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## Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2016

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## Endorsement and Statement by the Board of Directors and CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. ("the Bank" or "Landsbankinn") for the first six months of 2016 include the Bank and its subsidiaries (collectively referred to as "the Group").

Landsbankinn hf. was established on 7 October 2008. The Bank is a leading provider of financial services in the domestic market, offering a comprehensive range of financial products and services to personal, corporate and institutional customers.

### Operations

Consolidated profit amounted to ISK 11,298 million for the first six months of the financial year 2016. Consolidated total equity amounted to ISK 247,291 million and total assets to ISK 1,109,844 million at the end of this period. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 28.9% at the end of the second quarter of 2016.

In January 2016, the international rating agency Standard and Poor's (S&P) affirmed Landsbankinn's long- and short-term ratings of BBB-/A-3 with a positive outlook. The positive outlook reflects S&P's assessment of decreasing risks related to the liberalization of capital controls in Iceland, an anticipated improvement in the economic resilience and operating environment of the Icelandic banks, and the Bank's own strong capital position.

In April 2016, Landsbankinn closed a second tranche of its floating rate notes in NOK and SEK with tap issues in the amount of NOK 250 million and SEK 100 million respectively. The bonds were sold at terms equivalent to NIBOR + 2.5% and STIBOR + 2.5% respectively. The aggregate nominal amounts of the notes series, NOK 500 million and SEK 350 million, mature in June 2019. The notes are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) programme and are listed on the Irish Stock Exchange.

In June 2016, the closing of the agreement between Visa Europe and Visa Inc. revised the value of Visa Europe to EUR 18,370 million, thereof EUR 12,250 million payable in cash, EUR 5,000 million in Visa Inc. preferred stock (collectively the "up-front consideration") and EUR 1,120 million as a deferred cash payment. Based on information provided by Arion Bank, Landsbankinn has recognised a fair value amount of ISK 3,480 million in these financial statements as its expected up-front additional consideration for the Bank's 38.62 % shareholding in Valitor Holding hf. sold to Arion Bank in 2014 and 2015. The increase in the fair value amount since year-end 2015 of ISK 1,044 million is recognised as income in the second quarter of 2016.

### Risk management

Macroeconomic conditions have continued to improve during the first half of the current year. Non-performing loans have decreased while the borrower credit quality of performing loans has improved at the same time. The Group's liquidity position remains strong; the liquidity coverage ratio in total and for foreign currencies was well above regulatory requirements at the end of the second quarter of 2016. Total market risk dropped significantly in the first half of 2016, declining from 3.7% to 1.9% of risk weighted assets during the period. The reduced market risk is mainly due to a lower net currency position while trading book positions have remained relatively stable. The Bank implemented two new risk models during the first half of the current year; a corporate rating model and a model for interest rate risk in the banking book.

### Outlook

Landsbankinn Economic Research forecasts GDP growth in Iceland of 5.4% in 2016, 4.3% in 2017 and 4.4% in 2018. The Central Bank has recently upgraded its forecast for 2016 from 4.2% to 4.5% and predicts average growth of 3.5% in 2017 and 2018. Increased investment and private consumption are expected to be the principal drivers of growth in coming years. Landsbankinn Economic Research forecasts inflation will remain below the Central Bank's 2.5% inflation target in 2016, but will increase next year and peak at close to 4% during the first half of 2017 due to substantial general wage increases.

In the first quarter of 2016 there were no significant positive extraordinary items and profit for that period was therefore significantly lower than in the first quarter of the previous year. Profit in the second quarter of 2016, however, is significantly higher than in the second quarter of the previous year. The increase year-over-year is the result of higher net interest income and positive net impairment. The improved profit in the second quarter of 2016 offsets to a large extent the lower year-over-year first quarter profit. The Bank continues to focus on the execution of its strategy, including the objective of sustainable, long-term profitability.

### Other matters

At Landsbankinn's Annual General Meeting (AGM) on 14 April 2016 a resolution was passed to pay a dividend for the year ended 31 December 2015 in the amount of ISK 28,538 million on the outstanding shares or ISK 1.20 per share. The dividend is to be paid in two equal instalments, on 20 April 2016 and 21 September 2016, to the parties registered as shareholders on 14 April 2016. A dividend in the amount of ISK 0.6 per share was paid on 20 April 2016 and the remainder of the dividend payment of ISK 0.6 per share will be paid on 21 September 2016.

## Statement by the Board of Directors and CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first six months ended 30 June 2016 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first six months of 2016, its consolidated financial position as at 30 June 2016 and its consolidated cash flows for the first six months of 2016.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first six months ended 30 June 2016.

Reykjavík, 11 August 2016.

Board of Directors



Helga Björk Eiríksdóttir

Chairman



Berglind Svavarsdóttir



Danielle Pamela Neben



Hersir Sigurgeirsson



Jón Guðmann Pétursson

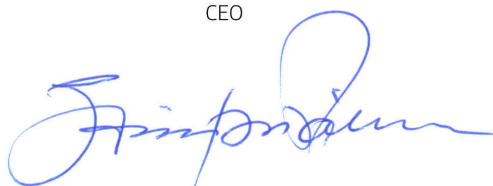


Magnús Pétursson



Samúel Guðmundsson

CEO



Steinþór Pálsson

# Independent Auditors' Review Report

To the Board of Directors and Shareholders of Landsbankinn hf.

## Introduction

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Landsbankinn hf. (the Bank) as at 30 June 2016 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

## Scope of Review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements do not give a true and fair view of the financial position of the Bank as at 30 June 2016, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 11 August 2016.

Grant Thornton endurskoðun ehf.



Davíð Arnar Einarsson  
State Authorised Public Accountant



Sturla Jónsson  
State Authorised Public Accountant

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

Notes		2016	2015	2016	2015
		1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
	Interest income	18,071	15,938	32,843	28,676
	Interest expense	(7,926)	(7,009)	(15,232)	(12,478)
5	<b>Net interest income</b>	<b>10,145</b>	<b>8,929</b>	<b>17,611</b>	<b>16,198</b>
6	Net valuation adjustments and credit impairment charges	1,964	249	2,275	1,845
	<b>Net interest income after net valuation adjustments and credit impairment charges</b>	<b>12,109</b>	<b>9,178</b>	<b>19,886</b>	<b>18,043</b>
	Fee and commission income	2,487	2,274	5,018	4,323
	Fee and commission expense	(573)	(521)	(1,124)	(929)
7	<b>Net fee and commission income</b>	<b>1,914</b>	<b>1,753</b>	<b>3,894</b>	<b>3,394</b>
8	Net gain on financial assets designated at fair value through profit or loss	788	1,838	831	5,650
9	Net gain on financial assets and liabilities held for trading	254	1,273	500	1,724
10	Net foreign exchange (loss) gain	(154)	(147)	8	(471)
	Other income and (expenses)	1,779	189	3,088	427
	<b>Other net operating income</b>	<b>2,667</b>	<b>3,153</b>	<b>4,427</b>	<b>7,330</b>
	<b>Total operating income</b>	<b>16,690</b>	<b>14,084</b>	<b>28,207</b>	<b>28,767</b>
11	Salaries and related expenses	3,559	3,179	7,313	6,881
12	Other operating expenses	1,940	2,011	3,983	4,081
	Depreciation and amortisation	148	165	294	329
	Contribution to the Depositors' and Investors' Guarantee Fund	356	421	666	767
	<b>Total operating expenses</b>	<b>6,003</b>	<b>5,776</b>	<b>12,256</b>	<b>12,058</b>
	Share of profit of equity-accounted associates	371	103	375	112
	<b>Profit before tax</b>	<b>11,058</b>	<b>8,411</b>	<b>16,326</b>	<b>16,821</b>
13	Income tax	(2,288)	(1,546)	(3,503)	(2,724)
13	Tax on liabilities of financial institutions	(787)	(872)	(1,525)	(1,692)
	<b>Profit for the period</b>	<b>7,983</b>	<b>5,993</b>	<b>11,298</b>	<b>12,405</b>
	<b>Profit for the period attributable to:</b>				
	<b>Owners of the Bank</b>				
	Profit for the period	7,977	5,993	11,287	12,405
	<b>Profit for the period attributable to owners of the Bank</b>	<b>7,977</b>	<b>5,993</b>	<b>11,287</b>	<b>12,405</b>
	<b>Non-controlling interests</b>				
	Profit for the period from continuing operations	6	0	11	0
	<b>Profit for the period attributable to non-controlling interests</b>	<b>6</b>	<b>0</b>	<b>11</b>	<b>0</b>
	<b>Profit for the period</b>	<b>7,983</b>	<b>5,993</b>	<b>11,298</b>	<b>12,405</b>
	<b>Earnings per share:</b>				
25	Basic and diluted earnings per share	<b>0.34</b>	<b>0.25</b>	<b>0.47</b>	<b>0.52</b>
	<b>Total basic and diluted earnings per share</b>	<b>0.34</b>	<b>0.25</b>	<b>0.47</b>	<b>0.52</b>

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



## Condensed Consolidated Statement of Financial Position as at 30 June 2016

Notes		30.6.2016	31.12.2015
<b>Assets</b>			
	Cash and balances with Central Bank	43,997	25,164
14, 15, 44	Bonds and debt instruments	157,898	203,684
14, 16	Equities and equity instruments	29,042	29,192
14, 17	Derivative instruments	827	287
18, 44	Loans and advances to financial institutions	21,885	20,791
19, 39, 44	Loans and advances to customers	827,241	811,549
	Investments in equity-accounted associates	1,038	909
	Property and equipment	5,566	5,658
	Intangible assets	2,128	2,012
20	Other assets	11,964	7,457
21	Assets classified as held for sale	8,258	11,955
	<b>Total assets</b>	<b>1,109,844</b>	<b>1,118,658</b>
<b>Liabilities</b>			
	Due to financial institutions and Central Bank	34,643	56,731
	Deposits from customers	556,841	559,051
17	Derivative instruments and short positions	5,724	3,400
22, 44	Borrowings	220,837	209,344
23	Subordinated liabilities	412	639
	Deferred tax liabilities	158	166
	Other liabilities	42,428	23,278
	Liabilities associated with assets classified as held for sale	1,510	1,518
	<b>Total liabilities</b>	<b>862,553</b>	<b>854,127</b>
24	<b>Equity</b>		
	Share capital	23,782	23,782
	Share premium	122,105	122,105
	Reserves	6,000	6,000
	Retained earnings	95,363	112,614
	<b>Total equity attributable to owners of the Bank</b>	<b>247,250</b>	<b>264,501</b>
	Non-controlling interests	41	30
	<b>Total equity</b>	<b>247,291</b>	<b>264,531</b>
	<b>Total liabilities and equity</b>	<b>1,109,844</b>	<b>1,118,658</b>

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

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

### Notes

		Attributable to owners of the Bank						Non-controlling interests	Total
Change in equity for the six months ended 30 June 2016		Share capital	Share premium	Own shares reserve	Statutory reserve	Share based payment reserve	Retained earnings		
	Balance as at 1 January 2016	23,782	122,105		6,000		112,614	30	264,531
	Profit for the period						11,287	11	11,298
	Dividends allocated						(28,538)		(28,538)
24	<b>Balance as at 30 June 2016</b>	<b>23,782</b>	<b>122,105</b>		<b>6,000</b>	<b>0</b>	<b>95,363</b>	<b>41</b>	<b>247,291</b>
Change in equity for the six months ended 30 June 2015		Share capital	Share premium	Own shares reserve	Statutory reserve	Share based payment reserve	Retained earnings	Non-controlling interests	Total
	Balance at 1 January 2015	23,687	121,275		6,000		99,841		250,803
	Profit for the period						12,405		12,405
	Dividends paid						(23,687)		(23,687)
	Merger consideration allocated to former guarantee capital owners of Sparisjóður Vestmannaeyja	35	297						332
24	<b>Balance as at 30 June 2015</b>	<b>23,722</b>	<b>121,572</b>	<b>0</b>	<b>6,000</b>	<b>0</b>	<b>88,558</b>	<b>0</b>	<b>239,852</b>

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

## 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
<b>Operating activities</b>		
Profit for the period	11,287	12,405
Adjustments for non-cash items included in profit for the period	(16,989)	(21,479)
Changes in operating assets and liabilities	4,703	35,019
Interest received	28,932	23,223
Interest paid	(5,873)	(7,044)
Dividends received	324	3,138
Income tax and special tax on financial institutions paid	(3,335)	(3,361)
<b>Net cash from operating activities</b>	<b>19,049</b>	<b>41,901</b>
<b>Investing activities</b>		
Purchase of property and equipment	(161)	(144)
Proceeds from sale of property and equipment	52	55
Purchase of intangible assets	(226)	(425)
Sale of subsidiaries	(8)	0
<b>Net cash (used in) from investing activities</b>	<b>(343)</b>	<b>(514)</b>
<b>Financing activities</b>		
Proceeds from new long-term debt issue	29,588	4,700
Repayment of borrowings	(12,645)	(182)
Repayment of subordinated loans	(239)	0
Dividends paid	(14,269)	(23,687)
<b>Net cash used in financing activities</b>	<b>2,435</b>	<b>(19,169)</b>
Net change in cash and cash equivalents	21,141	22,218
Cash and cash equivalents as at the beginning of the period	24,257	16,585
Cash and cash equivalents acquired in business combination	0	1,408
Effect of exchange rate changes on cash and cash equivalents held	(740)	779
<b>Cash and cash equivalents as at 30 June</b>	<b>44,658</b>	<b>40,990</b>
<b>Investing and financing activities not affecting cash flows</b>		
Allocated dividend to shareholders	(14,269)	0
Unpaid dividend to shareholders	14,269	0
Assets acquired and liabilities assumed from Sparisjóður Vestmannaeyja	0	233
Goodwill	0	(565)
Own shares allocated to former guarantee capital owners of the saving bank Sparisjóður Vestmannaeyja	0	332

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

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

		2016	2015
Notes		1.1-30.6	1.1-30.6
<b>Adjustments for non-cash items included in profit for the period</b>			
5	Net interest income	(17,611)	(16,198)
6, 40	Net impairment (gain)	(2,275)	(3,726)
6	Reversals of loss from foreign currency linkage of loans and advances to customers	0	1,881
8	Net (gain) on financial assets designated at fair value through profit or loss	(831)	(5,650)
9	Net (gain) on financial assets and liabilities held for trading	(500)	(1,724)
10	Net foreign exchange loss (gain)	732	(308)
	Loss (gain) on sale of property and equipment	16	26
	Net (gain) loss on assets classified as held for sale	(1,467)	(413)
	Depreciation and amortisation	294	329
	Share of profit of equity-accounted associates	(375)	(112)
13	Income tax	3,503	2,724
13	Tax on liabilities of financial institutions	1,525	1,692
		<b>(16,989)</b>	<b>(21,479)</b>
<b>Changes in operating assets and liabilities</b>			
	Change in reserve requirement with Central Bank	5,595	(4,144)
	Change in bonds and equities	43,498	6,159
	Change in loans and advances to financial institutions	(6,208)	(18,776)
	Change in loans and advances to customers	(15,854)	(31,103)
	Change in assets of disposal groups	305	0
	Change in other assets	(3,878)	10,364
	Change in assets classified as held for sale	3,055	6,470
	Change in due to financial institutions and Central Bank	(21,686)	8,600
	Change in deposits from customers	(5,965)	55,747
	Change in deferred tax assets/liabilities	(8)	(70)
	Change in other liabilities	5,854	2,210
	Change in liabilities associated with assets classified as held for sale	(5)	(438)
		<b>4,703</b>	<b>35,019</b>
<b>Cash and cash equivalents is specified as follows:</b>			
	Cash and unrestricted balances with Central Bank	33,589	27,879
18	Bank accounts with financial institutions	11,069	13,111
<b>Cash and cash equivalents as at the end of the period</b>		<b>44,658</b>	<b>40,990</b>

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

## Notes to the Condensed Consolidated Interim Financial Statements

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# Notes to the Condensed Consolidated Interim Financial Statements

## 1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Bank for the six months ended 30 June 2016 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related services. The Group operates solely in Iceland.

The issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 11 August 2016.

## 2. Basis of preparation

### Statement of compliance

These Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union.

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2015, which are available on the Bank's website, [www.landsbankinn.is](http://www.landsbankinn.is).

### Going concern

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

### Basis of measurement

The Condensed Consolidated Interim Financial Statements have been prepared on a historical cost basis except for the following:

- Financial assets and liabilities classified as held for trading are measured at fair value;
- Financial assets and liabilities designated at fair value through profit or loss are measured at fair value;
- Non-current assets and disposal groups classified as held for sale are measured at the lower of cost or fair value less costs to sell.

### Functional and presentation currency

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

### Use of estimates and judgements

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

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

## 3. Significant accounting policies

The Condensed Consolidated Interim Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies applied by the Group in the Condensed Consolidated Interim Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended 31 December 2015. The accounting policies applied have been applied consistently to all periods presented.

The Group has adopted the amendments to existing standards which became effective as of 1 January 2016. These amendments have an insignificant impact on the Condensed Consolidated Interim Financial Statements.

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 Landsbankinn'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 will undergo changes, as the amendment may affect retained earnings for distribution as dividends to shareholders.

## Notes to the Condensed Consolidated Interim Financial Statements

### 4. Operating segments

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

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

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

Support functions are comprised of Finance (excluding Treasury), Risk Management, Operations & IT, and the CEO office, whereby the CEO office is comprised of Human Resources, Marketing & Communications and Compliance. The Bank's Internal Audit department is also included in support functions, however it is independent and reports directly to the Bank's Board of Directors.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the period from 1 January to 30 June 2016 and 2015.

## Notes to the Consolidated Financial Statements

### 4. Operating segments (continued)

<b>1 January - 30 June 2016</b>	<b>Personal Banking</b>	<b>Corporate Banking</b>	<b>Markets</b>	<b>Treasury</b>	<b>Support functions</b>	<b>Reconciliation</b>	<b>Total</b>
Net interest income (expense)	6,725	7,433	180	3,562	5	(294)	17,611
Net valuation adjustments and credit impairment charges	2,059	245	-	(26)	(3)	-	2,275
Net fee and commission income	1,776	432	1,991	(167)	60	(198)	3,894
Other net operating income (expenses)	1,008	(62)	75	1,618	1,522	266	4,427
<b>Total operating income (expense)</b>	<b>11,568</b>	<b>8,048</b>	<b>2,246</b>	<b>4,987</b>	<b>1,584</b>	<b>(226)</b>	<b>28,207</b>
Operating expenses	(3,168)	(765)	(1,118)	(817)	(6,601)	213	(12,256)
Share of profit (loss) of equity-accounted associates	458	-	-	(83)	-	-	375
<b>Profit (loss) before cost allocation and tax</b>	<b>8,858</b>	<b>7,283</b>	<b>1,128</b>	<b>4,087</b>	<b>(5,017)</b>	<b>(13)</b>	<b>16,326</b>
Cost allocated from support functions to business segments	(2,536)	(1,824)	(678)	(629)	5,667	-	0
<b>Profit (loss) before tax</b>	<b>6,322</b>	<b>5,459</b>	<b>450</b>	<b>3,458</b>	<b>650</b>	<b>(13)</b>	<b>16,326</b>
Net revenue from external customers	13,313	12,986	2,073	(1,499)	1,560	-	28,433
Net revenue (expenses) from other segments	(1,745)	(4,938)	173	6,486	24	-	0
<b>Total operating income</b>	<b>11,568</b>	<b>8,048</b>	<b>2,246</b>	<b>4,987</b>	<b>1,584</b>	<b>0</b>	<b>28,433</b>
<b>As at 30 June 2016</b>							
<b>Total assets</b>	366,592	470,676	35,758	456,471	11,296	(230,949)	1,109,844
<b>Total liabilities</b>	324,494	371,615	29,954	356,143	11,296	(230,949)	862,553
<b>Allocated capital</b>	42,098	99,061	5,804	100,328	-	-	247,291

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



## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Consolidated Income Statement

#### 5. Net interest income

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
<b>Interest income</b>				
Cash and balances with Central Bank	281	117	530	288
Bonds and debt instruments classified as loans and receivables	1,575	1,234	3,188	2,466
Loans and advances to financial institutions	80	106	134	202
Loans and advances to customers	16,125	14,476	28,973	25,709
Other interest income	10	5	18	11
<b>Total</b>	<b>18,071</b>	<b>15,938</b>	<b>32,843</b>	<b>28,676</b>
<b>Interest expense</b>				
Due to financial institutions and Central Bank	(323)	(332)	(682)	(554)
Deposits from customers	(5,511)	(4,909)	(10,485)	(8,412)
Borrowings	(2,080)	(1,734)	(4,015)	(3,454)
Subordinated liabilities	(9)	-	(23)	-
Other interest expense	(3)	(34)	(27)	(58)
<b>Total</b>	<b>(7,926)</b>	<b>(7,009)</b>	<b>(15,232)</b>	<b>(12,478)</b>
<b>Net interest income</b>	<b>10,145</b>	<b>8,929</b>	<b>17,611</b>	<b>16,198</b>

Interest income and interest expense disclosed above arose on financial assets and financial liabilities that are not carried at fair value through profit or loss.

#### 6. Net valuation adjustments and credit impairment charges

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Net impairment	1,964	115	2,275	3,726
Reversals of loss from foreign currency linkage of loans and advances to customers	-	134	-	(1,881)
<b>Net valuation adjustments and credit impairment charges</b>	<b>1,964</b>	<b>249</b>	<b>2,275</b>	<b>1,845</b>
<b>Valuation adjustments and impairment charges by customer type</b>				
Individuals	672	(645)	1,203	(128)
Corporates	1,292	894	1,072	1,973
<b>Net valuation adjustments and credit impairment charges</b>	<b>1,964</b>	<b>249</b>	<b>2,275</b>	<b>1,845</b>

#### 7. Net fee and commission income

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
<b>Fee and commission income</b>				
Markets	922	703	1,888	1,574
Loans and guarantees	212	235	508	499
Cards	804	755	1,570	1,176
Collection and payment services	231	230	442	440
Foreign trade	211	229	400	402
Other commissions and fees	107	122	210	232
<b>Total</b>	<b>2,487</b>	<b>2,274</b>	<b>5,018</b>	<b>4,323</b>
<b>Fee and commission expense</b>				
Investment banking and capital markets	(63)	(99)	(147)	(166)
Cards	(259)	(189)	(509)	(282)
Other fees	(251)	(233)	(468)	(481)
<b>Total</b>	<b>(573)</b>	<b>(521)</b>	<b>(1,124)</b>	<b>(929)</b>
<b>Net fee and commission income</b>	<b>1,914</b>	<b>1,753</b>	<b>3,894</b>	<b>3,394</b>

The net fee and commission income above excludes amounts that are otherwise included in determining the effective interest rate for financial assets and liabilities that are not at fair value through profit or loss. Moreover, it does not include any net fee and commission income relating to such financial assets and liabilities.

## Notes to the Condensed Consolidated Interim Financial Statements

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

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Bonds and debt instruments	(138)	316	14	887
Equities and equity instruments	926	1,522	817	4,763
<b>Total</b>	<b>788</b>	<b>1,838</b>	<b>831</b>	<b>5,650</b>

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

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Bonds and debt instruments	429	731	861	900
Equities and equity instruments	(271)	474	(396)	711
Derivatives and underlying hedges	96	68	35	113
<b>Total</b>	<b>254</b>	<b>1,273</b>	<b>500</b>	<b>1,724</b>

### 10. Net foreign exchange (loss) gain

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
<b>Assets</b>				
Cash and balances with Central Bank	(49)	(23)	(93)	(15)
Bonds and debt instruments	(698)	(918)	(3,024)	2,786
Equities and equity instruments	(2)	(71)	(2)	(818)
Derivative instruments	(282)	339	831	(1,538)
Loans and advances to financial institutions	(762)	(73)	(1,105)	33
Loans and advances to customers	(2,992)	(3,077)	(7,902)	(1,254)
Other assets	(80)	(13)	(82)	7
<b>Total</b>	<b>(4,865)</b>	<b>(3,836)</b>	<b>(11,377)</b>	<b>(799)</b>
<b>Liabilities</b>				
Due to financial institutions and Central Bank	(73)	(3)	401	16
Deposits from customers	2,019	1,213	3,951	487
Borrowings	2,726	2,528	6,838	(61)
Subordinated liabilities	(6)	-	(7)	-
Other liabilities	45	(49)	202	(114)
<b>Total</b>	<b>4,711</b>	<b>3,689</b>	<b>11,385</b>	<b>328</b>
<b>Net foreign exchange (loss) gain</b>	<b>(154)</b>	<b>(147)</b>	<b>8</b>	<b>(471)</b>

The foreign exchange difference recognised during the period 1 January to 30 June 2016 in the Condensed Consolidated Income Statement that arose on financial instruments not measured at fair value through profit or loss, amounted to a loss of ISK 9,182 million for financial assets (1.1-30.6.2015: loss of ISK 1,229 million) and a gain of ISK 11,385 million for financial liabilities (1.1-30.6.2015: gain of ISK 328 million).

### 11. Salaries and related expenses

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Salaries	2,734	2,391	5,663	5,327
Contributions to defined pension plans	413	377	814	742
Social security contributions, special financial activities tax on salaries and other expenses	412	411	836	812
<b>Total salaries and related expenses</b>	<b>3,559</b>	<b>3,179</b>	<b>7,313</b>	<b>6,881</b>

### 12. Other operating expenses

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
Information technology	454	525	1,052	1,039
Real estate and fixtures	225	190	458	365
Advertising and marketing expenses	248	201	428	435
Operating lease rentals	135	167	275	329
FME supervisory expenses	117	117	235	232
Contribution to the Debtor's Ombudsman	27	35	55	69
Audit and related services	26	24	70	72
Other professional services	132	162	296	405
Other operating expenses	576	590	1,114	1,135
<b>Total</b>	<b>1,940</b>	<b>2,011</b>	<b>3,983</b>	<b>4,081</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 13. Income tax and other taxes

Income tax is recognised based on the tax rates and tax laws enacted by the end of the year, according to which the domestic corporate income tax rate was 20.0% (2015: 20.0%). An additional special income tax on financial institutions is recognised at a rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011 on Financial Activity Tax.

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

	2016 1.1-30.6	2015 1.1-30.6
Current tax expense	(2,978)	(1,828)
Special income tax on financial institutions	(716)	(584)
Deferred tax expense	191	(312)
<b>Total</b>	<b>(3,503)</b>	<b>(2,724)</b>

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

	2016 1.1-30.6	2015 1.1-30.6
Profit before tax	16,326	16,821
Tax on liabilities of financial institutions	(1,525)	(1,692)
Profit before income tax	14,801	15,129
Income tax calculated using the domestic corporate income tax rate	20.0% (2,960)	20.0% (3,026)
Special income tax on financial institutions	4.8% (716)	3.9% (584)
Income not subject to tax	(6.1%) 909	(8.4%) 1,266
Non-deductible expenses	5.4% (796)	2.6% (400)
Other	(0.4%) 60	(0.1%) 20
<b>Effective income tax</b>	<b>23.7% (3,503)</b>	<b>18.0% (2,724)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Condensed Consolidated Interim Statement of Financial Position

#### 14. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities must be classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:

- Loans and receivables, measured at amortised cost;
- Financial assets and liabilities held for trading, measured at fair value;
- Financial assets designated at fair value through profit or loss, measured at fair value;
- Other financial liabilities, measured at amortised cost.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 30 June 2016:

	Loans and receivables	Held for trading	Designated at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
<b>Financial assets</b>							
Cash and balances with Central Bank	43,997	-	-	-	-	43,997	43,997
Bonds and debt instruments	118,055	31,368	8,475	-	-	157,898	158,957
Equities and equity instruments	-	10,648	18,394	-	-	29,042	29,042
Derivative instruments	-	827	-	-	-	827	827
Loans and advances to financial institutions	21,885	-	-	-	-	21,885	21,885
Loans and advances to customers	827,241	-	-	-	-	827,241	831,841
Other financial assets	10,090	-	-	-	-	10,090	10,090
<b>Total</b>	<b>1,021,268</b>	<b>42,843</b>	<b>26,869</b>	<b>0</b>	<b>0</b>	<b>1,090,980</b>	<b>1,096,639</b>
<b>Financial liabilities</b>							
Due to financial institutions and Central Bank	-	-	-	34,643	-	34,643	34,641
Deposits from customers	-	-	-	556,841	-	556,841	556,738
Derivative instruments and short positions	-	5,724	-	-	-	5,724	5,724
Borrowings	-	-	-	220,837	-	220,837	221,330
Subordinated liabilities	-	-	-	412	-	412	440
Other financial liabilities	-	-	-	7,901	-	7,901	7,901
<b>Total</b>	<b>0</b>	<b>5,724</b>	<b>0</b>	<b>820,634</b>	<b>0</b>	<b>826,358</b>	<b>826,774</b>

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 December 2015:

	Loans and receivables	Held for trading	Designated at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
<b>Financial assets</b>							
Cash and balances with Central Bank	25,164	-	-	-	-	25,164	25,164
Bonds and debt instruments	125,211	69,279	9,194	-	-	203,684	205,203
Equities and equity instruments	-	11,385	17,807	-	-	29,192	29,192
Derivative instruments	-	287	-	-	-	287	287
Loans and advances to financial institutions	20,791	-	-	-	-	20,791	20,791
Loans and advances to customers	811,549	-	-	-	-	811,549	816,495
Other financial assets	6,918	-	-	-	-	6,918	6,918
<b>Total</b>	<b>989,633</b>	<b>80,951</b>	<b>27,001</b>	<b>0</b>	<b>0</b>	<b>1,097,585</b>	<b>1,104,050</b>
<b>Financial liabilities</b>							
Due to financial institutions and Central Bank	-	-	-	56,731	-	56,731	56,730
Deposits from customers	-	-	-	559,051	-	559,051	558,958
Derivative instruments and short positions	-	3,400	-	-	-	3,400	3,400
Borrowings	-	-	-	209,344	-	209,344	210,147
Subordinated liabilities	-	-	-	639	-	639	705
Other financial liabilities	-	-	-	5,367	-	5,367	5,367
<b>Total</b>	<b>0</b>	<b>3,400</b>	<b>0</b>	<b>831,132</b>	<b>0</b>	<b>834,532</b>	<b>835,307</b>

## Notes to the Condensed Consolidated Interim Financial Statements

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

The fair value of financial assets and liabilities is determined based on the same valuation methods as those described in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2015.

#### Fair value hierarchy

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

- Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value.
- Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares. However, the yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.
- Level 3: Valuation technique based on significant non-observable inputs. It covers all instruments for which the valuation technique includes inputs based on unobservable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there is no market data available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies' multiples are the most commonly used methods to calculate fair value of unlisted shares in addition to recent transactions and current market conditions.

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

#### Valuation framework

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

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial Position, is categorised as at 30 June 2016:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	31,361	8,097	385	39,843
Equities and equity instruments	10,220	-	18,822	29,042
Derivative instruments	-	827	-	827
<b>Total</b>	<b>41,581</b>	<b>8,924</b>	<b>19,207</b>	<b>69,712</b>
<b>Financial liabilities</b>				
Derivative instruments	-	1,324	-	1,324
Short positions	4,400	-	-	4,400
<b>Total</b>	<b>4,400</b>	<b>1,324</b>	<b>0</b>	<b>5,724</b>

During the period from 1 January to 30 June 2016 there were no transfers between Level 1, Level 2 and Level 3.

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial position, are categorised as at 31 December 2015:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	69,477	8,553	443	78,473
Equities and equity instruments	11,069	-	18,123	29,192
Derivative instruments	-	287	-	287
<b>Total</b>	<b>80,546</b>	<b>8,840</b>	<b>18,566</b>	<b>107,952</b>
<b>Financial liabilities</b>				
Derivative instruments	-	702	-	702
Short positions	2,698	-	-	2,698
<b>Total</b>	<b>2,698</b>	<b>702</b>	<b>0</b>	<b>3,400</b>

During the year 2015, there were no transfers of financial assets into Level 2 from other levels. However, financial assets were transferred between Level 1 and Level 3, in both directions, either because quoted prices for the assets became available in an active market or, conversely, quoted prices were no longer available and valuation inputs were non-observable.

## Notes to the Condensed Consolidated Interim Financial Statements

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

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

	Bonds and debt instruments	Equities and equity instruments	Total financial assets
<b>1 January - 30 June 2016</b>			
Carrying amount as at 1 January 2016	443	18,123	18,566
Net gain on financial assets designated at fair value through profit or loss	34	790	824
Net foreign exchange (loss) gain	(5)	-	(5)
Purchases	-	616	616
Sales	(5)	(707)	(712)
Settlements	(82)	-	(82)
<b>Carrying amount as at 30 June 2016</b>	<b>385</b>	<b>18,822</b>	<b>19,207</b>
<b>1 January - 31 December 2015</b>			
Carrying amount as at 1 January 2015	8,031	21,908	29,939
Net gain on financial assets designated at fair value through profit or loss	330	7,644	7,974
Net foreign exchange gain (loss)	(49)	(13)	(62)
Purchases	9	372	381
Sales	(7,922)	(688)	(8,610)
Acquired financial assets in business combinations	51	265	316
Settlements	(7)	-	(7)
Dividend received	-	(3,911)	(3,911)
Transfer into Level 3	-	1,114	1,114
Transfers from Level 3 to Level 1	-	(8,568)	(8,568)
<b>Carrying amount as at 31 December 2015</b>	<b>443</b>	<b>18,123</b>	<b>18,566</b>

The following table shows the line items in the Consolidated Income Statement where gains (losses), relating only to financial assets and liabilities held by the Group as at 30 June 2016 and 30 June 2015 and categorised in Level 3, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Total
<b>1 January - 30 June 2016</b>			
Net gain (loss) on financial assets designated at fair value through profit or loss	32	792	824
Net foreign exchange (loss) gain	(5)	-	(5)
<b>Total</b>	<b>27</b>	<b>792</b>	<b>819</b>
<b>1 January - 30 June 2015</b>			
Net gain on financial assets designated at fair value through profit or loss	333	4,642	4,975
Net foreign exchange gain (loss)	(46)	(7)	(53)
<b>Total</b>	<b>287</b>	<b>4,635</b>	<b>4,922</b>

#### Unobservable inputs in fair value measurement

The following table shows the unobservable inputs used in measuring fair value as at 30 June 2016 and 31 December 2015.

	Assets	Liabilities	Valuation technique	Key unobservable inputs	Range of inputs	
					Lower	Higher
<b>As at 30 June 2016</b>						
Bonds and debt instruments	385	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	18,822	-	See note 2)	See note 2)	n/a	n/a
	<b>19,207</b>	<b>0</b>				
<b>As at 31 December 2015</b>						
Bonds and debt instruments	443	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	18,123	-	See note 2)	See note 2)	n/a	n/a
	<b>18,566</b>	<b>0</b>				

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

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

## Notes to the Condensed Consolidated Interim Financial Statements

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

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

#### The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives for the six months ended 30 June 2016 and 2015:

	2016 1.1-30.6		2015 1.1-30.6	
Effect on profit before tax	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	19	(19)	20	(20)
Equities and equity instruments:				
Equities	650	(491)	316	(291)
Mutual funds	435	(435)	323	(323)
Total equities and equity instruments	1,085	(926)	639	(614)
<b>Total</b>	<b>1,104</b>	<b>(945)</b>	<b>659</b>	<b>(634)</b>

The effect on profit was calculated using methods suitable for the models used. Key unobservable inputs were changed by +/- 5%.

### 15. Bonds

	30.6.2016				31.12.2015			
Bonds and debt instruments	Loans and receivables	Held for trading	Designated at fair value	Total	Loans and receivables	Held for trading	Designated at fair value	Total
<b>Domestic</b>								
Listed	118,055	7,986	8,110	134,151	125,211	36,468	8,782	170,461
Unlisted	-	1,145	365	1,510	-	911	412	1,323
	<b>118,055</b>	<b>9,131</b>	<b>8,475</b>	<b>135,661</b>	<b>125,211</b>	<b>37,379</b>	<b>9,194</b>	<b>171,784</b>
<b>Foreign</b>								
Listed	-	22,237	-	22,237	-	31,900	-	31,900
	<b>0</b>	<b>22,237</b>	<b>0</b>	<b>22,237</b>	<b>0</b>	<b>31,900</b>	<b>0</b>	<b>31,900</b>
<b>Total bonds</b>	<b>118,055</b>	<b>31,368</b>	<b>8,475</b>	<b>157,898</b>	<b>125,211</b>	<b>69,279</b>	<b>9,194</b>	<b>203,684</b>

Bonds are classified as "domestic" or "foreign" according to issuers' country of incorporation.

Bonds and debt instruments classified as loans and receivables as at 30 June 2016 and 31 December 2015 consist partly of the government bonds which the Bank received in settlement of the capital contribution in 2009. The bonds were listed on the Stock Exchange in Iceland during 2010.

### 16. Equities

	30.6.2016			31.12.2015		
Equities and equity instruments	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
<b>Domestic</b>						
Listed	9,444	-	9,444	11,383	-	11,383
Unlisted	1,203	18,327	19,530	-	17,777	17,777
	<b>10,647</b>	<b>18,327</b>	<b>28,974</b>	<b>11,383</b>	<b>17,777</b>	<b>29,160</b>
<b>Foreign</b>						
Listed	1	67	68	2	30	32
	<b>1</b>	<b>67</b>	<b>68</b>	<b>2</b>	<b>30</b>	<b>32</b>
<b>Total equities</b>	<b>10,648</b>	<b>18,394</b>	<b>29,042</b>	<b>11,385</b>	<b>17,807</b>	<b>29,192</b>

Equities are classified as "domestic" or "foreign" according to issuers' country of incorporation.

## Notes to the Condensed Consolidated Interim Financial Statements

### 17. Derivative instruments and short positions

	30.6.2016			31.12.2015		
	Notional amount	Fair value		Notional amount	Fair value	
Foreign exchange derivatives		Assets	Liabilities		Assets	Liabilities
Currency forwards	46,180	649	636	52,462	139	223
Cross-currency interest rate swaps	5,790	9	476	6,148	109	231
	<b>51,970</b>	<b>658</b>	<b>1,112</b>	<b>58,610</b>	<b>248</b>	<b>454</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	750	1	8	1,000	2	4
Total return swaps	6,485	51	124	4,192	29	12
	<b>7,235</b>	<b>52</b>	<b>132</b>	<b>5,192</b>	<b>31</b>	<b>16</b>
<b>Equity derivatives</b>						
Total return swaps	6,546	116	70	5,815	8	107
Equity options	857	1	10	3,527	-	125
	<b>7,403</b>	<b>117</b>	<b>80</b>	<b>9,342</b>	<b>8</b>	<b>232</b>
<b>Short positions</b>						
Listed equities	4	-	33	-	-	0
Listed bonds	3,927	-	4,367	2,162	-	2,698
	<b>3,931</b>	<b>0</b>	<b>4,400</b>	<b>2,162</b>	<b>0</b>	<b>2,698</b>
<b>Total</b>	<b>70,539</b>	<b>827</b>	<b>5,724</b>	<b>75,306</b>	<b>287</b>	<b>3,400</b>

The Group uses derivatives both for hedging and trading purposes.

### 18. Loans and advances to financial institutions

	30.6.2016	31.12.2015
Bank accounts with financial institutions	11,069	15,096
Money market loans	7,235	1,281
Overdrafts	-	1,482
Other loans	3,581	2,932
<b>Total</b>	<b>21,885</b>	<b>20,791</b>

### 19. Loans and advances to customers

	30.6.2016	31.12.2015
Public entities	8,889	8,969
Individuals	313,041	303,349
Corporates	531,814	532,888
Allowance for impairment	(26,503)	(33,657)
<b>Total</b>	<b>827,241</b>	<b>811,549</b>

During the reporting period, the Group was not permitted to sell or repledge any collateral in absence of default by the owner of the collateral.

Further disclosure on loans and advances to customers is provided in the risk management notes to these Condensed Consolidated Interim Financial Statements.

### 20. Other assets

	30.6.2016	31.12.2015
Unsettled securities trading	2,584	1,025
Other accounts receivable	7,506	5,893
Sundry assets	1,874	539
<b>Total</b>	<b>11,964</b>	<b>7,457</b>

### 21. Assets classified as held for sale

	30.6.2016	31.12.2015
Reposessed collateral	6,658	10,095
Assets of disposal groups	1,600	1,860
<b>Total</b>	<b>8,258</b>	<b>11,955</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 21. Assets classified as held for sale (continued)

#### Reposessed collateral

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

Reposessed collateral	30.6.2016	31.12.2015
Carrying amount as at the beginning of the period	10,095	12,270
Reposessed during the period	1,747	6,760
Disposed of during the period	(6,532)	(9,895)
Impairment and gain of sale	1,348	960
<b>Carrying amount as at the end of the period</b>	<b>6,658</b>	<b>10,095</b>

#### Assets of disposal groups classified as held for sale

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

### 22. Borrowings

#### Secured borrowings

As at 30.6.2016	Currency	Final maturity	Outstanding principal	Contractual interest rate (Base rate + Initial margin/ Step-up margin)	Carrying amount
BOND D	USD	9.10.2020	USD 271 million	LIBOR + 2.90% / 3.50%	33,748
BOND E	EUR	9.10.2022	EUR 172 million	EURIBOR + 2.90% / 3.65%	23,627
BOND F	USD	9.10.2024	USD 271 million	LIBOR + 2.90% / 3.95%	33,748
BOND G	EUR	9.10.2026	EUR 192 million	EURIBOR + 2.90% / 4.05%	26,390
<b>Total issued bonds to LBI hf.</b>					<b>117,513</b>

As at 30.6.2016	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 17	ISK	23.10.2017	1,740	Non-indexed	Fixed 6.0%	1,806
LBANK CB 19	ISK	17.9.2019	11,540	Non-indexed	Fixed 6.8%	12,186
LBANK CBI 22	ISK	28.4.2022	15,440	CPI-indexed	Fixed 3.0%	15,702
<b>Total covered bonds</b>						<b>29,694</b>

<b>Total secured borrowings</b>	<b>147,207</b>
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#### Unsecured borrowings

As at 30.6.2016	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 3 10/18	EUR	19.10.2018	EUR 300 million	FIXED 3.0%	41,735
LBANK FLOAT 06/19	NOK	11.6.2019	NOK 500 million	NIBOR + 2.6%	7,366
LBANK FLOAT 06/19	SEK	10.6.2019	SEK 350 million	STIBOR + 2.6%	5,082
<b>Total EMTN issued</b>					<b>54,183</b>

As at 30.6.2016	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 160711	ISK	11.7.2016	2,860	Non-indexed	2,795
LBANK 160810	ISK	10.8.2016	1,440	Non-indexed	1,430
LBANK 160912	ISK	12.9.2016	3,400	Non-indexed	3,356
LBANK 161010	ISK	10.10.2016	1,500	Non-indexed	1,473
LBANK 161110	ISK	10.11.2016	2,840	Non-indexed	2,774
LBANK 161212	ISK	12.12.2016	1,740	Non-indexed	1,690
<b>Total bills issued</b>					<b>13,518</b>

As at 30.6.2016	Carrying amount
Other unsecured loans	5,929
<b>Total other unsecured loans</b>	<b>5,929</b>

<b>Total unsecured borrowings</b>	<b>73,630</b>
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<b>Total borrowings as at 30.6.2016</b>	<b>220,837</b>
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## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Borrowings (continued)

#### Secured borrowings

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Contractual interest rate (Base rate + Initial margin/ Step-up margin)	Carrying amount
BOND D	USD	9.10.2020	USD 271 million	LIBOR + 2.90% / 3.50%	35,369
BOND E	EUR	9.10.2022	EUR 192 million	EURIBOR + 2.90% / 3.65%	27,267
BOND F	USD	9.10.2024	USD 271 million	LIBOR + 2.90% / 3.95%	35,369
BOND G	EUR	9.10.2026	EUR 192 million	EURIBOR + 2.90% / 4.05%	27,267
<b>Total issued bonds to LBI hf.</b>					<b>125,272</b>

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	3,360	Non-indexed	Fixed 6.3%	3,479
LBANK CB 17	ISK	23.10.2017	1,740	Non-indexed	Fixed 6.0%	1,752
LBANK CB 19	ISK	17.9.2019	7,220	Non-indexed	Fixed 6.8%	7,407
LBANK CBI 22	ISK	28.4.2022	9,520	CPI-indexed	Fixed 3.0%	9,742
<b>Total covered bonds</b>						<b>22,380</b>

**Total secured borrowings** **147,652**

#### Unsecured borrowings

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 3 10/18	EUR	19.10.2018	EUR 300 million	FIXED 3.0%	42,438
LBANK FLOAT 06/19	NOK	11.6.2019	NOK 250 million	NIBOR + 2.6%	3,669
LBANK FLOAT 06/19	SEK	10.6.2019	SEK 250 million	STIBOR + 2.6%	3,831
<b>Total EMTN issued</b>					<b>49,938</b>

As at 31.12.2015	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 160310	ISK	10.3.2016	2,780	Non-indexed	2,746
LBANK 160510	ISK	10.5.2016	2,460	Non-indexed	2,404
LBANK 160610	ISK	10.6.2016	480	Non-indexed	466
<b>Total bills issued</b>					<b>5,616</b>

As at 31.12.2015	Carrying amount
Other unsecured loans	6,138
<b>Total other unsecured loans</b>	<b>6,138</b>

**Total unsecured borrowings** **61,692**

**Total borrowings as at 31.12.2015** **209,344**

The secured foreign currency bonds consist of bonds issued by the Bank to LBI hf. as consideration and supplementary consideration for the assets and liabilities transferred from LBI hf. to the Bank in October 2008. Under an agreement between the Bank and LBI hf. in October 2015, the Bank has the option to convert the secured bonds, in part or in full, to senior unsecured bonds under the Bank's EMTN programme. The option is conditional on the Bank maintaining a specified minimum credit rating and is valid until March 2017. If the Bank exercises the option, the terms of the senior unsecured bonds will be determined with reference to market terms at the time of conversion.

Interest rate terms are 3M EURIBOR for the EUR-denominated bonds and 3M LIBOR for the GBP- and USD-denominated bonds plus a margin of 2.9% until October 2018, stepping up to 3.5% for the 2020 tranche, 3.65% for the 2022 tranche, 3.95% for the 2024 tranche and 4.05% for the final maturity in 2026.

The Bank is obliged to pledge part of its loan portfolio as collateral for the secured bonds issued to LBI hf. as well as for the covered bonds it has issued. It must maintain a coverage ratio of at least 115% on the secured bonds issued to LBI hf. and at least 120% on the covered bonds. For further details on encumbered assets see Note 44.

On 15 April 2016, the Bank made a prepayment on part of its senior secured Bond E series in the amount of EUR 20 million, together with accrued interest.

Each covered bond series in ISK is issued under the Bank's ISK 100,000 million Covered Bond Programme. These covered bonds are issued under a licence from the Icelandic Financial Supervisory Authority (FME) and with reference to Act No. 11/2008 and FME Rules No. 528/2008. All the covered bond series are listed and traded on NASDAQ Iceland.

The senior unsecured bonds of EUR 300 million issued by the Bank mature in two years and carry a fixed coupon rate of 3.0%. They are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange.

On 12 April 2016, the Bank issued additional tranches of NOK 250 million and SEK 100 million in the senior unsecured bond series LBANK FLOAT 06/19. These tranches mature in June 2019 with 3-month NIBOR and STIBOR interest rates for the respective currencies plus a 2.6% margin. They are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and have been listed on the Irish Stock Exchange.

## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Borrowings (continued)

The unsecured non-indexed bank bills issued by the Bank mature during the current year. These ISK-denominated bills are issued under the Bank's ISK 30,000 million Debt Issuance Programme. All of Landsbankinn's bill series are listed and traded on NASDAQ Iceland.

### 23. Subordinated liabilities

As at 30.6.2016	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate (Base rate + Margin)	Carrying amount
Subordinated bonds unlisted	ISK	1.12.2017	37.9		REIBOR + 4%	38
Subordinated loan	JPY	1.12.2023	JPY 49,1 million		LIBOR + 5%	59
Subordinated loan	CHF	1.12.2023	CHF 0,3 million		LIBOR + 5%	42
Subordinated loan	ISK	13.09.2017	59.1	CPI-indexed	Fixed 7,0%	60
Subordinated loan	ISK	18.09.2017	6.4	CPI-indexed	Fixed 7,0%	6
Subordinated loan	ISK	21.09.2017	19.3	CPI-indexed	Fixed 7,0%	19
Subordinated loan	ISK	22.09.2017	52.0	CPI-indexed	Fixed 7,0%	52
Subordinated loan	ISK	1.12.2017	8.2	CPI-indexed	Fixed 7,0%	8
Subordinated bonds unlisted	ISK	22.11.2019	120.5	CPI-indexed	Fixed 5,0%	128
<b>Total subordinated liabilities</b>						<b>412</b>

As at 31.12.2015	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate (Base rate + Margin)	Carrying amount
Subordinated bonds unlisted	ISK	1.12.2017	50.6		REIBOR + 4%	51
Subordinated loan	EUR	2.12.2020	EUR 0,2 million		LIBOR + 5%	27
Subordinated loan	JPY	2.12.2020	JPY 101,1 million		LIBOR + 5%	109
Subordinated loan	CHF	2.12.2020	CHF 0,7 million		LIBOR + 5%	89
Subordinated loan	JPY	1.12.2023	JPY 49,1 million		LIBOR + 5%	53
Subordinated loan	CHF	1.12.2023	CHF 0,3 million		LIBOR + 5%	43
Subordinated loan	ISK	13.09.2017	59.1	CPI-indexed	Fixed 7,0%	60
Subordinated loan	ISK	18.09.2017	6.4	CPI-indexed	Fixed 7,0%	6
Subordinated loan	ISK	21.09.2017	19.3	CPI-indexed	Fixed 7,0%	19
Subordinated loan	ISK	22.09.2017	52.0	CPI-indexed	Fixed 7,0%	52
Subordinated loan	ISK	1.12.2017	8.2	CPI-indexed	Fixed 7,0%	8
Subordinated bonds unlisted	ISK	22.11.2019	120.0	CPI-indexed	Fixed 5,0%	122
<b>Total subordinated liabilities</b>						<b>639</b>

### 24. Equity

The Annual General Meeting of Landsbankinn's shareholders for the operating year 2015, held on 14 April 2016, approved the Board's proposal to pay dividends to shareholders in the amount of ISK 1.20 per share for the year 2015. A dividend in the amount of ISK 0.6 per share was paid on 20 April 2016 to the parties whose names appeared on the shareholders' register on 14 April 2016. The remainder of the dividend payment of ISK 0.6 per share will be paid on 21 September 2016. The total dividend payment on the outstanding shares will amount to ISK 28,538 million.

### Other notes

### 25. Earnings per share

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
<b>Profit for the period</b>				
Profit for the period attributable to owners of the Bank	7,977	5,993	11,287	12,405

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

	2016 1.4-30.6	2015 1.4-30.6	2016 1.1-30.6	2015 1.1-30.6
<b>Number of shares</b>				
Number of ordinary shares issued at beginning of period	24,000	24,000	24,000	24,000
Average number of own shares	(218)	(303)	(218)	(308)
<b>Weighted average number of shares outstanding</b>	<b>23,782</b>	<b>23,697</b>	<b>23,782</b>	<b>23,692</b>
<b>Basic and diluted earnings per share from continuing operations</b>	<b>0.34</b>	<b>0.25</b>	<b>0.47</b>	<b>0.52</b>

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 26. Litigation

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

All the material cases that were reported open and not concluded at year-end 2015 in the litigation section of the Group's Consolidated Financial Statements for the year 2015 were open on 30 June 2016. The pending material litigation cases at the end of the second quarter of 2016 were the following:

#### Inflation-indexation of financial obligations

1) In January 2013, a customer commenced litigation against the Bank, seeking acknowledgement of the unlawfulness of a consumer price indexation provision in a bond issued by him to the Bank and that it is not permissible for the Bank to revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index. The District Court of Reykjavík on 19 February 2016 acquitted the Bank of the plaintiff's claims. The aspect of the case concerning whether the Bank may revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index has been appealed to the Supreme Court.

#### Investigation of the Icelandic Competition Authority into lending terms

2) In March 2013, the Icelandic Competition Authority submitted to the Bank its preliminary assessment concerning certain preferential terms and conditions offered during 2004-2010 by Landsbanki Íslands hf. (now LBI ehf.) and, subsequently, by the Bank, in 2004 to 2010, to clients for retail banking services, in particular for household mortgage loans. In June 2013, the Bank gave its response and refuted allegations of a breach of competition rules. On 11 September 2015, the Authority and the Bank agreed to enter into discussions concerning the resolution of the case. On 7 July 2016 the Authority introduced initial proposals for measures to strengthen competition in the financial market. The Bank is considering the proposals and will respond to the Authority by 1 September 2016. It is considered unlikely that the case will have a significant impact on the amounts disclosed in the Group's financial

#### Claim for damages by a payment card company

3) In June 2013, a payment card company commenced litigation against the Bank and other financial undertakings claiming tort liability in the amount of around ISK 1.2 billion, plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Bank refutes the allegations and the claims. The plaintiff has requested an appraisal by court-appointed assessors on issues regarding its allegations. Work on the appraisal was completed on 1 July 2016. The Bank is currently preparing its defence in the case.

### 27. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 June 2016 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business.

#### Main subsidiaries as at 30 June 2016

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

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 30 June 2016.

### 28. Related party transactions

#### Transactions with related parties

#### Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 32.

## Notes to the Condensed Consolidated Interim Financial Statements

### 28. Related party transactions (continued)

#### Transactions with the Icelandic government and government-related entities (continued)

In March 2016, the National Treasury took over the holding of ISB Holding ehf. in Islandsbanki hf. and as a result the Icelandic State Financial Investments (ISFI) now holds the entire share capital of Islandsbanki. The takeover qualifies a merger under Icelandic competition law between Landsbankinn and Islandsbanki as ISFI, on behalf of the Treasury, has obtained complete control of Islandsbanki. After the takeover, the Treasury holds all the shares in Islandsbanki and 98.2% of Landsbankinn. Following the takeover, ISFI and the Ministry of Finance and Economic Affairs, on behalf of the Treasury, Islandsbanki and Landsbankinn, on the one hand, and the Icelandic Competition Authority, on the other hand, reached a settlement providing for commitments relating to the merger, *inter alia*, that the two banks operate as independent competitors in the financial market and that ISFI ensures the competitive independence of banks under ownership of the Treasury.

The Bank has a traditional bank-to-bank relationship with Islandsbanki under generally accepted commercial terms. The nature and outstanding amounts from financial institutions, including Islandsbanki, are disclosed in Note 32.

#### Transactions with other related parties

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

	2016		2015	
	Balance as at 30 June	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
<b>Loans in ISK million</b>				
Key management personnel	133	142	139	211
Parties related to key management personnel	17	46	36	97
Associates	17,706	21,192	20,633	20,838
Other	125	127	126	130
<b>Total</b>	<b>17,981</b>	<b>21,507</b>	<b>20,934</b>	<b>21,276</b>

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

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

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

	2016		2015	
	Balance as at 30 June	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
<b>Deposits in ISK million</b>				
Key management personnel	38	81	68	207
Parties related to key management personnel	106	211	22	193
Associates	1,234	10,612	2,835	3,516
Other	2,773	7,471	344	2,114
<b>Total</b>	<b>4,151</b>	<b>18,375</b>	<b>3,269</b>	<b>6,030</b>

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

	Balance as at 30 June 2016	Balance as at 31 December 2015
<b>Guarantees in ISK million</b>		
Key management personnel	-	-
Parties related to key management personnel	-	4
Associates	-	-
<b>Total</b>	<b>0</b>	<b>4</b>

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

### 29. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Consolidated Financial Statements for the six months ended 30 June 2016.

## Notes to the Condensed Consolidated Interim Financial Statements

### Capital management

#### 30. Capital management

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

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

On 14 April 2015, the Icelandic Financial Stability Council defined the Bank as a systematically important institution in Iceland.

In July 2015, legislation amending the Icelandic Act on Financial Undertakings No. 161/2002 entered into force, implementing capital buffer requirements under CRD IV. Under the new legal framework, the FME can impose proportionate restrictions on a credit institution's dividend payments, variable remuneration to employees and/or other payments of similar nature, if its capital adequacy ratio falls below the total capital requirement plus capital buffers.

The Group's most recent capital requirements, as determined by the FME, are as follows (as a percentage of RWA)\*:

	SREP based on data from	
	31.12.2014	31.12.2013
Pillar I	8.0%	8.0%
Pillar II	6.3%	7.8%
<b>Total capital requirement</b>	<b>14.3%</b>	<b>15.8%</b>
Systemic risk buffer	3.0%	3.0%
Capital buffer for systematically important institutions	2.0%	2.0%
Countercyclical capital buffer	0.0%	0.0%
Capital conservation buffer	2.5%	2.5%
<b>Total capital buffers</b>	<b>7.5%</b>	<b>7.5%</b>
<b>Total capital requirement plus capital buffers</b>	<b>21.8%</b>	<b>23.3%</b>

\* Additionally, and as a part of the annual SREP process, the FME requested that the Bank would hold additional capital buffers of at least 7.5% above the total capital requirement, until the new CRD IV capital buffers would be formally implemented in accordance with Icelandic law.

On 22 January 2016, the Icelandic Financial Stability Council made recommendations to the FME, in accordance with the new legislation, to formally impose the new CRD IV capital buffers in the following steps:

	1.1.2016	1.4.2016	1.6.2016	1.1.2017	Q1 2017
Systemic risk buffer*	0.0%	3.0%	3.0%	3.0%	3.0%
Capital buffer for systematically important institutions	0.0%	2.0%	2.0%	2.0%	2.0%
Countercyclical capital buffer	0.0%	0.0%	0.0%	0.0%	1.0%
Capital conservation buffer	1.0%	1.0%	1.75%	2.5%	2.5%
<b>Total capital buffers</b>	<b>1.0%</b>	<b>6.0%</b>	<b>6.75%</b>	<b>7.5%</b>	<b>8.5%</b>

\* The systemic risk buffer only applies to domestic assets

The Bank's target for the Group's minimum total capital ratio is to be comfortably above the fully phased-in FME capital requirements plus capital buffers. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

## Notes to the Condensed Consolidated Interim Financial Statements

### 31. Capital base and capital adequacy ratio

The Group's equity as at 30 June 2016 amounted to ISK 247,291 million (31.12.2015: ISK 264,531 million), equivalent to 22.3% (31.12.2015: 23.6%) of total assets, according to the Condensed Consolidated Interim Statement of Financial Position. The capital adequacy ratio, calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings, was 28.9% at 30 June 2016 (31.12.2015: 30.4%). According to the Act, this ratio may not fall below 8%.

<b>Capital base</b>	<b>30.6.2016</b>	<b>31.12.2015</b>
Share capital	23,782	23,782
Share premium	122,105	122,105
Reserves	6,000	6,000
Retained earnings	95,363	112,614
Non-controlling interests	41	30
<b>Total equity</b>	<b>247,291</b>	<b>264,531</b>
Intangible assets	(2,128)	(2,012)
<b>Tier 1 capital</b>	<b>245,163</b>	<b>262,519</b>
Subordinated liabilities	412	639
Regulatory amortisation	(178)	(157)
<b>Tier 2 capital</b>	<b>234</b>	<b>482</b>
<b>Capital base</b>	<b>245,397</b>	<b>263,001</b>
<b>Risk-weighted assets</b>		
Credit risk	738,327	737,720
Market risk	15,961	31,919
Operational risk*	95,843	95,843
<b>Total risk-weighted assets</b>	<b>850,131</b>	<b>865,482</b>
Tier 1 capital ratio	28.8%	30.3%
Total capital ratio (capital adequacy ratio)	28.9%	30.4%

\*The amounts are updated on a yearly basis.

## Notes to the Condensed Consolidated Interim Financial Statements

### 32. Maximum exposure to credit risk and concentration by industry sectors

The following tables show the Group's maximum credit risk exposure at 30 June 2016 and 31 December 2015. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the Condensed Consolidated Interim Statement of Financial Position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

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

	Corporates												Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC**	Manufacturing	Agriculture	Other	
<b>As at 30 June 2016</b>													
Cash and balances with Central Bank	-	43,997	-	-	-	-	-	-	-	-	-	-	43,997
Bonds and debt instruments	1,558	146,589	-	-	8,060	131	-	-	-	-	-	1,560	157,898
Derivative instruments	620	14	4	24	35	2	-	5	-	-	-	123	827
Loans and advances to financial institutions	21,885	-	-	-	-	-	-	-	-	-	-	-	21,885
Loans and advances to customers	-	8,626	304,095	135,665	173,915	45,683	37,872	68,116	15,557	27,523	10,093	96	827,241
Other financial assets	6,225	330	350	1	1,842	35	5	638	2	623	2	37	10,090
<b>Total on-balance sheet exposure</b>	<b>30,288</b>	<b>199,556</b>	<b>304,449</b>	<b>135,690</b>	<b>183,852</b>	<b>45,851</b>	<b>37,877</b>	<b>68,759</b>	<b>15,559</b>	<b>28,146</b>	<b>10,095</b>	<b>1,816</b>	<b>1,061,938</b>
<b>Off-balance sheet exposure</b>	<b>3,656</b>	<b>16,622</b>	<b>25,888</b>	<b>18,075</b>	<b>49,651</b>	<b>1,799</b>	<b>17,451</b>	<b>17,064</b>	<b>5,403</b>	<b>9,572</b>	<b>1,449</b>	<b>104</b>	<b>166,734</b>
Financial guarantees and underwriting commitments	26	1,425	688	7,026	2,999	54	3,572	2,203	995	759	25	96	19,868
Undrawn loan commitments	-	9,000	14	6,300	42,766	1,324	8,830	7,132	2,749	6,667	809	-	85,591
Undrawn overdraft/credit card facilities	3,630	6,197	25,186	4,749	3,886	421	5,049	7,729	1,659	2,146	615	8	61,275
<b>Maximum exposure to credit risk</b>	<b>33,944</b>	<b>216,178</b>	<b>330,337</b>	<b>153,765</b>	<b>233,503</b>	<b>47,650</b>	<b>55,328</b>	<b>85,823</b>	<b>20,962</b>	<b>37,718</b>	<b>11,544</b>	<b>1,920</b>	<b>1,228,672</b>
Percentage of carrying amount	2.8%	17.6%	26.9%	12.5%	19.0%	3.9%	4.5%	7.0%	1.7%	3.1%	0.9%	0.2%	100%

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

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



## Notes to the Condensed Consolidated Interim Financial Statements

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

As at 31 December 2015	Corporates												Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC**	Manu-facturing	Agriculture	Other	
Cash and balances with Central Bank	-	25,164	-	-	-	-	-	-	-	-	-	-	25,164
Bonds and debt instruments	1,356	192,275	-	-	8,516	123	-	-	-	-	-	1,414	203,684
Derivative instruments	47	2	1	90	108	-	-	-	-	-	-	39	287
Loans and advances to financial institutions	20,791	-	-	-	-	-	-	-	-	-	-	-	20,791
Loans and advances to customers	-	8,738	290,961	159,514	155,334	47,612	36,021	60,469	15,502	27,205	10,118	75	811,549
Other financial assets	4,178	582	438	8	866	31	119	452	1	230	1	12	6,918
<b>Total on-balance sheet exposure</b>	<b>26,372</b>	<b>226,761</b>	<b>291,400</b>	<b>159,612</b>	<b>164,824</b>	<b>47,766</b>	<b>36,140</b>	<b>60,921</b>	<b>15,503</b>	<b>27,435</b>	<b>10,119</b>	<b>1,540</b>	<b>1,068,393</b>
<b>Off-balance sheet exposure</b>	<b>689</b>	<b>16,940</b>	<b>25,095</b>	<b>23,018</b>	<b>43,835</b>	<b>1,158</b>	<b>15,615</b>	<b>15,537</b>	<b>3,797</b>	<b>9,597</b>	<b>620</b>	<b>154</b>	<b>156,055</b>
Financial guarantees and underwriting commitments	26	1,422	777	7,210	2,022	60	2,278	1,993	1,070	653	27	99	17,637
Undrawn loan commitments	-	8,111	100	11,511	37,647	723	6,888	6,726	1,584	6,518	167	-	79,975
Undrawn overdraft/credit card facilities	663	7,407	24,218	4,297	4,166	375	6,449	6,818	1,143	2,426	426	55	58,443
<b>Maximum exposure to credit risk</b>	<b>27,061</b>	<b>243,701</b>	<b>316,495</b>	<b>182,630</b>	<b>208,659</b>	<b>48,924</b>	<b>51,755</b>	<b>76,458</b>	<b>19,300</b>	<b>37,032</b>	<b>10,739</b>	<b>1,694</b>	<b>1,224,448</b>
Percentage of carrying amount	2.2%	19.9%	25.8%	14.9%	17.0%	4.0%	4.2%	6.2%	1.6%	3.0%	0.9%	0.1%	100%

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

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 33. Collateral and loan-to-value by industry sectors

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

	LTV Ratio - Fully collateralised					LTV Ratio - Partially collateralised		Without collateral	Allowance for impairment	Maximum exposure to credit risk
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*			
<b>As at 30 June 2016</b>										
Financial institutions	-	-	-	-	-	-	-	25,541	-	25,541
Public entities	16	40	231	135	422	4,982	1,079	20,107	(263)	25,248
Individuals	19,650	40,097	61,474	107,536	228,757	47,751	35,072	62,420	(8,945)	329,983
<b>Corporates</b>	<b>12,001</b>	<b>41,145</b>	<b>69,784</b>	<b>110,422</b>	<b>233,352</b>	<b>363,220</b>	<b>208,471</b>	<b>55,811</b>	<b>(17,295)</b>	<b>635,088</b>
Fisheries	4,385	29,529	27,330	57,470	118,714	35,152	25,265	1,348	(1,474)	153,740
Construction and real estate companies	1,633	5,189	14,933	28,878	50,633	166,117	92,410	11,880	(5,064)	223,566
Holding companies	660	443	6,946	3,255	11,304	34,414	23,331	2,621	(857)	47,482
Retail	384	1,341	2,561	4,894	9,180	37,553	21,692	9,799	(1,209)	55,323
Services	3,695	3,131	10,386	9,070	26,282	51,626	27,216	13,722	(6,450)	85,180
Information, technology and communication	51	85	87	210	433	13,569	3,436	7,214	(256)	20,960
Manufacturing	470	774	6,482	5,088	12,814	17,388	10,203	8,770	(1,877)	37,095
Agriculture	723	653	1,059	1,478	3,913	7,312	4,894	425	(108)	11,542
Other	-	-	-	79	79	89	24	32	-	200
<b>Total</b>	<b>31,667</b>	<b>81,282</b>	<b>131,489</b>	<b>218,093</b>	<b>462,531</b>	<b>415,953</b>	<b>244,622</b>	<b>163,879</b>	<b>(26,503)</b>	<b>1,015,860</b>
<b>As at 31 December 2015</b>										
Financial institutions	-	-	-	-	-	-	-	21,481	-	21,481
Public entities	17	67	216	923	1,223	3,878	345	20,808	(230)	25,679
Individuals	12,846	29,481	47,567	79,042	168,936	75,991	56,067	83,519	(12,389)	316,057
<b>Corporates</b>	<b>6,862</b>	<b>20,234</b>	<b>69,093</b>	<b>137,952</b>	<b>234,141</b>	<b>328,608</b>	<b>191,538</b>	<b>83,467</b>	<b>(21,038)</b>	<b>625,178</b>
Fisheries	2,241	10,493	46,380	62,142	121,256	54,853	42,378	9,069	(2,644)	182,534
Construction and real estate companies	1,033	5,042	8,804	32,590	47,469	136,514	72,158	21,942	(6,756)	199,169
Holding companies	950	399	3,815	11,805	16,969	30,179	17,956	2,659	(1,037)	48,770
Retail	317	821	3,972	6,464	11,574	34,667	18,461	7,442	(2,049)	51,634
Services	1,171	2,187	3,615	10,468	17,441	41,311	21,835	23,019	(5,764)	76,007
Information, technology and communication	113	94	106	42	355	11,603	6,551	7,625	(285)	19,298
Manufacturing	564	673	1,310	12,326	14,873	13,463	8,216	10,644	(2,180)	36,800
Agriculture	473	525	1,091	2,115	4,204	5,946	3,912	910	(322)	10,738
Other	-	-	-	-	-	72	71	157	(1)	228
<b>Total</b>	<b>19,725</b>	<b>49,782</b>	<b>116,876</b>	<b>217,917</b>	<b>404,300</b>	<b>408,477</b>	<b>247,950</b>	<b>209,275</b>	<b>(33,657)</b>	<b>988,395</b>

\* If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

## Notes to the Condensed Consolidated Interim Financial Statements

### 34. Collateral types

The following tables show the different types of collateral held by the Group against credit exposures. Residential property is the principal collateral held against loans to individuals. Construction projects and commercial property are the main real estate collateral held against loans to corporates.

The tables show collateral value amounts assigned to claim value amounts, therefore the value of each individual collateral item held cannot exceed the maximum credit exposure of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the credit exposure.

As at 30 June 2016	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,736	-	40	-	107	1,883
Individuals	258,077	242	485	3,162	12,321	274,287
<b>Corporates</b>	<b>267,707</b>	<b>104,991</b>	<b>4,215</b>	<b>55,176</b>	<b>100,348</b>	<b>532,437</b>
Fisheries	12,383	102,039	555	10,044	25,528	150,549
Construction and real estate companies	174,501	116	782	1,067	5,730	182,196
Holding companies	3,489	-	784	36,246	124	40,643
Retail	16,933	12	666	2,204	25,010	44,825
Services	41,482	2,808	764	505	18,707	64,266
Information, technology and communication	705	-	252	2,719	6,680	10,356
Manufacturing	9,907	11	396	2,391	16,406	29,111
Agriculture	8,213	5	6	-	2,163	10,387
Other	94	-	10	-	-	104
<b>Total</b>	<b>527,520</b>	<b>105,233</b>	<b>4,740</b>	<b>58,338</b>	<b>112,776</b>	<b>808,607</b>

As at 31 December 2015**	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	1,523	-	53	-	99	1,675
Individuals	230,530	261	206	3,113	7,594	241,704
<b>Corporates</b>	<b>223,265</b>	<b>113,111</b>	<b>1,291</b>	<b>66,522</b>	<b>97,316</b>	<b>501,505</b>
Fisheries	15,038	112,314	90	14,778	29,222	171,442
Construction and real estate companies	139,612	78	356	761	3,865	144,672
Holding companies	4,994	12	27	39,962	1,726	46,721
Retail	14,436	11	156	1,696	25,675	41,974
Services	33,445	679	225	489	14,565	49,403
Information, technology and communication	551	3	81	2,635	7,440	10,710
Manufacturing	8,509	11	350	6,201	12,374	27,445
Agriculture	6,608	3	6	-	2,449	9,066
Other	72	-	-	-	-	72
<b>Total</b>	<b>455,318</b>	<b>113,372</b>	<b>1,550</b>	<b>69,635</b>	<b>105,009</b>	<b>744,884</b>

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

\*\*The comparative amounts have been restated due to changes in the basis of the collateral value amounts previously disclosed. Following these changes the maximum collateral value amount assigned to an individual credit exposure reflects the value of each claim. Previously the collateral value amounts reflected the value of the individual collateral held regardless of the claim amount. Amounts in this table are of an informative nature only and do not have any effect on the amounts reported by the Group in the Income Statement or Statement of Financial Position.

### 35. Loans and advances credit monitoring

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

As at 30 June 2016	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	21,885	-	-	-	21,885
Public entities	7,858	502	8	258	8,626
Individuals	265,454	12,195	19,056	7,390	304,095
<b>Corporates</b>	<b>453,838</b>	<b>29,203</b>	<b>15,774</b>	<b>15,705</b>	<b>514,520</b>
Fisheries	130,580	271	2,585	2,229	135,665
Construction and real estate companies	146,108	17,158	4,726	5,923	173,915
Holding companies	44,025	963	486	209	45,683
Retail	32,725	2,564	2,020	563	37,872
Services	58,015	3,791	4,089	2,221	68,116
Information, technology and communication	15,175	18	177	187	15,557
Manufacturing	20,423	1,741	1,168	4,191	27,523
Agriculture	6,691	2,697	523	182	10,093
Other	96	-	-	-	96
<b>Total</b>	<b>749,035</b>	<b>41,900</b>	<b>34,838</b>	<b>23,353</b>	<b>849,126</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 35. Loans and advances credit monitoring (continued)

<b>As at 31 December 2015</b>	<b>Green</b>	<b>Yellow</b>	<b>Orange</b>	<b>Red</b>	<b>Carrying amount</b>
Financial institutions	20,791	-	-	-	20,791
Public entities	7,823	676	-	239	8,738
Individuals	247,263	12,621	21,804	9,273	290,961
<b>Corporates</b>	<b>432,941</b>	<b>42,802</b>	<b>19,680</b>	<b>16,427</b>	<b>511,850</b>
Fisheries	151,629	1,417	3,728	2,740	159,514
Construction and real estate companies	118,606	23,222	7,066	6,440	155,334
Holding companies	43,871	2,749	785	207	47,612
Retail	30,364	3,271	1,577	809	36,021
Services	47,340	7,205	4,809	1,115	60,469
Information, technology and communication	14,573	497	288	144	15,502
Manufacturing	18,038	3,566	1,198	4,403	27,205
Agriculture	8,445	875	229	569	10,118
Other	75	-	-	-	75
<b>Total</b>	<b>708,818</b>	<b>56,099</b>	<b>41,484</b>	<b>25,939</b>	<b>832,340</b>

### 36. Credit quality of financial assets

	Gross carrying amount				Allowance for impairment	Carrying amount
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total		
<b>As at 30 June 2016</b>						
Cash and balances with Central Bank	43,997	-	-	43,997	-	43,997
Bonds and debt instruments	157,656	242	-	157,898	-	157,898
Derivative instruments	827	-	-	827	-	827
Loans and advances to financial institutions	21,885	-	-	21,885	-	21,885
Loans and advances to customers	776,726	31,228	45,790	853,744	(26,503)	827,241
Other financial assets	10,090	-	-	10,090	-	10,090
<b>Total</b>	<b>1,011,181</b>	<b>31,470</b>	<b>45,790</b>	<b>1,088,441</b>	<b>(26,503)</b>	<b>1,061,938</b>
<b>As at 31 December 2015</b>						
Cash and balances with Central Bank	25,164	-	-	25,164	-	25,164
Bonds and debt instruments	203,299	385	-	203,684	-	203,684
Derivative instruments	287	-	-	287	-	287
Loans and advances to financial institutions	20,791	-	-	20,791	-	20,791
Loans and advances to customers	767,837	20,569	56,800	845,206	(33,657)	811,549
Other financial assets	6,918	-	-	6,918	-	6,918
<b>Total</b>	<b>1,024,296</b>	<b>20,954</b>	<b>56,800</b>	<b>1,102,050</b>	<b>(33,657)</b>	<b>1,068,393</b>

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 37. Loans and advances neither past due nor individually impaired

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

	Rating grades					Gross carrying amount
	10-7	6-4	3-1	0	Unrated	
<b>As at 30 June 2016</b>						
Financial institutions	20,819	1,066	-	-	-	21,885
Public entities	6,539	717	1,151	8	9	8,424
Individuals	102,918	142,940	36,239	194	699	282,990
<b>Corporates</b>	<b>29,251</b>	<b>410,028</b>	<b>41,060</b>	<b>2,384</b>	<b>2,589</b>	<b>485,312</b>
Fisheries	11,659	114,185	3,877	1,654	84	131,459
Construction and real estate companies	3,365	144,877	15,279	229	1,183	164,933
Holding companies	5	38,450	6,282	-	621	45,358
Retail	2,413	29,070	3,959	311	-	35,753
Services	6,556	46,354	7,547	188	572	61,217
Information, technology and communication	184	14,842	415	2	-	15,443
Manufacturing	4,179	15,140	2,247	-	35	21,601
Agriculture	890	7,108	1,454	-	-	9,452
Other	-	2	-	-	94	96
<b>Total</b>	<b>159,527</b>	<b>554,751</b>	<b>78,450</b>	<b>2,586</b>	<b>3,297</b>	<b>798,611</b>

	Rating grades					Gross carrying amount
	10-7	6-4	3-1	0	Unrated	
<b>As at 31 December 2015</b>						
Financial institutions	19,152	1,639	-	-	-	20,791
Public entities	7,608	643	183	-	15	8,449
Individuals	97,898	130,886	37,303	516	3,999	270,602
<b>Corporates</b>	<b>60,608</b>	<b>308,401</b>	<b>117,125</b>	<b>2,638</b>	<b>14</b>	<b>488,786</b>
Fisheries	17,558	108,078	29,642	1,810	-	157,088
Construction and real estate companies	5,696	81,660	60,340	552	2	148,250
Holding companies	-	38,692	8,657	-	-	47,349
Retail	11,036	16,205	7,226	26	-	34,493
Services	15,973	31,437	7,609	250	2	55,271
Information, technology and communication	4,669	10,173	595	-	-	15,437
Manufacturing	4,820	14,938	2,034	-	-	21,792
Agriculture	856	7,214	950	-	10	9,030
Other	-	4	72	-	-	76
<b>Total</b>	<b>185,266</b>	<b>441,569</b>	<b>154,611</b>	<b>3,154</b>	<b>4,028</b>	<b>788,628</b>

### 38. Loans and advances past due but not individually impaired

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

	Past due 1-5 days	Past due 6-30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due over 90 days	Gross carrying amount
<b>As at 30 June 2016</b>						
Public entities	-	4	-	-	-	4
Individuals	145	10,861	1,423	1,662	1,433	15,524
Corporates	4,572	6,459	2,450	596	1,623	15,700
<b>Total</b>	<b>4,717</b>	<b>17,324</b>	<b>3,873</b>	<b>2,258</b>	<b>3,056</b>	<b>31,228</b>
<b>As at 31 December 2015</b>						
Public entities	-	4	-	55	-	59
Individuals	114	6,346	4,132	1,197	1,244	13,033
Corporates	53	3,741	1,490	799	1,394	7,477
<b>Total</b>	<b>167</b>	<b>10,091</b>	<b>5,622</b>	<b>2,051</b>	<b>2,638</b>	<b>20,569</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 39. Loans and advances by industry sectors

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

	Gross carrying amount	Gross not individually impaired	Collective allowance	Individually impaired				Carrying amount
				Of which performing		Of which non-performing*		
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
As at 30 June 2016								
Financial institutions	21,885	21,885	-	-	-	-	-	21,885
Public entities	8,889	8,428	(61)	-	-	460	(201)	8,626
Individuals	313,041	298,513	(1,760)	3,251	(1,219)	11,277	(5,967)	304,095
Corporates	531,814	501,013	(3,143)	19,019	(7,831)	11,783	(6,321)	514,520
Fisheries	137,140	133,716	(151)	48	(17)	3,375	(1,306)	135,665
Construction and real estate companies	178,980	170,170	(1,334)	6,172	(2,096)	2,637	(1,634)	173,915
Holding companies	46,540	45,799	(376)	154	(58)	587	(423)	45,683
Retail	39,080	37,291	(298)	797	(320)	994	(592)	37,872
Services	74,565	65,959	(626)	5,746	(4,134)	2,861	(1,690)	68,116
Information, technology and communication	15,813	15,525	(136)	68	(12)	220	(108)	15,557
Manufacturing	29,399	22,470	(175)	6,014	(1,179)	915	(522)	27,523
Agriculture	10,200	9,987	(47)	20	(15)	194	(46)	10,093
Other	97	96	-	-	-	-	-	96
Total	875,629	829,839	(4,964)	22,270	(9,050)	23,520	(12,489)	849,126

	Gross carrying amount	Gross not individually impaired	Collective allowance	Individually impaired				Carrying amount
				Of which performing		Of which non-performing*		
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
As at 31 December 2015								
Financial institutions	20,791	20,791	-	-	-	-	-	20,791
Public entities	8,969	8,507	(8)	429	(204)	32	(18)	8,738
Individuals	303,349	283,634	(1,967)	4,937	(2,273)	14,777	(8,147)	290,961
Corporates	532,888	496,265	(3,482)	23,167	(9,813)	13,458	(7,745)	511,850
Fisheries	162,160	157,546	(224)	1,762	(901)	2,853	(1,519)	159,517
Construction and real estate companies	162,090	150,708	(1,431)	6,468	(2,618)	4,914	(2,708)	155,333
Holding companies	48,649	47,671	(343)	266	(155)	713	(540)	47,612
Retail	38,069	35,198	(325)	1,489	(923)	1,382	(800)	36,021
Services	66,233	57,857	(719)	6,133	(3,712)	2,243	(1,333)	60,469
Information, technology and communication	15,787	15,526	(137)	12	(3)	249	(145)	15,502
Manufacturing	29,384	22,052	(231)	6,466	(1,335)	867	(615)	27,204
Agriculture	10,440	9,631	(71)	571	(166)	237	(85)	10,117
Other	76	76	(1)	-	-	-	-	75
Total	865,997	809,197	(5,457)	28,533	(12,290)	28,267	(15,910)	832,340

\*Non-performing past due more than 90 days

## Notes to the Condensed Consolidated Interim Financial Statements

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

	1.1.-30.6.2016			1.1.-30.6.2015		
	Individual allowance	Collective allowance	Total	Individual allowance	Collective allowance	Total
Balance at the beginning of the year	(28,200)	(5,457)	(33,657)	(33,731)	(7,716)	(41,447)
New provisions	(3,480)	-	(3,480)	(5,502)	-	(5,502)
New provisions due to merger	-	-	-	(2,165)	(331)	(2,496)
Reversals	5,083	493	5,576	7,168	981	8,149
Provisions used to cover write-offs	5,058	-	5,058	3,449	-	3,449
Translation difference	-	-	-	(221)	330	109
<b>Balance at the end of the period</b>	<b>(21,539)</b>	<b>(4,964)</b>	<b>(26,503)</b>	<b>(31,002)</b>	<b>(6,736)</b>	<b>(37,738)</b>

	1.1.-30.6.2016			1.1.-30.6.2015		
	Customers	Financials	Total	Customers	Financials	Total
New provisions	(3,480)	-	(3,480)	(5,502)	-	(5,502)
Write-offs	(5,791)	-	(5,791)	(3,730)	-	(3,730)
Provisions used to cover write-offs	5,058	-	5,058	3,449	-	3,449
Reversals	5,576	-	5,576	8,149	-	8,149
Recoveries	912	-	912	1,251	-	1,251
Translation difference	-	-	0	109	-	109
<b>Net impairment gain for the period</b>	<b>2,275</b>	<b>0</b>	<b>2,275</b>	<b>3,726</b>	<b>0</b>	<b>3,726</b>

### 41. Large exposures

As at 30 June 2016, two customer groups were rated as large exposures in accordance with FME's Rules on Large Exposures Incurred by Financial Undertakings, No. 625/2013. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. No exposure may attain the equivalent of 25% of the capital base. The following table shows the Group's large exposures after credit mitigation:

	Number of large exposures	Large exposures
<b>As at 30 June 2016</b>		
Large exposures between 10% and 20% of the Group's capital base	1	27,665
Large exposures between 0% and 10% of the Group's capital base	1	-
<b>Total</b>	<b>2</b>	<b>27,665</b>
Total large exposures to capital base		11%
<b>As at 31 December 2015</b>		
Large exposures between 10% and 20% of the Group's capital base	2	66,094
Large exposures between 0% and 10% of the Group's capital base	1	212
<b>Total</b>	<b>3</b>	<b>66,306</b>
Total large exposures to capital base		25%

## Notes to the Condensed Consolidated Interim Financial Statements

### 42. Offsetting financial assets and financial liabilities

The following table shows reconciliation to the net amounts of financial assets and financial liabilities. Those financial assets and financial liabilities are subject to offsetting, enforceable master netting agreements and similar agreements.

#### As at 30 June 2016

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreements

Types of financial assets	Financial assets subject to netting agreements			Netting not recognised on balance sheet		Net financial assets with netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received			
Derivatives	818	-	818	(521)	(308)	(12)	9	827

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

Types of financial liabilities	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet		Net financial liabilities with netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged			
Derivatives	(1,162)	-	(1,162)	521	274	(366)	(162)	(1,324)
Short positions	(4,400)	-	(4,400)	-	4,400	-	-	(4,400)
<b>Total</b>	<b>(5,562)</b>	<b>0</b>	<b>(5,562)</b>	<b>521</b>	<b>4,674</b>	<b>(366)</b>	<b>(162)</b>	<b>(5,724)</b>

#### As at 31 December 2015

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreements

Types of financial assets	Financial assets subject to netting agreements			Netting not recognised on balance sheet		Net financial assets with netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
	Financial assets	Financial liabilities	Net Amount	Financial liabilities	Collateral received			
Derivatives	285	-	285	(43)	(230)	12	2	287

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

Types of financial liabilities	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet		Net financial liabilities with netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
	Financial liabilities	Financial assets	Net Amount	Financial assets	Collateral pledged			
Derivatives	(564)	-	(564)	43	(127)	(648)	(139)	(702)
Short positions	(2,698)	-	(2,698)	-	2,698	-	-	(2,698)
<b>Total</b>	<b>(3,262)</b>	<b>0</b>	<b>(3,262)</b>	<b>43</b>	<b>2,571</b>	<b>(648)</b>	<b>(139)</b>	<b>(3,400)</b>

### Liquidity risk

#### 43. Liquidity risk management

The Group complies with the liquidity and funding rules set by the Central Bank of Iceland No. 1031/2014 and No. 1032/2014 as well as following guidelines No. 2/2010 from the Icelandic Financial Supervisory Authority in Iceland (FME) on best practice for managing liquidity in banking organisation. Rules No. 1031/2014 require the Group to maintain a LCR minimum of 90% total and 100% for foreign currencies in the year 2016 and rules No. 1032/2014 set requirements for a minimum of 90% NSFR in foreign currencies in the year 2016. The minimum requirement for both ratios, LCR total and NSFR in foreign currencies, will increase by 10 percentage points every year until it reaches 100% in the year 2017. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland and the FME.



## Notes to the Condensed Consolidated Interim Financial Statements

### 43. Liquidity risk management (continued)

The calculations for the liquidity coverage ratio are shown in the following tables:

Liquidity coverage ratio as at 30 June 2016	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	167,208	167,208	32,784	32,784
Level 2 liquid assets and information items	22,857	3,093	6,245	3,093
<b>Total liquid assets</b>	<b>190,065</b>	<b>170,301</b>	<b>39,029</b>	<b>35,877</b>
Deposits	388,623	128,338	42,194	16,904
Borrowing	3,811	3,811	957	957
Other outflows	176,339	34,392	30,083	3,112
<b>Total outflows (0-30 days)</b>	<b>568,773</b>	<b>166,541</b>	<b>73,234</b>	<b>20,973</b>
Loans and advances to financial institutions	19,962	18,284	19,962	18,284
Other inflows	30,998	9,747	8,813	4,385
Limit on inflows	-	-	-	(6,939)
<b>Total inflows (0-30 days)</b>	<b>50,960</b>	<b>28,031</b>	<b>28,775</b>	<b>15,730</b>
<b>Liquidity Coverage Ratio</b>		<b>123%</b>		<b>684%</b>

Liquidity coverage ratio as at 31 December 2015	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	192,467	192,467	42,722	42,722
Level 2 liquid assets and information items	16,631	-	42	-
<b>Total liquid assets</b>	<b>209,098</b>	<b>192,467</b>	<b>42,764</b>	<b>42,722</b>
Deposits	408,785	148,337	61,340	27,645
Borrowing	1,014	1,014	1,014	1,014
Other outflows	185,594	54,110	30,721	3,557
<b>Total outflows (0-30 days)</b>	<b>595,393</b>	<b>203,461</b>	<b>93,075</b>	<b>32,216</b>
Loans and advances to financial institutions	17,581	16,376	17,581	16,376
Other inflows	48,369	17,440	8,155	3,963
Limit on inflows	-	-	-	-
<b>Total inflows (0-30 days)</b>	<b>65,950</b>	<b>33,816</b>	<b>25,736</b>	<b>20,339</b>
<b>Liquidity Coverage Ratio</b>		<b>113%</b>		<b>360%</b>

The Group has categorised its deposit base into nine different groups representing different levels of stickiness. Stickiness is a method that is used to estimate the stability of the Group's deposit base. The Bank for International Settlements (BIS) defines stickiness as tendency of funding not to run off quickly under stress. The deposit groups are based on methodology in the liquidity rules set by the Central Bank of Iceland and are reflected in the Group's internal liquidity stress tests where a concentration charge is applied to account for possible outflows. Run off rates and amounts for these deposit groups are shown in the following table:

Total deposits* by groups as at 30 June 2016	0-30 days deposits balance by groups				Term deposits
	Less stable deposits	Applied run-off rate	Stable deposits	Applied run-off rate	
<b>Groups</b>					
1. Individuals	106,404	10%	55,108	5%	91,619
2. Small and medium size corporates	42,018	10%	16,518	5%	5,005
3. Operational deposits	-	25%	-	5%	-
4. Large corporates	61,091	40%	-	20%	26,911
5. Government, municipalities and Central Bank	30,198	40%	306	20%	577
6. Financial institutions in resolution process	7,496	100%	-	-	30,259
7. Financial institutions	59,488	100%	-	-	32,839
8. Other foreign counterparties	8,865	100%	5,465	25%	4,042
9. Pledged accounts	-	-	7,275	-	-
<b>Total deposits</b>	<b>315,560</b>		<b>84,672</b>		<b>191,252</b>

\*Deposits and other liabilities due to financial institutions and Central Bank

Total deposits* by groups as at 31 December 2015	0-30 days deposits balance by groups				Term deposits
	Less stable deposits	Applied run-off rate	Stable deposits	Applied run-off rate	
<b>Groups</b>					
1. Individuals	89,491	10%	70,745	5%	86,602
2. Small and medium size corporates	46,315	10%	10,187	5%	4,609
3. Operational deposits	7,069	25%	169	5%	229
4. Large corporates	61,185	40%	367	20%	25,645
5. Government, municipalities and Central Bank	29,124	40%	-	20%	642
6. Financial institutions in resolution process	19,273	100%	-	-	48,321
7. Financial institutions	63,417	100%	-	-	38,566
8. Other foreign counterparties	9,581	100%	1,862	25%	2,383
<b>Total deposits</b>	<b>325,455</b>		<b>83,330</b>		<b>206,997</b>

\*Deposits and other liabilities due to financial institutions and Central Bank

## Notes to the Condensed Consolidated Interim Financial Statements

### 43. Liquidity risk management (continued)

The Group measures the net stable funding ratio (NSFR) as another key indicator for longer-term liquidity risk. The following table shows the values of the NSFR for foreign currencies as at 30 June 2016 and 31 December 2015:

	As at 30 June 2016	As at 31 December 2015
Net stable funding ratio FX	145%	136%

### 44. Encumbered assets

The following tables show the Group's total encumbered and unencumbered assets as at 30 June 2016 and 31 December 2015.

As at 30 June 2016	Collateral pledged against			Un- encumbered	Total
	Covered bonds	Issued bonds to LBI hf.	Other*		
Cash and balances with Central Bank	60	-	-	43,937	43,997
Bonds and debt instruments	-	-	26,526	131,372	157,898
Equities and equity instruments	-	-	-	29,042	29,042
Derivative instruments	-	-	-	827	827
Loans and advances to financial institutions	-	-	1,678	20,207	21,885
Loans and advances to customers	37,232	140,970	-	649,039	827,241
Investments in equity-accounted associates	-	-	-	1,038	1,038
Property and equipment	-	-	-	5,566	5,566
Intangible assets	-	-	-	2,128	2,128
Other assets	-	-	-	11,964	11,964
Assets classified as held for sale	-	-	-	8,258	8,258
<b>Total</b>	<b>37,292</b>	<b>140,970</b>	<b>28,204</b>	<b>903,378</b>	<b>1,109,844</b>

As at 31 December 2015	Collateral pledged against			Un- encumbered	Total
	Covered bonds	Issued bonds to LBI hf.	Other*		
Cash and balances with Central Bank	308	-	-	24,856	25,164
Bonds and debt instruments	-	-	23,617	180,067	203,684
Equities and equity instruments	-	-	-	29,192	29,192
Derivative instruments	-	-	-	287	287
Loans and advances to financial institutions	-	-	1,220	19,571	20,791
Loans and advances to customers	28,027	150,812	-	632,710	811,549
Investments in equity-accounted associates	-	-	-	909	909
Property and equipment	-	-	-	5,658	5,658
Intangible assets	-	-	-	2,012	2,012
Other assets	-	-	-	7,457	7,457
Assets classified as held for sale	-	-	-	11,955	11,955
<b>Total</b>	<b>28,335</b>	<b>150,812</b>	<b>24,837</b>	<b>914,674</b>	<b>1,118,658</b>

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

## Market risk

### 45. Market risk management

The following table summarises the Group's exposure to market risk as at 30 June 2016 and December 2015.

Market risk factor	30.6.2016	31.12.2015
	% of RWA	% of RWA
Equity price risk	0.8%	0.7%
Interest rate risk	0.3%	0.2%
Foreign exchange risk	0.8%	2.8%
<b>Total</b>	<b>1.9%</b>	<b>3.7%</b>

The currency risk in the Groups trading portfolios is disclosed together with that in its non-trading portfolios in Notes 49-50, together with the related sensitivity analysis.

## Notes to the Condensed Consolidated Interim Financial Statements

### 46. Equity price risk

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

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and hedging positions, in listed ISK equities. The Group's non-trading portfolio contains listed and unlisted equities as part of asset and liability management. Further details can be seen in Note 16 and Note 50.

### 47. Interest rate risk

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 17. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 30 June 2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
<b>Financial assets</b>					
Cash and balances with Central Bank	43,997	-	-	-	43,997
Bonds and debt instruments	138,281	1,283	9,192	9,142	157,898
Derivative instruments	827	-	-	-	827
Loans and advances to financial institutions	20,092	-	1,793	-	21,885
Loans and advances to customers	591,420	110,599	87,844	37,378	827,241
Other financial assets	10,090	-	-	-	10,090
<b>Total</b>	<b>804,707</b>	<b>111,882</b>	<b>98,829</b>	<b>46,520</b>	<b>1,061,938</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(34,635)	-	(8)	-	(34,643)
Deposits from customers	(537,745)	(17,059)	(1,936)	(101)	(556,841)
Derivative instruments and short positions	(1,358)	(250)	(896)	(3,220)	(5,724)
Borrowings	(139,423)	(9,986)	(43,540)	(27,888)	(220,837)
Subordinated liabilities	(266)	-	(146)	-	(412)
Other financial liabilities	(7,901)	-	-	-	(7,901)
<b>Total</b>	<b>(721,328)</b>	<b>(27,295)</b>	<b>(46,526)</b>	<b>(31,209)</b>	<b>(826,358)</b>
Net on-balance sheet position	83,379	84,587	52,303	15,311	235,580
Net off-balance sheet position	171	-	(171)	0	
<b>Total interest repricing gap</b>	<b>83,550</b>	<b>84,587</b>	<b>52,132</b>	<b>15,311</b>	
As at 31 December 2015	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
<b>Financial assets</b>					
Cash and balances with Central Bank	25,164	-	-	-	25,164
Bonds and debt instruments	184,340	510	9,562	9,272	203,684
Derivative instruments	287	-	-	-	287
Loans and advances to financial institutions	20,791	-	-	-	20,791
Loans and advances to customers	565,715	113,628	90,328	41,878	811,549
Other financial assets	6,360	-	558	-	6,918
<b>Total</b>	<b>802,657</b>	<b>114,138</b>	<b>100,448</b>	<b>51,150</b>	<b>1,068,393</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(46,345)	(10,378)	(8)	-	(56,731)
Deposits from customers	(549,398)	(7,607)	(2,046)	-	(559,051)
Derivative instruments and short positions	(703)	(67)	(492)	(2,138)	(3,400)
Borrowings	(137,414)	(10,591)	(51,597)	(9,742)	(209,344)
Subordinated liabilities	(493)	-	(146)	-	(639)
Other financial liabilities	(5,367)	-	-	-	(5,367)
<b>Total</b>	<b>(739,720)</b>	<b>(28,643)</b>	<b>(54,289)</b>	<b>(11,880)</b>	<b>(834,532)</b>
Net on-balance sheet position	62,937	85,495	46,159	39,270	233,861
Net off-balance sheet position	359	(176)	(183)	0	
<b>Total interest repricing gap</b>	<b>63,296</b>	<b>85,319</b>	<b>45,976</b>	<b>39,270</b>	

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### 48. CPI indexation risk (all portfolios)

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

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk. The following table summarizes the Group's CPI imbalance, calculated as the difference between CPI-linked financial assets and liabilities, as at 30 June 2016 and 31 December 2015.

Carrying amount	30.6.2016	31.12.2015
<b>Assets</b>		
Bonds and debt instruments	10,348	10,125
Loans and advances to customers	288,640	273,648
<b>Total</b>	<b>298,988</b>	<b>283,773</b>
<b>Liabilities</b>		
Due to financial institutions and Central Bank	0	(1)
Deposits from customers	(100,681)	(103,797)
Short positions	(574)	(1,135)
Borrowings	(15,702)	(9,742)
Subordinated liabilities	(273)	(267)
<b>Total</b>	<b>(117,230)</b>	<b>(114,942)</b>
Total on-balance sheet position	181,759	168,832
Total off-balance sheet position	18	174
<b>Total CPI indexation balance</b>	<b>181,777</b>	<b>169,006</b>

### 49. Currency risk (all portfolios)

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

The Group's combined net foreign exchange balance as at 30 June 2016 was +2.6% of the Group's capital base (31.12.2015: +9.06%).

### 50. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 June 2016 and 31 December 2015. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments.

Amounts presented under assets and liabilities include all spot deals as at 30 June 2016 and 31 December 2015. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

As at 30 June 2016	EUR	GBP	USD	JPY	CHF	Other	Total
<b>Assets</b>							
Cash and balances with Central Bank	508	110	238	18	50	244	1,168
Bonds and debt instruments	2,844	7,146	30,099	-	-	-	40,089
Equities and equity instruments	-	-	1	-	-	67	68
Derivative instruments	441	118	99	-	-	-	658
Loans and advances to financial institutions	9,889	1,775	4,052	208	50	4,008	19,982
Loans and advances to customers	101,398	7,332	59,332	5,210	5,736	7,722	186,730
Other assets	1,006	-	196	-	-	371	1,573
<b>Total</b>	<b>116,086</b>	<b>16,481</b>	<b>94,017</b>	<b>5,436</b>	<b>5,836</b>	<b>12,412</b>	<b>250,268</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(461)	(17)	(45)	-	-	(18)	(541)
Deposits from customers	(30,640)	(12,248)	(18,577)	(393)	(1,608)	(3,994)	(67,460)
Derivative instruments and short positions	(292)	(367)	(378)	-	-	(74)	(1,111)
Borrowings	(95,840)	-	(67,497)	-	-	(14,289)	(177,626)
Subordinated liabilities	-	-	-	(59)	(42)	-	(101)
Other liabilities	(1,758)	(166)	(822)	(22)	(5)	(637)	(3,410)
<b>Total</b>	<b>(128,991)</b>	<b>(12,798)</b>	<b>(87,319)</b>	<b>(474)</b>	<b>(1,655)</b>	<b>(19,012)</b>	<b>(250,249)</b>
Net on-balance sheet position	(12,905)	3,683	6,698	4,962	4,181	(6,600)	19
Net off-balance sheet position	16,251	(3,329)	(6,167)	(4,924)	(4,001)	8,609	6,439
<b>Net currency position</b>	<b>3,346</b>	<b>354</b>	<b>531</b>	<b>38</b>	<b>180</b>	<b>2,009</b>	<b>6,458</b>

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### 50. Concentration of currency risk (continued)

As at 31 December 2015	EUR	GBP	USD	JPY	CHF	Other	Total
<b>Assets</b>							
Cash and balances with Central Bank	462	234	246	21	39	276	1,278
Bonds and debt instruments	7,124	12,508	37,428	-	-	-	57,060
Equities and equity instruments	-	-	2	-	-	29	31
Derivative instruments	77	6	164	-	-	-	247
Loans and advances to financial institutions	11,696	1,038	2,156	485	31	2,191	17,597
Loans and advances to customers	109,633	11,379	70,384	5,371	6,389	8,229	211,385
Other assets	2,659	-	99	-	-	26	2,784
<b>Total</b>	<b>131,651</b>	<b>25,165</b>	<b>110,479</b>	<b>5,877</b>	<b>6,459</b>	<b>10,751</b>	<b>290,382</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(115)	(43)	(10,891)	-	-	(46)	(11,095)
Deposits from customers	(40,482)	(13,449)	(18,062)	(81)	(1,927)	(3,490)	(77,491)
Derivative instruments and short positions	(112)	(103)	(208)	-	-	(32)	(455)
Borrowings	(101,214)	-	(70,739)	-	-	(9,396)	(181,349)
Subordinated liabilities	(27)	-	-	(162)	(132)	-	(321)
Other liabilities	(1,056)	(63)	(390)	-	(2)	(341)	(1,852)
<b>Total</b>	<b>(143,006)</b>	<b>(13,658)</b>	<b>(100,290)</b>	<b>(243)</b>	<b>(2,061)</b>	<b>(13,305)</b>	<b>(272,563)</b>
Net on-balance sheet position	(11,355)	11,507	10,189	5,634	4,398	(2,554)	<b>17,819</b>
Net off-balance sheet position	23,224	(9,622)	(5,562)	(5,231)	(3,740)	6,907	<b>5,976</b>
<b>Net currency position</b>	<b>11,869</b>	<b>1,885</b>	<b>4,627</b>	<b>403</b>	<b>658</b>	<b>4,353</b>	<b>23,795</b>

### 51. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 30 June 2016	At 31 December 2015	% Change	Average for 1.1-30.6 2016	Average for 1.1-30.6 2015
EUR/ISK	136.80	141.30	(3.2%)	140.07	149.04
GBP/ISK	163.80	192.22	(14.8%)	180.02	203.19
USD/ISK	123.69	129.73	(4.7%)	126.41	132.62
JPY/ISK	1.20	1.08	11.1%	1.13	1.10
CHF/ISK	126.38	130.53	(3.2%)	128.13	139.85
CAD/ISK	95.18	93.40	1.9%	95.10	107.36
DKK/ISK	18.39	18.94	(2.9%)	18.80	19.98
NOK/ISK	14.75	14.72	0.2%	14.92	17.17
SEK/ISK	14.56	15.39	(5.4%)	15.11	15.97

## Notes to the Condensed Consolidated Interim Financial Statements

### 52. Operations by quarters (unaudited)

Operations	2016		2015			
	Q2	Q1	Q4*	Q3	Q2	Q1
Interest income	18,071	14,772	13,329	16,000	15,938	12,738
Interest expense	(7,926)	(7,306)	(6,037)	(7,166)	(7,009)	(5,469)
<b>Net interest income</b>	<b>10,145</b>	<b>7,466</b>	<b>7,292</b>	<b>8,834</b>	<b>8,929</b>	<b>7,269</b>
Reversals of loss from foreign currency linkage of loans and advances to customers	-	-	6,512	9,145	134	(2,015)
Net impairment gain (loss)	1,964	311	(630)	1,948	115	3,611
Net impairment loss of guarantees	-	-	-	(604)	-	-
<b>Net adjustments in valuation</b>	<b>1,964</b>	<b>311</b>	<b>5,882</b>	<b>10,489</b>	<b>249</b>	<b>1,596</b>
<b>Net interest income after net adjustments in valuation</b>	<b>12,109</b>	<b>7,777</b>	<b>13,174</b>	<b>19,323</b>	<b>9,178</b>	<b>8,865</b>
Fee and commission income	2,487	2,531	2,332	2,322	2,274	2,049
Fee and commission expense	(573)	(551)	(630)	(577)	(521)	(408)
<b>Net fee and commission income</b>	<b>1,914</b>	<b>1,980</b>	<b>1,702</b>	<b>1,745</b>	<b>1,753</b>	<b>1,641</b>
Net gain on financial assets designated at fair value through profit or loss	788	43	2,422	852	1,838	3,812
Net gain on financial assets and liabilities held for trading	254	246	905	1,173	1,273	451
Net foreign exchange gain (loss)	(154)	162	(58)	(748)	(147)	(324)
Other income and (expenses)	1,779	1,309	3,294	(188)	189	238
<b>Other net operating income</b>	<b>2,667</b>	<b>1,760</b>	<b>6,563</b>	<b>1,089</b>	<b>3,153</b>	<b>4,177</b>
<b>Total operating income</b>	<b>16,690</b>	<b>11,517</b>	<b>21,439</b>	<b>22,157</b>	<b>14,084</b>	<b>14,683</b>
Salaries and related expenses	3,559	3,754	3,407	3,466	3,179	3,702
Other operating expenses	1,940	2,043	2,223	1,757	2,011	2,070
Depreciation and amortisation	148	146	167	167	165	164
Contribution to the Depositors' and Investors' Guarantee Fund	356	310	284	203	421	346
<b>Total operating expenses</b>	<b>6,003</b>	<b>6,253</b>	<b>6,081</b>	<b>5,593</b>	<b>5,776</b>	<b>6,282</b>
Share of profit of equity-accounted associates, net of income tax	371	4	(9)	145	103	9
<b>Profit before tax</b>	<b>11,058</b>	<b>5,268</b>	<b>15,349</b>	<b>16,709</b>	<b>8,411</b>	<b>8,410</b>
Income tax	(2,288)	(1,215)	(2,725)	(3,953)	(1,546)	(1,178)
Tax on liabilities of financial institutions	(787)	(738)	(577)	(748)	(872)	(820)
<b>Profit for the period</b>	<b>7,983</b>	<b>3,315</b>	<b>12,047</b>	<b>12,008</b>	<b>5,993</b>	<b>6,412</b>
<b>Balance sheet</b>	<b>30.06.16</b>	<b>31.03.16</b>	<b>31.12.15</b>	<b>30.09.15</b>	<b>30.06.15</b>	<b>31.03.15</b>
Cash and cash balances with Central Bank	43,997	23,228	25,164	27,120	38,719	14,347
Bonds and debt instruments	157,898	195,175	203,684	235,788	248,604	250,005
Equities and equity instruments	29,042	29,381	29,192	26,467	25,498	33,354
Loans and advances to financial institutions	21,885	15,221	20,791	46,511	68,707	86,951
Loans and advances to customers	827,241	814,669	811,549	807,033	761,290	735,479
Other assets	21,523	21,255	16,323	20,070	17,104	34,638
Assets classified as held for sale	8,258	7,771	11,955	12,815	12,747	17,606
<b>Total assets</b>	<b>1,109,844</b>	<b>1,106,700</b>	<b>1,118,658</b>	<b>1,175,804</b>	<b>1,172,669</b>	<b>1,172,380</b>
Due to financial institutions and Central Bank	34,643	42,606	56,731	49,550	62,428	57,019
Deposits from customers	556,841	545,208	559,051	624,924	621,023	624,063
Borrowings	220,837	217,658	209,344	207,699	212,792	210,902
Subordinated liabilities	412	632	639	775	414	427
Other liabilities	48,310	31,445	26,844	38,854	34,710	43,140
Liabilities associated with assets classified as held for sale	1,510	1,305	1,518	1,518	1,450	2,969
Equity	247,291	267,846	264,531	252,484	239,852	233,860
<b>Total liabilities and equity</b>	<b>1,109,844</b>	<b>1,106,700</b>	<b>1,118,658</b>	<b>1,175,804</b>	<b>1,172,669</b>	<b>1,172,380</b>

\*The two quarter result for the year 2016 and the three quarter results for the year 2015 were reviewed by the Bank's independent auditors.