Íslandsbanki

Condensed Consolidated Interim Financial Statements

First half 2017

Íslandsbanki hf. | Hagasmári 3 | 201 Kópavogur | Iceland | Reg. no. 491008-0160

Contents

Highlights

Our profile

- A leader in financial services in Iceland, Íslandsbanki is a universal bank with total assets of ISK 1,047bn (EUR 8.9bn) and a 25-50% market share across all domestic business segments.
- National coverage with 14 branches and the most efficient branch network in Iceland, holding a 30% market share nationwide, but with only 17% of the branches.
- Building on over 140 years of servicing key industries in Iceland, Íslandsbanki has developed specific expertise in the tourism, seafood and energy industries domestically and in the North Atlantic region.
- For four years in a row, Íslandsbanki has been named Iceland's #1 bank in the Icelandic Customer Satisfaction Index. For eight years running, Íslandsbanki has been voted Iceland's most professional bank and its best provider of financial services to companies.
- Íslandsbanki, the only bank in Iceland that is rated by two international rating agencies, has a BBB/F3/stable rating from Fitch and BBB/A-2 rating on positive outlook from S&P.

Our Bank

14 branches

858 Number of FTE´s for parent company at period end (excl. summer employees)

Users **107,000** **online** banking

Market Share

+30% retail

35% SMEs

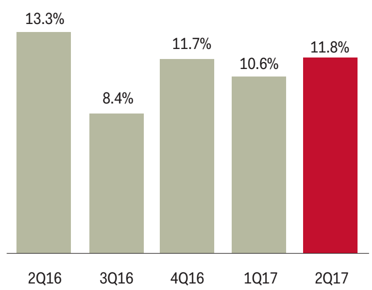
31% large companies

Credit Ratings

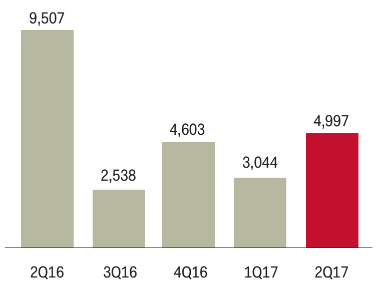
S&P Global Ratings **BBB/A-2** Positive outlook

FitchRatings **BBB/F3** Stable outlook

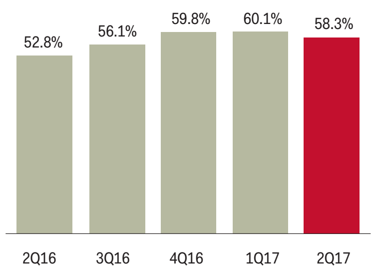
ROE reg. operations CET1 15%



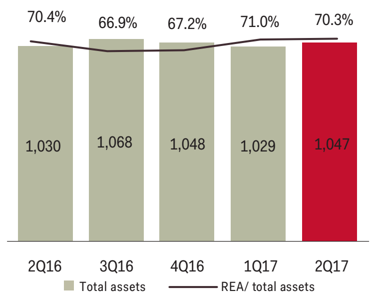
Profit after tax, ISKm



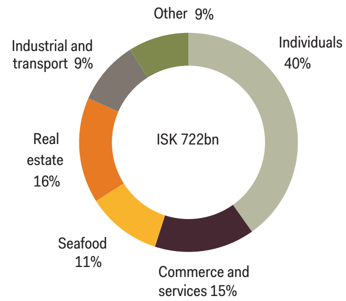
Cost / income ratio



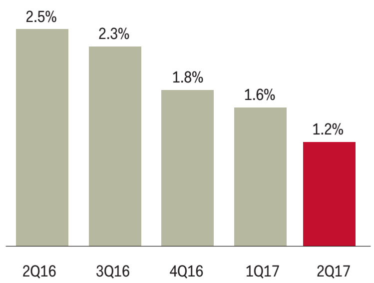
REA / total assets, ISKbn



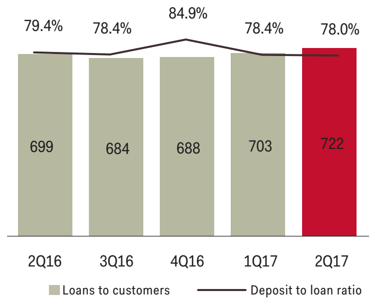
Sector split



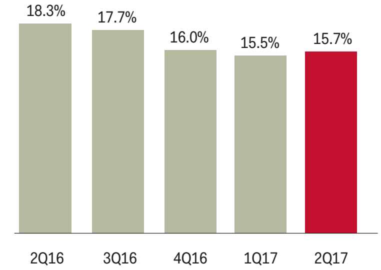
Non-performing loans



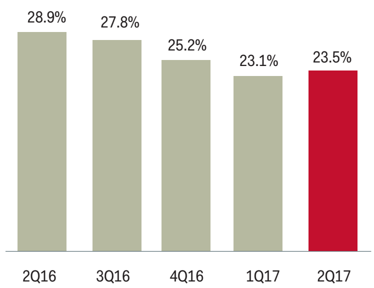
Loans to customers, ISKbn



Leverage ratio



Total capital ratio



The highlights were not reviewed or audited by the Bank's auditor.

Directors' Report

The condensed consolidated interim financial statements for the first half of 2017 ("the interim financial statements") comprise Íslandsbanki hf. ("the Bank" or "Íslandsbanki") 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. 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 8,041 million, which corresponds to 9.2% annualised return on equity. The Group's total equity amounted to ISK 175.9 billion and total assets were ISK 1,047.2 billion at the end of the reporting period. The Group's total capital ratio was 23.5%, 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 1,166 full-time members of staff, including 969 within the Bank itself.

Net interest income decreased by 4% between years, due to a lower interest rate environment. At the same time net fee income rose by 2%, where the strongest growth was seen in Markets. Administrative expenses were down by 6% between years and flat between years if one-off costs are excluded. Net impairments were positive by ISK 440 million.

Loans to customers increased by 4.9% in the first half of 2017, which is mainly explained by diverse new lending. At the same time, the quality of the of the loan book continued to improve with non-performing loans going down to 1.2% from 1.8% at year-end.

The Bank made considerable changes to its organisational structure in the second quarter. Three income-generating units now serve customers: Personal Banking, Business Banking, and Corporate & Investment Banking. The purpose of the changes is to adapt the Bank's organisational structure to customers' changed needs and provide them with better banking services. The changes will also strengthen the Bank's position with respect to major changes in regulatory provisions, and rapid technological advancements.

In the first half of the year capital controls in Iceland were successfully lifted. The lifting did not have a big impact on capital markets and the Bank's core deposit base has remained stable. The ratings of the Icelandic sovereign have continued to improve, most recently with the upgrade from Fitch to A- in July, with a positive outlook.

Outlook

The Icelandic economy has continued to see growth, along with low inflation and unemployment. There has, however, been more volatility in the value of the Icelandic króna since the lifting of capital controls as capital flows increase and become more unpredictable. The inflation outlook is highly dependent on the value of the króna and also the outcome of the general wage agreements coming up in fall 2017.

While most if not all industries have continued to perform well, there are some signs that the strengthening of the Icelandic króna will start to impact the profitability of exporters. The growth in tourism can also be expected to level off as Iceland has now become quite an expensive destination for travel.

In general the external environment has remained stable. On the operational side the full benefit from the relocation of headquarters and the new organisational structure will be realised in the coming months.

Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 30 June 2017 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.

Directors' Report

To the best of our knowledge, these interim financial statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 June 2017.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2017.

Kópavogur, 17 August 2017

Board of Directors:

Fridrik Sophusson, Chairman
Helga Valfells, Vice-Chairman
Anna Thórdardóttir
Audur Finnbogadóttir
Árni Stefánsson
Hallgrímur Snorrason
Heidrún Jónsdóttir

Chief Executive Officer:

Birna Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Íslandsbanki hf.

We have reviewed the accompanying Consolidated Interim Statement of Financial Position of Íslandsbanki hf. and its subsidiaries as of 30 June 2017 and the related Consolidated Interim Income Statement, the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes of Equity and Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2017 and explanatory notes. The Board of Directors and CEO are responsible for the preparation and fair presentation of these Condensed Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standard, IAS 34 Interim Financial Reporting as adopted by the EU. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 17 August 2017

Ernst & Young ehf.

Margrét Pétursdóttir
State Authorised Public Accountant

Consolidated Interim Income Statement

	Notes	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Interest income		28,619	31,174	14,767	16,364
Interest expense		(13,408)	(15,279)	(6,953)	(8,008)
Net interest income	10	15,211	15,895	7,814	8,356
Fee and commission income		10,526	10,611	5,397	5,590
Fee and commission expense		(3,713)	(3,952)	(1,854)	(2,075)
Net fee and commission income	11	6,813	6,659	3,543	3,515
Net financial income	12	109	6,666	97	6,062
Net foreign exchange gain	13	370	317	169	305
Other operating income	14	215	624	55	473
Other net operating income		694	7,607	321	6,840
Total operating income		22,718	30,161	11,678	18,711
Salaries and related expenses	15	(7,768)	(7,636)	(4,109)	(3,697)
Other operating expenses	16	(5,498)	(6,480)	(2,739)	(3,902)
Contribution to the Depositors' and Investors' Guarantee Fund		(515)	(528)	(262)	(267)
Bank tax		(1,472)	(1,407)	(752)	(716)
Total operating expenses		(15,253)	(16,051)	(7,862)	(8,582)
Profit before net loan impairment		7,465	14,110	3,816	10,129
Net loan impairment	17	440	369	200	689
Profit before tax		7,905	14,479	4,016	10,818
Income tax expense	18	(2,263)	(2,586)	(1,133)	(1,720)
Profit for the period from continuing operations		5,642	11,893	2,883	9,098
Profit from discontinued operations, net of income tax	19	2,399	1,124	2,114	409
Profit for the period		8,041	13,017	4,997	9,507
Profit attributable to:					
Equity holders of Íslandsbanki hf.		8,384	10,378	5,429	7,002
Non-controlling interests		(343)	2,639	(432)	2,505
Profit for the period		8,041	13,017	4,997	9,507
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	20	0.60	0.93	0.33	0.66

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

The notes on pages 12 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Profit for the period	8,041	13,017	4,997	9,507
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences for foreign operations	9	(25)	4	(5)
Fair value reserve (available for sale financial assets):				
Net change in fair value, tax exempt	82	692	(114)	692
Net amount reclassified to profit or loss	-	(6,186)	-	(6,186)
Other comprehensive income for the period, net of tax	91	(5,519)	(110)	(5,499)
Total comprehensive income for the period	8,132	7,498	4,887	4,008

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

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Consolidated Interim Statement of Financial Position

	Notes	30.6.2017	31.12.2016
Assets			
Cash and balances with Central Bank	5,21	227,189	275,453
Bonds and debt instruments	5	33,301	31,256
Shares and equity instruments	5	11,936	10,626
Derivatives	5,22	3,942	1,953
Loans to credit institutions	5,23	23,983	17,645
Loans to customers	5,24	721,820	687,840
Investments in associates	26	705	450
Property and equipment		6,663	6,211
Intangible assets		3,644	2,672
Other assets	28	10,103	7,064
Non-current assets and disposal groups held for sale	29	3,935	6,384
Total Assets		1,047,221	1,047,554
Liabilities			
Deposits from Central Bank and credit institutions	5,30	9,362	4,922
Deposits from customers	5,31	572,407	594,187
Derivative instruments and short positions	5,22	7,344	4,798
Debt issued and other borrowed funds	5,33	227,274	212,468
Tax liabilities		11,581	8,473
Other liabilities	34	43,209	43,456
Non-current liabilities and disposal groups held for sale	29	116	325
Total Liabilities		871,293	868,629
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		5,712	4,139
Retained earnings		102,436	105,563
Total equity attributable to the equity holders of Íslandsbanki hf.		173,148	174,702
Non-controlling interests		2,780	4,223
Total Equity		175,928	178,925
Total Liabilities and Equity		1,047,221	1,047,554

The notes on pages 12 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Attributable to the equity holders of Íslandsbanki hf.						Non-	
	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total	controlling interests	Total equity
Equity as 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				(25)		(25)		(25)
Net change in fair value of AFS financial assets			421			421	271	692
Net amount reclassified to profit or loss			(3,928)			(3,928)	(2,258)	(6,186)
Profit for the period					10,378	10,378	2,639	13,017
Dividends paid					(10,000)	(10,000)	(799)	(10,799)
Changes to non-controlling interests						-	(89)	(89)
Equity as at 30.6.2016	10,000	55,000	(49)	2,519	127,666	195,136	3,701	198,837
Equity as at 1.1.2017	10,000	55,000	(25)	4,164	105,563	174,702	4,223	178,925
Translation differences for foreign operations				9		9		9
Net change in fair value of AFS financial assets			53			53	29	82
Profit for the period					8,384	8,384	(343)	8,041
Dividends paid					(10,000)	(10,000)	(1,315)	(11,315)
Changes to non-controlling interests						-	186	186
Restricted due to capitalised development cost				807	(807)	-		-
Restricted due to fair value changes				134	(134)	-		-
Restricted due to subsidiaries and associates				570	(570)	-		-
Equity as at 30.6.2017	10,000	55,000	28	5,684	102,436	173,148	2,780	175,928

Share capital:
Authorised share capital of the Group is 10,000 million ordinary shares of ISK 1 each. At 30.6.2017 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Group. The Group has one class of ordinary shares which carry no right to fixed income.

Dividends:
The Annual General Meeting ("AGM") for the operating year 2016 was held on 23 March 2017. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders for the financial year 2016 of up to 50% of net profit. It was also approved that a special shareholders meeting may be convened later in the year where an extraordinary dividend payout could be suggested. Dividends amounting to ISK 10,000 million were paid on 31 March 2017 equivalent to ISK 1.00 per share (2016: ISK 3.70 per share; ISK 10,000 was paid in annual regular dividends and ISK 27,000 in a special dividend payout at year-end 2016).

The notes on pages 12 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Financial Statements first half 2017 9 Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	Notes	2017 1.1-30.6	2016 1.1-30.6
Cash flows from operating activities:			
Profit for the period		8,041	13,017
Adjustments to reconcile profit for the period to cash flows used in operating activities:			
Non-cash items included in profit for the period and other adjustments		4,966	6,957
Changes in operating assets and liabilities		(38,088)	(61,563)
Dividends received		35	119
Income tax and bank tax paid		(674)	(2,570)
Net cash used in operating activities		(25,720)	(44,040)
Cash flows from investing activities:			
Investment in associated companies		(12)	-
Proceeds from the sale of property and equipment		4	660
Purchase of property and equipment		(784)	(442)
Purchase of intangible assets		(1,064)	(433)
Net cash used in investing activities		(1,856)	(215)
Cash flows from financing activities:			
Proceeds from borrowings		25,592	36,973
Repayment of borrowings		(9,519)	(24,482)
Dividends paid		(2,449)	(10,000)
Dividends paid and other changes to non-controlling interests		(1,746)	(799)
Net cash provided by financing activities		11,878	1,692
Net decrease in cash and cash equivalents		(15,698)	(42,563)
Effects of foreign exchange rate changes		(118)	(112)
Cash and cash equivalents at the beginning of the period		240,263	233,427
Cash and cash equivalents at the end of the period		224,447	190,752
Reconciliation of cash and cash equivalents:			
Cash on hand	21	3,434	3,123
Cash balances with Central Bank	21	223,755	167,422
Bank accounts	23	14,509	20,207
Mandatory reserve and special restricted balances with Central Bank		(17,251)	-
Cash and cash equivalents at the end of the period		224,447	190,752

Interest received from 1 January to 30 June 2017 amounted to ISK 32,365 million (2016: ISK 30,681 million) and interest paid in the same period 2017 amounted to ISK 11,879 million (2016: ISK 12,539 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 12 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period and other adjustments:	2017 1.1-30.6	2016 1.1-30.6
Depreciation and impairment	330	1,575
Amortisation of intangible assets	92	64
Share of gain of associates and subsidiaries	(102)	(48)
Accrued interest and foreign exchange loss on debt issued	3,245	3,511
Impairments on loans	(291)	363
Reversal of impairment previously recorded against loans	731	(732)
Foreign exchange gain	(370)	(317)
Net gain on sale of property and equipment	(2)	(334)
Unrealised fair value (gains) loss through profit and loss	(3)	6
Net profit on non-current assets classified as held for sale	(2,399)	(1,124)
Bank tax	2,263	1,407
Income tax	1,472	2,586
Non-cash items included in profit for the period and other adjustments	4,966	6,957

Changes in operating assets and liabilities:

Mandatory reserve and special restricted balances with Central Bank	29,942	3,347
Loans and receivables to credit institutions	(4,838)	(10,450)
Loans and receivables to customers	(37,880)	(36,888)
Trading assets	(10,611)	4,934
Other operating assets	(3,262)	(4,734)
Non-current assets and liabilities held for sale	2,090	4,057
Deposits with credit institutions and Central Bank	4,555	(10,997)
Deposits from customers	(19,190)	(22,396)
Trading financial liabilities	788	(2,022)
Derivatives	(231)	1,065
Other operating liabilities	549	12,521
Changes in operating assets and liabilities	(38,088)	(61,563)

Non-cash transactions 2017
During 2017 the Bank entered into the following non-cash financing activities which have been excluded from the consolidated interim statement of cash flows:

a) The Bank paid dividends amounting to ISK 10,000 million. Thereof are non-cash transactions amounting to ISK 7,551 million which were paid with a government bond.

b) The Bank's debt securities of ISK 12,083 million were paid during the period by issuing bonds. The transaction had no cash effect on the Group.

The notes on pages 12 to 50 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

Íslandsbanki hf. is a limited company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements for the first half of 2017 ("the interim financial statements") comprise Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries (together referred to as "the Group").

The interim financial statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 17 August 2017.

2. Basis of preparation

2.1 Statement of compliance

The interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

The 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 2016, as well as the unaudited Pillar 3 Report for the year ended 31 December 2016. Both are available at the Bank's website www.islandsbanki.is.

2.2 Basis of measurement

The 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. Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

The interim financial statements are presented in Icelandic króna (ISK), which is the functional currency of the Bank and significant subsidiaries, rounded to the nearest million.

2.3 Significant accounting judgements and estimates

The preparation of the 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 interim financial statements are prepared on a going concern basis.

3. Significant accounting policies

The accounting policies in the interim financial statements are the same as those applied in the Group's audited consolidated financial statements for the year ended 31 December 2016.

The Group has adopted the amendments to existing standards which became effective as of 1 January 2017. These amendments have an insignificant impact on the interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

The Bank changed its organisational structure in the second quarter. The following segment information are based on the Group's organisational structure before the changes.

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

a) Retail Banking
Retail Banking, the Bank's largest division, provides wide-ranging financial services to individuals and SMEs. Comprehensive consultancy services are conducted by experienced advisors, 50 of whom are certified financial advisors located throughout the branches and in the call centre. In addition to operating Iceland's most efficient branch network, Retail Banking also operates Kreditkort, a specialised brand in the credit card sector.

b) Corporate Banking
Corporate Banking provides lending and structured finance services to larger companies, institutions, and municipalities, as well as providing project financing for infrastructure, industrial, and public service projects. Through Ergo, the division also offers asset-based financing to corporations and individuals. Corporate banking has extensive experience servicing established sectors such as seafood, energy, and real estate, as well as growing industries such as retail and tourism. Íslandsbanki has developed a focused strategy for lending outside Iceland, concentrating on the North Atlantic seafood industry.

c) Markets
Markets, the Bank's investment banking division, leads the growth of a healthy financial market by offering multifaceted financial services that enable our customers to achieve their strategic goals. The division's main customers are large and medium-sized companies, financial institutions, pension funds, investment funds, and other investors. The division's services include corporate finance, capital markets, derivatives, foreign exchange, and market research.

d) Wealth Management
The Bank's wealth management division is comprised of two units: VÍB and Íslandssjóðir hf., a subsidiary of the Bank. VÍB offers comprehensive asset management and private banking services to both private investors and institutional clients, including portfolio management services for affluent individuals and institutional investors, and advisory, investment, and pension services for retail investors. Íslandssjóðir hf. is an independent fund management company offering a full range of fund products, including bond, stock, multi-asset, and alternative investment funds.

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

f) Subsidiaries & Equity Investments
Subsidiaries & Equity Investments include equity investments in the banking book and subsidiaries, the most significant being:
• Borgun hf., a payment acquirer and issuing processor.
• 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 10 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.

The accounting policies for the reportable segments are in line with the Group's accounting policies. The Group operates mainly in the Icelandic market and no single customer generates 10% or more of the combined revenue of the Group.

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

4. Cont'd

1 January to 30 June 2017 **Operations**	Retail Banking	Corporate Banking	Markets	Wealth Manage- ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	8.866	3.633	893	240	1.256	447	(124)	15.211
Net fee and commission income	2.525	289	859	1.102	(78)	2.107	9	6.813
Other net operating income (exps.)	8	5	(13)	53	250	3.429	(3.038)	694
Total operating income	11.399	3.927	1.739	1.395	1.428	5.983	(3.153)	22.718
Salaries and related expenses	(2.028)	(549)	(633)	(587)	(77)	(1.117)	(2.777)	(7.768)
Other operating expenses	(1.716)	(142)	(111)	(127)	(120)	(1.106)	(2.176)	(5.498)
Deposit guarantee fund and bank tax	(480)	(1)	-	(30)	(1.476)	-	-	(1.987)
Net loan impairment	(94)	550	-	-	(4)	9	(21)	440
Profit (loss) before cost allocation & tax	7.081	3.785	995	651	(249)	3.769	(8.127)	7.905
Net segment revenue from external customers	10.031	8.737	2.033	537	(1.857)	6.259	(3.022)	22.718
Net segment revenue from other segments	1.368	(4.810)	(294)	858	3.285	(276)	(131)	0
Depreciation and amortisation	(126)	(3)	-	-	(1)	(110)	(182)	(422)
At 30 June 2017								
Loans to customers	407.744	308.156	312	-	-	5.702	(94)	721.820
Other assets	5.241	132	23.998	4.312	244.783	60.102	(13.167)	325.401
Total segment assets	412.985	308.288	24.310	4.312	244.783	65.804	(13.261)	1.047.221
Deposits from customers	459.570	1.766	15	31.246	84.116	6	(4.312)	572.407
Other liabilities	5.873	1.619	5.371	4.206	252.267	32.052	(2.502)	298.886
Total segment liabilities	465.443	3.385	5.386	35.452	336.383	32.058	(6.814)	871.293
Allocated equity	47.631	48.832	1.581	2.888	63.855	21.631	(10.490)	175.928
Risk exposure amount	326.097	329.453	13.286	7.187	13.402	42.350	4.535	736.310

The individual segment balance sheet positions are with external customers, and exclude internal transactions thus explaining the differences in total assets and total liabilities and equity.

1 January to 30 June 2016 **Operations**	Retail Banking	Corporate Banking	Markets	Wealth Manage- ment	Treasury	Subsidiaries & Equity Investments	Cost Centres & Eliminations	Total
Net interest income	8.954	3.584	660	344	2.303	217	(167)	15.895
Net fee and commission income	2.277	267	737	995	(35)	2.409	9	6.659
Other net operating income (exps.)	129	4	125	(26)	509	8.974	(2.108)	7.607
Total operating income	11.360	3.855	1.522	1.313	2.777	11.600	(2.266)	30.161
Salaries and related expenses	(2.063)	(541)	(506)	(492)	(70)	(992)	(2.972)	(7.636)
Other operating expenses	(1.577)	(154)	(101)	(108)	(107)	(2.029)	(2.404)	(6.480)
Deposit guarantee fund and bank tax	(481)	(4)	-	(34)	(1.416)	-	-	(1.935)
Net loan impairment	498	(546)	-	-	113	304	-	369
Profit (loss) before cost allocation & tax	7.737	2.610	915	679	1.297	8.883	(7.642)	14.479
Net segment revenue from external customers	10.558	8.952	1.756	117	(1.129)	12.004	(2.097)	30.161
Net segment revenue from other segments	802	(5.097)	(234)	1.196	3.906	(404)	(169)	0
Depreciation and amortisation	(220)	(7)	-	(1)	-	(1.033)	(378)	(1.639)
At 30 June 2016								
Loans to customers	403.604	289.469	-	-	-	6.431	(835)	698.669
Other assets	4.292	206	18.686	3.091	250.337	75.994	(21.658)	330.948
Total segment assets	407.896	289.675	18.686	3.091	250.337	82.425	(22.493)	1.029.617
Deposits from customers	420.243	4.948	7	37.855	108.959	58	(5.850)	566.220
Other liabilities	14.808	1.513	4.407	1.540	209.278	47.893	(14.879)	264.560
Total segment liabilities	435.051	6.461	4.414	39.395	318.237	47.951	(20.729)	830.780
Allocated equity	45.874	43.274	3.188	2.898	92.504	18.487	(7.388)	198.837
Risk exposure amount	377.058	256.938	22.088	4.522	21.803	34.580	7.724	724.713

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Notes to the Condensed Consolidated Interim Financial Statements

5. Classification of financial assets and financial liabilities

At 30 June 2017	Notes	Held for trading	Held for hedging	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	-	-	-	227.189	-	-	227.189
Listed bonds and debt instruments		30.862	-	474	-	-	-	31.336
Unlisted bonds and debt instruments		-	-	1.965	-	-	-	1.965
Listed shares and equity instruments		6.888	-	2.100	-	-	-	8.988
Unlisted shares and equity instruments		-	-	2.046	-	902	-	2.948
Derivatives	22	3.940	2	-	-	-	-	3.942
Loans to credit institutions	23	-	-	-	23.983	-	-	23.983
Loans to customers	24	-	-	-	721.820	-	-	721.820
Other financial assets		-	-	-	9.961	-	-	9.961
Total financial assets		41.690	2	6.585	982.953	902	-	1.032.132
Deposits from CB and credit institutions	30	-	-	-	-	-	9.362	9.362
Deposits from customers	31	-	-	-	-	-	572.407	572.407
Derivative instruments and short positions .	22	6.727	617	-	-	-	-	7.344
Debt issued and other borrowed funds	33	-	-	-	-	-	227.274	227.274
Other financial liabilities		-	-	-	-	-	42.027	42.027
Total financial liabilities		6.727	617	-	-	-	851.070	858.414

At 31 December 2016	Notes	Held for trading	Held for hedging	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	-	-	-	275.453	-	-	275.453
Listed bonds and debt instruments		28.448	-	635	-	-	-	29.083
Unlisted bonds and debt instruments		-	-	2.173	-	-	-	2.173
Listed shares and equity instruments		6.333	-	1.737	-	-	-	8.070
Unlisted shares and equity instruments		-	-	1.717	-	839	-	2.556
Derivatives	22	1.953	-	-	-	-	-	1.953
Loans to credit institutions	23	-	-	-	17.645	-	-	17.645
Loans to customers	24	-	-	-	687.840	-	-	687.840
Other financial assets		-	-	-	6.293	-	-	6.293
Total financial assets		36.734	-	6.262	987.231	839	-	1.031.066
Deposits from CB and credit institutions	30	-	-	-	-	-	4.922	4.922
Deposits from customers	31	-	-	-	-	-	594.187	594.187
Derivative instruments and short positions .	22	4.413	385	-	-	-	-	4.798
Debt issued and other borrowed funds	33	-	-	-	-	-	212.468	212.468
Other financial liabilities		-	-	-	-	-	36.005	36.005
Total financial liabilities		4.413	385	-	-	-	847.582	852.380

Amounts are in ISK million

6. Fair value information for financial instruments

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.

The table below shows financial instruments carried at fair value at 30 June 2017 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. 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 the quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

At 30 June 2017

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	31,377	194	1,730	33,301
Shares and equity instruments	8,334	674	2,928	11,936
Derivative instruments	-	3,942	-	3,942
Total financial assets	39,711	4,810	4,658	49,179
Financial liabilities:				
Short positions	1,262	-	-	1,262
Derivative instruments	-	6,082	-	6,082
Total financial liabilities	1,262	6,082	-	7,344

At 31 December 2016

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	26,243	3,141	1,872	31,256
Shares and equity instruments	7,965	589	2,072	10,626
Derivative instruments	-	1,953	-	1,953
Total financial assets	34,208	5,683	3,944	43,835
Financial liabilities:				
Short positions	475	-	-	475
Derivative instruments	-	4,323	-	4,323
Total financial liabilities	475	4,323	-	4,798

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

6. Cont'd

Reconciliation of financial instruments categorised into Level 3

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2017	1,872	2,072
Purchases	-	488
Sales	(10)	(2)
Net (loss) gain on financial instruments recognised in profit or loss	(132)	105
Net gain on financial instruments recognised in other comprehensive income	-	82
Transfers from level 1 or 2	-	206
Other	-	(23)
Fair value at 30 June 2017	1,730	2,928

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2016	647	5,445
Purchases	113	906
Sales	(265)	(6,193)
Net gain on financial instruments recognised in profit or loss	6	29
Net gain on financial instruments recognised in other comprehensive income	-	702
Transfers from level 1 or 2	1,371	1,183
Fair value at 31 December 2016	1,872	2,072

The responsibility for the valuation of the fair value of financial instruments lies with the relevant business units. Each quarter, the business units present a valuation report to the Investment Committee for approval. The report and its assumptions are reviewed by Risk Management.

Where applicable, fair values are determined using quoted prices in active markets for identical assets and liabilities. 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, 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 foreign exchange spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates. In general bond options are classified as Level 2.

Level 3 assets contain primarily unlisted and illiquid equities and bonds. Unlisted equities are initially booked at their transaction price but are revalued each quarter based on the models as described above. At 30 June 2017 the Group's Level 3 equities amounted to ISK 2.928 million. In 2016 the Group obtained Series C preferred shares in Visa Inc. in relation to the sale of its shares in Visa Europe. The shares are subject to selling restrictions for a period of up to 12 years and under certain conditions may have to be recalled. The shares are classified as Level 3 for the valuation of the fair value, amounted to ISK 902 million at 30 June 2017.

The Group's Level 3 bonds amounted to ISK 1,730 million and were valued based on discounted expected recovery of the bond issuers' assets. The expected recovery of these bonds ranges from 0% to 100% 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. The majority of the amount in Level 3 bonds is estimated by discounting cash flow where the yield is the contractual currency's base rate with a premium that is decided by expert judgement on project risk and financing cost.

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7. Financial instruments not carried at fair value

The fair value of financial assets and financial liabilities is determined by the same valuation methods as described in the Group's Consolidated Financial Statements for the year ended 31 December 2016.

The following tables show the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined as before (see Note 6):

At 30 June 2017	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central Bank	-	227,189	-	227,189	227,189
Loans to credit institutions	-	23,983	-	23,983	23,983
Loans to customers	-	-	725,091	725,091	721,820
Other financial assets	-	9,961	-	9,961	9,961
Total financial assets	-	261,133	725,091	986,224	982,953
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	9,362	-	9,362	9,362
Deposits from customers	-	572,606	-	572,606	572,407
Debt issued and other borrowed funds	104,546	127,799	-	232,345	227,274
Other financial liabilities	-	42,027	-	42,027	42,027
Total financial liabilities	104,546	751,794	-	856,340	851,070

At 31 December 2016	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets:					
Cash and balances with Central Bank	-	275,453	-	275,453	275,453
Loans to credit institutions	-	17,645	-	17,645	17,645
Loans to customers	-	-	690,660	690,660	687,840
Other financial assets	-	6,293	-	6,293	6,293
Total financial assets	-	299,391	690,660	990,051	987,231
Financial liabilities:					
Deposits from Central Bank and credit institutions	-	4,922	-	4,922	4,922
Deposits from customers	-	594,253	-	594,253	594,187
Debt issued and other borrowed funds	70,907	145,793	-	216,700	212,468
Other financial liabilities	-	36,005	-	36,005	36,005
Total financial liabilities	70,907	780,973	-	851,880	847,582

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Notes to the Condensed Consolidated Interim Financial Statements

8. Offsetting financial assets and financial liabilities

The tables below show reconciliation to the net amounts of financial assets and financial liabilities. Those assets are subject to offsetting, enforceable master netting agreements, and similar agreements.

Financial assets	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 30 June 2017	Financial assets before netting	Netting with financial liabilities	Net financial assets	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 in the balance sheet
Derivatives	3,942	-	3,942	(709)	(1,271)	(11)	1,951	-	3,942
At 31 December 2016									
Derivatives	1,953	-	1,953	(616)	(402)	(59)	876	-	1,953

Financial liabilities	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 30 June 2017	Financial liabilities before netting	Netting with financial assets	Net financial liabilities	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 in the balance sheet
Derivative instruments and short positions	6,082	-	6,082	(709)	(299)	-	5,074	1,262	7,344
At 31 December 2016									
Derivative instruments and short positions	4,323	-	4,323	(616)	(297)	-	3,410	475	4,798

9. Quarterly statements (unaudited)

	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2
Net interest income	7,814	7,397	8,149	7,758	8,356
Net fee and commission income	3,543	3,270	3,831	3,233	3,515
Net financial income	97	12	37	(607)	6,062
Net foreign exchange gain	169	201	77	49	305
Other operating income	55	160	(17)	45	473
Salaries and related expenses	(4,109)	(3,659)	(4,061)	(3,092)	(3,697)
Other operating expenses	(2,739)	(2,759)	(3,331)	(2,521)	(3,902)
Contribution to the Depositors' and Investors' Guarantee Fund	(262)	(253)	(252)	(283)	(267)
Bank tax	(752)	(720)	(691)	(745)	(716)
Net loan impairment	200	240	484	(118)	689
Profit before tax	4,016	3,889	4,226	3,719	10,818
Income tax expense	(1,133)	(1,130)	(1,353)	(1,266)	(1,720)
Profit for the period from continuing operations	2,883	2,759	2,873	2,453	9,098
Profit from discontinued operations, net of income tax	2,114	285	1,730	85	409
Profit for the period	4,997	3,044	4,603	2,538	9,507

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

10. Net interest income

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Interest income:				
Cash and balances with Central Bank	5,713	5,633	2,724	2,732
Loans and receivables	22,997	24,604	12,183	13,263
Financial assets held for trading*	(194)	(17)	(186)	(114)
Financial assets designated at fair value through profit or loss	33	893	13	448
Other assets	70	61	33	35
Total interest income	28,619	31,174	14,767	16,364
Interest expense:				
Deposits from credit institutions and Central Bank	(81)	(249)	(64)	(114)
Deposits from customers	(9,505)	(10,621)	(4,797)	(5,536)
Borrowings	(3,809)	(3,913)	(2,084)	(2,110)
Subordinated loans	-	(466)	-	(227)
Other interest expense	(13)	(30)	(8)	(21)
Total interest expense	(13,408)	(15,279)	(6,953)	(8,008)
Net interest income	15,211	15,895	7,814	8,356

*Financial assets held for trading include interest resulting from swaps.

11. Net fee and commission income

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Fee and commission income:				
Asset management	1,002	870	529	436
Investment banking and brokerage	1,077	1,004	646	613
Payment processing	6,758	7,154	3,342	3,696
Loans and guarantees	729	763	377	381
Other fee and commission income	960	820	503	464
Total fee and commission income	10,526	10,611	5,397	5,590
Commission expenses:				
Brokerage	(64)	(64)	(31)	(25)
Clearing and settlement	(3,639)	(3,877)	(1,815)	(2,048)
Other commission expenses	(10)	(11)	(8)	(2)
Total commission expenses	(3,713)	(3,952)	(1,854)	(2,075)
Net fee and commission income	6,813	6,659	3,543	3,515

Amounts are in ISK million

12. Net financial income

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Net (loss) gain on financial assets and liabilities held for trading	(87)	443	(115)	65
Net gain (loss) on financial assets designated at fair value through profit or loss	152	37	231	(189)
Net gain (loss) on fair value hedges	44	-	(19)	-
Net gain on financial assets classified as available for sale	-	6,186	-	6,186
Net financial income	109	6,666	97	6,062

13. Net foreign exchange gain

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Assets:				
Cash and balances with Central Bank	(127)	(88)	(106)	(64)
Financial assets held for trading	224	(1,874)	(308)	(2,354)
Financial assets designated at fair value through profit or loss	(115)	(82)	(125)	(11)
Loans and receivables	(4,467)	(5,726)	(6,600)	(2,925)
Other assets	(108)	(37)	(211)	121
Total assets	(4,593)	(7,807)	(7,350)	(5,233)
Liabilities:				
Deposits	2,705	4,630	3,415	2,812
Subordinated loans	-	631	-	529
Debt issued and other borrowed funds	2,077	2,841	3,790	2,280
Other liabilities	181	22	314	(83)
Total liabilities	4,963	8,124	7,519	5,538
Net foreign exchange gain	370	317	169	305

14. Other operating income

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Share of profit of associates net of income tax	102	48	-	-
Service level agreement fees	21	44	11	22
Legal cost and fees	57	77	28	36
Rental income	20	34	10	20
Gain from sale of buildings	2	363	-	363
Other net operating income	13	58	6	32
Other operating income	215	624	55	473

15. Salaries and related expenses

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Salaries	6,331	6,049	3,351	2,938
Pension and similar expenses	892	912	487	449
Social security charges and financial activities tax*	911	809	456	397
Other	65	96	37	47
Capitalisation of internal staff costs in software development	(431)	(230)	(222)	(134)
Salaries and related expenses	7,768	7,636	4,109	3,697

*Financial activities tax calculated on salaries is 5.5% (2016: 5.5%).

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

16. Other operating expenses

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Professional services	2,354	2,053	1,200	1,076
Real estate and fixtures	1,441	1,642	717	841
Depreciation and amortisation	422	1,639	201	1,374
Other administrative expenses	1,281	1,146	621	611
Other operating expenses	5,498	6,480	2,739	3,902

17. Net loan impairment

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Specific impairment	569	(230)	248	277
Collective impairment	162	(133)	86	(119)
Impairment changes due to court rulings	(396)	304	(178)	304
Impairment reversal due to revised estimated future cash flows	105	428	44	227
Net loan impairment	440	369	200	689

18. Income tax expense

Income tax is recognised based on applicable tax rates and tax laws, the income tax rate for legal entities in 2017 is 20% (2016: 20%). Special financial activities tax is calculated as 6% of taxable profits exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first half of 2017 is 28.6% (2016: 17.9%).

Income tax recognised in the income statement is specified as follows:	2017 1.1-30.6	2016 1.1-30.6
Current tax expense	1,636	1,971
Special financial activities tax	402	492
Difference in prior year's imposed and calculated income tax	(21)	69
Changes in temporary differences due to deferred tax assets/liabilities	246	54
Total	2,263	2,586

The effective income tax rate is specified as follows:	2017 1.1-30.6		2016 1.1-30.6	
Profit before tax	7,905		14,479	
20% income tax calculated on the profit of the period	1,581	20.0%	2,896	20.0%
Special financial activities tax	402	5.1%	492	3.4%
Income not subject to tax	(12)	(0.2%)	(1,185)	(8.2%)
Non-deductible expenses	299	3.8%	281	1.9%
Correction in accordance with ruling on prior year's taxable income	3	0.0%	50	0.4%
Other differences	(10)	(0.1%)	52	0.4%
Income tax expense	2,263	28.6%	2,586	17.9%

The Bank is taxed jointly with its subsidiary Íslandssjódir hf.

Amounts are in ISK million

19. Profit from discontinued operations

	2017 1.1-30.6	2016 1.1-30.6	2017 1.4-30.6	2016 1.4-30.6
Net profit from sale of foreclosed mortgages	189	443	65	64
Net share of profit from disposal groups held for sale	312	709	313	585
Net profit (loss) from sale of subsidiaries and associates*	1,898	(28)	1,736	(240)
Profit from discontinued operations, net of income tax	2,399	1,124	2,114	409

*At 30 June 2017 the Group no longer has contol over the following subsidiaries: SPW ehf. (71.1%), IG Invest ehf. (71.1%) and Fergin ehf. (80%).

20. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2017 1.1-30.6	2016 1.1-30.6	2017 1.1-30.6	2016 1.1-30.6
Profit attributable to equity holders of the Bank	5,985	9,254	8,384	10,378
Weighted average number of outstanding shares for the period, million	10,000	10,000	10,000	10,000
Basic earnings per share	0.60	0.93	0.84	1.04

There were no instruments at the end of the period that could potentially dilute basic earnings per share (2016: none).

21. Cash and balances with Central Bank

	30.6.2017	31.12.2016
Cash on hand	3,434	3,073
Balances with Central Bank other than mandatory reserve deposits	30,165	26,526
Term deposits	176,339	198,661
Balances with Central Bank assets subject to special restrictions*	4,621	34,532
Included in cash and cash equivalents	214,559	262,792
Mandatory reserve deposits with Central Bank	12,630	12,661
Cash and balances with Central Bank	227,189	275,453

*Offshore króna assets and onshore króna assets, as defined in Act no. 37/2016 and rules no. 490/2016.

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22. Derivative instruments and short positions

At 30 June 2017

	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	814	72,821	2,810	125,933
Cross-currency interest rate swaps	1,422	31,472	1,481	16,770
Equity forwards	291	2,718	198	2,304
Equity options	60	152	-	-
Foreign exchange forwards	935	15,801	1,248	20,975
Foreign exchange swaps	415	10,714	289	14,667
Bond forwards	5	1,440	56	4,685
Derivatives	3,942	135,118	6,082	185,334
Short positions in listed bonds	-	-	1,262	-
Total	3,942	135,118	7,344	185,334

At 31 December 2016

	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	762	58,055	1,991	123,333
Cross-currency interest rate swaps	782	8,293	765	24,989
Equity forwards	237	2,494	152	2,141
Foreign exchange forwards	30	2,660	1,056	13,992
Foreign exchange swaps	141	13,128	231	21,105
Bond forwards	1	400	26	3,610
Bond options	-	-	102	25,000
Derivatives	1,953	85,030	4,323	214,170
Short positions in listed bonds	-	-	475	-
Total	1,953	85,030	4,798	214,170

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Group carries relatively low 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.

Short positions are in Icelandic government bonds and institutions with government guarantees. As a primary dealer the Group has access to securities lending facilities provided by the Central Bank and the Housing Financing Fund. Majority of the securities lending facilities have a maturity of less than a year.

The Group applies hedge accounting only with respect to certain euro denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate euro denominated bonds (see Note 33) arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. The total fair value of the interest rate swaps for the first half of 2017 was negative and amounted to ISK 615 million. Their total notional values for the first half of 2017 amounted to ISK 58,915 million.

23. Loans to credit institutions

	30.6.2017	31.12.2016
Money market loans	9,474	5,642
Bank accounts	14,509	12,003
Loans to credit institutions	23,983	17,645

Amounts are in ISK million

24. Loans to customers

Impaired loans to customers specified by sector:

At 30 June 2017	Gross amount	Specific impairment allowance	Loans less impairment allowance
Individuals	292,415	(1,831)	290,584
Commerce and services	108,267	(1,114)	107,153
Construction	29,137	(1,340)	27,797
Energy	7,152	-	7,152
Financial services	42	-	42
Industrial and transportation	70,292	(1,879)	68,413
Investment companies	18,124	(903)	17,221
Public sector and non-profit organisations	12,604	-	12,604
Real estate	113,280	(593)	112,687
Seafood	80,555	(501)	80,054
Loans to customers before collective impairment allowance	731,868	(8,161)	723,707
Collective impairment allowance			(1,887)
Loans to customers			721,820

At 31 December 2016	Gross amount	Specific impairment allowance	Loans less impairment allowance
Individuals	288,455	(2,278)	286,177
Commerce and services	99,010	(1,067)	97,943
Construction	29,644	(1,766)	27,878
Energy	7,216	-	7,216
Financial services	85	-	85
Industrial and transportation	67,391	(4,301)	63,090
Investment companies	15,289	(887)	14,402
Public sector and non-profit organisations	12,848	(13)	12,835
Real estate	100,751	(731)	100,020
Seafood	80,672	(429)	80,243
Loans to customers before collective impairment allowance	701,361	(11,472)	689,889
Collective impairment allowance			(2,049)
Loans to customers			687,840

25. Impairment

Changes in the provision for impairment losses for loans to customers:	Specific impairment allowance	Collective impairment allowance	Total
At 1 January 2017	11,472	2,049	13,521
Amounts written-off	(3,077)	-	(3,077)
Recoveries of amounts previously written-off	335	-	335
Reversal of impairment previously charged to the income statement	(569)	(162)	(731)
At 30 June 2017	8,161	1,887	10,048
At 1 January 2016	13,405	2,467	15,873
Amounts written-off	(3,799)	-	(3,799)
Recoveries of amounts previously written-off	711	-	711
Charged to the income statement	1,090	(310)	780
Other	65	(108)	(43)
At 31 December 2016	11,472	2,049	13,521

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Notes to the Condensed Consolidated Interim Financial Statements

26. Investments in associates

	2017 1.1-30.6	2016 1.1-31.12
Investments in associates at the beginning of the year	450	716
Additions during the period	12	104
Sales of shares in associates	-	(248)
Share of results	102	48
Dividends paid	(20)	-
Impairment	-	(170)
Other	161	-
Investments in associates at the end of the period	705	450

27. Investments in subsidiaries

Significant subsidiaries:	Location	Ownership 30.6.2017	 31.12.2016
Borgun hf., a payment acquirer and issuing processor, Ármúli 30, 108 Reykjavík	Iceland	63.5%	63.5%
Íslandssjódir hf., an investment fund management company, Hagasmári 3, 201 Kópavogur	Iceland	100%	100%
IS Thróunarsjódurinn Langbrók, a professional investment fund, Hagasmári 3, 201 Kópavogur	Iceland	100%	100%
Hringur eignarhaldsfélag ehf., a holding company, Dalshraun 3, 220 Hafnarfjördur	Iceland	100%	100%
Allianz Ísland hf., an insurance agent, Dalshraun 3, 220 Hafnarfjördur	Iceland	100%	100%
D-1 ehf., a commercial real estate company, Kirkjusandur 2, 105 Reykjavík	Iceland	100%	100%

Other non-significant subsidiaries:
In addition Íslandsbanki has control over 18 other subsidiaries.

28. Other assets

	30.6.2017	31.12.2016
Receivables	4,497	5,090
Unsettled securities transactions	4,490	652
Accruals	333	749
Prepaid expenses	522	300
Other assets	261	273
Other assets	10,103	7,064

29. Non-current assets and disposal groups held for sale

	30.6.2017	31.12.2016
Repossessed collateral	2,165	3,348
Assets of disposal groups classified as held for sale	1,770	3,036
Total	3,935	6,384

Repossessed collateral:

	30.6.2017	31.12.2016
Land and property	2,146	3,319
Industrial equipment and vehicles	19	29
Total	2,165	3,348

Amounts are in ISK million

29. Cont'd

At 30 June 2017 the Group classified the assets and liabilities of the following subsidiaries as assets and liabilities of disposal groups held for sale: Fastengi ehf. (100%), Geysir Green Investment Fund slhf. (100%), ÍSB fasteignir ehf. (100%) and LT lódir ehf. (100%).

Assets of disposal groups classified as held for sale:

	30.6.2017	31.12.2016
Cash	-	1,545
Equity instruments	775	775
Receivables	618	36
Property and land	328	633
Other assets	49	47
Total	1,770	3,036

Liabilities associated with assets and disposal groups classified as held for sale:

	30.6.2017	31.12.2016
Payables	1	52
Tax liabilities	115	269
Other liabilities	-	4
Total	116	325

30. Deposits from Central Bank and credit institutions

	30.6.2017	31.12.2016
Repurchase agreements with Central Bank	37	70
Deposits from credit institutions	9,325	4,852
Deposits from Central Bank and credit institutions	9,362	4,922

31. Deposits from customers

	30.6.2017	31.12.2016
Demand deposits*	486,522	501,045
Time deposits	85,885	93,142
Deposits from customers	572,407	594,187

*Demand deposits include deposits with maturity of up to 3 months.

Deposits from customers specified by owners:

	30.6.2017		31.12.2016	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	7,573	1%	10,264	2%
Municipalities	8,876	2%	5,277	1%
Companies	299,628	52%	335,766	56%
Individuals	256,330	45%	242,880	41%
Deposits from customers	572,407	100%	594,187	100%

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Notes to the Condensed Consolidated Interim Financial Statements

32. Pledged assets

	30.6.2017	31.12.2016
Financial assets which have been pledged as collateral against liabilities	128,687	119,277
Financial assets which have been pledged as collateral in foreign banks	768	457
Pledged assets against liabilities	129,455	119,734

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are mainly pledged on a pool of consumer mortgage loans. The underlying cover pool must withstand a weekly stress test with regards to interest rates and exchange rates.

The Group has also pledged cash in foreign banks and financial institutions, mainly as collateral for trades under ISDA agreements to hedge market risk.

33. Debt issued and other borrowed funds

	Issued	Maturity	Maturity type	Terms of interest	30.6.2017	31.12.2016
Covered bond in ISK	2014-2017	2019	At maturity	Fixed, 6.9299%	10,154	8,024
Covered bond in ISK	2015-2016	2023	At maturity	Fixed, 6.40%	7,468	7,467
Covered bond in ISK - CPI-linked	2012-2014	2019	At maturity	Fixed, CPI-linked, 2.84%	8,612	8,528
Covered bond in ISK - CPI-linked	2014-2015	2020	At maturity	Fixed, CPI-linked, 3.4699%	4,090	4,049
Covered bond in ISK - CPI-linked	2015-2017	2022	At maturity	Fixed, CPI-linked, 2.98%	17,338	5,461
Covered bond in ISK - CPI-linked	2012-2017	2024	At maturity	Fixed, CPI-linked, 3.45%	16,234	11,317
Covered bond in ISK - CPI-linked	2015-2017	2026	At maturity	Fixed, CPI-linked, 3.372%	23,904	19,379
Covered bond in ISK - CPI-linked	2017	2030	At maturity	Fixed, CPI-linked, 3.00%	8,290	-
Covered bonds					96,090	64,225
Senior unsecured bond in SEK	2013-2014	2017	At maturity	Floating, STIBOR + 4.00%	9,802	9,971
Senior unsecured bond in EUR*	2016	2020	At maturity	Fixed, 1.75%	60,557	61,125
Senior unsecured bond in SEK	2015	2019	At maturity	Floating, STIBOR + 3.10%	7,369	7,493
Senior unsecured bond in EUR	2015-2016	2018	At maturity	Fixed, 2.875%	36,263	36,140
Senior unsecured bond in NOK	2015	2018	At maturity	Floating, NIBOR + 2.60%	6,174	6,566
Senior unsecured bond in USD	2016	2017	At maturity	Floating, LIBOR + 1.70%	3,634	3,963
Bonds issued					123,799	125,258
Loans from credit institutions					0	14,773
Bills issued					7,003	5,755
Other debt securities					382	2,457
Other loans/bills					7,385	22,985
Debt issued and other borrowed funds					227,274	212,468

*The Group applies hedge accounting to this bond issuance and uses certain euro denominated interest rate swaps as hedging instruments (see Note 22). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed rate euro denominated bond arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. The total carrying amount of the bond issuance is ISK 60,557 million and included in the amount are fair value changes amounting to ISK 471 million.

Íslandsbanki did not repurchase own senior or covered bonds during the period.

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

34. Other liabilities

	30.6.2017	31.12.2016
Accruals	4,343	4,219
Liabilities to retailers for credit cards	27,249	25,494
Provision for effects of court rulings	1,471	1,344
Provision for estimated losses from guarantees and others	88	86
Withholding tax	645	7,165
Unsettled securities transactions	6,334	1,551
Deferred income	179	190
Sundry liabilities	2,900	3,407
Other liabilities	43,209	43,456

Provision:	Provision for effects of court rulings	Provision for estimated losses from guarantees and others	Total
At 1 January 2017	1,344	86	1,430
Provision used during the year	(54)	-	(54)
New provision and reversed provision during the year	181	2	183
At 30 June 2017	1,471	88	1,559

35. Related party

Íslandsbanki is wholly owned by the Icelandic Government, directly and through ISB Holding ehf., which is also wholly owned by the Icelandic Government. The shares are administered by the Icelandic State Financial Investments ("ISFI"). As a result, the Icelandic Government and the Icelandic State Financial Investments, and the members of the Board of Directors of ISFI are defined as related parties of the Group. The Group has applied the partial exemption for government-related entities as described in IAS 24, paragraphs 25-27.

The Board of Directors of the parent company, the key management personnel, close family members of individuals referred to herein and legal entities controlled by them, are defined as related parties.

The Group's associates, and their key management personnel and legal entities controlled by them, are also defined as related parties.

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.

Cash and balances with the Central Bank are disclosed under Note 21 and Deposits from the Central Bank are disclosed under Note 30.

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

At 30 June 2017	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(102)	(102)	-	1
Board of Directors and key management personnel	320	(386)	(66)	-	59
Associated companies and other related parties	476	(635)	(159)	-	229
Balances with related parties	796	(1,123)	(327)	-	289

	Interest income	Interest expense	Other income
Shareholders with control over the Group	-	(1)	-
Board of Directors and key management personnel	9	(8)	-
Associated companies and other related parties	16	(16)	1
Transactions with related parties	25	(25)	1

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

35. Cont'd

At 31 December 2016

	Assets	Liabilities	Net balance	Guarantees	Commitments and overdraft
Shareholders with control over the Group	-	(101)	(101)	-	1
Board of Directors and key management personnel	335	(606)	(271)	-	72
Associated companies and other related parties	523	(1,065)	(542)	1	227
Balances with related parties	858	(1,772)	(914)	1	300

	Interest income	Interest expense	Other income
Shareholders with control over the Group	-	(4)	-
Board of Directors and key management personnel	33	(24)	4
Associated companies and other related parties	34	(32)	8
Transactions with related parties	67	(60)	12

No impairment allowances (2016: 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 June 2017.

36. Custody assets

	30.6.2017	31.12.2016
Custody assets - not managed by the Group	1,357,700	1,216,155

37. Contingencies

Provisions

Foreign currency-linked loan contracts

The Group believes that the uncertainty concerning foreign currency-linked loan contracts has to the greatest extent been removed by rulings of the Supreme Court. A few court cases concerning minor deviations in contract terms from those previously ruled on have yet to be concluded. The Group believes that adverse rulings in the remaining court cases will not leave an impact in excess of the provision stated below.

A total provision of ISK 1,471 million (see Note 34) has been recognised in the Group's interim financial statements as at 30 June 2017 due to uncertainty of the value of certain foreign currency-linked loan contracts.

Contingent liabilities

Variable rate loan contracts

In September 2014, the Consumer Appellate Committee (“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 confirmed the opinion of the Consumer Agency which found the terms offered by the Group and its predecessors, 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 Group referred the matter to the courts and in April 2017 a district court ruling was passed in favour of the Group. The case will be heard by the Supreme Court on 9 October 2017. The Group has not recognised any provision against a possible loss due to this litigation.

Amounts are in ISK million

37. Cont'd

Borgun hf.

Borgun hf. is a payment acquirer and issuing processor and a subsidiary of Íslandsbanki. Landsbankinn hf. sold its 31.2% stake in Borgun in late 2014. Since early 2016 Landsbankinn has been criticised (among others by the Icelandic National Audit Office) for not having foreseen in the process of the sale that Borgun was entitled to proceeds from the Visa Inc. takeover of Visa Europe.

Landsbankinn's response to the criticism is that it considers that Borgun's management had not released information on all factors that could affect the value of Borgun during the sales process. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit on 12 January 2017, claiming damages for having been deprived of the true value of the stake involved in the sale..

Landsbankinn hf. (the plaintiff) is asking the court to affirm the joint liability of Borgun hf., BPS ehf., Eignarhaldsfélagid Borgun slf. and Mr. Haukur Oddsson, CEO of Borgun to pay damages for the plaintiff's alleged loss resulting from the defendants' negligence to inform the plaintiff of the value of Borgun's share in Visa Europe Ltd. The defendants have denied liability. The plaintiff does not quantify the claim, however, the estimated lost profit is approximately ISK 1,930 million (by selling the shares in Borgun). Seeing that the conclusion of the case is uncertain and the financial effect cannot be estimated, the Group has not recognised a provision in relation to this matter.

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. It is uncertain when the evaluation will be completed. Court proceedings are expected to commence once the evaluation has been completed and filed with the District 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.

38. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the interim financial statements for the first half of 2017.

39. Risk management

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 unaudited Pillar 3 Report. The Pillar 3 Report is available at the Bank's website: www.islandsbanki.is/pillar3report.

40. Credit risk

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.

41. 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 positive market value of the contract as described in Article 274 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

41. Cont'd

Maximum credit exposure 30.6.2017

	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	-	227,189	-	-	-	-	-	-	-	-	-	227,189
Bonds and debt instruments	-	23,324	-	-	-	7,054	1,524	81	973	345	-	33,301
Derivatives	15	118	245	2	1,749	3,339	304	1,332	1	160	203	7,468
Loans to credit institutions	-	-	-	-	-	23,983	-	-	-	-	-	23,983
Loans to customers:	290,584	-	107,153	27,797	7,152	42	68,413	17,221	12,604	112,687	80,054	723,707
Overdrafts	10,446	-	10,868	3,122	1	16	4,754	690	395	3,335	9,280	42,907
Credit cards	16,077	-	1,479	227	3	26	393	32	115	62	27	18,441
Mortgages	218,478	-	-	-	-	-	-	-	-	-	-	218,478
Capital leases	8,096	-	24,259	2,009	7	-	7,622	225	83	1,097	244	43,642
Other loans	37,487	-	70,547	22,439	7,141	-	55,644	16,274	12,011	108,193	70,503	400,239
Other financial assets	118	-	110	2	1	9,436	18	33	81	149	13	9,961
Off-balance sheet items:												
Financial guarantees	1,725	-	5,110	3,668	-	1,672	1,453	58	4	1,059	539	15,288
Undrawn loan commitments	-	-	5,607	8,305	9,367	-	8,842	4,342	-	7,142	1,714	45,319
Undrawn overdrafts	10,360	-	9,934	2,579	205	3,354	3,659	244	2,885	2,833	5,039	41,092
Credit card commitments	26,470	1	4,216	636	28	109	1,035	131	763	218	150	33,757
Total maximum credit exposure	329,272	250,632	132,375	42,989	18,502	48,989	85,248	23,442	17,311	124,593	87,712	1,161,065

Amounts are in ISK million

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41. Cont'd

Maximum credit exposure 31.12.2016

	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	-	275,453	-	-	-	-	-	-	-	-	-	275,453
Bonds and debt instruments	-	24,928	-	-	-	3,885	1,638	150	4	651	-	31,256
Derivatives	4	115	197	-	1,227	2,413	151	61	-	118	366	4,652
Loans to credit institutions	-	-	105	-	-	17,540	-	-	-	-	-	17,645
Loans to customers:	286,177	-	97,943	27,878	7,216	85	63,090	14,402	12,835	100,020	80,243	689,889
Overdrafts	11,540	-	9,587	3,586	2	16	6,309	578	932	2,922	9,911	45,383
Credit cards	16,788	-	1,514	209	3	28	407	34	108	60	37	19,188
Mortgages	211,233	-	-	-	-	-	-	-	-	-	-	211,233
Capital leases	8,397	-	20,782	2,049	8	0	7,534	216	83	1,147	200	40,415
Other loans	38,219	-	66,060	22,034	7,203	41	48,840	13,574	11,712	95,891	70,095	373,670
Other financial assets	342	6	251	52	2	5,303	97	126	5	85	24	6,293
Off-balance sheet items:												
Financial guarantees	1,605	-	4,953	2,751	-	1,666	1,596	62	4	681	505	13,823
Undrawn loan commitments	-	-	2,197	6,704	9,675	-	16,972	526	-	8,223	1,881	46,178
Undrawn overdrafts	9,997	-	9,669	1,868	250	3,504	3,850	469	2,609	2,432	2,977	37,625
Credit card commitments	25,869	1	4,212	630	32	165	1,125	129	835	274	172	33,444
Total maximum credit exposure	323,994	300,503	119,527	39,883	18,402	34,561	88,519	15,925	16,292	112,484	86,168	1,156,258

Certain derivatives were previously categorised incorrectly according to Article 274 of Regulation (EU) no. 575/2013 of the European Parliament. Comparative amounts for year-end 2016 have been adjusted and ISK 735 million has been subtracted from derivatives.

Amounts are in ISK million

42. 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 the Group uses guarantees 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 Group's actual maximum exposure to credit risk. The total value of pledged assets can thus be higher than the cover indicates.

Certain derivatives were previously categorised incorrectly according to Article 274 of Regulation (EU) no. 575/2013 of the European Parliament. In addition certain collaterals were valued incorrectly, comparative amounts for year-end 2016 have been adjusted and ISK 3,771 million has been subtracted from derivatives.

For capital leases the Group remains the owner of the leased object. In the table below ISK 35,794 million of the collateral are leased objects.

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

At 30 June 2017	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	2,559	-	-	2,559
Loans and commitments to customers:	467,575	70,055	6,593	48,138	40,935	633,296
Individuals	243,687	14	618	12,191	128	256,638
Commerce and services	51,730	807	268	27,957	9,191	89,953
Construction	25,164	58	354	1,523	3,927	31,026
Energy	3,664	-	369	-	7	4,040
Financial services	-	-	168	-	-	168
Industrial and transportation	20,649	2,770	510	5,895	9,881	39,705
Investment companies	5,043	9	2,484	93	4,479	12,108
Public sector and non-profit organisations	957	-	11	66	5	1,039
Real estate	109,895	-	1,734	155	847	112,631
Seafood	6,786	66,397	77	258	12,470	85,988
Total	467,575	70,055	9,152	48,138	40,935	635,855

At 31 December 2016	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Credit exposure covered by collateral
Derivatives	-	-	860	-	-	860
Loans and commitments to customers:	449,999	70,510	8,770	40,329	40,524	610,132
Individuals	236,215	32	552	11,426	135	248,360
Commerce and services	48,987	623	128	20,694	10,026	80,458
Construction	25,679	100	738	1,548	3,246	31,311
Energy	2,887	-	415	-	8	3,310
Financial services	41	-	144	-	-	185
Industrial and transportation	25,770	3,389	356	6,164	11,652	47,331
Investment companies	4,782	8	2,596	88	4,190	11,664
Public sector and non-profit organisations	939	-	6	71	-	1,016
Real estate	99,306	-	3,812	163	727	104,008
Seafood	5,393	66,358	23	175	10,540	82,489
Total	449,999	70,510	9,630	40,329	40,524	610,992

Amounts are in ISK million

43. Credit quality of financial assets

Loans are classified as impaired loans if there is objective evidence that an impairment loss has occurred. 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.

Further disclosure on past due but not impaired loans can be found in Note 45.

At 30 June 2017	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	227,189	-	-	227,189
Bonds and debt instruments	33,301	-	-	33,301
Derivatives	7,468	-	-	7,468
Loans to credit institutions	23,983	-	-	23,983
Loans to customers:	702,257	16,154	5,296	723,707
Individuals	279,921	9,353	1,310	290,584
Commerce and services	104,132	1,982	1,039	107,153
Construction	26,437	453	907	27,797
Energy	7,152	-	-	7,152
Financial services	42	-	-	42
Industrial and transportation	67,103	801	509	68,413
Investment companies	16,692	529	-	17,221
Public sector and non-profit organisations	12,589	15	-	12,604
Real estate	109,279	2,166	1,242	112,687
Seafood	78,910	855	289	80,054
Other financial assets	9,952	4	5	9,961
Total	1,004,150	16,158	5,301	1,025,609

At 31 December 2016	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	275,453	-	-	275,453
Bonds and debt instruments	31,256	-	-	31,256
Derivatives	4,652	-	-	4,652
Loans to credit institutions	17,645	-	-	17,645
Loans to customers:	663,124	21,448	5,317	689,889
Individuals	272,963	11,648	1,566	286,177
Commerce and services	94,604	2,303	1,036	97,943
Construction	26,654	561	663	27,878
Energy	7,216	-	-	7,216
Financial services	44	41	-	85
Industrial and transportation	58,579	3,748	763	63,090
Investment companies	14,033	363	6	14,402
Public sector and non-profit organisations	12,825	3	7	12,835
Real estate	97,181	1,764	1,075	100,020
Seafood	79,025	1,017	201	80,243
Other financial assets	6,253	40	-	6,293
Total	998,383	21,488	5,317	1,025,188

Amounts are in ISK million

44. 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 the Bank uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Bank 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.

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

At 30 June 2017	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	Total
Loans to customers:							
Individuals	12,597	105,420	114,459	42,973	1,323	3,149	279,921
Commerce and services	24,430	58,522	17,674	2,554	152	800	104,132
Construction	348	13,676	9,505	1,558	352	998	26,437
Energy	3,025	3,282	845	-	-	-	7,152
Financial services	17	20	5	-	-	-	42
Industrial and transportation	20,815	31,415	8,686	3,166	3,021	-	67,103
Investment companies	3,717	5,117	7,290	413	-	155	16,692
Public sector and non-profit organisations	6,647	5,712	225	2	-	3	12,589
Real estate	31,676	47,580	26,238	2,853	48	884	109,279
Seafood	35,195	38,522	3,584	1,473	-	136	78,910
Total	138,467	309,266	188,511	54,992	4,896	6,125	702,257

At 31 December 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	12,033	104,940	107,085	43,474	1,809	3,622	272,963
Commerce and services	26,975	47,752	14,924	3,279	149	1,525	94,604
Construction	1,189	13,686	9,422	1,855	413	89	26,654
Energy	3,023	3,341	852	-	-	-	7,216
Financial services	21	8	13	1	-	1	44
Industrial and transportation	16,828	28,877	9,070	3,416	388	-	58,579
Investment companies	988	4,719	7,556	614	4	152	14,033
Public sector and non-profit organisations	6,731	5,863	208	23	-	-	12,825
Real estate	25,555	45,571	22,929	2,931	4	191	97,181
Seafood	34,411	38,147	4,880	1,530	57	-	79,025
Total	127,754	292,904	176,939	57,123	2,824	5,580	663,124

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45. 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 three 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 to the Group. 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 of these loans are loans to individuals where the authorised overdraft limit has expired and will be renewed again. On 30.6.2017 loans with payments three days in arrears or less amounted to ISK 90 million but on 31.12.2016 the corresponding figure was ISK 61 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 assets are as follows:

At 30 June 2017	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:	9,739	2,239	801	3,375	16,154
Individuals	5,831	1,214	480	1,828	9,353
Commerce and services	1,066	393	171	352	1,982
Construction	224	83	29	117	453
Industrial and transportation	414	237	5	145	801
Investment companies	262	86	9	172	529
Public sector and non-profit organisations	5	8	2	-	15
Real estate	1,615	183	105	263	2,166
Seafood	322	35	-	498	855
Other financial assets	-	-	-	4	4
Total	9,739	2,239	801	3,379	16,158

At 31 December 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:	10,204	2,628	1,365	7,251	21,448
Individuals	6,477	1,918	588	2,665	11,648
Commerce and services	1,281	324	409	289	2,303
Construction	247	55	97	162	561
Financial services	-	-	-	41	41
Industrial and transportation	385	140	78	3,145	3,748
Investment companies	115	71	65	112	363
Public sector and non-profit organisations	1	1	1	-	3
Real estate	1,264	113	116	271	1,764
Seafood	434	6	11	566	1,017
Other financial assets	36	1	-	3	40
Total	10,240	2,629	1,365	7,254	21,488

46. Restructuring and forbearance

When restructuring measures are believed to be more appropriate than collection procedures then the Bank 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.

Amounts are in ISK million

47. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's capital base it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by the regulation no. 233/2017. The Bank has internal criteria that define connections between clients. These criteria reflect the Bank's interpretation of Article (1)(a) of law no. 161/2002 on Financial Undertakings, where groups of connected clients are defined.

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 which are 13% and 11% of its capital base. No large exposure is above the maximum 25% single large exposure limit set by the law.

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

		30.6.2017
Client groups	Before	After
Group 1	133%	0%
Group 2	13%	13%
Group 3	11%	11%

		31.12.2016
Client groups	Before	After
Group 1	159%	0%
Group 2	13%	13%
Group 3	12%	12%

48. Liquidity risk

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.

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

The Bank's liquidity risk policy states that the Bank aims to maintain a prudent balance between the maturity of assets and liabilities and to avoid spikes in the funding profile.

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR (no. 266/2017) and the NSFR (no. 1031/2014) based on the CRD IV package into the rules on liquidity ratio and the rules on funding ratio in foreign currencies. The Group follows the guidelines no. 2/2010 form the Financial Supervisory Authority on best practice for managing liquidity in banking organisations. The liquidity rules no. 266/2017 were implemented in March of 2017 replacing the older rules no. 1031/2014.

The minimum LCR requirements are 100% 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 are 100%. The table below shows the LCR and NSFR for the group at end of June 2017 and at year-end 2016. Note that the comparative figures for 31.12.2016 have been changed according to the new Central Bank liquidity rules.

Amounts are in ISK million

48. Cont'd

Net stable funding ratio	30.6.2017	31.12.2016
For all currencies	119%	123%
Foreign currencies	138%	144%

Liquidity coverage ratio	30.6.2017	31.12.2016
For all currencies	171%	200%
Foreign currencies	303%	347%

	For all currencies		Foreign currencies	
At 30 June 2017	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1	226,093	226,093	20,562	20,562
Liquid assets level 2	1,903	666	1,883	666
Total liquid assets	227,996	226,759	22,445	21,228
Deposits	425,923	128,973	53,781	21,317
Debt issued	1,550	1,550	1,072	1,072
Other outflows	87,615	33,560	21,242	5,646
Total outflows	515,088	164,083	76,095	28,035
Short term deposits with other banks	25,520	21,103	25,151	21,102
Other inflows	23,568	10,377	1,647	874
Restrictions on inflows	-	-	-	(950)
Total inflows	49,088	31,480	26,798	21,026
Liquidity coverage ratio		171%		303%

	For all currencies		Foreign currencies	
At 31 December 2016	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1	252,287	252,287	20,474	20,474
Liquid assets level 2	8,443	730	1,779	727
Total liquid assets	260,730	253,017	22,253	21,201
Deposits	409,217	133,883	47,374	19,090
Debt issued	858	858	61	61
Other outflows	112,887	17,040	30,969	5,204
Total outflows	522,962	151,781	78,404	24,355
Short term deposits with other banks	22,981	17,200	21,991	17,151
Other inflows	21,827	8,256	1,781	1,089
Total inflows	44,808	25,456	23,772	18,240
Liquidity coverage ratio		200%		347%

Amounts are in ISK million

48. Cont'd

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.

Maturity analysis 30 June 2017

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	1,262	1,262	-	-	-	-	-	1,262
Deposits from CB and credit institutions	9,362	9,362	2	-	-	-	-	9,364
Deposits from customers	572,407	370,934	117,479	51,239	24,959	27,469	-	592,080
Debt issued and other borrowed funds	227,274	382	7,804	18,412	152,627	88,048	-	267,273
Other financial liabilities	42,027	34,681	5,708	1,638	-	-	-	42,027
Total	852,332	416,621	130,993	71,289	177,586	115,517	-	912,006

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.

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	15,288	-	-	-	-	-	15,288
Undrawn loan commitments	45,319	-	-	-	-	-	45,319
Undrawn overdrafts	41,092	-	-	-	-	-	41,092
Credit card commitments	33,757	-	-	-	-	-	33,757
Total	135,456	-	-	-	-	-	135,456
Total non-derivative financial liabilities and off-balance sheet liabilities	552,077	130,993	71,289	177,586	115,517	-	1,047,462

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	-	27,578	15,019	64,221	5,653	-	112,471
Outflow	-	(28,626)	(15,104)	(66,671)	(6,607)	-	(117,008)
Total	-	(1,048)	(85)	(2,450)	(954)	-	(4,537)
Net settled derivatives	-	(340)	-	-	-	-	(340)
Total	-	(1,388)	(85)	(2,450)	(954)	-	(4,877)

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.

Amounts are in ISK million

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

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	227,189	46,030	176,608	-	-	4,551	-	227,189
Bonds and debt instruments	33,301	940	9,249	8,893	6,763	7,456	-	33,301
Shares and equity instruments	11,936	-	-	-	-	-	11,936	11,936
Loans to credit institutions	23,983	13,740	10,243	-	-	-	-	23,983
Loans to customers	721,820	4,101	80,465	63,235	212,213	363,693	-	723,707
Other financial assets	9,961	5,608	631	5	74	6	3,637	9,961
Total	1,028,190	70,419	277,196	72,133	219,050	375,706	15,573	1,030,077

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	-	21,339	10,536	34,089	1,394	-	67,358
Outflow	-	(20,172)	(10,037)	(32,754)	(1,626)	-	(64,589)
Total	-	1,167	499	1,335	(232)	-	2,769
Net settled derivatives	-	289	-	-	-	-	289
Total	-	1,456	499	1,335	(232)	-	3,058

The tables below show the comparative amounts for financial assets and liabilities at the end of 2016.

Maturity analysis 31 December 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	475	475	-	-	-	-	-	475
Deposits from CB and credit institutions	4,922	4,922	2	-	-	-	-	4,924
Deposits from customers	594,187	383,060	119,632	60,007	25,133	20,679	-	608,511
Debt issued and other borrowed funds	212,468	2,457	3,779	26,452	155,189	49,353	-	237,230
Other financial liabilities	36,005	30,316	3,102	2,270	317	-	-	36,005
Total	848,057	421,230	126,515	88,729	180,639	70,032	-	887,145

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	13,823	-	-	-	-	-	13,823
Undrawn loan commitments	46,178	-	-	-	-	-	46,178
Undrawn overdrafts	37,625	-	-	-	-	-	37,625
Credit card commitments	33,444	-	-	-	-	-	33,444
Total	131,070	-	-	-	-	-	131,070
Total non-derivative financial liabilities and off-balance sheet liabilities	552,300	126,515	88,729	180,639	70,032	-	1,018,215

Amounts are in ISK million

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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	-	28,809	11,141	72,281	6,280	-	118,511
Outflow	-	(29,356)	(11,653)	(73,586)	(7,063)	-	(121,658)
Total	-	(547)	(512)	(1,305)	(783)	-	(3,147)
Net settled derivatives	-	(139)	-	-	-	-	(139)
Total	-	(686)	(512)	(1,305)	(783)	-	(3,286)

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	275,453	76,752	198,701	-	-	-	0	275,453
Bonds and debt instruments	31,256	1,127	11,941	6,475	6,238	5,475	0	31,256
Shares and equity instruments	10,626	-	-	-	-	-	10,626	10,626
Loans to credit institutions	17,645	11,379	6,266	-	-	-	-	17,645
Loans to customers	687,840	4,036	75,625	65,656	190,636	353,935	-	689,888
Other financial assets	6,293	3,057	706	26	84	5	2,415	6,293
Total	1,029,113	96,351	293,239	72,157	196,958	359,415	13,041	1,031,161

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	-	9,000	2,309	3,098	28	-	14,435
Outflow	-	(8,808)	(1,744)	(2,728)	(40)	-	(13,320)
Total	-	192	565	370	(12)	-	1,115
Net settled derivatives	-	299	-	-	-	-	299
Total	-	491	565	370	(12)	-	1,414

As a part of managing liquidity risk, the Group holds a portfolio of liquid assets to meet unexpected outflow of funds or a temporary shortage in access to new funding. These assets are subject to strict criteria with respect to credit quality, liquidation time and price volatility. The table below shows the composition and amount of the Group's liquidity back-up at the end of June 2017 and at year-end 2016.

Composition and amount of liquidity back-up	30.6.2017	31.12.2016
Cash and balances with Central Bank	222,568	240,921
Domestic bonds eligible as collateral against borrowing at Central Bank	4,376	5,722
Foreign government bonds	18,685	19,081
Loans to credit institutions	23,100	17,109
Composition and amount of liquidity back-up	268,729	282,833

Amounts are in ISK million

49. Deposits by LCR category

The Group's deposits are categorised according to the Liquidity Coverage Ratio (LCR) introduced in the Basel III standard. 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. The significant decrease in term deposits were mainly due to the decrease in off-shore ISK deposits following the lifting of the capital controls.

30 June 2017	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	117,658	10%	60,591	5%	66,960	245,209
SMEs	54,119	10%	14,297	5%	6,843	75,259
Operational relationships	3,144	25%	-	5%	-	3,144
Corporations	62,275	40%	279	20%	30,946	93,500
Sovereigns, Central Bank and public sector entities	9,427	40%	221	20%	1,696	11,344
Financial institutions in composition	3,085	100%	-	-	2,251	5,336
Pension funds	23,843	100%	-	-	29,185	53,028
Domestic financial entities	37,972	100%	-	-	30,901	68,873
Foreign financial entities	1,809	100%	-	-	6,915	8,724
Other foreign entities	9,567	100%	1,725	25%	6,060	17,352
Total	322,899		77,113		181,757	581,769

31 December 2016	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	105,126	10%	55,809	5%	69,619	230,554
SMEs	51,540	10%	13,597	5%	7,061	72,198
Operational relationships	2,679	25%	-	5%	-	2,679
Corporations	58,662	40%	254	20%	34,929	93,845
Sovereigns, Central Bank and public sector entities	6,898	40%	221	20%	655	7,774
Financial institutions in composition	4,949	100%	-	-	3,000	7,949
Pension funds	22,863	100%	-	-	26,756	49,619
Domestic financial entities	46,493	100%	-	-	34,429	80,922
Foreign financial entities	1,946	100%	-	-	32,402	34,348
Other foreign entities	8,585	100%	2,000	25%	8,636	19,221
Total	309,741		71,881		217,487	599,109

50. Market risk

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 risk appetite statement and 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 the Board approved risk appetite.

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 listed shares, listed 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 internal and regulatory limits.

Amounts are in ISK million

51. Interest rate risk

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.

52. Interest rate risk in the 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, domestic municipality bonds and covered bonds issued by the Icelandic banks. Government bonds are either linked (indexed) to the Icelandic Consumer Price Index (CPI) or non-indexed, with duration up to 11 years. HFF bonds are indexed to the CPI and have duration up to 10 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 notional limits.

In the table below the total market value (MV) of long and short positions may not be exactly the same as reported in Note 5 since netting between short and long positions is not applied here. Derivatives used for hedging are excluded from the table.

Trading bonds and debt instruments, long positions	30.6.2017			31.12.2016		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,372	8.75	(1.20)	1,210	7.35	(0.89)
Non-indexed	23,249	0.67	(1.56)	23,499	0.37	(0.88)
Total	24,621	1.12	(2.76)	24,709	0.72	(1.77)

Trading bonds and debt instruments, short positions	30.6.2017			31.12.2016		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,046	11.92	1.25	371	11.37	0.42
Non-indexed	710	6.53	0.46	488	2.60	0.13
Total	1,756	9.74	1.71	859	6.39	0.55
Net position of trading bonds and debt instruments	22,865	0.46	(1.05)	23,850	0.51	(1.22)

53. Interest rate risk in the non-trading portfolio

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 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 interim financial statements. Note that this also applies for loans to customers shown at 31 December 2016. Loans with specific impairment have been placed in the category 0-3 months since their value is based on the collateral value and thus not sensitive to changes in interest rates until possibly after debt restructuring.

The table below displays assets and liabilities in the non-trading portfolio according to the next interest reset rate date as of 30 June 2017.

Financial Statements first half 2017 46 Amounts are in ISK million

53. Cont'd

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	222.638	4.551	-	-	-	-	227.189
Bonds and debt instruments	1.649	253	48	400	19	70	2.439
Loans to credit institutions	23.983	-	-	-	-	-	23.983
Loans to customers	475.309	43.492	23.361	169.667	4.763	7.115	723.707
Total	723.579	48.296	23.409	170.067	4.782	7.185	977.318
Off-balance sheet items	70.817	23.613	36.243	5.559	-	-	136.232
Effect of derivatives held for hedging	-	-	-	58.763	-	-	58.763

Liabilities	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Deposits from Central Bank and credit institutions	4.806	4.556	-	-	-	-	9.362
Deposits from customers	553.181	10.187	769	8.270	-	-	572.407
Debt issued and other borrowed funds	5.607	28.757	55.030	64.647	64.943	8.290	227.274
Total	563.594	43.500	55.799	72.917	64.943	8.290	809.043
Off-balance sheet items	69.664	4.881	8.309	50.356	2.737	-	135.947
Effect of derivatives held for hedging	58.927	-	-	-	-	-	58.927
Net interest gap on 30 June 2017	102.211	23.528	(4.456)	111.116	(62.898)	(1.105)	168.396

The table below displays assets and liabilities in the non-trading portfolio according to the next interest rate reset date as of 31 December 2016. The distribution of amounts of Bonds and debt instruments into categories at 31.12.2016 has been corrected, the total amount is unchanged.

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	240.991	34.462	-	-	-	-	275.453
Bonds and debt instruments	1.381	611	220	173	236	187	2.808
Loans to credit institutions	17.645	-	-	-	-	-	17.645
Loans to customers	468.174	31.785	29.881	149.671	2.729	7.648	689.888
Total	728.191	66.858	30.101	149.844	2.965	7.835	985.794
Off-balance sheet items	65.652	9.201	39.609	6.192	-	-	120.654
Effect of derivatives held for hedging	-	-	-	55.932	-	-	55.932

Liabilities	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Deposits from Central Bank and credit institutions	4.922	-	-	-	-	-	4.922
Deposits from customers	573.260	12.108	-	8.819	-	-	594.187
Debt issued and other borrowed funds	25.748	10.207	50.916	81.974	43.623	-	212.468
Total	603.930	22.315	50.916	90.793	43.623	-	811.577
Off-balance sheet items	74.727	3.509	5.961	32.888	2.996	-	120.081
Effect of derivatives held for hedging	56.002	-	-	-	-	-	56.002
Net interest gap on 31 December 2016	59.184	50.235	12.833	88.286	(43.654)	7.835	174.720

Amounts are in ISK million

54. Currency risk

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

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements.

The tables below summarise the Group's exposure to currency risk at 30 June 2017 and 31 December 2016, based on contractual currencies, off-balance sheet items, but excluding assets categorised as held for sale.

Currency analysis 30 June 2017

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	573	319	146	34	13	78	78	113	49	1,403
Bonds and debt instruments	9,197	7,701	22	-	-	2,449	861	-	-	20,230
Shares and equity instruments ..	3	1,115	-	-	-	-	122	-	-	1,240
Loans to credit institutions	7,548	8,956	2,804	116	462	1,094	1,817	530	121	23,448
Loans to customers	82,462	22,686	1,353	3,779	3,242	3	4,807	699	1,239	120,270
Other assets	811	1,748	453	3	13	59	4	18	6	3,115
Total assets	100,594	42,525	4,778	3,932	3,730	3,683	7,689	1,360	1,415	169,706
Liabilities										
Deposits from credit institut.	590	201	-	4	4	-	-	-	-	799
Deposits from customers	23,051	20,650	5,077	605	418	627	2,334	689	367	53,818
Borrowings	97,177	3,634	-	-	-	17,171	6,174	-	-	124,156
Other liabilities	4,620	4,129	613	7	193	89	9	39	44	9,743
Total liabilities	125,438	28,614	5,690	616	615	17,887	8,517	728	411	188,516
Net on-balance sheet position	(24,844)	13,911	(912)	3,316	3,115	(14,204)	(828)	632	1,004	(18,810)
Off-balance sheet items										
Off-balance sheet assets	159,930	52,378	2,479	707	-	14,260	1,608	3,372	2,786	237,520
Off-balance sheet liabilities	134,829	66,534	1,690	4,035	3,170	12	656	3,821	3,778	218,525
Net off-balance sheet position	25,101	(14,156)	789	(3,328)	(3,170)	14,248	952	(449)	(992)	18,995
Net position	257	(245)	(123)	(12)	(55)	44	124	183	12	185

Amounts are in ISK million

54. Cont'd

Currency analysis 31 December 2016

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	Other	Total
Cash and balances with CB	423	350	203	35	16	108	76	136	44	1,391
Bonds and debt instruments	17,302	2,764	23	-	-	-	654	-	-	20,743
Shares and equity instruments ..	42	1,072	0	-	-	-	0	-	-	1,114
Loans to credit institutions	6,742	8,050	397	207	173	43	1,220	293	465	17,590
Loans to customers	73,192	25,240	1,707	5,165	4,329	2	5,647	776	710	116,768
Other assets	687	1,981	301	1	22	607	2	20	185	3,806
Total assets	98,388	39,457	2,631	5,408	4,540	760	7,599	1,225	1,404	161,412
Liabilities										
Deposits from credit institut.	473	409	0	4	4	0	0	0	0	890
Deposits from customers	19,117	16,303	3,845	333	686	834	2,196	649	472	44,435
Borrowings	97,264	3,963	-	-	-	17,464	6,566	-	-	125,257
Other liabilities	4,572	4,620	643	4	194	611	65	48	317	11,074
Total liabilities	121,426	25,295	4,488	341	884	18,909	8,827	697	789	181,656
Net on-balance sheet position ...	(23,038)	14,162	(1,857)	5,067	3,656	(18,149)	(1,228)	528	615	(20,244)
Off-balance sheet items										
Off-balance sheet assets	161,505	19,946	2,223	2,619	2,028	19,216	2,063	1,282	2,182	213,064
Off-balance sheet liabilities	138,891	33,967	434	7,733	5,736	1,159	825	1,906	2,554	193,205
Net off-balance sheet position	22,614	(14,021)	1,789	(5,114)	(3,708)	18,057	1,238	(624)	(372)	19,859
Net position	(424)	141	(68)	(47)	(52)	(92)	10	(96)	243	(385)

55. Derivatives

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Group is however subject to indirect exposure through customers' margin trading. Margin trading is subject to continuous monitoring and strict collateral requirements. Other derivatives in the Group held for trading or for other purposes are insignificant.

56. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked 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 affect profit and loss. On 30 June 2017 the CPI gap amounted to ISK 49,836 million (2016: ISK 60,874 million).

Assets, CPI-linked	30.6.2017	31.12.2016
Bonds and debt instruments	5,122	3,204
Loans to customers	265,047	245,946
Off-balance sheet position	1,167	2,201
Total assets	271,336	251,351
Liabilities, CPI-linked		
Deposits from customers	91,321	95,099
Debt issued and other borrowed funds	78,468	63,510
Off-balance sheet position	50,989	31,771
Financial liabilities	722	97
Total liabilities	221,500	190,477
CPI imbalance	49,836	60,874

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

57. Capital management

Risk exposure amount and capital base

The table below shows the capital base, risk exposure amount and the resulting capital ratios for the Group at 30 June 2017 and 31 December 2016. On 30 June 2017, the Bank's total capital ratio, calculated according to the Act no. 161/2002 and Regulation no. 233/2017 on prudential requirements for financial undertaking, was 23.5% compared to 25.2% at year-end 2016.

The Group aims at managing its capital position and the corresponding capital ratios at a comfortable margin above the overall regulatory capital requirement. The resulting long-term capital target assumes that the Group maintains a capital management buffer of about 0.5-1.5% in excess of the SREP results. Based on last year's SREP results this translates to a long-term total capital ratio target above 20% and a minimum CET1 ratio above 15%.

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

	30.6.2017	31.12.2016
CET1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	5,712	4,139
Retained earnings	102,436	105,563
Non-controlling interests	2,780	4,223
Tax assets	(4)	(4)
Intangible assets	(3,644)	(2,672)
Other regulatory adjustments	(1,014)	(924)
Total CET1 capital	171,266	175,325
Tier 2 capital		
General credit risk adjustments	1,887	2,049
Total capital base	173,153	177,374
Risk exposure amount		
- due to credit risk	645,188	615,465
- due to market risk:	9,653	7,243
Market risk, trading book	7,212	6,418
Currency risk	668	825
Credit valuation adjustment	1,773	-
- due to operational risk	81,469	81,469
Total risk exposure amount	736,310	704,177

	30.6.2017	31.12.2016
Capital ratios		
CET1 ratio	23.3%	24.9%
Total capital ratio	23.5%	25.2%

Article 86 of the Act on Financial Undertakings no. 161/2002 details the measures taken in the case of insufficient own funds of a financial undertaking. If the board or managing directors of a financial undertaking have reason to expect that its own funds will be less than the minimum required by law, they must immediately notify the Financial Supervisory Authority (FME) thereof. The FME may grant the financial undertaking concerned a time limit of up to six months to increase its own funds to the minimum provided. If the remedies are not satisfactory in the opinion of the FME, or if the time limit provided for expires, the operating licence of the financial undertaking shall be revoked.

Amounts are in ISK million