KAUPTHING BANK

REGISTRATION DOCUMENT

JUNE 2007

Straumborg

STRAUMBORG EHF.
JUNE 2007

Straumborg

(incorporated in Iceland as a public limited company)

CONTENTS

1. RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

The Issuer believes that the factors described below represent the principal risks inherent in investing in its debt instruments, but the inability of the Issuer to pay the principal or other amounts on or in connection with any such instruments may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Prior to making any investment decision, prospective investors and their financial and legal advisers should carefully consider all of the information in this document and, in particular, the risks and uncertainties described below should be considered carefully. The matters described below, among other factors, should be carefully considered by any prospective investor.

This document contains forward looking statements that involve inherent risks and uncertainties. Actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below.

All references to "we", "us" and "our" under "Factors that may affect the Issuer's ability to fulfil its obligations under the Notes issued" are references to the Issuer.

a. Risk relating to the Issuer

Below is a brief description of the main risks relating to the Issuer in general:

Credit risk
Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with Straumborg or otherwise fail to perform as agreed. Credit risk is found in all activities where profitability depends on the performance of a counterparty (risk to each party of a contract that the counterparty will not meet its contractual obligations), issuer, lessee or borrower. Straumborg will be exposed to a credit risk that arises any time the Company's funds are committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Market risk
Market risk is the current or prospective risk to earnings and capital arising from adverse movements in stock, bond, security, and commodity prices and foreign exchange rates, amongst other fluctuations.

Stock portfolio risk
Straumborg's main activities are investing in stocks. The Company is therefore affected by fluctuations in the market price and dividends of its stock holdings, both listed and unlisted.

Bond portfolio risk
Straumborg may have some holdings in bonds. The Company is therefore affected by fluctuations in the market price of its bond holdings.

Asset portfolio risk
Straumborg's subsidiary, Solvina in Latvia, owns and rents commercial property. Therefore the Company is affected by fluctuations in the value of real estate. A large decrease in the value of real estate could affect the Company's asset portfolio. There is also a risk associated with general developments of lease levels of commercial property for various sectors and the locations where the Company owns properties. The market situation when the lease contracts expire on the Company's properties is an especially important consideration.

Interest rate risk
Interest rate risk arises from the Company's exposure, due to its financial obligations, to adverse movements in interest rates. All assets and liabilities are directly or indirectly affected by interest rates. In particular, higher interest rates should decrease profit with higher financing costs.

Tenant risk
Straumborg's subsidiary in Latvia, has tenant risk. The Tenants' financial status and strength, and thus their ability to service the rent etc. will always be a decisive factor when evaluating the risk of property projects. It would be unusual if some of the leases are terminated and new contracts are entered into. The termination of leases with subsequent vacancy of the premises, or lower rent levels, will influence the rental income negatively.

Inflation risk
Inflation could have an influence on the Company's assets. Should inflation increase it could result in an increase in the Company's debt and it would also have the effect that interest rates would be higher and therefore lead to an increase in the Company's costs.

Currency risk
Straumborg's reporting currency is the Icelandic krona. The Company may, however, choose to have all its equity in different currencies, e.g. the Euro. Straumborg trades currency for its own account and maintains open currency positions in currencies other than the Icelandic krona. Although Straumborg has taken steps to hedge a part of its foreign currency exposure, currency mismatches between assets and liabilities do exist at present. Furthermore, there is no guarantee that future mismatches will not occur. As a result, fluctuations in exchange rates may adversely affect Straumborg's operating results and financial position.

Liquidity and Refinancing risk
Straumborg is exposed to a liquidity risk that could materially affect Straumborg's operating results and financial position. Liquidity risk can be divided into funding risk and market liquidity risk.
The definition of funding risk is the current or prospective risk to earnings and capital arising from the Company's inability to meet its liabilities when they come due without incurring unacceptable losses. Funding risk arises from the inability to manage unexpected decreases or changes in funding sources.
Market liquidity risk is the current or prospective risk to earnings and capital arising from the Company's inability to quickly unwind its positions either at current market rates or at a rate which would not be adversely affected by the unwinding to such an extent as to result in unacceptable losses.

Operational risk
Operational risk is the risk of direct loss, indirect loss, or damage as a result of people's reputation, systems, inadequate or failed internal processes, or from external events.

Managing growth
Straumborg continues to invest in new businesses. Such investments require capital, focus from the management and increased costs. Some of the investments may be in new markets and countries, and therefore require more effort from the management and may affect its focus on other investments. The failure of Straumborg to effectively manage the Company's growth, whilst at the same time maintain an adequate focus on its current operations, could have a materially adverse effect on its business, financial condition, and results of operations.

Key employees
Straumborg's financial performance depends on its ability to attract, motivate, and retain highly competent managers and specialists. The Company may be unable to attract and retain such people in the future.

Legal risk
Straumborg is a private limited liability company which operates in accordance with the Private Limited Companies Act no. 138/1994. Straumborg is not listed on any stock exchange but, as an investment company which both makes private and equity investments and invests in listed securities, it is affected by the Act on Securities Transactions No. 33/2003 (lög um verðbréfaviðskipti).

Litigation is a normal part of some of the Company's subsidiaries' business, i.e. banks. Since Straumborg has operations in many different fields and countries, litigation is always a possibility in other parts of the group. Straumborg is not involved in any litigation or arbitration that could substantially affect its financial position.

Reputational risk
Reputational risk is the risk that Straumborg will suffer as a loss of revenue due to negative publicity regarding its business practices. This negative publicity may result from mistakes in conducting its business, from

wrong decisions, or from Straumborg or some related party not following general laws and regulations. Negative publicity can also occur, without the Company being at fault. If Straumborg or its subsidiaries' reputation or credibility is negatively affected, owing to private or public discussion, Straumborg's profitability, funding and ability to grow may be impaired.

IT
The IT systems may be vulnerable to disruptions that are beyond Straumborg's control. Possible disruptions could result from viruses, hackers, equipment failure, power failure, natural disasters or human error.

Internal controls
Operational risk relates to the inner workings of Straumborg, the competence of its employees, and the reliability of work processes and information systems. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes a risk of loss resulting from failure to comply with the laws and regulations under which Straumborg operates. Straumborg is especially exposed to incorrect analyses of investment options, which can have a negative impact on its financials.

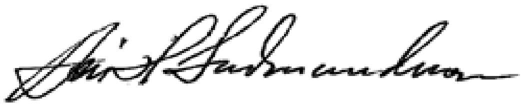
Tax
Straumborg could be affected by changes in tax legislation in any of the countries that influence its financial results. Straumborg is not aware of any ongoing tax inspection concerning itself or its subsidiaries which may have a material impact on Straumborg's financials. Like for any other company, an investigation into Straumborg's tax filings may be initiated at a later stage in accordance with relevant regulations and affect the Company's prospects. Straumborg and the tax authorities may potentially have different opinions on how various financial arrangements within the company should be treated from a tax perspective. Straumborg is of the opinion that it is in compliance with the relevant tax regulations and practices and should not expect claims from tax authorities relating to its treatment of income or any other financial issues.

Covenants
Straumborg is contractually bound to honour various financing agreements. Should Straumborg become unable to or for some reason cease to fulfil the respective covenants, the lenders and financiers may become entitled to rescind the agreements, which might have adverse financial consequences for Straumborg.

2. PERSONS RESPONSIBLE

Straumborg ehf., in its capacity as the Issuer, Icelandic ID-No.500894-2109, registered office at Skemmuvegi 2, 200 Kópavogi, Iceland, hereby declares that having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavik, 25 June 2007
On behalf of the Issuer

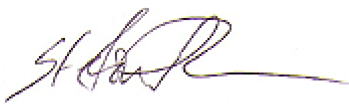


Jón Helgi Guðmundsson,
Chairman of the Board

3. MANAGER

The Manager, Kaupthing Bank hf – Capital Markets, Icelandic ID-No. 560882-0419 registered office at Borgartun 19, 105 Reykjavik, Iceland has been the advisor to the Issuer in the preparation of this Registration Document. The Manager has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager as to the accuracy or completeness of the information contained in this document or any other information provided by the Issuer in connection with the Bonds. The Manager does not accept any liability in relation to the information contained in this document or any other information provided by the Issuer in connection with debt instruments .

Reykjavik, 25 June 2007
On behalf of the Manager



Ingvar Vilhjálmsson
Managing Director

Stefán Ákason
Head of Fixed Income Sales

4. STATUTORY AUDITORS

The Company's accounts for the years ending 31 December 2005 and 31 December 2006, respectively, have been audited and the annual accounts for these years have been endorsed without remarks by Deloitte hf., the Company's independent accountants.

5. REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the "Issuer", "Straumborg" and "the Company" in this Registration Document shall be construed as referring to Straumborg ehf., Icelandic ID-No 500894-2109, and its subsidiaries and affiliates, unless otherwise clear from the context. Straumborg ehf. is the legal Icelandic name of the Issuer.
References to "ICEX" in this Registration Document shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No.681298-2829, unless otherwise clear from the context.
References to the "admission to trading" and the "admission to trading on a regulated market" in this Registration Document shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.
References to "ISD" in this Registration Document shall be construed as referring to the Icelandic Securities Depository, i.e. to Verdbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegur 182, 105 Reykjavik, Iceland, unless otherwise clear from the context.
References to the "Manager" in this Registration Document shall be construed as referring to Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

6. DOCUMENTS FOR DISPLAY

The following documents are for display and are to be found in Appendices I – III to this Registration Document:

a. The articles of association for Straumborg ehf.
b. The annual account of Straumborg ehf. for the operating year 2005.
c. The annual account of Straumborg ehf. for the operating year 2006.

Copies of documents for display to this Registration Document are to be found in Appendices I – III which can be obtained from the Issuer's office and website (www.straumborg.is).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Registration Document which is capable of affecting the assessment of any Debt Securities, prepare a supplement to this Registration Document or publish a new Registration Document for use in connection with any subsequent issue of such Debt Securities. If a supplement is prepared, statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Registration Document or in a document which is incorporated by reference in this Registration Document. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document.

7. NOTICE TO INVESTORS

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in any Debt Securities and carefully review the terms and conditions of the Debt Securities described in the relevant Securities Note.

This Registration Document is to be read in conjunction with all documents which are for display in this Registration document (see Appendices I - III).

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

This Registration Document is not (a) intended to provide the basis of any credit or other evaluation; or (b) a recommendation by the Issuer or the Manager that any recipient of this Registration Document should purchase any Debt Securities. Each investor contemplating purchasing any Debt Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Registration Document nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe to or purchase any Debt Securities.

Neither the delivery of this Registration Document nor the sale or delivery of any Debt Securities shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. Investors should review, inter alia, the documents for display in appendices to this Registration Document when deciding whether or not to purchase any Debt Securities.

ICEX has scrutinized and approved this Registration Document which is only published in English.

8. DESCRIPTION OF THE ISSUER

b. History

Straumborg ehf., Icelandic ID-No 500894-2109, Skemmuvegi 2, 200 Kópavogur, telephone number +354-458 1162 was established in 1994, but was inactive until 2002, when it started operations as an investment and holding company for Jón Helgi Guðmundsson. Straumborg is an Icelandic private limited liability company which operates in accordance with the Private Limited Companies Act no. 138/1994. The main asset has historically been shares in Kaupthing bank. In 2006, Straumborg purchased a majority stake in two banks, Lateko banka in Latvia, now Norvik banka, and Fineko bank in Moscow, now Norvik bank. Other notable investments include the oil exploration companies Geysir Petroleum and Nor Energy, the food processing machinery company 3X Stál and the food producer Bakkavör. See following sections for more details on these investments. In 2007, Jón Helgi's children, Guðmundur Halldór Jónsson, Iðunn Jónsdóttir and Steinunn Jónsdóttir joined the shareholder's group.

c. Description of Business

Straumborg ehf. is an Icelandic investment company which both makes private and equity investments and invests in listed securities. The shareholders are Jón Helgi Guðmundsson (48.63%), Guðmundur Halldór Jónsson (14.29%), Iðunn Jónsdóttir (14.29%), Steinunn Jónsdóttir (14.29%) and Brynja Halldórsdóttir (8,5%).

Straumborg's approach is to work with able management in well run companies with growth potential. The Company focuses on business areas where it has expertise and ability to understand the dynamics of the business and the markets it operates in. Currently, the focus industries in private equity are banking, real estate, retail, building materials, pharmaceuticals and energy. Straumborg is ready to expand the focus if excellent opportunities arise and the Company think that it has expertise and relations to contribute. Focus areas are Iceland, Scandinavia and the Baltics, although the Company also invests in other areas.

Straumborg emphasizes on being able to support its companies through capital increases to maintain their growth and seize opportunities. For that purpose it is essential to have a strong equity ratio and excessive liquidity with a great portion of liquid assets. That goes together with the policy of investing in addition to un-listed stocks, in listed companies that have been analyzed thoroughly and are actively traded. In such investments Straumborg has a preference for companies in the same focus industries as in private equity, although the horizon is broader.

The target return on equity is 15%. The Company usually regards it to be too much risk to invest in companies in a defensive position, such as turnaround projects, unless there are synergies with other investments, and aims for growth and expansion of proven concepts in its investments. Straumborg regards such investments as not only less risky, but also more profitable on balance.

Largest investments

a) Kaupthing bank, listed, Iceland
Straumborg holds 18,920,342 shares in Kaupthing Bank as of 20th of June 2007, making it one of the bank's largest shareholders. Brynja Halldórsdóttir, an owner of Straumborg, is a board member of the bank. Kaupthing bank is listed on the OMX in Iceland and Sweden. The price per share was 1095 ISK, as of May 1st 2007.

b) Norvik banka, private, Latvia
Straumborg has a stake of 51% in Norvik banka in Latvia as of 20th of June 2007. Norvik banka is not included in the consolidated statements of Straumborg. The equity of Norvik banka is ISK 4.3 billion, according to the newest accounts of 31st of December 2006. The book value of the 51% stake is ISK 3,250 million, according to the newest accounts of 31st of December 2006. The acquisition of Norvik banka, then Lateko banka, was made in January 2006. The bank offers a broad selection of banking products, both for companies and private individuals. It has one of the largest retail networks in Latvia with 14 branches (including headquarters) and 76 smaller outlets. The bank employs over 600 people.

c) Bakkavör, listed, Iceland
Straumborg held 60.408.247 shares in Bakkavör as of 20th of June 2007, some of it in forward contracts. Bakkavör Group is a leading international food manufacturing company specialising in fresh prepared foods and produce. The Group operates 46 factories and employs over 16,000 people in seven countries. Bakkavör is listed on the OMX in Iceland and the share price was ISK 69.8, as of June 20th 2007.

d) Eyrir Invest, private, Iceland
Straumborg holds 57,900,000 shares in Eyrir invest, Iceland, or 10.9% as of 20th of June 2007. The book value of the stake is ISK 1.1 billion. Eyrir Invest is an international investment company where the main emphasis is on investments in listed companies in Europe, especially in Scandinavia and the Baltic countries.

e) Norvik, private, Iceland
Straumborg holds, as of June 20th 2007, 72,600,000 shares in Norvik hf., Iceland, or 21.87%. The book value of the stake is ISK 726 million, as of 31st of December 2006. The equity of Norvik is ISK 4.4 billion, as of 31st of December 2006. Norvik is a group of companies with a focus on retail in Iceland and timber industries and sales in Russia, Latvia and the UK.

f) Smáragarður, private, Iceland
Straumborg holds, as of June 20th 2007, 21.87% of the share capital in Norvik fasteignir ehf., which owns 100% of the share capital in Smáragarður ehf., Iceland, or 134,519,246 shares. The book value of Straumborg's stake is ISK 293 million, as of 31st of December 2006. The equity of Smáragarður is ISK 3.1 billion, as of 31st of December 2006. Smáragarður is a real estate company, that operates and develops real estate in Iceland.

g) Depo, private, Latvia
Straumborg holds, as of June 20th 2007, 2,700,000 shares in SIA Depo DIY in Latvia, or 47.5%. The book value of the stake is ISK 210 million. Depo is a DIY chain in Latvia and started operations in 2005. It currently has three stores and there are plans for opening three more stores in 2007 and 2008.

h) Veritas Capital, private, Iceland
Straumborg's subsidiary, Ares ehf., holds as of June 20th 2007, 4,010,417 shares in Veritas Capital ehf., Iceland, or 25.08%. Veritas Capital has two subsidiaries, Vistor, a pharmaceutical wholesale company, and Distica, a pharmaceutical distribution company. The book value of the stake is ISK 214 million.

j) Geysir Petroleum, Iceland, listed on the OTC in Oslo
Straumborg holds, as of 20th of June 2007, 33,241,696 shares in Geysir Petroleum, or 19.9%. Geysir Petroleum is an oil exploration and production company, with assets in the Faroe Islands, Denmark and the UK. Geysir intends to apply for exploration licences north of Iceland. Currently, the most valuable asset of Geysir is the UK licence at Causeway where it holds about 10% in a consortium which successfully drilled for oil in the summer of 2006. The price per share on the OTC in Oslo is 3.5 NOK, as of 1st of May 2007.

k) Nor Energy, private, Norway
Straumborg holds, as of 20th of June 2007, 4,000,000 shares in Nor Energy, or 19.9%. Nor Energy is an oil exploration and production company with assets in the UK, Australia, Tanzania and the Czech Republic. The UK licence is the same licence which Geysir Petroleum has a stake in at Causeway. Nor Energy also holds about 10% of that licence. The book value of Straumborg's shares in Nor Energy is ISK 370 million.

l) Solvina, subsidiary, Latvia
Straumborg has a subsidiary in Latvia (90.5%, 20th of June 2007) which is consolidated in the accounts, by the name of SIA Solvina. Solvina is a real estate holding and development company that currently holds real estate for Depo shops in Latvia. Solvina also holds 35% in the Vika Wood saw mill in Latvia.

m) Vika Wood, private, Latvia
Solvina holds, as of 20th of June 2007, a 35% stake in Vika Timber, a holding company for Vika Wood in Latvia, which is a saw mill. The number of shares is 2,119,976, and the book value is ISK 284 million.

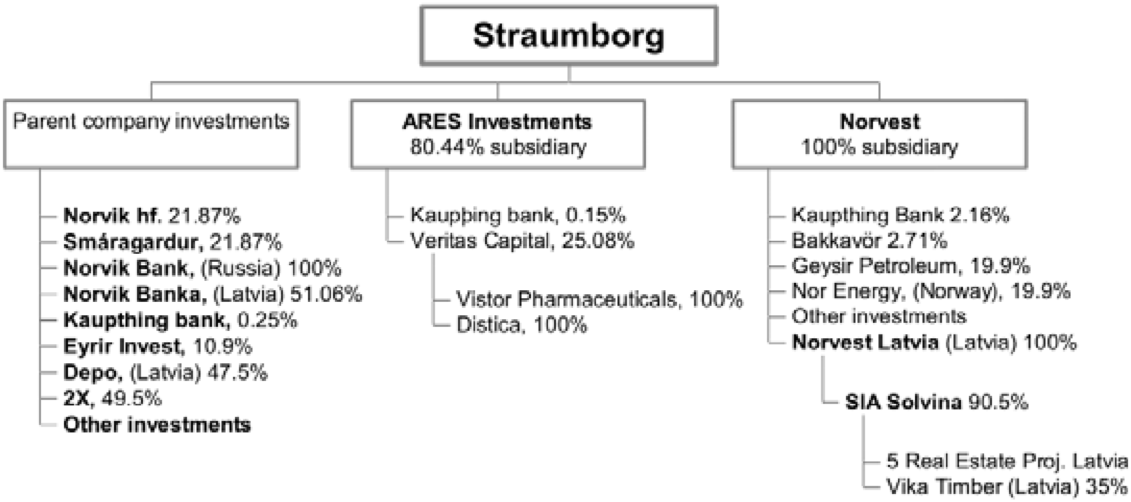
n) Norvik bank, private, Russia
Straumborg holds, as of 20th of June 2007, 100% in a Moscow bank by the name of Norvik bank. The Company acquired the bank in 2006. The Company holds 300,000,000 shares in the bank and the book value is ISK 1,095 million. Norvik bank is not consolidated in the accounts.

o) 3X Technology, private, Iceland
Straumborg holds, as of 20th of June 2007, a 49.5% stake in 2X ehf., a holding company and a 50.1% stake in 3X Technology, which is a company that makes food processing equipment. The number of shares in 2X is 123,750,000 and the book value is ISK 123.75 million. 2X owns 1,202,571 shares in 3X, with a book value of ISK 234 million.

d. Organisational structure

Two of Straumborg's subsidiaries hold some of the aforementioned assets. Norvest (100%) holds most of the shares in Kaupthing bank, the shares in Bakkavör, Geysir Petroleum, Nor Energy and, through the holding company SIA Norvest Latvia, Solvina. Ares ehf (80,44%) holds some shares in Kaupthing bank along with the stake in Veritas Capital.

Straumborg has two sister companies, which it actually holds 22% stakes in, Norvik and Smáragarður. 78% of both companies are owned by Jón Helgi Guðmundsson and family. The following figure shows the organisational structure of the Straumborg group. "Parent company investments" are as the name suggests not held by a subsidiary, but rather held by Straumborg itself.



The Issuer believes that it is not dependent on its subsidiaries or its affiliates in performing its business.

e. Administrative, management, supervisory bodies and senior management

As an Icelandic private limited company, the organisational structure of Straumborg ehf. is governed by Act No. 138/1994 on Private Limited Companies.

Statutory bodies

The supreme authority in the affairs of Straumborg ehf., within the limits established by its Articles of Association and statutory provisions, is in the hands of the Company's shareholders' meetings. Shareholders' meetings may be attended by shareholders, their representatives and advisors. The annual general meeting shall be held once a year. At shareholders' meetings each share of ISK 10,000 shall carry one vote. Decisions at shareholders' meetings are made by majority vote unless otherwise provided for in the Articles of Association or prescribed by law.

Board of directors and CEO

The board of directors of the Company shall manage all the affairs of the Company between shareholders' meetings and protect the interests of the Company against all third parties.

There are three persons on the board of directors, Jón Helgi Guðmundsson (Chairman), business address Bíldshöfði 20, Reykjavík, Guðmundur Halldór Jónsson, business address Bíldshöfði 20, Reykjavík, and Steinunn Jónsdóttir, business address Bíldshöfði 20, Reykjavík. The CEO of Straumborg is Brynja Halldórsdóttir, business address Bíldshöfði 20, Reykjavík. Their CV's follow.

Jón Helgi Guðmundsson
Education:

1963-1967	Menntaskolinn i Reykjavik College. Matriculation Examination.
1967-1968	University in Germany for one year studying Business Administration
1968-1971	University of Iceland. Cand. Oecon
1982	Penn State University. EMP

Experience:
During off-school seasons Mr Gudmundsson worked on a farm from the age of 5 to16. At the age of 16 he started working for BYKO (now Norvik Group hf.) and has been working there ever since.
Mr Gudmundsson served as General Manager of BYKO until 1985 when he became CEO & President for BYKO and then for the Norvik Group from the year 2000.

Mr. Gudmundsson has been the principal owner of the Norvik Group since 1995.

Milestones of Mr Gudmundsson's carrier with BYKO and other companies:

1984	Founded a transportation company called Jonar Transport. Mr Gudmundsson sold his shares a few years later.
1985	Built a harbour warehouse in Hafnarfjordur in Iceland.
1989	Bought shares in travel agencies. Mr Gudmundsson sold his shares a few years later
1993	Founded BYKO-LAT.
1993	Started exporting Icelandic wool to Russia.
1995	Bought a furniture store called Habitat, sold a few years later.
1998	Founded ELKO, electric supermarket.
2000	Founded an advertising agency called EXPO for all the companies within the Norvik Group, now probably the largest advertising agency in Iceland.
2001	Founded Ramis ehf., an importing and wholesale company.
2002	Member of the board of an Icelandic bank called Bunadarbanki Islands. Was the second largest shareholder after the Icelandic State. Took a part in the integration process of two banks, Bunadarbanki and Kaupthing (Now Kaupthing bank, Iceland's largest company).
2002-2003	Board member of the new bank KB-bank (now Kaupthing bank). Since 2003 Norvik's General Manager has been serving on the Board of Directors of Kaupthing bank.

Guðmundur Halldór Jónsson
Education:

1994-1997	Commercial College of Iceland, Matriculation Examination
1997-2001	University of Iceland, B.S. in Business

Experience:

1992-2000	(summers) BYKO stores
2001-2003	Prokaria, purchases, marketing, finance
2003-2007	CEO of Smáragarður ehf.

Steinunn Jónsdóttir
Education:

1988	Menntaskolinn i Reykjavik, Matriculation Examination
1993	Suffolk University, Boston, BA in Interior Design
2004	School of the Museum of Fine Arts, Boston, Post Baccalaureate Diploma
2006	Reykjavik University, Iceland, MBA

Experience:

1993-1994	Interior designer, CBT Architects Inc., Boston
1994-2000	Director, SJ Design Studio, Iceland
2000-2002	Interior designer, Glama-Kim Architects, Iceland
2004-2005	Board member, Glitnir Bank hf., Iceland
2005-	Director, Baer Art Center, board member of Norvik hf., Iceland

In the Company's opinion there are no conflicts of interest between individual members of the board of directors of Straumborg ehf., its managers, auditors and compliance personnel, on one hand, and the Company, on the other.

Senior Management
The CEO is in charge of the daily operations of the Company and represents the Company in all matters concerning normal operations. The CEO manages the accounts of the Company and hires its employees. The CEO provides the board of directors and auditors with all necessary information on the operations of the Company which they might request and should be granted according to statutory law.

Brynja Halldórsdóttir
Education:

1977	Commercial College of Iceland, Matriculation Examination
1981	University of Iceland, Cand. Oecon

Experience:

1981-1984	Reiknistofnun Háskólans, programmer
1985-1991	Verslunarbankinn, CFO
1991-	Byko/Norvik, CFO

The members of the board and CEO have never received any convictions in relation to fraudulent offences. Furthermore they have not, in the last five years, been a senior manager, member of the administrative, management or supervisory bodies of a company which has been a part of or associated with bankruptcy, receivership or liquidation in the previous five years. They have not been convicted for any criminal act or been subjected to sanctions by statutory or regulatory authorities. Furthermore, they have never been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Auditors
A state authorised public accountant or accounting firm is elected as the auditor at each annual general meeting of Straumborg ehf. for a term of one year. The auditor examines the Company's accounts and all relevant accounting documents for each year of operation, and has access to all the Company's books and documents for this purpose. Auditors are not elected from among the members of the board of the Company or employees. The qualifications and eligibility of the auditor at elections are in other respects governed by law.

The chartered accountant and registered auditor of Straumborg ehf. is Birkir Leósson, national ID no. 170460-3919, of Deloitte hf., national ID no.521098-2449 Stórhöfða 23, Reykjavik, Iceland.

f. Employees

Jón Helgi Guðmundsson is the Chairman of the Board of Straumborg, and is an employee of the Company. Brynja Halldórsdóttir is the Managing Director of Straumborg. Five people worked in the group in 2006 and three in 2005. Norvik banka in Latvia and Norvik bank in Russia are not counted as group companies, even though Straumborg holds more than 50% in both of them.

g. Major Shareholders

As of the date of this Registration Document there are five shareholders in Straumborg ehf.

Shareholders	Holdings
Jón Helgi Guðmundsson	48.63%
Guðmundur Halldór Jónsson	14.29%
Iðunn Jónsdóttir	14.29%
Steinunn Jónsdóttir	14.29%
Brynja Halldórsdóttir	8.50%

h. Related Party Transactions.

Straumborg ehf. has both issued loans and received loans from its subsidiary, Norvest. Norvest has also issued loans to its holding company for the share in Solvina, SIA Norvest Latvia. It is a normal part of the business of the Straumborg group to lend money between group companies. These transactions are netted in the consolidated statements.

i. No material adverse change.

The Issuer submits that there has not been any material adverse change in the prospects, financial and trading position of its group since the date of its latest published financial information, i.e. the annual account of Straumborg ehf. for the operating year 2006.

9. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

Operations

The financial statements contain the consolidated accounts of Straumborg and its subsidiaries. Consolidated are Norvest ehf., Ares ehf., SIA Norvest Latvia and SIA Solvina and subsidiaries.

Profits for the year 2006 amounted to ISK 2,052 million.

Key Figures – Group

(All amounts in ISK millions, numbers may not add up due to rounding)

Profit & Loss Account	**2006**	**2005**
Interest income	405	141
Realised profit from holdings	1,823	2,129
Result from associated companies	224	23
Other operating income	91	0
Financial expenses	-1,893	-759
Net operating income	650	1,533
Operating cost	-311	-219
Profit before taxes	339	1.314
Taxes on realised profit	134	-176
Minority interest	-25	-10
Realised profit	**448**	**1,128**
Unrealised profit from holdings	1,958	4,748
Unrealised profit of subsidiaries	15	0
Taxes on unrealised profit	-353	-855
Minority interest on unrealised profit	-17	-53
Unrealised profit	**1,604**	**3,840**
Total profit for the period	**2,052**	**4,968**

Balance Sheet

The Company's total assets as of 31 December 2006 amounted to ISK 31,573 million, compared with ISK 17,592 at year end 2005. The company's equity as of 31 December 2006 totalled ISK 12,202 million, of which ISK 226 million was minority interest. Equity at year end 2005 was ISK 9,746.

Balance Sheet (ISK millions)	**31.12.2006**	**31.12.2005**
Fixed assets	30,517	17,166
Current assets	1,056	426
Combined Assets	**31,573**	**17,592**
Equity	12,202	9,746
Subordinated loans	0	0
Deferred tax liability	2,139	1,920
Liabilities	17,371	7,846
Total equity, sub. loans, and liabilities	**31,573**	**17,592**

The Company's accounts for the years ending 31 December 2005 and 31 December 2006, respectively, have been audited and the annual accounts for these years have been endorsed without remarks by Deloitte hf., the Company's independent accountants.

KAUPTHING BANK

ANNEX I

JUNE 2007

STRAUMBORG ehf.

JUNE 2007

ANNEX I

ARTICLES OF ASSOCIATION

for the Private Limited Company

Straumborg ehf.

1. Company Name, Domicile and Object.

1.01 The Company is a private limited company. The name of the Company is Straumborg ehf.

1.02 The domicile of the Company and legal venue is at Skemmuvegur 2, Kópavogur, Iceland.

3.03 The object of the Company is to invest in and own shares and other assets, to participate in other business operations in accordance with the decision of the Board of Directors, operate real estate, engage in lending activities and engage in other related activities.

2. Share Capital of the Company

1.01 The share capital of the Company is ISK 1,000,000 – one million Icelandic krónur. Each share in the Company corresponds to one Icelandic króna or multiples thereof. Shares shall number one or more and shall be issued in the name of the holder.

2.02 Shareholders' meetings alone may decide on an increase in the share capital of the Company, whether through subscription to new shares or through the issue of bonus shares, based on the rules that apply to amendment of these Articles. Shareholders shall have pre-emptive rights to all new shares in proportion to their registered holdings in the Company. In the event that any prior shareholder does not exercise his or her subscription right in full, other shareholders shall be entitled to increased subscription rights.

Only a shareholders' meeting can decide on a reduction in share capital.

2.03 The Board of Directors shall maintain a register of shares pursuant to law. The register of shares shall constitute proof of title to shares in the Company at any time.

2.04. Changes in title to shares shall not take effect for the Company until the Board of Directors has been notified of the transfer of title in writing.

5.05 There are no restrictions on the rights of shareholders to sell their shares. Transfers of ownership of shares, whether by sale, gift, inheritance, the settlement of an estate or attachment, shall always be notified to the Company's office as soon as such transfers take place; the Company's register of shares shall then be amended accordingly.

2.06 Shares issued to shareholders shall replace share certificates pursuant to Article 3 of Act No. 138/1994.

2.07 Shareholders are under obligation, without specific commitment on their part, to observe the Articles of Association of the Company as current or as lawfully amended at any time. Notwithstanding the above, shareholders shall not be obligated by these Articles of Association or any amendments thereto to increase their holdings in the Company or to suffer redemption of their shares. Shareholders shall not be liable for the commitments of the Company beyond their share in the Company unless they accept such liability by a separate legal instrument. This provision cannot be amended or deleted by any resolution of any shareholders' meeting.

2.08 The Company shall not grant loans against its shares. The Company may purchase its own shares to the extent permitted by statutory law. Voting rights of shares owned by the Company itself may not be exercised.

2.09 No privileges are attached to any shares in the Company.

3. Shareholders' Meetings.

3.01 The supreme authority in all the affairs of the Company is in the hands of legally constituted shareholders' meetings.

3.02 An Annual General Meeting shall be held once each year.

Extraordinary shareholders' meetings shall be held at the discretion of the Board of Directors, or at the request of shareholders controlling a minimum of one tenth of the shares of the Company. The request shall be in writing and state the business of the meeting, after which the meeting shall be convened within fourteen days. In the event that the Board of Directors fails to convene a meeting after receiving such a request, the intervention of the Register of Companies may be sought, pursuant to Article 62 of the Act on Private Limited Companies No. 138/1994.

3.03 The Board of Directors shall convene shareholders' meetings by a notice to each shareholder by registered post, telegram or other equally verifiable manner. The Annual General Meeting shall be called with at least fourteen days' notice, and extraordinary meetings shall be called with at least seven days' notice. The notice of a meeting shall state the business of the meeting.

3.04 A shareholders' meeting is valid if lawfully convened and attended by shareholders controlling at least 2/3 of the shares in the Company, or their proxies. If a meeting is not valid in this respect, a new meeting shall be convened within one month with seven days' notice. The latter meeting is then valid for discussion of matters scheduled for discussion at the previous meeting, provided that it is attended by shareholders controlling at least 10% of the share capital in the Company, or their proxies.

A shareholders' meeting shall elect a Chairman and Secretary of the Meeting.

3.05 Each share of ISK 10,000 shall carry one vote. Shareholders may, by written letters of proxy, appoint proxies to attend shareholders' meetings on their behalf and exercise their voting rights.

3.06 Decisions at shareholders' meetings shall be taken by majority vote except as otherwise provided in these Articles or statutory law. The consent of all shareholders is required to:

a. oblige shareholders to contribute funds for Company needs beyond their commitments;
b. limit shareholders' rights to dispose of their shares; or
c. amend the provisions of the Company's Articles regarding shares in the Company or equal rights among its shareholders.

Proposals for amendments of the Articles of the Company or its merger with other companies or undertakings shall not be addressed at meetings unless specified in the notice of the meeting.

3.07 The Agenda of the Annual General Meeting shall include the following items of business:

1. The report of the Board of Directors on the activities of the Company in the preceding year of operation;
2. The annual accounts of the Company, along with the Auditor's notes, shall be submitted for approval;
3. Elections shall be held of the Company's Board of Directors and Auditor;
4. A decision shall be made concerning the disposal of profits or losses, as well as on dividends and allocations to the Company's reserves;
5. A decision shall be made on remuneration to the Members of the Board of Directors for their service during the year of operation;
6. Discussion and voting on any other lawfully submitted business.

Minutes shall be kept, in which the proceedings of shareholders' meetings shall be recorded.

4. Board of Directors and Executive Board of the Company

4.01 The Annual General Meeting shall annually elect three Members of the Board of Directors.

2.02 The Board of Directors of the Company shall manage all the affairs of the Company between shareholders' meetings and protect the interests of the Company against all third parties.

The Member of the Board shall call and preside at Board meetings. The Member shall also call a meeting of the Board at the request of the alternate Member or the Managing Director. Minutes shall be kept of proceedings at meetings of the Board and confirmed by the signatures of participants.

4.03 The signature of a Member of the Board is required to bind the Company.

4.04 The Board of Directors shall appoint a Managing Director and decide on the terms of his/her employment. The Board of Directors shall also assign powers of procuration on behalf of the Company.

4.05 The Managing Director has charge of the day-to-day operation of the Company and shall represent the Company in all matters relating to its normal operation. The Managing Director is responsible for the Company's accounts and the recruitment of employees.

The Executive Director of the Company shall observe all instructions of the Board of Directors. The Managing Director shall provide the Members of the Board of Directors and the Company's auditor with all information pertaining to the operation of the Company which they may request.

5. Accounts and Auditing

5.01 A chartered accountant or accounting firm shall be elected at each Annual General Meeting for a term of one year. The Company's auditor shall audit the accounts of the Company for each year of operation and submit the conclusions of the audit at the Annual General Meeting.

5.02 The operating year and fiscal year of the Company shall be the calendar year. The Board of Directors shall have completed the preparation of the annual accounts of the Company and submitted them to the Company's auditors no later than one month before the Annual General Meeting.

6. Amendments to the Articles of the Company

6.01 The Articles of Association of the Company may only be amended at a valid shareholders' meeting of the Company, provided that the notice of the meeting clearly indicates that such amendments are proposed and outlines the main substance of the amendment. Amendments must be approved by the votes of a minimum of 2/3 of the shares represented at the meeting.

7. Dissolution of the Company.

7.01 Motions on the dissolution and liquidation of the Company shall be subject to the same rules as amendments to these Articles. The votes of shareholders controlling at least 2/3 of the total shares in the Company are required to dissolve the Company.

7.02 A shareholders' meeting which has made a valid decision to dissolve or liquidate the Company shall also decide on the disposal of assets and the payment of debts.

8. Other Provisions

8.01 Matters on which these Articles provide no directions shall be governed by the provisions of the Private Limited Companies Act and such provisions of other statutory law as may be applicable.

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The Articles of Association of the Company were approved at the initial meeting of the Company on 1 August 1994, and have been amended at the following shareholders' meetings:

30 December 1995
15 August 1997
13 October 1997
27 February 1998
10 January 2003
10 January 2005
26 April 2007

On behalf the Board of Directors of the Company
Brynja Halldórsdóttir.

Straumborg Ltd.

Consolidated Financial Statements

2005

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Auditor's Report

To the Board of Directors and shareholders of Straumborg Ltd.

We have audited the accompanying balance sheet of Straumborg Ltd. as of December 31 2005, and the related statement of income for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Iceland. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of Straumborg Ltd. as of December 31 2005 and of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland applied on a consistent basis.

Reykjavík, March 3 2006

Deloitte hf.

Birkir Leósson
State Autorized Public Accountant

Endorsement by the Board of Directors and Managing Director

Straumborg Ldt. is a holding company. The company's purpose is ownership and investments in shares and participation in other business.

Straumborg's net profit of the year amounted to ISK 4.968.338.426. Accourding to the Balance Statement the Company's assets amount to ISK 17.592.115.601, the year's end book value of equity is ISK 9.746.056.654 and the Company's equity ratio is 55,4%.

At year-end, there where 2 shareholders, compared to 1 at the beginning of the year. One shareholder owns more than 10%, Jón Helgi Guðmundsson with 91,5%.

The Board of Directors proposes that dividends will not be paid to shareholders in 2006. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

It is the opinion of the Board of Directors and the Managing Director that these Financial Statements present all the information necessary to show the position of the Company at year-end, the operating results for the year and the financial developments during the year 2005.

Reykjavík, March 3 2006

Board of Directors

Jón Helgi Guðmundsson

Managing Director

Jón Helgi Guðmundsson

Income Statement 2005

	Notes	2005 Consolidated	2004 Consolidated	2005 Parent Company	2004 Parent Company
Operating revenues					
Interest income	2	140.647.442	16.867.244	105.351.192	16.854.867
Realised gain from shares	2	2.129.303.548	268.209.867	232.436.488	957.564.563
Earnings from associated companies	2	23.022.000	3.048.112.337	1.073.724.233	2.408.962.424
Financial expenses	4	(716.833.061)	(240.698.033)	(245.450.668)	(179.435.490)
Exchange rate difference		(42.557.094)	(32.930.551)	(42.557.094)	(32.930.551)
Operating income		1.533.582.835	3.059.560.864	1.123.504.151	3.171.015.813
Operating expenses					
Operating expenses		219.249.990	419.321	1.045.177	245.016
		219.249.990	419.321	1.045.177	245.016
Net incom (loss) before taxes		1.314.332.845	3.059.141.543	1.122.458.974	3.170.770.797
Income tax	5	(175.649.512)	(3.715.087)	5.761.660	(134.075.566)
Minority interest		(10.462.699)	(18.731.225)	0	0
Realised net income		1.128.220.634	3.036.695.231	1.128.220.634	3.036.695.231

Overview of net income year 2005

	Notes	2005 Consolidated	2004 Consolidated	2005 Parent Company	2004 Parent Company
Realised net income		1.128.220.634	3.036.695.231	1.128.220.634	3.036.695.231
Unrealised revenues (expenses)					
Unrealised gain from shares	2	4.747.532.415	175.613.094	347.802.498	11.264.190
Unrealised earnings from subsidiaries	2	0	0	3.554.919.744	108.411.841
Income tax		(854.555.754)	(31.610.357)	(62.604.450)	(2.027.554)
Minority interest		(52.858.869)	(26.354.260)	0	0
Unrealised net income		3.840.117.792	117.648.477	3.840.117.792	117.648.477
Net income		4.968.338.426	3.154.343.708	4.968.338.426	3.154.343.708

Balance Sheet

Assets

	Notes	31.12.2005 Consolidated	31.12.2004 Consolidated	31.12.2005 Parent Company	31.12.2004 Parent Company
Fixed assets					
Investments in associates	6	203.385.708	180.363.709	8.503.701.790	3.875.057.813
Available-for-sale investments	7	16.554.171.704	11.766.944.226	3.473.870.368	4.527.463.796
Goodwill - premium		14.766.890	14.766.890	0	0
Long term bonds and mutual funds	8	393.921.000	0	393.921.000	0
		17.166.245.302	11.962.074.825	12.371.493.158	8.402.521.609
Current assets					
Investments held for trading	10	0	250.000.000	0	250.000.000
Other receivables	9	411.703.510	277.658.385	370.597.484	388.527.128
Cash and cash equivalents	9	14.166.789	2.988.244	3.644.511	1.013.077
Non-current assets held for sale	9	0	241.613.000	0	241.613.000
		425.870.299	772.259.629	374.241.995	881.153.205
Assets		17.592.115.601	12.734.334.454	12.745.735.153	9.283.674.814

December 31, 2005

Equity and liabilities

	Notes	31.12.2005 Consolidated	31.12.2004 Consolidated	31.12.2005 Parent Company	31.12.2004 Parent Company
Stockholders' equity	11				
Capital stock		1.000.000	400.000	1.000.000	400.000
Premium account of capital stock		393.936.000	100.000	393.936.000	100.000
Unrealised exchange gain		3.957.766.269	117.648.477	3.957.766.269	117.648.477
Retained earnings		5.249.999.706	4.122.294.072	5.249.999.706	4.122.294.072
Equity attrib. to equity holders of the parent		9.602.701.975	4.240.442.549	9.602.701.975	4.240.442.549
Minority interest		143.354.679	80.033.112	0	0
Stockholders' equity		9.746.056.654	4.320.475.661	9.602.701.975	4.240.442.549
Long-term liabilities					
Deferred tax liabilities	12	1.920.013.512	889.808.246	224.390.364	167.547.574
		1.920.013.512	889.808.246	224.390.364	167.547.574
Current liabilities					
Accounts payable	13	0	63.600	0	63.600
Liabilities to credit institution		5.634.470.385	7.430.603.902	2.485.845.398	4.858.022.206
Other current liabilities	13	291.575.050	93.383.045	432.797.416	17.598.885
		5.926.045.435	7.524.050.547	2.918.642.814	4.875.684.691
Liabilities		7.846.058.947	8.413.858.793	3.143.033.178	5.043.232.265
Stockholders' equity and liabilities		17.592.115.601	12.734.334.454	12.745.735.153	9.283.674.814

Statement of Cash Flows 2005

	Notes	2005 Consolidated	2004 Consolidated	2005 Parent Company	2004 Parent Company
Operating activities					
Realised net income		1.128.220.634	3.036.695.231	1.128.220.634	3.036.695.231
Operational items not affecting cash flow					
Gain from sale of shares		(1.054.642.536)	(940.620.442)	(151.692.526)	(940.620.442)
Reavaluation on shares		(734.140.469)	734.140.469	0	0
Excange rate difference and indexation		34.625.259	18.251.867	34.625.259	18.251.867
Earnings from associated companies		(12.559.301)	(3.029.381.112)	(1.073.724.233)	(2.408.962.424)
Change in deferred income tax liabilities		175.649.512	3.715.087	(5.761.660)	134.075.566
Working capital used in operating activities		(462.846.901)	(177.198.900)	(68.332.526)	(160.560.202)
Current receivables (increase) decrease		(85.299.738)	(12.562.813)	(50.546.502)	(8.375.145)
Current liabilities increase (decrease)		171.248.231	33.402.513	15.134.931	(22.287.786)
Net cash used in operating activities		(376.898.408)	(156.359.200)	(103.744.097)	(191.223.133)
Investing activites					
Accounts receivable - associated companies		(386.636.415)	(123.607.356)	68.476.146	(119.477.961)
Non-current assets held for sale		241.613.000	(241.613.000)	241.613.000	(241.613.000)
Long term bonds and mutual funds		(143.921.000)	333.132.889	(143.921.000)	333.132.889
Bought/sold investments available for sale		1.749.087.943	(3.056.466.294)	1.553.088.452	(2.902.417.254)
		1.460.143.528	(3.088.553.761)	1.719.256.598	(2.930.375.326)
Financing activities					
Paid in capital stock	11	393.921.000	0	393.921.000	0
Liabilities to associated companies		940.814.492	13.510.429	400.000.000	13.250.000
Liabilities to credit institution		(2.406.802.067)	3.233.250.325	(2.406.802.067)	3.108.250.325
		(1.072.066.575)	3.246.760.754	(1.612.881.067)	3.121.500.325
Increase (decr.) in cash and cash equiv.		11.178.545	1.847.793	2.631.434	(98.134)
Cash from bought subsidiaries		0	29.240	0	0
Cash and cash equiv. at beginning of year		2.988.244	1.111.211	1.013.077	1.111.211
Cash and cash equivalents at end of year		14.166.789	2.988.244	3.644.511	1.013.077

Notes to the Financial Statements

1. General information

Straumborg Ltd. is a private limited company and complies with the Icelandic private limited companies law nr. 138/1994 um einkahlutafélög.

Straumborg Ldt. is a holding company. The company's purpose is ownership and investments in shares and participation in other business.

2. Accounting Policies

Basis of preparation

The financial statements of Straumborg Ltd. for the year 2005 are prepared according to generally accepted accounting principles in Iceland. Costing method is used in the Financial Statements and it is prepared according to the same accounting principles as for the previous year. The Financial Statements are prepared in Icelandic krónur.

The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidaries are Norvest Ltd. og Ares fjárfestingarfélag Ltd.

The consolidated financial statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Immaterial

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

One of the purposes of consolidated financial statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the consolidation.

Associated companies

Associated companies are companies which have material influence in fiscal- and operating trend, but do not control it. Shares in associated companies are accounted for at a price which corresponds to the company's share in carrying amount in stockholder's equity with consideration to the difference of the original acquisition price and it's share in it's own stockholders' equity at acquisition date. Share in net income of associated company is recorded in the income statement as dividend income as realised gain of shares and the rest as share in net income in associated companies.

Revenue recognition

Revenue from product sales are recognized when earned as required by generally accepted accounting principles. Product sales are recognised when goods are delivered, title has passed and are shown in the income statement net of value added tax, discount and internal sales. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Notes to the Financial Statements

2. Accounting Policies (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

Financial expenses

All financial expenses are recognized in the period they incur.

Taxation

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is 18%.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Overview of net income

In addition to traditional income statement is an overview of net income. Unrealised gain from shares is gain on sale, dividend income and other realised revenues from shares in companies.

Investments

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity (Loans and receivables) are valued at cost, less an allowance for estimated irrecoverable amounts.

Investment held for trading are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period.

Other investments are classified as available-for-sale.

Notes to the Financial Statements

2. Accounting Policies (continued)

Investments available-for-sale

Investment available-for-sale is recorded in fair value which is market value if the value is based on a reliable assumption, for example by the public stock exchange. For available-for-sale investment, gains and losses arising from changes in fair value are recognised directly in equity in the period they incur. If the market value cannot be estimated in a reliable way, then the investment available-for-sale is recorded at cost, less an allowance for future losses.

Shares in listed companies are accounted for at the last recorded market value of the year. The stocks market value is higher than its purchase price and the difference with consideration to the income tax is recorded as unrealised gain in stockholder's equity, but the change within the year is recorded in unrealised revenues and expenses in the income statement and summary of net income. Gains and losses in selling of stocks and dividend income is recorded in income statement as realised gain (loss) of stocks.

Trade receivables

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Bank loans and other non-current liabilities

Bank loans and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing costs are recognised in profit or loss in the year they are incurred.

Trade payables

Trade payables are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

3. Interest income

	Consolidated 2005	Consolidated 2004	Parent Company 2005	Parent Company 2004
Exchange rate gains	(42.557.094)	(32.930.551)	(42.557.094)	(32.930.551)
Other interest income	140.647.442	16.867.244	105.351.192	16.854.867
	98.090.348	(16.063.307)	62.794.098	(16.075.684)

4. Financial expenses

	Consolidated 2005	Consolidated 2004	Parent Company 2005	Parent Company 2004
Other interest expenses	(716.833.061)	(240.698.033)	(245.450.668)	(179.435.490)
	(716.833.061)	(240.698.033)	(245.450.668)	(179.435.490)

Notes to the Financial Statements

5. Income tax expense

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Statement of Earnings is 390 million. No income tax is paid during the year 2006 because of negative income tax base.

6. Subsidiaries

	Proportion of ownership	Par value	Principal activity
Shares in associates			
Norvest ehf., Kópavogi	100,00%	348.500.000	Holding Company
Ares fjárfestingarfélag ehf., Kópavogi	80,44%	135.750.000	Holding Company
Veritas Capital ehf., Garðabæ	25,08%	4.010.417	Distribution of pharmaceuticals

7. Available for sale investments

	Consolidated 2005	Consolidated 2004	Parent Company 2005	Parent Company 2004
Shares in other companies	16.554.171.257	11.766.944.226	3.473.870.368	4.527.463.796
Other available-for-sale investments	0		0	0
	16.554.171.257	11.766.944.226	3.473.870.368	4.527.463.796
At January 1	11.766.944.226	8.421.913.580	4.527.463.796	766.690.625
Purchased during the year	8.149.512.010	5.352.659.837	1.950.179.378	5.198.610.797
Disposed of during the year	(8.843.957.417)	(1.449.101.816)	(3.351.575.304)	(1.449.101.816)
Fair value and exchange rate adjustments	5.481.672.438	(558.527.375)	347.802.498	11.264.190
At December 31	16.554.171.257	11.766.944.226	3.473.870.368	4.527.463.796

8. Investment property

	Consolidated 2005	Consolidated 2004	Parent Company 2005	Parent Company 2004
Additions during the year	393.921.000	0	393.921.000	0
	393.921.000	0	393.921.000	0

The bond is originated with issue of new shares in Straumborg Ltd. It is carries REIBOR interest plus 1,4% markup.

9. Other financial assets

Other receivables

	Consolidated 31.12.2005	Consolidated 31.12.2004	Parent Company 31.12.2005	Parent Company 31.12.2004
Associated companies	55.112.561	4.129.395	51.001.815	119.477.961
Prepaid expenses	7.487.994	0	0	0
Capital income tax	45.026.952	14.673.687	15.519.666	10.193.864
Accrued interest	41.303.734	563.889	41.303.734	563.889
Solvina	250.060.502	255.748.133	250.060.502	255.748.133
Other receivables	12.711.767	2.543.281	12.711.767	2.543.281
	411.703.510	277.658.385	370.597.484	388.527.128

Notes to the Financial Statements

Cash and cash equivalents

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

	Consolidated 31.12.2005	Consolidated 31.12.2004	Parent Company 31.12.2005	Parent Company 31.12.2004
Bank balances in ISK	14.166.789	2.988.244	3.644.511	1.013.077
	14.166.789	2.988.244	3.644.511	1.013.077

10. Investments held for trading

	Consolidated 2005	Consolidated 2004	Parent Company 2005	Parent Company 2004
At January 1	250.000.000	0	250.000.000	0
Purchased during the year	399.000.000	250.000.000	399.000.000	250.000.000
Disposed of during the year	(649.000.000)		(649.000.000)	0
At December 31	0	250.000.000	0	250.000.000

11. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at December 31 2005	1.000.000	100,0%	1.000.000
Own shares at December 31 2005			0
	1.000.000	100,0%	1.000.000

Each share of one ISK carries one vote.

	Captial stock	Statutory reserve	Unrealised exchange gain	Revaluation reserve	Retained earnings
Stockholders' equity 1.1.2005	400.000	100.000	117.648.477	0	4.122.294.072
New shares	85.000	393.836.000			
Retained earnings converted to capital stock	515.000				(515.000)
Net income			3.840.117.792		1.128.220.634
Stockholders' equity 31.12.2005	1.000.000	393.936.000	3.957.766.269	0	5.249.999.706

Notes to the Financial Statements

12. Deferred tax

	Consolidated 31.12.2005	Consolidated 31.12.2004	Parent Company 31.12.2005	Parent Company 31.12.2004
At 1 january 2005	889.808.246	31.444.454	167.547.574	31.444.454
Deferred tax from new subsidary	0	823.038.348	0	0
Calculated tax for the year 2005	1.030.205.185	35.325.444	56.842.790	136.103.120
At 31 December 2005	1.920.013.431	889.808.246	224.390.364	167.547.574

The following are the major deferred tax liabilities and assets recognised:

Investments in other companies	1.791.090.798	810.794.665	85.527.593	33.472.008
Deferred gain from sale of shares	301.393.773	134.075.565	138.862.771	134.075.565
Tax losses	(172.471.140)	(55.061.985)	0	0
	1.920.013.431	889.808.246	224.390.364	167.547.574

13. Trade and other payables

Trade payable

	Consolidated 31.12.2005	Consolidated 31.12.2004	Parent Company 31.12.2005	Parent Company 31.12.2004
Domestic trade payables	0	63.600	0	63.600
	0	63.600	0	63.600

Other current liabilities

	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Associated companies	13.250.000	13.250.000	413.250.000	13.250.000
Accured interest	56.357.851	80.133.045	19.547.416	4.348.885
Management fee	217.610.839	0	0	0
Other liabilities	4.356.360	0	0	0
	291.575.050	93.383.045	432.797.416	17.598.885

KAUPTHING BANK

ANNEX III

JUNE 2007

Straumborg Ltd.

Consolidated Financial Statements

2006

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Independent Auditor's Report

To the Board of Directors and shareholders of Straumborg Ltd.

We have audited the accompanying consolidated financial statements of Straumborg Ltd. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, the consolidated income statement and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in an accordance with generally accepted accounting principles in Iceland. 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 consolidated financial position of Straumborg Ltd. as of December 31, 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in n accordance with generally accepted accounting principles in Iceland applied on a consistent basis.

Reykjavík, April 26, 2007

Deloitte hf.

Birkir Leósson State Authorized Public Accountant	Sigrún Ragna Ólafsdóttir State Authorized Public Accountant

Endorsement by the Board of Directors and Managing Director

Straumborg Ldt. is a holding company. The company's purpose is ownership and investments in shares and participation in other business.

Straumborg's net profit of the year amounted to ISK 2.052.025.268. Accourding to the Balance Statement the Company's assets amount to ISK 31.574.617.500, the year's end book value of equity is ISK 12.202.044.491 and the Company's equity ratio is 38,7%.

At year-end, there where 2 shareholders, compared to 1 at the beginning of the year. One shareholder owns more than 10%, Jón Helgi Guðmundsson with 91,5%.

The Board of Directors proposes that dividends of ISK 500.000.000 will be paid to shareholders in 2007. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

It is the opinion of the Board of Directors and the Managing Director that these Financial Statements present all the information necessary to show the position of the Company at year-end, the operating results for the year and the financial developments during the year 2006.

Reykjavík, April 26, 2007

Board of Directors

Jón Helgi Guðmundsson

Managing Director

Jón Helgi Guðmundsson

Consolitated Income Statement for the year 2006

	Notes	2006 Consolidated	2005 Consolidated	2006 Parent Company	2005 Parent Company
Operating revenues					
Interest income	2	404.801.240	140.647.442	205.862.445	105.351.192
Realised gain from shares	2	1.822.551.866	2.129.303.548	274.375.453	232.436.488
Earnings from associated companies	2	224.249.933	23.022.000	896.952.161	1.073.724.233
Other income		91.390.164	0	0	0
Financial expenses	4	(1.892.654.784)	(759.390.155)	(1.036.316.022)	(288.007.762)
Operating income		650.338.419	1.533.582.835	340.874.037	1.123.504.151
Operating expenses					
Administrative expenses		28.839.987	0	28.839.987	1.045.177
Operating expenses		281.837.479	219.249.990	1.881.439	0
Depreciation and amortization	6	116.362	0	116.362	0
		310.793.828	219.249.990	30.837.788	1.045.177
Net income (loss) before taxes		339.544.591	1.314.332.845	310.036.249	1.122.458.974
Income tax	5	133.816.721	(175.649.512)	138.090.575	5.761.660
Minority interest		(25.234.488)	(10.462.699)	0	0
Realised net income		448.126.824	1.128.220.634	448.126.824	1.128.220.634

Overview of net income year 2006

	Notes	2006 Consolidated	2005 Consolidated	2006 Parent Company	2005 Parent Company
Realised net income		448.126.824	1.128.220.634	448.126.824	1.128.220.634
Unrealised revenues (expenses)					
Unrealised gain from shares	2	1.958.453.708	4.747.532.415	43.797.298	347.802.498
Unrealised earnings from subsidiaries	2	14.563.046	0	1.567.984.660	3.554.919.744
Income tax		(352.521.668)	(854.555.754)	(7.883.514)	(62.604.450)
Minority interest		(16.596.642)	(52.858.869)	0	0
Unrealised net income		1.603.898.444	3.840.117.792	1.603.898.444	3.840.117.792
Net income		2.052.025.268	4.968.338.426	2.052.025.268	4.968.338.426

Consolidated Balance Sheet December 31, 2006

Assets

	Notes	31.12.2006 Consolidated	31.12.2005 Consolidated	31.12.2006 Parent Company	31.12.2005 Parent Company
Fixed assets					
Property, plant and equipment	6	9.192.567	0	9.192.567	0
Investment properties	7	1.201.274.236	0	0	0
Goodwill - premium	8	17.871.207	14.766.890	0	0
Investments in subsidiares. and assoc. comp.	9	4.843.585.145	203.385.708	15.092.176.968	8.503.701.790
Available-for-sale investments	10	24.000.063.002	16.554.171.704	3.658.049.423	3.473.870.368
Long term bonds and mutual funds	11	394.060.826	393.921.000	393.921.000	393.921.000
Loans to associated companies		41.307.009	0	0	0
Prepayments for tangible non-current assets		9.749.988	0	0	0
		30.517.103.980	17.166.245.302	19.153.339.958	12.371.493.158
Current assets					
Trade and other receivables	12	197.538.111	0	187.546.813	0
Investments held for trading		476.898.687	0	0	0
Other receivables	12	309.432.431	411.703.510	104.908.529	370.597.484
Cash and cash equivalents	12	73.644.291	14.166.789	856.764	3.644.511
		1.057.513.520	425.870.299	293.312.106	374.241.995
Assets		31.574.617.500	17.592.115.601	19.446.652.064	12.745.735.153

Consolidated Balance Sheet December 31, 2006

Equity and liabilities

	Notes	31.12.2006 Consolidated	31.12.2005 Consolidated	31.12.2006 Parent Company	31.12.2005 Parent Company
Stockholders' equity	13				
Capital stock		1.000.000	1.000.000	1.000.000	1.000.000
Premium account of capital stock		393.921.000	393.921.000	393.921.000	393.921.000
Statutory reserve		250.000	15.000	250.000	15.000
Translation difference		321.516.858	0	321.516.858	0
Unrealised exchange gain		5.561.664.713	3.957.766.269	5.561.664.713	3.957.766.269
Retained earnings		5.697.891.530	5.249.999.706	5.697.891.530	5.249.999.706
Equity attrib. to equity holders of the parent		11.976.244.101	9.602.701.975	11.976.244.101	9.602.701.975
Minority interest		225.800.390	143.354.679	0	0
Stockholders' equity		12.202.044.491	9.746.056.654	11.976.244.101	9.602.701.975
Long-term liabilities					
Deferred tax liabilities	15	2.139.002.516	1.920.013.512	94.183.303	224.390.364
		2.139.002.516	1.920.013.512	94.183.303	224.390.364
Current liabilities					
Accounts payable	16	1.024.530	0	0	0
Liabilities to credit institution	14	16.314.415.283	5.634.470.385	3.892.385.312	2.485.845.398
Current tax liabilities	5	2.798.389	0	0	0
Other current liabilities	16	915.332.291	291.575.050	3.483.839.348	432.797.416
		17.233.570.493	5.926.045.435	7.376.224.660	2.918.642.814
Liabilities		19.372.573.009	7.846.058.947	7.470.407.963	3.143.033.178
Stockholders' equity and liabilities		31.574.617.500	17.592.115.601	19.446.652.064	12.745.735.153

Consolidated Statement of Cash Flows for the year 2006

	Notes	2006 Consolidated	2005 Consolidated	2006 Parent Company	2005 Parent Company
Operating activities					
Realised net income		448.126.824	1.128.220.634	448.126.824	1.128.220.634
Operational items not affecting cash flow					
Depreciation		10.405.109	0	116.362	0
Gain from sale of shares		(949.959.029)	(1.054.642.536)	(94.121.587)	(151.692.526)
Reavaluation on shares		0	(734.140.469)	0	0
Excange rate difference and indexation		249.240.071	34.625.259	61.341.329	34.625.259
Earnings from associated companies		(199.015.445)	(12.559.301)	(896.952.161)	(1.073.724.233)
Change in deferred income tax liabilities		(135.079.867)	175.649.512	(138.090.575)	(5.761.660)
Working capital used in operating activities		(576.282.337)	(462.846.901)	(619.579.808)	(68.332.526)
Current receivables (increase) decrease		(53.410.529)	(85.299.738)	27.140.327	(50.546.502)
Current liabilities increase (decrease)		176.075.618	171.248.231	60.783.803	15.134.931
Net cash used in operating activities		(453.617.248)	(376.898.408)	(531.655.678)	(103.744.097)
Investing activites					
Purchases/sales of equipment	6	(346.219.574)	0	(9.308.929)	0
Accounts receivable - associated companies		(3.645.657.103)	(386.636.415)	51.001.815	68.476.146
Non-current assets held for sale		0	241.613.000	0	241.613.000
Long term bonds and mutual funds		(38.927.995)	(143.921.000)	0	(143.921.000)
Bought/sold investments available for sale		(4.532.653.879)	1.749.087.943	(46.260.170)	1.553.088.452
Acquisition of investments in an associate		(50.378.969)	0	(3.802.021.499)	0
Bought/sold investments held for trading		(476.671.051)	0	0	0
		(9.090.508.571)	1.460.143.528	(3.806.588.783)	1.719.256.598
Financing activities					
Paid in capital stock	13	0	393.921.000	0	393.921.000
Liabilities to associated companies		(714.888.235)	940.814.492	2.990.258.129	400.000.000
Liabilities to credit institution		10.291.721.028	(2.406.802.067)	1.345.198.585	(2.406.802.067)
		9.576.832.793	(1.072.066.575)	4.335.456.714	(1.612.881.067)
Increase (decr.) in cash and cash equiv.		32.706.974	11.178.545	(2.787.747)	2.631.434
Cash from bought subsidiaries		24.929.654	0	0	0
Cash and cash equiv. at beginning of year		14.166.789	2.988.244	3.644.511	1.013.077
Translation difference		1.840.874	0	0	0
Cash and cash equivalents at end of year		73.644.291	14.166.789	856.764	3.644.511

Notes to the Financial Statements

1. General information

Straumborg Ltd. is a private limited company and complies with the Icelandic private limited companies law nr. 138/1994.

Straumborg Ldt. is a holding company. The company's purpose is ownership and investments in shares and participation in other business.

2. Accounting Policies

Basis of preparation

The financial statements of Straumborg Ltd. for the year 2006 are prepared according to generally accepted accounting principles in Iceland. Costing method is used in the Financial Statements and it is prepared according to the same accounting principles as for the previous year. The Financial Statements are prepared in Icelandic krónur.

The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidaries are Norvest Ltd., Ares fjárfestingarfélag Ltd., Depo Ltd. and Byko Lettland Ltd.

The subsidiaries Norvik Bank in Latvia and Norvik bank in Russia are not part of the Group because their operation is different from the operation of the Parent Company that it would be misleading to have them as part of the Group.

The consolidated financial statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Immaterial minority interest is not accounted for in the consolidated financial statements.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Earnings in net income of subsidiaries is recorded in the income statement for the year and earnings in unrealised net income is recorded in overview of net income for the year.

One of the purposes of consolidated financial statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the consolidation.

Associated companies

Associated companies are companies which have material influence in fiscal- and operating trend, but do not control it. Shares in associated companies are accounted for at a price which corresponds to the company's share in carrying amount in stockholder's equity with consideration to the difference of the original acquisition price and it's share in it's own stockholders' equity at acquisition date. Share in net income of associated company is recorded in the income statement as dividend income as realised gain of shares and the rest as share in net income in associated companies.

Notes to the Financial Statements

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Consolidation´s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at each balance sheet date. The amount of impairment is calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on weighted average cost of capital, which represents the cost of debt and equity after taxation. Impairment charges are measured on the basis of comparison of estimated fair values (discounted expected future cash flows) with corresponding book values.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Risk management

Straumborg Ltd. overall plan towards foreign exchange risk is to manage risk by applying natural hedging to as much extent as possible and that way keep risk within acceptable level.

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.
The significant interest rate risk arises from bank loans. The Group's policy is to convert a proportion of its floating rate debt to fixed rates. The Group designates these as cash flow hedges of interest rate risk. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised immediately in profit or loss.

Revenue recognition

Revenue are recognized when earned as required by generally accepted accounting principles. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in ISK using exchange rates prevailing on the balance sheet date. Income and expense items of foreign subsidiaries, are translated at the average exchange rates for the year. Translation differences from foreign companies are posted to translation reserves among equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Financial expenses

All financial expenses are recognized in the period they incur.

Notes to the Financial Statements

Taxation

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is 18%.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Overview of net income and unrealised net income

In addition to traditional income statement is an overview of net income and unrealised net income. Unrealised net income is gain from available-for-sale investments and investments held for trading that is posted to unrealised exchange gain among equity.

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner.
Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.
The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.
The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties consist of investments in land and buildings that are held to earn rentals or for capital appreciation. Investment property are recorded at cost.

Investment property are derecognised when either the have been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Notes to the Financial Statements

Investments

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity (Loans and receivables) are valued at cost, less an allowance for estimated irrecoverable amounts.

Investment held for trading are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period.

Other investments are classified as available-for-sale.

Investments available-for-sale

Investment available-for-sale is recorded in fair value which is market value if the value is based on a reliable assumption, for example by the public stock exchange. For available-for-sale investment, gains and losses arising from changes in fair value are recognised directly in equity in the period they incur. If the market value cannot be estimated in a reliable way, then the investment available-for-sale is recorded at cost, less an allowance for future losses.

Shares in listed companies are accounted for at the last recorded market value of the year. The stocks market value is higher than its purchase price and the difference with consideration to the income tax is recorded as unrealised gain in stockholder's equity, but the change within the year is recorded in unrealised revenues and expenses in the income statement and summary of net income. Gains and losses in selling of stocks and dividend income is recorded in income statement as realised gain (loss) of stocks.

Trade receivables

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Bank loans and other non-current liabilities

Bank loans and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing costs are recognised in profit or loss in the year they are incurred.

Trade payables

Trade payables are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

Notes to the Financial Statements

3. Interest income

	Consolidated 2006	Consolidated 2005	Parent Company 2006	Parent Company 2005
Other interest income	404.801.240	140.647.442	205.862.445	105.351.192
	404.801.240	140.647.442	205.862.445	105.351.192

4. Financial expenses

	Consolidated 2006	Consolidated 2005	Parent Company 2006	Parent Company 2005
Exchange rate loss	(667.458.687)	(42.557.094)	(557.544.249)	(42.557.094)
Other interest expenses	(1.225.196.097)	(716.833.061)	(478.771.773)	(245.450.668)
	(1.892.654.784)	(759.390.155)	(1.036.316.022)	(288.007.762)

5. Income tax expense

Income tax for the Group has been calculated and recorded in the Financial Statements, the amount charged in the Statement of Earnings is ISK 218,7 million. Recorded income tax for the Parent Company has been calculated and amount ISK 130,2 million. No income tax will be paid by the Parent Company during the year 2007.

6. Property, plant and equipment

Group / Parent Company	Automobile	Total
Cost or valuation		
Additions	9.308.929	9.308.929
At 31 December 2006	9.308.929	9.308.929
Accumulated depreciation		
Charge for the year	116.362	116.362
At 31 December 2006	116.362	116.362
Carrying Amount		
At 31 December 2006	9.192.567	9.192.567
Depreciation rates	15%	

7. Investment properties

Group	Land	Buildings	Total
Cost or valuation			
Additions	412.990.595	804.571.381	1.217.561.976
At 31 December 2006	412.990.595	804.571.381	1.217.561.976
Accumulated depreciation			
Charge for the year		15.349.679	15.349.679
Effect of foreign exchange rates		938.061	938.061
At 31 December 2006	0	16.287.740	16.287.740
Carrying Amount			
At 31 December 2006	412.990.595	788.283.641	1.201.274.236

Notes to the Financial Statements

8. Goodwill

Group	31.12.2006	31.12.2005
At January 1	14.766.890	14.766.890
Additions	3.104.317	0
At December 31	17.871.207	14.766.890

Goodwill arises from the Financial Statements of Norvest Latvia SIA which is a subsidiary of Norvest Ltd.
Goodwill in the amount of ISK 2.628.534 arises from the aquisition of SIA Metamix Service Group by SIA Solvina in 2005.
Goodwill in the amount of ISK 475.783 arises from the aquisition of SIA Solvina by SIA Norvest Latvia in 2006.

9. Investments in subsidiaries and associated companies

	Proportion of ownership	Par value	Principal activity
Shares in subsidiaries			
Norvest Ltd., Iceland	100,00%	348.500.000	Holding Company
SIA Norvest Latvia, Latvia	100,00%		Property investment Company
SIA Solvina, Latvia	90,50%		Property investment Company
SIA DS 129, Latvia	100,00%		Property investment Company
SIA Smalat, Latvia	100,00%		Property investment Company
SIA Metamix Service Group, Latvia	100,00%		Property investment Company
SIA Veja Roze, Latvia	100,00%		Property investment Company
Depo Ltd., Iceland	100,00%	500.000	Holding Company
Byko Lettland Ltd., Iceland	100,00%	500.000	Holding Company
Ares fjárfestingarfélag Ltd., Iceland	80,44%	135.750.000	Holding Company
Shares in subsidiaries, not part of the Group			
Norvik Banka, Russia	100,00%	300.000.000	Financial Services
Norvik Banka, Latvia	51,00%	11.474.963	Financial Services
Shares in associated companies			
Associated company of Ares fjárfestingarfélag Ltd.:			
Veritas Capital Ltd., Iceland	24,52%	4.010.417	Distribution of pharmaceuticals
Associated company of SIA Norvest Latvia:			
SIA Vika Timber	35,00%		Holding company

As stated in note nr. 2 the subsidiaries Norvik Bank in Russia and Norvik Bank in Latvia are not part of the Group. Earnings in Norvik Bank in Latvia has been recorded in the Financial Statement at the Parent Company but earnings in Norvik Bank in Russia has not been recorded because the Financial Statement for the bank was not ready. Norvik Bank in Russia is therefore recorded at cost.

Investments in subsidiaries and associated companies are specified as follows:	Consolidated 31.12.2006
Norvik banka, Latvia	3.250.305.374
Norvik banka, Russia	1.094.837.252
SIA Vika Timber, Latvia	284.206.103
Veritas Capital ehf.	214.236.416
	4.843.585.145

Notes to the Financial Statements

10. Available for sale investments

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Shares in other companies	24.000.063.002	16.554.171.257	3.658.049.423	3.473.870.368
	24.000.063.002	16.554.171.257	3.658.049.423	3.473.870.368
At January 1	16.554.171.704	11.766.944.226	3.473.870.368	4.527.463.796
Purchased during the year	21.840.006.043	8.149.512.010	713.165.879	1.950.179.378
Disposed of during the year	(16.367.542.175)	(8.843.957.417)	(589.982.101)	(3.351.575.304)
Fair value and exchange rate adjustments	1.973.427.430	5.481.672.885	60.995.277	347.802.498
At December 31	24.000.063.002	16.554.171.704	3.658.049.423	3.473.870.368

Group	Par value	Carrying amount
Kaupþing banki hf.	179.295.480	15.082.149.368
Bakkavör Group hf.	82.681.386	5.167.586.625
Landsbanki Íslands hf.	5.000.000	132.500.000
GeysirPetroleum hf.	33.241.696	390.589.928
Actavis hf.	1.000.000	64.000.000
Exista hf.	20.097.199	495.919.936
SPRON	39.904.065	93.945.228
Axiom ehf.	500.000	16.000.000
Eyrir Invest ehf.	57.900.000	1.100.100.000
Norvik hf.	72.600.000	726.000.000
Avion Aircraft Trading hf.	283.925	9.227.562
Icelandic Group hf.	114.150	867.540
Nor Energy AS, Canada	4.000.000	369.793.670
Valero Energy Corp., USA	13.000	47.772.696
Nokia OYJ, Finland	36.000	52.724.260
Questerre Energy Corp., Norway	487.000	40.595.687
SIA Depo Diy, Latvia	2.700.000	210.290.502
		24.000.063.002

Parent company	Par value	Carrying amount
Kaupþing banki hf.	18.452.210	1.551.830.861
Avion Aircraft Trading hf.	283.925	9.227.562
Icelandic Group hf.	114.150	867.540
Exista hf.	1.943.687	43.732.958
Norvik ehf.	72.600.000	726.000.000
Axiom ehf.	500.000	16.000.000
Eyrir Invest ehf.	57.900.000	1.100.100.000
SIA Depo Diy. Latvi,	209.476.989	210.290.502
		3.658.049.423

Notes to the Financial Statements

11. Long term bonds and mutual funds

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Balance at January 1	393.921.000	0	393.921.000	0
Additions during the year	139.826	393.921.000	0	393.921.000
	394.060.826	393.921.000	393.921.000	393.921.000

The bond from the year 2005 is originated with issue of new shares in Straumborg Ltd. It is carries REIBOR interest plus 1,4% markup.

12. Other financial assets

Trade and other receivables	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Domestic receivables	197.538.111	0	187.546.813	0
	197.538.111	0	187.546.813	0

Other receivables

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Associated companies	65.639.583	55.112.561	0	51.001.815
Prepaid expenses	553.672	7.487.994	0	0
Capital income tax	85.876.961	45.026.952	18.829.349	15.519.666
Loans to owners and management	1.231.350	0	0	0
Accrued interest	87.392.045	41.303.734	86.079.180	41.303.734
Solvina	0	250.060.502	0	250.060.502
Other receivables	68.738.820	12.711.767	0	12.711.767
	309.432.431	411.703.510	104.908.529	370.597.484

Cash and cash equivalents

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Bank balances in ISK	73.644.291	14.166.789	856.764	3.644.511
	73.644.291	14.166.789	856.764	3.644.511

Notes to the Financial Statements

13. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at December 31 2006	1.000.000	100,0%	1.000.000
	1.000.000	100,0%	1.000.000

Each share of one ISK carries one vote.

Parent Company	Captial stock	Premium acc./ Statutory reserv.	Unrealised exchange gain	Translation difference	Retained earnings
Stockholders' equity 1.1.2006	1.000.000	393.936.000	3.957.766.269		5.249.999.706
Translation difference				321.516.858	
Statutory reserve		235.000			(235.000)
Net income			1.603.898.444		448.126.824
Stockholders' equity 31.12.2006	1.000.000	394.171.000	5.561.664.713	321.516.858	5.697.891.530

14. Liabilities to credit institution

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Debts in USD	489.673.425	0	134.962.335	0
Debts in EUR	2.399.233.293	0	165.098.161	0
Debts in GBP	1.758.872.668	0	0	0
Debts in JPY	66.081.366	0	66.081.366	0
Debts in CHF	91.801.794	0	91.801.794	0
Debts in NOK	40.006.502	0	0	0
Debts in SEK	1.087.152.399	0	0	0
Debts in LVL	35.991.491	0	0	0
Debts in ISK	10.345.602.346	5.634.470.385	3.434.441.657	2.485.845.398
Liabilities to credit institution 31 December 2006	16.314.415.283	5.634.470.385	3.892.385.312	2.485.845.398

15. Deferred tax

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
At 1 january 2006	1.921.481.212	889.808.246	224.390.364	167.547.574
Calculated tax for the year 2006	218.861.646	1.030.205.266	(130.207.061)	56.842.790
Income tax payable for the year 2007	(1.340.342)	0	0	0
At 31 December 2006	2.139.002.516	1.920.013.512	94.183.303	224.390.364

The following are the major deferred tax liabilities and assets recognised:

Property, plant and equipment	9.108.507	0	0	0
Investments in other companies	1.508.801.418	1.791.090.798	97.466.215	85.527.593
Deferred gain from sale of shares	641.386.955	301.393.773	4.787.191	138.862.771
Tax losses	(20.294.364)	(172.471.059)	(8.070.103)	0
	2.139.002.516	1.920.013.512	94.183.303	224.390.364

Notes to the Financial Statements

16. Trade and other payables

Trade payable

	Consolidated 31.12.2006	Consolidated 31.12.2005	Parent Company 31.12.2006	Parent Company 31.12.2005
Domestic trade payables	1.024.530	0	0	0
	1.024.530	0	0	0

Other current liabilities

	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Associated companies	13.250.000	13.250.000	3.403.508.129	413.250.000
Unpaid public dues	1.291.152	0	1.291.152	0
Salaries and related expenses payable	6.777.081	0	6.777.081	0
Accured interest	266.472.233	56.357.851	72.262.986	19.547.416
Management fee	188.818.395	217.610.839	0	0
Other liabilities	438.723.430	4.356.360	0	0
	915.332.291	291.575.050	3.483.839.348	432.797.416