

Articles of Association for BYR Savings Bank

Agreed at BYR Savings Bank Annual General Meeting, 13th of May 2009,

Chapter I

Name, domicile, legal venue and objects

Article 1

The name of the savings bank is BYR Savings Bank, in these articles named Savings Bank.

Article 2

The domicile of the Savings Bank and legal venue is Borgartún 18, 105 Reykjavík.

Article 3

The Savings Bank operates according to the laws on financial institutions no. 161/2002. Its purpose is to operate as a savings bank as defined in the above-mentioned laws.

Chapter II

Initial Share Capital, its division and voting rights.

Article 4

The Savings Bank began operations on 11 November 1961 which is previous to the coming into force of laws no. 43/1993. The Savings Bank is therefore subject to Article 77 of the laws no. 161/2002 with regards to minimum initial capital.

The Savings Bank minimum initial capital is ISK 216.339.841.- divided into equal number of ISK 1.- shares. Guarantee capital can be increased in accordance with the provision in paragraph 3 article 11 of the articles of association.

The Savings Bank Board is empowered to increase the guarantee capital of the bank up to ISK 30.000.000.000.- and the Board shall decide when and to what extent this permission will be exercised. This permission shall be in force for 5 years, until 2012, but is thereafter revoked to the extent it has by that time not been exercised.

The following rules shall apply regarding increment of guarantee capital :

- a) The price for new guarantee capital shall be its nominal value plus the existing revaluation of guarantee capital, disposal of profits and unused revaluation of guarantee capital.

- b) Guarantee capital shareholders have the priority right to subscribe in accordance to their ownership in the subscription period that has been designated by the Board. The settlement date of the subscription shall be 7 days after the subscription period ceases.
- c) To the extent that the guarantee capital shareholders do not exercise their right to subscribe in each increment phase, it shall transfer proportionately to those guarantee capital shareholders who wish to exercise the right. After this process the Board has the right to sell to new guarantee capital shareholders any unsold guarantee capital.
- d) The voting rights of new guarantee capital shares are as defined in article 5.

Article 5

Each guarantee capital share holder owns one or more equivalent guarantee capital shares that carries voting rights in proportion to the guarantee capital ownership. No restrictions are on the amount of guarantee capital shares owned by one party. None the less the total voting rights of one or related parties is restricted to a maximum of 5%.

Guarantee capital shares owned by the Savings Bank do not carry voting rights and they shall be subtracted from the total number of votes specified in these articles of association. All guarantee capital shareholders have equal rights in other respects.

Article 6

No guarantee capital shareholder guarantees the Savings Bank's liabilities in excess of his guarantee share capital, unless he has assumed specific further liability through a separate legal instrument.

Chapter III

Issue of Guarantee Capital Shares and Transfer of Ownership

Article 7

The Savings Bank shall issue guarantee capital share certificates for registered guarantee capital shares which shall be signed by the Savings Bank manager. They may not be handed over until the shares are paid in full.

Guarantee capital share certificates shall be issued to named parties and will not be valid for the Savings Bank if they are transferred to a bearer.

A guarantee capital share certificate shall state:

- a) The name of the savings bank and its address,
- b) the number and amount of the certificate,
- c) the name, address and personal id number of the owner of the guarantee capital shares,
- d) the date of issue of the guarantee capital share certificate,

- e) the text of articles 64 and 65 of laws no. 161/2002
- f) special provisions relating to the rights and obligations of guarantee capital shareholders.

It is authorised to issue guarantee capital share certificate by electronic means through a stockbroker in accordance with the provisions of the law on electronic share certificates no. 131/1997. Guarantee capital shareholders receive digital certificates from a stockbroker where the ownership is registered, giving the holder the rights prescribed by law and by these articles of association.

Article 8

A register of guarantee capital shareholders of the Savings Bank shall be compiled. The register shall state the name of the guarantee capital shareholder, his address, personal id number and the amount of his guarantee capital shareholding. In the event of a change of ownership of a guarantee capital share which is permissible by law and by these articles of association, the name of the new owner of the guarantee capital share shall be entered in the register when he has notified the change of ownership and proved his ownership. The date of the change of ownership and date of registration shall also be recorded. When the name of a new owner is entered in the register, the guarantee capital share certificate shall also be endorsed with the entry. The register shall always be kept at the Savings Bank office and should be available to all guarantee capital shareholders for inspection .

Where the provision of the final paragraph of article 7 is exercised, a copy of the share register showing ownership of guarantee capital shares in the Savings Bank is considered sufficient basis for the guarantee capital holder registry. For the Savings Bank, the guarantee capital holder registry is sufficient proof of ownership of the shares prescribed in the register.

Article 9

The sale or other transfer of guarantee capital shares in the Savings Bank is not permitted, except with the approval of the Savings Bank board. The board shall decide on any request to transfer within a period of two months from the date the request is received. In the event that the Savings Bank board considers that the prospective buyer of guarantee capital shares has the intent to gain an active holding in the Savings Bank, cf. paragraph 2 of article 40 of the laws no 161/2002, then the board shall reject the request for transfer until the agreement of the Financial Supervision Authority has been obtained. In the event that the transfer of guarantee capital shares, or the increase of share capital leads to a situation where an individual guarantee capital shareholder or party to whom he is closely connected as described in article 18 of laws no. 161/2002, gains or has proxy for an active share holding then the board shall reject the request for transfer or increase in share holding until the agreement of the Financial Supervision Authority has been obtained and until the provisions of paragraph 2 article 70 have been met.

Mortgaging of guarantee capital shares is permitted given approval of the Savings Bank board.

Change of ownership is not valid for the Savings Bank until the board has given its approval. In the case of an electronic register, it is also a condition that the board has requested the change of ownership in the electronic register.

Article 10

If a guarantee capital share certificate is lost or destroyed, the owner shall be issued a new certificate on delivery of a court invalidation order for the certificate that was lost or destroyed. The Savings Bank is however entitled to issue a new certificate without having received a court invalidation order, if it considers that there is sufficient proof that the certificate has been destroyed. Guarantee capital shareholders may be issued with new certificates to replace damaged but legible and identifiable certificates.

The Savings Bank may never own more than 10% of its own guarantee capital share capital. If it owns more than 10% due to the provisions of Article 65 of the laws no. 161/2002 then it shall sell shares to fall within the prescribed legal limit within three months.

Chapter IV Increasing Share Capital

Article 11

A meeting of guarantee capital shareholders can decide to increase share capital above that which is prescribed in article 4, by issuing new shares, the decision being reached according to the same rules as apply for amendments to these articles of association.

The notice for the meeting shall contain the proposal from the board for increase of share capital and the method by which it will be implemented. The proposal shall be accompanied by a financial statement from the board showing the current financial status of the Savings Bank and the changes from the last annual accounts. The report of the Savings Bank accountant shall be appended to the report.

It is also permitted to increase share capital above that which is prescribed in article 4, by revaluing the guarantee capital, as in article 67 of laws no. 161/2002, and also through disposal of part of profits as in paragraph 2 of article 68 of the same laws as prescribed in paragraph 4 article 20 of these articles of association.

The price that a guarantee capital shareholder shall pay for a share shall be its nominal value plus the unused revaluation of guarantee capital according to article 66 of laws no. 161/2002.

Article 12

In the event of an increase of share capital, guarantee capital shareholders shall have the right to subscribe to additional shares in direct proportion to their share holding as prescribed in article 5.

Article 13

A decision on an increase in share capital shall include declarations on the following:

- a) guarantee capital increase and its division into guarantee capital shares,
- b) voting rights of the new shares cf. article 5 of these articles of association.
- c) notice for guarantee capital owners to exercise their rights to subscribe,
- d) the procedure to be followed in the event that guarantee capital owners do not exercise their rights to subscribe,
- e) notice to pay shares,
- f) the amount to be paid for guarantee capital shares, cf. paragraph 2 of article 66 of laws no. 161/2002.

Chapter V

Activities and Meetings of Guarantee Capital Owners

Article 14

The Savings Bank activities depend on a licence for activities described in item 2 paragraph 1 of article 4 of laws no. 161/2002 and they can include the activities prescribed in article 20 of the same laws. Minimum activities shall however always include receipt of repayable funds from the public and the granting of loans that are financed with repayable funds from the public, and other services naturally related to these activities, cf. article 21 of the laws.

The Savings Bank may pursue other activities naturally linked to their authorised activities cf. paragraph 2 of article 21 of laws no. 161/2002.

The Savings Bank is authorised to own shares in other companies in conformity with the rules prescribed in paragraphs 22 and 28 of the laws 161/2002.

Article 15

Legally constituted meetings of guarantee capital owners shall have the highest powers in the affairs of the Savings Bank as specified in these articles of association.

Article 16

The Savings Bank board shall convene guarantee capital owners meetings. The meetings shall be convened with at least 10 days notice. The notice for the meeting shall specify the matters to be dealt with at the guarantee capital owners meeting. If a motion for amendments in these articles of association is to be tabled, then the main nature of the proposal shall be specified in the notice for the meeting.

Each guarantee capital owner has the right to have a specific matter dealt with at the meeting if he makes a written demand for such to the board of the Savings Bank no later than 15 days before the annual general meeting, in order that it may be possible to include the matter on the agenda in a manner that complies with these articles of association. The date of a meeting of guarantee capital owners shall be notified in a newspaper no later than 20 days before the meeting.

Article 17

In the event that a meeting is not deemed legally constituted, a new meeting shall be convened within one month in the same manner as prescribed in article 16 and where the notice for the meeting states that the previously convened meeting proved not legal. The newly convened meeting will then be legally convened.

A guarantee capital owner is entitled to give another party a proxy to exercise his rights at a guarantee capital owners meeting. The proxy can be revoked at any time. The proxy holder shall be one of the guarantee capital owners and shall present a dated and witnessed statement from the guarantee capital owner that authorises his proxy. A proxy holder may not have proxy for more than two guarantee capital owners, nor may his combined voting rights exceed 5% of the total voting rights in the Savings Bank as prescribed in paragraph 1 of article 5. An instance of a proxy is only valid for one meeting.

Article 18

The annual general meeting shall be held annually before the end of May and the following matters shall be on the agenda:

- a) the board's Report on Savings Bank activities from the previous year,
- b) audited accounts of the Savings Bank for the previous financial year, that include the board's proposal for disposal of profit cf. article 68 of laws no. 161/2002,
- c) a decision on revaluation of guarantee capital cf. article 67 of laws no. 161/2002.,
- d) a decision on payment of interest cf. article 68 of the laws no. 161/2002,
- e) proposals about amendments to these articles of association, if any have been received,
- f) elections to the board, cf. article 23,
- g) election of chartered accountant or chartered accountants company, cf. article 36,
- h) a decision on payments to board members, after receiving proposals from the board cf. article 27,
- i) other business that the annual general meeting shall deal with according to laws no. 161/2002 or that the board decides to place before the meeting.

Article 19

Other guarantee capital owners meetings shall be held on the decision of the guarantee capital owners meeting or of the board. The board is obliged to convene a meeting within fourteen days if the elected accountants or a number of guarantee capital owners that hold at least 1/10 of guarantee capital demand in writing that a meeting be held and specify the matter to be discussed at the meeting.

Article 20

At a guarantee capital owners meeting, votes can only be taken on matters that were specified in the notice for the meeting and on legally tabled additions or amendments to such matters.

A majority of votes decides issues unless other provisions are specified in national law or in these articles of association. If a proposal has parity of votes it is considered defeated. In the event of parity of votes, when electing men to positions in the Savings Bank, the decision shall be resolved with the toss of a coin.

Proposals about amendments to these articles of association, a proposal to dissolve the Savings Bank or to merge with other savings banks will only be considered at a guarantee capital owners meeting and require a 2/3 majority of cast votes to be passed, with the added requirement that guarantee capital owners who collectively hold a 2/3 part of the guarantee capital for which votes have been cast , must have taken part in the vote.

Despite the provision in paragraph 3 of this article, a majority vote decides a proposal relating to matters covered in paragraph 3. of article 11.

Matters that are not specified in the agenda cannot be addressed at a guarantee capital owners meeting unless 2/3 of the votes of guarantee capital owners attending the meeting are in favour of doing so. Such matters cannot be finally disposed of at the meeting unless this was required either by law or by the provisions of these articles of association.

Article 21

Guarantee capital owners meetings are chaired by a chairman elected by the meeting. The president of the Savings Bank, or a person of his choice, opens the meeting and controls the election of the chairman of the meeting. When the meeting has been opened a register shall be made of those guarantee capital owners and proxy holders that are present at the meeting, so that it is clear how many shares and votes each one has.

The chairman shall move to elect a secretary who shall keep the minutes. The minutes shall register the decisions of the meeting and the results of the votes. The chairman and the secretary shall sign the minutes. A register shall be kept of those guarantee capital owners and proxy holders that attend the meeting.

Article 22

The right to payment of dividends that the annual general meeting has decided to pay becomes invalid if the dividends are not claimed within four years from the date they became payable. Such unclaimed dividends revert to the Savings Bank reserve fund.

Chapter VI
The Savings Bank board and the Savings Bank manager.

Article 23

The Board of Directors is composed of five members and two alternates, elected by guarantee capital holders. At least half of the members of the Board of Directors shall be domiciled in Iceland, subject however to the provision of Item 2 of the second paragraph of Article 66 of Act No. 2/1995. The Members of the Board shall meet the eligibility requirements of Article 52 of Act No. 161/2002.

Board members shall be elected for a term of one year, from one Annual General Meeting to the next Annual General Meeting. Prospective candidates to the Board of Directors shall communicate such candidacy in writing to the Board of the Bank, no later than five working days before the start of the meeting. For a vote to be valid, guarantee capital holders must place a check mark next to the names of five Board candidates and two alternates.

In elections the vote shall be between individuals or a list of five candidates and two alternates. A majority vote shall be applied unless a capital share holder requests that the election be proportional. The request shall be submitted to the Board of the Bank in writing no later than five days before the Annual General Meeting. The execution of the election shall otherwise adhere to provisions stated in Articles 63 and 63.a of Act No. 2/1995 on limited corporations.

The Board Members and the auditor may not be members of the boards of other deposit institutions at the same time, or be their employees, unless they are the representatives of the Bank in such board, subject to the rules of the Board pursuant to the second paragraph of Article 54 of Act No. 161/2002.

Article 24

The board elects its president and vice president at the first board meeting after it has been elected, and divides other duties between board members. The vice president performs the duties of the president when he is absent.

The president shall convene board meetings, which shall be held as required. A meeting will normally be held if one or more board members request that one be held, or if the Savings Bank manager deems that a meeting is necessary.

A board meeting is therefore only quorate if a minimum of three board members attend the meeting. Matters are decided by majority vote. Where a meeting is not fully attended, three votes are required to make a decision valid. In the event of parity of votes, the chairman has the casting vote.

Decisions taken at a Savings Bank board meeting shall be recorded in a special book of minutes and minutes of meetings shall be signed by the board members present and by the Savings Bank manager.

Article 25

The Savings Bank board shall be responsible for the affairs of the Savings Bank and shall ensure that its organisation and activities are in proper order and ensure that there is sufficient monitoring of accounts and of the handling of the Savings Bank's funds. In addition the board shall monitor its activities and shall take decisions related to its activities that are considered major decisions. The board shall appoint the Savings Bank manager and define his role. The board shall set rules about limits to the Savings Bank manager's authority to grant loans and shall set rules about decisions on investments cf. paragraph 1 of article 55 of laws no. 161/2002.

The board shall elaborate working rules for itself, which specify its tasks in more detail. These rules shall deal specifically with the board's authority to take decisions about individual business transactions, about the implementation of rules relating to when board members are qualified to act, about the board's handling of information about specific clients, about board members membership of the boards of subsidiary or related companies and about the treatment of business queries from board members cf. paragraph 2 of article 54 of laws no. 161/2002.

The Savings Bank board shall also consider matters that are defined as its duties by law, by regulation or by these articles of association and those matters presented to the board by the Savings Bank manager.

The Savings Bank board shall not take part in decisions about specific business transactions except in the case where this is a major transaction in relation to the size of the Savings Bank cf. point 2 of paragraph 1 of this article. Individual members of the board shall not become involved in decisions about specific business transactions.

Article 26

In order that the Savings Bank board can better perform its supervisory function cf. article 25, it shall have access to all documents that relate to the Savings Bank and its activities. It is not authorised to take such documents, or copies thereof, from Savings Bank premises.

Despite the provisions of item one, a member of the board is not authorised access to information about individual clients if he is disqualified in discussions about affairs relating to these clients.

board members shall not take part in the handling of a matter if the matter relates to:

1. their own business matters or those of a company on whose board they sit, or whom they represent or where they have a considerable vested interest; or
2. business matters relating to a competitor of the parties described in item 1.

The same shall apply about the affairs of parties that are related personally or financially to board members.

Business queries from board members or from companies they may represent shall be submitted to the Savings Bank board (or to the president) for approval or rejection. The Savings Bank board is however authorised to set general rules about the handling of such matters, where the nature of business queries requiring special deliberation by the board before being processed, is pre-determined cf. article 54 of laws no. 161/2002

Article 27

For work on behalf of the Savings Bank, board members shall be paid a fixed monthly remuneration, which is decided in advance at the annual general meeting each year. The same applies to remuneration for the president of the board.

Article 28

The Savings Bank manager shall fulfill the eligibility criteria of article 52 of laws no. 161/2002 and be resident in Iceland. He shall be manage the Savings Bank and be responsible for its daily activities. The Savings Bank manager shall take decisions on all Savings Bank matters except those that have been allotted to others by laws no. 161/2002 and by these articles of association. This includes deciding the Savings Bank's deposit and loan interest rates, and disposing its funds, and being the responsible person for its activities in accordance with the rules set by the board or by these Articles of Association or by law. He needs to ensure that Savings Bank activities are in all respects in compliance with the law, with these articles of association and with the decisions of the board of the Savings Bank.

The Savings Bank manager appoints all of the bank's employees, other than that prescribed in article 16 of laws no.161/2002, and terminates their employment. He prepares the Savings Bank board meetings in cooperation with the president of the board and regularly provides the board with reports on the activities and financial status of the Savings Bank. The Savings Bank manager shall attend board meetings except where matters are discussed that relate to himself.

Article 29

The Savings Bank manager is not authorised to sit on the board of a commercial company, nor to take part in commercial activities in any other way. The Savings Bank board can however authorise this, but only on the basis of rules that the board sets and that are endorsed by the Financial Supervisory Authority cf. Article 56 of laws no. 161/2002. If the commercial company is a subsidiary or related company of the Savings

Bank, then the rules on board membership are those that apply to the division of work between the board and operations management.

The Savings Bank manager may not take a loan with the Savings Bank and the Savings Bank may not act as guarantor for him, nor award him buying rights nor comparable transaction, unless the decision to do so has been agreed by the board and the decision recorded in the minutes. Nor is he authorised to be a guarantor for a third party to the Savings Bank. The provisions of this article also apply to his spouse.

Chapter VII Staff

Article 30

All Savings Bank staff shall sign a declaration of good faith stating that they will perform their tasks conscientiously and with due attention, and that they will not communicate information to unauthorised third parties about Savings Bank affairs nor about its transactions with specific clients, neither about their debts nor assets.

Article 31

Savings Bank board members, the Savings Bank manager, other members of staff and the accountant and all of those who perform tasks for the Savings Bank are bound to maintain confidentiality about anything they may learn while performing their duties about the business and private affairs of Savings bank clients, unless the provision of such information is required by law. A person must maintain confidentiality even though he no longer performs tasks for the Savings Bank. Exemptions to the obligation of confidentiality are according to article 59 of laws no. 161/2002.

Article 32

The Savings Bank board sets rules about transactions between the Savings Bank and its staff, and about authorisation for members of staff to accept other paid positions and/or take part in other commercial activities parallel to their positions at the Savings Bank.

Article 33

Savings Bank staff are not authorised to be agents for a third parties in dealings with the Savings Bank.

Chapter VIII
Annual Accounts and Audit

Article 34

The Savings Bank financial year is the calendar year. The Annual Accounts are compiled by the Savings Bank manager and board and shall comprise income and expenditure statement, balance sheet, cash flow statement and notes to the accounts. The report of the board shall also be made cf. article 89 of laws no. 161/2002, which comprise the annual report along with the annual accounts.

The annual accounts and the board's report shall be signed by the Savings Bank manager and board. If the Savings Bank manager or a member of the board wishes to contradict the Annual Accounts he sign conditionally sign the report and state the reasons for his reservations in the board's report.

Article 35

The Annual Accounts shall be compiled in accordance with the laws, regulations and good accounting practices, both with regards to assessment of individual sections, presentation, breakdown and names of sections, and with regards to information on sections outside the scope of the balance sheet.

Article 36

The annual general meeting of guarantee capital owners elects a chartered accountant or chartered accountant company for a term of one year. The accountant may not be a member of the board of the Savings Bank, nor a member of its staff, nor perform any functions for the Savings Bank other than that of accountant. He may not act as an agent for another party in dealings with the Savings Bank, nor be in debt to the Savings Bank neither as a principal debtor nor as a guarantor for a debtor. These conditions also apply to his spouse.

The accountant shall, in accordance with good accounting practices, audit the Annual Accounts which shall include the inspection of the Savings Bank bookkeeping and other matters that relate to its activities and status. The Savings Bank board and the Savings Bank manager shall provide facilities for the accountant to make the investigations he considers necessary. He shall be given access to all Savings Bank books and documents and the Savings Bank manager and staff shall provide him a with all information he might request, that it is possible to supply.

Before the middle of March the accountant shall have completed the audit of the Savings Bank Annual Accounts and he is then required to present them to the Savings Bank board.

The accountant has the right to attend the Savings bank annual general meeting and the board meetings where the Annual Accounts are on the agenda. The accountant and his colleagues are not authorised to give individual guarantee capital owners or other unauthorised persons, information about the financial status of the Savings Bank.

Article 37

The Annual Accounts, with the board's report, shall be available at Savings Bank branches and any customer may demand a copy. They should be available in this manner within two weeks of their acceptance at the annual general meeting.

Chapter IX

Amendments to the Savings Bank articles of association

Article 38

The decision to amend these articles of association shall be taken at a meeting of guarantee capital owners, given that it has been stated in the notice for the meeting that such amendments are envisaged and the main aspects of the nature of the amendments. The decision will therefore only be valid if it receives the agreement of at least 2/3 of cast votes and the agreement of guarantee capital owners who control at least 2/3 of the guarantee capital for which voting rights were exercised at the meeting, cf. 3. paragraphs 3 and 4 of article 20.

Chapter X

The Winding-up or Merging of the Savings Bank

Article 39

Decisions on winding up the Savings Bank or merging with another financial institution, cf. Chapter XII of laws no. 161/2002 shall be taken taken at a meeting of guarantee capital owners and are therefore only authorised if they have been agreed by guarantee capital owners according to the regulations that apply to amendments in these articles of association, where such a proposal has been specified in the notice for the meeting.

It is only authorised to merge the Savings Bank with another savings bank.

When all the Savings Bank debts have been paid up when winding up the Savings bank, its guarantee capital owners shall be paid their holding from the remaining assets of the Savings Bank. Any remaining assets shall be disposed of cultural and charitable initiatives in the Savings Bank region of operations, according to the decision of a legally convened guarantee capital owners meeting, on a proposal from the retiring Savings Bank board.

Agreed at BYR Savings Bank Annual General Meeting, 13th of May 2009,

Board of Directors

Jón Kr. Sólnes

Guðmundur Geir Gunnarsson

Sveinn Margeirsson

Matthías Björnsson

Arnar Bjarnason