Condensed Consolidated

Interim Financial Statements

Unaudited

Three months ended 31 March 2016

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

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Directors' Report

The unaudited Condensed Consolidated Financial Statements of Íslandsbanki hf. (“the Bank” or “Íslandsbanki”) for the period 1 January to 31 March 2016 comprise the Condensed Interim Financial Statements of Íslandsbanki hf. and its subsidiaries, together referred to as “the Group”.

Operations in the reporting period

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

The profit from the Group's operations for the reporting period amounted to ISK 3,510 million, which corresponds to a 6.9% annualised return on equity. The Group's total equity amounted to ISK 205,627 million and total assets were ISK 1,020,775 million at the end of the reporting period. The Group's total capital ratio, calculated according to the Act on Financial Undertakings, was 29.7%, well above the current short- to medium-term target of 23%. The year-end liquidity position was strong and well above the regulatory minimum. At the end of the reporting period, the Group employed 1,180 full-time members of staff, including 922 within the Bank itself.

The Icelandic economy continues to perform strongly. Inflation and unemployment are low and investments trending upwards. Economic conditions therefore seem ripe for lifting of the capital controls, which is expected to take place later in the year.

Customer deposits reduced by ISK 49 billion as large depositors withdrew funds as a result of composition agreements of the old banks.

In January 2016, Standard & Poor's upgraded the Republic of Iceland's sovereign credit rating to BBB+, citing further progress towards capital account liberalisation and declining debt levels. Shortly thereafter, Íslandsbanki's ratings were affirmed at BBB- with a positive outlook.

Outlook

The strong economic environment continues to suggest that the outlook for the Bank's core operations is favourable. Demand for new lending is at healthy levels and there is good activity in the capital markets. The Icelandic Government is expected to lift the capital controls in the latter half of the year, which entails both risks and opportunities for the Bank.

The Bank has announced plans to relocate and merge its headquarters to Nordurturn in Kópavogur. The headquarters are currently in three locations and the relocation will therefore involve substantial efficiency gains. The Bank previously had plans to merge the headquarters in the current location at Kirkjusandur, but had to amend those plans due to a mould problem discovered in the building. The cost of repairing the building is now being estimated and could call for an impairment charge.

Risk management

The Bank is exposed to various risks. The management of these risks is an integral part of the Bank's operations. The ultimate responsibility for ensuring an adequate risk management framework lies with the Board of Directors. The Board defines and communicates the acceptable level of risk through the Bank's risk management policies. The Bank's risk management framework and policies are discussed under Notes 40-58 to the financial statements.

Corporate social responsibility

The Bank has issued a Global Compact Report that summarises key areas of its Corporate Social Responsibility ("CSR") policy, which are business, human capital, community, and environment. The Bank's aim is to be a forward-looking and reliable banking institution that is responsible in all of its actions and plays a proactive role in enhancing the community and the environment in which it operates.

Ownership

Íslandsbanki is fully owned by the Icelandic Government. The Icelandic State Treasury owns a 95% stake in the Bank through the holding company ISB Holding ehf. and a 5% stake directly. The Icelandic State Financial Investments (ISFI – Bankasýsla ríkisins) manages the ownership stake in the Bank on behalf of the Icelandic State Treasury. At the end of January 2016 the Bank's previous owner, Glitnir hf., signed a composition agreement to transfer its 95% share ownership in the Bank to the Icelandic Government as part of a stability contribution. The change of control was approved by the competition authorities in March 2016 and the shares transferred to the Icelandic State Treasury.

At the Bank's Annual General Meeting in April a new Board of Directors was elected for the Bank. The Board members are: Anna Thórdardóttir, Audur Finnbogadóttir, Árni Stefánsson, Hallgrímur Snorrason, Heidrún Jónsdóttir, Helga Valfells and Fridrik Sophusson, as Chairman of the Board. Herdís Gunnarsdóttir and Pálmi Kristinsson were elected as Board alternates.

Marianne Økland, Eva Cederbalk, Neil Graeme Brown, Gunnar Fjalar Helgason and Árni Tómasson are no longer members of the Board and Jón Eiríksson and Margrét Kristmannsdóttir are no longer Board alternates.

Directors' Report

Statement by the Board of Directors and the CEO

The unaudited Condensed Consolidated Financial Statements for the period 1 January to 31 March 2016 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union; the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable, to the extent that they are not inconsistent with the requirements of the IFRS as adopted by the EU.

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

To the best of our knowledge, these Condensed Consolidated Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 31 March 2016. It also describes the principal risks and uncertainties currently faced by the Group.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2016.

Reykjavík, 11 May 2016

Board of Directors:

Fridrik Sophusson, Chairman

Helga Valfells, Vice-Chairman

Anna Thórdardóttir

Audur Finnbogadóttir

Árni Stefánsson

Hallgrímur Snorrason

Heidrún Jónsdóttir

Chief Executive Officer:

Birna Einarsdóttir

Condensed Consolidated Income Statement for the three months ended 31 March 2016

	Notes	2016 1.1-31.3	2015 1.1-31.3
Interest income		14,810	11,636
Interest expense		(7,271)	(5,445)
Net interest income	10	7,539	6,191
Fee and commission income		5,021	4,678
Fee and commission expense		(1,877)	(1,773)
Net fee and commission income	11	3,144	2,905
Net financial income	12-13	604	1,764
Net foreign exchange gain (loss)	14	12	(140)
Other operating income	15	151	289
Other net operating income		767	1,913
Total operating income		11,450	11,009
Salaries and related expenses	16	(3,939)	(3,460)
Other operating expenses	17	(2,578)	(2,363)
Contribution to the Depositors' and Investors' Guarantee Fund		(261)	(269)
Bank tax		(691)	(618)
Total operating expenses		(7,469)	(6,710)
Profit before net loan impairment		3,981	4,299
Net loan impairment	18	(320)	2,331
Profit before tax		3,661	6,630
Income tax expense	19	(866)	(1,396)
Profit for the period from continuing operations		2,795	5,234
Profit from discontinued operations, net of income tax		715	162
Profit for the period		3,510	5,396
Profit attributable to:			
Equity holders of Íslandsbanki hf.		3,376	5,317
Non-controlling interests		134	79
Profit for the period		3,510	5,396
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	20	0.27	0.52

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

Amounts are in ISK million

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income for the three months ended 31 March 2016

	2016 1.1-31.3	2015 1.1-31.3
Profit for the period	3,510	5,396
Other comprehensive income for the period (net of tax)	(20)	(19)
Total comprehensive income for the period	3,490	5,377

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

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position
as at 31 March 2016

	Notes	31.3.2016	31.12.2015
Assets			
Cash and balances with Central Bank	6,21	182,453	216,760
Bonds and debt instruments	6	79,873	78,606
Shares and equity instruments	6	18,664	18,320
Derivatives	6,22	2,759	1,981
Loans to credit institutions	6,23	27,811	35,534
Loans to customers	6,24	677,079	665,711
Investments in associates	26	1,009	716
Property and equipment		7,289	7,344
Intangible assets		1,471	1,331
Other assets	29	11,177	6,674
Non-current assets and disposal groups held for sale	30	11,190	12,792
Total Assets		1,020,775	1,045,769
Liabilities			
Deposits from Central Bank and credit institutions	6,31	28,338	25,631
Deposits from customers	6,32-33	544,430	593,245
Derivative instruments and short positions	6,22	4,902	6,981
Debt issued and other borrowed funds	6,34	161,802	150,308
Subordinated loans	6	19,415	19,517
Tax liabilities		8,963	8,358
Other liabilities	35	44,170	36,677
Non-current liabilities and disposal groups held for sale	30	3,128	2,825
Total Liabilities		815,148	843,542
Equity			
Share capital	36	10,000	10,000
Share premium	36	55,000	55,000
Other reserves		5,982	6,002
Retained earnings		130,664	127,288
Total equity attributable to the equity holders of Íslandsbanki hf.		201,646	198,290
Non-controlling interests		3,981	3,937
Total Equity		205,627	202,227
Total Liabilities and Equity		1,020,775	1,045,769

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

Amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity
for the three months ended 31 March 2016

	Attributable to equity holders of Íslandsbanki hf.					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Equity at 1.1.2015	10,000	55,000	2,535	116,288	183,823	1,664	185,487
Total comprehensive income for the period			(19)	5,317	5,298	79	5,377
Changes in non-controlling interests					-		-
Dividends				(9,000)	(9,000)	(234)	(9,234)
Equity at 31.3.2015	10,000	55,000	2,516	112,605	180,121	1,509	181,630
Equity at 1.1.2016	10,000	55,000	6,002	127,288	198,290	3,937	202,227
Total comprehensive income for the period			(20)	3,376	3,356	134	3,490
Changes in non-controlling interests						(90)	(90)
Equity at 31.3.2016	10,000	55,000	5,982	130,664	201,646	3,981	205,627

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

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

Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2016

	Notes	2016 1.1-31.3	2015 1.1-31.3
Cash flows from operating activities:			
Profit for the period		3,510	5,396
Adjustments to reconcile profit for the period to cash flows (used in) operating activities:			
Non-cash items included in profit for the period and other adjustments		2,303	(1,380)
Changes in operating assets and liabilities		(60,804)	(11,586)
Dividends received		21	123
Income tax paid		(1,055)	(1,441)
Net cash (used in) operating activities		(56,025)	(8,888)
Net cash (used in) investing activities		(351)	(328)
Net cash provided by financing activities		10,450	4,316
Net (decrease) in cash and cash equivalents		(45,926)	(4,900)
Effects of foreign exchange rate changes		(44)	(37)
Cash and cash equivalents at the beginning of the period		233,427	118,020
Cash and cash equivalents at the end of the period		187,457	113,083
Reconciliation of cash and cash equivalents:			
Cash on hand	21	3,141	2,579
Cash balances with Central Bank and term deposits	21	164,565	86,479
Bank accounts	23	19,751	24,025
Cash and cash equivalents at the end of the period		187,457	113,083

Interest received from 1 January to 31 March 2016 amounted to ISK 14,838 million (2015: ISK 11,530 million) and interest paid in the same period 2016 amounted to ISK 6,141 million (2015: ISK 5,143 million). Interest is defined as having been paid when it has been deposited into the customer account and is available for the customer's disposal.

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

Amounts are in ISK million

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Notes to the Condensed Consolidated Interim Financial Statements

Accounting policies

General information

1. **Corporate information**

Íslandsbanki hf. is a limited company incorporated and domiciled in Iceland. The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2016 comprise Íslandsbanki hf. (the parent) and its subsidiaries (together referred to as "the Group").

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 11 May 2016.

2. **Basis of preparation**

2.1 *Statement of compliance*

The unaudited Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2016 are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union, the Act on Annual Accounts no. 3/2006 and the Act on Financial Undertakings no. 161/2002.

The Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements of the Group for the year ended 31 December 2015, as well as the unaudited Pillar 3 Report for the year ended 31 December 2015. Both are available at the Bank's website www.islandsbanki.is.

2.2 *Basis of measurement*

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

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

2.3 *Significant accounting judgements and estimates*

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

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

2.4 *Going concern*

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

3. **Significant accounting policies**

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

Operating segments

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

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

The Group is organised into six main operating segments based on products and services:

a) Retail Banking provides comprehensive banking services to individuals and small and medium-sized enterprises through 17 branches, call centre, self service and digital banking platforms. Retail Banking also operates a separately branded unit, Kreditkort, a special credit card branch.

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

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

d) Wealth Management offers a range of wealth and asset management products and services for individuals, corporations and institutional investors. The Wealth Management consists of VÍB and the fund management companies Íslandssjódir and Summa. As of April 2016 Summa will no longer be part of Wealth Management.

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

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

• Borgun hf., a credit card settlement company
• Allianz Ísland hf., an agent for the German insurance company Allianz, and its holding company Hringur eignarhaldsfélag ehf.
• D1 ehf., a commercial real estate company which holds and manages a portfolio of properties for leasing, thereof 15 properties leased by the Group.

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

On the following page is an overview showing the Group's performance with a breakdown by operating segments as well as a reconciliation to the Group's total profit and loss.

4. Cont'd

1 January to 31 March 2016

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	4,239	1,728	442	180	948	94	(92)	7,539
Net fee and commission income	1,128	128	217	552	(43)	1,159	3	3,144
Other net operating income	3	1	144	5	279	302	33	767
Total operating income	5,370	1,857	803	737	1,184	1,555	(56)	11,450
Salaries and related expenses	(1,060)	(269)	(260)	(267)	(38)	(509)	(1,536)	(3,939)
Other operating expenses	(755)	(74)	(47)	(58)	(28)	(501)	(1,115)	(2,578)
Deposit guarantee fund and bank tax	(239)	(2)	(0)	(17)	(694)	-	-	(952)
Net loan impairment	81	(785)	0	0	7	377	-	(320)
Profit (loss) before cost allocation & tax	3,397	727	496	395	431	922	(2,707)	3,661
Net segment revenue from external customers	4,710	4,233	903	175	(367)	1,761	35	11,450
Net segment revenue from other segments	660	(2,376)	(100)	562	1,551	(206)	(91)	0
Depreciation and amortisation	(120)	(4)	-	(1)	(0)	(47)	(93)	(265)

At 31 March 2016	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	401,131	275,457	17,857	5,539	263,278	78,230	(20,717)	1,020,775
Total segment liabilities	412,248	5,080	5,868	46,459	321,018	42,577	(18,102)	815,148
Allocated equity	45,465	40,184	2,810	3,200	100,752	21,215	(7,999)	205,627

1 January to 31 March 2015

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	3,804	1,595	314	160	493	(69)	(106)	6,191
Net fee and commission income	1,035	107	285	492	(18)	992	12	2,905
Other net operating income (exps.)	9	9	66	65	33	2,094	(363)	1,913
Total operating income	4,848	1,711	665	717	508	3,017	(457)	11,009
Salaries and related expenses	(911)	(251)	(225)	(266)	(22)	(410)	(1,375)	(3,460)
Other operating expenses	(622)	(73)	(28)	(57)	(17)	(436)	(1,130)	(2,363)
Deposit guarantee fund and bank tax	(236)	(6)	(0)	(16)	(629)	(0)	-	(887)
Net loan impairment	460	1,952	(0)	-	-	11	(92)	2,331
Profit (loss) before cost allocation & tax	3,539	3,333	412	378	(160)	2,182	(3,054)	6,630
Net segment revenue from external customers	4,568	3,696	800	219	(1,161)	3,233	(346)	11,009
Net segment revenue from other segments	280	(1,985)	(135)	498	1,669	(216)	(111)	0
Depreciation and amortisation	(36)	(3)	(1)	(1)	-	(49)	(98)	(188)

At 31 March 2015	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	378,861	263,336	27,486	4,865	195,412	94,360	(37,931)	926,389
Total segment liabilities	398,762	12,207	6,592	42,886	256,049	55,100	(26,837)	744,759
Allocated equity	41,936	37,206	1,627	2,945	91,652	26,642	(20,378)	181,630

For the three months ended 31 March 2016 12 Amounts are in ISK million

Quarterly statements

5. Operations by quarters:

	Q1* 2016	Q4* 2015	Q3* 2015	Q2* 2015	Q1* 2015
Net interest income	7,539	7,003	7,457	7,359	6,191
Net fee and commission income	3,144	3,235	3,512	3,518	2,905
Net financial income	604	1,455	387	275	1,764
Net foreign exchange gain (loss)	12	(137)	(1,072)	(141)	(140)
Other operating income	151	403	158	252	289
Salaries and related expenses	(3,939)	(3,670)	(3,340)	(3,421)	(3,460)
Other operating expenses	(2,578)	(2,848)	(1,970)	(2,688)	(2,363)
Contribution to the Depositors' and Investors' Guarantee Fund	(261)	(270)	(263)	(265)	(269)
Bank tax	(691)	(818)	(732)	(710)	(618)
Net loan impairment	(320)	409	3,418	1,977	2,331
Profit before tax	3,661	4,762	7,555	6,156	6,630
Income tax	(866)	(1,147)	(1,784)	(1,524)	(1,396)
Profit for the period from continuing operations	2,795	3,615	5,771	4,632	5,234
Profit for the period from discontinued operations	715	274	128	762	162
Profit for the period	3,510	3,889	5,899	5,394	5,396

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

Amounts are in ISK million

Financial assets and liabilities

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

At 31 March 2016	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Available for sale	Liabilities at amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	182,453	-	-	182,453
Loans and receivables							
Loans to credit institutions	23	-	-	27,811	-	-	27,811
Loans to customers	24	-	-	677,079	-	-	677,079
Loans and receivables		-	-	887,343	-	-	887,343
Bonds and debt instruments							
Listed		45,929	31,304	-	-	-	77,233
Unlisted		-	2,640	-	-	-	2,640
Bonds and debt instruments		45,929	33,944	-	-	-	79,873
Shares and equity instruments							
Listed		8,274	3,270	-	-	-	11,544
Unlisted		-	1,680	-	5,440	-	7,120
Shares and equity instruments		8,274	4,950	-	5,440	-	18,664
Derivatives	22	2,759	-	-	-	-	2,759
Other financial assets		-	-	10,133	-	-	10,133
Total financial assets		56,962	38,894	897,476	5,440	-	998,772
Deposits from CB and credit institutions	31	-	-	-	-	28,338	28,338
Deposits from customers	32-33	-	-	-	-	544,430	544,430
Derivative instruments and short positions	22	4,902	-	-	-	-	4,902
Debt issued and other borrowed funds	34	-	-	-	-	161,802	161,802
Subordinated loans		-	-	-	-	19,415	19,415
Other financial liabilities		-	-	-	-	32,062	32,062
Total financial liabilities		4,902	-	-	-	786,047	790,949

Amounts are in ISK million

6. Cont'd

At 31 December 2015	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Available for sale	Liabilities at amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	216,760	-	-	216,760
Loans and receivables							
Loans to credit institutions	23	-	-	35,534	-	-	35,534
Loans to customers	24	-	-	665,711	-	-	665,711
Loans and receivables		-	-	918,005	-	-	918,005
Bonds and debt instruments							
Listed		44,443	31,341	-	-	-	75,784
Unlisted		-	2,822	-	-	-	2,822
Bonds and debt instruments		44,443	34,163	-	-	-	78,606
Shares and equity instruments							
Listed		7,993	3,218	-	-	-	11,211
Unlisted		-	1,664	-	5,445	-	7,109
Shares and equity instruments		7,993	4,882	-	5,445	-	18,320
Derivatives	22	1,981	-	-	-	-	1,981
Other financial assets		-	-	5,535	-	-	5,535
Total financial assets		54,417	39,045	923,540	5,445	-	1,022,447
Deposits from CB and credit institutions	31	-	-	-	-	25,631	25,631
Deposits from customers	32-33	-	-	-	-	593,245	593,245
Derivative instruments and short positions	22	6,981	-	-	-	-	6,981
Debt issued and other borrowed funds	34	-	-	-	-	150,308	150,308
Subordinated loans		-	-	-	-	19,517	19,517
Other financial liabilities		-	-	-	-	26,642	26,642
Total financial liabilities		6,981	-	-	-	815,343	822,324

Amounts are in ISK million

Fair value information for financial instruments

7. Financial instruments carried at fair value

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

The table below shows financial instruments carried at fair value categorised into levels of fair value hierarchy that reflect the significance of inputs used in making the fair value measurements at 31 March 2016. The different levels have been defined as follows:

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

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

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

At 31 March 2016

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	46,671	32,732	470	79,873
Shares and equity instruments	11,642	1,577	5,445	18,664
Derivative instruments	-	2,759	-	2,759
Total financial assets	58,313	37,068	5,915	101,296

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	1,926	-	-	1,926
Derivative instruments	-	2,976	-	2,976
Total financial liabilities	1,926	2,976	-	4,902

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

At 31 December 2015

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	45,227	32,732	647	78,606
Shares and equity instruments	11,348	1,527	5,445	18,320
Derivative instruments	-	1,981	-	1,981
Total financial assets	56,575	36,240	6,092	98,907

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	3,771	302	-	4,073
Derivative instruments	-	2,908	-	2,908
Total financial liabilities	3,771	3,210	-	6,981

For the three months ended 31 March 2016 16 Amounts are in ISK million

7. Cont'd

Reconciliation of financial assets and liabilities categorised into Level 3

1 January to 31 March 2016	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 1 January 2016	647	5,445	-
Purchases	113	-	-
Sales	(265)	-	-
Net gains on financial instruments	(25)	-	-
Transfers to level 1 or 2	-	-	-
Fair value at 31 March 2016	470	5,445	-

1 January to 31 December 2015	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 1 January 2015	1,190	2,816	(93)
Purchases	-	689	-
Sales	-	(1,315)	-
Net gains on financial instruments	(543)	6,263	(2)
Transfers to level 1 or 2	-	(3,008)	95
Fair value at 31 December 2015	647	5,445	-

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

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

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

Level 1 financial assets and financial liabilities contain actively traded bonds and equities that are listed either domestically or abroad.

Level 2 assets and liabilities contain illiquid bonds in the domestic markets, unlisted equities as well as derivatives. The Bank classifies mutual fund units as shares and equity instruments in Level 2 and estimates the fair value for these units based on NAV where the unit prices are not readily available. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Bank calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates. In general bond options are classified as Level 2.

Level 3 assets contain primarily unlisted and illiquid equities and bonds. Unlisted equities are initially booked at their transaction price but are revalued each quarter based on the models as described above. They are classified as Level 3. The Bank's Level 3 equities amounted to ISK 5,445 million. They were valued by discounting their most recent transaction price due to uncertainty regarding various issues, such as regulatory and legal issues. The valuation is as such sensitive to these discount factors which were between 0% and 3%. All things equal, higher discount factors would lead to a lower fair value and lower discount factors to a higher fair value.

Amounts are in ISK million

7. Cont'd

The Bank's Level 3 bonds amounted to ISK 470 million and were valued based on expected recovery of the bond issuers' assets. The expected recovery of these bonds ranges from 0% to 75% and is subject to uncertainty regarding various assumptions, such as the outcome of legal disputes. An increase or decrease in the expected recovery would result in a similar change in the fair value.

8. Financial instruments not carried at fair value

The following table shows the fair value measurement and classification of financial assets and liabilities not carried at fair value at 31 March 2016. The different levels are defined as before (see Note 7).

Assets

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

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

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

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

The Group calculates the fair value of loans in category 2) by discounting from the carrying amount the resulting interest rate difference from 31 March 2016 to the loan's next interest reset or maturity, whichever comes first. Since the credit-worthiness is estimated using the Group's internal models these assets are classified as Level 3.

For “Cash and balances with Central Bank”, “Loans to credit institutions” and “Other financial assets” the fair value is very well approximated by the carrying amount since they are short term in nature. They are thus classified as Level 2.

Liabilities

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

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

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

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

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

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

8. Cont'd

At 31 March 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	182,453	-	182,453	182,453
Loans to credit institutions	-	27,811	-	27,811	27,811
Loans to customers	-	-	679,690	679,690	677,079
Other financial assets	-	10,133	-	10,133	10,133
Total financial assets	-	220,397	679,690	900,087	897,476

At 31 March 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	28,338	-	28,338	28,338
Deposits from customers	-	544,607	-	544,607	544,430
Debt issued and other borrowed funds	68,475	94,471	-	162,946	161,802
Subordinated loans	-	19,415	-	19,415	19,415
Other financial liabilities	-	32,062	-	32,062	32,062
Total financial liabilities	68,475	718,893	-	787,368	786,047

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central banks	-	216,760	-	216,760	216,760
Loans to credit institutions	-	35,534	-	35,534	35,534
Loans to customers	-	-	668,265	668,265	665,711
Other financial assets	-	5,534	-	5,534	5,534
Total financial assets	-	257,828	668,265	926,093	923,539

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	25,631	-	25,631	25,631
Deposits from customers	-	593,402	-	593,402	593,245
Debt issued and other borrowed funds	59,294	91,149	-	150,443	150,308
Subordinated loans	-	19,517	-	19,517	19,517
Other financial liabilities	-	26,642	-	26,642	26,642
Total financial liabilities	59,294	756,341	-	815,635	815,343

For the three months ended 31 March 2016 19 Amounts are in ISK million

Offsetting financial assets and financial liabilities

9. Offsetting financial assets and financial liabilities

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

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

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2016	Gross recognised financial assets before balance sheet netting	Balance sheet netting with gross recog-nised financial liabilities	Financial assets recognis-ed on the balance sheet, net	Recognised financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total assets recognised on the balance sheet
Derivatives	2,759	-	2,759	(795)	(25)	-	1,939	-	2,759
Total assets	2,759	-	2,759	(795)	(25)	-	1,939	-	2,759
At 31 December 2015									
Derivatives	1,981	-	1,981	(696)	(31)	(1)	1,253	-	1,981
Total assets	1,981	-	1,981	(696)	(31)	(1)	1,253	-	1,981

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

	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2016	Gross recognised financial liabilities before balance sheet netting	Balance sheet netting with gross recog-nised financial assets	Financial liabilities recognis-ed on the balance sheet, net	Recognised financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total liabilities recognised on the balance sheet
Derivative instruments and short positions	2,976	-	2,976	(795)	-	-	2,181	1,926	4,902
Total liabilities	2,976	-	2,976	(795)	-	-	2,181	1,926	4,902
At 31 December 2015									
Derivative instruments and short positions	2,908	-	2,908	(696)	-	-	2,212	4,073	6,981
Total liabilities	2,908	-	2,908	(696)	-	-	2,212	4,073	6,981

For the three months ended 31 March 2016 20 Amounts are in ISK million

Net interest income

10. Net interest income is specified as follows:

	2016 1.1-31.3	2015 1.1-31.3
Interest income:		
Cash and balances with Central Bank	2,901	1,160
Loans and receivables	11,341	9,894
Financial assets held for trading	97	199
Financial assets designated at fair value through profit or loss	445	350
Other assets	26	33
Total interest income	14,810	11,636
Interest expense:		
Deposits from credit institutions and Central Bank	(135)	(91)
Deposits from customers	(5,085)	(3,848)
Borrowings	(1,803)	(1,136)
Subordinated loans	(239)	(259)
Other financial liabilities	(7)	(33)
Other interest expense	(2)	(78)
Total interest expense	(7,271)	(5,445)
Net interest income	7,539	6,191

Net fee and commission income

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

	2016 1.1-31.3	2015 1.1-31.3
Fee and commission income:		
Asset management	434	404
Investment banking and brokerage	390	422
Payment processing	3,458	3,149
Loans and guarantees	382	334
Other fee and commission income	357	369
Total fee and commission income	5,021	4,678
Commission expenses:		
Brokerage	(39)	(22)
Clearing and settlement	(1,830)	(1,746)
Other commission expenses	(8)	(5)
Total commission expenses	(1,877)	(1,773)
Net fee and commission income	3,144	2,905

Amounts are in ISK million

Net financial income

12. Net financial income is specified as follows:

	2016 1.1-31.3	2015 1.1-31.3
Net gain on financial instruments held for trading	378	351
Net gain on financial instruments designated at fair value through P&L	226	1,413
Net financial income	604	1,764

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

Shares	48	1,406
Bonds	178	7
Net gain on financial instruments designated at fair value through P&L	226	1,413

Net foreign exchange gain (loss)

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

	2016 1.1-31.3	2015 1.1-31.3
Assets:		
Cash and balances with Central Bank	(24)	(18)
Financial assets held for trading	480	(3,708)
Loans and receivables	(2,801)	2,528
Other assets	(229)	383
Total assets	(2,574)	(815)
Liabilities:		
Deposits	1,818	(1,092)
Subordinated loans	102	970
Debt issued and other borrowed funds	561	1,173
Other liabilities	105	(376)
Total liabilities	2,586	675
Net foreign exchange gain (loss)	12	(140)

Other operating income

15. Other operating income is specified as follows:

	2016 1.1-31.3	2015 1.1-31.3
Share of profit of associates net of income tax	48	63
Service level agreement fees	22	59
Legal cost and fees	41	41
Rental income	14	24
Other net operating income	26	102
Other operating income	151	289

Amounts are in ISK million

Salaries and related expenses

16. Salaries and related expenses are specified as follows:

	2016 1.1-31.3	2015 1.1-31.3
Salaries	3,111	2,694
Pension and similar expenses	438	395
Social security charges and financial activities tax*	412	363
Other	74	60
Capitalisation of internal staff costs in software development	(96)	(52)
Salaries and related expenses	3,939	3,460

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

Other operating expenses

17. Other operating expenses are specified as follows:

	2016 1.1-31.3	2015 1.1-31.3
Professional services	977	836
Real estate and fixtures	801	661
Depreciation and amortisation	265	188
Other administrative expenses	535	678
Other operating expenses	2,578	2,363

Net loan impairment

18. Net loan impairment:

	2016 1.1-31.3	2015 1.1-31.3
Loan impairment charged to the income statement:		
Specific impairment losses on loans and receivables	(507)	(1,165)
Collective impairment	(14)	305
Total impairment charged to the income statement (see Note 25)	(521)	(860)
Net loan impairment		
Impairment reversal due to revised estimated future cash flows	201	3,191
Net specific impairment losses on loans and receivables	(507)	(1,165)
Net loan impairment before collective impairment	(306)	2,026
Collective impairment	(14)	305
Total net loan impairment	(320)	2,331

Amounts are in ISK million

Income taxes

19. Income tax for the three month period ended 31 March 2016 is calculated at 20%. Special financial activities tax (FAT) is calculated as 6% of taxable profits above ISK 1 billion. The effective income tax rate in the Group's income statement is 23,7% for the three months ended 31 March 2016.

Income tax expense recognised in the income statement is specified as follows:	2016 1.1-31.3	2015 1.1-31.3
Current tax expense	709	947
Special financial activities tax	144	195
Difference in prior year's imposed and calculated income tax	7	3
Origination and reversal of temporary differences due to deferred tax assets/liabilities	6	251
Total	866	1,396

The effective income tax rate is computed as follows:	2016 1.1-31.3		2015 1.1-31.3	
Profit before tax	3,661		6,630	
20% income tax calculated on profit before tax	732	20.0%	1,326	20.0%
Special financial activities tax	144	3.9%	195	2.9%
Non-deductable expenses	138	3.8%	124	1.9%
Tax on income not subject to tax	(107)	(2.9%)	(316)	(4.7%)
Correction in accordance with ruling on prior year's taxable income	-	0.0%	53	0.8%
Other differences	(41)	(1.1%)	14	0.2%
Income tax expense	866	23.7%	1,396	21.1%

Earnings per share

20. Earnings per share are specified as follows:

	Discontinued operations			
	Excluded		Included	
	2016 1.1-31.3	2015 1.1-31.3	2016 1.1-31.3	2015 1.1-31.3
Net profit to the equity holders of the parent, according to the Condensed Consolidated Income Statement	2,661	5,155	3,376	5,317
Weighted average number of outstanding shares for the period, million	10,000	10,000	10,000	10,000
Basic earnings per share	0.27	0.52	0.34	0.53

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

Amounts are in ISK million

Cash and balances with Central Bank

21. Specification of cash and balances with Central Bank:

	31.3.2016	31.12.2015
Cash on hand	3,141	2,784
Balances with Central Bank other than mandatory reserve deposits	18,959	15,458
Term deposits	145,606	183,539
Included in cash and cash equivalents	167,706	201,781
Mandatory reserve deposits with Central Bank	14,747	14,979
Cash and balances with Central Bank	182,453	216,760

Derivative instruments and short positions

22. Derivative instruments and short positions:

At 31 March 2016	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	823	9,908	1,508	42,673
Cross currency interest rate swaps	1,556	36,985	149	7,798
Equity forwards	64	1,252	536	2,948
Foreign exchange forwards	58	3,000	450	8,192
Foreign exchange swaps	118	5,376	229	8,259
Bond forwards	140	1,850	7	1,210
Bond options	-	-	97	25,000
Derivatives held for trading	2,759	58,371	2,976	96,080
Short positions in listed bonds	-	-	1,926	-
Total	2,759	58,371	4,902	96,080

At 31 December 2015	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	533	13,687	1,435	37,340
Cross currency interest rate swaps	1,138	26,212	148	10,209
Equity forwards	56	1,283	588	3,003
Foreign exchange forwards	21	1,551	391	7,687
Foreign exchange swaps	82	9,918	236	17,034
Bond forwards	151	3,015	14	920
Bond options	-	-	96	25,000
Derivatives held for trading	1,981	55,666	2,908	101,193
Short positions in listed bonds	-	-	4,073	-
Total	1,981	55,666	6,981	101,193

For the three months ended 31 March 2016 25 Amounts are in ISK million

Loans and receivables

23. Loans to credit institutions:

	31.3.2016	31.12.2015
Money market loans	8,060	3,888
Bank accounts	19,751	31,646
Loans to credit institutions	27,811	35,534

24. Loans to customers - impairment allowance per sector:

At 31 March 2016

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	275,646	(3,532)	272,114
Commerce and services	95,735	(1,149)	94,586
Construction	25,996	(1,815)	24,181
Energy	4,535	-	4,535
Financial services	2,294	-	2,294
Industrial and transportation	68,088	(3,543)	64,545
Investment companies	20,792	(1,600)	19,192
Public sector and non-profit organisations	13,422	-	13,422
Real estate	100,521	(756)	99,765
Seafood	85,868	(984)	84,884
Loans to customers before collective impairment allowance			679,518
Collective impairment allowance			(2,439)
Loans to customers	692,897	(13,379)	677,079

At 31 December 2015

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	276,053	(3,443)	272,610
Commerce and services	90,956	(1,175)	89,781
Construction	24,815	(1,802)	23,013
Energy	3,737	-	3,737
Financial services	105	-	105
Industrial and transportation	63,589	(2,863)	60,726
Investment companies	21,643	(2,281)	19,362
Public sector and non-profit organisations	13,878	-	13,878
Real estate	99,869	(775)	99,094
Seafood	86,938	(1,066)	85,872
Loans to customers before collective impairment allowance			668,178
Collective impairment allowance			(2,467)
Loans to customers	681,583	(13,405)	665,711

Amounts are in ISK million

25. Impairment

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

	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2016	13,405	2,467	15,873
Amounts written-off	(727)	-	(727)
Recoveries of amounts previously written-off	194	-	194
Charged to the income statement	507	14	521
Other	-	(42)	(42)
At 31 March 2016	13,379	2,439	15,818

	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2015	16,908	2,851	19,759
Amounts written-off	(6,699)	-	(6,699)
Recoveries of amounts previously written-off	591	-	591
Principal credit adjustment	(461)	-	(461)
Charged to the income statement	3,567	(383)	3,184
Other	(501)	-	(501)
At 31 December 2015	13,405	2,467	15,873

Investment in associates

26. Changes in investments in associates:

	31.3.2016	31.12.2015
Investments in associates at the beginning of the year	716	570
Additions during the period	-	33
Transfers	4	-
Share of results	48	63
Dividends paid	-	23
Other	241	27
Investments in associates at the end of the period	1,009	716

Investment in subsidiaries

27. Significant subsidiaries:

	Location	Ownership 31.3.2016	Ownership 31.12.2015
Borgun hf., Ármúla 30, 108 Reykjavík	Iceland	63.5%	63.5%
Íslandssjódir hf., Kirkjusandi 2, 155 Reykjavík	Iceland	100%	100%
Hringur eignarhaldsfélag ehf., Digranesvegi 1, 200 Kópavogur	Iceland	100%	100%
Allianz Ísland hf., Digranesvegi 1, 200 Kópavogur	Iceland	100%	100%
D-1 ehf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%	100%
21 other subsidiaries (SME)			

Amounts are in ISK million

Related party disclosures

28. Ultimate controlling party

On 11 of March 2016 the Icelandic State Treasury through the Icelandic State Financial Investments (ISFI) became the ultimate controlling party of Íslandsbanki hf. The Icelandic State shareholding in ISB Holding ehf. who owns 95% shareholding of Íslandsbanki hf. is managed by the Icelandic State Financial Investments the remaining 5% is owned by the state directly. As a result, the Icelandic State Treasury and Icelandic State Financial Investments controlled bodies became related parties of the Group.

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

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

Related party transactions

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

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

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

Related parties have transacted with the Group as follows:

At 31 March 2016

Balance with related parties:	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(110)	(110)	-	1
Board of Directors and key management personnel	310	(559)	(249)	-	71
Associated companies and other related parties	451	(543)	(92)	1	276
Balance with related parties	761	(1,212)	(451)	1	348

Transactions with related parties:	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	(1)	-	-
Board of Directors and key management personnel	5	(6)	2	-
Associated companies and other related parties	8	(6)	1	-
Transactions with related parties	13	(13)	3	-

At 31 December 2015

Balance with related parties:	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(110)	(110)	-	-
Board of Directors and key management personnel	359	(563)	(204)	-	67
Associated companies and other related parties	533	(479)	54	-	228
Balance with related parties	892	(1,152)	(260)	-	295

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

Impairment allowances of ISK 0,1 million (2015: ISK 2 million) were recognised in the period against balances outstanding with associated companies.

No share option programmes were operated during the reporting period 1 January - 31 March 2016.

For the three months ended 31 March 2016 28 Amounts are in ISK million

Other assets

29. Other assets are specified as follows:

	31.3.2016	31.12.2015
Receivables	3,088	4,166
Unsettled securities transactions	6,455	1,279
Accruals	632	616
Prepaid expenses	584	265
Deferred tax assets	37	21
Other assets	381	327
Other assets	11,177	6,674

Non-current assets and disposal groups held for sale

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

	31.3.2016	31.12.2015
Repossessed collateral	5,535	5,471
Assets of disposal groups classified as held for sale	5,655	7,321
Total	11,190	12,792

Repossessed collateral:

Land and property	5,497	5,427
Industrial equipment and vehicles	38	44
Total	5,535	5,471

Assets of disposal groups classified as held for sale:	31.3.2016	31.12.2015
Cash	556	592
Equity instruments	775	775
Receivables	198	1,378
Properties and land	1,661	2,044
Equipment	199	178
Other assets	2,266	2,354
Total	5,655	7,321

Liabilities associated with assets classified as held for sale:	31.3.2016	31.12.2015
Payables	95	77
Tax liabilities	334	325
Borrowings	2,224	2,299
Other liabilities	475	124
Total	3,128	2,825

Deposits from Central Bank and credit institutions

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

	31.3.2016	31.12.2015
Repurchase agreements with Central Bank	61	97
Deposits from credit institutions	28,277	25,534
Deposits from Central Bank and credit institutions	28,338	25,631

Amounts are in ISK million

Deposits from customers

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

	31.3.2016	31.12.2015
Demand deposits	441,123	485,128
Time deposits	103,307	108,117
Deposits from customers	544,430	593,245

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

	31.3.2016		31.12.2015	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	9,866	2%	9,274	2%
Municipalities	5,798	1%	4,598	1%
Companies	310,733	58%	364,651	61%
Individuals	218,033	39%	214,722	36%
Deposits from customers	544,430	100%	593,245	100%

Debt issued and other borrowed funds

34. Specification of debt issued and other borrowed funds:

	Issued .	Maturity	Maturity type	Terms of interest	31.3.2016	31.12.2015
Covered bond in ISK	2013-2014	2016	At Maturity	Fixed, 6.2523%	2,897	2,852
Covered bond in ISK	2014-2016	2019	At Maturity	Fixed, 6.9299%	5,065	4,158
Covered bond in ISK	2015-2016	2023	At Maturity	Fixed 6.40%	5,996	5,559
Covered bond in ISK - CPI linked	2011	2016	At Maturity	Fixed, CPI linked, 3.50%	4,478	4,421
Covered bond in ISK - CPI linked	2012-2014	2019	At Maturity	Fixed, CPI linked, 2.84%	8,336	8,362
Covered bond in ISK - CPI linked	2014-2015	2020	At Maturity	Fixed, CPI linked, 3.4699%	4,018	3,968
Covered bond in ISK - CPI linked	2015-2016	2022	At Maturity	Fixed, CPI linked, 2.98%	4,402	2,836
Covered bond in ISK - CPI linked	2012-2014	2024	At Maturity	Fixed, CPI linked, 3.45%	11,059	11,113
Covered bond in ISK - CPI linked	2015-2016	2026	At Maturity	Fixed, CPI linked, 3.372%	9,915	6,408
Covered bonds					56,166	49,677
Senior unsecured bond in SEK	2013, 2014	2017	At Maturity	Floating, STIBOR + 4.00%	12,225	12,359
Senior unsecured bond in EUR*	2014	2016	At Maturity	Fixed, 3.00%	7,524	7,449
Senior unsecured bond in SEK	2015	2019	At Maturity	Floating, STIBOR + 3.10%	9,181	9,280
Senior unsecured bond in EUR	2015	2018	At Maturity	Fixed, 2.875%	32,100	32,018
Senior unsecured bond in NOK	2015	2018	At Maturity	Floating, NIBOR + 2.60%	7,459	7,365
Senior unsecured bond in USD	2016	2017	At Maturity	Floating, LIBOR + 1.7%	4,337	-
Bonds issued					72,826	68,471
Central Bank secured bond in ISK					18,494	19,732
Bills issued					11,855	9,992
Loans from credit institutions					27	2
Other debt securities					2,434	2,434
Other loans / bills					32,810	32,160
Debt issued and other borrowed funds					161,802	150,308

* Íslandsbanki repurchased own debt during 2015 for the amount of EUR 47.7 million (equivalent to ISK 6,794 million) and ISK 520 million of covered bonds, total ISK 7,314 million with minor effects on the consolidated income statement.

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

Amounts are in ISK million

Other liabilities

35. Specification of other liabilities:

	31.3.2016	31.12.2015
Accruals	3,872	3,632
Liabilities to retailers for credit cards	25,843	23,869
Provision for effects of court rulings*	1,665	1,665
Provision for estimated losses from guarantees and others**	193	207
Withholding tax	878	2,072
Unsettled securities transactions	5,062	1,698
Deferred income	180	130
Sundry liabilities	6,477	3,404
Other liabilities	44,170	36,677

	Provision for effects of court rulings*	Provision for estimated losses from guarantees and others**	Total
At 1 January 2016	1,665	207	1,872
New provisions and reversed provisions during the period	-	(14)	(14)
At 31 March 2016	1,665	193	1,858

Equity

36. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 each. At 31.3.2016 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital:

	31.3.2016	31.12.2015
Ordinary share capital	10,000	10,000
Share premium account	55,000	55,000
Total share capital	65,000	65,000

Balance of custody assets

37. Balance of custody assets:

	31.3.2016	31.12.2015
Custody assets	716,705	665,046

Contingencies

38. **Contingencies**

Provisions

Foreign currency-linked loan contracts

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

The effect of these court rulings and the subsequent recalculation of loan contracts is reflected in the value of loans in the Group's Condensed Consolidated Interim Financial Statements as at 31 March 2016 where the Group has recognised a total provision of ISK 1,665 million. (see Note 35).

Amounts are in ISK million

38. Cont'd

Contingent liabilities

Variable rate loan contracts

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

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

The Group referred the matter to the courts. The District Court acquitted the Group, finding that the law did not stipulate that the appellate committee could rule on dispute originating at the time the former law on consumer loans was in force (from 1994 to 2013). This means that the court did not rule on the matter itself, leaving any debtor free to refer it to the courts. The consequences of an adverse outcome in the Supreme Court for the Group are not easily quantifiable. At present, the Group has not recognised any provision against a possible loss due to this litigation. In part this is due to the fact that early payments and refinancing is rapidly decreasing the number of contracts in question. It is also due to the fact that if the Supreme Court agrees with the District Court, further court proceedings instigated by individual customers will last for up to 24 months. This means that reimbursement claims will gradually be lost due to the law on statute of limitations.

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

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

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

The Group strongly disagrees with the ICA's findings and has presented its objections. However, should the ICA's findings be final, sanctions may come into consideration, in accordance with Article 37 of the Competition Act. The Group has not recognised a provision in relation to this matter.

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

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

The Icelandic authorities and the Group have sent all relevant information and their observations as per the ESA request, in order to determine whether or not the measures involve state aid based on the interpretation of Article 61 of the European Economic Area ("EEA") Agreement, or if they qualify for an exemption under Article 61(2) or (3). Both parties, the Group and the Icelandic authorities, state that the measures cannot be considered state aid within the meaning of Article 61(1), as the funding in question was provided at what has to be considered market rates at the time and were indeed favourable to the Central Bank. However, should the ESA disagree, the measures must be considered state aid compatible with the functioning of the EEA Agreement under Article 61(3) (b) and the Group may have to reimburse the Central Bank with an amount equal to the difference between market terms and the terms of the Bond. The Group has not recognised a provision in relation to this matter.

The Depositors' and Investors' Guarantee Fund

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

38. Cont'd

Contingent assets

Settlement of the 2011 Byr acquisition

The Group acquired Byr hf. ("Byr"), a former savings bank, in 2011 from the Byr Winding-up Committee ("Committee") and the Icelandic Ministry of Finance and Economic Affairs ("Ministry"). According to standard practice, the Group retained the right to re-evaluate the fair value of the net assets acquired and to demand a refund if the fair value of the net assets was not in line with what was presented in the Byr's financial statements. Based on this, the Group filed a claim amounting to ISK 6,943 million plus interest with the Committee in June 2013. The claim is filed as a priority claim, according to Article 110 of the Act on Bankruptcy no. 21/1991 The Committee rejected the claim with a letter dated 30 September 2013. At a creditors' meeting in December 2013 it was decided that the Committee would refer the dispute to the District Court of Reykjavík. A formal claim amounting to ISK 911 million plus interest was filed with the Ministry on 24 September 2014. Both claims have now been filed with the District Court of Reykjavík. Furthermore, at the request of the Group, the District Court has appointed two independent professionals to perform a formal evaluation of the Group's claim on the Ministry and the Committee. The evaluation is expected to be completed in the second quarter of 2016. Court proceedings are expected to commence in the second or third quarter of 2016. The Group has not recognised any revenues relating to this claim.

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

Other

Headquarters

The Bank had plans to merge the headquarters in the current location at Kirkjusandur, but had to amend those plans due to a mould problem discovered in the building. The cost of repairing the building is now being estimated and could call for an impairment charge.

Events after the end of the reporting period

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

Risk Management

40. Risk governance

The Bank is exposed to various risks and managing these risks is an integral part of the Bank's operations. More information about the Bank's risk management and risk assessment processes is available in the Pillar 3 Report 2015. The Pillar 3 Report is available at the Bank's website under investor relations: www.islandsbanki.is/pillar3report

Credit risk

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

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

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

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

42. Maximum credit exposure

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position before the collective impairment allowance is subtracted, see Note 24. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and loan commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated by adding future credit exposure to the market value of the contract as described in Chapter 6 of the Regulation (EU) No 575/2013 of the European Parliament.

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

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

Credit risk exposure

42. Cont'd

Maximum credit exposure 31.3.2016

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	182,453	-	-	-	-	-	-	-	-	-	182,453
Bonds and debt instruments	-	73,980	-	-	-	2,881	1,789	348	565	310	-	79,873
Derivatives	1	-	139	-	1,375	4,817	83	56	-	20	605	7,096
Loans to credit institutions	-	-	-	-	-	27,811	-	-	-	-	-	27,811
Loans to customers:	272,114	-	94,586	24,181	4,535	2,294	64,545	19,192	13,422	99,765	84,884	679,518
Overdrafts	12,640	-	10,016	3,923	2	1,604	6,631	915	571	2,974	1,853	41,129
Credit cards	15,151	-	1,553	193	5	33	438	28	182	56	41	17,680
Mortgages	198,427	-	-	-	-	-	-	-	-	-	-	198,427
Capital leases	10,871	-	23,393	2,001	10	1	6,743	215	112	1,194	238	44,778
Other loans	35,025	-	59,624	18,064	4,518	656	50,733	18,034	12,557	95,541	82,752	377,504
Other financial assets	198	-	54	4	2	9,567	20	24	1	187	76	10,133
Off-balance sheet items:												
Financial guarantees	1,405	-	4,130	2,699	-	1,668	1,844	33	4	495	547	12,825
Undrawn loan commitments	38	-	790	11,429	10,077	-	11,560	354	-	3,560	7,610	45,418
Undrawn overdraft	8,473	-	8,754	1,859	11	4,110	3,486	328	3,203	1,498	1,481	33,203
Credit card commitments	27,296	0	3,747	542	40	167	1,010	169	782	227	159	34,139
Total maximum credit exposure	309,525	256,433	112,200	40,714	16,040	53,315	84,337	20,504	17,977	106,062	95,362	1,112,469

Amounts are in ISK million

42. Cont'd

Maximum exposure 31.12.2015

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	216,760	-	-	-	-	-	-	-	-	-	216,760
Bonds and debt instruments	-	72,876	1,530	-	-	3,067	306	506	16	304	-	78,605
Derivatives	5	-	23	-	1,208	3,073	22	15	-	13	53	4,412
Loans to credit institutions	-	-	-	-	-	35,534	-	-	-	-	-	35,534
Loans to customers:	272,610	-	89,781	23,013	3,737	105	60,726	19,362	13,878	99,094	85,872	668,178
Overdrafts	11,931	-	9,632	3,924	15	37	6,223	1,047	790	3,408	1,647	38,654
Credit cards	15,847	-	1,448	201	4	27	391	33	127	51	37	18,166
Mortgages	197,307	-	-	-	-	-	-	-	-	-	-	197,307
Capital leases	10,842	-	20,913	2,037	9	1	6,527	197	121	1,224	247	42,118
Other loans	36,683	-	57,788	16,851	3,709	40	47,585	18,085	12,840	94,411	83,941	371,933
Other financial assets	233	12	137	3	1	4,234	14	80	1	738	82	5,535
Off-balance sheet items:												
Financial guarantees	1,406	-	3,445	2,592	-	1,668	1,831	52	29	219	363	11,605
Undrawn loan commitments	-	-	1,385	9,339	10,222	-	11,207	757	-	4,226	5,549	42,685
Undrawn overdraft	9,636	-	9,007	1,834	209	3,198	3,103	404	2,482	1,595	1,663	33,131
Credit card commitments	25,360	2	3,677	520	36	169	998	162	802	227	162	32,115
Total maximum credit exposure	309,250	289,650	108,985	37,301	15,413	51,048	78,207	21,338	17,208	106,416	93,744	1,128,560

Amounts are in ISK million

43. Credit exposure covered by collateral

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

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

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

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

At 31 March 2016

	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	202	-	-	202
Loans and commitments to customers:	427,200	79,051	6,429	41,072	40,118	593,870
Individuals	223,394	33	633	10,358	44	234,462
Commerce and services	46,613	394	237	22,053	5,997	75,294
Construction	22,710	148	223	1,947	2,330	27,358
Energy	3,723	-	416	10	85	4,234
Financial services	38	-	148	-	-	186
Industrial and transportation	23,761	6,332	419	5,952	11,438	47,902
Investment companies	5,007	10	3,498	227	7,419	16,161
Public sector and non-profit organisations	985	-	6	96	-	1,087
Real estate	96,246	-	558	200	913	97,917
Seafood	4,723	72,134	291	229	11,892	89,269
Total	427,200	79,051	6,631	41,072	40,118	594,072

At 31 December 2015

	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	3,181	-	-	3,181
Loans and commitments to customers:	425,053	78,274	6,416	38,604	42,650	590,997
Individuals	223,131	33	688	10,329	45	234,226
Commerce and services	46,418	422	344	19,902	8,719	75,805
Construction	20,856	154	208	1,953	2,360	25,531
Energy	2,895	-	414	9	88	3,406
Financial services	40	-	24	1	-	65
Industrial and transportation	23,776	6,208	411	5,797	10,765	46,957
Investment companies	5,056	10	3,460	91	7,524	16,141
Public sector and non-profit organisations	1,034	-	9	105	-	1,148
Real estate	96,805	-	572	207	562	98,146
Seafood	5,042	71,447	286	210	12,587	89,572
Total	425,053	78,274	9,597	38,604	42,650	594,178

Amounts are in ISK million

44. Credit quality of financial assets

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

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

At 31 March 2016

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	182,453	-	-	182,453
Bonds and debt instruments	79,873	-	-	79,873
Derivatives	7,096	-	-	7,096
Loans to credit institutions	27,811	-	-	27,811
Loans to customers:	642,638	28,556	8,324	679,518
Individuals	252,642	16,467	3,005	272,114
Commerce and services	91,320	2,115	1,151	94,586
Construction	22,315	1,078	788	24,181
Energy	4,535	-	-	4,535
Financial services	2,256	38	-	2,294
Industrial and transportation	58,405	4,651	1,489	64,545
Investment companies	18,441	467	284	19,192
Public sector and non-profit organisations	13,351	71	-	13,422
Real estate	96,836	1,634	1,295	99,765
Seafood	82,537	2,035	312	84,884
Other financial assets	10,055	78	-	10,133
Total	949,926	28,634	8,324	986,884

At 31 December 2015

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	216,760	-	-	216,760
Bonds and debt instruments	78,606	-	-	78,606
Derivatives	4,412	-	-	4,412
Loans to credit institutions	35,534	-	-	35,534
Loans to customers:	636,685	23,572	7,921	668,178
Individuals	253,798	15,443	3,369	272,610
Commerce and services	87,102	1,517	1,162	89,781
Construction	21,655	583	775	23,013
Energy	3,737	-	-	3,737
Financial services	65	40	-	105
Industrial and transportation	59,267	885	574	60,726
Investment companies	18,476	580	306	19,362
Public sector and non-profit organisations	13,839	39	-	13,878
Real estate	96,243	1,562	1,289	99,094
Seafood	82,503	2,923	446	85,872
Other financial assets	4,748	787	-	5,535
Total	976,745	24,359	7,921	1,009,025

Amounts are in ISK million

45. Neither past due nor impaired loans

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

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

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

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

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

At 31 March 2016

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	Total
Loans to customers							
Individuals	11,635	94,324	97,937	43,334	2,345	3,067	252,642
Commerce and services	14,065	56,513	15,418	2,932	265	2,127	91,320
Construction	849	11,109	8,224	1,599	534	-	22,315
Energy	340	4,061	134	-	-	-	4,535
Financial services	2,233	13	9	-	-	1	2,256
Industrial and transportation	18,309	29,764	7,608	2,674	49	1	58,405
Investment companies	4,521	6,933	5,263	1,553	171	-	18,441
Public sector and non-profit organisations	5,376	7,806	142	26	-	1	13,351
Real estate	29,464	43,452	20,716	2,148	68	988	96,836
Seafood	34,332	35,767	11,299	323	816	-	82,537
Total	121,124	289,742	166,750	54,589	4,248	6,185	642,638

At 31 December 2015

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	Total
Loans to customers							
Individuals	11,793	99,967	91,329	44,290	2,418	4,001	253,798
Commerce and services	13,264	53,916	15,418	3,357	294	853	87,102
Construction	657	10,676	7,659	2,130	506	27	21,655
Energy	353	3,243	141	-	-	-	3,737
Financial services	36	9	20	-	-	-	65
Industrial and transportation	14,329	30,049	12,207	2,507	87	88	59,267
Investment companies	4,735	7,029	5,235	1,328	149	-	18,476
Public sector and non-profit organisations	5,605	8,048	175	3	7	1	13,839
Real estate	29,490	42,952	21,177	2,403	50	171	96,243
Seafood	36,848	33,065	11,372	327	892	-	82,504
Total	117,110	288,954	164,733	56,345	4,403	5,141	636,686

For the three months ended 31 March 2016 38 Amounts are in ISK million

46. Past due but not impaired loans

Past due but not impaired loans are loans where contractual interest or principal payments have passed due date by more than 3 days without the obligor making full payment, but where specific impairment is not appropriate. The reason is usually that contractual payments are eventually expected to be fulfilled or these loans are expected to be restructured without any loss. The loss is then usually avoided because there is sufficient collateral.

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

At 31 March 2016

	Past due 4-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to customers:	11,785	8,546	2,049	6,176	28,556
Individuals	7,742	3,334	1,411	3,980	16,467
Commerce and services	1,297	311	278	229	2,115
Construction	769	187	67	55	1,078
Energy	-	-	-	-	-
Financial services	-	-	-	38	38
Industrial and transportation	781	3,518	87	265	4,651
Investment companies	126	167	119	55	467
Public sector and non-profit organisations	30	22	-	19	71
Real estate	707	462	51	414	1,634
Seafood	333	545	36	1,121	2,035
Other financial assets	7	-	-	71	78
Total	11,792	8,546	2,049	6,247	28,634

At 31 December 2015

	Past due 4-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to customers:	10,351	4,975	1,292	6,954	23,572
Individuals	7,322	3,156	432	4,533	15,443
Commerce and services	544	460	300	213	1,517
Construction	413	114	8	48	583
Energy	-	-	-	-	-
Financial services	-	-	-	40	40
Industrial and transportation	499	106	13	267	885
Investment companies	289	72	72	147	580
Public sector and non-profit organisations	27	10	-	2	39
Real estate	614	577	42	329	1,562
Seafood	643	480	425	1,375	2,923
Other financial assets	765	-	-	22	787
Total	11,116	4,975	1,292	6,976	24,359

For the three months ended 31 March 2016 39 Amounts are in ISK million

47. Restructuring and forbearance

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

48. Large exposure disclosure

When the total exposure to a group of connected clients is 10% or higher of the Group's capital base it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by the Financial Supervisory Authority rules 625/2013. Since the interim accounts for the first quarter of the year are not audited, the official capital is based on reviewed own fund items at 31 December 2015.

The exposure is evaluated both before and after credit risk mitigating effects eligible according to the Financial Supervisory Authority rules. After mitigating effects, the Group has currently one large exposure which is 12% of its capital base. No large exposure is above the maximum 25% single large exposure limit set by the law.

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

	31.3.2016	
Client groups	Before	After
Group 1	102%	0%
Group 2	12%	12%

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

Amounts are in ISK million

Liquidity Risk

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

Liquidity risk management

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

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

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

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

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

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

Liquidity coverage ratio	31.3.2016	31.12.2015
Total	154%	143%
Foreign currencies	527%	467%

Net stable funding ratio	31.3.2016	31.12.2015
Total	118%	120%
Foreign currencies	157%	141%

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

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

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

Maturity analysis 31 March 2016

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	1,926	-	4	10	63	1,849	-	1,926
Deposits from CB and credit institutions	28,338	24,122	4,393	-	-	-	-	28,515
Deposits from customers	544,430	337,616	105,454	32,670	62,757	21,298	-	559,795
Debt issued and other borrowed funds	161,802	151	19,762	19,245	105,078	32,120	-	176,356
Subordinated loans	19,415	-	-	719	22,945	-	-	23,664
Other financial liabilities	53,173	39,442	4,725	7,358	1,648	-	-	53,173
Total financial liabilities	809,084	401,331	134,338	60,002	192,491	55,267	-	843,429

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

Amounts are in ISK million

49. Cont'd

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	12,825	-	-	-	-	-	12,825
Undrawn loan commitments	45,418	-	-	-	-	-	45,418
Undrawn overdrafts	33,203	-	-	-	-	-	33,203
Credit card commitments	34,139	-	-	-	-	-	34,139
Total	125,585	-	-	-	-	-	125,585
Total non-derivative financial liabilities and off-balance sheet liabilities	526,916	134,338	60,002	192,491	55,267	-	969,014

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

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	18,206	10,905	54,159	3,228	-	86,498
Outflow	-	(18,423)	(11,196)	(55,180)	(3,927)	-	(88,726)
Total	-	(217)	(291)	(1,021)	(699)	-	(2,228)
Net settled derivatives	-	(601)	-	-	-	-	(601)
Total	-	(818)	(291)	(1,021)	(699)	-	(2,829)

Maturity classification of assets is based on contractual maturity. For bonds and debt instruments in the banking book the maturity classification is based on contractual maturity dates while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	182,453	36,823	145,630	-	-	-	-	182,453
Bonds and debt instruments	79,873	1,480	12,054	26,978	33,808	5,553	-	79,873
Shares and equity instruments	18,664	-	-	-	-	-	18,664	18,664
Loans to credit institutions	27,811	19,529	8,282	-	-	-	-	27,811
Loans to customers	677,079	4,399	77,010	56,725	196,350	345,034	-	679,518
Other financial assets	11,177	7,188	724	19	55	6	2,141	10,133
Total financial assets	997,057	69,419	243,700	83,722	230,213	350,593	20,805	998,452

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	13,579	9,933	19,021	37	-	42,570
Outflow	-	(13,097)	(9,807)	(17,877)	(23)	-	(40,804)
Total	-	482	126	1,144	14	-	1,766
Net settled derivatives	-	207	-	-	-	-	207
Total	-	689	126	1,144	14	-	1,973

Amounts are in ISK million

49. Cont'd

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

Maturity analysis 31 December 2015

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	4,073	4,073	-	-	-	-	-	4,073
Deposits from CB and credit institutions	25,631	18,905	6,862	-	-	-	-	25,767
Deposits from customers	593,245	358,266	128,895	37,110	63,649	20,978	-	608,898
Debt issued and other borrowed funds	150,308	2	5,098	32,107	105,982	29,524	-	172,713
Subordinated loans	19,517	-	-	736	23,542	-	-	24,278
Other financial liabilities	45,034	31,571	4,910	7,620	933	-	-	45,034
Total financial liabilities	837,808	412,817	145,765	77,573	194,106	50,502	-	880,763

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	11,605	-	-	-	-	-	11,605
Undrawn loan commitments	42,685	-	-	-	-	-	42,685
Undrawn overdrafts	33,131	-	-	-	-	-	33,131
Credit card commitments	32,115	-	-	-	-	-	32,115
Total	119,536	-	-	-	-	-	119,536
Total non-derivative financial liabilities and off-balance sheet liabilities	532,353	145,765	77,573	194,106	50,502	-	1,000,299

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	19,749	18,135	55,090	3,284	-	96,258
Outflow	-	(19,994)	(18,675)	(55,481)	(3,815)	-	(97,965)
Total	-	(245)	(540)	(391)	(531)	-	(1,707)
Net settled derivatives	-	(601)	-	-	-	-	(601)
Total	-	(846)	(540)	(391)	(531)	-	(2,308)

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	216,760	33,221	183,539	-	-	-	-	216,760
Bonds and debt instruments	78,606	1,551	24,160	15,708	33,361	3,826	-	78,606
Shares and equity instruments	18,320	-	-	-	-	-	18,320	18,320
Loans to credit institutions	35,534	31,064	4,470	-	-	-	-	35,534
Loans to customers	665,711	4,723	73,386	52,827	194,904	342,338	-	668,178
Other financial assets	6,675	2,046	926	807	54	6	2,835	6,675
Total financial assets	1,021,606	72,605	286,481	69,342	228,319	346,170	21,155	1,024,072

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	10,589	9,902	25,286	77	-	45,854
Outflow	-	(10,488)	(9,289)	(24,257)	(57)	-	(44,091)
Total	-	101	613	1,029	20	-	1,763
Net settled derivatives	-	207	-	-	-	-	207
Total	-	308	613	1,029	20	-	1,970

Amounts are in ISK million

49. Cont'd

As a part of managing liquidity risk, the Bank holds a portfolio of liquid assets to meet unexpected outflow of funds or a temporary shortage in access to new funding. These assets are subject to strict criteria with respect to credit quality, liquidation time and price volatility. The table below shows the composition and amount of the Bank's liquidity back-up at the end of March 2016 and end of 2015.

Composition and amount of liquidity back-up	31.3.2016	31.12.2015
Cash and balances with the Central Bank	182,453	216,760
Domestic bonds eligible as collateral against borrowing at Central Bank	26,200	21,218
Foreign government bonds	39,402	41,330
Short-term placements with credit institutions	27,612	35,143
Composition and amount of liquidity back-up	275,667	314,451

50. Deposits by LCR category

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

31 March 2016	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	98,550	10%	52,377	5%	58,949	209,876
SME	47,783	10%	13,613	5%	5,869	67,265
Operational relationship	2,215	25%	-	5%	-	2,215
Corporations	56,372	40%	241	20%	30,231	86,844
Sovereigns, Central Bank and public sector entities	7,487	40%	252	20%	983	8,722
Financial institutions in composition	5,710	100%	-	-	39,535	45,245
Pension funds	19,765	100%	-	-	27,960	47,725
Domestic financial entities	33,326	100%	-	-	21,174	54,500
Foreign financial entities	26,227	100%	-	-	1,293	27,520
Other foreign entities	18,803	100%	1,668	25%	2,385	22,856
Total	316,238		68,151		188,379	572,768

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

31 December 2015	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	93,385	10%	56,443	5%	56,122	205,950
SME	47,394	10%	13,340	5%	5,897	66,631
Operational relationship	2,050	25%	-	5%	-	2,050
Corporations	66,306	40%	235	20%	25,509	92,050
Sovereigns, Central Bank and public sector entities	5,723	40%	257	20%	970	6,950
Financial institutions in composition	58,428	100%	-	-	39,783	98,211
Pension funds	23,775	100%	-	-	26,765	50,541
Domestic financial entities	32,601	100%	-		20,919	53,520
Foreign financial entities	19,033	100%	-		1,636	20,669
Other foreign entities	17,936	100%	1,956	25%	2,413	22,305
Total	366,631		72,231		180,014	618,876

Amounts are in ISK million

Market risk

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

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

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

Interest rate risk

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

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

53. Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing Financing Fund (HFF) which are guaranteed by the Icelandic government, but also domestic municipality bonds and covered bonds issued by the Icelandic banks. These positions can include short positions. Government bonds are either indexed to the Icelandic Consumer Price Index (CPI) or non-indexed, with duration up to 10 years. HFF bonds are CPI-linked and have duration up to 12 years. All bond trading positions are subject to BPV limits, both intraday and end-of-day. In addition to BPV limits short and long positions in each instrument are subject to separate limits. Risk Management monitors these limits and reports all breaches to ALCO.

Note that in the table below the total market value of long and short positions may not be exactly the same as reported in Note 7. The reason for this difference is that Note 7 sums up the net positions in each security while the table below ignores netting of long and short positions in specific securities between different portfolios. Bond hedges are not shown in the table as interest rate risk due to bond hedges is offset by the interest rate risk in the underlying derivative contracts.

Trading bonds and debt instruments, long positions	31.3.2016			31.12.2015		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	2,419	9.23	(2.23)	1,818	8.08	(1.47)
Non-indexed	42,894	0.53	(2.26)	43,703	0.32	(1.42)
Total	45,313	0.99	(4.49)	45,521	0.63	(2.89)

Trading bonds and debt instruments, short positions	31.3.2016			31.12.2015		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	926	7.20	0.67	1,754	7.04	1.24
Non-indexed	-	-	-	3,057	1.10	0.34
Total	926	7.20	0.67	4,811	3.27	1.58
Net position of trading bonds and debt instruments	44,387	0.86	(3.82)	40,710	0.32	(1.31)

For the three months ended 31 March 2016 45 Amounts are in ISK million

54. Interest rate risk in the banking book

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

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

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

In the table below the total amount for loans to customers is shown before collective impairment allowance is subtracted and is therefore not the same as the total amount shown in the financial statement. Note that this also applies for loans to customers shown at 31 December 2015. Loans with specific impairment have been placed in the category 0-3 months since such loans bear no interest rate risk until possibly after debt restructuring.

Banking book interest rate adjustment periods on 31 March 2016

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	182,453	-	-	-	-	-	182,453
Bonds and debt instruments	31,765	657	803	108	426	185	33,944
Loans to credit institutions	27,808	3	-	-	-	-	27,811
Loans to customers	472,711	26,504	43,544	126,114	2,676	7,970	679,519
Total assets	714,737	27,164	44,347	126,222	3,102	8,155	923,727
Off-balance sheet items...	83,525	8,704	3,990	34,541	-	-	130,760
Liabilities							
Deposits from CB and credit institutions	28,216	-	-	-	-	-	28,216
Deposits from customers	531,432	2,446	1,806	8,746	-	-	544,430
Debt issued and other borrowed funds	47,102	12,008	22,916	48,669	21,280	9,827	161,802
Subordinated loans	19,415	-	-	-	-	-	19,415
Total liabilities	626,165	14,454	24,722	57,415	21,280	9,827	753,863
Off-balance sheet items	77,324	8,882	6,953	32,102	3,073	-	128,334
Net interest gap on 31 March 2016	94,773	12,532	16,662	71,246	(21,251)	(1,672)	172,290

For the three months ended 31 March 2016 46 Amounts are in ISK million

54. Cont'd

Banking book interest rate adjustment periods on 31 December 2015

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	216,760	-	-	-	-	-	216,760
Bonds and debt instruments	32,034	458	952	108	426	185	34,163
Loans to credit institutions	35,531	3	-	-	-	-	35,534
Loans to customers	463,177	22,748	38,187	130,927	2,431	8,241	665,710
Total assets	747,502	23,209	39,139	131,035	2,857	8,426	952,167
Off-balance sheet items	73,020	9,571	1,456	35,196	-	-	119,243
Liabilities							
Deposits from CB and credit institutions	25,631	-	-	-	-	-	25,631
Deposits from customers	581,171	1,659	1,778	7,772	865	-	593,245
Debt issued and other borrowed funds	35,360	24,180	19,801	48,505	16,053	6,409	150,308
Subordinated loans	19,517	-	-	-	-	-	19,517
Total liabilities	661,679	25,839	21,579	56,277	16,918	6,409	788,701
Off-balance sheet items	87,095	6,446	5,968	28,872	2,976	-	131,357
Net interest gap on 31 December 2015	71,748	495	13,048	81,082	(17,037)	2,017	151,352

Amounts are in ISK million

Currency risk

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

The analysis of the Bank's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements. The tables below summarise the Bank's exposure to currency risk at 31 March 2016 and 31 December 2015, based on contractual currencies, off-balance sheet items, but excluding assets categorised as held-for-sale.

Currency analysis 31 March 2016

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB......	339	252	122	41	17	64	69	96	28	1,028
Bonds and debt instruments......	30,262	9,511	-	-	-	-	1,491	-	-	41,264
Shares and equity instrum.........	5,529	180	0	-	-	-	2	-	-	5,711
Loans to credit institutions.........	10,381	7,795	1,909	254	40	4,213	1,898	786	116	27,392
Loans to customers..................	66,379	29,073	4,919	6,594	7,036	265	6,960	1,062	93	122,381
Other assets.............................	432	1,860	246	0	23	35	12	27	2	2,637
Total assets	113,322	48,671	7,196	6,889	7,116	4,577	10,432	1,971	239	200,413
Liabilities										
Deposits from credit institut.......	1,257	697	0	290	403	0	0	0	0	2,647
Deposits from customers	61,556	18,981	5,252	973	949	982	3,501	982	1,391	94,567
Borrowings................................	39,625	4,337	-	-	-	21,406	7,458	-	-	72,826
Subordinated loans	19,415	-	-	-	-	-	-	-	-	19,415
Other liabilities..........................	4,084	5,066	897	2	118	98	123	58	93	10,539
Total liabilities	125,937	29,081	6,149	1,265	1,470	22,486	11,082	1,040	1,484	199,994
On-balance sheet imbalance	(12,615)	19,590	1,047	5,624	5,646	(17,909)	(650)	931	(1,245)	419
Off-balance sheet items										
Off-balance sheet assets	89,337	20,057	2,374	5,168	92	17,965	2,536	-	2,619	140,148
Off-balance sheet liabilities	73,245	33,774	3,199	10,881	5,680	260	2,281	985	1,255	131,560
Net off-balance sheet items	16,092	(13,717)	(825)	(5,713)	(5,588)	17,705	255	(985)	1,364	8,588
Net currency imbalance on 31 March 2016.............	3,477	5,873	222	(89)	58	(204)	(395)	(54)	119	9,007

For the three months ended 31 March 2016 48 Amounts are in ISK million

55. Cont'd

Currency analysis 31 December 2015

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	387	250	131	37	11	66	74	90	33	1,079
Bonds and debt instruments	31,829	9,867	-	-	-	-	1,471	-	-	43,167
Shares and equity instrum.........	5,515	276	0	-	-	-	1	-	-	5,792
Loans to credit institutions	18,584	11,474	988	1,027	523	1,420	297	209	511	35,033
Loans to customers	62,438	28,980	5,409	6,907	6,905	272	7,340	1,113	103	119,467
Other assets	432	1,859	246	0	23	35	12	27	47	2,681
Total assets	119,185	52,706	6,774	7,971	7,462	1,793	9,195	1,439	694	207,219
Liabilities										
Deposits from credit institut.......	1,389	816	1	440	584	0	0	0	-	3,230
Deposits from customers	66,267	22,351	5,047	1,488	1,031	1,103	2,931	946	1,356	102,520
Borrowings................................	39,467	-	-	-	-	21,639	7,366	-	-	68,472
Subordinated loans	19,517	-	-	-	-	-	-	-	-	19,517
Other liabilities	4,084	5,066	834	1	118	98	64	163	94	10,522
Total liabilities	130,724	28,233	5,882	1,929	1,733	22,840	10,361	1,109	1,450	204,261
On-balance sheet imbalance	(11,539)	24,473	892	6,042	5,729	(21,047)	(1,166)	330	(756)	2,958
Off-balance sheet items										
Off-balance sheet assets	71,768	12,667	2,037	833	19	20,833	2,042	424	1,544	112,167
Off-balance sheet liabilities	54,802	36,353	2,694	6,894	5,722	-	2,956	777	603	110,801
Net off-balance sheet items	16,966	(23,686)	(657)	(6,061)	(5,703)	20,833	(914)	(353)	941	1,366
Net currency imbalance on 31 December 2015........	5,427	787	235	(19)	26	(214)	(2,080)	(23)	185	4,324

Derivatives

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

Inflation risk

57. The Group is exposed to inflation risk since the value of CPI-indexed assets exceeds CPI-indexed liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI index affect profit and loss. On 31 March 2016 the CPI gap amounted to ISK 43.8 billion (31 December 2015: ISK 46.8 billion). Thus, a 1% increase in the index would lead to an ISK 438 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant. Note that the following corrections were made to the previously reported figures for 31.12.2015: off-balance sheet positions under both assets and liabilities have been corrected and a new line was added for financial liabilities which was included in the off-balance sheet position last time.

Assets, CPI linked	31.3.2016	31.12.2015
Bonds and debt instruments..	3,178	2,329
Loans to customers..	228,662	223,719
Off-balance sheet position...	4,564	5,275
Total assets	236,404	231,323

Amounts are in ISK million

57. Cont'd

Liabilities, CPI linked	31.3.2016	31.12.2015
Deposits from customers	97,186	96,424
Debt issued and other borrowed funds	60,578	56,909
Off-balance sheet position	33,944	29,641
Financial liabilities	925	1,573
Total liabilities	192,633	184,547
CPI Balance	43,771	46,776

Capital management

58. Risk exposure and capital base

The table below shows the capital base, risk-weighted assets and the resulting capital ratios of the Bank at 31 March 2016 and 31 December 2015. In addition, the table shows the official capital ratios based on audited own fund items at 31 December 2015.

According to the Act on Financial Undertakings no. 161/2002 the official capital ratio of the Bank shall be based on audited own funds. Since the interim accounts for the first quarter are not audited, the official capital ratio is based on audited own fund items at 31 December 2015 and risk-weighted assets at 31 March 2016. The official capital ratio at 31 March 2015 was 29.3% and the Tier 1 ratio was 27.6%.

The eligibility of the Tier 2 subordinated loan issued by the Group as Tier 2 capital will decrease linearly by 20% until maturity in 2019 because the remaining term is now less than 5 years. As a result the Tier 2 subordinated loan only contributes 75% into the total capital base.

The Group's Board of Directors has approved a minimum capital target for the Group to be above 23% of RWA in the near and medium term. The target is on one hand based on requirements set forth by the Icelandic regulator; and on the other hand on the Group's view that it is prudent to retain a sizable strategic capital buffer through the near-term steps being taken towards the lifting of capital controls in Iceland.

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

	31.3.2016	31.12.2015
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	5,982	6,002
Retained earnings	130,664	127,288
Non-controlling interests	3,981	3,937
Intangible assets	(1,471)	(1,331)
Other regulatory adjustments	(2,779)	(2,779)
Total Tier 1 capital	201,377	198,117
Tier 2 capital		
Qualifying subordinated liabilities	19,415	19,517
Adjustment to eligible capital instruments	(4,854)	(3,903)
Other regulatory adjustments	(2,779)	(2,779)
Total capital base	213,159	210,952
Risk-weighted assets		
- due to credit risk	621,083	606,591
- due to market risk:	19,014	16,607
Market risk, trading book	12,711	9,931
Currency risk	6,303	6,676
- due to operational risk	76,495	76,495
Total risk-weighted assets	716,592	699,693
Capital ratios		
Tier 1 ratio	28.1%	28.3%
Total capital ratio	29.7%	30.1%
Official Tier 1 ratio	27.6%	28.3%
Official capital ratio	29.3%	30.1%

Amounts are in ISK million