Condensed Consolidated

Interim Financial Statements

Unaudited

Nine months ended 30 September 2016

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

Contents

Directors' Report

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

Operations in the reporting period

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

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

The profit from the Group's operations for the reporting period amounted to ISK 15,555 million, which corresponds to 10.3% annualised return on equity. The Group's total equity amounted to ISK 201.4 billion and total assets were ISK 1,068.3 billion at the end of the reporting period. The Group's total capital ratio was 27.8%, well above the current short- to medium-term target of 23%. The liquidity position was strong and well above the regulatory minimum. At the end of the reporting period, the Group employed 1,187 full-time members of staff, including 968 within the Bank itself.

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

At the same time administrative expenses have grown by 14% between years, which is mainly due to the general wage agreements and also the relocation of headquarters which incurred a ISK 1,200 million charge to the income statement. The relocation of headquarters will commence in late 2016 and be finalised in the first half of 2017.

At the end of August Íslandsbanki issued a 4-year EUR 500 million (ISK 65 billion) benchmark note at a spread of 200 basis points over mid-swaps. The proceeds of the transaction were largely used to refinance existing facilities, including a EUR 138 million Tier 2 instrument. This resulted in a reduction in the Bank's total capital ratio by 1.8 percentage points and the capital base now fully consists of core equity tier one capital. The issuance extends the Bank's maturity profile and will have a positive effect on its funding costs. The transaction was more than twice oversubscribed and placed with investors in the UK, Scandinavia and continental Europe. The bonds have performed very well in the secondary market, with substantial liquidity and tighter spreads.

Loans to customers grew by 2.8% in the first nine months of the year, even though we saw a reduction in volume in third quarter, which is largely explained by strengthening of the Icelandic krona. The quality of the loan book continues to improve. Non-performing loans are down to 2.3% and the average LTV for mortgages has decreased and is now 66%.

Outlook

Tourism continues to be the main driver of economic growth in Iceland, along with increased private consumption. Unemployment is still on a downward trend and inflation remains well within targets. The strengthening of the Icelandic krona can however start to impact the profitability in the export sector and have a negative impact on the current account.

In October, new laws on the easing of capital controls on households and businesses were passed in Iceland. As a result, individuals can now invest parts of their savings abroad. The law also makes it easier for local businesses to grow outside of Iceland. As a result of these changes the controls have effectively been lifted for a large part of the population.

The Bank is well prepared for the lifting of capital controls, with strong capital and liquidity buffers. Based on the current economic environment in Iceland and internationally, the Bank is not expecting rapid outflow of funds for foreign investments, although some outflow would be welcomed to offset the strong inflow from tourism. The Bank can well manage potential movements in the deposit base and passed the liquidity stress tests conducted by the Central Bank in preparation for the new legislation.

The Bank has received the outcome from the 2016 SREP process from the Financial Supervisory Authority, the Bank's regulator. The regulatory total capital requirement is now 19.1%. The Bank does however maintain the short- to medium-term target of 23% total capital ratio while some uncertainty remains regarding the impact of the easing of capital controls and prospects for a full lifting.

Directors' Report

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2016 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union; the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

The Board of Directors draws special attention to the financial environment in Iceland, where capital controls are being eased in the coming months. Even though the easing of capital controls is being managed in an orderly manner, the process involves some risks for both the Bank and the Icelandic economy. The Board notes that the Bank maintains a strong capital and liquidity position and is therefore well positioned to meet future risks and challenges. The Board refers to Notes 2 and 38 to the interim financial statements for the principal risks and uncertainties currently faced by the Group.

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

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

Reykjavík, 9 November 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 nine months ended 30 September 2016

	Notes	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Interest income		14.505	14.747	45.679	40.798
Interest expense		(6.747)	(7.290)	(22.026)	(19.791)
Net interest income	10	7.758	7.457	23.653	21.007
Fee and commission income		5.523	5.357	16.134	15.408
Fee and commission expense		(2.290)	(1.845)	(6.242)	(5.473)
Net fee and commission income	11	3.233	3.512	9.892	9.935
Net financial income	12-13	(607)	387	6.059	2.426
Net foreign exchange gain (loss)	14	49	(1.072)	366	(1.353)
Other operating income	15	45	158	669	699
Other net operating income		(513)	(527)	7.094	1.772
Total operating income		10.478	10.442	40.639	32.714
Salaries and related expenses	16	(3.092)	(3.340)	(10.728)	(10.221)
Other operating expenses	17	(2.521)	(1.970)	(9.001)	(7.021)
Contribution to the Depositors' and Investors' Guarantee Fund		(283)	(263)	(811)	(797)
Bank tax		(745)	(732)	(2.152)	(2.060)
Total operating expenses		(6.641)	(6.305)	(22.692)	(20.099)
Profit before net loan impairment		3.837	4.137	17.947	12.615
Net loan impairment	18	(118)	3.418	251	7.726
Profit before tax		3.719	7.555	18.198	20.341
Income tax expense	19	(1.266)	(1.784)	(3.852)	(4.704)
Profit for the period from continuing operations		2.453	5.771	14.346	15.637
Profit from discontinued operations, net of income tax		85	128	1.209	1.052
Profit for the period		2.538	5.899	15.555	16.689
Profit attributable to:					
Equity holders of Íslandsbanki hf.		2.363	5.598	12.741	16.162
Non-controlling interests		175	301	2.814	527
Profit for the period		2.538	5.899	15.555	16.689
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	20	0,23	0,55	1,15	1,51

The notes on pages 10 to 51 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income for the nine months ended 30 September 2016

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Profit for the period	2.538	5.899	15.555	16.689
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences for foreign operations	(42)	(21)	(67)	3
Fair value reserve (available for sale financial assets):				
Net change in fair value, tax exempt	94	-	786	-
Net amount reclassified to profit or loss	-	-	(6.186)	-
Other comprehensive income for the period, net of tax	52	(21)	(5.467)	3
Total comprehensive income for the period	2.590	5.878	10.088	16.692

The notes on pages 10 to 51 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 September 2016

	Notes	30.9.2016	31.12.2015
Assets			
Cash and balances with Central Bank	6,21	205.148	216.760
Bonds and debt instruments	6	89.026	78.606
Shares and equity instruments	6	12.007	18.320
Derivatives	6,22	1.690	1.981
Loans to credit institutions	6,23	38.189	35.534
Loans to customers	6,24	684.170	665.711
Investments in associates	26	764	716
Property and equipment		5.924	7.344
Intangible assets		2.039	1.331
Other assets	29	20.691	6.674
Non-current assets and disposal groups held for sale	30	8.615	12.792
Total Assets		1.068.263	1.045.769
Liabilities			
Deposits from Central Bank and credit institutions	6,31	13.362	25.631
Deposits from customers	6,32-33	553.107	593.245
Derivative instruments and short positions	6,22	5.334	6.981
Debt issued and other borrowed funds	6,34	222.598	150.308
Subordinated loans	6	-	19.517
Tax liabilities		10.454	8.358
Other liabilities	35	59.856	36.677
Non-current liabilities and disposal groups held for sale	30	2.161	2.825
Total Liabilities		866.872	843.542
Equity			
Share capital	36	10.000	10.000
Share premium	36	55.000	55.000
Reserves		2.506	6.002
Retained earnings		130.029	127.288
Total equity attributable to the equity holders of Íslandsbanki hf.		197.535	198.290
Non-controlling interests		3.856	3.937
Total Equity		201.391	202.227
Total Liabilities and Equity		1.068.263	1.045.769

The notes on pages 10 to 51 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 nine months ended 30 September 2016

	Attributable to equity holders of Íslandsbanki hf.						Non-controlling interests	Total equity
	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total		
Equity at 1.1.2015	10.000	55.000	-	2.535	116.288	183.823	1.664	185.487
Total comprehensive income for the period			-	3	16.162	16.165	527	16.692
Dividends					(9.000)	(9.000)	(292)	(9.292)
Equity at 30.9.2015	10.000	55.000	-	2.538	123.450	190.988	1.899	192.887
Equity at 1.1.2016	10.000	55.000	3.458	2.544	127.288	198.290	3.937	202.227
Translation differences for foreign operations				(67)		(67)		(67)
Net change in fair value of AFS financial assets			499			499	287	786
Net amount reclassified to profit or loss			(3.928)			(3.928)	(2.258)	(6.186)
Net expense recognised directly in equity	-	-	(3.429)	(67)		(3.496)	(1.971)	(5.467)
Profit for the period					12.741	12.741	2.814	15.555
Total comprehensive income for the period	-	-	(3.429)	(67)	12.741	9.245	843	10.088
Changes in non-controlling interests							(89)	(89)
Dividends					(10.000)	(10.000)	(835)	(10.835)
Equity at 30.9.2016	10.000	55.000	29	2.477	130.029	197.535	3.856	201.391

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

The notes on pages 10 to 51 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2016

	Notes	2016 1.1-30.9	2015 1.1-30.9
Cash flows from operating activities:			
Profit for the period		15.555	16.689
Adjustments to reconcile profit for the period to cash flows (used in) provided by operating activities:			
Non-cash items included in profit for the period and other adjustments		10.864	297
Changes in operating assets and liabilities		(91.800)	56.733
Dividends received		119	557
Income tax and bank tax paid		(4.046)	(5.659)
Net cash (used in) provided by operating activities		(69.308)	68.617
Cash flows from investing activities:			
Proceeds from the sale of property and equipment		660	71
Purchase of property and equipment		(626)	(692)
Purchase of intangible assets		(803)	(624)
Net cash (used in) investing activities		(769)	(1.245)
Cash flows from financing activities:			
Proceeds from borrowings		92.866	34.434
Repayment of borrowings		(35.020)	(11.220)
Dividends paid		(10.000)	(9.000)
Dividends paid minority		(835)	(292)
Net cash provided by financing activities		47.011	13.922
Net (decrease) increase in cash and cash equivalents		(23.066)	81.294
Effects of foreign exchange rate changes		(265)	(96)
Cash and cash equivalents at the beginning of the period		233.427	118.020
Cash and cash equivalents at the end of the period		210.096	199.218
Reconciliation of cash and cash equivalents:			
Cash on hand	21	2.858	3.204
Cash balances with Central Bank and term deposits	21	189.500	165.313
Bank accounts	23	17.738	30.701
Cash and cash equivalents at the end of the period		210.096	199.218

Interest received from 1 January to 30 September 2016 amounted to ISK 45,224 million (2015: ISK 39,786 million) and interest paid in the same period 2016 amounted to ISK 19,552 million (2015: ISK 18,302 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 10 to 51 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows
for the nine months ended 30 September 2016

	2016 1.1-30.6	2015 1.1-30.9
Non-cash items included in profit for the period and other adjustments:		
Depreciation and impairment	1.723	465
Amortisation of intangible assets	95	101
Share of (gain) of associates and subsidiaries	(48)	(78)
Accrued interest and foreign exchange gain on debt issued	4.973	3.557
Impairments on loans	715	1.229
Reversal of impairment previously recorded against loans	(966)	(8.956)
Foreign exchange (gain) loss	(366)	1.353
Net (gain) on sale of property and equipment	(339)	8
Unrealised fair value loss (gains) through profit and loss	282	(3.094)
Net profit on non-current assets classified as held for sale	(1.209)	(1.052)
Bank tax	2.152	2.060
Income tax	3.852	4.704
Non-cash items included in profit for the period and other adjustments	10.864	297
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	2.189	417
Loans and receivables to credit institutions	(20.712)	6.367
Loans and receivables to customers	(30.805)	(23.995)
Trading assets	(14.939)	7.460
Other operating assets	(14.571)	(8.688)
Non-current assets and liabilities held for sale	4.939	8.477
Deposits with credit institutions and Central Bank	(12.267)	(1.589)
Deposits from customers	(27.655)	56.115
Trading financial liabilities	(2.803)	4.452
Derivatives	1.447	(332)
Other operating liabilities	23.377	8.049
Changes in operating assets and liabilities	(91.800)	56.733

The notes on pages 10 to 51 are an integral part of these Condensed Consolidated Interim Financial Statements

For the nine months ended 30 September 2016 9 Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

Accounting policies

General information

1. **Corporate information**

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

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 9 November 2016.

2. **Basis of preparation**

2.1 *Statement of compliance*

The Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2016 are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union, the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions, where applicable.

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

2.2 *Basis of measurement*

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

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

2.3 *Significant accounting judgements and estimates*

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

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

2.4 *Going concern*

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

3. **Significant accounting policies**

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

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

Operating segments

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

The segment profit presented is the profit reported to the chief operating decision maker (CEO) and the Board of Directors for the purpose of resource allocation and assessment of segment performance.

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

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

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

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

d) Wealth Management offers a range of wealth and asset management products and services for individuals, corporations and institutional investors. The Wealth Management consists of VÍB and the fund management companies Íslandssjódir and Summa the first three months of the year, but as of April 2016 Summa was sold and is no longer part of Wealth Management.

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

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

- Borgun hf., a credit card settlement company.
- Allianz Ísland hf., an agent for the German insurance company Allianz, and its holding company Hringur eignarhaldsfélag ehf.
- D1 ehf., a commercial real estate company which holds and manages a portfolio of properties for leasing, thereof 12 properties leased by the Group.

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

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

4. Cont'd

1 January to 30 September 2016

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	13.428	5.388	898	477	3.269	436	(243)	23.653
Net fee and commission income	3.456	394	1.092	1.457	(104)	3.581	16	9.892
Other net operating income (exps.)	130	4	38	(54)	282	8.401	(1.707)	7.094
Total operating income	17.014	5.786	2.028	1.880	3.447	12.418	(1.934)	40.639
Salaries and related expenses	(2.958)	(753)	(727)	(733)	(99)	(1.401)	(4.057)	(10.728)
Other operating expenses	(2.336)	(241)	(152)	(166)	(247)	(2.485)	(3.374)	(9.001)
Deposit guarantee fund and bank tax	(738)	(5)	(0)	(52)	(2.168)	-	-	(2.963)
Net loan impairment	638	(669)	0	0	133	149	-	251
Profit (loss) before cost allocation & tax	11.620	4.118	1.149	929	1.066	8.681	(9.365)	18.198
Net segment revenue from external customers	15.002	13.139	2.476	236	(1.557)	13.027	(1.684)	40.639
Net segment revenue from other segments	2.012	(7.353)	(448)	1.644	5.004	(609)	(250)	0
Depreciation and amortisation	(264)	(10)	-	(2)	(0)	(1.075)	(467)	(1.818)

At 30 September 2016	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	406.252	277.054	33.236	5.837	283.287	83.207	(20.610)	1.068.263
Total segment liabilities	446.995	6.322	6.738	36.629	338.023	51.574	(19.409)	866.872
Allocated equity	45.106	42.384	3.008	3.245	94.894	18.936	(6.182)	201.391

1 January to 30 September 2015

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	12.094	4.979	745	476	2.954	53	(294)	21.007
Net fee and commission income	3.328	360	1.252	1.576	(91)	3.514	(4)	9.935
Other net operating income (exps.)	36	15	352	230	(1.339)	3.067	(589)	1.772
Total operating income	15.458	5.354	2.349	2.282	1.524	6.634	(887)	32.714
Salaries and related expenses	(2.755)	(710)	(660)	(736)	(61)	(1.239)	(4.060)	(10.221)
Other operating expenses	(1.585)	(202)	(95)	(140)	(104)	(1.447)	(3.448)	(7.021)
Deposit guarantee fund and bank tax	(721)	(15)	(0)	(46)	(2.075)	(0)	0	(2.857)
Net loan impairment	1.481	5.825	(0)	(0)	-	559	(139)	7.726
Profit (loss) before cost allocation & tax	11.878	10.252	1.594	1.360	(716)	4.507	(8.534)	20.341
Net segment revenue from external customers	15.640	12.659	2.722	624	(5.633)	7.264	(562)	32.714
Net segment revenue from other segments	(182)	(7.305)	(373)	1.658	7.157	(630)	(325)	0
Depreciation and amortisation	(124)	(9)	(1)	(2)	(0)	(143)	(286)	(565)

At 30 September 2015	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Total segment assets	392.030	270.608	17.874	3.832	267.096	69.851	(17.034)	1.004.257
Total segment liabilities	421.169	9.267	14.291	40.231	301.293	41.745	(16.626)	811.370
Allocated equity	40.359	38.898	2.479	2.861	102.265	12.828	(6.803)	192.887

Amounts are in ISK million

Quarterly statements

5. Operations by quarters:

	Q3* 2016	Q2* 2016	Q1* 2016	Q4* 2015	Q3* 2015
Net interest income	7.758	8.356	7.539	7.003	7.457
Net fee and commission income	3.233	3.515	3.144	3.235	3.512
Net financial income**	(607)	6.062	604	1.455	387
Net foreign exchange gain (loss)	49	305	12	(137)	(1.072)
Other operating income	45	473	151	403	158
Salaries and related expenses	(3.092)	(3.697)	(3.939)	(3.670)	(3.340)
Other operating expenses	(2.521)	(3.902)	(2.578)	(2.848)	(1.970)
Contribution to the Depositors' and Investors' Guarantee Fund	(283)	(267)	(261)	(270)	(263)
Bank tax	(745)	(716)	(691)	(818)	(732)
Net loan impairment	(118)	689	(320)	409	3.418
Profit before tax	3.719	10.818	3.661	4.762	7.555
Income tax	(1.266)	(1.720)	(866)	(1.147)	(1.784)
Profit for the period from continuing operations	2.453	9.098	2.795	3.615	5.771
Profit for the period from discontinued operations	85	409	715	274	128
Profit for the period	2.538	9.507	3.510	3.889	5.899

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

**For further information see Note 12.

For the nine months ended 30 September 2016 14 Amounts are in ISK million

Financial assets and liabilities

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

At 30 September 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	-	-	205.148	-	-	205.148
Loans and receivables							
Loans to credit institutions	23	-	-	38.189	-	-	38.189
Loans to customers	24	-	-	684.170	-	-	684.170
Loans and receivables		-	-	927.507	-	-	927.507
Bonds and debt instruments							
Listed		55.432	31.241	-	-	-	86.673
Unlisted		-	2.353	-	-	-	2.353
Bonds and debt instruments		55.432	33.594	-	-	-	89.026
Shares and equity instruments							
Listed		7.185	2.220	-	-	-	9.405
Unlisted		-	1.699	-	903	-	2.602
Shares and equity instruments		7.185	3.919	-	903	-	12.007
Derivatives	22	1.690	-	-	-	-	1.690
Other financial assets		-	-	20.095	-	-	20.095
Total financial assets		64.307	37.513	947.602	903	-	1.050.325
Deposits from CB and credit institutions	31	-	-	-	-	13.362	13.362
Deposits from customers	32-33	-	-	-	-	553.107	553.107
Derivative instruments and short positions	22	5.334	-	-	-	-	5.334
Debt issued and other borrowed funds	34	-	-	-	-	222.598	222.598
Subordinated loans		-	-	-	-	-	-
Other financial liabilities		-	-	-	-	59.141	59.141
Total financial liabilities		5.334	-	-	-	848.208	853.542

For the nine months ended 30 September 2016 15 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

For the nine months ended 30 September 2016 16 Amounts are in ISK million

Fair value information for financial instruments

7. Financial instruments carried at fair value

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

The table below shows financial instruments carried at fair value categorised into levels of fair value hierarchy that reflect the significance of inputs used in making the fair value measurements at 30 September 2016. The different levels have been defined as follows:

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

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

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

At 30 September 2016

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	52.588	35.910	528	89.026
Shares and equity instruments	9.113	1.991	903	12.007
Derivative instruments	-	1.690	-	1.690
Total financial assets	61.701	39.591	1.431	102.723

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	1.270	-	-	1.270
Derivative instruments	-	4.064	-	4.064
Total financial liabilities	1.270	4.064	-	5.334

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 nine months ended 30 September 2016 17 Amounts are in ISK million

7. Cont'd

Reconciliation of financial assets and liabilities categorised into Level 3

1 January to 30 September 2016	Bonds and debt instruments	Shares and equity instruments	Derivatives
Fair value at 1 January 2016	647	5.445	-
Purchases	337	-	-
Sales	(265)	(4.950)	-
Net gains on financial instruments	(191)	408	-
Transfers to level 1 or 2	-	-	-
Fair value at 30 September 2016	528	903	-

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

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

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

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

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

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

For the nine months ended 30 September 2016 18 Amounts are in ISK million

7. Cont'd

Level 3 assets contain primarily unlisted and illiquid equities and bonds. Unlisted equities are initially booked at their transaction price but are revalued each quarter based on the models as described above. They are classified as Level 3. The Group's Level 3 equities amounted to ISK 903 million. The shares were obtained in relation to the sale of Borgun's share in Visa Europe, for preferred shares in Visa Inc., and are subject to selling restrictions for a period of up to 12 years and under certain conditions may have to be returned. The fair value of these shares was estimated by discounting the latest market value of the common shares by roughly 50% due to legal and liquidity issues.

The Group's Level 3 bonds amounted to ISK 528 million and were valued based on expected recovery of the bond issuers' assets. The expected recovery of these bonds ranges from 0% to 75% and is subject to uncertainty regarding various assumptions, such as the outcome of legal disputes. An increase or decrease in the expected recovery would result in a similar change in the fair value.

8. Financial instruments not carried at fair value

The following table shows the fair value measurement and classification of financial assets and liabilities not carried at fair value at 30 September 2016. The different levels are defined as before (see Note 7).

Assets

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

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

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

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

The Group calculates the fair value of loans in category 2) by discounting from the carrying amount the resulting interest rate difference from 30 September 2016 to the loan's next interest reset or maturity, whichever comes first. Since the credit-worthiness is estimated using the Group's internal models these assets are classified as Level 3.

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

Liabilities

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

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

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

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

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

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

8. Cont'd

At 30 September 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central bank	-	205.148	-	205.148	205.148
Loans to credit institutions	-	38.189	-	38.189	38.189
Loans to customers	-	-	687.001	687.001	684.170
Other financial assets	-	20.095	-	20.095	20.095
Total financial assets	-	263.432	687.001	950.433	947.602

At 30 September 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	13.362	-	13.362	13.362
Deposits from customers	-	553.212	-	553.212	553.107
Debt issued and other borrowed funds	70.517	154.858	-	225.375	222.598
Subordinated loans	-	-	-	-	-
Other financial liabilities	-	59.141	-	59.141	59.141
Total financial liabilities	70.517	780.573	-	851.090	848.208

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central Bank	-	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 nine months ended 30 September 2016 20 Amounts are in ISK million

Offsetting financial assets and financial liabilities

9. Offsetting financial assets and financial liabilities

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

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

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 30 September 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	1.690	-	1.690	(460)	(354)	(60)	816	-	1.690
Total assets	1.690	-	1.690	(460)	(354)	(60)	816	-	1.690
At 31 December 2015									
Derivatives	1.981	-	1.981	(696)	(31)	(1)	1.253	-	1.981
Total assets	1.981	-	1.981	(696)	(31)	(1)	1.253	-	1.981

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

	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 30 September 2016	Gross recognised financial liabilities before balance sheet netting	Balance sheet netting with gross recog-nised financial assets	Financial liabilities recognis-ed on the balance sheet, net	Recognised financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total liabilities recognised on the balance sheet
Derivative instruments and short positions	4.064	-	4.064	(460)	(438)	-	3.166	1.270	5.334
Total liabilities	4.064	-	4.064	(460)	(438)	-	3.166	1.270	5.334
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 nine months ended 30 September 2016 21 Amounts are in ISK million

Net interest income

10. Net interest income is specified as follows:

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Interest income:				
Cash and balances with Central Bank	2.850	2.135	8.483	4.614
Loans and receivables	11.005	11.995	35.609	34.464
Financial assets held for trading	190	161	173	475
Financial assets designated at fair value through profit or loss	426	384	1.319	1.109
Other assets	34	72	95	136
Total interest income	14.505	14.747	45.679	40.798
Interest expense:				
Deposits from credit institutions and Central Bank	(57)	(98)	(306)	(297)
Deposits from customers	(4.868)	(5.197)	(15.489)	(14.067)
Borrowings	(1.641)	(1.667)	(5.554)	(4.492)
Subordinated loans	(161)	(251)	(627)	(767)
Other financial liabilities	-	(49)	(7)	(116)
Other interest expense	(20)	(28)	(43)	(52)
Total interest expense	(6.747)	(7.290)	(22.026)	(19.791)
Net interest income	7.758	7.457	23.653	21.007

Net fee and commission income

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

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Fee and commission income:				
Asset management	427	436	1.297	1.297
Investment banking and brokerage	488	550	1.492	1.709
Payment processing	3.901	3.510	11.055	10.127
Loans and guarantees	346	447	1.109	1.109
Other fee and commission income	361	414	1.181	1.166
Total fee and commission income	5.523	5.357	16.134	15.408
Commission expenses:				
Brokerage	(51)	(40)	(115)	(81)
Clearing and settlement	(2.232)	(1.796)	(6.109)	(5.368)
Other commission expenses	(7)	(9)	(18)	(24)
Total commission expenses	(2.290)	(1.845)	(6.242)	(5.473)
Net fee and commission income	3.233	3.512	9.892	9.935

For the nine months ended 30 September 2016 22 Amounts are in ISK million

Net financial income

12. Net financial income is specified as follows:

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Net gain (loss) on financial instruments held for trading	(465)	147	(22)	853
Net gain (loss) on financial instruments designated at fair value through P&L	(142)	240	(105)	1.573
Net gain on financial instruments designated at AFS through P&L	-	-	6.186	-
Net financial income	(607)	387	6.059	2.426

During the year 2015 the Group's shares in Visa Europe were classified as available for sale financial asset and re-measured to fair value with changes in other comprehensive income to ISK 5,445 million. On 21 of June 2016 the Group disposed of its interest in Visa Europe to Visa Inc. and received a mixture of cash and non-cash consideration valued at ISK 6,186 million. The consideration is made up of up-front cash of ISK 4,943 million, of Series C preferred stock in Visa Inc. of ISK 876 million and ISK 367 million deferred cash which will be paid on 21 June 2019. The preferred shares may be reduced by any final settlement of potential liabilities relating to ongoing inter charge related litigation involving Visa Europe.
At the completion of the sale of the shares in Visa Europe, an increase in value in 2016 of ISK 741 million was recognised in other comprehensive income and the total of increase in value in 2015 and 2016 of ISK 6,186 million reclassified to profit and loss.
The preferred shares in Visa Inc. are classified as available for sale asset under IAS 39, with estimated value of ISK 903 million as of 30 September 2016.

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

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Shares	(171)	171	(333)	1.472
Bonds	29	69	228	101
Net gain on financial instruments designated at fair value through P&L	(142)	240	(105)	1.573

Net foreign exchange gain (loss)

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

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Assets:				
Cash and balances with Central Bank	(110)	(85)	(198)	(99)
Financial assets held for trading	(3.107)	(806)	(4.981)	(3.898)
Loans and receivables	(10.991)	(6.265)	(16.717)	(5.913)
Other assets	(425)	(239)	(544)	(92)
Total assets	(14.633)	(7.395)	(22.440)	(10.002)
Liabilities:				
Deposits	7.856	3.919	12.486	4.467
Subordinated loans	1.066	618	1.697	1.587
Debt issued and other borrowed funds	5.508	1.684	8.349	2.705
Other liabilities	252	102	274	(110)
Total liabilities	14.682	6.323	22.806	8.649
Net foreign exchange gain (loss)	49	(1.072)	366	(1.353)

Other operating income

15. Other operating income is specified as follows:

	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Share of profit of associates net of income tax	-	-	48	63
Service level agreement fees	16	44	60	149
Legal cost and fees	26	33	103	128
Rental income	12	15	46	71
Gain from sale of buildings	-	-	363	-
Other net operating income	(9)	66	49	288
Other operating income	45	158	669	699

Amounts are in ISK million

Salaries and related expenses

16. Salaries and related expenses are specified as follows:	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Salaries	2.505	2.602	8.554	7.977
Pension and similar expenses	352	383	1.214	1.166
Social security charges and financial activities tax*	337	378	1.146	1.117
Other	55	35	201	136
Capitalisation of internal staff costs in software development	(157)	(58)	(387)	(175)
Salaries and related expenses	3.092	3.340	10.728	10.221

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

Other operating expenses

17. Other operating expenses are specified as follows:	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Professional services	1.095	982	3.148	3.010
Real estate and fixtures	757	649	2.399	2.046
Depreciation and amortisation*	179	190	1.818	565
Other administrative expenses	490	149	1.636	1.400
Other operating expenses	2.521	1.970	9.001	7.021

*Due to a mould problem at the Bank's headquarters in Kirkjusandur an extra depreciation was charged to the income statement in June 2016 amounting to ISK 1,200 million.

Net loan impairment

18. Net loan impairment:	2016 1.7-30.9	2015 1.7-30.9	2016 1.1-30.9	2015 1.1-30.9
Loan impairment charged to the income statement:				
Specific impairment losses on loans and receivables	(601)	467	(831)	(1.433)
Collective impairment	250	(85)	117	203
Total impairment charged to the income statement (see Note 25)	(351)	382	(714)	(1.230)
Net loan impairment				
Impairment reversal due to revised estimated future cash flows	233	3.036	965	8.956
Net specific impairment losses on loans and receivables	(601)	467	(831)	(1.433)
Net loan impairment before collective impairment	(368)	3.503	134	7.523
Collective impairment	250	(85)	117	203
Total net loan impairment	(118)	3.418	251	7.726

For the nine months ended 30 September 2016 24 Amounts are in ISK million

Income taxes

19. Income tax for the nine month period ended 30 September 2016 is calculated at 20%. Special financial activities tax (FAT) is calculated as 6% of taxable profits exceeding ISK 1 billion. The effective income tax rate in the Group's income statement is 21.2% for the nine months ended 30 September 2016.

Income tax expense recognised in the income statement is specified as follows:	2016 1.1-30.9	2015 1.1-30.9
Current tax expense	2.895	3.278
Special financial activities tax	761	847
Difference in prior year's imposed and calculated income tax	69	(35)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	127	614
Total	3.852	4.704

The effective income tax rate is computed as follows:	2016 1.1-30.9		2015 1.1-30.9	
Profit before tax	18.198		20.341	
20% income tax calculated on profit before tax	3.640	20,0%	4.068	20,0%
Special financial activities tax	761	4,2%	847	4,1%
Non-deductable expenses	430	2,4%	348	1,7%
Tax on income not subject to tax	(1.110)	(6,1%)	(631)	(3,1%)
Correction in accordance with ruling on prior year's taxable income	50	0,3%	77	0,4%
Other differences	81	0,4%	(5)	(0,0%)
Income tax expense	3.852	21,2%	4.704	23,1%

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

Earnings per share

20. Earnings per share are specified as follows:

	Discontinued operations			
	Excluded		Included	
	2016 1.1-30.9	2015 1.1-30.9	2016 1.1-30.9	2015 1.1-30.9
Net profit to the equity holders of the parent, according to the Condensed Consolidated Income Statement	11.532	15.110	12.741	16.162
Weighted average number of outstanding shares for the period, million	10.000	10.000	10.000	10.000
Basic earnings per share	1,15	1,51	1,27	1,62

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

For the nine months ended 30 September 2016 25 Amounts are in ISK million

Cash and balances with Central Bank

21. Specification of cash and balances with Central Bank:

	30.9.2016	31.12.2015
Cash on hand	2.858	2.784
Balances with Central Bank other than mandatory reserve deposits	31.915	15.458
Term deposits	136.461	183.539
Balances with Central Bank assets subject to special restrictions*	21.124	-
Included in cash and cash equivalents	192.358	201.781
Mandatory reserve deposits with Central Bank	12.790	14.979
Cash and balances with Central Bank	205.148	216.760

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

Derivative instruments and short positions

22. Derivative instruments and short positions:

At 30 September 2016	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	605	10.173	1.956	40.781
Cross currency interest rate swaps	718	2.818	811	33.222
Equity forwards	285	2.102	126	1.199
Foreign exchange forwards	14	951	827	9.249
Foreign exchange swaps	54	7.960	229	16.931
Bond forwards	14	1.980	13	1.159
Bond options	-	-	102	25.000
Derivatives held for trading	1.690	25.984	4.064	127.541
Short positions in listed bonds	-	-	1.270	-
Total	1.690	25.984	5.334	127.541

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 nine months ended 30 September 2016 26 Amounts are in ISK million

Loans and receivables

23. Loans to credit institutions:

	30.9.2016	31.12.2015
Money market loans	20.451	3.888
Bank accounts	17.738	31.646
Loans to credit institutions	38.189	35.534

24. Loans to customers - impairment allowance per sector:

At 30 September 2016

	Gross amount	Specific impairment allowance	Loans less impairment allowance
Loans to customers:			
Individuals	281.343	(2.709)	278.634
Commerce and services	100.323	(1.008)	99.315
Construction	27.261	(1.750)	25.511
Energy	4.552	-	4.552
Financial services	237	-	237
Industrial and transportation	69.006	(4.112)	64.894
Investment companies	18.272	(1.345)	16.927
Public sector and non-profit organisations	13.728	(20)	13.708
Real estate	101.900	(764)	101.136
Seafood	82.051	(551)	81.500
Loans to customers before collective impairment allowance			686.414
Collective impairment allowance			(2.244)
Loans to customers	698.673	(12.259)	684.170

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

For the nine months ended 30 September 2016 27 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	(2.493)	-	(2.493)
Recoveries of amounts previously written-off	451	-	451
Charged to the income statement	831	(117)	714
Other	64	(107)	(42)
At 30 September 2016	12.259	2.244	14.503

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

Investment in associates

26. Changes in investments in associates:

	30.9.2016	31.12.2015
Investments in associates at the beginning of the year	716	570
Additions during the period	-	33
Share of results	48	63
Dividends paid	-	23
Other	-	27
Investments in associates at the end of the period	764	716

Investment in subsidiaries

27. Significant subsidiaries:

	Location	Ownership 30.9.2016	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%
20 other subsidiaries (SME)			

For the nine months ended 30 September 2016 28 Amounts are in ISK million

Related party disclosures

28. Ultimate controlling party

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

Related party transactions

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

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

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

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

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

Related parties have transacted with the Group as follows:

At 30 September 2016

Balance with related parties:	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(100)	(100)	-	1
Board of Directors and key management personnel	320	(628)	(308)	-	83
Associated companies and other related parties	608	(822)	(214)	1	228
Balance with related parties	928	(1.550)	(622)	1	312

Transactions with related parties:	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	(3)	-	-
Board of Directors and key management personnel	28	(19)	3	-
Associated companies and other related parties	30	(22)	9	-
Transactions with related parties	58	(44)	12	-

At 31 December 2015

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

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

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

No share option programmes were operated during the reporting period 1 January - 30 September 2016.

For the nine months ended 30 September 2016 29 Amounts are in ISK million

Other assets

29. Other assets are specified as follows:

	30.9.2016	31.12.2015
Receivables	3.649	4.166
Unsettled securities transactions	15.733	1.279
Accruals	552	616
Prepaid expenses	437	265
Deferred tax assets	38	21
Other assets	282	327
Other assets	20.691	6.674

Non-current assets and disposal groups held for sale

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

	30.9.2016	31.12.2015
Repossessed collateral	4.383	5.471
Assets of disposal groups classified as held for sale	4.232	7.321
Total	8.615	12.792

Repossessed collateral:

Land and property	4.360	5.427
Industrial equipment and vehicles	23	44
Total	4.383	5.471

Assets of disposal groups classified as held for sale:	30.9.2016	31.12.2015
Cash	474	592
Equity instruments	775	775
Receivables	65	1.378
Land and property	825	2.044
Equipment	-	178
Other assets	2.093	2.354
Total	4.232	7.321

Liabilities associated with assets classified as held for sale:	30.9.2016	31.12.2015
Payables	29	77
Tax liabilities	52	325
Borrowings	2.060	2.299
Other liabilities	20	124
Total	2.161	2.825

At the end of June 2016 the Group sold 80% of its shareholding in Frumherji hf. The entity was classified as disposal groups held for sale. The Group has derecognised the assets and liabilities and other components related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss in the line item "Profit from discontinued operations, net of income tax".

Deposits from Central Bank and credit institutions

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

	30.9.2016	31.12.2015
Repurchase agreements with Central Bank	43	97
Deposits from credit institutions	13.319	25.534
Deposits from Central Bank and credit institutions	13.362	25.631

For the nine months ended 30 September 2016 30 Amounts are in ISK million

Deposits from customers

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

	30.9.2016	31.12.2015
Demand deposits	490.538	485.128
Time deposits	62.569	108.117
Deposits from customers	**553.107**	**593.245**

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

	30.9.2016		31.12.2015	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	12.283	2%	9.274	2%
Municipalities	6.167	1%	4.598	1%
Companies	296.423	54%	364.651	61%
Individuals	238.234	43%	214.722	36%
Deposits from customers	**553.107**	**100%**	**593.245**	**100%**

Debt issued and other borrowed funds

34. Specification of debt issued and other borrowed funds:

	Issued	Maturity	Maturity type	Terms of interest	30.9.2016	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%	6.914	4.158
Covered bond in ISK	2015	2023	At Maturity	Fixed 6.40%	6.000	5.559
Covered bond in ISK - CPI-linked	2011	2016	At Maturity	Fixed, CPI-linked, 3.50%	4.531	4.421
Covered bond in ISK - CPI-linked	2012-2014	2019	At Maturity	Fixed, CPI-linked, 2.84%	8.432	8.362
Covered bond in ISK - CPI-linked	2014-2015	2020	At Maturity	Fixed, CPI-linked, 3.4699%	4.066	3.968
Covered bond in ISK - CPI-linked	2015-2016	2022	At Maturity	Fixed, CPI-linked, 2.98%	4.456	2.836
Covered bond in ISK - CPI-linked	2012-2015	2024	At Maturity	Fixed, CPI-linked, 3.45%	11.178	11.113
Covered bond in ISK - CPI-linked	2015-2016	2026	At Maturity	Fixed, CPI-linked, 3.372%	15.066	6.408
Covered bonds					**63.540**	**49.677**
Senior unsecured bond in SEK	2013, 2014	2017	At Maturity	Floating, STIBOR + 4.00%	10.656	12.359
Senior unsecured bond in EUR	2014	2016	At Maturity	Fixed, 3.00%	-	7.449
Senior unsecured bond in EUR	2016	2020	At Maturity	Fixed, 1.75%	65.850	-
Senior unsecured bond in SEK	2015	2019	At Maturity	Floating, STIBOR + 3.10%	8.007	9.280
Senior unsecured bond in EUR	2015-2016	2018	At Maturity	Fixed, 2.875%	38.511	32.018
Senior unsecured bond in NOK	2015	2018	At Maturity	Floating, NIBOR + 2.60%	7.115	7.365
Senior unsecured bond in USD	2016	2017	At Maturity	Floating, LIBOR + 1.7%	4.020	-
Bonds issued					**134.159**	**68.471**
Central Bank secured bond in ISK					-	19.732
Bills issued					6.395	9.992
Loans from credit institutions					16.073	2
Other debt securities					2.431	2.434
Other loans / bills					**24.899**	**32.160**
Debt issued and other borrowed funds					**222.598**	**150.308**

Íslandsbanki did not repurchase own senior or covered bonds during the period. In 2015 the Bank repurchased own debt in the amount of EUR 47.7 million (which has since been redeemed), and ISK 520 million of covered bonds.

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

For the nine months ended 30 September 2016 31 Amounts are in ISK million

Other liabilities

35. Specification of other liabilities:

	30.9.2016	31.12.2015
Accruals	3.656	3.632
Liabilities to retailers for credit cards	30.039	23.869
Provision for effects of court rulings*	1.359	1.665
Provision for estimated losses from guarantees and others**	130	207
Withholding tax	736	2.072
Unsettled securities transactions	19.604	1.698
Deferred income	201	130
Sundry liabilities	4.131	3.404
Other liabilities	59.856	36.677

	Provision for effects of court rulings*	Provision for estimated losses from guarantees and others**	Total
At 1 January 2016	1.665	207	1.872
New provisions and reversed provisions during the period	(306)	(77)	(383)
At 30 September 2016	1.359	130	1.489

Equity

36. Authorised share capital of the Group is 10,000 million ordinary shares of ISK 1 each. At 30.9.2016 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Group.

Total share capital:

	30.9.2016	31.12.2015
Ordinary share capital	10.000	10.000
Share premium account	55.000	55.000
Total share capital	65.000	65.000

Balance of custody assets

37. Balance of custody assets:

	30.9.2016	31.12.2015
Custody assets	669.901	665.046

Contingencies

38. **Contingencies**

Provisions

Foreign currency-linked loan contracts

The majority of the handful of the remaining court cases concern foreign currency-linked loan contracts containing minor deviations in terms from those previously found to be legal contracts. Most of these cases will be closed in the District Courts and the Supreme Court in late 2016, the rest will most likely be concluded before the summer recess of 2017. However, as some of the cases involve more or less similar contracts, a precedent could result in other cases being settled out of court. The most recent favourable Supreme Court ruling (14 April 2016), involved by far the largest single contract. Some similar District Court rulings have been passed since then. The Group considers it unlikely that the rest will leave much impact even if some of those contracts are deemed to be faulty.

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

For the nine months ended 30 September 2016 32 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 Consumer Agency's decision, the Group decided to postpone a scheduled interest rate reset and customers were given the option to have their loans restructured with appropriate documentation, fully adapted to the new law on consumer credit.

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

The Group referred the matter to the courts. The District Court acquitted the Group, finding that the law did not stipulate that the appellate committee could rule on a 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 substance, leaving any debtor free to refer it to the courts. To date, no debtor has done so. The Consumer Agency appealed. The consequences of an adverse outcome in the Supreme Court is not easily quantifiable. At present, the Group has not recognised any provision against a possible loss due to this litigation. In part this is due to the fact that early payments and refinancing is rapidly decreasing the number of contracts in question. It is also due to the fact that if the Supreme Court agrees with the District Court, further court proceedings instigated by individual customers will last for up to 24 months. This means that reimbursement claims will gradually be lost due to the statute of limitations.

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

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

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

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

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

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

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

The Depositors' and Investors' Guarantee Fund

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

38. Cont'd

Contingent assets

Settlement of the 2011 Byr acquisition

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

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

Events after the end of the reporting period

39. No events have arisen after the reporting period that require amendments or additional disclosures in the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2016.

Risk Management

40. Risk governance

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

Credit risk

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

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

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

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

42. Maximum credit exposure

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

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

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

Credit risk exposure

42. Cont'd

Maximum credit exposure 30.9.2016

	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	-	205.148	-	-	-	-	-	-	-	-	-	205.148
Bonds and debt instruments	2.567	80.519	-	-	-	3.296	1.699	206	5	734	-	89.026
Derivatives	4	-	193	-	1.058	4.441	24	71	-	116	1.007	6.914
Loans to credit institutions	-	-	-	-	-	38.189	-	-	-	-	-	38.189
Loans to customers:	278.634	-	99.315	25.511	4.552	237	64.894	16.927	13.708	101.136	81.500	686.414
Overdrafts	11.595	-	8.627	3.534	-	166	6.043	831	1.044	2.836	1.604	36.280
Credit cards	15.112	-	1.583	218	3	31	425	35	132	73	41	17.653
Mortgages	205.101	-	-	-	-	-	-	-	-	-	-	205.101
Capital leases	11.701	-	22.858	2.257	9	-	7.474	198	96	1.394	242	46.229
Other loans	35.125	-	66.247	19.502	4.540	40	50.952	15.863	12.436	96.833	79.613	381.151
Other financial assets	378	1	153	4	630	18.380	15	78	3	232	221	20.095
Off-balance sheet items:												
Financial guarantees	1.474	-	3.772	2.634	-	1.667	1.625	32	4	1.040	488	12.736
Undrawn loan commitments	-	-	998	7.504	9.728	-	13.920	1.367	-	8.883	2.977	45.377
Undrawn overdrafts	9.842	-	10.259	2.019	207	3.440	4.327	540	2.645	1.824	2.199	37.302
Credit card commitments	27.667	1	3.977	586	32	162	1.047	139	821	229	171	34.832
Total maximum credit exposure	320.566	285.669	118.667	38.258	16.207	69.812	87.551	19.360	17.186	114.194	88.563	1.176.033

Amounts are in ISK million

42. Cont'd

Maximum credit exposure 31.12.2015

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

Amounts are in ISK million

43. Credit exposure covered by collateral

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

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

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

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

At 30 September 2016

	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	3.557	-	-	3.557
Loans and commitments to customers:	445.229	72.330	6.018	42.165	35.020	600.762
Individuals	230.429	36	665	11.287	147	242.564
Commerce and services	52.048	531	133	22.614	7.198	82.524
Construction	21.476	-	497	1.565	3.052	26.590
Energy	3.643	-	416	-	119	4.178
Financial services	40	-	145	-	-	185
Industrial and transportation	25.419	4.758	355	5.999	9.052	45.583
Investment companies	4.650	8	3.143	77	4.793	12.671
Public sector and non-profit organisations	946	-	7	82	-	1.035
Real estate	101.452	-	640	358	743	103.193
Seafood	5.126	66.997	17	183	9.916	82.239
Total	445.229	72.330	9.575	42.165	35.020	604.319

At 31 December 2015

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

For the nine months ended 30 September 2016 37 Amounts are in ISK million

44. Credit quality of financial assets

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

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

At 30 September 2016

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	205.148	-	-	205.148
Bonds and debt instruments	89.026	-	-	89.026
Derivatives	6.914	-	-	6.914
Loans to credit institutions	38.189	-	-	38.189
Loans to customers:	655.729	24.167	6.518	686.414
Individuals	263.403	12.941	2.290	278.634
Commerce and services	95.969	2.311	1.035	99.315
Construction	23.680	1.162	669	25.511
Energy	4.552	-	-	4.552
Financial services	197	40	-	237
Industrial and transportation	59.512	4.239	1.143	64.894
Investment companies	16.219	700	8	16.927
Public sector and non-profit organisations	13.682	26	-	13.708
Real estate	98.478	1.510	1.148	101.136
Seafood	80.037	1.238	225	81.500
Other financial assets	20.065	30	-	20.095
Total	1.015.071	24.197	6.518	1.045.786

At 31 December 2015

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

For the nine months ended 30 September 2016 38 Amounts are in ISK million

45. Neither past due nor impaired loans

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

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

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

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

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

At 30 September 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	11.501	99.496	104.064	42.636	2.223	3.483	263.403
Commerce and services	26.398	47.070	17.563	3.073	266	1.599	95.969
Construction	1.237	11.621	8.554	1.733	445	90	23.680
Energy	330	4.093	129	-	-	-	4.552
Financial services	173	10	13	-	-	1	197
Industrial and transportation	17.975	29.146	8.563	3.501	325	2	59.512
Investment companies	3.798	6.402	5.600	265	1	153	16.219
Public sector and non-profit organisations	6.625	6.815	222	20	-	-	13.682
Real estate	27.294	44.939	22.807	2.321	93	1.024	98.478
Seafood	34.431	35.278	4.584	1.617	1	4.126	80.037
Total	129.762	284.870	172.099	55.166	3.354	10.478	655.729

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 nine months ended 30 September 2016 39 Amounts are in ISK million

46. Past due but not impaired loans

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

Payments three days in arrears or less are not considered to have informational value regarding credit quality. The majority are loans where the authorised overdraft limit has expired and will be renewed again. On 30 September 2016 loans with payments three days in arrears or less amounted to ISK 216 million but on 31 December 2015 the corresponding figure was ISK 39 million.

Amounts reported as loans past due refer to the total loan exposure and not only the payment or sum of payments that are past due. Past due but not impaired loans are as follows:

At 30 September 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:	11.087	3.421	743	8.916	24.167
Individuals	6.520	2.367	423	3.631	12.941
Commerce and services	1.425	478	65	343	2.311
Construction	842	53	203	64	1.162
Energy	-	-	-	-	-
Financial services	-	-	-	40	40
Industrial and transportation	525	188	4	3.522	4.239
Investment companies	302	115	30	253	700
Public sector and non-profit organisations	3	18	2	3	26
Real estate	955	155	9	391	1.510
Seafood	515	47	7	669	1.238
Other financial assets	20	-	-	10	30
Total	11.107	3.421	743	8.926	24.197

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

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 onbalance 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 third quarter of the year are not audited, the official capital is based on reviewed own fund items at 30 June 2016.

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 two large exposures. No large exposure is above the maximum 25% single large exposure limit set by the law.

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

		30.9.2016
Client groups	Before	After
Group 1	127%	0%
Group 2	12%	12%
Group 3	10%	10%

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

For the nine months ended 30 September 2016 41 Amounts are in ISK million

Liquidity Risk

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

Liquidity risk management

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

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

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

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

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

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

Liquidity coverage ratio	30.9.2016	31.12.2015
Total	195%	143%
Foreign currencies	407%	467%

Net stable funding ratio	30.9.2016	31.12.2015
Total	126%	120%
Foreign currencies	145%	141%

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

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

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

Maturity analysis 30 September 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	1.270	1.270	-	-	-	-	-	1.270
Deposits from CB and credit institutions	13.362	13.362	10	-	-	-	-	13.372
Deposits from customers	553.107	362.231	121.617	35.187	26.872	21.530	-	567.437
Debt issued and other borrowed funds	222.598	2.461	14.863	14.911	175.274	43.116	-	250.625
Subordinated loans	-	-	-	-	-	-	-	-
Other financial liabilities	59.141	44.104	10.744	4.021	272	-	-	59.141
Total financial liabilities	849.478	423.428	147.234	54.119	202.418	64.646	-	891.845

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

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	12.736	-	-	-	-	-	12.736
Undrawn loan commitments	45.377	-	-	-	-	-	45.377
Undrawn overdrafts	37.302	-	-	-	-	-	37.302
Credit card commitments	34.832	-	-	-	-	-	34.832
Total	130.247	-	-	-	-	-	130.247
Total non-derivative financial liabilities and off-balance sheet liabilities	553.675	147.234	54.119	202.418	64.646	-	1.022.092

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

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	23.047	20.247	67.453	3.125	-	113.872
Outflow	-	(24.156)	(20.736)	(69.125)	(3.671)	-	(117.688)
Total	-	(1.109)	(489)	(1.672)	(546)	-	(3.816)
Net settled derivatives	-	(139)	-	-	-	-	(139)
Total	-	(1.248)	(489)	(1.672)	(546)	-	(3.955)

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	205.148	47.588	136.461	-	-	21.099	-	205.148
Bonds and debt instruments	89.026	1.370	16.516	28.325	37.910	4.905	-	89.026
Shares and equity instruments	12.007	-	-	-	-	-	12.007	12.007
Loans to credit institutions	38.189	16.858	21.328	-	-	3	-	38.189
Loans to customers	684.170	4.392	71.177	62.843	200.103	347.899	-	686.414
Other financial assets	20.095	16.156	593	35	57	6	3.249	20.096
Total financial assets	1.048.635	86.364	246.075	91.203	238.070	373.912	15.256	1.050.880

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	-	9.026	3.153	10.377	43	-	22.599
Outflow	-	(8.839)	(2.604)	(9.993)	(23)	-	(21.459)
Total	-	187	549	384	20	-	1.140
Net settled derivatives	-	299	-	-	-	-	299
Total	-	486	549	384	20	-	1.439

Amounts are in ISK million

49. Cont'd

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

Maturity analysis 31 December 2015

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	4.073	4.073	-	-	-	-	-	4.073
Deposits from CB and credit institutions	25.631	18.905	6.862	-	-	-	-	25.767
Deposits from customers	593.245	358.266	128.895	37.110	63.649	20.978	-	608.898
Debt issued and other borrowed funds	150.308	2	5.098	32.107	105.982	29.524	-	172.713
Subordinated loans	19.517	-	-	736	23.542	-	-	24.278
Other financial liabilities	45.034	31.571	4.910	7.620	933	-	-	45.034
Total financial liabilities	837.808	412.817	145.765	77.573	194.106	50.502	-	880.763

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

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	19.749	18.135	55.090	3.284	-	96.258
Outflow	-	(19.994)	(18.675)	(55.481)	(3.815)	-	(97.965)
Total	-	(245)	(540)	(391)	(531)	-	(1.707)
Net settled derivatives	-	(601)	-	-	-	-	(601)
Total	-	(846)	(540)	(391)	(531)	-	(2.308)

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	216.760	33.221	183.539	-	-	-	-	216.760
Bonds and debt instruments	78.606	1.551	24.160	15.708	33.361	3.826	-	78.606
Shares and equity instruments	18.320	-	-	-	-	-	18.320	18.320
Loans to credit institutions	35.534	31.064	4.470	-	-	-	-	35.534
Loans to customers	665.711	4.723	73.386	52.827	194.904	342.338	-	668.178
Other financial assets	6.675	2.046	926	807	54	6	2.835	6.675
Total financial assets	1.021.606	72.605	286.481	69.342	228.319	346.170	21.155	1.024.072

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	10.589	9.902	25.286	77	-	45.854
Outflow	-	(10.488)	(9.289)	(24.257)	(57)	-	(44.091)
Total	-	101	613	1.029	20	-	1.763
Net settled derivatives	-	207	-	-	-	-	207
Total	-	308	613	1.029	20	-	1.970

For the nine months ended 30 September 2016 44 Amounts are in ISK million

49. Cont'd

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

Composition and amount of liquidity back-up	30.9.2016	31.12.2015
Cash and balances with the Central Bank	205.148	216.760
Domestic bonds eligible as collateral against borrowing at Central Bank	40.653	21.218
Foreign government bonds	35.695	41.330
Short-term placements with credit institutions	37.305	35.143
Composition and amount of liquidity back-up	318.801	314.451

50. Deposits by LCR category

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

At 30 September 2016	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	101.696	10%	56.281	5%	64.002	221.979
SME	52.855	10%	14.354	5%	7.066	74.275
Operational relationship	2.493	25%	-	5%	-	2.493
Corporations	69.399	40%	278	20%	30.230	99.907
Sovereigns, Central Bank and public sector entities	7.944	40%	240	20%	814	8.998
Financial institutions in composition	5.656	100%	-	-	3.000	8.656
Pension funds	19.201	100%	-	-	26.519	45.720
Domestic financial entities	35.468	100%	-	-	31.277	66.745
Foreign financial entities	15.583	100%	-	-	-	15.583
Other foreign entities	16.277	100%	1.810	25%	4.027	22.114
Total	326.572		72.963		166.935	566.470

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

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

Amounts are in ISK million

Market risk

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

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

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

Interest rate risk

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

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

53. Interest rate risk in trading portfolios

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing Financing Fund (HFF) which are guaranteed by the Icelandic government, but also domestic municipality bonds and covered bonds issued by the Icelandic banks. These positions can include short positions. Government bonds are either indexed to the Icelandic Consumer Price Index (CPI) or non-indexed, with duration up to 9 years. HFF bonds are CPI-linked and have duration up to 12 years. All bond trading positions are subject to BPV limits, both intraday and end-of-day. In addition to BPV limits, short and long positions in each instrument are subject to separate limits. Risk Management monitors these limits and reports all breaches to ALCO.

Note that in the table below the total market value (MV) of long and short positions may not be exactly the same as reported in Note 6. The reason for this difference is that Note 6 sums up the net positions in each security while the table below ignores netting of long and short positions in specific securities between different portfolios. Note that the MV of long positions at 31.12.2015 has been corrected and lowered by ISK 340 million.

Trading bonds and debt instruments, long positions	30.9.2016			31.12.2015		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	3.014	4,43	(1,33)	1.818	8,08	(1,47)
Non-indexed	53.092	0,31	(1,64)	43.363	0,32	(1,42)
Total	56.106	0,53	(2,97)	45.181	0,63	(2,89)

Trading bonds and debt instruments, short positions	30.9.2016			31.12.2015		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1.833	6,05	1,11	1.754	7,04	1,24
Non-indexed	112	6,04	0,07	3.057	1,10	0,34
Total	1.945	6,05	1,18	4.811	3,27	1,58
Net position of trading bonds and debt instruments	54.161	0,33	(1,79)	40.370	0,32	(1,31)

Amounts are in ISK million

54. Interest rate risk in the banking book

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

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

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

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

Banking book interest rate adjustment periods on 30 September 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	205.148	-	-	-	-	-	205.148
Bonds and debt instruments	31.917	682	384	123	226	262	33.594
Loans to credit institutions	38.187	3	-	-	-	-	38.190
Loans to customers	475.514	23.850	35.851	141.183	2.352	7.663	686.413
Total assets	750.766	24.535	36.235	141.306	2.578	7.925	963.345
Off-balance sheet items	68.072	8.407	43.268	66.620	-	-	186.367
Liabilities							
Deposits from CB and credit institutions	13.362	-	-	-	-	-	13.362
Deposits from customers	538.411	5.249	466	8.981	-	-	553.107
Debt issued and other borrowed funds	11.298	34.140	55.014	85.680	36.466	-	222.598
Subordinated loans	-	-	-	-	-	-	-
Total liabilities	563.071	39.389	55.480	94.661	36.466	-	789.067
Off-balance sheet items	141.113	3.471	7.863	33.134	-	-	185.581
Net interest gap on 30 September 2016	114.654	(9.918)	16.160	80.131	(33.888)	7.925	175.064

For the nine months ended 30 September 2016 47 Amounts are in ISK million

54. Cont'd

Banking book interest rate adjustment periods on 31 December 2015

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	216.760	-	-	-	-	-	216.760
Bonds and debt instruments	32.034	458	952	108	426	185	34.163
Loans to credit institutions	35.531	3	-	-	-	-	35.534
Loans to customers	463.177	22.748	38.187	130.927	2.431	8.241	665.710
Total assets	747.502	23.209	39.139	131.035	2.857	8.426	952.167
Off-balance sheet items	73.020	9.571	1.456	35.196	-	-	119.243
Liabilities							
Deposits from CB and credit institutions	25.631	-	-	-	-	-	25.631
Deposits from customers	581.171	1.659	1.778	7.772	865	-	593.245
Debt issued and other borrowed funds	35.360	24.180	19.801	48.505	16.053	6.409	150.308
Subordinated loans	19.517	-	-	-	-	-	19.517
Total liabilities	661.679	25.839	21.579	56.277	16.918	6.409	788.701
Off-balance sheet items	87.095	6.446	5.968	28.872	2.976	-	131.357
Net interest gap on 31 December 2015	71.748	495	13.048	81.082	(17.037)	2.017	151.352

For the nine months ended 30 September 2016 48 Amounts are in ISK million

Currency risk

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

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements. The tables below summarise the Group's exposure to currency risk at 30 September 2016 and 31 December 2015, based on contractual currencies, off-balance sheet items, but excluding assets categorised as held for sale.

Currency analysis 30 September 2016

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	293	214	81	48	17	78	68	97	34	930
Bonds and debt instruments	29.951	6.566	-	-	-	-	1.398	-	-	37.915
Shares and equity instrum.	70	1.175	1	-	-	-	2	-	-	1.248
Loans to credit institutions	13.654	12.753	1.427	39	6	47	27	355	329	28.637
Loans to customers	70.990	26.340	2.248	5.656	6.413	1	6.716	864	2.034	121.262
Other assets	634	1.679	372	2	41	61	17	16	5	2.827
Total assets	115.592	48.727	4.129	5.745	6.477	187	8.228	1.332	2.402	192.819
Liabilities										
Deposits from credit institut.	854	434	0	4	19	0	0	0	0	1.311
Deposits from customers	24.636	14.986	4.230	458	751	721	2.667	911	1.706	51.066
Borrowings	105.427	4.086	-	-	-	19.124	6.981	-	-	135.618
Subordinated loans	-	-	-	-	-	-	-	-	-	-
Other liabilities	6.039	4.844	1.366	87	3.157	252	503	57	61	16.366
Total liabilities	136.956	24.350	5.596	549	3.927	20.097	10.151	968	1.767	204.361
On-balance sheet imbalance	(21.364)	24.377	(1.467)	5.196	2.550	(19.910)	(1.923)	364	635	(11.542)
Off-balance sheet items										
Off-balance sheet assets	154.896	12.813	1.729	320	3.044	19.537	3.809	-	3.805	199.953
Off-balance sheet liabilities	134.431	35.772	161	5.532	5.567	256	1.836	512	4.165	188.232
Net off-balance sheet items	20.465	(22.959)	1.568	(5.212)	(2.523)	19.281	1.973	(512)	(360)	11.721
Net currency imbalance on 30 September 2016	(899)	1.418	101	(16)	27	(629)	50	(148)	275	179

Amounts are in ISK million

55. Cont'd

Currency analysis 31 December 2015

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

Derivatives

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

Inflation risk

57. The Group is exposed to inflation risk since the value of CPI-indexed assets exceeds CPI-indexed liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI index affect profit and loss. On 30 September 2016 the CPI gap amounted to ISK 56.4 billion (31 December 2015: ISK 46.8 billion). Thus, a 1% increase in the index would lead to an ISK 564 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant. Note that the following corrections were made to the previously reported figures for 31.12.2015: off-balance sheet positions under both assets and liabilities have been corrected and a new line was added for financial liabilities but they were included in the off-balance sheet position last time.

Assets, CPI-linked	30.9.2016	31.12.2015
Bonds and debt instruments	3.133	2.329
Loans to customers	239.092	223.719
Off-balance sheet position	3.139	5.275
Total assets	245.364	231.323

Amounts are in ISK million

57. Cont'd

Liabilities, CPI linked	30.9.2016	31.12.2015
Deposits from customers	95.562	96.424
Debt issued and other borrowed funds	63.413	56.909
Off-balance sheet position	28.848	29.641
Financial liabilities	1.166	1.573
Total liabilities	188.989	184.547
CPI balance	56.375	46.776

Capital management

58. Risk exposure and capital base

The table below shows the capital base, risk-weighted assets (RWA) and the resulting capital ratios of the Group at 30 September 2016 and 31 December 2015. In addition, the table shows the official capital ratios based on reviewed own fund items at 30 June 2016. The Tier 2 subordinated loan was repaid during the third quarter, resulting in a drop in the total capital ratio to the same level as the Tier 1 capital ratio.

According to the Act on Financial Undertakings no. 161/2002 the official capital ratio of the Group shall be based on audited or reviewed own funds. Since the interim accounts for the third quarter are neither audited nor reviewed, the official capital ratio is based on reviewed own fund items at 30 June 2016 and risk-weighted assets at 30 September 2016. The official capital ratio at 30 September 2016 was 27.4%.

The Group's total capital ratio target is to be above 23% for the near- to medium-term based on conservative requirements set by the Financial Supervisory Authority and the Group's view that it is important to retain a sizable strategic buffer due to lifting of capital controls. Long-term capital targets may be revised in the next 3-6 months, as further clarity is expected regarding the regulatory capital requirements and in the Group's operating environment.

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

	30.9.2016	31.12.2015
Tier 1 capital		
Ordinary share capital	10.000	10.000
Share premium	55.000	55.000
Other reserves	2.506	6.002
Retained earnings	130.029	127.288
Non-controlling interests	3.856	3.937
Tax assets	(38)	-
Intangible assets	(2.039)	(1.331)
Other regulatory adjustments	(1.008)	(2.779)
Total Tier 1 capital	198.306	198.117
Tier 2 capital		
Qualifying subordinated liabilities	-	19.517
Adjustment to eligible capital instruments	-	(3.903)
Other regulatory adjustments	-	(2.779)
Total capital base	198.306	210.952
Risk-weighted assets		
- due to credit risk	623.885	606.591
- due to market risk:	13.957	16.607
Market risk, trading book	12.276	9.931
Currency risk	1.681	6.676
- due to operational risk	76.495	76.495
Total risk-weighted assets	714.337	699.693
Capital ratios		
Tier 1 ratio	27,8%	28,3%
Total capital ratio	27,8%	30,1%

Amounts are in ISK million