

**Straumur**  
**Fjárfestingarbanki hf.**  
**Consolidated Annual Accounts**  
**2004**  
**ISK**

Straumur Fjárfestingarbanki hf.  
Borgartún 30  
105 Reykjavík  
Iceland

Reg. no. 701086-1399

# Contents

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Endorsement and Signatures of the Board of Directors and the CEO .....	3	Consolidated Balance Sheet .....	7
Auditors' Report .....	5	Consolidated Statement of Cash Flows .....	9
Consolidated Profit and Loss Account .....	6	Notes to the Consolidated Annual Accounts .....	10

## Endorsement and Signatures of the Board of Directors and the CEO

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The Annual Accounts include the Consolidated Annual Accounts of Straumur Fjárfestingarbanki hf. and its subsidiaries. The Annual Accounts have been prepared in accordance with the Annual Accounts Act and the Rules on the Financial Statements of Credit Institutions. The accounting principles applied in preparing the Annual Accounts of Straumur Fjárfestingarbanki hf. are consistent with those of the Bank for the previous year. However, the presentation of the Profit and Loss Account and the Balance Sheet for the year 2004 have been adjusted in accordance with that of other investment banks, as the Bank now holds an operating licence as such. These changes neither affect the Bank's operating results nor its equity.

The Bank holds an operating licence as an investment bank according to the Act on Financial Undertakings, no. 161/2002. The application filed by Straumur Fjárfestingabanki hf. for the operating licence as a lending company, according to Act no 161/2002, Article 4, Paragraph 1, Subparagraph 3, was approved by the Financial Supervisory Authority on January 2, 2004, effective as of January 1, 2004. In May 2004 the Bank was granted a licence to act as a security broker for third parties and as a consequence a new department was founded within the Bank for market trading.

On May 28 the Bank acquired 33.03% of the shares in Tryggingamiðstöðin hf. The acquisition was finalized on July 6, when the the Financial Supervisory Authority approved of the acquisition. The Bank's shares in Tryggingamiðstöðin hf. are entered at market value, but not according to the equity method as stated in the Bank's Interim Accounts at September 30. At year-end the Bank held 34.85% of the shares in the company.

On September 30, 2004 the Bank acquired 14.4% of the shares in Íslandsbanki hf.

On September 27 the Bank's share capital was increased by ISK 1,251 million at a nominal value due to the acquisition of shares in Íslandsbanki hf. After the increase, the Bank's total share capital amounted to ISK 5,400 million at a nominal value.

According to the Profit and Loss Account, net profits of the Group amounted to ISK 6,404 million. The Group's assets amounted to ISK 89,649 million at year-end and equity, according to the Balance Sheet, amounted to ISK 32,475 million. The Bank's capital ratio, calculated according to the Act on Financial Undertakings, was 15.5%. This ratio may not be lower than 8.0%.

The Bank's total share capital amounted to ISK 5,400 at year-end. Shareholders numbered 4,258 compared to 4,899 at the beginning of the year, a decrease of 641 during the year. At year-end 10 shareholders held more than 3.0% of the shares in the Bank. These are:

	Ownership
Fjárfestingafélagið Grettir hf., Reykjavík .....	16.45%
MK-44 ehf., Vestmannaeyjar .....	11.50%
Eignarhaldsfélagið SK ehf., Reykjavík .....	9.70%
Burðarás hf., Reykjavík .....	7.27%
Landsbanki Luxembourg S.A. ....	7.20%
Smáey ehf., Vestmannaeyjar .....	6.87%
Lífeyrissjóður sjómanna, Reykjavík .....	5.18%
Íslandsbanki hf., Reykjavík .....	4.91%
Eignarhaldsfélagið SKE ehf., Reykjavík .....	4.31%
Lífeyrissjóður verslunarmanna, Reykjavík .....	3.49%

## **Endorsement and Signatures of the Board of Directors and the CEO, cont.:**

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The Board of Directors of Straumur Fjárfestingarbanki hf. emphasizes the necessity of maintaining exemplary management practices within the Bank. In this respect it has taken into consideration the requests on management practices issued in March 2004 by the Iceland Stock Exchange, the Confederation of Icelandic Employers and the Iceland Chamber of Commerce. The Board has set detailed rules on its work procedures where the sphere of the Board's authority is defined as well as its sphere of activity towards the CEO. Included in these rules are rules on meetings, detailed rules on the competency of board members regarding decision making, rules on secrecy, information flow from the CEO to the Board etc. The rules made by the Board comply with the abovementioned requests and are in some cases even more detailed. The Board elected by the Bank's upcoming annual meeting will discuss other issues stipulated in the abovementioned requests, effective as of January 1, 2005.

The Board proposes that a payment of 35% dividend be paid to shareholders in the year 2005 due to operations in the year 2004 and that the remaining profit be allocated as stated in the notes to the Annual Accounts.

The Board of Directors and the CEO of Straumur Fjárfestingarbanki hf. hereby confirm the Bank's Annual Accounts for the year 2004 by means of their signatures.

Reykjavík, January, 21 2005.

Board of Directors:

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Magnús Kristinsson

\_\_\_\_\_  
Gunnlaugur Sævar Gunnlaugsson

\_\_\_\_\_  
Þorsteinn Már Baldvinsson

\_\_\_\_\_  
Gunnar Sch. Thoresteinsson

\_\_\_\_\_  
Gísli Hjálmtýsson

CEO:

\_\_\_\_\_  
Þórður Már Jóhannesson

# Auditors' Report

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To the Board of Directors and Shareholders of Straumur Fjárfestingarbanki hf.

We have audited the accompanying Balance Sheet of Straumur Fjárfestingarbanki hf. as of December 31, 2004, and the related Income Statement and Statement of Cash Flows for the year then ended. These Annual Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Annual Accounts based on our audit.

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

In our opinion, the Annual Accounts give a true and fair view of the financial position of Straumur Fjárfestingarbanki hf. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in accordance with the law and generally accepted accounting principles in Iceland.

Reykjavík, January 21, 2005.

Helgi F. Arnarson

Ólafur Már Ólafsson

***KPMG Endurskoðun hf.***

# Consolidated Profit and Loss Account for the year 2004

	Notes	Group		Parent	
		2004	2003	2004	2003
<b>Financial Income:</b>					
Interest from credit institutions .....		263,736	65,689	263,492	34,304
Interest on loans .....		898,329	42,360	897,111	42,360
Interest on market securities .....		291,693	15,723	289,755	15,723
Other interest income .....		1,792	0	1,792	0
	3	<u>1,455,550</u>	<u>123,772</u>	<u>1,452,150</u>	<u>92,387</u>
<b>Financial Expenses:</b>					
Interest to credit institutions .....		783,620	557,736	783,620	556,476
Interest on borrowings .....		242,393	9,682	242,393	9,682
Other interest expenses .....		3,240	73	3,227	73
	3	<u>1,029,253</u>	<u>567,491</u>	<u>1,029,240</u>	<u>566,231</u>
Net interest income		426,297	( 443,719 )	422,910	( 473,844 )
<b>Other Operating Income:</b>					
Income from shares and other holdings .....	4	( 1,128 )	182,460	( 305,073 )	330,813
Fees and commissions .....		603,066	15,214	608,959	15,214
Commission expenses .....		( 22,025 )	( 5,560 )	( 21,852 )	( 5,560 )
Trading, net .....		7,308,331	4,538,327	7,575,224	4,677,346
Sundry operating income .....		0	0	17,100	0
		<u>7,888,244</u>	<u>4,730,441</u>	<u>7,874,358</u>	<u>5,017,813</u>
Net operating income		8,314,541	4,286,722	8,297,268	4,543,969
<b>Other Operating Expenses:</b>					
Salaries and related expenses .....	5,17	257,447	146,292	252,763	115,818
Other operating expenses .....		236,740	171,051	195,890	131,579
Operating expenses		<u>494,187</u>	<u>317,343</u>	<u>448,654</u>	<u>247,397</u>
Provision for losses on the loan portfolio .....	8,24	( 75,801 )	0	( 75,801 )	0
Profit before income tax .....		7,744,553	3,969,379	7,772,813	4,296,572
Income tax .....	10,37	( 1,368,892 )	( 154,810 )	( 1,368,892 )	( 482,003 )
Minority interest in net loss of subsidiary .....		28,260	0		0
<b>Net Profit for the Period</b> .....	39	<u>6,403,921</u>	<u>3,814,569</u>	<u>6,403,921</u>	<u>3,814,569</u>
<b>Earnings per Share:</b>					
Earnings per share .....	6,20	1,44	1,17	1,44	1,17

# Consolidated Balance Sheet

## Assets

	Notes	Group		Parent	
		2004	2003	2004	2003
<b>Amounts Due from Credit Institutions ....</b>	21	3,519,848	474,184	3,507,132	469,941
<b>Loans .....</b>	7,8,22	25,946,239	840,444	27,596,827	3,232,625
<b>Market Securities and Shares in Other Companies:</b>					
Bonds and other fixed-rate securities .....		4,681,814	533,513	4,681,814	18,508
Shares and other variable-yield securities .....		54,141,405	20,573,005	51,960,533	18,520,130
Shares in associated companies .....	29	40,821	41,836	40,821	41,836
Shares in affiliated companies .....	30	0	0	1,422,088	112,726
	9,25-30	58,864,040	21,148,354	58,105,256	18,693,200
<b>Other Assets:</b>					
Property and equipment .....	31	979,210	540	0	0
Other assets .....		258,599	28,495	291,670	53,025
Prepaid expenses and accrued income .....		80,765	37,521	80,765	37,521
		1,318,574	66,556	372,435	90,546
<b>Total Assets</b>		89,648,701	22,529,538	89,581,650	22,486,312

# December 31, 2004

## Liabilities and Equity

	Notes	Group		Parent	
		2004	2003	2004	2003
<b>Amounts Owed to Credit Institutions</b>	34	21,568,895	5,708,966	21,568,895	5,708,966
<b>Borrowings</b> .....	35,36	32,108,471	168,105	32,108,471	168,105
<b>Other Liabilities:</b>					
Sundry liabilities .....		472,850	82,034	466,555	59,190
Accrued expenses .....		1,403,797	233,709	1,403,797	233,709
		1,876,647	315,743	1,870,352	292,899
<b>Deferred Income Tax Liability</b> .....	10,37	1,518,412	242,836	1,559,088	222,454
<b>Minority interest</b> .....		101,432	0	0	0
<b>Equity:</b>					
Share capital .....		5,400,000	4,082,927	5,400,000	4,082,927
Share premium .....		17,150,352	7,059,488	17,150,352	7,059,488
Accrued cost of stock options .....		18,332	8,088	18,332	8,088
Retained earnings .....		9,906,160	4,943,385	9,906,160	4,943,385
	38-40	32,474,844	16,093,888	32,474,844	16,093,888
<b>Total Liabilities and Equity</b>		89,648,701	22,529,538	89,581,650	22,486,312

# Consolidated Statement of Cash Flows for the year 2004

	Notes	Group		Parent	
		2004	2003	2004	2003
<b>Cash Flows from Operating</b>					
<b>Activities:</b>					
Net profit for the period .....	39	6,403,921	2,511,134	6,403,921	2,511,134
Difference between net profit and cash from operations:					
Indexation and exchange rate difference		2,198,860	0	2,198,860	0
Share in net loss (profit) of associated companies .....		1,015	8,414	305,073 (	139,940 )
Stock options .....	5	21,084	7,432	21,084	7,432
Provision for losses on the loan portfolio .....	8,24	75,801	0	75,801	0
Depreciation .....		368	0	0	0
Deferred income tax liability, changes ..	10,37	1,367,356	173,290	1,428,413	195,883
Minority interest .....	(	28,260 )	0	0	0
Changes in operating assets and liabilities .....		1,035,064	35,891	1,209,583	2,721
		<u>11,075,209</u>	<u>2,736,161</u>	<u>11,642,735</u>	<u>2,577,230</u>
<b>Cash Flows from Investing</b>					
<b>Activities:</b>					
Loans, changes .....	(	2,286,756 )	0	( 2,286,756 )	0
Trading bonds, changes .....	(	27,145,971 )	0	( 26,404,378 )	0
Trading shares, changes .....	(	4,148,301 )	0	( 4,663,305 )	0
Investment shares, changes .....	(	33,568,400 ) (	12,055,799 )	( 33,440,403 ) (	9,563,131 )
Cash and cash equivalents acquired through the purchase of a subsidiary .....		0	0	( 1,613,421 )	0
Investment in property and equipment .....	(	979,039 )	0	0	0
Other receivables, changes .....	(	230,103 ) (	870,332 )	( 238,646 ) (	3,208,312 )
Net cash used in investing activities	(	68,358,570 ) (	12,926,131 )	( 68,646,909 ) (	12,771,443 )
<b>Cash Flows from Financing</b>					
<b>Activities:</b>					
Amounts owed to credit institutions .....		13,757,107	0	13,757,108	0
Borrowings, changes .....		33,808,703	5,859,447	33,808,703	5,859,447
Other liabilities, changes .....		390,816	151,438	232,847	151,438
Paid-in share capital by minority in subsidiary .....		129,692	0	0	0
Own shares, changes .....	39	392,628	650,551	392,628	650,551
Proceeds from issue of new share capital ..		11,004,469	4,309,245	11,004,469	4,309,245
Dividend paid .....	39	( 1,441,146 ) (	448,734 )	( 1,441,146 ) (	448,734 )
Net cash provided by financing activities		<u>58,042,269</u>	<u>10,521,947</u>	<u>57,754,609</u>	<u>10,521,947</u>
<b>Increase in Cash and Cash Equivalents</b> .....		758,908	331,977	750,435	327,734
<b>Cash and Cash Equivalents at the Beginning of the Year</b> .....		<u>474,184</u>	<u>141,765</u>	<u>469,941</u>	<u>141,765</u>
<b>Cash and Cash Equivalents at the End of the year</b> .....	11	<u><u>1,233,092</u></u>	<u><u>473,742</u></u>	<u><u>1,220,376</u></u>	<u><u>469,499</u></u>

# Notes to the Consolidated Interim Accounts

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## Summary of Accounting Principles

### *Basis of Preparation*

1. The Annual Accounts of Straumur Fjárfestingarbanki hf. contain the Consolidated Annual Accounts of the Bank and its subsidiaries, Brú Venture Capital ehf., Straumur Eignarhaldsfélag ehf. and Sjárvarsíða ehf. The Annual Accounts are prepared in all main respects in accordance with the Annual Accounts Act and the Rules on the Financial Statements of Credit Institutions. The Annual Accounts are prepared according to the same accounting principles as for the previous year. They are based on historical cost accounting apart from listed securities and derivatives, which are accounted for at market value. The Annual Accounts are prepared in Icelandic currency (ISK) and amounts are presented in thousands of ISK. Subsequent to receiving the license to operate as an investment bank, the presentation of the Profit and Loss Account and Balance Sheet has been changed, see note 14. This change however does not affect the Bank's performance or equity.

Subsidiaries are companies in which the Bank holds controlling interest. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Annual Accounts of subsidiaries are included in the Consolidated Annual Accounts from the date the control commences until the date the control ceases.

Balances between group companies, transactions and unrealised profit created in transactions between group companies are eliminated in the Consolidated Annual Accounts. Unrealised profit created in intercompany transactions is eliminated in accordance with the Bank's ownership in the consolidated company. Unrealised profit created in intercompany transactions is deducted from the investment in the consolidated company. Unrealised loss is eliminated in the same manner as unrealised profit but only to the extent that there are no indications of impairment of that asset.

Associated companies are companies where the Group has a significant influence over the financial and operating policies but not a controlling interest. The Consolidated Annual Accounts contain the Group's share in the performance of associated companies from the beginning of its influence until the end. Should the Group's share in any loss be higher than the book value of an associated company, the book value is recorded as zero and further recognition of loss is ceased unless the Bank has granted guarantees for the associated company or financed it.

### *Foreign Currencies*

2. Assets and liabilities denominated in foreign currencies are converted to Icelandic currency at the latest exchange rate listed at the end of the year. Operating revenue and expenses denominated in foreign currencies are converted at the exchange rate at the date of transaction. Exchange rate difference and interest on the principal of assets and liabilities are included in the Annual Accounts.

### *Interest Income and Expenses*

3. Interest income and interest expenses are entered into the Profit and Loss Account as they accrue, based on effective interest rate. Interest income is calculated on amounts due from other financial institutions, loans and market securities. Interest expenses are calculated on amounts owed to financial institutions and borrowings. Revenue and expenses equalling interest, such as borrowing charges, are included among interest income and expenses as they accrue.

### *Income from Shares and Other Holdings*

4. The Bank's share in the profit or loss of associated companies is included in income from shares and other holdings, along with dividends from investment shares. Dividends from trading shares are however included in income from trading shares in the Profit and Loss Account.

## Notes, contd.:

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### *Stock Option Contracts*

5. The Bank has entered into stock option contracts with employees which enable them to acquire shares in the Bank. On the one hand, there are contracts where the strike price equals the market value at the contract date. On the other hand, there are contracts stipulating a forward price that takes into account interest rate at the contract date. The cost incurred by the Bank is estimated to be the difference between the strike price and the market price of the shares at the settlement date, taking into consideration accrued employee rights. The cost is expensed among salaries and related expenses in the Profit and Loss Account. The balancing entry is made to a specific item in equity, accrued cost of stock options.

### *Earnings per Share*

6. Earnings per share is the ratio between profit and weighted average of share capital during the period and shows the profit per each ISK 1 of share capital. Net profit for the year amounted to ISK 6,404 million and the weighted average of nominal shares amounted to ISK 4,459 million. Diluted earnings per share are not calculated, as the Bank has not taken convertible loans and the effects of stock option contracts are fully included in the Annual Accounts.

### *Loans*

7. Loans are capitalised with accrued interest, indexation and exchange rate difference at year-end. Indexed loans are entered based on indices effective at the beginning of January and loans denominated in foreign currencies based on the exchange rate of the relevant currencies at year-end 2004.
8. Provision for losses on the loan portfolio is made to meet the risk inherent to lending operations and does not represent a final write-off. Certain risk factors are evaluated to determine the provision for this purpose. This is a provision to meet the general risk of lending operations. Interest on loans, the collection of which is uncertain, is not entered as income. The provision has been deducted from the appropriate Balance Sheet items, less the provision for issued guarantees, which is posted among sundry liabilities in the Balance Sheet.

### *Market Securities and Holdings*

9. The Bank's securities are classified into trading and investment securities. Investment securities are those that will be held for more than one year according to a formal decision, whereas other securities are classified as trading securities.

Listed trading securities are capitalised at market value at year-end. Unlisted trading bonds are capitalised according to the required rate of return at the time of purchase, whereas unlisted trading shares are entered at the cost price or estimated market price, whichever is lower.

### *Deferred Income Tax Liability*

10. The deferred income tax liability has been calculated and included in the Annual Accounts. The liability is based on the difference between Balance Sheet items in the tax return, on the one hand, and in the Annual Accounts on the other. This difference is due to the fact that tax assessment is based on other premises than the Annual Accounts. These are mostly temporary difference because some expenses are expensed earlier in the tax return than in the Annual Accounts.

## Notes, contd.:

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### *Cash and Cash Equivalents*

11. Cash and cash equivalents in the Statement of Cash Flows consist of cash and demand deposits with credit institutions.

### *Derivatives*

12. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the Bank's Balance Sheet, either because rights and obligations arise out of one and the same contract, the contracts are effective after the Balance Sheet date or because the notional amounts serve merely as variables for calculation purposes. The notional amounts of derivatives do not necessarily indicate the amount of payments nor the market and credit risk inherent to derivative contracts. Examples of derivatives are forward currency agreements, forward securities agreements, options, swaps, futures and forward interest rate agreements. Their value may be based on interest rates, exchange rates of currencies, prices of commodities, bonds or equity products.

The Bank's derivatives are mainly intended to reduce the price, exchange and interest rate risk assumed by the Bank. Derivatives performance is entered in the Profit and Loss Account and in the Balance Sheet. Net assets are capitalised with prepaid expenses and accrued income, whereas net obligations are entered under accrued expenses.

The market risk inherent to derivatives is created by changes in the price of the factors on which the contracts are based, such as interest rates, exchange rates of currencies and prices of listed securities. Credit risk reflects the loss which would be incurred by the Bank if the counterparty in a derivatives contract were not able to fulfil its part of the contract.

Forward agreements relating to currencies, securities and interest rates are entered in the Bank's Annual Accounts at their market value at the end of the year.

## **International Accounting Standard**

13. According to an EC Directive, companies listed on European Stock Exchanges must prepare Consolidated Annual Accounts in accordance with international accounting standards (IAS) as of the year 2005. The Bank is currently preparing necessary adjustments.

## **Changes in Presentation**

14. Subsequent to receiving the license to operate as an investment bank, the presentation of the Profit and Loss Account and Balance Sheet has been changed. This however does not affect the Bank's performance or equity. Net profit is no longer divided into realised and unrealised profit. All realised and unrealised gains on shares are now entered among trading but were previously entered among realised profit on investment securities, on one hand, and on the other hand, among realised profit on investment securities. Unrealised gains included in equity have been entered among retained earnings.

## Notes, contd.:

### Quarterly Statements

15. Summary of the Group's operating results by quarters:

	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Total
Financial income.....	764,209	357,884	205,059	128,398	1,455,550
Financial expenses .....	( 646,955 )	( 197,122 )	( 82,940 )	( 102,235 )	( 1,029,253 )
Other operating income .....	227,354	3,811,281	1,335,147	2,514,462	7,888,244
Net operating income	344,608	3,972,043	1,457,266	2,540,625	8,314,541
Other operating expenses .....	( 135,337 )	( 141,095 )	( 122,595 )	( 95,162 )	( 494,187 )
Provision for losses on the loan portfolio .....	( 45,843 )	( 18,869 )	( 11,088 )	0	( 75,801 )
Profit before income tax .....	163,428	3,812,079	1,323,583	2,445,463	7,744,553
Income tax .....	( 45,647 )	( 672,088 )	( 219,844 )	( 431,313 )	( 1,368,892 )
Minority interest in net profit of subsidiary .....	9,498	851	17,912	0	28,260
Net profit for the period .....	127,279	3,140,842	1,121,651	2,014,150	6,403,921

### Other Operating Income

16. Trading gains are specified as follows:

	2004	2003
Trading shares .....	6,633,893	4,111,033
Trading bonds .....	408,888	362,303
Assets and liabilities in foreign currency .....	265,550	64,991
Total .....	7,308,331	4,538,327

### Other Operating Expenses

17. Salaries and related expenses are specified as follows:

Salaries .....	203,972	124,315
Salary-related expenses .....	53,475	21,977
Total salaries and related expenses .....	257,447	146,292

The Bank's total number of employees is as follows .....	17	12
Average number of employees .....	15	8
Positions at the end of the year .....	17	12

## Notes, contd.:

### Employment Terms for the Board of Directors and the CEO

18. Salaries paid to the Board of Directors and the CEO for their work for companies within the group, their stock options and ownership in the Bank are specified as follows:

	Salaries and fringe benefits	Call options	Put options	Ownership at year-end
Pórður Már Jóhannesson, CEO .....	44,823	0	50,000	50,000
Kristinn Björnsson, Chairman .....	2,418	0	0	764,530
Magnús Kristinsson, Vice Chairman .....	1,987	0	0	995,013
Gunnlaugur S. Gunnlaugsson .....	1,100	0	0	0
Orri Hauksson .....	1,344	0	0	0
Þorsteinn Már Baldvinsson .....	1,100			0
Other board members .....	1,049			0
	<u>53,821</u>	<u>0</u>	<u>50,000</u> <sup>1)</sup>	<u>1,809,543</u> <sup>2)</sup>

- 1) Put option contracts with the CEO were made in the year 2004. They are based on the exercise prices 6,55 and are exercisable in the year 2006. No costs are expensed because the market price of the Bank's stock exceeds the exercise price of the put options.
- 2) Included among the holdings of the aforementioned persons are holdings of their spouses, dependent children and companies owned by them, if any.

### Auditors' Fees

19. Remuneration to the Bank's Auditors are specified as follows:

	2004	2003
Audit of Annual Accounts .....	3,202	1,462
Review of Interim Accounts .....	4,079	1,427
Other services .....	<u>2,017</u>	<u>1,224</u>
Total .....	<u>9,298</u>	<u>4,113</u>

### Earnings per Share

20. Calculation of earnings per share is based on profit and the weighted average share capital at year-end:

Profit according to the Annual Accounts .....	6,403,921	3,814,569
Calculated average share capital:		
Share capital according to the Annual Accounts at the beginning of the year ..... (	4,082,927	2,539,585 )
Effect of the increase of share capital during the year .....	<u>375,638</u>	<u>723,811</u>
Calculated average share capital .....	<u>4,458,565</u>	<u>3,263,396</u>
Earnings per share .....	<u>1.44</u>	<u>1.17</u>

## Notes, contd.:

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### Amounts due from credit institutions

21. Amounts due from credit institutions, mature as follows:

	2004	2003
On demand .....	1,233,092	474,184
Up to 3 months .....	2,233,730	0
Over 3 months and up to 1 year .....	53,026	0
Total .....	<u>3,519,848</u>	<u>474,184</u>

### Loans

22. Loans to customers are bonds only and are specified as follows by sectors:

Commerce .....	3,902,255	0
Services .....	21,651,100	785,414
Individuals .....	392,884	55,030
Total .....	<u>25,946,239</u>	<u>840,444</u>

23. Loans to customers, mature as follows:

On demand .....	181,303	798
Up to 3 months .....	5,809,535	0
Over 3 months and up to 1 year .....	10,703,969	785,414
Over 1 year and up to 5 years .....	8,258,428	54,232
Over 5 years .....	993,004	0
Total .....	<u>25,946,239</u>	<u>840,444</u>

24. Provision for losses has been deducted from the appropriate Balance Sheet items. Changes in the provision are specified as follows:

Provision at the beginning of the year .....	0
Provision for losses during the year .....	<u>75,801</u>
Provision at 31.12.2004 .....	<u>75,801</u>

Provision for losses on the loan portfolio as a percentage of loans and issued guarantees ..... 0.3%

## Notes, contd.:

### Market Securities and Shares in Other Companies

25. Trading bonds are specified as follows:

Market value      Book value

Listed on the Iceland Stock Exchange ..... 4,681,814      4,681,814

26. Bonds and other fixed-rate securities, specified by issuer:

Bonds issued by public organisations ..... 4,681,814      4,681,814

27. Shares and other variable-yield securities are specified as follows:

Market value      Book value

Trading shares and unit shares:

Listed on the Iceland Stock Exchange ..... 27,381,459      27,381,459

Other listed shares ..... 1,646,350      1,646,350

Unlisted shares ..... 7,649      7,649

29,035,458

Investment shares and unit shares:

20,499,058      20,499,058

Listed on the Iceland Stock Exchange ..... 4,010,389

Unlisted shares ..... 596,500

Unit shares, unlisted ..... 25,105,947

Total shares and other variable-yield securities ..... 54,141,405

The Bank has entered into forward contracts amounting to ISK 8,004 million against its shares.

28. Investment shares are specified as follows:

Ownership      Nominal value      Book value

Íslandsbanki hf. .... 13.1%      1,469,965      16,463,603

Sölumiðstöð hraðfrystihúsanna hf. .... 16.7%      259,431      2,231,103

Kögun hf. .... 10.3%      19,973      928,747

Unlisted companies ..... 5,482,493

Total investment shares ..... 25,105,946

## Notes, contd.:

29. Shares in associated companies where significant influence is held are specified as follows:

	Ownership	Nominal value	Profit share	Book value
Skarðsheiði ehf. ....	50%	50,000	1,128	<u>40,821</u>

30. Shares in subsidiaries are specified as follows:

	Ownership	Nominal value	Profit share	Book value
Brú Venture Capital hf. ....	93.0%	1,555,500	( 214,594 )	1,353,836
Straumur eignarhaldsfélag hf. ....	100.0%	500	13,092	105,713
Sjávarsíða ehf. ....	97.5%	3,900	( 41,361 )	( 37,461 )
Total shares in subsidiaries .....			( 242,863 )	<u>1,422,088</u>

Subsidiaries of the Bank own three subsidiaries, which are included in the Consolidated Annual Accounts. These are Brú Framtak ehf., Brú Félagar ehf. and Koli ehf.

31. Property and equipment are specified as follows:

	Real estate	Fixtures, equipment and vehicles	Total
Total value 1.1.2004 .....	0	2,445	2,445
Additions during the year .....	<u>978,188</u>	<u>850</u>	<u>979,038</u>
Total value 31.12.2003 .....	<u>978,188</u>	<u>3,295</u>	<u>981,483</u>
Previously depreciated .....	0	1,905	1,905
Depreciated during the year .....	<u>0</u>	<u>368</u>	<u>368</u>
Total depreciation 31.12.2004 .....	<u>0</u>	<u>2,273</u>	<u>2,273</u>
Book value 31.12.2004 .....	<u>978,188</u>	<u>1,022</u>	<u>979,210</u>
Depreciation ratios .....		20%	

## Assets and Liabilities Index-linked and subject to Foreign Currency Risk

32. The total amount of indexed assets of the Group amounted to ISK 6,473 million at the end of September and the total amount of such liabilities amounted to ISK 12,038 million.

33. The total amount of assets of the Group denominated in foreign currencies amounted to ISK 34,433 million at year-end and the total amount of such liabilities amounted to ISK 34,007 million. Included in assets and liabilities are forward contracts, see note 42.

## Notes, contd.:

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### Amounts owed to credit institutions

34. Amounts owed to credit institutions mature as follows:

	2004	2003
On demand .....	0	0
Up to 3 months .....	17,116,020	5,708,966
Over 3 months and up to 1 year .....	4,452,875	0
Total .....	<u>21,568,895</u>	<u>5,708,966</u>

### Borrowings

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

Issued bonds .....	11,025,531	0
Loans from credit institutions .....	20,904,656	0
Other borrowings .....	178,284	168,105
Total .....	<u>32,108,471</u>	<u>168,105</u>

36. The Bank's borrowings mature as follows:

Up to 3 months .....	3,403,876	0
Over 3 months and up to 1 year .....	12,244,572	0
Over 1 year and up to 5 years .....	6,260,985	168,105
Over 5 years .....	10,199,038	0
Total .....	<u>32,108,471</u>	<u>168,105</u>

### Deferred Income Tax Liability

37. The deferred income tax liability of the Group is specified as follows:

Deferred income tax liability 1.1.2004 .....	241,300
Calculated income tax on the profit of the year .....	1,368,892
Taxes payable .....	( 91,780 )
Deferred income tax liability 31.12.2004 .....	<u>1,518,412</u>

### Equity

38. According to the Parent Company's Articles of Association, total share capital amounts to ISK 5,400 million. One vote is attached to each share of ISK one.

## Notes, contd.:

39. Changes in equity are specified as follows:

	Share capital	Share premium	Accrued cost of stock options	Retained earnings	Unrealised gains	Total
Equity as of 31.12.2003 .....	4,082,927	7,059,488	8,088	3,457,381	1,486,004	16,093,888
Changes in presentation .....				1,486,004	( 1,486,004 )	0
Equity as of 1.1.2004 .....	4,082,927	7,059,488	8,088	4,943,385	0	16,093,888
Dividend paid .....				( 1,441,146 )		( 1,441,146 )
Increase of share capital .....	1,250,508	9,753,961				11,004,469
Purchased and sold own shares .....	66,565	336,903	( 10,840 )			392,628
Cost of stock options expensed .....			21,084			21,084
Net profit for the year .....				6,403,921		6,403,921
Equity as of 31.12.2004 .....	5,400,000	17,150,352	18,332	9,906,160	0	32,474,844

40. Equity at the end of the year amounted to ISK 32,475 million, equivalent to 36.2% of total assets according to the Balance Sheet. The capital adequacy ratio of the Group / Parent, calculated in accordance to Article 84 of the Act on Financial Undertakings, is 15.5% / 15.7%. This ratio may not be lower than 8.0% according to that Act. The ratio is calculated as follows:

	Book value	Weighted value
Risk base:		
Assets recorded in the Annual Accounts.....	89,648,701	81,486,309
Assets subtracted from equity .....		( 23,382,657 )
Guarantees and other items not included in the Balance Sheet .....	1,172,541	1,172,541
Risk base, total .....		59,276,193
Equity:		
Tier I capital:		
Book value of equity .....		32,474,844
Minority interest in of subsidiaries' equity .....		101,432
Assets deducted from equity .....		( 23,382,657 )
Total equity .....		9,193,619
Capital adequacy ratio .....		15.5%

## Notes, contd.:

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### Stock Options

41. The Bank has granted its employees stock options exercisable in the year 2005. The Bank will use own shares and purchase shares on the market to meet employee stock options. Employee stock options at year-end amounted to a total nominal value of ISK 3,0 million, and changes in options are as follows:

	Nominal value	Market value
Stock options at the beginning of the year .....	6,200	30,566
Stock options exercised during the year .....	( 3,200 )	( 20,780 )
Increase in the market value of stock options .....		18,864
Stock options at year-end .....	<u>3,000</u>	<u>28,650</u>
Vested, unexercised stock options at year-end .....	2,846	23,179
Cost due to stock options during the year, expensed .....		21,084

### Obligations

42. The Group has entered into forward contracts which are specified as follows:

	2004	2003
Investments in shares listed on the Iceland Stock Exchange .....	0	2,716,564
Investments in bonds listed on the Iceland Stock Exchange .....	0	4,346,730
Investments in foreign currencies .....	5,815,029	0
Investments in Icelandic currency .....	9,843,973	2,255,335
Sales of shares listed on the Iceland Stock Exchange .....	8,003,958	57,000
Sales of bonds listed on the Iceland Stock Exchange .....	0	1,102,506
Sales of foreign currencies .....	2,453,707	1,104,350
Sales of Icelandic currency .....	6,432,589	7,099,522

The contracts are capitalised as assets or liabilities based on the net balance of individual contracts.

The objective of the above agreements is to reduce the currency and interest rate risk of the Bank. The Bank's risk due to these contracts consists of interest and currency rate differential. The risk at year-end equals loans to customers amounting to ISK 468 million when evaluating the Bank's capital adequacy ratio according to current regulations.

43. The Bank has granted its customers guarantees that amount to ISK 1,164 million.