Condensed Consolidated Interim Financial Statements

for the nine months ended 30 September 2012

This page has been left blank intentionally.

Content	Page

This page has been left blank intentionally.

Endorsement and Statement by the Board of Directors and Chief Executive Officer

The Condensed Consolidated Interim Financial Statements for the first nine months of 2012 consist of the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the Bank), and its subsidiaries, together referred to as "the Group".

According to the condensed consolidated income statement, the Group's after tax-profit for the first nine months of the year 2012 amounted to ISK 13,541 million. The Group's equity at the end of this period amounted to ISK 213,678 million. The capital adequacy ratio of the Group was 24.1%. As at 30 September 2012, the Group's total assets amounted to ISK 1,056,825 million.

On 15 June 2012, the Bank made an optional and partial pre-payment of the secured bonds issued in 2010 as a part of the acquisition price for the acquired assets and liabilities assumed from Landsbanki Íslands hf. The prepayment amounted to EUR 216 million, GBP 68 million and USD 183 million plus the interest accrued from the last interest payment date to the partial early repayment date. The Bank's strong liquidity position in foreign currencies enabled the Bank to reduce its long-term liabilities faster than contractual provisions stipulated.

Shares in the facilities management company Reginn, a subsidiary of Eignarhaldsfélag Landsbankans ehf., were listed on the NASDAQ OMX Iceland, following a public offering in June 2012. 75% of the shares were sold in the public offering and the acquirers obtained control over Reginn hf. on 29 June 2012. The Group has committed itself to hold the remaining 25% of the shares in Reginn hf. for a minimum of 10 months from 29 June 2012. The gains from the sale amounted to ISK 1,650 million.

The arbitration panel set up to resolve the dispute between the Bank and the National Treasury, regarding the fair value of the financial assets of SpKef, released its verdict on 7 June 2012. According to the ruling, the fair value of the consideration transferred, payable by the National Treasury to Landsbankinn hf., amounts to ISK 19,198 million. This was considerably lower than the Bank´s original valuation of ISK 30,596 million, which was based on the Bank´s view of the fair value of financial assets of SpKef on the acquisition date. The Bank´s review of the fair value of the financial assets of SpKef, following the ruling of the arbitration panel, confirmed however enhanced recovery rates and improved quality of some of the financial assets. As a result, a net loss of ISK 2.889 million, including accrued interest, was accounted for in the Group´s financial statements as of the second quarter of 2012.

On 15 February 2012 and 18 October 2012 the Supreme Court ruled in two separate cases that a lender could not apply the Central Bank interest rates under circumstances specified in the rulings, inter alia, as the lender had issued final receipt of payment of interests. The Group has accounted for the potential impact of the latter rulings and recognised respectively expenses in the amount of ISK 38,042 million and ISK 2,120 million in its consolidated income statement at year end 2011 and at the end of the third quarter of 2012. These expenses are recorded in the income statements under line item "Loss from foreign currency linkage of loans and advances to customers". Further Court rulings are awaited to obtain final clarification of the precedence of these rulings. The total amount of the estimated impact may change accordingly.

On 11 September 2012 Landsbréf hf. obtained the Financial Supervisory Authority´s authorised licence to undertake asset management. The licence provides Landsbréf with the opportunity to manage projects in the field of asset management for third parties and thus expands greatly the company's opportunities to service its customers.

Outlook

The current operating environment of the Bank is characterised by uncertainty with regards to both the Bank's legal and political environment. Last year several changes were made to the legal framework under which the Bank operates. A number of other legislative changes that could have considerable negative impact on the Bank's equity have been introduced or are under discussion by the Parliament´s standing committees, most notably the proposed changes to the fishing management system.

Endorsement and Statement by the Board of Directors and Chief Executive Officer

Other issues

On 27 September 2012 Landsbankinn reviewed its strategy up to 2015. The strategy entails increasing focus on operational efficiency by reducing cost, strengthening management and team unity, while also pursuing responsible and profitable market initiatives. The Bank made at the same time significant changes to its organisational structure which became effective as of 1 October 2012.

According to legislation passed in 2009, the salary of the CEO of Landsbankinn is determined by the Compensation Council ("Kjararáð"). The Council determines remuneration and terms of employment of high level government employees and CEOs of companies in which the government holds a majority of shares. It is of great concern to the Board that the salary of the CEO of Landsbankinn, as determined by Kjararáð, is not at a competitive level in the marketplace, and it is of the opinion that assigning decision-making powers to Kjararáð interferes with the Board's commercial management responsibilities. The legal advisors of the Board of Directors are of the opinion that the current arrangement may be in breach of the Constitution of Iceland and the EEA Agreement. The Board of Directors has expressed its concerns to the authorities and the EFTA Surveillance Authority.

Statement by the Board of Directors and Chief Executive Officer

According to the Directors' best knowledge, these Condensed Consolidated Interim Financial Statements give a true and fair view of the Group's assets and liabilities, financial position and performance. They also describe the principal risks and uncertainty factors faced by the Group.

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU.

The Bank's management has assessed the Group's ability to continue as a going concern and has reasonable expectation to believe 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.

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 2012.

Reykjavík, 15 November 2012.

Board of Directors

Gunnar Helgi Hálfdánarson

Chairman

Sigríður Hrólfsdóttir

Andri Geir Arinbjarnarson

Þórdís Ingadóttir

Ólafur Helgi Ólafsson

Chief Executive Officer

Steinþór Pálsson

Independent Auditor's Review Report

To the board of Directors and Shareholders of Landsbankinn hf.

We have reviewed the accompanying condensed consolidated statement of financial position of Landsbankinn hf. as at 30 september 2012 and the related condensed consolidated income statement, changes in equity and condensed cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this condensed consolidated interim financial information 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 information 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 information is not prepared, in all material respects, in accordance with IAS 34 "*Interim Financial Reporting*".

Reykjavík, 15 November 2012.

KPMG ehf.

Helgi F. Arnarson

Sigríður Helga Sveinsdóttir

Condensed Consolidated Statement of Financial Position as at 30 September 2012

Notes		30.9.2012	31.12.2011
	Assets		
	Cash and balances with Central Bank	25,235	8,823
7,22	Bonds and debt instruments	217,485	221,848
7	Equities and equity instruments	33,198	46,037
7, 8	Derivative instruments	286	159
9	Loans and advances to financial institutions	60,787	100,133
10, 22	Loans and advances to customers	657,050	639,130
11	Investments in equity-accounted associates	16,364	11,678
	Property and equipment	6,276	6,437
	Intangible assets	553	681
	Deferred tax assets	2,009	3,003
12	Other assets	12,200	44,001
		1,031,443	**1,081,930**
13	Assets classified as held for sale	25,382	53,552
	Total assets	**1,056,825**	**1,135,482**
	Liabilities		
	Due to financial institutions and Central Bank	90,206	112,876
	Deposits from customers	439,853	443,590
8	Derivative instruments and short positions	8,261	7,916
	Tax liabilities	-	70
14, 22	Secured bonds	211,699	277,076
7,22	Contingent bond	74,225	60,826
	Other liabilities	18,300	23,499
		842,544	**925,853**
	Liabilities associated with assets classified as held for sale	603	9,385
	Total liabilities	**843,147**	**935,238**
	Equity		
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Statutory reserve	3,781	3,781
	Retained earnings	61,465	47,952
	Total equity attributable to owners of the Bank	**213,144**	**199,631**
	Non-controlling interests	534	613
	Total equity	**213,678**	**200,244**
	Total liabilities and equity	**1,056,825**	**1,135,482**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Condensed Consolidated Income Statement for the nine months ended 30 September 2012

Notes		2012 1.7-30.9	2011 1.7-30.9	2012 1.1-30.9	2011 1.1-30.9
	Interest income	12,962	14,242	48,037	45,740
	Interest expense	(5,180)	(6,500)	(21,682)	(21,149)
15	**Net interest income**	**7,782**	**7,742**	**26,355**	**24,591**
16	Net adjustments to loans and advances acquired at deep discount	8,213	7,212	19,385	20,198
4	Loss from foreign currency linkage of loans and advances to customers	(2,120)	-	(2,120)	-
16, 34	Net impairment loss	(4,514)	(318)	(10,953)	(2,711)
7	Fair value change of contingent bond	(5,201)	(8,775)	(13,399)	(16,693)
	Net adjustments in valuation	**(3,622)**	**(1,881)**	**(7,087)**	**794**
	Net interest income after net adjustments in valuation	**4,160**	**5,861**	**19,268**	**25,385**
	Fee and commission income	1,917	1,843	5,593	5,441
	Fee and commission expense	(887)	(716)	(2,471)	(2,097)
	Net fee and commission income	**1,030**	**1,127**	**3,122**	**3,344**
17	Net gain on financial assets designated as at fair value through profit or loss	(549)	1,634	3,257	12,032
18	Net gain (loss) on financial assets and liabilities held for trading	586	(241)	1,813	(476)
19	Net foreign exchange gain (loss)	899	(910)	1,735	(1,049)
	Other income and (expenses)	255	442	746	456
	Other net operating income	**1,191**	**925**	**7,551**	**10,963**
	Total operating income	**6,381**	**7,913**	**29,941**	**39,692**
	Salaries and related expenses	3,103	2,703	9,699	7,946
	Other operating expenses	2,250	1,590	6,766	6,163
	Depreciation and amortisation	177	182	538	531
	Contribution to the Depositors' and Investors' Guarantee Fund	213	106	767	506
	Acquisition-related costs	-	7	-	248
	Total operating expenses	**5,743**	**4,588**	**17,770**	**15,394**
	Share of profit of equity-accounted associates, net of income tax	14	(12)	687	1,160
	Profit before tax	**652**	**3,313**	**12,858**	**25,458**
20	Income tax	1,277	(795)	(1,000)	(2,874)
	Tax on liabilities of financial institutions	(265)	(120)	(801)	(340)
	Profit for the period from continuing operations	**1,664**	**2,398**	**11,057**	**22,244**
	Profit for the period from discontinued operations, net of income tax	-	121	2,484	4,709
	Profit for the period	**1,664**	**2,519**	**13,541**	**26,953**
	Profit for the period attributable to:				
	Owners of the Bank				
	Profit for the period from continuing operations	1,664	2,559	11,057	22,244
	Profit for the period from discontinued operations	-	(48)	2,456	4,724
	Profit for the period attributable to owners of the Bank	**1,664**	**2,511**	**13,513**	**26,968**
	Non-controlling interests				
	Profit (loss) for the period from discontinued operations	-	8	28	(15)
	Profit (loss) for the period attributable to non-controlling interests	**0**	**8**	**28**	**(15)**
	Profit for the period	**1,664**	**2,519**	**13,541**	**26,953**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2012

Notes

	Attributable to owners of the Bank						
Change in equity for the nine months ended 30 September 2012	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance at 1 January 2012	24,000	123,898	3,781	47,952	199,631	613	200,244
Profit for the period				13,513	13,513	28	13,541
Decrease in non-controlling interests due to sale of subsidiaries					0	(107)	(107)
Balance at 30 September 2012	**24,000**	**123,898**	**3,781**	**61,465**	**213,144**	**534**	**213,678**
Change in equity for the nine months ended 30 September 2011							
Balance at 1 January 2011	24,000	123,898	2,932	31,828	182,658	2,208	184,866
Profit for the period				26,968	26,968	(15)	26,953
Increase in non-controlling interest due to acquisition of subsidiary					0	116	116
Decrease in non-controlling interests due to sale of subsidiaries					0	(1,709)	(1,709)
Balance at 30 September 2011	**24,000**	**123,898**	**2,932**	**58,796**	**209,626**	**600**	**210,226**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2012

Notes		2012 1.1-30.9	2011 1.1-30.9
	Profit for the period	13,541	26,953
	Net cash from (used in) operating activities	75,174	(23,606)
	Net cash from investing activities	7,864	(3,641)
	Net cash (used in) from financing activities	(73,388)	-
	Net change in cash and cash equivalents	9,650	(27,247)
	Cash and cash equivalents at the beginning of the period	13,625	52,654
	Effect of exchange rate changes on cash and cash equivalents held	15	(294)
	Cash and cash equivalents at the end of the period	**23,290**	**25,113**
	Cash and cash equivalents is specified as follow:		
	Cash and unrestricted balances with Central Bank	20,879	15,644
9	Bank accounts with financial institutions	2,411	9,469
	Cash and cash equivalents at the end of the period	**23,290**	**25,113**
	Investing and financing activities not affecting cash flows		
	Assets acquired and liabilities assumed from SpKef Savings Bank	-	(30,488)
	Non-controlling interests	-	(116)
5	Provisional amount of the bond to be issued by the Icelandic State Treasury	(19,198)	30,604
5	Bonds and debt instruments	19,198	-
	Assets acquired and liabilities assumed from Avant hf.	-	9,722
	Fair value of the Bank's outstanding claim on Avant hf.	-	(9,722)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank") was founded on 7 October 2008 by the Ministry of Finance on behalf of the Icelandic State Treasury. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates based on Act No. 161/2002, on Financial Undertakings. The Bank has a license to operate based on Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances and it is supervised by the Financial Supervisory Authority in Iceland (FME). 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 2012 include the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and retail banking, investment banking, asset management and leasing services. The Group operates solely in Iceland.

The issue of these condensed consolidated interim financial statements was authorised by the Board of Directors of the Bank on 15 November 2012.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2012 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the European Union.

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 2011, 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:
- Financial assets and liabilities classified as at fair value through profit or loss, which are measured at fair value;
- Non-current assets and disposal groups classified as held for sale, which are measured at the lower of carrying amount or fair value less costs to sell.

Functional and presentation currency

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

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 by the Group in the condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011. The accounting policies applied have been applied consistently to all periods presented.

4. Critical accounting estimates and judgements in applying accounting policies

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

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

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.

Denomination currencies and interest rates of lease and loan agreements

In 2010 and 2011 the Supreme Court of Iceland delivered rulings on the illegality of provisions of currency-indexation in loan agreements denominated in Icelandic krona. Under law, such loans are to bear the lowest interest rates of un-indexed loans denominated in Icelandic krona as calculated by the Central Bank. On 15 February 2012 and 18 October 2012 the Supreme Court ruled in two separate cases that a lender could not apply the Central Bank interest rates under circumstances specified in the rulings, inter alia, as the lender had issued final receipt of payment of interests. The Group has accounted for the potential impact of the latter rulings and recognised respectively expenses in the amount of ISK 38,042 million and ISK 2,120 million in its consolidated income statement at year end 2011 and at the end of the third quarter of 2012. These expenses are recorded in the income statements under line item "Loss from foreign currency linkage of loans and advances to customers". Further Court rulings are awaited to obtain final clarification of the precedence of these rulings. The total amount of the estimated impact may change accordingly.

5. Business combination

Acquisition of SpKef Savings Bank

On 7 March 2011, the Bank took over all assets, liabilities and operations of SpKef Savings Bank (SpKef) in accordance with the decision of the Financial Supervisory Authority in Iceland (FME). SpKef was owned entirely and directly by the National Treasury previous to the transfer. The National Treasury made a commitment to issue a bond payable to the Bank in order to compensate for the negative difference between the fair value of the assets taken over and liabilities assumed by the Bank. The Bank and the National Treasury did not reach an agreement on the fair value of financial assets of SpKef and as a result the disagreement was referred to an arbitration panel.

The arbitration panel released its verdict on 7 June 2012. According to the ruling the fair value of the consideration transferred amounts to ISK 19,198 million. This is considerably lower than the Bank´s original valuation of ISK 30,596 million, which was based on the Bank´s view of the fair value of financial assets of SpKef at the acquisition date. This ruling is final and binding for both parties and resolves the disagreement on the negative fair value of the consideration transferred. The National Treasury expanded the Treasury bond series RIKH 18, maturing 9 October 2018, by ISK 19,198 million for the purpose of settling the claim on the Treasury. As at 30 June 2012 accrued interest on the bonds since the acquisition date amounted to ISK 890 million (Note 15). The Bank´s review of the fair value of the financial assets of SpKef, following the ruling of the arbitration panel, confirmed enhanced recovery rates and improved quality of some of the financial assets. As a result, a net loss of ISK 2,889 million (comprising of a loss of ISK 3,779 million from the financial assets less accrued interest of ISK 890 million on the bonds received) was accounted for in the financial statements as of the second quarter of 2012.

6. Operating segments

The business segments are disclosed in accordance with the 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 had seven main business segments at the end of the reporting period:

• **Retail Banking** provides financial services through the Bank's branch network to individuals and to small and medium-size businesses.
• **Vehicle and Equipment Financing** provides leasing services to individuals and businesses.
• **Corporate Banking** provides financial services to large and medium-size corporate clients.
• **Asset Restructuring** provides restructuring solutions to corporate clients who have defaulted on their loans and can be returned to viability.
• **Markets & Treasury,** Markets provide brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. However, Treasury incorporates unallocated capital, funding, liquidity and interbank functions for the Bank as well as management of the Group's market risk.
• **Asset Management** provides a range of wealth and asset management products and services for individuals, corporations and institutional investors.
• **Horn fjárfestingarfélag,** a subsidiary of the Bank, is an investment company which holds shares in various industry sectors.

Other segments comprise of several Group's support functions such as Finance, Risk Management and Corporate Development.

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

Administrative expenses of Group support functions are allocated to appropriate business segments based on the underlying cost drivers.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segments profit 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 periods from 1 January to 30 September 2012 and 2011.

On 28 September 2012 the CEO of the Bank presented a new organisational chart for the Group which became formally effective as of 1 October 2012. As a result the Group will change the composition of reportable segments accordingly. The new segment composition and comparative information will be reported for the first time in the year end 2012 financial statements of the Group.

6. Operating segments (continued)

1 January - 30 September 2012	Retail Banking	Vehicle and Equipment Financing	Corporate Banking	Asset Restructur-ing	Markets & Treasury	Asset Management	Horn fjárfestingar félag hf.	All Other Segments	Total Segments	Recon-ciliation	Total
Net interest income (expense)	12,542	641	9,816	3,495	1,339	33	(761)	(294)	**26,811**	(456)	**26,355**
Net adjustments in valuation	(8,457)	(624)	1,925	(3,690)	81	-	-	198	**(10,567)**	3,480	**(7,087)**
Net fee and commission income	1,573	146	459	54	623	770	-	(186)	**3,439**	(317)	**3,122**
Net gain on financial assets designated as at fair value through profit or loss	-	-	-	3	3,141	-	113	-	**3,257**	-	**3,257**
Net gain on financial assets and liabilities held for trading	-	-	-	-	1,764	7	42	-	**1,813**	-	**1,813**
Net foreign exchange gain (loss)	-	-	-	-	1,332	13	390	-	**1,735**	-	**1,735**
Other income and (expenses)	86	(51)	(112)	567	(208)	-	54	288	**624**	122	**746**
Total operating income	**5,744**	**112**	**12,088**	**429**	**8,072**	**823**	**(162)**	**6**	**27,112**	**2,829**	**29,941**
Total operating expenses	(9,011)	(786)	(2,244)	(1,855)	(2,385)	(1,074)	(156)	(538)	**(18,049)**	279	**(17,770)**
Share of profit of equity-accounted associates, net of income tax	254	-	-	-	433	-	-	-	**687**	-	**687**
Profit (loss) before tax	**(3,013)**	**(674)**	**9,844**	**(1,426)**	**6,120**	**(251)**	**(318)**	**(532)**	**9,750**	**3,108**	**12,858**
Net revenue (expenses) from external customers	(14)	893	21,902	2,847	57	656	472	299	**27,112**		
Net revenue (expenses) from other segments	5,758	(781)	(9,814)	(2,418)	8,015	167	(634)	(293)	**0**		
Total operating income (expense)	**5,744**	**112**	**12,088**	**429**	**8,072**	**823**	**(162)**	**6**	**27,112**		
Total assets at 30 September 2012	**484,910**	**21,840**	**357,347**	**73,071**	**499,304**	**4,234**	**23,982**	**6,491**	**1,471,179**	**(414,354)**	**1,056,825**
Total liabilities at 30 September 2012	**452,343**	**17,910**	**298,680**	**56,056**	**403,988**	**3,964**	**18,069**	**6,491**	**1,257,501**	**(414,354)**	**843,147**
Allocated capital at 30 September 2012	**32,567**	**3,930**	**58,667**	**17,015**	**95,316**	**270**	**5,913**	**0**	**213,678**	**0**	**213,678**

All amounts are in ISK million

6. Operating segments (continued)

1 January - 30 September 2011	Retail Banking	Vehicle and Equipment Financing	Corporate Banking	Asset Restructur-ing	Markets & Treasury	Asset Management	Horn fjárfestingar félag hf.	All Other Segments	Total Segments	Recon-ciliation	Total
Net interest income (expense)	8,439	1,089	6,928	3,498	6,395	8	(781)	(208)	**25,368**	(777)	**24,591**
Net adjustments in valuation	(12,147)	(318)	13,595	104	(365)	-	-	(75)	**794**	-	**794**
Net fee and commission income	1,555	120	225	52	904	628	(12)	(69)	**3,403**	(59)	**3,344**
Net gain on financial assets designated as at fair value through profit or loss	-	-	87	-	873	-	11,072	-	**12,032**	-	**12,032**
Net gain on financial assets and liabilities held for trading	-	-	(35)	-	344	4	(790)	1	**(476)**	-	**(476)**
Net foreign exchange gain (loss)	-	(439)	-	-	(955)	4	48	-	**(1,342)**	293	**(1,049)**
Other income and (expenses)	(204)	(17)	97	163	161	(1)	14	242	**455**	1	**456**
Total operating income (expense)	**(2,357)**	**435**	**20,897**	**3,817**	**7,357**	**643**	**9,551**	**(109)**	**40,234**	**(542)**	**39,692**
Total operating expenses	(8,053)	(795)	(1,689)	(1,388)	(1,757)	(884)	(145)	(753)	**(15,464)**	70	**(15,394)**
Share of profit of equity-accounted associates, net of income tax	281	(2)	-	(2)	884	-	-	(1)	**1,160**	-	**1,160**
Profit (loss) before tax	**(10,129)**	**(362)**	**19,208**	**2,427**	**6,484**	**(241)**	**9,406**	**(863)**	**25,930**	**(472)**	**25,458**
Net revenue (expenses) from external customers	(7,211)	2,266	28,402	8,082	(2,446)	632	10,341	168	**40,234**		
Net revenue (expenses) from other segments	4,854	(1,831)	(7,505)	(4,265)	9,803	11	(790)	(277)	**0**		
Total operating income (expense)	**(2,357)**	**435**	**20,897**	**3,817**	**7,357**	**643**	**9,551**	**(109)**	**40,234**		
Total assets at 31 December 2011	**486,403**	**24,579**	**365,490**	**123,225**	**558,934**	**3,638**	**29,770**	**7,134**	**1,599,173**	**(463,691)**	**1,135,482**
Total liabilities at 31 December 2011	**457,545**	**18,246**	**304,513**	**102,452**	**483,429**	**3,156**	**22,454**	**7,134**	**1,398,929**	**(463,691)**	**935,238**
Allocated capital at 31 December 2011	**28,858**	**6,333**	**60,977**	**20,773**	**75,505**	**482**	**7,316**	**0**	**200,244**	**0**	**200,244**

All amounts are in ISK million

Notes to the Condensed Consolidated Statement of Financial Position

7. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities must be classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:
- Loans and receivables, measured at amortised cost;
- Financial assets and liabilities held for trading, measured at fair value;
- Financial assets designated as at fair value through profit or loss, measured at fair value;
- Other 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 2012:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	25,235	-	-	-	-	25,235	25,235
Bonds and debt instruments	112,760	87,752	16,973	-	-	217,485	217,485
Equities and equity instruments	-	823	32,375	-	-	33,198	33,198
Derivative instruments	-	286	-	-	-	286	286
Loans and advances to financial institutions	60,787	-	-	-	-	60,787	60,787
Loans and advances to customers	657,050	-	-	-	-	657,050	669,097
Other financial assets	6,958	-	-	-	-	6,958	6,958
Total	**862,790**	**88,861**	**49,348**	**0**	**0**	**1,000,999**	**1,013,046**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	90,206	-	90,206	89,953
Deposits from customers	-	-	-	439,853	-	439,853	439,057
Derivative instruments and short positions	-	8,261	-	-	-	8,261	8,261
Secured bonds	-	-	-	211,699	-	211,699	211,699
Contingent bond	-	-	-	-	74,225	74,225	74,225
Other financial liabilities	-	-	-	14,864	-	14,864	14,864
Total	**0**	**8,261**	**0**	**756,622**	**74,225**	**839,108**	**838,059**

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 2011:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	8,823	-	-	-	-	8,823	8,823
Bonds and debt instruments	112,547	93,063	16,238	-	-	221,848	221,848
Equities and equity instruments	-	1,224	44,813	-	-	46,037	46,037
Derivative instruments	-	159	-	-	-	159	159
Loans and advances to financial institutions	100,133	-	-	-	-	100,133	100,133
Loans and advances to customers	639,130	-	-	-	-	639,130	669,227
Other financial assets	4,321	-	-	-	-	4,321	4,321
Total	**864,954**	**94,446**	**61,051**	**0**	**0**	**1,020,451**	**1,050,548**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	112,876	-	112,876	112,876
Deposits from customers	-	-	-	443,590	-	443,590	443,582
Derivative instruments and short positions	-	7,916	-	-	-	7,916	7,916
Secured bonds	-	-	-	277,076	-	277,076	277,076
Contingent bond	-	-	-	-	60,826	60,826	60,826
Other financial liabilities	-	-	-	6,623	-	6,623	6,623
Total	**0**	**7,916**	**0**	**840,165**	**60,826**	**908,907**	**908,899**

All amounts are in ISK million

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

The fair value of financial assets and liabilities was 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 2011.

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs to valuation used to measure fair value. This hierarchy prioritises the inputs into three broad levels as follows:

• Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2: Valuation technique using observable inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

• Level 3: Valuation technique with significant unobservable inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 includes all instruments that are valued according to quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between instruments.

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 30 September 2012:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	51,617	41,635	11,473	104,725
Equities and equity instruments	4,775	3,062	25,361	33,198
Derivative instruments	-	286	-	286
Total	**56,392**	**44,983**	**36,834**	**138,209**
Financial liabilities				
Derivative instruments	-	531	-	531
Short positions	7,730	-	-	7,730
Contingent bond	-	-	74,225	74,225
Total	**7,730**	**531**	**74,225**	**82,486**

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 2011:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	69,543	28,155	11,603	109,301
Equities and equity instruments	14,290	3,488	28,259	46,037
Derivative instruments	-	159	-	159
Total	**83,833**	**31,802**	**39,862**	**155,497**
Financial liabilities				
Derivative instruments	-	1,729	-	1,729
Short positions	6,187	-	-	6,187
Contingent bond	-	-	60,826	60,826
Total	**6,187**	**1,729**	**60,826**	**68,742**

During the period from 1 January to 30 September 2012 there were no transfers between Level 1, Level 2 or Level 3.

All amounts are in ISK million

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

The following tables show the reconciliation for fair value measurement in Level 3 for the nine months ended 30 September 2012 and for the year 2011:

1 January - 30 September 2012	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
Carrying amount at 1 January 2012	11,603	28,259	39,862	(60,826)
Total gains (losses) recognised in income statement	1,279	955	2,234	(13,399)
Purchases	-	226	226	-
Sales	-	(4,288)	(4,288)	-
Settlements	(1,409)	209	(1,200)	-
Carrying amount at 30 September 2012	**11,473**	**25,361**	**36,834**	**(74,225)**
1 January - 31 December 2011				
Carrying amount at 1 January 2011	14,042	10,477	24,519	(26,510)
Total (losses) gains recognised in income statement	(64)	13,097	13,033	(34,316)
Purchases	3,391	4,585	7,976	-
Sales	(2,754)	(7,418)	(10,172)	-
Acquisitions through business combination	48	192	240	-
Settlements	(2,999)	2,936	(63)	-
Reclassification from assets held for sale	-	4,390	4,390	-
Transfers out of Level 3	(61)	-	(61)	-
Carrying amount at 31 December 2011	**11,603**	**28,259**	**39,862**	**(60,826)**

The following tables show the line items in the consolidated income statement where the total gains (losses) were recognised during the nine months ended 30 September 2012 and during the year 2011, for fair value measurements in Level 3:

1 January - 30 September 2012	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Fair value change of contingent bond	-	-	(13,399)	(13,399)
Net gain on financial assets designated as at fair value through profit or loss	1,465	899	-	2,364
Net foreign exchange gain (loss)	(186)	56	-	(130)
Total	**1,279**	**955**	**(13,399)**	**(11,165)**
1 January - 31 December 2011				
Fair value change of contingent bond	-	-	(34,316)	(34,316)
Net gain on financial assets designated as at fair value through profit or loss	(333)	13,084	-	12,751
Net foreign exchange gain (loss)	269	13	-	282
Total	**(64)**	**13,097**	**(34,316)**	**(21,283)**

All amounts are in ISK million

8. Derivative instruments and short positions

	30.9.2012			31.12.2011		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	58,308	279	150	70,297	143	1,262
Cross-currency interest rate swaps	1,445	-	362	1,715	-	450
	59,753	**279**	**512**	**72,012**	**143**	**1,712**
Interest rate derivatives						
Total return swaps	3,918	5	3	5,834	16	17
	3,918	**5**	**3**	**5,834**	**16**	**17**
Equity derivatives						
Total return swaps	279	2	16	-	-	-
	279	**2**	**16**	**0**	**0**	**0**
Short positions - listed bonds	-	-	7,730	**-**	**-**	**6,187**
Total	**63,950**	**286**	**8,261**	**77,846**	**159**	**7,916**

The Group uses derivatives both for hedging and trading purposes.

9. Loans and advances to financial institutions

	30.9.2012	31.12.2011
Bank accounts with financial institutions	2,411	7,221
Money market loans	46,264	79,407
Overdrafts	2,397	3,857
Other loans	9,715	9,648
Total	**60,787**	**100,133**

10. Loans and advances to customers

	30.9.2012	31.12.2011
Public entities	11,233	12,143
Individuals	200,469	186,033
Corporations	487,628	469,374
Less: Allowance for impairment	(42,280)	(28,420)
Total	**657,050**	**639,130**

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 disclosures on loans and advances are provided in the risk management section of the notes.

All amounts are in ISK million

11. Investments in equity-accounted associates

Investments in equity-accounted associates	30.9.2012	31.12.2011
Carrying amount at the beginning of the year	11,678	3,340
Acquisitions through business combination	-	234
Acquisitions	1,334	6,778
Reclassification from assets held for sale	2,665	-
Share of profit of equity-accounted associates, net of income	687	1,417
Disposals	-	(91)
Total	**16,364**	**11,678**

At 30 September 2012	Total assets	Total liabilities	Profit (loss)	Ownership interest	Share of profit of associates	Carrying amount
Valitor Holding hf.*	40,045	32,231	437	38%	166	2,969
Framtakssjóður Íslands slhf.*	32,330	68	1,470	28%	406	9,339
Reginn hf.*	28,454	18,963	983	25%	14	2,679
Borgun hf.*	18,554	16,922	235	31%	73	529
Reiknistofa bankanna hf.**	1,979	361	166	37%	-	596
Motus ehf.*	725	276	69	40%	28	209
Auðkenni hf.**	224	32	21	20%	-	34
Other	-	-	-	-	-	9
Total	**122,311**	**68,853**	**3,381**		**687**	**16,364**
At 31 December 2011						
Valitor Holding hf.	39,608	32,231	1,218	38%	463	2,803
Framtakssjóður Íslands slhf.	28,153	605	2,344	28%	839	7,600
Borgun hf.	16,075	14,677	210	31%	66	455
Reiknistofa bankanna hf.	1,979	361	166	37%	32	596
Motus ehf.	646	276	82	40%	32	181
Auðkenni hf.	224	32	21	20%	-	34
Other	-	-	-	-	(15)	9
Total	**86,685**	**48,182**	**4,041**		**1,417**	**11,678**

*Financial information at 30 June 2012
**Financial information at 31 December 2011

The Group has two investments in associates which are accounted for in their entirety by the Group as financial assets designated as at fair value through profit or loss and presented in the consolidated statement of financial position in the line "Equities and equity instruments". Those investments are 49.5% shareholding in Promens hf and 29,6% shareholding in Reitir hf.

The subsidiary Reginn hf. was listed on the OMX Nordic Exchange in Iceland following a public offering in June 2012. 75% of the shares were sold in the public offering and the acquirers obtained control over Reginn hf. on 29 June 2012. The Group has committed itself to hold the remaining 25% of the shares in Reginn hf. for minimum of 10 months from 29 June 2012. The shareholding in Reginn hf. is presented under „Investments in equity-accounted associates" in the statement of financial position and the gain from the sale amounting to ISK 1,650 million is presented under the line item „Profit for the period from discontinued operations, net of income tax" in the income statement.

All associates are unlisted companies except for Reginn hf., which is listed on the OMX Stock Exchange in Iceland. Based on its closing price of 9.77 at the reporting date, the fair value of the investment is ISK 3,175 million.

All amounts are in ISK million

12. Other assets

	30.9.2012	31.12.2011
Provisional amount of the bond to be issued by the National Treasury	-	30,596
Legally disputed collections	28	3,666
Unsettled securities trading	155	1,848
Receivables from Framtakssjóður Íslands slhf.	-	600
Receivables from Landsbanki Íslands hf.	528	470
Other accounts receivable	1,226	1,403
Claim on Landsbanki Íslands hf. due to court ruling	5,049	-
Sundry assets	5,214	5,418
Total	**12,200**	**44,001**

13. Assets and liabilities classified as held for sale

Assets classified as held for sale	30.9.2012	31.12.2011
Repossessed collateral	25,049	51,711
Assets of disposal groups classified as held for sale	333	1,841
Total	**25,382**	**53,552**

Repossessed collateral

Repossessed collateral consists mainly of property and equipment resulting from collateral foreclosed by the Group as security for loans and advances. The Group's policy is to pursue timely realisation of the repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations. The repossessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur hf. During the second quarter of 2012 the Bank ceased its control of the subsidiary Reginn hf. due to sale of the Group's 75% shareholding in the company, see Note 11.

Repossessed collateral	30.9.2012	31.12.2011
Carrying amount at the beginning of the year	51,711	43,831
Acquisitions through business combination	-	2,304
Repossessed during the period	6,675	22,668
Disposed during the period	(33,064)	(11,730)
Reclassification to equities and equity instruments	-	(4,390)
Impairment	(273)	(972)
Carrying amount at the end of the period	**25,049**	**51,711**

Assets of disposal groups classified as held for sale

Assets of disposal groups classified as held for sale consist of all the assets and liabilities of subsidiaries acquired by the Bank exclusively with a view to resale. During the first quarter of 2012 the Bank ceased its control of the subsidiary Vörður líftryggingar hf. due to a sale of the Bank's 11% shareholding in the company. The remaining shareholding was sold during the second quarter of 2012.

The profit (loss) for the period from discontinued operations which is presented in the consolidated income statement consists only of the results of those subsidiaries acquired by the Bank exclusively with a view to resale as they meet the definition of discontinued operations in IFRS 5.

All amounts are in ISK million

14. Secured bonds

	Nominal amount					Carrying amount	
	Foreign currency		ISK		Contractual	ISK	
Secured bonds	30.9.2012	31.12.2011	30.9.2012	31.12.2011	interest rate (%)	30.9.2012	31.12.2011
EUR	649 million	871 million	103,722	138,281	EURIBOR + 1.75/2.90	103,235	136,818
GBP	205 million	275 million	41,053	52,330	LIBOR + 1.75/2.90	40,878	51,702
USD	548 million	734 million	67,897	89,741	LIBOR + 1.75/2.90	67,586	88,556
Total			**212,672**	**280,352**		**211,699**	**277,076**

On 12 October 2010 the Bank issued secured bonds to Landsbanki Íslands hf. as part of the acquisition price for its Icelandic operations. These bonds are denominated in EUR, GBP and USD and carry interest from October 2008. The carrying amount of the bonds as at 30 September 2012 and 31 December 2011 assumes the effective interest of EURIBOR/LIBOR+2,90% to maturity. The bonds are secured by pools of loans to customers, see Note 22.

The bonds mature in October 2018 with original scheduled quarterly installments starting in 2014. As a result of prepayment of principals of the bonds in June 2012 the next installments are scheduled for April 2015. The interest rates are 3 months EURIBOR for the EUR-denominated bond and 3 months LIBOR for the GBP and USD-denominated bonds, plus a margin of 1.75% for the first 5 years and a margin of 2.90% for the remaining 5 years. The first interest payment date was on 12 October 2010. From 30 June 2010, bondholders have had the right to require the Bank to convert the bonds into Eurobonds. Upon such conversion, the Bank will make reasonable endeavours to list such Eurobonds on a qualified stock exchange, as soon as feasible following conversion. The bondholders have not yet exercised their right to require the Bank to convert the bonds into Eurobonds.

On 29 February 2012 the Bank made a mandatory early redemption amount of ISK 1,615 million, due to a clause on Asset Disposition. The Bank shall redeem such part of the principal amount of the bonds as is equal to 50% of excess disposal amounts in regards to asset dispositions, subject to a maximum redemption amount.

On 15 June 2012 the Bank made an optional and partial pre-payment of 25% of the principal of each of the above bonds in the amount of EUR 216 million, GBP 68 million and USD 183 million, plus accrued interest from the last interest payment date to the partial early repayment date. The pre-payment of principal shall be considered as payment of the first five out of twenty scheduled principal payments of each bond. The next repayment of the principal will thus be in April 2015 instead of January 2014. This results in decreased pools of loans which the Bank has to pledge for the bonds, see Note 22.

All amounts are in ISK million

Notes to the Condensed Consolidated Income Statement

15. Net interest income

Interest income	2012 1.7-30.9	2011 1.7-30.9	2012 1.1-30.9	2011 1.1-30.9
Cash and balances with Central Bank	305	261	691	999
Bonds and debt instruments classified as loans and receivables	1,333	960	3,567	2,740
Loans and advances to financial institutions	76	203	435	710
Loans and advances to customers	11,242	12,758	42,418	41,114
Other interest income	6	60	926	177
Total	**12,962**	**14,242**	**48,037**	**45,740**
Interest expense				
Due to financial institutions and Central Bank	(474)	(532)	(1,409)	(1,613)
Deposits from customers	(2,823)	(3,441)	(11,983)	(11,644)
Secured bonds	(1,879)	(2,559)	(8,221)	(7,772)
Other interest expense	(4)	32	(69)	(120)
Total	**(5,180)**	**(6,500)**	**(21,682)**	**(21,149)**
Net interest income	**7,782**	**7,742**	**26,355**	**24,591**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period).	**3.0%**	**2.8%**	**3.2%**	**3.0%**
Adjusted interest spread (as the annualised ratio of net interest income after net adjustments in valuation to the average carrying amount of total assets during the period)	**1.6%**	**2.1%**	**2.3%**	**3.1%**

All the interest income and interest expense disclosed above is from financial assets and financial liabilities that are not carried at fair value through profit or loss.

16. Net valuation change

	2012 1.7-30.9	2011 1.7-30.9	2012 1.1-30.9	2011 1.1-30.9
Net adjustments to loans and advances acquired at deep discount	8,213	7,212	19,385	20,198
Loss from foreign currency linkage of loans and advances to customers	(2,120)	-	(2,120)	-
Net impairment loss	(4,514)	(318)	(10,953)	(2,711)
Total	**1,579**	**6,894**	**6,312**	**17,487**
Individuals	1,442	(1,441)	543	(10,196)
Corporations	137	8,335	5,769	27,683
Total	**1,579**	**6,894**	**6,312**	**17,487**

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

	2012 1.7-30.9	2011 1.7-30.9	2012 1.1-30.9	2011 1.1-30.9
Bonds and debt instruments	910	75	1,532	1,074
Equities and equity instruments	(1,459)	1,559	1,725	10,958
Total	**(549)**	**1,634**	**3,257**	**12,032**

18. Net gain (loss) on financial assets and liabilities held for trading

	2012 1.7-30.9	2011 1.7-30.9	2012 1.1-30.9	2011 1.1-30.9
Bonds and debt instruments	616	238	1,855	526
Equities and equity instruments	-	(482)	103	(766)
Derivative instruments	(30)	3	(145)	(236)
Total	**586**	**(241)**	**1,813**	**(476)**

for the nine months ended 30 September 2012 21 All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

19. Net foreign exchange gain (loss)

Assets	2012 1.7-30.9	2011 1.7-30.9	2012 1.1-30.9	2011 1.1-30.9
Cash and balances with Central Bank	7	(38)	6	(3)
Bonds and debt instruments	602	353	2,872	1,282
Equities and equity instruments	293	(733)	385	9
Derivative instruments	16	(1,889)	926	(2,540)
Loans and advances to financial institutions	221	(1,525)	373	1,319
Loans and advances to customers	1,064	(81)	1,784	9,634
Other assets	13	69	1,167	121
Total	**2,216**	**(3,844)**	**7,513**	**9,822**
Liabilities				
Due to financial institutions and Central Bank	(142)	406	(657)	(99)
Deposits from customers	(30)	(515)	(925)	(3,045)
Secured bonds	(1,145)	3,049	(4,197)	(7,722)
Other liabilities	-	(6)	1	(5)
Total	**(1,317)**	**2,934**	**(5,778)**	**(10,871)**
Net foreign exchange gain (loss)	**899**	**(910)**	**1,735**	**(1,049)**

The foreign exchange differences which were recognised during the period 1 January to 30 September 2012 in the condensed consolidated income statement and arose on financial instruments not measured at fair value through profit or loss, amounted to a ISK 3,330 million gain for financial assets (1.1-30.9.2011: gain of ISK 11,071 million) and loss of ISK 5,778 million for financial liabilities (1.1-30.9.2011: loss of ISK 10,866 million).

20. Income tax and other taxes

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2011: 20.0%). An additional special income tax on pre-tax profit over ISK 1,000 million at a rate of 6.0% is imposed on financial institutions for the first time in 2012.

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

	2012 1.1-30.9	2011 1.1-30.9
Current tax expense	-	(3,366)
Deferred tax expense	(1,000)	492
Total	**(1,000)**	**(2,874)**

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

	1.1-30.9.2012		1.1-30.9.2011	
Profit before tax		12,858		25,458
Tax on liabilities of financial institutions		(801)		(340)
Profit before income tax		12,057		25,118
Income tax calculated using the domestic corporate income tax rate	20.0%	(2,411)	20.0%	(5,024)
Income not subject to tax	(1.8%)	220	(8.1%)	2,022
Non-deductable expenses	1.6%	(191)	0.4%	(104)
Other*	(11.5%)	1,382	(0.9%)	232
Effective income tax	**8.3%**	**(1,000)**	**11.4%**	**(2,874)**

*The 2012 amount is due to revaluation of deferred tax assets whereas the 2011 amount is due to other tax sources

Tax exclusively imposed on financial institutions is specified as follows:

	2012 1.1-30.9	2011 1.1-30.9
Special financial activities tax on salaries*	(446)	-
Tax on liabilities of financial institutions**	(801)	(340)
Total	**(1,247)**	**(340)**

*The Special financial activities tax on salaries at a rate of 5.45% is expensed in the line item "Salaries and related expenses" in the income statement.

**The Tax on liabilities of financial institutions is paid annually at a rate of 0.041% of the carrying amount of liabilities as determined for tax purposes. Additional tax of 0.0875% on the same tax base is imposed in respect of the years 2011 and 2012.

All amounts are in ISK million

Other notes

21. Litigation

The status of the legal proceedings of the Group at the end of the period ended 30 September 2012 is unchanged since the issue of the Consolidated Financial Statements as at and for the year ended 31 December 2011, except for the following:

Legal proceedings concerning the foundation of the Bank

1) In December 2009 documents were served on Landsbankinn by Basler Kantonalbank (BKB), a bank of the Swiss canton Basel City. The subpoena was filed with the Commercial Court of the Swiss canton Zurich which subsequently ruled that it has jurisdiction in the matter. BKB's claim amounts to ISK 2,536 million (CHF 19.2 million) plus 5% interest since 9 October 2008, and is for the non-performance of FX Swap transactions by Landsbanki Íslands hf. BKB argues that according to an FME decision, the Bank took over Landsbanki Íslands hf. rights and obligations according to derivatives contracts. BKB also argues that the FME decision of 12 October 2008, whereby the decision of 9 October was amended so that derivative contracts were not transferred to the Bank, should be interpreted to apply only to derivative contracts after 12 October 2008. The Bank takes the view that the claim is without merit and should be directed at Landsbanki Íslands hf. Proceedings before the court began in the fall of 2012 and it is foreseeable that they will be ongoing until the end of 2012.

2) In September 2009, Handelsbanken AB, a Swedish bank, commenced litigation before the District Court of Reykjavík against the Bank, demanding a payment of ISK 801 million (SEK 42.4 million) plus interest based on a sub-guarantee issued by Landsbanki Íslands hf. to Handelsbanken. The District Court of Reykjavík ruled in favor of the Bank with reference to a decision of the FME dated 19 October 2008 stating that sub-guarantees like the one in question were not transferred from Landsbanki Íslands hf. to the Bank. Handelsbanken AB appealed the District Court´s ruling to the Supreme Court which reversed the ruling in favor of Handelsbanken AB. The court's decision was based on the fact that the Bank transmitted a SWIFT message to Handelsbanken AB on 23 October 2008 stating that the Bank was the guarantor. The court found that even though the sub-guarantee had not been transferred to the Bank according to FME´s decision on 19 October 2008 the Bank had become a guarantor by sending the SWIFT message on October 23 and therefore obligated to pay the claimed amount. After the Bank paid Handelsbanken AB the claimed amount, Handelsbanken AB transferred to the Bank its claim on the estate of Landsbanki Íslands hf. in liquidation.

3) The Spanish bank Aresbank commenced litigation against the Bank in March 2009, submitting claims to the District Court of Reykjavík demanding the Bank pay ISK 4,791 million (EUR 30 million) and ISK 1,401 million (GBP 7 million), in addition to interests and litigation costs. Alternatively, the Financial Supervisory Authority of Iceland (FME) and the Icelandic government were subpoenaed for the acknowledgment of their obligation to pay damages on the basis of tort. The case involves two money market loans to Landsbanki Íslands hf. each amounting to ISK 2,396 million (EUR 15 million) and have reached maturity. In addition, the case involves a third money market loan amounting to ISK 1,401 million (GBP 7 million). In short, Aresbank claims that money market loans are to be considered deposits according to the Act on Deposit Insurance, No. 98/1999. Aresbank cites the Icelandic government's declaration from 6 October 2008, that states that the Icelandic government insures all deposits in domestic commercial banks and their branches in Iceland. On 22 December 2010 the District Court of Reykjavík ruled in the case between Aresbank and the Bank. The Court ruled in favor of the Bank and confirmed that money market loans are not deposits according to the Act on Deposit Insurance, No. 98/1999. Aresbank appealed the ruling to the Supreme Court which subsequently requested an advisory opinion from the EFTA court. The request mainly regarded the interpretation of the notion "deposit" in article 1(1) of directive 94/19/EC on deposit-guarantee schemes and if "money market loans" fall there within. The case was heard by the EFTA court in June 2012 and it is foreseeable that the court's opinion will be published later this year. It is thought quite unlikely that the Supreme Court will rule in favor of Aresbank but if that were to happen the Bank would be able to seek compensation from FME and or the Icelandic government. Furthermore in that event Aresbank´s claim to the Winding-up Board of Landsbanki Íslands hf. would be transferred to the Bank.

4) Fortis Bank was the correspondent bank of Landsbanki Íslands hf. for international payments. The account of Landsbanki Íslands hf. had also been used by customers of Landsbanki Íslands hf. for international payments. After the foundation of Landsbankinn hf. Fortis Bank was repeatedly notified about the foundation of the Bank and that a resolution committee had been appointed for Landsbanki Íslands hf. on 7 October 2008 and instructed not to receive payments into that account as the transferred payments were in fact owned by customers of the Bank. Fortis Bank did not act on the instructions and continued to receive payments and crediting the account of Landsbanki Íslands hf. The Bank´s customers who did not receive their payments because of the actions of Fortis Bank were reimbursed by the Bank and transferred their claim on Fortis Bank to the Bank. Of those customers ten individual account holders were selected to commence litigation against Fortis Bank. On 23 May 2012 the Commercial Court of Brussels ruled in favor of the account holders ordering that Fortis Bank pay the total amount of ISK 348 million (EUR 2.2 million). Fortis bank has now appealed the court´s decision to a higher court.

21. Litigation (continued)

Legal proceedings concerning the foundation of the Bank (continued)

5) City of Reykjavík commenced litigation against Landsvaki hf. (a subsidiary of the Bank), submitting claims to the District Court of Reykjavík. The claim of City of Reykjavík amounts to ISK 1.2 billion plus interest. On 6 October 2008, the Icelandic parliament Althingi adopted Act No. 125/2008, which authorized the Financial Supervisory Authority to assume the powers of the shareholders' meetings and Board of Directors of financial undertakings and to appoint Resolution Committees for them. A Resolution Committee was appointed for Landsbanki Íslands hf. on 7 October 2008. Landsvaki's money-market-fund "Peningabréf ISK" was closed in compliance with the Financial Supervisory Authority in Iceland (FME) decision on 6 October 2008. Landsvaki subsequently dissolved all money market funds under management by the company in cooperation with the authorities. The disbursement ratio of "Peningabréf ISK" was 68.8% and City of Reykjavík received its share of the fund accordingly. The claim is that Landsvaki should compensate the 31.2% (ISK 1.2 billion). On behalf of City of Reykjavík it is claimed that an order to sell was placed with Landsvaki on Friday 3 October 2008 and the instructions should have been executed before the fund was closed on Monday 6 October 2008. After the first hearing before the District Court of Reykjavík City of Reykjavik withdrew the case on 24 September 2012.

Legal proceedings concerning the Bank's subsidiary Landsvaki hf.

6) The Bank's subsidiary Landsvaki hf. received notices from the Winding-up Board of Landsbanki Íslands hf. regarding its intension, based on Act on Bankruptcy etc. No. 21/1991. Firstly, to invalidate the purchase of Landsbanki Íslands hf. of bonds from money market funds and recover the funds for the benefit of the estate. The transactions in question are dated back to 1 and 3 October 2008 and amount to approximately ISK 20 billion. Secondly, to invalidate the purchase of Landsbanki Íslands hf. of bonds and recover the funds for the benefit of the estate. The transactions in question are dated back to 28 October 2008 and amount to approximately ISK 5 billion. After Landsvaki hf. rejected the Winding-up Boards claims the board commenced litigation against both Landsvaki hf. and the Bank. Landsvaki hf. and the Bank have expressed their view that Landsvaki hf. acted only in accordance with the law and in collaboration with the Icelandic Financial Supervisory Authority and objected the claims of the Winding-up Board. The case will be heard by the District Court of Reykjavík at the end of 2012.

Investigations by the EFTA Surveillance Authority (ESA)

7) On 8 September 2010 the EFTA Surveillance Authority (ESA) opened a formal investigation on alleged state aid granted by the Icelandic State to investment funds and associated fund management companies connected to the three failed Icelandic banks Glitnir, Kaupthing and Landsbanki Íslands. It is alleged that in the autumn of 2008, the Icelandic authorities intervened in the market for investment funds that operated in accordance with Act No. 30/2003 on Undertakings for Collective Investment in Transferable Securities. On 11 July 2012 ESA concluded its investigation and approved the state aid granted for the restructuring of the Bank.

8) On 15 December 2010 EFTA Surveillance Authority (ESA) opened a formal investigation into state aid granted in October 2008 and September 2009 to rescue domestic operations of the three main Icelandic banks; Glitnir, Kaupthing and Landsbanki Íslands. On 11 July 2012 ESA concluded its investigation and with reference to the serious disturbance in the Icelandic economy at the time ESA found the aid compatible with the EEA Agreement.

21. Litigation (continued)

Other legal proceedings

9) Stígandi ehf., a limited liability company, commenced litigation against the Bank in May 2012. In the year 2007 Stígandi´s CEO signed three loan agreements on behalf of the company (total amount ISK 2,302 million when the subpoena was issued) however now the board of directors claims that the CEO acted alone without consent of the board. The person who signed the loan agreements is still the CEO of Stígandi, holds 25% of Stígandi´s shares and is on the board of directors together with his parents and brothers. Stígandi demands that the loan agreements be found invalid by the District Court of Reykjavík as well as repayment of ISK 13 million plus interest. Alternatively Stígandi claims damages amounting to ISK 2,302 million from the Bank plus interest. The Bank takes the view that the claims are without merit. It is foreseeable that the case will be heard by the District Court of Reykjavík in November 2012.

10) Norðurturn ehf. (Norðurturn) a limited liability company in liquidation commenced litigation against Eignarhaldsfélag Smáralindar ehf. (Eignarhaldsfélag Smáralindar) a limited liability company owned by Reginn (originally a subsidiary of the Bank). The main operation of Norðurturn was the construction of an office building in the municipality of Kópavogur next to the shopping mall Smáralind owned by Eignarhaldsfélag Smáralindar. Norðurturn constructed a parking complex adjacent to Smáralind and now it is claimed on Norðurturn's behalf that the construction was done in accordance with an agreement between Norðurturn and Eignarhaldsfélag Smáralindar. Norðurturn's claim amounts to ISK 1.3 billion plus interest. On behalf of Eignarhaldsfélag Smáralindar it is argued that there was no such agreement and will defend its position in court. In the unlikely event that a court will rule in favor of Norðurturn the Bank has guaranteed payment on behalf of Eignarhaldsfélag Smáralindar. The case was heard by the District Court of Reykjavík in October 2012 and a ruling is expected in November 2012.

11) The limited liability company Samvirkni commenced litigation before the District Court of Reykjavík against SP Fjármögnun hf. (SP fjármögnun), a company which merged with the Bank in 2011. In light of the Supreme Court rulings on the illegality of loans indexed to foreign currency SP fjármögnun recalculated loans to their customers. Doing so SP fjármögnun based its recalculation on a method adapted by the company for this purpose. The dispute regards the method, especially the calculation of interest payments. If the case will be lost, especially with regards to Iceland's Supreme Court ruling in case No. 600/2011, the ruling will call for a completely new recalculation of the SP loans which estimated effects were expensed during the year 2011. The District Court of Reykjavík ruled recently in November 2012 that case No. 600/2011 should be regarded as precedence in the matter and ruled in part in favour of Samvirkni. It is foreseeable that the ruling will be appealed to the Supreme Court.

22. Pledged assets

On 12 October 2010 the Bank and Landsbanki Íslands hf. signed a pledge agreement according to which the Bank pledged certain pools of loans to customers as collateral for the secured bonds issued on 12 October 2010 and the contingent bond the Bank might issue to Landsbanki Íslands hf. The Bank must maintain a minimum cover ratio of 127.5% (ISK 272,638 million) (31.12.2011: ISK 359,568 million) for the secured bonds. However, an amount of ISK 300,741 million has been pledged for the secured bonds as at 30 September 2012 (31.12.2011: ISK 365,449 million). Once the contingent bond has been issued, the Bank must pledge assets for the bond, with a minimum cover ratio of 118%. However, no assets must be pledged for the contingent bond before its issue date. Pledged assets added to the pledged pool must comply with certain eligibility criteria.

In addition, the Bank has pledged assets in the ordinary course of banking business, to the Central Bank of Iceland in the amount of ISK 5,789 million as at 30 September 2012 (31.12.2011: ISK 5,789 million) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business in the total amount of ISK 21,008 million as at 30 September 2012 (31.12.2011: ISK 18,749 million).

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

23. Related party transactions

(a) Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 26.

(b) Transactions with other related parties

The deposits from Landsbanki Íslands hf. amounted to ISK 34,817 million as at 30 September 2012 (31.12.2011: ISK 29,942 million). During the period from 1 January to 30 September 2012 the Bank recognised ISK 187 million from administrative services provided to Landsbanki Íslands hf. based on a service level agreement (1.1-30.9.2011: ISK 244 million).

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	2012 Balance at 30 September	2012 Highest amounts outstanding during the period	2011 Balance at 31 December	2011 Highest amounts outstanding during the year
Key management personnel	118	123	108	128
Parties related to key management personnel	190	193	156	189
Associates	44,210	50,309	45,388	78,636
Total	**44,518**	**50,625**	**45,652**	**78,953**

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 in the period. There are no leasing transactions between related parties in the period.

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

Deposits in ISK million	2012 Balance at 30 September 2012	2012 Highest amounts outstanding during the period	2011 Balance at 31 December 2011	2011 Highest amounts outstanding during the year
Key management personnel	133	152	124	194
Parties related to key management personnel	62	153	65	88
Associates	14,937	32,038	17,330	25,187
Total	**15,132**	**32,343**	**17,519**	**25,469**

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

Guarantees in ISK million	Balance at 30 September 2012	Balance at 31 December 2011
Key management personnel	-	4
Associates	572	501
Total	**572**	**505**

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

Capital management

24. Capital management

The Financial Supervisory Authority in Iceland (FME) requires the Group to maintain a Tier 1 capital ratio of at least 12% which must be maintained for at least 3 years after the initial capitalisation, unless revised by the FME. The previous capital adequacy ratio (CAD ratio) requirement of the FME for the Group to maintain a ratio above 16% was annulled and the benchmark increased to 19.5% in a letter from the FME dated 9 November 2012.This is the result of the Supervisory Review and Evaluation Process (SREP) by the FME following the submission of the Internal Capital Adequacy Assessment Process (ICAAP) report for year-end 2011.

25. Capital base and capital adequacy ratio

The Group's equity at 30 September 2012 amounted to ISK 213,678 million (31.12.2011: ISK 200,244 million), equivalent to 20.2% (31.12.2011: 17.6%) of total assets, according to the condensed consolidated statement of financial position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 24.1% at 30 September 2012 (31.12.2011: 21.4%). According to the Act, this ratio may not fall below 8%.

Capital base	30.9.2012	31.12.2011
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	3,781	3,781
Retained earnings	61,465	47,952
Non-controlling interests	534	613
Total equity	**213,678**	**200,244**
Intangible assets	(553)	(681)
Deferred tax assets	(2,009)	(3,003)
Tier 1 capital	**211,116**	**196,560**
Deduction from original and additional own funds	(3,497)	(4,531)
Capital base	**207,619**	**192,029**

Risk-weighted assets		
Credit risk	668,733	696,402
Market risk	112,063	120,557
Operational risk	81,500	81,500
Total risk-weighted assets	**862,296**	**898,459**

Tier 1 capital ratio	24.5%	21.9%
Capital adequacy ratio	24.1%	21.4%

All amounts are in ISK million

Risk management

Credit risk

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

The Group uses the ISAT 08 industry classification for corporate customers. This classification is based on the NACE Rev. 2 industry classification used by EEA countries.

				Corporations									
At 30 September 2012	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction and real estate companies**	**Services**	**Retail**	**Holding companies**	**Manufacturing**	**Agriculture**	**ITC****	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	25,235	-	-	-	-	-	-	-	-	-	-	**25,235**
Bonds and debt instruments	10,669	203,764	-	-	3	-	-	460	338	-	-	2,251	**217,485**
Derivative instruments	278	-	-	-	-	-	-	-	-	-	-	8	**286**
Loans and advances to financial institutions	60,787	-	-	-	-	-	-	-	-	-	-	-	**60,787**
Loans and advances to customers	-	11,134	188,237	137,945	108,927	51,488	39,681	56,594	21,643	8,405	18,093	14,903	**657,050**
Other financial assets	6,254	250	-	11	-	419	-	-	5	-	3	16	**6,958**
Total on-balance sheet exposure	**77,988**	**240,383**	**188,237**	**137,956**	**108,930**	**51,907**	**39,681**	**57,054**	**21,986**	**8,405**	**18,096**	**17,178**	**967,801**
Off-balance sheet exposure	**8,175**	**14,728**	**34,575**	**14,859**	**30,240**	**20,416**	**9,298**	**1,023**	**2,626**	**3,338**	**2,821**	**70**	**142,169**
Financial guarantees and underwriting commitments	.	102	432	1,705	22,537	12,424	941	200	697	39	522	33	39,632
Undrawn loan commitments	2,100	9,460	31	10,100	5,907	62	3,506	108	115	2,938	1,054	4	35,385
Undrawn overdraft/credit card facilities	6,075	5,166	34,112	3,054	1,796	7,930	4,851	715	1,814	361	1,245	33	67,152
Maximum exposure to credit risk	**86,163**	**255,111**	**222,812**	**152,815**	**139,170**	**72,323**	**48,979**	**58,077**	**24,612**	**11,743**	**20,917**	**17,248**	**1,109,970**
Percentage of carrying amount	7.8%	22.9%	20.1%	13.8%	12.5%	6.5%	4.4%	5.2%	2.2%	1.1%	1.9%	1.6%	100.0%

* 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.

All amounts are in ISK million

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

At 31 December 2011	Financial institutions	Public entities*	Individuals	Corporations: Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	8,823	-	-	-	-	-	-	-	-	-	-	**8,823**
Bonds and debt instruments	10,118	208,802	-	-	2	-	-	2,249	306	-	-	371	**221,848**
Derivative instruments	100	-	-	43	-	-	-	-	-	-	-	16	**159**
Loans and advances to financial institutions	100,133	-	-	-	-	-	-	-	-	-	-	-	**100,133**
Loans and advances to customers	-	12,139	173,223	135,397	101,958	66,121	42,401	48,622	28,008	8,505	20,168	2,588	**639,130**
Other financial assets	3,089	42	-	11	-	562	0	600	2	-	4	11	**4,321**
Total on-balance sheet exposure	**113,440**	**229,806**	**173,223**	**135,451**	**101,960**	**66,683**	**42,401**	**51,471**	**28,316**	**8,505**	**20,172**	**2,986**	**974,414**
Off-balance sheet exposure	**0**	**7,583**	**31,658**	**11,272**	**8,192**	**8,586**	**11,348**	**6,466**	**2,876**	**2,150**	**2,626**	**1,156**	**93,913**
Financial guarantees	-	28	512	1,232	3,949	2,529	1,723	275	690	170	1,195	32	12,335
Undrawn loan commitments	-	4,130	22	7,875	2,380	254	4,851	5,507	369	1,655	371	327	27,741
Undrawn overdraft/credit card facilities	-	3,425	31,124	2,165	1,863	5,803	4,774	684	1,817	325	1,060	797	53,837
Maximum exposure to credit risk	**113,440**	**237,389**	**204,881**	**146,723**	**110,152**	**75,269**	**53,749**	**57,937**	**31,192**	**10,655**	**22,798**	**4,142**	**1,068,327**
Percentage of carrying amount	10.6%	22.2%	19.2%	13.7%	10.3%	7.1%	5.0%	5.5%	2.9%	1.0%	2.1%	0.4%	100.0%

* 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.

All amounts are in ISK million

27. Collaterals and Loan-to-value by Industry sectors

The loan-to-value (LTV) ratio expresses the carrying amount as a percentage of the total appraised value of collateral. Loan to value is one of the key risk factors that is 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 is less cushion to protect against price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance.

	LTV Ratio - Fully collateralised					LTV Ratio - Partially collateralised			
At 30 September 2012	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value	Without Collaterals*	Carrying amount
Financial institutions	-	-	-	-	-	-	-	60,787	60,787
Public entities	33	44	199	22	298	1,513	1,046	9,323	11,134
Individuals	5,407	9,825	14,667	19,413	49,312	77,002	52,082	61,923	188,237
Corporations									
Fisheries	1,379	6,412	28,219	29,910	65,920	53,846	36,642	18,179	137,945
Construction and real estate companies	918	1,967	5,073	12,011	19,969	85,503	50,448	3,455	108,927
Holding companies	462	150	2,516	17,889	21,017	23,290	7,214	12,287	56,594
Retail	226	545	1,614	2,153	4,538	23,094	12,275	12,049	39,681
Services	564	1,037	2,079	4,195	7,875	26,982	17,196	16,631	51,488
Information, technology and communication	29	51	34	-	114	17,127	3,722	852	18,093
Manufacturing	95	365	918	2,184	3,562	15,414	8,968	2,667	21,643
Agriculture	139	265	373	202	979	6,383	1,686	1,043	8,405
Other	2	-	72	-	74	710	264	14,119	14,903
Total	**9,254**	**20,661**	**55,764**	**87,979**	**173,658**	**330,864**	**191,543**	**213,315**	**717,837**
At 31 December 2011									
Financial institutions	-	-	-	-	-	-	-	100,133	100,133
Public entities	94	149	262	7	512	1,177	771	10,450	12,139
Individuals	5,790	9,406	13,553	22,827	51,576	50,460	33,939	71,187	173,223
Corporations									
Fisheries	825	3,699	36,394	18,591	59,509	47,977	31,294	27,911	135,397
Construction and real estate companies	867	2,729	15,319	12,889	31,804	59,850	32,150	10,304	101,958
Holding companies	122	180	1,701	2,235	4,238	24,258	15,361	20,126	48,622
Retail	316	1,465	764	2,825	5,370	25,958	10,655	11,073	42,401
Services	773	1,370	1,175	2,064	5,382	23,419	14,981	37,320	66,121
Information, technology and communication	138	56	18	5	217	12,087	2,360	7,864	20,168
Manufacturing	126	537	1,324	1,142	3,129	9,356	3,687	15,523	28,008
Agriculture	195	193	489	240	1,117	6,205	1,599	1,183	8,505
Other	1	-	68	-	69	948	264	1,571	2,588
Total	**9,247**	**19,784**	**71,067**	**62,825**	**162,923**	**261,695**	**147,061**	**314,645**	**739,263**

*Credit card loans and overdraft on debit cards are assumed to be without collateral. 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.

All amounts are in ISK million

28. Classification of loans and advances to customers by credit risk groups

The following table presents the classification of loans and advances to customers by credit risk groups:

Carrying amount	30.9.2012	31.12.2011
Green	415,913	376,323
Yellow	103,157	66,907
Orange	51,907	53,637
Red	86,073	142,263
Total	**657,050**	**639,130**

29. Loans and advances by industry sectors

	30.9.2012			31.12.2011		
Industry sectors	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Financial institutions	60,787	-	60,787	100,133	-	100,133
Public entities	11,233	(99)	11,134	12,143	(4)	12,139
Individuals	200,469	(12,232)	188,237	186,033	(12,810)	173,223
Corporations						
Fisheries	144,748	(6,803)	137,945	137,878	(2,481)	135,397
Construction and real estate companies	115,253	(6,326)	108,927	107,013	(5,055)	101,958
Holding companies	62,163	(5,569)	56,594	51,112	(2,490)	48,622
Retail	44,583	(4,902)	39,681	44,443	(2,042)	42,401
Services	55,847	(4,359)	51,488	68,301	(2,180)	66,121
Information, technology and communication	18,314	(221)	18,093	20,261	(93)	20,168
Manufacturing	22,531	(888)	21,643	28,708	(700)	28,008
Agriculture	9,039	(634)	8,405	8,834	(329)	8,505
Other	15,150	(247)	14,903	2,824	(236)	2,588
Total	**760,117**	**(42,280)**	**717,837**	**767,683**	**(28,420)**	**739,263**

30. Credit quality of financial assets

	Gross carrying amount					
At 30 September 2012	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment	Carrying amount
Cash and balances with Central Bank	25,235	-	-	25,235	-	25,235
Bonds and debt instruments	207,454	10,031	-	217,485	-	217,485
Derivative instruments	286	-	-	286	-	286
Loans and advances to financial institutions	60,787	-	-	60,787	-	60,787
Loans and advances to customers	474,229	80,760	144,341	699,330	(42,280)	657,050
Other financial assets	6,958	-	-	6,958	-	6,958
Total	**774,949**	**90,791**	**144,341**	**1,010,081**	**(42,280)**	**967,801**
At 31 December 2011						
Cash and balances with Central Bank	8,823	-	-	8,823	-	8,823
Bonds and debt instruments	212,930	8,918	-	221,848	-	221,848
Derivative instruments	159	-	-	159	-	159
Loans and advances to financial institutions	99,972	161	-	100,133	-	100,133
Loans and advances to customers	439,699	117,264	110,587	667,550	(28,420)	639,130
Other financial assets	4,321	-	-	4,321	-	4,321
Total	**765,904**	**126,343**	**110,587**	**1,002,834**	**(28,420)**	**974,414**

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

All amounts are in ISK million

31. Loans and advances neither past due nor individually impaired

	Credit risk groups					
At 30 September 2012	Green	Yellow	Orange	Red	Gross carrying amount	PD
Financial institutions	60,787	-	-	-	60,787	-
Public entities	9,107	568	68	444	10,187	0.69%
Individuals	128,197	7,801	9,339	4,298	149,635	2.17%
Corporations						
Fisheries	53,624	11,993	1,586	8,382	75,585	4.55%
Construction and real estate companies	59,532	17,932	9,755	7,686	94,905	8.62%
Holding companies	8,865	11,595	284	1,285	22,029	11.39%
Retail	12,456	6,125	1,009	17,162	36,752	7.05%
Services	29,929	3,361	2,323	3,780	39,393	3.83%
Information, technology and communication	20,707	163	52	44	20,966	1.37%
Manufacturing	10,056	2,376	463	1,642	14,537	4.14%
Agriculture	4,107	181	84	213	4,585	4.82%
Other	5,554	2	95	4	5,655	4.63%
Total	**402,921**	**62,097**	**25,058**	**44,940**	**535,016**	**4.28%**
At 31 December 2011						
Financial institutions	99,972	-	-	-	99,972	-
Public entities	8,342	39	57	3	8,441	2.71%
Individuals	90,741	2,247	7,304	3,583	103,875	1.54%
Corporations						
Fisheries	78,560	10,644	405	7,929	97,538	10.57%
Construction and real estate companies	40,032	10,004	9,152	11,399	70,587	14.82%
Holding companies	8,702	6,692	475	16,249	32,118	11.08%
Retail	12,223	6,398	513	8,756	27,890	12.13%
Services	39,300	1,735	9,839	2,553	53,427	6.30%
Information, technology and communication	20,789	68	45	59	20,961	2.03%
Manufacturing	16,946	2,273	477	1,383	21,079	9.57%
Agriculture	1,591	271	34	401	2,297	7.09%
Other	1,117	336	31	2	1,486	5.37%
Total	**418,315**	**40,707**	**28,332**	**52,317**	**539,671**	**8.42%**

32. 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.

At 30 September 2012	Past due up to 30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due over 90 days	Gross carrying amount
Loans and advances to customers	22,237	3,852	4,788	49,883	80,760
At 31 December 2011					
Loans and advances to financial institutions	1	7	9	144	161
Loans and advances to customers	23,014	11,826	7,640	74,784	117,264
Total	**23,015**	**11,833**	**7,649**	**74,928**	**117,425**

All amounts are in ISK million

33. Individually impaired loans and advances to financial institutions and customers

At 30 September 2012	Gross carrying amount	Allowance for impairment	Carrying amount
Loans and advances to customers	144,341	(27,450)	116,891
At 31 December 2011			
Loans and advances to customers	110,587	(19,696)	90,891

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

	1.1-30.9.2012			1.1-31.12.2011		
	Customers	Other financial assets	Total	Financial institutions	Customers	Total
Balance at the beginning of the year	28,420	-	28,420	2,178	21,122	23,300
Impairment loss for the period	14,433	-	14,433	(2,178)	9,212	7,034
Collected previously written-off loans	588	-	588	-	98	98
Loans written-off	(1,161)	-	(1,161)	-	(2,012)	(2,012)
Balance at the end of the period	**42,280**	**0**	**42,280**	**0**	**28,420**	**28,420**
Individual allowance	27,450	-	27,450	-	19,696	19,696
Collective allowance	14,830	-	14,830	-	8,724	8,724
Total	**42,280**	**0**	**42,280**	**0**	**28,420**	**28,420**
Net impairment loss						
Impairment loss for the period	14,433	-	14,433	(2,178)	9,310	7,132
Impairment of claims reversed	-	(3,480)	(3,480)	-	-	0
Net impairment loss for the period	**14,433**	**(3,480)**	**10,953**	**(2,178)**	**9,310**	**7,132**

35. Large exposures

At 30 September 2012, two Group clients were rated as large exposures (31 December 2011: two clients), including subsidiaries of the Group classified as held for sale. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. The large exposures amount is calculated after taking account of collateral held, in accordance with the Financial Supervisory Authority's Rules on Large Exposures Incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25% of the capital base. All of the Group's large exposures were within these limits as at 30 September 2012 and 31 December 2011.

At 30 September 2012, the Group's internal rules on large exposures stated that clients could comprise up to 20% of the Group's capital base. However the Bank's Board of Directors can permit a large exposure to comprise up to 25% of the Group's equity when the purpose of the exposure is to protect the interests of the Bank. At 30 September 2012, one exposure exceeded 20% (31 December 2011: one exposure). According to the Group's risk appetite, the total utilisation percentage of a large exposure ought to remain below 50% of the Group's capital base.

At 30 September 2012	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	1	46,191
Large exposures between 10% and 20% of the Group's capital base	1	28,579
Total	**2**	**74,770**
Utilisation ratio (400% max limit)		36%
At 31 December 2011		
Large exposures above 20% of the Group's capital base	1	47,989
Large exposures between 10% and 20% of the Group's capital base	1	33,131
Total	**2**	**81,120**
Utilisation ratio (400% max limit)		42%

All amounts are in ISK million

Liquidity risk

36. Liquidity risk management

The key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with Central Bank (such as government bonds). The core liquidity ratio as at 30 September 2012 was 45% (31 December 2011: 43%). The Group has set a minimum risk appetite for core liquidity ratio at 25%.

37. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 30 September 2012:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	25,235	-	-	-	-	25,235	25,235
Bonds and debt instruments	-	35,348	17,490	49,025	164,053	265,916	217,485
Loans and advances to financial institutions	-	59,265	1,525	-	-	60,790	60,787
Loans and advances to customers	42,616	58,652	97,182	333,115	398,545	930,110	657,050
Other financial assets	-	6,430	-	528	-	6,958	6,958
Total	**67,851**	**159,695**	**116,197**	**382,668**	**562,598**	**1,289,009**	**967,515**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	34,529	-	-	-	34,529	
Outflow	-	(34,249)	-	-	-	(34,249)	
Total	**0**	**280**	**0**	**0**	**0**	**280**	**280**
Net settled derivatives	-	6	-	-	-	6	6
Total	**0**	**286**	**0**	**0**	**0**	**286**	**286**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(89,064)	(1,122)	(21)	-	-	(90,207)	(90,206)
Deposits from customers	(318,606)	(75,342)	(20,591)	(25,836)	(4,462)	(444,837)	(439,853)
Short positions	-	(8,203)	-	-	-	(8,203)	(7,730)
Secured bonds	-	(1,261)	(3,311)	(162,905)	(72,284)	(239,761)	(211,699)
Contingent bond	-	-	-	(71,335)	(19,758)	(91,093)	(74,225)
Other financial liabilities	-	(14,864)	-	-	-	(14,864)	(14,864)
Total	**(407,670)**	**(100,792)**	**(23,923)**	**(260,076)**	**(96,504)**	**(888,965)**	**(838,577)**
Off-balance sheet items							
Financial guarantees and underwriting commitments	(154)	(29,333)	(3,164)	(6,981)	-	(39,632)	
Undrawn loan commitments	(35,385)	-	-	-	-	(35,385)	
Undrawn overdraft/credit card commitments	(67,152)	-	-	-	-	(67,152)	
Total	**(102,691)**	**(29,333)**	**(3,164)**	**(6,981)**	**0**	**(142,169)**	
Total non-derivative financial liabilities and off-balance sheet items	**(510,361)**	**(130,125)**	**(27,087)**	**(267,057)**	**(96,504)**	**(1,031,134)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	22,182	1,863	1,094	-	25,139	
Outflow	-	(22,330)	(1,934)	(1,414)	-	(25,678)	
Total	**0**	**(148)**	**(71)**	**(320)**	**0**	**(539)**	**(511)**
Net settled derivatives	-	(20)	-	-	-	(20)	(20)
Total	**0**	**(168)**	**(71)**	**(320)**	**0**	**(559)**	**(531)**
Net liquidity position	**(442,510)**	**29,688**	**89,039**	**115,291**	**466,094**	**257,602**	

All amounts are in ISK million

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

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2011:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	8,823	-	-	-	-	8,823	8,823
Bonds and debt instruments	-	59,081	9,893	37,571	146,843	253,388	221,848
Loans and advances to financial institutions	-	93,179	5,654	1,397	7	100,237	100,133
Loans and advances to customers	62,090	75,903	124,517	302,650	403,888	969,048	639,130
Other financial assets	-	3,852	-	470	-	4,322	4,321
Total	**70,913**	**232,015**	**140,064**	**342,088**	**550,738**	**1,335,818**	**974,255**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	12,624	-	-	-	12,624	
Outflow	-	(12,490)	-	-	-	(12,490)	
Total	**0**	**134**	**0**	**0**	**0**	**134**	**143**
Net settled derivatives	-	16	-	-	-	16	16
Total	**0**	**150**	**0**	**0**	**0**	**150**	**159**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(112,788)	(87)	(8)	(16)	-	(112,899)	(112,876)
Deposits from customers	(344,952)	(43,578)	(31,714)	(24,426)	(4,641)	(449,311)	(443,590)
Short positions	-	(8,538)	-	-	-	(8,538)	(6,187)
Secured bonds	-	(1,934)	(5,838)	(197,905)	(115,753)	(321,430)	(277,076)
Contingent bond	-	-	-	(38,901)	(37,309)	(76,210)	(60,826)
Other financial liabilities	-	(6,623)	-	-	-	(6,623)	(6,623)
Total	**(457,740)**	**(60,760)**	**(37,560)**	**(261,248)**	**(157,703)**	**(975,011)**	**(907,178)**
Off-balance sheet items							
Financial guarantees	(6,500)	(1,379)	(2,984)	(1,472)	-	(12,335)	
Undrawn loan commitments	(27,741)	-	-	-	-	(27,741)	
Undrawn overdraft/credit card commitments	(53,837)	-	-	-	-	(53,837)	
Total	**(88,078)**	**(1,379)**	**(2,984)**	**(1,472)**	**0**	**(93,913)**	
Total non-derivative financial liabilities and off-balance sheet items	**(545,818)**	**(62,139)**	**(40,544)**	**(262,720)**	**(157,703)**	**(1,068,924)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	57,725	291	1,160	282	59,458	
Outflow	-	(58,988)	(398)	(1,557)	(375)	(61,318)	
Total	**0**	**(1,263)**	**(107)**	**(397)**	**(93)**	**(1,860)**	**(1,712)**
Net settled derivatives	-	(17)	-	-	-	(17)	(17)
Total	**0**	**(1,280)**	**(107)**	**(397)**	**(93)**	**(1,877)**	**(1,729)**
Net liquidity position	**(474,905)**	**168,746**	**99,413**	**78,971**	**392,942**	**265,167**	

All amounts are in ISK million

38. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 30 September 2012:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	11,697	102,498	43,697	149,040	31,031	337,963	306,875
ISK	56,154	57,197	72,500	233,628	531,567	951,046	660,640
Total	**67,851**	**159,695**	**116,197**	**382,668**	**562,598**	**1,289,009**	**967,515**
Derivative financial assets							
Total in foreign currencies	-	(346)	-	-	-	(346)	280
ISK	-	632	-	-	-	632	6
Total	**0**	**286**	**0**	**0**	**0**	**286**	**286**
Non-derivative financial liabilities							
Total in foreign currencies	(63,237)	(7,281)	(4,212)	(162,905)	(72,284)	(309,919)	(281,850)
ISK	(344,433)	(93,511)	(19,711)	(97,171)	(24,220)	(579,046)	(556,727)
Total	**(407,670)**	**(100,792)**	**(23,923)**	**(260,076)**	**(96,504)**	**(888,965)**	**(838,577)**
Off-balance sheet items							
Total in foreign currencies	(13,482)	(1,016)	(2,123)	(811)	-	(17,432)	
ISK	(89,209)	(28,317)	(1,041)	(6,170)	-	(124,737)	
Total	**(102,691)**	**(29,333)**	**(3,164)**	**(6,981)**	**0**	**(142,169)**	
Derivative financial liabilities							
Total in foreign currencies	-	262	97	398	-	757	(511)
ISK	-	(430)	(168)	(718)	-	(1,316)	(20)
Total	**0**	**(168)**	**(71)**	**(320)**	**0**	**(559)**	**(531)**
Net liquidity position in foreign currencies	**(65,022)**	**94,117**	**37,459**	**(14,278)**	**(41,253)**	**11,023**	
Net liquidity position in ISK	**(377,488)**	**(64,429)**	**51,580**	**129,569**	**507,347**	**246,579**	
Net liquidity position	**(442,510)**	**29,688**	**89,039**	**115,291**	**466,094**	**257,602**	

All amounts are in ISK million

38. Maturity analysis of financial assets and liabilities by currency (continued)

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2011:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	16,034	173,674	49,304	119,155	24,912	383,079	359,014
ISK	54,879	58,341	90,760	222,933	525,826	952,739	615,241
Total	**70,913**	**232,015**	**140,064**	**342,088**	**550,738**	**1,335,818**	**974,255**
Derivative financial assets							
Total in foreign currencies	-	2,727	-	-	-	2,727	143
ISK	-	(2,577)	-	-	-	(2,577)	16
Total	**0**	**150**	**0**	**0**	**0**	**150**	**159**
Non-derivative financial liabilities							
Total in foreign currencies	(73,007)	(5,408)	(10,173)	(197,905)	(115,753)	(402,246)	(357,868)
ISK	(384,733)	(55,352)	(27,387)	(63,343)	(41,950)	(572,765)	(549,310)
Total	**(457,740)**	**(60,760)**	**(37,560)**	**(261,248)**	**(157,703)**	**(975,011)**	**(907,178)**
Off-balance sheet items							
Total in foreign currencies	(11,760)	(761)	(2,311)	(109)	-	(14,941)	
ISK	(76,318)	(618)	(673)	(1,363)	-	(78,972)	
Total	**(88,078)**	**(1,379)**	**(2,984)**	**(1,472)**	**0**	**(93,913)**	
Derivative financial liabilities							
Total in foreign currencies	-	(307)	97	397	99	286	(1,712)
ISK	-	(973)	(204)	(794)	(192)	(2,163)	(17)
Total	**0**	**(1,280)**	**(107)**	**(397)**	**(93)**	**(1,877)**	**(1,729)**
Net liquidity position in foreign currencies	**(68,733)**	**169,925**	**36,917**	**(78,462)**	**(90,742)**	**(31,095)**	
Net liquidity position in ISK	**(406,172)**	**(1,179)**	**62,496**	**157,433**	**483,684**	**296,262**	
Net liquidity position	**(474,905)**	**168,746**	**99,413**	**78,971**	**392,942**	**265,167**	

Market risk

39. Market risk management

The following table summarises the Group's exposure to market risk as at 30 September 2012 and 31 December 2011:

Market risk factor	30.9.2012 % of RWA	31.12.2011 % of RWA
Equity price risk	5.8%	7.7%
Interest rate risk	2.6%	2.6%
Foreign exchange risk	4.6%	3.1%
Total	**13.0%**	**13.4%**

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 42-43.

All amounts are in ISK million

40. 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 8). The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

At 30 September 2012	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	25,235	-	-	-	25,235
Bonds and debt instruments	198,905	11,786	1,144	5,650	217,485
Derivative instruments	286	-	-	-	286
Loans and advances to financial institutions	59,262	1,525	-	-	60,787
Loans and advances to customers	478,498	65,775	54,619	58,158	657,050
Other financial assets	6,430	-	528	-	6,958
Total	**768,616**	**79,086**	**56,291**	**63,808**	**967,801**
Financial liabilities					
Due to financial institutions and Central Bank	(90,206)	-	-	-	(90,206)
Deposits from customers	(437,678)	(1,800)	(375)	-	(439,853)
Derivative instruments and short positions	(531)	(4,349)	(1,906)	(1,475)	(8,261)
Secured bonds	(211,699)	-	-	-	(211,699)
Contingent bond	(74,225)	-	-	-	(74,225)
Other financial liabilities	(14,864)	-	-	-	(14,864)
Total	**(829,203)**	**(6,149)**	**(2,281)**	**(1,475)**	**(839,108)**
Net on-balance sheet position	(60,587)	72,937	54,010	62,333	128,693
Net off-balance sheet position	-	558	(558)	-	
Total interest repricing gap	**(60,587)**	**73,495**	**53,452**	**62,333**	

At 31 December 2011	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	8,823	-	-	-	8,823
Bonds and debt instruments	209,646	4,905	1,112	6,185	221,848
Derivative instruments	159	-	-	-	159
Loans and advances to financial institutions	93,176	5,621	1,329	7	100,133
Loans and advances to customers	507,251	63,844	24,773	43,262	639,130
Other financial assets	3,851	-	470	-	4,321
Total	**822,906**	**74,370**	**27,684**	**49,454**	**974,414**
Financial liabilities					
Due to financial institutions and Central Bank	(112,876)	-	-	-	(112,876)
Deposits from customers	(441,345)	(2,142)	(103)	-	(443,590)
Derivative instruments and short positions	(1,876)	(2,114)	(2,447)	(1,479)	(7,916)
Secured bonds	(277,076)	-	-	-	(277,076)
Contingent bond	(60,826)	-	-	-	(60,826)
Other financial liabilities	(6,623)	-	-	-	(6,623)
Total	**(900,622)**	**(4,256)**	**(2,550)**	**(1,479)**	**(908,907)**
Net on-balance sheet position	(77,716)	70,114	25,134	47,975	65,507
Net off-balance sheet position	808	(539)	(126)	(143)	
Total interest repricing gap	**(76,908)**	**69,575**	**25,008**	**47,832**	

All amounts are in ISK million

41. 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-indexed financial instruments may fluctuate due to changes in the Icelandic CPI index. The Group has a considerable imbalance in its CPI-indexed assets and liabilities. The majority of the Group's mortgage loans and consumer loans are indexed to the CPI. The Group tries to meet the imbalance by offering new products e.g. non-indexed housing loans and indexed deposits.

At 30 September 2012 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 148,565 million (31 December 2011: 128,958 million).

Carrying amount	30.9.2012	31.12.2011
Assets		
Bonds and debt instruments	7,789	10,812
Loans and advances to customers	240,327	217,131
Total	**248,116**	**227,943**
Liabilities		
Due to financial institutions and Central Bank	(30)	(123)
Deposits from customers	(99,348)	(97,127)
Short positions	(173)	(924)
Total	**(99,551)**	**(98,174)**
Total on-balance sheet position	148,565	129,769
Total off-balance sheet position	-	(811)
Total CPI indexation balance	**148,565**	**128,958**

42. Currency risk (all portfolios)

The Group follows the 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 certain limits in each currency. The Group submits daily reports to the Central Bank with information on its foreign exchange balance.

All amounts are in ISK million

43. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 30 September 2012 and 31 December 2011. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments (see Note 8).

Amounts presented under assets and liabilities include all spot deals at 30 September 2012 and 31 December 2011. When managing liquidity risk the Group regards spot deals as a non-derivative asset or liability.

As explained in Note 22 in the consolidated financial statements of the Group as at and for the year ended 31 December 2011, a contingent bond shall be issued no later than 31 March 2013 and be denominated in EUR or such other currencies as may be agreed between the Bank and Landsbanki Íslands hf. Using the exchange rate as published by the Central Bank of Iceland on 31 December 2012, the Bank shall convert the final value of the ISK principal balance (subject to an ISK 92 billion cap) into Euros (or such other currencies as the parties have agreed), which Euro (or other currency) amount shall be the new principal balance of the contingent bond. The contingent bond liability is therefore accounted for in ISK until year-end 2012 and is not reflected in the following tables that summarize the Group's exposure to currency risk at 30 September 2012 and 31 December 2011. However, as of 31 December 2012 the contingent bond liability will be accounted for in Euros (or such other currencies as the parties have agreed). The carrying amount at 30 September 2012 is ISK 74 billion.

At 30 September 2012	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	495	113	188	17	37	351	1,201
Bonds and debt instruments	-	21,994	33,973	-	-	-	55,967
Equities and equity instruments	8,198	-	1	-	-	3,732	11,931
Derivative instruments	275	4	1	-	-	-	280
Loans and advances to financial institutions	25,242	7,734	12,704	293	246	10,671	56,890
Loans and advances to customers	81,701	20,505	54,397	16,764	13,562	6,119	193,048
Other assets	476	2	4	1	-	24	507
Total	**116,387**	**50,352**	**101,268**	**17,075**	**13,845**	**20,897**	**319,824**
Liabilities							
Due to financial institutions and Central Bank	(1,476)	(1,853)	(2,558)	(358)	(1,421)	(6,979)	(14,645)
Deposits from customers	(16,331)	(4,110)	(23,878)	(387)	(471)	(6,229)	(51,406)
Derivative instruments and short positions	(225)	(9)	(277)	-	-	-	(511)
Secured bonds	(103,235)	(40,878)	(67,586)	-	-	-	(211,699)
Other liabilities	(1,250)	(2,206)	(512)	(7)	(10)	(166)	(4,151)
Total	**(122,517)**	**(49,056)**	**(94,811)**	**(752)**	**(1,902)**	**(13,374)**	**(282,412)**
Net on-balance sheet position	(6,130)	1,296	6,457	16,323	11,943	7,523	**37,412**
Net off-balance sheet position	32,525	1,773	(2,966)	(14,295)	(10,273)	(6,352)	**412**
Net currency position	**26,395**	**3,069**	**3,491**	**2,028**	**1,670**	**1,171**	**37,824**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

43. Concentration of currency risk (continued)

At 31 December 2011	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	366	137	243	14	36	250	1,046
Bonds and debt instruments	25,163	168	51,947	-	-	-	77,278
Equities and equity instruments	8,167	13	390	-	-	8,085	16,655
Derivative instruments	97	-	46	-	-	-	143
Loans and advances to financial institutions	32,338	17,875	30,768	3,370	865	6,609	91,825
Loans and advances to customers	72,586	12,022	57,930	21,653	17,496	7,103	188,790
Other assets	680	77	125	1	-	18	901
Total	**139,397**	**30,292**	**141,449**	**25,038**	**18,397**	**22,065**	**376,638**
Liabilities							
Due to financial institutions and Central Bank	(1,296)	(1,780)	(1,120)	(357)	(1,414)	(5,140)	(11,107)
Deposits from customers	(18,700)	(4,005)	(37,789)	(428)	(418)	(5,415)	(66,755)
Derivative instruments and short positions	(842)	(513)	(356)	-	(1)	-	(1,712)
Secured bonds	(136,818)	(51,702)	(88,556)	-	-	-	(277,076)
Other liabilities	(1,484)	(184)	(931)	-	(14)	(353)	(2,966)
Total	**(159,140)**	**(58,184)**	**(128,752)**	**(785)**	**(1,847)**	**(10,908)**	**(359,616)**
Net on-balance sheet position	(19,743)	(27,892)	12,697	24,253	16,550	11,157	**17,022**
Net off-balance sheet position	33,880	20,144	(10,812)	(20,437)	(11,269)	(8,494)	**3,012**
Net currency position	**14,137**	**(7,748)**	**1,885**	**3,816**	**5,281**	**2,663**	**20,034**

44. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 30 September 2012	At 31 December 2011	% Change	Average for 1.1-30.9 2012	Average for 1.1-30.9 2011
EUR/ISK	159.70	158.80	0.6%	160.36	161.79
GBP/ISK	200.15	190.29	5.2%	197.06	185.27
USD/ISK	123.98	122.22	1.4%	124.50	114.70
JPY/ISK	1.59	1.59	0.0%	1.58	1.43
CHF/ISK	132.10	130.79	1.0%	133.18	131.19
CAD/ISK	126.04	120.24	4.8%	124.28	117.17
DKK/ISK	21.42	21.36	0.3%	21.55	21.71
NOK/ISK	21.64	20.51	5.5%	21.32	20.76
SEK/ISK	18.90	17.81	6.1%	18.38	18.01

All amounts are in ISK million