Landsbankinn

Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2010

This page has been left blank intentionally.

Content | Page

This page has been left blank intentionally.

Endorsement and Statement by the Board of Directors and Chief Executive Officer

The Condensed Consolidated Interim Financial Statements for the first three months of 2010 consist of the Condensed Consolidated Interim Financial Statements of NBI hf. (the Bank) and its subsidiaries, together referred to as "the Group". These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU, with certain exemption regarding comparative amounts as described in the notes to the financial statements.

On 4 January 2010 the Icelandic State Financial Investments (Bankasýsla ríkisins) took over the role of the Icelandic State Treasury as the owner of 81.3% of the Bank in accordance with Art. 1 of Act No. 88/2009.

On 20 May 2010 Steinþór Pálsson was hired as the new Chief Executive Officer of the Bank. He will replace Ásmundur Stefánsson as of 1 June 2010.

According to the condensed consolidated income statement, the Group's after tax-profit for the first three months of the year 2010 amounted to ISK 8,334 million. The Group's equity at the end of this period amounted to ISK 165,926 million. The capital adequacy ratio of the Group was 16.3%. As of 31 March 2010, the Group's total assets amounted to ISK 1,113,437 million.

According to the Directors' best knowledge, these Condensed Consolidated Interim Financial Statements comply with IAS 34 *Interim Financial Reporting* and give a true and fair view of the Group's assets and liabilities, financial position and performance. They also describe the principal risk and uncertainty factors faced by the Group. The Endorsement and Statement by the Board of Directors and Chief Executive Officer provides a clear overview of developments and achievements in the Group's operations and its situation.

The Bank's management has assessed the Group's ability to continue as a going concern and it is satisfied that the Group has the resources to continue its operations. Accordingly, these consolidated financial statements have been prepared on a going concern basis. However, there are certain risk factors inherent in the Group's assets and liabilities that may hinder the ability of the Bank or its subsidiaries to continue as a going concern. In particular there is a rather high uncertainty about borrower's ability to pay back their loans, there is a legal uncertainty as to the legality of foreign currency loans as further discussed in Note 2 and 29 to these Condensed Consolidated Interim Financial Statements.

The Board of Directors and Chief Executive Officer would like to draw attention to the estimated significant impact on the Groups Equity if the Supreme Court of Iceland will rule that some or all of the Group's foreign currency loans to individuals and corporations are in fact ISK denominated loans. See further discussions in note 2 and note 4.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of NBI hf. for the three months ended 31 March 2010.

Reykjavík, 31 May 2010.

Board of Directors

Gunnar Helgi Hálfdánarson

Chairman

Sigríður Hrólfsdóttir

Guðríður Ólafsdóttir

Þórdís Ingadóttir

Lárentsínus Kristjánsson

Chief Executive Officer

Ásmundur Stefánsson

Independent Auditors' Review Report

To the board of NBI hf.

We have reviewed the accompanying condensed consolidated interim financial statements of NBI hf, which comprise the endorsement and statement by the board of directors and chief executive officer, the consolidated financial position as at 31 March, 2010 and the consolidated income statement, changes in equity and cash flows for the three-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 IAS 34 Interim Financial Reporting. 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 the 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 31 March 2010 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 2 in the condensed consolidated interim financial information. The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue its operations. However, as discussed in the note, there are certain risk factors in the Bank's assets and liabilities that may hinder the Bank's ability to continue as a going concern.

We also would like to draw attention to Note 2 where it is stated that these Condensed Consolidated Interim Financial Statements have been prepared in accordance with the International Accounting Standard on interim financial reporting, IAS 34, with the exemption that comparative amounts in the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement Cash Flows and related notes are for the whole year 2009. As a result comparatives are not fully comparable. This results in a non-compliance with IFRS regarding the presentation and information provided in the Interim Financial Statements.

Reykjavik, 31 May 2010

KPMG hf.

Reynir Stefán Gylfason

Helgi F. Arnarson

Condensed Consolidated Statement of Financial Position as at 31 March 2010

Notes		31.3.2010	31.12.2009
	Assets		
7	Cash and balances with Central Bank	47,856	26,174
6, 8	Bonds and debt instruments	158,877	165,721
6, 8	Equities and equity instruments	22,197	23,411
6, 9	Derivative instruments	1,168	971
10	Loans and advances to financial institutions	85,325	83,129
11, 28	Loans and advances to customers	639,048	667,122
	Investments in associates	2,947	2,945
	Property and equipment	5,798	6,030
	Intangible assets	1,079	1,058
	Deferred tax assets	5,083	6,682
	Other assets	16,077	13,980
		985,455	**997,223**
12	Assets classified as held for sale	127,982	63,878
	Total assets	**1,113,437**	**1,061,101**
	Liabilities		
13	Due to financial institutions and Central Bank	127,845	98,228
14	Deposits from customers	426,978	452,655
6, 9	Derivative instruments and short positions	7,463	5,943
	Tax liabilities	85	83
15	Borrowings	301,715	306,493
6, 16	Contingent bond	11,024	10,241
	Other liabilities	5,380	8,177
		880,490	**881,820**
	Liabilities associated with assets classified as held for sale	67,021	21,689
	Total liabilities	**947,511**	**903,509**
	Equity		
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Statutory reserve	741	741
	Retained earnings	15,127	6,791
	Total equity attributable to owners of the Bank	**163,766**	**155,430**
	Non-controlling interests	2,160	2,162
	Total equity	**165,926**	**157,592**
	Total liabilities and equity	**1,113,437**	**1,061,101**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Condensed Consolidated Income Statement for the three months ended 31 March 2010

Notes		2010 1.1-31.3	2009 1.1-31.12
	Interest income	20,295	105,248
	Interest expense	(10,884)	(77,143)
17	**Net interest income**	**9,411**	**28,105**
18, 39	Net impairment loss on loans and advances	(2,673)	(6,577)
	Net interest income less net impairment loss on loans and advances	**6,738**	**21,528**
	Fee and commission income	1,516	6,835
	Fee and commission expense	(621)	(2,622)
19	**Net fee and commission income**	**895**	**4,213**
6,20,22	Net gain on financial assets designated as at fair value through profit or loss	579	4,020
6,21,22	Net gain on financial assets and liabilities held for trading	295	2,876
23	Net foreign exchange gain (loss)	6,035	(2,814)
24	Other income and expenses	129	902
	Other net operating income	**7,038**	**4,984**
	Total operating income	**14,671**	**30,725**
25	Salaries and related expenses	2,218	8,468
	Other administrative expenses	1,470	6,064
	Depreciation and amortisation	327	1,278
26	Acquisition-related costs	0	1,044
	Total operating expenses	**4,015**	**16,854**
	Share of profit of associates, net of income tax	2	383
	Profit before income tax	**10,658**	**14,254**
	Income tax	(2,040)	(615)
	Profit for the period from continuing operations	**8,618**	**13,639**
	(Loss) profit for the period from discontinued operations, net of income tax	(284)	693
	Profit for the period	**8,334**	**14,332**
	Profit (loss) for the period attributable to:		
	Owners of the Bank		
	Profit for the period from continuing operations	8,618	13,639
	(Loss) profit for the period from discontinued operations	(282)	838
	Profit for the period attributable to owners of the Bank	**8,336**	**14,477**
	Non-controlling interests		
	Profit for the period from continuing operations	0	0
	Loss for the period from discontinued operations	(2)	(145)
	Loss for the period attributable to non-controlling interests	**(2)**	**(145)**
	Profit for the period	**8,334**	**14,332**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2010

Notes

	Attributable to owners of the Bank						
Change in equity for the year 2009	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance at 1 January 2009	24,000	125,898	0	(6,945)	142,953	332	143,285
Profit for the year				14,477	14,477	(145)	14,332
Transfer to statutory reserve			741	(741)	0		0
Deemed capital distribution		(2,000)			(2,000)		(2,000)
Changes in ownership interests in subsidiaries that do not result in loss of control					0	1,975	1,975
Balance at 31 December 2009	**24,000**	**123,898**	**741**	**6,791**	**155,430**	**2,162**	**157,592**
Change in equity for the three months ended 31 March 2010							
Balance at 1 January 2010	24,000	123,898	741	6,791	155,430	2,162	157,592
Profit for the period				8,336	8,336	(2)	8,334
Balance at 31 March 2010	**24,000**	**123,898**	**741**	**15,127**	**163,766**	**2,160**	**165,926**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2010

Notes		2010 1.1-31.3	2009 1.1-31.12
	Profit for the period	8,334	14,332
	Net cash from (used in) operating activities	24,294	(3,047)
	Net cash used in investing activities	(79)	(326)
	Net cash from financing activities	0	88
	Net change in cash and cash equivalents	24,215	(3,285)
	Cash and cash equivalents at the beginning of the period	21,165	22,897
	Effect of exchange rate changes on cash and cash equivalents held	(212)	1,554
	Cash and cash equivalents at the end of the period	**45,168**	**21,166**
	Cash and cash equivalents is specified as follow:		
7	Cash and unrestricted balances with Central Bank	39,151	16,538
10	Bank accounts with financial institutions	6,017	4,628
	Cash and cash equivalents at the end of the period	**45,168**	**21,166**
	Investing and financing activities not affecting cash flows		
	Settlement of capital contribution through receipt of Icelandic government bonds		121,225
	Settlement of capital contribution through offset against provisional liability due to Landsbanki Íslands hf.		28,000
	Settlement of interest on capital contribution through offset against provisional liability due to Landsbanki Íslands hf.		4,270
	Settlement of provisional liability due to Landsbanki Íslands hf. through borrowings		312,168

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

NBI hf. (hereinafter referred to as the "Bank") was founded on 7 October 2008 by the Ministry of Finance on behalf of the Icelandic State Treasury. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates based on Act No. 161/2002, on Financial Undertakings. The Bank has a license to operate based on Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances and it is supervised by the Financial Supervisory Authority of Iceland. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík. The condensed consolidated interim financial statements of the Bank for the three months ended 31 March 2010 include the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and retail banking, investment banking and asset management.

The issue of these condensed consolidated interim financial statements was authorised by the Bank's Board of Directors on 31 May 2010.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2010 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU, with the exemption that comparative amounts in the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement Cash Flows and related notes are for the whole year 2009. As a result comparatives are not fully comparable.

These Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2009, which are available on the Bank's website www.landsbanki.is.

Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and it is satisfied that the Group has the resources to continue its operations. Accordingly, these condensed consolidated interim financial statements have been prepared on a going concern basis. However, there are certain risk factors inherent in the Group's assets and liabilities that may hinder the ability of the Bank or its subsidiaries to continue as a going concern.

The uncertainty about borrowers' ability to pay back their loans to the Group is rather high, due to current economic conditions in Iceland, especially in the case of loans denominated in foreign currencies and granted to borrowers with limited or no income in foreign currency. To reduce the foreign exchange risk related to fluctuating ISK exchange rates, the Bank agreed to issue to Landsbanki Íslands hf. bonds denominated in EUR, USD and GBP. Foreign exchange exposure is nevertheless a significant risk factor in the operations of the Group. The Bank's management has been taking measures to mitigate that risk by converting loans in foreign currencies to ISK, by purchasing FX options and entering into forward foreign exchange contracts. In addition, the District Court of Reykjavik has on three occasions ruled about the legality of foreign currency loans with conflicting verdicts. The rulings have been appealed to the Supreme Court of Iceland. There is a possibility that the Supreme Court will rule that some of the Group's foreign currency loans to individuals and corporations are in fact ISK denominated loans which could affect other foreign currency loans of the Group.

It is the view of the Bank's management that the Group's foreign currency loans are in accordance with Icelandic law. Based on the management's judgement about the legality of the foreign currency loans and on the results of the stress tests performed by the Bank, it is the management's view that the Group is sufficiently capitalised to continue as a going concern. Significant market shocks during the realignment period of the Group's risk profile pose some uncertainty. Of critical importance is the Group's access to funding to fulfil the maturity of existing short-term liabilities and to continue financing the Group's assets. Further information regarding the nature and extent of risks arising from the Group's financial assets and liabilities and from off-balance sheet exposures is provided in Notes 27 and 32-52.

Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for:

- Financial assets and liabilities classified as at fair value through profit or loss, which are measured at fair value;
- Non-current assets and disposal groups classified as held for sale, which are measured at the lower of carrying amount or fair value less costs to sell.

Functional and presentation currency

Items included in the financial statements of each individual entity of the Group are measured using the currency of the economic environment in which the respective entity operates (its functional currency). All amounts are presented in Icelandic króna (ISK), which is also the Bank's functional currency, rounded to the nearest million unless otherwise stated.

3. Accounting policies

These condensed consolidated interim financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009. The accounting policies applied have been applied consistently to all periods presented.

4. Estimates and judgements

The preparation of interim financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009, except for the following estimates and judgements:

Denomination currency of loans

The Group acquired loans from Landsbanki Íslands hf. some of which being denominated in various foreign currencies. Due to challenges by clients through legal proceedings, there is a possibility that the Supreme Court of Iceland will rule that some or all of the Group's foreign currency loans to individuals and corporations are in fact ISK denominated loans. However, it is the view of the Bank's management that the foreign currency loans of the Group are in accordance with Icelandic law. The Bank's management expects the Supreme Court of Iceland to rule on this legal issue during the year 2010. If the ruling by the Supreme Court of Iceland will be unfavourable it will increase the uncertainty about the currency of denomination of the Group's loans. The Bank's management has estimated that if all of the Group's foreign currency denominated loans are considered to be ISK loans, it could lead to a decrease in the carrying amount of these loans by ISK 20 to 100 billion, with an equivalent negative impact on equity. The effect would depend on whether the interest rates on these loans would be considered to have been the foreign currency rates or the Icelandic rate since the origination of the loans until period ended 31 March 2010. The effect on the carrying amount of the loans is estimated to be lesser if the loans are considered to have carried Icelandic floating interest rate (i.e. REIBOR plus the contractual margin) than if the loans are considered to have carried foreign currency interest rates.

5. Operating segments

Management is working towards organising the Group's main business units along five avenues of commercialisation:

- Retail banking, which includes services provided through the Bank's Icelandic branch network to individuals and to small and medium-size businesses as well as leasing services provided by the subsidiary SP-fjármögnun hf.
- Corporate banking, which includes services provided to large and medium-size corporate clients through the Bank's Corporate Division.
- Asset management and private banking, which includes fund and wealth management services provided by divisions of the Bank and its subsidiary Landsvaki hf.
- Investment banking, which includes the Group's capital markets and corporate finance activities, including the subsidiary Horn Fjárfestingarfélag ehf.
- Treasury operations, which undertakes Group funding and centralised risk management activities by borrowing, issuing debt securities, using derivatives for risk management purposes and investing in liquid assets such as short-term placements along with corporate and government debt securities.

From the foundation of the Bank on 7 October 2008, the financial information available for evaluation by management in deciding how to allocate resources and assess performance is that of the business as a whole. For this reason the Group had a single reportable segment during the period from 1 January 2010 to 31 March 2010.

Notes to the Condensed Consolidated Statement of Financial Position

6. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities are classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:

- Loans and receivables, measured at amortised cost;
- Financial assets and liabilities held for trading, measured at fair value;
- Financial assets designated as at fair value through profit or loss, measured at fair value;
- Other financial liabilities, measured at amortised cost.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 March 2010:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value*	Total carrying amount	Fair value
Cash and balances with Central Bank	47,856	-	-	-	-	47,856	47,856
Bonds and debt instruments	100,489	27,636	30,752	-	-	158,877	158,877
Equities and equity instruments	-	1,465	20,732	-	-	22,197	22,197
Derivative instruments	-	1,168	-	-	-	1,168	1,168
Loans and advances to financial institutions	85,325	-	-	-	-	85,325	85,325
Loans and advances to customers	639,048	-	-	-	-	639,048	659,748
Other financial assets	8,434	-	-	-	-	8,434	8,434
Total	**881,152**	**30,269**	**51,484**	**-**	**-**	**962,905**	**983,605**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	127,845	-	127,845	127,845
Deposits from customers	-	-	-	426,978	-	426,978	426,978
Derivative instruments and short positions	-	7,463	-	-	-	7,463	7,463
Borrowings	-	-	-	301,715	-	301,715	301,715
Contingent bond	-	-	-	-	11,024	11,024	11,024
Other financial liabilities	-	-	-	2,218	-	2,218	2,218
Total	**-**	**7,463**	**0**	**858,756**	**11,024**	**877,243**	**877,243**

* The contingent bond has been recognised in the year 2009 as part of the settlement for the assets acquired and liabilities assumed from Landsbanki Íslands hf. The bond is a financial liability which the Group is required to measure at fair value in accordance with IFRS 3 (2008), with any resulting gain or loss to be recognised in income statement.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 December 2009:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	26,174	-	-	-	-	26,174	26,174
Bonds and debt instruments	100,661	32,305	32,755	-	-	165,721	165,721
Equities and equity instruments	-	1,615	21,796	-	-	23,411	23,411
Derivative instruments	-	971	-	-	-	971	971
Loans and advances to financial institutions	83,129	-	-	-	-	83,129	83,129
Loans and advances to customers	667,122	-	-	-	-	667,122	684,118
Other financial assets	6,990	-	-	-	-	6,990	6,990
Total	**884,076**	**34,891**	**54,551**	**-**	**-**	**973,518**	**990,514**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	98,228	-	98,228	98,228
Deposits from customers	-	-	-	452,655	-	452,655	452,655
Derivative instruments and short positions	-	5,943	-	-	-	5,943	5,943
Borrowings	-	-	-	306,493	-	306,493	306,493
Contingent bond	-	-	-	-	10,241	10,241	10,241
Other financial liabilities	-	-	-	2,138	-	2,138	2,138
Total	**-**	**5,943**	**0**	**859,514**	**10,241**	**875,698**	**875,698**

All amounts are in ISK million

6. Classification and fair value of financial assets and liabilities (continued)

The fair value of financial assets and liabilities was determined based on the same valuation methods as those described in the Group`s consolidated financial statements as at and for the year ended 31 December 2009.

Fair value hierarchy

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the condensed consolidated statement of financial position, are categorised as at 31 March 2010:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	6,236	126,002	26,639	158,877
Equities and equity instruments	6,177	12,720	3,300	22,197
Derivative instruments	-	1,168	-	1,168
Total	**12,413**	**139,890**	**29,939**	**182,242**
Financial liabilities				
Derivative instruments	-	1,130	-	1,130
Short positions	6,333	-	-	6,333
Contingent bond	-	-	11,024	11,024
Total	**6,333**	**1,130**	**11,024**	**18,487**

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the condensed consolidated statement of financial position, are categorised as at 31 December 2009:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	6,304	122,046	37,371	165,721
Equities and equity instruments	6,154	13,702	3,555	23,411
Derivative instruments	-	971	-	971
Total	**12,458**	**136,719**	**40,926**	**190,103**
Financial liabilities				
Derivative instruments	-	675	-	675
Short positions	5,268	-	-	5,268
Contingent bond	-	-	10,241	10,241
Total	**5,268**	**675**	**10,241**	**16,184**

During the period from 1 January to 31 March 2010 there were no transfers into Level 1. Financial assets and liabilities were transferred into Level 2 from Level 3 because significant inputs used in their fair value measurement became observable during the period from 1 January to 31 March 2010, such as market prices or rates.

The fair value of financial assets and liabilities classified within Level 3 was determined based on the same asumptions as those described in the Group`s consolidated financial statements as at and for the year ended 31 December 2009.

All amounts are in ISK million

6. Classification and fair value of financial assets and liabilities (continued)

The following tables show the reconciliation for fair value measurement in Level 3 for the three months ended 31 March 2010 and for the year 2009:

Three months ended 31 March 2010	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
Carrying amount at 1 January 2010	37,371	3,555	40,926	(10,241)
Total gains (losses) recognised in income statement	(279)	(31)	(310)	(783)
Purchases	101	0	101	-
Sales	0	(224)	(224)	-
Settlements	(6,819)	0	(6,819)	-
Transfers into Level 3	375	0	375	-
Transfers out of Level 3	(4,110)	0	(4,110)	-
Carrying amount at 31 March 2010	**26,639**	**3,300**	**29,939**	**(11,024)**
1 January - 31 December 2009				
Carrying amount at 1 January 2009	26,746	5,007	31,753	-
Total gains (losses) recognised in income statement	8,572	202	8,774	(10,241)
Purchases	20,313	3,144	23,457	-
Sales	(17,000)	(5,361)	(22,361)	-
Settlements	(1,697)	0	(1,697)	-
Transfers into Level 3	962	563	1,525	-
Transfers out of Level 3	(525)	0	(525)	-
Carrying amount at 31 December 2009	**37,371**	**3,555**	**40,926**	**(10,241)**

The following tables show the line items in the condensed consolidated income statement where the total gains (losses) were recognised during the three months ended 31 March 2010 and during the year 2009, for fair value measurements in Level 3:

Three months ended 31 March 2010	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Interest expense	-	-	(783)	(783)
Net gain (loss) on financial assets designated as at fair value through profit or loss	(126)	(21)	-	(147)
Net foreign exchange (loss) gain	(153)	(10)	-	(163)
Total	**(279)**	**(31)**	**(783)**	**(1,093)**
1 January - 31 December 2009				
Interest expense	-	-	(10,241)	(10,241)
Net gain (loss) on financial assets designated as at fair value through profit or loss	7,733	174	-	7,907
Net gain on financial assets and liabilities held for trading	665	28	-	693
Net foreign exchange (loss) gain	174	-	-	174
Total	**8,572**	**202**	**(10,241)**	**(1,467)**

The following table shows the line items in the condensed consolidated income statement where gains (losses), relating only to financial assets and liabilities held by the Group at 31 March 2010 and categorised in Level 3, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Interest expense	-	-	(783)	(783)
Net gain (loss) on financial assets designated as at fair value through profit or loss	(493)	(21)	-	(514)
Net foreign exchange (loss) gain	(153)	(10)	-	(163)
Total	**(646)**	**(31)**	**(783)**	**(1,460)**

All amounts are in ISK million

7. Cash and balances with Central Bank

	31.3.2010	31.12.2009
Cash on hand	1,883	1,506
Money-market placements with Central Bank	36,073	0
Unrestricted balances with Central Bank	1,195	15,032
Total cash and unrestricted balances with Central Bank	**39,151**	**16,538**
Reserve requirement with Central Bank	8,705	9,636
Total cash and balances with Central Bank	**47,856**	**26,174**

The Bank holds a mandatory reserve deposit account with the Central Bank of Iceland. The average balance of this account for each month must be equivalent to at least mandatory reserve deposits. Any excess balance is available for use by the Group. Other cash and balances with the Central Bank are available for the Group's immediate use.

8. Bonds and equities

	31.3.2010				31.12.2009			
Bonds and debt instruments	**Loans and receivables**	**Held for trading**	**Designated as at fair value**	**Total**	**Loans and receivables**	**Held for trading**	**Designated as at fair value**	**Total**
Domestic								
Listed	-	4,905	7,829	12,734	-	10,953	9,272	20,225
Unlisted	100,489	21,357	17,463	139,309	100,661	21,352	17,761	139,774
	100,489	**26,262**	**25,292**	**152,043**	**100,661**	**32,305**	**27,033**	**159,999**
Foreign								
Listed	-	1,374	3,682	5,056	-	-	3,958	3,958
Unlisted	-	-	1,778	1,778	-	-	1,764	1,764
	0	**1,374**	**5,460**	**6,834**	**0**	**0**	**5,722**	**5,722**
Total bonds and debt instruments	**100,489**	**27,636**	**30,752**	**158,877**	**100,661**	**32,305**	**32,755**	**165,721**
Equities and equity instruments								
Domestic								
Listed	-	420	9,198	9,618	-	774	9,198	9,972
Unlisted	-	-	2,841	2,841	-	0	2,864	2,864
	0	**420**	**12,039**	**12,459**	**0**	**774**	**12,062**	**12,836**
Foreign								
Listed	-	1,045	8,543	9,588	-	841	9,482	10,323
Unlisted	-	-	150	150	-	0	252	252
	0	**1,045**	**8,693**	**9,738**	**0**	**841**	**9,734**	**10,575**
Total equities and equity instruments	**0**	**1,465**	**20,732**	**22,197**	**0**	**1,615**	**21,796**	**23,411**
Total bonds and equities	**100,489**	**29,101**	**51,484**	**181,074**	**100,661**	**33,920**	**54,551**	**189,132**

Bonds and equities are classified as "domestic" or "foreign" according to the country of incorporation of the issuer.

Bonds and debt instruments classified as loans and receivables as at 31 March 2010 and 31 December 2009 consist of part of the government bonds which the Bank received in settlement of the capital contribution. The bonds are in the process of being listed on the OMX stock exchange in Iceland.

All amounts are in ISK million

9. Derivative instruments and short positions

	31.3.2010			31.12.2009		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	46,161	659	570	9,323	262	1
Cross-currency interest rate swaps	2,409	-	538	2,415	-	672
OTC currency options*	80,367	509	-	59,703	700	-
	128,937	**1,168**	**1,108**	**71,441**	**962**	**673**
Interest rate derivatives						
Interest rate swaps	1,967	0	22	3,318	9	2
	1,967	**0**	**22**	**3,318**	**9**	**2**
Short positions - listed bonds	**-**	**-**	**6,333**	**-**	**-**	**5,268**
Total	**130,904**	**1,168**	**7,463**	**74,759**	**971**	**5,943**

* The Bank has bought out-of-the-money OTC currency options to hedge its foreign currency imbalance against excessive adverse movements in some of the major foreign currencies. The delta of these options amounted to ISK 8,777 million at 31 March 2010 (31 December 2009: ISK 9,989 million).

10. Loans and advances to financial institutions

	31.3.2010	31.12.2009
Bank accounts with financial institutions	6,017	4,628
Money market loans	55,842	58,488
Overdrafts	4,337	6,247
Other loans	21,142	14,493
Less: Allowance for impairment	(2,013)	(727)
Total	**85,325**	**83,129**

11. Loans and advances to customers

	31.3.2010	31.12.2009
Public entities	16,183	10,582
Individuals	175,753	177,561
Corporations	456,263	486,739
Less: Allowance for impairment	(9,151)	(7,760)
Total	**639,048**	**667,122**

During the reporting period the Group was not permitted to sell or repledge any collateral in absence of default by the owner of the collateral.

Further disclosures on loans and advances are provided in the financial risk management section of the notes.

12. Assets and liabilities classified as held for sale

Assets classified as held for sale	31.3.2010	31.12.2009
Repossessed collateral	38,320	33,673
Assets of disposal groups classified as held for sale	89,662	30,205
Total	**127,982**	**63,878**

Repossessed collateral consists mainly of property and equipment resulting from collateral foreclosed by the Group as security for loans and advances. The Group's policy is to pursue timely realisation of the repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations.

Repossessed collateral	31.3.2010	31.12.2009
Carrying amount at the beginning of the period	33,673	2150
Repossessed during the period	7,080	33,626
Disposed during the period	(2,433)	(2,103)
Total	**38,320**	**33,673**

Disposal groups classified as held for sale

Disposal groups classified as held for sale consist of the assets and liabilities of subsidiaries acquired by the Group exclusively with a view to resale. Because these subsidiaries meet the definition of discontinued operations in IFRS 5, the Group has presented the results of their operations as discontinued in the condensed consolidated income statement, as required by IFRS 5 and IAS 1.

All amounts are in ISK million

13. Due to financial institutions and Central Bank

	31.3.2010	31.12.2009
Loans and repurchase agreements with Central Bank	12	66
Loans and deposits from financial institutions	127,833	98,162
Total	**127,845**	**98,228**

14. Deposits from customers

	31.3.2010	31.12.2009
Demand deposits	304,270	317,330
Time deposits	122,708	135,325
Total	**426,978**	**452,655**

15. Borrowings

	Nominal amount				Carrying amount	
	Foreign	ISK		Contractual	ISK	
Senior secured bonds	currency	31.3.2010	31.12.2009	interest rate (%)	31.3.2010	31.12.2009
EUR	871 million	149,812	156,519	EURIBOR + 1.75/2.90	153,123	158,573
GBP	275 million	53,083	55,316	LIBOR + 1.75/2.90	54,281	56,086
USD	734 million	93,203	91,456	LIBOR + 1.75/2.90	94,311	91,834
Total		**296,098**	**303,291**		**301,715**	**306,493**

The senior secured bonds mature in October 2018 and do not have instalment payments during the first 5 years. The interest rates are 3 months EURIBOR for the EUR-denominated bond and 3 months LIBOR for the GBP and USD-denominated bonds, plus a margin of 1.75% for the first 5 years and a margin of 2.90% for the remaining 5 years. On or after 30 June 2010, bondholders have the right to require the Bank to convert the bonds into Eurobonds. Upon such conversion, the Bank will make reasonable endeavours to list such Eurobonds on a qualified stock exchange, as soon as feasible following conversion.

The Group did not default on any principal and interest nor breached any covenants with respect to liabilities during the reporting period.

16. Contingent bond

According to the provisions of the settlement agreement signed on 15 December 2009, the Bank might have to issue to Landsbanki Íslands hf. a bond on 31 March 2013 as an additional consideration for the assets and liabilities transferred from Landsbanki Íslands hf. on 9 October 2008. The contingent bond can have a nominal amount of up to ISK 92 billion, with the amount being contingent on whether the value of certain pools of assets, to be determined as at 31 December 2012, exceeds the future value of the acquisition price of those assets agreed for as at 9 October 2008, subject to specified adjustments. The value will be determined by a third-party valuation agent based on agreed-upon valuation procedures. The additional value at year-end 2012 that might exceed the future value of the 2008 acquisition price would be divided between Landsbanki Íslands hf., which would be assigned 85% (though no higher than ISK 92 billion) and the Bank, 15%. If issued, this bond would be denominated in EUR or such other currencies as may be agreed between the Bank and Landsbanki Íslands hf., whereby the ISK nominal amount would be converted into EUR using the exchange rate at 31 December 2012. The bond would bear floating interest rate and it would mature in October 2018 with quarterly instalments starting in 2014.

The contingent obligation of the Bank is classified as a financial liability and measured initially at fair value. Subsequently, it is measured at fair value, with any resulting gain or loss recognised in the line item "Interest expense" in the condensed consolidated income statement.

All amounts are in ISK million

Notes to the Condensed Consolidated Income Statement

17. Net interest income

Interest income	2010 1.1-31.3	2009 1.1-31.12
Cash and balances with Central Bank	747	3,344
Bonds and debt instruments classified as loans and receivables	1,957	0
Loans and advances to financial institutions	867	1,749
Loans and advances to customers	13,111	58,518
Net adjustments to the carrying amount of loans and advances*	3,601	23,772
Unpaid capital contribution	0	17,796
Other interest income	12	69
Total	**20,295**	**105,248**
Interest expense		
Due to financial institutions and Central Bank	(1,206)	(10,243)
Deposits from customers	(6,364)	(43,005)
Provisional liability due to Landsbanki Íslands hf.	0	(13,148)
Borrowings	(2,526)	(445)
Fair value change of contingent bond	(783)	(10,241)
Other interest expense	(5)	(61)
Total	**(10,884)**	**(77,143)**
Net interest income	**9,411**	**28,105**

* Net adjustments to the carrying amount of loans and advances consist of adjustments to reflect actual and revised estimated cash flows.

Interest spread (as the ratio of net interest income to the average carrying amount of total assets during the period)	**3.5%**	**2.8%**

Interest income accrued on impaired financial assets during the period from 1 January to 31 March 2010 amounted to ISK 26 million (1.1-31.12.2009: ISK 124 million).

Total interest income recognised during the period from 1 January to 31 March 2010 in respect of financial assets not carried at fair value through profit or loss amounts to ISK 23,376 million (1.1-31.12.2009: ISK 89,407 million). Total interest expense recognised during the period in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 10,101 million (1.1-31.12.2009: ISK 68,902 million).

18. Net interest income less net impairment loss on loans an advances

	2010 1.1-31.3	2009 1.1-31.12
Net interest income	9,411	28,105
Net impairment loss on loans and advances to financial institutions	(1,285)	0
Net impairment loss on loans and advances to customers	(1,391)	(6,577)
Collected previously written-off loans	3	0
Total impairment on loans and advances	**(2,673)**	**(6,577)**
Net interest income less net impairment loss on loans and advances	**6,738**	**21,528**
Interest spread (as the ratio of net interest income less net impairment loss on loans and advances to the average carrying amount of total assets during the period)	**2.5%**	**2.1%**

All amounts are in ISK million

19. Net fee and commission income

Fee and commission income	2010 1.1-31.3	2009 1.1-31.12
Investment banking and capital markets	188	943
Asset management	205	878
Lending	248	1,266
Cards	310	1,402
Interbank clearing	213	859
Collection and payment services	187	704
Foreign trade	87	471
Other commissions and fees	78	312
Total	**1,516**	**6,835**
Fee and commission expense		
Investment banking and capital markets	(48)	(230)
Interbank clearing	(212)	(832)
Other fees	(361)	(1,560)
Total	**(621)**	**(2,622)**
Net fee and commission income	**895**	**4,213**

The net fee and commission income above excludes amounts that are included in determining the effective interest rate for financial assets and liabilities that are not at fair value through profit or loss. It also does not include any net fee and commission income relating to such financial assets and liabilities.

20. Net gain on financial assets designated as at fair value through profit or loss

	2010 1.1-31.3	2009 1.1-31.12
Bonds and debt instruments	261	850
Equities and equity instruments	318	3,170
Total	**579**	**4,020**

21. Net gain on financial assets and liabilities held for trading

	2010 1.1-31.3	2009 1.1-31.12
Bonds and debt instruments	889	3,646
Equities and equity instruments	71	(670)
Derivatives instruments	(665)	(100)
Total	**295**	**2,876**

22. Dividend income

Dividend income was recognised in the condensed consolidated income statement in the following line items:

	2010 1.1-31.3	2009 1.1-31.12
Net gain (loss) on financial assets designated as at fair value through profit or loss	176	730
Net gain on financial assets and liabilities held for trading	29	55
Total	**205**	**785**

All amounts are in ISK million

23. Net foreign exchange gain (loss)

	2010 1.1-31.3	2009 1.1-31.12
Assets:		
Cash and balances with Central Bank	(23)	38
Bonds and debt instruments	(65)	1,017
Equities and equity instruments	(419)	1,719
Derivative instruments	272	1,486
Loans and advances to financial institutions	(1,607)	2,783
Loans and advances to customers	(1,756)	17,975
Other assets	(470)	(260)
Total	**(4,068)**	**24,758**
Liabilities:		
Due to financial institutions and Central Bank	446	(2,380)
Deposits from customers	2,349	(7,056)
Provisional liability due to Landsbanki Íslands hf.	0	(24,233)
Borrowings	7,305	6,119
Other liabilities	3	(22)
Total	**10,103**	**(27,572)**
Net foreign exchange gain (loss)	**6,035**	**(2,814)**

The foreign exchange differences which were recognised during the period from 1 January to 31 March 2010 in the condensed consolidated income statement and arose on financial instruments not measured at fair value through profit or loss amounted to a ISK 4,096 million loss for financial assets (1.1-31.12.2009: gain of ISK 20,535 million) and gain of ISK 2,798 million for financial liabilities (1.1-31.12.2009: loss of ISK 9,465 million). As disclosed in Note 3 in the Group's consolidated financial statements as at and for the year ended 31 December 2009, the Group applied the average FX-delta ratio to foreign exchange differences arising on loans and advances to customers that were acquired from Landsbanki Íslands hf. on 9 October 2008. The amount of foreign exchange difference arising on loans and advances to customers for the three months ending 31 March 2010, which is deemed to be uncollectible and is therefore offset by the FX-delta ratio, amounted to a gain of ISK 632 million (1.1-31.12.2009: gain of ISK 9,244 million).

24. Other income and expenses

	2010 1.1-31.3	2009 1.1-31.12
Recharged expenses	122	965
Gain on sale of property and equipment	0	23
Loss on sale of repossessed collateral	(11)	(132)
Other	18	46
Total	**129**	**902**

25. Salaries and related expenses

	2010 1.1-31.3	2009 1.1-31.12
Wages and salaries	1,819	6,969
Contributions to defined contribution pension plans	223	955
Other personnel expenses	176	544
Total	**2,218**	**8,468**

All amounts are in ISK million

26. Acquisition-related costs

	2010 1.1-31.3	2009 1.1-31.12
Cost of acquisition of assets and liabilities from Landsbanki Íslands hf.	0	886
Claims on Landsbanki Íslands hf. which were written off due to a settlement agreement with Landsbanki Íslands hf.	0	158
Total	**0**	**1,044**

Other notes

27. Litigation

The status of the legal proceedings of the Group at the end of the period is unchanged from the issuance of the consolidated financial statements as at and for the year ended 31 December 2009, except for the following:

1) It is expected that the Supreme Court of Iceland will by the end of June 2010 issue it rulings in the cases of SP Fjármögnun hf. and Lýsing hf. regarding loan agreements denominated in foreign currencies. The ultimate resolution of these matters or direct effects on the bank cannot yet be determined.

In a Court Order rendered by the District Court of Reykjavik on 30 April 2010, a petition by the bank that the estate of a customer was declared bankrupt was denied. The Order was, among other things, based on the assumption that loan agreements denominated in foreign currencies were in fact granted in Icelandic kronas and therefore with unlawful provision that peg repayments to the exchange rate of foreign currencies. This Order has been appealed to the Supreme Court of Iceland and it is expected that the Supreme Court will issue its ruling in June 2010.

2) Legal proceedings have started before the District Court of Reykjavik because the trustee in bankruptcy of the estate of Fons hf. has rejected the pledge that the bank holds in the 99.38% of the issued share capital of Securitas hf. valued at about ISK 640 million. The Trustee argues that the board of Fons hf. approval for the pledge is not in accordance with the companies Articles of Association and therefore not valid. The bank has defended its position vigorously, although the final resolution of this matter cannot yet be determined. It is expected that the district court will issue its ruling before the end of June 2010.

28. Pledged assets

According to the provisions of the settlement agreement signed on 15 December 2009, certain pools of loans to customers will be pledged as collateral for the senior secured bonds, amounting to ISK 301.7 billion, to be issued and the contingent bond, now estimated to ISK 11.0 billion, that the Bank might issue to Landsbanki Íslands hf. as a part of the acquisition price for its Icelandic operations. The Bank is obliged to maintain a cover ratio of 127.5% for the senior secure bonds and 118% for the additional notes of the contingent bond with an appropriate adjustment period. Pledged assets added to the pledge pool must comply with an eligibility criteria. To grant a valid and enforceable pledge parlimanent needs to accept a bill amending Icelandic legislation - a bill to that effect has been presented to parliament by the Ministry of Economic Affairs. In the event that law or amendments made to Icelandic legislation do not enable creation of a pledege, NBI hf. and Landsbanki Íslands hf. shall discuss in good faith how to create and perfect a pledge in accordance with Icelandic law.

In addition, the Bank has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland in the amount of ISK 5.5 billion (31.12.2009: ISK 5.5billion) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business for netting and set-off arrangements in the total amount of ISK 4.4 billion (31.12.2009: ISK 1.2 billion).

All amounts are in ISK million

29. Related-party transactions

The Icelandic State Treasury holds 81.3% of the shares in the Bank. The Group's products and services are offered to the Icelandic State, State authorities and State companies in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from State authorities and companies at market price and otherwise under generally accepted commercial terms. No significant share of the Group's net interest, expenditure or earnings is attributable to the Icelandic State or any of its authorities or companies. The transactions involved are related-party transactions as defined in IAS 24 *Related Party Disclosures* but are not disclosed owing to the volume of transactions conducted.

The Bank has a related-party relationship with its subsidiaries, associates, the Board of Directors of the Bank, the key management personnel of the Bank and its subsidiaries and close family members of the individuals just referred to. In addition, Landsbanki Íslands hf. is a related party, indirectly through its wholly-owned subsidiary Landsskil ehf., which holds 18,7% of the shares in the Bank and has appointed one of the five members of the Board of Directors of the Bank.

No unusual transactions took place with related parties during the periods presented in these interim financial statements. Transactions with related parties have been conducted on an arm's length basis.

Associates and government-controlled entities

The Group provides banking services to its associates, government entities and government controlled companies and is provided with various goods and services by these entities. All transactions are conducted on the same terms as third-party transactions.

Key management personnel

The total compensation made to key management personnel in the form of salaries, non-monetary benefits and contributions to defined contribution pension plans amounted to ISK 57 million during the three months period ending 31March 2010 (1.1-31.12.2009: ISK 255 million).

The Icelandic State Senior Civil Servants Salary Board determines the salary of the Chief Executive Officer of the Bank. It is the Bank's policy to pay competitive salaries that are in line with salaries and benefits in other financial institutions.

The following table presents the total amounts of loans to key management personnel and parties related to them along with affiliates of the bank:

Loans in ISK million	Affiliates	Key management	Total
Loans outstanding on 31 December 2009	6,716	172	**6,888**
Loans outstanding on 31 March 2010	4,797	200	**4,997**

No specific allowance for impairment was recognised in respect of these loans.

Capital management

30. Capital management

The Financial Supervisory Authority (FME) has decided that the Group is to maintain a Tier 1 capital ratio of at least 12% which must be maintained for at least 3 years after the initial capitalisation unless revised by FME. Furthermore, the Group must maintain a capital adequacy ratio (CAD ratio) above 16% unless FME approves a lower CAD ratio on the basis of additional capital resources available for the Group.

The FME has decided that the Bank shall maintain a capital ratio of at least 16%. This is higher than the current ICAAP capital requirement estimated by the Bank. It is the aim of the Bank to always comply with decisions of the FME.

31. Capital base and capital adequacy ratio

The Group's equity at 31 March 2010 amounted to ISK 165,926 million (31 December 2009: ISK 157,592 million), equivalent to 16.5% (31 December 2009: 15.2%) of total assets, according to the balance sheet. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 16.3% (31 December 2009: 15.0%) at the end of the year. According to the Act, this ratio may not fall below 8.0%.

Capital base	**31.3.2010**	**31.12.2009**
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	741	741
Retained earnings (accumulated deficit)	15,127	6,791
Non-controlling interests	2,160	2,162
Tier 1 capital	**165,926**	**157,592**
Deduction from original and additional own funds	(2,329)	(2,329)
Capital base	**163,597**	**155,263**
Capital requirement		
Credit risk	60,809	59,971
Market risk	13,758	18,359
Operational risk	5,700	4,666
Capital requirement under Pillar I	**80,267**	**82,996**
Surplus of own funds	83,330	72,267
Total risk-weighted assets	**1,003,332**	**1,037,452**
Tier 1 capital ratio	16.5%	15.2%
Capital adequacy ratio	16.3%	15.0%

All amounts are in ISK million

Financial risk management

Credit risk

32. Maximum exposure to credit risk and concentration by industry sectors

The following tables represent the Group's maximum credit risk exposure at 31 March 2010 and 31 December 2009, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities. The loans to individuals are residential mortgages and consumer lending. Consumer lending consists of current account loans, ISK term loans and loans dominated in foreign currencies, to name a few of the lending forms.

The Group uses the ISAT 08 industry classification for corporate customers. This classification is based on the NACE Rev. 2 industry classification used by EEA countries.

				Corporations									
At 31 March 2010	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction and real estate companies**	**Services**	**Retail**	**Holding companies**	**Manufacturing**	**Agriculture**	**ITC****	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	47,856	-	-	-	-	-	-	-	-	-	-	**47,856**
Bonds and debt instruments	17,022	130,672	-	-	1,343	-	-	6,800	1,234	-	-	1,806	**158,877**
Derivative instruments	1,167	-	-	-	-	1	-	-	-	-	-	-	**1,168**
Loans and advances to financial institutions	85,325	-	-	-	-	-	-	-	-	-	-	-	**85,325**
Loans and advances to customers	-	15,873	173,191	154,979	107,845	58,625	39,231	39,799	25,062	13,053	8,914	2,476	**639,048**
Other financial assets	7,710	-	-	18	1	434	3	251	-	-	8	9	**8,434**
Total on-balance sheet exposure	**111,224**	**194,401**	**173,191**	**154,997**	**109,189**	**59,060**	**39,234**	**46,850**	**26,296**	**13,053**	**8,922**	**4,291**	**940,708**
Off-balance sheet exposure	**-**	**2,643**	**33,164**	**12,567**	**5,741**	**9,733**	**13,690**	**1,435**	**2,649**	**2,064**	**2,493**	**752**	**86,931**
Financial guarantees	-	51	379	681	3,211	1,294	295	214	562	6	456	71	7,220
Undrawn loan commitments	-	0	56	9,255	1,024	5,694	9,327	349	661	1,522	1,100	636	29,624
Undrawn overdraft/credit card facilities	-	2,592	32,729	2,631	1,506	2,745	4,068	872	1,426	536	937	45	50,087
Maximum exposure to credit risk	**111,224**	**197,044**	**206,355**	**167,564**	**114,930**	**68,793**	**52,924**	**48,285**	**28,945**	**15,117**	**11,415**	**5,043**	**1,027,639**

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

All amounts are in ISK million

32. Maximum exposure to credit risk and concentration by industry sectors (continued)

				Corporations									
At 31 December 2009	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	Manufacturing	ITC**	Agriculture	Other	Carrying amount
Cash and balances with Central Bank	-	26,174	-	-	-	-	-	-	-	-	-	-	**26,174**
Bonds and debt instruments	19,985	129,571	-	-	1,343	6,759	-	-	1,251	-	-	6,812	**165,721**
Derivative instruments	962	-	-	-	-	-	-	-	-	-	-	9	**971**
Loans and advances to financial institutions	83,129	-	-	-	-	-	-	-	-	-	-	-	**83,129**
Loans and advances to customers	-	10,388	175,986	162,490	110,404	53,401	46,161	49,589	26,933	17,659	13,208	903	**667,122**
Other financial assets	5,424	50	7	40	1	594	3	779	2	1	0	89	**6,990**
Total on-balance sheet exposure	**109,500**	**166,183**	**175,993**	**162,530**	**111,748**	**60,754**	**46,164**	**50,368**	**28,186**	**17,660**	**13,208**	**7,813**	**950,107**
Off-balance sheet exposure	**-**	**7,000**	**34,008**	**10,219**	**7,852**	**1,124**	**11,701**	**4,719**	**3,481**	**2,588**	**1,796**	**141**	**84,629**
Financial guarantees	-	412	378	598	3,521	215	423	1,313	581	493	6	95	8,035
Undrawn loan commitments	-	0	73	7,000	2,715	166	7,598	628	1,665	1,100	1,409	0	22,354
Undrawn overdraft/credit card facilities	-	6,588	33,557	2,621	1,616	743	3,680	2,778	1,235	995	381	46	54,240
Maximum exposure to credit risk	**109,500**	**173,183**	**210,001**	**172,749**	**119,600**	**61,878**	**57,865**	**55,087**	**31,667**	**20,248**	**15,004**	**7,954**	**1,034,736**

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

All amounts are in ISK million

33. Classification of loans and advances to customers by credit risk groups

Carrying amount	31.3.2010	31.12.2009
Customer groups with loan exposures above ISK 500 million		
Green	94,956	107,407
Amber	200,923	220,150
Red	29,639	40,027
Customer groups with loan exposures below ISK 500 million	313,530	299,538
Total	**639,048**	**667,122**

External ratings were used where applicable to assist in managing the credit risk exposure of bonds. Otherwise the Group used fair value estimates based on available information and the Group's own estimates.

34. Loans and advances by industry sectors

	31.3.2010			31.12.2009		
Industry sectors	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Financial institutions	85,325	-	85,325	83,129	-	83,129
Public entities	16,183	(310)	15,873	10,582	(194)	10,388
Individuals	175,753	(2,562)	173,191	177,110	(1,124)	175,986
Corporations						
Fisheries	155,164	(185)	154,979	162,677	(187)	162,490
Construction and real estate companies	109,075	(1,230)	107,845	111,791	(1,387)	110,404
Holding companies	43,453	(3,654)	39,799	56,985	(3,584)	53,401
Retail	39,721	(490)	39,231	46,866	(705)	46,161
Services	58,996	(371)	58,625	49,799	(210)	49,589
Information, technology and communication	8,955	(41)	8,914	17,719	(60)	17,659
Manufacturing	25,330	(268)	25,062	27,211	(278)	26,933
Agriculture	13,085	(32)	13,053	13,226	(18)	13,208
Other	2,484	(8)	2,476	916	(13)	903
Total	**733,524**	**(9,151)**	**724,373**	**758,011**	**(7,760)**	**750,251**

35. Credit quality of financial assets

	Gross carrying amount					
At 31 March 2010	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment	Carrying amount
Cash and balances with Central Bank	47,856	-	-	47,856	-	47,856
Bonds and debt instruments	141,699	17,178	-	158,877	-	158,877
Derivative instruments	1,168	-	-	1,168	-	1,168
Loans and advances to financial institutions	84,682	643	-	85,325	-	85,325
Loans and advances to customers	467,364	178,623	2,212	648,199	(9,151)	639,048
Other financial assets	8,434	-	-	8,434	-	8,434
Total	**751,203**	**196,444**	**2,212**	**949,859**	**(9,151)**	**940,708**
At 31 December 2009						
Cash and balances with Central Bank	26,174	-	-	26,174	-	26,174
Bonds and debt instruments	148,111	17,610	-	165,721	-	165,721
Derivative instruments	971	-	-	971	-	971
Loans and advances to financial institutions	80,332	2,797	-	83,129	-	83,129
Loans and advances to customers	493,941	178,484	2,457	674,882	(7,760)	667,122
Other financial assets	6,990	-	-	6,990	-	6,990
Total	**756,519**	**198,891**	**2,457**	**957,867**	**(7,760)**	**950,107**

The impairment allowances above include both the allowance for financial assets that are individually impaired as well as the allowance for financial assets that are subject to collective impairment. Assets covered by collective impairment allowance are not included under financial assets that are past due or impaired.

All amounts are in ISK million

36. Loans and advances neither past due nor individually impaired

	Credit risk groups				
At 31 March 2010	**Green**	**Amber**	**Red**	**Exposures below ISK 500 million**	**Gross carrying amount**
Financial institutions	-	-	-	84,682	84,682
Public entities	4,984	576	-	9,108	14,668
Individuals	18	80	77	130,581	130,756
Corporations					
Fisheries	48,671	66,848	67	14,365	129,951
Construction and real estate companies	4,511	27,164	45	21,288	53,008
Holding companies	4,926	6,299	975	16,634	28,834
Retail	5,288	9,409	6,687	5,811	27,195
Services	16,186	10,686	77	17,342	44,291
Information, technology and communication	2,122	2,739	2	3,292	8,155
Manufacturing	5,084	4,199	2	2,765	12,050
Agriculture	421	11,118	-	5,105	16,644
Other	-	218	-	1,594	1,812
Total	**92,211**	**139,336**	**7,932**	**312,567**	**552,046**
At 31 December 2009					
Financial institutions	-	-	-	80,332	80,332
Public entities	4,706	576	-	3,676	8,958
Individuals	33	148	89	140,029	140,299
Corporations					
Fisheries	55,185	68,338	382	10,534	134,439
Construction and real estate companies	4,283	28,684	2,151	21,788	56,906
Holding companies	8,935	8,226	1,186	18,708	37,055
Retail	5,718	16,078	6,685	6,940	35,421
Services	6,522	7,574	694	16,223	31,013
Information, technology and communication	12,454	2,777	-	1,553	16,784
Manufacturing	4,862	4,387	230	2,929	12,408
Agriculture	895	13,338	-	5,580	19,813
Other	-	221	588	36	845
Total	**103,593**	**150,347**	**12,005**	**308,328**	**574,273**

37. Loans and advances past due but not individually impaired

The following table shows the gross carrying amount of loans to customers that have failed to make payments which had become contractually due by one or more days.

At 31 March 2010	**Past due up to 30 days**	**Past due up to 31 - 60 days**	**Past due up to 61 - 90 days**	**Past due over 90 days**	**Gross carrying amount**
Loans and advances to financial institutions	17	500	0	126	643
Loans and advances to customers	23,529	18,364	9,440	127,290	178,623
At 31 December 2009					
Loans and advances to financial institutions	2,632	-	-	165	2,797
Loans and advances to customers	26,929	16,075	14,056	121,424	178,484

38. Individually impaired loans and advances to customers

At 31 March 2010	**Gross carrying amount**	**Allowance for impairment**	**Carrying amount**
Loans and advances to customers	2,212	(1,326)	886
At 31 December 2009			
Loans and advances to customers	2,457	(1,450)	1,007

All amounts are in ISK million

39. Allowance for impairment on loans and advances to customers

	2010 1.1-31.3	2009 1.1-31.12
Balance at beginning of period	7,760	1,183
Net impairment loss on loans and advances	1,391	6,577
Balance at 31 March	**9,151**	**7,760**

Specific allowance	1,326	1,450
Collective allowance	7,825	6,310
Balance at 31 March	**9,151**	**7,760**

40. Renegotiated loans

Financial restructuring and renegotiation of loans to the Group's customers acquired from Landsbanki Íslands hf. started in 2009. In regard to financial restructuring of customers, the Group put remedies in place for those experiencing financial difficulties and also presented procedures for financial restructuring. These restructuring approaches include extended and modified repayment arrangements and approved external management plans. Restructuring may be suitable for borrowers in financial difficulties as well as those who are not, and is available whether loans have become past due or not.

The following table shows the status of restructuring of loans and advances to customers of the Group based on classification of the customers:

	31.3.2010		31.12.2009	
Status of loans to corporations	% of carrying amount	% of number of customers	% of carrying amount	% of number of customers
Performing without restructuring	39%	63%	45%	63%
Performing after restructuring	20%	9%	15%	10%
Non-performing (90 days in arrears or unlikely to pay in full)	41%	28%	40%	27%
Total	**100%**	**100%**	**100%**	**100%**
Status of loans to individuals				
Performing without restructuring	35%	76%	36%	77%
Performing after restructuring	37%	15%	39%	15%
Non-performing (90 days in arrears or unlikely to pay in full)	28%	9%	25%	8%
Total	**100%**	**100%**	**100%**	**100%**

41. Large exposures

At 31 March 2010, two Group clients were rated as large exposures (31 December 2009: three clients). Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's equity after taking account of collateral held, in accordance with the Financial Supervisory Authority's Rules on Large Exposures Incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25% of equity, as defined by the Basel II regulatory framework. All of the Group's large exposures were within these limits at the end of 31 March 2010.

At 31 March 2010, the Group's internal rules on large exposures stated that clients could comprise up to 20% of the Group's equity as defined by the Basel II regulatory framework ("capital base"). At 31 March 2010, no exposure exceeded 20% (31 December 2009: no exposure). According to the Group's risk appetite, the total utilisation percentage of a large exposure ought to remain below 200% of the Group's capital base.

At 31 March 2010	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	0	0
Large exposures between 10% and 20% of the Group's capital base	2	46,563
Total	**2**	**46,563**
Utilisation of 800% limit (%)		28%
At 31 December 2009		
Large exposures above 20% of the Group's capital base	0	0
Large exposures between 10% and 20% of the Group's capital base	3	67,189
Total	**3**	**67,189**
Utilisation of 800% limit (%)		43%

All amounts are in ISK million

42. Bonds and debt instruments

A breakdown of the Group's bond portfolio, by Moody's rating, is as follows:

Carrying amount	31.3.2010	31.12.2009
Aaa	1,374	0
Aa1	375	377
Aa3	262	274
A3 to A1	1,209	1,188
Baa1 to Baa3	128,901	130,355
Lower than Baa3	9,957	15,349
Unrated	16,799	18,178
Total	**158,877**	**165,721**

Unrated bonds and bonds with ratings lower than Baa3 are primarily bonds issued by domestic corporations, some of which developed into liquidating estates, such as Baugur Group hf., Kaupthing Bank hf. and Eimskipafélag Íslands hf.

The following table shows the carrying amounts of bonds for which the issuers have failed, by one or more days, to make a payment when it was contractually due:

At 31 March 2010	Past due up to 30 days	Past due up to 31 - 60 days	Past due up to 61 - 90 days	Past due over 90 days	Carrying amount
Financial institutions	-	-	-	10,182	10,182
Holding companies	60	-	-	5,363	5,423
Other	-	-	-	1,573	1,573
Total	**60**	**0**	**0**	**15,545**	**17,178**
At 31 December 2009					
Financial institutions	-	-	-	10,536	10,536
Holding companies	105	111	-	5,200	5,416
Other	-	-	-	1,658	1,658
Total	**105**	**111**	**0**	**15,736**	**17,610**

43. Derivative instruments

The following table shows a breakdown of the Group´s derivative instruments classified by Moody´s rating:

	31.3.2010			31.12.2009		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
A1	125,334	1,166	567	68,874	962	-
Baa3	2,409	-	539	2,415	-	672
C	86	-	-	90	-	-
Unrated	3,074	2	24	3,381	9	3
Total	**130,903**	**1,168**	**1,130**	**74,760**	**971**	**675**

The largest derivative counterparties are financial institutions and public entities. The Group has entered into master netting agreements with financial institutions in order to limit the counterparty credit risk. Individuals and corporations need to maintain margin accounts with the Group as collateral in the form of deposits or highly liquid bonds, such as government bonds.

All amounts are in ISK million

Liquidity risk

44. Liquidity risk management

The key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with Central Bank (such as government bonds). The core liquidity ratio as at 31 March 2010 was 40% (31 December 2009: 36%).

45. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 31 March 2010:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	48,103	-	-	-	-	48,103	47,856
Bonds and debt instruments	-	6,069	8,858	65,642	175,544	256,113	158,877
Loans and advances to financial institutions	-	82,247	3,037	39	83	85,406	85,325
Loans and advances to customers	38,807	54,480	88,468	317,917	385,212	884,884	639,048
Other financial assets	-	3,265	5,169	-	-	8,434	8,434
Total	**86,910**	**146,061**	**105,532**	**383,598**	**560,839**	**1,282,940**	**939,540**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	22,896	8,778	-	-	31,674	
Outflow	-	(22,238)	(8,778)	-	-	(31,016)	
Total	**0**	**658**	**0**	**0**	**0**	**658**	**1,168**
Net settled derivatives	-	-	-	-	-	0	0
Total	**0**	**658**	**0**	**0**	**0**	**658**	**1,168**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(122,001)	(5,431)	-	(428)	-	(127,860)	(127,845)
Deposits from customers	(304,270)	(74,208)	(11,607)	(37,112)	-	(427,197)	(426,978)
Short positions	-	(1,522)	(3,087)	(2,848)	(5,472)	(12,929)	(6,333)
Borrowings	-	(15,798)	(5,101)	(103,997)	(237,304)	(362,200)	(301,715)
Contingent bond	-	-	-	(4,940)	(10,071)	(15,011)	(11,024)
Other financial liabilities	-	(2,218)	-	-	-	(2,218)	(2,218)
Total	**(426,271)**	**(99,177)**	**(19,795)**	**(149,325)**	**(252,847)**	**(947,415)**	**(876,113)**
Off-balance sheet items							
Financial guarantees	(3)	(4,280)	(1,402)	(1,535)	-	(7,220)	
Undrawn loan commitments	(29,624)	-	-	-	-	(29,624)	
Undrawn overdraft/credit card commitments	(50,087)	-	-	-	-	(50,087)	
Total	**(79,714)**	**(4,280)**	**(1,402)**	**(1,535)**	**0**	**(86,931)**	
Total non-derivative financial liabilities and off-balance sheet items	**(505,985)**	**(103,457)**	**(21,197)**	**(150,860)**	**(252,847)**	**(1,034,346)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	25,215	266	1,084	832	27,397	
Outflow	-	(25,725)	(322)	(1,348)	(1,074)	(28,469)	
Total	**0**	**(510)**	**(56)**	**(264)**	**(242)**	**(1,072)**	**(1,108)**
Net settled derivatives	-	(22)	-	-	-	(22)	(22)
Total	**0**	**(532)**	**(56)**	**(264)**	**(242)**	**(1,094)**	**(1,130)**
Net liquidity position	**(419,075)**	**42,730**	**84,279**	**232,474**	**307,750**	**248,158**	

All amounts are in ISK million

45. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2009:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	26,174	-	-	-	-	26,174	26,174
Bonds and debt instruments	-	10,291	10,387	73,767	190,467	284,912	165,721
Loans and advances to financial institutions	-	78,570	4,349	77	213	83,209	83,129
Loans and advances to customers	37,692	64,769	99,336	340,412	468,381	1,010,590	667,122
Other financial assets	-	1,826	5,164	-	-	6,990	6,990
Total	**63,866**	**155,456**	**119,236**	**414,256**	**659,061**	**1,411,875**	**949,136**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	9,411	9,739	-	-	19,150	
Outflow	-	(8,900)	(9,989)	-	-	(18,889)	
Total	**0**	**511**	**(250)**	**0**	**0**	**261**	**962**
Net settled derivatives	-	9	-	-	-	9	9
Total	**0**	**520**	**(250)**	**0**	**0**	**270**	**971**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(89,657)	(8,177)	-	(441)	-	(98,275)	(98,228)
Deposits from customers	(317,330)	(83,068)	(13,147)	(39,932)	-	(453,477)	(452,655)
Short positions	-	(2,064)	(325)	(3,690)	(2,657)	(8,736)	(5,268)
Borrowings	-	-	(19,769)	(91,266)	(260,449)	(371,484)	(306,493)
Contingent bond	-	-	-	(3,922)	(10,163)	(14,085)	(10,241)
Other financial liabilities	-	(2,138)	-	-	-	(2,138)	(2,138)
Total	**(406,987)**	**(95,447)**	**(33,241)**	**(139,251)**	**(273,269)**	**(948,195)**	**(875,023)**
Off-balance sheet items							
Financial guarantees	-	(4,576)	(335)	(3,124)	-	(8,035)	
Undrawn loan commitments	(22,354)	-	-	-	-	(22,354)	
Undrawn overdraft/credit card commitments	(54,240)	-	-	-	-	(54,240)	
Total	**(76,594)**	**(4,576)**	**(335)**	**(3,124)**	**0**	**(84,629)**	
Total non-derivative financial liabilities and off-balance sheet items	**(483,581)**	**(100,023)**	**(33,576)**	**(142,375)**	**(273,269)**	**(1,032,824)**	**(875,023)**
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	168	297	1,278	904	2,647	
Outflow	-	(167)	(412)	(1,668)	(1,182)	(3,429)	
Total	**0**	**1**	**(115)**	**(390)**	**(278)**	**(782)**	**(673)**
Net settled derivatives	-	(2)	-	-	-	(2)	(2)
Total	**0**	**(1)**	**(115)**	**(390)**	**(278)**	**(784)**	**(675)**
Net liquidity position	**(419,715)**	**55,952**	**85,295**	**271,491**	**385,514**	**378,537**	

All amounts are in ISK million

45. Maturity analysis of financial assets and liabilities (continued)

The amounts in the maturity analyses as at 31 March 2010 and 31 December 2009 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). Exceptions to this are loans and advances to customers and bonds issued by companies in moratorium or in the process of liquidation. For loans and advances to larger customers the Group estimates both the timing and amounts of cash flows by taking into consideration the expected financial restructuring of the customer. For loans and advances to smaller customers the Group estimates the timing of the cash flows based on the contractual terms but the amounts are based on the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at balance sheet date.

Amounts presented in the maturity analyses are the undiscounted future cash flows receivable and payable by the Group, including both principal and interest cash flows. These amounts differ from the carrying amounts presented in the balance sheet, which are based on discounted rather than undiscounted future cash flows. If an amount receivable or payable is not fixed, the amount presented in the maturity analyses has been determined by reference to the conditions existing at the balance sheet date. When there is a choice of when an amount shall be paid, future cash flows are calculated on the basis of the earliest date at which the Group can be required to pay, which is the worst case scenario from Group perspectives. An example of this is that demand deposits are figured in the earliest time band. Where the Group is committed to have amounts available in instalments, each instalment is allocated to the earliest period in which the Group might be required to pay. Thus undrawn loan commitments are included in the time band together with the earliest date at which such loans may be drawn. For financial guarantee contracts issued by the Group, the amount included in the maturity analysis is the guarantee's maximum amount, allocated to the earliest period in which the guarantee might be called.

Nonetheless, the Group's expected cash flows on demand deposits vary significantly from the amounts presented in the maturity analyses. Demand deposits from customers have short contractual maturities but are considered a relatively stable financing source with expected maturity exceeding one year, and it is not expected that every committed loan will be drawn down immediately. As mentioned above in relation to liquidity management, the Group also conducts a weekly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

46. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 March 2010:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	19,110	95,584	66,317	196,168	187,227	564,406	460,058
ISK	67,800	50,477	39,215	187,430	373,612	718,534	479,482
Total	**86,910**	**146,061**	**105,532**	**383,598**	**560,839**	**1,282,940**	**939,540**
Derivative financial assets							
Total in foreign currencies	-	797	-	-	-	797	1,168
ISK	-	(139)	-	-	-	(139)	-
Total	**0**	**658**	**0**	**0**	**0**	**658**	**1,168**
Non-derivative financial liabilities							
Total in foreign currencies	(69,450)	(17,451)	(7,455)	(103,997)	(237,304)	(435,657)	(375,170)
ISK	(356,821)	(81,726)	(12,340)	(45,328)	(15,543)	(511,758)	(500,943)
Total	**(426,271)**	**(99,177)**	**(19,795)**	**(149,325)**	**(252,847)**	**(947,415)**	**(876,113)**
Off-balance sheet items							
Total in foreign currencies	(16,766)	(12)	(76)	(14)	-	(16,868)	
ISK	(62,948)	(4,268)	(1,326)	(1,521)	-	(70,063)	
Total	**(79,714)**	**(4,280)**	**(1,402)**	**(1,535)**	**0**	**(86,931)**	
Derivative financial liabilities							
Total in foreign currencies	-	134	97	388	291	910	(1,108)
ISK	-	(666)	(153)	(652)	(533)	(2,004)	(22)
Total	**0**	**(532)**	**(56)**	**(264)**	**(242)**	**(1,094)**	**(1,130)**
Net liquidity position in foreign currencies	**(67,106)**	**79,052**	**58,883**	**92,545**	**(49,786)**	**113,588**	
Net liquidity position in ISK	**(351,969)**	**(36,322)**	**25,396**	**139,929**	**357,536**	**134,570**	
Net liquidity position	**(419,075)**	**42,730**	**84,279**	**232,474**	**307,750**	**248,158**	

All amounts are in ISK million

46. Maturity analysis of financial assets and liabilities by currency (continued)

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2009:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	14,963	102,579	65,337	243,968	232,525	659,372	511,641
ISK	48,903	52,877	53,899	170,288	426,536	752,503	437,495
Total	**63,866**	**155,456**	**119,236**	**414,256**	**659,061**	**1,411,875**	**949,136**
Derivative financial assets							
Total in foreign currencies	-	511	(250)	-	-	261	962
ISK	-	9	-	-	-	9	9
Total	**0**	**520**	**(250)**	**0**	**0**	**270**	**971**
Non-derivative financial liabilities							
Total in foreign currencies	(88,534)	(1,153)	(23,005)	(91,266)	(260,449)	(464,407)	(399,418)
ISK	(318,453)	(94,294)	(10,236)	(47,985)	(12,820)	(483,788)	(475,605)
Total	**(406,987)**	**(95,447)**	**(33,241)**	**(139,251)**	**(273,269)**	**(948,195)**	**(875,023)**
Off-balance sheet items							
Total in foreign currencies	(15,474)	(10)	(1)	(58)	-	(15,543)	
ISK	(61,120)	(4,566)	(334)	(3,066)	-	(69,086)	
Total	**(76,594)**	**(4,576)**	**(335)**	**(3,124)**	**0**	**(84,629)**	
Derivative financial liabilities							
Total in foreign currencies	-	163	89	408	296	956	(673)
ISK	-	(164)	(204)	(798)	(574)	(1,740)	(2)
Total	**0**	**(1)**	**(115)**	**(390)**	**(278)**	**(784)**	**(675)**
Net liquidity position in foreign currencies	**(89,045)**	**102,090**	**42,170**	**153,052**	**(27,628)**	**180,639**	
Net liquidity position in ISK	**(330,670)**	**(46,138)**	**43,125**	**118,439**	**413,142**	**197,898**	
Net liquidity position	**(419,715)**	**55,952**	**85,295**	**271,491**	**385,514**	**378,537**	

The amounts in the maturity analysis as at 31 March 2010 and 31 December 2009 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). Exceptions to this are loans and advances to customers and bonds issued by companies in moratorium or in the process of liquidation as disclosed in Note 45.

The expected cash flows of loans are based on the currency of denomination. However, cash inflows of loans granted in foreign currency to customers with limited or no foreign income may not be in the denominated foreign currency (see Note 51).

All amounts are in ISK million

Market risk

47. Market risk management

In February 2010 the Board of Directors changed the ceiling for market risk from being 15% based on total risk-weighted asset base to being 15% based on the Group´s equity according to the most recently published consolidated financial statements. Accordingly, exposure to equity price risk may not exceed 15%; exposure to currency risk may not exceed 10%, neither for long nor short positions; and the maximum exposure to interest rate risk may not exceed 5%. The Group's exposure to market risk as at 31 March 2010 was 8.3% of equity (31 December 2009: 22.1% of its total risk-weighted asset base), with the exposure to equity price risk measuring 1.6% of equity (31 December 2009: 3.4% of its total risk-weighted asset base), the exposure to interest rate risk measuring 1.6% of equity (31 December 2009: 5.1% of its total risk-weighted asset base) and the exposure to foreign exchange risk measuring 5.1% of equity (31 December 2009: 13.7% of its total risk-weighted asset base).

48. Interest rate risk

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments (see Note 9). The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

At 31 March 2010	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	47,856	-	-	-	47,856
Bonds and debt instruments	151,290	1,376	2,583	3,628	158,877
Derivative instruments	659	509	-	-	1,168
Loans and advances to financial institutions	84,623	590	34	78	85,325
Loans and advances to customers	510,343	37,065	41,495	50,145	639,048
Other financial assets	3,266	5,168	-	-	8,434
Total	**798,037**	**44,708**	**44,112**	**53,851**	**940,708**
Financial liabilities					
Due to financial institutions and Central Bank	(127,845)	-	-	-	(127,845)
Deposits from customers	(426,978)	-	-	-	(426,978)
Derivative instruments and short positions	(606)	(3,314)	(1,689)	(1,854)	(7,463)
Borrowings	(301,715)	-	-	-	(301,715)
Contingent bond	(11,024)	-	-	-	(11,024)
Other financial liabilities	(2,218)	-	-	-	(2,218)
Total	**(870,386)**	**(3,314)**	**(1,689)**	**(1,854)**	**(877,243)**
Net on-balance sheet position	(72,349)	41,394	42,423	51,997	63,465
Net off-balance sheet position	0	943	(519)	(424)	
Total interest repricing gap	**(72,349)**	**42,337**	**41,904**	**51,573**	

At 31 December 2009	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	26,174	-	-	-	26,174
Bonds and debt instruments	150,635	5,151	4,236	5,699	165,721
Derivative instruments	282	689	-	-	971
Loans and advances to financial institutions	81,904	1,002	26	197	83,129
Loans and advances to customers	518,539	57,383	39,910	51,290	667,122
Other financial assets	6,990	-	-	-	6,990
Total	**784,524**	**64,225**	**44,172**	**57,186**	**950,107**
Financial liabilities					
Due to financial institutions and Central Bank	(98,228)	-	-	-	(98,228)
Deposits from customers	(452,655)	-	-	-	(452,655)
Derivative instruments and short positions	(2,030)	(798)	(2,044)	(1,071)	(5,943)
Borrowings	(306,493)	-	-	-	(306,493)
Contingent bond	(10,241)	-	-	-	(10,241)
Other financial liabilities	(2,138)	-	-	-	(2,138)
Total	**(871,785)**	**(798)**	**(2,044)**	**(1,071)**	**(875,698)**
Net on-balance sheet position	(87,261)	63,427	42,128	56,115	74,409
Net off-balance sheet position	(1,101)	2,013	(502)	(410)	
Total interest repricing gap	**(88,362)**	**65,440**	**41,626**	**55,705**	

All amounts are in ISK million

49. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-indexed financial instruments may fluctuate due to changes in the Icelandic CPI index. The Group has a considerable imbalance in its CPI-indexed assets and liabilities. The majority of the Group's mortgage loans and consumer loans are indexed to the CPI. Going forward, however, the asset side will increase, since it is expected that loans in foreign currency will be converted to CPI-linked loans and that overall lending will increase.

CPI indexation risk is managed centrally within the Group by the Treasury department and is monitored by the Asset and Liability Mismatch Risk Unit of the Risk Management Division. At 31 March 2010 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 77,827 million (31 December 2009: 71,812 million).

Carrying amount	**31.3.2010**	**31.12.2009**
Assets		
Bonds and debt instruments	5,382	5,438
Loans and advances to customers	161,794	154,823
Total	**167,176**	**160,261**
Liabilities		
Due to financial institutions and Central Bank	(428)	(441)
Deposits from customers	(85,340)	(84,725)
Short positions	(3,971)	(1,917)
Total	**(89,739)**	**(87,083)**
Total on-balance sheet position	77,437	73,178
Total off-balance sheet position	390	(1,366)
Total CPI indexation balance	**77,827**	**71,812**

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 10% inflation applied to the inflation risk exposures in existence at 31 March 2010, with no change in other variables, would have increased net interest income by ISK 7,744 million (31.12.2009: 7,318 million). Group equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings (accumulated deficit).

50. Currency risk (all portfolios)

The Group follows the Rules No. 707/2009 on Foreign Exchange Balances, as set by the Central Bank of Iceland. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within certain limits in each currency. The Group submits daily reports to the Central Bank with information on its foreign exchange balance. The Central Bank has granted the Group a temporary dispensation from these rules until the end of June 2010, raising the required limits.

The inherent risk in the considerable foreign exchange imbalance is limited by the FX-delta. The FX-delta is calculated as the average elasticity of loans in foreign currency towards foreign exchange movements. This is because some of the Bank's customers have pledged collateral or have full or partial income in foreign currency, while others have limited or no income in foreign currency. As a result, depreciation of the ISK impacts customers with limited or no income in foreign currency more than those with full or partial income in foreign currency, and vice versa when ISK appreciates.

All amounts are in ISK million

51. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 31 March 2010 and 31 December 2009. The off-balance sheet amounts shown are the notional amounts of the Group´s derivative instruments, except for FX options which are delta amounts (see Note 9). The amounts presented as FX-delta adjustment to currency imbalance represent the amounts of foreign currency loans granted to customers with limited or no foreign currency income. Such loans are deducted from the net currency position, as changes in foreign exchange rates in regard to the ISK do not affect the carrying amounts of these loans and therefore do not affect Group results.

At 31 March 2010	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	455	126	279	9	22	378	1,269
Bonds and debt instruments	4,499	164	2,398	-	-	100	7,161
Equities and equity instruments	850	-	59	-	-	9,344	10,253
Derivative instruments	290	93	785	-	-	-	1,168
Loans and advances to financial institutions	11,717	16,235	27,662	6,195	5,404	4,484	71,697
Loans and advances to customers	83,021	8,599	70,775	92,852	96,119	27,739	379,105
Other assets	1,653	13	184	1	-	416	2,267
Assets classified as held for sale	9,166	7,419	2,427	1,182	93	830	21,117
Total	**111,651**	**32,649**	**104,569**	**100,239**	**101,638**	**43,291**	**494,037**
Liabilities							
Due to financial institutions and Central Bank	(2,926)	(1,229)	(2,054)	(316)	(72)	(2,244)	(8,841)
Deposits from customers	(20,338)	(15,769)	(22,054)	(487)	(642)	(5,079)	(64,369)
Derivative instruments and short positions	(783)	-	(325)	-	-	-	(1,108)
Borrowings	(153,123)	(54,281)	(94,311)	-	-	-	(301,715)
Other liabilities	(78)	(509)	(11)	-	-	(268)	(866)
Total	**(177,248)**	**(71,788)**	**(118,755)**	**(803)**	**(714)**	**(7,591)**	**(376,899)**
Net on-balance sheet position	(65,597)	(39,139)	(14,186)	99,436	100,924	35,700	**117,138**
Net off-balance sheet position	30,464	1,685	19,194	(25,640)	(18,719)	(5,279)	**1,705**
Net currency position	**(35,133)**	**(37,454)**	**5,008**	**73,796**	**82,205**	**30,421**	**118,843**
FX-delta on Loans and advances to customers and assets classifiedas held for sale	**75%**	**90%**	**82%**	**57%**	**60%**	**87%**	
FX-delta adjustments to currency imbalance	**(23,314)**	**(1,541)**	**(12,847)**	**(40,388)**	**(38,225)**	**(3,709)**	**(120,024)**
Net effective currency position	**(58,447)**	**(38,995)**	**(7,839)**	**33,408**	**43,980**	**26,712**	**(1,181)**

At 31 December 2009	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	517	265	197	12	32	282	1,305
Bonds and debt instruments	4,105	241	24,534	-	-	-	28,880
Equities and equity instruments	1,780	-	175	-	-	9,161	11,116
Derivative instruments	185	224	553	-	-	-	962
Loans and advances to financial institutions	14,669	17,067	24,536	5,471	5,817	2,204	69,764
Loans and advances to customers	86,662	15,528	74,392	103,116	102,750	28,227	410,675
Other assets	1,154	184	450	-	2	200	1,990
Total	**109,072**	**33,509**	**124,837**	**108,599**	**108,601**	**40,074**	**524,692**
Liabilities							
Due to financial institutions and Central Bank	(4,952)	(1,163)	(3,927)	(313)	(97)	(257)	(10,709)
Deposits from customers	(30,478)	(17,106)	(24,714)	(1,198)	(1,727)	(6,708)	(81,931)
Derivative instruments and short positions	(222)	-	(451)	-	-	-	(673)
Borrowings	(158,573)	(56,086)	(91,834)	-	-	-	(306,493)
Other liabilities	(216)	(11)	(99)	-	-	(164)	(490)
Total	**(194,441)**	**(74,366)**	**(121,025)**	**(1,511)**	**(1,824)**	**(7,129)**	**(400,296)**
Net on-balance sheet position	(85,369)	(40,857)	3,812	107,088	106,777	32,945	**124,396**
Net off-balance sheet position	5,298	2,390	10,183	(12,834)	(3,905)	-	**1,132**
Net currency position	**(80,071)**	**(38,467)**	**13,995**	**94,254**	**102,872**	**32,945**	**125,528**
FX-delta on Loans and advances to customers	**75%**	**90%**	**82%**	**57%**	**60%**	**87%**	
FX-delta adjustments to currency imbalance	**(21,917)**	**(1,494)**	**(13,056)**	**(44,288)**	**(40,823)**	**(3,644)**	**(125,222)**
Net effective currency position	**(101,988)**	**(39,961)**	**939**	**49,966**	**62,049**	**29,301**	**306**

All amounts are in ISK million

52. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 31 March 2010	At 31 December 2009	% Change	Average for 1.1– 31.3.2010	Average for 1.1– 31.12.2009
EUR/ISK	172.00	179.70	(4.3%)	175.95	171.80
GBP/ISK	193.03	201.15	(4.0%)	198.65	192.28
USD/ISK	126.98	124.60	1.9%	126.98	122.96
JPY/ISK	1.36	1.35	0.7%	1.39	1.32
CHF/ISK	121.00	121.01	0.0%	120.64	114.08
CAD/ISK	125.14	118.78	5.4%	121.33	108.12
DKK/ISK	23.10	24.15	(4.3%)	23.64	23.07
NOK/ISK	21.40	21.64	(1.1%)	21.58	19.62
SEK/ISK	17.66	17.49	1.0%	17.61	16.22

All amounts are in ISK million