Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 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 three months ended 31 March 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 three months of the year 2011 amounted to ISK 12,691 million. The Group's equity at the end of this period amounted to ISK 195,849 million. The capital adequacy ratio of the Group was 20.4%. As of 31 March 2011, the Group's total assets amounted to ISK 1,105,590 million.

On 20 January 2011 the Bank finalised the sale to Framtakssjóður Íslands slhf. of 100% shareholding in its subsidiary Eignarhaldsfélagið Vestia ehf. (Vestia) and 81% shareholding in its subsidiary Icelandic Group hf. (IG). 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 Spkef as of 7 March 2011. The Bank manages all operations of the merged company. The activities and operations of Spkef will continue unchanged under the name of Landsbankinn.

The mergers of two subsidiaries of the Bank, SP-fjármögnun hf. and Avant hf., with the Bank are under way. Their main operation is vehicle leasing and lending services. Both companies have been fully owned by the Bank for some time. The objective of the mergers is primarily to streamline operations and offer customers a wider range of products and more comprehensive services. An operating unit directly under the CEO of the Bank will be created to accommodate these activities. The intent is to finalise the mergers in fall of this year.

Reginn ehf. and Horn fjárfestingarfélag hf. are subsidiaries of Eignarhaldsfélag NBI ehf. which is a wholly-owned subsidiary of the Bank. Horn fjárfestingarfélag hf. is scheduled for listing on the OMX Nordic Exchange Iceland around year-end 2011. Formal preparation of listing began in March and is scheduled to take 4-6 months. Likewise, Reginn ehf. is scheduled for listing on the OMX Nordic Exchange Iceland late 2011 or early 2012.

The Annual General Meeting of NBI hf., held 28 April 2011, agreed to change the bank's registered, legal name to Landsbankinn hf. This reversion to the bank's old name fully accords with its strategy of emphasising a change in outlook and attitude rather than assuming a new name. Landsbankinn has been and will remain the bank's trade name. The former legal name, NBI hf., will be terminated.

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 set 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 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, as further discussed in Note 2.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn for the three months ended 31 March 2011.

Reykjavík, 26 May 2011.

Board of Directors

Gunnar Helgi Hálfdánarson

Chairman

Sigríður Hrólfsdóttir

Guðríður Ólafsdóttir

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 March 31, 2011 and the related condensed consolidated income statement, changes in equity and cash flows for the three-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, 26 May 2011.

KPMG ehf.

Helgi F. Arnarson

Sigríður Helga Sveinsdóttir

Condensed Consolidated Statement of Financial Position as at 31 March 2011

Notes		31.3.2011	31.12.2010
	Assets		
	Cash and balances with Central Bank	34.256	47.777
7	Bonds and debt instruments	166.008	161.559
7	Equities and equity instruments	38.043	29.429
8	Derivative instruments	383	23
9	Loans and advances to financial institutions	104.422	91.882
10, 20	Loans and advances to customers	621.896	592.954
	Investments in associates	9.658	3.340
	Property and equipment	4.918	5.016
	Intangible assets	848	878
	Deferred tax assets	0	1.522
11	Other assets	77.736	17.965
		1.058.168	**952.344**
12	Assets classified as held for sale	47.422	128.789
	Total assets	**1.105.590**	**1.081.133**
	Liabilities		
	Due to financial institutions and Central Bank	131.648	147.478
	Deposits from customers	436.688	371.558
8	Derivative instruments and short positions	5.742	7.119
	Tax liabilities	1.757	1.979
20	Secured bonds	269.781	261.313
7,20	Contingent bond	29.864	26.510
	Other liabilities	20.643	18.702
		896.124	**834.659**
	Liabilities associated with assets classified as held for sale	13.617	61.609
	Total liabilities	**909.741**	**896.268**
	Equity		
	Share capital	24.000	24.000
	Share premium	123.898	123.898
	Statutory reserve	2.932	2.932
	Retained earnings	44.518	31.828
	Total equity attributable to owners of the Bank	**195.348**	**182.658**
	Non-controlling interests	500	2.207
	Total equity	**195.849**	**184.866**
	Total liabilities and equity	**1.105.590**	**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 three months ended 31 March 2011

Notes		2011 1.1-31.3	2010 1.1-31.3*
	Interest income	13.183	16.694
	Interest expense	(6.038)	(10.101)
13	**Net interest income**	**7.145**	**6.593**
14	Net adjustments to loans and advances acquired at deep discount	3.992	3.601
14, 27	Net impairment loss on loans and advances	(2.409)	(2.673)
7	Fair value change of contingent bond	(3.354)	(783)
	Net adjustments in valuation	**(1.771)**	**145**
	Net interest income after net adjustments in valuation	**5.374**	**6.738**
	Fee and commission income	1.643	1.516
	Fee and commission expense	(613)	(621)
	Net fee and commission income	**1.030**	**895**
15	Net gain on financial assets designated as at fair value through profit or loss	9.138	579
16	Net gain on financial assets and liabilities held for trading	471	1.019
17	Net foreign exchange (loss) gain	(2.579)	5.311
	Other income and expenses	(137)	129
	Other net operating income	**6.892**	**7.038**
	Total operating income	**13.296**	**14.671**
	Salaries and related expenses	2.310	2.218
	Other operating expenses	2.200	1.470
	Depreciation and amortisation	177	327
	Total operating expenses	**4.687**	**4.015**
	Share of (loss) profit of associates, net of income tax	(10)	2
	Profit before tax	**8.598**	**10.658**
18	Income tax expense	(132)	(2.040)
	Tax on liabilities of financial institutions	(100)	-
	Profit for the period from continuing operations	**8.366**	**8.618**
	Profit (loss) for the period from discontinued operations, net of income tax	4.326	(284)
	Profit for the period	**12.691**	**8.334**
	Profit for the period attributable to:		
	Owners of the Bank		
	Profit for the period from continuing operations	8.366	8.618
	Profit (loss) for the period from discontinued operations	4.324	(282)
	Profit for the period attributable to owners of the Bank	**12.690**	**8.336**
	Non-controlling interests		
	Profit for the period from continuing operations	-	-
	Profit (loss) for the period from discontinued operations	1	(2)
	Profit (loss) for the period attributable to non-controlling interests	**1**	**(2)**
	Profit for the period	**12.691**	**8.334**

* 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 three months ended 31 March 2011

Notes

	Attributable to owners of the Bank						
Change in equity for the three months ended 31 March 2011	**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				12.690	12.690	1	12.691
Decrease in non-controlling interests due to sale of subsidiaries					0	(1.708)	(1.708)
Balance at 31 March 2011	**24.000**	**123.898**	**2.932**	**44.518**	**195.348**	**500**	**195.849**
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 2011

Notes		2011 1.1-31.3	2010 1.1-31.3
	Profit for the period	12.691	8.334
	Net cash (used in) from operating activities	(13.400)	24.294
	Net cash used in investing activities	(46)	(79)
	Net change in cash and cash equivalents	(13.447)	24.215
	Cash and cash equivalents at the beginning of the period	48.409	21.165
	Effect of exchange rate changes on cash and cash equivalents held	(147)	(212)
	Cash and cash equivalents at the end of the period	**34.815**	**45.168**

Cash and cash equivalents is specified as follow:

Notes		2011	2010
	Cash and unrestricted balances with Central Bank	28.170	39.151
9	Bank accounts with financial institutions	6.645	6.017
	Cash and cash equivalents at the end of the period	**34.815**	**45.168**

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

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 three months ended 31 March 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 and asset management. 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 26 May 2011.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the three months ended 31 March 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. 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.

It is the view of the Bank’s management that the Group is sufficiently capitalised to continue as a going concern (see further Notes 22 and 23). Of critical importance is the Group's access to funding to fulfill 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 19 and 24-35.

The uncertainty about borrowers' ability to pay back their loans to the Group is rather high, due to current economic conditions in Iceland. The uncertainty regarding the currencies of denomination and interest rates of lease and loan agreements has decreased as a result of the rulings of the Supreme Court of Iceland and new legislation as described in Note 4(i) in the Group's consolidated financial statement as at and for the year ended 31 December 2010.

As described in Note 35 the Group is exposed to currency risk that may increase fluctuation in the Group's profit and loss. Due to restrictions on movement of capital between Iceland and other countries the Group has limited ability to mitigate its currency risk.

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.

2. Basis of preparation (continued)

Use of estimates and judgements

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,

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.

4. Business combinations

Acquisition of Avant hf.

As one of the major creditors of Avant hf., a company which 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 to the Bank ISK 12.4 billion as at acquisition date. The Bank’s outstanding claim and the corresponding liability of Avant hf. are eliminated from the consolidated financial statements of the Bank.

Since the acquisition in January 2011 Avant hf. has contributed revenue of ISK 226 million and profit of ISK 61 million to the Group's results.

All amounts are in ISK million

4. Business combination (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 value of assets and liabilities taken over by the Bank. This takeover is done on an arm´s length basis under generally accepted commercial terms. The fair value of financial assets of SpKef is uncertain as due diligence is currently under progress. The assets acquired from SpKef Savings Bank have been recognised by the Group at a provisional amount of ISK 60 billion and are presented provisionally among „Other assets“ in the condensed consolidated statement of financial position. The liabilities assumed from SpKef Savings Bank have been recognised by the Group at a provisional amount of ISK 60 billion and are presented as „Deposits from customers“ in the condensed consolidated statement of financial position. The provisional amounts and their presentation are subject to adjustments in future reporting periods which will result from the due diligence and valuation process.

5. Disposal of subsidiaries

Horn fjárfestingarfélag hf., a subsidiary of Eignarhaldsfélag NBI 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 31 March 2011, as they do not meet the criteria to be reclassified as held for sale in accordance with IFRS 5.

6. 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 second 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

7. Classification and fair value of financial assets and liabilities

The following tables show the reconciliation for fair value measurement in Level 3 for the three months ended 31 March 2011 and for the year 2010:

1 January - 31 March 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	145	4.917	5.062	(3.354)
Purchases	28	682	710	-
Sales	(33)	(0)	(33)	-
Settlements	(19)	-	(19)	-
Transfers out of Level 3	(61)	-	(61)	-
Carrying amount at 31 March 2011	**14.102**	**16.076**	**30.178**	**(29.864)**
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 three months ended 31 March 2011 and during the year 2010, for fair value measurements in Level 3:

1 January - 31 March 2011	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Fair value change of contingent bond	-	-	(3.354)	(3.354)
Net gain on financial assets designated as at fair value through profit or loss	(273)	4.784	-	4.511
Net foreign exchange (loss) gain	418	133	-	551
Total	**145**	**4.917**	**(3.354)**	**1.708**
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 (loss) gain	(1.692)	(174)	-	(1.866)
Total	**(1.342)**	**11**	**(16.269)**	**(17.600)**

All amounts are in ISK million

8. Derivative instruments and short positions

	31.3.2011			31.12.2010		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	39.094	378	10	22.359	20	769
Cross-currency interest rate swaps	1.925	-	578	1.897	-	659
OTC currency options	-	-	-	20.424	-	-
	41.020	**378**	**588**	**44.680**	**20**	**1.428**
Interest rate derivatives						
Interest rate swaps	4.578	5	42	3.294	3	17
	4.578	**5**	**42**	**3.294**	**3**	**17**
Short positions - listed bonds	**-**	**-**	**5.112**	**-**	**-**	**5.675**
Total	**45.598**	**383**	**5.742**	**47.974**	**23**	**7.119**

9. Loans and advances to financial institutions

	31.3.2011	31.12.2010
Bank accounts with financial institutions	6.645	6.844
Money market loans	89.006	63.549
Overdrafts	3.857	6.844
Other loans	4.913	16.823
Less: Allowance for impairment	-	(2.178)
Total	**104.422**	**91.882**

10. Loans and advances to customers

	31.3.2011	31.12.2010
Public entities	14.486	13.928
Individuals	165.000	166.069
Corporations	466.079	434.080
Less: Allowance for impairment	(23.669)	(21.122)
Total	**621.896**	**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

11. Other assets

	31.3.2011	31.12.2010
Provisional amount for the assets acquired from SpKef Savings Bank	60.000	-
Legally disputed collections	3.669	3.669
Unsettled securities trading	1.859	3.168
Accounts receivable and prepayments	1.225	3.214
Claims on Landsbanki Íslands hf.	682	688
Sundry assets	10.301	7.227
Total	**77.736**	**17.966**

12. Assets and liabilities classified as held for sale

Assets classified as held for sale	31.3.2011	31.12.2010
Repossessed collateral	45.937	43.831
Assets of disposal groups classified as held for sale	1.485	84.959
Total	**47.422**	**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	31.3.2011	31.12.2010
Carrying amount at the beginning of the period	43.831	27.317
Repossessed during the period	2.284	25.465
Disposed during the period	(178)	(8.951)
Carrying amount at the end of the period	**45.937**	**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 (loss) 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 31 March 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 31 March 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

13. Net interest income

Interest income	2011 1.1-31.3	2010 1.1-31.3
Cash and balances with Central Bank	456	747
Bonds and debt instruments classified as loans and receivables	874	1.957
Loans and advances to financial institutions	167	867
Loans and advances to customers	11.659	13.111
Other interest income	28	12
Total	**13.183**	**16.694**
Interest expense		
Due to financial institutions and Central Bank	(550)	(1.206)
Deposits from customers	(2.832)	(6.364)
Secured bonds	(2.605)	(2.526)
Other interest expense	(51)	(5)
Total	**(6.038)**	**(10.101)**
Net interest income	**7.145**	**6.593**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period)	**2,6%**	**2,4%**
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)	**2,0%**	**2,5%**

14. Net valuation change in loans and advances

	2011 1.1-31.3	2010 1.1-31.3
Net adjustments to loans and advances acquired at deep discount	3.992	3.601
Net impairment loss on loans and advances	(2.409)	(2.673)
Total	**1.584**	**928**
Individuals	(10.545)	1.609
Corporations	12.129	(681)
Total	**1.584**	**928**

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

	2011 1.1-31.3	2010 1.1-31.3
Bonds and debt instruments	(27)	261
Equities and equity instruments	9.165	318
Total	**9.138**	**579**

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

	2011 1.1-31.3	2010 1.1-31.3
Bonds and debt instruments	614	889
Equities and equity instruments	95	71
Derivatives instruments	(239)	59
Total	**471**	**1.019**

All amounts are in ISK million

17. Net foreign exchange (loss) gain

	2011 1.1-31.3	2010 1.1-31.3
Assets		
Cash and balances with Central Bank	26	(23)
Bonds and debt instruments	606	(65)
Equities and equity instruments	599	(419)
Derivative instruments	860	(452)
Loans and advances to financial institutions	1.695	(1.607)
Loans and advances to customers	2.819	(1.756)
Other assets	6	(470)
Total	**6.612**	**(4.792)**
Liabilities		
Due to financial institutions and Central Bank	(151)	446
Deposits from customers	(1.505)	2.349
Secured bonds	(7.536)	7.305
Other liabilities	2	3
Total	**(9.191)**	**10.103**
Net foreign exchange (loss) gain	**(2.579)**	**5.311**

The foreign exchange differences which were recognised during the period from 1 January to 31 March 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 4,547 million gain for financial assets (1.1-31.3.2010: loss of ISK 3,856 million) and loss of ISK 9,193 million for financial liabilities (1.1-31.3.2010: gain of ISK 10,100 million). As disclosed in Note 3 in the Group's consolidated financial statements as at and for the year ended 31 December 2010, 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 2011, which is deemed to be uncollectible and is therefore offset by the FX-delta ratio, amounted to a gain of ISK 1,176 million (1.1-31.3.2010: gain of ISK 632 million).

18. 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 1.1-31.3	2010 1.1-31.3
Current tax expense	(466)	-
Deferred tax expense	333	(2.040)
Total	**(132)**	**(2.040)**

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

	1.1-31.3.2011		1.1-31.3.2010	
Profit before tax		8.598		10.658
Tax on liabilities of financial institutions		(100)		-
Profit before income tax		8.498		10.658
Income tax calculated using the domestic corporate income tax rate	20,0%	(1.700)	18,0%	(1.918)
Income not subject to tax	(15,9%)	1.349	(0,8%)	82
Non-deductable expenses	0,7%	(59)	0,0%	-
Other	(3,3%)	277	1,9%	(203)
Effective income tax	**1,6%**	**(132)**	**19,1%**	**(2.040)**

All amounts are in ISK million

Other notes

19. 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 June 2010 Skollaborg ehf. and Hraðfrystihúsið – Gunnvör hf. commenced litigation before the District Court of Reykjavik against the Bank. Skollaborg ehf. demanded that loans granted on the basis of a loan agreement and the distribution of the proceeds of the loans be declared null and void. The loan agreement are denominated in foreign currencies and the Bank's claim according to the agreements is equivalent to ISK 2.1 billion. Hraðfrystihúsið – Gunnvör hf. demands that its guarantee for the repayment of the above mentioned loan agreement be declared null and void. To support their its case the companies put forward various arguments mainly relating to the possibility for 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; however the ultimate resolution of this matter cannot yet be determined. On 13 January 2011 the District Court of Reykjavik ruled that the case was dismissed because the Skollaborg claims did not fulfil the requirements of the civil law, No. 91/1991. On 24 March 2011 the Supreme Court ruled in the case and confirmed the District Court verdict to dismiss the case.

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 possibility for 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 fulfil the requirments of the civil law, No. 91/1991. The District Court of Reykjavik has to rule on Soffaníasar Cecilssonar claim 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.

20. 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 343,971 million) (31.12.2010: ISK 333,174 million) for the secure bonds and 118% (ISK 35,239 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 31 March 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 9,224 million as at 31 March 2011 (31.12.2010: ISK 7,123 million).

21. 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 24.

(b) Transactions with other related parties

The deposits from Landsbanki Íslands hf. amounted to ISK 33,013 million as at 31 March 2011 (31.12.2010: ISK 33,418 million). During the period from 1 January to 31 March 2011 the Bank recognised ISK 81 million from administrative services provided to Landsbanki Íslands hf. based on a service level agreement (1.1-31.3.2010: ISK 122 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 31 March**	**Highest amounts outstanding during the period**	**Balance at 31 December**	**Highest amounts outstanding during the year**
Key management personnel	54	81	161	200
Parties related to key management personnel	182	217	250	331
Associates	4.794	8.454	7.273	7.307
Total	**5.029**	**8.752**	**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

22. 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.

23. Capital base and capital adequacy ratio

The Group's equity at 31 March 2011 amounted to ISK 195,849 million (31.12.2010: ISK 184,866 million), equivalent to 17.7% (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 20.4% at 31 March 2011 (31.12.2010: 19.5%). According to the Act, this ratio may not fall below 8.0%.

Capital base	**31.3.2011**	**31.12.2010**
Share capital	24.000	24.000
Share premium	123.898	123.898
Statutory reserve	2.932	2.932
Retained earnings	44.518	31.828
Non-controlling interests	500	2.207
Intangible assets	(848)	(878)
Deferred tax assets	-	(1.522)
Tier 1 capital	**195.001**	**182.466**
Deduction from original and additional own funds	(3.883)	(3.888)
Capital base	**191.118**	**178.579**
Risk-weighted assets		
Credit risk	709.792	699.716
Market risk	155.607	144.745
Operational risk	69.987	69.987
Total risk-weighted assets	**935.386**	**914.448**
Tier 1 capital ratio	20,8%	20,0%
Capital adequacy ratio	20,4%	19,5%

All amounts are in ISK million

Risk management

The following risk disclosures are based on the assumptions about the denomination currencies and interest rates of lease and loan agreements described in Note 4 (i) in the consolidated financial statements of the Bank as at and for the year ended 31 December 2010. Accordingly, the resolution of the uncertainties surrounding these agreements could have a significant impact on the nature and extent of the financial risks arising from these agreements.

Credit risk

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

				Corporations									
At 31 March 2011	**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	-	34.256	-	-	-	-	-	-	-	-	-	-	**34.256**
Bonds and debt instruments	10.835	151.116	-	-	2	-	-	3.804	-	-	-	251	**166.008**
Derivative instruments	377	-	3	-	-	-	-	1	-	-	-	3	**383**
Loans and advances to financial institutions	104.422	-	-	-	-	-	-	-	-	-	-	-	**104.422**
Loans and advances to customers	-	13.699	160.326	131.016	99.141	80.979	39.334	44.247	24.913	11.634	13.810	2.797	**621.896**
Other financial assets	3.251	-	-	12	-	273	1	40	3	-	113	71	**3.766**
Total on-balance sheet exposure	**118.885**	**199.071**	**160.329**	**131.028**	**99.143**	**81.252**	**39.335**	**48.092**	**24.916**	**11.634**	**13.923**	**3.122**	**930.731**
Off-balance sheet exposure	**0**	**6.402**	**33.888**	**7.021**	**2.269**	**11.327**	**3.286**	**2.476**	**3.243**	**10.843**	**7.525**	**288**	**88.567**
Financial guarantees	-	12	506	4.707	228	1.037	592	91	886	1.248	2.479	31	11.817
Undrawn loan commitments	-	2.500	30	829	878	8.174	980	1.867	596	5.974	841	-	22.669
Undrawn overdraft/credit card facilities	-	3.890	33.351	1.485	1.162	2.115	1.714	518	1.761	3.621	4.206	256	54.081
Maximum exposure to credit risk	**118.885**	**205.473**	**194.217**	**138.049**	**101.412**	**92.579**	**42.621**	**50.568**	**28.159**	**22.477**	**21.448**	**3.409**	**1.019.298**

* 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

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

				Corporations									
At 31 December 2010	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	-	47.777	-	-	-	-	-	-	-	-	-	-	**47.777**
Bonds and debt instruments	10.744	147.037	-	-	2	0	-	,3776	0	-	-	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	0	433	1	19	10	0	154	83	**7.070**
Total on-balance sheet exposure	**108.962**	**208.446**	**163.203**	**134.049**	**100.040**	**67.185**	**33.584**	**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	10.232
Undrawn loan commitments	-	2.564	49	8.781	876	3.336	6.453	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	502	953	258	52.943
Maximum exposure to credit risk	**108.962**	**215.678**	**196.387**	**145.953**	**105.841**	**76.857**	**45.637**	**43.225**	**25.972**	**14.144**	**9.234**	**3.745**	**991.635**

* 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

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

Carrying amount	31.3.2011	31.12.2010
Customer groups with loan exposures above ISK 500 million		
Green	207.687	197.331
Yellow	22.950	21.669
Orange	40.135	23.982
Red	50.691	51.867
Customer groups with loan exposures below ISK 500 million	300.433	298.105
Total	**621.896**	**592.954**

26. 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 31 March 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	0	0	834	836
Loans and advances to customers	24.385	13.183	6.091	133.111	176.771
Total	**24.386**	**13.184**	**6.092**	**133.945**	**177.607**
At 31 December 2010					
Loans and advances to financial institutions	6	-	1	190	196
Loans and advances to customers	15.578	10.918	3.476	139.408	169.380
Total	**15.584**	**10.918**	**3.477**	**139.598**	**169.576**

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

	1.1-31.3.2011			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
Net impairment loss for the period	(2.178)	4.587	2.409	1.451	13.185	14.636
Collected previously written-off loans	-	-	-	-	177	177
Loans written-off	-	(2.039)	(2.039)	-	-	-
Balance at the end of the period	**0**	**23.669**	**23.669**	**2.178**	**21.122**	**23.300**
Individual allowance	-	67	67	2.178	64	2.242
Collective allowance	-	23.603	23.603	0	21.058	21.058
Total	**0**	**23.669**	**23.669**	**2.178**	**21.122**	**23.300**

All amounts are in ISK million

28. Large exposures

At 31 March 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 31 March 2011 and 31 December 2010.

At 31 March 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 31 March 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 31 March 2011	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	1	47.572
Large exposures between 10% and 20% of the Group's capital base	1	30.359
Total	**2**	**77.931**
Utilisation of 800% limit (%)		41%
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%

All amounts are in ISK million

Liquidity risk

29. 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 46% (31 December 2010: 45%).

30. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 31 March 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	34.256	-	-	-	-	34.256	34.256
Bonds and debt instruments	-	14.129	7.036	37.577	174.033	232.774	166.008
Loans and advances to financial institutions	-	102.158	2.270	-	-	104.428	104.422
Loans and advances to customers	32.033	121.002	92.915	315.215	534.579	1.095.746	621.896
Other financial assets	-	3.100	-	665	-	3.765	3.765
Total	**66.290**	**240.389**	**102.221**	**353.457**	**708.612**	**1.470.970**	**930.347**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	32.742	-	-	-	32.742	
Outflow	-	(32.332)	-	-	-	(32.332)	
Total	0	410	0	0	0	410	378
Net settled derivatives	-	28	-	-	-	28	5
Total	0	438	0	0	0	438	383
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(121.243)	(10.003)	(426)	-	-	(131.671)	(131.648)
Deposits from customers	(279.061)	(58.596)	(33.251)	(22.803)	(3.349)	(397.061)	(436.688)
Short positions	-	(1.889)	(4.962)	(5.094)	(3.769)	(15.714)	(5.112)
Secured bonds	-	(1.688)	(5.293)	(152.599)	(157.243)	(316.823)	(269.781)
Contingent bond	-	-	-	(18.484)	(18.121)	(36.605)	(29.864)
Other financial liabilities	-	(6.269)	-	-	-	(6.269)	(6.269)
Total	**(400.304)**	**(78.445)**	**(43.932)**	**(198.979)**	**(182.482)**	**(904.143)**	**(879.362)**
Off-balance sheet items							
Financial guarantees	(6.338)	(993)	(2.177)	(2.309)	-	(11.817)	
Undrawn loan commitments	(22.669)	-	-	-	-	(22.669)	
Investment commitments	(10.632)	-	-	-	-	(10.632)	
Undrawn overdraft/credit card commitments	(54.081)	-	-	-	-	(54.081)	
Total	**(93.720)**	**(993)**	**(2.177)**	**(2.309)**	**0**	**(99.199)**	
Total non-derivative financial liabilities and off-balance sheet items	**(494.024)**	**(79.437)**	**(46.109)**	**(201.289)**	**(182.482)**	**(1.003.342)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	6.458	279	1.146	542	8.425	
Outflow	-	(6.510)	(403)	(1.575)	(744)	(9.232)	
Total	0	(52)	(124)	(429)	(202)	(806)	(588)
Net settled derivatives	-	(65)	-	-	-	(65)	(42)
Total	0	(117)	(124)	(429)	(202)	(871)	(630)
Net liquidity position	**(427.734)**	**161.273**	**55.988**	**151.739**	**525.928**	**467.194**	

All amounts are in ISK million

30. 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	222.050	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**	**799.413**	**1.519.737**	**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)	(32.629)	(26.510)
Other financial liabilities	-	(4.237)	-	-	-	(4.237)	(4.237)
Total	**(410.480)**	**(67.685)**	**(38.391)**	**(236.768)**	**(120.698)**	**(874.023)**	**(816.771)**
Off-balance sheet items							
Financial guarantees	(5.188)	(1.099)	(1.854)	(2.092)	-	(10.232)	
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)**	**(69.874)**	**(40.245)**	**(238.861)**	**(120.698)**	**(964.394)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	20.149	277	1.145	552	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)**	**158.324**	**48.629**	**85.312**	**678.530**	**553.662**	

All amounts are in ISK million

31. 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 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	12.289	135.007	41.071	141.126	81.372	410.864	272.039
ISK	54.001	105.383	61.150	212.331	627.240	1.060.105	658.308
Total	**66.290**	**240.389**	**102.221**	**353.457**	**708.612**	**1.470.970**	**930.347**
Derivative financial assets							
Total in foreign currencies	-	291	-	-	-	291	378
ISK	-	147	-	-	-	147	5
Total	**0**	**438**	**0**	**0**	**0**	**438**	**383**
Non-derivative financial liabilities							
Total in foreign currencies	(51.147)	(6.289)	(7.116)	(152.599)	(157.243)	(374.395)	(325.158)
ISK	(349.157)	(72.156)	(36.816)	(46.381)	(25.239)	(529.748)	(554.204)
Total	**(400.304)**	**(78.445)**	**(43.932)**	**(198.979)**	**(182.482)**	**(904.143)**	**(879.362)**
Off-balance sheet items							
Total in foreign currencies	(13.711)	(547)	(1.197)	(991)	-	(16.446)	
ISK	(80.009)	(446)	(980)	(1.319)	-	(82.753)	
Total	**(93.720)**	**(993)**	**(2.177)**	**(2.309)**	**0**	**(99.199)**	
Derivative financial liabilities							
Total in foreign currencies	-	(140)	77	350	173	459	(588)
ISK	-	23	(201)	(779)	(375)	(1.331)	(42)
Total	**0**	**(117)**	**(124)**	**(429)**	**(202)**	**(871)**	**(630)**
Net liquidity position in foreign currencies	**(52.569)**	**128.322**	**32.834**	**(12.114)**	**(75.699)**	**20.774**	
Net liquidity position in ISK	**(375.165)**	**32.951**	**23.154**	**163.853**	**601.627**	**446.420**	
Net liquidity position	**(427.734)**	**161.273**	**55.988**	**151.739**	**525.928**	**467.194**	

All amounts are in ISK million

31. 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	409.478	249.812
ISK	64.755	94.887	44.519	187.648	718.450	1.110.260	651.430
Total	**77.584**	**229.179**	**88.987**	**324.574**	**799.413**	**1.519.737**	**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	(361.128)	(64.119)	(31.923)	(45.597)	(11.505)	(514.273)	(502.527)
Total	**(410.480)**	**(67.685)**	**(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)	-	(75.807)	
Total	**(84.236)**	**(2.189)**	**(1.854)**	**(2.092)**	**0**	**(90.371)**	
Derivative financial liabilities							
Total in foreign currencies	-	(964)	87	377	189	(312)	(1.428)
ISK	-	(136)	(200)	(779)	(375)	(1.489)	(17)
Total	**0**	**(1.100)**	**(113)**	**(402)**	**(186)**	**(1.801)**	**(1.445)**
Net liquidity position in foreign currencies	**(48.581)**	**129.481**	**37.270**	**(54.989)**	**(28.040)**	**35.140**	
Net liquidity position in ISK	**(368.551)**	**28.843**	**11.359**	**140.301**	**706.570**	**518.522**	
Net liquidity position	**(417.132)**	**158.324**	**48.629**	**85.312**	**678.530**	**553.662**	

All amounts are in ISK million

Market risk

32. Market risk management

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

Market risk factor	31.3.2011 % of RWA	31.12.2010 % of RWA
Equity price risk	6,1%	4,8%
Interest rate risk	3,0%	2,5%
Foreign exchange risk	7,6%	8,5%
Total	**16,6%**	**15,8%**

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 34-35, along with the related sensitivity analysis.

33. 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 8). The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

At 31 March 2011	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	34.256	-	-	-	34.256
Bonds and debt instruments	153.596	444	434	11.534	166.008
Derivative instruments	383	-	-	-	383
Loans and advances to financial institutions	102.152	2.270	-	-	104.422
Loans and advances to customers	514.616	37.018	33.323	36.939	621.896
Other financial assets	3.100	-	665	-	3.765
Total	**808.103**	**39.733**	**34.422**	**48.473**	**930.731**
Financial liabilities					
Due to financial institutions and Central Bank	(131.648)	-	-	-	(131.648)
Deposits from customers	(436.689)	-	-	-	(436.689)
Derivative instruments and short positions	(5.041)	(701)	-	-	(5.742)
Secured bonds	(269.781)	-	-	-	(269.781)
Contingent bond	(29.864)	-	-	-	(29.864)
Other financial liabilities	(6.269)	-	-	-	(6.269)
Total	**(879.291)**	**(701)**	**0**	**0**	**(879.992)**
Net on-balance sheet position	(71.188)	39.032	34.422	48.473	50.739
Net off-balance sheet position	-	753	(490)	(264)	
Total interest repricing gap	**(71.188)**	**39.785**	**33.932**	**48.210**	

All amounts are in ISK million

33. Interest rate risk (continued)

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	88.830	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	**748.191**	**64.349**	**41.933**	**46.791**	**901.264**
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	(64.419)	60.226	40.452	46.791	83.050
Net off-balance sheet position	886	(117)	(500)	(269)	
Total interest repricing gap	**(63.533)**	**60.108**	**39.952**	**46.522**	

34. 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.

The inherent risk in the 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

35. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 31 March 2011 and 31 December 2010. The off-balance sheet amounts shown are the notional amounts of the Group´s derivative instruments (see Note 8). The amounts presented as FX-delta adjustment to currency imbalance represent amounts of foreign currency loans granted to customers with limited or no foreign currency income, if they are not financially strong enough to withstand adverse movements in the foreign exchange rate against ISK.

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. However, the issue of the denomination currencies of these loans are currently under legal dispute and the Bank has appealed the ruling of the District Court of Reykjavik to the Supreme Court of Iceland.

At 31 March 2011	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	402	139	129	11	34	261	977
Bonds and debt instruments	2.836	101	10.818	-	-	-	13.754
Equities and equity instruments	2.557	-	638	-	-	10.226	13.421
Derivative instruments	202	167	8	-	-	-	378
Loans and advances to financial institutions	25.638	17.106	26.876	1.829	2.526	8.805	82.780
Loans and advances to customers	60.862	13.002	52.596	19.914	18.991	8.876	174.242
Other assets	948	80	100	2	0	244	1.373
Assets classified as held for sale	1.119	266	601	113	-	-	2.099
Total	**94.565**	**30.861**	**91.767**	**21.869**	**21.550**	**28.412**	**289.024**
Liabilities							
Due to financial institutions and Central Bank	(1.197)	(3.166)	(468)	(309)	(1.151)	(4.357)	(10.647)
Deposits from customers	(15.076)	(3.621)	(17.292)	(571)	(384)	(4.729)	(41.672)
Derivative instruments and short positions	(142)	(0)	(445)	-	-	-	(588)
Secured bonds	(138.351)	(49.404)	(82.025)	-	-	-	(269.781)
Other liabilities	(791)	(240)	(1.571)	(14)	(2)	(461)	(3.078)
Total	**(155.557)**	**(56.431)**	**(101.801)**	**(894)**	**(1.536)**	**(9.547)**	**(325.766)**
Net on-balance sheet position	(60.993)	(25.570)	(10.034)	20.975	20.015	18.865	**(36.742)**
Net off-balance sheet position	14.795	14.473	5.577	(18.278)	(16.179)	363	**750**
Net currency position	**(46.197)**	**(11.097)**	**(4.458)**	**2.697**	**3.836**	**19.227**	**(35.991)**
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	(3.099)	(531)	(1.596)	(4.406)	(4.178)	(715)	**(14.525)**
Net effective currency position	**(49.296)**	**(11.628)**	**(6.053)**	**(1.709)**	**(342)**	**18.513**	**(50.516)**

If the Supreme Court of Iceland will rule that the loan agreements referred to in the preceding paragraph of this note are in fact foreign currency loan agreements, the Group's exposure to currency risk will be different from that disclosed in the table above. The carrying amount of these loan agreements would then be included in the carrying amount of loans and advances to customers and the FX-delta used by the Group would decrease, resulting in the following net effective currency position at 31 March 2011:

At 31 March 2011	EUR	GBP	USD	JPY	CHF	Other	Total
Adjustments to loans and advances to customers	28.913	2.978	10.896	35.628	37.126	3.653	**119.194**
Net currency position	**(17.285)**	**(8.119)**	**6.439**	**38.325**	**40.962**	**22.880**	**83.203**
FX-delta after adjustments to loans and advances	87%	94%	92%	57%	59%	89%	
FX-delta adjustments to currency imbalance	(11.816)	(975)	(5.127)	(23.932)	(23.008)	(1.378)	**(66.236)**
Adjusted net effective currency position	**(29.101)**	**(9.093)**	**1.311**	**14.393**	**17.954**	**21.502**	**16.966**

All amounts are in ISK million

35. 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	-	-	-	12.049
Equities and equity instruments	2.246	-	625	-	-	8.201	11.072
Derivative instruments	2	1	16	-	-	-	20
Loans and advances to financial institutions	20.428	12.020	34.295	2.094	863	3.138	72.837
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	19.237
Total	**91.517**	**26.108**	**99.866**	**24.172**	**21.558**	**21.445**	**284.665**
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)	(3.791)	(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)	-	-	(294)	(313)
Total	**(147.844)**	**(53.870)**	**(107.406)**	**(990)**	**(510)**	**(5.052)**	**(315.672)**
Net on-balance sheet position	(56.327)	(27.762)	(7.540)	23.182	21.048	16.393	**(31.006)**
Net off-balance sheet position	12.322	79	8.150	(6.719)	(13.503)	(354)	**(24)**
Net currency position	**(44.005)**	**(27.683)**	**610**	**16.463**	**7.545**	**16.039**	**(31.031)**
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)	**(15.392)**
Net effective currency position	**(47.093)**	**(28.235)**	**(1.030)**	**11.609**	**3.000**	**15.327**	**(46.422)**

If the Supreme Court of Iceland will rule that the loan agreements referred to in the preceding paragraph of this note are in fact foreign currency loan agreements, the Group's exposure to currency risk as at 31 December 2010 would have been different from that disclosed in the table above. The carrying amount of these loan agreements would have been included in the carrying amount of loans and advances to customers and the FX-delta used by the Group would have decreased, resulting in the following net effective currency position at 31 December 2010:

At 31 December 2010	EUR	GBP	USD	JPY	CHF	Other	Total
Adjustments to loans and advances to customers	28.986	3.141	9.949	38.733	38.897	5.042	124.747
Net currency position	**(15.019)**	**(24.542)**	**10.559**	**55.196**	**46.442**	**21.081**	**93.718**
FX-delta after adjustments to loans and advances	87%	94%	92%	57%	59%	89%	
FX-delta adjustments to currency imbalance	(11.797)	(1.016)	(5.170)	(26.144)	(24.419)	(1.555)	**(70.101)**
Adjusted net effective currency position	**(26.816)**	**(25.559)**	**5.389**	**29.052**	**22.024**	**19.525**	**23.616**

All amounts are in ISK million

36. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 31 March 2011	At 31 December 2010	% Change	Average for 1.1-31.3 2011	Average for 1.1-31.12 2010
EUR/ISK	162,05	153,80	5,4%	158,68	162,66
GBP/ISK	183,35	179,09	2,4%	184,20	189,30
USD/ISK	114,12	114,69	(0,5%)	115,18	122,26
JPY/ISK	1,38	1,41	(2,3%)	1,41	1,40
CHF/ISK	124,65	122,75	1,5%	123,87	118,01
CAD/ISK	117,60	115,35	1,9%	116,92	118,08
DKK/ISK	21,73	20,63	5,4%	21,28	21,84
NOK/ISK	20,67	19,71	4,9%	20,27	20,26
SEK/ISK	18,12	17,07	6,1%	17,87	17,02

All amounts are in ISK million