Condensed Consolidated

Interim Financial Statements

Unaudited

Three months ended 31 March 2015

Íslandsbanki hf.
Kirkjusandur
155 Reykjavík
Reg. no. 491008-0160
Iceland

Contents

Endorsement and Statement by the Board of Directors and the CEO

The unaudited Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. for the period 1 January to 31 March 2015 comprise the Condensed Interim Financial Statements of Íslandsbanki hf. and its subsidiaries, together referred to as “the Bank”.

Accounting convention

The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2015 are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union.

Profit from the Bank's operations for the period 1 January to 31 March 2015 amounted to ISK 5,396 million, which corresponds to a 11.8% annualised return on equity. Bank equity, according to the Condensed Consolidated Financial Position, amounted to ISK 181,630 million at 31 March 2015. According to the Act on Financial Undertakings no. 161/2002 the official capital ratio of the Bank shall be based on audited or reviewed own fund items. Since the interim financial statements for the first three months are not audited the official capital ratio is based on audited own fund items at 31 December 2014 and risk weighted assets at 31 March 2015. The official capital ratio at 31 March 2015 was 27.8% and the Tier 1 ratio was 25.0%. The capital ratio, based on the reported own fund items at 31 March 2015, was 28.4% and the corresponding Tier 1 ratio was 25.7%. The Board of Directors refers to Note 58 for further understanding of the capital requirements of the Bank. The Bank's total assets amounted to ISK 926,389 million at the end of the period.

The Board of Directors draws special attention to the risks relating to the political and legal environment in Iceland where capital controls are still in place. The Bank has made appropriate provisions to reflect the risks associated with court rulings. The Board also notes that the Bank maintains a strong capital base and is therefore well positioned to meet future risks and challenges. The Board refers to Notes 2 and 39 for the principal risks and uncertainties currently faced by the Bank.

To the best of our knowledge the Condensed Consolidated Interim Financial Statements provide a true and fair view of the Bank's operating profits and its financial position as at 31 March 2015.

The Board of Directors and the CEO of Íslandsbanki hf. hereby confirm the Bank's Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2015 by means of their signatures.

Reykjavík, 12 May 2015

Board of Directors:
Fridrik Sophusson, Chairman
Marianne Økland, Vice-Chairman
Árni Tómasson
Eva Cederbalk
Helga Valfells
Neil Graeme Brown
Þóranna Jónsdóttir

Chief Executive Officer:
Birna Einarsdóttir

Condensed Consolidated Income Statement for the three months ended 31 March 2015

	Notes	2015 1.1-31.3	2014 1.1-31.3
Interest income		11,636	12,862
Interest expense		(5,445)	(6,216)
Net interest income	10	6,191	6,646
Fee and commission income		4,678	4,517
Fee and commission expense		(1,773)	(1,663)
Net fee and commission income	11	2,905	2,854
Net financial income	12-13	1,764	863
Net foreign exchange loss	14	(140)	(291)
Share of profit of associates net of tax		63	-
Other net operating income	15	226	1,113
Other net operating income		1,913	1,685
Total operating income		11,009	11,185
Salaries and related expenses	16	(3,460)	(3,439)
Other operating expenses	17	(2,363)	(2,470)
Contribution to the Depositors' and Investors' Guarantee Fund		(269)	(258)
Bank tax		(618)	(592)
Total operating expenses		(6,710)	(6,759)
Profit before loan impairment charges and net valuation changes		4,299	4,426
Loan impairment charges and net valuation changes	18	2,331	1,520
Profit before tax		6,630	5,946
Income tax	19	(1,396)	(1,394)
Profit for the period from continuing operations		5,234	4,552
Profit from discontinued operations, net of income tax		162	3,744
Profit for the period		5,396	8,296

The notes on pages 8 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 March 2015

	Notes	2015 1.1-31.3	2014 1.1-31.3
Other comprehensive income			
Foreign currency translation differences for foreign operations		(19)	(144)
Other comprehensive income for the period		(19)	(144)
Total comprehensive income for the period		5,377	8,152
Attributable to:			
Equity holders of Íslandsbanki hf.		5,317	8,219
Non-controlling interests		79	77
Profit for the period		5,396	8,296
Basic earnings per share	20	0.53	0.82
Diluted earnings per share	20	0.53	0.82

The notes on pages 8 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position
as at 31 March 2015

	Notes	31.3.2015	31.12.2014
Assets			
Cash and balances with Central Bank	6,21	98,274	103,389
Derivatives	6,22	1,843	1,810
Bonds and debt instruments	6	91,201	87,347
Shares and equity instruments	6	11,900	10,531
Loans to credit institutions	6,23	40,688	35,072
Loans to customers	6,24-25	637,877	634,799
Investments in associates	27	607	570
Property and equipment		7,521	7,402
Intangible assets		655	619
Deferred tax assets		270	521
Non-current assets and disposal groups held for sale	30	21,203	21,649
Other assets	31	14,350	7,619
Total Assets		926,389	911,328
Liabilities			
Derivative instruments and short positions	6,22	7,203	3,963
Deposits from Central Bank	6,32	24	69
Deposits from credit institutions	6,32	24,413	25,727
Deposits from customers	6,33-34	520,740	529,447
Debt issued and other borrowed funds	6,35	100,602	96,889
Subordinated loans	6	20,336	21,306
Tax liabilities		8,731	8,388
Non-current liabilities and disposal groups held for sale	30	3,167	2,790
Other liabilities	36	59,543	37,262
Total Liabilities		744,759	725,841
Equity			
Share capital	37	10,000	10,000
Share premium	37	55,000	55,000
Other reserves		2,516	2,535
Retained earnings		112,605	116,288
Total equity attributable to the equity holders of Íslandsbanki hf.		180,121	183,823
Non-controlling interests		1,509	1,664
Total Equity		181,630	185,487
Total Liabilities and Equity		926,389	911,328

The notes on pages 8 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2015

	Attributable to equity holders of Íslandsbanki hf.					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Equity at 1.1.2014	10,000	55,000	2,471	98,548	166,019	1,299	167,318
Translation differences for foreign operations			(144)		(144)		(144)
Net expense recognised directly in equity	-	-	(144)	-	(144)	-	(144)
Profit for the period				8,219	8,219	77	8,296
Total comprehensive income for the period	-	-	(144)	8,219	8,075	77	8,152
Changes in non-controlling interests					-	(97)	(97)
Equity at 31.3.2014	10,000	55,000	2,327	106,767	174,094	1,279	175,373
Equity at 1.1.2015	10,000	55,000	2,535	116,288	183,823	1,664	185,487
Translation differences for foreign operations			(19)		(19)		(19)
Net expense recognised directly in equity	-	-	(19)		(19)	-	(19)
Profit for the period				5,317	5,317	79	5,396
Total comprehensive income for the period	-	-	(19)	5,317	5,298	79	5,377
Dividends				(9,000)	(9,000)	(234)	(9,234)
Equity at 31.3.2015	10,000	55,000	2,516	112,605	180,121	1,509	181,630

The notes on pages 8 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2015

	Notes	2015 1.1-31.3	2014 1.1-31.3
Cash flows from operating activities:			
Profit for the period		5,396	8,296
Adjustments to reconcile profit for the period to cash flows by operating activities:			
Non-cash items included in profit for the period and other adjustments		(1,380)	(2,871)
Changes in operating assets and liabilities		(11,463)	8,372
Income tax paid		(1,441)	(767)
Net cash (used in) provided by operating activities		(8,888)	13,030
Net cash (used in) investing activities		(328)	(109)
Net cash provided by financing activities		4,316	5,352
Net (decrease) increase in cash and cash equivalents		(4,900)	18,273
Effects of exchange rate changes on cash and cash equivalents		(37)	(202)
Cash and cash equivalents at the beginning of the period		118,020	138,433
Cash and cash equivalents at the end of the period		113,083	156,504
Reconciliation of cash and cash equivalents:			
Cash on hand	21	2,579	2,402
Cash balances with Central Bank and term deposits	21	86,479	125,637
Bank accounts	23	24,025	28,465
Total cash and cash equivalents		113,083	156,504

Interest received from 1 January to 31 March 2015 amounted to ISK 11,530 million (Q1 2014: ISK 13,210 million) and interest paid in the same period 2015 amounted to ISK 5,143 million (Q1 2014: ISK 5,371 million). Interest is defined as having been paid when it has been deposited into the customer account and is available for the customer's disposal.

Non-cash transactions:

During the period 1 January to 31 March 2015 the Bank entered into the following non-cash investing and financing activities which have been excluded from the consolidated statement of cash flows:

a) In the Bank's annual general meeting held in March 2015 The Board of Directors decided to allocate ISK 9.000 million in dividends to shareholders. The amount was recognised as liability in March 2015 and the transaction had no cash effect on the Bank. The oustanding dividends were then paid in April 2015.

The notes on pages 8 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Notes to the Condensed Consolidated Financial Statements

Notes to the Condensed Consolidated Financial Statements

Accounting policies

General information

1. **The reporting entity**

Íslandsbanki hf. is a limited company incorporated and domiciled in Iceland. The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2015 comprise Íslandsbanki hf. (the parent) and its subsidiaries (together referred to as "the Bank").

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 12 May 2015.

2. **Basis of preparation**

2.1 *Statement of compliance*

The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2015 are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union.

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

2.2 *Basis of measurement*

The unaudited Condensed Consolidated Interim Financial Statements have been prepared on an historical cost basis except for the following items in the statement of financial position: bonds and debt instruments which are measured at fair value, shares and equity instruments which are measured at fair value, derivative financial instruments which are measured at fair value and non-current assets and disposal groups classified as held for sale which are measured at the lower of cost and fair value less cost to sell.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Bank, rounded to the nearest million.

2.3 *Significant accounting judgements and estimates*

The preparation of the unaudited Condensed Consolidated Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses recognised. The accounting estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

2.4 *Going concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has adequate resources to continue its operations for the foreseeable future. Therefore, the Condensed Consolidated Interim Financial Statements are prepared on a going concern basis.

3 **Significant accounting policies**

The accounting policies in these consolidated interim financial statements are the same as those applied in the Bank's consolidated financial statements for the year ended 31 December 2014.

Notes to the Condensed Consolidated Financial Statements

Business segments

4. A business segment is a distinguishable component of the Bank that is engaged in providing products or services that are subject to risks and rewards that may be different from those of other business segments. Transactions between the business segments are on normal commercial terms and conditions. No single customer generates 10% or more of the combined revenue of the Bank. The Bank operates in the Icelandic market.

The accounting policies for the reportable segments are in line with the Bank's accounting policies. The segment profit presented is the profit reported to the chief operating decision maker (CEO) and the Board of Directors for the purpose of resource allocation and assessment of segment performance.

The Bank is organised into six main business segments based on products and services:

a) Retail banking provides comprehensive banking services to individuals and small and medium-sized enterprises through 18 branches, call centre, self service and digital banking platforms. Retail Banking also operates two separately branded units, Ergo for asset- based financing and Kreditkort, a special credit card branch.

b) Corporate Banking provides lending and tailor-made financial services to larger companies and professional investors. Building on experience and industry expertise Corporate Banking offers universal banking services to customers through cross-selling and by connecting customers to other business units of the bank. Furthermore, Corporate Banking overseas the Bank's international business in the North Atlantic region where the focus is on the seafood, the offshore supply vessel and the energy industries.

c) Markets incorporates brokerage services in securities, foreign currencies and derivatives as well as providing money market lending and interbank services. The division further offers an extensive range of corporate finance services.

d) Wealth Management offers a range of wealth and asset management products and services for individuals, corporations and institutional investors. The Wealth Management unit consists of VÍB which offers a broad range of asset management products and services and the fund management companies Íslandssjódir and Summa.

e) Treasury is responsible for the management of liquidity risk, foreign exchange risk and interest rate risk within regulatory requirements and internal limits established by the Board of Directors. Treasury is responsible for funding the Bank´s operations and managing an internal pricing framework. Treasury also manages relations with investors and rating agencies.

f) Subsidiaries and equity investments include equity investments in the banking book and subsidiaries, the most significant being:
• Midengi, an asset management company managing commercial real estate and businesses which the Bank has acquired through repossessions following loan defaults, debt restructuring and bankruptcies of its customers
• Borgun, a credit card settlement company
• Allianz Ísland hf., an agent for the German insurance company Allianz, and its holding company Hringur eignarhaldsfélag ehf.
• D1 ehf., a commercial real estate company which holds and manages a portfolio of properties for leasing, thereof 18 properties leased by the Bank.

g) Cost centres comprise Head Office, Human Resources, Legal, Risk Management, Finance, Operations & IT, Group Internal Audit, Compliance and Business Development

On the following page is an overview showing the Bank's performance with a breakdown by business segments.

Notes to the Condensed Consolidated Financial Statements

4. Cont'd

1 January to 31 March 2015

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	4,168	1,231	314	160	493	(69)	(106)	6,191
Net fee and commission income	1,094	48	285	492	(18)	992	12	2,905
Other net operating income (exps.)	16	2	66	65	33	2,094	(363)	1,913
Total operating income	5,278	1,281	665	717	508	3,017	(457)	11,009
Salaries and related expenses	(1,040)	(122)	(225)	(266)	(22)	(410)	(1,375)	(3,460)
Other operating expenses	(674)	(21)	(28)	(57)	(17)	(436)	(1,130)	(2,363)
Insurance fund	(236)	(6)	(0)	(16)	(11)	(0)	-	(269)
Bank tax	-	-	-	-	(618)	-	-	(618)
Impairment charges and net valuation changes	265	2,147	(0)	-	-	11	(92)	2,331
Profit (loss) before cost allocation & tax	3,593	3,279	412	378	(160)	2,182	(3,054)	6,630
Net segment revenue from external customers	5,353	2,911	800	219	(1,161)	3,233	(346)	11,009
Net segment revenue from other segments	(75)	(1,630)	(135)	498	1,669	(216)	(111)	0

At 31 March 2015	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	416,275	225,922	27,486	4,865	195,412	94,360	(37,931)	926,389
Total segment liabilities	400,370	10,598	6,592	42,886	256,049	55,100	(26,837)	744,759

1 January to 31 March 2014

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	4,207	1,063	154	181	1,334	(170)	(123)	6,646
Net fee and commission income	1,092	34	534	483	(27)	728	10	2,854
Other net operating income (exps.)	18	-	(116)	(7)	(314)	1,984	120	1,685
Total operating income	5,317	1,097	572	657	993	2,542	7	11,185
Salaries and related expenses	(1,060)	(114)	(223)	(231)	(30)	(364)	(1,417)	(3,439)
Other operating expenses	(647)	(16)	(27)	(53)	(45)	(424)	(1,258)	(2,470)
Insurance fund	(228)	(4)	(0)	(17)	(9)	(0)	-	(258)
Bank tax	-	-	-	-	(592)	-	-	(592)
Impairment charges and net valuation changes	1,471	71	-	0	-	22	(44)	1,520
Profit (loss) before cost allocation & tax	4,853	1,034	322	356	317	1,776	(2,712)	5,946
Net segment revenue from external customers	5,435	2,696	622	15	(560)	2,843	134	11,185
Net segment revenue from other segments	(118)	(1,599)	(50)	642	1,553	(301)	(127)	0

At 31 March 2014	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	397,438	172,257	12,720	4,360	239,957	115,101	(57,790)	884,043
Total segment liabilities	396,260	7,825	6,618	52,512	224,225	63,228	(41,998)	708,670

Amounts are in ISK million

Quarterly statements

5. Operations by quarters:

	Q1* 2015	Q4* 2014	Q3* 2014	Q2* 2014	Q1* 2014
Net interest income	6,191	6,469	7,068	6,922	6,646
Net fee and commission income	2,905	2,962	2,849	2,818	2,854
Net financial income	1,764	603	83	19	863
Net foreign exchange (loss) gain	(140)	116	352	(12)	(291)
Share of profit of associates	63	-	-	27	-
Other net operating income	226	509	233	240	1,113
Salaries and related expenses	(3,460)	(3,497)	(2,930)	(3,441)	(3,439)
Other operating expenses	(2,363)	(2,914)	(2,301)	(1,909)	(2,470)
Contribution to the Depositors' and Investors' Guarantee Fund	(269)	(265)	(272)	(260)	(258)
Bank tax	(618)	(565)	(664)	(623)	(592)
Loan impairment charges and net valuation changes	2,331	3,006	65	4,219	1,520
Profit before tax	6,630	6,424	4,483	8,000	5,946
Income tax	(1,396)	(1,434)	(1,255)	(2,156)	(1,394)
Profit for the period from continuing operations	5,234	4,990	3,228	5,844	4,552
Profit (loss) for the period from discontinued operations	162	(430)	307	515	3,744
Profit for the period	5,396	4,560	3,535	6,359	8,296

*The half year results were reviewed by the Bank's auditors but the splits between quarters were not audited.

For the three months ended 31 March 2015 12 Amounts are in ISK million

Financial assets and liabilities

6. The following tables show the carrying value of financial assets and financial liabilities according to their IAS39 classification.

At 31 March 2015	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Liabilities at amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	98,274	-	98,274
Loans and receivables						
Loans to credit institutions	23	-	-	40,688	-	40,688
Loans to customers	24-25	-	-	637,877	-	637,877
Loans and receivables		-	-	776,839	-	776,839
Bonds and debt instruments						
Listed		58,069	31,388	-	-	89,457
Unlisted		-	1,744	-	-	1,744
Bonds and debt instruments		58,069	33,132	-	-	91,201
Shares and equity instruments						
Listed		5,669	2,777	-	-	8,446
Unlisted		-	3,454	-	-	3,454
Shares and equity instruments		5,669	6,231	-	-	11,900
Derivatives	22	1,843	-	-	-	1,843
Other financial assets		-	-	10,548	-	10,548
Total financial assets		65,581	39,363	787,387	-	892,331
Derivative instruments and short positions	22	7,203	-	-	-	7,203
Deposits from Central Bank	32	-	-	-	24	24
Deposits from credit institutions	32	-	-	-	24,413	24,413
Deposits from customers	33-34	-	-	-	520,740	520,740
Debt issued and other borrowed funds	35	-	-	-	100,602	100,602
Subordinated loans		-	-	-	20,336	20,336
Other financial liabilities		-	-	-	39,965	39,965
Total financial liabilities		7,203	-	-	706,080	713,283

Amounts are in ISK million

6. Cont'd

At 31 December 2014	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Liabilities at amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	103,389	-	103,389
Loans and receivables						
Loans to credit institutions	23	-	-	35,072	-	35,072
Loans to customers	24-25	-	-	634,799	-	634,799
Loans and receivables		-	-	773,260	-	773,260
Bonds and debt instruments						
Listed		54,273	31,347	-	-	85,620
Unlisted		-	1,727	-	-	1,727
Bonds and debt instruments		54,273	33,074	-	-	87,347
Shares and equity instruments						
Listed		4,810	2,917	-	-	7,727
Unlisted		-	2,804	-	-	2,804
Shares and equity instruments		4,810	5,721	-	-	10,531
Derivatives	22	1,810	-	-	-	1,810
Other financial assets		-	-	3,931	-	3,931
Total financial assets		60,893	38,795	777,191	-	876,879
Derivative instruments and short positions	22	3,963	-	-	-	3,963
Deposits from Central Bank	32	-	-	-	69	69
Deposits from credit institutions	32	-	-	-	25,727	25,727
Deposits from customers	33-34	-	-	-	529,447	529,447
Debt issued and other borrowed funds	35	-	-	-	96,889	96,889
Subordinated loans		-	-	-	21,306	21,306
Other financial liabilities		-	-	-	25,363	25,363
Total financial liabilities		3,963	-	-	698,801	702,764

Amounts are in ISK million

Fair value information for financial instruments

7. Financial instruments carried at fair value

The fair value of a financial instrument is the transaction price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where a market price is not readily available, the Bank applies valuation techniques based on estimates and assumptions that are consistent with that which market participants would use in setting a price for the financial instrument. In some instances the Bank uses approximation methods. These approximation methods are explained in more detail below.

The table below shows financial instruments carried at fair value categorised into levels of fair value hierarchy that reflect the significance of inputs used in making the fair value measurements as at 31 March 2015. The different levels have been defined as follows:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs that are unobservable, e.g. internal assumptions.

At 31 March 2015

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	58,346	31,637	1,218	91,201
Shares and equity instruments	10,204	921	775	11,900
Derivative instruments	-	1,843	-	1,843
Total financial assets	68,550	34,401	1,993	104,944

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	2,608	-	-	2,608
Derivative instruments	-	4,504	91	4,595
Total financial liabilities	2,608	4,504	91	7,203

The following table shows financial instruments carried at fair value categorised into levels of fair value hierarchy as at 31 December 2014.

At 31 December 2014

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	54,618	31,539	1,190	87,347
Shares and equity instruments	7,618	98	2,815	10,531
Derivative instruments	-	1,810	-	1,810
Total financial assets	62,236	33,447	4,005	99,688

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	686	0	-	686
Derivative instruments	-	3,184	93	3,277
Total financial liabilities	686	3,184	93	3,963

Amounts are in ISK million

7. Cont'd

Reconciliation of financial assets and liabilities categorised into Level 3

January-March 2015	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 31 December 2014	1,190	2,816	(93)
Sales	-	(759)	-
Net gains on financial instruments	28	146	2
Transfers from level 1 or 2	-	-	-
Transfers to level 1 or 2	-	(1,428)	-
Fair value at 31 March 2015	1,218	775	(91)

January-December 2014	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 31 December 2013	1,279	2,791	(85)
Purchases	-	709	-
Sales	(32)	(383)	-
Net gains on financial instruments	(57)	459	(8)
Transfers from level 1 or 2	-	-	-
Transfers to level 1 or 2	-	(760)	-
Fair value at 31 December 2014	1,190	2,816	(93)

One equity instrument, a total of ISK 1,194 million, was transferred from Level 3 to Level 1 due to its listing on the domestic market. One equity instrument, a total of ISK 234 million, was transferred to Level 2 as its value is now derived from its listed assets. No other instruments were transferred between levels in Q1 2015.

The responsibility for the valuation at fair value of financial instruments lies within the business units that are responsible for the positions. The business units are required to assess the valuation of their assets quarterly and present them for the Investment Committee which must give its approval of these valuations. Risk Management is responsible for reviewing the valuations, assessing the extent of market data used and categorising the valuation methods.

The objective of this valuation process is to arrive at a fair value measurement which reflects the price of the asset or liability that would be paid or received in an orderly transaction between market participants at the measurement date.

Where applicable, fair values are determined using quoted prices in active markets for identical assets and liabilities. The Bank defines an active market as one where transactions take place with sufficient frequency and volume. In other cases, where there is no active market, the fair value is estimated using valuation techniques such as net present value and discounted cash flow models; comparison with similar instruments for which observable market data exists; net asset value (NAV) for investment fund units or expected recovery for distressed bonds. These valuation techniques are based on various assumptions and inputs such as risk-free rate, expected revenue growth and credit and liquidity spreads. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required.

Amounts are in ISK million

7. Cont'd

In general, actively traded bonds and shares are classified as Level 1. The Bank classifies mutual fund units as shares and equity instruments in Level 3 and estimates the fair value for these units based on NAV where the unit prices are not readily available. Unlisted equities are initially booked at their transaction price but are revalued each quarter based on the models as described above. They are classified as Level 3. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Bank calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates. In general, standard bond options are classified as Level 2. The Bank classifies non-standard bond options as Level 3 due to the level of internal estimation used in their valuation.

The Bank's Level 1 financial assets and financial liabilities contain bonds and equities that are listed either domestically or abroad. Level 2 assets and liabilities contain illiquid bonds in the domestic markets, unlisted equities as well as derivatives. Level 3 assets contain primarily unlisted and illiquid equities and bonds and bond options.

The valuation of Level 3 financial assets is done on a case-by-case basis if the book value exceeds ISK 50 million. Assets that are valued at less than ISK 50 million represent only a fraction (approximately 3%) of the total portfolio and are only revalued if their valuation is expected to change significantly between quarters. The valuation methods are disclosed in the table below.

Valuation techniques used in the measurement of fair value of financial assets and liabilities categorised into Level 3

Valuation technique	Bonds and debt instruments	Shares and equity instruments	Derivatives	Significant unobservable input	Range of estimates (weighted average) for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Expected recovery	1,218	-	-	Value of assets	Bonds: 0-75% (31%)	An increase or decrease in the expected recovery would result in a similar change in the fair value
Discounted cash flow	-	273	-	Weighted average cost of capital (WACC)	11% (11%)	An increase in the WACC would result in a lower fair value and a decrease would result in a higher fair value
Net asset value	-	502	-	Value of assets	ISK 0-253m (ISK 43m)	An increase in net asset value would result in a higher fair value and a decrease would result in a lower fair value
Other	-	-	(91)	Bond price volatility	6% (6%)	An increase in the volatility would result in a lower fair value and a decrease would result in a higher fair value
Total assets	1,218	775	(91)			

Amounts are in ISK million

8. Financial instruments not carried at fair value

The table below shows the fair value measurement and classification of financial assets and liabilities not carried at fair value at 31 March 2015. The different levels are defined as before (see note 7).

Assets

Loans to customers on the Bank's balance sheet that are carried at amortised cost consist of two types:

1) Loans whose carrying amount is less than their claim value, due to either impairments or deep discount.
2) Loans whose carrying amount equals the claim value.

Loans in category 1) are specifically measured at least every six months and every three months for significant amounts and therefore it is considered that their carrying amount is a good approximation of their fair value. Since measurement is partially based on internal models they are classified as Level 3. The fair value of the loans in category 2) may differ from their carrying amount because the interest rate they carry may not reflect the interest rate that similar new loans would carry. This difference stems from two sources:

a) Credit migration: The debtors may not have the same credit-worthiness they had when the loans' interest rates were last reset and the collateralisation of the loan may have changed.
b) Fixed rate loans: The interest rate level used as a base for pricing fixed rate loans may have shifted.

The Bank calculates the fair value of loans in category 2) by discounting from the carrying amount the resulting interest rate difference from 31 March 2015 to the loan's next interest reset or maturity, whichever comes first. Since the credit-worthiness is estimated using the Bank's internal models these assets are classified as Level 3.
For “Cash and balances with Central Bank”, “Loans to credit institutions” and “Other financial assets” the fair value is very well approximated by the carrying amount since they are short term in nature. They are thus classified as Level 2.

Liabilities

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

On the liabilities side most deposits are on demand or carry floating interest rates and as such their carrying amount is considered a good approximation of their fair value. For longer term, fixed rate deposits the Bank calculates the fair value with a duration approach, using the difference in each liability´s current interest rate from the rate that a similar deposit would carry today. The fair value estimate of deposits does not take into account the effect of the Payment Service Directive on interest reset dates. All deposits are classified as Level 2 based on the use of observable market interest rates to estimate the fair value.

For the fair value of "Debt issued and other borrowed funds" the Bank uses an observed market value where it is available. Issued bonds and bills with quoted market prices are classified as Level 1. If there is no quoted market price the fair value of the debt is valued in the same manner as deposits if it carries a fixed rate. If the debt carries a floating rate its fair value is estimated by comparing the margin with the Bank’s current funding premium on similar debt. These liabilities are classified as Level 2. The Bank estimates its funding premium based on the interest margin on its issued papers including covered bonds, commercial papers as well as foreign currency denominated bonds.

The fair value of liabilities in "Subordinated loans" is estimated using a duration approach by comparing the contractual interest margin with the interest margin in the market on the Bank's issuance in foreign currency plus a margin to account for the fact that the subordinated liabilities are junior to the market traded debt. These liabilities are classified as Level 2.

Other financial liabilities mainly include unsettled securities transactions and liabilities to retailers for credit card provision and are classified as level 2 since their value is not observable from active market prices. Due to the short term nature of these liabilities their carrying amount is considered a good approximation of their fair value.

The following table shows the fair value for the Bank's assets and liabilities recognised at amortised cost.

At 31 March 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	98,274	-	98,274	98,274
Loans to credit institutions	-	40,688	-	40,688	40,688
Loans to customers	-	-	639,801	639,801	637,877
Other financial assets	-	10,548	-	10,548	10,548
Total financial assets	-	149,510	639,801	789,311	787,387

For the three months ended 31 March 2015 18 Amounts are in ISK million

8. Cont'd

At 31 March 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank	-	24	-	24	24
Deposits from credit institutions	-	24,413	-	24,413	24,413
Deposits from customers	-	520,791	-	520,791	520,740
Debt issued and other borrowed funds	39,125	61,857	-	100,982	100,602
Subordinated loans	-	20,336	-	20,336	20,336
Other financial liabilities	-	39,965	-	39,965	39,965
Total financial liabilities	39,125	667,386	-	706,511	706,080

At 31 December 2014	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	103,389	-	103,389	103,389
Loans to credit institutions	-	35,072	-	35,072	35,072
Loans to customers	-	-	636,141	636,141	634,799
Other financial assets	-	3,931	-	3,931	3,931
Total financial assets	-	142,392	636,141	778,533	777,191

At 31 December 2014	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank	-	69	-	69	69
Deposits from credit institutions	-	25,727	-	25,727	25,727
Deposits from customers	-	529,519	-	529,519	529,447
Debt issued and other borrowed funds	37,293	59,601	-	96,894	96,889
Subordinated loans	-	21,306	-	21,306	21,306
Other financial liabilities	-	25,363	-	25,363	25,363
Total financial liabilities	37,293	661,585	-	698,878	698,801

Amounts are in ISK million

Offsetting financial assets and financial liabilities

9. Offsetting financial assets and financial liabilities

The table below provides a summary of the financial assets and financial liabilities which are subject to enforceable master netting agreements of similar arrangements, even if they have not been offset in the statement of financial position.

a) Financial assets subject to offsetting, enforceable netting arrangements and similar agreements

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2015	Gross recognised financial assets before balance sheet netting	Balance sheet netting with gross recog-nised financial liabilities	Financial assets recognis-ed on the balance sheet, net	Recognised financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total assets recognised on the balance sheet
Derivatives	1,843	-	1,843	(319)	(140)	(67)	1,317	-	1,843
Total assets	1,843	-	1,843	(319)	(140)	(67)	1,317	-	1,843
At 31 December 2014									
Derivatives	1,810	-	1,810	(306)	(48)	(18)	1,438	-	1,810
Total assets	1,810	-	1,810	(306)	(48)	(18)	1,438	-	1,810

b) Financial liabilities subject to offsetting, enforceable netting arrangements and similar agreements

	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2015	Gross recognised financial liabilities before balance sheet netting	Balance sheet netting with gross recog-nised financial assets	Financial liabilities recognis-ed on the balance sheet, net	Recognised financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total liabilities recognised on the balance sheet
Derivative instruments and short positions	4,595	-	4,595	(319)	310	(1,808)	2,778	2,608	7,203
Total liabilities	4,595	-	4,595	(319)	310	(1,808)	2,778	2,608	7,203
At 31 December 2014									
Derivative instruments and short positions	3,277	-	3,277	(306)	-	(1,899)	1,072	686	3,963
Total liabilities	3,277	-	3,277	(306)	-	(1,899)	1,072	686	3,963

Amounts are in ISK million

Net interest income

10. Net interest income is specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Interest income:		
Cash and balances with Central Bank	1,160	1,753
Loans and receivables	9,894	10,248
Financial assets held for trading	199	393
Financial assets designated at fair value through profit or loss	350	415
Other assets	33	53
Total interest income	11,636	12,862
Interest expense:		
Deposits from credit institutions and Central Bank	(91)	(139)
Deposits from customers	(3,848)	(4,276)
Borrowings	(1,136)	(1,389)
Subordinated loans	(259)	(230)
Other financial liabilities	(33)	(93)
Other interest expense	(78)	(89)
Total interest expense	(5,445)	(6,216)
Net interest income	6,191	6,646

Net fee and commission income

11. Net fee and commission income is specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Fee and commission income:		
Asset management	404	393
Investment Banking and brokerage	422	694
Payment processing	3,149	2,841
Loans and guarantees	334	328
Other fees and commissions income	369	261
Total fees and commission income	4,678	4,517
Commission expenses:		
Interbank charges	-	(147)
Brokerage	(22)	(34)
Clearing and settlement	(1,746)	(1,332)
Other commission expenses	(5)	(150)
Total commission expenses	(1,773)	(1,663)
Net fee and commission income	2,905	2,854

Amounts are in ISK million

Net financial income

12. Net financial income is specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Net gain (loss) on financial instruments held for trading	351	(93)
Net gain on financial instruments designated at fair value through P&L	1,440	956
Net loss from associates	(27)	-
Net financial income	1,764	863

13. Net gain on financial instruments designated at fair value through profit or loss is specified as follows:

Shares	1,433	978
Bonds	7	(22)
Net gain on financial instruments designated at fair value through P&L	1,440	956

Net foreign exchange loss

14. Net foreign exchange loss is specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Assets:		
Cash and balances with Central Bank	(18)	(58)
Financial assets held for trading	(3,708)	(279)
Loans	2,528	(2,465)
Other assets	383	(14)
Total assets	(815)	(2,816)
Liabilities:		
Deposits	(1,092)	1,707
Subordinated loan	970	453
Debt issued and other borrowed funds	1,173	347
Other liabilities	(376)	18
Total liabilities	675	2,525
Net foreign exchange loss	(140)	(291)

Other net operating income

15. Other net operating income is specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Service level agreement fees	59	71
Legal cost and fees	41	36
Rental income	24	31
Rental income on foreclosed mortgages	58	92
Other net operating income	44	883
Other net operating income	226	1,113

Amounts are in ISK million

Salaries and related expenses

16. Salaries and related expenses are specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Salaries	2,694	2,661
Pension and similar expenses	395	382
Social security charges and financial activities tax	363	362
Other	60	34
Capitalised internal work	(52)	-
Salaries and related expenses	3,460	3,439

Other operating expenses

17. Other operating expenses are specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Other administrative expenses	2,175	2,273
Depreciation and amortisation	188	197
Other operating expenses	2,363	2,470

Loan impairment charges and net valuation changes

18. Loan impairment charges and net valuation changes:

	2015 1.1-31.3	2014 1.1-31.3
Impairment charged to the income statement:		
Specific impairment losses on financial assets	(1,165)	(5)
Net specific impairment losses on financial assets	(1,165)	(5)
Collective impairment	305	456
Total impairment charged to the income statement (see Note 26)	(860)	451
Net valuation changes on loans:		
Income due to revised estimated future cash flow from loans	3,191	1,069
Net specific impairment losses on financial assets	(1,165)	(5)
Net valuation changes on loans	2,026	1,064
Collective impairment	305	456
Loan impairment charges and net valuation changes	2,331	1,520

Amounts are in ISK million

Income tax rate

19. Income tax for the three month period ended 31 March 2015 is calculated at 20%. Special financial activities tax (FAT) is calculated as 6% of taxable profits above ISK 1 billion. The effective income tax rate in the Bank's income statement is 21,1% for the three months ended 31 March 2015.

Income tax recognised in the income statement is specified as follows:	2015 1.1-31.3	2014 1.1-31.3
Current tax expense	947	1,030
Special financial activities tax	195	244
Difference in prior year's imposed and calculated income tax	3	-
Deferred tax assets	251	120
Total	1,396	1,394

The effective income tax rate is computed as follows:	2015 1.1-31.3		2014 1.1-31.3	
Profit before tax	6,630		5,946	
20% income tax calculated on profit before tax	1,326	20.0%	1,189	20.0%
Special financial activities tax	195	2.9%	244	4.1%
Non-deductable expenses	124	1.9%	147	2.4%
Tax on income not subject to tax	(316)	(4.7%)	(792)	(13.3%)
Correction in accordance with ruling on prior year's taxable income	53	0.8%	-	0.0%
Other differences	14	0.2%	606	10.2%
Income tax	1,396	21.1%	1,394	23.4%

Earnings per share

20. Earnings per share are specified as follows:

	2015 1.1-31.3	2014 1.1-31.3
Net profit of the equity holders of the parent, according to the statement of comprehensive income	5,317	8,219
Average outstanding shares:		
Weighted average number of outstanding shares for the period, million	10,000	10,000
Average outstanding shares, million	10,000	10,000
Basic earnings per share	0.53	0.82
Diluted earnings per share	0.53	0.82

Amounts are in ISK million

Cash and balances with Central Bank

21. Specification of cash and balances with Central Bank:

	31.3.2015	31.12.2014
Cash on hand	2,579	2,256
Balances with Central Bank other than mandatory reserve deposits	11,838	10,738
Term deposits	74,641	80,843
Included in cash and cash equivalents	89,058	93,837
Mandatory reserve deposits with Central Bank	9,216	9,552
Cash and balances with Central Bank	98,274	103,389

The mandatory reserve deposits amounted to ISK 9,461 million for March 2015 (December 2014: ISK 9,629 million). The minimum average balance of the Central Bank current account for each month must be equivalent to the mandatory reserve deposits.

Derivative instruments and short positions

22. Derivative instruments and short positions:

At 31 March 2015	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	505	10,110	1,010	25,850
Cross currency interest rate swaps	916	19,456	2,149	34,395
Equity forwards	259	2,800	90	1,272
Foreign exchange forwards	44	2,521	956	15,899
Foreign exchange swaps	100	3,518	230	3,942
Bond forwards	19	1,060	69	3,070
Bond options	-	-	91	25,000
Derivatives held for trading	1,843	39,465	4,595	109,428
Short positions in listed bonds	-	-	2,608	-
Total	1,843	39,465	7,203	109,428

At 31 December 2014	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	360	10,800	1,027	18,950
Cross currency interest rate swaps	886	34,369	1,926	24,252
Equity forwards	144	1,605	117	1,482
Foreign exchange forwards	16	1,468	97	3,695
Foreign exchange swaps	306	4,744	2	963
Bond forwards	98	4,371	15	1,100
Bond options	-	-	93	25,000
Derivatives held for trading	1,810	57,357	3,277	75,442
Short positions in listed bonds	-	-	686	-
Total	1,810	57,357	3,963	75,442

Amounts are in ISK million

Loans

23. Loans to credit institutions:

	31.3.2015	31.12.2014
Money market loans	16,663	10,889
Bank accounts	24,025	24,183
Loans to credit institutions	40,688	35,072

24. Loans to customers:

	31.3.2015	31.12.2014
Loans to customers at amortised cost	637,877	634,799
Loans to customers	637,877	634,799

25. Loans to customers at amortised cost:

At 31 March 2015

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	262,277	(3,897)	258,380
Commerce and services	87,158	(3,125)	84,033
Construction	22,232	(3,416)	18,816
Energy	3,755	-	3,755
Financial services	456	-	456
Industrial and transportation	63,389	(686)	62,703
Investment companies	20,822	(3,239)	17,583
Public sector and non-profit organisations	11,161	-	11,161
Real estate	103,746	(586)	103,160
Seafood	81,502	(1,127)	80,375
Loans to customers before collective impairment allowance			640,422
Collective impairment allowance			(2,545)
Loans to customers	656,498	(16,076)	637,877

Amounts are in ISK million

25. Cont'd

At 31 December 2014

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	268,053	(5,205)	262,848
Commerce and services	83,590	(3,932)	79,658
Construction	21,472	(2,721)	18,751
Energy	7,315	-	7,315
Financial services	121	-	121
Industrial and transportation	63,019	(1,141)	61,878
Investment companies	15,531	(1,620)	13,911
Public sector and non-profit organisations	12,234	(18)	12,216
Real estate	100,774	(1,234)	99,540
Seafood	82,449	(1,037)	81,412
Loans to customers before collective impairment allowance			637,650
Collective impairment allowance			(2,851)
Loans to customers	654,558	(16,908)	634,799

26. Financial assets - impairments

The following table shows the movement in the provision for impairment losses for loans and receivables.

	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2015	16,908	2,851	19,759
Amounts written-off	(1,960)	-	(1,960)
Recoveries of amounts previously written-off	105	-	105
Principal credit adjustment	(142)	-	(142)
Charged to the income statement	1,165	(305)	860
At 31 March 2015	16,076	2,545	18,621

	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2014	24,234	3,682	27,915
Reclass 1 January	(137)	137	-
Amounts written-off	(9,745)	-	(9,745)
Recoveries of amounts previously written-off	934	-	934
Principal credit adjustment	(1,200)	-	(1,200)
Charged to the income statement	2,822	(967)	1,855
At 31 December 2014	16,908	2,851	19,759

	2015 1.1-31.3	2014 1.1-31.3
Impairment charged to the income statement:		
Loans to customers	860	(451)
Impairment charged to the income statement (see Note 18)	860	(451)

For the three months ended 31 March 2015 27 Amounts are in ISK million

Investment in associates

27. Changes in investments in associates:

	31.3.2015	31.12.2014
Investment in associates at the beginning of the year	570	1,563
Additions during the period	-	62
Revaluation	(26)	(20)
Share of results	63	27
Distribution of capital	-	(1,062)
Investments in associates at the end of the period	607	570

Investment in subsidiaries

28. Significant subsidiaries:

	Location	Ownership
Borgun hf., Ármúla 30, 108 Reykjavík	Iceland	63.5%
Íslandssjódir hf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
Midengi ehf., Lækjargötu 12, 155 Reykjavík	Iceland	100%
Hringur eignarhaldsfélag ehf., Digranesvegi 1, 200 Kópavogur	Iceland	100%
Allianz Ísland hf., Digranesvegi 1, 200 Kópavogur	Iceland	100%
D-1 ehf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
Geysir Green Investment Fund slhf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
Fergin ehf., Hesthálsi 6-8, 110 Reykjavík	Iceland	80%
Frumherji hf., Hesthálsi 6-8, 110 Reykjavík	Iceland	80%
23 other subsidiaries (SME)		

Related party disclosures

29. Ultimate controlling party

The Bank has determined that ISB Holding is the ultimate controlling party of the Bank with GLB Holding having significant influence. This is reflected in the related party transactions.

Entities which are controlled, jointly controlled or significantly influenced by the government (state-controlled entities) are not considered as being a related party if neither entity actually influenced the other and if the state did not actually influence either entity with regards to transactions between them. The Bank's transactions with state-controlled entities during the period were based on general business terms of the Bank.

Related party transactions

The Bank has a related party relationship with its associates, the Board of Directors of the parent company and the ulitmate controlling party, the Management Board, close family members of individuals referred to herein, and entities with significant influence as the largest shareholders of the Bank.

All loans to employees are provided on general business terms of the Bank. Included in assets are loans to key management.

Related parties have transacted with the Bank during the period as follows:

	31.3.2015			31.12.2014		
	Assets	Liabilities	Total	Assets	Liabilities	Total
CEO and Man. Directors (incl. comp. owned by them)	238	(137)	101	253	(130)	123
Members of the Board (incl. comp. owned by them)	9,142	(1,241)	7,901	8,658	(1,133)	7,525
Associated companies and other related parties	501	(970)	(469)	553	(1,316)	(763)
Total	9,881	(2,348)	7,533	9,464	(2,579)	6,885

	31.3.2015	31.12.2014
Guarantees	1,306	544
Loan commitments, overdraft and credit card commitments	222	609

Impairment allowances of ISK 2 million (2014: ISK 0 million) were recognised in the period against balances outstanding with associated companies.

No share option programmes were operated during the reporting period 1 January - 31 March 2015.

For the three months ended 31 March 2015 28 Amounts are in ISK million

Non-current assets and disposal groups held for sale

30. Specification of non-current assets and disposal groups held for sale:

	31.3.2015	31.12.2014
Repossessed collateral	8,728	8,592
Assets of disposal groups classified as held for sale	12,475	13,057
Total	21,203	21,649

Repossessed collateral:

Land and property	8,269	8,176
Industrial equipment and vehicles	94	51
Shares and equity instruments	365	365
Total	8,728	8,592

Assets of disposal groups classified as held for sale:	31.3.2015	31.12.2014
Cash	713	150
Equity instruments	775	775
Receivables	609	1,050
Tax assets	16	78
Properties and land	6,281	6,820
Equipment	449	411
Other assets	3,632	3,773
Total	12,475	13,057

Liabilities associated with assets classified as held for sale:	31.3.2015	31.12.2014
Payables	136	80
Deferred tax liabilities	102	76
Income tax payable	54	45
Borrowings	2,474	2,284
Other liabilities	401	305
Total	3,167	2,790

Other assets

31. Other assets are specified as follows:

	31.3.2015	31.12.2014
Receivables	5,714	4,845
Unsettled securities transactions	7,281	1,660
Accruals	610	606
Prepaid expenses	445	213
Other assets	300	295
Other assets	14,350	7,619

For the three months ended 31 March 2015 29 Amounts are in ISK million

Deposits from Central Bank and credit institutions

32. Deposits from Central Bank and credit institutions are specified as follows:

	31.3.2015	31.12.2014
Repurchase agreements with Central Bank	24	69
Deposits from credit institutions	24,413	25,727
Deposits from Central Bank and credit institutions	24,437	25,796

Deposits from customers

33. Deposits from customers are specified by type as follows:

	31.3.2015	31.12.2014
Demand deposits	419,850	421,332
Time deposits	100,890	108,115
Deposits from customers	520,740	529,447

34. Deposits from customers are specified by owners as follows:

	31.3.2015		31.12.2014	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	10,390	2%	11,437	2%
Municipalities	8,454	2%	6,810	1%
Companies	299,773	58%	310,317	59%
Individuals	202,123	38%	200,883	38%
Deposits from customers	520,740	100%	529,447	100%

Debt issued and other borrowed funds

35. Specification of debt issued and other borrowed funds:

	31.3.2015	31.12.2014
Non-listed issued bonds	26,581	27,810
Listed issued bonds	71,334	66,460
Loans from credit institutions	2	2
Other debt securities	2,685	2,617
Debt issued and other borrowed funds	100,602	96,889

Amounts are in ISK million

Other liabilities

36. Specification of other liabilities:

	31.3.2015	31.12.2014
Accruals	3,557	3,250
Liabilities to retailers for credit card provision	27,367	22,639
Provision for effects of court rulings*	2,638	2,808
Provision for estimated losses from guarantees and others**	503	1,629
Capital gains tax	697	1,623
Unsettled securities transactions	11,929	1,798
Deferred income	205	192
Dividends	9,000	-
Sundry liabilities	3,647	3,323
Other liabilities	59,543	37,262

	Provision for effects of court rulings*	Provision for estimated losses from guarantees and others**	Total
At 1 January 2015	2,808	1,629	4,437
Provision used during the year	(170)	-	(170)
New provisions and reversed provisions during the year	-	(1,126)	(1,126)
At 31 March 2015	2,638	503	3,141

Equity

37. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 each. At 31.3.2015 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital:

	31.3.2015	31.12.2014
Ordinary share capital	10,000	10,000
Share premium account	55,000	55,000
Total share capital	65,000	65,000

Balance of custody assets

38. Balance of custody assets:

	31.3.2015	31.12.2014
Custody assets	712,997	666,715

Contingencies

39. **Indexed loans**

Three court cases have been filed, one against the Bank and the others against the Housing Financing Fund (HFF) and Landsbanki, challenging the legality of fixing the principal of a mortgage to the consumer price index (CPI). Such indexation has been the industry standard in Iceland for over 30 years, although the method of calculating the index has changed over the years with the most recent change being introduced in 1995. The courts did support a motion by the plaintiffs in all the cases to seek an opinion of the EFTA court on some key issues.

Amounts are in ISK million

39. Cont'd

The case against the Bank is based on the indexation being in violation of the EU Directive 93/13/EU (Directive) on unfair terms in consumer loan contracts. As a secondary ground, the plaintiff sought to nullify the CPI increase by stating that the index was wrongfully applied as far as a proper forecast of the effect of the CPI was concerned, namely by using a zero-inflation forecast in calculating the annual percentage rate of charge (APRC) and the payment schedule. This, the plaintiff stated, was in violation of the procedure mandated by the Law on Consumer Credit. The Directive does not prohibit the use of price indexation, provided that the consumer is adequately informed about the method of calculating the index and the factors that affect changes in the index. Thus, the case does not challenge the indexation as such, but only the context in which it is deployed. This will not affect corporate customers as the Directive is limited to consumer loans. As the Directive does not require full harmonisation, it was not adopted by Iceland in its entirety. Instead, the existing contract law was amended by adding four new articles. The EFTA Court published its opinion on 28 August 2014. In short, the Court stated that:

1. The EU Directive 93/13/EU does not generally prohibit contractual terms on the indexation of mortgage loans in contracts between a supplier and a consumer. It is for the referring court to assess whether the term at issue is deemed to be unfair.
2. The Directive does not limit the discretion of an Euopean Economic Area State to determine, whether through legislation or by means of administrative regulation, the factors that may cause changes in a pre-determined index, such as the Icelandic consumer price index, as well as the methods for measuring those changes, provided they are explicitly described in the contract.
3. It is for the competent court to establish whether a particular contract term has been negotiated individually within the meaning of the Directive.
4. It is for the competent court to establish whether a contract term relating to the indexation of repayment instalments of a loan to finance real estate purchases must be regarded as having been explicitly and comprehensibly described to the consumer.
5. Article 6(1) of the Directive must be interpreted as meaning that, where a national court considers that a given term is unfair within the meaning of the Directive, that court must ensure that such a clause is not binding to the consumer provided that the contract is capable of continuing in existence without the unfair term in so far as, in accordance with the rules of domestic law, such a continuity of the contract is legally possible.

Thus, the general conclusion of the EFTA Court was that indexation is permissible in consumer contracts, but Icelandic courts must decide if it is properly applied and described to the consumer.

The District Court of Reykjavik ruled on the case against the Bank, as well as the HFF case, on 6 February 2015. It found that indexation was neither in violation of EU Directive 93/13/EEC, nor the Icelandic Law on Contracts. Although not presented as an argument by the plaintiff in the beginning of the court proceedings, the Court also ruled on the compatibility of using zero-inflation forecast in calculating the annual percentage rate of charge (APRC) and the payment schedule. Like the EFTA Court and the Consumer Agency (see below), it found that although such a forecast was not satisfactory in light of the 1994 Act on Consumer Credit, the increase of principal was nevertheless enforceable. The Court found that the plaintiff did not demonstrate in any way that the increase was beyond what he should have expected, given the widespread and common use of indexation in the last decades. The ruling in the HFF case was founded on the same arguments.

The Landsbanki case has changed during the court procedure making the case similar to the one that the Bank is defending.

The Consumer Agency (the “Agency”) published in February 2014 its decision on a matter regarding the terms of, and information relating to the granting of, a consumer price indexed (“CPI-linked”) mortgage by the Bank in 2005. In short, the decision was based on the arguments later presented by the EFTA Court. The Consumer Appellate Committee decided on the case on 23 February 2015 along the same lines now presented by EFTA Court. However, the committee did not agree with the Consumer Agency on the method of forecasting, stating that the two month change in the CPI prior to the loan did not constitute a satisfactory forecast foundation.

The procedure in question has been upgraded following the implementation of the new Act on Consumer Credit.

Variable rate loans

The Consumer Agency (the “Agency”) published in September 2014 its decision on a matter regarding the terms of, and information relating to the granting of, a consumer mortgage with interest reset terms by Íslandsbanki in 2005. The Agency found that the terms offered by Íslandsbanki, and its predecessor, regarding the method and conditions of resetting interest to be in breach of Articles 6 and 9 of Act no. 121/1994 on Consumer Credit (superseded in November 2013). The Agency believes that the terms offer insufficient explanation on how or what can affect the decision on the revised interest rate. To support its decision, the Agency cites among other things a former 2009 decision of the Consumer Appellate Committee. The Bank has stated officially that it disagrees with the Agency's decision on the point that the law requires such detailed explanations on the outcome of a change in interest rate. The terms explicitly state the time period when the Bank can change the interest rate (every 5 years) and, moreover, that the borrower can settle the loan without a pre-settlement charge if he or she is not content with the change. The precedent quoted by the Agency did not involve such terms.

As previously mentioned, Article 12 of the former Consumer Credit Act allows the calculation of the ARPC on the assumption that the price level, interest rate and other charges will remain unchanged to the end of the credit agreement. Thus, the Bank notified each borrower on the effects of variable interest rates, for example the payment schedule document did state: “Please note that this schedule is based on the present CPI, interest rate and service charges list in effect at Íslandsbanki at the time of issuance."

39. Cont'd

There is no doubt that similar terms were applied by all major financial institutions serving the housing loan market, including the Housing Financing Fund (HFF). The Bank has decided to postpone some scheduled interest rate changes. Customers have the option of receiving better terms by restructuring their loans with the appropriate documentation, fully adapted to the new legislation on consumer loans. The decision of the Agency has been appealed to the Consumer Appellate Committee.

Foreign currency loans

Several rulings of the Supreme Court of Iceland during the period from 2010 to the first months of 2015 in relation to foreign currency-linked (FX-linked) loans have affected the Bank. Most important of these rulings was a ruling in June 2010 on the illegality of the principal of loans in ISK being linked to foreign currencies. Consequently, such loans could not carry Libor/Euribor interest rates.

The effects of these rulings and the subsequent corrections to the recalculations of illegal FX-linked loans have been reflected in the value of the loans in the Bank's Consolidated Financial Statements.

The court rulings combined have to this day gradually reduced the uncertainty regarding which foreign currency loans are illegal and how they should be recalculated. The corrective process is in its final stages, the last mass-recalculation in process involves corporate financial leasing contracts.

As for later developments, some former rulings were based on the Bank being the dominant and expert party in the contractual relationship. Recent judgements imply that former rulings do not necessarily apply to other financial institutions or large companies as counterparties, especially if those conduct their business in part abroad or deal in foreign currency contracts on a regular basis. Moreover, the Supreme Court found in favour of a bank in a case in which a customer did not pay instalments on a regular basis and deviated significantly from the original payment schedule. Consequently, the Bank revised its categorisation on which loans should be recalculated. The result did only slightly differ from the previous categorisation.

Two significant court cases involving three corporate Glitnir/Íslandsbanki loan contracts were concluded in February 2015. Although such contracts are not great in numbers, they carry the greatest sums. Thus, the precedent value was significant (approx. ISK 3-5 billion in the two cases). In the District Court the Bank argued that the contracts differ from those previously ruled on by way of the method by which the loan was disbursed. If the contract says that the debtor can explicitly request payment in any currency and the contract is fulfilled in that manner, the maximum contract amount can be presented in ISK without offsetting the foreign currency loan validity of the contract. The District Court ruled in favour of the Bank in both cases, finding the contracts in question valid and fully enforceable as foreign denominated loans. The Supreme Court agreed in both cases, with verdicts passed on 15 January 2015 and 12 February 2015. A third case involving smaller sums was likewise concluded in March. In light of these precedents, one or two additional court cases were dropped by the plaintiffs.

Settlement of the 2011 Byr acquisition

The Bank acquired Byr (a former Savings Bank) in 2011 from the Byr Winding-up Committee (the "Committee") and the Icelandic Ministry of Finance and Economic Affairs (the "Ministry"). According to standard practice, the Bank retained the right to re-evaluate the value of the assets acquired and subsequently to demand a refund if the value of the assets was not in line with what was presented in the official accounts of the company. A claim amounting to ISK 6,943 million plus interest was filed with the Committee in June 2013. The claim is filed as a priority claim, according to Article 110 of Law 21/1991, to be set off against a bond amounting to ISK 5,834 million (with settlement dates in November 2014 and 2015). Payments on the bond have been, and will be, made with reservation. The Committee rejected the claim with a letter dated 30 September 2013. At a creditors meeting in December 2013 it was decided that the Committee would refer the dispute to the District Court of Reykjavík. A formal claim amounting to ISK 911 million plus interest was filed with the Ministry on 24 September 2014. Both claims, on the Ministry and on the Committee, have been filed with the District Court of Reykjavík. Furthermore, the District Court has appointed two independent professionals, at the request of Íslandsbanki, to perform a formal evaluation of the Bank's claim on the Ministry and the Committee. The evaluation is expected to be completed before the end of the second quarter of 2015. Court proceedings will presumably commence in the last quarter of 2015. The Bank has not recognised any revenues relating to this claim in its Consolidated Financial Statements.

Formal investigation by the Icelandic Competition Authority regarding an alleged violation of competition law by Íslandsbanki

The Icelandic Competition Authority (“ICA”) has initiated an investigation concerning alleged violations of the Competition Law by the Bank. Details of the investigation remain confidential.

The ICA has requested and received information from the Bank and has, following its review, sent the Bank an opposition document. The ICA considers the violations to be extensive, to have been in existence for a considerable period of time and to concern important markets. The opposition document is one stage in the processing of the case and does not comprise a final administrative decision.

The Bank strongly disagrees with the ICA's findings and has presented its objections and is working with the ICA to resolve the case. However, should the ICA's findings be final, sanctions may come into consideration, in accordance with Article 37 of the Competition Act.

39. Cont'd

Formal request for information by the EFTA Surveillance Authority into alleged unlawful state aid to Íslandsbanki

On 22 October 2013 the EFTA Surveillance Authority ("ESA"), following a complaint dated 23 September 2013, formally requested information on alleged unlawful state aid granted to Íslandsbanki through long term funding at favourable interest rates by the Central Bank of Iceland.

The Icelandic authorities and the Bank have sent all relevant information and their observations as per the ESA request, in order to determine whether or not the measures complained of involve state aid based on interpretation of Article 61 of the EEA Agreement, or qualify for an exemption under Article 61(2) or (3) of the EEA Agreement. Both parties state that the measures, which are the topic of the complaint, cannot be considered state aid within the meaning of Article 61(1) of the EEA Agreement, as the funding in question was provided at what has to be considered market rates at the time and were indeed favourable to the Central Bank. However, should ESA disagree, then the measures must be considered state aid compatible with the functioning of the EEA Agreement under Article 61(3) (b) of the EEA Agreement.

The Depositors' and Investors' Guarantee Fund

In 2010, under a previous legislation, the Bank was required to grant the Depositors' and Investors' Guarantee Fund a declaration of guarantee in case the fund's assets did not meet the required minimum amount. Accordingly, the Bank issued a declaration of guarantee for future obligations amounting to ISK 3,724 million. The Bank did not recognise a liability in its financial statements in respect of this declaration which is now considered void. The amended legislation does not stipulate a requirement for such a declaration of guarantee. However, there remains some uncertainty as to its validity in relation to losses originated in the period from October 2008 to June 2012.

Events after the end of the reporting period

40. No events have arisen after the reporting period that require amendments or additional disclosures in the Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2015.

Risk Management

41. Risk governance

The Bank is exposed to various risks and managing these risks is an integral part of the Bank's operations. More information about the Bank's risk management and risk assessment processes is available in the Pillar 3 Report 2014. The Pillar 3 Report is available at the Bank's website under investor relations: www.islandsbanki.is/pillar3report

Credit risk

42. Credit risk is defined as current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Bank or to otherwise fail to perform as agreed.

This risk comprises default risk, recovery risk, country risk, settlement risk and credit concentration risk.

Credit concentration risk is the significantly increased risk that is driven by common underlying factors, e.g. sector, economy, geographical location, type of financial instrument or due to connections or relations among counterparties. This includes large individual exposures to parties under common control and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

Credit risk arises principally from the Bank's loans and advances to customers and other banks but also from balances with the Central Bank and off-balance sheet items such as guarantees, loan commitments and derivatives.

43. Maximum credit exposure

The Bank's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position before the collective impairment allowance is subtracted, see note 25 . The maximum exposure for off-balance sheet items is the amount that the Bank might have to pay out against financial guarantees and loan commitments, less provisions the Bank has made because of these items. The maximum credit exposure for a derivative contract is calculated by adding future credit exposure to the market value of the contract as described in Annex III of the European Parliament directive 2006/48/EC (Basel II).

The industry breakdown shows the Bank's credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard.

The Bank's credit exposure, before taking account of any collateral held or other credit enhancements, is as follows:

Credit risk exposure

43. Cont'd

Maximum credit exposure 31.3.2015

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	98,274	-	-	-	-	-	-	-	-	-	98,274
Derivatives	58	-	156	93	1,082	2,155	28	29	290	147	99	4,137
Bonds and debt instruments	-	85,339	-	-	1,013	3,333	288	890	52	286	-	91,201
Loans to credit institutions	-	-	-	-	-	40,688	-	-	-	-	-	40,688
Loans to customers:	258,380	-	84,033	18,816	3,755	456	62,703	17,583	11,161	103,160	80,375	640,422
Overdrafts	13,055	-	10,427	3,639	35	391	5,504	409	718	2,312	1,785	38,275
Credit cards	14,109	-	1,412	151	4	26	389	37	148	46	40	16,362
Mortgages	183,872	-	-	-	-	-	-	-	-	-	-	183,872
Leases	10,075	-	17,183	2,362	-	1	5,977	217	178	1,199	250	37,442
Other loans	37,269	-	55,011	12,664	3,716	38	50,833	16,920	10,117	99,603	78,300	364,471
Off-balance sheet items:												
Financial guarantees	1,429	-	3,400	2,362	-	1,169	1,544	38	29	143	522	10,636
Undrawn loan commitments	-	-	1,198	6,590	9,626	-	969	2,273	6,451	4,009	1,790	32,906
Undrawn overdraft	8,322	-	7,133	1,671	22	2,840	2,557	210	2,850	1,053	1,873	28,531
Credit card commitments	24,819	-	3,495	496	31	165	942	162	822	205	141	31,278
Total maximum credit exposure	293,008	183,613	99,415	30,028	15,529	50,806	69,031	21,185	21,655	109,003	84,800	978,073

Amounts are in ISK million

43. Cont'd

Maximum exposure 31.12.2014

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	103,389	-	-	-	-	-	-	-	-	-	103,389
Derivatives	28	-	423	17	805	2,644	28	16	121	49	-	4,131
Bonds and debt instruments	-	79,834	-	-	291	5,785	-	890	251	296	-	87,347
Loans to credit institutions	-	-	-	-	-	35,072	-	-	-	-	-	35,072
Loans to customers:	262,848	-	79,658	18,751	7,315	121	61,878	13,911	12,216	99,540	81,412	637,650
Overdrafts	12,751	-	10,075	3,432	34	60	4,762	549	1,343	2,164	2,058	37,228
Credit cards	15,583	-	1,334	156	4	23	355	29	132	43	31	17,690
Mortgages	186,583	-	-	-	-	-	-	-	-	-	-	186,583
Leases	10,241	-	15,559	2,581	-	1	5,960	213	196	1,249	231	36,231
Other loans	37,690	-	52,690	12,582	7,277	37	50,801	13,120	10,545	96,084	79,092	359,918
Off-balance sheet items:												
Financial guarantees	1,444	-	2,318	2,281	-	1,170	1,134	39	39	166	533	9,124
Undrawn loan commitments	-	-	996	8,248	5,816	-	2,639	1,400	7,247	4,234	443	31,023
Undrawn overdraft	9,216	-	7,459	1,618	23	3,673	2,561	187	1,874	975	1,361	28,947
Credit card commitments	23,183	-	3,455	477	31	167	906	166	818	197	144	29,544
Total maximum credit exposure	296,719	183,223	94,309	31,392	14,281	48,632	69,146	16,609	22,566	105,457	83,893	966,227

Amounts are in ISK million

44. Credit exposure covered by collateral

Collateral and other credit mitigants vary between types of obligors and credit facilities. Loans to credit institutions are usually unsecured. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Bank takes a charge over assets such as real estate, fishing vessels, cash and securities and as well as other collateral including accounts receivables, inventory, vehicles and equipment. Loans to government entities and to municipalities are more often than not unsecured. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

In some cases the Bank uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Bank's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. Collateral is allocated according to claim value of loans, not carrying amount, and is measured without including the effect of overcollateralisation. This means that if some loans have collateral values in excess of their claim value, then the excess is removed in order to reflect the Bank's actual maximum exposure to credit risk. The total value of pledged assets can thus be higher than the cover indicates.

An estimate of the collateral held by the Bank against credit exposure is shown below:

At 31 March 2015	Real estate	Fishing vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	4,027	-	-	4,027
Loans and commitments to customers:	395,114	73,720	5,413	33,966	22,472	530,685
Individuals	209,562	36	415	9,764	14	219,791
Commerce and services	42,339	368	307	15,832	8,103	66,949
Construction	14,012	262	40	2,086	1,631	18,031
Energy	2,863	-	415	-	125	3,403
Financial services	40	-	23	1	-	64
Industrial and transportation	17,311	-	148	5,481	6,344	29,284
Investment companies	5,395	-	3,012	262	3,977	12,646
Public sector and non-profit organisations	1,029	-	10	162	-	1,201
Real estate	98,152	-	762	123	96	99,133
Seafood	4,411	73,054	281	255	2,182	80,183
Total	395,114	73,720	9,440	33,966	22,472	534,712

At 31 December 2014	Real estate	Fishing vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	2,500	-	-	2,500
Loans and commitments to customers:	391,139	74,032	5,991	33,473	24,174	528,809
Individuals	213,550	41	469	9,901	12	223,973
Commerce and services	40,484	290	472	14,525	8,838	64,609
Construction	13,217	269	59	2,473	1,592	17,610
Energy	1,260	-	411	1	152	1,824
Financial services	39	-	32	1	-	72
Industrial and transportation	16,487	-	148	5,760	7,914	30,309
Investment companies	4,973	-	3,434	248	2,642	11,297
Public sector and non-profit organisations	1,510	-	11	179	-	1,700
Real estate	94,859	-	650	143	564	96,216
Seafood	4,760	73,432	305	242	2,460	81,199
Total	391,139	74,032	8,491	33,473	24,174	531,309

For the three months ended 31 March 2015 37 Amounts are in ISK million

45. Credit quality of financial assets

Loans are classified as impaired loans if there is objective evidence that an impairment loss has been incurred on loans, their carrying amount is reduced through the use of an allowance account to the present value of expected future cash flows, discounted at their effective interest rate.

The full carrying amount of all loans which give rise to individual impairment is included in impaired loans, even if parts are covered by collateral. The collective impairment has not been subtracted from the carrying amount here.

At 31 March 2015

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	98,274	-	-	98,274
Derivatives	4,137	-	-	4,137
Bonds and debt instruments	91,201	-	-	91,201
Loans to credit institutions	40,688	-	-	40,688
Loans to customers:	599,739	27,906	12,777	640,422
Individuals	234,525	17,964	5,891	258,380
Commerce and services	80,411	2,289	1,333	84,033
Construction	15,606	2,170	1,040	18,816
Energy	3,755	-	-	3,755
Financial services	418	38	-	456
Industrial and transportation	61,127	966	610	62,703
Investment companies	15,922	1,007	654	17,583
Public sector and non-profit organisations	11,122	39	-	11,161
Real estate	100,240	2,425	495	103,160
Seafood	76,613	1,008	2,754	80,375
Total	834,039	27,906	12,777	874,722

At 31 December 2014

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	103,389	-	-	103,389
Derivatives	4,131	-	-	4,131
Bonds and debt instruments	87,347	-	-	87,347
Loans to credit institutions	35,072	-	-	35,072
Loans to customers:	595,903	27,619	14,128	637,650
Individuals	237,253	18,752	6,843	262,848
Commerce and services	75,572	2,253	1,833	79,658
Construction	17,319	914	518	18,751
Energy	7,315	-	-	7,315
Financial services	84	37	-	121
Industrial and transportation	60,295	881	702	61,878
Investment companies	12,500	766	645	13,911
Public sector and non-profit organisations	12,165	51	-	12,216
Real estate	96,905	1,969	666	99,540
Seafood	76,495	1,996	2,921	81,412
Total	825,842	27,619	14,128	867,589

Amounts are in ISK million

46. Neither past due nor impaired loans

The Bank uses internal rating models to assess the default probability of corporate and retail customers. The models assign each customer to one of ten risk classes. One risk class is for customers in default (risk class 10), and nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned on customer level and not facility level.

The rating of corporate customers is based on a company's most recent financial statement, together with a qualitative assessment of its management, market position and industry sector.

For retail customers the Bank uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Bank of less than ISK 150 million. These models are behavioural scoring models and use information about a customer's payment history, amount of debt and deposits, and demographic variables to assess the probability that a customer will default on any of his obligations within 12 months of the rating assessment.

The table below shows loans that are neither past due nor impaired aggregated in five customer groups based on the default probability. Group 1-4 represents low risk, group 5-6 moderate risk, group 7-8 increased risk, risk class 9 high risk, and risk class 10 represents customers in default. Unrated are loans originating from subsidiaries of Íslandsbanki that do not have rating models, in addition to loans that are yet to be rated or with an expired rating.

Note that the same customer can have loans that are more than 90 days past due or impaired, and at the same time other loans that are neither past due nor impaired. Those customers will be in risk class 10 and their loans that are neither past due nor impaired are included in the table below.

At 31 March 2015

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	Total
Loans to customers							
Individuals	10,671	87,026	86,193	43,632	3,580	3,423	234,525
Commerce and services	15,579	36,637	22,598	3,475	558	1,564	80,411
Construction	220	7,076	6,320	1,093	176	721	15,606
Energy	353	3,367	35	-	-	-	3,755
Financial services	383	12	20	-	1	2	418
Industrial and transportation	21,984	30,918	6,348	1,269	60	548	61,127
Investment companies	1,131	8,877	4,258	1,194	18	444	15,922
Public sector and non-profit organisations	6,067	4,735	256	19	-	45	11,122
Real estate	31,856	49,301	14,987	2,360	1,156	580	100,240
Seafood	39,726	27,131	5,419	459	2,106	1,772	76,613
Total	127,970	255,080	146,434	53,501	7,655	9,099	599,739

At 31 December 2014

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	Total
Loans to customers							
Individuals	10,432	91,744	84,838	43,101	3,659	3,479	237,253
Commerce and services	15,240	35,903	18,182	3,891	1,873	483	75,572
Construction	381	6,698	7,032	846	2,321	41	17,319
Energy	3,877	3,396	42	-	-	-	7,315
Financial services	50	13	19	1	-	1	84
Industrial and transportation	21,850	30,334	6,822	1,128	161	-	60,295
Investment companies	1,143	7,013	2,604	1,450	25	265	12,500
Public sector and non-profit organisations	7,094	4,815	248	6	-	2	12,165
Real estate	31,145	46,626	14,369	2,686	2,012	67	96,905
Seafood	39,777	28,171	6,176	746	1,625	-	76,495
Total	130,989	254,713	140,332	53,855	11,676	4,338	595,903

Amounts are in ISK million

47. Restructuring and forbearance

Restructuring of customers' debt has been one of the Bank's main tasks since October 2008. This has been a challenge as such a large part of customers have needed forbearance measures. Legal issues, political environment and the general economy have contributed in ways of uncertainty and complications. The Bank has set in place processes and resources to take on this task. The Bank's management team is kept well informed on the status of restructuring on a regular basis.

The Bank has offered several debt relief measures and restructuring frameworks for its customers since its establishment. These restructuring frameworks include principal adjustment and recalculation of currency linked loans, debt adjustment for companies and individuals, 110% adjustment of mortgages, the Government's debt relief programme, write-offs and tailor made solutions in complicated cases where general solutions do not suffice.

Other forbearance measures which the Bank can make available include temporary payment holidays, extension of loan terms, capitalisation of arrears and waiving of covenants. In many cases these measures are precursors to the more formal restructuring process.

48. Past due but not impaired loans

Past due but not impaired loans are loans where contractual interest or principal payments have passed due date without the obligor making full payment, but where specific impairment is not appropriate. The reason is usually that contractual payments are eventually expected to be fulfilled or these loans are expected to be restructured without any loss to the Bank. In some cases, loss is avoided because of the difference between the claim value and the carrying amount resulting from the deep discount of the acquired loan portfolio. In other cases, there is sufficient collateral.

Amounts reported as loans past due refer to the total loan exposure and not only the payment or sum of payments that are past due. Payments three days in arrears or less are not considered to be past due and the corresponding loans are therefore omitted here. Past due but not impaired loans are as follows:

At 31 March 2015

	Past due 4-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to customers:					
Individuals	9,071	3,329	1,161	4,403	17,964
Commerce and services	1,164	698	108	319	2,289
Construction	1,758	183	33	196	2,170
Energy	-	-	-	-	-
Financial services	-	-	-	38	38
Industrial and transportation	607	147	24	188	966
Investment companies	622	104	19	262	1,007
Public sector and non-profit organisations	14	21	4	-	39
Real estate	1,413	266	387	359	2,425
Seafood	193	15	23	777	1,008
Total	14,842	4,763	1,759	6,542	27,906

At 31 December 2014

	Past due 4-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to customers:					
Individuals	8,331	3,458	680	6,283	18,752
Commerce and services	1,144	516	256	337	2,253
Construction	429	116	76	293	914
Energy	-	-	-	-	-
Financial services	37	-	-	-	37
Industrial and transportation	390	156	104	231	881
Investment companies	145	363	47	211	766
Public sector and non-profit organisations	38	6	7	-	51
Real estate	914	602	179	274	1,969
Seafood	1,203	162	37	594	1,996
Total	12,631	5,379	1,386	8,223	27,619

For the three months ended 31 March 2015 40 Amounts are in ISK million

49. Large exposure disclosure

When the Bank's total exposure to a group of connected clients is 10% or higher of the Bank's capital base it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by FME rules 625/2013. The Bank has internal criteria that define connections between clients. These criteria reflect the Bank's interpretation of Article (1)(a) of law no. 161/2002 on Financial Undertakings, where groups of connected clients are defined. Since the interim accounts for the first quarter of the year are not audited, the official capital is based on reviewed own fund items at 31 December 2014.

The exposure is evaluated both gross and net of credit risk mitigating effects eligible according to the FME rules. Net of mitigating effects, the Bank has currently one large exposure which is 14% of its capital base. No large exposure is above the maximum 25% single large exposure limit set by the law.

The following tables show the Bank's large exposures as a percentage of the Bank's capital base, gross and net of eligible credit risk mitigating effects. Note that group references might change between reporting periods, i.e. Group 1 might not be the same group in the two tables.

		31.3.2015
Client groups	Gross	Net
Group 1	73%	0%
Group 2	14%	14%

		31.12.2014
Client groups	Gross	Net
Group 1	69%	0%
Group 2	12%	12%

Amounts are in ISK million

Liquidity Risk

50. The Bank defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

Liquidity risk management

The Bank's main source of funding is customer deposits. The Bank's Treasury is responsible for the Bank's funding and liquidity management within the limits approved by the Board and the Asset and Liability Committee. The Interbank desk manages the Bank's intraday liquidity.

Risk management is responsible for measuring, monitoring and reporting on the Bank's liquidity position.

The Bank's liquidity risk policy assumes that the Bank has at all times sufficient liquidity to meet liabilities and other obligations over the next twelve months.

The tables below show the contractual payments of principal and interest for the Bank's financial liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI-linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.

For dated financial liabilities the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

In the table below the total amount for loans to customers is shown before collective impairment allowance and is therefore higher than the total amount shown in the financial statement.

Maturity analysis 31 March 2015

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	2,608	2,487	12	-	109	-	-	2,608
Deposits from Central Bank	24	24	-	-	-	-	-	24
Deposits from credit institutions	24,413	21,784	1,941	699	-	-	-	24,424
Deposits from customers	520,740	333,731	85,660	66,077	20,349	28,117	-	533,934
Debt issued and other borrowed funds ...	100,602	1	4,286	17,920	74,725	15,745	-	112,677
Subordinated loans	20,336	-	-	796	25,560	-	-	26,356
Other financial liabilities	68,022	38,640	20,365	7,091	1,926	-	-	68,022
Total financial liabilities	736,745	396,667	112,264	92,583	122,669	43,862	-	768,045

Off-balance sheet liabilities show the amount of contractual obligations that the Bank has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Bank's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations all fall into the first time bucket since contractually, on a case-by-case basis, the Bank could be required to fulfil these obligations instantaneously.

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	10,636	-	-	-	-	-	10,636
Undrawn loan commitments	32,906	-	-	-	-	-	32,906
Undrawn overdrafts	28,531	-	-	-	-	-	28,531
Credit card commitments	31,278	-	-	-	-	-	31,278
Total	103,351	-	-	-	-	-	103,351
Total non-derivative financial liabilities and off-balance sheet liabilities	500,018	112,264	92,583	122,669	43,862	-	871,396

The table below shows the contractual cash flow of the Bank's derivative liabilities, i.e. derivatives that have a negative carrying amount at the date of reporting. Derivatives with a positive carrying amount are detailed separately. For derivatives settled on a gross basis, the cash flow for both legs of the derivative is shown, since netting cannot be applied upon settlement.

Amounts are in ISK million

50. Cont'd

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	14,141	17,968	65,432	-	-	97,541
Outflow	-	(14,829)	(20,656)	(66,989)	-	-	(102,474)
Total	-	(688)	(2,688)	(1,557)	-	-	(4,933)
Net settled derivatives	-	(160)	-	-	-	-	(160)
Total	-	(848)	(2,688)	(1,557)	-	-	(5,093)

Maturity classification of assets is based on contractual maturity. For loans that were acquired at a deep discount and have not yet been restructured, the contractual amount is scaled to reflect the carrying amount of the claim. For bonds and debt instruments in the banking book the maturity classification is based on contractual maturity dates while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with CB	98,274	23,633	74,641	-	-	-	-	98,274
Bonds and debt instruments	91,201	1,162	28,800	17,245	41,491	2,503	-	91,201
Shares and equity instruments	11,900	-	-	-	-	-	11,900	11,900
Loans to credit institutions	40,688	22,391	18,164	-	-	-	133	40,688
Loans to customers	637,877	5,025	70,625	61,942	174,630	328,201	-	640,423
Other financial assets	14,349	7,835	607	1,681	52	10	4,164	14,349
Total financial assets	894,289	60,046	192,837	80,868	216,173	330,714	16,197	896,835

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	6,582	10,727	13,252	-	-	30,561
Outflow	-	(5,931)	(10,567)	(12,625)	-	-	(29,123)
Total	-	651	160	627	-	-	1,438
Net settled derivatives	-	278	-	-	-	-	278
Total	-	929	160	627	-	-	1,716

The tables below show the comparative amounts for financial assets and liabilities at year-end 2014.

Maturity analysis 31 December 2014

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	686	686	-	-	-	-	-	686
Deposits from Central Bank	69	69	-	-	-	-	-	69
Deposits from credit institutions	25,727	22,262	3,054	434	-	-	-	25,750
Deposits from customers	529,447	341,454	80,037	72,685	20,602	28,342	-	543,120
Debt issued and other borrowed funds ...	96,889	2	4,255	18,940	71,141	14,365	-	108,703
Subordinated loans	21,306	-	-	837	27,292	-	-	28,129
Other financial liabilities	45,395	32,715	5,108	7,868	(296)	-	-	45,395
Total financial liabilities	719,519	397,188	92,454	100,764	118,739	42,707	-	751,852

Amounts are in ISK million

50. Cont'd

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	9,124	-	-	-	-	-	9,124
Undrawn loan commitments	31,023	-	-	-	-	-	31,023
Undrawn overdrafts	28,947	-	-	-	-	-	28,947
Credit card commitments	29,544	-	-	-	-	-	29,544
Total	98,638	-	-	-	-	-	98,638
Total non-derivative financial liabilities and off-balance sheet liabilities	495,826	92,454	100,764	118,739	42,707	-	850,490

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	2,371	7,758	56,798	-	-	66,927
Outflow	-	(2,292)	(8,165)	(60,437)	-	-	(70,894)
Total	-	79	(407)	(3,639)	-	-	(3,967)
Net settled derivatives	-	(133)	-	-	-	-	(133)
Total	-	(54)	(407)	(3,639)	-	-	(4,100)

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with CB	103,389	22,546	80,843	-	-	-	-	103,389
Bonds and debt instruments	87,347	1,076	20,645	25,298	35,209	5,119	-	87,347
Shares and equity instruments	10,531	-	-	-	-	-	10,531	10,531
Loans to credit institutions	35,072	23,185	11,837	50	-	-	-	35,072
Loans to customers	634,799	5,481	73,629	55,235	176,402	326,903	-	637,650
Other financial assets	7,619	1,703	825	1,865	54	27	3,144	7,619
Total financial assets	878,757	53,991	187,779	82,448	211,665	332,049	13,675	881,607

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	6,387	11,738	35,515	1,710	-	55,350
Outflow	-	(5,885)	(11,063)	(34,724)	(1,975)	-	(53,647)
Total	-	502	675	791	(265)	-	1,703
Net settled derivatives	-	242	-	-	-	-	242
Total	-	744	675	791	(265)	-	1,945

As a part of managing liquidity risk, the Bank holds a portfolio of liquid assets to meet unexpected outflow of funds or a temporary shortage in access to new funding. These assets are subject to strict criteria with respect to credit quality, liquidation time and price volatility. The table below shows the composition and amount of the Bank's liquidity back-up at the end of March 2015 and end of 2014.

Composition and amount of liquidity back-up	31.3.2015	31.12.2014
Cash and balances with Central Bank	98,274	103,455
Domestic bonds eligible as collateral against borrowing at Central Bank	36,860	29,478
Foreign government bonds	39,966	46,593
Short-term placements with credit institutions	39,071	34,006
Composition and amount of liquidity back-up	214,171	213,532

For the three months ended 31 March 2015 44 Amounts are in ISK million

Market risk

51. The Bank defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, equity prices, commodity prices and foreign exchange rates.

Market risk management

The Bank's market risk appetite is determined by the Board of Directors. The Asset and Liability Committee (ALCO) decides on limits for portfolios and products in accordance with the market risk policy approved by the Board. Risk Management is responsible for monitoring and reporting on the Bank's overall market risk positions and compliance to limits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Bank separates exposures to market risk into trading book and banking book (non-trading portfolios). The Bank's primary sources of market risk in the trading portfolio are shares, debt instruments and foreign currency positions. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. Market risk in the banking book is mainly due to mismatches in interest rate terms and denomination currency of assets and liabilities. These mismatches are reported to management and are subject to regulatory and internal limits.

Interest rate risk

52. Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates.

The Bank uses sensitivity measures like Basis Point Value (BPV) to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01 percentage point upward parallel shift in the yield curve on the fair value of these exposures.

53. Interest rate risk in trading portfolios

The fixed income trading unit invests mainly in Government bonds and bonds issued by the Housing Financing Fund (HFF), which are guaranteed by the Icelandic Government. These positions can include short positions. Government bonds are either indexed to the Icelandic Consumer Price Index (CPI) or non-indexed, with duration up to 10 years. HFF bonds are CPI-linked and have duration up to 13 years. All bond trading positions are subject to BPV limits, both intraday and end-of-day. In addition to BPV limits short and long positions in each instrument are subject to separate limits. Risk Management monitors these limits and reports all breaches to ALCO.

Note that in the table below the total market value of long and short positions may not be exactly the same as reported in Note 6. The reason for this difference is that Note 6 sums up the net positions in each security while the table below ignores both netting of long and short positions in specific securities between different portfolios and hedge positions against derivative contracts.

Trading bonds and debt instruments, long positions	31.3.2015			31.12.2014		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,659	6.62	(1.10)	1,772	8.03	(1.42)
Non-indexed	52,867	0.52	(2.74)	48,260	0.41	(1.96)
Total	54,526	0.70	(3.84)	50,032	0.68	(3.38)
Trading bonds and debt instruments, short positions	31.3.2015			31.12.2014		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,385	12.79	1.77	-	-	-
Non-indexed	942	6.42	0.61	73	7.39	0.05
Total	2,327	10.21	2.38	73	7.39	0.05
Net position of trading bonds and debt instruments	52,199	0.28	(1.46)	49,959	0.67	(3.33)

Amounts are in ISK million

54. Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Bank's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time, reflecting the fact that the Bank's assets and liabilities are of different maturities and are priced relative to different interest rates.

The Bank holds a Government bond designated at fair value amounting to ISK 30.6 billion (31 December 2014: ISK 30.6 billion). The bond pays floating rates and carries relatively low interest rate risk.

The Bank uses traditional measures for assessing the sensitivity of the Bank's financial assets, financial liabilities and earnings to changes in the underlying interest rates.

In the table below the total amount for loans to customers is shown before collective impairment allowance is subtracted and is therefore not the same as the total amount shown in the financial statement. Loans with specific impairment have been placed in the category 0-3 months since such loans bear no interest rate risk until possibly after debt restructuring.

Banking book interest rate adjustment periods on 31 March 2015

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	98,274	-	-	-	-	-	98,274
Bonds and debt instruments	29,799	-	97	1,292	231	372	31,791
Loans to credit institutions	40,665	2	21	-	-	-	40,688
Loans to customers	451,516	38,450	33,698	102,714	2,180	9,319	637,877
Total assets	620,254	38,452	33,816	104,006	2,411	9,691	808,630
Off-balance sheet items...	73,821	5,476	17,212	113	-	-	96,622
Liabilities							
Deposits from Central Bank	24	-	-	-	-	-	24
Deposits from credit institutions	24,413	-	-	-	-	-	24,413
Deposits from customers	507,755	1,956	1,040	8,171	1,818	-	520,740
Debt issued and other borrowed funds	23,385	8,159	22,278	33,001	13,779	-	100,602
Subordinated loans	20,336	-	-	-	-	-	20,336
Total liabilities	575,913	10,115	23,318	41,172	15,597	-	666,115
Off-balance sheet items	74,104	2,008	7,805	21,741	3,008	-	108,666
Net interest gap on 31 March 2015	44,058	31,805	19,905	41,206	(16,194)	9,691	130,471

Amounts are in ISK million

54. Cont'd

Banking book interest rate adjustment periods on 31 December 2014

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	103,389	-	-	-	-	-	103,389
Bonds and debt instruments	31,119	-	67	1,230	291	367	33,074
Loans to credit institutions	35,072	-	-	-	-	-	35,072
Loans to customers	451,191	47,768	29,963	97,052	1,868	9,809	637,650
Total assets	620,771	47,768	30,030	98,282	2,159	10,176	809,185
Off-balance sheet items	68,186	7,508	21,649	112	-	-	97,455
Liabilities							
Deposits from Central Bank	69	-	-	-	-	-	69
Deposits from credit institutions	25,306	421	-	-	-	-	25,727
Deposits from customers	514,898	3,643	1,030	2,383	7,493	-	529,447
Debt issued and other borrowed funds	17,723	9,403	22,760	34,421	12,582	-	96,889
Subordinated loans	21,306	-	-	-	-	-	21,306
Total liabilities	579,302	13,467	23,790	36,804	20,075	-	673,438
Off-balance sheet items	77,732	3,272	7,701	17,850	-	-	106,555
Net interest gap on 31 December 2014	31,923	38,537	20,188	43,740	(17,916)	10,176	126,647

For the three months ended 31 March 2015 47 Amounts are in ISK million

Currency risk

55. Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in the currency composition of assets or liabilities.

The analysis of the Bank's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements. The tables below summarise the Bank's exposure to currency risk at 31 March 2015 and 31 December 2014, based on contractual currencies and off-balance sheet items, but excluding assets categorised as held for sale.

Currency analysis 31 March 2015

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank......................	249	242	120	40	14	248	913
Bonds and debt instruments....................................	22,100	13,113	-	-	-	5,042	40,255
Shares and equity instruments................................	213	307	0	1	-	1	522
Loans to credit institutions.......................................	8,230	15,666	1,760	5,215	1,024	2,595	34,490
Loans to customers...	58,334	28,627	6,888	8,084	7,390	10,607	119,930
Other assets..	591	2,179	260	0	27	209	3,266
Total assets	89,717	60,134	9,028	13,340	8,455	18,702	199,376
Liabilities							
Deposits from credit institutions	176	568	28	474	14	2	1,262
Deposits from customers	36,911	29,779	5,642	2,773	2,331	8,958	86,394
Debt issued and other borrowed funds	14,998	-	-	-	-	17,493	32,491
Subordinated loans	20,336	-	-	-	-	-	20,336
Other liabilities...	5,127	8,012	1,160	2	157	796	15,254
Total liabilities	77,548	38,359	6,830	3,249	2,502	27,249	155,737
On-balance sheet imbalance	12,169	21,775	2,198	10,091	5,953	(8,547)	43,639
Off-balance sheet items							
Off-balance sheet assets	29,982	23,521	2,290	323	1,187	18,513	75,816
Off-balance sheet liabilities	32,013	41,064	2,169	9,864	6,908	4,296	96,314
Net off-balance sheet items	(2,031)	(17,543)	121	(9,541)	(5,721)	14,217	(20,498)
Net currency imbalance on 31 March 2015..	10,138	4,232	2,319	550	232	5,670	23,141

For the three months ended 31 March 2015 48 Amounts are in ISK million

55. Cont'd

Currency analysis 31 December 2014

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank	263	168	95	30	9	202	767
Bonds and debt instruments	29,322	9,323	-	-	-	7,948	46,593
Shares and equity instruments	203	257	-	1	-	-	461
Loans to credit institutions	9,092	12,091	2,137	3,911	1,238	5,131	33,600
Loans to customers	62,131	25,654	6,124	7,869	7,206	10,990	119,974
Other assets	318	1,672	132	1	37	111	2,271
Total assets	101,329	49,165	8,488	11,812	8,490	24,382	203,666
Liabilities							
Deposits from credit institutions	140	16	13	-	13	1	183
Deposits from customers	39,200	26,309	5,385	2,364	1,586	10,962	85,806
Debt issued and other borrowed funds	15,572	-	-	-	-	13,212	28,784
Subordinated loans	21,306	-	-	-	-	-	21,306
Other liabilities	3,704	5,792	763	-	117	510	10,886
Total liabilities	79,922	32,117	6,161	2,364	1,716	24,685	146,965
On-balance sheet imbalance	21,407	17,048	2,327	9,448	6,774	(303)	56,701
Off-balance sheet items							
Off-balance sheet assets	19,202	21,345	662	-	-	12,677	53,886
Off-balance sheet liabilities	29,552	34,234	79	8,979	6,468	4,694	84,006
Net off-balance sheet items	(10,350)	(12,889)	583	(8,979)	(6,468)	7,983	(30,120)
Net currency imbalance on 31 December 2014..	11,057	4,159	2,910	469	306	7,680	26,581

Derivatives

56. The Bank uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Bank is subject to indirect exposure due to margin trading with clients and the Bank holds collaterals for possible losses. Other derivatives in the Bank held for trading or for other purposes are insignificant.

Inflation risk

57. The Bank is exposed to inflation risk since the value of CPI-indexed assets exceeds CPI-indexed liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI index affect profit and loss. On 31 March 2015 the CPI gap amounted to ISK 46.0 billion (31 December 2014: ISK 57.5 billion). Thus, a 1% increase in the index would lead to an ISK 460 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

Amounts are in ISK million

Capital management

58. Risk exposure and capital base

The table below shows the capital base, risk-weighted assets and the resulting capital ratios of the Bank at 31 March 2015 and 31 December 2014. In addition, the table shows the official capital ratios based on reviewed own fund items at 31 December 2014.

According to the Act on Financial Undertakings no. 161/2002 the official capital ratio of the Bank shall be based on audited own funds. Since the interim accounts for the first quarter are not audited, the official capital ratio is based on audited own fund items at 31 December 2014 and risk-weighted assets at 31 March 2015. The official capital ratio at 31 March 2015 was 27.8% and the Tier 1 ratio was 25.0%.

The eligibility of the Tier 2 subordinated loan issued by the Bank as Tier 2 capital will decrease linearly by 20% until maturity in 2019 because the remaining term is now less than 5 years. As a result the Tier 2 subordinated loan only attributes 95% into the total capital base.

As required in the Basel II rules, the Bank's Board of Directors sets a minimum capital target for the Bank. The Board has approved a minimum capital target for the Bank to be 18% of RWA. The target is based on the Bank's internal capital adequacy assessment (ICAAP) and the views expressed by the regulator through the latest SREP results. The capital target is intended to support the Bank's business strategy and takes into account changes or uncertainties in the operating environment. Unlike the 8% regulatory minimum, the Bank's capital target can change over time reflecting changes in the Bank's risk profile, business strategy and external environment. Thus, falling below the capital target does not impose any direct regulatory actions but the Bank's dividend payments and remuneration can be impacted.

The Bank's regulatory capital calculations for credit risk and market risk are based on the standardised approach and the capital calculations for operational risk are based on the basic indicator approach.

	31.3.2015	31.12.2014
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	2,516	2,535
Retained earnings	112,605	116,288
Non-controlling interests	1,509	1,664
Tax assets	(270)	(521)
Intangible assets	(655)	(619)
Total Tier 1 capital	180,705	184,347
Tier 2 capital		
Qualifying subordinated liabilities	19,319	21,306
Total regulatory capital	200,024	205,653
Risk-weighted assets		
- due to credit risk	596,831	583,375
- due to market risk:	27,957	33,326
Market risk, trading book	4,680	6,594
Currency risk foreign exchange	23,277	26,732
- due to operational risk	78,400	78,401
Total risk-weighted assets	703,188	695,102
Capital ratios		
Tier 1 ratio	25.7%	26.5%
Total capital ratio	28.4%	29.6%
Official Tier 1 ratio	25.0%	26.5%
Official capital ratio	27.8%	29.6%

Amounts are in ISK million