Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2012

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

The Condensed Consolidated Interim Financial Statements for the first three months of 2012 consist of the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the Bank), and its subsidiaries, together referred to as “the Group”.

According to the condensed consolidated income statement, the Group's after tax-profit for the first three months of the year 2012 amounted to ISK 7,729 million. The Group's equity at the end of this period amounted to ISK 207,874 million. The capital adequacy ratio of the Group was 22.1%. As of 31 March 2012, the Group’s total assets amounted to ISK 1,174,262 million.

The Board of Directors draws attention to a ruling passed by the Supreme Court of Iceland on 22 March 2012 in relation to the Bank’s claim against the Winding-up Board of Landsbanki Íslands hf. for ISK 7,100 million, which did affect the Bank’s results in the quarter. As a result of the ruling, the Bank recognised a gain of ISK 3,400 million in the condensed consolidated income statement for the first quarter of 2012, thereby increasing the carrying amount of the claim by the same amount.

Outlook

The current operating environment of the Bank is characterised by uncertainty with regards to both the Bank’s legal and political environment. Several changes were made last year to the legal framework under which the Bank operates. A number of other legislative changes that could have considerable negative impact on the Bank’s equity have been introduced or are under discussion by the Parliament´s standing committees, most notably the proposed changes to the fishing management system.

The Bank´s subsidiary, Reginn hf., which manages the Group’s long-term holdings in real estate, is scheduled for listing on the NASDAQ OMX Iceland later in 2012. The assets of Horn fjárfestingarfélag hf. will be offered for sale in the year 2012. These assets are holdings in listed and unlisted equities.

Following the takeover of all assets, liabilities and operations of SpKef Savings Bank in March 2011, the National Treasury made a commitment to issue a bond payable to the Bank in order to compensate for the negative difference between the fair value of the assets taken over and liabilities assumed by the Bank. However, a dispute arose between the Bank and the National Treasury on the fair value of the financial assets of SpKef which has now been referred to an arbitration committee. A ruling is expected within few weeks. The Bank's current valuation of the negative difference amounts to ISK 30,596 million and is presented among "Other assets" in the condensed consolidated statement of financial position. The Bank has not yet recorded any interest on the claimed amount.

Other issues

According to legislation passed in 2009, the salary of the CEO of Landsbankinn is determined by the Compensation Council ("Kjararáð"). The Council determines remuneration and terms of employment of high level government employees and CEOs of companies in which the government holds a majority of shares. It is of great concern to the Board that the salary of the CEO of Landsbankinn, as determined by Kjararáð, is not at a competitive level in the marketplace, and it is of the opinion that assigning decision-making powers to Kjararáð interferes with the Board’s commercial management responsibilities. The Board of Directors has already expressed its concerns to Parliament which is currently discussing amendments to the Act on Kjararáð.

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

According to the Directors' best knowledge, these Condensed Consolidated Interim Financial Statements 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 Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU.

The Bank's management has assessed the Group's ability to continue as a going concern and has reasonable expectation to believe that the Group has adequate resources to continue its operations. Accordingly, these Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the three months ended 31 March 2012.

Reykjavík, 10 May 2012.

Board of Directors

Gunnar Helgi Hálfdánarson

Chairman

Sigríður Hrólfsdóttir

Andri Geir Arinbjarnarson

Þórdís Ingadóttir

Ólafur Helgi Ólafsson

Chief Executive Officer

Steinþór Pálsson

Independent Auditor's Review Report

To the board of Directors and Shareholders of Landsbankinn hf.

We have reviewed the accompanying condensed consolidated statement of financial position of Landsbankinn hf. as at 31 March 2012 and the related condensed consolidated income statements, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 10 May 2012.

KPMG ehf.

Helgi F. Arnarson

Sigríður Helga Sveinsdóttir

Condensed Consolidated Statement of Financial Position as at 31 March 2012

Notes		31.3.2012	31.12.2011
	Assets		
	Cash and balances with Central Bank	25,494	8,823
6,19	Bonds and debt instruments	202,195	221,848
6	Equities and equity instruments	42,803	46,037
6, 7	Derivative instruments	611	159
8	Loans and advances to financial institutions	130,946	100,133
9, 19	Loans and advances to customers	653,949	639,130
	Investments in equity-accounted associates	11,678	11,678
	Property and equipment	6,345	6,437
	Intangible assets	663	681
	Deferred tax assets	1,533	3,003
	Other assets	45,941	44,001
		1,122,158	**1,081,930**
10	Assets classified as held for sale	52,104	53,552
	Total assets	**1,174,262**	**1,135,482**
	Liabilities		
	Due to financial institutions and Central Bank	115,300	112,876
	Deposits from customers	455,402	443,590
7	Derivative instruments and short positions	7,261	7,916
	Tax liabilities	444	70
11, 19	Secured bonds	289,908	277,076
6,19	Contingent bond	66,773	60,826
	Other liabilities	21,461	23,499
		956,549	**925,853**
	Liabilities associated with assets classified as held for sale	9,839	9,385
	Total liabilities	**966,388**	**935,238**
	Equity		
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Statutory reserve	3,781	3,781
	Retained earnings	55,663	47,952
	Total equity attributable to owners of the Bank	**207,342**	**199,631**
	Non-controlling interests	532	613
	Total equity	**207,874**	**200,244**
	Total liabilities and equity	**1,174,262**	**1,135,482**

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

All amounts are in ISK million

Condensed Consolidated Income Statement for the three months ended 31 March 2012

Notes		2012 1.1-31.3	2011 1.1-31.3*
	Interest income	16,769	13,183
	Interest expense	(8,216)	(6,038)
12	**Net interest income**	**8,553**	**7,145**
13	Net adjustments to loans and advances acquired at deep discount	7,562	3,992
13, 31	Net impairment loss	(1,288)	(2,409)
6	Fair value change of contingent bond	(5,947)	(3,354)
	Net adjustments in valuation	**327**	**(1,771)**
	Net interest income after net adjustments in valuation	**8,880**	**5,374**
	Fee and commission income	1,840	1,643
	Fee and commission expense	(838)	(613)
	Net fee and commission income	**1,002**	**1,030**
14	Net gain on financial assets designated as at fair value through profit or loss	2,377	9,138
15	Net gain on financial assets and liabilities held for trading	1,115	471
16	Net foreign exchange gain (loss)	2,116	(2,579)
	Other income and (expenses)	222	(138)
	Other net operating income	**5,830**	**6,892**
	Total operating income	**15,712**	**13,296**
	Salaries and related expenses	3,232	2,310
	Other operating expenses	2,185	1,951
	Depreciation and amortisation	180	177
	Contribution to the Depositors' and Investors' Guarantee Fund	350	250
	Total operating expenses	**5,947**	**4,688**
	Share of profit of equity-accounted associates, net of income tax	-	(10)
	Profit before tax	**9,765**	**8,598**
17	Income tax	(1,877)	(132)
	Tax on liabilities of financial institutions	(331)	(100)
	Profit for the period from continuing operations	**7,557**	**8,366**
	Profit for the period from discontinued operations, net of income tax	172	4,325
	Profit for the period	**7,729**	**12,691**
	Profit for the period attributable to:		
	Owners of the Bank		
	Profit for the period from continuing operations	7,557	8,366
	Profit for the period from discontinued operations	154	4,324
	Profit for the period attributable to owners of the Bank	**7,711**	**12,690**
	Non-controlling interests		
	(Loss) profit for the period from discontinued operations	18	1
	(Loss) profit for the period attributable to non-controlling interests	**18**	**1**
	Profit for the period	**7,729**	**12,691**

* Certain comparative amounts have been changed in conformity with current year presentation (see Note 2 in the Consolidated Financial Statements of the Bank for the year 2011).

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

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2012

Notes

	Attributable to owners of the Bank						
Change in equity for the three months ended 31 March 2012	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance at 1 January 2012	24,000	123,898	3,781	47,952	199,631	613	200,244
Profit for the period				7,711	7,711	18	7,729
Decrease in non-controlling interests due to sale of subsidiaries					0	(99)	(99)
Balance at 31 March 2012	**24,000**	**123,898**	**3,781**	**55,663**	**207,342**	**532**	**207,874**
Change in equity for the three months ended 31 March 2011							
Balance at 1 January 2011	24,000	123,898	2,932	31,828	182,658	2,208	184,866
Profit for the period				12,690	12,690	1	12,691
Decrease in non-controlling interests due to sale of subsidiaries					0	(1,709)	(1,709)
Balance at 31 March 2011	**24,000**	**123,898**	**2,932**	**44,518**	**195,348**	**500**	**195,848**

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

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2012

Notes		2012 1.1-31.3	2011 1.1-31.3
	Profit for the period	7,729	12,691
	Net cash (used in) from operating activities	10,054	(13,400)
	Net cash used in investing activities	(68)	(47)
	Net cash from financing activities	(1,615)	-
	Net change in cash and cash equivalents	8,371	(13,447)
	Cash and cash equivalents at the beginning of the period	13,625	48,409
	Effect of exchange rate changes on cash and cash equivalents held	(358)	(147)
	Cash and cash equivalents at 31 March	**21,638**	**34,815**

Cash and cash equivalents is specified as follow:

Cash and unrestricted balances with Central Bank	17,543	28,170
Bank accounts with financial institutions	4,095	6,645
Cash and cash equivalents at the end of the period	**21,638**	**34,815**

Investing and financing activities not affecting cash flows

Sale of financial investments	1,371	-
Loans and advances to financial institutions	(1,371)	-

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

Landsbankinn hf. (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 in Iceland (FME). The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík. The condensed consolidated interim financial statements of the Bank for the three months ended 31 March 2012 include the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and retail banking, investment banking, asset management and leasing services. The Group operates solely in Iceland.

The issue of these condensed consolidated interim financial statements was authorised by the Board of Directors of the Bank on 10 May 2012.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2012 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union.

The 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 2011, which are available on the Bank's website www.landsbankinn.is.

Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and it has a reasonable expectation that the Group has adequate resources to continue its operations. Accordingly, these condensed consolidated interim financial statements have been prepared on a going concern basis.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

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

In preparing the 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 2011.

3. Significant accounting policies

The condensed consolidated interim financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies applied by the Group in the 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 2011. The accounting policies applied have been applied consistently to all periods presented.

4. Business combination

Acquisition of SpKef Savings Bank

On 7 March 2011, the Bank took over all assets, liabilities and operations of SpKef Savings Bank in accordance with the decision of the Financial Supervisory Authority in Iceland (FME). SpKef Savings Bank was owned entirely and directly by the National Treasury previous to the transfer. The National Treasury has made a commitment to issue a bond payable to the Bank in order to compensate for the negative difference between the fair value of the assets taken over and liabilities assumed by the Bank. The Bank's current valuation of the negative difference amounts to ISK 30,596 million and is presented among "Other assets" in the condensed consolidated statement of financial position. The Bank and the National Treasury did not reach an agreement on the fair value of financial assets of SpKef and as a result the disagreement was referred to an arbitration committee. The ruling of the arbitration committee has not yet been released.

5. Operating segments

The business segments are disclosed in accordance with the internal reporting to the CEO and the Board of Directors, who are responsible for allocating resources to the reportable segments and assessing their financial performance.

The Group has seven main business segments:

- **Retail Banking** provides financial services through the Bank's branch network to individuals and to small and medium-size businesses.
- **Vehicle and Equipment Financing** provides leasing services to individuals and businesses.
- **Corporate Banking** provides financial services to large and medium-size corporate clients.
- **Asset Restructuring** provides restructuring solutions to corporate clients who have defaulted on their loans and can be returned to viability.
- **Markets & Treasury,** Markets provide brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. However, Treasury incorporates unallocated capital, funding, liquidity and interbank functions for the Bank as well as management of the Group's market risk.
- **Asset Management** provides a range of wealth and asset management products and services for individuals, corporations and institutional investors.
- **Horn fjárfestingarfélag,** a subsidiary of the Bank, is an investment company which holds shares in various industry sectors.

Other segments comprise of several Group's support functions such as Finance, Risk Management and Corporate Development.

Reconciliation consists of eliminations and transactions that cannot be allocated to any one segment.

Administrative expenses of Group support functions are allocated to appropriated business segments based on the underlying cost drivers.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segments profit before tax. In these reports all income statement items are reported on a net basis, including the total interest income and expense. Inter-segment pricing is determined on an arm’s length basis.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the periods from 1 January to 31 March 2012 and 2011.

5. Operating segments (continued)

1 January - 31 March 2012	Retail Banking	Vehicle and Equipment Financing	Corporate Banking	Asset Restructur-ing	Markets & Treasury	Asset Management	Horn fjárfestingar félag hf.	All Other Segments	Total Segments	Recon-ciliation	Total
Net interest income (expense)	3,813	194	3,374	1,255	585	6	(269)	(78)	**8,880**	(327)	**8,553**
Net adjustments in valuation	(1,610)	(20)	(1,541)	10	6	-	-	2	**(3,153)**	3,480	**327**
Net fee and commission income	447	60	81	16	193	279	-	(69)	**1,007**	(5)	**1,002**
Net gain on financial assets designated as at fair value through profit or loss	-	-	-	-	1,359	-	1,018	-	**2,377**	-	**2,377**
Net gain on financial assets and liabilities held for trading	-	-	-	-	1,006	2	107	-	**1,115**	-	**1,115**
Net foreign exchange gain (loss)	-	-	-	-	1,361	21	734	-	**2,116**	-	**2,116**
Other income and (expenses)	(142)	(37)	(21)	158	17	-	53	86	**114**	108	**222**
Total operating income (expense)	**2,508**	**197**	**1,893**	**1,439**	**4,527**	**308**	**1,643**	**(59)**	**12,456**	**3,256**	**15,712**
Total operating expenses	(3,080)	(292)	(697)	(642)	(801)	(360)	(52)	(29)	**(5,953)**	6	**(5,947)**
Share of profit of equity-accounted associates, net of income tax	-	-	-	-	-	-	-	-	**0**	-	**0**
Profit (loss) before tax	**(572)**	**(95)**	**1,196**	**797**	**3,726**	**(52)**	**1,591**	**(88)**	**6,503**	**3,262**	**9,765**
Net revenue (expenses) from external customers	1,055	428	5,818	2,282	321	244	2,288	20	**12,456**		
Net revenue (expenses) from other segments	1,453	(231)	(3,925)	(843)	4,206	64	(645)	(79)	**0**		
Total operating income (expense)	**2,508**	**197**	**1,893**	**1,439**	**4,527**	**308**	**1,643**	**(59)**	**12,456**		
Total assets at 31 March 2012	**493,835**	**23,981**	**382,394**	**115,653**	**595,130**	**4,320**	**32,027**	**7,417**	**1,654,757**	**(480,495)**	**1,174,262**
Total liabilities at 31 March 2012	**462,824**	**20,374**	**326,399**	**89,929**	**509,954**	**4,020**	**25,966**	**7,417**	**1,446,883**	**(480,495)**	**966,388**
Allocated capital at 31 March 2012	**31,011**	**3,607**	**55,995**	**25,724**	**85,176**	**300**	**6,061**	**0**	**207,874**	**0**	**207,874**

All amounts are in ISK million

5. Operating segments (continued)

1 January - 31 March 2011	Retail Banking	Vehicle and Equipment Financing	Corporate Banking	Asset Restructur-ing	Markets & Treasury	Asset Management	Horn fjárfestingar félag hf.	All Other Segments	Total Segments	Recon-ciliation	Total
Net interest income (expense)	2,106	537	2,043	1,173	2,063	(1)	(332)	(104)	**7,485**	(340)	**7,145**
Net adjustments in valuation	(11,496)	(74)	1,415	5,170	(116)	-	-	12	**(5,089)**	3,318	**(1,771)**
Net fee and commission income	460	30	82	12	237	236	(10)	(17)	**1,030**	-	**1,030**
Net gain on financial assets designated as at fair value through profit or loss	-	-	2	-	481	-	8,655	-	**9,138**	-	**9,138**
Net gain on financial assets and liabilities held for trading	-	-	-	-	467	-	4	-	**471**	-	**471**
Net foreign exchange gain (loss)	-	(89)	-	(2)	(3,149)	8	657	-	**(2,575)**	(4)	**(2,579)**
Other income and (expenses)	(46)	(1)	(189)	4	11	-	-	79	**(142)**	4	**(138)**
Total operating income (expense)	**(8,976)**	**403**	**3,353**	**6,357**	**(6)**	**243**	**8,974**	**(30)**	**10,318**	**2,978**	**13,296**
Total operating expenses	(2,391)	(305)	(493)	(426)	(669)	(307)	(30)	(67)	**(4,688)**	-	**(4,688)**
Share of profit of equity-accounted associates, net of income tax	153	-	-	-	(163)	-	-	-	**(10)**	-	**(10)**
Profit (loss) before tax	**(11,214)**	**98**	**2,860**	**5,931**	**(838)**	**(64)**	**8,944**	**(97)**	**5,620**	**2,978**	**8,598**
Net revenue (expenses) from external customers	(10,296)	928	5,540	7,810	(3,307)	241	9,306	89	**10,311**		
Net revenue (expenses) from other segments	1,320	(525)	(2,187)	(1,453)	3,301	2	(332)	(119)	**7**		
Total operating income (expense)	**(8,976)**	**403**	**3,353**	**6,357**	**(6)**	**243**	**8,974**	**(30)**	**10,318**		
Total assets at 31 December 2011	**486,403**	**24,579**	**365,490**	**123,225**	**558,934**	**3,638**	**29,770**	**7,134**	**1,599,173**	**(463,691)**	**1,135,482**
Total liabilities at 31 December 2011	**457,545**	**18,246**	**304,513**	**102,452**	**483,429**	**3,156**	**22,454**	**7,134**	**1,398,929**	**(463,691)**	**935,238**
Allocated capital at 31 December 2011	**28,858**	**6,333**	**60,977**	**20,773**	**75,505**	**482**	**7,316**	**0**	**200,244**	**0**	**200,244**

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

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 March 2012:

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	25,494	-	-	-	-	25,494	25,494
Bonds and debt instruments	112,983	72,983	16,229	-	-	202,195	202,195
Equities and equity instruments	-	1,632	41,171	-	-	42,803	42,803
Derivative instruments	-	611	-	-	-	611	611
Loans and advances to financial institutions	130,946	-	-	-	-	130,946	130,946
Loans and advances to customers	653,949	-	-	-	-	653,949	683,005
Other financial assets	11,406	-	-	-	-	11,406	11,406
Total	**934,778**	**75,226**	**57,400**	**0**	**0**	**1,067,404**	**1,096,460**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	115,300	-	115,300	115,273
Deposits from customers	-	-	-	455,402	-	455,402	455,096
Derivative instruments and short positions	-	7,261	-	-	-	7,261	7,261
Secured bonds	-	-	-	289,908	-	289,908	289,908
Contingent bond	-	-	-	-	66,773	66,773	66,773
Other financial liabilities	-	-	-	17,058	-	17,058	17,058
Total	**0**	**7,261**	**0**	**877,668**	**66,773**	**951,702**	**951,369**

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 2011:

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	8,823	-	-	-	-	8,823	8,823
Bonds and debt instruments	112,547	93,063	16,238	-	-	221,848	221,848
Equities and equity instruments	-	1,224	44,813	-	-	46,037	46,037
Derivative instruments	-	159	-	-	-	159	159
Loans and advances to financial institutions	100,133	-	-	-	-	100,133	100,133
Loans and advances to customers	639,130	-	-	-	-	639,130	669,227
Other financial assets	4,321	-	-	-	-	4,321	4,321
Total	**864,954**	**94,446**	**61,051**	**0**	**0**	**1,020,451**	**1,050,548**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	112,876	-	112,876	112,876
Deposits from customers	-	-	-	443,590	-	443,590	443,582
Derivative instruments and short positions	-	7,916	-	-	-	7,916	7,916
Secured bonds	-	-	-	277,076	-	277,076	277,076
Contingent bond	-	-	-	-	60,826	60,826	60,826
Other financial liabilities	-	-	-	6,623	-	6,623	6,623
Total	**0**	**7,916**	**0**	**840,165**	**60,826**	**908,907**	**908,899**

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 2011.

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.

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 consolidated statement of financial position, are categorised as at 31 March 2012:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	52,229	25,300	11,683	89,212
Equities and equity instruments	11,628	4,178	26,997	42,803
Derivative instruments	-	611	-	611
Total	**63,857**	**30,089**	**38,680**	**132,626**

Financial liabilities				
Derivative instruments	-	729	-	729
Short positions	6,532	-	-	6,532
Contingent bond	-	-	66,773	66,773
Total	**6,532**	**729**	**66,773**	**74,034**

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 consolidated statement of financial position, are categorised as at 31 December 2011:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	69,543	28,155	11,603	109,301
Equities and equity instruments	14,290	3,488	28,259	46,037
Derivative instruments	-	159	-	159
Total	**83,833**	**31,802**	**39,862**	**155,497**

Financial liabilities				
Derivative instruments	-	1,729	-	1,729
Short positions	6,187	-	-	6,187
Contingent bond	-	-	60,826	60,826
Total	**6,187**	**1,729**	**60,826**	**68,742**

During the period from 1 January to 31 March 2012 there were no transfers between Level 1, Level 2 or Level 3.

All amounts are in ISK million

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

The following tables show the reconciliation for fair value measurement in Level 3 for the three months ended 31 March 2012 and for the year 2011:

1 January - 31 March 2012	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
Carrying amount at 1 January 2012	11,603	28,259	39,862	(60,826)
Total (losses) gains recognised in income statement	647	1,333	1,980	(5,947)
Purchases	-	75	75	-
Sales	-	(2,670)	(2,670)	-
Settlements	(567)	-	(567)	-
Carrying amount at 31 March 2012	**11,683**	**26,997**	**38,680**	**(66,773)**
1 January - 31 December 2011				
Carrying amount at 1 January 2011	14,042	10,477	24,519	(26,510)
Total (losses) gains recognised in income statement	(64)	13,097	13,033	(34,316)
Purchases	3,391	4,585	7,976	-
Sales	(2,754)	(7,418)	(10,172)	-
Acquisitions through business combination	48	192	240	-
Settlements	(2,999)	2,936	(63)	-
Reclassification from assets held for sale	-	4,390	4,390	-
Transfers out of Level 3	(61)	-	(61)	-
Carrying amount at 31 December 2011	**11,603**	**28,259**	**39,862**	**(60,826)**

The following tables show the line items in the consolidated income statement where the total gains (losses) were recognised during the three months ended 31 March 2012 and during the year 2011, for fair value measurements in Level 3:

1 January - 31 March 2012	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Fair value change of contingent bond	-	-	(5,947)	(5,947)
Net gain on financial assets designated as at fair value through profit or loss	107	803	-	910
Net foreign exchange gain (loss)	540	530	-	1,070
Total	**647**	**1,333**	**(5,947)**	**(3,967)**
1 January - 31 December 2011				
Fair value change of contingent bond	-	-	(34,316)	(34,316)
Net gain on financial assets designated as at fair value through profit or loss	(333)	13,084	-	12,751
Net foreign exchange gain (loss)	269	13	-	282
Total	**(64)**	**13,097**	**(34,316)**	**(21,283)**

All amounts are in ISK million

7. Derivative instruments and short positions

	31.3.2012			31.12.2011		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	62,205	598	188	70,297	143	1,262
Cross-currency interest rate swaps	1,790	-	462	1,715	-	450
	63,995	**598**	**650**	**72,012**	**143**	**1,712**
Interest rate derivatives						
Total return swaps	2,896	13	70	5,834	16	17
	2,896	**13**	**70**	**5,834**	**16**	**17**
Equity derivatives						
Total return swaps	263	-	9	-	-	-
	263	**0**	**9**	**0**	**0**	**0**
Short positions - listed bonds	-	-	6,532	-	-	**6,187**
Total	**67,154**	**611**	**7,261**	**77,846**	**159**	**7,916**

The Group uses derivatives both for hedging and trading purposes.

8. Loans and advances to financial institutions

	31.3.2012	31.12.2011
Bank accounts with financial institutions	4,095	7,221
Money market loans	114,437	79,407
Overdrafts	2,695	3,857
Other loans	9,719	9,648
Total	**130,946**	**100,133**

9. Loans and advances to customers

	31.3.2012	31.12.2011
Public entities	13,373	12,143
Individuals	183,967	186,033
Corporations	489,821	469,374
Less: Allowance for impairment	(33,212)	(28,420)
Total	**653,949**	**639,130**

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

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

All amounts are in ISK million

10. Assets and liabilities classified as held for sale

Assets classified as held for sale	31.3.2012	31.12.2011
Repossessed collateral	51,891	51,711
Assets of disposal groups classified as held for sale	213	1,841
Total	**52,104**	**53,552**

Repossessed collateral

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. The repossessed collateral is recognised as assets of either the Bank or its subsidiaries Reginn hf. and Hömlur hf. The subsidiary Reginn hf. is in the process of listing its common shares on the OMX Nordic Exchange in Iceland. The preparation of the listing started in the year 2011 and the listing is expected to be completed during the year 2012.

Repossessed collateral	31.3.2012	31.12.2011
Carrying amount at the beginning of the year	51,711	43,831
Acquisitions through business combination	-	2,304
Repossessed during the period	3,216	22,668
Disposed during the period	(2,570)	(11,730)
Reclassification to equities and equity instruments	-	(4,390)
Impairment	(466)	(972)
Carrying amount at the end of the period	**51,891**	**51,711**

Assets of disposal groups classified as held for sale

Assets of disposal groups classified as held for sale consist of all the assets and liabilities of subsidiaries acquired by the Bank exclusively with a view to resale (i.e. Vörður líftrygging ehf.). During the period the Bank lost control of the subsidiary Vörður líftrygging ehf. due to a sale of 11% shareholding in the company. The remaining shareholding is expected to be sold during the year 2012.

The profit (loss) for the period from discontinued operations which is presented in the consolidated income statement consists only of the results of those subsidiaries acquired by the Bank exclusively with a view to resale as they meet the definition of discontinued operations in IFRS 5.

11. Secured bonds

	Nominal amount					Carrying amount	
	Foreign currency		ISK		Contractual	ISK	
Secured bonds	31.3.2012	31.12.2011	31.3.2012	31.12.2011	interest rate (%)	31.3.2012	31.12.2011
EUR	866 million	871 million	146,089	138,281	EURIBOR + 1.75/2.90	144,199	136,818
GBP	273 million	275 million	55,306	52,330	LIBOR + 1.75/2.90	54,578	51,702
USD	730 million	734 million	92,385	89,741	LIBOR + 1.75/2.90	91,131	88,556
Total			**293,780**	**280,352**		**289,908**	**277,076**

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 31 March 2012 and 31 December 2011 assumes the effective interest of EURIBOR/LIBOR+2,90% to maturity. The bonds are secured by pools of loans to customers (see Note 19).

The bonds mature in October 2018 with quarterly installments starting in 2014. 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.

During the period the Bank made a mandatory early redemption amount of ISK 1,615 million, due to a clause on Asset Disposition. The Bank shall redeem such part of the principal amount of the bonds as is equal to 50% of excess disposal amounts in regards to asset dispositions, subject to a maximum redemption amount.

All amounts are in ISK million

Notes to the Condensed Consolidated Income Statement

12. Net interest income

Interest income	2012 1.1-31.3	2011 1.1-31.3
Cash and balances with Central Bank	138	456
Bonds and debt instruments classified as loans and receivables	1,078	874
Loans and advances to financial institutions	179	167
Loans and advances to customers	15,360	11,659
Other interest income	14	27
Total	**16,769**	**13,183**

Interest expense		
Due to financial institutions and Central Bank	(438)	(550)
Deposits from customers	(4,439)	(2,832)
Secured bonds	(3,295)	(2,605)
Other interest expense	(44)	(51)
Total	**(8,216)**	**(6,038)**

Net interest income	**8,553**	**7,145**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period).	**3.0%**	**2.6%**
Adjusted interest spread (as the annualised ratio of net interest income after net adjustments in valuation to the average carrying amount of total assets during the period).	**3.1%**	**2.0%**

All the interest income and interest expense disclosed above is from financial assets and financial liabilities that are not carried at fair value through profit or loss.

13. Net valuation change

	2012 1.1-31.3	2011 1.1-31.3
Net adjustments to loans and advances acquired at deep discount	7,562	3,992
Net impairment loss	(1,288)	(2,409)
Total	**6,274**	**1,583**
Individuals	(1,256)	(10,545)
Corporations	7,530	12,128
Total	**6,274**	**1,583**

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

	2012 1.1-31.3	2011 1.1-31.3
Bonds and debt instruments	42	(27)
Equities and equity instruments	2,335	9,165
Total	**2,377**	**9,138**

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

	2012 1.1-31.3	2011 1.1-31.3
Bonds and debt instruments	1,061	614
Equities and equity instruments	206	95
Derivative instruments	(152)	(238)
Total	**1,115**	**471**

All amounts are in ISK million

16. Net foreign exchange gain (loss)

Assets	2012 1.1-31.3	2011 1.1-31.3
Cash and balances with Central Bank	59	26
Bonds and debt instruments	3,671	606
Equities and equity instruments	1,080	599
Derivative instruments	1,623	860
Loans and advances to financial institutions	6,095	1,695
Loans and advances to customers	8,346	2,819
Other assets	56	6
Total	**20,930**	**6,611**
Liabilities		
Due to financial institutions and Central Bank	(1,102)	(151)
Deposits from customers	(3,433)	(1,505)
Secured bonds	(14,278)	(7,536)
Other liabilities	(1)	2
Total	**(18,814)**	**(9,190)**
Net foreign exchange gain (loss)	**2,116**	**(2,579)**

The foreign exchange differences which were recognised during the period 1 January to 31 March 2012 in the condensed consolidated income statement and arose on financial instruments not measured at fair value through profit or loss, amounted to a ISK 14,556 million gain for financial assets (1.1-31.3.2011: gain of ISK 4,546 million) and loss of ISK 18,813 million for financial liabilities (1.1-31.3.2011: loss of ISK 9,193 million).

17. Income tax

Income tax is recognised based on the tax rates and tax laws enacted by the end of the year, according to which the domestic corporate income tax rate was 20.0% (2011: 20.0%).

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

	2012 1.1-31.3	2011 1.1-31.3
Current tax expense	(444)	(465)
Deferred tax expense	(1,433)	333
Total	**(1,877)**	**(132)**

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

	1.1-31.3.2012		1.1-31.3.2011	
Profit before tax		9,765		8,598
Tax on liabilities of financial institutions		(331)		(100)
Profit before income tax		9,434		8,498
Income tax calculated using the domestic corporate income tax rate	20.0%	(1,887)	20.0%	(1,700)
Special income tax on financial institutions	3.5%	(328)	0.0%	-
Income not subject to tax	(3.6%)	335	(15.9%)	1,349
Non-deductable expenses	0.5%	(43)	0.7%	(59)
Other	(0.5%)	46	(3.3%)	278
Effective income tax	**19.9%**	**(1,877)**	**1.5%**	**(132)**

All amounts are in ISK million

Other notes

18. Litigation

The status of the legal proceedings of the Group at the end of the period ended 31 March 2011 is unchanged since the issue of the Consolidated Financial Statements as at and for the year ended 31 December 2011, except for the following:

Legal proceedings concerning the foundation of the Bank

1) In March 2009 Aresbank, a Spanish bank, commenced litigation against the Bank, submitting claims to the District Court of Reykjavík. Aresbank demanded that the Bank pay ISK 5,061 million (EUR 30 million) and ISK 1,416 million (GBP 7 million), in addition to interests and litigation costs. Alternatively, the Financial Supervisory Authority of Iceland (FME) and the Icelandic government were subpoenaed for the acknowledgment of their obligation to pay damages on the basis of tort. The case involves two money market loans which each amount to ISK 2,531 million (EUR 15 million) and have reached maturity. In addition, the case involves a third money market loan amounting to ISK 1,416 million (GBP 7 million). In short, Aresbank claims that money market loans are to be considered deposits according to the Act on Deposit Insurance, No. 98/1999. Aresbank cites the Icelandic government‘s declaration from 6 October 2008, which states that the Icelandic government insures all deposits in domestic commercial banks and their branches in Iceland. On 22 December 2010 the District Court of Reykjavík ruled in the case between Aresbank and the Bank. The Court ruled in favor of the Bank and confirmed that money market loans are not deposits according to the Act on Deposit Insurance, No. 98/1999. Aresbank appealed the ruling to the Supreme Court which subsequently requested an advisory opinion from the EFTA court. The request mainly regarded the interpretation of the notion "deposit" in article 1(1) of directive 94/19/EC on deposit-guarantee schemes and if "money market loans" fall there within. Written arguments have been submitted to the court by the Bank and oral argumentations are scheduled for 19 June 2012. It is foreseeable that the court’s opinion will be published later this year.

Legal proceedings concerning the Bank's subsidiary Landsvaki hf.

2) Landsvaki hf. received an additional notice dated 2 April 2012 from the Winding-up Board of Landsbanki Íslands hf. (the old bank) regarding its intension, based on Act on Bankruptcy etc. no. 21/1991, to invalidate the purchase of the old bank of bonds and recover the funds for the benefit of the estate. The transactions in question are dated back to 28 October 2008 and amount to approximately ISK 5 billion. Landsvaki has protested the notice and objected all claims made by the Winding-up Board.

The total amount of the transactions in question amounts to ISK 25 billion, however the maximum exposure to loss for the Bank arising from litigations against Landsvaki hf. cannot exceed the equity of Landsvaki hf. (ISK 984 million at 31 March 2012).

19. Pledged assets

On 12 October 2010 the Bank and Landsbanki Íslands hf. signed a pledge agreement according to which the Bank pledged certain pools of loans to customers as collateral for the secured bonds issued on 12 October 2010 and the contingent bond the Bank might issue to Landsbanki Íslands hf. The Bank must maintain a minimum cover ratio of 127.5% (ISK 375,466 million) (31.12.2011: ISK 359,568 million) for the secured bonds. However, an amount of ISK 390,221 million has been pledged for the secured bonds as at 31 March 2012 (31.12.2011: ISK 365,449 million). Once the contingent bond has been issued, the Bank must pledge assets for the bond, with a minimum cover ratio of 118%. However, no assets must be pledged for the contingent bond before its issue date. 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 5,789 million as at 31 March 2012 (31.12.2011: ISK 5,789 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 7,684 million as at 31 March 2012 (31.12.2011: ISK 12,858 million).

20. Related party transactions

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

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 23.

(b) Transactions with other related parties

The deposits from Landsbanki Íslands hf. amounted to ISK 28,723 million as at 31 March 2012 (31.12.2011: ISK 29,942 million). During the period from 1 January to 31 March 2012 the Bank recognised ISK 63 million from administrative services provided to Landsbanki Íslands hf. based on a service level agreement (1.1-31.3.2011: ISK 81 million).

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

	2012		2011	
Loans in ISK million	**Balance at 31 March**	**Highest amounts outstanding during the period**	**Balance at 31 December**	**Highest amounts outstanding during the year**
Key management personnel	155	162	112	133
Parties related to key management personnel	310	312	247	299
Associates	49,111	56,945	48,136	84,971
Total	**49,576**	**57,419**	**48,495**	**85,403**

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

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

Capital management

21. Capital management

The Financial Supervisory Authority in Iceland (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. This is higher than the current ICAAP capital requirement estimated by the Bank.

22. Capital base and capital adequacy ratio

The Group's equity at 31 March 2012 amounted to ISK 207,874 million (31.12.2011: ISK 200,244 million), equivalent to 17.7% (31.12.2011: 17.6%) of total assets, according to the condensed consolidated statement of financial position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 22.1% at 31 March 2012 (31.12.2011: 21.4%). According to the Act, this ratio may not fall below 8%.

Capital base	**31.3.2012**	**31.12.2011**
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	3,781	3,781
Retained earnings	55,663	47,952
Non-controlling interests	532	613
Total equity	**207,874**	**200,244**
Intangible assets	(663)	(681)
Deferred tax assets	(1,533)	(3,003)
Tier 1 capital	**205,678**	**196,560**
Deduction from original and additional own funds	(3,258)	(4,531)
Capital base	**202,420**	**192,029**
Risk-weighted assets		
Credit risk	720,033	696,402
Market risk	114,432	120,557
Operational risk	81,500	81,500
Total risk-weighted assets	**915,965**	**898,459**
Tier 1 capital ratio	22.5%	21.9%
Capital adequacy ratio	22.1%	21.4%

All amounts are in ISK million

Risk management

Credit risk

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

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

				Corporations									
At 31 March 2012	**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	-	25,494	-	-	-	-	-	-	-	-	-	-	**25,494**
Bonds and debt instruments	10,774	189,151	-	-	2	-	-	1,709	317	-	-	242	**202,195**
Derivative instruments	593	-	-	1	-	-	-	4	-	-	-	13	**611**
Loans and advances to financial institutions	130,946	-	-	-	-	-	-	-	-	-	-	-	**130,946**
Loans and advances to customers	-	13,373	172,452	140,070	107,070	66,917	41,110	51,657	30,104	8,693	20,118	2,385	**653,949**
Other financial assets	11,031	-	-	11	-	351	-	-	1	-	2	10	**11,406**
Total on-balance sheet exposure	**153,344**	**228,018**	**172,452**	**140,082**	**107,072**	**67,268**	**41,110**	**53,370**	**30,422**	**8,693**	**20,120**	**2,650**	**1,024,601**
Off-balance sheet exposure	**0**	**12,484**	**33,235**	**12,387**	**26,996**	**8,995**	**11,128**	**1,893**	**2,758**	**2,179**	**2,861**	**929**	**115,845**
Financial guarantees	-	47	583	1,391	4,740	2,879	1,671	247	704	213	1,010	34	13,519
Undrawn loan commitments	-	7,533	32	9,122	1,929	284	5,180	727	260	1,705	528	95	27,395
Debt underwriting commitments	-	0	-	-	18,500	-	-	-	-	-	-	-	18,500
Undrawn overdraft/credit card facilities	-	4,904	32,620	1,874	1,827	5,832	4,277	919	1,794	261	1,323	800	56,431
Maximum exposure to credit risk	**153,344**	**240,502**	**205,687**	**152,469**	**134,068**	**76,263**	**52,238**	**55,263**	**33,180**	**10,872**	**22,981**	**3,579**	**1,140,446**
Percentage of carrying amount	13.4%	21.1%	18.0%	13.4%	11.8%	6.7%	4.6%	4.8%	2.9%	1.0%	2.0%	0.3%	100.0%

* 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

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

				Corporations									
At 31 December 2011	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	8,823	-	-	-	-	-	-	-	-	-	-	**8,823**
Bonds and debt instruments	10,118	208,802	-	-	2	-	-	2,249	306	-	-	371	**221,848**
Derivative instruments	100	-	-	43	-	-	-	-	-	-	-	16	**159**
Loans and advances to financial institutions	100,133	-	-	-	-	-	-	-	-	-	-	-	**100,133**
Loans and advances to customers	-	12,139	173,223	135,397	101,958	66,121	42,401	48,622	28,008	8,505	20,168	2,588	**639,130**
Other financial assets	3,089	42	-	11	-	562	0	600	2	-	4	11	**4,321**
Total on-balance sheet exposure	**113,440**	**229,806**	**173,223**	**135,451**	**101,960**	**66,683**	**42,401**	**51,471**	**28,316**	**8,505**	**20,172**	**2,986**	**974,414**
Off-balance sheet exposure	**0**	**7,583**	**31,658**	**11,272**	**8,192**	**8,586**	**11,348**	**6,466**	**2,876**	**2,150**	**2,626**	**1,156**	**93,913**
Financial guarantees	-	28	512	1,232	3,949	2,529	1,723	275	690	170	1,195	32	12,335
Undrawn loan commitments	-	4,130	22	7,875	2,380	254	4,851	5,507	369	1,655	371	327	27,741
Undrawn overdraft/credit card facilities	-	3,425	31,124	2,165	1,863	5,803	4,774	684	1,817	325	1,060	797	53,837
Maximum exposure to credit risk	**113,440**	**237,389**	**204,881**	**146,723**	**110,152**	**75,269**	**53,749**	**57,937**	**31,192**	**10,655**	**22,798**	**4,142**	**1,068,327**
Percentage of carrying amount	10.6%	22.2%	19.2%	13.7%	10.3%	7.1%	5.0%	5.5%	2.9%	1.0%	2.1%	0.4%	100.0%

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

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

All amounts are in ISK million

24. Collaterals and Loan-to-value by Industry sectors

The loan-to-value (LTV) ratio expresses the carrying amount as a percentage of the total appraised value of collateral. Loan to value is one of the key risk factors that is assessed when qualifying borrowers for a loan. The risk of default is always at the forefront of lending decisions, and the likelihood of a lender absorbing a loss in the foreclosure process increases as the collateral value decreases. A high LTV indicates that there is less cushion to protect against price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance.

	LTV Ratio - Fully collateralised					LTV Ratio - Partially collateralised			
At 31 March 2012	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value	No Collaterals*	Carrying amount
Financial institutions	-	-	-	-	-	-	-	130,946	130,946
Public entities	99	167	50	169	485	1,207	755	11,681	13,373
Individuals	5,612	9,263	14,612	21,307	50,794	51,213	34,989	70,445	172,452
Corporations									
Fisheries	902	2,597	29,623	42,068	75,190	47,148	25,635	17,732	140,070
Construction and real estate companies	942	3,419	4,133	24,321	32,815	62,228	32,437	12,027	107,070
Holding companies	49	283	1,744	2,904	4,980	30,099	15,692	16,578	51,657
Retail	281	1,504	1,015	3,788	6,588	21,153	8,636	13,369	41,110
Services	611	1,343	1,141	3,555	6,650	24,486	15,806	35,781	66,917
Information, technology and communication	136	54	24	5	219	12,415	2,672	7,484	20,118
Manufacturing	146	392	1,036	1,708	3,282	11,582	4,260	15,240	30,104
Agriculture	184	161	470	178	993	6,426	1,645	1,274	8,693
Other	2	-	73	-	75	816	264	1,494	2,385
Total	**8,964**	**19,183**	**53,921**	**100,003**	**182,071**	**268,773**	**142,791**	**334,051**	**784,895**
At 31 December 2011									
Financial institutions	-	-	-	-	-	-	-	100,133	100,133
Public entities	94	149	262	7	512	1,177	771	10,450	12,139
Individuals	5,790	9,406	13,553	22,827	51,576	50,460	33,939	71,187	173,223
Corporations									
Fisheries	825	3,699	36,394	18,591	59,509	47,977	31,294	27,911	135,397
Construction and real estate companies	867	2,729	15,319	12,889	31,804	59,850	32,150	10,304	101,958
Holding companies	122	180	1,701	2,235	4,238	24,258	15,361	20,126	48,622
Retail	316	1,465	764	2,825	5,370	25,958	10,655	11,073	42,401
Services	773	1,370	1,175	2,064	5,382	23,419	14,981	37,320	66,121
Information, technology and communication	138	56	18	5	217	12,087	2,360	7,864	20,168
Manufacturing	126	537	1,324	1,142	3,129	9,356	3,687	15,523	28,008
Agriculture	195	193	489	240	1,117	6,205	1,599	1,183	8,505
Other	1	-	68	-	69	948	264	1,571	2,588
Total	**9,247**	**19,784**	**71,067**	**62,825**	**162,923**	**261,695**	**147,061**	**314,645**	**739,263**

*Credit cards and debit cards are assumed to be without collateral. If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

All amounts are in ISK million

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

The following table presents the classification of loans and advances to customers by credit risk groups:

Carrying amount	31.3.2012	31.12.2011
Green	391,547	376,323
Yellow	78,392	66,907
Orange	56,062	53,637
Red	127,948	142,263
Total	**653,949**	**639,130**

26. Loans and advances by industry sectors

	31.3.2012			31.12.2011		
Industry sectors	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Financial institutions	130,946	-	130,946	100,133	-	100,133
Public entities	13,373	-	13,373	12,143	(4)	12,139
Individuals	183,967	(11,515)	172,452	186,033	(12,810)	173,223
Corporations						
Fisheries	142,783	(2,713)	140,070	137,878	(2,481)	135,397
Construction and real estate companies	114,126	(7,056)	107,070	107,013	(5,055)	101,958
Holding companies	56,255	(4,598)	51,657	51,112	(2,490)	48,622
Retail	44,901	(3,791)	41,110	44,443	(2,042)	42,401
Services	68,509	(1,592)	66,917	68,301	(2,180)	66,121
Information, technology and communication	20,371	(253)	20,118	20,261	(93)	20,168
Manufacturing	30,981	(877)	30,104	28,708	(700)	28,008
Agriculture	9,153	(460)	8,693	8,834	(329)	8,505
Other	2,742	(357)	2,385	2,824	(236)	2,588
Total	**818,107**	**(33,212)**	**784,895**	**767,683**	**(28,420)**	**739,263**

27. Credit quality of financial assets

	Gross carrying amount					
At 31 March 2012	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	25,494	-	-	25,494	-	25,494
Bonds and debt instruments	193,043	9,152	-	202,195	-	202,195
Derivative instruments	611	-	-	611	-	611
Loans and advances to financial institutions	130,785	161	-	130,946	-	130,946
Loans and advances to customers	454,659	111,126	121,376	687,161	(33,212)	653,949
Other financial assets	11,406	-	-	11,406	-	11,406
Total	**815,998**	**120,439**	**121,376**	**1,057,813**	**(33,212)**	**1,024,601**
At 31 December 2011						
Cash and balances with Central Bank	8,823	-	-	8,823	-	8,823
Bonds and debt instruments	212,930	8,918	-	221,848	-	221,848
Derivative instruments	159	-	-	159	-	159
Loans and advances to financial institutions	99,972	161	-	100,133	-	100,133
Loans and advances to customers	439,699	117,264	110,587	667,550	(28,420)	639,130
Other financial assets	4,321	-	-	4,321	-	4,321
Total	**765,904**	**126,343**	**110,587**	**1,002,834**	**(28,420)**	**974,414**

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

All amounts are in ISK million

28. Loans and advances neither past due nor individually impaired

	Credit risk groups					
At 31 March 2012	**Green**	**Yellow**	**Orange**	**Red**	**Gross carrying amount**	**PD**
Financial institutions	130,785	-	-	-	130,785	-
Public entities	11,159	323	157	13	11,652	1.40%
Individuals	108,515	6,301	7,011	3,418	125,245	3.10%
Corporations						
Fisheries	62,769	10,474	1,665	5,500	80,408	8.59%
Construction and real estate companies	40,316	16,803	10,538	8,324	75,981	10.83%
Holding companies	12,226	4,852	741	15,893	33,712	7.70%
Retail	22,831	936	420	1,178	25,365	12.16%
Services	41,407	2,981	10,749	1,724	56,861	6.14%
Information, technology and communication	21,092	59	52	73	21,276	1.58%
Manufacturing	4,333	1,086	162	172	5,753	4.61%
Agriculture	13,469	2,243	540	1,126	17,378	5.27%
Other	1,022	2	-	4	1,028	15.58%
Total	**469,924**	**46,060**	**32,035**	**37,425**	**585,444**	**6.23%**
At 31 December 2011						
Financial institutions	99,972	-	-	-	99,972	-
Public entities	8,342	39	57	3	8,441	2.71%
Individuals	90,741	2,247	7,304	3,583	103,875	1.54%
Corporations						
Fisheries	78,560	10,644	405	7,929	97,538	10.57%
Construction and real estate companies	40,032	10,004	9,152	11,399	70,587	14.82%
Holding companies	8,702	6,692	475	16,249	32,118	11.08%
Retail	12,223	6,398	513	8,756	27,890	12.13%
Services	39,300	1,735	9,839	2,553	53,427	6.30%
Information, technology and communication	20,789	68	45	59	20,961	2.03%
Manufacturing	16,946	2,273	477	1,383	21,079	9.57%
Agriculture	1,591	271	34	401	2,297	7.09%
Other	1,117	336	31	2	1,486	5.37%
Total	**418,315**	**40,707**	**28,332**	**52,317**	**539,671**	**8.42%**

29. Loans and advances past due but not individually impaired

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

At 31 March 2012	**Past due up to 30 days**	**Past due 31 - 60 days**	**Past due 61 - 90 days**	**Past due over 90 days**	**Gross carrying amount**
Loans and advances to financial institutions	1	7	9	144	161
Loans and advances to customers	17,736	8,045	12,640	72,705	111,126
Total	**17,737**	**8,052**	**12,649**	**72,849**	**111,287**
At 31 December 2011					
Loans and advances to financial institutions	1	7	9	144	161
Loans and advances to customers	23,014	11,826	7,640	74,784	117,264
Total	**23,015**	**11,833**	**7,649**	**74,928**	**117,425**

All amounts are in ISK million

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

At 31 March 2012	Gross carrying amount	Allowance for impairment	Carrying amount
Loans and advances to customers	121,376	(22,799)	98,577
At 31 December 2011			
Loans and advances to customers	110,587	(19,696)	90,891

31. Allowance for impairment on loans and advances to financial institutions and customers and other financial assets

	1.1-31.3.2012			1.1-31.12.2011		
	Customers	Other financial assets	Total	Financial institutions	Customers	Total
Balance at the beginning of the year	28,420	-	28,420	2,178	21,122	23,300
Impairment loss for the period	4,768	-	4,768	(2,178)	9,212	7,034
Collected previously written-off loans	24	-	24	-	98	98
Loans written-off	-	-	-	-	(2,012)	(2,012)
Balance at the end of the period	**33,212**	**0**	**33,212**	**0**	**28,420**	**28,420**
Individual allowance	22,799	-	22,799	-	19,696	19,696
Collective allowance	10,413	-	10,413	-	8,724	8,724
Total	**33,212**	**0**	**33,212**	**0**	**28,420**	**28,420**
Net impairment loss						
Impairment loss for the period	4,768	-	4,768	(2,178)	9,310	7,132
Impairment of claims reversed	-	(3,480)	(3,480)	-	-	0
Net impairment loss for the period	**4,768**	**(3,480)**	**1,288**	**(2,178)**	**9,310**	**7,132**

32. Large exposures

At 31 March 2012, two Group clients were rated as large exposures (31 December 2011: two clients), including subsidiaries of the Group classified as held for sale. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. The large exposures amount is calculated after taking account of collateral held, in accordance with the Financial Supervisory Authority's Rules on Large Exposures Incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25% of the capital base. All of the Group's large exposures were within these limits as at 31 March 2012 and 31 December 2011.

At 31 March 2012, the Group's internal rules on large exposures stated that clients could comprise up to 20% of the Group's capital base. However the Bank's Board of Directors can permit a large exposure to comprise up to 25% of the Group's equity when the purpose of the exposure is to protect the interests of the Bank. At 31 March 2012, one exposure exceeded 20% (31 December 2011: one exposure). According to the Group's risk appetite, the total utilisation percentage of a large exposure ought to remain below 50% of the Group's capital base.

At 31 March 2012	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	1	47,988
Large exposures between 10% and 20% of the Group's capital base	1	29,183
Total	**2**	**77,171**
Utilisation of 400% limit		38%
At 31 December 2011		
Large exposures above 20% of the Group's capital base	1	47,989
Large exposures between 10% and 20% of the Group's capital base	1	33,131
Total	**2**	**81,120**
Utilisation of 400% limit		42%

All amounts are in ISK million

Liquidity risk

33. Liquidity risk management

The key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with Central Bank (such as government bonds). The core liquidity ratio as at 31 March 2011 was 48% (31 December 2011: 43%) The Group has set a minimum risk appetite for core liquidity ratio at 25%.

34. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 31 March 2012:

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	25,494	-	-	-	-	25,494	25,494
Bonds and debt instruments	-	48,365	4,647	41,596	148,825	243,433	202,195
Loans and advances to financial institutions	228	126,861	2,457	1,398	4	130,948	130,946
Loans and advances to customers	61,444	72,807	133,496	319,439	430,748	1,017,934	653,949
Other financial assets	-	10,875	-	531	-	11,406	11,406
Total	**87,166**	**258,908**	**140,600**	**362,964**	**579,577**	**1,429,215**	**1,023,990**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	48,273	-	-	-	48,273	
Outflow	-	(47,723)	-	-	-	(47,723)	
Total	0	550	0	0	0	550	598
Net settled derivatives	-	13	-	-	-	13	13
Total	**0**	**563**	**0**	**0**	**0**	**563**	**611**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(115,185)	(113)	(5)	(16)	-	(115,319)	(115,300)
Deposits from customers	(344,274)	(64,821)	(22,233)	(25,423)	(4,038)	(460,789)	(455,402)
Short positions	-	(4,257)	(2,825)	-	-	(7,082)	(6,532)
Secured bonds	-	(2,009)	(5,391)	(217,765)	(105,141)	(330,306)	(289,908)
Contingent bond	-	-	-	(43,108)	(41,122)	(84,230)	(66,773)
Other financial liabilities	-	(17,058)	-	-	-	(17,058)	(17,058)
Total	**(459,459)**	**(88,258)**	**(30,454)**	**(286,312)**	**(150,301)**	**(1,014,784)**	**(950,973)**
Off-balance sheet items							
Financial guarantees	(7,186)	(1,473)	(3,832)	(1,028)	-	(13,519)	
Undrawn loan commitments	(27,395)	-	-	-	-	(27,395)	
Debt underwriting commitments	-	(18,500)	-	-	-	(18,500)	
Undrawn overdraft/credit card commitments	(56,431)	-	-	-	-	(56,431)	
Total	**(91,012)**	**(19,973)**	**(3,832)**	**(1,028)**	**0**	**(115,845)**	
Total non-derivative financial liabilities and off-balance sheet items	**(550,471)**	**(108,231)**	**(34,286)**	**(287,340)**	**(150,301)**	**(1,130,629)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	14,011	1,187	303	288	15,789	
Outflow	-	(14,147)	(1,589)	(412)	(382)	(16,530)	
Total	0	(136)	(402)	(109)	(94)	(741)	(650)
Net settled derivatives	-	(79)	-	-	-	(79)	(79)
Total	**0**	**(215)**	**(402)**	**(109)**	**(94)**	**(820)**	**(729)**
Net liquidity position	**(463,305)**	**151,025**	**105,912**	**75,515**	**429,182**	**298,329**	

All amounts are in ISK million

34. 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 2011:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	8,823	-	-	-	-	8,823	8,823
Bonds and debt instruments	-	59,081	9,893	37,571	146,843	253,388	221,848
Loans and advances to financial institutions	-	93,179	5,654	1,397	7	100,237	100,133
Loans and advances to customers	62,090	75,903	124,517	302,650	403,888	969,048	639,130
Other financial assets	-	3,852	-	470	-	4,322	4,321
Total	**70,913**	**232,015**	**140,064**	**342,088**	**550,738**	**1,335,818**	**974,255**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	12,624	-	-	-	12,624	
Outflow	-	(12,490)	-	-	-	(12,490)	
Total	**0**	**134**	**0**	**0**	**0**	**134**	**143**
Net settled derivatives	-	16	-	-	-	16	16
Total	**0**	**150**	**0**	**0**	**0**	**150**	**159**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(112,788)	(87)	(8)	(16)	-	(112,899)	(112,876)
Deposits from customers	(344,952)	(43,578)	(31,714)	(24,426)	(4,641)	(449,311)	(443,590)
Short positions	-	(8,538)	-	-	-	(8,538)	(6,187)
Secured bonds	-	(1,934)	(5,838)	(197,905)	(115,753)	(321,430)	(277,076)
Contingent bond	-	-	-	(38,901)	(37,309)	(76,210)	(60,826)
Other financial liabilities	-	(6,623)	-	-	-	(6,623)	(6,623)
Total	**(457,740)**	**(60,760)**	**(37,560)**	**(261,248)**	**(157,703)**	**(975,011)**	**(907,178)**
Off-balance sheet items							
Financial guarantees	(6,500)	(1,379)	(2,984)	(1,472)	-	(12,335)	
Undrawn loan commitments	(27,741)	-	-	-	-	(27,741)	
Undrawn overdraft/credit card commitments	(53,837)	-	-	-	-	(53,837)	
Total	**(88,078)**	**(1,379)**	**(2,984)**	**(1,472)**	**0**	**(93,913)**	
Total non-derivative financial liabilities and off-balance sheet items	**(545,818)**	**(62,139)**	**(40,544)**	**(262,720)**	**(157,703)**	**(1,068,924)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	57,725	291	1,160	282	59,458	
Outflow	-	(58,988)	(398)	(1,557)	(375)	(61,318)	
Total	**0**	**(1,263)**	**(107)**	**(397)**	**(93)**	**(1,860)**	**(1,712)**
Net settled derivatives	-	(17)	-	-	-	(17)	(17)
Total	**0**	**(1,280)**	**(107)**	**(397)**	**(93)**	**(1,877)**	**(1,729)**
Net liquidity position	**(474,905)**	**168,746**	**99,413**	**78,971**	**392,942**	**265,167**	

All amounts are in ISK million

35. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 March 2012:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	12,362	195,855	34,619	147,713	27,380	417,929	388,147
ISK	74,804	63,053	105,981	215,251	552,197	1,011,286	635,843
Total	**87,166**	**258,908**	**140,600**	**362,964**	**579,577**	**1,429,215**	**1,023,990**
Derivative financial assets							
Total in foreign currencies	-	325	-	-	-	325	598
ISK	-	238	-	-	-	238	13
Total	**0**	**563**	**0**	**0**	**0**	**563**	**611**
Non-derivative financial liabilities							
Total in foreign currencies	(81,245)	(6,957)	(8,847)	(217,765)	(105,141)	(419,955)	(379,536)
ISK	(378,214)	(81,301)	(21,607)	(68,547)	(45,160)	(594,829)	(571,437)
Total	**(459,459)**	**(88,258)**	**(30,454)**	**(286,312)**	**(150,301)**	**(1,014,784)**	**(950,973)**
Off-balance sheet items							
Total in foreign currencies	(16,494)	(1,030)	(2,938)	(30)	-	(20,492)	
ISK	(74,518)	(18,943)	(894)	(998)	-	(95,353)	
Total	**(91,012)**	**(19,973)**	**(3,832)**	**(1,028)**	**0**	**(115,845)**	
Derivative financial liabilities							
Total in foreign currencies	-	(136)	400	98	99	461	(650)
ISK	-	(79)	(802)	(207)	(193)	(1,281)	(79)
Total	**0**	**(215)**	**(402)**	**(109)**	**(94)**	**(820)**	**(729)**
Net liquidity position in foreign currencies	**(85,377)**	**188,057**	**23,234**	**(69,984)**	**(77,662)**	**(21,732)**	
Net liquidity position in ISK	**(377,928)**	**(37,032)**	**82,678**	**145,499**	**506,844**	**320,061**	
Net liquidity position	**(463,305)**	**151,025**	**105,912**	**75,515**	**429,182**	**298,329**	

All amounts are in ISK million

35. 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 2011:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	16,034	173,674	49,304	119,155	24,912	383,079	359,014
ISK	54,879	58,341	90,760	222,933	525,826	952,739	615,241
Total	**70,913**	**232,015**	**140,064**	**342,088**	**550,738**	**1,335,818**	**974,255**
Derivative financial assets							
Total in foreign currencies	-	2,727	-	-	-	2,727	143
ISK	-	(2,577)	-	-	-	(2,577)	16
Total	**0**	**150**	**0**	**0**	**0**	**150**	**159**
Non-derivative financial liabilities							
Total in foreign currencies	(73,007)	(5,408)	(10,173)	(197,905)	(115,753)	(402,246)	(357,868)
ISK	(384,733)	(55,352)	(27,387)	(63,343)	(41,950)	(572,765)	(549,310)
Total	**(457,740)**	**(60,760)**	**(37,560)**	**(261,248)**	**(157,703)**	**(975,011)**	**(907,178)**
Off-balance sheet items							
Total in foreign currencies	(11,760)	(761)	(2,311)	(109)	-	(14,941)	
ISK	(76,318)	(618)	(673)	(1,363)	-	(78,972)	
Total	**(88,078)**	**(1,379)**	**(2,984)**	**(1,472)**	**0**	**(93,913)**	
Derivative financial liabilities							
Total in foreign currencies	-	(307)	97	397	99	286	(1,712)
ISK	-	(973)	(204)	(794)	(192)	(2,163)	(17)
Total	**0**	**(1,280)**	**(107)**	**(397)**	**(93)**	**(1,877)**	**(1,729)**
Net liquidity position in foreign currencies	**(68,733)**	**169,925**	**36,917**	**(78,462)**	**(90,742)**	**(31,095)**	
Net liquidity position in ISK	**(406,172)**	**(1,179)**	**62,496**	**157,433**	**483,684**	**296,262**	
Net liquidity position	**(474,905)**	**168,746**	**99,413**	**78,971**	**392,942**	**265,167**	

Market risk

36. Market risk management

The following table summarises the Group's exposure to market risk as at 31 March 2012 and 31 December 2011:

Market risk factor	31.3.2012 % of RWA	31.12.2011 % of RWA
Equity price risk	7.0%	7.7%
Interest rate risk	2.2%	2.6%
Foreign exchange risk	3.3%	3.1%
Total	**12.5%**	**13.4%**

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 39-40.

All amounts are in ISK million

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

At 31 March 2012	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	25,494	-	-	-	25,494
Bonds and debt instruments	195,439	204	1,621	4,931	202,195
Derivative instruments	611	-	-	-	611
Loans and advances to financial institutions	127,087	2,457	1,398	4	130,946
Loans and advances to customers	490,127	67,824	41,324	54,674	653,949
Other financial assets	10,875	-	531	-	11,406
Total	**849,633**	**70,485**	**44,874**	**59,609**	**1,024,601**
Financial liabilities					
Due to financial institutions and Central Bank	(115,300)	-	-	-	(115,300)
Deposits from customers	(452,089)	(3,100)	(213)	-	(455,402)
Derivative instruments and short positions	(729)	(2,398)	(2,703)	(1,431)	(7,261)
Secured bonds	(289,908)	-	-	-	(289,908)
Contingent bond	(66,773)	-	-	-	(66,773)
Other financial liabilities	(17,058)	-	-	-	(17,058)
Total	**(941,857)**	**(5,498)**	**(2,916)**	**(1,431)**	**(951,702)**
Net on-balance sheet position	(92,224)	64,987	41,958	58,178	72,899
Net off-balance sheet position	-	(546)	692	(145)	
Total interest repricing gap	**(92,224)**	**64,441**	**42,650**	**58,033**	

At 31 December 2011	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	8,823	-	-	-	8,823
Bonds and debt instruments	209,646	4,905	1,112	6,185	221,848
Derivative instruments	159	-	-	-	159
Loans and advances to financial institutions	93,176	5,621	1,329	7	100,133
Loans and advances to customers	507,251	63,844	24,773	43,262	639,130
Other financial assets	3,851	-	470	-	4,321
Total	**822,906**	**74,370**	**27,684**	**49,454**	**974,414**
Financial liabilities					
Due to financial institutions and Central Bank	(112,876)	-	-	-	(112,876)
Deposits from customers	(441,345)	(2,142)	(103)	-	(443,590)
Derivative instruments and short positions	(1,876)	(2,114)	(2,447)	(1,479)	(7,916)
Secured bonds	(277,076)	-	-	-	(277,076)
Contingent bond	(60,826)	-	-	-	(60,826)
Other financial liabilities	(6,623)	-	-	-	(6,623)
Total	**(900,622)**	**(4,256)**	**(2,550)**	**(1,479)**	**(908,907)**
Net on-balance sheet position	(77,716)	70,114	25,134	47,975	65,507
Net off-balance sheet position	808	(539)	(126)	(143)	
Total interest repricing gap	**(76,908)**	**69,575**	**25,008**	**47,832**	

All amounts are in ISK million

38. 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. The Group tries to meet the imbalance by offering new products e.g. non-indexed housing loans and indexed deposits.

At 31 March 2012 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 120,607 million (31 December 2011: 128,958 million).

Carrying amount	31.3.2012	31.12.2011
Assets		
Bonds and debt instruments	7,795	10,812
Loans and advances to customers	215,113	217,131
Total	**222,908**	**227,943**
Liabilities		
Due to financial institutions and Central Bank	(29)	(123)
Deposits from customers	(100,522)	(97,127)
Short positions	(1,005)	(924)
Total	**(101,556)**	**(98,174)**
Total on-balance sheet position	121,352	129,769
Total off-balance sheet position	(745)	(811)
Total CPI indexation balance	**120,607**	**128,958**

39. Currency risk (all portfolios)

The Group follows the Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank of Iceland. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within certain limits in each currency. The Group submits daily reports to the Central Bank with information on its foreign exchange balance.

All amounts are in ISK million

40. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 31 March 2012 and 31 December 2011. 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 7).

Amounts presented under assets and liabilities include all spot deals at 31 March 2012 and 31 December 2011. When managing liquidity risk the Group regards spot deals as a non-derivative asset or liability.

As explained in Note 21 in the consolidated financial statements of the Bank as at and for the year ended 31 December 2011, a contingent bond shall be issued no later than 31 March 2013 and be denominated in EUR or such other currencies as may be agreed between the Bank and Landsbanki Íslands hf. Using the exchange rate as published by the Central Bank of Iceland on 31 December 2012, the Bank shall convert the final value of the ISK principal balance (subject to an ISK 92 billion cap) into Euros (or such other currencies as the parties have agreed), which Euro (or other currency) amount shall be the new principal balance of the contingent bond. The contingent bond is therefore accounted for in ISK until year-end 2012 and is not reflected in the following table that summarizes the Group's net position in currency at 31 March 2012. The carrying amount at 31 March 2012 is ISK 67 billion.

At 31 March 2012	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	422	158	281	20	38	331	1,250
Bonds and debt instruments	5,863	6,262	50,523	-	-	-	62,648
Equities and equity instruments	8,643	2	436	-	-	9,269	18,350
Derivative instruments	277	316	-	-	-	5	598
Loans and advances to financial institutions	61,541	22,982	31,424	760	364	8,033	125,104
Loans and advances to customers	85,145	13,859	57,033	18,563	17,160	7,051	198,811
Other assets	530	84	434	1	-	70	1,119
Total	**162,421**	**43,663**	**140,131**	**19,344**	**17,562**	**24,759**	**407,880**
Liabilities							
Due to financial institutions and Central Bank	(2,570)	(2,344)	(2,162)	(345)	(1,516)	(6,964)	(15,901)
Deposits from customers	(27,785)	(6,816)	(29,169)	(306)	(460)	(6,188)	(70,724)
Derivative instruments and short positions	(171)	(71)	(336)	-	-	(72)	(650)
Secured bonds	(144,199)	(54,578)	(91,131)	-	-	-	(289,908)
Other liabilities	(1,573)	(131)	(1,238)	(3)	(1)	(434)	(3,380)
Total	**(176,298)**	**(63,940)**	**(124,036)**	**(654)**	**(1,977)**	**(13,658)**	**(380,563)**
Net on-balance sheet position	(13,877)	(20,277)	16,095	18,690	15,585	11,101	**27,317**
Net off-balance sheet position	21,424	18,305	(11,268)	(17,104)	(10,182)	(2,292)	**(1,117)**
Net currency position	**7,547**	**(1,972)**	**4,827**	**1,586**	**5,403**	**8,809**	**26,200**

All amounts are in ISK million

40. Concentration of currency risk (continued)

At 31 December 2011	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	366	137	243	14	36	250	1,046
Bonds and debt instruments	25,163	168	51,947	-	-	-	77,278
Equities and equity instruments	8,167	13	390	-	-	8,085	16,655
Derivative instruments	97	-	46	-	-	-	143
Loans and advances to financial institutions	32,338	17,875	30,768	3,370	865	6,609	91,825
Loans and advances to customers	72,586	12,022	57,930	21,653	17,496	7,103	188,790
Other assets	680	77	125	1	-	18	901
Total	**139,397**	**30,292**	**141,449**	**25,038**	**18,397**	**22,065**	**376,638**
Liabilities							
Due to financial institutions and Central Bank	(1,296)	(1,780)	(1,120)	(357)	(1,414)	(5,140)	(11,107)
Deposits from customers	(18,700)	(4,005)	(37,789)	(428)	(418)	(5,415)	(66,755)
Derivative instruments and short positions	(842)	(513)	(356)	-	(1)	-	(1,712)
Secured bonds	(136,818)	(51,702)	(88,556)	-	-	-	(277,076)
Other liabilities	(1,484)	(184)	(931)	-	(14)	(353)	(2,966)
Total	**(159,140)**	**(58,184)**	**(128,752)**	**(785)**	**(1,847)**	**(10,908)**	**(359,616)**
Net on-balance sheet position	(19,743)	(27,892)	12,697	24,253	16,550	11,157	**17,022**
Net off-balance sheet position	33,880	20,144	(10,812)	(20,437)	(11,269)	(8,494)	**3,012**
Net currency position	**14,137**	**(7,748)**	**1,885**	**3,816**	**5,281**	**2,663**	**20,034**

41. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 31 March 2012	At 31 December 2011	% Change	Average for 1.1-31.3 2012	Average for 1.1-31.3 2011
EUR/ISK	168.70	158.80	6.2%	164.10	158.68
GBP/ISK	202.23	190.29	6.3%	196.74	184.20
USD/ISK	126.52	122.22	3.5%	124.32	115.18
JPY/ISK	1.54	1.59	(3.1%)	1.57	1.41
CHF/ISK	140.15	130.79	7.2%	136.01	123.87
CAD/ISK	126.68	120.24	5.4%	124.20	116.92
DKK/ISK	22.67	21.36	6.1%	22.07	21.28
NOK/ISK	22.20	20.51	8.2%	21.57	20.27
SEK/ISK	19.10	17.81	7.2%	18.52	17.87

All amounts are in ISK million