Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended 31 March 2011

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

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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 2011 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 2011 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Financial 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 Changes in Equity, Condensed Consolidated Statement of Cash Flows and related notes which are presented for the year ended 31 December 2010.

The profit from the Bank′s operations for the period 1 January to 31 March 2011 amounted to ISK 3,586 million, which corresponds to a 11.7% return on equity. Bank equity, according to the consolidated balance sheet, amounted to ISK 124,264 million at 31 March 2011. The Bank's total capital ratio, calculated according to the Act on Financial Undertakings, was 27.4% and the Tier 1 ratio was 23.2%. Under Icelandic law the minimum capital 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 666,002 million at the end of the period.

The Board of Directors and the CEO would like to draw attention to uncertainties relating to recent rulings of the Supreme Court of Iceland in relation to foreign currency loans to individuals and corporations. Uncertainties in relation to loan assets are discussed under notes 2 and 35.

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 as at 31 March 2011.

The Board of Directors and the CEO of Íslandsbanki hf. hereby confirm the Bank′s Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2011 by means of their signatures.

Reykjavík, 24 May 2011

Board of Directors:

Friðrik Sophusson, Chairman
Kolbrún Jónsdóttir
Neil Graeme Brown
John E. Mack
Daniel Levin
Árni Tómasson
Marianne Økland

Chief Executive Officer:

Birna Einarsdóttir

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 March 2011

	Notes	2011 1.1-31.3	2010 1.1-31.3
Interest income		12,397	17,915
Interest expense		(4,336)	(8,766)
Net interest income	4	8,061	9,149
Net valuation changes on loans and receivables	5	(664)	(1,176)
Provision for latent impairment losses	5,20	(171)	(561)
Net interest income after valuation changes on loans and receivables		7,226	7,412
Fee and commission income		2,597	2,039
Fee and commission expense		(882)	(415)
Net fee and commission income		1,715	1,624
Net financial expenses	6-7	(138)	(385)
Net foreign exchange gain (loss)	8	202	(127)
Other net operating income	9	359	87
Operating income		9,364	8,611
Administrative expenses	10-11	(5,170)	(4,354)
Net gain on non-current assets and disposal groups held for sale		312	133
Profit before tax		4,506	4,390
Income tax	12	(865)	(807)
Bank tax		(55)	0
Profit for the period		3,586	3,583
Other comprehensive income			
Foreign currency translation differences for foreign operations		1	(2)
Other comprehensive income for the period		1	(2)
Total comprehensive income for the period		3,587	3,581
Attributable to:			
Equity holders of Íslandsbanki hf.		3,592	3,589
Non-controlling interests		(6)	(6)
Profit for the period		3,586	3,583
Basic earnings per share	13	0.36	0.36
Diluted earnings per share	13	0.36	0.36

The notes on pages 8 to 34 are an integral part of these Condensed Consolidated Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 31 March 2011

	Notes	31.3.2011	31.12.2010
Assets			
Cash and balances with Central Bank	3,14	32,181	30,799
Derivatives	3,15	271	70
Bonds and debt instruments	3	55,503	68,024
Shares and equity instruments	3	3,055	3,022
Loans to credit institutions	3,16-17	33,111	30,870
Loans to customers	3,18-19	496,067	515,161
Investments in associates	21	744	354
Property and equipment		4,511	5,419
Intangible assets		241	187
Deferred tax assets		164	283
Non-current assets and disposal groups held for sale	25	27,952	23,489
Other assets	26	12,202	5,544
Total Assets		666,002	683,222
Liabilities			
Financial liabilities	3	8,529	9,090
Derivatives	3,15	834	429
Deposits from Central Bank	3,27	7	26
Deposits from credit institutions	3,27	91,292	96,212
Deposits from customers	3,28,29	318,317	327,158
Debt issued and other borrowed funds	3,30	53,889	55,425
Subordinated loans	3	22,383	21,241
Current tax liabilities		8,999	9,024
Deferred tax liabilities		80	18
Non-current liabilities and disposal groups held for sale	25	16,147	16,442
Other liabilities	31	21,261	26,694
Total Liabilities		541,738	561,759
Equity			
Share capital	32	10,000	10,000
Share premium	32	55,000	55,000
Other reserves		2,499	2,498
Retained earnings		56,765	53,174
Total equity attributable to the equity holders of Íslandsbanki hf.		124,264	120,672
Non-controlling interests		0	791
Total Equity		124,264	121,463
Total Liabilities and Equity		666,002	683,222

The notes on pages 8 to 34 are an integral part of these Condensed Consolidated Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity
for the three months ended 31 March 2011

	Attributable to equity holders of Íslandsbanki hf.					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Equity at 1.1.2010	10,000	55,000	2,059	24,204	91,263	840	92,103
Translation differences for foreign operations			(8)		(8)		(8)
Contribution to statutory reserve			447	(447)	0		0
Profit for the period				29,418	29,418	(49)	29,369
Total recognised income and expense for the period	0	0	439	28,971	29,410	(49)	29,361
Equity at 31.12.2010	10,000	55,000	2,498	53,174	120,672	791	121,463
Equity at 1.1.2011	10,000	55,000	2,498	53,174	120,672	791	121,463
Translation differences for foreign operations			1		1		1
Net income recognised directly in equity	0	0	1	0	1	0	1
Profit for the period				3,592	3,592	(6)	3,586
Total comprehensive income for the period	0	0	1	3,592	3,593	(6)	3,587
Change in minority interest					0	(785)	(785)
Equity at 31.3.2011	10,000	55,000	2,499	56,765	124,264	0	124,264

The notes on pages 8 to 34 are an integral part of these Condensed Consolidated Financial Statements

For the three months ended 31 March 2011 6 Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows
for the three months ended 31 March 2011

	Notes	2011 1.1-31.3	2010 1.1-31.12
Net cash provided (used in) by operating activities		5,150	(15,326)
Net cash used in investing activities		(177)	(724)
Net increase (decrease) in cash and cash equivalents		4,973	(16,050)
Effects of exchange rate changes on cash and cash equivalents		26	(115)
Cash and cash equivalents at the beginning of the year		37,152	53,317
Cash and cash equivalents at the end of the period		42,151	37,152
Reconciliation of cash and cash equivalents:			
Cash on hand	14	1,757	1,833
Cash balances with Central Bank	14	24,626	23,217
Bank accounts	16	15,768	12,102
Total cash and cash equivalents		42,151	37,152

The notes on pages 8 to 34 are an integral part of these Condensed Consolidated Financial Statements

For the three months ended 31 March 2011 7 Amounts are in ISK million

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Notes to the Condensed Consolidated Financial Statements

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 2011 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 24 May 2011.

2. Basis of preparation

Statement of compliance

The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2011 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The Financial 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 Changes in Equity, Condensed Consolidated Statement of Cash Flows and related notes which are presented for the year ended 31 December 2010.

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 and the Risk Book for the year ended 31 December 2010. The Financial Statements and the Risk Book 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 2010.

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 were uncertainties in input parameters and assumptions used in valuation of the assets acquired from Glitnir at a deep discount. The Bank's management based their value estimates on expected five-year cumulative losses with conservative estimates for collateral values and a prudent risk premium, 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 legislation that lengthens the collection process or increases taxation and the extent of customer participation in flexible maturity and payment equalisation programmes.

At 31 March 2011 many of the uncertainties surrounding the valuation of the financial assets acquired at a deep discount and the economic environment were still present. The Bank's management is, however, confident that the Bank’s capital base is robust enough to absorb reasonable variances in applied assumptions.

The valuation is discussed in detail in the Consolidated Financial Statements 2009. Contingencies relating to the acquired loan assets are further discussed under note 35.

2. cont'd

Going concern

The full extent of repercussions likely to be experienced in wake of the recession which Iceland is currently undergoing, is difficult to ascertain. In the meantime, the Bank continues to strengthen its debt management functions and monitor its loan portfolio in the context of developments within the Icelandic economy, as well as markets abroad.

There are uncertainties present in relation to the valuation and recoverability of the Bank's loan assets acquired from Glitnir and the Bank has worked closely with customers experiencing payment difficulties in order to ensure maximum recovery of its assets.

In September 2010 the Supreme Court of Iceland ruled that a principal amount in ISK could not be linked to foreign currencies. The Supreme Court subsequently ruled that the lowest offered Central Bank rate for non-indexed loans should be applied to these loans instead of the contractual interest rate. The Bank's leasing contracts fall under this ruling and the Bank has already offered its customers to settle their loan contracts accordingly. The financial effect of this is fully reflected in the consolidated financial statements.

The Supreme Court ruling on which interest rate to use for loan contracts that are deemed to be illegally linked to foreign currency, gives precedence and has therefore reduced the Bank's uncertainty as to the financial impact of future rulings. The effect on other types of foreign currency loans remains uncertain.

Since its incorporation the Bank has been subject to a currency risk due to a mismatch in the contractual currencies its assets and liabilities. This imbalance has been offset to some extent by the Bank's treatment of loans with non-ISK contractual currency to borrowers with ISK-based income as ISK assets, whereby the Bank impairs any increase in loan balances due to depreciation of the ISK. Borrowers with ISK income have been offered the option to convert their non-ISK loans into ISK-based loans at a discount.

To address the remaining imbalance, the Bank entered into a foreign exchange swap on 30 December 2010. Currency risk is further discussed under note 44.

Currently, 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, issue 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 tables show the carrying value of financial assets and financial liabilities according to their IAS39 classification.

At 31 March 2011	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	14			32,181		32,181
Loans to credit institutions	16-17			33,111		33,111
Loans to customers	18-19			496,067		496,067
Loans and receivables		0	0	561,359	0	561,359
Bonds and debt instruments						
Listed		22,570	30,654			53,224
Unlisted			2,279			2,279
Bonds and debt instruments		22,570	32,933	0	0	55,503
Shares and equity instruments						
Listed		501				501
Unlisted			2,554			2,554
Shares and equity instruments		501	2,554	0	0	3,055
Derivatives	15	271				271
Total financial assets		23,342	35,487	561,359	0	620,188
Financial liabilities		8,529				8,529
Derivatives	15	834				834
Deposits from Central Bank	27				7	7
Deposits from credit institutions	27				91,292	91,292
Deposits from customers	28-29				318,317	318,317
Debt issued and other borrowed funds	30				53,889	53,889
Subordinated loans				0	22,383	22,383
Total financial liabilities		9,363	0	0	485,888	495,251

For the three months ended 31 March 2011 11 Amounts are in ISK million

3. Cont'd

At 31 December 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	14			30,799		30,799
Loans to credit institutions	16-17			30,870		30,870
Loans to customers	18-19			515,161		515,161
Loans and receivables		0	0	576,830	0	576,830
Bonds and debt instruments						
Listed		36,201	0			36,201
Unlisted			31,823			31,823
Bonds and debt instruments		36,201	31,823	0	0	68,024
Shares and equity instruments						
Listed		411	51			462
Unlisted			2,560			2,560
Shares and equity instruments		411	2,611	0	0	3,022
Derivatives	15	70				70
Total financial assets		36,682	34,434	576,830	0	647,946
Financial liabilities		9,090				9,090
Derivatives	15	429				429
Deposits from Central Bank	27				26	26
Deposits from credit institutions	27				96,212	96,212
Deposits from customers	28-29				327,158	327,158
Debt issued and other borrowed funds	30				55,425	55,425
Subordinated loans					21,241	21,241
Total financial liabilities		9,519	0	0	500,062	509,581

Amounts are in ISK million

Net interest income

4. Net interest income is specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Interest income:		
Cash and balances with Central Bank	282	354
Loans and receivables	11,581	16,662
Financial assets held for trading	158	273
Financial assets designated at fair value through profit or loss	330	619
Other assets	46	7
Total interest income	12,397	17,915
Interest expense:		
Deposits from credit institutions and Central Bank	(449)	(1,375)
Deposits from customers	(2,536)	(5,040)
Borrowings	(973)	(1,834)
Subordinated loans	(280)	(280)
Financial liabilities held for trading	(68)	(127)
Other interest expense	(30)	(110)
Total interest expense	(4,336)	(8,766)
Net interest income	8,061	9,149

Net valuation changes on loans and receivables

5. Net valuation changes on loans and receivables:

	2011 1.1-31.3	2010 1.1-31.3
Impairment charged to comprehensive income:		
Specific impairment losses on financial assets	(2,543)	(2,507)
(Impairment) reversal of impairment of foreign exchange gain	(1,672)	1,521
Net specific impairment losses on financial assets	(4,215)	(986)
Provision for latent impairment losses	(171)	(561)
Total impairment charged to comprehensive income (see note 20)	(4,386)	(1,547)
Net valuation changes:		
Income due to revised estimated future cash flow from loans	1,879	1,331
Net specific impairment losses on financial assets	(4,215)	(986)
Foreign exchange gain (loss) (see note 8)	1,672	(1,521)
Net valuation changes on loans and receivables	(664)	(1,176)

(Impairment) reversal of impairment of foreign exchange gain from customers with foreign exchange loans and cash flow in ISK is offset against total foreign exchange gain (loss) as per note 8.

Amounts are in ISK million

Net financial expenses

6. Net financial expenses are specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Net (loss) gain on financial instruments held for trading	(141)	30
Net gain (loss) on financial instruments designated at fair value through profit or loss	3	(415)
Net financial expenses	(138)	(385)

7. Net gain (loss) on financial instruments designated at fair value through profit or loss is specified as follows:

Shares	3	(415)
Net gain (loss) on financial instruments designated at fair value through profit or loss	3	(415)

Net foreign exchange gain (loss)

8. Net foreign exchange gain (loss) is specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Assets:		
Cash and balances with Central Bank	26	(17)
Financial assets held for trading	560	273
Loans to credit institutions	740	(696)
Loans to customers	3,639	(2,897)
Other assets	9	(23)
Total	4,974	(3,360)
Liabilities:		
Deposits from credit institutions	(66)	(4)
Deposits from customers	(1,865)	690
Subordinated loan	(1,142)	1,018
Other liabilities	(27)	8
Total	(3,100)	1,712
Unadjusted net foreign exchange gain (loss)	1,874	(1,648)
Foreign exchange reversal on loans to customers with ISK cash flow	(1,672)	1,521
Net foreign exchange gain (loss)	202	(127)

Other net operating income

9. Other net operating income is specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Agency fees and service level agreement fees	81	107
Rental income	59	31
Other net operating income (expenses)	219	(51)
Other net operating income	359	87

Amounts are in ISK million

Administrative expenses

10. Administrative expenses are specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Salaries and related expenses	2,492	2,165
Other administrative expenses*	2,510	2,060
Depreciation and amortisation	168	129
Administrative expenses	5,170	4,354

*Included in other administrative expenses is an insurance fund premium of ISK 467m for the Depositors and Investors Guarantee Fund (Q1 2010: ISK 312m).

Staff and related expenses

11. Salaries and related expenses are specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Salaries	2,010	1,724
Pension and similar expenses	269	232
Social security charges	178	162
Other	35	47
Salaries and related expenses	2,492	2,165

Effective income tax rate

12. Taxes for the three month period to 31 March 2011 are calculated at 20%. The effective income tax rate in the Bank's income statement is 19,2% for the three months ended 31 March 2011. The difference is specified as follows:

	2011 1.1-31.3		2010 1.1-31.3	
Profit before tax	4,506		4,390	
Income tax calculated on the profit of the period	901	20.0%	790	18.0%
Income not subject to tax	(102)	(2.3%)	0	0.0%
Other differences	66	1.4%	17	0.3%
Income tax according to the statement of comprehensive income	865	19.2%	807	18.4%

Earnings per share

13. Earnings per share are specified as follows:

	2011 1.1-31.3	2010 1.1-31.3
Net profit of the equity holders of the parent, according to the statement of comprehensive income	3,592	3,589
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	0.36
Diluted earnings per share	0.36	0.36

Amounts are in ISK million

Cash and balances with Central Bank

14. Specification of cash and balances with Central Bank:

	31.3.2011	31.12.2010
Cash on hand	1,757	1,833
Balances with Central Bank other than mandatory reserve deposits	7,997	16,352
Certificates of deposit	16,629	6,865
Included in cash and cash equivalents	26,383	25,050
Mandatory reserve deposits with Central Bank	5,798	5,749
Cash and balances with Central Bank	32,181	30,799

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 banks and other financial institutions and are not transferable except to other comparable institutions.

Derivatives financial instruments

15. Derivatives held for trading:	Assets 31.3.2011	Notional values related to assets 31.3.2011	Liabilities 31.3.2011	Notional values related to liabilities 31.3.2011
Cross currency interest rate swaps	88	6,447	674	52,746
Foreign exchange forwards	55	1,556	41	1,394
Foreign exchange swaps	114	5,596	30	4,806
Bond forwards	7	330	5	330
Bond options	7	800	84	25,900
Derivatives held for trading	271	14,729	834	85,176

Derivatives held for trading:	Assets 31.12.2010	Notional values related to assets 31.12.2010	Liabilities 31.12.2010	Notional values related to liabilities 31.12.2010
Cross currency interest rate swaps	0	0	312	48,217
Equity options	58	500	0	0
Foreign exchange forwards	12	3,453	44	8,859
Foreign exchange swaps	0	231	0	1,537
Bond options	0	0	73	25,000
Derivatives held for trading	70	4,184	429	83,613

Amounts are in ISK million

Loans

16. Loans to credit institutions:

	31.3.2011	31.12.2010
Money market loans	17,068	17,788
Bank accounts	15,768	12,102
Repo loans	111	980
Other loans	164	0
Loans to credit institutions	33,111	30,870

17. Loans to credit institutions :

	31.3 2011 Gross amount	31.3 2011 Impairment allowance	31.3 2011 Carrying amount	31.12 2010 Gross amount	31.12 2010 Impairment allowance	31.12 2010 Carrying amount
Loans	33,701	(590)	33,111	31,456	(586)	30,870
Loans to credit institutions	33,701	(590)	33,111	31,456	(586)	30,870

18. Loans to customers:

	31.3.2011	31.12.2010
Loans and advances to customers at amortised cost	496,067	515,161
Loans to customers	496,067	515,161

19. Loans to customers at amortised cost:

	Gross amount	Impairment allowance	31.3.2011 Carrying amount	Gross amount	Impairment allowance	31.12.2010 Carrying amount
Loans to individuals	179,018	(9,334)	169,684	181,196	(8,483)	172,713
Loans to corporate entities	324,673	(51,324)	273,349	335,044	(52,526)	282,518
Central government and state-owned enterprises	3,168	(427)	2,741	3,228	(389)	2,839
Loans to municipalities	4,922	(421)	4,501	5,226	(317)	4,909
Government secured customer loan	45,792	0	45,792	52,182	0	52,182
Loans to customers	557,573	(61,506)	496,067	576,876	(61,715)	515,161

20. Financial assets - impairments

The following table shows the movement in the provision for impairment losses for loans and receivables.

	Individually assessed	Collectively assessed	Latent	31.3.2011 Total	31.12.2010 Total
At 1 January	45,623	15,687	991	62,301	72,391
Amounts written-off	(2,444)	(311)	0	(2,755)	(25,840)
Recoveries of amounts previously written-off	90	0	0	90	402
Principal credit adjustment	(587)	(1,339)	0	(1,926)	(4,667)
Charged to the comprehensive income	4,053	162	171	4,386	20,015
At the end of the period*	46,735	14,199	1,162	62,096	62,301

*The provision for impairment losses at 31 March 2011 includes ISK 590 million relating to loans to credit institutions (2010: ISK 586 million).

	2011 1.1-31.3	2010 1.1-31.3
Impairment losses charged to the comprehensive income:		
Loans to customers	4,385	1,547
Loans to credit institutions	1	0
Impairment losses charged to the comprehensive income	4,386	1,547

For the three months ended 31 March 2011 17 Amounts are in ISK million

Investments in associates

21. Changes in investments in associates:

	31.3.2011	31.12.2010
Investments in associates at the beginning of the year	354	827
Purchases of shares in associates	0	54
Sale of shares in associates	0	(8)
Transfers	390	0
Revaluation	0	(519)
Investments in associates at the end of the period	744	354

Investment in subsidiaries

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

	Location	Owner-ship
Kreditkort hf.	Iceland	100%
Íslandssjóðir hf.	Iceland	100%
Miðengi ehf.	Iceland	100%
Eik Properties ehf.	Iceland	100%
Jarðboranir hf.	Iceland	100%
Island Fund S.A. (formerly Glitnir Asset Management)	Luxembourg	100%
Glacier Geothermal and Seafood Corporation	USA	100%
Glacier Securities LLC	USA	100%
Air Atlanta Properties Ltd.	UK	100%
17 other subsidiaries (SME)	Iceland	

Related party disclosures

23. 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 the 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 period 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 Bank during the period as follows:

	31.3.2011	31.12.2010
CEO and Managing Directors (including companies owned by them)	(48)	(59)
Members of the Board (including companies owned by them)	(123)	(817)
Associated companies and other related parties	10,071	21,147
Total	9,900	20,271
Guarantees	100	55
Loan commitments and overdraft	2,131	187

Impairment allowances of ISK 891,6m were recognised in the year against balances outstanding with related parties.

No share option programmes were operated during 2011.

For the three months ended 31 March 2011 18 Amounts are in ISK million

Investment property

24. Investment property is specified as follows:

	31.3.2011	31.12.2010
Balance at the beginning of the year	0	2,056
Sales of investment property	0	(377)
Transferred	0	(1,679)
Investment property at the end of the period	0	0

Non-current assets and disposal groups held for sale

25. Specification of non-current assets and disposal groups held for sale:

	31.3.2011	31.12.2010
Repossessed collateral	7,844	7,435
Assets of disposal groups classified as held for sale	20,108	16,054
Total	27,952	23,489

Repossessed collateral:

Residential property	5,170	4,880
Industrial equipment	70	75
Vehicles	420	253
Equipment	117	160
Shares	2,067	2,067
Total	7,844	7,435

Assets of disposal groups classified as held for sale:	31.3.2011	31.12.2010
Cash	355	5
Investment properties	14,686	15,086
Properties	269	0
Equipment	2,221	609
Receivables	905	98
Inventory	1,097	157
Other assets	575	99
Total	20,108	16,054

Liabilities associated with assets classified as held for sale:	31.3.2011	31.12.2010
Payables	2,134	59
Deferred tax liabilities	456	0
Borrowings and other liabilities	13,557	16,383
Total	16,147	16,442

Amounts are in ISK million

Other assets

26. Other assets are specified as follows:

	31.3.2011	31.12.2010
Receivables	581	1,532
Unsettled securities transactions	8,558	687
Prepaid expenses	279	303
Accruals	372	620
Inventory (real estate)	1,889	1,889
Other assets	523	513
Other assets	12,202	5,544

The inventory comprises real estate valued at the lower of cost and net realisable value.

Deposits from Central Bank and credit institutions

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

	31.3.2011	31.12.2010
Repurchase agreements with Central Bank	7	26
Deposits from credit institutions	91,292	96,212
Deposits from Central Bank and credit institutions	91,299	96,238

Deposits from customers

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

	31.3.2011	31.12.2010
Demand deposits	199,985	214,597
Time deposits	118,332	112,561
Deposits from customers	318,317	327,158

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

	31.3.2011		31.12.2010	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	4,468	1%	4,065	1%
Municipalities	4,600	1%	4,927	2%
Other companies	179,633	57%	185,886	57%
Individuals	129,616	41%	132,280	40%
Deposits from customers	318,317	100%	327,158	100%

For the three months ended 31 March 2011 20 Amounts are in ISK million

Debt issued and other borrowed funds

30. Specification of debt issued and other borrowed funds:

	31.3.2011	31.12.2010
Issued bonds	51,520	52,717
Loans from credit institutions	0	353
Other debt securities	2,369	2,355
Debt issued and other borrowed funds	53,889	55,425

Other liabilities

31. Specification of other liabilities:

	31.3.2011	31.12.2010
Accruals	2,410	1,951
Liabilities to retailers for credit card provision	0	12,921
Guarantees	1,341	1,664
Chargeable gain tax	626	1,357
Unsettled securities transactions	13,324	1,386
Deferred income	208	345
Sundry liabilities	3,352	7,070
Other liabilities	21,261	26,694

Equity

32. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 each. At 31.3.2011 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital

	31.3.2011	31.12.2010
Ordinary share capital	10,000	10,000
Share premium account	55,000	55,000
Total share capital	65,000	65,000

Off balance sheet items

Obligations

33. The Bank provides off balance sheet commitments. These items are specified as follows:

	31.3.2011	31.12.2010
Guarantees granted to customers	7,971	8,404
Committed undrawn lines of credit	18,754	13,453
Unused overdrafts	15,620	17,186
Credit card commitments	19,909	25,436
The Depositors and Investors Guarantee Fund – declaration of guarantee	3,689	3,689

The Depositors and Investors Guarantee Fund is discussed in detail in the Bank's Consolidated Financial Statements 2010.

Balance of custody assets

34. Balance of custody assets:

	31.3.2011	31.12.2010
Custody assets	610,500	642,502

Amounts are in ISK million

Contingencies

35. **Litigation threats**

Several former customers of Glitnir private banking services have threatened litigation against the Bank in order to claim compensation for alleged mistakes made by former employees of Glitnir. A few of those customers have already filed a lawsuit against the Bank with the Reykjavík District Court. The Bank has not accepted liability and will challenge these lawsuits on the grounds that these claims relate to events that happened prior to the incorporation of the Bank and the assignment of related liabilities and assets and are therefore not the responsibility of the Bank in any way. The District Court has now ruled in favour of the Bank in one of these cases stating that the Bank cannot be held responsible for a mistake made by a Glitnir employee. This ruling was not appealed. The Bank estimates the total amount of compensation liabilities currently 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 (Financial Supervisory Authority) ruled that customers would, upon liquidation of Glitnir, maintain their right to claim netting of assets and liabilities held by Glitnir prior to the Bank′s acquisition. The Bank made an agreement with Glitnir that the latter will compensate the Bank for any losses incurred as a result of netting of assets and liabilities. The claims in question are priority claims on the liquidated assets of Glitnir and the netting exercise is therefore unlikely to affect either the net asset value or the earnings of the Bank.

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 collateral of its 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 filed a lawsuit against the Bank with the Reykjavík District Court challenging the Bank′s decision to transfer the customer's money market deposit to Glitnir which the Bank, in good faith, identified as collateral for a foreign exchange future contract. The claim was for approximately ISK 450m. The District Court ruled in favour of the Bank and the case has now been appealed to the Iceland Supreme Court. Any future allocation of collaterals will be made under an agreement with Glitnir, whereby Glitnir indemnifies the Bank against any future claims arising from the transfer of such rights.

Indexed loans and foreign currency loans

The Bank has received several letters from attorneys representing customers of the Bank, relating to possible or threatened lawsuits against the Bank due to loans which are in foreign currency or CPI linked (CPI - Consumer Price Index). Firstly, claims may be made on the grounds that the 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 Interest Law 38/2001 and therefore deemed unlawful. Secondly, in the case of the CPI indexed loans, it is claimed that the rise in inflation has, due to recent events in the Icelandic economy, been far beyond 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 grossly unfair. In this context the customers cite article 36 of the Contract Law 07/1936 which gives the Courts the authority to change, or declare void, unreasonable or unfair provisions in private contracts.

The Bank has challenged the claims made and maintains that the debt obligations are legal and valid. The Interest Law 38/2001 does not address obligations in foreign currency and 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 contradicting judgements were passed in relation to the above in two districts. Both concerned leasing contracts used by companies operating solely in that sector. Both parties appealed and the Supreme Court ruled that the contracts in question should be considered to be ISK loans and the principal could not be linked to foreign currencies. However, the Court did not rule on which interest rate should be applied to the contracts. The Supreme Court subsequently ruled that for loans whose principal is deemed to have an illegal link to foreign currencies, the lowest offered rate for non-indexed loans published by the Central Bank shall be applied instead of the contractual interest rate.

While the Bank's leasing contracts clearly fall under this ruling, the effect on other types of foreign currency loan contracts remains uncertain. It is however clear that, although the amount owed may be changed by the Courts, loan obligations containing illegal foreign currency provisions will not be declared null and void. Several court rulings are expected in relation to whether or not certain types of loans are truly foreign currency denominated loans or deemed to be illegally linked to foreign currency.

35. Cont'd

The contract forms used to document foreign currency linked and foreign currency denominated loans by the Bank are numerous and the wording of the individual contract form could be the deciding factor. Depending on method of categorising, 20-30 contract forms have been used besides the leasing contracts. The Bank has assessed the contract forms as to their validity as true foreign currency loan contracts. Based in part on this assessment, the Bank has made some assumptions as to the possible financial effect of the lawsuits, adjusting for the fact that the Bank has already offered its customers principal adjustment of their foreign currency loans and taking into account that a ruling on a certain type of interest has been passed.

The Supreme Court ruling on which interest rates to use for loan contracts that are deemed to be illegally linked to foreign currency has reduced the uncertainty for the Bank with respect to the financial impact of future rulings. It is assumed that the ruling, referring to the lowest Central Bank rate, is a precedent for the outcome of other court cases.

Based on the Supreme Court ruling for car loans, the Bank has offered all customers of Asset Based Financing to settle their loan contracts based on the lowest Central Bank rates. The financial impact of this is already reflected in the accounts.

The District Court of South Iceland ruled on 29 October 2010 that a loan in foreign currency granted by the Bank should indeed be treated as a foreign currency denominated contract. The contract in question was not considered to be in breach of articles 13 and 14 of the Interest Law 38/2001 and was therefore deemed lawful. Furthermore, the loan obligations and their implementation is not unfair according to article 36 of the Contract Law 07/1936 which gives the Courts the authority to change or declare void unreasonable or unfair provisions in private contracts. The case has been appealed to the Supreme Court.

In order to address the uncertainty surrounding which foreign currency loans should be deemed to be illegally linked to foreign currency, the Parliament introduced a new legislation proposing a change to the Interest Law 38/2001. The bill was passed as Amendment to Interest Law 151/2010, taking effect on the 28 December 2010. Based on the context of this new legislation, the Bank will treat all foreign currency dominated car loans according to the ruling of the Supreme Court. All customers with foreign currency mortgages are to be presented with an offer of having their mortgage recalculated according to a similar formula, regardless of the validity of the contract in question. The definition of a mortgage in the new legislation refers to the Tax Law. The recalculation has to be offered if the debtor was eligible for a refund in part of paid interest (interest subsidy) of the loan. The Bank has decided to expand this definition to cover all residential loans to individuals. The debtors are not obliged to accept the offer.

At the end of April 2011 the District Court of Reykjavík ruled that all financial lease agreements within the Bank should be treated as loan agreements. The ruling quotes the precedent set by the Supreme Court in June 2010 to the effect that leasing contracts can be regarded as loan contracts as far as the Interest Law 38/2001 is concerned. The Bank has made an appeal against the ruling to the Supreme Court. If the Supreme Court confirms the District Court ruling, approximately 4,100 agreements with a book value of ISK 10.2bn will need to be recalculated.

The book value of the Bank's foreign currency denominated loans reflect the Bank's estimate of the risk inherent in these loans and a provision has been made for repayments to customers that have already paid up their loans. The Bank does therefore not expect to incur losses in excess of what has already been recognised through the impairment process and is fully reflected in the financial statements.

Íslandssjódir

Ten parties brought a suit in the District Court of Reykjavík against Íslandssjódir hf., a fund management company which is a wholly owned subsidiary of the Bank. The plaintiffs, all of which were holders of shares in the fund 'Sjódur 9' (a money market fund) when the Icelandic financial system collapsed in October 2008, principally claim that Íslandssjódir is liable for their loss from 29 September 2008 until the winding up of the fund on 30 October 2008 since it allegedly incurred as a result of the operations of the fund being contrary to Icelandic laws and regulations on investment funds. Íslandssjódir disputes the claim and has instructed an attorney to defend against the claims on its behalf.

The District Court ruled on 2 May 2011 that the plaintiffs had not evidenced their loss and the case was therefore dismissed. The plaintiffs have appealed this ruling to the Supreme Court.

Formal investigation by the EFTA Surveillance Authority regarding alleged state aid granted by the Icelandic State to investment funds and associated fund management companies connected to the three failed Icelandic banks Glitnir, Kaupthing and Landsbanki

At the height of the financial crisis in Iceland, in early October 2008, investment funds suspended redemption of unit certificates in order to protect the equality of unit certificate holders. The funds were subsequently wound-up and the unit certificate holders paid out the value of their unit shares. This was partly achieved by the banks buying the assets (mainly domestic bonds) held by the funds and adding the proceeds from that sale to assets already held in the form of deposits. The price paid for the assets was decided by the boards of the newly restored banks, based on internal valuations and valuations of external consultants (audit firms).

In this case, it is alleged that management companies of the investment funds and depositories of the three major Icelandic banks received unlawful government aid from the Icelandic authorities in October 2008. It is alleged that the Government influenced the decisions of the new banks to purchase assets from the funds (managed by their subsidiaries) on favourable terms and, thus, enabling them to wind-up the funds and repay investors when there was no effective market for the assets.

35. Cont'd

The Icelandic Government and the banks claim that the transactions were neither influenced by the Government nor funded by its resources. Even if the banks were public undertakings, the acquisition was decided on independently by each bank and based on commercial motives. The assets acquired were valued in a professional manner, albeit in a period of uncertainty.

Formal investigation by the EFTA Surveillance Authority into state aid granted in the restoration of certain operations of Glitnir and the establishment and capitalisation of Íslandsbanki

The EFTA Surveillance Authority (Authority) decided to open formal investigations into the government aid granted in October 2008 and September 2009 to rescue domestic operations of the three main Icelandic banks: Glitnir, Kaupthing and Landsbanki, and to establish and capitalise new successor banks, now called Íslandsbanki, Arion and NBI (Landsbanki) respectively.

The measures to restore certain operations of the old Icelandic banks and to establish and capitalise new banks should have been notified prior to their implementation. The Icelandic authorities should also have submitted detailed restructuring plans outlining viable futures for the banks without a need for state support.

The Authority has to assess whether the state aid granted to the banks adequately addresses each bank′s situation without unduly distorting competition. In order to do so, it is imperative that detailed restructuring plans are submitted. As part of the investigation, the Authority will assess e.g. potential aid to the new banks in the form of a special liquidity facility and the transfer of assets and deposits liabilities from Straumur to Íslandsbanki.

The Icelandic authorities and the Bank claim that the measures are compatible with the functioning of the EEA Agreement on the basis of Article 61(3)(b) of the Agreement, on the basis that they were necessary in order to remedy a serious disturbance in the Icelandic economy. The Icelandic authorities have stressed that the situation in Iceland in October 2008 was extreme and required immediate action in order to restore financial stability and confidence in the Icelandic economy.

The Bank has submitted a detailed restructuring plan to the Authority outlining viable futures for the Bank without a need for state support.

Funding of a tax credit for interest payments on mortgages

The Icelandic Government, financial institutions and pension funds have agreed to find ways to address the debt problems of Icelandic home owners. To this end a letter of intent was signed between the parties on 3 December 2010 with the aim of funding a new tax credit for interest payments on mortgages. The credit will amount to ISK 6bn per year over a two year period in 2011 and 2012. To date, the scale of the Bank's contribution has not been determined.

Risk Management

The Bank is exposed to various risks through its use of financial instruments. Managing these risks is an integral part of the Bank's operations. More information about Risk Management in Íslandsbanki is available in the Risk Book 2010. www.islandsbanki.is/riskbook

Credit risk exposure

36. The Bank's credit risk exposure comprises both on-balance sheet items and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the balance sheet. The maximum exposure for off-balance sheet items is the amount that the Bank might have to pay out against financial guarantees and loan commitments.

The credit exposure before taking account of any collateral held or other credit enhancements is as follows:

	Maximum exposure	
	31.3.2011	31.12.2010
Cash and balances with Central Bank	32,181	30,799
Loans to credit institutions	33,111	30,870
Loans to customers:	496,067	515,161
Loans to individuals	169,684	172,713
Overdrafts	8,768	7,943
Credit cards	12,809	14,307
Term loans	30,568	33,148
Mortgages	106,219	105,637
Leases	11,320	11,678
Loans to corporate entities	273,349	282,518
Overdrafts	13,753	12,964
Credit cards	1,147	1,156
Term loans	243,869	252,755
Leases	14,580	15,643
Loans to state owned and public sector entities	2,741	2,839
Loans to municipalities	4,501	4,909
Government secured customer loan	45,792	52,182
Bonds and debt instruments:	55,503	68,024
Central government	52,791	65,382
Corporates	2,350	2,130
Credit Institutions	362	490
Other	0	22
Derivatives	271	70
Other assets	8,577	1,085
Balance sheet total	625,710	646,009
Financial guarantees	7,971	8,404
Loan commitments	18,754	13,453
Undrawn overdraft	15,620	17,186
Credit card commitments	19,909	25,436
Off-balance sheet total	62,254	64,479
Credit risk exposure	687,964	710,488

Amounts are in ISK million

37. Loans are classified as impaired loans if contractual cash payments are not expected to be fulfilled and if financial restructuring of the obligor is expected to lead to a loss on that particular loan. In most cases, loss is avoided because of the difference between the claim value and the carrying amount resulting from the deep discount of the acquired loan portfolio. Other loans to the same obligor might even be expected to be restructured with a gain from the carrying amount and therefore an impairment does not necessarily indicate that there is a net loss for the Bank.

Loans are also classified as impaired if the Bank has made impairments to offset currency movements. For individuals and smaller companies this is the main reason for loans being classified as impaired. This impairment does not signal a loss in excess of the deep discount.

The full carrying amount of all loans which give rise to a specific impairment or currency impairment is included in impaired loans even if they are in parts covered by collaterals. Therefore the carrying amount of impaired loans does not indicate total amounts likely to be lost.

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At 31 March 2011				
Loans to credit institutions	33,111	0	0	33,111
Loans to individuals	119,344	24,852	25,488	169,684
Loans to corporate entities	150,388	28,870	94,091	273,349
Loans to state-owned and public sector entities	1,269	1	1,471	2,741
Loans to municipalities	3,255	12	1,234	4,501
Government secured customer loan	45,792	0	0	45,792
Total	353,159	53,735	122,284	529,178

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At 31 December 2010				
Loans to credit institutions	30,842	8	20	30,870
Loans to individuals	123,086	21,194	28,433	172,713
Loans to corporate entities	142,018	18,343	122,157	282,518
Loans to state-owned and public sector entities	1,273	15	1,551	2,839
Loans to municipalities	3,534	5	1,370	4,909
Government secured customer loan	52,182	0	0	52,182
Total	352,935	39,565	153,531	546,031

38. Past due but not impaired loans are loans where contractual interest or principal payments have passed due date without the obligor making full payment and where specific impairment is not appropriate. Amounts reported as past due refer to the total loan exposure and not only the payment or sum of payments that are past due. Past due but not impaired loans are as follows:

At 31 March 2011	Past due up to 30 days	Past due 30-60 days	Past due 60-90 days	Over 90 days	Total
Loans to credit institutions	0	0	0	0	0
Loans to individuals	6,341	2,981	1,874	13,656	24,852
Loans to corporate entities	15,697	1,900	1,732	9,541	28,870
Loans to state-owned and public sector entities	0	0	0	1	1
Loans to municipalities	1	7	4	0	12
Total	22,039	4,888	3,610	23,198	53,735

For the three months ended 31 March 2011 26 Amounts are in ISK million

38. Cont'd

At 31 December 2010	Past due up to 30 days	Past due 30-60 days	Past due 60-90 days	Over 90 days	Total
Loans to credit institutions	8	0	0	0	8
Loans to individuals	5,189	2,577	685	12,743	21,194
Loans to corporate entities	5,864	1,706	772	10,001	18,343
Loans to state-owned and public sector entities	14	1	0	0	15
Loans to municipalities	5	0	0	0	5
Total	11,080	4,284	1,457	22,744	39,565

The majority of past due loans are loans that were acquired from Glitnir at a deep discount and there is a significant difference between claim value and book value of these loans. Loans that are being restructured are in some cases classified as past due.

Past due loans that have not been impaired are expected to be restructured without any loss to the Bank. Loss is avoided because of the difference between the claim value and the carrying amount resulting from the deep discount of the acquired loan portfolio or because there is sufficient collateral. In some cases, the assessment is that contractual payments will be fulfilled.

39. The industry breakdown below shows the Bank’s loans to credit institutions and loans to customers by industry and customer segment. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2.

The breakdown of loans to credit institutions and loans to customers is as follows:

	31.3.2011	31.12.2010
Individuals	169,684	172,713
Real estate	77,228	74,525
Seafood	68,490	67,933
Commerce and services	56,574	50,748
Government secured customer loan	45,883	52,182
Financial institutions	34,329	35,188
Industrials	31,066	21,059
Investment companies	20,583	42,124
Construction	12,149	17,088
Public Sector	9,974	10,363
Energy	3,218	2,108
Total	529,178	546,031

The internal industry classification has changed since last reporting date and comparative amounts have been adjusted accordingly.

40. Large exposure disclosure

When the Bank’s total exposure to a group of connected clients exceeds 10% of the Bank’s capital base it is considered a large exposure. The exposure is evaluated net of credit risk mitigating effects eligible according to FME rules 216/2007.

When assessing the exposure, both on-balance sheet and off-balance sheet items from all types of financial instruments are included, as defined by the FME rules. The Bank has an internal criteria that defines connections between clients. This criteria reflect the Bank’ interpretation of Article 1.a in Act no. 161/2002 on Financial Undertakings where groups of connected clients are defined.

The Bank has one large exposure to a group of connected clients that sum up to less than 16% of the Bank's capital base. No large exposure exceeds the maximum 25% set by the law.

Amounts are in ISK million

Liquidity Risk

41. The Bank defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

When determining the expected maturity of liabilities, the Bank generally assumes that the counterparty will require repayment at the first possible date. An exception is made in the case of deposits where expected maturities are based on historical stability of the deposit base. All unrecognised loan commitments are expected to be met at the first possible execution date. For long-term liabilities, the maturity profile is based on the contractual amortisation structure.

For dated financial liabilities the amounts are grouped into maturity buckets according to contractual maturities of the principal. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

Off-balance sheet liabilities show the amount of contractual obligations that the Bank has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Bank's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations all fall into the first time bucket since contractually, on a case by case basis, the Bank could be required to fulfil these obligations instantaneously.

Derivative financial liabilities show the contractual cash flow i.e derivatives that have a negative carrying amount at the date of reporting. Derivatives with a positive carrying amount are detailed separately. For derivatives settled on a gross basis, the cash flow for both legs of the derivative is shown, since netting cannot be applied upon settlement. Currently, the Bank has no derivatives settled on a net basis.

Maturity classification of assets is based on contractual maturity. For loans that were acquired at a deep discount and have not yet been restructured, the contractual amount is scaled to reflect the carrying amount of the claim. For bonds and debt instruments in the banking book, the maturity classification is based on contractual payments while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

The presentation of the inflow and outflow of derivative financial liabilities has been altered since the financial statements 2010, although the amounts in question have not been affected.

The tables below show the contractual maturity profile for the Bank's financial assets and liabilities.

Maturity analysis 31 December 2010

Financial Liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	9,090	0	0	0	0	0	9,090
Deposits from Central Bank	26	0	0	0	0	0	26
Deposits from credit institutions	58,439	18,419	11,051	8,705	0	0	96,614
Deposits from customers	243,797	39,600	3,965	36,165	8,716	0	332,243
Debt issued and other borrowed funds	1,899	2,084	6,458	33,754	29,887	0	74,082
Subordinated loans	0	266	822	6,019	29,671	0	36,778
Other financial liabilities	15,712	6,687	9,237	527	507	1,011	33,681
Total financial liabilities	328,963	67,056	31,533	85,170	68,781	1,011	582,514

Off balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial gurantees	8,404	0	0	0	0	0	8,404
Undraw loan commitments	13,453	0	0	0	0	0	13,453
Undrawn overdraft	17,186	0	0	0	0	0	17,186
Credit card commitments	25,436	0	0	0	0	0	25,436
Total	64,479	0	0	0	0	0	64,479
Total non-derivative financial liabilities and off-balance sheet liabilities	393,442	67,056	31,533	85,170	68,781	1,011	646,993

Amounts are in ISK million

41. Cont'd

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	0	10,811	1,267	57,837	25,000	0	94,915
Outflow	0	(10,797)	(1,403)	(60,757)	(25,113)	0	(98,070)
Total	0	14	(136)	(2,920)	(113)	0	(3,155)
Net settled derivatives	0	0	0	0	0	0	0
Total	0	14	(136)	(2,920)	(113)	0	(3,155)

Financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central bank	23,934	6,865	0	0	0	0	30,799
Bonds and debt instruments	4,492	30,378	1	4	31,111	2,038	68,024
Shares and equity instruments	0	0	0	0	0	3,022	3,022
Loans to credit institutions	7,027	23,501	0	0	342	0	30,870
Loans to customers	4,542	57,662	36,782	156,700	259,475	0	515,161
Other financial assets	0	1,235	766	30	513	548	3,092
Total financial assets	39,995	119,641	37,549	156,734	291,441	5,608	650,968

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	0	3,685	0	0	0	0	3,685
Outflow	0	(3,672)	0	0	0	0	(3,672)
Total	0	13	0	0	0	0	13
Net settled derivatives	0	0	0	0	0	0	0
Total	0	13	0	0	0	0	13

Amounts are in ISK million

Interest rate risk

42. Interest rate risk in the non-trading portfolio arises from the Bank's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as market interest rates changes through time, reflecting the fact that the Bank's assets and liabilities are of different maturities and are priced relative to different interest rates.

Non-trading portfolio interest rate adjustment periods 31 March 2011

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Cash and balances with Central Bank................	32,181	0	0	0	0	0	32,181
Bonds and debt instruments..............................	30,807	985	0	168	598	374	32,933
Loans to credit institutions.................................	32,801	301	0	0	0	0	33,102
Loans to customers...	396,314	17,261	8,898	63,174	870	9,204	495,721
Total assets	492,103	18,547	8,898	63,342	1,468	9,578	593,937
Off balance sheet items.....................................	47,954	0	0	0	0	0	47,954
Liabilities							
Deposits from Central Bank................................	7	0	0	0	0	0	7
Deposits from credit institutions	82,765	8,527	0	0	0	0	91,292
Deposits from customers...................................	312,732	3,183	80	1,363	958	0	318,316
Debt issued and other borrowed funds..............	0	0	0	823	51,520	1,546	53,889
Subordinated loans...	22,383	0	0	0	0	0	22,383
Total liabilities	417,887	11,710	80	2,186	52,478	1,546	485,887
Off balance sheet items.....................................	48,552	0	0	0	0	0	48,552
Net interest gap on 31 March 2011	73,618	6,837	8,818	61,156	(51,010)	8,032	107,451

Non-trading portfolio interest rate adjustment periods 31 December 2010

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Cash and balances with Central Bank................	28,966	0	0	0	0	0	28,966
Bonds and debt instruments..............................	31,142	659	0	0	0	22	31,823
Loans to credit institutions.................................	30,520	350	0	0	0	0	30,870
Loans to customers...	389,088	37,855	9,481	60,557	2,572	15,607	515,161
Total assets	479,716	38,864	9,481	60,557	2,572	15,629	606,820
Off balance sheet items.....................................	47,903	0	0	0	0	0	47,903
Liabilities							
Deposits from Central Bank................................	26	0	0	0	0	0	26
Deposits from credit institutions	86,856	1,037	8,319	0	0	0	96,212
Deposits from customers...................................	322,274	2,521	0	1,420	943	0	327,158
Debt issued and other borrowed funds..............	432	0	0	808	52,639	1,546	55,425
Subordinated loans...	21,241	0	0	0	0	0	21,241
Total liabilities	430,829	3,558	8,319	2,228	53,582	1,546	500,062
Off balance sheet items.....................................	48,216	0	0	0	0	120	48,336
Net interest gap on 31 December 2010	48,575	35,306	1,162	58,329	(51,010)	13,963	106,327

Amounts are in ISK million

43. Interest rate risk in trading portfolios

The fixed income trading unit invests mainly in government bonds and bonds issued by the Housing Financing Fund (HFF) guaranteed by the Icelandic government. These positions can include short position of the bonds. The Bank holds a significant amount of foreign triple-A credit rated government bills in its liquidity portfolio. The bills are held for cash management purposes and can be liquidated with short notice.

Trading bonds and debt instruments, long positions	31.03.2011			31.12.2010		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,343	8.60	(1.15)	2,124	9.01	(1.91)
Non-indexed	20,169	0.98	(1.98)	34,078	0.86	(2.92)
Total	21,512	1.45	(3.13)	36,202	1.33	(4.83)

Trading bonds and debt instruments, short positions						
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,579	4.22	0.67	1,129	4.74	0.54
Non-indexed	6,915	0.99	0.69	7,961	1.32	1.05
Total	8,494	1.59	1.36	9,090	1.75	1.59
Net position of trading bonds and debt instruments	13,018	1.36	(1.77)	27,112	1.20	(3.24)

For the three months ended 31 March 2011 31 Amounts are in ISK million

Currency risk

44. Currency risk arises when financial instruments are not denominated in the reporting currency and can both affect the Bank's income and balance sheet.

Currency analysis 31 March 2011

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank................	500	76	53	41	17	194	881
Bonds and debt instruments..............................	11,685	4,334	0	0	0	2,055	18,074
Shares and equity instruments..........................	0	13	0	0	0	0	13
Loans to credit institutions.................................	12,462	5,289	817	103	209	3,276	22,156
Loans to customers...	66,705	24,539	5,176	36,471	32,636	2,875	168,402
Investments in associates.................................	20	346	0	0	0	0	366
Other assets..	2,269	1,141	0	0	0	0	3,410
Total assets	93,641	35,738	6,046	36,615	32,862	8,400	213,302
Liabilities							
Deposits from credit institutions	5,092	2,716	2,762	0	11	517	11,098
Deposits from customers...................................	17,521	12,169	2,756	428	827	5,563	39,264
Debt issued and other borrowed funds..............	0	0	0	0	0	0	0
Subordinated loans...	22,383	0	0	0	0	0	22,383
Other liabilities...	329	176	0	0	0	26	531
Total liabilities	45,325	15,061	5,518	428	838	6,106	73,276
Non-adjusted foreign exchange on balance sheet imbalance..............................	48,316	20,677	528	36,187	32,024	2,294	140,026
Adjustment of currency imbalance for FX/ISK loans...............................	32,052	11,230	1,423	22,681	20,926	1,277	89,589
Adjusted imbalance	16,264	9,447	(895)	13,506	11,098	1,017	50,437
Off balance sheet items							
Off balance sheet assets...................................	5,471	15,360	1,391	1,352	2,624	81	26,279
Off balance sheet liabilities................................	20,291	23,910	161	15,143	15,306	369	75,180
Net off balance sheet items	(14,820)	(8,550)	1,230	(13,791)	(12,682)	(288)	(48,901)
Net currency imbalance on 31 March 2011	1,444	897	335	(285)	(1,584)	729	1,536

Amounts are in ISK million

44. Cont'd

Currency analysis 31 December 2010

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank................	405	191	114	38	15	349	1,112
Bonds and debt instruments..............................	15,018	10,695	3,473	0	0	1,953	31,139
Shares and equity instruments..........................	12	51	0	0	0	0	63
Loans to credit institutions.................................	16,620	6,403	1,173	30	200	2,589	27,015
Loans to customers...	67,094	26,092	5,333	41,579	36,613	3,501	180,212
Investments in associates.................................	218	0	0	0	0	0	218
Other assets..	195	373	42	0	0	3	613
Total assets	99,562	43,805	10,135	41,647	36,828	8,395	240,371
Liabilities							
Deposits from credit institutions	7,701	6,920	5,412	0	11	590	20,634
Deposits from customers....................................	15,791	13,165	2,732	465	1,202	4,935	38,290
Debt issued and other borrowed funds..............	134	0	0	0	0	32	166
Subordinated loans...	21,241	0	0	0	0	0	21,241
Other liabilities..	647	696	302	0	0	45	1,690
Total liabilities	45,514	20,781	8,446	465	1,213	5,602	82,021
Non-adjusted foreign exchange on balance sheet imbalance..............................	54,048	23,024	1,689	41,182	35,615	2,793	158,350
Adjustment of currency imbalance for FX/ISK loans...............................	37,057	12,362	1,551	26,412	24,194	1,620	103,196
Adjusted imbalance	16,991	10,662	138	14,770	11,421	1,173	55,155
Off balance sheet items							
Off balance sheet assets....................................	3,877	5,995	1,151	1,258	2,578	156	15,015
Off balance sheet liabilities................................	24,945	22,015	1,280	6,967	13,514	688	69,409
Net off balance sheet items	(21,069)	(16,020)	(129)	(5,709)	(10,936)	(532)	(54,394)
Net currency imbalance on 31 December 2010	(4,078)	(5,358)	9	9,061	485	641	759

Exposure towards inflation

45. The Bank is exposed to inflation risk since the book value of CPI-indexed assets exceed CPI-indexed liabilities. The book value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI-index affect profit and loss. On 31 March 2011 the CPI gap amounted to ISK 25.2bn (31 December 2010: ISK 25.1bn). Thus, a 1% increase in the index would have a positive impact on the profit and loss account to the amount of ISK 25m in profit and a 1% decrease would result in a corresponding loss, other variants being constant.

Amounts are in ISK million

Capital management

46. The table below shows the capital base, risk weighted assets and capital ratios of the Bank on 31 March 2011 and 31 December 2010.

	31.3.2011	31.12.2010
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	2,499	2,498
Retained earnings	56,765	53,174
Minority interest	0	791
Tax assets	(164)	(283)
Intangible assets	(241)	(187)
Total Tier 1 capital	123,859	120,993
Tier 2 capital		
Qualifying subordinated liabilities	22,383	21,241
Total regulatory capital	146,242	142,234
Risk weighted assets		
- due to credit risk	447,939	440,586
- due to market risk:	7,628	14,766
Market risk, trading book	3,844	4,583
Currency risk foreign exchange	3,784	10,183
- due to operational risk	79,079	79,079
Total risk weighted assets	534,646	534,431
Capital ratios		
Tier 1 ratio	23.2%	22.6%
Total capital ratio	27.4%	26.6%

For the three months ended 31 March 2011 34 Amounts are in ISK million