Consolidated Financial Statements
2015

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Content	Page
Endorsement and Statement by the Board of Directors and the CEO	1 - 4
Independent Auditors' Report	5
Consolidated Income Statement for the Year ended 31 December 2015	7
Consolidated Statement of Financial Position as at 31 December 2015	8
Consolidated Statement of Changes in Equity for the Year ended 31 December 2015	9
Consolidated Statement of Cash Flows for the Year ended 31 December 2015	10 - 11
Notes to the Consolidated Financial Statements	12 - 81

Endorsement and Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the financial year 2015 include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn was founded on 7 October 2008. The Bank is a leading bank in the domestic market and offers a comprehensive range of financial products and services to personal, corporate and institutional customers.

Operations in 2015

Consolidated profit amounted to ISK 36,460 million for the financial year 2015. The Board of Directors will propose to the Annual General Meeting that a total dividend of ISK 1.20 per outstanding share will be paid to shareholders, in two interim payments of ISK 0.60 each in 2016. The total dividend corresponds to approximately ISK 28,538 million or 78% of the consolidated profit. Remaining profit will be added to the Bank's equity. Consolidated total equity amounted to ISK 264,531 million and total assets to ISK 1,118,658 million at year-end. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 30.4% at year-end 2015 (see Note 47).

The consolidated profit rose from ISK 29,737 million in 2014 to ISK 36,460 million in 2015, a year-on-year increase of ISK 6,723 million. The higher profit in 2015 is due to stronger revenues from the Bank's core operations, re-ocurring positive valuation adjustments and stable costs. Net interest income increased by ISK 4,251 million and net fee and commission income rose by ISK 1,005 million, or 17%. The higher income is partially offset by increases in taxes of ISK 2,630 million and a decrease in income from Net valuation adjustments of ISK 1,912 million, although valuation adjustments on the loan portfolio still have a significant positive effect on the Bank's profit for the year.

In October 2015, the Supreme Court ruled in favour of the Bank in two cases where a company disputed the right of the Bank to receive additional payment as a result of recalculations of foreign currency indexed loans in accordance with Central Bank interest rates instead of contractual interest rates in accordance with final receipts. The Supreme Court concluded that the conditions for an exception from the legal right to receive additional payment had not been met since the difference in the parties comparative position was insignificant and the additional claim would not cause a serious disruption to the company's financial position comparable to the impact that such claims would have on an individual or small enterprise. In November 2015 and in January 2016 the District Court of Reykjavík came to the same substantive conclusion in six rulings involving similar disputes. The effect of these rulings on these financial statements results in a reversal of previously recognised provisions in the amount of ISK 13,776 million in the consolidated income statement at year-end 2015 (see Note 7 and 37).

As disclosed in the Bank's Consolidated Financial Statements for 2014, the Bank sold its 38.00% shareholding in Valitor Holding hf. to Arion Bank during that year. In 2015, the Bank sold once more to Arion Bank its additional 0.62% shareholding in the company which it had acquired in a merger. The sales included, inter alia, an agreement on additional considerations for the Bank's shares in Valitor. The accord is contingent upon an option agreement between Visa Europe and Visa Inc. Under the option agreement the considerations consist of an up-front consideration and an earn-out. As VISA Iceland ehf., a subsidiary of Valitor, is expected to receive proceeds from Visa Inc. as a result of the option agreement and based on indicative information provided by Arion Bank, the Bank has recognised as income in these financial statements ISK 2,436 million as its expected up-front consideration (see Note 24).

In October 2015, the Bank completed refinancing in full the 2016 maturity and in part of the 2018 maturity of senior secured foreign currency bonds issued by the Bank to LBI hf. The refinancing was achieved with the issuance of EUR 300 million (the equivalent of ISK 42,600 million) in senior unsecured bonds following a successful series of fixed income investor meetings in Europe. The bonds are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange. Furthermore, following LBI's final and binding composition agreement in December 2015, the Bank fully prepaid the remaining part of the 2018 maturity of the senior secured foreign currency bonds. In return, LBI at the same time undertook to place the proceeds in term deposits with the Bank for the same maturity (see Note 31).

In December 2015, the Bank completed its first bond issuance in the Scandinavian market with an issue of NOK 250 million and SEK 250 million in senior unsecured bonds, in total equivalent to ISK 7,500 million. The bonds have a 3.5-year maturity with 3-month NIBOR and STIBOR interest rates for the respective currencies plus a 2.6% margin. They are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange. In addition, the Bank signed a 5-year loan agreement with the Nordic Investment Bank (NIB) in the amount of EUR 30 million (the equivalent of ISK 4,200 million). The loan agreement provides for the Bank to allocate the funds to projects which improve the competitiveness of small and medium-sized enterprises, as well as environmentally-friendly ventures.

In 2015, the Bank continued to issue tranches in Landsbankinn's non-indexed covered bond series and added new indexed series to the existing covered bond series. The entire covered bond series have been admitted for trading on NASDAQ Iceland and the total amount as at year-end 2015 is ISK 22,380 million. In addition, the Bank issued new bank bill series which mature over the next year. These are listed and traded on NASDAQ Iceland and the total amount of bank bills at year-end 2015 is ISK 5,616 million (see Note 31).

In 2015, the Bank took over in two separate mergers all assets, liabilities and operations of the savings banks Sparisjóður Vestmannaeyja ses. and Sparisjóður Norðurlands ses. The acquisition prices of the savings banks were respectively ISK 332 million and 594 million, paid to guarantee capital owners of the savings banks in the form of shares in Landsbankinn (see Note 4).

In 2015, the international rating agency Standard and Poor's (S&P) raised both Landsbankinn's long and short term rating grades from BB+/B to BBB-/A-3 with a positive outlook. This upgrade resulted from the recent upgrade of Iceland's sovereign rating based on the Icelandic authorities' proposals toward the eventual removal of capital controls and the Bank's own strong capital position.

Risk management

In 2015, macroeconomic conditions stabilised to a certain degree, and a number of indicators showed a positive trend. The improved economic environment led to reduction of non-performing loans as well as increased borrower credit quality of performing loans. Major emphasis has been placed on securing and maintaining a strong liquidity position. This is reflected in the Bank's business plan, which provides for moderate lending growth and increased bond issuance. The Bank's strong liquidity makes it well equipped to meet future changes in its operating environment, such as further steps towards lifting capital controls. Market risk has remained relatively stable and well within the Bank's risk appetite. Ongoing improvements to work processes, organisation and management framework have enabled better risk management and business relationships.

In June 2015, the Government of Iceland announced a comprehensive strategy for capital account liberalisation. A major milestone of that strategy was reached on 28 October 2015, when the Central Bank of Iceland announced that the draft composition agreements submitted by the estates of the three failed Icelandic banks satisfy the requirements set forth in the Foreign Exchange Act, in that the implementation of the composition agreements together with the proposed mitigating measures would not jeopardise monetary, exchange rate, or financial stability. In December 2015, each of the estates of the three failed banks reached final and binding composition agreements. Based on those composition agreements, the Central Bank of Iceland granted certain exemptions from capital controls, allowing the estates to make distributions to their creditors. Landsbankinn's deposits from customers decreased by around 10% in the fourth quarter of 2015, as a result of the estates withdrawing deposits to make distributions to their creditors. The Bank was well prepared to withstand the anticipated outflow.

The Financial Supervisory Authority (FME) has concluded its latest Supervisory Review and Evaluation Process (SREP) for the Group, based on data from 31 December 2014, whereby the FME determined the minimum capital requirement for the Group to be 14.3%, consisting of the 8% regulatory capital requirement under Pillar I and a 6.3% capital requirement under Pillar II. In addition to these capital requirements, new legislation entered into force during 2015, implementing capital buffer requirements under the European Union Capital Requirements Directive (EU CRD) IV. The target for the Group's minimum total capital ratio is to be comfortably above the fully phased-in FME capital requirements plus capital buffers. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies (see Note 46).

Outlook

Landsbankinn Economic Research forecasts GDP growth in Iceland of 4.5% in 2016 and 2017, which will then slow to 3.7% in 2018. The Central Bank has also recently upgraded its forecast for 2016 from 3.2% to 4.2% and predicts an average growth of 3.2% in 2017 and 2018. Increased investment and private consumption are expected to be the principal drivers of growth in coming years. During the forecast period, which extends until the end of 2018, the near-term inflation outlook is positive but inflation is expected to pick up second half of the current year and peak at close to 5% during the first half of 2017 due to substantial general wage increases over the coming years. Average inflation during the forecast period is expected to be around 3.3%.

The Bank's return on equity has been at a relatively high level in most recent years. This is due in large part to extraordinary items having had a significant and positive impact on profitability, which are not expected to re-occur. Among the largest extraordinary items are the value adjustments of the loan portfolio, contributing ISK 13,500 million to net after-tax profit in 2015 compared to ISK 14,900 million in the previous year. The Bank continues to focus on the execution of its strategy, including the aim to ensure sustainable profitability in the long term.

Other matters

On 25 March 2015, the Bank paid dividends for the operating year 2014 to its shareholders in accordance with a resolution passed at the Bank's Annual General Meeting on 18 March 2015. Dividends amounted to ISK 23,687 million, equivalent to ISK 1.00 per share for the year 2014, or 80% of net profit for the year 2014.

Following the conclusion of an agreement between Landsbankinn hf. and the Board of Directors of Sparisjóður Vestmannaeyja ses. of 28 March 2015 and the decision of the Financial Supervisory Authority (FME) the following day on the merger of these companies, a shareholders' meeting of Landsbankinn hf. was convened on Monday, 4 May 2015. The shareholders' meeting agreed to authorise Landsbankinn hf. to allocate own shares as a consideration for the acquisition of other Icelandic financial undertakings or the merger of such companies with the Bank.

In January 2016, Icelandic State Financial Investments (ISFI) published a status report on the sale of the Icelandic State Treasury's holding in Landsbankinn. Given the economic situation in Iceland, corporate valuations, investor interest and capacity, and the readiness of Landsbankinn in general, ISFI concluded it would be appropriate for the Icelandic State to launch the sales process of up to 28.2% of its shares in the Bank.

Ownership

The total number of shareholders at year-end 2015 was 1,835, up from 1,403 at the beginning of 2015. The ten largest shareholders in the Bank at year-end 2015 are as follows:

Shareholders		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Tryggingasjóður sparisjóðanna	Icelandic Savings Banks' Insurance Fund	10.0	0.04%
Lífeyrissjóður Vestmannaeyja	Pension Fund	5.0	0.02%
Vestmannaeyjabær	Local Municipality	3.5	0.01%
Vinnslustöðin hf. Vestmannaeyjum (VSV)	Seafood Company	1.7	0.01%
Eignarhaldsfélag Seðlabanka Íslands ehf.	Central Bank of Iceland's Holding Company	1.1	0.00%
Íslensk verðbréf hf.	Asset Management Company	1.1	0.00%
Helgi T. Helgason	Employee of Landsbankinn hf.	0.5	0.00%
Hreiðar Bjarnason	Employee of Landsbankinn hf.	0.5	0.00%
Árni Þ. Þorbjörnsson	Employee of Landsbankinn hf.	0.5	0.00%
Top 10 total		**23,590.9**	**98.30%**
Other shareholders		190.8	0.79%
Total shares outstanding		**23,781.7**	**99.09%**
Landsbankinn hf.	Own shares	218.3	0.91%
Total shares issued		**24,000.0**	**100.00%**

ISFI manages the state's holding in the Bank on behalf of Ríkissjóður Íslands (the Icelandic State Treasury).

Governance

The governance structure of the Bank forms the foundation for solid relations between shareholders, the Board of Directors, executives, employees and other stakeholders and encourages objectivity, integrity, transparency and responsibility in the management of the Bank. Each year, the Bank reviews recognised guidelines on corporate governance to determine whether its own governance complies with current guidelines.

The underlying regulatory framework for the Bank's corporate governance policy and procedures includes the Act on Financial Undertakings No. 161/2002, as subsequently amended, the Act on Annual Financial Statements No. 3/2006 as subsequently amended, as well as other applicable laws and regulations.

Landsbankinn complies with the recommendations of the most recent Corporate Governance Guidelines issued in June 2015 (fifth edition) by the Iceland Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers with the exception of certain aspects of Sections 2.3.5 and 5.4.1 of the Guidelines. Further details on the Bank's corporate governance in general and these exceptions are provided in the Annual Report of the Group for the year 2015 and on the Bank's website www.landsbankinn.is.

In December 2014, the Centre for Corporate Governance of the University of Iceland recognised the Bank as a model of corporate governance following a formal review of the Bank's governance practices. The Centre's conclusion was based on a review of governance practices carried out by Deloitte. Deloitte's review of the Bank's governance provided a clear overview of the Bank's governance practices and indicated the Bank could in many ways serve as a model of good corporate governance to other companies.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn hf. for the year ended 31 December 2015 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the Consolidated Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the year 2015, its consolidated financial position as at 31 December 2015 and its consolidated cash flows for the year 2015.

Furthermore, in our opinion, the Consolidated Financial Statements of Landsbankinn hf. and endorsement of its Board of Directors and CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Landsbankinn hf. for the year 2015 and confirmed them by their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 25 February 2016.

Board of Directors

Tryggvi Pálsson

Chairman

Danielle Pamela Neben

Eva Sóley Guðbjörnsdóttir

Helga Björk Eiríksdóttir

Jón Sigurðsson

Kristján Þ. Davíðsson

Tinna Laufey Ásgeirsdóttir

CEO

Steinþór Pálsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Landsbankinn hf.

We have audited the accompanying Consolidated Financial Statements of Landsbankinn hf. for the year 2015. The Consolidated Financial Statements comprise the Consolidated Statement of Income, the Consolidated Statement of Financial Position, the Consolidated Changes in Equity, Consolidated Statement of Cash Flows, a summary of significant accounting policies and other explanatory information.

The Board of Directors and CEO's Responsibility for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consoldiated 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 Consolidated 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 Consolidated Financial Statements.

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

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of Landsbankinn hf. as at 31 December 2015, of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report and the CEO

In accordance with the provisions of Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the report of the Board of Directors' and CEO accompanying the Consolidated Financial Statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

Reykjavík, 25 February 2016.

Grant Thornton endurskoðun ehf.

Davíð Arnar Einarsson

Sturla Jónsson

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Consolidated Income Statement for the Year ended 31 December 2015

Notes		2015	2014
	Interest income	58,005	53,735
	Interest expense	(25,681)	(25,662)
6	**Net interest income**	**32,324**	**28,073**
7	Net valuation adjustments and credit impairment charges	18,216	20,128
	Net interest income after net valuation adjustments and credit impairment charges	**50,540**	**48,201**
	Fee and commission income	8,977	7,737
	Fee and commission expense	(2,136)	(1,901)
8	**Net fee and commission income**	**6,841**	**5,836**
9	Net gain on financial assets designated at fair value through profit or loss	8,924	5,300
10	Net gain on financial assets and liabilities held for trading	3,802	1,463
12	Net foreign exchange (loss) gain	(1,277)	67
13	Other income and (expenses)	3,533	2,282
	Other net operating income	**14,982**	**9,112**
	Total operating income	**72,363**	**63,149**
14	Salaries and related expenses	13,754	13,567
15	Other operating expenses	8,061	8,545
25	Depreciation and amortisation	663	942
34	Contribution to the Depositors' and Investors' Guarantee Fund	1,254	1,034
	Total operating expenses	**23,732**	**24,088**
24	Share of profit of equity-accounted associates	248	465
	Profit before tax	**48,879**	**39,526**
16	Income tax	(9,402)	(6,821)
16	Tax on liabilities of financial institutions	(3,017)	(2,968)
	Profit for the year	**36,460**	**29,737**
	Profit for the year attributable to:		
	Owners of the Bank		
	Profit for the year from continuing operations	36,460	29,737
	Profit for the year attributable to owners of the Bank	**36,460**	**29,737**
	Earnings per share:		
36	Basic and diluted earnings per share from continuing operations	**1.54**	**1.26**
	Total basic and diluted earnings per share	**1.54**	**1.26**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2015 7 All amounts are in ISK million

Consolidated Statement of Financial Position as at 31 December 2015

Notes		2015	2014
	Assets		
18	Cash and balances with Central Bank	25,164	10,160
17, 19, 78	Bonds and debt instruments	203,684	243,589
20	Equities and equity instruments	29,192	29,433
17, 21	Derivative instruments	287	78
22, 78	Loans and advances to financial institutions	20,791	49,789
23, 78	Loans and advances to customers	811,549	718,355
24	Investments in equity-accounted associates	909	777
25	Property and equipment	5,658	5,691
26	Intangible assets	2,012	1,225
33	Deferred tax assets	0	83
27	Other assets	7,457	20,978
28	Assets classified as held for sale	11,955	18,212
	Total assets	**1,118,658**	**1,098,370**
	Liabilities		
29	Due to financial institutions and Central Bank	56,731	53,827
30	Deposits from customers	559,051	551,435
21	Derivative instruments and short positions	3,400	5,409
31, 78	Borrowings	209,344	207,028
32	Subordinated liabilities	639	0
33	Deferred tax liabilities	166	0
34	Other liabilities	23,278	27,034
	Liabilities associated with assets classified as held for sale	1,518	2,834
	Total liabilities	**854,127**	**847,567**
35	**Equity**		
	Share capital	23,782	23,687
	Share premium	122,105	121,275
	Reserves	6,000	6,000
	Retained earnings	112,614	99,841
	Total equity attributable to owners of the Bank	**264,501**	**250,803**
	Non-controlling interests	30	0
	Total equity	**264,531**	**250,803**
	Total liabilities and equity	**1,118,658**	**1,098,370**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2015 8 All amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year ended 31 December 2015

Notes										
		Attributable to owners of the Bank								
	Change in equity for the year 2015	Share capital	Share premium	Statutory reserve	Share based payment reserve	Retained earnings	Total	Non-controlling interests	Total
	Balance as at 1 January 2015	23,687	121,275	6,000		99,841	250,803		250,803
	Profit for the year					36,460	36,460		36,460
	Dividends paid					(23,687)	(23,687)		(23,687)
4	Merger consideration allocated to former guarantee capital owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands	95	830				925		925
	Increase in non-controlling interests due to the merger of Landsbankinn and Sparisjóður Norðurlands						0	30	30
35	**Balance as at 31 December 2015**	**23,782**	**122,105**	**6,000**	**0**	**112,614**	**264,501**	**30**	**264,531**
	Change in equity for the year 2014								
	Balance at 1 January 2014	23,618	120,700	6,000	1,046	90,002	241,366	(7)	241,359
	Profit for the year					29,737	29,737		29,737
	Own shares allocated to employees	112	934		(1,046)		0		0
	Purchase of own shares for settlement of tax obligations and pension liabilities	(43)	(359)				(402)		(402)
	Dividends paid					(19,897)	(19,897)		(19,897)
	Change in non-controlling interests due to sale of subsidiaries						0	7	7
35	**Balance at 31 December 2014**	**23,687**	**121,275**	**6,000**	**0**	**99,841**	**250,803**	**0**	**250,803**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2015 9 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2015

Notes		2015	2014
	Operating activities		
	Profit for the year	36,460	29,737
	Adjustments for non-cash items included in profit for the year	(51,728)	(48,504)
	Changes in operating assets and liabilities	15,817	50,935
	Interest received	51,227	46,041
	Interest paid	(24,238)	(25,793)
11	Dividends received*	4,230	3,310
	Income tax and special tax on financial institutions paid	(10,978)	(10,907)
	Net cash from operating activities	**20,790**	**42,854**
	Investing activities		
	Proceeds of shares in equity-accounted associates	(33)	11,615
25	Purchase of property and equipment	(274)	(1,253)
25	Proceeds from sale of property and equipment	62	171
26	Purchase of intangible assets	(597)	(791)
	Net cash (used in) from investing activities	**(842)**	**11,707**
	Financing activities		
	Proceeds from new long-term debt issue	76,141	5,420
	Repayment of secured bonds	(68,114)	(43,325)
35	Dividends paid	(23,687)	(19,897)
	Net cash used in financing activities	**(15,660)**	**(57,802)**
	Net change in cash and cash equivalents	4,288	(3,241)
	Cash and cash equivalents as at the beginning of the year	16,588	19,927
4	Cash and cash equivalents acquired in business combination	1,491	0
	Effect of exchange rate changes on cash and cash equivalents held	1,890	(98)
	Cash and cash equivalents as at 31 December	**24,257**	**16,588**
	Investing and financing activities not affecting cash flows		
4	Assets acquired and liabilities assumed from Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands	(621)	0
4	Goodwill	(313)	0
4	Own shares allocated to former guarantee capital owners of the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands	926	0

The accompanying notes are an integral part of these Consolidated Financial Statements.

* Dividends received from equity accounted associates have in prior periods been classified as investing activities but is now included under operating activities. Comparative numbers have been adjusted and ISK 1,965 million was reclassified to conform to this new presentation.

Landsbankinn hf. Consolidated Financial Statements 2015 10 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2015

Notes		2015	2014
	Adjustments for non-cash items included in profit for the year		
6	Net interest income	(32,324)	(28,073)
7	Net adjustments to loans and advances acquired at deep discount	0	(20,010)
7, 68	Net impairment and loss of guarantees	(4,440)	2,038
7	Reversals of loss from foreign currency linkage of loans and advances to customers	(13,776)	(2,156)
9	Net (gain) on financial assets designated at fair value through profit or loss	(8,924)	(5,300)
10	Net (gain) on financial assets and liabilities held for trading	(3,802)	(1,463)
12	Net foreign exchange (gain) loss	(613)	31
25	Loss (gain) on sale of property and equipment	20	40
13	(Gain) loss on repossessed collateral	(703)	41
25	Depreciation and amortisation	663	942
24	Share of profit of equity-accounted associates	(248)	(465)
	Profit of sale of associates	0	(3,918)
16	Income tax	9,402	6,821
16	Tax on liabilities of financial institutions	3,017	2,968
		(51,728)	**(48,504)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	(9,306)	(241)
	Change in bonds and equities	47,865	69,377
	Change in derivatives	0	142
	Change in loans and advances to financial institutions	32,145	26,240
	Change in loans and advances to customers	(68,279)	708
	Change in assets of disposal groups	5,772	0
	Change in other assets	11,110	(10,600)
	Change in assets classified as held for sale	5,423	4,358
	Change in due to financial institutions and Central Bank	3,160	(2,943)
	Change in deposits from customers	(6,197)	(19,022)
	Change in tax liability	231	(673)
	Change in other liabilities	(5,752)	(10,127)
	Change in liabilities associated with assets classified as held for sale	(355)	(6,284)
		15,817	**50,935**
	Cash and cash equivalents is specified as follows:		
18	Cash and unrestricted balances with Central Bank	9,161	3,463
22	Bank accounts with financial institutions	15,096	13,125
	Cash and cash equivalents as at the end of the year	**24,257**	**16,588**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2015 11 All amounts are in ISK million

All amounts are in ISK million

Notes to the Consolidated Financial Statements

1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank" or "Landsbankinn") was founded on 7 October 2008. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002. The Bank is subject to supervision of the Financial Supervisory Authority (FME) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík.

The Consolidated Financial Statements of the Bank for the year ended 31 December 2015 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related services. The Group operates solely in Iceland.

The issue of these Consolidated Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 25 February 2016.

2. Basis of preparation

Statement of compliance

These Consolidated Financial Statements for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Information regarding significant accounting policies can be found in note 91.

Going concern

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

Basis of measurement

The Consolidated Financial Statements have been prepared on a historical cost basis except for the following:
• Financial assets and liabilities classified as held for trading are measured at fair value;
• Financial assets and liabilities designated at fair value through profit or loss are measured at fair value;
• Non-current assets and disposal groups classified as held for sale are measured at the lower of cost or fair value less costs to sell.

Functional and presentation currency

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

Use of estimates and judgements

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

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

Note 3 discusses estimates and assumptions which involve a substantial risk which could result in material adjustments to the carrying amounts of assets and liabilities during the next year.

3. Critical accounting estimates and judgements in applying accounting policies

(a) Impairment losses on loans and advances

To assess impairment, the Group reviews its loan portfolios on at least a quarterly basis. To determine whether an impairment loss should be recognised, the Group evaluates whether there is any observable data indicating a measurable decrease in estimated future cash flows from a portfolio of loans, before any decrease in individual loans becomes identifiable within that portfolio. The evidence may include either observable data indicating that an adverse change has occurred in the payment status of the borrowers in a group, or national or local economic conditions correlating with defaults on assets in the group. In order to schedule its future cash flows, management uses estimates based on historical loss experience, together with objective evidence of impairment in homogenous portfolios. The methodology and assumptions for estimating both the amount and timing of future cash flows are reviewed regularly in order to reduce potential discrepancies between loss estimates and actual loss experience.

(b) Valuation of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair value, they are validated and periodically reviewed by qualified and independent personnel of the Group. All models are certified before use, and calibrated to ensure that the outputs reflect actual data and comparative market prices. Wherever practical, models are confined to observable data; however, areas such as volatility, correlation and credit risk, whether own or counterparty, require management to make estimates. Changing assumptions on these factors could affect the reported fair value of financial instruments.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

(c) Assets classified as held for sale

The Group classifies assets and groups of assets together with related liabilities as held for sale:
• if such assets or disposal groups are immediately available for sale in their present condition, subject to terms that are usual and customary for selling such assets or disposal groups;
• if management is committed to selling such assets and is actively looking for a buyer;
• if the assets are being actively marketed at a reasonable sales price in relation to their fair value;
• if completion of the sale is expected within one year;
• if sale is considered highly probable.
However, events and circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete the sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and the Group remains committed to its plan to sell the asset (or disposal group).

When classifying assets as held for sale the Group has determined that the classification criteria have been met.

(d) Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 91.1 Consolidation, indicate that the Group controls an investee.

The Group acts as fund manager to a number of investment funds. When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the funds by exercising its power.

For further disclosure in respect of unconsolidated investment funds in which the Group acts as an agent see Note 42 Unconsolidated structured entities.

(e) Foreign currency indexed loans

In accordance with Group's accounting policies, the Group recognised expenses for the potential impact of rulings of the Supreme Court on recalculation of foreign currency indexed loans in its Consolidated Income Statement as at year-end 2011 and at the end of the third quarter of 2012. In the year 2015, the Supreme Court ruled in favour of the Bank in two cases where a company brought lawsuits against the Bank demanding recalculation of previous recalculations of foreign currency indexed loans in accordance with Supreme Court judgments No. 600/2011 and No. 464/2012. The Supreme Court concluded that the difference in the comparative position between the parties was insignificant and that the additional claim would not cause a serious disruption to the company's financial position comparable to the impact that unexpected claims for additional payment would have on an individual or a small enterprise. Consequently, the company's claim for recalculation of previous recalculations was unfounded. These rulings serve as a precedent for other homogeneous foreign currency indexed loans to companies where circumstances are similar. The rulings resulted in a reversal of previously recognised expenses in the amount of ISK 9,145 million at the end of the third quarter of 2015. In November 2015 and in January 2016, the District Court of Reykjavík came to the same substantive conclusion in six rulings involving similar disputes. The rulings of the District Court resulted in an additional reversal of previously recognised expenses in the amount of ISK 6,511 million at the end of fourth quarter of 2015, see Note 7. In 2015, the Group's net reversal on foreign currency linkage of loans and advances amounted to ISK 13,776 million, see Note 7.

4. Business combinations

Merger of Landsbankinn and Sparisjóður Vestmannaeyja

On 29 March 2015, the Bank took over all assets, liabilities and operations of Sparisjóður Vestmannaeyja ses., a local savings bank in Vestmannaeyjar, in accordance with the decision of the Financial Supervisory Authority (FME) and an agreement between Landsbankinn hf. and the Board of Directors of Sparisjóður Vestmannaeyja ses. The activities and operations of the savings bank have been integrated into that of Landsbankinn.

As remuneration for the assets and liabilities taken over by the Bank, the guarantee capital owners of the savings bank received shares in Landsbankinn. The acquisition price of the savings bank was ISK 332 million, which is equivalent to 0.14% of the issued share capital of the Bank. The fair value of the shares issued by the Bank is based on the book value per outstanding shares as of 31 December 2014, adjusted for the dividend payment to the Bank's shareholders in March 2015.

Since the acquisition in March 2015, Sparisjóður Vestmannaeyja has contributed total operating income of ISK 486 million and a profit of ISK 64 million to the Group's 2015 results. The assets acquired and liabilities assumed from Sparisjóður Vestmannaeyja have been recognised in these financial statements.

Near the end of 2015, share capital in several companies owned by Sparisjóður Vestmannaeyja was written off following their composition agreements. In addition corrections were made for several companies whose share capital was written off in previous years. The Income Tax Act, No. 90/2003, authorises a deduction from income for share capital which has been written off following composition. Recognition of the purchase price of the savings bank has therefore been reallocated in these financial statements, resulting in an increase in the taxable asset of ISK 174 million and a decrease in goodwill of ISK 174 million.

4. Business combinations (continued)

Merger of Landsbankinn and Sparisjóður Vestmannaeyja (continued)

Identifiable assets acquired and liabilities assumed	Fair value
Assets	
Cash and balances with Central Bank	1,408
Bonds and debt instruments	705
Equities and equity instruments	245
Loans and advances to financial institutions	157
Loans and advances to customers	6,888
Investments in associates	10
Property and equipment	135
Deferred tax assets	557
Other assets	128
Assets classified as held for sale	435
Total	**10,668**
Liabilities	
Deposits from customers	9,935
Other borrowings	188
Subordinated liabilities	427
Other liabilities	177
Total	**10,727**
Total identifiable net assets	**(59)**
Goodwill	**391**
Acquisition price	**332**

	As at 29 March 2015			
Loans and advances to customers	Acquiree's carrying amounts	Contractual cash flows*	Cash flows expected to be collected*	Fair value
Corporations and public entities	1,467	2,958	1,719	1,467
Individuals	5,421	9,733	7,718	5,421
Total	**6,888**	**12,691**	**9,437**	**6,888**

*The cash flows presented in the table above consist of undiscounted principal and interest receivable.

If this business combination had been effective as of 1 January 2015, the total operating income contribution of the merged company for the full year ended 31 December 2015 would have amounted to ISK 675 million and the net gain effect to ISK 24 million.

Merger of Landsbankinn and Sparisjóður Norðurlands

On 4 September 2015, the Bank took over all assets, liabilities and operations of Sparisjóður Norðurlands ses., a local savings bank in North Iceland, in accordance with a merger agreement between Landsbankinn hf. and Sparisjóður Norðurlands ses. The activities and operations of the savings bank have been integrated into that of Landsbankinn.

In consideration for the assets and liabilities taken over by the Bank, the guarantee capital owners of the savings bank received shares in Landsbankinn. The acquisition price of the savings bank was ISK 594 million, which is equivalent to 0.25% of issued share capital of the Bank. The fair value of shares issued by the Bank is based on the book value per outstanding shares as of 31 March 2015, adjusted for the the merger of Landsbankinn and savings bank Sparisjóður Vestmannaeyja.

Since the acquisition in September 2015, Sparisjóður Norðurlands has contributed total operating income of ISK 154 million and a loss of ISK 7 million to the Group's 2015 results. The assets acquired and liabilities assumed from Sparisjóður Norðurlands have been recognised in these financial statements.

Near the end of 2015, share capital in several companies owned by Sparisjóður Norðurlands was written off following their composition agreements. In addition corrections were made for several companies whose share capital was written off in previous years. The Income Tax Act, No. 90/2003, authorises a deduction from income for share capital which has been written off following composition. Recognition of the purchase price has therefore been reallocated in these financial statements, resulting in an increase in the taxable asset of ISK 96 million and a decrease in goodwill of ISK 96 million.

Landsbankinn hf. Consolidated Financial Statements 2015 15 All amounts are in ISK million

4. Business combinations (continued)

Merger of Landsbankinn and Sparisjóður Norðurlands (continued)

Identifiable assets acquired and liabilities assumed	Fair value
Assets	
Cash and balances with Central Bank	83
Bonds and debt instruments	227
Equities and equity instruments	82
Loans and advances to financial institutions	2,424
Loans and advances to customers	6,501
Investments in associates	14
Interest in subsidiaries	14
Property and equipment	102
Deferred tax assets	663
Other assets	23
Assets classified as held for sale	101
Total	**10,234**
Liabilities	
Deposits from customers	8,966
Subordinated liabilities	387
Other liabilities	201
Total	**9,554**
Total identifiable net assets	**680**
Negative goodwill	**(78)**
Acquisition price	**594**

	As at 4 September 2015			
Loans and advances to customers	Acquiree's carrying amounts	Contractual cash flows*	Cash flows expected to be collected*	Fair value
Corporations and public entities	2,157	3,138	2,615	2,157
Individuals	4,344	7,507	6,725	4,344
Total	**6,501**	**10,645**	**9,340**	**6,501**

*The cash flows presented in the table above consist of undiscounted principal and interest receivable.

If this business combination had been effective as of 1 January 2015, the total operating income contribution of the merged company for the full year ended 31 December 2015 would have amounted to ISK 426 million and the net loss effect to ISK 84 million.

Total acquisitions during the year

The table below summarises the recognised fair value amounts of the identifiable assets acquired and liabilities assumed from the mergers of the savings banks with the Bank during the year 2015:

Identifiable assets acquired and liabilities assumed	Sparisjóður Vestmannaeyja	Sparisjóður Norðurlands	Total
Assets			
Cash and balances with Central Bank	1,408	83	1,491
Bonds and debt instruments	705	227	932
Equities and equity instruments	245	82	327
Loans and advances to financial institutions	157	2,424	2,581
Loans and advances to customers	6,888	6,501	13,389
Investments in associates	10	14	24
Interest in subsidiaries	-	14	14
Property and equipment	135	102	237
Deferred tax assets	557	663	1,220
Other assets	128	23	151
Assets classified as held for sale	435	101	536
Total	**10,668**	**10,234**	**20,902**
Liabilities			
Deposits from customers	9,935	8,966	18,901
Other borrowings	188	-	188
Subordinated liabilities	427	387	814
Other liabilities	177	201	378
Total	**10,727**	**9,554**	**20,281**
Total identifiable net assets	**(59)**	**680**	**621**
Goodwill (negative goodwill)	**391**	**(78)**	**313**
Acquisition price	**332**	**594**	**926**

Landsbankinn hf. Consolidated Financial Statements 2015 16 All amounts are in ISK million

4. Business combinations (continued)

Total acquisitions during the period (continued)

An assessment is made at each reporting date to determine whether there is any indication of potential impairment of the carrying amount of goodwill acquired in business combinations. As at 31 December 2015, the Bank performed an impairment test of the goodwill acquired and identified no impairment losses.

5. Operating segments

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

The Group has four main business segments as at the end of the reporting period:

• **Personal Banking** provides financial services through the Bank's branch network to individuals and to small and medium-size businesses outside the capital city region.
• **Corporate Banking** provides financial services to corporate clients and to small and medium-size businesses in the capital city region. It also provides restructuring solutions for underperforming businesses.
• **Markets** provides brokerage services in securities, foreign currencies and derivatives, securities offerings and advisory services. Markets also handles market making for listed securities and foreign currencies. Markets provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf hf., a subsidiary of the Bank, is included in Markets as an operating segment.
• **Treasury** incorporates the Bank's funding and liquidity management and market making in money markets and determines the Bank's internal pricing. Treasury also manages the Bank's exchange rate, interest rate and inflation risks, within limits that are set by the Board of Directors. The Bank allocates capital to the operating segments based on the Bank's target for a total capital ratio.

Support functions are comprised of Finance (excluding Treasury), Risk Management, Operations & IT, and CEO Office, the CEO Office being further comprised of Human Resources, Marketing & Communication and Compliance. The Bank's Internal Audit which operates independently from other departments is also included in support functions and reports directly to the Bank's Board of Directors.

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

Administrative expenses of the Group's support functions are allocated to appropriate business segments based on the underlying cost drivers. Expenses are allocated to the business units at market price level. Support functions supply services to business units and transactions are settled at unit prices or on an arm's-length basis, if possible, on the basis of consumption and activity.

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the period from 1 January to 31 December 2015 and 2014.

5. Operating segments (continued)

1 January - 31 December 2015	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon-ciliation	Total
Net interest income (expense)	13,288	14,387	324	5,196	46	(917)	**32,324**
Net valuation adjustments and credit impairment charges	3,971	14,178	(1)	68	-	-	**18,216**
Net fee and commission income	3,500	701	3,253	(397)	40	(256)	**6,841**
Other net operating income (expenses)	1,903	(665)	1,956	9,756	1,278	754	**14,982**
Total operating income (expense)	**22,662**	**28,601**	**5,532**	**14,623**	**1,364**	**(419)**	**72,363**
Operating expenses	(6,439)	(1,477)	(1,908)	(1,750)	(12,436)	278	**(23,732)**
Share of profit of equity-accounted associates	153	-	-	53	42	-	**248**
Profit (loss) before cost allocation and tax	**16,376**	**27,124**	**3,624**	**12,926**	**(11,030)**	**(141)**	**48,879**
Cost allocated from support functions to business segments	(5,242)	(4,106)	(1,176)	(869)	11,393	-	**0**
Profit (loss) before tax	**11,134**	**23,018**	**2,448**	**12,057**	**363**	**(141)**	**48,879**
Net revenue from external customers	23,928	38,377	5,226	3,915	1,336	-	**72,782**
Net revenue (expenses) from other segments	(1,266)	(9,776)	306	10,708	28	-	**0**
Total operating income	**22,662**	**28,601**	**5,532**	**14,623**	**1,364**	**0**	**72,782**
As at 31 December 2015							
Total assets	375,884	477,249	31,463	460,817	20,294	(247,049)	**1,118,658**
Total liabilities	320,374	363,579	23,881	373,048	20,294	(247,049)	**854,127**
Allocated capital	55,510	113,670	7,582	87,769	-		**264,531**

1 January - 31 December 2014	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon-ciliation	Total
Net interest income (expense)	14,820	15,704	772	(1,984)	5	(1,244)	**28,073**
Net valuation adjustments and credit impairment charges	8,985	9,214	-	(54)	1,983	-	**20,128**
Net fee and commission income	2,785	646	3,061	(322)	83	(417)	**5,836**
Other net operating income (expenses)	440	(264)	359	9,311	(1,819)	1,085	**9,112**
Total operating income (expense)	**27,030**	**25,300**	**4,192**	**6,951**	**252**	**(576)**	**63,149**
Operating expenses	(6,323)	(1,558)	(2,050)	(1,369)	(13,225)	437	**(24,088)**
Share of profit (loss) of equity-accounted associates	444	-	-	(45)	66	-	**465**
Profit (loss) before cost allocation and tax	**21,151**	**23,742**	**2,142**	**5,537**	**(12,907)**	**(139)**	**39,526**
Cost allocated from support functions to business segments	(5,557)	(3,886)	(1,208)	(1,128)	11,779	-	**0**
Profit (loss) before tax	**15,594**	**19,856**	**934**	**4,409**	**(1,128)**	**(139)**	**39,526**
Net revenue from external customers	19,264	37,624	3,781	2,824	231	-	**63,725**
Net revenue (expenses) from other segments	7,766	(12,324)	411	4,127	21	-	**0**
Total operating income	**27,030**	**25,300**	**4,192**	**6,951**	**252**	**0**	**63,725**
As at 31 December 2014							
Total assets	348,010	453,134	19,350	455,077	31,000	(208,201)	**1,098,370**
Total liabilities	290,139	339,587	10,227	384,815	31,000	(208,201)	**847,567**
Allocated capital	57,871	113,547	9,123	70,262	-		**250,803**

Landsbankinn hf. Consolidated Financial Statements 2015 18 All amounts are in ISK million

Notes to the Consolidated Income Statement

6. Net interest income

Interest income	2015	2014
Cash and balances with Central Bank	835	1,217
Bonds and debt instruments classified as loans and receivables	5,423	5,501
Loans and advances to financial institutions	282	442
Loans and advances to customers	51,405	46,551
Other interest income	60	24
Total	**58,005**	**53,735**

Interest expense		
Due to financial institutions and Central Bank	(1,214)	(2,768)
Deposits from customers	(17,175)	(15,179)
Borrowings	(7,048)	(7,542)
Subordinated liabilities	(20)	-
Other interest expense	(224)	(173)
Total	**(25,681)**	**(25,662)**
Net interest income	**32,324**	**28,073**

Interest income and interest expense disclosed above arose on financial assets and financial liabilities that are not carried at fair value through profit or loss.

7. Net valuation adjustments and credit impairment charges

	2015	2014
Net valuation adjustments to loans and advances acquired at deep discount	-	20,010
Net impairment	5,044	(2,038)
Net impairment loss of guarantees	(604)	-
Reversals of loss from foreign currency linkage of loans and advances to customers	13,776	2,156
Net valuation adjustments and credit impairment charges	**18,216**	**20,128**

Valuation adjustments and impairment charges by customer type		
Individuals	1,547	4,465
Corporations	16,669	15,663
Net valuation adjustments and credit impairment charges	**18,216**	**20,128**

8. Net fee and commission income

Fee and commission income	2015	2014
Markets and treasury	1,462	1,377
Asset management	1,635	1,261
Lending	941	1,156
Cards	2,660	1,607
Interbank clearing	141	350
Collection and payment services	907	798
Foreign trade	910	813
Other commissions and fees	321	375
Total	**8,977**	**7,737**

Fee and commission expense		
Markets and treasury	(364)	(313)
Other fees	(1,772)	(1,588)
Total	**(2,136)**	**(1,901)**
Net fee and commission income	**6,841**	**5,836**

The net fee and commission income above excludes amounts that are otherwise included in determining the effective interest rate for financial assets and liabilities that are not at fair value through profit or loss. Moreover, it does not include any net fee and commission income relating to such financial assets and liabilities.

Landsbankinn hf. Consolidated Financial Statements 2015 19 All amounts are in ISK million

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

	2015	2014
Bonds and debt instruments	1,148	(648)
Equities and equity instruments	7,776	5,948
Total	**8,924**	**5,300**

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

	2015	2014
Bonds and debt instruments	1,630	1,353
Equities and equity instruments	1,895	124
Derivatives and underlying hedges	277	(15)
Total	**3,802**	**1,463**

11. Dividend income

Dividend income is recognised in the consolidated income statement in the following line items:

	2015	2014
Net gain on financial assets designated at fair value through profit or loss	3,976	1,302
Net gain on financial assets and liabilities held for trading	82	44
Total	**4,058**	**1,346**

12. Net foreign exchange (loss) gain

Assets	2015	2014
Cash and balances with Central Bank	(163)	(17)
Bonds and debt instruments	(1,361)	6,165
Equities and equity instruments	(1,320)	(169)
Derivative instruments	(1,133)	(474)
Loans and advances to financial institutions	(1,370)	(86)
Loans and advances to customers	(9,024)	3,293
Other assets	(21)	18
Total	**(14,392)**	**8,730**
Liabilities		
Due to financial institutions and Central Bank	274	(391)
Deposits from customers	5,588	(2,997)
Borrowings	7,208	(5,249)
Subordinated liabilities	24	-
Other liabilities	21	(26)
Total	**13,115**	**(8,663)**
Net foreign exchange (loss) gain	**(1,277)**	**67**

The foreign exchange difference recognised during the year 2015 in the Consolidated Income Statement that arose on financial instruments not measured at fair value through profit or loss, amounted to a loss of ISK 10,578 million for financial assets (2014: gain of ISK 3,208 million) and a gain of ISK 13,115 million for financial liabilities (2014: loss ISK 8,663 million).

13. Other income and expenses

	2015	2014
Recharged expenses	80	183
Loss on sale of property and equipment	(14)	(40)
Gain (loss) on repossessed collateral	703	(8)
Gain on sale of equity-accounted associates	2,468	3,918
Other	296	(1,771)
Total	**3,533**	**2,282**

Landsbankinn hf. Consolidated Financial Statements 2015 20 All amounts are in ISK million

14. Salaries and related expenses

	2015	2014
Salaries	10,504	10,428
Contributions to defined pension plans	1,561	1,489
Social security contributions, special financial activities tax on salaries and other expenses	1,689	1,650
Total salaries and related expenses	**13,754**	**13,567**
Number of full-time equivalent positions at year-end	1,063	1,126
Average number of full-time equivalent positions during the year	1,095	1,155

15. Other operating expenses

	2015	2014
Computer software and other information technology costs	2,269	1,961
Real estate and fixtures	801	770
Advertising and marketing	831	814
Operating lease rentals	659	648
FME supervisory expenses	353	337
Contribution to the Debtor's Ombudsman	104	141
Audit and related services	121	138
Other professional services	722	1,002
Other operating expenses	2,201	2,734
Total	**8,061**	**8,545**

Audit and related services	2015	2014
Audit of financial statement and audit related service	73	75
Review of interim financial statements and audit related services	48	63
Total	**121**	**138**

16. Income tax and other taxes

Income tax is recognised based on the tax rates and tax laws enacted by the end of the year, according to which the domestic corporate income tax rate was 20.0% (2014: 20.0%). An additional special income tax on financial institutions is recognised at a rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011 on Financial Activity Tax.

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

	2015	2014
Current tax expense	(5,927)	(6,183)
Special income tax on financial institutions	(2,038)	(1,771)
Difference of prior year's imposed and calculated income tax	(50)	237
Deferred tax expense	(1,387)	896
Total	**(9,402)**	**(6,821)**

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

		2015		2014
Profit before tax		48,879		39,526
Tax on liabilities of financial institutions		(3,017)		(2,968)
Profit before income tax		45,862		36,558
Income tax calculated using the domestic corporate income tax rate	20.0%	(9,172)	20.0%	(7,312)
Special income tax on financial institutions	4.4%	(2,038)	4.8%	(1,771)
Income not subject to tax	(6.0%)	2,758	(6.1%)	2,237
Non-deductible expenses	1.6%	(724)	2.5%	(917)
Other	0.5%	(226)	(2.6%)	941
Effective income tax	**20.5%**	**(9,402)**	**18.7%**	**(6,821)**

Tax on liabilities of financial institutions

On 31 December 2013 the Parliament of Iceland passed an amendment to Act No. 155/2010, on Special Tax on Financial Institutions, according to which financial institutions must pay annually a tax calculated as 0.376% (2014: 0.376%) of the carrying amount of total liabilities at year-end in excess of ISK 50,000 million as determined for tax purposes.

	2015	2014
Tax on liabilities of financial institutions	(3,017)	(2,968)
Total	**(3,017)**	**(2,968)**

Landsbankinn hf. Consolidated Financial Statements 2015 21 All amounts are in ISK million

Notes to the Consolidated Statement of Financial Position

17. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities must be classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:
- Loans and receivables, measured at amortised cost;
- Financial assets and liabilities held for trading, measured at fair value;
- Financial assets designated at fair value through profit or loss, measured at fair value;
- Other financial liabilities, measured at amortised cost.

Further details on fair value measurement of financial assets and liabilities can be seen in Note 91, Significant accounting policies.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 December 2015:

Financial assets	Loans and receivables	Held for trading	Designated at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	25,164	-	-	-	-	25,164	25,164
Bonds and debt instruments	125,211	69,279	9,194	-	-	203,684	205,203
Equities and equity instruments	-	11,385	17,807	-	-	29,192	29,192
Derivative instruments	-	287	-	-	-	287	287
Loans and advances to financial institutions	20,791	-	-	-	-	20,791	20,791
Loans and advances to customers	811,549	-	-	-	-	811,549	816,495
Other financial assets	6,918	-	-	-	-	6,918	6,918
Total	**989,633**	**80,951**	**27,001**	**0**	**0**	**1,097,585**	**1,104,050**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	56,731	-	56,731	56,730
Deposits from customers	-	-	-	559,051	-	559,051	558,958
Derivative instruments and short positions	-	3,400	-	-	-	3,400	3,400
Borrowings	-	-	-	209,344	-	209,344	210,147
Subordinated liabilities	-	-	-	639	-	639	705
Other financial liabilities	-	-	-	5,367	-	5,367	5,367
Total	**0**	**3,400**	**0**	**831,132**	**0**	**834,532**	**835,307**

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 December 2014:

Financial assets	Loans and receivables	Held for trading	Designated at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	10,160	-	-	-	-	10,160	10,160
Bonds and debt instruments	113,074	106,788	23,727	-	-	243,589	243,663
Equities and equity instruments	-	5,871	23,562	-	-	29,433	29,433
Derivative instruments	-	78	-	-	-	78	78
Loans and advances to financial institutions	49,789	-	-	-	-	49,789	49,789
Loans and advances to customers	718,355	-	-	-	-	718,355	726,505
Other financial assets	19,733	-	-	-	-	19,733	19,733
Total	**911,111**	**112,737**	**47,289**	**0**	**0**	**1,071,137**	**1,079,361**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	53,827	-	53,827	53,826
Deposits from customers	-	-	-	551,435	-	551,435	551,468
Derivative instruments and short positions	-	5,409	-	-	-	5,409	5,409
Borrowings	-	-	-	207,028	-	207,028	207,557
Other financial liabilities	-	-	-	7,509	-	7,509	7,509
Total	**0**	**5,409**	**0**	**819,799**	**0**	**825,208**	**825,769**

Landsbankinn hf. Consolidated Financial Statements 2015 22 All amounts are in ISK million

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

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs to valuation used to measure fair value. Fair value measurements of financial instruments are made on the basis of the following hierarchy:

• Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value.

• Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares. However, the yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.

• Level 3: Valuation technique based on significant non-observable inputs. It covers all instruments for which the valuation technique includes inputs based on unobservable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there is no market data available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies' multiples are the most commonly used methods to calculate fair value of unlisted shares in addition to recent transactions and current market conditions.

Assumptions and inputs used in the valuation technique include risk-free and benchmark interest rates for estimating discount rates, credit spreads, bonds and equity prices, foreign currency exchange rates, market multipliers, market conditions for estimating future growth and other market indicators.

Valuation framework

The Bank's Risk and Finance Committee oversees the Group's overall risk and is responsible for fair value measurements of financial assets and liabilities classified as Level 2 and 3 instruments. The Bank's Valuation group reports its valuation results to the Risk & Finance Committee for verification. The Valuation group is comprised of personnel from Risk Management, Treasury and Accounting. The Valuation group holds meetings monthly to determine the value of Level 2 and Level 3 financial assets and liabilities.

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial Position, is categorised as at 31 December 2015:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	69,477	8,553	443	78,473
Equities and equity instruments	11,069	-	18,123	29,192
Derivative instruments	-	287	-	287
Total	**80,546**	**8,840**	**18,566**	**107,952**
Financial liabilities				
Derivative instruments	-	702	-	702
Short positions	2,698	-	-	2,698
Total	**2,698**	**702**	**0**	**3,400**

During the year 2015, there were no transfers of financial assets into Level 2 from other levels. However, financial assets were transferred between Level 1 and Level 3, in both directions, either because quoted prices for the assets became available in an active market or, conversely, quoted prices were no longer available and valuation inputs were non-observable.

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial position, are categorised as at 31 December 2014:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	107,418	15,066	8,031	130,515
Equities and equity instruments	7,525	-	21,908	29,433
Derivative instruments	-	78	-	78
Total	**114,943**	**15,144**	**29,939**	**160,026**
Financial liabilities				
Derivative instruments	-	332	-	332
Short positions	5,077	-	-	5,077
Total	**5,077**	**332**	**0**	**5,409**

In 2014, there were no transfers between Level 1, Level 2 and Level 3.

Landsbankinn hf. Consolidated Financial Statements 2015 23 All amounts are in ISK million

Notes to the Consolidated Financial Statements

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

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, not carried at fair value in the Consolidated Statement of Financial Position, are categorised as at 31 December 2015:

Financial assets	Level 1	Level 2	Level 3	Total
Cash and balances with Central Bank	-	25,164	-	25,164
Bonds and debt instruments	100,763	25,967	-	126,730
Loans and advances to financial institutions	-	20,791	-	20,791
Loans and advances to customers	-	-	816,495	816,495
Other financial assets	-	6,918	-	6,918
Total	**100,763**	**78,840**	**816,495**	**996,098**

Financial liabilities				
Due to financial institutions and Central Bank	-	56,730	-	56,730
Deposits from customers	-	558,958	-	558,958
Borrowings	-	210,147	-	210,147
Subordinated liabilities	-	705	-	705
Other financial liabilities	-	5,367	-	5,367
Total	**0**	**831,907**	**0**	**831,907**

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, not carried at fair value in the Consolidated Statement of Financial Position, are categorised as at 31 December 2014:

Financial assets	Level 1	Level 2	Level 3	Total
Cash and balances with Central Bank	-	10,160	-	10,160
Bonds and debt instruments	100,356	12,792	-	113,148
Loans and advances to financial institutions	-	49,789	-	49,789
Loans and advances to customers	-	-	726,505	726,505
Other financial assets	-	19,733	-	19,733
Total	**100,356**	**92,474**	**726,505**	**919,335**

Financial liabilities				
Due to financial institutions and Central Bank	-	53,826	-	53,826
Deposits from customers	-	551,468	-	551,468
Borrowings	-	207,557	-	207,557
Other financial liabilities	-	7,509	-	7,509
Total	**0**	**820,360**	**0**	**820,360**

The following tables show the reconciliation of fair value measurement in Level 3 for the year 2015 and 2014:

1 January - 31 December 2015	Bonds and debt instruments	Equities and equity instruments	Total financial assets
Carrying amount as at 1 January 2015	8,031	21,908	29,939
Net gain on financial assets designated at fair value through profit or loss	330	7,644	7,974
Net foreign exchange gain (loss)	(49)	(13)	(62)
Purchases	9	372	381
Sales	(7,922)	(688)	(8,610)
Acquired financial assets in business combinations	51	265	316
Settlements	(7)	-	(7)
Dividend received	-	(3,911)	(3,911)
Transfer into Level 3	-	1,114	1,114
Transfers from Level 3 to Level 1	-	(8,568)	(8,568)
Carrying amount as at 31 December 2015	**443**	**18,123**	**18,566**

1 January - 31 December 2014			
Carrying amount as at 1 January 2014	10,674	28,064	38,738
Net gain on financial assets designated at fair value through profit or loss	(1,437)	6,101	4,664
Net foreign exchange gain (loss)	(255)	(207)	(462)
Purchases	-	360	360
Sales	(209)	(15,889)	(16,098)
Settlements	(742)	-	(742)
Dividend received	-	(1,054)	(1,054)
Reclassification from investments in equity-accounted associates	-	4,533	4,533
Carrying amount as at 31 December 2014	**8,031**	**21,908**	**29,939**

Landsbankinn hf. Consolidated Financial Statements 2015 24 All amounts are in ISK million

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

The following table shows the line items in the Consolidated Income Statement where gains (losses), relating only to financial assets and liabilities held by the Group as at 31 December 2015 and 2014 and categorised in Level 3, were recognised:

1 January - 31 December 2015	Bonds and debt instruments	Equities and equity instruments	Total
Net gain on financial assets designated at fair value through profit or loss	162	5,912	6,074
Net foreign exchange gain (loss)	(6)	-	(6)
Total	**156**	**5,912**	**6,068**
1 January - 31 December 2014			
Net gain on financial assets designated at fair value through profit or loss	(1,455)	6,580	5,125
Net foreign exchange gain (loss)	(235)	(2)	(237)
Total	**(1,690)**	**6,578**	**4,888**

Unobservable inputs in fair value measurement

The following table shows the unobservable inputs used in measuring fair value for the year 2015 and 2014.

					Range of inputs	
As at 31 December 2015	Assets	Liabilities	Valuation technique	Key unobservable inputs	Lower	Higher
Bonds and debt instruments	443	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	18,123	-	See note 2)	See note 2)	n/a	n/a
	18,566	**0**				
As at 31 December 2014						
Bonds and debt instruments	8,031	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	21,908	-	See note 2)	See note 2)	n/a	n/a
	29,939	**0**				

The table above provides information on Level 3 financial assets and liabilities. A further description of the categories is given below:

1. Fair value of corporate bonds and claims on financial institutions in winding-up proceedings and other insolvent assets is estimated on the basis of an analysis of the estates' financial position and expected recovery. Reference is also made to prices in recent transactions. Given the nature of the valuation method, a range of key unobservable inputs is not available.

2. Equities and equity instruments classified as Level 3 assets, are unlisted and not traded in an active market and therefore subject to unobservable inputs for fair value measurements. Valuation using discounted cash flows, comparison of peer companies' multiples, analysis of financial position and results, outlook and recent transactions are the methods or inputs used to estimate fair value of investments in equities and equity instruments. Given the nature of the valuation method, a range of key unobservable inputs is not available.

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives for the year 2015 and 2014:

	2015		2014	
	Effect on profit before tax		Effect on profit before tax	
	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	21	(21)	402	(402)
Equities and equity instruments:				
Equities	261	(79)	992	(855)
Mutual funds	397	(397)	315	(315)
Total equities and equity instruments	658	(476)	1,307	(1,170)
Total	**679**	**(497)**	**1,709**	**(1,572)**

The effect on profit was calculated using methods suitable for the models used. Key unobservable inputs were changed by +/- 5%.

Landsbankinn hf. Consolidated Financial Statements 2015 25 All amounts are in ISK million

18. Cash and balances with Central Bank

	2015	2014
Cash on hand	3,968	3,463
Unrestricted balances with Central Bank	5,193	-
Total cash and unrestricted balances with Central Bank	**9,161**	**3,463**
Restricted balances with Central Bank	16,003	6,697
Total cash and balances with Central Bank	**25,164**	**10,160**

The Group has entered into short-term reverse repurchase agreements with the Central Bank of Iceland according to which the Group acquired certificates of deposit issued by the Central Bank and committed itself to resell the certificates to the Central Bank at a fixed price at the end of the contractual period. The Group does not recognise the certificates of deposit as assets because the Group does not bear substantially all the risks and rewards of ownership of the certificates. However, the Group derecognised the cash transferred to the Central Bank and recognised a receivable from the Central Bank, including accrued interest.

The Bank holds a mandatory reserve deposit account with the Central Bank of Iceland. The average balance of this account for each month must be equivalent to at least mandatory reserve deposits, which amounted to ISK 16,003 million for December 2015 (December 2014: ISK 10,323 million). Any excess balance is available for use by the Group. Other cash and balances with the Central Bank are available for the Group's immediate use.

19. Bonds

	2015				2014			
Bonds and debt instruments	**Loans and receivables**	**Held for trading**	**Designated at fair value**	**Total**	**Loans and receivables**	**Held for trading**	**Designated at fair value**	**Total**
Domestic								
Listed	125,211	36,468	8,782	170,461	113,074	39,129	15,706	167,909
Unlisted	-	911	412	1,323	-	700	8,021	8,721
	125,211	**37,379**	**9,194**	**171,784**	**113,074**	**39,829**	**23,727**	**176,630**
Foreign								
Listed	-	31,900	-	31,900	-	66,959	-	66,959
Unlisted	-	-	-	0	-	-	-	0
	0	**31,900**	**0**	**31,900**	**0**	**66,959**	**0**	**66,959**
Total bonds	**125,211**	**69,279**	**9,194**	**203,684**	**113,074**	**106,788**	**23,727**	**243,589**

Bonds are classified as "domestic" or "foreign" according to issuers' country of incorporation.

Bonds and debt instruments classified as loans and receivables as at 31 December 2015 and 2014 consist partly of the government bonds which the Bank received in settlement of the capital contribution in 2009. The bonds were listed on the Stock Exchange in Iceland during 2010.

20. Equities

	2015			2014		
Equities and equity instruments	**Held for trading**	**Designated at fair value**	**Total**	**Held for trading**	**Designated at fair value**	**Total**
Domestic						
Listed	11,383	-	11,383	5,869	88	5,957
Unlisted	-	17,777	17,777	-	23,255	23,255
	11,383	**17,777**	**29,160**	**5,869**	**23,343**	**29,212**
Foreign						
Listed	2	30	32	2	73	75
Unlisted	-	-	-	-	146	146
	2	**30**	**32**	**2**	**219**	**221**
Total equities	**11,385**	**17,807**	**29,192**	**5,871**	**23,562**	**29,433**

Equities are classified as "domestic" or "foreign" according to issuers' country of incorporation.

Landsbankinn hf. Consolidated Financial Statements 2015 26 All amounts are in ISK million

Notes to the Consolidated Financial Statements

21. Derivative instruments and short positions

	2015			2014		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	52,462	139	223	24,024	39	52
Cross-currency interest rate swaps	6,148	109	231	871	-	251
	58,610	**248**	**454**	**24,895**	**39**	**303**
Interest rate derivatives						
Interest rate swaps	1,000	2	4	500	-	8
Total return swaps	4,192	29	12	1,453	3	-
Bond options	-	-	-	750	-	12
	5,192	**31**	**16**	**2,703**	**3**	**20**
Equity derivatives						
Total return swaps	5,815	8	107	1,726	36	9
Equity options	3,527	-	125	-	-	-
	9,342	**8**	**232**	**1,726**	**36**	**9**
Short positions						
Listed bonds*	2,162	-	2,698	4,715	-	5,077
	2,162	**0**	**2,698**	**4,715**	**0**	**5,077**
Total	**75,306**	**287**	**3,400**	**34,039**	**78**	**5,409**

* The comparative notional amounts have been restated due to an error in the year-end 2014 amounts previously disclosed. The amounts are of an informative nature only and do not have any effect on the amounts reported by the Group in the income Statement or Statement of Financial Position.

The Group uses derivatives both for hedging and trading purposes.

22. Loans and advances to financial institutions

	2015	2014
Bank accounts with financial institutions	15,096	13,125
Money market loans	1,281	22,209
Overdrafts	1,482	6,892
Other loans	2,932	7,563
Total	**20,791**	**49,789**

23. Loans and advances to customers

	2015	2014
Public entities	8,969	13,831
Individuals	303,349	254,955
Corporations	532,888	491,016
Allowance for impairment	(33,657)	(41,447)
Total	**811,549**	**718,355**

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

Further disclosure on loans and advances is provided in the risk management notes to these Consolidated Financial Statements.

24. Investments in associates

a) Investments in equity-accounted associates	**2015**	**2014**
Carrying amount as at the beginning of the year	777	14,224
Acquisitions through business combination	24	-
Acquisition	33	1,308
Reclassification to equities and equity instruments	-	(4,533)
Share of profit of equity-accounted associates	248	465
Disposals and dividend received	(173)	(10,687)
Total	**909**	**777**

As at 31 December 2015*	Total assets	Total liabilities	Profit (loss)	Ownership interest	Share of profit of associates	Carrying amount
Reiknistofa bankanna hf.	4,052	2,420	207	39%	82	630
Auðkenni ehf.	261	46	(192)	22%	(42)	48
Greiðslumiðlun Íslands ehf.	922	397	452	48%	208	231
Total	**5,235**	**2,863**	**467**		**248**	**909**

Landsbankinn hf. Consolidated Financial Statements 2015 27 All amounts are in ISK million

24. Investments in associates (continued)

As at 31 December 2014*	Total assets	Total liabilities	Profit (loss)	Ownership interest	Share of profit of associates	Carrying amount
Reiknistofa bankanna hf.	3,168	1,668	211	37%	77	552
Auðkenni ehf.	311	44	(262)	21%	(56)	56
Greiðslumiðlun Íslands ehf.	350	2	338	48%	162	167
Valitor Holding hf.	-	-	-	-	117	-
Borgun hf.	-	-	-	-	198	-
Motus ehf.	-	-	-	-	(33)	-
Other	-	-	-	-	-	2
Total	**3,829**	**1,714**	**287**		**465**	**777**

*The amounts for the years 2015 and 2014 in the tables are estimates, not actual amounts at the end of the respective years, if actual amounts were not readily available.

None of the above-mentioned associate companies are listed on the market.

As disclosed in the Bank's Consolidated Financial Statements for 2014, the sale of the Bank's 38.00% shareholding in Valitor Holding hf. to Arion Bank included, inter alia, an agreement on additional considerations for the Bank's shares in Valitor. The accord is contingent upon the exercise of an option agreement between Visa Europe and Visa Inc. In 2015, the Bank acquired an additional 0.62% shareholding in Valitor through a merger which it subsequently sold to Arion Bank, subject to the same additional considerations contingent upon the option agreement between Visa Europe and Visa Inc.

On 2 November 2015, Visa Europe and Visa Inc. announced an agreement for Visa Inc. to acquire Visa Europe. The deal values Visa Europe at EUR 16,500 million, which is payable as EUR 11,500 million in cash and EUR 5,000 million in Visa Inc. preferred stock (collectively the "up-front consideration"). There is also an additional earn-out of up to EUR 4,700 million (including interest), which, subject to the terms of the earn-out, would be payable in cash following the end of the 16th financial quarter post-closing. This gives a potential total value of up to EUR 21,200 million. Subject to regulatory approvals, the transaction is due to close in the second quarter of 2016.

As a result of the agreement, the Bank expects to receive additional considerations from Arion Bank for the Bank's former 38.62% shareholding in Valitor, as VISA Iceland ehf., a subsidiary of Valitor, is expected to receive proceeds from Visa Inc. as a result of the option agreement. Based on indicative information provided by Arion Bank, the Bank has recognised as income in these financial statements a fair value amount of ISK 2,436 million as its expected up-front consideration, taking into account various risk factors such as execution risk, transaction costs, possible tax implications and the uncertain valuation of the preferred stock.

The Bank does not recognize in these financial statements any income which it may receive from the additional earn-out, as the earn-out period has not started and such proceeds are, *inter alia,* subject to future activities and the business relationship between the Bank, Valitor and Visa Inc. over the earn-out period.

In 2015 the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands were merged with the Bank, as explained in Note 4. The merger increased the Bank's holding in Reiknistofa bankanna hf. from 37.0% to 38.7%.

b) Investments in associates designated at fair value through profit or loss

One investment in associate is accounted for in its entirety by the Group as financial assets designated at fair value through profit or loss and presented in the consolidated statement of financial position in the line "Equities and equity instruments". This investment is a 23.3% share in Eyrir Invest hf.

25. Property and equipment

	2015			2014		
	Buildings	Fixtures, equipment and vehicles	Total	Buildings	Fixtures, equipment and vehicles	Total
Carrying amount as at the beginning of the year	3,494	2,197	5,691	2,810	2,631	5,441
Acquisitions through business combination	220	17	237	-	-	-
Additions during the year	-	274	274	960	294	1,254
Sold during the year	(81)	(1)	(82)	(208)	(6)	(214)
Depreciation	(63)	(399)	(462)	(68)	(722)	(790)
Carrying amount as at 31 December	**3,570**	**2,088**	**5,658**	**3,494**	**2,197**	**5,691**
Gross carrying amount	3,990	4,882	8,872	3,851	4,592	8,443
Accumulated depreciation	(420)	(2,794)	(3,214)	(357)	(2,395)	(2,752)
Carrying amount as at 31 December	**3,570**	**2,088**	**5,658**	**3,494**	**2,197**	**5,691**
Depreciation rates	2-4%	10-33%		2-4%	10-33%	

Official assessment value of buildings	2015	2014
Official assessment value	3,447	3,718
Replacement value	8,235	8,129

Landsbankinn hf. Consolidated Financial Statements 2015 28 All amounts are in ISK million

25. Property and equipment (continued)

Depreciation and amortisation presented in the income statement consists of:	2015	2014
Depreciation of property and equipment	462	790
Amortisation of intangible assets	201	152
Total	**663**	**942**

26. Intangible assets

	2015			2014		
	Computer software licenses	Goodwill	Total	Computer software licenses	Goodwill	Total
Carrying amount as at the beginning of the year	1,225	-	1,225	585	-	585
Additions through business combinations	-	391	391	-	-	-
Additions	597	-	597	792	-	792
Amortisation	(201)	-	(201)	(152)	-	(152)
Carrying amount	**1,621**	**391**	**2,012**	**1,225**	**0**	**1,225**
Gross carrying amount	3,252	391	3,643	2,655	-	2,655
Accumulated amortisation	(1,631)	-	(1,631)	(1,430)	-	(1,430)
Carrying amount	**1,621**	**391**	**2,012**	**1,225**	**0**	**1,225**
Amortisation rates	20-33%		20-33%	20-33%		20-33%

27. Other assets

	2015	2014
Unsettled securities trading	1,025	16,468
Other accounts receivable	5,893	3,265
Sundry assets	539	1,245
Total	**7,457**	**20,978**

28. Assets classified as held for sale

	2015	2014
Repossessed collateral	10,095	12,270
Assets of disposal groups	1,860	5,942
Total	**11,955**	**18,212**

Repossessed collateral

Repossessed collateral consists mainly of property and equipment resulting from collateral foreclosed by the Group as security for loans and advances. The Group's policy is to pursue timely realisation of the repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations. Repossessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

Repossessed collateral	2015	2014
Carrying amount as at the beginning of the year	12,270	17,213
Repossessed during the year	6,760	8,151
Disposed of during the year	(9,895)	(11,678)
Impairment and gain (loss) of sale	960	(1,416)
Carrying amount as at the end of the year	**10,095**	**12,270**

Assets of disposal groups classified as held for sale

Assets of disposal groups classified as held for sale consist of all the assets and liabilities of subsidiaries acquired by the Bank exclusively with a view to resale.

29. Due to financial institutions and Central Bank

	2015	2014
Loans and repurchase agreements with Central Bank	80	197
Loans and deposits from financial institutions	56,651	53,630
Total	**56,731**	**53,827**

30. Deposits from customers

	2015	2014
Demand deposits	345,645	380,518
Term deposits	213,406	170,917
Total	**559,051**	**551,435**

Landsbankinn hf. Consolidated Financial Statements 2015 29 All amounts are in ISK million

31. Borrowings

Secured borrowings

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Contractual interest rate (Base rate + Initial margin/ Step-up margin)	Carrying amount
BOND D	USD	9.10.2020	USD 271 million	LIBOR + 2.90% / 3.50%	35,369
BOND E	EUR	9.10.2022	EUR 192 million	EURIBOR + 2.90% / 3.65%	27,267
BOND F	USD	9.10.2024	USD 271 million	LIBOR + 2.90% / 3.95%	35,369
BOND G	EUR	9.10.2026	EUR 192 million	EURIBOR + 2.90% / 4.05%	27,267
Total issued bonds to LBI hf.					**125,272**

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	3,360	Non-indexed	Fixed 6.3%	3,479
LBANK CB 17	ISK	23.10.2017	1,740	Non-indexed	Fixed 6.0%	1,752
LBANK CB 19	ISK	17.9.2019	7,220	Non-indexed	Fixed 6.8%	7,407
LBANK CBI 22	ISK	28.4.2022	9,520	CPI-indexed	Fixed 3.0%	9,742
Total covered bonds						**22,380**
Total secured borrowings						**147,652**

Unsecured borrowings

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 3 10/18	EUR	19.10.2018	EUR 300 million	FIXED 3.0%	42,438
LBANK FLOAT 06/19	NOK	11.6.2019	NOK 250 million	NIBOR + 2.6%	3,669
LBANK FLOAT 06/19	SEK	10.6.2019	SEK 250 million	STIBOR + 2.6%	3,831
Total EMTN issued					**49,938**

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 160310	ISK	10.3.2016	2,780	Non-indexed	2,746
LBANK 160510	ISK	10.5.2016	2,460	Non-indexed	2,404
LBANK 160610	ISK	10.6.2016	480	Non-indexed	466
Total bills issued					**5,616**

As at 31.12.2015	Carrying amount
Other unsecured loans	6,138
Total other unsecured loans	**6,138**
Total unsecured borrowings	**61,692**
Total borrowings as at 31.12.2015	**209,344**

Secured borrowings

As at 31.12.2014	Currency	Final maturity	Outstanding principal	Contractual interest rate (Base rate + Initial margin/ Step-up margin)	Carrying amount
BOND B1	EUR	9.10.2016	EUR 99 million	EURIBOR + 2.90%	15,276
BOND B2	USD	9.10.2016	USD 18 million	LIBOR + 2.90%	2,285
BOND B3	GBP	9.10.2016	GBP 66 million	LIBOR + 2.90%	13,083
BOND C1	EUR	9.10.2018	EUR 132 million	EURIBOR + 2.90%	20,368
BOND C2	USD	9.10.2018	USD 24 million	LIBOR + 2.90%	3,047
BOND C3	GBP	9.10.2018	GBP 88 million	LIBOR + 2.90%	17,443
BOND D	USD	9.10.2020	USD 271 million	LIBOR + 2.90% / 3.50%	34,402
BOND E	EUR	9.10.2022	EUR 192 million	EURIBOR + 2.90% / 3.65%	29,626
BOND F	USD	9.10.2024	USD 271 million	LIBOR + 2.90% / 3.95%	34,402
BOND G	EUR	9.10.2026	EUR 192 million	EURIBOR + 2.90% / 4.05%	29,626
Total issued bonds to LBI hf.					**199,558**

As at 31.12.2014	Currency	Final maturity	Outstanding principal	Fixed contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	3,360	6.3%	3,476
LBANK CB 17	ISK	23.10.2017	1,340	6.0%	1,345
LBANK CB 19	ISK	17.9.2019	2,580	6.8%	2,649
Total covered bonds					**7,470**
Total borrowings as at 31.12.2014					**207,028**

Landsbankinn hf. Consolidated Financial Statements 2015 30 All amounts are in ISK million

31. Borrowings (continued)

The secured foreign currency bonds consist of bonds issued by the Bank to LBI hf. as consideration and supplementary consideration for the assets and liabilities transferred from LBI hf. to the Bank in October 2008. Under an agreement between the Bank and LBI hf. from October 2015, the Bank has the option to convert the secured bonds, in part or in full, into senior unsecured bonds under the Bank's EMTN programme. The option is conditional on the Bank having a certain minimum credit rating at each time and is valid until March 2017. If the Bank exercises the option, the terms of the senior unsecured bonds will be determined by reference to market terms at the time of conversion.

Interest rate terms are 3-month EURIBOR for the EUR-denominated bonds and 3-month LIBOR for the GBP- and USD-denominated bonds plus a 2.9% margin until October 2018, stepping up to a 3.5% margin for the 2020 tranche, a 3.65% margin for the 2022 tranche, a 3.95% margin for the 2024 tranche and a 4.05% margin for the final maturity in 2026.

The Bank is obliged to pledge part of its loan portfolio as collateral for the secured bonds issued to LBI hf. as well as for the covered bonds it has issued. It must maintain a coverage ratio of at least 115% on the secured bonds issued to LBI hf. and at least 120% on the covered bonds. For further details on encumbered assets see Note 78.

In accordance with agreement between the Bank and the Winding-up Board of LBI hf. the Bank prepaid in the fourth quarter of 2015 the secured foreign currency bonds maturing in October 2016 and in October 2018.

Each covered bond series in ISK is issued under the Bank's ISK 100,000 million Covered Bond Programme. The covered bond issuances are in accordance with a licence from the Financial Supervisory Authority (FME) and with reference to act no. 11/2008 and FME rules no. 528/2008. All the covered bond series are listed and traded on NASDAQ Iceland.

In October 2015, the Bank issued EUR 300 million in senior unsecured bonds, equivalent to ISK 42,600 million. The bonds have a 3-year maturity with a fixed 3.00% coupon and were priced at terms equivalent to a 295 basis point spread above mid-swaps in euros. They are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange.

In December 2015, the Bank issued NOK 250 million and SEK 250 million in senior unsecured bonds, in total equivalent to ISK 7,500 million. The bonds have a 3.5-year maturity with 3-month NIBOR and STIBOR interest rates for the respective currencies plus a 2.6% margin. They are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange.

The unsecured non-indexed bank bill series issued by the Bank in the third and fourth quarter of 2015 mature over the next year. The bank bill series in ISK are issued under the Bank's ISK 30,000 million Debt Issuance Programme All the bank bill series are listed and traded on NASDAQ Iceland.

32. Subordinated liabilities

As at 31.12.2015	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate (Base rate + Margin)	Carrying amount
Subordinated bonds unlisted	ISK	1.12.2017	50.6		REIBOR + 4%	51
Subordinated loan	EUR	2.12.2020	EUR 0,2 million		LIBOR + 5%	27
Subordinated loan	JPY	2.12.2020	JPY 101,1 million		LIBOR + 5%	109
Subordinated loan	CHF	2.12.2020	CHF 0,7 million		LIBOR + 5%	89
Subordinated loan	JPY	1.12.2023	JPY 49,1 million		LIBOR + 5%	53
Subordinated loan	CHF	1.12.2023	CHF 0,3 million		LIBOR + 5%	43
Subordinated loan	ISK	13.09.2017	59.1	CPI-indexed	Fixed 7,0%	60
Subordinated loan	ISK	18.09.2017	6.4	CPI-indexed	Fixed 7,0%	6
Subordinated loan	ISK	21.09.2017	19.3	CPI-indexed	Fixed 7,0%	19
Subordinated loan	ISK	22.09.2017	52.0	CPI-indexed	Fixed 7,0%	52
Subordinated loan	ISK	01.12.2017	8.2	CPI-indexed	Fixed 7,0%	8
Subordinated bonds unlisted	ISK	22.11.2019	120.0	CPI-indexed	Fixed 5,0%	122
Total subordinated liabilities						**639**

The subordinated liabilities are comprised of liabilities assumed by Landsbankinn in two separate mergers, with savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands on 29 March 2015 and 4 September 2015, respectively. The subordinated liabilities thus assumed share characteristics of equit in that they are subordinated to other Group liabilities and are included in equity in equity ratio calculation, see Note 47, Capital base and capital adequacy ratio. The outstanding amounts of the subordinated liabilities are subject to regulatory amortisation whereby the amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final 5 years to maturity. The subordinated liabilities mature over the next 8 years and are recognised as financial liabilities inclusive of accrued interest at the end of the reporting period.

Landsbankinn hf. Consolidated Financial Statements 2015 31 All amounts are in ISK million

33. Deferred tax assets and liabilities

Tax assets and liabilities are specified as follows:

Tax assets	2015	2014
Deferred tax assets	-	83

Tax liabilities		
Deferred tax liabilities	(166)	-

Recognised deferred tax assets and liabilities are attributable to the following:

	2015			2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(239)	(239)	-	(284)	(284)
Intangibles	-	(132)	(132)	-	(38)	(38)
Other assets	-	(19)	(19)	186	-	186
Deferred foreign exchange differences	69	-	69	-	(148)	(148)
Other items	-	(171)	(171)	-	(128)	(128)
Tax losses carried forward	326	-	326	495	-	495
	395	**(561)**	**(166)**	**681**	**(598)**	**83**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(395)	395	-	(598)	598	-
Total	**0**	**(166)**	**(166)**	**83**	**0**	**83**

The deferred tax assets and liabilities are measured based on the tax rates and tax laws enacted by the end of 2015, according to which the domestic corporate income tax rate was 20% as at 31 December 2015 (2014: 20%).

The movements in temporary differences during the period were as follows:

		Recognised in income statement		
2015	Balance 1.1	Tax (expense) income	Acquisitions through business combination	Balance 31.12
Property and equipment	(284)	39	6	(239)
Intangibles	(38)	(94)	-	(132)
Other assets	186	(205)	-	(19)
Deferred foreign exchange differences	(148)	217	-	69
Other items	(128)	(43)	-	(171)
Tax losses carried forward	495	1,048	(1,217)	326
Total	**83**	**962**	**(1,211)**	**(166)**

2014	Balance 1.1	Tax (expense) income	Changes from prior year	Balance 31.12
Property and equipment	(524)	240	-	(284)
Intangibles	(54)	16	-	(38)
Other assets	416	(230)	-	186
Deferred foreign exchange differences	(434)	286	-	(148)
Other items	(269)	141	-	(128)
Tax losses carried forward	275	443	(223)	495
Total	**(590)**	**896**	**(223)**	**83**

34. Other liabilities

	2015	2014
Excess payments on lease and loan agreements	2,586	4,791
Unsettled securities trading	2,312	2,356
Withholding tax	2,451	2,329
Accounts payable	184	102
Contribution to the Depositors' and Investors' Guarantee Fund	285	260
Tax on liabilities of financial institutions	3,017	2,989
Current tax liabilities	7,966	7,953
Non controlling interests - Funds	752	1,693
Sundry liabilities	3,725	4,561
Total	**23,278**	**27,034**

Unsettled securities transactions were settled in less than three days from the reporting date.

Landsbankinn hf. Consolidated Financial Statements 2015 32 All amounts are in ISK million

34. Other liabilities (continued)

Unpaid premiums to the Depositors' and Investors' Guarantee Fund (TIF)

According to Act No. 98/1999, on Deposit Guarantees and Investors' Compensation Scheme, as subsequently amended, the Bank is to pay each quarter a non-refundable general and variable premium to the Depositors' and Investors' Guarantee Fund (TIF). The general premium amounts to the equivalent of 0.225% annually of all deposits, as defined by the Act, or equivalent to 0.05625% on each quarterly due date. The variable premium is determined by a risk factor assigned to the Bank by the Financial Supervisory Authority (FME) and may at maximum be equal to the general premium.

Acting on a joint proposal from FME and the Central Bank of Iceland, the Fund may collect a supplementary premium if its assets are not sufficient to cover payments when the Fund's obligation to render payment becomes effective. TIF may also collect a supplementary premium to cover costs, instalments and interest payments on its loans. Such a supplementary payment, however, may never exceed 0.6% of the Bank's insured deposits.

The Bank only recognises a liability for premiums to TIF equivalent to the amount the Bank is obliged by law to pay at the end of each accounting period. This is the premium which the Bank is to pay during the current quarter for the preceding quarter. Other premiums to be paid by the Bank to the Fund during later periods are dependent upon the Bank's future activities and therefore are not recognised as a liability on the accounting date. Therefore the amount which is recognised as a liability on 31 December 2015 is ISK 285 million, which the Bank must pay no later than 1 March 2016 (31 December 2014: ISK 260 million).

35. Equity

Share capital

The total number of ordinary shares authorised and issued by the Bank at year-end 2015 were 24 billion, but outstanding shares were 23,8 billion, with par value of ISK 1 per share. One vote is attached to each share of one ISK and the holders of ordinary shares are entitled to one vote per share at general meetings of the Bank. All issued shares are fully paid.

Share premium

Share premium represents the difference between the ISK amount received by the Bank when issuing share capital and the nominal amount of the shares issued, less costs directly attributable to issuing the new shares, net of any related tax benefit.

Statutory reserve

The statutory reserve is created in accordance with requirements of the Company Act No. 2/1995, according to which at least 10% of the profit of the Bank, which is not devoted to meeting losses of previous years and is not contributed to other legally stipulated reserves must be contributed to the statutory reserve until it amounts to 10% of the share capital of the Bank. When that limit has been reached the contribution to the statutory reserve must be at a minimum 5% until the reserve amounts to a quarter of the share capital of the Bank.

Share-based payment reserve

In February 2014, the Bank completed the allocation of the remainder of own shares received from LBI hf. in 2013, in accordance with LBI hf. requirements for allocation of total of 500 million own shares to employees and a resolution passed at a shareholders' meeting of the Bank in July 2013. The shares were allocated to employees and partly repurchased by the Bank for settlement of tax obligations and pension liabilities. The change in the share-based payment reserve for the year 2014 reflects the Bank's purchase of own shares for settlement of tax obligations and pension liabilities.

Retained earnings

Retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the statutory reserve of the Bank.

Dividend

At the Annual General Meeting of the Bank for the operating year 2014 held on 18 March 2015, shareholders approved the Board's proposal to pay dividends to shareholders in the amount of ISK 1.00 per share for the year 2014. Dividend was paid on 25 March 2015 to parties registered in the shareholders' registry on 18 March 2015. The dividend payment amounted to ISK 23,687 million on the outstanding shares.

Restriction of dividend payments

According to the Company Act No. 2/1995, it is only permissible to allocate as dividend profit in accordance with approved annual financial statements for the immediate past financial year, profit brought forward from previous years and free funds after deducting loss which has not been met and the funds which according to laws or Articles of Association must be contributed to a reserve fund or for other use.

Additionally, according to the Act on Financial Undertakings No. 161/2002, the Icelandic Financial Supervisory Authority (FME) can impose proportionate restrictions on the Bank's dividend payments, if the Bank's capital adequacy ratio falls below the total capital requirement plus capital buffers, see Note 46 Capital Management.

Other notes

36. Earnings per share

Profit for the year	2015	2014
Profit for the year attributable to owners of the Bank	36,460	29,737

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Number of shares		
Number of ordinary shares issued at beginning of year	24,000	24,000
Average number of own shares	(273)	(324)
Weighted average number of shares outstanding	**23,727**	**23,676**
Basic and diluted earnings per share from continuing operations	**1.54**	**1.26**

The Bank's basic and diluted earnings per share are equal as the Bank has not issued any options, warrants, convertibles or other potential sources of dilution.

37. Litigation

The Bank and its subsidiaries are from time to time party to litigation cases which arise in the ordinary course of business. Some of these cases are material in the sense that management considers that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

Material cases open at year-end 2015

Inflation-indexation of financial obligations

1) In January 2013, a customer commenced litigation against the Bank, seeking acknowledgement of the unlawfulness of a consumer price indexation provision in a bond issued by him to the Bank and that it is not permissible for the Bank to revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index. The EFTA Court handed down its advisory opinion on the case on 24 November 2014. On 19 February 2016 the District Court of Reykjavík acquitted the Bank of the plaintiff's claims. It is not known whether the judgment will be appealed to the Supreme Court.

Investigation of the Icelandic Competition Authority into lending terms

2) In March 2013, the Icelandic Competition Authority submitted to the Bank its preliminary assessment concerning certain preferential terms and conditions offered during 2004-2010 by Landsbanki Íslands hf. (now LBI hf.) and, subsequently, by the Bank, in 2004 to 2010, to clients for retail banking services, in particular for household mortgage loans. In June 2013, the Bank gave its response and refuted allegations of a breach of competition rules. The Bank does not have information as to whether the Competition Authority will take further action in the case but has expressed willingness to discuss the matter. On 1 July 2014, the Authority notified the Bank that a decision in the case would not be forthcoming until the first six months of 2015. The Authority has not notified the Bank of any such decision. On 11 September 2015, the Authority and the Bank agreed to enter into discussions concerning resolution of the case. It is considered very unlikely that the case will have a significant impact on the amounts disclosed in the Group's financial statements.

Claim for damages by a payment card company

3) In June 2013, a payment card company commenced litigation against the Bank and other financial undertakings claiming tort liability in the amount of around ISK 1.2 billion, plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Bank refutes the allegations and the claims. The plaintiff has requested an appraisal by court-appointed assessors on issues regarding its allegations. Work on the appraisal is currently on-going and it is anticipated that the Bank's defence will be submitted once the appraisal has been completed.

Landsbankinn hf. Consolidated Financial Statements 2015 34 All amounts are in ISK million

37. Litigation

Material cases closed in 2015

Recalculation of foreign currency indexed loans

4) In December 2013, a company brought two lawsuits against the Bank demanding recalculation of previous recalculations of foreign currency indexed loans in accordance with Supreme Court judgements No. 600/2011 and No. 464/2012. The plaintiff argued that conditions were met for derogating from the legal principle that a claimant has the right to receive additional payment. As such, contractual interest should be paid in accordance with final receipts rather than Central Bank interest rates. Landsbankinn rejected the company's claim, referring, inter alia, to Supreme Court judgment No. 463/2013 concluding that conditions for the exception had not been met since the difference in the comparative position between the parties was insignificant and the additional claim would not cause a serious disruption to the company's financial position comparable to the impact unexpected demands for additional payment would have on an individual or small enterprise. On 7 November 2014, Landsbankinn was acquitted in both cases by the District Court of Reykjavík. The District Court concluded that the company had not shown that the Bank's insistence on Central Bank interest rates had had such a material and unexpected impact on its financial position that the Bank should absorb the risk arising from the imbalance between contractual rates and Central Bank rates. The cases were appealed to the Supreme Court. On 15 October 2015, the Supreme Court ruled in its judgements Nos. 34/2015 and 35/2015 in favour of the Bank in both cases. These rulings resulted in a reversal of previously recognised expenses in the amount of ISK 9,145 million at the end of the third quarter of 2015. In November 2015 and in January 2016 the District Court of Reykjavík came to the same substantive conclusion in six rulings involving similar disputes. The rulings of the District Court resulted in an additional reversal of previously recognised expenses in the amount of ISK 6.511 at the end of fourth quarter of 2015, see Note 3.

Transfer of assets and liabilities from Landsbanki Íslands to Landsbankinn

5) In November 2012, Landsbankinn Guernsey Ltd. commenced litigation against the Bank et al., concerning money market deposits placed with Landsbanki Íslands (now LBI hf.). The District Court acquitted the Bank of the plaintiff's claims on 19 December 2014 and concluded that the deposits should not have been classified as obligations to be transferred to Landsbankinn in accordance with the decisions of the Financial Supervisory Authority dated 9 October and 11 November 2008. On 12 November 2015 the Supreme Court confirmed the findings of the District Court and acquitted the Bank.

38. Leasing

Operating lease commitments where the Group is lessee

In cases where the Group is a lessee, the future minimum lease payments under non-cancellable operating leases on 31 December were as follows:

	2015	2014
Less than one year	139	124
Between one and five years	188	303
More than five years	257	248
Total	**584**	**675**

Operating lease commitments where the Group is legal lessor

The Group acts as the legal lessor whereby tools and equipment are purchased and leased to third parties under arrangements that in substance are loans and advances accounted for under IAS 39 in the Consolidated Financial Statements of the Group.

The future minimum lease payments expected to be received under non-cancellable operating leases on 31 December were as follows:

	2015	2014
Less than one year	63	36
Between one and five years	161	244
Total	**224**	**280**

Finance lease commitments where the Group is lessor

The Group acts as lessor whereby items of plant and equipment are leased to third parties under arrangements qualifying as finance leases. Finance lease receivables are included within loans and advances to customers.

The net investment in finance lease receivables was as follows:

At 31 December 2015	Gross investment in finance lease	Future finance income	Present value of minimum lease
Less than one year	368	(26)	342
Between one and five years	52	(4)	48
Total	**420**	**(30)**	**390**
At 31 December 2014			
Less than one year	1,173	(82)	1,091
Between one and five years	401	(31)	370
More than five years	73	(6)	67
Total	**1,647**	**(119)**	**1,528**

Unguaranteed residual value at year-end 2015 is nil (2014: nil).

Landsbankinn hf. Consolidated Financial Statements 2015 35 All amounts are in ISK million

39. Fiduciary activities

The Group provides asset custody, asset management, investment management and advisory services. All of them require the Group to make decisions on the handling, acquisition or disposal of financial instruments. Assets in Bank custody are not reported in the Consolidated Financial Statements, since they are not assets of the Bank. One aspect of these services is that the Group is involved in approving objectives and criteria for investing assets in its custody. As of 31 December 2015, financial assets managed by the Group amounted to ISK 297 billion (2014: ISK 229 billion). Custody accounts amounted to ISK 1.041 billion (2014: ISK 844 billion).

40. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 31 December 2015 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business. See Note 91.1 (a) for further information on the accounting policies governing the consolidation of subsidiaries.

Main subsidiaries as at 31 December 2015

Company	Ownership interest	Activity
Eignarhaldsfélag Landsbankans ehf. (Iceland)	100%	Holding company
Landsbréf hf. (Iceland)	100%	Management company for mutual funds
Hömlur ehf. (Iceland)*	100%	Holding company

*Hömlur ehf. is a parent of a number of subsidiaries, which are neither individually nor combined significant in the context of the Group's business.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 31 December 2015.

41. Consolidated structured entities

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 91.2. Financial investments under control are presented in the following balance sheet lines:

Assets	2015	2014
Bonds and debt instruments	368	785
Equities and equity instruments	606	2,172
Other assets	-	10

Liabilities	2015	2014
Non controlling interests - Funds	752	1,693
Other liabilities	4	-

The Bank holds majority of the units in the investment funds managed by Landsbréf. These funds are consolidated like subsidiaries in the Bank's Consolidated Financial Statements, with the exception that minority interests are recognised among Other liabilities instead of Equity. The reason for this distinction is that the holders of the units may request redemption of their shareholding and therefore the units do not meet the requirements of the definition of equity.

42. Unconsolidated structured entities

Where the Group acts as an agent for the investor, it does not consolidate the investment funds. When the Group holds investments in unconsolidated investment funds, they are classified as financial investments designated at fair value through profit or loss. The fair value of these investments represents the Group's maximum exposure to loss from its investments into such unconsolidated investment funds.

			Total assets	
Type of structured entity	Nature and purpose	Interest held by the Group	2015	2014
Investment funds	To generate fees from managing assets on behalf of third party investors.	Management fees	83,727	53,900
	These vehicles are financed through the issue of units to investors	Investment in units issued by fund		

The following table shows out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The Group's maximum exposure to loss is the carrying amount of the assets held.

	Carrying amount	
Investment securities	2015	2014
Investment funds	1,283	1,884
Total	**1,283**	**1,884**

Landsbankinn hf. Consolidated Financial Statements 2015 36 All amounts are in ISK million

43. Guarantees / Off balance sheet exposures within the Group

These guarantees are provided in the normal course of banking business. The Group's maximum exposures to credit risk as at 31 December 2015 were as follows:

	Carrying amount	
Off-balance sheet exposure 31 December 2015	**2015**	**2014**
Financial guarantees	1,351	1,877
Undrawn overdraft/credit card facilities	1,697	6,633

44. Related party transactions

Related parties

The Icelandic State Treasury, on behalf of the Icelandic State, holds 98.2% of the shares in the Bank. Government bodies and public institutions qualifying as related parties are the Ministry of Finance, the ISFI (Icelandic State Financial Investments), and entities and institutions related to them.

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. All transactions with subsidiaries are eliminated on consolidation and are thus not disclosed in the Group's Consolidated Financial Statements. Further details about the main subsidiaries can been seen in Note 40, Interest in subsidiaries.

The key management personnel of the Bank and its close family members meet the definition of related parties and in some cases the key management personnel of the Bank's subsidiaries. The key management personnel of the Bank are the members of the Board of Directors, CEO and Managing Directors. The Minister of Finance and the members of the Board of Directors of ISFI also meet the definition of related party.

Transactions with related parties

Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 59.

In March 2015, Landsbankinn and the savings bank Sparisjóður Vestmannaeyja merged, as addressed in Note 4. Prior to the merger, the Icelandic State Treasury, on behalf of the Icelandic State, held the majority of guarantee capital shares in the savings bank. Upon the merger, owners of the guarantee capital of the savings bank received shares in Landsbankinn in exchange for their guarantee capital shares.

Similarly, in September 2015, there was another merger between Landsbankinn and the savings bank Sparisjóður Norðurlands, as addressed in Note 4. Upon the merger, owners of the guarantee capital of the savings bank, the largest being the Icelandic State, also received shares in Landsbankinn in exchange for their guarantee capital shares.

Transactions with other related parties

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

	2015		2014	
Loans in ISK million	**Balance as at 31 December**	**Highest amount outstanding during the period**	**Balance as at 31 December**	**Highest amount outstanding during the period**
Key management personnel	139	211	95	155
Parties related to key management personnel	36	97	62	165
Associates	20,633	20,838	17,583	56,357
Other	126	130	11	17
Total	**20,934**	**21,276**	**17,751**	**56,694**

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

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

44. Related party transactions (continued)

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

Deposits in ISK million	2015 Balance as at 31 December	2015 Highest amount outstanding during the period	2014 Balance as at 31 December	2014 Highest amount outstanding during the period
Key management personnel	68	207	55	123
Parties related to key management personnel	22	193	23	74
Associates	2,835	3,516	304	18,107
Other	344	2,114	1	2
Total	**3,269**	**6,030**	**383**	**18,306**

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

Guarantees in ISK million	Balance as at 31 December 2015	Balance as at 31 December 2014
Key management personnel	-	-
Parties related to key management personnel	4	-
Associates	-	-
Total	**4**	**0**

All of the above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

Effect on income statement:

The following table presents the total amount of interest income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

Interest income and expense	2015 Interest income	2015 Interest expense	2014 Interest income	2014 Interest expense
Key management personnel	7	1	8	2
Parties related to key management personnel	2	1	9	1
Associates	797	7	1,186	18
Other	9	7	2	-
Total	**815**	**16**	**1,205**	**21**

The following table presents the total amount of other income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

Other income and expense	2015 Other income	2015 Other expense	2014 Other income	2014 Other expense
Associates	-	664	-	613
Total	**0**	**664**	**0**	**613**

All of the above transactions were made in the ordinary course of business and substantially the same terms, including interest rates and collaterals, as those prevailing at the time for comparable transactions with the third party counterparties.

44. Related party transactions (continued)

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2015:

Salary and benefits for the year 2015	Salary and benefits*	Defined contri-butions**	Total	Number of shares
Tryggvi Pálsson, Chairman of the Board of Directors	9.3	0.9	10.2	-
Eva Sóley Guðbjörnsdóttir, Vice-chairman of the Board of Directors	7.2	0.7	7.9	-
Danielle Pamela Neben, Director	6.3	0.5	6.8	-
Helga Björk Eiríksdóttir, Director	6.3	0.6	6.9	-
Kristján Þórarinn Davíðsson, Director	6.3	0.6	6.9	-
Jón Sigurðsson, Director	6.3	0.6	6.9	-
Jóhann Hjartarson, Director	6.3	0.6	6.9	-
Tinna Laufey Ásgeirsdóttir, Alternate Director	0.5	-	0.5	-
Árni Guðmundur Hauksson, Alternate Director	0.4	-	0.4	-
Steinþór Pálsson, CEO	19.0	5.8	24.8	0.3
Six Managing Directors of the Bank's divisions and one former Managing Director of the Bank's divisions	190.9	35.5	226.4	2.4
Total	**258.8**	**45.8**	**304.6**	**2.7**

*Benefits are non-monetary benefits in the form of use of cars owned by the Group.

**Includes both private and statutory contributions to independent pension funds without further obligation.

***In 2015, the employment of one managing director was terminated by mutual agreement. All termination benefits related thereto have been recognised as expense in the income statement for the year 2015.

In 2015 the total monthly average salary and benefits of the current CEO of the Bank amounted to ISK 1.6 million and the average monthly salary and benefits of Managing Directors of the Bank's divisions amounted to ISK 2.3 million.

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2014:

Salary and benefits for the year 2014	Salary and benefits*	Equity-settled employee share-based payment	Defined contri-butions**	Total	Number of shares
Tryggvi Pálsson, Chairman of the Board of Directors	8.4	-	0.8	9.2	-
Eva Sóley Guðbjörnsdóttir, Vice-chairman of the Board of Directors	6.3	-	0.6	6.9	-
Danielle Pamela Neben, Director	5.4	-	0.4	5.8	-
Helga Björk Eiríksdóttir, Director	5.4	-	0.5	5.9	-
Kristján Þórarinn Davíðsson, Director	5.4	-	0.5	5.9	-
Jón Sigurðsson, Director	5.4	-	0.5	5.9	-
Jóhann Hjartarson, Director	4.1	-	0.4	4.5	-
Þórdís Ingadóttir, former Director	1.4	-	0.1	1.5	-
Tinna Laufey Ásgeirsdóttir, Alternate Director	0.2	-	-	0.2	-
Helga Loftsdóttir, Alternate Director	0.2	-	-	0.2	-
Steinþór Pálsson, CEO	18.5	2.1	3.6	24.2	0.3
Seven Managing Directors of the Bank's divisions	193.5	19.4	39.9	252.8	2.4
Total	**254.2**	**21.5**	**47.3**	**323.0**	**2.7**

*Benefits are non-monetary benefits in the form of use of cars owned by the Group.

**Includes both private and statutory contributions to independent pension funds without further obligation.

In 2014 the total monthly salary and benefits of the current CEO of the Bank amounted to ISK 1.5 million and the average monthly salary and benefits of current Managing Directors of the Bank's divisions amounted to ISK 2.3 million.

Transactions with the Minister of Finance and members of the Board of Directors of the ISFI

The Minister of Finance and the members of the Board of Directors of the ISFI did not receive any salaries or similar payments from the Group during the year 2015. The Group did not enter into any transactions with these persons or close members of their families, other than lending and deposit taking during the normal course of commercial banking operations.

45. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Consolidated Financial Statements for the year ended 31 December 2015.

Landsbankinn hf. Consolidated Financial Statements 2015 39 All amounts are in ISK million

Capital management

46. Capital management

The Group's capital management policies and practices ensure that the Group has sufficient capital to cover the risks associated with its activities on a consolidated basis. The capital management framework of the Group comprises four interdependent areas: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Group regularly monitors and assesses its risk profile in its most important business areas on a consolidated basis and for the most important risk types. Risk appetite sets out the level of risk the Group is willing to take in pursuit of its business objectives.

The Group's capital requirements are defined in Icelandic law and regulations, on the one hand, and by the Icelandic Financial Supervisory Authority (FME), on the other. The requirements are based on the European legal framework for capital requirements (CRD IV and CRR) implementing the Basel III capital framework. The regulatory minimum capital requirement under Pillar I of the Basel framework is 8% of Risk-Weighted Assets (RWA) for credit risk, market risk and operational risk. In conformity with Pillar II of the Basel framework, the Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP results are subsequently reviewed by the FME in the Supervisory Review and Evaluation Process (SREP). The Group's Total Capital Requirement, as determined by the FME, is the sum of Pillar I and Pillar II requirements.

On 14 April 2015, the Icelandic Financial Stability Council defined the Bank as a systematically important institution in Iceland.

In July 2015, legislation amending the Icelandic Act on Financial Undertakings No. 161/2002 entered into force, implementing capital buffer requirements under CRD IV. Under the new legal framework, the FME can impose proportionate restrictions on a credit institution's dividend payments, variable remuneration to employees and/or other payments of similar nature, if its capital adequacy ratio falls below the total capital requirement plus capital buffers.

The Group's most recent capital requirements, as determined by the FME, are as follows (as a percentage of RWA)*:

	SREP based on data from	
	31.12.2014	31.12.2013*
Pillar I	8.0%	8.0%
Pillar II	6.3%	7.8%
Total capital requirement	**14.3%**	**15.8%**
Systemic risk buffer	3.0%	3.0%
Capital buffer for systematically important institutions	2.0%	2.0%
Countercyclical capital buffer**	0.0%	0.0%
Capital conservation buffer	2.5%	2.5%
Total capital buffers	**7.5%**	**7.5%**
Total capital requirement plus capital buffers	**21.8%**	**23.3%**

* Additionally, and as a part of the annual SREP process, the FME requested that the Bank would hold additional capital buffers of at least 7,5% above the total capital requirement, until the new CRD IV capital buffers would be formally implemented in accordance with Icelandic law.

On 22 January 2016, the Icelandic Financial Stability Council made recommendations to the FME, in accordance with the new legislation, to formally impose the new CRD IV capital buffers in the following steps:

	1.1.2016	1.4.2016	1.6.2016	1.1.2017	Q1 2017
Systemic risk buffer*	0.0%	3.0%	3.0%	3.0%	3.0%
Capital buffer for systematically important institutions	0.0%	2.0%	2.0%	2.0%	2.0%
Countercyclical capital buffer	0.0%	0.0%	0.0%	0.0%	1.0%
Capital conservation buffer	1.0%	1.0%	1.75%	2.5%	2.5%
Total capital buffers	**1.0%**	**6.0%**	**6.75%**	**7.5%**	**8.5%**

* The systemic risk buffer only applies to domestic assets

The Bank's target for the Group's minimum total capital ratio is to be comfortably above the fully phased-in FME capital requirements plus capital buffers. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

Landsbankinn hf. Consolidated Financial Statements 2015 40 All amounts are in ISK million

47. Capital base and capital adequacy ratio

The Group's equity as at 31 December 2015 amounted to ISK 264,531 million (31.12.2014: ISK 250,803 million), equivalent to 23.6% (31.12.2014: 22.8%) of total assets, according to the Consolidated Statement of Financial Position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings, was 30.4% at 31 December 2015 (31.12.2014: 29.5%). According to the Act, this ratio may not fall below 8%.

Capital base	**2015**	**2014**
Share capital	23,782	23,687
Share premium	122,105	121,275
Reserves	6,000	6,000
Retained earnings	112,614	99,841
Non-controlling interests	30	-
Total equity	**264,531**	**250,803**
Intangible assets	(2,012)	(1,225)
Deferred tax assets	-	(83)
Tier 1 capital	**262,519**	**249,495**
Subordinated liabilities	639	-
Regulatory amortisation	(157)	-
Tier 2 capital	**482**	**0**
Capital base	**263,001**	**249,495**
Risk-weighted assets		
Credit risk*	737,720	665,167
Market risk*	31,919	83,601
Operational risk	95,843	96,836
Total risk-weighted assets	**865,482**	**845,604**
Tier 1 capital ratio	30.3%	29.5%
Total capital ratio (capital adequacy ratio)	30.4%	29.5%

*Classification of equity, bond and debt instrument exposures in the trading book has been revised as of 1 January 2015. Accordingly, risk-weighted assets in equity, bond and debt instruments in the banking book are classified as credit risk instead of market risk.

48. Economic capital framework

Economic capital (EC) is a risk measure which is applied to all material risks. It captures unexpected losses and reduction in value or income for which the Group needs to hold capital to avoid insolvency. It arises from the unexpected nature of losses as distinct from expected losses. EC is defined as the difference between unexpected losses and expected losses, where unexpected loss is defined as the 99.9% value-at-risk, with a one year time horizon.

The purpose of the EC framework is to enable the Group to assess the amount of capital it requires to cover the economic effects of risk-taking activities, as well as to compare different risk types using a common "risk currency".

The objective of the EC framework is to measure unexpected losses as well as to decompose EC on various levels to enable capital allocation, limit setting, pricing of products, risk adjusted performance measurement and value-based management.

The framework covers the following risk types: credit risk, market risk, currency risk, operational risk, concentration risk, interest rate risk and inflation risk in the non-trading book, legal risk and business risk.

The following summarises how the Group calculates its EC for these risks:

Credit risk:
The credit risk EC model is the asymptotic single risk factor (ASRF) model from the Basel II internal rating based (IRB) approach's risk weight formula, i.e. the EC equals the capital requirements of the IRB approach in the capital requirements directive. The main input to the model are the risk parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Market risk:
Market risk EC includes EC for interest rate risk in the trading book and EC for equity price risk in the trading book.

Market risk EC for interest rate risk in the trading book is calculated using the Stressed Value at Risk method according to the Basel II market risk framework, i.e. the EC equals the capital requirements for interest rate risk in the trading book of the internal models approach in the capital requirements directive. The model inputs for Stressed VaR are calibrated to historical data from the previous 5 years.

Market risk EC for equity risk in the trading book is calculated using the following risk weights:
• 290% for exchange traded equity exposures;
• 370% for all other equity exposures,
i.e. the EC for equity price risk equals the capital requirements using the risk weights above.

Currency risk:
EC for foreign exchange risk is calculated according to a modified Stressed Value at Risk model where the model inputs are calibrated to historical data from a period of significant stress relevant to the Groups' net FX position. The time horizon is one year.

Landsbankinn hf. Consolidated Financial Statements 2015 41 All amounts are in ISK million

48. Economic capital framework (continued)

Operational risk:
EC for operational risk is calculated using the basic indicator approach, which means that it equals the Group's capital requirement.

Concentration risk:
EC for single name concentration is calculated by adjusting for the granularity and non-homogeneity in the loan portfolio. This is necessary as the credit risk EC model assumes that the portfolio is infinitely large and homogenous; hence, the single name concentration EC is given as an add-on.

An internal model is used to measure the additional EC for credit risk related to industry concentrations in the loan portfolio, i.e. a concentration add-on. EC is given by the increase in credit risk EC when a stressed correlation adjusted for the concentration in the portfolio is used.

Interest rate risk and inflation risk in the banking book:
EC for interest rate risk and inflation risk in the banking book is equal to the loss in economic value corresponding to the 99.9% of interest rate and inflation risk factor changes estimated by a Monte Carlo simulation model.

Business risk:
EC for business risk is calculated using an internal model, which is based on the volatility of the Group's income, before profit or loss due to any other material risk.

Legal and regulatory risk:
EC for legal and regulatory risk is calculated by adding the potential loss of on-going disputes. The significance of a dispute is weighted by its status within the court system and claim value.

49. Economic capital by risk type

The Group made several key changes to its' economic capital framework in 2015. The Group's trading book/banking book boundary was redefined and an economic capital model for interest rate risk in the trading book was introduced. As a result, EC for market risk was significantly reduced since EC for banking book exposures, previously a part of market risk EC (equities and bonds in the banking book), is now a part of credit risk. The Group also introduced an economic capital model for interest rate risk and inflation risk in the banking book, see note 48. The EC models for interest rate risk in the banking book and inflation risk respectively are now repealed. As a result, the collective EC reserved for interest rate risk in the banking book and inflation risk in the banking book is significantly reduced due to observed diversification effects. Finally, the Group revised its' EC model for FX risk, see note 48, which explains the increase in economic capital for currency risk.

Although EC for banking book exposures are now part of credit risk as well as the Group experienced major lending growth during 2015 the increase in EC for credit risk is reasonably modest due to lower probability of default and overall improved quality of the loan portfolio.

Economic capital ISK million	2015	2014
Credit risk - Loans to customers and credit institutions	64,239	60,401
Credit risk - Other assets	7,719	3,659
Market risk	1,531	9,403
Currency risk	3,933	1,946
Operational risk	7,667	7,747
Single name concentration risk	6,109	7,093
Industry concentration risk	4,665	4,067
Inflation risk	-	5,139
Interest rate risk in the banking book	-	9,345
Interest rate risk and inflation risk in the banking book	10,575	-
Business risk	3,834	3,873
Legal and regulatory risk	1,862	6,697
Total	**112,134**	**119,370**
EC/RWA	13.0%	14.1%

	Weighted average			
Credit risk at 31 December 2015	Probability of default (PD)	Loss given default (LGD)*	Exposure at default (EAD)	Economic capital (EC)
Financial institutions	0.1%	45.0%	22,229	644
Public entities	0.2%	45.0%	171,062	1,804
Individuals	3.6%	29.8%	309,227	11,795
Corporates	4.4%	41.4%	586,344	49,996
Total	**3.4%**	**38.7%**	**1,088,862**	**64,239**
Credit risk at 31 December 2014				
Financial institutions	0.1%	45.0%	50,060	828
Public entities	0.5%	44.4%	17,661	474
Individuals	4.1%	31.1%	263,099	10,040
Corporates	5.8%	42.7%	556,742	49,059
Total	**4.8%**	**39.3%**	**887,562**	**60,401**

*Foundation IRB LGD is used for EC calculations and risk management. The Group has also implemented an internal LGD model for impairment use.

Risk management

50. Risk management structure

Risk committees

The Group’s risk management governance structure as at year-end 2015 is as follows:

Board of Directors

Supervision by the Board of Directors and its sub-committees:

Audit Committee
Remuneration Committee
Risk Committee
Strategic Development Committee

Key risk management bodies and committees

Committee	Chair	Other members
Executive Board	CEO	Managing directors
Risk & Finance Committee	CEO	CFO, CRO, Head of Legal Department,
Credit Committee	CEO	CRO, MD of Corporate Banking, MD of Personal Banking
Operational Risk Committee	CRO	MD of Personal Banking, MD of Operations & IT, Head of Compliance, Director of Operational Risk

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework and risk appetite setting. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees. The CEO has established and is a member of the Executive Board, the Risk & Finance Committee and the Credit Committee.

The Credit Committee deals with credit risk – individual credit decisions, credit limits on customers and credit risk policy - while the Risk & Finance Committee covers primarily market risk, liquidity risk and legal risk. The Risk & Finance Committee monitors all of the Group's risks, is responsible for enforcing the Group's risk appetite and risk limits, and reviews and approves changes to risk models before presented to the Board of Directors. The Executive Board serves as a forum for consultation and communication between the CEO and managing directors, addressing the main current issues in each division and takes decisions on operating matters not being considered in other standing committees. The Operational Risk Committee is a forum for discussions and decisions on key operational risk issues and review of the effective implementation of the operational risk framework.

Risk Management Division

The Bank's Risk Management Division is responsible for the Group's risk management framework. Subsidiaries of the Bank have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group's exposures. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities.

The Risk Management Division is comprised of five departments.

• The Credit Management Department reviews credit decisions made by the Bank‘s business units when credit applications exceed the business units limits. The department has confirmation and veto rights on those credit applications. Confirmation by Credit Management increases the limits of business units but decisions exceeding the confirmation limits of the Risk Management Division are referred to the Bank's Credit Committee.

• The Credit Risk & Economic Capital Department is responsible for providing the Group with internal models on credit risk and credit monitoring systems as well as related processes to measure and monitor credit risk and economic capital. The Department also supports the implementation of such models and processes within the Bank. In addition, the department is responsible for credit risk, economic capital and impairment analysis and reporting within the Bank.

• The Market Risk Department is responsible for measuring and monitoring market risk, liquidity risk and interest rate risk in the Group’s banking book which includes model development. Market Risk reports on the development of these risk factors, both within and outside the Group and conducts regular risk measurements with regards to the Group‘s risk appetite. Market Risk is also responsible for monitoring all derivatives trading the Group enters into, both for hedging and trading purposes. Market Risk monitoring also includes FX balance monitoring for the Group.

• The Operational Risk Department is responsible for ensuring that the Group’s operational risks are monitored and that the Bank implements and maintains an effective operational risk management framework. The department assists the Bank’s managers with operational risk assessment incidents related to normal operations and operational loss incidents analysis, and oversees continuity plans. The Department is partly responsible for the security system for the online bank. The Operational Risk Department leads the work on the Bank’s certification under the ISO 2701 standard for information security.

• Restructuring is responsible for corporate debt restructuring, individual debt restructuring - both for over indebted individuals as well as of those who are unable to service their loans due to illness or humanitarian reasons – and appropriated assets, i.e. selling and renting out real estate assets which the Bank has acquired through enforcement or as a part of debt restructuring. In addition the department sells cars, equipment and other items that the Bank has acquired through appropriation.

The Compliance Department ensures that the Group adheres to its own rules on securities trading and insider trading and that the Group's operations comply with Act No. 108/2007, on Securities Transactions, Act No. 64/2006, on Actions to Combat Money Laundering and Terrorist Financing, and other relevant legislation and regulations. Compliance also concentrates on Group adherence to codes of ethics and on limiting market abuse, minimising conflicts of interest and ensuring best practice. Compliance is one of the Group’s support functions and is integral to its corporate culture.

50. Risk management structure (continued)

Risk Management Division (continued)

Group Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. The Board has oversight of Group Internal Audit and appoints the Chief Internal Auditor. It helps the Group to evaluate and improve the effectiveness of its risk management, controls, and governance processes. Group Internal Audit determines whether the risk management framework, control, and governance processes as designed and represented by management are adequate and functioning, and thus supports the Group accomplish its objectives.

51. Risk appetite

The Group's risk appetite has been reviewed, revised and implemented for 2016. The Group's risk policy is as follows:

Landsbankinn provides universal financial services to customers. For this purpose, the Bank has set itself objectives regarding financial position, asset quality, exposures and a satisfactory long-term profitability. In the pursuit of its goals, the Bank only takes on risks that it understands, is able to evaluate and manage. Landsbankinn aims to be comparable with leading banks in the Nordic countries in similar fields.

Landsbankinn seeks to maintain solid business relationships, having regard for its own position as well as that of customers at each time and with due regard for any internal connections between customers. Landsbankinn pursues long-term business relationships and aims to avoid being linked to transactions that might damage its reputation.

The Bank seeks to ensure diversified and sound financing and a sustainable risk profile in its balance sheet. The Bank has set internal limits that provide for a strong capital and liquidity position which, along with active risk management, ensure long-term profitability and strong standing. In this manner, the Bank minimises fluctuation in its operations and is well positioned to withstand stress scenarios.

Landsbankinn's corporate culture is characterised by professionalism and processes that support a high level of risk management. Managers are responsible for monitoring and managing risk within their units. Decisions are based on a thorough and professional discussion of major advantages having the long-term interests of Landsbankinn and its customers in mind. Efficient follow-up on decisions and risk monitoring are integral to the Bank's operations.

52. Risk assessment

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement, management and monitoring, subject to risk limits and other controls. Risk identification involves finding the origins and structures of possible risk factors in the Group's operations and undertakings. Risk measurement entails measuring the identified risks for management and monitoring purposes. Finally, risk controls and limits ensure adherence with rules and procedures, as well as compliance with the Group's risk appetite.

The objective of the Group's risk policies and procedures is to ensure that the risks in its operations are detected, measured, monitored and effectively managed. Exposure to risks is managed to ensure that it will remain within limits and the risk appetite adopted by the Group will comply with regulatory requirements. In order to ensure that fluctuations which might affect the Group's equity as well as performance are kept limited and manageable, the Group has adopted several policies regarding the risk structure of its asset portfolio which are covered in more detail under each risk type.

Risk policy is implemented through the risk appetite, goal setting, business strategy, internal policies and limits that comply with the regulatory framework of the financial markets.

The Group is exposed to the following material risks which arise from financial instruments:
· Credit risk
· Liquidity risk
· Market risk
    -Currency risk
    -Interest rate risk
    -Other market risk
· Operational risk

The table below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of Economic Capital within the Group.

Principal risk	Personal Banking	Corporate Banking	Markets	Treasury
Credit risk	High	High	Low	Low
Operational risk	Medium	Medium	High	Medium
Market risk	Low	Low	Medium	High
Liquidity risk	n/a	n/a	n/a	High

The Group also manages other relevant risks, such as concentration, business, legal and compliance risks.

The above material risks are addressed in the following notes.

Credit risk

53. Credit risk identification

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to fulfil their agreed obligations and the estimated value of pledged collateral does not cover existing claims.

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Credit risk is the greatest single risk faced by the Group and arises principally from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and aforementioned settlement risk.

54. Credit risk assessment

Credit risk is measured in three main dimensions: the probability of default (PD); the loss given default (LGD) and exposure at default (EAD). For the purpose of measuring PD the Group has developed an internal rating system, including a number of internally developed rating models. The objectives of the rating system are to provide a meaningful assessment of obligor characteristics; a meaningful differentiation of credit quality; and accurate and consistent quantitative estimates of default risk. Internal ratings and associated PD are essential in the risk management and decision-making process, and in the credit approval and corporate governance functions.

The rating system has an obligor rating scale which reflects exclusively quantification of the risk of obligor default, or credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors going from '1' to '10', '10' indicating the highest credit quality, and the grade '0' for defaulted obligors. The rating assignment is supported by rating models, which takes information such as industry classification, financial accounts and payment behaviour into account.

The following table shows the Group's internal mapping from internal rating grade to S&P rating grades:

Internal rating grade	S&P	Lower PD	Upper PD
10	AAA/AA+/AA/AA-	0.00%	0.04%
9	A+/A/A-	0.04%	0.10%
8	BBB+	0.10%	0.21%
7	BBB/BBB-	0.21%	0.46%
6	BB+/BB	0.46%	0.99%
5	BB-	0.99%	2.13%
4	B+	2.13%	4.54%
3	B	4.54%	9.39%
2	B-	9.39%	18.42%
1	CCC/C	18.42%	99.99%
0	D	In default	In default

The rating assignment and approval is an integrated part of the credit approval process and assignment shall be updated at least annually or when material information on the obligor or exposure becomes available, whichever is earlier.

LGD is measured using the foundation LGD models defined in the Basel framework for the purpose of EC calculations. In addition, the Group has implemented in the business processes an internal LGD model, which takes into account more types of collateral and is more sensitive to the collateralisation level than the aforementioned Basel model.

Exposure at default is an estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults.

55. Credit risk control and monitoring

The Group monitors exposures to identify signs of weakness in customer earnings and liquidity as soon as possible.

To monitor customers, the Group uses - supplemental to ratings - an Early Warning System which classifies credit exposures to four credit risk groups. The colour classification is the following:

• Green customers are considered as performing without signs of repayment problems;

• Yellow customers are on watch list 1. They have temporary difficulties and may need some instalments postponed or modification of terms or loan covenants;

• Orange customers are on watch list 2. They are still under the supervision of the relevant business unit but are likely to go through debt restructuring or postponement of instalments;

• Red customers are under supervision by Restructuring and need restructuring, or are in legal collection. Restructuring options may include deferred payments, interest and/or debt forgiveness, collateral or guarantees being collected or that the management of the customer's operations possibly being taken over by the Group and subsequently sold.

The Credit Risk & Economic Capital Department within Risk Management is together with the business units responsible for the colour classification of customer and transfer of customers from the business units to Restructuring if necessary.

Landsbankinn hf. Consolidated Financial Statements 2015 45 All amounts are in ISK million

56. Credit risk management and policy

The Group's credit risk management is based on active monitoring by the Board of Directors, the CEO, the Risk & Finance Committee, the Credit Committee, the credit departments within the Risk Management Division and the business units. The Group manages credit risk according to its risk appetite statement and credit policy approved by the Board of Directors as well as detailed lending rules approved by the CEO. The risk appetite and credit policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposures to certain industries. The CEO ensures that the risk policy is reflected in the Group's internal framework of regulation and guidelines. The Bank's executives are responsible for the Bank's business units to execute the risk policy appropriately as the CEO is responsible for the oversight of the process as a whole.

Incremental credit authorisation levels are defined based on size of units, types of customers and lending experience of credit officers. The Group has also implemented industry policies to the credit decision process. Credit decisions exceeding authorisation levels of business units are subject to confirmation by Credit Management, a department within Risk Management. Credit decisions exceeding the limits of Credit Management are subject to approval by the Bank's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors which holds the highest credit authorisation within the Bank.

57. Credit risk mitigation

Mitigating risks in the credit portfolio is a key element of the Group's credit policy as well as being an inherent part of the credit decision process. Securing loans with collateral is the main method of mitigating credit risk whereas for many loan products, collateral is required by legislation, as in the mortgage finance market, or is standard market practice.

The most important types of collateral are real estate, vessels and financial assets (shares or bonds).

The amount and type of collateral required depends on an assessment of the credit risk associated with the counterparty. Valuation parameters and the acceptability of different types of collateral are defined in the Group's credit policy. Credit extended by the Group may be secured on residential or commercial properties, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft, etc. The Group also secures its loans by means of receivables, inventory and operating assets, such as machinery and equipment. Residential mortgages involve the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

The Group regularly assesses the market value of collateral received. The Group has developed models to estimate the value of the most frequent types of collateral. For collateral for which no valuation model exists, the Group estimates the value as the market value less a haircut. The haircut represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs in the period over which the asset is up for sale, fees for external advisory services and any loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

The Group monitors the market value of mark-to-market collateral and may require additional collateral in accordance with the underlying loan agreements.

In order to limit further the credit risk arising from financial instruments, the Group enters into netting agreements, under which the Group is able to set off all contracts covered by the netting agreement against the debt in cases of default. The arrangements generally include all market transactions between the Group and the client.

Generally, collateral is not held over loans and advances to financial institutions, nor is it usually held against bonds and debt instruments.

The Group includes all collateral to which a value is assigned in accordance with its internal procedures. Guarantees are included if they imply lower risk weights than the original exposure. In addition, collateral is volatility-adjusted (by means of a haircut) in order to take into account price volatility and the expected costs of repossession and sale of the pledge.

Derivative financial instruments

In order to mitigate credit risk arising from derivatives the Group chooses the counterparties for derivatives trading based on stringent rules, according to which clients must meet certain conditions set by the Group. The Group also enters into standard International Swaps and Derivatives Association (ISDA) master netting agreements with foreign counterparties and similar general netting agreements with domestic counterparties. Commensurate collateral and margin requirements are in place for all derivative contracts the Group enters into. Collateral management and monitoring is performed daily and market risk of derivative contracts with clients are usually fully hedged.

The Group's supervision system monitors both derivatives exposures and collateral value and calculates a credit equivalent value for each derivative intraday. It also issues margin calls and manages netting agreements.

Amounts due to and from the Group are offset when the Group has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. External ratings are used where applicable to assist in managing the credit risk exposure of bonds. Otherwise the Group uses fair value estimates based on available information and the Group's own estimates.

58. Impairment process

Group policy requires that individual financial assets above materiality thresholds are reviewed at least quarterly, and more frequently when circumstances require. Impairment allowances on individually assessed accounts are determined on a case-by-case basis by evaluating incurred losses at the reporting date. Collectively assessed impairment allowances are permitted in the following cases: (i) portfolios of homogenous loans that are individually below materiality thresholds, and (ii) losses that have been incurred but not yet identified, using the available historical experience together with experienced judgement and statistical techniques.

Should the expected cash flows be re-examined and the present value of the cash flows (calculated using the effective interest rate) be revised, the difference is then recognised in profit or loss (as either impairment or net adjustments to loans and advances). Impairment is calculated using the effective interest rate, before any revision of the expected cash flows. Any adjustments to the carrying amount which result from revising the expected cash flows are recognised in profit or loss. The impact of financial restructuring of the Group's customers is reflected in loan impairment, or net adjustments to loans and advances, as the expected cash flow of customers has changed.

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

The following tables show the Group's maximum credit risk exposure at 31 December 2015 and 2014. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the Statement of Financial Position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

The Group uses the ISAT 08 industry classification for corporate customers.

				Corporations									
At 31 December 2015	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction and real estate companies**	**Holding companies**	**Retail**	**Services**	**ITC****	**Manu-facturing**	**Agriculture**	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	25,164	-	-	-	-	-	-	-	-	-	-	**25,164**
Bonds and debt instruments	1,356	192,275	-	-	8,516	123	-	-	-	-	-	1,414	**203,684**
Derivative instruments	47	2	1	90	108	-	-	-	-	-	-	39	**287**
Loans and advances to financial institutions	20,791	-	-	-	-	-	-	-	-	-	-	-	**20,791**
Loans and advances to customers	-	8,738	290,961	159,514	155,334	47,612	36,021	60,469	15,502	27,205	10,118	75	**811,549**
Other financial assets	4,178	582	438	8	866	31	119	452	1	230	1	12	**6,918**
Total on-balance sheet exposure	**26,372**	**226,761**	**291,400**	**159,612**	**164,824**	**47,766**	**36,140**	**60,921**	**15,503**	**27,435**	**10,119**	**1,540**	**1,068,393**
Off-balance sheet exposure	**689**	**16,940**	**25,095**	**23,018**	**43,835**	**1,158**	**15,615**	**15,537**	**3,797**	**9,597**	**620**	**154**	**156,055**
Financial guarantees and underwriting commitments	26	1,422	777	7,210	2,022	60	2,278	1,993	1,070	653	27	99	17,637
Undrawn loan commitments	-	8,111	100	11,511	37,647	723	6,888	6,726	1,584	6,518	167	-	79,975
Undrawn overdraft/credit card facilities	663	7,407	24,218	4,297	4,166	375	6,449	6,818	1,143	2,426	426	55	58,443
Maximum exposure to credit risk	**27,061**	**243,701**	**316,495**	**182,630**	**208,659**	**48,924**	**51,755**	**76,458**	**19,300**	**37,032**	**10,739**	**1,694**	**1,224,448**
Percentage of carrying amount	2.2%	19.9%	25.8%	14.9%	17.0%	4.0%	4.2%	6.2%	1.6%	3.0%	0.9%	0.1%	100%

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

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

Landsbankinn hf. Consolidated Financial Statements 2015 47 All amounts are in ISK million

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

				Corporations									
At 31 December 2014	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC**	Manu-facturing	Agriculture	Other	Carrying amount
Cash and balances with Central Bank	-	10,160	-	-	-	-	-	-	-	-	-	-	**10,160**
Bonds and debt instruments	41	221,293	-	-	13,345	7,880	-	-	-	-	-	1,030	**243,589**
Derivative instruments	38	-	7	-	-	1	-	-	-	-	-	32	**78**
Loans and advances to financial institutions	49,789	-	-	-	-	-	-	-	-	-	-	-	**49,789**
Loans and advances to customers	-	13,708	238,932	156,023	112,880	42,861	39,118	56,387	19,798	28,760	8,751	1,137	**718,355**
Other financial assets	913	343	331	-	614	71	130	711	3	16,554	1	62	**19,733**
Total on-balance sheet exposure	**50,781**	**245,504**	**239,270**	**156,023**	**126,839**	**50,813**	**39,248**	**57,098**	**19,801**	**45,314**	**8,752**	**2,261**	**1,041,704**
Off-balance sheet exposure	**2,648**	**13,688**	**22,507**	**28,197**	**33,802**	**5,150**	**11,143**	**12,652**	**3,423**	**8,974**	**525**	**706**	**143,415**
Financial guarantees and underwriting commitments	45	611	572	7,740	1,917	3,525	2,240	2,250	673	559	37	331	20,500
Undrawn loan commitments	-	7,238	-	17,956	29,877	913	4,926	578	1,763	6,510	182	174	70,117
Undrawn overdraft/credit card facilities	2,603	5,839	21,935	2,501	2,008	712	3,977	9,824	987	1,905	306	201	52,798
Maximum exposure to credit risk	**53,429**	**259,192**	**261,777**	**184,220**	**160,641**	**55,963**	**50,391**	**69,750**	**23,224**	**54,288**	**9,277**	**2,967**	**1,185,119**
Percentage of carrying amount	4.5%	21.9%	22.1%	15.5%	13.6%	4.7%	4.3%	5.9%	2.0%	4.6%	0.8%	0.3%	100%

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

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

Landsbankinn hf. Consolidated Financial Statements 2015 48 All amounts are in ISK million

60. Collateral and loan-to-value by industry sectors

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

	LTV Ratio - Fully collateralised					LTV Ratio - Partially collateralised				
At 31 December 2015	**0% - 25%**	**25% - 50%**	**50% - 75%**	**75% - 100%**	**Total**	**>100%**	**Collateral value***	**Without collateral**	**Allowance for impairment**	**Maximum exposure to credit risk**
Financial institutions	-	-	-	-	-	-	-	21,481	-	21,481
Public entities	17	67	216	923	1,223	3,878	345	20,808	(230)	25,679
Individuals	12,846	29,481	47,567	79,042	168,936	75,991	56,067	83,519	(12,389)	316,057
Corporates	**6,862**	**20,234**	**69,093**	**137,952**	**234,141**	**328,608**	**191,538**	**83,467**	**(21,038)**	**625,178**
Fisheries	2,241	10,493	46,380	62,142	121,256	54,853	42,378	9,069	(2,644)	182,534
Construction and real estate companies	1,033	5,042	8,804	32,590	47,469	136,514	72,158	21,942	(6,756)	199,169
Holding companies	950	399	3,815	11,805	16,969	30,179	17,956	2,659	(1,037)	48,770
Retail	317	821	3,972	6,464	11,574	34,667	18,461	7,442	(2,049)	51,634
Services	1,171	2,187	3,615	10,468	17,441	41,311	21,835	23,019	(5,764)	76,007
Information, technology and communication	113	94	106	42	355	11,603	6,551	7,625	(285)	19,298
Manufacturing	564	673	1,310	12,326	14,873	13,463	8,216	10,644	(2,180)	36,800
Agriculture	473	525	1,091	2,115	4,204	5,946	3,912	910	(322)	10,738
Other	-	-	-	-	-	72	71	157	(1)	228
Total	**19,725**	**49,782**	**116,876**	**217,917**	**404,300**	**408,477**	**247,950**	**209,275**	**(33,657)**	**988,395**
At 31 December 2014										
Financial institutions	-	-	-	-	-	-	-	52,438	-	52,438
Public entities	36	86	198	807	1,127	2,767	437	23,626	(124)	27,396
Individuals	9,553	19,669	30,984	57,321	117,527	76,566	52,710	83,369	(16,022)	261,440
Corporates	**6,398**	**21,417**	**43,297**	**114,054**	**185,166**	**336,838**	**200,498**	**73,582**	**(25,301)**	**570,285**
Fisheries	3,715	13,169	22,288	55,862	95,034	84,487	59,605	11,184	(6,484)	184,221
Construction and real estate companies	903	2,586	6,605	25,102	35,196	107,462	60,068	11,069	(7,046)	146,681
Holding companies	268	184	2,021	11,463	13,936	30,421	16,525	6,241	(2,590)	48,008
Retail	168	2,384	2,250	8,704	13,506	32,111	18,744	7,725	(3,080)	50,262
Services	742	1,929	3,869	7,640	14,180	39,745	21,702	17,955	(2,841)	69,039
Information, technology and communication	47	65	61	50	223	15,891	7,032	7,762	(656)	23,220
Manufacturing	141	521	4,659	4,424	9,745	20,396	12,465	9,670	(2,077)	37,734
Agriculture	413	579	1,544	809	3,345	5,228	3,415	1,222	(519)	9,276
Other	1	-	-	-	1	1,097	942	754	(8)	1,844
Total	**15,987**	**41,172**	**74,479**	**172,182**	**303,820**	**416,171**	**253,645**	**233,015**	**(41,447)**	**911,559**

* If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

Landsbankinn hf. Consolidated Financial Statements 2015 49 All amounts are in ISK million

61. Collateral types

The following tables show the collateral value less a haircut held to mitigate credit risk. Further details on the Collateral types can be seen in Note 57, Credit risk mitigation.

As at 31 December 2015	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,996	-	62	-	108	2,166
Individuals	334,641	563	247	3,149	17,025	355,626
Corporates	**212,653**	**170,104**	**2,134**	**66,853**	**81,163**	**532,907**
Fisheries	13,012	169,341	106	17,852	28,692	229,003
Construction and real estate companies	125,830	47	349	585	3,631	130,442
Holding companies	5,282	15	35	39,519	701	45,552
Retail	13,586	14	324	826	18,246	32,996
Services	35,384	650	575	448	13,379	50,436
Information, technology and communication	732	2	398	993	4,879	7,004
Manufacturing	9,214	18	341	6,630	9,733	25,936
Agriculture	9,522	17	6	-	1,902	11,447
Other	91	-	-	-	-	91
Total	**549,290**	**170,667**	**2,443**	**70,002**	**98,296**	**890,699**

As at 31 December 2014	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,935	-	35	-	43	2,013
Individuals**	260,452	472	408	2,449	15,730	279,511
Corporates	**178,130**	**156,904**	**2,215**	**54,720**	**74,776**	**466,745**
Fisheries	11,123	155,421	36	14,623	23,911	205,114
Construction and real estate companies	97,317	18	647	393	2,655	101,030
Holding companies	8,168	-	52	29,975	482	38,677
Retail	13,557	456	192	662	18,968	33,835
Services	30,174	608	726	1,940	11,360	44,808
Information, technology and communication	578	2	140	1,002	5,784	7,506
Manufacturing	9,080	382	415	6,075	8,874	24,826
Agriculture	8,116	17	7	-	1,850	9,990
Other	17	-	-	50	892	959
Total	**440,517**	**157,376**	**2,658**	**57,169**	**90,549**	**748,269**

* Other includes collateral like financial claims, invoices, liquid assets, vehicles, machines, aircrafts and inventories.

** The comparative amounts have been restated due to an error in the year-end 2014 amounts previously disclosed. The amounts in this table are of an informative nature only and do not have any effect on the amounts reported by the Group in Income Statement or Statement of Financial Position.

62. Loans and advances by geographical area

Geographical segmentation is based on the customer's country of residence rather than the location of the creditor.

As at 31 December 2015	Domestic	Foreign	Carrying amount
Loans and advances to financial institutions	3,189	17,602	20,791
Loans and advances to customers	758,033	53,516	811,549
Total	**761,222**	**71,118**	**832,340**

As at 31 December 2014	Domestic	Foreign	Carrying amount
Loans and advances to financial institutions	9,148	40,642	49,790
Loans and advances to customers	669,730	48,624	718,354
Total	**678,878**	**89,266**	**768,144**

Landsbankinn hf. Consolidated Financial Statements 2015 50 All amounts are in ISK million

63. Loans and advances credit monitoring

The following tables show the credit risk monitoring split on colour classification. Further details on the credit risk monitoring and colour classification can be seen in Note 55, Credit risk control and monitoring.

As at 31 December 2015	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	20,791	-	-	-	20,791
Public entities	7,823	676	-	239	8,738
Individuals	247,263	12,621	21,804	9,273	290,961
Corporates	**432,941**	**42,802**	**19,680**	**16,427**	**511,850**
Fisheries	151,629	1,417	3,728	2,740	159,514
Construction and real estate companies	118,606	23,222	7,066	6,440	155,334
Holding companies	43,871	2,749	785	207	47,612
Retail	30,364	3,271	1,577	809	36,021
Services	47,340	7,205	4,809	1,115	60,469
Information, technology and communication	14,573	497	288	144	15,502
Manufacturing	18,038	3,566	1,198	4,403	27,205
Agriculture	8,445	875	229	569	10,118
Other	75	-	-	-	75
Total	**708,818**	**56,099**	**41,484**	**25,939**	**832,340**

As at 31 December 2014	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	49,789	-	-	-	49,789
Public entities	12,878	718	96	16	13,708
Individuals	196,551	12,277	18,647	11,456	238,931
Corporates	**354,590**	**64,583**	**31,162**	**15,381**	**465,716**
Fisheries	114,306	23,127	16,226	2,364	156,023
Construction and real estate companies	85,072	17,904	5,205	4,699	112,880
Holding companies	37,835	4,044	649	333	42,861
Retail	32,681	2,978	2,266	1,192	39,117
Services	41,556	8,325	4,788	1,718	56,387
Information, technology and communication	15,831	3,650	232	85	19,798
Manufacturing	19,209	3,565	1,131	4,856	28,761
Agriculture	7,095	857	665	134	8,751
Other	1,005	133	-	-	1,138
Total	**613,808**	**77,578**	**49,905**	**26,853**	**768,144**

64. Credit quality of financial assets

	Gross carrying amount					
As at 31 December 2015	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment	Carrying amount
Cash and balances with Central Bank	25,164	-	-	25,164	-	25,164
Bonds and debt instruments	203,299	385	-	203,684	-	203,684
Derivative instruments	287	-	-	287	-	287
Loans and advances to financial institutions	20,791	-	-	20,791	-	20,791
Loans and advances to customers	767,837	20,569	56,800	845,206	(33,657)	811,549
Other financial assets	6,918	-	-	6,918	-	6,918
Total	**1,024,296**	**20,954**	**56,800**	**1,102,050**	**(33,657)**	**1,068,393**
As at 31 December 2014						
Cash and balances with Central Bank	10,160	-	-	10,160	-	10,160
Bonds and debt instruments	235,568	8,021	-	243,589	-	243,589
Derivative instruments	78	-	-	78	-	78
Loans and advances to financial institutions	49,789	-	-	49,789	-	49,789
Loans and advances to customers	657,564	25,015	77,223	759,802	(41,447)	718,355
Other financial assets	19,733	-	-	19,733	-	19,733
Total	**972,892**	**33,036**	**77,223**	**1,083,151**	**(41,447)**	**1,041,704**

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

Landsbankinn hf. Consolidated Financial Statements 2015 51 All amounts are in ISK million

65. Loans and advances neither past due nor individually impaired

The following tables show the credit quality, measured by rating grade, of loans and advances neither past due nor individually impaired. Further details on rating grades can be seen in note 54, Credit risk assessment.

	Rating grades					
As at 31 December 2015	**10-7**	**6-4**	**3-1**	**0**	**Unrated**	**Gross carrying amount**
Financial institutions	19,152	1,639	-	-	-	20,791
Public entities	7,608	643	183	-	15	8,449
Individuals	97,898	130,886	37,303	516	3,999	270,602
Corporates	**60,608**	**308,401**	**117,125**	**2,638**	**14**	**488,786**
Fisheries	17,558	108,078	29,642	1,810	-	157,088
Construction and real estate companies	5,696	81,660	60,340	552	2	148,250
Holding companies	-	38,692	8,657	-	-	47,349
Retail	11,036	16,205	7,226	26	-	34,493
Services	15,973	31,437	7,609	250	2	55,271
Information, technology and communication	4,669	10,173	595	-	-	15,437
Manufacturing	4,820	14,938	2,034	-	-	21,792
Agriculture	856	7,214	950	-	10	9,030
Other	-	4	72	-	-	76
Total	**185,266**	**441,569**	**154,611**	**3,154**	**4,028**	**788,628**

	Rating grades					
As at 31 December 2014	**10-7**	**6-4**	**3-1**	**0***	**Unrated**	**Gross carrying amount**
Financial institutions	49,789	-	-	-	-	49,789
Public entities	12,229	1,330	47	-	12	13,618
Individuals	76,490	97,345	35,635	266	3,718	213,454
Corporates	**47,154**	**250,992**	**129,553**	**2,253**	**540**	**430,492**
Fisheries	31,388	79,640	36,900	1,947	2	149,877
Construction and real estate companies	605	55,037	51,002	63	11	106,718
Holding companies	-	22,178	8,603	61	35	30,877
Retail	1,096	29,066	6,749	16	3	36,930
Services	12,404	27,523	13,342	5	54	53,328
Information, technology and communication	206	11,084	8,822	5	1	20,118
Manufacturing	1,024	19,072	2,901	156	422	23,575
Agriculture	431	6,373	1,109	-	12	7,925
Other	-	1,019	125	-	-	1,144
Total	**185,662**	**349,667**	**165,235**	**2,519**	**4,270**	**707,353**

* Due to the accounting policies, loans and advances acquired at deep discount are not impaired even though the Group considers the obligor likely not to meet its obligations. Hence such loans can be defaulted but neither past due nor individually impaired.

66. Loans and advances past due but not individually impaired

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

As at 31 December 2015	**Past due 1-5 days**	**Past due 6-30 days**	**Past due 31 - 60 days**	**Past due 61 - 90 days**	**Past due over 90 days**	**Gross carrying amount**
Public entities	-	4	-	55	-	59
Individuals	114	6,346	4,132	1,197	1,244	13,033
Corporations	53	3,741	1,490	799	1,394	7,477
Total	**167**	**10,091**	**5,622**	**2,051**	**2,638**	**20,569**
As at 31 December 2014						
Public entities	-	1	84	7	6	98
Individuals	2,419	7,321	3,430	1,352	976	15,498
Corporations	521	3,787	3,336	696	1,079	9,419
Total	**2,940**	**11,109**	**6,850**	**2,055**	**2,061**	**25,015**

Landsbankinn hf. Consolidated Financial Statements 2015 52 All amounts are in ISK million

67. Loans and advances by industry sectors

The tables below show credit exposure, allowances and impairment by industry sectors and customer segment.

				Individually impaired				
				Of which performing		Of which non-performing*		
At 31 December 2015	Gross carrying amount	Gross not individually impaired	Collective allowance	Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	Carrying amount
Financial institutions	20,791	20,791	-	-	-	-	-	20,791
Public entities	8,969	8,507	(8)	429	(204)	32	(18)	8,738
Individuals	303,349	283,634	(1,967)	4,937	(2,273)	14,777	(8,147)	290,961
Corporates	**532,888**	**496,265**	**(3,482)**	**23,167**	**(9,813)**	**13,458**	**(7,745)**	**511,850**
Fisheries	162,160	157,546	(224)	1,762	(901)	2,853	(1,519)	159,517
Construction and real estate companies	162,090	150,708	(1,431)	6,468	(2,618)	4,914	(2,708)	155,333
Holding companies	48,649	47,671	(343)	266	(155)	713	(540)	47,612
Retail	38,069	35,198	(325)	1,489	(923)	1,382	(800)	36,021
Services	66,233	57,857	(719)	6,133	(3,712)	2,243	(1,333)	60,469
Information, technology and communication	15,787	15,526	(137)	12	(3)	249	(145)	15,502
Manufacturing	29,384	22,052	(231)	6,466	(1,335)	867	(615)	27,204
Agriculture	10,440	9,631	(71)	571	(166)	237	(85)	10,117
Other	76	76	(1)	-	-	-	-	75
Total	**865,997**	**809,197**	**(5,457)**	**28,533**	**(12,290)**	**28,267**	**(15,910)**	**832,340**

				Individually impaired				
				Of which performing		Of which non-performing*		
At 31 December 2014	Gross carrying amount	Gross not individually impaired	Collective allowance	Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	Carrying amount
Financial institutions	49,789	49,789	-	-	-	-	-	49,789
Public entities	13,831	13,717	(25)	59	(57)	56	(42)	13,708
Individuals	254,955	228,952	(2,240)	7,118	(3,776)	18,884	(10,007)	238,931
Corporates	**491,015**	**439,910**	**(5,451)**	**37,612**	**(12,196)**	**13,494**	**(7,653)**	**465,716**
Fisheries	162,507	150,959	(637)	8,881	(4,497)	2,667	(1,350)	156,023
Construction and real estate companies	119,926	109,273	(1,552)	6,119	(2,850)	4,534	(2,644)	112,880
Holding companies	45,451	31,249	(603)	13,443	(1,451)	758	(535)	42,861
Retail	42,198	37,788	(491)	2,752	(1,621)	1,657	(968)	39,117
Services	59,228	56,166	(1,137)	929	(579)	2,133	(1,125)	56,387
Information, technology and communication	20,454	20,219	(486)	86	(61)	149	(109)	19,798
Manufacturing	30,837	24,324	(433)	5,276	(1,015)	1,238	(629)	28,761
Agriculture	9,269	8,786	(104)	126	(122)	358	(293)	8,751
Other	1,145	1,146	(8)	-	-	-	-	1,138
Total	**809,590**	**732,368**	**(7,716)**	**44,789**	**(16,029)**	**32,434**	**(17,702)**	**768,144**

*Non-performing past due more than 90 days

Landsbankinn hf. Consolidated Financial Statements 2015 53 All amounts are in ISK million

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

	2015			2014		
	Individual allowance	Collective allowance	Total	Individual allowance	Collective allowance	Total
Balance at the beginning of the year	(33,731)	(7,716)	(41,447)	(41,278)	(9,666)	(50,944)
New provisions	(10,646)	-	(10,646)	(19,209)	-	(19,209)
New provisions due to merger	(2,863)	(491)	(3,354)	-	-	0
Reversals	12,821	2,565	15,386	16,852	1,827	18,679
Provisions used to cover write-offs	6,570	-	6,570	9,917	-	9,917
Translation difference	(351)	185	(166)	(13)	123	110
Balance at the end of the period	**(28,200)**	**(5,457)**	**(33,657)**	**(33,731)**	**(7,716)**	**(41,447)**

	2015			2014		
	Customers	Financials	Total	Customers	Financials	Total
New provisions	(10,646)	(645)	(11,291)	(19,209)	-	(19,209)
Write-offs	(7,601)	-	(7,601)	(14,905)	-	(14,905)
Provisions used to cover write-offs	6,570	-	6,570	9,917	-	9,917
Reversals	15,386	-	15,386	18,679	-	18,679
Recoveries	2,146	-	2,146	3,242	-	3,242
Translation difference	(166)	-	(166)	110	-	110
Impairment loss for the period	5,689	(645)	5,044	(2,166)	0	(2,166)
Impairment of claims reversed	-	-	0	-	128	128
Net impairment loss for the period	**5,689**	**(645)**	**5,044**	**(2,166)**	**128**	**(2,038)**

69. Renegotiated loans

In regard to financial restructuring of customers, the Group has put remedies in place for those experiencing financial difficulties and also presented procedures for financial restructuring. These restructuring approaches include extended and modified repayment arrangements and approved external management plans.

70. Large exposures

As at 31 December 2015, three customer groups were rated as large exposures in accordance with FME's Rules on Large Exposures Incurred by Financial Undertakings, No. 625/2013. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. No exposure may attain the equivalent of 25% of the capital base. The following table shows the Group's large exposures after credit mitigation:

At 31 December 2015	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's capital base	2	66,094
Large exposures between 0% and 10% of the Group's capital base	1	212
Total	**3**	**66,306**
Total large exposures to capital base		25%
At 31 December 2014		
Large exposures between 10% and 20% of the Group's capital base	3	102,217
Large exposures between 0% and 10% of the Group's capital base	3	-
Total	**6**	**102,217**
Total large exposures to capital base		41%

71. Bonds and debt instruments

A breakdown of the Group's bond portfolio, by Standard & Poor's rating, is as follows:

Carrying amount	2015	2014
AAA/AA+/AA/AA-	31,900	66,959
BBB/BBB-	136,568	141,292
Lower than BBB-	24,875	12,825
Unrated	10,341	22,513
Total	**203,684**	**243,589**

Landsbankinn hf. Consolidated Financial Statements 2015 54 All amounts are in ISK million

71. Bonds and debt instruments (continued)

The following table shows the carrying amounts of bonds for which the issuers have failed, by one or more days, to make a payment when it was contractually due:

At 31 December 2015	Past due 0 - 90 days	Past due over 90 days	Carrying amount
Holding companies	-	85	85
Other	-	300	300
Total	**0**	**385**	**385**
At 31 December 2014			
Holding companies	-	7,871	7,871
Other	-	150	150
Total	**0**	**8,021**	**8,021**

72. Derivative instruments

The following table summarises the Group's exposure in derivative instruments, classified by the Bank into equivalent Standard & Poor's ratings by counterparty:

	2015			2014		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
A+/A/A-	33,936	41	145	18,640	35	51
BBB+ to BBB-	16,313	7	213	6,254	4	252
Unrated	22,895	239	344	4,430	39	29
Total	**73,144**	**287**	**702**	**29,324**	**78**	**332**

73. Offsetting financial assets and financial liabilities

The following table shows reconciliation to the net amounts of financial assets and financial liabilities. Those financial assets and financial liabilities are subject to offsetting, enforceable master netting agreements and similar agreements.

31 December 2015

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreements

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received	Net financial assets with netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
Derivatives	285	-	285	(43)	(230)	12	2	287

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreement

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilites	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged	Net financial liabilities with netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
Derivatives	(564)	-	(564)	43	(127)	(648)	(139)	(702)
Short positions	(2,698)	-	(2,698)	-	2,698	-	-	(2,698)
Total	**(3,262)**	**0**	**(3,262)**	**43**	**2,571**	**(648)**	**(139)**	**(3,400)**

Landsbankinn hf. Consolidated Financial Statements 2015 55 All amounts are in ISK million

73. Offsetting financial assets and financial liabilities (continued)

31 December 2014

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreements

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	**Financial assets**	**Financial liabilities**	**Net Amount**	**Financial liabilities**	**Collateral received**	**Net financial assets with netting agreements**	**Financial assets not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	78	-	78	(26)	(35)	17	-	78

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreement

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	**Financial liabilities**	**Financial assets**	**Net Amount**	**Financial assets**	**Collateral pledged**	**Net financial liabilities with netting agreements**	**Financial liabilities not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	(81)	-	(81)	26	32	(23)	(252)	(332)
Short positions	(5,077)	-	(5,077)	-	5,077	-	-	(5,077)
Total	**(5,158)**	**0**	**(5,158)**	**26**	**5,109**	**(23)**	**(252)**	**(5,409)**

Liquidity risk

74. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from earlier maturities of financial liabilities than financial assets.

75. Liquidity risk management

A liquidity management policy for the Bank and its subsidiaries is in place. The objective of the liquidity management policy is to ensure, even in times of stress, that sufficient liquid assets and funding capacity are available to meet financial obligations in a timely manner and at reasonable cost. Furthermore, the liquidity management policy is to describe the manner in which the Group identifies, evaluates, measures, monitors, manages and reports its liquidity. Enforcing this policy has the further objective of minimising fluctuations in liquidity. The policy is built on a framework published in Basel III standards on liquidity risk measurement where the main metric for measuring liquidity risk is the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The objective of the LCR is to promote short-term resilience by ensuring that the Group has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. NSFR has a time horizon of longer term and its objective is to capture structural issues in the balance sheet with the aim to provide a sustainable maturity structure of assets and liabilities and to limit overreliance on short-term wholesale funding.

The Group complies with the liquidity and funding rules set by the Central Bank of Iceland No. 1031/2014 and No. 1032/2014 as well as following guidelines No. 2/2010 from the Icelandic Financial Supervisory Authority in Iceland (FME) on best practice for managing liquidity in banking organisation. Rules No. 1031/2014 require the Group to maintain a LCR minimum of 80% total and 100% for foreign currencies at the end of year 2015 and rules No, 1032/2014 set requirements for a minimum of 80% NSFR in foreign currencies at year-end 2015.The minimum requirement for both ratios, LCR total and NSFR in foreign currencies, will increase by 10 percentage points every year until it reaches 100% in the year 2017. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland and the FME.

The Group has implemented a risk appetite where these rules and guidelines as well as inner requirements within the Bank set benchmarks for liquidity management.

The Group's liquidity risk is managed centrally by Treasury and is monitored by Market Risk. This allows management to monitor and manage liquidity risk throughout the Group. The Risk and Finance Committee monitors the Group's liquidity risk, while the Bank's internal audit assesses whether the liquidity management process is designed properly and operating effectively.

The Group monitors intraday liquidity risk, short-term 30 day liquidity risk, medium and longer-term liquidity risk and risk arising from mismatches of longer term assets and liabilities.

The Group's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities, monitoring balance sheet liquidity, monitoring and managing the maturity profile of liabilities and off-balance sheet commitments, monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties projecting cash flows arising from future business, and maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from liquidity crisis.

Landsbankinn hf. Consolidated Financial Statements 2015 56 All amounts are in ISK million

75. Liquidity risk management (continued)

Market Risk Unit conducts weekly stress tests by applying various hypothetical scenarios on the Group's liquidity position to ensure that it has adequate liquidity to withstand stressed conditions. Different assumptions are drawn for each stress test to estimate the impact of a variety of market conditions, in particular the lifting of capital controls in Iceland and how that would impact the Group's deposit base.

The key indicator of short-term liquidity risk is measured by the liquidity coverage ratio (LCR) which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with Central Bank, assets eligible for repo transactions with Central Bank and zero percent risk-weighted foreign government bonds. Estimated inflow and outflow weights, according to liquidity rules No. 1031/2014, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. The calculations for the ratio at year-end 2015 and 2014 are shown in the following table:

	Total		Foreign currencies	
Liquidity coverage ratio 31.12.2015	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	192,467	192,467	42,722	42,722
Level 2 liquid assets and information items	16,631	-	42	-
Total liquid assets	**209,098**	**192,467**	**42,764**	**42,722**
Deposits	408,785	148,337	61,340	27,645
Borrowing	1,014	1,014	1,014	1,014
Other outflows	185,594	54,110	30,721	3,557
Total outflows (0-30 days)	**595,393**	**203,461**	**93,075**	**32,216**
Loans and advances to financial institutions	17,581	16,376	17,581	16,376
Other inflows	48,369	17,440	8,155	3,963
Limit on inflows	-	-	-	-
Total inflows (0-30 days)	**65,950**	**33,816**	**25,736**	**20,339**
Liquidity Coverage Ratio		**113%**		**360%**

	Total		Foreign currencies	
Liquidity coverage ratio 31.12.2014	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	206,017	206,017	68,314	68,314
Level 2 liquid assets and information items	9,387	-	-	-
Total liquid assets	**215,404**	**206,017**	**68,314**	**68,314**
Deposits	411,670	174,587	73,287	41,845
Borrowing	620	620	620	620
Other outflows	169,506	46,501	31,500	2,028
Total outflows (0-30 days)	**581,796**	**221,708**	**105,407**	**44,493**
Loans and advances to financial institutions	37,933	32,978	37,933	32,978
Other inflows	74,493	31,173	22,148	10,654
Limit on inflows	-	-	-	(10,262)
Total inflows (0-30 days)	**112,426**	**64,151**	**60,081**	**33,370**
Liquidity Coverage Ratio		**131%**		**614%**

The Group has categorised its deposit base into eight different groups representing different levels of stickiness. Stickiness is a method that is used to estimate the stability of the Group's deposit base. The Bank for International Settlements (BIS) defines stickiness as tendency of funding not to run off quickly under stress. The deposit groups are based on methodology in the liquidity rules set by the Central Bank of Iceland and are reflected in the Group's internal liquidity stress tests where a concentration charge is applied to account for possible outflows. Run off rates and amounts for these deposit groups are shown in the following table:

	0-30 days deposits balance by groups				
Total deposits* by groups as at 31. December 2015	**Less stable deposits**	**Applied run-off rate**	**Stable deposits**	**Applied run-off rate**	**Term deposits**
Groups					
1. Individuals	89,491	10%	70,745	5%	86,602
2. Small and medium size corporates	46,315	10%	10,187	5%	4,609
3. Operational deposits	7,069	25%	169	5%	229
4. Large corporates	61,185	40%	367	20%	25,645
5. Government, municipalities and Central Bank	29,124	40%	-	20%	642
6. Financial institutions in resolution process	19,273	100%	-	-	48,321
7. Financial institutions	63,417	100%	-	-	38,566
8. Other foreign counterparties	9,581	100%	1,862	25%	2,383
Total deposits	**325,455**		**83,330**		**206,997**

*Deposits and other liabilities due to financial institutions and Central Bank

Landsbankinn hf. Consolidated Financial Statements 2015 57 All amounts are in ISK million

75. Liquidity risk management (continued)

Total deposits* by groups as at 31. December 2014	0-30 days deposits balance by groups Less stable deposits	Applied run-off rate	Stable deposits	Applied run-off rate	Term deposits
Groups					
1. Individuals	77,510	10%	64,060	5%	82,792
2. Small and medium size corporates	42,719	10%	9,630	5%	3,835
3. Operational deposits	6,574	25%	161	5%	286
4. Large corporates	58,949	40%	303	20%	18,317
5. Government, municipalities and Central Bank	28,233	40%	-	20%	857
6. Financial institutions in resolution process	49,018	100%	-	-	58,561
7. Financial institutions	64,148	100%	-	-	26,691
8. Other foreign counterparties	8,716	100%	1,650	25%	2,252
Total deposits	**335,867**		**75,804**		**193,591**

*Deposits and other liabilities due to financial institutions and Central Bank

The Group measures the net stable funding ratio (NSFR) as another key indicator for longer-term liquidity risk. The following table shows the values of the NSFR for foreign currencies at year-end 2015 and 2014:

	As at 31 December 2015	As at 31 December 2014
Net stable funding ratio FX	136%	134%

76. Maturity analysis of financial assets and liabilities

The tables below only take into account the contractual maturity of the Group's assets and liabilities but do not account for measures that the Group could decide upon to convert assets into cash at hand by liquidation either through sale or participation in Central Bank operations. Furthermore all instant access deposits are categorised as outflows in the first time bucket. Further information on the Group's liquidity management can be found in Note 75.

The amounts in the maturity analyses as at year-end 2015 and 2014 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). For loans and advances in moratorium or in the process of liquidation the Group estimates the amounts from the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at the reporting date. These bonds and loans all fall in the time span of 1-5 years.

Amounts presented in the maturity analyses are the undiscounted future cash flows receivable and payable by the Group, including both principal and interest cash flows. These amounts differ from the carrying amounts presented in the statement of financial position, which are based on discounted rather than undiscounted future cash flows. If an amount receivable or payable is not fixed, the amount presented in the maturity analyses has been determined by reference to the relevant interest rates and exchange rates prevailing at the reporting date. For inflation-linked assets and liabilities the Group uses a constant yearly inflation according to the 12 month inflation at the reporting date. When there is a choice of when an amount shall be paid, future cash flows are calculated on the basis of the earliest date at which the Group can be required to pay, which is the worst case scenario from Group perspective. An example of this is that demand deposits are included in the earliest time span. Where the Group is committed to have amounts available in installments, each installment is allocated to the earliest period in which the Group might be required to pay. Thus undrawn loan commitments are included in the time span together with the earliest date at which such loans may be drawn. For financial guarantee contracts issued by the Group, the amount included in the maturity analysis is the guarantee's maximum amount, allocated to the earliest period in which the guarantee might be called.

Nonetheless, the Group's expected cash flows on demand deposits vary significantly from the amounts presented in the maturity analyses. Demand deposits from customers have short contractual maturities but are considered a relatively stable financing source with expected maturity exceeding one year, and it is not expected that every committed loan will be drawn down immediately, see Note 75. The Group conducts, as mentioned in Note 75, a weekly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

Amounts presented in non-derivative financial assets and non-derivative financial liabilities include all spot deals at year-end 2015 and 2014. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

Landsbankinn hf. Consolidated Financial Statements 2015 58 All amounts are in ISK million

76. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2015:

Non-derivative financial assets	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	25,164	-	-	-	-	-	25,164	25,164
Bonds and debt instruments	19,854	14,307	13,333	167,971	23,239	-	238,704	203,684
Equities and equity instruments	-	-	-	-	-	29,192	29,192	29,192
Loans and advances to financial institutions	17,631	1,481	-	1,679	-	-	20,791	20,791
Loans and advances to customers	71,038	43,679	157,912	336,746	657,174	-	1,266,549	811,549
Other financial assets	6,361	-	-	558	-	-	6,919	6,918
Total	**140,048**	**59,467**	**171,245**	**506,954**	**680,413**	**29,192**	**1,587,319**	**1,097,298**
Derivative financial assets								
Gross settled derivatives								250
Inflow	22,164	967	2,045	3,415	-	-	28,591	
Outflow	(22,138)	(968)	(1,954)	(3,379)	-	-	(28,439)	
Total	**26**	**(1)**	**91**	**36**	**0**	**0**	**152**	**250**
Net settled derivatives	37	-	-	-	-	-	37	37
Total	**63**	**(1)**	**91**	**36**	**0**	**0**	**189**	**287**
Non-derivative financial liabilities								
Due to financial institutions and Central Bank	(45,474)	(1,238)	(5,347)	(5,665)	(45)	-	(57,769)	(56,731)
Deposits from customers	(380,818)	(111,663)	(33,492)	(32,739)	(3,564)	-	(562,276)	(559,051)
Short positions	(58)	(34)	(126)	(1,224)	(3,445)	-	(4,887)	(2,698)
Borrowings	(1,045)	(55)	(14,965)	(122,448)	(112,040)	-	(250,554)	(209,344)
Subordinated liabilities	-	(9)	(31)	(553)	(96)	-	(689)	(639)
Other financial liabilities	(5,367)	-	-	-	-	-	(5,367)	(5,367)
Total	**(432,762)**	**(112,999)**	**(53,961)**	**(162,629)**	**(119,190)**	**0**	**(881,542)**	**(833,830)**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(698)	(1,593)	(3,484)	(7,529)	(4,333)	-	(17,637)	
Undrawn loan commitments	(79,975)	-	-	-	-	-	(79,975)	
Undrawn overdraft/credit card commitments	(58,443)	-	-	-	-	-	(58,443)	
Total	**(139,116)**	**(1,593)**	**(3,484)**	**(7,529)**	**(4,333)**	**0**	**(156,055)**	
Total non-derivative financial liabilities and off-balance sheet	**(571,878)**	**(114,592)**	**(57,445)**	**(170,158)**	**(123,523)**	**0**	**(1,037,597)**	**(833,830)**
Derivative financial liabilities								
Gross settled derivatives								(583)
Inflow	26,951	-	975	2,970	-	-	30,896	
Outflow	(27,091)	-	(1,096)	(3,146)	-	-	(31,333)	
Total	**(140)**	**0**	**(121)**	**(176)**	**0**	**0**	**(437)**	**(583)**
Net settled derivatives	(119)	-	-	-	-	-	(119)	(119)
Total	**(259)**	**0**	**(121)**	**(176)**	**0**	**0**	**(556)**	**(702)**
Net liquidity position	**(432,026)**	**(55,126)**	**113,770**	**336,656**	**556,890**	**29,192**	**549,355**	**263,053**

Landsbankinn hf. Consolidated Financial Statements 2015 59 All amounts are in ISK million

76. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2014:

Non-derivative financial assets	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	10,160	-	-	-	-	-	10,160	10,160
Bonds and debt instruments	25,074	41,440	9,291	180,353	26,538	-	282,696	243,589
Equities and equity instruments	-	-	-	-	-	29,433	29,433	29,433
Loans and advances to financial institutions	38,916	2,281	-	6,635	1,961	-	49,793	49,789
Loans and advances to customers	64,372	50,549	123,871	328,812	493,539	-	1,061,143	718,355
Other financial assets	19,178	-	-	555	-	-	19,733	19,733
Total	**157,700**	**94,270**	**133,162**	**516,355**	**522,038**	**29,433**	**1,452,958**	**1,071,059**
Derivative financial assets								
Gross settled derivatives								36
Inflow	11,193	4,033	-	-	-	-	15,226	
Outflow	(11,161)	(4,031)	-	-	-	-	(15,192)	
Total	**32**	**2**	**0**	**0**	**0**	**0**	**34**	**36**
Net settled derivatives	42	-	-	-	-	-	42	42
Total	**74**	**2**	**0**	**0**	**0**	**0**	**76**	**78**
Non-derivative financial liabilities								
Due to financial institutions and Central Bank	(53,234)	(616)	-	-	-	-	(53,850)	(53,827)
Deposits from customers	(395,492)	(84,769)	(52,623)	(18,446)	(3,783)	-	(555,113)	(551,435)
Short positions	(5,077)	-	-	-	-	-	(5,077)	(5,077)
Borrowings	(543)	-	(5,195)	(101,755)	(147,875)	-	(255,368)	(207,028)
Other financial liabilities	(7,509)	-	-	-	-	-	(7,509)	(7,509)
Total	**(461,855)**	**(85,385)**	**(57,818)**	**(120,201)**	**(151,658)**	**0**	**(876,917)**	**(824,876)**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(703)	(1,029)	(3,636)	(7,523)	(7,609)	-	(20,500)	
Undrawn loan commitments	(70,117)	-	-	-	-	-	(70,117)	
Undrawn overdraft/credit card commitments	(52,798)	-	-	-	-	-	(52,798)	
Total	**(123,618)**	**(1,029)**	**(3,636)**	**(7,523)**	**(7,609)**	**0**	**(143,415)**	
Total non-derivative financial liabilities and off-balance sheet	**(585,473)**	**(86,414)**	**(61,454)**	**(127,724)**	**(159,267)**	**0**	**(1,020,332)**	**(824,876)**
Derivative financial liabilities								
Gross settled derivatives								(323)
Inflow	5,572	3,201	277	1,060	-	-	10,110	
Outflow	(5,597)	(3,224)	(346)	(1,212)	-	-	(10,379)	
Total	**(25)**	**(23)**	**(69)**	**(152)**	**0**	**0**	**(269)**	**(323)**
Net settled derivatives	(9)	-	-	-	-	-	(9)	(9)
Total	**(34)**	**(23)**	**(69)**	**(152)**	**0**	**0**	**(278)**	**(332)**
Net liquidity position	**(427,733)**	**7,835**	**71,639**	**388,479**	**362,771**	**29,433**	**432,424**	**245,929**

Landsbankinn hf. Consolidated Financial Statements 2015 60 All amounts are in ISK million

77. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2015:

Non-derivative financial assets	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	50,931	34,260	71,675	131,664	21,926	31	310,487	290,135
ISK	89,117	25,207	99,570	375,290	658,487	29,161	1,276,832	807,163
Total	**140,048**	**59,467**	**171,245**	**506,954**	**680,413**	**29,192**	**1,587,319**	**1,097,298**
Derivative financial assets								
Total in foreign currencies	(292)	38	424	2,999	-	-	3,169	250
ISK	355	(39)	(333)	(2,963)	-	-	(2,980)	37
Total	**63**	**(1)**	**91**	**36**	**0**	**0**	**189**	**287**
Non-derivative financial liabilities								
Total in foreign currencies	(64,143)	(1,413)	(11,934)	(129,876)	(100,649)	-	(308,015)	(271,825)
ISK	(368,619)	(111,586)	(42,027)	(32,753)	(18,542)	-	(573,527)	(562,005)
Total	**(432,762)**	**(112,999)**	**(53,961)**	**(162,629)**	**(119,190)**	**0**	**(881,542)**	**(833,830)**
Off-balance sheet items								
Total in foreign currencies	(20,072)	(1,188)	(937)	(7,001)	(267)	-	(29,465)	
ISK	(119,044)	(405)	(2,547)	(528)	(4,066)	-	(126,590)	
Total	**(139,116)**	**(1,593)**	**(3,484)**	**(7,529)**	**(4,333)**	**0**	**(156,055)**	
Derivative financial liabilities								
Total in foreign currencies	198	-	140	2,470	-	-	2,808	(583)
ISK	(457)	-	(261)	(2,646)	-	-	(3,364)	(119)
Total	**(259)**	**0**	**(121)**	**(176)**	**0**	**0**	**(556)**	**(702)**
Net liquidity position in foreign currencies	**(33,378)**	**31,697**	**59,368**	**256**	**(78,990)**	**31**	**(21,016)**	**17,977**
Net liquidity position in ISK	**(398,648)**	**(86,823)**	**54,402**	**336,400**	**635,879**	**29,161**	**570,371**	**245,076**
Net liquidity position	**(432,026)**	**(55,126)**	**113,770**	**336,656**	**556,889**	**29,192**	**549,355**	**263,053**

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2014:

Non-derivative financial assets	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	100,974	64,640	40,261	153,348	7,634	220	367,077	345,425
ISK	56,726	29,630	92,901	363,007	514,404	29,213	1,085,881	725,634
Total	**157,700**	**94,270**	**133,162**	**516,355**	**522,038**	**29,433**	**1,452,958**	**1,071,059**
Derivative financial assets								
Total in foreign currencies	(432)	2	-	-	-	-	(430)	36
ISK	506	-	-	-	-	-	506	42
Total	**74**	**2**	**0**	**0**	**0**	**0**	**76**	**78**
Non-derivative financial liabilities								
Total in foreign currencies	(108,504)	(10,283)	(12,231)	(93,182)	(147,875)	-	(372,075)	(325,290)
ISK	(353,351)	(75,102)	(45,587)	(27,019)	(3,783)	-	(504,842)	(499,586)
Total	**(461,855)**	**(85,385)**	**(57,818)**	**(120,201)**	**(151,658)**	**0**	**(876,917)**	**(824,876)**
Off-balance sheet items								
Total in foreign currencies	(20,869)	(680)	(1,538)	(6,993)	(318)	-	(30,398)	
ISK	(102,749)	(349)	(2,098)	(530)	(7,291)	-	(113,017)	
Total	**(123,618)**	**(1,029)**	**(3,636)**	**(7,523)**	**(7,609)**	**0**	**(143,415)**	
Derivative financial liabilities								
Total in foreign currencies	129	(23)	108	215	-	-	429	(323)
ISK	(163)	-	(177)	(367)	-	-	(707)	(9)
Total	**(34)**	**(23)**	**(69)**	**(152)**	**0**	**0**	**(278)**	**(332)**
Net liquidity position in foreign currencies	**(28,702)**	**53,656**	**26,600**	**53,388**	**(140,559)**	**220**	**(35,397)**	**19,848**
Net liquidity position in ISK	**(399,031)**	**(45,821)**	**45,039**	**335,091**	**503,330**	**29,213**	**467,821**	**226,081**
Net liquidity position	**(427,733)**	**7,835**	**71,639**	**388,479**	**362,771**	**29,433**	**432,424**	**245,929**

The amounts in the maturity analysis as at 31 December 2015 and 31 December 2014 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). Exceptions to this are loans and advances to customers and bonds issued by companies in moratorium or in the process of liquidation as disclosed in Note 76.

Landsbankinn hf. Consolidated Financial Statements 2015 61 All amounts are in ISK million

78. Encumbered assets

The following tables show the Group's total encumbered and unencumbered assets in 2015 and 2014.

At 31 December 2015	Collateral pledged against Covered bonds	Collateral pledged against Issued bonds to LBI hf.	Collateral pledged against Other*	Un-encumbered	Total
Cash and balances with Central Bank	308	-	-	24,856	25,164
Bonds and debt instruments	-	-	23,617	180,067	203,684
Equities and equity instruments	-	-	-	29,192	29,192
Derivative instruments	-	-	-	287	287
Loans and advances to financial institutions	-	-	1,220	19,571	20,791
Loans and advances to customers	28,027	150,812	-	632,710	811,549
Investments in equity-accounted associates	-	-	-	909	909
Property and equipment	-	-	-	5,658	5,658
Intangible assets	-	-	-	2,012	2,012
Other assets	-	-	-	7,457	7,457
Assets classified as held for sale	-	-	-	11,955	11,955
Total	**28,335**	**150,812**	**24,837**	**914,674**	**1,118,658**

At 31 December 2014	Collateral pledged against Covered bonds	Collateral pledged against Issued bonds to LBI hf.	Collateral pledged against Other*	Un-encumbered	Total
Cash and balances with Central Bank	1	-	-	10,159	10,160
Bonds and debt instruments	-	-	12,771	230,818	243,589
Equities and equity instruments	-	-	-	29,433	29,433
Derivative instruments	-	-	-	78	78
Loans and advances to financial institutions	-	-	4,953	44,836	49,789
Loans and advances to customers	9,537	234,283	-	474,535	718,355
Investments in equity-accounted associates	-	-	-	777	777
Property and equipment	-	-	-	5,691	5,691
Intangible assets	-	-	-	1,225	1,225
Deferred tax assets		-	-	83	83
Other assets	-	-	-	20,978	20,978
Assets classified as held for sale	-	-	-	18,211	18,211
Total	**9,538**	**234,283**	**17,724**	**836,825**	**1,098,370**

*Other represents assets pledged as collateral to the Central Bank of Iceland to secure settlement in the Icelandic clearing systems, assets pledged as collateral to secure trading lines and credit support for GMRA and ISDA master agreements and other pledges of similar nature.

Market risk

79. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices. Other market risk is defined as equity price risk and inflation risk, each of which is disclosed in the following notes.

80. Market risk management

The Group separates its exposure to market risk into trading and non-trading portfolios, managing each separately. Trading portfolios include positions arising from market-making, hedges for derivative sales and proprietary position-taking. Non-trading portfolios include positions arising from the Group's retail and commercial banking operations and proprietary position-taking as part of asset and liability management and funding transactions, managed by Treasury. Treasury is also responsible for daily liquidity management, creating exposure to market risk.

The Board of Directors is responsible for determining the Group's overall risk appetite, including for market risk. The CEO of the Bank appoints the Risk and Finance Committee, which is responsible for developing detailed market risk management policies and setting market risk limits. Treasury and the Market Making department within Markets are responsible for managing market-related positions under the supervision of Market Risk. The objective of market risk management is to identify, locate and monitor market risk exposures and analysing and reporting to appropriate parties.

Landsbankinn hf. Consolidated Financial Statements 2015 62 All amounts are in ISK million

80. Market risk management (continued)

Market risks arising from trading and non-trading activities are monitored and reported on a daily, weekly and monthly basis to the head of each business unit along with a comprehensive risk report twice a year to the Board of Directors. The Group's market risk is thereby measured and monitored on a daily basis, and Market Risk monitors the limits set in the Group's risk appetite and submits these and other market risk measurements and concerns to the Risk & Finance Committee every other week. Several indicators are used, including daily profits and losses, delta positions and net positions across different attributes such as the currency and issuer.

The Group uses risk-weighted assets (RWA) and economic capital (EC) as a common denominator for measuring risk across different asset classes, including those assets subject to market risk. Risk-weighted assets are determined by applying specific risk weights to the Group's assets, following capital requirements regulations. The following table summarises the Group's exposure to market risk as at 31 December 2015 and 2014.

Market risk factor	2015 % of RWA	2014 % of RWA
Equity price risk*	0.7%	4.7%
Interest rate risk*	0.2%	2.6%
Foreign exchange risk	2.8%	2.5%
Total	**3.7%**	**9.9%**

*Classification of equity, bond and debt instrument in the trading book exposures has been revised in the trading book as of 1 January 2015. Accordingly, risk-weighted assets in equity, bond and debt instruments in the banking book are classified as credit risk instead of market risk. Furthermore, risk weights for equity price risk have been updated according to regulations.

81. Equity price risk

Equity price risk is the risk of equity value fluctuations due to open positions in equity-based instruments.

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and hedging positions, in listed ISK equities. The Group's non-trading portfolio contains listed and unlisted equities as part of asset and liability management. Further details can be seen in Note 20 and Note 87.

82. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to changes in market interest rates.

Changes in interest rates for the Group's assets and liabilities, other than those in its trading portfolios, have an impact on its interest rate margin. This risk results primarily from duration mismatches between assets and liabilities. Interest rate risk is managed principally by monitoring interest rate gaps. Interest rate risk is managed centrally within the Group by the Treasury of the Bank, and is monitored by Market Risk.

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 17. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

At 31 December 2015	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	25,164	-	-	-	25,164
Bonds and debt instruments	184,340	510	9,562	9,272	203,684
Derivative instruments	287	-	-	-	287
Loans and advances to financial institutions	20,791	-	-	-	20,791
Loans and advances to customers	565,715	113,628	90,328	41,878	811,549
Other financial assets	6,360	-	558	-	6,918
Total	**802,657**	**114,138**	**100,448**	**51,150**	**1,068,393**
Financial liabilities					
Due to financial institutions and Central Bank	(46,345)	(10,378)	(8)	-	(56,731)
Deposits from customers	(549,398)	(7,607)	(2,046)	-	(559,051)
Derivative instruments and short positions	(703)	(67)	(492)	(2,138)	(3,400)
Borrowings	(137,414)	(10,591)	(51,597)	(9,742)	(209,344)
Subordinated liabilities	(493)	-	(146)	-	(639)
Other financial liabilities	(5,367)	-	-	-	(5,367)
Total	**(739,720)**	**(28,643)**	**(54,289)**	**(11,880)**	**(834,532)**
Net on-balance sheet position	62,937	85,495	46,159	39,270	233,861
Net off-balance sheet position	359	(176)	(183)	0	
Total interest repricing gap	**63,296**	**85,319**	**45,976**	**39,270**	

Landsbankinn hf. Consolidated Financial Statements 2015 63 All amounts are in ISK million

82. Interest rate risk (continued)

At 31 December 2014	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	10,160	-	-	-	10,160
Bonds and debt instruments	223,686	4,103	2,000	13,800	243,589
Derivative instruments	78	-	-	-	78
Loans and advances to financial institutions	43,154	6,635	-	-	49,789
Loans and advances to customers	512,873	96,206	68,537	40,739	718,355
Other financial assets	19,178	-	555	-	19,733
Total	**809,129**	**106,944**	**71,092**	**54,539**	**1,041,704**
Financial liabilities					
Due to financial institutions and Central Bank	(53,827)	-	-	-	(53,827)
Deposits from customers	(529,221)	(20,703)	(1,511)	-	(551,435)
Derivative instruments and short positions	(332)	(3,221)	(178)	(1,678)	(5,409)
Borrowins	(199,558)	-	(7,470)	-	(207,028)
Other financial liabilities	(7,509)	-	-	-	(7,509)
Total	**(790,447)**	**(23,924)**	**(9,159)**	**(1,678)**	**(825,208)**
Net on-balance sheet position	18,682	83,020	61,933	52,861	216,495
Net off-balance sheet position	430	(140)	(290)	0	
Total interest repricing gap	**19,112**	**82,880**	**61,643**	**52,861**	

83. Sensitivity analysis for trading portfolios

The management of market risk in the trading book is supplemented by monitoring sensitivity of the trading portfolios to various scenarios in equity prices and interest rates.

The following table shows how the Group's profit (loss) before tax would have been affected by parallel shifts in interest rate curves through changes in the fair value of its trading portfolios at year-end 2015 and 2014 and cash flows for the next 12 months, assuming a constant position.

	2015			2014		
Currency (ISK million)	Parallel shift in yield curve in basis points	Effect of downward shift on profit	Effect of upward shift on profit	Parallel shift in yield curve in basis points	Effect of downward shift on profit	Effect of upward shift on profit
ISK, non-CPI indexed	100	34	(34)	100	(144)	129
ISK, CPI indexed	50	37	(36)	50	1,185	(1,067)
USD	20	-	-	20	89	(89)
Total		**71**	**(70)**		**1,130**	**(1,027)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

The following table shows how the Group's profit (loss) before tax would have been affected by a change of +/-5% in the price of equities in the trading book held by the Group at year-end:

	2015		2014	
Currency (ISK million)	Increase	Decrease	Increase	Decrease
ISK	509	(509)	174	(174)
Total	**509**	**(509)**	**174**	**(174)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

84. Sensitivity analysis for non-trading portfolios

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and liabilities to various interest rate scenarios. The Group employs a quarterly stress test of the interest rate risk in the Group's banking book by measuring the impact on profit of shifting the interest rate curves for every currency.

84. Sensitivity analysis for non-trading portfolios (continued)

The following table shows how the Group's profit (loss) before tax would have been affected by a parallel shift in all interest rate curves, with all other variables held constant, as related to risk exposure at year-end 2015 and 2014 and cash flows for the next 12 months, assuming a constant position.

	2015			2014		
Currency (ISK million)	Parallel shift in yield curve in basis points	Effect of downward shift on profit	Effect of upward shift on profit	Parallel shift in yield curve in basis points	Effect of downward shift on profit	Effect of upward shift on profit
ISK, unindexed	400	(168)	168	400	577	(577)
ISK, CPI indexed	240	254	(254)	240	325	(325)
EUR	200	250	(250)	200	243	(243)
Other	200	261	(261)	200	302	(302)
Total		**597**	**(597)**		**1,447**	**(1,447)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

The following table shows how the Group's profit (loss) before tax would have been affected by a change of +/-5% in the price of equities which are classified into Level 1 or Level 2, as defined in Note 17 and of +/-5% in the key unobservable inputs used in valuation of equities which are classified into Level 3, as defined in Note 17, in the price of equities in the non-trading book at year-end.

	2015		2014	
Currency (ISK million)	Increase	Decrease	Increase	Decrease
ISK	790	(608)	1,498	(1,362)
Other	2	(2)	11	(11)
Total	**792**	**(610)**	**1,509**	**(1,373)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

85. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-linked financial instruments may fluctuate due to changes in the Icelandic CPI. The Group has a considerable imbalance in its CPI-linked assets and liabilities. To mitigate this imbalance the Bank offers non-CPI-linked loans, CPI-linked deposits, CPI-linked secured bonds as well as CPI-linked interest rate swaps.

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk. The following table summarizes the Group's CPI imbalance, calculated as the difference between CPI-linked financial assets and liabilities, as at year-end 2015 and 2014.

Carrying amount	2015	2014
Assets		
Bonds and debt instruments	10,125	16,680
Loans and advances to customers	273,648	239,605
Total	**283,773**	**256,285**
Liabilities		
Due to financial institutions and Central Bank	(1)	-
Deposits from customers	(103,797)	(97,378)
Short positions	(1,135)	(756)
Borrowings	(9,742)	-
Subordinated liabilities	(267)	-
Total	**(114,942)**	**(98,134)**
Total on-balance sheet position	168,832	158,152
Total off-balance sheet position	174	(572)
Total CPI indexation balance	**169,006**	**157,580**

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1% change in the CPI applied to the inflation risk exposures in existence at 31 December 2015, with no change in other variables, would have changed net interest income by ISK 1.688 million (31 December 2014: ISK 1,582 million). The Group's equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings. However, in a scenario of ongoing high (low) inflation, floating unindexed interest rate are likely to remain higher (lower) than would be the case in the reverse scenario, thus counterbalancing the positive (negative) income effects for the Group in the medium and longer term.

86. Currency risk (all portfolios)

The Group follows Rules No. 950/2010, on Foreign Exchange Balances, as set by the Central Bank of Iceland. The Rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 15% of its capital base, in each currency and for all currencies combined. The Group submits daily and monthly reports to the Central Bank with information on its foreign exchange balance.

The Group's combined net foreign exchange balance as at 31 December 2015 was +9.06% of the Group's capital base (31.12.2014: +8.14%).

87. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at year-end 2015 and 2014. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments.

Amounts presented under assets and liabilities include all spot deals as at year-end 2015 and 2014. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities .

As at 31 December 2015	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	462	234	246	21	39	276	1,278
Bonds and debt instruments	7,124	12,508	37,428	-	-	-	57,060
Equities and equity instruments	-	-	2	-	-	29	31
Derivative instruments	77	6	164	-	-	-	247
Loans and advances to financial institutions	11,696	1,038	2,156	485	31	2,191	17,597
Loans and advances to customers	109,633	11,379	70,384	5,371	6,389	8,229	211,385
Other assets	2,659	-	99	-	-	26	2,784
Total	**131,651**	**25,165**	**110,479**	**5,877**	**6,459**	**10,751**	**290,382**
Liabilities							
Due to financial institutions and Central Bank	(115)	(43)	(10,891)	-	-	(46)	(11,095)
Deposits from customers	(40,482)	(13,449)	(18,062)	(81)	(1,927)	(3,490)	(77,491)
Derivative instruments and short positions	(112)	(103)	(208)	-	-	(32)	(455)
Borrowings	(101,214)	-	(70,739)	-	-	(9,396)	(181,349)
Subordinated liabilities	(27)	-	-	(162)	(132)	-	(321)
Other liabilities	(1,056)	(63)	(390)	-	(2)	(341)	(1,852)
Total	**(143,006)**	**(13,658)**	**(100,290)**	**(243)**	**(2,061)**	**(13,305)**	**(272,563)**
Net on-balance sheet position	(11,355)	11,507	10,189	5,634	4,398	(2,554)	**17,819**
Net off-balance sheet position	23,224	(9,622)	(5,562)	(5,231)	(3,740)	6,907	**5,976**
Net currency position	**11,869**	**1,885**	**4,627**	**403**	**658**	**4,353**	**23,795**

At 31 December 2014	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	513	240	261	10	43	277	1,344
Bonds and debt instruments	12,970	30,485	44,519	-	-	-	87,974
Equities and equity instruments	146	-	2	-	-	73	221
Derivative instruments	39	-	-	-	-	-	39
Loans and advances to financial institutions	17,270	13,448	3,255	440	175	5,695	40,283
Loans and advances to customers	97,232	14,308	64,190	4,265	7,350	12,037	199,382
Other assets	16,645	-	14	1	-	31	16,691
Total	**144,815**	**58,481**	**112,241**	**4,716**	**7,568**	**18,113**	**345,934**
Liabilities							
Due to financial institutions and Central Bank	(137)	(155)	(79)	-	(1)	(25)	(397)
Deposits from customers	(52,938)	(26,779)	(35,299)	(799)	(1,311)	(6,372)	(123,498)
Derivative instruments and short positions	(65)	(1)	(237)	-	-	-	(303)
Borrowings	(94,895)	(30,526)	(74,136)	-	-	-	(199,557)
Other liabilities	(762)	(245)	(407)	(7)	(7)	(431)	(1,859)
Total	**(148,797)**	**(57,706)**	**(110,158)**	**(806)**	**(1,319)**	**(6,828)**	**(325,614)**
Net on-balance sheet position	(3,982)	775	2,083	3,910	6,249	11,285	**20,320**
Net off-balance sheet position	21,259	(198)	(1,297)	(3,676)	(6,668)	(9,420)	**0**
Net currency position	**17,277**	**577**	**786**	**234**	**(419)**	**1,865**	**20,320**

Landsbankinn hf. Consolidated Financial Statements 2015 66 All amounts are in ISK million

88. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 10% depreciation/appreciation of the ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group's overall position in foreign currency on-balance sheet as disclosed in Note 87.

	2015		2014	
Currency (ISK million)	**-10%**	**+10%**	**-10%**	**+10%**
EUR	1,187	(1,187)	1,728	(1,728)
GBP	189	(189)	58	(58)
USD	463	(463)	79	(79)
JPY	40	(40)	23	(23)
CHF	66	(66)	(42)	42
Other	435	(435)	187	(187)
Total	**2,380**	**(2,380)**	**2,033**	**(2,033)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase/decrease in other net operating income would have affected retained earnings.

89. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 31 December 2015	At 31 December 2014	% Change	Average for 1.1-31.12 2015	Average for 1.1-31.12 2014
EUR/ISK	141.30	154.25	(8.4%)	146.26	154.67
GBP/ISK	192.22	198.09	(3.0%)	201.02	192.28
USD/ISK	129.73	126.89	2.2%	131.51	116.87
JPY/ISK	1.08	1.06	1.9%	1.09	1.10
CHF/ISK	130.53	128.29	1.7%	136.31	127.46
CAD/ISK	93.40	109.58	(14.8%)	102.95	105.76
DKK/ISK	18.94	20.72	(8.6%)	19.61	20.75
NOK/ISK	14.72	17.10	(13.9%)	16.33	18.45
SEK/ISK	15.39	16.41	(6.2%)	15.66	17.02

Operational risk

90. Operational risk

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, from employee error or from external events. Operational risk includes legal risks, but excludes reputational risks. It is therefore inherent in all areas of business activities.

Whereas the Managing Director of each division is responsible for that division's operational risk, the daily management of operational risk is overseen by the general managers of each department. The Bank establishes, maintains and coordinates its operational risk management framework on a Group level. This framework complies with the Basel Committee's 2011 publication "Principles for the Sound Management of Operational Risk". The Bank ensures that operational risk management stays consistent throughout the Bank by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit function. By managing operational risk in this manner, the Bank intends to ensure that all of the Bank's business units are kept aware of any operational risks, that a robust monitoring system remains in place and that controls are implemented efficiently and effectively.

91. Significant accounting policies

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies applied by the Group in the Consolidated Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended 31 December 2014.

The principal accounting polices used in preparing these Consolidated Financial Statements are set out in notes 91.1 to 91.41

91.1 Consolidation

(a) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities. For the Group to have power over an entity, it must have the practical ability to exercise those rights.

Where voting rights are not relevant in deciding whether the Group has power over an entity, the assessment of control is based on all facts and circumstances. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee.

Subsidiaries are fully consolidated from the date on which control is obtained, and are de-consolidated from the date on which control ceases.

The acquisition method is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred, except for costs related to the issue of debt and equity instruments. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair value on the acquisition date. A contingent liability of an acquiree is only recognised in a business combination if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. More information about how the Group accounts for goodwill acquired in a business combination is disclosed further in this note.

Intercompany transactions, balances, and unrealised gains on transactions between Group entities are eliminated in the Consolidated Financial Statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where this was necessary to ensure consistency with the accounting policies adopted by the Group.

(b) Non-controlling interests

Non-controlling interests represent the portion of profit or loss and equity not owned, directly or indirectly, by the Bank. Such interests are presented separately in the consolidated income statement and are included in equity in the consolidated statement of financial position, separately from equity attributable to owners of the Bank. The Group chooses on an acquisition-by-acquisition basis whether to measure non-controlling interests in an acquiree at fair value or according to the proportion of non-controlling interests in the acquiree's net assets. Changes in the Bank's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

(c) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

91.2 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group acts as investment manager or investment advisor to a number of investment funds for Landsbréf-branded funds. The purpose of these investment funds is to generate fees from managing assets on behalf of third-party investors by providing investment strategies. These investment funds are financed through the issue of units to investors. The Group has no contractual obligation to provide financial support to these structured entities.

From time to time, the Group makes seed capital investments in certain fund products in order to establish track records for new products, to test new investment strategies or to launch new products at a viable minimum size.

When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the funds by exercising its power.

91. Significant accounting policies (continued)

91.3 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, between 20 and 50 percent of the voting power of another entity. The Group accounts for investments in associates either using the equity method or as financial assets designated at fair value through profit or loss, as described further in this note.

Equity-accounted associates

Investments in equity-accounted associates are accounted for using the equity method from the date on which significant influence is obtained and are initially recognised at cost. Goodwill relating to an investment in an associate is included in the carrying amount of the investment. Any excess of the Group's share of net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period which the investment is acquired. Investments in associates which are accounted for by the Group using the equity method are presented in the consolidated statement of financial position in the line "Investments in equity-accounted associates".

Because goodwill included in the carrying amount of an investment in an associate is not recognised separately, it is not separately tested for impairment according to the requirements for goodwill impairment testing in IAS 36, Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment under IAS 36 by comparing its recoverable amount with its carrying amount, whenever application of the requirements in IAS 39, Financial Instruments: Recognition and Measurement, indicates the investment may be impaired.

The Group's share of its equity-accounted associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements in their reserves is recognised in the Group's equity reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where this was necessary to ensure consistency with the accounting policies adopted by the Group.

Associates designated at fair value through profit or loss

The Group designates certain investments in associates upon initial recognition at fair value through profit or loss and are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The Group measures such investments at fair value, with changes in fair value recognised in the consolidated income statement in the line "Net gain on financial assets designated at fair value through profit or loss" in the period of the change.

91.4 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency of the respective Group entity at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are measured at amortised cost or fair value, as applicable, in their respective foreign currencies and are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. All foreign currency differences arising on retranslation are recognised in the income statement.

91.5 Financial assets and liabilities

(a) Recognition

The Group initially recognises loans and advances, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are initially recognised on the date at which the Group becomes a party to contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the date at which the Group committed itself to purchasing or selling the asset.

A financial asset or financial liability is initially measured at fair value plus, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(b) Classification

The Group classifies all financial assets either as loans and receivables or at fair value through profit or loss. The Group classifies all financial liabilities either at fair value through profit or loss or at amortised cost.

A financial asset or liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Financial assets held for trading consist of debt, equity and derivative instruments. Financial liabilities held for trading consist of derivative liabilities and short positions, i.e. obligations to deliver financial assets borrowed by the Group and sold to third parties.

91. Significant accounting policies (continued)

91.5 Financial assets and liabilities (continued)

(b) Classification (continued)

The Group designates certain financial assets, including certain investments in associates, upon initial recognition at fair value through profit or loss when the financial assets are part of portfolios of financial instruments which are managed and reported to senior management on a fair value basis in accordance with the Group's documented risk management or investment strategy.

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market which the Group originates or acquires with no intention of trading them.

(c) Derecognition

The Group derecognises a financial asset when the contractual rights to cash flows from the asset expire, or when the Group transfers the rights to receive contractual cash flows relating to the financial asset in a transaction which substantially transfers all the risks and rewards of owning that asset. Any interest in transferred financial assets created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, or a portion of them. In cases where all or substantially all of the risks and rewards are retained, then transferred assets are not derecognised. Asset transfers whereby all or substantially all risks and rewards are retained include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

(d) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off these amounts and intends either to settle on a net basis or to realise the asset and simultaneously settle the liability.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(e) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount of the financial asset or liability, as measured at initial recognition, minus principal repayments, plus or minus cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(f) Fair value measurement

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

The fair value of a liability reflects its non-performance risk. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument, if available. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Where available, the relevant market's closing price determines the fair value of financial assets held for trading and of assets designated at fair value through profit or loss; this will generally be the last trading price.If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates every factor that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank has a valuation committee which estimates fair value by applying models and incorporating observable market information and professional judgement. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available, observable market data.

Should the transaction price differ from the fair value of other observable, current market transactions in the same instrument or be based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and the model value is recognised in the income statement depending on the individual circumstances of the transaction but not later than when the inputs become observable, or when the instrument is derecognised.

91. Significant accounting policies (continued)

91.5 Financial assets and liabilities (continued)

(f) Fair value measurement (continued)

The fair value of financial assets and liabilities is determined based on different methods and assumptions depending on what financial asset or liability are being valued. See following what methods are used and assumptions are given. For all financial assets and liabilities the foreign currency exchange rates used are from observable markets both for spot and forward contracts and futures in the world's major currencies.

(g) Impairment of financial assets

Impairment of loans and advances

At each reporting date, the Group assesses whether there is any objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is considered impaired and impairment losses are incurred only when there is objective evidence of impairment as a result of one or more events occurring after initial recognition of the asset ("loss events") and these loss events impact future cash flows that can be estimated reliably for the loan or group of loans.

Objective evidence of impairment includes observable data on the following loss events:

• significant financial difficulties of the borrower or issuer;
• a breach of contract, such as defaulting on instalments or on interest or principal payments;
• the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession that the lender would not otherwise consider;
• it becomes probable that the borrower will enter into bankruptcy or undergo other financial reorganisation;
• observable data indicate a measurable decrease in estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with individual financial assets within the group, including adverse changes in the payment status of borrowers in the group or a general deterioration of economic conditions connected to that group of loans.

The Group defines loans that are individually significant and assesses first whether objective evidence of their impairment exists, and then makes individual or collective assessments for loans and advances that have not been defined as individually significant. If the Group determines that no objective evidence of impairment exists for a significant loan, it includes this loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Individual significant assets for which an impairment loss is recognised are not included in collective impairment assessments.

If there is objective evidence that an impairment loss has been incurred on loans or advances, the amount of the loss is measured as the difference between the asset's carrying amount and its recoverable value. The recoverable value is the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of impairment, using an allowance account, and the amount of the loss is recognised in the line item "Net impairment loss on loans and advances" in the income statement. In the case of loans with variable interest rates, the discount rate for measuring impairment losses is the current effective interest rate.

The present value calculated for estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less the costs involved in obtaining and selling the collateral, whether or not foreclosure is probable.

In order to conduct a collective valuation of impairment, loans are grouped on the basis of similar credit risk characteristics on the basis of the Group's grading process, which considers asset type, collateral type, industry, past-due status and other relevant factors. These characteristics are appropriate for estimating future cash flows in groups of such loans by indicating the debtors' ability to pay every amount due according to contractual terms.

Groups of loans are collectively valuated for impairment on the basis of expected cash flows and of peer review regarding assets with similar credit risk characteristics. Such peer review is also adjusted on the basis of current observable data, in order to reflect the effects of current conditions that did not affect the period on which peer review was originally based and to remove the effects of previous loss factors which no longer exist.

Estimates of changes in future cash flows in groups of assets are consistent with changes in observable data from period to period, for example changes in property prices, payment status, or other factors indicative of trends in the probability and magnitude of Group losses. The Group regularly reviews its methodology and assumptions for estimating future cash flows in order to minimise discrepancies between estimated losses and actual loss experience.

When a loan is uncollectible, it is written off against the provision for loan impairment in the statement of financial position. Loans are written off after all the necessary procedures have been completed, as set out in Group lending policies, and the amount of loss has been determined. Any subsequent recovery of an amount previously written off is recognised in the income statement in the line item "Net impairment loss on loans and advances".

If the amount of the impairment loss decreases in the subsequent period and the decrease can be related objectively to an event occurring after the original impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognised in the income statement in the line item "Net impairment loss on loans and advances".

91. Significant accounting policies (continued)

(g) Impairment and fair value of financial assets (continued)

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and an agreement of new loan terms. Loans which are impaired and whose terms are renegotiated are not considered to be new loans. Once the terms have been renegotiated these loans are no longer considered past due and any subsequent impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to individual or collective impairment assessment. Loans which are not individually impaired and whose terms are renegotiated are accounted for as new loans. Accordingly, the original loans are derecognised and the renegotiated loans are recognised as new loans.

91.6 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash, unrestricted balances with the Central Bank and unrestricted balances with financial institutions. The carrying amount of balances with the Central Bank is a reasonable approximation of their fair value.

91.7 Bonds and debt instruments

Bonds which are classified at fair value through profit or loss are recognised at fair value in the statement of financial position both initially and subsequently to initial recognition. Transaction costs are recognised directly in the income statement. Gains and losses arising from changes in fair value are recognised directly in the consolidated income statement in the line items "Net gain on financial assets and liabilities held for trading" and "Net gain on financial assets designated at fair value through profit or loss", respectively. The gains and losses include interest income on bonds but exclude foreign exchange gains and losses, which are included in the line item "Net foreign exchange (loss) gain".

Bonds which are classified as loans and receivables are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and it is recognised in the line item "Interest income" in the income statement. Quoted prices are generally available for government bonds and certain corporate securities. Where this information is not available, fair value is estimated by adding credit spreads to quoted market rates for similar bonds or relevant interest rate curves. For bonds issued by defaulting or greatly distressed parties recovery values are used for estimating the fair value. These estimated are based on statement of financial position information or expert opinion.

Interest rates are principally benchmark interest rates such as the London Inter-Bank Offered Rate (LIBOR) and quoted interest rates in the swap, bond and futures markets. Where available, credit spreads are derived from prices of credit default swaps (CDS) or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services. Counterparty credit spreads are estimated based on the creditworthiness of the counterparty when differing from the assumed counterparty in the market.

91.8 Equities

Equities which are classified at fair value through profit or loss are recognised at fair value in the statement of financial position both initially and subsequently to initial recognition. Transaction costs are recognised directly in the income statement. Gains and losses arising from changes in fair value are recognised directly in the consolidated income statement in the line items "Net gain on financial assets held for trading" and "Net gain on financial assets designated at fair value through profit or loss", respectively. Foreign exchange gains and losses, are included in the line item "Net foreign exchange (loss) gain". Quoted prices are generally readily available for equity shares listed on the world's stock exchanges and for major indices on such shares. When this information is not available the fair value is estimated based on market prices and earning multiples from similar securities, recent transactions or by using discounted cash flow methods.

91.9 Derivative instruments

Derivatives are initially recognised in the statement of financial position at fair value, with transaction costs being recognised in the income statement. The fair value of derivative instruments is determined using valuation methods whose most significant inputs is volatility, which are obtained from broker quotations, pricing services or derived from option prices. Subsequently, derivatives are carried at fair value, with all fair value changes recognised in the line item "Net gain on financial assets and liabilities held for trading" in the income statement, except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange (loss) gain" in the income statement. In the statement of financial position, derivatives with positive fair values are recognised as assets and derivatives with negative fair values are recognised as liabilities. The Group does not apply hedge accounting.

91.10 Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

• the host contract is not itself carried at fair value through profit or loss;

• the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract

• the economic characteristics and risk of the embedded derivative are not closely related to the economic characteristics and risk of the host contract.

91. Significant accounting policies (continued)

91.10 Embedded derivatives (continued)

Separated embedded derivatives are measured at fair value, with all change in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment-hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

91.11 Loans and advances

Loans and advances are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received based on future recovery of the loans. The recovery rates and loss given default are used as input into valuation models as an indicator of severity of losses on default. Expected future cash flows are discounted at current market rates to determine fair value. Accrued interest is included in the carrying amount of loans and advances. Interest income on loans and advances is recognised in the line item "Interest income" in the income statement and foreign exchange differences in the line item "Net foreign exchange (loss) gain".

Loans and advances to financial institutions include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of their fair value.

Loans and advances acquired at deep discount

The Bank acquired loans and advances from LBI hf. at deep discount that reflected credit losses which were already incurred at the acquisition date. The deep discount was included in the fair value of these loans and advances estimated at initial recognition. The deep discount was also included in the estimated future cash flows used by the Group to calculate the amortised cost and effective interest rate of these loans and advances.

At each reporting date, the Group assessed the current status of these loans and advances and whether there was any objective evidence of changes in expected cash flows, for example, due to changes in the value of collateral and improvement in the financial situation of debtors. If there was any change in expected cash flows, the Group recalculated the carrying amount of these loans and advances as the present value of the revised estimated future cash flows, using their effective interest rate. The difference between the revised carrying amount of the loans and their current carrying amount, which included accrued interest, indexation, foreign exchange differences and actual payments received by the Group, was recognised in the income statement in the line “Net valuation adjustments and credit impairment charges”.

The Group recognised interest and indexation on these loans and advances based on their carrying amount and only to the extent that the interest and indexation were deemed to be collectible. The interest and indexation are recognised in the income statement in the line "Interest income".

At year end 2014, the restructuring of the loans and advances acquired at deep discount from LBI hf. was complete. As of year-end 2014, the deep discount has not been a part of the estimated future cash flows used to calculate the amortised cost and effective interest rate of these loans and advances. As a result income statement recognition of net valuation adjustments to these specific loans and advances was discontinued as of year-end 2014. However, impairment allowances on these loans and advances continue to be recognised when there is objective evidence of impairment.

91.12 Property and equipment

All property and equipment is recognised at cost, less accumulated depreciation and accumulated impairment losses. The cost includes expenditures directly attributable to acquiring these assets.

Subsequent costs are included in an asset’s carrying amount only if it is probable that future economic benefits associated with the item will flow to the Group and if these costs can be reliably measured. All other repairs and maintenance are charged to the income statement of the financial period in which their costs are incurred.

Depreciation of any property and equipment is calculated using the straight-line method. This method is applied to the depreciable amount of the assets, which is their cost less their residual value over their estimated useful lives, as follows:

Buildings	25-50 years
Computer hardware	3 years
Other equipment and motor vehicles	3-10 years

The assets' residual values and useful lives are reviewed annually and adjusted where appropriate.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the item "Other income and expenses" in the income statement.

Landsbankinn hf. Consolidated Financial Statements 2015 73 All amounts are in ISK million

91. Significant accounting policies (continued)

91.13 Intangible assets

Computer software

Computer software is capitalised on the basis of cost to acquire or develop and bring into service. Computer software recognised as an intangible asset is amortised over its useful life, which is estimated to be 3 - 5 years.

The costs associated with maintaining computer software are recorded as expenses at the time they are incurred.

Goodwill

Goodwill is recognised as an asset only if acquired in a business combination. It is recognised as of the acquisition date and measured as the aggregate of (a) the fair value of the consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) the fair value of any previously held equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The consideration transferred includes the fair value of assets transferred, liabilities incurred and equity interests issued by the Group. In addition, consideration transferred includes the fair value of any contingent consideration. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is generally reviewed for impairment annually, but more frequently if events or changes in circumstances indicate a potential impairment of the carrying amount. For the purpose of impairment testing, goodwill is allocated as of the acquisition date to each of the Group's cash-generating units (CGUs) or group of CGUs which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which this goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Where goodwill is attached to a particular unit of a CGU (or of a group of CGUs) and part of the operations within that unit is disposed of, the goodwill that is associated with the operations disposed of is included in the carrying amount of these operations when determining the gain or loss incurred upon disposing of the operations.

91.14 Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is either an asset's fair value less selling costs or its value in use, whichever is higher. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). With the exception of goodwill, non-financial assets are reviewed at each reporting date for any possible reversal of impairment.

91.15 Income tax

(a) Income tax

Income tax is recognised based on the domestic corporate income tax rates and tax laws that have been enacted at the reporting date. Income tax recognised in these Consolidated Financial Statements comprises current and deferred tax.

(b) Current tax

Current tax comprises the expected tax payable on the taxable income for the current year and, if applicable, adjustments to the tax payable or receivable in respect of previous years. Current tax is measured based on the domestic corporate income tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

(c) Deferred tax

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Deferred income tax is recognised in full as a liability, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction affects neither the Group's accounting nor its taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

91.16 Assets and liabilities classified as held for sale

The Group classifies non-current assets (or groups of assets together with related liabilities) as held for sale when their carrying amount will be recovered principally through a sale transaction. This is usually the case with collateral foreclosed by the Group which it holds as security for loans and advances, including assets and liabilities of subsidiaries over which the Group obtains control through foreclosure of collateral and/or financial restructuring.

91. Significant accounting policies (continued)

91.16 Assets and liabilities classified as held for sale (continued)

A non-current asset (or group of assets together with related liabilities) is considered to be recovered principally through a sale transaction when the asset's sale is highly probable and it is available for immediate sale in its present condition, subject to ordinary and customary terms on the sale of such assets. Management must be committed to the sale and must actively market the asset for sale at a price that is reasonable in relation to its current fair value. A further condition is that the sale is expected to qualify for recognition as completed within one year from the date of classification.

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Additional net assets that become part of a disposal group, for example due to profits generated by the disposal group, increase the carrying amount of the disposal group but not in excess of the fair value less costs to sell of the disposal group as determined at each reporting date.

In the case of single assets classified by the Group as held for sale the Group determines their fair value less costs to sell by reference to the current market price at each reporting date. In the case of subsidiaries classified as held for sale, the Group determines the fair value of disposal groups based on discounted cash flow methodologies. Costs to sell are deemed to be only the costs which are directly attributable to the disposal of the disposal groups, excluding finance costs and income tax expense.

91.17 Deposits

Deposits from customers and financial institutions are the primary source of funding for the Group. The deposits consist of demand deposits and term deposits. Deposits are initially measured at fair value plus any directly attributable transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method. The fair value of a financial liability with a demand feature, such as demand deposits, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

91.18 Secured borrowings

The secured borrowings consist of senior bonds denominated in foreign currencies which the Bank has issued specifically to LBI hf. and series of marketable indexed and non-indexed covered bonds denominated in ISK which have been issued by the Bank and admitted for trading on NASDAQ Iceland. The senior bonds were issued to LBI hf. in December 2014 following an agreement on the extension of repayments schedule of bonds originally issued by the Bank to LBI hf. in October 2010 and April 2013. The original bonds were issued as a consideration and an additional consideration for the assets and liabilities transferred from LBI hf. to the Bank on 9 October 2008. The covered bonds are issued under the Bank’s ISK 100,000 million Covered Bond Programme.

The Bank is obliged to pledge part of its loan portfolio as collateral for the secured borrowings. It must maintain a coverage ratio of at least 115% on the secured bonds issued to LBI hf. and at least 120% on the covered bonds.

The secured bonds are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement. Foreign exchange gains and losses are included in the line "Net foreign exchange gain (loss)".

91.19 Unsecured borrowings

The unsecured borrowings consist of senior bonds denominated in foreign currencies and marketable bank bills denominated in ISK. The bonds are issued by the Bank under the Bank’s 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange. The bank bills are, however, issued by the Bank under the Bank’s ISK 30,000 million Debt Issuance Programme.

The unsecured bonds and bank bills are initially measured at fair value less directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement. The unsecured EUR senior bonds were issued to refinance fully or partly the maturities in 2016 and 2018 of the senior secured bonds in foreign currencies which the Bank issued specifically to LBI hf.

91.20 Subordinated liabilities

The subordinated liabilities are comprised of liabilities assumed by Landsbankinn through two separate mergers with the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands. The subordinated liabilities thus assumed share characteristics of equity in that they are subordinated to other Group liabilities and are included in equity in equity ratio calculation. The outstanding amounts of the subordinated liabilities are subject to regulatory amortisation whereby the amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final 5 years to maturity.

Subordinated liabilities are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest is recognised as part of the carrying amount of subordinated liabilities.

91.21 Short positions

Short positions are obligations of the Group to deliver financial assets borrowed by the Group and sold to third parties. These obligations are initially recognised in the statement of financial position at fair value, with transaction costs being recognised in the income statement. Subsequently, they are carried at fair value, with all fair value changes recognised in the income statement in the line item "Net gain on financial assets and liabilities held for trading". The short positions are in Icelandic government bonds with readily available quoted market prices.

91. Significant accounting policies (continued)

91.22 Repurchase and reverse repurchase agreements

Repurchase agreements consist of repo and reverse repo transactions with other banks. Repo transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in both cases.

Securities originally sold by the Bank under repurchase agreements continue to be recognised and measured as financial assets in the Bank's financial statements, as the Bank retains all risks and rewards connected with the ownership of securities it sells under repurchase agreements. Inflows of liquidity from repo transactions are recognised in the financial statements of the Bank as financial liabilities to counterparties. Interest payments are recognised as interest expense in net interest income. Inflows are measured either at fair value using the fair value option or at amortised cost.

Conversely, securities originally bought by the Bank under reverse repurchase agreements are not recognised and measured as financial assets in the Bank's financial statements, as the counterparty retains all risks and rewards connected with the ownership of securities bought by the Bank under repurchase agreements. Outflows of liquidity arising from reverse repos are accounted for as claims on counterparties. Interest payments in reverse repos are recognised as interest income under net interest income. Repurchase agreements and reverse repurchase agreements are initially measured at fair value less transaction costs and subsequently either at fair value using the fair value option or at amortised cost.

91.23 Collateral swaps

Collateral swaps consist of collateral swaps with other banks whereby the collateral provided is in the form of securities. In essence, collateral swaps are a form of securities lending whereby the Bank borrows relatively liquid securities from another bank in exchange for a pledge of less liquid securities. The securities borrowed by the Bank from the counterparty are not recognised and measured as financial assets in the Bank's financial statements, as the counterparty retains all risks and rewards connected with the ownership of the securities. However, the securities lent to the counterparty by the Bank continue to be recognised and measured as financial assets in the Bank's financial statements, as the Bank retains all risks and rewards connected with the ownership of the securities. The Bank pays a fee to the lender to compensate for the risk of holding less liquid collateral. Interest and expenses from collateral swaps are recognised in net interest income. Collateral swaps are initially measured at fair value less transaction costs and subsequently at amortised cost.

91.24 Financial guarantee contracts

Financial guarantee contracts are contracts requiring the issuer to make specified payments to reimburse the holder for a loss it will incur if a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are issued by the Group to banks, financial institutions or other parties on behalf of Group customers so that they can secure loans, overdrafts and other banking facilities.

Financial guarantees issued by the Group are primarily bank guarantees and documentary letters of credit. Fees of long-term guarantees are claimed up-front periodically over the life of each guarantee, initially at the inception of a guarantee. Fees of short-term guarantees are in essence claimed up-front at inception. Fee income arising from the guarantees is recognised over time as the fees become payable. Provisions for losses on guarantees are subject to the uncertainty of assessing the extent to which guarantees may be called upon. For this purpose outstanding bank guarantees and documentary letters of credit are assessed quarterly in respect of credit losses and recognition of provisions. The provision assessment is based on experience with similar transactions and the history of past losses, supplemented by management judgement.

91.25 Contingent liabilities and provisions

The Group does not recognise contingent liabilities as liabilities in the statement of financial position, other than contingent liabilities which are assumed in a business combination and which have a fair value that can be measured reliably. A contingent consideration transferred by the Group in a business combination is recognised at its acquisition-date fair value. The Group classifies the obligation to pay contingent considerations as liability or equity and accounts for changes in fair value in accordance with applicable IFRS's.

Provisions for expenditures such as those related to legal claims or restructuring are recognised as incurred when (i) the Group has as a result of past events a present legal or constructive obligation to pay, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation, and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected for settling the obligation. A pre-tax rate is used which reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to the passage of time is recognised as interest expense.

91.26 Pension liabilities

When the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands merged with Landsbankinn in 2015, the Bank took over pension obligations towards the former employees and part of the current employees of these savings banks. The pension liability is calculated annually by an actuary. The increase in the liability in 2015 is expensed in the income statement with salaries and related expenses.

91.27 Employee benefits

All Group entities have defined contribution plans, with the entities paying a fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense when they become due. The Group has no defined benefit pension plan.

91. Significant accounting policies (continued)

91.28 Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are presented separately in equity as a deduction from share premium.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity during the period in which they are approved by the Bank's shareholders' meeting.

91.29 Fiduciary activities

The Group acts as a custodian, holding or placing assets on behalf of individuals, institutions and pension funds, including various mutual funds managed by the Group. These assets, together with the income arising from them, are excluded from these financial statements, since they are not assets of the Group.

91.30 Interest income and expense

The interest income, expense and inflation indexation presented in the Consolidated Income Statement consist of interest income and expense from financial assets and liabilities measured at amortised cost.

The interest income and expense is recognised in the Consolidated Income Statement using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but it does not consider any future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

91.31 Net impairment loss on loans and advances

Impairment charges relating to loans and advances to financial institutions and customers are presented in the Consolidated Income Statement under the item "Net valuation adjustments and credit impairment charges". Once impairment has been recognised, subsequent interest income is recognised at the rate of interest used for discounting future cash flows when measuring impairment losses.

91.32 Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis as the related services are performed. Arrangement fees are generally deferred together with related direct costs and recognised as an adjustment to the effective interest rate of a loan. Commissions and fees for participation in negotiating a transaction for a third party, such as arrangement of transactions with equities or other securities or the purchase or sale of businesses, are recognised upon completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period when the service is provided. The same principle for reporting income is applied to other custody services that are continuously provided over an extended period of time.

91.33 Net gain on financial assets designated at fair value through profit or loss

The net gain on financial assets designated at fair value through profit or loss relates to financial assets designated by the Group at fair value through profit or loss and includes:
• All realised and unrealised changes in fair value;
• Interest income on an accrual basis;
• Dividend income, which is recognised when the Group's right to receive payment is established.

91.34 Net gain on financial assets and liabilities held for trading

The net gain on financial assets and liabilities held for trading relates to financial assets and liabilities classified by the Group as held for trading and includes:
• All realised and unrealised changes in fair value;
• Interest income on an accrual basis;
• Dividend income, which is recognised when the Group's right to receive payment is established;
• Foreign exchange gains and losses arising from derivative financial assets and liabilities, except for changes in fair value of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange gain" in the income statement.

91.35 Net foreign exchange (loss) gain

Net foreign exchange gain (loss) includes all gains and losses arising from settlement of transactions in foreign currencies and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, including non-derivative financial assets and liabilities classified as held for trading and financial assets designated at fair value through profit or loss. Foreign exchange gains and losses arising from derivative financial assets and liabilities are included in the line item "Net gain on financial assets and liabilities held for trading", except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange (loss) gain" in the income statement.

91. Significant accounting policies (continued)

91.36 Other income and expenses

Other income and expenses include, *inter alia* , revenue arising from recharging agreements and gains and losses on repossessed collateral and property and equipment.

91.37 Leases

(a) When a Group entity is the lessee

The leases into which the Group enters as a lessee are primarily operating leases. Over the period of the lease, payments for operating leases are charged to the income statement on a straight-line basis, in the line item "Other operating expenses".

If an operating lease is terminated before the lease period has expired, any payment to the lessor required by way of penalty is recognised as an expense in the period in which termination occurs.

(b) When a Group entity is the lessor

When assets are held subject to a finance lease, the present value of lease payments is recognised as a receivable, under loans and advances to customers. Finance income from such a lease is recognised over the term of the lease, using a method that reflects a constant periodic rate of return on the Group's net investment in the lease.

91.38 Discontinued operations

The Group presents discontinued operations in a separate line of the Consolidated Income Statement if an entity or a component of an entity has been disposed of or is classified as held for sale and:
• Represents a major separate line of business;
• Is a part of a single co-ordinated plan to dispose of a major separate line of business;
• Is a subsidiary acquired exclusively with a view to resale.

The profit from discontinued operations disclosed in the consolidated income statement consists of (a) post-tax profit or loss from discontinued operations and (b) post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or the disposal groups constituting the discontinued operation. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting, from the rest of the Group's operations and cash flows.

91.39 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period. The Bank's basic and diluted earnings per share are equal as the Bank has not issued any options, warrants, convertibles or other potential sources of dilution.

91.40 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

91.41 New standards, amendments to standards and interpretations of standards

The Group has adopted amendments to existing standards which became effective for the first time in 2015. The amendments had an insignificant impact on the Consolidated Financial Statements. The International Accounting Standards Board (IASB) has also issued new IFRS standards and amendments to existing standards which have not yet taken effect. The following is a summary of the new standards which are likely to affect the Group's Consolidated Financial Statements.

IFRS 9 - Financial instruments. The IASB recently released IFRS 9 Financial Instruments (2014), completing its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard introduces extensive changes to previous guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. The effective date for the implementation of the standard is 1 January 2018, and will become mandatory for the Group from that date if it is endorsed by the EU. The Group does not plan to early-adopt IFRS 9. Management is currently assessing the impact of IFRS 9 on the Group's Consolidated Financial Statements, but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

• the implementation of the principles for classification and measurement of financial assets and liabilities in IFRS 9 is not expected to lead to significant reclassifications between fair value and amortised cost;

• an expected credit loss-based impairment will need to be recognized on the Group's loans measured at amortised cost.

91. Significant accounting policies (continued)

91.41 New standards, amendments to standards and interpretations of standards (continued)

IFRS 9 - introduces several new concepts, inter alia, on the provisioning for expected credit losses. The Group has a number of models which have been developed internally and is currently analysing the changes that will have to be implemented to the Group's modelling framework and IT systems to meet the demands for provisioning for expected credit losses. The design of and changes to the Group's modelling framework and IT systems are expected to start in the first quarter of 2016 and extend into 2017.

IFRS 15 - Revenue from Contracts with Customers establishes a comprehensive framework for those factors which need to be taken into consideration in determining how revenue is recognised. The standard replaces existing guidelines on recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and several related Interpretations. The principal points of IFRS 15 are the following:

• IFRS15 - prescribes the accounting treatment for revenue from sale of goods and services to customers. As a general rule a company is to recognise revenue up to a certain amount which reflects the price the company expects to receive in exchange for goods and services provided to customers. The standard also requires additional disclosures.

• IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, but has not yet been approved by the EU. The Group does not intend to early-adopt IFRS 15 and work is currently underway in assessing the standard's impact on the Consolidated Financial Statements.

IFRS 16 - Leases. The IASB issued IFRS 16 Leases in January 2016 which will become effective from January 2019. IFRS 16 will replace IAS 17 Leases. The adoption of the new standard will result in only minor changes to the financial reporting of lessors. For lessees, the financial reporting will be substantially altered, as all leasing contracts (apart from short-term leasing contracts and leasing contracts for small assets) will now be recognised on the balance sheet as right-of-use assets. Initially the lease liability and the right-of-use asset will be measured at the present value of the lease payments (defined as unavoidable payments). A right-of-use asset is then depreciated in a similar manner as other assets, usually on a straight-line basis over the lease period. The Group does not intend to early-adopt the standard and work is currently underway in assessing the standard's impact on the Consolidated Financial Statements.

Consolidated Key Figures

92. Operations by years

Operations	2015	2014	2013	2012	2011
Interest income	58,005	53,735	63,224	64,661	60,831
Interest expense	(25,681)	(25,662)	(28,910)	(29,077)	(28,182)
Net interest income	**32,324**	**28,073**	**34,314**	**35,584**	**32,649**
Net adjustments in valuation of loans and advances	18,216	20,128	13,053	(4,391)	(23,587)
Net interest income after adjustments in valuation	**50,540**	**48,201**	**47,367**	**31,193**	**9,062**
Fee and commission income	8,977	7,737	8,451	7,696	7,437
Fee and commission expense	(2,136)	(1,901)	(3,160)	(3,248)	(3,014)
Net fee and commission income	**6,841**	**5,836**	**5,291**	**4,448**	**4,424**
Other operating income	**14,982**	**9,112**	**12,923**	**13,500**	**17,258**
Net operating income	**72,363**	**63,149**	**65,581**	**49,141**	**30,743**
Salaries and related expenses	(13,754)	(13,567)	(17,304)	(13,176)	(11,990)
Administrative expenses	(8,724)	(9,487)	(8,868)	(9,887)	(9,482)
Contribution to the Depositors' and Investors' Guarantee Fund	(1,254)	(1,034)	(1,079)	(1,042)	(583)
Operating expenses	**(23,732)**	**(24,088)**	**(27,251)**	**(24,105)**	**(22,055)**
Share of profit of associates, net of income tax	**248**	**465**	**2,712**	**2,449**	**1,418**
Pre-tax profit	**48,879**	**39,526**	**41,042**	**27,485**	**10,105**
Income and bank tax	(12,419)	(9,789)	(12,283)	(4,125)	597
Profit from continuing operations	**36,460**	**29,737**	**28,759**	**23,360**	**10,703**
Profit for the year from discontinued operations, net of income tax	**0**	**0**	**0**	**2,134**	**6,255**
Net profit	**36,460**	**29,737**	**28,759**	**25,494**	**16,957**
Attributable to:					
Shareholders of Landsbankinn	36,460	29,737	28,750	25,439	16,973
Minority interests	-	-	9	55	(16)

Balance Sheet	2015	2014	2013	2012	2011
Cash and cash balances with Central Bank	25,164	10,160	21,520	25,898	8,823
Bonds and debt instruments	203,684	243,589	290,595	228,208	221,848
Equities and equity instruments	29,192	29,433	36,275	36,881	46,037
Loans and advances to financial institutions	20,791	49,789	67,916	64,349	100,133
Loans and advances to customers	811,549	718,355	680,468	666,087	639,130
Other assets	16,323	28,832	29,719	38,044	65,959
Assets classified as held for sale	11,955	18,212	25,023	25,320	53,552
Total assets	**1,118,658**	**1,098,370**	**1,151,516**	**1,084,787**	**1,135,482**
Due to financial institutions and Central Bank	56,731	53,827	167,218	98,718	112,876
Deposits from customers	559,051	551,435	456,662	421,058	443,590
Borrowings	209,344	207,028	239,642	221,791	277,076
Contingent bond	-	-	-	87,474	60,826
Subordinated liabilities	639	-	-	-	-
Other liabilities	26,844	32,443	42,750	29,687	31,485
Liabilities associated with assets classified as held for sale	1,518	2,834	3,885	893	9,385
Equity	264,531	250,803	241,359	225,166	200,244
Total liabilities and equity	**1,118,658**	**1,098,370**	**1,151,516**	**1,084,787**	**1,135,482**

Key ratios	2015	2014	2013	2012	2011
Return on equity before taxes (Average equity)	19.9%	16.7%	17.6%	14.0%	8.1%
Return on equity after taxes (Average equity)	14.8%	12.5%	12.4%	12.0%	8.4%
Capital adequacy ratio	30.4%	29.5%	26.7%	25.1%	21.4%
Cost-income ratio	43.8%	56.0%	42,9%*	45.0%	40.6%
Operating expenses as a ratio of average total assets	2.1%	2.1%	2,0%*	2.2%	2.0%
Interest spread as a ratio of average total assets	2.4%	2.4%	3.1%	3.2%	2.9%
Loans / deposits	145.2%	130.3%	149.0%	158.2%	144.1%
Deposits / total assets	50.0%	50.2%	39.7%	38.8%	39.1%
Number of full-time positions at year-end	1,063	1,126	1,183	1,233	1,311
Earnings per share	1.54	1.26	1.22	1.06	0.71
Dividend per share	1.00	0.84	0.42	0.00	0.00

*Adjusted for one off items

Landsbankinn hf. Consolidated Financial Statements 2015 80 All amounts are in ISK million

93. Operations by quarters (Unaudited)

	2015				2014			
Operations	**Q4***	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	13,329	16,000	15,938	12,738	11,325	13,745	14,215	14,450
Interest expense	(6,037)	(7,166)	(7,009)	(5,469)	(5,549)	(6,688)	(6,830)	(6,595)
Net interest income	**7,292**	**8,834**	**8,929**	**7,269**	**5,776**	**7,057**	**7,385**	**7,855**
Net adjustments to loans and advances acquired at deep discount	-	-	-	-	6,467	2,531	4,301	6,711
Reversals of loss from foreign currency linkage of loans and advances to customers	6,512	9,145	134	(2,015)	2,156	-	-	-
Net impairment loss	(630)	1,948	115	3,611	(2,522)	50	2,975	(2,541)
Net impairment loss of guarantees	-	(604)	-	-	-	-	-	-
Net adjustments in valuation	**5,882**	**10,489**	**249**	**1,596**	**6,101**	**2,581**	**7,276**	**4,170**
Net interest income after net adjustments in valuation	**13,174**	**19,323**	**9,178**	**8,865**	**11,877**	**9,638**	**14,661**	**12,025**
Fee and commission income	2,332	2,322	2,274	2,049	2,128	1,714	1,772	2,123
Fee and commission expense	(630)	(577)	(521)	(408)	(488)	(439)	(369)	(605)
Net fee and commission income	**1,702**	**1,745**	**1,753**	**1,641**	**1,640**	**1,275**	**1,403**	**1,518**
Net gain on financial assets designated at fair value through profit or loss	2,422	852	1,838	3,812	2,891	1,267	1,929	(787)
Net gain on financial assets and liabilities held for trading	905	1,173	1,273	451	723	571	51	118
Net foreign exchange gain (loss)	(58)	(748)	(147)	(324)	107	154	(171)	(23)
Other income and (expenses)	3,294	(188)	189	238	1,193	(1,104)	2,401	(208)
Other net operating income	**6,563**	**1,089**	**3,153**	**4,177**	**4,914**	**888**	**4,210**	**(900)**
Total operating income	**21,439**	**22,157**	**14,084**	**14,683**	**18,431**	**11,801**	**20,274**	**12,643**
Salaries and related expenses	3,407	3,466	3,179	3,702	3,805	3,019	3,288	3,455
Other operating expenses	2,223	1,757	2,011	2,070	2,635	1,740	1,965	2,205
Depreciation and amortisation	167	167	165	164	419	171	175	177
Contribution to the Depositors' and Investors' Guarantee Fund	284	203	421	346	259	253	255	267
Total operating expenses	**6,081**	**5,593**	**5,776**	**6,282**	**7,118**	**5,183**	**5,683**	**6,104**
Share of profit of equity-accounted associates, net of income tax	(9)	145	103	9	125	-	329	11
Profit before tax	**15,349**	**16,709**	**8,411**	**8,410**	**11,438**	**6,618**	**14,920**	**6,550**
Income tax	(2,725)	(3,953)	(1,546)	(1,178)	(1,298)	(566)	(3,530)	(1,427)
Tax on liabilities of financial institutions	(577)	(748)	(872)	(820)	(388)	(945)	(800)	(835)
Profit for the period	**12,047**	**12,008**	**5,993**	**6,412**	**9,752**	**5,107**	**10,590**	**4,288**

Balance sheet	**31.12.2015**	**30.9.2015**	**30.6.2015**	**31.3.2015**	**31.12.2014**	**30.9.2014**	**30.6.2014**	**31.3.2014**
Cash and cash balances with Central Bank	25,164	27,120	38,719	14,347	10,160	38,820	7,964	34,024
Bonds and debt instruments	203,684	235,788	248,604	250,005	243,589	293,796	297,141	284,418
Equities and equity instruments	29,192	26,467	25,498	33,354	29,433	40,991	42,221	36,414
Loans and advances to financial institutions	20,791	46,511	68,707	86,951	49,789	68,192	67,163	63,896
Loans and advances to customers	811,549	807,033	761,290	735,479	718,355	719,627	699,648	681,883
Other assets	16,323	20,070	17,104	34,638	28,832	20,222	18,342	28,615
Assets classified as held for sale	11,955	12,815	12,747	17,606	18,212	19,599	22,119	24,554
Total assets	**1,118,658**	**1,175,804**	**1,172,669**	**1,172,380**	**1,098,370**	**1,201,247**	**1,154,598**	**1,153,804**
Due to financial institutions and Central Bank	56,731	49,550	62,428	57,019	53,827	179,085	166,172	174,031
Deposits from customers	559,051	624,924	621,023	624,063	551,435	497,583	473,356	468,661
Borrowings	209,344	207,699	212,792	210,902	207,028	233,785	231,378	234,844
Subordinated liabilities	639	775	414	427	-	-	-	-
Other liabilities	26,844	38,854	34,710	43,140	32,443	46,593	43,972	46,681
Liabilities associated with assets classified as held for sale	1,518	1,518	1,450	2,969	2,834	3,214	3,826	4,195
Equity	264,531	252,484	239,852	233,860	250,803	240,987	235,894	225,392
Total liabilities and equity	**1,118,658**	**1,175,804**	**1,172,669**	**1,172,380**	**1,098,370**	**1,201,247**	**1,154,598**	**1,153,804**

*The first three quarter results for the years 2015 and 2014 were reviewed by the Bank's independent auditors.

Landsbankinn hf. Consolidated Financial Statements 2015 81 All amounts are in ISK million