



**Condensed Consolidated Interim Financial Statements  
1 January - 30 September 2006**

**ISK**

Sparisjodur Reykjavíkur og nágrennis  
Armula 13a  
108 Reykjavík  
Iceland

Reg. no. 610269-5089

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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 SPRON for the nine months ended 30 September 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 SPRON and its subsidiaries, together referred to as "the Group".

Net earnings, according to the Income Statement, amounted to ISK 9,772 million for the period from 1 January to 30 September 2006. Total Capital, according to the Balance Sheet, amounted to ISK 26,312 million at the end of the period, including primary capital amounting to ISK 10,216 million. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 14.2%. This ratio may not be lower than 8.0%.

The Board of Directors and the Managing Director of SPRON hereby confirm the Interim Financial Statements for the period from 1 January to 30 September 2006.

Reykjavik, 6 November 2006.

## Board of Directors

Hildur Petersen  
Chairman

Erlendur Hjaltason

Ari Bergmann Einarsson

Gunnar Gíslason

Ásgeir Baldurs

## Managing Director

Guðmundur Hauksson

# Auditors' Review Report

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To the Board of Directors holders of SPRON.

## Introduction

We have reviewed the accompanying Condensed Consolidated Balance Sheet of SPRON as of 30 September 2006 and the related Condensed Consolidated Income Statement, Changes in Capital and Cash Flows for the nine 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, 6 November 2006.

Sigurður Jónsson

Reynir Stefán Gylfason

***KPMG Endurskoðun hf.***

# Consolidated Interim Income Statement

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

	Notes	2006	2005
		1.1.-30.9.	1.1.-30.9.
Interest income .....		11,468,518	5,753,474
Interest expense .....		(9,228,182)	(3,961,344)
<b>Net interest income.....</b>		<u>2,240,336</u>	<u>1,792,130</u>
Fee and commission income .....		958,787	606,369
Fee and commission expense .....		(248,551)	(201,592)
<b>Net fee and commission income.....</b>		<u>710,236</u>	<u>404,777</u>
Dividend income .....	3	464,096	108,920
Net gain on financial assets measured at amortised cost .....		0	219,814
Net gains on financial assets and financial liabilities held for trading .....	4	689,036	427,057
Net gains on assets designated at fair value through profit and loss .....	5	8,834,511	1,258,466
Foreign exchange differences .....		53,643	39,012
Share of profit of associates .....		1,516,179	142,926
Other operating income .....	6	284,087	509,868
<b>Operating income.....</b>		<u>14,792,124</u>	<u>4,902,970</u>
Salaries and related expenses .....		(1,280,722)	(1,027,099)
Administrative expenses .....		(1,295,965)	(920,700)
Depreciation .....		(69,078)	(42,276)
Impairment losses on loans and advances .....	12	(329,236)	(195,470)
		<u>(2,975,001)</u>	<u>(2,185,545)</u>
<b>Profit before income tax.....</b>		11,817,123	2,717,425
Income tax .....		(2,043,455)	(469,562)
<b>Net earnings.....</b>		<u><u>9,773,668</u></u>	<u><u>2,247,863</u></u>
<b>Attributable to:</b>			
Holders of primary capital of SPRON and retained earnings .....		9,771,544	2,247,704
Minority interest .....		2,124	159
		<u><u>9,773,668</u></u>	<u><u>2,247,863</u></u>

# Consolidated Interim Balance Sheet

## as at 30 September 2006

	Notes	30.9.2006	31.12.2005
<b>Assets</b>			
Cash and cash balances with the Central Bank .....		960,953	2,067,986
Loans to credit institutions .....	7-8	7,460,524	6,293,530
Loans to customers .....	9-12	116,268,441	84,950,482
Trading financial assets .....	13.27	16,502,438	8,366,721
Financial assets designated at fair value through profit and loss .....	14	17,090,366	7,990,972
Investment in associates .....		3,573,568	1,646,600
Intangible assets .....	15	1,675,863	1,619,440
Property and equipment .....		922,655	1,016,422
Non-current assets and disposal groups held for sale .....	16	84,404	102,899
Other assets .....	17	1,559,800	874,142
<b>Total Assets</b>		<u>166,099,012</u>	<u>114,929,194</u>
<b>Liabilities</b>			
Deposits from credit institutions and the Central Bank .....	18	13,071,438	11,209,876
Other deposits .....	19	60,241,041	39,340,021
Borrowings .....	20-21	56,193,387	44,445,350
Subordinated loans .....	22	4,434,586	3,918,386
Trading financial liabilities .....	23.27	126,574	120,160
Post-employment obligations .....		628,500	559,429
Tax liabilities .....	24	3,239,217	1,248,916
Other liabilities .....	25	1,851,775	1,069,845
<b>Total Liabilities</b>		<u>139,786,518</u>	<u>101,911,983</u>
<b>Capital</b>			
Primary capital .....		10,215,757	3,960,503
Retained earnings .....		16,080,119	9,055,476
Total Primary Capital and Retained Earnings		<u>26,295,876</u>	<u>13,015,979</u>
Minority interest .....		16,618	1,232
<b>Total Capital</b>	26	<u>26,312,494</u>	<u>13,017,211</u>
<b>Total Liabilities and Capital</b>		<u>166,099,012</u>	<u>114,929,194</u>
<b>Off Balance Sheet Items:</b>			
Obligations .....	28		

# Consolidated Interim Statement of Changes in Capital for the Period from 1 January to 30 September 2006

	Primary capital and retained earnings			Minority interest	Total
	Primary capital	Retained earnings	Total		
<b>Changes in capital in 1.1. - 30.9.2006:</b>					
Capital at 1 January 2006 .....	3,960,503	9,055,476	13,015,979	1,232	13,017,211
Net earnings .....		9,771,544	9,771,544	2,124	9,773,668
Dividends paid .....		(1,980,343)	(1,980,343)		(1,980,343)
Issued new primary capital .....	5,488,696		5,488,696		5,488,696
Revaluation of primary capital .....	766,558	(766,558)	0		0
Purchase of subsidiary .....				13,263	13,263
Capital at 30 September 2006 .....	<u>10,215,757</u>	<u>16,080,119</u>	<u>26,295,876</u>	<u>16,619</u>	<u>26,312,495</u>
<b>Changes in capital in 1.1. - 30.9.2005:</b>					
Capital at 1 January 2005 .....	603,671	5,214,219	5,817,890	1,057	5,818,947
Net earnings .....		2,247,704	2,247,704	159	2,247,863
Dividends paid .....		(153,937)	(153,937)		(153,937)
Issued new primary capital .....	1,283,623		1,283,623		1,283,623
Revaluation of primary capital .....	30,190	(30,190)	0		0
Capital at 30 September 2005 .....	<u>1,917,484</u>	<u>7,277,796</u>	<u>9,195,280</u>	<u>1,216</u>	<u>9,196,496</u>

# Consolidated Interim Statement of Cash Flows for the Period from 1 January to 30 September 2006

	2006 1.1.-30.9.	2005 1.1.-30.9.
Net cash (used in) provided by operating activities.....	(1,982,422)	591,546
Net cash flow provided by (used in) investing activities.....	39,961	(28,711,715)
Net cash flow provided by financing activities.....	<u>3,586,612</u>	<u>29,453,686</u>
Net change in cash and cash equivalents.....	1,644,151	1,333,517
Cash and cash equivalents, beginning of the year.....	<u>3,405,942</u>	<u>2,853,272</u>
<b>Cash and cash equivalents, end of the period.....</b>	<u><u>5,050,093</u></u>	<u><u>4,186,789</u></u>

# Notes to the Consolidated Interim Financial Statements

## Accounting Policies

SPRON is a company domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2006 comprise SPRON (the parent) and its subsidiaries (together referred to as the "Group").

### 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 Group as at and for the year ended 31 December 2005.

### 2. Significant accounting policies

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

The Consolidated Financial Statements of the Group as of year end 31 December 2005 are available upon request through the company's registered office at Armuli 13a, Reykjavik or at [www.spron.is](http://www.spron.is) and [www.icex.is](http://www.icex.is).

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:	9M 2006	9M 2005
Dividend income on trading assets .....	59,748	7,969
Dividend income on assets at fair value through profit and loss .....	404,348	100,951
<b>Dividend income</b> .....	<b>464,096</b>	<b>108,920</b>

## Net gains on financial assets and financial liabilities held for trading

4. Net gains on financial assets and financial liabilities held for trading are specified as follows:		
Shares and related derivatives .....	528,607	480,685
Bonds and related derivatives .....	68,189	(53,628)
Other derivatives .....	92,240	0
<b>Net gains on financial assets and financial liabilities held for trading</b> .....	<b>689,036</b>	<b>427,057</b>

## Net gains on financial assets designated at fair value through profit or loss

5. Net gains on assets designated at fair value through profit and loss are specified as follows:		
Shares .....	8,834,511	1,258,466
<b>Net gains on financial assets designated at fair value through profit or loss</b> .....	<b>8,834,511</b>	<b>1,258,466</b>

## Other operating income

6. Other operating income is specified as follows:		
Gain on disposals of assets .....	229,106	454,216
Other operating income .....	54,981	55,652
<b>Other operating income</b> .....	<b>284,087</b>	<b>509,868</b>



# Notes to the Consolidated Interim Financial Statements

## Loans to credit institutions

7. Loans to credit institutions specified by types of loans:	30.9.2006	31/12/2005
Bank accounts .....	3,993,444	1,799,528
Money market loans .....	3,399,278	3,140,957
Repos .....	0	1,293,116
Other loans .....	67,802	59,929
<b>Loans to credit institutions .....</b>	<b>7,460,524</b>	<b>6,293,530</b>
8. Loans to credit institutions specified by maturity:		
On demand .....	3,997,306	1,337,956
Up to 3 months .....	1,606,802	4,950,820
Over 3 months and up to a year .....	1,852,649	0
Over 1 year and up to 5 years .....	2,511	0
Over 5 years .....	1,256	4,754
<b>Loans to credit institutions .....</b>	<b>7,460,524</b>	<b>6,293,530</b>

## Loans to customers

9. Loans to customers specified by types of loans:		
Overdrafts .....	9,557,092	7,998,211
Bills of exchange .....	168,230	134,230
Bonds and loan agreements .....	105,361,727	77,902,872
Other loans .....	2,362,190	1,864
Allowance for losses on loans and advances .....	(1,180,798)	(1,086,695)
<b>Loans to customers .....</b>	<b>116,268,441</b>	<b>84,950,482</b>
10. Loans to customers specified by sectors:		
Government .....	0.4%	0.4%
Business enterprises:		
Fishing industry and agriculture .....	1.0%	0.2%
Industry .....	12.8%	11.3%
Commerce .....	3.7%	4.8%
Service .....	20.4%	16.8%
Individuals .....	61.8%	66.5%
<b>Loans to customers .....</b>	<b>100.0%</b>	<b>100.0%</b>
11. Loans to customers specified by maturity:		
On demand .....	3,366,757	3,923,597
Up to 3 months .....	9,294,510	5,158,210
Over 3 months and up to a year .....	17,130,993	11,969,299
Over 1 year and up to 5 years .....	17,056,654	16,003,311
Over 5 years .....	69,419,526	47,896,065
<b>Loans to customers .....</b>	<b>116,268,441</b>	<b>84,950,482</b>

# Notes to the Consolidated Interim Financial Statements

## Allowance for losses on loans and advances

12. Changes in the allowance for losses on loans and advances are specified as follows:	9M 2006	9M 2005
Balance at 1 January 2006 .....	1,086,695	1,029,213
Impairment losses recognised during the period .....	329,236	195,470
Write-offs during the period .....	(221,344)	(131,611)
Amounts recovered from loans previously written off .....	48,890	13,736
Unwind of discount of allowance .....	(62,679)	(35,181)
Balance at 30 September 2006 .....	<u>1,180,798</u>	<u>1,071,627</u>

## Trading financial assets

13. Trading financial assets are specified as follows:	30.9.2006	31.12.2005
Bonds .....	6,251,993	4,772,069
Shares .....	9,215,996	3,472,835
OTC derivatives .....	1,034,449	121,817
<b>Trading financial assets</b> .....	<u>16,502,438</u>	<u>8,366,721</u>

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

14. Financial assets designated at fair value through profit and loss are specified as follows:		
Bonds .....	179,925	176,457
Shares .....	16,910,441	7,814,515
<b>Financial assets designated at fair value through profit and loss</b> .....	<u>17,090,366</u>	<u>7,990,972</u>

## Intangible assets

15. Intangible assets are specified as follows:			
	Goodwill	Software	Total
Intangible assets 1 January .....	1,547,421	72,019	1,619,440
Additions during the period .....	28,069	56,249	84,318
Amortisation .....	0	(27,895)	(27,895)
<b>Intangible assets at period end</b> .....	<u>1,575,490</u>	<u>100,373</u>	<u>1,675,863</u>

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

16. Non-current assets and disposal groups classified as held for sale are specified as follows:	30.9.2006	31.12.2005
Mortgages foreclosed .....	84,404	102,899

## Other assets

17. Other assets are specified as follows:		
Unsettled securities trading .....	16,630	0
Properties in progress intended for future sale .....	1,342,365	740,008
Sundry assets .....	163,330	62,982
Accrued income .....	37,475	71,152
<b>Other assets</b> .....	<u>1,559,800</u>	<u>874,142</u>

# Notes to the Consolidated Interim Financial Statements

## Deposits from credit institutions and the Central Bank

18. Deposits from credit institutions and the Central Bank mature as follows:	30.9.2006	31.12.2005
Up to 3 months .....	10,505,313	9,525,691
Over 3 months and up to a year .....	2,566,125	1,684,185
<b>Deposits from credit institutions and the Central Bank .....</b>	<b>13,071,438</b>	<b>11,209,876</b>

## Other deposits

19. Other deposits mature as follows:		
On demand .....	28,659,897	22,654,023
Up to 3 months .....	12,586,258	2,801,557
Over 3 months and up to a year .....	6,217,501	3,050,527
Over 1 year and up to 5 years .....	10,719,282	9,359,311
Over 5 years .....	2,058,103	1,474,603
<b>Other deposits .....</b>	<b>60,241,041</b>	<b>39,340,021</b>

## Borrowings

20. Borrowings are specified as follows:		
Bonds issued .....	32,111,321	27,997,368
Bills issued .....	3,410,611	4,287,528
Money market loans .....	20,671,455	12,160,454
<b>Borrowings .....</b>	<b>56,193,387</b>	<b>44,445,350</b>

21. Borrowings mature as follows:		
On demand .....	0	11,314
Up to 3 months .....	5,349,664	3,977,525
Over 3 months and up to a year .....	12,683,353	4,021,012
Over 1 year and up to 5 years .....	19,761,592	14,536,560
Over 5 years .....	18,398,777	21,898,939
<b>Borrowings .....</b>	<b>56,193,387</b>	<b>44,445,350</b>

## Subordinated loans

22. Subordinated loans are specified as follows:		
Tier I capital .....	633,396	607,180
Tier II capital .....	3,801,190	3,311,206
<b>Subordinated loans .....</b>	<b>4,434,586</b>	<b>3,918,386</b>

## Trading financial liabilities

23. Trading financial liabilities are specified as follows:		
Derivatives .....	126,574	120,160

# Notes to the Consolidated Interim Financial Statements

## Tax liabilities

24. Tax liabilities are specified as follows:	30.9.2006	31.12.2005
Current tax .....	209,095	104,825
Deferred tax .....	3,030,122	1,144,091
<b>Tax liabilities</b> .....	<u>3,239,217</u>	<u>1,248,916</u>

## Other liabilities

25. Other liabilities are specified as follows:		
Unsettled securities trading .....	530,413	95,068
Accounts payable .....	32,095	162,164
Other liabilities .....	1,289,267	812,613
<b>Other liabilities</b> .....	<u>1,851,775</u>	<u>1,069,845</u>

## Capital

26. Capital at the end of the period amounts to ISK 26,312 million. The capital adequacy ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 14.2%. According to the law the ratio may not go below 8.0%.

The ratio is calculated as follows:

	30.9.2006		31.12.2005	
	Book value	Weighted value	Book value	Weighted value
<b>Risk base:</b>				
Assets recorded in the Financial Statements .....	166,099,012	107,838,936	114,929,194	69,013,164
Assets deducted from capital .....		(17,468,411)		(8,305,769)
Guarantees and other items not included in the Balance Sheet .....		819,478		1,045,986
		<u>91,190,003</u>		<u>61,753,381</u>
<b>Capital:</b>				
<b>Tier I capital:</b>				
Capital .....		26,295,876		13,015,979
Minority interests .....		16,618		1,232
Goodwill .....		(1,575,490)		(1,547,421)
Subordinated loans .....		633,396		607,180
<b>Tier II capital:</b>				
Subordinated loans .....		3,435,193		3,050,885
Investment in credit institutions .....		(15,892,921)		(6,758,348)
		<u>12,912,672</u>		<u>8,369,507</u>
Capital adequacy ratio .....		14.2%		13.6%
Thereof Tier I ratio .....		27.8%		19.6%

# Notes to the Consolidated Interim Financial Statements

## Derivatives

27. Derivatives with parties outside the group, remaining maturity date of principal and book value are specified as follows:

30/9/2006	Principal			Total	Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year		Assets	Liabilities
OTC currency and interest rate derivatives:						
Forward currency agreements .....	29,174,725	0	0	29,174,725	316,912	111,266
Interest rate agreements .....	0	0	4,044,994	4,044,994	585,229	0
	<u>29,174,725</u>	<u>0</u>	<u>4,044,994</u>	<u>33,219,719</u>	<u>902,141</u>	<u>111,266</u>
OTC equity derivatives:						
Forward equity agreements .....	2,289,135	340,760	0	2,629,895	132,308	15,308
<b>Derivatives total .....</b>	<b>31,463,860</b>	<b>340,760</b>	<b>4,044,994</b>	<b>35,849,614</b>	<b>1,034,449</b>	<b>126,574</b>

31/12/2006

OTC currency and interest rate derivatives:

Forward currency agreements .....	22,255,594	0	0	22,255,594	25,764	64,218
Interest rate agreements .....	0	0	6,664,569	6,664,569	91,055	0
	<u>22,255,594</u>	<u>0</u>	<u>6,664,569</u>	<u>28,920,163</u>	<u>116,819</u>	<u>64,218</u>
OTC equity derivatives:						
Forward equity agreements .....	574,078	377,782	0	951,860	4,998	55,942
Equity option .....	200,000	0	0	200,000	0	0
	<u>774,078</u>	<u>377,782</u>	<u>0</u>	<u>1,151,860</u>	<u>4,998</u>	<u>55,942</u>
<b>Derivatives total .....</b>	<b>23,029,672</b>	<b>377,782</b>	<b>6,664,569</b>	<b>30,072,023</b>	<b>121,817</b>	<b>120,160</b>

The objective of the above-mentioned agreements is to control currency and interest rate risk of the Group. The credit risk is valued ISK 432 million when calculating the capital ratio of the Group at 30 September 2006 and ISK 216 million at 31 December 2005..

## Obligations

28. The Group has granted its customers guarantees and overdraft permissions. These items are specified as follows:

	30.9.2006	31.12.2005
Guarantees .....	805,565	986,269
Unused overdrafts .....	4,429,613	4,079,563

## Assets under management and custody

29. Assets under management and assets under custody are specified as follows:

Assets under management .....	16,546,752	7,739,211
Assets under custody .....	21,207,187	17,260,272

# Notes to the Consolidated Interim Financial Statements

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## Pledged assets

30. Assets have been pledged as security in respect of the following liabilities:

	30.9.2006	31.12.2005
Repo agreements with the National Debt Management Agency .....	<u>720,189</u>	<u>1,293,116</u>

The group 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

Cash flows of loans to customers sold to the Housing Financing Fund .....	<u>13,557,007</u>	<u>13,236,578</u>
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## Related parties

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

Loans to the managing director and management board members .....	54,230	36,861
Loans to members of the board and companies related to members of the board .....	921,170	1,346,907
Loans to associated companies .....	3,650,386	1,566,500

No unusual transactions took place with related parties in the nine months of 2006.

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

## Events after the Balance Sheet date

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