

**Rekstrarfélag ÍSB hf.
Íslandsbanki Mutual Funds
Íslandsbanki Investment Funds
Financial Statements 2005**

Rekstrarfélag ÍSB hf.
Kirkjusandur 2
155 Reykjavík
Iceland

Reg. no. 690694-2717

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Annual Report and Signatures by the Board of Directors and the Managing Director

Rekstrarfélag ÍSB hf. was founded in 1994 and it is the management company for Íslandsbanki Mutual Funds and Íslandsbanki Investments Funds. The Funds are under the custody of Íslandsbanki hf. Rekstrarfélag ÍSB hf. is a subsidiary of Íslandsbanki hf. and is included in the Consolidated Financial Statements of the Bank and its subsidiaries.

The Financial Statements are divided into two parts. Part-A consists of the Financial Statements of the funds' management company. Part-B consists of the Financial Statements of Íslandsbanki Mutual Funds and Íslandsbanki Investments Funds. This formation of the Financial Statements is in conformity with the requirements of the Financial Supervisory Authority of Iceland, regarding the Financial Statements of management companies of mutual funds.

At year-end eleven funds were under the management of the company. Their total assets amounted to ISK 114,315 million. During the year the mutual fund, ISB Fund 9, was changed into an investment fund. The fund's operations and balance at year-end are included in Íslandsbanki Investment Funds. The comparative figures have been changed accordingly. The company is the management company for three funds which are listed in Luxembourg. Their total assets amounted to ISK 11,432 million.

According to the Income Statement the profit of the company amounted to ISK 8.3 million. Equity, according to the Balance Sheet, amounted to ISK 53.9 million at year-end. The Board of Directors do not propose a dividend payment to the shareholders in the year 2005 for operations in 2005, but allocation of profit and changes in equity are further explained in the Financial Statements.

The capital stock of the company amounted to ISK 25 million at year-end and is owned by Íslandsbanki hf. and its subsidiaries.

Nine employees worked for the company during the year and salaries amounted to ISK 74 million.

The Board of Directors and the Managing Director of Rekstrarfélag ÍSB hf. hereby confirm the Financial Statements of the Company for the year 2005 by means of their signatures.

Reykjavík, 20 February 2006.

Board of Directors:

Almar Guðmundsson
Gunnar Jónsson
Guðmundur H. Garðarsson
Steinunn Kristín Þórðardóttir

Managing Director:

Eggert Þór Kristófersson

Auditors' Report

To the Board of Directors and Shareholders of Rekstrarfélag ÍSB hf. and owners of unit shares of Íslandsbanki Mutual Funds and Íslandsbanki Investment Funds.

We have audited the accompanying Financial Statements of Rekstrarfélag ÍSB hf. for the year 2005. The Financial Statements are divided into two parts. Part-A is the financial statements of the management company of the funds and Part-B are the financial statements of Íslandsbanki Mutual Funds and Íslandsbanki Investment Funds. Part-A consists of the annual report by the board of directors and the managing director, income statement, balance sheet, statement of cash flows and notes to the financial statements of the management company. Part-B consists of income statement, balance sheet, statement of changes in net assets, statement of investments and notes for Íslandsbanki Mutual Funds and Íslandsbanki Investment Funds respectively. These Financial Statements are the responsibility of the Company'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 misstatements. 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 presentation of the Financial Statements. 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 results of operations of the management company and the funds, their financial position as of December 31, 2005, the management company's cash flows for the year then ended and the changes in the funds' net assets as of December 31, 2005, in accordance with the law and generally accepted accounting principles in Iceland.

Reykjavík, 20 February 2006.

Helgi F. Arnarson

Hildur Sigurðardóttir

KPMG Endurskoðun hf.

Income Statement for the year 2005

	Notes	2005	2004
Operating income:			
Management fees		937,592	785,969
Financial income		4,642	4,102
Other income		22	16
Total operating income		<u>942,256</u>	<u>790,087</u>
Financial expenses		(10)	(109)
Net operating income		<u>942,246</u>	<u>789,978</u>
Operating expenses:			
Salaries and salary-related expenses	3-4	89,080	71,468
Service fee to Íslandsbanki hf.		766,199	625,358
Other expenses		76,795	77,568
Total operating expenses		<u>932,074</u>	<u>774,394</u>
Profit before income tax		10,172	15,584
Income tax	8	(1,831)	(2,805)
Profit for the year	6	<u>8,341</u>	<u>12,779</u>

Balance sheet December 31, 2005

Assets

	Notes	31.12.2005	31.12.2004
Securities:			
Unit shares		44,370	41,486
Receivables:			
Amounts due from funds		100,240	77,550
Other receivables		254	833
		100,494	78,383
Cash and cash equivalents		6,072	33,383
Total Assets		150,936	153,252

Equity and Liabilities

Equity:

Share capital		25,000	25,000
Statutory reserve		2,762	1,929
Retained earnings		26,092	18,584
	Equity 5-7	53,854	45,513

Liabilities:

Liability with the parent company		69,343	74,593
Accrued taxes payable	8	1,831	2,751
Other current liabilities		25,908	30,395
	Liabilities	97,082	107,739

Total Equity and Liabilities		150,936	153,252
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Statement of Cash Flows for the Year 2005

	Notes	2005	2004
Cash Flows from Operating Activities			
Profit for the year	6	8,341	12,779
Difference between net profit and cash from operations:			
Exchange-rate gain due to securities		(2,884)	(2,486)
Changes in operating assets and liabilities		(2,656)	25,148
Net cash provided by operating activities		<u>2,801</u>	<u>35,441</u>
Cash Flows from Investing Activities:			
Investment in unit shares of mutual funds		0	(39,000)
Funds' business accounts, changes		(22,690)	(77,550)
Other assets		579	(656)
		<u>(22,111)</u>	<u>(117,206)</u>
Cash Flows from Financing Activities:			
Liability with the parent company		(8,001)	109,244
(Decrease) Increase in Cash and Cash Equivalents		(27,311)	27,479
Cash and Cash Equivalents at the Beginning of the Year		33,383	5,904
Cash and Cash Equivalents at the End of the Year		<u>6,072</u>	<u>33,383</u>

Notes to the Financial Statements

Summary of Accounting Principles

Basis of Preparation

1. The Financial Statements of Rekstrarfélag ÍSB hf., Part-A, have been prepared in accordance with the Annual Accounts Act and the Rules on the financial statements of management companies of mutual funds. The financial statements are based on cost accounting and are prepared according to the same accounting principles used for the previous year. The financial Statements are prepared in Icelandic currency (ISK) and amounts are presented in thousands of ISK. The company is a subsidiary of Íslandsbanki hf. The financial statements of the company are a part of the consolidated financial statements of the parent company and all the groups' operating and financial information can be found there.

Management fees

2. The company receives a fee for the management of Íslandsbanki Mutual Funds and Íslandsbanki Investment Funds. The company also receives management fee for the management of Íslandsbanki Mutual Funds in Luxembourg. The management fees are calculated as a fixed ratio of each fund's net assets and includes, among other things, the employee's salaries of the management company, marketing cost and expenses relating to the operations of the funds.

Personnel

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

	2005	2004
Salaries	73,858	48,179
Salary-related expenses and accrued performance based-salary	15,222	23,289
Total salaries and salary-related expenses	<u>89,080</u>	<u>71,468</u>

The Company's total number of employees is as follows:

Positions at the end of the year	9	5
Average number of employees during the year	6.5	5

4. The managing director's salaries amounted to ISK 10.7 million for the year 2005. The Board of Directors' salaries amounted to ISK 1.7 million.

Equity

5. The Company's Share Capital amounts ISK 25 million. One vote is attached to each share of one ISK in the Company.

6. Changes in Equity are specified as follows:

	Share Capital	Statutory Reserve	Retained Earnings	Total
Equity as at 1.1.2005	25,000	1,929	18,584	45,513
Contribution to Statutory Reserve		833 (	833)	
Profit for the year			8,341	8,341
Equity as at 31.12.2005	<u>25,000</u>	<u>2,762</u>	<u>26,092</u>	<u>53,854</u>

Notes, cont.:

7. The capital adequacy ratio (CAD) of the company, calculated in accordance with Article 84 of the Act on Financial Undertakings, is 20.2%. The legal minimum capital adequacy ratio is 8.0%. The ratio is calculated as follows:

Risk base	266,251
Equity	53,854
Capital adequacy ratio	20.2%

Taxation

8. Authoritative expenses for the operation in year 2005 have been calculated and recognised in the financial statements. The company is taxed together with its parent company.

Íslandsbanki Mutual Funds

Financial Statements 2005

Income Statement for the Year 2005

	Notes	ÍS Fund 1	ÍS Fund 5	ÍS Fund 6	ÍS Fund 7	ÍS Fund 11
Financial income and expenses:						
Interest income, indexation, dividends and exchange rate difference.....	4	2,696	477	3,342	456	296
Interest expense		(71)	(10)	(7)	(11)	(3)
Net financial income	3	2,625	467	3,335	445	293
Operating expenses:						
Management fees	5	363	77	53	140	44
Other operating expenses		5	3	2	5	2
		<u>368</u>	<u>80</u>	<u>55</u>	<u>145</u>	<u>46</u>
Profit for the year recognised on unit shares		<u>2,257</u>	<u>387</u>	<u>3,280</u>	<u>300</u>	<u>247</u>

1) During the year Fund 9 was changed into an investment fund. The comparative figures have been changed accordingly.

ÍSB Global Portfolio	Total 2005	Total ¹⁾ 2004
196	7,463	10,377
(1)	(103)	(45)
195	7,360	10,332
16	693	719
1	18	42
<u>17</u>	<u>711</u>	<u>761</u>
<u>178</u>	<u>6,649</u>	<u>9,571</u>

Balance Sheet December 31, 2005

Assets	Notes	ÍSB Fund 1	ÍSB Fund 5	ÍSB Fund 6	ÍSB Fund 7	ÍSB Fund 11
Securities:						
Fixed-income securities		29,941	6,951	0	15,732	5,726
Shares		0	0	7,898	0	0
Unit shares		0	0	0	0	0
Amounts due from credit institutions		0	635	0	0	0
Derivatives		67	151	0	0	3
	6-10	30,008	7,737	7,898	15,732	5,729
Cash and Cash Equivalents		59	25	0	837	346
Total Assets		30,067	7,762	7,898	16,569	6,075
Liabilities:						
Amounts owed to credit institutions		0	0	9	0	0
Liabilities with the management company		28	6	6	11	4
Other liabilities		5	2	1	0	0
Total Liabilities		33	8	16	11	4
Total Net Assets		30,034	7,754	7,882	16,558	6,071
Equity						
Unit Shares	12-13	30,034	7,754	7,882	16,558	6,071
Class-A:						
Net assets		30,034	7,754	7,882	16,558	6,071
Number of units		3,118 *	1,914	624	8,065	3,362
Price of unit shares at year-end		9,493 *	4,052	12,629	2,053	1,806

* Fund 1 consists of number of fund series. Number of share units and prices are as follow:

	Number of units	Price
ÍSB Fund 1, bonds	3,118	9,493
Fund shares 1	14	9,493
Fund shares 3	4	6,538
Fund shares 4	5	4,498
Interest shares	32,173	6,6893
Option shares	6,418	6,2701

1) During the year Fund 9 was changed into an investment fund. The comparative figures have been changed accordingly.

ÍSB Global Portfolio	Total 2005	Total ¹⁾ 2004
0	58,350	63,510
0	7,898	5,095
1,632	1,632	1,507
0	635	0
0	221	76
<u>1,632</u>	<u>68,736</u>	<u>70,188</u>
15	1,282	1,624
<u>1,647</u>	<u>70,018</u>	<u>71,812</u>
0	9	0
2	57	151
0	8	7
<u>2</u>	<u>74</u>	<u>158</u>
<u>1,645</u>	<u>69,944</u>	<u>71,654</u>
<u>1,645</u>	<u>69,944</u>	<u>71,654</u>
1,645		
<u>1,893</u>		
<u>869</u>		

Statement of Changes in Net Assets for the Year 2005

Notes	ÍS Fund 1	ÍS Fund 5	ÍS Fund 6	ÍS Fund 7	ÍS Fund 11
Cash Flows Used in Operating Activities:					
Profit for the year recognised on unit shares	<u>2,257</u>	<u>387</u>	<u>3,280</u>	<u>300</u>	<u>247</u>
Cash Flows from Investing Activities:					
Unit shares sold	28,165	920	1,417	5,270	813
Unit shares redeemed	(26,259)	(8,523)	(1,911)	(6,814)	(1,377)
	<u>1,906</u>	<u>(7,603)</u>	<u>(494)</u>	<u>(1,544)</u>	<u>(564)</u>
Increase (Decrease) in Net Assets	4,163	(7,216)	2,786	(1,244)	(317)
Net Assets at the beginning of the Year	<u>25,871</u>	<u>14,970</u>	<u>5,096</u>	<u>17,802</u>	<u>6,388</u>
Net Assets at Year-end	<u><u>30,034</u></u>	<u><u>7,754</u></u>	<u><u>7,882</u></u>	<u><u>16,558</u></u>	<u><u>6,071</u></u>

1) During the year Fund 9 was changed into an investment fund. The comparative figures have been changed accordingly.

ÍSB Global Portfolio	Total 2005	Total ¹⁾ 2004
<u>178</u>	<u>6,649</u>	<u>9,571</u>
237	36,822	35,313
(<u>297</u>)	(<u>45,181</u>)	(<u>33,294</u>)
(<u>60</u>)	(<u>8,359</u>)	(<u>2,019</u>)
118 (1,710)		11,590
<u>1,527</u>	<u>71,654</u>	<u>60,064</u>
<u><u>1,645</u></u>	<u><u>69,944</u></u>	<u><u>71,654</u></u>

Statement of Investments December 31, 2005

ÍSB Fund 1

Bonds

	Market value	% of total net assets
Kaupthing Bank hf.	2,662	8.9%
Bonds with government warranty	2,328	7.7%
Íslandsbanki hf.	2,065	6.9%
Bakkavör Group hf.	2,027	6.7%
Straumur-Burðarás Investment Bank hf.	1,957	6.5%
Fasteignafélagið Stoðir hf.	1,691	5.6%
Sparisjóður Reykjavíkur og nágrennis	960	3.2%
Exista ehf.	786	2.6%
Sparisjóður Hafnarfjarðar	779	2.6%
Egla ehf.	718	2.4%
FL Group hf.	670	2.2%
Alfesca hf.	659	2.2%
Other bonds	12,639	42.2%
Unrealised earnings from derivatives	67	0.2%
Total value of investments	30,008	99.9%
Cash and cash equivalents	59	0.2%
Other assets and liabilities	(33)	(0.1%)
Total net assets	30,034	100.0%

ÍSB Fund 5

Government bonds

	Market value	% of total net assets
Housing financial fund bonds	3,113	40.2%
Treasury bonds	1,906	24.6%
Housing authority bonds	976	12.6%
Housing bonds	542	7.0%
Treasury notes	396	5.1%
Treasury bills	18	0.2%
Amounts due from credit institutions	635	8.1%
Unrealised earnings from derivatives	151	2.0%
Total value of investments	7,737	99.8%
Cash and cash equivalents	25	0.3%
Other assets and liabilities	(8)	(0.1%)
Total net assets	7,754	100.0%

Statement of Investments December 31, 2005, cont:

ÍSB Fund 6

ICEX index fund

	Nominal value /shares*	Market value	% of total net assets
Kaupthing Bank hf.	3*	2,130	27.0%
Landsbanki Íslands hf.	48	1,216	15.4%
Íslandsbanki hf.	57	994	12.6%
Actavis Group hf.	15	730	9.3%
Straumur-Burðarás Investment Bank hf.	45	718	9.1%
FL Group hf.	26	491	6.2%
Bakkavör Group hf.	7	359	4.6%
Mosaic Fashions hf.	13	242	3.1%
Össur hf.	2	192	2.4%
Dagsbrún hf.	19	114	1.4%
Alfesca hf.	26	107	1.4%
Other companies (12)	-	605	7.7%
Total value of investments		<u>7,898</u>	<u>100.2%</u>
Other assets and liabilities		(<u>16</u>)	(<u>0.2%</u>)
Total net assets		<u><u>7,882</u></u>	<u><u>100.0%</u></u>

ÍSB Fund 7

Long term government bonds

	Market value	% of total net assets
Housing financial fund bonds	12,663	76.5%
Housing bonds	2,818	17.0%
Treasury bonds	<u>251</u>	<u>1.5%</u>
Total value of investments	15,732	95.0%
Cash and cash equivalents	837	5.1%
Other assets and liabilities	(<u>11</u>)	(<u>0.1%</u>)
Total net assets	<u><u>16,558</u></u>	<u><u>100.0%</u></u>

Statement of investments December 31, 2005, cont.:

ÍSB Fund 11

Long term bonds

	Market value	% of total net assets
Bonds with government warranty	2,044	33.7%
Landsvirkjun	410	6.8%
Fasteignafélagið Stoðir hf.	270	4.4%
Bakkavör Group hf.	269	4.4%
Akureyrarkaupstaður	258	4.2%
Straumur-Burðarás Investment Bank hf.	216	3.6%
Íslandsbanki hf.	212	3.5%
FL Group hf.	211	3.5%
Fjarðarbyggð	205	3.4%
Exista ehf.	172	2.8%
NIB	159	2.6%
Spölur hf.	140	2.3%
Kögun hf.	108	1.8%
Mosaic Fashions hf.	107	1.8%
Aker Seafoods ASA	106	1.7%
Milestone ehf.	105	1.7%
Other bonds (13)	734	12.0%
Unrealised earnings from derivatives	3	0.1%
Total value of investments	5,729	94.3%
Cash and cash equivalents	346	5.7%
Other assets and liabilities	(4)	(0.0%)
Total net assets	<u>6,071</u>	<u>100.0%</u>

ÍSB Global Portfolio

Foreign shares

	Shares	Market value	% of total net assets
ISB Global Equity	35,137	303	18.4%
Vanguard Global Stock Index Fund	352,731	286	17.4%
S&P Depository Receipt	24,300	191	11.6%
Gartmore SICAV Global Focus Fund	302,162	159	9.7%
GAM-Global Diversified Inc.	78,559	153	9.3%
Gartmore European Focus Fund	11,675	148	9.0%
GAM-Star Japan Equity Fund	149,029	138	8.5%
Vanguard US500 Stock Index Fund	156,464	114	6.9%
Vanguard European Stock Index Fund	111,776	96	5.8%
Ishares MSCI Japan Index Fund	51,100	44	2.6%
Total value of investments		1,632	99.2%
Cash and cash equivalents		15	0.9%
Other assets and liabilities		(2)	(0.1%)
Total net assets		<u>1,645</u>	<u>100.0%</u>

Notes to the Financial Statements

Summary of Accounting Principles

Basis of Preparation

1. The Financial Statements of Íslandsbanki Mutual Funds have been prepared in accordance with the Annual Accounts Act and the Rules on the Financial Statements of management companies of mutual funds. The financial statements are based on cost accounting except that listed securities are generally valued at market value. The financial statements have been prepared according to the same accounting principles used for the previous year. The Financial statements are prepared in Icelandic currency (ISK) and amounts are presented in millions of ISK. The funds are a part of Rekstrarfélag ÍSB hf. which is a subsidiary of Íslandsbanki hf. and all the groups' operating and financial information can be found there. The financial statements of the funds are not a part of the banks' financial statements because of the nature of their operations.

Foreign Currency

2. Assets and liabilities in foreign currency are converted to Icelandic currency (ISK) at the exchange rate at year-end 2005. 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 income statement as they accrue based on the effective interest rate.

Dividend

4. Dividend income is recognised in the income statement on the date that the dividend is declared. Capital tax on foreign shares' dividends are deducted from dividend income in the income statement.

Management fees

5. Rekstrarfélag ÍSB hf. receives management fees from the funds, which includes the salaries of the company's employees, marketing expenses and other management of the funds. The fee is calculated as a fixed ratio of each fund's net assets. The fees are specified as follows:

	Series A	Series B	Maximum fee	
			Series A	Series B
ÍSB Fund 1, bonds	1.1%	-	1.5%	1.0%
ÍSB Fund 5, government bonds	0.9%	-	1.5%	1.0%
ÍSB Fund 6, ICEX index fund	0.8%	-	1.5%	1.0%
ÍSB Fund 7, long government bonds	0.9%	-	1.5%	1.0%
ÍSB Fund 11, long term bonds	0.7%	-	1.5%	1.0%
ÍSB global portfolio	1.0%	-	2.5%	2.0%

The funds also pay salaries to the Board members, auditing expenses and other things.

Investments

6. Bonds which are listed on public stock markets are valued at market value at year-end. Unlisted bonds are valued with consideration to required rate at the time of purchase. When these assets are valued there is calculated an amortisation that takes in to a count the general risks that relate to the operations.
7. Listed shares are valued at market value at year-end. Unlisted shares are recognised in the financial statements at the last known trade price or estimated market price whichever is lower.
8. Unit shares in mutual funds are valued at year-end market value.
9. Demand deposits owed to credit institutions are capitalised with accrued interests, indexation and exchange rate difference at year-end.
10. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the funds' balance sheet, either because rights and obligations arise out of one and the same contract, the contracts will be in effect in year 2006, 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 and futures exchange contracts, swaps and options. The underlying value may involve interest rate, currency rate, bond or equity products.

The funds derivatives are capitalised at market value. The contracts are used to protect the funds against interests and exchange rate risk for securities. With the derivatives it is generally aimed to minimise the risk against their interests and exchange rate risk. Derivatives performance is entered in the income statement and in the balance sheet.

The market risk of the derivatives is created because of price changes in the factors that underlying asset is priced on, such as changes in interests or changes in currency exchange rates and listed securities.

Taxation

11. Mutual Funds and Investments Funds do not pay income tax. Instead the profit or loss of their operations is taxed at the owners of the unit shares. Individuals pay capital tax of their profit from their shares when they cash it out. Profit and loss from unit shares is considered as taxable income or expenses at companies independent of its redemption.

The funds are exempted from capital tax in Iceland but not in other countries where capital tax is saddled on foreign individual's income and if there are no Conventions for the avoidance of double taxation between Iceland and the respective country regarding that such income should be taxed in Iceland.

Notes, cont.:

Unit shares

12. The real return of ÍSB Mutual Funds for the year 2005 are specified as follows:

	Last 3 months	Last 6 months	Last 12 months
ÍSB Fund 1, bonds	0.0%	1.0%	2.7%
ÍSB Fund 5, Icelandic government bonds	(5.1% ) (	3.0%)	0.3%
ÍSB Fund 6, ICEX index fund	95.9%	65.9%	56.5%
ÍSB Fund 7, long term government bonds	(10.0% ) (	6.8% ) (	2.2%)
ÍSB Fund 11, long term bonds	(6.9% ) (	3.8% ) (	0.2%)
ÍSB Global portfolio, foreign shares	15.1%	10.4%	7.3%

13. The summary of the book value and the price of unit shares at year-end for the last 3 years.

	Book value			Price		
	2005	2004	2003	2005	2004	2003
ÍSB Fund 1	30,034	25,871	17,890	9,493	8,876	7,981
ÍSB Fund 5	7,754	14,970	11,885	4,052	3,878	3,464
ÍSB Fund 6	7,882	5,096	4,902	12,629	7,751	5,003
ÍSB Fund 7	16,558	17,802	14,657	2,053	2,016	1,770
ÍSB Fund 11	6,071	6,388	5,660	1,806	1,737	1,491
ÍSB Global portfolio	1,645	1,527	915	869	778	807

14. The summary of a comparative changes in assets of individual funds and investment policies.

ÍSB Fund 1, bonds

	Assets		Change %	Investment policies		
	31.12.2005 %	31.12.2004 %		Aim %	Minimum %	Maximum %
Government bonds	8	15 (	7)	10	10	30
Corporate bonds	47	37	10	45	25	70
Bonds issued by banks and savings banks	42	42	0	30	20	50
Other bonds	3	4 (	1)	15	5	30
Cash	0	2 (	2)	0	0	10

ÍSB Fund 5, Icelandic government funds

Treasury bills	0	4 (	4)	5	0	60
Unindexed government bonds	25	22	3	35	5	60
Housing financial fund bonds	40	48 (	8)	45	10	60
Housing bonds	7	8 (	1)	10	0	60
Housing authority bonds	13	7	6	5	0	20
Other government bonds ...	5	5	0	0	0	20
Cash	10	6	4	0	0	10

Notes, cont.:

14. Cont.:

ÍSB Fund 6, ICEX index fund

	Assets		Change %	Investment policies		
	31.12.2005 %	31.12.2004 %		Aim %	Minimum %	Maximum %
Shares	100	100	0	100	95	100
Cash	0	0	0	0	0	5

ÍSB Fund 7, long term government bonds

Housing financial fund						
bonds	77	70	7	80	30	100
Housing bonds	17	29 (	12)	20	0	50
Other government bonds ...	1	1	0	0	0	10
Cash	5	0	5	0	0	10

ÍSB Fund 11, long term bonds

Bonds with treasury						
warranty:	42	72 (	30)	20	0	50
Treasury bills	0	7 (	7)			
Housing bonds	1	2 (	1)			
Housing financial fund						
bonds	26	57 (	31)			
Other Bonds	15	6	9			
Banks', municipalities' and						
corporate' bonds:	52	26	26	80	50	100
Corporate bonds	33	12	21			
Bonds issued by banks	15	0	15			
Other bonds	4	14 (	10)			
Cash	6	2	4	0	0	10

ÍSB global portfolio, foreign shares

Unit shares	86	79	7	100	90	100
Shares	14	20 (	6)	0	0	10
Cash, bonds and bills of						
exchange	0	1 (	1)	0	0	10

Notes, cont.:

15. Segmentation of the fund series' investments and relative partition:

	Gov., municipality or intl. institutes		Unit shares		Shares		Other		Total	
	kr.	%	kr.	%	kr.	%	kr.	%	kr.	%
ÍSB Fund 1										
Securities, other than money market doc. listed on public stock markets	3,130	10					26,811	89	29,941	99
Derivatives outside public stock markets .							67	1	67	1
	<u>3,130</u>	<u>10</u>					<u>26,878</u>	<u>90</u>	<u>30,008</u>	<u>100</u>
ÍSB Fund 5										
Securities, other than money market doc. listed on public stock markets	6,951	90							6,951	90
Amounts due from credit institutions							635	8	635	8
Derivatives outside public stock markets							151	2	151	2
	<u>6,951</u>	<u>90</u>					<u>786</u>	<u>10</u>	<u>7,737</u>	<u>100</u>
ÍSB Fund 6										
Securities, other than money market doc. listed on public stock markets					7,898	100			7,898	100
ÍSB Fund 7										
Securities, other than money market doc. listed on public stock markets	15,732	100							15,732	100
ÍSB Fund 11										
Securities, other than money market doc. listed on public stock markets	2,566	45					3,160	55	5,726	100
Derivatives outside public stock markets .							3	0	3	0
	<u>2,566</u>	<u>45</u>					<u>3,163</u>	<u>55</u>	<u>5,729</u>	<u>100</u>
ÍSB global portfolio										
Securities, other than money market doc. listed on public stock markets			1,632	100					1,632	100

Íslandsbanki Investment Funds
Financial Statements 2005

Income Statement for the Year 2005

	Notes	ÍSB Fund 9	ÍSB Fund 10	Total 2005	Total ¹⁾ 2004
Financial income and expenses::					
Interest income, indexation, dividends and exchange rate difference	4	1,391	1,582	2,973	1,086
Interests expense		(6)	(16)	(22)	(12)
Net financial income	3	1,385	1,566	2,951	1,074
Operating expenses:					
Management fees	5	107	47	154	68
Other operating expenses		2	1	3	2
		<u>109</u>	<u>48</u>	<u>157</u>	<u>70</u>
Profit for the year recognised on unit shares....		<u>1,276</u>	<u>1,518</u>	<u>2,794</u>	<u>1,004</u>

1) During the year Fund 9 was changed into an investment fund. The comparative figures have been changed accordingly.

Balance Sheet December 31, 2005

Assets	Notes	ÍSB Fund 9	ÍSB Fund 10	Total 2005	Total ¹⁾ 2004
Stocks:					
Fixed-income securities		18,426	0	18,426	5,259
Shares		0	4,149	4,149	1,856
Amounts due from credit institutions		9,792	0	9,792	600
	6-10	28,218	4,149	32,367	7,715
Cash and Cash Equivalents		612	0	612	27
Total Assets		28,830	4,149	32,979	7,742
Liabilities:					
Amounts owed to credit institutions		0	10	10	3
Liabilities with the management company		17	5	22	7
Other liabilities		8	0	8	6
Total Liabilities		25	15	40	16
Total Net Assets		28,805	4,134	32,939	7,726
Equity					
Unit Shares	12-13	28,805	4,134	32,939	7,726
Net assets		28,805	4,134		
Number of units		1,363	777		
Price of unit shares at year-end		21,135	5,318		

1) During the year Fund 9 was changed into an investment fund. The comparative figures have been changed accordingly.

Statement of Changes in Net Assets for the Year 2005

	Notes	ÍSB Fund 9	ÍSB Fund 10	Total 2005	Total ¹⁾ 2004
Cash Flows Used in Operating Activities:					
Profit for the year recognised on unit shares		1,276	1,518	2,794	1,004
Cash Flows from Investing Activities:					
Unit shares sold		79,860	1,437	81,297	27,525
Unit shares redeemed		(58,194)	(684)	(58,878)	(25,392)
		21,666	753	22,419	2,133
Increase in Net Asset		22,942	2,271	25,213	3,137
Net Assets at the beginning of the Year		5,863	1,863	7,726	4,589
Net Assets at Year-end		28,805	4,134	32,939	7,726

1) During the year Fund 9 was changed into an investment fund. The comparative figures have been changed accordingly.

Statement of Investments December 31, 2005

ÍSB Fund 9

Money market fund

	Market value	% of total net asset
Landsbanki Íslands hf.	5,650	19.6%
Bonds with government warranty	4,456	15.5%
Íslandsbanki hf.	2,498	8.7%
Sparisjóður Reykjavíkur og nágrennis	1,770	6.1%
Kaupthing Bank hf.	1,256	4.4%
MP Investment Bank hf.	1,093	3.8%
Sparisjóður Hafnarfjarðar	644	2.2%
Icebank hf.	378	1.3%
Actavis hf.	261	0.9%
Íslenskir aðalverktakar hf.	230	0.8%
Lýsing hf.	114	0.4%
Fjárfestingarsjóður CDO1	76	0.3%
Amounts due from credit institutions	9,792	34.0%
Total value of investments	28,218	98.0%
Cash and cash equivalents	612	2.1%
Other assets and liabilities	(25)	(0.1%)
Total net assets	28,805	100.0%

ÍSB Fund 10

Selected Icelandic equities

	Nominal value /shares*	Market value	% of total net assets
Kaupthing Bank hf.	2*	1,302	31.5%
Landsbanki Íslands hf.	28	715	17.3%
Íslandsbanki hf.	37	642	15.5%
Actavis Group hf.	8	420	10.2%
Straumur-Burðarás Investment Bank hf.	23	373	9.0%
FL Group hf.	16	312	7.6%
Bakkavör Group hf.	4	193	4.7%
Mosaic Fashions hf.	4	77	1.9%
Kögun hf.	1	61	1.5%
Alfesca hf.	11	44	1.1%
Other shares (2)	-	10	0.1%
Total value of investments		4,149	100.4%
Other assets and liabilities		(15)	(0.4%)
Total net assets		4,134	100.0%

Notes to the Financial Statements

Summary of Accounting Principles

Basis of Preparation

1. The Financial statements of Íslandsbanki Investment Funds have been prepared in accordance with the Annual Accounts Act and the Rules on the Financial statements of management companies of mutual funds. The financial statements are based on cost accounting except that listed securities are generally valued at market value. The financial statements have been prepared according to the same accounting principles used for the previous year. The financial statements are prepared in Icelandic currency (ISK) and amounts are presented in millions of ISK. The funds are a part of Rekstrarfélag ÍSB hf. which is a subsidiary of Íslandsbanki hf. and all the groups' operating and financial information can be found there. The financial statements of the funds are not a part of the banks' financial statements because of the nature of their operations.

Foreign Currency

2. Assets and liabilities in foreign currency are converted to Icelandic currency (ISK) at the exchange rate at year-end 2005. 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 income statement as they accrue based on the effective interest rate.

Dividend income

4. Dividend income is recognised in the income statement on the date that the dividend is declared. Capital tax on foreign shares' dividends is deducted from dividend income in the income statement.

Management fees

5. Rekstrarfélag ÍSB hf. receives management fees from the funds which includes the salaries of the company's employees, marketing expenses and other management of the funds. The fee is calculated as a fixed ratio of each fund's net assets. The fees are specified as follows:

	Series A	Series B	Maximum fee	
			Series A	Series B
ÍSB Fund 9, money market fund	0.7%	-	1.5%	1.0%
ÍSB Fund 10, selected icelandic equities	1.6%	-	1.6%	0.8%

The funds also pay salaries to the Board members, auditing expenses and other things.

Investments

6. Bonds which are listed on public stock markets are valued at market value at year-end. Unlisted bonds are valued with consideration to required rate at the time of purchase. When these assets are valued there is calculated an amortisation that takes in to a count the general risks that relates to the operations.

Notes, cont.:

7. Listed shares are valued at market value at year-end. Unlisted shares are recognised in the financial statements on the last known trade price or estimated market price whichever is lower.
8. Unit shares in mutual funds are valued at year-end market value.
9. Demand deposits owed to credit institutions are capitalised with accrued interests, indexation and exchange rate difference at year-end.
10. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the funds' balance sheet, either because rights and obligations arise out of one and the same contract, the contracts will be in effect in year 2006, 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 and futures exchange contracts, swaps and options. The underlying value may involve interest rate, currency rate, bond or equity products.

The funds derivatives are capitalised at market value. The contracts are used to protect the funds against interests and exchange rate risk for securities. With the derivatives it is generally aimed to minimise the risk against their interests and exchange rate risk. Derivatives performance is entered in the income statement and in the balance sheet.

The market risk of the derivatives is created because of price changes in the factors that underlying asset is priced on, such as changes in interests or changes in currency exchange rates and listed securities.

Taxation

11. Mutual Funds and Investments Funds do not pay income tax. Instead the profit or loss of their operations is taxed at the owners of the unit shares. Individuals pay capital tax of their profit from their shares when they cash it out. Profit and loss from unit shares is considered as taxable income or expenses at companies independent of its redemption.

The funds are exempted from capital tax in Iceland but not in other countries where capital tax is saddled on foreign individual's income and if there are no Conventions for the avoidance of double taxation between Iceland and the respective country regarding that such income should be taxed in Iceland.

Unit shares

12. The real return of ÍSB Investment Funds for the year 2005 are specified as follows:

	Last 3 months	Last 6 months	Last 12 months
ÍSB Fund 9, money market fund	5.7%	3.5%	4.0%
ÍSB Fund 10, selected icelandic equities	104.6%	72.3%	60.3%

Notes, cont.:

13. The summary of the book value and the price of unit shares at year-end for the last three years.

	Book value			Price		
	2005	2004	2003	2005	2004	2003
ÍSB Fund 9	28,805	5,863	3,357	21,135	19,506	18,376
ÍSB Fund 10	4,134	1,863	1,232	5,318	3,186	2,107

14. Summary of comparative changes in asset of individual funds and its investment policies.

ÍSB Funds 9, money market fund

	Asset	Asset	Change	Investment policies		
	31.12.2005	31.12.2004		Aim	Minimum	Maximum
	%	%	%	%	%	%
Government bonds	15	36	(21)	20	20	100
Bank's bills of exchange and amounts due from credit institutions	75	64	11	70	0	80
Listed bonds issued by loan institutions	6	0	6	10	0	30
Other bonds	2	0	2	0	0	25
Cash	2	0	2			

ÍSB Funds 10, selected Icelandic equities

Shares	100	100	0	100	90	100
Cash	0	0	0	0	0	10

15. Segmentation of the fund series' investments and relative partition:

Fund 9	Gov., municipality or intl. institutes		Unit shares		Shares		Other		Total	
	kr.	%	kr.	%	kr.	%	kr.	%	kr.	%
Securities, other than money market doc. listed on public stock markets	4,456	16					13,970	49	18,426	65
Amounts due from credit institutions							9,792	35	9,792	35
	<u>4,456</u>	<u>16</u>					<u>23,762</u>	<u>84</u>	<u>28,218</u>	<u>100</u>

Fund 10

Securities, other than money market doc. listed on public stock markets					4,149	100			4,149	100
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