

Frjalsi
Investment Bank hf.

Annual Accounts
31 December 2002

Icelandic krónas

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Endorsement by the Board of Directors and the Managing Director

The Annual Accounts include the Consolidated Annual Accounts of Frjalsi Investment Bank hf. and its subsidiary, Logfang ehf., which is fully owned by the Bank. The Annual Accounts are prepared in accordance with the Annual Accounts Act and the Regulations on the Preparation of Annual Accounts for Commercial Banks, Savings Banks and other Credit Institutions. The Annual Accounts are in all main respect based on the same accounting principles as in previous years apart from the abolishment of inflationary accounting. Assets are no longer reevaluated and the calculated inflation adjustment is not accounted for in the Profit and Loss Account. If the same accounting principles had been used as for the previous year the profits would have been ISK 41 million lower and the Bank's equity would have been ISK 8 million higher. This change is made in accordance with Act approved by the Icelandic Parliament, Althingi, at the end of 2001.

On 1 July 2001 the Bank sold its subsidiary, Rekstrarfélagid Soltuni 26 ehf., for the amount of ISK 102 million. Capital gains on the sale amounted to ISK 65 million. At the same time the Bank established a new subsidiary, Logfang ehf., which has not yet commenced operations.

According to the Profit and Loss Account the net operating income amounted to ISK 483 million. Equity, according to the Balance Sheet, amounted to ISK 2,391 million at the end of the year. The Board of Directors does not propose a payment of dividend for the year 2002. Changes in equity and allocation of profit are further explained in the notes to the Annual Accounts. The Bank's capital ratio, calculated according to Article 10 of the Act on Commercial Banks and Savings Banks, is 24.0%. According to the Act this ratio cannot be lower than 8.0%.

At the end of September Sparisjópur Reykjavíkur og nágrennis (SPRON) acquired Kaupthing's Bank hf.'s shares in Frjalsi Investment Bank hf. Therefore the Bank is a part of the SPRON Group as of that time. In December the Bank moved its operations from Soltun 26 to SPRON's headquarters at Armuli 13a. This is expected to have considerable synergy gains for the Group.

Last year, the average number of employees was 22. Total salaries amounted to ISK 106 million and salary related expenses amounted to ISK 17 million.

Shareholders at year-end 2002 numbered 15. At the end of the year one shareholder held more than 10% of the Bank's capital stock, SPRON, which held 93.8% of the shares in the Bank.

The Board of Directors and the Managing Director of Frjalsi Investment Bank hf. hereby confirm the Bank's Annual Accounts for the year 2002 with their signatures.

Reykjavik, 3 February 2002

Board of Directors

Gudmundur Hauksson

Jon G. Tomasson

Olafur Haraldsson

Managing Director

Kristinn Bjarnason

Auditors' Report

To the Board of Directors and Shareholders of Frjalsi Investment Bank Ltd.

We have examined the accompanying Consolidated Balance Sheet of Frjalsi Investment Bank hf. as of 31 December 2002 and the related Profit and Loss Account and Statement of Cash Flows for the year then ended. These Annual Accounts are the responsibility of the Bank's management. Our responsibility is to express an opinion on these Annual Accounts based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Annual Accounts are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Annual Accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the Annual Accounts give a true and fair view of the financial position of Frjalsi Investment Bank hf. as of 31 December 2002, and the results of its operation and its cash flows for the year then ended, in accordance with the law and generally accepted accounting principles in Iceland.

Reykjavik, 3 February 2002

Sigurdur Jonsson

KPMG Endurskodun hf.

Profit and Loss Account for the Year 2002

	Notes	2002	2001
Financial income:			
Interest from credit institutions		49,005	248,827
Interest on loans		1,463,615	1,712,851
Interest on bonds		<u>241,412</u>	<u>173,797</u>
	3	<u>1,754,032</u>	<u>2,135,475</u>
Financial expenses:			
Interest to credit institutions		439,888	564,806
Interest on borrowings	13	615,363	1,055,597
Calculated inflation adjustment	11	0	161,758
	3	<u>1,055,251</u>	<u>1,782,160</u>
Net interest income		698,781	353,314
Other operating income:			
Dividends from shares and other holdings	14	2,122	563
Income from commissions and other service charges		38,283	47,155
Value adjustment of other financial operations	15	7,374 (	111,840)
Other operating income	16	<u>116,004</u>	<u>589,648</u>
		<u>163,783</u>	<u>525,526</u>
Net operating income		862,564	878,841
Other operating expenses:			
Salaries and related expenses	18	123,488	178,727
Other administrative expenses		60,225	67,098
Depreciation	30	<u>25,501</u>	<u>38,682</u>
		<u>209,214</u>	<u>284,506</u>
Provision for losses	26	(<u>70,000</u>)	(<u>120,000</u>)
Profit before taxes		583,350	474,334
Income tax	35	(90,657)	5,549
Net worth tax		(<u>9,708</u>)	(<u>18,224</u>)
Net Profit for the year	36	<u><u>482,985</u></u>	<u><u>461,660</u></u>
Earnings per Share:			
Earnings per each 1 króna of share capital	4	0.44	0.42

Balance Sheet

Assets

	Notes	2002	2001
Amounts due from credit institutions:			
Required deposits with the Central Bank		341,557	244,121
Amounts due from other credit institutions		132,472	1,003,927
	20	474,030	1,248,048
Loans to customers:			
Loans to customers		11,633,591	11,124,745
Mortgages foreclosed		13,895	35,908
	5,21- 26	11,647,486	11,160,653
Bonds and shares in other companies:			
Bonds and other fixed income securities	6,27- 28	4,598,512	3,381,114
Shares and other variable yield securities		0	3,427
Shares in associated companies	29	0	5,958
		4,598,512	3,390,499
Other assets:			
Fixed assets	7,30	40,004	408,596
Other assets		13,877	61,922
		53,881	470,518
Total assets		16,773,909	16,269,717

31 December 2002

Liabilities and equity

	Notes	2002	2001
Amounts owed to credit institutions	33	<u>6,485,807</u>	<u>6,964,739</u>
Borrowings	34	<u>7,491,914</u>	<u>6,785,662</u>
Other liabilities		<u>179,734</u>	<u>53,545</u>
Provision for deferred income tax liability	8,35	<u>225,625</u>	<u>228,917</u>
Equity:			
Share capital		1,096,702	1,096,702
Share premium		142,445	142,445
Statutory reserve		131,731	131,731
Retained earnings		<u>1,019,950</u>	<u>865,976</u>
Equity 36-37		<u>2,390,828</u>	<u>2,236,854</u>
Total liabilities and equity		<u><u>16,773,909</u></u>	<u><u>16,269,717</u></u>

Off-Balance Sheet items:

Obligations	10,38
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Statement of Cash Flows for the Year 2002

	Notes	2002	2001
Cash flows from operations:			
Net earnings	36	482,985	461,660
Difference between net earnings and cash from operations:			
Gain on the sale of assets .....	(	78,802)	(562,504)
Provision for losses	26	70,000	120,000
Income tax	33 (	3,292)	11,946
Other items		23,185	203,897
Changes in assets and liabilities		174,234	(191,992)
Net cash provided by operating activities		668,310	43,006,890
Cash flows from investing activities:			
Time deposits with the Central Bank .....	(	97,437)	(85,669)
Other time deposits with credit institutions		819,755	(431,017)
Loans to customers, changes .....	(	556,833)	(2,127,854)
Trading bonds, changes .....	(	1,217,398)	(2,559,912)
Trading shares, changes		3,427	2,487,953
Investment securities, changes		0	332,916
Investment in associated companies	29	73,085	24,083
Goodwill sold		0	562,504
Investment in fixed assets	30 (	36,028)	(21,736)
Gain on sale of fixed assets		63,898	9,183
Disposal of fixed assets		328,898	0
Net cash used in investing activities		(618,633)	(1,809,551)
Cash flows from financing activities:			
Amounts owed to credit institutions, changes .....	(	478,933)	537,846
Borrowings, changes		706,568	1,349,124
Dividend paid	36 (	329,011)	0
Treasury stock, bought		0	(492,815)
Net cash provided by financing activities		(101,376)	1,394,154
Decrease in cash .....	(	51,699)	(372,390)
Cash and cash equivalents at the beginning of the year		72,908	445,298
Cash and cash equivalents at the end of the year	9	21,209	72,908
Other information:			
Taxes paid		19,410	2,318
Dividend received		120	563

Notes to Annual Accounts

Summary of accounting principles

Basis of Preparation

1. The Annual Accounts contain the Consolidated Annual Accounts of Frjalsi Investment Bank hf. and its fully owned subsidiary, Logfang ehf. The Annual Accounts have been prepared in accordance with the Annual Accounts Act and the Regulation on the Presentation and Contents of the Annual Accounts of Commercial Banks, Savings Banks and other Credit Institutions. In the Consolidated Annual Accounts intercompany balances and transactions for the included subsidiary are eliminated. The Annual Accounts are based on cost accounting and are prepared according to the same accounting principles as for the previous year apart from the changes in accounting principles specified in note 11.

Subsidiaries are companies in which the Bank holds controlling interest. The Annual Accounts of the subsidiaries are included in the Consolidated Annual Accounts of the Bank from the acquisition of majority interest and until the interest is no longer held. Balances between group companies, transactions and profits created in transactions between group companies is eliminated in the Consolidated Annual Accounts.

During the year the Bank's ownership in subsidiaries changed when the Bank sold Rekstrarfelagid Soltun 26 ehf., which was the Bank's real estate holding company. Toward year-end the Bank formed a new subsidiary, Logfang ehf., which did not commence operations until the year 2003.

Foreign Currency

2. Assets and liabilities in foreign currency are converted to Icelandic currency at the year-end 2002 exchange rate. Operational revenue and expenses in foreign currency are converted at the exchange rate of the date of transaction.

Interest Income and Expenses

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

Revenue and expenses equalling interest, such as borrowing charges, are included among interest income and expenses as they accrue.

Earnings per Share

4. Earnings per share is the ratio between profit and weighted average capital stock during the year and shows the profit per each 1 króna of share capital. The profit for the year amounted to ISK 483 million and the weighted average of the nominal value of share capital was ISK 1,097 million.

Loans

5. Loans are capitalised with accrued interest, indexation and exchange rate difference at year-end. Indexed loans are entered based on indices effective at the beginning of 2003 and loans in foreign currency based on the exchange rate of the relevant currencies at year-end 2002.

Notes, contd.:

5. contd.:

Provision for losses on the loan portfolio is made to meet the risk attached to lending operations. The loss provision is based on estimation and does not represent a final write-off. In addition to the required contribution, certain risk factors are evaluated to determine the total contribution for this purpose. First there are specific provisions to adjust for obligations of creditors that have received a poor risk evaluation, and secondly there is a general provision to meet the general risk of lending operations. Interest on loans, the collection of which is uncertain, is not entered as income. The provision has been deducted from the appropriate Balance Sheet items, less the provision for issued guarantees which are posted among sundry liabilities in the Balance Sheet.

The Bank has redeemed assets on foreclosed mortgages. Foreclosed mortgages are entered at estimated market prices in the Bank's Annual Accounts.

Market Securities

6. The Bank's securities are entirely investment securities. They are valued according to the required rate of return at the time of purchase.

Property and equipment

7. Property and equipment are capitalized at cost price less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the property and equipment until a scrap value is reached.

Deferred Income Tax Liability

8. The deferred income-tax liability has been calculated and entered 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 Annual Accounts on the other. This difference is due to the fact that tax assessments are based on rules which differ from those governing the Annual Accounts, mostly temporary differences because some expenses are expensed earlier in the tax return than in the Annual Accounts.

Cash and Cash Equivalents

9. Cash and cash equivalents in the Statement of Cash Flows consist of cash and demand deposits with credit institutions. Cash and cash equivalents amount to ISK 21 million at year-end.

Derivatives

10. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the Bank's Balance Sheet, either because rights and obligations arise out of one and the same contract, the contracts perform after the Balance Sheet date or because the notional amounts serve merely as variables for calculating purposes. The notional amounts of derivatives do not necessarily give any indication of the size of the cash flows and the market and credit risk attached to derivatives transactions. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products.

The Bank's derivatives are mainly intended to reduce the price, exchange and interest rate risk assumed by the Bank or its clients. Derivatives' performance is entered in the Profit and Loss Account and in the Balance Sheet. Net assets are capitalised among amounts due from credit institutions and other assets whereas net obligations are entered among sundry liabilities and amounts owed to credit institutions.

The market risk attached to derivatives is created by changes in the price of the factors on which the contracts are based, such as interest rate changes or exchange rate changes in currency and listed securities. Risk attached to borrowings reflects the loss incurred by the Bank if the counter party in a derivative contract could not fulfil its part of the contract.

Notes, contd.:

10. cont.:

Forward rate agreements and futures relating to currency, securities and interest rate are entered in the Bank's Annual Accounts at their year-end market value.

Changes in Accounting Principles

Inflationary-adjusted Accounting Ceased

11. According to an Act passed by the Icelandic Parliament, Althingi, at the end of the year 2001, the Bank decided to cease using inflationary-adjusted accounting. Property and equipment and shares in companies, previously revalued according to changes in the general price level, are now valued at cost price level. Depreciation is calculated at cost price level and the effects of changes in the general price level are no longer expensed in the Bank's Profit and Loss Account. As a result of these changes operating results are not shown at the average price for the year and aforementioned assets are not valued at the year-end price level. If the same accounting principles had been used as for the previous year the operating results would have been ISK 41 million lower and the Bank's equity would have been ISK 8 million higher.

In accordance with international accounting standards regarding changes from inflationary-adjusted accounting to unadjusted accounting comparative amounts in the Annual Accounts have not been changed.

Quarterly Statements

12. Summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
Net interest income	187,339	163,671	179,234	168,537	698,781
Other operating revenue:					
Income from shares and other holdings ..	0	2,122	0	0	2,122
Commissions, income and expenses	8,241	7,818	9,441	12,783	38,283
Exchange rate gain (-loss) from other financial activities	1,181	5,492	(1,112)	1,813	7,374
Other operating revenues	13,139	9,378	83,426	10,061	116,004
	<u>22,561</u>	<u>24,810</u>	<u>91,755</u>	<u>24,657</u>	<u>163,783</u>
Net operating income	209,900	188,481	270,989	193,194	862,564
Other operating expenses:					
Salaries and salary-related expenses	28,164	34,775	31,207	29,342	123,488
Other operating expenses	15,256	14,228	10,629	20,112	60,225
Depreciation	9,381	9,005	6,326	789	25,501
	<u>52,801</u>	<u>58,008</u>	<u>48,162</u>	<u>50,243</u>	<u>209,214</u>
Provision for losses on the loan portfolio ..	(15,000)	(15,000)	(25,000)	(15,000)	(70,000)
Pre-tax profit	142,099	115,473	197,827	127,951	583,350
Income tax and net worth tax	(25,578)	(20,785)	(42,309)	(11,693)	(100,365)
Net profit	<u>116,521</u>	<u>94,688</u>	<u>155,518</u>	<u>116,258</u>	<u>482,985</u>

Notes, contd.:

Interest expenses

13. Interest on borrowings is specified as follows:

	2002	2001
Bonds issued	582,129	849,336
Bills of exchange	29,331	19,837
Other borrowings	3,903	186,424
Total interest on borrowings	<u>615,363</u>	<u>1,055,597</u>

Other operating income

14. Dividends from shares and other holdings are specified as follows:

Dividend on trading shares and investment shares	120	563
Profit share in net earnings of associated companies	<u>2,002</u>	<u>0</u>
Total	<u>2,122</u>	<u>563</u>

15. Value adjustment of other financial operations are specified as follows:

Trading securities	0	(141,796)
Trading bonds	0	19,016
Assets and liabilities in foreign currencies	<u>7,374</u>	<u>10,940</u>
Total	<u>7,374</u>	<u>(111,840)</u>

16. Sundry operational revenues are specified as follows:

Capital gains on the sale of business segment	0	562,504
Capital gains on the sale of shares in subsidiaries	65,126	0
Capital gains on the sale of real estate	13,677	0
Other revenue	<u>37,201</u>	<u>27,144</u>
Total	<u>116,004</u>	<u>589,648</u>

Personnel

17. The total number of employees is as follows:

Average number of employees during the year measured as full time	22	36
Full time equivalent positions at year-end	21	22

Notes, contd.:

18. Salaries and salary-related expenses are specified as follows:

	2002	2001
Salaries	106,893	155,446
Salary related expenses	16,594	23,280
Total	<u>123,487</u>	<u>178,726</u>

19. Salaries paid to the Board of Directors and the Managing Director amounted to ISK 24.6 million during the year.

Amounts due from credit institutions

20. Amounts due from credit institutions:

On demand	21,209	72,908
Up to 3 months	111,263	931,018
Required deposits with Central Bank according to regulation	341,558	244,121
Total	<u>474,030</u>	<u>1,248,047</u>

Loans to customers

21. Loans to customers specified by types of loans:

Bonds	6,993,160	6,579,420
Other loans	4,640,431	4,545,324
Total	<u>11,633,591</u>	<u>11,124,744</u>

22. Loans to customers specified by sectors:

Business enterprises:		
Commerce and services	17.0%	23.7%
Fishing industry and agriculture	5.6%	11.1%
Industry and contractors	22.7%	13.1%
Other	0.9%	1.5%
Individuals	53.8%	50.6%
Total	<u>100.0%</u>	<u>100.0%</u>

23. Loans to customers specified by maturity:

On demand	161,405	158,983
Up to 3 months	847,118	878,555
Over 3 months and up to a year	3,853,126	2,684,500
Over 1 year and up to 5 years	3,073,790	3,947,205
Over 5 years	3,698,152	3,455,501
Total	<u>11,633,591</u>	<u>11,124,744</u>

Notes, contd.:

24. The Bank has redeemed assets on foreclosed mortgages. Foreclosed mortgages are valued at estimated market prices and are specified as follows:

	2002	2001
Operating assets	8,005	14,360
Buildings	5,890	21,548
Total	<u>13,895</u>	<u>35,908</u>

25. Non-performing loans are specified as follows:

Loans with a specific provision for losses	98,993	109,996
Specific provision for losses	(66,208)	(95,950)
Non-performing loans less specific provision for losses	32,785	14,046
Other non-performing loans	201,050	79,437
Non-performing loans, total	<u>233,835</u>	<u>93,483</u>

26. Changes in the provision for losses are specified as follows:

	Provision for losses		2002	2001
	Specific	General	Total	Total
Balance on 1 January 2002	95,950	163,516	259,466	243,046
Provision for losses during the year	35,634	34,366	70,000	120,000
Actual losses during the year	(65,376)		(65,376)	(103,579)
Balance on 31 December 2002	<u>66,208</u>	<u>197,883</u>	<u>264,091</u>	<u>259,468</u>
Provision for losses on the loan portfolio as a percentage of loans and issued guarantees			2.3%	2.3%

Bonds and shares in other companies

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

	Market value	Book value
Investment bonds:		
Listed on the Iceland Stock Exchange	<u>4,598,512</u>	<u>4,598,512</u>

28. Bonds and other fixed income securities specified by issuers:

Bonds issued by public bodies	4,105,958
Bonds issued by others	492,554
Total	<u>4,598,512</u>

All aforementioned contracts mature within a year.

29. The Bank sold its subsidiary, Rekstrarfelagid Soltuni 26 ehf., in the year. Fjolithjodasjodurinn hf. was liquidated and the Bank's share in the liquidation was ISK 2 million.

Notes, contd.:

Property and equipment

30. Fixed assets are specified as follows:

	Real estate	Fixtures, equipment and vehicles	Total
Total value 1.1.2002	342,817	127,220	470,037
Additions during the year	9,068	26,959	36,027
Sold during the year	0	(119,540)	(119,540)
Disposals during the year	(342,817)	0	(342,817)
Total value 31.12.2002	<u>9,068</u>	<u>34,639</u>	<u>43,707</u>
Previously depreciated	10,247	51,195	61,442
Depreciation during the year	3,717	21,784	25,501
Sold during the year	0	(69,320)	(69,320)
Disposals during the year	(13,919)	0	(13,919)
Total depreciation 31.12.2002	<u>45</u>	<u>3,659</u>	<u>3,704</u>
Book value 31.12.2002	<u>9,023</u>	<u>30,980</u>	<u>40,003</u>
Annual depreciation ratio	2%	0-20%	

On 31 December 2002 the official value of buildings was ISK 4.1 million and ISK 1 million for land or a total of ISK 5.1 million. The insurance valuation of the buildings amounted to ISK 6.5 million at the end of 2002. Insurance value of machinery and equipment amounted to ISK 67 million at the same time.

Assets and liabilities index linked or in foreign currency

31. The total amount of indexed assets is ISK 6,611 million and the total amount of indexed liabilities is ISK 6,849 million at year-end.
32. The total amount of assets in foreign currencies is ISK 2,462 million, and the total amount of liabilities amounted to ISK 2,387 million at year-end. Included in assets and liabilities are forward contracts and currency and interest rate swaps, see note 38.

Amounts owed to credit institutions

33. Liabilities owed to credit institutions mature as follows:	2002	2001
Up to 3 months	5,575,313	4,827,489
Over 3 months and up to a year	193,965	630,310
Over 1 year and up to 5 years	716,529	1,387,101
Over 5 years	0	119,839
Total	<u>6,485,807</u>	<u>6,964,739</u>

Notes, contd.:

Borrowings

34. Borrowings are specified as follows:

	2002	2001
Bonds issued	7,366,103	6,620,697
Bills of exchange	125,811	114,048
Other borrowings	0	50,917
Total	<u>7,491,914</u>	<u>6,785,662</u>

Borrowings that mature within a year amount to ISK 1,885 million.

Deferred income-tax liability

35. Deferred income-tax liability is specified as follows:

Provision for deferred income-tax liability at the beginning of 2002	228,917
Calculated income tax for 2002	90,657
Income tax because of 2002 to be paid in the year 2003	(93,949)
Provision for deferred income-tax liability at the end of 2002	<u>225,625</u>

The deferred income-tax liability is specified as follows:

Deferred gain on the sale of assets	225,102
Fixed assets	<u>523</u>
Provision for deferred income- tax liability at the end of 2002	<u>225,625</u>

Equity

36. According to the Bank's Articles of Association, total Share Capital amounts to ISK 1,215 million. At year-end 2002 own shares amounted to ISK 118 million and Share Capital, according to the Balance Sheet, amounted to ISK 1,097 million.

Changes in equity are as follows:

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Retained earnings	Total
Equity 1.1.2002	1,096,702	142,445	60,404	131,731	805,572	2,236,854
Revaluation reserve transferred			(60,404)		60,404	0
Equity 1.1.2002	1,096,702	142,445	0	131,731	865,976	2,236,854
Dividend paid					(329,011)	(329,011)
Net earnings					482,985	482,985
Equity 31.12.2002	<u>1,096,702</u>	<u>142,445</u>	<u>0</u>	<u>131,731</u>	<u>1,019,950</u>	<u>2,390,828</u>

Notes, contd.:

37. The Bank's equity at year-end amounts to ISK 2,391 million, equivalent to 14.3% of total assets. The capital ratio of the Bank, calculated according to Article 10 of the Act on Credit Institutions other than Commercial Banks and Savings Banks, is 24.0%. According to the Act this ratio cannot be below 8.0%. The ratio is calculated as follows:

	Book value	Weighted value	
		2002	2001
Risk base:			
Assets recorded in the Annual Accounts	16,773,909	9,925,900	10,222,122
Guarantees and other items not included in the Balance Sheet ..		25,145	26,950
Risk base, total		<u>9,951,045</u>	<u>10,249,072</u>
Capital:			
Recorded equity		<u>2,390,828</u>	<u>2,236,854</u>
Capital ratio		24.0%	21.8%

Obligations

38. The Bank has entered into currency and interest rate contracts with its customers. These agreements are specified as follows:

	2002	2001
Currency and interest rate contracts:		
Assets in foreign currencies	409,046	1,455,869
Assets in ISK	6,763,648	4,838,328
Liabilities in foreign currencies	2,141,971	2,916,252
Liabilities in ISK	5,201,704	3,381,114

The objective of the above mentioned agreements is to control currency and interest rate risk of the Bank. The credit risk is valued at ISK 125 million when calculating the capital ratio of the Bank.