

MP Fjárfestingarbanki hf.

(MP Investment Bank)

**Annual Accounts
2005**

MP Fjárfestingarbanki hf.
Skiopholti 50 d
105 Reykjavík

Reg. no. 540599-2469

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Endorsement by the Board of Directors and the Managing Director

The Annual Accounts are prepared in accordance with the Annual Accounts Act and Rules on the Financial Statements of Credit Institutions. The Annual Accounts include the Consolidated Annual Accounts of the Bank and its Subsidiary, in addition to the Banks Annual Accounts. The Annual Accounts have been prepared in accordance with the same accounting principles as during the previous years.

MP Investment Bank operated very successfully during the year 2005 although the profit and return on equity were significantly lower than the year before. External conditions were exceptionally favorable in 2004 and the bank also sold large equity holdings during that year with a large profit. In 2005 the bank lowered its' own exposure to the domestic stock market but expanded abroad. The continued good result are reflecting strong market conditions, although at the end of the year yields in the domestic index linked government bond market increased sharply.

The board is of the opinion that considering that status of the Icelandic economy, which appears to be at the very heights of the present business cycle, extreme caution must be exercised in domestic investment and lending.

The bank increased its' service revenue very significantly during 2005 to its' highest level ever. During the year a special credit department was established and risk controls and internal audit was enhanced further.

The board deems the future prospects of the bank as excellent, not least for the fact that income from sources abroad continue to increase steadily and its' share of the domestic market is also growing.

According to the Profit and Loss Account, the Group's net profit for the year amounted to ISK 613 million. According to the Balance Sheet the Group's capital amounted to ISK 3,347 million at the end of the year. The capital ratio for the Group / Parent that is calculated in accordance with provisions in Act on Financial Institutions is 28.5% / 29.0%. According to the Act this ratio may not be lower than 8.0%. The Board of Directors proposes that a dividend of 15% will be paid in the year 2006 on 2005 operations. Other changes in the equity and the allocation of profit are shown in the Annual Accounts.

During the year the Group average number of employees was 18 calculated as full-time equivalent positions. Total salaries paid amounted to ISK 156 million. In addition the Bank paid salary-related expenses amounting to ISK 27 million.

The Bank's share capital amounted to ISK 1,000 million at the end of the year 2005 and it was increased by ISK 715 million during the year. At year-end shareholders in the Bank numbered 54 compared to 42 at the beginning of the year. Five shareholders held more than 10.0% of the shares in the Bank at year-end 2005. Their shareholding is specified as follows:

	Ownership
Margeir Pétursson and companies under his control	31.0%
Sparisjóður vélstjóra	13.8%
Sigurður Gísli Pálmason and company under his control	13.5%
Jón Pálmason og and company under his control	13.5%
Jón Hjartarson	10.0%

The Bank's Board of Directors and Managing Director hereby confirm the Bank's Annual Accounts for the year 2005 by means of their signatures.

Reykjavík, March 3, 2006.

Board of Directors:

Margeir Pétursson
Ágúst Sindri Karlsson
Sigurður Gísli Pálmason

Sigfús Ingimundarson
Jón Þorsteinn Jónsson

Managing Director:

Sigurður Valtýsson

Auditors' Report

To the Board of Directors and Shareholders of MP Fjárfestingarbanki hf. (MP Investment Bank).

We have audited the accompanying Consolidated Balance Sheet and Balance Sheet of MP Investment Bank as of December 31, 2005, and the related Profit and Loss Account and Statement of Cash Flows for the year then ended. These Annual Accounts are the responsibility of the Bank'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. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Annual Accounts are free of material misstatements. 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 presentation of the Annual Accounts. 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 MP Investment Bank and its subsidiary as of December 31, 2005, 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.

Reykjavik, March 3, 2006.

Sæmundur Valdimarsson
Hildur Sigurðardóttir

KPMG Endurskoðun hf.

Profit and Loss Account for the Year 2005

	Notes	Group 2005	Parent 2005	2004
Financial Income:				
Interest from credit institutions		88,878	63,231	41,723
Interest on loans		213,412	213,413	78,722
Interest on market securities		310,568	310,568	166,259
Other interest income	17	331,576	338,922	172,625
	5	944,434	926,134	459,329
Financial Expenses:				
Interest to credit institutions		24,660	24,660	20,130
Interest on borrowings		920,163	906,689	420,210
Interest on subordinated loans		4,651	4,651	3,117
Other interest expenses		3,688	3,688	79
	5	953,162	939,688	443,536
Net interest income		(8,728)	(13,554)	15,793
Other Operating Income:				
Income from shares and other holdings	6	29,217	36,946	13,162
Fee and commissions	7	672,998	670,627	429,883
Commissions expenses		(16,594)	(17,126)	(17,588)
Net trading	18	285,518	285,518	955,948
Sundry operating income		146	146	35,232
		971,285	976,111	1,416,637
Net operating income		962,557	962,557	1,432,430
Other Operating Expenses:				
Salaries and related expenses	20,21	182,928	182,928	158,718
Other operating expenses		103,352	103,352	92,996
Depreciation	11,34	2,504	2,504	5,468
		288,784	288,784	257,182
Provision for losses on the loan portfolio	9,28	(6,000)	(6,000)	0
Profit before income tax		667,773	667,773	1,175,248
Income tax	12,40	(54,348)	(54,348)	(161,767)
Net profit for the year	44	613,425	613,425	1,013,481
Earnings Per share:				
Earnings per share of one ISK	8,23	2.06	2.06	3.60

Balance Sheet

Assets				
	Notes	Group 2005	Parent 2005	2004
Cash and Amounts due from Credit Institutions	24	1,211,809	1,059,763	733,958
Loans	25-28	2,900,351	2,900,351	2,323,458
Market Securities and Shares in other Companies:				
Bonds and other fixed-income securities	10,29	5,792,458	5,479,414	5,078,442
Shares and other variable-income securities	10,30	13,804,213	13,804,213	3,572,053
Shares in associated company	32	147,449	147,449	0
Shares in subsidiary	33	0	7,729	0
		19,744,120	19,438,805	8,650,495
Other Assets:				
Property and equipment	11,34	121,692	121,692	65,743
Sundry assets		871,048	1,099,617	79,900
Prepaid expenses and accrued income		252,111	252,112	408,576
		1,244,851	1,473,421	554,219
Total Assets		25,101,131	24,872,340	12,262,130

December 31, 2005

Liabilities and Capital

	Notes	Group 2005	Parent 2005	2004
Amounts Owed to Credit Institutions	37	1,178,199	1,178,199	2,571,764
Borrowings	38	18,997,764	18,769,007	7,259,493
Other Liabilities:				
Sundry liabilities		698,346	698,346	292,453
Accrued expenses		786,033	786,033	131,271
		1,484,379	1,484,379	423,724
Deferred Income Tax Liability	12,39	20,990	20,990	1,259
Subordinated Loans	13,41	72,632	72,632	86,866
Capital:				
Share capital		1,000,000	1,000,000	284,620
Share premium		719,749	719,749	535,181
Statutory reserve		3,566	3,566	3,566
Revaluation reserve		57,730	57,730	0
Translation reserve		34	0	0
Retained earnings		1,566,088	1,566,088	1,095,657
	44-45	3,347,167	3,347,133	1,919,024
Total Liabilities and Capital		25,101,131	24,872,340	12,262,130

Not included in the Balance Sheet:

Obligations on behalf of customers	46
Other obligations	47

Statement of Cash Flows for the Year 2005

	Notes	Group 2005	Parent 2005	2004
Cash Flows from Operating Activities:				
Net profit for the year	44	613,425	613,425	1,013,481
Difference between net profit and cash from operations:				
Indexation and exchange rate difference		98,254	98,221	(11,511)
Depreciation		2,504	2,504	5,468
Provision for losses on the loan portfolio	28	6,000	6,000	0
Share of results in subsidiary and associated company	32,33	(17,599)	(25,328)	0
Deferred income tax liability, change		19,731	19,731	167
Changes in operating assets and liabilities		811,227	811,227	(283,912)
Net cash provided by operating activities		1,533,542	1,525,780	723,693
Cash Flows from Investing Activities:				
Deposits with credit institutions, change		(52,387)	(52,387)	(530,761)
Loans, change		(635,960)	(635,960)	(1,872,742)
Trading bonds, change		(714,016)	(400,972)	(3,804,133)
Trading shares, change		(10,300,708)	(10,300,708)	(882,021)
Investment in shares in associated company		(61,250)	(61,250)	0
Investment in property and equipment	34	(723)	(723)	(383)
Sundry assets, change		(791,147)	(1,019,717)	3,365
Net cash used in investing activities		(12,556,191)	(12,471,717)	(7,086,675)
Cash Flows from Financing Activities:				
Amounts owed to credit institutions		(1,393,566)	(1,393,566)	1,532,386
Borrowings, change		11,693,117	11,464,360	4,705,099
Other liabilities, change		405,892	405,892	182,673
Subordinated loans, change		(14,286)	(14,286)	(14,286)
Dividends paid		(142,992)	(142,992)	(109,183)
Capital stock purchased and sold		899,948	899,948	13,692
Net cash provided by financing activities		11,448,113	11,219,356	6,310,381
Increase (Decrease) in Cash and Cash				
Equivalents		425,464	273,419	(52,601)
Cash and Cash Equivalents at the beginning				
of the Year		203,197	203,197	255,798
Cash and Cash Equivalents at the end of the				
year	15	628,661	476,616	203,197
Other information:				
Income tax paid		92,563	92,563	41,533
Investing and Financing Activities not				
affecting Cash Flows:				
Share capital paid with securities		0	0	21,548

Notes to the Annual Accounts

Summary of Accounting Principles

Basis of Preparation

1. The Annual Accounts are prepared in accordance with Annual Accounts Act and Rules on the Financial Statement of Credit institutions. The Annual Account contains the Annual Accounts of the Bank and Consolidated Annual Accounts of the Bank and its subsidiary. Intercompany transaction between the group companies are not included in the Consolidated Annual Accounts. The Annual Accounts are prepared in Icelandic currency and amounts are presented in thousands of ISK. The Annual Accounts are based on cost accounting except that listed trading securities and property are valued at market value. The Annual Accounts are prepared according to the same accounting principles as for the previous year.
The Bank bought all the capital in the British company Orange International Investments UK Ltd. during the year and the company is a part of the group from that time.
2. Subsidiary is company in which the Bank holds controlling interest. The Annual Accounts of the subsidiary is included in the Consolidated Annual Accounts of the Bank. Balances between group companies, transactions and profit created in transactions between group companies are eliminated in the Annual Accounts.
3. Associated company is company where the Bank has significant influence along with others. The shares are presented at a value corresponding to the bank's share in the company's equity.

Foreign Currencies

4. Assets and liabilities in foreign currencies are converted to ISK at the year-end 2005 exchange rate, which is ISK 74,70 per each EUR 1 and ISK 63,13 per each USD 1. Operational revenue and expenses in foreign currencies are converted at the exchange rate on the date of transaction.

Interest Income and Expenses

5. Interest income and interest expenses are entered into the Profit and Loss Account as they accrue based on the effective interest rate. Interest income is calculated on amounts due from other financial institutions, loans, market securities and forwards. Interest expenses are calculated on amounts owed to financial institutions, borrowings and subordinated loans. If loans have been in default for more than three months interest income is no longer calculated.

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

6. The item income from shares and other holdings includes shares of results from subsidiary and associated company, including dividends from trading shares.

Fee and Commission Income

7. Service income includes income from commissions and service charges. Income from commissions is derived from the handling of securities for the Bank's customers and is accrued evenly over the year. Service charges are derived from special projects and are accrued at the end of the projects.

Notes, contd.:

Earnings Per Shares

8. Earnings per share is the ratio between earnings and weighted average share capital during the year and shows the profit per each ISK 1 of share capital.

Loans

9. Loans are capitalised with accrued interest, indexation and exchange rate difference at year-end. Indexed Loans are based on index in the beginning of January 2006. Loans in foreign currencies are based on the exchange rate of the relevant currencies at year-end 2005.

Provision for losses on the loan portfolio is made to meet the risk attached to lending operations. The loss provision is based on estimation and does not present a final write-off. The Bank contributes to the provision account in respect of estimated lending risk each time. Firstly, there are specific provisions to adjust for obligations of creditors that have received a poor risk evaluation, and secondly there is a general 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 loans to customers in the Balance Sheet.

Market Securities and Holdings

10. Fixed-income securities include bonds and other securities with fixed interest or with a specified interest criterion. Variable-income securities include shares and unit shares. Listed trading securities are valued at year-end market value whereas unlisted trading shares are entered at the cost price or estimated market price.

Property and Equipment

11. Property and equipment are capitalized at cost price less depreciation, except that the Bank's property is capitalised at estimated market value at year end 2005. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the property and equipment until a scrap value is reached. Estimated useful life is specified as follows:

Real estate	50 years
Office equipment	5 years
Computers, software and other computer equipment	3 years

Deferred Income-Tax Liability

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

Subordinated Loans

13. The Bank has borrowed funds by issuing bonds with subordinated terms. The bonds have the characteristics of equity in being subordinate to other liabilities of the Bank. In the calculation of the capital ratio, the bonds are included with equity, as shown in Note 45.

Notes, contd.:

Stock Option Contracts

14. Stock option contracts enable the Bank's employees to acquire shares in the Bank. The purchase price equals the estimated market value of the shares at the grant date. The Bank's cost is evaluated as the difference between the call price and the market price of the shares at the Balance Sheet date, considering vested rights of employees. Nothing has been entered due to these stock option contracts in the Profit and Loss Account.

Cash and Cash Equivalents

15. Cash and cash equivalents in the Statement of Cash Flows consist of cash and demand deposits with credit institutions. Cash and cash equivalents for the group amounts to ISK 629 million and ISK 477 million for the Parent at the year-end 2005.

Derivatives

16. 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 or because the notional amounts serve merely as variables for calculating purposes. The notional amounts of derivatives do not necessarily give any indication of the size of the cash flows and the market and credit risk attached to derivatives transactions. Examples of derivatives are forward exchange contracts, swaps and options. The underlying value may involve interest rate, currency rate, bond or equity products.

Derivatives performance is entered in the Profit and Loss Account and in the Balance Sheet. Net asset are capitalized among prepaid expenses and accrued income whereas net obligations are entered among sundry liabilities.

Financial Income

17. Other interest income are specified as follows:	Group	Parent	
	2005	2005	2004
Interest from forward contracts	319,224	319,224	152,930
Other interest	12,352	19,698	19,695
Total	<u>331,576</u>	<u>338,922</u>	<u>172,625</u>

Exchange-rate Gain

18. Exchange-rate gain are specified as follows:

Exchange-rate gain due to currencies	825	825	63,920
Exchange-rate gain due to securities	284,693	284,693	892,028
Total	<u>285,518</u>	<u>285,518</u>	<u>955,948</u>

Notes, contd.:

Personnel

19. The Bank's total number of employees is as follows:

	2005	2004
Average number of employees during the year	18	17
Positions at the end of the year	20	19

20. Salaries and related expenses are specified as follows:

Salaries	115,737	83,101
Salary-related expenses	27,191	21,405
Accrued performance based salary	40,000	54,212
Total	<u>182,928</u>	<u>158,718</u>

21. Salaries to the Board of Directors and the Managing Director, their stock options and ownership in the Bank are specified as follows:

	Salary and fringe benefits	Ownership at year-end
Sigurður Valtýsson, Managing Director	24,077 ¹⁾	30,000
Margeir Pétursson, Chairman	4,800	310,166
Sigfús Ingimundarson, Vice-Chairman	1,200	13,833
Ágúst Sindri Karlsson, Board member	5,040 ²⁾	11,667
Sigurður Gísli Pálmason, Board member	240	134,850
Jón Þorsteinn Jónsson, Board member	0	
Gunnar Árnason, Vice Board member	240	
Jón Hjartarson, Vice Board member	120	100,000
Sigurður R. Helgason, Vice Board member	120	
Örn Andrésson, Vice Board member	120	8,333
Jón Pálmason, Vice Board member	120	134,850
Sverrir Kristinsson, Former Vice Board member	120	
Total	<u>36,197</u>	<u>743,699</u>

1) The Bank's Managing Director exercised his stock options during the year for a nominal value of ISK 0.1 million. There are restrictions on the sale of shares for a nominal value of ISK 5.1 million, which are lifted linearly from March 1, 2006 until March 1, 2008.

2) This is Director's salary and fees for legal service.

Auditors' Fees

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

	2005	2004
Audit of Annual Accounts	3,361	2,436
Review of Interim Accounts	2,833	1,618
Other services	1,896	1,263
Total	<u>8,090</u>	<u>5,317</u>

Notes, contd.:

Earnings per Share

23. Calculation of earnings per share is based on profit and the weighted average share capital during the year:

	2005	2004
Net Profit according to the Annual Accounts	613,425	1,013,481
Calculated average share capital:		
Share capital according to the Annual Accounts at the beginning of the year	284,620	272,617
Impact of increase of share capital during the year	9,028	9,444
Impact of purchase and sale of own shares	4,328	(328)
Calculated average share capital	297,976	281,733
Earnings per share	2.06	3.60

Amounts due from Credit Institutions

24. Amounts due from credit institutions are specified as follows:

	Group	Parent	
	31.12.2005	31.12.2005	31.12.2004
Cash	3	3	3
On demand	628,659	476,613	203,194
Over 5 years	583,147	583,147	530,761
Total	1,211,809	1,059,763	733,958

Loans

25. Loans to customers are specified by types of loans as follows:

	31.12.2005	31.12.2004
Bill of exchange	0	54,120
Debentures	2,900,351	2,269,338
Total	2,900,351	2,323,458

26. The Bank's loans are specified by currencies as follows:

Loans in ISK	1,444,983	1,778,115
Loans in foreign currencies	1,455,368	545,343
Total	2,900,351	2,323,458

27. Loans to customers are specified by maturity as follows:

On demand	11,376	24,983
Up to 3 months	840,226	542,293
Over 3 months and up to 1 year	1,530,345	1,541,484
Over 1 year and up to 5 years	518,404	214,698
Total	2,900,351	2,323,458

Notes, contd.:

28. Provision for losses are specified as follows:

	Provision for losses		2005	2004
	Specific	General	Total	Total
Provision at the beginning of the year	11,860	23,077	34,937	34,937
Provision for losses during the year	0	6,000	6,000	0
Actual losses during the year	(6,181)		(6,181)	0
Provision at year-end	<u>5,679</u>	<u>29,077</u>	<u>34,756</u>	<u>34,937</u>
Provisions for losses on the portfolio, as a percentage of loans and issued guarantees	0.2%	1.0%	1.2%	1.4%

Market Securities and Shares in Other Companies

29. Bonds and other fixed-income securities are specified as follows:

	Group		Parent	
	Market value	Book Value	Market value	Book value
Trading bonds:				
Listed on Iceland Stock Exchange	5,143,867	5,143,867	5,143,867	5,143,867
Listed foreign bonds	482,780	482,789	169,745	169,745
Unlisted bonds		165,802		165,802
Total trading bonds		<u>5,792,458</u>		<u>5,479,414</u>

The Bank has entered into forward contracts, swaps and repo with the Central Bank of Iceland amounting to ISK 826 million against its securities.

Bonds and other fixed-income securities are specified by issuers as follows:

	Group		Parent	
	31.12.2005	31.12.2005	31.12.2005	31.12.2004
Bonds issued by public organisations	4,880,883	4,880,883	4,992,529	
Bond issued by others	911,575	598,531	85,913	
Total fixed-income securities	<u>5,792,458</u>	<u>5,479,414</u>	<u>5,078,442</u>	

30. Shares and other variable-income securities are specified as follows:

	Market value	Book value
Trading shares and unit shares:		
Shares listed on Iceland Stock Exchange	8,632,386	8,632,386
Listed foreign shares	3,049,642	3,049,642
Listed foreign unit shares	651,822	651,822
Unlisted domestic shares and shares in saving banks		1,353,934
Unlisted foreign shares		101,616
Unlisted unit shares		14,813
Total trading shares		<u>13,804,213</u>

The Bank has entered into forward contracts and swaps amounting to ISK 10,157 million against its shares and other variable-income securities.

Notes, contd.:

31. The Bank owns 10.0% of the shares in Líftækni sjóðurinn hf. (Biotech fund), but controls 34.5% of the voting power in the company. Shares in other unlisted companies are less than 5.0% of their stockholders' equity.
32. MP Investment Bank owns 49.0% shares in Hraunbjarg hf. which book value is ISK 147 million at year-end. The Banks share of net profit of Hraunbjarg hf. during the year amounted to ISK 20 million.
33. MP Investment Bank owns all shares in Orange International Investments UK Ltd., which book value is ISK 8 million at year-end. The banks share of net profit of Orange International Investments UK Ltd. during the year amounted to ISK 8 million.

Other Assets:

34. Property and equipment are specified as follows:

	Real estate	Office equipment and fixtures	Total
Total value 1.1.2005	68,538	29,758	98,296
Previously depreciated	(6,397)	(26,156)	(32,553)
Book value 1.1.2005	62,141	3,602	65,743
Revaluation reserve	57,730	0	57,730
Additions during the year	0	723	723
Depreciation during the year	(1,371)	(1,133)	(2,504)
Book value 31.12.2005	118,500	3,192	121,692
Total value 31.12.2005	126,268	30,481	156,749
Total depreciation 31.12.2005	(7,768)	(27,289)	(35,057)
Book value 31.12.2005	118,500	3,192	121,692
Depreciaton ratios	2%	20-33%	

The official real estate value of the real estate owned by the Bank is ISK 53 million and the insurance value of buildings is ISK 59 million.

Assets and Liabilities Index-linked or in Foreign Currencies

35. The total amount of indexed assets of the Group and Parent Company amounted to ISK 4,639 million, and the total amount of indexed liabilities amounted to ISK 3,454 million at year-end.
36. The total amount of assets of the Group/Parent Company denominated in foreign currencies amounted to ISK 7,737 / 7,508 million at year end and the total amount of liabilities in foreign currencies amounted to ISK 7,737 / 7,508 million. Among assets and liabilities are forward contracts as shown in Note 47.

Notes, contd.:

Amounts Owed to Credit Institutions

37. Amounts owed to credit institutions is specified as follows:

	31.12.2005	31.12.2004
Amounts owed to the Central Bank	487,637	2,569,436
Amounts owed to other credit institutions	690,562	2,328
Total	<u>1,178,199</u>	<u>2,571,764</u>

Amounts owed to the Central Bank is due to repo transactions.

Borrowings

38. The Bank's borrowings consist of amounts owed to credit institutions and listed bonds and notes whereof ISK 8,536 million will mature within one year. This amount includes loans amounting to ISK 2,263 million that may be extended.

Deferred Income Tax Liability

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

	2005	2004
Deferred income tax liability at the beginning of the year	1,259	1,092
Income tax for the year	54,362	161,767
Income tax payable	(34,631)	(161,600)
Deferred income tax liability at year end	<u>20,990</u>	<u>1,259</u>

The deferred income-tax liability is specified as follows:

Property and equipment	11,102	557
Other assets	9,888	702
Deferred income tax liability at year end	<u>20,990</u>	<u>1,259</u>

40. The corporate income tax rate in Iceland is 18.0% whereas the effective income tax rate in the Bank's profit and loss account is 8.1%. The difference is specified as follows:

Profit before income tax	667,773	
18.0% income tax calculated on the profit for the year	120,201	18.0%
Dividends received, exempt from tax	(2,091)	(0.3%)
Tax asset due to merger with another company	(74,151)	(11.1%)
Other changes	10,389	1.5%
Income tax according to income statement	<u>54,348</u>	<u>8.1%</u>

Subordinated Loans

41. The subordinated loans are in ISK with six months REIBOR interest. The loan is non-indexed and is due 2010, with yearly payments.

Notes, contd.:

Capital

42. The Bank's share capital amounts to ISK 1,000 million. One vote is attached to each share of ISK 1 in the Bank. At the end of the year the bank owned none no treasury shares. The share capital was increased by a nominal value of ISK 715 million during the year, on the one hand due to stock option contracts to personnel and on the other hand due to sale on new shares with nominal value of ISK 700 million.

43. The Bank has granted its employees stock options. According to the stock option contracts the Bank has committed itself to allow its employees to purchase shares in the Bank for nominal value of ISK 62 million at the price of ISK 180 million. The stock option rate is between 1.75 to 4.00. The employees have accrued stock options amounting to a nominal value of ISK 6 million. The Contracts can be applied during the years 2007 to 2009. No entries have been made in the Bank's Profit and Loss Account due to these stock option contracts.

44. Capital is specified as follows:

	Share capital	Share premium	Statutory reserve	Revaluation reserve	Retained earnings	Total
Capital 1.1.2005	284,620	535,181	3,566	0	1,095,655	1,919,022
Sold new shares	715,000	185,000				900,000
Sold own shares	13,980	160,768				174,748
Purchased own shares ...	(13,600)	(161,200)				(174,800)
Revaluation of real estate				57,730		57,730
Dividend paid					(142,992)	(142,992)
Net profit for the year ..					613,425	613,425
Capital 31.12.2005	<u>1,000,000</u>	<u>719,749</u>	<u>3,566</u>	<u>57,730</u>	<u>1,566,088</u>	<u>3,347,133</u>

45. Capital at year end amounts to ISK 3,347 million which is 13.3% / 13.5% of the total assets in the Balance Sheet for the Group / Parent. The capital adequacy ratio for the Group / Parent, which may not be lower than 8.0% according to Article 84 of the Act on Financial Institutions, is 28.5% / 29.0%. The ratio is calculated as follows:

	Group Weighted value	Parent Weighted value
Risk base:		
Risk base due to credit risk in items not included in the trading book	3,622,027	3,827,911
Risk base due to currency fluctuations	293,233	293,233
Risk base due to position and counter-party risk in the trading book	5,521,544	5,154,233
Risk base, total	<u>9,436,804</u>	<u>9,275,377</u>
Tier I capital:		
Recorded capital	3,347,167	3,347,133
Tier II capital:		
Subordinated loans	41,865	41,865
Ownership in other credit institutions	(701,315)	(701,324)
Total capital	<u>2,687,717</u>	<u>2,687,674</u>
Capital adequacy ratio	28.5%	29.0%

Notes, contd.:

Off-Balance Sheet Obligations

46. The Bank has granted its customers guarantees amounting to ISK 3 million.

47. Derivatives, remaining maturity period of principal and book value are specified as follows:

	P r i n c i p a l			B o o k v a l u e	
	Up to 3 months	Over 3 months up to 1 year	Total	Assets	Liabilities
Foreign exchange rate contracts:					
Forward exchange rate contracts	2,745,898	113,475	2,859,373	12,165	5,121
Interest rate contracts:					
Swaps	487,637	0	487,637	0	212,698
Securities contracts:					
Securities contracts	6,780,159	4,114,655	10,894,814	151,112	481,813
Derivatives, total	10,013,694	4,228,130	14,241,824	163,277	699,632

The book value of derivatives contracts is specified by counter parties as follows:

	Assets	Liabilities
Credit institutions	12,165	5,121
Other customers	151,112	694,511
Total	163,277	699,632

The objective of the above-mentioned agreements is to reduce the currency and interest rate risk of the Bank. The Bank's risk due to these contracts includes loans, interest and currency rate differential.