

**The Depositors' and Investors'  
Guarantee Fund  
Financial Statements  
2006**

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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.

During establishment, the fund took over assets and liabilities of the Commercial Banks' Guarantee Fund and the depositors' department of the Savings Banks' Guarantee Fund. According to law no. 98/1999 applicable to the fund, total assets of the depositors' department may not be lower than 1.0% 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 2006. It is assumed that approx ISK 1,316 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 657 million.

The fund's investment policy states essentially that proportion of government bonds may not be lower than 70% of the assets in management, applying to both domestic and foreign government bonds. Minimum proportion of domestic government guaranteed bonds shall not be lower than 30%. Combination of assets was within this authorized limit a year-end. In the year 2006, ISK 14 million were collected due to the investors' 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 114 million. No decision has been made whether a credit department will be established.

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 2006 by means of their signatures

Reykjavik, February 21, 2007.

The Board of Directors:

Guðrún Þorleifsdóttir  
Andri V. Sigurðsson  
Haukur Þór Haraldsson

Hrefna Gunnarsdóttir  
Margrét Sveinsdóttir  
Halldór Þ. Halldórsson

Managing Director:

Jónas Þórðarson

## CONFIRMATION OF THE MINISTER OF COMMERCE

Ministry of Commerce February 21, 2007.

Jón 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 for the year 2006, which comprise the Endorsement by the Board of Directors, a Balance Sheet, an 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 the Financial Statements Act. 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 from 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 our judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, we consider 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 policies 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 opinion.

## **Opinion**

In our opinion, the Financial Statements give a true and fair view of the financial position of the company as at 31 December 2006, and of its Balance Sheet for the year then ended in accordance with the Financial Statements Act.

Reykjavik, February 21, 2007.

**KPMG hf.**

Sigurður Jónsson

Auður Þórisdóttir

# Income Statement for the year 2006 - Depositors' Department

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	Notes	2006	2005
<b>Revenues:</b>			
Contributions of member companies .....		914.053.500	506.497.623
Interest income, indexation and foreign exchange difference .....		917.149.099	140.145.869
Other income .....		1.250.000	0
		1.832.452.599	646.643.492
<b>Expenses:</b>			
Salaries and salary related expenses .....		6.207.671	5.625.569
Other operating expenses .....		8.597.381	6.572.653
Management fees and performance based fees .....	3	15.616.991	10.407.231
Finance income tax .....		70.951.456	32.904.224
		101.373.499	55.509.677
<b>Income in excess of expenses .....</b>	<b>5</b>	<b>1.731.079.100</b>	<b>591.133.815</b>

# Balance Sheet December 31, 2006 - Depositor' Department

## Assets

	Notes	31.12.2006	31.12.2005
<b>Bank deposits and securities:</b>			
Iceland Central Bank, bank deposit .....		41.181.729	15.202.341
Securities .....	2,4	6.845.835.016	5.105.283.931
		6.887.016.745	5.120.486.272
<b>Other assets:</b>			
Other receivables .....		628.208	741.396
<b>Total assets</b>		<b>6.887.644.953</b>	<b>5.121.227.668</b>

## Equity and liabilities

		31.12.2006	31.12.2005
<b>Short-term liabilities:</b>			
Credit department of a the Commercial Bank's Guarantee Fund .....		0	1.250.000
Finance income tax .....		69.413.914	39.121.171
Other short-term liabilities .....		19.205.518	12.910.076
		88.619.432	53.281.247
<b>Equity:</b>			
Equity .....	5	6.799.025.521	5.067.946.421
		6.799.025.521	5.067.946.421
<b>Total equity and liabilities</b>		<b>6.887.644.953</b>	<b>5.121.227.668</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. Fees due to asset management of securities holding of the depositors' department during the year amount to a total of ISK 56 million, whereof transaction fees amounted to ISK 40 million but performance based fees and fixed management fees amounted to ISK 16 million. 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:

	2006	2005
Domestic bonds .....	3.283.058.556	2.786.100.410
Foreign bonds .....	2.651.023.277	1.471.037.533
Foreign equities .....	911.753.183	848.145.988
	<u>6.845.835.016</u>	<u>5.105.283.931</u>

## Equity:

5. Changes in equity are specified as follows:

	2006	2005
Equity January 1, 2006 .....	5.067.946.421	4.476.812.605
Income in excess of expenses .....	<u>1.731.079.100</u>	<u>591.133.816</u>
Equity December 31, 2006 .....	<u>6.799.025.521</u>	<u>5.067.946.421</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 1,316 million in the year 2007 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 657 million.

# Income Statement for the year 2006 - Investors' Department

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	Notes	2006	2005
<b>Revenues:</b>			
Contributions of member companies .....		14.324.520	20.000.000
Interest income, indexation and foreign exchange rate difference .....		21.302.211	5.244.205
		35.626.731	25.244.205
<b>Expenses:</b>			
Salaries and salary related expenses .....		127.980	127.135
Other operating expenses .....		178.261	145.150
Management fees and performance based fees .....		321.967	260.696
Finance income tax .....		1.764.942	1.128.956
Obligation due to bankruptcy of a member company .....	6	5.356.228	3.230.000
		7.749.378	4.891.937
<b>Income in excess of expenses .....</b>	<b>5</b>	<b>27.877.353</b>	<b>20.352.268</b>



# Balance Sheet December 31, 2006 - Investors' Department

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## Assets

	Notes	2006	2005
<b>Bank deposits and securities:</b>			
Iceland Central Bank, bank deposit .....		39.052.843	22.394.142
Securities .....	2,4	133.934.026	117.097.398
Other receivables .....		0	208.415
		172.986.869	139.699.955
<b>Total assets</b>		172.986.869	139.699.955

## Equity and liabilities

		2006	2005
<b>Short-term liabilities</b>			
Finance income tax .....		1.428.015	1.053.079
Obligation due to bankruptcy of a member company .....	6	57.377.813	52.230.000
Other short-term liabilities .....		628.208	741.396
		59.434.036	54.024.475
<b>Equity</b>			
Equity .....	5	113.552.833	85.675.480
		113.552.833	85.675.480
<b>Total equity and liabilities</b>		172.986.869	139.699.955

# 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 6.3 million, whereof transaction fees amounted to ISK 6.0 million but performance based fees and fixed fees amounted to ISK 0.3 million. 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:

	2006	2005
Domestic bonds .....	64.230.770	64.005.694
Foreign bonds .....	51.865.436	33.675.597
Foreign equities .....	17.837.820	19.416.107
	<u>133.934.026</u>	<u>117.097.398</u>

## Equity

5. Changes in equity are specified as follows:

	2006	2005
Equity January 1, 2006 .....	85.675.480	65.323.212
Income in excess of expenses .....	27.877.353	20.352.268
Equity December 31, 2006 .....	<u>113.552.833</u>	<u>85.675.480</u>

## Obligation due to bankruptcy of a member company

6. At the end of November 2001, one of the member companies of the fund, Burnham International in Iceland hf., was declared bankrupt. The insolvent's state is still under liquidation proceeding and it is unclear when the liquidation will be finalized. A claim to the amount of ISK 226.5 million was made to the investors department of the Fund. A part of the claim was revoked and a payment obligation due to a greater part of other claims was rejected while remaining claim amounts to ISK 57 million, including interests, but the total charge of the year is the equivalent to accrued interests on principal. It must be considered likely that the investors' department of the Fund will incur expenses due to the company's bankruptcy.