



Condensed Consolidated Interim Financial Statements

For the nine months ended 30 September 2017

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Report of the Board of Directors and the CEO

Landsbankinn is a leading provider of financial services in Iceland, offering a comprehensive range of financial products and services to individuals, corporates and institutional customers. The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the first nine months of 2017 include the Bank and its subsidiaries (collectively referred to as the "Group").

Operations

Consolidated profit amounted to ISK 16,841 million for the first nine months of the financial year 2017. Consolidated total equity amounted to ISK 243,132 million and total assets to ISK 1,198,958 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 26.8% at the end of the third quarter of 2017.

On 25 October 2017, the international rating agency S&P Global Ratings upgraded Landsbankinn's credit rating from BBB/A-2 to BBB+/A-2 with a stable outlook. The stable outlook reflects S&P's expectation that domestic economic development will continue to remain supportive and that Landsbankinn will maintain very strong risk-adjusted capitalisation.

Risk factors

Loans to customers have increased so far this year. Despite increased lending, credit quality has been stable during the first nine months of 2017 and there is a negligible increase in the overall credit risk profile of the Bank's loan portfolio. Loan impairments are expected to remain low because of ongoing efforts to improve credit quality. The Group's Liquidity coverage ratio (LCR) was 158% and the Group's net stable funding ratio (NSFR) in foreign currency was 184% as at 30 September 2017. The Group's liquidity and funding ratios are above minimum regulatory requirements and within the parameters of the Bank's risk appetite.

Outlook

In its revised forecast dated last May, Landsbankinn Economic Research (LER) assumes that economic growth will be 6.7% this year, then decrease to 3.5% next year and 2.6% in 2019. In the last few months, inflation has been lower than LER anticipated even though the Icelandic króna (ISK) has been weaker. This can largely be explained by increased competition in the retail market, which has impacted the prices of various goods more than generally expected. Last May, LER forecast that inflation would exceed the inflation target by a small margin in Q4 2017 and Q1 2018. The probability of that happening has diminished considerably and LER's current forecast holds that inflation will remain below target in the next quarters.

The Bank continues to focus on the execution of its strategy to ensure sustainable, long-term profitability. Profit in Q3 of 2017 is lower than in the same quarter of the previous year; however, profit for the first nine months of 2017 increased marginally year-over-year and the outlook for the full year remains positive.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the nine months ended 30 September 2017 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first nine months of 2017, its consolidated financial position as at 30 September 2017 and its consolidated cash flows for the first nine months of 2017.

Furthermore, in our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. describe the principal risks and uncertainties faced by the Group.

Statement by the Board of Directors and the CEO (continued)

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the nine months ended 30 September 2017.

Reykjavík, 26 October 2017

Board of Directors



Helga Björk Eiríksdóttir


Chairman



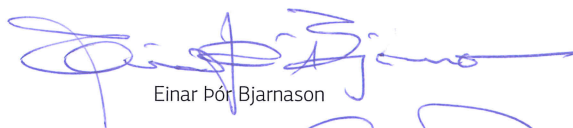
Berglind Svavarsdóttir



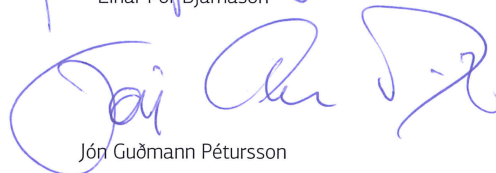
Hersir Sigurgeirsson



Magnús Pétursson



Einar Þór Bjarnason




Jón Guðmann Pétursson



Sigríður Benediktsdóttir

CEO



Lilja Björk Einarsdóttir

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Landsbankinn hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Landsbankinn hf. (the Bank) as at 30 September 2017 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements do not give a true and fair view of the financial position of the Bank as at 30 September 2017, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 26 October 2017

Grant Thornton endurskoðun ehf.



Davíð Arnar Einarsson
State Authorised Public Accountant



J. Sturla Jónsson
State Authorised Public Accountant

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Condensed Consolidated Income Statement for the nine months ended 30 September 2017

| Notes | | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|-------|--|------------------|------------------|------------------|------------------|
| | Interest income | 14,916 | 15,528 | 46,586 | 48,371 |
| | Interest expense | (6,022) | (6,932) | (19,516) | (22,164) |
| 5 | Net interest income | 8,894 | 8,596 | 27,070 | 26,207 |
| 6 | Net valuation adjustments and credit impairment charges | 766 | 2,144 | 2,067 | 4,419 |
| | Net interest income after net valuation adjustments and credit impairment charges | 9,660 | 10,740 | 29,137 | 30,626 |
| | Fee and commission income | 2,923 | 2,634 | 8,671 | 7,652 |
| | Fee and commission expense | (764) | (619) | (2,080) | (1,743) |
| 7 | Net fee and commission income | 2,159 | 2,015 | 6,591 | 5,909 |
| 8 | Net gain (loss) on financial assets and liabilities | 509 | (534) | 5,514 | 797 |
| 9 | Net foreign exchange (loss) gain | (10) | 25 | (893) | 33 |
| 10 | Other income and (expenses) | 36 | 864 | 1,293 | 4,327 |
| | Other net operating income | 535 | 355 | 5,914 | 5,157 |
| | Total operating income | 12,354 | 13,110 | 41,642 | 41,692 |
| 11 | Salaries and related expenses | 3,163 | 3,096 | 10,308 | 10,409 |
| 12 | Other operating expenses | 2,475 | 2,230 | 7,378 | 7,173 |
| | Total operating expenses | 5,638 | 5,326 | 17,686 | 17,582 |
| | Profit before tax | 6,716 | 7,784 | 23,956 | 24,110 |
| 13 | Income tax | (1,648) | (1,937) | (4,615) | (5,440) |
| 14 | Tax on liabilities of financial institutions | (880) | (745) | (2,500) | (2,270) |
| | Profit for the period | 4,188 | 5,102 | 16,841 | 16,400 |
| | Profit for the period attributable to: | | | | |
| | Owners of the Bank | 4,188 | 5,103 | 16,841 | 16,390 |
| | Non-controlling interests | 0 | (1) | 0 | 10 |
| | Profit for the period | 4,188 | 5,102 | 16,841 | 16,400 |
| | Earnings per share: | | | | |
| 30 | Basic and diluted earnings per share from operations (ISK) | 0.18 | 0.21 | 0.71 | 0.69 |

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

Condensed Consolidated Statement of Financial Position as at 30 September 2017

| Notes | | 30.9.2017 | 31.12.2016 |
|--------------------|--|------------------|------------------|
| Assets | | | |
| 18 | Cash and balances with Central Bank | 33,157 | 30,662 |
| 15, 19, 50 | Bonds and debt instruments | 160,223 | 154,892 |
| 15, 20 | Equities and equity instruments | 31,049 | 26,688 |
| 15, 21 | Derivative instruments | 1,787 | 278 |
| 22, 50 | Loans and advances to financial institutions | 41,485 | 20,408 |
| 23, 50 | Loans and advances to customers | 905,927 | 853,417 |
| | Investments in equity-accounted associates | 1,096 | 1,184 |
| | Property and equipment | 5,228 | 5,452 |
| | Intangible assets | 2,969 | 2,634 |
| 24 | Other assets | 11,660 | 8,093 |
| 25 | Assets classified as held for sale | 4,377 | 7,449 |
| | Total assets | 1,198,958 | 1,111,157 |
| Liabilities | | | |
| | Due to financial institutions and Central Bank | 21,946 | 20,093 |
| | Deposits from customers | 638,781 | 589,725 |
| 21 | Derivative instruments and short positions | 1,469 | 1,729 |
| 26, 50 | Borrowings | 267,853 | 223,944 |
| | Deferred tax liabilities | 54 | 85 |
| 27 | Other liabilities | 25,339 | 22,867 |
| 25 | Liabilities associated with assets classified as held for sale | 155 | 1,095 |
| 28 | Subordinated liabilities | 229 | 388 |
| | Total liabilities | 955,826 | 859,926 |
| 29 | Equity | | |
| | Share capital | 23,640 | 23,648 |
| | Share premium | 120,764 | 120,847 |
| | Reserves | 14,381 | 10,875 |
| | Retained earnings | 84,347 | 95,834 |
| | Total equity attributable to owners of the Bank | 243,132 | 251,204 |
| | Non-controlling interests | 0 | 27 |
| | Total equity | 243,132 | 251,231 |
| | Total liabilities and equity | 1,198,958 | 1,111,157 |

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

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2017

Notes

| Attributable to owners of the Bank | | | | | | | | | |
|---|---------------|----------------|-------------------|--|--|-------------------|----------------|---------------------------|----------------|
| Change in equity for the nine months ended | Share capital | Share premium | Statutory reserve | Reserves | | Retained earnings | Total | Non-controlling interests | Total |
| | | | | Unrealised gains in subsidiaries and equity-accounted associates reserve | Financial assets designated at fair value through profit or loss reserve | | | | |
| 30 September 2017 | | | | | | | | | |
| Balance as at 1 January 2017 | 23,648 | 120,847 | 6,000 | 4,583 | 292 | 95,834 | 251,204 | 27 | 251,231 |
| Profit for the period | | | | | | 16,841 | 16,841 | | 16,841 |
| Transferred to restricted retained earnings | | | | (1,161) | 4,667 | (3,506) | 0 | | 0 |
| Purchase of own shares | (8) | (83) | | | | | (91) | | (91) |
| Dividends paid | | | | | | (24,822) | (24,822) | | (24,822) |
| Disposal of subsidiary | | | | | | 0 | 0 | (27) | (27) |
| Balance as at 30 September 2017 | 23,640 | 120,764 | 6,000 | 3,422 | 4,959 | 84,347 | 243,132 | 0 | 243,132 |
| Change in equity for the nine months ended 30 September 2016 | | | | | | | | | |
| Balance as at 1 January 2016 | 23,782 | 122,105 | 6,000 | | | 112,614 | 264,501 | 30 | 264,531 |
| Profit for the period | | | | | | 16,390 | 16,390 | 10 | 16,400 |
| Transferred to restricted retained earnings | | | | 201 | 162 | (363) | 0 | | 0 |
| Purchase of own shares | (120) | (1,127) | | | | | (1,247) | | (1,247) |
| Dividends paid | | | | | | (28,538) | (28,538) | | (28,538) |
| Balance as at 30 September 2016 | 23,662 | 120,978 | 6,000 | 201 | 162 | 100,103 | 251,106 | 40 | 251,146 |

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

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2017

| Notes | 2017 1.1-30.9 | 2016 1.1-30.9 |
|---|------------------|------------------|
| Operating activities | | |
| Profit for the period | 16,841 | 16,400 |
| Adjustments for non-cash items included in profit for the period | (26,708) | (24,149) |
| Changes in operating assets and liabilities | (33,243) | (10,531) |
| Interest received | 42,230 | 43,430 |
| Interest paid | (7,552) | (9,717) |
| Dividends received | 1,540 | 329 |
| Income tax and special tax on financial institutions paid | (5,309) | (5,336) |
| Net cash (used in) from operating activities | (12,201) | 10,426 |
| Investing activities | | |
| Purchase of property and equipment | (162) | (230) |
| Proceeds from sale of property and equipment | 153 | 158 |
| Purchase of intangible assets | (571) | (451) |
| Sale of subsidiaries | 148 | (8) |
| Net cash used in investing activities | (432) | (531) |
| Financing activities | | |
| Proceeds from new long-term debt issue | 101,610 | 100,008 |
| Purchase of own shares | (91) | (1,247) |
| Repayment of borrowings | (68,270) | (70,379) |
| Repayment of subordinated liabilities | (156) | (246) |
| Dividends paid | (24,822) | (28,538) |
| Net cash from (used in) financing activities | 8,271 | (402) |
| Cash and cash equivalents as at the beginning of the period | 21,252 | 24,257 |
| Net change in cash and cash equivalents | (4,362) | 9,493 |
| Effect of exchange rate changes on cash and cash equivalents held | (627) | (740) |
| Cash and cash equivalents as at 30 September | 16,263 | 33,010 |
| Cash and cash equivalents is specified as follows: | | |
| 18 Cash and balances with Central Bank | 33,157 | 52,822 |
| 22 Bank accounts with financial institutions | 11,100 | 12,261 |
| 18 Mandatory and special restricted balances with Central Bank | (27,994) | (32,073) |
| Cash and cash equivalents as at the end of the period | 16,263 | 33,010 |

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

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2017

| Notes | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|
| Adjustments for non-cash items included in profit for the period | | |
| 5 Net interest income | (27,070) | (26,207) |
| 6, 46 Net impairment and reversal of guarantees | (952) | (4,419) |
| 6 Reversals of loss from foreign currency linkage of loans and advances to customers | (1,115) | 0 |
| 8 Net gain on financial assets and liabilities | (5,514) | (797) |
| 9 Net foreign exchange loss | 1,520 | 707 |
| (Gain) loss on sale of property and equipment | (63) | 11 |
| Net gain on assets classified as held for sale | (1,009) | (1,167) |
| Depreciation and amortisation | 532 | 459 |
| Share of profit of equity-accounted associates | (152) | (446) |
| 13 Income tax | 4,615 | 5,440 |
| 14 Tax on liabilities of financial institutions | 2,500 | 2,270 |
| | (26,708) | (24,149) |
| Changes in operating assets and liabilities | | |
| Change in reserve requirement with Central Bank | (4,045) | (16,070) |
| Change in bonds and equities | (6,312) | 28,232 |
| Change in loans and advances to financial institutions | (21,854) | (1,259) |
| Change in loans and advances to customers | (44,083) | (37,328) |
| Change in assets of disposal groups | 1,403 | 0 |
| Change in other assets | (1,341) | (1,839) |
| Change in assets classified as held for sale | 3,308 | 3,560 |
| Change in due to financial institutions and Central Bank | 1,838 | (14,997) |
| Change in deposits from customers | 38,051 | 22,984 |
| Change in tax liability | (31) | (46) |
| Change in other liabilities | 809 | 6,237 |
| Change in liabilities associated with assets classified as held for sale | (986) | (5) |
| | (33,243) | (10,531) |

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

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Notes to the Condensed Consolidated Interim Financial Statements

General

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, on Financial Undertakings. 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 Condensed Consolidated Interim Financial Statements of the Bank for the nine months ended 30 September 2017 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 financial services. The Group operates solely in Iceland.

2. Basis of preparation

These Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2017 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union.

The issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 26 October 2017.

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2016, which are available on the Bank's website, www.landsbankinn.is.

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 Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis.

Basis of measurement

The Condensed Consolidated Interim 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

The functional currency of the Bank and its individual Group entities is Icelandic króna (ISK) and all amounts are presented in ISK, 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.

Accounting 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.

3. Significant accounting policies

The Condensed Consolidated Interim Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies applied in the Condensed Consolidated Interim Financial Statements are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2016. The accounting policies applied have been applied consistently to all periods presented.

The Group has adopted the amendments to existing standards which became effective as of 1 January 2017. These amendments have an insignificant impact on the Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting policies (continued)

Towards the end of the first quarter of 2017, the Group started applying fair value hedge accounting. The Group uses interest rate swaps to hedge its exposure to changes in the fair values of some of its notes, issued under the Bank's 2,000 million Euro Medium Term Note (EMTN) programme. Such interest rate swaps are matched to specific issuances of the EMTN fixed-rate notes. The change in fair value of interest rate swaps together with change in the fair value of bonds attributable to interest rate risk is recognised immediately in profit or loss in the line item "Net gain (loss) on fair value hedges". Accrued interests on both bonds and swaps are included in the line item "Interest expense".

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risk. The financial instruments used include, but are not limited to, interest rate swaps, cross-currency swaps, forward contracts, futures, options, credit swaps and equity swaps.

On initial designation of the hedges, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at the inception of the hedge relationships and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80–125%.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustments, up to the point of discontinuation, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group has changed its presentation of industry sectors for loans to construction and real estate companies. Comparative amounts have been restated due to reclassification of loans to construction and real estate companies into two separate items, construction companies on the one hand and real estate companies on the other.

4. 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.
- **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, 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, IT and the CEO's Office. The CEO's Office is comprised of Human Resources, Marketing & Communications and Compliance. The Bank's Internal Audit department is also included in support functions; however, it is completely independent 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 use and activity.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segment profits (loss) 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 30 September 2017 or in 2016.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

| 1 January - 30 September 2017 | Personal Banking | Corporate Banking | Markets | Treasury | Support functions | Recon- ciliation | Total |
|--|-----------------------------|------------------------------|----------------|-----------------|------------------------------|-----------------------------|---------------|
| Net interest income | 11,683 | 12,296 | 277 | 2,859 | 28 | (73) | 27,070 |
| Net valuation adjustments and credit impairment charges | 620 | 1,440 | - | 7 | - | - | 2,067 |
| Net fee and commission income | 2,621 | 754 | 3,598 | (293) | 111 | (200) | 6,591 |
| Other net operating income (expenses) | 52 | 1 | (585) | 5,376 | 1,079 | (9) | 5,914 |
| Total operating income (expense) | 14,976 | 14,491 | 3,290 | 7,949 | 1,218 | (282) | 41,642 |
| Operating expenses | (4,689) | (1,191) | (1,596) | (1,329) | (9,185) | 304 | (17,686) |
| Profit (loss) before cost allocation and tax | 10,287 | 13,300 | 1,694 | 6,620 | (7,967) | 22 | 23,956 |
| Cost allocated from support functions to business segments | (3,689) | (2,616) | (1,156) | (775) | 8,236 | - | 0 |
| Profit (loss) before tax | 6,598 | 10,684 | 538 | 5,845 | 269 | 22 | 23,956 |
| Net revenue (expenses) from external customers | 16,895 | 20,224 | 3,050 | 599 | 1,156 | - | 41,924 |
| Net revenue (expenses) from other segments | (1,919) | (5,733) | 240 | 7,350 | 62 | - | 0 |
| Total operating income | 14,976 | 14,491 | 3,290 | 7,949 | 1,218 | 0 | 41,924 |
| As at 30 September 2017 | | | | | | | |
| Total assets | 440,464 | 494,836 | 26,111 | 438,859 | 15,307 | (216,619) | 1,198,958 |
| Total liabilities | 380,894 | 378,620 | 17,514 | 380,110 | 15,307 | (216,619) | 955,826 |
| Allocated capital | 59,570 | 116,216 | 8,597 | 58,749 | - | - | 243,132 |

| 1 January - 30 September 2016 | Personal Banking | Corporate Banking | Markets | Treasury | Support functions | Recon- ciliation | Total |
|--|-----------------------------|------------------------------|----------------|-----------------|------------------------------|-----------------------------|---------------|
| Net interest income | 10,257 | 11,189 | 267 | 4,831 | 7 | (344) | 26,207 |
| Net valuation adjustments and credit impairment charges | 2,855 | 1,582 | - | (18) | - | - | 4,419 |
| Net fee and commission income | 2,629 | 633 | 3,100 | (242) | 74 | (285) | 5,909 |
| Other net operating income (expenses) | 1,406 | 83 | (243) | 2,078 | 1,494 | 339 | 5,157 |
| Total operating income (expense) | 17,147 | 13,487 | 3,124 | 6,649 | 1,575 | (290) | 41,692 |
| Operating expenses | (4,780) | (1,143) | (1,613) | (1,198) | (9,151) | 303 | (17,582) |
| Profit (loss) before cost allocation and tax | 12,367 | 12,344 | 1,511 | 5,451 | (7,576) | 13 | 24,110 |
| Cost allocated from support functions to business segments | (3,732) | (2,722) | (1,000) | (933) | 8,387 | - | 0 |
| Profit (loss) before tax | 8,635 | 9,622 | 511 | 4,518 | 811 | 13 | 24,110 |
| Net revenue from external customers | 19,352 | 20,500 | 2,868 | (2,279) | 1,541 | - | 41,982 |
| Net revenue (expenses) from other segments | (2,205) | (7,013) | 256 | 8,928 | 34 | - | 0 |
| Total operating income | 17,147 | 13,487 | 3,124 | 6,649 | 1,575 | 0 | 41,982 |
| As at 30 September 2016 | | | | | | | |
| Total assets | 384,278 | 475,088 | 38,469 | 458,931 | 16,088 | (239,052) | 1,133,802 |
| Total liabilities | 339,191 | 375,152 | 33,032 | 358,245 | 16,088 | (239,052) | 882,656 |
| Allocated capital | 45,087 | 99,936 | 5,437 | 100,686 | - | - | 251,146 |

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Income Statement

5. Net interest income

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Interest income | | | | |
| Cash and balances with Central Bank | 204 | 396 | 564 | 926 |
| Bonds and debt instruments classified as loans and receivables | 1,045 | 1,510 | 3,526 | 4,698 |
| Loans and advances to financial institutions | 52 | 39 | 143 | 173 |
| Loans and advances to customers | 13,601 | 13,552 | 42,322 | 42,525 |
| Other interest income | 14 | 31 | 31 | 49 |
| Total | 14,916 | 15,528 | 46,586 | 48,371 |
| Interest expense | | | | |
| Due to financial institutions and Central Bank | (118) | (179) | (505) | (861) |
| Deposits from customers | (4,075) | (4,821) | (13,389) | (15,306) |
| Borrowings | (1,815) | (1,922) | (5,576) | (5,937) |
| Other interest expense | (8) | - | (26) | (27) |
| Subordinated liabilities | (6) | (10) | (20) | (33) |
| Total | (6,022) | (6,932) | (19,516) | (22,164) |
| Net interest income | 8,894 | 8,596 | 27,070 | 26,207 |

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.

6. Net valuation adjustments and credit impairment charges

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Net impairment | 419 | 2,144 | 893 | 4,419 |
| Reversal of impairment of guarantees | - | - | 59 | - |
| Reversals of foreign currency linked loans and advances to customers | 347 | - | 1,115 | - |
| Net valuation adjustments and credit impairment charges | 766 | 2,144 | 2,067 | 4,419 |
| Valuation adjustments and impairment charges by customer type | | | | |
| Individuals | 148 | 902 | 530 | 2,105 |
| Corporates | 618 | 1,242 | 1,537 | 2,314 |
| Net valuation adjustments and credit impairment charges | 766 | 2,144 | 2,067 | 4,419 |

7. Net fee and commission income

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Fee and commission income | | | | |
| Markets | 1,324 | 1,050 | 3,622 | 2,938 |
| Loans and guarantees | 199 | 252 | 905 | 760 |
| Cards | 875 | 814 | 2,620 | 2,384 |
| Collection and payment services | 222 | 224 | 645 | 666 |
| Foreign trade | 216 | 185 | 583 | 585 |
| Other commissions and fees | 87 | 109 | 296 | 319 |
| Total | 2,923 | 2,634 | 8,671 | 7,652 |
| Fee and commission expense | | | | |
| Investment banking and capital markets | (150) | (85) | (346) | (232) |
| Cards | (345) | (274) | (902) | (783) |
| Other fees | (269) | (260) | (832) | (728) |
| Total | (764) | (619) | (2,080) | (1,743) |
| Net fee and commission income | 2,159 | 2,015 | 6,591 | 5,909 |

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 designated 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.

Notes to the Condensed Consolidated Interim Financial Statements

8. Net gain (loss) on financial assets and liabilities

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Net gain (loss) on financial assets designated at fair value through profit or loss | | | | |
| Bonds and debt instruments | 147 | 303 | 920 | 317 |
| Equities and equity instruments | 923 | (168) | 4,845 | 649 |
| | 1,070 | 135 | 5,765 | 966 |
| Net profit (loss) on fair value hedges | | | | |
| Change in the fair value of the interest rate swaps | 78 | - | (225) | - |
| Change in the fair value of the bonds which are attributable to the interest rate | (92) | - | 146 | - |
| | (14) | 0 | (79) | 0 |
| Net gain (loss) on financial assets and liabilities held for trading | | | | |
| Bonds and debt instruments | 63 | 47 | 331 | 908 |
| Equities and equity instruments | (516) | (353) | (870) | (749) |
| Derivatives and underlying hedges | (94) | (363) | 367 | (328) |
| | (547) | (669) | (172) | (169) |
| Total net gain (loss) on financial assets and liabilities | 509 | (534) | 5,514 | 797 |

9. Net foreign exchange (loss) gain

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Assets | | | | |
| Cash and balances with Central Bank | 97 | (111) | (13) | (204) |
| Bonds and debt instruments | 2,574 | (2,906) | (294) | (5,930) |
| Equities and equity instruments | 22 | (16) | 8 | (18) |
| Derivative instruments | 2,264 | 349 | 3,964 | 1,180 |
| Loans and advances to financial institutions | 2,726 | (1,229) | 2,577 | (2,334) |
| Loans and advances to customers | 9,919 | (14,205) | 2,355 | (22,107) |
| Other assets | 47 | (90) | 23 | (172) |
| Total | 17,649 | (18,208) | 8,620 | (29,585) |
| Liabilities | | | | |
| Due to financial institutions and Central Bank | (11) | - | (12) | 401 |
| Deposits from customers | (4,537) | 5,712 | (1,918) | 9,663 |
| Borrowings | (13,297) | 12,447 | (7,684) | 19,285 |
| Other liabilities | 189 | 68 | 99 | 270 |
| Subordinated liabilities | (3) | 6 | 2 | (1) |
| Total | (17,659) | 18,233 | (9,513) | 29,618 |
| Net foreign exchange (loss) gain | (10) | 25 | (893) | 33 |

The foreign exchange difference recognised during the period 1 January to 30 September 2017 in the Condensed Consolidated Income Statement that arose on financial instruments not measured at fair value through profit or loss, amounted to a gain of ISK 4,942 million for financial assets (1.1-30.9.2016: loss of ISK 24,817 million) and a loss of ISK 9,513 million for financial liabilities (1.1-30.9.2016: gain of ISK 29,618 million).

10. Other income and expenses

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Gain (loss) on sale of property and equipment | 49 | 5 | 63 | (11) |
| Gain on repossessed collateral | 54 | 66 | 1,009 | 1,543 |
| Share of profit of equity-accounted associates | 45 | 78 | 152 | 1,575 |
| Other | (112) | 715 | 69 | 1,220 |
| Total | 36 | 864 | 1,293 | 4,327 |

11. Salaries and related expenses

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Salaries | 2,359 | 2,290 | 7,924 | 7,953 |
| Contributions to defined pension plans | 404 | 404 | 1,187 | 1,218 |
| Social security contributions, special financial activities tax on salaries and other expenses | 400 | 402 | 1,197 | 1,238 |
| Total salaries and related expenses | 3,163 | 3,096 | 10,308 | 10,409 |

Notes to the Condensed Consolidated Interim Financial Statements

12. Other operating expenses

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|---|------------------|------------------|------------------|------------------|
| Information technology | 552 | 500 | 1,652 | 1,552 |
| Real estate and fixtures | 195 | 251 | 635 | 709 |
| Advertising and marketing expenses | 230 | 172 | 642 | 600 |
| Operating lease rentals | 135 | 138 | 405 | 413 |
| FME supervisory expenses | 145 | 118 | 437 | 353 |
| Contribution to the Debtors' Ombudsman | 87 | 28 | 261 | 83 |
| Audit and related services | 24 | 18 | 80 | 88 |
| Other professional services | 148 | 107 | 435 | 403 |
| Depreciation and amortisation | 182 | 165 | 532 | 459 |
| Contribution to the Depositors' and Investors' Guarantee Fund | 355 | 305 | 963 | 971 |
| Other operating expenses | 422 | 428 | 1,336 | 1,542 |
| Total | 2,475 | 2,230 | 7,378 | 7,173 |

13. Income tax

Income tax is recognised based on the tax rates and tax laws enacted by the end of the period, according to which the domestic corporate income tax rate was 20.0% (2016: 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:

| | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|
| Current tax expense | (3,884) | (4,535) |
| Special income tax on financial institutions | (997) | (1,183) |
| Difference of prior year's imposed and calculated income tax | 178 | 30 |
| Deferred tax expense | 88 | 248 |
| Total | (4,615) | (5,440) |

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

| | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|----------------------|----------------------|
| Profit before tax | 23,956 | 24,110 |
| Tax on liabilities of financial institutions | (2,500) | (2,270) |
| Profit before income tax | 21,456 | 21,840 |
| Income tax calculated using the domestic corporate income tax rate | 20.0% (4,291) | 20.0% (4,366) |
| Special income tax on financial institutions | 4.6% (997) | 5.4% (1,183) |
| Income not subject to tax | (5.2%) 1,123 | (2.0%) 436 |
| Non-deductible expenses | 2.9% (629) | 2.5% (548) |
| Other | (0.8%) 179 | (1.0%) 221 |
| Effective income tax | 21.5% (4,615) | 24.9% (5,440) |

14. 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% (2016: 0.376%) of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense.

| | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|
| Tax on liabilities of financial institutions | (2,500) | (2,270) |

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Statement of Financial Position

15. Classification 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;
- Financial liabilities, measured at amortised cost.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 30 September 2017:

| Financial assets | Notes | Loans and receivables | Held for trading | Designated at fair value | Liabilities at amortised cost | Total carrying amount | Fair value |
|--|-------|-----------------------|------------------|--------------------------|-------------------------------|-----------------------|------------------|
| Cash and balances with Central Bank | 18 | 33,157 | - | - | - | 33,157 | 33,157 |
| Bonds and debt instruments | 19 | 89,168 | 60,577 | 10,478 | - | 160,223 | 160,699 |
| Equities and equity instruments | 20 | - | 12,543 | 18,506 | - | 31,049 | 31,049 |
| Derivative instruments | 21 | - | 1,787 | - | - | 1,787 | 1,787 |
| Loans and advances to financial institutions | 22 | 41,485 | - | - | - | 41,485 | 41,485 |
| Loans and advances to customers | 23 | 905,927 | - | - | - | 905,927 | 912,165 |
| Other financial assets | | 10,325 | - | - | - | 10,325 | 10,325 |
| Total | | 1,080,062 | 74,907 | 28,984 | 0 | 1,183,953 | 1,190,667 |
| Financial liabilities | | | | | | | |
| Due to financial institutions and Central Bank | | - | - | - | 21,946 | 21,946 | 21,946 |
| Deposits from customers | | - | - | - | 638,781 | 638,781 | 637,845 |
| Derivative instruments and short positions | 21 | - | 1,469 | - | - | 1,469 | 1,469 |
| Borrowings | 26 | - | - | - | 267,853 | 267,853 | 272,506 |
| Other financial liabilities | | - | - | - | 7,849 | 7,849 | 7,849 |
| Subordinated liabilities | 28 | - | - | - | 229 | 229 | 238 |
| Total | | 0 | 1,469 | 0 | 936,658 | 938,127 | 941,853 |

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 2016:

| Financial assets | Notes | Loans and receivables | Held for trading | Designated at fair value | Liabilities at amortised cost | Total carrying amount | Fair value |
|--|-------|-----------------------|------------------|--------------------------|-------------------------------|-----------------------|------------------|
| Cash and balances with Central Bank | 18 | 30,662 | - | - | - | 30,662 | 30,662 |
| Bonds and debt instruments | 19 | 110,822 | 34,006 | 10,064 | - | 154,892 | 155,617 |
| Equities and equity instruments | 20 | - | 9,890 | 16,798 | - | 26,688 | 26,688 |
| Derivative instruments | 21 | - | 278 | - | - | 278 | 278 |
| Loans and advances to financial institutions | 22 | 20,408 | - | - | - | 20,408 | 20,408 |
| Loans and advances to customers | 23 | 853,417 | - | - | - | 853,417 | 858,187 |
| Other financial assets | | 6,528 | - | - | - | 6,528 | 6,528 |
| Total | | 1,021,837 | 44,174 | 26,862 | 0 | 1,092,873 | 1,098,368 |
| Financial liabilities | | | | | | | |
| Due to financial institutions and Central Bank | | - | - | - | 20,093 | 20,093 | 20,093 |
| Deposits from customers | | - | - | - | 589,725 | 589,725 | 589,790 |
| Derivative instruments and short positions | 21 | - | 1,729 | - | - | 1,729 | 1,729 |
| Borrowings | 26 | - | - | - | 223,944 | 223,944 | 225,520 |
| Other financial liabilities | | - | - | - | 7,206 | 7,206 | 7,206 |
| Subordinated liabilities | 28 | - | - | - | 388 | 388 | 405 |
| Total | | 0 | 1,729 | 0 | 841,356 | 843,085 | 844,743 |

Notes to the Condensed Consolidated Interim Financial Statements

16. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is determined based on the same valuation methods as those described in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2016.

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 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 & 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 monthly meetings 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 Condensed Consolidated Interim Statement of Financial Position, is categorised as at 30 September 2017:

| Financial assets | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------------|----------------|----------------|----------------|
| Bonds and debt instruments | 62,160 | 8,829 | 66 | 71,055 |
| Equities and equity instruments | 13,385 | - | 17,664 | 31,049 |
| Derivative instruments | - | 1,787 | - | 1,787 |
| Total | 75,545 | 10,616 | 17,730 | 103,891 |
| Financial liabilities | | | | |
| Derivative instruments | - | 962 | - | 962 |
| Short positions | 507 | - | - | 507 |
| Total | 507 | 962 | 0 | 1,469 |

During the period from 1 January to 30 September 2017, there were no transfers between Level 1, Level 2 and Level 3.

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 2016:

| Financial assets | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------------|----------------|----------------|---------------|
| Bonds and debt instruments | 35,555 | 8,337 | 178 | 44,070 |
| Equities and equity instruments | 10,808 | - | 15,880 | 26,688 |
| Derivative instruments | - | 278 | - | 278 |
| Total | 46,363 | 8,615 | 16,058 | 71,036 |
| Financial liabilities | | | | |
| Derivative instruments | - | 1,183 | - | 1,183 |
| Short positions | 546 | - | - | 546 |
| Total | 546 | 1,183 | 0 | 1,729 |

During the year 2016, there were no transfers between Level 1, Level 2 and Level 3.

Notes to the Condensed Consolidated Interim Financial Statements

16. Fair value of financial assets and liabilities (continued)

Valuation framework (continued)

The following tables show the reconciliation of fair value measurement in Level 3 for the nine months ended 30 September 2017 and for the year 2016:

| | Bonds and debt instruments | Equities and equity instruments | Total financial assets |
|--|----------------------------|---------------------------------|------------------------|
| 1 January - 30 September 2017 | | | |
| Carrying amount as at 1 January 2017 | 178 | 15,880 | 16,058 |
| Net gain on financial assets and liabilities | 48 | 4,847 | 4,895 |
| Net foreign exchange loss | (1) | 2 | 1 |
| Purchases | - | 448 | 448 |
| Sales | - | (821) | (821) |
| Settlements | (159) | - | (159) |
| Dividend received | - | (1,252) | (1,252) |
| Transfers out of Level 3 | - | (1,440) | (1,440) |
| Carrying amount as at 30 September 2017 | 66 | 17,664 | 17,730 |
| 1 January - 31 December 2016 | | | |
| Carrying amount as at 1 January 2016 | 443 | 18,123 | 18,566 |
| Net gain on financial assets and liabilities | 22 | 732 | 754 |
| Net foreign exchange loss | (14) | - | (14) |
| Purchases | 11 | 992 | 1,003 |
| Sales | (11) | (2,894) | (2,905) |
| Settlements | (273) | - | (273) |
| Dividend received | - | (1,073) | (1,073) |
| Carrying amount as at 31 December 2016 | 178 | 15,880 | 16,058 |

The following table shows the line items in the Condensed Consolidated Income Statement where gains (losses) of financial assets and liabilities categorised in Level 3 and held by the Group as at 30 September 2017 and 30 September 2016, were recognised:

| | Bonds and debt instruments | Equities and equity instruments | Total |
|--|----------------------------|---------------------------------|--------------|
| 1 January - 30 September 2017 | | | |
| Net gain on financial assets and liabilities | 19 | 4,848 | 4,867 |
| Net foreign exchange loss | (1) | 2 | 1 |
| Total | 18 | 4,850 | 4,868 |
| 1 January - 30 September 2016 | | | |
| Net gain on financial assets and liabilities | 32 | 550 | 582 |
| Net foreign exchange loss | (13) | - | (13) |
| Total | 19 | 550 | 569 |

17. Unobservable inputs in fair value measurement

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 as at 30 September 2017 and 31 December 2016.

| | Assets | Liabilities | Valuation technique | Key unobservable inputs | Range of inputs | |
|---------------------------------|---------------|-------------|---------------------|-------------------------|-----------------|--------|
| | | | | | Lower | Higher |
| As at 30 September 2017 | | | | | | |
| Bonds and debt instruments | 66 | - | See 1) below | See 1) below | n/a | n/a |
| Equities and equity instruments | 17,664 | - | See 2) below | See 2) below | n/a | n/a |
| | 17,730 | 0 | | | | |
| As at 31 December 2016 | | | | | | |
| Bonds and debt instruments | 178 | - | See 1) below | See 1) below | n/a | n/a |
| Equities and equity instruments | 15,880 | - | See 2) below | See 2) below | n/a | n/a |
| | 16,058 | 0 | | | | |

A further description of the financial instruments categorised in Level 3 are as follows:

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, the range of key unobservable inputs is not available.

Notes to the Condensed Consolidated Interim Financial Statements

17. Unobservable inputs in fair value measurement (continued)

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 (loss) 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 nine months ended 30 September 2017 and 30 September 2016:

| | 2017 1.1-30.9 | | 2016 1.1-30.9 | |
|---------------------------------------|------------------|----------------|------------------|----------------|
| | Favourable | Unfavourable | Favourable | Unfavourable |
| Effect on profit before tax | | | | |
| Bonds and debt instruments | 3 | (3) | 19 | (19) |
| Equities and equity instruments: | | | | |
| Equities | 532 | (714) | 447 | (627) |
| Mutual funds | 315 | (315) | 459 | (459) |
| Total equities and equity instruments | 847 | (1,029) | 906 | (1,086) |
| Total | 850 | (1,032) | 925 | (1,105) |

The effect on profit was calculated as the difference between the results of the same valuation methods where key unobservable inputs were changed by +/- 5%

18. Cash and balances with Central Bank

| | 30.9.2017 | 31.12.2016 |
|--|---------------|---------------|
| Cash on hand | 5,163 | 3,931 |
| Unrestricted balances with Central Bank | - | 2,782 |
| Total cash and unrestricted balances with Central Bank | 5,163 | 6,713 |
| Restricted balances with Central Bank | 11,037 | 11,886 |
| Assets held with Central Bank, subject to special restrictions | 16,957 | 12,063 |
| Total cash and balances with Central Bank | 33,157 | 30,662 |

The Bank holds a mandatory reserve deposit account with the Central Bank of Iceland in compliance with the Central Bank's rules on Minimum Reserve Requirements No. 870/2015, with subsequent amendments. The average balance of this account for each reserve term must be equivalent at least to the mandatory reserve deposit requirement which amounted to ISK 12,643 million for September 2017 (December 2016: ISK 11,886 million).

The Bank holds an additional amount as a mandatory reserve with the Central Bank in compliance with Article 8 of Act No. 37/2016, on the Treatment of Króna-Denominated Assets Subject to Special Restrictions. This reserve is equivalent to at least the amount of the total balance of deposits subject to special restrictions for investment held with the Group and consists of certificates of deposit issued by the Central Bank.

19. Bonds

| | 30.9.2017 | | | | 31.12.2016 | | | |
|-----------------------------------|-----------------------|------------------|--------------------------|----------------|-----------------------|------------------|--------------------------|----------------|
| | Loans and receivables | Held for trading | Designated at fair value | Total | Loans and receivables | Held for trading | Designated at fair value | Total |
| Bonds and debt instruments | | | | | | | | |
| Domestic | | | | | | | | |
| Listed | 89,168 | 12,698 | 9,223 | 111,089 | 110,822 | 9,024 | 8,681 | 128,527 |
| Unlisted | - | - | 1,255 | 1,255 | - | 41 | 1,383 | 1,424 |
| | 89,168 | 12,698 | 10,478 | 112,344 | 110,822 | 9,065 | 10,064 | 129,951 |
| Foreign | | | | | | | | |
| Listed | - | 47,879 | - | 47,879 | - | 24,941 | - | 24,941 |
| | 0 | 47,879 | 0 | 47,879 | 0 | 24,941 | 0 | 24,941 |
| Total bonds | 89,168 | 60,577 | 10,478 | 160,223 | 110,822 | 34,006 | 10,064 | 154,892 |

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

Bonds and debt instruments classified as loans and receivables as at 30 September 2017 and 31 December 2016 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.

Notes to the Condensed Consolidated Interim Financial Statements

20. Equities

| Equities and equity instruments | 30.9.2017 | | Total | 31.12.2016 | | Total |
|---------------------------------|------------------|--------------------------|---------------|------------------|--------------------------|---------------|
| | Held for trading | Designated at fair value | | Held for trading | Designated at fair value | |
| Domestic | | | | | | |
| Listed | 12,541 | 390 | 12,931 | 9,889 | 450 | 10,339 |
| Unlisted | - | 18,087 | 18,087 | - | 16,229 | 16,229 |
| | 12,541 | 18,477 | 31,018 | 9,889 | 16,679 | 26,568 |
| Foreign | | | | | | |
| Listed | 2 | - | 2 | 1 | 119 | 120 |
| Unlisted | - | 29 | 29 | - | - | 0 |
| | 2 | 29 | 31 | 1 | 119 | 120 |
| Total equities | 12,543 | 18,506 | 31,049 | 9,890 | 16,798 | 26,688 |

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

As at 30 September 2017, outstanding commitments of the Group in share subscriptions amounted to ISK 1.691 million (31 December 2016: ISK 2.113 million) altogether in seven entities. The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

21. Derivative instruments and short positions

| | 30.9.2017 | | | 31.12.2016 | | |
|-------------------------------------|-----------------|--------------|--------------|-----------------|------------|--------------|
| | Notional amount | Fair value | | Notional amount | Fair value | |
| Foreign exchange derivatives | | Assets | Liabilities | | Assets | Liabilities |
| Currency forwards | 64,078 | 339 | 534 | 34,674 | 145 | 147 |
| Cross-currency interest rate swaps | 9,135 | 1,220 | 96 | 13,949 | 87 | 982 |
| | 73,213 | 1,559 | 630 | 48,623 | 232 | 1,129 |
| Interest rate derivatives | | | | | | |
| Interest rate swaps | 1,000 | 23 | - | 1,250 | 21 | - |
| Total return swaps | 1,734 | 10 | 6 | 462 | - | 2 |
| | 2,734 | 33 | 6 | 1,712 | 21 | 2 |
| Equity derivatives | | | | | | |
| Equity forwards | 2,641 | 86 | 242 | - | - | - |
| Total return swaps | 3,616 | 37 | 35 | 5,333 | 24 | 45 |
| Equity options | 2,139 | - | 25 | 312 | 1 | 7 |
| | 8,396 | 123 | 302 | 5,645 | 25 | 52 |
| Fair value hedging | | | | | | |
| Interest rate swaps | 41,525 | 72 | 24 | - | - | - |
| | 41,525 | 72 | 24 | 0 | 0 | 0 |
| Total derivative instruments | 125,868 | 1,787 | 962 | 55,980 | 278 | 1,183 |
| Short positions | | | | | | |
| Listed bonds | 388 | - | 507 | 457 | - | 546 |
| | 388 | 0 | 507 | 457 | 0 | 546 |
| Total | 126,256 | 1,787 | 1,469 | 56,437 | 278 | 1,729 |

The Group uses derivatives both for hedging and trading purposes.

22. Loans and advances to financial institutions

| | 30.9.2017 | 31.12.2016 |
|---|---------------|---------------|
| Bank accounts with financial institutions | 11,100 | 14,539 |
| Money market loans | 24,979 | 2,209 |
| Other loans | 5,406 | 3,660 |
| Total | 41,485 | 20,408 |

Notes to the Condensed Consolidated Interim Financial Statements

23. Loans and advances to customers

| | 30.9.2017 | 31.12.2016 |
|--------------------------|----------------|----------------|
| Public entities | 12,621 | 10,028 |
| Individuals | 351,356 | 326,844 |
| Corporates | 558,781 | 537,496 |
| Allowance for impairment | (16,831) | (20,951) |
| Total | 905,927 | 853,417 |

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 to customers is provided in the risk management notes to these Condensed Consolidated Interim Financial Statements.

24. Other assets

| | 30.9.2017 | 31.12.2016 |
|------------------------------|---------------|--------------|
| Unsettled securities trading | 5,605 | 2,301 |
| Other accounts receivable | 4,720 | 4,227 |
| Sundry assets | 1,335 | 1,565 |
| Total | 11,660 | 8,093 |

25. Assets and liabilities classified as held for sale

Assets classified as held for sale

| | 30.9.2017 | 31.12.2016 |
|---------------------------|--------------|--------------|
| Reposessed collateral | 4,377 | 6,356 |
| Assets of disposal groups | - | 1,093 |
| Total | 4,377 | 7,449 |

Reposessed collateral

Reposessed 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 reposessed collateral in an orderly manner. The Group generally does not use the non-cash reposessed collateral for its own operations. Reposessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

| Reposessed collateral | 30.9.2017 | 31.12.2016 |
|--|--------------|--------------|
| Carrying amount as at the beginning of the period | 6,356 | 10,095 |
| Reposessed during the period | 866 | 3,646 |
| Disposed of during the period | (3,905) | (9,238) |
| Impairment and gain of sale | 1,060 | 1,853 |
| Carrying amount as at the end of the period | 4,377 | 6,356 |

Liabilities associated with assets classified as held for sale

| | 30.9.2017 | 31.12.2016 |
|--------------------------------|------------|--------------|
| Liabilities of disposal groups | 155 | 1,095 |
| Total | 155 | 1,095 |

Notes to the Condensed Consolidated Interim Financial Statements

26. Borrowings

Secured borrowings

| As at 30.9.2017 | Currency | Final maturity | Outstanding principal | Indexed/ Non-indexed | Contractual interest rate | Carrying amount |
|---------------------------------|----------|----------------|-----------------------|----------------------|---------------------------|-----------------|
| LBANK CB 17 | ISK | 23.10.2017 | 3,160 | Non-indexed | Fixed 6.0% | 3,337 |
| LBANK CB 19 | ISK | 17.9.2019 | 16,120 | Non-indexed | Fixed 6.8% | 16,278 |
| LBANK CB 21 | ISK | 30.11.2021 | 3,720 | Non-indexed | Fixed 5.5% | 3,883 |
| LBANK CBI 22 | ISK | 28.4.2022 | 19,540 | CPI-indexed | Fixed 3.0% | 20,430 |
| LBANK CBI 24 | ISK | 15.11.2024 | 5,640 | CPI-indexed | Fixed 3.0% | 5,839 |
| LBANK CBI 28 | ISK | 4.10.2028 | 16,140 | CPI-indexed | Fixed 3.0% | 17,198 |
| Total covered bonds | | | | | | 66,965 |
| Total secured borrowings | | | | | | 66,965 |

Unsecured borrowings

| As at 30.9.2017 | Currency | Final maturity | Outstanding principal | Contractual interest rate | Carrying amount |
|---------------------------|----------|----------------|-----------------------|---------------------------|-----------------|
| LBANK 3 10/18 | EUR | 19.10.2018 | EUR 300 million | FIXED 3.0% | 38,623 |
| LBANK FLOAT 06/19 | SEK | 10.6.2019 | SEK 350 million | STIBOR + 2.6% | 4,552 |
| LBANK FLOAT 06/19 | NOK | 11.6.2019 | NOK 500 million | NIBOR + 2.6% | 6,665 |
| LBANK 0.75 06/20 | SEK | 22.6.2020 | SEK 300 million | FIXED 0.75% | 3,884 |
| LBANK FLOAT 06/20 | SEK | 22.6.2020 | SEK 700 million | STIBOR + 1.0% | 9,097 |
| LBANK 1.375 11/20 | SEK | 24.11.2020 | SEK 750 million | FIXED 1.375% | 9,822 |
| LBANK FLOAT 11/20 | SEK | 24.11.2020 | SEK 250 million | STIBOR + 1.5% | 3,249 |
| LBANK 1.625 03/21 | EUR | 15.3.2021 | EUR 500 million | FIXED 1.625% | 62,805 |
| LBANK 1.375 03/22 | EUR | 14.3.2022 | EUR 300 million | FIXED 1.375% | 37,609 |
| Total EMTNs issued | | | | | 176,306 |

| As at 30.9.2017 | Currency | Final maturity | Outstanding principal | Indexed/ Non-indexed | Carrying amount |
|---------------------------|----------|----------------|-----------------------|----------------------|-----------------|
| LBANK 171010 | ISK | 10.10.2017 | 920 | Non-indexed | 920 |
| LBANK 171110 | ISK | 10.11.2017 | 1,740 | Non-indexed | 1,730 |
| LBANK 171211 | ISK | 11.12.2017 | 1,900 | Non-indexed | 1,881 |
| LBANK 180110 | ISK | 10.1.2018 | 220 | Non-indexed | 217 |
| LBANK 180212 | ISK | 12.2.2018 | 2,720 | Non-indexed | 2,672 |
| LBANK 180312 | ISK | 12.3.2018 | 2,700 | Non-indexed | 2,639 |
| LBANK 180410 | ISK | 10.4.2018 | 1,100 | Non-indexed | 1,070 |
| Total bills issued | | | | | 11,129 |

| As at 30.9.2017 | Carrying amount |
|---|-----------------|
| Other unsecured loans | 13,453 |
| Total other unsecured loans | 13,453 |
| Total unsecured borrowings | 200,888 |
| Total borrowings as at 30.9.2017 | 267,853 |

On 28 June 2017, the Nordic Investment Bank (NIB) and Landsbankinn hf. signed a new seven-year loan programme of USD 75 million.

On 22 June 2017, the Bank prepaid the remainder of the senior secured Bond F series in the amount of USD 160 million, together with accrued interest, and has thereby paid in full the outstanding amounts of the bonds issued by the Bank to LBI hf.

On 13 June 2017, the Bank completed a bond offering of SEK 1.000 million in senior unsecured bonds. The bonds mature in June 2020 and were issued in two tranches: SEK 700 million at a floating rate of STIBOR, plus a 1.0% margin and SEK 300 million at a fixed rate of 0.75%.

On 14 March 2017, the Bank completed issuance of EUR 300 million senior unsecured bonds. The bonds mature in March 2022, bear a fixed coupon rate of 1.375% and were priced at terms equivalent to a 130 basis point spread above mid-swaps in euros.

The new bond series, and loan agreement issued and signed during the first half of 2017, refinance the remainder of the senior secured Bond D and F series issued by the Bank to LBI hf., in addition to strengthening the Bank's liquidity further.

The senior unsecured bonds in foreign currencies are issued under the Bank's 2,000 million Euro Medium Term Note (EMTN) programme and are listed on the Irish Stock Exchange.

Notes to the Condensed Consolidated Interim Financial Statements

26. Borrowings (continued)

Secured borrowings

| Secured borrowings | | | | | | |
|-------------------------------|----------|----------------|-----------------------|--|---------------------------|-----------------|
| As at 31.12.2016 | Currency | Final maturity | Outstanding principal | Contractual interest rate (Base rate + Initial margin/ Step-up margin) | | Carrying amount |
| BOND D | USD | 9.10.2020 | USD 170 million | LIBOR + 2.90% / 3.50% | | 19,251 |
| BOND F | USD | 9.10.2024 | USD 271 million | LIBOR + 2.90% / 3.95% | | 30,871 |
| Total issued bonds to LBI hf. | | | | | | 50,122 |
| As at 31.12.2016 | Currency | Final maturity | Outstanding principal | Indexed/ Non-indexed | Contractual interest rate | Carrying amount |
| LBANK CB 17 | ISK | 23.10.2017 | 3,160 | Non-indexed | Fixed 6.0% | 3,189 |
| LBANK CB 19 | ISK | 17.9.2019 | 13,540 | Non-indexed | Fixed 6.8% | 13,873 |
| LBANK CB 21 | ISK | 30.11.2021 | 700 | Non-indexed | Fixed 5.5% | 691 |
| LBANK CBI 22 | ISK | 28.4.2022 | 17,780 | CPI-indexed | Fixed 3.0% | 18,463 |
| LBANK CBI 28 | ISK | 4.10.2028 | 2,380 | CPI-indexed | Fixed 3.0% | 2,371 |
| Total covered bonds | | | | | | 38,586 |
| Total secured borrowings | | | | | | 88,708 |

Unsecured borrowings

| As at 31.12.2016 | Currency | Final maturity | Outstanding principal | Contractual interest rate | Carrying amount |
|--|----------|----------------|-----------------------|---------------------------|------------------------|
| LBANK 3 10/18 | EUR | 19.10.2018 | EUR 300 million | FIXED 3.0% | 35,864 |
| LBANK FLOAT 06/19 | SEK | 10.6.2019 | SEK 350 million | STIBOR + 2.6% | 4,345 |
| LBANK FLOAT 06/19 | NOK | 11.6.2019 | NOK 500 million | NIBOR + 2.6% | 6,564 |
| LBANK 1.375 11/20 | SEK | 24.11.2020 | SEK 750 million | FIXED 1.375% | 9,280 |
| LBANK FLOAT 11/20 | SEK | 24.11.2020 | SEK 250 million | STIBOR + 1.5% | 3,103 |
| LBANK 1.625 03/21 | EUR | 15.3.2021 | EUR 500 million | FIXED 1.625% | 59,357 |
| Total EMTNs issued | | | | | 118,513 |
| As at 31.12.2016 | Currency | Final maturity | Outstanding principal | Indexed/ Non-indexed | Carrying amount |
| LBANK 170110 | ISK | 10.1.2017 | 2,340 | Non-indexed | 2,336 |
| LBANK 170210 | ISK | 10.2.2017 | 1,020 | Non-indexed | 1,013 |
| LBANK 170310 | ISK | 10.3.2017 | 1,040 | Non-indexed | 1,029 |
| LBANK 170410 | ISK | 10.4.2017 | 2,820 | Non-indexed | 2,775 |
| LBANK 170510 | ISK | 10.5.2017 | 2,780 | Non-indexed | 2,724 |
| LBANK 170612 | ISK | 12.6.2017 | 1,720 | Non-indexed | 1,677 |
| Total bills issued | | | | | 11,554 |
| As at 31.12.2016 | | | | | Carrying amount |
| Other unsecured loans | | | | | 5,169 |
| Total other unsecured loans | | | | | 5,169 |
| Total unsecured borrowings | | | | | 135,236 |
| Total borrowings as at 31.12.2016 | | | | | 223,944 |

27. Other liabilities

| | 30.9.2017 | 31.12.2016 |
|---|---------------|---------------|
| Unsettled securities trading | 6,310 | 4,779 |
| Withholding tax | 2,834 | 2,873 |
| Accounts payable | 447 | 677 |
| Contribution to the Depositors' and Investors' Guarantee Fund | 330 | 307 |
| Tax on liabilities of financial institutions | 2,500 | 2,973 |
| Current tax liabilities | 5,175 | 5,838 |
| Non-controlling interests - Funds | 671 | 883 |
| Sundry liabilities | 7,072 | 4,537 |
| Total | 25,339 | 22,867 |

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

Notes to the Condensed Consolidated Interim Financial Statements

28. Subordinated liabilities

| As at 30.9.2017 | 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 | 6.3 | | REIBOR + 4% | 6 |
| Subordinated loan | JPY | 1.12.2023 | JPY 49.1 million | | LIBOR + 5% | 46 |
| Subordinated loan | CHF | 1.12.2023 | CHF 0.3 million | | LIBOR + 5% | 36 |
| Subordinated loan | ISK | 1.12.2017 | 8.2 | CPI-indexed | Fixed 7.0% | 9 |
| Subordinated bonds unlisted | ISK | 22.11.2019 | 120.5 | CPI-indexed | Fixed 5.0% | 132 |
| Total subordinated liabilities | | | | | | 229 |

| As at 31.12.2016 | 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 | 25.3 | | REIBOR + 4% | 25 |
| Subordinated loan | JPY | 1.12.2023 | JPY 49.1 million | | LIBOR + 5% | 48 |
| Subordinated loan | CHF | 1.12.2023 | CHF 0.3 million | | LIBOR + 5% | 37 |
| Subordinated loan | ISK | 13.9.2017 | 59.1 | CPI-indexed | Fixed 7.0% | 61 |
| Subordinated loan | ISK | 18.9.2017 | 6.4 | CPI-indexed | Fixed 7.0% | 7 |
| Subordinated loan | ISK | 21.9.2017 | 19.3 | CPI-indexed | Fixed 7.0% | 20 |
| Subordinated loan | ISK | 22.9.2017 | 52.0 | CPI-indexed | Fixed 7.0% | 54 |
| Subordinated loan | ISK | 1.12.2017 | 8.2 | CPI-indexed | Fixed 7.0% | 8 |
| Subordinated bonds unlisted | ISK | 22.11.2019 | 120.5 | CPI-indexed | Fixed 5.0% | 128 |
| Total subordinated liabilities | | | | | | 388 |

29. Equity

Share capital

As of 30 September 2017, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.6 billion; each share has a par value of ISK 1. Each ordinary share conveys one vote at general meetings of the Bank. All share capital is fully paid up.

On 22 March 2017, shareholders at the Annual General Meeting (AGM) of the Bank for the operating year 2016 approved the Board's recommendation for the Bank to acquire own shares at the maximum of 10% of nominal value of issued share capital in accordance with Article 55 of the Public Limited Companies Act No. 2/1995. The price of each share is to be determined by the internal value of the Bank's shares, according to its most recently published results prior to the timing of the repurchase of the own shares. This authorisation applies until the next AGM in 2018 and the disposal of the own shares under this authorisation is subject to the approval of a shareholders meeting.

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 established in accordance with the Public Limited Companies Act, No. 2/1995, which stipulates that the Bank must allocate profits to the statutory reserve until the reserve is equal to one-quarter of the Bank's share capital.

Retained earnings

In June 2016, the Icelandic parliament passed an amendment to Act No. 3/2006, on Annual Financial Statements. The amendment entered into force immediately and applies to the financial year commencing 1 January 2016. The amendment requires, *inter alia*, the separation of retained earnings into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the Bank's statutory reserve and restricted retained earnings. Restricted retained earnings are split into two categories:

Unrealised gains in subsidiaries and equity-accounted associates reserve; if the share of profit from subsidiaries or equity-accounted associates is in excess of dividend received, the Group transfers the difference to a restricted reserve in equity. If the Group's interest in subsidiaries or equity-accounted associates is sold or written off, the applicable amount recognised in the reserve is transferred to retained earnings.

Notes to the Condensed Consolidated Interim Financial Statements

29. Equity (continued)

Retained earnings (continued)

Financial assets designated at fair value through profit or loss reserve. The Group transfers fair value changes arising from financial assets designated at fair value through profit or loss, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Dividend

On 22 March 2017, shareholders at the Annual General Meeting (AGM) of the Bank for the operating year 2016 approved the Board's proposal to pay dividends to shareholders in the total amount of ISK 13,002 million, or ISK 0.55 per share. The dividend was paid to shareholders on 29 March 2017. The recommendation of the Board of Directors to pay an extraordinary dividend in the total amount of ISK 11,820 million on outstanding shares, or ISK 0.50 per share, was also approved by the AGM. The extraordinary dividend was paid to shareholders on 20 September 2017. These dividends were payable to shareholders listed on the shareholders' registry of Landsbankinn at end of business on the day of the AGM, 22 March 2017, unless the Bank received notification of assignment of the dividend through the transfer of shares.

Other notes

30. Earnings per share

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|--|------------------|------------------|------------------|------------------|
| Profit for the period | | | | |
| Profit for the period attributable to owners of the Bank | 4,188 | 5,103 | 16,841 | 16,390 |

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.

| | 2017 1.7-30.9 | 2016 1.7-30.9 | 2017 1.1-30.9 | 2016 1.1-30.9 |
|---|------------------|------------------|------------------|------------------|
| Number of shares | | | | |
| Number of ordinary shares issued at beginning of period | 24,000 | 24,000 | 24,000 | 24,000 |
| Average number of own shares | (361) | (258) | (360) | (232) |
| Weighted average number of shares outstanding | 23,639 | 23,742 | 23,640 | 23,768 |
| Basic and diluted earnings per share from operations (ISK) | 0.18 | 0.21 | 0.71 | 0.69 |

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.

31. Litigation

Material litigation cases against the Bank and its subsidiaries

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. All material cases, reported open in the litigation section of the Group's Consolidated Financial Statements for the year 2016, have now been closed, as reported in the Group's interim financial statements for the first and second quarters of 2017.

In June 2013, a payment card company commenced litigation against the Bank and certain other financial undertakings claiming tort liability in the amount of around ISK 1.2 billion, plus interest. The plaintiff argued that the defendants were liable in tort for alleged violation of competition rules. On 1 June 2017 the Supreme Court confirmed the decision of the District Court to dismiss the case on grounds of insufficient substantiation. In September 2017, the same payment card company commenced litigation against the same defendants as in the previous case claiming tort liability in the amount of around ISK 923 million, plus interest. The plaintiff, again, argues that the defendants are liable in tort for alleged violation of competition rules.

In October 2017 the Icelandic Supreme Court rendered a judgment in case no. 623/2016 concluding that a provision in a consumer credit agreement between an individual and a commercial bank, other than Landsbankinn, did not fulfil the requirement stipulated in the Act on Consumer Credit Agreements no 121/1994 to specify the circumstances under which the interest rate may be changed. The Bank is currently assessing the potential impact of the judgment.

Notes to the Condensed Consolidated Interim Financial Statements

31. Litigation (continued)

Indemnity relating to a claim against Valitor for compensatory damages

In December 2014, the Bank sold to Arion Bank hf. all its shares in Valitor Holding hf. (Valitor), the mother company of Valitor hf. The agreement includes an indemnity clause under which the Bank is to proportionally compensate Arion Bank hf. with regards to certain cases concerning Valitor that relate to events that occurred before delivery of the sold shares, inter alia, for potential compensatory damages that Valitor may be obligated to pay for an alleged loss sustained due to Valitor's termination of a vendor agreement. A case on the matter has been filed before the District Court of Reykjavík. The next hearing of the case is expected early 2018.

32. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 September 2017 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business.

Main subsidiaries as at 30 September 2017

| 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 30 September 2017.

33. Related party transactions

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 of and amounts outstanding with public entities are disclosed in Note 38, under Public entities.

In March 2016, the Icelandic State Treasury took over Íslandsbanki. Following the takeover, a settlement was reached with the Icelandic Competition Authority to the effect that both banks will continue to operate as independent competitors in the financial market. The takeover qualifies as a merger under Icelandic competition law, as the Icelandic State Treasury has control over the two banks as of the time of the takeover. The Bank has a traditional bank-to-bank relationship with Íslandsbanki under generally accepted commercial terms. The nature of and amounts outstanding with financial institutions, including Íslandsbanki, are disclosed in Note 38, under Financial institutions.

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:

| Loans in ISK million | 2017 | | 2016 | |
|---|----------------------------|--|---------------------------|--|
| | Balance as at 30 September | Highest amount outstanding during the period | Balance as at 31 December | Highest amount outstanding during the period |
| Key management personnel | 225 | 241 | 136 | 142 |
| Parties related to key management personnel | 74 | 145 | 31 | 59 |
| Associates | 16,104 | 21,184 | 14,917 | 21,192 |
| Other | 25 | 124 | 123 | 127 |
| Total | 16,428 | 21,694 | 15,207 | 21,520 |

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 finance lease transactions between related parties during the period.

Notes to the Condensed Consolidated Interim Financial Statements

33. Related party transactions (continued)

Transactions with other related parties (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:

| | 2017 | | 2016 | |
|---|-------------------------------|--|------------------------------|--|
| | Balance as at 30 September | Highest amount outstanding during the period | Balance as at 31 December | Highest amount outstanding during the period |
| Deposits in ISK million | | | | |
| Key management personnel | 126 | 140 | 105 | 298 |
| Parties related to key management personnel | 34 | 86 | 31 | 227 |
| Associates | 5,342 | 16,885 | 1,132 | 15,624 |
| Other | 492 | 3,107 | 501 | 7,479 |
| Total | 5,994 | 20,218 | 1,769 | 23,628 |

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

| | Balance as at 30 September 2017 | Balance as at 31 December 2016 |
|---|--|---|
| Guarantees in ISK million | | |
| Key management personnel | - | - |
| Parties related to key management personnel | - | - |
| Associates | 672 | - |
| Total | 672 | 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.

34. 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 Condensed Consolidated Financial Statements for the nine months ended 30 September 2017.

Notes to the Condensed Consolidated Interim Financial Statements

Capital management

35. Capital requirements

The Group's capital management policies and practices aim to 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 key 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 and by the Icelandic Financial Supervisory Authority (FME). 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 is 8% of risk-weighted assets (RWA) for credit risk, market risk and operational risk. In conformity with Pillar II A requirements, 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 minimum capital requirement, as determined by the FME, is the sum of Pillar I and Pillar II A requirements.

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FME, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel (FSC). The FSC has defined Landsbankinn as a systematically important financial institution in Iceland.

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

| As of 1 October 2017 | CET1 | Tier 1 | Total |
|---|--------------|--------------|--------------|
| Pillar I | 4.5% | 6.0% | 8.0% |
| Pillar II A | 2.8% | 3.7% | 4.9% |
| Minimum requirement under Pillar I and Pillar II A | 7.3% | 9.7% | 12.9% |
| Systemic risk buffer | 2.8% | 2.8% | 2.8% |
| Capital buffer for systematically important institutions | 2.0% | 2.0% | 2.0% |
| Countercyclical capital buffer* | 1.0% | 1.0% | 1.0% |
| Capital conservation buffer | 2.5% | 2.5% | 2.5% |
| Combined buffer requirement under Pillar II B | 8.3% | 8.3% | 8.3% |
| Total capital requirement | 15.5% | 17.9% | 21.2% |

- The combined buffer requirement (CBR) shall be met in full with Common Equity Tier 1 (CET1) capital.
- Tier 1 capital is the sum of Common Equity Tier 1 (CET1) capital and Additional Tier 1 (AT1) capital.
- Total capital is the sum of Tier 1 capital and Tier 2 capital.

The Bank's target for the Group's minimum total capital ratio is to maintain at all times capital ratios above the fully phased-in FME capital requirements, in addition to a management capital buffer that is defined in the Bank's risk appetite. 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.

* With reference to FSC's recommendation and the decision of the FME, the Countercyclical capital buffer will increase from 1,00% to 1,25% as of 1 November 2017.

Notes to the Condensed Consolidated Interim Financial Statements

36. Capital base, risk-weighted assets and capital ratios

The following table shows the Group's capital base, risk-weighted assets and capital ratios. The calculations are in accordance with Chapter X of the Act on Financial Undertakings, No. 161/2002. The Group uses the standardised approach to calculate risk-weighted assets for credit risk and market risk, and the basic indicator approach for operational risk.

| Capital base | 30.9.2017 | 31.12.2016 |
|--|------------------|-------------------|
| Share capital | 23,640 | 23,648 |
| Share premium | 120,764 | 120,847 |
| Reserves | 14,381 | 10,875 |
| Retained earnings | 84,347 | 95,834 |
| Total equity attributable to owners of the Bank | 243,132 | 251,204 |
| Intangible assets | (2,969) | (2,634) |
| Common equity Tier 1 capital (CET1) | 240,163 | 248,570 |
| Non-controlling interests | - | 27 |
| Tier 1 capital | 240,163 | 248,597 |
| Subordinated liabilities | 229 | 388 |
| Regulatory amortisation | (89) | (203) |
| General credit risk adjustment | 3,949 | 4,024 |
| Tier 2 capital | 4,089 | 4,209 |
| Total capital base | 244,252 | 252,806 |
| Risk-weighted assets | | |
| Credit risk | 797,176 | 728,428 |
| Market risk | 22,792 | 16,519 |
| Operational risk* | 91,811 | 91,811 |
| Total risk-weighted assets | 911,779 | 836,758 |
| CET1 ratio | 26.3% | 29.7% |
| Tier 1 capital ratio | 26.3% | 29.7% |
| Total capital ratio | 26.8% | 30.2% |

*The amounts are updated on a yearly basis.

37. Leverage ratio

The following table shows the Group's leverage ratio as at 30 September 2017 and 31 December 2016. The requirements are based on the European legal framework for capital requirements (CRD IV and CRR) implementing the Basel III capital framework. Subject to Article 30(a) of Act No. 161/2002, on Financial Undertakings, a minimum leverage ratio of 3.0% is required.

| Leverage ratio | 30.9.2017 | 31.12.2016 |
|---|------------------|-------------------|
| - On-balance sheet exposure (excluding derivatives) | 1,197,171 | 1,110,879 |
| - Derivative instrument exposure | 1,787 | 278 |
| - Potential future exposure on derivatives | 1,080 | 835 |
| - Off-balance sheet exposure | 133,349 | 113,267 |
| - Regulatory adjustments to Tier 1 capital | (2,969) | (2,634) |
| Total leverage exposure | 1,330,418 | 1,222,625 |
| Tier 1 capital | 240,163 | 248,597 |
| Leverage ratio | 18.1% | 20.3% |

Notes to the Condensed Consolidated Interim Financial Statements

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

The following tables show the Group's maximum credit risk exposure as at 30 September 2017 and 31 December 2016. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Condensed Consolidated Interim Statement of Financial Position. Off-balance sheet amounts 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.

| As at 30 September 2017 | Corporations | | | | | | | | | | | | | Carrying amount |
|---|------------------------|------------------|----------------|----------------|------------------------|-----------------------|-------------------|---------------|----------------|---------------|-----------------|--------------|--------------|------------------|
| | Financial institutions | Public entities* | Individuals | Fisheries | Construction companies | Real estate companies | Holding companies | Retail | Services | ITC** | Manu- facturing | Agriculture | Other | |
| Cash and balances with Central Bank | - | 33,157 | - | - | - | - | - | - | - | - | - | - | - | 33,157 |
| Bonds and debt instruments | 3,353 | 146,354 | - | - | - | 8,980 | 49 | - | - | - | - | - | 1,487 | 160,223 |
| Derivative instruments | 1,603 | - | 1 | 2 | 43 | 11 | 79 | - | 1 | - | - | - | 47 | 1,787 |
| Loans and advances to financial institutions | 41,485 | - | - | - | - | - | - | - | - | - | - | - | - | 41,485 |
| Loans and advances to customers | - | 12,404 | 347,447 | 115,163 | 77,203 | 120,242 | 39,908 | 46,549 | 91,660 | 26,391 | 20,713 | 8,230 | 17 | 905,927 |
| Other financial assets | 6,641 | - | 217 | 33 | 51 | 32 | 94 | 22 | 1,700 | 1 | 1,533 | 1 | - | 10,325 |
| Total on-balance sheet exposure | 53,082 | 191,915 | 347,665 | 115,198 | 77,297 | 129,265 | 40,130 | 46,571 | 93,361 | 26,392 | 22,246 | 8,231 | 1,551 | 1,152,904 |
| Off-balance sheet exposure | 5,226 | 20,314 | 31,984 | 11,559 | 49,456 | 20,008 | 5,794 | 16,173 | 16,380 | 5,741 | 8,633 | 1,426 | 104 | 192,798 |
| Financial guarantees and underwriting commitments | 1,580 | 636 | 783 | 2,326 | 3,402 | 512 | 53 | 2,818 | 2,937 | 1,503 | 770 | - | 83 | 17,403 |
| Undrawn loan commitments | - | 13,309 | 8 | 6,080 | 42,924 | 17,978 | 5,351 | 8,688 | 6,111 | 2,964 | 5,570 | 1,004 | - | 109,987 |
| Undrawn overdraft/credit card facilities | 3,646 | 6,369 | 31,193 | 3,153 | 3,130 | 1,518 | 390 | 4,667 | 7,332 | 1,274 | 2,293 | 422 | 21 | 65,408 |
| Maximum exposure to credit risk | 58,308 | 212,229 | 379,649 | 126,757 | 126,753 | 149,273 | 45,924 | 62,744 | 109,741 | 32,133 | 30,879 | 9,657 | 1,655 | 1,345,702 |
| Percentage of maximum exposure to credit risk | 4.3% | 15.8% | 28.2% | 9.4% | 9.4% | 11.1% | 3.4% | 4.7% | 8.2% | 2.4% | 2.3% | 0.7% | 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.

Notes to the Condensed Consolidated Interim Financial Statements

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

| As at 31 December 2016 | Corporations | | | | | | | | | | | | | Carrying amount |
|---|------------------------|------------------|----------------|----------------|------------------------|-----------------------|-------------------|---------------|---------------|---------------|-----------------|---------------|--------------|------------------|
| | Financial institutions | Public entities* | Individuals | Fisheries | Construction companies | Real estate companies | Holding companies | Retail | Services | ITC** | Manu- facturing | Agriculture | Other | |
| Cash and balances with Central Bank | - | 30,662 | - | - | - | - | - | - | - | - | - | - | - | 30,662 |
| Bonds and debt instruments | 2,031 | 142,956 | - | - | - | 8,294 | 80 | - | - | - | - | - | 1,531 | 154,892 |
| Derivative instruments | 220 | 14 | - | - | - | - | 24 | - | - | - | - | - | 20 | 278 |
| Loans and advances to financial institutions | 20,408 | - | - | - | - | - | - | - | - | - | - | - | - | 20,408 |
| Loans and advances to customers | - | 9,783 | 320,690 | 123,626 | 74,962 | 113,364 | 40,490 | 42,235 | 74,743 | 19,220 | 24,167 | 10,135 | 1 | 853,417 |
| Other financial assets | 3,246 | 282 | 301 | - | 1,217 | 112 | 61 | 5 | 1,008 | 2 | 290 | 3 | 1 | 6,528 |
| Total on-balance sheet exposure | 25,905 | 183,697 | 320,991 | 123,626 | 76,179 | 121,770 | 40,655 | 42,240 | 75,751 | 19,222 | 24,457 | 10,138 | 1,553 | 1,066,185 |
| Off-balance sheet exposure | 5,640 | 16,385 | 29,109 | 17,421 | 39,122 | 10,832 | 2,392 | 18,704 | 15,999 | 4,159 | 9,996 | 1,149 | 382 | 171,289 |
| Financial guarantees and underwriting commitments | 2,022 | 634 | 819 | 6,345 | 2,650 | 999 | 64 | 2,959 | 2,179 | 895 | 525 | 10 | 365 | 20,465 |
| Undrawn loan commitments | - | 9,080 | - | 7,295 | 33,898 | 8,403 | 1,392 | 10,724 | 6,052 | 2,017 | 7,246 | 249 | - | 86,356 |
| Undrawn overdraft/credit card facilities | 3,618 | 6,671 | 28,290 | 3,781 | 2,574 | 1,430 | 936 | 5,021 | 7,768 | 1,247 | 2,225 | 890 | 17 | 64,468 |
| Maximum exposure to credit risk | 31,545 | 200,082 | 350,100 | 141,047 | 115,301 | 132,602 | 43,047 | 60,944 | 91,750 | 23,381 | 34,453 | 11,287 | 1,935 | 1,237,474 |
| Percentage of maximum exposure to credit risk | 2.5% | 16.2% | 28.3% | 11.4% | 9.3% | 10.7% | 3.5% | 4.9% | 7.4% | 1.9% | 2.8% | 0.9% | 0.2% | 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.

Notes to the Condensed Consolidated Interim Financial Statements

39. 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. 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 | | Without collateral | Allowance for impairment | Maximum exposure to credit risk |
|---|----------------------------------|----------------|----------------|----------------|----------------|--------------------------------------|-------------------|--------------------|--------------------------|---------------------------------|
| | 0% - 25% | 25% - 50% | 50% - 75% | 75% - 100% | Total | >100% | Collateral value* | | | |
| As at 30 September 2017 | | | | | | | | | | |
| Financial institutions | - | - | - | - | - | - | - | 46,711 | - | 46,711 |
| Public entities | 37 | 252 | 784 | 3,808 | 4,881 | 1,915 | 493 | 26,141 | (217) | 32,720 |
| Individuals | 21,154 | 69,004 | 174,372 | 46,077 | 310,607 | 11,725 | 7,083 | 61,008 | (3,910) | 379,430 |
| Corporates | 14,610 | 79,515 | 187,092 | 149,662 | 430,879 | 217,241 | 130,842 | 45,933 | (12,704) | 681,349 |
| Fisheries | 2,630 | 20,699 | 59,952 | 37,259 | 120,540 | 4,772 | 3,028 | 2,063 | (653) | 126,722 |
| Construction companies | 626 | 3,992 | 9,183 | 14,521 | 28,322 | 97,564 | 58,376 | 2,703 | (1,930) | 126,659 |
| Real estate companies | 1,599 | 11,934 | 34,087 | 46,330 | 93,950 | 41,292 | 22,992 | 6,920 | (1,911) | 140,251 |
| Holding companies | 4,785 | 5,691 | 19,938 | 882 | 31,296 | 9,696 | 5,391 | 5,291 | (581) | 45,702 |
| Retail | 985 | 6,260 | 10,480 | 21,645 | 39,370 | 19,904 | 15,089 | 4,264 | (816) | 62,722 |
| Services | 2,528 | 13,957 | 31,053 | 24,481 | 72,019 | 28,292 | 14,759 | 12,788 | (5,062) | 108,037 |
| Information, technology and communication | 65 | 5,138 | 6,565 | 146 | 11,914 | 11,285 | 7,982 | 9,165 | (232) | 32,132 |
| Manufacturing | 428 | 10,827 | 13,715 | 2,053 | 27,023 | 1,384 | 583 | 2,372 | (1,433) | 29,346 |
| Agriculture | 947 | 1,017 | 2,119 | 2,338 | 6,421 | 2,984 | 2,633 | 337 | (86) | 9,656 |
| Other | 17 | - | - | 7 | 24 | 68 | 9 | 30 | - | 122 |
| Total | 35,801 | 148,771 | 362,248 | 199,547 | 746,367 | 230,881 | 138,418 | 179,793 | (16,831) | 1,140,210 |
| As at 31 December 2016 | | | | | | | | | | |
| Financial institutions | - | - | - | - | - | - | - | 26,047 | - | 26,047 |
| Public entities | 42 | 263 | 758 | 255 | 1,318 | 1,174 | 544 | 23,922 | (246) | 26,168 |
| Individuals | 20,188 | 60,457 | 145,319 | 52,366 | 278,330 | 16,035 | 9,374 | 61,589 | (6,154) | 349,800 |
| Corporates | 21,535 | 81,606 | 191,261 | 143,241 | 437,643 | 166,424 | 94,963 | 53,583 | (14,551) | 643,099 |
| Fisheries | 8,657 | 32,701 | 68,975 | 21,827 | 132,160 | 8,125 | 5,207 | 1,231 | (467) | 141,049 |
| Construction companies | 1,137 | 4,820 | 15,996 | 27,368 | 49,321 | 58,686 | 34,069 | 8,012 | (1,934) | 114,085 |
| Real estate companies | 869 | 5,438 | 31,890 | 52,181 | 90,378 | 28,662 | 20,061 | 7,712 | (2,556) | 124,196 |
| Holding companies | 6,336 | 4,723 | 17,310 | 1,857 | 30,226 | 5,382 | 2,353 | 7,933 | (659) | 42,882 |
| Retail | 865 | 6,939 | 9,787 | 18,212 | 35,803 | 21,067 | 5,663 | 5,272 | (1,201) | 60,941 |
| Services | 2,218 | 16,392 | 23,697 | 14,005 | 56,312 | 26,516 | 14,583 | 14,003 | (6,090) | 90,741 |
| Information, technology and communication | 56 | 659 | 5,006 | 91 | 5,812 | 11,733 | 8,054 | 5,997 | (164) | 23,378 |
| Manufacturing | 360 | 9,078 | 17,079 | 5,533 | 32,050 | 796 | 492 | 2,683 | (1,368) | 34,161 |
| Agriculture | 1,037 | 743 | 1,521 | 2,160 | 5,461 | 5,392 | 4,472 | 542 | (112) | 11,283 |
| Other | - | 113 | - | 7 | 120 | 65 | 9 | 198 | - | 383 |
| Total | 41,765 | 142,326 | 337,338 | 195,862 | 717,291 | 183,633 | 104,881 | 165,141 | (20,951) | 1,045,114 |

*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.

Notes to the Condensed Consolidated Interim Financial Statements

40. Collateral types

The following tables show the different types of collateral held by the Group against credit exposures. Residential property is the principal collateral held against loans to individuals. Construction projects and commercial property are the main real estate collateral held against loans to corporates. The collateral value amounts are assigned to claim value amounts. The value of each individual collateral item held cannot exceed the maximum credit exposure of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the credit exposure.

| As at 30 September 2017 | Real estate | Vessels | Deposits | Securities | Other* | Total |
|---|----------------|---------------|--------------|---------------|----------------|----------------|
| Public entities | 5,225 | - | 31 | - | 114 | 5,370 |
| Individuals | 298,244 | 172 | 523 | 2,879 | 15,770 | 317,588 |
| Corporates | 295,344 | 80,267 | 2,552 | 63,879 | 113,252 | 555,294 |
| Fisheries | 10,127 | 78,514 | 131 | 13,634 | 21,900 | 124,306 |
| Construction companies | 76,152 | 79 | 932 | 10 | 7,526 | 84,699 |
| Real estate companies | 114,177 | 26 | 153 | 229 | 777 | 115,362 |
| Holding companies | 1,776 | - | 24 | 34,670 | 979 | 37,449 |
| Retail | 24,032 | 11 | 154 | 1,134 | 29,468 | 54,799 |
| Services | 53,371 | 1,580 | 777 | 174 | 31,695 | 87,597 |
| Information, technology and communication | 608 | - | 42 | 12,124 | 7,107 | 19,881 |
| Manufacturing | 8,520 | 50 | 317 | 1,904 | 11,201 | 21,992 |
| Agriculture | 6,564 | 7 | 6 | - | 2,599 | 9,176 |
| Other | 17 | - | 16 | - | - | 33 |
| Total | 598,813 | 80,439 | 3,106 | 66,758 | 129,136 | 878,252 |

| As at 31 December 2016 | Real estate | Vessels | Deposits | Securities | Other* | Total |
|---|----------------|---------------|--------------|---------------|----------------|----------------|
| Public entities | 1,692 | - | 41 | - | 123 | 1,856 |
| Individuals | 270,629 | 221 | 584 | 3,262 | 14,024 | 288,720 |
| Corporates | 271,474 | 93,714 | 3,835 | 57,720 | 102,542 | 529,285 |
| Fisheries | 12,010 | 91,101 | 152 | 16,205 | 20,948 | 140,416 |
| Construction companies | 71,513 | 81 | 823 | 2,240 | 6,586 | 81,243 |
| Real estate companies | 107,642 | 23 | 265 | 440 | 599 | 108,969 |
| Holding companies | 5,528 | - | 870 | 26,572 | 507 | 33,477 |
| Retail | 16,161 | 11 | 562 | 1,066 | 23,981 | 41,781 |
| Services | 40,368 | 2,443 | 640 | 1,651 | 28,078 | 73,180 |
| Information, technology and communication | 603 | - | 121 | 5,738 | 7,375 | 13,837 |
| Manufacturing | 10,104 | 50 | 384 | 3,808 | 12,023 | 26,369 |
| Agriculture | 7,545 | 5 | 2 | - | 2,332 | 9,884 |
| Other | - | - | 16 | - | 113 | 129 |
| Total | 543,795 | 93,935 | 4,460 | 60,982 | 116,689 | 819,861 |

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

41. Loans and advances credit monitoring

The following tables show the credit risk monitoring split by colour classification.

| As at 30 September 2017 | Green | Yellow | Orange | Red | Carrying amount |
|---|----------------|---------------|---------------|---------------|-----------------|
| Financial institutions | 41,485 | - | - | - | 41,485 |
| Public entities | 11,868 | 263 | 5 | 268 | 12,404 |
| Individuals | 319,611 | 9,782 | 13,580 | 4,474 | 347,447 |
| Corporates | 493,489 | 31,578 | 10,936 | 10,073 | 546,076 |
| Fisheries | 104,565 | 8,800 | 1,278 | 520 | 115,163 |
| Construction companies | 73,646 | 2,144 | 809 | 604 | 77,203 |
| Real estate companies | 105,811 | 9,423 | 3,018 | 1,990 | 120,242 |
| Holding companies | 39,310 | 469 | 108 | 21 | 39,908 |
| Retail | 43,270 | 1,553 | 1,263 | 463 | 46,549 |
| Services | 79,597 | 6,389 | 3,465 | 2,209 | 91,660 |
| Information, technology and communication | 26,214 | 113 | 48 | 16 | 26,391 |
| Manufacturing | 15,448 | 661 | 450 | 4,154 | 20,713 |
| Agriculture | 5,628 | 2,009 | 497 | 96 | 8,230 |
| Other | - | 17 | - | - | 17 |
| Total | 866,453 | 41,623 | 24,521 | 14,815 | 947,412 |

Notes to the Condensed Consolidated Interim Financial Statements

41. Loans and advances credit monitoring (continued)

| As at 31 December 2016 | Green | Yellow | Orange | Red | Carrying amount |
|---|----------------|---------------|---------------|---------------|-----------------|
| Financial institutions | 20,408 | - | - | - | 20,408 |
| Public entities | 8,992 | 470 | 55 | 266 | 9,783 |
| Individuals | 286,877 | 11,503 | 16,573 | 5,737 | 320,690 |
| Corporates | 463,201 | 36,014 | 13,006 | 10,723 | 522,944 |
| Fisheries | 119,346 | 3,297 | 660 | 323 | 123,626 |
| Construction companies | 68,720 | 4,714 | 899 | 629 | 74,962 |
| Real estate companies | 94,970 | 12,378 | 3,940 | 2,077 | 113,365 |
| Holding companies | 38,654 | 1,069 | 646 | 121 | 40,490 |
| Retail | 37,072 | 2,994 | 1,339 | 830 | 42,235 |
| Services | 62,064 | 5,983 | 4,147 | 2,549 | 74,743 |
| Information, technology and communication | 18,646 | 406 | 140 | 28 | 19,220 |
| Manufacturing | 17,745 | 1,796 | 469 | 4,157 | 24,167 |
| Agriculture | 5,983 | 3,377 | 766 | 9 | 10,135 |
| Other | 1 | - | - | - | 1 |
| Total | 779,478 | 47,987 | 29,634 | 16,726 | 873,825 |

42. Credit quality of financial assets

| As at 30 September 2017 | Gross carrying amount | | | | Allowance for impairment | Carrying amount |
|--|--|--|-----------------------|------------------|--------------------------|------------------|
| | Neither past due nor individually impaired | Past due but not individually impaired | Individually impaired | Total | | |
| Cash and balances with Central Bank | 33,157 | - | - | 33,157 | - | 33,157 |
| Bonds and debt instruments | 160,179 | 44 | - | 160,223 | - | 160,223 |
| Derivative instruments | 1,787 | - | - | 1,787 | - | 1,787 |
| Loans and advances to financial institutions | 41,485 | - | - | 41,485 | - | 41,485 |
| Loans and advances to customers | 869,890 | 23,335 | 29,533 | 922,758 | (16,831) | 905,927 |
| Other financial assets | 10,325 | - | - | 10,325 | - | 10,325 |
| Total | 1,116,823 | 23,379 | 29,533 | 1,169,735 | (16,831) | 1,152,904 |
| As at 31 December 2016 | | | | | | |
| Cash and balances with Central Bank | 30,662 | - | - | 30,662 | - | 30,662 |
| Bonds and debt instruments | 154,731 | 161 | - | 154,892 | - | 154,892 |
| Derivative instruments | 278 | - | - | 278 | - | 278 |
| Loans and advances to financial institutions | 20,408 | - | - | 20,408 | - | 20,408 |
| Loans and advances to customers | 815,881 | 24,437 | 34,050 | 874,368 | (20,951) | 853,417 |
| Other financial assets | 6,528 | - | - | 6,528 | - | 6,528 |
| Total | 1,028,488 | 24,598 | 34,050 | 1,087,136 | (20,951) | 1,066,185 |

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

43. 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.

| As at 30 September 2017 | Rating grades | | | | | Gross carrying amount |
|---|----------------|----------------|---------------|--------------|--------------|-----------------------|
| | 10-7 | 6-4 | 3-1 | 0 | Unrated | |
| Financial institutions | 39,330 | 2,155 | - | - | - | 41,485 |
| Public entities | 7,026 | 5,141 | - | - | - | 12,167 |
| Individuals | 118,700 | 174,849 | 39,008 | 66 | 914 | 333,537 |
| Corporates | 34,646 | 437,773 | 49,633 | 1,204 | 930 | 524,186 |
| Fisheries | 5,901 | 97,837 | 9,781 | 121 | - | 113,640 |
| Construction companies | 620 | 61,693 | 13,693 | 71 | 144 | 76,221 |
| Real estate companies | 601 | 106,278 | 7,969 | 745 | 380 | 115,973 |
| Holding companies | - | 33,922 | 5,346 | - | 68 | 39,336 |
| Retail | 11,289 | 31,677 | 1,311 | 32 | - | 44,309 |
| Services | 11,898 | 62,862 | 9,514 | 162 | 209 | 84,645 |
| Information, technology and communication | 355 | 25,834 | 168 | 19 | 83 | 26,459 |
| Manufacturing | 2,860 | 11,827 | 1,258 | 54 | 29 | 16,028 |
| Agriculture | 1,122 | 5,843 | 593 | - | - | 7,558 |
| Other | - | - | - | - | 17 | 17 |
| Total | 199,702 | 619,918 | 88,641 | 1,270 | 1,844 | 911,375 |

Notes to the Condensed Consolidated Interim Financial Statements

43. Loans and advances neither past due nor individually impaired (continued)

| | Rating grades | | | | | Gross carrying amount |
|---|----------------|----------------|---------------|--------------|--------------|-----------------------|
| | 10-7 | 6-4 | 3-1 | 0 | Unrated | |
| As at 31 December 2016 | | | | | | |
| Financial institutions | 20,408 | - | - | - | - | 20,408 |
| Public entities | 6,448 | 3,029 | 32 | 5 | - | 9,514 |
| Individuals | 112,366 | 154,564 | 36,527 | 339 | 914 | 304,710 |
| Corporates | 35,410 | 423,118 | 41,078 | 1,274 | 777 | 501,657 |
| Fisheries | 12,655 | 105,283 | 4,869 | 35 | - | 122,842 |
| Construction companies | 257 | 65,878 | 7,442 | 8 | 72 | 73,657 |
| Real estate companies | 172 | 97,199 | 8,154 | 884 | 341 | 106,750 |
| Holding companies | - | 34,503 | 4,769 | - | 245 | 39,517 |
| Retail | 9,976 | 27,667 | 2,978 | 253 | 21 | 40,895 |
| Services | 6,947 | 53,077 | 9,254 | 42 | 54 | 69,374 |
| Information, technology and communication | 227 | 18,583 | 358 | 12 | - | 19,180 |
| Manufacturing | 4,395 | 13,517 | 1,789 | 40 | - | 19,741 |
| Agriculture | 781 | 7,410 | 1,465 | - | 44 | 9,700 |
| Other | - | 1 | - | - | - | 1 |
| Total | 174,632 | 580,711 | 77,637 | 1,618 | 1,691 | 836,289 |

44. 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.

| | 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 |
|--------------------------------|-------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| As at 30 September 2017 | | | | | | |
| Individuals | 2,233 | 6,518 | 911 | 918 | 938 | 11,518 |
| Corporations | 3,751 | 4,253 | 897 | 732 | 2,184 | 11,817 |
| Total | 5,984 | 10,771 | 1,808 | 1,650 | 3,122 | 23,335 |
| As at 31 December 2016 | | | | | | |
| Public entities | - | - | - | 50 | - | 50 |
| Individuals | 2,459 | 4,561 | 3,134 | 1,241 | 1,509 | 12,904 |
| Corporations | 4,932 | 3,307 | 1,143 | 643 | 1,458 | 11,483 |
| Total | 7,391 | 7,868 | 4,277 | 1,934 | 2,967 | 24,437 |

Notes to the Condensed Consolidated Interim Financial Statements

45. Loans and advances by industry sectors

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

| | Gross carrying amount | Gross not individually impaired | Collective allowance | Individually impaired | | | | Carrying amount |
|---|-----------------------------|---------------------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|--------------------|
| | | | | Of which performing | | Of which non-performing* | | |
| | | | | Gross carrying amount | Individual allowance | Gross carrying amount | Individual allowance | |
| As at 30 September 2017 | | | | | | | | |
| Financial institutions | 41,485 | 41,485 | - | - | - | - | - | 41,485 |
| Public entities | 12,621 | 12,167 | (37) | 15 | (9) | 439 | (171) | 12,404 |
| Individuals | 351,356 | 345,054 | (1,269) | 1,732 | (504) | 4,570 | (2,136) | 347,447 |
| Corporates | 558,781 | 536,004 | (2,642) | 13,395 | (4,270) | 9,382 | (5,793) | 546,076 |
| Fisheries | 115,816 | 115,031 | (325) | 548 | (218) | 237 | (110) | 115,163 |
| Construction companies | 79,134 | 77,388 | (667) | 701 | (583) | 1,044 | (680) | 77,203 |
| Real estate companies | 122,153 | 118,115 | (486) | 2,244 | (1,050) | 1,795 | (376) | 120,242 |
| Holding companies | 40,489 | 40,094 | (266) | 119 | (67) | 276 | (248) | 39,908 |
| Retail | 47,365 | 45,630 | (173) | 827 | (184) | 908 | (459) | 46,549 |
| Services | 96,721 | 88,656 | (440) | 3,502 | (1,123) | 4,564 | (3,499) | 91,660 |
| Information, technology and communication | 26,624 | 26,552 | (189) | 46 | (31) | 25 | (12) | 26,391 |
| Manufacturing | 22,146 | 16,634 | (81) | 5,014 | (969) | 498 | (383) | 20,713 |
| Agriculture | 8,316 | 7,887 | (15) | 394 | (45) | 35 | (26) | 8,230 |
| Other | 17 | 17 | - | - | - | - | - | 17 |
| Total | 964,243 | 934,710 | (3,948) | 15,142 | (4,783) | 14,391 | (8,100) | 947,412 |

| | Gross carrying amount | Gross not individually impaired | Collective allowance | Individually impaired | | | | Carrying amount |
|---|-----------------------------|---------------------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|--------------------|
| | | | | Of which performing | | Of which non-performing* | | |
| | | | | Gross carrying amount | Individual allowance | Gross carrying amount | Individual allowance | |
| As at 31 December 2016 | | | | | | | | |
| Financial institutions | 20,408 | 20,408 | - | - | - | - | - | 20,408 |
| Public entities | 10,028 | 9,565 | (48) | - | - | 464 | (198) | 9,783 |
| Individuals | 326,844 | 317,614 | (1,499) | 2,170 | (738) | 7,059 | (3,916) | 320,690 |
| Corporates | 537,496 | 513,139 | (2,476) | 9,953 | (4,446) | 14,404 | (7,630) | 522,944 |
| Fisheries | 124,094 | 123,314 | (145) | 326 | (71) | 452 | (250) | 123,626 |
| Construction companies | 76,897 | 74,802 | (537) | 635 | (530) | 1,460 | (867) | 74,963 |
| Real estate companies | 115,922 | 111,727 | (667) | 1,717 | (817) | 2,478 | (1,074) | 113,364 |
| Holding companies | 41,148 | 40,503 | (251) | 156 | (35) | 489 | (372) | 40,490 |
| Retail | 43,436 | 41,629 | (224) | 756 | (291) | 1,050 | (685) | 42,235 |
| Services | 80,833 | 71,762 | (401) | 3,601 | (2,029) | 5,471 | (3,661) | 74,743 |
| Information, technology and communication | 19,383 | 19,308 | (115) | 27 | (6) | 49 | (43) | 19,220 |
| Manufacturing | 25,535 | 19,929 | (91) | 2,695 | (632) | 2,912 | (646) | 24,167 |
| Agriculture | 10,247 | 10,164 | (45) | 40 | (35) | 43 | (32) | 10,135 |
| Other | 1 | 1 | - | - | - | - | - | 1 |
| Total | 894,776 | 860,726 | (4,023) | 12,123 | (5,184) | 21,927 | (11,744) | 873,825 |

*Non-performing past due more than 90 days

Notes to the Condensed Consolidated Interim Financial Statements

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

| | 1.1-30.9.2017 | | | 1.1-30.9.2016 | | |
|---|----------------------|----------------------|-----------------|----------------------|----------------------|-----------------|
| | Individual allowance | Collective allowance | Total | Individual allowance | Collective allowance | Total |
| Balance at the beginning of the year | (16,928) | (4,023) | (20,951) | (28,200) | (5,457) | (33,657) |
| New provisions | (2,367) | - | (2,367) | (4,584) | - | (4,584) |
| Reversals | 2,671 | 75 | 2,746 | 7,297 | 1,110 | 8,407 |
| Provisions used to cover write-offs | 3,741 | - | 3,741 | 6,633 | - | 6,633 |
| Balance at the end of the period | (12,883) | (3,948) | (16,831) | (18,854) | (4,347) | (23,201) |

| | 1.1-30.9.2017 | | | 1.1-30.9.2016 | | |
|--|---------------|------------|------------|---------------|--------------|--------------|
| | Customers | Financials | Total | Customers | Financials | Total |
| New provisions | (2,367) | - | (2,367) | (4,584) | - | (4,584) |
| Write-offs | (4,647) | - | (4,647) | (7,597) | - | (7,597) |
| Provisions used to cover write-offs | 3,741 | - | 3,741 | 6,633 | - | 6,633 |
| Reversals | 2,746 | - | 2,746 | 8,407 | - | 8,407 |
| Recoveries | 1,322 | - | 1,322 | 1,743 | - | 1,743 |
| Translation difference | 98 | - | 98 | - | - | 0 |
| Impairment loss for the period | 893 | 0 | 893 | 4,602 | 0 | 4,602 |
| Impairment of financial institutions and other | - | - | 0 | - | (183) | (183) |
| Net impairment loss for the period | 893 | 0 | 893 | 4,602 | (183) | 4,419 |

47. Large exposures

As at 30 September 2017, two customer groups were rated as large exposures in accordance with rules on large exposures. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's eligible capital. No exposure, after credit risk mitigation, may exceed 25% of the eligible capital. The following table shows the Group's large exposures after credit risk mitigation:

| | Number of large exposures | Large exposures |
|---|---------------------------|-----------------|
| As at 30 September 2017 | | |
| Large exposures between 10% and 20% of the Group's eligible capital | 1 | 29,350 |
| Large exposures between 0% and 10% of the Group's eligible capital | 1 | - |
| Total | 2 | 29,350 |
| Total large exposures to eligible capital | | 12% |
| As at 31 December 2016 | | |
| Large exposures between 10% and 20% of the Group's eligible capital | 2 | 51,310 |
| Large exposures between 0% and 10% of the Group's eligible capital | 1 | - |
| Total | 3 | 51,310 |
| Total large exposures to eligible capital | | 20% |

Notes to the Condensed Consolidated Interim Financial Statements

48. Offsetting financial assets and financial liabilities

The following table shows reconciliation of 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.

As at 30 September 2017

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

| Types of financial assets | Financial assets subject to netting agreements | | | Netting not recognised on balance sheet | | Net financial assets with netting agreements | Financial assets not subject to netting agreements | Net amount on balance sheet |
|---------------------------|--|-----------------------|------------|---|---------------------|--|--|-----------------------------|
| | Financial assets | Financial liabilities | Net amount | Financial liabilities | Collateral received | | | |
| Derivatives | 1,787 | - | 1,787 | (296) | (122) | 1,369 | - | 1,787 |

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

| Types of financial liabilities | Financial liabilities subject to netting agreements | | | Netting not recognised on balance sheet | | Net financial liabilities with netting agreements | Financial liabilities not subject to netting agreements | Net amount on balance sheet |
|--------------------------------|---|------------------|----------------|---|--------------------|---|---|-----------------------------|
| | Financial liabilities | Financial assets | Net amount | Financial assets | Collateral pledged | | | |
| Derivatives | (962) | - | (962) | 296 | 401 | (265) | - | (962) |
| Short positions | (507) | - | (507) | - | 507 | - | - | (507) |
| Total | (1,469) | 0 | (1,469) | 296 | 908 | (265) | 0 | (1,469) |

As at 31 December 2016

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

| Types of financial assets | Financial assets subject to netting agreements | | | Netting not recognised on balance sheet | | Net financial assets with netting agreements | Financial assets not subject to netting agreements | Net amount on balance sheet |
|---------------------------|--|-----------------------|------------|---|---------------------|--|--|-----------------------------|
| | Financial assets | Financial liabilities | Net amount | Financial liabilities | Collateral received | | | |
| Derivatives | 265 | - | 265 | (79) | (46) | 140 | 13 | 278 |

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

| Types of financial liabilities | Financial liabilities subject to netting agreements | | | Netting not recognised on balance sheet | | Net financial liabilities with netting agreements | Financial liabilities not subject to netting agreements | Net amount on balance sheet |
|--------------------------------|---|------------------|----------------|---|--------------------|---|---|-----------------------------|
| | Financial liabilities | Financial assets | Net amount | Financial assets | Collateral pledged | | | |
| Derivatives | (1,090) | - | (1,090) | 79 | 117 | (894) | (93) | (1,183) |
| Short positions | (546) | - | (546) | - | 546 | - | - | (546) |
| Total | (1,636) | 0 | (1,636) | 79 | 663 | (894) | (93) | (1,729) |

Notes to the Condensed Consolidated Interim Financial Statements

Liquidity risk

49. Liquidity risk management

The Group complies with the Central Bank's new rules on Liquidity Coverage Requirements, No. 266/2017, which supersede the previous rules, No. 1031/2014. The Group also complies with rules on funding foreign currencies, No. 1032/2014, and follows guidelines No. 2/2010 from the Icelandic Financial Supervisory Authority (FME), on best practice for managing liquidity in banking organisations. The liquidity rules require the Group to maintain a minimum total Liquidity Coverage Ratio (LCR) of 100% and 100% for foreign currencies. The funding rules require a minimum of a 100% Net Stable Funding Ratio (NSFR) in foreign currencies for year 2017. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland and the FME.

The key indicator of short-term liquidity risk is measured by the LCR which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a stress scenario. High quality liquid assets are comprised of cash at hand, balances with the Central Bank, assets eligible for repo transactions with the Central Banks and zero percent risk-weighted foreign government bonds. Expected inflow and outflow weights, according to liquidity rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. The expected cash inflow that can offset expected cash outflow is capped at 75% in order to prevent banks from over-relying on the inflow. Calculations of the ratio are shown in the following table:

| Liquidity coverage ratio as at 30.9.2017 | Total | | Foreign currencies | |
|--|----------------|----------------|--------------------|---------------|
| | Unweighted | Weighted | Unweighted | Weighted |
| Level 1 liquid assets | 128,927 | 128,927 | 49,299 | 49,299 |
| Level 2 liquid assets | - | - | - | - |
| Information items | 28,806 | - | 10,375 | - |
| Total liquid assets | 157,733 | 128,927 | 59,674 | 49,299 |
| Deposits | 428,579 | 113,894 | 46,714 | 17,859 |
| Borrowing | 2,089 | 2,089 | 1,129 | 1,129 |
| Other outflows | 139,651 | 21,406 | 33,276 | 3,610 |
| Total outflows (0-30 days) | 570,319 | 137,389 | 81,119 | 22,598 |
| Loans and advances to financial institutions | 47,413 | 35,848 | 37,152 | 35,787 |
| Other inflows | 42,193 | 20,145 | 10,891 | 5,701 |
| Limit on inflows | - | - | - | (24,540) |
| Total inflows (0-30 days) | 89,606 | 55,993 | 48,043 | 16,948 |
| Liquidity coverage ratio | | 158% | | 873% |

| Liquidity coverage ratio as at 31.12.2016 | Total | | Foreign currencies | |
|--|----------------|----------------|--------------------|---------------|
| | Unweighted | Weighted | Unweighted | Weighted |
| Level 1 liquid assets | 143,977 | 143,977 | 26,221 | 26,221 |
| Level 2 liquid assets and information items | 28,749 | 5,589 | 11,177 | 5,589 |
| Total liquid assets | 172,726 | 149,566 | 37,398 | 31,810 |
| Deposits | 391,508 | 123,148 | 36,126 | 14,123 |
| Borrowing | 2,787 | 2,787 | 447 | 447 |
| Other outflows | 173,532 | 31,002 | 29,879 | 2,561 |
| Total outflows (0-30 days) | 567,827 | 156,937 | 66,452 | 17,131 |
| Loans and advances to financial institutions | 18,707 | 16,732 | 18,680 | 16,704 |
| Other inflows | 54,673 | 23,547 | 28,642 | 14,317 |
| Limit on inflows | - | - | - | (18,173) |
| Total inflows (0-30 days) | 73,380 | 40,279 | 47,322 | 12,848 |
| Liquidity coverage ratio | | 128% | | 743% |

The following table shows the composition of the Group's liquidity reserve which is comprised of high quality liquid assets as defined in the Rules on Liquidity Ratio, etc., No. 266/2017, as well as readily available loans and advances to financial institutions.

| Liquidity reserves as at 30 September 2017 | Foreign currencies | |
|--|--------------------|---------------|
| | Total | |
| Cash and balances with the Central Bank | 4,478 | 1,723 |
| Domestic bonds and debt instruments eligible as collateral with the Central Bank | 76,873 | - |
| Foreign government bonds with 0% risk weight | 47,576 | 47,576 |
| High quality liquidity assets | 128,927 | 49,299 |
| Loans and advances to financial institutions | 47,413 | 37,152 |
| Total liquidity reserves | 176,340 | 86,451 |

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 and NSFR total as at 30 September 2017 and 31 December 2016:

| | As at 30 September 2017 | As at 31 December 2016 |
|--------------------------------|-------------------------------|------------------------------|
| Net stable funding ratio FX | 185% | 154% |
| Net stable funding ratio total | 126% | 123% |

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50. Encumbered assets

The following tables show the Group's total encumbered and unencumbered assets as at 30 September 2017 and 31 December 2016.

| | Collateral pledged against | | Un-encumbered | Total |
|--|----------------------------|--------------|------------------|------------------|
| | Covered bonds | Other* | | |
| As at 30 September 2017 | | | | |
| Cash and balances with Central Bank | 78 | - | 33,079 | 33,157 |
| Bonds and debt instruments | - | 6,456 | 153,767 | 160,223 |
| Equities and equity instruments | - | - | 31,049 | 31,049 |
| Derivative instruments | - | - | 1,787 | 1,787 |
| Loans and advances to financial institutions | - | 1,410 | 40,075 | 41,485 |
| Loans and advances to customers | 89,646 | - | 816,281 | 905,927 |
| Investments in equity-accounted associates | - | - | 1,096 | 1,096 |
| Property and equipment | - | - | 5,228 | 5,228 |
| Intangible assets | - | - | 2,969 | 2,969 |
| Other assets | - | - | 11,660 | 11,660 |
| Assets classified as held for sale | - | - | 4,377 | 4,377 |
| Total | 89,724 | 7,866 | 1,101,368 | 1,198,958 |

| | Collateral pledged against | | | Un-encumbered | Total |
|--|----------------------------|-------------------------|---------------|----------------|------------------|
| | Covered bonds | Issued bonds to LBI hf. | Other* | | |
| As at 31 December 2016 | | | | | |
| Cash and balances with Central Bank | 96 | - | - | 30,566 | 30,662 |
| Bonds and debt instruments | - | - | 8,562 | 146,330 | 154,892 |
| Equities and equity instruments | - | - | - | 26,688 | 26,688 |
| Derivative instruments | - | - | - | 278 | 278 |
| Loans and advances to financial institutions | - | - | 1,970 | 18,438 | 20,408 |
| Loans and advances to customers | 52,810 | 60,800 | - | 739,807 | 853,417 |
| Investments in equity-accounted associates | - | - | - | 1,184 | 1,184 |
| Property and equipment | - | - | - | 5,452 | 5,452 |
| Intangible assets | - | - | - | 2,634 | 2,634 |
| Other assets | - | - | - | 8,093 | 8,093 |
| Assets classified as held for sale | - | - | - | 7,449 | 7,449 |
| Total | 52,906 | 60,800 | 10,532 | 986,919 | 1,111,157 |

*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

51. Market risk management

The following table summarises the Group's exposure to market risk as at 30 September 2017 and December 2016. The Group uses the standardized approach to calculate risk-weighted assets for Credit Valuation Adjustment (CVA).

| Market risk factor | 30.9.2017 | 31.12.2016 |
|-----------------------------|-------------|-------------|
| | % of RWA | % of RWA |
| Equity price risk | 1.4% | 1.1% |
| Interest rate risk | 0.4% | 0.4% |
| Credit Valuation Adjustment | 0.0% | - |
| Foreign exchange risk | 0.7% | 0.5% |
| Total | 2.5% | 2.0% |

The currency risk in the Groups trading portfolios is disclosed together with that in its non-trading portfolios in Notes 55-56.

52. 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 are disclosed in Note 20.

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53. Interest rate 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 21. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

| | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Carrying amount |
|--|-------------------|-----------------|------------------|-----------------|--------------------|
| As at 30 September 2017 | | | | | |
| Financial assets | | | | | |
| Cash and balances with Central Bank | 33,157 | - | - | - | 33,157 |
| Bonds and debt instruments | 120,209 | 23,608 | 3,692 | 12,714 | 160,223 |
| Derivative instruments | 1,787 | - | - | - | 1,787 |
| Loans and advances to financial institutions | 41,485 | - | - | - | 41,485 |
| Loans and advances to customers | 736,905 | 41,370 | 66,858 | 60,794 | 905,927 |
| Other financial assets | 10,325 | - | - | - | 10,325 |
| Total | 943,868 | 64,978 | 70,550 | 73,508 | 1,152,904 |
| Financial liabilities | | | | | |
| Due to financial institutions and Central Bank | (21,946) | - | - | - | (21,946) |
| Deposits from customers | (632,300) | (4,869) | (1,612) | - | (638,781) |
| Derivative instruments and short positions | (962) | - | (507) | - | (1,469) |
| Borrowings | (29,947) | (18,364) | (196,506) | (23,036) | (267,853) |
| Other financial liabilities | (7,849) | - | - | - | (7,849) |
| Subordinated liabilities | (98) | - | (131) | - | (229) |
| Total | (693,102) | (23,233) | (198,756) | (23,036) | (938,127) |
| Net on-balance sheet position | 250,766 | 41,745 | (128,206) | 50,472 | 214,777 |
| Effect of derivatives held for risk management | (41,525) | - | 41,525 | - | - |
| Net off-balance sheet position | - | - | - | - | - |
| Total interest repricing gap | 209,241 | 41,745 | (86,681) | 50,472 | |
| As at 31 December 2016 | | | | | |
| Financial assets | | | | | |
| Cash and balances with Central Bank | 30,662 | - | - | - | 30,662 |
| Bonds and debt instruments | 131,569 | 3,212 | 10,012 | 10,099 | 154,892 |
| Derivative instruments | 278 | - | - | - | 278 |
| Loans and advances to financial institutions | 18,748 | 1,660 | - | - | 20,408 |
| Loans and advances to customers | 625,538 | 100,029 | 78,192 | 49,658 | 853,417 |
| Other financial assets | 6,528 | - | - | - | 6,528 |
| Total | 813,323 | 104,901 | 88,204 | 59,757 | 1,066,185 |
| Financial liabilities | | | | | |
| Due to financial institutions and Central Bank | (20,093) | - | - | - | (20,093) |
| Deposits from customers | (583,092) | (5,022) | (1,517) | (94) | (589,725) |
| Derivative instruments and short positions | (1,183) | (17) | (74) | (455) | (1,729) |
| Borrowings | (79,316) | (14,009) | (109,785) | (20,834) | (223,944) |
| Other financial liabilities | (7,206) | - | - | - | (7,206) |
| Subordinated liabilities | (238) | (150) | - | - | (388) |
| Total | (691,128) | (19,198) | (111,376) | (21,383) | (843,085) |
| Net on-balance sheet position | 122,195 | 85,703 | (23,172) | 38,374 | 223,100 |
| Net off-balance sheet position | 153 | (153) | - | - | - |
| Total interest repricing gap | 122,348 | 85,550 | (23,172) | 38,374 | |

Notes to the Condensed Consolidated Interim Financial Statements

54. 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 the Market Risk department within the Risk Management division. The following table summarizes the Group's CPI imbalance, calculated as the difference between CPI-linked financial assets and liabilities, as at 30 September 2017 and 31 December 2016.

| Carrying amount | 30.9.2017 | 31.12.2016 |
|--|------------------|------------------|
| Assets | | |
| Bonds and debt instruments | 12,935 | 10,518 |
| Loans and advances to financial institutions | - | 1,660 |
| Loans and advances to customers | 357,257 | 319,013 |
| Total | 370,192 | 331,191 |
| Liabilities | | |
| Due to financial institutions and Central Bank | (9) | (160) |
| Deposits from customers | (102,654) | (102,417) |
| Short positions | (507) | (546) |
| Borrowings | (43,467) | (20,833) |
| Subordinated liabilities | (141) | (278) |
| Total | (146,778) | (124,234) |
| Total on-balance sheet position | 223,415 | 206,955 |
| Total off-balance sheet position | (84) | 63 |
| Total CPI indexation balance | 223,331 | 207,018 |

55. 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 30 September 2017 was +2.1% of the Group's capital base (31.12.2016: +1.38%).

56. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 September 2017 and 31 December 2016. 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 30 September 2017 and 31 December 2016. When managing currency risk the Group regards spot deals as non-derivative assets or liabilities.

| As at 30 September 2017 | EUR | GBP | USD | JPY | CHF | Other | Total |
|--|------------------|-----------------|-----------------|--------------|--------------|-----------------|------------------|
| Assets | | | | | | | |
| Cash and balances with Central Bank | 752 | 188 | 456 | 31 | 77 | 408 | 1,912 |
| Bonds and debt instruments | 24,524 | 8,554 | 24,794 | - | - | - | 57,872 |
| Equities and equity instruments | - | - | 2 | - | - | 29 | 31 |
| Derivative instruments | 266 | 45 | 1,269 | - | - | 50 | 1,630 |
| Loans and advances to financial institutions | 16,786 | 603 | 2,778 | 106 | 353 | 16,802 | 37,428 |
| Loans and advances to customers | 101,613 | 5,682 | 39,871 | 3,575 | 3,629 | 5,598 | 159,968 |
| Other assets | 882 | - | - | - | - | 36 | 918 |
| Total | 144,823 | 15,072 | 69,170 | 3,712 | 4,059 | 22,923 | 259,759 |
| Liabilities | | | | | | | |
| Due to financial institutions and Central Bank | (2,034) | (74) | (32) | - | - | (38) | (2,178) |
| Deposits from customers | (32,384) | (10,611) | (18,513) | (269) | (657) | (3,875) | (66,309) |
| Derivative instruments and short positions | (273) | (130) | (225) | - | - | (26) | (654) |
| Borrowings | (142,809) | - | (7,994) | - | - | (38,955) | (189,758) |
| Other liabilities | (635) | (86) | (163) | (15) | (11) | (648) | (1,558) |
| Subordinated liabilities | - | - | - | (46) | (36) | - | (82) |
| Total | (178,135) | (10,901) | (26,927) | (330) | (704) | (43,542) | (260,539) |
| Net on-balance sheet position | (33,312) | 4,171 | 42,243 | 3,382 | 3,355 | (20,619) | (780) |
| Net off-balance sheet position | 35,376 | (4,070) | (39,804) | (3,488) | (3,016) | 20,955 | 5,953 |
| Net currency position | 2,064 | 101 | 2,439 | (106) | 339 | 336 | 5,173 |

Notes to the Condensed Consolidated Interim Financial Statements

56. Concentration of currency risk (continued)

| As at 31 December 2016 | EUR | GBP | USD | JPY | CHF | Other | Total |
|--|------------------|-----------------|-----------------|--------------|--------------|-----------------|------------------|
| Assets | | | | | | | |
| Cash and balances with Central Bank | 358 | 175 | 287 | 16 | 32 | 225 | 1,093 |
| Bonds and debt instruments | 10,803 | 6,296 | 18,426 | - | - | - | 35,525 |
| Equities and equity instruments | 50 | - | 59 | - | - | 6 | 115 |
| Derivative instruments | 57 | 56 | 115 | - | - | 5 | 233 |
| Loans and advances to financial institutions | 10,783 | 2,075 | 3,004 | 302 | 17 | 2,502 | 18,683 |
| Loans and advances to customers | 93,433 | 3,808 | 61,063 | 4,481 | 4,058 | 6,772 | 173,615 |
| Other assets | 789 | - | 6 | - | - | 252 | 1,047 |
| Total | 116,273 | 12,410 | 82,960 | 4,799 | 4,107 | 9,762 | 230,311 |
| Liabilities | | | | | | | |
| Due to financial institutions and Central Bank | (22) | (43) | (32) | - | - | (26) | (123) |
| Deposits from customers | (27,390) | (11,648) | (12,558) | (200) | (872) | (3,508) | (56,176) |
| Derivative instruments and short positions | (117) | (327) | (498) | - | - | (187) | (1,129) |
| Borrowings | (98,786) | - | (50,122) | - | - | (24,896) | (173,804) |
| Other liabilities | (1,118) | (111) | (810) | (2) | (18) | (569) | (2,628) |
| Subordinated liabilities | - | - | - | (48) | (37) | - | (85) |
| Total | (127,433) | (12,129) | (64,020) | (250) | (927) | (29,186) | (233,945) |
| Net on-balance sheet position | (11,160) | 281 | 18,940 | 4,549 | 3,180 | (19,424) | (3,634) |
| Net off-balance sheet position | 13,989 | (238) | (18,631) | (4,490) | (3,063) | 19,547 | 7,114 |
| Net currency position | 2,829 | 43 | 309 | 59 | 117 | 123 | 3,480 |

57. Foreign exchange rates used

The following foreign exchange rates were used by the Group for the accounting period presented in these Financial Statements:

| | As at 30 September 2017 | As at 31 December 2016 | % change | Average for 1.1-30.9 2017 | Average for 1.1-30.9 2016 |
|---------|-------------------------------|------------------------------|----------|---------------------------------|---------------------------------|
| EUR/ISK | 125.40 | 119.20 | 5.2% | 119.33 | 137.09 |
| GBP/ISK | 142.26 | 139.69 | 1.8% | 137.01 | 171.82 |
| USD/ISK | 106.16 | 113.05 | (6.1%) | 106.93 | 123.37 |
| JPY/ISK | 0.94 | 0.97 | (3.1%) | 0.95 | 1.13 |
| CHF/ISK | 109.58 | 111.25 | (1.5%) | 108.86 | 125.50 |
| CAD/ISK | 84.87 | 84.28 | 0.7% | 81.89 | 93.21 |
| DKK/ISK | 16.85 | 16.03 | 5.1% | 16.04 | 18.40 |
| NOK/ISK | 13.33 | 13.13 | 1.5% | 12.92 | 14.67 |
| SEK/ISK | 13.02 | 12.44 | 4.7% | 12.45 | 14.65 |

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

58. Operations by quarters

| Operations | 2017 | | | 2016 | | | |
|---|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
| | Q3 | Q2 | Q1 | Q4* | Q3 | Q2 | Q1 |
| Interest income | 14,916 | 17,125 | 14,545 | 16,241 | 15,528 | 18,071 | 14,772 |
| Interest expense | (6,022) | (6,967) | (6,527) | (7,798) | (6,932) | (7,926) | (7,306) |
| Net interest income | 8,894 | 10,158 | 8,018 | 8,443 | 8,596 | 10,145 | 7,466 |
| Reversals of loss from foreign currency linkage of loans and advances | 347 | 13 | 755 | (5,435) | - | - | - |
| Net impairment | 419 | (550) | 1,024 | 379 | 2,144 | 1,964 | 311 |
| Reversal of impairment of guarantees | - | 59 | - | 319 | - | - | - |
| Net adjustments in valuation | 766 | (478) | 1,779 | (4,737) | 2,144 | 1,964 | 311 |
| Net interest income after net adjustments in valuation | 9,660 | 9,680 | 9,797 | 3,706 | 10,740 | 12,109 | 7,777 |
| Fee and commission income | 2,923 | 2,953 | 2,795 | 2,638 | 2,634 | 2,487 | 2,531 |
| Fee and commission expense | (764) | (637) | (679) | (738) | (619) | (573) | (551) |
| Net fee and commission income | 2,159 | 2,316 | 2,116 | 1,900 | 2,015 | 1,914 | 1,980 |
| Net gain (loss) on financial assets and liabilities | 509 | 1,742 | 3,263 | 958 | (534) | 1,042 | 289 |
| Net foreign exchange (loss) gain | (10) | (518) | (365) | (212) | 25 | (154) | 162 |
| Other income and (expenses) | 36 | 355 | 902 | 656 | 864 | 2,150 | 1,313 |
| Other net operating income | 535 | 1,579 | 3,800 | 1,402 | 355 | 3,038 | 1,764 |
| Total operating income | 12,354 | 13,575 | 15,713 | 7,008 | 13,110 | 17,061 | 11,521 |
| Salaries and related expenses | 3,163 | 3,654 | 3,491 | 3,640 | 3,096 | 3,559 | 3,754 |
| Other operating expenses | 2,475 | 2,477 | 2,426 | 2,292 | 2,230 | 2,444 | 2,499 |
| Total operating expenses | 5,638 | 6,131 | 5,917 | 5,932 | 5,326 | 6,003 | 6,253 |
| Profit before tax | 6,716 | 7,444 | 9,796 | 1,076 | 7,784 | 11,058 | 5,268 |
| Income tax | (1,648) | (1,572) | (1,395) | (130) | (1,937) | (2,288) | (1,215) |
| Tax on liabilities of financial institutions | (880) | (795) | (825) | (703) | (745) | (787) | (738) |
| Profit for the period | 4,188 | 5,077 | 7,576 | 243 | 5,102 | 7,983 | 3,315 |
| Balance sheet | 30.9.2017 | 30.6.2017 | 31.3.2017 | 31.12.2016 | 30.9.2016 | 30.6.2016 | 31.3.2016 |
| Cash and cash balances with Central Bank | 33,157 | 32,216 | 35,826 | 30,662 | 52,822 | 43,997 | 23,228 |
| Bonds and debt instruments | 160,223 | 162,520 | 147,992 | 154,892 | 168,029 | 157,898 | 195,175 |
| Equities and equity instruments | 31,049 | 30,934 | 30,868 | 26,688 | 30,896 | 29,042 | 29,381 |
| Loans and advances to financial institutions | 41,485 | 49,292 | 70,230 | 20,408 | 16,835 | 21,885 | 15,221 |
| Loans and advances to customers | 905,927 | 870,483 | 872,350 | 853,417 | 837,494 | 827,241 | 814,669 |
| Other assets | 22,740 | 20,317 | 19,009 | 17,641 | 19,653 | 21,523 | 21,255 |
| Assets classified as held for sale | 4,377 | 4,866 | 6,192 | 7,449 | 8,073 | 8,258 | 7,771 |
| Total assets | 1,198,958 | 1,170,628 | 1,182,467 | 1,111,157 | 1,133,802 | 1,109,844 | 1,106,700 |
| Due to financial institutions and Central Bank | 21,946 | 23,486 | 31,613 | 20,093 | 41,307 | 34,643 | 42,606 |
| Deposits from customers | 638,781 | 627,954 | 594,565 | 589,725 | 583,715 | 556,841 | 545,208 |
| Borrowings | 267,853 | 242,274 | 244,649 | 223,944 | 220,800 | 220,837 | 217,658 |
| Other liabilities | 26,862 | 37,441 | 76,261 | 24,681 | 34,913 | 48,310 | 31,445 |
| Liabilities associated with assets classified as held for sale | 155 | 155 | 1,095 | 1,095 | 1,514 | 1,510 | 1,305 |
| Subordinated liabilities | 229 | 374 | 390 | 388 | 407 | 412 | 632 |
| Equity | 243,132 | 238,944 | 233,894 | 251,231 | 251,146 | 247,291 | 267,846 |
| Total liabilities and equity | 1,198,958 | 1,170,628 | 1,182,467 | 1,111,157 | 1,133,802 | 1,109,844 | 1,106,700 |

*The first three quarters results for the year 2017 and the first three quarters results for the year 2016 were reviewed by the Bank's independent auditors.

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

59. Key figures and ratios

| | 2017 | | | 2016 | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Return on equity before taxes | 11.1% | 12.6% | 16.2% | 1.7% | 12.5% | 17.2% | 7.9% |
| Return on equity after taxes | 6.9% | 8.6% | 12.5% | 0.4% | 8.2% | 12.4% | 5.0% |
| Total capital ratio | 26.8% | 27.6% | 27.4% | 30.2% | 29.1% | 28.9% | 31.2% |
| Cost-income ratio | 48.7% | 43.6% | 42.5% | 50.7% | 48.9% | 40.8% | 55.8% |
| Operating expenses as a ratio of average total assets | 1.9% | 2.1% | 2.1% | 2.1% | 1.9% | 2.2% | 2.2% |
| Interest spread | 2.5% | 2.9% | 2.2% | 2.2% | 2.4% | 2.8% | 1.9% |
| Loans / deposits | 141.8% | 138.6% | 146.7% | 144.7% | 143.5% | 148.6% | 149.4% |
| Deposits / total assets | 53.3% | 53.6% | 50.3% | 53.1% | 51.5% | 50.2% | 49.3% |
| Number of full-time positions at the end of the period | 998 | 988 | 1,000 | 1,012 | 1,043 | 1,040 | 1,063 |
| Earnings per share | 0.18 | 0.21 | 0.32 | 0.01 | 0.21 | 0.34 | 0.14 |
| Leverage ratio | 18.1% | 18.1% | 17.7% | 20.3% | 20.0% | | |
| Liquidity coverage ratio (LCR) | 158% | 183% | 158% | 128% | 140% | 123% | 134% |
| Net stable funding ratio (NSFR) | 185% | 169% | 159% | 154% | 149% | 145% | 133% |

| Key figures and ratios | Definition |
|---|--|
| Return on equity before taxes | Profit before taxes / average total equity |
| Return on equity after taxes | Profit after taxes / average total equity |
| Adjusted return on equity after taxes | (Profit after taxes - tax on liabilities of financial institutions - positive net valuations *(1-0,26)) / average total equity |
| Total capital ratio | Capital base (CET1 + AT1 + T2) / risk-weighted assets |
| Cost-income ratio | Total operating expenses / (total operating income - net valuation adjustments) |
| Operating expenses as a ratio of average total assets | Total operating expenses as a ratio of average total assets |
| Interest spread as a ratio of assets and liabilities | (Interest income / average total assets) - (interest expenses / average total liabilities) |
| Loans / deposits | Loans and advances to customers/ deposits from customers |
| Deposits / total assets | Deposits from customers/ total assets |
| Number of full-time equivalent positions at the end of the period | Number of full-time equivalent positions at the end of the period |
| Earnings per share | Profit for the period attributable to owners of the Bank / Weighted average number of shares outstanding |
| Common equity Tier 1 capital (CET1) | Total equity - deductions (intangible assets, deferred tax assets) |
| Additional common equity Tier 1 capital (AT1) | Capital instruments under Tier 1 other than (CET1) |
| Tier 1 capital (T1) | Common equity Tier 1 capital + additional common equity Tier 1 capital |
| Tier 2 capital (T2) | Common equity Tier 1 capital + additional common equity Tier 1 capital + subordinated liabilities - regulatory amortisation + general credit risk adjustment |
| Leverage ratio | Common equity Tier 1 capital + additional common equity Tier 1 capital / (total assets + off balance sheet items) |
| Liquidity coverage ratio (LCR) | High quality liquid assets / total net liquidity outflows over 30 days |
| Net stable funding ratio (NSFR) | Available amount of stable funding / required amount of stable funding |