Consolidated Financial Statements for the year 2007

Reykjavik Savings Bank hf.
Armuli 13a
108 Reykjavik

Reg. No. 540502-2770

Contents

Endorsements and Signatures of the Board of Directors and the Managing Director

The Consolidated Financial Statements of SPRON for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The Consolidated Financial Statements include the Financial Statements of SPRON and its subsidiaries, together referred to as "the Group".

On 19 September, The Financial Supervisory Authority in Iceland agreed that Sparisjóður Reykjavíkur og nágrennis has complied with all legal conditions to change the form of the company to limited liability company (hf.) effective from 1 April. When business combination arise from transfers of interests in entities that are under common control assets and liabilities acquired are recognised at the carrying amounts recognised in the latest consolidated financial statements. That applies also to comparative amounts.

Net profit, according to the Income Statement, amounted to ISK 3,287 million for the year 1 January to 31 December 2007. Equity, according to the Balance Sheet, amounted to ISK 27,761 million at the end of the year. The equity ratio of the Group, calculated according to the Act on Financial Undertakings, was 13.4%. This ratio may not be lower than 8.0%. The Board of Directors proposes that half of profit after tax, or ISK 1.643 million will be paid as dividend to shareholders in 2008. The amount is 32,8% of nominal share capital. Allocation of profit and changes in equity are further explained in the notes to the Financial Statements.

SPRON's share capital amounted to ISK 4,877 million at year-end. Shareholders at year-end 2007 numbered 2,213 increasing in number by 1,022 during the year. At year end SPRON - fund ses kept 14,59% of the total number of shares in the Bank and is the only shareholder which has a stake above 10%.

According to the parent companies Articles of association, issued share capital at year end amounts to ISK 5,004 million and is divided into equal number of shares which are all in the same class with equal rights. At year end 2007 owned shares amounted to ISK 127 million. The shares of the Bank are listed on the Iceland Stock Exchange (OMX Iceland). The Board of Directors has the right to increase the share capital of the Bank by the nominal value of ISK 500 million by issuing and selling new shares and current shareholders have accepted to waive their preemptive rights. The Board of Directors has the right to purchase up to 10% of the nominal value of the shares of the Bank, provided that the purchase price is within 10% variation from the last quoted price in the Iceland Stock Exchange.

Share option agreements have been concluded with employees of the Group, which enables them to purchase shares in the Group at the exercise price of ISK 10,16 to ISK 11,2 over a period of 3 years, given that they are employeed by the Group during that time. Further information on the share option program is in note 90.

Those persons willing to stand for election to the Group's Board shall give formal notice thereof in writing at least full seven days before the beginning of the meeting. The Group's Articles of Association can only be amended with the approval of 2/3 of casted votes in a legal shareholders' meeting, provided that the notification calling the meeting thoroughly informs on such amendment and whatthe amendment consists in.

Endorsements and Signatures of the Board of Directors and the Managing Director

Statement by the Board of Directors and Managing Director

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 2007, its assets, liabilities and consolidated financial position as at 31 December 2007 and its consolidated cash flows for the financial year 2007.

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.

The Board of Directors and the Managing Director of SPRON hereby confirm the Consolidated Financial Statements for the year 2007.

Reykjavik, 6 February 2008

Board of Directors:

Hildur Petersen
Chairman

Erlendur Hjaltason

Ari Bergmann Einarsson

Gunnar Thor Gislason

Asgeir Baldurs

Managing Director:

Gudmundur Hauksson

Independent Auditor's Report

To the Board of Directors and Shareholders of SPRON hf.

Introduction

We have audited the accompanying Consolidated Financial Statements of SPRON (the "Group"), which comprise the Balance Sheet as at 31 December 2007, and the Income Statement, Statement of changes in Capital 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of SPRON hf. as at December 31, 2007, 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, 6 February 2008.

KPMG hf.

Sigurdur Jónsson

Income Statement
for the year 2007

	Notes	2007	2006
Interest income		20.931.558	14.537.299
Interest expense		(18.286.041)	(12.122.768)
Net interest income	38	2.645.517	2.414.531
Fee and commission income		1.936.423	1.306.707
Fee and commission expense		(405.359)	(331.395)
Net fee and commission income	39	1.531.064	975.312
Net financial income	40-43	4.602.611	10.115.359
Share of (loss) profit of associates	67	(3.258.652)	1.406.732
Other operating revenue	44	3.695.355	284.405
Other net operating income		5.039.314	11.806.496
Net operating income		9.215.895	15.196.339
Salaries and related expenses	46	(2.398.487)	(1.926.098)
Administrative expenses		(2.844.927)	(1.974.238)
Depreciation and amortisation	68-69	(175.307)	(108.871)
Operating expenses		(5.418.721)	(4.009.207)
Impairment on loans and advances	58-61	(498.402)	(308.347)
Profit before income tax		3.298.772	10.878.785
Income tax expense	49	(12.124)	(1.868.503)
Profit for the year		3.286.648	9.010.282
Attributable to:			
Shareholders of SPRON		3.281.227	9.010.074
Minority interest		5.421	208
Profit for the year		3.286.648	9.010.282
Earnings per share			
Basic earnings per share	50	0,6026	-
Diluted earnings per share	50	0,6023	-

The notes on pages 10 to 42 are an integral part of these Consolidated Financial Statements.

SPRON Financial Statements 2007 Amounts are in ISK thousands

Balance Sheet
as at 31 December 2007

	Notes	2007	2006
Assets			
Cash and balances with the Central Bank	52	10.332.327	2.431.770
Loans to credit institutions	53-54	3.727.837	7.222.687
Loans to customers	55-61	161.629.502	128.295.508
Trading assets	62-64	27.507.593	20.313.026
Financial assets designated at fair value	65	12.666.423	16.748.891
Investments in associates	67	2.575.186	4.580.324
Property and equipment	68	2.060.442	992.188
Intangible assets	69	1.713.253	1.675.490
Other assets	70	1.982.956	2.240.660
Total Assets		224.195.519	184.500.544
Liabilities			
Deposits from credit institutions and the Central Bank	71	8.513.472	11.523.899
Deposits	72	85.410.286	56.592.406
Trading liabilities	73	724.862	360.850
Borrowings	74-75	89.096.537	69.642.032
Subordinated loans	76	5.432.501	5.216.371
Post-employment obligations	77	714.183	646.411
Tax liabilities	78-80	2.904.543	3.012.594
Other liabilities	81	3.638.582	2.731.076
Total Liabilities		196.434.966	149.725.639
Equity			
Share capital		4.877.279	0
Legal reserve		1.250.000	0
Retained earnings		21.604.328	0
Primary capital		0	19.453.815
Retained earnings		0	15.292.045
Shareholders´Equity	82	27.731.607	34.745.860
Minority interest		28.946	29.045
Total Equity		27.760.553	34.774.905
Total Liabilities and Equity		224.195.519	184.500.544

The notes on pages 10 to 42 are an integral part of these Consolidated Financial Statements.

SPRON Financial Statements 2007 7 Amounts are in ISK thousands

Statement of Changes in Equity
for the year 2007

	Primary Capital	Retained earnings	**Total**	Minority interest	**Total Capital**
Changes in capital in 1.1.-31.12.2006:					
Capital at 1 January 2006	3.960.503	9.055.476	13.015.979	1.232	13.017.211
Profit for the year		9.010.074	9.010.074	208	9.010.282
Dividends paid		(1.980.343)	(1.980.343)		(1.980.343)
Issued new primary capital	14.700.150		14.700.150		14.700.150
Changes in minority interest				27.605	27.605
Revaluation of Primary Capital	793.162	(793.162)			
Capital at 31 December 2006	19.453.815	15.292.045	34.745.860	29.045	34.774.905

	Primary Capital	Retained earnings	**Total**	Minority interest	**Total Capital**
Changes in capital in 1.1.-31.3.2007:					
Capital at 1 January 2007	19.453.815	15.292.045	34.745.860	29.045	34.774.905
Profit for the period		4.689.883	4.689.883	17	4.689.900
Dividends paid		(8.948.716)	(8.948.716)		(8.948.716)
Revaluation of Primary Capital	1.041.770	(1.041.770)			0
Capital at 31 March 2007	20.495.585	9.991.442	30.487.027	29.062	30.516.089

	Share capital	Legal reserve	Retained earnings	Primary Capital	Retained earnings	**Total**
Changes related to change to limited liability company (hf.)						
Capital at 31 March 2007				20.495.585	9.991.442	30.487.027
Change to hf.	5.000.000	1.250.000	24.237.026	(20.495.585)	(9.991.441)	0
Equity at 1 april 2007	5.000.000	1.250.000	24.237.026	0	0	30.487.027

Shareholders´ Equity

Changes in equity in 1.4.- 31.12.2007:

	Share capital	Legal reserve	Retained earnings	**Total**	Minority interest	**Total Equity**
Equity at 1 april 2007	5.000.000	1.250.000	24.237.026	30.487.026	29.062	30.516.088
Purchases and sales of treasury stock	(122.721)		(1.224.042)	(1.346.763)		(1.346.763)
Changes in minority interest					(5.520)	(5.520)
Net loss of the period			(1.408.656)	(1.408.656)	5.404	(1.403.252)
Equity at 31 December 2007	4.877.279	1.250.000	21.604.328	27.731.607	28.946	27.760.553

The notes on pages 10 to 42 are an integral part of these Consolidated Financial Statements.

SPRON Financial Statements 2007 8 Amounts are in ISK thousands

Statement of Cash Flows
for the year 2007

	2007	2006
Operating activities:		
Profit before income tax	3.298.772	10.878.785
Non-cash items in the income statement and other adjustments:		
Indexation and exchange rate difference	(1.644.532)	(693.079)
Share of loss (profit) of associates	3.258.652	(1.406.732)
Net gain from sale of shares in associates	(3.089.838)	0
Net gain from sale of property and equipment	(20.389)	(168.090)
Depreciation of property and equipment	86.426	68.604
Amortisation of intangible assets	88.881	40.268
Impairment on loans and advances	498.402	308.347
Changes in operating assets and liabilities:		
Trading assets, change	(7.194.567)	(10.971.005)
Loans and advances, change	(28.950.825)	(40.988.390)
Financial assets designated at fair value, change	4.909.476	(8.734.319)
Other assets, change	217.954	(1.261.626)
Deposits, change	25.807.453	16.432.153
Trading liabilities change	364.012	0
Borrowings, change	20.134.141	25.196.682
Post-employment obligations, change	67.772	86.982
Tax liabilities, change	12.124	1.868.503
Other liabilities, change	889.959	(1.661.231)
Paid income taxes	(120.176)	(109.328)
Net cash provided by (used in) operating activities	18.613.697	(11.113.476)
Investing activities:		
Investments in associates	(5.176.443)	(1.526.992)
Payment for acquisition of subsidiaries (less cash acquired)	0	(59.500)
Proceeds from sale of associated companies	6.185.760	0
Purchase of intangible assets	(218.685)	(73.895)
Proceeds from sale of intangible assets	157.750	0
Purchase of property and equipment	(1.166.754)	(174.912)
Proceeds from sale of property and equipment	6.503	367.236
Cash used in investing activities	(211.869)	(1.468.063)
Financing activities:		
Subordinated loan capital issued	0	1.885.750
Subordinated loan capital repaid	(43.073)	(1.056.976)
Proceeds from sale of primary capital	0	14.700.150
Purchases of treasury stock	(1.346.761)	0
Dividends paid	(8.948.716)	(1.980.343)
Cash (to) from financing activities	(10.338.550)	13.548.581
Increase in cash and cash equivalents	8.063.278	967.042
Cash and cash equivalents at beginning of the year	4.372.984	3.405.942
Cash and cash equivalents at year-end	12.436.262	4.372.984

The notes on pages 10 to 42 are an integral part of these Consolidated Financial Statements.

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

General information

1. Reporting entity

   Sparisjóður Reykjavíkur og nágrennis hf (SPRON) is a company incorporated and domiciled in Iceland. The address of the company registered office is Armuli 13a, Reykjavik, Iceland. On 19 September 2007 The Financial Supervisory Authority in Iceland agreed that SPRON has complied with all legal conditions to change the form of the company to limited liability company (hf.)

   SPRON's main purpose is to offer universal banking services to individuals and corporates. SPRON offers services in areas of commercial banking, brokerage and fund 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 Financial Statements were approved and authorised for issue by the Board of Directors of SPRON hf. on 6 February 2007.

   b) *Basis of measurement*
   The Consolidated Financial Statements are prepared on the historical cost basis except that trading assets and liabilities and financial instruments designated at fair value are measured at fair value.

   Non-current assets and disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell, unless IFRS 5 requires that another measurement basis shall be used.

   Information about fair value estimates is provided in note 103.

   c) *Functional and presentation currency*
   These Consolidated Financial Statements are prepared and presented in Icelandic króna (ISK), which is the Group's functional currency. 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 is provided in note 35.

Notes to the Consolidated Financial Statements

Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements by all consolidated companies.

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.

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) *Funds management*

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The Financial Statements of these entities are not included in these Consolidated Financial Statements except when the Group controls the entity. Information about the Group's funds management and securitisation activities is set out in note 34.

c) *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 foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Icelandic krónas at the foreign exchange rate ruling at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Icelandic krónas at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences resulting from translation to Icelandic kronas is recognised in the income statement.

5. Associates

Associates are those entities in which the Group has significant influence over the financial and operating policy decisions but not control over those policies. Significant influence generally exists when the Group holds between 20% and 50% of the voting power, including potential voting rights, if any. Investments in associates are initially recognised at cost.

The Consolidated Financial Statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date the significant influence commences until the date it ceases. When the Group's share of loss exceeds its interest in an associate, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

If an investment in an associate is classified as held for sale the equity method is no longer applied and the investment is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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.

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 financial assets and financial liabilities designated at fair value through profit or loss on an accrual basis.

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 financial income

Net financial income comprises dividend income, net gain on trading assets and liabilities, net gain on assets at fair value through profit and loss and net foreign exchange gain.

Dividend income

Dividend income is recognised when the right to receive income is stablished. Usually this is the ex-dividend date for equity securities.

Net gain on trading assets and liabilities

Net gain on trading assets and liabilities comprise gains and losses related to financial assets and financial liabilities held for trading and includes all realised and unrealised fair value changes.

Net gain on assets at fair value through profit and loss

Net gain on assets at fair value through profit and loss comprise gains and losses related to financial assets designated at fair value through profit and loss and includes all realised and unrealised fair value changes.

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*

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
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.

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
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.

Notes to the Consolidated Financial Statements

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans in order to achieve an orderly realisation are recorded as assets held for sale and reported in the balance sheet. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan, net of impairment allowance amounts, at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the income statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the income statement.

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 Group assesses whether there is any indication of impairment of goodwill on annual basis, with expert analysis being commissioned if necessary. Goodwill is written down for impairment. Gains or losses realised on the disposal of subsidiaries include any unamortised balance of goodwill relating to the subsidiary disposed of.

An impairment loss is recognised if the carrying amount of an asset or its 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 in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of other assets is the greater of their net selling price 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.

An impairment loss in respect 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 capital, in which case it is recognised in capital.

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 Consolidated Financial Statements, mostly due to temporary differences arising from the recognition of revenues and expenses in the tax returns and in the Consolidated 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.

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 income. Interest and dividend income on these assets are included in interest income and net financial income line items in the income statement.

15. Derivatives

A derivative is a financial instrument or other contract within the scope of IAS 39, 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 other gains and losses. 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.

When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

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.

The group does business in which the book value of assets is removed from the balance sheet while the risk/reward due to said assets is retained partially or in full. If all or nearly all of the risk/reward is retained the removed assets continue to be booked. A removed asset where the risk/reward is retained could be due to securities lending to name one example.

The rights and obligations which are retained after the removal are booked as assets or liabilities on a case by case basis. In the case where the assets are removed from the balance sheet and yet control over the assets is retained, the group will continue to book the asset to a degree which matches the effect of a change in valuation of the removed assets.

In certain business the group retains the rights to provide a certain service in relation to a removed assets in return for a fee. The assets can not be removed from the balance sheet if it fulfills all of the relevant criteria. Assets or liabilities are booked in accordance with the service-rights depending on whether the service fee is sufficiently high to pay for the costs of the service (asset) or whether the fee is so low that it does not cover the costs due to the service (debt).

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 or 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. Lease agreements

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. A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership.

Lease payments under operating leases where the Group is the lessee are recognised as an expense 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 any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

b) *Other intangible assets*
Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

c) *Subsequent expenditure*
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

d) *Amortisation*
Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is systematically tested for impairment at each Balance Sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software	3 years

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:

Buildings	20-50 years
Fixtures	5 years
Machinery and equipment	3-5 years
Vehicles	6 years

Where residual value is not immaterial, it is reassessed annually.

24. Non-current assets and disposal groups held for sale

Immediately before classification as held for sale, the measurement of the assets and all assets and liabilities in a disposal group measured in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the Income Statement, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

Non-current assets and disposal groups held for sale are mainly mortgages foreclosed.

25. Deposits

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

26. Trading liabilities

Trading liabilities consist of derivatives with negative fair values

27. Borrowings

Borrowings are financial liabilities of the Group which consist of issued bonds and leases from credit institutions. They are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the borrowings.

28. Subordinated loans

Subordinated loans are classified as other financial liabilities and consists of liabilities in the form of subordinated loan capital which, in case of the Group's voluntary or compulsory winding-up, will not be repaid until after the claims of ordinary creditors have been met. In the calculation of the capital ratio, the bonds are included within Tier I and Tier II. On one hand, there are subordinated loans with no maturity date that the Group may not retire until 2011 and then only with the permission of the Financial Supervisory Authority. These loans qualify as Tier I capital in the calculation of the capital ratio. On the other hand, there are subordinated loans with various dates of maturity over the next 8 years.

Subordinated loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, subordinated loans are measured at amortised cost using the effective interest method.

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 initial 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 recognised as an expense in profit or loss 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%.

c) *Share-based payment transactions*
The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividens, and the risk-free interest rate (based on government bonds).

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. No gain or loss is recogniesed in Income Statement on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognised directly in equity.

b) *Retained earnings*
Profit for the year is recognised in retained earnings. Dividends paid and revaluation of primary capital decreases retained earnings.

c) *Dividend on shares*
Dividends on shares are recognised in equity in the period in which they are approved by the Bank´s shareholders.

Notes to the Consolidated Financial Statements

33. Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares.

Earnings per share are calculated by dividing the net earnings attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group calculates dilutive potential ordinary shares by determingin the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company´s shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

34. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments (see note 37). The Group has not yet determined the potential effect of IFRS 8 on the consolidated financial statements.

IAS 1 Presentation of Financial Statements (revised in 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Group’s 2009 financial statements if endorsed by the EU, is expected to impact the presentation of the Group’s income statement and statement of changes in equity.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for the Group’s 2009 financial statements and will have no effect on the Group’s accounting policies.

The amendments to IFRS 2 *Share Based Payment – Vesting Conditions and Cancellations (January 2008)* clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for the Group’s 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the consolidated financial statements of the Group.

IFRS 3 Business Combinations (revised in 2008) and amended *IAS 27 Consolidated and Separate Financial Statements* introduce changes to the accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:
- IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- The definition of a business combination has been revised to focus on control;
- The definition of a business has been amended;
- Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;
- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Disposals of equity interests while retaining control are accounted for as equity transactions;

IFRS 3 (revised in 2008) and amended IAS 27 will become mandatory for the Group's 2010 financial statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Group has not yet determined the potential effect of IFRS 3 (revised in 2008) and amended IAS 27 on the consolidated financial statements.

IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements if endorsed by the EU, will have no effect on the consolidated financial statements.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements if endorsed by the EU, is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements if endorsed by the EU, with retrospective application required. The Group has not yet determined the potential effect of the interpretation on the consolidated financial statements.

35. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are beleved to be reasonable under the circumstances.

a) *Impairment losses on loans and advances*

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 group 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.

b) *Fair value 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 by qualified independent personnel. All models that are used must be approved and calibrated to ensure that outputs reflect actual data.

36. Segment reporting

Business segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments.

Business segments

37. SPRON divides it's business into two main components. Lending and funds deposits as well as financial advisory services to individuals and corporates are the traditional banking services offered at SPRON. Investments and Treasury deal mainly with securities investing and treasury management for the group.

Summary of the Group's business segments' operations (amounts in ISK millions):

2007	Banking	Investments	Eliminations	Total
Net interest income	3.489	(843)	0	2.646
Net fee and commission income	751	780	0	1.531
Net financial income	325	2.647	(1.629)	1.343
Other operating revenue	304	3.455	(63)	3.696
Net operating income	4.869	6.039	(1.692)	9.216
Operating expenses	(3.312)	(2.161)	54	(5.419)
Impairment on loans and advances	(415)	(83)	0	(498)
Profit before income tax	1.142	3.795	(1.638)	3.299
Net segment revenue from external customers	9.098	1.379	(1.261)	9.216
Net segment revenue from other segments	(4.229)	4.660	(431)	0
Net operating income	4.869	6.039	(1.692)	9.216
Total assets	147.001	160.599	(83.404)	224.196
Total liabilities	136.376	143.492	(83.433)	196.435
Allocated equity	10.625	17.107	29	27.761
Total liabilities and equity	147.001	160.599	(83.404)	224.196

2006	Banking	Investments	Eliminations	Total
Net interest income	3.338	(923)	0	2.415
Net fee and commission income	979	(3)	(0)	976
Net financial income	113	11.419	(11)	11.522
Other operating revenue	256	87	(58)	285
Net operating income	4.686	10.579	(68)	15.197
Operating expenses	(3.039)	(1.028)	58	(4.010)
Impairment on loans and advances	(302)	(6)	0	(308)
Profit before income tax	1.345	9.545	(11)	10.879
Net segment revenue from external customers	8.111	6.990	96	15.197
Net segment revenue from other segments	(3.425)	3.589	(164)	0
Net operating income	4.686	10.579	(68)	15.197
Total assets	129.656	60.038	(5.193)	184.501
Total liabilities	119.225	35.723	(5.222)	149.726
Allocated capital	10.431	24.315	29	34.775
Total liabilities and capital	129.656	60.038	(5.193)	184.501

Notes to the Consolidated Financial Statements

Notes to the Income Statement

Net interest income

38. Interest income and expense are specified as follows:

2007	Interest income	Interest expense	Net interest income
Cash and deposits to/from credit institutions and the Central Bank	1.582.324	(4.069.243)	(2.486.919)
Loans and deposits	14.677.672	(6.918.004)	7.759.668
Borrowings	0	(4.572.596)	(4.572.596)
Subordinated loans	0	(614.381)	(614.381)
Trading assets and liabilities	4.671.562	(2.053.909)	2.617.653
Other	0	(57.908)	(57.908)
Total	20.931.558	(18.286.041)	2.645.517
Interest income and expense of financial assets and liabilities at fair value	4.414.781	(2.053.909)	2.360.872
Interest income and expense of financial assets and liabilities not at fair value through profit and loss	16.516.777	(16.232.132)	284.645
	20.931.558	(18.286.041)	2.645.517

2006	Interest income	Interest expense	Net interest income
Cash and deposits to/from credit institutions and the Central Bank	539.730	(1.220.176)	(680.446)
Loans and deposits	12.943.281	(5.353.316)	7.589.965
Borrowings	0	(4.727.891)	(4.727.891)
Subordinated loans	0	(518.873)	(518.873)
Trading assets and liabilities	1.054.288	(251.632)	802.656
Other	0	(50.880)	(50.880)
Total	14.537.299	(12.122.768)	2.414.531
Interest income and expense of financial assets and liabilities at fair value	1.054.288	(251.632)	802.656
Interest income and expense of financial assets and liabilities not at fair value through profit and loss	13.483.011	(11.871.136)	1.611.875
	14.537.299	(12.122.768)	2.414.531

Net fee and commission income

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

	2007	2006
Securities commission	316.106	340.250
Fees relating to asset management	9.736	6.377
Payment service commission	658.373	400.532
Other commission income	952.208	559.548
Total fee and commission income	1.936.423	1.306.707
Securities commission	188.387	40.600
Other commission expense	216.972	290.795
Total fee and commission expense	405.359	331.395
Net fee and commission income	1.531.064	975.312

Fees relating to asset management are fees that SPRON receives from customers that have assets under SPRON´s management.

SPRON Financial Statements 2007 22 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Net financial income

40. Net financial income is specified as follows:

	2007	2006
Dividend income	861.531	496.769
Net gain on trading assets and liabilities	127.575	1.295.015
Net gain on assets designated at fair value	3.505.019	8.201.465
Net foreign exchange difference	108.486	122.110
Net financial income	4.602.611	10.115.359

41. Dividend income is specified as follows:

Dividend income on trading assets	99.824	85.516
Dividend income on assets at fair value through profit and loss	761.707	411.253
Total dividend income	861.531	496.769

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

Shares and related derivatives	(263.967)	687.454
Bonds	194.702	140.524
Other derivatives	196.840	467.037
Net gain on trading assets and liabilities	127.575	1.295.015

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

Shares	3.505.019	8.201.465

Other operating revenue

44. Other operating revenue is specified as follows:

Gain on disposals of assets other than held for sale	3.367.843	168.090
Other operating revenue	327.512	116.315
Other operating revenue	3.695.355	284.405

Personnel

45. The Group's total number of employees is as follows:

Average number of full time equivalent positions during the year	289	251
Full time equivalent positions at year-end	286	245

46. Salaries and related expenses are specified as follows:

Salaries	2.034.694	1.567.331
Pension expenses:		
Defined benefits	22.824	36.901
Premiums	227.941	208.753
Salary related expenses	113.028	113.113
Salaries and related expenses	2.398.487	1.926.098

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Employment terms of executive officers

47. Salaries of executive officers of the Group, their stock options and shares owned at year end are specified as follows:

Managing Director:	Salaries	Stock options	Share Capital
Guðmundur Hauksson	61.334	12.177	56.596
Board of Directors:			
Hildur Petersen, Chairman	7.520		8.864
Erlendur Hjaltason	2.260		2.972
Ari Bergmann Einarsson	2.260		1.040
Gunnar Gislason	2.260		0
Asgeir Baldurs	2.260		214
Directors:			
Kristinn Bjarnason, Managing Director of Frjalsi Fjarfestingabankinn hf.	40.406	6.177	0
Olafur Haraldsson	28.467	7.677	37.851
Other Directors (4)	88.384	24.708	142.181

Auditor's fee

48. Auditor's fee is specified as follows:

	2007	2006
Audit of the Financial Statements	16.036	13.162
Review of the Interim Financial Statements	15.384	8.280
Other service	13.831	9.575
Auditor's fee	45.251	31.017

Income tax expense

49. Income tax expense recognised in the income statement is specified as follows:

Current tax	52.181	120.175
Deferred tax	(40.057)	1.748.328
Total income tax expense	12.124	1.868.503

Reconciliation of effective tax rate:		2007		2006
Profit before income tax		3.298.772		10.878.785
18.0% income tax calculated on the profit of the year	18,0%	593.779	18,0%	1.958.181
Tax exempt revenues	1,1%	(37.666)		
Gain from sale of associate is postponed against investment in subsidiaries	4,4%	(548.144)	(0,8%)	(89.418)
Other changes	0,9%	4.155	(0,0%)	(260)
Effective tax rates	0,4%	12.124	17,2%	1.868.503

Earnings per share

50. Earnings per share are specified as follows:

	2007
Net earnings attributable to the shareholders of SPRON hf.	3.281.227
Weighted average share capital:	
Weighted average of outstanding shares for the year	4.989.120
Effects of stock options	2.138
Weighted average of total shares for the year, diluted	4.991.258
Basic earnings per share	0,6577
Diluted earnings per share	0,6574
Number of outstanding shares at the end of the year, million	4.877.279
Number of total shares at the end of the year, million ,diluted	5.072.399
Average number of own shares, million	14.880
Number of own shares at the end of the year, million	126.721

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Notes to the Balance Sheet

Financial assets and liabilities

51. Financial assets and liabilities are specified as follows:

31 December 2007	Notes	Trading	Designated at fair value	Measured at cost	Book value	Current cost
Cash and balances	52			10.332.327	10.332.327	10.332.327
Loans and advances	53-57			165.357.339	165.357.339	162.949.438
Trading assets	62-64	27.507.593			27.507.593	27.507.593
Financial assets designated at fair value	65		12.666.423		12.666.423	12.666.423
Other assets	70			663.145	663.145	663.145
		27.507.593	12.666.423	176.352.811	216.526.827	214.118.926
Deposits from credit institutions	71			8.513.472	8.513.472	8.513.472
Other deposits	72			85.410.286	85.410.286	85.410.286
Trading liabilities	64,73	724.862			724.862	724.862
Borrowings	74-75			89.096.537	89.096.537	84.290.474
Subordinated loans	76			5.432.501	5.432.501	4.662.891
Other liabilities	81			734.557	734.557	734.557
		724.862	0	189.187.353	189.912.215	184.336.542

31 December 2006	Notes	Trading	Designated at fair value	Measured at cost	Book value	Current cost
Cash and balances	52			2.431.770	2.431.770	2.431.770
Loans and advances	53-57			135.518.195	135.518.195	133.544.853
Trading assets	62-64	20.313.023			20.313.026	20.313.026
Financial assets designated at fair value	65		16.748.891		16.748.891	16.748.891
Other assets	70			917.121	917.121	917.121
		20.313.023	16.748.891	138.867.086	175.929.003	173.955.661
Deposits from credit institutions	71			11.523.899	11.523.899	11.523.899
Other deposits	72			56.592.406	56.592.406	56.592.406
Trading liabilities	64,73	360.850			360.850	360.850
Borrowings	74-75			69.642.032	69.642.032	67.689.523
Subordinated loans	76			5.216.371	5.216.371	5.061.390
Other liabilities	81			1.000.640	1.000.640	1.000.640
		360.850	0	143.975.348	144.336.198	142.228.708

Cash and balances with the Central Bank

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

	2007	2006
Cash and balances	10.332.327	2.427.875
Cash equivalents	0	3.895
Cash and balances with the Central Bank	10.332.327	2.431.770

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Loans to credit institutions

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

	2007	2006
Bank accounts	2.357.769	1.880.594
Money market loans	1.153.506	5.277.023
Other loans	216.562	65.070
Loans to credit institutions	3.727.837	7.222.687

54. Loans to credit institutions specified by maturity:

	2007	2006
On demand	2.103.935	1.941.214
Up to 3 months	982.987	5.182.036
Over 3 months and up to a year	499.999	95.622
Over 1 year and up to 5 years	140.838	2.543
Over 5 years	78	1.272
Loans to credit institutions	3.727.837	7.222.687

Loans to customers

55. Loans to customers specified by types of loans:

Overdrafts	10.780.027	9.332.555
Bills of exchange	104.298	97.746
Bonds and loan agreements	145.370.779	110.567.933
Other loans	6.804.675	9.408.576
Provision for impairment	(1.430.277)	(1.111.302)
Loans to customers	161.629.502	128.295.508

56. Loans to customers specified by sectors:

Government	0,3%	0,3%
Business enterprises:		
Fishing industry and agriculture	0,2%	1,0%
Industry	9,0%	11,9%
Commerce	2,9%	3,3%
Service	26,9%	23,0%
Individuals	60,6%	60,5%
Loans to customers	100,0%	100,0%

57. Loans to customers specified by maturity:

On demand	7.869.656	3.799.440
Up to 3 months	18.185.074	14.085.499
Over 3 months and up to a year	19.597.421	18.012.564
Over 1 year and up to 5 years	24.433.646	19.858.879
Over 5 years	91.543.705	72.539.126
Loans to customers	161.629.502	128.295.508

Allowance for losses on loans and advances

58. Allowance for losses on loans are specified as follows:

Specific provision	439.984	382.760
Collective assessment	990.293	728.542
Allowance for losses on loans	1.430.277	1.111.302

SPRON Financial Statements 2007 26 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

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

	Specific provision	Collective assessment	2007	2006
Balance at the beginning of the year	382.760	728.542	1.111.302	1.086.695
Impairment for the year	236.651	261.751	498.402	308.347
Write-offs	(101.761)	0	(101.761)	(257.304)
Recoveries of loans previously written off	(33.436)	0	(33.436)	42.701
Unwind of discount of allowance	(44.230)	0	(44.230)	(69.137)
Provision for impairment of loans and advances	439.984	990.293	1.430.277	1.111.302

Included within interest income is ISK 36 million (2006: ISK 32 million) with respect of interest income accrued on impaired financial assets and ISK 44 million (2006: ISK 69 million) with respect to the unwind of the impairment provision discount.

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 777 million (2006: ISK 536 million) at year end 2006. 0.7% of total loans to customers (2006: 0.4%).

60. Loans with provisions for losses specified by sector:

	Impair-ment	Loans with provisions	Book value
31 December 2007			
Business enterprises:			
Fishing industry and agriculture	7.150	7.150	0
Industry	314.980	44.908	270.072
Commerce	49.892	33.069	16.823
Service	86.788	80.538	6.250
Individuals	729.900	274.319	455.581
Specific provisions	1.188.710	439.984	748.726

	Impair-ment	Loans with provisions	Book value
31 December 2006			
Business enterprises:			
Fishing industry and agriculture	14.300	7.150	7.150
Industry	349.266	73.816	275.450
Commerce	36.072	24.809	11.263
Service	113.876	93.024	20.852
Individuals	323.587	183.961	139.626
Specific provisions	837.101	382.760	454.341

61. Maturity analysis of past due loans which have not been impaired:

	2007	2006
Past due up to 29 days	962.854	1.287.780
Past due 30-89 days	215.327	395.956
Past due 90-179 days	316.045	270.879
Past due 180-365 days	248.244	177.559
Past due over than 365 days	137.097	133.026
Past due loans, non impaired	1.879.567	2.265.200

The information above relates to loans where the conttactual loan payments are overdue but SPRON does not feel the need to impair the loans due to a sufficient amount of collateral and considering at what stage any legal proceedings are.

SPRON Financial Statements 2007 Amounts are in ISK thousands

Trading assets

62. Trading assets are specified as follows:

	2007	2006
Market securities and other bonds with fixed income	12.083.607	8.191.764
Shares and other securities with variable income	13.567.383	9.872.135
Derivatives	1.856.603	2.249.127
Trading assets	27.507.593	20.313.026

63. The Group has entered into derivatives amounting to ISK 1,392 million against its investments in shares. All derivatives are on listed shares. The agreements are entered at market value. The Group has not entered into derivatives against its investments in bonds.

Derivatives

64. Derivatives remaining maturity date of principal and book value are specified as follows:

2007	Principal				Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year	Total	Assets	Liabilities
OTC currency and interest rate derivatives:						
Forward currency agreements	63.624.849	966.017	0	64.590.866	561.436	423.868
Interest rate agreements	0	0	12.432.016	12.432.016	792.239	0
Total	63.624.849	966.017	12.432.016	77.022.882	1.353.675	423.868
OTC equity derivatives:						
Forward equity agreements	1.049.938	775.890	12.186	1.838.014	456.951	4.613
Stock agreements	0	2.179.194	287.490	2.466.684	45.977	296.381
Total	1.049.938	2.955.084	299.676	4.304.698	502.928	300.994
Derivatives total	64.674.787	3.921.101	12.731.692	81.327.580	1.856.603	724.862

2006	Principal				Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year	Total	Assets	Liabilities
OTC currency and interest rate derivatives:						
Forward currency agreements	23.762.832	18.367.146	0	42.129.978	388.725	341.608
Interest rate agreements	0	0	12.877.660	12.877.660	1.723.160	0
Total	23.762.832	18.367.146	12.877.660	55.007.638	2.111.885	341.608
OTC equity derivatives:						
Forward equity agreements	1.553.757	151.203	0	1.704.960	137.242	19.242
Total	1.553.757	151.203	0	1.704.960	137.242	19.242
Derivatives total	25.316.589	18.518.349	12.877.660	56.712.598	2.249.127	360.850

The main purpose of the derivatives above is to control the currency exposure and interest rate risk within the group. The credit risk is valued at ISK 1,872 million when calculating the capital adequacy ratio at year-end 2007, but ISK 1,873 million when calculating at year end 2006

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Financial assets designated at fair value

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

	2007	2006
Securities	2.740	92.558
Shares	12.663.683	16.656.333
Financial assets designated at fair value	**12.666.423**	**16.748.891**

Investments in subsidiaries

66. The parent's investments in its subsidiaries are as follows (amounts in ISK millions):

	Location	Owner-ship	Assets	Liabilities	Revenue	Profit (loss)
Frjálsi fjárfestingarbankinn hf.	Iceland	99,97%	70.492	64.668	2.090	1.204
nb.is - sparisjóður hf.	Iceland	99,99%	5.410	4.902	157	(39)
SPRON - Verðbréf hf.	Iceland	100,00%	8.826	6.978	1.020	159
Steinsnes ehf.	Iceland	100,00%	4.338	2.885	(70)	(111)
Hraunsnes ehf	Iceland	100,00%	181	1	6	5
Ískal ehf	Iceland	100,00%	682	260	(14)	11
SPRON Factoring hf.	Iceland	65,60%	2.303	2.218	139	14

Investments in associated companies

67. Investments in associates are specified as follows:

	2007	2006
Carrying amount at the beginning of the year	4.580.324	1.646.600
Purchases of shares in associates	5.176.443	1.526.992
Sales of shares in associates	(3.095.922)	0
Financial assets designated at fair value	(827.007)	0
Share of results	(3.258.652)	1.406.732
Carrying amount at the end of the year	**2.575.186**	**4.580.324**

Main associates are specified as follows:

	Assets (ISK million)	Liabilities (ISK million)	Owner-ship	Nominal value	Profit share	Book value
Kista Fjárfestingafélag hf.	19.557	15.267	48,4%	2.186	(4.234.515)	2.325.181
Icebank hf	-	-	-	-	979.461	-
Reiknistofa bankanna	-	-	5,3%	80.299	2.795	80.299
Teris	-	-	24,3%	64.814	0	64.814
Six other associates	-	-	-	-	(6.393)	104.892
Total	19.557	15.267		147.299	(3.258.652)	2.575.186

During the year SPRON sold a 19,4% share of Icebank hf. for the amount of ISK 6.182 million Gain from the sale amounted to ISK 3.090 million. At year end SPRON owned 5,17% share of Icebank that is classified among financial assets designated at fair value.

Property and equipment

68. Property and equipment are specified as follows:

2007	Real estate	Machinery and equipm	Total 2007
Balance 1 January	789.193	335.490	1.124.683
Additions during the year	985.600	181.154	1.166.754
Disposals during the year	(8.287)	(5.571)	(13.858)
Total value 31 December	1.766.506	511.073	2.277.579
Previously depreciated	22.653	109.842	132.495
Depreciation during the year	21.085	65.341	86.426
Disposals during the year	(715)	(1.069)	(1.784)
Total depreciation 31 December	43.023	174.114	217.137
Book value 31 December	1.723.483	336.959	2.060.442

2006	Real estate	Machinery and equipm	Total 2006
Balance 1 January	860.418	308.273	1.168.691
Acquisition through business combination		1.812	1.812
Additions during the year	62.257	112.655	174.912
Disposals during the year	(133.482)	(87.250)	(220.732)
Total value 31 December	789.193	335.490	1.124.683
Previously depreciated	18.890	133.379	152.269
Depreciation during the year	14.300	54.304	68.604
Disposals during the year	(10.537)	(77.841)	(88.378)
Total depreciation 31 December	22.653	109.842	132.495
Book value 31 December	766.540	225.648	992.188

Intangible assets

69. Intangible assets:

The Group 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 approved by the Board of Directors.

The Group has defined one independent Cash Generating Unit of the Group's operation, Frjalsi fjarfestingarbankinn hf., which devises its own budget and is responsible for its own results. As part of the apportioning of the Group'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 assets are expected to increase by 15-19% on average over the period of 2007-2011. To calculate future cash flows, the Group used 15.4% discount rate, which is the weighted average cost of borrowing for similar financial institutions.

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Intangible assets are specified as follows:

2007	Goodwill	Software	Total
Intangible assets 1 January	1.547.421	128.069	1.675.490
Additions during the year		218.685	218.685
Disposals during the year		(92.040)	(92.040)
Amortisation during the year		(88.881)	(88.881)
Intangible assets 31 December	1.547.421	165.833	1.713.254

2006	Goodwill	Software	Total
Intangible assets 1 January	1.547.421	72.018	1.619.439
Additions during the year		96.318	96.318
Amortisation during the year		(40.267)	(40.267)
Intangible assets 31 December	1.547.421	128.069	1.675.490

Depreciation and amortisation in the Income Statement is specified as follows:	2007	2006
Depreciation of property and equipment	86.426	68.604
Amortisation of intangible assets	88.881	40.267
Depreciation and amortisation	175.307	108.871

Other assets

70. Other assets are specified as follows:

Unsettled securities trading	663.145	917.121
Properties in progress intended for future sale	474.430	914.295
Sundry assets	251.863	201.472
Accrued income	129.744	102.880
Non-current assets and disposal groups classified as held for sale	463.774	104.892
Other assets	1.982.956	2.240.660

Deposits from credit institutions and the Central Bank

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

On demand	1.979.797	376.484
Up to 3 months	3.502.753	7.222.949
Over 3 months and up to a year	3.030.922	3.924.466
Deposits from credit institutions and the Central Bank	8.513.472	11.523.899

Deposits

72. Deposits mature as follows:

On demand	61.477.559	30.825.026
Up to 3 months	7.741.955	9.645.039
Over 3 months and up to a year	6.712.520	4.326.897
Over 1 year and up to 5 years	7.358.072	9.645.179
Over 5 years	2.120.180	2.150.265
Deposits	85.410.286	56.592.406

Trading liabilities

73. Trading liabilities are specified as follows:

Derivatives with credit institutions	720.249	341.609
Derivatives with others	4.613	19.241
Trading liabilities	724.862	360.850

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Notes to the Consolidated Financial Statements

Borrowings

74. Borrowings are specified as follows:

	2007	2006
Bonds issued	23.706.871	31.774.949
Bills issued	4.296.560	3.660.090
Loans from credit institutions	61.093.106	34.206.993
Borrowings	89.096.537	69.642.032

75. Borrowings mature as follows:

	2007	2006
Up to 3 months	1.972.347	10.877.683
Over 3 months and up to a year	18.673.568	15.200.124
Over 1 year and up to 5 years	52.576.127	24.970.848
Over 5 years	15.874.495	18.593.377
Borrowings	89.096.537	69.642.032

Subordinated loans

76. Subordinated loans are specified as follows:

	Currency	Interest	Maturity date	2007 Book value	2006 Book value
Loans that qualify as Tier I capital:					
Issued in 2001	ISK	9,0%	Without mat.	685.692	648.593
Loans that qualify as Tier II capital:					
Issued in 2005	ISK	5,0%	2010	2.255.029	2.134.826
Issued in 2005	EUR	5,4%	2015	920.440	954.172
Issued in 2006	ISK	9,0%	2011	1.571.340	1.478.780
				4.746.809	4.567.778
Total				5.432.501	5.216.371

Post-employment obligations

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

	2007	2006
Pension liability as at 1.1.	646.411	559.429
Provision for pensions	77.098	92.735
Paid during the year	(9.326)	(5.753)
Pension liability at year-end	714.183	646.411

Tax liabilities

78. Tax liabilities are specified as follows:

	2007	2006
Current tax	52.181	120.175
Deferred tax	2.852.362	2.892.419
Tax liabilities at the end of the year	2.904.543	3.012.594

79. Deferred tax liabilities are specified as follows:

	2007	2006
Deferred tax liabilities 1.1.	2.892.419	1.144.091
Calculated income tax for the year	12.124	1.868.503
Income tax for the year to be paid next year	(52.181)	(120.175)
Deferred tax liabilities at the end of the year	2.852.362	2.892.419

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

80. Deferred tax liabilities are specified as follows:	2007	2006
Shares in other companies	3.173.930	2.910.668
Loans	(8.734)	(36.716)
Fixed assets	7.749	5.884
Other assets and liabilities	0	12.583
Carry forward taxable loss	(320.583)	0
Deferred tax liabilities at the end of the year	2.852.362	2.892.419

Other liabilities

81. Other liabilities are specified as follows:

Unsettled securities trading	400.021	837.787
Accounts payable	334.536	162.853
Other liabilities	2.904.025	1.730.436
Other liabilities	3.638.582	2.731.076

Unsettled securities trading was settled in less than three days from the accounting date.

Equity

82. According to the parent companies Articles of association, share capital at year end amounts to ISK 5,004 milljon. At year end 2007 owned shares amounted to ISK 127 million and share capital, according to the balance sheet, thus amounted to ISK 4,877. Equity at the end of the year 2007 amounted to ISK 27,456 million. The equity ratio, calculated in accordance to article 84 of the Act on Financial Undertakings, was 13.4%. According to the law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

	2007		2006	
	Book value	Weighted value	Book value	Weighted value
Risk I:				
Assets recorded in the Consolidated Financial Statements	224.195.519	138.871.442	184.500.544	125.627.153
Assets deducted from capital		(11.183.197)		(17.533.484)
Guarantees and other items not included in the Balance Sheet		7.699.473		712.595
		135.387.718		108.806.264
Capital:				
Tier I capital:				
Capital		27.731.607		34.745.860
Minority interests		28.946		29.045
Intangible assets		(1.547.421)		(1.547.421)
Subordinated loans		685.692		648.593
Tier II capital:				
Subordinated loans		3.466.756		4.080.586
Investment in credit institutions		(12.209.238)		(15.986.063)
		18.156.342		21.970.600
Capital ratio		13,4%		20,2%
Thereof Tier I ratio		19,9%		31,1%

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Notes to the Consolidated Financial Statements

Off-balance sheet information

83. The Group has granted its customers guarantees and overdraft permissions. The Group also has customer assets under management and custody. These items are specified as follows:

	2007	2006
Guarantees	7.621.904	687.311
Unused overdrafts	5.456.378	4.706.996

The credit risk is valued at ISK 7,622 million for guarantees when calculating the capital ratio of the Group.

84. Assets under management and assets under custody are specified as follows:

Assets under management	34.989.955	20.890.389
Assets under custody	47.916.691	23.395.720

85. At 31 December 2007, 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.

86.

The Group has concluded lease agreements regarding the real estates it uses for its operations. The lease agreements are for a period of up to 12 years and the Group has priority right of purchase or right to extend the lease agreement at the end of that period.

Future minimum lease payments	637.775

Deposit Insurance Fund

87. According to the Act on the Deposit Insurance Fund for Owners of Saving Deposits and Investors, the total assets of the Fund shall be a minimum of 1.0% of the average insured deposits in Commercial Banks and Savings Banks for the previous year.

Pledged assets

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

	2007	2006
Liabilities		
Repo agreements with the National Debt Management Agency	4.463.164	2.991.062

Related parties

89. The Group has a related party relationship with its subsidiaries, associates, the Board of Directors of the parent company, the Managing Directors of the Group, the Managing Directors of subsidiaries, close family members of individuals referred to herein, and entities with significant influence as the largest capital holders of SPRON. Information regarding related parties are as follows:

Loans to the managing director and management board members	198.212	51.138
Loans to members of the board and companies related to members of the board	37.003	1.066.094
Loans to associated companies	0	2.001.073
Guarantees to associated companies	6.365.000	0

No unusual transactions took place with related parties in the year 2007.

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

Salaries, remuneration and salary related expenses to the executive board and the Board of Directors are shown in note 47.

SPRON Financial Statements 2007 Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Granted stock options

90. At the end of the year 2007 the Company's Board of the Directors decided to grant stock options to 260 permanent employees based on the existing stock option plan. The Board of Directors granted options on a total of 46,020 thousand shares with an exercise price of ISK 10.16 per share. The employees are required to complete the contractual period of service for SPRON before becoming unconditionally entitled to the options. The employees are entitled to exercise 1/3 of their total stock options every year between 20 January and 10 March, for the first time in 2009 and the last time in 2011.

At the same time, the Company's Board of Directors has also granted 52 permanent employees stock options to buy 149,100 thousand shares. The employees are entitled to exercise 1/3 of their total stock options every year between 20 January and 10 March, for the first time in 2009 and the last time in 2011. The options have an exercise price of ISK 10.16 per share during the first exercise period, ISK 10.67 per share during the 2010 exercise period and ISK 11.20 per share during the 2011 exercise period. The employees have the right to postpone the exercise of the options during the contractual period in which case the strike price increases to the exercise price in effect for the relevant exercise period.

The fair value of options granted is estimated using the Black-Scholes valuation model and it will be recognised as employee expense over the contractual period, beginning in the year 2008, with a corresponding increase in equity, because all options will be settled by the Company delivering shares to employees. The total expense is estimated to amount to ISK 366 millions. The most significant inputs used to determine the fair value of the options are the following:

Granted stock options in 2007	195.120
Fair value on balance sheet date	366.580
Exercise price	10,16-11,2
Expected volatility (weighted average)	23,1%-23,6%
Risk free rates (government bonds)	11,0%-14,5%

Other matters

91. SPRON operates in accordance with best practice recommendations in the field of management. SPRON´s board of directors has set certain operating guidelines to ensure a standard and unbiased approach to any matters which are handled by the board and to eliminate at all costs any conflicts of interest. The board of directors has also appointed a compensation committee and an auditing committee.

It is the opinion of SPRON´s board of Directors that the management of the organization is operated in accordance with best practices in all areas. These recommendations of best practices in management have been issued by Iceland´s Chamber of Commerce, the Confederation of Icelandic Employers and the OMX Exchange in Iceland.

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 2007 Consolidated Financial Statements. These Consolidated Financial Statements will be submitted to the Annual General Meeting of shareholders for approval.

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Risk management disclosure

93. The Group 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 the Group'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 the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

Risk policy of the Group

The assessment of risk, in particular the determination of its true price along with actions aimed at limiting the risk with sensible credit and investments in other assets, is one of the major tasks of banks and other financial institutions. Many risk factors can adversely affect the Group. It is the policy of the Board of Directors that the various risks that the Group faces in its business are to be constantly monitored and managed. For these purposes SPRON operates a centralised risk management department. In addition, SPRON's internal auditor oversees the operations in order to ensure that its rules are implemented in accordance with resolutions made by the board of directors.

The Risk Management Committee, which is composed of SPRON's Managing Director along with four other senior executives, determine the Group's goals in terms of risk by issuing a risk policy. The risk policy both defines acceptable levels of risk for day-to-day operations, as well as the willingness of the Group to incur risk weighed against the expected rewards. The risk policy is detailed in the Risk Management Handbook. The main role of SPRON's Risk Management Committee is to monitor and report risks to the management and board.

The process for risk management and risk control

a) Products containing credit risk

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the Balance Sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the Balance Sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued.

Loan portfolio: The main assets of the Group are its loans. To maintain and further improve the quality of the loan portfolio it is imperative to scrutinise all applications and weed out potential problem loans as early as possible, as well as constantly monitor the current loan portfolio. However, it is not the policy of the Group to solely issue credit of very low risk but it is important that the price of issued credit reflects both risk and costs incurred. This means that a detailed assessment of individual customers, their financial position and the collateral is a prerequisite for granted credits.

Derivatives trading: Derivative financial instruments used by the Group include swaps, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices or price indices. Limits on the net open derivative positions on these types of contracts are strictly controlled by the Group. These limits are generally client specific and may refer specifically to different categories of contracts. Generally, collateral is required to cover potential losses on a contract. Acceptable collateral for margin accounts is in the front of very liquid assets, e.g. cash or traded stocks. In case the net negative position of the contract falls below a certain level a call for added collateral is made.

Commitments and guarantees: The Group often commits itself to and ensures that funds are available to customers as required. The most common commitments to extend credit are in the form of limits on check accounts, credit cards and credit lines. Potential loss on these accounts is equal to the amount of the limits although they may only be partly used at any one time. In practice, the potential loss is less severe since many of these commitments can be recalled immediately by the Group in case the clients do not meet credit standards. Guarantees carry the credit risk to the full amount similar as loans, since they represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties.

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b) Credit risk strategy

In recent years, the Group has emphasised maintaining a healthy loan portfolio and improving the quality of loans. An example of this is the Group's participation in the Icelandic mortgage market. Since the latter half of 2004, when the banks and savings banks began competing directly with the Housing Financing Fund, a large number of customers have opted for refinancing of their consumer loans, which generally bear higher risk, with high quality mortgage loans. Mortgage loans now constitute more than half of the retail portfolio in Iceland. However, it is not the Group's aim to grant solely credits of very low risk but it is important that the price of the credit, i.e. the margin, offered to substantial clients reflects the risks taken. Credit analysis is therefore a prerequisite for any positive credit decision and the pricing must take into account the risks and the required return on capital.

c) Credit process and authority

SPRON's Credit Committee is at the pinnacle of the credit process and has overruling authority in matters related to credit, the only exception pertains to exposures exceeding 10% of SPRON's capital which need the approval of the Board of Directors. The Credit Handbook, which is approved by the Board of Directors, limits the lending authority of personnel, and restricts exposures to different types of entities. In order to make use of the local expertise a large part of the credit and collateral risk is maintained on a local level in SPRON's branch network.

d) Credit risk monitoring

Credit risk is monitored within the Risk Management Department. The department performs numerical analysis of the loan portfolio on a group level, e.g. estimates expected loss, concentrations within the loan portfolio and maps defaults in a systematic way. These findings are reported to management where possible risk concentrations toward counterparties, sectors etc. are highlighted. The Risk Management Department focuses on distressed clients and in co-operation with the relevant profit center tries to minimise or prevent loss on behalf of SPRON by special monitoring of clients with deteriorating credit worthiness. The integrity of the credit process, i.e. in regard to data collection, limit compliance, application preparation, documentation and collateral registration and valuation is monitored centrally within the Group.

Loan provisioning

An allowance for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim, i.e. a loan, commitment, guarantee etc., according to the original contractual terms or the equivalent value. An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet, whereas for an off-balance sheet item, such as a commitment, a provision for credit loss is reported in Other liabilities. Additions to the allowances and provisions for credit losses are made through impairment on loans. Allowances and provisions for credit losses are evaluated at a counterparty-specific level and collectively based on the following principles:

a) Counterparty-specific

A claim is considered impaired when there is an object evidence that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or the equivalent value. Individual credit exposures are evaluated based upon the borrower’s character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realisable value of any collateral.

The estimated recoverable amount is the present value, using the loan's original effective interest rate, of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as interest income.

All impaired claims are reviewed and analysed at least every three months. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates will result in a change in the allowances for credit losses and be charged or credited through impairment on loans.

An allowance for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to credit loss expense.

b) Collectively

All loans for which no impairment is identified on a counterparty-specific level are grouped into economically homogeneous portfolios to collectively assess whether impairment exists within a portfolio. Allowances from collective assessment of impairment are recognised as credit loss expense and result in an offset to the loan position. As the allowance cannot be allocated to individual loans, interest is accrued on all loans according to contractual terms.

Management of credit risk

SPRON´s board of directors is responsible for the management of credit risk at SPRON. The board has established lending guidelines, guidelines concerning loans to employees, guidelines concerning provisions for loans and impaired loans and decides on the yearly provision on SPRON´s loan book.

SPRON´s CEO is responsible for the loan business towards the board of directors. The CEO sets certain rules regarding the loan business in accordance with the boards general guidelines. The CEO can delegate his authority to other employees of the SPRON group. Such a delegation of authority must be stipulated in the lending guidelines of each individual business unit within the group. The CEO can not however delegate the ultimate responsibility he has towards the board of directors. Whether an employee is fit to assume responsibilities in regards to lending is outlined in the management guidelines which apply to SPRON´s board of directors.

The managing directors of each business unit within the SPRON group report to SPRON´s CEO regarding any lending business. In general their task is to follow the guidelines which SPRON´s board of directors have put in place.

Monitoring and controlling liquidity risk

94. Liquidity risk is the risk of loss arising from the Group's inability to meet its liabilities as they become due. The Group monitors its liquidity through a maturity analysis of financial assets and liabilities in order to be able to serve and repay all maturing debts. The Group must always have sufficient liquidity to meet both foreseeable as well as unexpected payment obligations. The Group has in place a set of liquidity and funding policies that are intended to maintain flexibility. This includes lines of credit, overdraft facilities and highly liquid securities, such as Treasury bills and bonds.

Additionally, liquidity risk is monitored through a risk management report on liquidity ratio, which is filed with the Central Bank of Iceland every month. The liquidity ratio measures the ratio of the liquid asset base to liabilities. To determine the liquid asset base the Central Bank assigns weights to each asset class as a conservative measure of liquidity.

31 December 2007	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities						
Cash and balances with Central Bank.................	10.332.327	10.332.327				
Loans and advances..	165.357.339	9.973.621	19.168.061	20.097.420	24.574.484	91.543.753
Trading assets...	27.507.593	27.507.593				
Financial assets designated at fair value............	12.666.423	12.666.423				
Total financial assets..	215.863.682	60.479.964	19.168.061	20.097.420	24.574.484	91.543.753
Derivative liabilities						
Deposits from credit instit. and Central Bank.....	8.513.472	1.979.797	3.502.753	3.030.922		
Deposits..	85.410.286	61.477.559	7.741.955	6.712.520	7.358.072	2.120.180
Trading liabilities..	724.862	724.862				
Borrowings...	89.096.537		1.972.347	18.673.568	52.576.127	15.874.495
Subordinated loans...	5.432.501				3.826.370	1.606.131
	189.177.658	64.182.218	13.217.055	28.417.010	63.760.569	19.600.806

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31 December 2006	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities						
Cash and balances with Central Bank.................	2.431.770	2.431.770				
Loans and advances..	135.518.195	5.311.744	19.696.445	18.108.186	19.861.422	72.540.398
Trading assets...	20.313.026	20.313.026				
Financial assets designated at fair value.............	16.748.891	16.739.901			8.990	
Total financial assets..	175.011.882	44.796.441	19.696.445	18.108.186	19.870.412	72.540.398
Derivative liabilities						
Deposits from credit instit. and Central Bank.....	11.523.899	5.716.169	1.883.264	3.924.466		
Deposits..	56.592.406	33.856.281	6.613.784	4.326.897	9.645.179	2.150.265
Trading liabilities..	360.350	360.350				
Borrowings...	69.642.032		10.877.683	15.200.124	24.970.848	18.593.377
Subordinated loans...	5.216.371				3.613.606	1.602.765
	143.335.058	39.932.800	19.374.731	23.451.487	38.229.633	22.346.407

Monitoring and controlling market risk

95. The Group's policy is to monitor its market risk closely and to make sure that limits set by the Risk Management Committe are not exceeded. Market risk is managed by exposure limits and with limits on risk measures, both monitored on a daily basis and reviewed weekly by the Risk Management Committee.

Derivatives

96. The goal of SPRON´s hedging practices is to minimize the risk of negative impact due to changes in interest rates, exchange rates, ratings or market values. SPRON has put in place various hedges in order to comply with its risk management guidelines. For this purpose the Bank deals in derivative products such as interest rate swaps, forward exchange rate agreements, options, forwards and other derivative agreements.

Interest rate risk

97. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and LIBOR-rates and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Group's business strategies.

98. Interest rate risk by currency and duration. Interest rate risk is measured by shifting all yield curves by 100 bp simultanously. The table lists the resulting profit and loss broken down by currency and duration buckets for both banking and trading book.

2007 Currency	0-1 years	1-5 years	5-10 years	10-20 years	Total
ISK, banking	225	(495)	1.402	395	1.527
ISK, trading	0	(49)	(245)	(292)	(586)
DKK	(36)				(36)
JPY	(18)				(18)
Other	32				32

The total amount of indexed assets of the Group amounted to ISK 107,452 million, and the total amount of indexed liabilities amounted to ISK 79,485 million at year-end.

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2006	0-1	1-5	5-10	10-20	
Currency	years	years	years	years	Total
ISK, banking	205	(331)	(474)	(249)	(849)
ISK, trading	(4)	(162)	(67)	(40)	(273)
DKK	(1)				(1)
JPY	(2)				(2)
Other	1				1

The total amount of indexed assets of the Group amounted to ISK 84,940 million, and the total amount of indexed liabilities amounted to ISK 58,079 million at year-end.

Price risk

99. Market price risk is the risk of loss due to changes in market prices. The Group's main exposures are through equities and bonds, but the management of currency risk is handled separately. Market price risk is measured with Value-at-Risk.

Currency Risk

100. Currency risk is the risk of loss due to adverse movements in foreign exchange rates. Net exposures per currency are monitored centrally in the Group. The Group aims at limiting currency risk and monitors its exposure in relation to the Group's total capital.

101. Breakdown of assets and liabilities by currency:

	ISK	EUR	USD	JPY	Other	Total
Cash and balances with Central Bank	10.304.778	10.762	5.952	83	10.752	10.332.327
Loans to credit institutions	1.132.004	764.413	210.187	1.127.379	493.854	3.727.837
Loans to customers	130.665.325	5.561.794	894.377	10.640.955	13.867.051	161.629.502
Trading assets	22.828.540	2.890.406	105.009		1.683.638	27.507.593
Financial assets designated at fair value	12.666.423					12.666.423
Investments in associates	2.575.186					2.575.186
Intangible assets	1.713.253					1.713.253
Property and equipment	2.060.442					2.060.442
Other financial assets	1.858.956		124.000			1.982.956
Total assets	185.804.907	9.227.375	1.339.525	11.768.417	16.055.295	224.195.519
Deposits f. credit inst. and Central Bank	8.513.472					8.513.472
Deposits	71.510.896	4.980.422	2.533.414	5.616	6.379.938	85.410.286
Trading liabilities	724.862					724.862
Borrowings	34.277.557	54.446.400	124.000		248.580	89.096.537
Subordinated loans	5.432.501					5.432.501
Post-employment obligations	714.183					714.183
Tax liabilities	2.904.543					2.904.543
Other financial liabilities	3.638.582					3.638.582
Capital and minority interest	27.760.553					27.760.553
Total liabilities and capital	155.477.149	59.426.822	2.657.414	5.616	6.628.518	224.195.519
Net on-balance sheet position	30.327.758	-50.199.447	-1.317.889	11.762.801	9.426.777	
Net off-balance sheet position	(14.005.262)	50.171.441	1.282.304	(11.723.265)	(9.361.958)	
Net position	16.322.496	(28.006)	(35.585)	39.536	64.819	

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Operational risk

102. Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations and are faced by all business entities.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

-requirements for appropriate segregation of duties, including the independent authorisation of transactions

-compliance with regulatory and other legal requirements

-documentation of controls and procedures

-development of contingency plans

-training and professional development

-ethical and business standards

-risk mitigation, including insurance where this is effective.

Fair value of financial instruments

103. 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 the Group to measure financial assets and financial liabilities. If quoted prices for a financial instrument fail to represent actual and regularly occurring transactions in an 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.

2007	Book value	Fair value	Unrealised gain (loss)
Assets			
Cash and balances with the Central Bank	10.332.327	10.332.327	0
Loans and advances	165.357.339	162.949.438	(2.407.901)
Trading assets	27.507.593	27.507.593	0
Financial assets designated at fair value	12.666.423	12.666.423	0
Non-current assets and disposal groups classified as held-for-sale	463.774	463.774	0
Liabilities			
Deposits from financial institutions and the Central Bank	8.513.472	8.513.472	0
Deposits	85.410.286	85.410.286	0
Trading liabilities	724.862	724.862	0
Borrowings	86.910.277	82.104.214	4.806.063
Subordinated loans	5.432.501	4.662.891	769.610
Net unrealised gains not recognised in the Income Statement			3.167.772

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2006	Book value	Fair value	Unrealised gain (loss)
Assets			
Cash and balances with the Central Bank	2.431.770	2.431.770	0
Loans and advances	128.295.508	126.322.166	(1.973.342)
Trading assets	20.313.026	20.313.026	0
Financial assets designated at fair value	16.748.891	16.748.891	0
Non-current assets and disposal groups classified as held-for-sale	104.892	104.892	0
Liabilities			
Deposits from financial institutions and the Central Bank	11.523.899	11.523.899	0
Deposits	56.592.406	56.592.406	0
Trading liabilities	360.850	360.850	0
Borrowings	69.642.032	67.689.523	1.952.509
Subordinated loans	5.216.371	5.061.390	154.981
Net unrealised gains not recognised in the Income Statement			134.148

Although the Group 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.

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Quarterly statements (Unaudited)

104. Summary of the group´s quarterly statements:

2007

	1.1.-31.3	1.4.-30.6	1.7.-30.9	1.10.-31.12.	Total
Net interest income	464.782	634.677	746.191	799.867	2.645.517
Net fee and commission income	311.906	230.070	360.253	628.835	1.531.064
Other operating revenue	5.937.418	7.395.122	(782.751)	(7.510.475)	5.039.314
Operating expenses	(1.052.827)	(1.469.543)	(1.298.407)	(1.597.944)	(5.418.721)
Impairment on loans and advances	(111.902)	(172.605)	(74.661)	(139.234)	(498.402)
Profit before income tax	5.549.377	6.617.721	(1.049.375)	(7.818.951)	3.298.772
Income tax	(859.477)	(1.178.791)	199.752	1.826.392	(12.124)
Profit (loss) for the period	4.689.900	5.438.930	(849.623)	(5.992.559)	3.286.648

2006

	1.1.-31.3	1.4.-30.6	1.7.-30.9	1.10.-31.12.	Total
Net interest income	559.665	1.097.108	583.563	174.195	2.414.531
Net fee and commission income	251.953	243.761	214.522	265.076	975.312
Other operating revenue	1.407.598	1.570.595	8.863.359	(35.056)	11.806.496
Operating expenses	(787.157)	(1.007.002)	(851.606)	(1.363.442)	(4.009.207)
Impairment on loans and advances	(73.022)	(160.668)	(95.546)	20.889	(308.347)
Profit before income tax	1.359.037	1.743.794	8.714.292	(938.338)	10.878.785
Income tas	(235.584)	(240.182)	(1.567.689)	174.952	(1.868.503)
Profit (loss) for the period	1.123.453	1.503.612	7.146.603	(763.386)	9.010.282

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