Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2015

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Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the first six months ended 2015 include the Bank and its subsidiaries (collectively referred to as the "Group").

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

Operations

Consolidated profit amounted to ISK 12,405 million for the first six months of the financial year 2015. Consolidated total equity amounted to ISK 239,852 million and total assets amounted to ISK 1,172,669 million at the end of this period. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 28.0% at the end of the second quarter of 2015.

In July 2015, the international rating agency Standard and Poor's (S&P) raised both the long and short term rating grades of Landsbankinn from BB+/B to BBB-/A-3 with a positive outlook. This upgrade is consistent with recent improvement to the sovereign's credit rating grade which resulted from the introduction of proposals toward the eventual removal of capital controls.

On 30 June 2015, the Bank and Sparisjóður Norðurlands ses., a local savings bank in the north of Iceland, jointly signed a schedule for a merger of the two entities. (see Note 25).

On 29 March 2015, the Bank took over all assets, liabilities and operations of Sparisjóður Vestmannaeyja ses., the local savings bank in Vestmannaeyjar, in accordance with the decision of the Financial Supervisory Authority (FME) on the merger of these two entities. The acquisition price of the savings bank was ISK 332 million, paid to guarantee capital owners of the savings bank in the form of shares in Landsbankinn equivalent to 0,14% of the issued share capital of Landsbankinn.

All the material cases that were reported open and not concluded at year-end 2014 in the litigation section of the Group's Consolidated Financial Statements for the year 2014, and in the litigation section of the Group's Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2015, are still open at the end of the second quarter of 2015. Some of these cases may have a greater impact on the amounts disclosed in the Group's Financial Statements than others (see Note 22).

Risk management

The Bank's core operations are sound and have been improving in recent years. Processes are being revised on a continuous basis to improve risk management, efficiency and customer relationship management. The ratio of non-performing loans as well as borrower credit quality of performing loans has remained steady in the second quarter of 2015.The Bank's liquidity position remains strong and total market risk continued to decrease.

Outlook

There is a strong consensus amongst forecasters for robust growth in 2015: Landsbankinn Economic Research expects 4.3% GDP growth in 2015, the Central Bank of Iceland forecasts 4.2% and Statistics Iceland 3.8%.

Other matters

The Bank's 2015 Annual General Meeting (AGM) authorised Landsbankinn to acquire up to 10% nominal value of own shares. This authorisation is valid until the AGM of the Bank in 2016. Allocation of own shares purchased based on this authorisation is subject to the approval of a shareholders' meeting. The minimum and maximum amounts the Bank is authorised to pay for each share shall be equivalent to the ratio of equity, held by the Bank's shareholders, to share capital as disclosed in the most recent annual or interim financial statement published prior to the purchase of own shares.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first six months ended 30 June 2015 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first six months of 2015, its consolidated financial position as at 30 June 2015 and its consolidated cash flows for the first six months of 2015.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first six months ended 30 June 2015.

Reykjavík, 20 August 2015.

Board of Directors

Tryggvi Pálsson

Chairman

Danielle Pamela Neben

Eva Sóley Guðbjörnsdóttir

Helga Björk Eiríksdóttir

Jóhann Hjartarson

Jón Sigurðsson

Tinna Laufey Ásgeirsdóttir

CEO

Steinþór Pálsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Landsbankinn hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Landsbankinn hf. (the Bank) as at 30 June 2015 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements do not give a true and fair view of the financial position of the Bank as at 30 June 2015, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 20 August 2015.

Grant Thornton endurskoðun ehf.

Davíð Arnar Einarsson
State Authorised Public Accountant

Sturla Jónsson
State Authorised Public Accountant

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Condensed Consolidated Income Statement for the six months ended 30 June 2015

Notes		2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
	Interest income	15,938	14,215	28,676	28,665
	Interest expense	(7,009)	(6,830)	(12,478)	(13,425)
6	**Net interest income**	**8,929**	**7,385**	**16,198**	**15,240**
7	Net valuation adjustments and credit impairment charges	249	7,276	1,845	11,446
	Net interest income after net valuation adjustments and credit impairment charges	**9,178**	**14,661**	**18,043**	**26,686**
	Fee and commission income	2,274	1,772	4,323	3,895
	Fee and commission expense	(521)	(369)	(929)	(974)
	Net fee and commission income	**1,753**	**1,403**	**3,394**	**2,921**
8	Net gain on financial assets designated as at fair value through profit or loss	1,838	1,929	5,650	1,142
9	Net gain on financial assets and liabilities held for trading	1,273	51	1,724	169
10	Net foreign exchange loss	(147)	(171)	(471)	(194)
	Other income and (expenses)	189	2,401	427	2,193
	Other net operating income	**3,153**	**4,210**	**7,330**	**3,310**
	Total operating income	**14,084**	**20,274**	**28,767**	**32,917**
11	Salaries and related expenses	3,179	3,288	6,881	6,743
	Other operating expenses	2,011	1,965	4,081	4,170
	Depreciation and amortisation	165	175	329	352
	Contribution to the Depositors' and Investors' Guarantee Fund	421	255	767	522
	Total operating expenses	**5,776**	**5,683**	**12,058**	**11,787**
	Share of profit of equity-accounted associates	103	329	112	340
	Profit before tax	**8,411**	**14,920**	**16,821**	**21,470**
12	Income tax	(1,546)	(3,530)	(2,724)	(4,957)
12	Tax on liabilities of financial institutions	(872)	(800)	(1,692)	(1,635)
	Profit for the period	**5,993**	**10,590**	**12,405**	**14,878**
	Profit for the period attributable to:				
	Owners of the Bank				
	Profit for the period from continuing operations	5,993	10,505	12,405	14,829
	Profit for the period attributable to owners of the Bank	**5,993**	**10,505**	**12,405**	**14,829**
	Non-controlling interests				
	Profit for the period from continuing operations	0	85	0	49
	Profit for the period attributable to non-controlling interests	**0**	**85**	**0**	**49**
	Profit for the period	**5,993**	**10,590**	**12,405**	**14,878**
	Earnings per share:				
21	Basic and diluted earnings per share from continuing operations	**0.25**	**0.44**	**0.52**	**0.63**
	Total basic and diluted earnings per share	**0.25**	**0.44**	**0.52**	**0.63**

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

All amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 June 2015

Notes		30.6.2015	31.12.2014
	Assets		
	Cash and balances with Central Bank	38,719	10,160
13, 39	Bonds and debt instruments	248,604	243,589
13	Equities and equity instruments	25,498	29,433
13, 14	Derivative instruments	137	78
15, 39	Loans and advances to financial institutions	68,707	49,789
35, 39	Loans and advances to customers	761,290	718,355
	Investments in equity-accounted associates	871	777
	Property and equipment	5,654	5,691
	Intangible assets	2,119	1,225
	Deferred tax assets	153	83
16	Other assets	8,170	20,978
17	Assets classified as held for sale	12,747	18,212
	Total assets	**1,172,669**	**1,098,370**
	Liabilities		
	Due to financial institutions and Central Bank	62,428	53,827
	Deposits from customers	621,023	551,435
14	Derivative instruments and short positions	1,722	5,409
18, 39	Borrowings	212,792	207,028
19	Subordinated debt	414	0
	Other liabilities	32,988	27,034
	Liabilities associated with assets classified as held for sale	1,450	2,834
	Total liabilities	**932,817**	**847,567**
20	**Equity**		
	Share capital	23,722	23,687
	Share premium	121,572	121,275
	Reserves	6,000	6,000
	Retained earnings	88,558	99,841
	Total equity attributable to owners of the Bank	**239,852**	**250,803**
	Total liabilities and equity	**1,172,669**	**1,098,370**

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 six months ended 30 June 2015

Notes	Change in equity for the six months ended 30 June 2015	Share capital	Share premium	Statutory reserve	Share-based payment reserve	Retained earnings	Total	Non-controlling interests	Total
		Attributable to owners of the Bank							
	Balance as at 1 January 2015	23,687	121,275	6,000		99,841	250,803		250,803
	Profit for the period					12,405	12,405		12,405
	Dividends paid					(23,687)	(23,687)		(23,687)
	Merger consideration allocated to former guarantee capital owners of Sparisjóður Vestmannaeyja	35	297				332		332
20	**Balance as at 30 June 2015**	**23,722**	**121,572**	**6,000**	**0**	**88,558**	**239,852**	**0**	**239,852**
	Change in equity for the six months ended 30 June 2014								
	Balance as at 1 January 2014	23,618	120,700	6,000	1,046	90,002	241,366	(7)	241,359
	Profit for the period					14,829	14,829	49	14,878
	Dividends paid					(19,897)	(19,897)		(19,897)
	Own shares allocated to employees	112	934		(1,046)		0		0
	Purchase of own shares for settlement of tax obligations and pension liabilities	(43)	(359)				(402)		(402)
	Decrease in non-controlling interests due to sale of subsidiaries						0	(43)	(43)
20	**Balance as at 30 June 2014**	**23,687**	**121,275**	**6,000**	**0**	**84,933**	**235,895**	**(1)**	**235,894**

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 six months ended 30 June 2015

Notes		2015 1.1-30.6	2014 1.1-30.6
	Operating activities		
	Profit for the period	12,405	14,878
	Adjustments for non-cash items included in profit for the period	(21,479)	(20,899)
	Changes in operating assets and liabilities	35,019	(3,560)
	Interest received	23,223	24,211
	Interest paid	(7,044)	(3,986)
	Dividends received	3,110	466
	Income tax and special tax on financial institutions paid	(3,361)	0
	Net cash from operating activities	**41,873**	**11,110**
	Investing activities		
	Proceeds from equity-accounted associates	28	7,628
	Purchase of property and equipment	(144)	(1,170)
	Proceeds from sale of property and equipment	55	5
	Purchase of intangible assets	(425)	(199)
	Net cash (to) from investing activities	**(486)**	**6,264**
	Financing activities		
	Proceeds from new long-term debt issue	4,700	1,500
	Aquisition of non-controlling interest	0	341
	Repayment of long-term debt	(182)	(6,935)
	Dividends paid	(23,687)	(19,897)
	Net cash used in financing activities	**(19,169)**	**(24,991)**
	Net change in cash and cash equivalents	22,218	(7,618)
	Cash and cash equivalents as at the beginning of the period	16,585	19,927
4	Cash and cash equivalents acquired in business combination	1,408	0
	Effect of exchange rate changes on cash and cash equivalents held	779	280
	Cash and cash equivalents as at 30 June	**40,990**	**12,589**
	Investing and financing activities not affecting cash flows		
4	Assets acquired and liabilities assumed from Sparisjóður Vestmannaeyja	233	0
4	Goodwill	(565)	0
4	Obligation to allocate own shares to former guarantee capital owners of Sparisjóður Vestmannaeyja	332	0

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 six months ended 30 June 2015

Notes		2015 1.1-30.6	2014 1.1-30.6
	Adjustments for non-cash items included in profit for the period		
6	Net interest income	(16,198)	(15,240)
7	Net adjustments to loans and advances acquired at deep discount	0	(11,012)
7,36	Net impairment (gain)	(3,726)	(434)
7	Loss from foreign currency linkage of loans and advances to customers	1,881	0
8	Net (gain) on financial assets designated as at fair value through profit or loss	(5,650)	(1,142)
9	Net (gain) on financial assets and liabilities held for trading	(1,724)	(169)
10	Net foreign exchange (gain)	(308)	(86)
	Loss on sale of property and equipment	26	9
	Net (gain) loss on assets classified as held for sale	(413)	571
	Depreciation and amortisation	329	352
	Share of profit of equity-accounted associates	(112)	(340)
12	Income tax	2,724	4,957
12	Tax on liabilities of financial institutions	1,692	1,635
		(21,479)	**(20,899)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	(4,144)	2,308
	Change in bonds and equities	6,159	(8,548)
	Change in loans and advances to financial institutions	(18,776)	2,884
	Change in loans and advances to customers	(31,103)	(910)
	Change in other assets	10,364	2,034
	Change in assets classified as held for sale	3,719	(1)
	Change in due to financial institutions and Central Bank	8,600	408
	Change in deposits from customers	55,747	9,907
	Change in deferred tax assets/liabilities	(70)	181
	Change in repossessed collateral	2,751	604
	Change in other liabilities	2,210	(7,815)
	Change in liabilities associated with assets classified as held for sale	(438)	(4,612)
		35,019	**(3,560)**
	Cash and cash equivalents is specified as follows:		
	Cash and unrestricted balances with Central Bank	27,879	3,816
15	Bank accounts with financial institutions	13,111	8,773
	Cash and cash equivalents as at the end of the period	**40,990**	**12,589**

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Bank for the six months ended 30 June 2015 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related services. The Group operates solely in Iceland.

The issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 20 August 2015.

2. Basis of preparation

Statement of compliance

These Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union.

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2014, which are available on the Bank's website, www.landsbankinn.is.

Going concern

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

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

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

3. Significant accounting policies

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

3. Significant accounting policies (continued)

In addition to the accounting policies set out in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2014, the Group has applied the following accounting policies from 1 January 2015:

Goodwill

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

Subordinated debt

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

4. Business combinations

Merger of Landsbankinn and Sparisjóður Vestmannaeyja

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

The acquisition price of the savings bank was ISK 332 million, paid to guarantee capital owners of the savings bank in the form of shares in Landsbankinn equivalent to 0,14% of the issued share capital of Landsbankinn. The fair value of the issued shares in Landsbankinn is based on the intrinsic value of total equity as of 31.12.2014, adjusted for the dividends payment on 25 March 2015.

The acquisition price of the savings bank was ISK 332 million, paid to guarantee capital owners of the savings bank in the form of shares in Landsbankinn hf. equivalent to 0.14% of the issued share capital of the Bank. The fair value of the issued shares in the Bank is based on the book value per outstanding shares in the Bank as of 31.12.2014, adjusted for the dividend payment on 25 March 2015.

Identifiable assets acquired and liabilities assumed	Fair value
Assets	
Cash and balances with Central Bank	1,408
Bonds and debt instruments	705
Equities and equity instruments	255
Loans and advances to financial institutions	157
Loans and advances to customers	6,888
Property and equipment	135
Deferred tax assets	383
Other assets	128
Assets classified as held for sale	435
Total	**10,494**
Liabilities	
Deposits from customers	9,935
Other borrowings	188
Subordinated debt	427
Other liabilities	177
Total	**10,727**
Total identifiable net assets	**(233)**
Goodwill	**565**
Acquisition price	**332**

All amounts are in ISK million

4. Business combinations (continued)

Merger of Landsbankinn and Sparisjóður Vestmannaeyja (continued)

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

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

An assessment is made at each reporting date to determine whether there is any indication of potential impairment of the carrying amount of goodwill acquired in business combinations. As at 30 June 2015, the Bank performed an impairment test of the goodwill acquired and identified no impairment losses.

Since the acquisition on 29 March 2015, Sparisjóður Vestmannaeyja has contributed total operating income of ISK 149 million and loss of ISK 5,5 million to the Group's result.

5. Operating segments

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

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

• **Personal Banking** provides financial services through the Bank's branch network to individuals and to small and medium-size businesses outside the capital city region.
• **Corporate Banking** provides financial services to corporate clients and to small and medium-size businesses in the capital city region. It also provides restructuring solutions for underperforming businesses.
• **Markets** provide brokerage services in securities, foreign currencies and derivatives, securities offerings and advisory services. Markets also do market making for listed securities and foreign currencies. Markets provide a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf hf., a subsidiary of the Bank, is included in Markets as an operating segment.
• **Treasury** incorporates the Bank's funding and liquidity management and market making in money markets and determines the Bank's internal pricing. Treasury also manages the Bank's exchange rate, interest rate and inflation risks, within limits that are set by the Board of Directors. The Bank allocates capital to the operating segments based on the Bank's target for a total capital ratio of at least 20%, but all capital over and above the minimum target is allocated to Treasury.

Support functions are comprised of Finance (excluding Treasury), Risk Management, Corporate Development & HR and Operations & IT.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the period from 1 January to 30 June 2015 and for the year 2014.

All amounts are in ISK million

5. Operating segments (continued)

1 January - 30 June 2015	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
Net interest income (expense)	6,419	6,670	150	3,404	3	(448)	**16,198**
Net credit impairment charges and valuation adjustments	1,632	243	(1)	(29)	-	-	**1,845**
Net fee and commission income	1,668	342	1,719	(176)	43	(202)	**3,394**
Other net operating income	(239)	(77)	816	6,078	364	388	**7,330**
Total operating income (expense)	**9,480**	**7,178**	**2,684**	**9,277**	**410**	**(262)**	**28,767**
Operating expenses	(3,063)	(718)	(923)	(953)	(6,613)	212	**(12,058)**
Share of profit (loss) of equity-accounted associates	79	-	-	33	-	-	**112**
Profit (loss) before cost allocation and tax	**6,496**	**6,460**	**1,761**	**8,357**	**(6,203)**	**(50)**	**16,821**
Cost allocated from support functions to business segments	(2,735)	(2,098)	(593)	(449)	5,875	-	**0**
Profit (loss) before tax	**3,761**	**4,362**	**1,168**	**7,908**	**(328)**	**(50)**	**16,821**
Net revenue from external customers	10,145	12,705	2,543	3,237	399	-	**29,029**
Net revenue (expenses) from other segments	(665)	(5,527)	141	6,040	11	-	**0**
Total operating income	**9,480**	**7,178**	**2,684**	**9,277**	**410**	**0**	**29,029**
At 30 June 2015							
Total assets	352,546	467,637	34,437	532,213	27,723	(241,887)	**1,172,669**
Total liabilities	304,288	372,623	27,987	442,083	27,723	(241,887)	**932,817**
Allocated capital	48,258	95,014	6,450	90,130	-		**239,852**

1 January - 30 June 2014	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
Net interest income (expense)	7,629	8,073	365	(191)	4	(640)	**15,240**
Net credit impairment charges and valuation adjustments	3,078	8,137	-	(15)	246	-	**11,446**
Net fee and commission income	1,525	354	1,304	(89)	25	(198)	**2,921**
Other net operating income	(468)	379	(424)	3,780	(587)	630	**3,310**
Total operating income (expense)	**11,764**	**16,943**	**1,245**	**3,485**	**(312)**	**(208)**	**32,917**
Operating expenses	(3,090)	(688)	(1,019)	(642)	(6,556)	208	**(11,787)**
Share of profit of equity-accounted associates	315	-	-	25	-	-	**340**
Profit (loss) before cost allocation and tax	**8,989**	**16,255**	**226**	**2,868**	**(6,868)**	**0**	**21,470**
Cost allocated from support functions to business segments	(2,727)	(1,708)	(608)	(513)	5,556	-	**0**
Profit (loss) before tax	**6,262**	**14,547**	**(382)**	**2,355**	**(1,312)**	**0**	**21,470**
Net revenue from external customers	8,144	23,555	1,075	676	(324)	-	**33,126**
Net revenue (expenses) from other segments	3,620	(6,612)	170	2,809	12	-	**0**
Total operating income	**11,764**	**16,943**	**1,245**	**3,485**	**(312)**	**0**	**33,126**
At 30 June 2014							
Total assets	489,201	452,125	30,239	529,024	29,709	(375,700)	**1,154,598**
Total liabilities	440,496	343,899	23,099	457,201	29,709	(375,700)	**918,704**
Allocated capital	48,705	108,226	7,140	71,823	-		**235,894**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Income Statement

6. Net interest income

Interest income	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Cash and balances with Central Bank	117	242	288	730
Bonds and debt instruments classified as loans and receivables	1,234	1,371	2,466	2,728
Loans and advances to financial institutions	106	121	202	256
Loans and advances to customers	14,476	12,477	25,709	24,935
Other interest income	5	4	11	16
Total	**15,938**	**14,215**	**28,676**	**28,665**
Interest expense				
Due to financial institutions and Central Bank	(332)	(804)	(554)	(1,568)
Deposits from customers	(4,909)	(4,124)	(8,412)	(8,071)
Borrowings	(1,734)	(1,898)	(3,454)	(3,780)
Other interest expense	(34)	(4)	(58)	(6)
Total	**(7,009)**	**(6,830)**	**(12,478)**	**(13,425)**
Net interest income	**8,929**	**7,385**	**16,198**	**15,240**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period).	**3.1%**	**2.6%**	**2.8%**	**2.6%**
Adjusted interest spread (as the annualised ratio of net interest income after net valuation adjustments and credit impairment charges to the average carrying amount of total assets during the period).	**3.1%**	**5.1%**	**3.1%**	**4.6%**

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

7. Net valuation adjustments and credit impairment charges

	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Net valuation adjustments to loans and advances acquired at deep discount	-	4,301	-	11,012
Net impairment loss	115	2,975	3,726	434
Loss from foreign currency linkage of loans and advances to customers	134	-	(1,881)	-
Net valuation adjustments and credit impairment charges	**249**	**7,276**	**1,845**	**11,446**
Valuation adjustments and impairment charges by customer type				
Individuals	(645)	1,257	(128)	1,399
Corporates	894	6,019	1,973	10,047
Net valuation adjustments and impairment charges to loans and advances to customers	**249**	**7,276**	**1,845**	**11,446**

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

	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Bonds and debt instruments	316	268	887	(222)
Equities and equity instruments	1,522	1,661	4,763	1,364
Total	**1,838**	**1,929**	**5,650**	**1,142**

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

	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Bonds and debt instruments	623	97	828	377
Equities and equity instruments	873	(101)	1,325	(246)
Derivative instruments	(223)	55	(429)	38
Total	**1,273**	**51**	**1,724**	**169**

All amounts are in ISK million

10. Net foreign exchange loss

Assets	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Cash and balances with Central Bank	(23)	(20)	(15)	(51)
Bonds and debt instruments	(918)	759	2,786	(1,138)
Equities and equity instruments	(71)	(145)	(818)	(291)
Derivative instruments	339	(124)	(1,538)	(440)
Loans and advances to financial institutions	(73)	(229)	33	(1,714)
Loans and advances to customers	(3,077)	(364)	(1,254)	(3,886)
Other assets	(13)	22	7	(4)
Total	**(3,836)**	**(101)**	**(799)**	**(7,524)**
Liabilities				
Due to financial institutions and Central Bank	(3)	(102)	16	1,434
Deposits from customers	1,213	149	487	1,567
Borrowings	2,528	(103)	(61)	4,268
Other liabilities	(49)	(14)	(114)	61
Total	**3,689**	**(70)**	**328**	**7,330**
Net foreign exchange loss	**(147)**	**(171)**	**(471)**	**(194)**

The foreign exchange difference recognised during the period 1 January to 30 June 2015 in the Condensed Consolidated Income Statement arose on financial instruments not measured at fair value through profit or loss, amounted to a loss of ISK 1,229 million for financial assets (1.1-30.6.2014: loss of ISK 5,655 million) and a gain of ISK 328 million for financial liabilities (1.1-30.6.2014: gain ISK 7,269 million).

11. Salaries and related expenses

	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Salaries	2,391	2,493	5,327	5,230
Contributions to defined pension plans	377	381	742	712
Social security contributions, special financial activities tax on salaries and other expenses	411	414	812	801
Total salaries and related expenses	**3,179**	**3,288**	**6,881**	**6,743**

12. Income tax and other taxes

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

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

	2015 1.1-30.6	2014 1.1-30.6
Current tax expense	(1,828)	(4,269)
Special income tax on financial institutions	(584)	(1,213)
Difference of prior year's imposed and calculated income tax	-	110
Deferred tax expense	(312)	415
Total	**(2,724)**	**(4,957)**

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

		1.1-30.6 2015		1.1-30.6 2014
Profit before tax		16,821		21,470
Tax on liabilities of financial institutions		(1,692)		(1,635)
Profit before income tax		15,129		19,835
Income tax calculated using the domestic corporate income tax rate	20.0%	(3,026)	20.0%	(3,967)
Special income tax on financial institutions	3.9%	(584)	6.1%	(1,213)
Income not subject to tax	(8.4%)	1,266	(1.8%)	351
Non-deductable expenses	2.6%	(400)	3.2%	(625)
Other	(0.1%)	20	(2.5%)	497
Effective income tax	**18.0%**	**(2,724)**	**25.0%**	**(4,957)**

All amounts are in ISK million

Notes to the Condensed Consolidated Statement of Financial Position

13. 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 June 2015:

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	38,719	-	-	-	-	38,719	38,719
Bonds and debt instruments	117,365	121,594	9,645	-	-	248,604	249,402
Equities and equity instruments	-	9,324	16,174	-	-	25,498	25,498
Derivative instruments	-	137	-	-	-	137	137
Loans and advances to financial institutions	68,707	-	-	-	-	68,707	68,707
Loans and advances to customers	761,290	-	-	-	-	761,290	765,890
Other financial assets	6,582	-	-	-	-	6,582	6,582
Total	**992,663**	**131,055**	**25,819**	**0**	**0**	**1,149,537**	**1,154,935**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	62,428	-	62,428	62,425
Deposits from customers	-	-	-	621,023	-	621,023	620,887
Derivative instruments and short positions	-	1,722	-	-	-	1,722	1,722
Borrowings	-	-	-	212,792	-	212,792	213,258
Other financial liabilities	-	-	-	16,007	-	16,007	16,007
Total	**0**	**1,722**	**0**	**912,250**	**0**	**913,972**	**914,299**

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

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

All amounts are in ISK million

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

The fair value of financial assets and liabilities is determined based on the same valuation methods as those described in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2014.

Fair value hierarchy

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

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

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

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

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

Valuation framework

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

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial Position, is categorised as at 30 June 2015:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	122,239	8,574	426	131,239
Equities and equity instruments	10,686	-	14,812	25,498
Derivative instruments	-	137	-	137
Total	**132,925**	**8,711**	**15,238**	**156,874**
Financial liabilities				
Derivative instruments	-	399	-	399
Short positions	1,323	-	-	1,323
Total	**1,323**	**399**	**0**	**1,722**

During the period from 1 January to 30 June 2015 there were no transfers into Level 2 from other levels. Financial assets were transferred into Level 1 from Level 3 because quoted prices for the assets became available in an active market during the period.

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

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

During the year 2014 there were no transfers between Level 1, Level 2 and Level 3.

All amounts are in ISK million

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

The following tables show the reconciliation of fair value measurement in Level 3 for the six months ended 30 June 2015 and for the year 2014:

1 January - 30 June 2015	Bonds and debt instruments	Equities and equity instruments	Total financial assets
Carrying amount as at 1 January 2015	8,031	21,908	29,939
Total gains recognised in income statement	287	4,635	4,922
Purchases	4	65	69
Sales	(7,922)	(471)	(8,393)
Settlements	(2)	-	(2)
Dividend received	-	(2,964)	(2,964)
Acquisitions through business combination	28	183	211
Transfers out of Level 3 into level 1	-	(8,544)	(8,544)
Carrying amount as at 30 June 2015	**426**	**14,812**	**15,238**
1 January - 31 December 2014			
Carrying amount as at 1 January 2014	10,674	28,064	38,738
Total gains (losses) recognised in income statement	(1,692)	5,894	4,202
Purchases	-	360	360
Sales	(209)	(15,889)	(16,098)
Settlements	(742)	-	(742)
Dividend received	-	(1,054)	(1,054)
Reclassification from investments in equity-accounted associates	-	4,533	4,533
Carrying amount as at 31 December 2014	**8,031**	**21,908**	**29,939**

The following tables show the line items in the Consolidated Income Statement where the total gains (losses) were recognised during the six months ended 30 June 2015 and 30 June 2014, for fair value measurements in Level 3:

1 January - 30 June 2015	Bonds and debt instruments	Equities and equity instruments	Total
Net gain (loss) on financial assets designated as at fair value through profit or loss	333	4,642	4,975
Net foreign exchange gain (loss)	(46)	(7)	(53)
Total	**287**	**4,635**	**4,922**
1 January - 30 June 2014			
Net (loss) gain on financial assets designated as at fair value through profit or loss	(685)	747	62
Net foreign exchange gain (loss)	(269)	(222)	(491)
Total	**(954)**	**525**	**(429)**

All amounts are in ISK million

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

Unobservable inputs in fair value measurement

The following table shows the unobservable inputs used in measuring fair value as at 30 June 2015.

					Range of inputs	
As at 30 June 2015	Assets	Liabilities	Valuation technique	Key unobservable inputs	Lower	Higher
Bonds and debt instruments	426	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	14,812	-	See note 2)	See note 2)	n/a	n/a
	15,238	**0**				

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

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

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

The effect of unobservable inputs in fair value measurement

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

	Effect on profit before tax	
	Favourable	Unfavourable
Bonds and debt instruments	20	(20)
Equities and equity instruments:		
Equities	316	(291)
Mutual funds	323	(323)
Total equities and equity instruments	639	(614)
Total	**659**	**(634)**

All amounts are in ISK million

14. Derivative instruments and short positions

	30.6.2015			31.12.2014		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	38,419	43	101	24,024	39	52
Cross-currency interest rate swaps	3,408	38	218	871	-	251
	41,827	**81**	**319**	**24,895**	**39**	**303**
Interest rate derivatives						
Interest rate swaps	500	2	-	500	-	8
Total return swaps	1,199	34	1	1,453	3	-
Bond options	750	-	9	750	-	12
	2,449	**36**	**10**	**2,703**	**3**	**20**
Equity derivatives						
Total return swaps	3,128	19	51	1,726	36	9
Equity options	37	1	18	-	-	-
	3,165	**20**	**69**	**1,726**	**36**	**9**
Short positions - listed bonds	-	-	1,324	-	-	5,077
Total	**47,441**	**137**	**1,722**	**29,324**	**78**	**5,409**

The Group uses derivatives both for hedging and trading purposes.

15. Loans and advances to financial institutions

	30.6.2015	31.12.2014
Bank accounts with financial institutions	13,111	13,125
Money market loans	47,565	22,209
Overdrafts	1,370	6,892
Other loans	6,661	7,563
Total	**68,707**	**49,789**

16. Other assets

	30.6.2015	31.12.2014
Unsettled securities trading	2,351	16,468
Other accounts receivable	4,231	3,265
Sundry assets	1,588	1,245
Total	**8,170**	**20,978**

17. Assets classified as held for sale

	30.6.2015	31.12.2014
Repossessed collateral	10,524	12,270
Assets of disposal groups	2,223	5,942
Total	**12,747**	**18,212**

Repossessed collateral

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

Repossessed collateral	30.6.2015	31.12.2014
Carrying amount as at the beginning of the period	12,270	17,213
Repossessed during the period	1,926	8,151
Disposed of during the period	(4,228)	(11,678)
Impairment and gain (loss) of sale	556	(1,416)
Carrying amount as at the end of the period	**10,524**	**12,270**

Assets of disposal groups classified as held for sale

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

All amounts are in ISK million

18. Borrowings

Secured bonds

As at 30.6.2015	Currency	Final maturity	Remaining principal	Contractual interest rate (Base rate + Initial margin/ Step-up margin)	Carrying amount
BOND B1	EUR	9.10.2016	€ 99 million	EURIBOR + 2.90%	14,649
BOND B2	USD	9.10.2016	$ 18 million	LIBOR + 2.90%	2,389
BOND B3	GBP	9.10.2016	£ 66 million	LIBOR + 2.90%	13,788
BOND C1	EUR	9.10.2018	€ 132 million	EURIBOR + 2.90%	19,526
BOND C2	USD	9.10.2018	$ 24 million	LIBOR + 2.90%	3,184
BOND C3	GBP	9.10.2018	£ 88 million	LIBOR + 2.90%	18,379
BOND D	USD	9.10.2020	$ 271 million	LIBOR + 2.90% / 3.50%	35,957
BOND E	EUR	9.10.2022	€ 192 million	EURIBOR + 2.90% / 3.65%	28,401
BOND F	USD	9.10.2024	$ 271 million	LIBOR + 2.90% / 3.95%	35,958
BOND G	EUR	9.10.2026	€ 192 million	EURIBOR + 2.90% / 4.05%	28,401
Total issued bonds to LBI hf.					**200,632**

As at 30.6.2015	Currency	Final maturity	Remaining principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	3,360	Non-indexed	Fixed 6.3%	3,370
LBANK CB 17	ISK	23.10.2017	1,340	Non-indexed	Fixed 6.0%	1,387
LBANK CB 19	ISK	17.9.2019	2,580	Non-indexed	Fixed 6.8%	2,735
LBANK CBI 22	ISK	28.4.2022	4,700	CPI-indexd	Fixed 3.0%	4,660
Total covered bonds						**12,152**
Total secured bonds						**212,784**

Unsecured bonds

As at 30.6.2015	Carrying amount
Unlisted bonds	8
Total unsecured bonds	**8**
Total borrowings as at 30.6.2015	**212,792**

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

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

All amounts are in ISK million

18. Borrowings (continued)

The secured foreign currency bonds consist of ten bonds which the Bank has issued to LBI hf. as consideration and additional consideration for the assets and liabilities transferred from LBI hf. to the Bank in October 2008. These bonds were issued in December 2014 following the conclusion of an agreement to extend the previous repayment schedule to the years 2016-2026 and replace the bonds originally issued for the same purpose in October 2010 and April 2013. Under this agreement, bond tranches mature biennially throughout the period, as summarised in the table above. The agreement further provides that should the Bank's long-term credit rating in foreign currency, as rated by Standard & Poor's, be lower than BBB- as of 30 June 2018, the Bank will have the option to amend and extend partly or wholly the maturity date of the tranches maturing in 2018 and 2020.

Interest rate terms are 3-month EURIBOR for the EUR-denominated bonds and 3-month LIBOR for the GBP and USD-denominated bonds plus a 2.90% margin until October 2018, stepping up to a 3.50% margin for the 2020 tranche, a 3.65% margin for the 2022 tranche, a 3.95% margin for the 2024 tranche and a 4.05% margin for the 2026 tranche.

The Bank has committed itself to pledge certain pools of loans to customers as collateral for the secured bonds issued to LBI hf. and the issue of the covered bonds. The Bank must maintain a minimum coverage ratio of 115.0% for the secured bonds issued to LBI hf. and a minimum coverage ratio of 120% for the covered bonds. For further details on encumbered assets, see Note 39.

In April 2015, the Bank concluded sale of tranche of the new series of its indexed covered bonds, LBANK CBI 22, in the amount of ISK 1,760 million. These bonds are consumer price indexed with a maturity of seven years and the possibility of extension of maturity for another three years. The bonds carry a fixed interest rate of 3.0%. The total size of this bond series is limited to ISK 20,000 million. The bonds were subsequently admitted for trading on NASDAQ OMX Iceland.

The non-indexed covered bond issues have different fixed interest rates and mature within the next four years. The size of each series is limited to ISK 10,000 million. The three series, LBANK CB 16, LBANK CB 17 and LBANK CB 19, have all been admitted for trading on NASDAQ OMX Iceland.

The unsecured bonds consist of bonds issued by Sparisjóður Vestmannaeyja ("the savings bank") which were assumed by Landsbankinn through the merger of the savings bank with Landsbankinn on 29 March 2015.

19. Subordinated debt

As at 30.6.2015	Currency	Final maturity	Remaining principal in currencies	Contractual interest rate (Base rate + Margin)	Carrying amount
Subordinated loans unlisted	ISK	1.12.2017	68.4	REIBOR + 4%	69
Subordinated loans unlisted	EUR	2.12.2020	EUR 0.2 million	LIBOR + 5%	29
Subordinated loans unlisted	JPY	2.12.2020	JPY 106.1 million	LIBOR + 5%	115
Subordinated loans unlisted	CHF	2.12.2020	CHF 0.7 million	LIBOR + 5%	101
Subordinated loans unlisted	JPY	1.12.2023	JPY 49.1 million	LIBOR + 5%	53
Subordinated loans unlisted	CHF	1.12.2023	CHF 0.3 million	LIBOR + 5%	47
Total subordinated debt					**414**

Subordinated bonds were issued by Sparisjóður Vestmannaeyja ("the savings bank") and assumed by Landsbankinn through the merger of the savings bank with Landsbankinn on 29 March 2015. The bonds share characteristics of equity in that they are subordinated to other Group liabilities and are included in equity in equity ratio calculation, see Note 27, Capital base and capital adequacy ratio. The outstanding amount of the subordinated bonds is subject to regulatory amortisation whereby the amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final five years to maturity. The bonds mature over the next 8 years and are recognised as a financial liability inclusive of accrued interest at the end of the reporting period.

20. Equity

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

All amounts are in ISK million

Other notes

21. Earnings per share

Profit for the period	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Profit for the period attributable to owners of the Bank	5,993	10,505	12,405	14,829

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

Number of shares	2015 1.4-30.6	2014 1.4-30.6	2015 1.1-30.6	2014 1.1-30.6
Number of ordinary shares issued at beginning of period	24,000	24,000	24,000	24,000
Average number of own shares	(303)	(313)	(308)	(336)
Weighted average number of shares outstanding	**23,697**	**23,687**	**23,692**	**23,664**
Basic and diluted earnings per share from continuing operations	**0.25**	**0.44**	**0.52**	**0.63**

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

22. Litigation

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

All the material cases that were reported open and not concluded at year-end 2014 in the litigation section of the Group's Consolidated Financial Statement for the year 2014, and in the litigation section of the Group's Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2015, are still open. These pending material litigation cases at the end of the second quarter of 2015 are the following:

Recalculation of foreign currency indexed loans

1) In December 2013, a company brought two lawsuits against the Bank demanding recalculation of previous recalculations of a foreign currency indexed loan in accordance with Supreme Court judgements No. 600/2011 and No. 464/2012. The plaintiff argues that conditions are met for derogating from the legal principle that a claimant has the right to receive additional payment. As such, contractual interest should be paid in accordance with final receipts rather than Central Bank interest rates. Landsbankinn rejected the company's claim, referring, inter alia, to Supreme Court judgement No. 463/2013 which concluded that conditions for granting the exception had not been met since there was no difference in the comparative position between the parties and the additional claim would not cause a serious disruption to a company's financial position comparable to the impact unexpected demands for additional payment would have on an individual or small enterprise. On 7 November 2014, Landsbankinn was acquitted in both cases by the District Court. The District Court concluded that the company had not shown that the Bank's insistence on Central Bank interest rates had had such a material and unexpected impact on its financial position that the Bank should absorb the risk arising from the imbalance between contractual rates and Central Bank rates. The cases have been appealed to the Supreme Court and will be heard by the Court on 8 September 2015. A final ruling is expected shortly thereafter.

Inflation-indexation of financial obligations

2) In January 2013, a customer commenced litigation against the Bank, seeking acknowledgement of the unlawfulness of a consumer price indexation provision in a bond issued by him to the Bank and that it is not permissible for the Bank to revalue the principle amount of the bond on a monthly basis in accordance with the consumer price index. The EFTA Court handed down its advisory opinion on the case on 24 November 2014. The District Court will now review the EFTA Court's opinion and establish, based on Icelandic law, whether and to what extent it impacts judgement in the case. The case was to be heard by the District Court on 8 May 2015. The hearing was postponed to await a forthcoming ruling by the Supreme Court in a similar case involving another Icelandic financial undertaking. The Supreme Court delivered its judgment in that case (Case No. 160/2015) on 13 May 2015, ruling in favour of the financial undertaking. Due to the similarities between the two cases, it is considered likely that the District Court will rule in the favour of Bank in autumn

Transfer of assets and liabilities from Landsbanki Íslands to Landsbankinn

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

All amounts are in ISK million

22. Litigation (continued)

Investigation of the Icelandic Competition Authority into lending terms

4) In March 2013, the Icelandic Competition Authority submitted to the Bank its preliminary assessment concerning certain preferential terms and conditions offered during 2004-2010 by Landsbanki Íslands hf. (now LBI) and, subsequently, by the Bank, in 2004 to 2010 to clients for retail banking services, in particular for household mortgage loans. In June 2013, the Bank gave its response and refuted allegations of a breach of competition rules. The Bank does not have information as to whether the Competition Authority will take further action in the case but has expressed willingness to discuss the matter. On 1 July 2014, the Authority notified the Bank that a decision in the case would not be forthcoming until the first six months of 2015. At the end of the second quarter of 2015, the Authority had not notified the Bank of such a decision.

Claim for damages by a payment card company

5) In June 2013, a payment card company commenced litigation against the Bank and other financial undertakings claiming tort liability in an amount of around ISK 1,2 billion plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Bank refutes the allegations and the claims. The plaintiff has requested an appraisal by court-appointed assessors on issues regarding its allegations. Work on the appraisal is currently underway and it is anticipated that the Bank's defence will be submitted once the appraisal has been completed.

23. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 June 2015 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business.

Main subsidiaries as at 30 June 2015

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

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 30 June 2015.

24. Related party transactions

Transactions with related parties

Transactions with the Icelandic government and government-related entities

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

On 29 March 2015, Landsbankinn and the savings bank Sparisjóður Vestmannaeyja ses. merged in accordance with the decision of the Financial Supervisory Authority (FME), as addressed in Note 4. Prior to the merger, the Icelandic State Treasury, on behalf of the Icelandic State, held majority of the guarantee capital shares of the savings bank.

Transactions with other related parties

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

	2015		2014	
Loans in ISK million	Balance as at 30 June	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
Key management personnel	163	168	95	155
Parties related to key management personnel	23	65	62	165
Associates	17,870	20,077	17,583	56,357
Other	10	11	11	17
Total	**18,066**	**20,321**	**17,751**	**56,694**

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

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

24. Related party transactions (continued)

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

	2015		2014	
Deposits in ISK million	**Balance as at 30 June**	**Highest amount outstanding during the period**	**Balance as at 31 December**	**Highest amount outstanding during the period**
Key management personnel	22	82	55	123
Parties related to key management personnel	54	90	23	74
Associates	189	460	304	18,107
Other	-	1	1	2
Total	**265**	**633**	**383**	**18,306**

As at 30 June 2015, there were no guarantee commitments outstanding to key management personnel and parties related to them and associates of the Group.

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

25. Events after the reporting period

On 30 June 2015, the Bank and Sparisjóður Norðurlands ses., a local savings bank in the north of Iceland, jointly signed a schedule for a merger of the two entities. Pursuant to this schedule the Bank will take over all assets, liabilities and operations of the savings bank as of 1 January 2015. In return, the guarantee capital owners of the savings bank will receive remuneration in the form of shares in Landsbankinn. The acquisition price of the savings bank is estimated at ISK 594 million or equivalent to 0.25% of the issued share capital of the Bank. The merger is subject to an assessment by the Competition Authority and the Financial Supervisory Authority, and a final approval by both entities. On 11 August 2015, the merger was approved by the savings bank's guarantee capital owners' meeting. The final approval of the merger by the Board of Directors of the Bank is dependent on the assessment of the regulatory authorities. Since the merger has not yet been finally approved the financial effects of the merger are not disclosed in the Financial Statements of the Bank for the six months ended 30 June 2015.

Capital management

26. Capital management

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

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

In the latest SREP, based on data from 31 December 2013, the FME determined the minimum capital requirement for the Group to be 15.8% of RWA (31.12.2012: 16.7% of RWA), consisting of the 8% regulatory capital requirement under Pillar I and a 7.8% capital requirement under Pillar II. Moreover, forthcoming Icelandic legislation, implementing the new EU CRD IV capital requirements, is expected to require the Group to hold capital buffers in addition to the existing capital requirements.

The Bank intends to maintain a total capital ratio above the aggregate of the current SREP at each time and the new forthcoming capital buffers under CRD IV. Notwithstanding legal and regulatory requirements, the Group has set a target for total capital ratio of at least 20% of RWA.

27. Capital base and capital adequacy ratio

The Group's equity as at 30 June 2015 amounted to ISK 239,852 million (31.12.2014: ISK 250,803 million), equivalent to 20.5% (31.12.2014: 22.8%) of total assets, according to the Consolidated Statement of Financial Position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings, was 28.0% at 30 June 2015 (31.12.2014: 29.5%). According to the Act, this ratio may not fall below 8%.

Capital base	**30.6.2015**	**31.12.2014**
Share capital	23,722	23,687
Share premium	121,572	121,275
Reserves	6,000	6,000
Retained earnings	88,558	99,841
Total equity	**239,852**	**250,803**
Intangible assets	(2,119)	(1,225)
Deferred tax assets	(153)	(83)
Tier 1 capital	**237,580**	**249,495**
Subordinated debt	414	-
Regulatory amortisation	(35)	-
Tier 2 capital	**379**	**0**
Capital base	**237,959**	**249,495**
Risk-weighted assets		
Credit risk*	713,754	665,167
Market risk*	37,781	83,601
Operational risk**	96,836	96,836
Total risk-weighted assets	**848,371**	**845,604**
Tier 1 capital ratio	28.0%	29.5%
Capital adequacy ratio	28.0%	29.5%

*The Group has revised its classification of equities and bond and debt instrument exposures in the trading book as of 1 January 2015. Accordingly, risk-weighted assets in equities in the banking book and bond and debt instruments in the banking book are classified as credit risk rather than market risk.

**The amounts are updated on a yearly basis.

for the six months ended 30 June 2015 27 All amounts are in ISK million

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

The following tables show the Group's maximum credit risk exposure at 30 June 2015 and 31 December 2014. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the Statement of Financial Position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

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

				Corporates									
As at 30 June 2015	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction and real estate companies**	**Holding companies**	**Retail**	**Services**	**ITC****	**Manu-facturing**	**Agriculture**	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	38,719	-	-	-	-	-	-	-	-	-	-	**38,719**
Bonds and debt instruments	60	238,775	-	-	8,541	130	-	-	-	-	-	1,098	**248,604**
Derivative instruments	78	2	8	-	-	7	-	-	-	-	-	42	**137**
Loans and advances to financial institutions	68,707	-	-	-	-	-	-	-	-	-	-	-	**68,707**
Loans and advances to customers	-	13,904	253,846	154,735	133,546	45,763	38,780	62,996	20,398	28,911	8,407	4	**761,290**
Other financial assets	3,036	315	880	25	1,102	49	126	739	3	226	37	44	**6,582**
Total on-balance sheet exposure	**71,881**	**291,715**	**254,734**	**154,760**	**143,189**	**45,949**	**38,906**	**63,735**	**20,401**	**29,137**	**8,444**	**1,188**	**1,124,039**
Off-balance sheet exposure	**9,006**	**18,824**	**23,072**	**33,586**	**38,711**	**999**	**11,755**	**15,346**	**3,662**	**8,989**	**1,437**	**332**	**165,719**
Financial guarantees and underwriting commitments	45	616	760	7,729	1,763	13	2,237	2,136	1,142	571	27	328	17,367
Undrawn loan commitments	600	11,038	169	22,257	32,766	649	4,446	1,691	1,171	6,629	984	-	82,400
Undrawn overdraft/credit card facilities	8,361	7,170	22,143	3,600	4,182	337	5,072	11,519	1,349	1,789	426	4	65,952
Maximum exposure to credit risk	**80,887**	**310,539**	**277,806**	**188,346**	**181,900**	**46,948**	**50,661**	**79,081**	**24,063**	**38,126**	**9,881**	**1,520**	**1,289,758**
Percentage of carrying amount	6.3%	24.1%	21.5%	14.6%	14.1%	3.6%	3.9%	6.1%	1.9%	3.0%	0.8%	0.1%	100%

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

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

All amounts are in ISK million

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

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

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

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

All amounts are in ISK million

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

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

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 30 June 2015	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value	Without collateral	Allowance for impairment	Maximum exposure to credit risk
Financial institutions	-	-	-	-	-	-	-	77,713	-	77,713
Public entities	19	64	195	876	1,154	3,957	409	27,716	(100)	32,727
Individuals	11,988	24,569	39,298	64,764	140,619	67,533	48,227	84,267	(15,501)	276,918
Corporates	**5,404**	**18,862**	**59,235**	**131,730**	**215,231**	**334,934**	**188,978**	**80,330**	**(22,137)**	**608,358**
Fisheries	2,445	11,443	37,482	64,987	116,357	64,130	41,184	12,584	(4,751)	188,320
Construction and real estate companies	758	3,409	6,695	27,710	38,572	125,245	67,906	15,428	(6,987)	172,258
Holding companies	156	195	2,637	10,706	13,694	31,776	19,987	2,599	(1,308)	46,761
Retail	197	863	2,305	6,492	9,857	35,919	21,806	7,643	(2,884)	50,535
Services	1,058	1,590	4,150	11,525	18,323	40,872	21,850	22,202	(3,054)	78,343
Information, technology and communication	64	102	20	52	238	15,869	3,663	8,530	(576)	24,061
Manufacturing	178	752	4,299	9,216	14,445	15,741	9,254	9,973	(2,259)	37,900
Agriculture	548	508	1,647	1,042	3,745	5,382	3,328	1,035	(318)	9,844
Other	-	-	-	-	-	-	-	336	-	336
Total	**17,411**	**43,495**	**98,728**	**197,370**	**357,004**	**406,424**	**237,614**	**270,026**	**(37,738)**	**995,716**
As at 31 December 2014										
Financial institutions	-	-	-	-	-	-	-	52,438	-	52,438
Public entities	36	86	198	807	1,127	2,767	437	23,626	(124)	27,396
Individuals	9,553	19,669	30,984	57,321	117,527	76,566	52,710	83,369	(16,022)	261,440
Corporates	**6,398**	**21,417**	**43,297**	**114,054**	**185,166**	**336,838**	**200,498**	**73,582**	**(25,301)**	**570,285**
Fisheries	3,715	13,169	22,288	55,862	95,034	84,487	59,605	11,184	(6,484)	184,221
Construction and real estate companies	903	2,586	6,605	25,102	35,196	107,462	60,068	11,069	(7,046)	146,681
Holding companies	268	184	2,021	11,463	13,936	30,421	16,525	6,241	(2,590)	48,008
Retail	168	2,384	2,250	8,704	13,506	32,111	18,744	7,725	(3,080)	50,262
Services	742	1,929	3,869	7,640	14,180	39,745	21,702	17,955	(2,841)	69,039
Information, technology and communication	47	65	61	50	223	15,891	7,032	7,762	(656)	23,220
Manufacturing	141	521	4,659	4,424	9,745	20,396	12,465	9,670	(2,077)	37,734
Agriculture	413	579	1,544	809	3,345	5,228	3,415	1,222	(519)	9,276
Other	1	-	-	-	1	1,097	942	754	(8)	1,844
Total	**15,987**	**41,172**	**74,479**	**172,182**	**303,820**	**416,171**	**253,645**	**233,015**	**(41,447)**	**911,559**

All amounts are in ISK million

30. Collateral types

The following tables show the collateral value less a haircut held to mitigate credit risk.

As at 30 June 2015	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,988	-	45	-	81	2,114
Individuals	300,672	493	296	2,453	967	304,881
Corporates	**200,092**	**161,639**	**1,648**	**53,945**	**72,065**	**489,389**
Fisheries	12,335	160,881	57	14,874	25,295	213,442
Construction and real estate companies	111,021	28	198	393	2,089	113,729
Holding companies	8,346	15	24	28,549	680	37,614
Retail	13,908	14	244	1,119	17,818	33,103
Services	35,490	664	635	2,416	11,831	51,036
Information, technology and communication	669	2	261	1,002	2,327	4,261
Manufacturing	9,499	18	225	5,592	10,176	25,510
Agriculture	8,805	17	4	-	1,849	10,675
Other	19	-	-	-	-	19
Total	**502,752**	**162,132**	**1,989**	**56,398**	**73,113**	**796,384**

As at 31 December 2014	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,935	-	35	-	43	2,013
Individuals	260,452	472	408	2,449	235	264,016
Corporates	**178,130**	**156,904**	**2,215**	**54,720**	**74,776**	**466,745**
Fisheries	11,123	155,421	36	14,623	23,911	205,114
Construction and real estate companies	97,317	18	647	393	2,655	101,030
Holding companies	8,168	-	52	29,975	482	38,677
Retail	13,557	456	192	662	18,968	33,835
Services	30,174	608	726	1,940	11,360	44,808
Information, technology and communication	578	2	140	1,002	5,784	7,506
Manufacturing	9,080	382	415	6,075	8,874	24,826
Agriculture	8,116	17	7	-	1,850	9,990
Other	17	-	-	50	892	959
Total	**440,517**	**157,376**	**2,658**	**57,169**	**75,054**	**732,774**

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

31. Loans and advances credit monitoring

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

Industry sectors as at 30 June 2015	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	68,707	-	-	-	68,707
Public entities	12,838	930	-	136	13,904
Individuals	207,701	12,411	22,711	11,023	253,846
Corporates	**415,471**	**43,617**	**18,717**	**15,735**	**493,540**
Fisheries	137,725	13,834	957	2,217	154,733
Construction and real estate companies	106,037	14,960	6,661	5,889	133,547
Holding companies	42,583	1,720	1,158	302	45,763
Retail	32,485	3,020	2,007	1,268	38,780
Services	49,337	6,662	5,683	1,314	62,996
Information, technology and communication	19,786	113	413	87	20,399
Manufacturing	20,793	2,466	1,328	4,324	28,911
Agriculture	6,721	842	510	334	8,407
Other	4	-	-	-	4
Total	**704,717**	**56,958**	**41,428**	**26,894**	**829,997**

All amounts are in ISK million

31. Loans and advances credit monitoring (continued)

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

32. Credit quality of financial assets

	Gross carrying amount					
As at 30 June 2015	**Neither past due nor individually impaired**	**Past due but not individually impaired**	**Individually impaired**	**Total**	**Allowance for impairment**	**Carrying amount**
Cash and balances with Central Bank	38,719	-	-	38,719	-	38,719
Bonds and debt instruments	248,215	389	-	248,604	-	248,604
Derivative instruments	137	-	-	137	-	137
Loans and advances to financial institutions	68,707	-	-	68,707	-	68,707
Loans and advances to customers	703,164	35,043	60,821	799,028	(37,738)	761,290
Other financial assets	6,582	-	-	6,582	-	6,582
Total	**1,065,524**	**35,432**	**60,821**	**1,161,777**	**(37,738)**	**1,124,039**
As at 31 December 2014						
Cash and balances with Central Bank	10,160	-	-	10,160	-	10,160
Bonds and debt instruments	235,568	8,021	-	243,589	-	243,589
Derivative instruments	78	-	-	78	-	78
Loans and advances to financial institutions	49,789	-	-	49,789	-	49,789
Loans and advances to customers	657,564	25,015	77,223	759,802	(41,447)	718,355
Other financial assets	19,733	-	-	19,733	-	19,733
Total	**972,892**	**33,036**	**77,223**	**1,083,151**	**(41,447)**	**1,041,704**

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

All amounts are in ISK million

33. Loans and advances neither past due nor individually impaired

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

	Rating grades					
As at 30 June 2015	**10-7**	**6-4**	**3-1**	**0**	**Unrated**	**Gross carrying amount**
Financial institutions	68,707	-	-	-	-	68,707
Public entities	12,482	1,299	-	-	14	13,795
Individuals	73,847	116,050	34,882	311	2,441	227,531
Corporates	**50,862**	**286,216**	**124,281**	**178**	**301**	**461,838**
Fisheries	27,484	81,688	42,917	11	-	152,100
Construction and real estate companies	423	83,636	40,082	149	59	124,349
Holding companies	-	32,442	12,960	-	35	45,437
Retail	2,435	28,108	5,786	-	3	36,332
Services	11,983	30,783	13,670	15	192	56,643
Information, technology and communication	4,807	10,402	5,266	-	7	20,482
Manufacturing	3,091	13,611	2,229	1	-	18,932
Agriculture	639	5,542	1,371	2	5	7,559
Other	-	4	-	-	-	4
Total	**205,898**	**403,565**	**159,163**	**489**	**2,756**	**771,871**

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

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

34. Loans and advances past due but not individually impaired

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

As at 30 June 2015	**Past due 1-5 days**	**Past due 6-30 days**	**Past due 31 - 60 days**	**Past due 61 - 90 days**	**Past due over 90 days**	**Gross carrying amount**
Public entities	94	7	3	-	-	104
Individuals	229	11,998	2,100	1,474	866	16,667
Corporates	6,415	8,082	1,029	1,154	1,592	18,272
Total	**6,738**	**20,087**	**3,132**	**2,628**	**2,458**	**35,043**
As at 31 December 2014						
Public entities	-	1	84	7	6	98
Individuals	2,419	7,321	3,430	1,352	976	15,498
Corporates	521	3,787	3,336	696	1,079	9,419
Total	**2,940**	**11,109**	**6,850**	**2,055**	**2,061**	**25,015**

All amounts are in ISK million

35. Loans and advances by industry sectors

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

				Individually impaired				
				Of which performing		Of which non-performing*		
As at 30 June 2015	Gross carrying amount	Gross not individually impaired	Collective allowance	Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	Carrying amount
Financial institutions	68,707	68,707	-	-	-	-	-	68,707
Public entities	14,004	13,899	(12)	59	(57)	46	(31)	13,904
Individuals	269,348	244,199	(2,350)	6,016	(3,085)	19,132	(10,066)	253,846
Corporates	**515,675**	**480,109**	**(4,374)**	**20,697**	**(9,118)**	**14,871**	**(8,645)**	**493,540**
Fisheries	159,485	152,654	(320)	3,863	(2,791)	2,967	(1,640)	154,733
Construction and real estate companies	140,533	128,247	(1,292)	7,347	(2,833)	4,939	(2,861)	133,547
Holding companies	47,070	45,763	(506)	204	(130)	1,105	(673)	45,763
Retail	41,664	37,793	(447)	2,203	(1,464)	1,668	(973)	38,780
Services	66,050	62,518	(1,005)	1,044	(545)	2,488	(1,504)	62,996
Information, technology and communication	20,974	20,712	(436)	16	(6)	247	(134)	20,399
Manufacturing	31,170	24,107	(284)	5,752	(1,221)	1,311	(754)	28,911
Agriculture	8,725	8,311	(84)	268	(128)	146	(106)	8,407
Other	4	4	-	-	-	-	-	4
Total	**867,734**	**806,914**	**(6,736)**	**26,772**	**(12,260)**	**34,049**	**(18,742)**	**829,997**

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

*Non-performing past due more than 90 days

All amounts are in ISK million

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

	1.1.-30.6.2015			1.1.-30.6.2014		
	Individual allowance	Collective allowance	Total	Individual allowance	Collective allowance	Total
Balance at the beginning of the period	(33,731)	(7,716)	(41,447)	(41,278)	(9,666)	(50,944)
New provisions	(5,502)	-	(5,502)	(12,761)	-	(12,761)
New provisions due to merger	(2,165)	(331)	(2,496)	-	-	0
Reversals	7,168	981	8,149	14,068	61	14,129
Provisions used to cover write-offs	3,449	-	3,449	3,840	-	3,840
Translation difference	(221)	330	109	72	37	109
Balance at the end of the period	**(31,002)**	**(6,736)**	**(37,738)**	**(36,059)**	**(9,568)**	**(45,627)**

	1.1.-30.6.2015			1.1.-30.6.2014		
	Customers	Financials	Total	Customers	Financials	Total
New provisions	(5,502)	-	(5,502)	(12,761)	-	(12,761)
Write-offs	(3,730)	-	(3,730)	(6,573)	-	(6,573)
Provisions used to cover write-offs	3,449	-	3,449	3,840	-	3,840
Reversals	8,149	-	8,149	14,130	-	14,130
Recoveries	1,251	-	1,251	1,689	-	1,689
Translation difference	109	-	109	109	-	109
Net impairment loss for the period	**3,726**	**0**	**3,726**	**434**	**0**	**434**

37. Large exposures

As at 30 June 2015, five Group customers were rated as large exposures in accordance with FME's Rules on Large Exposures Incurred by Financial Undertakings, No. 625/2013. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. No large exposure may attain the equivalent of 25% of the capital base. The following table shows the Bank's large expsoures after credit mitigation.

As at 30 June 2015	Number of large exposures	Large exposures after credit mitigation
Large exposures between 10% and 20% of the Group's capital base	2	69,076
Large exposures between 0% and 10% of the Group's capital base	3	681
Total	**5**	**69,757**
Total large exposure to capital base (400% is the maximum limit)		29%
As at 31 December 2014		
Large exposures between 10% and 20% of the Group's capital base	3	102,217
Large exposures between 0% and 10% of the Group's capital base	3	-
Total	**6**	**102,217**
Total large exposure to capital base (400% is the maximum limit)		41%

Liquidity risk

38. Liquidity risk management

The key indicator of short-term liquidity risk is measured by the liquidity coverage ratio (LCR) which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with the Central Bank, assets eligible for repo transactions with the Central Bank and zero percent risk-weighted foreign government bonds. The Group measures the net stable funding ratio (NSFR) as another key indicator for longer-term liquidity risk. The following table shows values of the LCR as at 30 June 2015 and 31 December 2014 and the values of NSFR for foreign currencies as at 30 June 2015 and 31 December 2014:

	Liquidity coverage ratio total	Liquidity coverage ratio FX	Net stable funding ratio FX
As at 30 June 2015	119%	377%	139%
As at 31 December 2014	131%	614%	134%

All amounts are in ISK million

39. Encumbered assets

As at 30 June 2015	Collateral pledged against: Covered bonds	Collateral pledged against: Issued bonds to LBI hf.	Collateral pledged against: Other*	Un-encumbered	Total
Cash and balances with Central Bank	68	-	-	38,651	38,719
Bonds and debt instruments	-	-	8,500	240,104	248,604
Equities and equity instruments	-	-	-	25,498	25,498
Derivative instruments	-	-	-	137	137
Loans and advances to financial institutions	-	-	4,255	64,452	68,707
Loans and advances to customers	15,399	234,956	-	510,935	761,290
Investments in equity-accounted associates	-	-	-	871	871
Property and equipment	-	-	-	5,654	5,654
Intangible assets	-	-	-	2,119	2,119
Deferred tax assets		-	-	153	153
Other assets	-	-	-	8,170	8,170
Assets classified as held for sale	-	-	-	12,747	12,747
Total	**15,467**	**234,956**	**12,755**	**909,491**	**1,172,669**

As at 31 December 2014	Collateral pledged against: Covered bonds	Collateral pledged against: Issued bonds to LBI hf.	Collateral pledged against: Other*	Un-encumbered	Total
Cash and balances with Central Bank	1	-	-	10,159	10,160
Bonds and debt instruments	-	-	12,771	230,818	243,589
Equities and equity instruments	-	-	-	29,433	29,433
Derivative instruments	-	-	-	78	78
Loans and advances to financial institutions	-	-	4,953	44,836	49,789
Loans and advances to customers	9,537	234,283	-	474,535	718,355
Investments in equity-accounted associates	-	-	-	777	777
Property and equipment	-	-	-	5,691	5,691
Intangible assets	-	-	-	1,225	1,225
Deferred tax assets		-	-	83	83
Other assets	-	-	-	20,978	20,978
Assets classified as held for sale	-	-	-	18,211	18,211
Total	**9,538**	**234,283**	**17,724**	**836,824**	**1,098,369**

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

Market risk

40. Market risk management

The following table summarises the Group's exposure to market risk as at 30 June 2015 and 31 December 2014:

Market risk factor	30.6.2015 % of RWA	31.12.2014 % of RWA
Equity price risk*	1.5%	4.7%
Interest rate risk*	0.1%	2.6%
Foreign exchange risk	2.8%	2.5%
Total	**4.4%**	**9.9%**

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

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 44-45, together with the related sensitivity analysis.

All amounts are in ISK million

41. Equity price risk

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

The Group's main equity portfolios consist of a trading portfolio, strictly focused on listed equites in ISK as part of market making and a proprietary portfolio containing both listed and unlisted equities, as part of asset and liability management. Furthermore, the Bank has a hedge portfolio for derivative sales, containing listed equities in ISK. Further details are disclosed in Note 45, Concentration of currency risk.

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

As at 30 June 2015	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	38,719	-	-	-	38,719
Bonds and debt instruments	216,420	18,159	1,668	12,357	248,604
Derivative instruments	137	-	-	-	137
Loans and advances to financial institutions	67,338	1,369	-	-	68,707
Loans and advances to customers	548,940	91,861	71,754	48,735	761,290
Other financial assets	6,027	-	555	-	6,582
Total	**877,581**	**111,389**	**73,977**	**61,092**	**1,124,039**
Financial liabilities					
Due to financial institutions and Central Bank	(62,428)	-	-	-	(62,428)
Deposits from customers	(596,318)	(22,290)	(2,070)	(345)	(621,023)
Derivative instruments and short positions	(400)	(15)	(68)	(1,239)	(1,722)
Borrowings	(200,640)	(3,370)	(4,122)	(4,660)	(212,792)
Subordinated debt	(414)	-	-	-	(414)
Other financial liabilities	(16,007)	-	-	-	(16,007)
Total	**(876,207)**	**(25,675)**	**(6,260)**	**(6,244)**	**(914,386)**
Net on-balance sheet position	1,374	85,714	67,717	54,848	209,653
Net off-balance sheet position	358	-	(358)	-	
Total interest repricing gap	**1,732**	**85,714**	**67,359**	**54,848**	

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

All amounts are in ISK million

43. CPI indexation risk (all portfolios)

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

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk. The following table summarizes the Group's CPI imbalance, calculated as the difference between CPI-linked financial assets and liabilities, as at 30 June 2015 and 31 December 2014.

Carrying amount	30.6.2015	31.12.2014
Assets		
Bonds and debt instruments	9,173	16,680
Loans and advances to customers	254,191	239,605
Total	**263,364**	**256,285**
Liabilities		
Short positions	(634)	(756)
Deposits from customers	(98,439)	(97,378)
Borrowings	(4,660)	-
Subordinated debt	(69)	-
Total	**(103,802)**	**(98,134)**
Total on-balance sheet position	159,562	158,152
Total off-balance sheet position	(272)	(572)
Total CPI indexation balance	**159,290**	**157,580**

44. Currency risk (all portfolios)

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

The Group's combined net foreign exchange balance as at 30 June 2015 was +8,18% of the Group's capital base (31.12.2014: +8,14%).

45. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 June 2015 and 31 December 2014. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments.

Amounts presented under assets and liabilities include all spot deals as at 30 June 2015 and 31 December 2014. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities .

As at 30 June 2015	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	713	184	358	16	83	315	1,669
Bonds and debt instruments	9,631	45,618	45,379	-	-	-	100,628
Equities and equity instruments	139	-	2	-	-	62	203
Derivative instruments	44	30	4	-	-	3	81
Loans and advances to financial institutions	44,750	2,625	10,734	56	42	6,724	64,931
Loans and advances to customers	98,479	14,499	71,800	4,083	7,456	9,856	206,173
Other assets	921	-	106	1	-	54	1,082
Total	**154,677**	**62,956**	**128,383**	**4,156**	**7,581**	**17,014**	**374,767**
Liabilities							
Due to financial institutions and Central Bank	(192)	(145)	(1,075)	-	-	(791)	(2,203)
Deposits from customers	(67,349)	(28,905)	(40,355)	(1,233)	(1,573)	(6,335)	(145,750)
Derivative instruments and short positions	(100)	(2)	(217)	-	-	-	(319)
Borrowings	(90,977)	(32,167)	(77,488)	-	-	-	(200,632)
Subordinated debt	(29)	-	-	(168)	(148)	-	(345)
Other liabilities	(1,207)	(134)	(5,757)	-	(23)	(409)	(7,530)
Total	**(159,854)**	**(61,353)**	**(124,892)**	**(1,401)**	**(1,744)**	**(7,535)**	**(356,779)**
Net on-balance sheet position	(5,177)	1,603	3,491	2,755	5,837	9,479	**17,988**
Net off-balance sheet position	12,821	755	5,122	(2,367)	(5,301)	(9,572)	**1,458**
Net currency position	**7,644**	**2,358**	**8,613**	**388**	**536**	**(93)**	**19,446**

All amounts are in ISK million

45. Concentration of currency risk (continued)

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

46. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	As at 30 June 2015	As at 31 December 2014	% Change	Average for 1.1-30.6 2015	Average for 1.1-30.6 2014
EUR/ISK	147.20	154.25	(4.6%)	149.04	155.53
GBP/ISK	207.56	198.09	4.8%	203.19	189.72
USD/ISK	131.94	126.89	4.0%	132.62	113.36
JPY/ISK	1.08	1.06	1.9%	1.10	1.11
CHF/ISK	141.20	128.29	10.1%	139.85	127.52
CAD/ISK	105.76	109.58	(3.5%)	107.36	103.89
DKK/ISK	19.73	20.72	(4.8%)	19.98	20.84
NOK/ISK	16.81	17.10	(1.7%)	17.17	18.72
SEK/ISK	15.90	16.41	(3.1%)	15.97	17.36

All amounts are in ISK million