Condensed Consolidated Interim Financial Statements

Six months ended 30 June 2016

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

Contents

Directors' Report

The Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. (“the Bank” or “Íslandsbanki”) for the period 1 January to 30 June 2016 comprise the interim financial statements of the Bank and its subsidiaries, together referred to as “the Group”.

Operations in the reporting period

Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland and overseas. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Íslandsbanki is fully owned by the Icelandic State Treasury and the equity stake is managed by the Icelandic State Financial Investments (ISFI – Bankasýsla ríkisins) on its behalf.

The profit from the Group's operations for the reporting period amounted to ISK 13,017 million, which corresponds to 12.9% annualised return on equity. The Group's total equity amounted to ISK 198.8 billion and total assets were ISK 1,029.6 billion at the end of the reporting period. The Group's total capital ratio was 28.9%, well above the current short- to medium-term target of 23%. The liquidity position was strong and well above the regulatory minimum. At the end of the reporting period, the Group employed 1,217 full-time members of staff, including 1,046 within the Bank itself.

The net income of the Group was heavily impacted by Borgun´s, a subsidiary of the Bank, sale of its stake in Visa Europe in the reporting period. A gain of ISK 6.2 billion was recognized in net financial income. For further information on the Visa Europe transaction please refer to Note 12 to the interim financial statements.

The Bank had plans to merge its headquarters in the current location at Kirkjusandur, but had to amend those plans due to a mould problem discovered in the building. As a result of this, the Bank reduced the value of the Kirkjusandur building, which resulted in a one-off charge of ISK 1.2 billion in the reporting period.

Loans to customers continue to grow at a healthy rate, even though competition has increased, especially from the local pension funds. Core customer deposits remain stable, while institutional deposits have reduced since year-end 2015 due to composition agreements of the collapsed Icelandic banks and the currency auctions conducted by the Central Bank. The Bank continues to be a frequent issuer of covered bonds and commercial paper in Iceland and has continued to diversify its investor base internationally. With the latest tap of EUR 75 million in May, the Bank´s 2018 benchmark euro issuance was increased to EUR 300 million and the Bank´s foreign currency notes continue to perform well in the secondary market.

Outlook

The outlook in Iceland remains very favourable. GDP growth is expected to exceed 4% in 2016 and households are experiencing a rapid growth in purchasing power. Tourism continues to grow at a strong rate and the seafood industry has experienced favourable conditions over the past few years. Both corporate and household debt continues on a downward trend and investments have reverted to historical average levels. The unemployment level was at 2.3% in June.

Further steps towards the easing of capital controls in the second half of the year have been announced and in preparation the Central Bank has been able to increase its foreign currency reserves substantially.

Due to the economic conditions in Iceland, the Bank expects to see growth in both new lending and fee income. The quality of the domestic loan book continues to improve and impairments are expected to remain modest in the coming months. There are however some uncertainties regarding exposures to the offshore sector in the Bank´s international loan portfolio.

The relocation to new headquarters will start in the last quarter of 2016 and be finalised in the first half of 2017. The merger of all headquarter activities in a single location will open up opportunities for efficiency gains and provide employees with a more productive and enjoyable working environment. Íslandsbanki has entered into a rental agreement for seven floors in the Íslandsbanki tower for the Bank´s new headquarters. The duration of the rental agreement is 10 years.

Directors' Report

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2016 have been prepared on a going concern basis 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; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

The Board of Directors draws special attention to the financial environment in Iceland, where capital controls are still in place. The Board also notes that the Bank maintains a strong capital and liquidity position and is therefore well positioned to meet future risks and challenges. The Board refers to Notes 2 and 38 to the interim financial statements for the principal risks and uncertainties currently faced by the Group.

To the best of our knowledge, these Condensed Consolidated Interim Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 June 2016. It also describes the principal risks and uncertainties currently faced by the Group.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2016.

Reykjavík, 22 August 2016

Board of Directors:

Fridrik Sophusson, Chairman

Helga Valfells, Vice-Chairman

Anna Thórdardóttir

Audur Finnbogadóttir

Árni Stefánsson

Hallgrímur Snorrason

Heidrún Jónsdóttir

Chief Executive Officer:

Birna Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Íslandsbanki hf.

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Íslandsbanki hf. and its subsidiaries as of 30 June 2016 and the related Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income, the Condensed Consolidated Statement of Changes of Equity and Condensed Consolidated Statement of Cash Flows for the six months ended June 2016 and explanatory notes. Management is responsible for the preparation and fair presentation of these Condensed Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standard, IAS 34 Interim Financial Reporting as adopted by the EU. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, IAS 34 Interim Financial Reporting, as adopted by the EU.

Reykjavík, 22 August 2016

Ernst & Young ehf.

Margrét Pétursdóttir

State Authorised Public Accountant

Condensed Consolidated Income Statement for the six months ended 30 June 2016

	Notes	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Interest income		16.364	14.456	31.174	26.052
Interest expense		(8.008)	(7.097)	(15.279)	(12.502)
Net interest income	10	8.356	7.359	15.895	13.550
Fee and commission income		5.590	5.374	10.611	10.051
Fee and commission expense		(2.075)	(1.856)	(3.952)	(3.628)
Net fee and commission income	11	3.515	3.518	6.659	6.423
Net financial income	12-13	6.062	275	6.666	2.039
Net foreign exchange gain (loss)	14	305	(141)	317	(281)
Other operating income	15	473	252	624	541
Other net operating income		6.840	386	7.607	2.299
Total operating income		18.711	11.263	30.161	22.272
Salaries and related expenses	16	(3.697)	(3.421)	(7.636)	(6.881)
Other operating expenses	17	(3.902)	(2.688)	(6.480)	(5.051)
Contribution to the Depositors' and Investors' Guarantee Fund		(267)	(265)	(528)	(534)
Bank tax		(716)	(710)	(1.407)	(1.328)
Total operating expenses		(8.582)	(7.084)	(16.051)	(13.794)
Profit before net loan impairment		10.129	4.179	14.110	8.478
Net loan impairment	18	689	1.977	369	4.308
Profit before tax		10.818	6.156	14.479	12.786
Income tax expense	19	(1.720)	(1.524)	(2.586)	(2.920)
Profit for the period from continuing operations		9.098	4.632	11.893	9.866
Profit from discontinued operations, net of income tax		409	762	1.124	924
Profit for the period		9.507	5.394	13.017	10.790
Profit attributable to:					
Equity holders of Íslandsbanki hf.		7.002	5.247	10.378	10.564
Non-controlling interests		2.505	147	2.639	226
Profit for the period		9.507	5.394	13.017	10.790
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	20	0,66	0,45	0,93	0,96

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 11 to 52 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 six months ended 30 June 2016

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Profit for the period	9.507	5.394	13.017	10.790
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences for foreign operations	(5)	43	(25)	24
Fair value reserve (available for sale financial assets):				
Net change in fair value, tax exempt	692	-	692	-
Net amount reclassified to profit or loss	(6.186)	-	(6.186)	-
Other comprehensive income for the period, net of tax	(5.499)	43	(5.519)	24
Total comprehensive income for the period	4.008	5.437	7.498	10.814

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 11 to 52 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 June 2016

	Notes	30.6.2016	31.12.2015
Assets			
Cash and balances with Central Bank	6,21	182.177	216.760
Bonds and debt instruments	6	71.756	78.606
Shares and equity instruments	6	12.692	18.320
Derivatives	6,22	2.036	1.981
Loans to credit institutions	6,23	33.088	35.534
Loans to customers	6,24	698.669	665.711
Investments in associates	26	764	716
Property and equipment		5.884	7.344
Intangible assets		1.700	1.331
Other assets	29	11.268	6.674
Non-current assets and disposal groups held for sale	30	9.583	12.792
Total Assets		1.029.617	1.045.769
Liabilities			
Deposits from Central Bank and credit institutions	6,31	14.633	25.631
Deposits from customers	6,32-33	566.220	593.245
Derivative instruments and short positions	6,22	6.079	6.981
Debt issued and other borrowed funds	6,34	163.469	150.308
Subordinated loans	6	18.886	19.517
Tax liabilities		9.894	8.358
Other liabilities	35	49.252	36.677
Non-current liabilities and disposal groups held for sale	30	2.347	2.825
Total Liabilities		830.780	843.542
Equity			
Share capital	36	10.000	10.000
Share premium	36	55.000	55.000
Reserves		2.470	6.002
Retained earnings		127.666	127.288
Total equity attributable to the equity holders of Íslandsbanki hf.		195.136	198.290
Non-controlling interests		3.701	3.937
Total Equity		198.837	202.227
Total Liabilities and Equity		1.029.617	1.045.769

The notes on pages 11 to 52 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2016

	Attributable to equity holders of Íslandsbanki hf.						Non-controlling interests	Total equity
	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total		
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			-	24	10.564	10.588	226	10.814
Changes in non-controlling interests						-		-
Dividends					(9.000)	(9.000)	(292)	(9.292)
Equity at 30.6.2015	10.000	55.000	-	2.559	117.852	185.411	1.598	187.009
Equity at 1.1.2016	10.000	55.000	3.458	2.544	127.288	198.290	3.937	202.227
Translation differ. for foreign operations				(25)		(25)		(25)
Fair value reserve (AFS assets):								
Net change in fair value of financial assets AFS			421			421	271	692
Net amount reclassified to profit or loss			(3.928)			(3.928)	(2.258)	(6.186)
Net expense recognised directly in equity	-	-	(3.507)	(25)		(3.532)	(1.987)	(5.519)
Profit for the period					10.378	10.378	2.639	13.017
Total comprehensive income for the period	-	-	(3.507)	(25)	10.378	6.846	652	7.498
Changes in non-controlling interests							(89)	(89)
Dividends					(10.000)	(10.000)	(799)	(10.799)
Equity at 30.6.2016	10.000	55.000	(49)	2.519	127.666	195.136	3.701	198.837

The Annual General Meeting for the operating year 2015 was held on 19 April 2016 where shareholders approved the Board's proposal to pay dividends to shareholders for the financial year 2015 of up to 50% of net profit. The dividends were paid on 27 April 2016 and amounted to ISK 10,000 million.

The notes on pages 11 to 52 are an integral part of these Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2016 8 Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2016

	Notes	2016 1.1-30.6	2015 1.1-30.6
Cash flows from operating activities:			
Profit for the period		13.017	10.790
Adjustments to reconcile profit for the period to cash flows (used in) provided by operating activities:			
Non-cash items included in profit for the period and other adjustments		6.957	(36)
Changes in operating assets and liabilities		(61.563)	26.342
Dividends received		119	557
Income tax and bank tax paid		(2.570)	(3.576)
Net cash (used in) provided by operating activities		(44.040)	34.077
Cash flows from investing activities:			
Proceeds from the sale of property and equipment		660	26
Purchase of property and equipment		(442)	(515)
Purchase of intangible assets		(433)	(508)
Net cash (used in) investing activities		(215)	(997)
Cash flows from financing activities:			
Proceeds from borrowings		36.973	10.966
Repayment of borrowings		(24.482)	(1.441)
Dividends paid		(10.000)	(9.000)
Dividends paid minority		(799)	(292)
Net cash provided by financing activities		1.692	233
Net (decrease) increase in cash and cash equivalents		(42.563)	33.313
Effects of foreign exchange rate changes		(112)	10
Cash and cash equivalents at the beginning of the period		233.427	118.020
Cash and cash equivalents at the end of the period		190.752	151.343
Reconciliation of cash and cash equivalents:			
Cash on hand	21	3.123	2.926
Cash balances with Central Bank and term deposits	21	167.422	114.183
Bank accounts	23	20.207	34.234
Cash and cash equivalents at the end of the period		190.752	151.343

Interest received from 1 January to 30 June 2016 amounted to ISK 30,681 million (2015: ISK 25,627 million) and interest paid in the same period 2016 amounted to ISK 12,539 million (2015: ISK 11,817 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.

The notes on pages 11 to 52 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2016

Non-cash items included in profit for the period and other adjustments:	2016 1.1-30.6	2015 1.1-30.6
Depreciation and impairment	1.575	306
Amortisation of intangible assets	64	69
Share of (gain) of associates and subsidiaries	(48)	(42)
Accrued interest and foreign exchange gain on debt issued	3.511	2.028
Impairments on loans	363	1.612
Reversal of impairment previously recorded against loans	(732)	(5.920)
Foreign exchange (gain) loss	(317)	282
Net (gain) on sale of property and equipment	(334)	(15)
Unrealised fair value loss (gains) through profit and loss	6	(1.680)
Net profit on non-current assets classified as held for sale	(1.124)	(924)
Bank tax	1.407	1.328
Income tax	2.586	2.920
Non-cash items included in profit for the period and other adjustments	**6.957**	**(36)**

Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	3.347	(239)
Loans and receivables to credit institutions	(10.450)	(6.001)
Loans and receivables to customers	(36.888)	(15.284)
Trading assets	4.934	(406)
Other operating assets	(4.734)	(12.755)
Non-current assets and liabilities held for sale	4.057	6.513
Deposits with credit institutions and Central Bank	(10.997)	(1.780)
Deposits from customers	(22.396)	37.780
Trading financial liabilities	(2.022)	1.411
Derivatives	1.065	847
Other operating liabilities	12.521	16.256
Changes in operating assets and liabilities	**(61.563)**	**26.342**

The notes on pages 11 to 52 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Accounting policies

General information

1. **Corporate information**

Íslandsbanki hf. is a limited company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2016 comprise Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries (together referred to as "the Group").

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 22 August 2016.

2. **Basis of preparation**

2.1 *Statement of compliance*

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2016 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, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions, where applicable.

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 Group for the year ended 31 December 2015, as well as the unaudited Pillar 3 Report for the year ended 31 December 2015. Both are available at the Bank's website www.islandsbanki.is.

2.2 *Basis of measurement*

The 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 its carrying amount and fair value less costs to sell.

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

2.3 *Significant accounting judgements and estimates*

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

3. **Significant accounting policies**

The accounting policies in these Condensed Consolidated Interim Financial Statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2015.

In June 2016, the Icelandic parliament passed an amendment to Act No. 3/2006 on Annual Financial Statements. The amendment entered into force immediately and applies to the financial year commencing 1 January 2016. The effect of the amendment on Íslandsbanki's financial statements is currently under assessment by the Group's management. The presentation of equity components in the Group's Statement of Changes in Equity for the full year 2016 might undergo changes, as the amendment may affect retained earnings for distribution as dividends to shareholders.

Operating segments

4. An operating segment is a distinguishable component of the Group 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 Group operates mainly in the Icelandic market. No single customer generates 10% or more of the combined revenue of the Group.

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 Group 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 a separately branded unit, Kreditkort, a special credit card branch.

b) Corporate Banking provides comprehensive lending and advisory services to large businesses and municipalities in Iceland. In addition, it manages the Group's international business in the North Atlantic region, primarily focusing on the seafood and offshore supply vessel industries. The division has extensive experience servicing established sectors such as seafood, energy and real estate as well as growing industries such as retail and tourism. Ergo, the asset-based financing division of Íslandsbanki, is also part of Corporate Banking.

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 consists of VÍB and the fund management companies Íslandssjódir and Summa the first three months of the year, but as of April 2016 Summa was sold and is no longer part of Wealth Management.

e) Treasury is responsible for funding the Group's operations and for managing an internal pricing framework. The division is also responsible for sharing information regarding the financial position of the Group, and for each of its individual units, to the relevant parties inside and outside the Group. Treasury is responsible for the Group's annual budgeting process and management of liquidity risk, foreign exchange risk, inflation risk and interest rate risk within regulatory requirements and internal limits established by the Board of Directors. The division also manages relations with investors, financial institutions, stock exchanges and rating agencies.

f) Subsidiaries & Equity Investments include equity investments in the banking book and subsidiaries, the most significant being:

- Borgun hf., 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 15 properties leased by the Group.

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 Group's performance with a breakdown by operating segments as well as a reconciliation to the Group's total profit before tax.

4. Cont'd

1 January to 30 June 2016

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	8.954	3.584	660	344	2.303	217	(167)	15.895
Net fee and commission income	2.277	267	737	995	(35)	2.409	9	6.659
Other net operating income (exps.)	129	4	125	(26)	509	8.974	(2.108)	7.607
Total operating income	11.360	3.855	1.522	1.313	2.777	11.600	(2.266)	30.161
Salaries and related expenses	(2.063)	(541)	(506)	(492)	(70)	(992)	(2.972)	(7.636)
Other operating expenses	(1.577)	(154)	(101)	(108)	(107)	(2.029)	(2.404)	(6.480)
Deposit guarantee fund and bank tax	(481)	(4)	(0)	(34)	(1.416)	-	-	(1.935)
Net loan impairment	498	(546)	0	0	113	304	-	369
Profit (loss) before cost allocation & tax	7.737	2.610	915	679	1.297	8.883	(7.642)	14.479
Net segment revenue from external customers	10.558	8.952	1.756	117	(1.129)	12.004	(2.097)	30.161
Net segment revenue from other segments	802	(5.097)	(234)	1.196	3.906	(404)	(169)	(0)
Depreciation and amortisation	(220)	(7)	-	(1)	(0)	(1.033)	(378)	(1.639)

At 30 June 2016	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	407.896	289.675	18.686	3.091	250.337	82.425	(22.493)	1.029.617
Total segment liabilities	435.051	6.461	4.414	39.395	318.237	47.951	(20.729)	830.780
Allocated equity	45.874	43.274	3.188	2.898	92.504	18.487	(7.388)	198.837

1 January to 30 June 2015

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	7.896	3.252	630	331	1.632	14	(205)	13.550
Net fee and commission income	2.077	221	914	1.022	(52)	2.223	18	6.423
Other net operating income (exps.)	28	13	16	136	(119)	2.861	(636)	2.299
Total operating income	10.001	3.486	1.560	1.489	1.461	5.098	(823)	22.272
Salaries and related expenses	(1.857)	(485)	(446)	(511)	(41)	(839)	(2.702)	(6.881)
Other operating expenses	(1.423)	(142)	(62)	(95)	(72)	(942)	(2.315)	(5.051)
Deposit guarantee fund and bank tax	(471)	(11)	(0)	(31)	(1.349)	(0)	-	(1.862)
Net loan impairment	399	3.945	(0)	(0)	-	104	(140)	4.308
Profit (loss) before cost allocation & tax	6.649	6.793	1.052	852	(1)	3.421	(5.980)	12.786
Net segment revenue from external customers	10.302	8.174	1.836	389	(3.359)	5.532	(602)	22.272
Net segment revenue from other segments	(301)	(4.688)	(276)	1.100	4.820	(434)	(221)	0
Depreciation and amortisation	(81)	(1)	(1)	(1)	(0)	(99)	(192)	(375)

At 30 June 2015	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	381.962	274.802	26.414	7.368	229.591	74.350	(18.230)	976.257
Total segment liabilities	418.410	9.643	11.132	44.940	277.359	46.834	(19.070)	789.248
Allocated equity	42.145	39.658	2.555	3.171	94.148	11.966	(6.634)	187.009

Amounts are in ISK million

Quarterly statements

5. Operations by quarters:

	Q2* 2016	Q1* 2016	Q4* 2015	Q3* 2015	Q2* 2015
Net interest income	8.356	7.539	7.003	7.457	7.359
Net fee and commission income	3.515	3.144	3.235	3.512	3.518
Net financial income**	6.062	604	1.455	387	275
Net foreign exchange gain (loss)	305	12	(137)	(1.072)	(141)
Other operating income	473	151	403	158	252
Salaries and related expenses	(3.697)	(3.939)	(3.670)	(3.340)	(3.421)
Other operating expenses	(3.902)	(2.578)	(2.848)	(1.970)	(2.688)
Contribution to the Depositors' and Investors' Guarantee Fund	(267)	(261)	(270)	(263)	(265)
Bank tax	(716)	(691)	(818)	(732)	(710)
Net loan impairment	689	(320)	409	3.418	1.977
Profit before tax	10.818	3.661	4.762	7.555	6.156
Income tax	(1.720)	(866)	(1.147)	(1.784)	(1.524)
Profit for the period from continuing operations	9.098	2.795	3.615	5.771	4.632
Profit for the period from discontinued operations	409	715	274	128	762
Profit for the period	9.507	3.510	3.889	5.899	5.394

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

**For further information see Note 12.

For the six months ended 30 June 2016 15 Amounts are in ISK million

Financial assets and liabilities

6. The following tables show the carrying value of financial assets and financial liabilities.

At 30 June 2016	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Available for sale	Liabilities at amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	182.177	-	-	182.177
Loans and receivables							
Loans to credit institutions	23	-	-	33.088	-	-	33.088
Loans to customers	24	-	-	698.669	-	-	698.669
Loans and receivables		-	-	913.934	-	-	913.934
Bonds and debt instruments							
Listed		37.966	31.234	-	-	-	69.200
Unlisted		-	2.556	-	-	-	2.556
Bonds and debt instruments		37.966	33.790	-	-	-	71.756
Shares and equity instruments							
Listed		7.520	2.650	-	-	-	10.170
Unlisted		-	1.696	-	826	-	2.522
Shares and equity instruments		7.520	4.346	-	826	-	12.692
Derivatives	22	2.036	-	-	-	-	2.036
Other financial assets		-	-	10.225	-	-	10.225
Total financial assets		47.522	38.136	924.159	826	-	1.010.643
Deposits from CB and credit institutions	31	-	-	-	-	14.633	14.633
Deposits from customers	32-33	-	-	-	-	566.220	566.220
Derivative instruments and short positions	22	6.079	-	-	-	-	6.079
Debt issued and other borrowed funds	34	-	-	-	-	163.469	163.469
Subordinated loans		-	-	-	-	18.886	18.886
Other financial liabilities		-	-	-	-	46.403	46.403
Total financial liabilities		6.079	-	-	-	809.611	815.690

For the six months ended 30 June 2016 16 Amounts are in ISK million

6. Cont'd

At 31 December 2015	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Available for sale	Liabilities at amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	216.760	-	-	216.760
Loans and receivables							
Loans to credit institutions	23	-	-	35.534	-	-	35.534
Loans to customers	24	-	-	665.711	-	-	665.711
Loans and receivables		-	-	918.005	-	-	918.005
Bonds and debt instruments							
Listed		44.443	31.341	-	-	-	75.784
Unlisted		-	2.822	-	-	-	2.822
Bonds and debt instruments		44.443	34.163	-	-	-	78.606
Shares and equity instruments							
Listed		7.993	3.218	-	-	-	11.211
Unlisted		-	1.664	-	5.445	-	7.109
Shares and equity instruments		7.993	4.882	-	5.445	-	18.320
Derivatives	22	1.981	-	-	-	-	1.981
Other financial assets		-	-	5.535	-	-	5.535
Total financial assets		54.417	39.045	923.540	5.445	-	1.022.447
Deposits from CB and credit institutions	31	-	-	-	-	25.631	25.631
Deposits from customers	32-33	-	-	-	-	593.245	593.245
Derivative instruments and short positions	22	6.981	-	-	-	-	6.981
Debt issued and other borrowed funds	34	-	-	-	-	150.308	150.308
Subordinated loans		-	-	-	-	19.517	19.517
Other financial liabilities		-	-	-	-	26.642	26.642
Total financial liabilities		6.981	-	-	-	815.343	822.324

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 Group 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 Group 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 at 30 June 2016. 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 Group 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 June 2016

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	38.201	33.112	443	71.756
Shares and equity instruments	10.074	1.792	826	12.692
Derivative instruments	-	2.036	-	2.036
Total financial assets	48.275	36.940	1.269	86.484

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	2.051	-	-	2.051
Derivative instruments	-	4.028	-	4.028
Total financial liabilities	2.051	4.028	-	6.079

The following table shows financial instruments carried at fair value categorised into levels of fair value hierarchy as at 31 December 2015.

At 31 December 2015

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	45.227	32.732	647	78.606
Shares and equity instruments	11.348	1.527	5.445	18.320
Derivative instruments	-	1.981	-	1.981
Total financial assets	56.575	36.240	6.092	98.907

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	3.771	302	-	4.073
Derivative instruments	-	2.908	-	2.908
Total financial liabilities	3.771	3.210	-	6.981

Amounts are in ISK million

7. Cont'd

Reconciliation of financial assets and liabilities categorised into Level 3

1 January to 30 June 2016	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 1 January 2016	647	5.445	-
Purchases	113	-	-
Sales	(265)	(4.950)	-
Net gains on financial instruments	(52)	331	-
Transfers to level 1 or 2	-	-	-
Fair value at 30 June 2016	443	826	-

1 January to 31 December 2015	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 1 January 2015	1.190	2.816	(93)
Purchases	-	689	-
Sales	-	(1.315)	-
Net gains on financial instruments	(543)	6.263	(2)
Transfers to level 1 or 2	-	(3.008)	95
Fair value at 31 December 2015	647	5.445	-

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 Group 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.

Level 1 financial assets and financial liabilities contain actively traded 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. The Group classifies mutual fund units as shares and equity instruments in Level 2 and estimates the fair value for these units based on NAV where the unit prices are not readily available. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group 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.

Level 3 assets contain primarily unlisted and illiquid equities and bonds. 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. The Group's Level 3 equities amounted to ISK 826 million. The shares were obtained in relation to the sale of Borgun's share in Visa Europe, for preferred shares in Visa Inc., and are subject to selling restrictions for a period of up to 12 years and under certain conditions may have to be returned. The fair value of these shares was estimated by discounting the latest market value of the common shares by roughly 50% due to legal and liquidity issues.

For the six months ended 30 June 2016 19 Amounts are in ISK million

7. Cont'd

The Group's Level 3 bonds amounted to ISK 443 million and were valued based on expected recovery of the bond issuers' assets. The expected recovery of these bonds ranges from 0% to 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 following table shows the fair value measurement and classification of financial assets and liabilities not carried at fair value at 30 June 2016. The different levels are defined as before (see Note 7).

Assets

Loans to customers on the Group'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 assessed for impairment at least every six months and every three months for significant amounts and therefore their carrying amount is considered 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 Group calculates the fair value of loans in category 2) by discounting from the carrying amount the resulting interest rate difference from 30 June 2016 to the loan's next interest reset or maturity, whichever comes first. Since the credit-worthiness is estimated using the Group'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 Group 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 Group 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 Group's current funding premium on similar debt. These liabilities are classified as Level 2. The Group 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 Group'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 Group's assets and liabilities recognised at amortised cost.

8. Cont'd

At 30 June 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	182.177	-	182.177	182.177
Loans to credit institutions	-	33.088	-	33.088	33.088
Loans to customers	-	-	701.129	701.129	698.669
Other financial assets	-	10.225	-	10.225	10.225
Total financial assets	-	225.490	701.129	926.619	924.159

At 30 June 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	14.634	-	14.634	14.633
Deposits from customers	-	566.307	-	566.307	566.220
Debt issued and other borrowed funds	69.471	94.900	-	164.371	163.469
Subordinated loans	-	18.886	-	18.886	18.886
Other financial liabilities	-	46.403	-	46.403	46.403
Total financial liabilities	69.471	741.130	-	810.601	809.611

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	216.760	-	216.760	216.760
Loans to credit institutions	-	35.534	-	35.534	35.534
Loans to customers	-	-	668.265	668.265	665.711
Other financial assets	-	5.534	-	5.534	5.534
Total financial assets	-	257.828	668.265	926.093	923.539

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	25.631	-	25.631	25.631
Deposits from customers	-	593.402	-	593.402	593.245
Debt issued and other borrowed funds	59.294	91.149	-	150.443	150.308
Subordinated loans	-	19.517	-	19.517	19.517
Other financial liabilities	-	26.642	-	26.642	26.642
Total financial liabilities	59.294	756.341	-	815.635	815.343

For the six months ended 30 June 2016 21 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 June 2016	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	2.036	-	2.036	(429)	(179)	(24)	1.404	-	2.036
Total assets	2.036	-	2.036	(429)	(179)	(24)	1.404	-	2.036
At 31 December 2015									
Derivatives	1.981	-	1.981	(696)	(31)	(1)	1.253	-	1.981
Total assets	1.981	-	1.981	(696)	(31)	(1)	1.253	-	1.981

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 June 2016	Gross recognised financial liabilities before balance sheet netting	Balance sheet netting with gross recog-nised financial assets	Financial liabilities recognis-ed on the balance sheet, net	Recognised financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total liabilities recognised on the balance sheet
Derivative instruments and short positions	4.028	-	4.028	(429)	(624)	-	2.975	2.051	6.079
Total liabilities	4.028	-	4.028	(429)	(624)	-	2.975	2.051	6.079
At 31 December 2015									
Derivative instruments and short positions	2.908	-	2.908	(696)	-	-	2.212	4.073	6.981
Total liabilities	2.908	-	2.908	(696)	-	-	2.212	4.073	6.981

For the six months ended 30 June 2016 22 Amounts are in ISK million

Net interest income

10. Net interest income is specified as follows:

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Interest income:				
Cash and balances with Central Bank	2.732	1.319	5.633	2.479
Loans and receivables	13.263	12.617	24.604	22.470
Financial assets held for trading	(114)	115	(17)	314
Financial assets designated at fair value through profit or loss	448	375	893	725
Other assets	35	30	61	64
Total interest income	16.364	14.456	31.174	26.052
Interest expense:				
Deposits from credit institutions and Central Bank	(114)	(108)	(249)	(199)
Deposits from customers	(5.536)	(5.023)	(10.621)	(8.870)
Borrowings	(2.110)	(1.730)	(3.913)	(2.825)
Subordinated loans	(227)	(257)	(466)	(516)
Other financial liabilities	-	(34)	(7)	(67)
Other interest expense	(21)	55	(23)	(25)
Total interest expense	(8.008)	(7.097)	(15.279)	(12.502)
Net interest income	8.356	7.359	15.895	13.550

Net fee and commission income

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

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Fee and commission income:				
Asset management	436	457	870	861
Investment banking and brokerage	613	737	1.004	1.159
Payment processing	3.696	3.468	7.154	6.617
Loans and guarantees	381	327	763	662
Other fee and commission income	464	385	820	752
Total fee and commission income	5.590	5.374	10.611	10.051
Commission expenses:				
Brokerage	(25)	(20)	(64)	(41)
Clearing and settlement	(2.048)	(1.826)	(3.877)	(3.572)
Other commission expenses	(2)	(10)	(11)	(15)
Total commission expenses	(2.075)	(1.856)	(3.952)	(3.628)
Net fee and commission income	3.515	3.518	6.659	6.423

For the six months ended 30 June 2016 23 Amounts are in ISK million

Net financial income

12. Net financial income is specified as follows:

	2016	2015	2016	2015
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Net gain on financial instruments held for trading	65	381	443	706
Net gain on financial instruments designated at fair value through P&L	(189)	(106)	37	1.333
Net gain on financial instruments designated at AFS through P&L	6.186	-	6.186	-
Net financial income	6.062	275	6.666	2.039

During the year 2015 the Group´s shares in Visa Europe were classified as available for sale financial asset and re-measured to fair value with changes in other comprehensive income to ISK 5,445 million. On 21 of June 2016 the Group disposed of its interest in Visa Europe to Visa Inc. and received a mixture of cash and non-cash consideration valued at ISK 6,186 million. The consideration is made up of up-front cash of ISK 4,943 million, of Series C preferred stock in Visa Inc. of ISK 876 million and ISK 367 million deferred cash which will be paid on 21 June 2019. The preferred shares may be reduced by any final settlement of potential liabilities relating to ongoing inter charge related litigation involving Visa Europe.
At the completion of the sale of the shares in Visa Europe, an increase in value in 2016 of ISK 741 million was recognized in other comprehensive income and the total of increase in value in 2015 and 2016 of ISK 6,186 million reclassified to profit and loss.
The preferred shares in Visa Inc. are classified as available for sale asset under IAS 39, with estimated value of ISK 826 million as of 30 June 2016.

13. Net gain on financial instruments designated at fair value through P&L is specified as follows:

	2016	2015	2016	2015
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Shares	(210)	(131)	(162)	1.301
Bonds	21	25	199	32
Net gain on financial instruments designated at fair value through P&L	(189)	(106)	37	1.333

Net foreign exchange gain (loss)

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

	2016	2015	2016	2015
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Assets:				
Cash and balances with Central Bank	(64)	4	(88)	(14)
Financial assets held for trading	(2.354)	616	(1.874)	(3.092)
Loans and receivables	(2.925)	(2.176)	(5.726)	352
Other assets	110	(235)	(119)	148
Total assets	(5.233)	(1.791)	(7.807)	(2.606)
Liabilities:				
Deposits	2.812	1.640	4.630	548
Subordinated loans	529	(1)	631	969
Debt issued and other borrowed funds	2.280	(152)	2.841	1.021
Other liabilities	(83)	163	22	(213)
Total liabilities	5.538	1.650	8.124	2.325
Net foreign exchange gain (loss)	305	(141)	317	(281)

Other operating income

15. Other operating income is specified as follows:

	2016	2015	2016	2015
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Share of profit of associates net of income tax	-	-	48	63
Service level agreement fees	22	46	44	105
Legal cost and fees	36	54	77	95
Rental income	20	32	34	56
Gain from sale of buildings	363	-	363	-
Other net operating income	32	120	58	222
Other operating income	473	252	624	541

Amounts are in ISK million

Salaries and related expenses

16. Salaries and related expenses are specified as follows:

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Salaries	2.938	2.680	6.049	5.375
Pension and similar expenses	424	389	862	783
Social security charges and financial activities tax*	397	376	809	739
Other	72	41	146	101
Capitalisation of internal staff costs in software development	(134)	(65)	(230)	(117)
Salaries and related expenses	3.697	3.421	7.636	6.881

*Financial activities tax calculated on salaries 5.5% (2015: 5.5%).

Other operating expenses

17. Other operating expenses are specified as follows:

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Professional services	1.076	1.192	2.053	2.028
Real estate and fixtures	841	736	1.642	1.397
Depreciation and amortisation*	1.374	187	1.639	375
Other administrative expenses	611	573	1.146	1.251
Other operating expenses	3.902	2.688	6.480	5.051

*Due to a mould problem at the Bank's headquarters in Kirkjusandur an extra depreciation was charged to the income statement in the period amounting to ISK 1,200 million.

Net loan impairment

18. Net loan impairment:

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Loan impairment charged to the income statement:				
Specific impairment losses on loans and receivables	277	(735)	(230)	(1.900)
Collective impairment	(119)	(17)	(133)	288
Total impairment charged to the income statement (see Note 25)	158	(752)	(363)	(1.612)
Net loan impairment				
Impairment reversal due to revised estimated future cash flows	531	2.729	732	5.920
Net specific impairment losses on loans and receivables	277	(735)	(230)	(1.900)
Net loan impairment before collective impairment	808	1.994	502	4.020
Collective impairment	(119)	(17)	(133)	288
Total net loan impairment	689	1.977	369	4.308

Amounts are in ISK million

Income taxes

19. Income tax for the six month period ended 30 June 2016 is calculated at 20%. Special financial activities tax (FAT) is calculated as 6% of taxable profits exceeding ISK 1 billion. The effective income tax rate in the Group's income statement is 17.9% for the six months ended 30 June 2016.

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

	2016 1.1-30.6	2015 1.1-30.6
Current tax expense	1.971	1.953
Special financial activities tax	492	465
Difference in prior year's imposed and calculated income tax	69	26
Origination and reversal of temporary differences due to deferred tax assets/liabilities	54	476
Total	2.586	2.920

The effective income tax rate is computed as follows:

	2016 1.1-30.6		2015 1.1-30.6	
Profit before tax	14.479		12.786	
20% income tax calculated on profit before tax	2.896	20,0%	2.557	20,0%
Special financial activities tax	492	3,4%	465	3,6%
Non-deductable expenses	281	1,9%	284	2,2%
Tax on income not subject to tax	(1.185)	(8,2%)	(447)	(3,4%)
Correction in accordance with ruling on prior year's taxable income	50	0,4%	77	0,5%
Other differences	52	0,4%	(16)	(0,1%)
Income tax expense	2.586	17,9%	2.920	22,8%

The lower effective tax rate during the period was affected by the sale of shares in Visa Europe, which the Group benefited through its subsidiary in Borgun.

Earnings per share

20. Earnings per share are specified as follows:

	Discontinued operations			
	Excluded		Included	
	2016 1.1-30.6	2015 1.1-30.6	2016 1.1-30.6	2015 1.1-30.6
Net profit to the equity holders of the parent, according to the Condensed Consolidated Income Statement	9.254	9.640	10.378	10.564
Weighted average number of outstanding shares for the period, million	10.000	10.000	10.000	10.000
Basic earnings per share	0,93	0,96	1,04	1,06

There were no instruments at the end of the period that could potentially dilute basic earnings per share (2015: none).

For the six months ended 30 June 2016 26 Amounts are in ISK million

Cash and balances with Central Bank

21. Specification of cash and balances with Central Bank:

	30.6.2016	31.12.2015
Cash on hand	3.123	2.784
Balances with Central Bank other than mandatory reserve deposits	25.580	15.458
Term deposits	140.977	183.539
Balances with Central Bank assets subject to special restrictions*	865	-
Included in cash and cash equivalents	170.545	201.781
Mandatory reserve deposits with Central Bank	11.632	14.979
Cash and balances with Central Bank	182.177	216.760

*Offshore krona assets, as defined by Article 2 in Act no. 37/2016 on the treatment of krona-denominated assets subject to special restrictions.

Derivative instruments and short positions

22. Derivative instruments and short positions:

At 30 June 2016	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	730	10.373	1.882	44.231
Cross currency interest rate swaps	764	8.216	901	31.230
Equity forwards	183	2.904	212	1.420
Foreign exchange forwards	32	2.396	670	12.291
Foreign exchange swaps	244	10.988	260	8.450
Bond forwards	83	1.010	5	620
Bond options	-	-	98	25.000
Derivatives held for trading	2.036	35.887	4.028	123.242
Short positions in listed bonds	-	-	2.051	-
Total	2.036	35.887	6.079	123.242

At 31 December 2015	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	533	13.687	1.435	37.340
Cross currency interest rate swaps	1.138	26.212	148	10.209
Equity forwards	56	1.283	588	3.003
Foreign exchange forwards	21	1.551	391	7.687
Foreign exchange swaps	82	9.918	236	17.034
Bond forwards	151	3.015	14	920
Bond options	-	-	96	25.000
Derivatives held for trading	1.981	55.666	2.908	101.193
Short positions in listed bonds	-	-	4.073	-
Total	1.981	55.666	6.981	101.193

Amounts are in ISK million

Loans and receivables

23. Loans to credit institutions:

	30.6.2016	31.12.2015
Money market loans	12.881	3.888
Bank accounts	20.207	31.646
Loans to credit institutions	33.088	35.534

24. Loans to customers - impairment allowance per sector:

At 30 June 2016

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	279.498	(3.216)	276.282
Commerce and services	102.869	(1.092)	101.777
Construction	28.186	(1.811)	26.375
Energy	5.597	-	5.597
Financial services	936	-	936
Industrial and transportation	71.370	(3.598)	67.772
Investment companies	19.805	(1.453)	18.352
Public sector and non-profit organisations	13.232	(20)	13.212
Real estate	103.279	(841)	102.438
Seafood	89.069	(583)	88.486
Loans to customers before collective impairment allowance			701.227
Collective impairment allowance			(2.558)
Loans to customers	713.841	(12.614)	698.669

At 31 December 2015

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	276.053	(3.443)	272.610
Commerce and services	90.956	(1.175)	89.781
Construction	24.815	(1.802)	23.013
Energy	3.737	-	3.737
Financial services	105	-	105
Industrial and transportation	63.589	(2.863)	60.726
Investment companies	21.643	(2.281)	19.362
Public sector and non-profit organisations	13.878	-	13.878
Real estate	99.869	(775)	99.094
Seafood	86.938	(1.066)	85.872
Loans to customers before collective impairment allowance			668.178
Collective impairment allowance			(2.467)
Loans to customers	681.583	(13.405)	665.711

Amounts are in ISK million

25. Impairment

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

	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2016	13.405	2.467	15.873
Amounts written-off	(1.330)	-	(1.330)
Recoveries of amounts previously written-off	309	-	309
Charged to the income statement	230	133	363
Other	-	(42)	(42)
At 30 June 2016	12.614	2.558	15.172

	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2015	16.908	2.851	19.759
Amounts written-off	(6.699)	-	(6.699)
Recoveries of amounts previously written-off	591	-	591
Principal credit adjustment	(461)	-	(461)
Charged to the income statement	3.567	(383)	3.184
Other	(501)	-	(501)
At 31 December 2015	13.405	2.467	15.873

Investment in associates

26. Changes in investments in associates:

	30.6.2016	31.12.2015
Investments in associates at the beginning of the year	716	570
Additions during the period	-	33
Share of results	48	63
Dividends paid	-	23
Other	-	27
Investments in associates at the end of the period	764	716

Investment in subsidiaries

27. Significant subsidiaries:

	Location	Owner-ship 30.6.2016	Owner-ship 31.12.2015
Borgun hf., Ármúla 30, 108 Reykjavík	Iceland	63,5%	63,5%
Íslandssjódir hf., Kirkjusandi 2, 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%
20 other subsidiaries (SME)			

For the six months ended 30 June 2016 29 Amounts are in ISK million

Related party disclosures

28. Ultimate controlling party

Íslandsbanki is fully owned by the Icelandic State Treasury, through the Icelandic State Financial Investments (ISFI). The Bank is 99.9% directly owned by the Icelandic State and 0.1% owned by ISB Holding ehf., which is also owned by the Icelandic State. As a result, the Icelandic State Treasury and the Icelandic State Financial Investments controlled bodies qualify as related parties of the Group. Íslandsbanki has applied the partial exemption for government-related entities as described in IAS 24 paragraphs 25-27.

Related party transactions

As part of its business operations, Íslandsbanki frequently enters into transactions with related parties. Transactions conducted with the Icelandic State are limited to normal banking transactions, taxation and other administrative relationships. Normal banking transactions relate to loans and deposits and are entered into under the same commercial and market terms that apply to non-related parties.

Cash and balances with the Central Bank are disclosed under Note 21 and Deposits from the Central Bank are disclosed under Note 31.

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

The Group 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, entities with significant influence as the largest shareholders of the Group and the members of the Board of Directors of ISFI.

All loans to employees are provided on general business terms of the Group. The balances do not reflect collaterals held by the Group.

Related parties have transacted with the Group as follows:

At 30 June 2016

Balance with related parties:	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(100)	(100)	-	1
Board of Directors and key management personnel	327	(641)	(314)	-	85
Associated companies and other related parties	708	(829)	(121)	-	236
Balance with related parties	1.035	(1.570)	(535)	-	322

Transactions with related parties:	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	(2)	-	-
Board of Directors and key management personnel	10	(12)	2	-
Associated companies and other related parties	59	(13)	9	-
Transactions with related parties	69	(27)	11	-

At 31 December 2015

Balance with related parties:	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(110)	(110)	-	-
Board of Directors and key management personnel	359	(563)	(204)	-	67
Associated companies and other related parties	533	(479)	54	-	228
Balance with related parties	892	(1.152)	(260)	-	295

Transactions with related parties:	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	(4)	-	-
Board of Directors and key management personnel	22	(18)	3	-
Associated companies and other related parties	37	(37)	43	-
Transactions with related parties	59	(59)	46	-

Impairment allowances of ISK (1) million (2015: ISK 302 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 June 2016.

For the six months ended 30 June 2016 30 Amounts are in ISK million

Other assets

29. Other assets are specified as follows:

	30.6.2016	31.12.2015
Receivables	3.632	4.166
Unsettled securities transactions	6.231	1.279
Accruals	551	616
Prepaid expenses	504	265
Deferred tax assets	28	21
Other assets	322	327
Other assets	11.268	6.674

Non-current assets and disposal groups held for sale

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

	30.6.2016	31.12.2015
Repossessed collateral	4.821	5.471
Assets of disposal groups classified as held for sale	4.762	7.321
Total	9.583	12.792

Repossessed collateral:

Land and property	4.807	5.427
Industrial equipment and vehicles	14	44
Total	4.821	5.471

Assets of disposal groups classified as held for sale:	30.6.2016	31.12.2015
Cash	531	592
Equity instruments	775	775
Receivables	281	1.378
Properties and land	861	2.044
Equipment	-	178
Other assets	2.314	2.354
Total	4.762	7.321

Liabilities associated with assets classified as held for sale:	30.6.2016	31.12.2015
Payables	36	77
Tax liabilities	41	325
Borrowings	2.211	2.299
Other liabilities	59	124
Total	2.347	2.825

At the end of June 2016 the Group sold 80% of its shareholding in Frumherji hf. The entity was classified as disposal groups held for sale. The Group has derecognised the assets and liabilities and other components related to the subsidiary. 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".

Deposits from Central Bank and credit institutions

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

	30.6.2016	31.12.2015
Repurchase agreements with Central Bank	40	97
Deposits from credit institutions	14.593	25.534
Deposits from Central Bank and credit institutions	14.633	25.631

For the six months ended 30 June 2016 31 Amounts are in ISK million

Deposits from customers

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

	30.6.2016	31.12.2015
Demand deposits	460.836	485.128
Time deposits	105.384	108.117
Deposits from customers	**566.220**	**593.245**

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

	30.6.2016		31.12.2015	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	11.865	2%	9.274	2%
Municipalities	6.546	1%	4.598	1%
Companies	319.703	57%	364.651	61%
Individuals	228.106	40%	214.722	36%
Deposits from customers	**566.220**	**100%**	**593.245**	**100%**

Debt issued and other borrowed funds

34. Specification of debt issued and other borrowed funds:

	Issued	Maturity	Maturity type	Terms of interest	30.6.2016	31.12.2015
Covered bond in ISK	2013-2014	2016	At Maturity	Fixed, 6.2523%	2.853	2.852
Covered bond in ISK	2014-2016	2019	At Maturity	Fixed, 6.9299%	6.004	4.158
Covered bond in ISK	2015	2023	At Maturity	Fixed 6.40%	5.903	5.559
Covered bond in ISK - CPI-linked	2011	2016	At Maturity	Fixed, CPI-linked, 3.50%	4.483	4.421
Covered bond in ISK - CPI-linked	2012-2014	2019	At Maturity	Fixed, CPI-linked, 2.84%	8.476	8.362
Covered bond in ISK - CPI-linked	2014-2015	2020	At Maturity	Fixed, CPI-linked, 3.4699%	4.023	3.968
Covered bond in ISK - CPI-linked	2015-2016	2022	At Maturity	Fixed, CPI-linked, 2.98%	4.480	2.836
Covered bond in ISK - CPI-linked	2012-2015	2024	At Maturity	Fixed, CPI-linked, 3.45%	11.256	11.113
Covered bond in ISK - CPI-linked	2015-2016	2026	At Maturity	Fixed, CPI-linked, 3.372%	12.381	6.408
Covered bonds					**59.859**	**49.677**
Senior unsecured bond in SEK	2013, 2014	2017	At Maturity	Floating, STIBOR + 4.00%	11.639	12.359
Senior unsecured bond in EUR*	2014	2016	At Maturity	Fixed, 3.00%	-	7.449
Senior unsecured bond in SEK	2015	2019	At Maturity	Floating, STIBOR + 3.10%	8.745	9.280
Senior unsecured bond in EUR	2015-2016	2018	At Maturity	Fixed, 2.875%	42.063	32.018
Senior unsecured bond in NOK	2015	2018	At Maturity	Floating, NIBOR + 2.60%	7.325	7.365
Senior unsecured bond in USD	2016	2017	At Maturity	Floating, LIBOR + 1.7%	4.307	-
Bonds issued					**74.079**	**68.471**
Central Bank secured bond in ISK					17.344	19.732
Bills issued					9.729	9.992
Loans from credit institutions					27	2
Other debt securities					2.431	2.434
Other loans / bills					**29.531**	**32.160**
Debt issued and other borrowed funds					**163.469**	**150.308**

* Íslandsbanki did not repurchase own debt during the period. In 2015 the Bank repurchased own debt for the amount of EUR 47,7 million (which has since been redeemed), and ISK 520 million of covered bonds.

The covered bond amounts do not contain the bonds reserved for securities lending.

Amounts are in ISK million

Other liabilities

35. Specification of other liabilities:

	30.6.2016	31.12.2015
Accruals	3.992	3.632
Liabilities to retailers for credit cards	30.829	23.869
Provision for effects of court rulings*	1.359	1.665
Provision for estimated losses from guarantees and others**	133	207
Withholding tax	2.735	2.072
Unsettled securities transactions	6.266	1.698
Deferred income	188	130
Sundry liabilities	3.750	3.404
Other liabilities	49.252	36.677

	Provision for effects of court rulings*	Provision for estimated losses from guarantees and others**	Total
At 1 January 2016	1.665	207	1.872
New provisions and reversed provisions during the period	(306)	(74)	(380)
At 30 June 2016	1.359	133	1.492

Equity

36. Authorised share capital of the Group is 10,000 million ordinary shares of ISK 1 each. At 30.6.2016 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Group.

Total share capital:

	30.6.2016	31.12.2015
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:

	30.6.2016	31.12.2015
Custody assets	665.370	665.046

Contingencies

38. **Contingencies**

Provisions

Foreign currency-linked loan contracts

The majority of the handful of the remaining court cases concern foreign currency-linked loan contracts containing minor deviations in terms from those which have already repeatedly been ruled as legal contracts. Most of these cases will be closed in the District Courts and the Supreme Court in 2016, but a few will not heard by the latter court until the first quarter of 2017. However, as some of the cases involve more or less similar contracts, a precedent could result in other cases being settled out of court. The most recent ruling (14 April 2016), involved by far the largest single contract. The contract was found to be legal and enforceable. The Group considers it unlikely that the rest will leave much impact even if some of those contracts are deemed to be faulty.

The effect of these court rulings and the subsequent recalculation of loan contracts is reflected in the value of loans in the Group's Condensed Consolidated Interim Financial Statements as at 30 June 2016 where the Group has recognised a total provision of ISK 1,359 million. (see Note 35).

For the six months ended 30 June 2016 33 Amounts are in ISK million

38. Cont'd

Contingent liabilities

Variable rate loan contracts

In September 2014, the Consumer Appellate Committee (the “Committee”) published its decision the Consumer Agency´s 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 Group in 2005. The Committee found the terms offered by the Group 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 Committee found the terms to be insufficient as to the explanation of how or what can affect the decision for the interest rate being revised. A 2009 Committee decision was quoted as a precedent. Subsequent to the Consumer Agency's decision, the Group 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 Group stated officially that it disagreed with the Committee's decision in that the law requires a more detailed explanation with regards to the outcome from a reset of interest rates. The terms explicitly state the time period during which the Group can reset the interest rate and, moreover, that the borrower can settle the loan without a pre-settlement charge if he is not content with the terms. The 2009 precedent referred to by the Committee 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 Group'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 Group 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 Group referred the matter to the courts. The District Court acquitted the Group, finding that the law did not stipulate that the appellate committee could rule on dispute originating at the time the former law on consumer loans was in force (from 1994 to 2013). This means that the court did not rule on the matter itself, leaving any debtor free to refer it to the courts. The Consumer Agency appealed, but since the case in itself does not involve a claim above the appellate limit, the Supreme Court must first decide on the merits of a limit exemption. The consequences of an adverse outcome in the Supreme Court for the Group are not easily quantifiable. At present, the Group has not recognised any provision against a possible loss due to this litigation. In part this is due to the fact that early payments and refinancing is rapidly decreasing the number of contracts in question. It is also due to the fact that if the Supreme Court agrees with the District Court, further court proceedings instigated by individual customers will last for up to 24 months. This means that reimbursement claims will gradually be lost due to the statute of limitations.

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

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

The ICA has requested and received information from the Group 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 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 Group 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 Group 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 Group 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 by the Group and placed with 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 Group 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 Group 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 Group may have to reimburse the Central Bank with an amount equal to the difference between market terms and the terms of the Bond. The Group has not recognised a provision in relation to this matter.

The Depositors' and Investors' Guarantee Fund

In 2010, under previous legislation, the Group 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 Group issued a declaration of guarantee for future obligations amounting to ISK 3,724 million. The Group 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.

38. Cont'd

Contingent assets

Settlement of the 2011 Byr acquisition

The Group 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 Group 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 Byr's financial statements. Based on this, the Group 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 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 Group, the District Court has appointed two independent professionals to perform a formal evaluation of the Group's claim on the Ministry and the Committee. The evaluation is expected to be completed in 2016. Court proceedings are expected to commence once the evaluation has been completed and filed with the Court. The Group has not recognised any revenues relating to this claim.

The District Court of Reykjavík confirmed the Composition Agreement of Byr Savings Bank on 8 January 2016. The Agreement includes reservations due to Íslandsbanki's claim and is not expected to impact the proceedings described above.

Events after the end of the reporting period

39. After the end of the reporting period, the Bank has taken certain steps towards the potential refinancing of the Bank´s outstanding Tier 2 debt instrument maturing in December 2019. The refinancing is subject to certain conditions, including regulatory approval. Based on end of June 2016 numbers, a successful execution of the transaction would lead to a reduction in the Banks total capital ratio from 28.9% to 27.1%, which is still considerably above regulatory requirements.

Risk Management

40. Risk governance

Íslandsbanki 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 2015. 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 Group 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 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

The Group'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 Group might have to pay out against financial guarantees and loan commitments, less provisions that have been 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 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 Group'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 30.6.2016

	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	-	182.177	-	-	-	-	-	-	-	-	-	182.177
Bonds and debt instruments	-	66.280	-	-	-	2.607	1.826	302	354	387	-	71.756
Derivatives	7	-	125	-	1.341	3.562	42	106	-	133	756	6.072
Loans to credit institutions	-	-	-	-	-	33.088	-	-	-	-	-	33.088
Loans to customers:	276.282	-	101.777	26.375	5.597	936	67.772	18.352	13.212	102.438	88.486	701.227
Overdrafts	12.290	-	9.090	3.720	1	5	7.239	851	533	3.027	2.193	38.949
Credit cards	15.477	-	1.490	206	6	27	452	32	109	60	36	17.895
Mortgages	202.004	-	-	-	-	-	-	-	-	-	-	202.004
Capital leases	11.327	-	25.890	2.231	9	-	7.343	203	103	1.372	231	48.709
Other loans	35.184	-	65.307	20.218	5.581	904	52.738	17.266	12.467	97.979	86.026	393.670
Other financial assets	219	62	93	6	1	9.420	19	181	1	217	6	10.225
Off-balance sheet items:												
Financial guarantees	1.414	-	3.820	2.567	-	1.668	1.520	50	4	1.051	538	12.632
Undrawn loan commitments	19	-	847	10.205	8.997	-	9.304	850	-	5.277	5.481	40.980
Undrawn overdraft	8.723	-	10.358	2.111	11	3.773	3.490	531	2.809	1.906	950	34.662
Credit card commitments	26.148	1	3.981	561	35	173	1.055	133	851	234	175	33.347
Total maximum credit exposure	312.812	248.520	121.001	41.825	15.982	55.227	85.028	20.505	17.231	111.643	96.392	1.126.166

Amounts are in ISK million

42. Cont'd

Maximum credit exposure 31.12.2015

	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	-	216.760	-	-	-	-	-	-	-	-	-	216.760
Bonds and debt instruments	-	72.876	1.530	-	-	3.067	306	506	16	304	-	78.605
Derivatives	5	-	23	-	1.208	3.073	22	15	-	13	53	4.412
Loans to credit institutions	-	-	-	-	-	35.534	-	-	-	-	-	35.534
Loans to customers:	272.610	-	89.781	23.013	3.737	105	60.726	19.362	13.878	99.094	85.872	668.178
Overdrafts	11.931	-	9.632	3.924	15	37	6.223	1.047	790	3.408	1.647	38.654
Credit cards	15.847	-	1.448	201	4	27	391	33	127	51	37	18.166
Mortgages	197.307	-	-	-	-	-	-	-	-	-	-	197.307
Capital leases	10.842	-	20.913	2.037	9	1	6.527	197	121	1.224	247	42.118
Other loans	36.683	-	57.788	16.851	3.709	40	47.585	18.085	12.840	94.411	83.941	371.933
Other financial assets	233	12	137	3	1	4.234	14	80	1	738	82	5.535
Off-balance sheet items:												
Financial guarantees	1.406	-	3.445	2.592	-	1.668	1.831	52	29	219	363	11.605
Undrawn loan commitments	-	-	1.385	9.339	10.222	-	11.207	757	-	4.226	5.549	42.685
Undrawn overdraft	9.636	-	9.007	1.834	209	3.198	3.103	404	2.482	1.595	1.663	33.131
Credit card commitments	25.360	2	3.677	520	36	169	998	162	802	227	162	32.115
Total maximum credit exposure	309.250	289.650	108.985	37.301	15.413	51.048	78.207	21.338	17.208	106.416	93.744	1.128.560

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 Group 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 guarantees are used 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 Group'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 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 Group against credit exposure is shown below:

At 30 June 2016

	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	3.640	-	-	3.640
Loans and commitments to customers:	442.332	74.938	6.730	45.462	38.224	607.686
Individuals	227.589	37	639	10.617	28	238.910
Commerce and services	51.560	533	278	25.042	6.347	83.760
Construction	23.421	132	342	2.160	2.345	28.400
Energy	3.692	-	416	9	112	4.229
Financial services	39	-	144	-	-	183
Industrial and transportation	25.517	4.717	244	6.688	9.240	46.406
Investment companies	4.423	10	3.304	220	7.529	15.486
Public sector and non-profit organisations	833	-	6	85	-	924
Real estate	100.451	-	1.223	378	678	102.730
Seafood	4.807	69.509	134	263	11.945	86.658
Total	442.332	74.938	10.370	45.462	38.224	611.326

At 31 December 2015

	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	3.181	-	-	3.181
Loans and commitments to customers:	425.053	78.274	6.416	38.604	42.650	590.997
Individuals	223.131	33	688	10.329	45	234.226
Commerce and services	46.418	422	344	19.902	8.719	75.805
Construction	20.856	154	208	1.953	2.360	25.531
Energy	2.895	-	414	9	88	3.406
Financial services	40	-	24	1	-	65
Industrial and transportation	23.776	6.208	411	5.797	10.765	46.957
Investment companies	5.056	10	3.460	91	7.524	16.141
Public sector and non-profit organisations	1.034	-	9	105	-	1.148
Real estate	96.805	-	572	207	562	98.146
Seafood	5.042	71.447	286	210	12.587	89.572
Total	425.053	78.274	9.597	38.604	42.650	594.178

For the six months ended 30 June 2016 38 Amounts are in ISK million

44. Credit quality of financial assets

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

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 June 2016

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	182.177	-	-	182.177
Bonds and debt instruments	71.756	-	-	71.756
Derivatives	6.072	-	-	6.072
Loans to credit institutions	33.088	-	-	33.088
Loans to customers:	666.307	27.025	7.895	701.227
Individuals	258.457	15.240	2.585	276.282
Commerce and services	98.739	1.905	1.133	101.777
Construction	25.108	495	772	26.375
Energy	5.597	-	-	5.597
Financial services	897	39	-	936
Industrial and transportation	61.570	4.802	1.400	67.772
Investment companies	17.253	799	300	18.352
Public sector and non-profit organisations	13.195	17	-	13.212
Real estate	99.368	1.869	1.201	102.438
Seafood	86.123	1.859	504	88.486
Other financial assets	10.204	21	-	10.225
Total	969.604	27.046	7.895	1.004.545

At 31 December 2015

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	216.760	-	-	216.760
Bonds and debt instruments	78.606	-	-	78.606
Derivatives	4.412	-	-	4.412
Loans to credit institutions	35.534	-	-	35.534
Loans to customers:	636.685	23.572	7.921	668.178
Individuals	253.798	15.443	3.369	272.610
Commerce and services	87.102	1.517	1.162	89.781
Construction	21.655	583	775	23.013
Energy	3.737	-	-	3.737
Financial services	65	40	-	105
Industrial and transportation	59.267	885	574	60.726
Investment companies	18.476	580	306	19.362
Public sector and non-profit organisations	13.839	39	-	13.878
Real estate	96.243	1.562	1.289	99.094
Seafood	82.503	2.923	446	85.872
Other financial assets	4.748	787	-	5.535
Total	976.745	24.359	7.921	1.009.025

For the six months ended 30 June 2016 39 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 two different statistical rating models are used. One model is for individuals and another is for small companies with a total exposure 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 June 2016

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	Total
Loans to customers							
Individuals	11.306	94.186	101.388	45.890	2.384	3.303	258.457
Commerce and services	18.050	58.810	16.168	3.106	193	2.412	98.739
Construction	1.097	12.693	8.666	1.847	458	347	25.108
Energy	1.344	4.122	131	-	-	-	5.597
Financial services	13	13	5	-	-	866	897
Industrial and transportation	20.099	31.404	8.069	1.956	33	9	61.570
Investment companies	4.217	6.989	5.265	657	125	-	17.253
Public sector and non-profit organisations	6.181	6.797	195	21	-	1	13.195
Real estate	28.451	45.879	21.886	2.030	114	1.008	99.368
Seafood	36.252	37.422	8.355	1.606	60	2.428	86.123
Total	127.010	298.315	170.128	57.113	3.367	10.374	666.307

At 31 December 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	11.793	99.967	91.329	44.290	2.418	4.001	253.798
Commerce and services	13.264	53.916	15.418	3.357	294	853	87.102
Construction	657	10.676	7.659	2.130	506	27	21.655
Energy	353	3.243	141	-	-	-	3.737
Financial services	36	9	20	-	-	-	65
Industrial and transportation	14.329	30.049	12.207	2.507	87	88	59.267
Investment companies	4.735	7.029	5.235	1.328	149	-	18.476
Public sector and non-profit organisations	5.605	8.048	175	3	7	1	13.839
Real estate	29.490	42.952	21.177	2.403	50	171	96.243
Seafood	36.848	33.065	11.372	327	892	-	82.504
Total	117.110	288.954	164.733	56.345	4.403	5.141	636.686

For the six months ended 30 June 2016 40 Amounts are in ISK million

46. Past due but not impaired loans

Past due but not impaired loans are loans where contractual interest or principal payments have passed due date by more than 3 days 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. The loss is then usually avoided because there is sufficient collateral.

Payments three days in arrears or less are not considered to have informational value regarding credit quality. The majority are loans where the authorised overdraft limit has expired and will be renewed again. On 30 June 2016 loans with payments three days in arrears or less amounted to ISK 251 million but on 31 December 2015 the corresponding figure was ISK 39 million.

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. Past due but not impaired loans are as follows:

At 30 June 2016

	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:	11.429	4.592	1.752	9.252	27.025
Individuals	7.317	3.021	1.306	3.596	15.240
Commerce and services	974	621	113	197	1.905
Construction	255	140	8	92	495
Energy	-	-	-	-	-
Financial services	-	-	-	39	39
Industrial and transportation	1.024	195	84	3.499	4.802
Investment companies	258	147	109	285	799
Public sector and non-profit organisations	16	-	-	1	17
Real estate	1.125	343	128	273	1.869
Seafood	460	125	4	1.270	1.859
Other financial assets	21	-	-	-	21
Total	11.450	4.592	1.752	9.252	27.046

At 31 December 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:	10.351	4.975	1.292	6.954	23.572
Individuals	7.322	3.156	432	4.533	15.443
Commerce and services	544	460	300	213	1.517
Construction	413	114	8	48	583
Energy	-	-	-	-	-
Financial services	-	-	-	40	40
Industrial and transportation	499	106	13	267	885
Investment companies	289	72	72	147	580
Public sector and non-profit organisations	27	10	-	2	39
Real estate	614	577	42	329	1.562
Seafood	643	480	425	1.375	2.923
Other financial assets	765	-	-	22	787
Total	11.116	4.975	1.292	6.976	24.359

For the six months ended 30 June 2016 41 Amounts are in ISK million

47. Restructuring and forbearance

When restructuring measures are believed to be more appropriate than collection procedures then the Group can offer several debt relief measures and restructuring frameworks for its customers in financial difficulties. These forbearance measures include temporary payment holidays, extension of loan terms, capitalisation of arrears and waiving of covenants. In many cases these measures are precursors to the more formal restructuring process.

48. Large exposure disclosure

When the total exposure to a group of connected clients is 10% or higher of the Group'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 the Financial Supervisory Authority rules no. 625/2013. In line with the law, the capital base from 30 June 2016 is used.

The exposure is evaluated both before and after credit risk mitigating effects eligible according to the Financial Supervisory Authority rules. After mitigating effects, the Group has currently one large exposure which is 11% 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 large exposures as a percentage of the Group'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.

		30.6.2016
Client groups	Before	After
Group 1	104%	0%
Group 2	11%	11%

		31.12.2015
Client groups	Before	After
Group 1	117%	0%
Group 2	12%	12%

For the six months ended 30 June 2016 42 Amounts are in ISK million

Liquidity Risk

49. The Group 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 Group'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 Group's intraday liquidity.

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

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

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) introduced by the Basel Committee on Banking Supervision in 2010 and incorporated into European law through the CRD IV.

In preparation for the lifting of capital controls in Iceland, the implementation of the LCR and the NSFR has been ahead of that in Europe and special focus has been on setting limits regarding LCR and NSFR in foreign currencies. The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the Rules on liquidity ratio and the Rules on funding ratio in foreign currencies.

The minimum LCR requirements are 90% for the overall ratio and 100% for foreign currency denominated assets and liabilities. At the same time the minimum NSFR requirement for foreign currency denominated assets and liabilities is 90%. The table below shows the LCR and NSFR for the Group at the end of June 2016 and year-end 2015.

Liquidity coverage ratio	30.6.2016	31.12.2015
Total	173%	143%
Foreign currencies	368%	467%

Net stable funding ratio	30.6.2016	31.12.2015
Total	117%	120%
Foreign currencies	154%	141%

The tables below show the contractual payments of principal and interest for the Group'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 June 2016

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	2.051	2.051	-	-	-	-	-	2.051
Deposits from CB and credit institutions	14.633	14.390	330	-	-	-	-	14.720
Deposits from customers	566.220	348.195	114.795	35.007	61.677	22.115	-	581.789
Debt issued and other borrowed funds	163.469	99	9.948	19.593	117.372	39.678	-	186.690
Subordinated loans	18.886	-	-	698	21.890	-	-	22.588
Other financial liabilities	46.403	39.877	3.600	2.654	271	-	-	46.403
Total financial liabilities	811.662	404.612	128.673	57.952	201.210	61.793	-	854.241

Off-balance sheet liabilities show the amount of contractual obligations that the Group 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 Group'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 Group could be required to fulfil these obligations instantaneously.

For the six months ended 30 June 2016 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	12.632	-	-	-	-	-	12.632
Undrawn loan commitments	40.980	-	-	-	-	-	40.980
Undrawn overdrafts	34.662	-	-	-	-	-	34.662
Credit card commitments	33.347	-	-	-	-	-	33.347
Total	121.621	-	-	-	-	-	121.621
Total non-derivative financial liabilities and off-balance sheet liabilities	526.233	128.673	57.952	201.210	61.793	-	975.862

The table below shows the contractual cash flow of the Group'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.

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	-	20.780	20.622	70.861	3.221	-	115.484
Outflow	-	(21.763)	(21.409)	(72.526)	(3.835)	-	(119.533)
Total	-	(983)	(787)	(1.665)	(614)	-	(4.049)
Net settled derivatives	-	(601)	-	-	-	-	(601)
Total	-	(1.584)	(787)	(1.665)	(614)	-	(4.650)

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 Central Bank	182.177	40.334	140.978	-	-	865	-	182.177
Bonds and debt instruments	71.756	1.467	21.873	10.369	33.826	4.221	-	71.756
Shares and equity instruments	12.692	-	-	-	-	-	12.692	12.692
Loans to credit institutions	33.088	18.831	14.257	-	-	-	-	33.088
Loans to customers	698.669	5.223	80.872	57.747	205.237	352.148	-	701.227
Other financial assets	10.225	6.564	796	84	62	5	2.714	10.225
Total financial assets	1.008.607	72.419	258.776	68.200	239.125	357.239	15.406	1.011.165
Derivative financial assets								
Gross settled derivatives								
Inflow		-	14.798	3.350	12.292	49	-	30.489
Outflow		-	(13.927)	(3.251)	(10.962)	(56)	-	(28.196)
Total		-	871	99	1.330	(7)	-	2.293
Net settled derivatives		-	207	-	-	-	-	207
Total		-	1.078	99	1.330	(7)	-	2.500

Amounts are in ISK million

49. Cont'd

The tables below show the comparative amounts for financial assets and liabilities at year-end 2015.

Maturity analysis 31 December 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	4.073	4.073	-	-	-	-	-	4.073
Deposits from CB and credit institutions	25.631	18.905	6.862	-	-	-	-	25.767
Deposits from customers	593.245	358.266	128.895	37.110	63.649	20.978	-	608.898
Debt issued and other borrowed funds	150.308	2	5.098	32.107	105.982	29.524	-	172.713
Subordinated loans	19.517	-	-	736	23.542	-	-	24.278
Other financial liabilities	45.034	31.571	4.910	7.620	933	-	-	45.034
Total financial liabilities	837.808	412.817	145.765	77.573	194.106	50.502	-	880.763

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	11.605	-	-	-	-	-	11.605
Undrawn loan commitments	42.685	-	-	-	-	-	42.685
Undrawn overdrafts	33.131	-	-	-	-	-	33.131
Credit card commitments	32.115	-	-	-	-	-	32.115
Total	119.536	-	-	-	-	-	119.536
Total non-derivative financial liabilities and off-balance sheet liabilities	532.353	145.765	77.573	194.106	50.502	-	1.000.299

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	-	19.749	18.135	55.090	3.284	-	96.258
Outflow	-	(19.994)	(18.675)	(55.481)	(3.815)	-	(97.965)
Total	-	(245)	(540)	(391)	(531)	-	(1.707)
Net settled derivatives	-	(601)	-	-	-	-	(601)
Total	-	(846)	(540)	(391)	(531)	-	(2.308)

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 Central Bank	216.760	33.221	183.539	-	-	-	-	216.760
Bonds and debt instruments	78.606	1.551	24.160	15.708	33.361	3.826	-	78.606
Shares and equity instruments	18.320	-	-	-	-	-	18.320	18.320
Loans to credit institutions	35.534	31.064	4.470	-	-	-	-	35.534
Loans to customers	665.711	4.723	73.386	52.827	194.904	342.338	-	668.178
Other financial assets	6.675	2.046	926	807	54	6	2.835	6.675
Total financial assets	1.021.606	72.605	286.481	69.342	228.319	346.170	21.155	1.024.072

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	-	10.589	9.902	25.286	77	-	45.854
Outflow	-	(10.488)	(9.289)	(24.257)	(57)	-	(44.091)
Total	-	101	613	1.029	20	-	1.763
Net settled derivatives	-	207	-	-	-	-	207
Total	-	308	613	1.029	20	-	1.970

For the six months ended 30 June 2016 45 Amounts are in ISK million

49. Cont'd

As a part of managing liquidity risk, the Group 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 Group's liquidity back-up at the end of June 2016 and end of 2015.

Composition and amount of liquidity back-up	30.6.2016	31.12.2015
Cash and balances with the Central Bank	182.177	216.760
Domestic bonds eligible as collateral against borrowing at Central Bank	28.762	21.218
Foreign government bonds	42.123	41.330
Short-term placements with credit institutions	31.651	35.143
Composition and amount of liquidity back-up	284.713	314.451

50. Deposits by LCR category

The Group's deposits are categorised according to the Liquidity Coverage Ratio (LCR) introduced in the Basel III standards. The groups are listed in order of estimated stability and the respective LCR outflow weight. Deposits are also classified as stable if the customer has an established business relationship with the Bank and is covered by an effective insurance scheme.

30 June 2016	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	105.225	10%	54.882	5%	57.302	217.409
SME	52.225	10%	14.290	5%	6.353	72.868
Operational relationship	2.410	25%	-	5%	-	2.410
Corporations	54.923	40%	203	20%	34.487	89.613
Sovereigns, Central Bank and public sector entities	8.903	40%	251	20%	833	9.987
Financial institutions in composition	4.952	100%	-	-	38.533	43.485
Pension funds	23.865	100%	-	-	28.875	52.740
Domestic financial entities	33.125	100%	-	-	25.586	58.711
Foreign financial entities	13.744	100%	-	-	593	14.337
Other foreign entities	13.543	100%	1.728	25%	4.021	19.292
Total	312.915		71.354		196.583	580.852

The table below shows the comparative amounts for financial assets and liabilities at the end of 2015.

31 December 2015	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	93.385	10%	56.443	5%	56.122	205.950
SME	47.394	10%	13.340	5%	5.897	66.631
Operational relationship	2.050	25%	-	5%	-	2.050
Corporations	66.306	40%	235	20%	25.509	92.050
Sovereigns, Central Bank and public sector entities	5.723	40%	257	20%	970	6.950
Financial institutions in composition	58.428	100%	-	-	39.783	98.211
Pension funds	23.775	100%	-	-	26.765	50.541
Domestic financial entities	32.601	100%	-		20.919	53.520
Foreign financial entities	19.033	100%	-		1.636	20.669
Other foreign entities	17.936	100%	1.956	25%	2.413	22.305
Total	366.631		72.231		180.014	618.876

Amounts are in ISK million

Market risk

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

Market risk management

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

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

Interest rate risk

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

The Group 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% (0.01 percentage point) upward parallel shift in the yield curve on the fair value of these exposures.

53. Interest rate risk in trading portfolios

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing Financing Fund (HFF) which are guaranteed by the Icelandic government, but also domestic municipality bonds and covered bonds issued by the Icelandic banks. 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 9 years. HFF bonds are CPI-linked and have duration up to 12 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 (MV) of long and short positions may not be exactly the same as reported in Note 6. The reason for this difference is that Note 6 sums up the net positions in each security while the table below ignores netting of long and short positions in specific securities between different portfolios. Note that the MV of long positions at 31.12.2015 has been corrected and lowered by ISK 340 million.

Trading bonds and debt instruments, long positions	30.6.2016			31.12.2015		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	2.484	7,94	(1,97)	1.818	8,08	(1,47)
Non-indexed	35.622	0,37	(1,31)	43.363	0,32	(1,42)
Total	38.106	0,86	(3,29)	45.181	0,63	(2,89)

Trading bonds and debt instruments, short positions	30.6.2016			31.12.2015		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	188	4,45	0,08	1.754	7,04	1,24
Non-indexed	2.004	1,10	0,22	3.057	1,10	0,34
Total	2.192	1,39	0,30	4.811	3,27	1,58
Net position of trading bonds and debt instruments	35.914	0,83	(2,98)	40.370	0,32	(1,31)

For the six months ended 30 June 2016 47 Amounts are in ISK million

54. Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Group'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 Group's assets and liabilities are of different maturities and are priced relative to different interest rates.

The Group holds a government bond designated at fair value amounting to ISK 30.6 billion (2015: ISK 30.6 billion). The bond pays floating rates and carries relatively low interest rate risk.

The Group uses traditional measures for assessing the sensitivity of the Group'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. Note that this also applies for loans to customers shown at 31 December 2015. Loans with specific impairment have been placed in the category 0-3 months since such loans bear no interest rate risk until possibly after debt restructuring.

Banking book interest rate adjustment periods on 30 June 2016

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	182.177	-	-	-	-	-	182.177
Bonds and debt instruments	33.169	545	-	-	-	260	33.974
Loans to credit institutions	33.088	-	-	-	-	-	33.088
Loans to customers	485.541	37.031	31.301	136.706	2.589	8.059	701.227
Total assets	733.975	37.576	31.301	136.706	2.589	8.319	950.466
Off-balance sheet items	75.249	7.913	19.794	29.989	-	-	132.945
Liabilities							
Deposits from CB and credit institutions	14.398	-	-	-	-	-	14.398
Deposits from customers	553.851	1.641	1.843	8.885	-	-	566.220
Debt issued and other borrowed funds	4.832	37.411	21.579	60.566	34.020	-	158.408
Subordinated loans	18.886	-	-	-	-	-	18.886
Total liabilities	591.967	39.052	23.422	69.451	34.020	-	757.912
Off-balance sheet items	83.163	9.112	4.993	32.147	3.075	-	132.490
Net interest gap on 30 June 2016	134.094	(2.675)	22.680	65.097	(34.506)	8.319	193.009

For the six months ended 30 June 2016 48 Amounts are in ISK million

54. Cont'd

Banking book interest rate adjustment periods on 31 December 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	216.760	-	-	-	-	-	216.760
Bonds and debt instruments	32.034	458	952	108	426	185	34.163
Loans to credit institutions	35.531	3	-	-	-	-	35.534
Loans to customers	463.177	22.748	38.187	130.927	2.431	8.241	665.710
Total assets	747.502	23.209	39.139	131.035	2.857	8.426	952.167
Off-balance sheet items	73.020	9.571	1.456	35.196	-	-	119.243
Liabilities							
Deposits from CB and credit institutions	25.631	-	-	-	-	-	25.631
Deposits from customers	581.171	1.659	1.778	7.772	865	-	593.245
Debt issued and other borrowed funds	35.360	24.180	19.801	48.505	16.053	6.409	150.308
Subordinated loans	19.517	-	-	-	-	-	19.517
Total liabilities	661.679	25.839	21.579	56.277	16.918	6.409	788.701
Off-balance sheet items	87.095	6.446	5.968	28.872	2.976	-	131.357
Net interest gap on 31 December 2015	71.748	495	13.048	81.082	(17.037)	2.017	151.352

For the six months ended 30 June 2016 49 Amounts are in ISK million

Currency risk

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

The analysis of the Group'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 Group's exposure to currency risk at 30 June 2016 and 31 December 2015, based on contractual currencies, off-balance sheet items, but excluding assets categorised as held for sale.

Currency analysis 30 June 2016

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	386	277	103	36	16	67	65	92	35	1.077
Bonds and debt instruments	19.924	9.425	-	-	-	-	1.461	-	-	30.810
Shares and equity instrum.	67	1.074	0	-	-	-	2	-	-	1.143
Loans to credit institutions	13.261	16.951	887	42	323	411	32	448	467	32.822
Loans to customers	74.887	30.667	3.550	6.214	6.422	7	6.799	973	86	129.605
Other assets	262	2.039	364	2	23	66	19	18	247	3.040
Total assets	108.787	60.433	4.904	6.294	6.784	551	8.378	1.531	835	198.497
Liabilities										
Deposits from credit institut.	995	546	0	451	615	0	0	0	0	2.607
Deposits from customers	60.357	21.290	4.074	1.124	1.058	1.021	2.712	1.210	1.426	94.272
Borrowings	42.063	4.307	-	-	-	20.384	7.325	-	-	74.079
Subordinated loans	18.886	-	-	-	-	-	-	-	-	18.886
Other liabilities	6.713	5.249	1.022	950	238	148	198	55	479	15.052
Total liabilities	129.014	31.392	5.096	2.525	1.911	21.553	10.235	1.265	1.905	204.896
On-balance sheet imbalance	(20.227)	29.041	(192)	3.769	4.873	(21.002)	(1.857)	266	(1.070)	(6.399)
Off-balance sheet items										
Off-balance sheet assets	99.423	14.506	3.914	1.895	116	20.862	3.650	-	2.921	147.287
Off-balance sheet liabilities	79.510	42.956	3.575	5.685	4.977	34	1.765	296	1.638	140.436
Net off-balance sheet items	19.913	(28.450)	339	(3.790)	(4.861)	20.828	1.885	(296)	1.283	6.851
Net currency imbalance on 30 June 2016	(314)	591	147	(21)	12	(174)	28	(30)	213	452

For the six months ended 30 June 2016 50 Amounts are in ISK million

55. Cont'd

Currency analysis 31 December 2015

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	387	250	131	37	11	66	74	90	33	1.079
Bonds and debt instruments	31.829	9.867	-	-	-	-	1.471	-	-	43.167
Shares and equity instrum.	5.515	276	0	-	-	-	1	-	-	5.792
Loans to credit institutions	18.584	11.474	988	1.027	523	1.420	297	209	511	35.033
Loans to customers	62.438	28.980	5.409	6.907	6.905	272	7.340	1.113	103	119.467
Other assets	432	1.859	246	0	23	35	12	27	47	2.681
Total assets	119.185	52.706	6.774	7.971	7.462	1.793	9.195	1.439	694	207.219
Liabilities										
Deposits from credit institut.	1.389	816	1	440	584	0	0	0	-	3.230
Deposits from customers	66.267	22.351	5.047	1.488	1.031	1.103	2.931	946	1.356	102.520
Borrowings	39.467	-	-	-	-	21.639	7.366	-	-	68.472
Subordinated loans	19.517	-	-	-	-	-	-	-	-	19.517
Other liabilities	4.084	5.066	834	1	118	98	64	163	94	10.522
Total liabilities	130.724	28.233	5.882	1.929	1.733	22.840	10.361	1.109	1.450	204.261
On-balance sheet imbalance	(11.539)	24.473	892	6.042	5.729	(21.047)	(1.166)	330	(756)	2.958
Off-balance sheet items										
Off-balance sheet assets	71.768	12.667	2.037	833	19	20.833	2.042	424	1.544	112.167
Off-balance sheet liabilities	54.802	36.353	2.694	6.894	5.722	-	2.956	777	603	110.801
Net off-balance sheet items	16.966	(23.686)	(657)	(6.061)	(5.703)	20.833	(914)	(353)	941	1.366
Net currency imbalance on 31 December 2015	5.427	787	235	(19)	26	(214)	(2.080)	(23)	185	4.324

Derivatives

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

Inflation risk

57. The Group 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 June 2016 the CPI gap amounted to ISK 49.2 billion (31 December 2015: ISK 46.8 billion). Thus, a 1% increase in the index would lead to an ISK 492 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant. Note that the following corrections were made to the previously reported figures for 31.12.2015: off-balance sheet positions under both assets and liabilities have been corrected and a new line was added for financial liabilities but they were included in the off-balance sheet position last time.

Assets, CPI-linked	30.6.2016	31.12.2015
Bonds and debt instruments	3.173	2.329
Loans to customers	234.265	223.719
Off-balance sheet position	3.871	5.275
Total assets	241.309	231.323

For the six months ended 30 June 2016 51 Amounts are in ISK million

57. Cont'd

Liabilities, CPI linked	30.6.2016	31.12.2015
Deposits from customers	95.348	96.424
Debt issued and other borrowed funds	62.371	56.909
Off-balance sheet position	34.217	29.641
Financial liabilities	187	1.573
Total liabilities	192.123	184.547
CPI balance	49.186	46.776

Capital management

58. Risk exposure and capital base

The table below shows the capital base, risk-weighted assets (RWA) and the resulting capital ratios of the Group at 30 June 2016 and 31 December 2015. The Group's total capital ratio, calculated according to the Act on Financial Undertakings, was 28.9% and the Tier 1 ratio was 27.1%.

The eligibility of the Tier 2 subordinated loan issued by the Group 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 70% into the total capital base.

The Bank's Board of Directors sets a minimum capital target for the Group. The Board has approved a minimum capital target for the Group to be 23% of RWA for the near- and medium-term. The target is on one hand based on more conservative requirements set forth by the Icelandic regulator; and on the other hand on the Group'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 Group expects to be able to give more clarity on the medium- to long-term capital targets in the next 6-12 months, as further clarity is expected regarding the regulatory capital requirements and the Group's operating environment.

The Group'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.

	30.6.2016	31.12.2015
Tier 1 capital		
Ordinary share capital	10.000	10.000
Share premium	55.000	55.000
Other reserves	2.470	6.002
Retained earnings	127.666	127.288
Non-controlling interests	3.701	3.937
Tax assets	(28)	-
Intangible assets	(1.700)	(1.331)
Other regulatory adjustments	(472)	(2.779)
Total Tier 1 capital	196.637	198.117
Tier 2 capital		
Qualifying subordinated liabilities	18.886	19.517
Adjustment to eligible capital instruments	(5.666)	(3.903)
Other regulatory adjustments	(472)	(2.779)
Total capital base	209.385	210.952
Risk-weighted assets		
- due to credit risk	635.551	606.591
- due to market risk:	12.667	16.607
Market risk, trading book	11.827	9.931
Currency risk	840	6.676
- due to operational risk	76.495	76.495
Total risk-weighted assets	724.713	699.693
Capital ratios		
Tier 1 ratio	27,1%	28,3%
Total capital ratio	28,9%	30,1%

For the six months ended 30 June 2016 52 Amounts are in ISK million