Condensed Consolidated

Interim Financial Statements

Unaudited

Three months ended 31 March 2012

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 2012 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 2012 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Financial Statements are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting.

The profit from the Bank's operations for the period 1 January to 31 March 2012 amounted to ISK 5,606 million, which corresponds to a 17.7% return on equity. Bank equity, according to the Consolidated Financial Position, amounted to ISK 129,420 million at 31 March 2012. The Bank's total capital ratio, calculated according to the Act on Financial Undertakings, was 22.2% and the Tier 1 ratio was 18.7%. 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 792,418 million at the end of the period.

The Board of Directors draws special attention to the risks relating to the political and legal environment in Iceland. Recent court rulings have affected the operations of the Bank and added to the uncertainty of how to value part of the loan portfolio. The Bank has made appropriate provisions to reflect the risk associated with those court rulings. The Board also notes that the Bank maintains a strong capital base and is therefore well positioned to meet future risks and challenges. The Board refers to Notes 2 and 37 for the principal risks and uncertainties currently faced by the Bank.

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 2012.

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 2012 by means of their signatures.

Reykjavík, 30 May 2012

Board of Directors:

Friðrik Sophusson, Chairman
John E. Mack, Vice-Chairman
Árni Tómasson
Daniel Levin
María E. Ingadóttir
Neil Graeme Brown
Marianne Økland

Chief Executive Officer:

Birna Einarsdóttir

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

	Notes	2012*	2011*
		1.1-31.3	1.1-31.3
Interest income		15,738	12,397
Interest expense		(7,050)	(4,336)
Net interest income	7	8,688	8,061
Net valuation changes on loans and receivables	8	(1,544)	(664)
Provision for latent impairment	8,23	(121)	(171)
Net valuation changes		(1,665)	(835)
Net interest income after net valuation changes		7,023	7,226
Fee and commission income		3,308	2,597
Fee and commission expense		(1,206)	(882)
Net fee and commission income		2,102	1,715
Net financial income (expenses)	9-10	1,323	(138)
Net foreign exchange gain	11	1,104	202
Other net operating income	12	295	359
Other net operating income		2,722	423
Total operating income		11,847	9,364
Administrative expenses	13-14	(6,222)	(4,703)
Contribution to the Depositors' and Investors' Guarantee Fund		(325)	(467)
Profit before tax		5,300	4,194
Income tax	15	(1,452)	(865)
Bank tax		(207)	(55)
Profit for the period from continuing operations		3,641	3,274
Profit from discontinued operations, net of income tax		1,965	312
Profit for the period		5,606	3,586

* unaudited information

The notes on pages 9 to 39 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 March 2012 (continued)

	Notes	2012* 1.1-31.3	2011* 1.1-31.3
Other comprehensive income			
Foreign currency translation differences for foreign operations		111	1
Other comprehensive income for the period		111	1
Total comprehensive income for the period		5,717	3,587
Attributable to:			
Equity holders of Íslandsbanki hf.		5,604	3,592
Non-controlling interests		2	(6)
Profit for the period		5,606	3,586
Basic earnings per share	16	0.56	0.36
Diluted earnings per share	16	0.56	0.36

* unaudited information

The notes on pages 9 to 39 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 31 March 2012

	Notes	31.3.2012	31.12.2011
Assets			
Cash and balances with Central Bank	6,17	78,398	57,992
Derivatives	6,18	205	339
Bonds and debt instruments	6	55,579	58,662
Shares and equity instruments	6	12,736	11,107
Loans to credit institutions	6,19-20	46,461	43,655
Loans to customers	6,21-22	537,847	564,394
Investments in associates	24	917	1,070
Property and equipment		5,530	5,276
Intangible assets		580	544
Deferred tax assets		2,049	2,629
Non-current assets and disposal groups held for sale	27	39,723	42,690
Other assets	28	12,393	7,557
Total Assets		792,418	795,915
Liabilities			
Financial liabilities	6	10,596	9,346
Derivatives	6,18	5,761	4,027
Deposits from Central Bank	6,29	13	73
Deposits from credit institutions	6,29	52,457	62,772
Deposits from customers	6,30-31	456,821	462,943
Debt issued and other borrowed funds	6,32	65,647	63,221
Subordinated loans	6	23,303	21,937
Current tax liabilities		2,706	2,670
Deferred tax liabilities		19	17
Non-current liabilities and disposal groups held for sale	27	6,482	7,317
Other liabilities	33	39,193	37,889
Total Liabilities		662,998	672,212
Equity			
Share capital	34	10,000	10,000
Share premium	34	55,000	55,000
Other reserves		2,772	2,661
Retained earnings		60,737	55,133
Total equity attributable to the equity holders of Íslandsbanki hf.		128,509	122,794
Non-controlling interests		911	909
Total Equity		129,420	123,703
Total Liabilities and Equity		792,418	795,915

The notes on pages 9 to 39 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

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

	Attributable to equity holders of Íslandsbanki hf.					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Equity at 1.1.2011	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	-	-	1	-	1	-	1
Profit for the period				3,592	3,592	(6)	3,586
Total comprehensive income for the period	-	-	1	3,592	3,593	(6)	3,587
Change in non-controlling interests					-	(785)	(785)
Equity at 31.3.2011	10,000	55,000	2,499	56,765	124,264	-	124,264
Equity at 1.1.2012	10,000	55,000	2,661	55,133	122,794	909	123,703
Translation differences for foreign operations			111		111		111
Net income recognised directly in equity	-	-	111	-	111	-	111
Profit for the period				5,604	5,604	2	5,606
Total comprehensive income for the period	-	-	111	5,604	5,715	2	5,717
Equity at 31.3.2012	10,000	55,000	2,772	60,737	128,509	911	129,420

The notes on pages 9 to 39 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

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

	Notes	2012* 1.1-31.3	2011* 1.1-31.3
Net cash provided by operating activities		10,900	5,150
Net cash (used in) by investing activities		(358)	(177)
Net cash provided by (used in) financing activities		1,458	-
Net increase in cash and cash equivalents		12,000	4,973
Effects of exchange rate changes on cash and cash equivalents		56	26
Cash and cash equivalents at the beginning of the year		78,571	37,152
Cash and cash equivalents at the end of the period		90,627	42,151
Reconciliation of cash and cash equivalents:			
Cash on hand	17	2,048	1,757
Cash balances with Central Bank and certificates of deposit	17	67,498	24,626
Bank accounts	19	21,081	15,768
Total cash and cash equivalents		90,627	42,151

* unaudited information

The notes on pages 9 to 39 are an integral part of these Condensed Consolidated Interim Financial Statements

For the three months ended 31 March 2012 7 Amounts are in ISK million

Notes to the Condensed Consolidated Financial Statements

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 2012 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 30 May 2012.

2. **Basis of preparation**

2.1 *Statement of compliance*

The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2012 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The Interim Financial Statements are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting.

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 2011, available at the Bank's website www.islandsbanki.is.

2.2 *Basis of measurement*

The unaudited Condensed Consolidated Interim Financial Statements have been prepared on an historical cost basis except for the following items in the statement of financial position: bonds and debt instrument which are measured at fair value, shares and equity instruments which are measured at fair value, derivative financial instruments which are measured at fair value and non-current assets and disposal groups classified as held for sale which are measured at the lower of cost and fair value less cost to sell.

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

2.3 *Significant accounting judgements and estimates*

The preparation of the unaudited Condensed Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses recognised in the consolidated financial statements. The accounting estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

2.4 *Going concern*

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 adequate resources to continue its operations for the foreseeable future. Therefore, the financial statements are prepared on a going concern basis.

3 **Significant 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 2011.

Changes within the Bank

4. **Business Combinations**

Loss of control of a subsidiary

On 14 January 2012 the Bank sold 82% of its shareholding in Jardboranir hf. The entity was classified as a non-current asset held for sale. The bank has derecognised the assets and liabilities, any non-controlling interests and other components of entity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss under profit from discontinued operations, net of income tax. The retained 18% interest in the previous subsidiary was measured at fair value at the date that the control was lost and was subsequently accounted for as an equity-accounted investee.

Quarterly statements

5. Operations by quarters:

	Q1* 2012	Q4* 2011	Q3* 2011	Q2* 2011	Q1* 2011
Net interest income	8,688	7,074	7,848	8,242	8,061
Net valuation changes	(1,544)	(465)	(576)	409	(664)
Provision for latent impairment	(121)	64	167	16	(171)
Net fee and commission income	2,102	1,600	1,353	1,298	1,715
Net financial income (expenses)	1,323	2,986	131	(330)	(138)
Net foreign exchange gain	1,104	529	72	134	202
Other net operating income (expenses)	295	(74)	312	297	359
Administrative expenses	(6,222)	(6,118)	(4,378)	(4,671)	(4,703)
Impairment of goodwill	-	(17,873)	-	-	-
Contribution to the Depositors' and Investors' Guarantee Fund	(325)	(281)	(252)	35	(467)
Share of profit of associates	-	39	-	-	-
Profit (loss) before tax	5,300	(12,519)	4,677	5,430	4,194
Income tax	(1,452)	3,022	(1,030)	(1,202)	(865)
Bank tax	(207)	(173)	(165)	(289)	(55)
Profit (loss) for the period from continuing operations	3,641	(9,670)	3,482	3,939	3,274
Profit (loss) for the period from discontinued operation	1,965	190	(198)	537	312
Profit (loss) for the period	5,606	(9,480)	3,284	4,476	3,586

* The split between quarters is not audited.

For the three months ended 31 March 2012 10 Amounts are in ISK million

Financial assets and liabilities

6. The following tables show the carrying value of financial assets and financial liabilities according to their IAS39 classification.

At 31 March 2012	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Other amortised cost	Total carrying amount
Cash and balances with Central Bank	17	-	-	78,398	-	78,398
Loans and receivables						
Loans to credit institutions	19-20	-	-	46,461	-	46,461
Loans to customers	21-22	-	-	537,847	-	537,847
Loans and receivables		-	-	662,706	-	662,706
Bonds and debt instruments						
Listed		19,881	31,675	-	-	51,556
Unlisted		-	4,023	-	-	4,023
Bonds and debt instruments		19,881	35,698	-	-	55,579
Shares and equity instruments						
Listed		1,568	6,098	-	-	7,666
Unlisted		-	5,070	-	-	5,070
Shares and equity instruments		1,568	11,168	-	-	12,736
Derivatives	18	205	-	-	-	205
Total financial assets		21,654	46,866	662,706	-	731,226
Financial liabilities		10,596	-	-	-	10,596
Derivatives	18	5,761	-	-	-	5,761
Deposits from Central Bank	29	-	-	-	13	13
Deposits from credit institutions	29	-	-	-	52,457	52,457
Deposits from customers	30-31	-	-	-	456,821	456,821
Debt issued and other borrowed funds	32	-	-	-	65,647	65,647
Subordinated loans		-	-	-	23,303	23,303
Total financial liabilities		16,357	-	-	598,241	614,598

Amounts are in ISK million

6. Cont'd

At 31 December 2011	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Other amortised cost	Total carrying amount
Cash and balances with Central Bank	17	-	-	57,992	-	57,992
Loans and receivables						
Loans to credit institutions	19-20	-	-	43,655	-	43,655
Loans to customers	21-22	-	-	564,394	-	564,394
Loans and receivables		-	-	666,041	-	666,041
Bonds and debt instruments						
Listed		23,095	31,610	-	-	54,705
Unlisted		-	3,957	-	-	3,957
Bonds and debt instruments		23,095	35,567	-	-	58,662
Shares and equity instruments						
Listed		1,079	5,207	-	-	6,286
Unlisted		-	4,821	-	-	4,821
Shares and equity instruments		1,079	10,028	-	-	11,107
Derivatives	18	339	-	-	-	339
Total financial assets		24,513	45,595	666,041	-	736,149
Financial liabilities		9,346	-	-	-	9,346
Derivatives	18	4,027	-	-	-	4,027
Deposits from Central Bank	29	-	-	-	73	73
Deposits from credit institutions	29	-	-	-	62,772	62,772
Deposits from customers	30-31	-	-	-	462,943	462,943
Debt issued and other borrowed funds	32	-	-	-	63,221	63,221
Subordinated loans		-	-	-	21,937	21,937
Total financial liabilities		13,373	-	-	610,946	624,319

Amounts are in ISK million

Net interest income

7. Net interest income is specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Interest income:		
Cash and balances with Central Bank	560	282
Loans and receivables	14,831	11,581
Financial assets held for trading	(54)	158
Financial assets designated at fair value through profit or loss	368	330
Other assets	33	46
Total interest income	15,738	12,397
Interest expense:		
Deposits from credit institutions and Central Bank	(325)	(449)
Deposits from customers	(4,544)	(2,536)
Borrowings	(1,691)	(973)
Subordinated loans	(315)	(280)
Financial liabilities held for trading	(113)	(68)
Other interest expense	(62)	(30)
Total interest expense	(7,050)	(4,336)
Net interest income	8,688	8,061

* unaudited information

Net valuation changes

8. Net valuation changess:

	2012* 1.1-31.3	2011* 1.1-31.3
Impairment charged to the comprehensive income:		
Specific impairment losses on financial assets	(1,525)	(2,543)
Impairment of foreign exchange gain	(1,545)	(1,672)
Net specific impairment losses on financial assets	(3,070)	(4,215)
Provision for latent impairment losses	(121)	(171)
Total impairment charged to the comprehensive income (see note 23)	(3,191)	(4,386)
Net valuation changes:		
Income due to revised estimated future cash flow from loans	(19)	1,879
Net specific impairment losses on financial assets	(3,070)	(4,215)
Foreign exchange gain (see note 11)	1,545	1,672
Net valuation changes on loans and receivables	(1,544)	(664)

* unaudited information

Foreign exchange gain from customers with foreign exchange loans and cash flows in ISK is impaired and offset against total foreign exchange gain (loss) as per note 11. Foreign exchange loss is recognised after previously impaired gain has been reversed.

Amounts are in ISK million

Net financial income (expenses)

9. Net financial income (expenses) are specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Net gain (loss) on financial instruments held for trading	224	(141)
Net gain on financial instruments designated at fair value through P&L	1,099	3
Net financial income (expenses)	1,323	(138)

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

Shares	1,138	3
Bonds	(39)	-
Net gain on financial instruments designated at fair value through P&L	1,099	3

* unaudited information

Net foreign exchange gain

11. Net foreign exchange gain is specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Assets:		
Cash and balances with Central Bank	56	26
Financial assets held for trading	(635)	560
Loans to credit institutions	2,296	740
Loans to customers	6,320	3,639
Other assets	95	9
Total	8,132	4,974
Liabilities:		
Deposits from credit institutions	(320)	(66)
Deposits from customers	(3,725)	(1,865)
Subordinated loan	(1,366)	(1,142)
Other liabilities	(72)	(27)
Total	(5,483)	(3,100)
Unadjusted net foreign exchange gain	2,649	1,874
Foreign exchange reversal on loans to customers with ISK cash flow	(1,545)	(1,672)
Net foreign exchange gain	1,104	202

* unaudited information

Other net operating income

12. Other net operating income is specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Agency fees and service level agreement fees	86	81
Legal cost and fees	20	-
Rental income	22	59
Rental income on foreclosed mortgages	114	-
Other net operating income	53	219
Other net operating income	295	359

* unaudited information

Amounts are in ISK million

Administrative expenses

13. Administrative expenses are specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Salaries and related expenses	3,285	2,492
Other administrative expenses	2,717	2,043
Depreciation and amortisation	220	168
Administrative expenses	6,222	4,703

* unaudited information

Salaries and related expenses

14. Salaries and related expenses are specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Salaries	2,542	2,010
Pension and similar expenses	347	269
Social security charges	346	178
Other	50	35
Salaries and related expenses	3,285	2,492

* unaudited information

Effective income tax rate

15. Taxes for the three month period to 31 March 2012 are calculated at 20%. New tax, special financial activities tax (FAT) is calculated as 6% of taxable profits above ISK 1 billion. The effective income tax rate in the Bank's income statement is 27,4% for the three months ended 31 March 2012. The difference is specified as follows:

	2012* 1.1-31.3		2011* 1.1-31.3	
Profit before tax	5,300		4,194	
Income tax calculated on the profit of the period	1,060	20.0%	839	20.0%
Special financial activities tax	102	1.9%	-	0.0%
Effect of different tax rate in other countries	(3)	(0.1%)	-	0.0%
Non-deductable expenses	19	0.4%	-	0.0%
Income not subject to tax	-	0.0%	(14)	(0.3%)
Correction in accordance with ruling on prior years' taxable income	10	0.2%	-	0.0%
Other differences	264	5.0%	40	0.9%
Income tax according to the statement of comprehensive income	1,452	27.4%	865	20.6%

* unaudited information

Earnings per share

16. Earnings per share are specified as follows:

	2012* 1.1-31.3	2011* 1.1-31.3
Net profit of the equity holders of the parent, according to the statement of comprehensive income	5,604	3,592
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	0.56	0.36
Diluted earnings per share	0.56	0.36

Amounts are in ISK million

Cash and balances with Central Bank

17. Specification of cash and balances with Central Bank:

	31.3.2012	31.12.2011
Cash on hand	2,048	1,976
Balances with Central Bank other than mandatory reserve deposits	10,423	14,587
Certificates of deposit	57,075	35,059
Included in cash and cash equivalents	69,546	51,622
Mandatory reserve deposits with Central Bank	8,852	6,370
Cash and balances with Central Bank	78,398	57,992

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.

Derivative financial instruments

18. Derivatives held for trading:	Assets 31.3.2012	Notional values related to assets 31.3.2012	Liabilities 31.3.2012	Notional values related to liabilities 31.3.2012
Interest rate swap	69	5,250	487	13,850
Cross currency interest rate swaps	-	-	5,041	62,371
Equity forwards	-	35	2	35
Equity options	-	-	-	-
Foreign exchange forwards	47	13,345	12	1,821
Foreign exchange swaps	61	3,363	68	5,104
Bond forwards	28	1,160	78	1,561
Bond options	-	-	73	25,000
Derivatives held for trading	205	23,153	5,761	109,742

Derivatives held for trading:	Assets 31.12.2011	Notional values related to assets 31.12.2011	Liabilities 31.12.2011	Notional values related to liabilities 31.12.2011
Interest rate swap	25	3,100	107	10,750
Cross currency interest rate swaps	186	11,239	3,690	51,600
Equity forwards	6	82	6	30
Equity options	-	-	-	-
Foreign exchange forwards	45	15,566	98	2,449
Foreign exchange swaps	59	4,889	13	1,516
Bond forwards	18	955	39	400
Bond options	-	-	74	25,000
Derivatives held for trading	339	35,831	4,027	91,745

Amounts are in ISK million

Loans

19. Loans to credit institutions:

	31.3.2012	31.12.2011
Money market loans	25,377	16,706
Bank accounts	21,081	26,949
Other loans	3	-
Loans to credit institutions	46,461	43,655

20. Loans to credit institutions at amortised cost:

			31.3.2012			31.12.2011
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Loans	47,016	(555)	46,461	44,210	(555)	43,655
Loans to credit institutions	47,016	(555)	46,461	44,210	(555)	43,655

21. Loans to customers:

	31.3.2012	31.12.2011
Loans to customers at amortised cost	537,847	564,394
Loans to customers	537,847	564,394

22. Loans to customers at amortised cost:

			31.3.2012			31.12.2011
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Loans to customers						
Individuals	234,404	(6,254)	228,150	235,088	(6,900)	228,188
Commerce and services	66,824	(4,604)	62,220	69,239	(5,284)	63,955
Construction	21,093	(2,692)	18,401	18,389	(3,690)	14,699
Energy	5,724	(221)	5,503	3,677	(172)	3,505
Financials services	1,408	(9)	1,399	1,406	(6)	1,400
Government secured customer loan	-	-	-	38,798	-	38,798
Industrials and transportation	38,041	(3,522)	34,519	37,429	(3,459)	33,970
Investment companies	27,859	(4,935)	22,924	28,670	(4,278)	24,392
Public sector and non-profit organisations	8,869	(211)	8,658	9,737	(198)	9,539
Real estate	96,431	(16,565)	79,866	90,524	(15,195)	75,329
Seafood	77,682	(1,475)	76,207	73,040	(2,421)	70,619
Loans to customers	578,335	(40,488)	537,847	605,997	(41,603)	564,394

Amounts are in ISK million

23. Financial assets - impairments

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

	Individually assessed	Collectively assessed	Latent	31.3.2012 Total	31.12.2011 Total
At 1 January	32,735	8,508	915	42,158	62,301
Reclass transaction 1 January	-	-	-	-	1,220
Amounts written-off	(3,092)	(33)	-	(3,125)	(32,203)
Period adjustments	1,693	(1,805)	-	(112)	(1,149)
Recoveries of amounts previously written-off	223	-	-	223	1,291
Principal credit adjustment	(916)	(376)	-	(1,292)	(10,852)
Charged to the comprehensive income	2,922	148	121	3,191	21,550
At the end of the period*	33,565	6,442	1,036	41,043	42,158

*The provision for impairment losses at 31 March 2012 includes ISK 555 million relating to loans to credit institutions (2011: ISK 555 million).

	2012* 1.1-31.3	2011* 1.1-31.3
Impairment losses charged to the comprehensive income:		
Loans to customers	3,191	4,385
Loans to credit institutions	-	1
Impairment losses charged to the comprehensive income	3,191	4,386

Investment in associates

24. Changes in investments in associates:

	31.3.2012	31.12.2011
Investment in associates at the beginning of the period	1,070	354
Acquisition of shares in associates	-	677
Sales of shares in associates	(153)	-
Share of results	-	39
Investments in associates at the end of the period	917	1,070

Amounts are in ISK million

Investment in subsidiaries

25. Significant subsidiaries:

	Location	Ownership
Kreditkort hf., Ármúla 28, 108 Reykjavík	Iceland	100%
Borgun hf., Ármúla 30, 108 Reykjavík	Iceland	61.3%
Íslandssjódir hf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
Midengi ehf., Lækjargötu 12, 155 Reykjavík	Iceland	100%
Höfdatorg ehf., Skúlagötu 63, 105 Reykjavík	Iceland	72.5%
Hringur eignarhaldsfélag ehf., Digranesvegi 1, 200 Kópavogur	Iceland	100%
Allianz Ísland hf., Digranesvegi 1, 200 Kópavogur	Iceland	100%
Bréfabær ehf., Borgartúni 18, 105 Reykjavík	Iceland	100%
Fjárvari ehf., Borgartúni 18, 105 Reykjavík	Iceland	100%
Island Fund S.A., 5 Allée Scheffer L-2520 Luxembourg	Luxembourg	100%
Glacier Geothermal and Seafood Corporation, 7 Times Square, Suite 1605 New York	USA	100%
Glacier Securities LLC, 7 Times Square, Suite 1605 New York	USA	100%
31 other subsidiaries (SME)		

Related party disclosures

26. 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 associates, the Board of Directors of the parent company and the ulitmate controlling party, 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:

	31.3.2012	31.12.2011
CEO and Managing Directors (including companies owned by them)	(52)	(163)
Members of the Board (including companies owned by them)	(179)	(82)
Associated companies and other related parties	5,830	6,884
Total	5,599	6,639
Guarantees	38	59
Loan commitments, overdraft and credit card commitments	126	145

Impairment allowances of ISK 191 m. were recognised in the period against balances outstanding with associated companies.

No share option programmes were operated during the reporting period 2012.

For the three months ended 31 March 2012 19 Amounts are in ISK million

Non-current assets and disposal groups held for sale

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

	31.3.2012	31.12.2011
Repossessed collateral	11,939	10,467
Assets of disposal groups classified as held for sale	27,784	32,223
Total	39,723	42,690

Repossessed collateral:

Residential property	9,260	7,683
Industrial property	81	95
Equipment	59	84
Shares and equity instruments	2,182	2,182
Other assets	357	423
Total	11,939	10,467

Assets of disposal groups classified as held for sale:	31.3.2012	31.12.2011
Cash	1,680	1,212
Investment properties	12,263	12,263
Properties	614	558
Equipment	-	2,299
Receivables	835	2,090
Tax assets	242	697
Inventory	1,294	2,056
Assets classified as held for sale	5,661	6,129
Other assets	5,195	4,919
Total	27,784	32,223

Liabilities associated with assets classified as held for sale:	31.3.2012	31.12.2011
Payables	450	1,237
Deferred tax liabilities	747	823
Borrowings	2,447	2,352
Other liabilities	2,838	2,905
Total	6,482	7,317

Amounts are in ISK million

Other assets

28. Other assets are specified as follows:

	31.3.2012	31.12.2011
Receivables	1,208	3,351
Unsettled securities transactions	9,080	2,199
Accruals	455	494
Prepaid expenses	439	311
Inventory (real estate)	534	534
Other assets	677	668
Other assets	12,393	7,557

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

Deposits from Central Bank and credit institutions

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

	31.3.2012	31.12.2011
Repurchase agreements with Central Bank	13	73
Deposits from credit institutions	52,457	62,772
Deposits from Central Bank and credit institutions	52,470	62,845

Deposits from customers

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

	31.3.2012	31.12.2011
Demand deposits	276,625	259,994
Time deposits	180,196	202,949
Deposits from customers	456,821	462,943

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

	31.3.2012		31.12.2011	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	7,506	2%	14,362	3%
Municipalities	6,076	1%	7,054	2%
Companies	262,959	58%	257,842	55%
Individuals	180,280	39%	183,685	40%
Deposits from customers	456,821	100%	462,943	100%

Debt issued and other borrowed funds

32. Specification of debt issued and other borrowed funds:

	31.3.2012	31.12.2011
Non-listed issued bonds	54,948	55,742
Listed issued bonds	7,218	3,855
Loans from credit institutions	133	333
Other debt securities	3,348	3,291
Debt issued and other borrowed funds	65,647	63,221

Amounts are in ISK million

Other liabilities

33. Specification of other liabilities:

	31.3.2012	31.12.2011
Accruals	3,494	3,452
Liabilities to retailers for credit card provision	13,159	13,585
Provision for effects of court rulings	10,134	10,489
Guarantees	578	578
Chargeable gain tax	892	1,888
Unsettled securities transactions	7,223	3,047
Deferred income	209	215
Sundry liabilities	3,504	4,635
Other liabilities	39,193	37,889

Equity

34. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 each. At 31.3.2012 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital

	31.3.2012	31.12.2011
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

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

	31.3.2012	31.12.2011
Financial guarantees	7,850	6,893
Undrawn loan commitments	9,500	12,592
Undrawn overdrafts	20,356	21,449
Credit card commitments	24,961	22,202
The Depositors and Investors Guarantee Fund (TIF) – declaration of guarantee	3,724	3,724

A new Act for the Depositors' and Investors' Guarantee Fund is currently under discussion in Parliament. If agreed, this could increase the required size of the fund and related premiums.

Balance of custody assets

36. Balance of custody assets:

	31.3.2012	31.12.2011
Custody assets	772,192	746,574

Amounts are in ISK million

Contingencies

37. **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 lawsuits 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 former employee of Glitnir. This ruling was not appealed. The Bank estimates the total amount of compensation liabilities currently claimed by customers of Glitnir to be ISK 5.5 billion.

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 450 million. 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

In order to address the uncertainty surrounding which foreign currency loans should be deemed to be illegally linked to foreign currency, the Parliament introduced in 2010 a new legislation proposing a change to the Interest Law 38/2001. The legislation was passed as Amendment to the Interest Law 151/2010, taking effect on 28 December 2010. Based on the context of this new law, the Bank treated all foreign currency dominated mortgages and car loans according to the method previously set forth in a September 2010 ruling of the Supreme Court concerning car loans/leasing contracts. All customers with foreign currency mortgages were 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 tax law. The recalculation had to be offered if the debtor was eligible for a refund in part of paid interest (interest subsidy) of the loan. The Bank decided to expand this definition to cover all residential loans to individuals, although the debtors were not obliged to accept the offer. The interest rate on car loans going forward will, according to the law, be replaced by non-indexed CPI-rate. The same goes for mortgages for the first five years, in addition to a choice of indexed CPI rate. At the end of the five year term, mortgages will revert back to market rates.

On 15 February 2012, the Supreme Court in Iceland passed a ruling (no. 600/2011) that affects the recalculation of loans that are illegally linked to the value of foreign currencies. The ruling states that Act 151/2010, which the Icelandic Parliament passed in December 2010 and instructed banks on how to recalculate foreign currency linked mortgages, violates the provisions of the Icelandic constitution that protects the freedom to hold private property, as the legislator cannot pass a law that retroactively deprives a person of an asset without adequate compensation. Significant uncertainty remains on how the ruling should be interpreted. The Bank has therefore made an assessment based on certain assumptions and subsequently concluded that the impact from this court ruling would be a loss of ISK 12.1 billion, although the amount may change following further court rulings. The Bank recognised a provision at year end 2011 and the financial statements therefore reflect the impact of the court rulings. The Bank has a strong capital base and, in case of the most unfavourable outcome from this ruling materialising, the Bank would still maintain a capital ratio above the minimum requirement of 16% set by the Icelandic Financial Supervisory Authority.

In April 2011, the District Court of Reykjavík ruled on a dispute regarding the nature of a financial leasing contract between the Bank and a customer. The court ruled that although the contract had the form of a lease, it was by nature a loan contract, thereby subject to the Interest Law 38/2001. The contract was denominated in foreign currency, and the court further ruled that the contract had an illegal foreign currency indexation, citing the precedent set by the Supreme Court in June 2010. In October 2011, the District Court ruling was confirmed by the Supreme Court. The ruling will affect, by precedent, approximately 4,100 similar contracts with a book value of approximately ISK 10.2 billion. Each affected contract will be recalculated as a result of the ruling.

The ruling on financial leasing contracts does not appear to set new precedent affecting other loan contracts, as the dismissal of the disputed contract's currency indexation is based on the Supreme Court's ruling from June 2010. It should also be noted that although the currency indexation has been deemed illegal, the customer's debt obligation in ISK at the signing of the contract is still valid. It should also be noted that for contracts signed before 2004 – 2005, the effect of recalculation is minimal.

37. Cont'd

The District Courts have ruled in favour of the Bank in a few cases regarding disputed foreign currency denominated loan contracts, thereby confirming that the disputed loans were indeed legitimate foreign currency loans. These rulings are somewhat offset by the June 2011 Supreme Court's ruling on a case regarding a disputed loan contract between Landsbankinn and a customer (Landsbankinn vs. MótorMax). Although the case did not involve Íslandsbanki, the disputed contract in the case must be regarded as typical of many foreign currency corporate loans granted by Íslandsbanki. In the ruling, the Supreme Court set new precedent by deciding that the disputed contract contained an illegal foreign currency indexation. Following the June 2011 ruling, the Bank has evaluated all corporate contract forms and assessed which forms are affected by the ruling and which are, by the Bank's estimation, legal foreign currency loan contracts.

On 3 November 2011, the Supreme Court ruled on an appeal of a District Court's decision to dismiss a case involving a disputed foreign currency bond. The Supreme Court ruled that because the disputed bond was by its nature not affected by the Supreme Court's previous rulings (including the June 2010 and 2011 rulings) the District Court should hear the case and pass a ruling of its own. The Supreme Court specifically mentions in the ruling that the bond's principal is stated in foreign currencies, and reiterates that a correctly written foreign currency debt agreement is not prohibited by the Interest Law 38/2001.

Based on precedents already set, and assumptions made by inferences from the Supreme Court's latest ruling, the Bank will estimate the financial effect of remaining lawsuits. In its estimates, the Bank will take into account that customers have already been offered principal adjustment of foreign currency debt, and that a ruling has been made by the Supreme Court on replacement interest rates. The Bank has divided all foreign currency loans into four categories, depending on the risk of the loans being deemed illegal. The Bank holds provisions for the expected financial effect for the highest risk category. The work on processing each category is in its initial stages. Meanwhile, customers whose contracts are eligible for recalculation will have the option of fixed payments until the recalculations have been completed.

Final judgements for most types of Íslandsbanki's loan contracts are expected to emerge before the summer recess of the Supreme Court in July 2012.

Formal investigation by the EFTA Surveillance Authority regarding alleged government aid granted by the Icelandic government 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.

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 government 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 Banki and Landsbankinn 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 a government support.

The Authority has to assess whether the government 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. Also under scrutiny is the transfer of assets and deposit liabilities from Straumur to Íslandsbanki.

The Icelandic authorities and the Bank claim that the measures are compatible with the functioning of the EEA Agreement Article 61(3)(b), 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 a government support.

Events after the end of the reporting period

38. Events after the balance sheet date
On 1 April 2012, the Bank merged with its 100% owned subsidiary Kreditkort hf. The purpose of the merger is to achieve synergies through integration of operations by making them more efficient.

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 the Bank's risk management and risk assessment processes is available in the Risk Report 2011.
English version: www.islandsbanki.is/riskreport
Icelandic version: www.islandsbanki.is/ahaettuskyrsla

Credit risk

39. Credit risk is defined as current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Bank or to otherwise fail to perform as agreed.

This risk comprises default risk, recovery risk, country risk, settlement risk and credit concentration risk.

Credit concentration risk is the significantly increased risk that is driven by common underlying factors, e.g. sector, economy, geographical location, type of financial instrument or due to connections or relations among counterparties. This includes large individual exposures to parties under common control and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

Credit risk arises principally from the Bank's loans and advances to customers and other banks but also from balances with the Central Bank and off-balance sheet items such as guarantees, loan commitments and derivatives.

The loan portfolio acquired from Glitnir is the largest part of the credit exposure of the Bank. Due to the extraordinary circumstances in the Icelandic economy and the fact that the loan portfolio was acquired at a deep discount, care must be taken when interpreting conventional measures of credit risk.

40. Maximum credit exposure
The Bank's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position. 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, less provisions the Bank has made because of these items. The maximum credit exposure for a derivative contract is calculated by adding future credit exposure to the market value of the contract as described in Annex III of the European Parliament directive 2006/48/EC (Basel II).

The industry breakdown shows the Bank's credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard.

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

Credit risk exposure

40. **Maximum credit exposure**

Maximum credit exposure 31.3.2012

	Individuals	Central Governments	Commerce and Services	Construction	Energy	Financial services	Government secured customer loan	Industrials and transporta-tion	Invest-ment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	78,398	-	-	-	-	-	-	-	-	-	-	78,398
Loans to credit institutions	-	-	-	-	-	46,461	-	-	-	-	-	-	46,461
Loans to customers:	228,150	-	62,221	18,401	5,502	1,399	-	34,519	22,923	8,658	79,867	76,207	537,847
Overdrafts	14,257	-	7,018	3,838	29	1,235	-	4,295	377	610	1,067	1,572	34,298
Credit cards	13,356	-	1,586	125	5	17	-	200	31	130	43	29	15,522
Mortgages	143,661	-	-	-	-	-	-	-	-	-	-	-	143,661
Leases	10,863	-	10,138	2,555	15	21	-	3,675	113	719	1,182	585	29,866
Other loans	46,013	-	43,479	11,883	5,453	126	-	26,349	22,402	7,199	77,575	74,021	314,500
Bonds and debt instruments:	-	50,818	300	-	-	2,348	-	-	1,166	55	882	10	55,579
Derivatives	6	85	56	63	-	1,261	-	66	25	-	5	24	1,591
Financial guarantees	1,126	-	1,504	1,856	4	999	-	1,564	16	48	348	385	7,850
Undrawn loan commitments	-	-	181	-	5,402	-	-	3,617	150	-	67	83	9,500
Undrawn overdraft	9,300	-	3,391	1,129	201	1,701	-	1,885	57	1,208	530	954	20,356
Credit card commitments	21,959	-	1,642	315	5	58	-	365	87	378	73	79	24,961
Total maximum credit exposure	260,541	129,301	69,295	21,764	11,114	54,227	-	42,016	24,424	10,347	81,772	77,742	782,543

Amounts are in ISK million

40. Cont'd

Maximum exposure 31.12.2011

	Individuals	Central Governments	Commerce and Services	Construction	Energy	Financial services	Government secured customer loan	Industrials and transporta-tion	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	57,992	-	-	-	-	-	-	-	-	-	-	57,992
Loans to credit institutions	-	-	-	-	-	43,655	-	-	-	-	-	-	43,655
Loans to customers:	228,189	-	63,956	14,699	3,505	1,399	38,798	33,970	24,391	9,539	75,329	70,619	564,394
Overdrafts	14,506	-	6,636	3,522	28	1,185	-	3,557	488	1,287	1,073	1,200	33,482
Credit cards	15,769	-	1,566	129	5	17	8	194	22	117	39	29	17,895
Mortgages	140,517	-	-	-	-	-	-	-	-	-	-	-	140,517
Leases	11,177	-	8,906	2,744	16	7	-	3,703	193	772	1,188	551	29,257
Other loans	46,220	-	46,848	8,304	3,456	190	38,790	26,516	23,688	7,363	73,029	68,839	343,243
Bonds and debt instruments:	-	52,217	282	-	-	4,077	-	-	1,137	89	849	11	58,662
Derivatives	10	58	71	54	2	1,161	-	13	41	-	1	70	1,481
Financial guarantees	1,058	-	1,443	1,577	4	1,012	-	1,055	12	73	339	320	6,893
Undrawn loan commitments	-	-	2,017	-	5,345	5,000	-	225	-	-	-	5	12,592
Undrawn overdraft	9,797	-	4,343	1,083	203	1,363	-	1,993	72	1,096	513	986	21,449
Credit card commitments	19,392	-	1,521	272	5	48	10	352	81	380	68	73	22,202
Total maximum credit exposure	258,446	110,267	73,633	17,685	9,064	57,715	38,808	37,608	25,734	11,177	77,099	72,084	789,320

Amounts are in ISK million

41. Collateral

Collateral and other credit mitigants vary between types of obligors and credit facilities. Loans to credit institutions are usually unsecured. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Bank takes a charge over assets such as real estate, fishing vessels, cash and securities as well as other collateral including accounts receivables, inventory, vehicles and equipment. Loans to government entities and to municipalities are more often than not unsecured. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

In some cases the Bank uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

Valuation of collateral is based on market price, official valuation from the Iceland Property Registry or expert opinion of the Bank's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. Collateral is allocated according to claim value of loans, not carrying amount, and is measured without including the effect of overcollateralization. This means that if some loans have collateral values in excess of their claim value, then the excess is removed in order to reflect the Bank's actual maximum exposure to credit risk.

An estimate of the collateral held by the Bank against credit exposure is shown below:

At 31 March 2012	Real estate	Fishing vessels	Cash & securities	Other collateral	Total collateral
Loans and commitments to credit institutions	-	-	-	-	-
Loans and commitments to customers:	303,943	61,605	12,773	16,806	395,127
Individuals	186,867	91	1,211	3	188,172
Commerce and Services	21,326	-	418	6,088	27,832
Construction	9,242	-	485	3,208	12,935
Energy	2,599	-	83	128	2,810
Financial services	59	-	28	-	87
Government secured customer loan	-	-	-	-	-
Industrial and transportation	10,933	-	300	5,935	17,168
Investment companies	4,125	-	9,286	370	13,781
Public sector ad non-profit organisations	3,793	-	6	189	3,988
Real estate	61,211	150	685	-	62,046
Seafood	3,788	61,364	271	885	66,308
Bonds and debt instruments	-	-	-	-	-
Derivatives	-	-	624	-	624
Total	303,943	61,605	13,397	16,806	395,751

At 31 December 2011	Real estate	Fishing vessels	Cash & securities	Other collateral	Total collateral
Loans and commitments to credit institutions	-	-	-	-	-
Loans and commitments to customers:	268,925	62,382	51,530	19,021	401,858
Individuals	170,491	71	1,148	3	171,713
Commerce and Services	15,728	-	725	10,504	26,957
Construction	7,757	-	457	1,270	9,484
Energy	2,517	-	83	149	2,749
Financial services	44	-	47	-	91
Government secured customer loan	-	-	38,799	-	38,799
Industrial and transportation	7,362	-	294	5,703	13,359
Investment companies	2,933	-	8,901	389	12,223
Public sector ad non-profit organisations	3,455	-	9	200	3,664
Real estate	54,679	154	675	-	55,508
Seafood	3,959	62,157	392	803	67,311
Bonds and debt instruments	-	-	-	-	-
Derivatives	-	-	600	-	600
Total	268,925	62,382	52,130	19,021	402,458

The Bank is still in the process of finalising the registration of necessary collateral information for this disclosure, in particular for loans recently acquired from Byr. Therefore, the table understates the value of the Bank's total collateral.

Amounts are in ISK million

42. Credit quality of financial assets

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.

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 from the deep discount.

The full carrying amount of all loans which give rise to individual impairment or collective impairment is included in impaired loans, even if parts are covered by collateral.

At 31 March 2012	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	78,398	-	-	78,398
Loans to credit institutions	46,461	-	-	46,461
Loans to customers:	374,717	83,932	79,198	537,847
Individuals	175,992	42,666	9,492	228,150
Commerce and Services	44,041	6,973	11,206	62,220
Construction	5,852	8,141	4,408	18,401
Energy	2,866	2,071	566	5,503
Financial services	1,153	209	37	1,399
Government secured customer loan	-	-	-	-
Industrial and transportationl	24,067	4,064	6,388	34,519
Investment companies	6,999	4,139	11,786	22,924
Public sector and non-profit organisations	7,383	308	967	8,658
Real estate	39,020	10,812	30,034	79,866
Seafood	67,344	4,549	4,314	76,207
Bonds and debt instruments	55,579	-	-	55,579
Derivatives	1,591	-	-	1,591
Total	556,746	83,932	79,198	719,876

At 31 December 2011	Neither past due nor impaired	Past due but not impaired	Classified as impaired loans	Total carrying amount
Cash and balances with Central Bank	57,992	-	-	57,992
Loans to credit institutions	43,655	-	-	43,655
Loans to customers:	408,462	70,963	84,969	564,394
Individuals	177,724	40,138	10,327	228,189
Commerce and Services	43,465	7,055	13,435	63,955
Construction	5,509	4,830	4,360	14,699
Energy	2,921	28	556	3,505
Financial services	164	177	1,059	1,400
Government secured customer loan	38,798	-	-	38,798
Industrial and transportation	24,688	2,779	6,502	33,969
Investment companies	8,453	3,431	12,508	24,392
Public sector and non-profit organisations	5,667	422	3,449	9,538
Real estate	36,343	9,235	29,751	75,329
Seafood	64,730	2,868	3,022	70,620
Bonds and debt instruments	58,662	-	-	58,662
Derivatives	1,481	-	-	1,481
Total	570,252	70,963	84,969	726,184

For the three months ended 31 March 2012 29 Amounts are in ISK million

43. Past due but not impaired loans

Past due but not impaired loans are loans where contractual interest or principal payments have passed due date without the obligor making full payment, but where specific impairment is not appropriate. These loans are expected to be restructured without any loss to the Bank. In some 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. In other cases, there is sufficient collateral or the assessment is that contractual payments will be fulfilled.

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 2012	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to credit institutions	-	-	-	-	-
Loans to customers:					
Individuals	12,616	4,756	3,158	22,136	42,666
Commerce and Services	2,446	489	794	3,244	6,973
Construction	4,485	126	126	3,404	8,141
Energy	2,042	-	-	29	2,071
Financial services	17	-	10	182	209
Government secured customer loan	-	-	-	-	-
Industrial and transportation	1,521	341	341	1,861	4,064
Investment companies	230	182	182	3,545	4,139
Public sector ad non-profit organisations	111	13	13	171	308
Real estate	617	477	477	9,241	10,812
Seafood	3,050	30	30	1,439	4,549
Total	27,135	6,414	5,131	45,252	83,932

At 31 December 2011	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to credit institutions	-	-	-	-	-
Loans to customers:					
Individuals	12,856	4,198	2,011	21,073	40,138
Commerce and Services	1,969	394	435	4,257	7,055
Construction	1,912	290	287	2,341	4,830
Energy	14	-	-	14	28
Financial services	55	-	-	122	177
Government secured customer loan	-	-	-	-	-
Industrial and transportation	675	377	110	1,617	2,779
Investment companies	380	41	5	3,005	3,431
Public sector ad non-profit organisations	289	24	11	98	422
Real estate	898	247	335	7,755	9,235
Seafood	118	29	66	2,655	2,868
Total	19,166	5,600	3,260	42,937	70,963

For the three months ended 31 March 2012 30 Amounts are in ISK million

44. 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 internal criteria that define connections between clients. These criteria reflect the Bank's interpretation of Article (1)(a) in Law no. 161/2002 on Financial Undertakings, where groups of connected clients are defined. In line with the law, the capital base from the last audited financial statements at 31 December 2011 is used to define large exposures.

The Bank has one large exposure to a group of connected clients that amounts to 18% of the Bank's capital base which is below the aggregated 400% limit set by the law. No large exposure exceeds the maximum 25% set by the law.

The following tables show the Bank's large exposures as a percentage of the Bank's capital base, gross and net of eligible credit risk mitigating effects. Note that group references might change between reporting periods, i.e. Group 1 might not be the same group in the two tables.

		31.3.2012
Client groups	Gross	Net
Group 1	73%	0%
Group 2	18%	18%
Group 3	10%	6%

		31.12.2011
Client groups	Gross	Net
Group 1	56%	0%
Group 2	27%	0%
Group 3	15%	15%

For the three months ended 31 March 2012 31 Amounts are in ISK million

Liquidity Risk

45. 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.

Liquidity risk management

The Bank's main source of funding is customer deposits. The Bank's Treasury is responsible for the Bank's funding and liquidity management within the limits approved by the Board and the Asset and Liability Committee. The Interbank desk manages the Bank's intraday liquidity.

Risk management is responsible for measuring, monitoring and reporting on the Bank's liquidity position.

The Bank's liquidity risk policy assumes that the Bank has at all times sufficient liquidity to meet liabilities and other obligations over the next twelve months.

The tables below show the contractual payments of principal and interest for the Bank's financial liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.
For dated financial liabilities the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

Maturity analysis 31 March 2012

Financial Liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	10,596	-	-	-	-	-	10,596
Deposits from Central Bank	13	-	-	-	-	-	13
Deposits from credit institutions	38,397	3,823	10,293	119	-	-	52,632
Deposits from customers	316,686	50,501	39,684	37,743	31,484	-	476,098
Debt issued and other borrowed funds	133	2,419	7,490	52,628	27,725	2,646	93,041
Subordinated loans	-	2	3	35	28,786	-	28,826
Other financial liabilities	34,795	2,726	3,201	570	464	-	41,756
Total financial liabilities	400,620	59,471	60,671	91,095	88,459	2,646	702,962

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.

Off balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial gurantees	7,850	-	-	-	-	-	7,850
Undraw loan commitments	9,500	-	-	-	-	-	9,500
Undrawn overdraft	20,356	-	-	-	-	-	20,356
Credit card commitments	24,961	-	-	-	-	-	24,961
Total	62,667	-	-	-	-	-	62,667
Total non-derivative financial liabilities and off balance sheet liabilities	463,287	59,471	60,671	91,095	88,459	2,646	765,629

The table below shows the contractual cash flow of the Bank's derivative liabilities, 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.

Amounts are in ISK million

45. 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	-	4,987	5,216	108,428	1,622	-	120,253
Outflow	-	(5,017)	(5,429)	(123,820)	(1,711)	-	(135,977)
Total	-	(30)	(213)	(15,392)	(89)	-	(15,724)
Net settled derivatives	-	(38)	-	-	-	-	(38)
Total	-	(68)	(213)	(15,392)	(89)	-	(15,762)

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 maturity dates while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

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	21,330	57,068	-	-	-	-	78,398
Bonds and debt instruments	5,360	15,152	-	-	31,059	4,008	55,579
Shares and equity instruments	-	-	-	-	-	12,736	12,736
Loans to credit institutions	16,322	30,139	-	-	-	-	46,461
Loans to customers	4,258	25,097	37,709	139,247	331,536	-	537,847
Other financial assets	22	10,477	435	26	-	1,354	12,314
Total financial assets	47,292	137,933	38,144	139,273	362,595	18,098	743,335

Derivative financial assets							
Gross settled derivatives							
Inflow	-	9,622	2,190	47,089	-	-	58,901
Outflow	-	(9,080)	(2,004)	(48,620)	-	-	(59,704)
Total	-	542	186	(1,531)	-	-	(803)
Net settled derivatives	-	28	-	-	-	-	28
Total	-	570	186	(1,531)	-	-	(775)

The tables below show the comparative amounts for financial assets and liabilities at the end of 2011.

Maturity analysis 31 December 2011

Financial Liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	9,346	-	-	-	-	-	9,346
Deposits from Central Bank	73	-	-	-	-	-	73
Deposits from credit institutions	49,527	12,209	1,077	-	-	-	62,813
Deposits from customers	351,478	53,730	28,670	25,411	12,907	-	472,196
Debt issued and other borrowed funds	333	2,226	7,108	43,423	27,381	2,145	82,616
Subordinated loans	-	298	559	6,124	38,288	-	45,269
Other financial liabilities	22,379	13,188	3,156	570	392	148	39,833
Total financial liabilities	433,136	81,651	40,570	75,528	78,968	2,293	712,146

Amounts are in ISK million

45. Cont'd

Off balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial gurantees	6,893	-	-	-	-	-	6,893
Undraw loan commitments	12,592	-	-	-	-	-	12,592
Undrawn overdraft	21,449	-	-	-	-	-	21,449
Credit card commitments	22,202	-	-	-	-	-	22,202
Total	63,136	-	-	-	-	-	63,136
Total non-derivative financial liabilities and off balance sheet liabilities	496,272	81,651	40,570	75,528	78,968	2,293	775,282

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	-	6,258	2,498	78,562	25,000	-	112,318
Outflow	-	(6,131)	(2,979)	(94,688)	(25,074)	-	(128,872)
Total	-	127	(481)	(16,126)	(74)	-	(16,554)
Net settled derivatives	-	(38)	-	-	-	-	(38)
Total	-	89	(481)	(16,126)	(74)	-	(16,592)

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	22,937	35,055	-	-	-	-	57,992
Bonds and debt instruments	6,617	16,494	82	152	31,361	3,956	58,662
Shares and equity instruments	-	-	525	48	-	10,534	11,107
Loans to credit institutions	22,027	21,556	-	-	72	-	43,655
Loans to customers	-	50,523	46,877	169,833	297,161	-	564,394
Other financial assets	-	2,567	237	2	-	380	3,186
Total financial assets	51,581	126,195	47,721	170,035	328,594	14,870	738,996

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	-	8,069	773	33,058	-	-	41,900
Outflow	-	(7,976)	(692)	(32,860)	-	-	(41,528)
Total	-	93	81	198	-	-	372
Net settled derivatives	-	21	-	-	-	-	21
Total	-	114	81	198	-	-	393

As a part of managing liquidity risk, the Bank holds a portfolio of liquid assets to meet unexpected outflow of funds or a temporary shortage in access to new funding. These assets are subject to strict criteria with respect to credit quality, liquidation time and price volatility. The table below shows the composition and amount of the Bank's liquidity back-up at the end of 2011 and end of Q1 2012.

Composition and amount of liquidity back-up	31.3.2012	31.12.2011
Cash and balances with Central Bank	78,399	57,992
Domestic bonds eligible as collateral against borrowing at the Central Bank	18,890	55,024
Foreign government bonds	13,467	16,323
Short-term placements with credit institutions	39,776	36,695
Government liquidity facility	25,000	25,000
Composition and amount of liquidity back-up	175,532	191,034

For the three months ended 31 March 2012 34 Amounts are in ISK million

Market risk

46. The Bank defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, equity prices and foreign exchange rates.

Market risk management
The Bank's market risk appetite is determined by the Board of Directors. The Asset and Liability Committee (ALCO) decides on limits for portfolios and products in accordance with the market risk policy approved by the Board. Risk management is responsible for monitoring and reporting on the Bank's overall market risk positions and compliance to limits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Bank separates exposures to market risk into trading book and banking book (non-trading portfolios). The Bank's primary sources of market risk in the trading portfolio are shares, debt instruments and foreign currency positions. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. Market risk is mainly originated in the banking book due to mismatches in assets and liabilities with respect to currencies, interest reset dates and inflation indexation and due to shares and equity instruments acquired through restructuring. These mismatches are reported to management and are subject to regulatory and internal limits.

Interest rate risk

47. 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), which are guaranteed by the Icelandic government. These positions can include short positions. The Bank holds a significant amount of highly liquid foreign government bills in its liquidity portfolio. The bills are held for cash management purposes and can be liquidated with a short notice.

Trading bonds and debt instruments, long positions	31.3.2012			31.12.2011		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	420	10.17	(0.43)	379	9.22	(0.35)
Non-indexed	15,482	0.26	(0.41)	17,231	0.32	(0.55)
Total	15,902	0.52	(0.83)	17,610	0.51	(0.90)

Trading bonds and debt instruments, short positions	31.3.2012			31.12.2011		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	181	7.82	0.14	962	7.89	0.76
Non-indexed	359	0.40	0.01	364	8.17	0.30
Total	540	2.89	0.16	1,326	7.97	1.06
Net position of trading bonds and debt instruments	15,362	0.44	(0.68)	16,284	(0.09)	0.16

Amounts are in ISK million

48. Interest rate risk in the banking book

Interest rate risk in the banking book 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 interest rates change over time, reflecting the fact that the Bank's assets and liabilities are of different maturities and are priced relative to different interest rates.

Banking book interest rate adjustment periods on 31 March 2012

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	76,350	-	-	-	-	-	76,350
Bonds and debt instruments	35,663	2,553	23	762	1,446	2,654	43,101
Loans to credit institutions	46,356	105	-	-	-	-	46,461
Loans to customers	401,279	14,811	40,097	63,664	1,417	16,579	537,847
Total assets	559,648	17,469	40,120	64,426	2,863	19,233	703,759
Off balance sheet items...	57,378	-	15,266	3,116	113	-	75,873
Liabilities							
Short positions	-	3,591	602	1,405	-	-	5,598
Deposits from Central Bank	13	-	-	-	-	-	13
Deposits from credit institutions	42,212	10,245	-	-	-	-	52,457
Deposits from customers	449,865	2,214	688	2,345	1,709	-	456,821
Debt issued and other borrowed funds	9,484	-	-	4,756	49,704	1,703	65,647
Subordinated loans	23,303	-	-	-	-	-	23,303
Total liabilities	524,877	16,050	1,290	8,506	51,413	1,703	603,839
Off balance sheet items	62,285	-	15,050	3,045	-	-	80,380
Net interest gap on 31 March 2012	29,864	1,419	39,046	55,991	(48,437)	17,530	95,413

Banking book interest rate adjustment periods 31 December 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	56,016	-	-	-	-	-	56,016
Bonds and debt instruments	32,218	1,153	1,069	370	1,398	4,458	40,666
Loans to credit institutions	43,551	104	-	-	-	-	43,655
Loans to customers	420,171	27,158	35,739	63,895	1,914	15,517	564,394
Total assets	551,956	28,415	36,808	64,265	3,312	19,975	704,731
Off balance sheet items	59,201	-	10,007	3,115	113	-	72,436
Liabilities							
Short positions	-	3,567	1,815	477	-	-	5,859
Deposits from Central Bank	73	-	-	-	-	-	73
Deposits from credit institutions	61,711	1,061	-	-	-	-	62,772
Deposits from customers	456,329	3,383	759	807	1,665	-	462,943
Debt issued and other borrowed funds	7,221	-	-	6,679	49,133	188	63,221
Subordinated loans	21,937	-	-	-	-	-	21,937
Total liabilities	547,271	8,011	2,574	7,963	50,798	188	616,805
Off balance sheet items	62,484	-	9,862	3,070	-	-	75,416
Net interest gap on 31 December 2011	1,402	20,404	34,379	56,347	(47,373)	19,787	84,946

Amounts are in ISK million

Currency risk

49. Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to mismatch in the currency composition of assets or liabilities.

Currency analysis 31 March 2012

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank......................	521	125	65	38	15	246	1,010
Bonds and debt instruments....................................	4,699	7,973	-	-	-	3,347	16,019
Shares and equity instruments................................	412	210	213	-	-	-	835
Loans to credit institutions.......................................	20,291	12,751	1,274	177	1,765	5,476	41,734
Loans to customers...	67,243	18,361	5,076	21,569	22,697	2,536	137,482
Investments in associates.......................................	21	510	-	-	-	-	531
Other assets..	123	423	84	-	-	237	867
Total assets	93,310	40,353	6,712	21,784	24,477	11,842	198,478
Liabilities							
Deposits from credit institutions	1,037	-	-	-	-	-	1,037
Deposits from customers	28,860	20,394	3,948	512	685	7,201	61,600
Debt issued and other borrowed funds	132	-	-	810	-	113	1,055
Subordinated loans	23,303	-	-	-	-	-	23,303
Other liabilities...	1,039	1,789	446	1	-	207	3,482
Total liabilities	54,371	22,183	4,394	1,323	685	7,521	90,477
Non-adjusted foreign exchange on balance sheet imbalance	38,939	18,170	2,318	20,461	23,792	4,321	108,001
Adjustment of currency imbalance for FX/ISK loans	14,622	2,079	706	11,185	10,975	844	40,411
Adjusted imbalance	24,317	16,091	1,612	9,276	12,817	3,477	67,590
Off balance sheet items							
Off balance sheet assets	2,548	14,696	591	-	1,791	3,362	22,988
Off balance sheet liabilities	20,341	27,049	929	10,928	13,650	2,772	75,669
Net off balance sheet items	(17,793)	(12,353)	(338)	(10,928)	(11,859)	590	(52,681)
Net currency imbalance on 31 March 2012...	6,524	3,738	1,274	(1,652)	958	4,067	14,909

Amounts are in ISK million

49. Cont'd

Currency analysis 31 December 2011

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank	491	124	63	36	10	226	950
Bonds and debt instruments	5,919	5,890	-	-	-	5,238	17,047
Shares and equity instruments	630	122	213	-	-	-	965
Loans to credit institutions	18,866	10,355	1,492	1,236	382	5,220	37,551
Loans to customers	60,941	18,176	4,813	22,681	25,082	2,473	134,166
Investments in associates	20	433	-	-	-	-	453
Other assets	-	-	-	-	-	-	-
Total assets	86,867	35,100	6,581	23,953	25,474	13,157	191,132
Liabilities							
Deposits from credit institutions	2,511	380	135	11	2	95	3,134
Deposits from customers	21,307	19,451	4,557	725	536	8,547	55,123
Debt issued and other borrowed funds	-	-	-	-	-	14	14
Subordinated loans	21,937	-	-	-	-	-	21,937
Other liabilities	-	-	-	-	-	-	-
Total liabilities	45,755	19,831	4,692	736	538	8,656	80,208
Non-adjusted foreign exchange on balance sheet imbalance	41,112	15,269	1,889	23,217	24,936	4,501	110,924
Adjustment of currency imbalance for FX/ISK loans	16,007	3,075	806	12,638	13,210	912	46,648
Adjusted imbalance	25,105	12,194	1,083	10,579	11,726	3,589	64,276
Off balance sheet items							
Off balance sheet assets	4,265	17,238	38	239	2,459	76	24,315
Off balance sheet liabilities	21,176	25,427	294	11,106	15,011	1,891	74,905
Net off balance sheet items	(16,911)	(8,189)	(256)	(10,867)	(12,552)	(1,815)	(50,590)
Net currency imbalance on 31 December 2011...	8,194	4,005	827	(288)	(826)	1,774	13,686

Derivatives

50. The Bank uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Bank carries relatively low indirect exposure due to margin trading with clients and the Bank holds collaterals for possible losses. Other derivatives in the Bank held for trading or for other purposes are insignificant.

Inflation risk

51. The Bank is exposed to inflation risk since the value of CPI-indexed assets exceeds CPI-indexed liabilities. The 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 2012 the CPI gap amounted to ISK 13.2 billion (31 December 2011: ISK 22.2 billion). Thus, a 1% increase in the index would have a positive impact on the profit and loss account to the amount of ISK 132 million in profit and a 1% decrease would result in a corresponding loss, other risk factors held constant.

Amounts are in ISK million

Capital management

52. Icelandic capital adequacy rules are based on the EU capital requirements directives (CRD). The capital adequacy rules require an absolute minimum capital level of 8% of risk weighted assets.

As part of the conditions for granting the Bank an operating license 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 total capital ratio, allowing for subordinated Tier 2 debt, of 16%.

The Bank's regulatory capital calculations for credit risk and market risk are based on the standardised approach and the capital calculations for operational risk are based on the basic indicator approach. Market risk exposure for currency risk is based on the adjusted currency imbalance described in note 49.

The table below shows the total capital base, risk weighted assets and capital ratios of the Bank at 31 March 2012 and 31 December 2011. In addition, the table shows the official capital ratios based on audited retained earnings at 31 December 2011.

	31.3.2012	31.12.2011
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	2,772	2,661
Retained earnings	60,737	55,133
Non-controlling interests	911	909
Tax assets	(2,049)	(2,629)
Intangible assets	(580)	(544)
Total Tier 1 capital	126,791	120,530
Tier 2 capital		
Qualifying subordinated liabilities	23,303	21,937
Total capital base	150,094	142,467
Risk weighted assets		
- due to credit risk	543,770	532,301
- due to market risk:	18,715	16,695
Market risk, trading book	2,160	1,895
Currency risk foreign exchange	16,555	14,800
- due to operational risk	80,423	80,423
Total risk weighted assets	642,908	629,419
Capital ratios		
Tier 1 ratio	19.7%	19.1%
Total capital ratio	23.3%	22.6%
Official Tier 1 ratio	18.7%	19.1%
Official capital ratio	22.2%	22.6%

For the three months ended 31 March 2012 39 Amounts are in ISK million