Landsbankinn

Condensed Consolidated Interim Financial Statements

for the nine months ended 30 September 2010

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Content Page

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

The Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2010 consist of the Condensed Consolidated Interim Financial Statements of NBI hf. (the Bank) and its subsidiaries, together referred to as "the Group". These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU, with the exception described in Note 2 to these financial statements regarding comparative amounts.

According to the condensed consolidated income statement, the Group's after tax-profit for the first nine months of the year 2010 amounted to ISK 12,871 million after taking into account a loss due to foreign currency linkage of loans and advances amounting to ISK 8,251 million. The Group's equity at the end of this period amounted to ISK 170,464 million. The capital adequacy ratio of the Group was 17.3%. As of 30 September 2010, the Group's total assets amounted to ISK 1,085,471 million.

On 1 October 2010 the changes to the organisational structure of the Bank announced on 26 August 2010 came into effect. The Bank is now set up with eight main divisions and after the application process the position of each Managing Director has been filled. 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 NBI hf. for nine months ended 30 September 2010.

Reykjavík, 25 November 2010.

Board of Directors

Gunnar Helgi Hálfdánarson

Chairman

Sigríður Hrólfsdóttir

Guðríður Ólafsdóttir

Þórdís Ingadóttir

Ólafur Helgi Ólafsson

Chief Executive Officer

Steinþór Pálsson

Independent Auditors' Review Report

To the board of NBI hf.

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of NBI hf., which comprise the Endorsement and Statement by the Board of Directors and Chief Executive officer, the Condensed Consolidated Statement of Financial Position as at 30 September 2010 and the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the nine month period then ended and the related notes ("the condensed consolidated interim financial information"). Management is responsible for the preparation and fair presentation of this Condensed Consolidated Interim Financial Information in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. 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 the International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 2 in the Condensed Consolidated Interim Financial Statements regarding 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. However, as discussed in Note 2, there are certain risk factors inherent in the Group's assets and liabilities that may hinder the ability of the Group to continue as a going concern. We also draw attention to Note 4 regarding the denomination currencies and interest rate of lease and loan agreements.

Without qualifying our opinion we also draw attention to Note 2 regarding the comparative amounts for the year 2009. According to Note 2, these Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, with the exception that comparative amounts in the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement Cash Flows and related notes are for the whole year 2009. As a result comparatives for the year 2009 are not fully comparable. This results in a non-compliance with IAS 34 regarding the disclosure of comparative information in interim financial statements.

Reykjavík, 25 November 2010.

KPMG hf.

Reynir Stefán Gylfason

Helgi F. Arnarson

Condensed Consolidated Statement of Financial Position as at 30 September 2010

Notes		30.9.2010	31.12.2009
	Assets		
7	Cash and balances with Central Bank	45,433	26,174
6, 8	Bonds and debt instruments	164,274	165,721
6, 8	Equities and equity instruments	23,998	23,411
6, 9	Derivative instruments	297	971
10	Loans and advances to financial institutions	87,472	83,129
11, 28	Loans and advances to customers	600,813	667,122
	Investments in associates	3,078	2,945
	Property and equipment	5,253	6,030
	Intangible assets	947	1,058
	Deferred tax assets	5,405	6,682
	Other assets	17,220	13,980
		954,191	**997,223**
12	Assets classified as held for sale	131,281	63,878
	Total assets	**1,085,471**	**1,061,101**
	Liabilities		
13	Due to financial institutions and Central Bank	151,276	98,228
14	Deposits from customers	382,125	452,655
6, 9	Derivative instruments and short positions	6,924	5,943
	Tax liabilities	2,962	83
15, 28	Secured bonds	276,596	306,493
6,16,28	Contingent bond	20,679	10,241
	Other liabilities	11,586	8,177
		852,148	**881,820**
	Liabilities associated with assets classified as held for sale	62,859	21,689
	Total liabilities	**915,008**	**903,509**
	Equity		
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Statutory reserve	741	741
	Retained earnings	19,654	6,791
	Total equity attributable to owners of the Bank	**168,293**	**155,430**
	Non-controlling interests	2,171	2,162
	Total equity	**170,464**	**157,592**
	Total liabilities and equity	**1,085,471**	**1,061,101**

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

All amounts are in ISK million

Condensed Consolidated Income Statement for the nine months ended 30 September 2010

Notes		2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
	Interest income	18,555	64,465	105,248
	Interest expense	(10,438)	(38,366)	(77,143)
17	**Net interest income**	**8,117**	**26,099**	**28,105**
18, 39	Net impairment loss on loans and advances	(491)	(4,440)	(6,577)
	Net interest income less net impairment loss on loans and advances	**7,626**	**21,659**	**21,528**
	Fee and commission income	1,499	4,469	6,835
	Fee and commission expense	(691)	(2,033)	(2,622)
19	**Net fee and commission income**	**808**	**2,436**	**4,213**
20, 22	Net (loss) gain on financial assets designated as at fair value through profit or loss	(941)	149	4,020
21, 22	Net gain on financial assets and liabilities held for trading	815	1,794	3,062
23	Net foreign exchange gain (loss)	1,259	10,407	(3,000)
24	Other income and expenses	7	(200)	902
	Other net operating income	**1,141**	**12,149**	**4,984**
	Total operating income	**9,575**	**36,243**	**30,725**
25	Salaries and related expenses	2,123	6,538	8,468
	Other administrative expenses	1,694	5,135	6,064
	Depreciation and amortisation	329	984	1,278
26	Acquisition-related costs	-	484	1,044
	Total operating expenses	**4,145**	**13,141**	**16,854**
	Share of profit of associates, net of income tax	19	151	383
4	Loss from foreign currency linkage of loans and advances to customers	-	(8,251)	-
	Profit before income tax	**5,448**	**15,001**	**14,254**
	Income tax	(1,641)	(4,552)	(615)
	Profit for the period from continuing operations	**3,807**	**10,449**	**13,639**
	(Loss) profit for the period from discontinued operations, net of income tax	(340)	2,422	693
	Profit for the period	**3,467**	**12,871**	**14,332**
	Profit (loss) for the period attributable to:			
	Owners of the Bank			
	Profit for the period from continuing operations	3,807	10,449	13,639
	(Loss) profit for the period from discontinued operations	(350)	2,413	838
	Profit for the period attributable to owners of the Bank	**3,457**	**12,863**	**14,477**
	Non-controlling interests			
	Profit for the period from continuing operations	-	-	-
	Profit (loss) for the period from discontinued operations	10	9	(145)
	Profit (loss) for the period attributable to non-controlling interests	**10**	**9**	**(145)**
	Profit for the period	**3,467**	**12,871**	**14,332**

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

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2010

Notes

	Attributable to owners of the Bank						
Change in equity for the year 2009	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance at 1 January 2009	24,000	125,898	-	(6,945)	142,953	332	143,285
Profit for the year				14,477	14,477	(145)	14,332
Transfer to statutory reserve			741	(741)	0		0
Deemed capital distribution		(2,000)			(2,000)		(2,000)
Changes in ownership interests in subsidiaries that do not result in loss of control					0	1,975	1,975
Balance at 31 December 2009	**24,000**	**123,898**	**741**	**6,791**	**155,430**	**2,162**	**157,592**
Change in equity for the nine months ended 30 September 2010							
Balance at 1 January 2010	24,000	123,898	741	6,791	155,430	2,162	157,593
Profit for the period				12,863	12,863	9	12,871
Balance at 30 September 2010	**24,000**	**123,898**	**741**	**19,654**	**168,293**	**2,171**	**170,464**

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 nine months ended 30 September 2010

Notes		2010 1.1–30.9	2009 1.1–31.12
	Profit for the period	12,871	14,332
	Net cash from (used in) operating activities	26,024	(3,047)
	Net cash used in investing activities	(72)	(326)
	Net cash from financing activities	-	88
	Net change in cash and cash equivalents	25,952	(3,285)
	Cash and cash equivalents at the beginning of the period	21,166	22,897
	Effect of exchange rate changes on cash and cash equivalents held	(807)	1,554
	Cash and cash equivalents at the end of the period	**46,312**	**21,166**

Cash and cash equivalents is specified as follow:

Notes		2010	2009
7	Cash and unrestricted balances with Central Bank	41,065	16,538
10	Bank accounts with financial institutions	5,247	4,628
	Cash and cash equivalents at the end of the period	**46,312**	**21,166**

Investing and financing activities not affecting cash flows

Settlement of capital contribution through receipt of Icelandic government bonds		121,225
Settlement of capital contribution through offset against provisional liability due to Landsbanki Íslands hf.		28,000
Settlement of interest on capital contribution through offset against provisional liability due to Landsbanki Íslands hf.		4,270
Settlement of provisional liability due to Landsbanki Íslands hf. through borrowings		312,168

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

NBI hf. (hereinafter referred to as the "Bank") was founded on 7 October 2008 by the Ministry of Finance on behalf of the Icelandic State Treasury. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates based on Act No. 161/2002, on Financial Undertakings. The Bank has a license to operate based on Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances and it is supervised by the Financial Supervisory Authority of Iceland. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík. The condensed consolidated interim financial statements of the Bank for the nine months ended 30 September 2010 include the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The issue of these condensed consolidated interim financial statements was authorised by the Board of Directors of the Bank on 25 November 2010.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2010 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU, with the exception that comparative amounts in the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement Cash Flows and related notes are for the whole year 2009. As a result comparatives for the year 2009 are not fully comparable.

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

Going concern

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

It is the view of the Bank's management that the Group is sufficiently capitalised to continue as a going concern (see further Notes 30 and 31). 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 27 and 32-51.

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 as described in Note 4.

As described in Note 51 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 abilitiy to mitigate the risk from currency fluctuations.

Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for:
- Financial assets and liabilities classified as at fair value through profit or loss, which are measured at fair value;
- Non-current assets and disposal groups classified as held for sale, which are measured at the lower of carrying amount or fair value less costs to sell.

Functional and presentation currency

Items included in the financial statements of each individual entity of the Group are measured using the currency of the economic environment in which the respective entity operates (its functional currency). All amounts are presented in Icelandic 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. Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009. The accounting policies have been applied consistently to all periods presented.

Changes in presentation and classification

The Group has changed in the second quarter of 2010 the presentation of net foreign exchange differences arising from OTC currency options, which the Bank has bought to economicaly hedge its foreign currency imbalance. The net foreign exchange difference is now presented in the line item "Net foreign exchange gain (loss)" in the income statement but it was previously included in the line item "Net (loss) gain on financial assets and liabilities held for trading". The comparison amounts for the year 2009 in the income statement have been adjusted retrospectively in accordance with the new presentation as follows:
• "Net (loss) gain on financial assets and liabilities held for trading" increased by ISK 186 million;
• "Net foreign exchange gain (loss)" decreased by ISK 186 million.

The Group has changed in the current interim period the name of the line item "Borrowings" in the statement of financial position into "Secured bonds" due to the fact that the Bank has issued the secured bonds to Landsbanki Íslands hf. on 12 October 2010 (see Note 15) in accordance with the settlement agreement signed on 15 December 2009 in respect of the transfer of assets and liabilities from Landsbanki Íslands hf. on 9 October 2008.

4. Estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

Denomination currencies and interest rates of lease and loan agreements

On 16 June 2010 the Supreme Court of Iceland ruled in two separate cases that the foreign currency linked lease agreements that were under dispute were in fact loan agreements which fall under the scope of law 38/2001 on interest and indexation. The Supreme Court ruled that the agreements are in fact obligations in Icelandic Krona which are indexed to foreign currencies, which is not permitted by the law. Accordingly, the Supreme Court ruled that the foreign currency provisions of those lease agreements are unbinding. In addition, on 16 September 2010 the Supreme Court ruled that the interest rate applicable to the agreement is the same as the interest rate published by the Central Bank of Iceland based on the lowest interest rates on new unindexed loans offered by commercial banks in Iceland.

(a) Change in accounting estimates

Based on these rulings of the Supreme Court and on the guidelines from the Financial Supervisory Authority in Iceland (FME), the Group has changed the accounting for certain types of foreign currency linked lease agreements and for foreign currency linked loan agreements. Accordingly, starting from 16 June 2010, the Group accounts for these agreements as denominated in Icelandic Krona (ISK) bearing from inception the lowest interest rates on unindexed ISK denominated loans as published by the Central Bank of Iceland. Previous to 16 June 2010, the Group accounted for these agreements as loans and receivables from customers denominated in foreign currencies, whereby the Group estimated their cash flows, among other things, based on their contractual interest rates in foreign currencies. The change in the accounting for these agreements has lead to a decrease in their carrying amount in the consolidated statement of financial position as at 16 June 2010 from ISK 48,556 million to ISK 45,773 million. The decrease of ISK 2,783 million is accounted for as a change in accounting estimate as at 16 June 2010 and it is recognised in the condensed consolidated income statement in the line item „Loss from foreign currency linkage of loans and advances to customers".

(b) Provision for excess payments

The Group has recognised starting from 16 June 2010 a provision in respect of those lease and loan agreements for which the Group changed its accounting as described in (a) above. The provision is a liability of the Group arising from the legal obligation of the Group to repay the cash it received from customers in excess of the payments that they should have paid based on the rulings of the Supreme Court. The liability is recognised based on currently effective law, which does not allow the Group to offset the excess payments against the outstanding balances of lease or loan agreements with the corresponding counterparty. However, the Government of Iceland has submitted a new bill for the vote of the Parliament of Iceland whereby the offset of the excess payments against the outstanding balances of lease or loan agreements will be permitted. The provision amounted to ISK 5,468 million as at 30 September 2010 and it is recognised in the condensed consolidated statement of financial position among „Other liabilities". The provision is measured at the amount that represents the management's best estimate of the expenditure required to settle the obligation as at 30 September 2010 based on the rulings of the Supreme Court of Iceland. However, the amount and timing of the payments that the Group will ultimately have to settle is uncertain as the claims may be subject to further legal processes. The Group has recognised the amount of the provision as an expense in the condensed consolidated income statement in the line item „Loss from foreign currency linkage of loans and advances to customers".

4. Estimates and judgements (continued)

(c) Estimation uncertainty

As described above, certain types of foreign currency linked lease agreement and foreign currency linked loan agreements are accounted for as being denominated in Icelandic Krona (ISK) and bearing unindexed ISK interest rates while other types are accounted for as being denominated in foreign currencies, bearing interest rates in the respective foreign currencies. The accounting treatment of the lease and loan agreements is based on the latest available information. Therefore, future legal processes and possible government actions may lead to different conclusions, which could lead to material adjustments to the carrying amounts of the assets and liabilities within the next financial year.

The carrying amount of agreements for which the foreign currency feature raises some uncertainty about the currency of denomination and which continue to be accounted for by the Group as agreements denominated in foreign currencies amounted to ISK 247,361 million as at 30 September 2010. The Bank's management has estimated that in the unlikely event that all these agreements are considered to be ISK loans bearing from inception floating unindexed interest rate as published by the Central Bank of Iceland, it would lead to a decrease in their carrying amount by ISK 8,612 million as at 30 September 2010, with an equivalent before tax negative effect on profit and loss. In addition, the Bank's management has estimated that the Group would have to repay additional excess payments in the amount of ISK 7,619 million, which the Group would need to expense in profit and loss.

These changes would lead to a decrease in the Group's capital adequacy ratio from 17.3% to 14.8% as at 30 September 2010. The Group would satisfy the 8% legal minimum capital ratio, but it would fall short of the current capital requirement of 16% set by the FME. The additional excess payments would decrease the liquidity ratio of the Group from 44% to 42% as at 30 September 2010 and it would not cause the Bank to breach the liquidity requirement.

The Group might also be required by court of law in the future to pay damages due to losses incurred by clients which can be proven to have been directly caused by foreign currency linkage of lease and loan agreements of the Group. The Group has not recognised any liability in its consolidated financial statements in respect of such payments because it has yet to be confirmed whether the Group has a present obligation that could lead to an outflow of resources embodying economic benefits.

The Bank's management expects the Supreme Court of Iceland to rule on most of the legal issues surrounding foreign currency linked lease and loans agreements during the years 2010 and 2011.

(d) Nature and extent of financial risks arising from lease and loan agreements

The changes in the currencies and interest rates of lease and loan agreements as described in (a) above have resulted in changes in the nature and extent of financial risks arising from those agreements since they were disclosed in the consolidated financial statements for the year 2009. In particular, the change in respect of the denomination currency of those agreements has affected the extent of currency risk disclosed by the Group. This is because previously to the change, the agreements were disclosed as financial assets denominated in foreign currencies but after the change they are no longer included in the disclosure of concentration of currency risk in Note 51. The carrying amount of the agreements was specified as follows immediately prior to the change on 16 June 2010:

	EUR	GBP	USD	JPY	CHF	Other	Total
Carrying amount	5,956	39	2,842	21,470	17,959	290	48,556

In respect of interest rate risk arising from these agreements, the change in respect of interest rates has lead to a change in the nature of interest rate risk disclosed, from interest rates in foreign currencies to interest rates on unindexed Icelandic Krona denominated loans as published by the Central Bank of Iceland. However, this change does not affect the total interest repricing gap as disclosed in Note 48.

The financial risk disclosures made in these consolidated interim financial statements are based on the assumptions about the denomination currencies and interest rates of lease and loan agreements as described in this note. 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.

5. 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 from 1 January 2011.

The organisational chart is structured around the following eight main divisions: Retail Banking, Corporate Banking, Treasury & Markets, 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 during the period from 1 January 2010 to 30 September 2010.

All amounts are in ISK million

Notes to the Condensed Consolidated Statement of Financial Position

6. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities are classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:
• Loans and receivables, measured at amortised cost;
• Financial assets and liabilities held for trading, measured at fair value;
• Financial assets designated as at fair value through profit or loss, measured at fair value;
• Other financial liabilities, measured at amortised cost.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 30 September 2010:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value*	Total carrying amount	Fair value
Cash and balances with Central Bank	45,433	-	-	-	-	45,433	45,433
Bonds and debt instruments	100,321	42,117	21,836	-	-	164,274	164,274
Equities and equity instruments	-	1,211	22,787	-	-	23,998	23,998
Derivative instruments	-	297	-	-	-	297	297
Loans and advances to financial institutions	87,472	-	-	-	-	87,472	87,472
Loans and advances to customers	600,813	-	-	-	-	600,813	634,916
Other financial assets	8,035	-	-	-	-	8,035	8,035
Total	**842,074**	**43,626**	**44,623**	**0**	**0**	**930,323**	**964,426**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	151,276	-	151,276	151,276
Deposits from customers	-	-	-	382,125	-	382,125	382,125
Derivative instruments and short positions	-	6,924	-	-	-	6,924	6,924
Secured bonds	-	-	-	276,596	-	276,596	276,596
Contingent bond	-	-	-	-	20,679	20,679	20,679
Other financial liabilities	-	-	-	1,445	-	1,445	1,445
Total	**0**	**6,924**	**0**	**811,443**	**20,679**	**839,045**	**839,045**

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

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

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

All amounts are in ISK million

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

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

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs to valuation used to measure fair value. This hierarchy prioritises the inputs into three broad levels as follows:

• 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.

A financial assets or liability's classifications within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the condensed consolidated statement of financial position, are categorised as at 30 September 2010:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	18,770	27,662	17,521	63,953
Equities and equity instruments	4,857	12,464	6,678	23,998
Derivative instruments	-	297	-	297
Total	**23,627**	**40,423**	**24,199**	**88,249**
Financial liabilities				
Derivative instruments	-	810	-	810
Short positions	6,114	-	-	6,114
Contingent bond	-	-	20,679	20,679
Total	**6,114**	**810**	**20,679**	**27,603**

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

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	6,303	21,386	37,371	65,060
Equities and equity instruments	6,154	13,702	3,555	23,411
Derivative instruments	-	971	-	971
Total	**12,457**	**36,059**	**40,926**	**89,442**
Financial liabilities				
Derivative instruments	-	675	-	675
Short positions	5,268	-	-	5,268
Contingent bond	-	-	10,241	10,241
Total	**5,268**	**675**	**10,241**	**16,184**

During the period from 1 January to 30 September 2010 there were no transfers into Level 1. Financial assets and liabilities were transferred into Level 2 from Level 3 because significant inputs used in their fair value measurement became observable during the period from 1 January to 30 September 2010, such as market prices or rates.

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

All amounts are in ISK million

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

The following tables show the reconciliation for fair value measurement in Level 3 for the nine months ended 30 September 2010 and for the year 2009:

Nine months ended 30 September 2010	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
Carrying amount at 1 January 2010	37,371	3,555	40,926	(10,241)
Total losses recognised in income statement	(563)	(1,384)	(1,948)	(10,438)
Purchases	1,244	1,755	2,999	-
Sales	-	(531)	(531)	-
Settlements	(15,326)	3,297	(12,029)	-
Transfers into Level 3	375	-	375	-
Transfers out of Level 3	(5,580)	(14)	(5,593)	-
Carrying amount at 30 September 2010	**17,521**	**6,678**	**24,199**	**(20,679)**
1 January - 31 December 2009				
Carrying amount at 1 January 2009	26,746	5,007	31,753	-
Total gains (losses) recognised in income statement	8,572	202	8,774	(10,241)
Purchases	20,313	3,144	23,457	-
Sales	(17,000)	(5,361)	(22,361)	-
Settlements	(1,697)	-	(1,697)	-
Transfers into Level 3	962	563	1,525	-
Transfers out of Level 3	(525)	-	(525)	-
Carrying amount at 31 December 2009	**37,371**	**3,555**	**40,926**	**(10,241)**

The following tables show the line items in the condensed consolidated income statement where the total gains (losses) were recognised during the nine months ended 30 September 2010 and during the year 2009, for fair value measurements in Level 3:

Nine months ended 30 September 2010	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Interest expense	-	-	(10,438)	(10,438)
Net (loss) gain on financial assets designated as at fair value through profit or loss	1,128	(1,252)	-	(125)
Net foreign exchange gain (loss)	(1,691)	(132)	-	(1,823)
Total	**(563)**	**(1,384)**	**(10,438)**	**(12,386)**
1 January - 31 December 2009				
Interest expense	-	-	(10,241)	(10,241)
Net (loss) gain on financial assets designated as at fair value through profit or loss	7,733	174	-	7,907
Net gain on financial assets and liabilities held for trading	665	28	-	693
Net foreign exchange gain (loss)	174	-	-	174
Total	**8,572**	**202**	**(10,241)**	**(1,467)**

The following table shows the line items in the condensed consolidated income statement where gains (losses), relating only to financial assets and liabilities held by the Group at 30 September 2010 and categorised in Level 3, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Interest expense	-	-	(10,438)	(10,438)
Net (loss) gain on financial assets designated as at fair value through profit or loss	(91)	(1,252)	-	(1,343)
Net foreign exchange gain (loss)	(1,591)	(130)	-	(1,721)
Total	**(1,682)**	**(1,382)**	**(10,438)**	**(13,502)**

All amounts are in ISK million

7. Cash and balances with Central Bank

	30.9.2010	31.12.2009
Cash on hand	1,751	1,506
Reverse repurchase agreements with Central Bank	35,565	-
Unrestricted balances with Central Bank	3,748	15,032
Total cash and unrestricted balances with Central Bank	**41,065**	**16,538**
Restricted balances with Central Bank	4,368	9,636
Total cash and balances with Central Bank	**45,433**	**26,174**

The Group has entered into short-term reverse repurchase agreements with the Central Bank of Iceland according to which the Group acquired certificates of deposit issued by the Central Bank and committed to resell the certificates to the Central Bank at a fixed price at the end of the contractual period. The Group does not recognise the certificates of deposit as its assets because the Group does not bear substantially all the risks and rewards of ownership of the certificates. However, the Group derecognised the cash transferred to the Central Bank and recognised a receivable from the Central Bank, including accrued interest.

The Bank holds a mandatory reserve deposit account with the Central Bank of Iceland. The average balance of this account for each month must be equivalent to at least mandatory reserve deposits, which amounted to ISK 6,983 for September 2010. Any excess balance is available for use by the Group. Other cash and balances with the Central Bank are available for the Group's immediate use.

8. Bonds and equities

	30.9.2010				31.12.2009			
Bonds and debt instruments	Loans and receivables	Held for trading	Designated as at fair value	Total	Loans and receivables	Held for trading	Designated as at fair value	Total
Domestic								
Listed	100,321	36,709	8,473	145,503	-	10,953	9,272	20,225
Unlisted	-	-	10,321	10,321	100,661	21,352	17,761	139,774
	100,321	**36,709**	**18,794**	**155,824**	**100,661**	**32,305**	**27,033**	**159,999**
Foreign								
Listed	-	5,408	1,687	7,095	-	-	3,958	3,958
Unlisted	-	-	1,355	1,355	-	-	1,764	1,764
	0	**5,408**	**3,042**	**8,450**	**0**	**0**	**5,722**	**5,722**
Total bonds and debt instruments	**100,321**	**42,117**	**21,836**	**164,274**	**100,661**	**32,305**	**32,755**	**165,721**
Equities and equity instruments								
Domestic								
Listed	-	409	9,198	9,607	-	774	9,198	9,972
Unlisted	-	-	6,189	6,189	-	-	2,864	2,864
	0	**409**	**15,387**	**15,797**	**0**	**774**	**12,062**	**12,836**
Foreign								
Listed	-	802	7,175	7,977	-	841	9,482	10,323
Unlisted	-	-	225	225	-	-	252	252
	0	**802**	**7,400**	**8,202**	**0**	**841**	**9,734**	**10,575**
Total equities and equity instruments	**0**	**1,211**	**22,787**	**23,998**	**0**	**1,615**	**21,796**	**23,411**
Total bonds and equities	**100,321**	**43,329**	**44,623**	**188,272**	**100,661**	**33,920**	**54,551**	**189,132**

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

Bonds and debt instruments classified as loans and receivables as at 30 September 2010 and 31 December 2009 consist of part of the government bonds which the Bank received in settlement of the capital contribution in 2009. The bonds are listed on the OMX stock exchange in Iceland.

All amounts are in ISK million

9. Derivative instruments and short positions

	30.9.2010			31.12.2009		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	35,385	232	265	9,323	262	1
Cross-currency interest rate swaps	1,886	-	541	2,415	-	672
OTC currency options*	71,392	2	-	59,703	700	-
	108,663	**233**	**806**	**71,441**	**962**	**673**
Interest rate derivatives						
Interest rate swaps	4,782	64	4	3,318	9	2
	4,782	**64**	**4**	**3,318**	**9**	**2**
Short positions - listed bonds	**-**	**-**	**6,114**	**-**	**-**	**5,268**
Total	**113,445**	**297**	**6,924**	**74,759**	**971**	**5,943**

* The Bank has bought out-of-the-money OTC currency options to economicaly hedge its foreign currency imbalance against excessive adverse movements in some of the major foreign currencies. The delta of these options amounted to ISK 86 million at 30 September 2010 (31 December 2009: ISK 9,989 million).

10. Loans and advances to financial institutions

	30.9.2010	31.12.2009
Bank accounts with financial institutions	5,247	4,628
Money market loans	63,776	58,488
Overdrafts	5,301	6,247
Other loans	15,117	14,493
Less: Allowance for impairment	(1,969)	(727)
Total	**87,472**	**83,129**

11. Loans and advances to customers

	30.9.2010	31.12.2009
Public entities	16,410	10,582
Individuals	171,753	177,561
Corporations	423,782	486,739
Less: Allowance for impairment	(11,131)	(7,760)
Total	**600,813**	**667,122**

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

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

All amounts are in ISK million

12. Assets and liabilities classified as held for sale

Assets classified as held for sale	30.9.2010	31.12.2009
Repossessed collateral	43,434	27,317
Assets of disposal groups classified as held for sale	87,846	36,561
Total	**131,281**	**63,878**

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

Repossessed collateral	30.9.2010	31.12.2009
Carrying amount at the beginning of the period	27,317	2,150
Repossessed during the period	18,409	27,270
Disposed during the period	(2,292)	(2,103)
Carrying amount at the end of the period	**43,434**	**27,317**

Disposal groups classified as held for sale

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

On 20 August 2010 the Bank entered into a sale agreement with Framtakssjóður Íslands slhf. for the sale of all the shares in the Bank´s 100% subsidiary, Vestia ehf., for an estimated consideration of ISK 18 billion. The sale is subject to several conditions having to be fulfilled, the most significant of which are that the due diligence to be made by the buyer in relation to Vestia´s assets and liabilities does not lead to material observations and that the Competition Authorities approve the acquisition. In the event the conditions are not met at delivery, the buyer may terminate the sale contract without any further obligations. When the conditions will be fulfilled the Bank will recognise a gain on the disposal of Vestia of approximately ISK 5 billion, estimated based on the sale price and carrying amounts of the assets and liabilities of Vestia in these condensed consolidated interim financial statements, which amounted to approximetelly ISK 90 billion in assets classified as held for sale and ISK 50 billion in liabilities associated with assets classified as held for sale.

As part of the sale agreement of Vestia ehf., the Bank committed to acquire a 30% interest in Framtakssjóður Íslands slhf. for approximetelly ISK 15 billion subject to the perfection of the sale of the shares in Vestia. This amount will be callable during the years 2010-2016, as needed to fund investments by Framtakssjóður Íslands slhf. made prior to the acquisition of Vestia, due from that investment and subject to future investements being made so that the Bank remains up to 30% shareholder at all times.

The Bank's management expects the sale of the shares in Vestia to be completed before year-end 2010.

13. Due to financial institutions and Central Bank

	30.9.2010	31.12.2009
Loans and repurchase agreements with Central Bank	14	66
Loans and deposits from financial institutions	151,262	98,162
Total	**151,276**	**98,228**

14. Deposits from customers

	30.9.2010	31.12.2009
Demand deposits	284,016	317,330
Time deposits	98,109	135,325
Total	**382,125**	**452,655**

All amounts are in ISK million

15. Secured bonds

	Nominal amount				Carrying amount	
	Foreign	ISK		Contractual	ISK	
Secured bonds	currency	30.9.2010	31.12.2009	interest rate (%)	30.9.2010	31.12.2009
EUR	871 million	134,482	156,519	EURIBOR + 1.75/2.90	139,951	158,573
GBP	275 million	49,030	55,316	LIBOR + 1.75/2.90	51,025	56,086
USD	734 million	83,247	91,456	LIBOR + 1.75/2.90	85,621	91,834
Total		**266,759**	**303,291**		**276,596**	**306,493**

On 12 October 2010 the Bank issued secured bonds to Landsbanki Íslands hf. as part of the acquisition price for its Icelandic operations. These bonds are denominated in EUR, GBP and USD and carry interest from October 2008. The carrying amount of the bonds as at 30 September 2010 includes the effective interest of EURIBOR/LIBOR+2,90% which accrued since October 2008. The bonds are secured by pools of loans to customers (see Note 28).

The bonds mature in October 2018 and do not have instalment payments during the first 5 years. The interest rates are 3 months EURIBOR for the EUR-denominated bond and 3 months LIBOR for the GBP and USD-denominated bonds, plus a margin of 1.75% for the first 5 years and a margin of 2.90% for the remaining 5 years. The first interest payment date was on 12 October 2010. From 30 June 2010, bondholders have had the right to require the Bank to convert the bonds into Eurobonds. Upon such conversion, the Bank will make reasonable endeavours to list such Eurobonds on a qualified stock exchange, as soon as feasible following conversion. The bondholders have not yet exercised their right to require the Bank to convert the bonds into Eurobonds.

16. Contingent bond

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

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

All amounts are in ISK million

Notes to the Condensed Consolidated Income Statement

17. Net interest income

Interest income	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Cash and balances with Central Bank	959	2,767	3,344
Bonds and debt instruments classified as loans and receivables	1,657	5,452	-
Loans and advances to financial institutions	205	1,149	1,749
Loans and advances to customers	10,308	38,025	58,518
Net adjustments to the carrying amount of loans and advances*	5,421	17,040	23,772
Unpaid capital contribution	-	-	17,796
Other interest income	5	31	69
Total	**18,555**	**64,465**	**105,248**
Interest expense			
Due to financial institutions and Central Bank	(1,369)	(4,026)	(10,243)
Deposits from customers	(3,059)	(15,252)	(43,005)
Provisional liability due to Landsbanki Íslands hf.	-	-	(13,148)
Secured bonds	(2,820)	(8,480)	(445)
Fair value change of contingent bond	(3,079)	(10,438)	(10,241)
Other interest expense	(110)	(170)	(61)
Total	**(10,438)**	**(38,366)**	**(77,143)**
Net interest income	**8,117**	**26,099**	**28,105**

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

Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period)	**3.0%**	**3.2%**	**2.8%**

Interest income accrued on impaired financial assets during the period from 1 January to 30 September 2010 amounted to ISK 103 million (1.1-31.12.2009: ISK 124 million).

Total interest income recognised during the period from 1 January to 30 September 2010 in respect of financial assets not carried at fair value through profit or loss amounts to ISK 64,465 million (1.1-31.12.2009: ISK 87,452 million). Total interest expense recognised during the period in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 27,928 million (1.1-31.12.2009: ISK 66,902 million).

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

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Net interest income	8,117	26,099	28,105
Net impairment gain (loss) on loans and advances to financial institutions	35	(1,242)	-
Net impairment loss on loans and advances to customers	(691)	(3,371)	(6,577)
Collected previously written-off loans	165	173	-
Total impairment on loans and advances	**(491)**	**(4,440)**	**(6,577)**
Net interest income less net impairment loss on loans and advances	**7,626**	**21,659**	**21,528**
Interest spread (as the annualised ratio of net interest income less net impairment loss on loans and advances to the average carrying amount of total assets during the period)	**2.8%**	**2.7%**	**2.1%**

All amounts are in ISK million

19. Net fee and commission income

Fee and commission income	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Investment banking and capital markets	248	633	943
Asset management	165	504	878
Lending	202	710	1,266
Cards	298	907	1,402
Interbank clearing	221	652	859
Collection and payment services	166	508	704
Foreign trade	131	313	471
Other commissions and fees	66	243	312
Total	**1,499**	**4,469**	**6,835**
Fee and commission expense			
Investment banking and capital markets	(44)	(178)	(230)
Interbank clearing	(213)	(642)	(832)
Other fees	(434)	(1,213)	(1,560)
Total	**(691)**	**(2,033)**	**(2,622)**
Net fee and commission income	**808**	**2,436**	**4,213**

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

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

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Bonds and debt instruments	276	1,397	850
Equities and equity instruments	(1,217)	(1,248)	3,170
Total	**(941)**	**149**	**4,020**

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

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Bonds and debt instruments	842	1,837	3,646
Equities and equity instruments	67	97	(670)
Derivatives instruments	(94)	(140)	86
Total	**815**	**1,794**	**3,062**

22. Dividend income

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

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Net (loss) gain on financial assets designated as at fair value through profit or loss	-	558	730
Net gain on financial assets and liabilities held for trading	4	22	55
Total	**4**	**580**	**785**

All amounts are in ISK million

23. Net foreign exchange gain (loss)

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Assets:			
Cash and balances with Central Bank	(52)	(132)	38
Bonds and debt instruments	(1,324)	(3,370)	1,017
Equities and equity instruments	(24)	(787)	1,719
Derivative instruments	(487)	(3,760)	1,300
Loans and advances to financial institutions	(4,349)	(7,200)	2,783
Loans and advances to customers	(12,355)	(19,877)	17,975
Other assets	(18)	(478)	(260)
Total	**(18,608)**	**(35,604)**	**24,572**
Liabilities:			
Due to financial institutions and Central Bank	970	1,875	(2,380)
Deposits from customers	2,680	6,801	(7,056)
Provisional liability due to Landsbanki Íslands hf.	-	-	(24,233)
Secured bonds	16,215	37,319	6,119
Other liabilities	3	15	(22)
Total	**19,867**	**46,010**	**(27,572)**
Net foreign exchange gain (loss)	**1,259**	**10,407**	**(3,000)**

The foreign exchange differences which were recognised during the period from 1 January to 30 September 2010 in the condensed consolidated income statement and arose on financial instruments not measured at fair value through profit or loss amounted to a ISK 27,686 million loss for financial assets (1.1-31.12.2009: gain of ISK 20,536 million) and gain of ISK 8,691 million for financial liabilities (1.1-31.12.2009: loss of ISK 9,458 million). As disclosed in Note 3 in the Group's consolidated financial statements as at and for the year ended 31 December 2009, the Group applied the average FX-delta ratio to foreign exchange differences arising on loans and advances to customers that were acquired from Landsbanki Íslands hf. on 9 October 2008. The amount of foreign exchange difference arising on loans and advances to customers for the nine months ended 30 September 2010, which is deemed to be uncollectible and is therefore offset by the FX-delta ratio, amounted to a loss of ISK 4,499 million (1.1-31.12.2009: gain of ISK 9,244 million).

24. Other income and expenses

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Recharged expenses	116	374	965
Loss on sale of property and equipment	-	(2)	23
Loss on repossessed collateral	(26)	(591)	(132)
Other	(83)	18	46
Total	**7**	**(200)**	**902**

25. Salaries and related expenses

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Salaries	1,652	5,231	6,969
Contributions to defined contribution pension plans	257	724	955
Other personnel expenses	214	584	544
Total	**2,123**	**6,538**	**8,468**

26. Acquisition-related costs

	2010 1.7-30.9	2010 1.1-30.9	2009 1.1-31.12
Cost of acquisition of assets and liabilities from Landsbanki Íslands hf.	-	484	886
Claims on Landsbanki Íslands hf. which were written off due to a settlement	-	-	158
Total	**0**	**484**	**1,044**

All amounts are in ISK million

Other notes

27. Litigation

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

1) The Supreme Court of Iceland has, in its ruling from 16 June 2010, established in the cases of SP Fjármögnun hf. and Lýsing hf. that certain foreign currency linked lease agreements are in fact loan agreements in Icelandic Kronas which fall under the scope of Act No. 38/2001 on interest and indexation. The Supreme Court further ruled that the indexation of such ISK denominated loans to the exchange rate of foreign currencies constitutes indexation as defined in Chapter VI of the Interest Act; such indexation is not expressly authorised by the Act.

Following the judgement the Financial Supervisory Authority in Iceland (FME) and the Central Bank of Iceland issued guidelines that required financial undertakings to review their loan portfolio to indentify loans with non-binding exchange rate indexation clauses. In a statement on 7 July 2010 it was informed that the loans granted by the Group had been reviewed and classified according to the court ruling and the guidelines. It was further informed that certain mortgages to individuals were to be recalculated in line with the guidelines.

On 16 September 2010 the Supreme Court of Iceland ruled that the interest rate applicable to the agreement is, in line with provisions of Act No. 38/2001, the same as the interest rate published by the Central Bank of Iceland based on the lowest interest rates on new unindexed loans offered by commercial banks in Iceland. This ruling of the Supreme Court has precedent for the recalculation of other loans deemed to include unlawful foreign currency indexation provisions.

The Bank issued a statement on 16 September 2010 whereby it offered all individuals with mortgage in foreign currency a recalculation of the loan in line with the above decision of the Supreme Court.

A bill has been introduced into the Parliament of Iceland that proposes changes to Act No. 38/2001, on interest and indexation. The main changes relate to the recalculation of consumer mortgages where repayment is linked to foreign currency. The recalculation is to be based on the interest rate published by the Central Bank based on either the lowest interest rates on new indexed or unindexed loans offered by commercial banks in Iceland. The Bill also set the basis for a simpler method of recalculation.

It is expected that a number of court cases will commence in the coming months that will decide on the legality of certain types of loans granted by the Group that are denominated in foreign currency. The ultimate resolution of these matters or direct effects on the Group cannot yet be determined. In addition it can be expected that court cases will commence where it will be argued that the Group is liable for the losses incurred by clients which have been directly caused by foreign currency linkage of loan agreement and also on whether mortgages with non-binding exchange rate indexation shall be recalculated the same way as lease agreements. The Group considers that the claims for damages are without merit and that there are no legal arguments for different recalculation for mortgages.

In a Court Order rendered by the District Court of Reykjavik on 30 April 2010, a petition by the Bank that the estate of a customer was declared bankrupt was denied. The Order was, among other things, based on the assumption that loan agreements denominated in foreign currencies were in fact granted in Icelandic kronas and therefore with unlawful provision that peg repayments to the exchange rate of foreign currencies. This Order was appealed to the Supreme Court of Iceland that did not base its decision on whether the loans were granted in Icelandic kronas or foreign currency.

2) 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 were declared null and void. The loan agreement are denominated in foreign currencies and the Bank 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 is declared null and void. To support 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.

3) After 30 June 2010, the Bank's subsidary Landsvaki hf. has received a demand for reversing certain transactions involving the purchase of bonds from the money market funds operated by Landsvaki, shortly before the fall of Landsbanki Íslands hf. in October 2008. Four such claims have been put forward and the total amount of the claims amounts to ISK 2 billion. Landsvaki 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.

4) A number of court cases have commenced where a dispute on the recognition of claims by NBI hf. in the estate of Landsbanki Islands hf. has been referred to the Reykjavik District Court. The accounts reflect the estimated outcome of the court proceedings and likely repayment from the estate.

28. 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 (see Note 15) and the contingent bond that the Bank might issue to Landsbanki Íslands hf. (see Note 16). The Bank must maintain a cover ratio of 127.5% (ISK 352,660 million) for the secure bonds and 118% (ISK 24,401 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 (31.12.2009: 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 8,100 million (31.12.2009: ISK 1,200 million).

29. Related-party transactions

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

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

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

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

	2010		2009	
Loans in ISK million	**Balance at 30 September**	**Highest amounts outstanding during period**	**Balance at 31 December**	**Highest amounts outstanding during period**
Key management personnel	83	90	84	99
Parties related to key management personnel	11	44	32	45
Associates	5,755	7,041	6,763	7,652
Total	**5,849**	**7,175**	**6,879**	**7,797**

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

Capital management

30. Capital management

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

The FME has decided that the Bank shall maintain a capital ratio of at least 16%. This is higher than the current ICAAP capital requirement estimated by the Bank.

31. Capital base and capital adequacy ratio

The Group's equity at 30 September 2010 amounted to ISK 170,465 million (31 December 2009: ISK 157,592 million), equivalent to 17.6% (31 December 2009: 15.2%) of total assets, according to the balance sheet. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 17.3% at the end of the period (31 December 2009: 15.0%). According to the Act, this ratio may not fall below 8.0%.

Capital base	**30.9.2010**	**31.12.2009**
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	741	741
Retained earnings	19,654	6,791
Non-controlling interests	2,171	2,162
Deferred tax assets	(5,405)	-
Tier 1 capital	**165,058**	**157,592**
Deduction from original and additional own funds	(2,460)	(2,329)
Capital base	**162,598**	**155,263**
Risk-weighted assets		
Credit risk	734,117	749,632
Market risk	145,923	229,489
Operational risk	58,326	58,326
Total risk-weighted assets	**938,367**	**1,037,447**
Tier 1 capital ratio	17.6%	15.2%
Capital adequacy ratio	17.3%	15.0%

All amounts are in ISK million

Financial 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. 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

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

The following tables represent the Group's maximum credit risk exposure at 30 September 2010 and 31 December 2009, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities. The loans to individuals are residential mortgages and consumer lending. Consumer lending consists of current account loans, ISK term loans and loans dominated in foreign currencies, to name a few of the lending forms.

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

				Corporations									
At 30 June 2010	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	45,433	-	-	-	-	-	-	-	-	-	-	**45,433**
Bonds and debt instruments	14,336	145,167	-	-	-	-	2	4,132	635	-	-	2	**164,274**
Derivative instruments	233	-	20	-	17	-	-	27	-	-	-	-	**297**
Loans and advances to financial institutions	87,472	-	-	-	-	-	-	-	-	-	-	-	**87,472**
Loans and advances to customers	-	15,976	169,288	139,311	102,451	51,258	39,354	35,342	25,536	11,659	8,516	2,124	**600,813**
Other financial assets	7,494	-	-	46	-	344	46	27	1	-	-	76	**8,034**
Total on-balance sheet exposure	**109,534**	**206,577**	**169,308**	**139,357**	**102,468**	**51,602**	**39,402**	**39,529**	**26,172**	**11,659**	**8,516**	**2,201**	**906,324**
Off-balance sheet exposure	**0**	**5,889**	**32,114**	**12,614**	**5,784**	**11,325**	**11,239**	**2,647**	**3,066**	**2,732**	**2,548**	**477**	**90,435**
Financial guarantees	-	62	415	840	3,561	2,323	1,753	246	730	176	856	220	11,182
Undrawn loan commitments	-	2,500	61	9,152	749	4,509	4,731	1,256	758	2,099	630	-	26,447
Undrawn overdraft/credit card facilities	-	3,326	31,638	2,622	1,474	4,493	4,755	1,145	1,578	457	1,062	258	52,806
Maximum exposure to credit risk	**109,534**	**212,465**	**201,422**	**151,971**	**108,251**	**62,927**	**50,641**	**42,176**	**29,238**	**14,390**	**11,063**	**2,679**	**996,759**

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

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

All amounts are in ISK million

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

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

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

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

All amounts are in ISK million

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

Carrying amount	30.9.2010	31.12.2009
Customer groups with loan exposures above ISK 500 million		
Green	57,426	107,407
Amber	161,570	220,150
Red	24,821	40,027
Customer groups with loan exposures below ISK 500 million	356,996	299,538
Total	**600,813**	**667,122**

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

34. Loans and advances by industry sectors

	30.9.2010			31.12.2009		
Industry sectors	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Financial institutions	89,441	(1,969)	87,472	83,856	(727)	83,129
Public entities	16,410	(433)	15,976	10,582	(194)	10,388
Individuals	171,753	(2,465)	169,288	177,110	(1,124)	175,986
Corporations						
Fisheries	139,829	(518)	139,311	162,677	(187)	162,490
Construction and real estate companies	104,174	(1,724)	102,451	111,791	(1,387)	110,404
Holding companies	39,300	(3,958)	35,342	56,985	(3,584)	53,401
Retail	40,069	(715)	39,354	46,866	(705)	46,161
Services	51,985	(727)	51,258	49,799	(210)	49,589
Information, technology and communication	8,584	(68)	8,516	17,719	(60)	17,659
Manufacturing	25,985	(449)	25,536	27,211	(278)	26,933
Agriculture	11,716	(57)	11,659	13,226	(18)	13,208
Other	2,141	(17)	2,124	916	(13)	903
Total	**701,386**	**(13,101)**	**688,285**	**758,738**	**(8,487)**	**750,251**

35. Credit quality of financial assets

	Gross carrying amount					
At 30 September 2010	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment	Carrying amount
Cash and balances with Central Bank	45,433	-	-	45,433	-	45,433
Bonds and debt instruments	154,379	9,895	-	164,274	-	164,274
Derivative instruments	297	-	-	297	-	297
Loans and advances to financial institutions	70,487	9	18,946	89,441	(1,969)	87,472
Loans and advances to customers	423,625	186,138	2,182	611,945	(11,131)	600,813
Other financial assets	8,035	-	-	8,035	-	8,035
Total	**702,256**	**196,042**	**21,127**	**919,425**	**(13,101)**	**906,324**
At 31 December 2009						
Cash and balances with Central Bank	26,174	-	-	26,174	-	26,174
Bonds and debt instruments	148,111	17,610	-	165,721	-	165,721
Derivative instruments	971	-	-	971	-	971
Loans and advances to financial institutions	54,207	2,797	26,852	83,856	(727)	83,129
Loans and advances to customers	493,941	178,484	2,457	674,882	(7,760)	667,122
Other financial assets	6,990	-	-	6,990	-	6,990
Total	**730,394**	**198,891**	**29,309**	**958,594**	**(8,487)**	**950,107**

The allowance for impairment above includes both the allowance for individual impairment and the allowance for collective impairment.

All amounts are in ISK million

36. Loans and advances neither past due nor individually impaired

	Credit risk groups				
At 30 September 2010	**Green**	**Amber**	**Red**	**Exposures below ISK 500 million**	**Gross carrying amount**
Financial institutions	-	-	-	70,487	70,487
Public entities	-	-	-	13,962	13,962
Individuals	12	1	2	122,980	122,995
Corporations					
Fisheries	34,639	56,209	55	20,854	111,757
Construction and real estate companies	1,288	21,169	34	30,787	53,278
Holding companies	3,418	6,272	1,209	17,626	28,525
Retail	-	4,325	7,072	7,839	19,236
Services	10,022	9,544	158	18,022	37,745
Information, technology and communication	1,283	-	1,200	3,341	5,824
Manufacturing	4,141	3,147	2	3,114	10,403
Agriculture	490	8,746	6	8,694	17,936
Other	-	1,202	446	315	1,963
Total	**55,293**	**110,614**	**10,184**	**318,022**	**494,112**
At 31 December 2009					
Financial institutions	-	-	-	54,207	54,207
Public entities	4,706	576	-	3,676	8,958
Individuals	33	148	89	140,029	140,299
Corporations					
Fisheries	55,185	68,338	382	10,534	134,439
Construction and real estate companies	4,283	28,684	2,151	21,788	56,906
Holding companies	8,935	8,226	1,186	18,708	37,055
Retail	5,718	16,078	6,685	6,940	35,421
Services	6,522	7,574	694	16,223	31,013
Information, technology and communication	12,454	2,777	-	1,553	16,784
Manufacturing	4,862	4,387	230	2,929	12,408
Agriculture	895	13,338	-	5,580	19,813
Other	-	221	588	36	845
Total	**103,593**	**150,347**	**12,005**	**282,203**	**548,148**

37. 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 September 2010	**Past due up to 30 days**	**Past due up to 31 - 60 days**	**Past due up to 61 - 90 days**	**Past due over 90 days**	**Gross carrying amount**
Loans and advances to financial institutions	7	-	-	2	9
Loans and advances to customers	21,859	7,476	12,765	144,037	186,138
Total	**21,866**	**7,476**	**12,765**	**144,039**	**186,147**
At 31 December 2009					
Loans and advances to financial institutions	2,632	-	-	165	2,797
Loans and advances to customers	26,929	16,075	14,056	121,424	178,484
Total	**29,561**	**16,075**	**14,056**	**121,589**	**181,281**

38. Individually impaired loans and advances to financial institutions and customers

At 30 September 2010	**Gross carrying amount**	**Allowance for impairment**	**Carrying amount**
Loans and advances to financial institutions	18,946	(1,969)	16,976
Loans and advances to customers	2,182	(1,252)	930
Total	**21,127**	**(3,221)**	**17,906**
At 31 December 2009			
Loans and advances to financial institutions	26,852	(727)	26,125
Loans and advances to customers	2,457	(1,450)	1,007
Total	**29,309**	**(2,177)**	**27,132**

All amounts are in ISK million

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

	1.1-30.9.2010		1.1-31.12.2009	
	Financial institutions	Customers	Financial institutions	Customers
Balance at the beginning of the period	727	7,760	727	1,183
Net impairment loss for the period	1,242	3,371	-	6,577
Balance at the end of the period	**1,969**	**11,131**	**727**	**7,760**
Individual allowance	1,969	1,252	727	1,450
Collective allowance	-	9,880	-	6,310
Total	**1,969**	**11,131**	**727**	**7,760**

40. Renegotiated loans

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

The restructuring of the loans acquired from Landsbanki Íslands hf. gives rise to uncertainties about the net expected future cash flows from the loans due to various reasons, including legal and tax implications.

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

	30.9.2010		31.12.2009	
Status of loans to corporations	% of carrying amount	% of number of customers	% of carrying amount	% of number of customers
Performing without restructuring	42%	61%	45%	63%
Performing after restructuring	19%	8%	15%	10%
Non-performing (90 days in arrears or unlikely to pay in full)	39%	31%	40%	27%
Total	**100%**	**100%**	**100%**	**100%**
Status of loans to individuals				
Performing without restructuring	31%	75%	36%	77%
Performing after restructuring	39%	16%	39%	15%
Non-performing (90 days in arrears or unlikely to pay in full)	30%	9%	25%	8%
Total	**100%**	**100%**	**100%**	**100%**

41. Large exposures

At 30 September 2010, three Group clients were rated as large exposures (31 December 2009: three clients), including subsidiaries 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 after taking account of collateral held, in accordance with the Financial Supervisory Authority's Rules on Large Exposures Incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25% of equity, as defined by the Basel II regulatory framework. All of the Group's large exposures were within these limits at the end of 30 September 2010.

At 30 September 2010, the Group's internal rules on large exposures stated that clients could comprise up to 20% of the Group's equity as defined by the Basel II regulatory framework ("capital base"). At 30 September 2010, no exposure exceeded 20% (31 December 2009: no exposure). According to the Group's risk appetite, the total utilisation percentage of a large exposure ought to remain below 200% of the Group's capital base.

At 30 September 2010	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	-	-
Large exposures between 10% and 20% of the Group's capital base	3	64,044
Total	**3**	**64,044**
Utilisation of 800% limit (%)		39%
At 31 December 2009		
Large exposures above 20% of the Group's capital base	-	-
Large exposures between 10% and 20% of the Group's capital base	3	67,189
Total	**3**	**67,189**
Utilisation of 800% limit (%)		43%

All amounts are in ISK million

42. Bonds and debt instruments

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

Carrying amount	30.9.2010	31.12.2009
Aaa	5,408	-
Aa1	-	377
Aa3	-	274
A3 to A1	230	1,188
Baa1 to Baa3	139,179	130,355
Lower than Baa3	8,523	15,349
Unrated	10,935	18,178
Total	**164,274**	**165,721**

Unrated bonds and bonds with ratings lower than Baa3 are primarily bonds issued by domestic corporations, some of which developed into liquidating estates.

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

At 30 September 2010	Past due up to 30 days	Past due up to 31 - 60 days	Past due up to 61 - 90 days	Past due over 90 days	Carrying amount
Financial institutions	-	-	-	998	998
Holding companies	-	-	-	8,897	8,897
Total	**0**	**0**	**0**	**9,895**	**9,895**
At 31 December 2009					
Financial institutions	-	-	-	10,536	10,536
Holding companies	105	111	-	5,200	5,416
Other	-	-	-	1,658	1,658
Total	**105**	**111**	**0**	**17,394**	**17,610**

43. Derivative instruments

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

	30.9.2010			31.12.2009		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
A1	106,593	233	263	68,874	962	-
Baa3	1,886	-	541	2,415	-	672
C	-	-	-	90	-	-
Unrated	4,966	64	5	3,381	9	3
Total	**113,445**	**297**	**810**	**74,759**	**971**	**675**

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

All amounts are in ISK million

Liquidity risk

44. Liquidity risk management

The key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with Central Bank (such as government bonds). The core liquidity ratio as at 30 September 2010 was 44% (31 December 2009: 36%).

45. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 30 September 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	45,606	-	-	-	-	45,606	45,433
Bonds and debt instruments	-	10,629	9,198	46,294	172,112	238,234	164,274
Loans and advances to financial institutions	-	87,593	-	-	9	87,602	87,472
Loans and advances to customers	34,802	71,891	77,368	314,432	416,551	915,045	600,813
Other financial assets	-	4,594	-	3,441	-	8,035	8,035
Total	**80,409**	**174,708**	**86,567**	**364,167**	**588,672**	**1,294,522**	**906,028**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	18,365	54	-	-	18,420	
Outflow	-	(18,129)	(54)	-	-	(18,183)	
Total	**0**	**237**	**0**	**0**	**0**	**237**	**233**
Net settled derivatives	-	64	-	-	-	64	64
Total	**0**	**301**	**0**	**0**	**0**	**301**	**297**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(137,905)	(12,981)	-	(426)	-	(151,312)	(151,276)
Deposits from customers	(284,016)	(48,697)	(14,161)	(35,272)	-	(382,146)	(382,125)
Short positions	-	(6,559)	(524)	(2,339)	(3,547)	(12,969)	(6,114)
Secured bonds	-	(17,461)	(4,823)	(122,083)	(184,275)	(328,642)	(276,596)
Contingent bond	-	-	-	(10,907)	(15,388)	(26,295)	(20,679)
Other financial liabilities	-	(1,445)	-	-	-	(1,445)	(1,445)
Total	**(421,921)**	**(87,143)**	**(19,508)**	**(171,028)**	**(203,210)**	**(902,810)**	**(838,236)**
Off-balance sheet items							
Financial guarantees	(5,415)	(1,084)	(2,029)	(2,653)	-	(11,182)	
Undrawn loan commitments	(26,447)	-	-	-	-	(26,447)	
Undrawn overdraft/credit card commitments	(52,806)	-	-	-	-	(52,806)	
Total	**(84,669)**	**(1,084)**	**(2,029)**	**(2,653)**	**0**	**(90,435)**	
Total non-derivative financial liabilities and off-balance sheet items	**(506,590)**	**(88,228)**	**(21,538)**	**(173,680)**	**(203,210)**	**(993,245)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	21,791	278	1,120	542	23,731	
Outflow	-	(22,054)	(394)	(1,541)	(735)	(24,722)	
Total	**0**	**(262)**	**(115)**	**(421)**	**(193)**	**(991)**	**(806)**
Net settled derivatives	-	(4)	-	-	-	(4)	(4)
Total	**0**	**(266)**	**(115)**	**(421)**	**(193)**	**(995)**	**(810)**
Net liquidity position	**(426,181)**	**86,515**	**64,914**	**190,065**	**385,270**	**300,583**	

All amounts are in ISK million

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

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

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

All amounts are in ISK million

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

The amounts in the maturity analyses as at 30 September 2010 and 31 December 2009 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). Exceptions to this are loans and advances to customers and bonds issued by companies in moratorium or in the process of liquidation. For loans and advances to larger customers the Group estimates both the timing and amounts of cash flows by taking into consideration the expected financial restructuring of the customer. For loans and advances to smaller customers the Group estimates the timing of the cash flows based on the contractual terms but the amounts are based on the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at balance sheet date.

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

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

46. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 30 September 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	20,052	121,972	40,264	183,178	155,147	520,612	378,838
ISK	60,357	52,736	46,303	180,988	433,526	773,910	527,190
Total	**80,409**	**174,708**	**86,567**	**364,167**	**588,672**	**1,294,522**	**906,028**
Derivative financial assets							
Total in foreign currencies	-	371	2	-	-	373	233
ISK	-	(70)	(2)	-	-	(72)	64
Total	**0**	**301**	**(0)**	**0**	**0**	**301**	**297**
Non-derivative financial liabilities							
Total in foreign currencies	(56,084)	(19,233)	(6,985)	(122,083)	(184,275)	(388,661)	(336,615)
ISK	(365,837)	(67,910)	(12,523)	(48,944)	(18,935)	(514,149)	(501,621)
Total	**(421,921)**	**(87,143)**	**(19,508)**	**(171,028)**	**(203,210)**	**(902,810)**	**(838,236)**
Off-balance sheet items							
Total in foreign currencies	(12,285)	(618)	(1,045)	(1,649)	-	(15,597)	
ISK	(72,384)	(466)	(984)	(1,004)	-	(74,838)	
Total	**(84,669)**	**(1,084)**	**(2,029)**	**(2,653)**	**0**	**(90,435)**	
Derivative financial liabilities							
Total in foreign currencies	-	(216)	84	356	181	406	(806)
ISK	-	(50)	(199)	(778)	(374)	(1,401)	(4)
Total	**0**	**(266)**	**(115)**	**(421)**	**(193)**	**(995)**	**(810)**
Net liquidity position in foreign currencies	**(48,317)**	**102,276**	**32,319**	**59,803**	**(28,947)**	**117,133**	
Net liquidity position in ISK	**(377,864)**	**(15,761)**	**32,595**	**130,263**	**414,217**	**183,450**	
Net liquidity position	**(426,181)**	**86,515**	**64,914**	**190,065**	**385,270**	**300,583**	

All amounts are in ISK million

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

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

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

The amounts in the maturity analysis as at 30 September 2010 and 31 December 2009 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). Exceptions to this are loans and advances to customers and bonds issued by companies in moratorium or in the process of liquidation as disclosed in Note 45.

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

All amounts are in ISK million

Market risk

47. Market risk management

In February 2010 the Board of Directors changed the ceiling for market risk from being 15% based on total risk-weighted asset base to being 15% based on the Group´s equity according to the most recently published consolidated financial statements. Accordingly, exposure to equity price risk may not exceed 15%; exposure to currency risk may not exceed 10%, neither for long nor short positions; and the maximum exposure to interest rate risk may not exceed 5%. The Group's exposure to market risk as at 30 September 2010 was 7.2% of equity (31 December 2009: 22.1% of its total risk-weighted asset base), with the exposure to equity price risk measuring 1.8% of equity (31 December 2009: 3.4% of its total risk-weighted asset base), the exposure to interest rate risk measuring 1.4% of equity (31 December 2009: 5.1% of its total risk-weighted asset base) and the exposure to foreign exchange risk measuring 4.0% of equity (31 December 2009: 13.7% of its total risk-weighted asset base).

48. Interest rate risk

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

At 30 September 2010	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	45,433	-	-	-	45,433
Bonds and debt instruments	151,516	2,909	1,136	8,714	164,274
Derivative instruments	296	1	-	-	297
Loans and advances to financial institutions	87,463	-	-	9	87,472
Loans and advances to customers	477,665	42,299	43,539	37,311	600,813
Other financial assets	4,594	-	3,441	-	8,035
Total	**766,967**	**45,209**	**48,116**	**46,034**	**906,325**
Financial liabilities					
Due to financial institutions and Central Bank	(151,276)	-	-	-	(151,276)
Deposits from customers	(382,125)	-	-	-	(382,125)
Derivative instruments and short positions	(5,320)	(251)	(812)	(541)	(6,924)
Secured bonds	(276,596)	-	-	-	(276,596)
Contingent bond	(20,679)	-	-	-	(20,679)
Other financial liabilities	(1,445)	-	-	-	(1,445)
Total	**(837,442)**	**(251)**	**(812)**	**(541)**	**(839,046)**
Net on-balance sheet position	(70,475)	44,957	47,304	45,493	67,280
Net off-balance sheet position	-	(494)	761	(266)	
Total interest repricing gap	**(70,475)**	**44,463**	**48,065**	**45,227**	

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

All amounts are in ISK million

49. CPI indexation risk (all portfolios)

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

At 30 September 2010 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 94,713 million (31 December 2009: 71,812 million).

Carrying amount	30.9.2010	31.12.2009
Assets		
Bonds and debt instruments	5,392	5,438
Loans and advances to customers	173,484	154,823
Total	**178,876**	**160,261**
Liabilities		
Due to financial institutions and Central Bank	(426)	(441)
Deposits from customers	(81,492)	(84,725)
Short positions	(1,063)	(1,917)
Total	**(82,981)**	**(87,083)**
Total on-balance sheet position	95,895	73,178
Total off-balance sheet position	(1,182)	(1,366)
Total CPI indexation balance	**94,713**	**71,812**

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 10% inflation applied to the inflation risk exposures in existence at 30 September 2010, with no change in other variables, would have increased net interest income by ISK 9,590 million (31.12.2009: 7,318 million). Group equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings (accumulated deficit).

50. Currency risk (all portfolios)

The Group follows the Rules No. 707/2009 on Foreign Exchange Balances, as set by the Central Bank of Iceland. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within certain limits in each currency. The Group submits daily reports to the Central Bank with information on its foreign exchange balance. The Central Bank has granted the Group a temporary dispensation from these rules until the end of January 2011, raising the required limits.

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

All amounts are in ISK million

51. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 30 September 2010 and 31 December 2009. The off-balance sheet amounts shown are the notional amounts of the Group´s derivative instruments, except for FX options which are delta amounts (see Note 9). The amounts presented as FX-delta adjustment to currency imbalance represent the amounts of foreign currency loans granted to customers with limited or no foreign currency income. Such loans are deducted from the net currency position, as changes in foreign exchange rates in regard to the ISK do not affect the carrying amounts of these loans and therefore do not affect Group results.

At 30 September 2010	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	601	131	254	8	24	497	1,514
Bonds and debt instruments	2,624	146	5,680	-	-	-	8,451
Equities and equity instruments	2,310	-	70	-	-	7,825	10,206
Derivative instruments	230	2	1	-	-	-	233
Loans and advances to financial institutions	26,108	10,427	25,042	5,677	6,408	5,799	79,461
Loans and advances to customers	72,093	9,698	60,691	62,694	64,059	19,868	289,103
Other assets	708	84	72	2	0	203	1,069
Assets classified as held for sale	10,156	6,710	1,205	2,177	13	343	20,604
Total	**114,830**	**27,198**	**93,015**	**70,557**	**70,504**	**34,536**	**410,640**
Liabilities							
Due to financial institutions and Central Bank	(6,041)	(9,086)	(1,916)	(317)	(69)	(2,405)	(19,835)
Deposits from customers	(15,665)	(3,915)	(15,810)	(729)	(430)	(3,433)	(39,982)
Derivative instruments and short positions	(142)	(1)	(664)	-	-	-	(806)
Secured bonds	(139,951)	(51,025)	(85,621)	-	-	-	(276,596)
Other liabilities	-	(9)	(137)	-	(1)	(118)	(265)
Total	**(161,799)**	**(64,036)**	**(104,147)**	**(1,047)**	**(500)**	**(5,956)**	**(337,484)**
Net on-balance sheet position	(46,969)	(36,838)	(11,132)	69,510	70,004	28,580	**73,156**
Net off-balance sheet position	17,778	446	13,446	(13,124)	(17,614)	(153)	**779**
Net currency position	**(29,191)**	**(36,392)**	**2,314**	**56,387**	**52,391**	**28,426**	**73,935**
FX-delta on Loans and advances to customers and assets classified as held for sale	86%	93%	92%	57%	60%	89%	
FX-delta adjustments to currency imbalance	(11,515)	(1,149)	(4,952)	(27,894)	(25,629)	(2,233)	**(73,371)**
Net effective currency position	**(40,706)**	**(37,541)**	**(2,637)**	**28,492**	**26,762**	**26,193**	**563**

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

All amounts are in ISK million

52. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 30 September 2010	At 31 December 2009	% Change	Average for 1.1-30.9 2010	Average for 1.1-31.12 2009
EUR/ISK	154.40	179.70	(14.1%)	165.33	171.80
GBP/ISK	178.29	201.15	(11.4%)	192.10	192.28
USD/ISK	113.42	124.60	(9.0%)	124.62	122.96
JPY/ISK	1.36	1.35	0.6%	1.40	1.32
CHF/ISK	115.67	121.01	(4.4%)	118.08	114.08
CAD/ISK	110.40	118.78	(7.1%)	119.63	108.12
DKK/ISK	20.72	24.15	(14.2%)	22.21	23.07
NOK/ISK	19.25	21.64	(11.0%)	20.59	19.62
SEK/ISK	16.77	17.49	(4.1%)	17.08	16.22

All amounts are in ISK million