



**Condensed
Consolidated Interim Financial Statements
1 January - 30 September 2008**

ISK

Sparisjodur Reykjavíkur og nágrennis hf.
Armula 13a
108 Reykjavík
Iceland

Reg. no. 540502-2770

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Endorsement and Statement of the Board of Directors and the Managing Director

The Condensed Consolidated Interim Financial Statements of Sparisjodur Reykjavikur og nagrennis hf. (SPRON) for the nine months ended 30 September 2008, have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34) as adopted by EU. The Consolidated Interim Financial Statements includes the Interim Financial Statements of SPRON hf. and its subsidiaries, together referred to as SPRON.

Net loss, according to the Income Statement, amounted to ISK 16,524 million for the period from 1 January to 30 September 2008. Total Equity, according to the Balance Sheet, amounted to ISK 10,441 million at the end of the period. The capital adequacy ratio of SPRON, calculated according to the Act on Financial Undertakings, was 10,1%. This ratio may not be lower than 8.0%.

SPRON's share capital amounted to ISK 4,871 million at 30 September 2008. SPRON - fund ses kept 14,9% 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. Owned shares amounted to ISK 133 million at 30 September 2008. 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.

Impact of recent developments in financial markets

With reference to the emergency law passed by the Icelandic Parliament on 6 October 2008, the Icelandic Financial Supervisory Authority assumed the powers of the shareholders' meeting of the Icelandic banks Landsbanki Islands hf., Glitnir Bank hf. and Kaupthing Bank hf. during the period 7 - 9 October 2008. At the same time, the Icelandic FSA suspended the Boards of Directors of each of these banks and appointed instead Resolution Committees, which took over all authority of the Board of Directors and are in charge of handling the business of these banks.

These events have led to a severe decline after the balance sheet date in the fair value of securities issued by those banks, to a sharp depreciation of the exchange rate of the Icelandic Krona, lack of liquidity in the exchange market and limitations imposed by the Central Bank of Iceland on foreign currency transactions and outflow from the country, to increase in unemployment and disappearance of the demand side in the real estate market.

The combined effect of these adverse events in the Icelandic economy clearly affects the ability of SPRON's customers to repay amounts due according to contractual terms and the fair value of collaterals and guarantees held by SPRON. Accordingly, there is sufficient objective evidence that many of SPRON's loans and receivables have become impaired after the balance sheet date and that SPRON will need to record a further impairment loss in the fourth quarter of 2008. In addition, SPRON will need to recognise fair value losses on equity and debt securities carried by SPRON at fair value. These conditions have affected the equity of the company and in conformity with law no. 161/2002 about Financial Undertakings SPRON has informed FSA in Iceland about this situation and is working on restructuring the financial position of the Company.

Due to mentioned events the merger between SPRON and Kaupþing has been cancelled.

Statement by the Board of Directors and Managing Director

According to our best knowledge, taken in to consideration the matters described above, it is our opinion that the Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Group for the financial period 1.1. - 30.9.2008, its assets, liabilities and consolidated financial position as at 30 September 2008 and its consolidated cash flows for the financial period 1.1. - 30.9.2008. Further, in our opinion the Consolidated Interim 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 hf. hereby confirm the Interim Financial Statements for the period from 1 January to 30 September 2008.

Reykjavik, 28 November 2008.

Board of Directors

Chairman

Managing Director

Guðmundur Hauksson

Independent Auditors' Review Report

To the Board of Directors of Sparisjóður Reykjavíkur og nágrennis hf.

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Sparisjóður Reykjavíkur og nágrennis hf., which comprise the consolidated interim balance sheet as at 30 September 2008 and the consolidated interim income statement and statement of changes in equity for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

We draw the attention to Note 34 to the consolidated interim financial statement which states that due to post balance sheet event there has been adverse events in the Icelandic economy that clearly affects the ability of SPRON's customers to repay amounts due according to contractual terms and the fair value of collaterals and guarantees held by SPRON. In addition, SPRON will need to recognise fair value losses on equity and debt securities carried by SPRON at fair value. In the note it is also stated that these events have affected the equity of the company in that way that it is below the minimum required by law. These conditions, along with other matters described in Note 34 and in the endorsement and statement of the Board of Directors and Managing Director, indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern.

Qualified Conclusion

Based on our review, with the exception of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the entity as at 30 September 2008, and of its financial performance for the nine-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 28 November 2008.

KPMG hf.

Sigurður Jónsson

Consolidated Interim Income Statement

for the Period from 1 January to 30 September 2008

	Notes	2008 1.7.-30.9	2007 1.7.-30.9	2008 1.1.-30.9.	2007 1.1.-30.9.
Interest income		9.764.426	5.008.887	25.787.457	15.217.134
Interest expense		(8.667.877)	(4.262.696)	(22.973.109)	(13.371.484)
Net interest income.....	3	<u>1.096.549</u>	<u>746.191</u>	<u>2.814.348</u>	<u>1.845.650</u>
Fee and commission income		385.468	476.984	1.225.538	1.338.881
Fee and commission expense		(102.831)	(116.731)	(361.768)	(436.652)
Net fee and commission income.....		<u>282.637</u>	<u>360.253</u>	<u>863.770</u>	<u>902.229</u>
Net (loss) gains on fin. assets and fin. liabilities	4-7	(946.089)	205.002	(8.045.079)	10.142.506
Share of (loss) profit of associates		(2.519.055)	(1.099.664)	(10.322.338)	2.152.272
Other operating income	8	100.841	111.911	237.816	255.011
Operating income		<u>(3.364.303)</u>	<u>(782.751)</u>	<u>(18.129.601)</u>	<u>12.549.789</u>
Net operating (loss) income.....		<u>(1.985.117)</u>	<u>323.693</u>	<u>(14.451.483)</u>	<u>15.297.668</u>
Salaries and related expenses		(729.192)	(592.468)	(1.935.641)	(1.810.369)
Administrative expenses		(795.978)	(658.331)	(2.092.348)	(1.892.341)
Depreciation		(53.619)	(47.608)	(150.569)	(118.067)
Operating cost		<u>(1.578.789)</u>	<u>(1.298.407)</u>	<u>(4.178.558)</u>	<u>(3.820.777)</u>
Impairment losses on loans and advances	14-15	(2.079.091)	(74.661)	(3.146.474)	(359.168)
(Loss) profit before income tax.....		(5.642.997)	(1.049.375)	(21.776.515)	11.117.723
Income tax		2.578.372	199.752	5.251.874	(1.838.516)
Net (loss) profit.....		<u><u>(3.064.625)</u></u>	<u><u>(849.623)</u></u>	<u><u>(16.524.641)</u></u>	<u><u>9.279.207</u></u>
Attributable to:					
Shareholders of SPRON hf.		(3.006.507)	(849.915)	(16.476.941)	9.278.752
Minority interest		(58.118)	292	(47.700)	455
		<u><u>(3.064.625)</u></u>	<u><u>(849.623)</u></u>	<u><u>(16.524.641)</u></u>	<u><u>9.279.207</u></u>
Loss per share					
Basic / diluted loss per share		(0,63)	(0,17)	(3,38)	1,86

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Consolidated Interim Balance Sheet

as at 30 September 2008

	Notes	30.9.2008	31.12.2007
Assets			
Cash and cash balances with the Central Bank		8.060.919	10.332.327
Loans to credit institutions	9-10	5.362.461	3.727.837
Loans to customers	11-15	206.450.881	161.629.502
Trading financial assets	16	21.415.176	27.507.593
Financial assets designated at fair value through profit and loss	18	16.936.963	12.666.423
Investment in associates		281.667	2.575.186
Property and equipment		2.289.504	2.060.442
Intangible assets		284.705	1.713.253
Tax assets		2.198.440	0
Other assets	19	3.365.411	1.982.956
Total Assets		<u>266.646.127</u>	<u>224.195.519</u>
Liabilities			
Deposits from credit institutions and the Central Bank	20	34.016.241	8.513.472
Other deposits	21	93.617.850	85.410.286
Trading financial liabilities	22	8.566.855	724.862
Borrowings	23-24	103.269.373	89.096.537
Subordinated loans	25	13.159.914	5.432.501
Post-employment obligations		733.637	714.183
Tax liabilities		0	2.904.543
Other liabilities	26	2.841.434	3.638.582
Total Liabilities		<u>256.205.304</u>	<u>196.434.966</u>
Equity			
Share capital		4.871.364	4.877.279
Reserves		1.250.000	1.250.000
Other equity		748.738	0
Retained earnings		3.447.825	21.604.328
Total Shareholders' Equity	27-28	<u>10.317.927</u>	<u>27.731.607</u>
Minority interest		122.896	28.946
Total Equity		<u>10.440.823</u>	<u>27.760.553</u>
Total Liabilities and Equity		<u>266.646.127</u>	<u>224.195.519</u>

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Consolidated Interim Statement of Changes in Equity for the Period from 1 January to 30 September 2008

Changes in equity in 1.1.-30.9.2008:

	Share capital	Legal reserve	Other reserves	Retained earnings	Total	Minority interest	Total
Equity at 1 January 2008	4.877.279	1.250.000		21.604.328	27.731.607	28.946	27.760.553
Purchases and sales of treasury stock	(5.915)			(25.404)	(31.319)		(31.319)
Accrued due to option agreement			111.238		111.238		111.238
Dividends paid				(1.606.458)	(1.606.458)		(1.606.458)
Revaluation			637.500		637.500		637.500
Changes in minority interest					0	46.250	46.250
Net loss of the period				(16.524.641)	(16.524.641)	47.700	(16.476.941)
Equity at 30 September 2008	4.871.364	1.250.000	748.738	3.447.825	10.317.927	122.896	10.440.823

	Shareholders retained earnings			Contributed capital and reserve		Total	Minority interest	Total
	Share capital	Legal reserve	Retained earnings	Primary Capital	Legal reserve			
Changes in capital in 1.1.-30.9.2007:								
Capital at 1 January 2007				19.453.815	15.292.045	34.745.860	29.045	34.774.905
Net earnings 1.1. - 31.3.					4.689.883	4.689.883	17	4.689.900
Dividend 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
Change to hf.	5.000.000	1.250.000	24.237.026	(20.495.585)	(9.991.442)			
Equity at 1 April 2007	5.000.000	1.250.000	24.237.026	0	0	30.487.027	29.062	30.516.089
Changes in minority interest							438	438
Net profit of the period			4.588.869			4.588.869		4.588.869
Capital at 30 September 2007	5.000.000	1.250.000	28.825.895	0	0	35.075.896	29.500	35.105.396

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Condensed Consolidated Interim Statement of Cash Flow

For the period from 1 January to 30 September 2008

	2008	2007
	1.1.-30.9.	1.1.-30.9.
Net cash provided by operating activities.....	6.729.294	11.701.114
Net cash flow used in investing activities.....	(5.626.118)	(288.612)
Net cash flow used in financing activities.....	(2.227.224)	(8.948.716)
Net change in cash and cash equivalents.....	(1.124.048)	2.463.786
Cash and cash equivalents, beginning of the year.....	12.436.262	4.372.984
Cash and cash equivalents, end of the period.....	11.312.214	6.836.770

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Notes to the Consolidated Interim Financial Statements

Accounting Policies

Sparisjodur Reykjavíkur og nágrennis hf. (SPRON) is a company incorporated and domiciled in Iceland. The address of the company registered office is Armuli 13a, Reykjavík, Iceland. The Consolidated Interim Financial Statement for the period ended September 30, 2008 includes the Interim Financial Statement for Sparisjóður Reykjavíkur og nágrennis hf. and its subsidiaries together referred to as SPRON.

1. Statement of compliance

The Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34, *Interim Financial Reporting*, as adopted by the EU. They do not include all of the information required for full annual Financial Statements and should be read in conjunction with the Consolidated Financial Statements of SPRON as at and for the year ended 31 December 2007.

2. Significant accounting policies

The accounting policies applied by SPRON in these Consolidated Interim Financial Statements are the same as those applied by SPRON in its Consolidated Financial Statements as at and for the year ended 31 December 2007.

The Consolidated Financial Statements of SPRON as at and for the year ended 31 December 2007 are available upon request through the company's registered office at Armuli 13a, Reykjavík or at www.spron.is and www.omxnordicexchange.com

The Consolidated Interim Financial Statements are presented in Icelandic króna (ISK) which is the company's functional currency, rounded to the nearest thousand.

3. Interest income and expense are specified as follows:

	Interest income	Interest expense	Net interest income
1.1 - 30.9.2008			
Cash and deposits to/from credit institutions and the Central Bank	2.798.455	(5.197.350)	(2.398.895)
Loans and deposits	19.905.738	(10.341.016)	9.564.722
Borrowings		(4.487.476)	(4.487.476)
Subordinated loans		(1.097.856)	(1.097.856)
Trading assets and liabilities	3.083.264	(1.336.316)	1.746.948
Other		(513.095)	(513.095)
Total	<u>25.787.457</u>	<u>(22.973.109)</u>	<u>2.814.348</u>
Interest income and expense of financial assets and liabilities at fair value	3.083.264	(1.849.411)	1.233.853
Interest income and expense of financial assets and liabilities not at fair value through profit and loss	<u>22.704.193</u>	<u>(21.123.698)</u>	<u>1.580.495</u>
	<u>25.787.457</u>	<u>(22.973.109)</u>	<u>2.814.348</u>

Net financial (loss) income

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

	2008	2007
Dividend income	120.651	860.080
Net (loss) gain on trading assets and liabilities	(692.900)	1.179.627
Net (loss) gain on assets designated at fair value	(7.443.593)	8.097.796
Net foreign exchange difference	(29.237)	5.003
Net financial (loss) income	<u>(8.045.079)</u>	<u>10.142.506</u>

Dividend income

5. Dividend income is specified as follows:

Dividend income on trading assets	120.651	99.823
Dividend income on assets at fair value through profit and loss	0	760.257
Dividend income	<u>120.651</u>	<u>860.080</u>

Notes to the Consolidated Interim Financial Statements

Net (loss) gains on financial assets and financial liabilities held for trading

	2008	2007
6. Net (loss) gains on financial assets and financial liabilities held for trading are specified as follows:	1.1.-30.9.	1.1.-30.9.
Shares and related derivatives	(1.995.818)	1.015.522
Bonds and related derivatives	2.207.924	171.501
Other derivatives	(905.006)	(7.396)
Net (loss) gains on financial assets and financial liabilities held for trading	(692.900)	1.179.627

Net (loss) gains on financial assets designated at fair value through profit or loss

7. Net (loss) gains on assets designated at fair value through profit and loss are specified as follows:		
Shares	(7.443.593)	8.097.796

Other operating income

8. Other operating income is specified as follows:		
Gain on disposals of assets	29.252	75.455
Other operating income	208.564	179.556
Other operating income	237.816	255.011

Loans to credit institutions

9. Loans to credit institutions specified by types of loans:	30.9.2008	31.12.2007
Bank accounts	2.937.717	2.357.769
Money market loans	2.262.735	1.153.506
Other loans	162.009	216.562
Loans to credit institutions	5.362.461	3.727.837
10. Loans to credit institutions specified by maturity:		
On demand	3.254.517	2.103.935
Up to 3 months	1.676.141	982.987
Over 3 months and up to a year	220.119	499.999
Over 1 year and up to 5 years	210.450	140.838
Over 5 years	1.234	78
Loans to credit institutions	5.362.461	3.727.837

Notes to the Consolidated Interim Financial Statements

Loans to customers

11. Loans to customers specified by types of loans:	30.9.2008	31.12.2007
Overdrafts	11.196.967	10.780.027
Bills of exchange	30.147	104.298
Bonds and loan agreements	197.445.516	145.370.779
Other loans	2.096.115	6.804.675
Provision for impairment	(4.317.864)	(1.430.277)
Loans to customers	206.450.881	161.629.502
12. Loans to customers specified by sectors:		
Government	0,3%	0,3%
Business enterprises:		
Fishing industry and agriculture	0,3%	0,2%
Industrials	10,7%	9,0%
Commerce	3,5%	2,9%
Service	27,1%	26,9%
Individuals	58,1%	60,7%
Loans to customers	100,0%	100,0%
13. Loans to customers specified by maturity:		
On demand	4.639.330	7.869.656
Up to 3 months	19.522.637	18.185.074
Over 3 months and up to a year	24.207.043	19.597.421
Over 1 year and up to 5 years	23.490.468	24.433.646
Over 5 years	134.591.403	91.543.705
Loans to customers	206.450.881	161.629.502

Allowance for losses on loans and advances

14. Allowance for losses on loans are specified as follows:				
Specific provision	2.351.020	439.984		
Collective assessment	1.966.844	990.293		
Allowance for losses on loans	4.317.864	1.430.277		
15. Changes in the provision for impairment of loans and advances are specified as follows:	2008	2007		
	Specific provision	Collective assessment	1.1.-30.9.	1.1.-30.9.
Balance at 1 January	439.984	990.293	1.430.277	1.111.302
Impairment losses recognised during the period	2.169.923	976.551	3.146.474	359.168
Write-offs during the period	(263.406)	0	(263.406)	(67.755)
Amounts recovered from loans previously written off	4.519	0	4.519	11.746
Unwind of discount of allowance	0	0	0	(20.489)
Balance at 30 September	2.351.020	1.966.844	4.317.864	1.393.972

Trading financial assets

16. Trading financial assets are specified as follows:	30.9.2008	31.12.2007
Bonds	12.686.385	12.083.607
Shares	1.461.021	13.567.383
OTC derivatives	7.267.770	1.856.603
Trading financial assets	21.415.176	27.507.593

Notes to the Consolidated Interim Financial Statements

Derivatives

17. Derivatives with parties outside SPRON, remaining maturity date of principal and book value are specified as follows:

	Principal			Total	Book value	
	Up to 3 months	Over 3			Assets	Liabilities
		months and up to a year	Over 1 year			
OTC currency and interest rate derivatives:						
Forward currency agreements	79.600.656	0	0	79.600.656	244.994	8.132.702
Interest rate agreements	0	13.094.100	6.547.050	19.641.150	6.577.377	0
	79.600.656	13094100	6.547.050	99.241.806	6.822.371	8.132.702
OTC equity derivatives:						
Forward equity agreements	6.126	11.864	0	17.990	421.093	
Stock agreements	84.302	100.000	0	184.302	24.306	434.153
	90.428	111.864		202.292	445.399	434.153
Derivatives total	79.691.084	13.205.964	6.547.050	99.444.098	7.267.770	8.566.855

	Principal			Total	Book value	
	Up to 3 months	Over 3			Assets	Liabilities
		months and up to a year	Over 1 year			
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
	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
	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

Financial assets designated at fair value through profit and loss

18. Financial assets designated at fair value through profit and loss are specified as follows:	30.9.2008	31.12.2007
Bonds	2.015.582	2.740
Mutual funds	8.295.972	569.723
Shares	6.625.409	12.093.960
Financial assets designated at fair value through profit and loss	16.936.963	12.666.423

Other assets

19. Other assets are specified as follows:		
Unsettled securities trading	355.953	663.145
Properties in progress intended for future sale	822.264	474.430
Sundry assets	306.704	251.863
Investment properties	750.000	0
Accrued income	56.264	129.744
Non-current assets and disposal groups classified as held for sale	1.074.226	463.774
Other assets	3.365.411	1.982.956

Notes to the Consolidated Interim Financial Statements

Deposits from credit institutions and the Central Bank

20. Deposits from credit institutions and the Central Bank mature as follows:	30.9.2008	31.12.2007
On demand	172.259	1.979.797
Up to 3 months	31.885.036	3.502.753
Over 3 months and up to a year	1.958.946	3.030.922
Deposits from credit institutions and the Central Bank	34.016.241	8.513.472

Other deposits

21. Other deposits mature as follows:		
On demand	70.103.498	61.477.559
Up to 3 months	3.919.993	7.741.955
Over 3 months and up to a year	3.906.600	6.712.520
Over 1 year and up to 5 years	11.966.724	7.358.072
Over 5 years	3.721.035	2.120.180
Other deposits	93.617.850	85.410.286

Trading liabilities

22. Trading liabilities are specified as follows:		
Derivatives with credit institutions	8.566.855	720.249
Derivatives with others	0	4.613
Trading liabilities	8.566.855	724.862

Borrowings

23. Borrowings are specified as follows:		
Bonds issued	11.480.929	23.706.871
Bills issued	8.858.776	4.296.560
Money market loans	82.929.668	61.093.106
Borrowings	103.269.373	89.096.537

24. Borrowings mature as follows:		
Up to 3 months	9.691.020	1.972.347
Over 3 months and up to a year	10.028.835	18.673.568
Over 1 year and up to 5 years	83.258.536	52.576.127
Over 5 years	290.982	15.874.495
Borrowings	103.269.373	89.096.537

Subordinated loans

25. Subordinated loans are specified as follows:		
Tier I capital	743.891	685.692
Tier II capital	12.416.023	4.746.809
Subordinated loans	13.159.914	5.432.501

Other liabilities

26. Other liabilities are specified as follows:		
Unsettled securities trading	57.996	400.021
Accounts payable	250.844	334.536
Other liabilities	2.532.594	2.904.025
Other liabilities	2.841.434	3.638.582

Notes to the Consolidated Interim Financial Statements

Equity

27. SPRON's share capital, in accordance with the Articles of Association, amounts to ISK 5.004 million. Own share capital amounts to ISK 133 million and is subtracted from the share capital as presented in the balance sheet. One vote is attached to each share of one ISK. Equity at the end of the period amounted to ISK 10,440 million. The capital ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 10,1%. According to the law the ratio may not go below 8.0%.

The ratio is calculated as follows:

	30.9.2008	31.12.2007
Total equity	10.440.823	27.760.553
Intangible assets	(284.705)	(1.547.421)
Subordinated loans	6.193.896	4.152.448
Assets deducted from equity/ Investment in credit institution	(3.148.667)	(12.209.238)
Total own funds	13.201.347	18.156.342
Capital requirements	10.735.916	10.831.017
Surplus of own funds	2.465.431	7.325.325
Capital adequacy ratio	10,1%	13,4%

28. Summary of other restricted equity:

	Revaluation	Obligations due to option agreement	Total
Balance 1.1.2008	0	0	0
Changes over the period	637.500	111.238	748.738
Other restricted equity	637.500	111.238	748.738

Obligations

29. SPRON has granted its customers guarantees and overdraft permissions. These items are specified as follows:

	30.9.2008	31.12.2007
Guarantees	1.812.417	7.621.904
Unused overdrafts	4.574.141	5.456.378

Assets under management and custody

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

Assets under management	7.736.237	34.989.955
Assets under custody	35.120.116	47.916.691

Pledged assets

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

Repo agreements with the National Debt Management Agency	27.427.933	4.463.164
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Related parties

32. SPRON has a related party relationship with its subsidiaries, associates, the Board of Directors of the parent company, the managing directors of the parent company, the managing directors of subsidiaries, close family members of individuals referred to herein, and entities with significant influence as the largest shareholders of SPRON. This definition is based on IAS 24. Information regarding related parties are as follows:

Loans to the managing director and management board members	143.194	198.212
Loans to members of the board and companies related to members of the board	38.519	37.003
Guarantees to associated companies	2.100.000	6.365.000

No unusual transactions took place with related parties in the accounting period.

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

Notes to the Consolidated Interim Financial Statements

Monitoring and controlling liquidity risk

33. The breakdown by contractual maturity of financial assets and liabilities, at 30 September 2008.

30.9.2008	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and Central Bank balances	8.060.919		0	0	0	8.060.919
Loans and advances	7.893.847	21.198.778	24.427.162	23.700.918	134.592.637	211.813.342
Trading financial assets	21.415.176		0	0	0	21.415.176
Financial assets measured at fair value	16.931.891		0	5.072	0	16.936.963
Total financial assets	54.301.833	21.198.778	24.427.162	23.705.990	134.592.637	258.226.400
Deposits f. credit inst. and Central Bank ...	172.259	31.885.036	1.958.946	0	0	34.016.241
Other deposits	70.103.498	3.919.993	3.906.600	11.966.724	3.721.035	93.617.850
Trading liabilities	8.566.855		0	0	0	8.566.855
Borrowings		9.691.020	10.028.835	83.258.536	290.982	103.269.373
Subordinated loans			0	4.446.005	8.713.909	13.159.914
Total financial liabilities	78.842.612	45.496.049	15.894.381	99.671.265	12.725.926	252.630.233
Financial assets - financial liabilities	(24.540.779)	(24.297.271)	8.532.781	(75.965.275)	121.866.711	5.596.167

31.12.2007	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and Central Bank balances	10.332.327	0	0	0	0	10.332.327
Loans and advances	9.973.621	19.168.061	20.097.420	24.574.484	91.543.753	165.357.339
Trading financial assets	27.507.593	0	0	0	0	27.507.593
Financial assets measured at fair value	12.666.423	0	0	0	0	12.666.423
Total financial assets	60.479.964	19.168.061	20.097.420	24.574.484	91.543.753	215.863.682
Deposits f. credit inst. and Central Bank ...	1.979.797	3.502.753	3.030.922	0	0	8.513.472
Other deposits	61.477.559	7.741.955	6.712.520	7.358.072	2.120.180	85.410.286
Trading liabilities	724.862	0	0	0	0	724.862
Borrowings	0	1.972.347	18.673.568	52.576.127	15.874.495	89.096.537
Subordinated loans	0	0	0	3.826.370	1.606.131	5.432.501
Total financial liabilities	64.182.218	13.217.055	28.417.010	63.760.569	19.600.806	189.177.658
Financial assets - financial liabilities	(3.702.254)	5.951.006	(8.319.590)	(39.186.085)	71.942.947	26.686.024

Subsequent events

34. With reference to the emergency law passed by the Icelandic Parliament on 6 October 2008, the Icelandic Financial Supervisory Authority assumed the powers of the shareholders' meeting of the Icelandic banks Landsbanki Islands hf., Glitnir Bank hf. and Kaupthing Bank hf. during the period 7 - 9 October 2008. At the same time, the Icelandic FSA suspended the Boards of Directors of each of these banks and appointed instead Resolution Committees, which took over all authority of the Board of Directors and are in charge of handling the business of these banks.

These events have led to a severe decline after the balance sheet date in the fair value of securities issued by those banks, to a sharp depreciation of the exchange rate of the Icelandic Krona, lack of liquidity in the exchange market and limitations imposed by the Central Bank of Iceland on foreign currency transactions and outflow from the country, to increase in unemployment and disappearance of the demand side in the real estate market.

The combined effect of these adverse events in the Icelandic economy clearly affects the ability of SPRON's customers to repay amounts due according to contractual terms and the fair value of collaterals and guarantees held by SPRON. Accordingly, there is sufficient objective evidence that many of SPRON's loans and receivables have become impaired after the balance sheet date and that SPRON will need to record a further impairment loss in the fourth quarter of 2008. In addition, SPRON will need to recognise fair value losses on equity and debt securities carried by SPRON at fair value. Due to uncertainty about financial effects of the above mentioned events it is not possible to provide information about total effects on SPRON's equity. These conditions have affected the equity of the company and in conformity with law no. 161/2002 about Financial Undertakings SPRON has informed FSA in Iceland about this situation and is working on restructuring the financial position of the Company.