Íslandsbanki

Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended 31 March 2010

Íslandsbanki hf.
Kirkjusandur
155 Reykjavík
Reg. no. 491008-0160
Iceland

Contents

Endorsement and Statement by the Board of Directors and the CEO

The unaudited Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. for the period 1 January to 31 March 2010 comprise the Condensed Interim Financial Statements of Íslandsbanki hf. and its subsidiaries, together referred to as “the Bank”.

Accounting convention

The unaudited Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2010 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and are presented in accordance with International Accounting Standards (IAS) 34 Interim Financial Reporting, with the exception of comparative amounts as described in note 2.

The profit from the Bank's operations for the period 1 January to 31 March 2010 amounted to ISK 3,583 million, which corresponds to a 15.3% return on equity. Bank equity, according to the consolidated balance sheet, amounted to ISK 95,683 million at 31 March 2010. The Bank's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 20.8%. Under Icelandic law the minimum requirement is 8.0%. However, as part of granting the Bank an operating licence as a financial undertaking, the Icelandic Financial Supervisory Authority (FME) requires the Bank to maintain a minimum Core Tier 1 ratio of 12% of risk weighted assets and a solvency ratio, allowing for subordinated Tier 2 debt, of 16%.The Bank's total assets amounted to ISK 699,932 million at end of period.

The Board of Directors and the CEO would like to draw attention to uncertainties relating to a recent ruling of the Supreme Court of Iceland in relation to foreign currency loans to individuals and corporations which were deemed to be ISK denominated loans. Uncertainties in relation to loan assets are discussed under notes 2 and 34.

To the best of our knowledge, the Condensed Consolidated Interim Financial Statements provide a true and fair view of the Bank’s operating profits and its financial position at 31 March 2010.

The Board of Directors and the CEO of Íslandsbanki hf. hereby confirm the Bank's consolidated financial statements for the period 1 January to 31 March 2010 by means of their signatures.

Reykjavík, 28 June 2010

Board of Directors:
Friðrik Sophusson, Chairman
Martha Eiríksdóttir
Neil Graeme Brown
John E. Mack
Raymond J. Quinlan
Árni Tómasson
Marianne Økland

Chief Executive Officer:
Birna Einarsdóttir

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

	Notes	2010 1.1-31.3	2009 1.1-31.12
Interest income		19.244	86.913
Interest expense		(8.766)	(54.929)
Net interest income	4	10.478	31.984
Fee and commission income		2.039	10.130
Fee and commission expense		(415)	(3.069)
Net fee and commission income		1.624	7.061
Net financial loss	5-6	(2.033)	11.137
Other net operating income	7	87	2.760
Income due to revised estimated future cash flows from loans		2	18.419
Net impairment losses	19	(1.547)	(26.326)
Operating income		8.611	45.036
Administrative expenses	8-9	(4.354)	(16.113)
Net loss on non-current assets classified as held for sale		133	(263)
Profit before income tax		4.390	28.660
Income tax	10	(807)	(4.678)
Profit for the period		3.583	23.982
Other comprehensive income			
Foreign currency translation differences for foreign operations		(2)	2
Other comprehensive income for the period (net of tax)		(2)	2
Total comprehensive income for the period		3.581	23.984
Attributable to:			
Equity holders of Íslandsbanki hf.		3.589	23.901
Non-controlling interests		(6)	81
Profit for the period		3.583	23.982
Basic earnings per share	12	0,36	2,39
Diluted earnings per share	12	0,36	2,39

ISK million

Condensed Consolidated Statement of Financial Position
as at 31 March 2010

	Notes	31/03/2010	31/12/2009
Assets			
Cash and balances with Central Bank	3,12	26.737	38.743
Derivatives	3,13	18	0
Bonds and debt instruments	3	70.706	66.701
Shares and equity instruments	3	2.033	2.250
Loans to credit institutions	3,14-15	89.080	87.416
Loans to customers	3,16-18	478.919	489.611
Investments in associates	20	545	827
Investment property	23	2.056	2.056
Property and equipment		1.729	1.771
Intangible assets		199	107
Deferred tax assets		84	84
Non-current assets held for sale		20.317	19.014
Other assets	24	7.509	8.761
Total Assets		699.932	717.342
Liabilities			
Financial liabilities	3	6.787	7.332
Derivatives	3,13	36	0
Deposits from Central Bank	3,25	7	28
Deposits from credit institutions	3,25	138.125	139.064
Deposits from customers	3,26	327.351	339.659
Debt issued and other borrowed funds	28	60.416	69.190
Subordinated loans		24.105	24.843
Current tax liabilities		5.381	4.807
Deferred tax liabilities		341	354
Non-current liabilities held for sale		17.640	16.905
Other liabilities	29	24.060	23.057
Total Liabilities		604.249	625.239
Equity			
Share capital	30	10.000	10.000
Share premium	30	55.000	55.000
Other reserves		2.057	2.059
Retained earnings		27.792	24.204
Total equity attributable to the equity holders of Íslandsbanki hf.		94.849	91.263
Non-controlling interests		834	840
Total Equity		95.683	92.103
Total Liabilities and Equity		699.932	717.342

For the three months ended 31 March 2010 5 ISK million

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

	Attributable to equity holders of Íslandsbanki hf.					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Equity at 1.1.2009	10.000	55.000	240	2.120	67.360	670	68.030
Translation differences for foreign operations			2		2		2
Contribution to statutory reserve			1.817	(1.817)	0		0
Profit for the period				23.901	23.901	81	23.982
Total recognised income and expense for the period	0	0	1.819	22.084	23.903	81	23.984
Issued new shares					0	89	89
Equity at 31.12.2009	10.000	55.000	2.059	24.204	91.263	840	92.103
Equity at 1.1.2010	10.000	55.000	2.059	24.204	91.262	840	92.103
Translation differences for foreign operations			(2)		(2)	0	(2)
Contribution to statutory reserve				0	0		0
Net income recognised directly in equity	0	0	(2)	0	(2)	0	(2)
Profit for the period				3.589	3.589	(6)	3.583
Total recognised income and expense for the period	0	0	(2)	3.589	3.587	(6)	3.581
Equity at 31.03.2010	10.000	55.000	2.057	27.792	94.849	834	95.683

The notes on pages 8 to 25 are an integral part of these Condensed Consolidated Interim Financial Statements

ISK million

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

	Notes	2010 1.1-31.3
Net cash used in operating activities		(11.818)
Net cash used in investing activities		(188)
Net increase in cash and cash equivalents		(12.006)
Cash and cash equivalents at the beginning of the year		38.743
Cash and cash equivalents at the end of the period		26.737
Reconciliation of cash and cash equivalents:		
Cash in hand		1.871
Cash balances with central banks		24.866
Total cash and cash equivalents		26.737

The notes on pages 8 to 25 are an integral part of these Condensed Consolidated Interim Financial Statements

ISK million

Accounting policies

General information

1. The reporting entity

Íslandsbanki hf. is a limited company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2010 comprise Íslandsbanki hf. (the parent) and its subsidiaries (together referred to as "the Bank").

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 28 June 2010.

2. Basis of preparation

Statement of Compliance

The Unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2010 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The Statements are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, with the exception of comparative amounts in the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and related notes which are presented for the whole year 2009.

The Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Bank for the period ended 31 December 2009. The Statements are available at the Bank's website www.islandsbanki.is.

Accounting policies

The same accounting policies, presentation and methods of computation have been followed in these Condensed Consolidated Interim Financial Statements as were applied in the preparation of the Bank's Consolidated Financial Statements for the year ended 31 December 2009.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Bank, and are rounded to the nearest million.

Assumptions and uncertainties in relation to the Bank's loan assets

There are great uncertainties in most of the input parameters and assumptions used in the valuation process of the assets acquired at a deep discount on 15 October 2008 from Glitnir. The Bank's management has, however, striven to reach the best appropriate value estimates based on known facts, their knowledge of the customers and the market and on official macroeconomic forecasts from the Central Bank of Iceland, the IMF and the OECD.

Factors that can affect the recovery value of the loan portfolio include macroeconomic parameters such as the unemployment rate, inflation and wage growth, actions taken by the government to facilitate and ease debt service and possible new legislation that lengthens the collection process or increases taxation and the extent of customer participation in flexible maturity and payment equalisation programmes.

Since the valuation is based on expected five-year cumulative losses with conservative estimates for collateral values and a prudent risk premium, the Bank's management is confident that the valuation of the acquired portfolio is robust enough to absorb the effects of realistic perturbations in applied assumptions.

At 31 March 2010 the economic environment and uncertainties surrounding the valuation of the financial assets acquired at a deep discount remain largely unchanged.

2. cont'd

Going concern

Since the start of its operations on 15 October 2008, the Bank has taken significant steps towards aligning the organisation and operations to reflect its commercial strategy. The main emphasis has been on strengthening the risk and control environment and redefining processes and policies with a view to adopting best practice methods and improving risk awareness.

The Bank has strengthened its debt management functions and works closely with customers who are experiencing payment difficulties in order to ensure maximum recovery of its assets.

The full extent of the repercussions that are likely to be experienced in wake of the recession which Iceland is currently undergoing are difficult to ascertain. The Bank continues to monitor its loan portfolio closely in the context of developments within the Icelandic economy as well as in markets abroad.

The Bank is subject to currency risk due to a mismatch in the contractual currencies in the assets and liabilities of the Bank. This imbalance is offset to some extent by loans with non-ISK contractual currency to borrowers with ISK-based income. These loans are effectively treated as ISK assets whereby the Bank impairs against related increases in loan balances due to depreciation of the ISK. With this adjustment the Bank's net currency imbalance at 43bn is more manageable. The Bank seeks to manage the currency imbalance through its operations and balance sheet management. For example, borrowers with ISK income have been offered the option to convert their non-ISK loans into ISK-based loans at a discount.

At present, most of the Bank's funding is from on-demand deposits. The Bank is confident that this will change over the coming years as investors' risk aversion reduces and they start seeking higher yielding investment opportunities. In the future, the Bank will focus on extending the maturities of its deposit base and at the same time start issuing short term unsecured notes and, to some extent, longer term secured bonds. Access to funding in foreign currencies will be limited in the short to medium term, although international markets are improving rapidly.

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on a going concern basis.

Financial assets and liabilities

3. The following table describes the carrying value of financial assets and financial liabilities.

At 31 March 2010	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Other amortised cost	Total carrying amount
Loans and receivables						
Cash and balances with Central Bank	12			26.737		26.737
Loans to credit institutions	14-15			89.080		89.080
Loans to customers	16-17			478.919		478.919
Loans and receivables		0	0	594.735	0	594.735
Bonds and debt instruments						
Listed		40.294				40.294
Unlisted			30.412			30.412
Bonds and debt instruments		40.294	30.412	0	0	70.706
Shares and equity instruments						
Listed		579				579
Unlisted			1.454			1.454
Shares and equity instruments		579	1.454	0	0	2.033
Derivatives	13	18				18
Total financial assets		40.891	31.866	594.735	0	667.492
Financial liabilities		6.787				6.787
Derivatives	13	36				36
Deposits from Central Bank	25				7	7
Deposits from credit institutions	25				138.125	138.125
Deposits from customers	26-27				327.351	327.351
Debt issued and other borrowed funds	28				60.416	60.416
Subordinated loans				0	24.105	24.105
Total financial liabilities		6.823	0	0	550.004	556.827

the three months ended 31 March 2010 10 ISK million

3. Cont'd

At 31 December 2009	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Other amortised cost	Total carrying amount	Fair value
Loans and receivables							
Cash and balances with Central Bank	12			38.743		38.743	38.743
Loans to credit institutions	14-15			87.416		87.416	87.416
Loans to customers	16-17			489.611		489.611	489.611
Loans and receivables		0	0	615.770	0	615.770	615.770
Bonds and debt instruments							
Listed		36.271	0			36.271	36.271
Unlisted			30.430			30.430	30.430
Bonds and debt instruments		36.271	30.430	0	0	66.701	66.701
Shares and equity instruments							
Listed		477	63			540	540
Unlisted			1.710			1.710	1.710
Shares and equity instruments		477	1.773	0	0	2.250	2.250
Total financial assets		36.748	32.203	615.770	0	684.721	684.721
Financial liabilities		7.332				7.332	7.332
Deposits from Central Bank	25				28	28	28
Deposits from credit institutions	25				139.064	139.064	143.752
Deposits from customers	26-27				339.659	339.659	339.659
Debt issued and other borrowed funds	28				69.190	69.190	69.190
Subordinated loans					24.843	24.843	24.843
Total financial liabilities		7.332	0	0	572.784	580.116	584.804

ISK million

Net interest income

4. Net interest income is specified as follows:

	2010 1.1-31.3	2009 1.1-31.12
Interest income:		
Cash and cash balances with Central Bank	354	3.002
Loans and receivables	17.991	75.196
Financial assets held for trading	273	1.830
Financial assets designated at fair value through profit or loss	619	159
Financial assets Share subscription	0	5.709
Other assets	7	1.016
Total interest income	19.244	86.913
Interest expenses:		
Deposits from credit institutions and Central Bank	(1.375)	(11.045)
Deposits	(5.040)	(34.061)
Borrowings	(1.834)	(7.673)
Subordinated loans	(280)	0
Financial liabilities held for trading	(127)	(503)
Other interest expense	(110)	(1.647)
Total interest expenses	(8.766)	(54.929)
Net interest income	10.478	31.984

Financial income

5. Financial income is specified as follows:

	2010 1.1-31.3	2009 1.1-31.12
Net gain (loss) on financial assets held for trading	30	142
Net (loss) gain on financial instruments designated at fair value through profit or loss	(415)	143
Net foreign exchange (loss) gain	(1.648)	10.852
Total	(2.033)	11.137

6. Net (loss) gain on financial assets and liabilities designated at fair value through profit or loss is specified as follows:

Shares	(415)	131
Bonds	0	12
Total	(415)	143

the three months ended 31 March 2010 12 ISK million

Other net operating income

7. Other net operating income is specified as follows:

	2010 1.1-31.3	2009 1.1-31.12
Agency fees and SLA fees	107	568
Legal cost and fees	37	135
Rental income	31	141
Gain on non-current assets	2	1.698
Other net operating (expenses) income	(90)	218
Other net operating income	87	2.760

Administrative expenses

8. Administrative expenses are specified as follows:

	2010 1.1-31.3	2009 1.1-31.12
Salaries and related expenses	2.165	8.036
Other administrative expenses	2.060	7.569
Depreciation and amortisation	129	508
Administrative expenses	4.354	16.113

Included in other administrative expenses is 312 million being 3,0% of average guaranteed deposit balance in the current accounting period as per note 32.

Staff and related expenses

9. Salaries and related expenses are specified as follows:

	2010 1.1-31.3	2009 1.1-31.12
Salaries	1.723	6.597
Pension and similar expenses	232	890
Social security charges	162	428
Other	47	121
Salaries and related expenses	2.165	8.036

Effective income tax rate

10. Taxes for the three month period to 31 March 2010 are calculated at 18%. The effective income tax rate in the Bank's income statement is 18.4% for the three month ended 31 March 2010. The difference is specified as follows:

	2010 1.1-31.3		2009 1.1-31.12	
Profit before tax	4.390		28.660	
Income tax calculated on the profit of the period	790	18,0%	4.299	15,0%
Tax recognised outside profit and loss	0	0,0%	406	1,4%
Correction in accordance with ruling on prior years' taxable income	0	0,0%	(10)	(0,0%)
Other differences	17	0,3%	(17)	(0,1%)
Income tax according to the statement of comprehensive income	807	18,4%	4.678	16,3%

the three months ended 31 March 2010 13 ISK million

Earnings per share

11. Earnings per share are specified as follows:

	2010 1.1-31.3	2009 1.1-31.12
Net profit of the equity holders of the parent, according to the financial statements	3.589	23.901
Average outstanding shares:		
Weighted average number of outstanding shares for the period, million	10.000	10.000
Average outstanding shares, million	10.000	10.000
Basic earnings per share	0,36	2,39
Diluted Earnings per share, ISK	0,36	2,39

Cash and balances with Central Bank

12. Specification of cash and cash balances with Central Bank:

	31.3.2010	31.12.2009
Cash in hand	1.871	1.842
Balances with Central Bank other than mandatory reserve deposits	16.655	10.707
Certificates of deposit	2.200	19.605
Included in cash and cash equivalents	20.726	32.155
Mandatory reverse deposits with Central Bank	6.011	6.588
Total	26.737	38.743

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations.

Certificates of deposit (CDs) are short term instruments issued by the Central Bank at predetermined interest rates. CDs are issued solely to deposit money banks and other financial institutions and are not transferable except to other comparable institutions.

Derivatives financial instruments

13. Derivatives held for trading:	Assets 31/03/2010	Liabilities 31/03/2010	Assets 31/12/2009	Liabilities 31/12/2009
FX forwards	7	36	0	0
Bond options	10	0	0	0
Total	18	36	0	0

ISK million

Loans

14. Loans to credit institutions:

	31/03/2010	31/12/2009
Money market loans	20.148	16.198
Bank accounts	19.704	21.162
Other loans	49.229	50.056
Loans to credit institutions	89.080	87.416

15. Loans to credit institutions :

	31 March 2010			31 December 2009		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Loans	89.673	(593)	89.080	88.009	(593)	87.416

16. Loans to customers:

Loans and advances to customers at amortised cost	478.919	489.611
Loans to customers	478.919	489.611

17. Loans to credit institutions and customers specified by sectors::

	31/03/2010	31/12/2009
Individuals	30%	30%
Credit institutions	14%	15%
Seafood	13%	12%
Real estate	14%	13%
Investment companies	10%	9%
Industry	4%	4%
Commerce	5%	5%
Service	4%	4%
Construction	3%	4%
Transportation	1%	1%
Other	2%	3%
Loans to credit institutions and customers	100%	100%

18. Loans to customers at amortised cost:

	31 March 2010			**31 December 2009**		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Loans to individuals	178.948	(10.517)	168.431	188.197	(13.237)	174.959
Loans to corporate entities	363.547	(60.047)	303.500	364.646	(57.714)	306.932
Central government and state-owned enterprises	5.210	(474)	4.736	4.472	(490)	3.982
Loans to municipalities	2.625	(373)	2.252	4.094	(356)	3.738
Total	550.330	(71.411)	478.919	561.409	(71.797)	489.611

the three months ended 31 March 2010 15 ISK million

19. Allowances for impairments:

	2010 1.1-31.3
Specific allowances for impairment	
Balance at beginning of year	49.596
Charge to income statement	1.411
Recoveries	56
Write-offs	(776)
Balance at the end of the period	50.287
Collective allowances for impairment	
Balance at beginning of year	22.796
Charge to income statement	136
Write-offs	(1.216)
Balance at the end of the period	21.716
Allowances for impairment - loans to credit institutions	593
Allowances for impairment - loans to customers	71.410
Total allowances for impairment	72.003
Total impairment charge	1.547

Specific allowances for impairment include impairment of foreign exchange gain for loans in a non-ISK contractual currency to borrowers with ISK-based income.

Investments in associates

20. Changes in investments in associates:

	31.3.2010	31.12.2009
Investments in associates at the beginning of the year	827	651
Purchases of shares in associates	0	74
Sales of shares in associates	0	(83)
Transfers	0	185
Share of results	(282)	0
Investments in associates at the end of the period	545	827

Investments in subsidiaries

21. The parent's interest in its subsidiaries are as follows:

	Location	Ownership
Kreditkort hf.	Iceland	55%
Borgun hf.	Iceland	55%
Íslandssjóðir hf.	Iceland	100%
Miðengi ehf.	Iceland	100%
Eik Properties ehf.	Iceland	100%
Glitnir Asset Management AS	Luxembourg	100%

The subsidiaries own fifteen subsidiaries that are also included in the Consolidated Financial Statements

ISK million

Related party disclosures

22. **Parent and ultimate controlling party**

The Bank has determined that ISB Holding is the ultimate controlling party of the Bank with GLB Holding having significant influence. This is reflected in related party transactions.

Entities which are controlled, jointly controlled or significantly influenced by the government (state-controlled entities) are not considered as being a related party if neither entity actually influenced the other and if the state did not actually influence either entity with regards to transactions between them. Transactions with state-controlled entities during the year were based on general business terms of the Bank.

Related party transactions

The Bank has a related party relationship with its subsidiaries, the Board of Directors of the parent company, the executive vice presidents of the Bank, close family members of individuals referred to herein and entities with significant influence as the largest shareholders of the Bank.

All loans to employees are provided on general business terms of the Bank. Included in assets are loans to key management.

Related parties have transacted with the Group during the period as follows:

	31.03.2010	31/12/2009
Loans to the CEO and Managing Directors (including companies owned by them)	263	292
Loans to shareholders and Members of the Board (including companies owned by them)	77	32
Loans to associated companies and other related parties	31.113	35.089
	31.453	35.413
Guarantees	168	135
Loan Commitments	200	222

Impairment allowances of ISK 380m have been recorded against balances outstanding during the period with related parties.

No share option programmes were operated during 2010.

Investment property

23. Investment property is specified as follows:

	31.03.2010	31/12/2009
Investment property at 1 January	2.056	1.679
Additions during the period	0	377
Investment property at the end of the period	2.056	2.056

Other assets

24. Other assets are specified as follows:

	31.03.2010	31/12/2009
Receivables	2.790	4.041
Prepaid expenses	210	179
Accruals	401	424
Inventory (real estate)	3.761	3.761
Other assets	347	355
Other assets	7.509	8.761

ISK million

Deposits from Central Bank and credit institutions

25. Deposits from Central Bank and credit institutions are specified as follows:

	31.03.2010	31/12/2009
Deposits Central Bank	7	28
Deposits from banks	138.125	139.064
Deposits from Central Bank and credit institutions	138.133	139.092

Deposits from customers

26. Deposits from customers are specified by type as follows:

	31.03.2010	31/12/2009
Demand deposits	188.588	205.652
Time deposits	138.763	134.006
Deposits from customers total	327.351	339.659

27. Deposits from customers are specified by owners as follows:

	31.03.2010		31/12/2009	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	5.951	2%	4.735	1%
Municipalities	3.482	1%	3.423	1%
Other companies	172.179	53%	180.944	53%
Individuals	145.739	45%	150.557	44%
Deposits from customers total	327.351	100%	339.659	100%

Debt issued and other borrowed funds

28. Specification of debt issued and other borrowed funds:

	31.03.2010	31/12/2009
Issued bonds	56.516	56.828
Loans from banks	1.446	1.446
Other debt securities	2.454	10.917
Debt issued and other borrowed funds	60.416	69.190

Other liabilities

29. Specification of other liabilities:

	31.03.2010	31/12/2009
Accruals	1.859	2.063
Liabilities to retailers for credit card provision	9.902	12.189
Guarantees	2.879	2.879
Chargeable gain tax	643	1.641
Unsettled securities transactions	4.399	64
Deferred income	146	135
Sundry liabilities	4.231	4.086
Other liabilities	24.060	23.057

ISK million

Equity

30. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 krona each. At 31.3.2010 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital

	31.03.2010	31/12/2009
Ordinary share capital	10.000	10.000
Share premium account	55.000	55.000
Total	65.000	65.000

Capital management

31. The capital adequacy ratio (CAD) is determined as follows:

	31.03.2010	31.12.2009
Tier 1 capital		
Ordinary share capital	10.000	10.000
Share premium	55.000	55.000
Other reserves	2.059	2.059
Retained earnings	27.792	24.204
Minority interest	834	840
Intangible assets	(199)	(107)
Total Tier 1 capital	95.486	91.996
Tier 2 capital		
Qualifying subordinated liabilities	24.105	24.843
Total regulatory capital	119.591	116.839
Risk-weighted assets		
- due to credit risk	435.027	454.773
- due to market risk	49.242	42.117
Market risk, trading book	5.572	3.195
Currency risk FX	43.670	38.922
- due to operational risk	89.701	92.929
Total risk weighted assets	573.970	589.819
Capital ratios		
Tier 1 ratio	16,6%	15,6%
Total capital ratio	20,8%	19,8%

the three months ended 31 March 2010 19 ISK million

Off balance sheet information

Obligations

32. The Bank has granted its customers guarantees, loan commitments and overdraft permissions. These items are specified as follows:

	31.03.2010	31/12/2009
Guarantees granted to customers	9.705	9.593
Committed undrawn lines of credit	6.457	5.165
Unused overdrafts	34.173	21.585
The Depositors and Investors Guarantee Fund – declaration of guarantee	3.697	3.697

The Depositors and Investors Guarantee Fund is discussed in detail in the Bank's Consolidated Financial Statements 2009.

Custody assets

33. Balance of custody assets:

	31.03.2010	31/12/2009
Custody assets	1.299.394	1.473.873

Contingencies

34. **Litigation threats**

Several former customers of Glitnir private banking services have threatened litigation to claim compensation for alleged mistakes made by the employees of Glitnir. One customer has already filed a lawsuit against Íslandsbanki with the Reykjavík District Court. The Bank has not accepted any liability and will challenge the lawsuit on the grounds that these claims relate to events that happened prior to the incorporation of the Bank and the assignment of certain liabilities and assets on 15 October 2008 and consequently are not the responsibility of Íslandsbanki in any way. The Bank estimates the total amount of compensation liabilities claimed by customers of Glitnir to be ISK 5.5bn.

Netting agreement

When certain assets and obligations were transferred from Glitnir to the Bank, the FME ruled that the customers would, on liquidation of Glitnir, maintain their right to claim netting of assets and liabilities held by Glitnir prior to acquisition on 15 October 2008. As a result, the Bank anticipates that it may have to write off assets netted off against liabilities in Glitnir.

The Bank has made an agreement with Glitnir that the latter will compensate for losses that may result from the netting of assets and liabilities. The claims in question are priority claims on the liquidated assets of Glitnir and the netting exercise is unlikely to have any effect on either the asset value or the earnings of Íslandsbanki.

Allocation of liens, guarantees and comparable rights

When certain assets and obligations were transferred from Glitnir to the Bank, the FME ruled that the Bank would take over all rights used to secure the performance of obligations of the debtors of Glitnir, including all liens, guarantees and other comparable rights connected to the claims of the Bank.

The Bank should, however, be accountable to Glitnir for specific collaterals of customers, as applicable, due to claims and derivatives which were not transferred to the Bank. The Bank has, in accordance with this decision, transferred to Glitnir certain collateralised obligations of customers. One customer has already filed a lawsuit against Íslandsbanki with the Reykjavík District Court challenging the Bank's decision to transfer the customer's money market deposit to Glitnir, which the Bank has in good faith decided was deposited as collateral for a foreign exchange future contract. The claim is for approximately ISK 450m. Any future allocation of collateral will be done under an agreement with Glitnir where Glitnir indemnifies Íslandsbanki against any future claims against the Bank arising from the transfer of any such rights.

the three months ended 31 March 2010 20 ISK million

34. cont'd

Indexed loans and foreign currency loans

The Bank has received several letters from attorneys representing its customers relating to possible or threatened lawsuits against the Bank. Firstly, claims may be set forward on the grounds that liability of certain customers has become void in part or whole due to foreign currency loans provided by the Bank to its customers, being deemed to be in breach of articles 13 and 14 of the Laws on Interest 38/2001 and therefore deemed unlawful. Secondly, in the case of the CPI indexed loans (CPI - Consumer Price Index), it is claimed that the increase in inflation has, due to recent events in the Icelandic economy, been far beyond the legitimate expectations of the borrowers and should therefore be declared null and void by the courts. Moreover, it is claimed that the loan obligations and their implementation is in conflict with article 36 of the Contract Laws 07/1936 which gives the Courts the authority to change or declare void unreasonable or unfair provisions in private contracts.

The Law on Interest 38/2001 does not address obligations in foreign currency and as such it does not state any given benchmarks, such as exchange rates of foreign currencies. There is no dispute over the validity of foreign currency loans as such, only the means of which the proceeds of the loans are disbursed and the instalments collected. The overriding principle in Icelandic Law is that contracts shall be upheld according to their terms.

Two opposite judgements have been passed in relation to the above in two districts. Both concern leasing contracts used by companies operation solely in that sector. Both parties have appealed. Because of the nature of the contracts, the effect on other types of FX loan contracts is uncertain, even if final judgement upholds the invalidly of a leasing contract.
The Supreme Court of Iceland ruled on 16 June 2010 that car loans made by two leasing lenders were illegally linked to foreign currency exchange rates in violation of Act No. 38/2001 on interest and price indexation. The Court ruled that since the provisions of the loan agreements concerned relating to exchange-rate indexation were in violation of Act No. 38/2001, they could not be regarded as having binding effect.

It appears to follow from the Court’s decision that loans granted in a foreign currency are not in violation of Act No. 38/2001. Issuing a loan in Icelandic krónur where the amount of individual payments is determined by the exchange rate of a foreign currency is prohibited by Act No. 38/2001. The Supreme Court found that the loans in question had unquestionably been made in Icelandic krónur and were thus in violation of Act No. 38/2001. It appears that there is no absolute rule for determining whether a loan was made in Icelandic krónur or a foreign currency. As a result, it is unclear at this point whether this ruling sets a precedent for other types of loan agreements.

The Supreme Court did not address the interest rate provisions of the loan agreements in question. Consequently, it is yet to be determined what reference rate should be used for recalculating the interest rate on the loans concerned and potential repayments to borrowers who have overpaid.

Some believe that the new interest rate should be based on LIBOR rather than the rate set by the Central Bank of Iceland on the basis of the lowest interest rate offered by credit institutions on new, general, non-indexed loans, and published pursuant to Article 10 of Act No. 38/2001 regarding credit institutions’ repayment to borrowers in the event of overpayment. Others claim the loans should be treated as if they were inflation-indexed loans.

Further cases involving foreign currency loans are currently pending before the courts, with decisions expected at the end of the year. These rulings will hopefully shed further light on the issue, e.g. by clarifying the definition of an “Icelandic loan” and a “foreign loan” and how the interest rate on loans deemed to be illegal should be recalculated.

Currently there is considerable legal uncertainty surrounding foreign currency loan agreements, including which types of contracts are illegal, what the new interest rate should be and the potential liability of lenders.

Íslandsbanki could face damage claims from its customers due to the verdict of the Supreme Court of Iceland declaring lenders were illegally linked to foreign currency exchange rates in violation of Act No. 38/2001 on interest and price indexation.

Dispute over the Bank’s claim on Straumur

Following the takeover of Straumur-Burdarás Investment Bank hf. (Straumur) by the FME on 4 April 2009, the Bank assumed deposit obligations from Straumur for the value of ISK 45 billion. The Bank also provided Straumur with funds to meet obligations towards depositors in its Danish branch. As a payment, Straumur issued a bond guaranteed with a lien in roughly all of Straumur’s assets. Deposits created in relation to settlement of prior debts were excluded.

The government committed to fund the Bank’s liquidity needs in relation to the said obligations by lending government bonds to the Bank. If the Straumur bond is not fully paid by the end of the term of the bond, the Bank may hold the remaining government bonds without further obligations.

The Straumur Resolution Committee accepted and acknowledged the claim and the lien. However, some of creditors of Straumur have disputed the Bank’s claim on the Straumur estate and the Resolution Committee has filed the dispute with the Reykjavík District Court.

The creditors claim that the Emergency Act passed on 6 October 2008, where deposits were moved up to priority ranking on bankruptcy, is unconstitutional and therefore illegal. The creditors claim that the bond and lien should never have been issued and are therefore void and should not enjoy priority ranking.

Negotiations between the Bank and the Straumur creditors are currently underway.

Liquidity Risk

35. The following table analyses the Bank's assets and liabilities according to their maturity. The classification is based on the remaining contractual maturity as of the date of the financial statements.

Maturity analysis 31 March 2010

On balance sheet financial liabilities - contractual undiscounted cashflows	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
Financial liabilities	6.787	0	0	0	0	0	0	6.787
Derivatives	36	0	0	0	0	0	0	36
Deposits from Central Bank	7	0	0	0	0	0	0	7
Deposits from credit institutions	105.000	221	102	24.848	0	7.954	0	138.125
Deposits from customers	273.092	9.750	3.618	641	924	33.321	6.005	327.351
Debt issued and other borrowed funds	463	2.396	1.413	2.826	5.652	22.606	25.060	60.416
Subordinated loans	0	0	0	0	0	0	24.105	24.105
Total financial liabilities	385.384	12.367	5.133	28.315	6.576	63.881	55.170	556.827
Other liabilities and equity								
Other liabilities	11.851	0	0	306	20.749	272	14.244	47.422
Equity	0	0	0	0	0	0	95.683	95.683
Total liabilities and equity	397.235	12.367	5.133	28.621	27.325	64.153	165.097	699.932
Total assets	199.201	14.392	16.699	67.767	84.378	129.810	187.685	699.932
Total maturity gap on 31 March 2010	(198.034)	2.025	11.566	39.146	57.053	65.657	22.588	0

Maturity analysis 31 December, 2009

On balance sheet financial liabilities - contractual undiscounted cashflows	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
Financial liabilities	7.332	0	0	0	0	0	0	7.332
Deposits from Central Bank	28	0	0	0	0	0	0	28
Deposits from credit institutions	128.103	1.390	0	0	79	9.492	0	139.064
Deposits from customers	283.501	15.231	504	507	813	33.209	5.894	339.659
Debt issued and other borrowed funds	462	981	0	0	8.463	0	59.284	69.190
Subordinated loans	0	0	0	0	0	0	24.843	24.843
Total financial liabilities	419.425	17.602	504	507	9.355	42.701	90.021	580.114
Other liabilities and equity								
Other liabilities	8.675	0	0	0	0	0	36.450	45.125
Equity	0	0	0	0	0	0	92.103	92.103
Total liabilities and equity	428.099	17.602	504	507	9.355	42.701	218.574	717.342
Total assets	230.244	12.991	19.415	58.776	77.959	114.647	203.310	717.342
Total maturity gap on 31 December, 2009	(197.855)	(4.611)	18.911	58.269	68.604	71.946	(15.264)	0

For the three months ended 31 March 2010 22 ISK million

Exposure towards inflation

36. The Bank is exposed to Icelandic inflation since the Consumer Price Index (CPI) indexed assets exceed the CPI-indexed liabilities. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in the CPI are recognised in profit and loss. Mismatch in the CPI-indexed assets and liabilities are reported to ALCO. On 31 March 2010 the CPI gap amounted to ISK 23.6bn.

Interest rate risk in the banking book

37. Interest rate risk is the risk that the Bank will experience deterioration in its financial position as interest rates change over time.

The management of interest rate risk in the banking book is supplemented by monitoring the sensitivity of the Bank's financial assets, financial liabilities and earnings towards changes in the underlying interest rates. Standard scenarios include an adverse 100 basis point parallel shift in all yield curves.

At the end of March 2010, a 100 basis point adverse parallel shift in yield curves would result in a loss of ISK 1.0bn.

Interest gap analysis 31 March, 2010

Assets	0-3 month	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Other	Total
Cash and balances with Central Bank	20.627	0	0	0	0	0	6.109	26.737
Derivatives	18	0	0	0	0	0	0	18
Bonds and debt instruments	53.059	11.479	2.529	333	2.120	1.186	0	70.706
Shares and equity instruments	0	0	0	0	0	0	2.033	2.033
Loans to credit institutions	87.757	1.323	0	0	0	0	0	89.080
Loans to customers	373.265	47.443	14.009	32.221	1.745	10.235	0	478.919
Investments in associates	0	0	0	0	0	9	536	545
Other assets	14	0	0	0	0	2.209	29.671	31.894
Total assets	534.741	60.245	16.538	32.554	3.865	13.639	38.349	699.932
Liabilities								
Financial liabilities	0	2.139	0	4.174	0	474	0	6.787
Derivatives	36	0	0	0	0	0	0	36
Deposits from Central Bank	7	0	0	0	0	0	0	7
Deposits from credit institutions	128.883	0	0	8.318	924	0	0	138.125
Deposits from customers	327.351	0	0	0	0	0	0	327.351
Debt issued and other borrowed funds	795	0	0	651	56.516	2.454	0	60.416
Subordinated loans	24.105	0	0	0	0	0	0	24.105
Other liabilities	0	0	0	0	0	0	47.422	47.422
Equity	0	0	0	0	0	0	95.683	95.683
Total liabilities	481.177	2.139	0	13.143	57.440	2.928	143.105	699.932
Net interest gap on 31 March 2010	53.564	58.106	16.538	19.411	(53.575)	10.711	(104.756)	0
Net interest gap on 31 December 2009	50.282	74.324	19.747	(3.129)	(53.334)	24.889	(112.779)	0

For the three months ended 31 March 2010 23 ISK million

Currency risk

38. Assets and liabilities classified according to currencies.

Currency analysis 31 March 2010

Assets	ISK	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank	25.364	466	876	7	4	3	16	26.737
Derivatives	0	18	0	0	0	0	0	18
Bonds and debt instruments	36.365	9.072	14.526	6.166	0	0	4.577	70.706
Shares and equity instruments	2.033	0	0	0	0	0	0	2.033
Loans to credit institutions	57.138	16.941	5.394	2.250	790	689	5.878	89.080
Loans to customers	233.095	94.966	38.771	5.019	52.472	46.845	7.751	478.919
Investments in associates	545	0	0	0	0	0	0	545
Other assets	31.880	0	0	0	0	0	14	31.894
Total assets	386.420	121.463	59.567	13.442	53.266	47.537	18.236	699.932
Liabilities								
Financial liabilities	6.787	0	0	0	0	0	0	6.787
Derivatives	0	36	0	0	0	0	0	36
Deposits from Central Bank	7	0	0	0	0	0	0	7
Deposits from credit institutions	93.576	9.717	17.650	8.040	0	19	9.123	138.125
Deposits from customers	283.424	18.094	14.185	4.664	1.128	1.151	4.705	327.351
Debt issued and other borrowed funds	60.416	0	0	0	0	0	0	60.416
Subordinated loans	0	24.105	0	0	0	0	0	24.105
Other liabilities	47.414	0	0	0	0	0	8	47.422
Equity	95.683	0	0	0	0	0	0	95.683
Total liabilities	587.307	51.952	31.835	12.704	1.128	1.170	13.836	699.932
Non-adjusted foreign currency imbalance.......	(200.887)	69.511	27.732	738	52.138	46.367	4.400	0
Adj. of currency imbalance for FX/ISK loans...	(158.319)	53.135	27.481	1.480	37.709	34.128	4.386	0
Net currency imbalance on 31 March 2010	(42.568)	16.376	251	(742)	14.429	12.239	14	0
Net currency imbalance on 31 December 2009	(38.923)	2.990	1.943	1.022	17.955	12.783	2.229	0

ISK million

Sensitivity analysis using conventional risk measures

39. The Bank calculates Value-at-Risk (VaR) for the currency exposure using 95% confidence level and both a 1-day and a 10-day holding period.

The interest rate risk for bonds and debt instruments is calculated as the risk of loss from parallel shift of the yield curve of 100 basis points (1 percentage point). Inflation risk in the trading book is minimal and not separately reported. It is included in tha Bank´s total exposure to CPI (see note 36).

The BPV for the indexed and non-indexed bonds is -0,91 million and -0,83 million, respectively. This means that a 0.01% parallel upward (downward) shift in the yield curve will decrease (increase) the value of the indexed and non-indexed bonds by approximately 0,91 million and 0,83 million, respectively.

Currency exposure (VaR, 95% confidence level, 1- and 10- day holding periond)

1- day holding period	312
10- day holding period	634

IR (Shift on IR 100 bp)

Shift on yield curve 100bp	261

Prices (Equity)

Trading	324
Banking	1.383

ISK million