Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended 30 September 2015

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

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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 30 September 2015 comprise the Condensed Interim Financial Statements of Íslandsbanki hf. and its subsidiaries, together referred to as “the Bank”.

Ownership

The Bank has two shareholders, ISB Holding ehf., which holds 95% of the Bank's share capital and the Icelandic State Treasury which holds 5% through the Icelandic State Financial Investments (ISFI – Bankasýsla ríkisins). One Board Member is appointed by ISFI and the remaining six are appointed by ISB Holding ehf.

Two Board Members have resigned during the reporting period. John E. Mack resigned in March 2015 and was replaced by Eva Cederbalk. On 28 September 2015, Thóranna Jónsdóttir resigned and was replaced by Gunnar Fjalar Helgason. Gunnar works for the telecommunications firm Síminn and is Chairman of the Board at the accounting and consulting firm Virtus. Members of the Board of financial undertakings have to abide by stricter rules than of other entities when it comes to conflicts of interest to ensure their independence.

The reporting period

The Bank continues to be predominantly funded with deposits. Deposits have increased by ISK 50.0 billion since year-end 2014 and the deposit-to-loan ratio currently stands at 87.0%.

The Bank completed several transactions during the year 2015 under its USD 750 million Global Medium Term Note (GMTN) Programme. In February 2015, the Bank issued an SEK 300 million (ISK 4.7 billion) 4-year note, in April 2015 the Bank issued additional SEK 150 million (ISK 2.4 billion) under the same facility, in July 2015 the Bank issued further SEK 150 million (ISK 2.4 billion) and in October 2015, the Bank made its first issuance in Norway with an issue of an NOK 500 million (ISK 7.8 billion) 3-year note. All the issuances were listed on the Irish Stock Exchange and sold mainly to Scandinavian investors. In July 2015, the Bank issued a EUR 100 million (ISK 14.7 billion) 2.875% fixed rate note due in 2018. The note was placed with investors in Scandinavia and continental Europe. Investors were offered switch terms out of the Bank's existing EUR 100 million note due in May 2016, and the Bank bought back EUR 47.7 million of those notes.

In April 2015, the rating agency Fitch assigned the Bank with an investment grade rating of BBB-/F3 with a stable outlook. The Bank is the first Icelandic bank to be assigned an investment grade rating since 2008. In July 2015, Standard & Poor's Ratings Services raised the Bank's long-term and short-term rating to BBB-/A-3 with a stable outlook and then confirmed its rating in November 2015 based on upcoming changes in the Bank's ownership.

In July 2015, Euromoney named Íslandsbanki the Best Bank in Iceland and awarded it with the Awards for Excellence. This is the third year in a row that the Bank has been selected for this award. Euromoney considered several factors in its assessment of the Icelandic banks, including earnings from regular operations, cost efficiency and the ability to adapt to changing market conditions and client needs. Euromoney awards are placed in nearly 100 countries.

Growth in the Bank's loan portfolio continues to be strong with loans to customer increasing by ISK 25.5 billion since year-end 2014. The loan-to-value (LTV) ratio has continued to improve and was 69.1% at the end of the period. In September 2015, the Bank administered and participated in a loan syndication for the Icelandic national power company Landsvirkjun, together with Arion Bank and Landsbankinn. The seven-year syndicated credit facility totalling ISK 12 billion is partly a refinancing of a syndicated loan of ISK 10.5 billion from 2011.

Outlook

On 8 June 2015, the Icelandic Ministry of Finance and Economic Affairs announced its plans to liberate the capital controls which have been in place in Iceland since 2008. This will be done in stages, the first stage being a stability tax of 39% of total assets being imposed on financial undertakings, previously operating as commercial banks and savings banks and currently in winding-up proceedings, that have not entered into a composition agreement by year-end 2015. This Act was passed by the Icelandic Parliament on 3 July 2015.

Based on the above, the Bank entered into a Heads of Agreement with Glitnir hf. (“Glitnir”) and its subsidiaries ISB Holding ehf. and GLB Holding ehf., regarding re-capitalisation of the Bank and a payment of ISK 3 billion dividend to the minority shareholder ISFI. The proposed re-capitalisation would have resulted in a reduction in Bank equity corresponding to a total capital ratio of approximately 23%.

On 20 October 2015, however, Glitnir submitted amendments to its original stability contribution proposal, whereby Glitnir offers to relinquish its entire shareholding in the Bank’s holding company ISB Holding ehf. to the Icelandic State with Glitnir acquiring the existing Tier 2 notes from the Central Bank. The main difference in this proposal from the agreement made in July 2015, is that the proposal does not entail a special dividend payment and therefore does not affect the Bank’s total equity ratio.

The Central Bank completed its assessment of composition proposals on 28 October 2015. The conclusion was that Glitnir's proposal satisfies the requirements set forth in the Foreign Exchange Act, in that the fulfilment of the composition agreement together with proposed countervailing measures will not jeopardise monetary, exchange rate, or financial stability. Consultations pursuant to Article 13c of the Foreign Exchange Act have taken place, and the Icelandic Minister of Finance has presented the conclusions before the Parliamentary Economic Affairs and Trade Committee. The change in ownership of the Bank is expected to take place by year-end 2015 or in early 2016.

Endorsement and Statement by the Board of Directors and the CEO

The Icelandic Minister of Finance has announced that it is not the Government's intention to retain its stake in the Bank going forward and plans for changes in ownership should be put in place as soon as possible. The State already owns the largest bank in Iceland and has, on a number of occasions, announced that it intends to dilute its investments in large financial undertakings.

Accounting convention

The unaudited Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2015 are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union, the Act on Annual Accounts no. 3/2006 and the Act on Financial Undertakings no. 161/2002.

Profit from the Bank's operations for the period 1 January to 30 September 2015 amounted to ISK 16,689 million, which corresponds to an 11.9% annualised return on equity. Bank equity, according to the Condensed Consolidated Financial Position, amounted to ISK 192,887 million at 30 September 2015. The Bank's total assets amounted to ISK 1,004,257 million at the end of the period.

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 Condensed Consolidated Interim Financial Statements for the first nine months are not audited, the official capital ratio is based on reviewed own fund items at 30 June 2015 and risk weighted assets at 30 September 2015. The official capital ratio at 30 June 2015 was 28.5% and the Tier 1 ratio was 26.0%. The capital ratio, based on the reported own fund items at 30 September 2015, was 29.2% and the corresponding Tier 1 ratio was 26.9%.

The Bank has revised its minimum capital targets. The previous minimum total capital target ratio of 18% has been increased to 23% for the near- and medium-term. The increase is on one hand based on more conservative requirements set forth by the Icelandic regulator; and on the other hand on the Bank’s view that it is prudent to retain a sizable strategic capital buffer through the near-term steps being taken towards the lifting of capital controls in Iceland. The Bank expects to be able to give more clarity on the medium- to long-term capital targets in the next 12-18 months, as further clarity is expected regarding the regulatory capital requirements and the Bank’s operating environment. The Board of Directors refers to Note 57 for further understanding of the capital requirements of the Bank.

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 38 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 cash flows of the Bank for the period 1 January to 30 September 2015 and its financial position as at 30 September 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 30 September 2015 by means of their signatures.

Reykjavík, 11 November 2015

Board of Directors:

Fridrik Sophusson, Chairman

Marianne Økland, Vice-Chairman

Árni Tómasson

Eva Cederbalk

Gunnar Fjalar Helgason

Helga Valfells

Neil Graeme Brown

Chief Executive Officer:

Birna Einarsdóttir

Condensed Consolidated Income Statement for the nine months ended 30 September 2015

	Notes	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Interest income		14,809	13,318	40,981	39,579
Interest expense		(7,352)	(6,250)	(19,974)	(18,943)
Net interest income	10	7,457	7,068	21,007	20,636
Fee and commission income		5,357	4,538	15,408	13,240
Fee and commission expense		(1,845)	(1,689)	(5,473)	(4,719)
Net fee and commission income	11	3,512	2,849	9,935	8,521
Net financial income	12-13	387	83	2,426	965
Net foreign exchange (loss) gain	14	(1,072)	352	(1,353)	50
Share of profit of associates net of income tax		-	-	63	27
Other operating income	15	158	233	636	1,586
Other net operating income		(527)	668	1,772	2,628
Total operating income		10,442	10,585	32,714	31,785
Salaries and related expenses	16	(3,340)	(2,930)	(10,221)	(9,811)
Other operating expenses	17	(1,970)	(2,301)	(7,021)	(6,679)
Contribution to the Depositors' and Investors' Guarantee Fund		(263)	(272)	(797)	(790)
Bank tax		(732)	(664)	(2,060)	(1,879)
Total operating expenses		(6,305)	(6,167)	(20,099)	(19,159)
Profit before net loan impairment		4,137	4,418	12,615	12,626
Net loan impairment	18	3,418	65	7,726	5,804
Profit before tax		7,555	4,483	20,341	18,430
Income tax expense	19	(1,784)	(1,255)	(4,704)	(4,806)
Profit for the period from continuing operations		5,771	3,228	15,637	13,624
Profit from discontinued operations, net of income tax		128	307	1,052	4,566
Profit for the period		5,899	3,535	16,689	18,190
Profit attributable to:					
Equity holders of Íslandsbanki hf.		5,598	3,362	16,162	17,826
Non-controlling interests		301	173	527	364
Profit for the period		5,899	3,535	16,689	18,190
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	20	0.55	0.31	1.51	1.33

The half-year results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters were not reviewed or audited by the Bank's auditor.

The notes on pages 9 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income for the nine months ended 30 September 2015

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Profit for the period	5,899	3,535	16,689	18,190
Other comprehensive income for the period (net of tax)	(21)	52	3	(102)
Total comprehensive income for the period	5,878	3,587	16,692	18,088

The half-year results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters were not reviewed or audited by the Bank's auditor.

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Amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 September 2015

	Notes	30.9.2015	31.12.2014
Assets			
Cash and balances with Central Bank	6,21	177,652	103,389
Derivatives	6,22	2,199	1,810
Bonds and debt instruments	6	80,053	87,347
Shares and equity instruments	6	9,004	10,531
Loans to credit institutions	6,23	35,522	35,072
Loans to customers	6,24	660,308	634,799
Investments in associates	26	648	570
Property and equipment		7,550	7,402
Intangible assets		1,143	619
Non-current assets and disposal groups held for sale	29	13,946	21,649
Other assets	30	16,232	8,140
Total Assets		1,004,257	911,328
Liabilities			
Derivative instruments and short positions	6,22	8,472	3,963
Deposits from Central Bank and credit institutions	6,31	24,208	25,796
Deposits from customers	6,32-33	581,095	529,447
Debt issued and other borrowed funds	6,34	120,957	96,889
Subordinated loans	6	19,717	21,306
Tax liabilities		9,090	8,388
Non-current liabilities and disposal groups held for sale	29	2,965	2,790
Other liabilities	35	44,866	37,262
Total Liabilities		811,370	725,841
Equity			
Share capital	36	10,000	10,000
Share premium	36	55,000	55,000
Other reserves		2,538	2,535
Retained earnings		123,450	116,288
Total equity attributable to the equity holders of Íslandsbanki hf.		190,988	183,823
Non-controlling interests		1,899	1,664
Total Equity		192,887	185,487
Total Liabilities and Equity		1,004,257	911,328

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Amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 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
Total comprehensive income for the period			(102)	17,826	17,724	364	18,088
Changes in non-controlling interests					-	(89)	(89)
Dividends				(4,000)	(4,000)		(4,000)
Equity at 30.9.2014	10,000	55,000	2,369	112,374	179,743	1,574	181,317
Equity at 1.1.2015	10,000	55,000	2,535	116,288	183,823	1,664	185,487
Total comprehensive income for the period			3	16,162	16,165	527	16,692
Dividends				(9,000)	(9,000)	(292)	(9,292)
Equity at 30.9.2015	10,000	55,000	2,538	123,450	190,988	1,899	192,887

On 21 April 2015, the Bank paid dividends amounting to ISK 9,000 million, equivalent to 40% of net profit, for the operating year 2014 to its shareholders in accordance with a resolution passed at the Bank's Annual General Meeting on 25 March 2015.

The notes on pages 9 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 nine months ended 30 September 2015

	Notes	2015 1.1-30.9	2014 1.1-30.9
Cash flows from operating activities:			
Profit for the period		16,689	18,190
Adjustments to reconcile profit for the period to cash flows provided by operating activities:			
Non-cash items included in profit for the period and other adjustments		403	(1,127)
Changes in operating assets and liabilities		56,892	(4,160)
Income tax paid		(5,659)	(3,065)
Net cash provided by operating activities		68,325	9,838
Net cash (used in) provided by investing activities		(1,245)	761
Net cash provided by financing activities		14,214	2,948
Net increase in cash and cash equivalents		81,294	13,547
Effects of exchange rate changes on cash and cash equivalents		(96)	(142)
Cash and cash equivalents at the beginning of the period		118,020	138,433
Cash and cash equivalents at the end of the period		199,218	151,838
Reconciliation of cash and cash equivalents:			
Cash on hand	21	3,204	2,636
Cash balances with Central Bank and term deposits	21	165,313	123,109
Bank accounts	23	30,701	26,093
Total cash and cash equivalents		199,218	151,838

Interest received from 1 January to 30 September 2015 amounted to ISK 39,786 million (2014: ISK 38,520 million) and interest paid in the same period 2015 amounted to ISK 18,302 million (2014: ISK 21,203 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.

Dividends received from 1 January to 30 September 2015 amounted to ISK 557 million (2014: ISK 259 million) and dividends paid amounted to ISK 9,000 million (2014: ISK 4,000 million).

The notes on pages 9 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim 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 nine months ended 30 September 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 11 November 2015.

2. **Basis of preparation**

2.1 *Statement of compliance*

The unaudited Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2015 are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union, the Act on Annual Accounts no. 3/2006 and the Act on Financial Undertakings no. 161/2002.

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 audited Consolidated Financial Statements of the Bank for the year ended 31 December 2014, as well as the unaudited Pillar 3 Report for the year ended 31 December 2014. Both are 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.

2.5 *Changes in presentation*

The following changes have been made in presentation between the years:
a) The Bank has changed its presentation in the Consolidated Statement of Financial Position as follows:
- The line item Deferred tax assets has been included in the line item Other assets
- The line items Deposits from Central Bank and Deposits from credit institutions have been combined into one line: Deposits from Central Bank and credit institutions. These line items have also been combined in Notes 6, 8, 49 and 53.
- The line items Current tax liabilities and Deferred tax liabilities have been combined into one line: Tax liabilities.

b) Comparable information in Note 28 Related party has been changed as the balances were deemed to include information which is outside the scope of the definition of a related party according to IAS24 Related party. In addition, a new line item Shareholders with control over the group was added to the disclosure and two line items were united into one in Board of Directors and key management personnel.

3 **Significant accounting policies**

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

Operating segments

4. An operating 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 operating segments. Transactions between the operating segments are on normal commercial terms and conditions. The Bank operates mainly in the Icelandic market. No single customer generates 10% or more of the combined revenue of the Bank.

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 operating segments based on products and services:

a) Retail banking provides comprehensive banking services to individuals and small and medium-sized enterprises through 17 branches, call centre, self service and digital banking platforms. Retail Banking also operates two separately branded units: Ergo for asset-based financing and the credit card branch Kreditkort.

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 capital, 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:

- 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 17 properties leased by the Bank.
- 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.

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 operating segments as well as a reconciliation to the Bank's total profit and loss.

4. Cont'd

1 January to 30 September 2015

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	13,289	3,784	745	476	2,954	53	(294)	21,007
Net fee and commission income	3,541	147	1,252	1,576	(91)	3,514	(4)	9,935
Other net operating income (exps.)	47	4	352	230	(1,339)	3,067	(589)	1,772
Total operating income	16,877	3,935	2,349	2,282	1,524	6,634	(887)	32,714
Administrative expenses	(4,840)	(412)	(755)	(876)	(165)	(2,686)	(7,508)	(17,242)
Deposit guarantee fund and bank tax	(721)	(15)	(0)	(46)	(2,075)	(0)	0	(2,857)
Net loan impairment	1,565	5,741	(0)	(0)	-	559	(139)	7,726
Profit (loss) before cost allocation & tax	12,881	9,249	1,594	1,360	(716)	4,507	(8,534)	20,341
Net segment revenue from external customers	18,305	9,994	2,722	624	(5,633)	7,264	(562)	32,714
Net segment revenue from other segments	(1,428)	(6,059)	(373)	1,658	7,157	(630)	(325)	0
Depreciation and amortisation	(131)	(2)	(1)	(2)	(0)	(143)	(286)	(565)

At 30 September 2015	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	433,254	229,384	17,874	3,832	267,096	69,851	(17,034)	1,004,257
Total segment liabilities	422,602	7,834	14,291	40,231	301,293	41,745	(16,626)	811,370
Allocated equity	45,976	33,281	2,479	2,861	102,265	12,828	(6,803)	192,887

1 January to 30 September 2014

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	12,892	3,241	750	562	3,882	(345)	(346)	20,636
Net fee and commission income	3,359	95	1,253	1,424	(61)	2,420	31	8,521
Other net operating income (exps.)	53	386	(251)	(2)	93	2,321	28	2,628
Total operating income	16,304	3,722	1,752	1,984	3,914	4,396	(287)	31,785
Administrative expenses	(4,628)	(360)	(754)	(819)	(225)	(2,422)	(7,282)	(16,490)
Deposit guarantee fund and bank tax	(691)	(14)	(0)	(57)	(1,907)	(0)	-	(2,669)
Net loan impairment	3,660	1,508	-	0	34	916	(314)	5,804
Profit (loss) before cost allocation & tax	14,645	4,856	998	1,108	1,816	2,890	(7,883)	18,430
Net segment revenue from external customers	16,664	8,815	2,219	(59)	(1,011)	5,084	73	31,785
Net segment revenue from other segments	(360)	(5,093)	(467)	2,043	4,925	(688)	(360)	0
Depreciation and amortisation	(119)	-	(1)	(1)	-	(132)	(326)	(579)

At 30 September 2014	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	408,720	204,343	21,852	4,113	235,871	92,285	(36,215)	930,969
Total segment liabilities	416,050	9,430	6,507	54,365	237,785	40,925	(15,410)	749,652
Allocated equity	41,412	26,392	2,518	2,603	101,898	34,856	(28,362)	181,317

For the nine months ended 30 September 2015 12 Amounts are in ISK million

Quarterly statements

5. Operations by quarters:

	Q3* 2015	Q2* 2015	Q1* 2015	Q4* 2014	Q3* 2014
Net interest income	7,457	7,359	6,191	6,469	7,068
Net fee and commission income	3,512	3,518	2,905	2,962	2,849
Net financial income	387	275	1,764	603	83
Net foreign exchange (loss) gain	(1,072)	(141)	(140)	116	352
Share of profit of associates	-	-	63	-	-
Other operating income	158	252	226	509	233
Salaries and related expenses	(3,340)	(3,421)	(3,460)	(3,497)	(2,930)
Other operating expenses	(1,970)	(2,688)	(2,363)	(2,914)	(2,301)
Contribution to the Depositors' and Investors' Guarantee Fund	(263)	(265)	(269)	(265)	(272)
Bank tax	(732)	(710)	(618)	(565)	(664)
Net loan impairment	3,418	1,977	2,331	3,006	65
Profit before tax	7,555	6,156	6,630	6,424	4,483
Income tax	(1,784)	(1,524)	(1,396)	(1,434)	(1,255)
Profit for the period from continuing operations	5,771	4,632	5,234	4,990	3,228
Profit (loss) for the period from discontinued operations	128	762	162	(430)	307
Profit for the period	5,899	5,394	5,396	4,560	3,535

*The half-year results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters are not reviewed by the Bank's auditor.

For the nine months ended 30 September 2015 13 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 30 Septemer 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	-	-	177,652	-	177,652
Loans and receivables						
Loans to credit institutions	23	-	-	35,522	-	35,522
Loans to customers	24	-	-	660,308	-	660,308
Loans and receivables		-	-	873,482	-	873,482
Bonds and debt instruments						
Listed		45,080	31,400	-	-	76,480
Unlisted		-	3,573	-	-	3,573
Bonds and debt instruments		45,080	34,973	-	-	80,053
Shares and equity instruments						
Listed		3,644	3,447	-	-	7,091
Unlisted		-	1,913	-	-	1,913
Shares and equity instruments		3,644	5,360	-	-	9,004
Derivatives	22	2,199	-	-	-	2,199
Other financial assets		-	-	13,117	-	13,117
Total financial assets		50,923	40,333	886,599	-	977,855
Derivative instruments and short positions	22	8,472	-	-	-	8,472
Deposits from Central Bank and credit institutions	31	-	-	-	24,208	24,208
Deposits from customers	32-33	-	-	-	581,095	581,095
Debt issued and other borrowed funds	34	-	-	-	120,957	120,957
Subordinated loans		-	-	-	19,717	19,717
Other financial liabilities		-	-	-	35,021	35,021
Total financial liabilities		8,472	-	-	780,998	789,470

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	-	-	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 and credit institutions	31	-	-	-	25,796	25,796
Deposits from customers	32-33	-	-	-	529,447	529,447
Debt issued and other borrowed funds	34	-	-	-	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 30 September 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 30 September 2015

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	45,762	33,092	1,199	80,053
Shares and equity instruments	6,987	1,727	290	9,004
Derivative instruments	-	2,199	-	2,199
Total financial assets	52,749	37,018	1,489	91,256

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	5,138	-	-	5,138
Derivative instruments	-	3,334	-	3,334
Total financial liabilities	5,138	3,334	-	8,472

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	7,617	98	2,816	10,531
Derivative instruments	-	1,810	-	1,810
Total financial assets	62,235	33,447	4,006	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

1 January to 30 September 2015	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 31 December 2014	1,190	2,816	(93)
Purchases	-	482	-
Sales	-	(1,249)	-
Net gains on financial instruments	9	358	(2)
Transfers from level 1 or 2	-	-	-
Transfers to level 1 or 2	-	(2,117)	95
Fair value at 30 September 2015	1,199	290	-

1 January to 31 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. Equity instruments worth ISK 688 million and bond options valued at ISK -95 million were then transferred to Level 2 following a revision of the significancy of the unobservable inputs used in their valuation models. No other instruments were transferred between levels in the first half of 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.

In general, actively traded bonds and shares are classified as Level 1. The Bank classifies mutual fund units as shares and equity instruments as Level 2 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 bond options are classified as Level 2.

For the nine months ended 30 September 2015 17 Amounts are in ISK million

7. Cont'd

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.

At 30 September 2015 the Bank's Level 3 shares amounted to ISK 290 million and were valued with a discounted cash flow model. This model uses various unobservable inputs, most notably the weighted average cost of capital (WACC) and both forecasted yearly revenue growth and future EBITDA-to-sales ratio. The model is sensitive to changes in all of these estimated variables. An increase in the WACC would result in a lower fair value and a decrease would result in a higher fair value. On the other hand an increase in both the forecasted yearly revenue growth and EBITDA-to-sales ratio would result in a higher fair value and a decrease would result in a lower fair value.

The Bank's Level 3 bonds amounted to ISK 1,199 million and were valued based on expected recovery of the bond issuers' assets. The expected recovery of these bonds ranges from 0-75% and is subject to uncertainty regarding various assumptions, such as the outcome of legal disputes. An increase or decrease in the expected recovery would result in a similar change in the fair value.

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 30 September 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 30 September 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 debt with similar terms. 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.

8. Cont'd

At 30 September 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	177,652	-	177,652	177,652
Loans to credit institutions	-	35,522	-	35,522	35,522
Loans to customers	-	-	662,657	662,657	660,308
Other financial assets	-	13,117	-	13,117	13,117
Total financial assets	-	226,291	662,657	888,948	886,599

At 30 September 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	24,208	-	24,208	24,208
Deposits from customers	-	581,230	-	581,230	581,095
Debt issued and other borrowed funds	51,205	70,528	-	121,733	120,957
Subordinated loans	-	19,717	-	19,717	19,717
Other financial liabilities	-	35,021	-	35,021	35,021
Total financial liabilities	51,205	730,704	-	781,909	780,998

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 and credit institutions	-	25,796	-	25,796	25,796
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 30 September 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	2,199	-	2,199	(420)	(33)	(10)	1,736	-	2,199
Total assets	2,199	-	2,199	(420)	(33)	(10)	1,736	-	2,199
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 30 September 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	3,334	-	3,334	(420)	-		2,914	5,138	8,472
Total liabilities	3,334	-	3,334	(420)	-	-	2,914	5,138	8,472
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 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Interest income:				
Cash and balances with Central Bank	2,135	1,739	4,614	5,117
Loans and receivables	12,057	10,540	34,647	31,699
Financial assets held for trading	161	595	475	1,363
Financial assets designated at fair value through profit or loss	384	399	1,109	1,256
Other assets	72	45	136	144
Total interest income	14,809	13,318	40,981	39,579
Interest expense:				
Deposits from credit institutions and Central Bank	(98)	(119)	(297)	(382)
Deposits from customers	(5,197)	(4,487)	(14,067)	(13,307)
Borrowings	(1,729)	(1,310)	(4,675)	(4,148)
Subordinated loans	(251)	(226)	(767)	(688)
Other financial liabilities	(49)	(73)	(116)	(253)
Other interest expense	(28)	(35)	(52)	(165)
Total interest expense	(7,352)	(6,250)	(19,974)	(18,943)
Net interest income	7,457	7,068	21,007	20,636

Net fee and commission income

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

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Fee and commission income:				
Asset management	436	397	1,297	1,224
Investment Banking and brokerage	550	399	1,709	1,486
Payment processing	3,510	3,093	10,127	8,537
Loans and guarantees	447	325	1,109	961
Other fee and commission income	414	324	1,166	1,032
Total fee and commission income	5,357	4,538	15,408	13,240
Commission expenses:				
Brokerage	(40)	(25)	(81)	(95)
Clearing and settlement	(1,796)	(1,655)	(5,368)	(4,439)
Other commission expenses	(9)	(9)	(24)	(185)
Total commission expenses	(1,845)	(1,689)	(5,473)	(4,719)
Net fee and commission income	3,512	2,849	9,935	8,521

Amounts are in ISK million

Net financial income

12. Net financial income is specified as follows:

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Net gain (loss) on financial instruments held for trading	147	(26)	853	32
Net gain on financial instruments designated at fair value through P&L	240	109	1,573	933
Net financial income	387	83	2,426	965

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

Shares	171	83	1,472	966
Bonds	69	26	101	(33)
Net gain on financial instruments designated at fair value through P&L	240	109	1,573	933

Net foreign exchange (loss) gain

14. Net foreign exchange (loss) gain is specified as follows:

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Assets:				
Cash and balances with Central Bank	(85)	1	(99)	(40)
Financial assets held for trading	(806)	(317)	(3,898)	(1,215)
Loans and receivables	(6,265)	2,583	(5,913)	(56)
Other assets	(239)	373	(92)	447
Total assets	(7,395)	2,640	(10,002)	(864)
Liabilities:				
Deposits	3,919	(2,339)	4,467	(554)
Subordinated loans	618	189	1,587	801
Debt issued and other borrowed funds	1,684	219	2,705	1,062
Other liabilities	102	(357)	(110)	(395)
Total liabilities	6,323	(2,288)	8,649	914
Net foreign exchange (loss) gain	(1,072)	352	(1,353)	50

Other operating income

15. Other operating income is specified as follows:

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Service level agreement fees	44	68	149	201
Legal cost and fees	33	35	128	101
Rental income	15	31	71	109
Rental income on foreclosed mortgages	31	63	156	237
Other net operating income	35	36	132	938
Other operating income	158	233	636	1,586

Amounts are in ISK million

Salaries and related expenses

16. Salaries and related expenses are specified as follows:

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Salaries	2,602	2,242	7,977	7,515
Pension and similar expenses	383	322	1,166	1,102
Social security charges and financial activities tax	378	335	1,117	1,087
Other	35	31	136	107
Capitalisation of internal staff costs in software development	(58)	-	(175)	-
Salaries and related expenses	3,340	2,930	10,221	9,811

Other operating expenses

17. Other operating expenses are specified as follows:

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Other administrative expenses	1,780	2,115	6,456	6,100
Depreciation and amortisation	190	186	565	579
Other operating expenses	1,970	2,301	7,021	6,679

Net loan impairment

18. Net loan impairment:

	2015 1.7-30.9	2014 1.7-30.9	2015 1.1-30.9	2014 1.1-30.9
Loan impairment charged to the income statement:				
Specific impairment losses on loans and receivables	467	(700)	(1,433)	(1,472)
Collective impairment	(85)	472	203	825
Total impairment charged to the income statement (see Note 25)	382	(228)	(1,230)	(647)
Net loan impairment				
Impairment reversal due to revised estimated future cash flows	3,036	293	8,956	6,451
Net specific impairment losses on loans and receivables	467	(700)	(1,433)	(1,472)
Net loan impairment before collective impairment	3,503	(407)	7,523	4,979
Collective impairment	(85)	472	203	825
Total net loan impairment	3,418	65	7,726	5,804

Amounts are in ISK million

Income taxes

19. Income tax for the nine month period ended 30 September 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 23,1% for the nine months ended 30 September 2015.

Income tax expense recognised in the income statement is specified as follows:	2015 1.1-30.9	2014 1.1-30.9
Current tax expense	3,278	3,370
Special financial activities tax	847	960
Difference in prior year's imposed and calculated income tax	(35)	2
Origination and reversal of temporary differences due to deferred tax assets/liabilities	614	474
Total	4,704	4,806

The effective income tax rate is computed as follows:	2015 1.1-30.9		2014 1.1-30.9	
Profit before tax	20,341		18,430	
20% income tax calculated on profit before tax	4,068	20.0%	3,686	20.0%
Special financial activities tax	847	4.1%	960	5.2%
Non-deductable expenses	348	1.7%	311	1.7%
Tax on income not subject to tax	(631)	(3.1%)	(744)	(4.0%)
Correction in accordance with ruling on prior year's taxable income	77	0.4%	(14)	(0.1%)
Other differences	(5)	(0.0%)	607	3.3%
Income tax expense	4,704	23.1%	4,806	26.1%

Earnings per share

20. Earnings per share are specified as follows:

	Discontinued operations Excluded		Discontinued operations Included	
	2015 1.1-30.9	2014 1.1-30.9	2015 1.1-30.9	2014 1.1-30.9
Net profit of the equity holders of the parent, according to the Condensed Consolidated Income Statement	15,110	13,260	16,162	17,826
Weighted average number of outstanding shares for the period, million	10,000	10,000	10,000	10,000
Basic earnings per share	1.51	1.33	1.62	1.78

There were no instruments at the end of the period that could potentially dilute basic earnings per share (2014: none).

Amounts are in ISK million

Cash and balances with Central Bank

21. Specification of cash and balances with Central Bank:

	30.9.2015	31.12.2014
Cash on hand	3,204	2,256
Balances with Central Bank other than mandatory reserve deposits	15,239	10,738
Term deposits	150,074	80,843
Included in cash and cash equivalents	168,517	93,837
Mandatory reserve deposits with Central Bank	9,135	9,552
Cash and balances with Central Bank	177,652	103,389

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 30 September 2015

	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	186	7,057	1,853	42,405
Cross currency interest rate swaps	1,590	29,091	276	15,217
Equity forwards	48	718	445	2,181
Foreign exchange forwards	17	834	571	11,061
Foreign exchange swaps	209	6,377	79	3,113
Bond forwards	149	2,770	15	290
Bond options	-	-	95	25,000
Derivatives held for trading	2,199	46,847	3,334	99,267
Short positions in listed bonds	-	-	5,138	-
Total	2,199	46,847	8,472	99,267

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 and receivables

23. Loans to credit institutions:

	30.9.2015	31.12.2014
Money market loans	4,821	10,889
Bank accounts	30,701	24,183
Loans to credit institutions	35,522	35,072

24. Loans to customers - impairment allowance per sector:

At 30 September 2015

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	273,276	(4,434)	268,842
Commerce and services	89,250	(1,982)	87,268
Construction	22,385	(2,024)	20,361
Energy	4,761	-	4,761
Financial services	106	(9)	97
Industrial and transportation	65,358	(735)	64,623
Investment companies	19,403	(2,288)	17,115
Public sector and non-profit organisations	12,010	-	12,010
Real estate	103,114	(1,092)	102,022
Seafood	87,045	(1,188)	85,857
Loans to customers before collective impairment allowance			662,956
Collective impairment allowance			(2,648)
Loans to customers	676,708	(13,752)	660,308

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

Amounts are in ISK million

25. Impairment

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	(4,822)	-	(4,822)
Recoveries of amounts previously written-off	542	-	542
Principal credit adjustment	(309)	-	(309)
Charged to the income statement	1,433	(203)	1,230
At 30 September 2015	13,752	2,648	16,400

	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

Investment in associates

26. Changes in investments in associates:

	30.9.2015	31.12.2014
Investment in associates at the beginning of the year	570	1,563
Additions during the period	-	62
Revaluation	15	(20)
Share of results	63	27
Distribution of capital	-	(1,062)
Investments in associates at the end of the period	648	570

Investment in subsidiaries

27. Significant subsidiaries:

	Location	Owner-ship 30.9.2015	Owner-ship 31.12.2014
Borgun hf., Ármúla 30, 108 Reykjavík	Iceland	63.5%	63.5%
Íslandssjódir hf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%	100%
Midengi ehf., Lækjargötu 12, 155 Reykjavík	Iceland	100%	100%
Hringur eignarhaldsfélag ehf., Digranesvegi 1, 200 Kópavogur	Iceland	100%	100%
Allianz Ísland hf., Digranesvegi 1, 200 Kópavogur	Iceland	100%	100%
D-1 ehf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%	100%
Geysir Green Investment Fund slhf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%	100%
Fergin ehf., Hesthálsi 6-8, 110 Reykjavík	Iceland	80%	80%
Frumherji hf., Hesthálsi 6-8, 110 Reykjavík	Iceland	80%	80%
18 other subsidiaries (SME)			

Amounts are in ISK million

Related party disclosures

28. Ultimate controlling party

The Bank has determined that ISB Holding ehf. is the ultimate controlling party of the Bank with GLB Holding ehf. and Glitnir hf. having significant influence. This is in accordance with the definition of a related party in IAS 24 Related party disclosures and is reflected in the related party transactions.

The Icelandic State Treasury owns 5% of the Bank's shareholding through the Icelandic State Financial Investments (ISFI). Entities which are controlled, jointly controlled or significantly influenced by the government (state-controlled entities) are not considered as being a related party. The Bank's transactions with state-controlled entities during the period were based on general business terms and are therefore not considered to be related party transactions.

Cash and balances with the Central Bank are disclosed under Note 21 and Deposits from the Central Bank are disclosed under Note 31. The Bank also holds a Tier 2 subordinated loan in EUR with the Central Bank of Iceland with a total balance of ISK 19,717 million (2014: ISK 21,089 million).

Related party transactions

The Bank has a related party relationship with its associates, the Board of Directors of the parent company and the ultimate 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. The balances do not reflect collaterals held by the Bank.

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

At 30 September 2015

	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Bank	-	(104)	(104)	-	-
Board of Directors and key Management personnel	386	(624)	(238)	-	77
Associated companies and other related parties	446	(1,081)	(635)	402	228
Total	832	(1,809)	(977)	402	305

At 31 December 2014

	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Bank	-	(147)	(147)	-	-
Board of Directors and key Management personnel	430	(611)	(181)	27	77
Associated companies and other related parties	553	(1,316)	(763)	435	26
Total	983	(2,074)	(1,091)	462	103

Impairment allowances of ISK 1 million (2014: ISK -155 million) were recognised in the period against balances outstanding with associated companies.

No share option programmes were operated during the reporting period 1 January - 30 September 2015.

For the nine months ended 30 September 2015 28 Amounts are in ISK million

Non-current assets and disposal groups held for sale

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

	30.9.2015	31.12.2014
Repossessed collateral	5,800	8,592
Assets of disposal groups classified as held for sale	8,146	13,057
Total	13,946	21,649

Repossessed collateral:

Land and property	5,718	8,176
Industrial equipment and vehicles	82	51
Shares and equity instruments	-	365
Total	5,800	8,592

Assets of disposal groups classified as held for sale:	30.9.2015	31.12.2014
Cash	612	150
Equity instruments	775	775
Receivables	375	1,050
Tax assets	-	78
Properties and land	2,810	6,820
Equipment	274	411
Other assets	3,300	3,773
Total	8,146	13,057

Liabilities associated with assets classified as held for sale:	30.9.2015	31.12.2014
Payables	98	80
Deferred tax liabilities	73	76
Income tax payable	82	45
Borrowings	2,292	2,284
Other liabilities	420	305
Total	2,965	2,790

On 31 May 2015 the Bank sold 100% of its shareholding in Bréfabær ehf., Fjárvari ehf. and Sævarhöfdi ehf. The entities were classified as disposal groups held for sale. The Bank has derecognised the assets and liabilities and other components related to the subsidiaries. Any surplus or deficit arising on the loss of control is recognised in profit or loss in the line item "Profit from discontinued operations, net of income tax".

Other assets

30. Other assets are specified as follows:

	30.9.2015	31.12.2014
Receivables	3,884	4,845
Unsettled securities transactions	10,858	1,660
Accruals	761	606
Prepaid expenses	343	213
Deferred tax assets	22	521
Other assets	364	295
Other assets	16,232	8,140

For the nine months ended 30 September 2015 29 Amounts are in ISK million

Deposits from Central Bank and credit institutions

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

	30.9.2015	31.12.2014
Repurchase agreements with Central Bank	43	69
Deposits from credit institutions	24,165	25,727
Deposits from Central Bank and credit institutions	24,208	25,796

Deposits from customers

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

	30.9.2015	31.12.2014
Demand deposits	487,260	421,332
Time deposits	93,835	108,115
Deposits from customers	581,095	529,447

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

	30.9.2015		31.12.2014	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	10,199	2%	11,437	2%
Municipalities	8,992	1%	6,810	1%
Companies	353,179	62%	310,317	59%
Individuals	208,725	35%	200,883	38%
Deposits from customers	581,095	100%	529,447	100%

Debt issued and other borrowed funds

34. Specification of debt issued and other borrowed funds:

	30.9.2015	31.12.2014
Non-listed issued bonds	24,494	27,810
Listed issued bonds	94,027	66,460
Loans from credit institutions	2	2
Other debt securities	2,434	2,617
Debt issued and other borrowed funds	120,957	96,889

Amounts are in ISK million

Other liabilities

35. Specification of other liabilities:

	30.9.2015	31.12.2014
Accruals	3,345	3,250
Liabilities to retailers for credit cards	24,055	22,639
Provision for effects of court rulings*	2,463	2,808
Provision for estimated losses from guarantees and others**	275	1,629
Capital gains tax	732	1,623
Unsettled securities transactions	9,893	1,798
Deferred income	174	192
Sundry liabilities	3,929	3,323
Other liabilities	44,866	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 period	(345)	-	(345)
New provisions and reversed provisions during the period	-	(1,354)	(1,354)
At 30 September 2015	2,463	275	2,738

Equity

36. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 each. At 30.9.2015 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital:

	30.9.2015	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

37. Balance of custody assets:

	30.9.2015	31.12.2014
Custody assets	684,853	666,715

Contingencies

38. **Contingencies**

Provisions

Foreign currency-linked loan contracts
The Supreme Court of Iceland has passed several rulings in the period from 2010 to the first half of 2015 where many foreign currency-linked loan contracts were deemed to be illegal. The combined court rulings to date have greatly reduced uncertainty in relation to these contracts and how they should be recalculated. The Bank's corrective process concerning the affected loan contracts is in its final stages. The outstanding recalculation is for corporate finance lease contracts.

For the nine months ended 30 September 2015 31 Amounts are in ISK million

38. Cont'd

The majority of the remaining court cases concern foreign currency-linked loan contracts with minor deviations in terms from those which have already repeatedly been ruled to be legal contracts. The cases are expected to be ruled upon in the District Courts before year-end 2015 and in the Supreme Court in the second and third quarters of 2016. The Bank considers it unlikely that these rulings will set any significant precedent as far as other loan contracts are concerned. The Bank therefore considers the likelihood of having to perform another round of mass-recalculation of foreign currency-linked loan contracts to be remote.

The effect of these court rulings and the subsequent recalculation of loan contracts is reflected in the value of loans in the Bank's Condensed Consolidated Interim Financial Statements as at 30 September 2015 where the Bank has recognised a total provision of ISK 2,463. (see Note 35).

Contingent liabilities

Variable rate loan contracts

In September 2014, the Icelandic Consumer Agency ("Agency") published its decision on a matter regarding the terms of, and information relating to the granting of, a consumer mortgage contract with interest reset terms granted by the Bank in 2005. The Agency found the terms offered by the Bank and its predecessor, regarding the method and conditions of resetting interest rates, to be in breach of Articles 6 and 9 of Act no. 121/1994 on Consumer Credit (superseded in November 2013). The Agency found the terms to be insufficient as to the explanation of how or what can affect the decision for the interest rate being revised. To support its decision, the Agency cited, among other things, a decision from 2009 by the Consumer Appellate Committee. Following the Agency´s decision, the Bank decided to postpone a scheduled interest rate reset and customers were given the option to have their loans restructured with appropriate documentation, fully adapted to the new law on consumer credit.

The Bank has stated officially that it disagrees with the Agency's decision in that the law requires more detailed explanation with regards to the outcome from a reset of interest rates. The terms explicitly state the time period during which the Bank can reset the interest rate and, moreover, that the borrower can settle the loan without a pre-settlement charge if he or she is not content with the terms. The 2009 precedent referred to by the Agency did not involve pre-settlement terms. Article 12 of the former Act on Consumer Credit stipulates that in the cases of credit contracts containing clauses allowing variations in the rate of interest and the amount or level of other charges contained in the annual percentage rate of charge (APR), but unquantifiable at the time when the payment schedule is presented, the APR shall be calculated on the assumption that the price level, interest rate and other charges will remain unchanged until the end of the credit agreement. The Bank's payment schedule accordingly states that the schedule is based on the current Consumer Price Index ("CPI") and the interest rates and service charges in effect at the Bank at the time of issuance. Similar terms were applied by all major financial institutions serving the mortgage loan market at the time, including the Housing Financing Fund.

The decision of the Agency was appealed to the Consumer Appellate Committee which published its decision on 19 June 2015 confirming the Agency's decision. The Bank has therefore decided to refer the matter to the courts. The court case is expected to be concluded in late 2016. The consequences of an adverse outcome for the Bank are not easily quantifiable. The Bank has recognised a provision of ISK 700 million in relation to this matter.

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

The Icelandic Competition Authority ("ICA") has initiated an investigation concerning alleged violations of the Competition Law no. 44/2005 by the Bank. Details of the investigation remain confidential.

The ICA has requested and received information from the Bank and has, following its review, presented 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. However, should the ICA's findings be final, sanctions may come into consideration, in accordance with Article 37 of the Competition Act. The Bank has not recognised a provision in relation to this matter.

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

On 22 October 2013, the EFTA Surveillance Authority ("ESA"), following a complaint, formally requested information on alleged unlawful state aid granted to the Bank through long-term funding at favourable interest rates by the Central Bank of Iceland. The funding was in the form of an ISK 55 billion bond with a ten-year tenure, issued to the Central Bank. It is alleged that the funding was provided on terms more favourable than the then current market terms.

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 involve state aid based on the interpretation of Article 61 of the European Economic Area ("EEA") Agreement, or if they qualify for an exemption under Article 61(2) or (3). Both parties, the Bank and the Icelandic authorities, state that the measures cannot be considered state aid within the meaning of Article 61(1), 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 the ESA disagree, the measures must be considered state aid compatible with the functioning of the EEA Agreement under Article 61(3) (b) and the Bank may have to reimburse the Central Bank with an amount equal to the difference between market terms and the terms of the Bond. The Bank has not recognised a provision in relation to this matter.

38. Cont'd

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 with respect to 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.

Contingent assets

Settlement of the 2011 Byr acquisition

The Bank acquired Byr hf. ("Byr"), a former savings bank, in 2011 from the Byr Winding-up Committee ("Committee") and the Icelandic Ministry of Finance and Economic Affairs ("Ministry"). According to standard practice, the Bank retained the right to re-evaluate the fair value of the net assets acquired and to demand a refund if the fair value of the net assets was not in line with what was presented in the Byr's financial statements. Based on this, the Bank filed a claim amounting to ISK 6,943 million plus interest with the Committee in June 2013. The claim is filed as a priority claim, according to Article 110 of the Act on Bankruptcy no. 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 have now been filed with the District Court of Reykjavík. Furthermore, at the request of the Bank, the District Court has appointed two independent professionals 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 2015. Court proceedings will therefore presumably commence in the fourth quarter of 2015. The Bank has not recognised any revenues relating to this claim.

A new Act, Stability Tax no. 60/2015, passed by Parliament in July 2015 may affect the Bank's claim on Byr, whereas the Byr estate may be liable to pay a one-off stability tax of 39% of total assets, provided the estate has not reached a composition agreement with its creditors before the end of 2015. This taxation, if payable, will rank before the Bank's claim. The Byr estate is currently in the process of seeking composition.

Other

Indexed loans

On 13 May 2015, the Supreme Court ruled on a case based on fixing the principal of a mortgage contract to the CPI, using an assumption of a zero-inflation, being in violation of the European Union ("EU") Directive 93/13/EU ("Directive"). The case was granted a simple and speedy procedure because it only involved an enforcement dispute. The Court upheld a previous decision of the District Court which ruled in favour of the Bank, based mostly on the same arguments. As to the question of the use of zero-inflation, the Court acknowledged that some discrepancies were evident from when the Directive on consumer loans was adopted to local law in 1994. Despite the fact that Icelandic law should be interpreted as close to the EU/EEA law as possible, such an interpretation does not override the meaning derived from the wording of the Icelandic law which states that it is permissible to assume that the inflation will remain unchanged when calculating APR in the payment schedule.

The Consumer Agency ("Agency") published in February 2014 its decision on a matter regarding the terms of, and information relating to the granting of, a CPI-linked mortgage by the Bank in 2005. The decision was based on arguments presented by the EFTA Court. The Consumer Appellate Committee decided on the case on 23 February 2015 along the same lines as presented by the EFTA Court. However, the Consumer Appellate Committee did not agree with the Agency on the method of forecasting, stating that the two-month change in the CPI prior to the granting of the loan did not constitute a satisfactory foundation for forecasting. The procedure in question has since been upgraded in accordance with and following the implementation of a new Act on Consumer Credit no. 33/2013. In light of the Supreme Court ruling described above, the decision of the Consumer Appellate Committee is of no consequence. The Bank therefore considers this matter concluded and that provisions are not applicable.

Events after the end of the reporting period

39. On 8 June 2015, the Icelandic Ministry of Finance and Economic Affairs announced its plans to liberate the capital controls which have been in place in Iceland since 2008. This will be done in stages and the aim is to neutralise the risk posed to the balance of payments.

Following its announcement, on 3 July 2015, the Icelandic Parliament passed an Act imposing a one-off stability levy of 39% of total assets on financial undertakings, previously operating as commercial banks or savings banks, that are currently in winding-up proceedings. The objective of the Act is to facilitate liberation of the capital controls in Iceland and at the same time ensure stability in the interest of the general public. The tax becomes effective for those entities that have not concluded composition agreements before year-end 2015 that satisfy the stability conditions set by the Icelandic Authorities. The tax will be enforced on Glitnir hf. (“Glitnir”), the owner of the Bank's holding company ISB Holding ehf.

Based on the above and a proposal put forth by the Icelandic Ministry of Finance and Economic Affairs, the Bank entered into a Heads of Agreement in July 2015 with Glitnir and its subsidiaries ISB Holding ehf. and GLB Holding ehf., concerning the re-capitalisation of the Bank in order to facilitate the composition of Glitnir. The proposed re-capitalisation would have resulted in a reduction in Bank's equity corresponding to a total capital ratio of approximately 23%.

39. Cont'd

However, following meetings by Glitnir creditors' advisors and the Task Force for Capital Account Liberalisation held in September and October 2015, Glitnir presented a revised proposal to the Minister of Finance and Economic Affairs offering to relinquish its entire shareholding in the Bank's holding company ISB Holding ehf. to the Icelandic State, including the 95% shareholding in Íslandsbanki which would then become a 100% State owned bank. Glitnir would at the same time acquire the Bank's existing Tier 2 notes from the Central Bank.

The main difference to this proposal from the agreement made in July 2015, disclosed in the Bank's condensed consolidated interim financial statements for 30 June 2015, is that the proposal does not dictate a special dividend payment and, therefore, the Bank's total equity ratio will not be affected.

The main amendments to the proposal are as follows:
• Glitnir will relinquish its entire shareholding in ISB Holding ehf. to the Icelandic Authorities, including its 95% shareholding in Íslandsbanki hf. with a total equity of ISK 185 billion as at 30 June 2015;
• There will no longer be a profit-sharing agreement concerning returns on the Bank's shares;
• A contingent bond in the amount of ISK 119 billion will no longer be required;
• There will be no dividend payments and thus no further issuance of subordinated debt by the Bank;
• Glitnir's deposits in foreign currency at Íslandsbanki will be termed out for a maturity of at least two years, leaving the Bank with the option to extend the maturities even further through an issuance of EMTN bonds;
• ISK deposits are expected to be paid out, but subject to an agreement with Glitnir and the Central Bank;
• Glitnir will acquire the Icelandic State Treasury's currently outstanding Tier 2 facility to Íslandsbanki.

The Central Bank completed its assessment of Glitnir's amended composition proposal on 28 October 2015. The Central Bank concluded that the proposal satisfied the requirements set forth in the Foreign Exchange Act, in that the fulfilment of the composition agreement together with the proposed countervailing measures will not jeopardise monetary, exchange rate, or financial stability in Iceland. Consultations pursuant to Article 13c of the Foreign Exchange Act have taken place, and the Minister has presented the conclusions before the Parliamentary Economic Affairs and Trade Committee.

The Icelandic State already owns the largest bank in Iceland and the Government has, on a number of occasions, indicated that it means to dilute its investments in large financial undertakings. The Icelandic Minister of Finance has announced that it is not the Government's intention to retain ownership of Íslandsbanki going forward, but that it will endeavour to sell the Bank to suitable investors.

Risk Management

40. 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

41. 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.

42. Maximum credit exposure

TThe 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 24. 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 Chapter 6 of the Regulation (EU) no. 575/2013 of the European Parliament.

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

42. Cont'd

Maximum credit exposure 30.9.2015

	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	-	177,652	-	-	-	-	-	-	-	-	-	177,652
Derivatives	13	-	26	-	1,287	1,810	24	15	383	13	-	3,571
Bonds and debt instruments	-	74,163	1,441	-	-	2,513	298	1,273	32	333	-	80,053
Loans to credit institutions	-	-	-	-	-	35,522	-	-	-	-	-	35,522
Loans to customers:	268,842	-	87,268	20,361	4,761	97	64,623	17,115	12,010	102,022	85,857	662,956
Overdrafts	12,689	-	8,557	3,455	-	29	5,615	715	903	3,295	1,706	36,964
Credit cards	15,459	-	1,462	178	5	35	409	36	154	46	36	17,820
Mortgages	193,054	-	-	-	-	-	-	-	-	12	-	193,066
Leases	10,784	-	19,990	2,198	10	1	6,550	195	137	1,248	235	41,348
Other loans	36,856	-	57,259	14,530	4,746	32	52,049	16,169	10,816	97,421	83,880	373,758
Off-balance sheet items:												
Financial guarantees	1,390	-	3,863	2,890	-	1,669	1,983	37	29	143	516	12,520
Undrawn loan commitments	-	-	2,084	6,166	8,830	-	10,769	3,045	5,933	2,309	4,946	44,082
Undrawn overdraft	8,692	-	9,714	1,886	211	3,202	3,786	387	2,396	1,381	1,646	33,301
Credit card commitments	24,988	2	3,610	518	33	160	936	165	785	214	151	31,562
Total maximum credit exposure	303,925	251,817	108,006	31,821	15,122	44,973	82,419	22,037	21,568	106,415	93,116	1,081,219

Amounts are in ISK million

42. 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

43. 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 30 September 2015

	Real estate	Fishing vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	3,454	-	-	3,454
Loans and commitments to customers:	418,691	69,626	6,367	36,829	24,239	555,752
Individuals	219,713	25	461	10,122	33	230,354
Commerce and services	46,656	382	319	18,779	6,145	72,281
Construction	16,754	160	417	1,858	82	19,271
Energy	2,916	-	414	10	98	3,438
Financial services	41	-	22	1	-	64
Industrial and transportation	23,558	1	193	5,273	10,380	39,405
Investment companies	6,330	10	3,639	255	3,358	13,592
Public sector and non-profit organisations	1,001	-	13	122	-	1,136
Real estate	98,278	-	606	174	925	99,983
Seafood	3,444	69,048	283	235	3,218	76,228
Total	418,691	69,626	9,821	36,829	24,239	559,206

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

Amounts are in ISK million

44. Credit quality of financial assets

Loans are classified as impaired loans if there is objective evidence that impairment losses have been incurred on loans, their carrying amounts are 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 30 September 2015

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	177,652	-	-	177,652
Derivatives	3,571	-	-	3,571
Bonds and debt instruments	80,053	-	-	80,053
Loans to credit institutions	35,522	-	-	35,522
Loans to customers:	627,745	26,937	8,274	662,956
Individuals	247,456	17,141	4,245	268,842
Commerce and services	83,816	2,233	1,219	87,268
Construction	18,833	1,384	144	20,361
Energy	4,761	-	-	4,761
Financial services	64	-	33	97
Industrial and transportation	62,843	1,083	697	64,623
Investment companies	16,053	925	137	17,115
Public sector and non-profit organisations	11,996	14	-	12,010
Real estate	98,809	1,817	1,396	102,022
Seafood	83,114	2,340	403	85,857
Total	924,543	26,937	8,274	959,754

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

For the nine months ended 30 September 2015 38 Amounts are in ISK million

45. 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 30 September 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	11,154	90,076	93,030	46,016	2,890	4,290	247,456
Commerce and services	11,316	50,439	16,250	3,708	240	1,863	83,816
Construction	482	8,275	7,244	1,254	1,150	428	18,833
Energy	1,348	3,394	19	-	-	-	4,761
Financial services	27	8	14	15	-	-	64
Industrial and transportation	16,043	37,685	6,364	2,675	76	-	62,843
Investment companies	1,109	8,039	5,277	1,485	143	-	16,053
Public sector and non-profit organisations	5,983	5,792	190	7	24	-	11,996
Real estate	29,586	43,467	20,570	2,393	1,238	1,555	98,809
Seafood	34,866	32,895	14,030	467	812	44	83,114
Total	111,914	280,070	162,988	58,020	6,573	8,180	627,745

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

For the nine months ended 30 September 2015 39 Amounts are in ISK million

46. Forbearance

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.

47. 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 30 September 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	8,073	3,579	303	5,186	17,141
Commerce and services	1,305	457	171	300	2,233
Construction	1,074	87	6	217	1,384
Energy	-	-	-	-	-
Financial services	-	-	-	-	-
Industrial and transportation	637	201	16	229	1,083
Investment companies	224	577	39	85	925
Public sector and non-profit organisations	10	-	3	1	14
Real estate	1,386	126	18	287	1,817
Seafood	629	321	178	1,212	2,340
Total	13,338	5,348	734	7,517	26,937

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

Amounts are in ISK million

48. 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 third quarter of the year are not audited, the official capital is based on reviewed own fund items at 30 June 2015.

The exposure is evaluated both before and after credit risk mitigating effects eligible according to the FME rules. After mitigating effects, the Bank has currently one large exposure which is 13% 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, before and after 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.

		30.9.2015
Client groups	Before	After
Group 1	103%	0%
Group 2	13%	13%

		31.12.2014
Client groups	Before	After
Group 1	69%	0%
Group 2	12%	12%

For the nine months ended 30 September 2015 41 Amounts are in ISK million

Liquidity Risk

49. 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 30 September 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	5,138	4,360	16	-	762	-	-	5,138
Deposits from CB and credit institutions	24,209	20,244	3,623	445	-	-	-	24,312
Deposits from customers	581,095	356,374	132,662	58,186	19,155	30,010	-	596,387
Debt issued and other borrowed funds	120,957	2	14,829	15,652	82,168	24,851	-	137,502
Subordinated loans	19,717	-	-	761	24,174	-	-	24,935
Other financial liabilities	53,724	38,020	8,109	3,452	4,144	-	-	53,725
Total financial liabilities	804,840	419,000	159,239	78,496	130,403	54,861	-	841,999

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	12,520	-	-	-	-	-	12,520
Undrawn loan commitments	44,082	-	-	-	-	-	44,082
Undrawn overdrafts	33,301	-	-	-	-	-	33,301
Credit card commitments	31,562	-	-	-	-	-	31,562
Total	121,465	-	-	-	-	-	121,465
Total non-derivative financial liabilities and off-balance sheet liabilities	540,465	159,239	78,496	130,403	54,861	-	963,464

The following page 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.

For the nine months ended 30 September 2015 42 Amounts are in ISK million

49. 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	-	12,051	9,486	64,724	3,319	-	89,580
Outflow	-	(12,674)	(9,494)	(65,797)	(3,917)	-	(91,882)
Total	-	(623)	(8)	(1,073)	(598)	-	(2,302)
Net settled derivatives	-	(563)	-	-	-	-	(563)
Total	-	(1,186)	(8)	(1,073)	(598)	-	(2,865)

Maturity classification of assets is based on contractual maturity. 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	177,652	27,578	150,074	-	-	-	-	177,652
Bonds and debt instruments	80,053	1,080	26,470	14,076	34,682	3,745	-	80,053
Shares and equity instruments	9,004	-	-	-	-	-	9,004	9,004
Loans to credit institutions	35,522	29,645	5,877	-	-	-	-	35,522
Loans to customers	660,308	6,003	70,915	55,577	193,964	336,495	-	662,954
Other financial assets	16,210	11,976	1,558	208	64	46	2,358	16,210
Total financial assets	978,749	76,282	254,894	69,861	228,710	340,286	11,362	981,395

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	-	11,434	16,361	13,055	40	-	40,890
Outflow	-	(10,829)	(15,489)	(12,410)	(76)	-	(38,804)
Total	-	605	872	645	(36)	-	2,086
Net settled derivatives	-	442	-	-	-	-	442
Total	-	1,047	872	645	(36)	-	2,528

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 CB and credit institutions	25,796	22,331	3,054	434	-	-	-	25,819
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

For the nine months ended 30 September 2015 43 Amounts are in ISK million

49. 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 September 2015 and end of 2014.

Composition and amount of liquidity back-up	30.9.2015	31.12.2014
Cash and balances with the Central Bank	177,652	103,455
Domestic bonds eligible as collateral against borrowing at Central Bank	22,884	29,478
Foreign government bonds	41,135	46,593
Short-term placements with credit institutions	34,362	34,006
Composition and amount of liquidity back-up	276,033	213,532

For the nine months ended 30 September 2015 44 Amounts are in ISK million

Market risk

50. 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.

Interest rate risk

51. 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.

52. Interest rate risk in the trading book

Interest rate risk in the trading book originates in the liquidity portfolio and the flow trading portfolio. 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 in Note 6 the net positions in each security are summed up 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	30.9.2015			31.12.2014		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,982	7.73	(1.53)	1,772	8.03	(1.42)
Non-indexed	44,220	0.38	(1.66)	48,260	0.41	(1.96)
Total	46,202	0.69	(3.19)	50,032	0.68	(3.38)

Trading bonds and debt instruments, short positions	30.9.2015			31.12.2014		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,120	9.90	1.11	-	-	-
Non-indexed	1,957	5.32	1.04	73	7.39	0.05
Total	3,077	6.99	2.15	73	7.39	0.05
Net position of trading bonds and debt instruments	43,125	0.24	(1.04)	49,959	0.67	(3.33)

For the nine months ended 30 September 2015 45 Amounts are in ISK million

53. 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 their value is based on the valuation of the underlying collateral and thus not sensitive to changes in interest rates.

Banking book interest rate adjustment periods on 30 September 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	177,652	-	-	-	-	-	177,652
Bonds and debt instruments	32,077	688	1,489	108	426	185	34,973
Loans to credit institutions	35,519	3	-	-	-	-	35,522
Loans to customers	465,469	21,095	32,329	128,447	6,644	8,971	662,955
Total assets	710,717	21,786	33,818	128,555	7,070	9,156	911,102
Off-balance sheet items..	78,108	10,383	1,884	17,529	-	-	107,904
Liabilities							
Deposits from CB and credit institutions	23,773	435	-	-	-	-	24,208
Deposits from customers	568,390	2,289	1,326	8,227	863	-	581,095
Debt issued and other borrowed funds	12,513	27,803	28,463	33,435	12,258	6,510	120,982
Subordinated loans	19,717	-	-	-	-	-	19,717
Total liabilities	624,393	30,527	29,789	41,662	13,121	6,510	746,002
Off-balance sheet items	75,558	4,151	8,755	27,483	3,024	-	118,971
Net interest gap on 30 September 2015	88,874	(2,509)	(2,842)	76,939	(9,075)	2,646	154,033

Amounts are in ISK million

53. 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 CB and credit institutions	25,375	421	-	-	-	-	25,796
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 nine months ended 30 September 2015 47 Amounts are in ISK million

Currency risk

54. 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 mismatch in the currency composition of assets or liabilities.

There is uncertainty regarding the impact on the financial market following the liberation of capital controls in Iceland. This is taken into account in the Bank's risk management. The Bank holds a strategic long position in foreign currencies and can easily convert foreign currencies into ISK.

The Bank's net currency imbalance is likely to diminish following the completion of the proposed re-capitalisation (see Note 39). The anticipated composition of the financial undertakings that are currently in winding-up proceedings will further reduce the uncertainty surrounding the liberation of the capital controls.

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 30 September 2015 and 31 December 2014, based on contractual currencies and off-balance sheet items, but excluding assets categorised as held-for-sale.

Currency analysis 30 September 2015

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB........	389	272	113	63	14	62	71	109	38	1,131
Bonds and debt instruments.......	32,144	9,186	-	-	-	1,520	-	-	-	42,850
Shares and equity instrum..........	144	286	-	-	-	-	1	-	-	431
Loans to credit institutions..........	10,528	13,199	1,038	1,085	3,501	1,268	368	1,721	1,191	33,899
Loans to customers...................	64,384	29,749	5,762	7,166	6,929	269	9,914	1,144	120	125,437
Other assets...............................	328	1,635	158	-	8	47	13	17	52	2,258
Total assets	107,917	54,327	7,071	8,314	10,452	3,166	10,367	2,991	1,401	206,006
Liabilities										
Deposits from credit institut........	542	261	1	440	574	-	-	-	-	1,818
Deposits from customers	49,557	33,171	5,528	3,200	3,075	1,691	4,523	998	1,725	103,468
Borrowings.................................	21,614	-	-	-	-	21,346	-	-	-	42,960
Subordinated loans	19,717	-	-	-	-	-	-	-	-	19,717
Other liabilities...........................	3,410	4,858	1,261	2	84	133	49	6	187	9,990
Total liabilities	94,840	38,290	6,790	3,642	3,733	23,170	4,572	1,004	1,912	177,953
On-balance sheet imbalance	13,077	16,037	281	4,672	6,719	(20,004)	5,795	1,987	(511)	28,053
Off-balance sheet items										
Off-balance sheet assets	40,564	16,853	2,324	856	84	20,537	1,951	1,159	951	85,279
Off-balance sheet liabilities	42,798	30,319	710	4,932	6,789	-	5,700	-	161	91,409
Net off-balance sheet items	(2,234)	(13,466)	1,614	(4,076)	(6,705)	20,537	(3,749)	1,159	790	(6,130)
Net currency imbalance on 30 September 2015........	10,843	2,571	1,895	596	14	533	2,046	3,146	279	21,923

For the nine months ended 30 September 2015 48 Amounts are in ISK million

54. Cont'd

Currency analysis 31 December 2014

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	263	168	95	30	9	43	50	83	26	767
Bonds and debt instruments	29,322	9,323	-	-	-	4,109	1,708	1,036	1,095	46,593
Shares and equity instrum..........	203	257	-	1	-	-	-	-	-	461
Loans to credit institutions	9,092	12,091	2,137	3,911	1,238	1,313	1,442	2,027	349	33,600
Loans to customers	62,131	25,654	6,124	7,869	7,206	308	8,943	1,387	352	119,974
Other assets	318	1,672	132	1	37	44	10	23	34	2,271
Total assets	101,329	49,165	8,488	11,812	8,490	5,817	12,153	4,556	1,856	203,666
Liabilities										
Deposits from credit institut........	140	16	13	-	13	-	1	-	-	183
Deposits from customers	39,200	26,309	5,385	2,364	1,586	1,164	6,777	1,129	1,892	85,806
Borrowings.................................	15,572	-	-	-	-	13,212	-	-	-	28,784
Subordinated loans	21,306	-	-	-	-	-	-	-	-	21,306
Other liabilities	3,704	5,792	763	-	117	66	35	46	363	10,886
Total liabilities	79,922	32,117	6,161	2,364	1,716	14,442	6,813	1,175	2,255	146,965
On-balance sheet imbalance	21,407	17,048	2,327	9,448	6,774	(8,625)	5,340	3,381	(399)	56,701
Off-balance sheet items										
Off-balance sheet assets	19,202	21,345	662	-	-	9,990	888	185	1,614	53,886
Off-balance sheet liabilities	29,552	34,234	79	8,979	6,468	-	3,634	140	920	84,006
Net off-balance sheet items	(10,350)	(12,889)	583	(8,979)	(6,468)	9,990	(2,746)	45	694	(30,120)
Net currency imbalance on 31 December 2014.........	11,057	4,159	2,910	469	306	1,365	2,594	3,426	295	26,581

Derivatives

55. The Bank uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Bank carries 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

56. 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 30 September 2015 the CPI gap amounted to ISK 32.6 billion (31 December 2014: ISK 57.5 billion). Thus, a 1% increase in the index would lead to an ISK 326 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

For the nine months ended 30 September 2015 49 Amounts are in ISK million

Capital management

57. Risk exposure and capital base

The table below shows the capital base, risk-weighted assets and the resulting capital ratios of the Bank at 30 September 2015 and 31 December 2014. In addition, the table shows the official capital ratios based on reviewed own fund items at 30 June 2015.

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 85% into the total capital base.

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 third quarter are not audited, the official capital ratio is based on audited own fund items at 30 June 2015 and risk weighted assets at 30 September 2015. The official capital ratio at 30 September 2014 was 28.5% and the Tier 1 ratio was 26.0%.

The Bank has updated its capital target, which is to maintain a total capital level above 23% in the near to medium-term. The capital target is above the regulatory requirement and is being increased from the earlier target of 18%, as the Bank deems it prudent to retain a sizable strategic capital buffer. The Bank also expects to be able to give more clarity on the medium to long-term targets in the next 12-18 months, subject to further clarity on regulatory capital requirements.

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.

	30.9.2015	31.12.2014
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	2,538	2,535
Retained earnings	123,450	116,288
Non-controlling interests	1,899	1,664
Tax assets	(22)	(521)
Intangible assets	(1,143)	(619)
Total Tier 1 capital	191,722	184,347
Tier 2 capital		
Adjustment to eligible capital instruments	(2,958)	-
Qualifying subordinated liabilities	19,717	21,306
Total regulatory capital	208,481	205,653
Risk-weighted assets		
- due to credit risk	608,621	583,375
- due to market risk:	26,570	33,326
Market risk, trading book	4,500	6,594
Currency risk foreign exchange	22,070	26,732
- due to operational risk	78,401	78,401
Total risk-weighted assets	713,592	695,102
Capital ratios		
Tier 1 ratio	26.9%	26.5%
Total capital ratio	29.2%	29.6%
Official Tier 1 ratio	26.0%	26.5%
Official capital ratio	28.5%	29.6%

For the nine months ended 30 September 2015 50 Amounts are in ISK million