

# **Frjalsi Investment Bank hf.**

## **Condensed Consolidated Interim Financial Statements**

**1 January - 30 June 2006**

**ISK**

Frjalsi Investment Bank

Lagmuli 6

108 Reykjavik

Iceland

Reg. no. 691282-0829

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

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The Condensed Consolidated Interim Financial Statements of Frjalsi Investment Bank hf. for the six months ended 30 June 2006, have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34). The Consolidated Interim Financial Statements includes the Interim Financial Statements of Frjalsi Investment Bank hf. and its subsidiaries, together referred to as "the Bank".

Net earnings, according to the Income Statement, amounted to ISK 580 million for the period from 1 January to 30 June 2006. Total Equity, according to the Balance Sheet, amounted to ISK 4,506 million at the end of the period, including share capital amounting to ISK 1,097 million. The equity ratio of the Bank, calculated according to the Act on Financial Undertakings, was 14.1%. 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 Interim Financial Statements for the period from 1 January to 30 June 2006.

Reykjavik, 23 August 2006.

## Board of Directors

Guðmundur Hauksson  
Chairman

Árni Þór Sigurðsson

Hildur Petersen

Ólafur Haraldsson

Kristján Harðarson

## Managing Director

Kristinn Bjarnason

# Auditors' Review Report

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To the Board of Directors and shareholders of Frjalsi Investment Bank hf.

## Introduction

We have reviewed the accompanying Condensed Consolidated Balance Sheet of Frjalsi Investment Bank hf. as of 30 June 2006 and the related Condensed Consolidated Income Statement, Changes in Equity and Cash Flows for the six months period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavik, 23 August 2006.

Sigurður Jónsson

Reynir Stefán Gylfason

**KPMG Endurskoðun hf.**

# Consolidated Interim Income Statement

## for the Period from 1 January to 30 June 2006

	Notes	2006	2005
		1.1.-30.6.	1.1.-30.6.
Interest income .....		2.746.549	992.737
Interest expense .....		(2.090.679)	(707.976)
<b>Net interest income.....</b>		<u>655.870</u>	<u>284.761</u>
Fee and commission income .....		50.496	42.195
Dividend income .....	3	6.905	11.983
Net gain on financial assets measured at amortised cost .....		0	91.938
Foreign exchange differences .....		121.743	17.973
Share of profit (loss) of associates .....		1.564	(4.014)
Other operating income .....	4	167.516	48.521
<b>Operating income.....</b>		<u>1.004.094</u>	<u>493.357</u>
Salaries and related expenses .....		(106.333)	(106.679)
Administrative expenses .....		(92.257)	(56.618)
Depreciation .....		(12.731)	(13.510)
Impairment losses on loans and advances .....	10	(87.075)	(37.749)
		<u>(298.396)</u>	<u>(214.556)</u>
<b>Profit before income tax.....</b>		705.698	278.801
Income tax .....		(125.774)	(48.750)
<b>Net earnings attributable to shareholders of Frjalsi Investment Bank hf.....</b>		<u><u>579.924</u></u>	<u><u>230.051</u></u>
Earnings per share .....		0,53	0,21

# Consolidated Interim Balance Sheet

## as at 30 June 2006

	Notes	30.6.2006	31.12.2005
<b>Assets</b>			
Cash and cash balances with the Central Bank .....		2.590	2.564
Loans to credit institutions .....	5-6	137.647	166.170
Loans to customers .....	7-10	48.228.240	35.513.113
Financial assets designated at fair value through profit and loss .....	11	112.421	110.966
Investment in associates .....		70.041	113.677
Intangible assets .....	12	50.601	50.917
Property and equipment .....		728.148	802.120
Non-current assets and disposal groups held for sale .....	13	5.846	7.665
Other assets .....	14	1.304.737	743.816
<b>Total Assets</b>		<b>50.640.271</b>	<b>37.511.008</b>
<b>Liabilities</b>			
Borrowings .....	15-16	45.519.725	33.348.495
Trading financial liabilities .....	17,20	348.020	359
Tax liabilities .....	18	106.263	106.177
Other liabilities .....		160.222	129.860
<b>Total Liabilities</b>		<b>46.134.230</b>	<b>33.584.891</b>
<b>Equity</b>			
Share capital .....		1.096.702	1.096.702
Share premium .....		274.176	274.176
Retained earnings .....		3.135.163	2.555.239
<b>Total Equity</b>	19	<b>4.506.041</b>	<b>3.926.117</b>
<b>Total Liabilities and Equity</b>		<b>50.640.271</b>	<b>37.511.008</b>
<b>Off Balance Sheet Items:</b>			
Obligations .....	23		

# Consolidated Interim Statement of Changes in Equity

## for the Period from 1 January to 30 June 2006

	Shareholders' equity			Total
	Share capital	Share Premium	Retained earnings	
<b>Changes in equity in H1 2006:</b>				
Equity at 1 January 2006 .....	1.096.702	274.176	2.555.239	3.926.117
Net earnings .....			579.924	579.924
Equity at 30 June 2006 .....	<u>1.096.702</u>	<u>274.176</u>	<u>3.135.163</u>	<u>4.506.041</u>
<b>Changes in equity in H1 2005:</b>				
Equity at 1 January 2005 .....	1.096.702	274.176	1.981.748	3.352.626
Net earnings .....			230.051	230.051
Equity at 30 June 2005 .....	<u>1.096.702</u>	<u>274.176</u>	<u>2.211.799</u>	<u>3.582.677</u>

# Consolidated Interim Statement of Cash Flows

## for the Period from 1 January to 30 June 2006

	2006	2005
	1.1.-30.6.	1.1.-30.6.
Net cash used in operating activities.....	(1.251.882)	(481.869)
Net cash flow used in investing activities.....	(11.088.909)	(11.203.283)
Net cash flow provided by financing activities.....	12.312.268	11.512.894
Net decrease in cash and cash equivalents.....	(28.523)	(172.258)
Cash and cash equivalents, beginning of the year.....	166.170	269.449
<b>Cash and cash equivalents, end of the period.....</b>	<u>137.647</u>	<u>97.191</u>

# Notes to the Consolidated Interim Financial Statements

## Accounting Policies

Frjalsi Investment Bank hf. is a company domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2006 comprise Frjalsi Investment Bank hf. (the parent) and its subsidiaries (together referred to as the "Bank"). On 23 August 2006 the Board of Directors reviewed the Condensed Consolidated Interim Financial Statements.

### 1. Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34, *Interim Financial Reporting*, as adopted by the EU. They do not include all of the information required for full annual Financial Statements and should be read in conjunction with the Consolidated Financial Statements of the Bank as at and for the year ended 31 December 2005. The Consolidated Financial Statements of the Bank as of year end 31 December 2005 are available upon request through the company's registered office at Lagmuli 6, Reykjavik or at [www.frjalsi.is](http://www.frjalsi.is).

### 2. Significant accounting policies

The accounting policies applied by the Bank in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Bank in its Consolidated Financial Statements as at and for the year ended 31 December 2005.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), rounded to the nearest thousand.

## Dividend income

3. Dividend income is specified as follows:	H1 2006	H1 2005
Dividend income on assets at fair value through profit and loss .....	6.905	11.983
<b>Dividend income</b> .....	<u>6.905</u>	<u>11.983</u>

## Other operating income

4. Other operating income is specified as follows:		
Gain on disposals of assets other than held for sale .....	130.357	18.121
Other operating income .....	37.159	30.400
<b>Other operating income</b> .....	<u>167.516</u>	<u>48.521</u>

## Loans to credit institutions

5. Loans to credit institutions specified by types of loans:	30.6.2006	31.12.2005
Bank accounts .....	<u>137.647</u>	<u>166.170</u>
6. Loans to credit institutions specified by maturity:		
On demand .....	<u>137.647</u>	<u>166.170</u>

## Loans to customers

7. Loans to customers specified by types of loans:		
Bonds and loan agreements .....	41.962.336	30.245.356
Other loans .....	6.265.904	5.267.757
<b>Loans to customers</b> .....	<u>48.228.240</u>	<u>35.513.113</u>



# Notes to the Consolidated Interim Financial Statements

8. Loans to customers specified by sectors:	30.6.2006	31.12.2005
Business enterprises:		
Fishing industry and agriculture .....	0,3%	0,3%
Industry .....	20,3%	18,2%
Commerce .....	2,2%	2,6%
Service .....	14,9%	11,5%
Individuals .....	62,3%	67,4%
<b>Loans to customers .....</b>	<b>100,0%</b>	<b>100,0%</b>

9. Loans to customers specified by maturity:		
On demand .....	164.861	148.334
Up to 3 months .....	595.182	504.555
Over 3 months and up to a year .....	8.139.160	1.494.747
Over 1 year and up to 5 years .....	7.549.123	6.399.644
Over 5 years .....	31.779.915	26.965.833
<b>Loans to customers .....</b>	<b>48.228.240</b>	<b>35.513.113</b>

## Allowance for losses on loans and advances

10. Changes in the allowance for losses on loans and advances are specified as follows:	H1 2006	H1 2005
Balance at 1 January .....	357.558	371.331
Impairment losses recognised during the period .....	87.075	37.749
Write-offs during the period .....	(45.356)	(13.210)
Unwind of discount of allowance .....	0	(15.315)
Balance at 30 June .....	399.277	380.555

## Financial assets designated at fair value through profit and loss

11. Financial assets designated at fair value through profit and loss are specified as follows:	30.6.2006	31.12.2005
Shares .....	112.421	110.966
<b>Financial assets designated at fair value through profit and loss .....</b>	<b>112.421</b>	<b>110.966</b>

## Intangible assets

12. Intangible assets are specified as follows:	Goodwill	Software	Total
Intangible assets 1 January .....	39.750	11.167	50.917
Additions during the period .....	0	590	590
Amortisation .....	0	(906)	(906)
<b>Intangible assets at period end .....</b>	<b>39.750</b>	<b>10.851</b>	<b>50.601</b>

## Non-current assets and disposal groups classified as held for sale

13. Non-current assets and disposal groups classified as held for sale are specified as follows:	30.6.2006	31.12.2005
Mortgages foreclosed .....	5.846	7.665

# Notes to the Consolidated Interim Financial Statements

## Other assets

14. Other assets are specified as follows:

Properties in progress intended for future sale .....	1.300.900	740.008
Sundry assets .....	3.837	3.808
<b>Other assets</b> .....	<u>1.304.737</u>	<u>743.816</u>

## Borrowings

15. Borrowings are specified as follows:

Bonds issued .....	38.545.381	28.039.476
Money market loans .....	6.974.344	5.309.019
<b>Borrowings</b> .....	<u>45.519.725</u>	<u>33.348.495</u>

16. Borrowings mature as follows:

On demand .....	0	11.477
Up to 3 months .....	1.825.803	1.006.006
Over 3 months and up to a year .....	18.740.754	10.851.023
Over 1 year and up to 5 years .....	18.784.772	14.981.391
Over 5 years .....	6.168.396	6.498.598
<b>Borrowings</b> .....	<u>45.519.725</u>	<u>33.348.495</u>

## Trading financial liabilities

17. Trading financial liabilities are specified as follows:

Derivatives .....	348.020	359
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## Tax liabilities

18. Tax liabilities are specified as follows:

	30.6.2006	31.12.2005
Current tax .....	112.296	125.688
Deferred tax .....	(6.033)	(19.511)
<b>Tax liabilities</b> .....	<u>106.263</u>	<u>106.177</u>

## Equity

19. Equity at the end of the period amounts to ISK 4,506 million. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 14.1%. According to the law the ratio may not go below 8.0%.

The ratio is calculated as follows:

	30.6.2006		31.12.2005	
	Book value	Weighted value	Book value	Weighted value
Risk I:				
Assets recorded in the Financial Statements .....	50.640.271	31.688.280	37.511.008	21.646.633
Assets deducted from equity .....		(39.750)		(39.750)
Guarantees and other items not included in the Balance Sheet .....		84.174		17.195
		<u>31.732.704</u>		<u>21.624.078</u>

# Notes to the Consolidated Interim Financial Statements

## Equity:

### Tier I equity:

Equity .....	4.506.041	3.582.677
Intangible assets .....	(39.750)	(39.750)
	<u>4.466.291</u>	<u>3.542.927</u>

Equity ratio .....	14,1%	16,4%
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## Derivatives

20. Derivatives remaining maturity date of principal and book value are specified as follows:

30.6.2005	Principal Up to 3 months	Total	Book value	
			Assets	Liabilities
Currency derivatives, agreements unlisted:				
Forward exchange rate agreements .....	10.347.783	10.347.783	0	348.020

31.12.2005	Principal Up to 3 months	Total	Book value	
			Assets	Liabilities
Currency derivatives, agreements unlisted:				
Forward exchange rate agreements .....	2.149.147	2.149.147	0	359

The objective of the above-mentioned agreements is to control currency risk of the Bank. The credit risk is valued at ISK 84 million when calculating the equity ratio of the Bank at 30 June 2006 and ISK 17 million at 31 December 2005.

## Pledged assets

21. The Bank has sold the rights to the cash flows of part of its loans to customers to the Housing Financing Fund. The Housing Financing Fund bears all risks associated with the loans. The difference between present value of the loans from the Housing Financing Fund and book value of the underlying loans to customers has been recognised in the Income Statement as net gain on sale of financial assets measured at amortised cost.

Assets and liabilities	30.6.2006	31.12.2005
Cash flows of loans to customers sold to the Housing Financing Fund .....	<u>6.626.324</u>	<u>6.498.598</u>

## Related parties

22. The Bank has a related party relationship with its subsidiaries, associates, the Board of Directors of the parent company, the managing directors of the Bank, the managing directors of subsidiaries, close family members of individuals referred to herein, and entities with significant influence as the largest shareholders of Frjalsi Investment Bank hf. This definition is based on IAS 24. Information regarding related parties are as follows:

Loans to subsidiaries .....	1.970	1.779
Borrowings from parant company .....	972.483	1.566.500

No unusual transactions took place with related parties in the first half of 2006.

Transactions with related parties have been conducted on arm's length basis.

## Events after the Balance Sheet date

23. There have been no material post Balance Sheet events which would require disclosure or adjustment to the 30 June 2006 Interim Financial Statements.