647	6,647
Sold during the year 2005	0	(1,470)	(1,470)
Total value 31.12.2005	238,257	36,562	274,819
Additions during the year 2006	0	8,121	8,121
Sold during the year 2006	0	(2,165)	(2,165)
Total value 31.12.2006	238,257	42,518	280,775

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32. Fixed assets, cont.:

Depreciation	Real estate	Machines, equipments and vehicles	Total
Total depreciation 1.1.2005	14,572	15,323	29,895
Depreciation during the year 2005	4,204	4,439	8,643
Sold during the year 2005	0	(276)	(276)
Total depreciation 31.12.2005	18,776	19,486	38,262
Depreciation during the year 2006	4,204	4,846	9,050
Sold during the year 2006	0	(435)	(435)
Total depreciation 31.12.2006	22,980	23,897	46,877
Book value			
1.1.2005	223,685	16,062	239,747
31.12.2005	219,481	17,076	236,557
31.12.2006	215,277	18,621	233,898
Depreciation ratio	2-4%	15-33%	

Intangible assets

33. Intangible assets and depreciation are specified as follows:

Cost price	Software
Total value 1.1.2005	127,273
Additions during the year 2005	35,925
Total value 31.12.2005	163,198
Additions during the year 2006	47,393
Total value 31.12.2006	210,591
Depreciations	
Total depreciations 1.1.2005	73,790
Depreciatons during the year 2005	39,369
Total depreciations 31.12.2005	113,159
Depreciations during the year 2006	34,288
Total depreciations 31.12.2006	147,447
Book value	
1.1.2005	53,483
31.12.2005	50,039
31.12.2006	63,144
Depreciation ratio	33%

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Pledged assets

34. Pledged assets are specified as follows:

	2006	2005
Vehicles	5,199	5,293
Total pledged assets	5,199	5,293

Borrowings

35. The company's borrowings are specified as follows:

	Effective rate of interest	2006	Effective rate of interest	2005
Securities	7.6%	383,809	7.7%	1,459,885
Borrowings from parent company	4.1%	33,073,107	2.9%	16,292,736
Borrowings from credit institutions		0	2.9%	851,074
Borrowings total		33,456,916		18,603,695

36. The borrowing mature as follows:

	2006	2005
Up to 3 months	1,907,901	947,354
Over 3 months and up to 1 year	3,923,020	4,253,056
Over 1 year and up to 5 years	27,625,995	13,403,285
Borrowings total	33,456,916	18,603,695

Subordinated loan

37. Subordinated loan are from the parent company. They are in foreign currency with variable six months LIBOR interest rates (London Inter Bank Rate) and interest surcharge. The maturity day is 2015. According to rules about equity ratio for lending institution, the loans are recognized as equity.

Tax liability

38. The change in the deferred income tax liability is specified as follows:

	2006	2005
Deferred income tax at December 31	438,079	233,222
Prior year taxes payable	0	14,595
Total tax liability	438,079	247,817

The company will not pay income tax in the year 2007 for the operation in year 2006, but prior year taxes payable in the year 2005 is because of year 2004.

39. The change in the deferred income tax liability is specified as follows:

Deferred income tax liability at beginning of 2006	233,222	125,051
Calculated income tax	204,857	108,171
Deferred income tax liability at year-end	438,079	233,222

Deferred income tax liability is divided between the following balance sheet items:

Loans and claims	419,984	215,992
Fixed assets	18,095	17,230
Deferred income tax liability at year-end	438,079	233,222

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Equity

40. The company's capital stock amounted to ISK 398 million at year-end 2006 and 2005 according to the company's articles of association. Each share of one krona carries one vote. No changes were done to the company's capital stock during the years 2006 and 2005.

41. Deposit of share capital exceeding the nominal value is recognized in the share premium account. A part of the profit from previous years has been recognized in a legal reserve in accordance with provisions of the Financial Statements Act. The part of the share premium account and the legal reserve exceeding 25% of the nominal value of share capital is available for allocation.

42. Equity at year-end amounts to ISK 3,268 million which is 8.5% of total assets. The capital ratio according to provision af Article 84 of Act on Credit Institutions is 11.9%, but according to the Act, it must be at least 8%. The ratio is computed as follows:

		Weighted value	
	Book value	2006	2005
Risk base:			
Assets	38,517,218	37,652,502	22,167,318
Risk base in relation to the exchange rate difference	209,927	120,027	123,471
Risk base, total		37,772,529	22,290,789
Capital:			
Tier I capital:			
Capital		3,268,187	2,465,445
Tier II capital:			
Subordinated loan		1,226,828	1,010,587
Total capital		4,495,015	3,476,032
Capital ratio		11.9%	15.6%

Risk management

43. *Loans-, interest- and foreign currency risk*

Exposure to loans-, interest and currency risks arises in the normal course of the group’s business. Derivatives are used to hedge exposure to fluctuations in foreign exchange rates.

The company has established loan policies og regularly monitors it loan risk. Risk valuation is regularly done and insurance valued. The total loan risk is equal to book value of loans and claims in the balance sheet.

The company regularly monitors the company's interest rate risk and assesses their conditions on loans by their cost of borrowings.

Exposure to foreign exchange rate arises from loans and borrowings in currencies other than the company's base currency, which is the ISK krona. Assets and liabilities that are exposed to foreign exchange rate risk are specified as follows:

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43. *Loans-, interest- and foreign currency risk, cont.:*

2006	EUR	USD	CHF	Other currency	Total
Loans and claims	10,610,959	5,747,781	7,529,569	6,186,534	30,074,843
Exchange insured assets	10,610,959	5,747,781	7,529,569	6,186,534	30,074,843
Borrowings	9,788,664	5,335,321	6,856,933	5,353,536	27,334,454
Hedging	804,185	409,431	588,700	709,867	2,512,183
Exchange inured borrowings ...	10,592,849	5,744,752	7,445,633	6,063,403	29,846,637
Net foreign currency positon ...	18,110	3,029	83,936	123,131	228,206
2005					
Loans and claims	5,977,917	4,268,154	3,408,895	2,869,913	16,524,879
Hedging	0	0	0	118,172	118,172
Exchange insured assets	5,977,917	4,268,154	3,408,895	2,988,085	16,643,051
Borrowings	5,485,939	3,832,312	2,986,168	2,577,891	14,882,310
Hedging	533,328	374,010	406,219	311,404	1,624,961
Exchange ins. borrowings	6,019,267	4,206,322	3,392,387	2,889,295	16,507,271
Net foreign currency position	(41,350)	61,832	16,508	98,790	135,780

The company has at the year-end done hedging for exchange rate risk that amounts to ISK 2,512 million (2005: 1,507 million) to maintain the exchange rate balance. Net position of the contract at year end is ISK 4 million negative (2005: 7 million negative.). The net position is entered with other liabilities in the balance sheet.

44. *Liquid assets related risk*

Liquid assets related risk is the risk involved in the loss that the company might be subject to as a result of not being able to settle its liabilities on time. The company monitors its cash balance by analyzing date of maturity of financial assets and liabilities to be able to settle all liabilities on maturity date. The company maintains work procedures that ensure sufficient liquid assets to be able to meet contingent and foreseeable payment liabilities. The company has for that purpose, among other things, ensured an access to loan lines. According to the rules of the Central Bank of Iceland (Sedlabankinn), on liquid assets ratio no. 317 from April 25, 2006, the company must remit reports on liquid assets each month. By remitting those reports there is a very effective control on the liquid assets ratio.

Following is the breakdown of the group's financial assets and liabilities with respect to maturity date stated in ISK million:

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Loans and claims	3,155	8,306	22,879	2,778	37,118
Hedging	2,535	0	0	0	2,535
Cash at year end	375	0	0	0	375
Total 31.12.2006	6,065	8,306	22,879	2,778	40,028
Total 31.12.2005	3,684	5,355	12,435	2,085	23,559

44. *Liquid assets related risk, contd.:*

Following is the breakdown of the group's financial assets and liabilities with respect to maturity date stated in ISK million, contd.:

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Borrowings	1,908	3,923	27,626	0	33,457
Subordinated loans	0	0	0	1,227	1,227
Hedging	2,539	0	0	0	2,539
Other debts	5	0	0	0	5
Total 31.12.2006	4,452	3,923	27,626	1,227	37,228
Total 31.12.2005	2,445	4,253	13,403	1,011	21,112
Assets-liabilities 31.12.2006 ...	1,613	4,383	(4,747)	1,551	2,800
Assets-liabilities 31.12.2005 ...	1,239	1,102	(968)	1,074	2,447

Net fair value of hedging is entered among other liabilities.

45. *Assets and liabilities index-linked*

The total amount of indexed assets amounted to ISK 6,524 million at year-end and the total amount of indexed liabilities amounted to ISK 6,706 million.

46. *Fair value*

Fair value of loans, receivables, borrowings and subordinated loans is considered to be the closest to book value, as their interest terms in general vary in accordance with market interest terms at each time. It is the Company's evaluation that unrealized profit or losses due to the difference between fair value of assets and liabilities and the book value is insubstantial.

Related parties

47. Parent company (Landsbanki Íslands hf. - 51% share), subsidiary (Hafnarbraut ehf. - 100% share), associated company (Eignarhaldsfélagið ehf. - 49% share), board members, executives and stockholders are considered related parties. Company's owned by board members, executives and stockholders are also considered related parties.

The balance with the parent company are stated in previus notes. In the income statement the interest income from parent company amounts to ISK 16 million and interest expenses amounts to ISK 1,391 million (2005: 287 million). Expenses from commissions to parent company is ISK 13 million (2005: 6 million).

Transactions with other related parties are specified as follows:	2006	2005
Loans	787,456	145,105
Interest income	8,591	7,038

Interest terms to related parties are in accordance with the company's general interest rate terms.

Subsequent events

48. Nothing has come forth following the date of the financial statement, which would require adjustments or changes to the financial statements as at December 31, 2006. On January 26, 2007, the company's board of directors reviewed and approved the financial statements. The financial statements will be submitted in the company's annual general meeting for shareholders' approval.