Announcement

Byr’s most difficult operating year concluded

The 2008 financial statements show that Byr's operating results were negative by ISK 28,881 m having taken income tax into account. The equity ratio is 8.3%. The loss for the period before taxes was ISK 35,833 m, which represents a major turnaround compared with the operating results of 2007, when profits after taxes were ISK 7,929m. Deposits from customers amounted to ISK 144,600m and increased by 106.3% during the year. Loans to customers amounted to ISK 172,325m, an increase of 46.4% during the year. Impairment of loans, receivables and intangible assets was ISK 29,202 m as opposed to ISK 817m in 2007. Provisions for credit losses amounted to 13,7% of lending and guarantee provisions at year-end 2008.

The Byr Savings Bank financial statements 2008, reveal clear signs of the Icelandic economy having suffered last year one of its worst shocks in recent times. In the fall, the full force of the international financial crisis struck the Icelandic banking system with the result that the authorities had no option but to nationalise the three commercial banks. The effects of the banking crisis were soon felt in growing unemployment, a frozen property market, substantial weakening of the korma and a sharp decline in share prices. At the same time the financial position of families and businesses deteriorated significantly. Also the reputation of the Icelandic financial system has been seriously damaged abroad.

The guarantee capital increase in 2007 and favourable results of recent years means that Byr’s liquidity position remains good and its equity ratio is within prescribed limits despite the adverse developments.

Cautionary write offs of outstanding receivables and impairment of assets are the main reason for the operating loss in 2008. Write offs have been made in view of the prevailing uncertainty about the nation's economic and employment prospects. This is done even if some proportion of these receivables might be recoverable later. As a result, Byr Savings Bank is well positioned to regain its former strength, provided that prudence and caution in its operations continues to be exercised in the coming years and that the authorities act to enable savings banks to deal with the changed operating environment.

Byr Savings Bank and Sparisjódur Nordlendinga merged in 2008. The Financial Supervisory Authority approved the merger on 19 March 2008. The financial accounts of the two savings banks were consolidated as of 1 April 2008 and, as a result, operations of Sparisjódur Nordlendinga from 1 January to 31 March 2008 are not reflected in the annual accounts.

Key results from the Income Statement and the Balance Sheet:

- Byr's 2008 results were negative by ISK 35,833 m before taxes as compared with a profit of ISK 9,613m in 2007. Losses after tax amounted to ISK 28,881 m compared with a profit of ISK 7,929m in 2007.
- Loans to customers amounted to ISK 172,325m, an increase of 46.4% during the year. Deposits from customers amounted to ISK 144,600m and increased by 106.3% during the year. The period's interest margin was 2.0%, as opposed to 1.9% in 2007. Total assets amounted to ISK 253,209 m and increased by 37% during the year.
- Equity at year's end was ISK 16,213m and had decreased by ISK 36,984m during the year. The equity ratio is 8.3%.
- Interest income amounted to ISK 33,684m and increased by 159.2% from the previous year. Interest expenses were ISL 26,335m and increased by 155.9% from the previous year. Net interest income amounted to ISK 7,349m compared with ISK 2,703m in 2007, an increase of 171.9%.
- Net operating income was negative by ISK 1,621m compared with ISK 13,885m in 2007, a decrease of 111.7%. Operating expenses amounted to ISK 5,009m and increased by 45% from the previous year. Salaries and related expenses increased by 51.2% while general operating expenses rose by 40%.
- Impairment of loans, receivables and intangible assets was ISK 29,202m as opposed to ISK 817m in 2007. The allowance account for loans and receivables amounted to 13.7% of loans and guarantee provisions at the end of 2008 but was 1.5% at the end of 2007.

BYR

Press Release Regarding Annual Accounts 31 December 2008

BYR

-in ISK thousands-

Income Statement 2008

	2008	**2007**	**% Change**
Interest income	33,648,048	12,995,985	*159.2%*
Interest expenses	-26,334,898	-10,292,695	*155.9%*
Net interest income	7,349,150	2,703,291	*171.9%*
Fee and commission income	1,470,766	842,127	*74.6%*
Fee and commission expenses	-330,606	-288,381	*14.6%*
Net fee and commission income	1,140,160	553,746	*105.9%*
Net income from other financial assets designated at fair value	-7,738,598	5,972,876	*-229.6%*
Share of profits of associates	-2,427,362	363,805	*-767.2%*
Other operating income	55,493	4,291,192	*-98.7%*
Total other operating income	-10,110,467	10,627,873	*-195.1%*
Net interest income	-1,621,157	13,884,910	*-111.7%*
Salaries and related expenses	-2,197,939	-1,453,621	*51.2%*
Other operating expenses	-2,716,906	-1,940,083	*40.0%*
Depreciation of tangible assets	-94,653	-60,807	*55.7%*
Operating (loss) / profit before impairment of loans	-6,630,655	10,430,399	*-163.6%*
Impairment of loans, receivables and intangible	-29,202,481	-816,763	*3475.4%*

assets			
(Loss) profits before taxes	-35,833,136	9,613,636	*-472.7%*
Income tax	6,951,721	-1,684,521	*-512.7%*
(Loss) profits for the year	-28,881,415	7,929,115	*-464.2%*

2008 Balance Sheet:

Assets	**2008**	**2007**	**% Change**
Cash and cash equivalents	37,176,749	3,611,888	*929.3%*
Loans and advances to credit institutions	11,228,259	28,518,770	*-60.6%*
Loans to customers	172,325,172	117,737,319	*46.4%*
Trading assets	4,298,155	5,238,999	*-18.0%*
Financial assets designated at fair value	13,581,344	14,345,443	*-5.3%*
Investments in associates	1,358,161	3,072,921	*-55.8%*
Property and equipment	2,894,617	1,859,428	*55.7%*
Intangible assets	1,317,999	4,756,197	*-72.3%*
Investment property	3,971,673	1,429,426	*177.9%*
Deferred tax liability	3,217,509	0	-
Other assets	1,839,357	4,282,090	*-57.1%*
Total Assets	253,208,995	184,852,481	*37.0%*
Liabilities and equity			
Deposits from credit institutions and the Central Bank	6,622,263	10,827,527	*-38.8%*
General deposits	144,600,042	70,102,064	*106.3%*
Borrowings	78,169,095	41,540,666	*88.2%*
Subordinated loans	3,271,94	2,256,441	*45.0%*
Pension commitments	1,366,498	1,170,380	*16.8%*
Tax liabilities	0	3,477,117	-
Other liabilities	2,965,929	2,281,341	*30.0%*
Equity	16,213,219	53,196,945	*-69.5%*
Total liabilities and equity	253,208,995	184,852,481	*37.0%*

	2008	**2007**
Equity ratio	*8.3%*	*40.2%*
Interest margin	*2.2%*	*1.9%*
Depreciation as percentage of loans	*13.7%*	*1.5%*
Full time positions at end of year	226	224
Increase in deposits	*106.3%*	*49.7%*
Increase in loans and advances	*46.4%*	*61.3%*

Basis of the financial statements
The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union.

Key results from the Income Statement
Byr's loss before income tax in 2008 amounted to ISK 35,833m but was ISK 9,614m before taxes at year's end in 2007. The period's after-tax loss was ISK 28,881m but the saving bank's after-tax profit in 2007 amounted to ISK 7,929m.

Total interest income in 2008 was ISK 33,684m and increased by 159.2% during the year. Interest expense increased by 155.9% to a total of ISK 26,335m. Net interest income amounted to ISK 7,349 m but was ISK 2,703m in 2007. The interest margin, i.e. interest income less interest expense as a ratio of average total assets, was 2.2% but was 1.9% in 2007. Net fee and commission income, i.e. fee and commission income less fee and commission expense, amounted to a total of ISK 1,140m as opposed to ISK 554m in 2007. Net loss on financial assets at fair value was ISK 7,739m but was ISK 5,973m during the previous year. Share in the results of associates was negative by ISK 2,427m, declining by 2,791m from the previous year. Other operating income was ISK 55m as opposed to ISK 4,291m in 2007.

Salaries and related expenses amounted to ISK 2,198m in 2008, an increase of 51.2% from 2007 when the amount was ISK 1,454m. This increase can be attributed, among other things, to the merger of Sparisjódur Nordlendinga and Byr. Depreciation of tangible assets amounted to ISK 95m, an increase of 55.7% from the previous year. Other operating expenses amounted to ISK 2,717m, an increase of 40% from ISK 1,940m in 2007. Total operating expenses amounted to ISK 5,009m but were ISK 3,455m in 2007. Operating expenses as a ratio of the average net asset position were 2.29% on an annual basis, decreasing from 2.39% in 2007.

Impairment on loans, receivables and intangible assets amounted to ISK 29,202m during the year but was ISK 817m in 2007. The allowance account for credit losses amounted to ISK 23,638m, which is equivalent to 13.7% of the total credit and guarantees granted as opposed to 1.5% in 2007.

Financial position
Loans to customers amounted to ISK 172,325m, an increase of 46.4% during the year. The main types of loans are indexed loans, currency-linked loans and overdraft loans. Trading assets amounted to ISK 4,298m, a decrease of 18% from the year before. Financial assets designated at fair value amounted to ISK 13,581m, an increase of 5.3% from the year before. Associated companies were valued at ISK 1,358m, a decline of ISK 1,715m or 55.8% from the end of 2007. All Byr holdings of registered securities were recorded at market price. Investment property, current assets and other assets amounted to ISK 8,706m.

Byr's intangible amounted to ISK 1,318m at the end of 2008, a decline of 72.3% from the previous year’s position of ISK 4,756m. The decline reflects the results of an impairment test which was applied to the assets.
Customer deposits and borrowings amounted to ISK 222,769m compared with ISK 111,643m at the end of 2007. Customer deposits amounted to ISK 144,600m, increasing thereby by 106.3% when compared to the year before.
Borrowings increased from ISK 41,541m to ISK 78,169m during the year, or by 88.2%. At year-end 2008, Byr Savings Bank had overseas funding amounting to ISK 41,349m. This amount has decreased by ISK 6,000m since the beginning of the year. Loan terms stipulate a minimum equity ratio. As these requirements have not been met, Byr has embarked on negotiations with creditors. Total liabilities increased by ISK 105,340m, or by 80%, amounting to ISK 236,996m at year’s end.

Equity
Byr’s equity at the end of 2008 amounted to ISK 16,213m, having decreased by ISK 36,984m or by 69.5% from the previous year. Byr’s equity ratio is 8.3% but was 40.2% at the beginning of the year. This ratio may not be lower than 8.0% pursuant to law. The liquidity ratio is 2.85 within one month and 6.45 between one and three months.

Byr’s guarantee capital unit holders number approximately 1509 and the total holding of the largest guarantee capital unit holder is approximately 9%. By law no single party may be a registered holder of more than 10% of the guarantee capital units or exercise more than 5% of the voting power at meetings of guarantee capital unit holders. The widely distributed ownership and the restrictive provisions with respect to voting weights ensure compliance with the legal objective that no one guarantee capital unit holder shall have predominant influence within a savings bank.

At Byr’s Annual General Meeting on 9 April 2008, Byr's Board of Directors submitted a proposal for the payment of dividends for the operating year 2007. The proposal was approved unanimously. It had earlier been approved by the Savings Banks Guarantee Fund in accordance with Article 68 of Act No. 161/2002 on Financial Undertakings. Furthermore, Byr’s Board of Directors also explained its proposal for dividend payment to the Financial Supervisory Authority without any comment on the Authority’s part. The total dividend for the year amounted to ISK 13,471m and was paid to guarantee capital unit holders in proportion to their holdings.

Transformation

At a meeting of guarantee capital unit holders 27 August 2008, the guarantee capital unit holders agreed to authorise the Board of Directors to change the saving bank's operational form from a private institution (guarantee capital fund) to a limited liability company. The authorisation was approved almost unanimously. An agreement had previously reached at Byr's Annual General Meeting on 9 April 2008 that a possible change in Byr's operational form to that of a limited liability company should be explored. The Saving Bank's director established a working group which was charged with examining the principal pros and cons thereof. The working group concluded that there were more arguments in favour of transformation than against. It was pointed out, among other things, that in addition to corporations being a considerably more common operational form around the world than that on which savings banks operate, they are subject to general transparent and readily understood administrative rules. Therefore, transactions involving shares are more convenient than with guarantee capital units and corporations generally have access to capital on more favourable terms than do savings banks. On 19 September 2008, the Financial Supervisory Authority approved Byr's application to change the savings bank into a limited liability company. Approval from foreign creditors for the change in operational form was awaited when the blows hit the Icelandic economy. In view of the prevailing uncertainty, the advantages of changing the operating form are being weighed and evaluated anew, taking into consideration the interests of customers, owners and the community as a whole. It is not clear, therefore, whether the Saving Bank's transformation into a limited liability company will materialise.

Because of the planned change in operational form, the market for Byr's guarantee capital units was closed last 25 August 2008 and has not been reopened because of the uncertainty which has prevailed in the market. However, sale or other transfer of guarantee capital units remains permissible subject to the limitations entailed by the provisions of Article 64 of Act No. 161/2002 on Financial Undertakings, but change of ownership of guarantee capital units are always subject to approval by the Saving Bank's Board of Directors.

Mergers

On 19 September 2008, the Boards of Directors of Byr Saving Bank and Glitnir decided to begin merger discussions. The discussions were intended to explore whether there was any foundation for a merger of the companies. The discussions were still at the initial stage when they were terminated on 29 September 2008. The decision to enter into discussions for a possible merger with Glitnir was taken by Byr's Board of Directors with the interests of guarantee capital unit holders and the Bank's customers in mind, but it was clear in light of market conditions at the time that a merger with a strong financial undertaking both at home and abroad might be the most favourable option for both parties. Before either negotiating party's due diligence assessment had been carried out, Glitnir's operations were taken over by the authorities. Therefore, it may be assumed that such an assessment would have revealed that there was no basis for a merger of Byr and Glitnir, in addition to which the guarantee capital unit holders would have had to approve the merger.

On 4 December 2008, the Boards of Directors of Byr, Sparisjódurinn í Keflavík and SPRON signed a memorandum of intent (MOU) to initiate preparations and work with the goal of merging the three savings banks. The discussions have gone well but are presently on hold awaiting the finalisation of the banks' financial statements before they can be continued. A final conclusion may be expected soon. According to the MOU, the merger of the negotiating parties, if realised, would take effect on 1 January 2009.

Prospects for 2009

Byr's plans for 2009 envisage positive results and in that respect the savings bank is counting on the strong commitment of its employees as a group. Byr's liquidity position is good, the number of customer doing business with the bank has increased and deposits have increased. Moreover, Byr can strengthen its liquidity position even further by taking advantage of provisions contained in the Housing Act No. 44/1998.

Although Byr has survived the setbacks of recent months, it is clear that the Bank, together with other savings banks, is exposed to uncertain prospects in the economy and employment matters. The authorities have been understanding in these altered circumstances. The importance of the savings banks for the growth and development of their near community and the balance that they form against other financial institutions has been indicated. Moreover, Act No. 128/2008 contains, due to the special circumstances in the financial markets, a provision that allows equity contribution to savings banks and Byr, in light of altered operating circumstances, will seek such contribution. The act authorises the Treasury to provide savings banks with an amount equivalent to as much as 20% of their recorded equity at year-end 2007, in exchange for guarantee capital units of the savings bank concerned as repayment in accordance with the equity contributed.

Personal and quality financial services have brought the savings banks the most satisfied customers for 10 years running, or ever since customer surveys began. Moreover, the savings banks have, from the very beginning, co-operated in e.g. employee educational matters and IT and this has strengthened their competitive position with respect to the larger financial institutions. The existence of independent financial institutions which can support the country's families and businesses is a precondition for the restoration of Iceland's economy. For Byr to be able to provide competitive services and look after the interests of its customers, it is essential that the authorities observe the utmost even-handedness in all their actions aimed at restoring the Icelandic financial system. Active competition among financial undertakings with diverse ownership is a precondition for the resurgence of the financial position of Iceland and its people on a healthy foundation.

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