Byr sparisjóður

Consolidated Financial Statements
for the year 2008

ISK

Byr sparisjóður
Borgartúni 18
105 Reykjavík

Reg. no. 610269-2229

Contents

Endorsement and Signatures of the Board of Directors and the CEO

The Financial Statements include the Consolidated Financial Statements of Byr sparisjóður and its subsidiaries. The Annual Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

On March 19 the Financial Supervisory Authority in Iceland approved the merger of Byr sparisjóður and Sparisjóður Norðlendinga. In the Consolidated Financial Statements of Byr sparisjóður the merger is accounted for as of April 1 and accordingly the Income Statement of Sparisjóður Norðlendinga for the period January 1 to March 31 is not included.

Net loss for the year 2008 amounted to ISK 28,881 million according to the Income Statement. Equity, according to the Balance Sheet, amounted to ISK 16,213 million at year end. The equity ratio of the Group, calculated according to the Act on Financial Undertakings, was 8.3%. This ratio may not be lower than 8.0%. Allocation of loss and other changes in equity are further explained in the notes to the Financial Statements.

The Group's primary capital amounted to ISK 30,608 million at year end. At year end the Group's primary capital holders numbered 1,509 increasing in number by 187 during the year, increasing thereof by 138 due to the merger of Sparisjóður Norðlendinga.

Impact of of recent developments in financial markets

At beginning of October an emergency law was passed by the Icelandic Parliament and the Icelandic Financial Supervisory Authority suspended the Boards of Directors of each of the three largest banks in Iceland and appointed instead Resolution Committees. These events and development of financial market have led to a severe impact on Byr and vast impact on the economy in general. The situation clearly affects the ability of Byrs customer to repay amounts due and impairment losses have therefore increased rapidly. It will take time to evaluate total impact of the bank crisis. Byr sparisjóður did hold both assets due from the banks and owed liabilities to the banks at the time they were taken over by the Icelandic Financial Supervisory Authority. Byr has evaluated these positions and estimated provision due to that.

Byr sparisjóður holds loans in foreign currency which amounts today to ISK 35,349 million. The loan agreements holds terms stating minimum equity ratio of the Group, calculated according to the Act on Financial Undertakings, Byr sparisjóður does not meet with those terms. The management has entered into negotiations with the credit institutions regarding this matter.

Statement by the Board of Directors and the CEO

The Group's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Europian Union and with additional requirements of information given in Consolidated Financial Statements of Groups that have registered securities on stock market.

According to our best knowledge it is our opinion that the Annual Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Group for the financial year 2008, its assets, liabilities and consolidated financial position as at 31 December 2008 and its consolidated cash flows for the financial year 2008.

Further, in our opinion the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO gives a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

The Board of Directors and the CEO of Byr sparisjóður hereby confirm the Consolidated Financial Statements for the year 2008.

Reykjavík, 13 March 2009

Board of Directors

Jón Kristjánsson
Chairman

Jóhanna Waagfjörð

Ágúst Már Ármann

Birgir Ómar Haraldsson

Jón Kr. Sólnes

CEO:

Ragnar Z. Guðjónsson

Independent Auditor's Report

To the Board of Directors and Primary Holders of Byr sparisjóður.

Introduction

We have audited the accompanying Consolidated Financial Statements of Byr sparisjóður (the "Group"), which comprise the Balance Sheet as at 31 December 2008, and the Income Statement, Statement of changes in Equity and Cash Flow Statement for the year then ended, 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 consolidated 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 consolidated 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 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, 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 manag

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 consolidated financial statements give a true and fair view of the consolidated financial position of Byr sparisjóður as at December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 13 March 2009

KPMG hf.

Sigurður Jónsson

Ólafur Már Ólafsson

Consolidated Income Statement
for the year 2008

	Notes	2008 1.1.-31.12.	2007 1.1.-31.12.
Interest income		33,684,048	12,995,985
Interest expense		(26,334,898)	(10,292,694)
Net interest income	45	7,349,150	2,703,291
Fee and commission income		1,470,766	842,127
Fee and commission expense		(330,606)	(288,381)
Net fee and commission income	46	1,140,160	553,746
Net (loss) income from financial assets and liabilities	47-50	(7,738,598)	5,972,876
Share of (loss) profit of associates	72	(2,427,362)	363,805
Other operating revenue	51	55,493	4,291,192
Other net operating (loss) income		(10,110,467)	10,627,873
Net operating (loss) income		(1,621,157)	13,884,910
Salaries and related expenses	53	(2,197,939)	(1,453,621)
Administrative expenses		(2,716,906)	(1,940,083)
Depreciation	73	(94,653)	(60,807)
Operating expense		(5,009,498)	(3,454,511)
Impairment on loans and advances	64	(25,378,342)	(816,763)
Impairment on intangible assets	74	(3,824,139)	0
(Loss) profit before income tax		(35,833,136)	9,613,636
Income tax	56	6,951,721	(1,684,521)
(Loss) profit for the year		(28,881,415)	7,929,115

Notes on pages 10 - 38 are an integral part of these financial statements

Byr sparisjóður Consolidated Financial Statements 2008 6 Amounts are in ISK thousands

Consolidated Balance Sheet
as at 31 December 2008

	Notes	31.12.2008	31.12.2007
Assets			
Cash and balances with the Central Bank	58	37,176,749	3,611,888
Loans and advances to credit institutions	59-60	11,228,259	28,518,770
Loans and advances to customers	61-64	172,325,172	117,737,319
Trading assets	65	4,298,155	5,630,350
Financial assets designated at fair value	67-69	13,581,344	14,345,443
Investments in associates	72	1,358,161	3,072,921
Property and equipment	73	2,894,617	1,859,428
Intangible assets	74	1,317,999	4,756,197
Investment properties	75	3,971,673	1,429,426
Tax assets	83	3,217,509	0
Other assets	76	1,839,357	3,890,739
Total Assets		253,208,995	184,852,481
Liabilities			
Deposits from credit institutions and the Central Bank	77	6,622,263	10,827,527
Other deposits	78	144,600,042	70,102,064
Borrowings	79-80	78,169,095	41,540,666
Subordinated loans	81	3,271,949	2,256,441
Post-employment obligations	82	1,366,498	1,170,380
Deferred tax liability	83-84	0	3,477,117
Other liabilities	85	2,965,929	2,281,341
Total Liabilities		236,995,776	131,655,536
Equity			
Primary capital		30,608,437	27,287,009
Reserves		(14,395,218)	25,909,936
Total Equity	86	16,213,219	53,196,945
Total Liabilities and Equity		253,208,995	184,852,481

Notes on pages 10 - 38 are an integral part of these financial statements

Byr sparisjóður Consolidated Financial Statements 2008 7 Amounts are in ISK thousands

Consolidated Statement of Changes in Equity
for the year 2008

	Share capital	Reserves	**Total**	Minority interest	**Total**
Changes in equity in 2007:					
Equity 1 January 2007	231,377	13,685,616	13,916,993	30,864	13,947,857
Business combination	479,991	4,629,728	5,109,719		5,109,719
Changes in minority interest			0	(30,864)	(30,864)
Dividends paid		(38,871)	(38,871)		(38,871)
Paid in Primary Capital	26,279,989		26,279,989		26,279,989
Profit for the year		7,929,115	7,929,115		7,929,115
Revaluation of Primary Capital	295,652	(295,652)	0		0
Equity 31 December 2007	27,287,009	25,909,936	53,196,945	0	53,196,945
Changes in equity in 2008:					
Equity 1 January 2008	27,287,009	25,909,936	53,196,945	0	53,196,945
Business combination	2,908,448	2,046,967	4,955,415		4,955,415
Dividends paid		(13,470,706)	(13,470,706)		(13,470,706)
Paid in Primary Capital	412,980		412,980		412,980
Loss for the year		(28,881,415)	(28,881,415)		(28,881,415)
Equity 31 December 2008	30,608,437	(14,395,218)	16,213,219	0	16,213,219

Notes on pages 10 - 38 are an integral part of these financial statements

Byr sparisjóður Consolidated Financial Statements 2008 8 Amounts are in ISK thousands

Consolidated Statement of Cash Flows
for the year 2008

	Notes	2008	2007
Operating activities:		1.1.-31.12.	1.1.-31.12.
(Loss) profit before income tax		(35,833,136)	9,613,636
Adjustments for:			
Indexation and exchange rate difference		(38,646,551)	(2,613,689)
Share of loss (profit) of associates	72	2,427,362	(363,805)
Net gains from sale of property and equipment		0	(52,394)
Depreciation of property and equipment	73	94,653	47,856
Impairment losses on intangible assets	74	3,824,139	12,952
Impairment on loans and advances	64	25,378,342	816,763
Changes in operating assets and liabilities:			
Trading assets		1,332,195	1,178,250
Loans and advances		6,007,483	(46,062,333)
Financial assets designated at fair value		(1,362,973)	(1,171,054)
Other assets		2,971,920	(3,235,684)
Deposits		53,158,683	8,364,769
Borrowings		26,176,481	7,022,800
Post-employment obligations		196,118	247,246
Tax liabilities		3,557,217	(82,301)
Other liabilities		530,803	1,351,297
Net cash provided by (used in) operating activities		49,812,736	(24,925,691)
Investing activities:			
Investments in associates		(496,637)	(520,904)
(Purchase) proceeds from sale of intangible assets	74	(110,374)	(103,337)
Purchase of property and equipment	73	(856,847)	(1,092,725)
Investment properties	75	(2,542,247)	(1,264,176)
Cash used in investing activities		(4,006,105)	(2,981,142)
Financing activities:			
Subordinated loans		35,282	(52,441)
Proceeds from sale of primary capital		412,980	26,279,989
Minority interest		0	(30,864)
Dividends paid		(13,470,706)	(38,871)
Cash (used in) provided by financing activities		(13,022,444)	26,157,813
Increase (decrease) in cash and cash equivalents		32,784,187	(1,749,020)
Cash and cash equivalents at beginning of the year		6,351,093	8,026,169
Business combination		29,473	73,944
Cash and cash equivalents at year end		39,164,753	6,351,093

Notes on pages 10 - 38 are an integral part of these financial statements

Byr sparisjóður Consolidated Financial Statements 2008 9 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

General information

1. **Reporting entity**

Byr sparisjóður is a savings bank domiciled in Iceland. The address of the Bank is Borgartún 18 in Reykjavík. Byr sparisjóður merged with Sparisjóður Norðlendinga in april 2008. The Consolidated Financial Statements for the year 2008 comprise of Byr sparisjóður and its subsidiaries (together referred as "the Group").

Byr sparisjóður offers integrated financial services to companies and individuals that comprises of general banking services, securities services and asset management.

2. **Basis of preparation**

a) *Statement of compliance*

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Consolidated Financial Statements were approved by the Board of Directors and the CEO of Byr sparsjóður at 13 March 2009.

b) *Basis of measurement*

The Consolidated Financial Statements are prepared on the historical cost basis except for:

- Trading assets and liabilities are measured at fair value
- Financial instruments designated at fair value are measured at fair value
- Investment properties are measured at fair value.

The Group's accounting policy on fair value measurements is disclosed in note 42.

c) *Functional and presentation currency*

These Consolidated Financial Statements are prepared and presented in Icelandic krona (ISK), which is the functional currency of Byr sparisjóður and its subsidiaries. Except as indicated, financial information presented has been rounded to the nearest ISK thousand.

d) *Use of estimates and judgements*

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities as well as income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about areas of estimation uncertainty and judgements made by management in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements are provided in note 34.

Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

3. **Basis of consolidation**

a) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Group holds more than 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are currently exercisable or convertible, if any, are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

3. Contd.:

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

b) *Transactions eliminated on consolidation*

Intragroup balances, unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the Consolidated Financial Statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Foreign currency

Transactions in foreign currencies are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

5. Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity, including potential voting rights if any. Investments in associates are initially recognised at cost. The Group´s investment includes goodwill identified on acquisition.

The Consolidated Financial Statements include the Group´s share of profit or loss of associates, using the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group´s share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. Any subsequent profits of the associate in later periods are not recognised until previously unrecognised losses have been recovered.

When investment in an associate is classified as held for sale, the equity method is no longer applied and the investment recognised at the lower of book value or net fair value.

6. Interest income and expense

Interest income and expense are recognised in the income statement on an accrual basis using the effective interest method. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of a financial instrument and its maturity amount, calculated using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument, but it does not consider future credit losses.

Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised at the rate of interest used for the purpose of calculating the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on their net carrying amount.

6. Contd.:

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on trading assets and liabilities and on financial assets designated at fair value on an accrual basis.

The fair value changes of financial assets and financial liabilities measured at fair value are recognised in net financial income in the income statement.

7. Fee and commission income and expense

The Group provides various services to its clients and earns income there from, such as income from transactions on behalf of third parties, commission from customers for equity and bond transactions and other services. Fees and commission income are recognised in the income statement as the services are provided. Fees that are performance-linked are recognised when the performance criteria are fulfilled.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

8. Net income from financial assets and liabilities

Net income from financial assets and liabilities comprise of income and expenses from trading assets and liabilities, net income from financial assets designated at fair value, dividend income and exchange rate differences. Interest income and expenses on these assets are recognised in interest income and expense.

9. Impairment

The carrying amount of the Group's assets, other than trading assets and financial assets designated at fair value, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

a) *Impairment on loans and advances*

Two methods are used to calculate impairment losses, one based on an assessment of individual loans and advances and the other based on a collective assessment. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence of impairment includes information about the following events and conditions:
(i) significant financial difficulty of the borrower;
(ii) a breach of contract, such as a default on installments or on interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a refinancing concession, that the lender would not otherwise consider;
(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans, even if the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– general national or local economic conditions connected with the assets in the group.

Individually assessed loans and advances

Impairment losses on individually assessed loans and advances are determined by an evaluation of the exposures on a case-by-case basis. The Group assesses at each balance sheet date whether there is any objective evidence that individual loans are impaired. This procedure is applied to all loans and advances that are considered individually significant. In making the assessment, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Notes, contd.:

9. Contd.:

Impairment loss is calculated by comparing the carrying amount of individual loans and advances with the present value of their expected future cash flows, discounted at their original effective interest rate. In the case of loans at variable interest rates, the discount rate used is their current effective interest rate. The carrying amount of impaired loans and advances is reduced through the use of an allowance account.

Collectively assessed loans and advances

Where loans and advances have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets;
- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan;
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Estimates of changes in future cash flows for groups of assets are consistent with changes in observable data from period to period, for example changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual losses.

Loan write-offs

Loans are written off, partially or in full, when there is no realistic prospect of recovery.

Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as revenue in the income statement.

Possession of collateral

When the Group obtains non-current assets by taking possession of collateral those assets are classified as non-current assets held for sale and recognised in the balance sheet. The assets are recognised at the lower of fair value less cost to sell or book value of the related loan, after taking any impairment into account. Non-current assets held for sale are not depreciated. Any subsequent decrease to fair value less cost to sell are recognised as impairment loss in profit or loss. Any subsequent increase of fair value less cost to sell is recognised in profit or loss to the extent that the reversal does not exceed total impairment loss.

b) *Calculation of recoverable amount*

The recoverable amount of the Group's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

10. Impairment of goodwill

The carrying amount of goodwill is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the asset´s recoverable amount is estimated. Goodwill is tested for impairment annually.

10. Contd.:

An impairment loss is recognised if the carrying amount of a cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is calculated as the present value of future cash flows assuming continuing use and taking into account residual value of the assets or cash-generating unit.

Impairment of goodwill is not reversed.

11. Income tax expense

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The deferred income tax liability has been calculated and recognised in the balance sheet. The calculation is based on the difference between balance sheet items as presented in the tax return on one hand, and in the Consolidated Financial Statements on the other, taking into consideration tax losses carried forward. This difference is due to the fact that the tax assessment is based on premises that differ from those governing the financial statements, mostly due to temporary differences arising from the recognition of revenues and expenses in the tax returns and in the Financial Statements.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

12. Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows consist of cash, demand deposits with the Central Bank and demand deposits with other credit institutions.

Cash and cash equivalents in the balance sheet include accrued interest.

13. Loans and advances

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates upon initial recognition as at fair value. Loans and advances include loans provided by the Group to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and which the Group has no intention of selling immediately or in the near future.

Loans and advances are initially recognised at fair value, which is the cash advanced, plus any transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans and advances.

14. Trading assets

Trading assets are financial assets acquired principally for the purpose of generating profits from short-term price fluctuations or from dealer’s margin. Trading assets consist of bonds, shares and derivatives with positive fair value.

Trading assets are measured at fair value. Realised and unrealised gains and losses on these assets are recognised in the income statement and included in the line item net financial (loss) income. Interest and dividend income on these assets are included in interest income and net financial (loss) income line items in the income statement.

Notes, contd.:

15. **Derivatives**

A derivative is a financial instrument or other contract, the value of which changes in response to a change in an underlying variable (such as share, commodity or bond prices, an index value or an exchange or interest rate), which requires no initial net investment or initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and which is settled at a future date.

The Group uses derivatives for trading purposes and to hedge its financial risk exposure.

Derivatives are recognised at fair value. Fair value changes are recognised in the income statement as interest and foreign exchange rate difference. Interest income is recognised on an accrual basis. Derivatives with positive fair values are recognised as trading assets and derivatives with negative fair values are recognised as trading liabilities.

Derivatives embedded in other contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts and when the contracts are not carried at fair value through profit and loss.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 17.

16. **Financial assets designated at fair value**

The Group designates certain financial assets upon their initial recognition as financial assets at fair value when doing so results in more relevant information, including information provided internally to key management personnel. Fair value changes are recognised in the income statement.

17. **Determination of fair value**

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

Financial instruments are initially recognised at fair value. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, even if that value is different from value obtained by a valuation technique, subsequently used to measure the financial instrument. Any difference between the transaction price and the value initially obtained from a valuation model is subsequently recognised in profit and loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data

18. **Recognition and derecognition of financial assets and financial liabilities**

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date on which the Group commits to purchase or sell the asset, except for loans and advances, which are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the liability instrument. Financial liabilities are derecognised when the obligation of the Group is discharged or cancelled or expires.

18. Contd.:

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains rights to service a transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

19. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

20. Repurchase agreements

Repurchase agreements involve the sale of securities subject to the simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price. Reverse repurchase agreements involves the purchase of securities subject to the simultaneous agreement to resell the same securities at a certain later date and at an agreed price. The cash received initially along with the accrued interest are recognised as deposits from credit institutions and the Central Bank. The cash paid initially along with the accrued interest are recognised as loans to credit institutions. Accrued interest is recognized as interest revenue and expense over the life of each agreement.

In the case of repurchase agreements, the control of the securities remains with the Group throughout the entire term of the agreements and the securities continue to be presented in the balance sheet as financial assets designated at fair value.

21. Leased assets

The Group classifies leases based on the extent of the transfer of risks and rewards incidental to ownership of leased assets. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership. Other leases are operating leases and are not recognised in the Group´s balance sheet.

Operating lease payments are expensed on a straight line basis over the lease term.

22. Intangible assets

a) *Goodwill*

All business combinations after 1 January 2004 are accounted for by applying the purchase method. Goodwill has been recognised on the acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is no longer amortised but allocated to cash generating units and tested annually for impairment.

Notes, contd.:

23. **Property and equipment**

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are expensed in the income statement when incurred.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

Properties	20-50 years
Fixtures	5 years
Machinery and equipment	3-5 years
Vehicles	5-7 years

As long as the residual value is not immaterial, it is reassessed annually.

24. **Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

25. **Mortgages foreclosed**

When the Group has redeemed assets on foreclosed mortgages they are recognised at the lower of fair value less estimated cost of sale or book value of the loan net of impairment.

26. **Deposits**

Deposits are measured initially at fair value and subsequently at amortised cost.

27. **Borrowings**

The Group´s borrowings consist mainly of issued bonds and loans from credit institutions. Borrowings are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of borrowings.

28. **Subordinated loans**

Subordinated loans are bonds issued by the Group with subordinated terms. Subordinated loans have the characteristics of equity in being subordinated to other liabilities of the Group and are included in calculation of the Group´s equity ratio. They will be repaid during the next seven years. Prepayment of subordinated loans is always subject to permission by the Icelandic Supervisory Authority. The loans are recognised as liabilities with accrued interests and indexation at year end.

Subordinated loans are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of subordinated loans.

29. **Financial guarantees**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and inital fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment, when a payment under the guarantee has become probable. Financial gurantees are included within other liabilities.

30. **Employee benefits**

a) *Defined contribution plans*
Obligations for contributions to defined contribution pension plans are expensed in salaries and related expenses when they are due.

b) *Post-employment obligations*
The liability recognised in the balance sheet in respect of defined benefit pension obligation is the present value of the obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The discount rate used for the pension liability is 2.0%.

31. **Other assets and other liabilities**

Other assets and other liabilities are measured at cost.

32. **Equity**

a) *Treasury shares*
Acquired own shares and other equity instruments (treasury shares) are deducted from equity.

b) *Reserves*
Profit for the year is recognised in reserves. Dividends paid and revaluation of primary capital decreases reserves.

c) *Dividends*
Dividends on primary capital are recognised in equity in the period in which they are approved by the Group´s primary capital holders.

33. **New standards and interpretations**

New standards and interpretations not yet adopted

A number of new stadnards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements. The amendments to the standards and interpretations are not expected to have a significant impact on the Company´s financial statements when they become effective.

IFRS 8 Operating Segment, applicable to periods starting 1 January 2009 and later.

IAS 1 Presentation of Financial Statements, becomes mandatory for the Group´s 2009 financial statements

IAS 23 Borrowings Costs, becomes mandatory for the Group´s 2009 financial statements.

IFRS 3 Buisness Combinations, becomes mandatory for the Group´s 2010 financial statements.

IFRS 2 Share-Based-Payment - Vesting Conditions and Cancellation, becomes mandatory for the Group´s 2009 financial statements with retrospective application if it will be approved by the European Union.

33. Contd.:

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Finanical Statements - Puttable Financial Instruments and Obligations Arising on Liquidation, becomes mandatory for the Group´s 2009 financial statements with retrospective application.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items, becomes mandatory for the Group´s 2010 financial statements with retrospective application if it will be approved by the European Union.

IFRIC 13 Customer Loyalty Programmes, becomes mandatory for the Group´s 2009 financial statements if it will be approved by the European Union.

IFRIC 15 Agreements for the Construction of Real Estate, becomes mandatory for the Group´s 2009 financial statements if it will be approved by the European Union.

IFRIC 17 Distribution of Non-cash Assets to Owners, becomes mandatory for the Group´s 2010 financial statements if it will be approved by the European Union.

IFRIC 12 Service Concession Arrangement, became effective for the year 2008 but has not been applied in the preparation of these financial statements as ithas not yet been approved by the European Union.

34. **Critical accounting estimates and judgements in applying accounting policies**

Management makes a judgements, estimates and assumptions, which can affect various items in the balance sheet. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key sources of estimation uncertainty

Impairment losses on loans

The Group reviews its loan portfolios to assess impairment at least on a three months basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there have been changes in the payment status of borrowers in a bank or economic conditions. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Determining fair values of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques which are reviewed regularly. All models that are used must be approved and calibrated to ensure that outputs reflect actual data.

Determination of fair value is further disclosed in note 44.

Notes, contd.:

Risk Management Disclosures

35. Byr faces various types of risks related to its business as a financial institution, which arise from its day to day operations. Management devotes a significant portion of its time to the management of these risks. The mainstays of effective risk management are the identification of significant risk, the quantification of Byr's risk exposure, actions to limit risk and the constant monitoring of risk. The most significant of these risks are discussed below. The most important types of financial risk to which Byr is exposed are credit risk, liquidity risk, market risk and operation risk.

Risk policy of Byr

Byr's operation entails various types of risks. Risk taking, controlling and monitoring risk is an essential part of operation of financial institutions as it is for Byr. The object is to know about all the important risk factors that affect Byr's operations. Byr uses various control methods, performs regularly stress tests and follows laws and regulations to ensure that the risk level of Byr is within the limits that Byr's Board of Directors sets and is also according to laws, regulations and contractual stipulations Byr works by.

Byr's risk management aims at identifying all significant risk factors related to its operation, implementing risk monitoring methods, making regular risk assessments, maintaining control and regulations in order to keep the relevant risk factors within defined limits and thereby reach an acceptable equilibrium between the minimisation of risk on the one hand and maximisation of the Byr's income on the other hand. For these purposes Byr operates a centralised risk management department, Risk management. The department's function is to operate according to risk management rules and report regularly to the Board of Directors. The department shall inform the Board of Directors without delay any deviation from the rules and benchmarks. The department also communicates and reports regularly to reporting public entities as the Financial Supervisory Authority, Competition Authority and the Central Bank of Iceland.

Risk is divided by Byr into four main categories, i.e. credit risk, market risk, liquidity risk and operational risk. Risk Management is responsible for monitoring that the provisions of laws and rules and the requirements of supervisory bodies as regards the scope of risk in the operation of Byr are met. Risk Management reviews and addresses exposures, in co-operation with Byr's Managers and the Board of Directors of Byr.

Credit risk

36. Credit risk is the most extensive risk category in Byr's operations. Credit risk is the risk that a customer or counterparty in a financial instrument cannot fulfil his obligations pursuant to a contract or an agreement with Byr which can lead to decrease in Byr's revenue and capital. Credit risk is one form of counterparty risk and originates for the most part in Byr’s services to customers and in Byr’s transactions with other financial undertakings. Possible credit risk can be overstated when Byr's debtors are financially connected or if Byr's loan portfolio is more condensed geographically or by sector. Byr's Risk management monitors credit risk specifically by those factors.

Byr's lending rules stipulate that maximum total exposures through an individual customer or financially connected parties may not exceed 25% of Byr's CAD equity. Byr's internal rule stipulates that those exposures should generally not exceed 20% of Byr's CAD equity. Total exposures to individual customers or financially connected parties that exceed 15% of Byr's CAD equity are specifically monitored and stress tested for fluctuations in currencies , share prices and other factors.

	Loans to customers		Loans to banks		Investment Securities	
	2008	2007	2008	2007	2008	2007
Loans and advances	172,575,172	117,737,319	48,313,882	28,518,770	2,840,693	5,238,999
Concentration by sector						
Corporates	95,145,321	62,622,379				
Government	143,820	332,193			2,065,583	348,236
Financial institutions			11,228,259	28,518,770	7,440	
Individuals and small enterprises	77,286,031	54,782,747				
Equity					767,670	4,890,763
Total	172,575,172	117,737,319	11,228,259	28,518,770	2,840,693	5,238,999

Byr sparisjóður Consolidated Financial Statements 2008 20 Amounts are in ISK thousands

Notes, contd.:

36. cont.

	Loans to customers		Loans to banks		Investment Securities	
	2008	2007	2008	2007	2008	2007
Concentration by location						
Iceland	167,534,433	113,541,353	11,228,259	28,518,770	2,840,693	5,238,999
Great Britain	3,080,378	1,357,495				
North America	439,727	41,399				
Nordic countries	687,728	1,073,566				
Other European countries	1,353	1,559,021				
Other countries	581,553	164,485				
Total	172,325,172	117,737,319	11,228,259	28,518,770	2,840,693	5,238,999

37. Provision for impairment of loans is specified as follows:

	2008	2007
Specific provisions	23,483,658	651,575
Collective provisions	1,804,426	1,105,316
Provision for impairment	25,288,084	1,756,891

Changes in the provision for impairment of loans and advances are specified as follows:

	Specific provisions	Collective provisions	2008 Total	2007 Total
Balance at the beginning of the year	1,105,316	651,575	1,756,891	747,744
Business combination with savings banks	181,147	257,639	438,786	226,072
Impairment for the year	22,743,130	895,212	23,638,342	816,763
Write-offs	(573,291)		(573,291)	(35,216)
Recoveries of loans previously written off	27,356		27,356	1,528
Balance at the end of the year	23,483,658	1,804,426	25,288,084	1,756,891

Loans with specific provisions for losses specified by type of loans:

31 December 2008 Type of loans	Loans with provision	Specific provision	Book value
Loans in foreign currencies to corporate entities	2,332,672	332,588	2,000,084
Overdraft to corporate entities	528,034	202,910	325,124
Other loans to corporate entities	34,019,772	21,639,809	12,379,963
Individuals	2,843,164	1,308,351	1,534,813
Total	39,723,642	23,483,658	16,239,984

31 December 2007 Type of loans	Loans with provision	Specific provision	Book value
Loans in foreign currencies to corporate entities	1,167,502	129,024	1,038,478
Sub-participation loans	46,930	10,412	36,518
Overdraft to corporate entities	305,490	67,777	237,713
Other loans to corporate entities	787,189	117,954	669,235
Individuals	2,120,276	326,408	1,793,868
Total	4,427,387	651,575	3,775,812

38. Past due loans less specific provision:

	2008	2007
Past due up to 29 days	177,001	334,618
Past due 30-365 days	800,366	327,130
Past due over 365 days	86,189	140,384
	1,063,556	802,132

Byr sparisjóður Consolidated Financial Statements 2008 21 Amounts are in ISK thousands

39. Loans that are past due but not impaired:

	2008	2007
Past due up to 29 days	44,250	83,655
Past due 30-365 days	200,092	81,783
Past due over 365 days	21,543	35,096
Total	265,885	200,534

Loans past due but not impaired are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available / the payment status of borrowers or the stage of collection of amounts owed to the Bank.

40. Collateral against loans impaired or past due

The Bank´s policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

Liquidity risk

41. Byr's ability to fully meet its obligations on fixed periods and specific dates and its ability to meet its obligations without difficulties is by far the most important risk factor in its operation. Finance and Accounting at Byr reports regularly to the Central Bank of Iceland under supervision from Risk management. Control of liquidity risk is a priority for Risk management as management of liquidity risk is important to Byr's operation. The Central Bank of Iceland requires that Byr as other financial institutions reports monthly information regarding liquidity ratio and its outlook for next twelve months.

The following table shows the breakdown by contractual maturity of financial assets and liabilities for fixed periods, from one month to over 5 years. Byr's refinance need is minimal for the next year. For the year 2009 Byr has a refinancing need appr. 60M EUR.

Breakdown of financial assets and liabilities by contractual maturity

31 December 2008

Assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with the Central Bank	37,176,749					37,176,749
Loans to credit institutions	6,872,262	4,074,098	219,313	23,253	39,333	11,228,259
Loans to customers	6,046,254	16,316,847	55,496,465	36,012,625	58,452,981	172,325,172
Trading assets	4,298,155					4,298,155
Financial assets at designated value	13,581,344					13,581,344
Total financial assets	67,974,764	20,390,945	55,715,778	36,035,878	58,492,314	238,609,679
Liabilities						
Deposits - credit institutions and the Central Bank	1,749,254	194,771	4,678,238			6,622,263
Deposits	98,315,441	4,092,926	3,682,337	34,572,399	3,936,939	144,600,042
Borrowings	0	506,207	26,044,074	23,760,974	27,857,840	78,169,095
Subordinated loans	0			1,620,984	1,650,965	3,271,949
Total financial liabilities	100,064,695	4,793,904	34,404,649	59,954,357	33,445,744	232,663,349

Byr sparisjóður Consolidated Financial Statements 2008 22 Amounts are in ISK thousands

Notes, contd.:

41. cont.

31 December 2007

Assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with the Central Bank	3,611,888					3,611,888
Loans to credit institutions	3,057,569	9,377,590	6,226,352	9,815,007	42,252	28,518,770
Loans to customers	18,071,145	14,984,311	7,679,769	29,341,702	47,660,392	117,737,319
Trading assets	5,630,350					5,630,350
Financial assets at designated value	14,345,443					14,345,443
Total financial assets	44,716,395	24,361,901	13,906,121	39,156,709	47,702,644	169,843,770
Liabilities						
Deposits - credit institutions and the Central Bank	1,622,419	1,421,899	7,783,209			10,827,527
Deposits	49,732,781	3,941,305	2,650,343	12,079,540	1,698,095	70,102,064
Borrowings		114,353		16,696,279	24,730,034	41,540,666
Subordinated loans				1,127,420	1,129,021	2,256,441
Total financial liabilities	51,355,200	5,477,557	10,433,552	29,903,239	27,557,150	124,726,698

At the end of 2008, Byr's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's rules and regulations was 2.85 for 0-1 months and 6.45 for 1-3 months.

Byr is financed with deposits in ISK and in other foreign currencies. Deposits as a ratio of total liabilities and equity were 57% at year-end 2008. Cash and balances with the Central Bank plus short term loans to credit institutions as a ratio of total deposits was 38% at year-end 2007.

	31.12.2006	30.6.2007	31.12.2007	30.6.2008	31.12.2008
Cash and balances with the Central Bank and loans to credit institutions	10,263,769	9,949,374	32,130,658	19,992,255	48,405,008
Deposit from customers and credit instititutions	55,173,738	61,925,585	80,929,591	121,089,155	151,222,305
Ratio	18.6%	16.1%	39.7%	16.5%	32.0%

Indexed assets and liabilities

Byr's balance sheet has a positive balance between indexed and non-indexed assets. At year-end 2008, indexed assets exceeded indexed liabilities by ISK 3.3 billion. These amounts only apply to assets and liabilities in ISK.

Inflation-indexed table:

	2008	2007
Indexed assets	79,479,987	59,648,136
Indexed liabilties	82,830,623	42,214,693
	-3,350,636	17,433,443

Byr sparisjóður Consolidated Financial Statements 2008 23 Amounts are in ISK thousands

Market risk

42. Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect Byr's income or the value of its holdings of financial instruments. Market risk is one of the more important risk factors in operations of financial institutions. Byr's Board of Directors has set certain rules and limits for Byr's trading book regarding investing in equity, securities, currencies and other financial instruments.

Currency risk is the risk that changes in exchange rate will affect Byr's income or the value of its holdings of financial instruments. Byr's foreign currency balance is monitored daily by Treasury and supervised by Risk management. The Central Bank of Iceland sets Byr and other financial institutions rules and limits regarding currency balance. As a general rule Byr aims for equilibrium between assets and liabilities in foreign currencies.

Byr holds stake in listed, unlisted, domestic and foreign companies. Changes in market prices in stock markets will therefore affect Byr's profit and balance sheet. Byr's investment authority for the trading book sets limits to total equity exposure. Investments are divided between individual assets, both by sectors and geographical locations, to carefully spread market risk. Risk derives from interest rate changes in Byr's functional currency, ISK, and interest rate changes in foreign currencies, and can affect the balance between Byr's assets and liabilities.

Interest rate risk

Changes to interest rate terms on international financing markets have an effect on Byr’s performance. The difference between the length of the interest rate periods for loans and borrowings, causes interest rate fluctuations to have an effect on interest margins. In general, there is a certain imbalance between the interest rate periods of assets and liabilities. Finance and Accounting is responsible for managing interest rate risks. Byr finances its lending activities for the most part by means of deposits. These are for the most part in ISK and to some extent in principal foreign currencies. Deposit terms take account of the interest level both in Iceland and in international financial markets and any changes to terms are in accordance with developments in the markets. Efforts are made to maintain the best possible balance between fixed and variable interest terms for loans to customers and the financing of loans for Byr. In general, an effort is made to achieve the best balance between the remaining effective term of interest bearing assets and liabilities.

Indexation risks

The balance between the amounts of indexed and non-indexed assets and liabilities shall be systematically managed. Indexed assets shall generally be greater than indexed liabilities. The indexation balance is calculated on a monthly basis. The indexation balance shows the ratio between indexed assets and liabilities at Byr on the one hand and equity on the other.

Currency Risk

The foreign exchange balance is in accordance with the provisions of the rules of the Central Bank of Iceland on foreign exchange balance. This means that Byr’s net open position in individual currencies shall be neither long nor short by more than the equivalent of 20% of Byr’s CAD equity. Likewise, the overall position according to the foreign exchange balance shall be neither long nor short in excess of 30% of CAD equity.

31 December 2008

	ISK	EUR	USD	GBP	JPY	Other	Total
Cash and balances with the Central Bank	36,728,894	11,000	419,681	5,412	309	11,453	37,176,749
Loans to credit instit.	10,623,255	279,855	63,954	131,400	18,693	111,102	11,228,259
Loans to customers	134,416,518	5,674,307	2,212,543	3,281,759	12,861,726	13,878,318	172,325,172
Trading assets	4,298,155						4,298,155
Financial assets							0
designated at fair value	13,273,329			308,015			13,581,344
Investment in associates	1,358,161						1,358,161
Property and equipment	2,894,617						2,894,617
Intangible assets	1,317,999						1,317,999
Investment properties	966,450	3,005,223					3,971,673
Deferred tax asset	3,217,509						3,217,509
Other assets	1,839,357						1,839,357
	210,934,244	8,970,385	2,696,178	3,726,586	12,880,729	14,000,873	253,208,995

Byr sparisjóður Consolidated Financial Statements 2008 24 Amounts are in ISK thousands

Notes, contd.:

42. cont.	ISK	EUR	USD	GBP	JPY	Other	Total
Deposits - credit instit.	6,538,671		83,592				6,622,263
Deposits - customers	141,265,541	1,445,478	1,274,666	293,149	86,041	235,166	144,600,042
Borrowings	36,405,259	23,971,272	1,387,354	614,820	8,355,764	7,434,626	78,169,095
Subordinated loans	3,271,949						3,271,949
Post-employment oblig.	1,366,498						1,366,498
Other liabilities	2,965,929						2,965,929
Equity	16,213,219						16,213,219
	208,027,066	25,416,750	2,745,612	907,969	8,441,805	7,669,792	253,208,995

31 December 2007

	ISK	EUR	USD	GBP	JPY	Other	Total
Cash and balances							
with the Central Bank	3,578,470	11,000	5,244	5,412	309	11,453	3,611,888
Loans to credit instit.	27,913,766	279,855	63,954	131,400	18,693	111,102	28,518,770
Loans to customers	79,828,666	5,674,307	2,212,543	3,281,759	12,861,726	13,878,318	117,737,320
Trading assets	5,214,778		22,420			1,801	5,238,999
Financial assets							0
designated at fair value	14,037,428			308,015			14,345,443
Investment in associates	3,072,921						3,072,921
Property and equipment	1,859,428						1,859,428
Intangible assets	4,756,197						4,756,197
Investment properties	1,031,688	397,738					1,429,426
Other assets	4,282,090						4,282,090
	145,575,431	6,362,900	2,304,161	3,726,586	12,880,729	14,002,674	184,852,481
Deposits - credit instit.	10,827,527						10,827,527
Deposits - customers	66,767,563	1,445,478	1,274,666	293,149	86,041	235,166	70,102,064
Borrowings	19,646,561	8,957,095	829,289	872,652	3,682,575	7,552,494	41,540,666
Subordinated loans	2,256,441						2,256,441
Post-employment oblig.	1,170,380						1,170,380
Tax liabilities	3,477,117						3,477,117
Other liabilities	2,281,341						2,281,341
Equity	53,196,945						53,196,945
	159,623,875	10,402,573	2,103,955	1,165,801	3,768,616	7,787,660	184,852,481

Asset price risk

Asset price risk involves the risk of a fall in the value of assets provided as collateral for granted loans and executed agreements. This applies e.g. if the decrease in property prices is so great that the value of collaterals falls below the position of a loan or if share prices fall to such an extent that this constitutes a collateral deficiency according to the provisions of the loan agreement. Under such circumstances, a call for increased collateral or other security enhancements is sent to the borrower in question, and he is given the option of increasing his collaterals or repaying the loan to such an extent that acceptable coverage is achieved. In the event of a substantial decrease in asset prices, a demand for increased collaterals from the borrower shall be made as soon as possible, until such time as the position of Byr is deemed acceptable with respect to rules and criteria on risks in the operation of Byr. Byr’s Risk Management is responsible for monitoring the collateral coverage of individual loan provisions and calls attention to deficiencies in collaterals in light of the provisions of agreements and the rules and criteria of Byr thereto.

Counterparty risk

The brokering of market transactions with securities and foreign currencies involves market risk that can be traced to price changes that occur before the customer fulfils his part of the agreement. Moreover, the derivatives transactions of customers with Byr involve counterparty risk in the event of a loss on the customer’s contract and in the event that he cannot fulfil the agreement.

Byr sparisjóður Consolidated Financial Statements 2008 25 Amounts are in ISK thousands

Notes, contd.:

Operational risk

43. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, as environmental or competitive events. This can cause Byr to suffer financial and non-financial loss. Byr has simple and effective internal processes and educates all new employees of all processes within the operation as well the laws and regulations Byr works by. Byr has an internal control that reports directly to the Board of Directors.

Fair value of financial instruments

44. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used by Byr to measure financial assets and financial liabilities. If quoted prices for a financial instrument fail to represent actual and regularly occurring transactions in active market transactions or if quoted prices are not available at all, fair value is established by using an appropriate valuation technique.

For listed and liquid stocks and bonds, certain financial derivatives and other market traded securities, such as commodities, the fair value is derived directly from the market prices. These instruments are disclosed in following balance sheet items; trading financial assets and trading financial liabilities.

For financial instruments, for which the market is not active, the Group applies specific working procedures and valuation techniques to attain a fair value using as much market information as available. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models or other commonly accepted valuations techniques used by market participants to price the instrument.

2008	Book value	Fair value	Unrealised gain (loss)
Assets			
Cash and balances with the Central Bank	37,176,749	37,176,749	0
Loans to credit institutions	11,228,259	11,228,259	0
Loans to customers	172,325,172	163,916,370	8,408,802
Trading assets	4,298,155	4,298,155	0
Financial assets designated at fair value	13,581,344	13,581,344	0
Liabilities			
Deposits from financial institutions and the Central Bank	6,622,263	6,622,263	0
Deposits	144,600,042	144,600,042	0
Borrowings	78,169,095	76,716,830	1,452,265
Other liabilities	2,965,929	2,965,929	0
Subordinated loans	3,271,949	3,764,071	(492,122)
Net unrealised gains not recognised in the Income Statement			9,368,945
2007			
Assets			
Cash and balances with the Central Bank	3,611,888	3,611,888	0
Loans to credit institutions	28,518,770	28,518,770	0
Loans to customers	117,737,319	114,205,199	-3,532,120
Trading assets	5,630,350	5,630,350	0
Financial assets designated at fair value	14,345,443	14,345,443	0
Liabilities			
Deposits from financial institutions and the Central Bank	10,827,527	10,827,527	0
Deposits	70,102,064	70,102,064	0
Borrowings	41,540,666	38,483,822	3,056,844
Other liabilities	89,149	89,149	0
Subordinated loans	2,256,441	1,917,975	338,466
Net unrealised gains not recognised in the Income Statement			(136,810)

Although Byr follows market standards and relies on well accepted methods there is still wide room for choice, both in the models themselves and the assumptions that must be supplied and cannot be derived from market data. Consequently, different assumptions and choices could lead to different estimates.

Byr sparisjóður Consolidated Financial Statements 2008 26 Amounts are in ISK thousands

Notes to the Income Statement

Net interest income

45. Interest income and expense are specified as follows:

2008	Interest income	Interest expense	Net interest income
Cash and deposits from credit institutions and the Central Bank	5,351,133	(2,932,480)	2,418,653
Loans and deposits	25,875,954	(15,482,618)	10,393,336
Borrowings		(7,313,697)	(7,313,697)
Subordinated loans		(605,619)	(605,619)
Financial assets and liabilities at fair value	2,456,961	(484)	2,456,477
	33,684,048	(26,334,898)	7,349,150

2007	Interest income	Interest expense	Net interest income
Cash and deposits from credit institutions and the Central Bank	2,109,292	(1,281,129)	828,163
Loans and deposits	10,355,808	(5,848,316)	4,507,492
Borrowings		(2,990,790)	(2,990,790)
Subordinated loans		(169,428)	(169,428)
Financial assets and liabilities at fair value	530,885	(3,031)	527,854
	12,995,985	(10,292,694)	2,703,291

Net fee and commission income

46. Fee and commission income and expense are specified as follows:

	2008	2007
Securities commission	46,375	0
Payment service commission	600,506	486,388
Loan service commission	192,422	152,143
Other commission income	631,463	203,596
Total fee and commission income	1,470,766	842,127
Transaction fee	(132,873)	(117,249)
Other commission expense	(197,733)	(171,132)
Total fee and commission expense	(330,606)	(288,381)
Net fee and commission income	1,140,160	553,746

Net financial (loss) income

47. Net financial (loss) income is specified as follows:

	2008	2007
Dividend income	191,888	128,729
Net (loss) gain on trading assets and liabilities	(1,871,667)	61,455
Net (loss) gain on assets designated at fair value	(6,282,457)	5,538,764
Net foreign exchange difference	223,638	243,928
Net financial (loss) income	(7,738,598)	5,972,876

Dividend income

48. Dividend income is specified as follows:

	2008	2007
Dividend income on financial assets designated at fair value	160,304	46,014
Dividend income on trading assets	31,584	82,715
Total dividend income	191,888	128,729

Byr sparisjóður Consolidated Financial Statements 2008 27 Amounts are in ISK thousands

Notes, contd.:

Net (loss) gain on trading assets and liabilities

49. Net (loss) gain on trading assets and liabilities is specified as follows:

	2008	2007
Shares	(1,930,130)	(53,452)
Bonds	58,463	114,907
Net (loss) gain on trading assets and liabilities	(1,871,667)	61,455

Net gain on financial assets designated at fair value

50. Net gain on financial assets designated at fair value is specified as follows:

	2008	2007
Shares	(6,468,518)	5,472,270
Bonds	186,061	66,494
Net gain on financial assets designated at fair value	(6,282,457)	5,538,764

Other operating revenue

51. Other operating revenue is specified as follows:

Gain on disposals of assets	0	4,262,856
Other	55,493	28,336
Other operating revenue	55,493	4,291,192

Personnel

52. The Bank's total number of employees is as follows:

Average number of full time equivalent positions during the year	234	236
Full time equivalent positions at year-end	226	224

53. Salaries and related expenses are specified as follows:

Salaries	1,790,507	1,065,656
Pension expenses:		
Defined benefits	5,836	4,520
Premiums	331,749	153,634
Salary related expenses	69,847	229,811
Salaries and related expenses	2,197,939	1,453,621

Employment terms of Directors

54. Salaries of executive officers of the Group, their primary capital owned at year end are specified as follows:

CEO:	Salaries	Primary capital
Ragnar Z. Guðjónsson	37,334	130,899
Magnús Ægir Magnússon former CEO	38,762	0
Örn Arnar Óskarsson former CEO	3,582	36,478
Board of Directors:		
Jón Þorsteinn Jónsson, former Chairman	4,818	2,819,229
Egill Ágústsson, former Director	2,418	1,062,088
Ágúst Már Ármann, Director	1,800	551
Jóhanna Waagfjörð, Director	1,800	2,652
Jón Kristjánsson, Director	1,800	3,572,747
Jón Kristinn Sólnes , Reserve Director	1,130	145,925
Páll Magnússon Former Director	600	3,572,747

Byr sparisjóður Consolidated Financial Statements 2008 28 Amounts are in ISK thousands

Notes, contd.:

54. cont.	Salaries	Primary capital
Guðmundur Ingi Jónsson, Former Director	600	48,578
Magnús Ármann, Former Director	600	2,831,542
Birgir Ómar Haraldsson, Director	540	1,173
Oddur Gunnarsson, Former Director	340	34,895
Eiður Gunnlaugsson, Former Director	340	162,788
Aðalheiður Eiríksdóttir, Former Director	340	34,895
Guðmundur Víkingsson, Former Director	340	34,895

Included among the holdings of the aforementioned persons are holdings of their spouses, dependent children, and companies owned by them, if any.

Auditor's fee

55. Auditor's fee is specified as follows:

	2008	2007
Audit of the Financial Statements	14,525	10,081
Review of the Interim Financial Statements	9,892	4,492
Other service	11,952	3,942
Auditor's fee	36,369	18,515

Income tax

56. The income tax rate is specified as follows:

Reconciliation of effective tax rate:		2008		2007
Profit before income tax		(35,833,136)		9,613,636
15% income tax calculated on the profit for the year	15.0%	(5,374,970)	18.0%	1,730,454
Effect of changes in tax rate	1.6%	(584,333)		
Revenues, exempt from tax	0.1%	(28,783)	(0.8%)	(74,699)
Deferral of tax liability against acquisitions in a subsidiary and other changes	4.9%	(1,763,120)	0.3%	28,766
Other items	(2.2%)	799,485		
	19.4%	(6,951,721)	17.5%	1,684,521

In May 2008 the Icelandic Parliament approved a decrease in the income tax rate from 18% to 15% as of 1 January 2008. Due to this the deferred tax liability at year-end 2008 has decreased by 584 million. The decrease is recognised as a reduction of income tax in the income statement

In May last year, the Icelandic Parliament agreed to authorise companies, provided that certain conditions would be met, to deduct proceeds on the sale of shares from the taxable income. The deduction may only be carried out if the carry forward taxable loss, including the loss of the year, has been set off. The authorisation applies to proceeds on sale arising in the year 2008 and later. The effect thereof on the Group´s financial statements are that income tax liability/asset due to shares in companies is no longer recognised in the Group´s balance sheet.

Byr sparisjóður Consolidated Financial Statements 2008 29 Amounts are in ISK thousands

Notes, contd.:

Notes to the Balance Sheet

Financial assets and liabilities

57. Classification of each class of financial assets and liabilities, and their fair values:

The following table shows to which group financial assets and financial liabilities pertain and their fair value:

31 December 2008	Trading	Designated at fair value	Amortisied cost	Total carrying amount	Fair value
Cash and Central Bank balances			37,176,749	37,176,749	37,176,749
Loans and advances			183,553,431	183,553,431	175,144,629
Trading assets	4,298,155			4,298,155	4,298,155
Fianancial assets designated at fair value		13,581,344		13,581,344	13,581,344
	4,298,155	13,581,344	220,730,180	238,609,679	230,200,877
Deposits from credit institutions and the Central Bank			6,622,263	6,622,263	6,622,263
Deposits			144,600,042	144,600,042	144,600,042
Borrowings			78,169,095	78,169,095	76,716,830
Subordinated loans			3,271,949	3,271,949	3,764,071
Trading liabilities			401,782	401,782	401,782
	0	0	233,065,131	233,065,131	232,104,988
31 December 2007					
Cash and Central Bank balances			3,611,888	3,611,888	3,611,888
Loans and advances			146,256,090	146,256,090	142,723,970
Trading assets	5,238,999			5,238,999	5,238,999
Fianancial assets designated at fair value		14,345,443		14,345,443	14,345,443
	5,238,999	14,345,443	149,867,978	169,452,420	165,920,300
Deposits from credit institutions and the Central Bank			10,827,527	10,827,527	10,827,527
Deposits			70,102,064	70,102,064	70,102,064
Borrowings			41,540,666	41,540,666	38,483,822
Subordinated loans			2,256,441	2,256,441	1,917,975
Trading liabilities			426,498	426,498	426,498
	0	0	125,153,196	125,153,196	121,757,886

Cash and balances with the Central Bank

58. Cash and balances with the Central Bank are specified as follows:

	2008	2007
Cash and balances with the Central Bank	296,458	220,263
Other cash equivalents	36,880,291	3,391,625
Cash and balances with the Central Bank	37,176,749	3,611,888

59. Loans to credit institutions specified by types of loans:

	2008	2007
Bank accounts	2,367,260	3,176,954
Money market loans	4,566,032	23,416,192
Other loans	4,294,967	1,925,624
Loans to credit institutions	11,228,259	28,518,770

Byr sparisjóður Consolidated Financial Statements 2008 30 Amounts are in ISK thousands

Notes, contd.:

60. Loans to credit institutions specified by maturity:

	2008	2007
On demand	6,872,262	3,057,569
Up to 3 months	4,074,098	9,377,590
Over 3 months and up to a year	219,313	6,226,352
Over 1 year and up to 5 years	23,253	9,815,007
Over 5 years	39,333	42,252
Loans to credit institutions	11,228,259	28,518,770

Loans to customers

61. Loans to customers, net of impairment, specified by types of loans:

	2008	2007
Overdrafts	21,901,146	15,155,948
Bonds and loan agreements	175,018,056	104,191,054
Other loans	694,054	147,208
Provision for impairment of loans and advances	(25,288,084)	(1,756,891)
Loans to customers	172,325,172	117,737,319

62. Loans to customers specified by sectors:

	2008	2007
Municipalities	0.2%	0.1%
Business enterprises:		
Agriculture and Fishing	0.6%	0.3%
Industry	10.1%	10.3%
Commerce	4.7%	4.7%
Service	25.4%	20.9%
Other	59.1%	63.7%
Loans to customers	100.1%	100.0%

63. Loans to customers specified by maturity:

	2008	2007
On demand	6,046,254	18,071,145
Up to 3 months	16,316,847	14,984,311
Over 3 months and up to a year	55,496,465	7,679,769
Over 1 year and up to 5 years	36,012,625	29,341,702
Over 5 years	58,452,981	47,660,392
Loans to customers	172,325,172	117,737,319

Provision for impairment of loans and advances

64. Changes in the provision for impairment of loans and advances are specified as follows:

	2008	2007
Provision for individually impaired loans and advances		
Balance at the beginning of the year	1,756,891	747,744
Business combination with a savings bank	438,786	226,072
Impairment for the year	23,638,342	816,763
Write-offs	(573,291)	(35,216)
Recoveries of loans previously written off	27,356	1,528
Provision for individually impaired loans and advances	25,288,084	1,756,891

Impairment on loans and advances	2008	2007
Impairment for loans and advances	23,638,342	816,763
Impairment for other loans	1,740,000	0
Provision for impairment of loans and advances, total	25,378,342	816,763

Non-performing loans are classified as aggregated exposures of customers for which the Group has made specific provisions in part or in full. Non-performing loans amounted to ISK 7,277 million (2007: ISK 1,102 million) at year end 2008, 3.5% of total loans to customers (2007: 0.9%).

Byr sparisjóður Consolidated Financial Statements 2008 31 Amounts are in ISK thousands

Notes, contd.:

Trading assets

65. Trading assets are specified as follows:

	2008	2007
Derivatives	1,457,461	391,351
Bonds	2,389,070	348,236
Shares	451,624	4,890,763
Trading assets	4,298,155	5,630,350

Derivatives

66. Derivatives, remaining maturity of principal and book value are specified as follows:

2008	Principal					
	Up to 3 months	Over 3 months and up to a year	Over 1 year	Total	Assets	Liabilities
OTC currency derivatives:						
Forward currency agreements	16,435,788	0	0	16,435,788	1,457,461	
Total	16,435,788	0	0	16,435,788	1,457,461	0
2007						
OTC currency derivatives:						
Forward Currency agreements	25,256,409	0	0	25,256,409	391,351	74,324
Total	25,256,409	0	0	25,256,409	391,351	74,324

Financial assets designated at fair value

67. Financial assets designated at fair value are specified as follows:

	2008	2007
Bonds	7,903,543	6,986,464
Shares	5,677,801	7,358,979
Financial assets designated at fair value	13,581,344	14,345,443

68. Shares designated at fair value are specified as follows:

	2008	2007
Shares in Icelandic financial institutions	3,201,273	6,077,706
Shares in other companies	2,476,528	1,281,273
	5,677,801	7,358,979

69. Securities designated at fair value are specified as follows:

	2008	2007
Icelandic finanical instititutions	76,824	558,485
Other companies	7,826,719	6,427,979
	7,903,543	6,986,464

Byr sparisjóður Consolidated Financial Statements 2008 32 Amounts are in ISK thousands

Notes, contd.:

Business combination

70. Business combination with Sparisjóður Norðlendinga

Byr sparisjóður and Sparisjóður Norðlendinga merged in the year 2008. The name of the merged savings bank is Byr sparisjóður. The Financial Supervisory Authority authorised the merger of Byr sparisjóður and Sparisjóður Norðlendinga in March 2008. Sparisjóður Norðlendinga became part of Byr sparisjóður 1 April 2008. If the acquistion had occurred on January 1, 2008 the consolidated profit would have been ISK 95 million higher.

	Fair value at merger
Cash and balances with the Central Bank	29,473
Loans and advances to credit institutions	4,972,943
Loans and advances	13,093,986
Financial assets designated at fair value	1,566,260
Other assets	916,271
Deposits from credit institutions	(2,962,328)
Deposits	(10,781,426)
Borrowings	(1,573,536)
Subordinated loans	(528,028)
Tax liabilities	(187,083)
Other liabilities	(88,269)
Fair value of net assets acquired	4,458,263
Intangible assets	497,151
Purchase price	4,955,414

Group entities

71. Signified subsidiaries are specified as follows:

	Country of incorporation	Ownership	Assets	Liabilities	Revenue	Profit
Bréfabær ehf.	Iceland	100.00%	606,109	11,257	37,400	45,846
Costa Properties ehf	Iceland	100.00%	708,787	709,722	0	(4)
D-1ehf.	Iceland	100.00%	831,837	868,438	1,706	(37,101)
Fjárvari ehf.	Iceland	100.00%	445,754	154,891	0	(9,835)
Hringur hf.	Iceland	100.00%	136,529	104,627	434,219	35,846
Landkostaland ehf	Iceland	100.00%	9,838	58,371	0	(18,854)
Lava Capital ehf.	Iceland	100.00%	2,298,810	2,318,246	0	(1,620)
Njarðarnes ehf	Iceland	100.00%	102,937	5,270	3,670,314	(4,539)
Rekstrarfélag Byrs hf	Iceland	100.00%	30,354	4,105	77,524	(34,771)
Sameignarfélagið Borgartún 18 sf.	Iceland	100.00%	134,092	0	2,134	(4,376)
Sparibréf ehf	Iceland	100.00%	1,008	0	0	0
Sparvernd ehf	Iceland	100.00%	16,029	0	60	(965)
SPK fjárfesting ehf.	Iceland	90.95%	455,673	1,138	6,483	4,750
SPN fjárfestingar ehf.	Iceland	100.00%	34,680	0	23	17
SPV fjárfesting hf.	Iceland	100.00%	1,564,898	108,122	20,579	(1,265,874)
StjórnarZ ehf.	Iceland	100.00%	443	0	20	16
Tårn ApS.	Iceland	100.00%	803,198	809,707	0	(8,507)

Investments in associated companies

72. Investments in associates are specified as follows:

	2008	2007
Carrying amount at the beginning of the year	3,072,921	7,418,574
Business combination	292,487	58,054
Purchase of shares in associates	420,114	520,904
Transferred to financial assets designated at fair value	0	(5,288,416)
Profit (loss) share	(2,427,362)	363,805
Carrying amount at the end of the year	1,358,160	3,072,921

Byr sparisjóður Consolidated Financial Statements 2008 33 Amounts are in ISK thousands

Notes, contd.:

72. cont.

Main associates are specified as follows:

	Assets	Liabilities	Owner-ship	Nominal value	Profit(loss) share	Book value
SP Fjármögnun hf.	69,759,917	86,863,454	35.4%	137,491	(2,144,927)	0
Eignarhaldsfélagið ehf.	5,558,067	4,410,538	25.0%	718,912	(311,065)	398,765
Íslensk verðbréf hf.	852,899	231,590	27.5%	60,145	67,687	310,810
Verðbréfaþjónusta sparisjóðanna hf.			43.5%	91,253	(70,000)	18,132
FSP holding ehf.	-	-	22.6%	123,382	0	261,723
Teris	1,267,058	499,880	36.9%	216,328	30,943	261,367
Reiknistofa bankanna	1,855,089	337,065	6.4%	94,848	0	107,363
Total	79,293,030	92,342,527		1,442,359	(2,427,362)	1,358,160

Property and equipment

73. Property and equipment are specified as follows:

2008

	Property	Machinery and equipment	Total 2008
Gross carrying amount at the beginning of the period	2,060,269	613,838	2,674,107
Business combination	286,032	39,288	325,320
Additions during the period	739,936	116,911	856,847
Disposals during the year	0	(23,390)	(23,390)
Gross carrying amount at the end of the period	3,086,237	746,647	3,832,884
Previously depreciated	406,502	401,441	807,943
Business combination	34,608	24,423	59,031
Depreciated during the period	38,628	55,189	93,817
Disposals during the year	0	(22,524)	(22,524)
Total depreciation at the end of the period	479,738	458,529	938,267
Carrying amount at the end of the period	2,606,499	288,118	2,894,617

2007

	Property	Machinery and equipment	Total 2007
Gross carrying amount at the beginning of the period	1,068,438	453,845	1,522,283
Business combination	1,036,556	45,295	1,081,851
Additions during the period	14,625	123,862	138,487
Disposals during the year	(59,350)	(8,328)	(67,678)
Gross carrying amount at the end of the period	2,060,269	614,674	2,674,943
Previously depreciated	401,918	348,756	750,674
Business combination	4,655	38,720	43,375
Depreciated during the period	21,584	26,271	47,855
Disposals during the year	(18,601)	(7,788)	(26,389)
Total depreciation at the end of the period	409,556	405,959	815,515
Carrying amount at the end of the period	1,650,713	208,715	1,859,428

Depreciation and amortisation in the Income Statement

	2008	2007
Amortisation of intangible assets	836	12,952
Depreciation of property and equipment	93,817	47,855
Total depreciation and amortisation	94,653	60,807

Byr sparisjóður Consolidated Financial Statements 2008 34 Amounts are in ISK thousands

Notes, contd.:

Intangible assets

74. Byr performed impairment test on the carrying amount of goodwill as at 31 December 2007. Impairment tests are performed in the 4th quarter each year, based on the budgets and business plans for next five years approved by the Board of Directors. Impairment test for the goodwill that formed in the merger with Sparisjóður Kópavogs and Sparisjóður Norðlendinga will be carried out in the year 2008.

Byr sparisjóður has defined one independent Cash Generating Unit of the Group's operation, Hringur ehf., which devises its own budget and is responsible for its own results. As part of the apportioning of Byr's goodwill, the recoverable amount is measured by value in use.

A CGU is assessed on its own, in which expectations for return on capital, payout ratio, equity and yield are the main variables in the assessment of the CGU. An independent operating budget is based on actual results and management expectations. Total revenues are expected to increase by 5-6% on average over the period of 2007-2011. To calculate future cash flows, the Group used 12.5% discount rate, which is the weighted average cost of borrowing for similar financial institutions.

In management's opinion, changes in main variables will lead to higher carrying amount of the goodwill than its recoverable amount.

Intangible assets are specified as follows:	Goodwill	Software	Total
2008			
Balance at 1 January 2008	4,755,361	836	4,756,197
Business combination with Sparisjóður Norðlendinga	497,151		497,151
Other changes during the year	(110,374)		(110,374)
Amortisation for the period		(836)	(836)
Impairment losses	(3,824,139)		(3,824,139)
Balance at 31 December 2008	1,317,999	0	1,317,999
2007			
Balance at 1 January 2007	1,393,969	114,577	1,508,546
Business combination with Sparisjóður Kópavogs	3,140,055		3,140,055
Other additions during the year	221,337		221,337
Dispoasals during the year		(100,789)	(100,789)
Impairment losses		(12,952)	(12,952)
Balance at 31 December 2007	4,755,361	836	4,756,197

Investment property

75. Investment property mature as follows:	2008	2007
Balance at 1 January 2008	1,429,426	165,250
Additions during the period	2,542,246	1,264,176
Ivestment property	3,971,672	1,429,426

Other assets

76. Other assets are specified as follows:	2008	2007
Sundry assets	344,152	3,776,325
Prepaid expenses and accrued income	1,495,205	114,414
Other assets	1,839,357	3,890,739

Byr sparisjóður Consolidated Financial Statements 2008 35 Amounts are in ISK thousands

Notes, contd.:

Deposits from credit institutions and the Central Bank

77. Deposits from credit institutions and the Central Bank mature as follows:

	2008	2007
On demand	1,749,254	1,622,419
Up to 3 months	194,771	1,421,899
Over 3 months and up to 1 year	4,678,238	7,783,209
Deposits from credit institutions and the Central Bank	6,622,263	10,827,527

Other deposits

78. Other deposits mature as follows:

	2008	2007
On demand	98,315,441	49,732,781
Up to 3 months	4,092,926	3,941,305
Over 3 months and up to a year	3,682,337	2,650,343
Over 1 year and up to 5 years	34,572,399	12,079,540
Over 5 years	3,936,939	1,698,095
Other deposits	144,600,042	70,102,064

Borrowings

79. Borrowings are specified as follows:

	2008	2007
Bonds issued	14,715,596	10,478,869
Bills issued	0	114,353
Loans from credit institutions	63,453,499	30,947,444
Borrowings	78,169,095	41,540,666

80. Borrowings mature as follows:

	2008	2007
Up to 3 months	506,207	114,353
Over 3 months and up to a year	16,216,584	0
Over 1 year and up to 5 years	33,588,464	16,696,279
Over 5 years	27,857,840	24,730,034
Borrowings	78,169,095	41,540,666

Subordinated loans

81. Subordinated loans are specified as follows:

				2008	2007
	Currency	Interest	Maturity date	Book value	Book value
Loans that qualify as Tier II capital:					
Issued in 2004, indexed	ISK	4.5%	2014	1,620,984	1,127,420
Issued in 2005, indexed	ISK	4.5%-7.5%	2015	1,336,702	1,129,021
Issued in 2007, indexed	ISK	7.0%	2019	314,263	0
				3,271,949	2,256,441

Post-employment obligations

82. Changes in post-employment obligations are as follows:

	2008	2007
Pension liability as at 1 January	1,170,380	923,134
Increasein liability due to business combination with a savings bank	0	46,272
Provision for pensions	201,954	205,494
Paid during the year	(5,836)	(4,520)
Post-employment obligations at the end of the year	1,366,498	1,170,380

Amounts are in ISK thousands

Notes, contd.:

Deferred income tax asset / liability

83. Deferred income tax liability is specified as follows:

	2008	2007
Deferred income tax liability at the beginning of the year	3,477,117	1,480,557
Calculated income tax for the year	(6,951,721)	1,684,521
Business combination	156,488	246,463
Income tax for the year to be paid next year	0	0
Other changes	100,607	65,576
Deferred income tax (asset) liability at year end	(3,217,509)	3,477,117

84. Deferred income tax liability is attributable to the following items:

	2008	2007
Shares in other companies	269,414	3,344,882
Property and equipment	71,083	100,409
Other assets and liabilities	87,654	236,871
Tax loss carryforward	(3,645,660)	(205,045)
Deferred income tax asset (liability) at year end	(3,217,509)	3,477,117

Other liabilities

85. Other liabilities are specified as follows:

	2008	2007
Sundry liabilities	2,665,607	1,855,843
Accrued expenses and deferred income	300,322	425,498
Other liabilities	2,965,929	2,281,341

Equity

86. Primary capital at year end 2008 amounted to ISK 30,615 million. Primary capital owned by Byr sparisjóður amounting to ISK 7 million are withdrawn from primary capital in the balance sheet. Total equity at year end 2008 amounted to ISK 16,213 million. Equity ratio, calculated in accordance with Article 84 of the Act on Financial Undertakings, was 8.3%. According to law the ratio may not be lower than 8.0%.

Byr first calculated the equity ratio in accordance with Basel II regulatory in the year 2008. The primary changes with the new regulations was that the risk basis is total amount of weighted risk factors, such as credit risk, shares risk, interest risk, foreign exchange risk and operational risk which is involved in the Bank's operations.

The ratio is calculated as follows:

	2008	2007
Total equity	16,213,219	49,952,805
Intangible assets	(1,317,999)	(1,615,306)
Subordinated loans	3,271,948	2,256,441
Assets deducted from equity	(2,823,563)	(7,208,995)
Total own funds	15,343,605	43,384,945
Total Capital Requirement for:		
Credit risk (CR)	12,462,316	7,999,711
Market risk under standardised Approach (SA)	1,542,875	56,056
Operational risk (OPR)	792,108	586,563
Capital requirements	14,797,299	8,642,330
Surplus of own funds	546,306	34,742,615
Capital adequacy ratio	8.3%	40.2%

Amounts are in ISK thousands

Notes, contd.:

Off-balance sheet information

87. The Group has granted its customers guarantees. These items are specified as follows:

	2008	2007
Guarantees	4,644,744	2,711,797
Unused overdrafts	5,875,994	6,816,024

The credit risk is valued at ISK 4,186 million for guarantees when calculating the capital ratio of the Group.

88. At 31 December 2008, the Group was obligated under a number of non-cancellable operating leases for premises and equipment. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options.

Pledged assets

89. Assets have been pledged as security in respect of the following liabilities:

	2008	2007
Liabilities		
Treasury bonds	1,666,418	0
Treasury's savings certificates	399,165	287,732
	2,065,583	287,732

Related parties

90. The Group has a related party relationship with its subsidiaries, associates, the Board of Directors of the parent company, the CEOs of the Group and close family members of individuals referred to herein. Information regarding related parties are as follows:

	2008	2007
Loans to CEOs	0	
Loans til memebers og Board of Directors	35,535	32,132
Loans to associated companies	299,651	186,315

Transactions with related parties have been carried out on arm's length basis.

At year-end 2008 are loans to business activities that above-mentioned related parties participate in amounts 2,072 million.

Salaries, remuneration and salary related expenses to the executive board and the Board of Directors are shown in note 54.

Other matters

91. Byr sparisjóður operates in accordance with instructions that have been set forth about good governing practices. It includes, among other things, that the Board of Directors has made operating procedures for the Board of Directors to insure equality in coverage and fulfilment of matters that are handled by the Board of Directors and to insure independent procedures and prevent conflict of interests.

Events after the Balance Sheet date

92. There have been no material post Balance Sheet events which would require disclosure or adjustment to the 31 December 2008 Consolidated Financial Statements. These Consolidated Financial Statements will be submitted to the Annual General Meeting of shareholders for approval.

Byr sparisjóður Consolidated Financial Statements 2008 38 Amounts are in ISK thousands