



Condensed Consolidated
Interim Financial Statements
30 June 2016

Table of Contents

	Page
Endorsement and Statement by the Board of Directors and the CEO	1
Report on Review of Consolidated Interim Financial Statements	3
Condensed Consolidated Interim Income Statement	4
Condensed Consolidated Interim Statement of Comprehensive Income	5
Condensed Consolidated Interim Statement of Financial Position	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	9
Notes to the Condensed Consolidated Interim Financial Statements	10
- General information	11
- Income statement	12
- Statement of Financial Position	14
- Risk management	22
- Financial assets and liabilities	34
- Segment information	39
- Other information	40

Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") for the period 1 January to 30 June 2016 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional Icelandic disclosure requirements where applicable. The Condensed Consolidated Interim Financial Statements comprise Kvika and its subsidiaries (together the "Group").

Kvika banki hf. is a specialised investment bank focusing on asset management and capital markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services as well as selected banking services. Kvika has an established reputation and offers comprehensive solutions covering all major asset classes, including fixed-income securities, equities, and alternative investments in both domestic and international markets. At the end of June 2016, the Group had ISK 112 billion of assets under management.

According to the Consolidated Income Statement, profit for the period 1 January to 30 June 2016 amounted to ISK 378 million. According to the Consolidated Statement of Financial Position, the Group's equity at the end of this period amounted to ISK 5,738 million. As at 30 June 2016, the Group's total assets amounted to ISK 77,825 million.

As of 1 July 2015 Kvika was created through the merger of Straumur Investment Bank hf. and MP banki hf. Comparative figures from 1H 2015 only relate to MP banki hf. which was the acquiring entity in the merger.

Realising synergies

Revenue generation during 1H of 2016 was in line with budget. Interest and fee income from our credit, capital markets, asset management and corporate advisory businesses was ISK 1,694 million. Net financial income from our trading and fair value assets and foreign exchange difference was ISK 453 million.

Administrative expenses were ISK 1,668 million. On an adjusted basis the cost synergies from the merger during first half of 2016 compared with 1H 2015 is ISK 373 million. This is at or above the upper range of the expected cost synergies and equals 60% of the cost base of the smaller entity.

Net profit in 1H 2016 amounted to ISK 378 million corresponding to an annualised 12.3% return on equity based on the average equity position during the period.

The Bank paid out capital to its shareholders during 1H 2016 in the amount of ISK 1 billion or 15.2% of total equity. The Group's total capital ratio at the end of 1H 2016 is 18.0%. The Bank's minimum regulatory capital requirement is 11.8%. The current capital ratio is nonetheless in line with target which takes into account additional capital requirements that will be imposed following the implementation of CRD IV during the next few years.

As at end of June 2016, the Group's 30 day liquidity coverage ratio (LCR) was 211%, well above the minimum level of 90% which became effective on 1 January 2016. Accordingly the Group is very well placed to cope with the potential impact on liquidity associated with the lifting of the capital controls in Iceland that were imposed in late 2008.

As part of its strategy Kvika is allocating more of its credit exposure to acquisition financing, bridge financing and mezzanine financing and to our private banking business. Kvika continues to focus on securities funding in capital markets but has reduced significantly traditional retail banking lending. Furthermore, Kvika has sold part of its loan portfolio, particularly mortgages and corporate loans during 1H 2016 and will continue to source and structure credit opportunities that are fully or partly sold to other investors.

Risk management

The Bank is exposed to various types of risk in its operations. The Bank enforces a risk management framework which is further structured and outlined in the Bank's risk policy guide and rules on risk management. We refer to notes 35-48 on analysis of exposure to various types of risk.

Corporate Governance

The Board of Directors emphasizes good corporate governance and following accepted guidelines on corporate governance. The Board has laid down comprehensive rules in which the authority of the Board is defined and its scope of work in conjunction with the CEO. They cover e.g. order at meetings, competence of Board members to participate in individual decisions, confidentiality and information disclosure between the CEO and the Board. Majority of Board members are independent of the Bank and there are no executive directors on the Board. The Bank aims to promote gender equality and two out of five board members and one out of two alternate board members are women.

The Board determines compensation for the CEO. The Board of Directors has delegated certain tasks to a subcommittee, the Risk, Audit and Remuneration Committee. The committee has four members appointed by the Board, the majority of which is independent of the Bank.

More information about the Bank's Corporate Governance, including a signed statement, can be found on the Bank's website, www.kvika.is.

Endorsement and Statement by the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

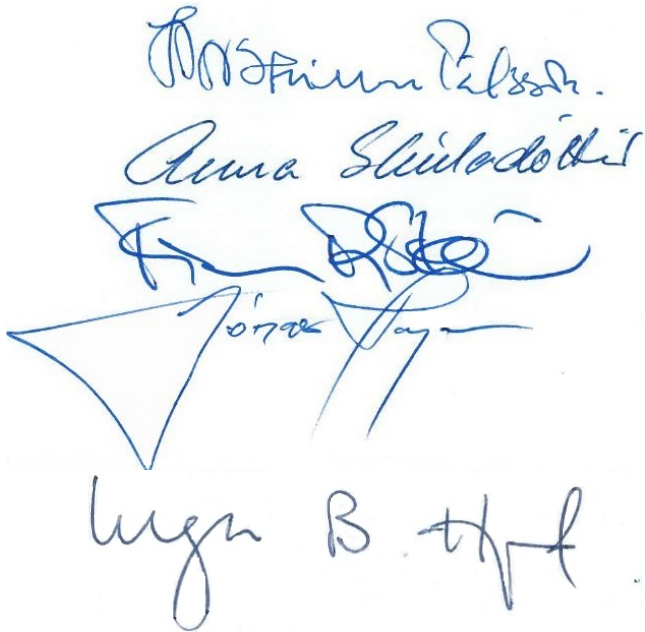
To the best of our knowledge the Condensed Consolidated Interim Financial Statements of Kvika banki hf. for the period 1 January to 30 June 2016 comply with IAS 34 Interim Financial Reporting as adopted by the EU, and give a true and fair view of the Group's assets, liabilities and financial position as at 30 June 2016 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 June 2016.

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

The Board of Directors and the CEO of the Bank have today discussed the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2016, and confirm them by the means of their signatures.

Reykjavík, 29 August 2016.

Board of Directors



Handwritten signatures of the Board of Directors, including names like Þórunn Pálsson, Anna Skúladóttir, and Magnús B. Þórh.

CEO



Handwritten signature of the CEO.

Report on Review of Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Kvika banki hf.

We have reviewed the accompanying Condensed Consolidated Statement of financial position of Kvika banki hf. (the "Bank") as of 30 June 2016 and the related Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of changes in equity and Condensed Consolidated Statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's and the Board of directors Responsibility for the Financial Statements

The board of directors and management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the EU.

Auditor's Responsibility

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does 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 International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the EU and additional requirements in the Icelandic Act on Financial Statements, Act on Financial Undertakings and Rules of Accounting for Credit Institutions.

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

Pursuant to the requirements of Paragraph 2 Article 104 of the Icelandic Act on Financial Statements No. 3/ 2006, we confirm to the best of our knowledge that the accompanying Endorsement and Statement by the Board of Directors and the CEO includes all information required by the Icelandic Act on Financial Statements that is not disclosed elsewhere in the Consolidated Interim Financial Statements.

Kópavogur, 29 August 2016.

Deloitte ehf.



Pálína Árnadóttir
State Authorized Public Accountant



Þorsteinn Pétur Guðjónsson
State Authorized Public Accountant

Condensed Consolidated Interim Income Statement

For the period 1 January 2016 to 30 June 2016

	Notes	6m 2016	6m 2015
Interest income		2,084,636	1,452,236
Interest expense		(1,556,427)	(914,943)
Net interest income	4	528,208	537,293
Fee and commission income		1,186,736	898,154
Fee and commission expense		(21,566)	(11,695)
Net fee and commission income		1,165,170	886,459
Net financial income	5, 6	453,420	155,145
Negative goodwill		0	297,560
Other operating income		17,397	20,982
Other operating income		470,817	473,687
Net operating income		2,164,195	1,897,439
Administrative expenses	7	(1,668,378)	(1,719,687)
Impairment of loans and receivables	16	(105,242)	(27,289)
Loss from assets held for sale		(3,395)	(6,338)
Profit before taxes		387,180	144,125
Income tax	9	(8,860)	149,688
Special tax on financial institutions	13	0	0
Profit for the period		378,320	293,812
	Notes	6m 2016	6m 2015
Attributable to the shareholders of Kvika banki hf.		373,050	290,700
Attributable to non-controlling interest	18	5,270	3,112
Profit for the period		378,320	293,812

The notes on pages 11 to 41 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Statement of Comprehensive Income

For the period 1 January 2016 to 30 June 2016

	Notes	6m 2016	6m 2015
Profit for the period		378,320	293,812
Translation of foreign operations			
Exchange difference on translation of foreign operations		(1,199)	(7,624)
Other comprehensive income that are or may be reclassified to profit and loss, net of tax		(1,199)	(7,624)
Total comprehensive income for the period		377,121	286,188

	Notes	6m 2016	6m 2015
Attributable to the shareholders of Kvika banki hf.		371,851	283,076
Attributable to non-controlling interest		5,270	3,112
Total comprehensive income for the period		377,121	286,188

The notes on pages 11 to 41 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2016

Assets	Notes	30.6.2016	31.12.2015
Cash and cash equivalents	11	33,738,167	19,916,973
Receivables from Central Bank		434,204	0
Fixed income securities	12	6,252,289	4,649,103
Shares and other variable income securities	13	2,879,615	3,006,042
Securities used for hedging	14	7,137,082	11,057,833
Loans to customers	15, 16	23,006,282	21,592,738
Derivatives	17	503,885	327,993
Intangible assets	22	40,565	45,924
Property and equipment	23	76,400	76,749
Deferred tax assets		110,705	106,557
Other assets	16, 24	3,159,772	748,032
Assets classified as held for sale	25	485,766	85,813
Total assets		77,824,733	61,613,757
Liabilities			
Deposits from customers	26	40,901,644	30,544,407
Deposits from credit institutions		989,917	714,134
Borrowings	27	18,780,756	15,220,126
Issued bills	28	3,908,448	3,908,480
Subordinated liabilities	29	583,686	562,339
Short positions held for trading	30	650,943	783,662
Short positions used for hedging	31	3,325,519	1,024,390
Derivatives	17	412,534	987,486
Current tax liabilities		1,403	22,864
Deferred tax liabilities		3,982	3,982
Other liabilities	32	2,407,579	1,310,733
Liabilities associated with assets classified as held for sale		120,455	0
Total liabilities		72,086,866	55,082,604
Equity			
Share capital	33	1,297,897	1,590,644
Share premium		745,332	850,445
Option reserve		3,228	3,228
Warrants reserve		11,070	11,070
Deficit reduction reserve		3,103,697	3,850,917
Other reserves		(14,886)	(13,687)
Retained earnings		373,050	0
Total equity attributable to the shareholders of Kvika banki hf.		5,519,388	6,292,617
Non-controlling interest		218,480	238,537
Total equity		5,737,868	6,531,154
Total liabilities and equity		77,824,733	61,613,757

The notes on pages 11 to 41 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

For the period 1 January 2016 to 30 June 2016

1 January 2016 to 30 June 2016	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Translation reserve	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2016		1,590,644	850,445	3,228	11,070	3,850,917	(13,687)	0	6,292,617	272,714	6,565,330
Profit for the period								373,050	373,050	5,270	378,320
Translation of foreign operations											
Exchange difference on translation of foreign operations							(1,199)		(1,199)		(1,199)
Total comprehensive income for the period		0	0	0	0	0	(1,199)	373,050	371,851	5,270	377,121
Transactions with owners of the Bank											
Capital decrease		(252,779)				(747,221)			(1,000,000)		(1,000,000)
Impact of capital decrease on treasury shares		2,205	6,519						8,724		8,724
Impact of capital decrease on treasury shares due to purchased treasury shares			31,195						31,195		31,195
Purchased treasury shares		(42,172)	(142,828)						(185,000)		(185,000)
Other transactions											
Acquisition of non-controlling interest via purchase										(59,503)	(59,503)
Equity as at 30 June 2016		1,297,897	745,332	3,228	11,070	3,103,697	(14,886)	373,050	5,519,388	218,480	5,737,868

The notes on pages 11 to 41 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

For the period 1 January 2015 to 30 June 2015

1 January 2015 to 30 June 2015	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Translation reserve	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2015		1,170,000	9,069	4,541	11,070	3,850,917	(10,659)	288,853	5,323,792	272,714	5,596,506
Profit for the period								290,700	290,700	3,112	293,812
Translation of foreign operations											
Exchange difference on translation of foreign operations							(7,624)		(7,624)		(7,624)
Total comprehensive income for the period		0	0	0	0	0	(7,624)	290,700	283,076	3,112	286,188
Transactions with owners of the Bank											
Capital increase		433,799				1,083,468			1,517,268		1,517,268
Acquisition of non-controlling interest via merger									0	290,844	290,844
Treasury shares acquired via merger		(228,724)	(568,067)						(796,791)		(796,791)
Treasury shares held by the Bank before the merger and delivered to shareholders via merger		800	3,200						4,000		4,000
Treasury shares delivered to shareholders via merger		228,724	568,067						796,791		796,791
Share-based payment transactions						(1,314)			(1,314)		(1,314)
Other transactions											
Dividend paid by subsidiary to non-controlling interest									0	(6,600)	(6,600)
Equity as at 30 June 2015		1,604,599	12,269	4,541	9,756	4,934,386	(18,283)	579,553	7,126,822	560,070	7,686,892

The notes on pages 11 to 41 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Cash Flows

For the period 1 January 2016 to 30 June 2016

Cash flows from operating activities	Notes	6m 2016	6m 2015
Profit for the period		378,320	293,812
Adjustments for:			
Indexation and exchange rate difference		77,049	(120,429)
Depreciation and amortisation	22, 23	15,415	46,916
Net interest income	4	(528,208)	(537,293)
Impairment of loans and receivables	16	105,242	27,289
Income tax	9	8,860	(149,688)
Negativ goodwill		0	(297,560)
Other adjustments		2,070	2,106
		58,748	(734,846)
Changes in:			
Receivables from Central Bank		(434,204)	(2,466,983)
Fixed income securities		(1,521,345)	298,928
Shares and other variable income securities		126,427	(1,635,649)
Securities used for hedging		3,920,751	(1,719,580)
Loans to customers		(1,845,900)	(936,608)
Derivatives - assets		(175,892)	(1,344)
Deferred tax assets		(13,008)	0
Other assets		(2,411,740)	2,136,230
Deposits from customers		10,816,106	(7,480,330)
Deposits from credit institutions		275,783	(632,685)
Short positions		2,168,409	4,608,253
Derivatives - liabilities		(574,952)	210,928
Other liabilities		1,075,385	(1,731,070)
		11,464,568	(10,084,756)
Interest received		2,002,794	1,352,212
Interest paid		(1,396,746)	(945,517)
Net cash from (to) operating activities		12,070,617	(9,678,060)
Cash flows from investing activities			
Cash and cash equivalent acquired in business combination		0	3,337,433
Acquisition of intangible assets	22	0	(4,588)
Acquisition of property and equipment	23	(10,367)	(19,126)
Proceeds from the sale of property and equipment		3,194	4,314
Proceeds from the sale (acquisition) of assets classified as held for sale		0	167,602
Net cash (to) from investing activities		(7,173)	3,485,635
Cash flows from financing activities			
Proceeds from borrowings		55,618,623	51,556,904
Repayment of borrowings		(52,057,993)	(41,166,740)
Issued bills		(137,682)	0
Subordinated liabilities		(685)	0
Proceeds from the sale (acquisition) of a non-controlling interest		(25,327)	0
Dividend paid by subsidiary to non-controlling interest		0	(6,600)
Treasury share transactions		(145,080)	0
Reduction of share capital		(252,779)	0
Reduction of deficit reduction reserve		(747,221)	0
Net cash from financing activities		2,251,857	10,383,564
Net increase in cash and cash equivalents		14,315,301	4,191,139
Cash and cash equivalents at the beginning of the year	11	19,916,973	12,970,418
Effects of exchange rate fluctuations on cash and cash equivalents held		(494,106)	40,684
Cash and cash equivalents at the end of the period	11	33,738,167	17,202,242
Investing and financing activities not affecting cash flows			
Changes in loans to customers		(288,113)	0
Acquisition of assets classified as held for sale		288,113	0

The notes on pages 11 to 41 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

General information

1 Reporting entity	11
2 Basis of preparation	11
3 Significant accounting policies	11

Income statement

4 Net interest income	12
5 Net financial income	12
6 Foreign currency exchange difference	12
7 Administrative expenses	13
8 Salaries and related expenses	13
9 Income tax	13
10 Special tax on financial institutions	13

Statement of Financial Position

11 Cash and cash equivalents	14
12 Fixed income securities	14
13 Shares and other variable income securities	14
14 Securities used for hedging	14
15 Loans to customers	14
16 Allowance for impairment losses	15
17 Derivatives	15
18 Group entities	16
19 Investment in associates	16
20 Consolidated structured entities	16
21 Unconsolidated structured entities	17
22 Intangible assets	17
23 Property and equipment	18
24 Other assets	18
25 Assets classified as held for sale	19
26 Deposits from customers	19
27 Borrowings	19
28 Issued bills	19
29 Subordinated liabilities	19
30 Short positions held for trading	20
31 Short positions used for hedging	20
32 Other liabilities	20
33 Equity	20
34 Capital adequacy ratio (CAD)	21

Risk management

35 Maximum exposure to credit risk	22
36 Credit quality of financial assets	22
37 Breakdown of loans to customers	24
38 Collateral and other credit enhancements	25
39 Foreclosed assets	25
40 Loan-to-value	26
41 Large exposures	26
42 Liquidity risk	27
43 Interest rate risk associated with trading portfolios	29
44 Interest rate risk associated with non-trading portfolios	29
45 Exposure towards changes in the CPI	31
46 Currency risk	31
47 Other price risk	33
48 Operational risk	33

Financial assets and liabilities

49 Accounting classification of financial assets and liabilities	34
50 Financial assets and liabilities measured at fair value	35
51 Financial assets and liabilities not measured at fair value	38

Segment information

52 Business segments	39
----------------------------	----

Other information

53 Related parties	40
54 Other matters	41
55 Events after the reporting date	41

Notes to the Condensed Consolidated Interim Financial Statements

General information

1. Reporting entity

Kvika banki hf. (the Bank or Kvika) is a limited liability company incorporated and domiciled in Iceland, with its registered office at Borgartún 25, Reykjavík. The Bank operates as a bank based on Act No. 161/2002, on Financial Undertakings, and is supervised by the Financial Supervisory Authority of Iceland.

The Condensed Consolidated Interim Financial Statements for the period ended 30 June 2016 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). The Group is primarily involved in investment and corporate banking, capital markets, asset management and fund management.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 29 August 2016.

2. Basis of preparation

a. Statement of compliance

The Condensed Consolidated Interim Financial Statements 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 are also prepared in accordance with Icelandic laws on financial statements and regulations on presentation and contents of financial statements.

b. Basis of measurement

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

- Fixed income securities are measured at fair value
- Shares and other variable income securities are measured at fair value
- Securities used for hedging are measured at fair value
- Derivatives are measured at fair value
- Short positions are measured at fair value
- Assets classified as held for sale are measured at the lower of cost or fair value less cost to sell

A breakdown of the accounting classification of financial assets and financial liabilities is provided in note 49.

c. Functional and presentation currency

The Condensed Consolidated Interim Financial Statements are prepared in Icelandic Krona (ISK), which is the Bank's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 30 June 2016.

d. Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and it is satisfied that the Group has the resources to continue its operations.

e. Estimates and judgements

The preparation of interim financial statements in accordance with IFRSs 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.

The estimates and underlying assumptions are based on historical result and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period and future periods if the revision affects both current and future periods.

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Consolidated Interim Financial Statements is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2015.

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the Financial Statements, the notes are evaluated based on relevance and importance for the reader. This can result in information, that has been evaluated as neither important or relevant for the reader, not being presented in the notes.

3. Significant accounting policies

The accounting policies and methods of computation applied by the Group in these 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. A number of new international financial reporting standards, amendments to standards and interpretations were not yet effective for the period ended 30 June 2016 and have not been applied in the preparation of these condensed consolidated interim financial statements. Early adoption of standards and amendments is not planned.

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 the Bank's financial statements is currently under assessment by the Group's management.

Notes to the Condensed Consolidated Interim Financial Statements

Income statement

4. Net interest income

Interest income is specified as follows:

	6m 2016	6m 2015
Cash and cash equivalents	688,944	254,571
Derivatives	441,239	292,418
Loans to customers	933,214	895,643
Other interest income	21,239	9,604
Total	2,084,636	1,452,236

Interest expense is specified as follows:

	6m 2016	6m 2015
Deposits from customers	651,295	469,024
Deposits from credit institutions	24,187	50,774
Borrowings	578,358	335,700
Issued bills	137,650	0
Subordinated liabilities	22,032	0
Derivatives	108,505	32,768
Other interest expense	34,399	26,677
Total	1,556,427	914,943

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 1,644 million (2015: ISK 1,160 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 1,448 million (2015: ISK 882 million).

5. Net financial income

Net financial income is specified as follows:

	6m 2016	6m 2015
Financial assets held for trading		
Fixed income securities	204,255	64,268
Shares and other variable income securities	(33,738)	116,780
Derivatives	95,760	(24,367)
Financial assets designated at fair value through profit or loss		
Fixed income securities	0	5,402
Shares and other variable income securities	162,495	(12,758)
Foreign currency exchange difference	24,647	5,821
Total	453,420	155,145

6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	6m 2016	6m 2015
Gain on financial instruments at fair value through profit and loss	30,652	4,340
(Loss) gain on other financial instruments	(6,005)	1,481
Total	24,647	5,821

Note 46 provides information about the development of foreign exchange rates against the Icelandic krona.

Notes to the Condensed Consolidated Interim Financial Statements

7. Administrative expenses

Administrative expenses are specified as follows:

	6m 2016	6m 2015
Salaries and related expenses	1,041,392	1,045,526
Other operating expenses	577,848	595,608
Depositors' and Investors' Guarantee Fund contributions	33,724	31,637
Depreciation and amortisation	15,415	46,916
Total	1,668,378	1,719,687

ISK 280 million of one off merger costs related to termination of employment contracts are included in salaries and related expenses for the 2015 figures in the table above. Additionally, ISK 93 million in other one off merger costs are included in other operating expenses for the 2015 figures in the table.

8. Salaries and related expenses

Salaries and related expenses are specified as follows:

	6m 2016	6m 2015
Salaries	818,416	808,456
Performance based payments excluding share-based payments	0	23,820
Share-based payment expenses	0	(1,314)
Pension fund contributions	100,042	113,210
Tax on financial activity	46,308	39,672
Other salary related expenses	76,626	61,682
Total	1,041,392	1,045,526
Average number of full time employees during the period	85	72
Total number of full time employees at the end of the period	87	81

The figures for 2015 do not include employees of Straumur fjárfestingabanki hf. ("Straumur"). At the beginning of 2015, Straumur had 34 full time employees and Kvika and its subsidiaries had 75, or 109 in total.

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2015: 5.50%).

9. Income tax

The Group will not pay income tax on its profit for 2016 due to the fact that it has a tax loss carry forward that offsets the calculated income tax. At year end 2015, the tax loss carry forward of the Group amounted to ISK 160 billion. A substantial part of the deferred tax asset is utilisable until end of year 2018 and 2019. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position. The deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The deferred tax asset is reviewed at each reporting date.

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2014: 20.0%)

10. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion at year-end. The tax rate is set at 0.376% (2015: 0.376%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

Notes to the Condensed Consolidated Interim Financial Statements

Statement of Financial Position

11. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	30.6.2016	31.12.2015
Deposits with the Central Bank of Iceland	24,400,701	15,676,543
Cash on hand	23,869	69,966
Balances with banks	7,474,725	3,486,995
Treasury bills	1,838,873	683,469
Total	33,738,167	19,916,973

12. Fixed income securities

Fixed income securities are specified as follows:

	30.6.2016	31.12.2015
Held for trading		
Listed government bonds and bonds with government guarantees	3,059,848	1,684,684
Listed treasury bills	0	73,865
Listed bonds	3,043,645	2,717,833
Unlisted bonds	148,797	148,833
Designated at fair value through profit or loss		
Unlisted bonds	0	23,886
Total	6,252,289	4,649,103

Further discussion about the accounting classification of financial assets is provided in notes 49-51.

13. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

	30.6.2016	31.12.2015
Held for trading		
Listed shares	1,405,458	1,376,404
Unlisted shares	30,923	18,568
Unlisted unit shares	1,035,583	1,095,558
Designated at fair value through profit or loss		
Unlisted shares	407,651	509,033
Unlisted unit shares	0	6,480
Total	2,879,615	3,006,042

Further discussion about the accounting classification of financial assets is provided in notes 49-51.

14. Securities used for hedging

Securities used for hedging are specified as follows:

	30.6.2016	31.12.2015
Listed government bonds and bonds with government guarantees	1,463,830	1,325,364
Listed bonds	262,627	286,838
Listed shares	5,243,321	8,582,712
Unlisted unit shares	167,304	862,919
Total	7,137,082	11,057,833

Securities used for hedging are classified as held for trading. Further discussion about the accounting classification of financial assets is provided in notes 49-51.

15. Loans to customers

Loans to customers are specified as follows:

	30.6.2016	31.12.2015
Loans to customers, gross amount	23,366,237	22,007,487
Specific allowance for impairment losses	(124,879)	(208,880)
Collective allowance for impairment losses	(235,076)	(205,869)
Total	23,006,282	21,592,738

Notes to the Condensed Consolidated Interim Financial Statements

16. Allowance for impairment losses

Change in allowance for impairment losses is specified as follows:

a. Loans to customers

	Specific	Collective	Total
30.6.2016			
Balance as at 1 January 2016	208,880	205,869	414,748
Charge to the income statement for the period	76,035	29,207	105,242
Write-offs	(160,036)	0	(160,036)
Balance as at 30 June 2016	124,879	235,076	359,955

	Specific	Collective	Total
31.12.2015			
Balance as at 1 January 2015	108,761	181,654	290,415
Charge to the income statement for the period	180,050	24,215	204,265
Write-offs	(79,932)	0	(79,932)
Balance as at 31 December 2015	208,880	205,869	414,748

b. Other assets - accounts receivable

	Specific	Collective	Total
30.6.2016			
Balance as at 1 January 2016	10,132	5,000	15,132
Balance as at 30 June 2016	10,132	5,000	15,132

	Specific	Collective	Total
31.12.2015			
Balance as at 1 January 2015	0	3,053	3,053
Charge to the income statement for the period	10,912	620	11,532
Recoveries	(780)	0	(780)
Write-offs	0	1,327	1,327
Balance as at 31 December 2015	10,132	5,000	15,132

17. Derivatives

Derivatives are specified as follows:

	30.6.2016		31.12.2015			
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Interest rate derivatives	1,020,000	61,855		1,020,000	45,894	
Currency forwards	1,007,774	47,235		725,839	14,287	0
Bond and equity total return swaps	12,771,671	392,769	410,507	16,916,014	267,811	884,545
Equity options				(400,590)		102,941
Currency options	600	2,027	2,027			
	14,800,045	503,885	412,534	18,261,263	327,993	987,486

Notes to the Condensed Consolidated Interim Financial Statements

18. Group entities

The main subsidiaries held directly or indirectly by the Group are listed in the table below.

Entity	Nature of operations	Domicile	Share	
			30.6.2016	31.12.2015
Ármúli fasteignir ehf.	Holding company	Iceland	100%	100%
Burðarás eignarhaldsfélag ehf.	Holding company	Iceland	100%	100%
Burðarás PE GP ehf.	Dormant	Iceland	100%	100%
Burðarás PE slhf.	Dormant	Iceland	100%	100%
Fasteignastýring ehf.	Dormant	Iceland	100%	100%
IB eignarhaldsfélag ehf.	Dormant	Iceland	100%	100%
Júpiter rekstrarfélag hf.	Fund management	Iceland	100%	100%
M-Investments ehf.	Holding company	Iceland	100%	100%
Mánatún GP ehf.	Dormant	Iceland	100%	100%
Pivot ehf.	Holding company	Iceland	100%	100%
Straumur eignarhaldsfélag ehf.	Dormant	Iceland	100%	100%
Straumur Equites ehf.	Dormant	Iceland	100%	100%
Straumur fjárfestingar hf.	Dormant	Iceland	100%	100%
Straumur sjóðir hf.	Fund management	Iceland	100%	100%
Íslensk eignastýring ehf.	Holding company	Iceland	100%	100%
Fí Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	70%
Íshestar ehf.	Service company	Iceland	62%	-
Teris	Holding company	Iceland	54%	54%
Horn Florida Ltd.	Holding company	UK	100%	100%

19. Investment in associates

a. Investment in associates is accounted for using the equity method and is specified as follows:

Entity	Nature of operations	Domicile	Share	
			30.6.2016	31.12.2015
Londonderry Associates LLC	Holding company	USA	38%	38%

The Group does not consider its associates material, neither individually nor as a group.

b. Changes in investments in associates are specified as follows:

	30.6.2016	31.12.2015
Balance at the beginning of the year	0	0
Additions through a merger	0	29,052
Disposal of shares in associates	0	(27,054)
Share in profit of associates, net of income tax	0	(1,998)
Total	0	0

20. Consolidated structured entities

Structured entities are assessed for consolidation in accordance with the accounting policy set out in the 2015 Consolidated Financial Statements. Financial investments under control are presented in fixed income securities (2016: ISK 17,543 thousand, 2015: ISK 19,878) in the consolidated statement of financial position.

The Group holds majority of the units in the investment funds managed by Straumur sjóðir hf. These funds are consolidated like subsidiaries in the Group's Consolidated Financial Statements, with the exception that minority interests are recognised among Other liabilities instead of Equity. The reason for this distinction is that the holders of the units may request redemption of their shareholding and therefore the units do not meet the requirements of the definition of equity.

Notes to the Condensed Consolidated Interim Financial Statements

21. Unconsolidated structured entities

Where the Group acts as an agent for the investor, it does not consolidate the investment funds. When the Group holds investments in unconsolidated investment funds, they are classified as financial investments designated at fair value through profit or loss or other financial investments held for trading. The fair value of these investments represents the Group's maximum exposure to loss from its investments into such unconsolidated investment funds.

The nature and purpose of Investment funds is to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issuance of units to investors.

	30.6.2016	31.12.2015
Investments funds	46,488,866	41,917,800

The following table shows an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The Group's maximum exposure to loss is the carrying amount of the assets held.

	Carrying amount	
	30.6.2016	31.12.2015
Investments funds	1,084,236	1,691,393
The Group received management fees during the period:		
Investments funds	208,268	489,538

22. Intangible assets

Intangible assets are specified as follows:

30.6.2016	Software	Goodwill	Other	Total
Balance as at 1 January 2016	20,304	0	25,620	45,924
Amortisation	(2,919)	0	(2,440)	(5,359)
Balance as at 30 June 2016	17,385	0	23,180	40,565
Gross carrying amount	38,924	0	48,800	87,724
Accumulated amortization and impairment losses	(21,539)	0	(25,620)	(47,159)
Balance as at 30 June 2016	17,385	0	23,180	40,565
31.12.2015	Software	Goodwill	Other	Total
Balance as at 1 January 2015	133,673	0	115,094	248,766
Acquisitions	7,688	57,425	0	65,113
Additions through a merger	4,328	544,925	0	549,253
Discontinued	(80,790)	0	(71,059)	(151,849)
Disposals	(4,328)	(602,350)	0	(606,678)
Amortisation	(40,267)	0	(18,415)	(58,682)
Balance as at 31 December 2015	20,304	0	25,620	45,924
Gross carrying amount	264,508	0	184,150	448,658
Accumulated amortization and impairment losses	(130,835)	0	(69,056)	(199,892)
Balance as at 1 January 2015	133,673	0	115,094	248,766
Gross carrying amount	38,924	0	48,800	87,724
Accumulated amortization and impairment losses	(18,620)	0	(23,180)	(41,800)
Balance as at 31 December 2015	20,304	0	25,620	45,924

The goodwill which the Group acquired through the merger with Straumur fjárfestingabanki hf. and through acquisitions during the year 2015 relates to investments in Íslensk verðbréf hf. Since the Group disposed of all its shares in Íslensk verðbréf hf. before year-end 2015 goodwill at year-end amounts to zero.

Notes to the Condensed Consolidated Interim Financial Statements

23. Property and equipment

Property and equipment is specified as follows:

	Real estate	Other	Total
30.6.2016			
Balance as at 1 January 2016	0	76,749	76,749
Acquisitions	0	10,367	10,367
Disposals	0	(660)	(660)
Depreciation	0	(10,056)	(10,056)
Balance as at 30 June 2016	0	76,400	76,400
Gross carrying amount	0	197,507	197,507
Accumulated depreciation	0	(121,107)	(121,107)
Balance as at 30 June 2016	0	76,400	76,400
31.12.2015			
Balance as at 1 January 2015	0	74,873	74,873
Acquisitions	0	46,934	46,934
Additions through a merger	98,407	11,543	109,950
Discontinued	0	(17,122)	(17,122)
Disposals	(97,659)	(7,161)	(104,820)
Depreciation	(748)	(32,318)	(33,066)
Balance as at 31 December 2015	0	76,749	76,749
Gross carrying amount	0	194,207	194,207
Accumulated depreciation	0	(119,334)	(119,334)
Balance as at 1 January 2015	0	74,873	74,873
Gross carrying amount	0	197,507	197,507
Accumulated depreciation	0	(120,757)	(120,757)
Balance as at 31 December 2015	0	76,749	76,749

24. Other assets

Other assets are specified as follows:

	30.6.2016	31.12.2015
Unsettled transactions	2,646,359	0
Accounts receivable	327,328	625,190
Sundry assets	186,086	122,842
Total	3,159,772	748,032

Notes to the Condensed Consolidated Interim Financial Statements

25. Assets classified as held for sale

The Group has classified certain assets as held for sale. The Group intends to dispose of the majority of these assets in 2017.

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. The Group classified on 30 June 2016 the assets and liabilities of its subsidiary, Íshestar ehf (62%), as assets and liabilities of disposal groups held for sale.

Assets classified as held for sale are specified as follows:

	30.6.2016	31.12.2015
Buildings and land	53,709	58,313
Assets of disposal groups classified as held for sale	404,558	0
Unlisted shares	27,500	27,500
Total	485,766	85,813

Assets classified as held for sale include foreclosed assets as specified in note 39.

26. Deposits from customers

Deposits from customers are specified as follows:

	30.6.2016	31.12.2015
Demand deposits	31,745,401	22,697,505
Time deposits	9,156,242	7,846,902
Total	40,901,644	30,544,407

27. Borrowings

Borrowings are specified as follows:

	30.6.2016	31.12.2015
Loans from credit institutions	1,632	2,053
Money market deposits	18,779,124	15,218,074
Total	18,780,756	15,220,126

Money market deposits typically have a principal of ISK 5-200 million and maturity between 1 week and 3 months and pay fixed interest rates.

28. Issued bills

Issued bills are specified as follows:

	30.6.2016	31.12.2015
Issued bills	3,908,448	3,908,480
Total	3,908,448	3,908,480

29. Subordinated liabilities

Subordinated liabilities are specified as follows:

	Issued	Maturity	Maturity type	Terms of interest	30.6.2016	31.12.2015
Tier 2 in ISK	2015	2025	At maturity	CPI-Indexed, fixed 5.50%		
Total					583,686	562,339

At the interest payment date in the year 2020 the annual interest rate increases from 5.50% p.a. to 7.50% p.a. At the same date, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

Subordinated liabilities are financial liabilities in the form of subordinated capital which, in case of the Group's voluntary or compulsory winding-up, will not be repaid until after the claims of ordinary creditors have been met. In the calculation of the capital ratio, they are included within Tier 2. The Group may only retire subordinated liabilities with the permission of the Icelandic Financial Supervisory Authority.

In the calculation of the capital ratio, subordinated liabilities are included within Tier 2 and are included in the equity base as the amount eligible for Tier 2 capital treatment is amortized on a straight-line basis over the final 5 years to maturity or up to 20% a year.

Notes to the Condensed Consolidated Interim Financial Statements

30. Short positions held for trading

Short positions held for trading are specified as follows:

	30.6.2016	31.12.2015
Listed government bonds and bonds with government guarantees	445,546	595,014
Listed shares	205,397	188,648
Total	650,943	783,662

Short positions held for trading are classified as held for trading. Further discussion about the accounting classification of financial liabilities is provided in notes 49-51.

31. Short positions used for hedging

Short positions used for hedging are specified as follows:

	30.6.2016	31.12.2015
Listed government bonds and bonds with government guarantees	3,325,519	1,024,390
Total	3,325,519	1,024,390

Short positions used for hedging are classified as held for trading. Further discussion about the accounting classification of financial liabilities is provided in notes 49-51.

32. Other liabilities

Other liabilities are specified as follows:

	30.6.2016	31.12.2015
Unsettled securities transactions	1,510,782	150,310
Accounts payable and accrued expenses	139,141	175,632
Taxes	59,107	28,965
Withholding taxes	248,008	432,501
Salaries and salary related expenses	342,379	266,762
Other liabilities	108,162	256,562
Total	2,407,579	1,310,733

33. Equity

a. Share capital

The nominal value of shares issued by the Bank is ISK 1 per share or a multiple thereof. All currently issued shares have a nominal value of ISK 1 per share, and are fully paid. The holders of shares are entitled to receive dividends as approved by the general meeting and are entitled to one vote per nominal value of ISK 1 at shareholders' meetings.

	30.6.2016	31.12.2015
Share capital according to the Bank's Articles of Association	1,351,820	1,604,599
Nominal amount of treasury shares	53,923	13,956
Authorised but not issued shares	825,046	281,500

b. Share capital decrease

The share capital of the Bank was decreased by a nominal amount of 253 million shares in accordance with the decisions made at the 2016 annual general meeting and the continued annual general meeting of the Bank.

c. Share capital increase authorizations

The Board of Directors is authorized during a five year period to increase the share capital of the Bank in stages by up to ISK 20,000,000 in nominal value, for the purposes of fulfilling share option agreements in accordance with the Bank's share incentive scheme. The Board of Directors is moreover authorized to increase the share capital of the Bank by up to ISK 61,500,000 in nominal value, until 12 December 2016, for the purposes of fulfilling the Bank's obligations under issued subscription rights (warrants). Additionally the Board of Directors is authorised until the end of the 2017 annual general meeting to issue new warrants, the maximum share capital to be issued based on this authorisation amounts to 271,000,000 in nominal value. Finally, the Board of Directors is authorised to increase the share capital by up to 483,546,018 in nominal value through an issuance of new shares for the purpose of fulfilling share option agreements in accordance with the Bank's share incentive scheme. This authorisation is valid until 31 May 2021. A copy of the Bank's Articles of Association, including the temporary provisions, is available on the Bank's website, www.kvika.is.

Notes to the Condensed Consolidated Interim Financial Statements

34. Capital adequacy ratio (CAD)

Equity at the end of the period was ISK 5,738 million (31.12.2015: 6,531 million), equivalent to 7.4% (31.12.2015: 10.6%) of total assets according to the statement of financial position. The capital adequacy ratio of the Group, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 18.0% (31.12.2015: 23.5%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

	30.6.2016	31.12.2015
Capital base		
Total equity	5,737,868	6,531,154
Goodwill and intangibles	(40,565)	(45,924)
Deferred tax asset	(110,705)	(106,557)
Tier 1 capital	5,586,598	6,378,672
Subordinated liabilities	583,686	562,339
Accrued interests	(25,376)	(10,251)
Tier 2 capital	558,310	552,088
Shares in financial institutions	(51,135)	(121,806)
Subordinated fixed income securities	(148,946)	(120,415)
Total capital base	5,944,826	6,688,539
Capital requirements	30.6.2016	31.12.2015
Credit risk	1,621,649	1,290,773
Market risk	457,485	418,946
Operational risk	568,427	568,427
Total Capital requirements	2,647,562	2,278,146
Surplus capital	3,297,265	4,410,393
Capital adequacy ratio (CAD)	18.0%	23.5%

The Icelandic Financial Supervisory Authority (FME) supervises the Bank on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. The Bank's regulatory capital calculations for credit risk and market risk are based on the standardised approach and the capital calculations for operational risk are based on the basic indicator approach.

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement based on SREP is 11.8%.

Notes to the Condensed Consolidated Interim Financial Statements

Risk management

35. Maximum exposure to credit risk

The maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements, is specified as follows:

	Public entities	Financial institutions	Corporate customers	Individuals	30.6.2016
Cash and cash equivalents	26,263,443	7,474,725			33,738,167
Receivables from Central Bank	434,204				434,204
Fixed income securities	3,361,736	2,741,719	148,833		6,252,289
Securities used for hedging	1,726,457				1,726,457
Loans to customers		130	18,728,881	4,277,272	23,006,282
Derivatives		266,300	223,816	13,769	503,885
Other assets	9,017	28,886	2,769,416	166,368	2,973,686
	31,794,857	10,511,759	21,870,946	4,457,409	68,634,971
Loan commitments	100	547,142	2,141,713	159,855	2,848,810
Financial guarantee contracts			587,847	1,830	589,677
Total	31,794,957	11,058,902	24,600,506	4,619,094	72,073,459

	Public entities	Financial institutions	Corporate customers	Individuals	31.12.2015
Cash and cash equivalents	16,429,978	3,486,995			19,916,973
Receivables from Central Bank					0
Fixed income securities	1,758,550	2,741,719	148,833		4,649,103
Securities used for hedging	1,612,202				1,612,202
Loans to customers	3,997	374,228	16,019,757	5,194,757	21,592,738
Derivatives		210,462	112,745	4,785	327,993
Other assets	41,995	54,173	343,842	185,180	625,190
	19,846,722	6,867,577	16,625,178	5,384,722	48,724,199
Loan commitments	100	155,949	2,377,348	581,524	3,114,921
Financial guarantee contracts			537,941	2,380	540,321
Total	19,846,822	7,023,526	19,540,467	5,968,626	52,379,441

36. Credit quality of financial assets

a. Breakdown

Credit quality of financial assets is specified as follows:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Less specific impairment allowance	Less collective impairment allowance	Carrying amount
30.6.2016							
Cash and cash equivalents	33,738,167			33,738,167			33,738,167
Receivables from Central Bank	434,204			434,204			434,204
Fixed income securities	6,252,289			6,252,289			6,252,289
Securities used for hedging	1,726,457			1,726,457			1,726,457
Loans to customers	21,947,283	1,235,529	183,424	23,366,237	(124,879)	(235,076)	23,006,282
Derivatives	503,885			503,885			503,885
Other assets	2,973,686		15,132	2,988,818	(10,132)	(5,000)	2,973,686
Total	67,575,972	1,235,529	198,556	69,010,058	(135,011)	(240,076)	68,634,971

Notes to the Condensed Consolidated Interim Financial Statements

36. Credit quality of financial assets (cont.)

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Less specific impairment allowance	Less collective impairment allowance	Carrying amount
31.12.2015							
Cash and cash equivalents	19,916,973			19,916,973			19,916,973
Receivables from Central Bank				0			0
Fixed income securities	4,649,103			4,649,103			4,649,103
Securities used for hedging	1,612,202			1,612,202			1,612,202
Loans to customers	20,364,740	983,153	659,594	22,007,487	(208,880)	(205,869)	21,592,738
Derivatives	327,993			327,993			327,993
Other assets	625,190		15,132	640,322	(10,132)	(5,000)	625,190
Total	47,496,201	983,153	674,726	49,154,080	(219,012)	(210,869)	48,724,199

b. Past due but not individually impaired

Past due but not individually impaired financial assets are those assets where contractual payments are 1 or more days past due but the Group believes that impairment is not appropriate on the basis of the level of security or future cash flows of the borrower. Past due loans are reported as the total claim value and not only those payments that are past due.

	30.6.2016	31.12.2015
Past due 1-30 days	567,811	742,618
Past due 31-60 days	347,500	25,053
Past due 61-90 days	74,139	120,224
Past due 91-180 days	190,493	21,544
Past due 180-360 days	51,832	62,660
Past due more than 360 days	3,755	11,054
Total	1,235,529	983,153

c. Individually impaired

Individually impaired financial assets are those assets where there is objective evidence of impairment, the asset has been individually assessed and comparison of the carrying amount and the present value of the expected cash flow from the asset reveals a need for impairment. All individually impaired assets are considered non-performing.

	Impaired but not Past due	Past due 1-30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Claim value
30.6.2016						
Corporate						
Services			4,347		65,317	69,664
Holding companies						0
Retail	52,225					52,225
Real estate, construction and industry					3,966	3,966
Individuals	863	8	323	1,375	70,133	72,701
Total	53,087	8	4,670	1,375	139,416	198,556

	Impaired but not Past due	Past due 1-30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Claim value
31.12.2015						
Corporate						
Services	132,295				65,431	197,726
Holding companies	206,643	414	253		45,467	252,777
Retail	200,297					200,297
Real estate, construction and industry		5,059				5,059
Individuals					18,866	18,866
Total	539,235	5,473	253	0	129,765	674,726

Notes to the Condensed Consolidated Interim Financial Statements

37. Breakdown of loans to customers

a. By industry

The breakdown of the loan portfolio by industries is specified as follows:

	Claim value	Impairment allowance	Carrying amount	%
30.6.2016				
Public entities	0	0	0	0.0%
Financial institutions	131	(1)	130	0.0%
Corporate				
Services	7,794,398	(123,630)	7,670,768	33.3%
Holding companies	5,757,707	(73,480)	5,684,227	24.7%
Retail	2,293,698	(38,965)	2,254,732	9.8%
Real estate, construction and industry	2,742,803	(31,289)	2,711,514	11.8%
Other	411,748	(4,107)	407,640	1.8%
Individual	4,365,753	(88,481)	4,277,272	18.6%
Total	23,366,237	(359,955)	23,006,282	100.0%

	Claim value	Impairment allowance	Carrying amount	%
31.12.2015				
Public entities	4,035	(39)	3,997	0.0%
Financial institutions	377,857	(3,630)	374,228	1.7%
Corporate				
Services	7,679,186	(159,265)	7,519,922	34.8%
Holding companies	5,098,667	(108,051)	4,990,616	23.1%
Retail	2,032,564	(22,005)	2,010,559	9.3%
Real estate, construction and industry	1,096,061	(14,228)	1,081,834	5.0%
Other	420,869	(4,043)	416,827	1.9%
Individual	5,298,245	(103,488)	5,194,757	24.1%
Total	22,007,487	(414,748)	21,592,738	100.0%

b. By seniority

The following definitions are used when ranking the loan portfolio by seniority:

- Senior I

Loans in this category have first priority claims on the borrower's assets, are secured with collateral which can be marked to market and have asset coverage exceeding 100%.

- Senior II

Loans in this category have sufficient coverage and liquid collateral, but the collateral can in some cases not be marked to market, e.g. unlisted shares.

- Junior

Junior loans have second lien claims on the borrower's assets or lower levels of collateral coverage.

- Mezzanine

Mezzanine loans are loans which are unsecured and subordinated to all of the borrower's other liabilities.

The breakdown of loans by categories is as follows:

	Senior I	Senior II	Junior	Mezzanine	30.6.2016
Neither past due nor individually impaired	8,073,786	7,733,014	4,692,850	1,236,187	21,735,837
Past due but not individually impaired	511,997	439,229	192,957	67,717	1,211,900
Individually impaired		28,496	7,811	22,238	58,545
Total	8,585,783	8,200,739	4,893,618	1,326,142	23,006,282

	Senior I	Senior II	Junior	Mezzanine	31.12.2015
Neither past due nor individually impaired	9,181,543	7,177,080	1,907,624	1,901,908	20,168,155
Past due but not individually impaired	401,693	392,989	93,784	85,403	973,869
Individually impaired	158,171	31,929	178,149	82,464	450,714
Total	9,741,407	7,601,998	2,179,557	2,069,775	21,592,738

Notes to the Condensed Consolidated Interim Financial Statements

38. Collateral and other credit enhancements

a. Valuation

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. The methods used for financial assets are outlined in note 50. For other types of assets the Group uses third party valuation where possible. Haircuts are then applied to account for liquidity and other factors which may affect the collateral value of the asset or other credit enhancement.

b. Loans to customers

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.6.2016
Financial institutions	130						130
Corporate customers	1,478,423	17,992	5,568,651	8,116,586	139,970	1,362,063	16,683,686
Individuals	82,532	8,738	101,320	3,619,743		80,581	3,892,914
Total	1,561,086	26,731	5,669,970	11,736,330	139,970	1,442,644	20,576,730

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2015
Financial institutions	76	80	377,702				377,857
Corporate customers	754,400	71,504	5,371,576	6,725,838	143,907	1,507,355	14,574,579
Individuals	32,031	21,408	32,759	4,353,646		82,687	4,522,529
Total	786,507	92,991	5,782,037	11,079,483	143,907	1,590,041	19,474,966

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralization. Other collateral includes financial claims, inventories, receivables and letters of credit and guarantees.

c. Derivatives

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.6.2016
Financial institutions	372,377	197,674	668,988				1,239,039
Corporate customers	269,591	32,998	434,241				736,829
Individuals	54,720	4,556	17,393				76,668
Total	696,687	235,228	1,120,621	0	0	0	2,052,536

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2015
Financial institutions	677,331	309,716	531,764				1,518,811
Corporate customers	462,125	62,294	278,487				802,905
Individuals	18,136	27,391	18,533				64,060
Total	1,157,592	399,401	828,784	0	0	0	2,385,776

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralization.

39. Foreclosed assets

Should a borrower default on their obligations the Group may initiate foreclosure of pledged assets. In certain circumstances the Group may bid for the foreclosed assets to protect its interests. Should the Group be the highest bidder it is Group policy to classify such assets as held for sale and dispose of them as soon as possible. The value of foreclosed assets is specified as follows:

	30.6.2016	31.12.2015
Buildings and land	53,709	58,313
Total	53,709	58,313

Notes to the Condensed Consolidated Interim Financial Statements

40. Loan-to-value

a. General

The loan-to-value ratio (LTV) is the ratio of the gross amount of the loan to the value of the collateral, if any. The general creditworthiness of a customer is viewed as the most reliable indicator of credit quality of a loan. Valuation of collateral held against loans is therefore not updated unless the creditworthiness of a borrower deteriorates.

b. Breakdown

The breakdown of loans to customers by LTV is specified as follows:

	30.6.2016	%	31.12.2015	%
Less than 50%	6,617,162	28.8%	5,631,820	26.1%
51-70%	6,610,179	28.7%	8,478,930	39.3%
71-90%	4,487,956	19.5%	3,189,633	14.8%
91-100%	1,007,118	4.4%	613,606	2.8%
More than 100%	2,931,595	12.7%	2,404,247	11.1%
No collateral	1,352,272	5.9%	1,274,503	5.9%
Total	23,006,282	100.0%	21,592,738	100.0%

41. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 34).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base. Single large exposures net of risk adjusted mitigation take into account the effects of collateral held by the Bank, and other credit enhancements, in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

	30.6.2016		31.12.2015	
Large exposures before risk adjusted mitigation	Number	Amount	Number	Amount
10-20% of capital base	13	10,257,560	7	6,476,091
20-25% of capital base	2	2,470,560	0	0
Exceeding 25% of capital base	2	4,153,454	1	1,680,741
Total	17	16,881,574	8	8,156,833
Thereof nostro accounts with foreign banks with S&P rating of A- or higher	4	5,353,115	3	1,777,595
Large exposures net of risk adjusted mitigation	6	4,794,841	2	1,774,606

No single large exposure net of risk adjusted mitigation exceeds 25% of capital base in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

Notes to the Condensed Consolidated Interim Financial Statements

42. Liquidity risk

Maturity analysis of financial assets and financial liabilities

30.6.2016	Up to 1	1-3	3-12	1-5	Over 5	Gross	Carrying
Financial assets by type	month	months	months	years	years	inflow/ (outflow)	amount
<i>Non-derivative assets</i>							
Cash and cash equivalents	33,738,167					33,738,167	33,738,167
Receivables from Central Bank		434,204				434,204	434,204
Fixed income securities	6,090,396	148,946				6,239,342	6,252,289
Shares and other variable income securities	2,302,171	78,344	499,100			2,879,615	2,879,615
Securities used for hedging	7,137,082					7,137,082	7,137,082
Loans to customers	2,061,510	2,990,331	8,851,497	7,810,096	5,527,434	27,240,868	23,006,282
Other assets	2,673,614	167,703	132,369			2,973,686	2,973,686
	54,002,940	3,819,528	9,482,965	7,810,096	5,527,434	80,642,964	76,421,326
<i>Derivative assets</i>							
Inflow	7,621,953	496,607	201,378	14,609		8,334,546	
Outflow	(7,222,915)	(457,138)	(150,346)	(262)		(7,830,661)	
	399,038	39,469	51,031	14,347	0	503,885	503,885
<i>Financial liabilities by type</i>							
<i>Non-derivative liabilities</i>							
Deposits from customers	(32,275,991)	(5,498,612)	(2,552,434)	(616,310)	(98,460)	(41,041,806)	40,901,644
Deposits from credit institutions	(989,917)					(989,917)	989,917
Borrowings	(4,788,329)	(11,333,806)	(3,060,125)			(19,182,260)	18,780,756
Issued bills		(2,000,000)	(2,000,000)			(4,000,000)	3,908,448
Subordinated liabilities		(30,427)		(122,730)	(711,278)	(864,435)	583,686
Short positions held for trading	(650,943)					(650,943)	650,943
Short positions used for hedging	(3,325,519)					(3,325,519)	3,325,519
Other liabilities	(1,614,061)	(475,376)	(284,164)	(33,977)		(2,407,579)	2,407,579
	(43,644,760)	(19,338,220)	(7,896,723)	(773,018)	(809,738)	(72,462,459)	71,548,491
<i>Derivative liabilities</i>							
Inflow	4,286,600	1,183,817				5,470,417	
Outflow	(4,557,509)	(1,325,443)				(5,882,952)	
	(270,909)	(141,625)	0	0	0	(412,534)	412,534
Unrecognized financial items							
<i>Loan commitments</i>							
Inflow	460,873	875,485	1,558,391	37,523		2,932,272	
Outflow	(2,848,810)					(2,848,810)	
<i>Financial guarantee contracts</i>							
Inflow	589,677					589,677	
Outflow	(589,677)					(589,677)	
	(2,387,937)	875,485	1,558,391	37,523	0	83,462	
Summary							
Non-derivative assets	54,002,940	3,819,528	9,482,965	7,810,096	5,527,434	80,642,964	
Derivative assets	399,038	39,469	51,031	14,347		503,885	
Non-derivative liabilities	(43,644,760)	(19,338,220)	(7,896,723)	(773,018)	(809,738)	(72,462,459)	
Derivative liabilities	(270,909)	(141,625)				(412,534)	
Net assets (liabilities) excluding unrecognized items							
.....	10,486,309	(15,620,848)	1,637,274	7,051,425	4,717,696	8,271,856	
Net unrecognized items	(2,387,937)	875,485	1,558,391	37,523		83,462	
Net assets (liabilities)	8,098,372	(14,745,363)	3,195,665	7,088,948	4,717,696	8,355,318	

Notes to the Condensed Consolidated Interim Financial Statements

42. Liquidity risk (cont.)

31.12.2015	Up to 1	1-3	3-12	1-5	Over 5	Gross	Carrying
Financial assets by type	month	months	months	years	years	inflow/ (outflow)	amount
<i>Non-derivative assets</i>							
Cash and cash equivalents	19,929,033					19,929,033	19,916,973
Fixed income securities	4,456,504	192,598				4,649,103	4,649,103
Shares and other variable income securities	2,369,818	102,144	534,080			3,006,042	3,006,042
Securities used for hedging	11,057,833					11,057,833	11,057,833
Loans to customers	3,131,621	1,912,750	7,082,554	8,683,177	7,093,109	27,903,210	21,592,738
Other assets	53,638	187,331	384,221			625,190	625,190
	40,998,447	2,394,823	8,000,856	8,683,177	7,093,109	67,170,411	60,847,879
<i>Derivative assets</i>							
Inflow	6,790,416	1,464,205		51,312		8,305,932	
Outflow	(6,594,796)	(1,377,726)		(5,418)		(7,977,940)	
	195,620	86,479	0	45,894	0	327,993	327,993
<i>Financial liabilities by type</i>							
<i>Non-derivative liabilities</i>							
Deposits from customers	(23,441,881)	(3,687,399)	(2,450,025)	(1,031,159)	(99,059)	(30,709,523)	30,544,407
Deposits from credit institutions	(714,134)					(714,134)	714,134
Borrowings	(3,037,419)	(9,237,150)	(3,116,222)			(15,390,791)	15,220,126
Issued bills		(2,000,000)	(2,000,000)			(4,000,000)	3,908,480
Subordinated liabilities			(30,008)		(701,495)	(731,504)	562,339
Short positions held for trading	(783,662)					(783,662)	783,662
Short positions used for hedging	(1,024,390)					(1,024,390)	1,024,390
Other liabilities		(1,310,733)				(1,310,733)	1,310,733
	(29,001,486)	(16,235,282)	(7,596,255)	(1,031,159)	(800,555)	(54,664,736)	54,068,271
<i>Derivative liabilities</i>							
Inflow	9,036,198	541,918				9,578,116	
Outflow	(9,829,366)	(736,236)				(10,565,602)	
	(793,168)	(194,319)	0	0	0	(987,486)	987,486
Unrecognized financial items by type							
<i>Loan commitments</i>							
Inflow	296,910	1,120,322	1,788,736	2,099		3,208,067	
Outflow	(3,114,921)					(3,114,921)	
<i>Financial guarantee contracts</i>							
Inflow	540,321					540,321	
Outflow	(540,321)					(540,321)	
	(2,818,011)	1,120,322	1,788,736	2,099	0	93,146	
Summary							
Non-derivative assets	40,998,447	2,394,823	8,000,856	8,683,177	7,093,109	67,170,411	
Derivative assets	195,620	86,479		45,894		327,993	
Non-derivative liabilities	(29,001,486)	(16,235,282)	(7,596,255)	(1,031,159)	(800,555)	(54,664,736)	
Derivative liabilities	(793,168)	(194,319)				(987,486)	
Net assets (liabilities) excluding unrecognized items							
Net assets (liabilities)	11,399,413	(13,948,299)	404,601	7,697,912	6,292,555	11,846,182	
Net unrecognized items	(2,818,011)	1,120,322	1,788,736	2,099		93,146	
Net assets (liabilities)	8,581,403	(12,827,977)	2,193,338	7,700,011	6,292,555	11,939,328	

Maturity analysis of financial assets and financial liabilities is based on contractual cash flows or, in the case of held for trading securities, expected cash flows. If an amount receivable or payable is not fixed, e.g. for inflation indexed assets and liabilities, the maturity analysis uses estimates based on current conditions.

Cash flows relating to unrecognized balance sheet items (unused loan commitments and financial guarantee contracts) are presented separately from financial assets and financial liabilities. Both contractual outflows and inflows are shown, to fully reflect the nature of these items.

It should be noted that the Group's expected cashflows sometimes vary considerably from the contractual cashflows, most significantly in that demand deposits from customers are expected to remain stable or increase in the long term. In this case the presentation used reflects the worst case scenario from the Group's perspective. Furthermore, the analysis does not consider any measures that could be taken to convert long-term assets to cash through sale.

Notes to the Condensed Consolidated Interim Financial Statements

43. Interest rate risk associated with trading portfolios

a. Breakdown

The breakdown of financial assets and liabilities in trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	30.6.2016
Fixed income securities			1,771,676	2,575,875	2,446,327	6,793,878
Short positions - fixed income securities					(650,943)	(650,943)
Net imbalance	0	0	1,771,676	2,575,875	1,795,384	6,142,935

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2015
Fixed income securities			426,664	2,897,702	1,324,736	4,649,103
Short positions - fixed income securities					(783,662)	(783,662)
Net imbalance	0	0	426,664	2,897,702	541,074	3,865,441

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in trading portfolios that are subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

	Shift in basis points	Downward	30.6.2016 Upward	Downward	31.12.2015 Upward
Indexed	50	35,248	(35,248)	(7,915)	7,915
Non-indexed	100	112,274	(112,274)	121,360	(121,360)
Total		147,523	(147,523)	113,445	(113,445)

44. Interest rate risk associated with non-trading portfolios

a. Breakdown

The breakdown of financial assets and liabilities in non-trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

30.6.2016

Financial assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	33,738,167					33,738,167
Receivables from Central Bank	434,204					434,204
Loans to customers	18,890,399	3,105,223	357,688	541,937	111,036	23,006,282
Financial assets excluding derivatives	53,062,771	3,105,223	357,688	541,937	111,036	57,178,654
Effect of derivatives	7,054,800	936,507	500,000	520,000		9,011,307
Total	60,117,571	4,041,730	857,688	1,061,937	111,036	66,189,962

Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers	40,841,213	38,457	7,225		14,748	40,901,644
Deposits from credit institutions	989,917					989,917
Borrowings	4,568,819	11,233,165	2,978,773			18,780,756
Issued bills		1,971,604	1,936,844			3,908,448
Subordinated liabilities					583,686	583,686
Financial liabilities excluding derivatives	46,399,949	13,243,226	4,922,842	0	598,434	65,164,451
Effect of derivatives	4,553,105	1,247,258				5,800,363
Total	50,953,054	14,490,484	4,922,842	0	598,434	70,964,814

Total interest repricing gap	9,164,517	(10,448,754)	(4,065,154)	1,061,937	(487,398)	(4,774,853)
-------------------------------------	-----------	--------------	-------------	-----------	-----------	-------------

Notes to the Condensed Consolidated Interim Financial Statements

44. Interest rate risk associated with non-trading portfolios (cont.)

31.12.2015

Financial assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	19,233,507	683,466				19,916,973
Receivables from Central Bank						0
Loans to customers	16,574,015	3,066,303	1,269,637	555,007	127,777	21,592,738
Financial assets excluding derivatives	35,807,522	3,749,769	1,269,637	555,007	127,777	41,509,711
Effect of derivatives	11,906,641	1,302,604		1,020,000		14,229,245
Total	47,714,163	5,052,373	1,269,637	1,575,007	127,777	55,738,956
Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers	30,428,269	522	97,118		18,498	30,544,407
Deposits from credit institutions	714,134					714,134
Borrowings	3,037,948	9,154,793	3,027,386			15,220,126
Issued bills						0
Subordinated liabilities					562,339	562,339
Financial liabilities excluding derivatives	34,180,351	9,155,315	3,124,504	0	580,837	47,041,006
Effect of derivatives	3,583,064	1,144,293				4,727,357
Total	37,763,414	10,299,608	3,124,504	0	580,837	51,768,363
Total interest repricing gap	9,950,748	(5,247,235)	(1,854,867)	1,575,007	(453,061)	3,970,593

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in non-trading portfolios subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

Currency	Shift in basis points	30.6.2016		31.12.2015	
		Downward	Upward	Downward	Upward
ISK, indexed	50	(9,996)	9,996	(194)	194
ISK, non-indexed	100	27,385	(27,385)	(11,541)	11,541
Other currencies	20	139	(139)	159	(159)
Total		17,528	(17,528)	(11,575)	11,575

Notes to the Condensed Consolidated Interim Financial Statements

45. Exposure towards changes in the CPI

a. Definition

Exposure towards changes in CPI is the risk that fluctuations in the Icelandic Consumer Price Index (CPI) will affect the balance and cash flow of indexed financial instruments.

The Group is exposed to Icelandic inflation since CPI indexed assets exceed CPI indexed liabilities. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in CPI are recognised in the income statement as interest.

b. Management

The Group controls its indexation risk through derivatives contracts and sales and purchases of indexed bonds, mostly government bonds, and thus keeps its inflationary position within the limits set by the ALCO committee.

c. Balance of CPI linked assets and liabilities

The net balance of CPI linked assets and liabilities is specified as follows:

	30.6.2016	31.12.2015
Assets	6,447,288	6,991,287
Liabilities	(4,749,506)	(5,497,903)
Total	1,697,782	1,493,384

d. Sensitivity to changes in CPI

Given the net balance of CPI linked assets and liabilities, a 1% change in the CPI would, with other things constant, result in the following changes to the Group's pre-tax profit.

	30.6.2016		31.12.2015	
	-1%	1%	-1%	1%
Government bonds	(3,133)	3,133	(658)	658
Other fixed income securities	(13,782)	13,782	(8,173)	8,173
Loans to customers	(37,358)	37,358	(50,883)	50,883
Derivatives	(10,200)	10,200	(10,200)	10,200
Short positions	2,000	(2,000)	7,295	(7,295)
Deposits	39,995	(39,995)	42,184	(42,184)
Subordinated debt	5,500	(5,500)	5,500	(5,500)
	(16,978)	16,978	(14,934)	14,934

The effect on equity would be the same.

46. Currency risk

a. Definition

Currency risk arises when financial instruments are not denominated in the functional currency of the respective Group entity and can affect both the Group's income statement and statement of financial position. A part of the Group's financial assets and liabilities is denominated in foreign currencies.

b. Management

Currency positions are monitored by risk management and reported to the ALCO committee. Any mismatch between assets and liabilities in each currency is monitored closely and managed within limits.

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 30 June 2016 and 30 June 2015 the Group's position in foreign currencies was within those limits.

c. Exchange rates

The following exchange rates have been used by the Group in the preparation of these financial statements:

	Closing 30.6.2016	Average 6m 2016	Closing 31.12.2015	Average 6m 2015
EUR/ISK	136.8	140.6	141.3	149.1
USD/ISK	123.5	126.1	123.4	133.6

Notes to the Condensed Consolidated Interim Financial Statements

46. Currency risk (cont.)

d. Breakdown of financial assets and financial liabilities denominated in foreign currencies

30.6.2016

Financial assets

	EUR	USD	GBP	NOK	Other currencies	Total
Cash and cash equivalents	4,970,813	6,836,100	695,023	128,268	574,789	13,204,994
Fixed income securities						0
Shares and other variable income securities			(2)			(2)
Loans to customers	891,678	162,993			164,674	1,219,344
Other assets		24,646				24,646
Financial assets excluding derivatives	5,862,491	7,023,739	695,021	128,268	739,463	14,448,983
Derivatives	83,293	148,594	19,532			251,418
Total	5,945,784	7,172,333	714,553	128,268	739,463	14,700,401

Financial liabilities

	EUR	USD	GBP	NOK	Other currencies	Total
Deposits from customers	3,952,850	7,079,142	709,807	155,594	376,836	12,274,228
Borrowings	1,408,799					1,408,799
Financial liabilities excluding derivatives	5,361,649	7,079,142	709,807	155,594	376,836	13,683,027
Derivatives	683,750				145,070	828,820
Total	6,045,399	7,079,142	709,807	155,594	521,906	14,511,847

Net currency position

	EUR	USD	GBP	NOK	Other currencies	Total
Financial assets	5,945,784	7,172,333	714,553	128,268	739,463	14,700,401
Financial liabilities	(6,045,399)	(7,079,142)	(709,807)	(155,594)	(521,906)	(14,511,847)
Financial guarantee contracts	66,158	19,912				86,070
Total	(33,457)	113,103	4,746	(27,326)	217,557	274,623

31.12.2015

Financial assets

	EUR	USD	GBP	NOK	Other currencies	Total
Cash and cash equivalents	2,114,311	1,807,189	432,716	34,624	331,630	4,720,470
Fixed income securities				73,865		73,865
Shares and other variable income securities		6,464	24		35,271	41,759
Loans to customers	926,020	202,315			20,125	1,148,460
Other assets		26,641				26,641
Financial assets excluding derivatives	3,040,331	2,042,609	432,740	108,489	387,027	6,011,196
Derivatives	4,939					4,939
Total	3,045,271	2,042,609	432,740	108,489	387,027	6,016,136

Financial liabilities

	EUR	USD	GBP	NOK	Other currencies	Total
Deposits from customers	2,460,166	2,008,660	494,917	98,399	171,802	5,233,944
Borrowings	41,980					41,980
Financial liabilities excluding derivatives	2,502,146	2,008,660	494,917	98,399	171,802	5,275,924
Derivatives	706,600					706,600
Total	3,208,746	2,008,660	494,917	98,399	171,802	5,982,524

Net currency position

	EUR	USD	GBP	NOK	Other currencies	Total
Financial assets	3,045,271	2,042,609	432,740	108,489	387,027	6,016,136
Financial liabilities	(3,208,746)	(2,008,660)	(494,917)	(98,399)	(171,802)	(5,982,524)
Financial guarantee contracts	115,882	12,476				128,359
Total	(47,593)	46,426	(62,178)	10,091	215,224	161,970

Notes to the Condensed Consolidated Interim Financial Statements

46. Currency risk (cont.)

e. Sensitivity to currency risk

Given the net currency position, a 10% change in the value of the ISK would, with other things constant, result in the following changes to the Group's pre-tax profit.

		30.6.2016		31.12.2015	
Assets and liabilities denominated in foreign currencies	-10%	+10%	-10%	+10%	
EUR	(3,346)	3,346	(4,759)	4,759	
USD	11,310	(11,310)	4,643	(4,643)	
GBP	475	(475)	(6,218)	6,218	
NOK	(2,733)	2,733	1,009	(1,009)	
Other currencies	21,756	(21,756)	21,522	(21,522)	
Total	27,462	(27,462)	16,197	(16,197)	

The effect on equity would be the same.

47. Other price risk

Other price risk arises from changes in the market prices of shares and other variable income securities in the Group's portfolio. The Group directly holds listed and unlisted shares and other variable income securities, while also gaining exposure to listed shares through portfolio options trading. The table below shows the Group's net exposure, including delta-adjusted options exposure.

	30.6.2016		31.12.2015			
	Average	Max	Exposure	Average	Max	Exposure
Listed shares	1,108,481	1,697,232	1,419,151	550,031	1,373,262	725,822
Unlisted shares	346,948	471,600	438,573	417,564	692,292	527,601
Unlisted unit shares	1,161,330	1,327,207	1,035,583	751,839	1,206,151	1,102,037
Total			2,893,307			2,355,461

48. Operational risk

a. Definition

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, from employee error or from external events. Operational risk includes legal risk, but excludes reputational risks. It is therefore inherent in all areas of business activities.

b. Management

Operational risk can be reduced through staff training, process re-design and enhancement of the control environment. The risk management unit monitors operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. The unit takes an active role in internal control and quality management.

Notes to the Condensed Consolidated Interim Financial Statements

Financial assets and liabilities

49. Accounting classification of financial assets and liabilities

The accounting classification of financial assets and liabilities is specified as follows:

30.6.2016				Other at	Total
Financial assets	Held for trading	Designated at fair value	Loans and receivables	amortised cost	carrying amount
Cash and cash equivalents			33,738,167		33,738,167
Receivables from Central Bank			434,204		434,204
Fixed income securities	6,252,289				6,252,289
Shares and other variable income securities	2,471,964	407,651			2,879,615
Securities used for hedging	7,137,082				7,137,082
Loans to customers			23,006,282		23,006,282
Derivatives	503,885				503,885
Other assets			2,973,686		2,973,686
Total	16,365,220	407,651	60,152,340	0	76,925,211

Financial liabilities	Held for trading	Designated at fair value	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits from customers				40,901,644	40,901,644
Deposits from credit institutions				989,917	989,917
Borrowings				18,780,756	18,780,756
Issued bills				3,908,448	3,908,448
Subordinated liabilities				583,686	583,686
Short positions held for trading	650,943				650,943
Short positions used for hedging	3,325,519				3,325,519
Derivatives	412,534				412,534
Other liabilities				2,407,579	2,407,579
Total	4,388,996	0	0	67,572,030	71,961,025

31.12.2015				Other at	Total
Financial assets	Held for trading	Designated at fair value	Loans and receivables	amortised cost	carrying amount
Cash and cash equivalents			19,916,973		19,916,973
Receivables from Central Bank					0
Fixed income securities	4,625,217	23,886			4,649,103
Shares and other variable income securities	2,490,530	515,513			3,006,042
Securities used for hedging	11,057,833				11,057,833
Loans to customers			21,592,738		21,592,738
Derivatives	327,993				327,993
Other assets			625,190		625,190
Total	18,501,572	539,399	42,134,901	0	61,175,872

Financial liabilities	Held for trading	Designated at fair value	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits from customers				30,544,407	30,544,407
Deposits from credit institutions				714,134	714,134
Borrowings				15,220,126	15,220,126
Issued bills				3,908,480	3,908,480
Subordinated liabilities				562,339	562,339
Short positions held for trading	783,662				783,662
Short positions used for hedging	1,024,390				1,024,390
Derivatives	987,486				987,486
Other liabilities				1,310,733	1,310,733
Total	2,795,538	0	0	52,260,219	55,055,757

Notes to the Condensed Consolidated Interim Financial Statements

50. Financial assets and liabilities measured at fair value

a. Fair value hierarchy

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices. For other financial instruments the Bank determines fair value using various valuation techniques. IFRS 13 specifies a fair value hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources whereas unobservable inputs reflect the Bank's market assumptions. These two types of inputs result in the following fair value hierarchy:

- Level 1

Inputs are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2

Inputs are not quoted market prices but are observable either directly, i.e. as prices, or indirectly, i.e. derived from prices. This category includes financial instruments valued using quoted prices in active markets for similar instruments, quoted prices for similar or identical instruments in markets that are considered less than active and other instruments which are valued using techniques which rely primarily on inputs that are directly or indirectly observable from market data.

- Level 3

Inputs are not observable or unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments are required to reflect the differences between the instruments.

b. Valuation process

The Bank's ALCO committee is responsible for fair value measurements of financial assets and liabilities classified as level 2 or level 3 instruments. The valuation is carried out by personnel from Risk and Treasury and is revised at least quarterly, or when there are indications of significant changes in the underlying inputs.

c. Valuation techniques

The Group uses widely recognized valuation techniques, including net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and other valuation models.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase in fair value, indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and no later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Notes to the Condensed Consolidated Interim Financial Statements

50. Financial assets and liabilities measured at fair value (cont.)

d. Fair value hierarchy classification

The fair value of financial assets and liabilities measured at fair value in the statement of financial position is classified into the fair value hierarchy as follows:

30.6.2016

Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities	6,252,289			6,252,289
Shares and other variable income securities	2,222,899	218,143	30,923	2,471,964
Securities used for hedging	7,137,082			7,137,082
Derivatives		503,885		503,885
Designated at fair value				
Fixed income securities				0
Shares and other variable income securities		221	407,430	407,651
Total	15,612,269	722,250	438,352	16,772,871

Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions held for trading	650,943			650,943
Short positions used for hedging	3,325,519			3,325,519
Derivatives		412,534		412,534
Total	3,976,461	412,534	0	4,388,996

There were no transfers between levels during the period.

31.12.2015

Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities	4,625,217			4,625,217
Shares and other variable income securities	2,369,818	102,144	18,568	2,490,530
Securities used for hedging	11,057,833			11,057,833
Derivatives		327,993		327,993
Designated at fair value				
Fixed income securities		23,886		23,886
Shares and other variable income securities		243	515,270	515,513
Total	18,052,867	454,265	533,838	19,040,970

Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions held for trading	783,654	7		783,662
Short positions used for hedging	1,024,390			1,024,390
Derivatives		987,486		987,486
Total	1,808,045	987,494	0	2,795,538

There were no transfers between levels during the period.

Notes to the Condensed Consolidated Interim Financial Statements

50. Financial assets and liabilities measured at fair value (cont.)

e. Reconciliation of changes in Level 3 fair value measurements

	Fixed income securities	Shares and other var. income securities	Total
30.6.2016			
Balance as at 1 January 2016	0	533,838	533,838
Total gains and losses in profit or loss		165,489	165,489
Purchases		209,121	209,121
Settlements			0
Sales		(470,096)	(470,096)
Balance as at 30 June 2016	0	438,352	438,352

	Fixed income securities	Shares and other var. income securities	Total
31.12.2015			
Balance as at 1 January 2015	239,310	227,352	466,662
Total gains and losses in profit or loss	28,417	(61,372)	(32,956)
Additions through a merger		59,693	59,693
Purchases		308,165	308,165
Settlements	(2,470)		(2,470)
Sales	(265,257)		(265,257)
Balance as at 31 December 2015	0	533,838	533,838

f. Change in unrealised gains or losses related to Level 3 financial assets held at end of the period

	Fixed income securities	Shares and other var. income securities	Total
Net financial income - 6m 2016			
Financial assets designated at fair value through profit or loss		165,489	165,489
Total	0	165,489	165,489

	Fixed income securities	Shares and other var. income securities	Total
Net financial income - 6m 2015			
Financial assets designated at fair value through profit or loss	28,417	(61,372)	(32,956)
Total	28,417	(61,372)	(32,956)

g. Fair value measurements for Level 3 financial assets

Level 3 assets consist primarily of highly illiquid, unlisted bonds, shares and share certificates. Each asset is evaluated separately but assets within an asset group share a valuation method. The following valuation methods are in use in 2016:

Asset class	Method	Significant unobservable input	Range	Book value 30.6.2016
Unlisted shares	P/B multiplier	Equity	1.0-1.5	438,352
Total				438,352

Asset class	Method	Significant unobservable input	Range	Book value 31.12.2015
Unlisted shares	P/B multiplier	Equity	1.0-1.5	527,358
Unlisted unit shares	Investment multiplier	Original investment	0,05	6,480
Total				533,838

Given the methods used, the possible range of the significant unobservable inputs is wide. When determining the values used the Group considers the financial strength of the entity in question, recent trades if any and multipliers for comparable instruments.

Notes to the Condensed Consolidated Interim Financial Statements

50. Financial assets and liabilities measured at fair value (cont.)

h. The effect of unobservable inputs in Level 3 fair value measurements

The Group believes its estimates represent appropriate approximations of fair value and that the use of different valuation methodologies and reasonable changes in assumptions or unobservable inputs would not significantly change the estimates.

A 10% change in the estimates would have the following effect on profit before taxes:

	+10%	-10%
Shares and other variable income securities	43,835	(43,835)
Total	43,835	(43,835)

51. Financial assets and liabilities not measured at fair value

The Group holds financial instruments which are not measured at fair value. Except for loans to customers, the Group believes that the best estimate of the fair value of these financial instruments is equal to the carrying amount at the reporting date and does therefore not report a fair value for these financial instruments. Loans to customers are classified as level 3, in the fair value hierarchy, and have a book value of ISK 23,006,867 thousand at end of June 2016. The estimated fair value of loans to customers at end of June 2016 is ISK 22,884,688 thousand.

Cash and cash equivalents includes several components as detailed in note 11. Cash equivalent assets are either balances available on-demand or on very short notice, or other assets easily converted to cash. Other financial assets consist primarily of short-term receivables. The carrying amount of these assets is therefore a reasonable approximation of their fair value.

Deposits, deposits from credit institutions and other borrowings are typically either short-term or have variable interest rates. Other liabilities consist primarily of accounts payables, withholding taxes and other short-term payables. The carrying amount of these liabilities is therefore considered a reasonable approximation of their fair value.

Notes to the Condensed Consolidated Interim Financial Statements

Segment information

52. Business segments

Following the merger with Straumur fjárfestingabanki hf. the Bank's organizational chart and operating segments were changed. Work associated with this took place during the second half of 2015. In the beginning of 2016 management reporting based on the new operating segments was implemented. The Group therefore presents segment reporting for the period ended at 30 June 2016. Segment reporting for the comparative period for 2015 is however not presented as it was based on different operating segments and is not comparable to the 2016 figures.

	Corporate Banking	Corporate Finance	Capital Markets	Proprietary trading and Treasury	Asset Management	Support functions and eliminations	Total
6m 2016							
Net interest income	484,669	5,930	85,410	(58,525)	10,985	(261)	528,208
Net fee and commission income	185,539	85,111	398,913	34,301	482,695	(21,389)	1,165,170
Net financial income	173,457	0	6,991	268,928	4,044	0	453,420
Other operating income	5,293	3,805	1,362	32	1,027	2,483	14,002
Total operating income	848,959	94,847	492,676	244,735	498,751	(19,167)	2,160,800
Salaries and related expenses	(103,750)	(88,879)	(146,049)	(79,656)	(251,826)	(371,232)	(1,041,392)
Other operating expenses	(149,640)	(32,915)	(80,099)	(26,610)	(89,743)	(247,979)	(626,986)
Impairment of loans and receivables	(105,242)						(105,242)
Profit (loss) before cost allocation and tax	490,327	(26,947)	266,527	138,468	157,183	(638,378)	387,180
Net segment revenue from external customers	595,238	94,847	740,622	250,510	498,751	(19,167)	2,160,800
Net segment revenue from other segment	253,721	0	(247,946)	(5,775)	0	0	0

Internal reporting is based on the results of the Bank, which accounts for around 85% of the net operating income of the Group, and do not take into account the effects of consolidation. As a result, elimination entries are needed to reconcile internal reporting with consolidated results. Elimination entries arise primarily from interest calculated on internal balances, share in the results of subsidiaries and fees charged for services the parent provides to subsidiaries.

Notes to the Condensed Consolidated Interim Financial Statements

Other information

53. Related parties

a. Definition of related parties

The Group has a related party relationship with the board members of the Bank, the CEO of the Bank and key employees (together referred to as management), associates as disclosed in note 19, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

b. Arm's length

Transactions with related parties are carried out at arm's length and subject to an annual review by the Bank's internal auditor.

c. Effects on statement of financial position

	Loans & receivables	Deposits & payables
30.6.2016		
Shareholders	1,272	149,099
Management	9,022	468,100
Total	10,294	617,199
31.12.2015		
Shareholders	1,291	61,950
Management	7,136	727,446
Total	8,426	789,397

d. Off-balance sheet obligations

There were no off-balance sheet obligations with related parties during period.

e. Effects on income statement

	Interest income	Interest expense	Fees received	Fees paid
6m 2016				
Shareholders	98	10,056	27	5,036
Management	2,867	23,920	34,475	0
Associates	9	2,173	1,263	3,879
Total	2,974	36,149	35,765	8,915
6m 2015				
Shareholders	24	6,670	(2,839)	10,169
Management	314	655	55	1,539
Associates	0	4,721	0	0
Total	314	5,376	55	1,539

Notes to the Condensed Consolidated Interim Financial Statements

54. Other matters

During the first half of 2016, the Group sold its shareholding in Reiknistofa bankanna hf. The buyer has fulfilled its obligations under the purchase agreement and the Group has transferred the shares to the buyer. The Group has however been informed that Reiknistofa bankanna hf has not updated its shareholder registry to reflect the sale. This is due to the fact that a party to the shareholder agreement has contested the sale as it believes it exercised its right to buy the shares based on pre-emptive rights.

55. Events after the reporting date

There are no material events after the reporting date.