Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2011

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

The Condensed Consolidated Interim Financial Statements for the first six months of 2011 consist of the Consolidated Interim Financial Statements of Landsbankinn hf. (the Bank), formerly NBI hf., and its subsidiaries, together referred to as “the Group”. These Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the European Union.

According to the Condensed Consolidated Income Statement, the Group's after-tax profit for the first six months of 2011 amounted to ISK 24.434 million. The Group's equity at the end of this period amounted to ISK 207.707 million. The capital adequacy ratio of the Group was 22,4%. As of 30 June 2011, the Group’s total assets amounted to ISK 1.126.281 million.

On 20 January 2011, the Bank finalised the sale of its 100% holding in subsidiary Eignarhaldsfélagið Vestia ehf. (Vestia). Simultaneously, the Bank’s subsidiary Eignarhaldsfélagið IG ehf. finalised the sale of its 81% holding in IG (Icelandic Group). The Icelandic Competition Authority approved the sale of Vestia and IG on 14 January 2011, with certain conditions.

The Bank took over the operations of savings bank Spkef as of 7 March 2011 in accordance with a decision by the Financial Supervisory Authority (FME). The activities and operations of Spkef have been fully integrated into Landsbankinn. The Icelandic State Treasury made a commitment to issue a bond to the Bank in order to compensate for the negative difference between the fair value of assets and liabilities assumed thus taken over by the Bank. The fair value and provisional amounts and their presentation are subject to adjustments in future reporting periods as a result of the completion of due diligence and the valuation process.

The Bank’s merger with two of its subsidiaries, SP-Fjármögnun hf. and Avant hf., was fully approved by FME on 8 June 2011. Their main operation is vehicle leasing and lending services. The objective of the mergers is primarily to streamline operations and offer customers a wider range of products and more comprehensive services. The mergers will be finalised in fall of this year.

Reginn ehf. and Horn fjárfestingarfélag hf. are subsidiaries of Eignarhaldsfélag Landsbankans ehf. (formerly Eignarhaldsfélag NBI ehf.) which is a wholly-owned subsidiary of the Bank. Both companies are scheduled for listing on OMX Nordic Exchange Iceland in the coming winter 2011-2012.

On 9 June 2011, the Supreme Court of Iceland confirmed a District Court verdict to the effect that certain foreign currency loans issued to corporates are in fact ISK-denominated loans. This ruling did not affect the Group's financial results for the second quarter of 2011 as the impact of the ruling had already been accounted for in the consolidated financial statements as at and for the year ended 31 December 2010.

According to a legislation passed in 2009 the salary of the CEO of Landsbankinn is determined by the Compensation Council ("Kjararáð"). The Council determines remuneration and terms of employment of high level government employees, including CEOs of companies in which the government holds a majority of shares. It is a great concern of the Board that the decision of Kjararáð regarding the salary of the CEO of Landsbankinn is not at a competitive level.

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

According to the Directors' best knowledge, these Condensed Consolidated Interim Financial Statements comply with IAS 34 *Interim Financial Reporting* as adopted by the EU and give a true and fair view of the Group's assets and liabilities, financial position and performance. They also describe the principal risks 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 Condensed Consolidated Financial Statements have been prepared on a going concern basis.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn for the six months ended 30 June 2011.

Reykjavík, 13 September 2011.

Board of Directors

Gunnar Helgi Hálfdanarson

Chairman

Sigríður Hrólfsdóttir

Andri Geir Arinbjarnarson

Þórdís Ingadóttir

Ólafur Helgi Ólafsson

Chief Executive Officer

Steinþór Pálsson

Independent Auditor´s Review Report

To the board of Directors and Shareholders of Landsbankinn hf.

We have reviewed the accompanying condensed consolidated statement of financial position of Landsbankinn hf. as at 30 June 2011 and the related condensed consolidated income statement, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 13 September 2011.

KPMG ehf.

Helgi F. Arnarson

Sigríður Helga Sveinsdóttir

Condensed Consolidated Statement of Financial Position as at 30 June 2011

Notes		30.6.2011	31.12.2010
	Assets		
	Cash and balances with Central Bank	30,374	47,777
8	Bonds and debt instruments	185,417	161,559
8	Equities and equity instruments	38,461	29,429
9	Derivative instruments	257	23
10	Loans and advances to financial institutions	97,597	91,882
11, 23	Loans and advances to customers	653,189	592,954
12	Investments in associates	10,997	3,340
	Property and equipment	6,647	5,016
	Intangible assets	806	877
	Deferred tax assets	223	1,522
13	Other assets	47,652	17,965
		1,071,620	**952,344**
14	Assets classified as held for sale	54,661	128,789
	Total assets	**1,126,281**	**1,081,133**
	Liabilities		
	Due to financial institutions and Central Bank	134,542	147,478
	Deposits from customers	425,158	371,558
9	Derivative instruments and short positions	10,635	7,119
	Tax liabilities	-	1,979
23	Secured bonds	273,922	261,313
8,23	Contingent bond	34,428	26,510
	Other liabilities	24,983	18,701
		903,668	**834,658**
	Liabilities associated with assets classified as held for sale	14,906	61,609
	Total liabilities	**918,574**	**896,267**
	Equity		
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Statutory reserve	2,932	2,932
	Retained earnings	56,285	31,828
	Total equity attributable to owners of the Bank	**207,115**	**182,658**
	Non-controlling interests	592	2,208
	Total equity	**207,707**	**184,866**
	Total liabilities and equity	**1,126,281**	**1,081,133**

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 six months ended 30 June 2011

Notes		2011 1.4-30.6	2010 1.4-30.6*	2011 1.1-30.6	2010 1.1-30.6*
	Interest income	18,315	17,597	31,498	34,291
	Interest expense	(8,611)	(10,468)	(14,649)	(20,569)
15	**Net interest income**	**9,704**	**7,129**	**16,849**	**13,722**
16	Net adjustments to loans and advances acquired at deep discount	8,994	8,018	12,986	11,619
16	Loss from foreign currency linkage of loans and advances to customers	-	(8,251)	-	(8,251)
16, 30	Net impairment loss on loans and advances	15	(1,276)	(2,393)	(3,949)
8	Fair value change of contingent bond	(4,564)	(6,576)	(7,918)	(7,359)
	Net adjustments in valuation	**4,445**	**(8,085)**	**2,675**	**(7,940)**
	Net interest income after net adjustments in valuation	**14,149**	**(956)**	**19,524**	**5,782**
	Fee and commission income	1,955	1,454	3,598	2,970
	Fee and commission expense	(768)	(721)	(1,381)	(1,342)
	Net fee and commission income	**1,187**	**733**	**2,217**	**1,628**
17	Net gain on financial assets designated as at fair value through profit or loss	1,260	512	10,398	1,090
18	Net (loss) gain on financial assets and liabilities held for trading	(706)	(40)	(235)	979
19	Net foreign exchange gain (loss)	2,440	3,836	(139)	9,147
	Other income and expenses	(9)	(337)	(147)	(208)
	Other net operating income	**2,985**	**3,971**	**9,877**	**11,008**
	Total operating income	**18,321**	**3,748**	**31,618**	**18,418**
	Salaries and related expenses	2,933	2,198	5,243	4,416
	Other operating expenses	2,622	1,801	4,573	3,101
	Depreciation and amortisation	172	329	349	655
20	Contribution to the Depositors' and Investors' Guarantee Fund	150	170	400	340
	Acquisition-related costs	241	484	241	484
	Total operating expenses	**6,118**	**4,982**	**10,806**	**8,996**
	Share of profit of associates, net of income tax	1,183	130	1,172	132
	Profit (loss) before tax	**13,386**	**(1,104)**	**21,984**	**9,554**
21	Income tax expense	(1,947)	(871)	(2,079)	(2,911)
	Tax on liabilities of financial institutions	(120)	-	(220)	-
	Profit (loss) for the period from continuing operations	**11,319**	**(1,975)**	**19,685**	**6,643**
	Profit for the period from discontinued operations, net of income tax	424	3,046	4,749	2,762
	Profit for the period	**11,743**	**1,071**	**24,434**	**9,405**
	Profit for the period attributable to:				
	Owners of the Bank				
	Profit (loss) for the period from continuing operations	11,319	(1,975)	19,685	6,643
	Profit for the period from discontinued operations	448	3,045	4,772	2,763
	Profit for the period attributable to owners of the Bank	**11,767**	**1,070**	**24,457**	**9,406**
	Non-controlling interests				
	Profit for the period from continuing operations	-	-	-	-
	(Loss) profit for the period from discontinued operations	(24)	1	(23)	(1)
	(Loss) profit for the period attributable to non-controlling interests	**(24)**	**1**	**(23)**	**(1)**
	Profit for the period	**11,743**	**1,071**	**24,434**	**9,405**

* Certain comparative amounts have been changed in conformity with current year presentation (see Note 2 in the Consolidated Financial Statements of the Bank for the year 2010).

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 six months ended 30 June 2011

Notes

Notes	Change in equity for the six months ended 30 June 2011	Attributable to owners of the Bank: Share capital	Share premium	Statutory reserve	Retained earnings	Total	Non-controlling interests	Total
	Balance at 1 January 2011	24,000	123,898	2,932	31,828	182,658	2,207	184,865
	Profit for the period				24,457	24,457	(23)	24,434
5	Increase in non-controlling interest due to acquisition of subsidiary					0	116	116
	Decrease in non-controlling interests due to sale of subsidiaries					0	(1,708)	(1,708)
	Balance at 30 June 2011	**24,000**	**123,898**	**2,932**	**56,285**	**207,115**	**592**	**207,707**
	Change in equity for the six months ended 30 June 2010							
	Balance at 1 January 2010	24,000	123,898	741	6,791	155,430	2,162	157,592
	Profit for the period				9,406	9,406	(1)	9,405
	Balance at 30 June 2010	**24,000**	**123,898**	**741**	**16,197**	**164,836**	**2,161**	**166,997**

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 six months ended 30 June 2011

Notes		2011 1.1-30.6	2010 1.1-30.6
	Profit for the period	24,434	9,405
	Net cash (used in) from operating activities	(30,924)	27,438
	Net cash used in investing activities	11,859	(66)
	Net cash from financing activities	2,000	-
	Net change in cash and cash equivalents	(17,065)	27,372
	Cash and cash equivalents at the beginning of the period	52,654	21,166
	Effect of exchange rate changes on cash and cash equivalents held	(365)	(438)
	Cash and cash equivalents at the end of the period	**35,224**	**48,100**

Cash and cash equivalents is specified as follow:

Notes		2011	2010
	Cash and unrestricted balances with Central Bank	29,766	44,816
10	Bank accounts with financial institutions	5,458	3,284
	Cash and cash equivalents at the end of the period	**35,224**	**48,100**

Investing and financing activities not affecting cash flows

Notes		2011	2010
5	Assets acquired and liabilities assumed from SpKef Savings Bank	(30,488)	-
5	Non-controlling interests	(116)	-
5	Provisional amount of the bond to be issued by the Icelandic State Treasury	30,604	-
5	Assets acquired and liabilities assumed from Avant hf	9,722	-
5	Fair value of the Bank's outstanding claim on Avant hf.	(9,722)	-

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

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

Landsbankinn hf. (formerly 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 six months ended 30 June 2011 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, asset management and leasing services. The Group operates solely in Iceland.

The issue of these condensed consolidated interim financial statements was authorised by the Board of Directors of the Bank on 13 September 2011.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the European Union.

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 2010, 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.

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 Group entity are measured using the currency of the economic environment in which the respective entity operates (its functional currency). All amounts are presented in Icelandic Krona (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 2010. The accounting policies applied have been applied consistently to all periods presented.

Changes in presentation and classification

The group has changed in the second quarter of 2011 the presentation of the contribution to the Depositors' and Investors' Guarantee Fund which is now presented in separate line item in the income statement but it was previously included in the line item "Other operating expenses". The comparison amounts for the year 2010 in the income statement have been adjusted retrospectively in accordance with the new presentation as follows:
• New line item "Contribution to the Depositors' and Investors' Guarantee Fund" in the amount of ISK 340 million (1.4-30.6.2011 in the amount of by ISK 170 million);
• "Other operating expenses" decreased by ISK 340 million (1.4-30.6.2011 decreased by ISK 170 million).

4. Critical accounting estimates and judgements in applying accounting policies

The preparation of 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 2010.

Denomination currencies and interest rates of lease and loan agreements

The District Court of Reykjavik rendered in its ruling from 23 February 2011, established in the case of Landsbankinn hf. versus bankrupt estate of Motormax ehf., that certain foreign currency loan agreements to companies are in fact loan agreements in Icelandic krona which fall under the scope of Act. No. 38/2001, on interest and indexation. The indexation of such ISK denominated loans to the exchange rate of foreign currencies constitutes indexation which is not authorised by the Act. Furthermore, the District Court ruled that these loan agreements should bear from inception the lowest interest rates on unindexed ISK denominated loans as published by the Central Bank of Iceland. On 9 June 2011 the Supreme Court of Iceland ruled in this case and confirmed the District Court verdict. This ruling did not affect the Group's financial results for the second quarter of 2011 as the impact of the ruling was already accounted for in the consolidated financial statements as at and for the year ended 31 December 2010.

5. Business combinations

Acquisition of Avant hf.

As one of the major creditors of Avant hf., a company whose main operation is vehicle leasing and lending services to individuals and corporations, the Bank obtained control of Avant hf. on 24 January 2011. The control obtained was based on the composition agreement of Avant hf., which was confirmed by the District Court of Reykjavik on 24 January 2011. According to the composition agreement, the Bank accepted 100% of the common shares in Avant hf. as payment for one of the Bank’s claims on Avant hf. amounting to ISK 2.0 billion.

The fair values of the assets acquired and liabilities assumed recognised as of the acquisition date, 24 January 2011, were the following:

Identifiable assets acquired and liabilities assumed	Fair value
Assets	
Cash and balances with Central Bank	683
Loans and advances to customers	9,360
Deferred tax assets	1,270
Other assets	23
Assets classified as held for sale	311
Total	**11,647**
Liabilities	
Other liabilities	(1,925)
Total	**(1,925)**
Total identifiable net assets	**9,722**
Fair value of the Bank’s outstanding claim on Avant hf.	(9,722)
Goodwill	**0**

Apart from the claim which was settled by Avant hf. issuing 100% of its common shares to the Bank, Avant hf. owed ISK 12.4 billion to the Bank ISK 12.4 billion as at acquisition date. The Bank’s outstanding claim and the corresponding liability of Avant hf. have been eliminated from the consolidated financial statements of the Bank.

Since the acquisition in January 2011 Avant hf. has contributed revenue of ISK 376 million and profit of ISK 66 million to the Group's results.

All amounts are in ISK million

5. Business combinations (continued)

Acquisition of SpKef Savings Bank

On 7 March 2011, the Bank took over all assets, liabilities and operations of SpKef Savings Bank in accordance with the decision of the Financial Supervisory Authority in Iceland (FME). SpKef Savings Bank was owned entirely and directly by the Icelandic State Treasury previous to the transfer. The Icelandic State Treasury has made a committment to issue a bond to the Bank in order to compensate for the negative difference between the fair value of the assets taken over and liabilities assumed by the Bank. This takeover is done on an arm´s length basis under generally accepted commercial terms. The Bank and the Icelandic State Treasury currently disagree on the fair value of financial assets of SpKef under the due diligence process which is still in progress. Consequently, the current assessment of the value of financial assets of SpKef in the condensed consolidated statement of financial position has been determined by the Bank's current best estimate of fair value. The assets acquired from SpKef Savings Bank have been recognised by the Group at a preliminary fair value amount of ISK 43,3 billion. The liabilities assumed from SpKef have been recognised by the Group at a provisional amount of ISK 73,7 billion. The fair value and provisional amounts and their presentation are subject to adjustments in future reporting periods which may result from the completion of the due diligence and valuation process.

The Bank's current best estimate of the values of the assets acquired and liabilities assumed recognised as of the acquisition date, 7 March 2011, were the following:

Identifiable assets acquired and liabilities assumed	Acquiree's carrying amounts*	Value adjust-ments	The Bank's current valuation
Assets			
Cash and balances with Central Bank	1,285	-	1,285
Bonds and debt instruments	9,969	94	10,063
Equities and equity instruments	747	(679)	68
Loans and advances to financial institutions	(437)	(40)	(477)
Loans and advances to customers	42,212	(14,831)	27,381
Investments in associates	234	-	234
Property and equipment	2,441	-	2,441
Deferred tax assets	205	-	205
Other assets	70	-	70
Assets classified as held for sale	2,095	(104)	1,991
Total	**58,821**	**(15,560)**	**43,261**
Liabilities			
Due to financial institutions and Central Bank	(13,885)	-	(13,885)
Deposits from customers	(57,565)	-	(57,565)
Tax liabilities	(74)	-	(74)
Other borrowings	(62)	-	(62)
Other liabilities	(264)	(1,899)	(2,163)
Total	**(71,850)**	**(1,899)**	**(73,749)**
Total identifiable net assets			**(30,488)**
Non-controlling interests			(116)
Provisional amount of the bond to be issued to the Bank by the Icelandic State Treasury			**(30,604)**

*Unaudited financial information representing the carrying amounts of assets and liabilities transferred from SpKef Savings Bank immediately before the acquisition date.

All amounts are in ISK million

5. Business combinations (continued)

Acquisition of SpKef Savings Bank (continued)

The consideration payable by the Icelandic State Treasury by issuing a bond to the Bank is subject to the eventual fair value of financial assets of SpKef and liabilities assumed from SpKef. The Group recognised a provisional amount of 30,6 billion which are presented provisionaly among "Other assets" in the condensed consolidated statement of financial position.

Acquisition related cost directly attributable to the acquisition amounted to ISK 241 million, all of which was cost for external services. However, acquisition related cost indirectly attributable to the acquisition cannot be estimated reliably, being cost for internal services like salaries of the Bank´s employees working on the acquisition. Direct acquisition cost was therefore expensed in the line item "Acquisition-related costs" exclusive of indirect acquisition cost.

Since the acquisition on 7 March 2011, SpKef Savings Bank has contributed revenue of ISK 764 million and profit of ISK 204 million to the Group's results.

Total acquisitions during the period

The table below summarises all assets acquired and liabilities assumed recognised during the six months ended 30 June 2011:

Identifiable assets acquired and liabilities assumed	Avant hf.	SpKef Savings Bank	Total
Assets			
Cash and balances with Central Bank	683	1,285	1,968
Bonds and debt instruments	-	10,063	10,063
Equities and equity instruments	-	68	68
Loans and advances to financial institutions	-	(477)	(477)
Loans and advances to customers	9,360	27,381	36,741
Investments in associates	-	234	234
Property and equipment	-	2,441	2,441
Deferred tax assets	1,270	205	1,475
Other assets	23	70	93
Assets classified as held for sale	311	1,991	2,302
Total	**11,647**	**43,261**	**54,908**
Liabilities			
Due to financial institutions and Central Bank	-	(13,885)	(13,885)
Deposits from customers	-	(57,565)	(57,565)
Tax liabilities	-	(74)	(74)
Other borrowings	-	(62)	(62)
Other liabilities	(1,925)	(2,163)	(4,088)
Total	**(1,925)**	**(73,749)**	**(75,674)**
Total identifiable net assets	**9,722**	**(30,488)**	**(20,766)**
Non-controlling interests	-	(116)	(116)
Fair value of the Bank's outstanding claim on Avant hf.	(9,722)	-	(9,722)
Provisional amount of the bond to be issued to the Bank by the Icelandic State Treasury	-	30,604	30,604
Goodwill	**0**	**0**	**0**

If all of the business combinations occurring during the period had been as of 1 January 2011, consolidated revenue contribution would have been ISK 31,566 million and consolidated profit for the period would have been ISK 23,986 million.

All amounts are in ISK million

6. Disposal of subsidiaries

Horn fjárfestingarfélag hf., a subsidiary of Eignarhaldsfélag Landsbankans ehf. which is a wholly-owned subsidiary of the Bank, is in the process of listing its common shares on the OMX Nordic Exchange in Iceland. The preparation of the listing started in the beginning of the year 2011 and it is expected to be completed during the year 2011. However, the assets and liabilities of Horn fjárfestingarfélag hf. are not classified as assets and liabilities held for sale in the condensed consolidated statement of financial position as at 30 June 2011, as they do not meet the criteria to be reclassified as held for sale in accordance with IFRS 5.

7. Operating segments

On 26 August 2010 the CEO of the Bank presented a new organisational chart for the Group which became formally effective from 1 October 2010. Management of the Bank has already started the implementation of the necessary changes of the infrastructure in order to have the Group fully operational in line with the new organisational chart during the third quarter of 2011.

The organisational chart is structured around the following eight main divisions: Retail Banking, Corporate Banking, Markets & Treasury, Asset Management, Risk Management, Finance, Corporate Development and Asset Restructuring. Commercial and profit-generating divisions are given increased prominence in order to sharpen the Group's focus and improve its services to customers.

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 from its foundation.

Notes to the Condensed Consolidated Statement of Financial Position

8. Classification and fair value of financial assets and liabilities

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs to valuation used to measure fair value. This hierarchy prioritises the inputs into
• Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
• Level 2: Valuation technique using observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
• Level 3: Valuation technique with significant unobservable inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 includes all instruments that are valued according to quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between instruments.

The following tables show the reconciliation for fair value measurement in Level 3 for the six months ended 30 June 2011 and for the year 2010:

1 January - 30 June 2011	**Bonds and debt instruments**	**Equities and equity instruments**	**Total financial assets**	**Contingent bond**
Carrying amount at 1 January 2011	14,042	10,477	24,519	(26,510)
Total gains (losses) recognised in income statement	930	5,248	6,178	(7,918)
Purchases	3,083	694	3,777	-
Sales	(1,032)	(62)	(1,094)	-
Acquisitions through business combination	38	122	160	-
Settlements	(46)	-	(46)	-
Transfers out of Level 3	(61)	-	(61)	-
Carrying amount at 30 June 2011	**16,954**	**16,479**	**33,433**	**(34,428)**
1 January - 31 December 2010				
Carrying amount at 1 January 2010	37,371	3,555	40,926	(10,241)
Total (losses) gains recognised in income statement	(1,342)	11	(1,331)	(16,269)
Purchases	6,433	4,260	10,693	-
Sales	(7,851)	(531)	(8,382)	-
Settlements	(15,368)	3,313	(12,055)	-
Transfers into Level 3	375	-	375	-
Transfers out of Level 3	(5,576)	(131)	(5,707)	-
Carrying amount at 31 December 2010	**14,042**	**10,477**	**24,519**	**(26,510)**

The following tables show the line items in the consolidated income statement where the total gains (losses) were recognised during the six months ended 30 June 2011 and during the year 2010, for fair value measurements in Level 3:

1 January - 30 June 2011	**Bonds and debt instruments**	**Equities and equity instruments**	**Contingent bond**	**Total**
Fair value change of contingent bond	-	-	(7,918)	(7,918)
Net gain on financial assets designated as at fair value through profit or loss	301	5,052	-	5,353
Net foreign exchange gain (loss)	629	196	-	825
Total	**930**	**5,248**	**(7,918)**	**(1,740)**
1 January - 31 December 2010				
Fair value change of contingent bond	-	-	(16,269)	(16,269)
Net gain on financial assets designated as at fair value through profit or loss	350	185	-	535
Net foreign exchange gain (loss)	(1,692)	(174)	-	(1,866)
Total	**(1,342)**	**11**	**(16,269)**	**(17,600)**

All amounts are in ISK million

9. Derivative instruments and short positions

	30.6.2011			31.12.2010		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	49,885	180	831	22,359	20	769
Cross-currency interest rate swaps	1,941	-	614	1,897	-	659
OTC currency options	-	-	-	20,424	-	-
	51,826	**180**	**1,445**	**44,680**	**20**	**1,428**
Interest rate derivatives						
Interest rate swaps	3,642	77	10	3,294	3	17
	3,642	**77**	**10**	**3,294**	**3**	**17**
Short positions - listed bonds	**-**	**-**	**9,180**	**-**	**-**	**5,674**
Total	**55,468**	**257**	**10,635**	**47,974**	**23**	**7,119**

10. Loans and advances to financial institutions

	30.6.2011	31.12.2010
Bank accounts with financial institutions	5,458	6,844
Money market loans	83,369	63,549
Overdrafts	3,858	6,844
Other loans	4,912	16,823
Less: Allowance for impairment	-	(2,178)
Total	**97,597**	**91,882**

11. Loans and advances to customers

	30.6.2011	31.12.2010
Public entities	11,853	13,928
Individuals	186,156	166,069
Corporations	478,883	434,079
Less: Allowance for impairment	(23,703)	(21,122)
Total	**653,189**	**592,954**

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 risk management section of the notes.

All amounts are in ISK million

12. Investments in associates

	30.6.2011	31.12.2010
Carrying amount at the beginning of the period	3,340	2,945
Acquisitions through business combination	234	-
Acquisitions	6,371	104
Share of profit of associates, net of income tax	1,172	291
Disposals	(120)	-
Total	**10,997**	**3,340**

At 30 June 2011	Total assets	Total liabilities	Profit (loss)	Ownership interest	Share of profit of associates	Carrying amount
Valitor Holding hf.	40,715	33,967	660	38%	251	2,591
Framtakssjóður Íslands slhf.	25,033	4,145	2,544	28%	895	5,763
Icelandic Group hf.	73,736	49,599	930	19%	-	1,452
Borgun hf.	14,684	13,391	106	20%	33	423
Reiknistofa bankanna	1,699	248	-	34%	-	562
Intrum hf.	641	338	15	33%	6	155
Auðkenni hf.	222	51	4	20%	(13)	38
SPR ehf.	20	-	-	50%	-	10
SP-eignir ehf.	7	-	-	50%	-	3
Total	**156,757**	**101,739**	**4,259**		**1,172**	**10,997**
At 31 December 2010						
Valitor Holding hf.	6,165	7	1,014	38%	385	2,340
Kredikort hf.	7,206	6,654	(299)	20%	(60)	111
Borgun hf.	15,394	14,188	191	20%	38	241
Reiknistofa bankanna	1,699	248	-	34%	-	515
Intrum hf.	615	293	7	33%	(1)	96
Auðkenni hf.	222	51	4	20%	(71)	37
Total	**31,301**	**21,440**	**917**		**291**	**3,340**

All associates are unlisted companies.

13. Other assets

	30.6.2011	31.12.2010
Provisional amount of the bond to be issued by the Icelandic State Treasury	30,604	-
Legally disputed collections	3,669	3,669
Unsettled securities trading	1,837	3,168
Accounts receivable and prepayments	1,383	3,214
Claims on Landsbanki Íslands hf.	517	688
Sundry assets	9,642	7,226
Total	**47,652**	**17,965**

All amounts are in ISK million

14. Assets and liabilities classified as held for sale

Assets classified as held for sale	30.6.2011	31.12.2010
Repossessed collateral	53,088	43,831
Assets of disposal groups classified as held for sale	1,573	84,958
Total	**54,661**	**128,789**

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	30.6.2011	31.12.2010
Carrying amount at the beginning of the period	43,831	27,317
Acquisitions through business combination	1,812	-
Repossessed during the period	13,833	25,465
Disposed during the period	(6,388)	(8,951)
Carrying amount at the end of the period	**53,088**	**43,831**

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 presents the results of their operations as discontinued in the consolidated income statement, as required by IFRS 5 and IAS 1.

On 20 January 2011 the Bank finalised the sale to Framtakssjóður Íslands slhf. (FSÍ) of 100% shareholding in its subsidiary Eignarhaldsfélagið Vestia ehf. (Vestia), comprising a 62% shareholding in Teymi hf., 100% shareholding in Húsasmiðjan ehf. and 100% shareholding in Plastprent ehf., and 81% shareholding in its subsidiary Icelandic Group hf. (IG). The sale price for the shares in Vestia amounted to ISK 4,250 million and for the shares in IG amounted to ISK 11,250 million. FSÍ also has the option to acquire the Bank´s remaining 19% shareholding in IG at the same price per share within 12 months from delivery of the 81% shareholding.

The Icelandic Competition Authority approved the sale of Vestia and IG on 14 January 2011, with certain conditions. The Bank delivered the shares to FSÍ on 20 January 2011. The Group recognised a gain of ISK 4.1 billion on the disposal of these shares in the line item "Profit for the period from discontinued operations, net of income tax" in the first quarter of 2011. The calling amount of the remaining 19% shareholding in IG amounts to ISK 1.5 billion as at 30 June 2011.

As part of the agreement with FSÍ, the Bank committed itself to invest ISK 15.5 billion in FSÍ. This amount will be callable during the years 2011-2016 as needed to fund investments by FSÍ, in proportion to the Bank's holding in FSÍ. The maximum amount that the Bank can invest in FSÍ is 25% of total outstanding commitments of all investors in FSÍ. At 30 June 2011 the Bank had invested in FSÍ ISK 4,868 million representing 27.5% of called in commitments (ISK 17,642 million). FSÍ is required to redeem its shareholders with the proceeds from sales of assets.

All amounts are in ISK million

Notes to the Condensed Consolidated Income Statement

15. Net interest income

Interest income	2011 1.4-30.6	2010 1.4-30.6	2011 1.1-30.6	2010 1.1-30.6
Cash and balances with Central Bank	282	1,061	738	1,808
Bonds and debt instruments classified as loans and receivables	906	1,838	1,780	3,795
Loans and advances to financial institutions	340	465	507	944
Loans and advances to customers	16,697	14,219	28,356	27,718
Other interest income	90	14	117	26
Total	**18,315**	**17,597**	**31,498**	**34,291**
Interest expense				
Due to financial institutions and Central Bank	(531)	(1,450)	(1,081)	(2,656)
Deposits from customers	(5,371)	(5,829)	(8,203)	(12,193)
Secured bonds	(2,608)	(3,134)	(5,213)	(5,660)
Other interest expense	(101)	(55)	(152)	(60)
Total	**(8,611)**	**(10,468)**	**(14,649)**	**(20,569)**
Net interest income	**9,704**	**7,129**	**16,849**	**13,722**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period)	**3.5%**	**2.6%**	**3.1%**	**2.5%**
Adjusted interest spread (as the annualised ratio of net interest income after net adjustments in valuation to the average carrying amount of total assets during the period)	**5.1%**	**(0.4%)**	**3.5%**	**1.1%**

16. Net valuation change in loans and advances

	2011 1.4-30.6	2010 1.4-30.6	2011 1.1-30.6	2010 1.1-30.6
Net adjustments to loans and advances acquired at deep discount	8,994	8,018	12,986	11,619
Loss from foreign currency linkage of loans and advances to customers	-	(8,251)	-	(8,251)
Net impairment loss on loans and advances	15	(1,276)	(2,393)	(3,949)
Total	**9,009**	**(1,509)**	**10,593**	**(581)**
Individuals	1,790	(6,089)	(8,755)	(4,480)
Corporations	7,219	4,580	19,348	3,899
Total	**9,009**	**(1,509)**	**10,593**	**(581)**

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

	2011 1.4-30.6	2010 1.4-30.6	2011 1.1-30.6	2010 1.1-30.6
Bonds and debt instruments	1,026	860	999	1,121
Equities and equity instruments	234	(348)	9,399	(31)
Total	**1,260**	**512**	**10,398**	**1,090**

18. Net (loss) gain on financial assets and liabilities held for trading

	2011 1.4-30.6	2010 1.4-30.6	2011 1.1-30.6	2010 1.1-30.6
Bonds and debt instruments	(326)	106	288	995
Equities and equity instruments	(379)	(41)	(284)	30
Derivatives instruments	(1)	(105)	(239)	(46)
Total	**(706)**	**(40)**	**(235)**	**979**

All amounts are in ISK million

19. Net foreign exchange gain (loss)

	2011 1.4-30.6	2010 1.4-30.6	2011 1.1-30.6	2010 1.1-30.6
Assets				
Cash and balances with Central Bank	9	(57)	35	(80)
Bonds and debt instruments	323	(1,981)	929	(2,046)
Equities and equity instruments	143	(344)	742	(763)
Derivative instruments	(1,511)	(2,821)	(651)	(3,273)
Loans and advances to financial institutions	1,149	(1,244)	2,844	(2,851)
Loans and advances to customers	6,896	(5,766)	9,715	(7,522)
Other assets	46	9	52	(461)
Total	**7,055**	**(12,204)**	**13,666**	**(16,996)**
Liabilities				
Due to financial institutions and Central Bank	(354)	459	(505)	905
Deposits from customers	(1,025)	1,771	(2,530)	4,120
Secured bonds	(3,235)	13,800	(10,771)	21,105
Other liabilities	(1)	10	1	13
Total	**(4,615)**	**16,040**	**(13,805)**	**26,143**
Net foreign exchange gain (loss)	**2,440**	**3,836**	**(139)**	**9,147**

The foreign exchange differences which were recognised during the period from 1 January to 30 June 2011 in the condensed consolidated income statement and arose on financial instruments not measured at fair value through profit or loss amounted to a ISK 12,646 million gain for financial assets (1.1-30.6.2010: loss of ISK 10,913 million) and loss of ISK 13,806 million for financial liabilities (1.1-30.6.2010: gain of ISK 5,038 million). As disclosed in Note 38, the impact of FX-delta has become negligible and is not appropriate any longer. Consequently, the Group has not accounted for any amount of foreign exchange difference arising on loans and advances to customers, which is deemed to be uncollectible and is therefore offset by the FX-delta ratio, for the six months ended 30 June 2011 (1.1-30.6.2010: gain of ISK 2,315 million).

20. Contribution to the Depositors' and Investors' Guarantee Fund

As at 30 June 2011 an amount of ISK 637 million was payable by the Bank to the Depositors' and Investors' Guarantee Fund for the period 1 January to 30 June 2011. Only ISK 400 million was however expensed during the same period because of over accrual of expenses in the year 2010. Consequently, the Bank will phase the 2010 accrual throughout the quarters in 2011 to eliminate the mismatch.

21. Income tax expense

Income tax is recognised based on the tax rates and tax laws enacted by the end of the period, according to which the domestic corporate income tax rate was 20.0% (2010: 18.0%).

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

	2011 1.1-30.6	2010 1.1-30.6
Current tax expense	(2,403)	-
Deferred tax expense	324	(2,911)
Total	**(2,079)**	**(2,911)**

The tax on Group profits differs to the following extent from the amount that would theoretically arise by the domestic corporate income tax rate:

	1.1-30.6.2011		1.1-30.6.2010	
Profit before tax		21,984		9,554
Tax on liabilities of financial institutions		(220)		-
Profit before income tax		21,764		9,554
Income tax calculated using the domestic corporate income tax rate	20.0%	(4,353)	18.0%	(1,720)
Income not subject to tax	(8.3%)	1,816	14.2%	(1,360)
Non-deductable expenses	0.2%	(45)	0.0%	-
Other	(2.3%)	503	(1.8%)	169
Effective income tax	**9.6%**	**(2,079)**	**30.4%**	**(2,911)**

All amounts are in ISK million

Other notes

22. 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 2010, except for the following:

1. In the case of Skollaborg ehf. and Hraðfrystihúsið – Gunnvör hf. the Supreme Court ruled in the case and confirmed a District Court verdict to dismiss the case. Since the Supreme Court ruling the appellant and the respondent have settled the case between themselves out of court.

2. In January 2010 Soffanías Cecilsson hf., an Icelandic limited liability company, commenced litigation before the District Court of Reykjavik against the Bank and demanded that two loan agreements and the distribution of the proceeds of the loans were declared null and void. The loan agreements are denominated in foreign currencies and the Bank claim according to the agreements is equivalent to ISK 7.4 billion. To support its case the company puts forward various arguments mainly relating to the power of the company to enter into loan agreements to finance securities transactions and the conduct and advice of the employees of Landsbanki Islands hf. in relation to the transactions. The Bank considers the claim to be without merit and will defend this claim vigorously before court. On 13 April 2011 the District Court of Reykjavik ruled that all but one of Soffaníasar Cecilssonar claims was dismissed because the Soffanías Cecilsson hf. claims did not fulfill the requirments of the civil law, No. 91/1991. The District Court of Reykjavik remains to rule on the claim of Soffanías Cecilsson that two loan agreements are in fact loan agreements in Icelandic kronas which fall under the scope of Act. No. 38/2001, on interest and indexation.

3. The District Court of Reykjavik has in its ruling from 23 February 2011, established in the case of NBI hf. versus bankrupt estate of Motormax ehf., that foreign currency loan agreements to companys are in fact loan agreements in Icelandic kronas which fall under the scope of Act. No. 38/2001, on interest and indexation. The indexation of such ISK denominated loans to the exchange rate of foreign currencies constitutes indexation which is not authorised by the Act. The bank appealed the ruling of the District Court of Reykjavik to the Supreme Court of Iceland. On 9 June 2011 the Supreme Court ruled in the case and confirmed the District Court verdict that one foreign currency loan agreement to the company Motormax was in fact loan in Icelandic kronas.

4. In January 2011 Spkef commenced litigation before the District Court of Reykjavik against the Winding-up Board of Landsbanki Íslands hf. and demanded that its participating interest in a loan to Ineos Holding Limited, as per an agreement between Spkef and Landsbanki Íslands hf., be classified as an asset of Spkef in accordance with the provisions of the first paragraph of Article 109 of Act No. 21/1991, on Bankruptcy. On 6 March 2006, Landsbanki Íslands hf. and Spkef concluded a contract on participation in investments based on a framework agreement on the participation in investments by Landsbanki Íslands hf. in syndicated loans on the European credit market. Spkef acquired a tranche of a syndicated loan from Landsbanki Íslands hf. in the amount of EUR 1 million which Landsbanki Íslands hf. was responsible for collecting. The Winding-up Board has rejected classifying the claim as an asset of Spkef because direct ownership of the loan tranche has not been established. Spkef thus does not have a direct claim on the debtor; that claim is owned by the Winding-up Board of Landsbanki Íslands hf. Principal proceedings will take place in the coming months.

5. In January 2011 Landsvaki commenced litigation before the District Court of Reykjavik against the Winding-up Board of Landsbanki Íslands hf. and demanded that its participating interest in syndicated loans have priority in the bankruptcy estate in accordance with the provision of the third paragraph of Article 110 of Act No. 21/1991, on Bankruptcy. Landsvaki demanded as well that its participating interest in syndicated loans be classified as an asset of Landsvaki in accordance with the provisions of the first paragraph of Article 109 of Act No. 21/1991, on Bankruptcy. The Winding-up Board has rejected these claims because direct ownership of the loan tranche has not been established. Landsvaki thus does not have a direct claim on the debtor; that claim is owned by the Winding-up Board of Landsbanki Íslands hf. Principal proceedings will take place in the coming months.

23. Pledged assets

On 12 October 2010 the Bank and Landsbanki Íslands hf. signed a pledge agreement according to which the Bank pledged certain pools of loans to customers as collateral for the secured bonds issued on 12 October 2010 and the contingent bond that the Bank might issue to Landsbanki Íslands hf. The Bank must maintain a cover ratio of 127.5% (ISK 349,251 million) (31.12.2010: ISK 333,174 million) for the secure bonds and 118% (ISK 40,625 million) (31.12.2010: ISK 31,281 million) for the contingent bond. Pledged assets added to the pledged pool must comply with certain eligibility criteria.

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 5,500 million as at 30 June 2011 (31.12.2010: ISK 5,500 million) 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 12,778 million as at 30 June 2011 (31.12.2010: ISK 7,123 million).

24. Related party transactions

(a) Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities 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 government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 27.

(b) Transactions with other related parties

The deposits from Landsbanki Íslands hf. amounted to ISK 34,350 million as at 30 June 2011 (31.12.2010: ISK 33,418 million). During the period from 1 January to 30 June 2011 the Bank recognised ISK 162 million from administrative services provided to Landsbanki Íslands hf. based on a service level agreement (1.1-30.6.2010: ISK 257 million).

The following table presents the total amounts of loans to key management personnel and parties related to them and loans to associates of the Group:

	2011		2010	
Loans in ISK million	**Balance at 30 June**	**Highest amounts outstanding during the period**	**Balance at 31 December**	**Highest amounts outstanding during the year**
Key management personnel	55	84	161	200
Parties related to key management personnel	167	215	250	331
Associates	8,776	11,061	7,273	7,307
Total	**8,998**	**11,360**	**7,684**	**7,838**

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

No guarantees, pledges or commitments have been given or received in respect of these transactions in the period. There are no leasing transactions between related parties in the period.

Capital management

25. Capital management

The Financial Supervisory Authority in Iceland has decided that the Bank and the Group shall maintain a capital ratio of at least 16%, there of Tier 1 capital ratio of at least 12 %. This is higher than the current ICAAP capital requirement estimated by the Bank.

26. Capital base and capital adequacy ratio

The Group's equity at 30 June 2011 amounted to ISK 207,707 million (31.12.2010: ISK 184,866 million), equivalent to 18.4% (31.12.2010: 17.1%) of total assets, according to the condensed consolidated statement of financial position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 22.4% at 30 June 2011 (31.12.2010: 19.5%). According to the Act, this ratio may not fall below 8.0%.

Capital base	30.6.2011	31.12.2010
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	2,932	2,932
Retained earnings	56,285	31,828
Non-controlling interests	592	2,208
Intangible assets	(806)	(878)
Deferred tax assets	(223)	(1,522)
Tier 1 capital	**206,678**	**182,466**
Deduction from original and additional own funds	(4,213)	(3,888)
Capital base	**202,465**	**178,578**

Risk-weighted assets		
Credit risk	701,938	699,716
Market risk	133,705	144,745
Operational risk	69,987	69,987
Total risk-weighted assets	**905,630**	**914,448**

Tier 1 capital ratio	22.8%	20.0%
Capital adequacy ratio	22.4%	19.5%

All amounts are in ISK million

Risk management

Credit risk

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

At 30 June 2011	Financial institutions	Public entities*	Individuals	Corporations: Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	30,374	-	-	-	-	-	-	-	-	-	-	**30,374**
Bonds and debt instruments	10,958	167,150	-	-	2	-	-	3,912	3,067	-	-	328	**185,417**
Derivative instruments	179	-	6	1	-	-	-	-	-	-	-	71	**257**
Loans and advances to financial institutions	97,597	-	-	-	-	-	-	-	-	-	-	-	**97,597**
Loans and advances to customers	-	11,650	178,165	139,780	104,296	78,806	44,489	38,572	27,351	11,982	13,966	4,132	**653,189**
Other financial assets	3,229	-	-	12	-	300	1	54	3	-	73	65	**3,737**
Total on-balance sheet exposure	**111,963**	**209,174**	**178,171**	**139,793**	**104,298**	**79,106**	**44,490**	**42,538**	**30,421**	**11,982**	**14,039**	**4,596**	**970,571**
Off-balance sheet exposure	**0**	**4,138**	**38,412**	**8,240**	**1,769**	**9,370**	**3,613**	**2,547**	**3,376**	**11,746**	**8,791**	**830**	**92,832**
Financial guarantees	-	39	488	5,018	243	951	667	1	1,246	1,267	2,764	31	12,715
Undrawn loan commitments	-	-	192	1,421	518	6,276	964	1,922	370	5,369	50	-	17,082
Undrawn overdraft/credit card facilities	-	4,099	37,732	1,801	1,008	2,143	1,982	624	1,760	5,110	5,977	799	63,035
Maximum exposure to credit risk	**111,963**	**213,312**	**216,583**	**148,033**	**106,067**	**88,476**	**48,103**	**45,085**	**33,797**	**23,728**	**22,830**	**5,426**	**1,063,403**

* 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

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

At 31 December 2010	Financial institutions	Public entities*	Corporations: Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	47,777	-	-	-	-	-	-	-	-	-	-	**47,777**
Bonds and debt instruments	10,744	147,036	-	-	2	-	-	3,776	-	-	-	1	**161,559**
Derivative instruments	20	-	-	-	-	-	-	3	-	-	-	-	**23**
Loans and advances to financial institutions	91,882	-	-	-	-	-	-	-	-	-	-	-	**91,882**
Loans and advances to customers	-	13,591	163,203	134,037	100,038	66,752	33,582	37,243	22,872	11,666	6,597	3,373	**592,954**
Other financial assets	6,316	42	-	12	-	433	1	19	10	-	154	83	**7,070**
Total on-balance sheet exposure	**108,962**	**208,446**	**163,203**	**134,049**	**100,040**	**67,185**	**33,583**	**41,041**	**22,882**	**11,666**	**6,751**	**3,457**	**901,265**
Off-balance sheet exposure	**0**	**7,232**	**33,184**	**11,904**	**5,801**	**9,672**	**12,053**	**2,184**	**3,090**	**2,479**	**2,483**	**289**	**90,371**
Financial guarantees	-	12	478	884	3,240	2,325	1,222	228	618	340	855	31	10,233
Undrawn loan commitments	-	2,564	49	8,781	876	3,335	6,452	846	891	1,636	675	-	26,105
Debt underwriting commitments	-	1,090	-	-	-	-	-	-	-	-	-	-	1,090
Undrawn overdraft/credit card facilities	-	3,566	32,657	2,239	1,685	4,012	4,379	1,110	1,581	503	953	258	52,943
Maximum exposure to credit risk	**108,962**	**215,678**	**196,387**	**145,953**	**105,841**	**76,857**	**45,636**	**43,225**	**25,972**	**14,145**	**9,234**	**3,746**	**991,636**

* 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

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

Carrying amount	30.6.2011	31.12.2010
Customer groups with loan exposures above ISK 500 million		
Green	224,551	197,331
Yellow	43,996	21,669
Orange	9,266	23,982
Red	56,378	51,867
Customer groups with loan exposures below ISK 500 million	318,998	298,105
Total	**653,189**	**592,954**

29. Loans and advances past due but not individually impaired

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

At 30 June 2011	Past due up to 30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due over 90 days	Gross carrying amount
Loans and advances to financial institutions	1	-	-	671	672
Loans and advances to customers	25,552	22,845	15,417	143,475	207,289
Total	**25,553**	**22,845**	**15,417**	**144,146**	**207,961**
At 31 December 2010					
Loans and advances to financial institutions	5	-	1	190	196
Loans and advances to customers	15,578	10,918	3,476	139,408	169,380
Total	**15,583**	**10,918**	**3,477**	**139,598**	**169,576**

30. Allowance for impairment on loans and advances to financial institutions and customers

	1.1-30.6.2011			1.1-31.12.2010		
	Financial institutions	Customers	Total	Financial institutions	Customers	Total
Balance at the beginning of the year	2,178	21,122	23,300	727	7,760	8,487
Impairment loss for the period	(2,178)	4,593	2,415	1,451	13,362	14,813
Loans written-off	-	(2,012)	(2,012)	-	-	-
Balance at the end of the period	**0**	**23,703**	**23,703**	**2,178**	**21,122**	**23,300**
Individual allowance	-	95	95	2,178	64	2,242
Collective allowance	-	23,608	23,608	-	21,058	21,058
Total	**0**	**23,703**	**23,703**	**2,178**	**21,122**	**23,300**
Net impairment loss on loans and advances						
Impairment loss for the period	(2,178)	4,593	2,415	1,451	13,362	14,813
Collected previously written-off loans	-	(22)	(22)	-	(177)	(177)
Total	**(2,178)**	**4,571**	**2,393**	**1,451**	**13,185**	**14,636**

All amounts are in ISK million

31. Large exposures

At 30 June 2011, two Group clients were rated as large exposures (31 December 2010: two clients), including subsidiaries of the Group classified as held for sale. 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. The large exposures amount is calculated 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 as of 30 June 2011 and 31 December 2010.

At 30 June 2011, 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 30 June 2011, one exposure exceeded 20% (31 December 2010: one 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 30 June 2011	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	1	50,600
Large exposures between 10% and 20% of the Group's capital base	1	39,187
Total	**2**	**89,787**
Utilisation of 800% limit (%)		44%
At 31 December 2010		
Large exposures above 20% of the Group's capital base	1	36,279
Large exposures between 10% and 20% of the Group's capital base	1	19,375
Total	**2**	**55,654**
Utilisation of 800% limit (%)		31%

Liquidity risk

32. 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 30 June 2011 was 42% (31 December 2010: 45%).

All amounts are in ISK million

33. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 30 June 2011:

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	30,374	-	-	-	-	30,374	30,374
Bonds and debt instruments	-	12,640	9,215	43,642	173,822	239,319	185,417
Loans and advances to financial institutions	-	93,426	2,874	1,301	-	97,601	97,597
Loans and advances to customers	44,166	89,809	89,774	347,972	549,460	1,121,181	653,189
Other financial assets	-	3,160	-	577	-	3,737	3,737
Total	**74,540**	**199,035**	**101,863**	**393,492**	**723,282**	**1,492,212**	**970,314**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	14,545	-	-	-	14,545	
Outflow	-	(14,363)	-	-	-	(14,363)	
Total	**0**	**182**	**0**	**0**	**0**	**182**	**180**
Net settled derivatives	-	77	-	-	-	77	77
Total	**0**	**259**	**0**	**0**	**0**	**259**	**257**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(114,007)	(20,560)	-	-	-	(134,567)	(134,542)
Deposits from customers	(312,646)	(58,174)	(31,515)	(24,728)	(2,605)	(429,668)	(425,158)
Short positions	-	(8,054)	(778)	(7,646)	(8,148)	(24,626)	(9,180)
Secured bonds	-	(1,820)	(7,578)	(182,380)	(129,298)	(321,076)	(273,922)
Contingent bond	-	-	-	(23,355)	(18,843)	(42,198)	(34,428)
Other financial liabilities	-	(4,980)	-	-	-	(4,980)	(4,980)
Total	**(426,653)**	**(93,588)**	**(39,871)**	**(238,109)**	**(158,894)**	**(957,115)**	**(882,210)**
Off-balance sheet items							
Financial guarantees	(6,999)	(688)	(2,680)	(2,348)	-	(12,715)	
Undrawn loan commitments	(17,082)	-	-	-	-	(17,082)	
Undrawn overdraft/credit card commitments	(63,035)	-	-	-	-	(63,035)	
Total	**(87,116)**	**(688)**	**(2,680)**	**(2,348)**	**0**	**(92,832)**	
Total non-derivative financial liabilities and off-balance sheet items	**(513,769)**	**(94,276)**	**(42,551)**	**(240,457)**	**(158,894)**	**(1,049,947)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	35,433	-	-	-	35,433	
Outflow	-	(36,259)	-	-	-	(36,259)	
Total	**0**	**(826)**	**-**	**0**	**0**	**(826)**	**(1,445)**
Net settled derivatives	-	(10)	-	-	-	(10)	(10)
Total	**0**	**(836)**	**0**	**0**	**0**	**(836)**	**(1,455)**
Net liquidity position	**(439,229)**	**104,182**	**59,312**	**153,035**	**564,388**	**441,688**	

All amounts are in ISK million

33. 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 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	47,777	-	-	-	-	47,777	47,777
Bonds and debt instruments	-	10,477	6,438	36,933	168,203	222,051	161,559
Loans and advances to financial institutions	-	88,965	3,051	-	-	92,016	91,882
Loans and advances to customers	29,807	123,424	79,498	286,884	631,211	1,150,824	592,954
Other financial assets	-	6,313	-	757	-	7,070	7,070
Total	**77,584**	**229,179**	**88,987**	**324,574**	**799,414**	**1,519,738**	**901,242**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	5,482	-	-	-	5,482	
Outflow	-	(5,366)	-	-	-	(5,366)	
Total	0	116	0	0	0	116	20
Net settled derivatives	-	3	-	-	-	3	3
Total	0	119	0	0	0	119	23
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(138,503)	(8,583)	(421)	-	-	(147,507)	(147,478)
Deposits from customers	(271,977)	(53,196)	(28,715)	(20,309)	-	(374,197)	(371,558)
Short positions	-	(82)	(4,390)	(4,103)	(62)	(8,637)	(5,675)
Secured bonds	-	(1,588)	(4,865)	(191,171)	(109,193)	(306,817)	(261,313)
Contingent bond	-	-	-	(21,185)	(11,443)	(32,628)	(26,510)
Other financial liabilities	-	(4,237)	-	-	-	(4,237)	(4,237)
Total	**(410,480)**	**(67,686)**	**(38,391)**	**(236,768)**	**(120,698)**	**(874,023)**	**(816,771)**
Off-balance sheet items							
Financial guarantees	(5,188)	(1,099)	(1,854)	(2,092)	-	(10,233)	
Undrawn loan commitments	(26,105)	-	-	-	-	(26,105)	
Debt underwriting commitments	-	(1,090)	-	-	-	(1,090)	
Undrawn overdraft/credit card commitments	(52,943)	-	-	-	-	(52,943)	
Total	**(84,236)**	**(2,189)**	**(1,854)**	**(2,092)**	**0**	**(90,371)**	
Total non-derivative financial liabilities and off-balance sheet items	**(494,716)**	**(69,875)**	**(40,245)**	**(238,860)**	**(120,698)**	**(964,394)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	20,149	277	1,145	551	22,122	
Outflow	-	(21,266)	(390)	(1,547)	(737)	(23,940)	
Total	0	(1,117)	(113)	(402)	(186)	(1,818)	(1,428)
Net settled derivatives	-	17	-	-	-	17	(17)
Total	0	(1,100)	(113)	(402)	(186)	(1,801)	(1,445)
Net liquidity position	**(417,132)**	**158,323**	**48,629**	**85,312**	**678,530**	**553,662**	

All amounts are in ISK million

34. 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 30 June 2011:

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	21,329	129,713	23,209	79,516	66,942	320,709	297,027
ISK	53,211	69,322	78,654	313,976	656,340	1,171,503	673,287
Total	**74,540**	**199,035**	**101,863**	**393,492**	**723,282**	**1,492,212**	**970,314**
Derivative financial assets							
Total in foreign currencies	-	32	-	-	-	32	180
ISK	-	227	-	-	-	227	77
Total	**0**	**259**	**0**	**0**	**0**	**259**	**257**
Non-derivative financial liabilities							
Total in foreign currencies	(55,318)	(4,639)	(9,731)	(182,380)	(129,298)	(381,366)	(334,197)
ISK	(371,335)	(88,949)	(30,140)	(55,729)	(29,596)	(575,749)	(548,013)
Total	**(426,653)**	**(93,588)**	**(39,871)**	**(238,109)**	**(158,894)**	**(957,115)**	**(882,210)**
Off-balance sheet items							
Total in foreign currencies	(12,384)	(394)	(1,405)	(1,026)	-	(15,209)	
ISK	(74,732)	(294)	(1,275)	(1,322)	-	(77,623)	
Total	**(87,116)**	**(688)**	**(2,680)**	**(2,348)**	**0**	**(92,832)**	
Derivative financial liabilities							
Total in foreign currencies	-	(906)	-	-	-	(906)	(1,445)
ISK	-	70	-	-	-	70	(10)
Total	**0**	**(836)**	**0**	**0**	**0**	**(836)**	**(1,455)**
Net liquidity position in foreign currencies	**(46,373)**	**123,806**	**12,073**	**(103,890)**	**(62,356)**	**(76,740)**	
Net liquidity position in ISK	**(392,856)**	**(19,624)**	**47,239**	**256,925**	**626,744**	**518,428**	
Net liquidity position	**(439,229)**	**104,182**	**59,312**	**153,035**	**564,388**	**441,688**	

All amounts are in ISK million

34. 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 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	12,829	134,291	44,467	136,926	80,963	409,476	249,812
ISK	64,755	94,888	44,520	187,648	718,451	1,110,262	651,430
Total	**77,584**	**229,179**	**88,987**	**324,574**	**799,414**	**1,519,738**	**901,242**
Derivative financial assets							
Total in foreign currencies	-	287	-	-	-	287	20
ISK	-	(168)	-	-	-	(168)	3
Total	**0**	**119**	**0**	**0**	**0**	**119**	**23**
Non-derivative financial liabilities							
Total in foreign currencies	(49,351)	(3,567)	(6,468)	(191,171)	(109,193)	(359,750)	(314,244)
ISK	(361,129)	(64,119)	(31,923)	(45,597)	(11,505)	(514,273)	(502,527)
Total	**(410,480)**	**(67,686)**	**(38,391)**	**(236,768)**	**(120,698)**	**(874,023)**	**(816,771)**
Off-balance sheet items							
Total in foreign currencies	(12,059)	(567)	(816)	(1,121)	-	(14,563)	
ISK	(72,177)	(1,622)	(1,038)	(971)	-	(75,808)	
Total	**(84,236)**	**(2,189)**	**(1,854)**	**(2,092)**	**0**	**(90,371)**	
Derivative financial liabilities							
Total in foreign currencies	-	(964)	87	377	189	(311)	(1,428)
ISK	-	(136)	(200)	(779)	(375)	(1,490)	(17)
Total	**0**	**(1,100)**	**(113)**	**(402)**	**(186)**	**(1,801)**	**(1,445)**
Net liquidity position in foreign currencies	**(48,581)**	**129,480**	**37,270**	**(54,989)**	**(28,041)**	**35,139**	
Net liquidity position in ISK	**(368,551)**	**28,843**	**11,359**	**140,301**	**706,571**	**518,523**	
Net liquidity position	**(417,132)**	**158,323**	**48,629**	**85,312**	**678,530**	**553,662**	

Market risk

35. Market risk management

The following table summarises the Group's exposure to market risk as at 30 June 2011 and 31 December 2010:

Market risk factor	30.6.2011 % of RWA	31.12.2010 % of RWA
Equity price risk	6.4%	4.8%
Interest rate risk	4.1%	2.5%
Foreign exchange risk	4.3%	8.5%
Total	**14.8%**	**15.8%**

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 38-39, along with the related sensitivity analysis.

All amounts are in ISK million

36. 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 30 June 2011	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	30,374	-	-	-	30,374
Bonds and debt instruments	161,902	332	3,992	19,191	185,417
Derivative instruments	257	-	-	-	257
Loans and advances to financial institutions	93,422	2,874	1,301	-	97,597
Loans and advances to customers	516,708	63,330	31,598	41,553	653,189
Other financial assets	3,160	-	577	-	3,737
Total	**805,823**	**66,536**	**37,468**	**60,744**	**970,571**
Financial liabilities					
Due to financial institutions and Central Bank	(134,542)	-	-	-	(134,542)
Deposits from customers	(425,158)	-	-	-	(425,158)
Derivative instruments and short positions	(1,455)	(4,648)	(4,532)	-	(10,635)
Secured bonds	(273,922)	-	-	-	(273,922)
Contingent bond	(34,428)	-	-	-	(34,428)
Other financial liabilities	(4,980)	-	-	-	(4,980)
Total	**(874,485)**	**(4,648)**	**(4,532)**	**0**	**(883,665)**
Net on-balance sheet position	(68,662)	61,888	32,936	60,744	86,906
Net off-balance sheet position	758	(493)	(265)	-	
Total interest repricing gap	**(67,904)**	**61,395**	**32,671**	**60,744**	

At 31 December 2010	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	47,777	-	-	-	47,777
Bonds and debt instruments	150,243	108	1,804	9,404	161,559
Derivative instruments	23	-	-	-	23
Loans and advances to financial institutions	88,831	3,051	-	-	91,882
Loans and advances to customers	455,005	61,190	39,372	37,387	592,954
Other financial assets	6,313	-	757	-	7,070
Total	**748,192**	**64,349**	**41,933**	**46,791**	**901,265**
Financial liabilities					
Due to financial institutions and Central Bank	(147,478)	-	-	-	(147,478)
Deposits from customers	(371,558)	-	-	-	(371,558)
Derivative instruments and short positions	(1,514)	(4,123)	(1,482)	-	(7,119)
Secured bonds	(261,313)	-	-	-	(261,313)
Contingent bond	(26,510)	-	-	-	(26,510)
Other financial liabilities	(4,237)	-	-	-	(4,237)
Total	**(812,610)**	**(4,123)**	**(1,482)**	**0**	**(818,215)**
Net on-balance sheet position	(64,418)	60,226	40,451	46,791	83,050
Net off-balance sheet position	886	(117)	(500)	(269)	
Total interest repricing gap	**(63,532)**	**60,109**	**39,951**	**46,522**	

All amounts are in ISK million

37. 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-indexed loans and that overall lending will increase.

At 30 June 2011 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 116,324 million (31 December 2010: 94,641 million).

Carrying amount	**30.6.2011**	**31.12.2010**
Assets		
Bonds and debt instruments	15,296	8,119
Loans and advances to customers	198,228	171,017
Total	**213,524**	**179,136**
Liabilities		
Due to financial institutions and Central Bank	(453)	(421)
Deposits from customers	(93,296)	(82,215)
Short positions	(715)	(595)
Total	**(94,464)**	**(83,231)**
Total on-balance sheet position	119,060	95,905
Total off-balance sheet position	(2,736)	(1,264)
Total CPI indexation balance	**116,324**	**94,641**

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 1% inflation applied to the inflation risk exposures in existence at 30 June 2011, with no change in other variables, would have increased net interest income by ISK 1,191 million (31 December 2010: 959 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.

All amounts are in ISK million

38. Currency risk (all portfolios)

The Group follows the Rules No. 950/2010 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 December 2011, raising the required limits.

Due to the rulings of the Icelandic courts the uncertainty regarding the denomination currencies of the loan portfolio of the Bank has decreased. As a result the weight of loans in Icelandic krona has increased and likewise the currency risk of loans denominated in foreign currencies has decreased. Therefore, the impact of FX-delta has become negligible and the FX-delta is not any longer appropriate.

39. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 30 June 2011 and 31 December 2010. The off-balance sheet amounts shown are the notional amounts of the Group´s derivative instruments (see Note 9).

As explained in Note 4(i) in the consolidated financial statement of the Bank as at and for the year ended 31 December 2010, the Group has changed during the year 2010 the accounting for all types of foreign currency lease agreements which are within the scope of law no. 38/2001 and for certain types of foreign currency loan agreements. Based on this change, their carrying amount is no longer included in the carrying amount of loans and advances to customers disclosed in this note. The Supreme Court of Iceland ruling from 9 June 2011 confirms that these are loans in Icelandic krona and should not be included in this note. This ruling has eliminated to large extent the uncertainty regarding the denomination currencies of the loan portfolio of the Bank and thus the Group´s currency position.

At 30 June 2011	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	650	173	405	10	46	337	1,621
Bonds and debt instruments	5,305	129	19,953	-	-	-	25,387
Equities and equity instruments	2,610	13	741	-	-	10,329	13,693
Derivative instruments	179	1	-	-	-	-	180
Loans and advances to financial institutions	44,286	16,743	27,533	2,347	323	2,107	93,339
Loans and advances to customers	60,382	13,189	50,888	21,714	21,946	8,435	176,554
Other assets	509	75	57	1	-	75	717
Assets classified as held for sale	263	-	248	19	30	-	560
Total	**114,184**	**30,323**	**99,825**	**24,091**	**22,345**	**21,283**	**312,051**
Liabilities							
Due to financial institutions and Central Bank	(2,242)	(2,059)	(2,212)	(318)	(1,466)	(4,476)	(12,773)
Deposits from customers	(15,853)	(4,390)	(19,558)	(632)	(345)	(4,453)	(45,231)
Derivative instruments and short positions	(518)	(458)	(469)	-	-	-	(1,445)
Secured bonds	(142,009)	(49,642)	(82,271)	-	-	-	(273,922)
Other liabilities	(820)	(141)	(1,122)	(12)	(40)	(257)	(2,392)
Total	**(161,442)**	**(56,690)**	**(105,632)**	**(962)**	**(1,851)**	**(9,186)**	**(335,763)**
Net on-balance sheet position	(47,258)	(26,367)	(5,807)	23,129	20,494	12,097	**(23,712)**
Net off-balance sheet position	24,619	14,209	3,107	(18,701)	(13,900)	(4,183)	**5,151**
Net currency position	**(22,639)**	**(12,158)**	**(2,700)**	**4,428**	**6,594**	**7,914**	**(18,561)**

All amounts are in ISK million

39. Concentration of currency risk (continued)

At 31 December 2010	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	461	133	385	10	35	441	1,465
Bonds and debt instruments	2,152	149	9,747	-	-	-	12,048
Equities and equity instruments	2,246	-	625	-	-	8,201	11,072
Derivative instruments	2	1	17	-	-	-	20
Loans and advances to financial institutions	20,428	12,020	34,295	2,094	863	3,138	72,838
Loans and advances to customers	51,846	7,401	54,227	19,850	20,653	9,107	163,084
Other assets	4,467	7	122	1	-	305	4,902
Assets classified as held for sale	9,914	6,397	449	2,218	7	253	19,238
Total	**91,516**	**26,108**	**99,867**	**24,173**	**21,558**	**21,445**	**284,667**
Liabilities							
Due to financial institutions and Central Bank	(1,302)	(2,182)	(6,827)	(303)	(73)	(967)	(11,654)
Deposits from customers	(14,863)	(3,549)	(17,638)	(686)	(436)	(3,792)	(40,964)
Derivative instruments and short positions	(706)	-	(722)	-	-	-	(1,428)
Secured bonds	(130,963)	(48,132)	(82,218)	-	-	-	(261,313)
Other liabilities	(10)	(7)	(1)	-	-	(295)	(313)
Total	**(147,844)**	**(53,870)**	**(107,406)**	**(989)**	**(509)**	**(5,054)**	**(315,672)**
Net on-balance sheet position	(56,328)	(27,762)	(7,539)	23,184	21,049	16,391	**(31,005)**
Net off-balance sheet position	12,322	79	8,150	(6,719)	(13,503)	(354)	**(25)**
Net currency position	**(44,006)**	**(27,683)**	**611**	**16,465**	**7,546**	**16,037**	**(31,030)**
FX-delta on Loans and advances to customers and assets classified as held for sale	95%	96%	97%	78%	78%	92%	
FX-delta adjustments to currency imbalance	(3,088)	(552)	(1,640)	(4,855)	(4,545)	(711)	**(15,391)**
Net effective currency position	**(47,094)**	**(28,235)**	**(1,029)**	**11,610**	**3,001**	**15,326**	**(46,421)**

40. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 10% depreciation/appreciation of ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group's overall position in foreign currency on-balance sheet as disclosed in Note 39.

	30.6.2011		31.12.2010	
Currency (ISK million)	**-10%**	**+10%**	**-10%**	**+10%**
EUR	(2,264)	2,264	(4,709)	4,709
GBP	(1,216)	1,216	(2,824)	2,824
USD	(270)	270	(103)	103
JPY	443	(443)	1,161	(1,161)
CHF	659	(659)	300	(300)
Other	791	(791)	1,533	(1,533)
Total	**(1,857)**	**1,857**	**(4,642)**	**4,642**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in other net operating income would have affected retained earnings.

41. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 30 June 2011	At 31 December 2010	% Change	Average for 1.1-30.6 2011	Average for 1.1-31.12 2010
EUR/ISK	165.80	153.80	7.8%	161.47	162.66
GBP/ISK	183.73	179.09	2.6%	184.97	189.30
USD/ISK	114.17	114.69	(0.5%)	114.40	122.26
JPY/ISK	1.42	1.41	0.7%	1.40	1.40
CHF/ISK	135.74	122.75	10.6%	127.75	118.01
CAD/ISK	118.46	115.35	2.7%	117.41	118.08
DKK/ISK	22.23	20.63	7.8%	21.66	21.84
NOK/ISK	21.23	19.71	7.7%	20.69	20.26
SEK/ISK	18.10	17.07	6.0%	18.09	17.02

All amounts are in ISK million