

**The Depositors' and Investors'  
Guarantee Fund  
Financial Statements  
2007**

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# Endorsement by the Board of Directors and the Managing Director

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The Depositors' and Investors' Guarantee Fund was established on December 28, 1999. According to the fund's Article of Association, it is operated by two departments with separate finance and accounting, depositors' department and investors' departments. The fund may also operate a special credit department.

According to law no. 98/1999 applicable to the fund, total assets of the depositors' department may not be lower than 1% of average insured deposits of commercial banks and savings banks the previous year but the fund did not meet with this requirement at year-end 2007. It is assumed that approximately ISK 2,537 million need to be collected with commercial banks and savings banks in order to reach the legal minimum size of the fund in addition to issuing a guarantee pledge to the amount of 6,045 million.

The fund has an agreement with both Kaupthing Bank and MP Investment Bank to handle the fund's asset management. The fund's investment policy states essentially that proportion of domestic government bonds should be between 30-75%, 15-55% in foreign government bonds and 0-15% in foreign equity. Annual fee was not collected in the year of 2007 on accounts of investor's department. According to provisions on the investors' department in the aforementioned law, the department's total assets shall amount to at least ISK 100 million. At year-end, the department's equity amounted to approx ISK 138 million. According to law, new member companies of the fund shall pay especially to the department for five years after starting operation and first payment should be realized a year after initiation. Three new member companies joined the fund during the year of 2006 and will pay to the department in the year of 2008.

The Board of Directors of The Depositors' and Investors' Guarantee Fund and the Managing Director hereby confirm the financial statement of the fund for the year 2007 by means of their signatures

Reykjavik, February 26, 2008.

The Board of Directors:

Guðrún Þorleifsdóttir

Kolbeinn Árnason  
Þórhallur Arason

Haukur Þór Haraldsson

Managing Director:

Jónas Þórðarson

## CONFIRMATION OF THE MINISTER OF COMMERCE

Ministry of Commerce February 26, 2008.

Björgvin G. Sigurðsson  
The Minister of Commerce

# Independent Auditor's Report

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To the Board of Directors of The Depositors' and Investors' Guarantee Fund.

## **Introduction**

We have audited the accompanying financial statements of The Depositors' and Investors' Guarantee Fund, which comprise the balance sheet as at December 31, 2007, and the income statement, and a summary of significant accounting policies and other explanatory notes.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of The Depositors' and Investors' Guarantee Fund as at December 31, 2007, and of its financial performance for the year then ended in accordance with the Icelandic Financial Statements Act.

Reykjavik, February 26, 2008.

**KPMG hf.**

Sigurður Jónsson

Auður Þórisdóttir

# Income Statement - Depositors' Department

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	Notes	2007	2006
<b>Revenues:</b>			
Contributions of member companies .....		1,315,767,000	914,053,500
Interest income, indexation and foreign exchange difference .....		314,285,464	917,149,099
Other income .....		0	1,250,000
		1,630,052,464	1,832,452,599
<b>Expenses:</b>			
Salaries and salary related expenses .....		6,219,492	6,207,671
Other operating expenses .....		11,230,236	8,597,381
Management fees and performance based fees .....	3	44,626,833	15,616,991
Finance income tax .....		33,401,238	70,951,456
		95,477,799	101,373,499
<b>Income in excess of expenses .....</b>	<b>5</b>	<b>1,534,574,665</b>	<b>1,731,079,100</b>

# Balance Sheet - Depositor' Department

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## Assets

	Notes	31.12.2007	31.12.2006
<b>Bank deposits and securities:</b>			
Iceland Central Bank, bank deposit .....		32.554.624	41.181.729
Securities .....	2,4	8.392.260.230	6.845.835.016
		8.424.814.854	6.887.016.745
<b>Other assets:</b>			
Other receivables .....		7.078.150	628.208
<b>Total assets</b>		<b>8.431.893.004</b>	<b>6.887.644.953</b>

## Equity and liabilities

		31.12.2007	31.12.2006
<b>Short-term liabilities:</b>			
Finance income tax .....		51.051.534	69.413.914
Other short-term liabilities .....		47.241.284	19.205.518
		98.292.818	88.619.432
<b>Equity:</b>			
Equity .....	5	8.333.600.186	6.799.025.521
		8.333.600.186	6.799.025.521
<b>Total equity and liabilities</b>		<b>8.431.893.004</b>	<b>6.887.644.953</b>

# Notes to the Financial Statements

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## Accounting methods:

1. The financial statements have been prepared in accordance with the Financial Statements Act and Regulations on the Presentation and Content of Financial Statements.
2. The fund's securities holding is entered at market value.
3. Performance based fees and fixed management fees for financial possession in securities amounted to ISK 44,7 million during the year. Transaction fees are entered to the reduction of interest income, indexation and foreign exchange difference but performance based fees and fixed management fees are entered as a specific item among expenses.

## Securities:

4. Securities are specified as follows:

	2007	2006
Domestic bonds .....	4.768.338.854	3.283.058.556
Foreign bonds .....	2.826.074.530	2.651.023.277
Foreign equities .....	797.846.846	911.753.183
	<u>8.392.260.230</u>	<u>6.845.835.016</u>

## Equity:

5. Changes in equity are specified as follows:

	2007	2006
Equity January 1 .....	6.799.025.521	5.067.946.421
Income in excess of expenses .....	1.534.574.665	1.731.079.100
Equity December 31 .....	<u>8.333.600.186</u>	<u>6.799.025.521</u>

6. The fund does not meet with the legal requirements on total assets, which shall not be lower than 1.0% of the average insured deposit of commercial banks and savings bank in the previous year. It is therefore assumed that the fund must collect approx. ISK 2,537 million in the year 2008 from commercial banks and savings banks in order to reach the legal minimum size of the fund and in addition, the fund must issue guarantee pledge to the amount of ISK 6,045 million.

# Income Statement Investors' Department

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	Notes	2007	2006
<b>Revenues:</b>			
Contributions of member companies .....		0	14,324,520
Other income .....	6	18,252,180	
Interest income, indexation and foreign exchange rate difference .....		8,540,342	21,302,211
		26,792,522	35,626,731
<b>Expenses:</b>			
Salaries and salary related expenses .....		108,146	127,980
Other operating expenses .....		195,022	178,261
Management fees and performance based fees .....		774,982	321,967
Finance income tax .....		859,011	1,764,942
Obligation due to bankruptcy of a member company .....	6	0	5,356,228
		1,937,161	7,749,378
<b>Income in excess of expenses .....</b>	<b>5</b>	<b>24,855,361</b>	<b>27,877,353</b>



# Balance Sheet - Investors' Department

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## Assets

	Notes	2007	2006
<b>Bank deposits and securities:</b>			
Iceland Central Bank, bank deposit .....		8.341.899	39.052.843
Securities .....	2,4	137.983.824	133.934.026
		146.325.723	172.986.869
<b>Total assets</b>		146.325.723	172.986.869

## Equity and liabilities

		2007	2006
<b>Short-term liabilities</b>			
Finance income tax .....		839.379	1.428.015
Obligation due to bankruptcy of a member company .....	6	0	57.377.813
Other short-term liabilities .....		7.078.150	628.208
		7.917.529	59.434.036
<b>Equity</b>			
Equity .....	5	138.408.194	113.552.833
		138.408.194	113.552.833
<b>Total equity and liabilities</b>		146.325.723	172.986.869

# Notes to the Financial Statements

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## Accounting methods:

1. The financial statements have been prepared in accordance with the Financial Statements Act and Regulations on the Presentation and Content of Financial Statements.
2. The fund's securities holding is entered at market value.
3. Fees due to asset management of securities holding of the investors' department amounted to a total of ISK 775 thousand. Transaction fees are entered to the reduction of interest income, indexation and foreign exchange difference but performance based fees and fixed service fees are entered among expenses as a specific item.

## Securities

4. Securities are specified as follows:

	2007	2006
Domestic bonds .....	78.400.051	64.230.770
Foreign bonds .....	46.465.739	51.865.436
Foreign equities .....	13.118.034	17.837.820
	<u>137.983.824</u>	<u>133.934.026</u>

## Equity

5. Changes in equity are specified as follows:

	2007	2006
Equity January 1, 2006 .....	113.552.833	85.675.480
Income in excess of expenses .....	24.855.361	27.877.353
Equity December 31, 2006 .....	<u>138.408.194</u>	<u>113.552.833</u>

## Obligation due to bankruptcy of a member company

6. In November 2001, one of the member companies of the fund, Burnham International in Iceland hf, was declared bankrupt. Based on the law of the fund, a claim to the amount of ISK 330 million was made to the investors' department of the fund by 41 entities. The fund rejected payments in 28 incidents and 11 claims were revoked. The fund accepted two claims and agreed to pay amount of ISK 38.5 million due to bankruptcy of Burnham International in Iceland hf. In addition, the fund has incurred expenses due to vested interest surveillance in the matter. Amount of ISK 18 million of revenues were realized which are equivalent of accrued interest on principal which had been expensed in matter of deliberation but in conclusion the fund had no legal obligation to pay interests or indexation. In conclusion, the approach of the fund to the bankruptcy of the company has come to an end.