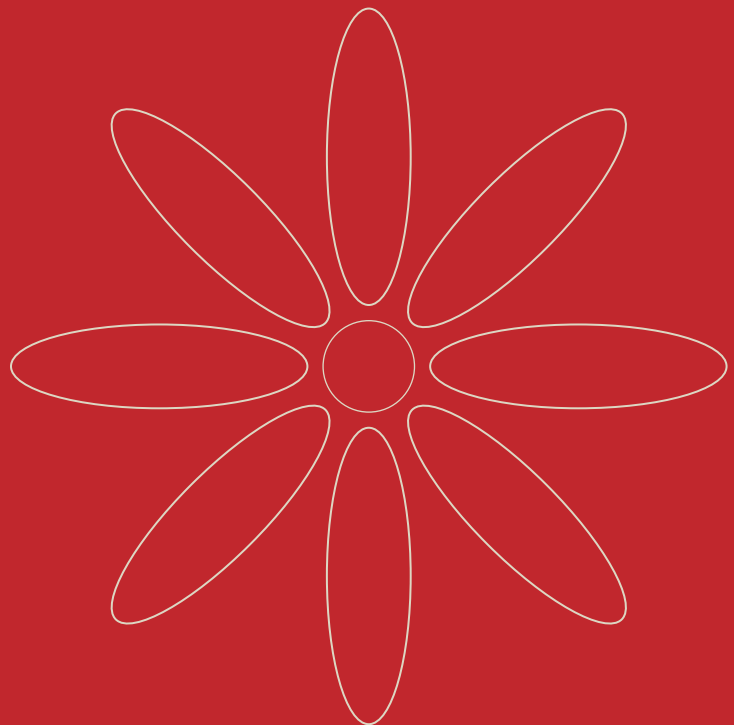


Consolidated Statement 2008

The Pension Fund for State Employees (LSR)
The Pension Fund for Nurses (LH)



Statement of changes in net assets available for benefits 2008

	LSR 2008	LH 2008	Total LSR & LH	
			2008	2007
Contributions				
Participant contributions	5,063,420	81,140	5,144,560	4,587,443
Employer contributions	12,885,170	204,434	13,089,604	11,538,378
Transfer of rights and refunds	(31,200)	0	(31,200)	(62,048)
Increase in pension payments	7,011,728	611,251	7,622,978	6,710,304
Liquidated pension commitments	529,010	2,074	531,083	8,602,146
Employers commitment deposits	5,164,242	363,303	5,527,544	5,910,006
Contributions	30,622,369	1,262,201	31,884,570	37,286,229
Benefits				
Benefits	18,304,567	1,365,662	19,670,229	17,172,705
Cost of disability assessments	3,070	120	3,190	2,265
Benefits	18,307,637	1,365,782	19,673,419	17,174,970
Financial income				
Capital gains on equity shares	(36,841,792)	(2,622,718)	(39,464,510)	2,369,072
Interest and indexation	33,814,691	2,159,807	35,974,499	13,582,854
Provision for losses	(21,994,175)	(1,443,996)	(23,438,170)	(14,790)
Provision for forward agreements	(16,776,075)	(1,451,401)	(18,227,475)	0
Financial income	(41,797,350)	(3,358,307)	(45,155,657)	15,937,136
Financial expenses				
Financial administration expenses	204,332	17,057	221,390	187,331
Other financial expenses	14,825	832	15,657	15,345
Financial expenses	219,158	17,889	237,046	202,676
Operating expenses				
Office and administrative expenses	274,524	25,438	299,962	270,169
Other operating expenses	8,897	989	9,886	9,502
Operating expenses	283,421	26,426	309,847	279,671
Increase in net assets over the year	(29,985,196)	(3,506,203)	(33,491,399)	35,566,048
Net assets from previous year	316,841,497	23,132,282	339,973,779	304,407,731
Net assets available for benefits	286,856,301	19,626,079	306,482,380	339,973,779

Balance sheet 31.12.2008

Assets	LSR	LH	Total LSR & LH	
	2008	2008	2008	2007
Investments				
Real estate	126,045	14,005	140,050	142,563
Variable-income securities	109,693,684	8,554,722	118,248,405	150,486,796
Fixed-income securities	124,845,024	9,459,057	134,304,082	130,858,995
Member loans	53,867,546	2,683,021	56,550,567	45,575,967
Other investments	1,224,267	0	1,224,267	537,501
Investments	289,756,566	20,710,805	310,467,371	327,601,823
Claims				
Claims on employers	1,832,886	146,492	1,979,378	1,485,823
Other claims	226,293	10,079	236,372	41,550
Claims	2,059,180	156,571	2,215,750	1,527,373
Other assets				
Operating assets and other tangible assets	9,960	1,107	11,067	14,610
Cash on hand and deposits	12,508,584	265,007	12,773,592	11,929,590
Other assets	12,518,545	266,114	12,784,659	11,944,200
Assets	304,334,290	21,133,490	325,467,780	341,073,396
Liabilities				
Commitments				
Accrued pension commitments	82,171	7,359	89,529	77,612
Commitments	82,171	7,359	89,529	77,612
Liabilities				
Other liabilities	619,744	48,652	668,396	1,022,005
Provision for forward agreements	16,776,075	1,451,401	18,227,475	0
Liabilities	17,395,819	1,500,053	18,895,872	1,022,005
Liabilities	17,477,989	1,507,411	18,985,401	1,099,617
Net assets available for benefits	286,856,301	19,626,079	306,482,380	339,973,779
Assets excluded in the Balance sheet				
Claim on employers, art. 33/20	210,390,804	28,474,890	238,865,694	216,315,666

Statement of cash flow 2008

	LSR 2008	LH 2008	Total LSR & LH 2008	2007
Inflow				
Contributions	30,250,131	1,140,884	31,391,014	36,319,354
Financial income	6,394,106	335,709	6,729,815	5,308,115
Bond payments	16,809,041	1,264,997	18,074,037	11,733,434
Sale of variable-income securities	13,999,636	875,963	14,875,599	33,477,074
Sale of fixed-income securities	17,016,413	892,295	17,908,707	18,849,250
Inflow	84,469,326	4,509,847	88,979,173	105,687,228
Outflow				
Benefits	18,133,134	1,346,730	19,479,863	17,134,998
Financial expenses	213,837	17,137	230,974	228,214
Operating costs excluding depreciation	277,637	25,298	302,936	283,045
Other outflow	9,652,714	799,671	10,452,385	42,469
Outflow	28,277,322	2,188,835	30,466,158	17,688,726
Disposable resources for purchase of securities and other investments	56,192,008	2,321,011	58,513,019	87,998,506
Purchase of securities and other investments				
Purchase of variable-income securities	21,484,996	988,752	22,473,749	43,310,222
Purchase of fixed-income securities	25,170,475	817,200	25,987,675	25,351,221
New member loans and other loans	8,913,747	290,017	9,203,764	8,644,884
Other investments	3,446	383	3,829	4,756
Total disposal	55,572,665	2,096,353	57,669,017	77,311,083
Increase (decrease) in cash and bank deposits	619,343	224,658	844,002	10,687,422
Cash and bank deposits at beginning of year	11,889,241	40,349	11,929,590	1,242,168
Cash and bank deposits at year-end	12,508,584	265,007	12,773,592	11,929,590

Financial indicators – LSR

	2008	2007	2006	2005	2004
Yield					
Nominal yield	-13.01%	5.06%	18.71%	18.88%	13.76%
Real yield	-25.24%	-0.75%	10.99%	14.15%	9.47%
Net real yield	-25.31%	-0.84%	10.89%	14.03%	9.33%
Average net real yield over last 5 years	0.47%	8.69%	8.57%	6.34%	3.89%
Average net real yield over last 10 years	2.08%	5.71%	6.36%	5.72%	4.94%
Apportionment of other investments					
Listed variable-income securities	34.6%	44.8%	46.9%	41.7%	40.4%
Listed fixed-income securities	38.2%	35.1%	37.0%	42.0%	41.0%
Unlisted variable-income securities	3.2%	1.1%	0.5%	0.1%	0.3%
Unlisted fixed-income securities	4.9%	4.6%	2.9%	2.7%	3.7%
Mortgage loans	18.6%	14.2%	12.7%	13.4%	14.4%
Other investments	0.4%	0.2%	0.2%	0.2%	0.1%
Apportionment of other investments by currency					
Assets in Icelandic kronas	62.6%	69.2%	66.9%	71.4%	75.1%
Assets in foreign currencies	37.4%	30.8%	33.1%	28.6%	24.9%
Financial expenses					
Apportionment of financial expenses of assets	0.09%	0.09%	0.09%	0.11%	0.13%
Numbers					
Average number of active members	28.099	27.655	26.849	26.504	26.486
Average number of pensioners	11.603	10.980	10.388	9.989	9.294
Breakdown of pension payments by type					
Old-age pensions	74.4%	74.3%	72.9%	72.7%	72.76%
Disability allowance	6.5%	5.7%	6.6%	6.3%	6.0%
Spouse's pension	18.7%	19.6%	20.2%	20.9%	21.1%
Children's allowance	0.4%	0.4%	0.4%	0.1%	0.1%

Financial indicators – LH

	2008	2007	2006	2005	2004
Yield					
Nominal yield	-14.64%	4.41%	18.93%	18.52%	13.80%
Real yield	-26.64%	-1.37%	11.20%	13.81%	9.51%
Net real yield	-26.73%	-1.47%	11.09%	13.67%	9.37%
Average net real yield over last 5 years	-0.06%	8.76%	8.53%	6.11%	3.58%
Average net real yield over last 10 years	1.71%	5.59%	6.36%	5.82%	5.12%
Apportionment of other investments					
Listed variable-income securities	37.8%	45.7%	48.3%	40.6%	40.4%
Listed fixed-income securities	42.0%	39.0%	38.8%	46.2%	44.2%
Unlisted variable-income securities	3.5%	1.2%	0.5%	0.1%	0.3%
Unlisted fixed-income securities	3.7%	3.9%	3.8%	3.7%	4.7%
Member loans	13.0%	10.2%	8.6%	9.4%	10.5%
Apportionment of other investments by currency					
Assets in Icelandic kronas	57.9%	66.5%	64.1%	69.1%	73.6%
Assets in foreign currencies	42.1%	33.5%	35.9%	30.9%	26.4%
Financial expenses					
Apportionment of financial expenses of assets	0.12%	0.10%	0.10%	0.12%	0.13%
Numbers					
Average number of active members	628	689	740	765	815
Average number of pensioners	644	589	555	521	487
Breakdown of pension payments by type					
Old-age pensions	86.8%	86.9%	85.1%	86.4%	87.2%
Disability allowance	10.2%	10.1%	11.7%	10.6%	10.2%
Spouse's pension	2.9%	2.8%	3.0%	2.9%	2.5%
Children's allowance	0.2%	0.2%	0.2%	0.1%	0.1%

Appendix – LSR & LH

Role of the Funds

The principal role of the Pension Fund for State Employees (LSR) and the Pension Fund for Nurses (LH) is to pay pensions to its members upon retirement and throughout their lives and ensure their families with a pension following a loss of income due to an impaired ability to work or due to death. The Fund receives contributions and invests them in a common fund in order to meet its liability regarding old-age pensions, disability benefits, spouse's and children's benefits. Furthermore, the Fund grants loans to Fund members and accepts and invests voluntary pension savings. LSR & LH had a total of 31,984 active members in 2008 and 14,482 members received pensions and other benefits. The Fund pays over one-third of all pensions and benefits paid by Icelandic pension funds. The Fund operates in three divisions, divisions A and B, and a division for individual retirement accounts. All divisions have the same Board but are financially separate from each other. The Pension Fund for State Employees operates in close cooperation with the Pension Fund for Nurses. The two funds share facilities and staff members.

Investment Policy for LSR & LH

The investment policy is as shown below. It is reviewed at least once a year considering changes in market situations, laws and regulations. LSR & LH follow a strategic asset allocation policy that targets the percentage to be invested in each asset class.

	Division A			Division B & LH		
	Policy	Variation		Policy	Variation	
Cash	3%	0%	10%	3%	0%	10%
Bonds	55%	40%	70%	57%	40%	70%
Government bonds	23%	15%	30%	25%	15%	30%
Fin. institution bonds	5%	0%	15%	5%	0%	15%
Municipal bonds	5%	0%	15%	5%	0%	15%
Corporate bonds	5%	0%	15%	5%	0%	15%
Member loans	12%	5%	30%	12%	5%	30%
Foreign bonds	5%	0%	5%	5%	0%	5%
Equities	35%	30%	60%	35%	30%	60%
Domestic equities	5%	0%	15%	5%	0%	15%
Foreign equities	30%	25%	45%	30%	25%	45%
Other Investments	7%	0%	10%	5%	0%	10%
Private Equity	3%	0%	7%	3%	0%	7%
Real Estate	2%	0%	5%	2%	0%	5%
Hedge Funds	2%	0%	5%	-	-	-

Investments

Total net investments in the year 2008 were 21.0 billion ISK. The funds invested 17.0 billion ISK in domestic bonds and sold 3.5 billion ISK in foreign bonds. Net investments allocated to domestic equities were 2.5 billion and 0.8 billion ISK of foreign equities were sold in 2008. LSR & LH invested 3.7 billion ISK in private equity last year and 0.5 billion ISK in real estate.

Net investments 2008

(m. ISK)	Div. A	Div. B	Div. S	LSR total	LH	Total	
Government bonds	2,877	3,881	0	6,757	114	6,871	
Fin. institution bonds	422	1,270	(75)	1,616	(262)	1,355	
Municipal bonds	1,578	1,157	0	2,734	92	2,827	
Corporate bonds	214	27	25	266	1	267	
Member loans	3,859	2,828	18	6,705	177	6,882	
Domestic bond funds	0	0	(1,219)	(1,219)	0	(1,219)	
Foreign bonds	(1,330)	(1,833)	(100)	(3,263)	(246)	(3,510)	
	Bonds	7,619	7,328	(1,352)	13,596	(124)	13,472
Domestic equities	1,510	872	72	2,455	67	2,529	
Foreign equities	(138)	(427)	(6)	(580)	(172)	(752)	
	Equities	1,373	436	66	1,875	(106)	1,777
Private Equity	1,747	1,775	48	3,570	170	3,740	
Real Estate	189	291	8	488	39	527	
	Other investments	1,936	2,066	56	4,058	209	4,267
	Cash	4,790	-5,473	1,990	1,306	225	1,531
	Total	15,718	4,356	761	20,835	204	21,039

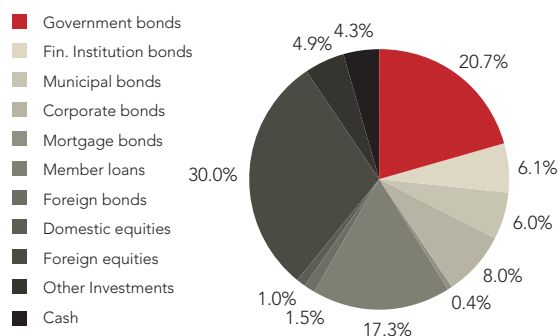
Total Assets

In the year-end 2008 total assets in securities amounted to 323.1 billion ISK. Assets in domestic bonds amounted to 189.0 billion ISK or 58.5% compared to 52.7% in the year-end 2007. Assets in foreign bonds were 4.7 billion ISK or 1.5% compared to 2.6% the year before. Assets in domestic equities were 3.1 billion ISK or 1.0% of total assets compared to 15.9% in 2007. Total assets in foreign equities were 96.5 billion ISK or 29.9% compared to 27.0% in 2007.

Total Assets 2008

(m. ISK)	LSR	LH	Total	Proportion			
				LSR	LH	Total	
Government bonds	62,533	4,324	66,857	20.7%	20.6%	20.7%	
Fin. institution bonds	18,236	1,528	19,764	6.0%	7.3%	6.1%	
Municipal bonds	17,959	1,322	19,281	5.9%	6.3%	6.0%	
Corporate bonds	23,854	1,900	25,754	7.9%	9.1%	8.0%	
Mortgage bonds	1,335	88	1,423	0.4%	0.4%	0.4%	
Member loans	53,295	2,630	55,925	17.6%	12.5%	17.3%	
Foreign bonds	4,313	386	4,699	1.4%	1.8%	1.5%	
	Bonds	181,526	12,177	193,702	60.1%	58.1%	60.0%
Domestic equities	2,882	193	3,075	1.0%	0.9%	1.0%	
Foreign equities	89,286	7,178	96,464	29.7%	34.2%	30.0%	
	Equities	92,168	7,371	99,539	30.5%	35.2%	30.9%
Private Equity	13,537	1,052	14,589	4.5%	5.0%	4.5%	
Real Estate	1,159	98	1,257	0.4%	0.5%	0.4%	
Hedge funds	16	0	16	0.0%	0.0%	0.0%	
	Other investments	14,713	1,149	15,862	4.9%	5.5%	4.9%
	Cash	13,733	265	13,998	4.5%	1.3%	4.3%
	Total	302,139	20,962	323,101	100%	100%	100%

Total Assets 2008



Return

The table below shows nominal and net real return for LSR and LH in 2008 and 2007 along with nominal and real return in each asset class.

Return and Asset Allocation 2008

	LSR		LH	
	2008	2007	2008	2007
Return				
Nominal return	-13.0%	5.1%	-14.6%	4.4%
Net real return	-25.2%	-0.8%	-26.6%	-1.5%
Average 5 year net real return	0.5%	8.7%	-0.1%	8.8%
Asset Allocation				
Cash	4.5%	—	1.3%	—
Domestic bonds	58.7%	52.9%	56.2%	50.7%
Foreign bonds	1.4%	2.6%	1.8%	2.8%
Domestic equities	1.0%	15.9%	0.9%	15.7%
Foreign equities	29.7%	26.8%	34.2%	28.9%
Other investments	4.9%	1.8%	5.5%	1.9%

Return on Asset Classes

	LSR		LH	
	2008	2007	2008	2007
Nominal return				
Domestic bonds	9.0%	10.1%	9.4%	10.0%
Foreign bonds	29.6%	5.0%	23.3%	6.8%
Domestic equities	-97.4%	2.1%	-95.7%	2.9%
Foreign equities	-11.3%	-3.1%	-13.2%	-3.3%
Other investments	75.6%	7.8%	76.6%	8.4%
Real return				
Domestic bonds	-6.3%	4.0%	-6.0%	3.9%
Foreign bonds	11.4%	-0.8%	5.9%	0.9%
Domestic equities	-97.8%	-3.1%	-96.3%	-2.8%
Foreign equities	-23.8%	-8.5%	-25.4%	-8.6%
Other investments	50.9%	1.8%	51.8%	2.4%

Foreign Equities

LSR & LH cooperate with external managers for investments and custody of foreign equities. For risk diversification purposes, investments are diversified between several managers with different investment styles and strategies. The external managers are listed in the table below.

Funds / segregated portfolios (LSR & LH) 2008

Segregated Portfolios	m.ISK	%
Morgan Stanley	15,277	13.6%
MFS Institutional Advisors	11,729	10.5%
EFG Global Equities	1,128	1.0%
Total	28.133	25.1%

Foreign Equities – Funds

State Steet Global Advisors	12,346	11.0%
Vanguard Global Advisors	9,931	8.9%
ACM Global Growth Trends	9,913	8.8%
J.P. Morgan Global Dynamic Fund	8,265	7.4%
ACM Global Value	7,619	6.8%
Schroder Global Sigma	7,213	6.4%
Templeton Growth Fund	3,862	3.4%
Schroder Global Quant Value	3,734	3.3%
T. Rowe Price US Small Cap Fund	1,375	1.2%
Seilern Stryx fund	935	0.8%
Other funds	2,888	2.6%
Total	68,082	60.7%

Private Equities

Schroder Private Equity III	1,921	1.7%
Morgan Stanley Privat Equity III	1,609	1.4%
Schroder Private Equity II	1,456	1.3%
Black Rock Private Opportunity Fund II	1,363	1.2%
DLJ Merchant BK Partners IV	1,252	1.1%
Morgan Stanley Private Equity II	987	0.9%
Alþjóða Framtakssjóðurinn II	897	0.8%
Partners Group Private Equity	813	0.7%
LGT Crown European Private Equity Fund	526	0.5%
SVG Diamond Private Equity III	517	0.5%
Other funds	3,243	2.9%
Total	14.584	13.0%

Real Estate Funds

Templeton Real Estate Fund	767	0.7%
International Real Estate Fund	490	0.4%
Total	1.257	1.1%

Hedge Funds

Artemis Holding ISK Class	16	0.0%
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Foreign bonds

Landsbanki Diversified Yield	8	0.0%
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Total	112,080	100,0%
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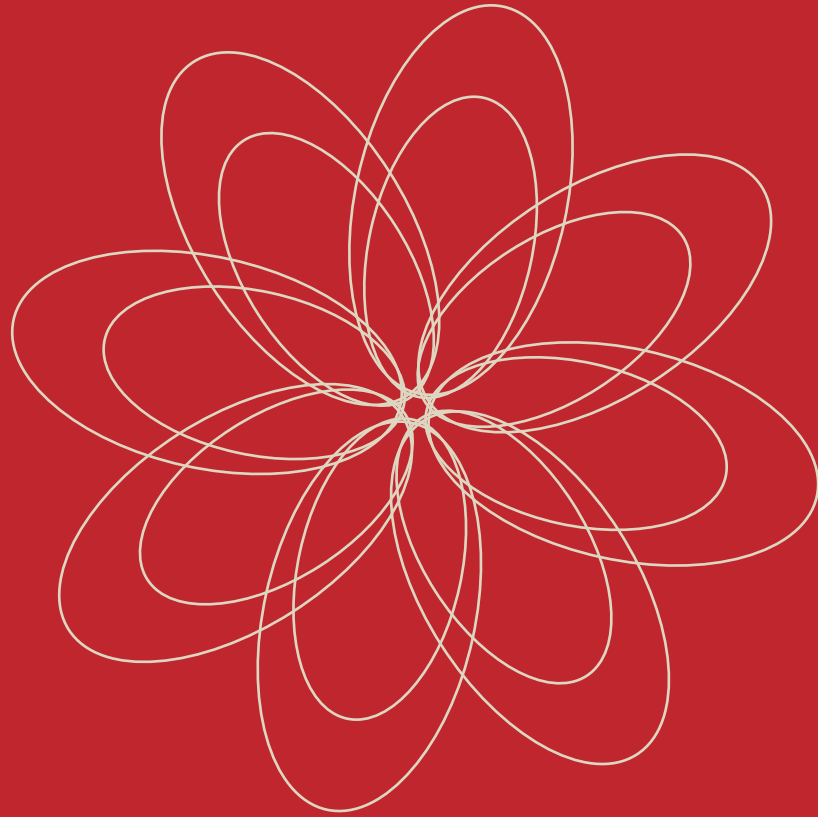
LSR

LÍFEYRISSJÓÐUR
STARFSMANNA RÍKISINN

Afgreiðslan er opin alla virka daga

9:00–15:30

Símatími er alla virka daga frá 9:00–16:00



Umsjón:

Halla Kristjánsdóttir, eignastýring
Hulda Jakobsdóttir, viðskiptafræðingur
Þorkell Sigurgeirsson, skrifstofu- og fjármálastjóri

Hönnun og umbrot:

Tunglið – auglýsingastofa

Prentun:

Oddi hf.

Ljósmyndir:

Thorsten Henn, Kristján Maack

