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Frjalsi Investment Bank Ltd.

Annual Accounts for 2000



## “Your Other Bank”



The year 2000 saw considerable changes in the operations of Frjalsi Investment Bank. For almost 20 years, loans and investments in shares had been the main focus of the Bank's predecessor, Samvinnusjóður Íslands hf. In the beginning of 2000, one of the Bank's initial objectives was to make better use of the Bank's authorisations as an investment bank and to expand its scope of operations. In January, the Bank agreed to enter into merger negotiations with the securities firm Fjárvangur hf., whose main operations of securities trading and asset management were quite compatible with the intended expansion of the Bank's operations. In May, shareholders' meetings at both companies approved the merger and capital stock was increased by ISK 378 million in connection with the merger.

A great deal of energy and work was put into the merger and there were numerous issues that needed addressing. The Bank invested in new headquarters at Sóltún 26 in Reykjavík, new information systems were put into use and older systems integrated. A great deal of time was spent training personnel and building good morale.

In marketing the merged company, emphasis was placed on the fact that everyone needs an ordinary bank to receive paycheques, grant overdrafts, handle bill payments and operate branches to be easily accessible. However, Frjalsi Investment Bank, “your other bank” specialised in investing your money, organising your savings, and lending you money. With this ideology in mind, the intention was to join the strengths of the companies.

Shareholders	
Kaupthing hf.	22.20%
Kaupthing S.A.	15.50%
GIR Capital Investment S.A.	15.00%
Isoport S.A.	9.90%
Íslandsbanki-FBA hf.	5.30%
The Savings Bank of Keflavík	5.00%
The Savings Bank of Reykjavík	5.00%
The Savings Bank of Bolungarvík	2.50%
The Savings Bank of Svarfadardalur	1.60%
Other shareholders	18.00%
	100.00%

A campaign to increase the membership of the Frjalsi Pension Fund as well as members participating in supplementary savings further strengthened the Bank's position in the field of pension savings. Co-operation with Fidelity Investments, the largest asset management company in the world, was increased during the year and the Bank's funds received good returns on investment compared to other funds on the market. Furthermore, the results of the Bank's lending activities during the year were good, the main reason being an increase in loans for the building industry.

Due to the difficult climate on almost all financial markets, in Iceland as well as abroad, results from securities brokerage and own securities trading were not so good as they have often been previously. The Bank did not meet its projections for two principal reasons: 1) an increase in required investment return brought about a decrease in the exchange rate of market securities as a result of an increase in the required investment return, and 2) there was a decrease in stock prices.

Towards the end of the year 2000 Kaupthing hf., along with a few other companies, purchased about 70% of the Bank's share capital. The buying rate for the Bank's shares was 3.8, whereas the rate was 2.85 at the beginning of the year 2000. A new Board of Directors, elected at a shareholders' meeting in February 2001 decided to make changes in the Bank's operations. The Securities Trading Division and the Asset Management Division will be sold to Kaupthing hf. and the Bank's lending operations will be increased.

It is my opinion that the Bank's new ownership will strengthen it. However, the objectives set and new markets sought will best be obtained through the extensive experience and knowledge of the Bank's personnel, who have previously shown their ability to adjust to new circumstances in the ever-changing world of the Icelandic financial market. To former and current employees who have worked hard and selflessly during the past year, I would like to express the Bank's deepest gratitude for work well done. I would also like to thank Örn Gústafsson (who stepped down as the Bank's Managing Director in February 2001) for both his fine work and the pleasant working environment he created.

Kristinn Bjarnason  
Managing Director

# Operations During the Year

The Financial Statements for the year 2000 contain the consolidated Financial Statements of Frjalsi Investment Bank and its subsidiary, Lögfang ehf. Lögfang ehf. holds the Bank's real estate and manages the Bank's redeemed assets on foreclosed mortgages. It should be noted that comparative figures for the year 1999 are the sum total of the figures from the Statement of Earnings and Balance Sheets of Frjalsi Investment Bank (previously Samvinnusjóður Íslands) and Fjávangur hf.

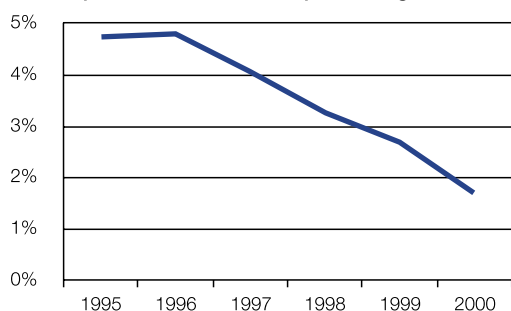
## Operations

**The results** of the Bank's operations for the year were negative. The loss for the year amounted to ISK 168 million after taxes, whereas the Bank showed a profit of ISK 653 million in the year 1999. The change from profit to loss can partly be explained by unfavourable developments on securities markets and increased operating expenses, inter alia as a result of the cost of the merger with Fjávangur.

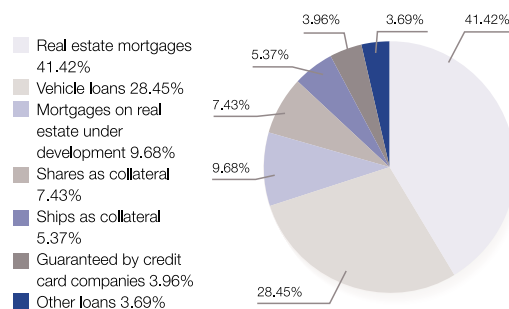
**Net interest income** amounted to ISK 168 million compared to ISK 299 million for the previous year. Interest income amounted to a total of ISK 1.23 billion. Interest expenses, taking into account the calculated inflation adjustment, amounted to ISK 1.063 billion. The reduction in net interest income is mainly a result of the financing of Bank shares that did not yield interest, increased investment in fixed assets, and less inflation than in 1999 – but the Bank owns indexed assets in excess of its liabilities.

**Other operating revenue** amounted to ISK 299 million, a decrease of ISK 786 million from the previous year. The decrease in other operating revenue can be explained by an ISK 978 million decrease resulting from exchange rate differences in other finances. Commission income increased considerably (ISK 177 million) from the previous year. Other operating revenue increased slightly from the previous year.

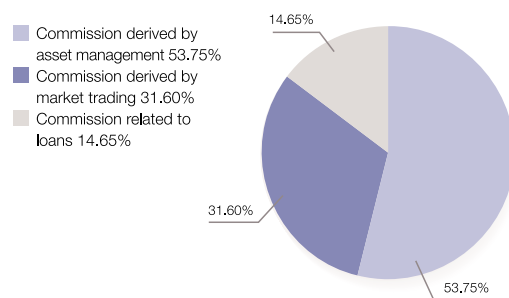
### Development of defaults as percentage of loans



### Loans specified by type



### Division of commissions



**Other operating expenses** amounted to a total of ISK 546 million, an increase of ISK 186 million from the previous year. Salaries and salary-related expenses amounted to ISK 264 million compared to ISK 187 million for the previous year. The increase can be explained both by general salary increases during the year and by an increase in the number of employees. The average number of employees increased by 13 during the year. Other operating expenses amounted to ISK 258 million, compared to 155 million for the previous year. About half of all operating expenses are related to marketing and information technology, which increased considerably from the previous year.

**The provision for losses** on the loan portfolio amounted to ISK 120 million compared to ISK 185 million for the previous year. The provision is made to meet the risk attached to the Bank's lending activities. The provision represented 2.57% of total loans. The general provision represented 1.24%, which is also about 72% of the total loans in default. Total loans in default amounted to ISK 163 million at year-end compared to ISK 213 million at the end of the previous year. Loans in default as a percentage of total loans continued to decrease and amounted to 1.72% of the total loan portfolio.



## Financial Position

**The Bank's total assets** amounted to ISK 14.681 billion at year-end 2000, an increase of 37% during the year. In items not included in the Balance Sheet, derivatives in the risk base equalled loans amounting to ISK 1.937 billion.

**Amounts due from credit institutions** amounted to ISK 1.104 billion at year-end 2000. Amounts due from credit institutions consist of demand deposits with the Central Bank (ISK 159 million) and amounts due from credit institutions (ISK 945 million). Amounts due from credit institutions increased by ISK 468 million during the year.

**Loans** to clients amounted to ISK 9.452 billion at year-end 2000 and increased by ISK 1.360 billion during the year - or by 17%. The main increase in loans was to the building industry, but loans using shares and ships as collateral increased as well. At the end of the year, 66% of loans were to individuals whereas 34% of loans were to businesses. Redeemed assets on foreclosed mortgages amounted to ISK 12 million at year-end 2000, a decrease of ISK 35 million during the year. Redeemed assets on foreclosed mortgages are capitalised at their market value.

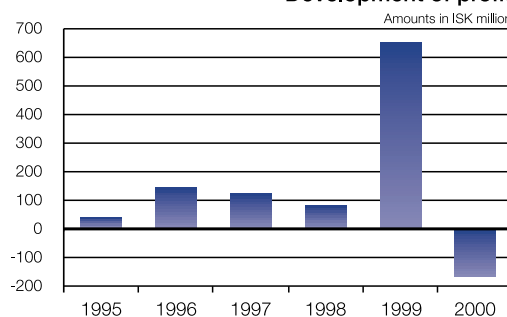
**Market securities and shares in companies** amounted to ISK 3.676 billion at year-end 2000, compared to ISK 1.831 billion at year-end 1999. The Bank's entire listed shares and bonds are capitalised at their market value at year-end 2000. Market bonds amounted to ISK 821 million at year-end 2000 and all bonds were listed.

The Bank's shares in other companies amounted to ISK 2.824 billion at year-end 2000. The assets are divided into trading shares (ISK 2.491 billion) and investment shares (ISK 333 million). 46% of the Bank's shares are listed and 54% are unlisted. At year-end, forward agreements and swaps against shares amounted to ISK 315 million. The Bank's net assets in shares thus amounted to ISK 2.509 billion at year-end 2000.

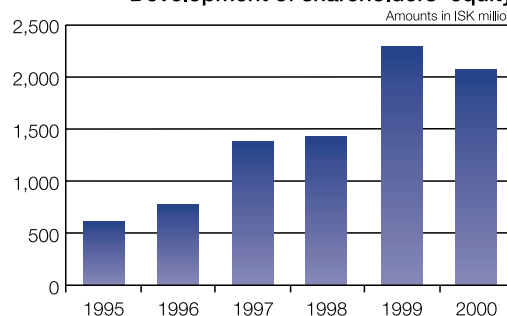
The Bank's shares in associated companies and related companies amounted to ISK 30 million at year-end 2000 compared to ISK 27 million at year-end 1999. The shares are capitalised at a value corresponding to the Bank's share in their equity at year-end 2000.

**Other assets** amounted to ISK 437 million at year-end 2000, compared to only ISK 75 million at year-end 1999 - an increase of ISK 362 million from 1999. The increase can mainly be explained by an investment of ISK 295 million in the building at

**Development of profit**



**Development of shareholders' equity**



Sóltún 26, Reykjavík, into which the Bank moved its operations during the year.

**Liabilities** amounted to ISK 6.427 billion at year-end 2000 and increased by ISK 3.698 billion from the beginning of the year. 57% of the amounts owed to credit institutions mature in the year 2002 or later, whereas 43% mature in the year 2001.

Borrowings and other liabilities amounted to ISK 5.965 billion at year-end 2000 compared to ISK 5.402 billion at year-end 1999. No bonds were issued on the markets during the year.

Deferred income tax liability decreased by ISK 34 million from year-end 1999 and amounted to ISK 217 million at year-end 2000. Deferred income tax liability postpones taxation and the deferred tax will become payable in the near future, according to tax law.

**The Bank's equity** at year-end amounted to ISK 2.073 billion compared to ISK 2.299 billion at year-end 1999. A dividend of 15% (ISK 133 million) was paid out during the year and was deducted from equity. The Bank's CAD ratio was 12.21%. The minimum ratio according to law is 8.0%. The Bank has not issued any subordinate loans.

## Endorsement of the Board of Directors

In the opinion of the Board of Directors and the Managing Director of Frjalsi Investment Bank these Annual Accounts give a true and fair view of the Bank's financial position as of December 31, 2000, as well as the results of its operations and its financial development during the year.

The Bank suffered a loss of ISK 168 million during the year. The Bank's Board of Directors proposes that this loss be deferred to next year and that no dividend be paid to shareholders. In other respects, it refers to the Annual Accounts concerning changes in stockholders' equity and the set-off of losses.

At the end of the year, the Bank's shareholders numbered 469. Three shareholders hold more than 10% of capital stock, i.e. Kaupthing hf., 22.2%, Kaupthing Bank Luxembourg 15.5%, and GIR Capital Investment 15.0%.

The Board of Directors, and the Managing Director, of Frjalsi Investment Bank hereby confirm the Bank's Annual Accounts for 2000 with their signatures.

Reykjavík, March 1, 2001

### Board of Directors

Sigurdur Einarsson, Chairman of the Board

Fridrik Fridriksson

Geirmundur Kristinsson

Gudmundur Hauksson

Ásgeir Sólbergsson

Kristinn Bjarnason, Managing Director

## Auditors' Report

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

We have audited the accompanying balance sheet of Frjalsi Investment Bank as of December 31st 2000, and the related statement of income for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of Frjalsi Investment Bank as of December 31, 2000 as well as of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Reykjavík, March 1, 2001

### Deloitte & Touche hf.

Thorvardur Gunnarsson  
State Authorized Public Accountant

Gísli Gudmundsson  
State Authorized Public Accountant

# Consolidated Profit and Loss Account for 2000

	Notes	2000	1999
<b>Interest income</b>			
Interest from credit institutions . . . . .		39,102,768	16,080,272
Interest on loans to customers . . . . .		1,190,937,607	1,210,145,838
		<u>1,230,040,375</u>	<u>1,226,226,110</u>
<b>Interest expenses</b>			
Interest on loans from credit institutions . . . . .		397,940,943	162,434,083
Interest on borrowings . . . . .		620,598,565	736,400,847
Calculated inflation adjustment . . . . .		43,966,644	28,090,623
		<u>1,062,506,152</u>	<u>926,925,553</u>
Net interest income . . . . .		<u>167,534,223</u>	<u>299,300,557</u>
<b>Other operating revenue</b>			
Income from shares and other investments . . . . .	8	45,604,836	15,861,449
Fees and commissions received . . . . .		307,070,915	129,789,901
Exchange-rate difference . . . . .	9	(80,670,718)	896,802,430
Other operating revenue . . . . .		27,206,765	42,558,851
		<u>299,211,798</u>	<u>1,085,012,631</u>
Net operating revenue . . . . .		<u>466,746,021</u>	<u>1,384,313,188</u>
<b>Other operating expenses</b>			
Salary and salary-related expenses . . . . .		264,436,465	187,413,518
Other operating expenses . . . . .		257,600,868	154,515,472
Depreciation of fixed assets . . . . .	3	24,106,335	17,935,519
		<u>546,143,668</u>	<u>359,864,509</u>
Provision for losses on the loan portfolio . . . . .	2	120,000,000	185,000,000
Net income (loss) before taxes . . . . .		<u>(199,397,647)</u>	<u>839,448,679</u>
Calculated income tax . . . . .	11	(33,465,670)	186,701,732
Net-worth tax . . . . .		2,318,141	0
<b>Net income (loss) for the year . . . . .</b>		<u><u>(168,250,118)</u></u>	<u><u>652,746,947</u></u>

# Consolidated Balance Sheet

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	Notes	Dec. 31, 2000	Dec. 31, 1999
<b>Assets</b>			
<b>Claims against credit institutions</b>			
	10		
Demand deposits required by the Central Bank . . . . .		158,451,999	130,442,336
Amounts due from credit institutions . . . . .		945,297,839	505,458,292
		<u>1,103,749,839</u>	<u>635,900,628</u>
<b>Loans</b>			
	1		
Loans to customers . . . . .		9,452,439,106	8,091,884,908
Redeemed assets on foreclosed mortgages . . . . .		12,167,794	47,029,490
		<u>9,464,606,900</u>	<u>8,138,914,398</u>
<b>Marketable securities and shares in other companies</b>			
Marketable securities and other fixed-income securities . .	4	821,202,359	212,499,542
Shares and other variable-income securities . . . . .	5	2,824,225,910	1,591,369,792
Shares in associated and related companies . . . . .	6	30,109,926	27,288,020
		<u>3,675,538,195</u>	<u>1,831,157,354</u>
<b>Other assets</b>			
Fixed assets . . . . .	3	404,448,997	62,300,353
Other assets . . . . .		32,447,849	12,602,092
		<u>436,896,846</u>	<u>74,902,445</u>
<b>Total assets</b>		<u>14,680,791,780</u>	<u>10,680,874,825</u>



as of December 31, 2000

	Notes	Dec. 31, 2000	Dec. 31, 1999
<b>Shareholders' Equity and Liabilities</b>			
<b>Amounts owed to credit institutions</b>			
Loans with credit institutions . . . . .		6,426,893,458	2,728,626,965
		<u>6,426,893,458</u>	<u>2,728,626,965</u>
<b>Borrowings</b>			
	7		
Securities issued . . . . .		4,898,323,040	4,716,632,348
Other borrowings . . . . .		538,215,582	457,471,886
		<u>5,436,538,622</u>	<u>5,174,104,234</u>
<b>Other liabilities</b>			
Sundry liabilities . . . . .		527,870,370	228,211,905
		<u>527,870,370</u>	<u>228,211,905</u>
<b>Calculated liabilities</b>			
Deferred income tax liability . . . . .	11	216,970,750	251,029,916
		<u>216,970,750</u>	<u>251,029,916</u>
<b>Shareholders' equity</b>			
	14		
Share capital . . . . .		1,215,419,015	966,832,595
Contributed capital in excess of par . . . . .		290,074,665	303,046,713
Statutory reserve . . . . .		143,920,154	138,145,665
Revaluation reserve . . . . .		123,999,019	72,753,657
Retained earnings . . . . .		299,105,726	818,123,175
		<u>2,072,518,580</u>	<u>2,298,901,805</u>
<b>Shareholders' equity and liabilities</b>		<u>14,680,791,780</u>	<u>10,680,874,825</u>
<b>Off-balance-sheet items</b>			
Warranties and other liabilities . . . . .	13		

# Consolidated Cash Flow Statement for the Year 2000

	Notes	2000	1999
<b>Net cash provided by operating activities</b>			
Net profit (loss) for the year . . . . .		(168,250,118)	652,746,947
<b>Difference between net earnings and cash from operations</b>			
Depreciation of fixed assets . . . . .		24,106,335	17,935,519
Provision for losses on the loan portfolio . . . . .		120,000,000	185,000,000
Deferred income tax liability . . . . .		(44,406,276)	191,351,641
Sundry items . . . . .		78,239,799	(22,464,201)
		<u>9,689,740</u>	<u>1,024,569,906</u>
<b>Changes in operating assets and liabilities</b>			
Other assets and liabilities, change . . . . .		279,812,708	(50,645,664)
		<u>279,812,708</u>	<u>(50,645,664)</u>
		<u>289,502,448</u>	<u>973,924,242</u>
<b>Net cash provided by operating activities</b>			
<b>Cash flow from investment activities</b>			
Time deposit with the Central Bank, change . . . . .		(28,009,663)	(4,192,955)
Other time deposit with credit institutions . . . . .		(199,153,333)	0
Loans, change . . . . .		(1,445,377,558)	(123,695,685)
Marketable securities, change . . . . .		(1,826,887,999)	30,740,330
Shares in other companies, change . . . . .		(2,446,891)	18,220,209
Purchase of fixed assets . . . . .		(358,277,124)	(31,810,515)
		<u>(3,860,152,568)</u>	<u>(110,738,616)</u>
<b>Net cash used in investment activities</b>			
<b>Cash flow from financing activities</b>			
Borrowings, change . . . . .		3,960,700,881	(778,899,556)
Dividend paid . . . . .		(133,214,000)	(64,050,570)
Treasury shares purchased . . . . .		(16,150,547)	0
		<u>3,811,336,334</u>	<u>(842,950,126)</u>
<b>Net cash provided by financing activities</b>			
<b>Increase in cash and cash equivalents . . . . .</b>		<b>240,686,214</b>	<b>20,235,500</b>
<b>Cash and cash equivalents at the beginning of the year . . . . .</b>		<b>204,611,625</b>	<b>184,376,125</b>
<b>Cash and cash equivalents at the end of the year . . . . .</b>		<b>445,297,839</b>	<b>204,611,625</b>

The Annual Accounts have been prepared in accordance with the Annual Accounts Act and the Regulation on the Annual Accounts of Commercial Banks, Savings Banks and other credit institutions. The merger of Samvinnusjóður Íslands hf. and Fjárvangur hf. was approved by shareholders' meetings in May 2000, and the merger was effective from January 1, 2000. These Annual Accounts cover the merged company, and include Consolidated Accounts for the bank and its subsidiary, Lögfang hf. The main accounting principles are explained. In all, main respects the Annual Accounts have been prepared in accordance with the same accounting principles as for the previous year.

### **The effect of general price-level changes on monetary assets and liabilities**

The effect of general price-level changes on monetary assets and liabilities as they were at the beginning of the accounting year – and on any changes in them during the year – has been calculated and entered into the Annual Accounts. This calculation is based on a change in the Credit Terms Index (CTI) within the year and is intended to reflect the drop in real value of monetary assets and liabilities during times of inflation. Thus, this entry is partly set off by interest income, interest expenses and indexation.

### **Fixed tangible assets, revaluation and depreciation**

Fixed tangible assets have been revalued by updating their original cost price and depreciation at the end of the year with a view to changes in the Credit Terms Index. The revaluation has been posted to the revaluation reserve account among shareholders' equity. Depreciation is calculated as a fixed annual percentage of cost price (relatively) with respect to the period of possession within the year.

### **Investment securities and bond offers**

The part of investment securities that generates discount income is posted at net present value, and the discounts are thus entered as income during the time of possession of the securities. Bond offers are posted at net present value among long-term liabilities. In this manner, discount expenses are spread over the instalment period of the offer.

### **Assets and liabilities – index-adjusted or denominated in foreign currencies**

Foreign assets and liabilities are valued at the Central Bank of Iceland's official guideline rate of exchange on December 31, 2000. The value of index-adjusted assets and liabilities is converted on the basis of indexes that took effect at the beginning of January 2001. Accrued exchange-rate differences and indexation of the principal of assets and liabilities have been posted to the Profit and Loss Account.

### **Shares**

The Bank's share portfolio is divided into market shares and investment shares. Market shares are shares that the Bank's management has formally decided to liquidate within one year. Market shares that are registered on the Iceland Stock Exchange are capitalized at their market value as of December 31, 2000, while unlisted market shares are capitalized at cost price. Investment shares are capitalized at their revalued cost price.

### **Deferred income tax liability**

Deferred income tax liability was calculated and recorded in the Balance Sheet. The calculation of the deferred income tax liability is based on the temporary difference between Balance Sheet items as presented in the tax return on the one hand, and in the Annual Accounts on the other. The reason for this difference is that the tax assessments are based on premises other than those used in the Annual Accounts.

In general, deferred income tax liability corresponds to the income tax that, under current tax legislation, would be payable if the Bank's assets were to be liquidated or realized at book value.

**1. Loans to customers****Dec. 31, 2000****Dec. 31, 1999**

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

Bills of exchange . . . . .	37,617,270	19,273,293
Bonds . . . . .	7,181,700,218	7,363,381,295
Other types of debentures . . . . .	1,940,803,778	419,120,093
Depository credit . . . . .	21,576,664	36,455,984
Other . . . . .	270,741,176	253,654,243
	<u>9,452,439,106</u>	<u>8,091,884,908</u>

Loans to customers specified by sectors:

The State Treasury and state institutions . . . . .	0.00%	0.00%
Business enterprises:		
Trade and services . . . . .	17.48%	18.59%
The fishing industry . . . . .	4.84%	1.05%
Industry and contractors . . . . .	7.87%	2.80%
Agriculture . . . . .	0.00%	0.10%
Other borrowers . . . . .	3.81%	0.66%
Individuals . . . . .	66.00%	76.80%
	<u>100.00%</u>	<u>100.00%</u>

Loans to customers specified by maturity:

On demand . . . . .	163,369,968	346,029,047
Up to 3 months . . . . .	1,598,685,177	227,481,954
From 3 months to 1 year . . . . .	1,279,349,419	927,465,253
From 1 year to 5 years . . . . .	3,146,887,910	3,217,736,558
Over 5 years . . . . .	3,264,146,632	3,373,172,096
	<u>9,452,439,106</u>	<u>8,091,884,908</u>

Redeemed assets on foreclosed mortgages, specified by type:

Vehicles . . . . .	6,290,466	28,706,278
Real estate . . . . .	5,877,328	18,323,212
	<u>12,167,794</u>	<u>47,029,490</u>

Non-performing loans are classified as follows:

Loans subjected to a specific provision for losses . . . . .	137,692,455	149,657,711
Redeemed assets on foreclosed mortgages . . . . .	12,167,794	47,029,490
Special provision for losses on the loan portfolio . . . . .	(126,023,717)	(145,852,193)
Non-performing loans less provision for losses . . . . .	23,836,532	50,835,008
Other non-performing loans . . . . .	50,957,327	55,704,268
	<u>74,793,859</u>	<u>106,539,276</u>

## 2. Provision for losses on the loan portfolio

The provision account for losses on the loan portfolio was established to meet the risks expected in the operation of the Fund. The provision account for losses on the loan portfolio consists of special and general contributions. Special contributions concern individual loans that have been deemed at risk due to the impaired solvency of the debtors, or due to long-term defaults, while general contributions concern other loans. This provision is deducted from the appropriate Balance Sheet items.

Changes in the provision are specified as follows:

	<b>Special</b>	<b>General</b>	<b>Total</b>
Provision on January 1, 2000 . . . . .	145,852,193	111,353,975	257,206,168
Provision during the year . . . . .	114,331,387	5,668,613	120,000,000
Losses during the year . . . . .	(134,159,863)	0	(134,159,863)
Provision on December 31, 2000 . . . . .	<u>126,023,717</u>	<u>117,022,588</u>	<u>243,046,305</u>

Provision for losses on the loan portfolio as percentage of total loans . . . . . 2.57%

Loans collected that had previously been written-off amounted to ISK 2.8 million.

## 3. Fixed assets

Real estate, fixtures and furnishings, equipment, revaluation and depreciation are specified as follows:

Total value on January 1, 2000 . . . . .	120,414,151
Revaluation of assets for the year . . . . .	10,784,959
Additions during the year . . . . .	366,217,158
Sold during the year . . . . .	<u>(10,988,091)</u>
Total value on December 31, 2000 . . . . .	<u>486,428,177</u>
Depreciation on January 1, 2000 . . . . .	58,113,801
Revaluation during the year . . . . .	2,807,101
Additions during the year . . . . .	24,106,335
Sold during the year . . . . .	<u>(3,048,057)</u>
Depreciation on December 31, 2000 . . . . .	<u>81,979,180</u>
Book value as of December 31, 2000 . . . . .	<u><u>404,448,997</u></u>

**4. Market securities and other fixed-income securities**

Market bonds are specified as follows:

	<b>Market value</b>	<b>Book value</b>
Bonds listed on the Iceland Stock Exchange . . . . .	821,202,359	821,202,359
		<u>821,202,359</u>

**5. Shares and other securities with variable income**

Market shares and other securities are classified as follows:

	<b>Market value</b>	<b>Book value</b>
Shares listed on the Iceland Stock Exchange . . . . .	1,286,564,574	1,286,564,574
Foreign securities . . . . .		128,363,027
Unlisted domestic securities, etc. . . . .		1,076,382,766
		<u>2,491,310,367</u>

Exchange rate gains (losses) on market shares are entered as income (expenses) in the Profit and Loss Account, cf. Notes No. 8 and 9.

Investment shares are specified as follows:

	<b>Ownership</b>	<b>Nominal value</b>	<b>Market value</b>	<b>Book value</b>
Kaupás hf. . . . .	5.46%	41,279,670		206,286,470
Gilding hf. . . . .	1.76%	100,000,000		126,629,073
		<u>141,279,670</u>		<u>332,915,543</u>

Investment shares are specified as follows with respect to listings:

	<b>Market value</b>	<b>Book value</b>
Unlisted shares . . . . .		332,915,543
		<u>332,915,543</u>

Summary of activities concerning investment shares during the year:

	<b>2000</b>	<b>1999</b>
Book value on January 1 . . . . .	933,711,952	969,491,783
Purchased shares . . . . .	351,750,235	807,679,500
Shares disposed of . . . . .	(990,976,507)	(900,172,135)
Revaluation . . . . .	38,429,863	56,712,804
Book value on December 31 . . . . .	<u>332,915,543</u>	<u>933,711,952</u>

## 6. Shares in associated and related companies

Shares in related companies are specified as follows:

	Ownership	Share in net profit	Nominal value	Book value
Verðbréfasjóðurinn hf. . . . .	99.98%	131,724	11,997,600	16,266,308
Fjölthjódasjóðurinn hf. . . . .	99.98%	0	3,999,200	5,957,737
Rekstrarfélagid Fjávangur hf. .	90.00%	(179,897)	450,000	461,129
Ævisjóðurinn hf. . . . .	100.00%	(206,908)	2,000,000	4,101,700
Lífvördur hf. . . . .	100.00%	48,775	500,000	616,802
Líffis Sicav. Luxembourg . . . .		86,627	17,950 shares	2,706,250
				<u>30,109,926</u>

Shares in subsidiaries are capitalised at a value that corresponds to the Bank's share in their equity as of December 31, 2000.

## 7. Borrowings

Borrowings are specified as follows:

	Dec. 31, 2000	Dec. 31, 1999
Bonds issued . . . . .	4,898,323,041	4,931,321,533
Bills of Exchange issued . . . . .	410,094,035	242,782,701
Other borrowings . . . . .	128,121,546	0
	<u>5,436,538,622</u>	<u>5,174,104,234</u>

Amounts due – specified by maturity:

Up to 3 months . . . . .	460,886,673	133,030,823
From 3 months to 1 year . . . . .	431,961,627	250,030,076
Over 1 year and up to 5 years . . . . .	3,680,099,721	3,562,242,723
Over 5 years . . . . .	863,590,601	1,228,800,612
	<u>5,436,538,622</u>	<u>5,174,104,234</u>

**8. Income from shares and other holdings**

Dividend from shares and other holdings is specified as follows:

	<b>2000</b>
Dividend from market and investment shares . . . . .	45,724,515
Share in profit of associated companies . . . . .	(119,679)
	<u>45,604,836</u>

**9. Exchange rate difference on other financial activities**

Exchange rate difference is specified as follows:

Net profit on sale of marketable and investment shares . . . . .	181,184,975
Exchange rate gains (losses) on market shares . . . . .	(168,555,209)
Devaluation of bonds . . . . .	(35,249,180)
Other exchange rate differences . . . . .	(58,051,304)
	<u>(80,670,718)</u>

**10. Cash on hand and amounts due from credit institutions**

Required deposits with the Central Bank of Iceland are in accordance with its rules on required deposits. Among amounts due from credit institutions, there are subordinated bonds amounting to ISK 500 million. Other claims against credit institutions consist mostly of deposits in current accounts and foreign-currency accounts.

**11. Deferred income tax liability**

The Bank is subject to deferred income tax liability due to deferred taxation. This deferred income tax liability will become due over the next few years, according to tax law. Changes in the commitment over the period are as follows:

	<b>2000</b>	<b>1999</b>
Deferred income tax liability on January 1 . . . . .	251,029,916	91,509,319
Calculated indexation adjustment . . . . .	10,347,110	5,133,967
Income Tax payable . . . . .	0	(36,965,011)
Increase in the deferred income tax liability over the year . . . . .	(44,406,276)	191,351,641
Deferred income tax liability as of December 31 . . . . .	<u>216,970,750</u>	<u>251,029,916</u>

## 12. Assets and liabilities denominated in foreign currencies and/or subject to indexation

Assets and liabilities denominated in foreign currencies and/or subject to indexation are specified as follows on December 31, 2000:

	<b>Assets</b>	<b>Liabilities</b>
Index-linked . . . . .	6,560,088,133	5,279,612,441
Denominated in foreign currencies . . . . .	1,245,570,222	3,067,203,686
	<u>7,805,658,355</u>	<u>8,346,816,127</u>

## 13. Off-Balance-Sheet items

Warranties and other liabilities:

The loan equivalent of derivatives in the risk base . . . . . 1,937,451,000

Currency and interest rate swaps:

Assets in foreign currencies . . . . . 1,725,637,000

Liabilities in foreign currencies . . . . . 332,587,000

Forward contracts:

Assets in foreign currencies . . . . . 99,025,000

Liabilities in ISK . . . . . 99,025,000

**14. Shareholders' equity**

Changes in shareholders' equity are as follows in ISK thousands:

	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total
Shareholders' equity on 1/1 2000	840,833	303,047	56,507	113,446	703,404	2,017,237
Merger with Fjárvangur hf. . . . .	126,000		16,232	24,700	114,733	281,665
New equity at merger . . . . .	251,765				(251,765)	0
Balance on 1/1 2000 after merger	1,218,598	303,047	72,739	138,146	566,372	2,298,902
Treasury shares purchased . . . . .	(3,179)	(12,972)				(16,151)
Dividend paid . . . . .					(133,214)	(133,214)
Revaluation of assets . . . . .			47,265			47,265
Calculated inflation adjustment . .			43,967			43,967
Revaluation of statutory reserve . .			(5,774)	5,774		0
Revaluation of retained earnings . .			(34,198)		34,198	0
Loss on Profit & Loss Account . . .					(168,250)	(168,250)
Contribution to legal reserve . . . .						0
Balance on December 31, 2000 . .	1,215,419	290,075	123,999	143,920	299,106	2,072,519

Equity as of December 31 amounted to ISK 2.072 billion or 14.1% of the sum total in the Balance Sheet.

The Bank's capital adequacy (CAD ratio), which is calculated under Art. 10 of the Credit Institutions (other than Commercial and Savings Banks) Act, amounts to 12.21%, while under law this ratio must not be lower than 8.0%.

**15. Personnel**

	2000	1999
The Bank's number of employees is as follows: . . . . .		
Average full-time equivalent positions for the year . . . . .	55	42
Full-time equivalent positions as of December 31 . . . . .	64	46

Payroll expenses break down as follows:

Salaries . . . . .	225,526,151	158,400,233
Remuneration to Board of Directors and Inspector . . . . .	6,480,000	1,500,000
Wage-related expenses . . . . .	32,430,314	27,513,285
	264,436,465	187,413,518



