



Condensed Consolidated Interim Financial Statements

For the nine months ended 30 September 2016

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Endorsement and Statement by the Board of Directors and CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. ("the Bank" or "Landsbankinn") for the first nine months of 2016 include the Bank and its subsidiaries (collectively referred to as "the Group").

Landsbankinn hf. was established on 7 October 2008. The Bank is a leading provider of financial services in the domestic market, offering a comprehensive range of financial products and services to individuals, corporates and institutional customers.

Operations

Consolidated profit amounted to ISK 16,400 million for the first nine months of the financial year 2016. Consolidated total equity amounted to ISK 251,146 million and total assets to ISK 1,133,802 million at the end of this period. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 29.1% at the end of the third quarter of 2016.

On 25 October 2016, the international credit rating agency Standard and Poor's (S&P) upgraded Landsbankinn's long- and short-term ratings from BBB-/A-3 to BBB/A-2 with a positive outlook. The upgrade recognises the positive progress towards liberalisation of capital controls in Iceland and improvement in the operating environment of the Icelandic banks, with falling private sector leverage and improved access to foreign debt capital markets. Last but not least, the upgrade acknowledges the material improvement in Landsbankinn's capital position.

In April 2016, Landsbankinn closed a second tranche of its floating rate notes in NOK and SEK under the Bank's EMTN programme with tap issues in the amount of NOK 250 million and SEK 100 million respectively. The bonds were sold at terms equivalent to NIBOR + 2.5% and STIBOR + 2.5% respectively. The aggregate nominal amounts of the notes series, NOK 500 million and SEK 350 million, mature in June 2019.

In September 2016, the Bank issued EUR 500 million in senior unsecured bonds under the Bank's EMTN programme. The bonds have a 4.5 year maturity with a fixed 1.625% coupon rate and were priced at terms equivalent to a 190 basis point spread above mid-swaps in euros. The proceeds of this bond series were used to refinance partially the 2020 maturity and fully refinance the 2022 and 2026 maturities of the senior secured bond series issued to LBI hf., in addition to strengthening the Bank's liquidity further.

Risk management

Macroeconomic conditions have continued to improve during the current year. At the same time, non-performing loans have decreased and the borrower credit quality of performing loans has improved. The Group's liquidity position remains strong; the liquidity coverage ratio in total and for foreign currencies was well above regulatory requirements at the end of the third quarter of 2016. Market risk has remained stable as the Bank has reduced open positions in foreign currency. Total economic capital has decreased by 0.5% during the year, mainly due to better credit quality of borrowers. The Bank implemented two new risk models during the current year; a corporate rating model and a model for interest rate risk in its banking book.

Outlook

Landsbankinn Economic Research forecasts GDP growth in Iceland of 5.4% in 2016, 4.3% in 2017 and 4.4% in 2018. The Central Bank has recently upgraded its forecast for 2016 from 4.5% to 4.9% and predicts average growth of 3.4% in 2017 and 2018. Increased investment and private consumption are expected to be the principal drivers of growth in coming years. Landsbankinn Economic Research predicts inflation will remain below the Central Bank's 2.5% inflation target in 2016, but will increase next year and peak at close to 4% during the first half of 2017 due to substantial general wage increases.

Profit in the third quarter of 2016 is significantly lower than in the third quarter of the previous year. The decrease year-over-year is mainly the result of lower net income from extraordinary items and lower net operating income. The same applies when the first nine months of 2016 and 2015 are compared. The Bank continues to focus on the execution of its strategy to ensure sustainable, long-term profitability.

Other matters

At Landsbankinn's Annual General Meeting (AGM) on 14 April 2016 a resolution was passed to pay a dividend for the year ended 31 December 2015 in the amount of ISK 28,538 million on the outstanding shares or ISK 1.20 per share. The dividend was to be paid in two equal instalments, on 20 April 2016 and 21 September 2016, to the parties registered as shareholders on 14 April 2016. A dividend in the amount of ISK 0.6 per share was subsequently paid on 20 April 2016 and the remainder of the dividend payment of ISK 0.6 per share was paid on 21 September 2016.

On 15 September 2016, the Bank's Board of Directors decided to offer to buy back own shares in the Bank, in accordance with a resolution passed by the Bank's AGM on 14 April 2016. These buy backs will amount to a maximum of 480 million shares, or the equivalent of 2% of issued share capital. The objective of the buy-back programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in the Bank in a transparent manner, as restrictions on the transfer of shares expired on 1 September 2016.

Subsequently the Bank announced it would purchase shares from shareholders in accordance with a buy-back programme during three specified periods: from 19 September 2016 to 30 September 2016, from 31 October 2016 to 9 December 2016 and from 13 February 2017 to 24 February 2017.

In accordance with the AGM's decision, Landsbankinn will offer to buy back each share during these three specified periods at a share price determined by the internal value of the Bank's shares, according to its most recently published results prior to the commencement of the buy-back period concerned. The purchase price of the shares may therefore change between buy-back periods depending upon the outcome of the Bank's latest quarterly or annual results.

In the first buy-back period, from 19 September to 30 September, the Bank acquired ISK 119.8 million own shares at a share price of ISK 10.3966, for a total amount of ISK 1,245 million.

Statement by the Board of Directors and CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months ended 30 September 2016 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first nine months of 2016, its consolidated financial position as at 30 September 2016 and its consolidated cash flows for the first nine months of 2016.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months ended 30 September 2016.

Reykjavík, 27 October 2016

Board of Directors

Helga Björk Eiríksdóttir

Chairman

Berglind Svavarsdóttir

Danielle Pamela Neben

Einar Þór Bjarnason

Hersir Sigurgeirsson

Jón Guðmann Pétursson

Samúel Guðmundsson

CEO

Steinn Pálsson

Independent Auditors' Review Report

To the Board of Directors and Shareholders of Landsbankinn hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Landsbankinn hf. (the Bank) as at 30 September 2016 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements do not give a true and fair view of the financial position of the Bank as at 30 September 2016, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 27 October 2016

Grant Thornton endurskoðun ehf.



Davíð Arnar Einarsson
State Authorised Public Accountant



Sturla Jónsson
State Authorised Public Accountant

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Condensed Consolidated Income Statement for the nine months ended 30 September 2016

Notes		2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
	Interest income	15,528	16,000	48,371	44,676
	Interest expense	(6,932)	(7,166)	(22,164)	(19,644)
5	Net interest income	8,596	8,834	26,207	25,032
6	Net valuation adjustments and credit impairment charges	2,144	10,489	4,419	12,334
	Net interest income after net valuation adjustments and credit impairment charges	10,740	19,323	30,626	37,366
	Fee and commission income	2,634	2,322	7,652	6,645
	Fee and commission expense	(619)	(577)	(1,743)	(1,506)
7	Net fee and commission income	2,015	1,745	5,909	5,139
8	Net gain on financial assets designated at fair value through profit or loss	135	852	966	6,502
9	Net (loss) gain on financial assets and liabilities held for trading	(669)	1,173	(169)	2,897
10	Net foreign exchange gain (loss)	25	(748)	33	(1,219)
	Other income and (expenses)	793	(188)	3,881	239
	Other net operating income	284	1,089	4,711	8,419
	Total operating income	13,039	22,157	41,246	50,924
11	Salaries and related expenses	3,096	3,466	10,409	10,347
12	Other operating expenses	1,760	1,757	5,743	5,838
	Depreciation and amortisation	165	167	459	496
	Contribution to the Depositors' and Investors' Guarantee Fund	305	203	971	970
	Total operating expenses	5,326	5,593	17,582	17,651
	Share of profit of equity-accounted associates	71	145	446	257
	Profit before tax	7,784	16,709	24,110	33,530
13	Income tax	(1,937)	(3,953)	(5,440)	(6,677)
13	Tax on liabilities of financial institutions	(745)	(748)	(2,270)	(2,440)
	Profit for the period	5,102	12,008	16,400	24,413
Profit for the period attributable to:					
Owners of the Bank					
	Profit for the period	5,103	12,008	16,390	24,413
	Profit for the period attributable to owners of the Bank	5,103	12,008	16,390	24,413
Non-controlling interests					
	Profit for the period from continuing operations	(1)	0	10	0
	Profit for the period attributable to non-controlling interests	(1)	0	10	0
	Profit for the period	5,102	12,008	16,400	24,413
Earnings per share:					
25	Basic and diluted earnings per share	0.21	0.51	0.69	1.03
	Total basic and diluted earnings per share	0.21	0.51	0.69	1.03

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

Condensed Consolidated Statement of Financial Position as at 30 September 2016

Notes		30.9.2016	31.12.2015
Assets			
	Cash and balances with Central Bank	52,822	25,164
14, 15, 45	Bonds and debt instruments	168,029	203,684
14, 16	Equities and equity instruments	30,896	29,192
14, 17	Derivative instruments	593	287
18, 45	Loans and advances to financial institutions	16,835	20,791
19, 40, 45	Loans and advances to customers	837,494	811,549
	Investments in equity-accounted associates	1,110	909
	Property and equipment	5,439	5,658
	Intangible assets	2,285	2,012
20	Other assets	10,226	7,457
21	Assets classified as held for sale	8,073	11,955
	Total assets	1,133,802	1,118,658
Liabilities			
	Due to financial institutions and Central Bank	41,307	56,731
	Deposits from customers	583,715	559,051
17	Derivative instruments and short positions	1,475	3,400
22, 45	Borrowings	220,800	209,344
23	Subordinated liabilities	407	639
	Deferred tax liabilities	120	166
	Other liabilities	33,318	23,278
	Liabilities associated with assets classified as held for sale	1,514	1,518
	Total liabilities	882,656	854,127
24	Equity		
	Share capital	23,662	23,782
	Share premium	120,978	122,105
	Reserves	6,000	6,000
	Retained earnings	100,466	112,614
	Total equity attributable to owners of the Bank	251,106	264,501
	Non-controlling interests	40	30
	Total equity	251,146	264,531
	Total liabilities and equity	1,133,802	1,118,658

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

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2016

Notes

		Attributable to owners of the Bank					Non-	
Change in equity for the nine months ended		Share capital	Share premium	Statutory reserve	Restricted reserve	Retained earnings	controlling interests	Total
30 September 2016						Total		
	Balance as at 1 January 2016	23,782	122,105	6,000		112,614	30	264,531
	Profit for the period					16,390	10	16,400
	Transferred to restricted retained earnings				363	(363)		0
	Purchase of own shares	(120)	(1,127)			(1,247)		(1,247)
	Dividends paid					(28,538)		(28,538)
24	Balance as at 30 September 2016	23,662	120,978	6,000	363	100,103	40	251,146
Change in equity for the nine months ended								
30 September 2015								
	Balance at 1 January 2015	23,687	121,275	6,000		99,841		250,803
	Profit for the period					24,413		24,413
	Dividends paid					(23,687)		(23,687)
	Merger consideration allocated to former guarantee capital owners of Sparisjóður Vestmannaeyja ses. and Sparisjóður Norðurlands ses.	95	830					925
	Increase in non-controlling interests due to merger of Landsbankinn and Sparisjóður Norðurlands ses.						30	30
24	Balance as at 30 September 2015	23,782	122,105	6,000	0	100,567	30	252,484

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

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2016

Notes	2016 1.1-30.9	2015 1.1-30.9
Operating activities		
Profit for the period	16,400	24,413
Adjustments for non-cash items included in profit for the period	(24,149)	(37,571)
Changes in operating assets and liabilities	(10,531)	23,156
Interest received	43,430	35,871
Interest paid	(9,717)	(12,045)
Dividends received	329	3,281
Income tax and special tax on financial institutions paid	(5,336)	(5,318)
Net cash from operating activities	10,426	31,787
Investing activities		
Purchase of property and equipment	(230)	(189)
Proceeds from sale of property and equipment	158	58
Purchase of intangible assets	(451)	(430)
Sale of subsidiaries	(8)	0
Net cash used in investing activities	(531)	(561)
Financing activities		
Proceeds from new long-term debt issue	100,008	5,800
Purchase of own shares	(1,247)	0
Repayment of borrowings	(70,379)	(180)
Repayment of subordinated loans	(246)	0
Dividends paid	(28,538)	(23,687)
Net cash used in financing activities	(402)	(18,067)
Net change in cash and cash equivalents	9,493	13,159
Cash and cash equivalents as at the beginning of the period	24,257	16,585
Cash and cash equivalents acquired in business combination	0	1,491
Effect of exchange rate changes on cash and cash equivalents held	(740)	1,255
Cash and cash equivalents as at 30 September	33,010	32,490
Investing and financing activities not affecting cash flows		
Assets acquired and liabilities assumed from Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands	-	(343)
Goodwill	-	(583)
Own shares allocated to former guarantee capital owners of the saving bank Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands	-	926
Unsettled issued new bills	-	1,300
Unsettled securities trading	-	(1,300)

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

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2016

		2016	2015
Notes		1.1-30.9	1.1-30.9
Adjustments for non-cash items included in profit for the period			
5	Net interest income	(26,207)	(25,032)
6, 41	Net impairment and loss of guarantees	(4,419)	(5,070)
6	Reversals of loss from foreign currency linkage of loans and advances to customers	0	(7,264)
8	Net (gain) on financial assets designated at fair value through profit or loss	(966)	(6,502)
9	Net loss (gain) on financial assets and liabilities held for trading	169	(2,897)
10	Net foreign exchange loss (gain)	707	(36)
	Loss on sale of property and equipment	11	23
	Net (gain) on assets classified as held for sale	(1,167)	(149)
	Depreciation and amortisation	459	496
	Share of profit of equity-accounted associates	(446)	(257)
13	Income tax	5,440	6,677
13	Tax on liabilities of financial institutions	2,270	2,440
		(24,149)	(37,571)
Changes in operating assets and liabilities			
	Change in reserve requirement with Central Bank	(16,070)	(4,284)
	Change in bonds and equities	28,232	15,890
	Change in loans and advances to financial institutions	(1,259)	7,418
	Change in loans and advances to customers	(37,328)	(65,711)
	Change in other assets	(1,839)	8,566
	Change in assets classified as held for sale	3,560	7,861
	Change in due to financial institutions and Central Bank	(14,997)	(4,251)
	Change in deposits from customers	22,984	53,963
	Change in deferred tax assets/liabilities	(46)	(116)
	Change in other liabilities	6,237	4,175
	Change in liabilities associated with assets classified as held for sale	(5)	(355)
		(10,531)	23,156
Cash and cash equivalents is specified as follows:			
	Cash and unrestricted balances with Central Bank	20,749	16,139
18	Bank accounts with financial institutions	12,261	16,351
Cash and cash equivalents as at the end of the period		33,010	32,490

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

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Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Bank for the nine months ended 30 September 2016 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related services. The Group operates solely in Iceland.

The issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 27 October 2016.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2016 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 2015, which are available on the Bank's website, www.landsbankinn.is.

Going concern

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

Basis of measurement

The Condensed Consolidated Interim Financial Statements have been prepared on a historical cost basis except for the following:

- Financial assets and liabilities classified as held for trading are measured at fair value;
- Financial assets and liabilities designated at fair value through profit or loss are measured at fair value;
- Non-current assets and disposal groups classified as held for sale are measured at the lower of cost or fair value less costs to sell.

Functional and presentation currency

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

Use of estimates and judgements

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

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

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 2015. The accounting policies applied have been applied consistently to all periods presented.

The Group has adopted the amendments to existing standards which became effective as of 1 January 2016. These amendments have an insignificant impact on the Condensed Consolidated Interim Financial Statements.

In June 2016, the Icelandic parliament passed an amendment to Act No. 3/2006 on Annual Financial Statements. The amendment entered into force immediately and applies to the financial year commencing 1 January 2016. The Group is currently in the process of evaluating the possible impact of the amendment. The disclosure of retained earnings may change since the interpretation of the law is not clear.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

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

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

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

Support functions are comprised of Finance (excluding Treasury), Risk Management, Operations & IT, and the CEO office, whereby the CEO office is comprised of Human Resources, Marketing & Communications and Compliance. The Bank's Internal Audit department is also included in support functions, however it is independent and reports directly to the Bank's Board of Directors.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the period from 1 January to 30 September 2016 and 2015.

Notes to the Consolidated Financial Statements

4. Operating segments (continued)

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
1 January - 30 September 2016							
Net interest income (expense)	10,257	11,189	267	4,831	7	(344)	26,207
Net valuation adjustments and credit impairment charges	2,855	1,582	-	(18)	-	-	4,419
Net fee and commission income	2,629	633	3,100	(242)	74	(285)	5,909
Other net operating income (expenses)	908	83	(243)	2,130	1,494	339	4,711
Total operating income (expense)	16,649	13,487	3,124	6,701	1,575	(290)	41,246
Operating expenses	(4,780)	(1,143)	(1,613)	(1,198)	(9,151)	303	(17,582)
Share of profit (loss) of equity-accounted associates	498	-	-	(52)	-	-	446
Profit (loss) before cost allocation and tax	12,367	12,344	1,511	5,451	(7,576)	13	24,110
Cost allocated from support functions to business segments	(3,732)	(2,722)	(1,000)	(933)	8,387	-	0
Profit (loss) before tax	8,635	9,622	511	4,518	811	13	24,110
Net revenue (expenses) from external customers	18,854	20,500	2,868	(2,227)	1,541	-	41,536
Net revenue (expenses) from other segments	(2,205)	(7,013)	256	8,928	34	-	0
Total operating income	16,649	13,487	3,124	6,701	1,575	0	41,536
As at 30 September 2016							
Total assets	384,278	475,088	38,469	458,931	16,088	(239,052)	1,133,802
Total liabilities	339,191	375,152	33,032	358,245	16,088	(239,052)	882,656
Allocated capital	45,087	99,936	5,437	100,686	-	-	251,146

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
1 January - 30 September 2015							
Net interest income (expense)	9,992	10,349	236	5,134	5	(684)	25,032
Net valuation adjustments and credit impairment charges	2,526	9,856	(1)	(47)	-	-	12,334
Net fee and commission income	2,640	531	2,423	(241)	54	(268)	5,139
Other net operating income (expenses)	(259)	(711)	1,612	6,836	366	575	8,419
Total operating income (expense)	14,899	20,025	4,270	11,682	425	(377)	50,924
Operating expenses	(4,752)	(1,104)	(1,425)	(1,260)	(9,394)	284	(17,651)
Share of profit of equity-accounted associates	182	-	-	33	42	-	257
Profit (loss) before cost allocation and tax	10,329	18,921	2,845	10,455	(8,927)	(93)	33,530
Cost allocated from support functions to business segments	(3,969)	(3,104)	(869)	(655)	8,597	-	0
Profit (loss) before tax	6,360	15,817	1,976	9,800	(330)	(93)	33,530
Net revenue from external customers	16,175	28,245	4,048	2,425	408	-	51,301
Net revenue (expenses) from other segments	(1,276)	(8,220)	222	9,257	17	-	0
Total operating income	14,899	20,025	4,270	11,682	425	0	51,301
As at 30 September 2015							
Total assets	372,371	485,922	38,511	519,179	18,441	(258,620)	1,175,804
Total liabilities	320,236	379,452	31,352	432,459	18,441	(258,620)	923,320
Allocated capital	52,135	106,470	7,159	86,720	-	-	252,484

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

5. Net interest income

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Interest income				
Cash and balances with Central Bank	396	213	926	501
Bonds and debt instruments classified as loans and receivables	1,510	1,391	4,698	3,857
Loans and advances to financial institutions	39	80	173	282
Loans and advances to customers	13,552	14,311	42,525	40,020
Other interest income	31	5	49	16
Total	15,528	16,000	48,371	44,676
Interest expense				
Due to financial institutions and Central Bank	(179)	(293)	(861)	(847)
Deposits from customers	(4,821)	(4,988)	(15,306)	(13,400)
Borrowings	(1,922)	(1,775)	(5,937)	(5,219)
Subordinated liabilities	(10)	1	(33)	(9)
Other interest expense	-	(111)	(27)	(169)
Total	(6,932)	(7,166)	(22,164)	(19,644)
Net interest income	8,596	8,834	26,207	25,032

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

6. Net valuation adjustments and credit impairment charges

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Net impairment	2,144	1,948	4,419	5,674
Net impairment loss of guarantees	-	(604)	-	(604)
Reversals of loss from foreign currency linkage of loans and advances to customers	-	9,145	-	7,264
Net valuation adjustments and credit impairment charges	2,144	10,489	4,419	12,334
Valuation adjustments and impairment charges by customer type				
Individuals	902	568	2,105	440
Corporates	1,242	9,921	2,314	11,894
Net valuation adjustments and credit impairment charges	2,144	10,489	4,419	12,334

7. Net fee and commission income

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Fee and commission income				
Markets	1,050	682	2,938	2,256
Loans and guarantees	252	242	760	741
Cards	814	740	2,384	1,916
Collection and payment services	224	230	666	670
Foreign trade	185	298	585	700
Other commissions and fees	109	129	319	362
Total	2,634	2,321	7,652	6,645
Fee and commission expense				
Investment banking and capital markets	(85)	(76)	(232)	(242)
Cards	(274)	(259)	(783)	(541)
Other fees	(260)	(241)	(728)	(723)
Total	(619)	(576)	(1,743)	(1,506)
Net fee and commission income	2,015	1,745	5,909	5,139

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

Notes to the Condensed Consolidated Interim Financial Statements

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

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Bonds and debt instruments	303	170	317	1,057
Equities and equity instruments	(168)	682	649	5,445
Total	135	852	966	6,502

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

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Bonds and debt instruments	47	365	908	1,265
Equities and equity instruments	(353)	846	(749)	1,556
Derivatives and underlying hedges	(363)	(37)	(328)	76
Total	(669)	1,174	(169)	2,897

10. Net foreign exchange gain (loss)

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Assets				
Cash and balances with Central Bank	(111)	(125)	(204)	(140)
Bonds and debt instruments	(2,906)	(4,639)	(5,930)	(1,853)
Equities and equity instruments	(16)	(565)	(18)	(1,383)
Derivative instruments	349	473	1,180	(1,065)
Loans and advances to financial institutions	(1,229)	(1,566)	(2,334)	(1,533)
Loans and advances to customers	(14,205)	(7,704)	(22,107)	(8,958)
Other assets	(90)	(18)	(172)	(11)
Total	(18,208)	(14,144)	(29,585)	(14,943)
Liabilities				
Due to financial institutions and Central Bank	-	29	401	45
Deposits from customers	5,712	5,748	9,663	6,235
Borrowings	12,447	7,515	19,285	7,443
Subordinated liabilities	6	14	(1)	25
Other liabilities	68	90	270	(24)
Total	18,233	13,396	29,618	13,724
Net foreign exchange gain (loss)	25	(748)	33	(1,219)

The foreign exchange difference recognised during the period 1 January to 30 September 2016 in the Condensed Consolidated Income Statement that arose on financial instruments not measured at fair value through profit or loss, amounted to a loss of ISK 24,817 million for financial assets (1.1-30.9.2015: loss of ISK 10,642 million) and a gain of ISK 29,618 million for financial liabilities (1.1-30.9.2015: gain of ISK 13,724 million).

11. Salaries and related expenses

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Salaries	2,290	2,608	7,953	7,935
Contributions to defined pension plans	404	415	1,218	1,157
Social security contributions, special financial activities tax on salaries and other expenses	402	443	1,238	1,255
Total salaries and related expenses	3,096	3,466	10,409	10,347

12. Other operating expenses

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Information technology	500	573	1,552	1,612
Real estate and fixtures	251	187	709	551
Advertising and marketing expenses	172	135	600	570
Operating lease rentals	138	169	413	497
FME supervisory expenses	118	115	353	347
Contribution to the Debtor's Ombudsman	28	35	83	104
Audit and related services	18	18	88	90
Other professional services	107	100	403	504
Other operating expenses	428	426	1,542	1,563
Total	1,760	1,758	5,743	5,838

Notes to the Condensed Consolidated Interim Financial Statements

13. Income tax and other taxes

Income tax is recognised based on the tax rates and tax laws enacted by the end of the year, according to which the domestic corporate income tax rate was 20.0% (2015: 20.0%). An additional special income tax on financial institutions is recognised at a rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011 on Financial Activity Tax.

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

	2016 1.1-30.9	2015 1.1-30.9
Current tax expense	(4,535)	(4,346)
Special income tax on financial institutions	(1,183)	(1,497)
Difference of prior year's imposed and calculated income tax	30	-
Deferred tax expense	248	(834)
Total	(5,440)	(6,677)

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

	2016 1.1-30.9	2015 1.1-30.9
Profit before tax	24,110	33,530
Tax on liabilities of financial institutions	(2,270)	(2,440)
Profit before income tax	21,840	31,090
Income tax calculated using the domestic corporate income tax rate	20.0% (4,366)	20.0% (6,218)
Special income tax on financial institutions	5.4% (1,183)	4.8% (1,497)
Income not subject to tax	(2.0%) 436	(5.3%) 1,633
Non-deductible expenses	2.5% (548)	2.0% (617)
Other	(1.0%) 221	(0.1%) 22
Effective income tax	24.9% (5,440)	21.5% (6,677)

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Statement of Financial Position

14. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities must be classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:

- Loans and receivables, measured at amortised cost;
- Financial assets and liabilities held for trading, measured at fair value;
- Financial assets designated at fair value through profit or loss, measured at fair value;
- Other financial liabilities, measured at amortised cost.

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 2016:

				Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Financial assets	Loans and receivables	Held for trading	Designated at fair value				
Cash and balances with Central Bank	52,822	-	-	-	-	52,822	52,822
Bonds and debt instruments	116,509	42,868	8,652	-	-	168,029	168,896
Equities and equity instruments	-	12,606	18,290	-	-	30,896	30,896
Derivative instruments	-	593	-	-	-	593	593
Loans and advances to financial institutions	16,835	-	-	-	-	16,835	16,835
Loans and advances to customers	837,494	-	-	-	-	837,494	842,216
Other financial assets	8,714	-	-	-	-	8,714	8,714
Total	1,032,374	56,067	26,942	0	0	1,115,383	1,120,972
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	41,307	-	41,307	41,307
Deposits from customers	-	-	-	583,715	-	583,715	583,701
Derivative instruments and short positions	-	1,475	-	-	-	1,475	1,475
Borrowings	-	-	-	220,800	-	220,800	222,361
Subordinated liabilities	-	-	-	407	-	407	429
Other financial liabilities	-	-	-	13,219	-	13,219	13,219
Total	0	1,475	0	859,448	0	860,923	862,492

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

The fair value of financial assets and liabilities is determined based on the same valuation methods as those described in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2015.

Fair value hierarchy

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

- Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value.
- Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares. However, the yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.
- Level 3: Valuation technique based on significant non-observable inputs. It covers all instruments for which the valuation technique includes inputs based on unobservable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there is no market data available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies' multiples are the most commonly used methods to calculate fair value of unlisted shares in addition to recent transactions and current market conditions.

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

Valuation framework

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

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial Position, is categorised as at 30 September 2016:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	42,862	8,281	377	51,520
Equities and equity instruments	12,209	-	18,687	30,896
Derivative instruments	-	593	-	593
Total	55,071	8,874	19,064	83,009
Financial liabilities				
Derivative instruments	-	1,093	-	1,093
Short positions	382	-	-	382
Total	382	1,093	0	1,475

During the period from 1 January to 30 September 2016 there were no transfers between Level 1, Level 2 and Level 3.

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

The following tables show the reconciliation of fair value measurement in Level 3 for the nine months ended 30 September and for the year 2015:

	Bonds and debt instruments	Equities and equity instruments	Total financial assets
1 January - 30 September 2016			
Carrying amount as at 1 January 2016	443	18,123	18,566
Net gain on financial assets designated at fair value through profit or loss	34	548	582
Net foreign exchange loss	(13)	-	(13)
Purchases	-	737	737
Sales	(5)	(716)	(721)
Settlements	(82)	-	(82)
Dividend received	-	(5)	(5)
Carrying amount as at 30 September 2016	377	18,687	19,064
1 January - 31 December 2015			
Carrying amount as at 1 January 2015	8,031	21,908	29,939
Net gain on financial assets designated at fair value through profit or loss	330	7,644	7,974
Net foreign exchange loss	(49)	(13)	(62)
Purchases	9	372	381
Sales	(7,922)	(688)	(8,610)
Acquired financial assets in business combinations	51	265	316
Settlements	(7)	-	(7)
Dividend received	-	(3,911)	(3,911)
Transfer into Level 3	-	1,114	1,114
Transfers from Level 3 to Level 1	-	(8,568)	(8,568)
Carrying amount as at 31 December 2015	443	18,123	18,566

The following table shows the line items in the Consolidated Income Statement where gains (losses), relating only to financial assets and liabilities held by the Group as at 30 September 2016 and 30 September 2015 and categorised in Level 3, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Total
1 January - 30 September 2016			
Net gain on financial assets designated at fair value through profit or loss	32	550	582
Net foreign exchange loss	(13)	-	(13)
Total	19	550	569
1 January - 30 September 2015			
Net gain on financial assets designated at fair value through profit or loss	333	5,298	5,631
Net foreign exchange loss	(48)	(11)	(59)
Total	285	5,287	5,572

Unobservable inputs in fair value measurement

The following table shows the unobservable inputs used in measuring fair value as at 30 September 2016 and 31 December 2015.

	Assets	Liabilities	Valuation technique	Key unobservable inputs	Range of inputs	
					Lower	Higher
As at 30 September 2016						
Bonds and debt instruments	377	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	18,687	-	See note 2)	See note 2)	n/a	n/a
	19,064	0				
As at 31 December 2015						
Bonds and debt instruments	443	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	18,123	-	See note 2)	See note 2)	n/a	n/a
	18,566	0				

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives for the nine months ended 30 September 2016 and 2015:

	2016 1.1-30.9		2015 1.1-30.9	
Effect on profit before tax	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	19	(19)	21	(21)
Equities and equity instruments:				
Equities	447	(627)	296	(296)
Mutual funds	459	(459)	327	(327)
Total equities and equity instruments	906	(1,086)	623	(623)
Total	925	(1,105)	644	(644)

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

15. Bonds

	30.9.2016				31.12.2015			
Bonds and debt instruments	Loans and receivables	Held for trading	Designated at fair value	Total	Loans and receivables	Held for trading	Designated at fair value	Total
Domestic								
Listed	116,509	11,117	8,295	135,921	125,211	36,468	8,782	170,461
Unlisted	-	1,166	357	1,523	-	911	412	1,323
	116,509	12,283	8,652	137,444	125,211	37,379	9,194	171,784
Foreign								
Listed	-	30,585	-	30,585	-	31,900	-	31,900
	0	30,585	0	30,585	0	31,900	0	31,900
Total bonds	116,509	42,868	8,652	168,029	125,211	69,279	9,194	203,684

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

Bonds and debt instruments classified as loans and receivables as at 30 September 2016 and 31 December 2015 consist partly of the government bonds which the Bank received in settlement of the capital contribution in 2009. The bonds were listed on the Stock Exchange in Iceland during 2010.

16. Equities

	30.9.2016			31.12.2015		
Equities and equity instruments	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Domestic						
Listed	11,766	-	11,766	11,383	-	11,383
Unlisted	837	18,236	19,073	-	17,777	17,777
	12,603	18,236	30,839	11,383	17,777	29,160
Foreign						
Listed	3	54	57	2	30	32
	3	54	57	2	30	32
Total equities	12,606	18,290	30,896	11,385	17,807	29,192

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

Notes to the Condensed Consolidated Interim Financial Statements

17. Derivative instruments and short positions

	30.9.2016			31.12.2015		
	Notional amount	Fair value		Notional amount	Fair value	
Foreign exchange derivatives		Assets	Liabilities		Assets	Liabilities
Currency forwards	45,658	244	211	52,462	139	223
Cross-currency interest rate swaps	5,051	7	839	6,148	109	231
	50,709	251	1,050	58,610	248	454
Interest rate derivatives						
Interest rate swaps	750	12	-	1,000	2	4
Total return swaps	2,924	12	9	4,192	29	12
	3,674	24	9	5,192	31	16
Equity derivatives						
Total return swaps	6,742	310	3	5,815	8	107
Equity options	1,328	8	31	3,527	-	125
	8,070	318	34	9,342	8	232
Short positions						
Listed bonds	257	-	382	2,162	-	2,698
	257	0	382	2,162	0	2,698
Total	62,710	593	1,475	75,306	287	3,400

The Group uses derivatives both for hedging and trading purposes.

18. Loans and advances to financial institutions

	30.9.2016	31.12.2015
Bank accounts with financial institutions	12,261	15,096
Money market loans	1,616	1,281
Overdrafts	1	1,482
Other loans	2,957	2,932
Total	16,835	20,791

19. Loans and advances to customers

	30.9.2016	31.12.2015
Public entities	10,186	8,969
Individuals	318,174	303,349
Corporates	532,335	532,888
Allowance for impairment	(23,201)	(33,657)
Total	837,494	811,549

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

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

20. Other assets

	30.9.2016	31.12.2015
Unsettled securities trading	4,415	1,025
Other accounts receivable	4,299	5,893
Sundry assets	1,512	539
Total	10,226	7,457

21. Assets classified as held for sale

	30.9.2016	31.12.2015
Reposessed collateral	6,494	10,095
Assets of disposal groups	1,579	1,860
Total	8,073	11,955

Notes to the Condensed Consolidated Interim Financial Statements

21. Assets classified as held for sale (continued)

Reposessed collateral

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

Reposessed collateral	30.9.2016	31.12.2015
Carrying amount as at the beginning of the period	10,095	12,270
Reposessed during the period	2,317	6,760
Disposed of during the period	(7,653)	(9,895)
Impairment and gain of sale	1,735	960
Carrying amount as at the end of the period	6,494	10,095

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.

22. Borrowings

Secured borrowings

As at 30.9.2016	Currency	Final maturity	Outstanding principal	Contractual interest rate (Base rate + Initial margin/ Step-up margin)	Carrying amount
BOND D	USD	9.10.2020	USD 247 million	LIBOR + 2.90% / 3.50%	28,108
BOND F	USD	9.10.2024	USD 271 million	LIBOR + 2.90% / 3.95%	31,050
Total issued bonds to LBI hf.					59,158

As at 30.9.2016	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 17	ISK	23.10.2017	1,740	Non-indexed	Fixed 6.0%	1,833
LBANK CB 19	ISK	17.9.2019	11,540	Non-indexed	Fixed 6.8%	11,595
LBANK CBI 22	ISK	28.4.2022	16,800	CPI-indexed	Fixed 3.0%	17,233
Total covered bonds						30,661

Total secured borrowings	89,819
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Unsecured borrowings

As at 30.9.2016	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 3 10/18	EUR	19.10.2018	EUR 300 million	FIXED 3.0%	39,325
LBANK FLOAT 06/19	NOK	11.6.2019	NOK 500 million	NIBOR + 2.6%	7,121
LBANK FLOAT 06/19	SEK	10.6.2019	SEK 350 million	STIBOR + 2.6%	4,635
LBANK 1.625 3/21	EUR	15.3.2021	EUR 500 million	FIXED 1.625%	63,432
Total EMTN issued					114,513

As at 30.9.2016	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 161010	ISK	10.10.2016	1,500	Non-indexed	1,497
LBANK 161110	ISK	10.11.2016	2,840	Non-indexed	2,780
LBANK 161212	ISK	12.12.2016	3,060	Non-indexed	3,021
LBANK 170110	ISK	10.01.2017	2,340	Non-indexed	2,298
LBANK 170210	ISK	10.02.2017	1,020	Non-indexed	997
LBANK 170310	ISK	10.03.2017	320	Non-indexed	312
Total bills issued					10,905

As at 30.9.2016	Carrying amount
Other unsecured loans	5,563
Total other unsecured loans	5,563

Total unsecured borrowings	130,981
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Total borrowings as at 30.9.2016	220,800
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Notes to the Condensed Consolidated Interim Financial Statements

22. Borrowings (continued)

Secured borrowings

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

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

Total secured borrowings	147,652
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Unsecured borrowings

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

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

As at 31.12.2015	Carrying amount
Other unsecured loans	6,138
Total other unsecured loans	6,138

Total unsecured borrowings	61,692
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Total borrowings as at 31.12.2015	209,344
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The secured foreign currency bonds consist of bonds issued by the Bank to LBI hf. as consideration and supplementary consideration for the assets and liabilities transferred from LBI hf. to the Bank in October 2008. Under an agreement between the Bank and LBI hf. in October 2015, the Bank has the option to convert the secured bonds, in part or in full, to senior unsecured bonds under the Bank's Euro Medium Term Note (EMTN) Programme. The option is conditional on the Bank maintaining a specified minimum credit rating and is valid until March 2017. If the Bank exercises the option, the terms of the senior unsecured bonds will be determined with reference to market terms at the time of conversion.

Interest rate terms are 3M LIBOR for the USD-denominated bonds plus a margin of 2.9% until October 2018, stepping up to 3.5% for the 2020 tranche and 3.95% for the final maturity in 2024.

The Bank is obliged to pledge part of its loan portfolio as collateral for the secured bonds issued to LBI hf. as well as for the covered bonds it has issued. It must maintain a coverage ratio of at least 115% on the secured bonds issued to LBI hf. and at least 120% on the covered bonds. For further details on encumbered assets see Note 45.

On 15 April 2016, the Bank made a partial prepayment of the senior secured Bond E series in the amount of EUR 20 million, together with accrued interest.

On 15 September 2016, the Bank prepaid the remainder of the senior secured Bond E series and G series (EUR 172 million and EUR 192 million respectively), together with accrued interest. In addition, the Bank made a partial prepayment of USD 24 million towards the senior secured Bond D series, together with accrued interest.

Each covered bond series in ISK is issued under the Bank's ISK 100,000 million Covered Bond Programme. These covered bonds are issued under a licence from the Icelandic Financial Supervisory Authority (FME) and with reference to Act No. 11/2008 and FME Rules No. 528/2008. All covered bond series are listed and traded on NASDAQ Iceland.

Notes to the Condensed Consolidated Interim Financial Statements

22. Borrowings (continued)

The senior unsecured bonds LBANK 3 10/18 of EUR 300 million mature in October 2018 and carry a fixed coupon rate of 3.0%. They are issued under the Bank's 1,500 million EMTN Programme and are listed on the Irish Stock Exchange.

On 12 April 2016, the Bank issued additional tranches of NOK 250 million and SEK 100 million in the senior unsecured bond series LBANK FLOAT 06/19. These tranches mature in June 2019 with 3-month NIBOR and STIBOR interest rates for the respective currencies plus a 2.6% margin. They are issued under the Bank's 1,500 million EMTN Programme and have been listed on the Irish Stock Exchange.

On 15 September 2016, the Bank issued EUR 500 million in senior unsecured bonds. The bonds have a 4.5 year maturity with a fixed 1.625% coupon rate and were priced at terms equivalent to a 190 basis point spread above mid-swaps in euros. The bonds are issued under the Bank's 1,500 million EMTN Programme and are listed on the Irish Stock Exchange. The proceeds of this bond series were used to refinance the senior secured Bond D, E and G series (cf. above on prepayments), in addition to strengthening the Bank's liquidity further.

All the unsecured non-indexed bank bills issued by the Bank have a maturity of less than one year. These ISK-denominated bills are issued under the Bank's ISK 30,000 million Debt Issuance Programme. All Landsbankinn's bill series are listed and traded on NASDAQ Iceland.

23. Subordinated liabilities

As at 30.9.2016	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate (Base rate + Margin)	Carrying amount
Subordinated bonds unlisted	ISK	1.12.2017	31.6		REIBOR + 4%	32
Subordinated loan	JPY	1.12.2023	JPY 49,1 million		LIBOR + 5%	55
Subordinated loan	CHF	1.12.2023	CHF 0,3 million		LIBOR + 5%	39
Subordinated loan	ISK	13.09.2017	59.1	CPI-indexed	Fixed 7,0%	62
Subordinated loan	ISK	18.09.2017	6.4	CPI-indexed	Fixed 7,0%	7
Subordinated loan	ISK	21.09.2017	19.3	CPI-indexed	Fixed 7,0%	20
Subordinated loan	ISK	22.09.2017	52.0	CPI-indexed	Fixed 7,0%	55
Subordinated loan	ISK	1.12.2017	8.2	CPI-indexed	Fixed 7,0%	9
Subordinated bonds unlisted	ISK	22.11.2019	120.5	CPI-indexed	Fixed 5,0%	128
Total subordinated liabilities						407

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

24. Equity

Share capital

As of 30 September 2016, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.8 billion; each share has a par value of ISK 1. Each ordinary share conveys one vote at general meetings of the Bank. All share capital is fully paid up.

On 15 September 2016, the Bank's Board of Directors decided to offer to buy back own shares in the Bank, in accordance with a resolution passed by the Bank's AGM on 14 April 2016. These buy backs will amount to a maximum of 480 million shares, or the equivalent of 2% of issued share capital. The objective of the buy-back programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in the Bank in a transparent manner, as restrictions on the transfer of shares expired on 1 September 2016.

Notes to the Condensed Consolidated Interim Financial Statements

24. Equity (continued)

Share capital (continued)

Subsequently the Bank announced it would purchase shares from shareholders in accordance with a buy-back programme during three specified periods: from 19 September 2016 to 30 September 2016, from 31 October 2016 to 9 December 2016 and from 13 February 2017 to 24 February 2017.

In accordance with the AGM's decision, Landsbankinn will offer to buy back each share during the above-mentioned periods at a share price determined by the internal value of the Bank's shares, according to its most recently published results prior to the commencement of the repurchase period concerned. The purchase price of the shares may therefore change between repurchase periods depending upon the outcome of the Bank's latest quarterly or annual results. At the end of the first half 2016, the equity attributable to owners of the the Bank's was ISK 247,250 million and the outstanding share capital was 23,782 million shares. In the first buy-back period the Bank acquired ISK 119.8 million own shares at a share price of ISK 10.3966, for a total amount of ISK 1,247 million.

Share premium

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

Statutory reserve

The statutory reserve is created in accordance with requirements of the Public Limited Company Act, No. 2/1995, according to which at least 10% of the profit of the Bank which is not devoted to meeting losses of previous years or required for other legally stipulated reserves must be held as a statutory reserve until this amounts to 10% of the Bank's share capital. Once that limit has been reached, transfers to the statutory reserve must be a minimum of 5% of profit until the reserve is equivalent to one-quarter of the Bank's share capital.

Retained earnings

In June 2016, the Icelandic parliament passed an amendment to Act No. 3/2006, on Annual Financial Statements. The amendment entered into force immediately and applies to the financial year commencing 1 January 2016. The interpretation of the Act is still unclear and therefore the disclosure of retained earnings in the Consolidated Financial Statements of Landsbankinn for the year 2016 may change following further clarification of the proper interpretation of the Act. The amendment requires, inter alia, that retained earnings be separated into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the Bank's statutory reserve and restricted retained earnings.

Dividend

The Annual General Meeting of Landsbankinn's shareholders for the operating year 2015, held on 14 April 2016, approved the Board's proposal to pay dividends to shareholders in the amount of ISK 1.20 per share for the year 2015. The dividend was paid in two equal payments, each in the amount of ISK 0.60 per share, on 20 April 2016 and 21 September 2016. Total dividend payments on the outstanding shares amounted to ISK 28,538 million.

Other notes

25. Earnings per share

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Profit for the period				
Profit for the period attributable to owners of the Bank	5,103	12,008	16,390	24,413

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

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Number of shares				
Number of ordinary shares issued at beginning of period	24,000	24,000	24,000	24,000
Average number of own shares	(258)	(259)	(232)	(292)
Weighted average number of shares outstanding	23,742	23,741	23,768	23,708
Basic and diluted earnings per share from continuing operations	0.21	0.51	0.69	1.03

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

Notes to the Condensed Consolidated Interim Financial Statements

26. Litigation

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

All the material cases that were reported open and not concluded at year-end 2015 in the litigation section of the Group's Consolidated Financial Statements for the year 2015 were open on 30 September 2016. The pending material litigation cases at the end of the third quarter of 2016 were the following:

Inflation-indexation of financial obligations

1) In January 2013, a customer commenced litigation against the Bank, seeking acknowledgement of the unlawfulness of a consumer price indexation provision in a bond issued by him to the Bank and that it is not permissible for the Bank to revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index. The District Court of Reykjavík on 19 February 2016 acquitted the Bank of the plaintiff's claims. The aspect of the case concerning whether the Bank may revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index has been appealed to the Supreme Court. The Bank has submitted its reasoning before the Supreme Court claiming confirmation of the ruling of the District Court.

Investigation of the Icelandic Competition Authority into lending terms

2) In March 2013, the Icelandic Competition Authority submitted to the Bank its preliminary assessment concerning certain preferential terms and conditions offered during 2004-2010 by Landsbanki Íslands hf. (now LBI ehf.) and, subsequently, by the Bank, in 2004 to 2010, to clients for retail banking services, in particular for household mortgage loans. In June 2013, the Bank gave its response and refuted allegations of a breach of competition rules. On 11 September 2015, the Authority and the Bank agreed to enter into discussions concerning the resolution of the case. On 7 July 2016 the Authority introduced initial proposals for measures to strengthen competition in the financial market. The Bank has presented to the Authority its preliminary views on the proposals. It is considered unlikely that the case will have a significant impact on the amounts disclosed in the Group's financial statements.

Claim for damages by a payment card company

3) In June 2013, a payment card company commenced litigation against the Bank and other financial undertakings claiming tort liability in the amount of around ISK 1.2 billion, plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Bank refutes the allegations and the claims. The plaintiff requested an appraisal by court-appointed assessors on issues regarding its allegations. Work on the appraisal was completed on 1 July 2016 and the Bank submitted its defence in the case on 29 September 2016.

27. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 September 2016 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business.

Main subsidiaries as at 30 September 2016

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

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 30 September 2016.

28. Related party transactions

Transactions with related parties

Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature of and amounts outstanding with public entities are disclosed in Note 33 under Public entities.

The Bank has a traditional bank-to-bank relationship with Íslandsbanki under generally accepted commercial terms. Both banks continue to operate as independent competitors in the financial market and to honour the settlement reached with the Icelandic Competition Authority following the takeover of Íslandsbanki by Icelandic State Treasury in March 2016. The takeover qualifies a merger under Icelandic competition law, as the Icelandic State Treasury has control over the two banks as of that time. The nature of and amounts outstanding with financial institutions, including Íslandsbanki, are disclosed in Note 33 under Financial institutions.

Notes to the Condensed Consolidated Interim Financial Statements

28. Related party transactions (continued)

Transactions with related parties (continued)

Transactions with other related parties

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

	2016		2015	
	Balance as at 30 September	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
Loans in ISK million				
Key management personnel	135	142	139	211
Parties related to key management personnel	21	46	36	97
Associates	16,039	21,192	20,633	20,838
Other	123	127	126	130
Total	16,318	21,507	20,934	21,276

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

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

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

	2016		2015	
	Balance as at 30 September	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
Deposits in ISK million				
Key management personnel	142	134	68	207
Parties related to key management personnel	160	211	22	193
Associates	2,213	10,612	2,835	3,516
Other	837	7,471	344	2,114
Total	3,352	18,428	3,269	6,030

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

	Balance as at 30 September 2016	Balance as at 31 December 2015
Guarantees in ISK million		
Key management personnel	-	-
Parties related to key management personnel	-	4
Associates	-	-
Total	0	4

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

29. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Condensed Consolidated Financial Statements for the nine months ended 30 September 2016.

Notes to the Condensed Consolidated Interim Financial Statements

Capital management

30. Capital management

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

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

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

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

In September 2016, legislation further amending the Icelandic act on Financial Undertakings No. 161/2002 entered into force, whereby a minimum 3.0% leverage ratio requirement was implemented.

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

	SREP based on data from	
	31.12.2015	31.12.2014
Pillar I	8.0%	8.0%
Pillar II	6.0%	6.3%
Total capital requirement	14.0%	14.3%
Systemic risk buffer	2.7%	3.0%
Capital buffer for systematically important institutions	2.0%	2.0%
Countercyclical capital buffer	0.9%	0.0%
Capital conservation buffer	2.5%	2.5%
Total capital buffers	8.1%	7.5%
Total capital requirement plus capital buffers	22.1%	21.8%

* As a part of the annual SREP process, the FME requested that the Bank maintained capital ratio's that would reflect the fully phased-in capital buffers.

On 22 January 2016 (and on 3 October 2016), the Icelandic Financial Stability Council made recommendations to the FME, in accordance with the new legislation, to formally impose the new CRD IV capital buffers in the following steps:

	1.4.2016	1.6.2016	1.1.2017	Q1 2017	Q4 2017
Systemic risk buffer*	3.00%	3.00%	3.00%	3.00%	3.00%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%	2.00%	2.00%
Countercyclical capital buffer*	0.00%	0.00%	0.00%	1.00%	1.25%
Capital conservation buffer	1.00%	1.75%	2.50%	2.50%	2.50%
Total capital buffers	6.00%	6.75%	7.50%	8.50%	8.75%

* The systemic risk buffer and the Countercyclical capital buffer only apply to domestic assets

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

Notes to the Condensed Consolidated Interim Financial Statements

31. Capital base and capital adequacy ratio

The following table shows the Group's capital base and capital adequacy ratio. The capital adequacy ratio is calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings. The regulatory minimum is 8%.

	30.9.2016	31.12.2015
Capital base		
Share capital	23,662	23,782
Share premium	120,978	122,105
Reserves	6,000	6,000
Retained earnings	100,466	112,614
Non-controlling interests	40	30
Total equity	251,146	264,531
Intangible assets	(2,285)	(2,012)
Tier 1 capital	248,861	262,519
Subordinated liabilities	407	639
Regulatory amortisation	(195)	(157)
Tier 2 capital	212	482
Capital base	249,073	263,001
Risk-weighted assets		
Credit risk	742,186	737,720
Market risk	16,518	31,919
Operational risk*	95,843	95,843
Total risk-weighted assets	854,547	865,482
 Tier 1 capital ratio	 29.1%	 30.3%
Total capital ratio (capital adequacy ratio)	29.1%	30.4%

*The amounts are updated on a yearly basis.

32. Leverage ratio

The following table shows the Group's leverage ratio as at 30 September 2016 and 31 December 2015. The requirements are based on the European legal framework for capital requirements (CRD IV and CRR) implementing the Basel III capital framework. The regulatory minimum leverage ratio requirement is 3%.

	30.09.2016	31.12.2015
Leverage ratio		
Tier 1 capital	248,861	262,519
Leverage exposure		
- On balance sheet exposure (excluding derivatives)	1,133,209	1,118,371
- Derivative instrument exposure	593	287
- Potential future exposure on derivatives	757	714
- Off balance sheet exposure	110,055	103,456
- Regulatory adjustments included in Tier 1 capital	(2,285)	(2,012)
Total leverage exposure	1,242,329	1,220,816
Leverage ratio	20.0%	21.5%

Notes to the Condensed Consolidated Interim Financial Statements

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

The following tables show the Group's maximum credit risk exposure at 30 September 2016 and 31 December 2015. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the Condensed Consolidated Interim Statement of Financial Position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

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

	Corporates												Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC**	Manufacturing	Agriculture	Other	
As at 30 September 2016													
Cash and balances with Central Bank	-	52,822	-	-	-	-	-	-	-	-	-	-	52,822
Bonds and debt instruments	2,136	155,945	-	-	8,244	123	-	-	-	-	-	1,581	168,029
Derivative instruments	253	8	6	11	1	107	4	-	-	-	-	203	593
Loans and advances to financial institutions	16,835	-	-	-	-	-	-	-	-	-	-	-	16,835
Loans and advances to customers	-	9,932	310,411	140,865	174,777	45,512	35,194	70,425	14,608	25,306	10,464	-	837,494
Other financial assets	5,173	334	410	-	1,544	27	4	727	2	453	1	39	8,714
Total on-balance sheet exposure	24,397	219,041	310,827	140,876	184,566	45,769	35,202	71,152	14,610	25,759	10,465	1,823	1,084,487
Off-balance sheet exposure	3,654	16,753	28,371	15,284	49,844	4,073	16,299	13,804	4,550	10,181	3,073	103	165,989
Financial guarantees and underwriting commitments	26	1,425	899	6,624	2,764	54	3,536	2,274	927	767	138	95	19,529
Undrawn loan commitments	-	9,200	6	5,485	42,898	3,539	7,744	3,880	2,391	7,134	2,034	-	84,311
Undrawn overdraft/credit card facilities	3,628	6,128	27,466	3,175	4,182	480	5,019	7,650	1,232	2,280	901	8	62,149
Maximum exposure to credit risk	28,051	235,794	339,198	156,160	234,410	49,842	51,501	84,956	19,160	35,940	13,538	1,926	1,250,476
Percentage of carrying amount	2.2%	18.9%	27.1%	12.5%	18.7%	4.0%	4.1%	6.8%	1.5%	2.9%	1.1%	0.2%	100%

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

	LTV Ratio - Fully collateralised					LTV Ratio - Partially collateralised		Without collateral	Allowance for impairment	Maximum exposure to credit risk
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*			
As at 30 September 2016										
Financial institutions	-	-	-	-	-	-	-	20,489	-	20,489
Public entities	12	60	61	311	444	4,689	880	21,806	(254)	26,685
Individuals	16,367	39,363	61,640	110,719	228,089	53,428	38,264	65,028	(7,763)	338,782
Corporates	5,789	37,754	67,732	90,237	201,512	389,946	228,937	58,088	(15,184)	634,362
Fisheries	1,325	22,528	38,654	26,269	88,776	63,815	51,606	4,074	(516)	156,149
Construction and real estate companies	1,072	4,101	12,094	27,454	44,721	170,850	95,667	13,151	(4,101)	224,621
Holding companies	656	2,250	2,177	6,653	11,736	36,011	22,280	2,653	(815)	49,585
Retail	271	1,190	1,741	5,135	8,337	36,535	21,777	7,800	(1,179)	51,493
Services	1,321	6,459	5,929	13,316	27,025	48,739	22,765	15,189	(6,724)	84,229
Information, technology and communication	33	80	203	117	433	13,233	3,364	5,681	(189)	19,158
Manufacturing	441	582	5,867	9,801	16,691	11,512	6,355	8,830	(1,546)	35,487
Agriculture	670	563	1,067	1,492	3,792	9,175	5,106	684	(114)	13,537
Other	-	1	-	-	1	76	17	26	-	103
Total	22,168	77,177	129,433	201,267	430,045	448,063	268,081	165,411	(23,201)	1,020,318
As at 31 December 2015										
Financial institutions	-	-	-	-	-	-	-	21,481	-	21,481
Public entities	17	67	216	923	1,223	3,878	345	20,808	(230)	25,679
Individuals	12,846	29,481	47,567	79,042	168,936	75,991	56,067	83,519	(12,389)	316,057
Corporates	6,862	20,234	69,093	137,952	234,141	328,608	191,538	83,467	(21,038)	625,178
Fisheries	2,241	10,493	46,380	62,142	121,256	54,853	42,378	9,069	(2,644)	182,534
Construction and real estate companies	1,033	5,042	8,804	32,590	47,469	136,514	72,158	21,942	(6,756)	199,169
Holding companies	950	399	3,815	11,805	16,969	30,179	17,956	2,659	(1,037)	48,770
Retail	317	821	3,972	6,464	11,574	34,667	18,461	7,442	(2,049)	51,634
Services	1,171	2,187	3,615	10,468	17,441	41,311	21,835	23,019	(5,764)	76,007
Information, technology and communication	113	94	106	42	355	11,603	6,551	7,625	(285)	19,298
Manufacturing	564	673	1,310	12,326	14,873	13,463	8,216	10,644	(2,180)	36,800
Agriculture	473	525	1,091	2,115	4,204	5,946	3,912	910	(322)	10,738
Other	-	-	-	-	-	72	71	157	(1)	228
Total	19,725	49,782	116,876	217,917	404,300	408,477	247,950	209,275	(33,657)	988,395

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

Notes to the Condensed Consolidated Interim Financial Statements

35. Collateral types

The following tables show the different types of collateral held by the Group against credit exposures. Residential property is the principal collateral held against loans to individuals. Construction projects and commercial property are the main real estate collateral held against loans to corporates.

The tables show collateral value amounts assigned to claim value amounts, therefore the value of each individual collateral item held cannot exceed the maximum credit exposure of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the credit exposure.

As at 30 September 2016	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,477	-	40	-	105	1,622
Individuals	261,751	221	600	3,193	13,647	279,411
Corporates	266,067	99,756	2,801	66,340	97,448	532,412
Fisheries	12,444	96,839	28	17,395	25,958	152,664
Construction and real estate companies	173,784	114	757	1,854	6,208	182,717
Holding companies	5,842	-	85	37,938	494	44,359
Retail	16,531	10	610	2,002	23,925	43,078
Services	37,980	2,736	785	408	19,395	61,304
Information, technology and communication	642	-	226	2,719	6,689	10,276
Manufacturing	10,564	52	287	4,024	12,501	27,428
Agriculture	8,280	5	6	-	2,278	10,569
Other	-	-	17	-	-	17
Total	529,295	99,977	3,441	69,533	111,200	813,445
As at 31 December 2015**	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,523	-	53	-	99	1,675
Individuals	230,530	261	206	3,113	7,594	241,704
Corporates	223,265	113,111	1,291	66,522	97,316	501,505
Fisheries	15,038	112,314	90	14,778	29,222	171,442
Construction and real estate companies	139,612	78	356	761	3,865	144,672
Holding companies	4,994	12	27	39,962	1,726	46,721
Retail	14,436	11	156	1,696	25,675	41,974
Services	33,445	679	225	489	14,565	49,403
Information, technology and communication	551	3	81	2,635	7,440	10,710
Manufacturing	8,509	11	350	6,201	12,374	27,445
Agriculture	6,608	3	6	-	2,449	9,066
Other	72	-	-	-	-	72
Total	455,318	113,372	1,550	69,635	105,009	744,884

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

**The comparative amounts have been restated due to changes in the basis of the collateral value amounts previously disclosed. Following these changes the maximum collateral value amount assigned to an individual credit exposure reflects the value of each claim. Previously the collateral value amounts reflected the value of the individual collateral held regardless of the claim amount. Amounts in this table are of an informative nature only and do not have any effect on the amounts reported by the Group in the Income Statement or Statement of Financial Position.

36. Loans and advances credit monitoring

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

As at 30 September 2016	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	16,835	-	-	-	16,835
Public entities	9,286	327	56	263	9,932
Individuals	273,318	12,160	17,877	7,056	310,411
Corporates	459,595	32,343	14,228	10,985	517,151
Fisheries	137,810	313	2,382	360	140,865
Construction and real estate companies	150,528	16,301	4,277	3,671	174,777
Holding companies	43,598	1,182	542	190	45,512
Retail	29,326	3,866	1,462	540	35,194
Services	58,807	6,080	3,812	1,726	70,425
Information, technology and communication	14,094	187	173	154	14,608
Manufacturing	18,411	1,544	1,152	4,199	25,306
Agriculture	7,021	2,870	428	145	10,464
Other	-	-	-	-	-
Total	759,034	44,830	32,161	18,304	854,329

Notes to the Condensed Consolidated Interim Financial Statements

36. Loans and advances credit monitoring (continued)

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

37. Credit quality of financial assets

	Gross carrying amount				Allowance for impairment	Carrying amount
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total		
As at 30 September 2016						
Cash and balances with Central Bank	52,822	-	-	52,822	-	52,822
Bonds and debt instruments	167,678	351	-	168,029	-	168,029
Derivative instruments	593	-	-	593	-	593
Loans and advances to financial institutions	16,835	-	-	16,835	-	16,835
Loans and advances to customers	795,530	27,768	37,397	860,695	(23,201)	837,494
Other financial assets	8,714	-	-	8,714	-	8,714
Total	1,042,172	28,119	37,397	1,107,688	(23,201)	1,084,487
As at 31 December 2015						
Cash and balances with Central Bank	25,164	-	-	25,164	-	25,164
Bonds and debt instruments	203,299	385	-	203,684	-	203,684
Derivative instruments	287	-	-	287	-	287
Loans and advances to financial institutions	20,791	-	-	20,791	-	20,791
Loans and advances to customers	767,837	20,569	56,800	845,206	(33,657)	811,549
Other financial assets	6,918	-	-	6,918	-	6,918
Total	1,024,296	20,954	56,800	1,102,050	(33,657)	1,068,393

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

Notes to the Condensed Consolidated Interim Financial Statements

38. Loans and advances neither past due nor individually impaired

The following tables show the credit quality, measured by rating grade, of loans and advances neither past due nor individually impaired.

	Rating grades					Gross carrying amount
	10-7	6-4	3-1	0	Unrated	
As at 30 September 2016						
Financial institutions	15,145	1,690	-	-	-	16,835
Public entities	6,263	3,329	112	2	8	9,714
Individuals	109,700	144,923	36,194	252	833	291,902
Corporates	32,361	418,541	39,178	2,853	981	493,914
Fisheries	16,485	117,427	2,533	1,582	-	138,027
Construction and real estate companies	507	150,101	17,131	871	258	168,868
Holding companies	-	39,203	5,797	-	391	45,391
Retail	2,707	27,450	2,940	316	21	33,434
Services	6,537	49,045	7,396	56	206	63,240
Information, technology and communication	180	13,803	485	28	-	14,496
Manufacturing	4,992	13,762	1,421	-	80	20,255
Agriculture	953	7,750	1,475	-	25	10,203
Other	-	-	-	-	-	0
Total	163,469	568,483	75,484	3,107	1,822	812,365

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

39. Loans and advances past due but not individually impaired

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

	Past due 1-5 days	Past due 6-30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due over 90 days	Gross carrying amount
As at 30 September 2016						
Public entities	-	8	-	-	-	8
Individuals	153	9,599	1,834	1,564	1,405	14,555
Corporates	4,906	4,894	966	960	1,479	13,205
Total	5,059	14,501	2,800	2,524	2,884	27,768
As at 31 December 2015						
Public entities	-	4	-	55	-	59
Individuals	114	6,346	4,132	1,197	1,244	13,033
Corporates	53	3,741	1,490	799	1,394	7,477
Total	167	10,091	5,622	2,051	2,638	20,569

Notes to the Condensed Consolidated Interim Financial Statements

40. Loans and advances by industry sectors

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

	Gross carrying amount	Gross not individually impaired	Collective allowance	Individually impaired				Carrying amount
				Of which performing		Of which non-performing*		
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
As at 30 September 2016								
Financial institutions	16,835	16,835	-	-	-	-	-	16,835
Public entities	10,186	9,722	(54)	-	-	464	(200)	9,932
Individuals	318,174	306,459	(1,609)	2,579	(1,016)	9,136	(5,138)	310,411
Corporates	532,335	507,117	(2,684)	10,212	(5,787)	15,006	(6,713)	517,151
Fisheries	141,380	140,854	(216)	62	(28)	464	(271)	140,865
Construction and real estate companies	178,878	172,765	(1,055)	2,122	(1,038)	3,991	(2,008)	174,777
Holding companies	46,329	45,620	(350)	25	(3)	682	(462)	45,512
Retail	36,373	34,545	(238)	795	(317)	1,034	(625)	35,194
Services	77,149	67,364	(550)	6,000	(3,909)	3,786	(2,266)	70,425
Information, technology and communication	14,796	14,593	(94)	28	(8)	176	(87)	14,608
Manufacturing	26,852	21,007	(127)	1,164	(470)	4,680	(948)	25,306
Agriculture	10,578	10,369	(54)	16	(14)	193	(46)	10,464
Other	-	-	-	-	-	-	-	0
Total	877,530	840,133	(4,347)	12,791	(6,803)	24,606	(12,051)	854,329

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

*Non-performing past due more than 90 days

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

	1.1.-30.9.2016			1.1.-30.9.2015		
	Individual allowance	Collective allowance	Total	Individual allowance	Collective allowance	Total
Balance at the beginning of the year	(28,200)	(5,457)	(33,657)	(33,731)	(7,716)	(41,447)
New provisions	(4,584)	-	(4,584)	(5,727)	-	(5,727)
New provisions due to merger	-	-	-	(2,862)	(490)	(3,352)
Reversals	7,297	1,110	8,407	8,198	1,413	9,611
Provisions used to cover write-offs	6,633	-	6,633	5,305	-	5,305
Balance at the end of the period	(18,854)	(4,347)	(23,201)	(28,817)	(6,793)	(35,610)

	1.1.-30.9.2016			1.1.-30.9.2015		
	Customers	Financials	Total	Customers	Financials	Total
New provisions	(4,584)	-	(4,584)	(5,727)	-	(5,727)
Write-offs	(7,597)	-	(7,597)	(5,515)	-	(5,515)
Provisions used to cover write-offs	6,633	-	6,633	5,305	-	5,305
Reversals	8,407	-	8,407	9,611	-	9,611
Recoveries	1,743	-	1,743	2,000	-	2,000
Impairment loss for the period	4,602	0	4,602	5,674	0	5,674
Impairment of financial institutions	-	(183)	(183)	-	-	0
Net impairment gain for the period	4,602	(183)	4,419	5,674	0	5,674

42. Large exposures

As at 30 September 2016, three customer groups were rated as large exposures in accordance with FME's Rules on Large Exposures Incurred by Financial Undertakings, No. 625/2013. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. No exposure may attain the equivalent of 25% of the capital base. The following table shows the Group's large exposures after credit mitigation:

	Number of large exposures	Large exposures
As at 30 September 2016		
Large exposures between 10% and 20% of the Group's capital base	2	56,350
Large exposures between 0% and 10% of the Group's capital base	1	-
Total	3	56,350
Total large exposures to capital base		23%
As at 31 December 2015		
Large exposures between 10% and 20% of the Group's capital base	2	66,094
Large exposures between 0% and 10% of the Group's capital base	1	212
Total	3	66,306
Total large exposures to capital base		25%

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43. Offsetting financial assets and financial liabilities

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

As at 30 September 2016

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

Types of financial assets	Financial assets subject to netting agreements			Netting not recognised on balance sheet		Net financial assets with netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received			
Derivatives	586	-	586	(98)	(194)	293	7	593

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

Types of financial liabilities	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet		Net financial liabilities with netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged			
Derivatives	(1,003)	-	(1,003)	98	26	(878)	(90)	(1,093)
Short positions	(382)	-	(382)	-	382	-	-	(382)
Total	(1,385)	0	(1,385)	98	408	(878)	(90)	(1,475)

As at 31 December 2015

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

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

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

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

Liquidity risk

44. Liquidity risk management

The Group complies with the liquidity and funding rules set by the Central Bank of Iceland No. 1031/2014 and No. 1032/2014 as well as following guidelines No. 2/2010 from the FME on best practice for managing liquidity in banking organisation. Rules No. 1031/2014 require the Group to maintain a LCR minimum of 90% total and 100% for foreign currencies in the year 2016 and rules No. 1032/2014 set requirements for a minimum of 90% NSFR in foreign currencies in the year 2016. The minimum requirement for both ratios, LCR total and NSFR in foreign currencies, will increase by 10 percentage points every year until it reaches 100% in the year 2017. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland and the FME.

Notes to the Condensed Consolidated Interim Financial Statements

44. Liquidity risk management (continued)

The calculations for the liquidity coverage ratio are shown in the following tables:

Liquidity coverage ratio as at 30 September 2016	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	163,601	163,601	32,046	32,046
Level 2 liquid assets and information items	35,510	8,552	17,158	8,552
Total liquid assets	199,111	172,153	49,204	40,598
Deposits	391,505	121,948	48,813	23,246
Borrowing	3,098	3,098	1,501	1,501
Other outflows	172,110	34,899	25,966	2,588
Total outflows (0-30 days)	566,713	159,945	76,280	27,335
Loans and advances to financial institutions	15,048	13,806	15,021	13,779
Other inflows	57,802	23,002	24,970	12,503
Limit on inflows	-	-	-	(5,781)
Total inflows (0-30 days)	72,850	36,808	39,991	20,501
Liquidity Coverage Ratio		140%		594%

Liquidity coverage ratio as at 31 December 2015	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	192,467	192,467	42,722	42,722
Level 2 liquid assets and information items	16,631	-	42	-
Total liquid assets	209,098	192,467	42,764	42,722
Deposits	408,785	148,337	61,340	27,645
Borrowing	1,014	1,014	1,014	1,014
Other outflows	185,594	54,110	30,721	3,557
Total outflows (0-30 days)	595,393	203,461	93,075	32,216
Loans and advances to financial institutions	17,581	16,376	17,581	16,376
Other inflows	48,369	17,440	8,155	3,963
Limit on inflows	-	-	-	-
Total inflows (0-30 days)	65,950	33,816	25,736	20,339
Liquidity Coverage Ratio		113%		360%

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

Total deposits by groups as at 30 September 2016	0-30 days deposits balance by groups				Term deposits
	Less stable deposits	Applied run-off rate	Stable deposits	Applied run-off rate	
Groups					
1. Individuals	113,496	10%	57,462	5%	94,507
2. Small and medium size corporates	51,021	10%	10,171	5%	5,085
3. Operational deposits	-	25%	-	5%	-
4. Large corporates	59,306	40%	-	20%	21,065
5. Government, municipalities and Central Bank	35,226	40%	278	20%	636
6. Financial institutions in resolution process	8,661	100%	-	-	35,949
7. Financial institutions	42,786	100%	-	-	64,874
8. Other foreign counterparties	13,010	100%	1,803	25%	4,411
9. Pledged accounts	-	-	5,275	-	-
Total deposits	323,506		74,989		226,527

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

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

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44. Liquidity risk management (continued)

The Group measures the net stable funding ratio (NSFR) as another key indicator for longer-term liquidity risk. The following table shows the values of the NSFR for foreign currencies as at 30 September 2016 and 31 December 2015:

	As at 30 September 2016	As at 31 December 2015
Net stable funding ratio FX	149%	136%

45. Encumbered assets

The following tables show the Group's total encumbered and unencumbered assets as at 30 September 2016 and 31 December 2015.

As at 30 September 2016	Collateral pledged against			Un- encumbered	Total
	Covered bonds	Issued bonds to LBI hf.	Other*		
Cash and balances with Central Bank	633	-	-	52,189	52,822
Bonds and debt instruments	-	-	11,018	157,011	168,029
Equities and equity instruments	-	-	-	30,896	30,896
Derivative instruments	-	-	-	593	593
Loans and advances to financial institutions	-	-	1,214	15,621	16,835
Loans and advances to customers	38,052	73,369	-	726,073	837,494
Investments in equity-accounted associates	-	-	-	1,110	1,110
Property and equipment	-	-	-	5,439	5,439
Intangible assets	-	-	-	2,285	2,285
Other assets	-	-	-	10,226	10,226
Assets classified as held for sale	-	-	-	8,073	8,073
Total	38,685	73,369	12,232	1,009,516	1,133,802

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

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

Market risk

46. Market risk management

The following table summarises the Group's exposure to market risk as at 30 September 2016 and December 2015.

Market risk factor	30.9.2016	31.12.2015
	% of RWA	% of RWA
Equity price risk	1.1%	0.7%
Interest rate risk	0.4%	0.2%
Foreign exchange risk	0.4%	2.8%
Total	1.9%	3.7%

The currency risk in the Groups trading portfolios is disclosed together with that in its non-trading portfolios in Notes 50-51, together with the related sensitivity analysis.

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47. Equity price risk

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

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and hedging positions, in listed ISK equities. The Group's non-trading portfolio contains listed and unlisted equities as part of asset and liability management. Further details can be seen in Note 16 and Note 51.

48. 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 17. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 30 September 2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	52,822	-	-	-	52,822
Bonds and debt instruments	143,442	5,127	9,195	10,265	168,029
Derivative instruments	593	-	-	-	593
Loans and advances to financial institutions	15,157	1,678	-	-	16,835
Loans and advances to customers	620,012	90,247	91,634	35,601	837,494
Other financial assets	8,714	-	-	-	8,714
Total	840,740	97,052	100,829	45,866	1,084,487
Financial liabilities					
Due to financial institutions and Central Bank	(41,299)	-	(8)	-	(41,307)
Deposits from customers	(570,054)	(11,963)	(1,604)	(94)	(583,715)
Derivative instruments and short positions	(1,099)	(7)	(89)	(280)	(1,475)
Borrowings	(79,931)	(7,450)	(116,186)	(17,233)	(220,800)
Subordinated liabilities	(254)	(144)	(9)	-	(407)
Other financial liabilities	(13,219)	-	-	-	(13,219)
Total	(705,856)	(19,563)	(117,896)	(17,607)	(860,923)
Net on-balance sheet position	134,884	77,489	(17,067)	28,259	223,565
Net off-balance sheet position	(1,372)	1,372	-	-	-
Total interest repricing gap	133,512	78,861	(17,067)	28,259	
As at 31 December 2015	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	25,164	-	-	-	25,164
Bonds and debt instruments	184,340	510	9,562	9,272	203,684
Derivative instruments	287	-	-	-	287
Loans and advances to financial institutions	20,791	-	-	-	20,791
Loans and advances to customers	565,715	113,628	90,328	41,878	811,549
Other financial assets	6,360	-	558	-	6,918
Total	802,657	114,138	100,448	51,150	1,068,393
Financial liabilities					
Due to financial institutions and Central Bank	(46,345)	(10,378)	(8)	-	(56,731)
Deposits from customers	(549,398)	(7,607)	(2,046)	-	(559,051)
Derivative instruments and short positions	(703)	(67)	(492)	(2,138)	(3,400)
Borrowings	(137,414)	(10,591)	(51,597)	(9,742)	(209,344)
Subordinated liabilities	(493)	-	(146)	-	(639)
Other financial liabilities	(5,367)	-	-	-	(5,367)
Total	(739,720)	(28,643)	(54,289)	(11,880)	(834,532)
Net on-balance sheet position	62,937	85,495	46,159	39,270	233,861
Net off-balance sheet position	359	(176)	(183)	-	-
Total interest repricing gap	63,296	85,319	45,976	39,270	

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49. CPI indexation risk (all portfolios)

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

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk. The following table summarises the Group's CPI imbalance, calculated as the difference between CPI-linked financial assets and liabilities, as at 30 September 2016 and 31 December 2015.

Carrying amount	30.9.2016	31.12.2015
Assets		
Bonds and debt instruments	10,025	10,125
Loans and advances to financial customers	1,651	-
Loans and advances to customers	296,501	273,648
Total	308,177	283,773
Liabilities		
Due to financial institutions and Central Bank	-	(1)
Deposits from customers	(101,940)	(103,797)
Short positions	(382)	(1,135)
Borrowings	(17,233)	(9,742)
Subordinated liabilities	(281)	(267)
Total	(119,836)	(114,942)
Total on-balance sheet position	188,341	168,832
Total off-balance sheet position	(359)	174
Total CPI indexation balance	187,982	169,006

50. Currency risk (all portfolios)

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

The Group's combined net foreign exchange balance as at 30 September 2016 was +0.97% of the Group's capital base (31.12.2015: +9.06%).

51. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 September 2016 and 31 December 2015. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments.

Amounts presented under assets and liabilities include all spot deals as at 30 September 2016 and 31 December 2015. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

As at 30 September 2016	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	572	123	284	17	59	247	1,302
Bonds and debt instruments	6,501	10,886	29,526	-	-	-	46,913
Equities and equity instruments	-	-	1	-	-	55	56
Derivative instruments	61	28	153	-	-	10	252
Loans and advances to financial institutions	8,373	1,059	2,777	92	82	2,622	15,005
Loans and advances to customers	99,290	6,604	62,566	5,265	4,768	8,659	187,152
Other assets	691	-	190	-	-	418	1,299
Total	115,488	18,700	95,497	5,374	4,909	12,011	251,979
Liabilities							
Due to financial institutions and Central Bank	(221)	(66)	(42)	-	-	(22)	(351)
Deposits from customers	(30,120)	(12,062)	(23,165)	(273)	(1,488)	(3,623)	(70,731)
Derivative instruments and short positions	(126)	(339)	(416)	-	-	(169)	(1,050)
Borrowings	(106,601)	-	(59,158)	-	-	(13,475)	(179,234)
Subordinated liabilities	-	-	-	(55)	(39)	-	(94)
Other liabilities	(647)	(75)	(2,990)	(13)	(3)	(513)	(4,241)
Total	(137,715)	(12,542)	(85,771)	(341)	(1,530)	(17,802)	(255,701)
Net on-balance sheet position	(22,227)	6,158	9,726	5,033	3,379	(5,791)	(3,722)
Net off-balance sheet position	23,497	(5,687)	(10,454)	(4,989)	(3,315)	7,095	6,147
Net currency position	1,270	471	(728)	44	64	1,304	2,425

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51. Concentration of currency risk (continued)

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

52. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 30 September 2016	At 31 December 2015	% Change	Average for 1.1-30.9 2016	Average for 1.1-30.9 2015
EUR/ISK	127.90	141.30	(9.5%)	137.09	147.83
GBP/ISK	147.89	192.22	(23.1%)	171.82	202.33
USD/ISK	113.77	129.73	(12.3%)	123.37	131.91
JPY/ISK	1.12	1.08	3.7%	1.13	1.09
CHF/ISK	117.23	130.53	(10.2%)	125.50	138.22
CAD/ISK	86.79	93.40	(7.1%)	93.21	104.72
DKK/ISK	17.18	18.94	(9.3%)	18.40	19.82
NOK/ISK	14.25	14.72	(3.2%)	14.67	16.72
SEK/ISK	13.27	15.39	(13.8%)	14.65	15.78

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53. Operations by quarters (unaudited)

Operations	2016			2015			
	Q3	Q2	Q1	Q4*	Q3	Q2	Q1
Interest income	15,528	18,071	14,772	13,329	16,000	15,938	12,738
Interest expense	(6,932)	(7,926)	(7,306)	(6,037)	(7,166)	(7,009)	(5,469)
Net interest income	8,596	10,145	7,466	7,292	8,834	8,929	7,269
Reversals of loss from foreign currency linkage of loans and advances to customers	-	-	-	6,512	9,145	134	(2,015)
Net impairment gain (loss)	2,144	1,964	311	(630)	1,948	115	3,611
Net impairment loss of guarantees	-	-	-	-	(604)	-	-
Net adjustments in valuation	2,144	1,964	311	5,882	10,489	249	1,596
Net interest income after net adjustments in valuation	10,740	12,109	7,777	13,174	19,323	9,178	8,865
Fee and commission income	2,634	2,487	2,531	2,332	2,322	2,274	2,049
Fee and commission expense	(619)	(573)	(551)	(630)	(577)	(521)	(408)
Net fee and commission income	2,015	1,914	1,980	1,702	1,745	1,753	1,641
Net gain on financial assets designated at fair value through profit or loss	135	788	43	2,422	852	1,838	3,812
Net gain on financial assets and liabilities held for trading	(669)	254	246	905	1,173	1,273	451
Net foreign exchange gain (loss)	25	(154)	162	(58)	(748)	(147)	(324)
Other income and (expenses)	793	1,779	1,309	3,294	(188)	189	238
Other net operating income	284	2,667	1,760	6,563	1,089	3,153	4,177
Total operating income	13,039	16,690	11,517	21,439	22,157	14,084	14,683
Salaries and related expenses	3,096	3,559	3,754	3,407	3,466	3,179	3,702
Other operating expenses	1,760	1,940	2,043	2,223	1,757	2,011	2,070
Depreciation and amortisation	165	148	146	167	167	165	164
Contribution to the Depositors' and Investors' Guarantee Fund	305	356	310	284	203	421	346
Total operating expenses	5,326	6,003	6,253	6,081	5,593	5,776	6,282
Share of profit of equity-accounted associates, net of income tax	71	371	4	(9)	145	103	9
Profit before tax	7,784	11,058	5,268	15,349	16,709	8,411	8,410
Income tax	(1,937)	(2,288)	(1,215)	(2,725)	(3,953)	(1,546)	(1,178)
Tax on liabilities of financial institutions	(745)	(787)	(738)	(577)	(748)	(872)	(820)
Profit for the period	5,102	7,983	3,315	12,047	12,008	5,993	6,412
Balance sheet	30.09.16	30.06.16	31.03.16	31.12.15	30.09.15	30.06.15	31.03.15
Cash and cash balances with Central Bank	52,822	43,997	23,228	25,164	27,120	38,719	14,347
Bonds and debt instruments	168,029	157,898	195,175	203,684	235,788	248,604	250,005
Equities and equity instruments	30,896	29,042	29,381	29,192	26,467	25,498	33,354
Loans and advances to financial institutions	16,835	21,885	15,221	20,791	46,511	68,707	86,951
Loans and advances to customers	837,494	827,241	814,669	811,549	807,033	761,290	735,479
Other assets	19,653	21,523	21,255	16,323	20,070	17,104	34,638
Assets classified as held for sale	8,073	8,258	7,771	11,955	12,815	12,747	17,606
Total assets	1,133,802	1,109,844	1,106,700	1,118,658	1,175,804	1,172,669	1,172,380
Due to financial institutions and Central Bank	41,307	34,643	42,606	56,731	49,550	62,428	57,019
Deposits from customers	583,715	556,841	545,208	559,051	624,924	621,023	624,063
Borrowings	220,800	220,837	217,658	209,344	207,699	212,792	210,902
Subordinated liabilities	407	412	632	639	775	414	427
Other liabilities	34,913	48,310	31,445	26,844	38,854	34,710	43,140
Liabilities associated with assets classified as held for sale	1,514	1,510	1,305	1,518	1,518	1,450	2,969
Equity	251,146	247,291	267,846	264,531	252,484	239,852	233,860
Total liabilities and equity	1,133,802	1,109,844	1,106,700	1,118,658	1,175,804	1,172,669	1,172,380

*The three quarter result for the year 2016 and the three quarter results for the year 2015 were reviewed by the Bank's independent auditors.