Frjalsi Investment Bank hf.

Consolidated Interim Financial Statements
1 January - 30 June 2005

ISK

Frjalsi Investment Bank hf.
Armula 13a
108 Reykjavik
Iceland

Reg. no. 691282-0829

Contents

Endorsement and Signatures of the Board of Directors and the Managing Director

The Consolidated Interim Financial Statements of Frjalsi Investment Bank hf. for the six months ended 30 June 2005, have been prepared in accordance with International Financial Reporting Standards (IFRS). The Consolidated Interim Financial Statements includes the Interim Financial Statement of Frjalsi Investment Bank hf. and its subsidiary, together referred to as "the Bank".

The changes in the Bank´s shareholders´ equity as of 1 January 2005 as a result of the adoption of IFRS is a decrease amounting to ISK 89 million. Further information on the effects of IFRS adoption are in the Notes to the Consolidated Interim Financial Statement.

According to the Income Statement, profit for the period 1 January to 30 June 2005 amounted to ISK 230 million. Total equity, according to the Balance sheet, amounted to ISK 3,583 million at the ended of the period, including share capital amounting to ISK 1,097 million. The equity adequacy ratio for the Bank, calculated according to the Act on Financial Undertakings, was 24.4% for the bank. This ratio may not be lower than 8.0%.

The Board of Directors and the Managing Director of Frjalsi Investment Bank hf. hereby confirm the Consolidated Interim Financial Statements for the period 1 January to 30 June 2005.

Reykjavik, 24 August 2005.

Board of Directors:

Gudmundur Hauksson
Chairman

Hildur Petersen

Kristjan Hardarson

Arni Thor Sigurðsson

Olafur Haraldsson

Managing Director:

Kristinn Bjarnason

Auditors' Review Report

To the Board of Directors of Frjalsi Investment Bank hf.

We have reviewed the Consolidated Balance Sheet of Frjalsi Investment Bank hf. ("the Bank") as of 30 June 2005, and the related consolidated statement of income, changes in equity, cash flows and notes for the six months period then ended (the interim financial information). This consolidated interim financial information is the responsibility of the Bank´s management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with International Standard on Review Engagement. A review is limited primarily to inquiries to the Bank´s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accopanying consolidated interim financial information does not give a true and fair view of the financial position of the Bank as of 30 June 2005, and the financial performance and cash flows for the interim period then ended, in accordance with IAS 34, "Interim Financial Reporting".

Without qualifying our review conclusion, we draw attention to Note 2 to the consolidated interim financial information that explains the Bank´s transition to International Financial Reporting Standards (IFRS). As explained in Note 2 there is a possibility that the Bank´s management may determine that changes to the accounting policies adopted in preparing the consolidated interim financial information are necassary when it prepares its first IFRS Financial Statements as of 31 December 2005.

Reykjavík, 24 August 2005.

Sigurdur Jonsson

KPMG Endurskodun hf.

Consolidated Interim Income Statement
for the Period from 1 January to 30 June 2005

	Notes	2005 1.1.-30.06	2004 1.1.-30.06
Net interest income		284,761	422,039
Net fee and commission income		42,195	30,048
Dividend income		11,983	0
Net gain on sale of financial assets measured at amortised cost		91,938	0
Foreign exchange differences		17,973	(394)
Other net operating income		48,521	42,351
Operating income		497,371	494,044
Salaries and related expenses		(106,679)	(85,079)
Administrative expenses		(56,618)	(35,610)
Depreciation and amortisation		(13,510)	(2,781)
Impairment losses on loans and advances	19	(37,749)	(100,000)
Share of loss of associates		(4,014)	0
Profit before income tax		278,801	270,574
Income tax		(48,750)	(49,318)
Profit for the period attributable to shareholders of Frjalsi Investment Bank hf		230,051	221,256

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Consolidated Interim Balance Sheet
as at 30 June 2005

	Notes	30.6.2005	1.1.2005
Assets			
Cash and cash balances with the Central Bank		2,435	2,360
Loans and advances	18	27,792,471	17,152,986
Trading financial assets	23	54,561	41,137
Financial assets designated at fair value through profit and loss		171,187	171,233
Investment in associates		103,539	552
Property and equipment		566,653	36,816
Non-current assets and disposal groups held for sale	20	90,194	90,002
Other assets	21	677,429	178,298
Total Assets		29,458,469	17,673,384
Liabilities			
Borrowings		25,739,956	14,182,492
Current and deferred tax liabilities		2,575	2,575
Other liabilities		133,261	135,691
Total Liabilities		25,875,792	14,320,758
Equity			
Share capital		1,096,702	1,096,702
Share premium		274,176	274,176
Retained earnings		2,211,799	1,981,748
Total Equity		3,582,677	3,352,626
Total Liabilities and Equity		29,458,469	17,673,384

Interim Financial Statements, Frjalsi Investment Bank hf. 30 June 2005 6 Amounts are in ISK thousands

Consolidated Statement of Changes in Equity
for the Period from 1 January to 30 June 2005

	Shareholders' equity			
	Share Capital	Share Premium	Retained earnings	**Total**
Changes in equity in 2004				
Equity at 1 January 2004 (IS-GAAP)	1,096,702	274,176	1,559,387	2,930,265
Profit for the year			511,126	511,126
Equity at 31 December 2004 (IFRS)	1,096,702	274,176	2,070,513	3,441,391
Changes in equity in 2005				
Equity at 31 December 2004 (IS-GAAP)	1,096,702	274,176	2,070,513	3,441,391
Changes due to adoption of IFRS			(88,765)	(88,765)
Equity at 1 January 2005 (IFRS)	1,096,702	274,176	1,981,748	3,352,626
Profit for the period			230,051	230,051
Equity at 30 June 2005	1,096,702	274,176	2,211,799	3,582,677

Consolidated Interim Statement of Cash Flow
for the Period from 1 January to 30 June 2005

	2005 1.1.-30.06	2004 1.1.-30.06
Net cash provided by operating activities	(481,869)	301,653
Net cash flow used in investing activities	(11,203,283)	(2,227,066)
Net cash flow provided by financing activities	11,512,894	1,939,777
Net (decrease) increase in cash and cash equivalents	(172,258)	14,364
Cash and cash equivalents, beginning of the year	269,449	47,809
Cash and cash equivalents, end of the period	97,191	62,173

Notes to the Consolidated Interim Financial Statements

Sicnificant Accounting Policies

Frjalsi Investment Bank hf. is a company domiciled in Iceland. The consolidated interim financial statements of the Frjalsi Investment Bank hf. for the six months ended 30 June 2005 comprise Frjalsi Investment Bank hf. and its subsidiaries (together referred to as the "Bank").

1. **Statement of compliance**

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for interim financial statements. These are the Bank's first IFRS consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation on how the transition to IFRS has affected the reported financial position and financial performance of the Bank is provided in notes 24-26. These notes include reconciliations of equity profit for comparative periods reported under Icelandic GAAP (IS-GAAP) to those reported for those periods under IFRS.

2. **Basis of preparation**

The consolidated interim financial statements are presented in Icelandic kronas, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments designated at fair value through profit and loss.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of interim financial statements in conformity with IAS 34 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

These consolidated interim financial statements have been prepared on the basis of IFRS in issue that are effective or available for early adoption at the Bank's first IFRS annual reporting date, 31 December 2005. Based on these IFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first IFRS annual financial statements are prepared for the year ended 31 December 2005.

The IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 31 December 2005 are still subject to change and to the issue of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at 31 December 2005.

The preparation of the consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under IS-GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRS, as required by IFRS 1.

The Bank has decided to make use of the exemption provided in IFRS 1 First-time Adoption of International Financial Reporting Standards regarding restatement of comparative information and it did not restate comparative information for the year 2004 so as to comply with IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement.*

Instead, the Bank applied its IS-GAAP in the comparative information to financial instruments within the scope of IAS 32 and IAS 39, except for comparative amounts presented in the balance sheet, which are the amounts reported under IS-GAAP as of 31 December 2004, adjusted for the adoption of IAS 32 and IAS 39 on 1 January 2005 are explained in note 24.

The accounting policies have been applied consistently throughout the Bank for purposes of these consolidated interim financial statements.

3. Basis of consolidation

a) *Subsidiaries*

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

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

b) *Associates*

Associates are those entities for which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated interim financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in an associate, the Bank's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that Bank has incurred legal or constructive obligations or made payments on behalf of an associate.

c) *Transactions eliminated on consolidation*

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

4. Foreign currency

Foreign currency translations

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Icelandic kronas at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Icelandic kronas at foreign exchange rates ruling at the dates the fair value was determined.

5. Derivative financial instruments

The Bank uses derivative financial instruments for to hedge its exposure to foreign exchange risk arising from operating, financing and investing activities.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Derivatives with positive fair values are recognised as assets and derivatives with negative fair values are recognised as liabilities.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 7.

6. Classification of financial assets

Financial assets under the scope of IAS 39 are measured on the basis of the categories described below.

a) *Loans and advances*

Loans and advances include loans provided by the Bank to its customers and purchased loans that are not quoted in an active market and for which the Bank has no intention of resale. Originated and purchased loans which are intended to be sold in the short term are recorded as trading financial assets.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

b) *Trading financial assets*

Trading financial assets are mainly utilised to generate a profit from short-term fluctuations in price or from dealer's margin.

Trading financial assets mainly consists of bonds and shares. Derivatives with positive fair value that are not designated as hedging instrument or are not effective hedging instrument are also included in this catagory.

Trading financial assets are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading financial assets are reported in income as net gain on trading financial assets. Interest and dividend income on trading financial assets are included in net interest income and dividend income.

c) *Financial assets designated at fair value through profit and loss*

A financial instrument may be designated at inception as held at fair value through profit and loss and the designation cannot be changed subsequently. Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, cannot be classified into this category.

All fair value changes related to financial assets held at fair value through profit and loss are reported in income statement as net gain on financial assets designated at fair value. Interest and dividend income on financial assets designated at fair value through profit or loss are included in net interest income and dividend income.

7. Determination of fair value

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques.

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

8. Property and equipment

a) *Owned assets*

Items of property and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

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

b) *Subsequent costs*

The Bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

c) *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

Buildings.. 25 - 50 years

Machinery and equipment	3-5 years
Vehicles	7 years

The residual value is reassessed annually.

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

Immediately before classification as held for sale, the measurement of the assets and all assets and liabilities in a disposal group is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

Non-current assets and disposal groups held for sale consist mainly of mortgages foreclosed and disposal entities. Disposal entities are consolidated as "one-line" consolidation.

10. Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, financial liabilities measured at amortised cost are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

11. Capital

a) *Share capital*

When share capital recognised as equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as tresury shares and deducted from equity.

b) *Dividend on shares*

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

12. Other assets and other liabilities

Other assets and other liabilities are stated at cost.

13. Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, demand deposits with the Central Bank and demand deposits with other credit institutions.

14. Income

a) *Interest income and expense*

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

b) *Fee and commission income*

The Bank provides various services to its clients and derives income there from. Commission income includes income from investment banking, corporate banking, securities brokerage, asset management and lending activities. Commission income is recognised into the Bank's Income Statement when the corresponding services are provided.

c) *Dividend income*

Dividend income is recognised in the income statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues.

15. **Expenses**

Costs relating to the issuance of long-term debt

Costs relating to the issuance of long-term debt, such as fees relating to placement, underwriting commitments, subscription, management, or syndication, are expensed as incurred and recognised as Administrative expenses.

16. **Impairment**

The carrying amount of the Bank's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated, see note 16 b.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

a) *Impairment losses on loans*

The Bank reviews its loan portfolio to assess impairment regularly, at least every six months, to ascertain whether there is objective evidence of impairment. If the objective indication of impairment affects the size of expected cash flows from the loan, the loan will be written down to the present value of expected future cash flows.

Loans and advances that are not written down specifically become a part of a portfolio which is assessed for impairment. Assessment of a portfolio assumes that loans have similar credit risk characteristics. Objective evidence of impairment of a group of loans exists if objective data indicates a decrease in expected future cash flows from a portfolio of loans and the decrease can be measured reliably but cannot be identified with the individual loans in the portfolio.

The implementation of IAS 39 regarding impairment means that calculated interest income related to impaired loans will be recognised as interest income, calculated at original effective interest rate, while the value of a loan at the time of impairment will be calculated based on net present value of future cash flows.

b) *Calculation of recoverable amount*

The recoverable amount of the Bank's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

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

c) *Reversals of impairment*

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

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

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

17. **Income tax**

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

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

The deferred income tax liability has been calculated and recognised in the Balance Sheet. The calculation is based on the difference between Balance Sheet items as presented in the tax return on the one hand, and in the interim financial statements on the other. This difference is due to the fact that tax assessments are based on premises that differ from those governing the interim financial statements, mostly because expenses are recognised earlier in the tax return than in the interim financial statements.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Loans and advances

18. Loans and advances are specified as follows:

	30.6.2005	1.1.2005
Loans due from credit institutions	151,752	310,586
Loans to customers	27,640,719	16,842,400
	27,792,471	17,152,986

Allowance for loss on loans and advances

19. Changes in the allowance for losses on loans and advances are specified as follows:

	1.1. - 30.6.2005
Balance 1 January 2005	371,331
Impairment on loans and advances during the period	37,749
Actual losses during the period	(13,210)
Unwind of discount of allowance	(15,315)
Balance 30 June 2005	380,555

Non-current assets and disposal groups

20. Non-current assets and disposal groups classified as held for sale are specified as follows:

	30.6.2005	1.1.2005
Mortgages foreclosed - tangible assets held for sale	90,194	90,002

Other assets

21. Other assets are specified as follows:

	30.6.2005	1.1.2005
Properties in progress intended for future sale	668,315	168,499
Other assets	9,114	9,799
	677,429	178,298

Equity

22. Equity at the end of the period amounts to ISK 3,583 million. The capital adequacy ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 24.4%. According to the law the ratio may not go below 8.0%.

The ratio is calculated as follows:

	30.6.2005	
	Book value	Weighted value
Risk I:		
Assets recorded in the Consolidated Interim Financial Statements	22,897,527	14,686,569
Guarantees and other items not included in the Balance Sheet		13,036
		14,699,605
Capital:		
Tier I capital:		
Equity		3,582,678
		3,582,678
Capital adequacy ratio		24.4%

Derivatives

23. Derivatives are specified as follows:

	30.6.2005		
	Principal	Book value	
	Up to 3 months	Assets	Liabilities
OTC currency and interest rate derivatives:			
Forward currency agreements	1,656,837	54,561	0

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Notes to the Consolidated Interim Financial Statements

Explanation of transition to IFRS

24. **General remarks:**

These are the Bank´s consolidated interim financial statement for part of the period covered by the Bank´s first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied

The Annual Financial Statements for the year 2005 will be prepared in accordance with the accounting policies presented in the Notes to these Consolidated Interim Financial Statement. The opening IFRS balance sheet as at 1 january 2004, which is referred to as the transition date, and the comparative figures for 2004 have also been prepared in accordance with these accounting policies, except for IAS 32 and IAS 39 4 as explained in note 2.

The following tables and notes show the effects of the change from Icelandic GAAP (IS-GAAP) to IFRS on the Bank´s financial position and financial performance. The total effect of the adoption of IFRS on equity is a decrease of ISK 89 million. There are no significant changes to the cash flows according to IFRS compared with how they were previously reported under IS-GAAP.

Changes in equity from IS-GAAP to IFRS:	**Equity**
Equity according to IS-GAAP at 31 December 2004	3,441,391
Equity according to IFRS at 1 January 2005	3,352,626
Change in equity from IS-GAAP to IFRS	(88,765)

Adjustments in the beginning of the year 2005:		
Changes in impairment of loans	IAS 39	71,849
Value changes in loans because of upfront fee	IAS 39	(244,512)
Value changes in financial Assets designated at fair value through profit and loss	IAS 39	64,413
Recalculation of tax liabilities	IAS 12	19,485
Total adjustments at 1 January 2005		(88,765)
Changes from IS-GAAP		(88,765)

Origination fees

The main changes resulting from the adoption of the IFRS are as follows: origination fees will be accrued over the term of the loan instead of being recognised as income at the time of disbursement. As a result the Bank´s interest income will decrease in the short term but the long term effects will be insignificant.

In the opening balance sheet at the 1 January 2005, the effective rate of interest on loans has been recalculated in accordance with IAS 39. As a result equity on 1 January 2005 decreased by ISK 245 million.

Impairment of loans and advances

The Bank has performed the impairment test of loans in accordance with IAS 39. As a result the Bank´s equity increased by ISK 71 million.

According to IAS 39, the Bank is obligated to review all loans to ascertain whether there is objective evidence of impairment that affects the size of expected cash flows from the loan. The loan will then be written down to the present value of expected future cash flow.

Value changes in financial assets designated at fair value through profit and loss

The Bank sold the cash flow of part of its loan portfolio and according to the derecognition rules of IAS 39 he has to derecognise it from it balance sheet. Increase in the Bank´s equity by ISK 64 million.

From IS-GAAP to IFRS

The following tables provide an overview of the effect of the transition to IFRS broken down by changes in valuation and presentation.

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Notes to the Consolidated Interim Financial Statements

25. **Explanation of changes in the profit for the year 2004**

According to IS-GAAP		Change in valuation	Change in presentation		According to IFRS
Net interest income	881,723	0	0	881,723	Net interest income
Fees, commissions and other service charges	67,028	0	0	67,028	Net fee and commission net income
Trading losses	(394)	0	394	0	
		0	(394)	(394)	Foreign exchange differences
Other operating income	124,784	0	0	124,784	Other net operating income
Salaries and salary related expenses	(195,525)	0	0	(195,525)	Salaries and related expenses
Other administrative expenses	(82,233)	0	0	(82,233)	Administrative expenses
Depreciation and amortisation	(7,058)	0	0	(7,058)	Depreciation and amortisation
Provision for losses	(165,000)	0	0	(165,000)	Impairment losses on loans and andvances
Income tax	(112,199)	0	0	(112,199)	Income tax
	511,126	**0**	**0**	**511,126**	**Profit for the year**
Net earnings according to IS-GAAP	**511,126**	**0**	**0**	**511,126**	**Profit attributable to shareholders of Frjalsi Investment Bank hf.**

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26. **Explanation of changes in Consolidated Balance Sheet as at 31 December 2004.**

		Change in valuation	Change in presentation		
According to IS-GAAP					**According to IFRS**
Cash and Amounts due from Credit institutions	312,947	0	(310,587)	2,360	Cash and Cash Balances with Central Bank
Loans	17,081,790	(108,251)	179,448	17,152,987	Loans and advances
Bonds, shares and other securities	171,233	0	(130,096)	41,137	Trading financial assets
-	0		171,233	171,233	Financial assets designated at fair value through profit and loss
Shares in associated companies	552		0	552	Investment in associates
Fixed assets	36,816	0		36,816	Property, Plant and equipment
-	0	0	90,002	90,002	Non-current assets and disposal groups classified as held for sale
Other Assets	178,297	0		178,297	Other assets
Total assets	**17,781,635**	**(108,251)**	**0**	**17,673,384**	**Total assets**
Amounts owed to Credit Institutions	2,143,178	0	(2,143,178)	0	Deposits from credit institutions and Central Bank
Borrowings	12,039,313	0	2,143,178	14,182,491	Borrowings
Provision for Deferred Income-Tax Liability	2,575		0	2,575	Tax liabilities
Other Liabilities	155,177	(19,485)	0	135,692	Other liabilities
Equity	3,441,392	(88,766)	0	3,352,626	Shareholders Equity
Total liabilities and Equity	**17,781,635**	**(108,251)**	**0**	**17,673,384**	**Total liabilities and Equity**

Interim Financial Statements, Frjalsi Investment Bank hf. 30 June 2005 17 Amounts are in ISK thousands