Glitnir Bank hf.

Financial Statements
for the year ended
31 December 2010

Glitnir Bank hf.
Sóltún 26
105 Reykjavík
Iceland

Reg. no. 550500-3530

Contents

Endorsement by the Resolution Committee, Winding-Up Board and Managing Director

The Resolution Committee of Glitnir Banki hf. ("Glitnir" or the "Bank") was appointed by the Financial Supervisory Authority of Iceland (FME) on 7 October 2008 in accordance with the authority provided to the FME by Act No.125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances (the emergency law). On this date the Resolution Committee took over all authority of the Board of Directors of Glitnir in accordance with the articles of the Company Law, including oversight of all treatment of its assets, as well as the handling of all other business. It proved impossible for the Icelandic government to support the Icelandic banking system and in order to preserve the Icelandic payment system it was decided to spilt Glitnir into two banks as was also the case with two other commercial banks in Iceland. On 15 October 2008 a new bank, Íslandsbanki hf., was founded and all domestic assets and deposits were transferred from Glitnir to Íslandsbanki hf. based on the decision of FME. All foreign assets and all liabilities except for deposits remained with Glitnir.

In May 2009 the Icelandic parliament passed a Bill of Legislation to amend the act of Financial Undertakings No. 161/2002. The Bill has rules about the winding-up proceedings of financial institutions. According to these rules the Bank's Resolution Committee will continue to operate and to perform certain tasks and in so doing to handle the administrative aspects of the winding-up proceedings which would otherwise be entrusted to the Winding-Up Board. The Resolution Committee will continue to act under the direction of the FME. On 12 May 2009 the District Court of Reykjavik appointed a Winding-Up Board which handles those aspects of the winding-up not dealt with by the Resolution Committee.

The Resolution Committe´s and Winding-Up Board´s principal tasks have been and continue to be:

To serve as Glitnir´s Board of Directors and exercise the rights and obligations formerly held by the Board and shareholders' meeting;

To administer Glitnir´s authorised activities under the supervision of the FME and the District Court of Reykjavík;

To work towards obtaining the maximisation of the value for the bank's assets, to ensure that the Bank's assets and rights are disposed of in the most cost-effective manner, that claims and amounts on deposit are collected, that no rights are lost which could be of value and that all necessary actions are taken to prevent damage to the Bank's interests;

To decide on creditor´s claims both by rank and amounts and ensure creditors are treated equally according to the law; and

To convene and direct creditors' meetings, as deemed suitable, to present the measures taken by the Resolution Committee and the Winding-Up Board.

With a ruling of the District Court of Reykjavik published on 22 November 2010, Glitnir Bank hf. formally entered into winding-up procedure. Icelandic law provides for an automatic end of the moratorium period upon entering into winding-up procedure. The Resolution Committee and Winding-Up Board jointly applied to the District Court of Reykjavik to formally recognize that Glitnir Bank hf. is in a winding-up procedure to ensure the Bank enjoys the same protections from litigation, collection measures and other depletion of assets as it has had during the moratorium. The ruling involves no changes to the bank’s day-to-day activities or its legal status. The Resolution Committee during the winding-up procedure will continue to manage the interests of the Bank with the same aim as before to maximise the value of assets for the benefit of creditors. That includes waiting for the maturity of assets if deemed beneficial rather than disposing of them immediately. The Winding-Up Board will continue to be responsible for the claims process.

Endorsement by the Resolution Committee, Winding-Up Board and Managing Director, contd.:

According to the Income Statement, the loss for the year ended 31 December 2010 amounted to ISK 97,917 million. Total equity as at 31 December 2010 was negative by ISK 1,976,757 million according to the Balance Sheet.

The reported liabilities as at 31 December 2010 are based on the claim register. Comparatives for 2009 are based on the accounts of the Bank. The difference between the claim register and recorded liabilities at year end 2009 was recognised in the Income Statement in the year 2010 resulting in expenses amounting to ISK 142,202 million, including adjustments and rejections of claims.

Some of Glitnir's creditors filed claims for contractual interest in the tables provided on the claim form but referred separately to a claim for penalty interest in an addendum to the claim form. Accordingly, because these claims were unclear and disputed, the additional amounts for penalty interest were not included when these creditors' claims were originally entered into the claims register. The Winding-Up Board has rejected other similar claims.

To the extent that the estimated value of assets is based on inputs that are less observable or unobservable in the market, the estimation of value requires more judgement. Accordingly, the Resoloution Committee and Winding-Up Board have applied considerable judgement in determining the estimate of values for certain assets, notably those relating to loans to customers, unlisted equity instruments, complex derivative products and set-offs.

In the year ended 31 December 2010, the average number of employees of the Bank was 31. Further information regarding salaries and related cost is shown in note 8 and 9.
The Bank intends to make a preliminary interim distribution to creditors as soon as practicably possible, dependent upon the large number of factors that affect this timing. Many of these factors, including the status of disputed claims, are outside of the control of the Bank.

Statement by the Resolution Committee, Winding-Up Board and Managing Director

The Financial Statements for the year ended 31 December 2010 have been prepared in accordance with the Icelandic Act on Annual Accounts.

Based on the fact that the Bank is in Winding-up procedure it is our opinion that the Financial Statements give a true and fair view of the financial performance of the Bank for the year ended 31 December 2010, its financial position as at 31 December 2010 and its cash flows for the year then ended. Furthermore, in our opinion the Financial Statements and Endorsement by the Resolution Committee, Winding-Up Board and Managing Director give a true and fair view of the development and performance of the Bank´s operations during the year ended 31 December 2010 and its financial position at year end and describe the principal risks and uncertainties faced by the Bank. As a result of the Winding-Up Board´s continuing work on the claims and court rulings, the liabilities as set out in the Financial Statements is likely to change in the future.

The Resolution Committee, Winding-Up Board and Managing Director have today discussed the Financial Statements of Glitnir Bank hf. for the year 2010 and confirm them by means of their signatures.

Reykjavík, 9 March 2011.

The Resolution Committee

Árni Tómasson
Heimir V Haraldsson
Þórdís Bjarnadóttir

The Winding-Up Board

Steinunn Guðbjartsdóttir
Páll Eiríksson

Managing Director

Kristján Óskarsson

Independent Auditors' Report

To the Resolution Committee, Winding-Up Board and Shareholders of Glitnir Bank hf.

We have audited certain parts of the accompanying financial statements of Glitnir Bank hf., which comprise the balance sheet as at 31 December 2010, and the income statement and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. Our audit was limited to the assets in the balance sheet and administrative expenses in the income statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Icelandic Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on certain parts of these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the certain amounts and disclosures in the financial statements. The procedures selected depend on the auditor´s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the assets of Glitnir Bank hf. as at 31 December 2010, and of its administrative expenses included in the financial performance for the year then ended in accordance with the Icelandic Financial Statements Act.

Emphasis of matter

Without qualifying our opinion, we draw attention to the Endorsement by the Resolution Committee, Winding-Up Board and Managing Director, which describes that Glitnir Bank hf.has formally entered into winding-up procedure. Furthermore, we draw attention to note 2 to the financial statements, which describes that the financial statements have been prepared on the basis that Glitnir Bank hf. is able to manage the realisation of its assets and transact its ongoing business having appropriate regard to the interests of all its creditors.

Reykjavík, 9 March 2011.

KPMG ehf.

Sæmundur Valdimarsson
Helgi F Arnarson

Income Statement for the year ended 31 December 2010

	Notes	2010	2009
Interest income		105.465	176.999
Interest expenses		(6)	(85.748)
Net interest income	3	105.459	91.251
Net impairment losses	4	34.090	(704.544)
Provision for financial guarantees		0	(126.570)
Subordinated loans rejected by the Winding-Up Board as unsecured claims and other changes in claims	5	(142.202)	198.384
Net interest income less impairment losses and write-offs		(2.652)	(541.479)
Fee and commission income		765	729
Fee and commission expenses		(3)	(68)
Net fee and commission income		761	661
Net financial income and expenses	6	(91.456)	87.450
Net operating income		(93.347)	(453.368)
Administrative expenses	7-9	(4.570)	(5.713)
Net gain on asset sale		0	968
Loss for the year		(97.917)	(458.113)

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Balance Sheet as at 31 December 2010

	Notes	2010	2009
Assets			
Cash and cash equivalents	11	259.136	131.293
Claims from derivative contracts	12	23.405	45.407
Bonds and debt instruments	13	6.815	10.702
Shares and equity instruments	14	45.896	45.188
Loans to banks	15	3.905	88.602
Loans to customers	15	142.542	197.353
Investments in subsidiaries	16	332.320	289.449
Other assets		315	185
Total assets		814.334	808.179
Liabilities			
Claims due to derivative contracts		0	81.919
Debt issued and other borrowed funds		0	2.604.649
Claims	17	2.790.288	0
Other liabilities	18	803	451
Total liabilities		2.791.092	2.687.019
Equity			
Share capital		14.881	14.881
Accumulated deficit		(1.991.638)	(1.893.721)
Total negative equity	19	(1.976.757)	(1.878.840)
Total liabilities and equity		814.334	808.179

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Statement of Cash Flows for the year ended 31 December 2010

	Notes	2010	2009
Cash inflow			
Loans to customers - principal and interest repayments		68.187	69.671
Loans to banks - principal and interest repayments		73.132	36.961
Claims from derivative contracts - repayments		6.141	0
Interest income on bank accounts		2.186	3.867
Sale of subsidiaries		1.001	8.377
Bond maturities and coupon receipts		7.911	2.402
Total cash inflow		158.558	121.278
Cash outflow			
Loans transferred and set-off with Íslandsbanki hf.		0	(5.634)
Trapped cash at external bank		0	(5.297)
Loans to customers - new loan		(5.836)	0
Administrative expenses		(4.632)	(5.359)
Other		(2.486)	0
Total cash outflow		(12.954)	(16.290)
Increase in cash and cash equivalents		145.603	104.988
Effect of exchage rate fluctuations on cash and cash equivalents		(17.760)	
Cash and cash equivalents at the beginning of the year		131.293	26.305
Cash and cash equivalents at the end of the year	11	259.136	131.293

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Notes

1. Reporting entity

Glitnir Bank hf. ("Glitnir" or the "Bank") is a company domiciled in Iceland. The address of the Bank´s registered office is Sóltún 26, 105 Reykjavík, Iceland. The Bank is in winding-up procedure. The purpose of it´s operations during the winding-up procedure are to obtain the highest possible value for the Bank's assets and to ensure equality with respect to creditors´ interest in accordance with law.

2. Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with the Icelandic Annual Accounts Act.

The financial statements were authorised for issue by the Resolution Committee, Winding-Up Board and Managing Director on 9 March 2011.

b. Basis of measurement

The financial statements have been prepared on the basis that the Bank is able to manage the realisation of its assets and transact its ongoing business having appropriate regard to the interests of all its creditors. Accordingly, the estimate of value attributed to each asset is dependent on the realisation strategy presently adopted for assets, which varies between available for sale, manage to sale, or hold to maturity. As such, the estimated values for certain asset classes represented in the financial statements are not necessarily intended to represent prices at which an orderly transaction could take place between market participants as at the reporting date. Rather, such values are intended to represent the value of assets based on a longer term estimate of recoverable values.

The methodology used to estimate the values of assets within each asset class has been based on the application of the Bank’s present asset realisation strategy. The methodology does not represent an exhaustive attempt to take into account all factors that the Bank or other market participants would consider when performing an in-depth valuation exercise. For further information regarding valuation of asset classes see note 20.

The Balance Sheet is shown on an unconsolidated basis. The estimated values attributable to investment in subsidiaries are based upon an estimate of the value of the underlying net assets of the subsidiaries and not the carrying value of the investment in the stand-alone company accounts.

The reported liabilities as at 31 December 2010 are based on the claim register. Comparatives for 2009 are based on the accounts of the Bank. Claims in foreign currencies have been translated into ISK at foreign exchange mid rates published by the Icelandic Central Bank for 22 April 2009, which is the lodge date of claims. Other liabilities at year end 2010 in currencies other than ISK are translated at year end rates 2010. According to law creditors´ claims do not bear any interest or indexation from the lodge date. The process for agreeing claims is ongoing and so the liabilities included in the Balance Sheet may not be complete or accurate as a number of the existing and potential liabilities are subject to legal uncertainty. As a result, the liabilities included in the financial statements will be subject to change and clarification when the claims registration process is complete. It is likely that the ultimate liabilities determined by the Winding-Up Board or Courts will be different to those reported in the financial statements presented here and that the categorisation of liabilities by priority will change.

Notes, contd.:

c. Valuation principles

The valuation principles underlying the estimated value for each major asset category are follows:

Asset class	Valuation methodology
Loans to customers	Credit adjusted valuation based on a 'hold to sale' or 'hold to maturity' strategy.
Loans to banks	Credit adjusted valuation based on a 'hold-to-maturity' strategy.
Claims from derivative contracts international counterparties	For ISDA counterparties estimated realisable value is based on assumed close-out on 7 October 2008. Realisable value includes valuation adjustment for credit, valuation and legal uncertainties.
Claims from derivative contracts Icelandic counterparties	For Icelandic counterparties estimated realisable value is based on assumed close-out at the earlier of transaction maturity and 22 April 2009. Realisable value includes valuation adjustment for credit, valuation and legal uncertainties.
Bonds and debt instruments	Realisable value is based on directly or indirectly observable valuation inputs.
Listed equities	Realisable value is based on observable valuation inputs.
Unlisted equities	Realisable value is based on valuation inputs that are not quoted in markets that are active or for which significant inputs are not directly observable.
Investments in subsidiaries	The estimated value of the 95% share in Íslandsbanki hf. has been based upon a high level analysis of Íslandsbanki forecast performance and median trading multiples for Íslandsbanki peer group in the Euro area (principally Price to Book Value and Price to Net Income). The estimated value for other subsidiaries is based on the estimated value of the underlying net assets held in the subsidiaries. The methodologies used to estimate the value of the underlying assets are the same as those used for assets held directly by Glitnir.
Cash and cash equivalents	The value of cash and cash equivalents is book value of deposits and market value of sovereign bonds.

d. Functional and presentation currency

The financial statements are presented in Icelandic Krona (ISK), which is the functional currency of Glitnir Bank hf. All amounts are in ISK million unless otherwise stated. Throughout the financial statements, unless otherwise stated, foreign currency values are translated at the mid rates published by the Icelandic Central Bank for 31 December 2010, exept for claims which have been translated into ISK at foreign exchage mid rates published by the Central Bank for 22 April 2009. A significant proportion of the assets of Glitnir are denominated in foreign currencies. As a result, the estimated values presented herein may be materially impacted by movements in foreign exchange rates. Foreign currency transactions have been translated at the spot exchange rate at the date of transaction.

e. Creditor set-off

For assets and liabilities held with the same counterparty the Bank has used the claims registrer as the known source of liabilities and set them off against corresponding identifiable asset positions with the same counterparty. Amounts subject to set-off included in the Balance Sheet represent an estimate of the effect of both legal netting and creditor set-off based on an interpretation of the potential rights of the Bank and its counterparties. If the rights of the Bank and its counterparties were ultimately to prove different to that assumed, the estimated value of the Bank´s assets and the computation of its liabilities may be materially impacted.

f. Use of estimates and judgement

The methodology used to estimate the values of assets within each class has been based on the application of the Bank´s present asset realisation strategy. The assumptions used to estimate the value of assets are sensitive to changes in market conditions such as interest rates, foreign exchange rates, equity prices, market indices and counterparty credit worthiness.

Given the current economic climate, particularly the financial and liquidity crisis, there are limited active markets for many of the financial instruments held by the Bank. To the extent that the estimated asset values and computation of liabilities are based on inputs that are less observable or unobservable in the market, the estimation of value requires more judgement. Accordingly, the Resoloution Committee and Winding-Up Board has applied considerable judgement in determining the estimate of values for certain assets and liabilities, notably those relating to loans to customers, unlisted equity instruments, complex derivative products and set-offs.

3. Interest income and expense are specified as follows:

	2010			2009		
	Interest income	Interest expense	Net interest income	Interest income	Interest expense	Net interest income
Cash and cash equivalents	1.911		1.911	2.790		2.790
Claims from derivative contracts	94		94	2.711	(15.960)	(13.249)
Loans to banks	25.764		25.764	39.208		39.208
Loans to customers	77.695		77.695	132.110		132.110
Other	0	(6)	(6)	181	(69.788)	(69.608)
Total	105.465	(6)	105.459	176.999	(85.748)	91.251

Interest income is calculated in full in accordance with the contractual provisions of interest bearing financial assets. To the extent that interest income is deemed to be uncollecible a corresponding increase in impairment losses is recognised. From 22 April 2009 creditors' claims do not bear any interest.

4. Net impairment losses

Impairment losses are specified as follows:

2009	Claims from derivative contracts	Bonds	Loans	Subsidiaries	Other	Total
Balance at the beginning of the year	0	103.406	485.143	80.316	490.678	1.159.543
Impairment for the year	277.479	52.072	187.445	197.578	(10.030)	704.544
Write-offs		(28)	(93.919)		(438.621)	(532.568)
Other changes			6.077			6.077
Provision at year end	277.479	155.450	584.746	277.894	42.027	1.337.596

2010	Claims from derivative contracts	Bonds	Loans	Subsidiaries	Other	Total
Balance at the beginning of the year	277.479	155.450	584.746	277.894	42.027	1.337.596
Impairment for the year	60.195	(17.088)	(14.744)	(62.724)	270	(34.090)
Write-offs	(31.981)	(2.696)	(1.680)		(1.187)	(37.543)
Foreign exchange difference on impairment			(48.815)			(48.815)
Other changes	18.869		6.018			24.888
Provision at year end	324.562	135.666	525.526	215.170	41.111	1.242.035

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Notes, contd.:

5. Claims register

In 2010 the claims register was updated in the Balance Sheet and compared with recorded liabilites in the banks books. The difference between the claims register and the liabilities as presented in the Balance Sheet at the end of 2009 is recorded in the Income Statement as follows:

	2010	2009
Claims register	(3.436.233)	0
Liabilities in the Balance Sheet	2.648.087	0
Difference of claims and liabilities in Balance Sheet	(788.146)	0
Adjustments and corrections - see note 17	645.945	0
Recorded in the Income Statement	(142.202)	198.384

6. Net financial income and expenses

Net financial income and expenses are specified as follows:

	2010	2009
Dividend income	1.350	896
Net gain (loss) on financial assets and liabilities	1.887	(51.401)
Net foreign exchange (loss) gain	(94.693)	137.955
Total	(91.456)	87.450

7. Administrative expenses

	2010	2009
Cost associated with current operation:		
Salaries and salary related expenses	401	300
Outsourced services from Íslandsbanki hf.	386	728
Outsourced services from external advisors	3.496	3.377
Other operational cost	287	166
	4.570	4.571
Cost associated to previous operation:		
Salaries and salary related expenses, including taxes, allowed to pay according to Financial Undertakings Act	0	591
Other operational cost	0	551
Total administrative expenses	4.570	5.713

8. Salaries and salary related expenses are analysed as follows:

Salaries and related expenses are analysed as follows:

	2010	2009
Salaries	327	248
Contribution to defined contribution plan	41	30
Other salary-related expenses	33	22
Total salaries and salary-related expenses	401	300
Average number of employees	31	22

In addition five people worked for Glitnir outside of Iceland as contractors in both years.

9. Compensation of the Resolution Committee, Winding-Up Board and Managing Directors

Compensation of the Resolution Committee, Winding-Up Board and Managing Directors is specified as follows:

	2010	2009
Kristján Óskarsson, Managing Director	21	11
Kristján Þ. Davíðsson, former Managing Director	0	19
Resolution Committee and Winding-Up Board	348	273
Total	369	302

Payments to the Resolution Committee and Winding-Up Board include value-added tax of 25.5% in 2010 and 24.5% in 2009.

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10. Income tax

It is considered unlikely that the Bank will have taxable profit in the future so as to utilise its tax losses carried forward. Therefore the Bank does not recognise deferred tax assets in the Balance Sheet or recognise the income tax effect of losses in the Income Statement.

11. Cash and cash equivalents

Cash and equivalents are specified as follows:	2010	2009
Cash and balances with banks	17.961	45.894
Cash balance with Central Bank of Iceland	0	36.560
Term deposits	91.629	21.763
International sovereign bonds	136.016	18.273
Icelandic sovereign bonds	11.013	1.931
Restricted cash	2.517	6.872
Total	259.136	131.293

The term deposits and international sovereign bonds mature within 9 months. At the end of 2010 45% of international sovereign bonds was invested in US bonds, 11% in Norwegian bonds, 10% in German bonds, 10% in Dutch bonds, 10% in French bonds, 7% in Canadian bonds, 4% in UK bonds and 3% in other government bonds.

12. Claims from derivative contracts

Claims from derivative contracts are specified as follows:	International counter-parties	Domestic counter-parties	Total
Total net claims from derivative contracts, before set off against liabilities	7.782	48.634	56.417
Balance subject to set-off	(5.354)	(27.658)	(33.012)
Total 31.12.2010	2.428	20.977	23.405
Total net claims from derivative contracts, before set off against liabilities	22.732	54.889	77.621
Balance subject to set-off	(11.388)	(20.825)	(32.213)
Total 31.12.2009	11.344	34.063	45.407

International counterparties:

In accordance with ISDA documentation, Glitnir received ‘event of default notices’ soon after the Bank’s collapse. Counterparties have designated a range of ‘Early Termination Dates’, the validity of which is being examined by the Bank and which may impact on the value of the derivative assets and liabilities. The estimated realisable value ascribed to the derivative portfolio is based upon these close-out dates or 7 October 2008, where that applies under the relevant terms. The Bank has been working with legal advisors to support the assessment of claims and recovery of value on derivative assets.

Counterparties, as the non-defaulting party under ISDA terminology, have provided close out statements and details of their valuation methodology. The Bank has entered into dialogue with counterparties to follow–up where inadequate detail has been provided to enable a complete reconciliation to be performed against the Bank´s own records.

Given the volatility at the time of collapse the timing of the valuation and differences in key valuation inputs can have a significant impact on the value of the claims from derivative contracts. The Bank has engaged a calculation agent to help understand the drivers of the difference and will continue its dialogue with counterparties.

Domestic counterparties:

Principally the contracts were entered into under the Bank’s general terms and conditions (i.e. Non-ISDA agreements).

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13. Bonds and debt instruments

Bonds and debt instruments are specified as follows:

	Realisable value	Estimated set-off	Net position
2010			
Governments	2.472		2.472
Financial institutions	16.390	(16.354)	36
Corporates	4.307		4.307
Total	23.169	(16.354)	6.815
2009			
Governments	5.996		5.996
Financial institutions	14.165	(13.785)	380
Corporates	4.326		4.326
Total	24.487	(13.785)	10.702

As a result of the claims registration process the Bank has a more complete view of its assets and liabilities with other Icelandic banks. Bond positions are presented on a net basis in the Balance Sheet.

14. Shares and equity instruments

Shares and equity instruments held at year end 2010 are specified as follows:

	2010	2009
Listed shares	2.487	1.720
Unlisted shares	43.409	43.467
Total	45.896	45.188
Concentration by location of issuers of shares and equity instruments		
UK	32.104	34.349
Iceland	5.617	2.825
Canada	2.127	2.027
United States	642	1.696
Norway	765	651
Other	4.641	3.639
Total	45.896	45.188

During the year 2010 ISK 508 million (2009: ISK 4,543 million) of equity positions arose from loan restructuring.

15. Loans to banks and customers

The Bank monitors concentration of credit risk by industry sector and by geographical location. The following tables break down the Bank´s credit exposure at year end as categorised by the industry sectors and geograpical location of the Bank´s counterparties.

	Loans to banks 2010		Loans to banks 2009	
	Gross amount	Estimated realisable value	Gross amount	Estimated realisable value
Concentration by sector				
Banks	6.960	3.905	92.320	88.602
Total	6.960	3.905	92.320	88.602
Concentration by location				
Norway	3.076	2.928	82.357	82.357
United States	3.876	969	4.879	4.879
Other	8	8	5.085	1.366
Total	6.960	3.905	92.320	88.602

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15. Loans to banks and customers, contd.:

	Loans to customers 2010		Loans to customers 2009	
	Gross amount	Estimated realisable value	Gross amount	Estimated realisable value
Concentration by sector				
Financial Institutions	11.262	7.362	10.833	6.733
Fisheries	85.817	78.000	79.324	73.749
Holding Companies	263.847	16.162	246.544	19.812
Manufacturing	31.247	16.453	46.232	25.356
Property and Real Estate	26.665	1.274	32.907	3.233
Retail	5.343	4.895	4.875	3.641
Utilities	583	529	2.930	2.721
Other	26.343	17.866	105.421	62.107
Total	451.108	142.542	529.065	197.353
Concentration by location				
Norway	89.183	79.876	116.465	103.929
United States	17.728	9.532	27.138	24.341
Iceland	285.716	10.150	321.267	23.848
UK	22.383	20.692	26.166	22.451
Canada	12.519	8.407	6.497	6.019
Germany	8.122	3.101	16.272	5.893
Denmark	4.477	1.606	5.600	3.183
Other	10.980	9.179	9.660	7.689
Total	451.108	142.542	529.065	197.353

16. Investments in subsidiaries

Investments in subsidiaries are specified as follows:	Country of incorporation	Ownership interest	Carrying amount 2010	Carrying amount 2009
GLB Holding ehf.	Iceland	100%	132.886	124.328
Glitnir Bank Luxembourg S.A.	Luxembourg	100%	199.240	164.724
Moderna Finance AB	Sweden	100%	194	397
Investments in subsidiaries total			332.320	289.449

GLB Holding ehf.:

Net assets of GLB Holding ehf. consist of following:	2010	2009
ISB Holding ehf. (95% share in Íslandsbanki hf., see note 2c)	112.019	104.575
Other subsidiaries	1.383	1.732
Other assets	19.483	18.021
Total	132.886	124.328

Glitnir Bank Luxembourg S.A.

The value attributed to Glitnir Bank Luxembourg S.A. is a function of the value attributed to the property loan portfolio of Glitnir Bank Luxembourg S.A. and the three special pupose vehicles (SPVs) of Haf, Holt and Holm less the outstanding obligation owed to the Central Bank of Luxembourg (BCL).

The valuation consist of:	2010	2009
Estimated recoverable value of the loan portfolio of Glitnir Bank Lux. S.A.	82.716	90.733
Estimated recoverable value of the loan portfolio of the three SPVs	181.383	198.955
Outstanding obligations to BCL	(64.860)	(124.964)
Total	199.240	164.724

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16. Investments in subsidiaries, contd.:

Glitnir's Resolution Committee and BCL signed in March 2009 an agreement providing for settlement of debts for Glitnir's subsidiary, Glitnir Bank Luxembourg S.A. BCL is part of the network of European central banks in member countries of the Eurosystem. This agreement facilitate Glitnir's Luxembourg subsidiary to be placed into a voluntary and solvent liquidation.

The agreement meant that important interests of Glitnir and its customers would be safeguarded; the Luxembourg subsidiary would have a period of up to five years within which to maximise the value of its assets and repay all debts owed to BCL. The agreement also foresaw that securitised loan portfolios, pledged to BCL, and which include, for instance, loans to Glitnir's Icelandic customers, would continue to be administered by Glitnir's Resolution Committee. According to the agreement, proceeds from the corporate loan portfolio of Glitnir Bank Luxembourg were furthermore to be used to repay debts to BCL. The portfolio principally includes mortgages on commercial and residential real estate in the Nordic countries, the UK and Germany.

At year end of 2010 BCL have an outstanding claim of ISK 64,860 million which is equivalent to EUR 421.7 million (2009: ISK 124,964 million which was equivalent to EUR 694.4 million) over the assets of Glitnir Bank Luxembourg. This is supported by direct collateral on the loan portfolio of the notes Glitnir Bank Luxembourg holds in Glitnir´s special purpose vehicle (SPV) Haf, Holt and Holm and remainig assets of Glitnir Bank Luxembourg.

Repayment profile of the obligation to BCL:	**Per BCL repayment plan**	**Repayment plan (cumulative)**	**Actual repayments made**	**Balance 31 December**
To be paid before end of 2009	24.147	24.147	53.984	106.737
To be paid before end of 2010	24.147	48.293	41.834	64.904
To be paid before end of 2011	32.144	80.437		
To be paid before end of 2012	40.142	120.579		
To be paid before end of 2013	40.142	160.721		
Total	160.721		95.817	64.904

The above table sets out the repayment plan to the BCL, as extracted from the agreement with the BCL in March 2009. Under the repayment plan, ISK 24,147 million was due to be repaid during 2010. Glitnir Luxembourg is significantly ahead of the repayment plan, having repaid a total of ISK 41,834 million during 2010. Early repayment of the CBL obligation reduces the interest cost for Glitnir Luxembourg, and reduces the time Glitnir is required to wait before it can recapture the remaining potential value for creditors.

17. Claims

The time limit for lodging claims in Glitnir's winding-up proceedings expired on 26 November 2009 and at open creditors' meetings in December 2009, May 2010 and December 2010 the Winding-Up Board presented the list of claims and explained the decisions which had already been taken. Creditors also had an opportunity to object to decisions taken by the Winding-Up Board on individual claims.

A total of 8,685 claims were lodged in Glitnir's winding-up proceedings amounting to ISK 3,436 billion. This is a maximum figure, which may decrease as the Winding-Up Board reviews the individual claims. In addition, in some instances the same claim has been lodged more than once. At year end the Winding-Up Board has taken decisions on just over 75% of claims lodged, in part or in full.

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17. Claims, contd.:

	Claimed amounts	Changes to claims register	Corrected claims register	Adjusted claimed amounts	Balance Sheet
Third party assets	33.146	(43)	33.103	(11.544)	21.559
Approval costs	25.316	(4)	25.313	(22.737)	2.575
Secured	40.725	(3.398)	37.327	(10.657)	26.670
Priority	258.129	(94.162)	163.967	(9.621)	154.346
Unsecured	2.973.195	(65.649)	2.907.546	(365.060)	2.542.487
Deferred	105.722	643	106.364	(63.713)	42.652
Total claims	3.436.233	(162.613)	3.273.620	(483.332)	2.790.288

Since 17 December 2009, certain amendments have been made to the claims register, principally in relation to correction of errors and where claims have been withdrawn.

Some of Glitnir's creditors filed claims for contractual interest in the tables provided on the claim form but referred separately to a claim for penalty interest in an addendum to the claim form. Accordingly, because these claims were unclear and disputed, the additional amounts for penalty interest were not included when these creditors' claims were originally entered into the claims register. They total ISK 109,776 million in respect of unsecured claims. The Winding-Up Board has rejected other similar claims. No concerns have been raised by the creditors in question about how their claims were recorded in the claims register, but notwithstanding this the Winding-up Board has decided that it is prudent to inform creditors that the said amounts are not included in the claims register.

As a result of the Winding-Up Board´s continuing work on registered claims, certain adjustments have been made to the initial registered claims. These adjustments relate to:

Where claims have been rejected, withdrawn or closed with set-off or settlement	(195.714)
Where accepted priority claims have been paid	(6)
Where there were errors or duplications in the claims registration list	(72.437)
Claims from Glitnir Luxembourg and its two SPVs (Haf and Holt)	(122.414)
Estimation of set-off	(92.762)
Total	(483.332)

Claims are specified as follows:	Claims accepted	Rejected, subord. or withdrawn	Decisions to be made	Total claims	There of under conciliation
Third party assets	0	27.956	5.147	33.103	28.826
Approval costs	0	22.774	2.539	25.313	720
Secured	0	3.536	33.791	37.327	13.772
Priority	12	156.315	7.640	163.967	155.976
Unsecured	1.989.480	179.354	738.712	2.907.546	1.686.188
Deferred	0	91.446	14.919	106.364	28.395
Total	1.989.492	481.381	802.747	3.273.620	1.913.876

Decisions are specified as follows:	Decisions made	Accepted claims	Reclass of accepted claims	Total accepted	Accepted claims
Third party assets	27.956	3	(3)	0	0
Approval costs	22.774	14	(13)	0	0
Secured	3.536	3.515	(3.515)	0	0
Priority	156.327	110.157	(110.146)	12	11
Unsecured	2.168.835	1.875.804	113.677	1.989.480	411.144
Deferred	91.446	0	0	0	0
Total	2.470.873	1.989.492	0	1.989.492	411.154

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18. Other liabilities

Other liabilities in the Balance Sheet consist of accounts payable, unpaid salaries at year end and provisions for expenses during the Winding-Up procedure.

19. Equity

Changes in equity are specified as follows:

	Share capital	Accumulated deficit	Total
Equity as at 1 January 2009	14.881	(1.435.157)	(1.420.276)
Changes in price of own share purchased		550	550
Translation differences		(1.000)	(1.000)
Loss for the year		(458.113)	(458.113)
Equity as at 1 January 2010	14.881	(1.893.721)	(1.878.840)
Loss for the year		(97.917)	(97.917)
Equity as at 31 December 2010	14.881	(1.991.638)	(1.976.757)

According to a decision of FME on 7 October 2008 the Resolution Committee took over all the authority of shareholders meetings, including voting rights. Formal decision to write off the share capital has not been taken, but is expected to be taken in the winding-up process. Until formal decision has been taken the share capital will be presented as shown above.

20. Market risk

a. Interest rate risk

The types of interest rate risk faced by the Bank is twofold. The Bank is subject to cash flow interest rate risk relating to those loans and other financial assets with floating rate of interest. Due to the significant uncertainty relating to timing of cash flows, impact of future restructuring of loans and recoverability, it is not possible to determine with any precision the impact of changes in interest rate on profit or loss. For instance an increase of interest on an impaired variable rate instrument will in many instances have no effect on the future recoverability of that asset.

The bank is also subject to fair value interest rate relating to assets, mainly government bonds, that are recognised at fair value through profit or loss. A change in interest rates will affect the fair value of those assets.

b. Breakdown by currencies

The table below summarises the Bank´s assets by currency of denomination.

At 31 December 2010

	EUR	ISK	NOK	USD	GBP	Other	Total
Cash and cash equivalents	120.913	27.528	23.573	58.833	14.312	13.977	259.136
Bonds & shares	621	10.585	765	2.328	35.148	3.265	52.711
Loans to banks	6	0	2.928	969		1	3.905
Loans to customers	17.664	6.314	63.224	23.667	16.841	14.833	142.542
Investments in subsidiaries	47.704	143.981	24.825	41.320	18.457	56.032	332.320
Claims from derivative contracts and other assets	1.754	21.824		142			23.720
Total financial assets	188.663	210.231	115.315	127.258	84.759	88.108	814.334
Total in %	23,2%	25,8%	14,2%	15,6%	10,4%	10,8%	100,0%

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20. Market risk, contd.:

b. Breakdown by currencies, contd.:

At 31 December 2009

	EUR	ISK	NOK	USD	GBP	Other	Total
Cash and cash equivalents	40.355	20.286	10.818	38.994	12.249	8.591	131.293
Bonds & shares ...	369	11.316	651	3.247	34.994	5.313	55.890
Loans to banks	76.439		7.282	4.879		2	88.602
Loans to customers	25.022	4.362	82.681	43.908	19.991	21.388	197.353
Investments in subsidiaries	164.724	124.328				397	289.449
Claims from derivative contracts and other assets	4.390	34.248	480	6.474			45.592
Total financial assets	311.299	194.540	101.912	97.502	67.234	35.692	808.179
Total in %	38,5%	24,1%	12,6%	12,1%	8,3%	4,4%	100,0%

At the end of 2009 all assets of the Glitnir Luxembourg S.A. were presented as EUR assets. At the end of 2010 the assets of the subsidiary has been denominated to the currency of underlying assets of the subsidiary. The outstanding claim with BCL (see note 16) is denominated in EUR.

21. Disputes with creditors

At the end of December 2010 the Winding-Up Board has referred 97 cases relating to 129 claims to Reykjavík District Court when it was not possible to settle such disputes at a meeting. This includes cases that will create precedent for a large number of other disputed claims. Cases that have also been referred to the courts are those concerning employees' claims for salaries and those of the bank's former senior management.

More than 50 cases concerning disputes on ranking of claims have been filed with the Reykjavik District Court. The results of the first cases are expected in the first half of 2011.

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