



Landsbanki

Condensed Consolidated Interim Financial Statements

1 January - 30 September 2007

ISK



Landsbanki

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Consolidated Key Figures

Operations	2007	2006	%	2007	2007	%
	Q1-Q3	Q1-Q3		Q3	Q2	
Interest revenues	144,160	98,216	47%	54,036	49,078	10%
Interest expenses	105,336	66,306	59%	39,591	35,578	11%
Net interest revenues	38,825	31,910	22%	14,445	13,500	7%
Fee and commission income	33,712	23,136	46%	11,813	11,013	7%
Fee and commission expenses	4,004	2,767	45%	1,595	1,285	24%
Net fee and commission income	29,709	20,368	46%	10,218	9,729	5%
Dividend income	1,779	2,202	-19%	23	1,371	-98%
Net gain (loss) on financial assets and liabilities held for trading	4,303	1,682	156%	(1,858)	3,062	-161%
Net gain (loss) on financial assets designated at FV through P/L	3,592	7,786	-54%	2,501	655	282%
Fair value adjustments in hedge accounting	(37)	(96)	61%	7	(37)	118%
Foreign exchange difference	2,666	(205)	1401%	2,356	(296)	895%
Profit (loss) from associates	(38)	566	-107%	(1,171)	1,191	-198%
Net gain of disposal groups held for sale, net of tax	4,409	394	1019%	60	9	561%
Other operating revenues	16,672	12,328	35%	1,918	5,955	-68%
Net operating revenues	85,206	64,607	32%	26,582	29,184	-9%
Salaries and related expenses	26,919	17,469	54%	10,029	8,919	12%
Administrative expenses	13,981	10,089	39%	4,806	4,731	2%
Operating expenses	40,900	27,557	48%	14,835	13,650	9%
Impairment on loans and advances and assets held for sale	4,670	4,812	-3%	1,620	1,501	8%
Profit before income tax	39,636	32,237	23%	10,127	14,033	-28%
Income tax	4,608	6,075	-24%	1,402	1,490	-6%
Net profit	35,028	26,162	34%	8,725	12,542	-30%
Attributable to:						
Shareholders of Landsbanki Íslands hf.	34,215	25,242	36%	8,518	12,248	-30%
Minority interests	812	920	-12%	207	294	-30%

Five-year summary

	Q1-Q3 2007	2006	2005	2004	2003*
Net interest revenues	38,825	41,491	22,996	14,734	9,331
Net fee and commission income	29,709	28,366	16,726	8,891	6,116
Other operating revenues	16,672	19,568	21,257	9,842	3,535
Net operating revenues	85,206	89,426	60,979	33,467	18,982
Operating expenses	40,900	38,588	20,967	14,460	10,815
Impairment on goodwill	0	0	3,033	0	0
Impairment on loans and advances and assets held for sale	4,670	6,144	6,197	4,485	4,656
Profit before income tax	39,636	44,694	30,782	14,522	3,511
Income tax	4,608	4,479	5,764	1,798	457
Net profit	35,028	40,215	25,018	12,724	3,054
Attributable to:					
Shareholders of Landsbanki Íslands hf.	34,215	38,906	24,740	12,574	2,956
Minority interests	812	1,309	277	149	99

Balance Sheet

	30.9.2007	31.12.2006	Change	%	31.12.2005	31.12.2004	31.12.2003*
Cash and cash balances with Central Bank	48,440	31,669	16,771	53%	16,611	18,237	11,642
Loans and advances to financial institutions	134,379	215,618	(81,239)	-38%	86,919	72,060	37,130
Loans and advances to customers	1,840,584	1,438,395	402,188	28%	984,593	542,215	326,400
Financial assets at fair value and associates	680,728	376,809	303,919	81%	218,894	64,730	63,744
Other assets	142,552	110,432	32,120	29%	98,443	39,900	9,323
Total assets	2,846,682	2,172,924	673,759	31%	1,405,460	737,141	448,239
Deposits from financial institutions	210,332	141,105	69,226	49%	144,596	63,476	43,840
Deposits from customers	1,390,022	682,846	707,176	104%	334,163	215,730	152,320
Borrowing	749,629	1,014,976	(265,347)	-26%	689,989	375,084	209,357
Subordinated loans	82,517	89,754	(7,236)	-8%	49,074	22,570	13,090
Other liabilities	234,211	94,785	139,426	147%	74,022	21,572	6,389
Equity	176,486	144,282	32,204	22%	110,059	37,705	22,382
Minority interests	3,485	5,175	(1,690)	-33%	3,557	1,004	862
Total liabilities and equity	2,846,682	2,172,924	673,759	31%	1,405,460	737,141	448,239

* Amounts from Financial Statements under Icelandic local GAAP

Consolidated Key Figures

Operations	2007	2007	2007	2006	2006	2006
	Q3	Q2	Q1	Q4	Q3	Q2
Interest revenues	54,036	49,078	41,046	34,887	33,154	37,527
Interest expenses	39,591	35,578	30,167	25,306	23,840	23,865
Net interest revenues	14,445	13,500	10,879	9,581	9,314	13,662
Fee and commission income	11,813	11,013	10,886	9,323	7,547	7,791
Fee and commission expenses	1,595	1,285	1,124	1,325	979	849
Net fee and commission income	10,218	9,729	9,762	7,998	6,568	6,943
Dividend income	23	1,371	385	161	99	269
Net gain (loss) on financial assets and liabilities held for trading	(1,858)	3,062	3,098	492	1,943	(1,011)
Net gain (loss) on financial assets designated at FV through P/L	2,501	655	436	5,913	594	(489)
Fair value adjustments in hedge accounting	7	(37)	(7)	78	25	(25)
Foreign exchange difference	2,356	(296)	607	(58)	(145)	(12)
Profit (loss) from associates	(1,171)	1,191	(58)	1,133	(15)	(262)
Net gain (loss) of disposal groups held for sale, net of tax	60	9	4,339	(479)	155	51
Other operating revenues	1,918	5,955	8,799	7,240	2,656	(1,478)
Net operating revenues	26,582	29,184	29,441	24,819	18,538	19,127
Salaries and related expenses	10,029	8,919	7,972	6,989	5,963	6,256
Administrative expenses	4,806	4,731	4,444	4,042	3,754	3,496
Operating expenses	14,835	13,650	12,415	11,031	9,717	9,752
Impairment on loans and advances and assets held for sale	1,620	1,501	1,549	1,332	1,597	1,660
Profit before income tax	10,127	14,033	15,476	12,457	7,224	7,714
Income tax	1,402	1,490	1,716	(1,596)	1,480	1,572
Net profit	8,725	12,542	13,760	14,053	5,744	6,143
Attributable to:						
Shareholders of Landsbanki Íslands hf.	8,518	12,248	13,450	13,664	5,281	5,966
Minority interests	207	294	311	389	463	177
Balance Sheet	30.9.2007	30.6.2007	31.3.2007	31.12.2006	30.09.2006	30.06.2006
Cash and cash balances with Central Bank	48,440	33,976	18,431	31,669	25,714	22,806
Loans and advances to financial institutions	134,379	278,072	251,881	215,618	168,993	68,793
Loans and advances to customers	1,840,584	1,567,895	1,483,887	1,438,395	1,303,676	1,294,462
Financial assets at fair value and associates	680,728	584,875	437,894	376,809	305,294	275,113
Other assets	142,552	132,329	125,097	110,432	158,395	150,295
Total assets	2,846,682	2,597,147	2,317,190	2,172,924	1,962,072	1,811,468
Deposits from financial institutions	210,332	161,826	117,378	141,105	97,097	135,722
Deposits from customers	1,390,022	1,187,254	913,183	682,846	513,054	475,045
Borrowing	749,629	781,541	903,780	1,014,976	979,748	853,367
Subordinated loans	82,517	77,766	83,524	89,754	85,892	91,141
Other liabilities	234,211	224,231	145,697	94,785	151,746	128,714
Equity	176,486	161,312	149,869	144,282	129,876	123,088
Minority interests	3,485	3,217	3,758	5,175	4,660	4,392
Total liabilities and equity	2,846,682	2,597,147	2,317,190	2,172,924	1,962,072	1,811,468
Key ratios	2007	2006	2006	2005	2004	2003
	Q1-Q3	Q1-Q3				
Return on equity before taxes	37.5%	40.4%	40.3%	56.3%	57.2%	20.9%
Return on equity after taxes	33.0%	32.6%	36.3%	45.8%	49.5%	17.6%
Tier 1 ratio	9.9%	13.0%	13.0%	11.9%	7.8%	6.9%
Equity ratio (CAD)	11.2%	15.0%	14.8%	13.1%	10.4%	9.9%
Cost-income ratio	48.0%	42.7%	43.2%	34.4%	43.2%	57.0%
Operating expenses as a ratio of average capital position	2.2%	2.1%	2.1%	2.0%	2.5%	3.0%
Interest spread as a ratio of average capital position	2.1%	2.5%	2.3%	2.2%	2.6%	2.6%
Deposits / loans to customers	75.5%	39.4%	47.5%	33.9%	39.6%	48.0%
Deposits / total assets	48.8%	26.1%	31.4%	23.8%	29.3%	34.0%
Ratio of provision to lending position at period-end	0.32%	0.44%	0.37%	0.58%	0.73%	1.47%
Loan loss ratio	0.07%	0.11%	0.13%	0.19%	0.33%	0.55%
Share price at period-end	40.50	26.60	26.50	25.30	12.10	5.80
Change in share price adjusted for dividend payments	54.3%	6.3%	5.9%	110.7%	110.3%	61.6%
Number of positions at period-end	2,499	2,046	2,117	1,725	1,121	1,025
Exchange rates						
Exchange rate ISK / EUR for P/L average period	87.11	86.78	87.57	76.59	86.97	87.39
Exchange rate ISK / EUR for Balance sheet at period-end	87.85	88.93	93.72	74.7	83.51	89.76

Report of the Board of Directors and Group Managing Directors & CEOs

The Condensed Consolidated Interim Financial Statements for the first nine months of 2007 consist of the Consolidated Financial Statements of Landsbanki Íslands hf. (the Bank) and its subsidiaries, (the Group). The Condensed Consolidated Interim Financial Statements are prepared in accordance with International Financial Reporting Standards, IFRS.

At 30 September the Bank's shareholders in Landsbanki numbered 27,982 compared to 28,735 as of beginning of the year. Samson eignarhaldsfélag ehf., which holds 40.73% in the company, is the only shareholder with a stake over 10%.

According to the income statement, the Group's after tax profit for the first nine months amounted to ISK 35,028 million. The Landsbanki Group's equity at the end of this period totalled ISK 179,971 million. The capital adequacy ratio of the Group was 11.2%, well exceeding the mandatory minimum of 8%. As of 30 September 2007, the Group's total assets were ISK 2,846,682 million.

In August, Landsbanki completed the acquisition of all the shares in UK stockbroker Bridgewell Group plc. The operation of Bridgewell Group plc. was merged with the operation of Teather & Greenwood Ltd under the new name Landsbanki Securities (UK) Ltd.

As part of the acquisition the Board of Directors of Landsbanki exercised its authorisation to raise the share capital of Landsbanki in accordance with a resolution approved by its Annual General Meeting held on 9 February 2007. Thus Landsbanki's share capital has been increased by ISK 172,076,284 nominal value, from ISK 11,020,677,803 to ISK 11,192,754,087.

The Board of Directors of the Bank and the Group Managing Directors and Chief Executive Officers hereby confirm the Condensed Consolidated Interim Financial Statements of Landsbanki Íslands hf. for the first nine months of 2007 by affixing their signatures.

Reykjavík, 31 October 2007

Board of Directors

Björgólfur Guðmundsson
Chairman

Kjartan Gunnarsson

Porgeir Baldursson

Pór Kristjánsson

Svafa Grönfeldt

Group Managing Directors and Chief Executive Officers

Sigurjón Þ. Árnason

Halldór J. Kristjánsson

Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of Landsbanki Íslands hf.

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Landsbanki Íslands hf and its subsidiaries as of 30 September 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the nine-months period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

Reykjavik, 31 October 2007

PricewaterhouseCoopers hf.

Vignir Rafn Gíslason

Þórir Ólafsson

Consolidated Interim Income Statement 1 January - 30 September 2007

Notes	Q3 2007	Q3 2006	Q1-Q3 2007	Q1-Q3 2006
Interest revenues	54,036	33,154	144,160	98,216
Interest expenses	39,591	23,840	105,336	66,306
8 Net interest revenues	14,445	9,314	38,825	31,910
Fee and commission income	11,813	7,547	33,712	23,136
Fee and commission expenses	1,595	979	4,004	2,767
9 Net fee and commission income	10,218	6,568	29,709	20,368
10,11 Dividend income	23	99	1,779	2,202
11 Net gain (loss) on financial assets and financial liabilities held for trading	(1,858)	1,943	4,303	1,682
11,12 Net gain (loss) on financial assets designated at fair value through profit and loss	2,501	594	3,592	7,786
11 Fair value adjustments in hedge accounting	7	25	(37)	(96)
11 Foreign exchange difference	2,356	(145)	2,666	(205)
11,21 Profit (loss) from associates	(1,171)	(15)	(38)	566
11 Net gain of disposal groups held for sale, net of tax	60	155	4,409	394
Other operating revenues	1,918	2,656	16,672	12,328
Net operating revenues	26,582	18,538	85,206	64,607
13 Salaries and related expenses	10,029	5,963	26,919	17,469
Administrative expenses	4,806	3,754	13,981	10,089
Operating expenses	14,835	9,717	40,900	27,557
14 Impairment on loans and advances and assets held for sale	1,620	1,597	4,670	4,812
Profit before income tax	10,127	7,224	39,636	32,237
15 Income tax	1,402	1,480	4,608	6,075
Net profit	8,725	5,744	35,028	26,162
Attributable to:				
Shareholders of Landsbanki Íslands hf.	8,518	5,281	34,215	25,242
Minority interest	207	463	812	920
16 Earnings Per Share:				
Earnings Per Share	1.14	0.49	3.20	2.38
Diluted earnings per share	1.07	0.47	3.00	2.28

Consolidated Interim Balance Sheet as at 30 September 2007

Notes	30.9.2007	31.12.2006	
Assets			
	Cash and cash balances with Central Bank	48,440	31,669
	Loans and advances to financial institutions	134,379	215,618
17	Loans and advances to customers	1,840,584	1,438,395
18	Bonds and debt instruments	383,108	169,598
18	Shares and equity instruments	70,451	49,328
18	Hedged securities	173,119	105,190
18,19	Derivatives held for trading	44,830	38,358
20	Derivatives held for hedging	4,189	10,498
21	Investments in associates	5,031	3,837
	Property and equipment	10,142	5,823
22	Intangible assets	27,212	14,351
23	Non-current assets and disposal groups classified as held for sale	3,326	21,349
	Unsettled securities trading	85,082	36,965
	Other assets	16,790	31,944
	Total assets	2,846,682	2,172,924
Liabilities			
24	Deposits from financial institutions	210,332	141,105
25	Deposits from customers	1,390,022	682,846
26	Borrowing	749,629	1,014,976
27	Financial liabilities designated at fair value	50,119	0
28	Subordinated loans	82,517	89,754
19	Trading liabilities	49,865	20,866
20	Derivatives held for hedging	7,562	6,473
	Tax liabilities	8,369	6,593
	Liabilities included in disposal groups classified as held for sale	0	7,242
	Unsettled securities trading	76,258	29,987
	Other liabilities	42,037	23,623
	Total liabilities	2,666,711	2,023,466
Equity			
	Share capital	10,864	10,581
	Share premium	54,456	50,595
	Reserves	215	2,060
	Retained earnings	110,951	81,046
		176,486	144,282
	Minority interest	3,485	5,175
29	Total equity	179,971	149,457
	Total liabilities and equity	2,846,682	2,172,924

30-33 Other information

Consolidated Interim Equity Statement

Attributable to equity holders of the Company

	Share capital	Share Premium		Reserves		Retained earnings	Minority interest	Total
		Additionally capital	Statutory account	Translation	Fair value			
Equity 1 January 2007	10,581	50,327	268	196	1,864	81,046	5,175	149,457
Issued share as a part of acquisition of Bridgewell	172	6,608						6,780
Purchases and sales of treasury shares	110	(4,290)						(4,180)
Accrued stock option		1,544						1,544
Dividends paid						(4,311)		(4,311)
Translation differences				19				19
Fair value adjustment of investment properties, included in disposal groups					(1,864)			(1,864)
Changes in minority interest							(2,502)	(2,502)
Net profit January - September 2007						34,215	812	35,028
Equity 30 September 2007	10,864	54,188	268	215	0	110,951	3,485	179,971

Attributable to equity holders of the Company

	Share capital	Share Premium		Reserves		Retained earnings	Minority interest	Total
		paid in capital	Account	Translation	Fair value			
Equity 1 January 2006	10,614	52,009	268	(73)	1,864	45,377	3,557	113,617
Purchases and sales of treasury shares	(68)	(2,191)						(2,259)
Dividends paid						(3,237)		(3,237)
Translation differences				70				70
Changes in minority interest							182	182
Net profit January - September 2006						25,242	920	26,162
Equity 30 September 2006	10,546	49,819	268	(3)	1,864	67,382	4,660	134,536

Condensed Consolidated Interim Statement of Cash Flow 1 January - 30 September 2007

	2007 1.1 - 30.9	2006 1.1 - 30.9
Cash flows from operating activities	314,056	(206,932)
Cash flows from investing activities	(16,361)	(5,676)
Cash flows from financing activities	(202,400)	216,556
Net Increase in cash and cash equivalents	95,295	3,948
Cash and cash equivalents at beginning of year	41,147	31,417
Cash and cash equivalents at period-end	136,442	35,365

Notes to the Consolidated Interim Financial Statements

1. General information

Landsbanki Íslands hf. (the Group) is a universal bank, providing retail, corporate and investment banking services. The Group operates in 14 countries and has 2,499 employees at period-end.

The Group's parent company is Landsbanki Íslands hf. (the Bank), which is a limited-liability company incorporated and domiciled in Iceland. The Bank was established in 1886 and remained state-owned until 1998 when the State decided to privatise the Bank through a public offering. Today, the Bank's shares are listed on the OMX, the Nordic Exchange.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 31 October 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in preparing these condensed consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The condensed consolidated interim financial statements of Landsbanki Íslands hf. cover the nine months from 1 January to 30 September 2007. They have been prepared in accordance with IAS 34, Interim Financial Reporting. Condensed interim financial statements such as these do not include information as extensive as annual financial statements compiled in accordance with IFRS. The condensed consolidated interim financial statement reflect the IFRS and interpretations issued and effective in September 2007.

The Group will adopt IFRS 7, Financial Instruments: Disclosures, from annual periods beginning 1 January 2007. Full disclosures as required by IFRS 7 will be disclosed in the Annual Financial Statements for the year 2007.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power generally accompanying a shareholding of more than one-half of the voting rights to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. On the date of reporting, the Bank's significant subsidiaries were comprised of the following:

Company	Share owned	Activity
Heritable Bank Ltd (UK)	100%	Corporate banking
Landsbanki Securities (UK) Holdings plc	100%	Stockbrokers and financial services
Landsbanki Holdings Europe SA (Luxembourg)	100%	Holding company
- Landsbanki Luxembourg SA (Luxembourg)	100%	Private and corporate banking
- Landsbanki Kepler SA (France)	100%	Stockbrokers and financial services
Landsbanki Guernsey Ltd (UK)	100%	Retail banking
Merrion Capital Group Ltd (Ireland)	67%	Stockbrokers and financial services
LI Investments AB (Sweden)	100%	Holding company
Landsbanki Holdings (UK) plc	100%	Holding company
LI Investments Ltd (British Virgin Islands)	100%	Holding company
Landsvaki hf. (Iceland)	100%	Operation company for mutual funds
Landsbankinn eignarhaldsfélag ehf. (Iceland)	100%	Holding company
Landsbankinn - Fjárfesting hf. (Iceland)	100%	Holding company
Landsbankinn fasteignafélag ehf. (Iceland)	100%	Real estate company
Landsbanki Vatnsafl ehf. (Iceland)	100%	Holding company
SP - Fjármögnun hf. (Iceland)	51%	Leasing company
Verðbréfun hf. (Iceland)	100%	Securitization company
Stofnlánadeild Samvinnufélaga (Iceland)	100%	Holding company (dormant)
Hömlur hf. (Iceland)	100%	Holding company for appropriated assets

The purchase method is used to account for the investment in subsidiaries by the Group. The acquisition price is measured as the fair value of its stated assets, equity instruments issued and liabilities incurred or assumed at the transaction date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in the consolidated accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Interim Financial Statements

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the share capital conferring voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements of reserves is recognised in reserves under equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Investments in associates held for the purpose of investment banking and restructuring are accounted as Financial asset designated at fair value through profit and loss.

2.3 Segment reporting

A business segment is a part of the Group's assets and operations which is subject to risks and returns differing from those of other business segments. A geographical segment is a part of the assets and operations within a specific economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Group's individual entities are measured using the currency of the economic environment in which the entity operates (the functional currency). The condensed consolidated interim financial statements are presented in millions of Icelandic kronas (ISK), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates of the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying net investment hedges. Translation differences on non-monetary items, such as equities held at fair value in the income statement, are reported as part of these income statement movements.

(c) Group companies

The results and financial position of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) the assets and liabilities of each balance sheet are translated at the closing rate at the period-end;
- (ii) items of each income statement are translated at the average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges on such investments, are taken to shareholders' equity. When a foreign company is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their current fair value. Fair values are based on quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Notes to the Consolidated Interim Financial Statements

2.5 Derivative financial instruments and hedge accounting (continued)

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is based on comparison with comparable transactions in similar instruments. Fair value can also be based or founded on the basis of pricing models.

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value on the income statement. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of assets or liabilities (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The relationship is documented and an assessment made, both at hedge inception and at each reporting period, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(b) Net investment hedge

Any gain or loss on a hedging instrument relating to the effective portion of a hedge of net investments in foreign operations is recognised in equity as translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses on net investments accumulated in equity are included in the income statement when the foreign operation is disposed of.

(c) Derivatives that do not qualify for hedge accounting

Derivative financial instruments which do not qualify for hedge accounting are recognised as trading assets or trading liabilities. Changes in their fair value are recognised immediately in the income statement.

2.6 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for all instruments measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, making it equivalent to the net carrying amount of the financial asset or financial liability in the balance sheet. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised at the rate of interest used to discount the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on the net amount of the financial asset taking the write-down into consideration.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans are generally deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as arrangement of transactions with equities or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle for income reporting is applied for other custody services that are continuously provided over an extended period of time.

Notes to the Consolidated Interim Financial Statements

2.8 Financial assets

The Group classifies its financial assets in the following categories: trading assets, financial assets designated at fair value through profit or loss at inception and loans and advances. Management determines the classification of its investments at initial recognition.

(a) Trading assets

A financial asset at fair value through profit or loss is classified in this category if it is primarily held for the purpose of selling in the near term. Derivatives are also classified as trading assets unless designated as hedging instrument.

(b) Financial assets designated at fair value through profit or loss at inception

Financial assets are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss; and
- Financial assets backing investment contracts have related liabilities that have cash flows that are contractually based on the performance of the assets.

Such financial assets are reported at current fair value and changes recognised in the income statement. The classification of financial assets placed in this category cannot be changed after their original classification.

(c) Loans and advances

Loans and advances are financial assets with defined payments that are not quoted in an active market. They arise when the Group provides funds directly to a debtor with no intention of trading them.

Purchases and sales of trading assets and financial assets designated at fair value through profit or loss are recorded on the date on which the Group commits to purchase or sell the asset. Loans are recognised when the funds related to the loan are disbursed to the borrowers. All financial assets are initially recorded at fair value plus transaction costs. Transaction costs are, however, not included in the initial cost of trading assets and financial assets designated at fair value through profit or loss. Financial assets are derecognised when they have been transferred to another party, for instance when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial assets designated at fair value through profit or loss and trading assets are subsequently carried at fair value. Loans and advances are carried at cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value on the income statement and trading assets are included in the income statement in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using recognised valuation techniques. These include the use of recent arm's length transactions, references to other materially equivalent instruments, discounted cash flow analysis and option pricing models and other valuation techniques commonly used by market participants. In some instances when recognised valuations do not give reliable measurement for equity instruments, they are measured at cost.

The Group is involved in Total Return Swaps derivative contracts. In instances where the Group has transferred loans previously accounted for in the balance sheet to Total Return Swaps, it has evaluated that this did not fulfill the condition for derecognition under IAS 39. The loans are therefore still accounted for in the balance sheet as Loans to financial institutions, measured at amortized cost. In instances where the Total Return Swap contracts relates to off-balance sheet items, only the derivative is accounted for, at fair value.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.10 Sale and repurchase agreements

Repurchase agreements (repos) are financial instruments providing for the sale of securities under agreement to repurchase the same securities at a predetermined price. Control of the securities remains in the hands of the Group during their entire transaction period and the securities remain on its balance sheet as trading assets or as financial assets designated at fair value through profit or loss, as appropriate.

2.11 Securities lending and borrowing

Lending agreements are financial instruments where the securities are not sold but are returned to the Group at the end of contract. Control of the securities remains in the hands of the Group during their entire transaction period and the securities remain on its balance sheet as trading assets or as financial assets designated at fair value through profit or loss, as appropriate.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

2.12 Impairment of loans and advances

At each balance sheet date, the Group assesses whether there is objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated. Objective evidence of impairment includes observable data about the following loss events:

- (i) significant financial difficulty of the borrower;
- (ii) a breach of contract, such as a default on instalments or on interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - general national or local economic conditions connected with a group of loans.

The Group defines loans that are individually significant and assesses first whether objective evidence of their impairment exists, and individually or collectively for loans and advances that have not been defined as individually significant. If the Group determines that no objective evidence of impairment exists for significant loans, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Individual significant assets for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable value. The recoverable value is the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of impairment through the use of an allowance account and the amount of the loss is recognised in the income statement. In the case of a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For impairment calculation of the present value of the estimated future cash flows of a collateralised financial asset, regard is had for estimated sale or redemption value of the collateral less costs for obtaining and selling the collateral. Such calculation is made on the basis of objective assessment of loss, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Such classification, based on credit risk, gives a good indication of the impairment of a group of assets.

Future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience was originally based and to remove the effects of previously existing loss factors which do not exist currently.

Estimates of changes in future cash flows for groups of assets should be consistent with changes in observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual losses.

When a loan is uncollectible, it is fully written off against the provision for loan impairment on the balance sheet. Loans are written off after all the necessary procedures have been completed, as provided for in the Group's rules, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Notes to the Consolidated Interim Financial Statements

2.12 Impairment of loans and advances (continued)

If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

2.13 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate on the date of acquisition. Goodwill related to a merger and on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment of goodwill, based on impairment test procedures of IAS 36, is expensed in the income statement.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and take into service the specific software. These costs are amortised on the basis of their expected useful lives (five years).

The Group assess at each reporting date whether there is any indication that an software asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Costs associated with developing or maintaining computer software programs are recognised when the expense is incurred.

2.14 Property, plant and equipment (PPE)

Land and buildings consist mainly the Bank's branches and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost of PPE includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	25-100 years,
Computer hardware	3-5 years,
Other chattels	3-10 years.

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be lower than the estimated recoverable value. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the income statement.

2.15 Non-current assets and disposal group classified as held for sale

Non-current assets held for sale are the Group's appropriated assets which are in the process of being sold. This item includes also a disposal group which is held for sale. Liabilities connected with the disposal group are recognised as a separate liability on the balance sheet. The presentation and measurement of these assets and liabilities are based on IFRS 5, Non-current assets held for sale and discontinued operations. Items included under non-current assets held for sale are recognised at the lower of carrying amount or fair value less cost to sell, taken into account the measurement requirement exception in IFRS 5.

Notes to the Consolidated Interim Financial Statements

2.16 Leases

(a) A Group company is the lessee

The leases entered into by the Group are primarily operating leases, including house rental agreements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, the total amount of the entire leasing contract until the end of the period is expensed.

(b) A Group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable as a part of loan and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as income due. Lease income is recognised over the term of the lease using a method which reflects a constant periodic rate of return.

2.17 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents are defined as cash and non-restricted balances with the Central Bank, amounts due from other banks and treasury bills.

2.18 Provisions

Provisions for restructuring cost and disputes are recognised in the financial statements when it is more likely than not that an outflow of Group resources will be required to settle the obligation and the amount can be reliably estimate.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

2.20 Employee benefits

(a) Pension obligation

Group companies operate various pension schemes. Most of the Group companies have defined contribution plans, where the companies pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense monthly when they are due.

A few of the Group companies have a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Notes to the Consolidated Interim Financial Statements

(b) Share-based compensation

The Group has entered into stock options contracts with its employees enabling them to acquire shares in the Bank. In all instances the exercise price corresponds to the market value of the shares at grant date. The stock options were granted after 7 November 2002 and cost related to the agreements is expensed during the vesting period based on the related terms. The agreements are both equity and cash settled and the related expenses are recognised in the income statement.

2.21 Deferred income tax

Deferred income tax is recognised in full as a liability, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the condensed consolidated interim financial statements. Deferred income tax is, however, not recognised if it arises from the original recognition of an asset or liability in a transaction other than a merger of companies, which affects neither its accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities, including derivative contracts and depreciation of property, plant and equipment. Temporary differences also include tax losses carried forward and the difference between the fair values of assets acquired and their tax base.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax arising from temporary differences in connection with investments in subsidiaries and associates is recognised in the condensed consolidated interim financial statements. This is not done, however, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.22 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

2.23 Subordinated loans

The Group has borrowed funds by issuing bonds on subordinated terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Group. In the calculation of the capital ratio, the bonds are included with equity, as shown in note 29. The loans are entered as liabilities with accrued interest and indexation.

2.24 Financial liabilities designated at fair value through profit or loss at inception

Financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue; and
- Financial instruments, such as debt securities held, contain one or more embedded derivatives that significantly modify the cash flows; and
- The group is engaged in a unit-linked investment contracts where the liability reflects the value of of assets held within unitlinked investment pools.

Such financial liabilities are reported at current fair value and changes recognised in the income statement. The classification of financial liabilities placed in this category cannot be changed after their original classification.

2.25 Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders meeting.

(c) Treasury shares

Where the Bank, or other member of the Group, purchases the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Notes to the Consolidated Interim Financial Statements

2.26 Fiduciary activities

The Group acts as custodian, holding or placing assets on behalf of individuals, institutions and pension funds. These include various mutual funds managed by the Group. These assets and income arising thereon are excluded from these financial statements, as they do not belong to the Group.

2.27 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimated based on these assumptions will by definition seldom be equivalent to the relevant real outcome. The discussion below examines estimates and assumptions which involve a substantial risk of causing material correction to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair value of financial instruments not quoted in active markets are determined by various recognised valuation techniques. When valuation techniques (e.g. models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Securitisations and special purpose entities (SPEs)

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation, and for buying or selling credit protection. The Group does not consolidate SPEs that it does not control. Where it is difficult to determine whether the Group does control an SPE, it makes an objective assessment about its exposure to risk and reward, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Consolidated Interim Financial Statements

4. Management of financial risk

The Group's risk policy and procedures ensure that the risks involved in its operations are known, measured and monitored. Risk is managed to ensure that it remains within the limits adopted by the Group for its operations and complies with regulatory requirements. Landsbanki has adopted a policy on the risk structure of its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the Group's equity and its performance, are both limited and manageable.

The Board of Directors is responsible for the Group's general policy on risk, ensuring that it conforms to the Bank's strategy, the experience of its management, its capital adequacy and risk appetite. The Group's CEOs are responsible to the Board for its daily operations and manage its risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the bank's policy.

Standing meetings of managing directors is as a forum for consultation between the CEOs and managing directors.

The Bank has five standing committees: the Asset and Liability Committee (ALCO), the Asset Management Committee, the Credit Committee, the Operations Committee and the Group Risk Management Committee. The Landsbanki Group Risk Management Committee (LGRMC) is responsible for effective risk management and control in the Landsbanki Group.

The Board of Directors has two sub-committees, an Audit Committee and Remuneration Committee, which prepare examination by the Board of specific areas of operation and detailed investigation of issues falling within their sphere of responsibility.

The compliance officer ensures that the Bank's rules on securities trading and insider trading are followed, and that Group operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and other relevant statutes and regulations. Each of Landsbanki's subsidiaries has a compliance officer, and the Group compliance officer supervises their work and reports to the Board of Directors.

Landsbanki's internal auditing is carried out on a Group basis, the director of Internal Audit for the Bank audits all Group companies. Internal auditing is an essential aspect of the Bank's risk management control; each operating unit is audited at least once a year.

4.1 Financial instruments and risk management strategy

Clients' assets and liabilities bear fixed or variable rates of interest, for a longer or shorter term. It is essential for the Group to control its investments closely to maintain a balance in the interest rates and maturities of assets and liabilities. The Group also endeavours to increase its interest rate margin by offering both short-term and long-term credit, while at the same time it must maintain sufficient liquidity to meet its commitments. By extending credit to both corporations and individuals, on varying terms reflecting the risk of loss in each instance, the Group aims to achieve an acceptable interest rate margin. Interest rate risk is not limited to interest bearing assets on the bank's balance sheet but also includes guarantees and other financial instruments.

By taking positions and trading in listed and unlisted financial instruments, Landsbanki can take advantage of short-term movements on the equity and bond markets, as well as currency and interest rate fluctuations. Currency risk is generally kept in balance. Part of the Group's currency risk is hedged with currency swaps. Interest rate swaps and currency interest rate swaps are used to partly hedge interest rate risk against any drop in the fair value of fixed interest rate assets and any increase in the fair value of customers' deposits on fixed terms.

4.1.1 Hedge accounting

The Group designates specific derivatives as hedges of the fair value of assets or liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(a) Fair value hedge

The Group uses interest rate and currency swaps to hedge part of its interest rate risk against any possible impairment of the fair value of fixed and floating interest rate assets and liabilities in both ISK and foreign currencies. The net fair value of these swaps as of 30 September 2007 was negative in the amount of ISK 3,373 million.

(b) Net investment hedge

The Group balances currency risk deriving from net investment in activities abroad against foreign currency borrowing. At 30 September 2007 loans amounting to ISK 84,834 million (31.12.2006: ISK 50,288 million) were recognised as hedges, resulting in exchange rate profit for the first six months of the year of ISK 3,960 million (2006: ISK 6,857 million loss) recognised in equity against exchange rate profit from investments in subsidiaries.

Notes to the Consolidated Interim Financial Statements

4.1.2 Credit Risk

Credit risk is the Group's greatest single risk factor. Credit risk is the risk that a borrower or counterparty in a transaction will be unable to meet its financial obligations. The Group manages this risk by setting limits for acceptable risk for individual borrowers or groups of borrowers, specific regions or industrial sectors. Such risk factors are under constant surveillance and are reviewed regularly. Credit risk is also managed through regular assessments of clients' credit ratings, modifications of lending authorisations or acquiring better collateral to secure clients' commitments.

The Board of Directors sets detailed lending rules, including maximum obligations for individual clients and related parties. The purpose of these rules is to limit the maximum risk of the Group. They cover clients' total exposures, so that the indirect risk to the Group through its clients is added to the direct claims of the Bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of third parties not financially connected, are also added to the direct claims. According to the Bank's internal rules, the maximum total exposures through an individual customer or financially connected parties may not exceed 20% of the Group's equity.

Clients classified in the best risk classes according to the Bank's rating system, may comprise an aggregate exposure of as much as 25% of the Group's equity, but only in the form of short-term obligations. Parties classified in poorer risk categories may not comprise overall exposures for the Group exceeding 10% of its equity. In similar fashion, however, this exposure may be increased to as much as 15%, provided the portion exceeding 10% is in the form of short-term commitments.

The Bank's Credit Committee sets detailed lending rules based on the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and managing directors, it meets regularly to discuss all credit decisions exceeding the authorisations of branches, subsidiaries or the Corporate Banking Division. The Committee checks the composition of the loan portfolio with regard to industrial sectors, geographical regions, collateral and other aspects, as well as monitoring defaults and default trends. Detailed reports on the position of the Group's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and specific industrial sectors, etc.

(a) Collateral

Securing loans by collateral is the traditional method of mitigating credit risk. The Bank obtains collateral to secure customer liabilities where considered appropriate normally in the form of a lien on customer assets giving the bank a claim on these assets for both existing and future liabilities. Credit extended by the bank may be secured by residential or corporate real estate, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft etc. The Bank also secures its loans with receivables and operating assets, such as machinery and equipment, raw materials and inventories. Residential housing mortgages are generally fully secured by a charge against residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowing.

(b) Derivatives

Counterparty risk from derivative contracts is managed by the Bank's Securities and Treasury division. Risk from derivative contracts is assessed as a credit equivalent, comprised of the fair value of the contract and its assessed future risk.

(c) Credit-related commitments

Guarantees and letters of credit, which irrevocably commit the Group to make payment to a third-party in the event a customer cannot fulfil his obligations, involve the same credit risk as loans. Import guarantees and documentary credits are secured by the goods shipments they cover, thus representing a lower risk than direct loans. Unused credit lines represent a commitment to increase loans or guarantees. The Group could conceivably suffer losses equivalent to the total amount of open credit lines. The Group monitors the duration of credit lines, since longer-term obligations generally imply a greater credit risk.

(d) Netting arrangements

In order to further limit counterparty risk arising from financial instruments, the Group enter into netting agreements. These arrangements ensure that in the case of foreclosure, the Group can set off all contracts covered by the netting agreement against the debt. The arrangements generally include all market transactions between the Group and the client.

4.2 Geographical location of loans and advances to customers

	30.9.2007	%	31.12.2006	%
Iceland (Home country)	1,101,353	60	894,328	62
UK & Ireland	386,576	21	249,958	18
Luxembourg	241,767	13	219,724	15
Other	110,888	6	74,385	5
Total	1,840,584	100	1,438,395	100

Notes to the Consolidated Interim Financial Statements

4.3 Market Risk

Market risk is the risk arising from the impact of changes in market prices on the value of the Group's assets and liabilities, both on and off its balance sheet. This includes both interest rate and equity risk on its trading portfolio, as well as currency risk on its portfolios. Market risk is, however, mainly limited to the Bank's trading book transactions.

The Board of Directors has set a ceiling on the Bank's market risk, which may not exceed 15% of its total risk-weighted asset base. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 2% and the maximum interest rate risk on market bonds and other financial instruments may not exceed 6%. ALCO sets detailed rules on the Group's maximum market risk. Risk control is effected on a Group basis, under the direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Securities and Treasury division of the Bank company, where total market risk for the Group is also managed. In addition to the Securities and Treasury division of the Bank, company, trading desks of its subsidiaries Landsbanki Kepler, Landsbanki Securities UK and Merriion Capital have limited authorisations for exposures on own

Total market risk for the Group is calculated at the end of each banking day and controlled by means of an authorisation system adopted by ALCO. Since no single instrument can cover all the aspects of market risk, the Group applies several methods in its daily risk measurement, including VaR (Value-at-Risk) and stress testing, and uses indicators such as net position and value per bp (Vpb).

Value at Risk (VaR) is a statistical instrument which measures the Group's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The Group's loss should only exceed the resulting value on one working day out of a hundred. The bank uses VaR to monitor trading book market risk. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision.

The first of the following tables show the VaR estimate for market risk for the bank's total equity exposure with and without equity held in financial assets designated at fair value through profit and loss. The second table shows market risk excluding financial assets designated at fair value through profit and loss and unlisted equities:

Market Risk	1 January to 30 September 2007				12 months to 31 December 2006		
	Average	High	Low	30.9.2007	Average	High	Low
Interest rate risk	300	542	169	537	176	749	58
Foreign exchange risk	536	2,033	2	1,562	67	360	2
Equities risk	1,272	3,288	501	2,252	1,281	2,908	541
Total VaR (99% 1 day holding period)	2,108	5,755	844	4,351	1,524	4,017	601
Total VaR (99% 10 day holding period)	6,666	18,199	2,669	13,759	4,819	12,703	1,901

Market Risk without financial assets designated at FV through P/L

	1 January to 30 September 2007				12 months to 31 December 2006		
	Average	High	Low	30.9.2007	Average	High	Low
Interest rate risk	300	542	169	537	176	749	58
Foreign exchange risk	536	2,033	2	1,562	67	360	2
Equities risk	991	2,910	330	2,097	1,183	1,926	323
Total VaR (99% 1 day holding period)	1,827	5,379	604	4,196	1,426	3,035	383
Total VaR (99% 10 day holding period)	5,777	17,010	1,910	13,269	4,509	9,598	1,211

Market risk without financial assets designated at FV through P/L and unlisted equities

	1 January to 30 September 2007				12 months to 31 December 2006		
	Average	High	Low	30.9.2007	Average	High	Low
Interest rate risk	300	542	169	537	176	749	58
Foreign exchange risk	536	2,033	2	1,562	67	360	2
Equities risk	671	1,531	278	837	296	427	180
Total VaR (99% 1 day holding period)	1,507	3,973	551	2,936	539	1,536	240
Total VaR (99% 10 day holding period)	4,766	12,564	1,742	9,284	1,704	4,857	759

Landsbanki recognises the importance of assessing the effectiveness of its VaR models. The models are back-tested, i.e. the number of days when trading losses actually exceeded the estimated VaR figure are counted. According to the regulatory standard for back-testing is to measure VaR assuming a ten-day holding period with a 99% level of confidence. For Landsbanki's regulatory trading book, there were 3 instances in the last 12 months exceeding the corresponding VaR in the back testing.

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4.3.1 Currency Risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Group is exposed to risk from fluctuations of exchange rates of major foreign currencies, which affect the Bank's financial position and cash flow. ALCO sets risk limits for each currency and for total currency exposures. Both overnight and intraday, which are monitored daily.

The following table shows the carrying amount of the Group's assets and liabilities by currency. Off-balance-sheet amounts show the notional amounts of financial instruments in foreign currencies.

Concentrations of assets, liabilities and off balance sheet items.

At 30 September 2007	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	40,734	7,272	239	0	195	0	48,440
Loans and advances to financial institutions	26,346	42,731	45,980	12,701	1,589	5,032	134,379
Loans and advances to customers	580,347	382,123	158,564	328,721	167,626	223,203	1,840,584
Bonds and debt instruments	94,792	219,030	53,964	12,292	812	2,218	383,108
Shares and equity instruments	22,639	11,358	2,107	14,255	350	19,742	70,451
Hedged securities	94,975	39,163	25,724	6,045	8	7,204	173,119
Derivatives held for trading	8,830	13,240	9,007	7,325	491	5,937	44,830
Derivatives held for hedging	1,011	802	2,362	0	0	14	4,189
Investments in associates	4,628	403	0	0	0	0	5,031
Property and equipment	8,255	601	0	1,024	261	1	10,142
Intangible assets	2,445	10,025	0	14,742	0	0	27,212
Non-current assets and disposal groups classified as held for sale	767	0	0	2,559	0	0	3,326
Unsettled securities trading	5,504	62,544	22	10,253	5,051	1,708	85,082
Other assets	765	8,794	111	6,370	743	7	16,790
Total assets	892,039	798,086	298,080	416,287	177,126	265,065	2,846,682
Liabilities and equity							
Deposits from financial institutions	137,474	37,132	19,616	6,963	5,140	4,007	210,332
Deposits from customers	270,139	230,953	22,758	855,893	1,144	9,135	1,390,022
Borrowing	85,057	447,087	163,046	8,351	16,006	30,082	749,629
Financial liabilities designated at fair value	0	0	0	0	0	50,119	50,119
Subordinated loans	6,400	71,220	1,856	466	0	2,575	82,517
Trading liabilities	11,938	11,725	12,195	8,313	1,453	4,241	49,865
Derivatives held for hedging	0	5,556	44	1,488	176	298	7,562
Tax liabilities	6,999	487		883			8,369
Unsettled securities trading	4,902	57,405	202	8,558	4,876	315	76,258
Other liabilities	13,759	14,168	98	13,148	588	276	42,037
Total equity	179,971	0	0	0	0	0	179,971
Total liabilities and equity	716,640	875,734	219,815	904,063	29,383	101,048	2,846,682
Net on-balance sheet position	175,399	(77,648)	78,265	(487,776)	147,743	164,017	
Net off-balance sheet position	243,213	(119,444)	57,091	(493,516)	147,525	165,131	
Net position	(67,814)	41,796	21,174	5,740	218	(1,114)	

4.4 Mismatch of assets and liabilities

(a) Interest rate risk on portfolios

Portfolio interest rate risk arises from the impact on the interest margin and/or the market value of equity caused by interest rate changes on assets and liabilities outside of the Bank's trading book. This risk results primarily from duration mismatch of assets and liabilities. Portfolio interest rate risk is among the Group's more important risk factors.

(b) Liquidity Risk

Liquidity risk is the risk of losses the Group could incur should it be unable to meet its obligations when due. The Group's liquidity risk is divided into three types: intraday liquidity risk, short-term liquidity risk extending over several months, and risk due to mismatch of longer-term assets and liabilities. A distinction is also made, in measuring and managing liquidity risk, between domestic and foreign liquidity risk.

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(b) Liquidity Risk (continued)

ALCO formulates liquidity management policy, monitors the Group's liquidity position and provides advice on the composition of its assets and liabilities. Its objective is to minimise fluctuations in liquidity and ensure that the Group always has sufficient access to funding to cover outflows arising from its obligations in the coming month. Treasury implements this policy and estimates future cash flow in co-operation with Risk Management.

At the end of the reporting period, the Bank's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 317/2006 was 1.96.

The following table shows the Group's assets and liabilities classified according to their maturities. The classification is based on the residual maturity as of the date of the financial statements.

At 30 September 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Assets						
Cash and cash balances with Central Bank	47,443	997	0	0	0	48,440
Loans and advances to financial institutions	121,283	9,682	3,413	0	0	134,379
Loans and advances to customers	409,769	313,786	700,200	416,828	0	1,840,584
Bonds and debt instruments	44,518	106,061	164,631	67,898	0	383,108
Shares and equity instruments	0	0	0	0	70,451	70,451
Hedged securities	481	1,992	15,697	39,003	115,946	173,119
Derivatives held for trading	19,034	11,945	11,599	2,252	0	44,830
Derivatives held for hedging	110	7	3,499	573	0	4,189
Investments in associates	0	0	0	0	5,031	5,031
Property and equipment	0	0	0	0	10,142	10,142
Intangible assets	0	0	0	0	27,212	27,212
Non-current assets and disposal groups classified as held for sale	0	0	0	0	3,326	3,326
Unsettled securities trading	85,082	0	0	0	0	85,082
Other assets	0	0	0	0	16,790	16,790
Total assets	727,720	444,471	899,039	526,555	248,897	2,846,682
Liabilities and equity						
Deposits from financial institutions	186,720	22,457	950	205	0	210,332
Deposits from customers	1,219,472	118,320	46,581	5,649	0	1,390,022
Borrowing	53,717	75,056	536,888	83,968	0	749,629
Financial liabilities designated at fair value	879	0	21,937	27,303	0	50,119
Subordinated loans	0	0	1,856	26,443	54,218	82,517
Trading liabilities	22,726	17,875	7,792	1,472	0	49,865
Derivatives held for hedging	0	5	1,928	5,629	0	7,562
Tax liabilities	0	4,608	3,761	0	0	8,369
Unsettled securities trading	76,258	0	0	0	0	76,258
Other liabilities	42,037	0	0	0	0	42,037
Total equity	0	0	0	0	179,971	179,971
Total liabilities and equity	1,601,810	238,321	621,693	150,669	234,189	2,846,682
Off balance sheet derivatives						
Assets						
Foreign exchange derivatives	1,210,688	241,878	212,469	3,523	0	1,668,558
Interest rate derivatives	107,618	199,987	935,859	185,814	0	1,429,278
Equity derivatives	44,265	66,500	2,581	730	945	115,021
Credit derivatives	0	344	6,701	37,209	0	44,254
Total off balance sheet assets	1,362,571	508,709	1,157,610	227,276	945	3,257,111
Liabilities						
Foreign exchange derivatives	1,211,599	242,626	210,577	3,756	0	1,668,558
Interest rate derivatives	105,844	194,813	940,920	187,701	0	1,429,278
Equity derivatives	2,030	2,054	719	0	110,218	115,021
Credit derivatives	0	344	6,701	37,209	0	44,254
Total off balance sheet liabilities	1,319,473	439,837	1,158,917	228,666	110,218	3,257,111
Net on balance sheet position	(874,089)	206,150	277,346	375,886	14,708	
Net off balance sheet position	45,961	71,737	(1,308)	(1,390)	(115,001)	
Maturity gap	(828,128)	277,887	276,038	374,496	(100,293)	

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The following table gives a summary of the Group's interest rate risk. It shows the carrying amounts of its assets and liabilities. The carrying amount classification is based on either the repricing date of the contract or its maturity, whichever comes first.

At 30 September 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	47,443	997	0	0	0	48,440
Loans and advances to financial institutions	125,456	8,869	54	0	0	134,379
Loans and advances to customers	1,240,465	372,967	104,822	122,330	0	1,840,584
Bonds and debt instruments	242,683	31,221	68,948	40,255	0	383,108
Shares and equity instruments	0	0	0	0	70,451	70,451
Hedged securities	481	1,992	15,697	39,003	115,946	173,119
Derivatives held for trading	44,830	0	0	0	0	44,830
Derivatives held for hedging	4,189	0	0	0	0	4,189
Investments in associates	0	0	0	0	5,031	5,031
Property and equipment	0	0	0	0	10,142	10,142
Intangible assets	0	0	0	0	27,212	27,212
Non-current assets and disposal groups classified as held for sale	0	0	0	0	3,326	3,326
Unsettled securities trading	0	0	0	0	85,082	85,082
Other assets	0	0	0	0	16,790	16,790
Total assets	1,705,548	416,046	189,521	201,588	333,979	2,846,682
Liabilities and equity						
Deposits from financial institutions	186,720	22,457	950	205	0	210,332
Deposits from customers	1,250,878	113,188	20,307	5,649	0	1,390,022
Borrowing	417,834	65,484	202,162	64,149	0	749,629
Financial liabilities designated at fair value	5,866	7,209	9,741	0	27,303	50,119
Subordinated loans	28,152	0	1,186	53,179	0	82,517
Trading liabilities	49,865	0	0	0	0	49,865
Derivatives held for hedging	7,562	0	0	0	0	7,562
Tax liabilities	0	0	0	0	8,369	8,369
Unsettled securities trading	0	0	0	0	76,258	76,258
Other liabilities	0	0	0	0	42,037	42,037
Total equity	0	0	0	0	179,971	179,971
Total liabilities and equity	1,946,877	208,338	234,346	123,182	333,938	2,846,682
Off balance sheet derivatives						
Assets						
Foreign exchange derivatives	1,489,617	142,517	34,655	1,769	0	1,668,558
Interest rate derivatives	769,824	148,719	379,032	131,703	0	1,429,278
Equity derivatives	47,038	66,500	527	11	945	115,021
Credit derivatives	0	344	6,701	37,209	0	44,254
Total off balance sheet assets	2,306,479	358,080	420,915	170,692	945	3,257,111
Liabilities						
Foreign exchange derivatives	1,407,856	178,273	80,829	1,600	0	1,668,558
Interest rate derivatives	1,018,652	160,427	180,588	69,611	0	1,429,278
Equity derivatives	2,030	2,054	719	0	110,218	115,021
Credit derivatives	0	344	6,701	37,209	0	44,254
Total off balance sheet liabilities	2,428,538	341,098	268,837	108,420	110,218	3,257,111
Net on balance sheet position	(241,330)	207,708	(44,825)	78,406	41	
Net off balance sheet position	(122,059)	16,982	152,078	62,272	(109,273)	
Total interest sensitivity gap	(363,389)	224,690	107,253	140,678	(109,232)	

4.5 Capital Risk Management

The bank manages its capital resources to meet the regulatory capital requirements prescribed by the Icelandic Financial Supervisory Authority (FME). FME requires the Group to hold sufficient capital resources to meet minimum the regulatory capital requirements laid down in the Rules on the Capital Requirement and Risk-weighted Assets of Financial Undertakings, No. 215/2007. These rules are based on the standards of the Basel Committee on Banking Supervision in the Basel II accord. Minimum requirements are expressed as the ratio of capital resources to risk-weighted assets. Risk-weighted assets are determined by applying specific risk weight to the Group's assets following calculations developed by the Basel Committee.

During the period, the Group continued to manage its capital resources. At 30 September 2007, the capital ratio was 11.2%.

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4.6 Fair value of financial assets and financial liabilities

The following table gives a summary of the carrying amount and fair value of financial assets and financial liabilities not carried at fair value. The fair value has been estimated by discounting the cash flow of financial assets and financial liabilities based on market interest rates for assets and liabilities of the same or similar duration.

	Carrying value 30.9.2007	Fair value 30.9.2007	Difference 30.9.2007
Financial assets			
Loans and advances to customers	1,840,584	1,830,711	(9,872)
Financial liabilities			
Borrowing	749,629	743,710	5,919
Net difference			(3,953)

4.7 Inflation-indexed assets and liabilities

The Bank's balance sheet has a positive balance between indexed and non-indexed assets. At period-end, indexed assets exceeded indexed liabilities by ISK 134 billion. These amounts only apply to assets and liabilities in ISK.

	30.9.2007	31.12.2006
Assets	356,993	336,303
Liabilities	(222,573)	(217,492)
	134,420	118,811

4.8 Core Income

The Group's Income with reversal of its net gain from equity holdings, securities and FX trading, reflects its Core Income. The approach is to reverse net gain/loss from equity holdings of any kind, as well as gain from securities and FX trading. Instead the net interest revenues is increased by the cost of funds of the Group's positions in these items. To calculate the net interest revenues, a risk free rate of treasury shares for each underlying currency is used. Notwithstanding the Bank's definition of its core income, its performance also depends, for instance, on equity and bond positions taken on own account. The following table gives a comparison between the Group's Income and Core Income for the years 2004–2006 and the first three quarter in 2007:

Actual Income	Q1-Q3 2007	2006	2005	2004
Net interest revenues	38,825	41,491	22,996	14,734
Net commissions and fees	29,709	28,366	16,726	8,891
Net gain on equity, securities and FX	16,672	19,568	21,257	9,842
Net operating revenues	85,206	89,426	60,978	33,467
Operating expenses	40,900	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	4,670	6,144	6,197	4,485
Impairment on goodwill	0	0	3,033	0
Profit before income tax	39,636	44,694	30,781	14,521
Cost Income Ratio	48%	43%	34%	43%
ROE before tax	38%	40%	56%	57%
Adjustments				
Net interest revenues	4,811	3,640	3,652	1,200
Net gain on equity, securities and FX	(16,672)	(19,568)	(21,257)	(9,842)
Impairment on goodwill	0	0	3,033	0
	(11,862)	(15,929)	(14,572)	(8,642)
Core Income				
Net interest revenues	43,635	45,131	26,647	15,934
Net commissions and fees	29,709	28,366	16,726	8,891
Net operating revenues	73,344	73,497	43,373	24,825
Operating expenses	40,900	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	4,670	6,144	6,197	4,485
Profit before income tax	27,774	28,765	16,210	5,879
Core Cost Income Ratio	56%	53%	48%	58%
Core ROE before tax	26%	26%	30%	23%

Notes to the Consolidated Interim Financial Statements

5. Income Statement by quarters

	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Operations					
Interest revenues	54,036	49,078	41,046	34,887	33,154
Interest expenses	39,591	35,578	30,167	25,306	23,840
Net interest revenues	14,445	13,500	10,879	9,581	9,314
Fee and commission income	11,813	11,013	10,886	9,323	7,547
Fee and commission expenses	1,595	1,285	1,124	1,325	979
Net fee and commission income	10,218	9,729	9,762	7,998	6,568
Dividend income	23	1,371	385	161	99
Net gain (loss) on financial assets and financial liabilities held for trading	(1,858)	3,062	3,098	492	1,943
Net gain on financial assets designated at fair value through profit and loss	2,501	655	436	5,913	594
Fair value adjustments in hedge accounting	7	(37)	(7)	78	25
Foreign exchange difference	2,356	(296)	607	(58)	(145)
Profit (loss) from associates	(1,171)	1,191	(58)	1,133	(15)
Net gain (loss) of disposal groups held for sale, net of tax	60	9	4,339	(479)	155
Other operating revenues	1,918	5,955	8,799	7,240	2,656
Net operating revenues	26,582	29,184	29,441	24,819	18,538
Salaries and related expenses	10,029	8,919	7,972	6,989	5,963
Administrative expenses	4,806	4,731	4,444	4,042	3,754
Operating expenses	14,835	13,650	12,415	11,031	9,717
Impairment on loans and advances during the period	1,620	1,501	1,549	1,332	1,597
Profit before impairment on goodwill and income tax	10,127	14,033	15,476	12,457	7,224
Income tax	1,402	1,490	1,716	(1,596)	1,480
Net profit	8,725	12,542	13,760	14,053	5,744
Attributable to:					
Shareholders of Landsbanki Islands hf.	8,518	12,248	13,450	13,664	5,281
Minority interest	207	294	311	389	463

6. Business segments

The Group operates in four business segments:

- Retail Banking
- Corporate Banking
- Investment Banking
- Asset Management and Private Banking

Retail Banking includes the Bank's branch network, SP Fjármögnun and Heritable Bank excluding its corporate division.

Corporate Banking includes the Bank's Corporate division and Heritable's Bank's and Luxembourg's Corporate Banking divisions.

Investment Banking is comprised of the Bank's securities operations and Landsbanki Securities UK, Landsbanki Kepler and Merrion Capital Group. This division includes securities brokerage, corporate advisory, FX and derivative trading, the Bank's treasury and debt management and proprietary trading.

Asset Management and Private Banking includes the Bank's Asset Management division, Landsvaki hf. and Landsbanki Luxembourg SA without its Corporate Banking division.

	Retail Banking	Corporate Banking	Investment Banking	Asset Management Private Banking	Other operations	Group
Q1-Q3 2007						
Net interest revenues	13,295	26,482	(3,912)	2,960	0	38,825
Net fee and commission income	2,189	1,654	22,601	3,265	0	29,709
Net financial gains	(55)	(1,291)	17,814	204	0	16,672
Net operating revenues	15,428	26,845	36,503	6,430	0	85,206
Operating expenses	7,958	7,457	19,412	3,830	2,243	40,900
Impairment on loans and advances and assets held for sale	2,406	2,789	(532)	7	0	4,670
Profit before income tax	5,064	16,599	17,623	2,592	(2,243)	39,636
Total assets 30 September 2007	484,668	1,169,204	846,589	335,465	10,756	2,846,682

Notes to the Consolidated Interim Financial Statements

6. Business segments (continued)

	Retail Banking	Corporate Banking	Investment Banking	Asset Management Private Banking	Other operations	Group
Q1-Q3 2006						
Net interest revenues	11,029	16,317	2,382	2,181	0	31,910
Net fee and commission income	2,235	1,852	14,000	2,281	0	20,368
Net financial gains	(10)	36	12,047	255	0	12,328
Net operating revenues	13,255	18,204	28,430	4,718	0	64,607
Operating expenses	6,839	3,837	13,473	2,292	1,116	27,557
Impairment on loans and advances and assets held for sale	1,227	2,149	1,304	131	0	4,812
Profit before income tax	5,189	12,218	13,653	2,294	(1,116)	32,237
Total assets 31 December 2006	369,908	937,353	565,340	289,422	10,901	2,172,924

7. Geographical segments - breakdown of revenues

Q1-Q3 2007	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest revenues	23,313	9,082	3,614	2,816	38,825
Net fee and commission income	9,615	8,679	1,782	9,634	29,709
Net financial gains	11,855	531	110	4,177	16,672
Net operating revenues	44,783	18,291	5,505	16,627	85,206
	53%	21%	6%	20%	100%

Q1-Q3 2006	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest revenues	19,897	6,806	2,420	2,787	31,910
Net fee and commission income	8,614	5,650	1,027	5,077	20,368
Net financial gains	5,904	1,176	193	5,055	12,328
Net operating revenues	34,416	13,633	3,639	12,918	64,607
	53%	21%	6%	20%	100%

* Other=Continental Europe, Scandinavia, Canada, USA and other.

8. Net interest revenues

Interest revenues	Q1-Q3 2007	Q1-Q3 2006
Interest on deposits and loans to financial institutions	6,910	3,048
Interest on loans and advances	113,972	81,716
Interest on other financial assets	12,530	8,641
Other interest revenues	10,749	4,811
	144,160	98,216

Interest expenses	Q1-Q3 2007	Q1-Q3 2006
Interest on deposits from credit institutions	6,425	7,293
Interest on deposits from customers	53,871	22,588
Interest on borrowing	31,437	28,107
Interest on subordinated loans	3,615	3,471
Other interest expenses	9,986	4,847
	105,336	66,306

Net interest revenues	38,825	31,910
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Notes to the Consolidated Interim Financial Statements

9. Net fee and commission income

Fee and commission income	Q1-Q3 2007	Q1-Q3 2006
Securities *	24,889	15,109
Asset management	2,084	1,688
Lending	2,769	2,618
Cards	1,131	938
Interbank revenues	669	751
Collection and payment services	462	534
Foreign trade	352	340
Other commissions and fees	1,356	1,158
	33,712	23,136
Fee and commission expense	4,004	2,767
Net fee and commission income	29,709	20,368

* Securities includes Corporate Advisory, FX and Derivatives, Treasury, Derivatives Trading and Securities Trading

10. Dividend income

	Q1-Q3 2007	Q1-Q3 2006
Trading	1,462	319
Financial assets designated at fair value through profit and loss	316	1,883
	1,779	2,202

11. Net gain (loss) on trading in equity, bonds, currency and associated companies

	Stock	Bond and credit	FX	Profit from associates	Other	Total Q1-Q3 2007	Total Q1-Q3 2006
Dividend income	1,779	0	0	0	0	1,779	2,202
Net gain (loss) on financial assets and financial liabilities held for trading	6,317	(2,005)	0	0	(9)	4,303	1,682
Net gain (loss) on financial assets designated at fair value through profit and loss	4,981	(1,390)	0	0	0	3,592	7,786
Fair value adjustments in hedge accounting	0	0	0	0	(37)	(37)	(96)
Foreign exchange difference	0	0	2,666	0	0	2,666	(205)
Profit from associates	0	0	0	(38)	0	(38)	566
Net gain of disposal groups held for sale, net of tax	0	0	0	0	4,409	4,409	394
	13,077	(3,395)	2,666	(38)	4,362	16,672	12,328

12. Net gain (loss) on financial assets designated at fair value through profit and loss

Equity securities:	Q1-Q3 2007	Q1-Q3 2006
Listed	4,241	7,860
Unlisted	740	(74)
Total	4,981	7,786
Bonds and credit:		
Unlisted	(1,390)	0
Total	(1,390)	0
Net gain on financial assets designated at fair value through profit and loss	3,592	7,786

13. Salaries and related expenses

	Q1-Q3 2007	Q1-Q3 2006
Salaries	22,874	14,353
Pension-fund contributions	1,918	1,372
Provision for pension settlement	0	700
Other personnel expenses	2,127	1,044
	26,919	17,469
Number of positions at period-end	2,499	2,046

Notes to the Consolidated Interim Financial Statements

14. Impairment on loans and advances and assets held for sale

	Q1-Q3 2007	Q1-Q3 2006
Loans and advances	4,917	5,029
Financial assets	(277)	0
Non-current assets held for sale	118	(107)
	4,758	4,923
Collected previously written-off loans	88	(111)
	4,670	4,812

15. Income tax

	Q1-Q3 2007	Q1-Q3 2006
Current tax	4,526	4,151
Deferred tax	82	1,924
	4,608	6,075
Profit before tax	39,636	32,237
Tax calculated at a tax rate of local 18%	7,134	5,803
Effect of different tax rates in other countries	1,884	530
Income not subject to tax	(4,410)	(266)
Other	0	9
	4,608	6,075

16. Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	Q1-Q3 2007	Q1-Q3 2006
Profit attributable to equity holders of the Bank	34,215	25,242
Weighted average number of ordinary shares in issue	10,702	10,603
Basic earnings per share (ISK per share)	3.20	2.38

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Bank's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Q1-Q3 2007	Q1-Q3 2006
Profit attributable to equity holders in the Bank	34,215	25,242
Weighted average number of ordinary shares in issue	10,702	10,603
Adjustments for:		
– share options	717	484
Weighted average number of ordinary shares for diluted earnings per share	11,419	11,087
Diluted earnings per share (ISK per share)	3.00	2.28

Notes to the Consolidated Interim Financial Statements

17. Loans and advances to customers

	30.9.2007	31.12.2006
Public entities	31,740	8,892
Corporates		
Fisheries	150,688	134,061
Retail trade	235,880	229,312
Agriculture	6,489	6,170
Construction and manufacturing	293,226	177,854
Services	766,744	596,053
Other	2,716	3,529
Individuals	372,800	299,135
Allowance for losses on loans and advances	(19,699)	(16,611)
Total loans and advances to customers	1,840,584	1,438,395

Provisions for credit losses

Changes during the period:	30.9.2007	31.12.2006
Balance at beginning of year	16,611	13,144
(Disposals)/acquisitions	0	(12)
Impairment on loans and advances	4,917	5,690
Loans written off	(963)	(2,221)
Translation difference	(865)	9
Balance at period-end	19,699	16,611

Provision ratio (Provisions for credit losses/total loans and advances to customers and guarantees issued) 1.00% 1.07%

18. Trading assets and financial assets designated at fair value through profit and loss

	30.9.2007			31.12.2006		
	Trading assets	Fin. assets designated at fair value	Total	Trading assets	Fin. assets designated at fair value	Total
Bonds and debt instruments						
Domestic						
Listed	43,115	0	43,115	32,593	0	32,593
Unlisted	0	0	0	0	0	0
	43,115	0	43,115	32,593	0	32,593
Foreign						
Listed	337,659	923	338,582	136,716	0	136,716
Unlisted	1,038	373	1,411	290	0	290
	338,697	1,296	339,993	137,006	0	137,006
Total Bonds and debt instruments	381,812	1,296	383,108	169,598	0	169,598
Shares and equity instruments						
Domestic			Total			Total
Listed	3,912	7,703	11,614	18,843	7,022	25,864
Unlisted	5,576	1,741	7,317	2,070	341	2,411
	9,488	9,443	18,931	20,912	7,362	28,275
Foreign						
Listed	16,383	10,262	26,645	8,849	9,804	18,654
Unlisted	7,629	17,246	24,874	1,176	1,224	2,400
	24,012	27,508	51,520	10,025	11,028	21,053
Total Shares and equity instruments	33,499	36,951	70,451	30,938	18,391	49,328
Hedged securities			Total			Total
Bonds	44,644	12,982	57,627	45,583	0	45,583
Shares and equity instruments	96,146	19,346	115,492	59,607	0	59,607
Total hedged securities	140,790	32,329	173,119	105,190	0	105,190
Derivatives held for trading	44,830	0	44,830	38,358	0	38,358
Total	600,931	70,577	671,507	344,084	18,391	362,475

Notes to the Consolidated Interim Financial Statements

19. Derivatives held for trading and trading liabilities

	30.9.2007			31.12.2006		
	Contract/notional amount	Fair value		Contract/notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	1,198,250	13,667	15,883	1,008,938	12,981	6,375
OTC currency options bought and sold	103,871	3,033	3,554	263,844	6,673	3,463
Cross-currency interest rate swaps	342,925	8,881	9,537	182,838	8,753	204
	1,645,046	25,581	28,974	1,455,619	28,407	10,042
Interest rate derivatives						
Interest rate swaps	1,009,473	8,390	9,913	523,844	5,263	4,057
	1,009,473	8,390	9,913	523,844	5,263	4,057
Equity derivatives						
Equity forwards	101,873	8,771	7,540	65,213	2,962	6,545
OTC stock options bought and sold	10,701	2,085	2,049	14,642	1,726	222
Equity futures	1,758	2	2	1,747	0	0
	114,331	10,858	9,590	81,602	4,688	6,767
Credit derivatives						
Total return swaps	44,375	0	1,388	0	0	0
	44,375	0	1,388	0	0	0
Total derivatives held for trading and trading liabilities	2,813,225	44,830	49,865	2,061,066	38,358	20,866

20. Derivatives held for hedging

	30.9.2007			31.12.2006		
	Contract/notional amount	Fair value		Contract/notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as fair value hedges						
Interest rate swaps	583,407	4,189	7,562	324,627	5,686	5,324
Cross-currency interest rate swaps	0	0	0	99,722	4,812	1,149
	583,407	4,189	7,562	424,349	10,498	6,473

21. Investment in Associates

Company	Ownership %	Profit (loss) from associates		Book value	Book value
		30.9.2007	31.12.2006	30.9.2007	31.12.2006
Eignarhaldsfélagið ehf.	49.0	(186)		1,013	929
Eignarhaldsfélagið Portus hf.	50.0	0		855	325
Valitor hf.	38.0	145		854	823
Creditinfo Group hf.	39.4	(103)		535	471
Reiknistofa bankanna	33.9	0		515	515
Rockview Merrion Investments Ltd.	50.0	118		403	302
Borgun hf.	20.0	78		307	239
Intrum hf.	33.0	6		172	87
Liftryggingamiðstöðin hf.	34.0	5		144	139
HydroKraft Invest hf.	50.0	0		100	0
LME eignarhaldsfélag ehf.	40.0	(104)		0	0
Other partially owned companies		4		133	5
		(38)		5,031	3,837

All these investments are unlisted.

Notes to the Consolidated Interim Financial Statements

22. Intangible assets

	30.9.2007	31.12.2006
Goodwill		
Opening net book amount	12,078	9,380
Exchange and other differences	(305)	2,270
Addition during period	12,926	0
Addition during the year 2006	0	428
Net book value at period-end	24,699	12,078
Software and other intangible assets		
Opening net book amount	2,273	1,081
Exchange and other differences	(315)	0
Additions	1,027	2,950
Disposals	0	(1)
Amortisation	(472)	(1,532)
Impairment	0	(226)
Net book value at period-end	2,513	2,274
Total Intangible assets	27,212	14,351

All goodwill is annually tested for impairment at period-end. The goodwill has been divided between the smallest cash generating units based on the required rate of return from each unit. An assessment of a recoverable value of a goodwill is based on its use value.

23. Non-current assets and disposal groups classified as held for sale

	30.9.2007	31.12.2006
Appropriated assets	1,000	564
Allowance for appropriated assets	(328)	(210)
	672	354
Disposal group held for sale		
– Investment properties included in disposal groups	2,511	18,206
– Other assets included disposal groups	143	2,789
	2,654	20,996
Total non-current assets and disposal groups classified as held for sale	3,326	21,349

24. Deposits from financial institutions

	30.9.2007	31.12.2006
Loans from Central Bank and repurchase agreements	107,645	46,451
Loans from other credit institutions	102,687	94,654
	210,332	141,105

25. Deposits from customers

	30.9.2007	31.12.2006
Demand deposits	734,984	229,654
Time deposits	655,038	453,192
	1,390,022	682,846

26. Borrowing

	30.9.2007	31.12.2006
Securities issues	625,446	865,274
Borrowing	124,183	149,702
	749,629	1,014,976
Securities issues:		
Europe - MTN	371,117	505,287
USA - MTN	136,692	161,541
European Commercial Paper (ECP)	15,455	21,518
Other	102,182	176,928
	625,446	865,274

For maturity, see note 4.4

Notes to the Consolidated Interim Financial Statements

27. Financial liabilities designated at fair value

	30.9.2007	31.12.2006
Liabilities to customers under unit-linked investment contracts	27,302	0
Financial liabilities with matched interest rate swaps	21,355	0
Financial liabilities with embedded derivatives	1,462	0
	50,119	0

The Group is engaged in a unit-linked investment contracts. The value of those contracts reflect the fair value of the assets that are held within unitised investment pools.

Certain long-term debt securities in issue have been matched with interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will be accounted for in the income statement.

Certain long-term debt securities issued by the Group are linked to equity price indexes. In such cases, the Group has opted to designate the entire contract at fair value through profit and loss rather than recognise them separately as derivatives held at fair value and loans at amortised cost.

There were no gains or losses attributable to changes in own credit risk for financial liabilities designated at fair value in the period.

28. Subordinated loans

	30.9.2007	31.12.2006
Tier I – Non-innovative hybrid capital	37,404	41,801
Tier I – Innovative hybrid capital	16,814	18,288
Tier II	28,299	29,665
	82,517	89,754

Subordinated loans	Classification	Currency	Interest	Maturity	30.9.2007	31.12.2006
London Stock exchange	Tier I	EUR	6.25%	callable	29,515	33,439
Luxembourg Stock Exchange	Tier I	EUR	4.65%	callable	13,180	14,763
London Stock exchange	Tier I	EUR	Euribor+1,23%	callable	7,889	8,361
Iceland Stock Exchange	Tier I	ISK	6,5%+CPI	callable	1,237	1,210
Iceland Stock Exchange	Tier I	ISK	5,8%+CPI	callable	1,211	1,183
Iceland Stock Exchange	Tier I	ISK	8,65%+CPI	callable	1,186	1,132
					54,218	60,089
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,35%	2015	17,585	18,752
Luxembourg Stock Exchange	Tier II	JPY	3.45%	2033	2,575	2,789
Luxembourg Stock Exchange	Tier II	EUR	7.20%	2026	951	1,032
Luxembourg Stock Exchange	Tier II	EUR	5.44%	2018	866	960
Luxembourg Stock Exchange	Tier II	EUR	4.40%	2035	878	915
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,8%	2013	356	379
Unlisted	Tier II	USD	Libor+1,85%	2011	1,856	2,137
Unlisted	Tier II	ISK	5,6%+CPI	callable	1,842	1,797
Unlisted	Tier II	ISK	6,09%+CPI	callable	925	903
Unlisted	Tier II	GBP	Non-interest	2013	378	0
Unlisted	Tier II	GBP	2%+Base rate	2008	88	0
					28,299	29,665
Total subordinated loans					82,517	89,754

Subordinated loans are a part of equity according to regulation on the calculation of capital ratio (see note 29). Subordinated loans are fully applicable to the calculation of CAD ratio.

Notes to the Consolidated Interim Financial Statements

29. Capital ratio

	30.9.2007	31.12.2006
Risk-adjusted assets	2,109,720	1,523,143
Capital:		
Tier I capital:		
Equity	176,486	144,282
Subordinated loans	54,218	60,089
Goodwill	(24,699)	(12,078)
Minority interests	3,485	5,175
	209,490	197,468
Tier II capital:		
Subordinated loans	28,299	29,665
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(1,161)	(1,062)
Total capital	236,628	226,071
Tier I ratio	9.9%	13.0%
Capital ratio	11.2%	14.8%

Landsbanki's capital adequacy ratio as of 30 September 2007 is calculated in accordance with the EU Directive 2006/48/EC, cf. Article 78 (Basel II), which has been transposed into Icelandic legislation. The comparison figures for 31 December 2006 are calculated in accordance with previous rules.

30. Contingent liabilities

Off-balance sheet contingent liabilities specifies as follows:	30.9.2007	31.12.2006
Guarantees issued	105,039	95,911
Available overdrafts	62,144	59,946
Unused credit commitments	71,493	63,210

31. Fiduciary activities

The Landsbanki Group provides asset custody, asset management, investment management and advisory services. All of them require the Group to make decisions on the treatment, acquisition or disposal of financial instruments. Assets in Landsbanki's custody are not reported in its accounts. Part of this service involves the Group approving objectives and criteria for the investment of assets in its custody. As of 30 September 2007, financial assets managed by the Group amounted to ISK 543.1 billion (31.12.2006: 376.9 bn). Amounts in custody accounts amounted to ISK 2,323 billion (31.12.2006: 1,751 bn).

32. Related-parties

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 221 million as at 30 September 2007.

Loans to members of the Board of Directors and their fully owned companies amounted to ISK 13,619 million, including credit granted to companies with which members of the Board are connected through membership of the companies' Boards or ownership ties.

The holding company, Samson eignarhaldsfélag ehf., has a 40.73% holding in the Bank. The Group has not assisted the company with any provision of credit. One of the company's owners sits on Landsbanki's Board of Directors and loans granted to this person are included in the above amounts.

Total credit extended to associated companies by the Group amounted to ISK 40,336 million as at 30 September 2007.

All of the loans referred to here have been granted in accordance with the Bank's credit rules and on normal commercial terms. No impairment has been recognised by the Group against these loans.

33. Acquisitions

On 17 May, Landsbanki Islands hf. announced that it had reached an agreement to acquire a 100% share of the UK broker and investment bank Bridgewell Group plc. This acquisition was achieved through Landsbanki's direct acquisition of shares in Bridgewell Group plc. The transaction was completed on 9 August and from that time Bridgewell Group plc was consolidated in the Group's financial statements.

On the acquisition date, the fair value of individual acquired assets and liabilities was assessed. The cost of acquisition in excess of the fair value of the acquired individual assets and liabilities was recognised as goodwill.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash and Landsbanki shares)	8,341
Fair value of assets and liabilities acquired	1,040
Goodwill	7,301

The acquisition accounting will be finalised within twelve months.