Condensed Consolidated Interim Financial Statements

for the nine months ended 30 September 2011

Landsbankinn hf. | Reg. no. 471008-0280 | Austurstræti 11 | 155 Reykjavík | www.landsbankinn.is

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

The Condensed Consolidated Interim Financial Statements for the first nine months of 2011 consist of the Consolidated Interim Financial Statements of Landsbankinn hf. (the Bank), formerly NBI hf., and its subsidiaries, together referred to as "the Group". These Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the European Union.

According to the Condensed Consolidated Income Statement, the Group's after-tax profit for the first nine months of 2011 amounted to ISK 26,953 million. The Group's equity at the end of this period amounted to ISK 210,226 million and the capital adequacy ratio of the Group was 23.6%. As at 30 September 2011, the Group's total assets amounted to ISK 1,124,250 million.

On 20 January 2011, the Bank finalised the sale of its 100% holding in subsidiary Eignarhaldsfélagið Vestia ehf. (Vestia). Simultaneously, the Bank's subsidiary Eignarhaldsfélagið IG ehf. finalised the sale of its 81% holding in Icelandic Group hf. (IG). The Icelandic Competition Authority approved the sale of Vestia and IG on 14 January 2011, with certain conditions.

The Bank took over the operations of savings bank SpKef as of 7 March 2011 in accordance with a decision of the Financial Supervisory Authority (FME). The activities and operations of SpKef have been fully integrated into Landsbankinn. The consideration payable by the Icelandic State Treasury by issuing a bond to the Bank is subject to the eventual fair value of financial assets of SpKef and liabilities assumed from SpKef. The Group recognised a provisional amount of ISK 30.6 billion which are presented provisionally among "Other assets" in the condensed consolidated statement of financial position.

The Bank's merger with two of its subsidiaries, SP-Fjármögnun hf. and Avant hf., was fully approved by FME on 8 June 2011. Their main operation is vehicle leasing and lending services. The objective of the mergers is primarily to streamline operations and offer customers a wider range of products and more comprehensive services. The mergers were finalised on 6 October 2011.

Reginn ehf. and Horn fjárfestingarfélag hf. are subsidiaries of Eignarhaldsfélag Landsbankans ehf. (formerly Eignarhaldsfélag NBI ehf.) which is a wholly-owned subsidiary of the Bank. Both companies are scheduled for listing on OMX Nordic Exchange Iceland in the coming winter of 2011-2012.

On 9 June 2011, the Supreme Court of Iceland confirmed a District Court verdict to the effect that certain foreign currency loans issued to corporations are in fact ISK-denominated loans. This ruling did not affect the Group's financial results for the nine months ended 30 September 2011 as the impact of the ruling has already been accounted for in the consolidated financial statements as at and for the year ended 31 December 2010.

According to legislation passed in 2009 the salary of the CEO of the Bank is determined by the Senior Civil Servants Salary Board ("Kjararáð"). This board determines remuneration and terms of employment of high level government employees, including CEOs of companies in which the government holds a majority of shares. It is a great concern of the Board of Directors that the decision of Kjararáð on the salary of the CEO of the Bank is not at a competitive level.

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

According to the Directors' best knowledge, these Condensed Consolidated Interim Financial Statements comply with IAS 34 *Interim Financial Reporting* as adopted by the European Union and give a true and fair view of the Group's assets and liabilities, financial position and performance. They also describe the principal risks and uncertainty factors faced by the Group. The Endorsement and Statement by the Board of Directors and Chief Executive Officer provides a clear overview of developments and achievements in the Group's operations and its situation.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn for the nine months ended 30 September 2011.

Reykjavík, 3 November 2011.

Board of Directors

Gunnar Helgi Hálfdanarson

Chairman

Sigríður Hrólfsdóttir

Andri Geir Arinbjarnarson

Þórdís Ingadóttir

Ólafur Helgi Ólafsson

Chief Executive Officer

Steinþór Pálsson

Independent Auditor's Review Report

To the board of Directors and Shareholders of Landsbankinn hf.

We have reviewed the accompanying condensed consolidated statement of financial position of Landsbankinn hf. as at 30 September 2011 and the related condensed consolidated income statement, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavík, 3 November 2011.

KPMG ehf.

Helgi F. Arnarson

Sigríður Helga Sveinsdóttir

Condensed Consolidated Statement of Financial Position as at 30 September 2011

Notes		30.9.2011	31.12.2010
	Assets		
	Cash and balances with Central Bank	22,229	47,777
8, 23	Bonds and debt instruments	215,008	161,559
8	Equities and equity instruments	28,801	29,429
8, 9	Derivative instruments	515	23
10	Loans and advances to financial institutions	81,616	91,882
11, 23	Loans and advances to customers	643,880	592,954
12	Investments in associates	17,926	3,340
	Property and equipment	6,520	5,016
	Intangible assets	750	877
	Deferred tax assets	-	1,522
13	Other assets	53,024	17,965
		1,070,269	**952,344**
14	Assets classified as held for sale	53,981	128,789
	Total assets	**1,124,250**	**1,081,133**
	Liabilities		
	Due to financial institutions and Central Bank	112,642	147,478
	Deposits from customers	450,163	371,558
9	Derivative instruments and short positions	5,177	7,119
	Tax liabilities	318	1,979
23	Secured bonds	271,566	261,313
8,23	Contingent bond	43,203	26,510
	Other liabilities	22,970	18,701
		906,039	**834,658**
	Liabilities associated with assets classified as held for sale	7,985	61,609
	Total liabilities	**914,024**	**896,267**
	Equity		
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Statutory reserve	2,932	2,932
	Retained earnings	58,796	31,828
	Total equity attributable to owners of the Bank	**209,626**	**182,658**
	Non-controlling interests	600	2,208
	Total equity	**210,226**	**184,866**
	Total liabilities and equity	**1,124,250**	**1,081,133**

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

All amounts are in ISK million

Condensed Consolidated Income Statement for the nine months ended 30 September 2011

Notes		2011 1.7-30.9	2010 1.7-30.9*	2011 1.1-30.9	2010 1.1-30.9*
	Interest income	14,242	13,133	45,740	47,424
	Interest expense	(6,500)	(7,359)	(21,149)	(27,928)
15	**Net interest income**	**7,742**	**5,774**	**24,591**	**19,496**
16	Net adjustments to loans and advances acquired at deep discount	7,212	5,421	20,198	17,040
16	Loss from foreign currency linkage of loans and advances to customers	-	-	-	(8,251)
16, 33	Net impairment loss on loans and advances	(318)	(491)	(2,711)	(4,440)
8	Fair value change of contingent bond	(8,775)	(3,079)	(16,693)	(10,438)
	Net adjustments in valuation	**(1,881)**	**1,851**	**794**	**(6,089)**
	Net interest income after net adjustments in valuation	**5,861**	**7,625**	**25,385**	**13,407**
	Fee and commission income	1,843	1,499	5,441	4,469
	Fee and commission expense	(716)	(691)	(2,097)	(2,033)
	Net fee and commission income	**1,127**	**808**	**3,344**	**2,436**
17	Net gain (loss) on financial assets designated as at fair value through profit or loss	1,634	(941)	12,032	149
18	Net (loss) gain on financial assets and liabilities held for trading	(241)	815	(476)	1,794
19	Net foreign exchange (loss) gain	(910)	1,260	(1,049)	10,406
	Other income and expenses	442	7	456	(200)
	Other net operating income	**925**	**1,141**	**10,963**	**12,149**
	Total operating income	**7,913**	**9,574**	**39,692**	**27,992**
	Salaries and related expenses	2,703	2,123	7,946	6,538
	Other operating expenses	1,590	1,524	6,163	4,625
	Depreciation and amortisation	182	328	531	984
20	Contribution to the Depositors' and Investors' Guarantee Fund	106	170	506	510
	Acquisition-related costs	7	-	248	484
	Total operating expenses	**4,588**	**4,145**	**15,394**	**13,141**
	Share of (loss) profit of associates, net of income tax	(12)	19	1,160	150
	Profit before tax	**3,313**	**5,448**	**25,458**	**15,001**
21	Income tax expense	(795)	(1,641)	(2,874)	(4,552)
	Tax on liabilities of financial institutions	(120)	-	(340)	-
	Profit for the period from continuing operations	**2,398**	**3,807**	**22,244**	**10,449**
	Profit (loss) for the period from discontinued operations, net of income tax	121	(340)	4,709	2,422
	Profit for the period	**2,519**	**3,467**	**26,953**	**12,871**
	Profit for the period attributable to:				
	Owners of the Bank				
	Profit for the period from continuing operations	2,398	3,807	22,244	10,449
	Profit (loss) for the period from discontinued operations	113	(350)	4,724	2,413
	Profit for the period attributable to owners of the Bank	**2,511**	**3,457**	**26,968**	**12,862**
	Non-controlling interests				
	Profit (loss) for the period from discontinued operations	8	10	(15)	9
	Profit (loss) for the period attributable to non-controlling interests	**8**	**10**	**(15)**	**9**
	Profit for the period	**2,519**	**3,467**	**26,953**	**12,871**

* Certain comparative amounts have been changed in conformity with current year presentation (see Note 2 in the Consolidated Financial Statements of the Bank for the year 2010).

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

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2011

Notes

Notes		Attributable to owners of the Bank						
	Change in equity for the nine months ended 30 September 2011	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	Balance at 1 January 2011	24,000	123,898	2,932	31,828	182,658	2,208	184,866
	Profit for the period				26,968	26,968	(15)	26,953
5	Increase in non-controlling interest due to acquisition of subsidiary					0	116	116
	Decrease in non-controlling interests due to sale of subsidiaries					0	(1,709)	(1,709)
	Balance at 30 September 2011	**24,000**	**123,898**	**2,932**	**58,796**	**209,626**	**600**	**210,226**
	Change in equity for the nine months ended 30 September 2010							
	Balance at 1 January 2010	24,000	123,898	741	6,791	155,430	2,162	157,592
	Profit for the period				12,862	12,862	9	12,871
	Balance at 30 September 2010	**24,000**	**123,898**	**741**	**19,653**	**168,292**	**2,171**	**170,463**

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

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2011

Notes		2011 1.1-30.9	2010 1.1-30.9
	Net cash (used in) from operating activities	(23,606)	26,024
	Net cash used in investing activities	(3,641)	(72)
	Net cash from financing activities	-	-
	Net change in cash and cash equivalents	(27,247)	25,952
	Cash and cash equivalents at the beginning of the period	52,654	21,166
	Effect of exchange rate changes on cash and cash equivalents held	(294)	(806)
	Cash and cash equivalents at the end of the period	**25,113**	**46,312**
	Cash and cash equivalents is specified as follow:		
	Cash and unrestricted balances with Central Bank	15,644	41,065
	Bank accounts with financial institutions	9,469	5,247
	Cash and cash equivalents at the end of the period	**25,113**	**46,312**
	Investing and financing activities not affecting cash flows		
5	Assets acquired and liabilities assumed from SpKef Savings Bank	(30,488)	-
5	Non-controlling interests	(116)	-
5	Provisional amount of the bond to be issued by the Icelandic State Treasury	30,604	-
5	Assets acquired and liabilities assumed from Avant hf.	9,722	-
5	Fair value of the Bank's outstanding claim on Avant hf.	(9,722)	-

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

Landsbankinn hf. (formerly NBI hf., hereinafter referred to as the "Bank") was founded on 7 October 2008 by the Ministry of Finance on behalf of the Icelandic State Treasury. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates based on Act No. 161/2002, on Financial Undertakings. The Bank has a license to operate based on Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances and it is supervised by the Financial Supervisory Authority of Iceland. 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 2011 include the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and retail banking, investment banking, asset management and leasing services. The Group operates solely in Iceland.

The issue of these condensed consolidated interim financial statements was authorised by the Board of Directors of the Bank on 3 November 2011.

2. Basis of preparation

Statement of compliance

The Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2011 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the European Union.

These 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 2010, 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 is satisfied that the Group has the resources to continue its operations. Accordingly, these condensed consolidated interim financial statements have been prepared on a going concern basis.

Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for:
• Financial assets and liabilities classified as at fair value through profit or loss, which are measured at fair value;
• Non-current assets and disposal groups classified as held for sale, which are measured at the lower of carrying amount or fair value less costs to sell.

Functional and presentation currency

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

3. 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 these 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 2010. The accounting policies applied have been applied consistently to all periods presented.

Changes in presentation and classification

The Group changed as of the second quarter of 2011 the presentation of the contribution to the Depositors' and Investors' Guarantee Fund. The contribution is presented in separate line item in the income statement, but was previously included in the line item "Other operating expenses". The comparison amounts for the year 2010 in the income statement have been adjusted retrospectively in accordance with the new presentation as follows:
• New line item "Contribution to the Depositors' and Investors' Guarantee Fund" in the amount of ISK 510 million (1.7-30.9.2010 in the amount of ISK 170 million);
• "Other operating expenses" decreased by ISK 510 million (1.7-30.9.2010 decreased by ISK 170 million).

3. Accounting policies (continued)

Correction of prior period error

During the third quarter of 2011 it was discovered that one of the assumptions (inflation) used by the Group to estimate the future cash flows from loans and advances to customers for the purpose of disclosing them in the maturity analysis was incorrect. The use of the incorrect assumption relates only to the amounts disclosed in the maturity analysis presented in the consolidated financial statements of the Group for previous periods. The use of the incorrect assumption had no effect on the amounts reported by the Group in the income statement or statement of financial position. The Group uses the correct assumption for the amounts disclosed in the maturity analysis as at 30 September 2011 and it has also corrected the comparative amounts disclosed for loans and advances to customers in the maturity analysis as at 31 December 2010. The correction of this prior period error has resulted in a decrease in the net liquidity position disclosed as at 31 December 2010 in Notes 68 and 69 in the consolidated financial statements as at and for the year ended 31 December 2010 from ISK 553,662 million to ISK 293.344 million.

4. Critical accounting estimates and judgements in applying accounting policies

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

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2010.

Denomination currencies and interest rates of lease and loan agreements

The District Court of Reykjavík rendered in its ruling from 23 February 2011, established in the case of Landsbankinn hf. versus bankrupt estate of Motormax ehf., that certain foreign currency loan agreements to companies are in fact loan agreements in Icelandic krona which fall under the scope of Act. No. 38/2001, on interest and indexation. The indexation of such ISK denominated loans to the exchange rate of foreign currencies constitutes indexation which is not authorised by the Act. Furthermore, the District Court ruled that these loan agreements should bear from inception the lowest interest rates on unindexed ISK denominated loans as published by the Central Bank of Iceland. On 9 June 2011 the Supreme Court of Iceland ruled in this case and confirmed the District Court's verdict. This ruling did not effect the Group's financial results for the period ending 30 September 2011 as the impact of the ruling was already accounted for in the consolidated financial statements as at and for the year ended 31 December 2010.

5. Business combinations

Acquisition of Avant hf.

As one of the major creditors of Avant hf., a company whose main operation is vehicle leasing and lending services to individuals and corporations, the Bank obtained control of Avant hf. on 24 January 2011. The control obtained was based on the composition agreement of Avant hf., which was confirmed by the District Court of Reykjavik on 24 January 2011. According to the composition agreement the Bank accepted 100% of the common shares in Avant hf. as payment for one of the Bank's claims on Avant hf. amounting to ISK 2.0 billion. On 6 October 2011, the Bank finalised its merger with Avant hf..

The fair values of the assets acquired and liabilities assumed recognised as of the acquisition date, 24 January 2011, were the following:

Identifiable assets acquired and liabilities assumed	Fair value
Assets	
Cash and balances with Central Bank	683
Loans and advances to customers	9,360
Deferred tax assets	1,270
Other assets	23
Assets classified as held for sale	311
Total	**11,647**
Liabilities	
Other liabilities	(1,925)
Total	**(1,925)**
Total identifiable net assets	**9,722**
Fair value of the Bank's outstanding claim on Avant hf.	(9,722)
Goodwill	**0**

	At 24 January 2011			
Loans and advances to customers	**Acquiree's carrying amounts***	**Contractual cash flows****	**Cash flows expected to be collected****	**Fair value**
Corporations and public entities	7,868	10,815	9,166	7,868
Individuals	1,492	2,045	1,738	1,492
Total	**9,360**	**12,860**	**10,904**	**9,360**

*Unaudited financial information representing the carrying amounts of assets and liabilities transferred from Avant hf. immediately before the acquisition date.

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

Apart from the claim which was settled by Avant hf. issuing 100% of its common shares to the Bank. Avant hf. owed ISK 12.4 billion to the Bank at acquisition date. The Bank's outstanding claim and the corresponding liability of Avant hf. have been eliminated from the consolidated financial statements of the Bank.

Since the acquisition in January 2011 Avant hf. has contributed total operating income of ISK 269 million and profit of ISK 11 million to the Group's results.

All amounts are in ISK million

5. Business combinations (continued)

Acquisition of SpKef Savings Bank

On 7 March 2011, the Bank took over all assets, liabilities and operations of SpKef Savings Bank in accordance with the decision of the Financial Supervisory Authority in Iceland (FME). SpKef Savings Bank was owned entirely and directly by the Icelandic State Treasury previous to the transfer. The Icelandic State Treasury has made a commitment to issue a bond to the Bank in order to compensate for the negative difference between the fair value of the assets taken over and liabilities assumed by the Bank. This takeover is done on an arm's length basis under generally accepted commercial terms. The Bank and the Icelandic State Treasury currently disagree on the fair value of financial assets of SpKef under the due diligence process which is still in progress. Consequently, the current assessment of the value of financial assets of SpKef in the condensed consolidated statement of financial position has been determined by the Bank's current best estimate of fair value. The assets acquired from SpKef Savings Bank have been recognised by the Group at a preliminary fair value amount of ISK 43,3 billion. The liabilities assumed from SpKef have been recognised by the Group at a provisional amount of ISK 73,7 billion. The fair value and provisional amounts and their presentation are subject to adjustments in future reporting periods which may result from the completion of the due diligence and valuation process.

The Bank's current best estimate of the values of the assets acquired and liabilities assumed recognised as of the acquisition date, 7 March 2011, were the following:

Identifiable assets acquired and liabilities assumed	Acquiree's carrying amounts*	Value adjust-ments	The Bank's current valuation
Assets			
Cash and balances with Central Bank	1,285	-	1,285
Bonds and debt instruments	9,969	94	10,063
Equities and equity instruments	747	(679)	68
Loans and advances to financial institutions	(437)	(40)	(477)
Loans and advances to customers	42,212	(14,831)	27,381
Investments in associates	234	-	234
Property and equipment	2,441	-	2,441
Deferred tax assets	205	-	205
Other assets	70	-	70
Assets classified as held for sale	2,095	(104)	1,991
Total	**58,821**	**(15,560)**	**43,261**
Liabilities			
Due to financial institutions and Central Bank	(13,885)	-	(13,885)
Deposits from customers	(57,565)	-	(57,565)
Tax liabilities	(74)	-	(74)
Other borrowings	(62)	-	(62)
Other liabilities	(264)	(1,899)	(2,163)
Total	**(71,850)**	**(1,899)**	**(73,749)**
Total identifiable net assets			**(30,488)**
Non-controlling interests			(116)
Provisional amount of the bond to be issued to the Bank by the Icelandic State Treasury			**(30,604)**

*Unaudited financial information representing the carrying amounts of assets and liabilities transferred from SpKef Savings Bank immediately before the acquisition date.

All amounts are in ISK million

5. **Business combinations (continued)**

Acquisition of SpKef Savings Bank (continued)

	At 7 March 2011			
Loans and advances to customers	**Acquiree's carrying amounts***	**Contractual cash flows****	**Cash flows expected to be collected****	**Fair value**
Corporations and public entities	18,651	35,624	24,752	12,959
Individuals	23,561	37,785	23,129	14,422
Total	**42,212**	**73,409**	**47,881**	**27,381**
Bonds and debt instruments				
Public entities	9,969	19,626	19,145	10,063

*Unaudited financial information representing the carrying amounts of assets and liabilities transferred from SpKef Savings Bank immediately before the acquisition date.

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

The consideration payable by the Icelandic State Treasury by issuing a bond to the Bank is subject to the eventual fair value of financial assets of SpKef and liabilities assumed from SpKef. The Group recognised a provisional amount of 30,6 billion which are presented provisionally among "Other assets" in the condensed consolidated statement of financial position.

Acquisition related cost directly attributable to the acquisition amounted to ISK 248 million, all of which was cost for external services. However, acquisition related cost indirectly attributable to the acquisition cannot be estimated reliably, being cost for internal services like salaries of the Bank's employees working on the acquisition. Direct acquisition cost was therefore expensed in the line item "Acquisition-related costs" exclusive of indirect acquisition cost.

Since the acquisition on 7 March 2011, SpKef Savings Bank has contributed total operating income of ISK 1,219 million and profit of ISK 215 million to the Group's results.

All amounts are in ISK million

5. Business combinations (continued)

Total acquisitions during the period

The table below summarises all assets acquired and liabilities assumed recognised during the nine months ended 30 September 2011:

Identifiable assets acquired and liabilities assumed	Avant hf.	SpKef Savings Bank	Total
Assets			
Cash and balances with Central Bank	683	1,285	1,968
Bonds and debt instruments	-	10,063	10,063
Equities and equity instruments	-	68	68
Loans and advances to financial institutions	-	(477)	(477)
Loans and advances to customers	9,360	27,381	36,741
Investments in associates	-	234	234
Property and equipment	-	2,441	2,441
Deferred tax assets	1,270	205	1,475
Other assets	23	70	93
Assets classified as held for sale	311	1,991	2,302
Total	**11,647**	**43,261**	**54,908**
Liabilities			
Due to financial institutions and Central Bank	-	(13,885)	(13,885)
Deposits from customers	-	(57,565)	(57,565)
Tax liabilities	-	(74)	(74)
Other borrowings	-	(62)	(62)
Other liabilities	(1,925)	(2,163)	(4,088)
Total	**(1,925)**	**(73,749)**	**(75,674)**
Total identifiable net assets	**9,722**	**(30,488)**	**(20,766)**
Non-controlling interests	-	(116)	(116)
Fair value of the Bank's outstanding claim on Avant hf.	(9,722)	-	(9,722)
Provisional amount of the bond to be issued to the Bank by the Icelandic State Treasury	-	30,604	30,604
Goodwill	**0**	**0**	**0**

If all of the business combinations occurring during the period had been as of 1 January 2011, consolidated total operating income contribution would have been ISK 39,640 million and consolidated profit for the period would have been ISK 26,505 million.

6. Disposal of subsidiaries

Horn fjárfestingarfélag hf. and Reginn hf., a subsidiaries of Eignarhaldsfélag Landsbankans ehf. which is a wholly-owned subsidiary of the Bank, are in the process of listing their common shares on the OMX Nordic Exchange in Iceland. The preparation of the listing started in the year 2011 and the listing of Horn fjárfestingarfélag hf. is expected to be completed during the year 2011 and the listing of Reginn hf. is expected to be completed during second quarter of 2012. The assets and liabilities of Horn fjárfestingarfélag hf. are not classified as assets and liabilities held for sale in the condensed consolidated statement of financial position as at 30 September 2011, as they do not meet the criteria to be reclassified as held for sale in accordance with IFRS 5.

7. Operating segments

The organisational chart is structured around the following nine main divisions: Retail Banking, Corporate Banking, Vehicle and Equipment Financing, Markets & Treasury, Asset Management, Risk Management, Finance, Corporate Development and Asset Restructuring. Commercial and profit-generating divisions are given increased prominence in order to sharpen the Group's focus and improve its services to customers.

From the foundation of the Bank on 7 October 2008, the financial information available for evaluation by management in deciding how to allocate resources and assess performance is that of the business as a whole. For this reason the Group had a single reportable segment from its foundation. The Group will disclose its segment reporting in line with the organisational chart in fourth quarter of 2011.

All amounts are in ISK million

Notes to the Condensed Consolidated Statement of Financial Position

8. Classification and fair value of financial assets and liabilities

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

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 30 September 2011:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value*	Total carrying amount	Fair value
Cash and balances with Central Bank	22,229	-	-	-	-	22,229	22,229
Bonds and debt instruments	112,089	86,919	16,000	-	-	215,008	215,008
Equities and equity instruments	-	1,021	27,780	-	-	28,801	28,801
Derivative instruments	-	515	-	-	-	515	515
Loans and advances to financial institutions	81,616	-	-	-	-	81,616	81,616
Loans and advances to customers	643,880	-	-	-	-	643,880	683,174
Other financial assets	13,182	-	-	-	-	13,182	13,182
Total	**872,996**	**88,455**	**43,780**	**0**	**0**	**1,005,231**	**1,044,525**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	112,642	-	112,642	112,642
Deposits from customers	-	-	-	450,163	-	450,163	450,163
Derivative instruments and short positions	-	5,177	-	-	-	5,177	5,177
Secured bonds	-	-	-	271,566	-	271,566	271,566
Contingent bond	-	-	-	-	43,203	43,203	43,203
Other financial liabilities	-	-	-	6,024	-	6,024	6,024
Total	**0**	**5,177**	**0**	**840,395**	**43,203**	**888,775**	**888,775**

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 2010:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value*	Total carrying amount	Fair value
Cash and balances with Central Bank	47,777	-	-	-	-	47,777	47,777
Bonds and debt instruments	100,244	43,735	17,580	-	-	161,559	161,559
Equities and equity instruments	-	3,178	26,251	-	-	29,429	29,429
Derivative instruments	-	23	-	-	-	23	23
Loans and advances to financial institutions	91,882	-	-	-	-	91,882	91,882
Loans and advances to customers	592,954	-	-	-	-	592,954	620,403
Other financial assets	7,070	-	-	-	-	7,070	7,070
Total	**839,927**	**46,936**	**43,831**	**0**	**0**	**930,694**	**958,143**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	147,478	-	147,478	147,478
Deposits from customers	-	-	-	371,558	-	371,558	371,558
Derivative instruments and short positions	-	7,119	-	-	-	7,119	7,119
Secured bonds	-	-	-	261,313	-	261,313	261,313
Contingent bond	-	-	-	-	26,510	26,510	26,510
Other financial liabilities	-	-	-	4,237	-	4,237	4,237
Total	**0**	**7,119**	**0**	**784,586**	**26,510**	**818,215**	**818,215**

* The contingent bond was recognised in the year 2009 as part of the settlement for the assets acquired and liabilities assumed from Landsbanki Íslands hf. The bond is a financial liability which the Group is required to measure at fair value in accordance with IFRS 3 (2008), with any resulting gain or loss to be recognised in income statement.

All amounts are in ISK million

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

The fair value of financial assets and liabilities was determined based on the same valuation methods as those described in the Group's consolidated financial statements as at and for the year ended 31 December 2010.

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs to valuation used to measure fair value. This hierarchy prioritises the inputs into
• Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
• Level 2: Valuation technique using observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
• Level 3: Valuation technique with significant unobservable inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 includes all instruments that are valued according to quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between instruments.

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the consolidated statement of financial position, are categorised as at 30 September 2011:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	63,154	28,250	11,515	102,919
Equities and equity instruments	13,955	4,065	10,781	28,801
Derivative instruments	-	515	-	515
Total	**77,109**	**32,830**	**22,296**	**132,235**
Financial liabilities				
Derivative instruments	-	1,526	-	1,526
Short positions	3,651	-	-	3,651
Contingent bond	-	-	43,203	43,203
Total	**3,651**	**1,526**	**43,203**	**48,380**

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 2010:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	20,340	26,933	14,042	61,315
Equities and equity instruments	16,027	2,925	10,477	29,429
Derivative instruments	-	23	-	23
Total	**36,367**	**29,881**	**24,519**	**90,767**
Financial liabilities				
Derivative instruments	-	1,445	-	1,445
Short positions	5,674	-	-	5,674
Contingent bond	-	-	26,510	26,510
Total	**5,674**	**1,445**	**26,510**	**33,629**

During the period from 1 January to 30 September 2011 there were no transfers into Level 1. Financial assets were transferred into Level 2 from Level 3 because significant inputs used in their fair value measurement became observable during the period from 1 January to 30 September 2011, such as market prices or rates.

All amounts are in ISK million

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

The following tables show the reconciliation for fair value measurement in Level 3 for the nine months ended 30 September 2011 and for the year 2010:

1 January - 30 September 2011	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
Carrying amount at 1 January 2011	14,042	10,477	24,519	(26,510)
Total (losses) gains recognised in income statement	(179)	7,862	7,683	(16,693)
Purchases	3,372	4,650	8,022	-
Sales	(2,726)	(7,418)	(10,144)	-
Acquisitions through business combination	58	195	253	-
Settlements	(2,991)	2,936	(55)	-
Transfers out of Level 3	(61)	(7,921)	(7,982)	-
Carrying amount at 30 September 2011	**11,515**	**10,781**	**22,296**	**(43,203)**
1 January - 31 December 2010				
Carrying amount at 1 January 2010	37,371	3,555	40,926	(10,241)
Total (losses) gains recognised in income statement	(1,342)	11	(1,331)	(16,269)
Purchases	6,433	4,260	10,693	-
Sales	(7,851)	(531)	(8,382)	-
Settlements	(15,368)	3,313	(12,055)	-
Transfers into Level 3	375	-	375	-
Transfers out of Level 3	(5,576)	(131)	(5,707)	-
Carrying amount at 31 December 2010	**14,042**	**10,477**	**24,519**	**(26,510)**

The following tables show the line items in the consolidated income statement where the total gains (losses) were recognised during the nine months ended 30 September 2011 and during the year 2010, for fair value measurements in Level 3:

1 January - 30 September 2011	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Fair value change of contingent bond	-	-	(16,693)	(16,693)
Net gain (loss) on financial assets designated as at fair value through profit or loss	(378)	7,951	-	7,573
Net foreign exchange (loss) gain	199	(89)	-	110
Total	**(179)**	**7,862**	**(16,693)**	**(9,010)**
1 January - 31 December 2010				
Fair value change of contingent bond	-	-	(16,269)	(16,269)
Net gain (loss) on financial assets designated as at fair value through profit or loss	350	185	-	535
Net foreign exchange (loss) gain	(1,692)	(174)	-	(1,866)
Total	**(1,342)**	**11**	**(16,269)**	**(17,600)**

All amounts are in ISK million

9. Derivative instruments and short positions

	30.09.2011			31.12.2010		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	60,289	469	1,004	22,359	20	769
Cross-currency interest rate swaps	1,674	-	461	1,897	-	659
OTC currency options	-	-	-	20,424	-	-
	61,963	**469**	**1,465**	**44,680**	**20**	**1,428**
Interest rate derivatives						
Interest rate swaps	6,148	46	61	3,294	3	17
	6,148	**46**	**61**	**3,294**	**3**	**17**
Short positions - listed bonds	**-**	**-**	**3,651**	**-**	**-**	**5,674**
Total	**68,111**	**515**	**5,177**	**47,974**	**23**	**7,119**

10. Loans and advances to financial institutions

	30.09.2011	31.12.2010
Bank accounts with financial institutions	9,469	6,844
Money market loans	61,536	63,549
Overdrafts	3,857	6,844
Other loans	6,754	16,823
Less: Allowance for impairment	-	(2,178)
Total	**81,616**	**91,882**

11. Loans and advances to customers

	30.09.2011	31.12.2010
Public entities	11,383	13,928
Individuals	183,028	166,069
Corporations	473,478	434,079
Less: Allowance for impairment	(24,009)	(21,122)
Total	**643,880**	**592,954**

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

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

12. Investments in associates

	30.09.2011	31.12.2010
Carrying amount at the beginning of the period	3,340	2,945
Acquisitions through business combination	234	-
Acquisitions	5,391	104
Reclass from equity and equity instruments	7,921	-
Share of profit of associates, net of income tax	1,160	291
Disposals	(120)	-
Total	**17,926**	**3,340**

During the period from 1 January to 30 September 2011, the Bank acquired 27.6% in Framtakssjóður Íslands slhf. for ISK 5,329 million. The Group also obtained significant influence over the financial and operating policies of Promens hf. Accordingly Promens hf. is reclassified from equities and equity instruments to investments in associates.

All amounts are in ISK million

13. Other assets

	30.09.2011	31.12.2010
Provisional amount of the bond to be issued by the Icelandic State Treasury	30,604	-
Legally disputed collections	3,669	3,669
Unsettled securities trading	7,077	3,168
Accounts receivable and prepayments	1,358	3,214
Claims on Landsbanki Íslands hf.	557	688
Claims on Framtakssjóður Íslands slhf.	4,190	-
Sundry assets	5,569	7,226
Total	**53,024**	**17,965**

14. Assets and liabilities classified as held for sale

Assets classified as held for sale	30.9.2011	31.12.2010
Repossessed collateral	50,745	43,831
Assets of disposal groups classified as held for sale	3,236	84,958
Total	**53,981**	**128,789**

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

Repossessed collateral	30.9.2011	31.12.2010
Carrying amount at the beginning of the period	43,831	27,317
Acquisitions through business combination	1,812	-
Repossessed during the period	14,001	25,465
Disposed during the period	(8,899)	(8,951)
Carrying amount at the end of the period	**50,745**	**43,831**

Disposal groups classified as held for sale

Disposal groups classified as held for sale consist of the assets and liabilities of subsidiaries acquired by the Group exclusively with a view to resale. Because these subsidiaries meet the definition of discontinued operations in IFRS 5, the Group presents the results of their operations as discontinued in the consolidated income statement, as required by IFRS 5 and IAS 1.

On 20 January 2011 the Bank finalised the sale to Framtakssjóður Íslands slhf. (FSÍ) of 100% shareholding in its subsidiary Eignarhaldsfélagið Vestia ehf. (Vestia), comprising a 62% shareholding in Teymi hf., 100% shareholding in Húsasmiðjan ehf. and 100% shareholding in Plastprent ehf., and 81% shareholding in its subsidiary Icelandic Group hf. (IG). The sale price for the shares in Vestia amounted to ISK 4,250 million and for the shares in IG amounted to ISK 11,250 million. FSÍ also has the option to acquire the Bank's remaining 19% shareholding in IG at the same price per share within 12 months from delivery of the 81% shareholding.

The Icelandic Competition Authority approved the sale of Vestia and IG on 14 January 2011, with certain conditions. The Bank delivered the shares to FSÍ on 20 January 2011. The Group recognised a gain of ISK 4.1 billion on the disposal of these shares in the line item "Profit for the period from discontinued operations, net of income tax" in the first quarter of 2011. The calling amount of the remaining 19% shareholding in IG amounts to ISK 1.5 billion as at 30 September 2011.

As part of the agreement with FSÍ, the Bank committed itself to invest ISK 15.5 billion in FSÍ. This amount will be callable during the years 2011-2016 as needed to fund investments by FSÍ, in proportion to the Bank's holding in FSÍ. The maximum amount that the Bank can invest in FSÍ is 25% of total outstanding commitments of all investors in FSÍ. At 30 September 2011 the Bank had invested in FSÍ ISK 5,329 million representing 27.6% of total called in commitments (ISK 19,311 million). FSÍ is required to redeem its shareholders with the proceeds from sales of assets.

All amounts are in ISK million

Notes to the Condensed Consolidated Income Statement

15. Net interest income

Interest income	2011 1.7-30.9	2010 1.7-30.9	2011 1.1-30.9	2010 1.1-30.9
Cash and balances with Central Bank	261	959	999	2,767
Bonds and debt instruments classified as loans and receivables	960	1,657	2,740	5,452
Loans and advances to financial institutions	203	205	710	1,149
Loans and advances to customers	12,758	10,307	41,114	38,025
Other interest income	60	5	177	31
Total	**14,242**	**13,133**	**45,740**	**47,424**
Interest expense				
Due to financial institutions and Central Bank	(532)	(1,370)	(1,613)	(4,026)
Deposits from customers	(3,441)	(3,059)	(11,644)	(15,252)
Secured bonds	(2,559)	(2,820)	(7,772)	(8,480)
Other interest expense	32	(110)	(120)	(170)
Total	**(6,500)**	**(7,359)**	**(21,149)**	**(27,928)**
Net interest income	**7,742**	**5,774**	**24,591**	**19,496**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period)	**2.8%**	**2.1%**	**3.0%**	**2.4%**
Adjusted interest spread (as the annualised ratio of net interest income after net adjustments in valuation to the average carrying amount of total assets during the period)	**2.1%**	**2.8%**	**3.1%**	**1.6%**

16. Net valuation change in loans and advances

	2011 1.7-30.9	2010 1.7-30.9	2011 1.1-30.9	2010 1.1-30.9
Net adjustments to loans and advances acquired at deep discount	7,212	5,421	20,198	17,040
Loss from foreign currency linkage of loans and advances to customers	-	-	-	(8,251)
Net impairment loss on loans and advances	(318)	(491)	(2,711)	(4,440)
Total	**6,894**	**4,930**	**17,487**	**4,349**
Individuals	(1,441)	1,049	(10,196)	(3,431)
Corporations	8,335	3,881	27,683	7,780
Total	**6,894**	**4,930**	**17,487**	**4,349**

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

	2011 1.7-30.9	2010 1.7-30.9	2011 1.1-30.9	2010 1.1-30.9
Bonds and debt instruments	75	276	1,074	1,397
Equities and equity instruments	1,559	(1,217)	10,958	(1,248)
Total	**1,634**	**(941)**	**12,032**	**149**

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

	2011 1.7-30.9	2010 1.7-30.9	2011 1.1-30.9	2010 1.1-30.9
Bonds and debt instruments	238	842	526	1,837
Equities and equity instruments	(482)	67	(766)	97
Derivative instruments	3	(94)	(236)	(140)
Total	**(241)**	**815**	**(476)**	**1,794**

All amounts are in ISK million

19. Net foreign exchange (loss) gain

Assets	2011 1.7-30.9	2010 1.7-30.9	2011 1.1-30.9	2010 1.1-30.9
Cash and balances with Central Bank	(38)	(52)	(3)	(132)
Bonds and debt instruments	353	(1,324)	1,282	(3,370)
Equities and equity instruments	(733)	(24)	9	(787)
Derivative instruments	(1,889)	(487)	(2,540)	(3,760)
Loans and advances to financial institutions	(1,525)	(4,349)	1,319	(7,200)
Loans and advances to customers	(81)	(12,355)	9,634	(19,877)
Other assets	69	(17)	121	(478)
Total	**(3,844)**	**(18,608)**	**9,822**	**(35,604)**
Liabilities				
Due to financial institutions and Central Bank	406	970	(99)	1,875
Deposits from customers	(515)	2,680	(3,045)	6,801
Secured bonds	3,049	16,215	(7,722)	37,319
Other liabilities	(6)	3	(5)	15
Total	**2,934**	**19,868**	**(10,871)**	**46,010**
Net foreign exchange (loss) gain	**(910)**	**1,260**	**(1,049)**	**10,406**

The foreign exchange differences which were recognised during the period from 1 January to 30 September 2011 in the condensed consolidated income statement and arose on financial instruments not measured at fair value through profit or loss, amounted to a ISK 11,071 million gain for financial assets (1.1-30.9 2010: loss of ISK 27,687 million) and loss of ISK 10,866 million for financial liabilities (1.1-30.9.2010: gain of ISK 45,995 million). As disclosed in Note 41, the impact of FX-delta has become negligible and the FX-delta is not applicable any longer. Consequently, the Group has not accounted for any amount of foreign exchange difference arising on loans and advances to customers, which is deemed to be uncollectible and is therefore offset by the FX-delta ratio, for the nine months ended 30 September 2011 (1.1-30.9.2010: loss of ISK 4,499 million).

20. Contribution to the Depositors' and Investors' Guarantee Fund

As at 30 September 2011 an amount of ISK 1.004 million was payable by the Bank to the Depositors' and Investors' Guarantee Fund for the period 1 January to 30 September 2011. Only ISK 506 million was however expensed during the same period because of over accrual of expenses in the year 2010. Consequently, the Bank will phase the 2010 accrual throughout the quarters in 2011 to eliminate the mismatch.

21. Income tax expense

Income tax is recognised based on the tax rates and tax laws enacted by the end of the period, according to which the domestic corporate income tax rate was 20.0% (2010: 18.0%).

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

	2011 1.1-30.9	2010 1.1-30.9
Current tax expense	(3,366)	-
Deferred tax expense	492	(4,552)
Total	**(2,874)**	**(4,552)**

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

	1.1-30.9.2011		1.1-30.9.2010	
Profit before tax		25,458		15,001
Tax on liabilities of financial institutions		(340)		-
Profit before income tax		25,118		15,001
Income tax calculated using the domestic corporate income tax rate	20.0%	(5,024)	18.0%	(2,700)
Income not subject to tax	(8.1%)	2,022	14.8%	(2,218)
Non-deductable expenses	0.4%	(104)	0.0%	-
Other	(0.9%)	232	(2.4%)	366
Effective income tax	**11.4%**	**(2,874)**	**30.4%**	**(4,552)**

All amounts are in ISK million

Other notes

22. Litigation

The status of the legal proceedings of the Group at the end of the period ended 30 September 2011 is unchanged since the issue of the Consolidated Financial Statements as at and for the year ended 31 December 2010, except for the following:

1. In the case of Skollaborg ehf. and Hraðfrystihúsið – Gunnvör hf. the Supreme Court ruled in the case and confirmed a District Court verdict to dismiss the case. Since the Supreme Court ruling the appellant and the respondent have settled the case between themselves out of court.

2. In January 2010 Soffanías Cecilsson hf., an Icelandic limited liability company, commenced litigation before the District Court of Reykjavík against the Bank and demanded that two loan agreements and the distribution of the proceeds of the loans were declared null and void. The loan agreements are denominated in foreign currencies and the Bank claim according to the agreements is equivalent to ISK 7.4 billion. To support its case the company puts forward various arguments mainly relating to the power of the company to enter into loan agreements to finance securities transactions and the conduct and advice of the employees of Landsbanki Íslands hf. in relation to the transactions. The Bank considers the claim to be without merit and will defend this claim vigorously before court. On 13 April 2011 the District Court of Reykjavik ruled that all but one of Soffaníus Cecilsson claims was dismissed because Soffanías Cecilsson hf. claims did not fulfill the requirements of the civil law, No. 91/1991. The District Court of Reykjavík remains to rule on the claim of Soffanías Cecilsson that two loan agreements are in fact loan agreements in Icelandic kronas which fall under the scope of Act. No. 38/2001, on interest and indexation.

3. The District Court of Reykjavík has in its ruling from 23 February 2011, established in the case of Landsbankinn hf. versus bankrupt estate of Motormax ehf., that foreign currency loan agreements to companies are in fact loan agreements in Icelandic kronas which fall under the scope of Act. No. 38/2001, on interest and indexation. The indexation of such ISK denominated loans to the exchange rate of foreign currencies constitutes indexation which is not authorised by the Act. The bank appealed the ruling of the District Court of Reykjavík to the Supreme Court of Iceland. On 9 June 2011 the Supreme Court ruled in the case and confirmed the District Court verdict that one foreign currency loan agreement to the company Motormax was in fact loan in Icelandic kronas. See also Note 4.

4. In January 2011 SpKef commenced litigation before the District Court of Reykjavik against the Winding-up Board of Landsbanki Íslands hf. and demanded that its participating interest in a loan to Ineos Holding Limited, as per an agreement between SpKef and Landsbanki Íslands hf., be classified as an asset of SpKef in accordance with the provisions of the first paragraph of Article 109 of Act No. 21/1991, on Bankruptcy. On 6 March 2006, Landsbanki Íslands hf. and SpKef concluded a contract on participation in investments based on a framework agreement on the participation in investments by Landsbanki Íslands hf. in syndicated loans on the European credit market. SpKef acquired a tranche of a syndicated loan from Landsbanki Íslands hf. in the amount of EUR 1 million which Landsbanki Íslands hf. was responsible for collecting. The Winding-up Board has rejected classifying the claim as an asset of SpKef because direct ownership of the loan tranche has not been established. SpKef thus does not have a direct claim on the debtor; that claim is owned by the Winding-up Board of Landsbanki Íslands hf. Principal proceedings will take place in the coming months.

5. In January 2011 Landsvaki commenced litigation before the District Court of Reykjavik against the Winding-up Board of Landsbanki Íslands hf. and demanded that its participating interest in syndicated loans have priority in the bankruptcy estate in accordance with the provision of the third paragraph of Article 110 of Act No. 21/1991, on Bankruptcy. Landsvaki demanded as well that its participating interest in syndicated loans be classified as an asset of Landsvaki in accordance with the provisions of the first paragraph of Article 109 of Act No. 21/1991, on Bankruptcy. The Winding-up Board has rejected these claims because direct ownership of the loan tranche has not been established. Landsvaki thus does not have a direct claim on the debtor; that claim is owned by the Winding-up Board of Landsbanki Íslands hf. Principal proceedings will take place in the coming months.

23. Pledged assets

On 12 October 2010 the Bank and Landsbanki Íslands hf. signed a pledge agreement according to which the Bank pledged certain pools of loans to customers as collateral for the secured bonds issued on 12 October 2010 and the contingent bond that the Bank might issue to Landsbanki Íslands hf. The Bank must maintain a minimum cover ratio of 127.5% (ISK 353,384 million) (31.12.2010: ISK 342,900 million) for the secured bonds. Once the Contingent bond has been issued, the bank must pledge assets for it, with a minimum cover ratio of 118%. However, no assets must be pledged for the Contingent bond before it´s issue date. Pledged assets added to the pledged pool must comply with certain eligibility criteria.

In addition, the Bank has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland in the amount of ISK 5,500 million as at 30 September 2011 (31.12.2010: ISK 5,500 million) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business for netting and set-off arrangements in the total amount of ISK 12,568 million as at 30 September 2011 (31.12.2010: ISK 7,123 million).

24. Related party transactions

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

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 28.

(b) Transactions with other related parties

The deposits from Landsbanki Íslands hf. amounted to ISK 28,545 million as at 30 September 2011 (31.12.2010: ISK 33,418 million). During the period from 1 January to 30 September 2011 the Bank recognised ISK 244 million from administrative services provided to Landsbanki Íslands hf. based on a service level agreement (1.1-30.9.2010: ISK 374 million).

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

	2011		2010	
Loans in ISK million	**Balance at 30 Sept.**	**Highest amounts outstanding during the period**	**Balance at 31 Dec.**	**Highest amounts outstanding during the year**
Key management personnel	56	91	161	200
Parties related to key management personnel	127	176	250	331
Associates	10,616	16,045	7,273	7,307
Total	**10,799**	**16,312**	**7,684**	**7,838**

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

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

25. Events after the reporting period

The main events after the reporting period are as follows:

On 6 October 2011, the Bank finalised the merger with two of its subsidiaries, SP-Fjármögnun hf. and Avant hf. The objective of the mergers was primarily to streamline operations and offer customers a wider range of products and more comprehensive services.

Capital management

26. Capital management

The Financial Supervisory Authority in Iceland has decided that the Bank and the Group shall maintain a capital ratio of at least 16%, there of Tier 1 capital ratio of at least 12%. This is higher than the current ICAAP capital requirement estimated by the Bank.

27. Capital base and capital adequacy ratio

The Group's equity at 30 September 2011 amounted to ISK 210,226 million (31.12.2010: ISK 184,866 million), equivalent to 18.7% (31.12.2010: 17.1%) of total assets, according to the condensed consolidated statement of financial position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 23.6% at 30 September 2011 (31.12.2010: 19.5%). According to the Act, this ratio may not fall below 8%.

Capital base	30.9.2011	31.12.2010
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	2,932	2,932
Retained earnings	58,796	31,828
Non-controlling interests	600	2,208
Intangible assets	(750)	(878)
Deferred tax assets	-	(1,522)
Tier 1 capital	**209,476**	**182,466**
Deduction from original and additional own funds	(4,213)	(3,888)
Capital base	**205,263**	**178,578**

Risk-weighted assets		
Credit risk	709,153	699,716
Market risk	90,120	144,745
Operational risk	69,987	69,987
Total risk-weighted assets	**869,260**	**914,448**

Tier 1 capital ratio	24.1%	20.0%
Capital adequacy ratio	23.6%	19.5%

All amounts are in ISK million

Risk management

Credit risk

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

At 30 September 2011	Financial institutions	Public entities*	Individuals	Corporations: Fisheries	Corporations: Construction and real estate companies	Corporations: Services	Corporations: Retail	Corporations: Holding companies	Corporations: Manufacturing	Corporations: Agriculture	Corporations: ITC**	Corporations: Other	Carrying amount
Cash and balances with Central Bank	-	22,229	-	-	-	-	-	-	-	-	-	-	**22,229**
Bonds and debt instruments	9,970	202,092	-	-	2	-	-	2,320	295	-	-	329	**215,008**
Derivative instruments	451	2	-	16	-	-	-	-	-	-	-	46	**515**
Loans and advances to financial institutions	81,616	-	-	-	-	-	-	-	-	-	-	-	**81,616**
Loans and advances to customers	-	11,222	172,820	144,607	101,810	67,605	41,469	54,344	26,277	7,459	14,519	1,748	**643,880**
Other financial assets	8,534	-	-	11	-	344	-	4,190	-	-	34	69	**13,182**
Total on-balance sheet exposure	**100,571**	**235,545**	**172,820**	**144,634**	**101,812**	**67,949**	**41,469**	**60,854**	**26,572**	**7,459**	**14,553**	**2,192**	**976,430**
Off-balance sheet exposure	**0**	**8,255**	**40,267**	**12,040**	**9,196**	**8,951**	**10,260**	**1,417**	**2,828**	**4,201**	**3,415**	**829**	**101,659**
Financial guarantees	-	28	458	983	5,054	2,543	1,385	284	812	2	1,193	31	12,773
Undrawn loan commitments	-	4,135	23	8,579	1,846	384	3,812	458	132	3,632	591	-	23,592
Undrawn overdraft/credit card facilities	-	4,092	39,786	2,478	2,296	6,024	5,063	675	1,884	567	1,631	798	65,294
Maximum exposure to credit risk	**100,571**	**243,800**	**213,087**	**156,674**	**111,008**	**76,900**	**51,729**	**62,271**	**29,400**	**11,660**	**17,968**	**3,021**	**1,078,089**
Percentage of carrying amount	9.3%	22.6%	19.8%	14.5%	10.3%	7.1%	4.8%	5.8%	2.7%	1.1%	1.7%	0.3%	100.0%

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

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

All amounts are in ISK million

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

At 31 December 2010	Financial institutions	Public entities*	Individuals	Corporations: Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	47,777	-	-	-	-	-	-	-	-	-	-	**47,777**
Bonds and debt instruments	10,744	147,036	-	-	2	-	-	3,776	-	-	-	1	**161,559**
Derivative instruments	20	-	-	-	-	-	-	3	-	-	-	-	**23**
Loans and advances to financial institutions	91,882	-	-	-	-	-	-	-	-	-	-	-	**91,882**
Loans and advances to customers	-	13,591	163,203	134,037	100,038	66,752	33,582	37,243	22,872	11,666	6,597	3,373	**592,954**
Other financial assets	6,316	42	-	12	-	433	1	19	10	-	154	83	**7,070**
Total on-balance sheet exposure	**108,962**	**208,446**	**163,203**	**134,049**	**100,040**	**67,185**	**33,583**	**41,041**	**22,882**	**11,666**	**6,751**	**3,457**	**901,265**
Off-balance sheet exposure	**0**	**7,232**	**33,184**	**11,904**	**5,801**	**9,672**	**12,053**	**2,184**	**3,090**	**2,479**	**2,483**	**289**	**90,371**
Financial guarantees	-	12	478	884	3,240	2,325	1,222	228	618	340	855	31	10,233
Undrawn loan commitments	-	2,564	49	8,781	876	3,335	6,452	846	891	1,636	675	-	26,105
Debt underwriting commitments	-	1,090	-	-	-	-	-	-	-	-	-	-	1,090
Undrawn overdraft/credit card facilities	-	3,566	32,657	2,239	1,685	4,012	4,379	1,110	1,581	503	953	258	52,943
Maximum exposure to credit risk	**108,962**	**215,678**	**196,387**	**145,953**	**105,841**	**76,857**	**45,636**	**43,225**	**25,972**	**14,145**	**9,234**	**3,746**	**991,636**
Percentage of carrying amount	11.0%	21.7%	19.8%	14.7%	10.7%	7.8%	4.6%	4.4%	2.6%	1.4%	0.9%	0.4%	100.0%

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

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

All amounts are in ISK million

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

Carrying amount	30.9.2011	31.12.2010
Customer groups with loan exposures above ISK 500 million		
Green	254,028	197,331
Yellow	36,708	21,669
Orange	8,401	23,982
Red	68,077	51,867
Customer groups with loan exposures below ISK 500 million	276,666	298,105
Total	**643,880**	**592,954**

30. Credit quality of financial assets

	Gross carrying amount					
At 30 september 2011	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment	Carrying amount
Cash and balances with Central Bank	22,229	-	-	22,229	-	22,229
Bonds and debt instruments	206,131	8,877	-	215,008	-	215,008
Derivative instruments	515	-	-	515	-	515
Loans and advances to financial institutions	81,589	27	-	81,616	-	81,616
Loans and advances to customers	468,056	131,807	68,026	667,889	(24,009)	643,880
Other financial assets	13,182	-	-	13,182	-	13,182
Total	**791,702**	**140,711**	**68,026**	**1,000,439**	**(24,009)**	**976,430**
At 31 December 2010						
Cash and balances with Central Bank	47,777	-	-	47,777	-	47,777
Bonds and debt instruments	152,216	9,343	-	161,559	-	161,559
Derivative instruments	23	-	-	23	-	23
Loans and advances to financial institutions	71,929	196	21,935	94,060	(2,178)	91,882
Loans and advances to customers	444,530	169,380	166	614,076	(21,122)	592,954
Other financial assets	7,070	-	-	7,070	-	7,070
Total	**723,545**	**178,919**	**22,101**	**924,565**	**(23,300)**	**901,265**

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

31. Loans and advances past due but not individually impaired

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

At 30 September 2011	Past due up to 30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due over 90 days	Gross carrying amount
Loans and advances to financial institutions	23	-	-	4	27
Loans and advances to customers	33,172	14,121	4,296	80,218	131,807
Total	**33,195**	**14,121**	**4,296**	**80,222**	**131,834**
At 31 December 2010					
Loans and advances to financial institutions	5	-	1	190	196
Loans and advances to customers	15,578	10,918	3,476	139,408	169,380
Total	**15,583**	**10,918**	**3,477**	**139,598**	**169,576**

All amounts are in ISK million

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

At 30 September 2011	Past due over 90 days	Gross carrying amount	Allowance for impairment	Carrying amount
Loans and advances to customers	36,900	68,026	(15,032)	52,994
At 31 December 2010				
Loans and advances to financial institutions	21,935	21,935	(2,178)	19,757
Loans and advances to customers	166	166	(64)	102
Total	**22,101**	**22,101**	**(2,242)**	**19,859**

33. Allowance for impairment on loans and advances to financial institutions and customers

	1.1-30.9.2011			1.1-31.12.2010		
	Financial institutions	Customers	Total	Financial institutions	Customers	Total
Balance at the beginning of the year	2,178	21,122	23,300	727	7,760	8,487
Impairment loss for the period	(2,178)	4,899	2,721	1,451	13,362	14,813
Loans written-off	-	(2,012)	(2,012)	-	-	-
Balance at the end of the period	**0**	**24,009**	**24,009**	**2,178**	**21,122**	**23,300**
Individual allowance	-	15,032	15,032	2,178	64	2,242
Collective allowance	-	8,977	8,977	-	21,058	21,058
Total	**0**	**24,009**	**24,009**	**2,178**	**21,122**	**23,300**
Net impairment loss on loans and advances						
Impairment loss for the period	(2,178)	4,899	2,721	1,451	13,362	14,813
Collected previously written-off loans	-	(10)	(10)	-	(177)	(177)
Total	**(2,178)**	**4,889**	**2,711**	**1,451**	**13,185**	**14,636**

34. Large exposures

At 30 September 2011, two Group clients were rated as large exposures (31 December 2010: two clients), including subsidiaries of the Group classified as held for sale. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's equity. The large exposures amount is calculated after taking account of collateral held, in accordance with the Financial Supervisory Authority's Rules on Large Exposures Incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25% of equity, as defined by the Basel II regulatory framework. All of the Group's large exposures were within these limits as at 30 September 2011 and 31 December 2010.

At 30 September 2011, the Group's internal rules on large exposures stated that clients could comprise up to 20% of the Group's equity as defined by the Basel II regulatory framework ("capital base"). However the Bank's Board of Directors can permit clients exposure to comprise up to 25% of the Group's equity when the purpose of the exposure is to protect the interests of the Bank. At 30 September 2011, one exposure exceeded 20% (31 December 2010: one exposure). According to the Group's risk appetite, the total utilisation percentage of a large exposure ought to remain below 200% of the Group's capital base.

At 30 September 2011	Number of large exposures	Large exposures
Large exposures above 20% of the Group's capital base	1	49,705
Large exposures between 10% and 20% of the Group's capital base	1	38,049
Total	**2**	**87,754**
Utilisation of 800% limit (%)		44%
At 31 December 2010		
Large exposures above 20% of the Group's capital base	1	36,279
Large exposures between 10% and 20% of the Group's capital base	1	19,375
Total	**2**	**55,654**
Utilisation of 800% limit (%)		31%

All amounts are in ISK million

Liquidity risk

35. Liquidity risk management

The key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with Central Bank (such as government bonds). The core liquidity ratio as at 30 September 2011 was 41% (31 December 2010: 45%).

36. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 30 September 2011:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	22,229	-	-	-	-	22,229	22,229
Bonds and debt instruments	-	34,865	21,711	38,148	155,120	249,844	215,008
Loans and advances to financial institutions	-	80,256	2	1,357	8	81,623	81,616
Loans and advances to customers	88,347	95,529	122,787	300,254	391,174	998,091	643,880
Other financial assets	-	12,651	-	531	-	13,182	13,182
Total	**110,576**	**223,301**	**144,500**	**340,290**	**546,302**	**1,364,969**	**975,915**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	17,691	-	-	-	17,691	
Outflow	-	(17,242)	-	-	-	(17,242)	
Total	0	449	0	0	0	449	469
Net settled derivatives	-	46	-	-	-	46	46
Total	**0**	**495**	**0**	**0**	**0**	**495**	**515**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(98,534)	(14,006)	(106)	(16)	-	(112,662)	(112,642)
Deposits from customers	(329,917)	(77,390)	(20,001)	(22,801)	(4,050)	(454,159)	(450,163)
Short positions	-	(4,278)	-	-	-	(4,278)	(3,651)
Secured bonds	-	(1,882)	(5,734)	(181,254)	(128,260)	(317,130)	(271,566)
Contingent bond	-	-	-	(32,576)	(21,260)	(53,836)	(43,203)
Other financial liabilities	-	(5,950)	-	-	(74)	(6,024)	(6,024)
Total	**(428,451)**	**(103,506)**	**(25,841)**	**(236,647)**	**(153,644)**	**(948,089)**	**(887,249)**
Off-balance sheet items							
Financial guarantees	(7,074)	(1,232)	(2,488)	(1,979)	-	(12,773)	
Undrawn loan commitments	(23,592)	-	-	-	-	(23,592)	
Undrawn overdraft/credit card commitments	(65,294)	-	-	-	-	(65,294)	
Total	**(95,960)**	**(1,232)**	**(2,488)**	**(1,979)**	**0**	**(101,659)**	
Total non-derivative financial liabilities and off-balance sheet items	**(524,411)**	**(104,738)**	**(28,329)**	**(238,626)**	**(153,644)**	**(1,049,748)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	42,610	285	1,133	275	44,303	
Outflow	-	(43,591)	(402)	(1,557)	(374)	(45,924)	
Total	0	(981)	(117)	(424)	(99)	(1,621)	(1,465)
Net settled derivatives	-	(61)	-	-	-	(61)	(61)
Total	**0**	**(1,042)**	**(117)**	**(424)**	**(99)**	**(1,682)**	**(1,526)**
Net liquidity position	**(413,835)**	**118,016**	**116,054**	**101,240**	**392,559**	**314,034**	

All amounts are in ISK million

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

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2010:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Cash and balances with Central Bank	47,777	-	-	-	-	47,777	47,777
Bonds and debt instruments	-	10,477	6,438	36,933	168,203	222,051	161,559
Loans and advances to financial institutions	-	88,965	3,051	-	-	92,016	91,882
Loans and advances to customers	79,898	70,129	105,193	247,400	385,138	887,758	592,954
Other financial assets	-	6,313	-	757	-	7,070	7,070
Total	**127,675**	**175,884**	**114,682**	**285,090**	**553,341**	**1,256,672**	**901,242**
Derivative financial assets							
Gross settled derivatives							
Inflow	-	5,482	-	-	-	5,482	
Outflow	-	(5,366)	-	-	-	(5,366)	
Total	**0**	**116**	**0**	**0**	**0**	**116**	**20**
Net settled derivatives	-	3	-	-	-	3	3
Total	**0**	**119**	**0**	**0**	**0**	**119**	**23**
Non-derivative financial liabilities							
Due to financial institutions and Central Bank	(138,503)	(8,583)	(421)	-	-	(147,507)	(147,478)
Deposits from customers	(271,977)	(53,196)	(28,715)	(20,309)	-	(374,197)	(371,558)
Short positions	-	(5,889)	-	-	-	(5,889)	(5,675)
Secured bonds	-	(1,588)	(4,865)	(191,171)	(109,193)	(306,817)	(261,313)
Contingent bond	-	-	-	(21,185)	(11,443)	(32,628)	(26,510)
Other financial liabilities	-	(4,237)	-	-	-	(4,237)	(4,237)
Total	**(410,480)**	**(73,493)**	**(34,001)**	**(232,665)**	**(120,636)**	**(871,275)**	**(816,771)**
Off-balance sheet items							
Financial guarantees	(5,188)	(1,099)	(1,854)	(2,092)	-	(10,233)	
Undrawn loan commitments	(26,105)	-	-	-	-	(26,105)	
Debt underwriting commitments	-	(1,090)	-	-	-	(1,090)	
Undrawn overdraft/credit card commitments	(52,943)	-	-	-	-	(52,943)	
Total	**(84,236)**	**(2,189)**	**(1,854)**	**(2,092)**	**0**	**(90,371)**	
Total non-derivative financial liabilities and off-balance sheet items	**(494,716)**	**(75,682)**	**(35,855)**	**(234,757)**	**(120,636)**	**(961,646)**	
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	20,149	277	1,145	551	22,122	
Outflow	-	(21,266)	(390)	(1,547)	(737)	(23,940)	
Total	**0**	**(1,117)**	**(113)**	**(402)**	**(186)**	**(1,818)**	**(1,428)**
Net settled derivatives	-	17	-	-	-	17	(17)
Total	**0**	**(1,100)**	**(113)**	**(402)**	**(186)**	**(1,801)**	**(1,445)**
Net liquidity position	**(367,041)**	**99,221**	**78,714**	**49,931**	**432,519**	**293,344**	

All amounts are in ISK million

37. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 30 September 2011:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	30,703	129,478	67,315	107,747	18,610	353,853	322,338
ISK	79,873	93,823	77,185	232,543	527,692	1,011,116	653,577
Total	**110,576**	**223,301**	**144,500**	**340,290**	**546,302**	**1,364,969**	**975,915**
Derivative financial assets							
Total in foreign currencies	-	354	-	-	-	354	469
ISK	-	141	-	-	-	141	46
Total	**0**	**495**	**0**	**0**	**0**	**495**	**515**
Non-derivative financial liabilities							
Total in foreign currencies	(60,222)	(5,746)	(8,201)	(181,254)	(128,260)	(383,683)	(339,671)
ISK	(368,229)	(97,760)	(17,640)	(55,393)	(25,384)	(564,406)	(547,578)
Total	**(428,451)**	**(103,506)**	**(25,841)**	**(236,647)**	**(153,644)**	**(948,089)**	**(887,249)**
Off-balance sheet items							
Total in foreign currencies	(13,109)	(751)	(1,530)	(668)	-	(16,058)	
ISK	(82,851)	(481)	(958)	(1,311)	-	(85,601)	
Total	**(95,960)**	**(1,232)**	**(2,488)**	**(1,979)**	**0**	**(101,659)**	
Derivative financial liabilities							
Total in foreign currencies	-	161	86	368	92	707	(1,465)
ISK	-	(1,203)	(203)	(792)	(191)	(2,389)	(61)
Total	**0**	**(1,042)**	**(117)**	**(424)**	**(99)**	**(1,682)**	**(1,526)**
Net liquidity position in foreign currencies	**(42,628)**	**123,496**	**57,670**	**(73,807)**	**(109,558)**	**(44,827)**	
Net liquidity position in ISK	**(371,207)**	**(5,480)**	**58,384**	**175,047**	**502,117**	**358,861**	
Net liquidity position	**(413,835)**	**118,016**	**116,054**	**101,240**	**392,559**	**314,034**	

All amounts are in ISK million

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

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2010:

Non-derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Total in foreign currencies	23,644	110,991	29,315	71,293	120,314	355,557	249,812
ISK	104,031	64,893	85,367	213,797	433,027	901,115	651,430
Total	**127,675**	**175,884**	**114,682**	**285,090**	**553,341**	**1,256,672**	**901,242**
Derivative financial assets							
Total in foreign currencies	-	287	-	-	-	287	20
ISK	-	(168)	-	-	-	(168)	3
Total	**0**	**119**	**0**	**0**	**0**	**119**	**23**
Non-derivative financial liabilities							
Total in foreign currencies	(49,351)	(3,567)	(6,468)	(191,171)	(109,193)	(359,750)	(314,244)
ISK	(361,129)	(69,926)	(27,533)	(41,494)	(11,443)	(511,525)	(502,527)
Total	**(410,480)**	**(73,493)**	**(34,001)**	**(232,665)**	**(120,636)**	**(871,275)**	**(816,771)**
Off-balance sheet items							
Total in foreign currencies	(12,059)	(567)	(816)	(1,121)	-	(14,563)	
ISK	(72,177)	(1,622)	(1,038)	(971)	-	(75,808)	
Total	**(84,236)**	**(2,189)**	**(1,854)**	**(2,092)**	**0**	**(90,371)**	
Derivative financial liabilities							
Total in foreign currencies	-	(964)	87	377	189	(311)	(1,428)
ISK	-	(136)	(200)	(779)	(375)	(1,490)	(17)
Total	**0**	**(1,100)**	**(113)**	**(402)**	**(186)**	**(1,801)**	**(1,445)**
Net liquidity position in foreign currencies	**(37,766)**	**106,180**	**22,118**	**(120,622)**	**11,310**	**(18,780)**	
Net liquidity position in ISK	**(329,275)**	**(6,959)**	**56,596**	**170,553**	**421,209**	**312,124**	
Net liquidity position	**(367,041)**	**99,221**	**78,714**	**49,931**	**432,519**	**293,344**	

Market risk

38. Market risk management

The following table summarises the Group's exposure to market risk as at 30 September 2011 and 31 December 2010:

	30.9.2011	31.12.2010
Market risk factor	% of RWA	% of RWA
Equity price risk	5.0%	4.8%
Interest rate risk	2.6%	2.5%
Foreign exchange risk	2.8%	8.5%
Total	**10.4%**	**15.8%**

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 41-42, along with the related sensitivity analysis.

All amounts are in ISK million

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

At 30 September 2011	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	22,229	-	-	-	22,229
Bonds and debt instruments	186,004	15,561	1,547	11,896	215,008
Derivative instruments	515	-	-	-	515
Loans and advances to financial institutions	80,249	2	1,357	8	81,616
Loans and advances to customers	506,467	65,939	25,261	46,213	643,880
Other financial assets	12,651	-	531	-	13,182
Total	**808,115**	**81,502**	**28,696**	**58,117**	**976,430**
Financial liabilities					
Due to financial institutions and Central Bank	(112,642)	-	-	-	(112,642)
Deposits from customers	(450,163)	-	-	-	(450,163)
Derivative instruments and short positions	(1,526)	(915)	(1,111)	(1,625)	(5,177)
Secured bonds	(271,566)	-	-	-	(271,566)
Contingent bond	(43,203)	-	-	-	(43,203)
Other financial liabilities	(6,024)	-	-	-	(6,024)
Total	**(885,124)**	**(915)**	**(1,111)**	**(1,625)**	**(888,775)**
Net on-balance sheet position	(77,009)	80,587	27,585	56,492	87,655
Net off-balance sheet position	-	662	(523)	(139)	
Total interest repricing gap	**(77,009)**	**81,249**	**27,062**	**56,353**	

At 31 December 2010	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	47,777	-	-	-	47,777
Bonds and debt instruments	150,243	108	1,804	9,404	161,559
Derivative instruments	23	-	-	-	23
Loans and advances to financial institutions	88,831	3,051	-	-	91,882
Loans and advances to customers	455,005	61,190	39,372	37,387	592,954
Other financial assets	6,313	-	757	-	7,070
Total	**748,192**	**64,349**	**41,933**	**46,791**	**901,265**
Financial liabilities					
Due to financial institutions and Central Bank	(147,478)	-	-	-	(147,478)
Deposits from customers	(371,558)	-	-	-	(371,558)
Derivative instruments and short positions	(1,514)	(4,123)	(1,482)	-	(7,119)
Secured bonds	(261,313)	-	-	-	(261,313)
Contingent bond	(26,510)	-	-	-	(26,510)
Other financial liabilities	(4,237)	-	-	-	(4,237)
Total	**(812,610)**	**(4,123)**	**(1,482)**	**0**	**(818,215)**
Net on-balance sheet position	(64,418)	60,226	40,451	46,791	83,050
Net off-balance sheet position	886	(117)	(500)	(269)	
Total interest repricing gap	**(63,532)**	**60,109**	**39,951**	**46,522**	

All amounts are in ISK million

40. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-indexed financial instruments may fluctuate due to changes in the Icelandic CPI index. The Group has a considerable imbalance in its CPI-indexed assets and liabilities. The majority of the Group's mortgage loans and consumer loans are indexed to the CPI. Going forward, however, the asset side will increase, since it is expected that loans in foreign currency will be converted to CPI-indexed loans and that overall lending will increase.

At 30 September 2011 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 111,582 million (31 December 2010: 94,641 million).

Carrying amount	30.9.2011	31.12.2010
Assets		
Bonds and debt instruments	15,539	8,119
Loans and advances to customers	196,353	171,017
Total	**211,892**	**179,136**
Liabilities		
Due to financial institutions and Central Bank	(424)	(421)
Deposits from customers	(95,707)	(82,215)
Short positions	(855)	(595)
Total	**(96,986)**	**(83,231)**
Total on-balance sheet position	114,906	95,905
Total off-balance sheet position	(3,324)	(1,264)
Total CPI indexation balance	**111,582**	**94,641**

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1% inflation applied to the inflation risk exposures in existence at 30 September 2011, with no change in other variables, would have increased net interest income by ISK 1,149 million (31 December 2010: 959 million). Group equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings.

All amounts are in ISK million

41. Currency risk (all portfolios)

The Group follows the Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank of Iceland. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within certain limits in each currency. The Group submits daily reports to the Central Bank with information on its foreign exchange balance. The Central Bank has granted the Group a temporary dispensation from these rules until the end of December 2011, raising the required limits.

The rulings of the Icelandic courts over the past year have decreased the uncertainty regarding the denomination currencies of the loan portfolio of the Group. As a result of these rulings the weight of loans in Icelandic krona has increased and, conversely, the weight of loans denominated in foreign currencies has decreased. Consequently, the currency risk of the loan portfolio has decreased to such an extent that the impact of FX-delta has become negligible and the FX-delta is no longer applicable.

42. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 30 September 2011 and 31 December 2010. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments (see Note 9).

As explained in Note 4(i) in the consolidated financial statement of the Bank as at and for the year ended 31 December 2010, the Group has changed during the year 2010 the accounting for all types of foreign currency lease agreements which are within the scope of law no. 38/2001 and for certain types of foreign currency loan agreements. Based on this change, their carrying amount is no longer included in the carrying amount of loans and advances to customers disclosed in this note. The Supreme Court of Iceland ruling from June 9 2011 confirmed that these are loans in Icelandic krona and should not be included in this note. This ruling has eliminated to large extent the uncertainty regarding the denomination currencies of the loan portfolio of the Bank and thus the Group's currency position.

At 30 September 2011	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	435	99	191	15	58	290	1,088
Bonds and debt instruments	21,169	141	42,486	-	-	-	63,796
Equities and equity instruments	307	13	403	-	-	7,093	7,816
Derivative instruments	463	4	-	-	2	-	469
Loans and advances to financial institutions	34,477	18,619	15,171	898	2,391	4,550	76,106
Loans and advances to customers	67,255	11,535	50,772	23,930	20,957	6,883	181,332
Other assets	477	75	26	1	-	35	614
Assets classified as held for sale	237	-	8	11	-	7	263
Total	**124,820**	**30,486**	**109,057**	**24,855**	**23,408**	**18,858**	**331,484**
Liabilities							
Due to financial institutions and Central Bank	(2,048)	(2,096)	(892)	(343)	(1,410)	(4,229)	(11,018)
Deposits from customers	(18,691)	(3,966)	(26,752)	(349)	(648)	(4,374)	(54,780)
Derivative instruments and short positions	(196)	(800)	(375)	-	-	(94)	(1,465)
Secured bonds	(136,386)	(49,960)	(85,220)	-	-	-	(271,566)
Other liabilities	(772)	(113)	(1,297)	(13)	(6)	(234)	(2,435)
Total	**(158,093)**	**(56,935)**	**(114,536)**	**(705)**	**(2,064)**	**(8,931)**	**(341,264)**
Net on-balance sheet position	(33,273)	(26,449)	(5,479)	24,150	21,344	9,927	**(9,780)**
Net off-balance sheet position	27,539	14,656	2,254	(20,668)	(13,623)	(4,834)	**5,324**
Net currency position	**(5,734)**	**(11,793)**	**(3,225)**	**3,482**	**7,721**	**5,093**	**(4,456)**

All amounts are in ISK million

42. Concentration of currency risk (continued)

At 31 December 2010	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	461	133	385	10	35	441	1,465
Bonds and debt instruments	2,152	149	9,747	-	-	-	12,048
Equities and equity instruments	2,246	-	625	-	-	8,201	11,072
Derivative instruments	2	1	17	-	-	-	20
Loans and advances to financial institutions	20,428	12,020	34,295	2,094	863	3,138	72,838
Loans and advances to customers	51,846	7,401	54,227	19,850	20,653	9,107	163,084
Other assets	4,467	7	122	1	-	305	4,902
Assets classified as held for sale	9,914	6,397	449	2,218	7	253	19,238
Total	**91,516**	**26,108**	**99,867**	**24,173**	**21,558**	**21,445**	**284,667**
Liabilities							
Due to financial institutions and Central Bank	(1,302)	(2,182)	(6,827)	(303)	(73)	(967)	(11,654)
Deposits from customers	(14,863)	(3,549)	(17,638)	(686)	(436)	(3,792)	(40,964)
Derivative instruments and short positions	(706)	-	(722)	-	-	-	(1,428)
Secured bonds	(130,963)	(48,132)	(82,218)	-	-	-	(261,313)
Other liabilities	(10)	(7)	(1)	-	-	(295)	(313)
Total	**(147,844)**	**(53,870)**	**(107,406)**	**(989)**	**(509)**	**(5,054)**	**(315,672)**
Net on-balance sheet position	(56,328)	(27,762)	(7,539)	23,184	21,049	16,391	**(31,005)**
Net off-balance sheet position	12,322	79	8,150	(6,719)	(13,503)	(354)	**(25)**
Net currency position	**(44,006)**	**(27,683)**	**611**	**16,465**	**7,546**	**16,037**	**(31,030)**
FX-delta on Loans and advances to customers and assets classified as held for sale	95%	96%	97%	78%	78%	92%	
FX-delta adjustments to currency imbalance	(3,088)	(552)	(1,640)	(4,855)	(4,545)	(711)	**(15,391)**
Net effective currency position	**(47,094)**	**(28,235)**	**(1,029)**	**11,610**	**3,001**	**15,326**	**(46,421)**

43. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 10% depreciation/appreciation of ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group's overall position in foreign currency on-balance sheet as disclosed in Note 42.

	30.9.2011		31.12.2010	
Currency (ISK million)	**-10%**	**+10%**	**-10%**	**+10%**
EUR	(573)	573	(4,709)	4,709
GBP	(1,179)	1,179	(2,824)	2,824
USD	(323)	323	(103)	103
JPY	348	(348)	1,161	(1,161)
CHF	772	(772)	300	(300)
Other	509	(509)	1,533	(1,533)
Total	**(446)**	**446**	**(4,642)**	**4,642**

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

44. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 30 September 2011	At 31 December 2010	% Change	Average for 1.1-30.9 2011	Average for 1.1-31.12 2010
EUR/ISK	158.70	153.80	3.2%	161.79	162.66
GBP/ISK	184.41	179.09	3.0%	185.27	189.30
USD/ISK	117.96	114.69	2.9%	114.70	122.26
JPY/ISK	1.53	1.41	8.5%	1.43	1.40
CHF/ISK	130.47	122.75	6.3%	131.19	118.01
CAD/ISK	113.60	115.35	(1.5%)	117.17	118.08
DKK/ISK	21.33	20.63	3.4%	21.71	21.84
NOK/ISK	20.21	19.71	2.5%	20.76	20.26
SEK/ISK	17.30	17.07	1.3%	18.01	17.02

All amounts are in ISK million